

**REPORT ON THE ACTIVITIES  
OF THE UKNF AND THE KNF BOARD  
IN 2021**

Under Article 4(2) of the Act of 21 July 2006 on financial market supervision (Journal of Laws 2022, item 660, as amended), the Polish Financial Supervision Authority (PL: Urząd Komisji Nadzoru Finansowego – UKNF) must submit an annual report on its activities and on the activities of the Board of the Polish Financial Supervision Authority (PL: Komisja Nadzoru Finansowego – KNF Board) to the President of the Council of Ministers by 31 July of the following year. In order to comply with the above-mentioned statutory requirement, on 19 May 2022 the KNF Board accepted, within its remit, *Report on the activities of the UKNF and the KNF Board in 2021*. On 26 May 2022, the *Report on the activities of the UKNF and the KNF Board in 2021* was approved by the Chair of the KNF Board, acting under Article 3(4) point 2 of the Act of 21 July 2006 on financial market supervision.

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## *LIST OF SHORT TITLES OF STATUTORY LAWS*

- 1) Act of 14 June 1960 – Administrative Procedure Code (Journal of Laws 2021, item 735, as amended) – the Administrative Procedure Code;
- 2) Act of 20 May 1971 – Infractions Code (Journal of Laws 2021, item 2008, as amended) – the Infractions Code;
- 3) The Accounting Act of 29 September 1994 (Journal of Laws 2021, item 217, as amended) – the Accounting Act;
- 4) Act of 6 June 1997 – Penal Code (Journal of Laws 2021, item 2345, as amended) – the Penal Code;
- 5) Act of 28 August 1997 on the organisation and functioning of pension funds (Journal of Laws 2020, item 105) – the Act on pension funds;
- 6) Act of 29 September 1997 – Tax Ordinance (Journal of Laws 2021, item 1540, as amended) – the Tax Ordinance;
- 7) Act of 29 August 1997 – Banking Law (Journal of Laws 2021, item 2439, as amended) – the Banking Law;
- 8) Act of 29 August 1997 on mortgage bonds and mortgage banks (Journal of Laws 2022, item 581) – the Act on mortgage bonds;
- 9) Act of 20 July 2000 on the publication of normative acts and certain other legal acts (Journal of Laws 2019, item 1461) – the Act on the publication of normative acts;
- 10) Act of 10 September 1999 – Fiscal Penal Code (Journal of Laws 2021, item 408, as amended) – the Fiscal Penal Code;
- 11) Act of 15 September 2000 – Commercial Companies and Partnerships Code (Journal of Laws 2020, item 1526, as amended) – the Commercial Companies and Partnerships Code;
- 12) Act of 26 October 2000 on commodity exchanges (Journal of Laws 2022, item 170) – the Act on commodity exchanges;
- 13) Act of 7 December 2000 on the functioning of cooperative banks, their affiliation and affiliating banks (Journal of Laws 2022, item 456) – the Act on cooperative banks;
- 14) Act of 6 September 2001 on access to public information (Journal of Laws 2020, item 2176, as amended) – the Act on access to public information;
- 15) Act of 14 March 2003 on Bank Gospodarstwa Krajowego (Journal of Laws 2022, item 100) – the Act on Bank Gospodarstwa Krajowego;
- 16) Act of 22 May 2003 on insurance and pension supervision (Journal of Laws 2019, item 207) – the Act on insurance and pension supervision;
- 17) Act of 22 May 2003 on compulsory insurance, the Insurance Guarantee Fund, and the Polish Motor Insurers' Bureau (Journal of Laws 2022, item 621, as amended) – the Act on compulsory insurance;
- 18) Act of 20 April 2004 on occupational pension schemes (Journal of Laws 2021, item 2139) – the Act on occupational pension schemes;
- 19) Act of 20 April 2004 on individual retirement accounts and individual retirement protection accounts (Journal of Laws 2019, item 1808, as amended) – the Act on IKE and IKZE;
- 20) Act of 27 May 2004 on investment funds and management of alternative investment funds (Journal of Laws 2021, item 605, as amended) – the Act on investment funds;
- 21) Act of 15 April 2005 on supplementary supervision over credit institutions, insurance undertakings, reinsurance undertakings and investment firms being part of a financial conglomerate (Journal of Laws 2020, item 1413) – the Act on supplementary supervision;
- 22) Act of 7 July 2005 on insurance of agricultural crops and livestock (Journal of Laws 2019, item 477) – the Act on insurance of agricultural crops;
- 23) Act of 29 July 2005 on capital market supervision (Journal of Laws 2020, item 1400, as amended) – the Act on capital market supervision;
- 24) Act of 29 July 2005 on trading in financial instruments (Journal of Laws 2021, item 328, as amended) – the Act on trading;
- 25) Act of 29 July 2005 on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies (Journal of Laws 2021, item 1983, as amended) – the Act on public offering;

- 26) Act of 21 July 2006 on financial market supervision (Journal of Laws 2022, item 660, as amended) – the Act on financial market supervision;
- 27) Act of 26 April 2007 on crisis management (Journal of Laws 2022, item 261, as amended) – the Act on crisis management;
- 28) Act of 27 August 2009 on public finance (Journal of Laws 2021, item 305, as amended) – the Act on public finance;
- 29) Act of 5 November 2009 on credit unions (Journal of Laws 2021, item 1844, as amended) – the Act on credit unions;
- 30) Act of 5 August 2010 on the protection of classified information (Journal of Laws 2019, item 742) – the Act on the protection of classified information;
- 31) Act of 12 May 2011 on consumer credit (Journal of Laws 2022, item 246, as amended) – the Act on consumer credit;
- 32) Act of 19 August 2011 on payment services (Journal of Laws 2021, item 1907, as amended) – the Act on payment services;
- 33) Act of 15 January 2015 on bonds (Journal of Laws 2022, item 454) – the Act on bonds;
- 34) Act of 5 August 2015 on complaint handling procedure of financial market entities and on Financial Ombudsman (Journal of Laws 2022, item 187) – the Act on complains and Financial Ombudsman;
- 35) Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system (Journal of Laws 2021, item 140, as amended) – the Act on macro-prudential supervision;
- 36) Act of 11 September 2015 on the business of insurance and reinsurance (Journal of Laws 2021, item 1130, as amended) – the Act on the business of insurance;
- 37) Act of 9 October 2015 on support for borrowers who have taken out a housing loan and are in financial difficulties (Journal of Laws 2022, item 298) – the Act on support for borrowers;
- 38) Act of 22 December 2015 on the principles for the recognition of professional qualifications acquired in the Member States of the European Union (Journal of Laws 2021, item 1646) – the Act on the principles for the recognition of professional qualifications;
- 39) Act of 20 May 2016 on energy efficiency (Journal of Laws 2021, item 2166, as amended) – the Act on energy efficiency;
- 40) Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring (Journal of Laws 2020, item 842, as amended) – the Act on the Bank Guarantee Fund;
- 41) Act of 23 March 2017 on mortgage credit and supervision of credit intermediaries and agents (Journal of Laws 2020, item 1027, as amended) – the Act on mortgage credit;
- 42) Act of 11 May 2017 on statutory auditors, audit firms and public oversight (Journal of Laws 2020, item 1415, as amended) – the Act on statutory auditors;
- 43) Act of 15 December 2017 on insurance distribution (Journal of Laws 2019, item 1881, as amended) – the Act on insurance distribution;
- 44) Act of 1 March 2018 on the prevention of money laundering and terrorist financing (Journal of Laws 2022, item 593, as amended) – the AML Act;
- 45) Act of 22 March 2018 on court-appointed enforcement officers (Journal of Laws 2021, item 850, as amended) – the Act on court-appointed enforcement officers;
- 46) Act of 5 July 2018 on the national cybersecurity system (Journal of Laws 2020, item 1369, as amended) – the Act on national cybersecurity system;
- 47) Act of 4 October 2018 on employee capital plans (Journal of Laws 2020, item 1342, as amended) – the Act on employee capital plans;
- 48) Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection (Journal of Laws 2018, item 2243, as amended) – the Act amending certain laws to strengthen financial market supervision;
- 49) Act of 11 September 2019 – Public Procurement Law (Journal of Laws 2021, item 1129, as amended) – the Public Procurement Law;
- 50) Act of 2 March 2020 on special solutions related to the prevention, counteracting and combating of COVID-19, other infectious diseases and emergencies caused by them (Journal of Laws 2021, item 2095, as amended) – the Act on COVID-19;

- 51) Act of 21 January 2021 amending the Act on trading in financial instruments and certain other laws (Journal of Laws 2021, item 355) – the Act amending the Act on trading;
- 52) Act of 20 May 2021 on the protection of rights of acquirer of a housing unit or single-family home and the Real Property Development Guarantee Fund (Journal of Laws 2021, item 1177) – the Act on the protection of rights of acquirer of a housing unit or single-family home.

## LETTER FROM THE CHAIR OF THE KNF BOARD

2021 was a special year for the KNF Board and the UKNF, as 15 years had passed from the enactment of the Act on financial market supervision. Symbolically, on 21 July 2021, the date marking the anniversary of that event, we announced the Strategy of the Polish Financial Supervision Authority for 2021–2025. It is the first Strategy in the history of the UKNF, designed as a set of objectives in three areas: more effective and more efficient use of data, information and knowledge, more proactive supervision, and better organisation management. The Strategy is also a set of objectives in four related perspectives: financial market, stakeholders, internal processes, and assets. Each objective involves specific tasks to be performed by the UKNF.

The Strategy will be financed entirely through the payments for the exercise of supervision and its implementation will not affect the amount of costs of supervision specified in applicable legal acts. The UKNF Strategy follows from a broader perspective on the management of a complex modern and multi-task organisational structure. The UKNF's strategic objectives, just like statutory objectives, are the objectives of the whole organisation and will be implemented collectively. In the first quarter of each calendar year, a cyclical evaluation of the Strategy will be performed to review its strategic objectives, challenges and requirements for implementation.

2021 was also another year in which the COVID-19 pandemic determined the approach in many areas. Both the national economy, which accelerated significantly after the 2020 downturn, and the financial market were still facing the negative effects of the COVID-19 pandemic. A new variant of the coronavirus also increased the uncertainty and risk aversion.

Regardless of the conditions related with the pandemic, 2021 also saw many changes in the financial market and many activities of the UKNF, both in response to the current market developments and in the implementation of the UKNF's own supervisory initiatives aimed at achieving its strategic objectives.

Another topic that received much attention of the supervisory authority in 2021 were the foreign-currency mortgage loans. The legal risk associated with the portfolio of housing loans denominated in Swiss franc still represented one of the main risks in the banking sector. Some banks offered their customers the ability to enter into out-of-court settlements based on the terms proposed by the supervisory authority (i.e. the proposed form of alternative dispute resolution consists in a loan being settled as if, from its starting date, it was a loan taken and repaid in the Polish currency) or based on own terms. The UKNF monitors the impact of those trends on the situation of each bank.

In October 2021, the UKNF provided the borrowers and banks with the possibility of alternative resolution of disputes over Swiss franc loans through out-of-court settlements, widely concluded as part of mediation before the Arbitration Court attached to the KNF Board. The solution has become very popular: the Mediation Centre of the Arbitration Court attached to the KNF Board conducted 15 968 proceedings, accounting for over 95% of all mediation proceedings. In 6 639 mediation proceedings concerning that type of loan (nearly 42%), the participants in the proceedings concluded their talks, and in 5 815 such proceedings the parties reported to the Arbitration Court that they had reached a settlement. This means that more than 87% of mediation proceedings concerning a loan denominated in or indexed to a currency other than the Polish currency have resulted in a settlement.

The alternative dispute resolution meets the expectations of a large group of borrowers, allowing them to avoid lengthy and costly trial. The project is a response to one of the key issues the financial market has been facing in recent years, according to the concept of conversion of foreign-currency denominated or indexed loans. The project implementation was

preceded by activities aimed at preparing the Arbitration Court attached to the KNF Board to respond to an increased demand for such method of dispute resolution. To that end, over 400 mediators were appointed and an IT system was created to support the mediation process; it was also necessary to make appropriate amendments to the Court's Rules of Procedure, e.g. to prevent conflicts of interest for mediators. The rules on mediation costs were also modified.

In 2021, we performed the annual stress tests in the commercial banks sector. The exercise focused on credit risk, which results from the nature of the domestic sector, where the key variable determining the amount of profit is loss allowance. A further review covered the components of net interest income, in terms of revenue and expenses. In 2021, stress tests were also performed to examine banks' resilience to increased credit risk in case of an interest rate increase. The results of the stress tests and the test of exposure of credit portfolios to the interest rate risk provided grounds for setting a capital add-on under the Pillar II requirement (P2G). In addition to estimation of resilience, the UKNF carried out analyses regarding liquidity.

Significant market developments were seen in relation to benchmarks. A number of LIBOR benchmarks were abolished, including CHF LIBOR – a very important benchmark for the financial market in Poland. We assume that 2022 will bring further changes in LIBOR benchmarks. We will be closely monitoring the process of domestic entities shifting from USD, GBP and JPY LIBOR benchmarks, which are still to be used, though to a limited extent. We also expect more intense work on a new benchmark that could be an alternative to the key benchmark – WIBOR.

In the field of insurance supervision, the KNF Board carried out a pioneering product intervention measure, the first one in the insurance market in the European Union. The main goal was to remove, from the offer of insurance undertakings, insurance products that did not generate appropriate value for the customer. The KNF Board's action taken in this regard will increase the value of new products (unit-linked insurance contracts) for customers and reduce the investment risk.

In 2021, the KNF Board, along with foreign supervisors, participated in activities for a joint decision on internal model aiming to ensure, for the first time in Poland, that insurance undertakings will be using an internal model to set the solvency capital requirement.

2021 marked the end of the transitional period in which investment fund management companies should obtain the consent to the appointment of members of management board responsible for the risk management system and members of management board who supervise the process of making investment decisions. The KNF Board issued 119 final decisions (in 97 cases, approving an appointment). The strict assessment criteria that candidates must meet in order to fulfil the requirements of the UKNF have a positive effect on the key appointments to the management boards of investment fund management companies, thus improving the quality of fund management and the security of the investment funds market.

The UKNF has seen a growing trend of illegal trading platforms operating in Poland. The consequence is an increased number of notifications of a suspected criminal offence consisting in running a business related to trading in financial instruments. In 2021, the number of notifications was the highest in history. We have enhanced cooperation with law enforcement authorities and foreign supervisory authorities, we constantly modify the methods of obtaining information, while adapting our approach to the identified threats for financial market participants.

The previous year also saw the first-ever conclusion of acts in investigation proceedings under Article 18a of the Act on financial market supervision outside the UKNF headquarters. The UKNF proceedings, conducted with the support of the Police at the head office of the entity under investigation, will be continued and extended.



As part of our educational initiatives, we published a guide on prospectus and on the rules for preparing and approving it, that can be used by all issuers, mainly those with less experience but also their advisers participating in the process of raising capital. I believe that the publication, in which we share our supervisory experience, will help speed up prospectus proceedings.

The above-mentioned selected activities of the UKNF undertaken in 2021 are in line with our strategic objectives, representing at the same time only a small fraction of our supervisory tasks.

The current year, 2022, brings new challenges, often much different from the regular challenges the financial supervisor faced in previous years. That will be a test for the UKNF as an organisation and for the Strategy we adopted in 2021, on the one hand, and an additional commitment and motivation to be fully engaged in the achievement of our goals, on the other.

*Jacek Jastrzębski*  
*Chair*  
*KNF Board*

# 1. KEY ACTIVITIES OF THE UKNF AND THE KNF BOARD IN 2021

## 1.1. UKNF STRATEGY FOR 2021–2025<sup>1</sup>

On the 15th anniversary of the enactment of the Act on financial market supervision (21 July 2021), Jacek Jastrzębski, Chair of the KNF Board, announced the UKNF Strategy for 2021–2025. It is the first Strategy in the history of the UKNF. The UKNF Strategy has been designed as a set of objectives in three directions: more effective and more efficient use of data, information and knowledge, more proactive supervision, and better organisation management. When performing its tasks and contributing to the achievement of statutory objectives, the UKNF keeps in mind its mission and values.

### Mission, vision and values of the UKNF

<b>Mission</b>	We ensure the orderly functioning and safe development of the financial market.	
<b>Vision</b>	The financial market is a safe place for all its participants. We act proactively. We manage information and knowledge using modern technologies. We enjoy a high level of trust among supervised entities and stakeholders in the financial market.	
<b>Values</b>	<b>Responsibility</b>	We take responsibility for our actions and hold ourselves accountable for everything we do. We carry out our duties with due care and professionalism.
	<b>Respect</b>	We respect others. We engage in dialogue and listen to arguments.
	<b>Objectivity</b>	We are objective and independent in our views. We make decisions based on facts and reliable information.
	<b>Openness</b>	We understand and we are interested in the trends and innovations in financial markets. We share experiences.
	<b>Commitment</b>	We are fully committed to the cases we handle. We have an active approach and show willingness to act.
	<b>Loyalty</b>	We carry out our duties while remaining loyal to the Republic of Poland and its authorities, the UKNF, our superiors and colleagues.
	<b>Professionalism</b>	We perform the tasks of the State drawing on the best knowledge and experience, and we continuously improve the quality of our services.

Source: UKNF

## 1.2. DEVELOPMENT OF FINANCIAL INNOVATION<sup>2</sup>

<sup>1</sup> See: Chapter 11. *Organisation of the UKNF*.

<sup>2</sup> See: Section 10.1.3 *Actions supporting the development of financial innovation (FinTech)*.

**Launch of fintech.gov.pl website.** In November 2021, the UKNF launched a website which enables communication with the FinTech sector. The website provides information about the latest events and trends in the development of the FinTech sector as well as official positions and communications of the UKNF which are particularly relevant to innovative entities.

**Educational activities.** The UKNF engaged in educational initiatives for youths during their school classes. Work was also launched on an online learning platform addressed to young people and adults seeking to improve their knowledge of innovation in financial markets.

**PSD2 Sandbox.** The UKNF provides interested entities with a testing environment that can be used to simulate a number of banking operations and test solutions based on Open API.

**The functioning and development of the Innovation Hub Programme.** Through the Programme, the supervisory authority engaged in a dialogue with FinTech businesses by giving them appropriate answers to their questions, thus supporting the development of modern technologies in the financial market while ensuring security and client protection.

**Activities of the Special Task Force for Financial Innovation.** In 2021, the UKNF continued to coordinate the work of the Special Task Force for Financial Innovation (FinTech). The work involved meetings of working teams aimed at discussing and removing barriers in FinTech development. On 28 April 2021, a report on the activities of the Task Force was published<sup>3</sup>.

**OSINT activities to support decision-making in UKNF units.** 2021 was a time of effective work of the OSINT Analysis Team to support decision-making in UKNF units.

**Meetings of the FinTech Steering Committee** aiming to coordinate the activities and cooperation of state institutions in the area of development of the Polish FinTech sector<sup>4</sup>.

### 1.3. ACTIVITIES RELATED TO THE BANKING SECTOR AND THE INSURANCE SECTOR

2021 marked a breakthrough in resolving disputes over credit agreements denominated in or indexed to a currency other than the Polish currency. On the initiative of the Chair of the KNF Board, in October 2021, a project was launched to enable amicable resolution of such disputes through out-of-court settlements concluded as part of mediation before the Arbitration Court attached to the KNF Board. As a rule, the method of alternative resolution of a dispute relating to a credit agreement denominated in or indexed to a currency other than the Polish currency consists in a loan being settled as if, from its starting date, it was a loan taken and repaid in the Polish currency. The solution has become very popular among financial market participants. This is confirmed by the number of cases referred for mediation to the Arbitration Court attached to the KNF Board. In the fourth quarter of 2021 alone, more than 15 800 agreements on mediation in such cases were submitted to the Mediation Centre of the Arbitration Court attached to the KNF Board<sup>5</sup>.

Employees of the UKNF participated in inter-ministerial consultations on a proposal for an Act amending the Act on bonds and certain other laws (UC 32). The proposal introduces into the Polish legal order instruments that can be classified by banks and brokerage houses as Additional Tier 1 capital and by insurance or reinsurance undertakings as RT1 own funds.

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<sup>3</sup>[https://www.knf.gov.pl/knf/pl/komponenty/img/Raport\\_z\\_prac\\_Zespolu\\_ds\\_rozwoju\\_innowacji\\_finansowych\\_73565.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Raport_z_prac_Zespolu_ds_rozwoju_innowacji_finansowych_73565.pdf)

<sup>4</sup> See: Section 10.13.2 *Cooperation in the framework of the Steering Committee for FinTech.*

<sup>5</sup> See: Section 10.10 *Arbitration Court attached to the KNF Board.*

Employees of the UKNF continued their work on the project 'Reform of the mortgage bank model („Reforma modelu banków hipotecznych”). The aim was to analyse the suggestions made by mortgage banks and to formulate proposals for changes to the legal regulations concerning the operation of mortgage banks aimed at enabling the development of the mortgage bond market as an important element for the change in the banks' rules for financing long-term mortgage loans with short-term liabilities. This, in turn, will open up the possibility for banks to offer on a wider scale mortgage loans based on fixed or periodically fixed interest rates. The work consisted of an analysis of the current Act of 29 August 1997 on mortgage bonds and mortgage banks in terms of the possibility of introducing regulatory changes to, on the one hand, enable mortgage banks to operate more cost-effectively, in accordance with European regulations, including Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU, and, on the other hand, to achieve the supervisory objectives consisting in maintaining high level of security of the mortgage bank and the mortgage bond itself. Particular consideration was given to the much greater diversification of regulations in the mortgage bond market in Poland as compared to other European markets. As a result of that work, the UKNF submitted to the Ministry of Finance a proposal for a reform of the mortgage banks sector, considering the key proposals made by banks. The legislative work on the proposals for an *Act amending the Act on mortgage bonds and mortgage banks and some other laws* and for an *Act amending certain laws to strengthen financial market supervision and investor protection*, both implementing the reform, was performed together with employees of the UKNF. The work accompanied the activities of the Ministry of Finance for the implementation, into the Polish legal order, of Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU. The work is to continue in 2022.

The implementation by the UKNF of the objectives of financial market supervision resulted in the publication by the KNF Board, on 15 July 2021, of a decision prohibiting the marketing, distribution and sale of unit-linked insurance contracts.

As of 1 January 2022, unit-linked life insurance contracts should be adapted to the requirements of the intervention measure. The measure is to increase the product value for clients, reduce the risk associated with the possibility that clients entering into unit-linked insurance contracts might be exposed to excessive investment risk, and remove irregularities related to the insurance distribution process<sup>6</sup>.

Many activities and initiatives were undertaken in connection with COVID-19, such as:

- the strengthening of the capital base of insurance undertakings through the publication of a position on the dividend policy;
- introduction of weekly reporting on the surrenders of unit-linked insurance products (examination and monitoring of liquidity risk) and additional reporting on the identification of risks/threats related to COVID-19.

Work continued to review the SRP methodology for the insurance sector in terms of the role of consumer supervision in the assessment, proportionality and risk-based supervision. More emphasis was placed on forward-looking risk assessment, greater consideration of the specificity of activities and the nature of individual undertakings, introduction of macro risk assessment elements (new and emerging threats in macro terms) and the division into peer groups determining the systemic significance of each undertaking.

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<sup>6</sup> See: Section 9.4 *Product intervention on the prohibition of marketing, distribution and sale of unit-linked life insurance contracts and related supervisory activities*.

In 2021, the UKNF took part in a review of the Solvency II regime. Far-reaching changes are also proposed in the area of recovery and resolution. At the same time, the review proposes to introduce, in the Solvency II regime, preventive elements for crisis prevention at the level of the financial market as a whole (taking into account the macro-prudential perspective).

#### 1.4. ACTIONS TAKEN IN THE AREA OF CAPITAL AND COMMODITY MARKETS

In 2021, work continued to enable issuers of securities admitted to trading on a regulated market to implement the European Single Electronic Format (ESEF), required under Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 390 of 31 December 2004, p. 38).

The UKNF adapted the Electronic Information Transfer System (ESPI) in terms of receipt and technical validation of annual reports prepared in the new format. Additionally, in order to help issuers to prepare themselves for the new reporting format, the UKNF provided the functionality for sending test versions of the ESEF-compliant reports in the ESPI production environment. The experience gained this way should help issuers to prepare the annual reports for financial year 2021, for which the ESEF will already be the mandatory format. Answers to frequently asked questions about the application of the ESEF were published for issuers on the KNF website.

2021 also marked the publication of the *Guide on prospectus*, a manual aiming to help less experienced issuers prepare a prospectus and conduct public offering of securities or apply for admission of securities to trading on a regulated market, thus streamlining the process of preparing prospectus documentation and having it reviewed by the KNF Board.

Following the introduction of the requirement to obtain the KNF Board's consent to the appointment of members of management board of an investment fund management company (PL: *towarzystwo funduszy inwestycyjnych* – TFI) who supervise the risk management system and investment decisions, the UKNF took firm action to ensure efficient handling of the multitude of adjustment applications (each company filed at least 2 applications in that respect). In 2021, the KNF Board issued a total of 97 final decisions approving the appointment of members of management board who supervise the risk management system and investment decisions at investment fund management companies.

Due to the need to implement ESMA Guidelines on performance fees in UCITS and certain types of AIFs, the UKNF was actively involved in the work of the Chamber of Fund and Asset Management (PL: *Izba Zarządzających Funduszami i Aktywami* – IZFiA) on the Standard on collection of success fees, and addressed to investment fund management companies and depositaries two official positions on proper implementation of the requirements of the ESMA Guidelines in the models for calculating variable remuneration for management.

In addition to standard supervisory activities in the area of supervision of trading, the Polish Financial Supervision Authority in cooperation with the Ministry of Finance initiated a process of amending the Act on public offering in order to improve the functioning of calls to subscribe for the sale or exchange of shares of public companies, in particular to ensure greater protection of minority shareholders of public companies being acquired. The key changes concern the establishment of the threshold of 50% of the total number of votes at the general meeting as the threshold for the take-over of control which triggers the requirement to announce a call, the development of a single model for a mandatory call as a follow-up call, the introduction of a voluntary call for all outstanding shares of a public company, and considering the price of indirect acquisition of shares of a public company when calculating the minimum price in the call.

Key activities in the area of capital and commodity market infrastructure entities<sup>7</sup>:

- The National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) obtained a KNF authorisation to expand the activities of the central depository for securities, in accordance with the Regulation on central securities depositories (CSDR), to include the data selling. This will make it possible to expand the range of services provided by the National Depository for Securities to include access to reports with data that can be used by entities that will decide to use those services to run or expand their business;
- The KNF Board approved the amendments to the Rules of National Depository for Securities to adapt them to the plan of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A. – GPW) to create a new market, i.e. Global Connect, where foreign companies are to be listed. The creation of the Global Connect market aims to increase the attractiveness of the Polish financial market and to enable investments in financial instruments of the biggest foreign companies.

## 1.5. ACTIONS TAKEN IN THE AREA OF AML/CFT

In 2021, representatives of the UKNF participated in activities related to the 5th round of evaluation run by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). On 10-21 May 2021, a visit of the MONEYVAL Evaluation Committee took place, with the purpose of evaluating the effectiveness of the Polish AML/CFT system. The evaluation covered, among others, the activities of the General Inspector of Financial Information as a government administration body competent for the prevention of money laundering and terrorist financing, and cooperating units, including the KNF Board. The process concluded with the adoption of an evaluation report at the MONEYVAL plenary meeting in December 2021. The report showed that the UKNF had a good understanding of the risk associated with money laundering and terrorist financing and had implemented in this area a process appropriate for the risk generated by supervised entities.

In 2021, further steps were taken to enhance the AML/CFT regime by creating a specialised unit (AML Team) within the UKNF's Compliance Department.

## 2. THE UKNF AND THE KNF BOARD

### 2.1. THE LEGAL BASIS FOR THE OPERATION OF THE UKNF AND THE KNF BOARD

Urząd Komisji Nadzoru Finansowego (UKNF) and Komisja Nadzoru Finansowego (KNF Board) operate pursuant to the Act on financial market supervision. The UKNF has the status of a state legal person, the bodies of which are the KNF Board and the Chair of the KNF Board. The Chair of the KNF Board manages the activities of the KNF Board and the UKNF and represents them externally.

The KNF Board is competent for supervision of the financial market, which under the legal framework as at 31 December 2021 included:

- banking supervision,
- pension supervision,
- insurance supervision,
- capital market supervision,

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<sup>7</sup> See: Section 8.7 *Supervision of capital and commodity market infrastructure entities*.

- supervision of payment institutions, small payment institutions, account information service providers, payment services offices, electronic money institutions, branches of foreign electronic money institutions,
- supervision of credit rating agencies,
- supplementary supervision of credit unions, insurance undertakings, reinsurance undertakings and investment firms included in a financial conglomerate,
- supervision of credit unions and the National Association of Credit Unions,
- supervision of mortgage credit intermediaries and their agents,
- supervision as provided for in 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>8</sup> and supervision as provided for in Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012<sup>9</sup>.
- supervision as provided for in Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector<sup>10</sup>.

The purpose of supervision of the financial market is to ensure its proper functioning, stability, security and transparency, confidence in the financial market, and to ensure that the interests of market participants are protected. That purpose is also to be achieved through reliable information concerning the functioning of the market, through the pursuit of objectives stated in, in particular, the Banking Law, the Act on insurance and pension supervision, the Act on supplementary supervision, the Act on capital market supervision, the Act on credit unions, and the Act on payment services.

The statutory tasks of the KNF Board, in addition to the supervision of the financial market, also include:

- undertaking measures to ensure the proper functioning of the financial market, promote the development of the financial market and its competitiveness, and support the development of innovativeness of the financial market,
- undertaking educational and information measures with regard to the functioning of the financial market, its risks and participants to safeguard the legitimate interests of financial market participants, in particular by publishing in the form and at the time determined by the KNF Board free warnings and statements in the public radio and television,
- participating in the drawing up of draft legal acts pertaining to financial market supervision,
- creating opportunities for amicable and conciliatory resolution of disputes between the participants of the financial market, including in particular disputes arising from contractual relationships between the KNF-supervised entities and the users of services provided by those entities,
- cooperating with the Polish Agency for Audit Oversight, including providing information, explanations and documents, as required for the performance of tasks related to market monitoring to the extent referred to in Article 27 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<sup>11</sup>.

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<sup>8</sup> OJ L 171, 29.6.2016, p. 1; and OJ L 137, 24.5.2017, p. 41.

<sup>9</sup> OJ L 347, 28.12.2017, p. 35.

<sup>10</sup> OJ L 314, 5.12.2019, p. 1; OJ L 20, 24.1.2020, p. 26; and OJ L 405, 2.12.2020, p. 79.

<sup>11</sup> OJ L 158, 27.5.2014, p. 77; and OJ L 170, 11.6.2014, p. 66.

The KNF Board is also an authority competent for cybersecurity for the banking sector and the infrastructure of financial markets as defined in the Act on the national cybersecurity system. The KNF Board is also a cooperating entity as defined in the Act on the prevention of money laundering and terrorist financing, competent for the performance of statutory AML/CFT tasks in relation to obliged institutions under KNF supervision. In that regard, the KNF Board closely cooperates with the General Inspector of Financial Information. In 2021, the KNF Board obtained a legal basis, in accordance with Article 17e of the Act on financial market supervision, to the extent necessary to achieve the objectives set out in the AML/CFT rules, for cooperation with competent financial supervisory authorities and financial intelligence units from Member States of the European Union (EU) or the European Free Trade Association (EFTA) – parties to the European Economic Area agreement, and pursuant to Article 17f of the Act on financial market supervision also with competent financial supervisory authorities and financial intelligence units from countries other than Member States of the EU or EFTA – parties to the European Economic Area agreement. The UKNF's statutory task is to provide assistance to the KNF Board and the Chair of the KNF Board. The activities of the UKNF as a state legal person are supervised by the President of the Council of Ministers. The status of a state legal person, acquired by the UKNF on 1 January 2019, is mainly to ensure more financial independence of the UKNF. The operating costs of the UKNF are paid directly with the payments made by supervised entities. The UKNF conducts independent financial management based on the annual financial plan adopted by the KNF Board and approved by the President of the Council of Ministers. The annual financial statements of the UKNF are reviewed by an audit firm selected by the President of the Council of Ministers. These financial statements are approved by the President of the Council of Ministers.

The internal organisation of the UKNF is defined in the statutes conferred by Order No 15 of the President of the Council of Ministers of 4 February 2019. In accordance with § 2 of the Statutes of the UKNF, the UKNF is managed by the Chair of the KNF Board assisted by Deputy Chairs of the KNF Board, Director General, managing directors who direct their respective divisions, and directors of organisational units. Deputy Chairs of the KNF Board and Director General may directly supervise the divisions and organisational units that are not part of any division. The rules for the organisation and operation of the UKNF and the distribution of responsibilities between organisational units are laid down in the Organisational Rules, conferred by Order of the Chair of the KNF Board.

The UKNF has seven divisions:

- Banking Supervision,
- Insurance Supervision,
- Capital Market Supervision,
- Strategy and International Cooperation,
- Management and Organisation,
- Innovation and Technology,
- Legal and Regulatory.

The work of organisational units forming part of divisions is coordinated and supervised by managing directors. Most departments of the UKNF form part of divisions. In 2021, three organisational units remained outside the divisions. The organisational chart of the UKNF as at 31 December 2021 is shown in Chapter 11. *Organisation of the UKNF*.

## 2.2. COMPOSITION OF THE KNF BOARD

The KNF Board is a collegial body. It is composed of the Chair, Deputy Chairs and nine members, including six members with a voting right and three members acting in the capacity of advisers:



#### **Members of the KNF Board with a voting right**

- Minister competent for financial institutions or his/her representative
- Minister competent for economy or his/her representative
- Minister competent for social security or his/her representative
- Governor of the National Bank of Poland or Member of the Management Board of the National Bank of Poland delegated by the Governor
- Representative of the President of the Republic of Poland
- Representative of the President of the Council of Ministers

#### **Members of the KNF Board acting in the capacity of advisers**

- Representative of the Bank Guarantee Fund
- Representative of the President of the Office of Competition and Consumer Protection
- Representative of the Minister – Member of the Council of Ministers, Special Services Coordinator, or a representative of the President of the Council of Ministers

In 2021, the composition of the KNF Board was as follows:

#### **Chair of the KNF Board**

Jacek Jastrzębski

#### **Deputy Chairs of the KNF Board:**

Rafał Mikusiński

Dagmara Wieczorek-Bartczak – until 20 July 2021

Marcin Mikołajczyk – since 31 May 2021

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

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

Krzysztof Budzich

##### **Representative of the minister competent for economy**

Jan Pawelec

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

Jan Wojtyła

##### **Member of the Management Board of the National Bank of Poland (NBP) delegated by the Governor of the NBP**

Paweł Szafamacha

##### **Representative of the President of the Republic of Poland**

Wojciech Dyduch

##### **Representative of the President of the Council of Ministers**

Maciej Tomczak

##### **Representative of the Bank Guarantee Fund**

Piotr Tomaszewski – President of the Management Board of the BGF

##### **President of the Office of Competition and Consumer Protection (UOKiK)**

Tomasz Chrósty

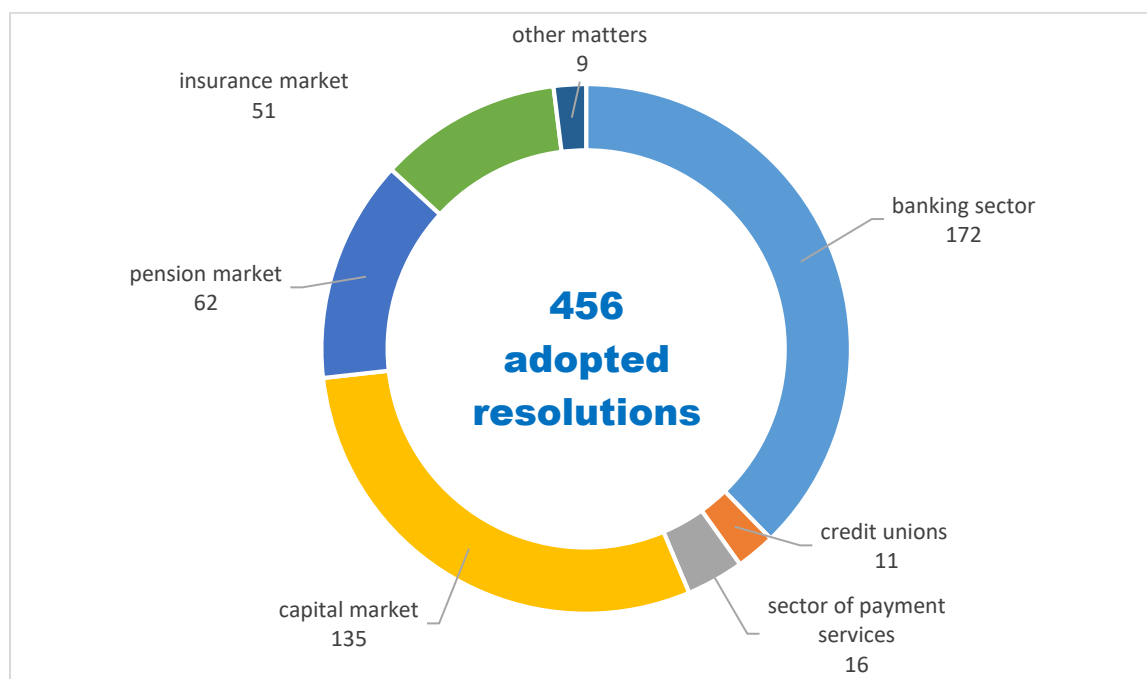
**Representative of the Minister – Member of the Council of Ministers/Special Services Coordinator**

Stanisław Żaryn

## 2.3. WORK MODE OF THE KNF BOARD

The KNF Board, within its remit, adopts resolutions, including the issuance of final and interim administrative decisions. The KNF Board adopts resolutions by a simple majority of votes by open vote, in the presence of at least five members, including the Chair or Deputy Chair of the KNF Board. In the case of an equal number of votes, the Chair of the KNF Board has the casting vote, and in the event of his absence – the Deputy Chair authorised to manage the activities of the KNF Board. Members of the KNF Board acting in the capacity of advisers do not participate in the voting and are not considered for the purpose of calculating the quorum. In 2021, 18 meetings of the KNF Board were conducted in the remote work mode. Moreover, 28 votes were held by circulation. In 2021, the KNF Board adopted 456 resolutions, of which 372 were in the form of final decisions.

**Diagram 1. Number of resolutions adopted by the KNF Board in 2021**



Source: UKNF

Detailed information on the number of adopted resolutions by subject of the case is provided in Table 12.1.1 in Annex 12.1.

## 2.4. INTERIM DECISIONS ISSUED BY THE CHAIR OF THE KNF BOARD

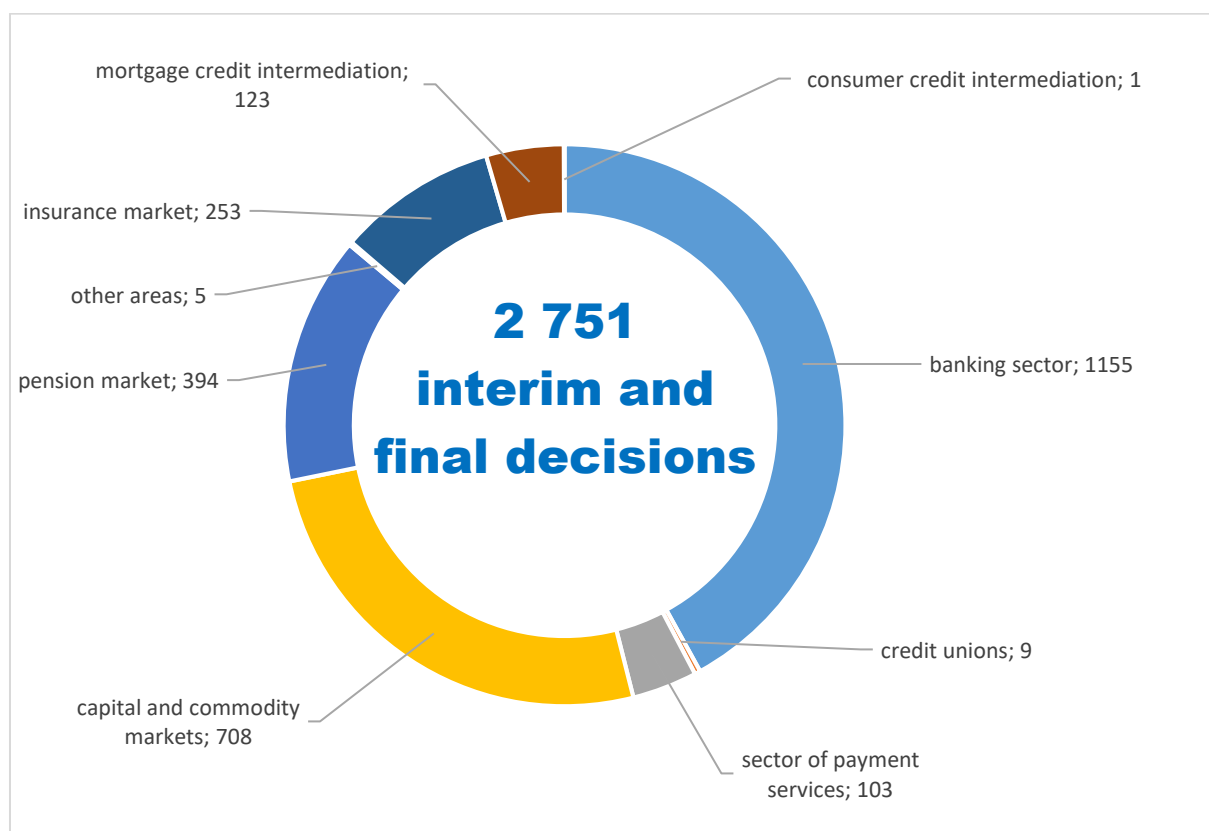
In 2021, the Chair of the KNF Board issued 78 interim decisions to institute *ex officio* administrative proceedings or to extend the scope of proceedings pursuant to Article 13 of the Act of 29 July 2005 on capital market supervision.

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

According to Article 12(1) of the Act on financial market supervision, the KNF Board may authorise the Chair of the KNF Board, Deputy Chairs, and employees of the UKNF to act within the remit of the KNF Board, including to issue interim and final administrative decisions. The KNF Board granted such authorisation to both the Chair and his Deputies. Those are authorisations which, in accordance with Article 12(3) of the Act on financial market supervision, allow for further authorisations to be granted to other UKNF employees.

In 2021, on the basis of authorisation granted by the KNF Board, 2 751 interim and final administrative decisions were issued.

**Diagram 2. Number of final and interim decisions issued in 2021 on the basis of an authorisation granted by the KNF Board**



Source: UKNF

Detailed information on the number of final and interim decisions issued in 2021 on the basis of an authorisation granted by the KNF Board and the Chair of the KNF Board by subject-matter of the case is given in Table 12.1.2 in Annex 12.1.

## 2.6. OFFICIAL JOURNAL OF THE KNF BOARD

The Official Journal of the KNF Board is an official journal as defined in the Act of 20 July 2000 on the publication of normative acts and certain other legal acts (Journal of Laws 2019, item 1461). From 2019 onwards, the Official Journal of the KNF Board is issued by the Chair of the

KNF Board. In accordance with Article 12(1a) of the Act of 20 July 2000 on the publication of normative acts and certain other legal acts, the following must be announced in the Official Journal of the KNF Board: resolutions and final decisions of the KNF Board, public announcements, notices, communications and other acts and/or documents as well as registers (lists), if separate provisions of law so provide. Where separate provisions of law do not require publication of a resolution of the KNF Board in the Official Journal of the KNF Board, the KNF Board may decide to publish the resolution in the Official Journal of the KNF Board. The Chair of the KNF Board may also have the announcements, notices and/or communications published, provided that they are related to the tasks of the bodies of the UKNF. The Official Journal of the KNF Board is adapted to the European Commission's recommended standard for access to legal information (European Legislation Identifier – ELI). ELI helps improve the quality and reliability of legal information online and encourages interoperability among information systems. Other official journals in Poland are also published in this standard.

Four resolutions of the KNF Board were published in its Official Journal in 2021. Two resolutions concerned the banking sector. The first one was Resolution No 129/2021 of the KNF Board of 15 April 2021 on the issuance of Recommendation R on the rules for the classification of credit exposures, estimation and recognition of expected credit losses and credit risk management (item 9). The other one was Resolution No 326/2021 of the KNF Board of 3 September 2021 on the ascertainment that there are exceptional circumstances which justify the exclusion, from the measurement of total exposure of the leverage ratio, of assets representing receivables from the National Bank of Poland pursuant to Article 429a(1)(n)(ii) of Regulation 575/2013 of 26 June 2013 by SGB-Bank S.A. with its registered office in Poznań and Bank Polskiej Spółdzielczości S.A. with its registered office in Warsaw (item 26).

Two more resolutions were published in 2021: Resolution No 118/2021 of 26 March 2021 and Resolution No 427/2021 of 14 December 2021 amending the resolution on the Rules of Procedure of the Arbitration Court attached to the KNF Board (items 8 and 32), as well as a public announcement of the KNF Board on the consolidated text of Resolution No 106/2019 on the Rules of Procedure of the Arbitration Court attached to the KNF Board (item 37), considering both amendments made in 2021.

Two general decisions of the KNF Board were also published in the Official Journal of the KNF Board in 2021. In July, under item 16, the KNF Board published its decision of 15 July 2021, Ref. No DNM-DNMZWP.6065.79.2021, on the prohibition on the marketing, distribution and sale of insurance-based investment products – unit-linked life insurance contracts (product intervention).

In December, under item 31, the KNF Board published its decision of 3 December 2021, Ref. No DIF-DIFZNR.456.2.2021, on defining English as a language other than Polish as a language of key information documents on packaged retail investment products, referred to in Article 4 point 1 of the Regulation on PRIIPs, distributed in the territory of the Republic of Poland, specifically the Exchange Traded Fund ('ETF'). For general decisions which are not addressed to a specified addressee, the publication in the Official Journal introduces those administrative acts into the framework of legal transactions.

Decisions imposing sanctions on supervised entities are different in their nature. Such announcement, taking place in cases specified in statutory law, is made after the decision is served on the party to the proceedings. In 2021, 5 such announcements were made under Article 228(6) of the Act on investment funds. They concerned mainly decisions on financial penalties imposed on investment fund management companies.

Most items in the Official Journal of the KNF Board represented various types of communications published under separate laws. January saw the publication of the Communication from the KNF Board on the maximum technical rate for insurance undertakings. A large share of communications published in the Official Journal of the KNF Board are communications from the Chair of the KNF Board on the costs of supervision over

particular financial market sectors; 14 such communications were published in 2021. The Official Journal of the KNF Board also contains communications from examination boards conducting professional examinations for securities brokers and investment advisers; in 2021, 12 communications from examination boards were published.

In 2021, a total of 39 acts were published in the Official Journal of the KNF Board. The list of items published in the Official Journal of the KNF Board in 2021 is included in Annex 12.3.

### 3. FINANCIAL MARKET IN POLAND: OVERVIEW

In 2021, both the socio-economic situation and the financial market situation in Poland were still under the influence of the COVID-19 pandemic, although to a lesser extent than in the previous year. The emergence of a new variant of coronavirus increased uncertainty and thus increased risk aversion in the financial market.

Referring to the macroeconomic environment, according to preliminary estimates of Statistics Poland (PL. Główny Urząd Statystyczny – GUS), Poland's GDP in fixed prices increased by 5.7% in 2021, making up for the losses on growth incurred as a result of the pandemic in 2020 (a 2.5% decrease in the GDP). As shown by detailed data on the GDP structure, the main determinant for the increase in the domestic level of the Gross Domestic Product in 2021 was still the domestic demand, which increased in real terms by 8.2% compared to 2020 (when a 3.4% decrease was reported). As part of domestic demand, total consumption (an increase of 4.8%), including household consumption (i.e. individual consumption), which increased by 6.2%, had a material effect on real GDP growth. Gross fixed capital formation increased by 8% (in 2020, decreased by 9%). In addition, imports of goods and services exceeded exports, with a negative impact of the trade balance on the rate of GDP growth.

Both high prices of raw materials (in particular coal, natural gas, crude oil and certain agricultural raw materials) and the prolonged disruptions in global supply chains and high international transport prices resulted in a significant increase in inflation around the world. In many countries, including Poland, inflation reached levels that had not been recorded for decades. In the domestic market, average annual CPI inflation in 2021 stood at 5.1% compared to 3.4% in 2020. The significant increase in that index resulted mainly from the impact of the external factors specified above. Price movements were also positively affected by the ongoing economic recovery, including demand driven by an increase in household income. In the face of inflationary pressures, in 2021 the Monetary Policy Council decided to raise interest rates three times. The reference rate was increased by a total of 165 basis points, from a record low of 0.1% to 1.75 % at the end of 2021.

Dynamic economic growth was also accompanied by improvements in the labour market. This was reflected in the decline in unemployment and a marked increase in average wages. In the domestic labour market, the unemployment rate officially recorded in December 2021 was 5.4% (compared to 6.3% at the end of 2020). That led to increased wage pressures at businesses. The average gross salary in the corporate sector stood at PLN 6 644 and was 11.2% higher than at the end of 2020 (when it amounted to PLN 5 974).

2021 saw the weakening of the Polish zloty against the euro, the U.S. dollar, and the Swiss franc. At year-end, the average exchange rate of the Polish zloty (PLN) against the U.S. dollar (USD) was 4.06 compared to 3.70 at the beginning of the year. The 2021 weakening against the euro (EUR) was relatively less pronounced: from 4.55 to 4.60 at year-end. However, the exchange rate of the Polish zloty (PLN) against the Swiss franc (CHF) fell from 4.21 to 4.45. At year-end, the interest rate on 10-year Treasury bonds amounted to 3.71% and was nearly three times higher than the year before (1.25%).

The balance sheet total of the banking sector at the end of December 2021 was PLN 2 572.5 billion and was 9.5% higher than in the previous year (PLN 2 350.0 billion). In terms of balance

sheet total, commercial banks with foreign branches account for as much as 89.7% of the banking sector, and their balance sheet total at the end of 2020 was PLN 2 308 billion, while the balance sheet total of cooperative banks was PLN 185 billion. The balance sheet total of branches of credit institutions amounted to PLN 79.6 billion. The profit of the banking sector during the period was PLN 8.9 billion (in 2020, the banking sector reported a loss of PLN -0.3 billion).

As at the end of 2021, the Polish credit unions sector consisted of 22 credit unions (PL: *spółdzielcza kasa oszczędnościowo-kredytowa* – SKOK) and the National Association of Credit Unions. The assets of the 22 credit unions at the end of 2021 amounted to PLN 10.1 billion, and their total net profit amounted to PLN 17.3 million. As at the end of 2021, the amount of own funds of 22 credit unions (calculated in accordance with the Act on credit unions) was PLN 406.5 million. The data for the banking and credit unions sectors are preliminary, have not been audited by a statutory auditor and are subject to change.

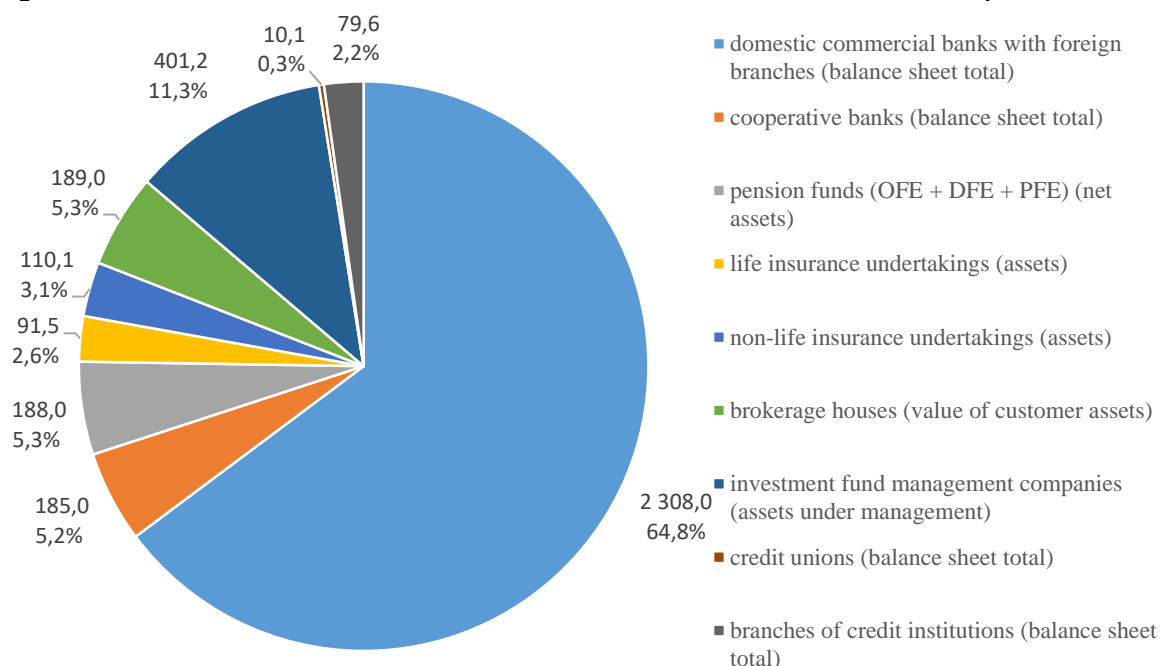
The balance sheet total of the insurance sector decreased by 1.5% during the year and amounted to PLN 201.6 billion at the end of December 2021, of which PLN 91.5 billion was allocated to life insurance undertakings, and PLN 110.1 billion to non-life insurance undertakings – other personal insurance and property insurance. In the period concerned, insurers generated a profit of PLN 5.7 billion (of which PLN 1.6 billion was attributable to life insurance, and PLN 4.1 billion to non-life insurance), which was 7.1% lower than in the previous year.

The total net asset value of open pension funds (PL: *otwarty fundusz emerytalny* – OFE), voluntary pension funds (PL: *dobrowolny fundusz emerytalny* – DFE) and occupational pension funds (PL: *pracowniczy fundusz emerytalny* – PFE) as at 31 December 2021 amounted to PLN 192.6 billion and was 26.7% higher than the value at the end of the previous year (PLN 152 billion).

In 2021, the Warsaw Stock Exchange recorded high index volatility. Over the year, the value of the WIG index increased by 21.5% and amounted at year-end to 69 296.26. The minimum value of the index (55 301.68) was recorded at the end of January, and the maximum value (75 018.06) – in November. The value of the WIG20 index in 2021 increased by 14.3%. The value of trading in shares amounted to PLN 313.2 billion and was 5.5% higher than in the previous year (PLN 297.1 billion). At the end of 2021, the capitalisation of domestic companies amounted to PLN 701.2 billion, which represented a 30.1% increase compared to the previous year. The capitalisation of foreign companies also increased as compared to 2020, from PLN 529.9 billion to PLN 611.6 billion (i.e. an increase of 15.4%). At the end of 2021, 430 companies were listed on the GPW, including 383 domestic companies and 47 foreign companies. In the period covered by this report, there were 16 new listings (including of three foreign companies) and 19 delistings (including of five foreign companies) – in consequence, for the sixth year running, the number of listed companies did not increase during the year.

At the end of 2021, the value of assets managed by investment fund management companies amounted to PLN 401.2 billion and was 7.7% higher than at the end of the previous year (PLN 372.4 billion). The value of customer assets recorded on the accounts at brokerage houses as at the end of 2021 amounted to PLN 189 billion and was 44.2% higher than at the end of 2020 (PLN 131.1 billion). The increase in the value of customer assets recorded on the accounts at brokerage houses could result from an outflow of funds from low-interest bank deposits and from increases recorded at the WSE, after the COVID-19-related marked slump.

**Diagram 3. Asset structure of the Polish financial sector as at the end of 2021 (in PLN billion)\***



Source: UKNF

\* The data for 2021 have not been audited.

**Table 1. Number of KNF-supervised entities as at 31 December 2021**

Type of entity	Number of entities
Commercial banks (including 2 affiliating banks)	30 <sup>12</sup>
State bank	1
Cooperative banks	511
Representative offices of foreign banks and credit unions	9
Institutional Protection Schemes (IPS)	2
Credit unions, National Association of Credit Unions	23
Domestic payment institutions	40
Electronic money institutions	1
Account information service providers	11
Small payment institutions	117
Payment services offices	1 270
Mortgage credit intermediaries	856
Agents of mortgage credit intermediaries	7 739
Brokerage houses	36
Banks conducting brokerage activities	9
Tied agents of investment firms	264
Custodian banks	11

<sup>12</sup> Including: Idea Bank S.A. – the bank did not engage in operating activities and did not submit reports to the KNF Board any more.

Entities of the capital market infrastructure (Giełda Papierów Wartościowych w Warszawie S.A., Krajowy Depozyt Papierów Wartościowych S.A., KDPW_CCP S.A., BondSpot S.A.) <sup>13</sup>	4
Issuers whose financial instruments are admitted to trading on a regulated market <sup>14</sup> , including: – issuers of shares for which Poland is the home country – issuers of bonds and mortgage bonds – foreign issuers	476
Issuers whose securities are admitted to an alternative trading system <sup>15</sup>	463
Investment funds	706
Investment fund management companies	57
Managers of alternative investment companies/partnerships (AICMs)	269
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) <sup>16</sup>	240
Entities of the commodity market infrastructure (Towarowa Giełda Energii S.A., Izba Rozliczeniowa Giełd Towarowych S.A.)	2
Commodity brokerage houses	1
Entities holding authorisation to keep accounts or registers of commodities	57
Open pension funds	10
General pension societies	10
Occupational pension funds	2
Occupational pension societies	2
Depositaries of pension funds	6
Transfer agents of pension funds	7
Voluntary pension funds	7
Target-date voluntary pension funds	18
Life insurance undertakings	25
Non-life insurance and reinsurance undertakings (personal and property insurance)	32 <sup>17</sup>
Insurance brokers, including: – natural persons – legal persons	1 426, including: 882 544
Reinsurance brokers, including: – natural persons – legal persons	57, including: 14 43
Insurance agents	30 467
Persons who perform agency activities	247 036

<sup>13</sup> 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, a central securities depository as defined in Article 2(1) point 1 of Regulation 909/2014.

<sup>14</sup> Excluding closed-end investment funds whose investment certificates are admitted to trading on a regulated market.

<sup>15</sup> The direct enforcement of information requirements of those issuers is exercised by companies operating a regulated market which organise an alternative trading system.

<sup>16</sup> The number includes the number of distributors of units, transfer agents, fund depositaries, external valuers, and entities authorised to manage securitised liabilities of a securitisation fund.

<sup>17</sup> Two undertakings not running an insurance business are still supervised by the KNF Board: D.A.S. Towarzystwo Ubezpieczeń Ochrony Prawnej S.A. w likwidacji (the KNF Board did not withdraw their authorisation to pursue the insurance business) and Towarzystwo Ubezpieczeń Wzajemnych MEDICUM w likwidacji (the KNF Board withdrew their authorisation to pursue the insurance business).



Source: UKNF

**Table 2. Number of entities which are not supervised by the KNF Board but have been entered in the relevant registers/lists kept by the KNF Board as at 31 December 2021**

Type of entity	Number of entities in the register
Actuaries	420
Securities brokers	3 231
Investment advisers	814
Consumer credit intermediaries	38 889
Non-bank lending institutions	529
Entities carrying out activities specified in Article 6 point 11 of the Act on payment services, to which Article 6c(1) of the Act on payment services applies	5
Entities carrying out activities specified in Article 6 point 12 of the Act on payment services, to which Article 6d(1) of the Act on payment services applies	8
Foreign investment firms without a branch <sup>18</sup>	640

Source: UKNF

**Table 3. Number of entities which notified operation as a branch in Poland as at 31 December 2021**

Type of entity	Number of entities
Credit institutions <sup>i</sup>	36
Payment institutions <sup>i</sup>	9
Electronic money institutions <sup>i</sup>	2
Insurance undertakings <sup>i i</sup> , including: – life insurance undertakings – non-life insurance undertakings	25, including: 4 21
Reinsurance undertakings <sup>i i</sup>	1
Investment firms <sup>i</sup>	13*

Source: UKNF

<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 an EU Member State other than the Republic of Poland is exercised by the home supervisory authority.

## 4. BANKING SECTOR

### 4.1. BASIC INFORMATION

At the end of 2021, the KNF Board supervised 30<sup>19</sup> commercial banks (including 2 affiliating banks), 1 state bank, 2 institutional protection schemes, 511 cooperative banks, and 36 branches of credit institutions.

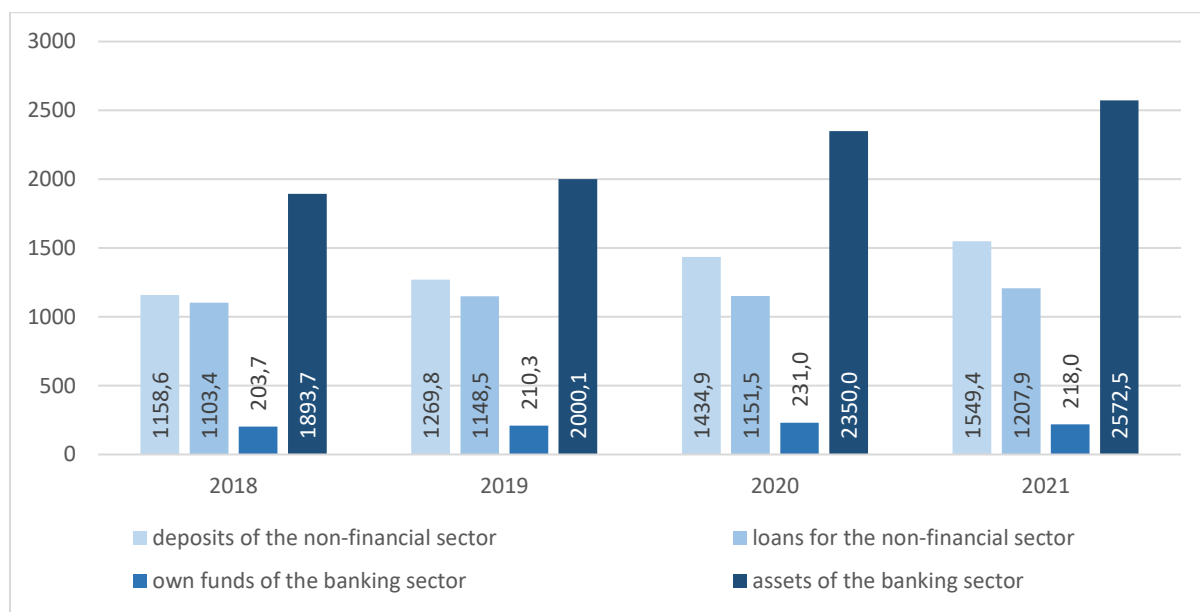
In 2021, the KNF Board approved the merger processes for twenty six cooperative banks and made one decision on a take-over.

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<sup>18</sup> See: Section 10.2.5 *Foreign investment firms without a branch*.

<sup>19</sup> Including Idea Bank S.A. – the bank did not engage in operating activities and did not submit reports to the KNF Board any more.

**Diagram 4. Basic data of the banking sector in Poland in the years 2018–2021 (in PLN billion)**



Source: UKNF

The data for 2021 come from the monthly bank reporting for December 2021 and have not been audited. The data for previous years may differ from the data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

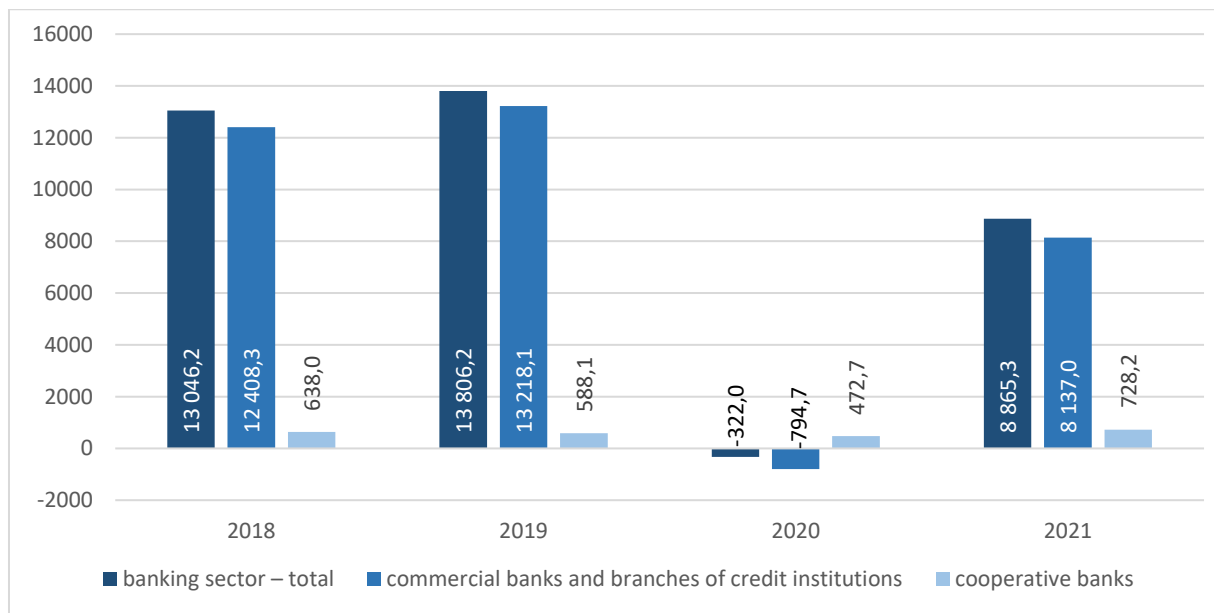
The balance sheet total of the Polish banking sector at the end of December 2021 amounted to PLN 2 572.5 billion (an increase of 9.5% as compared with the end of December 2020). Domestic commercial banks (with foreign branches) account for 89.7% of the sector's assets, 3.1% for branches of credit institutions and 7.2% for cooperative banks.

In the structure of assets, 55.6% (PLN 1 430.7 billion) were loans and other receivables, 18.8% (PLN 482.9 billion) were available-for-sale financial assets, 1.9% (PLN 48.6 billion) were held-for-trading financial assets, and 5.8% (PLN 149.8 billion) were cash, cash at central banks and other demand deposits. As for liabilities, deposits accounted for 72.7% of total liabilities (PLN 1 870.4 billion), and equity for 7.9% (PLN 202.4 billion).

In 2021, gross receivables from the non-financial sector increased by 5.3%, reaching PLN 1 197.4 billion at the end of December.

An important component of the banking sector's assets are housing loans, including loans denominated in or indexed to Swiss franc (CHF). In 2021, for another year running, there was a clear decrease in the volume of loans in CHF; their sum decreased from CHF 21.4 billion at the end of December 2020 to CHF 17.5 billion at the end of December 2021, i.e. a decrease of 18.5% over the year and 41.8% over five years (from CHF 30.0 billion at the end of December 2017). At the same time, the quality of housing loans, including those denominated in CHF, remains good – in 2021 it was at a level similar to the previous year. The share of non-performing loans in the portfolio of housing loans is the lowest of all loan portfolios.

**Diagram 5. Net financial result of the banking sector in the years 2018–2021 (in PLN million)**

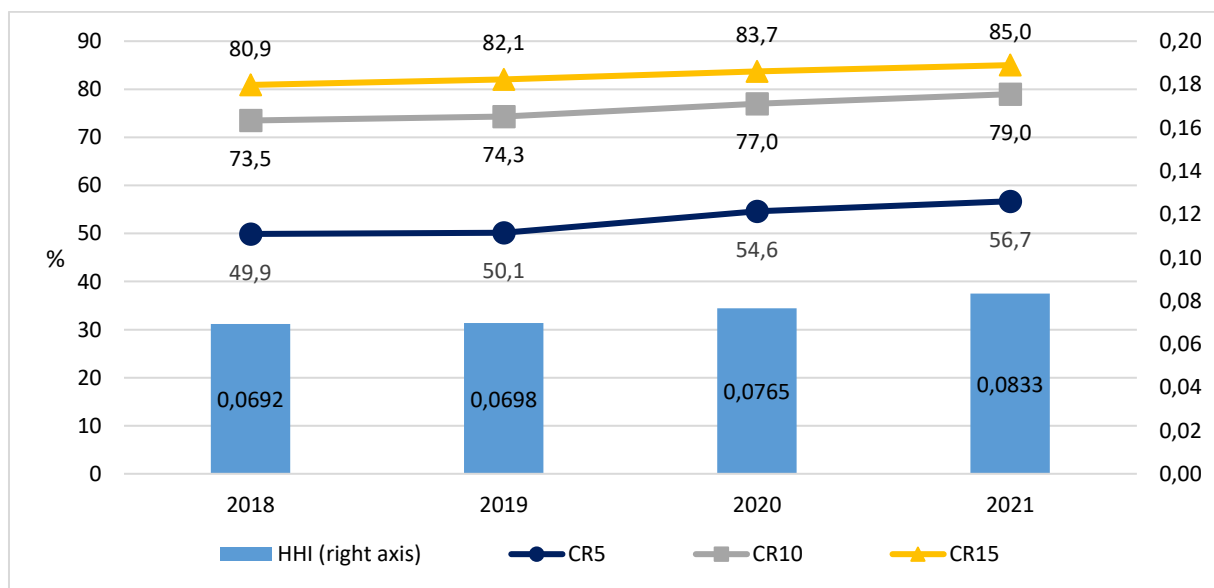


Source: UKNF

The data for 2021 come from the monthly bank reporting for December 2021 and have not been audited. The data for previous years may differ from the data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

The net financial result of the banking sector in 2021 amounted to PLN 8.9 billion. In 2021, 16 commercial banks and 8 branches of credit institutions paid a total of PLN 4.7 billion on account of the banking tax. It is PLN 0.2 billion (+4.3% year-on-year) more than in 2020. The net interest income amounted to PLN 46.6 billion (-1.2% YOY), of which the interest income amounted to PLN 51.1 billion (-9.9% YOY), and interest expenses to PLN 4.5 billion (-53.1%). The commission income remained at PLN 17.2 billion (+15.6% YOY). Banks' operating expenses were 2.2% higher than in the previous year and amounted to PLN 35.5 billion, and impairment write-downs of financial assets decreased by 44.5% YOY to PLN 6.8 billion.

**Diagram 6. Concentration of assets in the years 2018–2021**



Source: UKNF

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. HHI of 0.0768 indicates a competitive market. The data for 2021 come from the monthly bank reporting for December 2021 and have not been audited. The data for previous years may differ from the data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

## 4.2. KEY ACTIVITIES

Following the adoption of the UKNF Strategy for 2021-2025, the UKNF in 2021 revised and started adapting its tasks and competences related to the implementation of the tasks related to the objectives included in the UKNF Strategy, including in particular the engagement of supervised entities in sustainable development (ESG goals) and considering the current challenges arising from innovation and technological development in supervisory processes.

### 4.2.1 EXAMINING THE IMPACT OF THE COVID-19 PANDEMIC ON BANKS' CREDIT PORTFOLIOS

In connection with the COVID-19 pandemic and the credit moratoria applied since 2020 in response to it, the UKNF has been constantly monitoring the impact of the crisis caused by the pandemic on the situation of each bank. Regular review covered assistance funds used by the banks in response to the COVID-19 crisis, including the banks' use of legislative and non-legislative moratoria, adopting other restructuring measures and taking advantage of public guarantee programmes. The aim of those measures is to identify situations potentially threatening the security of individual banking sector entities and threats to the stability of the sector as a whole in a timely manner, and to enable preventive measures to be taken.

## 4.3. BANKS AND CREDIT INSTITUTIONS

### 4.3.1. LICENSING

#### 4.3.1.1. ESTABLISHING A BANK AND COMMENCING OPERATIONS

On 20 May 2021, a decision was made approving the commencement of operations by Millennium Bank Hipoteczny Spółka Akcyjna. The authorisation to establish that bank was granted by the KNF Board in 2020.

The KNF Board also approved, in 2021, the commencement of operations by a branch of a foreign bank FCE Bank Spółka Akcyjna Oddział w Polsce. The branch continues its operations in Poland after it operated as a branch of a credit institution, prior to the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union.

In 2021, the KNF Board repealed 2 decisions issued in 2019 and approving the establishment, by the Bank Guarantee Fund acting as a founder, of bridge institutions.

#### 4.3.1.2. TASKS RELATED TO CHANGES IN THE GOVERNING BODIES OF BANKS AND SUITABILITY ASSESSMENT

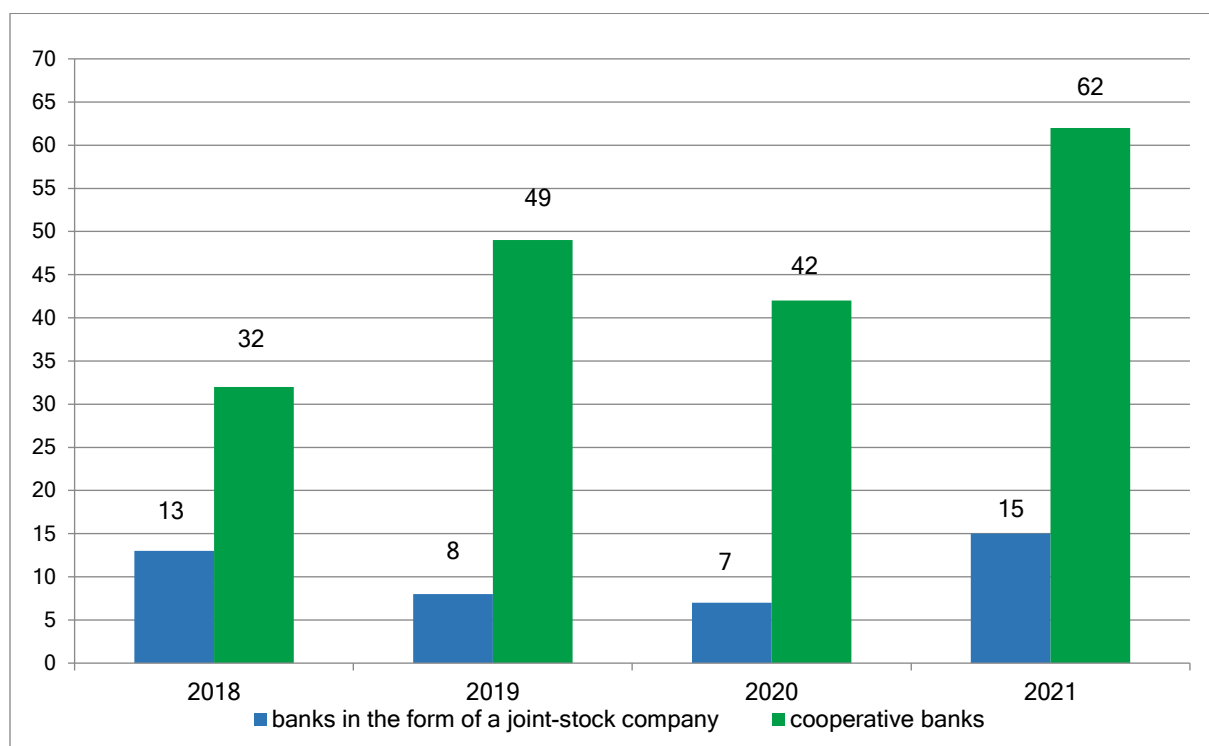
In 2021, the KNF Board adopted 77 final decisions in the form of resolutions on approval of the appointment of members, including presidents, of management boards, including:

- 8 final decisions on the approval of the appointment of presidents of management boards of banks operating as joint-stock companies,
- 56 final decisions on the approval of the appointment of presidents of management boards of cooperative banks,

- 7 final decisions on the approval of delegation of the function of members of management boards supervising the management of material risks in the activity of banks operating as joint-stock companies,
- 5 final decisions on the approval of delegation of the function of members of management board supervising the management of material risks in the activity of cooperative banks,
- 1 final decision refusing to approve the appointment of a president of management board of a cooperative bank.

In the above-mentioned cases, 9 final decisions to discontinue proceedings were issued.

**Diagram 7. Number of decisions issued in the form of resolutions on the merits of the case to approve the appointment or delegation of the function of members, including presidents, of management boards of banks operating in the form of a joint-stock company and cooperative banks in the years 2018-2021**



Source: UKNF

2021 was the first full year of implementation of a new supervisory model in the field of corporate governance through the application of a more active and systemic review of banks' processes of the assessment of suitability of members of management boards and supervisory boards, and of those bodies as a whole.

In its previous supervisory practice, the KNF Board focused on the assessments carried out as part of administrative proceedings in relation to individuals who, in accordance with the Banking Law, require prior consent to the appointment or to the delegation of the function, i.e. to presidents of management board and members of management board responsible for the management of material risk in the banks' activities (*ex ante* suitability assessment).

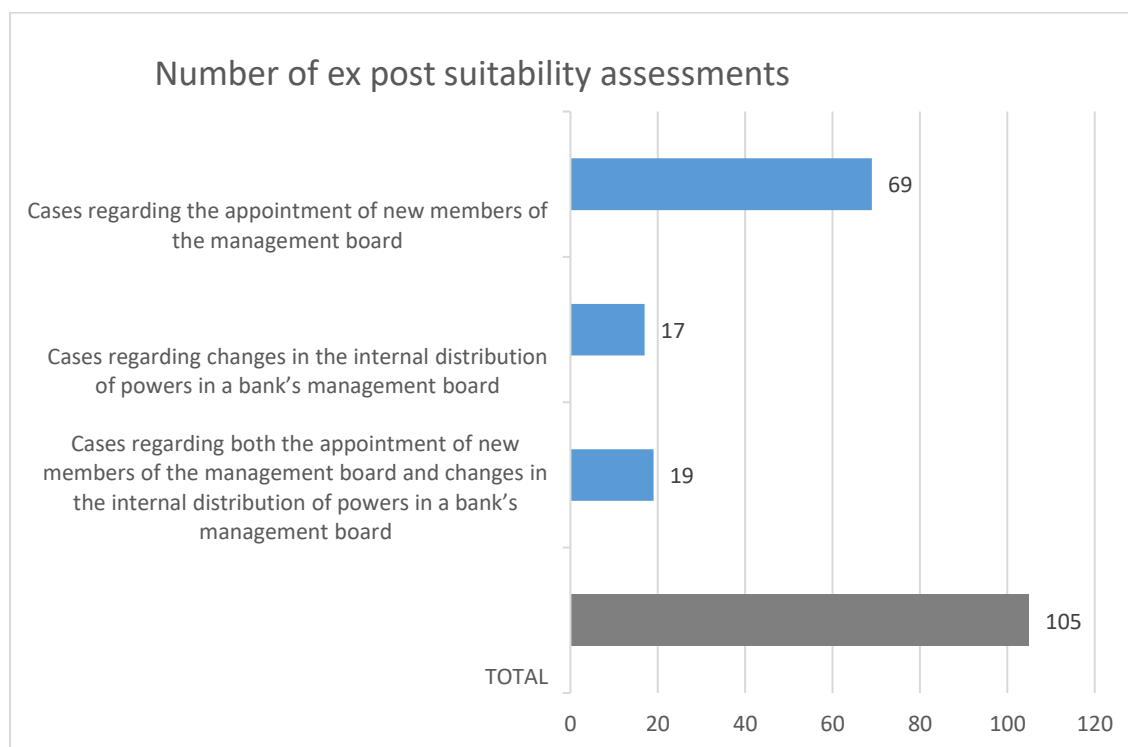
In the reviewed supervisory model, the verification of suitability assessments is organised in three process streams:

- 1) the above-described administrative proceedings leading to a KNF decision (president of management board or member of management board responsible for material risk management);

- 2) on-going supervision – an *ex post* assessment carried out within the framework of ongoing supervision, resulting from changes in the composition of the bodies, including changes in the responsibilities of the management board;
- 3) ongoing supervision – a secondary assessment covering all members of the bodies (management boards and supervisory boards), resulting from the events triggering the need to review the previous suitability assessment.

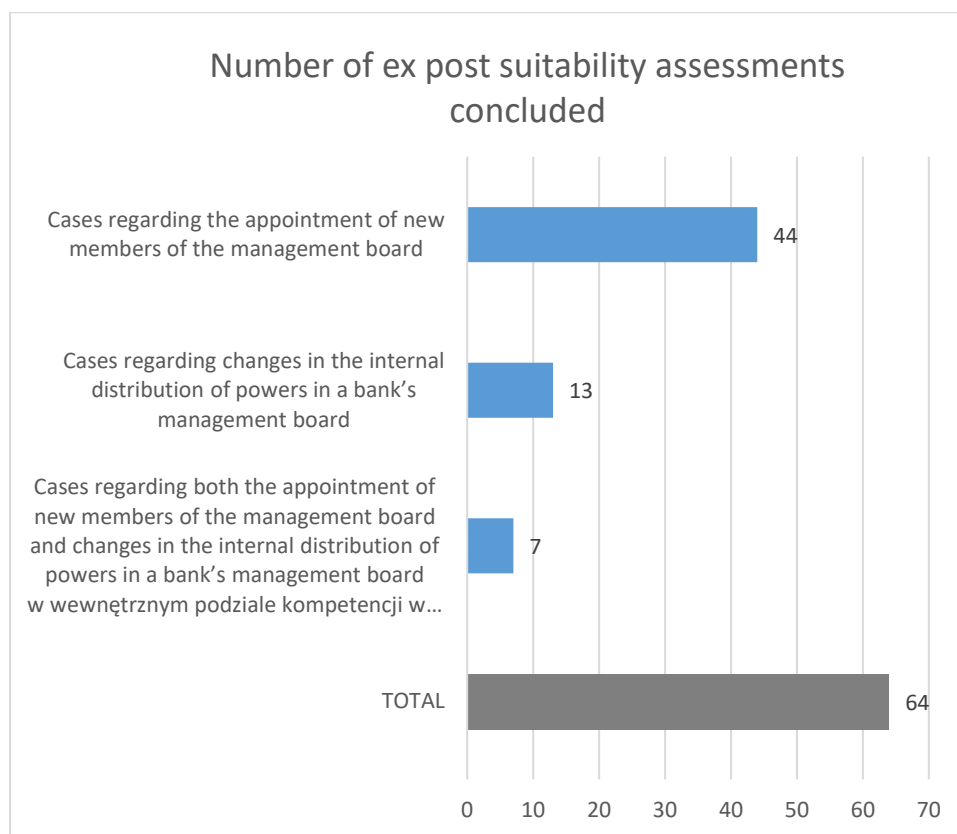
Information about the *ex post* suitability assessment of members of management board, i.e. the number of *ex post* assessments initiated and the number of *ex post* assessments concluded, is shown in Diagrams 8 and 9, respectively.

**Diagram 8. Number of *ex post* suitability assessments initiated in 2021**



Source: UKNF

**Diagram 9. Number of *ex post* suitability assessments concluded in 2021**



Source: UKNF

In 2021, actions were also taken in the area of secondary assessment of the suitability of members of banks' governing bodies, related, on the one hand, to the recording and analysis of incoming evaluation results received from supervised entities, which are carried out on their initiative in specific situations in accordance with the *Methodology of assessment of the suitability of members of governing bodies of KNF-supervised entities* and, on the other hand, to initiate such an assessment as a result of certain circumstances and subsequently to verify such assessment. The above-mentioned circumstances include, in particular, the identification of material irregularities in the management of supervised entities within the framework of an inspection, assigning a negative rating for management as part of the Supervisory Review and Evaluation Process (SREP) or identification of material breaches of duties by members of governing bodies.

#### 4.3.1.3. APPOINTMENT OF A TRUSTEE AND DEPUTY TRUSTEE

In 2021, the KNF Board issued 5 final decisions on the appointment of a trustee or deputy trustee at mortgage banks.

#### 4.3.1.4. TASKS RELATED TO CHANGES IN THE SHAREHOLDER STRUCTURE OF BANKS OPERATING AS JOINT-STOCK COMPANIES

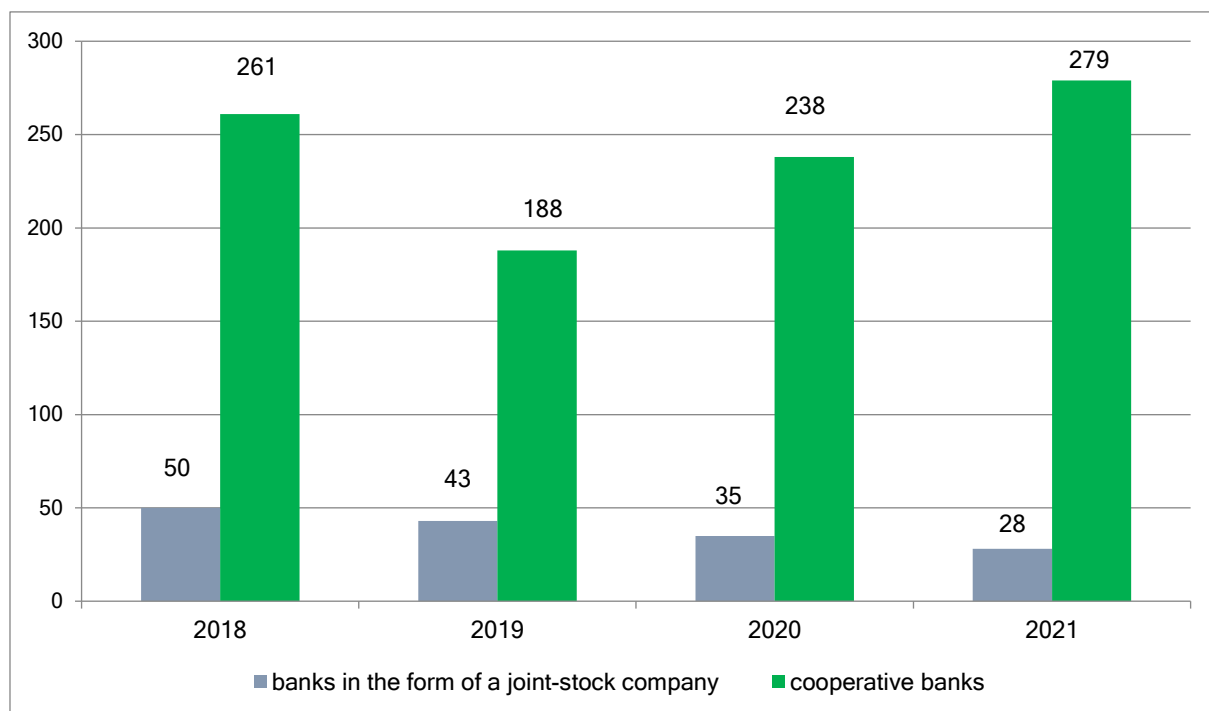
In 2021, the KNF Board adopted 1 final decision in the form of a resolution declaring that there were no grounds for objecting to the planned acquisition of shares of a domestic bank.

#### 4.3.1.5. AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF BANKS

In 2021, the KNF Board issued 326 final administrative decisions on the approval of amendments to the articles of association of banks, including:

- 28 final decisions to authorise amendments to the articles of association of banks operating as joint-stock companies,
- 279 final decisions approving amendments to the articles of association of cooperative banks,
- 1 final decision upholding a decision refusing to amend the articles of association of a bank operating as a joint-stock company,
- in 18 cases, the KNF Board discontinued proceedings.

**Diagram 10. Number of final decisions on the merits of the case, to approve amendments to the articles of association of commercial banks and cooperative banks in the years 2018-2021**



Source: UKNF

#### 4.3.1.6. OPERATING UNDER THE FREEDOM OF ESTABLISHMENT AND FREEDOM TO PROVIDE SERVICES

In 2021, the KNF Board received the following notifications from credit institutions concerning the exercise of the freedom of establishment and freedom to provide services.

Cross-border activity:

- 13 notifications from credit institutions of an intention to pursue cross-border activity in the territory of the Republic of Poland,
- 30 notifications from credit institutions amending notifications concerning cross-border activity in the territory of the Republic of Poland.

Operation through a branch:

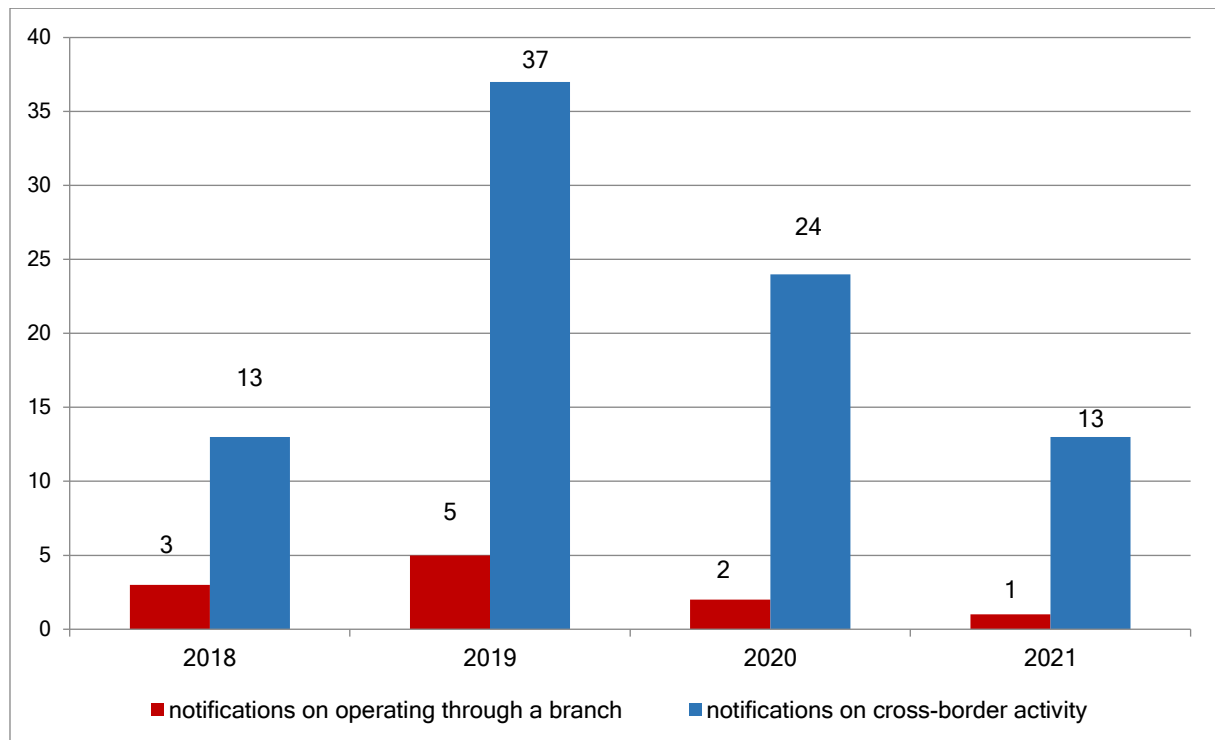
- 1 notification from a credit institution of an intention to operate through a branch in the territory of the Republic of Poland,
- 18 notifications from credit institutions amending notifications concerning operation through a branch in the territory of the Republic of Poland,



- 1 notification from EU financial institutions of an amendment to the notification concerning operation through a branch in the territory of the Republic of Poland.

Following a notification from a credit institution of an intention to operate in the form of a branch in the territory of the Republic of Poland, the KNF Board issued for that credit institution a decision indicating the conditions that must be met by a branch of a credit institution in the interest of the general good when pursuing a business.

**Diagram 11. Number of new notifications from credit institutions and financial institutions operating in the territory of the Republic of Poland through a branch and as part of cross-border activities in the years 2018-2021**



Source: UKNF

In 2021, domestic banks submitted the following notifications concerning cross-border activity and operation through a branch in the territory of EEA countries.

**Cross-border activity:**

- 1 notification from a domestic bank of an intention to pursue cross-border activity in the territory of Italy,
- 1 notification from a domestic bank of an intention to pursue cross-border activity in the territory of Romania,
- 1 notification from a domestic bank amending notifications concerning cross-border activity in the territory of France,
- 1 notification from a domestic bank amending notifications concerning cross-border activity in the territory of Germany.

**Operation through a branch:**

- 1 notification from a domestic bank of an intention to pursue activity through a branch in the territory of Romania,
- 2 notifications from domestic banks amending notifications concerning operation through a branch in the territory of Slovakia and Romania.

#### 4.3.1.7. Representative offices of credit institutions and foreign banks in Poland

In 2021, the KNF Board issued one decision approving the establishment of a representative office of a credit institution in the Republic of Poland.

#### 4.3.1.8. OTHER RULINGS IN THE AREA OF BANKING LICENCES

In 2021, 25 other rulings were also issued in the form of interim and final decisions based on KNF authorisation.

### 4.3.2. SUPERVISORY ACTIVITIES

#### 4.3.2.1. PRUDENTIAL SUPERVISION OF DOMESTIC BANKS

The supervisory activities undertaken by the UKNF in 2021 consisted in ongoing monitoring and quarterly analysis of the economic and financial standing of banks. On that basis, quarterly bank ratings were assigned in the KOBRA system. In 2021, all commercial banks were assessed and 90 quarterly analyses of commercial banks were prepared. 2 074 quarterly analyses of cooperative banks and 8 quarterly analyses of affiliating banks were prepared.

In addition to the quarterly assessment, banks are subject to a review as part of the SREP, i.e. the Supervisory Review and Evaluation Process<sup>20</sup>.

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

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

- strengthening the capital base, including the recommendation to stop dividend payments in the first half of 2021, and in the area of setting additional capital requirements (add-on/P2R) and preparation of a methodology of setting the expected level of own funds (P2G),
- macro-prudential supervision of the financial market, including imposition of the other systemically important institution buffer (O-SII buffer),
- administrative proceedings, including applications to classify interim profits into subordinated debt funds,
- monitoring the liquidity status,
- checking the banks' resilience to possible negative changes in the macroeconomic environment (stress tests),
- recovery plans (PL: *plan naprawy* – PN) and rehabilitation plans (PL: *plan postępowania naprawczego* – PPN), including the assessment of the status of their implementation and/or completion,
- processes for the approval of recovery plans and of monitoring their implementation,
- assignment of SREP ratings,
- implementation of recommendations issued as part of an inspection, SREP assessment and any other recommendation following off-site supervision,
- provision of payment services by supervised entities (commercial banks and branches of credit institutions),
- the review of the banking sector in terms of identification of a financial conglomerate together with supplementary supervision of banks being part of a financial conglomerate,

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<sup>20</sup> Detailed information on the SREP in the banking sector is provided in Section 4.3.2.8. *Supervisory Review and Evaluation Process (SREP)*.

- analysing the geographic and industry-related structure of receivables of domestic banks and branches of credit unions.

In 2021, 165 topics were submitted for voting at the KNF Board's meetings held by circulation (in relation to the situation of several entities, the topics were submitted multiple times) and 6 topics for meetings held remotely. The KNF Board also familiarised itself with many reports on the banking sector, for example:

- Report on the standing of banks in 2020,
- Information on the standing of banks at the end of each month of 2021,
- Results of capital and liquidity stress tests in the Polish banking sector in 2021,
- Monthly information on residential real estate (RRE) (FX) portfolios,
- Information on the standing of cooperative banks and affiliating banks after the fourth quarter of 2020,
- Information on the standing of cooperative banks and affiliating banks after the first quarter of 2021,
- Information on the situation of cooperative banks and affiliating banks after the second quarter of 2021,
- Information about the SREP results of cooperative banks and affiliating banks for 2020,
- Information on the distribution of profit generated by cooperative banks in 2020.

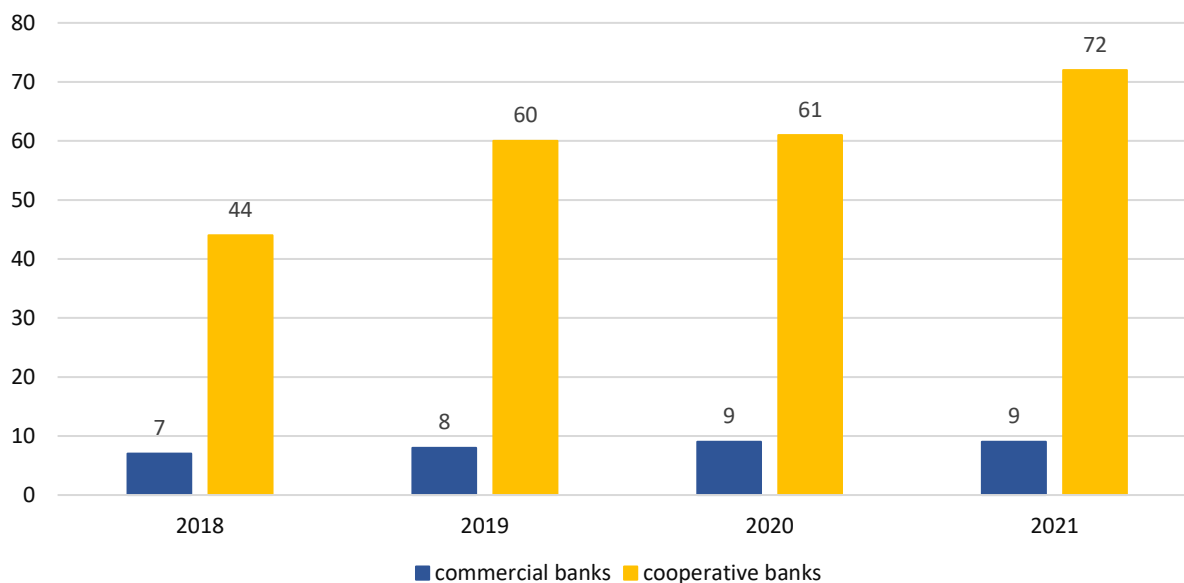
In 2021, 222 analyses/reports/pieces of information/aggregated statistical data were presented at the KNF Board's meetings or published on the KNF website in connection with day-to-day supervisory work. 26 954 reviews of financial reports/financial statements/other reports submitted by supervised banking sector entities were performed.

#### 4.3.2.2. SUPERVISION OF BANKS SUBJECT TO REHABILITATION PROCEEDINGS

In 2021, 7 commercial banks were subject to rehabilitation proceedings, of which in two cases the proceedings concerned banks that were implementing a rehabilitation plan. The banks were required to draw up a recovery plan; 1 bank implemented, and 1 bank continues to implement, a recovery plan. 6 banks exceeded the critical levels of indicators triggering the launch of recovery plans but the management boards of those banks did not decide to implement recovery plans. The banks implement restructuring plans outside the recovery plan regime and remain under close supervision. In addition to regular tasks, in the case of supervision of banks subject to rehabilitation proceedings the analysis covers, among others, reports on the implementation of recovery measures. Some banks are also subject to daily or weekly monitoring of liquidity and funding sources. If a curator has been established at a bank, the review covers the bank's reports on its activity. Analyses are also carried out to identify possible supervisory and intervention measures.

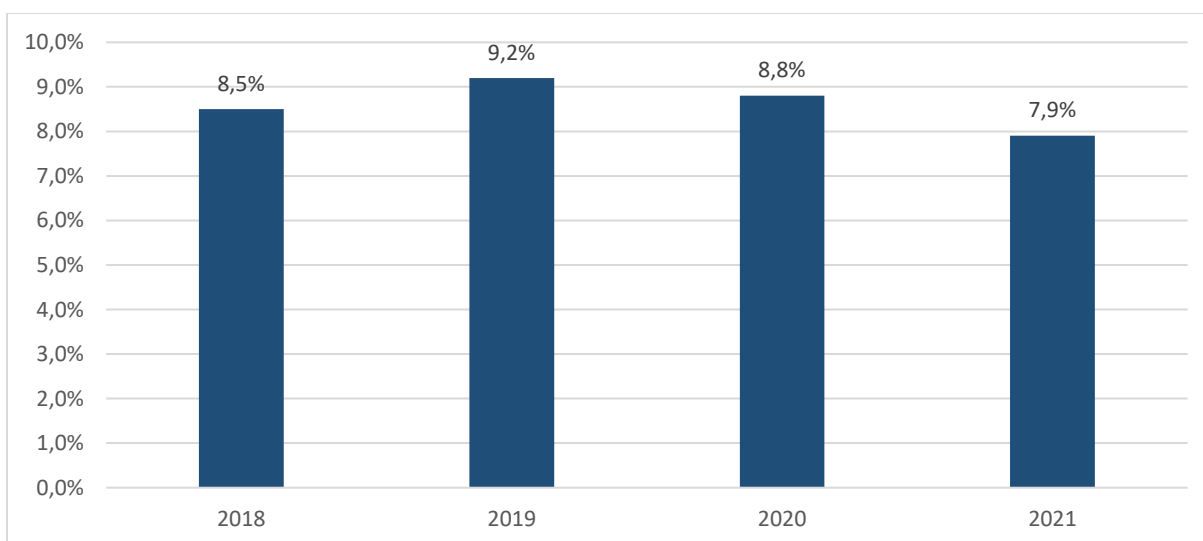
In early 2021, rehabilitation measures were being applied to 62 cooperative banks and 2 affiliating banks, and at the end of 2021 to 72 cooperative banks and 2 affiliating banks.

**Diagram 12. Number of commercial and cooperative banks subject to rehabilitation proceedings in the years 2018-2021**



Source: UKNF

**Diagram 13. Share of assets of commercial and cooperative banks subject to rehabilitation proceedings in the total banking sector assets (in %) in the years 2018-2021**



Source: UKNF

The share of assets of cooperative banks subject to rehabilitation proceedings in the total banking sector assets (in %) at the end of 2021 amounted to 0.9%.

#### 4.3.2.3. FINAL DECISIONS ON OWN FUNDS

Final decisions issued in 2021 in individual cases were related to:

- authorisation to include the bank's profit for a given period as Tier 1 capital (13 final decisions),
- authorisation to classify the issued shares to Common Equity Tier 1 capital (59 final decisions),
- permission to classify the bank's cash gained from the issue of long-term bonds and subordinated loans into Tier 2 capital instruments (8 final decisions).
- permission to reduce own funds (434 final decisions),

- permission to reduce own funds - prior consent (38 final decisions).

#### 4.3.2.4. FINAL DECISIONS ON MERGERS AND APPOINTMENT OF A CURATOR

In 2021, the KNF Board approved the merger processes for twenty six cooperative banks and made one decision on a take-over.

The KNF Board authorised the merger of:

- Bank Spółdzielczy w Jędrzejowie (the acquiring bank) and Bank Spółdzielczy w Sędziszowie (the bank being acquired),
- Łódzki Bank Spółdzielczy (the acquiring bank) and Bank Spółdzielczy w Bełchatowie, Bank Spółdzielczy w Krośniewicach and Bank Spółdzielczy w Strykowie (the banks being acquired),
- Bank Spółdzielczy Ziemi Kaliskiej (the acquiring bank) and Bank Spółdzielczy Towarzystwa Oszczędnościowo-Pożyczkowego „PA-CO-BANK” w Pabianicach (the bank being acquired),
- Bank Spółdzielczy we Włoszczowie (the acquiring bank) and Bank Spółdzielczy w Koniecpolu (the bank being acquired),
- Spółdzielczy Bank Powiatowy w Piaskach (the acquiring bank) and Bank Spółdzielczy w Sawinie (the bank being acquired),
- Bank Spółdzielczy w Tomaszowie Lubelskim (the acquiring bank) and Bank Spółdzielczy w Łaszczowie (the bank being acquired),
- Bank Spółdzielczy w Łowej (the acquiring bank) and Bank Spółdzielczy w Trzebielu (the bank being acquired),
- Żuławski Bank Spółdzielczy (the acquiring bank) and Bank Spółdzielczy w Nowym Stawie (the bank being acquired),
- Pyrzycko-Stargardzki Bank Spółdzielczy (the acquiring bank) and Bank Spółdzielczy w Gryfinie (the bank being acquired),
- Wschodni Bank Spółdzielczy w Chełmie (the acquiring bank) and Bank Spółdzielczy w Wisznicach (the bank being acquired),
- Bank Spółdzielczy w Skórczu (the acquiring bank) and Bank Spółdzielczy w Lubichowie (the bank being acquired),
- Bank Spółdzielczy w Witkowie (the acquiring bank) and Bank Spółdzielczy w Grabowie (the bank being acquired),
- Bank Spółdzielczy w Łukowie (the acquiring bank) and Bank Spółdzielczy w Kocku (the bank being acquired),
- Bank Spółdzielczy w Kłobucku (the acquiring bank) and Bank Spółdzielczy w Popowie z/s w Zawadach (the bank being acquired),
- Bank Spółdzielczy w Siedlcach (the acquiring bank) and Bank Spółdzielczy w Mrozach (the bank being acquired),
- Bank Spółdzielczy w Węgorzewie (the acquiring bank) and Bank Spółdzielczy w Mikołajkach (the bank being acquired),
- ESBANK Bank Spółdzielczy (the acquiring bank) and Bank Spółdzielczy w Kleszczowie (the bank being acquired),
- Bank Rumia Spółdzielczy (the acquiring bank) and Bank Spółdzielczy w Łebie (the bank being acquired),
- Mazovia Bank Spółdzielczy (the acquiring bank) and Bank Spółdzielczy w Sobieniach Jeziorach (the bank being acquired),
- Częstochowski Bank Spółdzielczy JURA BANK (the acquiring bank) and Bank Spółdzielczy w Żytnie (the bank being acquired) and Bank Spółdzielczy we Mstowie (the bank being acquired),
- Bank Spółdzielczy Ziemi Łowickiej w Łowiczu (the acquiring bank) and Bank Spółdzielczy w Wiskitkach,
- Bank Spółdzielczy w Niemcach (the acquiring bank) and Bank Spółdzielczy w Kurowie (the bank being acquired).

Moreover, pursuant to Article 146b(1) of the Banking Law, on 15 April 2021 the KNF Board made a unanimous decision on the take-over of Bank Spółdzielczy w Sośnicowicach (the bank being acquired) by Mikołowski Bank Spółdzielczy w Mikołowie (the acquiring bank), with the consent of the acquiring bank.

On 24 February 2021, the KNF Board unanimously decided to appoint a curator at Krakowski Bank Spółdzielczy as of 1 March 2021.

On 24 June 2021, the KNF Board unanimously decided to appoint a curator at Bank Spółdzielczy w Łebie as of 28 June 2021.

On 26 August 2021, the KNF Board unanimously decided to appoint a curator at Bank Spółdzielczy Rzemiosła w Krakowie as of 30 August 2021.

In 2021, after the KNF Board made a relevant decision, the UKNF informed the relevant banks that they qualified as small and non-complex institutions. Due to the requirements following from legislation, the decision was communicated in the form of individual letters to the banks.

The UKNF, as every year, expressed its opinion on the MREL set by the BGF and the update of the plan proposed by the Fund for the forced restructuring of KNF-supervised banks.

At its meeting on 20 August 2021, the KNF Board adopted decisions approving:

- 1) derogation from the application, by participants of institutional protection schemes, of liquidity requirements on an individual basis in accordance with Article 8(2) in conjunction with Article 8(4) and (6) of the CRR in relation to the application of the provisions of the CRR specified in:
  - a) part six in Article 428b concerning the NSFR,
  - b) Article 430(1)(d), requiring institutions to submit information on liquidity requirements to competent authorities,
- 2) application, by affiliating banks, of the CRR requirements specified in point 1 on the basis of the consolidated standing of all the banks participating in the relevant protection schemes which had been authorised by the KNF Board to derogate from the application of liquidity requirements on an individual basis in relation to the NSFR.

At the same time, the KNF Board obliged cooperative banks being part of institutional protection schemes to provide affiliating banks with current information on their liquidity situation that would enable the affiliating banks to implement the provisions of Article 8(4) of the CRR.

On 3 September 2021, the KNF Board adopted Resolution No 326/2021 on the ascertainment that there are exceptional circumstances which justify the exclusion, from the measurement of total exposure of the leverage ratio, of assets representing receivables from the National Bank of Poland pursuant to Article 429a(1)(n)(ii) of Regulation 575/2013 of 26 June 2013 by SGB-Bank S.A. with its registered office in Poznań and Bank Polskiej Spółdzielczości S.A. with its registered office in Warsaw.

#### 4.3.2.5. CLASSIFICATION, BY COMMERCIAL BANKS, OF SUBSEQUENT ISSUES OF A GIVEN FORM OF CAPITAL INSTRUMENTS INTO COMMON EQUITY TIER 1 INSTRUMENTS

In order to meet the expectations of representatives of the banking sector, the KNF Board analysed the possibility of classifying capital instruments and improving the treatment, by commercial banks, of subsequent issues of a given form of capital instruments into Common Equity Tier 1 instruments, pursuant to 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 (OJ L 176/1 of 27 June

2013, hereinafter: 'CRR'). In order to reduce the formalities in the process of classifying subsequent issues of a given form of capital instruments as Common Equity Tier 1 instruments, subject to the fulfilment of the condition that the supervisory authority has access to information on events affecting banks' own funds, the KNF Board recognised the possibility of notifying the intention of commercial banks to classify subsequent issues of a given form of capital instruments into Common Equity Tier 1 instruments under the CRR, without the need to follow an application procedure and rules of evidentiary proceedings arising from the provisions of the Administrative Procedure Code. In order to facilitate communication and ordering of the process, the KNF Board made available on its website a template for a bank's notification on the classification of subsequent issues of a given form of Common Equity Tier 1 instruments, containing detailed information to be submitted by banks together with the notification.

#### 4.3.2.6. EXAMINATION OF LEGAL RISK OF THE PRE (FX) PORTFOLIO

Following a significant increase in the number of disputes concerning foreign-currency mortgage loans to households, bank clearly increased the value of provisions for legal risk. Several banks provided their clients with the option to enter into a financial settlement agreement on the terms proposed by the supervisory authority or based on different terms stipulated by the offering bank. The results of the UKNF's monitoring of the RRE (FX) portfolio, including credit facilities subject to court proceedings, and the settlement agreements concluded by banks were regularly presented at the meetings of the Financial Stability Committee. The results of the analyses were taken into account in the methodology on the additional capital requirement to cover the risk associated with foreign-currency loans and the work on the introduction of new levels of risk weights for foreign-currency housing loans.

#### 4.3.2.7. STRESS TESTS

In accordance with Article 133b of the Banking Law, the KNF Board conducts at least once a year stress tests at supervised banks. Similarly as in previous years, in 2021 the UKNF carried out the exercise based on the NBP's macro-economic scenarios and the UKNF's internal methodology and reporting sheets.

Commercial banks had prepared their forecasts for the key items of the balance sheet, profit and loss account and capital adequacy in a scenario of potential market tensions. The estimates provided by banks were carefully reviewed for internal consistency of data and reality of assumptions. Where appropriate, supervisory adjustments were made, in accordance with principles defined and common for all banks. The exercise aimed to estimate banks' resilience to potential shocks. The results showed a relatively high resilience of the banking sector, which would be functioning even in case of material macro-economic imbalances,

The stress test results are applied in the dividend policy, in setting the P2G add-on and in the ongoing micro-analytical supervision.

In addition, Europe-wide stress tests coordinated by the European Banking Authority (EBA) took place in 2021. The exercise involved 50 banks in the European Economic Area, including 2 banks in Poland: Powszechna Kasa Oszczędności Bank Polski and Bank Polska Kasa Opieki. The results, available on the EBA's website, show a relatively high resilience of both Polish banks.

In 2021, supervisory stress tests were conducted at the cooperative sector banks to define a potential impact of certain factors on capital adequacy and liquidity adequacy of cooperative banks and affiliating banks. The stress test results are used to, for example, set the ratings for stability in the SREP.

#### 4.3.2.8. SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

The purpose of the Supervisory Review and Evaluation Process (SREP) is to identify the size and nature of the risk a bank is exposed to, to assess the quality of the risk management process, to assess the level of capital covering the risk arising from the bank's operations and bank management, including compliance of the bank's operations with the regulations governing banking activity. The obligation to perform, at least annually, the supervisory review and evaluation of a bank, or to review and evaluate the results of the previous review and evaluation, results from Article 133a(1) of the Banking Law.

In 2021, the SREP was carried out in a standard manner applicable before 2020 (that is before the COVID-19 pandemic). However, an approach introduced in 2020 was applied, which consisted in protecting the banks from excessive burden of reporting, in accordance with the Supervisory Stimulus Package for Security and Development (SSP), announced by the UKNF on 18 March 2020. The 2021 SREP schedule had also been adapted to the EU-level process, particularly important in the case of banks operating in groups with a parent undertaking established in the EU.

In April 2021, the KNF Board published on its website *Methodology of supervisory review and evaluation of commercial, affiliating and cooperative banks* (hereinafter: 'SREP Methodology'). The amendments to the SREP Methodology included a catalogue of national and EU regulations and guidelines/recommendations concerning banks effective as of 31 March 2021, with particular emphasis on the transposition of the CRDV to the amended Banking Law of 25 February 2021, in connection with which the provisions concerning recommendations on the level of own funds (P2G) were introduced into the SREP Methodology and the catalogue of supervisory activities was updated. The amendment to the SREP Methodology also:

- identified areas requiring particular supervisory focus by introducing EU-level priorities for commercial banks in Supervisory Convergence Plan for 2021,
- considered Opinion of the European Banking Authority of 4 November 2020 on how to take into account ML/TF risks in the Supervisory Review and Evaluation Process,
- expanded the provisions on market risk and IRRBB on the basis of the CRR II.

The SREP conducted by the UKNF takes into account, in a complementary and consistent manner, the findings from on-site analyses and on-site inspections carried out by the supervisory authority at banks.

The intensity of the SREP at individual banks depends primarily on the overall SREP score assigned in the previous SREP cycle and the results of categorisation process. The SREP methodology involves periodic updates of the SREP score as part of quarterly off-site analyses, and a dialogue between the supervisory authority and banks. Similarly as in previous years, the 2021 SREP also took account of the results of *ad hoc* reviews conducted by the supervisory authority, e.g. in the form of surveys.

In the 2021 SREP cycle, commercial banks were given 26 final SREP scores, and affiliating banks and cooperatives banks were given 609 final SREP scores.

#### 4.3.2.9. FINANCIAL PLANS

In February 2021, similarly as in previous years, the UKNF sent to commercial banks (and BGK) a survey form under Article 139(1) point 2 of the Banking Law, in which the banks set out main forecasts regarding the development of the bank in the coming year. The questions concerned both items of the balance sheet, profit and loss account, capital adequacy, liquidity, and macro-economic indicators. The survey allows for a holistic view of the trends in the banking sector. It helps to find out what plans banks have for the upcoming year, how they



assess the economic situation in the country and what market segments are to grow and at what pace.

The survey is conducted annually, in a cyclical fashion. The exception was 2020, when the survey was not conducted due to the pandemic.

Commercial banks surveyed planned only a slight increase in assets during the year (by 1% up to PLN 2 076.9 billion). The dynamics of assets from the non-financial sector were to be higher and was to reach 4.9%. The quality, measured as a share of Stage 3 loans, was to remain at the same level as in 2020 (6.8%). That was to be a consequence of the phasing out of anti-crisis shields/moratoria and guarantees as well as a material increase in the number of new housing loans and loans for big enterprises (i.e. loans of a relatively better quality).

Receivables from households were to grow relatively slowly (4.9%). However, it should be emphasised that the category recorded positive dynamics in the crisis year of 2020.

Relatively high dynamics were characteristic of receivables from enterprises (+7,1%). Greater flexibility of the demand for a bank loan can be seen in relation to the GDP dynamics in this group of entities compared to households. At the same time, it should be noted that for enterprises credit expansion plans in previous years turned out to be overestimated.

Banks were planning to considerably improve their financial result in 2021 after a very weak year of 2020. The interest income was expected to fall relatively quickly (by PLN 6.1 billion), partially compensated with a decrease in interest costs (by PLN 4.6 billion). The improved result was to be based mainly on lower provisions and write-downs (by PLN 4.3 billion) and an increase in the commission income (by PLN 0.7 billion).

#### 4.3.2.10. RECOVERY PLANS

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

In 2021, the KNF Board approved 17 recovery plans for commercial banks, including 5 group plans, and refused to approve 1 recovery plan. For cooperative banks, the KNF Board approved 6 recovery plans, including 2 group plans, and refused to approve 1 recovery plan.

Additionally, the UKNF analyses the recovery plan indicators on an ongoing basis. Commercial banks with an inactive recovery plan provide monthly information on levels set in the plans: the warning and critical levels of each indicator, and the values at the end of the following months. The analysis is used to monitor the current situation at individual banks and to identify banks at which indicators triggering the recovery plan have been exceeded or are close to that point. It is useful in the ongoing micro-analysis of each entity. The added value of this study is the time limit for data submission: within 15 days after the end of a given month. Thus the UKNF received preliminary information about the indicators much earlier than the data reported by banks to the NBP.

#### 4.3.2.11. MONITORING OF BANKS' COMPLIANCE WITH APPLICABLE REGULATIONS

The KNF carries out regular off-site monitoring of the financial situation of banks, including the liquidity and capital situation. In 2021, 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.

#### 4.3.2.12. DIVIDEND POLICY AND ADDITIONAL CAPITAL REQUIREMENT

The objective of the dividend policy is to ensure stability of the banking sector by adjusting the bank's capital base to the level of risk borne by them, and to protect the users of financial

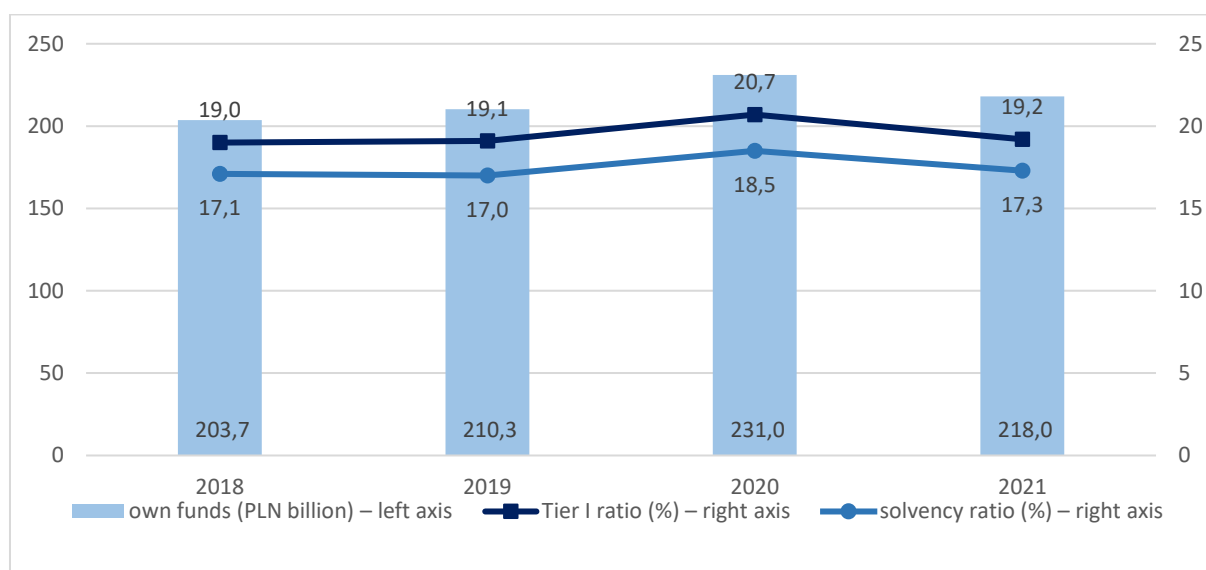
services, including depositors. In the first half of 2021, in view of the continuing uncertainty of further developments related to the COVID-19 pandemic and the continuing prudent supervisory positions in the European Union, the KNF Board considered it necessary to recommend that all profits be retained and that any action that might weaken the capital base, including the payment of a dividend from the undistributed profit from previous years and the redemption of own shares, require each time prior consultation with the supervisory authority. The approach was reviewed in the second half of 2021, when the KNF Board allowed eligible banks to pay the dividend.

Similarly to previous years, additional capital requirements were imposed (in the form of final administrative decisions) on banks with material exposures<sup>21</sup> to foreign currency mortgage loans. The requirements contribute to increasing the regulatory requirements on minimum capital ratios. Such approach directly improves the security of the financial sector.

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<sup>21</sup> Banks where foreign currency loans granted to unsecured borrowers (from the household category) constitute at least 10% of the entire portfolio of the bank's loans for the non-financial sector, and the portfolio of loans for the non-financial sector constitutes at least 25% of the bank's total assets.

**Diagram 14. Own funds and capital adequacy of the domestic banking sector in the years 2018-2021**



Source: UKNF

The data for 2021 come from the monthly bank reporting for December 2021 and have not been audited. The data for previous years may differ from the data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

#### 4.3.2.13. CAPITAL ADD-ON (P2G)

In 2021, the UKNF took action to prepare a methodology for setting the capital add-on recommended under the Pillar II requirements (P2G). That resulted in the announcement of a capital requirement under Pillar II consisting in the indication of an additional level of CET1 capital that banks should aim to maintain in order to be prepared for potential materialisation of stress scenarios affecting the level of their own funds and their exposure to risk. The methodology is based on an estimation of the entity's sensitivity to an adverse macro-economic scenario in the framework of the capital stress tests and takes into account estimates of banks' sensitivity to other relevant risks identified in the banks' activities. The recommendation is not legally binding on banks but the possibility of paying the dividend in full was made conditional on the implementation of that recommendation.

In the period covered by this report, the estimation of additional risks involved estimation of the level of credit risk related to the volatility of interest rates and the setting of values of capitals necessary to cover that risk.

The prevailing share of floating-rate loans in banks' credit portfolios (nearly one hundred percent for the portfolio of housing loans) makes the banks' performance sensitive to the risk associated with interest rate changes. 2021 was marked by a material increase in the risk associated with a possible increase in interest rates. The rising interest rates are, on the one hand, an increase in interest income on floating-rate loans, but on the other hand they mean an increase in the cost of servicing the debt for borrowers. The phenomenon may be particularly relevant for housing loans granted in an environment of low interest rates, i.e. those granted in the last two years. The increase in interest rates after a period of low values therefore leads to an increase in credit risk for floating-rate loans. In terms of this type of risk, it is beneficial to increase the share of the fixed-rate portfolio. An increased share of fixed-rate loans will reduce the bank's sensitivity to the credit risk associated with an increase in interest rates, thus reducing the level of the capital add-on.

#### 4.3.2.14. IDENTIFICATION OF OTHER SYSTEMICALLY IMPORTANT INSTITUTIONS (O-SII)

In accordance with the Act on macro-prudential supervision, the KNF Board performs an annual review of the O-SII buffer and based on the result updates the list of O-SIIs and the amounts of the buffers imposed on them.

By its decision of 29 October 2021, following the review of adequacy of the O-SII buffer and after consulting the Financial Stability Committee, the KNF Board confirmed the identification of ten banks as O-SIIs and changed the amount of the buffer for one bank.

#### 4.3.2.15. ASSESSMENT OF THE HOUSING LOANS AND CONSUMER LOANS TO HOUSEHOLDS PORTFOLIO

Twice a year, the UKNF conducts, under Article 139(1) point 2 of the Banking Law, a survey on housing loans, other mortgage-backed loans and consumer loans to households. The survey aims to obtain current information on the structure of that credit portfolio, the scale of demand and supply, and plans for portfolio development. Those data help to assess the quality of credit portfolios, the lending policy and any amendments thereto, and the development of banks' lending activity. The analysis is carried out for a single bank or for the commercial banks sectors at a given point of time (the date of the survey is the end of the half-year or of the year) or in time series. The survey is a comprehensive source of information whose scope goes beyond the NBP reporting. It is also possible to periodically extend the survey to include current issues requiring in-depth analysis.

In 2021, the annual survey for 2020 and the semi-annual survey for the first half of 2021 were addressed to banks and branches of credit institutions whose value of the portfolio of consumer loans and/or housing loans to households exceeded PLN 100 million.

In 2020, the group of financial institutions surveyed granted 202.4 thousand housing loans of a total nominal value of PLN 59.9 billion. The average value of a housing loan in that period was PLN 295.8 thousand. In the first half of 2021, the entities granted 117.6 thousand housing loans of a total nominal value of PLN 37.9 billion. The average value of housing loan increased in the second quarter of 2021 up to PLN 329.1 thousand. The gross carrying amount of housing loans to households stood at PLN 464.6 billion at the end of the first half of 2021, of which 77.8% were loans in PLN. Non-performing/impaired loans accounted for 2.5% of the total value of housing loans.

The total nominal value of consumer loans granted in 2020 amounted to PLN 67.5 billion (a decrease of PLN 20.6 billion and 23.4% YOY). In the first half of 2021, the total value of loans granted amounted to PLN 40.7 billion. Non-performing/impaired loans at the end of the first half of 2021 accounted for 10.9% of the total gross carrying amount of consumer loans (11.2% at the end of 2020). 48.1% of the gross carrying amount of consumer loans were high-value loans (loans of a nominal value of more than PLN 50 thousand).

#### 4.3.2.16. BANKS AS PAYMENT INSTITUTIONS – PSD2

The UKNF's activities under Payment Service Directive 2 (PSD2) cover the provision of payment services by commercial banks and branches of credit institutions, in particular in the area of execution of payment transactions by customers and participation of commercial banking in the payment chain. Key topics include security of financial resources (deposits) and transactions, and general availability of payment services (basic accounts and transferred accounts).

The UKNF's activities in that respect focus on:

- identification of irregularities related to the application of the PSD2 by banks,
- obtaining and aggregating the reports submitted by banks,
- reporting to the EBA,
- using data in the ongoing supervisory activities.

The UKNF also undertakes activities in the area of:

- the functioning of dedicated interfaces (APIs) at banks,
- requests submitted by non-banking providers of payment services using such solutions,

- participation in the work for the development of the Open Banking project with the EBA,
- participation in temporary projects, e.g. related to the implementation of strong customer authentication starting from 1 January 2021.

### 4.3.3. INSPECTION ACTIVITIES

#### 4.3.3.1. INSPECTION ACTIVITIES AT COMMERCIAL BANKS: GENERAL INFORMATION

Inspection activities at commercial banks in 2021 were carried out on the basis of provisions of law and the KNF Board'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 inspection procedures included in methodologies concerning inspection activities.

Inspection activities at commercial banks were carried out in the form of comprehensive inspections and targeted inspections.

**Table 4. Inspection activities carried out by the UKNF at commercial banks in 2021<sup>22</sup>**

Inspection activities	Number
Comprehensive inspections	4
Targeted inspections	13
Inspection of preparedness to start operating activities	1

Source: UKNF

In the case of comprehensive inspections, the inspection activities focused primarily on the inspection of the bank's management of each risk, i.e. credit, liquidity, market and operational risks, and on the assessment of capital adequacy and bank management.

As part of the above-mentioned comprehensive inspections and selected targeted inspections covering credit risk, particularly at systemically important banks, the UKNF continued, as in previous years, inspections in relation to asset measurement under IFRS 9<sup>23</sup>.

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

- assessment of asset quality and credit risk management,
- management of liquidity and funding risks,
- management of market risk and overall interest rate risk in the banking book,
- management of operational risk,
- capital adequacy,
- bank management,
- implementation of selected recommendations issued following inspections carried out in previous years.

For the purpose of cooperation between the UKNF and the NBP, the comprehensive inspections at commercial banks involved inspection of the correctness of calculating and transferring the required amount of the statutory reserve.

Tables 5-10 provide summary information on the material irregularities identified in relation to the relevant issued addressed by the targeted and comprehensive inspections.

<sup>22</sup> To the exclusion of validation proceedings conducted at commercial banks, described separately in the following part of the report.

<sup>23</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 (hereinafter: 'IFRS 9').

#### 4.3.3.2. IRREGULARITIES IDENTIFIED DURING INSPECTION ACTIVITIES AT COMMERCIAL BANKS

##### 4.3.3.2.1. Management of credit risk, taking into account the measurement of assets according to IFRS9

**Table 5. Material irregularities identified during inspection activities at commercial banks in 2021 in the area of credit risk management, taking into account the measurement of assets according to IFRS 9**

1.	Irregularities related to the estimation of expected credit losses as well as allowances and provisions, including: <ul style="list-style-type: none"> <li>– incorrect method of setting, or failure to consider, the behavioural lifetime of exposures,</li> <li>– incorrect estimation of discounted cash flows: <ul style="list-style-type: none"> <li>• failure to apply at least two scenarios with a risk or likelihood of credit loss,</li> <li>• failure to consider information on the forecasts of future macro-economic conditions.</li> </ul> </li> </ul>
2.	Irregularities related to the identification of impairments of financial assets: <ul style="list-style-type: none"> <li>– considering qualitative criteria indicating impairment as grounds for identification of significant increase in credit risk (resulting in classification into Stage 2 instead of Stage 3),</li> <li>– lack or improper rules of internal classification of restructured exposures.</li> </ul>
3.	Irregularities related to the identification of a significant increase in credit risk: <ul style="list-style-type: none"> <li>– lack of or insufficient quantitative and qualitative criteria,</li> <li>– lack of a relation (link) between events triggering the inclusion on the Watch List and a significant increase in credit risk.</li> </ul>
4.	Improper rules of identifying or failure to identify POCI assets, including failure to recognise credit assets restructured for which a substantial modification took place as POCI assets.
5.	Improper classification of credit exposures into a low credit risk portfolio, including without taking into account sufficient requirements concerning deterioration of economic factors under IFRS 9.
6.	insufficient level of monthly repayments due to liabilities arising from credit cards held and revolving credit, adopted in the calculation of the creditworthiness of individuals.
7.	Incomplete verification of income sources and amounts and lack of or incomplete examination of income sustainability, including failure to take into account retirement.
8.	Failure to consider the customer's financial forecasts in the assessment of creditworthiness.
9.	Objections to actual exemptions from the bank's financing rules and conditions, including lack of: <ul style="list-style-type: none"> <li>– a list of permitted exemptions and failure to define the rules for applying derogations,</li> <li>– a limit mitigating credit risk in connection with granting loans with exemptions,</li> <li>– monitoring and reporting of the impact of the entire portfolio granted with exemptions on the level of credit risk.</li> </ul>
10.	Insufficiently prudent estimation of credit loss using the case-by-case approach to Stage 3 exposures by including, in real estate collateral flows, outdated estimates, i.e. older than 2 years for commercial real property and 4 years for residential real property.

Source: UKNF

##### 4.3.3.2.2. Bank management, taking into account the internal control system

**Table 6. Material irregularities identified during inspection activities at commercial banks in 2021 with respect to management, taking into account the internal control system**

1.	Irregularities related to the bank's organisational structure, including failure to ensure the independence of the Level 1 risk management from Level 2 management (e.g. in the area of management of market risk and/or liquidity risk), which resulted in the failure to ensure full independence of the risk measurement, risk monitoring and risk control functions from the operating activities.
2.	Irregularities in remuneration policy, including failure to consider the cost of risk, cost of capital and cost of liquidity in the bank's results adopted for determining variable remuneration.

3.	Irregularities in the management of outsourcing risk <sup>24</sup> , in particular failure to adapt the provisions of outsourcing agreements to the standards of EBA <i>Guidelines on outsourcing arrangements</i> (EBA/GL/2019/02), e.g. in relation to the transfer of a function to another provider, the right to terminate the contract in certain situations, failure to provide the bank and competent authorities with access, information and audit rights for the purpose of monitoring the contract.
4.	Reservations as the rules of cooperation with the parent entity, including to the process of reporting to that entity and application of solutions restricting the bank's independence in decision-making in the management of business risk.
5.	Reservations as to the rules of anonymous reporting, by employees, of breaches of law and the bank's internal procedures and ethical standards, including failure to ensure protection from retaliatory measures to anyone reporting an irregularity.
6.	Irregularities related to the management of reputational risk, including lack of identification, monitoring, measurement and control of reputational risk.
7.	Irregularities related to the organisation of the internal control system (ICS), including: <ul style="list-style-type: none"> <li>– failure by the supervisory board to perform an annual assessment of adequacy and effectiveness of the ICS and assessment of the degree of efficiency of compliance risk management,</li> <li>– lack of rules of classification of irregularities found as part of the ICS,</li> <li>– failure to develop and implement general rules of testing,</li> <li>– objections to the control function matrix, including: <ul style="list-style-type: none"> <li>• failure to consider certain material processes (related to e.g. management of intra-day liquidity, internal capital estimation) and failure to assign key controls to those processes,</li> <li>• failure to define controls, or a description of controls or a method of monitoring of enforcement of controls that is too vague and not adapted to the needs of the control function,</li> <li>• lack of a relation between the ICS objectives and material processes and key controls,</li> <li>• no clear definition of positions/organisational units responsible for the monitoring of the application of controls,</li> </ul> </li> <li>– failure to provide the compliance unit with appropriate HR resources necessary for the proper performance of tasks,</li> <li>– lack of, or ambiguous, requirements on the qualification of auditors,</li> <li>– failure to ensure full independence of the compliance function and internal audit function, in particular the lack of participation of the manager of the compliance unit/internal audit function or his/her alternates in certain meetings of the management board and/or the supervisory board,</li> <li>– insufficient scope of audits performed by the internal audit unit.</li> </ul>
8.	Irregularities related to various aspects of the performance of obligations towards account holders and other authorised persons, related to the failure to comply with the requirements of the Banking Law, related to so-called 'dormant accounts' and timely receipt and response from/to the Central Information System.

Source: UKNF

#### 4.3.3.2.3. Management of liquidity and funding risks

**Table 7. Material irregularities identified during inspection activities at commercial banks in 2021 in the area of management of liquidity and funding risks**

1.	Irregularities with respect to contingency liquidity plan, including: <ul style="list-style-type: none"> <li>– insufficient, ambiguous or incorrect scope of criteria/grounds for launching the plan,</li> <li>– reservations as to the scope of tests to confirm the bank's organisational and operational preparedness to generate the pool of debts for the purpose of contracting a refinance loan,</li> <li>– failure to consider the requirements defined in the letter of the NBP and of the KNF Board of 18 December 2019 for the purpose of preparation for contracting a refinance loan,</li> </ul>
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<sup>24</sup> Applies to contracts not related to the area of information technology or ICT security.

	<ul style="list-style-type: none"> <li>– failure to define how the use of emergency funding sources is going to affect the bank’s reputation,</li> <li>– failure to estimate the funds that could be obtained from each emergency funding source and the expected period of time necessary to raise additional funds from each such source,</li> <li>– lack of adequate organisational preparation for the implementation of the plan, including the lack of a contact list of key personnel responsible for the implementation of the emergency actions.</li> </ul>
2.	<p>Irregularities in the calculation of the NSFR related to non-compliance with the requirements of the CRR, consisting in:</p> <ul style="list-style-type: none"> <li>– incorrect inclusion of Common Equity Tier 1 capital in the available funding,</li> <li>– improper recognition of liabilities from operational deposits of business entities within the scope of available stable funding.</li> </ul>
3.	<p>Irregularities in the calculation of the LCR related to non-compliance with the requirements of Regulation 2015/61<sup>25</sup>, consisting in, among others:</p> <ul style="list-style-type: none"> <li>– recognising inflows from credit exposures without excluding past-due funds and exposures for which default can be expected within 30 calendar days,</li> <li>– incorrect identification of outflows on operational deposits,</li> <li>– exclusion, from calculation, of outflows from term deposits the non-fulfilment of the condition regarding ‘material penalty’ a depositor must pay in the case of early deposit withdrawal,</li> <li>– exclusion, from outflows, of negotiated term deposits placed by financial clients,</li> <li>– improper identification of deposits on trading accounts,</li> <li>– failure to record analyses for the purpose of identification of retail deposits subject to a higher outflow rate,</li> <li>– taking into account the value of liquid assets at carrying amount, instead of market value,</li> <li>– underestimating the outflows from the guarantees granted to non-bank financial entities.</li> </ul>

Source: UKNF

#### 4.3.3.2.4. Management of market risk, including interest rate risk in the banking book<sup>26</sup>

**Table 8. Material irregularities identified during inspection activities at commercial banks in 2021 in the area of management of market risk, including interest rate risk in the banking book**

1.	<p>Irregularities in risk identification and measurement, including:</p> <ul style="list-style-type: none"> <li>– incomplete adaptation to supervisory standards relating to the management of interest rate risk on activities classified into banking book, including failure to apply a dynamic approach to the calculation of measures of interest rate in the banking book or to measure the risk for a single contract,</li> <li>– insufficient frequency of monitoring of selected market risk measures,</li> <li>– when measuring the revaluation gap – inclusion of items that are not sensitive to changes in interest rates,</li> <li>– no backtesting analysis of the VaR model in relation to individual sub-models (including, but not limited to: IR VaR and FX VaR).</li> </ul>
2.	<p>Irregularities related to the system of limits, including:</p> <ul style="list-style-type: none"> <li>– setting the risk appetite for the economic value of equity (EVE) at a level that is too high and inappropriate for the bank’s risk profile,</li> <li>– failure to draw up analyses underlying the levels of limits,</li> <li>– failure to document the results of stress tests used in the process of periodic verification of limits,</li> <li>– failure to monitor all applicable limits,</li> <li>– applying, in internal regulations, provisions indicating the need to obtain the consent of the parent undertaking to the exceedance of global limits.</li> </ul>
3.	<p>Irregularities in relation to stress tests, including failure to:</p>

<sup>25</sup> Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (as amended).

<sup>26</sup> Excluding the activities carried out by banks under Article 70(2) of the Act on trading.



	<ul style="list-style-type: none"> <li>– carry out reverse tests for the trading and banking books,</li> <li>– carry out stress tests for the interest rate risk in the trading book,</li> <li>– carry out analyses underlying additional stress test scenarios resulting from market changes caused by the pandemic.</li> </ul>
4.	<p>Irregularities in the process of entering into treasury transactions with clients, including:</p> <ul style="list-style-type: none"> <li>– failure to verify information received from clients regarding their transactions in derivatives with other entities,</li> <li>– in the area of cooperation with the parent undertaking and group entities: <ul style="list-style-type: none"> <li>• lack of solutions to guarantee the bank’s independence in decision-making in the management of risk related to the conduct of banking activities with respect to the group’s participation in the processes of monitoring the use of pre-settlement limits, including taking into account the calculation and updating of model parameters,</li> <li>• lack of solutions to ensure the bank’s independence in decision-making in the process of granting limits on derivative transactions to non-financial clients and the ongoing management of risk associated with providing services to such clients,</li> </ul> </li> <li>– failure to introduce, in internal regulations, the obligation to each time verify the transaction to establish any speculative nature of the transaction or to document the assessment of the transaction objective,</li> <li>– failure to identify clients during a phone call preceding the conclusion of a derivative transaction by asking them to provide all the data required to identify them.</li> </ul>
5.	<p>Irregularities in the market conformity check (MCC) of transaction prices, including:</p> <ul style="list-style-type: none"> <li>– lack of, or failure to document, an MCC process at the bank,</li> <li>– failure to cover all transactions with the process,</li> <li>– too low frequency of the MCC process,</li> <li>– failure to define the scope and nature of the actions taken on the basis of the results of the MCC.</li> </ul>

Source: UKNF

#### 4.3.3.2.5. Management of operational risk<sup>27</sup>

**Table 9. Material irregularities identified during inspection activities at commercial banks in 2021 in the area of operational risk management**

1.	<p>Irregularities with respect to the database of operational events:</p> <ul style="list-style-type: none"> <li>– failure to define the time limit for the registration of operational events,</li> <li>– untimely registration of operational events.</li> </ul>
2.	<p>Irregularities related to stress tests, including their scope or untimely performance.</p>
3.	<p>Conducting business in violation of the Act on payment services, including:</p> <ul style="list-style-type: none"> <li>– failure to provide the consumer with a list of fees for the services related to the payment account,</li> <li>– failure to make available, at the bank facilities and on its website, a form of application for a basic payment account agreement,</li> <li>– concerns about the process of handling requests for information regarding the data of recipients of a wrong transfer (cases of non-compliance with the statutory time limit, failure to record data regarding the date of receipt of the request and the date of response),</li> <li>– inadequate information about the method of transferring a payment account, provided on the bank’s website,</li> <li>– failure to provide access to services to other payment service providers and/or untimely performance/non-performance of information obligations towards the KNF Board with regard to providing information about the refusal to provide access to other payment service providers.</li> </ul>
4.	<p>Irregularities in the business continuity management process:</p> <ul style="list-style-type: none"> <li>– too general records or deficiencies in the documentation governing the functioning of the business continuity management system,</li> <li>– lack of training for bank employees on the implementation of business continuity/contingency plans.</li> </ul>

<sup>27</sup> Excluding the risk of information technology and ICT security and issues related to anti-money laundering and terrorist financing regime.

5.	Irregularities in the process of estimating provisions for legal risk associated with the existing foreign-currency loan portfolio, including: <ul style="list-style-type: none"> <li>– estimating the portfolio reserve at a frequency not adapted to the level of legal risk associated with that portfolio,</li> <li>– failure to update the assumptions made in the calculation of provisions,</li> <li>– failure to define the frequency and time limits for updating each parameter used to estimate the portfolio reserve,</li> <li>– inappropriate method of acceptance of the level of the individual reserve (by the director only and not by the management board or a member of the management board).</li> </ul>
6.	Improper management of the complaint handling process (procedural defects, complaints processed after the statutory deadline, failure to inform customers about the extension of the deadline for processing the complaint).
7.	Irregularities in model risk management resulting from insufficient adaptation of the banks' business to the standards set out in the KNF <i>Recommendation W on model risk management at banks</i> , including: <ul style="list-style-type: none"> <li>– failure to define risk levels adopted for material models,</li> <li>– inadequate definition of criteria for materiality of models,</li> <li>– lack of, or outdated or inaccurate, information in the entries in model logs and/or in the register of models,</li> <li>– failure to define minimum acceptance criteria for the quality of model operation,</li> <li>– lack of, or excessively long, cycle of validation of material models,</li> <li>– lack of monitoring and/or validation methodologies in relation to certain models or their updates,</li> <li>– lack of, or improperly defined, list of remedial and corrective measures taken in the case of poor quality of model operation,</li> <li>– failure to conduct audits of the area of model risk management,</li> <li>– inadequate scope of management information.</li> </ul>

Source: UKNF

#### 4.3.3.2.6. Capital adequacy

**Table 10. Material irregularities identified during inspection activities at commercial banks in 2021 in the area of capital adequacy**

1.	Irregularities related to the calculation of own funds, including: <ul style="list-style-type: none"> <li>– misestimation of intangible assets deducted from Common Equity Tier 1 capital,</li> <li>– improper recording of subordinated liabilities in Tier 2 capital.</li> </ul>
2.	Irregularities in the calculation of capital requirements for credit risk, including incorrect segmentation of credit exposures and assignment of risk weights: <ul style="list-style-type: none"> <li>– incorrect classification into exposures to public sector entities, instead of exposures to enterprises,</li> <li>– incorrect recognition of investment certificates of closed-end investment funds into the category of equity exposures, instead of the category of exposures in the form of participations or shares in collective investment undertakings,</li> <li>– incorrect classification of shares into equity exposures, instead of into high-risk items,</li> <li>– improper recognition of defaulted exposures,</li> <li>– incorrect application of the 35% risk weight to exposures secured by mortgage on residential real property,</li> <li>– failure to consider all the required criteria when classifying exposures into the category of retail exposures,</li> <li>– incorrect reduction of the value of the original exposure by effective collateral,</li> <li>– irregularities in considering credit protection.</li> </ul>
3.	Irregularities in the calculation of capital requirements on operational risk – incorrect assignment of actions of issuing and handling payment cards and credit cards to retail banking instead of payments and settlements.
4.	Irregularities related to the organisation of the capital management process: <ul style="list-style-type: none"> <li>– inadequate supervision by the supervisory board and monitoring by the management board in the area of compliance with capital requirements,</li> </ul>

	<ul style="list-style-type: none"> <li>– failure to review and assess internal capital adequacy regulations in relation to changes in the profile, scale and complexity of the bank’s risk.</li> </ul>
5.	<p>Irregularities related to the Internal Capital Adequacy Assessment Process (ICAAP), including:</p> <ul style="list-style-type: none"> <li>– imprecise categorisation of risk types occurring in the bank’s business,</li> <li>– failure to consider, in the process of identifying risk types and assessing their materiality, certain risks occurring in the bank’s business,</li> <li>– failure to estimate internal capital for certain bank-specific risks,</li> <li>– imprecise definition of the method of estimating capital for different risks,</li> <li>– improper method of estimating internal capital for certain risks,</li> <li>– lack of rules for estimating internal capital for risks on a consolidated basis,</li> <li>– failure to define the time limit for carrying out an annual review of the ICAAP,</li> <li>– failure to document an independent assessment of the review of the ICAAP.</li> </ul>
6.	<p>Reservations concerning contingency capital planning, including:</p> <ul style="list-style-type: none"> <li>– failure to determine the amounts that could be obtained for the planned actions,</li> <li>– planned actions that are unrealistic/unlikely to complete,</li> <li>– failure to establish the obligation to report the effects of contingency measures to the supervisory board.</li> </ul>

Source: UKNF

#### 4.3.3.2.7. Supervisory validation of internal approaches to calculating capital requirements and internal models

In 2021, the KNF Board authorised another domestic bank to use the IRB Approach<sup>28</sup> and carried out – as part of an off-site analysis and/or in the course of inspection activities performed remotely – work on validation procedures regarding internal approaches (IRB<sup>29</sup> and AMA<sup>30</sup>) in relation to domestic banks as part of the post-application phase, i.e. a phase involving activities related with applications and cases initiated after the banks have obtained appropriate authorisations. Where relevant, ongoing cooperation with the European Central Bank (hereinafter: ‘ECB’) is carried out. As regards the IRB Approach, the priority is for domestic banks to adapt to the new requirements and standards for the IRB Approach<sup>31</sup>; in 2021, a supervisory review process was launched in that regard. At the same time, supervisory activities were carried out according to the conditions and applications/cases relating to individual banks applying the IRB or AMA Approach. In 2021, there were 4 final decisions of the KNF Board and 11 joint decisions of the ECB and the KNF Board, as well as 3 opinions/positions of the KNF Board. Annual reviews of internal approaches were carried out, whose results are properly reflected in the SREP ratings.

#### 4.3.3.3. INSPECTIONS AT COOPERATIVE BANKS

##### 4.3.3.3.1. Inspections at cooperative banks:– general information

Inspection activities at cooperative banks in 2021 were carried out on the basis of provisions of law and the KNF Board’s prudential recommendations, taking into account the guidelines of

<sup>28</sup> Internal Ratings Based Approach (credit risk).

<sup>29</sup> 5 domestic banks, in relation to portfolios of exposures covered by the required authorisations.

<sup>30</sup> Advanced Measurement Approach (operational risk) – 3 domestic banks.

<sup>31</sup> The IRB roadmap, i.e. a set of regulations developed by the EBA, covering in particular: (a) Final Draft Regulatory Technical Standards on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach in accordance with Articles 144(2), 173(3) and 180(3)(b) of Regulation (EU) No 575/2013 (EBA/RTS/2016/03, 21 July 2016); (b) Commission Delegated Regulation (EU) 2021/930 of 1 March 2021 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the nature, severity and duration of an economic downturn referred to in Article 181(1), point (b), and Article 182(1), point (b), of that Regulation; (c) EBA Guidelines of on PD estimation, LGD estimation and the treatment of defaulted exposures (EBA/GL/2017/16, 6 March 2019); (d) EBA Guidelines for the estimation of LGD appropriate for an economic downturn (‘Downturn LGD estimation’)(EBA/GL/2019/03, 6 March 2019); (e) EBA Guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGD (EBA/GL/2020/05, 6 May 2020).

the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS), based on uniform standards and inspection procedures included in methodologies concerning inspection activities.

Inspection activities at cooperative banks were carried out in the form of comprehensive inspections and targeted inspections.

**Table 11. Inspection activities carried out by the UKNF at cooperative banks in 2021**

Inspection activities	Number
Comprehensive inspections	3
Targeted inspections	27

Source: UKNF

In the case of inspection activities at cooperative banks, the main area of inspection was credit risk, the most important risk in this sector.

#### 4.3.3.3.2. Irregularities identified during inspection activities at cooperative banks

**Table 12. Material irregularities identified during inspection activities at cooperative banks in the area of credit risk in 2021**

1.	<p>Irregularities in the assessment of client's creditworthiness, including:</p> <ul style="list-style-type: none"> <li>– cases of non-compliance with the Banking Law with regard to the assessment of borrower's creditworthiness, including the failure to: <ul style="list-style-type: none"> <li>○ assume the minimum household maintenance costs at a level not lower than those published cyclically by the Institute of Labour and Social Studies (PL: Instytut Pracy i Spraw Socjalnych),</li> <li>○ verify the quantitative data submitted by clients, and financial forecasts for the entire lending period,</li> <li>○ obtain or assess the recovery plans, or establish special security where the client was not creditworthy,</li> </ul> </li> <li>– take into account the impact of interest rate changes on creditworthiness or adopting an interest rate change buffer at a too low level,</li> <li>– cases of non-compliance with the Banking Law in relation to the bank's failure to assess the financial and economic standing of a client in the case of amendments to the contractual terms and time limits for the repayment of credit.</li> </ul>
2.	<p>Irregularities in the classification of credit exposures to risk categories leading to incorrect presentation of the credit portfolio, insufficient special-purpose provisions and write-downs, including:</p> <ul style="list-style-type: none"> <li>– failure to identify a significant deterioration of the financial and economic situation of a debtor,</li> <li>– classification of exposures as 'watch-list' due to the borrower's economic and financial situation.</li> </ul>
3.	<p>Irregularities in the measurement of collateral, leading, in some cases, to insufficient special-purpose provisions and write-downs, including:</p> <ul style="list-style-type: none"> <li>– reduction of the basis for calculation of special-purpose provisions and write-downs on the basis of outdated valuation reports for commercial real estate, or without considering previous encumbrances in the land and mortgage register,</li> <li>– disregarding legal, economic and factual constraints which may affect the actual ability of the bank to satisfy their claim with collateral,</li> <li>– improper application of the reduction limit to individual periods of delay in repayment referred to in Regulation of the Minister of Finance of 16 December 2018 on the principles of creating provisions for risk related to banking activity (Journal of Laws 2021, item 1238, as amended),</li> <li>– no verification of credibility and accuracy of market assumptions and parameters at the stage of collateral acceptance or collateral monitoring.</li> </ul>
4.	<p>Irregularities in the lending process, related to exemptions applied, including:</p> <ul style="list-style-type: none"> <li>– failure to verify the credibility of clients in the BIK database,</li> <li>– accepting exceedances of the maximum level of LtV,</li> <li>– failure to analyse and monitor the influence of derogations on the bank's level of credit risk and performance,</li> <li>– failure to report, to the management board and supervisory board, on the scope, scale and impact of derogations applied,</li> <li>– failure to adopt rules on the application of derogations, including failure to define a list of acceptable derogations and a limit mitigating credit risk in connection with granting loans with derogations.</li> </ul>
5.	<p>Irregularities due to a limited scope of internal regulations which might result in improper identification of credit risk, including:</p>

	<ul style="list-style-type: none"> <li>– failure to define the industries which, in the bank’s view, require special attention,</li> <li>– failure to adopt a proper definition of forborne exposure.</li> </ul>
6.	<p>Other irregularities identified in the area of credit risk:</p> <ul style="list-style-type: none"> <li>– failure to identify, or incorrect identification of, groups of entities related by equity or internal organisation, including exceeding the limit laid down in 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 (OJ L 176/1 of 27 June 2013, as amended),</li> <li>– failure to identify, or improper identification of, debt restructuring measures,</li> <li>– failure to implement, or incomplete implementation of, EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06),</li> <li>– failure to carry out stress tests or adopting assumptions that do not meet the requirements of the KNF Recommendation C on the management of concentration risk and KNF Recommendation S on good practices in the management of credit exposures secured by mortgages,</li> <li>– failure to assess the unlikelihood to pay of obligors during or after the period of a moratorium on loan repayment (in accordance with EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02).</li> </ul>

Source: UKNF

Other material irregularities identified during inspection activities at cooperative banks in 2021 concerned the bank management process, liquidity and funding risks, market risk, operational risk and capital adequacy.

Material irregularities identified during inspection activities in the area of bank management concerned in particular:

- the organisation and functioning of the bank’s governing bodies (inadequate scope of assessment of suitability of members of the bank’s governing bodies),
- the remuneration policy (failure to consider persons with a material impact on the bank’s risk profile, failure to assess non-financial criteria for all the persons subject to the policy, the payment of variable remuneration despite the failure to meet the financial criteria, failure to consider the cost of the bank’s risk in the bank’s performance adopted to determine variable remuneration),
- the organisation of the risk management system (failure by the supervisory board to assess the adequacy and effectiveness of risk management, no separation between the first-level and second-level risk management for credit risk, the risk in the area of bancassurance, the investment risk and liquidity risk),
- the organisation and functioning of the internal control system (failure by the supervisory board to carry out assessments of adequacy and effectiveness of elements of the internal control system, irregularities in the control function matrix (failure to take into account relevant processes, vague identification of units monitoring controls), failure to define requirements concerning qualifications, experience and skills as well as guarantees of proper performance of the duties of the compliance officer, lack of categorisation of detected irregularities in audit reports, lack of rules for reporting significant and critical irregularities, material processes mostly in the form of manual controls, lack of participation of managers of the internal audit unit and compliance unit in certain meetings of the bank’s management board and supervisory board at which issues related to the internal control system or risk management were discussed, low efficiency of the internal control system),
- lack of rules on the management of reputational risk,
- management of conflicts of interest (failure to adapt an internal procedure regarding the management of conflicts of interest to supervisory standards, failure to record reported conflicts of interest in the register, failure to recognise personal links at the level of the management board as a conflict of interest),
- the process of reporting abuse (failure to indicate a management board member responsible for day-to-day functioning of procedures for anonymous reporting of breaches, failure to ensure unconditional protection from retaliatory measures, discrimination or other

types of unfair treatment of reporting persons, failure to provide a possibility of reporting breaches through a dedicated independent channel),

- Central Information System and dormant accounts (incorrect identification of inactive accounts, delays in notifying the holders of accounts being dormant for 10 years of the consequences of the fact that no transactions have been carried out during that period, delays in providing the claimant with aggregate information and providing the reply to a request received from the Central Information System).

As regards liquidity and funding risks, the irregularities mainly concerned the inaccuracy of data reported for the purpose of calculation of the LCR (related to non-compliance with the requirements of Regulation 2015/61). The other requirements related to liquidity and funding risks concerned:

- adoption of insufficiently conservative assumptions for stress tests,
- failure to develop a complete regulation containing the rules for setting and using the allocation mechanism for costs and benefits from various liquidity risks,
- failure to ensure the continuity of staffing of positions related with the measurement, monitoring and control of liquidity risk.

The identified irregularities in the area of market risk mainly concerned:

- errors in the measurement of interest rate risk,
- failure to adapt the system of limits to the risk level and risk profile,
- an incomplete system of internal limits (e.g. lack of intraday limits on currencies and failure to take immediate actions in case a limit is exceeded),
- defects of internal procedures, for example in the area of measurement of interest rate risk, conclusion of treasury transactions and market conformity check.

The identified irregularities in the area of operational risk<sup>32</sup> mainly concerned:

- the operational risk management process, in connection with inadequate scope of monitoring of risk factors, poor quality of the process of recording operational events and losses, inadequate stress tests (lack of scenario analyses, lack of assessment of the impact of stress test results on the bank's financial performance), and improper organisation and functioning of the business continuity management system,
- incomplete scope of internal regulations (lack of rules for creating and updating provisions for judicial proceedings, rules for documenting the verification of completeness of the database of events and losses, rules for identifying incidents in the light of obligations imposed under the Act on payment services).

With regard to capital adequacy, the irregularities concerned:

- setting the amounts of credit exposures,
- segmentation of assets, including classification of exposures to defaulted categories, retail exposures, equity exposures, and assigning a credit conversion factor (CCF) of 0%,
- application of the SME ratio,
- failure to take into account additional valuation adjustments (AVA),
- disbursement of shares before obtaining the consent of the supervisory authority,
- failure to deduct, from the items of Common Equity Tier I capital, the value of assets on deferred income tax based on future profits,
- failure to adapt the adopted assumptions in stress tests to the actual level of risk.

#### 4.3.3.4. INSPECTIONS AT BRANCHES OF CREDIT INSTITUTIONS

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<sup>32</sup> Excluding the risk of information technology and ICT security and issues related to anti-money laundering and terrorist financing regime.

In 2021, inspection activities were carried out in 2 branches of credit institutions. The inspection involved the assessment of certain elements of credit risk management, in particular the creditworthiness assessment process, restructuring, debt collection, stress tests, system of limits, management information system, including, where appropriate, adaptation to the standards of the relevant KNF prudential recommendations.

The most significant irregularities identified during the control activities concerned:

- the assessment of creditworthiness of natural persons applying for retail loans,
- rules for classifying forborne exposures to performing and non-performing categories,
- inadequate scope of stress tests,
- too low frequency of the measurement of the extent of use of prudential limits,
- incomplete adaptation of the complaint handling process to the provisions of the Act on complaints and Financial Ombudsman,
- failure to ensure compliance with the obligations under Article 49 in conjunction with Article 52 of the Act on consumer credit pertaining to the return of the commission and other fees in the event of early repayment of the consumer credit,
- lack of a fully effective internal control system in the area of credit risk.

## 5. CREDIT UNIONS (SKOK) SECTOR

### 5.1. BASIC INFORMATION

At the end of 2021, the KNF Board supervised 22 credit unions and the National Association of Credit Unions (i.e. 23 entities in total). In 2021, the KNF Board approved the merger of three credit unions, the amendments to articles of association of seven credit unions, and decided to appoint presidents of management boards at two credit unions.

At the end of 2021, the assets of credit unions amounted to PLN 10.1 billion, and the entire credit unions sector recorded a net profit of PLN 17.3 million, although 4 credit unions closed their business with a total loss of PLN 6.0 million. As at the end of 2021, the amount of own funds of credit unions (calculated in accordance with the Act on credit unions) was PLN 406.5 million.

The data are preliminary, have not been audited by a statutory auditor, and are subject to change.

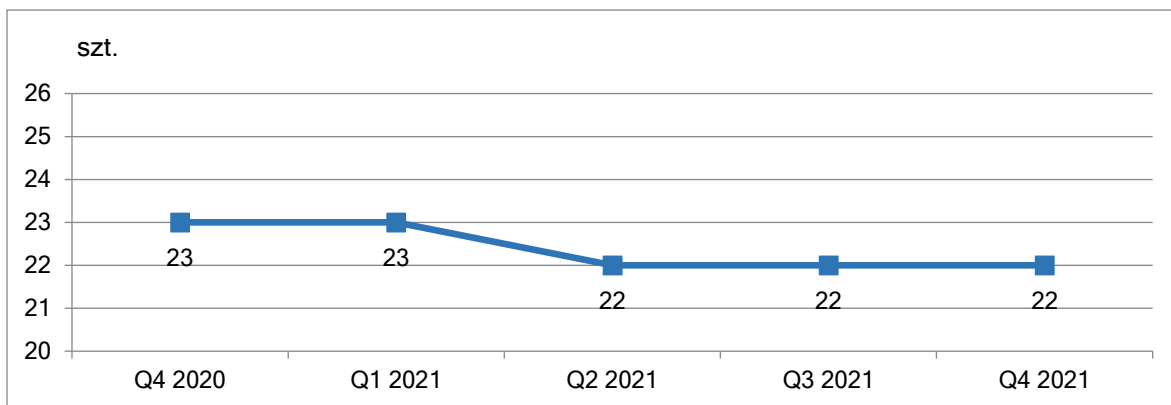
**Table 13. Selected financial data of credit unions operating in particular reporting periods in PLN million in the period from Q4 2020 to Q4 2021**

Breakdown	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Number of operating credit unions	23	23	22	22	22
Balance sheet total (PLN million)	9 549.3	9 776.7	9 863.4	9 902.2	10 054.1
Own funds in accordance with the Act on credit unions (PLN million)	470.1	464.1	441.9	442.6	406.5
Deposits (PLN million)	8 863.9	9 146.2	9 246.5	9 283.2	9 445.6
Gross loans (PLN million)	7 192.2	7 340.9	7 496.0	7 585.3	7 535.6
Net profit (loss) (PLN million)	-4.3	4.5	14.4	24.7	17.3

Source: UKNF

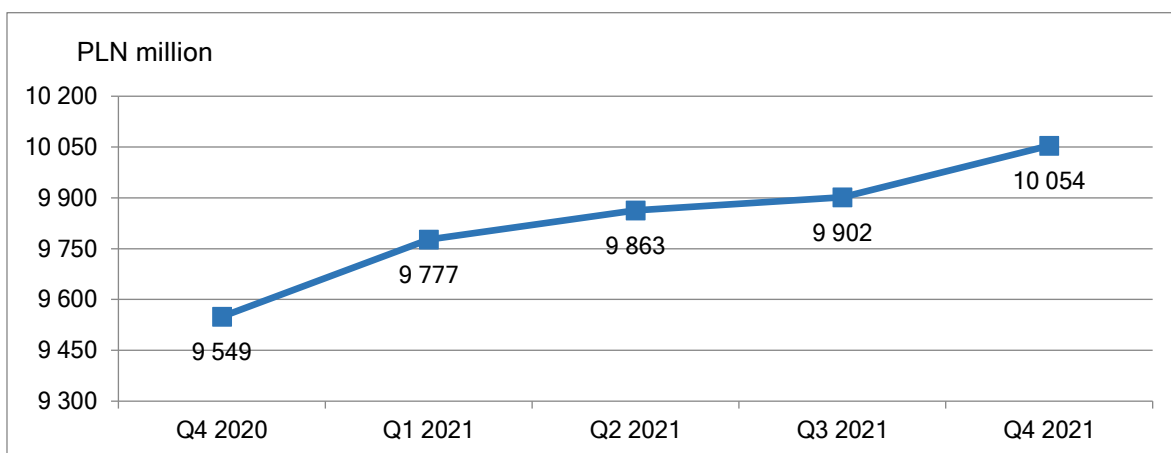
### Diagram 15. Number of credit unions operating in each reporting period of 2021





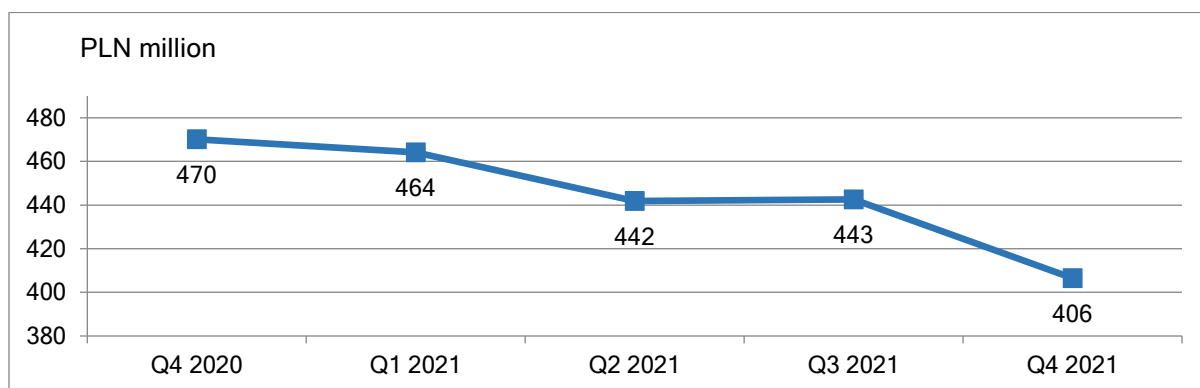
Source: UKNF

**Diagram 16. Balance sheet total of credit unions operating in each reporting period of 2021 (in PLN million)**



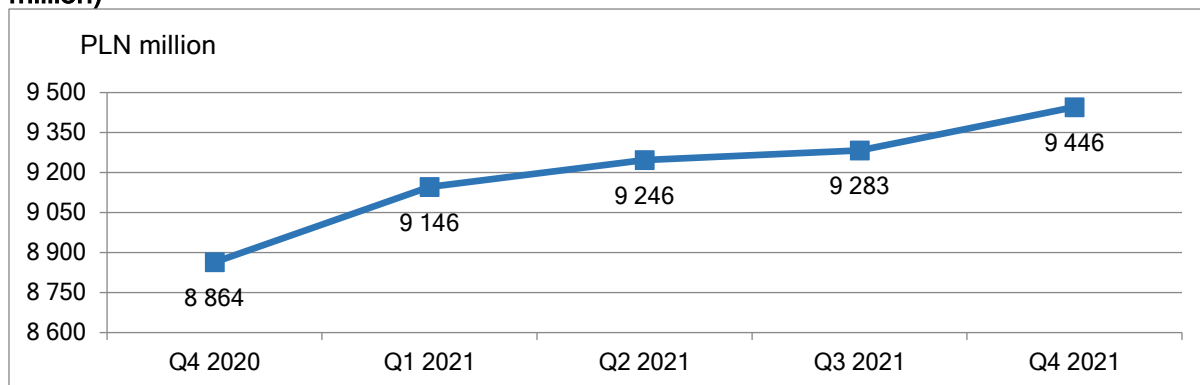
Source: UKNF

**Diagram 17. Total own funds, under the Act on credit unions, of credit unions operating in each reporting period of 2021 (in PLN million)**



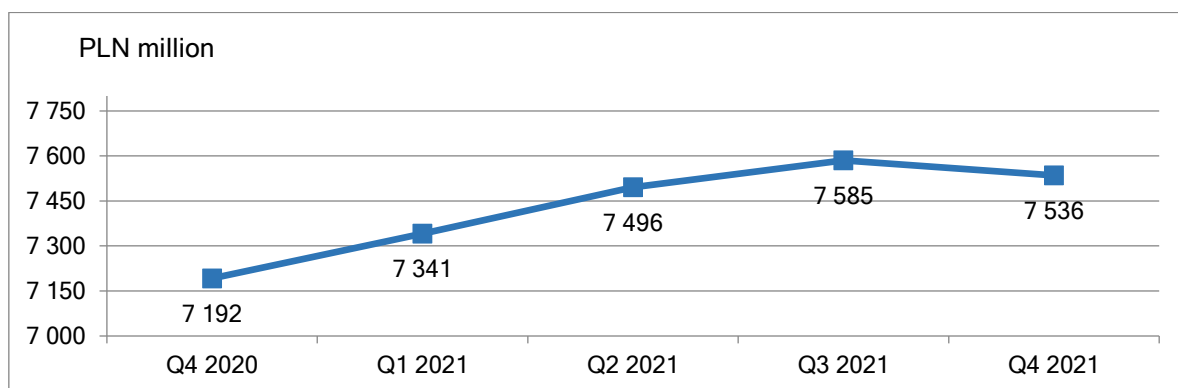
Source: UKNF

**Diagram 18. Total deposits of credit unions operating in each reporting period of 2021 (in PLN million)**



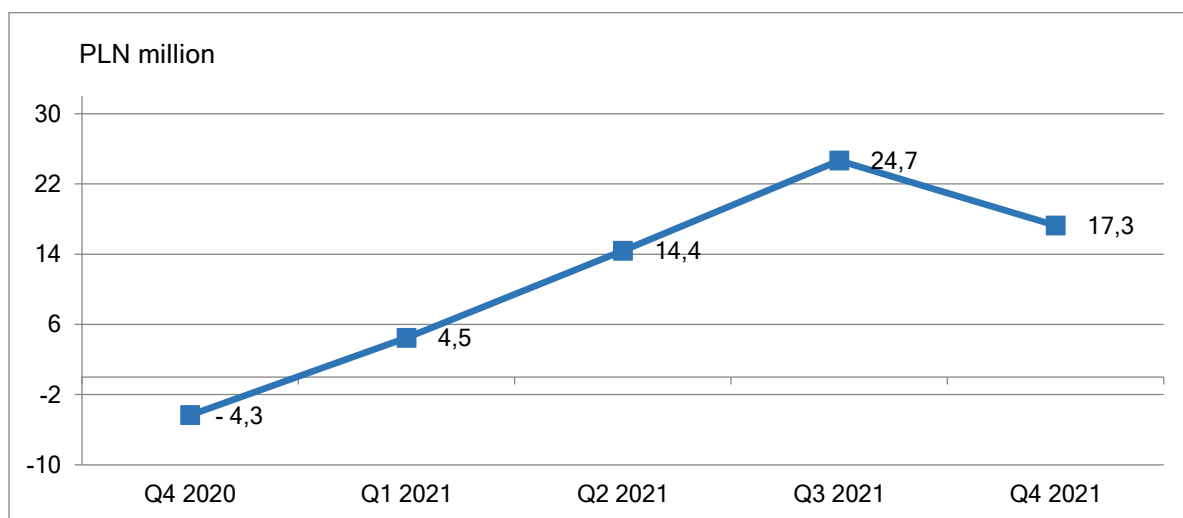
Source: UKNF

**Diagram 19. Total gross loans of credit unions operating in each reporting period of 2021 (in PLN million)**



Source: UKNF

**Diagram 20. Financial result of the sector of credit unions operating in each reporting period of 2021 (in PLN million)**



Source: UKNF

## 5.2. KEY ACTIVITIES

The supervisory actions taken in 2021 in relation to credit unions focused on the monitoring of the current financial standing of credit unions, their liquidity and quality of management, in particular with regard to the mitigation of increased credit risk, the improvement of operational efficiency and ensuring efficient functioning of stabilisation mechanisms in the sector.

In this context, in 2021, in the credit unions sector, the UKNF continued to support restructuring processes, including merger processes, aimed at protecting deposits and reducing the risk of weakening of the sector as a result of problems faced by undertakings in difficulty. As a result, the bankruptcy of credit unions was averted, while depositors had continuous access to the funds entrusted to credit unions.

In 2021, representatives of the UKNF were actively involved in the work of the Working Group for the Analysis of the Situation of Cooperative Banks and Credit Unions (PL: Grupa robocza ds. analizy sytuacji w sektorze banków spółdzielczych i sektorze spółdzielczych kas oszczędnościowo-kredytowych – GRASS), appointed by the Financial Stability Committee in the area of macro-prudential supervision (FSC-M), which Group analysed, within its remit, the situation of the credit unions sector and carried out consultation in that regard with representatives of the National Association of Credit Unions. The result of that work was a report of GRASS and a proposal for actions which according to GRASS could be taken to support the efficiency and stable functioning of the credit unions sector. The actions led to the adoption of Resolution of the FSC of 19 March 2021 on recommendations addressed to the Ministry of Finance and the KNF Board on measures to support the stable functioning of credit unions. The UKNF prepared the relevant legislative proposals.

In 2021, employees of the UKNF were also actively involved in the preparation of extensive material in connection with an audit carried out in 2021 by the Supreme Audit Office (PL: Najwyższa Izba Kontroli – NIK) in relation to the supervision exercised by the KNF Board over rehabilitation measures of selected credit unions covering the period from 1 January 2018 to 30 June 2021. In its post-inspection address of 22 October 2021, the Supreme Audit Office expressed its positive opinion on the KNF Board's supervisory actions with regard to rehabilitation proceedings of credit unions. According to the Supreme Audit Office, 'the KNF Board exercised, in accordance with the law, appropriate rights vested in it under Article 71(1) points 1-3, Article 71(2) and Article 73(1) of the Act on credit unions in order to ensure the security of funds collected on the accounts of credit unions by their members.'

## 5.3. LICENSING ACTIVITIES

In 2021, the KNF Board issued 7 final decisions on the approval of amendments to articles of association of a credit union and 2 final decisions on the approval of appointment of a president of management board of a credit union. The KNF Board also issued 1 final decision discontinuing proceedings in respect of approval of appointment of a president of management board of a credit union.

## 5.4. SUPERVISORY ACTIVITIES

In addition to ongoing monitoring of the financial situation of the credit unions sector and potential threats to its functioning, the supervisory activities of the KNF Board in relation to the sector involved an analysis of timely reporting and the monitoring of fulfilment of the obligation to protect clients' funds and to comply with the requirements to restrict the scale of business within statutory limits.

In 2021, the KNF Board authorised 3 mergers of credit unions pursuant to Article 74a(1) of the Act on credit unions. The decisions of the KNF Board related to: 1) SKOK im. Zygmunta Chmielewskiego (the acquiring credit union) and SKOK Małopolska (the credit union being acquired), 2) SKOK Progres (the acquiring credit union) and SKOK przy ZWCH „Stilon” (the

credit union being acquired), and 3) SKOK Szopienice (the acquiring credit union) and SKOK im. Powstańców Śląskich (the credit union being acquired). At the end of 2021, 22 credit unions were operating, of which 10 were subject to rehabilitation proceedings.

In the course of administrative proceedings, pursuant to Article 105 § 1 of the Administrative Procedure Code, the KNF Board discontinued 2 proceedings in respect of the appointment of a commissioned administrator.

In 2021, the KNF Board familiarised itself with four reports on the situation in the credit unions sector in: the fourth quarter of 2020, the first quarter of 2021, the second quarter of 2021, and the third quarter of 2021, respectively. The KNF Board also familiarised itself with reports on the situation of credit unions obliged to implement rehabilitation plans for the second half of 2020 and for the first half of 2021.

## 5.5. INSPECTION ACTIVITIES

### 5.5.1. INSPECTIONS AT CREDIT UNIONS: GENERAL INFORMATION

In 2021, 3 inspections were conducted at credit unions (including 1 comprehensive inspection, 1 inspection in relation to the assessment of quality of assets and credit risk management and the review of implementation of recommendations issued after a previous inspection, and 1 inspection which – in addition to the assessment of quality of assets and credit risk management – assessed the accuracy of the financial result).

Following the inspections, reservations were expressed as to the quality of those entities' management activities, in particular due to irregularities in credit risk identification, measurement and control. Main reservations related to:

- measurement of credit and loan exposures leading to missing write-downs,
- assessment of creditworthiness,
- the process of granting exemptions,
- management of concentration risk and/or limits,
- the restructuring process,
- collateralisation of credit exposures.

Other material irregularities identified during inspection activities at credit unions concerned the process of managing the credit union, managing liquidity risk, managing the interest rate risk, managing operational risk, and capital adequacy.

In the area of credit union management, material irregularities concerned mainly the rules of functioning of the risk management system (the risk of exceedance of acceptable internal limits, failure to identify and assess the risks associated with the marketing/modification of products), the internal control system (failure to implement the audit plans in the period under inspection, reservations as to the scope and quality of audits) and the management information system (reservations as to the scope and quality of management reports).

In relation to the financial result, the inspection identified an improper approach to the method of settling the costs on account of early repayment of the loan and an inadequate level of provisions for the reimbursement of a commission on account of early repayment of the loan.

The negative findings concerning the management of liquidity risk related to the method of defining parameters specifying an increase in negative phenomena in various stress test scenarios.

In terms of interest rate risk, gaps were identified in internal regulations (mainly in relation to setting price flexibility and the interest rate on products) and in the system of limits (e.g. long-term exceedances of limits, gaps in the system of limits, inadequate frequency of monitoring of limits).

In the area of operational risk<sup>33</sup>, the irregularities concerned the operational risk management process, the method for determining the threshold value and the critical value of KRIs, the insufficient range of information collected in the database of operational events (lack of data on actual and potential losses), improper complaint handling process (complaints were considered after the statutory deadline, the rules for handling complaints were inconsistent with the Act on complaints and Financial Ombudsman, errors in the annual report to the Financial Ombudsman) and the quality and scope of documentation in the area of business continuity management.

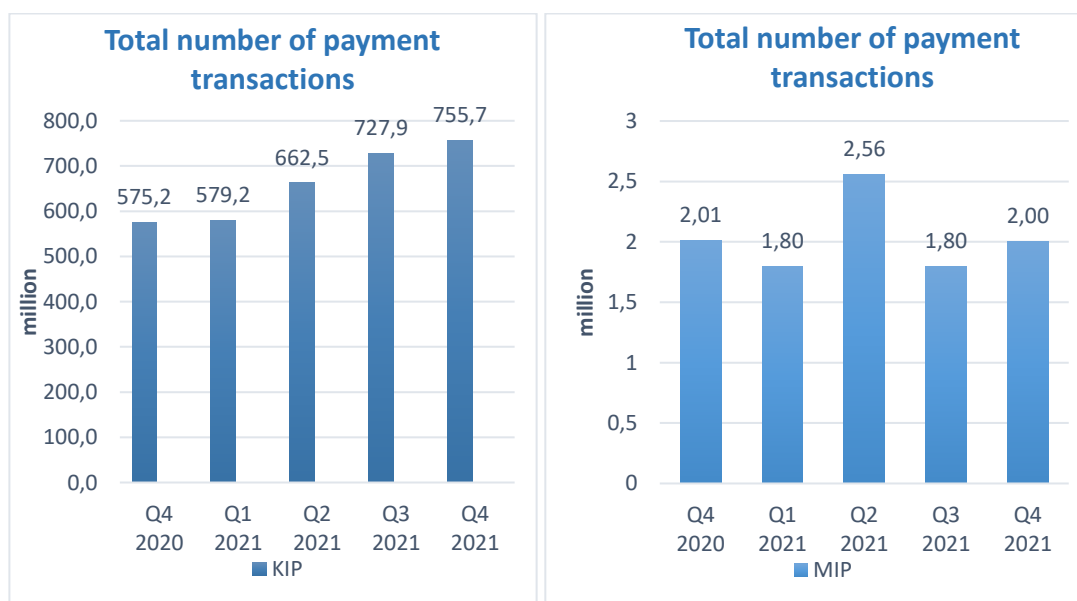
The irregularities related to capital adequacy mainly concerned the internal process of evaluation and measurement of funds (no regular reviews) and management information (lack of information on the reasons for non-implementation of certain assumptions in the capital plan).

## 6. PAYMENT SERVICES SECTOR

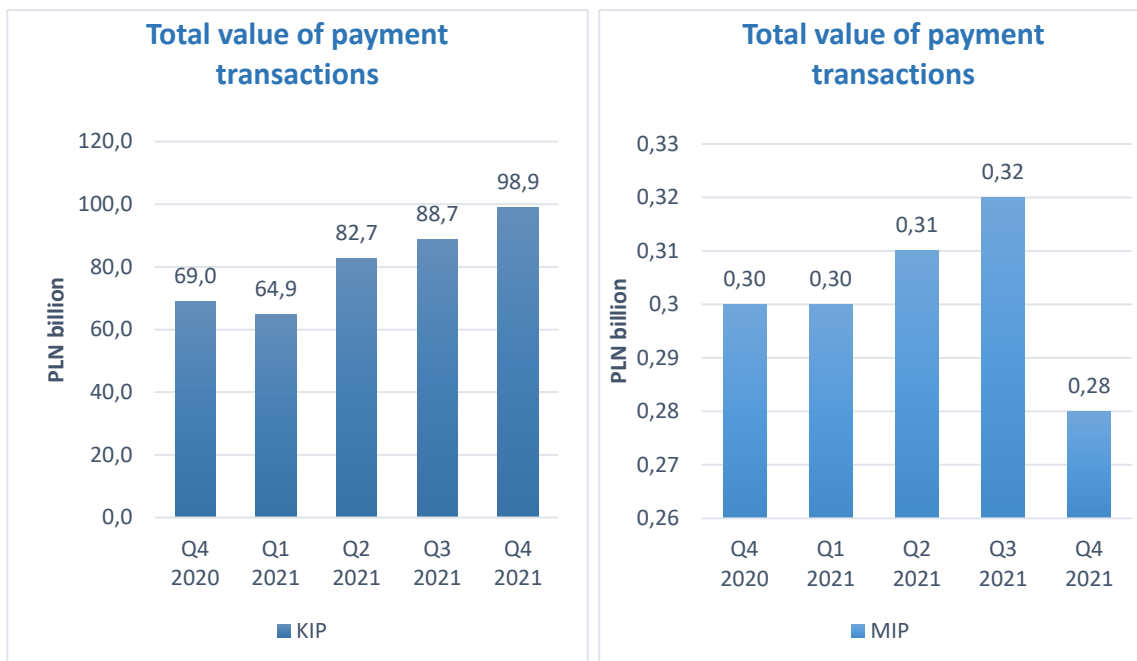
### 6.1. BASIC INFORMATION

As at 31 December 2021, 40 domestic payment institutions (PL: *krajowa instytucja płatnicza* – KIP) and 1 electronic money institution held authorisations. As at 31 December 2021, 1 270 payment services offices and 117 small payment institutions were included in the register of payment service providers. 11 entities were entered in the register of account information service providers. The data submitted to the KNF Board as part of regular reporting show that despite a high and constantly growing number of registered small payment institutions (PL: *mała instytucja płatnicza* – MIP), their scale of business measured by the total number and total value of their payment transactions is much smaller than in the case of domestic payment institutions. In the sector of domestic payment institutions, the number and value of payment transactions increased by ca. 31.61% and 43.33%, respectively, when comparing the fourth quarter of 2020 to the fourth quarter of 2021. This was probably largely due to the effects of the COVID-19 pandemic, which lead to an increased interest in cashless payments.

**Diagram 21. Changes in the number and value of payment transactions executed by KIPs and MIPs in the period from Q4 2020 to Q4 2021**



<sup>33</sup> Excluding the risk of information technology and ICT security and issues related to anti-money laundering and terrorist financing regime.



Source: UKNF

## 6.2. KEY ACTIVITIES

In 2021, supervisory activities towards payment institutions focused mainly on authorising entities to operate in the payment services market (licensing and registration activities), assessing the compliance of supervised entities (including particularly in the area of implementing strong customer authentication when providing services electronically), and adopting supervisory measures in this regard, and identifying breaches of law by entities acting without the required authorisations.

## 6.3. DOMESTIC PAYMENT INSTITUTIONS, DOMESTIC ELECTRONIC MONEY INSTITUTIONS, SMALL PAYMENT INSTITUTIONS, ACCOUNT INFORMATION SERVICE PROVIDERS, PAYMENT SERVICES OFFICES

### 6.3.1. LICENSING, REGISTRATION AND NOTIFICATIONS OF CHANGES OF OWNERSHIP

In 2021, the KNF Board received 14 applications for authorisation of domestic payment institutions, including 5 applications for a change of such authorisation and 1 application for an amendment to the authorisation of a domestic electronic money institution. In that period, 3 final decisions were issued with regard to authorisation to provide payment services as a domestic payment institution, 2 final decisions approving the expansion of the range of payment services provided by domestic payment institutions, 1 final decision denying such authorisation, and 1 final decision denying the expansion of the range of payment services provided by a domestic payment institution, and 1 application was left undecided. The KNF Board withdrew 1 authorisation to provide payment services as a domestic payment institution (at the entity's request).

In 2021, 8 final decisions were issued on the lack of objection to the intention to acquire or take up, directly or indirectly, shares of a domestic payment institution in a number sufficient to

reach or exceed 20%, 30% or 50%, respectively, of the total number of votes in the decision-making body or a share in the share capital, and 4 final decisions discontinuing proceedings in respect of changes in the ownership structure of domestic payment institutions.

In 2021, 22 notifications of domestic payment institutions concerning cross-border activities were submitted to other EU Member States, mostly relating to the update of data reported in the first notifications, and 1 notification of cross-border activities of an account information service provider.

In 2021, the KNF Board received 107 notifications from competent supervisory authorities concerning the activities of EU payment institutions and 70 notifications concerning the activities of EU electronic money institutions operating in Poland through a branch, through agents and on a cross-border basis.

In 2021, the KNF Board received 327 applications concerning payment services offices (98 applications for entry, 65 applications for a change in the entry, and 166 applications for removal).

In 2021, 42 small payment institutions were entered in the Register of Small Payment Institutions, 29 amendments were made to the entries relating to those entities, and 6 entities were removed. As at 31 December 2021, 121 small payment institutions were registered.

In 2021, 7 entities were entered in the Register of Account Information Service Providers and as at 31 December 2021, 11 such providers were registered.

## 6.3.2. SUPERVISORY ACTIVITIES

### 6.3.2.1. ONGOING SUPERVISION

As part of ongoing supervision of domestic payment institutions, the KNF Board analyses the figures and other data concerning the activities of payment institutions, in the context of statutory requirements and financial plans, and on that basis takes actions and supervisory measures.

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

- Information on the standing of KIPs, MIPs and BUPs in the fourth quarter of 2020,
- Information on the standing of KIPs, MIPs and BUPs in the first quarter of 2021,
- Information on the standing of KIPs, MIPs and BUPs in the second quarter of 2021.

#### 6.3.2.1.1. Domestic payment institutions (KIPs)

The analysis of reported data on the domestic market of payment services submitted to the KNF Board leads to the conclusion that this area is dominated by several well-established KIPs, which operate on a large scale. In the fourth quarter of 2021, domestic payment institutions providing only money remittance services (Group C) carried out 1.12% of all payment transactions (8.04 million transactions). The second group of entities (Group B), which, in addition to the money remittance service, also provide other payment services, including credit transfer and direct debit, carried out 0.13% of all payment transactions (0.93 million transactions) in that period. The vast majority of payment transactions, i.e. 98.75% (710.20 million transactions), were carried out by Group A (KIPs), which, in addition to providing payment services from the above-mentioned Group B, also act as clearing agents providing the acquiring service, i.e. a service consisting in enabling the acceptance of payment instruments and the execution of payment transactions initiated by or through an acceptor with the payer's payment instrument, especially consisting in the service of authorisations, sending



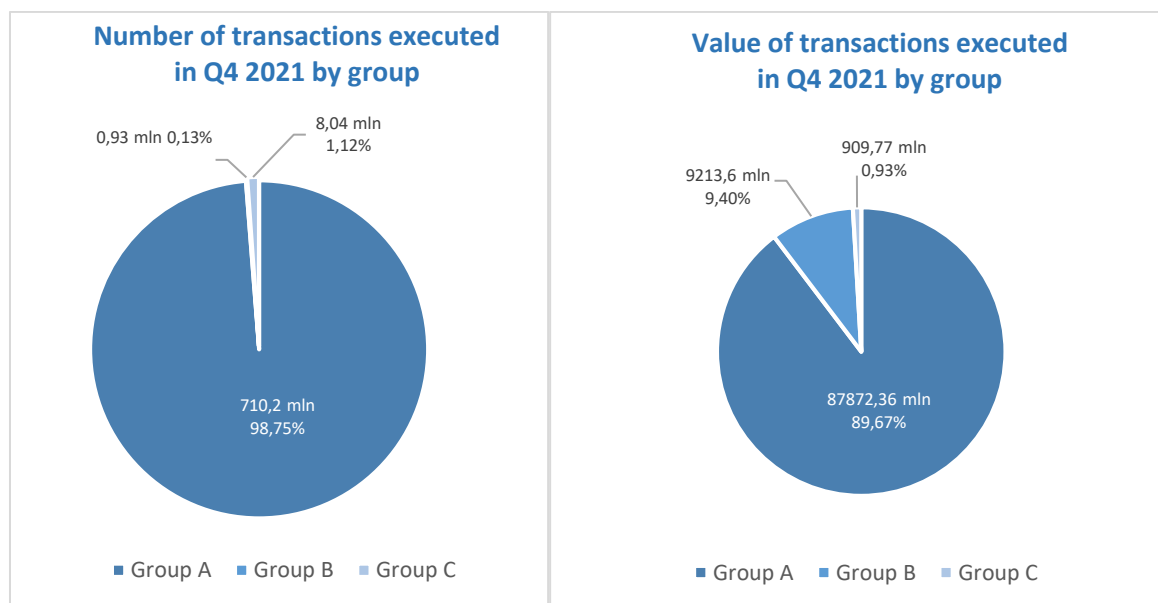
payment orders of the payer or the acceptor to the issuer of the payment instrument or to payment systems, in order to provide the acceptor with the funds due (acquiring).

**Table 14. Number and value of payment transactions executed by KIPs**

KIPs	Number of transactions (million)				
	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Group A	566.63	568.98	653.68	719.32	710.20
Group B	0.13	1.83	0.80	0.88	0.93
Group C	8.49	8.36	8.02	7.72	8.04
<b>Total</b>	<b>575.25</b>	<b>579.17</b>	<b>662.50</b>	<b>727.92</b>	<b>719.17</b>
KIPs	Value of transactions (PLN million)				
	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Group A	66 640.47	61 035.83	73 411.02	78 766.40	87 872.36
Group B	623.90	2 125.49	7 486.63	8 263.94	9 213.60
Group C	1 769.64	1 748.40	1 804.75	1 607.66	909.77
<b>Total</b>	<b>69 034.01</b>	<b>64 909.72</b>	<b>82 702.40</b>	<b>88 638.00</b>	<b>97 995.73</b>

Source: UKNF

**Diagram 22. Number and value of payment transactions (in PLN million) executed by KIPs**

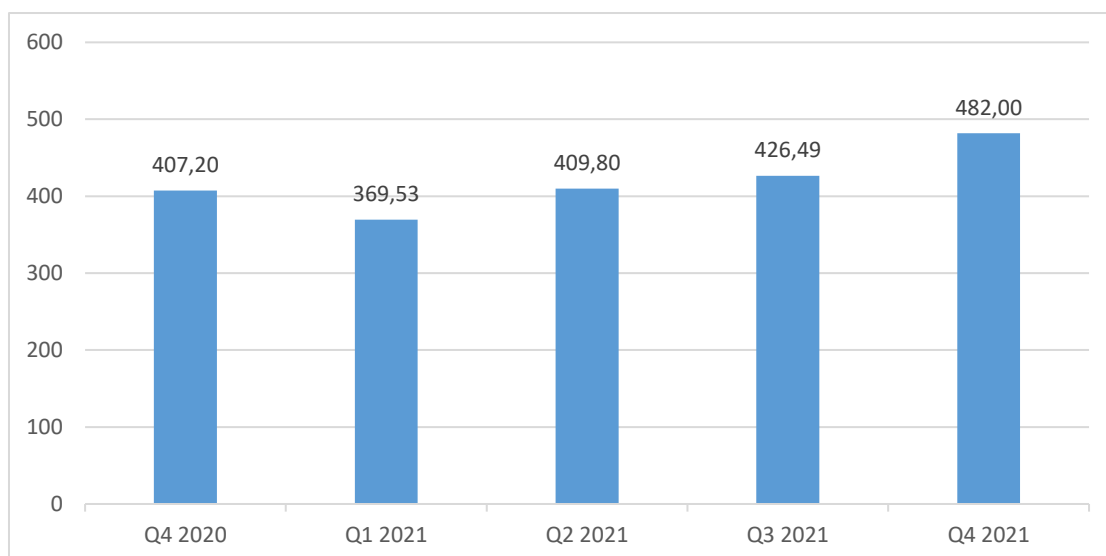


Source: UKNF

The average value of a single payment transaction at KIP in the fourth quarter of 2021 was PLN 136.26 (PLN 112.07 in the first quarter of 2021, PLN 124.83 in the second quarter of 2021, and PLN 121.86 in the third quarter of 2021).

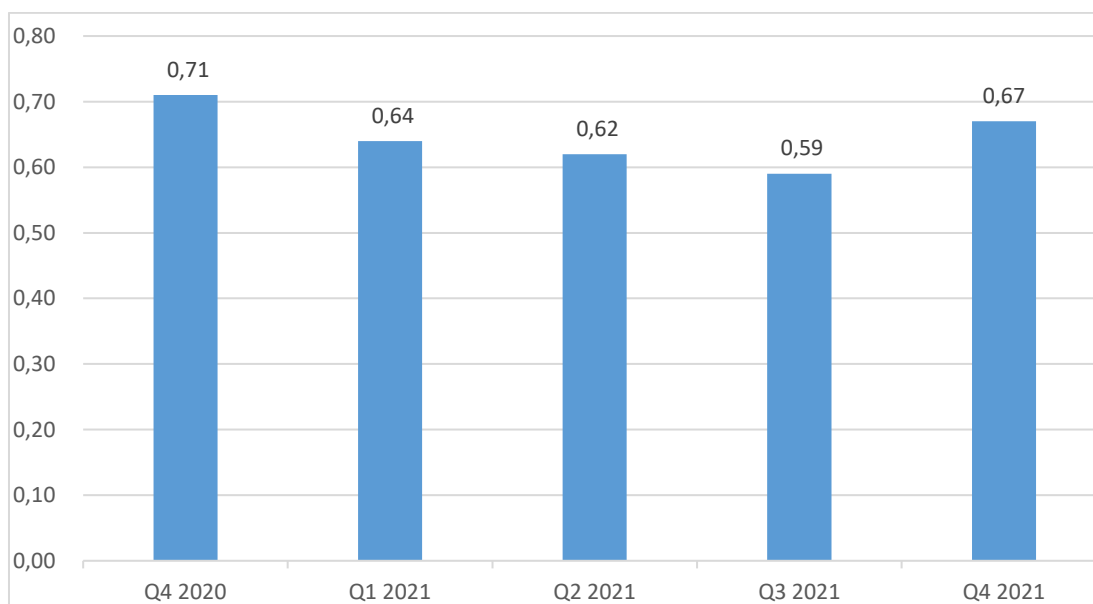
The value of fees and commissions collected by KIPs at the end of the fourth quarter of 2021 was PLN 482 million, and the average amount of fees and commissions was PLN 0.67.

**Diagram 23. Value of fees and commissions collected by all KIPs (in PLN million)**



Source: UKNF

**Diagram 24. Average amount of fees and commissions on transactions (in PLN)**



Source: UKNF

At the end of the fourth quarter of 2021, own funds of domestic payment institutions (KIPs) amounted to a total of PLN 682.37 million and 4 KIPs failed to meet the capital requirement laid down in Article 76(1) of the Act on payment services, under which a KIP is required, at any time, to have its own funds in the amount relevant to the size of its operations and the type of payment services it is allowed to provide under the authorisation granted.

**Table 15. Breakdown of own funds of domestic payment institutions (KIPs)**

Item	Q4 2020 (PLN million)	Q1 2021 (PLN million)	Q2 2021 (PLN million)	Q3 2021 (PLN million)	Q4 2021 (PLN million)
<b>Own funds, including:</b>	<b>957.42</b>	<b>862.57</b>	<b>960.38</b>	<b>772.98</b>	<b>993.71</b>
- initial capital	421.59	380.82	412.01	423.13	444.42
- revaluation capital	1.80	1.80	1.80	1.83	1.83

- retained earnings	10.72	11.76	51.02	50.55	21.98
- profit during approval and net profit of the current reporting period	20.61	32.38	11.09	16.68	18.77
- supplementary capital	280.98	262.54	290.56	295.53	318.84
- other reserve capitals	221.72	173.27	194.27	184.67	188.21
<b>Deductions of own funds:</b>	<b>282.80</b>	<b>259.04</b>	<b>288.53</b>	<b>276.83</b>	<b>305.93</b>
- own shares held by a payment institution, measured at the carrying amount, including any impairment loss	0.00	0.00	0.00	0.00	0.00
- all liabilities resulting from the issue of preference shares	0.00	0.00	0.00	0.00	0.00
- intangible assets measured at the carrying value	156.01	142.09	166.51	167.61	183.46
- loss from previous years	92.85	91.94	98.41	98.26	105.31
- loss during approval	1.55	16.95	12.26	0.62	0.62
- net loss of the current period	32.40	8.06	11.93	12.12	19.75
<b>Own funds (after deductions)</b>	<b>674.61</b>	<b>603.53</b>	<b>670.87</b>	<b>685.45</b>	<b>682.37</b>

Source: UKNF

#### 6.3.2.1.2. Domestic electronic money institutions (KIEP)

The only domestic electronic money institution operating in Poland declared that in February 2020 it commenced operations in the area of issuance of electronic money.

**Table 16. Scale of KIEP operations**

Breakdown	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Number of electronic money transactions	13 360	9 418	14 791	16 540
Value of electronic money transactions (PLN)	1 538 346	2 017 594	2 451 453	2 946 666
Value of fees and commissions on electronic money transactions (PLN)	99 917	114 932	1217	1337

Source: UKNF

#### 6.3.2.1.3. Small payment institutions (MIP)

For the fourth quarter of 2021, 76 MIPs reported execution of 2.00 million payment transactions of a total value of PLN 279.47 million. The average value of a single payment transaction at MIP was PLN 139.74.

#### 6.3.2.1.4. Payment services offices (BUP)

As of 2020, new rules for performing reporting obligations by payment services offices apply. From 1 January 2020, payment services offices are no longer required to submit quarterly reports. However, under Article 128(1) point 2 of the Act on payment services, a payment services office must provide the KNF Board with information on the total value and number of payment transactions performed, including those made by its agents, in each month of a given year – by 31 January of the following year. It means that BUPs must provide data only once a year.

In 2021, 933 BUPs reported execution of 65.28 million payment transactions of a total value of PLN 5.07 billion. The average value of a single payment transaction at BUP was PLN 71.67.

As at 31 December 2021, 1 270 BUPs were registered. On average, during the period under assessment, approx. 16.48% of BUPs failed to fulfil their obligation to submit to the KNF Board the documents to confirm the conclusion of an insurance contract or a bank or insurance guarantee concerning their payment services.

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 requirements from the register.

### 6.3.3. INSPECTIONS AT DOMESTIC PAYMENT INSTITUTIONS

#### 6.3.3.1. Inspections at domestic payment institutions (KIP): GENERAL INFORMATION

In 2021, 4 inspections were conducted at domestic payment institutions in relation to the assessment of quality of their management systems (including internal control systems) and compliance with the Act on payment services, and the assessment of quality of operational risk management. Information on the inspections at domestic payment institutions in the area of management of information technology and ICT security is provided in Section 10.1.2.1.1 of this Report and in relation to the prevention of money laundering and terrorist financing – in Section 10.7.

The material irregularities identified as a result of the inspections include:

- running the business in violation of the Act on payment services (non-compliance with the requirements regarding the amount of own funds, failure to review the functioning of the risk management system, improper outsourcing of operational activities<sup>34</sup>),
- operational risk management, including business continuity management,
- defective functioning of the company's governing bodies, in particular the supervisory board, resulting in, among others, violation of law, including the Commercial Companies and Partnerships Code and the Accounting Act,
- inadequate functioning of internal control due to failure to carry out or document functional inspections and/or inadequate scope of internal audit inspections,
- failure to take into account certain supervisory standards set out in the Principles of corporate governance for supervised institutions,
- untimely reporting to the KNF Board.

## 7. MORTGAGE CREDIT INTERMEDIARIES AND THEIR AGENTS

Under the Act on mortgage credit, mortgage credit intermediaries are supervised by the KNF Board.

The Act on mortgage credit provides for two registration procedures for mortgage credit intermediaries:

- authorisation (at the request of the entity), resulting in entering the mortgage credit intermediary in Section I of the Register of Credit Intermediaries,

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<sup>34</sup> Applies to contracts not related to the area of information technology or ICT security.

- entering the mortgage credit intermediary in Section I of the Register of Credit Intermediaries at the request of the lender (bank) under Article 57 of the Act on mortgage credit (without authorisation).

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

In 2021, the KNF Board entered 357 credit intermediaries in Section I of the Register of Credit Intermediaries, of which:

- 96 mortgage credit intermediaries were entered on the basis of authorisation (96 final decisions on authorisation),
- 261 mortgage credit intermediaries were entered at the request of lenders (banks).

In 2021, the KNF Board removed 213 mortgage credit intermediaries from Section I of the Register of Credit Intermediaries, of which:

- 28 intermediaries were removed on the basis of the final decision to withdraw authorisation,
- 185 intermediaries were removed at the request from lenders for the removal of intermediaries they had registered.

As at 31 December 2021, 859 mortgage credit intermediaries were included in the register, including 3 intermediaries whose authorisation was withdrawn but which were not removed from the register yet.

In the course of proceedings in respect of mortgage credit intermediaries, in 2021 the KNF Board issued: 96 final decisions on authorisation to operate as a mortgage credit intermediary, 26 final decisions to withdraw authorisation to operate as a mortgage credit intermediary, and 1 final decision to discontinue proceedings for granting authorisation to operate as a mortgage credit intermediary.

In 2021, 6 entities were entered in the Register of Passport Notifications for Mortgage Credit Intermediaries operating in the Territory of the Republic of Poland under the Freedom to Provide Services: 4 from Austria, 1 from France, and 1 from Germany; and 2 entities from the UK were removed from the Register, thus as at 31 December 2021, 12 entities were included in the Register.

In 2021, as part of the UKNF's electronisation project, based on an IT platform created in 2020 to maintain the Register of Mortgage Credit Intermediaries and their Agents, a new search engine of such entities was implemented, available on the KNF website (<https://rpkip.knf.gov.pl/index.html>). The search engine contains details of mortgage credit intermediaries and their agents, including information about the policy and business names of lenders with which the intermediary cooperates. Ultimately, both the register of intermediaries and the search engine will be directly integrated with electronic applications for registration submitted by those entities.

As regards an important formal requirement for authorisation of the business of mortgage credit intermediation relating to the passing of the examination for mortgage credit intermediaries, referred to in Article 49(1) point 1(d) in conjunction with Article 53 of the Act on mortgage credit, the Examination Board for Mortgage Credit Intermediaries, referred to in Article 52 of the Act on mortgage credit, conducted 3 exams in 2021, taken by 69 individuals, of whom 45 passed the exam.

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

In 2021, the KNF Board:

- entered 2 158 agents in the register (each time at the request of a mortgage credit intermediary),
- removed 1 465 agents (each time at the request of a mortgage credit intermediary).

As at 31 December 2021, 7 739 agents of mortgage credit intermediaries were included in the register.

## 8. CAPITAL AND COMMODITY MARKETS

### 8.1. BASIC INFORMATION

The capital and commodity markets supervised by the KNF Board are formed by entities operating in the securities market and the market of other financial instruments, collective investment institutions, and entities operating in the commodity market, as well as financial institutions that accumulate and make long-term investments with financial resources which are to be paid after the savers reach the retirement age or become entitled to the payment.

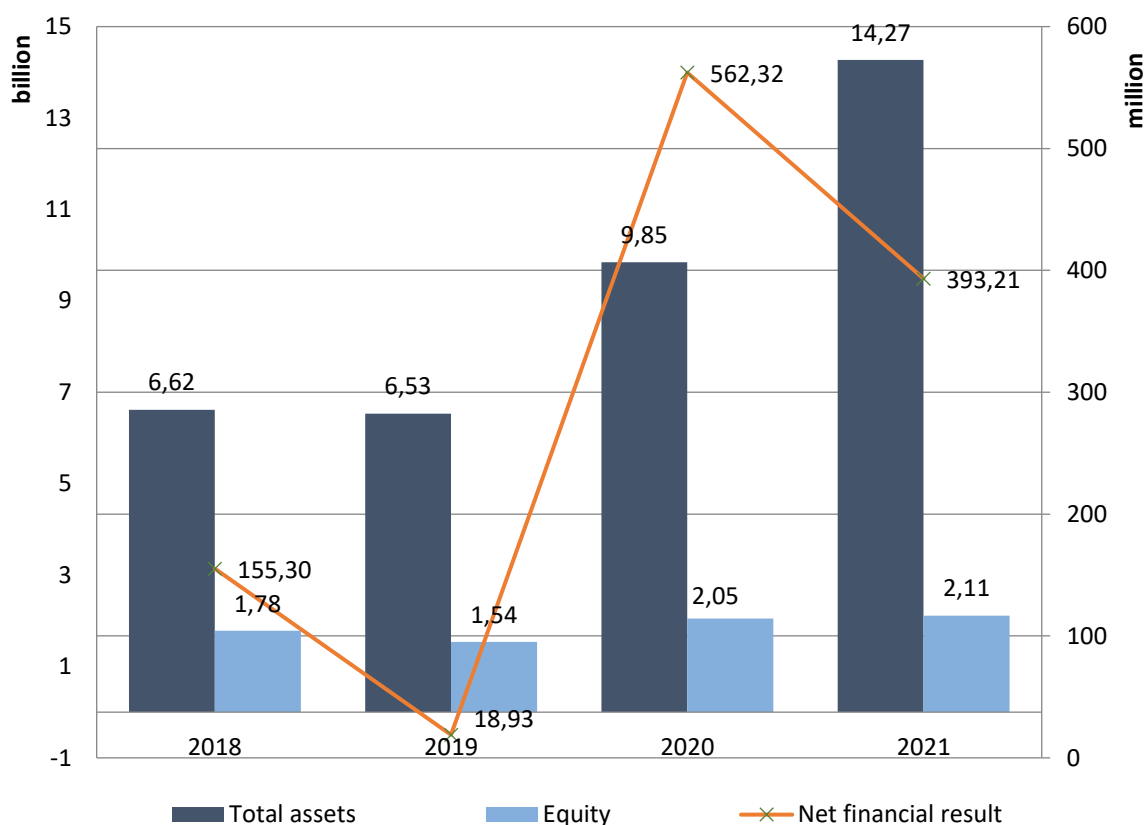
#### 8.1.1. BROKERAGE AND FIDUCIARY ACTIVITIES

**Table 17. Number of entities conducting brokerage and fiduciary activities in the years 2018-2021**

Type of entity	2018	2019	2020	2021
Brokerage houses	40	38	37	36
Commodity brokerage houses	1	1	1	1
Banks conducting brokerage activities	9	9	9	9
Custodian banks	12	12	11	11
<b>Total</b>	<b>62</b>	<b>60</b>	<b>58</b>	<b>57</b>

Source: UKNF

**Diagram 25. Basic data of the brokerage houses sector in the years 2018-2021**



Source: UKNF

The data for 2018 and 2020 come from audited financial statements. As a rule, the data for 2019 come from audited financial statements, except for preliminary data of 2 brokerage houses which ceased their operations in 2020. The data for 2021 come from monthly MDF reports as of 31 December 2021. The data do not include data of a brokerage house whose financial year does not coincide with the calendar year. The data take into account the changing number of brokerage houses operating in the years 2018-2021.

**Table 18. Number of client accounts of brokerage firms in the years 2018-2021**

Breakdown	Number of client accounts				Share in total value (in %)
	2018	2019	2020	2021	2021
Brokerage houses	714 964	594 294	621 453	789 481	33.53
Banks conducting brokerage activities	1 113 066	1 335 851	1 421 078	1 565 194	66.47
<b>Total</b>	<b>1 828 030</b>	<b>1 930 145</b>	<b>2 042 531</b>	<b>2 354 675</b>	<b>100</b>

Source: UKNF

**Table 19. Register of tied agents of investment firms at the end of the years 2018-2021**

Tied agents of investment firms	2018	2019	2020	2021
Natural persons	244	226	215	223
Legal persons and organisational units without legal personality	41	47	43	41
<b>Total</b>	<b>285</b>	<b>273</b>	<b>258</b>	<b>264</b>

Source: UKNF

**Table 20. Number of persons entered on the list of securities brokers and the total number of licensed securities brokers in the years 2018-2021**

Breakdown	2018	2019	2020	2021
Number of persons entered on the list of securities brokers in a given year	63	73	32	57
Total number of licensed securities brokers	3 070	3 142	3 174	3 231

Source: UKNF

**Table 21. Number of persons entered on the list of investment advisers and the total number of licensed investment advisers in the years 2018-2021**

Breakdown	2018	2019	2020	2021
Number of persons entered on the list of investment advisers in a given year	51	45	31	32
Total number of licensed investment advisers	708	752	783	814

Source: UKNF

**Table 22. Number of entities holding authorisation to keep accounts or registers of commodities at the end of the years 2018-2021**

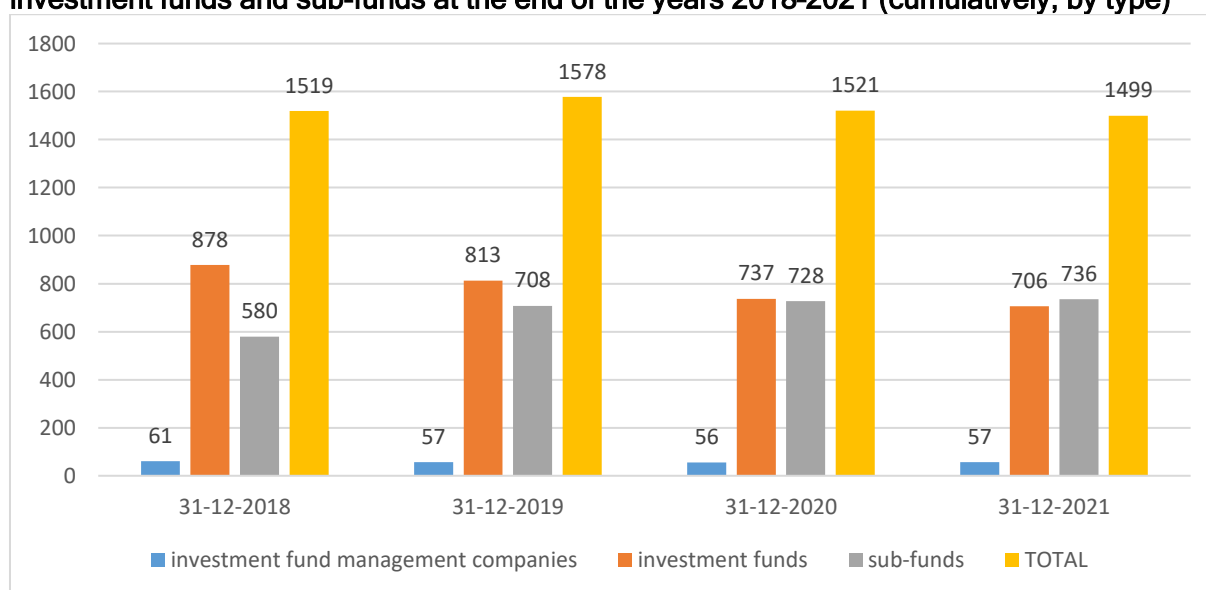
Type of entity	2018	2019	2020	2021
Energy companies	56	58	58	57

Source: UKNF

## 8.1.2. COLLECTIVE INVESTMENT INSTITUTIONS

As at 31 December 2021, 57 investment fund management companies held authorisations from the KNF Board and managed a total of 706 investment funds, including: 45 open-end investment funds, 69 specialist open-end investment funds, and 592 closed-end investment funds.

**Diagram 26. Total number of supervised investment fund management companies, and investment funds and sub-funds at the end of the years 2018-2021 (cumulatively, by type)**

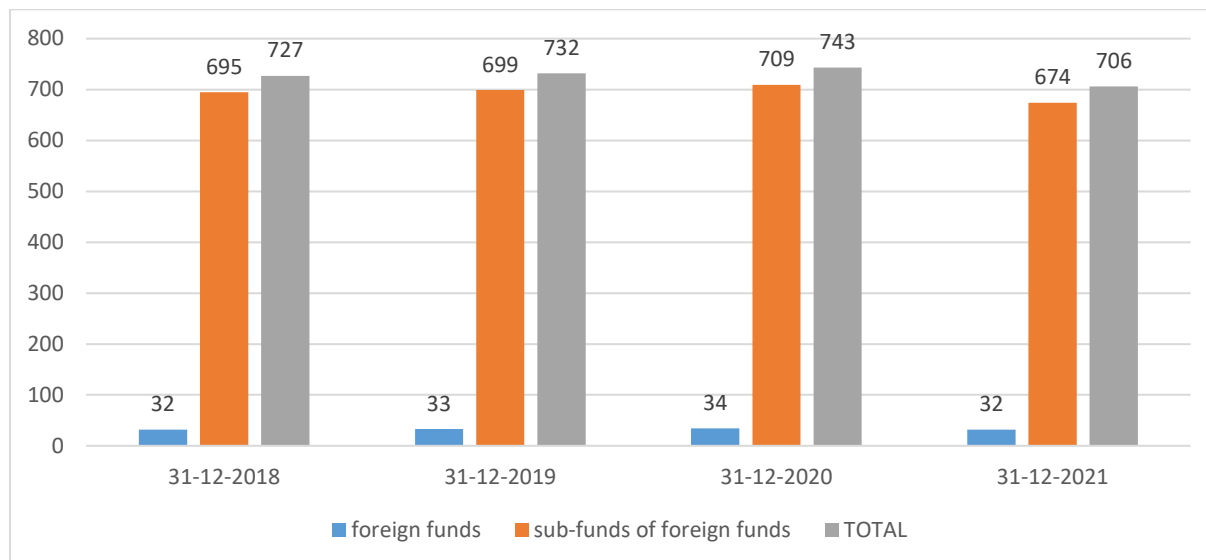


Source: UKNF



As at 31 December 2021, 32 foreign funds and 674 sub-funds included in foreign investment funds were entered in the Register of UCITS type foreign investment funds kept by the KNF Board.

**Diagram 27. Total number of supervised foreign investment funds (UCITS type) and sub-funds included in foreign investment funds at the end of the years 2018–2021 (cumulatively, by type)**

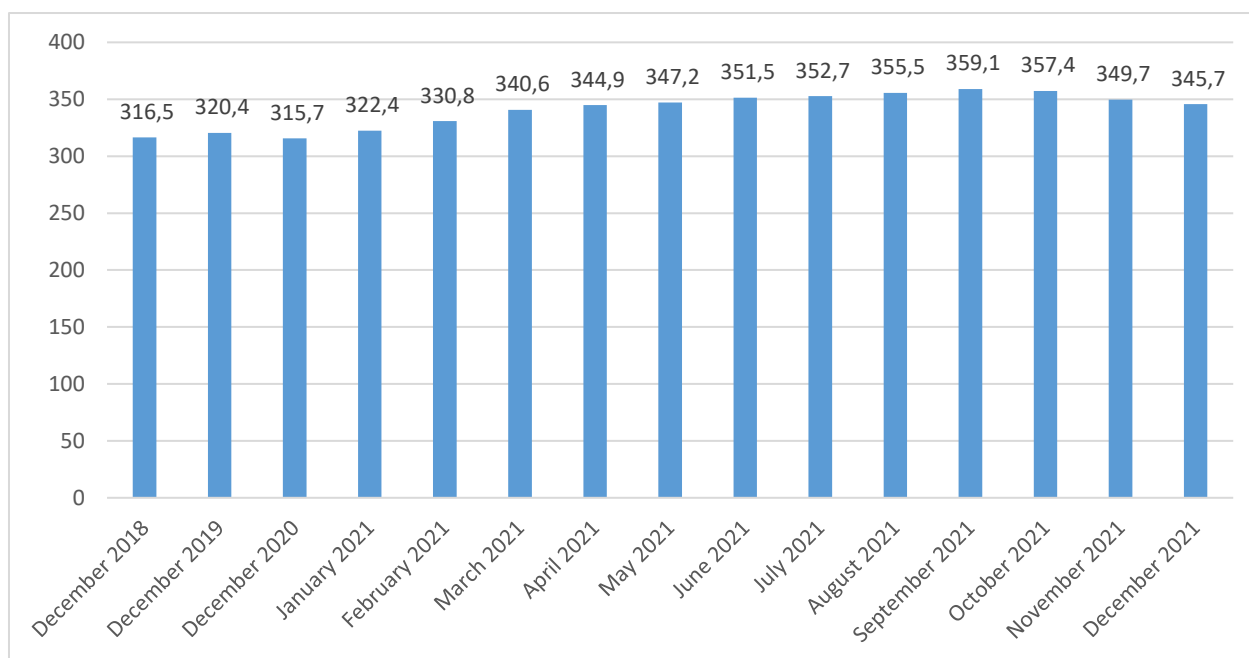


Source: UKNF

After significant increases in the value of investment funds' assets in the first quarter of 2021, growth rates were lower in the next three months but the upward trend continued. At the end of September 2021, the value of assets reached PLN 359.1 billion, i.e. 14% more than at the end of the previous year. From January to September 2021, the total assets of investment funds increased by PLN 43.4 billion, while in the last quarter of 2021, the value of investment funds' assets decreased, by an average of approx. PLN 4.5 billion per month. Despite the decreases, the total assets of investment funds at the end of December 2021 were PLN 30 billion higher than at the end of 2020.

**Diagram 28. Assets of investment funds at the end of the years 2018–2020 and in 2021 (in PLN billion)<sup>35</sup>**

<sup>35</sup> Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so the information included therein may be subject to subsequent corrections.



Source: UKNF

After the increases in the value of investment funds' assets from January to September, their value decreased in the last quarter of 2021. The average asset value at the end of each month of 2021 was higher than in the previous year, which resulted in an increase in the total revenue of investment fund management companies. The total revenue in 2021 amounted to PLN 3 635 million, i.e. 5.5% more than in 2020. The total costs amounted to PLN 2 636 million, i.e. 10.3% more than in the previous year. In turn, the aggregate net financial result of investment fund management companies (TFI) for 2021 was 9.9% lower than in 2020 and amounted to PLN 763 million<sup>36</sup>.

**Table 23. Aggregate costs, revenues and net financial result of investment fund management companies in the years 2018-2021 (in PLN million)<sup>37</sup>**

Breakdown	2018	2019	2020	2021	
Total revenue	3 940	3 559	3 444	3 635	—
Total costs, including:	2 794	2 371	2 389	2 636	100.00%
- overhead costs	1 243	1 190	1 290	1 409	53.45%
- variable costs, including:	1 551	1 181	1 099	1 227	46.55%
- variable distribution costs*	936	521	490	603	22.88%
Net financial result	911	957	847	763	—

Source: UKNF

\* 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.

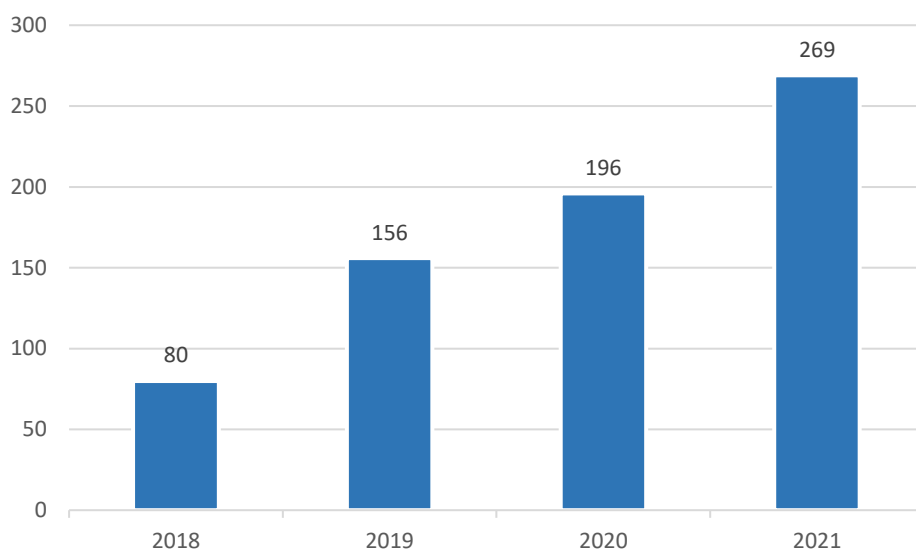
As at 31 December 2021, one joint-stock company held KNF authorisation to manage alternative investment companies/partnerships (AIC) and 268 AIC managers (AICMs) were included in the Register of AIC Managers.

<sup>36</sup> Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so the information included therein may be subject to subsequent corrections.

<sup>37</sup> Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so the information included therein may be subject to subsequent corrections.

2021 saw a further increase in the number of AICMs and a further increase in the value of assets managed by those entities.

**Diagram 29. Number of supervised AICMs at the end of the years 2018-2021 (cumulatively)**



Source: UKNF

### 8.1.3. PENSION SECTOR ENTITIES

#### 8.1.3.1. OPEN PENSION FUNDS AND GENERAL PENSION SOCIETIES

As at the end of 2021, 10 open pension funds (PL: *otwarty fundusz emerytalny* – OFE) and the same number of general pension societies (PL: *powszechne towarzystwo emerytalne* – PTE) managing them held authorisations to operate.

At the end of 2021, net assets of open pension funds reached PLN 188 billion and were PLN 39.4 billion (26.5%) higher than a year before. The change in the asset value resulted from the positive financial results of OFEs and the negative balance of settlements between OFEs and the Social Insurance Institution (ZUS).

**Table 24. The net asset value of OFEs in the years 2018-2021 (as at 31 December)**

Open pension fund	Net assets (in PLN million)				Market share (in %)
	2018	2019	2020	2021	
Aegon OFE	13 620.0	13 391.0	12 970.5	16 434.3	8.7
Allianz Polska OFE	7 152.3	7 160.2	6 773.1	8 728.6	4.6
Aviva OFE Aviva Santander	34 493.3	33 803.3	32 380.2	40 742.5	21.7
Uniqa OFE (formerly: AXA OFE)	10 126.9	9 829.6	9 485.0	11 817.1	6.3
Generali OFE	7 825.8	7 679.6	7 284.8	9 310.4	5.0
MetLife OFE	12 391.7	12 064.3	11 436.0	14 037.8	7.5
Nationale-Nederlanden OFE	39 748.0	39 632.0	38 740.1	49 309.6	26.2
PKO BP Bankowy OFE	7 046.0	6 922.3	6 544.5	8 516.30	4.5
OFE Pocztylion	2 809.9	2 727.0	2 626.8	3 282.1	1.8
OFE PZU „Złota Jesień”	22 120.1	21 606.8	20 363.1	25 806.4	13.7
<b>Total</b>	<b>157 334.9</b>	<b>154 816.1</b>	<b>148 604.1</b>	<b>187 985.1</b>	<b>100.0</b>

Source: UKNF, based on daily reports of OFEs

At the end of 2021, OFEs had 15.4 million members. Over the year, there was another fall in the number of members, by 0.2 million. The total market share of the 3 largest funds decreased markedly (by 0.2 percentage points) in relation to the previous year, reaching nearly half of the entire market (49.6%).

**Table 25. Number of members of OFEs in the years 2018–2020 (as at 31 December)**

Open pension fund	Number of members (in thousand)				Market share (in %)
	2018	2019	2020	2021	
Aegon OFE	1 804.0	1 776.9	1 747.7	1 716.5	11.3
Allianz Polska OFE	1 050.7	1 032.0	1 020.6	1 008.4	6.6
Aviva OFE Aviva BZ WBK	2 539.4	2 496.1	2 447.9	2 395.7	15.8
Uniqą OFE (formerly: AXA OFE)	1 119.4	1 106.3	1 091.5	1 076.0	7.1
Generali OFE	970.4	959.6	948.7	936.9	6.2
MetLife OFE	1 536.2	1 516.8	1 496.8	1 475.6	9.7
Nationale-Nederlanden OFE	2 981.6	2 945.0	2 904.8	2 862.2	18.9
PKO BP Bankowy OFE	912.6	901.4	889.8	877.1	5.8
OFE Pocztylion	567.6	561.3	554.8	547.8	3.6
OFE PZU „Złota Jesień”	2 420.0	2 375.0	2 328.3	2 279.5	15.0
<b>Total</b>	<b>15 901.9</b>	<b>15 670.4</b>	<b>15 430.9</b>	<b>15 175.7</b>	<b>100.0</b>

Source: The Social Insurance Institution (ZUS)

In 2021, the average rate of return generated by open pension funds was positive and amounted to 29.5%, as opposed to 2020, when it was negative (-2.1%). All OFEs achieved positive rates of return in 2021. The volatility of investment performance results from a strong involvement of funds in domestic equity instruments, as a consequence of the significant dependence of performance on the situation in the stock market.

**Table 26. Rates of return of OFEs in the years 2018–2021 (in %)**

Open pension fund	2018	2019	2020	2021
Aegon OFE	-9.3	0.8	-1.0	29.8
Allianz Polska OFE	-9.5	1.9	-4.2	31.1
Aviva OFE Aviva BZ WBK	-9.4	1.2	-1.5	29.9
Uniqą OFE (formerly: AXA OFE)	-9.9	-0.7	-1.6	27.5
Generali OFE	-8.8	0.0	-4.1	29.8
MetLife OFE	-9.3	0.8	-2.5	26.6
Nationale-Nederlanden OFE	-9.4	0.7	-1.8	28.6
PKO BP Bankowy OFE	-10.0	0.8	-3.5	33.2
OFE Pocztylion	-9.3	0.5	-0.8	29.0
OFE PZU „Złota Jesień”	-10.7	1.5	-2.6	31.2
<b>Average</b>	<b>-9.6</b>	<b>0.9</b>	<b>-2.1</b>	<b>29.5</b>

Source: UKNF, based on daily reports of OFEs

**Table 27. Selected items of the income statement of general pension societies in the years 2018-2021 (in PLN million)**

Breakdown	2018	2019	2020	2021	
Total revenues, including:	1 092.4	1 027.6	951.1	1 048.3	100.0%
Revenues from the management of pension funds	1 040.9	967.9	905.1	1 023.2	97.6%
Total costs, including:	393.0	410.3	521.4	495.2	100.0%
Mandatory burdens related to the management of pension funds	190.5	185.3	263.3	290.6	58.7%

Overheads of PTE management	139.8	156.9	161.1	152.6	30.8%
Net financial result	562.4	495.2	343.4	444.7	-

Source: UKNF

In 2021, the dominant categories in the income statement of general pension societies were revenues and costs relating to the management of pension funds. The increase in the value of assets of pension funds managed by general pension societies was higher than in the previous year, which resulted in an increase in the financial result.

### 8.1.3.2. OCCUPATIONAL PENSION FUNDS AND SOCIETIES

In 2021, there were 2 occupational pension societies managing occupational pension funds (PFE). As at 31 December 2021, occupational pension societies managed 2 PFEs, which had 30.5 thousand members, 0.7 thousand less than a year before. In the reporting period, basic and additional contributions in the amount of PLN 104.2 million were transferred to the accounts of PFE members, PLN 0.9 million less than in 2020. The value of net assets accumulated in occupational pension funds at the end of the 2021 amounted to PLN 2.1 billion. Compared to 2020, the value of net assets of PFEs increased by PLN 112.5 million, i.e. by 5.6%.

Both occupational pension funds operating at the end of 2021 achieved positive rates of return during the reporting period.

**Table 28. Rates of return of PFEs in the years 2018-2021 (in %)**

Occupational pension fund	2018	2019	2020	2021
PFE „Nowy Świat”	-2.7	1.6	1.8	3.7
PFE Orange Polska	-1.1	5.6	8.4	4.4

Source: UKNF, based on data reported by PFEs

### 8.1.3.3. VOLUNTARY PENSION FUNDS

As at 31 December 2021, 7 voluntary pension funds (PL: *dobrowolny fundusz emerytalny* – DFE), managed by general pension societies, were authorised to pursue business. All active DFEs collected payments from savers under individual retirement protection account (PL: *indywidualne konto zabezpieczenia emerytalnego* – IKZE) contracts, while 5 of them also operated individual retirement accounts (PL: *indywidualne konto emerytalne* – IKE). Since 1 July 2019, 2 general pension societies out of 10 active societies have also managed target-date voluntary pension funds.

At the end of 2021, DFEs had 80.3 thousand members (an increase of 20.5% compared with the previous year), who accumulated savings on IKE or IKZE accounts. The value of the aggregate net assets accumulated in DFEs amounted to PLN 1.1 billion at the end of 2021, which represented an increase of 44.6% compared with the previous year (driven mainly by an inflow of contributions to DFEs in the amount of PLN 270.7 million).

**Table 29. Net assets of DFEs in the years 2018-2021 (as at 31 December)**

Voluntary pension fund	Net assets (in PLN million)				Market share (in %)
	2018	2019	2020	2021	
Allianz Polska DFE	13.5	16.7	20.0	26.0	2.3
Generali DFE	0.5	0.7	1.4	3.0	0.3
MetLife DFE	30.5	34.9	46.1	54.9	4.8
Nationale-Nederlanden DFE	98.7	152.6	250.8	392.4	34.6
PKO DFE	67.8	86.9	117.9	157.8	13.9

DFE Pocztylion Plus	2.4	4.0	5.8	8.5	0.7
DFE PZU	168.4	254.5	343.1	492.5	43.4
<b>Total</b>	<b>381.8</b>	<b>550.3</b>	<b>785.1</b>	<b>1 135.1</b>	<b>100.0</b>

Source: DFE reports

In 2021, all DFEs achieved positive rates of return. Better results were achieved by DFEs which manage relatively smaller assets. The diversification of investment performance of DFEs was also determined by the managers using investment strategies, in terms of the level of allocation to specific asset classes, the choice of individual financial instruments, and changes in the portfolio structure.

**Table 30. Rates of return of DFEs in the years 2018-2021 (in %)**

Voluntary pension fund	2018	2019	2020	2021
Allianz Polska DFE	* -6.6	* 5.4	* 2.9	* 16.0
Generali DFE	-10.4	16.5	21.0	18.2
MetLife DFE	-16.6	9.7	33.3	11.5
Nationale-Nederlanden DFE	* -8.6	* 8.9	* 15.3	* 10.8
PKO DFE	-6.7	0.1	11.0	14.8
DFE Pocztylion Plus	-4.8	1.0	8.0	19.7
DFE PZU	-9.9	3.4	1.6	12.4

Source: UKNF, based on data reported by DFEs

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

#### 8.1.3.4. OCCUPATIONAL PENSION SCHEMES

Occupational pension schemes (PL: *prawcowniczy program emerytalny* – 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 that element 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.

**Table 31. Development of occupational pension schemes (PPE) in the years 2018-2021**

Breakdown	2018	2019	2020	2021
Number of PPEs	1 230	1 907	2 110	2 083
Number of participants (in thousand)	425	613	632	641
Value of accumulated assets (in PLN million)	12 735	14 547	17 016	18 929

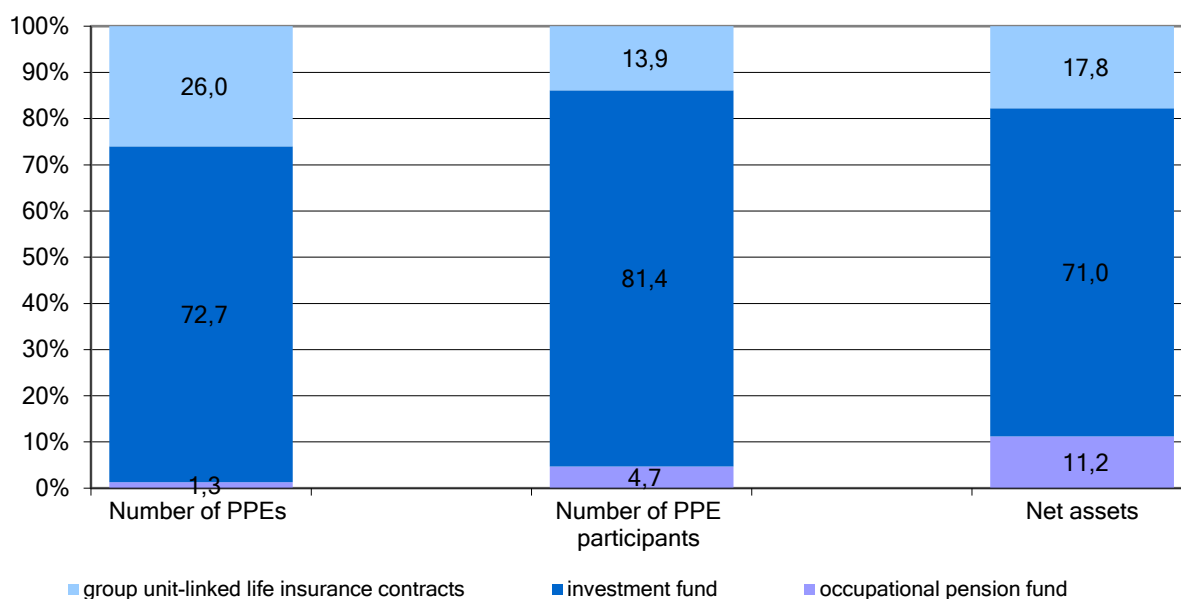
Source: UKNF, institutions managing the funds of occupational pension schemes

2 083 occupational pension schemes were operating as at 31 December 2021, including:

- 542 in the form of a group unit-linked life insurance contract,
- 1 514 in the form of an agreement on the payment by the employer of employees' contributions to the investment fund,
- 27 in the form of an occupational pension fund.

The share of individual forms in the PPE market is shown in Diagram 30.

**Diagram 30. Structure of the PPE market in 2021 (in %)**

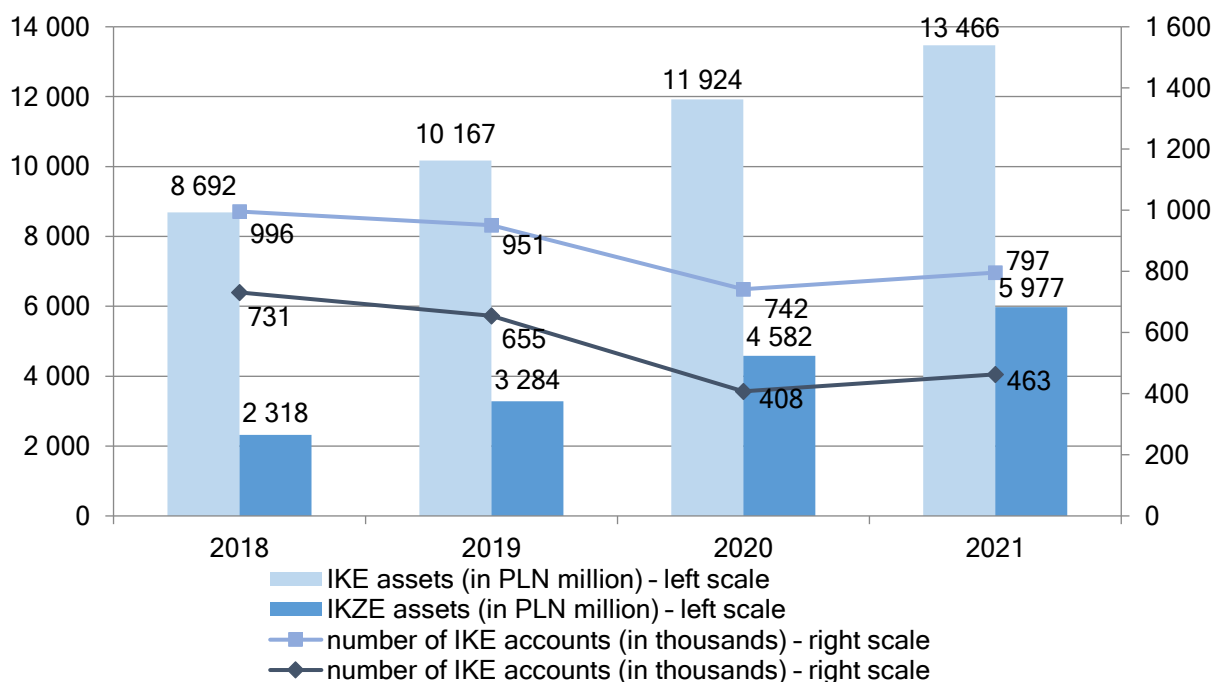


Source: UKNF, institutions managing the funds of occupational pension schemes

#### 8.1.3.5. INDIVIDUAL RETIREMENT ACCOUNTS AND INDIVIDUAL RETIREMENT PROTECTION ACCOUNTS

Individual retirement accounts (IKE) and individual retirement protection accounts (IKZE) are voluntary individual forms of saving for pension purposes. They have operated for various periods of time: IKEs have operated since 2004 and IKZEs since 2012.

**Diagram 31. Value of assets and number of IKE and IKZE accounts in the years 2018-2021 (as at 31 December)**



Source: UKNF, institutions maintaining IKE and/or IKZE accounts

As at the end of 2021, entities authorised to maintain IKEs and/or IKZEs handled 796.5 thousand IKEs and 462.7 thousand IKZEs, with assets of PLN 13.5 billion and PLN 6. billion,

respectively. In 2021, the savers contributed PLN 2.2 billion to IKE accounts and PLN 1.5 billion to IKZE accounts, a total of 59.8% more than the year before.

**Table 32. Number of IKE accounts and value of IKE assets in the years 2018–2021 (as at 31 December)**

Entities maintaining IKE accounts	Number of accounts (in thousand)				Market share (in %)	Value of assets (in PLN million)				Market share (in %)
	2018	2019	2019	2021		2018	2019	2020	2021	
Insurance undertakings	563	462	200	195	27.0	2 583	2 739	2 932	3 067	22.8
Investment funds	317	355	393	433	53.0	2 725	3 266	3 970	4 539	33.7
Entities conducting brokerage activities	33	39	56	80	7.5	1 435	1 785	2 439	3 252	24.1
Banks	78	89	86	79	11.5	1 887	2 297	2 466	2 437	18.1
Voluntary pension funds	5	6	7	10	1.0	63	81	117	173	1.3
<b>Total</b>	<b>996</b>	<b>951</b>	<b>742</b>	<b>797</b>	<b>100.0</b>	<b>8 692</b>	<b>10 167</b>	<b>11 924</b>	<b>13 466</b>	<b>100.0</b>

Source: UKNF, institutions maintaining IKE accounts

**Table 33. Number of IKZE accounts and value of IKZE assets in the years 2018–2021 (as at 31 December)**

Entities maintaining IKZE accounts	Number of accounts (in thousand)				Market share (in %)	Value of assets (in PLN million)				Market share (in %)
	2018	2019	2020	2021		2018	2019	2020	2021	
Insurance undertakings	447	377	96	96	23.7	635	784	956	1 100	18.4
Investment funds	151	175	192	209	47.0	1 086	1 609	2 258	2 810	47.0
Entities conducting brokerage activities	11	17	32	52	7.7	119	197	392	715	12.0
Banks	20	24	28	34	6.9	156	224	307	384	6.4
Voluntary pension funds	101	61	60	72	14.7	321	470	669	968	16.2
<b>Total</b>	<b>731</b>	<b>655</b>	<b>408</b>	<b>463</b>	<b>100.0</b>	<b>2 318</b>	<b>3 284</b>	<b>4 582</b>	<b>5 977</b>	<b>100.0</b>

Source: UKNF, institutions maintaining IKZE accounts

#### 8.1.3.6. EMPLOYEE CAPITAL PLANS

Under the Act on employee capital plans (PL: *pracowniczy plan kapitałowy* – PPK), employee capital plans have been in operation. A participant of a PPK is a natural person who is over 18 years of age, for and on behalf of whom an employer has entered into an agreement to operate a PPK with a financial institution. As at the end of 2021, 19 financial institutions were entitled to operate PPKs:

- 16 investment fund management companies,
- 2 general pension societies,
- 1 insurance undertaking.

According to information received from institutions that operated PPKs at the end of 2021, the number of PPK participants amounted to 2 million (1.5 million participants at the end of 2020). In the period covered by the report, PLN 4 billion was paid into PPK (PLN 2.2 billion in 2021). As at 31 December 2021, assets amounting to PLN 6.2 billion were collected on the PPK accounts, PLN 3.4 billion more than in 2020.



## 8.1.4. ENTITIES OF THE CAPITAL AND COMMODITY MARKET INFRASTRUCTURE

Entities of the capital and commodity market infrastructure in Poland are as follows:

- Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange – WSE),
- BondSpot S.A. (BondSpot),
- Towarowa Giełda Energii S.A. (TGE),
- The Commodity Clearing House (Izba Rozliczeniowa Giełd Towarowych S.A. – IRGIT),
- National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A. – KDPW),
- KDPW\_CCP S.A. (KDPW\_CCP).

### 8.1.4.1. GIEŁDA PAPIERÓW WARTOŚCIOWYCH W WARSZAWIE S.A. (WARSAW STOCK EXCHANGE – WSE)

Giełda Papierów Wartościowych w Warszawie S.A. operates the following markets:

- the regulated market – the GPW Main Market, on which shares, rights to shares, pre-emptive rights, investment certificates, subscription warrants, ETF participation units, structured products and derivatives are traded. Two markets function as part of the Main Market:
  - the Basic Market: the official market for official listings. The trading on the Basic Market involves securities that meet the criteria for appropriate value and dispersion whose issuers have published their financial statements for the last three years.
  - the Parallel Market: a market for listings of the smallest companies and companies characterised by share dispersion lower than on the Basic Market;
- Alternative Trading System – NewConnect and ASO Catalyst, which have the status of the Small and Medium-Sized Enterprises Market. The market is addressed to young firms with a relatively small capitalisation. Main instruments traded on NewConnect are shares and rights to shares of small and medium-sized companies. Main instruments traded on ASO Catalyst are debt instruments.

2021 was marked by an increase in the capitalisation of companies listed on the WSE compared to the previous year. The total capitalisation amounted to more than PLN 1 312 billion, which represents an increase of more than 22% compared with the previous year.

**Table 34. Capitalisation of the GPW Main Market at the end of the years 2018-2021 (PLN million)**

Breakdown	2018	2019	2020	2021
Domestic companies	578 937	550 243	538 752	701 152
Foreign companies	549 571	553 603	529 899	611 571
<b>Total</b>	<b>1 128 508</b>	<b>1 103 846</b>	<b>1 068 651</b>	<b>1 312 723</b>

Source: UKNF, based on <https://www.gpw.pl/podstawowe-statystyki-gpw>

In 2021, there was a decrease in the capitalisation of NewConnect listed companies compared with the previous year (an increase for domestic companies and a significant decrease for foreign companies, of more than 80%). The total capitalisation amounted to more than PLN 19 billion, which represents a nearly 3% decrease compared with 2020.

**Table 35. Capitalisation of NewConnect at the end of the years 2018-2021 (PLN million)**

Breakdown	2018	2019	2020	2021
Domestic companies	7 151	9 095	18 669	18 969
Foreign companies	235	610	1 091	214
<b>Total</b>	<b>7 386</b>	<b>9 705</b>	<b>19 760</b>	<b>19 183</b>

Source: UKNF, based on <https://newconnect.pl/podstawowe-statystyki-newconnect>

In 2021, an increase in the trade of shares was seen on the WSE market as compared with the previous year, and a decrease on NewConnect.

**Table 36. Value of trading in shares (PLN million) in the years 2018-2021 – Main Market and NewConnect**

<b>Breakdown</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Trading value – Main Market	211 850	195 266	311 124	330 995
Trading value – NewConnect	1 660	1 533	14 942	6 290

Source: UKNF, based on <https://www.gpw.pl/podstawowe-statystyki-gpw> and <https://newconnect.pl/podstawowe-statystyki-newconnect>

#### 8.1.4.2. BONDSPOT S.A.

BondSpot S.A. operates as part of:

- regulated market – main instruments traded there are treasury bonds, corporate bonds, cooperative bonds and other debt securities,
- alternative trading system – instruments traded there may include dematerialised bonds, mortgage bonds and other debt instruments incorporating property rights corresponding to the rights resulting from debt incurred,
- Treasury BondSpot Poland (TBSP) – it is a market for wholesale trading in treasury bonds and treasury bills, organised according to the formula of the alternative trading system. The TBSP operates under an agreement with the Minister of Finance.

The largest trading value can be seen on the TBSP market, which markedly decreased in the recent years, but in 2021 reached a value higher than 4 years ago.

**Table 37. Trading value (PLN billion) in the years 2018-2021 – TBSP BondSpot S.A.**

Breakdown	2018	2019	2020	2021
Trading value	407	282	169	474

Source: UKNF, based on [https://www.bondspot.pl/statystyki\\_TBSPoland](https://www.bondspot.pl/statystyki_TBSPoland)

#### 8.1.4.3. TOWAROWA GIEŁDA ENERGII S.A.

Towarowa Gielda Energii S.A. operates the following markets:

- Day-Ahead Market (RDN) (trade in hours contracts and block contracts with next-day physical delivery of contracted electricity in the domestic market as well as foreign markets with which interconnections have been traded on the stock exchange),
- Intraday Market (XBID) (cross-border trade in hours contracts for same day and next-day delivery of electricity in 21 EU countries),
- Gas Day-Ahead Market (RDNg) (trade in block contracts with physical delivery of contracted gas within the next gas day),
- Gas Intraday Market (RDBg) (trade in hours contracts for same-day gas delivery),
- Property Rights Market (RPM) (trade in property rights resulting from RES certificates and property rights resulting from energy efficiency certificates as defined in the Act on energy efficiency),
- Agricultural and Grocery Market (RTRS) (trading in contracts with physical delivery of wheat, rye and maize).

As an OTF, TGE operates the following markets:

- Commodity Forward Market with Physical Delivery of Electricity (RTPE),
- Commodity Forward Market with Physical Delivery of Gas (RTPG),
- Forward Market of Property Rights (RTPM) (a forward market with physical delivery of property rights resulting from Certificates of Origin from renewable energy sources).

As a regulated market, TGE operates Rynek Instrumentów Finansowych (RIF) (financial instruments market), on which in 2021 EU Allowances (EUA) are traded (cash trading in Emission Allowances). The trading in electricity and natural gas is the most developed. In the years 2018-2021, the number of TGE members stabilised. That period was marked by a material increase in the trading volume of electricity and natural gas from 369 TWh in 2018 to 405 TWh in 2021.

**Table 38. Number of members and volume of trading in electricity and natural gas (TWh) – TGE commodity market in the years 2018-2021**

Breakdown	2018	2019	2020	2021
Number of members	76	77	76	77
Trading volume	369	375	394	405

Source: UKNF, based on <https://www.tge.pl/>

#### 8.1.4.4. IZBA ROZLICZENIOWA GIEŁD TOWAROWYCH S.A.

The Commodity Clearing House (Izba Rozliczeniowa Giełd Towarowych S.A. – IRGiT) settles all transactions carried out on markets operated by TGE. As a clearing and settlement house, IRGiT settles transactions carried out on the regulated market and on the organised trading facility (financial instruments). As an exchange clearing house, IRGiT settles all transactions carried out on the commodity exchange and on the organised trading facility (wholesale energy products which are not financial instruments).

In 2021, the KNF Board exercised licence supervision and ongoing supervision of IRGiT related to IRGiT's operations.

#### 8.1.4.5. KRAJOWY DEPOZYT PAPIERÓW WARTOŚCIOWYCH S.A.

The National Depository for Securities is the central institution responsible for running and supervising the depository and clearing system with regard to the financial instruments traded. The National Depository for Securities is a central depository for securities established under EU legislation. Its tasks also include:

- operating a trading repository,
- supporting the processing of companies' corporate events,
- running a numbering agency, responsible for assigning ISIN, FISN, CFI numbers to securities and LEI codes, which constitute a unique identifier for legal entities dealing with the trading in financial instruments.
- providing the Approved Reporting Mechanism (ARM) service, consisting in acting as an intermediary for the purpose of reporting to the supervisory authority the details of transactions in financial instruments.

The activity of the National Depository for Securities in this regard is subject to the KNF Board's licence supervision and ongoing supervision. In 2021, the KNF Board performed, in relation to that entity, supervisory activities provided for in the legislation.

#### 8.1.4.6. KDPW\_CCP S.A.

Under the KNF Board's authorisation, KDPW\_CCP S.A. provides central clearing services – CCP (central counterparty). KDPW\_CCP takes over the obligations of parties to the cleared transactions and becomes the buyer for each seller and the seller for each buyer (novation) while securing the cleared transactions with its own assets.

KDPW\_CCP clears transactions entered into:

- in organised trading (securities and derivatives):
  - on regulated markets organised by WSE and BondSpot,
  - in the alternative trading systems operated by the WSE and BondSpot,
- in OTC trading –(debt securities, interest rates derivatives, –repo transactions or sell/buy-back).

KDPW\_CCP clears transactions in PLN and EUR. KDPW\_CCP organises the system for securing the liquidity of settlements, consisting of:

- initial margins collected from clearing members,
- members' contributions to guarantee funds conducted by KDPW\_CCP,
- KDPW\_CCP's equity.

The above services provided by KDPW\_CCP are subject to the KNF Board's licence supervision and ongoing supervision.

#### 8.1.4.7. PUBLIC OFFERINGS OF FINANCIAL INSTRUMENTS OTHER THAN INVESTMENT CERTIFICATES

Following the entry into force on 21 July 2019 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC, the definition of public offer of securities was expanded to include more cases in which the public offer takes place. Under the new definition, effective from mid-2019, a public offering is a communication addressed to the public (i.e. at least 2 persons), in any form and using any means, which provides sufficient information on the terms of the offering and the securities to be offered, to enable investors to make the decision whether to purchase or subscribe for those securities. Following a change in the definition of public offering, in 2021 (as in 2020) a significant number of public offerings of shares conducted in the Republic of Poland was seen in comparison with previous years.

The number of offerings conducted in 2021 and reported to the KNF Board in the Register of Shares increased by more than 23% compared to the previous year and amounted to 448. The value of public offerings of shares amounted to PLN 12 926.89 million and was slightly lower than in the previous year.

**Table 39. Value and number of public cash offerings in the years 2018-2021**

Year	2018		2019		2020		2021	
	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	46	1 047.71	58	683.40	250	3 440.16	345	3 980.39
Public offerings of shares	20	331.27	19	362.33	114	10 447.79	103	8 946.51
<b>Total public offerings</b>	<b>66</b>	<b>1 378.98</b>	<b>77</b>	<b>1 045.73</b>	<b>364</b>	<b>13 887.95</b>	<b>448</b>	<b>12 926.89</b>
<i>including</i>								
<i>Initial public offerings*</i>	9	312	6	50.8	18	11 075.28	40	9 267.49

Source: UKNF

\* Understood as the initial public offering related to the debut on the WSE or NewConnect.

The value of public offerings in 2021 was close to the value in the previous year. There was an increase in the number and value of the capital raised, and a decrease in the value of shares sold.

The total value of public offerings of shares in 2021 amounted to PLN 12 926.89 million, including the value of share subscriptions of PLN 3 980.39 million, and the value of public offerings of shares of PLN 8 946.51 million. The value of first public offerings in 2021 was comparable to the value in the previous year and amounted to PLN 9 267.49 million. At the same time, it should be emphasised that in 2021 several initial offers were carried out, the

value of which amounted to more than PLN 1 billion (e.g. IPOs of Pracuj.pl Group, STS, HUUUGE or Pepco).

## 8.2. KEY ACTIVITIES

### 8.2.1. PUBLICATION OF A GUIDE ON PROSPECTUS

On 5 October 2021, the UKNF published *Guide on prospectus*, a manual aiming to help less experienced issuers prepare a prospectus and conduct public offering of securities or apply for admission of securities to trading on a regulated market, thus streamlining the process of preparing prospectus documentation and having it reviewed by the KNF Board. The guide provides guidance and explanations on the rules and procedures related to the prospectus. It helps to understand how to choose the type and form of a prospectus, it explains the rules for submitting an application to the KNF Board and conducting the procedure for the approval of a prospectus, how to avoid frequent errors, and what rights and obligations will be imposed on the issuer after its approval. It also refers to the rules for drawing up the different parts of the prospectus.

### 8.2.2. ESEF (EUROPEAN SINGLE ELECTRONIC FORMAT)

The initial assumptions of EU legislation provided that issuers of securities admitted to trading on a regulated market would prepare their financial reports in the European Single Electronic Format –(ESEF), starting from the reports for 2020. On 16 February 2021, an amendment to Directive 2004/109/EC was adopted, in relation to the requirement to use a single electronic reporting format in annual financial reports. The amendment to the Directive introduced the so-called national option, on the basis of which EU Member States could postpone the application of the ESEF by one year. To that end, on 13 April 2021, *Act of 25 February 2021 amending the Banking Law and certain other laws* was published, containing provisions allowing for the postponement of the deadline for the ESEF reporting.

In 2021, work continued to allow the issuers of securities admitted to trading on a regulated market to implement the ESEF reporting. The adaptation of the ESPI to receive, technically validate and publish the annual reports prepared in the ESEF and the tests of the ESEF reporting carried out in early 2021 allowed the issuers who did not decide to use the option to postpone the deadline for the fulfilment of the above-mentioned requirement to submit their annual reports for 2020 in the new format.

By the end of the first half of 2021, reports in the ESEF for financial year 2020 were submitted by 149 issuers: 126 issuers prepared both separate annual reports and consolidated annual reports, and 23 issuers submitted separate annual reports only. Out of 126 consolidated financial statements being part of consolidated reports, prepared in the ESEF, 108 reports were validated, while only in the case of 18 reports errors were identified that required analysis to be performed by the issuer to establish the validity of the adjustment. All financial statements being part of separate annual reports were validated.

The experience gained this way should help issuers to prepare the annual reports for financial year 2021, for which the ESEF will already be the mandatory format.

### 8.2.3. PARTICIPATION IN LEGISLATIVE WORK<sup>38</sup>

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<sup>38</sup> See: Section 10.5.1 *Participation in legislative work*.

On 26 June 2021, provisions of Regulation (EU) 2019/2033 (IFR) entered into force, which regulate the area of prudential requirements for brokerage houses and superseded the relevant standards laid down in the CRR. Along with the IFR, Directive (EU) 2019/2034 (IFD) entered into force. The UKNF was actively involved in the legislative work aimed at implementing the provisions of the Directive into the Polish legal order, both the work related with the amendment to the laws and the new Regulation pertaining to the rules of risk management at brokerage houses.

In 2021, the UKNF was also actively involved in the public consultation on the draft Act amending certain laws to ensure the development of the financial market<sup>39</sup> and investor protection. As part of the proposal, the UKNF proposed amendments to:

- the Act on public offering (in relation to, among others, streamlining proceedings regarding the approval of the prospectus and the specification of the rules for the publication of securities notes, and providing the KNF Board with necessary supervisory measures applied to issuers obliged to adopt remuneration policies),
- the Act on trading (in relation to, among others, the revision of the rules and extension of the catalogue of information submitted to the KDPW register of issuer's obligations, and a package of amendments aimed at ensuring protection of clients or investors, and improving or facilitating the operation of supervised entities),
- the Act on bonds (a package of amendments aimed at enhancing protection of retail clients),
- the Act on investment funds (for example, a proposal for a new model of registration of investment certificates of non-public closed-end investment funds, restrictions on the outsourcing of investment portfolio management of investment funds, partial withdrawal of authorisation to manage alternative investment funds, merger of non-public closed-end investment funds).

The UKNF took part in the project 'New developments in the financial market', carried out within the framework of the Digital Supervisory Agenda (PL: Cyfrowa Agenda Nadzoru – CAN), aimed at preparing draft regulations which introduce into the Polish legal system the provisions of Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937 (OJ L 347 of 20 October 2020). The result of the work was a draft Act on crowdfunding for business ventures<sup>40</sup> prepared by the UKNF, which empowered the KNF Board to conduct licensing processes for crowdfunding platforms.

The UKNF was actively involved in the legislative work on amendments to the Act on occupational pension schemes<sup>41</sup> to simplify the operation of occupational pension schemes. The amendment to the above-mentioned provisions, previously proposed by the KNF Board, aimed at, among others, removing the most burdensome administrative obligations of employers running such schemes.

In line with the objectives related to the development of the financial market, the UKNF also prepared proposals for new implementing acts to the Act on investment funds and management of alternative investment funds in relation to reporting obligations of investment funds and investment fund management companies. The proposals were submitted to the Ministry of Finance and form part of the project for digital transformation of supervision, aiming to build a modern infrastructure for the collection, processing and analysis of reported data. The new infrastructure will reduce the workload related to the information requirements on the part of TFI and cut the red tape for supervised entities.

In 2021, the UKNF prepared and participated in the legislative work aimed at modifying the form of the so-called quarterly report on the sales activities of investment firms and banks

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<sup>39</sup> <https://legislacja.rcl.gov.pl/projekt/12349203>

<sup>40</sup> <https://legislacja.rcl.gov.pl/projekt/12346354>

<sup>41</sup> <https://legislacja.gov.pl/projekt/12349450>

operating pursuant to Article 70(2) of the Act on trading. The purpose of the amendments was to provide clarifications regarding the report and to provide the KNF Board with access to information which will allow for the supervision of sales activities for trading in financial instruments.

## 8.2.4. MEETINGS AND CONSULTATIONS WITH MARKET PARTICIPANTS

### 8.2.4.1. COOPERATION WITH IDM AND ZBP

In 2021, the UKNF continued a cycle of meetings with market representatives associated in the Chamber of Brokerage Houses (Izba Domów Maklerskich – IDM) and the Polish Bank Association (Związek Banków Polskich – ZBP). During 6 meetings, discussion was held about the current challenges of investment firms and their concerns as to the interpretation of laws. An open dialogue with investment firms has helped to respond effectively to market failures observed by the KNF Board, as well as to develop best solutions for investment firms.

### 8.2.4.2. COOPERATION WITH IZFIA IN REGARD TO CHANGES IN REPORTING REQUIREMENTS FOR INVESTMENT FUNDS AND TFI

In connection with proposals for new implementing acts to the Act on investment funds and management of alternative investment funds, in relation to reporting requirements for investment funds and investment fund management companies, working cooperation with the Chamber of Fund and Asset Management was launched to enable the TFI sector to become familiar with the proposed changes and to prepare effectively for consultation and review as part of the legislative process.

Those provisions are to contribute to the elimination of barriers to the development of FinTech identified by market participants, related to functional limitations and other shortcomings of the current reporting system in the investment funds market.

### 8.2.4.3. COOPERATION WITH IZFIA IN RELATION TO THE DEVELOPMENT OF STANDARDS AND CRITERIA FOR THE APPLICATION OF ESMA GUIDELINES ON PERFORMANCE FEES IN INVESTMENT FUNDS

After ESMA published its Guidelines on performance fees in UCITS and certain types of AIFs (ESMA34-39-992), representatives of the UKNF held a series of working meetings with representatives of the Chamber of Fund and Asset Management and the Depository Banks Council (Rada Banków Depozytariuszy) aiming to cooperate for the development of standards regarding the practice of applying those guidelines to domestic investment funds. The guidelines implement, at EU level, a stricter framework for variable remuneration of investment fund management companies calculated from the assets managed by the funds, so their appropriate national implementation is important to protect the interests of fund unit holders.

The standards and criteria for practical application of the guidelines, elaborated and consulted with market partners, have a positive effect on the efficiency and effectiveness of administrative proceedings concerning the authorisation to amend the statutes of investment funds with regard to the provisions governing the costs of remuneration based on the performance of the fund.



#### 8.2.4.4. CONSULTATION WITH MARKET PARTICIPANTS ON ISSUES IN THE IMPLEMENTATION OF INFORMATION OBLIGATIONS OF INVESTMENT FUNDS AND PREPARATION OF SOLUTIONS TO ELIMINATE THE ISSUES REPORTED

In connection with the emerging practical problems related to the implementation of the reporting obligations of investment funds and the quality of data submitted to the KNF Board in those reports, employees of the UKNF held many individual consultations with market participants, during which technical modifications of the mandatory report forms for investment funds and current reports of funds notifying the redemption of investment certificates were developed.

In addition, in connection with the extensive substantive scope of the funds' reporting and the emerging doubts and issues reported by market participants, the UKNF held CEDUR training seminars, during which key aspects concerning the correct methods of preparing reports were discussed<sup>42</sup>. The activities help to streamline the process of ensuring compliance with the requirements to submit reports to the KNF Board and to improve the quality of data used in supervisory analyses carried out by the UKNF until new IT solutions are implemented.

#### 8.2.5. PUBLICATION OF OFFICIAL POSITIONS

In order to ensure the proper functioning of the financial market, the UKNF issued, in 2021, positions on product governance, the risk of non-compliance of the Polish legal order with the provisions of the Regulation on European Crowdfunding Service Providers (ECSP), on the recording of contacts with clients of investment firms, and on the supervision exercised by investment firm over its agent.

##### 8.2.5.1. TRAINING SEMINAR AND POSITION ON CERTAIN ASPECTS OF THE MANAGEMENT OF RISK OF INVESTMENT FUNDS AND ALTERNATIVE INVESTMENT COMPANIES/PARTNERSHIPS

In 2021, the UKNF carried out actions to further clarify supervisory expectations regarding the practical aspects of the application of the legal provisions governing the obligations of investment fund management companies and AICMs in relation to the management of risk of investment funds and alternative investment companies/partnerships. The area is essential to ensure that the investment activities of the funds are carried out with an appropriate level of safety and caution and that the investment risk of the funds does not exceed the level which is acceptable to investors. As part of those actions:

- the employees of the UKNF conducted a CEDUR webinar for representatives of investment fund management companies and AICMs on essential theoretical and practical aspects of the functioning of risk management systems at TFIs and the conclusions from supervisory experiences<sup>43</sup>,
- the UKNF published *Position on certain aspects of the management of risk of investment funds and alternative investment companies/partnerships*. The Position is a response to the expectations of TFIs, which reported problems related with a quite vague wording of legal provisions concerning the management of the funds' risk and pointed to the need for the supervisory authority to clarify the expectations as to the application of those provisions, with regard to the operating practices of domestic investment funds.

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<sup>42</sup> See: Annex 12.7 *List of webinars organised by the UKNF as part of the CEDUR educational project in 2021*

<sup>43</sup> See: Annex 12.7 *List of webinars organised by the UKNF as part of the CEDUR educational project in 2021*

#### 8.2.5.2. INTERPRETATION OF THE SUPERVISORY AUTHORITY IN REGARD TO THE REDEMPTION OF INVESTMENT CERTIFICATES

Since it became necessary to emphasise the relevance of issues concerning the consistency between the liquidity profile of closed-end investment funds and the obligations towards unit holders with respect to the redemption of investment certificates, the UKNF submitted a supervisory interpretation of that matter to investment fund management companies, covering, for example, reduction clauses included in the funds' articles of association.

#### 8.2.6. DECISION TO ALLOW DRAWING UP A KEY INFORMATION DOCUMENT IN ENGLISH

On 3 December 2021, the KNF Board decided to allow the use of English, as a language other than the Polish language, to draw up a Key Information Document (KID) on Exchange Traded Funds (ETFs) constituting a type of packaged retail investment products (PRIPs).

#### 8.2.7. DECISIONS REGARDING MANAGEMENT BOARD MEMBERS OF INVESTMENT FUND MANAGEMENT COMPANIES

2021 marked the end of the transitional period in which investment fund management companies should obtain the consent to the appointment of members of management board responsible for the risk management system and members of management board who supervise the process of making investment decisions. In the period covered by this report, the KNF Board issued 119 final decisions (in 97 cases, approving an appointment).

## 8.2.8. KNF BOARD'S ACTIONS TOWARDS CAPITAL MARKET INFRASTRUCTURE ENTITIES

- The National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) obtained the KNF Board's authorisation to expand the activities of the central depository for securities, in accordance with the Regulation on central securities depositories (CSDR), to include the data selling. The authorisation will expand the offer of services provided by Krajowy Depozyt Papierów Wartościowych S.A. As a result of the use of the above-mentioned service, entities operating in the market will gain access to reports with data they can use to further run and expand their business.
- At the request of Krajowy Depozyt Papierów Wartościowych S.A., the KNF Board conducted proceedings in respect of approval of amendments to the Rules of National Depository for Securities which extended the list of cases in which it is possible to register securities without concluding, by the National Depository for Securities, a relevant agreement with the issuer. The amendments to the Rules proposed by Krajowy Depozyt Papierów Wartościowych S.A. were related to the adaptation of their content to the plans of Giełda Papierów Wartościowych w Warszawie S.A. (WSE) to establish a new market, i.e. Global Connect, on which foreign companies will be listed.
- At the request of Giełda Papierów Wartościowych w Warszawie S.A. (WSE), the KNF Board conducted proceedings concerning the approval of amendments to the WSE Regulations which modified the previous model of ensuring compliance with information requirements for listed companies as they are subject to the principles of corporate governance. Amendments were made to the rules of communicating the Best Practice. Companies not only must provide information about permanent non-compliance with, or incidental breach of, a principle, but also must publish comprehensive information on the application of the principles. The change thus results in the requirement for all listed companies to publish a report on the extent of application of the Best Practice. The new set of corporate governance principles – Best Practice for GWP Listed Companies 2021 – came into force on 1 July 2021.
- At the request of Giełda Papierów Wartościowych w Warszawie S.A. (GPW), the KNF Board conducted proceedings concerning the approval of amendments to the GPW Rules under which the GPW Rules were adapted so as to extend the offer of products and to launch regulated trading in derivatives and structured bank securities. The essence of those changes is that the stock market derivatives and structured bank securities issued under Polish law are now subject to the regulations applicable to structured instruments in the market maker's system, as is the case of foreign structured instruments listed on the GPW Main Market.

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

### 8.3.1. LICENSING ACTIVITIES

#### 8.3.1.1. BROKERAGE ACTIVITIES

In 2021, authorisation of one entity to conduct brokerage activities was withdrawn.

In 2021, the KNF Board issued 2 final decisions on the expansion of brokerage activities, 1 final decision on the withdrawal, at request, of authorisation to conduct brokerage activities and 5 final decisions on the approval of appointment of a president/member of management board of a brokerage house, responsible for supervising the risk management system.

The KNF Board also issued 7 final decisions to discontinue proceedings, including 1 final decision ascertaining the expiry of authorisation to conduct brokerage activities, and 5 final decisions on the approval of the appointment of a president/member of management board of a brokerage house, responsible for supervising the risk management system. 5 proceedings in respect of granting/extending authorisation to conduct brokerage activities were suspended in that period.

As at 31 December 2021, pending applications included 2 applications for authorisation to conduct brokerage activities, submitted by entities other than investment firms, 3 applications for expansion of brokerage activities, and 8 applications for the approval of the appointment of a president/member of management board, responsible for supervising the risk management system.

In 2021, 8 notifications on the intention to acquire or take up shares in brokerage houses were considered. The KNF Board did not raise objection in 3 proceedings, raised objection in 1 proceedings and issued 4 final decisions to discontinue proceedings.

In 2021, the KNF Board did not conduct any proceedings in respect of authorisation to conduct fiduciary activities.

#### 8.3.1.2. TIED AGENTS OF INVESTMENT FIRMS

As of 31 December 2021, the register of tied agents of investment firms contained entries on 264 entities, including 41 legal persons and organisational units without legal personality, and 223 natural persons.

In 2021, 15 natural persons were entered in the register of tied agents of investment firms. Pursuant to Article 79(9) point 2 of the Act on trading, the KNF Board issued 9 final decisions to remove tied agents of investment firms from the register. The KNF Board discontinued 2 proceedings in respect of entry in the register of tied agents of investment firms. 5 proceedings in respect of entry in the register of tied agents of investment firms were suspended in that period.

As at 31 December 2021, pending applications included 16 applications for entry in the register of tied agents of investment firms.

### 8.3.1.3. SECURITIES BROKERS

As at 31 December 2021, the number of licensed securities brokers was 3 231. In 2021, 57 persons were entered on the list of securities brokers.

In 2021, one exam for securities brokers was held. 175 persons took the exam and 57 persons passed it. So far, 3 408 persons have passed the examination for securities brokers. Moreover, in 2021, 1 supplementary exam for securities brokers was held, with 1 person taking part. So far, 105 persons have passed the supplementary exam for securities brokers.

### 8.3.1.4. INVESTMENT ADVISERS

As at 31 December 2021, the number of licensed investment advisers was 814. 32 persons were added to the list of investment advisers in 2021. In 2021, one investment adviser was removed from the list.

In 2021, due to the state of epidemic threat caused by COVID-19 and due to the amendments to the Regulation of the Minister of Finance of 18 May 2016 on examinations for securities brokers and investment advisers and on the competency test, which amendments changed the number and dates of exams conducted each year, the first stage of the investment adviser examination did not take place. The amendments were introduced by the Regulation of the Minister of Finance of 10 November 2021 amending the Regulation on examinations for securities brokers and investment advisers and on the competency test (Journal of Laws 2021, item 2091).

### 8.3.1.5. NOTIFICATION OF INVESTMENT FIRMS

In the period covered by this report, the KNF Board submitted to foreign supervisory authorities 10 notifications concerning the intention of an investment firm to conduct brokerage activities without opening a branch in the territory of another Member State, and accepted 5 notifications of the intention to conduct brokerage activities in the form of a branch in the territory of the Republic of Poland by a foreign investment firm. Two foreign investment firms closed their brokerage activities conducted through a branch in the Republic of Poland.

As at 31 December 2021, the KNF Board did not conduct any proceedings in respect of notification of the intention of Polish investment firms to conduct brokerage activities in the territory of other Member States.

**Table 40. Number of notified foreign investment firms at the end of the years 2018-2021**

Type of entity	2018	2019	2020	2021
Foreign investment firm – branch	15	18	17*	13

Source: UKNF

\* 31 December 2020 marked the end of the transition period related to the withdrawal of the United Kingdom from the European Union. Therefore, the existing rights resulting from the membership – the freedom to provide investment services and conduct investment activities in the territory of the EU – ceased to apply. Entities from the United Kingdom operating in Poland through a branch are not allowed to continue those operations after 31 December 2020.

**Table 41. Number of Polish investment firms which notified their intention to conduct brokerage activities outside the territory of the Republic of Poland as at the end of the years 2018-2021**

Type of entity	2018	2019	2020	2021
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Brokerage houses (number of branches)	2 (8)	2 (8)	3 (9)	3 (9)
Brokerage houses without a branch	12	11	11	11

Source: UKNF

## 8.3.2. SUPERVISORY ACTIVITIES

### 8.3.2.1. ONGOING SUPERVISION OF INVESTMENT FIRMS, CUSTODIAN BANKS AND BANKS REFERRED TO IN ARTICLE 70(2) OF THE ACT ON TRADING

The KNF Board supervises the activities of investment firms, custodian banks and banks referred to in Article 70(2) of the Act on trading, by:

- performing an analysis of current reports and periodic reports, including financial statements of brokerage houses, submitted under national laws,
- performing an analysis of current reports and periodic reports resulting from the provisions of the CRR and Commission Implementing Regulation (EU) No 680/201444 issued on its basis and following an amendment to the rules on prudential requirements for brokerage houses resulting from the provisions of the IFR,
- proceedings aimed at issuing decisions regarding the application of specific provisions of the CRR by individual brokerage houses,
- proceedings aimed at issuing decisions on the approval of recovery plans by selected brokerage houses.

The current and periodic reports are reviewed for content and timeliness of submission. If the received information raises any doubt, further correspondence is exchanged to obtain specification or additional explanations, and if any violation is identified, measures are taken to bring the supervised entities to compliance with legislation.

In 2021, the supervision over the activities of investment firms comprised an analysis of monthly reports and current reports of 37 brokerage houses, 9 banks conducting brokerage activities, custodian banks, investment firms which notified their business run in Poland through a branch, and banks referred to in Article 70(2) of the Act on trading, as well as annual financial statements for 2020, semi-annual financial statements for the first half of 2021, and reports on capital adequacy of brokerage houses. In total, the review covered over 5.2 thousand reports submitted through the Electronic Information Transfer System (ESPI). In 2021, the consolidated financial statements for 2020 and the reports on capital adequacy of brokerage houses on a consolidated basis, submitted in accordance with the provisions in force, were also analysed. Out of 37 brokerage houses indicated above, 1 brokerage houses ceased its brokerage activities in the second quarter of 2021, and 1 brokerage house commenced its brokerage activities in the fourth quarter of 2021.

Following the reviews, a number of supervisory activities were undertaken to clarify the concerns and to issue findings in the framework of the Supervisory Review and Evaluation Process, with the aim of improving the efficiency of the internal systems implemented by supervised entities and addressing the identified shortcomings.

As part of the supervision over the application, by brokerage houses, of legal regulations on capital adequacy, 13 final decisions were issued following the proceedings conducted at the request of brokerage houses. 2 interim decisions to initiate proceedings in relation to two brokerage houses were issued in connection with a suspected breach of law.

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<sup>44</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 L 191, 28.6.2014).

As part of ongoing supervision, the details of KNF-supervised entities presented on the KNF website were updated. Quarterly financial data and quarterly data on capital adequacy of brokerage houses were also published. 'Report on the financial standing of brokerage houses in 2020' was presented at the KNF Board's meeting.

The review of financial reporting shows a deterioration of the situation of the sector in 2021.

Tables 42-44 provide basic information on the sector's financial situation and capital adequacy.

Due to the entry into force on 26 June 2021 of the IFR amending the rules governing capital requirements for brokerage houses, the data on compliance with capital adequacy standards are not comparable to data from previous years.

**Table 42. Average value of own funds (in PLN million), total risk exposure amount (in PLN million), total capital ratio, requirements on own funds and own funds ratio at brokerage houses in the years 2018-2021**

Breakdown	2018	2019	2020	2021
Average level of own funds under the CRR	39.30	38.80	44.64	
Average total risk exposure amount	127.14	155.19	162.99	
Total capital ratio (the minimum level: 8%)	30.91%	25.00%	27.39%	
Average level of own funds under the IFR				46.40
Average own funds requirements				14.85
Own funds ratio (the minimum level: 100%)				312.53%

Source: UKNF

The data come from quarterly COREP reports as at 31 December 2018, 31 December 2019, 31 December 2020, and reports of the Institute of Finance (IF reports) as at 31 December 2021.

The data take into account the changing number of brokerage houses operating in the years 2018-2021.

**Table 43. Selected data from the balance sheets of brokerage houses (in PLN million) for the years 2018-2021**

Balance sheet	2018	2019	2020	2021
<b>BALANCE SHEET TOTAL</b>	<b>6 618.35</b>	<b>6 531.91</b>	<b>9 845.46</b>	<b>14 274.15</b>
Assets – cash	4 437.24	4 207.57	6 325.42	9 252.26
Assets – receivables	1 434.85	1 658.55	2 358.93	3 734.87
Assets – financial instruments	554.64	492.87	994.75	1 077.99
Liabilities	4 837.71	4 992.75	7 798.07	12 159.36
Equity	1 780.64	1 539.16	2 047.39	2 114.79

Source: UKNF

The data for 2018 and 2020 come from audited financial statements.

As a rule, the data for 2019 come from audited financial statements, except for preliminary data of 2 brokerage houses which ceased their operations in 2020.

The data for 2021 come from monthly MDF reports as of 31 December 2021.

The data do not include data of a brokerage house whose financial year does not coincide with the calendar year.

The data take into account the changing number of brokerage houses operating in the years 2018-2021.

**Table 44. Selected data from the profit and loss account of brokerage houses (in PLN million) in the years 2018-2021**

Profit and loss account	2018	2019	2020	2021
Total revenues, including:	1 157.07	867.61	1 715.21	1 722.75
– revenue from brokerage activities	569.90	401.45	571.01	647.79
– revenue from financial instruments held for trading	391.81	330.05	984.72	872.70
Total costs, including:	962.94	820.38	1 016.80	1 239.40
– costs of brokerage activities	857.36	725.07	891.49	1 064.77
Net financial result	155.30	18.93	562.32	393.21

Source: UKNF

The data for 2018 and 2020 come from audited financial statements.

As a rule, the data for 2019 come from audited financial statements, except for preliminary data of 2 brokerage houses which ceased their operations in 2020.

The data for 2021 come from monthly MDF reports as of 31 December 2021.

The data do not include data of a brokerage house whose financial year does not coincide with the calendar year.

The data take into account the changing number of brokerage houses operating in the years 2018-2021.

### 8.3.2.2. SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) FOR BROKERAGE HOUSES

The SREP methodology for evaluating brokerage houses in 2021 was prepared. In the period covered by this report, supervisory ratings were assigned to brokerage houses. The evaluation covered 35 brokerage houses. Due to the epidemic situation related to the spread of COVID-19 and due to the entry into force of new regulations on capital requirements for brokerage houses, special rules on the 2021 SREP were introduced in June 2021. All brokerage houses were subject to evaluation in a simplified formula based on analysis of information provided by brokerage houses in the fulfilment of information requirements resulting from legislation and information received from brokerage houses relating to acting on the findings of the previous SREP. The evaluation was carried out as at 31 December 2020.



The Report on the Supervisory Review and Evaluation Process (SREP) for Brokerage Houses in 2020 was presented at the KNF Board's meeting.

## 8.3.3 INSPECTION ACTIVITIES

### 8.3.3.1. INSPECTIONS AT BROKERAGE HOUSES, TIED AGENTS OF INVESTMENT FIRMS, AND BANKS REFERRED TO IN ARTICLE 70(2) OF THE ACT ON TRADING

2021 saw the conclusion of 7 inspections initiated in 2020, and 8 other inspections were conducted until 31 December 2021. Given the requirements imposed during the state of epidemic, the inspections in 2021 were conducted mainly using electronic means of communication.

In 2021, the inspections at entities:

- were targeted inspections covering issues related with activities of licensed investment firms in the territory of the Republic of Poland and the banks referred to in Article 70(2) of the Act on trading, and the financial situation of brokerage houses,
- looked at the facts in relation to laws, internal regulations and agreements with clients,
- reviewed the entities' models of providing brokerage services, including in cooperation with tied agents of investment firms and with third parties,
- were aimed at finding out whether the entity acts in the best interest of the client, and how it is ensured.

At the entities under inspection in 2021, the evaluation covered the following areas:

- providing the services of acquisition and disposal of financial instruments on one's own account, including in the execution of clients' orders,
- providing the services of financial instruments portfolio management, including in terms of identification and management of conflicts of interest related with the concurrent provision of the service of offering financial instruments,
- providing the service of offering financial instruments, taking into account the evaluation of the issuer, the reliability of preparing securities notes, and cooperation with other entities when searching for investors,
- providing the service of acceptance and transmission of orders, including those related to the service of offering financial instruments,
- preparing and performing the classification by target group and defining the distribution strategy in connection with the product governance requirement,
- recording the activities performed towards clients in relation to providing brokerage services, also as part of direct contacts with customers,
- training and qualifying authorised employees and supervision over unauthorised employees,
- informing the customer about the costs and fees on an *ex ante* and *ex post* basis,
- accepting and giving 'incentives',
- performing activities by a tied agent of an investment firm,
- supervision exercised by an investment firm over its tied agent,
- the method of performing the function of issuing agent,
- the financial situation of brokerage houses, including proper performance of reporting obligations.

In addition to that, inspections covered the following areas of activity:

- the organisational structure and technical conditions,
- independence of statutory bodies,
- the 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 activities by a bank conducting brokerage activities at a separate organisational unit,
- performance of brokerage activities in connection with the provision of brokerage services,
- performance of the activities referred to in Article 70(2) of the Act on trading,

- rules of conduct in relations with clients,
- cooperation with an external entity providing bookkeeping and accounting services.

The scope of inspections carried out in 2021 depended each time on the model and size of the business, and took into account the events and developments in the capital market in relation to brokerage services.

The inspections also covered a review of how and to what extent the entities under inspection complied with:

- UKNF’s Position of 16 February 2021 on product governance,
- UKNF’s Position of 11 August 2021 on the supervision exercised by investment firm over its agent,
- UKNF’s Position on accepting and giving ‘incentives’ in connection with the provision of services of acceptance and transmission of orders pertaining to participation units in investment funds, of 21 December 2018, including the supplement of 20 December 2019,
- UKNF’s Position of 14 February 2020 on selected aspects of investment advisory services provided by investment firms and banks referred to in Article 70(2) of the Act,
- ESMA Guidelines on certain aspects of the MiFID II suitability requirements (ESMA35-43-1163),
- ESMA Guidelines on MiFID II product governance requirements (ESMA 35-43-620).

**Table 45. Selected irregularities identified during inspection activities in 2021 in the area of organisational structure, functioning and technical conditions for the operation of investment firms and banks referred to in Article 70(2) of the Act on trading, financial reporting and capital adequacy of brokerage houses**

<b>Organisational structure, functioning and technical conditions for the operation of investment firms and banks referred to in Article 70(2) of the Act on trading, financial reporting and capital adequacy of brokerage houses</b>	
1.	Keeping a list of persons who have access to confidential information in violation of provisions of law.
2.	Failure to develop remuneration policies and practices of the persons involved taking into account appropriate quality criteria reflecting compliance with the relevant legislation, fair treatment of customers and quality of services provided to customers.
3.	Failure to take notes from each conversation held in the presence of the client or potential client in connection with the activities performed in relation with the brokerage service.
4.	Failure to assign, in writing, the tasks and rights defined by the investment firm to authorised employees.
5.	Failure by the investment firm to ensure the integrity of the accounting and financial reporting systems and their compliance with the law and relevant standards.

Source: UKNF

**Table 46. Selected irregularities identified during inspection activities in 2021, in the area of the procedure and conditions of dealing with clients or potential clients of investment firms and banks referred to in Article 70(2) of the Act on trading**

Conduct in relations with the client	
1.	Improper definition of basic contractual rights and obligations of the clients.
2.	Failure to provide the client, before commencing the provision of brokerage services, with a general description of the nature of, and risks arising from, financial instruments, and <i>ex ante</i> information about the costs and fees on a durable medium.
3.	Failure to provide the client or potential client with information on changes in the risks arising from cross-selling compared to the risks that would arise from particular services if such services were provided under separate contracts.
4.	Implementation of solutions that fail to ensure that the client acquires financial instruments corresponding to the client's needs, characteristics and objectives defined for a given target group.
5.	Failure to provide the client with personalised information on the amounts of incentives adopted on account of activities performed to improve the quality of the services of acceptance and transmission of orders.

Source: UKNF

**Table 47. Selected irregularities identified during inspection activities in 2021 in the area of organisational structure, functioning and technical conditions for the operation of investment firms and banks referred to in Article 70(2) of the Act on trading**

Provision of brokerage services	
1.	Performance of banking activities referred to in Article 69(2) of the Act on trading, pursuant to Article 70(2) of the Act on trading, without the KNF authorisation to amend the articles of association of a bank in that respect.
3.	Incorrect use of the compensatory account, i.e. using it to recognise correctly submitted and executed client orders.
4.	Failure, by a bank referred to in Article 70(2) of the Act on trading, to undertake adequate activities to obtain the best possible results for the client in connection with the execution of an order, taking into account in particular the price of the financial instrument, and the costs associated with the execution of the order.
5.	Collection of monetary benefits that do not meet the conditions for being recognised as benefits aimed at improving the quality of the relevant service provided to the client or potential client, including the conclusion of contracts for offering services with investment fund management companies that allow the investment firm to accept monetary benefits in the form of a portion of the asset management fee, in connection with activities other than offering financial instruments (including those related to the provision of the service of acceptance and transmission of orders to acquire or dispose of financial instruments to its clients).
6.	Conclusion of contracts for brokerage services through entities other than an investment firm or tied agent.

Source: UKNF

**Table 48. Selected irregularities identified during inspections in 2021 in the area of activities of tied agents of investment firms and the firms' supervision over such activities**

Activities of tied agents of investment firms and the firms' supervision over such activities	
1.	Improper authorisation of a tied agent of an investment firm to act on the firm's behalf.
2.	Failure by employees of tied agents to prepare, or incorrect preparation of, notes from conversations held in the presence of the client in connection with the performance of the entrusted tasks, and failure to impose on the employees the obligation to

	record phone calls concerning the activities that could result in the provision of brokerage services, including calls made from private phones.
3.	Failure by an investment firm to ensure that the tied agents apply the rules on authorisation of employees and the rules on performing work under supervision.
4.	Failure by an investment firm to ensure that the rules on remuneration for the performance of entrusted tasks apply to employees of the tied agent, or a situation where the remuneration of the tied agent is determined predominantly according to qualitative commercial criteria, and failure to fully consider the appropriate qualitative criteria reflecting the compliance with relevant regulations, proper treatment of clients, and the quality of services provided to them.
5.	Failure to develop, implement and apply appropriate measures to manage conflicts of interest, including measures of identification and prevention of such conflicts with regard to hiring (the employees of the tied agent), including due to possible cross-employment of such employees.

Source: UKNF

Following inspections, post-inspection recommendations were issued for the inspected entities. For some of the supervised entities, as at 31 December 2021, a further examination was conducted in respect of initiation of administrative proceedings to impose a financial penalty due to identification of breaches of laws and/or notification of a suspected criminal offence.

## 8.4. ENTITIES IN THE MARKET OF INVESTMENT FUNDS AND ALTERNATIVE INVESTMENT COMPANIES/PARTNERSHIPS

### 8.4.1. LICENSING ACTIVITIES

In 2021, the KNF Board issued 97 final decisions approving the appointment of members of management board who supervise the risk management system and investment decisions at investment fund management companies.

In 2021, the KNF Board issued 1 permission for an investment fund management company to pursue its business activity for VIG/C-QUADRAT Towarzystwo Funduszy Inwestycyjnych S.A.

In 2021, the KNF Board issued:

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

In 2021, as regards the investment funds sector, the KNF Board issued 47 final decisions on the establishment of public closed-end investment funds and the approval of prospectuses, the amendment to articles of association of closed-end investment funds and the approval of prospectuses and annexes/supplements to prospectuses, including:

- 4 final decisions approving prospectuses of investment certificates issued by newly established public closed-end investment funds,
- 4 final decisions approving prospectuses of investment certificates issued by funds converted to public closed-end investment funds,
- 9 final decisions approving prospectuses of investment certificates issued by existing public closed-end investment funds,
- 30 final decisions approving annexes/supplements to prospectuses for investment certificates issued by public closed-end investment funds.

In 2021, 2 final decisions on the withdrawal of authorisation to pursue business by the following investment fund management companies were upheld:

- SATURN Towarzystwo Funduszy Inwestycyjnych S.A.
- FinCrea Capital Towarzystwo Funduszy Inwestycyjnych S.A.

In 2021, 18 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 2021, the supervisory authority issued 312 final and interim decisions relating to the entities of the investment fund market. The number and subject-matter of the resolutions of the KNF Board as well as final and interim decisions issued on the basis of KNF authorisation in 2021 are shown in Tables 12.1.1 and 12.1.2. respectively, in Annex 12.1.

In 2021, 5 interim decisions to institute *ex officio* proceedings or to extend the scope of proceedings under Article 13 of the Act on capital market supervision were issued.

#### 8.4.1.1. ACQUISITION OR TAKING UP OF SHARES AND/OR RIGHTS ATTACHED TO SHARES

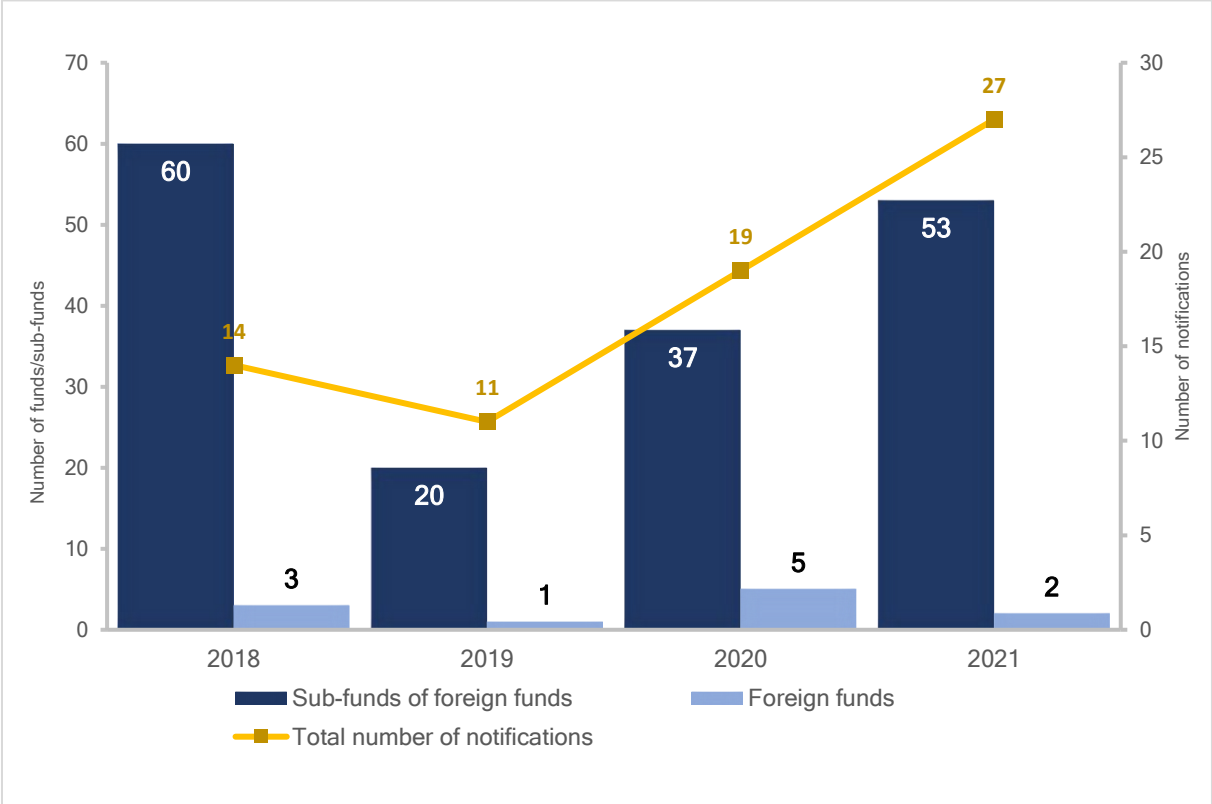
In 2021, 6 notifications of the intention to acquire or take up shares of an investment fund management company were considered. In 4 cases, a decision was made not to object to the intention to acquire or take up shares of an investment fund management company and to set a date within which the acquisition or take-up may take place, and in 2 cases a decision was made to discontinue the administrative proceedings.

As at 31 December 2021, 4 proceedings regarding notification of the intention to acquire or take up shares of an investment fund management company were still pending. Compared to 2019 and 2020, 2021 saw a further increase in the number of notifications of the intention to acquire or take up shares of an investment fund management company.

#### 8.4.1.2. CROSS-BORDER ACTIVITY

In 2021, the KNF Board received, by e-mail, 27 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 53 new sub-funds of foreign funds. For comparison, in 2020, 19 complete notifications concerning 5 new foreign funds and 37 sub-funds of foreign funds were received.

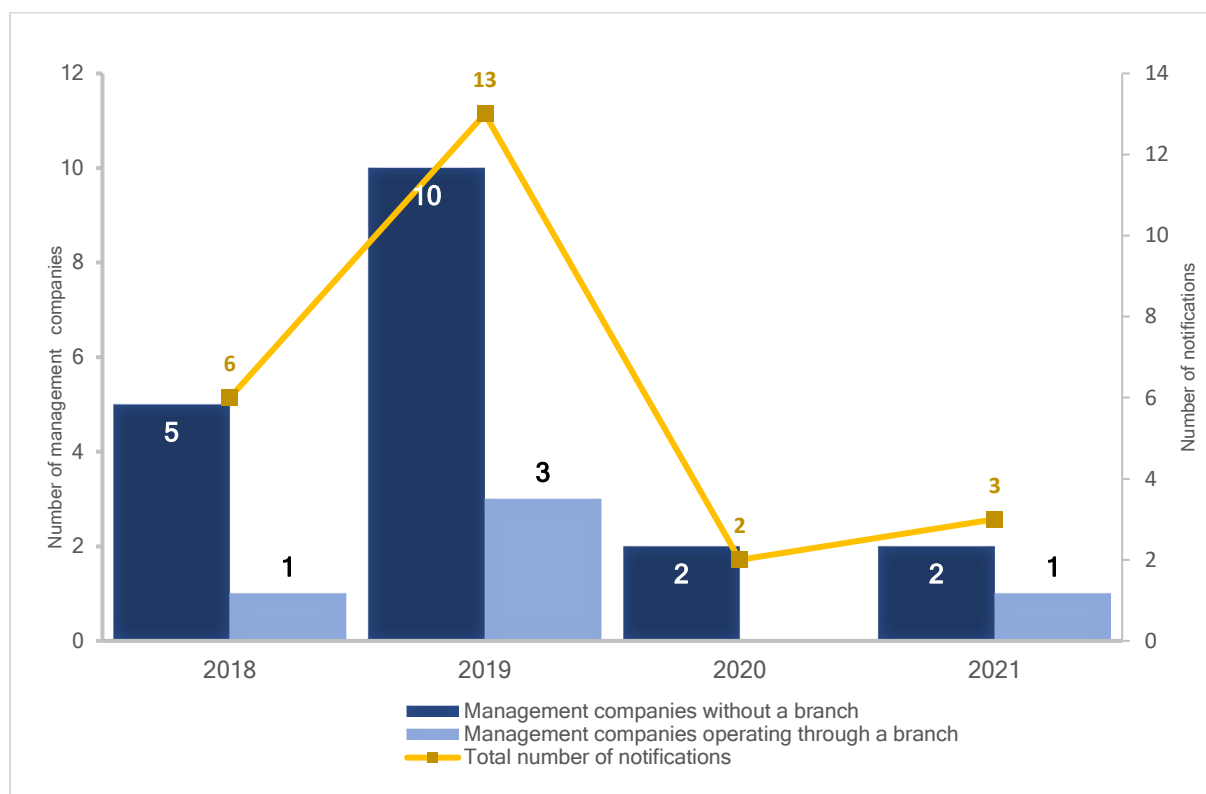
**Diagram 32. UCITS investment funds (foreign funds) in the years 2018-2021 (as at 31 December of each year)**



Source: UKNF

In 2021, the KNF Board received 2 notifications from management companies (managers of UCITS funds) intending to operate in the territory of the Republic of Poland under the freedom to provide services (i.e. without establishing a branch) and 1 notification of a management company intending to operate in the territory of the Republic of Poland through a branch. For comparison, in 2020, the KNF Board received 2 notifications from management companies of their intention to operate in the territory of the Republic of Poland under the freedom to provide services. No management company notified its intention to operate in the territory of the Republic of Poland through a branch.

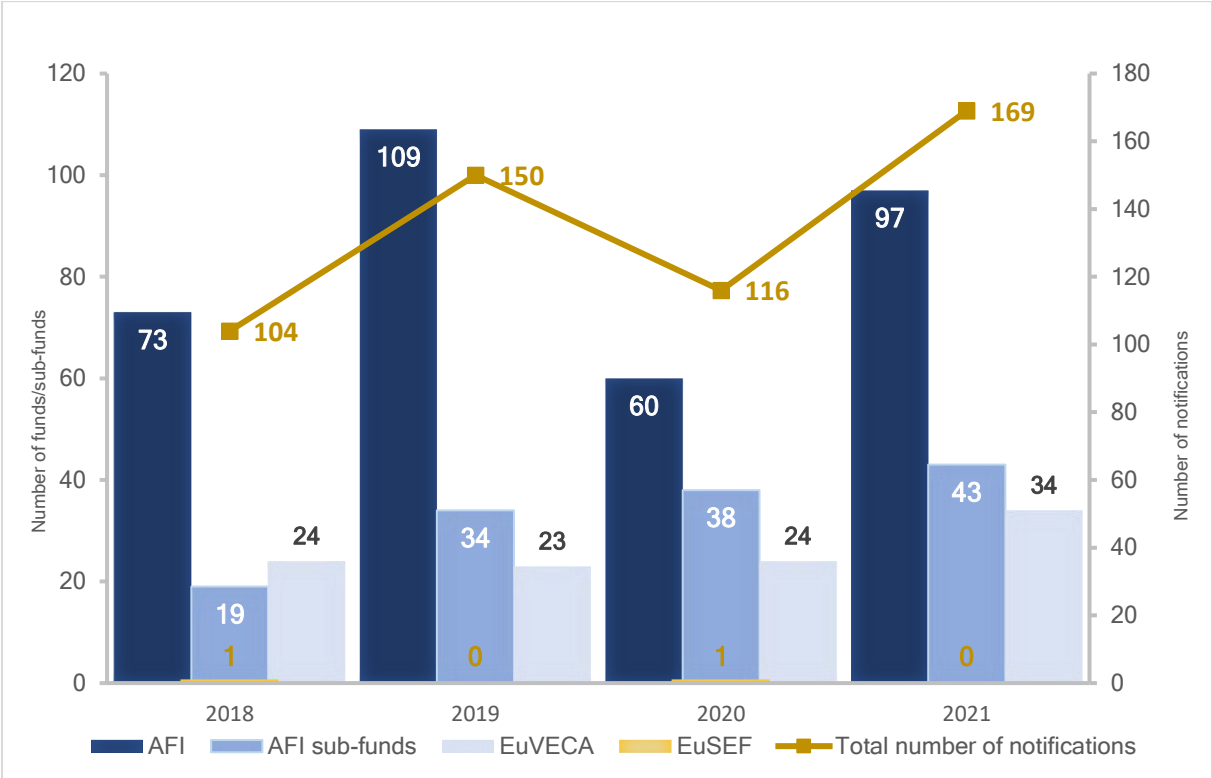
**Diagram 33. Management companies in the years 2018-2021 (as at 31 December of each year)**



Source: UKNF

As regards alternative investment funds (i.e. non-UCITS funds) with their registered office in an EU Member State other than the Republic of Poland, the KNF Board received, in 2021, 169 complete notifications of the intention to market in the territory of the Republic of Poland 97 alternative investment funds, 43 sub-funds of alternative investment funds, and 34 European venture capital funds (EuVECA), and there was no notification concerning European social entrepreneurship funds (EuSEF). For comparison, in 2020 the KNF Board received 116 complete notifications of the intention to market in the territory of the Republic of Poland 60 alternative investment funds, 38 sub-funds of alternative investment funds, 24 European venture capital funds (EuVECA) and 1 European social entrepreneurship fund (EuSEF).

**Diagram 34. Alternative investment funds AFI, EuVECA, EuSEF in the years 2018–2021 (as at 31 December of each year)**



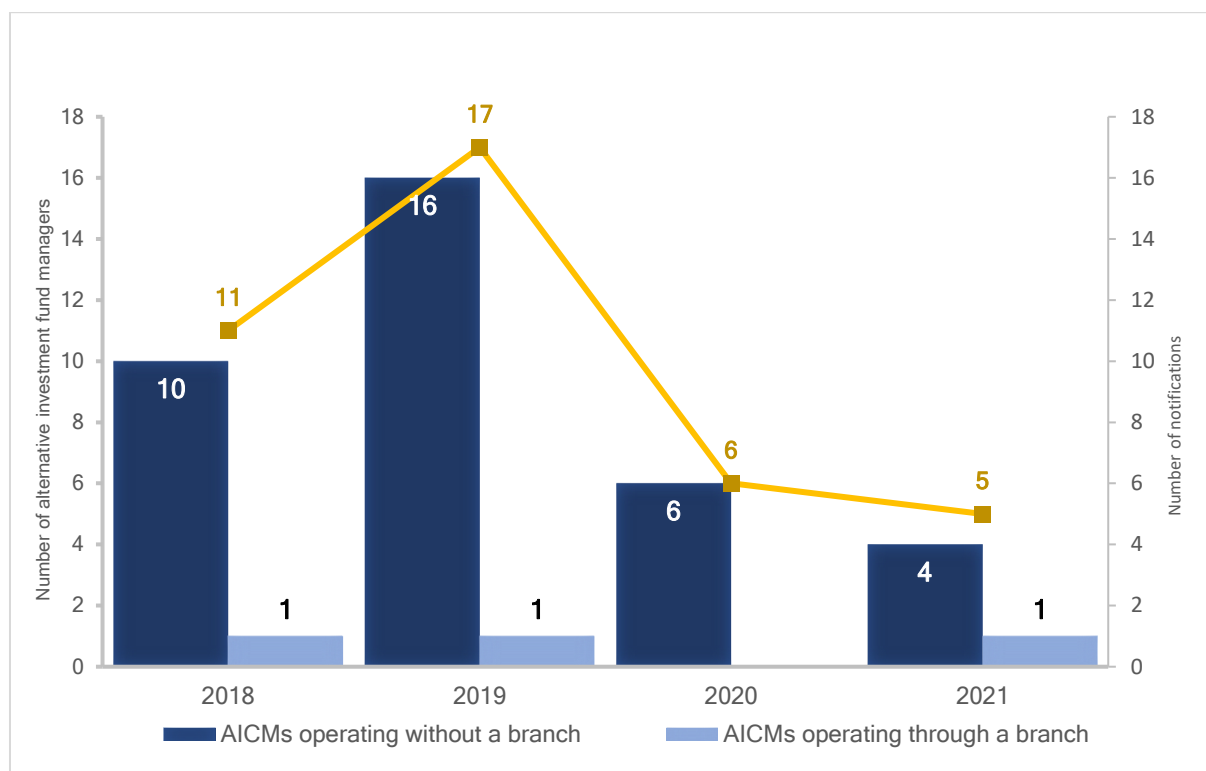
Source: UKNF

In 2021, the KNF Board received 73 complete notifications of the intention to carry out pre-marketing activities to admit an EU AIF to trading in the territory of the Republic of Poland, concerning 76 alternative investment funds and 7 European venture capital funds (EuVECA).

Moreover, in 2021, the KNF Board received notifications from 4 alternative investment fund managers based outside the Republic of Poland of their intention to operate in the territory of the Republic of Poland without a branch and 1 notification from an alternative investment fund manager based outside the Republic of Poland of its intention to operate in the territory of the Republic of Poland through a branch. For comparison, in 2020, there were 6 notifications of the intention to operate without a branch.



**Diagram 35. Alternative investment fund managers in the years 2018–2021 (as at 31 December of each year)**



Source: UKNF

In 2021, the KNF Board received 1 notification from an investment fund management company intending to operate in territory of an EU Member State other than the Republic of Poland, i.e. Lithuania and Latvia. For comparison, in 2020, there were no notifications from investment fund management companies of their intention to operate in the territory of an EU Member State other than the Republic of Poland or notifications of the intention to admit the funds being managed into trading outside the Republic of Poland.

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

In 2021, the KNF Board entered 83 entities in the Register of AICMs, and removed 9 AICMs from the Register. In the period covered by this report, the KNF Board did not issue any authorisation to operate as an AICM.

As at 31 December 2021, since the UKNF commenced its supervision of AICMs, i.e. since 2016, it has received a total of 483 applications, including 446 applications for entry in the Register of AICMs, 1 application for authorisation to operate as an AICM, 8 applications for a review of a case concluded with the KNF Board's final decision on the refusal to make an entry in the Register of AICMs, and 19 applications for removal from the Register of AICMs.

**Table 49. Number of applications received by the KNF Board in the years 2018-2021**

Type of applications	2018	2019	2020	2021	2018-2021
Applications for entry in the Register of AICMs	73	40	51	101	265
Applications for a review of a case	6	1	0	0	7

Applications for authorisation to operate as an AICM	0	0	0	0	0
Applications for removal from the Register of AICMs	0	0	3	12	15
<b>Total</b>	<b>79</b>	<b>41</b>	<b>54</b>	<b>113</b>	<b>287</b>

Source: UKNF

In 2021, with regard to the market of alternative investment companies/partnerships, the KNF Board issued 23 final and interim decisions, including:

- 1 final decision on the refusal to enter a company in the register of AICMs,
- 8 final decisions to discontinue proceedings in respect on entry in the Register of AICMs,
- 9 final decisions on the removal of an AICM from the Register of AICMs,
- 2 interim decisions in respect of initiation of *ex officio* proceedings for removal from the Register of AICMs,
- 2 interim decisions on the refusal to issue a certificate of entry in the Register of AICMs,
- 1 interim decision on the resumption of suspended proceedings in respect of entry in the Register of AICMs.

2021 marked mainly the performance, by the KNF Board, of tasks related to the review of applications for entry in the Register of AICMs. Analytical activities continued in relation to the legal and factual aspects of the functioning of AICs and AICMs, including in particular the issues raised by capital market participants. In 2021, in relation to previous years, more entities were removed from the Register of AICMs due to their liquidation or inactivity.

In addition, in 2021, as a consequence of the significant number of entries made in the Register of AICMs in previous years, intensive efforts were made in connection with the verification of the reporting obligations of AICMs for 2020.

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

Under Article 32(2) of the Act on investment funds, participation units in 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 Republic of Poland.

As of 31 December 2021, the list of distributors of participation units and/or shares authorised by the KNF Board included 68 entities.

In the period covered by this report, the KNF Board issued 1 authorisation for mediation in the disposal and repurchase of participation units in investment funds and/or shares of foreign funds and 3 final decisions ascertaining the expiry of a final decision to grant authorisation to conduct the activities in question.

### 8.4.2. SUPERVISION OF COLLECTIVE INVESTMENT INSTITUTIONS

#### 8.4.2.1. INVESTMENT FUND MANAGEMENT COMPANIES AND INVESTMENT FUNDS

The supervisory activities of the KNF Board 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.

**Table 50. Number of reviewed current and periodic reports of investment funds and investment fund management companies and information from depositaries in the years 2018-2021**

Type of report/information	2018	2019	2020	2021
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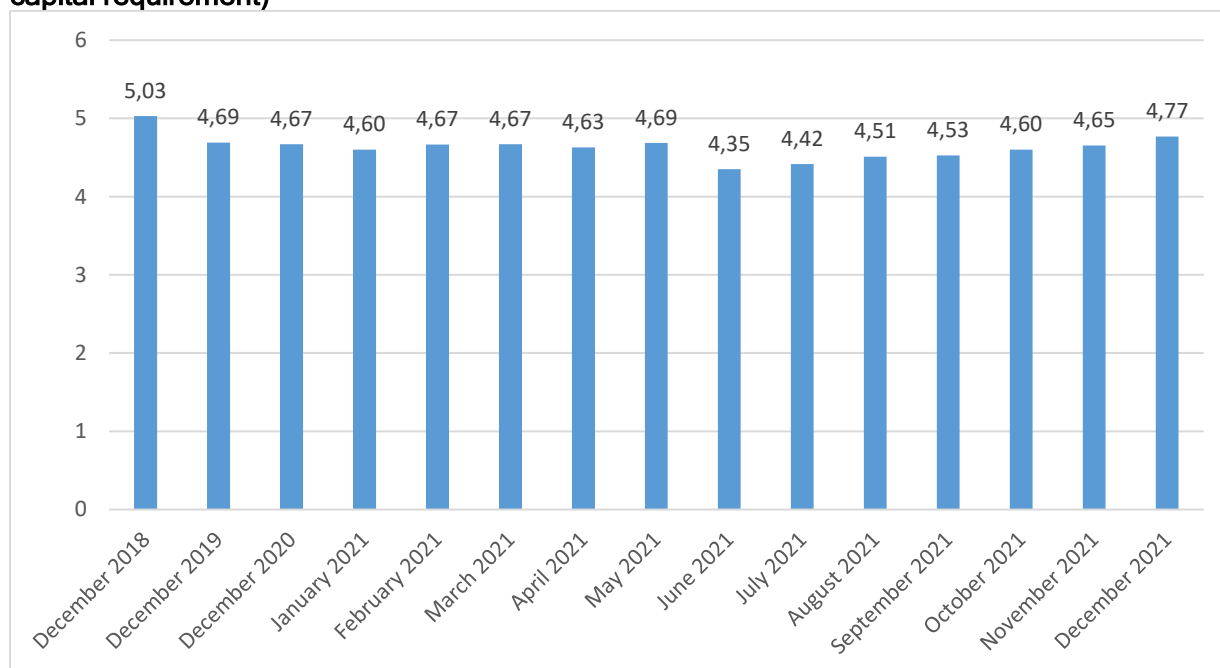
Current and periodic reports of investment fund management companies	5 990	4 746	6 452	7 640
Current and periodic reports of investment funds	29 072	24 588	23 208	18 547
Information from depositaries	4 506	4 135	5 513	3 995
<b>Total</b>	<b>39 568</b>	<b>33 469</b>	<b>35 173</b>	<b>30 182</b>

Source: UKNF

The current and periodic reports are reviewed for content and timeliness of submission. If the received information is incomplete or raises any doubt, further supervisory correspondence is exchanged to obtain specification or additional explanations. Information on the situation of supervised entities was also the subject of correspondence between particular organisational units of the UKNF, thus enabling appropriate action to be taken in accordance with the substantive remit of the departments.

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

**Diagram 36. Average value of the capital requirement coverage ratio of investment fund management companies at the end of the years 2018-2020 and in 2021 (equity/minimum capital requirement)<sup>45</sup>**



Source: UKNF

From January to May 2021, the average value of the minimum capital requirement of the investment fund management companies sector ranged from 4.6 to 4.7. In June, the ratio decreased due to payments of dividends made by investment fund management companies from profits for 2020. In the second half of 2021, the average coverage of the capital requirement increased again.

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

- Report on the financial standing of investment fund management companies in 2020,
- Report on the SREP for investment fund management companies in 2020,
- Information on the assumptions concerning the position of the supervisory authority on the dividend policy of investment fund management companies in 2022.

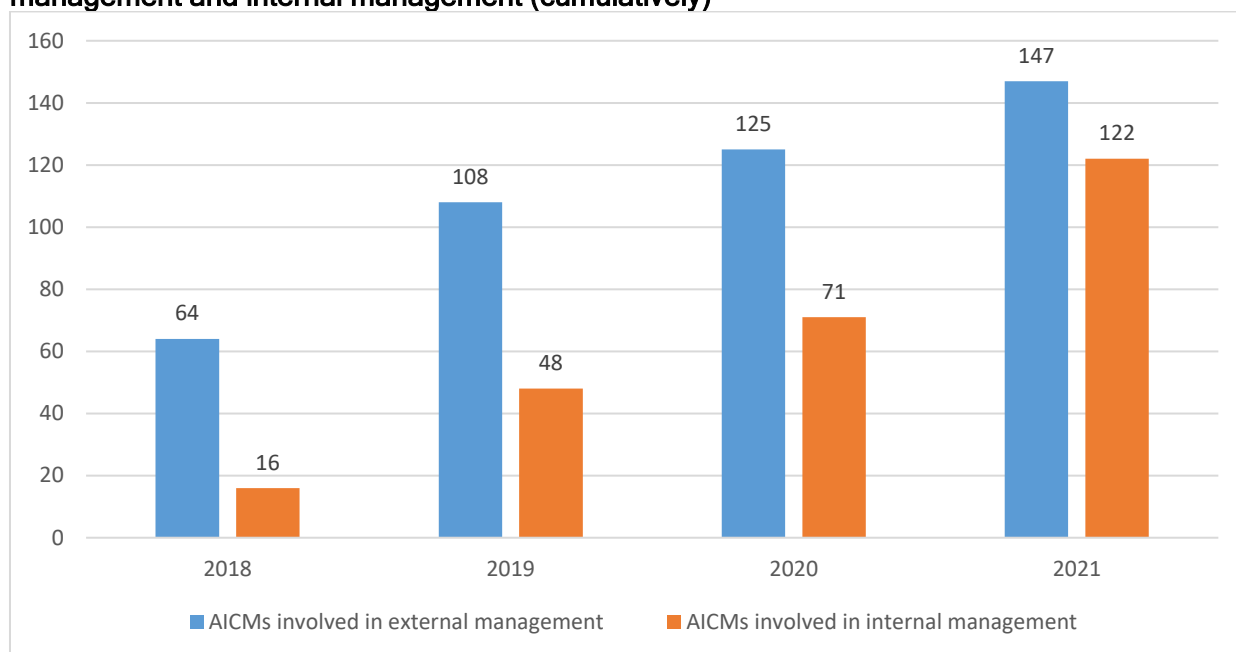
#### 8.4.2.2. ALTERNATIVE INVESTMENT COMPANIES/PARTNERSHIPS (AICs) AND ALTERNATIVE INVESTMENT COMPANY/PARTNERSHIP MANAGERS (AICMs)

As at 31 December 2021, 269 entities operated in the capital market as an AICM, including 268 entities based on an entry in the Register of AICMs (AICMs involved in external management and AICMs involved in internal management) and one entity – based on authorisation to operate as an AICM, as an AICM involved in internal management.

All KNF-supervised entities operating as AICMs were entered in the Register of AICMs or obtained authorisation in the years 2017-2021. It should be noted that the entry in the Register of AICMs is a substantive and technical act, which does not require any binding administrative act (e.g. a final administrative decision).

<sup>45</sup> Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so the information included therein may be subject to subsequent corrections.

**Diagram 37. Number of AICs operating as AICMs in the years 2018-2021 by external management and internal management (cumulatively)**



Source: UKNF

\* Internal management (a self-managed AIC) refers to one entity which is both an AICM and an AIC.

In 2021, the KNF Board entered 83 entities in the Register of AICMs, including 29 AICMs involved in external management and 54 AICMs involved in internal management. It also removed 10 entities from the Register of AICMs.

#### 8.4.2.3. AICMs OPERATING ON THE BASIS OF AN ENTRY IN THE REGISTER OF AICMs

The AICMs operating on the basis of an entry in the Register of AICMs are obliged to submit annual reports on their investment activities separately – for the AICM and for each of the alternative investment companies/partnerships they manage by 31 January of the year following the year for which the report is submitted.

Since those entities are required to submit periodic reports of AICMs annually, as at 31 December 2021 the KNF Board had the data concerning the value of assets managed by AICMs for 2020. The data concerning the value of assets managed by AICMs for 2021 should be submitted by 31 January 2022.

For comparison, as at 31 December 2020, the value of assets managed by AICMs entered in the Register of AICMs was PLN 2.3 billion, of which PLN 906 million was managed by AICMs involved in external management and PLN 1.4 billion by AICMs involved in internal management.

As at 31 December 2021, the value of assets managed by AICMs entered in the Register of AICMs, determined on the basis of correct reports of AICMs, was PLN 5.67 billion, of which the assets worth PLN 4.13 billion were managed by AICMs involved in internal management and the assets worth PLN 1.54 billion were managed by AICMs involved in external management. These data show that compared to 2020, the value of assets managed increased by 143%. This results from an increase in the number of entities entered in the Register of AICMs in 2021 and from the expansion of investment activities of the entities entered in previous years. The

entities that failed to comply with the requirement to submit the report received a request to supplement the report for 2021<sup>46</sup>.

**Table 51. Value of assets managed by AICMs in the years 2018-2021**

Value of assets managed by AICMs (in PLN million)	2018	2019	2020	2021
AICMs involved in external management	89.07	480.58	906.02	1 535.39
AICMs involved in internal management	82.17	400.70	1 427.52	4 130.76
<b>Total</b>	<b>171.24</b>	<b>881.28</b>	<b>2 333.54</b>	<b>5 666.15</b>

Source: UKNF

#### 8.4.2.4. AICMs OPERATING ON THE BASIS OF AN AUTHORISATION TO OPERATE AS AN AICM

In the Polish market, there is one entity which obtained the KNF Board's authorisation to operate as an AICM involved in internal management.

Periodic reports of licensed AICMs include:

- monthly reports,
- annual financial statements.

As at 31 December 2021, the value of assets managed by an AICM operating on the basis of an authorisation was PLN 2.2 billion.

#### 8.4.2.5. SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) FOR INVESTMENT FUND MANAGEMENT COMPANIES (PL: TFI)

In 2021, as in 2020, due to the ongoing COVID-19 pandemic, a decision was made to conduct the SREP for investment fund management companies for 2020 in a simplified form. 56 investment fund management companies were subject to the SREP.

#### 8.4.3. INSPECTIONS AT INVESTMENT FUND MARKET ENTITIES

In the period covered by this report, 14 inspections were commenced, conducted or completed, including 9 inspections at investment fund management companies and investment funds managed by them, 3 inspections at entities managing the securitised loans of securitisation funds, and 2 inspections at depositaries.

**Table 52. Selected irregularities identified during inspection activities in 2021**

Investment fund management companies and investment funds managed by them	
1.	The company was not exercising proper supervision over a manager of securitised receivables.
2.	Long-term exceedance of statutory investment limits and failure to ensure compliance of the portfolio composition with internal risk limits.
3.	The company was not engaged in ongoing supervision of the fund's process of managing the investment portfolio, i.e. the company: <ul style="list-style-type: none"> <li>– accepted the circumstances in which the fund paid for the shares of the companies being acquired, but took them up with considerable delay,</li> </ul>

<sup>46</sup> The value of the assets was determined on the basis of the reports submitted by 80.6% of all AICMs required to submit the report for 2021.

	<ul style="list-style-type: none"> <li>– authorised an investment of the fund’s resources in assets excluded under the fund’s articles of association,</li> <li>– was not overseeing the method of using the resources invested by the fund.</li> </ul>
4.	The company failed to keep proper records of the sources of investment decisions. Irregularities concerning combined orders.
5.	Key information documents for investors: <ul style="list-style-type: none"> <li>– showed an incorrect indicator of the costs of portfolio transactions,</li> <li>– did not describe the risk that was not considered by the indicator,</li> <li>– the ongoing charges for the purpose of the KID and the overall risk indicator were calculated incorrectly.</li> </ul>
6.	The company failed to ensure that unit holders could exercise their right to redemption of investment certificates, and a 100% reduction of the redeemed certificates was made.
<b>Managers of securitised claims of a securitisation fund</b>	
1.	An entity under inspection, as a party obliged, under a contract, to document the sources of investment decisions, did not have any formal documentation concerning requests for a quote and offers to acquire a portfolio of claims from other bidders, which were subsequently the subject-matter of an assignment contract between the funds under inspection, with the result that the process of seeking a buyer for those claims was not transparent or properly recorded and might have led to a situation where the acquisition price of the fund’s assets actually paid did not reflect their maximum value that another entity would be willing to pay for them.
2.	A manager of securitised receivables failed to implement a procedure for preventing conflicts of interest provided for in provisions of law, or a procedure for managing securitised claims that would take into account the assumptions for the process of updating the recovery and cost estimates in the case of material deviations in actual performance in relation to the recovery and cost estimates.
3.	Running a business in a manner which fails to secure the interests of securitised fund unit holders.
<b>Entities acting as depositary of an investment fund</b>	
1.	The depositary did not define, in internal regulations, the value of financial flows it deemed material, or failed to perform the periodic annual review of the procedure for monitoring cash flows.

Source: UKNF

In 2021, post-inspection recommendations were issued for 11 supervised entities. The implementation of post-inspection recommendations for 15 supervised entities was verified.

## 8.5. PENSION SECTOR ENTITIES

### 8.5.1. LICENSING ACTIVITIES

#### 8.5.1.1. PENSION FUNDS AND PENSION SOCIETIES

In the context of licensing functions, administrative proceedings were conducted in the pension market which resulted in 79 final administrative decisions. In addition, 2 interim decisions were issued in relation to pension market entities. The number and subject-matter of the final and interim decisions are presented in Table 12.1.1 and Table 12.1.2 in Annex 12.1.

#### Take-over of management of target-date voluntary pension funds

It is necessary to note the first consolidation of institutions offering employee capital plans (PPK) on the pension market, i.e. a take-over of management, and then a merger of 8 target-date funds operated by Aegon PTE S.A. with funds run by Pocztylion-Arka PTE S.A.

#### 8.5.1.2. OCCUPATIONAL PENSION SCHEMES (PPE)

In the period covered by this report, the UKNF identified:

- a decrease of over 87% in the number of applications for entry of a scheme in the register (32 applications in 2021 and 252 applications in the previous year),
- a decrease of nearly 2% in the number of applications for entry of changes to a scheme in the register (199 applications in 2021 and 202 applications in the previous year),
- a decrease of nearly 16% in the number of applications for removal of a scheme from the register (including the applications for removal of an annotation on the employer's participation in the inter-company scheme) (49 applications in 2021 and 58 applications in the previous year),
- an increase of approx. 27% in the number of notifications of changes in the details of an employer or manager (90 notifications in 2021 and 71 in the previous year).

The number and the subject-matter of PPE-related final decisions issued in 2021 based on KNF authorisation are presented in Table 12.1.2 in Annex 12.1.

### 8.5.2. SUPERVISION OF PENSION SOCIETIES AND PENSION FUNDS

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 supervisory authority also monitors compliance by those institutions with the laws and their articles of association and the fulfilment of disclosure requirements.

#### 8.5.2.1. MONITORING THE FINANCIAL SITUATION AND INVESTMENT AND OPERATING ACTIVITIES

The 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 was exercised through a systematic analysis of data reported by the supervised entities to the UKNF. 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,



submitted by pension funds. In the period covered by this report, the supervisory authority assessed 727 reports on the applied valuation methodology submitted by pension funds operating as part of the OFE, IKE, IKZE and PPPK products.

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

- ‘Report on the financial standing of general pension societies in 2020’,
- ‘Information on the standing of the pension market in Poland at the end of 2020’,
- ‘Results of the Supervisory Review Process for general pension societies for 2020’,
- ‘Position on the dividend policy of general pension societies for 2022’.

#### 8.5.2.2. ENFORCEMENT OF COMPLIANCE

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

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

**Table 53. Selected breaches, by pension funds, of regulations on investment limits in 2021**

Item	Description of the breach
1.	Investing the assets of pension funds in unacceptable categories of investments.
2.	Breach of the principle of diversification where 10% of the value of the investments referred to in Article 141(1) points 5-28, 31 and 32 of the Act on pension funds is invested in all securities of one issuer or two or more issuers being related entities.
3.	Breach of the principle of diversification for an asset class of a fund's investment in shares, rights to shares, pre-emptive rights and depository receipts which must not represent more than 20% of a single issue, and where the share of the company's securities in the fund's assets exceeds 2%, the fund's deposits must not represent more than 10% of a single issue.
4.	Breach of the principle of diversification of groups of assets, where the equity part must not be less than 60% and greater than 80% of the value of the fund's assets and the debt part must not be less than 20% and greater than 40% of the value of the fund's assets.
5.	Breach of the principle of diversification where the total value of investments in securities of money market instruments issued by one entity, deposits with this entity and the value of counterparty risk arising from transactions involving non-standard derivatives executed with that entity exceeds 20% of the value of the fund's assets.

Source: UKNF

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

The results of the verification and analysis show that:

- in general, the pension societies and pension funds fulfilled their disclosure requirements in a proper and timely manner
- the financial situation of pension societies was stable,
- pension funds correctly fulfilled their statutory obligations, for example they had the capacity for making timely payments to members and for making cyclical payments to the Social Insurance Institution.

The UKNF's supervision also included examination of legal compliance of the activities of entities other than pension societies and pension funds such as:

- 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.

### 8.5.2.3. 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 2021, due to the COVID-19 pandemic and the necessary shift to remote work mode not only for employees of the UKNF but also employees of supervised entities, the SRP for general pension societies in 2020 was conducted in a simplified form (compared to previous years). The supervisory evaluation was made in relation to 10 PTEs and its results were reported on 31 August 2021 to the management boards of 10 entities operating as at the day on which the relevant notice was sent.

### 8.5.3. SUPERVISION OVER OCCUPATIONAL PENSION SCHEMES (PPEs)

An employer running a PPE is required to submit an annual report on the running of such a PPE in a given calendar year to the supervisory authority. Thus, the supervisory authority receives the relevant information on the functioning of individual PPEs, and – after aggregation of the reports – the data on the market, relevant developments and trends.

2 083 PPEs were in operation at the end of 2021, some of them being of an inter-company nature, with more than one employer involved, which means that 2 335 employers who were operating a PPE as at 31 December 2021 were required to submit the report for 2021.

In 2021, the supervisory authority closed 83 supervisory proceedings in relation to employers who failed to comply with the requirement to submit a report on their PPE within the set time limit.

### 8.5.4. INSPECTION ACTIVITIES

In 2021, no inspections were conducted at pension market entities.

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

### 8.6.1. LICENSING ACTIVITIES

As of 31 December 2021, 57 energy companies held authorisation to maintain accounts or registers of exchange commodities, and one commodity brokerage house – authorised to conduct brokerage activities, for the acquisition or disposal of exchange commodities on another person's account, including clearing transactions and keeping accounts or registers of exchange goods.

In 2021, 3 energy undertakings were granted authorisation to keep accounts and/or registers of exchange commodities, 1 final decision was issued in respect of authorisation to keep accounts and/or registers of exchange commodities and 3 final decisions to withdraw authorisation to keep accounts and/or registers of exchange commodities.

As at 31 December 2021, the KNF Board was not conducting any proceedings in respect of authorisation to keep accounts and/or registers of exchange commodities.

## 8.7. SUPERVISION OF CAPITAL AND COMMODITY MARKET INFRASTRUCTURE COMPANIES

As part of the supervision of capital and commodity market infrastructure companies, the KNF Board makes decisions on granting or extending a license and approves or gives consent to, in particular:

- amendments to the rules of: Giełda Papierów Wartościowych w Warszawie S.A., Towarowa Giełda Energii S.A., BondSpot S.A., Krajowy Depozyt Papierów Wartościowych S.A. and KDPW\_CCP 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.,
- changes in the composition of the management boards of: Giełda Papierów Wartościowych w Warszawie S.A., Towarowa Giełda Energii S.A. and BondSpot S.A.,
- outsourcing the performance of key operational functions by a company operating a regulated market,
- admission of non-securitised financial instruments to trading on a regulated market.

**Table 54. Number of final decisions issued in the years 2018-2021**

Entity being a party to the final decision	2018	2019	2020	2021
Giełda Papierów Wartościowych w Warszawie S.A.	5	8	4	3
BondSpot S.A.	4	1	4	3
Krajowy Depozyt Papierów Wartościowych S.A.	2	6	8	6
KDPW_CCP S.A.	3	5	5	2
Towarowa Giełda Energii S.A.	5	7	9	3
Izba Rozliczeniowa Giełd Towarowych S.A.	1	1	-	-
<b>Total</b>	<b>20</b>	<b>28</b>	<b>30</b>	<b>17</b>

Source: UKNF

The number and the subject-matter of final decisions regarding the supervision of capital and commodity market infrastructure companies are presented in Table 12.1.2 in Annex 12.1.

Representatives of the KNF Board attended 46 meetings of supervisory boards and 4 general meetings of shareholders:

- 6 meetings of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A.,
- 1 General Meeting of Shareholders of Giełda Papierów Wartościowych w Warszawie S.A.,

- 6 meetings of the Supervisory Board of Krajowy Depozyt Papierów Wartościowych S.A.,
- 2 General Meetings of Shareholders of Krajowy Depozyt Papierów Wartościowych S.A.,
- 11 meetings of the Supervisory Board of KDPW\_CCP S.A.,
- 9 meetings of the Supervisory Board of BondSpot S.A.,
- 1 General Meeting of Shareholders of BondSpot S.A.,
- 7 meetings of the Supervisory Board of Towarowa Giełda Energii S.A.,
- 7 meetings of the Supervisory Board of Izba Rozliczeniowa Giełd Towarowych S.A.

Other tasks of the KNF Board in the area of supervision of capital market infrastructure companies also include inspection activities, such as:

- inspection activities at head offices of supervised institutions,
- drawing up official inspection reports.

In 2021, no inspections were carried out at capital market infrastructure companies.

## 8.8. APPROVAL OF PROSPECTUSES OF SECURITIES OTHER THAN INVESTMENT CERTIFICATES

In 2021, the KNF Board issued 86 final decisions on the approval of prospectuses and supplements updating the content of a prospectus, including:

- 27 final decisions approving prospectuses of securities other than investment certificates (drawn up in the form of a single document or three documents),
- 59 final decisions approving supplements to prospectuses of securities other than investment certificates.

The data on the number of approved prospectuses and annexes/supplements to prospectuses in the years 2018-2021 are shown in Table 55.

**Table 55. Number of approved prospectuses and annexes/supplements to prospectuses in the years 2018-2021**

<b>Breakdown</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Number of approved prospectuses	25	18	16	27
Number of approved information memoranda	2	0	0	0
Number of approved annexes/supplements	71	53	24	59

Source: UKNF

In the period covered by this report, the KNF Board received 69 notifications of the approval of prospectus from supervisory authorities of other Member States.

In the course of 53 sets of proceedings for the approval of a prospectus conducted in 2021, the KNF Board made nearly 6 500 comments on the submitted documents.

In addition, the KNF Board issued 3 interim decisions to suspend administrative proceedings in respect of approval of a prospectus and 10 final decisions to discontinue administrative proceedings in respect of approval of a prospectus (supplement to a prospectus).

The list of issuers whose prospectuses were approved by the KNF Board in 2021 is provided in Table 12.2.1 in Annex 12.2, while the current list of prospectuses approved by the KNF Board is available on the KNF website.

## 8.9. GRANTING AUTHORISATIONS TO WITHDRAW SHARES FROM TRADING ON A REGULATED MARKET OR IN AN ALTERNATIVE TRADING SYSTEM

In 2021, the UKNF received 17 applications for withdrawal of shares from trading on a regulated market or in an alternative trading system, pursuant to Article 91(1) of the Act on public offering. In 2021, the KNF Board granted 13 authorisations to withdraw shares from trading – including 2 authorisations issued in connection with applications received by the UKNF in 2020. In 2021, 5 administrative proceedings for granting authorisation to withdraw shares from trading were suspended – 3 proceedings were initiated by applications from the end of 2020. In 2 of the suspended proceedings, applications for a review of the cases were submitted, and both concluded by a final decision upholding the interim decision issued in the first instance.

**Table 56. Number of final decisions to grant authorisation to withdraw shares from trading on a regulated market or in an alternative trading system (Article 91(1) and (2) of the Act on public offering) in the years 2018-2021**

2018*	2019*	2020	2021
22	16	25	13

\* The data refer to the number of final decisions granting authorisation to restore shares to a certificated form.  
Source: UKNF

## 8.10. SUPERVISION OF SECURITY ISSUERS OTHER THAN INVESTMENT FUNDS

### 8.10.1. ENFORCEMENT OF COMPLIANCE WITH INFORMATION REQUIREMENTS FOR SECURITY ISSUERS OTHER THAN INVESTMENT FUNDS

As part of supervision of security issuers other than investment funds, the KNF Board supervises, in particular, the timeliness and correctness of meeting disclosure requirements, audit committees, reports on non-financial information, public offerings, and compliance with the requirements concerning the announcement and carrying out of calls to subscribe for the sale or exchange of shares of public companies.

In 2021, public companies made public over 29 000 current reports, periodic reports, inside information and information relating to a list of shareholders holding at least 5% of the total number of votes at the general meeting. As a result of the supervision exercised by the KNF Board in 2021 over compliance with information requirements laid down in the Act on public offering and MAR, the KNF Board addressed to public companies 190 recommendations to put an end to the breach of information requirements. The recommendations concerned irregularities in: periodic reports (40 recommendations), inside information (33 recommendations), a list of shareholders holding at least 5% of the total number of votes at the general meeting actually held (13 recommendations), current reports (101 recommendations), publication of periodic reports on the issuer's website (1 recommendation), access to the Electronic Information Transfer System (ESPI) (2 recommendations).

In 2021, as part of its supervision over the reporting of security issuers other than investment funds, the KNF Board carried out, among others, the following activities:

- financial statements (including consolidated ones) of 56 issuers were reviewed for compliance with the applicable accounting standards, in particular International

Accounting Standards, International Financial Reporting Standards and related Interpretations 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 (ESMA32-50-218, 4 February 2020). Based on the results of the analysis, a report is drawn up and published on the KNF website;

- 139 positions and opinions for external entities were formulated and published in relation to, among others: application of the IFRS and the ESEF, issuers' compliance with disclosure requirements with respect to periodic reports, and requirements concerning statutory audits of financial statements of public-interest entities,
- 22 recommendations were issued to put an end to the breach of information requirements in relation to financial statements.

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

In 2021, the UKNF verified legal compliance of 1 347 notifications made by persons acquiring or disposing of qualifying shareholdings in public companies pursuant to Article 69 of the Act on public offering, as well as 2 858 notifications made by obliged entities under Article 19 of MAR, pertaining to transactions of persons discharging managerial responsibilities and persons closely associated with them.

## 8.10.2. SUPERVISION OF AUDIT COMMITTEES

In 2021, the supervision of audit committees of public-interest entities (PIEs) being issuers of securities admitted to trading on a regulated market covered 402 entities. In 2021, the following activities were undertaken to monitor compliance with the provisions concerning the appointment, composition and functioning of the audit committee or the supervisory board or any other supervisory or controlling body, where they are entrusted with the function of an audit committee:

- 94 PIEs were checked for compliance with the requirement to appoint an audit committee, in accordance with the requirements laid down in the Act on statutory auditors;
- 113 PIEs were checked for compliance of the composition of the audit committee or supervisory board performing the function of an audit committee with the requirements of the Act on statutory auditors in relation to independence and relevant skills and knowledge of members of the audit committee/supervisory board;
- the latest annual reports of 90 issuers were reviewed in regard to the method of fulfilling the information requirement concerning the composition and functioning of the audit committee or the supervisory board performing its functions, laid down in § 70(6) point 5(l) of the Regulation on current and periodic information<sup>47</sup>;
- 11 PIEs were checked for the functioning of the audit committee in relation to the tasks resulting from the Act on statutory auditors;

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<sup>47</sup> Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws, item 757).

- 47 letters were sent to PIEs in regard to their fulfilment of the requirements on the appointment, composition and functioning of the audit committee or supervisory board or any other supervisory or controlling body, where they are entrusted with the function of an audit committee.

In 2021, the KNF Board issued 20 recommendations for issuers to enforce compliance with obligations under the Act on statutory auditors and/or 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 L 158 of 27 May 2014, p. 77, as amended).

### 8.10.3. ENFORCEMENT OF NON-FINANCIAL INFORMATION

The UKNF's 2021 review of annual reports for 2020 has shown that 146 issuers whose securities were admitted to trading on regulated markets were subject to the requirement to disclose non-financial information, of which 59 entities made a statement on non-financial information pursuant to Article 49b(1) of the Accounting Act, 81 entities made separate reports on non-financial information, and 5 issuers benefited from the exemption under Article 49b(11) of the Accounting Act. In 2021, as part of the enforcement of non-financial information, the UKNF reviewed 140 non-financial reports made public by issuers admitted to trading on a regulated market, in terms of compliance with Article 49b of the Accounting Act. Following those supervisory activities, the KNF Board issued 2 recommendations to put an end to the breach of the requirements on disclosure of non-financial information.

### 8.10.4. SUPERVISION OVER PUBLIC OFFERINGS

In 2021, to identify public offerings conducted without the obligation to draw up and publish a prospectus or information memorandum approved by the KNF Board, the UKNF carried out ongoing monitoring of the major crowdfunding platforms in Poland, press and electronic media. With those activities, 167 public offerings without a prospectus were verified, of which 65 were conducted using crowdfunding platforms. All public offerings conducted using crowdfunding platforms involved an offering of shares.

Due to the increasing number of public offerings conducted with crowdfunding platforms, Q&As were published on the KNF website, with answers to the most frequently asked questions concerning public offerings.

### 8.10.5. ENFORCEMENT OF REQUIREMENTS CONCERNING ANNOUNCEMENT AND CARRYING OUT OF CALLS TO SUBSCRIBE FOR THE SALE OR EXCHANGE OF SHARES OF PUBLIC COMPANIES

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

In 2021, 32 calls to subscribe for the sale of shares of public companies were announced and reviewed for compliance with formal and legal requirements. 10 calls 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 20 calls were announced for all other shares of those companies. In 2021, 2 calls were also announced in connection with the intention to withdraw from trading on a regulated market in the territory of the Republic of Poland shares of foreign public companies whose shares were also traded on regulated markets in other EU Member States.

In 2021, pursuant to Article 78(1) of the Act on public offering, in the case of 2 calls, the KNF Board requested explanations concerning the content of the call.

The value of the shares mentioned in the calls announced in 2021 amounted to nearly PLN 10.5 billion. For comparison, the value of calls announced in 2020 amounted to more than PLN 14.2 billion, in 2019 to nearly PLN 11.2 billion, in 2018 to nearly PLN 4.5 billion, and in 2017 to more than PLN 11.7 billion.

### 8.10.6. OTHER SUPERVISORY ACTIVITIES UNDERTAKEN TOWARDS SECURITY ISSUERS OTHER THAN INVESTMENT FUNDS

In 2021, pursuant to the Act on trading, the KNF Board issued 20 administrative decisions requesting Giełda Papierów Wartościowych w Warszawie S.A. to suspend trading in financial instruments issued by public companies, due to the risk of infringement of investors' interests, in particular through the failure to comply with information requirements in a timely manner or the failure to provide accurate information on the financial standing of the issuer.

The tasks of the KNF Board also include supervision over trading in financial instruments in relation to cases of market abuse, unlawful disclosure and insider dealing, as referred to in Regulation 596/2014. As part of those activities, the KNF Board conducts preliminary investigations in order to establish whether there were grounds for a notification of a suspected criminal offence<sup>48</sup>.

## 9. INSURANCE MARKET

### 9.1. BASIC INFORMATION

#### 9.1.1. INSURANCE SECTOR ENTITIES

As at the end of 2021, 56 domestic insurance undertakings held authorisation to carry on the business of insurance in Poland: – 25 life insurance undertakings, 30<sup>49</sup> non-life insurance undertakings (other personal insurance and property insurance), and 1 reinsurance undertaking.

Among domestic insurance undertakings, as at the end of 2021, the business of insurance was actively pursued by 25 life insurance undertakings, 29 non-life insurance undertakings and 1 reinsurance undertaking.

##### 9.1.1.1. BALANCE SHEET OF INSURANCE UNDERTAKINGS

The value of assets of insurance undertakings in 2021 amounted to PLN 201.63 billion, i.e. 1.48% (PLN 3.03 billion) less than in the previous year.

The assets of life insurance undertakings, equal to PLN 91.53 billion, decreased by 3.93% (i.e. PLN 3.74 billion) compared to the corresponding period last year.

At non-life insurance undertakings, the value of assets amounted to PLN 110.10 billion, which represented an increase of 0.65%, i.e. PLN 0.71 billion, compared with the previous period.

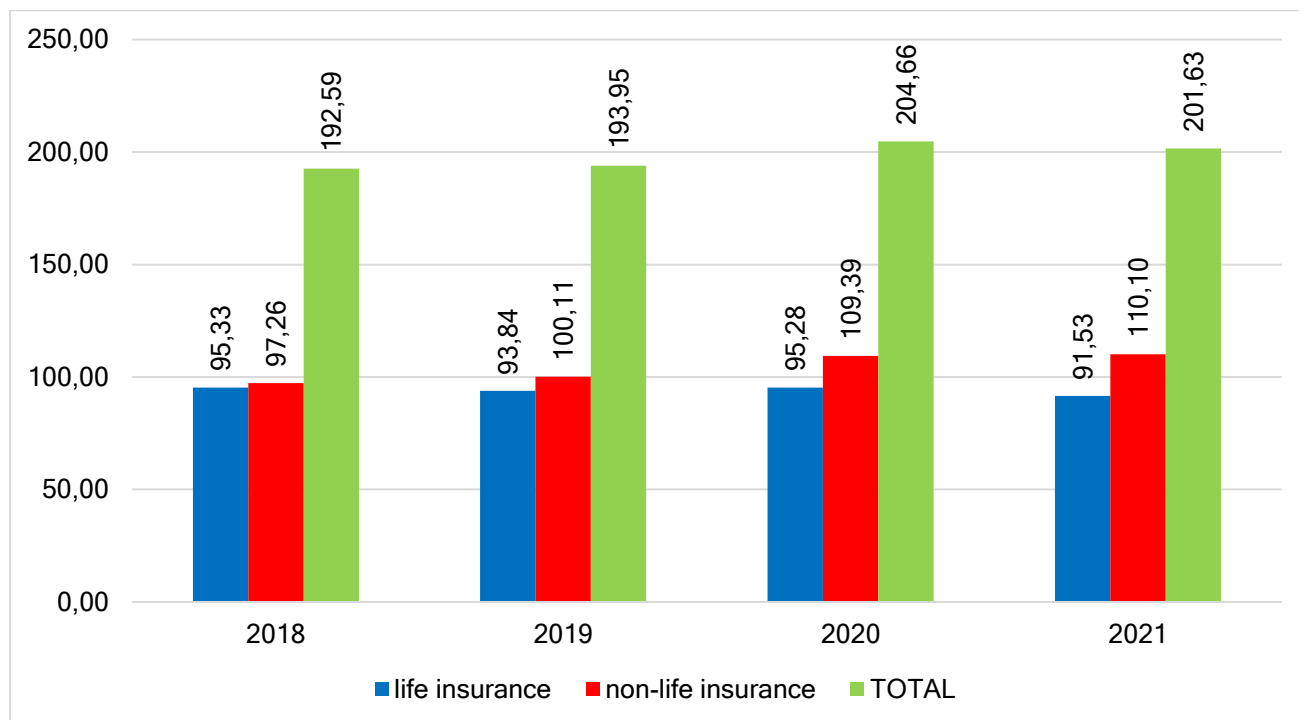
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<sup>48</sup> See: Section 10.6.1 *Preliminary investigations and administrative proceedings*.

<sup>49</sup> D.A.S. Towarzystwo Ubezpieczeń Ochrony Prawnej S.A. w likwidacji did not pursue, at the end of 2021, any active business of insurance but still holds a KNF authorisation to pursue such business.



**Diagram 38. Balance sheet total in the years 2018-2021 (in PLN billion)**



Source: UKNF

The data for 2021 come from the financial statements of insurance and reinsurance undertakings for the fourth quarter of 2021 and they should be treated as preliminary. The data for previous years may differ from the data published in previous reports due to corrections made by undertakings.

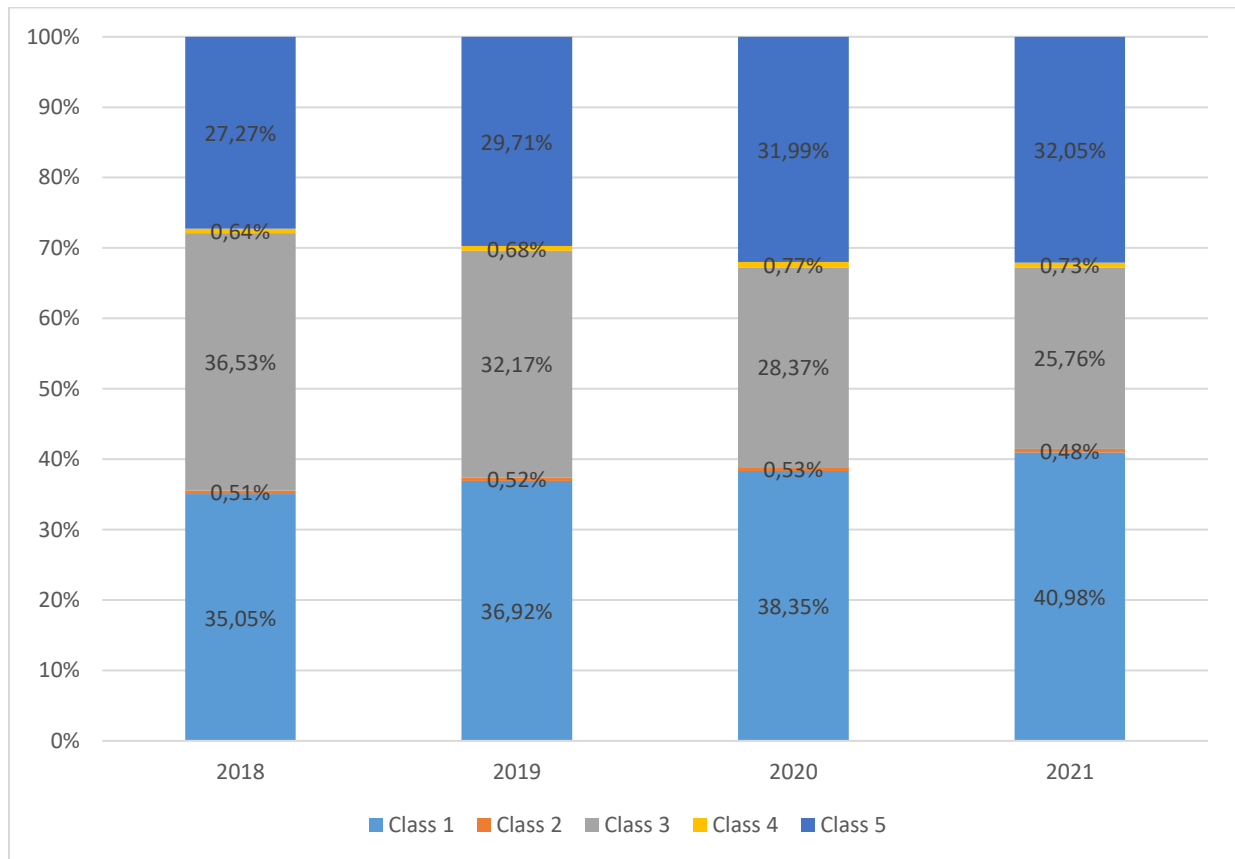
The main item of insurance undertakings is represented by deposits (investments), which represent 62.90% of the balance sheet total, and net assets of life insurance (where the investment risk is borne by the policyholder), whose share in the balance sheet total amounts to 23.25%. The structure of liabilities was dominated by gross technical provisions, which accounted for 77.78% of liabilities, and equity of 19.85%.

#### 9.1.1.2. REVENUE OF INSURANCE UNDERTAKINGS

In 2021, the gross written premium, being the main source of income of insurance undertakings, amounted to PLN 69.22 billion, which means that the insurance market recorded an increase of 9.13% compared with 2020. The change was due to an increase in the gross written premium for life insurance undertakings of PLN 1.37 billion, i.e. 6.62% (the premium reached PLN 22.13 billion) and an increase in the premium of non-life insurance undertakings of PLN 4.42 billion, i.e. 10.35% (the premium of PLN 47.09 billion).

The direct insurance portfolio of life insurance sector was dominated by Class 1 insurance products (life insurance products) with a premium of PLN 9.07 billion, which products accounted for 40.98% of the total gross written premium from direct insurance of life undertakings. This class recorded an increase of gross written premium by PLN 1.10 billion. Class 5 insurance (accident and sickness insurance, as long as it supplements insurance listed in Classes 1–4) with a premium of PLN 7.09 billion (an annual increase of PLN 0.46 billion) accounted for 32.05% of direct life insurance.

**Diagram 39. Structure of the life insurance portfolio in the years 2018-2021**



Source: UKNF

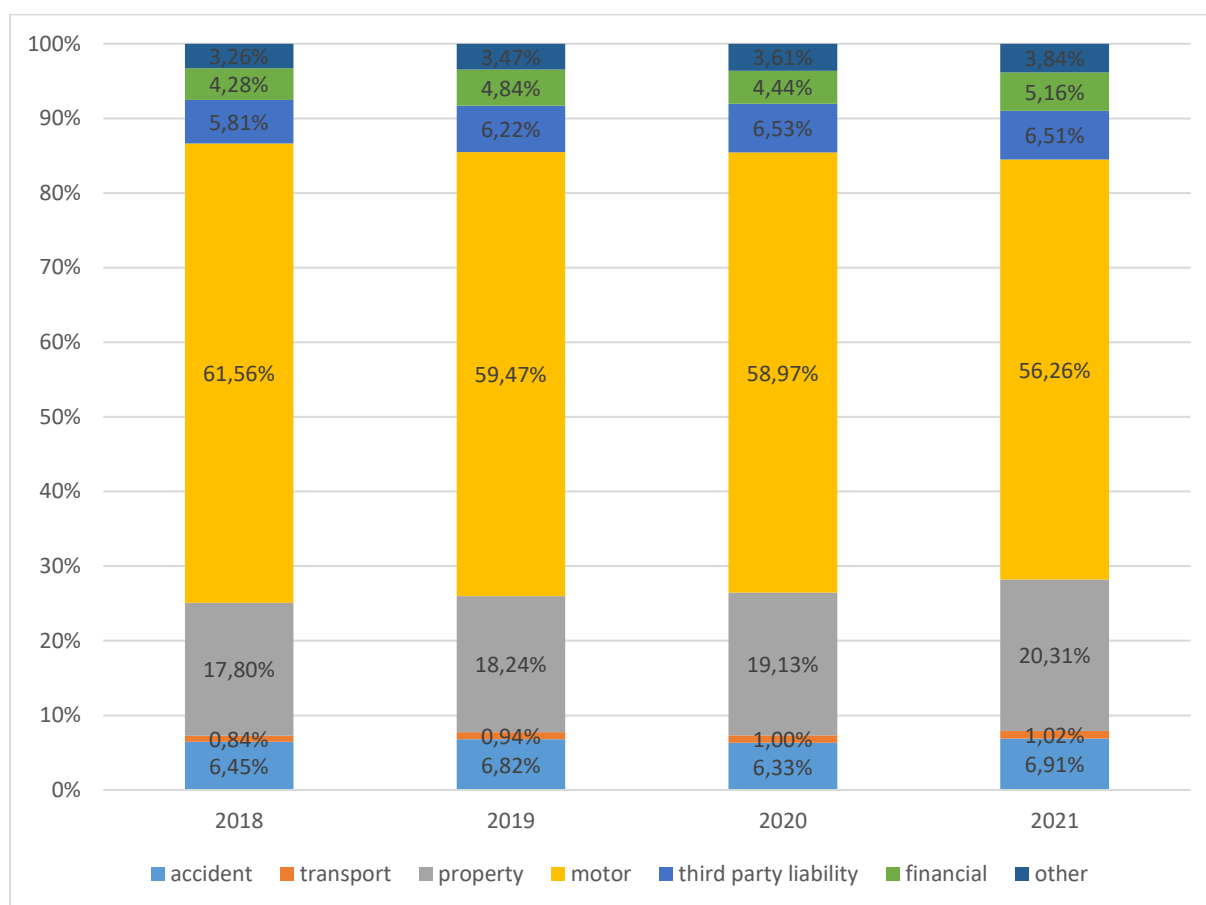
For personal and property insurance undertakings, an increase in gross written premium occurred in 14 out of 18 classes of insurance. The largest increase in premium was recorded in Class 3 (accident and theft insurance) – by PLN 0.90 billion, up to PLN 9.70 billion (10.24% YoY) and Class 9 (insurance against other material damage, not included in Classes 3-8) – by PLN 0.81 billion, up to PLN 4.47 billion (22.07% YoY).

The other 12 classes of non-life insurance recorded an increase in the premium by a total of PLN 2.35 billion, up to PLN 29.01 billion.

Among 18 classes of non-life insurance, a decrease in the premium took place in 4 classes (11, 12, 15, 17), with the main decrease in Class 15 (insurance guarantee) – by PLN 0.02 billion, up to PLN 0.46 billion (by 3.40% YoY).

The structure of non-life insurance is still dominated by motor insurance (third party liability insurance, and accident and theft insurance), which accounts for 56.26% of the direct insurance portfolio.

**Diagram 40. Structure of the non-life insurance portfolio in the years 2018-2021**



Source: UKNF

### 9.1.1.3. PERFORMANCE OF INSURANCE UNDERTAKINGS

Overall, the insurance market recorded a technical profit of PLN 5.11 billion (16.04% lower than in 2020) and a financial profit of PLN 5.69 billion (7.12% lower than in the previous year). The life insurance sector generated a technical profit of PLN 2.14 billion (27.95% lower than in the corresponding period of the previous year) and a financial profit of PLN 1.63 billion (25.84% lower than in the corresponding period of the previous year). In terms of the results of individual insurance classes, the deterioration of the technical result was due to the deterioration of the technical result in Class 1 (life insurance) – by PLN 0.71 billion (i.e. by 742.02%).

Non-life insurance products generated a technical profit of PLN 2.97 billion (4.66% lower than in the corresponding period of the previous year) and a net financial profit of PLN 4.06 billion (3.38% higher than in the previous year). In terms of performance in individual classes of insurance, the decline in the technical profit over the year was determined mainly by the deterioration of performance in Class 8 (insurance against damage caused by natural forces, including damage to or loss of property not included in Classes 3-7), by PLN 0.28 billion (121.78% less than at the end of 2020) and in Class 3 (accident and theft insurance), where a technical profit of PLN 0.62 billion (lower by PLN 0.18 billion, i.e. 22.19% YoY) was recorded. It is worth noting that the technical profit in financial insurance (Classes 14, 15, 16) increased by PLN 0.21 billion, i.e. by 338.15% YoY, with the main increase (by PLN 0.13 billion) in Class 15 (insurance guarantee).

**Table 57. Basic figures characterising the activities of life insurance undertakings in the years 2018–2021 (financial data in PLN billion)**

Breakdown	2018	2019	2020	2021
<b>Selected balance sheet items</b>				
Deposits (item B)	39.77	40.36	41.24	39.66
Net assets of life insurance where the investment risk is borne by the policyholder	50.76	49.05	48.57	46.88
Equity	11.54	11.46	12.81	10.36
Gross technical provisions	80.63	78.94	78.81	77.71
Balance sheet total	95.33	93.84	95.26	91.53
<b>Selected income statement items</b>				
Gross written premiums	21.70	21.28	20.75	22.13
Gross claims incurred	21.50	18.33	17.42	18.45
Costs of insurance activities	5.10	5.08	5.05	5.41
Acquisition costs	3.59	3.46	3.41	3.72
Administrative costs	1.64	1.71	1.73	1.80
Technical result	3.08	3.26	2.97	2.14
Net profit (loss)	2.44	2.57	2.20	1.63

Source: UKNF

**Table 58. Basic figures characterising the activities of non-life insurance undertakings in the years 2018-2021 (financial data in PLN billion)**

Breakdown	2018	2019	2020	2021
<b>Selected balance sheet items</b>				
Deposits (item B)	77.14	79.50	88.93	87.16
Equity	26.17	28.54	34.09	29.67
Gross technical provisions	65.99	70.31	73.99	79.32
Balance sheet total	97.26	100.11	109.39	110.10
<b>Selected income statement items</b>				
Gross written premiums	40.46	42.56	42.68	47.09
Gross claims incurred	19.50	20.40	22.23	22.85
Costs of insurance activities	9.17	9.98	10.39	10.88
Acquisition costs	8.99	9.69	10.03	10.80
Administrative costs	2.03	2.22	2.31	2.38
Technical result	2.93	2.93	3.12	2.97
Net profit (loss)	4.24	4.64	3.93	4.06

Source: UKNF

## 9.2. KEY ACTIVITIES

The KNF Board carried out the first product intervention in the EU insurance market. The use of a specific tool such as product intervention was dictated by persistent problems diagnosed by the UKNF as a consequence of a defective design of unit-linked insurance products and irregularities in their distribution.

The issue of imbalance between the value of unit-linked insurance contracts for the customer and the level of margin generated by insurance undertakings was identified not only in relation to the Polish market but the scale of the phenomenon in Poland was large as compared to other European countries where such products are offered.

The application of prohibitions set out in the Decision of 15 July 2021 aims to stop the sale of unit-linked insurance contracts that do not provide adequate value for the customer, i.e. an effective rate of return on the unit-linked product, or that carry investment risk related with the presence of contingent convertibles in the assets of the unit-linked fund<sup>50</sup>.

<sup>50</sup> See: Section 9.4 *Product intervention on the prohibition of marketing, distribution and sale of unit-linked life insurance contracts and related supervisory activities*.

## 9.3. LICENSING ACTIVITIES

### 9.3.1. AUTHORISATION TO CARRY ON THE BUSINESS OF INSURANCE AND REINSURANCE

In 2021, one decision was issued on the withdrawal – at a request of an insurance undertaking – of authorisation to carry on the business of insurance. Moreover, in relation to one entity, the KNF Board did not raise objection to the intention of a general meeting of shareholders to pass a resolution on the dissolution of the insurance undertaking.

### 9.3.2. NOTIFICATIONS CONCERNING THE BUSINESS OF INSURANCE IN POLAND

As at 31 December 2021, in Poland, the insurance business under the freedom to provide services was pursued by 599 insurance undertakings from EU Member States and other member states of the European Economic Area, while the insurance business through a branch was pursued by 4 life insurance undertakings, 21 property insurance undertakings and 1 reinsurance undertaking (including 2 undertakings that notified their intention to carry on a business both in the area of life insurance and property insurance).

In 2021, the KNF Board received 17 notifications of the intention of foreign insurance undertakings to conduct cross-border insurance activities under the freedom to provide services. At the same time, no notification was received last year in regard to the intention to establish a branch in Poland from any foreign insurance undertaking from an EU Member State (the freedom of establishment).

In addition, 37 insurance undertakings from EU Member States notified their intention to change the scope of their cross-border business of insurance pursued in the territory of the Republic of Poland, and 16 insurance undertakings from EU Member States (including 4 operating through a branch) notified the cessation of their insurance business in the territory of the Republic of Poland. However, the major impact on the 2021 change in the number of foreign insurance undertakings conducting the insurance business in Poland came from the fact that insurance undertakings in the United Kingdom and Gibraltar as of 1 January 2021 could no longer pursue the business of insurance on the basis of the European single passport. For that reason, the total number of foreign insurance undertakings operating in Poland on the basis of the European passport decreased in relation to the number at the end of 2020 by 130.

In 2021, 6 notifications were received in regard to the intention of insurance undertakings from EU Member States and the UK to transfer an insurance portfolio, in whole or in part, to another insurance undertaking.

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

In 2021, the KNF Board issued 25 decisions on approval of the appointment of members of the management board of insurance and reinsurance undertakings (17 decisions on approval of the appointment of the president of the management board of an insurance undertaking, and 8 decisions on approval of the appointment of a member of the management board of an insurance undertaking responsible for risk management).

### 9.3.4. AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF KNF-SUPERVISED ENTITIES

In 2021, the KNF Board issued 13 final decisions on approval of amendments to the articles of association of domestic insurance undertakings.

### 9.3.5. NOTIFICATIONS ON INTENDED ACQUISITION OF SHARES

In 2021, the KNF Board issued 8 final decisions on the proceedings in question. In all cases, no grounds have been found for objecting to the intended acquisition of shares.

In three proceedings, the KNF Board did not raise objection to the planned merger of insurance undertakings.

Major changes in the insurance sector that took place in 2021 include the merger of AXA Ubezpieczenia TUiR S.A. with UNIQA Towarzystwo Ubezpieczeń S.A., and AXA Życie TU S.A. with UNIQA Towarzystwo Ubezpieczeń na Życie S.A., as well as the launch of acquisitions of shares of domestic insurance undertakings from the Aviva Group by companies from the Allianz Group.

### 9.3.6. ENTRY IN THE REGISTER OF ACTUARIES

In the period covered by this report, 5 final decisions on entry in the Register of Actuaries were issued. 1 decision was issued on the exemption from the requirement to take an actuarial exam.

As at 31 December 2021, 420 actuaries were included in the register.

### 9.3.7. LEGAL CHANGES CONCERNING INSURANCE INTERMEDIARIES

Due to the epidemic situation in Poland and the related restrictions, at the initiative of the supervisory authority changes were introduced to the solutions included in the Regulation of the Minister of Finance of 21 August 2018 on the examination for persons applying for a license to provide agency services, distribution activities of an insurance undertaking and distribution activities of a reinsurance undertaking (Journal of Laws 2018, item 1746), by supplementing the existing regulations on the organisation of onsite agency examinations by insurance undertakings with provisions which allow conducting such examinations remotely, via an ICT system. The changes have been regulated in the Regulation of the Minister of Finance of 14 May 2020 (Journal of Laws 2020, item 883).

In view of the need to ensure proper supervision over preparing and conducting the examination by an insurance undertaking, the new regulation requires the insurance undertakings to submit, before the first examination conducted in the ICT system, a description of the system's functionalities which ensures a proper conduct of the examination, including confirming the identity of candidates and making sure that they work independently.

By the end of 2021, 91 insurance undertakings submitted the descriptions of functionalities of the systems in use, of which 90 insurance undertakings conduct the examinations in the manner specified in § 8a(1) of the Regulation in question.

### 9.3.8. INSURANCE AGENTS AND PERSONS PROVIDING AGENCY SERVICES

In 2021, in the electronic register of insurance agents, a total of 155 323 applications were reviewed, including 13 860 applications for entry, 126 002 applications for modification of data entered in the register, and 15 461 applications for removal from the register. As at 31

December 2021, a total of 30 467 insurance agents and 247 036 natural persons (OFWCA) providing agency services were included in the register.

**Table 59. Number of registered insurance agents and persons providing agency services in the years 2018-2021**

Breakdown	2018	2019	2020	2021
Agents,	31 427	31 293	30 975	30 467
including agents offering supplementary insurance	–	23	28	18
OFWCA	237 692	237 033	239 242	247 036

Source: UKNF

The Register of Insurance Agents contained entries on 446 entities carrying out agency activities through persons employed at banks and credit unions solely in relation to insurance contracts or insurance guarantee agreements concluded by or through those entities, referred to in § 8 point 6 of the Regulation on the examination for persons applying for a license to carry out agency activities, distribution activities of an insurance undertakings and distribution activities of an reinsurance undertaking, including: 427 banks and 19 credit unions.

### 9.3.9. INSURANCE BROKERS AND REINSURANCE BROKERS

**Table 60. Register of brokers at the end of the years 2018-2021**

Brokers		2018	2019	2020	2021
Insurance brokers	natural persons	878	885	894	882
	legal persons	516	523	517	544
	<b>Total:</b>	<b>1 394</b>	<b>1 408</b>	<b>1 411</b>	<b>1 426</b>
Reinsurance brokers	natural persons	14	13	14	14
	legal persons	40	40	41	43
	<b>Total:</b>	<b>54</b>	<b>53</b>	<b>55</b>	<b>57</b>

Source: UKNF

In 2021, 3 136 changes were made in the data entered in the register of insurance brokers and reinsurance brokers. As at 31 December 2021, 1 426 insurance brokers and 57 reinsurance brokers were included in the register.

In 2021, the KNF Board issued a total of 53 authorisations to conduct brokerage activities in the field of insurance and reinsurance, including 20 authorisations for natural persons and 33 authorisations for legal persons.

In the period covered by this report, 31 proceedings were conducted in respect of withdrawal of authorisation to conduct brokerage activities in the field of insurance and reinsurance.

**Table 61. Number of authorisations to conduct brokerage activities in the field of insurance granted by the KNF Board in the years 2018-2021**

Breakdown	2018	2019	2020	2021
Natural persons	33	45	27	19

Legal persons	46	28	26	31
<b>Total (excluding reinsurance)</b>	<b>79</b>	<b>73</b>	<b>53</b>	<b>50</b>

Source: UKNF

In the period covered by this report, 4 examinations were conducted by the Examination Board appointed by the Minister of Finance, including 2 exams for insurance brokers and 2 exams for reinsurance brokers. In total, 620 persons took the exam. 286 candidates were successful (including 17 candidates for reinsurance brokers).

**Table 62. Statistics on candidates taking the examination for insurance brokers in the years 2018-2021**

Breakdown	2018	2019	2020	2021
All candidates taking the exam	479	674	437	603
Candidates who passed the brokerage exam	341	221	243	269

Source: UKNF

**Table 63. Statistics on candidates taking the examination for reinsurance brokers in the years 2018-2021**

Breakdown	2018	2019	2020	2021
All candidates taking the exam	23	23	20	17
Candidates who passed the brokerage exam	23	21	18	17

Source: UKNF

### 9.3.10. NOTIFIED INSURANCE INTERMEDIARIES

In 2021, 295 insurance intermediaries intending to operate in the territory of the Republic of Poland, reported by the registration and/or supervisory authorities in the European Union Member States, were notified and 439 notifications of the intermediaries were withdrawn. In 2021, there were no notifications of Polish agents intending to operate in the EU.

In 2021, 7 brokers notified the supervisory authority of their intention to conduct brokerage activities in the field of insurance in the territory of EU Member States other than the Republic of Poland.

## 9.4. PRODUCT INTERVENTION ON THE PROHIBITION OF MARKETING, DISTRIBUTION AND SALE OF UNIT-LINKED LIFE INSURANCE CONTRACTS AND RELATED SUPERVISORY ACTIVITIES

By Decision of the KNF Board of 15 July 2021 – issued pursuant to 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) – a product intervention measure was imposed in the insurance market.

Under the decision, prohibitions on the marketing, distribution and sale of unit-linked life insurance contracts have been imposed on manufacturers of insurance products, in particular insurance undertakings engaged in the activities specified in Class 3 of Division I of the Annex



to the Act on the business of insurance, if the insurance contracts meet at least one of the following criteria:

- the average return is less than 50% of the interest rate for the period specified in the decision according to the relevant risk-free interest rate term structure;
- the investment rules and restrictions defined in the regulations of the unit-linked fund fail to ensure that the assets of the unit-linked fund will not be invested in contingent convertibles.

The decision applies to unit-linked insurance contracts concluded as of 1 January 2022.

The decision on the product intervention is of a permanent nature. The decision may be repealed only if it is found that a prohibition or restriction is no longer applicable, which means that the supervisory authority must perform a regular analysis of the market and products.

The reasons for the product intervention included:

- identification of an alarming practice of offering insurance products which generated positive margins for insurance undertakings but a negative return for their customers;
- preventive mitigation of the risk associated with the possibility of acquiring contingent convertibles with the assets of unit-linked funds, in connection with an expected amendment to national legislation which is to increase the popularity and importance of those instruments in the Polish market.

The expected effect of the intervention is to raise the level of protection of insurance undertakings' clients, that is to increase the benefits to clients from unit-linked insurance contracts by:

- increasing the value of return by lowering the level of fees and other charges deducted from the funds entrusted to the insurance undertaking for management within the unit-linked fund;
- mitigating the risk associated with the possibility of exposing clients to excessive investment risk, including liquidity risk, related with investing the assets of the unit-linked fund in contingent convertibles.

As part of preparation for the entry into force of the prohibitions laid down in the above-mentioned decision, a position was published on 20 October 2021 to indicate the expectations of the supervisory authority concerning the material aspects of the management system related with insurance undertakings ensuring compliance with the requirements of the decision, and the obligation to conduct tests and analyses to verify compliance with such requirements. The position is addressed to both insurance undertakings authorised to pursue the business of insurance in Poland and undertakings operating in Poland under the freedom of establishment and the freedom to provide services.

The verification of compliance with the prohibitions laid down in the decision became part of the supervisory authority's ongoing supervisory activities.

In addition, to supplement the activities enhancing customer protection in the area of unit-linked insurance contracts, the supervisory authority took actions in 2021 in order to:

- submit to the Minister of Finance a proposal for legislative amendments aimed at introducing, pursuant to Article 133(3) of Solvency II, provisions of law to regulate the manner in which insurance undertakings carry out investments using the assets of unit-linked funds where the risk of such business is borne by natural persons;
- publish a position on the inclusion of costs and charges in a unit-linked insurance contract, to be addressed to insurance undertakings engaged in the insurance business specified in Division I Class 3 of the Annex to the Act on the business of insurance.

## 9.5. SUPERVISORY ACTIVITIES

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

### 9.5.1.1. ANNUAL REVIEW

In 2021, the eleventh edition of the Supervisory Review Process (SRP) for insurance undertakings was carried out. The SRP scores for 2020 were assigned to 55 undertakings<sup>51</sup>, including 23 life insurance undertakings and 32 non-life insurance undertakings.

The SRP methodology is updated annually. The changes introduced in the Methodology for 2020 are the result of its continuous improvement and adaptation to the changing market conditions. In the course of changes introduced for the purposes of the SRP in 2020, the applied ratios, weights and limits were reviewed, and the provisions of the Methodology were unified.

More details on the SRP and its location within the supervisory process can be found on the KNF website: The process of supervising insurance/reinsurance undertakings<sup>52</sup>.

As a result of the SRP, the undertakings were assessed for risk and the assessment, together with the classification of the undertaking, represents an important criterion determining whether the supervisory authority should adopt appropriate supervisory measures, in accordance with the principle of proportionality.

In December 2021, the KNF Board received information about the results of the Supervisory Review Process for insurance and reinsurance undertakings for 2020.

In 2021, the UKNF also started assigning SRP scores to those classes of insurance for which group solvency calculation at consolidated level is required. The assessment methodology is based on assessment of insurance and reinsurance undertakings at individual level and modified as necessary.

### 9.5.1.2. QUARTERLY REVIEW

In addition to the annual SRP, a quarterly SRP is performed, whose primary goal is not to assign a specific score to an undertaking but to indicate a level and assessment of each indicator. In addition, statistics are prepared for each indicator, which allow the undertakings to compare their performance with other undertakings. Compared to the annual SRP, the quarterly process is a set of selected key indicators (a fully automatic assessment). The results of the quarterly SRP are sent to insurance/reinsurance undertakings.

## 9.5.2. MONITORING THE FINANCIAL SITUATION AND SOLVENCY OF INSURANCE UNDERTAKINGS

The assessment of the financial situation and solvency of insurance undertakings is mainly based on quarterly and annual financial statements, additional reports required by the supervisory authority, and other information submitted by undertakings on an *ad hoc* basis at the request of the supervisory authority.

In 2021, the activities in this regard concerned:

- analysis of financial statements as well as data and information for supervisory purposes submitted quarterly and annually;

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<sup>51</sup> Following the merger of AXA Ubezpieczenia TUiR S.A. (the acquiring company) and UNIQA TU S.A. (the company being acquired) through the transfer of all the assets of UNIQA TU S.A. to AXA Ubezpieczenia TUiR S.A. and a change of the name of the acquiring company from AXA Ubezpieczenia TUiR S.A. to UNIQA TU S.A. (entry in the National Court Register of 9 April 2021) and following the merger of AXA Życie TU S.A. (the acquiring company) and UNIQA TU na ŻYCIE S.A. (the company being acquired) through the transfer of all the assets of UNIQA TU na ŻYCIE S.A. to AXA ŻYCIE TU S.A. and a change of the name of the acquiring company from AXA Życie TU S.A. to UNIQA TU na ŻYCIE S.A. (entry in the National Court Register of 9 April 2021), the undertakings acquired - UNIQA TU S.A. and UNIQA TU na ŻYCIE S.A. – were not subject to the SRP for 2020.

Furthermore, following the publication on 29 June 2020 of the Decision of the KNF Board authorising CA ŻYCIE TU S.A. to pursue the business of insurance specified in Division I (on 22 November 2020, the undertaking commenced the insurance business) and since POLSKI GAZ TUW na ŻYCIE obtained authorisation to carry on business (under the Decision of the KNF Board of 5 November 2019) but started the insurance business only on 1 July 2020, the undertakings were not subject to the SRP for 2020.

<sup>52</sup> [https://www.knf.gov.pl/dla\\_ryнку/Informacje\\_dla\\_podmiotow\\_nadzorowanych/proces\\_nadzoru](https://www.knf.gov.pl/dla_ryнку/Informacje_dla_podmiotow_nadzorowanych/proces_nadzoru)

- analysis of regular surveillance reports (RSR);
- analysis of the main financial data of insurance undertakings submitted under the Early Warning System, based on 688 monthly reports;
- analysis of information provided as part of additional monthly reporting on the activities under Class 15, i.e. insurance guarantees (a total of 12 reports were analysed);
- analysis of information provided as part of additional monthly and *ad hoc* reporting (i.e. above the level set by the supervisory authority) for intra-group transactions (a total of 134 reports in that respect were analysed);
- analysis of surrenders of unit-linked insurance policies reported weekly for selected insurance undertakings, in particular in relation with the COVID-19 pandemic. A total of 416 weekly reports were received. The submitted data showed that in 2021 the number and value of surrenders remained at a level that did not threaten the financial situation and capital requirements of selected insurance undertakings;
- analysis of activities of selected insurance undertakings in terms of investing the funds from premiums for unit-linked insurance products in investment certificates of closed-end funds, and in terms of suspended surrenders. In total, 84 reports from insurance undertakings were reviewed;
- analysis of information provided by the Insurance Guarantee Fund (UFG) with respect to correctness and timeliness of performance by insurance undertakings of the obligation to provide data to the Polish central database of the UFG Information Centre;
- analysis of information provided as part of additional reporting related to risks under Class 3 of Division I, i.e. unit-linked life insurance, reported monthly and quarterly;
- analysis of additional quarterly reporting in the area of third party liability insurance of motor vehicle holders;
- meetings with representatives of insurance undertakings to discuss the financial and property-related situation of undertakings and the situation related to the solvency of selected insurance undertakings, including the impact of the COVID-19 pandemic on their operations;
- meetings with European supervisory authorities to exchange information about the financial standing of insurance undertakings being part of groups of insurers, including the impact of the COVID-19 pandemic on the financial situation of both the whole group and individual undertakings;
- meetings with statutory auditors to discuss the material risks in the operations of selected insurance undertakings, material from the perspective of auditing the financial statements.

Due to the COVID-19 pandemic, similarly as in 2022, an obligation was imposed on insurance undertakings to submit periodic additional information about, *inter alia*, a potential impact of the pandemic on the liquidity and solvency of insurance undertakings and the identification of risks/threats related with COVID-19. In 2021, insurance undertakings submitted a total of 912 reports in question. The reports did not reveal any material impact of the pandemic on the solvency of insurance undertakings but, given the increased mortality rate, the negative impact on the financial result does occur in the case of certain life insurance undertakings.

### 9.5.3. STRESS TESTS IN THE INSURANCE SECTOR

In the first quarter of 2021, the UKNF prepared a report on the results of additional stress tests of insurance undertakings as at 31 December 2020 carried out to estimate the impact of potential changes in the legal environment on the insurance sector in relation to loans denominated in or indexed to foreign currencies, in particular loans in Swiss francs. Additional stress tests involved two scenarios (an optimum one and a pessimistic one), assuming that all insurance contracts linked with foreign-currency loans are invalidated.

In 2021, work continued on the use of stress tests in the supervision of insurance undertakings, in particular with regard to the assessment of resistance of the Polish insurance sector to extreme but still probable events, and to the improvement of management of risks at insurance undertakings.

The relevant activities of the UKNF started, at the beginning of the first quarter of 2021, with a review of methodology for stress testing the insurance sector. The stress testing methodology was changed compared to the previous year, taking into account their results for the previous year, the conclusions from the Own Risk and Solvency Assessment reports, the finance schemes for 2021, the remarks of insurance undertakings regarding the previous stress testing methodology, and, most of all, the situation related with the COVID-19 pandemic. The publication of the final version of the stress testing methodology was preceded by public consultation. The comments and remarks received from insurance undertakings and the Polish Chamber of Insurance provided input for the final version of the stress testing methodology. The shock values of the conducted stress tests were recalibrated. Some scenarios were removed as compared to the last year's methodology and new test scenarios were added: for the risk of invalidation of insurance contracts (Division I), the risk of increased rates of deaths and confirmed cases (Division I), the risk of reimbursement of costs of road cleaning after car accidents – a prospective test (Division II), a scenario regarding selected types of market risk – a prospective test, and scenarios for the risk of climate change. To develop a methodology for the latter scenarios, a working group was appointed at the Polish Chamber of Insurance which, in cooperation with the UKNF representatives, prepared stress test scenarios for the risk of climate change. The group will continue its work during next editions of stress tests.

On 13 April 2021, the revised methodology for stress testing insurance undertakings as part of the 13th edition of the exercise was published on the KNF website and insurance undertakings were asked to carry out stress tests. In the third quarter of 2021, a report on the results of stress tests was prepared.

The UKNF used the test results to identify insurance undertakings with higher risks, i.e. those that did not pass the stress tests and did not provide sufficient explanations.

Stress tests were also conducted by groups of insurers for which group solvency calculation at consolidated level is required, according to the scenarios prepared specially for each group.

#### 9.5.4. REINSURANCE OF INSURANCE UNDERTAKINGS

In the third quarter of 2021, the UKNF prepared a report on the reinsurance of catastrophic events, based on the undertakings' responses to the supervisor's request for a list of reinsurers and damages from catastrophic events in 2020.

Reinsurance, especially reinsurance of catastrophic events, plays an important role among others in managing the risk of insurance undertakings, stabilising their financial results, and ensuring protection against the effects of catastrophic events. Due to its role, reinsurance is one of the most important risk mitigation techniques. Insurance risk management through reinsurance is related with the technical function of reinsurance (providing the insurance undertaking with additional capacity for risk) and its financial function (the reinsurer's share in damages paid).

The analysis of 31 non-life insurance undertakings has shown that the gross value of damages resulting from catastrophic events in 2020 was PLN 1 388.8 million, of which 54.8% were damages caused by natural disasters. Approx. 53.8% of damages, i.e. PLN 747.2 million, were incurred by insurance undertakings, and approx. 46.2%, i.e. PLN 641.5 million, by reinsurers. In 2020, damages from catastrophic events accounted for 5.8% of the gross amount of damages and benefits from direct insurance<sup>53</sup> in non-life insurance undertakings. The largest gross damages were incurred due to heavy rainfall, storm, hail and tornadoes. Those gross damages amounted to PLN 562.1 million (40.5% of all gross damages from catastrophic events which occurred in 2020), of which PLN 448.6 million were incurred by insurance undertakings.

#### 9.5.5. OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

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<sup>53</sup> Gross claims incurred increased by the gross change in the provision for outstanding claims.

In 2020, the UKNF conducted an analysis of ORSA reports sent on a regular basis and *ad hoc*. The quality of ORSA reports improves year by year, especially in terms of broader identification of risks, better selection of stress tests and scenarios, and involvement of management boards of insurance undertakings in the ORSA process.

The conclusions from ORSA reports are used by the UKNF in ongoing supervision and for identifying risks which are most important for particular insurance undertakings and the entire insurance sector. The analyses serve as a basis for developing stress testing scenarios for next editions.

#### 9.5.6. THIRD PARTY LIABILITY MOTOR INSURANCE

In 2021, one of the key activities of the supervisory authority was the analysis of the situation in the motor insurance market, in particular with regard to insurance under Class 10 of Division II, i.e. third party liability insurance of motor vehicle holders.

As in previous years, based on information on changes in premium tariffs of third party liability motor insurance, the supervisory authority monitored the appropriateness of changes in the tariffs and analysed the impact of those changes on the technical result in Class 10.

In 2021, the UKNF also analysed the data submitted by insurance undertakings covering the policy years 2016-2020 with regard to, among others, the amount of premium, claims, the number of risks, administrative costs and acquisition costs, also by risk classes of the portfolio of third party liability motor insurance. In addition, based on the data provided by insurance undertakings for policy year 2020, the UKNF also analysed the amount of premium in individual distribution channels. It should be stressed that in policy year 2020, the annualised premium for risk in third party liability motor insurance amounted to PLN 612, which is slightly (PLN 1) more than in policy year 2019 and PLN 88 more than in policy year 2016.

At the same time, in order to monitor the implementation of the assumptions contained in the 2021 finance scheme for Class 10 insurance, the supervisory authority addressed to insurance undertakings, twice (after the first quarter of 2021 and after the third quarter of 2021), specific questions concerning, for example, the assessment of the feasibility of the assumptions of the finance scheme in terms of the amount of premium, the technical result, reasons for the failure to meet the plan's objectives in that regard, and any need to create additional technical provisions in connection with the unusual situation in 2020, caused by the COVID-19 pandemic.

#### 9.5.7. THE ACTUARIAL FUNCTION REPORTS

In connection with the supervisory authority's review of written reports prepared by actuarial functions (hereinafter: 'Actuarial Function report') for 2019, taking into account the requirements and guidelines on the scope of the report contained in various provisions of law, the supervisory authority sent a letter to insurance undertakings containing detailed conclusions on the analysis of information and data contained in the Actuarial Function reports for 2019, together with the supervisory authority's expectations as to the scope of the information to be included in the Actuarial Function report.

In 2021, the supervisory authority reviewed the compliance of the Actuarial Function report for 2020 with the applicable guidelines and considered them in the SRP for 2020.

#### 9.5.8. TECHNICAL RATE

As the Monetary Policy Council reduced the reference rate in the first half of 2020, the supervisory authority launched, in 2021, a survey for undertakings engaged in the business of insurance under Class 10 of Division II in order to collect the necessary information to review the technical rates and mortality tables in relation to third party liability motor insurance applied to calculate the amount of provisions for the capitalised value of annuities. The quantitative data submitted by insurance undertakings for financial years 2017-2020 made it possible to

check the correctness of the weighted average rate of return on deposits for the last 4 years. The analysis of the submitted data showed that the technical rates applied by insurance undertakings did not pose a threat to the performance of obligations due to annuities.

#### 9.5.9. ADDITIONAL REPORTING REQUIREMENTS IMPOSED BY THE UKNF ON INSURANCE UNDERTAKINGS

Similarly as in the previous year, in 2021, insurance undertakings submitted additional report forms required by the UKNF in relation to data for the second quarter of 2020 (additional reporting requirements imposed on life insurance undertakings engaged in the business of Class 3 insurance for unit-linked insurance products) and to data for the third quarter of 2020 (additional reporting requirements imposed on life and non-life insurance undertakings in relation to data concerning 10 most essential products, distribution channels, information about 10 major intermediaries in the conclusion of contracts for the insurance undertaking by gross written premium (excluding sales carried out directly by the insurance undertaking), including in distribution into 5 most essential products and in the case of non-life insurance undertakings also data on third party liability motor insurance).

By letter of 15 December 2021, the UKNF submitted to life and non-life insurance undertakings updated templates of additional report forms applicable for data for the first quarter of 2022 (containing changes necessary only for the supervisory authority, such as new columns or lines added).

In 2021, the UKNF also took further measures in cooperation with the Ministry of Finance to implement the additional report forms into the regular reporting rules for insurance undertakings by amending the Regulation of the Minister of Finance of 29 April 2016 on additional financial and statistical reports of insurance and reinsurance undertakings (Journal of Laws 2018, item 392, as amended) (also taking into account the need to introduce further modifications to additional report forms based on conclusions from the analysis of data received from insurance undertakings), consisting in:

- exchanging correspondence with the Ministry of Finance on the matters resulting from the proposals for changes in the report forms under the said Regulation,
- submitting, by letter of 12 July 2021, comments to the draft Regulation of the Minister of Finance, Development Funds and Regional Policy on additional financial and statistical reports of insurance and reinsurance undertakings (hereinafter: ‘draft Regulation’),
- participating in a consensus conference with the Ministry of Finance on 27 September 2021 relating to the draft Regulation,
- organising workshops for insurance and reinsurance undertakings, which were also attended by representatives of the Ministry of Finance and the Polish Chamber of Insurance, aimed at discussing the amendments proposed in the draft Regulation (workshops on 29 September 2021, 1 October 2021, and 13 October 2021),
- forwarding, by letter of 27 October 2021, to the Ministry of Finance the updated versions of report forms and related explanatory notes including the arrangements made during the consensus conference and workshop.

## 9.5.10. MONITORING THE IMPACT OF THE COVID-19 PANDEMIC ON PRODUCTS OF INSURANCE UNDERTAKINGS

In 2021, a study was carried out on changes in the risk profiles of insurance products and on the problems related to the exclusion of certain risks during the COVID-19 pandemic. The study covered 57 insurance undertakings. The results of the survey will be used for further analytical work and decisions of the supervisory authority.

## 9.5.11. SUPERVISION OVER INSURANCE DISTRIBUTION

### 9.5.11.1. SUPERVISION OVER THE FULFILMENT OF THE REQUIREMENT ON PROFESSIONAL DEVELOPMENT BY DISTRIBUTORS

In 2021, an aggregate report was prepared on the study of compliance with the requirement on professional development for 2019, referred to in Article 12 of the Act on insurance distribution.

At the same time, the verification of compliance with the requirement on professional development continued, examining the fulfilment of this obligation by selected insurance distributors for the year 2020. The analysis covered: 49 insurance undertakings, 20 insurance brokers, and 45 insurance agents.

Following those activities, 24 administrative proceedings were initiated for suspected infringements of the Act on insurance distribution by insurance distributors (in relation to 7 insurance undertakings and 17 insurance agents).

In 2021, 9 recommendations were issued to insurance undertakings due to the failure to introduce appropriate internal regulations on the fulfilment of the requirement on professional development by insurance agents and persons performing agency activities (Article 46(1) point 5 of the Act on the business of insurance).

### 9.5.11.2. DISTRIBUTORS' REPORTING

In 2021, analysis of data obtained regularly from selected insurance intermediaries (insurance agents and brokers) continued with regard to insurance distribution, covering, *inter alia*, information on premiums, the number of insurance contracts concluded, commission, types of products being distributed, management of insurance contracts, changes in the activities of intermediaries caused by COVID-19, and cooperation with insurance undertakings. Information so obtained is constantly analysed to build a database of knowledge on the insurance intermediation market, including trends in sales and products, and the relations between insurance undertakings and intermediaries. In 2021, the following analytical exercises were performed:

- analysis of 12 qualitative surveys on COVID-19 from 15 intermediaries (a total of 180 analyses), which covered information concerning insurance products being distributed, the management of insurance contracts, and changes in the activities of intermediaries, resulting from the situation caused by COVID-19;
- analysis of 4 quantitative surveys on COVID-19 from 15 intermediaries (a total of 60 analyses), which covered information concerning gross written premium, the number of insurance contracts and remuneration due to and received by intermediaries.

Information about insurance distribution channels was also analysed, including information about the most important entities involved in the conclusion of contracts for the benefit of insurance undertakings according to gross written premium, submitted by insurance undertakings as part of the additional quarterly reporting imposed by letter of 6 July 2020.

### 9.5.11.3. STUDY ON THE DISTRIBUTION OF UNIT-LINKED INSURANCE CONTRACTS

The analysis of insurance distribution in 2021 involved monitoring of conclusions of unit-linked insurance contracts by 21 insurance undertakings in terms of performance of the analysis of the customer's needs prior to the conclusion of the contract. The said analysis was carried out on the basis of quantitative data relating to unit-linked insurance contracts submitted on the basis of additional quarterly reporting of insurance undertakings imposed by letter of 28 February 2020 (DNM-DNMZRS.6065.1.2020.MZ). A total of 84 quarterly reports were analysed.

### 9.5.11.4. OTHER ANALYTICAL ACTIVITIES

Analytical work was ongoing, based on which a report will be prepared containing conclusions and recommendations on the supervisory activities resulting from a survey conducted among distributors – insurance undertakings and selected insurance agents, related to compliance with the requirements on insurance distribution.

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

Provisions governing the insurance business impose a number of disclosure requirements on insurance undertakings, towards both the supervisory authority and policy holders. 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 access to certain data relating to the operations of insurance undertakings. Due to the fulfilment of the statutory disclosure requirements by the undertakings, in 2021 the analyses covered:

- financial statements, including 234 additional quarterly financial statements and statistical reports, 60 additional annual separate financial statements and 2 consolidated annual statements,
- quantitative reports, including 234 quarterly reports for supervisory purposes, 60 annual reports for supervisory purposes and 2 group reports,
- reports on the solvency and financial condition (in terms of compliance with the requirements laid down in the legislation and EIOPA guidelines on disclosures), including 60 separate reports and 2 group reports,
- regular surveillance reporting (42 reports), 42 separate reports in the course of the SRP for 2020, and 2 group reports,
- information on intra-group transactions/risk concentration (14 reports),
- finance schemes of insurance undertakings for 2021 (60 reports),
- publication of annual reports of unit-linked funds (PL: *ubezpieczeniowy fundusz kapitałowy* – UFK) as at 31 December 2020 on the insurance undertakings' websites and semi-annual reports of unit-linked funds as at 30 June 2021 and 31 December 2021,
- information on individual retirement accounts (IKE) and individual retirement protection accounts (IKZE) as at 30 June 2020 (a total of 49 reports),
- information on employee capital plans (13 reports).

### 9.5.11.6. EXAMINATION OF APPLICATIONS SUBMITTED BY INSURANCE UNDERTAKINGS/REINSURANCE UNDERTAKINGS

In 2021, the KNF considered the applications from insurance undertakings on:



- proceedings in respect of authorisation to repay a subordinated loan – 2 proceedings concluded with a final decision,
- proceedings in respect of authorisation to disclose one report on the solvency and financial condition of a group – 1 set of proceedings concluded with a final decision,
- exemption of an intra-group transaction on derivatives from the obligation to provide security – 1 set of proceedings concluded with a final decision,
- proceedings in respect of approval of a realistic short-term finance scheme – 1 proceeding concluded with a final decision.

#### 9.5.11.7. OTHER ISSUES RESULTING FROM ONGOING SUPERVISION OF ACTIVITIES OF INSURANCE UNDERTAKINGS AND INSURANCE DISTRIBUTION

In other supervisory areas, the following activities were undertaken in 2021:

- at the request of insurance undertakings, 24 opinions were issued on the financial situation of insurance undertakings, including on meeting the solvency requirements provided by law,
- reports on the course of liquidation and the opening balance of the liquidation were analysed in order to assess the correctness of actions taken by the liquidators,
- for 31 insurance undertakings, the analysis covered information on the expected dividends, disbursements and charges at the end of the third quarter of 2021,
- a decision was made in relation to an insurance undertaking concerning the exemption from the obligation to provide the information referred to in Article 304 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) (OJ L 12 of 17 January 2015, p. 1, as amended) for quarterly periods (administrative proceedings initiated in 2020),
- a letter was forwarded to life and non-life insurance/reinsurance undertakings, containing updated expectations of the supervisory authority as to the scope of information which must be included in regular supervisory reporting (RSR), so that the risks in the business of insurance undertakings could be properly assessed,
- analysis was performed in relation to insurance against cyber risks in the offer of insurance undertakings,
- analysis was performed in relation to the impact of the COVID-19 pandemic on health insurance,
- 55 cases were conducted in relation to notification of changes in positions of key function holders other than members of management boards of insurance undertakings and reinsurance undertakings,
- 192 cases were conducted in relation to the review of notification of outsourcing or any material change thereof,
- 32 administrative proceedings were conducted in relation to insurance distributors regarding suspected breach of the Act on insurance distribution.

#### 9.5.12. PRE-APPLICATION AND APPLICATION PROCESSES FOR INTERNAL MODELS

The Solvency II regime, in addition to setting the solvency capital requirement in a standard manner, gives insurance and reinsurance undertakings the opportunity to set up the requirement in a manner which is more adequate to their risk profile and the scale of operations. The set of tools, systems, and procedures to be used is called an internal model. The model should meet a number of strict requirements laid down in the Act on the business of insurance and reinsurance and other provisions of Solvency II, and its use for that purpose must be approved by the competent supervisory authorities. Verification and assessment of

the solutions adopted in the model is a complex process, which requires highly specialised knowledge in many areas. The Act on the business of insurance provides for a relatively short period (6 months) for the competent supervisory authority to make the decision on the approval of application of an internal model for setting the solvency capital requirement where an insurance undertaking or reinsurance undertaking submits a relevant application. The pre-application process meets the above-mentioned challenges and is based on a voluntary cooperation between insurance undertakings and the supervisory authority in relation to the internal model before the application is submitted. Its purpose is better preparation of domestic insurance undertakings and the supervisory authority for the submission of an application for the use of the internal model to determine the solvency capital requirement.

The activities conducted by the KNF Board in the area of pre-application processes in 2021 represented a continuation of activities carried out in previous years and consisted in working relations with undertakings, which translated into their further work aimed at eliminating errors in internal models and improving them in terms of compliance with the provisions of Solvency II, in order to submit, in the future, applications for the use of an internal model for the purpose of calculation of the solvency capital requirement.

In 2021, the KNF Board participated in a review of a request submitted to one of the foreign supervisory authorities for a major change to a group internal model, consisting in a Polish insurance undertaking joining the model for the purpose of calculation of the solvency capital requirement for local reporting, thus acting as an interested supervisory authority, whose opinion was an element of a joint decision. Following that work, starting from the end of 2021, for the first time, an insurance undertaking in Poland will set the solvency capital requirement by means of an internal model.

The UKNF's activities for the assessment of internal models at the European level in 2021 took the form of cooperation as part of the pre-application and application processes and a process of verification of the continuous adequacy of the model. The representatives of the UKNF participated in international meetings and consultation, including with representatives of two foreign supervisory authorities, as part of cooperation for the assessment of a request for a major change to a group internal model and in the activities of expert teams appointed by EIOPA. In addition, the employees of the UKNF were involved in preparing positions for the meetings of the Board of Supervisors of EIOPA (BoS) on issues related to internal models.

### 9.5.13. STUDIES ON THE INSURANCE MARKET SUBMITTED AT THE MEETINGS OF THE KNF BOARD

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

- Additional stress tests in insurance and reinsurance undertakings as at 31 December 2020,
- Stress tests of insurance and reinsurance undertakings, 13th issue,
- Reinsurance of domestic insurance undertakings and catastrophic events in 2020,
- The situation of the insurance sector (after the third quarter of 2020, after the fourth quarter of 2020, after the first quarter of 2021, after the second quarter of 2021),
- Position on the dividend policy of insurance undertakings, reinsurance undertakings and insurance and reinsurance undertakings in 2022,
- Results of the Supervisory Review Process (SRP) for insurance/reinsurance undertakings for 2020,
- Activity of foreign insurance undertakings in Poland and domestic insurance undertakings abroad in 2019,
- Report on the activities of the Insurance Guarantee Fund in 2020,
- KNF Board's Action plan for 2022 with regard to public supervision resulting from the Act on statutory auditors, audit firms and public supervision.

## 9.6. INSPECTION ACTIVITIES

## 9.6.1. INSPECTIONS AT INSURANCE UNDERTAKINGS AND REINSURANCE UNDERTAKINGS

In 2021, inspection activities were carried out at 19 insurance/reinsurance undertakings, including 14 inspections and 7 supervisory visits; at two entities both an inspection and a supervisory visit were carried out. In total, inspection activities were carried out at 8 life insurance undertakings (6 inspections and 2 supervisory visits) and 11 non-life insurance/reinsurance undertakings (8 inspections and 5 supervisory visits). Due to the pandemic, the inspections and supervisory visits were conducted mainly using electronic means of communication.

All inspection activities were targeted and covered one to four issues.

In 2021, inspection activities were carried out particularly in the following areas:

- assessment of risk to be covered (Article 21 of the Act on the business of insurance),
- claim settlement/payment of benefits,
- compliance with the requirements concerning the system of management of risk in regard to the tasks performed in the implementation of recommendations,
- preparation of data and information for supervisory purposes,
- valuation of assets and liabilities for solvency purposes,
- valuation of technical provisions for solvency purposes,
- fulfilment of requirements concerning the solvency capital requirement (SCR) with regard to certain modules of the standard formula,
- investment policy,
- implementation of the recommendations submitted to the insurance undertaking in previous years,
- the effectiveness of the risk management system in the area of reinsurance.

Due to the findings made in the course of the inspection activities towards insurance undertakings, in 2021, 79 recommendations in that area were issued to ensure compliance of the undertaking's activities with the law, articles of association and/or scheme of operations, to prevent infringement of interests of policyholders, the insured and beneficiaries under insurance contracts, and to remedy the irregularities found during the supervision process.

**Table 64. Most common irregularities found during inspection activities at insurance and reinsurance undertakings in 2021**

1.	Irregularities related with the process of product adequacy assessment and breach of Article 21 of the Act on the business of insurance, in particular consisting in: <ol style="list-style-type: none"> <li>a) providing proposals of insurance which are inappropriate for the policyholders'/insured's needs by including, in the list of insurance-based unit-linked funds offered as part of the insurance contract, funds with a risk profile inconsistent with the level of risk declared in the questionnaires,</li> <li>b) failure to provide the policyholders/insured with a justification, including the identification of needs and an explanation of how the proposed insurance product satisfies the needs of the policyholder,</li> <li>c) failure to indicate, in the statement of reasons of a warning used by a society in the cases of joining group insurance, of a specific reason why the acceding person receives the warning.</li> </ol>
2.	Irregularities consisting in the failure to include, in the documents submitted to the policyholder, all basic information related to insurance contracts.
3.	Infringing the interests of the beneficiaries of third party liability insurance of motor vehicle owners, in particular by: <ol style="list-style-type: none"> <li>a) adopting different criteria for setting man-hour rates in the case of the service method and the cost estimate method,</li> <li>b) applying, for the purpose of determining the compensation with the use of the cost estimate method, a man-hour rate which does not reflect the real man-hour rate applicable at local repair garages,</li> </ol>

	c) applying, for the purpose of determining the compensation with the use of the cost estimate method, discounts on total costs of repair, reduction of the value of varnishing material and applying adjustments to prices of spare parts of quality 'O', which are not included in the costs estimates drawn up in the repair workshops.
4.	Irregularities consisting in the application of incorrect or unsupported assumptions in the valuation of technical provisions for solvency purposes.
5.	Irregularities consisting in incorrect definition of parameters used in the valuation of technical provisions for solvency purposes.
6.	Irregularities consisting in incorrect definition of parameters and application of improper assumptions when determining the solvency capital requirement.
7.	Application of inappropriate simplifications when calculating the solvency requirement.
8.	Lack of measurement of assets and liabilities at fair value, and other irregularities related to the measurement of assets and liabilities at fair value.
9.	Irregularities related to the documentation describing the method of valuation of assets and liabilities for solvency purposes as regards the description of valuation methods used.
10.	Errors in quarterly data and information submitted for supervisory purposes.
11.	Irregularities in the activities and operation of the audit committee.
12.	Irregularities in investing the assets of unit-linked funds (enabling investment of assets of unit-linked funds in assets whose risk cannot be managed by the insurance undertaking due to the design of the unit-linked funds in question).

Source: UKNF

## 9.6.2. INSPECTIONS AT INSURANCE DISTRIBUTORS

In 2021, inspection activities were carried out at 14 entities engaged in insurance distribution.

Inspections were carried out in relation to 6 insurance agents and 4 insurance brokers. Two of the above-mentioned inspection procedures (1 in relation to a broker and 1 in relation to an agent – a commercial bank) were comprehensive inspections covering the activities of an insurance intermediary with regard to compliance. For 5 inspections of insurance agents, the inspections covered selected issues related to insurance distribution activities, including: organisation and supervision of the agent's training obligations and timely reporting to insurance undertakings of changes in the data included in the register of agents, as well as examination of customers' requirements and needs regarding insurance cover. The subject-matter of 3 targeted inspections of insurance brokers was, in particular: performance of brokerage activities by authorised persons, compliance with prohibitions under Article 30 of the Act on insurance distribution, and the timeliness of notification of changes to the data that must be entered in the register of brokers.

At 4 insurance undertakings, inspections were conducted in relation to the use of services of insurance agents offering supplementary insurance.

Given the findings made in the course of inspections of insurance distributors in 2021, 46 recommendations were issued to ensure compliance, including: 36 recommendations for insurance agents, 2 recommendations for an insurance broker, and 8 recommendations for insurance undertakings.

**Table 65. Most common irregularities in the activities of insurance distributors identified during inspection activities in 2021**

1.	Failure to provide the customer, at the time of the first act, with information or accurate information about the entry number in the Register of Insurance Intermediaries, the address of the website on which the Register is available, how to check the entry in that Register, about the remuneration received in connection with the proposed conclusion of an insurance contract, about the option for filing a complaint and alternative dispute resolution, or providing such information otherwise than in paper form.
2.	Lack of analysis or improper analysis of the customer's requirements and needs regarding insurance cover.
3.	Failure to provide customers with documents containing information on the product before concluding the insurance contract.
4.	Providing advice to customers with a recommendation on the best offer otherwise than in writing.
5.	Performing agency or brokerage activities in relation to insurance distribution through persons not entered in the register of agents or register of brokers, respectively.
6.	Failure to make changes in the data in the register of brokers immediately but not later than within 7 days of the occurrence of such changes.
7.	Agent's failure to ensure appropriate supervision of persons conducting agency activities on behalf of the agent.
8.	Failure to fulfil the training requirement by natural persons entered in the Register of Insurance Intermediaries.
9.	Failure by an insurance undertaking to exercise supervision or proper supervision of insurance agents.
10.	Failure by insurance undertakings to notify, in a timely manner, changes in the data entered in the register of agents concerning the entities with which they have entered into agency agreements, including natural persons carrying out agency activities.
11.	Non-compliance of the substance or form of powers of attorney to enter into insurance contracts on behalf of an insurance undertaking.

Source: UKNF

## 10. CROSS-SECTORAL ACTIVITIES

### 10.1. INNOVATIVE ACTIVITIES AND NEW TECHNOLOGIES

#### 10.1.1. DEVELOPMENT OF INFORMATION TECHNOLOGIES

In 2021, as part of the development of information technologies, the following activities (divided by area) were carried out.

In the area of insurance supervision:

- a project was launched: the Analytical and Supervisory Module (MAN RPU) for the implementation of a subset of data (data warehouse) with cyclical datafeeds and analytical reports. Its main objective is to comply with the information obligations imposed by EIOPA, to improve the performance of supervisory tasks in the area of insurance distribution, to facilitate access to statistical knowledge on registration data, to enable the presentation of registration data on the analysis of the insurance intermediaries market and its processes;
- in an IT system supporting the Insurance Supervision System (SNU):
  - functionalities were adapted to support reports compliant with the Solvency II Directive, including to support new Solvency II reporting packages in version 2.5.0, and the reporting on the SAP BO platform was adapted in connection with the recent changes,
  - the functionality of automatic feeds of attachments of descriptive reports from the templates 'Regular report for supervisory purposes' and 'Finance schemes' was implemented,
  - the functionality of removing certain instances of misreporting was implemented,
  - the functionality of automatic alerts for dedicated employees concerning cases of failure to feed a report into the analytical database was implemented,
  - the functionality of the system was adapted to the needs related with data reporting to Statistics Poland (GUS) and publication of data on the KNF website,
  - validation data were introduced for QRT SCR and annual QRT templates,
  - mechanisms for additional review of attachments were implemented in the Reporting Application,
  - new statuses were introduced in the system and reflected in the Apps\_RAU application (the database of external users of the Register of Insurance Intermediaries (RPU)), which allowed for sending relevant requests to the RPU (in accordance with the Act on insurance distribution);
- the RPU register was adapted to the option of authenticating a user who has accounts within one of the trusted identity providers supported by the centre for national electronic identification of identity providers. The IT system supporting the RPU register was integrated with the national electronic identification centre.

In the area of capital supervision:

- in connection with the EBA's planned project regarding the exchange of data on investment firms and brokerage houses, a mechanism was prepared to collect data from investment firms;
- as part of the European Single Electronic Format (ESEF) project, work was undertaken on the implementation of a web service, validation of reports and their unloading into an analytical database, as well as configuration and implementation in the taxonomy database;
- in the system of management of alternative investment funds (AIFs), functionalities of management of so-called company's key data regarding KNF-supervised entities were implemented to increase the efficiency of analytical processes, introduce rapid management reporting and ensure automatic exchange of information with stakeholders, that is to lay foundations for the data-driven supervision;

- in the IT system operating employee capital plans (PPK), a functionality for automatically sending to supervised entities notifications on the status of the submitted report;
- following an amendment to Article 26 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (MiFIR) and to the Regulation on ESAs, a mechanism was designed and implemented to enable submission to ESMA of data on all transactions obtained pursuant to Article 26 of MiFIR;
- the FIRDS system was adapted to the change of reference data and transparency data reporting procedures;
- the SNP system was adapted to changes resulting from the launch, by Giełda Papierów Wartościowych w Warszawie S.A., of a new application for calculation of indices (IND, INDA);
- the functionalities of the ESPI system were expanded, among others with regard to:
  - implementation of a form for the digitisation of FI notifications to provide supervisory units with IT tools to collect electronic notifications from investment funds,
  - changes in the reporting of investment fund management companies on the Redemption of Investment Certificates (PL: Wykup Certyfikatów Inwestycyjnych – WCI),
  - changes in the form concerning reporting on IKE and IKZE, following an amendment to legislation,
  - adding an alert and daily report of ESPI-PRDM documents on events at supervised entities,
  - enabling reporting in quarterly reports and semi-annual and annual financial statements, which resulted from amendments to the legislation for investment fund management companies;
- the IT system supporting the Register of Shares (PL: System Ewidencji Akcji – SEA) was adapted to the option of authenticating a user who has accounts within one of the trusted identity providers supported by the centre for national electronic identification of identity providers. Activities were also undertaken to integrate the SEA register with the national centre.

In the area of banking supervision:

- as part of the EBA's European Centralised Infrastructure for Supervisory Data project (EUCLID), an IT solution was designed and implemented for the exchange of registration data and reported data, and processes were defined and implemented in relation to the processing and submission to EBA of data of credit institutions for the purpose of the register of credit institutions and their reporting in the format compliant with the format developed by EBA (the ITS standard). Other tasks included the development and implementation of the Register of reporting obligations, the Register of deliveries to the EBA, and the Single Register of Credit Institutions, as well as:
  - infrastructure for the UKNF's single data warehouse was expanded,
  - a tool was implemented to enable validation and processing of XBRL data (conversion of XBRL to Excel),
  - a structure was created for parallel processing and Big Data analysis,
  - new analytical tools were implemented,
  - registers were created and implemented to improve analysts' day-to-day work;
- as part of the Platform for Structured Analytical Measures (PUMA project):
  - reported data were made available both in raw form and as processed aggregates for banks and their groups. The new mechanisms allow the UKNF's Banking Supervision Division to carry out advanced supervisory work on a multidimensional data model and freely define aggregates on the basis of reported data. The implemented visualisation/data set glossaries allow to create reports that are standardised and centrally modifiable,
  - a database layer of the PUMA system was implemented, including mechanisms for feeding and updating COREP and FINREP data and a mechanism for calculations for

- separate and consolidated financial statements for more than 3 thousand indicators/concepts;
- as part of the National Credit Register, in cooperation with the NBP, the substantive part of the system was defined. That provided grounds for activities related to the creation of technical part of a solution for obtaining files from the NBP and unpacking them into the database;
  - the BIONB system, supporting the supervisory review and evaluation process, was adapted to the current methodology, which allowed for the review in 2021;
  - new functionalities were implemented in the Register of Credit Intermediaries and Register of Non-Bank Lending Institutions:
    - to improve data quality,
    - to change the legal form,
    - automatic calculation of rates of timeliness of the review of applications was integrated with the EZD system;
  - a functionality of the ESPI system was implemented, enabling automatic transmission to the competent employees of the UKNF of reports submitted by supervised banks (companies listed at the WSE).

In other areas:

- an IT system was designed and implemented to support the mediation process conducted through the Mediation Centre of the Arbitration Court attached to the KNF Board in cases related to loans denominated in or indexed to a currency other than the Polish currency;
- the Central Register of Complaints (PL: Centralny Rejestr Zgłoszeń – CRZ) was designed and implemented to serve as a knowledge base about complaints from professional and non-professional market participants. The register supports the complaint handling process and enables the review of adopted measures.

In the area of supervision of the entire financial market:

- assumptions were developed for the construction of the supervised entities' data analysis centre.

In the area of management and organisation:

- the Electronic Register of Payment Services (eRUP) system was modified in regard to statements on advance payments made to cover the costs of supervision of:
  - Mortgage Credit Intermediaries for 2021,
  - Domestic Payment Institutions for 2020,
  - Capital Market for 2021;
- a website template was developed and adapted, and then a web-based intranet was implemented to improve communication within the UKNF.

In the area of infrastructure modernisation:

- the server infrastructure was further upgraded – the virtualisation environment was expanded by adding new servers and memory modules, so the UKNF gained a state-of-the-art infrastructure, providing high processing capacity for systems supervising the financial market in Poland;
- data processing at the UKNF was standardised and optimised. A universal data storage model was built and advanced data processing tools were implemented to increase the flexibility of the environment for the UKNF's current and new applications;
- the UKNF continued building a unified system for data acquisition, storage and distribution by delivering a database software subscription – building this system is necessary to carry out broadly defined analytical and supervisory functions. 2021 saw the launch of additional projects based on the collection, processing and analysis of big data;
- a log correlation security system was implemented, resulting in greater resilience of the UKNF to internal threats and targeted attacks, which statistically pose the greatest risk to most large organisations processing material and classified information;



- a privileged access management system was put in place, enabling the creation of a central point for proactive management and monitoring of privileged accounts and their interactions with the UKNF's technological resources. The tool enables effective tracking of the activity of employees with various rights through proven tools (management of privileged sessions) and a real influence on the scope of activities of the UKNF employees having privileged accounts and subcontractors, thus enabling an appropriate response in case of abuse;
- the SAP BusinessObjects BI analytical and reporting platform was migrated to a version that ensures compliance with the latest versions of databases and the transition to an environment based on virtual machines;
- the UKNF's e-mail system was upgraded to improve the security of the system.

## 10.1.2. CYBERSECURITY RISK SUPERVISION IN THE FINANCIAL MARKET AND AT THE UKNF

The KNF Board supervises the area of ICT risk and cybersecurity and performs the tasks of a body competent for the banking sector and financial market infrastructure resulting from the Act on the national cybersecurity system.

### 10.1.2.1. INSPECTION ACTIVITIES

#### 10.1.2.1.1. INSPECTIONS AT FINANCIAL MARKET ENTITIES

In 2021, inspection activities at supervised entities were carried out on the basis of the provisions of law and the KNF prudential recommendations, taking into account, *inter alia*, 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 internal regulations.

**Table 66. Inspection activities carried out by the UKNF at supervised entities in 2021 in the area of ICT risk**

Sector	Inspection activities	Number
Banking: commercial banks	Targeted inspection <sup>54</sup>	4 <sup>55</sup>
Insurance	Supervisory visit	2
Credit unions	Targeted inspection	2 <sup>56</sup>
Domestic payment institutions	Targeted inspection	1
Capital market	Targeted inspection	5 <sup>57</sup>
<b>Total</b>		<b>14</b>

Source: UKNF

**Table 67. Material irregularities identified during inspection activities at supervised entities in 2021 in relation to ICT risk**

Item	ICT risk
1.	Failure to review the rights granted, including the compatibility of the rights actually granted in the IT systems with both the rights assigned in the user rights logs and with the substantive scope of duties and rights of individual users.
2.	The rules of user right management did not consider the threats related to improper exercise of privileged user rights.
3.	Lack of an effective formal ICT security management system, covering the activities related to the identification, estimation, control, prevention, monitoring and reporting of risk in that area, integrated with the whole IT risk and information security management system.
4.	Lack of regular audits in the areas of information technology and ICT security.
5.	Lack of solutions for the e-mail system to facilitate control over high-confidentiality information contained in external e-mails.
6.	Lack of protection of electronic access channels against DoS/DDoS attacks.
7.	Lack of formal rules for updating mobile device software (phones/smartphones, tablets).
8.	Failure to keep a register of the entity's end-user computing (EUC) software.
9.	The existing incident logs did not contain all the data specified in internal procedures, and the identified incidents were not recorded in the relevant incident log.
10.	Internal regulations did not provide for the obligation to report incidents, to cooperate and exchange information with the competent Computer Security Incident Response Team (CSIRT) at national level.
11.	Lack of classification of IT systems and information processed therein according to the rules considering, in particular, the level of protection required for those systems and information.
12.	Failure to ensure automatic protection against malware in the case of mobile devices, i.e. the phones/smartphones used in the organisation.
13.	Internal regulations failed to provide for the obligation to identify and register components not covered by manufacturer's support and failure to carry out analysis regarding the possibility of replacing such components with components covered by manufacturer's support.
14.	Using obsolete TLS protocols in online banking.
15.	Failure to update business continuity plans despite numerous organisational changes and changes in the list of critical processes.
16.	Lack of detailed manuals on restoration of ICT environment components based on back-up copies.

<sup>54</sup> Key service operator as defined in the Act on the national cybersecurity system

<sup>55</sup> 2 inspections at a banking sector entity operating as a key service operator as defined in the Act on the national cybersecurity system

<sup>56</sup> 1 inspection at a credit union operating as a key service operator as defined in the Act on the national cybersecurity system

<sup>57</sup> 1 inspection at a capital sector entity operating as a key service operator as defined in the Act on the national cybersecurity system

17.	Lack of a secondary data centre, resulting in the inability to restore the ICT environment in a secondary location.
18.	Failure to develop and implement internal procedures for access to ICT systems and lack of appropriate technical rules and mechanisms to ensure an appropriate level of control of logical access to data and information and physical access to key elements of the ICT infrastructure, enabling its restoration along with the history of modifications and data processing.
19.	Lack of periodic reviews of effectiveness of the mechanisms aimed at ensuring proper physical and environmental conditions in locations of key elements of the ICT infrastructure.
20.	Failure to perform an audit of the security of the IT system used to provide a key service within one year of service of the decision on the recognition of a key service operator.
21.	Risk analyses did not consider the estimated threats and risk levels for each IT system used to provide a key service.
22.	Incomplete implementation of certain guidelines on the management of information technology and ICT environment security despite the declaration of complete implementation.

Source: UKNF

In 2021, post-inspection recommendations were issued for 12 supervised entities.

#### 10.1.2.2. PERFORMANCE OF OBLIGATIONS UNDER THE ACT ON THE NATIONAL CYBERSECURITY SYSTEM

The KNF Board, as an authority competent for cybersecurity for the banking sector and the financial market infrastructure, pursuant to Articles 42 and 53-54 of the Act on the national cybersecurity system, completed the following activities in 2021.

The responsibilities of the competent authority include without limitation identifying key service operators (in accordance with the Implementing Regulation to the Act of 11 September 2018 on the national cybersecurity system) on the list of key services and materiality thresholds of the disturbing effect of an incident on the provision of key services in relation to the key services for the banking and financial market infrastructure sectors), and then performing an ongoing analysis of entities in a given sector or sub-sector for recognising them as key service operators or for failure to meet eligibility requirements for key service operators.

In performing the obligations under the Act on the national cybersecurity system, the KNF Board, as the competent authority, issued from 2018 relevant administrative decisions in relation to 21 entities from the banking and financial market infrastructure sectors. As at 1 January 2021, there were 20 key service operators, while in July 2021 the KNF Board issued one decision on the expiration of a decision on the recognition of a key service operator. As at 31 December 2021, there were 19 entities recognised by the KNF Board as key service operators.

**Table 68. Number of key service operators in the banking and financial market infrastructure sectors in the years 2018-2021 as at 31 December of each year**

Type of entity	2018	2019	2020	2021
Banking and credit unions sector entities	15	16	16	15
Financial market infrastructure entities	4	4	4	4
<b>Total</b>	<b>19</b>	<b>20</b>	<b>20</b>	<b>19</b>

Source: UKNF

The competent authority was also responsible for cooperating with the Minister of Digital Affairs in relation to: the collection, analysis and submission to the Minister of Digital Affairs of information about the implementation progress of the tasks imposed, under the Act on the

national cybersecurity system, on key service operators in the banking and financial market infrastructure sectors, and in relation to the communication of information from the Minister of Digital Affairs to key service operators.

In January, May and October 2021, the KNF Board as an authority competent for cybersecurity for the banking and financial market infrastructure sectors filed a request for confirmation and verification of the up-to-dateness of the list of contact persons (referred to in Article 9(1) point 1 of the Act on the national cybersecurity system) responsible for maintaining contact with the entities of the national cybersecurity system.

In April 2021, the competent authority submitted a survey to be completed by key service operators concerning Article 15 of the Act on the national cybersecurity system – a model survey on the application of the statutory audit report template compliant with the Act on the national cybersecurity system, received from the Chancellery of the Prime Minister.

In addition to the above-mentioned activities, the competent authority communicated to key service operators, from time to time, information about cyber threats related to the Polish financial market.

### 10.1.2.3. ACTIVITIES OF THE KNF CSIRT

#### 10.1.2.3.1. Activities to support the sector in the area of cybersecurity as part of the activities of the KNF CSIRT

The KNF CSIRT performs the tasks of the Sectoral Team for Cybersecurity, in cooperation with entities in the national cybersecurity system, in particular CSIRTs operating at national level. The main goal of the Sectoral Team for Cybersecurity is to support key service operators in their fight against cybersecurity threats and to perform the tasks specified in Article 44 of the Act on the national cybersecurity system, including but not limited to:

- accepting reports on serious incidents and providing support in handling such incidents;
- supporting key service operators in their performance of obligations under the Act on the national cybersecurity system;
- analysing major incidents, searching for links between incidents and developing conclusions from incident handling;
- cooperating with the CSIRT MON, CSIRT NASK and CSIRT GOV, as appropriate, to ensure a coordinated process of handling serious incidents.

#### 10.1.2.3.2. ANALYSIS OF CYBERSECURITY THREATS

The KNF CSIRT supports financial sector entities in monitoring the infrastructure and, jointly with CSIRTs at national level, distributes technical recommendations on how to deal with threats.

In 2021, the KNF CSIRT prepared and sent to financial market entities 22 warnings containing detailed descriptions of threats and proposed mitigation measures to raise the security level.

The recommendations concerned the most serious threats to cybersecurity in the sector.

#### 10.1.2.3.3. ANALYSIS OF MALWARE

As part of its tasks, the KNF CSIRT analyses on an ongoing basis malware campaigns targeting institutions and clients in the Polish financial market. With the analyses in question, it is possible to draft appropriate warnings to mitigate the risks associated with malware infection. In 2021, the KNF CSIRT published a series of articles on malware, including:

- QakBot malware – analysis of a campaign in which criminals sent malicious e-mails using the reply-chain technique through vulnerable mail servers,
- FluBot malware – analysis of the malware on mobile devices, infecting the devices by distributing malicious links in text messages,

- malicious files with 4.0 macros – the article described the mechanisms used by criminals to infect workstations using macro mechanisms in Microsoft Office documents,
- malware on mobile devices – the article described good practices in the field of security of mobile devices and indicators allowing to detect possible device infection,
- Blackrock analysis – the description of a mobile malware campaign in which fraudsters impersonated a government application related to the COVID-19 pandemic – ProteGO Safe. The application was actually used to steal online banking passwords stored on the victim's phone.

#### 10.1.2.3.4. IDENTIFICATION AND PREVENTION OF THREATS TO ONLINE BANKING CUSTOMERS

The KNF CSIRT engages in ongoing monitoring and analysis of new trends and threats in the field of cybersecurity, emerging in the financial sector. The knowledge so gathered is used to mitigate risks and carry out educational activities raising the awareness of online banking clients in the area of cybersecurity.

In 2021, the KNF CSIRT identified 11 468 malicious websites, that were divided into the following categories:

- 3 986 fake announcement websites,
- 3 033 fake courier/postal services websites,
- 2 203 fake investment websites,
- 1 016 fake online banking websites,
- 324 fake payment gateways,
- 906 other malicious websites.

The domains were used to steal customer credentials for online banking, steal payment card numbers, to commit investment scams and to steal login credentials for social networking sites. Malicious sites were reported to CERT Poland so that they are put on the list of warnings.

### 10.1.2.3.5. EDUCATIONAL ACTIVITIES OF THE KNF CSIRT

#### *Social media*

Profiles of the KNF CSIRT were created in social media (Twitter, LinkedIn, Facebook) in order to publish information and warnings about the newest methods used for attacks and online scams.

159 warnings were prepared in 2021 in relation to the newest attacks or operating methods of cybercriminals. The warnings related mainly to:

- fake online banking websites,
- specialised malware for theft of funds,
- fake investment products used for phishing,
- attacks against clients of financial institutions carried out through phone calls (vishing),
- fake sites of sales portals – stealing credit card numbers.

Information about the threats published by the KNF CSIRT are disseminated by broad-reach news media. 1 102 articles were published in 2021 based on the warnings of the KNF CSIRT. As part of its educational activities, the KNF CSIRT also prepared a UKNF podcast<sup>58</sup> on cybersecurity, with warnings against the most common attacks on clients of the financial market and tips on how to protect one's own funds.

#### *Traditional media*

In addition to the activity in online media, the KNF CSIRT also carried out educational activities in traditional press. In the first half of 2021, 5 articles were prepared, which then appeared cyclically in 19 regional daily papers throughout the country. The articles explained in a simple and clear manner the topics related to cybercrime.

#### *Training courses and conferences*

In 2021, the KNF CSIRT carried out a series of educational activities to raise awareness of cyber threats.

The UKNF's Education Centre for Market Participants (CEDUR) conducted 8 webinars<sup>59</sup> on cybersecurity, protection of clients' funds, and operating methods of malware.

As part of educational activities, representatives of the UKNF participated in many national and international initiatives which aimed to disseminate knowledge in the field of financial market cybersecurity, for example:

- KSC forum conference – discussing the experiences related with the establishment of the first sectoral cybersecurity team in Poland under the Act on the national cybersecurity system;
- 'Click Safe – workshops for children, youth and the elderly' („Bezpieczne klikanie – od przedszkola do seniora”). The event addressed topics in the field of cybersecurity. The training had been prepared for both pupils and students and for the elderly, in cooperation with the National Revenue Administration (Krajowa Administracja Skarbowa, KAS), the National Bank of Poland (NBP) and the Police;
- 'The 2021 European Cybersecurity Month' („Europejski Miesiąc Cyberbezpieczeństwa 2021”). A joint debate of CERT Poland and the Police: 'First aid in case of a cyberattack'; the debate focused on major threats and the recommended measures to be taken after a cyberattack.

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<sup>58</sup> See: Section 10.12.2 *UKNF podcast 'Finance under supervision'*.

<sup>59</sup> See: Section 10.12.1.1 *CEDUR webinars* and in Annex 12.7 *List of webinars organised by the UKNF as part of the CEDUR educational project in 2021*

- ‘Cyberhygiene: a term coined during the pandemic or a rule without exceptions?’ („Cyberhigiena – wymysł doby pandemii czy reguła bez odstępstw?”) – participation in the debate at the 30th Economic Forum in Karpacz;
- ‘Cybercrime in the era of COVID-19’ („Krajobraz cyberprzestępczości w dobie COVID 19”) – an address: ‘Cybersecurity of the financial market: the supervisory perspective’;
- World Investor Week<sup>60</sup> – a webinar entitled ‘Cybersecurity from the perspective of a user of financial services: practical aspects’;
- participation in the 2021 Global Money Week (GMW) international campaign<sup>61</sup>, coordinated at national level by the UKNF;
- participation in the Financial Education Day organised by the WSE Foundation and the conduct of workshops entitled ‘How to use technology innovations in financial services knowledgeably?’.

### *Academic activities*

The KNF Board, in cooperation with the Police Academy in Szczytno and the Cybercrime Department of the Central Police Headquarters, prepared a post-graduate programme in cybersecurity.

Employees of the KNF CSIRT conduct selected classes as part of post-graduate studies, sharing their experience in the field of attacks on clients’ funds in cyberspace as well as cyber risk and internal cybersecurity of organisations.

#### 10.1.2.3.6. COMMUNICATION WITH CSIRTS OPERATING AT NATIONAL LEVEL

The KNF CSIRT maintains regular working contact with members of CSIRTs at national level to perform tasks in common areas.

On 7 July 2021, the KNF CSIRT was accredited by Trusted Introducers – an organisation gathering cybersecurity teams from all over the world.

#### 10.1.2.3.7. NATIONAL AND INTERNATIONAL EXERCISES

Representatives of the KNF CSIRT took part in the Locked Shields exercises, conducted on 13-16 April 2021 – the biggest and most complex cybersecurity exercises organised by NATO. 22 teams from 31 countries took part in this year’s edition. The team representing Poland, composed of specialists from the KNF CSIRT, reached the 4th position in the general classification.

### 10.1.3. ACTIONS SUPPORTING THE DEVELOPMENT OF FINANCIAL INNOVATION (FINTECH)

Continuing the initiatives from previous years, also in 2021 the UKNF was actively involved in the events aimed at promoting the topic of FinTech in Poland and abroad. Representatives of the UKNF took part in Impact’21 (on 12-13 May 2021 and 27-28 October 2021) and the 11th European Financial Congress (13-15 September 2021) in Sopot. The UKNF also participated in a number of other events promoting the topic of FinTech in Poland. The activities promoting the FinTech environment were also carried out by the UKNF abroad. Representatives of the UKNF attended, among others, FinTech Taipei 2021 and the 33rd BSCEE Annual Conference, organised by the Astana Financial Services Authority in Kazakhstan.

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<sup>60</sup> See: Section 10.12.4 *IOSCO campaign – World Investor Week (WIW)*.

<sup>61</sup> See: Section 10.12.3 *The 2021 Global Money Week (GMW) campaign*.

The UKNF also engaged in educational initiatives for youths during their school classes. In 2021, the UKNF launched educational meetings at schools in order to provide youth with information about the threats and opportunities related to financial innovations (e.g. crowdfunding, payment services). Due to the situation related with the COVID-19 pandemic, only one meeting with school pupils took place in 2021. The educational activities are planned to be carried out gradually in upcoming years. Work was also initiated to develop an online educational platform addressed to youth and adults who want to broaden their knowledge of innovation in financial markets.

In November 2021, the UKNF launched the website [www.fintech.gov.pl](http://www.fintech.gov.pl), to be used for the communication with the FinTech sector. The website contains news and information about recent trends in the development of the FinTech sector as well as official positions and communications of the UKNF that are of particular importance for innovative entities. The website also provides details about licensing and registration processes for entities intending to carry on business in the financial market, and information about the current forms of support offered by the UKNF, including the Innovation Hub Programme, providing for free legal and regulatory support.

In 2021, #ScammTrapper and #TreatAlerts tools were implemented in the production environment; the tools had been developed following the selection of winning programmers during the 2020 hackathons, at which the UKNF presented its projects. In December 2021, the participants in the HackYeah hackathon designed an original blockchain-based reporting tool for the UKNF called Reporting Ledger. The development of modern tools is one of the elements of the implementation of the Digital Supervisory Agenda (2019) in the field of building an 'electronic office', improving the UKNF's tasks and expanding the scope of application of SupTech in supervisory processes. The above-mentioned activities are also in line with the vision set out in the *Strategy of the Polish Financial Supervision Authority for the years 2021-2025*, according to which the management of information and knowledge is done using modern technologies.

In 2021, the UKNF continued to coordinate the activities of the Special Task Force for Financial Innovation (FinTech). The Task Force has been appointed at the turn of 2016 and 2017, and its first meeting took place on 13 January 2017 to identify and properly eliminate barriers to the development of the FinTech sector. A report on the activities of the Task Force was published on 28 April 2021. It is a summary of the activities carried out so far and plans for further actions aimed at removing the barriers to the development of the sector. The activities of the Task Force clearly show that market participants face legal uncertainty as to new phenomena emerging in the financial market, especially in the FinTech sector.

In connection with the UKNF's Communication of 23 January 2020 on information processing by supervised entities using public or hybrid cloud computing services, to respond to legal and regulatory concerns, explanations were published on 25 March 2021 and 18 October 2021 in the form of Questions and Answers (Q&As). Additionally, on 12 January 2021, the UKNF published a warning on the risks associated with the acquisition of and trading in crypto-assets (including virtual currencies and crypto-currencies).

On 7 December 2021, the UKNF co-organised a scientific conference 'New regulatory and supervisory challenges in the area of FinTech'. The conference focused on the most recent topics relating to finance and IT: cybersecurity, payment services in the light of the PSD2, decentralised finance, and crowdfunding.

The UKNF is engaged in an active dialogue with financial market participants, including FinTech firms, during meetings with market participants, as part of the Innovation Hub Programme and through participation in specialised events, meetings held with the use of state-of-the-art communication technologies, and through social media. Those activities promote the UKNF's actions for boosting financial innovation. Additionally, in order to expand the channels of information exchange with market participants, in 2021 the UKNF continued



its participation in a cycle of SuperVision FinTech Talks webinars organised by FinTech Poland foundation and addressed to the FinTech sector. Through the webinars, the UKNF experts held meetings with market participants to discuss current regulatory, technological and business-related issues in the FinTech market. The webinars provided opportunity for the supervisory authority to convey its stance on the key issues from a practical perspective.

Since January 2018, the Polish Financial Supervision Authority has run the Innovation Hub Programme. Through the Programme, the supervisory authority is engaged in a dialogue with FinTech firms by providing appropriate answers to their questions, thus supporting the development of modern technologies in the financial market while maintaining the security and proper protection of customers. The Programme is addressed to supervised financial entities that intend to implement a new innovative solution and to entities that are not supervised by the KNF Board but plan to start a business in the financial market, in particular entities in their early phase of development (start-ups) that have an innovative financial product/service based on new IT technologies.

The Innovation Hub Programme is very popular among financial market participants. The key topics discussed during meetings include crypto-assets, crowdfunding, payment services (including new PIS and AIS services), acquiring, mobile applications for smartphones, and video verification tools. The functioning of the Innovation Hub Programme represents one of the mechanisms which achieve the statutory objective imposed on the KNF Board, that is supporting innovativeness in the financial market, as referred to in Article 4 point 3a of the Act on financial market supervision.

In 2021, activities related to the Innovation Hub Programme continued. In the fourth year of the Programme, 32 entities applied: 18 applications related to the banking and payment services sectors, 8 applications related to the capital sector, 5 applications related to systemic issues (regarding all segments of the financial market), 1 application related to the insurance sector.

In 2021, the Polish Financial Supervision Authority received a total of 12 applications for an interpretation by the KNF Board pursuant to Article 11b of the Act on financial market supervision. In that respect, in 2021, the UKNF received 6 applications concerning services for the capital market (in particular issues regarding crowdfunding and classification of crypto-assets) and 5 applications (42% of all applications in 2021) concerning the payment services market.

A series of actions were carried out in the area of Open-Source Intelligence (OSINT) to support decision-making processes in the UKNF units. The actions aimed to protect the interests of non-professional financial market participants and to eliminate abuse in the financial market.

As part of Internet monitoring, the UKNF launched several initiatives regarding own data types, aimed at ensuring protection of interests of financial market participants, including those already harmed and those that may be at risk of losing funds in the future:

- a fraudulent campaign was identified, as a campaign addressed to Polish residents through a group of active websites and video content; the campaign was also addressed to citizens of Kazakhstan. The material was used internally and as part of a cross-border exchange with Kazakhstan,
- a material was prepared as a result of the Internet monitoring action to detect threats from investing in crypto-currencies and offering high returns in a short time.

In 2021, work was under way to expand the list of IOSCO alerts as part of the ScamTrapper module. The ThreatsAlerts module was implemented in the first quarter of 2021. The module aims to identify websites/entities from warnings issued by foreign supervisory authorities that address their offers to Poles, Polish residents and/or Polish-speaking individuals. As at 31 December 2021, more than 400 entries were made in ThreatsAlerts.

## 10.2. KNF REGISTERS OF NON-SUPERVISED ENTITIES

### 10.2.1. CONSUMER CREDIT INTERMEDIARIES

Section II of the Register of Credit Intermediaries applies to consumer credit intermediaries as defined in Article 5 point 3 of the Act on consumer credit. The KNF Board does not supervise that category of intermediaries but it keeps a register of them. Consumer credit intermediaries are entered in Section II of the Register of Credit Intermediaries at their own request.

In 2021, the KNF Board:

- entered 3 565 consumer credit intermediaries in the register,
- removed 45 consumer credit intermediaries from the register.

As at 31 December 2021, 38 889 consumer credit intermediaries were included in the register.

### 10.2.2. NON-BANK LENDING INSTITUTIONS

Non-bank lending institutions, as defined in Article 5 point 2a of the Act on consumer credit, are not supervised by the KNF Board. The KNF Board keeps the Register of Non-Bank Lending Institutions referred to in Article 59ab of the Act on consumer credit. An entry in the Register of Non-Bank Lending Institutions is made at the request of such an institution.

In 2021, the KNF Board:

- entered 37 non-bank lending institutions in the register,
- removed 12 non-bank lending institutions from the register.

As at 31 December 2021, 529 non-bank lending institutions were included in the register.

### 10.2.3. ENTITIES CARRYING ON THE BUSINESS SPECIFIED IN ARTICLE 6 POINT 11 OF THE ACT ON PAYMENT SERVICES TO WHICH ARTICLE 6C(1) OF THE SAID ACT APPLIES

Entities carrying on the business specified in Article 6 point 11 of the Act on payment services to which Article 6c(1) of the said Act applies are not supervised by the KNF Board. The KNF Board keeps a register of those entities and the entry is made at the request of the entity. As at 31 December 2021, 5 such entities were included in the register.

#### 10.2.4. ENTITIES CARRYING ON THE BUSINESS SPECIFIED IN ARTICLE 6 POINT 12 OF THE ACT ON PAYMENT SERVICES TO WHICH ARTICLE 6D(1) OF THE SAID ACT APPLIES

Entities carrying on the business specified in Article 6 point 12 of the Act on payment services to which Article 6d(1) of the said Act applies are not supervised by the KNF Board. The KNF Board keeps a register of those entities and the entry is made at the request of the entity. As at 31 December 2021, 8 such entities were included in the register.

#### 10.2.5. FOREIGN INVESTMENT FIRMS WITHOUT A BRANCH

During the period covered by this report, the KNF Board received 56 notifications of the intention of foreign investment firms to conduct brokerage activities without a branch in the territory of the Republic of Poland, 204 reports on changes to notifiable data, and 29 reports on the cessation of brokerage activities in Poland.

As at 31 December 2021, 640 foreign investment firms without a branch were notified.

### 10.3. PUBLIC SUPERVISION EXERCISED BY THE KNF BOARD IN CONNECTION WITH THE ACT ON STATUTORY AUDITORS, AUDIT FIRMS AND PUBLIC SUPERVISION

#### 10.3.1. ACTIVITIES COMPLETED BY THE KNF BOARD IN RELATION TO THE KNF ACTION PLAN FOR 2021 WITH REGARD TO PUBLIC SUPERVISION UNDER THE ACT ON STATUTORY AUDITORS

In 2021, various UKNF departments conducted inspections of Public-Interest Entities (PIEs) in relation to compliance with the requirements under the Act on statutory auditors, including:

- verification of how the audit firm is selected in the case of 9 commercial banks and 9 cooperative banks;
- verification of appointment by PIEs of audit committees, including verification of compliance of the composition of those audit committees with the requirements of the Act on statutory auditors with respect to independence and appropriate skills and knowledge of members of the audit committee/supervisory board in the case of 9 commercial banks, 9 cooperative banks, and 5 insurance undertakings;
- analysis of operation of audit committees with regard to the performance of tasks resulting from the Act on statutory auditors in the case of 9 commercial banks, 9 cooperative banks, and 5 insurance undertakings;
- verification of development and implementation of the policy for choosing the audit firm to perform the audit and the policy on the provision, by the audit firm responsible for the audit, the entities related to that audit firm and the member of the audit firm network, of acceptable services other than audit in the case of 9 commercial banks, 9 cooperative banks, and 4 insurance undertakings.

In 2021, in the area of public supervision the UKNF conducted activities consisting in:

- reviewing the practices followed by selected PIEs to select an audit firm;
- monitoring compliance by selected PIEs with requirements on the rotation of audit firms and key auditors;
- checking selected PIEs for compliance with the requirement to appoint an audit committee, in accordance with the requirements laid down in the Act on statutory auditors;
- analysis of selected PIEs for the functioning of the audit committee in relation to the tasks resulting from the Act on statutory auditors;

- reviewing, in relation to selected PIEs, the development and implementation of the policy for choosing the audit firm to perform the audit and the policy on the provision, by the audit firm responsible for the audit, the entities related to that audit firm and the member of the audit firm network, of acceptable services other than audit;
- verifying whether selected PIEs have a policy regarding the provision of additional services by an audit firm, an entity affiliated to an audit firm or a member of its network.

In 2021, administrative proceedings were conducted in connection with an infringement of Article 192(1) of the Act on statutory auditors by certain PIEs, including in relation to 2 securities issuers, members of the audit committee of 1 securities issuer, 1 commercial bank, 1 cooperative bank, and 2 insurance undertakings.

In 2021, the following video conferences were held with statutory auditors examining financial statements of PIEs:

- a video conference of the UKNF management held on 23 December 2021 with audit firms examining financial statements of 12 commercial banks engaged in CHF loans,
- a video conference of the UKNF management held on 3 December 2021 with statutory auditors examining financial statements of insurance undertakings, during which the auditors presented their main conclusions/remarks from the audits performed in 2021 and audits of preliminary financial statements of insurance undertakings for 2021.

Also in 2021, individual meetings/video conferences were held with statutory auditors concerning the audit of financial statements of various PIEs (including 17 insurance undertakings, 6 commercial banks, and 6 cooperative banks).

In relation to issuers, a review was performed to examine the method of ensuring compliance, in annual reports for financial year 2020, with the information requirements concerning the composition and operation of the audit committee or supervisory board performing the tasks of an audit committee in the case of 14 domestic banks, 90 securities issuers, 1 investment fund management company, and 35 public closed-end investment funds.

In 2021, the UKNF was actively engaged in a process coordinated by the Ministry of Finance regarding the review of proposed amendments to the Act on statutory auditors, including amendments regarding the catalogue of entities covered by the definition of PIE, a proposal for codification and clarification of the legal bases of an inspection conducted by the KNF Board in relation to a PIE. As agreed during a working meeting of representatives of the KNF Board, the UKNF, the Ministry of Finance and the Polish Agency for Audit Oversight (PANA) held on 16 December 2021, the work initiated in 2021 will be continued in 2022 as part of the planned post-implementation review of the Act on statutory auditors.

In 2021, the UKNF was also engaged in cooperation with the Polish Agency for Audit Oversight with regard to the tasks related to public supervision, e.g. the UKNF submitted to PANA the list of PIEs for 2020, a statement on the termination of contracts for the audit of financial statements of PIEs, information on the publication of the annual report on the activities of the UKNF for 2020 (which also contains a report on public supervision over PIEs for 2020), information on irregularities in the rotation of an auditor of a PIE, irregularities in the operation and reports of PIEs, and possible omissions or irregularities in the activities of an audit firm, and information that may be relevant in terms of PANA's tasks specified in Article 106(2a) of the Act on statutory auditors. In 2021, PANA requested that the UKNF supplement, by 30 March 2022, information about the monitoring of activities of audit committees to enable PANA to prepare and submit to the Committee of European Auditing Oversight Bodies (CEAOB) a report on the developments in the market of statutory audit services for PIEs (PANA is required to prepare the report at least every three years; the previous report was prepared in 2019). At the same time, in order to prepare the relevant information for PANA, the UKNF undertook a

series of actions to obtain information about the operation of audit committees from supervised entities.

Moreover, in 2021 the UKNF and PANA made arrangements concerning a draft agreement between the Chair of the KNF Board and the President of PANA on the terms of cooperation between the supervisory authorities.

### 10.3.2. THE KNF BOARD'S ACTION PLAN FOR 2022 WITH REGARD TO PUBLIC SUPERVISION UNDER THE ACT ON STATUTORY AUDITORS

Taking into account the obligation under Article 89(3) of the Act on statutory auditors to publish, on the KNF website, information on the action plan for the following year, on 3 December 2021 the KNF Board published the 'Action plan of the KNF Board for 2022 in the area of public supervision under the Act on statutory auditors, audit firms and public supervision'.<sup>62</sup>

## 10.4. SUPERVISION OF SECURITISATION TRANSACTIONS

At the end of 2021, the KNF Board supervised 10 securitisation transactions. All supervised transactions were addressed to professional investors and carried out without the requirement to draw up a prospectus. The total value of the transactions amounted to PLN 16.3 billion.

6 of 10 supervised transactions were traditional transactions in which a special-purpose vehicle obtained funding through the issue of debt instruments taken up by professional investors. Securitisation transactions help obtain funding and provide the possibility, under regulatory conditions, of lowering capital requirements.

The other 4 transactions were synthetic transactions, which involve no sales of assets, only a transfer of credit risk. Such a transaction allows capital requirements to be lowered where a material part of credit risk is to be transferred.

The classes of assets being the object of supervised securitisation include mainly cash loans, loans for small and medium-sized enterprises, and lease claims.

As part of educational and information activities, references were posted on the KNF website to the currently valid legal acts concerning securitisation and KNF guidelines aimed at clarifying the doubts of entities executing securitisation transactions as to the proper fulfilment of their legal obligations, including obligations related to transaction reporting.

## 10.5. LEGAL AND REGULATORY ACTIVITIES

### 10.5.1. PARTICIPATION IN LEGISLATIVE WORK

The KNF Board's statutory tasks include participation in the preparation of draft legal acts in the field of financial market supervision. The task is performed mostly through cooperation with the minister competent for financial institutions as part of the government's legislative process and also often at stages preceding the formal commencement of the governmental legislative process. In 2021, the UKNF also submitted to the Ministry of Finance legislative proposals concerning the functioning and organisation of the financial market in Poland, including market supervision.

In 2021, as in previous years, the UKNF representatives also took part in legislative work at the further stages of the government's legislative process, participating in consensus conferences and the work of legal committees, and in the case of legislative proposals also at

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<sup>62</sup> ([https://www.knf.gov.pl/knf/pl/komponenty/img/Plan\\_nadzoru\\_nad\\_JZP\\_na\\_2022\\_76147.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Plan_nadzoru_nad_JZP_na_2022_76147.pdf))

the parliamentary stage, in particular through participation in the parliamentary Committee on Public Finance and the Permanent Subcommittee on Financial Institutions and the Senate Committee on Budget and Public Finance.

The most important legislative projects in which the UKNF participated in 2021 and which concluded with the enactment and announcement of an act of statutory law in 2021 include:

- **Act of 21 January 2021 amending the Act on trading in financial instruments and certain other acts (Journal of Laws, item 355).** The main purpose of the Act is to adapt the Polish legal order to EU legislation following the entry into force of legal acts of the European Union as a result of the revision of the rules on European Supervisory Authorities. The amendments made under the enacted Act adapt the regulations concerning the flow of and access to information, financial market instruments and financial supervision. The major changes introduced in the enacted Act include: a change in the scope of supervisory activities of the KNF Board carried out in relation to approved publishing entities and approved reporting mechanisms that meet the requirements laid down in the Commission Delegated Regulation, changes in the national regulations taking into account the introduction in the European Union of general dematerialisation of shares, the requirement to submit to other supervisory authorities in Member States and to EIOPA information concerning domestic insurance undertakings or domestic reinsurance undertakings which pursue or intend to pursue significant cross-border activities in the territory of those states and the risks related to those activities, as well as information on the cross-border activities of foreign insurance undertakings in the territory of the Republic of Poland where a potential infringement of the interests of customers of those undertakings was found. The KNF Board is granted the right to apply to competent supervisory authorities in other EU Member States and to EIOPA for the establishment and coordination of and participation in cooperation platforms;
- **Act of 25 February 2021 amending the Banking Law and certain other acts (Journal of Laws, item 680).** The Act introduces necessary amendments to the national legal order following the entry into force of EU regulations on capital requirements for financial institutions (the CRD V/CRR II package). CRD V and CRR II are part of a legislative package resulting from a reform carried out by the EU, consisting in changing the regulatory framework for financial services. The changes were introduced in response to the financial crisis which started in 2007 and 2008, and reflect the standards agreed at the international level. The changes related to, among others: the binding leverage ratio, the binding Net Stable Funding Ratio (NSFR), new requirements on Total Loss-Absorbing Capacity (TLAC) for Global Systemically Important Institutions (G-SII), changes regarding the approval of operations of financial holding companies and mixed financial holding companies, the application by institutions of a standardised approach or simplified standardised approach to the assessment of interest rate risk (in addition to the existing risk management system), the definition of categories of institutions and staff members exempted from the obligation to apply certain elements of the remuneration policy, authorisation for a competent authority to dismiss a member of an institution's governing body where a person fails to fulfil the requirements necessary for the performance of a given function, the possibility for the supervisory authority to impose on a supervised entity additional reporting obligations or to increase the frequency for complying with such obligations, or to render the systemic risk buffer more flexible;
- **Act of 30 March 2021 amending the Act on the prevention of money laundering and terrorist financing and certain other acts (Journal of Laws, item 815).** The Act aims to implement the provisions of Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU. The purpose of Directive 2018/843 was to modify the EU's legal framework for the prevention of money laundering and terrorist financing in terms of increasing the transparency of financial flows in the financial system. The Act of 30 March 2021 also supplements the implementation of Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of

the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC;

- **Act of 20 May 2021 on the protection of the rights of the acquirer of a housing unit or single-family home and the Real Property Development Guarantee Fund (Journal of Laws, item 1177).** The primary objective of the Act is to ensure an effective protection of acquirers of flats or single-family homes in relations with developers, in particular to increase the security of funds paid into housing trust accounts in the event of the developer's bankruptcy, the developer's failure to start the investment project or unjustified refusal to transfer the ownership of the flat or single-family home or a fractional part thereof, and in the event of failure of a bank maintaining the housing trust account. Better protection of acquirers guaranteed by the Act will also increase the security of legal transactions;
- **Act amending the Act on certain forms of support for house building and certain other acts (Journal of Laws, item 1243).** The proposal aims to, among others, introduce (mainly to mitigate the impact of administrative restrictions caused by the COVID-19 pandemic for the housing sector) instruments aimed at maintaining the functioning of lettings. The proposal provides for more opportunities for self-governments of communes in relation to instruments for meeting the housing needs of local communities;
- **Act of 23 July 2021 amending the Act on investment funds and management of alternative investment funds and certain other acts (Journal of Laws, item 1595).** The Act implements into the Polish legal order Directive (EU) 2019/1160 of the European Parliament and of the Council of 20 June 2019 amending Directives 2009/65/EC and 2011/61/EU with regard to cross-border distribution of collective investment undertakings (hereinafter: 'Directive 2019/1160') and is to be used in the application of Regulation (EU) 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014 (hereinafter: 'Regulation 2019/1156'), which supplements the said Directive. Directive 2019/1160 also repeals the provisions of the Directive on UCITS which became redundant following the entry into force of Regulation 2019/1156. In consequence, it also became necessary to repeal the passages of the Act on investment funds and management of alternative investment funds which implemented those provisions. The Directive introduces provisions updating and clarifying the requirements on the provision of solutions for retail investors. It also introduces the rule that Member States must not require physical presence in a given state for the purpose of compliance with the requirements to provide information to investors. To ensure consistent treatment of retail investors, the Directive extends the requirements for arrangements to include AIFMs where they market units or shares of alternative investment funds (AIFs) among retail investors in the territory of a given country. The primary goal of the regulation is still to ensure that investors have access to the information they are entitled to;
- **Act of 8 July 2021 amending the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring and certain other acts (Journal of Laws, item 1598).** The Act aims to implement into the Polish legal system provisions of the European Union pertaining to increasing the resilience of financial institutions to events threatening their stability, ensuring the integrity of the whole financial system with a minimum use of public funds. To that end, the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring introduces the minimum value of the subordinated MREL (the minimum requirement for a bank, covering own funds and eligible liabilities);
- **Act of 29 October 2021 amending the Act on personal income tax, the Act on corporate income tax, and certain other acts (Journal of Laws, item 2105).** The Act entered into force on 1 January 2022. The Act provides for tax arrangements for the implementation of the government's The Polish Deal programme;
- **Act of 14 October 2021 amending the Accounting Act and certain other acts (Journal of Laws, item 2106).** The Act aims to adapt the existing provisions on financial reporting and

financial revision to the current legal and economic situation and to the new technological possibilities. As regards the facilitation of the method of signing financial statements, the Act introduces the possibility that only one member of a multi-member body may sign the accounts, provided that they obtain from the other members statements confirming that the accounts meet the requirements of the Accounting Act. The amendments to the Act result from, for example, the provisions of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format;

- **Act of 1 October 2021 on the guaranteed housing loan and the repayments of that loan made in connection with the enlargement of the household (Journal of Laws, item 2133).** The Act aims to remove a barrier emerging when a mortgage loan is granted, namely the lack of own funds constituting the down payment required by the bank. The Act lays down: the terms and conditions for granting the guaranteed housing loan; the terms and conditions for Bank Gospodarstwa Krajowego (BGK) to give the guarantee of repayment of a part of the guaranteed housing loan; the terms and conditions for BGK to make repayments of a part of the guaranteed housing loan on behalf of the borrower in connection with the enlargement of the borrower's household following the birth of a second or subsequent child; the sources and method of financing the costs and expenses of BGK related to guaranteed housing loans. A loan without down payment will be a home mortgage that meets the requirements laid down in the Act and granted by banks pursuant to an agreement concluded with the BGK, covered – at the repayment stage – by a scheme of financial support for borrowers to be paid following the birth of children (one-off repayments for the borrower of a part of the principal following the birth of the second or subsequent child);
- **Act of 1 October 2021 amending the Act on trading in financial instruments and certain other acts (Journal of Laws, item 2140).** The primary objective of the Act is to introduce necessary amendments to the national legal order following the entry into force of EU regulations on capital requirements for investment firms, the so-called IFD/IFR package. The aim of the IFD/IFR package is to establish a new prudential regime for investment firms. With the current legal status, investment firms are subject to the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176 of 27 June 2013, p. 1, as amended) and 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, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176 of 27 June 2013, p. 338, as amended) – referred to as the CRR and the CRD. As indicated in the statement of reasons for the Act, the prudential supervisory regimes established under the CRR and the CRD are largely based on successive versions of the international regulatory standards set out by the Basel Committee on Banking Supervision for large banking groups and only partially address the specific risks associated with the diversified activities of a large number of investment firms.

As regards legislative projects in which the UKNF participated in 2021 and for which the legislative process was not completed in 2021, the following should be mentioned:

- **Draft Act amending the Act on competition and consumer protection (UC15).** The proposal aims to implement into the Polish legal order Regulation (EU) 2017/2394 of the European Parliament and of the Council of 12 December 2017 on cooperation between national authorities responsible for the enforcement of consumer protection laws and repealing Regulation (EC) No 2006/2004 (CPC Regulation) and to improve consumer protection and operational effectiveness of the President of the Office of Competition and Consumer Protection;
- **Draft Act amending the Act on bonds and certain other acts (UC32).** The draft Act aims to set out the rules for the issue of capital instruments qualified as regulatory capital of banks and brokerage houses and own funds of insurance undertakings and reinsurance



undertakings, including the issue of capital bonds as a new category of bond by those financial market entities, in accordance with applicable EU legislation. The proposed measures aim to mainly remove barriers to the issuance of instruments that can be classified in Additional Tier I and Tier II capital, and as own funds in Tier 1, Tier 2 and Tier 3 own fund items in the case of insurance sector entities. It is also proposed to clarify the existing legal solutions and to define the group of issuers entitled to issue instruments that may be included in their own funds;

- **Draft Act amending the Act of 19 August 2011 on payment services (UD52).** The proposal introduces changes in the functioning of payment services offices (BUP) that will help reduce the increasing costs of maintaining BUPs and reducing the regulatory requirements for that group of entrepreneurs and will allow to simplify and improve the activities of those entities as financial market participants, to amend the provisions on proper performance of statutory obligations by small payment institutions (MIP), in particular relating to the prevention of money laundering and terrorist financing, as well as to exempt Bank Gospodarstwa Krajowego and the National Bank of Poland from the obligation to apply the confirmation of the availability of funds (CAF). The proposal also lowers the maximum rate applied to calculate the amount of payments made by BUPs to cover the costs of supervision of BUPs. The proposal mainly aims to introduce changes in the rules of supervision of small payment institutions and payment services offices resulting from supervisory experiences from the last 10 years for which the Act on payment services has been effective. An official position was submitted to the Ministry of Finance on non-authorized transactions in the context of the Act on payment services and the PSD2;
- **Draft Act on the Financial Information System (UC66).** The draft Act provides the basis for carrying out the task: ‘Creation of a register enhancing the security of the financial market with regard to bank account information, insurance contracts with investment components, as well as other products for the collection, storage and/or investment of funds and providing access to it to law enforcement authorities and other competent entities’, under specific objective No 1 – ‘Strengthening the fight against economic crime’ set out in the ‘Programme for preventing and combating economic crime for 2015-2020’.
- **Draft Act amending the Act on mortgage bonds and mortgage banks and certain other acts (UC68).** The proposal implements, within its scope of regulation, Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU (OJ L 328 of 18 December 2019, p. 29), which forms, together with Regulation (EU) 2019/2160 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds (OJ L 328 of 18 December 2019, p. 1), a part of a package of regulations on covered bonds. The package also takes into account the opinions and recommendations of the European Banking Authority, which carried out a comprehensive analysis of the regulatory framework for covered bonds in each Member State and recommended their harmonisation at the EU level, in accordance with the best supervisory practices;
- **Draft Act amending the Act on competition and consumer protection and certain other acts (UC69).** The proposed amendments aim to implement Directive (EU) 2019/1 of the European Parliament and of the Council of 11 December 2018 to empower the competition authorities of the Member States to be more effective enforcers and to ensure the proper functioning of the internal market. The aim of the Directive is to increase the effectiveness of enforcement of the EU rules on competition in the internal market by national competition authorities in each Member State. That aim can be achieved through the establishment of the minimum scope of powers of national authorities. Given often vague boundaries between the matters to which Article 101 or 102 of the Treaty on the Functioning of the European Union apply and the matters in which anti-trust authorities operate solely pursuant to national law, the solutions provided for in the Directive apply in both those areas;
- **Draft Act on crowdfunding for business ventures (UC76).**
  - ensures the application of Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for

business ventures and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937 (OJ L 347 of 20 October 2020, p. 1),

- implements Directive (EU) 2021/338 of the European Parliament and of the Council of 16 February 2021 amending Directive 2014/65/EU as regards information requirements, product governance and position limits, and Directives 2013/36/EU and (EU) 2019/878 as regards their application to investment firms, to help the recovery from the COVID-19 crisis (OJ L 68 of 26 February 2021, p. 14).

To that end, the draft Act confers on the KNF Board appropriate supervisory powers (for example to suspend specific crowdfunding offers or to suspend the business of providers and to cooperate with judicial authorities and supervisory authorities in other EU Member States), introduces appropriate administrative and criminal sanctions for non-compliance with the Regulation or the proposed Act, introduces civil-law and criminal liability for the correctness and accuracy of information provided in information documents prepared in connection with a crowdfunding offer as well as provisions on professional secrecy and rules for keeping records relating to the provision of crowdfunding services for business ventures;

- **Draft Act amending the Act on consumer’s rights and certain other acts (UC86).** The proposal aims to implement Directive (EU) 2019/2161 of the European Parliament and of the Council of 27 November 2019 amending Council Directive 93/13/EEC and Directives 98/6/EC, 2005/29/EC and 2011/83/EU of the European Parliament and of the Council as regards the better enforcement and modernisation of Union consumer protection rules, as well as additional rules concerning the agreements concluded outside premises that aim to eliminate the irregularities identified by the President of the UOKiK;
- **Draft Act on the protection of persons who report breaches of law (UC101).** The proposal aims to implement Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law, hereinafter referred to as ‘Directive 2019/1937’. The purpose of Directive 2019/1937 is to improve the enforcement of EU law and policies in certain areas by establishing common minimum requirements ensuring an appropriate level of protection of persons who report breaches of EU law. Directive 2019/1937 lays down the rules and procedures for the protection of whistleblowers, that is persons who report information on breaches of EU law in a work-related context;
- **Draft Act amending the Act on the principles for the recognition of professional qualifications acquired in the Member States of the European Union (UC107).** The proposed amendments to the Act of 22 December 2015 on the principles for the recognition of professional qualifications acquired in the Member States of the European Union follow from the need to ensure that Directive 2005/36/EC of the European Parliament and of the Council of 7 September 2005 on the recognition of professional qualifications is properly implemented into the Polish legal order. The changes envisaged in the draft Act follow from the need to ensure proper implementation, into the Polish legal order, of certain provisions of the Directive which, in the opinion of the European Commission, have been implemented improperly or incompletely;
- **Draft Act amending the Commercial Companies and Partnerships Code and certain other acts (UD113).** The main objective of the proposal is to introduce into Polish law a legal regulation on holding law (the law on groups of companies), which regulates the private-law relations between the parent company and its subsidiaries, taking into account the interests of creditors, members of bodies and small shareholders of the subsidiary, as well as to equip supervisory boards with tools enabling a more effective corporate supervision, as well as to remove doubts raised by entrepreneurs and representatives of the doctrine;
- **draft Act amending certain laws in connection with the transfer of funds from open pension funds to individual retirement accounts (UD122).** The draft Act relates to the implementation of objectives of the Strategy for Responsible Development and provides for the conversion of open pension funds (OFE) into specialist open-end investment funds that keep individual retirement accounts (IKE) fed with assets from open pension funds. Each OFE member will have two options to choose from. The default option is the transfer of funds from the OFE into an IKE. Alternatively, it will be possible for an OFE member to

submit a declaration on the transfer of funds in full to the first pillar; then the funds accumulated by the OFE member will be credited to an individual account held at ZUS, and the corresponding assets will be transferred to the Demographic Reserve Fund. The basis for the functioning of the converted OFEs will be the amended Act on individual retirement accounts and individual retirement protection accounts and the Act on investment funds and management of alternative investment funds. The proposal provides for the conversion of voluntary pension funds (DFE) into specialist open-end investment funds. The general pension societies managing the OFEs and DFEs will be operating as investment fund management companies. The proposal provides for amendments to tens of acts of statutory law directly related with the functioning of the OFEs and the social security system.

- **Draft Act amending certain acts for the automation of the process of resolving certain matters by the National Revenue Administration (UD165).** The draft Act creates a legal framework for the implementation of a new ICT system of tax administration called e-Tax Office, which will be an information and transaction service for five groups of stakeholders: tax payers, tax remitters, attorneys-in-fact, court-appointed enforcement officers and notaries, through which they will have access to information in the area of taxation;
- **Draft Act amending certain acts on the method of financing housing programmes (UD231).** The draft Act amending certain acts on the method of financing housing programmes is a response to the circumstances affecting the government's current housing policy: 1) the previous changes in the welfare buildings and public housing, providing for non-repayable financial support from the state budget provided mainly to local government units and non-profit organisations for the development of a construction industry that meets the housing needs of people with lower income (primarily municipal construction) and social and tenemental housing construction, including the launch of a new programme to support municipalities in setting up Social Housing Initiatives, financed by the Government Housing Development Fund, and the consequent need to organise and supplement the regulations concerning the support provided to beneficiaries; 2) potential threat of negative interest rates in financial markets related to the COVID-19 pandemic which may have a negative impact on the smooth implementation of current government programmes: the social and tenemental housing construction programme and 'Mieszkanie na Start' (First Flat) programme, as well as previous programmes, which are still being settled due to the use of credit instruments: fixed interest rate mortgage loans, 'Mieszkanie dla Młodych' (Flat for the Young), 'Rodzina na Swoim' (Family's Own Flat); 3) proposals regarding the current functioning of the Fund for Subsidies, which is a fund financed from the state budget, financing a series of key governmental housing programmes;
- **Draft Act amending certain acts to ensure the development of the financial market and investor protection (UD235).** The draft Act aims to organise and improve the functioning of financial market institutions, in particular to eliminate barriers to access to the financial market, improve supervision of the financial market, protect customers of financial institutions and raise the degree of digitalisation in the performance of supervisory obligations by the KNF Board and the UKNF. The changes in this regard result from the observation of events taking place in the financial market and the valid objective of restoring the confidence of investors, in particular retail investors, in that market and lead to the conclusion that there is a need for a cross-sectional and comprehensive amendment to the laws regulating various areas of the financial market;
- **Draft Act amending the Act on occupational pension schemes and the Act on individual retirement accounts and individual retirement protection accounts (UD250).** The proposal aims to: introduce facilitation of running an occupational pension scheme for employers, introduce favourable changes regarding the requirements for participation in the programme, specify certain supervisory powers of the KNF Board, adapt the provisions of Article 13a of the Act on individual retirement accounts and individual retirement protection accounts to the provision of paragraph 1a introduced in Article 13a of that Act, which provision specifies the limit on payments to IKZE accounts made by persons engaging in non-agricultural activities;

- **Draft Act amending the Act on the special rights of aggrieved parties in the event of exhaustion of the guarantee amount determined on the basis of rules applicable before 1 January 2006 (Senate paper No 488).** The draft Act is in line with the address by the Commissioner for Human Rights to the Marshal of the Senate of 15 May 2020 on the issue of depleting guarantee amount in the case of compulsory motor third-party liability insurance on account of damage incurred outside the territory of the Republic of Poland;
- **Draft Act on the availability of certain products and services (UC119).** The draft Act lays down the obligations of service providers and establishes supervision with regard to enforcing compliance with the requirements on the availability of products and services for disabled consumers as well as the manner for consumers and other entitled entities to exercise their rights, including the right to apply to competent supervisory authorities for an inspection in terms of availability of products and services;
- **Draft Act amending the Act on compulsory insurance, the Insurance Guarantee Fund, and the Polish Bureau for Motor Insurance (the work on the proposal has been suspended).** The proposal contains regulations concerning the Aid Fund. The UKNF presented its position on next steps to be taken with regard to the proposal. The proposal is to introduce a separate comprehensive regulation on the Aid Fund, to be managed by the Insurance Guarantee Fund, and the regulation will ultimately affect the protection of individuals entering into insurance contracts;
- **Draft Act amending certain acts to ensure the development of the financial market and investor protection (UD235)** – submission and review of proposals for amendments to, among others, the Act on public offering, the Act on trading in financial instruments, the Act on statutory auditors, and the Act on bonds;

The UKNF was engaged in the preparation of **proposals for two regulations on the costs of financial market supervision**. In both cases, the purpose of the amendment was to adapt the implementing provisions to the statutory amendments coming into effect as of 1 January 2022. The initiative concluded with the enactment of:

- Regulation of the Minister of Finance of 23 December 2021 amending the Regulation on payments to cover the costs of supervision of the capital market (Journal of Laws, item 2466),
- Regulation of the President of the Council of Ministers of 30 December 2021 on payments to cover the costs of bank supervision (Journal of Laws, item 2486).

The UKNF prepared proposals for amendments to the existing regulations to reorganise the rules regarding reporting obligations of investment fund management companies and investment funds and to enable the performance of such obligations using electronic reporting forms. The proposals in question related to: a draft Act amending the Act on investment funds, a draft Regulation 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 KNF Board, a draft Regulation of the Minister of Finance amending the Regulation of 21 June 2005 on the investment fund liquidation procedure. The proposals were submitted to the Ministry of Finance for further processing.

The UKNF took part in the consultation on the statistical research programme of Official Statistics for 2023.

The UKNF was also involved in the legislative work on the acts of EU legislation:

- amendments to Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and to Directive 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive (EU) 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and

powers and capital conservation measures. Those rules, together with a separate legislative proposal for changes in the area of forced restructuring in the said Regulation, the so-called 'daisy-chain', are part of the Banking Package and constitute the key legal framework for a large part of the financial market in the European Union. The recent amendments aim mainly to strengthen the banking sector's resilience to economic shocks and to establish an EU framework for sustainable financing of economy;

- **Proposal for a Directive of the European Parliament and of the Council on measures for a high common level of cybersecurity across the Union, repealing Directive (EU) 2016/1148 (COM(2020)823).** The proposal aims to introduce new measures to increase the resilience and capacity to respond to cybersecurity incidents. The objective is to be achieved, among other things, by increasing the number of entities covered by a common (EU) cybersecurity system. Improvement in this area is in line with the EU's objective of making Europe fit for the digital age. At the same time, due to the challenges faced by the EU in the era of digitalisation, the European Commission announced a cybersecurity package. The package includes, in addition to the EU's new Cybersecurity Strategy, a proposal for a Directive on measures for a high common level of cybersecurity across the Union (NIS2 Directive), which is to repeal the NIS Directive;
- **Proposal for a Regulation of the European Parliament and of the Council on digital operational resilience for the financial sector (Digital Operational Resilience Act) (COM (2020) 595) and Proposal for a Directive of the European Parliament and of the Council amending Directives 2006/43/EC, 2009/65/EC, 2009/138/EU, 2011/61/EU, EU/2013/36, 2014/65/EU, (EU) 2015/2366 and EU/2016/2341.** The proposals concerned a fundamental change in the requirements for financial market entities, new requirements for supervised entities in relation to the current KNF regulations (Recommendation D and IT Guidelines), and the need to change the current supervisory model not only in terms of IT security but above all in terms of supervision of the safe and stable functioning of supervised entities in relation to their key and critical processes;
- **Draft Regulation on Markets in Crypto-assets (MiCA), amending Directive (EU) 2019/1937.** The proposal aims to establish a single EU regulatory framework for crypto-assets. The purpose of the document is to use the potential of the fast growing digital finance by regulating the crypto-assets not yet covered by EU rules on financial services and tokens being electronic money, ensuring an appropriate level of consumer protection and stability of the financial system. The proposal contains provisions regarding, among others, the issue of crypto-assets and their admission to public trading, authorisation of issuers of tokens being electronic money, acquisition of shares of such issuers, definition of the criteria as to whether a given asset-referenced token is a significant token, the issuance of authorisations and requirements for operation as crypto-asset service providers. The proposal also includes prohibitions and special requirements to prevent abuse in crypto-asset markets and sets out the powers of competent supervisory authorities;
- **Proposal for a Regulation of the European Parliament and the Council on a pilot regime for market infrastructures based on distributed ledger technology.** The aim of the proposal is to enable investment firms, market operators and central securities depositories (CSDs) to operate a market infrastructure based on distributed ledger technology as a multilateral DLT-based trading venue or DLT-based securities clearing and settlement system;
- **Regulation of 31 March 2021 amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, to support the recovery after the COVID-19 crisis.** The purpose of the new Regulation was to support the recovery after the serious economic shock caused by the COVID-19 pandemic by introducing strategic changes in the existing financial rules. The Regulation is to allow credit institutions and investment firms to engage their capital where it is most needed, and to ensure that the EU regulatory framework facilitates that process and the institutions act prudently. In addition to flexibility ensured in the existing rules, the strategic changes to Regulation (EU) 2017/2402 of the European Parliament and of the Council would allow for the introduction, within the EU concept of securitisation, of additional tools to support the economic recovery after the COVID-19 crisis;

- **Commission Implementing Regulation (EU) 2021/1847 of 14 October 2021 on the designation of a statutory replacement for certain settings of CHF LIBOR** The Regulation addresses the replacement of LIBOR 1M, 3M, 6M, 12 M CHF rates with appropriate replacement rates: Saron 1M, 3M, 6M, 12M as of 1 January 2022, i.e. from the cessation of CHF LIBOR. The amendment relates to financial contracts, in particular mortgage contracts. The basis for the enactment of the implementing regulation is Article 23b(8) of 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;
- **Commission Implementing Regulation (EU) 2021/1848 of 21 October 2021 on the designation of a replacement for the benchmark Euro overnight index average.** The Regulation relates to the €STR replacement, applied mostly to SWAP transactions. The act applies from 3 January 2022. The basis for the enactment of the implementing regulation is Article 23b(8) of 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;
- **Directive (EU) 2021/2118 of the European Parliament and of the Council of 24 November 2021 amending Directive 2009/103/EC 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.** The Directive aims to, among others, strengthen the protection of parties injured in traffic accidents through the guarantee of payment of compensation to parties injured in traffic accidents caused by perpetrators insured at insurance undertakings that have been declared bankrupt, to harmonise the declaration on claim history at EU level, and to raise the minimum guarantee amounts for third-party liability insurance.

The UKNF also participated in a consultation on a draft version of the European Funds for Smart Economy (FENG) programme for the years 2021-2027. The national programme is addressed to all business owners and, in the coming years, is to be the main source of support for innovative projects and research and development projects aimed at increasing the competitiveness of the Polish economy and combining science and business.

The UKNF cooperated with the Ministry of Finance as part of the work carried out at the Council of the European Union to reconcile the text of a directive amending the Solvency II Directive and a new directive establishing a framework for the recovery and resolution of insurance and reinsurance undertakings. The proposal for the new Solvency II Directive provides for, among other things, the specification of provisions concerning the application of the principle of proportionality (including introduction of a new category of entities – low risk profile undertakings and groups), the improvement of quality of supervision of cross-border services, introduction of macro-prudential supervisory tools, changes regarding the European Green Deal. The other proposal aims to establish harmonised EU resolution procedures for insurers and reinsurers and to introduce early supervisory intervention tools, preventive recovery plans and preventive resolution plans.

The UKNF took part in a project entitled ‘New phenomena in the financial market’, implemented as part of the Digital Supervisory Agenda; the main task under the project was to prepare provisions adapting, to the Polish legal order, the provisions of Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937 (OJ L 347 of 20 October 2020). The outcome of that work was a draft Act on the provision of crowdfunding services, submitted to the Ministry of Finance at the end of 2020. In 2021, work on the draft Act continued.

## 10.5.2. REGULATORY AND PRUDENTIAL ACTIVITIES

## 10.5.2.1. RECOMMENDATIONS AND GUIDELINES OF THE KNF BOARD

### RECOMMENDATION R (AMENDMENT)

On 15 April 2021, by Resolution No 129/2021, the KNF Board adopted Recommendation R on the rules for the classification of credit exposures, estimation and recognition of expected credit losses, and credit risk management.

The Recommendation is a set of rules and guidelines on the classification of credit exposures as well as estimation and recognition of expected credit losses in accordance with the bank's accounting policy and credit risk management policy.

The provisions of Recommendation R were prepared taking into account the relevant guidelines of the European Banking Authority and the Basel Committee. The Recommendation also takes into account conclusions based on the observations and experiences gained through supervisory activities, including the findings of inspections conducted at banks, the assessment of banks' solutions and the use thereof.

Recommendation R is addressed to domestic banks and branches of foreign banks as defined in the Banking Law that prepare consolidated or separate financial statements in accordance with the IAS/IFRS. The guidelines included in Recommendation R also apply to entities covered by a bank's consolidated report whose core activities generate credit risk and to branches of domestic banks located outside Poland.

The Recommendation provides the banks with the basis for changing their rules for the measurement of credit risk of credit exposures in their internal regulations, including the accounting policy.

The Recommendation normalises and specifies the rules for the classification of credit exposures, estimation and recognition of expected credit losses, and credit risk management. The introduction of those provisions will allow for greater comparability of data in the banking sector, in particular in areas such as:

- estimation of expected credit losses at a bank – in relation to estimation of expected credit losses, considering the banks' collateral for credit exposures, dates of creation, updating and dissolution of loss allowances. Criteria were defined for grouping exposures according to common characteristics of credit risk. Obligation was imposed on banks' audit committees to monitor and analyse the effectiveness of the internal control system and the credit risk management system for proper determination of the level of loss allowances,
- classification of credit exposures – in relation to the classification of credit exposures to different credit risk stages set out in IFRS 9: stage 1, 2 or 3. The recommendations set out the requirements which, if met, will allow banks to assign exposures to an appropriate stage. Criteria for identifying a material modification leading to derecognition of an existing financial asset were indicated and a requirement was imposed on banks to establish rules for the identification and classification of credit exposures with a payment moratorium granted, i.e. forbore exposures. A requirement was imposed on banks to define the rules and criteria for the identification of non-performing loans.
- measurement of credit exposures and collaterals and models under IFRS 9 – in relation to design and valuation of models under IFRS 9. Banks should design models under IFRS 9 and monitor their quality based on approved formal rules. The models used to estimate expected credit losses should be validated according to the rules and criteria specified in the Recommendation,
- disclosure of information – banks should disclose information about significant changes in the estimates of expected credit losses, exposures to credit risk, and significant credit risk concentrations. A proposal was made in regard to the scope of information that should be disclosed in tabular form.

The deadline for banks to adapt to Recommendation R was set for 1 January 2022.

### RECOMMENDATIONS ON MOTOR VEHICLE INSURANCE CLAIM SETTLEMENT

On 13 December 2021, the KNF Board received a notice on draft Recommendations on motor vehicle insurance claim settlement (hereinafter: 'Recommendations'). The draft Recommendations set out the most essential supervisory expectations with regard to the settlement of claims under motor third party liability insurance, accident and theft insurance, as well as personal accident insurance and roadside assistance insurance. The Recommendations aim to ensure the adaptation of the standards of motor vehicle insurance claim settlement process to the current rulings of the Supreme Court.

The Recommendations are to supersede the *Guidelines on Motor Vehicle Insurance Claims Settlement* adopted on 16 December 2014. Although the Guidelines, which expressed supervisory expectations, played an important role in improving the quality of the area of motor insurance claim settlement, as confirmed by the conclusions from the supervisory and inspection activities carried out by the KNF Board, given the time that has passed since the adoption of the Guidelines (more than 6 years), it became appropriate to review them.

After being reviewed by the KNF Board, the draft Recommendations were discussed during consultation with stakeholders and institutions, pursuant to Article 365(2) of the Act on the business of insurance. The consultation period closes on 21 February 2022.

#### AMENDMENTS TO THE RECOMMENDATIONS FOR INSURANCE UNDERTAKINGS ON PRODUCT ADEQUACY TESTING OF 22 MARCH 2016

The UKNF engaged in the work on amendments to *Recommendations for insurance undertakings on product adequacy testing of 22 March 2016*. The goal is to prepare a new text of the *Recommendations for insurance undertakings on product adequacy testing*, considering, in particular, the new legal environment in the area of distribution of insurance-based investment products and the related offering practice.

#### RECOMMENDATION A (AMENDMENT)

Work was carried out in 2021 on a draft amendment to *Recommendation A on the management of risk associated with bank transactions in the derivatives market*, which is to supersede Recommendation A of the KNF Board of 2010.

The need to update Recommendation A follows from the need to adapt it to the applicable provisions of law, as significant changes occurred after 2010 in the regulatory environment in relation to banks' obligations regarding the conclusion and execution of transactions in derivative instruments.

The purpose of the amended Recommendation A is to provide banks and foreign credit institutions as defined in the Act on trading, and branches of foreign banks operating in the territory of the Republic of Poland with good practices on the management of risk associated with transactions in derivative instruments. It should be noted that the document will supplement the generally applicable provisions of law.

#### RECOMMENDATION G (AMENDMENT)

In 2021, work continued on a draft amendment to *Recommendation G on the management of interest rate risk* to adapt the requirements thereunder to the changing regulations on market risk and interest rate risk applied worldwide, in particular the guidelines of the European Banking Authority (EBA) of 19 July 2018 (*Guidelines on the management of interest rate risk arising from non-trading book activities*, EBA/GL/2018/02).

However, Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (CRD V) introduced new provisions on interest rate risk in the banking book, including mandates of the EBA to develop:



- regulatory technical standards specifying the standardised approach and simplified standardised approach,
- regulatory technical standards for Supervisory Outlier Test (SOT),
  - guidelines on interest rate risk in the banking book and risks arising from potential changes in credit spreads (credit spread risk in the banking book – CSRBB).

In anticipation of those regulations, a draft of the revised Recommendation G was prepared, taking into account, among others, the Basel Committee Standards (*Standards Interest rate risk in the banking book*) of the Basel Committee on Banking Supervision (BCBS) of 21 April 2016, subsequently incorporated in the Basel Framework of 15 April 2019.

EBA will probably finalise the work on the above-mentioned documents in the first half of 2022. The work on the draft amendment to Recommendation G will be finalised when new regulatory technical standards and EBA guidelines on IRRBB and CSRBB are known, as the new regulatory environment will force a modification of the draft document.

The updated Recommendation G is intended not only to supplement existing regulations but also to contain recommendations that were not included in the above-mentioned regulations, in particular those concerning the specificities of the Polish financial market and banking sector and recommendations that highlight and refine the provisions of the above-mentioned regulations.

#### RECOMMENDATION U (AMENDMENT)

In 2021, work was carried out to develop draft *Recommendation U on good practices for bancassurance*. The draft amendment to Recommendation U aims to adapt the requirements thereunder to the new legal environment in the area of insurance distribution. The updated Recommendation U is to supersede the previous Recommendation U of the KNF Board of June 2014 by setting the standards for cooperation of entities interested in offering insurance products to customers as part of bancassurance.

### 10.5.2.2. SELECTED POSITIONS OF THE KNF BOARD AND THE UKNF, POSITIONS IN THE FORM OF UKNF COMMUNICATIONS AND Q&As

#### POSITION OF THE UKNF OF 16 FEBRUARY 2021 ON PRODUCT GOVERNANCE

The Position of 16 February 2021 discusses in detail certain aspects of compliance with product governance requirements in the activities of investment which recommend, offer or otherwise enable the acquisition or take-up of financial instruments. The explanations contained in the document promote a proper and consistent translation of regulatory requirements into distribution strategies of investment firms.

The Position also contains examples of good and bad practices in selling investment products to customers, and points to the principles of marketing communication addressed to customers within each target group.

The publication increases legal certainty and strengthens the protection of investors who are exposed to the risk arising from misselling.

#### POSITION OF THE UKNF OF 30 APRIL 2021 ON CONTINGENCY PLANS UNDER THE BMR

With the Position, the Polish Financial Supervision Authority draws the attention of the banking sector to the obligation to draw up the plans indicated in Article 28(2) of the BMR, considering the reasons behind that obligation, i.e. due to a significant change or cessation of a benchmark. The Position also raises issues concerning the inclusion of the plans in financial contracts (credit agreements), including in the 'old portfolio' contracts.

#### POSITION OF THE UKNF OF 23 SEPTEMBER 2021 ON THE USE OF BENCHMARKS AS DEFINED IN THE BMR, ADDRESSED TO LENDERS

In the Position, the UKNF explains the benchmarks used by lenders in consumer credit and mortgage credit agreements. The UKNF also points to differences in the method of determining the amount of the floating interest rate in mortgage credit and consumer credit products as well as the rules for applying a floating rate in such credit agreements.

#### POSITION OF THE UKNF OF 1 OCTOBER 2021 ON THE PERFORMANCE, BY INSURANCE DISTRIBUTORS, OF THE OBLIGATIONS REFERRED TO IN ARTICLE 8(1), (3) AND (4) AND ARTICLE 2(3) POINT 2 OF THE ACT ON INSURANCE DISTRIBUTION

The Position aims to highlight important issues regarding the method of fulfilling the obligations under Article 8(1), (3) and (4) and Article 2(3) point 2 of the Act on insurance distribution in relation to:

- definition of the client’s needs and expectations in terms of insurance cover, and offering a contract that meets such needs and expectations,
- performance of activities for defining the client’s needs and expectations in the case of entrepreneurs excluded from the regulations of the Act on insurance distribution,
- fulfilment of information requirements.

#### POSITION OF THE UKNF OF 11 AUGUST 2021 ON THE SUPERVISION EXERCISED BY INVESTMENT FIRMS OVER THEIR TIED AGENTS

The Position addresses the practical aspects of application, by investment firms, of Article 79(6a) of the Act on trading in financial instruments. The Position explains the nature of the relations between an investment firm and its tied agent, shows that the agent’s conduct affects the firm’s legal situation, and presents facts that reflect good and bad practices in the field of supervision exercised by investment firms over their agents.

#### POSITION OF THE UKNF OF 3 OCTOBER 2021 ON THE RISK OF NON-COMPLIANCE, UNTIL 10 NOVEMBER 2021, OF THE POLISH LEGAL ORDER WITH THE PROVISIONS OF THE REGULATION ON CROWDFUNDING SERVICE PROVIDERS

The publication of 3 October 2021 briefly discusses the operating rules for crowdfunding platforms in the first year of application of *Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937*, i.e. in the transitional period. The document also discusses the licensing of crowdfunding service providers in the period preceding the finalisation of the relevant delegated acts and a statutory act enabling the application of the Regulation in Poland.

#### POSITION OF THE UKNF OF 20 OCTOBER 2021 ON THE ADAPTATION OF THE BUSINESS OF INSURANCE UNDERTAKINGS TO THE REQUIREMENTS OF THE DECISION OF 15 JULY 2021 ON THE PROHIBITIONS ON THE MARKETING, DISTRIBUTION AND SALE OF INSURANCE-BASED INVESTMENT PRODUCTS – UNIT-LINKED LIFE INSURANCE CONTRACTS

The Position sets out the supervisory expectations regarding the essential aspects of governance related with the obligation of insurance undertakings to ensure, and to perform tests and analyses to verify, compliance with the requirements of the Decision. The Position is addressed to insurance undertakings authorised to pursue the business of insurance in Poland and to undertakings operating in Poland under the freedom of establishment and the freedom to provide services.

#### POSITION OF THE UKNF OF 26 OCTOBER 2021 ON CERTAIN ASPECTS OF THE MANAGEMENT OF RISK OF INVESTMENT FUNDS AND ALTERNATIVE INVESTMENT COMPANIES

The Position sets out the UKNF's expectations regarding the method of ensuring compliance with certain requirements laid down in the rules governing the functioning of the risk management system.

#### POSITION OF THE KNF BOARD OF 9 DECEMBER 2021 ON THE DIVIDEND POLICY OF COMMERCIAL BANKS, COOPERATIVE BANKS, AFFILIATING BANKS, INSURANCE UNDERTAKINGS, REINSURANCE UNDERTAKINGS, INVESTMENT FUND MANAGEMENT COMPANIES, GENERAL PENSION SOCIETIES, AND BROKERAGE HOUSES IN 2022

The direct objective of the dividend policy of the KNF Board is to ensure stability of the Polish financial sector by adapting the capital base of supervised entities to the level of risk they are exposed to, and to protect the users of financial services provided by those entities.

**Commercial banks:** the possibility of paying a dividend in the case of commercial banks was made dependent on many factors determining the condition of individual banks and the risk they are exposed to. For the first time, the dividend policy considers an additional capital add-on set under Pillar II (P2G), so the possibility of paying up to 75% and up to 100% of profit generated in 2021 is now reserved for banks which maintain the capital surplus above the level which takes into account the bank's vulnerability to adverse macroeconomic scenarios, measured by the results of supervisory stress tests.

**Cooperative and affiliating banks:** as compared with the Position of the KNF Board on the dividend policy for cooperative banks of 16 December 2020, a change was made to the basic criterion for the dividend payment, i.e. the criterion according to which a decrease in profit by more than 30% YoY or a decrease in own funds meant that the dividend for 2020 could not be paid. In the Position of the KNF Board of 9 December 2021, it was replaced with a criterion relating to the value of the C/I ratio – a value above 85% indicated failure to fulfil the requirement for the dividend payment. The other criteria remain unchanged.

Affiliating banks, as last year, should comply with the general assumptions of the dividend policy defined for commercial banks.

**Insurance/reinsurance undertakings:** as compared to the position of the supervisory authority of 16 December 2020 on the dividend policy for insurance undertakings, the criteria for the dividend payment have not changed. However, the payment of the dividend was limited to 100% of the profit generated in 2020 (considering the previously paid dividends on the 2022 profit) and 50% of the profit generated in 2021, and the coverage of capital requirements (after deduction of own funds for the expected dividends) as at 31 December 2021 and for the quarter in which the dividend was paid will be at least 175% for life insurance undertakings and at least 150% for non-life insurance undertakings.

**Investment fund management companies:** for investment fund management companies (TFI), the criteria for the dividend payment did not change in relation to the position of the supervisory authority of 16 December 2020 on the dividend policy for investment fund management companies. The possibility of paying dividends higher than 100% of the net profit for the previous year has been maintained, provided that the company meets the criteria for the payment of a dividend of up to 100% of the net profit for the previous year as well as additional, stricter requirements on the most recent SRP score being 1, and that the company ensures the capital requirement coverage ratio of at least 2.5.

**General pension societies:** The KNF Board recommended that a dividend of up to 100% of the profit generated in 2021 could be paid in 2022 by the general pension societies (PTE) which continue to meet the statutory capital requirements, were assigned the final SRP score at a good or satisfactory level, and maintain the value of equity and the value of liquid assets, increased by the amount of funds from the Guarantee Fund per society, of at least 1% of the net asset value of all pension funds managed by the general pension society.

At the same time, a dividend may be paid in an amount higher than 100% of the net profit for 2021 for the PTEs which meet the above-mentioned criteria and obtained a good SRP rating, and the amount of the payment will not cause the value of liquid assets in 2022, increased by the amount of funds from the Guarantee Fund per society, to be less than 1.75% of the net asset value of all pension funds managed by the general pension society.

When making the decision on the dividend payment, investment fund management companies should also consider additional capital needs in the term of 12 months from the approval of the financial statements for 2021, related to the management of target-date funds under the Act on employee capital plans, and the claims brought by participants of pension funds against the management company due to improper management of the pension funds.

**Brokerage houses:** The Position on the dividend policy for brokerage houses was amended compared to the Position of 16 December 2020 in order to adapt the applied criteria for the dividend payment to Regulation 2019/2033 amending the rules for setting prudential requirements, applicable from 26 June 2021. Rules on the dividend payment were also defined for brokerage houses which meet the requirements of Regulation 2019/2033 under transitional provisions.

In all other respects, the Position remained unchanged.

#### [POSITION OF THE UKNF OF 23 DECEMBER 2021 ON THE RECORDING OF CONTACTS WITH CLIENTS OF INVESTMENT FIRMS](#)

The Position addresses the recording, registering, storing and archiving of contacts of investment firms with actual and potential clients. The publication discusses the objectives of regulation and the practical aspects of compliance. The Position also sets out the supervisory approach to each area of obligations of investment firms, especially in regard to note-taking. An emphasis was also placed on the aspect of using information collected in the course of recording the contacts by the firm's internal control unit.

#### [COMMUNICATION OF THE UKNF OF 15 JANUARY 2021 ON THE POSSIBILITY OF SENDING TEXT VERSIONS OF REPORTS IN THE ESEF IN THE PRODUCTION ENVIRONMENT OF THE ELECTRONIC INFORMATION TRANSFER SYSTEM \(ESPI\)](#)

The Communication announces that the UKNF has provided the functionality for sending text versions of reports in the Electronic Information Transfer System (ESPI). The goal was to provide issuers with the best support in their preparation for ESEF reporting.

#### [COMMUNICATION OF THE UKNF OF 11 FEBRUARY 2021 ON THE INTERPRETATION OF ARTICLE 31\(1\) OF THE ACT ON COMPULSORY INSURANCE](#)

In order to ensure a uniform practice of all insurance undertakings offering motor third party liability insurance in Poland, the UKNF posted on the KNF website a communication addressed to insurance undertakings which provides an interpretation of Article 31(1) of the Act on compulsory insurance. The Communication contains information about the consequences of transferring ownership of a vehicle to a policyholder who is not the owner of the vehicle at the time of concluding the contract of motor third party liability insurance.

#### [COMMUNICATION OF THE UKNF OF 11 FEBRUARY 2021 FOR ACQUIRERS OF MOTOR VEHICLES INSURED UNDER A CONTRACT OF COMPULSORY MOTOR THIRD PARTY LIABILITY INSURANCE](#)

A second communication was posted on the KNF website in relation to the consequences of transferring ownership of a vehicle to a policyholder who is not the owner of the vehicle at the time of concluding the contract of motor third party liability insurance. The Communication was addressed to motor vehicle holders, who were reminded about the right of the acquirer of the vehicle to terminate the motor third party liability insurance contract existing at the time of the

transaction and about the obligation to conclude a motor third party liability insurance contract for another period (even if the acquirer did not terminate the motor third party liability insurance contract they bought the vehicle with).

#### COMMUNICATION OF THE UKNF OF 13 APRIL 2021 ON THE ENTRY INTO FORCE OF REGULATIONS POSTPONING THE DEADLINE FOR THE ESEF REPORTING

The Communication announces the publication of an Act amending the Banking Law, governing the start date for reporting in the ESEF. In accordance with the new provisions, an issuer whose securities have been admitted to trading on a regulated market may choose not to apply the European Single Electronic Format (ESEF) in relation to annual reports and consolidated financial statements for the financial year beginning between 1 January and 31 December 2020 and prepare the reports according to the previous rules.

#### COMMUNICATION OF THE UKNF OF 27 APRIL 2021 ON ESMA GUIDELINES ON THE PROSPECTUS

The Communication announces that starting from 4 May 2021, the approval of prospectuses will be subject to 'Guidelines on disclosure requirements under the Prospectus Regulation' (ESMA32-382-1138), which will supersede the previous 'ESMA update of the CESR recommendations – The consistent implementation of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive' (ESMA/2013/319).

#### COMMUNICATION OF THE UKNF OF 2 JUNE 2021 ON THE POSTPONEMENT OF THE DEADLINE FOR THE ADAPTATION OF THE BUSINESS OF INVESTMENT FUND MANAGEMENT COMPANIES TO ARTICLE 42B(1) OF THE ACT ON INVESTMENT FUNDS

According to the Communication, the deadline for the adaptation of the business concerned has been postponed to 30 September 2021.

#### COMMUNICATION OF THE UKNF OF 9 JULY 2021 ON THE PERFORMANCE OF OBLIGATIONS UNDER ARTICLE 52 OF THE ACT ON CONSUMER CREDIT

The UKNF analysed the practice of selected banks in terms of the performance of obligations under Article 52 of the Act on consumer credit – the settlement of the credit with the consumer within 14 days from the date of early repayment of the credit, and expects that lenders introduce internal systemic solutions that will guarantee their compliance with their obligation under Article 52 of the Act on consumer credit with due care and effectiveness. The UKNF does not impose any specific solutions in that respect, leaving it to management boards of the entities to choose the solutions that will enable them to fulfil the obligation under Article 52 of the Act on consumer credit.

#### COMMUNICATION OF THE UKNF OF 16 JULY 2021 PRESENTING THE CONCLUSIONS FROM A REVIEW OF RULINGS OF COMMON COURTS REGARDING THE REIMBURSEMENT OF COSTS OF RENTING A REPLACEMENT VEHICLE UNDER A MOTOR THIRD PARTY LIABILITY INSURANCE AND REFERRING TO RESOLUTION OF THE SUPREME COURT OF 24 AUGUST 2017 (CASE FILE NO III CZP 20/17), HEREAFTER: 'RESOLUTION III CZP 20/17'

A communication was published on the KNF website to present the above-mentioned conclusions, addressed to potential aggrieved parties that may need to decide to rent a replacement vehicle at the expense of the insurance undertaking providing insurance of the civil liability of the perpetrator. The review of the court rulings helped to establish how the general principles indicated in Resolution III CZP 20/17 are applied by common courts resolving disputes between the aggrieved party and the insurance undertaking. Thus the UKNF determined what actions the aggrieved party may expect from the insurance undertaking and what actions the aggrieved party should not undertake on their own. The information provided in the Communication should help aggrieved parties to make an informed decision on the rental

so that, on the one hand, they can use a replacement vehicle in a manner similar as much as possible to the manner of using their own vehicle, and, on the other hand, they can avoid generation of rental costs, which the insurance undertaking – under the court rulings analysed – does not have to pay.

#### COMMUNICATION OF THE UKNF OF 26 JULY 2021 ON THE PERFORMANCE BY PAYMENT SERVICE PROVIDERS OF OBLIGATIONS UNDER ARTICLE 143B OF THE ACT ON PAYMENT SERVICES

The document is a result of a market analysis performed by the UKNF. The analysis revealed irregularities in the procedural identification of a process, inadequate management and control of the existing processes, including in terms of timely fulfilment of the obligations under Article 143b of the Act on payment services. The UKNF expressed an expectation that internal systemic procedural and control solutions should be put in place immediately that will ensure the fulfilment of the obligations under Article 143b of the said Act with due care and within the statutory deadlines. On 18 November 2021, representatives of the UKNF met with the Polish Bank Association (Związek Banków Polskich – ZBP) to resolve the doubts of the ZBP and banks in relation to the UKNF's expectation regarding the adaptation of the IT infrastructure for the purpose of fulfilment of the obligations under Article 143b of the Act on payment services.

#### COMMUNICATION OF THE UKNF OF 3 AUGUST 2021 ON BANK ACCOUNT FREEZE IN THE EVENT OF PERSONAL BANKRUPTCY

The Communication was prepared in connection with a market analysis carried out by the UKNF which has shown a discrepancy among supervised entities in terms of the time of bank account freeze in the event of personal bankruptcy of client being the account holder. The supervisory authority expressed the position that banks should regularly follow the announcements published in the Official Economic and Court Journal (Monitor Sądowy i Gospodarczy) (after 1 December 2021 – National Register of Debtors) in regard to decisions on personal bankruptcy of holder of accounts kept by the banks, and promptly effect account freeze based on such announcements. The UKNF also indicated that any supervised entity which keeps an account should not pay the funds accumulated on the account of the bankrupt or execute any other order of the bankrupt in relation to the account being blocked until appropriate instructions are received from the receiver, unless the entity can clearly establish, on the basis of available information, that the funds on the account are not part of the bankruptcy estate.

#### Q&AS ON THE LEGAL REQUIREMENTS FOR MEMBERS OF MANAGEMENT BOARDS OF TFI WHOSE APPOINTMENT REQUIRES THE APPROVAL BY THE KNF BOARD

On 21 January 2021, the UKNF published answers to frequently asked questions about the legal requirements for members of management boards of TFIs whose appointment requires the approval by the KNF Board. The document, composed of 7 thematic categories, serves to mitigate the legal risk arising from non-compliance of the business of TFIs to the new regulatory requirements.

#### Q&AS ON THE REQUIREMENTS FOR KNF-SUPERVISED ENTITIES IN RELATION TO REMUNERATION POLICY AND REMUNERATION REPORT AS REFERRED TO IN CHAPTER 4A OF THE ACT ON PUBLIC OFFERING

On 15 June 2021, the UKNF published answers to frequently asked questions about the requirements for KNF-supervised entities in relation to remuneration policy and remuneration report as referred to in Chapter 4a of the Act on public offering. The document contains 23 detailed answers and additional explanations facilitating that help issues to fulfil their information requirements.

## Q&As ON PUBLIC OFFERINGS AND PROSPECTUSES

On 27 July 2021, Q&As on public offerings and prospectuses were published on the KNF website.

A detailed list of positions/communications of the KNF Board and the UKNF, communications from the UKNF and Q&As is provided in Table 12.8.2 in Annex 12.8.

## 10.6. PREVENTION OF FINANCIAL MARKET ABUSE

### 10.6.1. PRELIMINARY INVESTIGATION AND ADMINISTRATIVE PROCEEDINGS

In 2021, the KNF Board conducted 25 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, and 1 preliminary investigation to determine whether there were grounds to initiate administrative proceedings with regard to violation of the legislation to the extent subject to the KNF supervision.

**Table 69. Number of administrative proceedings (of the 1st instance) conducted by the KNF Board in 2021 by legal act**

Item	Legal act	Number of administrative proceedings
1.	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation, MAR)	10
2.	Banking Law	1
3.	Act on trading	9
4.	Act on public offering	47
5.	Act on investment funds	8
6.	Act on the business of insurance	2
7.	Act on compulsory insurance	14
8.	Act on statutory auditors	7
9.	Act on the prevention of money laundering	10
10.	Tax Ordinance	7
11.	other statutory laws	34
<b>Total</b>		<b>149</b>

Source: UKNF

The administrative proceedings were related to:

- non-performance or improper performance of obligations relating to immediate publication of inside information (Article 17(1) of MAR): 6;
- failure to comply with the obligation to notify a transaction of a person discharging managerial responsibilities or a person closely associated with that person (Article 19 of MAR): 4;
- manipulation of a financial instrument (Article 39 of the Act on trading): 1;
- non-performance or improper performance of disclosure obligations by the issuer (Article 56 of the Act on public offering): 10;
- 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): 14;

- imposing penalties on members of the issuer’s supervisory board due to gross violation of Article 56 of the Act on public offering by the issuer (Article 96(6a) of the Act on public offering): 13<sup>63</sup>;
- non-performance or improper performance of obligations relating to qualifying holdings (Article 69 of the Act on public offering): 4;
- non-performance or improper performance of obligations relating to qualifying holdings (Article 69 in conjunction with Article 87 of the Act on public offering): 5;
- non-performance or improper performance of obligations relating to qualifying holdings (Articles 69 and 73 of the Act on public offering in conjunction with Article 87 of the Act on public offering): 1;
- compliance with the provisions concerning the appointment, composition and functioning of the audit committee at public-interest entities: 1;
- granting a fine reduction (Article 67a of the Tax Ordinance): 7;
- imposing a penalty pursuant to Article 96(1) point of the Act on public offering in connection with improper performance of the information obligation laid down in Article 56(1) point 1 of the Act on public offering in conjunction with Article 154 of the Act on trading, in relation to inside information: 1;
- compliance with the provisions concerning the appointment, composition and functioning of the audit committee at public-interest entities: 3;
- violation of laws or regulations and other internal rules in connection with practising the profession of an investment adviser and a securities broker: 3;
- irregularities in the activities of the president of management board of a brokerage house in connection with violation of provisions of law committed by the brokerage house (Article 169a(1) of the Act on trading): 1;
- imposition of a fine and partial withdrawal of authorisation to conduct brokerage activities in connection with multiple breaches of the Act on trading, Commission Delegated Regulation (EU) 2017/565: 1;
- breach of obligations of a brokerage house to prepare and implement an appropriate comprehensive risk management system, and breach of the obligation of the management board of a brokerage house to ensure effective and prudent management of the brokerage house and proper functioning of the risk management system at the brokerage house: 1;
- the requirements for authorisation to conduct brokerage activities referred to in Article 103(1) of the Act on trading no longer being fulfilled: 1;
- irregularities in the conduct of investment fund management companies and investment funds (the company was managing investment funds in an improper and unprofessional manner that failed to ensure due care and to consider the best interest of the funds managed and of unit holders, improper ongoing supervision over an entity to which the company entrusted the management of the investment portfolio of investment funds, non-compliance with investment-related restrictions, incorrect valuation of assets, participation of investment funds in general meetings of issuers, collection of undue fees for management from unit holders): 4;
- imposing a penalty on an investment fund company for their infringement of Article 45a(4a) and Article 48(2a) point 2 of the Act on investment funds: 1;
- failure to meet deadlines for the settlement of claims (Article 14 of the Act on compulsory insurance): 14;
- failure to ensure effective asset and liability management and investment of financial resources in assets the risk of which the insurance undertaking could not properly determine, measure or manage (Article 56(1) in conjunction with Article 57(2) point 2 and Article 276(1) in conjunction with Article 276(2) of the Act on the business of insurance): 2;

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<sup>63</sup> 1 set of proceedings concerned the liability of a person performing functions both in the supervisory board and in the management board.



- irregularities in relation to insurance distributors regarding suspected breach of the Act on insurance distribution: 32;
- performance of the function of depositary of investment funds in violation with the requirements resulting from the Act on investment funds: 3;
- failure to comply with the obligation referred to in Article 25h(3) of the Banking Law: 1;
- imposing an administrative penalty in connection with non-compliance with the requirements laid down in the Act on the prevention of money laundering (Article 151(1) point 3 of the Act on the prevention of money laundering): 10;
- breach of the Act on statutory auditors: 3;
- breach of the Act on the national cybersecurity system: 1;
- breach of the Act on mortgage credit: 1.

**Table 70. Number of preliminary investigations and administrative proceedings initiated and closed (1st instance) in the years 2018-2021**

Breakdown	2018		2019		2020		2021	
	Number of initiated proceedings	Number of closed proceedings	Number of initiated proceedings	Number of closed proceedings	Number of initiated proceedings	Number of closed proceedings	Number of initiated proceedings	Number of closed proceedings
Preliminary investigation	5	1	13	13	19	24	15	11
Administrative	56	68	45	112	37	71	84	44
<b>Total</b>	<b>61</b>	<b>69</b>	<b>58</b>	<b>125</b>	<b>56</b>	<b>95</b>	<b>95</b>	<b>57</b>

Source: UKNF

In 2021, 58 administrative decisions (1st instance) were issued, including:

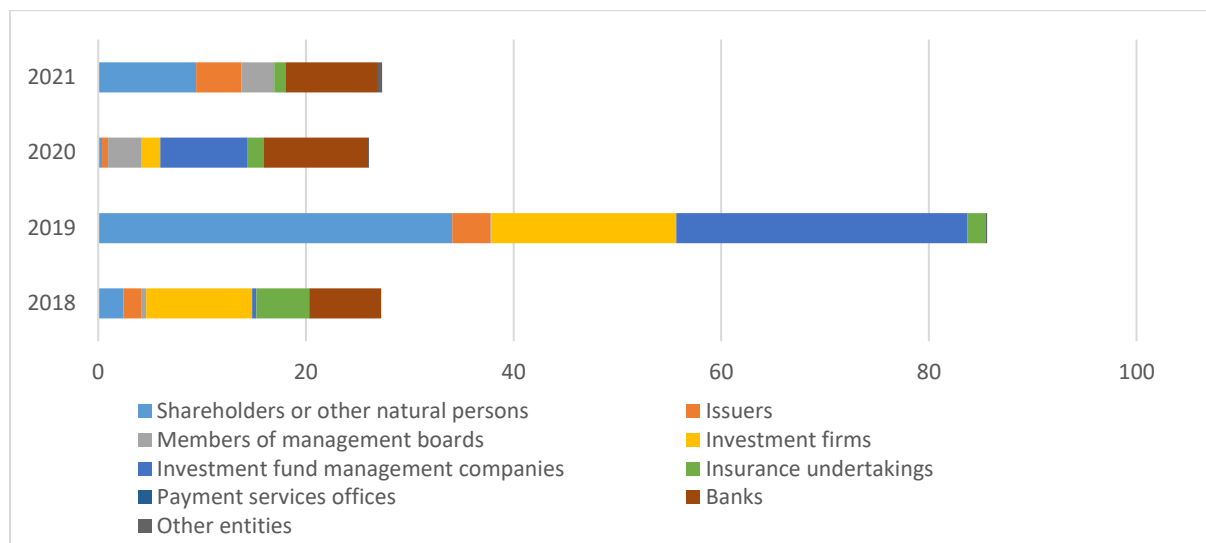
- 27 final decisions on the imposition of a fine,
- 13 final decisions on the imposition of a fine and partial discontinuance of administrative proceedings,
- 1 final decision on the imposition of an administrative fine,
- 9 final decisions on discontinuance of administrative proceedings,
- 2 final decisions on refusal to grant a reduction in an administrative fine,
- 2 final decisions on the suspension of rights to pursue the profession of a securities broker,
- 1 final decision not to impose a fine pursuant to the Act on statutory auditors,
- 1 final decision on the distribution of a fine into instalments,
- 1 final decision on refusal to distribute an outstanding administrative fine into instalments,
- 1 final decision on the imposition of a fine and restriction of authorisation to conduct brokerage activities.

The total amount of fines imposed in 2021 was PLN 41 002 200 (1st instance), including fines imposed on:

- issuers: PLN 4 350 000,
- shareholders and/or other natural persons: PLN 9 425 000,
- investment firms: PLN 3 500 000,
- investment fund management companies: PLN 10 000 000,
- members of management boards of public companies: PLN 3 185 000,
- members of supervisory boards of public companies: PLN 385 000,

- banks: PLN 150 000,
- banks acting as depositary: PLN 8 800 000,
- insurance undertakings: PLN 1 078 400,
- other: PLN 128 800.

**Diagram 41. Fines imposed by the KNF Board in the years 2018-2021 (in PLN million)**



Source: UKNF

In 2021, the KNF Board conducted 47 administrative proceedings following the submission of an application for review of a case, in relation to the following acts and regulations:

- Act on public offering: 18,
- Act on trading: 4,
- Act on trading and the implementing regulation thereto: 2,
- Act on the business of insurance: 2,
- Act on compulsory insurance: 2,
- Act on investment funds: 9,
- Administrative Procedure Code: 3,
- Act on statutory auditors: 1,
- MAR: 1,
- Act on the national cybersecurity system: 1,
- Banking Law: 1,
- Act on the prevention of money laundering: 3.

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): 3;
- non-performance or improper performance of disclosure obligations by the issuer (Article 56 of the Act on public offering): 3;
- 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): 11;
- failure to comply with the prohibition of manipulation of financial instruments (Article 39(1) in conjunction with Article 39(2) point 4(b) of the Act on trading): 2;
- entrusting a foreign entity with the operations of transmission of customers’ orders for the purpose of their execution without an appropriate contract and collecting a cash benefit (a rebate) in a manner contrary to the provisions of law (Article 81a(1) of the Act on trading, and § 8(2) of the Regulation on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading, and custodian banks): 1;
- multiple breaches of the Act on trading in financial instruments, Commission Delegated Regulation (EU) 2017/565: 1;
- failure to meet deadlines for the settlement of claims (Article 14 of the Act on compulsory insurance): 2;
- improper ongoing supervision of performance, by the manager, of activities related to the management of a closed-end investment fund (Article 45a(4a) of the Act on investment

- funds), management of a closed-end investment fund in an unreliable and unprofessional manner and without using due care (Article 48(2a) point 2 of the Act on investment funds), and allowing a situation where the fund did not have any funds raised by way of a public or non-public offering of investment certificates for the acquisition of packages of receivables (Article 3(1) in conjunction with Article 183(1) of the Act on investment funds): 1;
- irregularities related to the conduct of activities by investment fund management companies and investment funds (managing investment funds by a company in an unfair or unprofessional manner that failed to ensure due diligence or to consider the best interests of the funds and unit-holders, placing the fund's assets under conditions of conflict of interest and the breach of investment limits (Article 45a(4a), Article 48(2a) point 2 in conjunction with Article 10 and Article 107(2) point 1 in conjunction with Article 145(9) and Article 145(3) and Article 146(6) of the Act on investment funds): 4;
  - violation, by an entity managing securitised receivables, of provisions of law or articles of association of the funds entrusted to it by investment fund management companies with which contracts for the management of securitised receivables were signed, and violation of the conduct of business rules consisting in operating outside the scope of authorisation, violation of the principles of fair trading and infringement of the interest of securitisation fund participants: 1;
  - failure to pay unit holders the total amount of the redemption price of investment certificates within the date specified in the statutes of the investment fund (Article 139(7) of the Act on investment funds): 1;
  - refusal to initiate administrative proceedings in relation to natural persons: 1;
  - violation, by a bank, of statutes by performing activities that were outside the scope of activities indicated in the statutes and by acting in violation with the Banking Law and related regulations (Article 138(3a) of the Banking Law): 1;
  - providing the service of offering financial instruments in a manner contrary to the obligation to act honestly and professionally (Article 8(1) of the Regulation of the Minister of Finance of 24 September 2012 on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading, and custodian banks in conjunction with Article 70(2) of the Act on trading): 1;
  - providing the service of offering financial instruments in a manner contrary to the obligation to act honestly and professionally (Article 8(1) of the Regulation of the Minister of Finance of 24 September 2012 on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading, and custodian banks in conjunction with Article 70(2) of the Act on trading): 1;
  - granting a fine reduction (Article 189k of the Administrative Procedure Code): 1;
  - failure to ensure effective management of the assets and liabilities in relation to a unit-linked product and placing funds in assets the risks of which the company could not properly determine (Article 362(2) point 1 in conjunction with Article 362(1) point 2 of the Act on the business of insurance for violation of Article 56(1) in conjunction with Article 56(2) point 2 of the Act on the business of insurance, and Article 276(1) in conjunction with Article 276(2) of the Act on the business of insurance): 2;
  - failure by an issuer to comply with information requirements (Article 17 in conjunction with Article 7 of MAR): 1;
  - failure to act by the audit committee of the supervisory board of a bank, and reduction of the number of its members to two (Article 128(1) in conjunction with Article 129(1) of the Act on statutory auditors): 1;
  - improper ongoing control over factual and legal operations performed by an investment fund through a depositary: 2;
  - imposing an administrative penalty in connection with non-compliance with the requirements laid down in the Act on the prevention of money laundering (Article 151(1) point 3 of the Act on the prevention of money laundering): 3;
  - failure to ensure the timely conduct of an audit of the security of the IT system used to provide a key service (Article 15(1) of the Act on the national cybersecurity system): 1;
  - correction of an obvious typographical error: 1.

In 2021, a total of 29 final administrative decisions were issued following the examination of requests for review of a case, including:

- 21 final decisions upholding a final decision appealed against,
- 5 final decisions on reversing a final decision appealed against and imposition of a smaller fine,
- 2 final decisions to reverse a final decision appealed against, to discontinue part of proceedings in the 1st instance and to impose a smaller fine,
- 1 final decision to partially reverse a final decision appealed against and upholding it to the remaining extent.

2 interim decisions upholding other interim decisions were issued.

### 10.6.2. NOTIFICATIONS OF A SUSPECTED CRIMINAL OFFENCE

In 2021, the UKNF submitted 98 notifications of a suspected criminal offence to the National Prosecutor's Office, Regional Prosecutor's Office in Warsaw and District Prosecutor's Offices, with regard to, among others, the following legal acts:

- Act on trading: 38,
- Act on public offering: 3,
- Penal Code: 40,
- Accounting Act: 4,
- Act on payment services: 2,
- Act on investment funds: 1,
- Act on consumer credit: 3,
- Act on bonds: 2,
- Act amending certain laws to strengthen financial market supervision and investor protection: 4,
- Fiscal Penal Code: 1,
- Act on commodity exchanges: 1,
- Banking Law: 7,
- Infractions Code: 1,
- Act on mortgage credit: 2,
- Act on financial market supervision: 1.

In some cases, the notifications concerned several legal norms, hence the sum of the violated legal norms is greater than the total number of notifications sent in 2021.

**Table 71. Notifications drawn up in the years 2018–2021 by type of the violated provision of law**

Type of violated provision of law	Number of violations of individual provisions of law reported in notifications of a suspected criminal offence			
	2018	2019	2020	2021
Article 183 of the Act on trading (manipulation of a financial instrument)	5	15	15	1
Articles 180 and 181 of the Act on trading (unlawful disclosure of inside information and insider trading)	7	11	10	4
Article 100 of the Act on public offering (providing false data or holding back true data in the prospectus and reports)	5	3	1	2

Type of violated provision of law	Number of violations of individual provisions of law reported in notifications of a suspected criminal offence			
	2018	2019	2020	2021
Article 178 of the Act on trading (pursuing activities in the area of trading in financial instruments without authorisation)	10	9	13	32
Article 171(4) of the Banking Law (giving false data or holding back true data)	7	6	3	3
Other	19	19	49	93*
<b>Total</b>	<b>53</b>	<b>63</b>	<b>91</b>	<b>135**</b>

Source: UKNF

\* Violated provisions of law:

- Article 150(1) of the Act on payment services (operating without authorisation in the area of provision of payment services),
- Article 45 of the Act amending certain laws to strengthen financial market supervision (non-performance or improper performance of obligations related to the issue of bonds, mortgage bonds or investment certificates),
- Article 77 of the Accounting Act (bookkeeping contrary to the principles set out in in the Act),
- Article 59h of the Act on consumer credit (pursuing business without the required entry in the register of non-bank lending institutions),
- Article 76(1) and (2) of the Act on mortgage credit (operating as a lender contrary to statutory requirements),
- Article 77(1) of the Act on mortgage credit (conducting activities as a mortgage credit intermediary without authorisation),
- Article 87(1) of the Act on bonds (unauthorised issue of bonds or failure to observe the statutory requirements for issue),
- Article 90 of the Act on bonds (giving false data when offering the acquisition of bonds),
- **Article 224 of the Penal Code (exerting influence on the conduct of official activities),**
- Article 230 of the Penal Code ('passive' influence peddling),
- Article 227 of the Penal Code (impersonating a public official),
- Article 270 of the Penal Code (forgery of documents),
- Article 286 § 1 of the Penal Code (fraud),
- Article 296 § 1a of the Penal Code (acting to the detriment of an organisational unit),
- Article 299 § 1 of the Penal Code (money laundering),
- Article 171(1) of the Banking Law (conducting banking activities without authorisation),
- Article 171(2) of the Banking Law (unauthorised use of the words 'bank' or 'kasa' at an organisational unit other than a bank),
- Article 178d of the Act on trading (non-performance or improper performance of certain information obligations towards the KDPW),
- Article 106d of the Fiscal Penal Code (carrying on a business consisting in buying and selling foreign currencies and in intermediation in such transactions without entry in the register of activities of exchange bureaux),
- Article 287(1) of the Act on investment funds (investing cash without authorisation),
- Article 57 of the Act on commodity exchanges (running an exchange, exchange clearing house or commodity brokerage without authorisation or contrary to the authorisation requirements),
- Article 61 § 1 of the Infractions Code (misappropriation of a position, title, degree),
- Article 20a of the Act on financial market supervision (obstructing or preventing the conduct of activities in preliminary investigation).

\*\* The number of notifications made to the Prosecutor's Office in 2021 was 98; they concerned 135 breaches of provisions of specific statutory laws. The number of notifications does not include supplementary notifications.

In 2021, 40 letters were submitted to prosecutor's offices to supplement a previous notification.

The evident increase in the number of notifications concerning breaches of provisions of criminal law other than the rules governing the financial market results from, in particular, the persisting trend of increased illegal activity of trading platforms. The entities in question engage in fraudulent activities, misleading investors and obtaining money from them by fraud.

Moreover, in 2021, pursuant to Article 17ca of the Act on financial market supervision, the UKNF strengthened its cooperation with central offices and units of public services and agencies in the area of exchange of documents and information necessary to achieve statutory objectives in the field of prevention and detection of criminal offences in the financial market.

Through the exercise of the above-mentioned statutory right, the UKNF made more than 50 statements concerning the phenomena and entities operating illegally in the financial market or posing as licensed entities.

In the performance of statutory tasks, pursuant to Article 83(1) of the Act on prevention of money laundering, the UKNF also submitted to the GIFI 9 notifications of suspected offences punishable under Article 299 § 1 of the Penal Code which were then used to make notifications of suspected offences to prosecutor's offices.

The exchange of information with those bodies is related to the constant strengthening of the UKNF's organisational units responsible for performing acts in criminal cases and to enhancing activities related to obtaining and processing information about criminal phenomena identified in the financial market.

2021 was also a period of continued cooperation between the UKNF and prosecuting authorities in the area of detecting and combating illegal activities in the financial market. The cooperation took place both on the general level (to develop the best model of cooperation) and on a more specific level (in relation to individual cases). Given the increasing illegal activities, the cooperation focuses on, among other things, illegal intermediation in investments in the capital market and on supporting the prosecuting authorities in identifying the patterns used in such malpractices.

Out of the 98 notifications submitted to the prosecutor's office in 2021, 83 preparatory proceedings were initiated (9 of them were subsequently discontinued, a complaint was lodged in 8 cases; as at 31 December 2021, 5 complaints were still pending at the court); initiation of investigation was denied in 6 cases (a complaint was lodged in one case). As at 31 December 2021, the remaining notifications awaited the prosecutors final decision as to further course of the proceedings.

### 10.6.3. BILLS OF INDICTMENT

In 2021, the UKNF received information that Prosecutor's Offices sent 23 bills of indictment to common courts following notifications of reasonable suspicion of criminal offence from the UKNF.

**Table 72. Bills of indictment sent by the Prosecutor's Offices to courts in 2021 by type of violated legal norm**

Type of violated provision of law	Bills of indictment
Article 178 of the Act on trading (conducting brokerage activities without authorisation)	2
Article 183 of the Act on trading (manipulation of a financial instrument)	6
Article 171(1) and (3) of the Banking Act (pursuing banking activities without authorisation)	3
Article 150 of the Act on payment services (illegal pursuit of activities)	2
Article 181 of the Act on trading	2
Other*	8
<b>Total</b>	<b>23</b>

Source: UKNF

\* Violated provisions of law:

- Article 296 of the Penal Code (abuse of power or failure to fulfil obligations)
- Article 20a of the Act on financial market supervision (obstructing or preventing the conduct of activities in preliminary investigation),
- Article 45(1) of the Act amending certain laws to strengthen financial market supervision (non-performance or improper performance of obligations in the area of management of records of bonds, mortgage bonds or investment certificates),
- Article 77 of the Accounting Act (infringement of obligations in the field of bookkeeping and preparation of financial statements),
- Article 79 point 4 of the Accounting Act (liability for an infringement of other provisions on accounting),
- Article 89(1) point 4 of the Act on insurance distribution (conducting business without a licence or authorisation),
- Article 90(1) of the Act on insurance distribution (unauthorised use – in the business name or adverts – of expressions indicating the conduct of insurance distribution or reinsurance activities).

### 10.6.4. JUDGMENTS OF CONVICTION AND CONDITIONAL DISCONTINUANCE

In 2021, common courts issued 20 judgments of conviction and conditional discontinuance of criminal proceedings following notification of justified suspicion of a criminal offence submitted by the UKNF and following the activities undertaken *ex officio* by the prosecutor's office in respect of the following statutory laws:

- Act on trading in financial instruments: 6 judgments,
- Act on bonds: 1 judgment,
- Act on public offering: 2 judgments,
- Act on payment services: 3 judgments,
- Accounting Act: 2 judgments,
- Act on consumer credit: 2 judgments,
- Banking Law: 2 judgments.

Judgments issued in 2021:



- Judgment of the District Court for Warszawa-Śródmieście in Warsaw of 27 January 2021 in a case under Article 181(1) of the Act on trading. The court sentenced the defendant to 1 year of deprivation of liberty (final judgment). The notification was submitted on 19 May 2016;
- Judgment of the District Court in Stalowa Wola of 17 February 2021 in a case under Article 58h of the Act on consumer credit. The court conditionally discontinued proceedings in relation to one defendant for a probationary period of 1 year and ordered a monetary performance in the amount of PLN 2 000 (non-final judgment). The notification was submitted on 4 February 2020;
- Judgment of the District Court in Piotrków Trybunalski of 10 March 2021 in a case under Article 150(1) of the Act on payment services. The court conditionally discontinued proceedings in relation to one defendant for a probationary period of 1 year and ordered a monetary performance in the amount of PLN 5 000 (final judgment). The notification was submitted on 2 July 2020;
- Judgment of the Regional Court in Warsaw of 26 March 2021 in a case under Article 178 of the Act on trading concurrently with Article 286 § 1 of the Penal Code in conjunction with Article 294 of the Penal Code. The court sentenced two defendants to 2 years of deprivation of liberty conditionally suspended for a probationary period of 4 years and to a fine of PLN 100 000 (non-final judgment). The notification was submitted on 8 February 2012;
- Judgment of the District Court in Lubań of 29 March 2021 in a case under Article 77 point 1 of the Accounting Act. The court conditionally discontinued proceedings in relation to one defendant for a probationary period of 2 years and ordered a monetary performance in the amount of PLN 5000 (final judgment). The notification was submitted on 7 February 2018;
- Judgment of the District Court for Warszawa-Śródmieście in Warsaw of 20 April 2021 in a case under Article 100(1) of the Act on public offering and Article 181 of the Act on trading. The court ordered the defendant to pay a fine of PLN 150 000 (non-final judgment). The notification was submitted on 30 April 2019;
- Judgment of the District Court in Zielona Góra of 11 May 2021 on Article 89(1) point 4 and Article 90(1) of the Act on insurance distribution. The court conditionally discontinued proceedings in relation to one defendant for a probationary period of 1 year and ordered a monetary performance in the amount of PLN 1 000 (non-final judgment). The notification was submitted on 9 June 2020;
- Judgment of the District Court for Wrocław-Fabryczna of 17 May 2021 in a case under Article 46(1) of the Act on capital market supervision. The court ordered the defendant to pay a fine of PLN 100 000 (final judgment). The notification was submitted on 25 September 2017;
- Judgment of the Regional Court in Tarnobrzeg of 17 May 2021 in a case under Article 58h of the Act on consumer credit. The court conditionally discontinued proceedings in relation to one defendant for a probationary period of 1 year and ordered a monetary performance in the amount of PLN 10 000 (final judgment). The notification was submitted on 04 February 2020;
- Judgment of the District Court in Rzeszów of 24 May 2021 in a case under Article 171(1) of the Banking Law and Article 284 § 1 of the Penal Code. The court sentenced the defendant to 1 year of deprivation of liberty conditionally suspended for a probationary period of 3 years and to a fine of PLN 4000 (final judgment). The notification was submitted on 25 July 2017;
- Judgment of the District Court in Stargard of 22 June 2021 in a case under Article 171(1) in conjunction with Article 171(2) of the Banking Law. The court sentenced thirteen defendants to penalties of deprivation of liberty for a period of 1 year to 2 years and fines from PLN 5 000 to PLN 20 000, a penalty of deprivation of liberty for 1 year conditionally suspended for a period of 3 years and fines from PLN 5 000 to PLN 10 000, as well as a prohibition on taking up posts in governing bodies of companies and partnerships and taking up posts related with the representation of such entities for a period from 3 to 5 years and a prohibition on the conduct of business activities consisting in providing financial

- intermediation services for a period from 3 to 5 years (non-final judgment). The notification was submitted on 7 September 2011;
- Judgment of the District Court in Wadowice of 6 July 2021 in a case under Article 150(1) of the Act on payment services. The court conditionally discontinued proceedings in relation to one defendant for a probationary period of 1 year and ordered a monetary performance in the amount of PLN 1 000 (final judgment). The notification was submitted on 23 October 2019;
  - Injunction ruling of the District Court for Warszawa-Śródmieście in Warsaw of 13 July 2021 in a case under Article 45(1) of the Act amending certain acts to strengthen financial market supervision. The court imposed a fine of PLN 10 000 (final judgement). The notification was submitted on 19 November 2020;
  - Judgment of the District Court in Płock of 30 July 2021 in a case under Article 183(1) of the Act on trading. The court conditionally discontinued the proceedings against two defendants for a probationary period of 1 year and ordered a monetary performance in the amount of PLN 50 000 and 10 000, respectively (non-final judgment). The notification was submitted on 5 February 2010;
  - Judgment of the District Court for Warszawa-Śródmieście in Warsaw of 29 September 2021 in a case under Article 183(1) of the Act on trading. The court ordered the penalty of deprivation of liberty for 1 year suspended for 1 year and a fine of PLN 12 000 (final judgment). The notification was submitted on 25 February 2019;
  - Judgment of the Regional Court in Wrocław of 19 October 2021 in a case under Article 46(1) of the Act on capital market supervision, upholding the judgment of the court of the 1st instance. The court ordered the defendant to pay a fine of PLN 100 000 (final judgment). The notification was submitted on 25 September 2017;
  - Judgment of the District Court for Wrocław-Fabryczna of 16 November 2021 in a case under Article 20a and Article 46(1) of the Act on financial market supervision. The court imposed a fine of PLN 100 000 (non-final judgement). The notification was submitted on 8 January 2018;
  - Judgment of the Regional Court in Warsaw of 6 December 2021 in a case under Article 99(2a) in conjunction with Article 99(2) of the Act on public offering and Article 38(1) and (2) in conjunction with Article 39(1) and (2) of the Act on bonds. The court sentenced one defendant to the penalty of deprivation of liberty for 2 years, conditionally suspended for a probationary period of 2 years, and partial compensation for damage (non-final judgment). The notification was submitted on 15 November 2012;
  - Judgment of the Regional Court in Warsaw of 8 December 2021 in a case under Article 183(1) of the Act on trading, upholding the judgment of the court of the 1st instance. The court of the 1st instance sentenced one defendant to the penalty of deprivation of liberty for 1 year, conditionally suspended for 1 year, and to a fine of PLN 12 000 (final judgment). The notification was submitted on 25 February 2019;
  - Judgment of the Regional Court in Cracow of 31 December 2021 in a case under Article 150(1) of the Act on payment services, upholding the judgment of the court of the 1st instance. The court of the 1st instance conditionally discontinued proceedings in relation to one defendant for a probationary period of 1 year and ordered a monetary performance in the amount of PLN 1 000 (final judgment). The notification was submitted on 23 October 2019.

Information about the final and binding nature of judgments or the lack thereof is given as at 31 December 2021.

**Table 73. Judgments of conviction and conditional discontinuance in 2021 by type of violated provision of law**

The basis for conviction	Number of judgments
Article 183 of the Act on trading (manipulation of a financial instrument)	3
Article 178 of the Act on trading (pursuing activities in the area of trading in financial instruments without authorisation)	1
Article 181 of the Act on trading (insider trading)	2
Article 100 of the Act on public offering	1
Article 150 of the Act on payment services (illegal pursuit of activities)	3
Article 171(1) of the Banking Law (pursuing banking activities without authorisation)	2
Article 58h of the Act on consumer credit (pursuing business without the entry in the register of non-banking lending institutions)	2
Other*	6
<b>Total</b>	<b>20</b>

Source: UKNF

\*The basis for conviction:

- Article 38(1) and (2) of the Act on bonds (issuing bonds contrary to the Act),
- Article 284 § 1 of the Penal Code (misappropriation),
- Article 286 § 1 of the Penal Code (fraud),
- Article 99 of the Act on trading (offering the acquisition of securities),
- Article 20a of the Act on financial market supervision (obstructing or preventing the conduct of activities in preliminary investigation),
- Article 45(1) of the Act amending certain acts to strengthen financial market supervision (non-performance or improper performance of obligations in the area of management of records of bonds, mortgage bonds or investment certificates),
- Article 46 of the Act on capital market supervision (impediment to the smooth progress of proceedings),
- Article 77 of the Accounting Act (infringement of obligations in the field of bookkeeping and preparation of financial statements),
- Article 89(1) point 4 of the Act on insurance distribution (conducting business without a licence or authorisation),
- Article 90(1) of the Act on insurance distribution (unauthorised use – in the business name or adverts – of expressions indicating the conduct of insurance distribution or reinsurance activities).

#### 10.6.5. POWERS EXERCISED IN CRIMINAL PROCEEDINGS

As part of the powers exercised in criminal proceedings, the attorneys-at-law authorised by the Chair of the KNF Board act as agents of aggrieved parties and agents of the subsidiary prosecutors.

**Table 74. Number of cases in the years 2018-2021 in which attorneys-at-law were authorised by the Chair of the KNF Board in criminal proceedings**

Type of appearance	Number of cases			
	2018	2019	2020	2021
Appearances as agents of the aggrieved party	218	241	221	339
Appearances as agents of the subsidiary prosecutor	60	60	70	65
<b>Total</b>	<b>278</b>	<b>301</b>	<b>291</b>	<b>404</b>

Source: UKNF

In addition, attorneys-at-law filed 30 complaints against the interim decisions of the Prosecutor's Office refusing to initiate or discontinue pre-trial proceedings.

### 10.6.6. POWERS EXERCISED IN CIVIL PROCEEDINGS

As regards the capital market, in 2021 the Chair of the KNF Board exercised his rights of a public prosecutor in civil proceedings:

- in respect of opening a recovery procedure under the Act of 15 May 2015 – Restructuring Law in relation to an investment firm. As at 31 December 2021, the proceedings were pending;
- in respect of the repeal of a resolution of the extraordinary general meeting of a public company on the withdrawal of the company's shares from trading on a regulated market operated by Giełda Papierów Wartościowych w Warszawie SA. As at 31 December 2021, the proceedings were pending;
- in respect of compensation for damage resulting from non-performance or improper performance of an obligation related with the management of a fund. As at 31 December 2021, the appellate proceedings were pending;
- in respect of compensation for former clients of a brokerage house. As at 31 December 2021, the proceedings were pending.

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

The KNF Board's AML/CFT activities follow from the AML Act and the Act on financial market supervision. In 2021, the KNF Board obtained a legal basis, in accordance with Article 17e of the Act on financial market supervision, to the extent necessary to achieve the objectives set out in the AML/CFT rules, for cooperation with competent financial supervisory authorities and financial intelligence units from Member States of the European Union (EU) or the European Free Trade Association (EFTA) – parties to the European Economic Area agreement, and pursuant to Article 17f of the Act on financial market supervision also with competent financial supervisory authorities and financial intelligence units from countries other than Member States of the EU or EFTA – parties to the European Economic Area agreement. Under the AML Act, the KNF Board is a unit cooperating with the General Inspector of Financial Information (GIFI) and empowered to, among other things, enforce the compliance by obliged institutions with AML/CFT requirements. The obliged institutions subject to such enforcement include:

- commercial banks and branches of credit institutions,
- cooperative banks,
- investment firms,
- Investment fund management companies and investment funds,
- life insurance undertakings,
- credit unions,
- payment institutions.

The AML/CFT inspection and analytical activities in 2021 were planned and carried out as a continuation of the approach consisting in supervising entities that are most exposed to the risk of their business being used for the purposes of money laundering or terrorist financing. That stems from the application of an analytical mechanism which allows to plan the inspections on the basis of the results obtained from the risk assessment model.

The criteria of the assessment of an entity's exposure to the risks of money laundering and terrorist financing include:

- sector-specific risk,
- the time interval from the last inspection activities,
- the scale of the business,

and information obtained within the Polish Financial Supervision Authority and from external entities (e.g. GIFI).

The planning of inspections also takes into account the changing trends in the financial market and many reports from supervised entities and customers of financial institutions. The plan of inspection and analytical activities was also based on the information about the threats and key AML/CFT risk areas as well as guidelines and policies regarding the fight against money laundering and terrorist financing (ML/TF) as described in the following documents:

1. National Risk Assessment of Money Laundering and Terrorist Financing of 17 July 2019 (hereinafter: National Risk Assessment – NRA)<sup>64</sup>,
2. Report from the Commission to the European Parliament and the Council on the assessment of the risks of money laundering and terrorist financing affecting the internal market and relating to cross-border activities of 24 July 2019 (hereinafter: 'EC Report'),
3. Joint Opinion of the European Supervisory Authorities on the risks of money laundering and terrorist financing affecting the European Union's financial sector of 4 October 2019,
4. Communication from the Commission on an Action Plan for a comprehensive Union policy on preventing money laundering and terrorist financing of 13 May 2020,
5. EBA's Report on convergence of supervisory practices in 2019 of 29 May 2020,
6. Draft AML/CFT Strategy of 3 December 2020, prepared by the General Inspector of Financial Information based on the NRA as required under Article 31 of the AML Act<sup>65</sup>,
7. Letter of the GIFI of 13 November 2020 containing information about the areas and sectors particularly exposed to the risks of money laundering and terrorist financing (addressed to the KNF Board pursuant to Article 132(2) of the AML Act).

An important factor which has been taken into during inspections and analytical exercises was the assessment of performance of the obligation under Article 27(3) of the AML Act, which requires obliged institutions to update (as necessary, however not less than every 2 years) their own assessment of the risks of money laundering and terrorist financing related to the institutions' operations. The risk assessment should be updated, in particular, in connection with changes of risk factors related to customers, countries and/or geographical areas, products, services, transactions, and delivery channels. The update should also consider the NRA and the report of the European Commission.

When preparing inspection activities, consideration was also given to the risk factors related with the COVID-19 pandemic. The pandemic has caused major changes in the behaviour of clients of financial institutions. With the acceleration of digital transformation and the application of new technologies, far-reaching changes have taken place in the relations between clients and financial institutions, mainly in the area of remote (electronic) client identification and verification. The situation related to COVID-19 has taken a large part of the trade of products and services to the Internet. The research conducted by international and national organisations has revealed many threats potentially related to money laundering and terrorist financing and the related increased use of new schemes, including the use of virtual assets, as a way to mask the funds and assets derived from crime.

An important document in that respect is Communication No 23 from the GIFI<sup>66</sup> and the publications of international organisations containing information about new or increasing

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<sup>64</sup> The document extensively addresses the issues related to the threats of money laundering and terrorist financing in the context of basic criminal offences, as well as products and services available on or outside the financial market. The document also contains a description of the most common methods of money laundering and terrorist financing. Moreover – based on the national and international experiences – the document describes possible scenarios of the risks of money laundering and terrorist financing when using the above-mentioned products and services. According to the adopted NRA methodology, the levels of threat, vulnerability, probability, consequences and risk have been estimated on a 4-tier rating scale, where 1 means the lowest level of risk, while 4 – the highest.

<sup>65</sup> The Strategy entered into force on 12 May 2021.

<sup>66</sup> Communication No 23 of 10 April 2020 of the General Inspector of Financial Information in relation to threats in the area of money laundering and terrorist financing, linked to the spread of COVID-19.

threats in the area of ML/TF and the use of the financial system for illegal financial operations in connection with the COVID-19 pandemic, e.g.:

1. EBA statement on actions to mitigate financial crime risks in the COVID-19 pandemic of 31 March 2020,
2. Publication of the European Commission and national consumer protection authorities: 'Stopping scams and tackling unfair business practices on online platforms in the context of the Coronavirus outbreak in the EU', 20 March 2020
3. Publications of the Financial Action Task Force:
  - 'COVID-19-related Money Laundering and Terrorist Financing Risks and Policy Responses', May 2020,
  - 'Update: COVID-19-related Money Laundering and Terrorist Financing Risks', December 2020,
4. Publication of MONEYVAL: 'Money laundering and terrorism financing trends in MONEYVAL jurisdictions during the COVID-19 crisis', 2 September 2020.

Due to the extraordinary situation caused by the COVID-19 pandemic, the inspection activities of the UKNF were conducted in the form of remote inspections and 'off-site analysis'.

To increase the effectiveness and efficiency of enforcement of compliance with the AML Act, in addition to the comprehensive controls or analytical exercises covering all the AML/CTF requirements, there were also conducted thematic inspection and analytical activities, i.e. those which cover selected issues in the AML/CFT process at the entities under inspection, and thematic inspections regarding the implementation of post-inspection recommendations at the entities at which material irregularities in the fulfilment of AML/CTF requirements were found in the course of inspection activities (including 'off-site analyses') in the years 2018-2020.

**Table 75. Number of inspection activities conducted by the UKNF at supervised entities in 2021 in the area of prevention of money laundering and terrorist financing**

Inspection activities at entities	Number
Commercial banks	5
Cooperative banks	4
Branches of credit institutions	2
Brokerage firms	1
Brokerage houses	1
Domestic payment institutions	3
Small payment institutions	1
Credit unions	1
Life insurance undertakings	1
<b>Total</b>	<b>19</b>

Source: UKNF

In the course of 19 AML/CFT inspection activities, 305 irregularities were identified and grouped in 12 categories of breaches corresponding to the areas inspected. Table 76 also shows irregularities found during an inspection which was not presented in the *Report on the activities of the UKNF and the KNF Board in 2020*, because as at 31 December 2020 the inspection was not completed.

**Table 76. Irregularities identified in 2021 at obliged institutions by type of breach**

Item	Areas of failures	Number	Share (%)
1.	Assessment of institution's risk	36	11.80
2.	Organisation of the AML/CFT process	25	8.20
3.	Internal procedures	23	7.54
4.	Client risk assessment and application of preventive measures	82	26.89
5.	Analysis of transactions	69	22.62
6.	Submission of information to the General Inspector of Financial Information	13	4.26

7.	Stopping transactions, blocking accounts and freezing assets	5	1.64
8.	Information accompanying money transfers	2	0.66
9.	Training for employees	16	5.25
10.	Internal control system	27	8.85
11.	Implementation of KNF Recommendations	1	0.33
12.	Other AML/CFT issues	6	1.97
<b>Total</b>		<b>305</b>	<b>100.00</b>

Source: UKNF

The analysis of irregularities identified during inspections and analytical activities in 2021 revealed a series of threats indicating that the financial market might be used for money laundering and terrorist financing, resulting from the organisation of the AML/CTF process; the major threats include:

- failure to properly recognise the risks of money laundering and terrorist financing in relation to the client and to products being offered,
- ineffective analytical systems that prevent an effective identification of clients and suspicious transactions,
- improper estimation of the level of risk of an obliged institution under its self-assessment (underestimation of the risk level),
- ineffective internal controls that fail to ensure proper fulfilment of the requirements under the AML Act by employees, and efficiency of related processes,
- failure to respond or delay in responding to identified risks by launching the procedure of stopping the transaction and notifying appropriate authorities (GIFI, public prosecutor),
- lack of proper support for IT systems,
- lack of proper information flow between employees and the management.

Following the identification of irregularities and failures, the KNF Board addressed to management boards of entities under inspection post-inspection recommendations to take appropriate corrective actions, including to prevent the irregularities in the future. The UKNF monitored the process of removing the irregularities identified during the inspection on the basis of periodic reports submitted by the inspected entities, in which reports the entities provided information on the methods and progress of implementation of post-inspection recommendations. The implementation of post-inspection recommendations was also reviewed during inspections.

In connection with breaches of the AML Act identified during the inspections:

- the KNF Board addresses a warning to one commercial bank and one credit union for carrying on business in violation with provisions of law governing the prevention of money laundering and terrorist financing;
- 6 applications for administrative sanctions for the infringements of the AML Act identified during the inspections were issued.

In April 2021, the UKNF took next steps to strengthen the prevention of money laundering and terrorist financing by creating a specialised unit responsible for instituting and conducting administrative proceedings in respect of imposition of an administrative penalty in connection with irregularities found during AML inspections conducted at KNF-supervised entities – the AML Team<sup>67</sup>.

As regards the AML/CFT area, the UKNF does not limit its activities to inspection activities at supervised entities and related administrative proceedings. The UKNF also engages in in-depth extensive analytical activities to review the performance by supervised entities of their

<sup>67</sup> See: Section 10.6.1 *Preliminary investigations and administrative proceedings*.



AML obligations, the identification of ML/TF risks, and indication of measures to mitigate the identified risk in that area.

In 2021, an AML questionnaire was prepared for commercial banks, including questions about the requirements under the AML Act. The review of received responses to the questionnaire started in December 2021. Ultimately, the AML questionnaire is to be a component of the SREP<sup>68</sup>. Modifications were also made to the questions in quarterly report forms, concerning the requirements under the AML Act; the modifications were the subject-matter of a consultation with selected obliged institutions from each supervised sector. In addition to that, modifications were made to report files relating to Association Protection Schemes for cooperative banks being members of an association<sup>69</sup> by isolating information relating to the risks of money laundering or terrorist financing.

On 13 September 2021, the UKNF issued a letter to banks concerning the prevention of investment scams in the Forex market and virtual currencies, in which rules were set out for the organisation of the AML/CFT process and which indicated that ensuring an effective and coordinated ongoing cooperation and communication between the bank's organisational units responsible for AML/CFT and other units responsible for prevention of fraudulent transactions can guarantee the effectiveness of actions of obliged institutions in both those areas. An integral element of the letter was an appendix containing an example of a set of analytical rules (prepared jointly with selected banks) that can support the process of identifying transactions and/or accounts linked to financial crime, constituting the basic form of the crime of money laundering or terrorist financing.

In 2021, the UKNF continued its cooperation with the National Clearing House (PL: Krajowa Izba Rozliczeniowa, KIR) in relation to the use of the resources of the KIR ICT system (STIR). Pursuant to Article 119zt point 8 of the Tax Ordinance, the Chair of the KNF Board may request, from the President of KIR, information being processed in the STIR system. The UKNF used the data so obtained for the purpose of broadly defined analytical and inspection activities, e.g. for the prevention of money laundering and terrorist financing.

Based on the conducted inspections and analyses it was found that a sector of the financial which is largely exposed to the risk of being used for money laundering and terrorist financing is still the banking sector. This is due to the scale of turnover and the number of transactions in the banking sector, its public availability (also online), the availability of quick transfers, and a wide range of products. It is quite important to note the possibilities offered by the capital market, which is very similar to the banking market in terms of speed and global reach, and the period of the pandemic and the persisting very low interest rate on deposits resulted in clients searching for alternative ways of investing funds, including in the capital sector. An increase in trading volumes in the capital market increased the risk of money laundering and terrorist financing in that sector. The capital market has reported an increase in activities conducted without appropriate authorisation and in fraudulent activities.

It was also found that an important area exposed to the risks of money laundering and terrorist financing, due to its innovative nature, is still the sector of payment institutions and entities offering financial products and services using innovative and complex IT technologies.

Trading in virtual currencies (crypto-assets) is still an important issue. Entities engaged in the trade of virtual currencies<sup>70</sup> generate a series of complication, especially for banking sector entities, supervisory authorities, and the other financial market participants that intend to provide financial services to them. The complex technological design of crypto-currencies

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<sup>68</sup> Supervisory Review and Evaluation Process.

<sup>69</sup> The cooperative banking sector has two schemes: the BPS Association Protection Scheme and the SGB Protection Scheme.

<sup>70</sup> Entities trading in virtual currencies are not subject to KNF supervision, thus KNF inspections in the area of AML/CFT. The AML/CFT inspections in relation to such entities are conducted by the GIFi.

hinders the performance of obligations under the AML Act. On 31 October 2021, the obligation to register activities related to virtual currencies was established. The failure to register the activities is subject to a fine of PLN 100 000 (Article 153b of the AML Act). That will significantly facilitate the performance of statutory obligations by banking sector entities keeping accounts for institutions from the virtual currencies sector.

In 2021, cooperation with the GIFI continued, in particular with regard to activities related to the 5th round of evaluation run by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). On 10-21 May 2021, a visit of the MONEYVAL Evaluation Committee took place, with the purpose of evaluating the effectiveness of the Polish AML/CFT system. The evaluation covered, among others, the activities of the General Inspector of Financial Information as a government administration body competent for the prevention of money laundering and terrorist financing, and cooperating units, including the KNF Board. The process concluded with the adoption of an evaluation report at the MONEYVAL plenary meeting in December 2021. The report showed that the UKNF had a good understanding of the risk associated with money laundering and terrorist financing and had implemented in this area a process appropriate for the risk generated by supervised entities.

The outcome of the evaluation process is very important and the final result may have a direct impact on the perception of the security of the Polish financial sector for the integrity of the international AML regime and Poland's efforts for the inclusion in the Financial Action Task Force (FATF).

At the request of the GIFI, the UKNF also provided information, statistical and analytical data directly or indirectly related to the topics relevant for the GIFI's update of the national risk assessment of money laundering and terrorist financing.

Cooperation between the KNF Board and the GIFI related also to:

- participation in the activities of the Financial Security Committee attached to the GIFI,
- providing information about the method of using the recommendations included in the AML/CFT Strategy,<sup>71</sup>
- notification of transactions the circumstances of which that the transaction is related to money laundering or terrorist financing,
- exchange of information on the plans and results of inspections at obliged institutions,
- exchange of information on the administrative penalties imposed under the AML Act<sup>72</sup>,
- obtaining information pursuant to Article 105(3) of the AML Act<sup>73</sup>,
- submitting quarterly statistical data on supervised entities,
- reporting irregularities identified at obliged institutions in the course of ongoing analysis,
- participation in working meetings.

As part of its activities, the UKNF also reviewed draft versions of internal regulations concerning the AML/CFT rules submitted by supervised entities and assessed the preventive measures applied by supervised entities, indicated at the UKNF's request<sup>74</sup>, in particular at entities in which an increased risk of money laundering and terrorist financing was identified.

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<sup>71</sup> The UKNF is a unit supporting the implementation of 7 actions provided for in the Strategy.

<sup>72</sup> The GIFI submits to the KNF Board, as an authority supervising the activities of obliged institutions, information about an administrative penalty imposed under Article 152(6) of the AML Act. The KNF Board submits to the GIFI information about administrative penalties due to the KNF Board's statutory competence to publish information on sanctions imposed under the AML Act, in accordance with Article 152(1) in conjunction with Article 152(8) of the AML Act.

<sup>73</sup> The GIFI makes available its information at the written and reasoned request of the Chair of the KNF Board, with respect to the supervision exercised by the KNF Board pursuant to the Act on financial market supervision.

<sup>74</sup> The activities undertaken pursuant to Article 34(3) of the AML Act.

The AML Act, although in force since 13 July 2018, due to changes introduced by EU regulations<sup>75</sup>, and in connection with the guidelines of the European supervisory authorities, was subject to numerous changes (and further amendments are being proposed). That affects obliged institutions as it enforces a number of stricter AML/CFT requirements. The continuous development of regulations in that area required active participation of the UKNF in both consultations, reviews, and individual stages of the legislative process.

The UKNF was also involved in legislative work on a proposal for an Act on the Financial Information System (SInF) and in the process of adapting the UKNF's activities to the new powers and tasks of the KNF Board under the Act on the SInF, e.g. consisting in obtaining access to the SInF, enforcement of requirements on providing information about the account, and imposition of penalties for infringements.

The UKNF also engaged in internal cooperation in the area of the AML/CFT regime. The cooperation took place, *inter alia*, through participation in the Standing Committee on anti-money laundering and countering terrorist financing (AMLSC) of the European Banking Authority (EBA). The meetings took place on a regular and *ad hoc* basis, as necessary.

The international cooperation in 2021 involved the analysis of documents and materials prepared by EU institutions, European Supervisory Authorities, competent authorities from other countries, and other international organisations in relation to prevention of money laundering and terrorist financing. Where it was necessary to take appropriate measures, proposals were prepared with regard to existing processes/regulations and as part of ongoing cooperation with the GIFI and the Department of Financial Information of the Ministry of Finance. The cooperation concerned, among others, agreement on joint positions on the review of important draft documents.

In 2021, the UKNF continued educational activities in the AML/CFT area by organising and holding webinars addressed to representatives of supervised entities (banks, credit unions, capital market, payment institutions) and prosecuting authorities<sup>76</sup>.

On 28-29 April 2021, a representative of the UKNF participated as a speaker in a conference of the International Compliance Council (ICC), organised under the auspices of the EAG. The address of the UKNF representative related to the initiatives taken by the UKNF in the years 2019-2020 in the AML/CFT area, in particular the publication of the UKNF's position on the verification of 'remote customers', the questionnaire for cooperation with payment service providers, and a position on the assessment of the risk of money laundering and terrorist financing (the institution's risk assessment).

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<sup>75</sup> In particular: Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU and Directive (EU) 2018/1673 of the European Parliament and of the Council of 23 October 2018 on combating money laundering by criminal law.

<sup>76</sup> See: Annex 12.7 *List of webinars organised by the UKNF as part of the CEDUR educational project in 2021*

## 10.8. SUPERVISION OVER THE BENCHMARKS SECTOR

In 2021, the KNF Board exercised direct supervision over two benchmark administrators within the meaning of 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 171/1 of 29 June 2016) ('BMR'), i.e. GPW Benchmark S.A. and Instytut Rynku Finansowego sp. z o.o. In the course of ongoing supervision, a series of actions were carried out towards the administrators and entities providing input data for the provision of benchmarks.

The main focus of market participants was the announcement made by the UK regulator FCA on 5 March 2021 on the cessation of certain LIBOR benchmarks after 31 December 2021, including the complete cessation of LIBOR in the case of Swiss franc settings (CHF LIBOR). Considering that CHF LIBOR had a significant share in the segment of mortgage loans in a few Member States, mainly Poland and Austria, the European Commission decided to issue an implementing regulation to the BMR which designated a replacement for CHF LIBOR. The selected replacement include Swiss benchmarks SARON Compound 1M and 3M with an appropriate spread adjustment (depending on the date). It should be stressed that under law, the replacement has been used since 1 January 2022 in all financial contracts which, as at the date of publication of the delegated regulation, did not have an appropriate emergency clause. In practice, that allowed to maintain the continuity of performance of agreements of mortgage credit denominated in/indexed to Swiss franc<sup>77</sup>.

In 2021, the UKNF also continued its activities in the area of preparation, by supervised entities, of contingency plans to be launched in case of a material change or cessation of publication of a benchmark. The major aspect discussed was the inclusion of the plans in contractual relations with customers and their possible introduction as part of the portfolio of contracts concluded prior to the entry into force of the BMR, i.e. 1 January 2018. In order to resolve a series of doubts regarding the practical development of the contingency plans and the application of benchmarks, in 2021 the UKNF published a *Position of the UKNF on the contingency plans referred to in Article 28(2) of the BMR and on the reflection of the plan in contractual relations with customers, addressed to commercial banks, including affiliating banks, and to cooperative banks* and *Position of the UKNF on the use of benchmarks as defined in the BMR, addressed to lenders*. In order to improve communication with the market in relation to benchmarks, in 2021 the UKNF launched a special website on which the supervisory authority publishes its positions and news concerning events relevant to the financial sector in question<sup>78</sup>.

Nevertheless, 2021 brought further work on the preparation of alternatives to the key benchmark – WIBOR. Various concepts are being considered, including those based on the extended spectrum of data used to compile WIBOR and on building a risk-free benchmark (risk-free rate) for PLN. The work is to be continued in 2022.

## 10.9. PROTECTION OF INTERESTS OF NON-PROFESSIONAL FINANCIAL MARKET PARTICIPANTS

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<sup>77</sup> More details can be found at:

[https://www.knf.gov.pl/knf/pl/komponenty/img/Komisja\\_Europejska\\_wyznaczyla\\_zamiennik\\_dla\\_LIBOR-CHF.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Komisja_Europejska_wyznaczyla_zamiennik_dla_LIBOR-CHF.pdf)

<sup>78</sup> The address of the KNF website dedicated to benchmarks is:

[https://www.knf.gov.pl/dla\\_ryнку/Wskazniki\\_referencyjne](https://www.knf.gov.pl/dla_ryнку/Wskazniki_referencyjne)

### 10.9.1. BASIC AREAS OF ACTIVITY

One of the statutory objectives of financial market supervision is to ensure protection of interests of participants in this market. The supervisory activities of the KNF Board in this respect consist in constant monitoring of market practices as well as in interventions, especially in the areas of activity of the supervised entities where violations of the law or interests of non-professional financial market participants may occur.

The KNF Board monitors market practices by exercising its supervisory powers allowing it to request information and clarifications directly from KNF-supervised entities and to collect data on its own. Supervisory activities are undertaken in response to problems currently occurring in the market, identified on the basis of, inter alia, information from non-professional financial market participants.

Such reports are a very valuable source of information on the functioning of the financial market. The reports are used to examine and assess the operation of supervised entities. However, it should be stressed that the tasks of the KNF Board do not include reviewing the reported defences or taking a position on individual matters presented in the correspondence addressed to the supervisory authority.

If the irregularities found in the activities of a supervised entity are confirmed, the collected information provide the grounds for adopting appropriate systemic supervisory measures to eliminate such practices and to properly shape the market in the future. The following supervisory activities are conducted to the extent of the powers conferred on the KNF Board according to the applicable legislation.

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 reports received, in particular, from the recipients of financial services and government authorities or civil society organisations acting for the protection of financial market participants, regarding the activities of KNF-supervised entities, with regard to violations of law or legally protected interests of the recipients of financial services and threats to transparency and confidence in the financial market associated with it,
- undertaking supervisory measures with respect to market practices of financial market entities on the basis of reports received,
- carrying out analytical activities related to standard contracts and product design, on the basis of reports received.

### 10.9.2. TOTAL REPORTS FROM THE MARKET

In 2021, the UKNF received a total of 3 505 reports from non-professional financial market participants regarding irregularities in the activities of entities in the insurance, capital, banking, pension, payment service and credit unions sectors. Those reports were related to activities subject to the KNF supervision or supervision by a supervisory authority of an EEA Member State which authorised the entity (granted a licence) to carry out the activity taken up by that entity in the territory of the Republic of Poland under the Community freedom of establishment using the principle of the EU single passport.

Compared to 2020 (which saw 4 476 notifications of irregularities), during the period covered by this report the number of notifications decreased by 21.69%.

In 2021, the UKNF also reported the receipt of 973 other messages regarding the activities of KNF-supervised entities or the functioning of financial markets.

#### 10.9.2.1. INFORMATION CONCERNING BANKING SECTOR ENTITIES

In the period covered by this report, 1 642 notifications concerning the irregularities functioning of banking sector entities were received. Compared to 2020, the number of notifications regarding the banking sector fell by 28.20%.

The main issues were related to:

- maintaining bank accounts (including managing the account, unauthorised transactions, and irregularities related to the management of the account following customer's death),
- servicing loans (most irregularities resulted from agreement servicing, fraud/stealing credit card information, and the amount of fees and commissions collected by banks),
- quality of service (problems related mainly to complaint handling or improper or incompetent service provided by bank employees were signalled),
- servicing mortgage loans (notifications concerned mostly irregularities in the performance of a contract),
- other activities carried out by banks (including distribution of funds, offering insurance-based investment products, and bonds offered by banks),
- the handling of payment instruments (including irregularities regarding the method and/or date of settlement of transactions made with cards).

**Table 77. Reports received by the UKNF and relating to the activities of banking sector entities in the years 2018-2021**

Type of entity	2018	2019	2020	2021
Commercial banks	2 699	2 078	2 096	1 480
Cooperative banks	120	119	131	111
Branches of EU credit institutions	84	76	50	42
Mortgage credit intermediaries and agents	0	2	3	5
State banks	0	0	6	0
EU cross-border credit institutions	15	6	1	4
Foreign branches of financial institutions	1	0	0	0
<b>Total</b>	<b>2 919</b>	<b>2 281</b>	<b>2 287</b>	<b>1 642</b>

Source: UKNF

Reports received by the UKNF in the years 2020-2021 and relating to the activities of commercial and cooperative banks (by subject) is presented in Tables 12.6.1 and 12.6.2 in Annex 12.6.

### 10.9.2.2. INFORMATION CONCERNING PAYMENT SERVICE PROVIDERS OTHER THAN BANKING SECTOR ENTITIES AND CREDIT UNIONS

In 2021, 69 reports were received in relation to irregularities in the activities of payment service providers other than banking sector entities and credit unions. The issues raised in those reports were related primarily to non-execution or late execution of transactions, and subsequently the performance of a contract.

Compared to 2020, the number of reports concerning payment services provided by entities other than banking sector entities and credit unions decreased by 47.33%.

### 10.9.2.3. INFORMATION CONCERNING CREDIT UNIONS

In the period covered by this report, 31 reports related to credit unions were received. Compared to 2020, the number of reports fell by almost 43.64%.

The issues raised in those reports concerned, among others:

- servicing of loans (including, first of all, problems with contract management and the amount of fees and commissions collected),
- maintaining accounts (including irregularities related to account management after customer's death, and general account management).

Reports received by the UKNF in the years 2020-2021 and relating to the activities of credit unions (by subject) are presented in Table 12.6.3 in Annex 12.6.

### 10.9.2.4. INFORMATION CONCERNING INSURANCE SECTOR ENTITIES

In the period covered by this report, the UKNF received a total of 1 262 reports concerning activities of insurance sector entities, including 94 reports concerning insurance undertakings established in Poland and offering life insurance (accounting for 7.45% of all signals reported in the sector), 1 039 reports concerning insurance undertakings offering non-life insurance (accounting for 82.33% of all signals reported in the sector), and 33 reports concerning the activities of insurance intermediaries (8 reports concerning the activities of brokers and 25 reports concerning the activities of insurance agents), as well as 18 reports concerning the activities of branches of insurance undertakings from EU Member States (all reports were related to non-life insurance) and 77 reports concerning the activities of notified insurance undertakings from EU Member States (relating to non-life insurance). The number of reports concerning the activities of insurance sector entities decreased by 4.99% compared to their number in 2020.

**Table 78. Reports received by the UKNF and relating to the activities of insurance sector entities in the years 2018-2021**

Type of entity	Division	2018	2019	2020	2021
Insurance undertakings with their head office in Poland	I	209	158	112	94
Insurance undertakings with their head office in Poland	II	1 604	1 498	1 114	1 039
Branches of insurance undertakings of EU Member States	I	4	4	1	0
Branches of insurance undertakings of EU Member States	II	18	18	10	18
Notified EU insurance undertakings	I	2	0	0	1
Notified EU insurance undertakings	II	198	139	91	77
Insurance agents	-	29	24	12	25

Insurance brokers	-	1	7	2	8
<b>Total</b>	-	<b>2 065</b>	<b>1 848</b>	<b>1 342</b>	<b>1 262</b>

Source: UKNF

In the area of life insurance, the most frequent problems reported by customers included issues related to the refusal to pay benefits and, to a lesser extent, issues relating to delays in the payment of benefits, and the performance of the contract by an insurance undertaking.

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 TPL motor insurance,
- the amount of compensation paid,
- irregularities in the claim handling process,
- refusal to pay compensation,
- irregularities in the provision of claim files by the insurance undertaking.

Reports received by the UKNF in the years 2020-2021 and relating to life insurance undertakings (by subject) are presented in Table 12.6.4 in Annex 12.6, whereas the reports concerning non-life insurance undertakings are presented in Table 12.6.5 in Annex 6.6.

Moreover, Table 12.6.6 in Annex 12.6 shows the division of subjects of the reports concerning branches of insurance undertakings from EU Member State received by the UKNF in the period covered by this report.

#### 10.9.2.5. INFORMATION CONCERNING PENSION SECTOR ENTITIES

In 2021, the UKNF received 10 reports concerning improper functioning of pension sector entities. There were 8 reports concerning the activities of open pension funds and 2 reports concerning Occupational Pension Schemes. Compared to 2020, the number of reports relating to the activities of pension sector entities increased by 33.33%, while in relation to the functioning of open pension funds the number of reports did not change.

Information concerning the activities of OFEs received by the UKNF in 2021 related mainly to problems in obtaining payment of funds from an account of deceased members of the OFE encountered by authorised persons.

Information on this subject is provided in Table 12.6.7 in Annex 12.6.



### 10.9.2.6. INFORMATION CONCERNING CAPITAL MARKET ENTITIES

In the period covered by this report, the UKNF received 491 reports concerning the functioning of capital market entities. Compared to 2020, the number of reports in the sector fell by 23.76%.

As regards public companies, the main issues reported concerned possible manipulation of the price of financial instruments, and, to a lesser extent, information requirements for companies listed on NewConnect.

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.

With regard to investment fund management companies, most objections concerned the management of the fund and the quality of services.

There were also reports containing objections to the way of carrying out debt collection by the entities managing securitised liabilities of a securitisation fund.

**Table 79. Reports received by the UKNF and relating to activities of capital market entities in the years 2018-2021 (by subject-matter)**

Type of entity	2018	2019	2020	2021
Public companies and other capital market participants	286	206	339	192
Investment fund management companies	123	141	108	111
Investment firms	80	82	115	87
Managers of securitisation fund assets	80	98	64	61
Foreign investment firms	21	9	13	36
Managers of alternative investment companies/partnerships (AICMs)	-	-	-	3
Companies operating an exchange/an exchange market	2	2	5	1
Distributors of participation units in investment funds or participation units in foreign funds	1	1	0	0
<b>Total</b>	<b>593</b>	<b>539</b>	<b>644</b>	<b>491</b>

Source: UKNF

The reports received by the UKNF in the years 2020-2021 and relating to the activities of capital market entities (by subject-matter and market segment) are presented in Tables: 12.6.8, 12.6.9, and 12.6.10, respectively, in Annex 12.6.

### 10.9.3. INVESTIGATIONS FOLLOWING THE RECEIPT OF INFORMATION FROM NON-PROFESSIONAL FINANCIAL MARKET PARTICIPANTS, ANALYTICAL WORK AND INTERVENTIONS

The reports concerning the activities of KNF-supervised entities submitted to the UKNF by non-professional financial market participants represent an important source of information on the emerging phenomena in the practices of financial institutions. The subject-matter of the analysis of information included in such reports is, in particular, an assessment of actions taken by KNF-supervised entities in the context of compliance of such actions with provisions of law. The findings made on the basis of analytical and explanatory activities carried out with regard

to KNF-supervised entities may serve as a basis for supervisory measures to eliminate market practices raising concern.

A detailed list of analytical activities is provided in Table 12.5.1 in Annex 12.5. Below please find a summary of most important analyses carried out in 2021.

**Analysis of compliance by obliged entities with the requirements under the Act on 'dormant accounts'**. The analysis is carried out cyclically in connection with the obligations imposed on the KNF Board and specified in Article 133(1) point 8 and Article 138(1) point 10 of the Banking Law, and analogous solutions adopted in Article 67 point 8 and Article 71(1) point 6 of the Act on credit unions. A total of 584 entities (banks, branches of credit institutions, credit unions) were covered by the analysis. The analysis covered issues relating to instruction concerning the deposit in the event of death, verification of contracts in circumstances specified in the Act, the handling of queries in the Central Information System, informing the municipalities of the last place of residence, and complaints recorded by entities in regard to acceptance/execution of the instruction concerning the deposit in the event of death. The analysis confirmed the need to continuously verify the data submitted by entities in relation to 'dormant accounts' due to the still existing discrepancies. The analysis also allowed to identify entities toward which specific actions will be taken to clarify imprecise data or in relation to information on ongoing processes, for example removal of arrears following a merger or organisation of work in the state of the COVID-19 epidemic.

**Analysis of compliance by selected payment service providers with the obligation under Article 46(1) of the Act on payment services (return of the amount of an unauthorised transaction under the D+1 regime)**. The analysis covered the period from 1 July 2018 to the date of submission of requested data/information to the supervisory authority (not later than by 28 January 2021). The analysis covered 12 payment service providers from a group of commercial banks. The conclusions of the analysis, in particular as regards irregularities related to the qualification of remitters' reports on the occurrence of an unauthorised transaction, as well as the need for precise and unambiguous interpretation, under the generally applicable provisions of law, of the best practice for payment service providers were used by the KNF Board to submit legislative proposals as part of the process of the Ministry of Finance processing the proposal for an Act amending the Act on payment services (UD52). The topics covered by the analysis were also discussed during a working meeting of representatives of the UKNF and representatives of the Financial Ombudsman.

**Analysis of practices followed by certain banks with respect to minimising credit fraud through participation in the 'Credit Freeze System' [System Zastrzeżenie kredytowe] of BIK S.A.**

The analysis was initiated in 2019. In July and November 2021, representatives of the UKNF held further meetings with BIK S.A. in respect of the current status of participation of supervised entities in the Credit Freeze System of BIK S.A., the existing barriers to the extension of the 'credit freeze' offer, and measures planned by BIK S.A. to promote participation in the System.

**Analysis of practices followed by certain banks in relation to the performance of obligations under Article 14(2) of the Act on mortgage credit.** Considering the obligation imposed on lenders to provide the consumer with a credit decision on the twenty-first day of receiving the application, to enable the comparison of the terms of the mortgage credit agreements offered by other lenders, and the UKNF's position on the interpretation of the above provision of law published on 20 July 2020 on the supervisory authority's website<sup>79</sup>, the related practice of certain entities was reviewed. The analysis was performed on a sample of 10 lenders. Some of the entities showed delays in issuing a credit decision. Two recurring reasons for delays can be identified: an increase in demand in the real estate market, which has proportionally

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<sup>79</sup> [https://www.knf.gov.pl/komunikacja/komunikaty?articleId=70324&p\\_id=18](https://www.knf.gov.pl/komunikacja/komunikaty?articleId=70324&p_id=18)

translated into the interest in the offer of mortgage loans and the number of applications submitted, as well as organisational problems arising from COVID-19. All the entities reported that they had taken action to minimise and eliminate the number of decisions issued after the deadline.

**Analysis of practices followed by certain entities in relation to the settlement of the total cost of credit for mortgage-backed credit repaid before the contractual deadline.** The review covered the practice adopted by mortgage credit providers for the purpose of compliance with Article 39 of the Act on mortgage credit and in conjunction with Article 25 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 (MCD). The analysis was performed on a sample of 13 commercial banks. In the opinion of some of the entities, the costs that do not related to the period by which the term of the mortgage credit agreement was shortened are exempted, under the law, from the requirement for proportional reimbursement in the event of early repayment of the credit. The commission on granting a mortgage loan is treated by some lenders as a one-off cost, independent on the term of the agreement. In their view, the judgment of the CJEU 11 September 2019 in Case C-383/18 does not refer to regulations on mortgage credit.

In the UKNF's view, the judgment of the CJEU in connection with Article 49 of the Act on consumer credit should be referred in the same way to the second sentence of Article 25(1) of the MCD in conjunction with Article 39 of the Act on mortgage credit, and it should be assumed that the provision of Article 39 of the Act on mortgage credit should be interpreted as is currently interpreted Article 49 of the Act on consumer credit. The analytical material was submitted to the President of UOKiK and, internally, to competent organisational units.

**Cross-sectional analysis of debt collection processes at banks and outsourcing of debt collection activities.** A selected sample of 13 commercial banks was used to review the debt collection processes executed by banks and entities that perform debt collection activities at banks' request. As a rule, most of the entities reviewed resolve the complaint process related to debt collection within the bank's operational structures. However, there are entities that have left the debt collection process in the scope of complaints to be recognised by a debt collection company, limiting the supervision to the activities of accepting the response to the customer prepared by a third party and to possible verification of the submitted materials related to the complaint. The analysis has shown that there are banks whose supervision over debt collection companies acting for and on behalf of the bank does not meet the criteria for ongoing supervision and requires revision as a factor for excessive accumulation of operational risk. Further supervisory activities will be undertaken on that matter in 2022.

**Analysis of compliance by banks with the obligations under Article 4 of the Act amending the Act on trading, in relation to providing the users of payment services with a free leaflet of the European Commission on consumer rights when making payments in Europe.** The analysis was carried out on a sample of 13 banks. It was found that the banks had implemented, in a timely and effective manner, the necessary organisational arrangements resulting from the above-mentioned provision of law. Thus, full harmonisation in the area concerned was confirmed.

**Analysis of the practice of settling a consolidation loan the consumer resigned from pursuant to Articles 53 and 54 of the Act on consumer credit.** The analysis of a sample of 12 banks has found that where a borrower withdraws from a consolidation credit agreement, the banks call the consumer to return, from his/her own funds, within 30 days, the amounts previously allocated to the repayment of consolidated liabilities, indicating that as part of mutual settlements between the parties it is not possible to restore the balance of the loan where the funds from the consolidation loan have been allocated to the repayment of consolidated liabilities at other banks. Since banks are not subject to any legal requirement of restitution of credit agreements previously settled as part of consolidation, the UKNF asked the entities

granting consolidation loans to take steps to develop a practice that will mitigate the negative impact for the consumer exercising the right of withdrawal from a consolidation loan agreement. An official position was prepared for banks on the withdrawal from a consolidation loan, in which providers of consolidation loans were asked to provide the consumer, as part of the information requirement, with clear information about the consequences of the exercise of the right of withdrawal from a loan agreement. The consumer should receive such information before they make any instruction under the concluded consolidation loan agreement and the time limit for withdrawal from the agreement has not yet expired. The relevant Position of 1 September 2021 was submitted to the addressees.

**Analysis of compliance by lenders with the obligation referred to in Article 105(4i) of the Banking Law.** It was found that each of the 13 banks analysed complied with the statutory 7-day time limit for submitting to BIK S.A. information about the total repayment of liabilities, their expiration, ascertainment of non-existence of the liability, adjustment of its amount, and any new liabilities. At most banks, the updating process takes place not more than twice a week. However, as most bank report, where a fraud-related liability is identified, the updated information is submitted immediately.

The UKNF takes the view that to limit credit fraud in the form of phishing (e.g. stealing third parties' data), a legislative process should be initiated to modify Article 105(4i) of the Banking Law and to shorten the time limit for lenders to provide information to the institutions referred to in Article 105(4) of the said Act. Relevant information was communicated to competent authorities, according to their remit.

**Analysis of practices followed by banks in relation to the method of disbursement of funds from a bank account of the deceased.** The analysis was carried out on a sample of 9 banks. The analysis has found that banks require heirs to provide, in particular, the following documents: the heir's ID card, certificate of death of the deceased (deceased account holder), certificate of succession or a court declaration of succession, disbursement order. At most of the banks analysed, the division and disbursement of funds from a bank account of the deceased may be effected on the basis of a court-ordered, notarial or contractual declaration of division of the estate. Most banks make it possible to execute requests for disbursement submitted by one heir (whether or not the other heirs file such a request), provided that a declaration of division of the estate has been drawn up. The analysis has shown that the banks follow a comparable practice in terms of disbursement of funds in the deceased's accounts to heirs.

**Analysis of the requirements applied at banks to allow for a reduction of or exemption from a fee for the management of a payment account, related services or holding a payment instrument.** The analysis was performed following reports indicating the occurrence of irregularities consisting in collecting a fee where the requirement for exemption from the fee has been met. The analysis covered 11 commercial banks. It was found that the irregularities concerned, in particular, errors in the parametrisation of the exemption mechanism, which ensures that appropriate fees are removed on an ongoing basis and the incorrectly charged fees are refunded. The responses indicate the need to analyse the reports on that matter, in particular in terms of frequency of irregularities, effectiveness of corrective measures adopted in the case of an error, and method of communication of changes to the bank's customers and employees.

**Analysis of a bank's practice of managing a bank account of a client holding only a Polish passport.** Following the supervisory measures adopted, the bank concluded that the internal regulations and procedures related to the identification and unblocking of service channels required completion and specification in the scope of activities performed after the showing of the passport. The bank explained that it had taken measures aimed at enabling customers holding a Polish passport to carry out, at the bank's own outlet, orders related to: client identification, confirmation of their identity, updating of client's data, and orders related to the security of the client's funds and access to service channels. The orders extend the existing list of activities the bank already carries out for clients producing a Polish passport (the bank

enabled the clients to submit the document of termination of the account agreement at the bank's outlet).

#### **Analysis of practices followed by two banks in relation to the replacement of used banknotes at bank branches.**

Following the supervisory measures taken, the banks confirmed irregularities in providing services to clients who wanted to replace used banknotes at the bank's outlet. The banks reported that the employees of the branches did not comply with the order of the Governor of the NBP on the detailed rules and procedure for exchanging legal tender which due to wear and tear cease to be a legal means of payment in the territory of the Republic of Poland. The banks undertook to introduce changes and hold additional training sessions for employees in order to remove such irregularities in their business in the future.

#### **Analysis of a bank's debt collection process in connection with suspected stalking.**

As a result of the supervisory actions taken, the bank's internal audit unit reported that following a review of the debt collection process conducted by the bank and external debt collection entities, weaknesses had been found in that process that might increase the risk of recognising the process as redundant. As part of corrective measures, the applicable guidelines for external debt collection entities were reviewed in terms of tasks, the frequency of debt collection activities were specified, and a relevant recommendation was issued.

**Analysis of the practice of a small payment institution consisting in making available inaccurate information on the entity's websites about cooperation with banks for the purpose of real-time settlement of transactions.** As a result of supervisory activities and analyses, irregularities were detected in the way a small payment institution presented information. The entity was misleading customers by informing them on their website that it had accounts in several banks for the purpose of real-time settlement of clients' transactions. In reality, the entity cooperated with only one bank. The supervisory measures resulted in the update of information on the institution's websites.

#### **Analysis of a practice followed by a credit union in relation to the settlement of costs of granting consumer credit in the event of early repayment at customer's request, in the light of Article 49 of the Act on consumer credit.**

As a result of the supervisory actions taken, findings were made indicating the possibility that a credit union violated Article 49 of the Act on consumer credit and that irregularities occurred in its business in relation to improper consumer protection in connection with the Judgment of the Court of Justice of the European Union of 11 September 2019 in Case C-383/18, with regard to the right of the consumer to a reduction in the total cost of the credit in the case of early repayment of that credit. The results of the analysis and the supporting documents were submitted to the President of UOKiK for consideration of appropriate actions towards the credit union in accordance with provisions of law.

**Manner of processing information from non-professional financial market participants regarding the operation of a foreign insurance undertaking, received by the UKNF after the withdrawal of notification.** In 2021, the UKNF received information from non-professional financial market participants regarding a foreign insurance undertaking which had withdrawn notification, in relation to, in particular, failure to settle claims under motor third-party liability insurance in a timely manner and incorrect determination of the amount of compensation paid on account of liquidated damages under such insurance. After losing supervisory powers over the foreign insurance undertaking following the withdrawal of the notification of the intention to carry out insurance activities in Poland, the KNF Board continued its cooperation with the supervisory authority of the undertaking's home Member State. As part of that cooperation, the UKNF regularly provided the competent authority of the home Member State with information about the irregularities reported by Polish non-professional financial market participants, received after the withdrawal of the notification, for further processing. Non-professional financial market participants were informed of the irregularities in a separate correspondence

sent by the UKNF. The KNF Board remained in permanent contact in that matter with the European Insurance and Occupational Pensions Authority.

**Analysis of the rules applied by an insurance undertaking for providing information and documents collected to establish the liability of the insurance undertaking and/or the amount of compensation or benefit.** The analysis made it possible to establish that the insurance undertaking did not keep a register of requests for documentation or failures in processing such requests. As a result of the actions taken by the UKNF, the insurance undertaking changed the procedure for handling requests by introducing, for the area of settlement of claims under motor third-party liability insurance, a central register containing data on all the requests (including, *inter alia*, date of receipt, date of processing, the person making the request, identification data of the claim, details of the claim service representative), where any irregularity in the handling of the requests would be recorded. With its communication of 10 March 2021, the insurance undertaking updated, and reminded all employees in the area of claim settlement about, the rules applicable in the process of providing the claim documentation at request.

**Analysis of the failure to handle incoming e-mail correspondence in inactive mailboxes of individuals who no longer work at an insurance undertaking.** The UKNF received a report from non-professional financial market participants concerning failure by an insurance undertaking to reply to requests for claim documentation sent by e-mail. As a result of actions taken, the UKNF found that the requests were addressed to inactive mailboxes of individuals who no longer worked at the insurance undertaking. When an employee left the insurance undertaking following the liquidation of their job position after termination of the contract of employment, their mailbox was also closed/deactivated. In early February 2021, on a routine basis, by decision of the director for claim settlement, the insurance undertaking introduced a rule for maintaining personal mailboxes of inactive employees/claim service representatives for 3 months running from the first day after termination of the employment contract. The insurance undertaking designated a person responsible for maintaining the activity of the personal mailbox of a former employee and for handling the incoming correspondence. The adopted 3 months' period will be reviewed by the insurance undertaking, which does not exclude its extension if the experiences regarding the new procedure prove such extension is needed.

**Analysis of the rules applied by an insurance undertaking for providing information and documents collected to establish the liability of the insurance undertaking and/or the amount of compensation or benefit.** The UKNF received information from non-professional financial market participants regarding the failure by an insurance undertaking to promptly make available the claim files despite multiple requests and reminders submitted by beneficiaries. As a result of the actions taken, the UKNF found that the insurance undertaking made available the claim files with significant delay, i.e. within 29 days to up to 4 months from the date on which the beneficiaries submitted a request for access to the claim file, and, moreover, for some channels of disclosure of claim files (shipment by post, sharing via the Filelocker application) does not record the scope in which the claim files are made available. As a result of the supervisory measures taken by the UKNF, the insurance undertaking introduced a system of monitoring the timeliness of providing claim files, involving the preparation of monthly reports on the number of requests for claim files and the time limits for handling such requests. After the undertaking introduced the new solution, the previous irregularity related to the disclosure of claim files was eliminated. The insurance undertaking also decided to implement a functionality in the claim handling system, making it possible to record requests for claim files. The implementation of the functionality is planned for the first quarter of 2022. In addition, the control unit of the area of claim settlement incorporated, in the plans of controls for 2022, a special-purpose control of the process of providing claim files, i.e. a control of the duration of request handling, the scope of the documentation provided, the fact of recording of provision of information and documents. The matter is to be further monitored by the UKNF.

**Analysis of activities of an insurance undertaking in relation to the performance of the obligation under Article 105(4) of the Act on compulsory insurance to update information on motor third-party liability insurance contracts submitted to the Insurance Guarantee Fund (hereinafter: 'IGF').** The UKNF received a notice from a non-professional financial market participant indicating the failure to report to the IGF a change of a motor vehicle holder during the term of the motor third-party liability insurance contract, which resulted in the assignment to the claimant (transferor of the vehicle) of a claim incurred after the disposal of the vehicle, and thus resulted in a higher premium charged. As a result of the actions taken by the UKNF, the insurance undertaking found that in the period from November 2015 to 18 March 2020 the undertaking used an application reporting data to the IGF which was affected by a systemic error resulting in the submission to the IGF of the details of the acquirer and previous transferors of the vehicle as details of the current holder/insured (in a situation where, during the term of the motor third-party liability insurance, the undertaking was notified of the disposal of the vehicle). The insurance undertaking uses a new application to report data to the IGF which is free of the above-mentioned error and made a full adjustment of incorrect data reported to the IGF using a corrective input when implementing the new system. As a result of further supervisory activities, no irregularity was found on the part of the insurance undertaking.

**Analysis of timeliness of informing the aggrieved party about the documents required to determine the insurance undertaking's liability or the amount of compensation.** The UKNF received a report from a non-professional financial market participant regarding an irregularity in claim settlement. As a result of the actions taken by the UKNF, it was found that the insurance undertaking was in breach of Article 29(1) of the Act on the business of insurance by failing to inform the aggrieved party in a timely manner about the documents required to determine the insurance undertaking's liability or the amount of compensation. The insurance undertaking found that the infringement was caused by a systemic error consisting in the claim being suspended at the stage of assignment to the claim service representative. The claim file was submitted to the claim service representative with delay, which caused delay in sending the relevant notice to the aggrieved party. It was a one-off situation. The insurance undertaking reviewed all personal claims recorded on that same day on which the claim being the subject-matter of the report from the non-professional financial market participant was recorded. The review allowed to conclude that all the above-mentioned claims were displayed in a proper and timely manner in the profiles of employees responsible for claim settlement. The insurance undertaking assured that it was monitoring and supervising the IT systems on an ongoing basis, reducing the probability of technical errors and minimising their procedural consequences.

**Analysis of irregularities in the formulation, by claim service representatives, of the substance of settlement agreements proposed following negotiations.** The UKNF received information indicating irregularities consisting in the failure to specify the subject-matter of the settlement agreement and in incorporating in the text of the settlement agreement of a clause indicating that the aggrieved party waived all claims relating to the loss, although the subject-matter of the negotiation was only one claim. The UKNF established that the insurance undertaking used a general settlement agreement template, which should be each time adjusted by the claim adjuster to the findings concerning a particular claim. The template is not accompanied by any instruction on how to use it, including in terms of permitted modifications. The actions taken by the UKNF confirmed the occurrence of cases where claim adjusters submitted to aggrieved parties a general settlement agreement template without any modifications following from negotiations or with modifications raising concerns as to the interpretation of the subject-matter of the settlement agreement, in particular cases where the proposed settlement agreement included a provision indicating the aggrieved party's waiver of all claims relating to the loss, although the subject-matter of the negotiation was only one claim. The UKNF reviewed the appropriateness of the actions taken by the undertaking to eliminate the existing irregularity. The insurance undertaking modified the existing agreement template so as to specify the claim the agreement applies to.

**Analysis of irregularities in concluding insurance contracts by telephone.** The analysis has allowed to establish that in cases where the insurance undertaking concludes a contract using the means of distance communication such as telephone, the insurance undertaking sends to the insured in one PDF file three different sets of rules for providing services electronically, instead of one. As a result of the supervisory measures taken by the UKNF, due to the restrictions in IT systems, the insurance undertaking undertook to introduce by December 2021 the principle of submitting the rules for providing services electronically, appropriate for each distribution channel. The matter is to be further monitored by the UKNF in terms of whether the undertaking has implemented the declared measures.

**Analysis of the practice of accepting payments on account of premium despite the lack of a valid insurance contract.** The UKNF identified a case in which a non-professional financial market participant, from December 2017 to October 2019, paid a monthly amount to the account of an insurance undertaking and the undertaking accepted those payments for most of that period, although no insurance contract existed to which the payments could be attributed. The insurance undertaking could not determine what exact amount the person paid in the period from December 2017 to March 2018 as the payments were made through a multi-agency network. The case may indicate the vulnerability of the insurance undertaking to the risk of its business being used for legalisation of proceeds from crime by making a series of cash payments to the undertaking's account over a longer period of time to receive the refund of unduly paid amounts into the bank account.

**Analysis of debt collection activities undertaken by an insurance undertaking towards vehicle holders who have concluded a compulsory motor third-party liability insurance contract with a foreign insurance undertaking that has been declared bankrupt.** Some customers of a foreign insurance undertaking which has been declared bankrupt and previously offered compulsory motor third-party liability insurance in Poland (hereinafter: MTPL insurance) became addressees of payment claims. The payment claim was submitted to them by an insurance undertaking which paid compensation to its customer (e.g. on account of a property insurance contract or as part of direct claim settlement) and then decided to recover the amount from another source. Such claim is called recourse claim. Insurance undertakings usually bring a recourse claim against an insurer of third-party liability of a person responsible for the loss, as it increases the chances of satisfaction of the entire claim. However, in that case the addressee of the recourse claim (i.e. the above-mentioned foreign insurance undertaking) had been declared bankrupt. Therefore, the insurance undertaking decided to bring a recourse claim directly against the person responsible for the loss, that is to the holder of the vehicle insured under the MTPL insurance contract.

It should be mentioned that in the event of declaration of bankruptcy of each insurance undertaking which offered compulsory MTPL insurance in Poland, the Insurance Guarantee Fund takes over claim files from the official receiver and pays the benefits due to aggrieved parties and beneficiaries. Instead of demanding payment directly from the person responsible for the loss, the insurance undertaking could have claimed the payment from the IGF.

In such circumstances, the conduct of the insurance undertaking attempting to recover the payment from the vehicle holder who concluded the MTPL insurance contract with the foreign insurance undertaking, which was then declared bankrupt, should be treated as an infringement of the vehicle holder's interests. The infringed interest was the possibility of avoiding the recourse claim if the creditor (the insurance undertaking) had brought its own claim against the IGF.

Ultimately, the actions of the supervisory authority forced the insurance undertaking to stop its debt collection action against the vehicle holders who concluded an MTPL insurance contract with the foreign insurance undertaking that had been declared bankrupt and return the amounts paid. Following the supervisory authority's intervention, the IGF informed insurance undertakings that the IGF was satisfying the claims under the MTPL insurance contracts concluded with that particular insurance undertaking that had been declared bankrupt.



**Analysis of the practice followed by investment fund management companies to determine the amount of remuneration for the management of employee capital plans (PPK) and the amount of compensation to the participants with whom the investment fund is to enter into a relevant contract.** The analysis was performed on a sample of 10 investment fund management companies managing the PPKs. It has been found that the companies under review do not offer the possibility of paying additional benefits to the accounts of participants of the PPKs or assigning them an appropriate number of units subject to the fulfilment of certain additional requirements. The companies declared they were applying uniform methods of calculation and collection of remuneration for the management and final performance to all holders of units in target-date funds. The rates of remuneration do not exceed the rates indicated in Article 49(1) and (3) of the Act on employee capital plans. For some funds, the possibility of temporary reduction in the remuneration rates has been provided on the basis of a resolution of the company's management board or a current table of fees. The reduction applies to all participants of the PPK.

**Analysis of the practice followed by investment funds in relation to the publication of information about each component of the fund's investments.**

The analysis was performed on a sample of 32 investment fund management companies. Its purpose was to determine whether investment funds use the voluntary option to publish information on investment components pursuant to Article 219(5)-(8) of the Act on investment funds. The analysis showed that while the publication of a statement of investments in financial statements is done by the funds due to their statutory obligation, the voluntary option to publish such information more frequently was used rarely. The situation changed in 2021, when for the purpose of self-regulation the industry introduced a catalogue of Good Information Practices, including Good Practice No 1: Publication of portfolio compositions. Now, a large part of open-ended investment funds have adapted their statutes in this regard or declared they would introduce such changes in the near future.

The situation is different for non-public closed-end investment funds. Due to the closed nature of those funds, periodic information about each component of the fund's investments may only be provided at a written request of a unit holder. As the reason for the failure to present such information, the companies indicate mainly the lack of the statutory obligation to publish such data, the lack of relevant provisions in the funds' statutes, the fact that the Good Information Practices do not apply to such type of funds, and the lack of interest of investors in receiving information about the composition of the funds' portfolio. In view of the foregoing, the supervisory authority will consider undertaking further analysis in this respect.

## 10.10. ARBITRATION COURT ATTACHED TO THE KNF BOARD

In the performance of one of its statutory tasks, the KNF Board provides financial market participants with the possibility of alternative resolution of disputes in the Arbitration Court attached to the KNF Board. The jurisdiction of the Arbitration Court attached to the KNF Board covers the handling of disputes between financial market participants, in particular the disputes arising from contractual relationships between KNF-supervised entities and the users of their services. It is not a court for consumer disputes only, although it is one of the institutions of the system of Alternative Dispute Resolution for consumers for mediation and simplified arbitration proceedings.

Proceedings before the Arbitration Court attached to the KNF Board are voluntary, which means that the condition for initiating the proceedings is that both parties agree to an amicable settlement of the dispute within the framework of the Arbitration Court attached to the KNF Board. The Arbitration Court attached to the KNF Board offers two fundamentally different ways of proceeding: mediation and arbitration. Within the framework of arbitration, it is possible to conduct proceedings in electronic form (simplified arbitration). Given the epidemiological situation in 2021, all proceedings were conducted using means of distance communication.

In 2021, 37 financial institutions conducted mediation proceedings at the Mediation Centre of the Arbitration Court attached to the KNF Board, and 16 of them acted as an applicant, offering their customers the possibility to end the dispute through mediation.

In October 2021, an alternative dispute resolution project was launched in connection with contracts for a loan denominated in or indexed to a currency other than the Polish currency, through out-of-court settlements concluded as part of mediation before the Arbitration Court attached to the KNF Board. The project is the Chair's response to one of the key issues the financial market has been facing in recent years, according to the concept of conversion of foreign-currency denominated or indexed loans to a currency other than the Polish currency.

In 2021, the Arbitration Court received 18 190 applications for mediation, submitted by both financial institutions and their clients. In 16 799 cases, both parties to the dispute expressed their willingness to attempt to resolve the dispute by mediation proceedings, which means that mediation proceedings were conducted for 92% of applications.

As regards mediation in disputes related to a loan denominated in or indexed to a currency other than the Polish currency, in 2021, the Mediation Centre of the Arbitration Court conducted 15 968 proceedings, accounting for over 95% of all mediation proceedings. In 6 639 mediation proceedings concerning that type of loan (nearly 42%), the participants in the proceedings concluded their talks, and in 824 such proceedings were concluded without a settlement (more than 12%), while in 5 815 proceedings the parties informed the Arbitration Court that they had reached a settlement. This means that more than 87% of mediation proceedings concerning a loan denominated in or indexed to a currency other than the Polish currency have resulted in a settlement.

The inflow of so many cases in less than 3 months shows that the alternative dispute resolution meets the expectations of a large group of borrowers, allowing them to avoid lengthy and costly trial.

The project was preceded by a number of activities aimed at preparing the Arbitration Court attached to the KNF Board to respond to an increased demand for such method of dispute resolution. First of all, the number of mediators was significantly increased: more than 400 mediators were appointed in 2021. At the same time, substantive training was provided to the new mediators to prepare them for conducting mediation proceedings concerning this specific category of cases. The number of mediators at the Arbitration Court attached to the KNF Board as at 31 December 2021 was 417. The number of arbitrators remained the same (40).

To ensure efficient conduct of so many mediation proceedings, appropriate changes had to be introduced in the Rules of Procedure of the Arbitration Court. The Rules of Procedure of the Arbitration Court attached to the KNF Board was amended by Resolution No 118/2021 of the KNF Board of 26 March 2021 amending the resolution on the Rules of Procedure of the Arbitration Court attached to the KNF Board, and by Resolution No 427/2021 of the KNF Board of 9 December 2021 amending the resolution on the Rules of Procedure of the Arbitration Court attached to the KNF Board. The amendments specified the rules for arbitration proceedings, in particular mediation proceedings, and adapted them to the restrictions following the announcement of the state of epidemic through the departure from the obligatory written form of conducting all arbitration proceedings before the Arbitration Court attached to the KNF Board. Moreover, a mechanism was introduced to prevent a conflict of interest of mediators by excluding, from mediation proceedings, the mediators who currently are, or in the 10 years preceding the appointment as a mediator were, borrowers that took out loans denominated in or indexed to a currency other than the Polish currency. Modifications were also made to the rules for the payment of costs of mediation in cases concerning such loans. The fee in such cases is paid by the borrower, irrespective of who initiated the mediation. At the same time, the term of arbitrators and mediators in 2021 was once extended by two years but only until 31 January 2024. In December 2021, the consolidated text of the Rules of Procedure of the

Arbitration Court attached to the KNF Board taking into account both amendments was announced in the Official Journal of the KNF Board under item 37.

With the surge in the number of cases brought before the Arbitration Court, IT work was also carried out to increase the functionality of the IT applications used in the work of the Arbitration Court and to ensure better efficiency and automation of some tasks related to handling the mediation proceedings.

In 2021, the new edition of 'Mediator-friendly Financial Institution' awards took place, which aims to promote the amicable settlement of disputes between financial institutions and the recipients of their services, and to appreciate financial institutions which base their contacts with their clients on openness, dialogue and striving for agreement. Eleven entities received the awards: PZU SA, TUIR Warta SA, STU ERGO Hestia SA, InterRisk TU SA VIG, Uniqa TU SA, Insurance Guarantee Fund, Compensa TU SA, Vienna Life TU na Życie SA VIG, TUZ TUW, Link4 TU SA, and Wiener TU SA VIG.

**Table 80. Cases conducted before the Arbitration Court attached to the KNF Board in 2021 compared to 2018, 2019, and 2020**

Breakdown	Total				Arbitration				Mediation			
	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021
<b>Cases</b>	2 361	2 748	2 203	<b>18 207</b>	47	24	16	<b>17</b>	2 314	2 724	2 187	<b>18 190</b>
<b>Permissions to conduct proceedings</b>	1 044	1 571	1 009	<b>16 799</b>	4	2	3	<b>0</b>	1 040	1 569	1 006	<b>16 799</b>
<b>Cases settled in favour of the applicant prior to the commencement of the arbitration proceedings (a settlement was reached or a settlement proposal was made)</b>	28	43	22	<b>21</b>	0	1	0	<b>0</b>	28	42	22	<b>21</b>
<b>Refusal to conduct proceedings</b>	1 170	1 005	768	<b>1 058</b>	34	19	6	<b>11</b>	1 136	986	762	<b>1 047</b>
<b>Other (e.g. the withdrawal of, or failure to complete, an application by the applicant, lack of court jurisdiction)</b>	32	38	43	<b>13</b>	5	1	2	<b>0</b>	27	37	41	<b>13</b>
<b>Pending cases (lack of response from the other party regarding the permission to mediation/arbitration)</b>	87	91	361	<b>316</b>	4	1	5	<b>6</b>	83	90	356	<b>310</b>

Source: UKNF

**Table 81. Cases conducted before the Arbitration Court attached to the KNF Board in 2021 compared to 2018, 2019, and 2020 by financial market sector**

Financial market sectors	2018	2019	2020	2021
Insurance sector	2 103	2 528	2 085	1 785
Banking sector	249	152	103	16115

Capital market	3	58	2	297
Credit unions	1	2	0	1
Other	5	8	13	9
<b>Total</b>	<b>2 361</b>	<b>2 748</b>	<b>2 203</b>	<b>1 8207</b>

Source: UKNF

## 10.11. INTERNATIONAL COOPERATION

The participation of the UKNF in international activities is of key importance to ensuring a stable regulatory environment, as a foundation of the financial market in Poland. Such involvement, both in the form of bilateral and multilateral cooperation, including through supervisory colleges, represents an important factor supporting the achievement of the supervisory objectives of the KNF Board. A particularly important area of the UKNF's international cooperation is the European System of Financial Supervision. This is related to the fact that the key legal acts (e.g. CRD V, Solvency II, MiFID II, CRR II, and MiFIR) setting the framework for the functioning of financial institutions are adopted at EU level. The UKNF's international cooperation also takes place by strengthening the cooperation within the Central and Eastern Europe and with non-euro area countries whose supervisory authorities, due to the characteristics of markets and shared interests, quite often express similar positions.

The UKNF cooperates with Polish central authorities (e.g. the Chancellery of the Prime Minister, Ministry of Finance, Ministry of Foreign Affairs, Ministry of Economic Development and Technology, Ministry of Justice), European financial supervisory authorities, and other foreign partners in the context of international events that may affect the stability of the Polish financial market. At national level, the international aspect of cooperation with the Ministry of Finance mainly involved the elaboration, often based on the UKNF's contribution (e.g. opinions), of official positions of Poland within the EU legislative process concerning financial markets (including for example work on the amendments to the Solvency II Directive and a new directive establishing a framework for the recovery and resolution of insurance undertakings and reinsurance undertakings). Throughout 2021, national and international cooperation continued in relation to monitoring the effects of the withdrawal of the United Kingdom from the structures of the European Union (Brexit), the resulting consequences for the Polish and EU financial markets, and the systematisation of actions in this area at all levels – EU, national (central administration) and bilateral (between supervisory authorities). The UKNF is also a permanent participant in the activities of the Polish administration as part of Poland's membership in the OECD.

In 2021, the UKNF became member of the Global Financial Innovation Network (GFIN). The GFIN was established in January 2019. The organisational gathers more than 60 institutions from all over the world involved in supporting financial innovation, and serves as a platform for cooperation and exchange of experiences between financial regulators. The business supporting tools include pilot projects for businesses than are planning to test innovative products, services and/or business models in a diverse regulatory environment (cross-border testing). The work in question also covers innovative solutions of Suptech and Regtech solutions, which support the performance of tasks in the area of supervision and compliance.

### 10.11.1. COOPERATION WITH SUPERVISORY AUTHORITIES FROM OTHER COUNTRIES

#### 10.11.1.1. COLLEGES OF SUPERVISORS AND RESOLUTION COLLEGES

The basic level of cooperation between the KNF Board and supervisory authorities from other countries are colleges of supervisors. In 2021, employees of the UKNF participated in 19 meetings of 8 supervisory colleges. In the area of banking, the colleges were organised mostly by the European Central Bank (ECB), which has been directly supervising the largest banks in the euro area since November 2014. As in previous years, in 2021 the UKNF representatives

participated in 17 meetings of 7 supervisory colleges organised by the ECB for international banking groups whose subsidiaries are present in the Polish market. The 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 as well as capital and liquidity requirements at group level were made in the framework of the meetings of supervisors. Draft decisions regarding the assessment of recovery plans prepared by parent entities in the group were also discussed and agreed on. Moreover, there has been an intensive exchange of information on the developed supervisory practices, tools and methodologies with a view to harmonising supervisory approaches.

According to the Bank Recovery and Resolution Directive (BRRD)<sup>80</sup> and the provisions implementing it, the KNF Board is a member (without voting rights) of resolution colleges established for banking groups whose subsidiaries operate in the Polish market. 2021 was another year of operation of the above-mentioned colleges, whose primary task is to develop the principles of cooperation between the authorities of resolution and supervisory authorities in a crisis. Representatives of the KNF Board took part in meetings of 5 colleges together with the representatives of the Bank Guarantee Fund, the National Bank of Poland and the Ministry of Finance, participating in discussions on resolution plans prepared by the competent authorities for resolution.

In the period covered by this report, representatives of the UKNF took part in 27 teleconference meetings of 18 colleges of insurance supervisors. The purpose of the cooperation was to exchange information and experiences between supervisory authorities responsible for supervision of insurance undertakings from international insurance groups, including to assess the financial situation and risks identified at the level of groups and individual insurance undertakings, including the impact of the COVID-19 pandemic, as well as supervisory actions taken and planned, including supervisory inspections. Representatives of the UKNF were also involved in the pre-application processes and the processes of verifying continuing suitability of internal models of international insurance groups.

The KNF Board continued the tasks related to its role of a group supervisor for the PZU Group. The KNF Board coordinated the cooperation with members of the College for the PZU Group and prepared and monitored the implementation of the College's work plan. The KNF Board also organised the annual meeting of the College of supervisors of the PZU Group. The KNF Board again accepted information that the PZU Group continued to meet the criteria that allowed it to be recognised as a financial conglomerate and that the Group was still to be subject to supplementary supervision. As part of the work on the supervision of the Group and conglomerates, representatives of the UKNF engaged in developing a consistent approach to the calculation of capital adequacy of financial conglomerates, the approach to including other financial sectors in the calculation of solvency of insurance groups, and in the preparation of guidelines for supervisory authorities on the supervision of intra-group transactions and risk concentration, based on which a publicly available version will be prepared.

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<sup>80</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 and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (Text with EEA relevance).

#### 10.11.1.2. BILATERAL COOPERATION

The KNF Board maintains continues relations with other supervisory authorities. Bilateral relations include the exchange of supervisory information, opinions and experiences, and occur primarily at the working level. Bilateral cooperation is facilitated by the memoranda of cooperation and exchange of information that the KNF Board has signed with 62 foreign institutions (besides multilateral agreements within European Supervisory Authorities, IOSCO, and IAIS). In the current reporting period, work was initiated for a cooperation agreement between the European Central Bank and six Member States outside the euro area: Poland, Sweden, Denmark, Czech Republic, Romania, and Hungary. Following the assumption by the National Bank of Ukraine (NBU) of powers in the field of insurance supervision, the UKNF entered into a memorandum of understanding on the cooperation and exchange of information in the area of supervision of the insurance and reinsurance market with the NBU.

#### 10.11.2. PARTICIPATION IN THE EUROPEAN SYSTEM OF FINANCIAL SUPERVISION

As a national financial supervisory authority, under EU law, the KNF Board is a member of the European System of Financial Supervision, formed by the supervisory authorities from all EU Member States and the European Systemic Risk Board (ESRB) as well as three institutions corresponding to individual market sectors, i.e.: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities and Markets Authority (ESMA), and their Joint Committee. EBA, EIOPA and ESMA develop draft technical standards and guidelines complementary to EU legislation, and facilitate the supervision of cross-border financial groups.

In 2021, representatives of the UKNF joined the management of the EBA and ESMA, which increased our influence on the actions taken and planned by those authorities at the highest possible level. 2021 was also marked by changes in the positions of the Chair of EIOPA and the Chair of ESMA.

##### 10.11.2.1. 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 EBA is also a leading EU agency responsible for conducting, coordinating and monitoring activities aimed at countering money laundering and terrorist financing (AML/CFT). Employees of the UKNF took part in the activities of 56 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.

In 2021, an EU-wide stress test was performed to estimate the resilience of financial institutions to adverse market changes and to determine any capital shortfalls at banks and the level of stability of the financial system in the EU.

In 2021, activities were carried out to ensure compliance with the requirements under PSD2 in relation to reporting incidents and fraud in the payment services market, and topics such as open banking, strong customer authentication, fraud reporting.

Effective coordination was ensured for the purpose of reporting data to the EBA's analytical tools which allow for an assessment of the financial situation in the European banking sector. The scope of reporting was expanded to include data on investment firms and information from resolution bodies concerning decisions on the MREL and data on the MREL and TLAC.

SMART indicators were agreed upon to control the quality and timeliness of the reports from major banks to the EBA. Updates were made to the guidelines on reporting and disclosures on exposures covered by measures related to COVID-19 were updated, and new guidelines were developed to specify special circumstances in which a limit on large exposures may be breached and corrective measures that should be adopted to restore the institution's compliance. A summary report was prepared on the findings of monitoring the implementation of International Financial Reporting Standard (IFRS 9) by EU institutions.

In 2021, further trends and policies were set for the upcoming in the area of strengthening the effectiveness and framework of AML/CFT processes.

The European Banking Authority set specific priorities for 2022 indicating the need to implement a package of risk mitigation measures and effective resolution tools, the review of the EU-wide stress test framework, the construction of infrastructure in the EU to conduct, coordinate and monitor AML/CFT supervision, the development of financial innovation and operational resilience in the financial sector. An action plan was also made with respect to Environmental, Social and Governance (ESG) principles.

#### 10.11.2.2. EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

Since 2021, the activities of EIOPA have been led by Ms Petra Hielkema, appointed jointly by the Council of the European Union and the European Parliament; prior to her new role at EIOPA she was a director at the Dutch central bank. Representatives of the UKNF participated both in the activities of the EIOPA Board of Supervisors and in tens of committees, working groups and expert networks, remaining an active member of the EU supervisory cooperation network in the field of insurance.

One of the key initiatives of EIOPA was the setting of EU strategic supervisory priorities for 2021-2023, covering the sustainability of business models and adequate product design (including requirements on product governance and product oversight). That happened for the first time in EIOPA's history. In 2021, the activities focused on the assessment of the impact of the COVID-19 pandemic and low interest rates on the sustainability of business models of insurance sector entities and on the usability of insurance products for customers. The UKNF drew attention to the need for a combined assessment of implementation of both priorities, so as to avoid mutually exclusive expectations towards supervised entities. The UKNF also presented to EIOPA a full view and the results of actions monitoring the impact of COVID-19 and low interest rates on the profitability of business models and the adequacy of products in the domestic insurance market.

Along with supervisory authorities from other EU Member States, the UKNF also cooperated with EIOPA as part of EU-wide stress tests for the largest EU insurance groups (2021 Insurance Stress Test, hereinafter: '2021 IST'). One insurance group from Poland took part in that test edition. The 2021 IST aimed to assess the resilience of the EU insurance sector on adverse scenarios related to COVID-19 producing negative effects for the stability of EU financial markets and the real economy. The report on the entire process and the test results was published on 16 December 2021.

The UKNF submitted to EIOPA an assessment of the bond market (DLT assessment). The relevant report is prepared each year by supervisory authorities from all countries of the European Economic Area that have a currency other than the euro. The conclusions of the DLT assessment are considered when updating the risk free rate (RFR) methodology for each currency, used by insurance/reinsurance undertakings, for example, in asset valuation under the Solvency II regime.

In 2021, three projects were implemented in relation to the register of supervised entities. Representatives of the UKNF were involved in the Register Team project, whose task was to

identify the root causes of divergences between national registers and EIOPA's register. EIOPA decided to appoint a new project team, responsible for the preparation of the mapping of data contained in the QRT reports, necessary for the annual submission of information to the OECD through EIOPA (not individually by each country, which has been the case so far). A UKNF representative became the leader of that team. The most important actions and outcomes were: the preparation of a full package of data mapping, i.e. data from the QRT, national specificities, and additional information with technical annexes, the drawing up of a document to support the process (each stage of the process, data reclassification methods, issues of data anonymity for all jurisdictions).

The UKNF also participated in EIOPA's activities related to the review of the current requirements on reporting and disclosures for solvency purposes which involved modification or removal of certain existing forms and preparation of new reporting forms. The work resulted in the publication, in July 2021, of proposals for amendments to the relevant Commission implementing regulations (QRT and SFCR) for public consultation.

As part of the work on financial reporting related to sustainability, representatives of the UKNF were involved in the preparation of EIOPA's advice on the indices reported by insurance undertakings (Article 8 of the Taxonomy Regulation). A particular issue that was accepted in the version promoted by the UKNF was the method of including government bonds in the indices, as since the Taxonomy Regulation does not require the assessment of the bonds, their inclusion in the indices would create incentives for insurance undertakings to reduce the share of government bonds in investment portfolios. As part of the work on EIOPA's opinion on the use of climate change risk scenarios in ORSA, the involvement of the UKNF representatives helped to relax the requirements on the time horizon of the investment and better recognition of the principle of proportionality. In response to the UKNF's stance on the imprecise formulation of the scenario (in relation to temperature increase), EIOPA prepared an additional document with guidelines.

In the area of internal models, representatives of the UKNF participated in discussions on the results of comparative study, i.e. a comparative market risk and credit risk study, a comparative non-life insurance risk study, and a study on diversification in internal models, as well as in the work on new reporting forms and indicators of continuous suitability of internal models. Representatives of the UKNF were also involved in the analysis of diversification achieved in capital requirements in the Solvency II regime in internal models. The analysis aimed to explore how the methods of modelling relationships in the models affect diversification, and to assess which modelling methods are correct.

Within EIOPA, the UKNF was also involved in the following activities:

- the peer review ('Follow-up on peer review on Propriety of Administrative, Management or Supervisory Body Members (AMSB) and qualifying shareholders') regarding the assessment of implementation of EIOPA's recommendations for national supervisors following the study in 2018, to be continued in 2022;
- within the Practitioners Network on Pension Tracking Systems, the main task in 2021 was to prepare a response to a request for advice from the European Commission in two pension areas: a list of best practices regarding online tools to provide the citizens of various countries with access to information about the funds accumulated for pension purposes, and the possibility to establish a tool to enable Member States/the European Commission to monitor pension information (mainly figures) from all pillars/funding sources;
- the amendment to EIOPA's guidelines on the calculation of the best estimate of technical provisions;
- the activities of EIOPA and the European Commission in the area of protection of non-professional financial market participants aimed at increasing the value of unit-linked insurance products for customers, reduction of irregularities in the process of creation of



such products and analysis of consumer trends, the structure of insurance distribution, the impact of the COVID-19 pandemic on insurance products and situation of customers.

It should also be mentioned that EIOPA remains a particularly active working platform of cooperation with the UK, allowing the supervisory authorities in EU states (including the UKNF) to clarify on an ongoing basis any doubt following Brexit and obtain information about the insurance business in both markets.

#### 10.11.2.3. EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

On 15 October 2021, by decision of the Council of the European Union and the European Parliament, Ms Verena Ross was appointed Chair of ESMA and took up the role on 1 November 2021. Ms Verena Ross is closely related to ESMA, as she worked as its Executive Director in the years 2011-2021. In 2021, representatives of the UKNF participated in the activities of the Management Board and the Board of Supervisors of ESMA, 15 standing committees, and a number of working groups and task forces, considering that the institution supplements the supervision exercised by national authorities through the coordinated supervisory cooperation in terms of EU single market. The activities focused on the revision of first-level acts and their implementation through the elaboration of draft technical standards, guidelines, consultation papers and Q&As. A success worth mentioning in relation to the participation of the UKNF employees in ESMA's activities was the appointment of Ms Magdalena Łapsa-Parczewska (Managing Director for Capital Market Supervision at the UKNF) as member of the Management Board of ESMA, a body that makes strategic decisions at ESMA.

Representatives of the UKNF participated in, among others, activities on the revision of the MiFID II/MiFIR in relation to requirements on the recognition of Environmental, Social and Governance (ESG) factors by investment firms. The activities also involved the development and monitoring of solutions facilitating the functioning of investment firms during the COVID-19 pandemic. Work continued on the implementation of the MiFID II in the area of commodity derivatives – Level II and III solutions were developed and a new regulation forming part of the MiFID II Quick Fix, which will serve the purpose of uniform implementation of solutions in the area of commodity derivatives throughout the European Union, especially within the new common system of limits on positions. Work also continued in relation to the implementation of the MiFID II in the area of secondary markets, and reports were prepared to provide technical support to the European Commission with regard to experiences related to each area regulated under the MiFID II. Draft guidelines on the assessment of appropriateness of order execution and a series of Q&As aimed at ensuring better and consistent understanding of the requirements under the MiFID II in Member States.

Work was also undertaken in the area regulated under MAR. A revision of the guidelines on delaying the publication of inside information and on interactions with prudential supervision, a consultation paper on the review of the Short Selling Regulation, and technical standards for liquidity contracts and insider lists used in SME Growth Markets were developed.

The UKNF staff was also involved in the activities of the CCP Supervisory Committee and the CCP Policy Committee, appointed following an amendment to EMIR. As part of their tasks, the committees recommended the adoption of a series of decisions concerning the expansion of the activities of the CCPs, material changes in risk management models, and issues related to the recognition of such entities from third countries and their qualification as systemically important. The text of implementing regulations to the CCP Recovery and Resolution Regulation (CCPRRR), legal acts governing the process of approval of expansion of the business and material changes in the CCP risk models, as well as guidelines on the review and evaluation of the CCPs was prepared.

Representatives of the UKNF also took part in the work related to the reporting of market data and the implementation and supervision of IT projects concerning various aspects of reporting and exchange of data between supervised entities, ESMA and national supervisors resulting

from the MiFID II, MiFIR, Prospectus Regulation, the AIFMD, MMFs or SFTR. In this context, representatives of the UKNF also participated in activities aimed at enabling ESMA to take over the supervision of providers of reporting services and providers of consolidated services.

Other important activities include the involvement of the UKNF staff in the preparation of ESMA's opinion on the planned comprehensive revision of the Regulation on the MMFs and the Regulation on the ELTIFs, the work on the CSDR Refit and clarification of market participants' doubts regarding the implementation of EMIR and the CSDR as well as participation in the preparation of ESMA's statement on the European Commission's proposals for legislative acts, e.g. on ESAP or European green bonds. A text was prepared for the ESMA's guidelines on the application of requirements on marketing communications, updates were made to the guidelines on common reference stress test scenarios for money market funds, a text was agreed for the implementing technical standards on the notification of cross-border activities to the Regulation (EU) on facilitating cross-border distribution of collective investment undertakings, and a series of technical standards was prepared for the Regulation on European Crowdfunding Service Providers (ECSP) for Business. Work continued to regulate the application of International Financial Reporting Standards and prepare the sustainability standards affecting the quality of issuers' reporting.

Among the supervisory convergence tools in which the UKNF representatives were involved, it is worth mentioning the peer review on prospectus regulations initiated in 2021, which collected information on prospectus verification and approval practices by European national supervisors, a joint supervisory action with regard to fees and other costs charged to investment funds, as well as preparation of a series of joint positions of supervisors, and participation in the exchange of information about supervisory practices.

#### 10.11.2.4. EUROPEAN SYSTEMIC RISK BOARD (ESRB)

In 2021, representatives of the KNF Board participated in the meetings of the General Board (the most important decision-making body), the Advisory Technical Committee (which analyses the matters discussed by the General Board) and selected working groups of the ESRB. The Board continued its efforts undertaken in 2020 to analyse the impact of the COVID-19 pandemic on financial stability, monitor the impact on the financial stability of the measures taken by Member States to protect economies from the impact of the pandemic, and address its negative effects. The Board decided not to renew the recommendation on restrictions of distributions (in relation to suspension of dividend distributions, buy-back of shares, and the rules for payment of variable remuneration or discretionary pension benefits) during the COVID-19 pandemic (effective until 30 September 2021).

In 2021, the Board issued recommendations addressing current challenges in financial markets, i.e.: (i) Recommendation of the ESRB on a pan-European systemic cyber incident coordination framework for relevant authorities (EU-SCICF), and (ii) a recommendation on money market funds (MMF) addressed in its entirety to the European Commission.

The General Board also made a series of decisions to accept shock scenarios for stress tests carried out by the ESAs in 2021, i.e.: stress tests for banks (EBA), stress tests for insurance undertakings (EIOPA), and stress tests for money market funds and CCPs (performed by ESMA).

### 10.11.3. COOPERATION WITH INTERNATIONAL ORGANISATIONS

#### 10.11.3.1. INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO)

In 2021, representatives of the UKNF took part in the work of 11 permanent committees and working groups of IOSCO. For the last two years, IOSCO's activities are determined by the actions to mitigate the consequences of the COVID-19 pandemic. IOSCO members engaged in an intense exchange of information and experiences concerning the measures taken by each jurisdiction in response to the crisis caused by the pandemic. Participating in the work of standing committees and working groups, employees of the UKNF engaged in activities and mandates related to guidelines and joint supervisory actions in the area of: regulation and supervision of commodity derivatives markets, online distribution of investment

services and products to retail investors, a set of supervisory tools, the enforcement of penalties abroad and supervision of CFDs, infringements of law using social media, or cross-border enforcement procedure. Representatives of the UKNF also continued work related to the review of applications from supervisory authorities to join IOSCO's multilateral Memoranda of Understanding.

#### 10.11.3.2. INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS)

In 2021, representatives of the UKNF were involved in the work of the Policy Development Committee, and the Implementation and Assessment Committee. Representatives of the UKNF continued their involvement in the work on the Common Framework for supervision of cross-border insurance groups, on an Insurance Capital Standard (ICS), implementation of the Holistic Framework, and on the principles of supervision of Global Systemically Important Insurers (G-SII). Representatives of the UKNF were also involved in the work to identify the needs of supervisory authorities representing emerging markets, as well as the development of documents supporting the proper implementation of the standards adopted by the Association.

#### 10.11.3.3. ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)

In 2021, the UKNF was involved in the activities of the Organisation for Economic Cooperation and Development (OECD) by participating in work of the Committee on Financial Markets (CFM), the Corporate Governance Committee (CGC), the Insurance and Private Pensions Committee (IPPC), the Working Party on Private Pensions (WPPP), the Expert Group on Finance and Digitalisation, and the Working Party supporting the Global Money Week initiative coordinated by the OECD International Network on Financial Education (OECD/INFE). Examples of important topics discussed in the above-mentioned fora include, among others, the start of the revision of the OECD Corporate Governance Principles (CGC) or the further comprehensive development of solutions related to the impact of the COVID-19 pandemic on various sectors.

The UKNF was present at the international forum on financial education through the participation of a representative as an observer in the work of the Global Money Week Working Group of the OECD International Network on Financial Education (OECD/INFE), whose task is to coordinate project activities related with the GMW educational campaign globally.

As regards cooperation with national administration, it is worth mentioning that the Ministry of Economic Development and Technology resumed the activities of the Inter-ministerial Team for OECD, being a forum for discussion and exchange of information at the level of management of individual public administration offices (a representative of the UKNF is also a member of the Team, acting as Deputy Chair). The UKNF also actively cooperated with the Ministry of Finance as part of a review on Exchange of Information on Request, conducted by the OECD (Global Forum on Transparency and Exchange of Information for Tax Purposes) since 2020, covering mainly tax and AML matters (including supervision and obtaining information from the financial market). The cooperation involved preparation for the visit of OECD assessors in Poland, planned for 2022. The UKNF is also a participant in the project 'Development of a national strategy for financial education', implemented by the OECD at the

request of the European Commission an coordinated as part of the national Working Group on financial strategy education.

#### 10.11.3.4. INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS (IOPS)

In 2021, representatives of the UKNF participated in the work of the IOPS, which focused on monitoring the impact of the COVID-19 pandemic on the pension market, further analyses regarding risk-based supervision, and implementation of the IOPS guidelines on the ESG principles. Moreover, analyses continued in relation to the digitisation of the private pension sector.

#### 10.11.3.5. ACTIVITIES WITHIN OTHER INSTITUTIONS AND INTERNATIONAL ORGANISATIONS

In 2021, the UKNF continued ongoing cooperation with the [World Bank and the International Monetary Fund](#) – organisations which regularly send expert missions to Poland (e.g. missions under Article IV of the Articles of Agreement of the IMF). Such meetings were organised in 2021 in remote form twice and were dedicated to the discussion of the situation of the banking sector in Poland, including key challenges such as the situation of the portfolio of housing loans in foreign currencies.

The UKNF maintains regular contacts and cooperation with the Basel Committee on Banking Supervision and the Bank for International Settlements. The UKNF also continued its participation in the activities of the Regional Consultative Group of the Financial Stability Board (FSB) for Europe.

Since 2006, the KNF Board has been managing the [Secretariat of the BSCEE Group](#) – an organisation associating 26 banking supervisors from 25 Central and Eastern European countries, cooperating with, among others, the Basel Committee. The BSCEE annual conference took place in May 2021, during which representatives of the Basel Committee on Banking Supervision, the Bank for International Settlements, the European Central Bank, and BSCEE members exchanges views and experiences related to the effects of the crisis caused by the COVID-19 pandemic and new technologies (SupTech). In 2021, the BSCEE organised workshops dedicated to the exchange of experiences of Central and Eastern European countries in relation to sustainable finance and impact of the COVID-19 pandemic. As every year, the BSCEE published in 2021 on its website the BSCEE Review of the situation of the banking sector and key supervisory challenges in each member states of the BSCEE.

### 10.11.4. ASSISTANCE AND EDUCATIONAL PROJECTS

#### 10.11.4.1. TWINNING PROJECT FOR THE NATIONAL BANK OF GEORGIA

In supporting the administration from top-priority non-EU countries for Poland's foreign policy with its knowledge and experience, the UKNF successfully completed the implementation of the 2-year Twinning Project for the National Bank of Georgia (NBG), financed by the European Union. The Project, with a budget of EUR 1 750 million, focused on the adaptation of Georgian laws to the EU legislation in the field of the banking sector and payment services, in accordance with the requirements of appropriate directives and regulations, as well as the support in the implementation of those requirements. The Delegation of the European Union to Georgia approved, without reservations, the final report on the project implementation on 29 November 2021.

The project helped to strengthen the capacity of the NBG in the field of supervision of banking and payment services in Georgia through a comprehensive implementation of advisory and

training actions. The project activities supported the gradual adaptation of the regulatory, supervisory and sanction-related rules to EU legislation, strengthening the NBG's supervisory functions and capacities in terms of regulation of the banking and payment services market in line with the EU *acquis communautaire* and best practices applied at supervisory authorities in the Union, and providing training to the NBG staff and preparing them to apply the new rules and regulations.

During the missions, the experts reviewed Georgian regulations and provided practical guidance on the necessary amendments and prepared reports with recommendations regarding proposals for amendments to the legislation, as well as workshop and support material to be used in the NBG's supervisory work.

The UKNF, as the Implementing Partner, was responsible for budget management, work plan and the 56-member expert team, with 34 experts from the UKNF and 22 competent representatives of Polish and Lithuanian cooperating institutions. In the period of 27 months, experts from the UKNF, in cooperation with experts from the National Bank of Georgia, the National Bank of Poland, the Bank of Lithuania, the Bank Guarantee Fund and the Financial Ombudsman's Bureau, successfully completed a total of 61 specialised expert missions in Tbilisi and in the remote work mode, attended by 64 participants representing the National Bank of Georgia. More than 400 materials were prepared to be used in supervisory practice and to support further work carried out by Georgian supervisor in the field of successive preparation of amendments to legislation.

It was the fourth twinning project implemented by the UKNF and the first project successfully implemented by the Polish supervisor using electronic platforms of communication and expert work in remote mode, involving Polish, Lithuanian and Georgian administrations.

#### 10.11.4.2. TECHNICAL ASSISTANCE UNDER TAIEX AND INTERNATIONAL EXPERT COOPERATION

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 UKNF actively participated in training and advisory missions for Ukraine, Albania and the society of the Turkish Republic of Northern Cyprus. Moreover, continuing the bilateral expert cooperation for top-priority non-EU countries for Poland's foreign policy, the UKNF supported the National Bank of Ukraine during a series of remote conferences and workshops.

#### 10.11.4.3. ASSISTANCE INITIATIVES TO SUPPORT THE CAPACITIES AND COMPETENCE OF POLAND'S FINANCIAL SUPERVISOR

With the support from the funds of the EU Structural Reform Support Programme, the UKNF and the Ministry of Finance engaged in multi-dimensional task of the 'Feasibility study on innovative technological solutions in the Polish financial market and identification of any legal, regulatory and supervisory impediments to its use, especially regarding DLT and RegTech (#FinTech) & sandbox' project, for the wider development of FinTech in Poland. The project was implemented by advisers from a consortium of private firms hired by the European Bank for Reconstruction and Development (EBRD) as part of a contract with, and the funding provided by, the European Commission. The support for the UKNF covered the assessment of possibilities for implementation of a regulatory sandbox in Poland with a recommendation on the model and a proposal for amendments to legislation and the use of innovative technologies to support the supervisory powers in certain market areas (SupTech), with an assessment of the suitability of the presented solutions in the supervisory practice. The support deliverables represent one of the elements based on which the UKNF will make the decision on the model of the regulatory sandbox than could be implemented under the national legal order. The recommended SupTech solutions will be used in the analytical work for the purpose of the

decision to upgrade the working methods and increase the efficiency of supervisory processes and tools used at the UKNF.

As part of the fourth allocation of the EU Structural Reform Support Programme, the UKNF took part in a pilot training project of the European Insurance and Occupational Pensions Authority (EIOPA) and Directorate-General for Structural Reform Support (DG REFORM) at the European Commission. The scope of support covered the training provided by EIOPA experts to 69 employees of the UKNF during a cycle of specialised training workshops on improved insurance supervision processes and tools. The new knowledge and competences gained by the employees of the Polish supervisory authority are used in the process of updating the model of supervision over insurance/reinsurance undertakings as part of the UKNF's top-priority actions for 2021-2023.

The UKNF, the Ministry of Finance, and sectorally related Polish institutions obtained support from the European Commission as part of the first round of the EU Technical Support for the development of a national strategy for financial education. The Technical Support Instrument (TSI) is a continuation of the Structural Reform Support Programme under the EU's 2021-2027 Multiannual Financial Framework, which Programme is financed from EU funds and centrally managed by the Directorate-General for Structural Reform Support at the European Commission. The project is implemented by the Organisation for Economic Cooperation and Development (OECD) at the request of the Directorate-General for Structural Reform Support at the European Commission. The project activities are planned for the period of 18 months, with the expected completion date for late March 2023. The first stage of the project involves a review and analysis of financial education in Poland, and the definition of needs and top priorities. The second stage will be finalised through the preparation of reports providing the basis for the national financial education strategy.

## 10.12. EDUCATION AND INFORMATION ACTIVITIES

### 10.12.1. EDUCATION CENTRE FOR MARKET PARTICIPANTS (CEDUR)

In the performance of its statutory tasks in the area of dissemination of knowledge on the functioning of the financial market, the UKNF continued the educational 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.

#### 10.12.1.1. CEDUR WEBINARS

To adapt to the needs and expectations of beneficiaries, the training activities in 2021 were conducted online, as in the previous year. In 2021, the Polish supervisor organised 59<sup>81</sup> webinars conducted by the UKNF staff, addressed mostly to KNF-supervised entities, representatives of public institutions, including prosecuting authorities and judicial authorities, institutions competent for protection of rights of non-professional financial market participants, and schools; the webinars were attended by more than 19.3 thousand participants.

**Table 82. Summary of CEDUR webinars organised in 2021**

Group of addressees	Number of webinars	Number of participants
KNF-supervised entities and statutory auditors	24	7 702

<sup>81</sup> 2 webinars with the participation of a representative of the Financial Ombudsman's Bureau, and 1 with the participation of a representative of the BGF as a speaker.

Public institutions, including prosecuting authorities and judicial authorities	18	2 803
Schools	13	8 412
Institutions competent for protection of rights of non-professional financial market participants	4	427
<b>Total</b>	<b>59</b>	<b>19 344</b>

Source: UKNF

The list of webinars organised under the CEDUR educational project in 2021 can be found in Annex 12.7.

#### 10.12.1.2. CEDUR PUBLICATIONS

In the period covered by this report, an educational brochure was published at the UKNF's expense: *Interest rate risk for clients of financial institutions. What you need know when using loans and deposit*, which aimed to acquaint a large group of clients of financial institutions with basic information about financial mathematics and interest rate risk, necessary to understand the structure of loans and deposits. The publication was part of the UKNF's awareness raising campaign called *Interest rate risk for credit liabilities*<sup>82</sup>.

#### 10.12.1.3. ACTIVITIES FOR THE ACADEMIC COMMUNITY

2021 was marked by the 10th Competition for the Award of the Chair of the KNF Board for the best PhD dissertation in the field of financial markets. The competition aims to inspire the development of the financial market and its innovativeness by increasing the interest of the academic community in the topics related to the organisation, functioning and supervision of the financial market. In 2021, the Jury of the Competition decided not to grant the prize of PLN 15 thousand to any of the PhD dissertations admitted to the 10th edition of the Competition and granted a distinction in the form of PLN 5 thousand to the author of the PhD thesis entitled *Core inflation in the monetary policy: analysis in the light of an DSGE model*.

#### 10.12.2. UKNF PODCAST: 'FINANCE UNDER SUPERVISION'

In 2021, a new programme was launched in the form of a UKNF podcast entitled 'Finance under supervision'. It is a cycle of educational recordings which aim to increase the knowledge and raise awareness on financial markets. The UKNF podcast is addressed primarily to non-professional financial market participants, in particular the current and future clients of this market, which is why the issues discussed in particular episodes refer mainly to situations those individuals can encounter, and the actions they take in the financial market. In each episode, the UKNF experts explain what must be understood to manage one's own finances with awareness, point to potential risks, threats, and red flags.

In 2021, the following three episodes of the podcast were released via audio streaming applications:

- 'Interest rate risk for credit liabilities',
- 'Investment platforms: what you need to know before investing?',
- 'Cybersecurity: how criminals operate'.

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<sup>82</sup> See: Section 10.12.10 *Public campaigns*.

### 10.12.3. GLOBAL MONEY WEEK – GMW 2021

The UKNF is the national coordinator of the Global Money Week (GMW) campaign in Poland. The GMW 2021 took place on 22-28 March. The slogan of the GMW 2021, *Take care of yourself, take care of your money*, stressed the need to build financial resilience while taking care of health in the era of the COVID-19 pandemic. The GMW 2022 campaign in Poland involved financial education activities organised locally at schools at all levels of education by GMW coordinators (e.g. school directors, teachers of any subject, teachers at clubhouses, library staff, animators). The GMW school coordinators may launch their own initiatives and use the programme proposals prepared for a given campaign edition. As part of GMW 2021, the UKNF organised a cycle of 9 CEDUR webinars for the school environment, addressed mainly to primary and secondary schools as well as teachers interested in finance. More than 18.5 thousand children and young people took part in the GMW 2021 campaign. More than 4.5 thousand students and teachers took part in the training courses organised by the UKNF. The GMW 2021 programme proposal was enriched by initiatives in the field of financial education of other institutions that joined the campaign, i.e. the Ministry of Finance, the Polish Chamber of Insurance, the Association for the Promotion of Financial Education, the Office of Competition and Consumer Protection, and the Bank Guarantee Fund.

As initiator and coordinator of the GMW campaign in Poland, the UKNF is represented at the international forum on financial education through the participation of a representative in the work of the Global Money Week Working Group of the OECD International Network on Financial Education (OECD/INFE), whose task is to coordinate project activities related with the GMW educational campaign globally.

### 10.12.4. IOSCO CAMPAIGN: WORLD INVESTOR WEEK (WIW)

As part of the 5th edition of the World Investor Week (WIW), on 4-8 October 2021, the UKNF held a series of CEDUR webinars for students of secondary schools and teachers, e.g. methodology advisers in the area of foundations of entrepreneurship and/or civics, teachers of economics, teachers of vocational training, and other teachers interested in the topics discussed during the webinars, including school coordinators of the Global Money Week campaign. The cycle featured webinars on the following subjects: (1) 'Stock exchange, investments, shares, bonds explained', (2) 'Cybersecurity from the perspective of a consumer of financial services: practical aspects', and (3) 'Threats and fraud in the investment funds market'. As part of the WIW 2021, the Financial Education Day was organised on 14 October by the Warsaw Stock Exchange Foundation as part of the funding under the 'Social Responsibility of Science' programme of the Ministry of Education and Science, involving addresses by representatives of the UKNF. The event was streamed online and more than 700 users from all over Poland listened to the transmission. The Financial Education Day featured inauguration of an outdoor game called 'Let the stock exchange guide you' ('Za głosem giełdy'), one of the initiatives being part of the 30th anniversary of Warsaw Stock Exchange, run by the WSE and the WSE Foundation also as part of the World Investor Week. Both initiatives (the Financial Education Day and the outdoor game) were carried out under the auspices of the KNF Board.

### 10.12.5. PARTICIPATION OF REPRESENTATIVES OF THE UKNF IN EXTERNAL EVENTS

Representatives of the UKNF participated as speakers or participants in more than 30 external events, i.e. panels, congresses, and conferences. To a large extent, due to the pandemic, representatives of the UKNF participated in the events online.



#### 10.12.6. PARTICIPATION IN THE ACTIVITIES OF WORKING TEAMS AND GROUPS

The UKNF was represented in the Working Group for Educational Activities in the area of Financial Market, attached to the Financial Market Development Council. Representatives of the UKNF were also actively engaged in the work of the Working Group on financial strategy education, focused on the project ‘Development of a national strategy for financial education’, implemented by the OECD at the request of the Directorate-General for Structural Reform Support (DG REFORM) at the European Commission as part of the first allocation of the EU Technical Support Instrument (TSI). The project aims to support the preparation of a national financial education strategy in Poland. Representatives of the UKNF participated in the work of the project group for financial education as part of the Joint Committee of the European Supervisory Authorities (EIOPA, ESMA, EBA) – Sub-Committee on Consumer Protection and Financial Innovation – Sub-Group on Financial Education. The project team worked on, among others, the preparation of proposals for topics of two publications on financial education: the thematic report and a repository presenting initiatives of national supervisory authorities in the area of financial education related to cybersecurity, as well as the concept of the *Joint ESAs high-level conference on financial education and literacy 2022*.

#### 10.12.7. EDUCATIONAL ACTIVITIES IN THE SCOPE OF CYBERSECURITY<sup>83</sup>

In order to promote knowledge about cybersecurity, the UKNF undertook a series of educational and awareness raising activities, for example:

- training activities under the CEDUR project to raise awareness about cyber threats,
- participation of representatives of the UKNF in national and international initiatives,
- publication in social media of information and warning about new forms of online attacks and online fraud,
- press articles which explained cyber threats in a simple way.

#### 10.12.8. EDUCATIONAL ACTIVITIES IN THE AREA OF FINANCIAL INNOVATION<sup>84</sup>

The UKNF also engaged in educational initiatives for youths during their school classes. In 2021, the UKNF launched educational meetings at schools in order to provide youth with information about the threats and opportunities related to financial innovations (e.g. crowdfunding, payment services).

#### 10.12.9. PRESENCE IN THE MEDIA AND THE KNF WEBSITE

The main tool the UKNF uses to conduct information activities is the knf.gov.pl website, which recorded nearly 6 million page views in 2021. Information presented on the website of the KNF Board as the financial market supervisor includes tasks and composition of the KNF Board, communications from the meetings, organisational structure of the UKNF, tasks of departments, public procurement, job advertisements and public warnings of the KNF Board. 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.

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<sup>83</sup> See: Section 10.1.2.3 *Activities of the KNF CSIRT*.

<sup>84</sup> See: Section 10.1.3 *Actions supporting the development of financial innovation (FinTech)*.

In 2021, 222 244 pieces of media material included references to the KNF Board, of which: 218 034 on the Internet, 125 in social media, 3 133 in the press, and 952 on the radio and television.

When cooperating with the media, the UKNF is pursuing an open communication policy. Tasks in this area include among others:

- public presentation of official positions and results of the activities of the KNF Board and the UKNF,
- providing information on actions, initiatives and programmes taken by the KNF Board and the UKNF,
- commenting on events in the financial market,
- answering questions of media representatives.

#### 10.12.10. PUBLIC CAMPAIGNS

In 2021, the following public campaigns took place.

The ‘Interest rate risk for credit liabilities’ campaign concerned potential threats related to the interest rate of loans and encouraged conscious and well-thought-out use of such offers.

The campaign involved the publication, on the KNF website, of a Communication from the UKNF and a brochure concerning interest rate risk for credit liabilities: *Interest rate risk for clients of financial institutions. What you need know when using loans and deposits*. The materials form a set of the UKNF’s practical tips on the interest rate risk for credit liabilities.

An important element of the UKNF’s campaign on interest rate risk for credit liabilities were radio spots broadcast in July on national radio stations.

The campaign ‘Invest Knowledgeably!’, launched in September 2020, was continued through the publication of new online materials and presentation of its objectives during specialised conferences.

The campaign ‘UWAGA! CYBEROSZUST’ [*Protect yourself from fraud and scams*], initiated at the end of 2020, was continued; the campaign concerns fraud involving the use of documents bearing the KNF/UKNF logo or persons claiming to represent the KNF Board. The partner in the campaign is the Central Police Headquarters.

In March 2021, Radio Zet and RMF FM broadcast spots warning against cybercriminals. Jointly with the Police, the UKNF explained the methods used by criminals and raised awareness of potential risks and threats among customers in the financial sector. The campaign was designed to identify the mechanisms used by fraudsters in the money extortion process, among others, in transactions of cryptocurrency exchange intermediation, or in false actions allegedly undertaken by the KNF or the UKNF.

Articles prepared by the KNF CSIRT on various types of online or telephone fraud were published as part of the minicycle of publications in regional journals.

#### 10.12.11. PROCESSING REQUESTS FOR ACCESS TO PUBLIC INFORMATION

Under Article 4(1) point 4 of the Act on access to public information, in conjunction with Article 3(1) and (4) point 2 of the Act on financial market supervision, the Chair of the KNF Board is a body required to provide public information. Under the law, for state legal persons such as the UKNF (PL: Urząd Komisji Nadzoru Finansowego), the obligation to provide public information lies with the bodies representing the state legal person in question. The Chair of the KNF Board has such a status because, being a body of the UKNF, the Chair is entitled to direct its activities and represent it externally. The UKNF’s task of providing public information covers all the

activities of that state legal person, including information about the activity of one of the bodies of the UKNF which is the KNF Board (PL: Komisja Nadzoru Finansowego), being the body competent for financial market supervision.

Under the provisions of the Act on access to public information, as a rule, there are two ways in which public information is provided. The primary way of providing public information is to publish it in the Public Information Bulletin of the UKNF. If specific public information has not been published in the Public Information Bulletin, an entity concerned may file a request for public information; each such request is then processed on a case-by-case basis. In 2021, the UKNF received 202 requests for public information.

## 10.13. COOPERATION WITH STATE BODIES AND EXTERNAL ENTITIES

### 10.13.1. COOPERATION WITHIN THE FINANCIAL STABILITY COMMITTEE (FSC)

The Act of macro-prudential supervision 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 KNF Board, the Ministry of Finance, and the Bank Guarantee Fund. For macro-prudential supervision, the meetings of the Committee are chaired by the President of the NBP, and for crisis management – by the Minister of Finance.

At the meeting of the FSC on 19 March 2021, a resolution was passed on the recommendation to maintain the rate of the countercyclical buffer at 0% in the first quarter of 2021. The members of the Committee also discussed the sources of risk in the Polish financial system. Special attention was drawn to an increase in legal risk associated with the portfolio of foreign-currency housing loans, and a decline in profitability of banks in Poland. Following the completion by the KNF Board of the procedure of authorisation of GPW Benchmark S.A. to operate as an administrator of interest rate benchmarks, the Committee assessed that the risk related to the WIBOR benchmark not being adapted to EU legislation had expired.

At the meeting on 18 June 2021, the FSC passed a resolution on the recommendation to maintain the rate of the countercyclical buffer at 0% in the second quarter of 2021. Members of the Committee reviewed the current situation around the legal risk of the portfolio of foreign-currency housing loans and the work on proposals for out-of-court resolution of issues regarding such loans. They also discussed the potential need to adopt additional measures in the area of macro-prudential policy in this respect. The Committee also took note of the NBP's *Financial Stability Report*.

At the meeting of the FSC on 28 September 2021, a resolution was passed on the recommendation to maintain the rate of the countercyclical buffer at 0% in the third quarter of 2021. The members of the Committee also discussed the sources of risk in the Polish financial system and its environment. The Committee concluded that the nature and hierarchy of risk sources had not changed in relation to the previous quarter, and the most significant source of threats remained the legal risk associated with the portfolio of foreign-currency housing loans and the difficult financial situation of certain credit institutions. The Committee reviewed the summary of the current trends in the domestic housing market. The Committee also decided to submit to the Minister of Finance and the KNF Board a recommendation regarding a temporary change in risk weights for institutions actively involved in the process of voluntary settlements between banks and borrowers that took out foreign-currency housing loans<sup>85</sup>. At the request of the KNF Board, Committee also issued an opinion on the identification of other

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<sup>85</sup> Resolution No 52/2021 of the Financial Stability Committee of 28 September 2021 on the recommendation on risk weights for exposures secured with mortgage on residential property.

systemically important institutions (O-SII) and the imposition of an O-SII buffer. The Committee reviewed the progress of work carried out by the European Commission on the implementing regulation on the designation of a replacement for CHF LIBOR. It was concluded that the fact that the Commission did not designate replacement for those indices would create a risk of significant disruption to the functioning of the financial system.

The last meeting of the FSC in 2021 was held on 10 December. As at previous meetings, in the performance of its statutory obligations, the FSC passed a resolution on the recommendation to maintain the rate of the countercyclical buffer at 0% in the fourth quarter of 2021. The Committee reviewed the NBP's *Financial Stability Report for December 2021*, sharing the NBP's view that the overall stability of the domestic financial system had improved. Discussion was held on the progress of implementation, by certain banks, of settlements with customers that had taken out foreign-currency housing loans. The Committee also reviewed the summary of the current trends in the domestic housing market. The Committee concluded that the analysis of risk factors related to the current level and changes of the lending activity did not point to any alarming symptoms of excessive relaxation of credit requirements, and the existing KNF recommendations did mitigate such risk.

### 10.13.2. COOPERATION WITHIN THE STEERING COMMITTEE FOR FINTECH

Since 2019, within the Steering Committee for FinTech, the UKNF has carried out activities aimed at ensuring coordination of actions and cooperation of state institutions for the development of the FinTech sector in Poland. The Steering Committee for FinTech is composed of representatives of: the Polish Financial Supervision Authority, the Ministry of Finance, the National Bank of Poland, the Chancellery of the President of the Council of Ministers – GovTech Polska, the Ministry of Development Funds and Regional Policy, the Ministry of Economic Development, Labour and Technology, and the Office of Competition and Consumer Protection. In 2021, three meetings were held.

### 10.13.3. COOPERATION FOR BETTER PHYSICAL SECURITY OF THE FINANCIAL SECTOR

Since 2020, a Working Group for physical security of the banking sector and ATMs has been active at the UKNF. The Group is composed of representatives of: the Ministry of the Interior and Administration, the Ministry of Finance, the National Bank of Poland, the Central Police Headquarters, the Polish Bank Association, and security units of commercial banking sector entities.

In 2021, 10 meetings of the Group were held, all of them online. At the meetings, a series of solutions were developed to mitigate the diagnosed threats to the security of the banking sector. As part of the Group's activities, remarks were made, in relation to ATM security systems used by financial market entities, on the amendments to the Regulation of the Minister of the Interior and Administration of 7 September 2010 on the requirements for the protection of monetary values stored and transported by entrepreneurs and other organisational units.

The analysis of the Group's activities confirmed by the opinions of the cooperating entities showed it was necessary to formalise the body operating in the area of physical security, not only of the banking sector, but of the entire financial market. Therefore, by Order No 63/2021 of 8 October 2021, the Chair of the KNF Board appointed the Financial Market Physical Security Council (Council), as a standing consultative and advisory body.

The UKNF is represented at the Council by directors of departments responsible for the supervision of relevant financial sectors and by the members of the UKNF's management responsible for security.

The goal of the Council is to design, plan and coordinate the activities undertaken by the UKNF for the improvement of the physical security of the financial market and to develop – in

cooperation with public bodies, public institutions, entities operating in the financial market as well as their associations and chambers of commerce – official positions and recommendations in that respect.

In 2021, one meeting of the Council took place, at which the members of the Council were acquainted with the objectives of its functioning and with the action plan for 2022, and agreed on a catalogue of institutions whose representatives will be invited to join the Council's work.

#### 10.13.4. COOPERATION WITH THE NATIONAL BANK OF POLAND

The UKNF engages in permanent bilateral cooperation for the exchange of information necessary to perform the statutory tasks of the central bank and the financial supervision authority. The terms of cooperation are laid down in bilateral agreements on cooperation and exchange of information between the KNF and the National Bank of Poland (NBP).

Under the agreement, the KNF Board submitted a series of data to the NBP in 2021 in the area of:

- the banking sector, on: stress tests, the use of aid measures offered by banks in response to the COVID-19 crisis, the legal risk associated with a portfolio of foreign-currency housing loans, and the additional capital requirement, on consumer and housing loans that is not part of standard reporting, the SREP, and information about inspection results with supervisory recommendations for systemically important banks and results of inspection activities undertaken in relation to the calculation and transfer of the required amount of the minimum reserve;
- the management of the quarterly control of quality of mandatory data reported to the EBA, preparation of feedback and handling of corrections to the EBA;
- the payment service sector: the exchange of data on transactions performed by the acquirers and the issuers of payment instruments, and submission of information on fraudulent transactions and on the countering of such transactions. The NBP also reports on frauds committed using payment instruments; the credit unions sector: submission of information about credit unions' liquidity, solvency ratio, information about the situation of credit unions subject to rehabilitation plans, and the risk assessment score granted by the UKNF to each credit union. On the other hand, the NBP sent the KNF Board a number of analytical materials regarding issues covered by the KNF Board's activities. At the same time, both institutions worked together at the operational level (with respect to information exchange, agreeing on the positions, and IT issues), also with regard to individual supervised entities from both sectors;
- the insurance sector: information based both on additional financial statements and statistical reports of insurance and reinsurance undertakings (statutory), and on reports consistent with Solvency II, or stress tests. 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 retirement protection accounts. The data are submitted and/or made available by the KNF Board to the NBP at monthly, quarterly and annual intervals.
- 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 fiduciary entities. Information about the number of investment firms and custodian banks is submitted 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 rules of the National Depository for Securities, the rules of KDPW\_CCP S.A., the rules of the settlement house and the clearing house together with the rules of the fund securing proper performance of liabilities arising from the transactions settled by the settlement house, and amendments thereto to the extent indicated in the said Act are approved by the KNF Board following consultation with the President of the NBP. Therefore, the UKNF sends to the President of the NBP decisions on the request for an opinion on the requests of the KDPW and the KDPW\_CCP for approval of amendments to the rules of the National Depository for Securities, rules for settling transactions (organised trading), rules for settling transactions (non-organised trading), and the rules of a compensation fund, as well as requests from IRGiT S.A. for the approval of amendments to the rules of the settlement house and the clearing house and the rules of the guarantee fund of the settlement house and the clearing house. The NBP is also a member of the supervisory college for KDPW\_CCP S.A. appointed by the KNF Board in 2013 to exercise ongoing supervision of KDPW\_CCP S.A. in connection with the requirements of EMIR. In addition, pursuant to Article 12 of CSDR, the NBP acts as an authority competent for the supervision of KDPW S.A. as a central securities depository, and is therefore the body with which the KNF Board is obliged to consult on, inter alia, the characteristics of the securities settlement system operated by KDPW S.A., in accordance with Article 17(4) of the CSDR.

Depending on the specific nature of each case, cooperation between the NBP and the UKNF is based on both periodic (annual, quarterly, monthly) exchange of information and *ad hoc* contacts. In particularly important issues, such cooperation is continuous.

### 10.13.5. COOPERATION WITH INSTITUTIONS PROTECTING CLIENTS' RIGHTS

In 2021, representatives of the UKNF participated in a meeting with representatives of the Financial Ombudsman on the practice of supervised entities in the area of compliance with the requirements laid down in Division III Chapter 2 of the Act on payment services (Authorisation of payment transactions).

In the period covered by this report, issues/reports and results of analyses were submitted to competent authorities (the Office of Competition and Consumer Protection, the Financial Ombudsman) according to their respective remit.

The UKNF submitted to the President of the Office of Competition and Consumer Protection information on suspected abusive contractual clauses applied by an insurance undertaking in the general terms and conditions of life insurance, together with a request for an abstract review of the contract templates used by the insurance undertaking in relation to the provisions determining the mechanism of 'annual renewal of the contract'.

### 10.13.6. COOPERATION WITH HIGHER EDUCATION INSTITUTIONS

#### 10.13.6.1. AGREEMENT WITH HIGHER EDUCATION INSTITUTIONS IN SILESIA

On 9 July 2021, an agreement was signed between the Polish Financial Supervision Authority and the Silesian University of Technology, University of Economics in Katowice, and University of Silesia in Katowice. The agreement aims to support the analysis of big financial data, expand the competence in the area of supervisory technologies (SupTech) and regulatory technologies

(RegTech), support modern supervision in Poland, and enable the transfer of knowledge and technology.

#### 10.13.6.2. COOPERATION WITH THE POLICE ACADEMY IN SZCZYTNO AND THE CYBERCRIME DEPARTMENT OF THE CENTRAL POLICE HEADQUARTERS<sup>86</sup>

In 2021, the KNF Board, in cooperation with the Police Academy in Szczytno and the Cybercrime Department of the Central Police Headquarters, prepared a post-graduate programme in cybersecurity.

### 10.13.7. COOPERATION WITH OTHER INSTITUTIONS

In the period covered by this report, the UKNF cooperated in particular with:

- The Bank Guarantee Fund (BGF): pursuant to the Banking Law and the Act on the Bank Guarantee Fund, as well as the Agreement for Cooperation and Exchange of Information between the KNF Board and the BGF of 27 December 2016, the UKNF and the BGF provided each other with information necessary for the performance of their statutory tasks. With regard to banks, the UKNF 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 the important issues in the cooperation between the KNF Board 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 General Inspector of Financial Information (GIFI): Under the Act on the prevention of money laundering and terrorist financing, the KNF Board acts as a body cooperating with the General Inspector of Financial Information which, as part of its supervisory powers, carries out inspection and analytical activities in the area of prevention of money laundering and terrorist financing at obliged institutions under the KNF supervision, and – in relation to the infringements identified as a result of inspections – imposes administrative penalties referred to in Article 150(1) of the said Act. In accordance with statutory requirements, the inspection results and the final decision on the imposition of an administrative penalty are each time communicated to the General Inspector of Financial Information<sup>87</sup>;
- Statistics Poland (GUS): regular transmission of data to GUS under the Programme of Statistical Surveys of Official Statistics regarding the insurance sector. The UKNF also took part in the work on the programme of surveys for 2020, 2021, 2022;
- the Insurance Guarantee Fund (IGF): since the fourth quarter of 2020, the supervisory authority has been represented in the Fund Council by Ms Dagmara Wieczorek-Bartczak, Deputy Chair of the KNF Board, and since the third quarter of 2021 – Mr Krystian Wiercioch, Acting Managing Director for Insurance Supervision. In 2020, the UKNF continued the monitoring of the situation of Polish citizens who were customers of a Danish insurer Gefion Insurance A/S. The undertaking operated in Poland under the freedom to provide services, offering primarily motor insurance. Gefion Insurance A/S was declared bankrupt on 7 June 2021 by a court in Copenhagen. In accordance with the Act on compulsory insurance, if an insurance undertaking is declared bankrupt, the Fund guarantees the payment of claims on compulsory insurance for events that took place in the territory of Poland. After obtaining the claim files (in September 2021), the Fund took actions to settle the claims as soon as possible. The further actions of the IGF in this regard will be monitored, including through the analysis of annual and quarterly reports on the Fund's activities. Another year of the pandemic caused the UKNF to continue to analyse the impact of the COVID-19 pandemic

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<sup>86</sup> See: Section 10.1.2.3.5 *Educational activities of the KNF CSIRT.*

<sup>87</sup> See: Section 10.7 *Prevention of money laundering and terrorist financing.*

on the Fund's statutory activities. The analysis of the Fund's financial data shows no deterioration of the results of the Fund's operating and financial activities due to COVID-19.

In 2021, the Insurance Guarantee Fund continued to manage the ring-fenced funds: the Tourist Guarantee Fund, and the funds created to mitigate the adverse economic impact of COVID-19 on the tourist industry: the Tourist Refund Fund, and the Tourist Aid Fund. Apart from the existing ring-fenced funds, under the Act on the protection of the rights of the acquirer of a housing unit or single-family home, the IGF will also be managing the Real Estate Development Guarantee Fund. The new legislation governs, among others, reservation and development contracts, supervision over the expenditures from housing trust accounts, the removal of defects the developer's expense, protection of acquisition of a parking space or storage area together with the flat, or the possibility of terminating the contract. The Real Estate Development Guarantee Fund will be refunding the funds paid by persons who buy a flat or a house in the case of bankruptcy of a developer or bank keeping the housing trust account, and in the case of termination of the contract by the buyer in the situations specified in the Act. In order to fulfil the obligations imposed by the legislator, the Real Estate Development Guarantee Fund will be collecting and processing a number of data provided by developers and banks on concluded contracts and related housing trust accounts, subsequent stages of project implementation and payments made by banks from housing trust accounts to developers;

- the National Clearing House (PL: Krajowa Izba Rozliczeniowa, KIR) in relation to the use of the resources of the KIR ICT system (STIR)<sup>88</sup>;
- the Polish Chamber of Insurance (PIU): the supervisory authority submitted to members of the PIU the final objectives of a product intervention measure, together with the implementation schedule and the concept of a test of compliance of unit-linked insurance products with the requirements of the intervention measure. The methodology of the annual Supervisory Review Process (SRP) for insurance undertakings for 2020 was consulted with the PIU, and the final version of the methodology is the result of cooperation between the PIU and representatives of insurance undertakings. In 2021, the UKNF took action to prepare supervised entities and the UKNF for regulatory and supervisory changes regarding sustainability, including public disclosures by those entities. Cooperation was established with the PIU to develop solutions for stress tests and disclosures that ensure compliance with supervisory expectations and optimum use of available data. The SRP was expanded to include the assessment of undertakings to the upcoming changes regarding sustainability. The comments and remarks received from insurance undertakings and the Polish Chamber of Insurance provided input for the final version of the stress testing methodology for 2020. To develop a methodology for the catastrophe risk scenarios, a working group was appointed at the Polish Chamber of Insurance which, in cooperation with representatives of the UKNF, prepared stress test scenarios for the risk of climate change. The group will continue its work during next editions of stress tests.
- the Polish Bank Association (ZBP): a representative of the KNF Board is a member of the Board of the Bank Arbitrator, which discusses comments on market practices followed by banks in relations with clients; participation of representatives of the UKNF in a meeting with the ZBP and representatives of banks regarding the performance of obligations following the Communication from the UKNF on the performance by payment service providers of obligations under Article 143b of the Act on payment services; letters were addressed to the ZBP and representatives of self-governments of lawyers regarding the results of the 'Analysis of selected banks in relation to the rules of handling powers of attorney submitted by professional or non-professional attorneys-in-fact and the key issues in the functioning of powers of attorney in banking transactions'. The letter also encouraged cooperation between the ZBP and self-governments of lawyers for the purpose of development of common forms of powers of attorneys to act before banks;

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<sup>88</sup> See: Section 10.7 *Prevention of money laundering and terrorist financing*.



- the Personal Data Protection Office: the cooperation aimed to establish whether public companies are entitled to provide the shareholders with list of shareholders under Article 407 § 1<sup>1</sup> of the Commercial Companies and Partnerships Code in conjunction with Article 6(1)(C) 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, without anonymising personal data;
- the Ministry of Agriculture and Rural Development: participation of a representative of the KNF Board in the work of the Commission for the Assessment of Offers, referred to in Article 8 of the Act on insurance of agricultural crops. Under Article 9(5) of the Act on insurance of agricultural crops and livestock the Commission must check whether the offers submitted to the Minister of Agriculture by insurance undertakings pursuing the business of property insurance which are interested in entering into agreements with the Minister of Agriculture on the subsidies to contributions to insurance of agricultural crops and livestock meet the formal requirements laid down in Article 9(4) of the Act on insurance of agricultural crops. In particular, the Act requires the Commission to check whether the opinion of the KNF Board confirms that the financial situation of an insurance undertaking guarantees the execution of the insurance offer;
- the Polish Agency for Audit Oversight (PANA)<sup>89</sup> in the area of performance of tasks related to public supervision;
- the Ministry of Science and Higher Education and the Ministry of Finance: in connection with the requirements of the Act of the principles for the recognition of professional qualifications;
- the Ministry of Finance: representatives of the UKNF were actively involved in the matters concerning the banking sector raised by the Ministry, including proposals for legal acts (including amendments to the CRD/CRR) and documents for meetings of EU working groups concerning, for example: banking union, deposit guarantee schemes, forced restructuring of banks, insolvency law, and EU crisis management framework;
- the Minister of Digital Affairs in relation to: the collection, analysis and submission to the Minister of Digital Affairs of information about the implementation progress of the tasks imposed, under the Act on the national cybersecurity system, on key service operators in the banking sector and financial market infrastructure, and in relation to the communication of information from the Minister of Digitalisation to the key service operators;
- the Financial Education Council: a representative of the Chair of the KNF Board is a member of the Financial Education Council, whose main task is to provide citizens with knowledge about finance and to develop skills related to the management of personal finances and the functioning of the financial market. The representative of the Chair of the KNF Board was actively involved in the work of the Council, which sets the policies and methods of performance of the tasks of the Financial Education Fund, which finances financial education and supervises the performance of the Fund's tasks and the management of its financial resources. A working group was established to prepare proposals for training courses on financial education for teachers. The working group is composed by representatives of institutions concerned and represented in the Council, including representatives of the UKNF.

In 2021, the UKNF cooperated with the National Association of Cooperative Banks, the Polish Bank Association, affiliating banks, cooperative protection systems, the Ministry of Finance, the Bank Guarantee Fund, and the F. Stefczyk Reform Association of Cooperative Banks (Związek Rewizyjny Banków Spółdzielczych im. F. Stefczyka w Warszawie). That work resulted in the definition of the main strategies to be implemented in cooperation with the sector in 2022:

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<sup>89</sup> See: Section 10.3.1 *Activities completed by the KNF Board in relation to the KNF action plan for 2021 with regard to public supervision under the Act on statutory auditors.*

- amendments to the Act on the functioning of cooperative banks, their affiliation, and affiliating banks,
- amendments to the CRR on taking into account the specificity of affiliating banks in the calculation of financial leverage,
- a change of the nature of cooperative lustration at cooperative banks.

The cooperation was carried out primarily through working meetings and discussions with representatives of various institutions, mostly representatives of Institutional Protection Schemes (IPS) and affiliating banks.

Representatives of the UKNF also took part in a meeting with representatives of the Polish Bank Association and the Personal Data Protection Office, dedicated to the implementation, by banks, of recommendations provided in *Communication of the UKNF of 21 July 2020 on the exercise of the right of a loan applicant to demand explanations concerning the assessment of creditworthiness pursuant to Article 70a of the Banking Law*. The discussion with representatives of the institutions aimed at formulating proposals for legislative amendments to Article 70a of the Banking Law.

The UKNF also worked very extensively with the Ministry of Finance on a number of legislative initiatives, as further mentioned in sub-chapter 10.5.1. 'Participation in legislative work'.

## 10.14. ENGAGEMENT IN THE ESG AREA

In 2021, the UKNF continued the engagement of its representatives in the regulatory and supervisory activities related to sustainability and ESG factors.

In the performance of those activities, the UKNF added to the KNF website a tab on financing sustainable development<sup>90</sup>, which contains materials regarding ESG matters addressed to supervised entities, such as an overview of the current regulatory framework, the rules on disclosures and taxonomy. The tab contained up-to-date information and communications about the current initiatives and policies on ESG principles and sustainable development at national and EU levels.

The tab also contains a webpage called Q&As on the application of the Sustainable Finance Disclosure Regulation (SFDR), with most frequently asked questions and answers on topics most discussed by representatives of supervised entities in day-to-day communication with the UKNF. The Q&As were consulted by the UKNF with representatives of the Polish Chamber of Insurance. The list of questions and answers is regularly updated. The website also provides information about the initiatives of the UKNF in the area of sustainable development.

Additionally, the UKNF has launched an e-mail address: [esg@knf.gov.pl](mailto:esg@knf.gov.pl) to enable communication with the UKNF on topics regarding the ESG principles. The UKNF staff are actively involved in the working groups on sustainable development operating at the EBA, EIOPA, and ESMA. Representatives of the UKNF also held a webinar on the ESG principles, addressed to financial market entities at part of the CEDUR project<sup>91</sup>.

The KNF Board also exercises ongoing supervision over the activities of the administrator of the WIG-ESG Index, published since 3 September 2019, developed on the basis of the value of the portfolio of shares of companies considered socially responsible, i.e. those that comply with the principles of corporate social responsibility, in particular in the field of environmental, social, economic and corporate governance issues.

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<sup>90</sup> Address: [https://www.knf.gov.pl/dla\\_rynku/Finansowanie\\_zrownowazonego\\_rozwoju/zrownowazony\\_rozwoju](https://www.knf.gov.pl/dla_rynku/Finansowanie_zrownowazonego_rozwoju/zrownowazony_rozwoju)

<sup>91</sup> See: Section 10.12.1.1 *CEDUR webinars* and in Annex 12.7 *List of webinars organised by the UKNF as part of the CEDUR educational project in 2021*.

# 11. ORGANISATION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

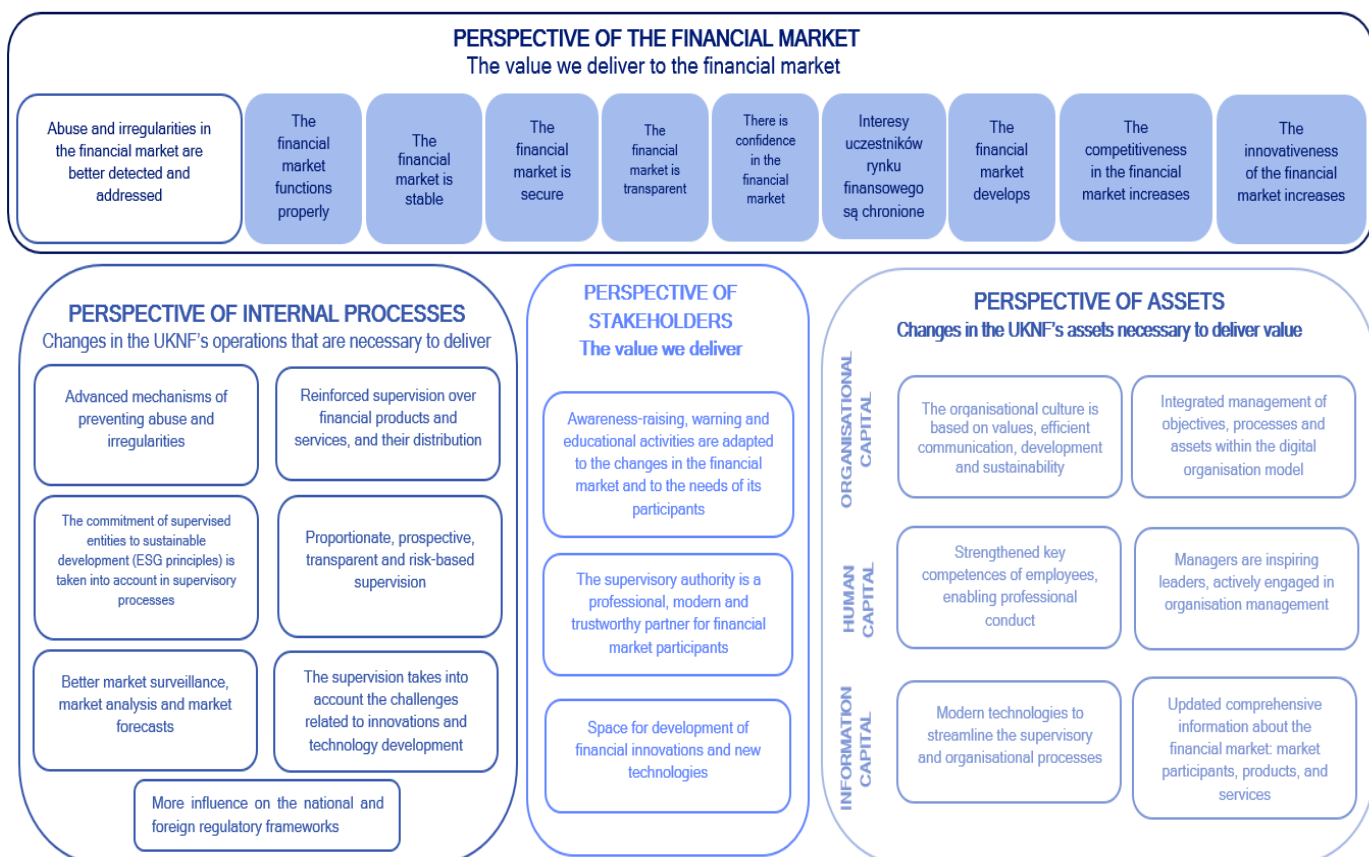
## 11.1. UKNF STRATEGY FOR 2021–2025

The UKNF Strategy follows from a broader perspective on the management of a complex modern and multi-task organisational structure. The UKNF supervises professional entities to which the citizens and other institutional stakeholders have entrusted their funds and sensitive personal data. Supervised entities differ in terms of scale of business, scope of services, and degree of organisational and IT maturity. The role of the UKNF is to perform tasks effectively in a way that is as comfortable as possible for both parties. The achievement of that goal requires constant investments in the development of the organisation, processes and ICT tools. The UKNF's strategic objectives, just like statutory objectives, are the objectives of the whole organisation and will be implemented collectively. The achievement of those objectives is the task of members of the UKNF management, who set appropriate lower-level objectives for the UKNF's processes, programmes and projects, which will allow for the achievement of the strategic objectives. The UKNF will perform a cyclical evaluation of the Strategy in the first quarter of each calendar year, involving a review of the strategic objectives, challenges and requirements for the implementation of the Strategy.

The Strategy was designed as a set of strategic objectives in four interrelated perspectives: financial market, stakeholders, internal processes, and assets. The financial market perspective points to the UKNF's mission of taking care of the condition of the financial market in several dimensions, defined by statutory objectives set and assigned to the UKNF by the national and EU legislators. The stakeholders' perspective determines the values the UKNF intends to deliver and communicate to identified stakeholders from its environment. The perspective of internal processes shows what necessary changes the UKNF intends to make in its conduct and processes in order to deliver value to the financial market and the stakeholders. The perspective presents the intentions of and actions to be taken by the UKNF to increase the organisational and cost efficiency and quality of cooperation with supervised entities and other stakeholders in the financial market. The last perspective relates to assets and points to the need to change the UKNF's assets such as: people, information, technology, management, organisation, culture. It is necessary for the changes indicated in the perspective of internal processes and to deliver value to the financial market and the stakeholders.

According to the methodology adopted for each strategic objective, actions were designed as actions that must be completed by the UKNF so that the strategic objective can be achieved by the end of the term of the UKNF Strategy. The Strategy will be financed entirely through the fees and payments for the exercise of financial supervision. The implementation of the Strategy will not affect the amount of fees and payments for financial supervision as defined in the applicable legal acts.

**Chart 1. Map of the UKNF's strategic objectives in four perspectives**



Source: UKNF

## 11.2. INTRODUCTION OF A PROCESS-BASED APPROACH TO MANAGEMENT AT THE UKNF

In 2021, a process-based approach continued to be implemented at the UKNF. Training sessions were conducted for the UKNF staff, as well as workshops with each organisational unit of the UKNF. The workshops identified the processes in which organisational units participate as the main operator. Each of the identified processes was described using the Process Allocation Diagram (which presents the process in general terms: entry, exist, products, objective, stakeholders), grouped as a tactical process or strategic process, and placed in the process architecture (i.e. a set of all processes at the UKNF reflecting all activities of the UKNF). 2021 was also marked by a detailed identification of processes using Business Process Model and Notation, as well as an in-depth analysis of critical processes for the purpose of the Business Continuity Management System. During that work, information was gained about the existing IT systems and legal regulations controlling the process and participants in the process. Annual Process Parameter Sheets were developed to collect quantitative data of each process. An in-depth analysis was performed in regard to the processes of the Banking Supervision Division of the UKNF.

## 11.3. MANAGEMENT BY OBJECTIVES

Many strategic documents point to the need to strengthen the institutional potential of public administration in Poland. For that reason, the UKNF takes actions to introduce the most effective and efficient management methods, for example management by objectives. As part of the development of the management control system, in 2021 the operational scope of the system was extended. In the period covered by this report, the methodology of management by objectives was recorded, which defines the rules for setting, monitoring and enforcing short-term objectives supporting the achievement of long-term objectives, such as supervisory objectives defined in the Act on financial market supervision and the strategic objectives following from the current *Strategy of the Polish Financial Supervision Authority for the years 2021-2025*. The annual cycle of management by objectives and related processes is carried out as part of the UKNF's management control system, taking into account the specific natures of the UKNF's tasks and operational conditions and the standards laid down in the Annex to *Communication No 23 from the Minister of Finance of 16 December 2009 on the management control standards for the public finance sector* (Official Journal of the Minister of Finance 2009 No 15, item 84) and the guidelines following from the Annex to *Communication No 6 from the Minister of Finance of 6 December 2012 on detailed guidelines for the public finance sector on planning and risk management* (Official Journal of the Minister of Finance 2012, item 56). Management by objectives is used at the UKNF to build a common structure of short-term objectives for the UKNF's organisational divisions and units (Cascade of Objectives), supporting the achievement of the long-term objectives of a public finance sector unit. The achievement of the set tactical and operational objectives is monitored using measures of objectives and through the identification and monitoring of risks that may affect the achievement of those objectives. An account of the achievement of the objectives according to the 2021 cycle of management by objectives will be given by the end of February 2022.

## 11.4. ACTIONS TAKEN TO PREVENT THE RISK OF CORRUPTION AND CONFLICT OF INTEREST

In 2021, to prevent the risk of corruption and conflict of interest, the following actions were completed:

- giving opinions and advice to the UKNF employees, including assessment and preparation of recommendations concerning any doubt raised or information as part of relevant processes,
- reviewing the tasks assigned to job positions at the UKNF for probability of occurrence of the risk of corruption,
- identification of controls and their assignment to the tasks performed by specific roles, to minimise the risk of corruption at the UKNF.

In implementing the Anti-corruption guidelines for public administration, issued by the Central Anti-Corruption Bureau, in relation to uniform institutional solutions and rules of conduct for officials and persons entrusted with top executive function (PTEFs), for the years 2018-2020, in connection with the participation in the Government Anti-Corruption Programme for 2018-2020 and based on internal regulations, the UKNF conducted, for its employees, training entitled 'Corruption, ethics, conflict of interest: how to avoid the risk?', in order to raise the employees' awareness in the field of anti-corruption policies and proper management of conflicts of interest.

Online information campaigns were also conducted to support the actions of promoting the methods and rules of handling conflicts of interest and preventing corruption. The educational activities highlighting the importance of those areas at the UKNF include: 'Ethics Week', 'Anti-corruption policy, ethics, conflict of interest: key rules', and 'A gift: may I take it?', highlighting the correct attitudes and standards regarding the rules of handling conflicts of interest and fighting corruptions among the UKNF employees.

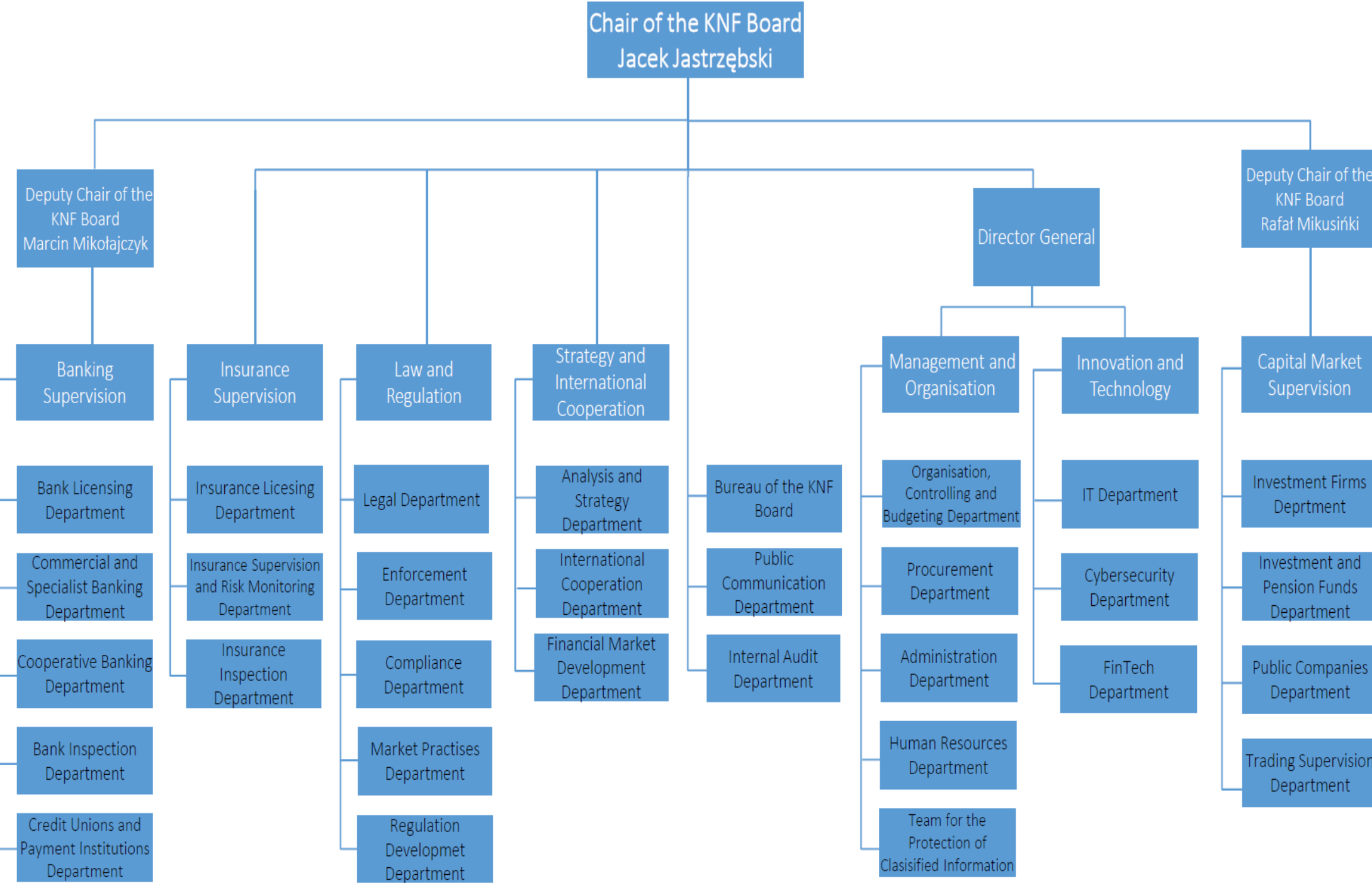
## 11.5. INTERNAL AUDIT

Internal audit is an independent and impartial activity aimed at supporting the Chair of the KNF Board in the achievement of goals and objectives through the assessment of the management control system, and providing advice. The activities carried out by the internal audit aim at bringing value and streamlining processes at the UKNF by providing advice on the shape and improvement of operation of the processes.

Internal audit is carried out by the UKNF's Internal Audit Department, which reports directly to the Chair of the KNF Board.

The role of internal audit is to provide the Chair of the KNF Board with assurance regarding the adequacy, effectiveness and efficiency of the management control system through independent and impartial risk-oriented assessment and evaluation.

Chart nr 2 – Organisational structure of the Polish Financial Supervision Authority as at 31 December 2021



## 11.6. FINANCIAL MANAGEMENT AT THE UKNF

On 1 January 2019, under the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection, the UKNF became a state legal person referred to in Article 9 point 14 of the Act of 27 August 2009 on public finance. The UKNF is responsible for providing assistance to the KNF Board and the Chair of the KNF Board. The activities of the UKNF are supervised by the President of the Council of Ministers.

The financial management at the UKNF is based on the principle of financing the operational costs of the UKNF and the KNF Board, as a rule, from payments from supervised entities. It means that, according to the assumptions, there is a balance between the planned revenue and planned costs.

The UKNF carries out financial management based on the financial plan, which is subject to a two-step approval procedure. The KNF Board adopts a draft financial plan of the UKNF, which is submitted to the President of the Council of Ministers for approval. The Financial Plan of the UKNF for 2021 was prepared for an amount which takes into account the spending needs resulting from the extended subjective and objective scope of supervision exercised by the KNF Board in recent years,

The fines imposed by the KNF Board do not represent revenue of the UKNF.

The proceeds from the fines imposed by the KNF Board pursuant to Article 138(3) point 3a and Article 141 of the Banking Law are transferred to the Bank Guarantee Fund.

The proceeds from the fines imposed by the KNF Board pursuant to Article 72 of the Act on credit unions are transferred to the stabilisation fund kept by the National Association of Credit Unions.

The issue of allocation of the proceeds from a fine imposed under Article 151(1) point 3 of the AML Act is resolved by the provision of Article 155 of that Act, which stipulates that 'the proceeds from fines shall constitute revenue of the Stage budget'.

The other proceeds from the fines imposed by the KNF Board under Article 19e of the Act on financial market supervision constitute the funds of the Financial Education Fund.

In the Financial Plan of the UKNF for 2021, the operating costs and the income to pay such costs were planned in the following amounts:

Total income:	PLN 460 839 thousand
– including: payments from supervised entities:	PLN 441 079 thousand
Total costs:	PLN 450 220 thousand

Tables 83 and 84 show the plan and execution of income and costs realised in 2020 and 2021 (on accrual basis).

**Table 83. Execution of the UKNF's plan of income in the years 2020 and 2021**

	Income	2020 plan	Execution of the 2020 plan		2021 plan	Execution of the 2021 plan		Plan for 2021 compared to 2020	Execution for 2021 compared to 2020
			(on accrual basis)			(on accrual basis)			
		(in PLN thousand)	(in PLN thousand)	(in %)	(in PLN thousand)	(in PLN thousand)	(in %)	(in %)	(in %)
1	2	6	4	5	6	7	8	9	10



	Payments from insurance undertakings to cover the costs of supervision of the insurance and brokerage businesses	62 655	64 142	102%	79 389	78 198	98%	127%	122%
	Payments from general pension societies to cover the costs of supervision of the activities of open pension funds	14 726	12 772	87%	18 639	22 309	120%	127%	175%
	Payments from capital market entities to cover the costs of supervision	100 415	73 428	73%	96 272	73 740	77%	96%	100%
	Payments from banking market entities (commercial banks, cooperative banks, credit unions, BUP, mortgage credit intermediaries, KIP, MIP)	212 816	173 365	81%	246 779	227 851	92%	116%	131%
	<b>Income from payments to cover the costs of supervision</b>	<b>390 612</b>	<b>323 708</b>	<b>83%</b>	<b>441 079</b>	<b>402 098</b>	<b>91%</b>	<b>113%</b>	<b>124%</b>
	Fees collected for activities related to exams and improving professional qualifications	1 000	422	42%	1 000	578	58%	100%	137%
	Fines imposed on supervised entities	0	0		0	0			
	Other	16 083	22 077	137%	18 760	33 741	180%	117%	153%
	<b>Other income</b>	<b>17 083</b>	<b>22 499</b>	<b>132%</b>	<b>19 760</b>	<b>34 319</b>	<b>174%</b>	<b>116%</b>	<b>153%</b>
	<b>Total income</b>	<b>407 695</b>	<b>346 206</b>	<b>85%</b>	<b>460 839</b>	<b>436 417</b>	<b>95%</b>	<b>113%</b>	<b>126%</b>

Source: UKNF

The main part of income shown in Table 83 were the payments made by supervised entities to cover the costs of supervision in the amount of PLN 402 098 thousand. Income other than income from payments for the costs of supervision was executed in the amount of PLN 34 219 thousand.

Table 84 shows the breakdown of the UKNF's costs into costs related to remuneration (together with related contributions) and non-wage costs, including costs of depreciation of fixed assets and amortisation of intangible assets.

**Table 84. Execution of the UKNF's plan of costs in the years 2020 and 2021**

Budgetary costs	2020 plan	Execution of the 2020 plan		2021 plan	Execution of the 2021 plan		Plan for 2021 compared to 2020	Execution for 2021 compared to 2020
	(in PLN thousand) after changes	(in PLN thousand)	(in %)	(in PLN thousand) after changes	(in PLN thousand)	(in %)	(in %)	(in %)
1	5	6	7	5	6	7	8	9
Costs relating to remuneration, including charges and derivatives for remuneration	232 609	208 730	90%	254 811	233 340	92%	110%	112%
Non-wage costs, including:	158 003	145 367	92%	195 409	163 308	84%	124%	112%
- <i>overhead costs</i>	142 003	125 670	88%	170 409	132 657	78%	120%	106%
- <i>property costs</i>	16 000	19 696	123%	25 000	30 651	123%	156%	156%
<b>Total</b>	<b>390 612</b>	<b>354 096</b>	<b>91%</b>	<b>450 220</b>	<b>396 648</b>	<b>88%</b>	<b>115%</b>	<b>112%</b>

Source: UKNF

Table 85 shows the breakdown of costs of supervision of individual markets into indirect and indirect costs.

**Table 85. Breakdown of costs of supervisions into direct and indirect costs in the years 2020-2021 (in PLN thousand) in comparative terms**

Name of the market	2020				2021			
	plan after changes	execution	including:		plan after changes	execution	including:	
			direct costs of supervision	indirect costs of supervision*			direct costs of supervision	indirect costs of supervision*
1	2	3	4	5	6	7	8	9
Capital market**	122 457	102 117	57 110	45 007	121 064	111 929	57 989	53 940
Insurance market**	60 818	59 929	26 903	33 026	77 573	73 809	32 719	41 090
Pension market	14 726	18 395	10 793	7 602	18 639	15 495	6 573	8 922
Banking market, including:	192 611	173 655	76 113	97 542	232 944	195 415	85 913	109 502
- banks**	179 561	161 889	70 956	90 933	229 031	191 774	84 313	107 461
- payment services offices	1 903	1 716	752	964	955	582	255	327
- domestic payment institutions	5 462	4 924	2 158	2 766	466	504	221	283
- credit unions	3 449	3 110	1 363	1 747	1 444	980	431	549
- mortgage credit intermediaries	2 019	1 820	798	1 022	978	1 214	534	680
- small payment institutions	217	196	86	110	70	361	159	202

- domestic electronic money institutions	0	0	0	0	0.00	0.17	0.08	0.10
- account information service providers	0	0	0	0	0.00	0.10	0.04	0.06
<b>Total</b>	<b>390 612</b>	<b>354 096</b>	<b>170 919</b>	<b>183 177</b>	<b>450 220</b>	<b>396 648</b>	<b>183 194</b>	<b>213 454</b>

Source: UKNF

\* Administrative costs

\*\* 18% of capital market costs are borne by banks and the insurance market, respectively: 16.5% and 1.5%.

The breakdown of the operating costs of the UKNF and the KNF Board incurred in 2021, divided into areas of supervision defined in Article 1(2) of the Act on financial market supervision, and the administrative costs is presented in Annex 12.9.

In accordance with the Regulation of the Minister of Finance of 13 June 2017 on detailed manner, mode and dates for preparing materials for the draft Budget Act, the UKNF 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 2021, in line with the 'Catalogue of functions, tasks, sub-tasks and activities for 2021', is PLN 450 220 thousand. The performance-based budget system of the UKNF is presented in Table 86.

**Table 86. Execution of the financial plan in 2021 by task (in PLN thousand)**

Item	Name of the function/task/sub-task/action	Plan for 2021 after changes	Execution of the plan as at 31 December 2021
<b>4.</b>	<b>Management of State finances</b>	<b>450 220</b>	<b>396 648</b>
4.3.	Supervision of the financial market	450 220	396 648
4.3.2.	Supervision of the financial market	450 220	396 648
4.3.2.1.	Supervision of the capital market	121 064	111 929
4.3.2.2.	Supervision of the insurance market	77 573	73 809
4.3.2.3.	Supervision of the pension market	18 639	15 495
4. 3.2.4.	Supervision of the banking market	232 944	195 415

Source: UKNF

### 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) at 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 affecting the amount of dedicated resources,
- conducting administrative proceedings consisting in the examination of applications submitted by the supervised entities and issuing decisions which were proceeded depending on the complexity of a case and the quality and completeness of documentation submitted by a party.

The following measures were used to monitor the performance of task 4.3.:

- the number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities. The measure was planned at the level of 93%.
- the number of completed inspection proceedings at 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 2021, and the values reached were 105% and 103%, respectively.

The high values of performance measures result from the conclusion, in 2021, of proceedings initiated in 2020. 2020 was a particularly difficult year due to the outbreak of the COVID-19 pandemic, the related restrictions and changes thereof. However, this year the UKNF managed to develop an appropriate model of work and methods of cooperation with supervised entities, which contributed to the completion, in 2021, of the proceedings initiated in 2020 and allowed to execute the plan for 2021 in most cases.

Table 87 shows the planned and achieved values of measures at the level of activities (concerning individual markets) and sub-tasks.

**Table 87. Classification of the performance-based budget: actual measures in 2021**

Item	Name of the function/task/sub-task/action	Objective	Measure			
			Name	2021		
				Plan	Plan after changes	Actual measure
<b>4.</b>	<b>Management of State finances</b>					
4.3.	Supervision of the financial market	Ensuring compliance of proceedings of supervised entities with financial market regulations and protection of the interests of financial market participants	Number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting such proceedings submitted by the supervised entities (in %)	93	93	105

			Number of completed inspection proceedings at supervised entities in relation to the number of planned inspection proceedings (in %)	100	100	103
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	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 (in %)	93	93	105
			Number of completed inspection proceedings at supervised entities in relation to the number of planned inspection proceedings (in %)	100	100	103
4.3.2.1.	Supervision of the capital market	Ensuring compliance of proceedings of supervised entities with capital market regulations and protection of the interests of capital market participants	Number of completed administrative proceedings related to the capital market in relation to the number of requests for conducting such proceedings submitted by supervised entities (in %)	90	90	103
			Number of completed inspection proceedings at supervised entities in relation to the number of planned inspection proceedings (in %)	100	100	121

4.3.2.2.	Supervision of the insurance market	Ensuring compliance of proceedings of supervised entities with insurance market regulations and protection of the interests of insurance market participants	Number of completed administrative proceedings related to the insurance market in relation to the number of requests for conducting such proceedings submitted by supervised entities (in %)	90	90	99
			Number of completed inspection proceedings at supervised entities in relation to the number of planned inspection proceedings (in %)	100	100	100
4.3.2.3.	Supervision of the pension market	Ensuring compliance of proceedings of supervised entities with pension market regulations and protection of the interests of pension market participants	Number of completed administrative proceedings related to the pension market in relation to the number of requests for conducting such proceedings submitted by supervised entities (in %)	91	91	105
			Number of completed inspection proceedings at supervised entities in relation to the number of planned inspection proceedings (in %)	100	100	0
4.3.2.4.	Supervision of the banking market	Ensuring compliance of proceedings of supervised entities with banking market regulations and protection of the interests of banking market participants	Number of completed administrative proceedings related to the banking market in relation to the number of requests for conducting such proceedings submitted by supervised entities (in %)	95	95	106

			Number of completed inspection proceedings at supervised entities in relation to the number of planned inspection proceedings (in %)	100	100	97
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Source: UKNF

The execution of the Financial Plan of the UKNF, which forms Annex No 14 to the Budget Act, is audited annually by the Supreme Audit Office. The annual financial statements of the UKNF are reviewed by an audit firm selected by the President of the Council of Ministers. The UKNF's annual financial statements drawn up by the KNF Board are submitted, together with the audit report, to the President of the Council of Ministers for approval. The approved financial statements of the UKNF are then submitted to the minister competent for financial institutions.

## 11.7. PUBLIC PROCUREMENT

All current and asset expenses at the UKNF are executed in accordance with the Public Procurement Plan, pursuant to the provisions of the Public Procurement Law and in accordance with the UKNF's internal regulations on public procurement. In 2021, the UKNF signed 60 public procurement contracts under the procedures provided for by the Public Procurement Law, including: 33 delivery contracts, 26 service contracts, and 1 social service contract.

**Table 88. Number of awarded public procurement contracts in 2021 by type of procedure**

Type of procedure	Number of awarded public procurement contracts
Open tender with a contract value exceeding the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Law	14
Open tender with a contract value lower than the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Law	15
Open tender procedure, under Article 132 of the Public Procurement Law	9
Basic procedure, under Article 275 point 1 of the Public Procurement Law	18
Basic procedure, under Article 275 point 1 in conjunction with Article 359 point 2 of the Public Procurement Law	1
Direct contract pursuant to Article 214(1) point 1(a) and (b) of the Public Procurement Law	3
<b>Total number of public procurement contracts awarded under the procedures provided for by the Public Procurement Law in 2021</b>	<b>60</b>

Source: UKNF

## 11.8. MANAGEMENT OF HUMAN RESOURCES

In 2021, the activities undertaken in the area of management of human resources focused on ensuring appropriate resources for the purpose of supervisory tasks and business continuity at the UKNF at the time of the epidemic threat and hybrid work mode. The activities involved planning, acquisition and allocation of human resources in the UKNF's organisational structure, and the process of managing the funds for employees' remuneration, finance management at the UKNF in relation to the remuneration fund, the payment of monetary benefits under social insurance in the case of sickness and maternity, financial settlements with the Social Insurance Institution, settlements with the Tax Office, reporting on remuneration and financial management of EU Twinning Projects, as well as preparation of IT systems for the changes in the rules for collection of advance personal income tax payments under the Act of 29 October 2021 amending the Act on personal income tax, the Act on corporate income tax, and certain other acts. A challenge in the context of ensuring the resources was the HR and organisational support in the mediation procedures carried out at the Mediation Centre of the Arbitration Court attached to the KNF Board for amicable resolution of disputes concerning loans denominated in or indexed to a currency other than the Polish currency. That involved recruitment of many mediators, changes in the organisation of the working time, and changes in the settlement of remuneration for completed mediations. A major project executed in 2021 was the implementation of Employee Capital Plans: 70% of all employees participated in the programme.

The UKNF's employment plan for 2021 was 1 437 jobs. The employment level as at 31 December 2021 amounted to 1 332.73 jobs (excluding substitution agreements). The fluctuation rate in 2021 was 9%. For comparison, in the years 2017-2020, it was: 10.99%, 12.87%, 11.48%, and 7.26%, respectively.

Over the year, 100 recruitment projects were initiated, which resulted in the employment of 196 new staff members. The recruitment procedures were launched to fill the vacancies as they occurred. The HR management was handled under procedures for work organisation and circulation of documents in the hybrid work mode.

In the area of training and development activities in 2021, the incentive analysis continued using the MAPP3 methodology for specific groups of employees, and new training initiatives were launched as part of 333 (external and internal) group training courses on 88 topics. As regards the topics, most training courses were specialised courses, mainly in the area of financial markets: capital, banking and insurance markets, as well as legal issues. Similarly as last year, training projects were also carried out in the area of 'soft' skills, e.g.: change management, work-life balance, professional customer service. Employees completed obligatory training on the prevention of corruption and on occupational health and safety. As a result of the ongoing assessment of training needs, the group training processes were supported by individual training courses. In 2021, 645 participants attended the courses; all courses took place in Poland. Due to the pandemic, individual training courses planned to be held abroad were not carried out. Overall, 7 890.06 training 'man-days' were completed in 2021.

**Table 89. Number of training 'man-days' in the years 2018-2021**

2018	2019	2020	2021
5441,03	2836,91	3620,86	7890,06

Source: UKNF

The attendance rate was 6.06, which corresponds to an average of 48 hours per employee. For comparison, the rate in 2020 was: 3.1 training day, i.e. an average of nearly 25 training hours per employee.

Due to the global pandemic, training projects were carried out mainly in the remote mode, so the employees had access to extensive expertise while maintaining the sanitary regime.



Despite the ongoing pandemic, human resources tasks were carried out without disruption. It was also possible to carry out initiatives to improve the organisation and supervision of work, such as the implementation of an electronic attendance list, or the preparation of a draft amendment to the UKNF's Staff Regulation, including, *inter alia*, its adaptation to the current provisions of labour law, the extension of the reference period of working time and provisions on the organisation of work processes and management functions.

## 11.9. ACTIVITIES AIMED AT IMPROVING THE SYSTEM FOR SECURITY AND PROTECTION OF CLASSIFIED INFORMATION AT THE UKNF

1. The Occupational Health and Safety Commission was appointed to assist the Chair of the KNF Board in ensuring health and safety at the UKNF. In 2021, the Commission participated in activities aimed at updating the procedures for occupational risk assessment.
2. Updated were made to the procedures concerning:
  - the functioning of the occupational health and safety service at the UKNF,
  - providing fire safety equipment and implementing fire safety manuals for the UKNF's facilities,
  - the rules to be followed in case of evacuation during the occurrence of an epidemic threat, adapting the procedure to the adopted model of work organisation,
  - the rules to be followed in case of attempt on life, health or freedom of the UKNF employees,
  - rules to be followed in case of receiving a package from an unknown source.
3. Cyclical online training courses were provided to the newly hired employees on: occupational health and safety, fire protection, information security, physical security, cybersecurity, and biological hazards in the form of SARS-CoV-2.
4. Employees of the UKNF were provided with an e-learning course on the procedures to be followed in case of an event that poses a threat to the life and health of individuals.
5. A series of tasks were continued in the area of prevention of COVID-19 at the UKNF, to ensure employees' safety and maintaining the continuity of the UKNF's processes.
6. A flexible hybrid work model was introduced. Work stations and office spaces were adapted to the current sanitary rules.
7. An information campaign was carried out to encourage vaccination against COVID-19.
8. For over 6 months, 45 employees of the UKNF provided assistance to the public via the helpline of the Chief Sanitary Inspectorate on the coronavirus. They handled approx. 40 400 calls.
9. Online training courses on first aid, fire protection, and evacuation were provided to designated employees.
10. Security of information processed at the UKNF was continuously ensured, for example by upgrading the protection system and updating documentation regarding the protection of classified information.
11. The UKNF continued its ongoing cooperation with the National Crime Information Centre (PL: Krajowe Centrum Informacji Kryminalnych – KCIK).
12. The UKNF fulfilled the obligation arising from Articles 41a and 47 of the Act on the organisation and operation of pension funds.

## 11.10. TASKS IMPLEMENTED IN THE FIELD OF SECURITY AND PROTECTION OF INFORMATION PROCESSED AT THE UKNF

The tasks performed in the field of protection of personal data processed by the UKNF and the KNF Board included, in particular, the activities which fulfilled the obligations arising from the provisions of generally applicable law, e.g.: reviewing requests from data subjects, and

exercising their rights where it was justified by the applicable laws, issuing internal documents concerning personal data protection, including policies and procedures, preparing guidelines on the fulfilment of information obligations, reviewing any new contracts and agreements for compliance with personal data protection requirements. This area at the UKNF is the responsibility of a specialised team and the Data Protection Officer.

## 11.11. TASKS IN THE AREA OF CYBERSECURITY

The activities in question aim to ensure high level of cybersecurity at the UKNF.

The internal cybersecurity tasks include:

- supervision and monitoring of ICT security systems,
- security audits of ICT systems (security audits of the UKNF applications and systems available in the internal network and from the public network),
- detection of vulnerabilities in the UKNF's ICT systems,
- implementation and operation of ICT security systems,
- adopting measures following the introduction of CRP alerts (CRP – cyberspace of the Republic of Poland),
- raising awareness of employees in the area of cybersecurity through cyclical training courses on cyberthreats and distribution of information about threats.

## 11.12. COMPLAINTS ABOUTS THE ACTIVITY OF THE UKNF AND THE CONDUCT OF EMPLOYEES OF THE UKNF, AND THE UKNF'S MEASURES TO STRENGTHEN THE ETHICAL STANDARDS FOR ITS EMPLOYEES

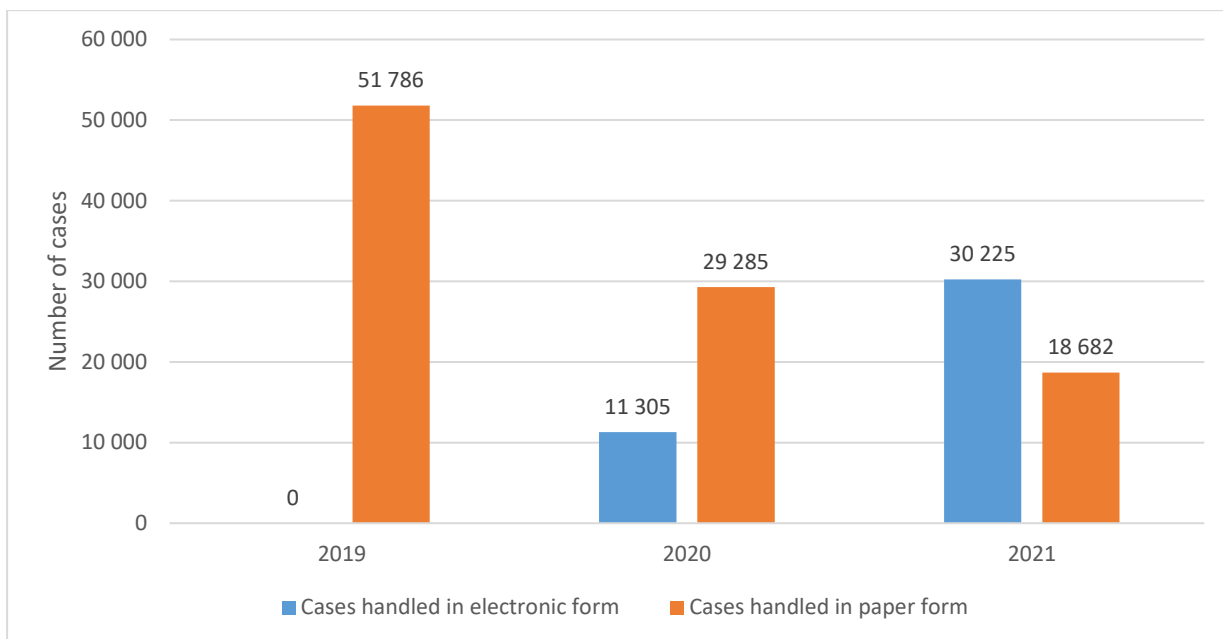
As regards complains about the activity of the UKNF and the conduct of employees of the UKNF, 31 complaints were received in 2021, of which 30 were reviewed and handled, and 1 was outside the remit of the UKNF. Compared to the previous reporting period, the number of incoming complaints decreased by nearly 20%.

In 2021, activities were also carried out to strengthen the ethical standards for employees of the UKNF. The first ever Ethics Week took place at the UKNF, an educational and awareness-raising event for the employees regarding the principles of ethics and related regulations. The educational activities highlighting the importance of that area at the UKNF include: 'Ethics Week', and 'Anti-corruption policy, ethics, conflict of interest: key rules',. Information campaigns were also conducted in relation to the internal whistleblowing system, through which every employee of the UKNF has the opportunity to report any irregularity.

## 11.13. DIGITISATION OF DOCUMENTS AT THE UKNF

In 2021, work was underway to strengthen the electronic circulation of documents at the UKNF. In the period covered by this report, 30 225 cases were handled electronically, and 18 682 cases – in paper form. The share of electronic cases in 2021 was 62%. The respective share in 2020 was 28%, and in 2019 all cases were handled exclusively in paper form.

**Diagram 42. Share of cases handled in electronic and paper form at the UKNF in the years 2019-2021**



Source: UKNF

At the end of 2021, the migration to electronic procedures took place in 87% organisational units, in which 97% of cases are handled electronically.

## 12. ANNEXES

ANNEX 12.1. INFORMATION ABOUT RESOLUTIONS, ADMINISTRATIVE FINAL AND INTERIM DECISIONS ISSUED BY THE KNF BOARD AND ON THE BASIS OF AUTHORISATION FROM THE CHAIR OF THE KNF BOARD, AND INTERIM DECISIONS TO INITIATE *EX OFFICIO* PROCEEDINGS OR TO EXTEND THE SCOPE OF THE PROCEEDINGS – UNDER ARTICLE 13 OF THE ACT ON CAPITAL MARKET SUPERVISION, ISSUED IN 2021

**Table 12.1.1. Number of resolutions adopted by the KNF Board in 2021**

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 in the form of a joint-stock company	8
approval of, or refusal to approve, the appointment of the president of the management board of a cooperative bank	57
approval of the appointment or delegation of the function of a member of the management board supervising the management of material risks in the activity of a bank operating as a joint-stock company	7
approval of the appointment or delegation of the function of a member of the management board supervising the management of material risk in the activity of a cooperative bank	5
approval of a merger or take-over of cooperative banks	23
approval of, or refusal to approve, the recovery plan/group recovery plan of a bank operating as a joint-stock company	20
approval of, or refusal to approve, the recovery plan of a cooperative bank	8
approval of a group recovery plan of an institutional protection system	2
imposition of a fine on a bank operating as a joint-stock company	1
imposition of a fine on a cooperative bank	1
examination of an application for a review of a case	3
repeal of a final decision, in whole, to approve the establishment of a bridge institution	2
appointment of a curator, dismissal and designation of a curator at a bank operating as a joint-stock company	2
initiation of proceedings in respect of appointment of a curator, appointment of a curator, dismissal and designation of a curator at a cooperative bank	6
assigning a SREP score to a bank operating as a joint-stock company	1
assigning a SREP score to a cooperative bank	2
statement of no grounds for objecting to the planned acquisition of shares in a bank	1
publication of information	1
other	22
<b>Total:</b>	<b>172</b>
<b>Matters concerning the pension sector</b>	
approval of appointment of a member of the management board of a general pension society or member of the management board of an occupational pension society	4
approval of an amendment to the articles of association of a general pension society, open pension fund, occupation pension fund, or voluntary pension fund	31
authorisation to shorten the deadline for entry into force of amendments to the articles of association of an open pension fund or voluntary pension fund	25
granting authorisation to acquire shares in a general pension society	1
other	1
<b>Total:</b>	<b>62</b>
<b>Matters concerning the insurance sector</b>	

approval of appointment of a president of the management board of an insurance undertaking	15
approval of appointment of a member of the management board of an insurance undertaking responsible for risk management	10
imposition of a fine on the insurance undertaking	7
examination of an application for a review of a case	3
statement of no grounds for objecting to the acquisition of shares in a domestic insurance undertaking, shares or merger of insurance undertakings	11
other	5
<b>Total:</b>	<b>51</b>
<b>Matters concerning the capital sector</b>	
granting authorisation to withdraw shares from trading on a regulated/alternative market	13
granting or repeal of authorisation to conduct brokerage activities	3
imposition of fines on entities (investment fund management companies, issuers, shareholders being legal persons, investment firms, depositaries of investment funds, and other capital market entities)	10
imposition of fines on natural persons	16
examination of an application for a review of a case	25
statement of no grounds for objecting to the planned acquisition of shares in an investment fund management company, or shares in a brokerage house	7
statement of no objections to the planned acquisition of shares in a brokerage house	1
publication of information	47
other	13
<b>Total:</b>	<b>135</b>
<b>Matters concerning the payment service sector</b>	
authorisation to provide payment services as a domestic/small payment institution	3
statement of no grounds for objecting to the acquisition of shares, shares in a domestic payment institution	8
examination of an application for a review of a case	2
Other	3
<b>Total:</b>	<b>16</b>
<b>Matters concerning the sector of credit unions</b>	
approval of appointment of a president of the management board of a credit union	2
approval of merger with another credit union	3
Other	6
<b>Total:</b>	<b>11</b>
<b>Other matters</b>	
Report on the activities of the KNF Board	1
Draft Financial Plan of the UKNF	2
other	6
<b>Total:</b>	<b>9</b>
<b>TOTAL</b>	<b>456</b>

Source: UKNF

**Table 12.1.2. Number of final and interim decisions issued in 2021 on the basis of authorisation granted by the KNF Board and by the Chair of the KNF Board**

Subject-matter of final and interim decisions	Number of final and interim decisions issued
<b>Matters concerning the banking sector</b>	
authorisation to include profit for a given period in the core Tier 1 capital	13
authorisation to classify the issued shares to the core Tier 1 capital	3
authorisation to reduce own funds	434
authorisation to reduce own funds – prior consent	38

authorisation to classify liabilities arising from the financial instruments issued by a bank as Tier I capital	56
authorisation to classify cash of a bank gained from the issue of long-term bonds and subordinated loans as instruments to the Tier 2 capital	8
authorisation of early redemption of bonds	4
application of internal (IRB and AMA) approaches and/or significant changes/extensions in those approaches	4
discontinuance of proceedings	22
refusal to initiate proceedings	4
recommendation to a bank to maintain an additional own funds requirement in accordance with Article 138(2) point 2 of the Banking Law	14
authorisation of early return of the funds deriving from a subordinated loan included in the Tier 2 capital	4
approval of the exemption from the obligation to provide the Polish translation of financial statements of the parent company	3
authorisation to entrust performance, by business owners indicated in the decision, of activities other than those specified in Article 6a(1) point 1(a-l) of the Banking Law for and on behalf of a bank	15
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	28
decision on the expiration of a final decision on the recommendation to maintain own funds for covering additional capital requirement to safeguard against the risk resulting from foreign-currency mortgage-backed loans	1
agreement to an opt-out from the requirements set out in Article 113(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms	1
approval of the rules for establishing the mortgage lending value of real property	1
authorisation to amend the articles of association of a bank operating as a joint-stock	28
authorisation to amend the articles of association of a cooperative bank	279
discontinuance of proceedings in respect of authorisation to amend the articles of association of a bank operating as a joint-stock company	2
discontinuance of proceedings in respect of authorisation to amend the articles of association of a cooperative bank	16
appointment of a trustee or deputy trustee at a mortgage bank	5
discontinuance of proceedings in respect of appointment/delegation of functions of a member of the management board supervising the management of material risk in the activity of a bank	9
authorisation to open a representative office of a credit institution	1
indication of conditions to be met by a branch of a credit institution in the interest of the general good when pursuing a business	1
authorisation of a newly established bank to carry on business	1
authorisation of a branch of a foreign bank to carry on business	1
authorisation to combine the risk committee and the audit committee	1
authorisation to perform an additional function of a member of a supervisory board, or discontinuance of proceedings in that respect	2
other final or interim decisions in licensing proceedings	22
initiation of <i>ex officio</i> administrative proceedings	6

exemption of BGK from the obligation to comply with the prudential requirements for the formation of groups of connected clients referred to in Article 4(1) point 39 of Regulation (EU) No 575/2013 and in the acts adopted under that Regulation, with participation of the central government by excluding the central government (Article 3(1e) of the Act of 14 March 2003 on Bank Gospodarstwa Krajowego (BGK) in conjunction with Article 4(1) point 39 of Regulation (EU) No 575/2013 of the European Parliament and of the Council	2
authorisation to apply the 100% liquidity coverage ratio in relation to undrawn portion of a credit facility pursuant to Article 34(1) of Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for credit institutions	3
approval of the total exemption from the limitation of recognition of liquidity inflows to 75% of total liquidity outflows for undrawn portion of a credit facility pursuant to Article 33(2)(a) of Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for credit institutions	1
strong customer authentication (SCA) (under Article 17(6) of Regulation (EU) No 537/2014 of the European Parliament and of the Council)	1
final decisions issued under Article 17 of Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication	1
interim decision on the postponement of the deadline for supplementing the recovery plan by one month	8
complete discontinuance of proceedings initiated at the request of a bank of 20 May 2020 in respect of granting a waiver from the measures set out in the bank's recovery plan	1
complete exemption from the requirement laid down in Article 11(3) of EMIR, i.e. the requirement on a timely, accurate and appropriately segregated exchange of collateral – for intra-group transactions – in relation to over-the-counter (OTC) derivative contracts	1
granting exemption from a bank's obligation to establish contingency mechanisms described in Article 33(4) of Commission Delegated Regulation (EU) 2018/389 of 27 November 2017	2
recognition by the KNF Board that a bank's system guarantees a level of security equivalent at least to the level provided for in Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC	1
interim decision supplementing the evidence in ongoing administrative proceedings	1
interim decision on the refusal to admit evidence in ongoing administrative proceedings	1
interim decision on the refusal to refer a case for mediation	1
a call to the principal shareholder to recapitalise a bank in accordance with the assumed investment obligation	3
warnings addressed to a supervised entity	3
recommendations on netting agreements concluded by the bank	1
recommendations on dividend policy	47
other final and interim decisions	50
<b>Total</b>	<b>1 155</b>
<b>Matters concerning the sector of credit unions</b>	
approval of an amendment to the articles of association of a credit union	6

discontinuance of administrative proceedings in respect of approval of appointment of a president of the management board of a credit union	1
discontinuance of proceedings in respect of appointment of a commissioned administrator	1
limitation of the scope of reporting	1
<b>Total</b>	<b>9</b>
<b>Matters concerning the payment service sector</b>	
continuation of inspection activities following a review of an objection raised by a domestic payment institution to the initiation and conduct of inspection activities by the inspection body	3
suspension or institution of proceedings in respect of granting or amending an authorisation to provide payment services as a domestic payment institution	3
discontinuance of administrative proceedings in respect of granting or amending an authorisation to provide payment services as a domestic payment institution	5
discontinuance of proceedings in respect of a prohibition on providing services as a payment services office or imposition of a penalty on a payment services office	92
<b>Total</b>	<b>103</b>
<b>Matters concerning the insurance sector</b>	
final decision on the repayment of a subordinated loan	2
final decision pursuant to Article 11(6) of Regulation (EU) No 648/2012 of the European Parliament and of the Council	1
approval of a realistic short-term finance scheme	1
authorisation to disclose one report on the solvency and financial condition of a group	1
discontinuance of proceedings	6
setting a new date to deal with the case	79
approval of amendments to the articles of association of an insurance undertaking	13
entry in the register of actuaries	5
authorisation to conduct brokerage in the area of insurance	52
authorisation to conduct brokerage in the area of reinsurance	3
withdrawal of authorisation to conduct brokerage in the area of insurance	30
withdrawal of authorisation to conduct brokerage in the area of reinsurance	1
notice of initiation of administrative proceedings	35
other	24
<b>Total</b>	<b>253</b>
<b>Matters concerning the pension sector</b>	
authorisation to appoint a member of the supervisory board of a general pension society	6
authorisation to amend the agreement on the safekeeping of assets of an open pension fund	1
granting an exemption from the prohibition on affiliated entities holding shares in more than one general pension society	1
approval of a merger of target-date voluntary pension funds	8
registration of an occupational pension scheme	30
entry of changes to an occupational pension scheme in the register	194
removal of an occupational pension scheme from the register	52
removal of an annotation about an employer's participation in an inter-company occupational pension scheme	4



resumption of suspended proceedings	3
suspension of proceedings	2
discontinuance of proceedings	6
interim decisions in the course of proceedings	2
extension of the time for removal of formal defects/irregularities	24
setting a new date to deal with the case	58
approval of the report on activities of KDPW S.A. in respect of management of the Guarantee Fund for 2020	1
authorisation to extend the deadline for adjusting investment activity of an open pension fund	2
<b>Total</b>	<b>394</b>
<b>Matters concerning the capital and commodity markets</b>	
approval of a prospectus	27
approval an annex to a prospectus	59
suspension of administrative proceedings	35
initiation of administrative proceedings	10
discontinuance of administrative proceedings	83
correction of an obvious error	2
imposition of fines on entities (issuers, shareholders being legal persons, investment firms)	2
imposition of fines on natural persons	14
authorisation to keep registers or accounts of commodities	3
withdrawal of authorisation to keep registers or accounts of commodities	3
amendment to an authorisation to keep registers or accounts of commodities	1
refusal to consider an application for administrative hearing	1
refusal to consider requests to provide evidence	7
refusal to suspend the enforcement of a final decision	7
refusal to supplement a final decision	2
repeal of a final decision	16
demand to suspend trading in shares of a public company	20
demand to amend a notice pursuant to Article 78(1) of the Act on public offering	1
upholding an interim decision refusing on initiate proceedings	1
refusal to initiate administrative proceedings	3
inadmissibility of an application for a review of a case	1
refusal to give consent	1
declaring a final decision to be expired	3
authorisation to merge internally two sub-funds of an open-end investment fund or a specialised open-end investment fund	18
authorisation to convert a fund into a sub-fund of an existing fund with sub-funds	1
authorisation to manage securitised claims of a securitisation fund	1
authorisation to act as an intermediary in the disposal and repurchase of shares or participation units	1
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	65
authorisation to establish a public closed-end investment fund, which corresponds to the approval of a prospectus for investment certificates	4
authorisation to amend the articles of association of a closed-end investment fund, and approval of a prospectus for investment certificates	4

authorisation to set up a specialised open-end investment fund	1
approval of a prospectus for investment certificates of a closed-end investment fund	9
approval of a supplement to a prospectus for investment certificates of a closed-end investment fund	30
entry on the list of investment advisers	32
removal from the list of investment advisers	1
entry on the list of securities brokers	57
entry in the register of tied agents	15
removal of an investment firm's tied agent	9
amendment to a final decision	1
approval of appointment of a member of the management board of an investment fund management company supervising the risk management system	48
approval of appointment of a member of the management board of an investment fund management company responsible for decision making	49
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 management of alternative investment funds	1
approval of appointment of a member of the management board of a brokerage house supervising the risk management system	3
approval of appointment of a president of the management board of a brokerage house	2
refusal to suspend the enforcement of a final decision	1
dividing a fine into instalments	1
objection to a transfer of authorisation to conduct brokerage business from a brokerage house to a commercial bank	1
approval of an updated recovery plan of a brokerage house	4
authorisation of limitation of information in a recovery plan of a brokerage house	1
authorisation to reduce Common Equity Tier 1 instruments of a brokerage house	1
authorisation to repay subordinated liabilities	1
authorisation to exceed the concentration limit	2
approval of the Rules of KDPW S.A. or approval of amendments thereto	5
granting authorisation to extend the scope of activities of a central securities depository	1
approval of amendments to the rules for settling transactions of KDPW_CCP S.A. or the rules of a compensation fund	2
an interim decision on the opinion of the NBP	6
consent to the extension of the time limit for applying for admission of investment certificates to trading on a regulated market	1
removal from the register of AICMs	9
refusal to issue a certificate	2
initiation of administrative proceedings in respect of removal from the register of AICMs	2
approval of amendments to the rules of a company operating a commodity exchange	2
approval of amendments to the articles of association of a company operating a commodity exchange	1
approval of amendments to the rules of a company operating a regulated market	2

approval of changes in the composition of the management board of a company operating a regulated market	1
approval of amendments to the articles of association of a company operating a regulated market	1
other	7
<b>Total</b>	<b>708</b>
<b>Matters concerning mortgage credit intermediaries</b>	
authorisation to carry on business as a mortgage credit intermediary and entry in the register of credit intermediaries (in Section I)	96
withdrawal of authorisation to carry on business as a mortgage credit intermediary and removal from the register of credit intermediaries (from Section I)	26
discontinuance of proceedings in respect of authorisation to carry on business as a mortgage credit intermediary	1
<b>Total</b>	<b>123</b>
<b>Matters concerning consumer credit intermediaries</b>	
refusal to enter a consumer credit intermediary in the register of credit intermediaries	1
<b>Total</b>	<b>1</b>
<b>Matters concerning other areas</b>	
Other	5
<b>Total</b>	<b>5</b>
<b>TOTAL</b>	<b>2 751</b>

Source: UKNF

**Table 12.1.3. Number of interim decisions to initiate ex officio proceedings or to extend the scope of proceedings – under Article 13 of the Act on capital market supervision, issued in 2021**

Subject-matter of the interim decision	Number of interim decisions
initiation of <i>ex officio</i> administrative proceedings	78

Source: UKNF

**Table 12.1.4. Number of final administrative decisions issued by the Chair of the KNF Board in 2021**

Subject-matter of the final decision	Number of final decisions
on the refusal to provide public information	48

Source: UKNF

**ANNEX 12.2. ISSUERS WHOSE PROSPECTUSES WERE APPROVED BY THE KNF BOARD IN 2021 AND CLOSED-END PUBLIC INVESTMENT FUNDS WHOSE PROSPECTUSES WERE APPROVED BY THE KNF BOARD IN 2021**

**Table 12.2.1. Issuers whose prospectuses were approved by the KNF Board in 2021**

<b>Item</b>	<b>Issuer</b>	<b>Date</b>
1.	PragmaGO SA	15 January 2021
2.	Huuuge Inc.	26 January 2021
3.	Pekao Bank Hipoteczny SA	12 February 2021
4.	MCI Capital ASI SA	11 March 2021
5.	Brand24 SA	17 March 2021
6.	Creepy Jar SA	17 March 2021
7.	Captor Therapeutics SA	22 March 2021
8.	Vercom SA	12 April 2021
9.	Dekpol SA	21 April 2021
10.	Best SA	17 June 2021
11.	Shoper SA	18 June 2021
12.	ONDE SA	23 June 2021
13.	Cavatina Holding SA	30 June 2021
14.	Celon Pharma SA	1 July 2021
15.	Kredyt Inkaso SA	26 August 2021
16.	Kruk SA	3 September 2021
17.	Big Cheese Studio SA	12 October 2021
18.	PolTREG SA	13 October 2021
19.	Bio Planet SA	28 October 2021
20.	Grupa Pracuj SA	16 November 2021
21.	Murapol SA	19 November 2021
22.	STS Holding SA	23 November 2021
23.	Marvipol Development SA	23 November 2021
24.	Echo Investment SA	26 November 2021
25.	3R Games SA	15 December 2021
26.	BioMaxima SA	31 December 2021
27.	SpyroSoft SA	31 December 2021

Source: UKNF

**Table 12.2.2. Closed-end public investment funds whose prospectuses were approved by the KNF Board in 2021**

Item	Name of the fund	Date of approval of the prospectus
1.	PZU Fundusz Inwestycyjny Zamknięty Akord	27 January 2021
2.	Beta ETF WIGtech Portfelowy Fundusz Inwestycyjny Zamknięty	12 March 2021
3.	Fundusz Długu Korporacyjnego Rentier Fundusz Inwestycyjny Zamknięty	19 March 2021
4.	Michael/Strom Obligacji Korporacyjnych FIZ	12 April 2021
5.	Eques Aktywnego Inwestowania FIZ	11 June 2021
6.	Beta ETF mWIG40TR Portfelowy Fundusz Inwestycyjny Zamknięty	23 June 2021
7.	Eques Akcji Sektora Prywatnego FIZ	29 June 2021
8.	Beta ETF WIG20short Portfelowy Fundusz Inwestycyjny Zamknięty	7 July 2021
9.	Beta ETF WIG20lev Portfelowy Fundusz Inwestycyjny Zamknięty	7 July 2021
10.	PZU Fundusz Inwestycyjny Zamknięty LEGATO	14 July 2021
11.	Ipopema Global Profit Absolute Return Plus Fundusz Inwestycyjny Zamknięty	30 September 2021
12.	Beta ETF sWIG80TR Portfelowy Fundusz Inwestycyjny Zamknięty	12 October 2021
13.	Beta ETF TBSP Portfelowy Fundusz Inwestycyjny Zamknięty	12 October 2021
14.	Beta ETF WIG20TR Portfelowy Fundusz Inwestycyjny Zamknięty	15 October 2021
15.	Eques Akumulacji Majątku Fundusz Inwestycyjny Zamknięty	3 November 2021
16.	Beta ETF Nasdaq-100 PLN-Hedged Portfelowy Fundusz Inwestycyjny Zamknięty	15 November 2021
17.	BETA ETF S&P 500 PLN-Hedged Portfelowy Fundusz Inwestycyjny	15 November 2021

Source: UKNF

### ANNEX 12.3. LIST OF ITEMS OF THE OFFICIAL JOURNAL OF THE KNF BOARD ISSUED IN 2021

Item in the OJ of the KNF Board	Announcement date	Title of the act
1.	29 January 2021	Communication from the KNF Board of 28 January 2021 on the maximum actuarial interest rate
2.	12 February 2021	Communication from the Chair of the KNF Board of 12 February 2021 on the applicable rate (S12M) and the amount of costs of pension supervision to be paid for 2020
3.	12 February 2021	Communication from the Chair of the KNF Board of 12 February 2021 on the applicable rate in 2021 and the amount of costs of banking supervision to be paid in 2021
4.	9 March 2021	Announcement of the decision of the KNF Board amending the amount of fines imposed on Fincrea Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Wrocław (currently: Rest S.A. in restructuring in liquidation) by decision of 21 November 2017 and upholding the decision of 21 November 2017 in all other aspects (Ref. No DFF-FIZ.456.2.2018.KV)

5.	15 March 2021	Communication from the Chair of the KNF Board of 12 March 2021 on the applicable rate in 2021 and the amount of costs of supervision over insurance, reinsurance, and insurance intermediation activities to be paid in 2021
6.	19 March 2021	Communication No 1/2021 from the Examination Board for Securities Brokers of 19 March 2021 on the date of the examination for securities brokers and the supplementary examination
7.	19 March 2021	Communication No 2/2021 from the Examination Board for Securities Brokers of 19 March 2021 on the thematic scope of the examination for securities brokers and the supplementary examination
8.	6 April 2021	Resolution No 118/2021 of the KNF Board of 26 March 2021 amending the resolution on the 'Rules of Procedure of the Arbitration Court attached to the KNF Board'
9.	27 April 2021	Resolution No 129/2021 of the KNF Board of 15 April 2021 on the issuance of Recommendation R on the rules for the classification of credit exposures, estimation and recognition of expected credit losses and credit risk management
10.	27 April 2021	Announcement of the decision of the KNF Board on the imposition of fines on Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (Ref. No DFF-WR.456.1.2018.EW)
11.	4 May 2021	Communication from the Chair of the KNF Board of 29 April 2021 on the applicable rate in 2021 and the amount of costs of supervision of payments services offices to be paid in 2021
12.	4 May 2021	Communication from the Chair of the KNF Board of 29 April 2021 on the applicable rate in 2021 and the amount of costs of supervision of account information service providers to be paid in 2021
13.	13 May 2021	Communication No 263 from the Examination Board for Investment Advisers of 13 May 2021 on the date of the second stage of the examination for investment advisers, the first stage of which took place on 13 September 2020
14.	31 May 2021	Announcement of the decision of the KNF Board on the imposition of fines on Origin Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (Ref. No DPS-WPO.456.5.2020.MZ)
15.	31 May 2021	Communication from the Chair of the KNF Board of 31 May 2021 on the applicable rate in 2021 and the costs of supervision of small payment institutions to be paid in 2021
16.	16 July 2021	Decision of the KNF Board of 15 July 2021 (Ref. No DNM-DNMZWP.6065.79.2021) on the prohibitions on the marketing, distribution and sale of insurance-based investment products – unit-linked life insurance contracts (product intervention)
17.	28 July 2021	Communication from the Chair of the KNF Board of 23 July 2021 on the applicable rate in 2021 and the amount of costs of supervision of credit unions and the National Association of Credit Unions to be paid in 2021
18.	30 July 2021	Communication No 264 from the Examination Board for Investment Advisers of 26 July 2021 on the date of the competency test

19.	30 July 2021	Communication No 265 from the Examination Board for Investment Advisers of 26 July 2021 on the thematic scope of the competency test
20.	30 July 2021	Communication No 266 of the Examination Board for Investment Advisers of 26 July 2021 on the date, scoring rules and completing tasks of the third stage of the examination for investment advisers
21.	31 August 2021	Communication from the Chair of the KNF Board of 30 August 2021 on the applicable rate in 2021 and other data relating to the payment of the costs of capital market supervision for 2021
22.	30 September 2021	Announcement of the decision of the KNF Board on the imposition of a fine on MM Prime TFI S.A. with its registered office in Warsaw (Ref. No DPS-DPSZPO.456.11.2020)
23.	30 September 2021	Communication from the Chair of the KNF Board of 28 September 2021 on the applicable rate in 2021, the total revenues from mortgage credit mediation in 2020, and the costs of supervision of mortgage credit intermediaries to be paid in 2021
24.	30 September 2021	Communication from the Chair of the KNF Board of 28 September 2021 on the rate applicable to the settlement of the due payment for 2020 and other information on the costs of supervision of electronic money institutions, in the field of activities related to the issuance of electronic money, to be paid in 2020
25.	30 September 2021	Communication from the Chair of the KNF Board of 28 September 2021 on the rate applicable to the settlement of the payment due for 2020 and other information on the costs of supervision of payment institutions to be paid in 2020
26.	1 October 2021	Resolution No 326/2021 of the KNF Board of 3 September 2021 on the ascertainment that there are exceptional circumstances which justify the exclusion, from the measurement of total exposure of the leverage ratio, of assets representing receivables from the National Bank of Poland pursuant to Article 429a(1)(n)(ii) of Regulation 575/2013 of 26 June 2013 by SGB-Bank S.A. with its registered office in Poznań and Bank Polskiej Spółdzielczości S.A. with its registered office in Warsaw
27.	30 October 2021	Communication from the Chair of the KNF Board of 29 October 2021 on the rate applicable to the determination of the payment due for 2021 and other information on the costs of supervision of payment institutions to be paid in 2021
28.	30 October 2021	Communication from the Chair of the KNF Board of 29 October 2021 on the rate applicable to the calculation of the due payment for 2021 and other information on the costs of supervision of electronic money institutions, in the field of activities related to the issuance of electronic money, to be paid in 2021
29.	12 November 2021	Communication from the Chair of the KNF Board of 10 November 2021 on the rate applicable to the calculation of the first portion of the due payment for the costs of pension supervision for 2021 and the planned costs of pension supervision in 2021
30.	6 December 2021	Announcement of the decision of the KNF Board of 3 December 2021, Ref. No DFF.456.6.2019.WK, repealing the decision of 20 August 2019, Ref. No DFF-ASI.456.1.2018.AS, in the part concerning the imposition of fines and withdrawal of the authorisation to carry on the business of the investment fund

		management company Saturn Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (currently: Ulmus Holding S.A. with its registered office in Warsaw) and imposing on Saturn Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw lower fines, withdrawing the authorisation to carry on the business of an investment fund management company and upholding the decision in all other aspects.
31.	9 December 2021	Decision of the KNF Board of 3 December 2021, Ref. No DIF-DIFZNR.456.2.2021, on defining English as a language other than Polish as a language of key information documents on packaged retail investment products, referred to in Article 4 point 1 of the Regulation on PRIIPs, distributed in the territory of the Republic of Poland, specifically the Exchange Traded Fund ('ETF')
32.	14 December 2021	Resolution No 427/2021 of the KNF Board of 09 December 2021 amending the resolution on the 'Rules of Procedure of the Arbitration Court attached to the KNF Board'
33.	23 December 2021	Communication No 270 from the Examination Board for Investment Advisers of 22 December 2021 on the date of the first stage of the examination for investment advisers
34.	23 December 2021	Communication No 271 from the Examination Board for Investment Advisers of 22 December 2021 on the thematic scope of the examination for investment advisers
35.	23 December 2021	Communication No 272 from the Examination Board for Investment Advisers of 22 December 2021 on the date of the competency test
36.	23 December 2021	Communication No 273 from the Examination Board for Investment Advisers of 22 December 2021 on the thematic scope of the competency test
37.	23 December 2021	Announcement from the KNF Board of 22 December 2021 on the announcement of the consolidated text of the Resolution of the KNF Board on the 'Rules of Procedure of the Arbitration Court attached to the KNF Board'
38.	23 December 2021	Communication No 3/2021 from the Examination Board for Securities Brokers of 23 December 2021 on the date of the examination for securities brokers and the date of the supplementary examination
39.	23 December 2021	Communication No 4/2021 from the Examination Board for Securities Brokers of 23 December 2021 on the thematic scope of the examination for securities brokers and the supplementary examination

Source: UKNF

#### ANNEX 12.4. LIST OF REGULATIONS AND DRAFT REGULATIONS REVIEWED DURING THE LEGISLATIVE WORK IN 2021

**Table 12.4.1. List of regulations issued in 2021 and reviewed during the legislative work in 2021**

Item	Regulation
1.	Regulation of the President of the Council of Ministers of 18 March 2021 on information provided to the coordinator of the system for the recognition of professional qualifications in regulated professions and regulated activities in the Republic of Poland by competent authorities (Journal of Laws, item 580)



2.	Regulation of the Minister of Finance, Development Funds and Regional Policy of 12 April 2021 amending the Regulation on statistics on co-insurance (Journal of Laws, item 733)
3.	Regulation of the Minister of Finance, Development Funds and Regional Policy of 27 May 2021 amending the Regulation determining different time limits for the performance of certain reporting and information obligations (Journal of Laws, item 975)
4.	Regulation of the Minister of Finance, Development Funds and Regional Policy of 27 May 2021 amending the Regulation on the criteria and the method of conducting supervisory audit and evaluation at banks (Journal of Laws, item 987)
5.	Regulation of the Minister of Finance, Development Funds and Regional Policy of 16 July 2021 on the non-collection of income tax on income (revenue) on the cancellation of a financial subsidy or preferential financing granted by the Polish Development Fund (Journal of Laws, item 1316)
6.	Regulation of the Minister of the Interior and Administration of 15 September 2021 amending the Regulation on the requirements for the protection of monetary values stored and transported by entrepreneurs and other organisational units (Journal of Laws, item 1739)
7.	Regulation of the Minister of Finance, Development Funds and Regional Policy of 11 October 2021 amending the Regulation on requests for entry in the register of insurance agents and ancillary insurance agents (Journal of Laws, item 1925)
8.	Regulation of the Minister of Finance, Development Funds and Regional Policy of 11 October 2021 amending the Regulation on keeping the register of insurance intermediaries and on making available information from that register (Journal of Laws, item 1937)
9.	Regulation of the Minister of Finance, Development Funds and Regional Policy of 11 October 2021 amending the Regulation on requests for a change in an entry in the register of brokers (Journal of Laws, item 1942)
10.	Regulation of the Minister of Finance, Development Funds and Regional Policy of 13 October 2021 amending the Regulation on the financial aid granted by the Polish Agency for Enterprise Development to support innovation centres under the Innovative Economy Operational Programme, 2007-2013 (Journal of Laws, item 1876)
11.	Regulation of the Minister of Finance, Development Funds and Regional Policy of 22 October 2021 amending the Regulation on the report on brokerage activities (Journal of Laws, item 1963)
12.	Regulation of the Minister of Finance, Development Funds and Regional Policy of 22 October 2021 on the detailed method and procedure of performing inspection activities at domestic payment institutions (Journal of Laws, item 2024)
13.	Regulation of the Council of Ministers of 19 November 2021 on the programme of statistical surveys of official statistics for 2022 (Journal of Laws, item 2303)
14.	Regulation of the Minister of Finance of 23 November 2021 amending the Regulation on the scope, procedure, form and time limits for submission of information by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws, item 2315)
15.	Regulation of the Council of Ministers of 30 November 2021 amending the Regulation on the programme of statistical surveys of official statistics for 2021 (Journal of Laws, item 2225)
16.	Regulation of the Minister of Finance of 10 December 2021 on the submission to the Bank Guarantee Fund of information on the minimum level of own funds and eligible liabilities (Journal of Laws, item 2325)
17.	Regulation of the Minister of Finance of 23 December 2021 amending the Regulation on payments to cover the costs of supervision of the capital market (Journal of Laws, item 2466)
18.	Regulation of the President of the Council of Ministers of 30 December 2021 on payments to cover the costs of bank supervision (Journal of Laws, item 2486).

Source: UKNF

**Table 12.4.2. List of draft Regulations reviewed during the legislative work in 2021, not issued by the end of 2021**

Item	Regulation
1.	Draft Regulation of the Minister of Justice on the manner of entering data in the National Register of Debtors, the manner of processing and disclosing data contained in the Register, and the method and procedure of processing and submitting the data collected in the Register for scientific and statistical purposes

2.	Draft Regulation of the Minister of Finance, Development Funds and Regional Policy amending the Regulation defining different time limits for the performance of record-keeping obligations and obligations to prepare, approve, make available and submit to the relevant register, unit or body reports or information
3.	Draft Regulation of the Minister of Finance, Development Funds and Regional Policy amending the Regulation on the financial aid granted by the Polish Agency for Enterprise Development under the Smart Growth Operational Programme, 2014-2020
4.	Draft Regulation of the Minister of Finance, Development Funds and Regional Policy amending the Regulation on the forms of enforceable titles used in administrative enforcement
5.	Draft Regulation of the Minister of Finance, Development Funds and Regional Policy amending the Regulation on the qualification procedure for statutory auditors
6.	Draft Regulation of the Minister of Finance, Development Funds and Regional Policy on submission, to the Bank Guarantee Fund, of contributions in the form of payment obligations to be made by banks, branches of foreign banks, investment firms, credit unions, and the National Association of Credit Unions
7.	Draft Regulation of the Minister of Finance, Development Funds and Regional Policy on additional financial and statistical reports of insurance and reinsurance undertakings
8.	Draft Regulation of the Minister of Finance on the electronic submission of the declaration of the issuer and the declaration of the payer on the corporate income tax
9.	Draft Regulation of the Minister of Finance on the electronic submission of the declaration of the payer and the declaration of the issuer on the personal income tax
10.	Draft Regulation of the Minister of Finance on the method of submission of the application for an opinion on preferences, referred to in Article 26b of the Act on corporate income tax

Source: UKNF

## ANNEX 12.5. PROTECTION OF NON-PROFESSIONAL FINANCIAL MARKET PARTICIPANTS: ANALYTICAL ACTIVITIES AND PRELIMINARY INVESTIGATIONS CARRIED OUT BY THE UKNF IN 2021 WITH REGARD TO MALPRACTICES OF KNF-SUPERVISED ENTITIES

**Table 12.5.1. Protection of financial market participants: analytical activities carried out by the UKNF in 2021 in relation to entities' malpractices**

<b>Banking sector</b>
Analysis of compliance by obliged entities with the requirements under the Act on 'dormant accounts'
Analysis of compliance by selected payment service providers with the obligation under Article 46(1) of the Act on payment services (return of the amount of an unauthorised transaction under the D+1 regime)
Analysis of compliance by selected payment service providers with the obligation under Article 46(1) of the Act on payment services (return of the amount of an unauthorised transaction under the D+1 regime)
Analysis of practices followed by certain banks in relation to the performance of obligations under Article 14(2) of the Act on mortgage credit
Analysis of practices followed by certain entities in relation to the settlement of the total cost of credit for mortgage-backed credit repaid before the contractual deadline
Cross-sectional analysis of debt collection processes at banks and outsourcing of debt collection activities
Analysis of compliance by banks with the obligations under Article 4 of the Act amending the Act on trading, in relation to providing the users of payment services with a free leaflet of the European Commission on consumer rights when making payments in Europe
Analysis of the practice of settling a consolidation loan the consumer resigned from pursuant to Articles 53 and 54 of the Act on consumer credit
Analysis of the requirements which, if fulfilled by the customer, allow for a reduction of exemption from the fees: for the management of a payment account, services related to the account, or holding a payment instrument
Analysis of compliance by lenders with the obligation referred to in Article 105(4i) of the Banking Law
Analysis of practices followed by banks in relation to the method of disbursement of funds from a bank account of the deceased
Analysis of a bank's debt collection process in connection with suspected stalking
Analysis of a bank's practice of managing a bank account of a client holding only a Polish passport
Analysis of practices followed by two banks in relation to the replacement of used banknotes at bank branches
Analysis of a bank's practice in blocking an account of a person against whom personal bankruptcy has been declared
Analysis of certain entities' practice of not responding to the questions asked by KIR S.A. as part of the Information Centre
Analysis of practices followed by certain banks in relation to the performance of obligations under Article 52 of the Act on consumer credit
Analysis of certain banks' practice of initiating cooperation in the area of management of payment accounts for providers of digital asset services
Analysis of practices followed by certain banks in relation to enabling, in remote access channels, a change of the telephone number used for transaction authorisation (one-off text messages)
Analysis of the practice followed by certain banks in relation to keeping special accounts for enforcement officers designed to store the funds referred to in Article 154(2) of the Act on court-appointed enforcement officers
Analysis of a bank practice in relation to the quality of complaint handling (the reliability and timeliness of the bank's response to the complaint)
Analysis of a bank's practice of considering the negative interest rate of loans
Analysis of the practice of two banks in relation to updating the data of account holders pursuant to the AML Act
Analysis of a bank's practice in relation to the execution of customers' orders to close the payment account
Analysis of a bank's practice in relation to the performance of information obligations when distributing investment products

Analysis of a bank's practice in relation to the harmonisation and updating of the operating system used for customer service
Analysis of a bank's practice in relation to automatic management of garnishments
Analysis of a bank's practice in relation to the bank's unilateral change of the interest rate on a fixed-term deposit during its term
Analysis of a situation that occurred at a bank in relation to the bank's incorrect interpretation of overlapping enforcement measures applied to the customer's bank account and the transfer of the funds from the account to a wrong enforcement authority
Analysis of a bank's practice in relation to receiving complaints through a helpline
Analysis of a situation that occurred at a bank in relation to providing a customer with outdated information about the working times of the bank's helpline
Analysis of a bank's practice in relation to handling a request for the refund of the commission after early repayment of credit
Analysis of a bank's practice in relation to charging a fee for an enforcement transfer prior to the blockage of the funds on the account for the enforcement authority
Analysis of a bank's practice in relation to the staff of the bank's helpline providing inaccurate information on the possibility of cancelling an authorised payment transaction
Analysis of a situation that occurred at a bank in relation to credit fraud committed by an unidentified person concluding a loan agreement allegedly on behalf of the complainant without their knowledge or consent
Analysis of a situation that occurred at a bank in relation to unblocking the access to contactless payments without entering a PIN, without the customer's consent
Analysis of a bank's practice in relation to the bank's delays in transferring the blocked amounts from a bank account to a receiver and blocking the funds on the account that are not subject to seizure
Analysis of a situation that occurred at a bank in relation to an error in an algorithm responsible for the amount of the interest rate of the loan
Analysis of a bank's practice in relation to the disbursement of funds from a bank deposit to a bank account other than an account at a bank
Analysis of a situation that occurred at a bank in relation to blocking the funds subject to a seizure using details of a co-holder of the bank account other than the debtor
Analysis of a situation that occurred at a bank in which no authorisation codes were received via text messages from the bank
Comprehensive analysis of the options of cancelling payment orders
Analysis of the method of settling the blocked card transactions at a bank
Analysis of a bank's practice in relation to providing information about the ongoing enforcement from a bank account
Analysis of a bank's practice in relation to deducting the bank's claims from a bankruptcy estate
Analysis of a bank's practice in relation to the return of bills of exchange following the repayment of the liability
Analysis of a bank's practice in relation to the calculation of ratio instalments on credit cards during the notice period
Analysis of a bank's practice in relation to charging fees for the management of credit cards during the notice period
Analysis of a bank's practice in relation to settling the rejected card transactions pursuant to the AML Act
Analysis of a bank's practice in relation to the proportionate refund of the costs of the loan paid before the deadline (Article 49 of the Act on consumer credit)
Analysis of a bank's practice related to the receiver's right to use the accounts of a bankrupt consumer
Analysis of a bank's practice related to customer profiling for marketing purposes
Analysis of a bank's practice in relation to the management of subsidies from the Polish Development Fund
Analysis of a bank's practice related to simplified mechanisms of granting consumer credit
Analysis of the process of implementation, by a foreign credit institution operating in the territory of the Republic of Poland through a branch, of a decision of the President of the Office of Competition and Consumer Protection on inflated non-interest costs of consumer credit
Analysis of a bank's practice related to the right of heirs to perform conservative acts using the funds accumulated on the account of a deceased entrepreneur (succession administration)
Analysis of a bank's practice of incorrect calculation of a fee for the management of foreign-currency accounts and incorrect blockage of customers' accounts

Analysis of a bank's practice in relation to refusal to accept foreign currency into a foreign-currency account
Analysis of a bank's practice in relation to adding a card to a digital wallet
Analysis of banks' methods and forms of communication with customers in the context of the simplified language standard
Analysis of a bank's practice in relation to transferring to an enforcement authority of an amount not subject to seizure
Analysis of a bank's practice in handling the correspondence received from prosecuting authorities following a complaint
Analysis of a bank's practice in handling a request for suspension of a credit agreement under the 'anti-crisis shield' programme
Analysis of a situation that occurred at a bank in relation to misappropriation by a bank's employee of the money entrusted by a customer (embezzlement)
Analysis of a bank's practice related to the processing of personal data for marketing purposes without the customer's consent
Analysis of a situation that occurred at a bank in relation to a lost package with the customer's documents
Analysis of a bank's practice related to different standards of creditworthiness assessment based on a floating rate and temporarily fixed interest rate for the purpose of conclusion of a mortgage credit agreement
Analysis of a situation that occurred at a bank in relation to sending correspondence to the address of a deceased customer
Analysis of a situation that occurred at a bank in relation to the refusal to exchange damaged legal tender
Comparative analysis on the implementation by banks of the recommendations contained in the Communication from the UKNF of 21 July 2020 on the exercise of the right of a loan applicant to demand explanations concerning the assessment of creditworthiness pursuant to Article 70a of the Banking Law
Analysis of practices followed by certain banks in relation to the blockage and payment of funds from a bank account of a customer against whom a decision on declaration of personal bankruptcy was issued
Analysis of certain banks in relation to the rules of handling powers of attorney submitted by professional or non-professional attorneys-in-fact and the key issues in the functioning of powers of attorney in banking transactions
Analysis of a bank's practice in relation to debt servicing by a debt collection company operating on the bank's order
Analysis of practices followed by a group of banks in relation to the possibility of closing bank account through online banking for retail clients
Analysis of practices of certain banks in relation to them managing open/closed housing trust accounts
Analysis of a bank's practice related to delays in introducing updates to customer data in the ePUAP system through online banking
Analysis of a bank's practice of presenting outdated information in online banking systems following the update of the IT system and double charging of customers' account due to card operations
Analysis of a bank's practice related to sending responses to complaints to a previously deactivated account
Analysis of a situation that occurred at a bank in relation to improper operation of the mechanism for setting off the receivables under a credit agreement against receivables of customers on bank accounts held at the bank
Analysis of a bank's practice related to delays in the payment of funds as part of a 'moneyback' promotion despite the fulfilment of the requirements of the promotional offer
Analysis of a bank's practice related to an issue in filing a complaint about brokerage services through a helpline
Analysis of a bank's practice related to failure to make available a free amount due to reopening of an account at the bank under the previous customer identification number
Analysis of a bank's practice related to calling the customer to pay a debt that has been cancelled
Analysis of a bank's practice consisting in the failure to update information at BIK S.A. after the lapse of the grace period in the repayment of the principal amount
Analysis of a bank's practice related to irregularities in handling complaints, consisting in the failure to address some of the issues covered by the complaint or in providing very limited information

Analysis of a bank's practice related to the failure to execute an order due to the lack of a required approval by another employee
Analysis of a bank's practice related to an incorrect method of changing the quarterly commission due under a credit agreement
Analysis of a bank's practice related to delays in issuing statements on the costs of the credit, resulting from a significant increase in the number of requests for such statements
Analysis of a bank's practice related to the failure to include, in the statement of fees, information about the fees that have been calculated but not collected due to the lack of funds on the account
Analysis of a situation that occurred at a bank in relation to the process of renewing a policy for a real property bought through the bank
Analysis of a bank's practice related to unjustified refusal to make a transfer from a VAT account (following the termination of the account agreement) to an account at ZUS
Analysis of a bank's practice consisting in allowing for a negative balance on a junior account, contrary to the information about the product provided on the bank's website
Analysis of a situation that occurred at a bank in relation to the failure the bank's incorrect interpretation of overlapping enforcement measures applied to the customer's bank account and the transfer of the funds from the account to a wrong enforcement authority
Analysis of a situation that occurred at a bank in relation to cases of credit fraud committed using another person's data
Analysis of a situation that occurred at a bank related to adding a trusted device then logging into an online banking system that failed to ensure the proper execution of that operation
Analysis of a situation that occurred at a bank related to the failure to execute the order to terminate the credit card agreement
Analysis of a bank's practice in relation to blocking the funds above the amount of the garnishment
Analysis of reports/notifications/complaints addressed to lenders (included in Section I of the register of credit intermediaries), concerning pre-contractual acts performed by mortgage credit intermediaries and their agents
Analysis of domestic banks' practice of maintaining open/closed housing trust accounts (management, control of completion of an investment project, number of complaints)
<b>Payment services sector</b>
Analysis of the practice of a small payment institution consisting in making available inaccurate information on the entity's websites about cooperation with banks for the purpose of real-time settlement of transactions
Analysis of compliance by banks with the obligations under Article 4 of the Act amending the Act on trading, in relation to providing the users of payment services with a free leaflet of the European Commission on consumer rights when making payments in Europe
Analysis of the practice of a domestic payment institution related to the return of funds on account of transactions deemed as incorrect due to an incorrect title of the transfer
Analysis of the practice of a domestic payment institution related to a change of an e-mail address assigned to the customer's panel
Analysis of the practice of a domestic payment institution in relation to providing the Dynamic Currency Conversion (DCC) service on payment terminals
<b>Credit unions</b>
Analysis of a practice in relation to the settlement of costs of granting consumer credit in the event of early repayment at customer's request, in the light of Article 49 of the Act on consumer credit
Analysis of a practice in terms of potential abuse of customers' accounts under the AML Act
<b>Insurance sector</b>
Manner of processing information from non-professional financial market participants regarding the operation of a foreign insurance undertaking, received by the UKNF after the withdrawal of notification
Analysis of the rules applied by an insurance undertaking for providing information and documents collected to establish the liability of the insurance undertaking and/or the amount of compensation or benefit
Analysis of the failure to handle incoming e-mail correspondence in inactive mailboxes of individuals who no longer work at an insurance undertaking
Analysis of the rules applied by an insurance undertaking for providing information and documents collected to establish the liability of the insurance undertaking and/or the amount of compensation or benefit
Analysis of activities of an insurance undertaking in relation to the performance of the obligation under Article 105(4) of the Act on compulsory insurance to update information on motor third-party liability insurance contracts submitted to the IGF

Analysis of timeliness of informing the aggrieved party about the documents required to determine the insurance undertaking's liability or the amount of compensation
Analysis of irregularities in the formulation, by claim service representatives, of the substance of settlement agreements
Analysis of irregularities in concluding insurance contracts by telephone
Analysis of the practice of accepting payments on account of premium despite the lack of a valid insurance contract
Analysis of debt collection activities undertaken by an insurance undertaking towards vehicle holders who have concluded a compulsory motor third-party liability insurance contract with a foreign insurance undertaking that has been declared bankrupt
Analysis, based on reports from non-professional financial market participants, of compliance by insurance undertakings with the requirements provided for in Article 14(1), (2) and (3) of the Act on compulsory insurance
<b>Capital sector</b>
Analysis of the practice followed by investment fund management companies to determine the amount of remuneration for the management of employee capital plans (PPK) and the amount of compensation to the participants with whom the investment fund is to enter into a relevant contract
Analysis of the practice followed by investment funds in relation to the publication of information about each component of the fund's investments
Analysis of a situation that occurred at a bank, acting as a distributor, related to the failure to specify the sub-funds of the employee capital plan on the form 'Information about the estimated costs of investment in a sub-fund of an employee capital plan and their impact on the performance'
Analysis of a situation that occurred at a bank in relation to failure to remove customer's data from the registers kept by BIG S.A. by a non-standard securitisation closed-end investment fund following a final court ruling
Analysis of a case of failure by a brokerage house to calculate a spin-off on CFDs
Analysis of a report concerning the failure by an investment fund management company to return the funds from an occupational pension scheme to customers following the termination of the occupational pension scheme agreement
Analysis of a practice of a joint-stock company in relation to mandatory dematerialisation
Analysis of the rules of redemption of investment certificates of a closed-end investment fund (FIZ) with a guarantee granted by the manager of the pool of assets with which the fund has a legal dispute
Analysis of admissibility of acquisition of bonds by a legal guardian of a totally incapacitated person
Analysis of the practice of a FIZ fund related to the failure to execute requests for redemption from a related fund
Analysis of the rules for dealing with customers who acquired participation units from a distributor with which an investment fund management company terminated cooperation
Analysis of interruptions in the access to a trading system (breakdowns in the IT infrastructure of a brokerage house)
Analysis of a breakdown in a trading infrastructure of a brokerage house
Analysis of the practice followed by an investment firm in relation to obligatory sale
Analysis of the practice of blocking access to a trading system until information about knowledge and experience is updated
Analysis of information published by a brokerage house on a website in relation to keeping records on bonds
Analysis of the practice of a brokerage house in relation of defining a cash account for the settlements made on the customer's brokerage account
Analysis of the method applied by a brokerage house to manage the process of the payment of the dividend from a foreign public company
Analysis of market information/recommendations published by a brokerage house on its website
Analysis related to a potential modification of the text of § 8 of the Regulation of the Minister of Finance, Development Funds and Regional Policy of 26 November 2020 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

Source: UKNF

## ANNEX 12.6. REPORTS SUBMITTED TO THE UKNF IN 2021 (BY SUBJECT-MATTER)

**Table 12.6.1. Reports received by the UKNF and relating to the activities of commercial banks in the years 2020-2021 (by subject-matter)**

Subject-matter of the report	2020	%	2021	%
Maintenance of accounts	710	33.87	694	46.89
Consumer loans	419	19.99	242	16.35
Mortgage loans	301	14.36	180	12.16
Quality of service	225	10.73	172	11.62
Other activities of the bank	367	17.51	124	8.38
Payment instruments	72	3.44	62	4.19
Other	2	0.10	6	0.41
<b>Total</b>	<b>2 096</b>	<b>100.00</b>	<b>1 480</b>	<b>100.00</b>

Source: UKNF

**Table 12.6.2. Reports received by the UKNF and relating to the activities of cooperative banks in the years 2020-2021 (by subject-matter)**

Subject-matter of the report	2020	%	2021	%
Other	57	43.51	58	52.25
Maintenance of accounts	42	32.06	27	24.32
Consumer loans	10	7.63	13	11.71
Other activities of the bank	9	6.87	5	4.50
Quality of service	6	4.58	5	4.50
Mortgage loans	6	4.58	2	1.80
Payment instruments	1	0.76	1	0.90
<b>Total</b>	<b>131</b>	<b>100.00</b>	<b>111</b>	<b>100.00</b>

Source: UKNF

**Table 12.6.3. Reports received by the UKNF and relating to the activities of credit unions (SKOK) in the years 2020-2021 (by subject-matter)**

Subject-matter of the report	2020	%	2021	%
Consumer loans	35	63.64	16	51.61
Maintenance of accounts	14	25.45	10	32.26
Quality of service	5	9.09	4	12.90
Other activities of credit unions	1	1.82	1	3.23
<b>Total</b>	<b>55</b>	<b>100.00</b>	<b>31</b>	<b>100.00</b>

Source: UKNF

**Table 12.6.4. Reports received by the UKNF and relating to the activities of life insurance undertakings in the years 2020-2021 (by subject-matter)**

Subject-matter of the report	2020	%	2021	%
Refusal of payment	24	22.32	24	25.53
Tardiness	10	8.04	16	17.02
Contract performance	15	13.39	11	11.70
Surrender value	16	14.29	8	8.51
Objections to the claim settlement process	9	8.04	6	6.38
Amount of compensation	9	8.04	6	6.38
Problems with making claim files available	3	2.68	5	5.32
Change of contractual terms and conditions	3	2.68	4	4.26
Unreliability of an agent	3	2.68	2	2.13
Information policy of insurance undertakings	2	1.79	2	2.13
Problems with termination of the contract	0	0.00	2	2.13



The sum insured	0	0.00	2	2.13
Interpretation of general terms and conditions of insurance	7	6.25	1	1.06
Refusal to accept for insurance	2	1.79	1	1.06
Protection of personal data	1	0.89	1	1.06
Amount of the premium	0	0.00	1	1.06
Indexation of the premium	0	0.00	1	1.06
The insurer questioning the power of attorney	0	0.00	1	1.06
Valuation of units of a unit-linked insurance product or insurance undertaking's investment method	3	2.68	0	0.00
Problems with conclusion of the contract	3	2.68	0	0.00
Cross-border activities of domestic entities	1	0.89	0	0.00
Withdrawal from the contract	1	0.89	0	0.00
<b>Total</b>	<b>112</b>	<b>100.00</b>	<b>94</b>	<b>100.00</b>

Source: UKNF

**Table 12.6.5. Reports received by the UKNF and relating to the activities of non-life insurance undertakings in the years 2020-2021 (by subject-matter)**

<b>Subject-matter of the report</b>	<b>2020</b>	<b>%</b>	<b>2021</b>	<b>%</b>
Tardiness	195	17.50	266	<b>25.58</b>
Amount of compensation	280	25.13	237	<b>22.79</b>
Objections to the claim settlement process	249	22.35	182	<b>17.50</b>
Refusal of payment	120	10.77	132	<b>12.69</b>
Problems with making claim files available	146	13.11	94	<b>9.04</b>
Contract performance	20	1.80	24	<b>2.31</b>
Problems with conclusion of the contract	9	0.81	18	<b>1.73</b>
Problems with termination of the contract	28	2.51	16	<b>1.54</b>
Unreliability of an agent	5	0.45	16	<b>1.54</b>
Unauthorised debt collection	17	1.52	15	<b>1.44</b>
Amount of the premium	21	1.89	13	<b>1.25</b>
Protection of personal data	4	0.36	7	<b>0.67</b>
Withdrawal from the contract	4	0.36	5	<b>0.48</b>
Interpretation of general terms and conditions of insurance	3	0.27	4	<b>0.38</b>
Information policy of the undertaking	2	0.18	4	<b>0.38</b>
Return of the premium	5	0.45	2	<b>0.19</b>
The sum insured	0	0.00	2	<b>0.19</b>
Refusal to accept for insurance	3	0.27	2	<b>0.19</b>
The insurer questioning a power of attorney	0	0.00	1	<b>0.10</b>
Change of contractual terms and conditions	3	0.27	0	<b>0.00</b>
Breach of insurance secrecy	0	0.00	0	<b>0.00</b>
<b>Total</b>	<b>1 114</b>	<b>100.00</b>	<b>1 039</b>	<b>100.00</b>

Source: UKNF

**Table 12.6.6. Reports received by the UKNF and relating to the activities of branches of insurance undertakings of EU Member States in the years 2020-2021 (by subject-matter)**

Subject-matter of the report	2020	%	2021	%
Tardiness	2	20.00	8	57.14
Refusal of payment	2	20.00	2	14.29
Contract performance	2	20.00	2	14.29
Amount of compensation	2	20.00	2	14.29
Problem with making claim files available	1	10.00	0	0.00
Surrender value	1	10.00	0	0.00
<b>Total</b>	<b>10</b>	<b>100.00</b>	<b>14</b>	<b>100.00</b>

Source: UKNF

**Table 12.6.7. Reports received by the UKNF and relating to the activities of credit unions (OFE) in the years 2020-2021 (by subject-matter)**

Subject-matter of the report	2020	%	2021	%
Irregularities in the division and payment of funds collected on the account	7	70.00	3	37.50
Complaints about data in the register of OFE members and changes thereof	1	10.00	2	25.00
Irregularities relating to the funds deposited in the OFE account	2	20.00	1	12.50
Fund's information activity	0	0.00	1	12.50
Fund's investment policy	0	0.00	1	12.50
<b>Total</b>	<b>10</b>	<b>100.00</b>	<b>8</b>	<b>100.00</b>

Source: UKNF

**Table 12.6.8. Reports received by the UKNF and relating to public companies and other financial market participants in the years 2020-2021 (by subject-matter)**

Subject-matter of the report	2020	%	2021	%
Financial instrument quotation rate	174	51.33	100	52.06
Other	42	12.39	37	19.59
Corporate rights of shareholders	30	8.85	14	7.22
Management of a public company	14	4.13	14	7.22
Disclosure requirements of NewConnect listed companies	40	11.80	12	6.19
Disclosure requirements of companies listed on the regulated market	29	8.55	12	6.19
Companies withdrawn from official trading	9	2.65	2	1.03
Private issue of financial instruments	1	0.29	1	0.52
<b>Total</b>	<b>339</b>	<b>100.00</b>	<b>192</b>	<b>100.00</b>

Source: UKNF

**Table 12.6.9. Reports received by the UKNF and relating to the activities of investment firms in the years 2020-2021 (by subject-matter)**

Subject-matter of the report	2020	%	2021	%
Quality of services	33	28.70	30	34.48
Provision of online services	32	27.83	16	18.39
Other	18	15.65	15	17.24
Execution of orders	13	11.30	15	17.24
Amount of fees and commissions	10	8.70	6	6.90
Maintaining the individual retirement protection account (IKE)	1	0.87	2	2.30
Management of a public issue	2	1.74	1	1.15
Recommendations	1	0.87	1	1.15
Distribution of participation units	0	0.00	1	1.15
Management result	3	2.61	0	0.00

Distribution of investment certificates	2	1.74	0	0.00
<b>Total</b>	<b>115</b>	<b>100.00</b>	<b>87</b>	<b>100.00</b>

Source: UKNF

**Table 12.6.10. Reports received by the UKNF and relating to the activities of investment fund management companies in the years 2020-2021 (by subject-matter)**

Subject-matter of the report	2020	%	2021	%
Valuation of investment certificates	12	11.11	45	40.54
Other	10	9.26	19	17.12
Management of investment funds	41	37.96	13	11.71
Deadline for the execution of orders (regarding investment certificates)	8	7.41	12	10.81
Quality of services	14	12.96	10	9.01
Implementation of the investment policy	2	1.85	3	2.70
Maintaining the individual retirement protection account (IKE)	2	1.85	2	1.80
Valuation of participation units	5	4.63	1	0.90
Deadline for the execution of orders (regarding participation units)	4	3.70	1	0.90
Liquidation of a fund	4	3.70	1	0.90
Transfer of receivables to the securitisation closed-end investment fund	2	1.85	1	0.90
Combination of investment funds	0	0.00	1	0.90
Succession of participation units	0	0.00	1	0.90
Collection of a capital gains tax	0	0.00	1	0.90
Provision of online services	1	0.93	0	0.00
Maintaining the individual retirement protection account (IKZE)	1	0.93	0	0.00
Informing a unit-holder of a change in the articles of association	0	0.00	0	0.00
Amount of fees and commissions	2	1.85	0	0.00
<b>Total</b>	<b>108</b>	<b>100.00</b>	<b>111</b>	<b>100.00</b>

Source: UKNF

## ANNEX 12.7. LIST OF WEBINARS ORGANISED BY THE UKNF AS PART OF THE CEDUR EDUCATIONAL PROJECT IN 2021

**Table 12.7.1. Webinars addressed to representatives of KNF-supervised entities (by sector)**

Item	Topic	Date
<b>Banking sector</b>		
1.	Reform of benchmarks: challenges for the cooperative banking sector. Contingency plans, alternative indices and information obligations towards customers*	31 May 2021
2.	Procedure of the UKNF's inspection of the activities of cooperative banks conducted under Article 70(2) of the Act on trading in financial instruments: practical aspects	28 October 2021
3.	Cybersecurity	5 November 2021
4.	Management of information technology and ICT environment security at financial market entities: requirements for banks	9 November 2021
5.	Prevention of money laundering and terrorist financing in the banking sector in the context of the new legislation. Experiences of the supervisory authority and inspection results*	29 November 2021 30 November 2021

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<b>Sector of credit unions</b>		
1.	Reform of benchmarks: challenges for the cooperative banking sector. Contingency plans, alternative indices and information obligations towards customers**	31 May 2021
2.	Management of information technology and ICT environment security at credit unions	17 June 2021
3.	Prevention of money laundering and terrorist financing in the banking sector in the context of the new legislation. Experiences of the supervisory authority and inspection results**	29 November 2021 30 November 2021
<b>Capital market</b>		
1.	Risk management at investment fund management companies: the SREP, supervisory and inspection practices	10 February 2021
2.	The practical aspects of reporting by AIFMs and AIFs (DATMAN and DATAIF files)	15 June 2021
3.	Inspection at investment funds sector entities: procedural and practical aspects	29 September 2021
4.	The practical aspects of preparing quarterly reports (FIO-Q, SFIO-Q, FIZ-Q forms)	13 October 2021
5.	Compliance with information requirements for securities issuers: supervisory experiences and market practices	22 November 2021
6.	Prevention of money laundering and terrorist financing in the capital sector in the context of the new legislation. Experiences of the supervisory authority and inspection results	23 November 2021
7.	Prospectus and public offering: selected aspects	1 December 2021
8.	Issuers' periodical reporting: compliance with the applicable financial framework, in particular the IAS/IFRS and the ESEF***	15 December 2021
<b>Insurance sector</b>		
1.	Loss absorbency adjustment for deferred taxes	13 July 2021
2.	Conclusions from an inspection of insurance intermediaries in relation to compliance with the requirements under the Act on insurance distribution: selected aspects	15 November 2021
3.	Cybersecurity in the insurance sector	19 November 2021
<b>Payment services sector</b>		
1.	Basic standards on risk management and internal control systems at payment institutions	18 November 2021
2.	Prevention of money laundering and terrorist financing in the payment services sector in the context of the new legislation. Experiences of the supervisory authority and inspection results	3 December 2021
<b>Cross-sectoral</b>		
1.	Alternative resolution of disputes between customers and financial market entities with examples of proceedings conducted before the Arbitration Court attached to the KNF Board and out-of-court proceedings conducted by the Financial Ombudsman. Specificity of proceedings, institutional arrangements, benefits to the parties to proceedings****	18 June 2021
2.	The ESG disclosures regime for financial institutions under Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector	21 September 2021

Source: UKNF

\* A webinar addressed also to the entities in the credit unions sector.

\*\* A webinar addressed also to banking sector entities.

\*\*\* A webinar addressed also to statutory auditors.

\*\*\*\* A website with the participation of a representative of the Financial Ombudsman's Bureau acting as a speaker.

**Table 12.7.2. Webinars addressed to representatives of the judiciary and prosecuting authorities**

Item	Topic	Date
1.	Cybersecurity of financial services*	20 May 2021
2.	Obligations of investment firms following the entry into force of the Act on trading in financial instruments, implementing the provisions of the MiFID II, in the light of proceedings in respect of fraud*	8 June 2021
3.	Methods of attacks on online banking clients' funds committed by cybercriminals**	18 June 2021
4.	Rules of operation of investment funds and trading in their participation units***	22 June 2021
5.	Rules of the review of reliability and credibility of entities offering services in the market of financial and investment products***	30 June 2021
6.	Crimes related to the Forex market and bogus investment activities: from a report to the notification of a suspected criminal offence. Sources of information and methods of using it****	9 September 2021
7.	Main differences between a bank and a credit union***	28 September 2021
8.	Typical cases of carrying on a business in the field of payment services without the required authorisation in the context of Article 150 of the Act on payment services***	12 October 2021
9.	Implementation of 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**	27 October 2021
10.	Manipulation of financial instruments, disclosure and insider dealing: types of and reasons behind the abuse, operating methods, and methods of detecting infringements in the market***	24 November 2021
11.	The AML/CFT framework for financial institutions: the newest trends and challenges, and guidelines of national and international supervisory authorities*****	26 November 2021

Source: UKNF

\* A webinar addressed only to prosecutors, organised in cooperation with the National Prosecutor's Office.

\*\* A webinar addressed law enforcement officers organised in cooperation with the Internal Security Agency, the Central Anti-Corruption Bureau, the Central Investigation Bureau of the Police, and the Central Police Headquarters.

\*\*\* A webinar addressed to law enforcement officers, prosecutors and judges, organised in cooperation with the Internal Security Agency, the Central Anti-Corruption Bureau, the Central Investigation Bureau of the Police, the Central Police Headquarters, the National Prosecutor's Office, , the National School of Judiciary and Public Prosecution.

\*\*\*\* A webinar addressed to law enforcement officers and prosecutors, organised in cooperation with the Internal Security Agency, the Central Anti-Corruption Bureau, the Central Police Investigation Office, the Central Police Headquarters, and the National Prosecutor's Office.

\*\*\*\*\* A webinar addressed law enforcement officers organised in cooperation with the Internal Security Agency, the Central Anti-Corruption Bureau, the Central Investigation Bureau of the Police, the Central Police Headquarters, and the Border Guard Headquarter.

**Table 12.7.3. Webinars addressed to representatives of institutions competent for protection of rights of non-professional financial market participants**

Item	Topic	Date
1.	Mortgage loan: the assessment and monitoring of the value of collateral for loans for consumers and businesses	29 June 2021
2.	Crimes related to the Forex market and bogus investment activities: from a report to the notification of a suspected criminal offence. Where do we obtain information and how do we use it?	8 September 2021
3.	Cybersecurity in the financial sector from the perspective of the market and the customer. Systemic aspects and the practice of prevention of cybercrime	24 September 2021
4.	Alternative resolution of disputes between customers and financial market entities with examples of proceedings conducted before the Arbitration Court attached to the KNF Board and out-of-court proceedings conducted by the Financial Ombudsman. Specificity of proceedings, institutional arrangements, benefits to the parties to proceedings*	26 October 2019

Source: UKNF

\* A webinar with the participation of a representative of the Financial Ombudsman's Bureau acting as a speaker.

**Table 12.7.4. Webinars addressed to statutory auditors**

Item	Topic	Date
1.	Cybersecurity in the banking and insurance sectors	25 May 2021
2.	Issuers' periodical reporting: compliance with the applicable financial framework, in particular the IAS/IFRS and the ESEF*	15 December 2021

Source: UKNF

\* A webinar addressed also to capital sector entities.

**Table 12.7.5. Webinars addressed to schools**

Item	Topic	Date
1.	Bank's activities and banking operations*	22 March 2021
2.	'To take or not to take a loan, that is the question. What a young person should know before signing a loan agreement'	22 March 2021
3.	Where does money come from at in bank?*	23 March 2021
4.	Should I, and how should I, make investments through investment funds?*	23 March 2021
5.	Cybercriminals attack: how not to get robbed on the Internet*	24 March 2021
6.	Foreign exchange risk. ABC*	24 March 2021
7.	Fraud in the financial market: why we still fall into it*	25 March 2021
8.	Financial market, financial services, a bank and its role in the economy*	26 March 2021
9.	The deposit guarantee scheme in Poland**	26 March 2021
10.	Stock exchange, investments, shares, bonds explained (a webinar for pupils)***	4 October 2021
11.	Cybersecurity from the perspective of a user of financial services: practical aspects***	5 October 2021
12.	Stock exchange, investments, shares, bonds explained (a webinar for teachers)***	6 October 2021
13.	Threats and fraud in the investment funds market***	8 October 2021

Source: UKNF

\* A webinar organised as part of the Global Money Week 2021.

\*\* A webinar organised as part of the Global Money Week 2021 with exclusive participation of a representative of the Bank Guarantee Fund as a speaker.

\*\*\* A webinar organised as part of the World Investor Week 2021.

## ANNEX 12.8. LIST OF RECOMMENDATIONS, OFFICIAL POSITIONS AND COMMUNICATIONS OF THE KNF BOARD AND THE UKNF BOARD, AND Q&As

**Table 12.8.1. Recommendations of the KNF Board issued in 2021**

Item	Subject-matter of the recommendation	Date
<b>Banking sector</b>		
1.	Recommendation R on the rules for the classification of credit exposures, estimation and recognition of expected credit losses, and credit risk management <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Rekomendacja_R_16-04-2021_73341.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Rekomendacja_R_16-04-2021_73341.pdf</a>	15 April 2021

Source: UKNF

**Table 12.8.2. Positions of the KNF Board and the UKNF, and communications from the UKNF in 2021**

Item	Subject-matter of the position/communication	Date
<b>Capital market</b>		
1.	Position of the UKNF on product governance <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_dot_zarzadzania_produkciowego_72596.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_dot_zarzadzania_produkciowego_72596.pdf</a>	16 February 2021
2.	Position of the UKNF on the supervision exercised by investment firms over their tied agents <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_dot_AFI_744_13.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_dot_AFI_744_13.pdf</a>	11 August 2021
3.	Position of the UKNF on the risk of non-compliance, until 10 November 2021, of the Polish legal order with the provisions of the Regulation on crowdfunding service providers <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_dot_zasad_dzialania_dostawcow_uslug_finansowania_spolecznościowego_w_okresie_przejściowym.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_dot_zasad_dzialania_dostawcow_uslug_finansowania_spolecznościowego_w_okresie_przejściowym.pdf</a>	3 October 2021
4.	Position of the UKNF on the adaptation of the business of insurance undertakings to the requirements of the Decision of 15 July 2021 on the prohibitions on the marketing, distribution and sale of insurance-based investment products – unit-linked life insurance contracts <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_dot_dostosowania_dzialalnosci_zakladow_ubezpieczen_do_wymogow_decyzji_z%20dnia_15_lipca_2021_75413.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_dot_dostosowania_dzialalnosci_zakladow_ubezpieczen_do_wymogow_decyzji_z%20dnia_15_lipca_2021_75413.pdf</a>	20 October 2021
5.	Position of the UKNF on certain aspects of the management of risk of investment funds and alternative investment companies <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_dot_zarzadzania_ryzykiem_75559.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_dot_zarzadzania_ryzykiem_75559.pdf</a>	26 October 2021
6.	Position of the UKNF on the recording of contacts with clients of investment firms <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_ws_utrwalaniu_kontaktow_z_klientami_firm_inwestycyjnych_76340.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_ws_utrwalaniu_kontaktow_z_klientami_firm_inwestycyjnych_76340.pdf</a>	23 December 2021

7.	Communication from the UKNF on the possibility of sending text versions of reports in the ESEF in the production environment of the Electronic Information Transfer System (ESPI) <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Jak_zlozyc_testowy_raport_ESEF_15012021.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Jak_zlozyc_testowy_raport_ESEF_15012021.pdf</a>	15 January 2021
8.	Communication from the UKNF on the postponement of the date for applying the ESEF <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_UKNF_ws_statusu_prawnego_odroczenia_obowiazku_stosowania_ESEF.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_UKNF_ws_statusu_prawnego_odroczenia_obowiazku_stosowania_ESEF.pdf</a>	19 February 2021
9.	Communication of the UKNF on the entry into force of regulations postponing the deadline for the ESEF reporting <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Wejscie_w_zycie_regulacji_przez_uwajacych_termin_raportowania_zgodnego_z_ESEF_73314.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Wejscie_w_zycie_regulacji_przez_uwajacych_termin_raportowania_zgodnego_z_ESEF_73314.pdf</a>	13 April 2021
10.	Communication from the UKNF on ESMA guidelines on the prospectus ( <a href="https://www.knf.gov.pl/komunikacja/komunikaty?articleId=73426&amp;p_id=18">https://www.knf.gov.pl/komunikacja/komunikaty?articleId=73426&amp;p_id=18</a> )	27 April 2021
11.	Communication of the UKNF the postponement of the deadline for the adaptation of the business of investment fund management companies to Article 42b(1) of the Act on investment funds and management of alternative investment funds <a href="https://www.knf.gov.pl/komunikacja/komunikaty?articleId=73731&amp;p_id=18">https://www.knf.gov.pl/komunikacja/komunikaty?articleId=73731&amp;p_id=18</a>	2 June 2021
12.	Communication from the UKNF on annual financial statements and consolidated annual financial statements for the financial year 2020, submitted in the ESEF <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_UKNF_dot_raportowania_w_formacie_ESEF.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_UKNF_dot_raportowania_w_formacie_ESEF.pdf</a>	26 July 2021
13.	Communication from the UKNF on the method of sending and naming XML reports by entities participating in securitisation transactions Guidelines and statements of supervisory authorities: the KNF Board ( <a href="http://knf.gov.pl">knf.gov.pl</a> )	9 December 2021
14.	Q&As on the legal requirements for members of management boards of TFI whose appointment requires the approval by the KNF Board <a href="https://www.knf.gov.pl/dla_rynku/Informacje_dla_podmiotow_nadzorowanych/Rynek_kapitalowy/Q&amp;A_dot_wymogow_prawnych_dla_czlonkow_zarzadu_TFI">https://www.knf.gov.pl/dla_rynku/Informacje_dla_podmiotow_nadzorowanych/Rynek_kapitalowy/Q&amp;A_dot_wymogow_prawnych_dla_czlonkow_zarzadu_TFI</a>	21 January 2021
15.	Q&As on the ESEF: new aspects <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Lista_nowych_Q%26A_dot_ESEF.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Lista_nowych_Q%26A_dot_ESEF.pdf</a>	5 February 2021
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17.	Q&As on public offerings I <a href="https://www.knf.gov.pl/podmioty/Podmioty_rynku_kapitalowego/Oferty_Publiczne_i_Prospekty_Emisyjne/Q&amp;A_dot_ofert_publicznych_i_prospektow">https://www.knf.gov.pl/podmioty/Podmioty_rynku_kapitalowego/Oferty_Publiczne_i_Prospekty_Emisyjne/Q&amp;A_dot_ofert_publicznych_i_prospektow</a>	27 July 2021
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2.	Position of the UKNF on the use of benchmarks as defined in the BMR, addressed to lenders <a href="https://www.knf.gov.pl/dla_rynku/Wskazniki_referencyjne/aktualnosci?articleId=74928&amp;p_id=18">https://www.knf.gov.pl/dla_rynku/Wskazniki_referencyjne/aktualnosci?articleId=74928&amp;p_id=18</a>	23 September 2021



3.	Communication on the performance of obligations under Article 52 of the Act on consumer credit <a href="https://www.knf.gov.pl/komunikacja/komunikaty?articleId=74117&amp;p_id=18">https://www.knf.gov.pl/komunikacja/komunikaty?articleId=74117&amp;p_id=18</a>	9 July 2021
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2.	Communication on the interpretation of Article 31(1) of the Act on compulsory insurance, the Insurance Guarantee Fund, and the Polish Motor Insurers' Bureau <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_UKNF_dot_art_31_uu_o.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_UKNF_dot_art_31_uu_o.pdf</a>	11 February 2021
3.	Communication for acquirers of motor vehicles insured under a contract of compulsory motor third party liability insurance <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_UKNF_dla_nabywcow_pojazdow_mechanicznych_ubezpieczonych_w_ramach_umowy_OC_72569.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_UKNF_dla_nabywcow_pojazdow_mechanicznych_ubezpieczonych_w_ramach_umowy_OC_72569.pdf</a>	11 February 2021
4.	Communication presenting the conclusions from a review of rulings of common courts regarding the reimbursement of costs of renting a replacement vehicle under a motor third party liability insurance and referring to Resolution of the Supreme Court of 24 August 2017 (Case File No III CZP 20/17) <a href="https://www.knf.gov.pl/komunikacja/komunikaty?articleId=74160&amp;p_id=18">https://www.knf.gov.pl/komunikacja/komunikaty?articleId=74160&amp;p_id=18</a>	16 July 2021
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2.	Q&As regarding the application of Communication from the UKNF of 23 January 2020 on information processing by supervised entities using public or hybrid cloud computing services <a href="https://www.knf.gov.pl/dla_rynku/fin_tech/chmura_obliczeniowa/Q&amp;A">https://www.knf.gov.pl/dla_rynku/fin_tech/chmura_obliczeniowa/Q&amp;A</a>	25 March 2021 18 October 2021
3.	Position of the KNF Board on the dividend policy in 2022 <a href="https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_KNF_ws_polityki_dywidendowej_w_2022_r.pdf">https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_KNF_ws_polityki_dywidendowej_w_2022_r.pdf</a>	9 December 2021

Source: UKNF

**ANNEX 12.9. BREAKDOWN OF THE OPERATING COSTS OF THE UKNF AND KNF BOARD INCURRED IN 2021, DIVIDED INTO AREAS OF SUPERVISION DEFINED IN ARTICLE 1(2) OF THE ACT ON FINANCIAL MARKET SUPERVISION, AND THE ADMINISTRATIVE COSTS**

<b>Area</b>	<b>Cost of supervision</b>
banking supervision	PLN 191 774 thousand, including administrative costs*: PLN 107 461 thousand
pension supervision	PLN 15 495 thousand, including administrative costs*: PLN 8 922 thousand
insurance supervision	PLN 73 809 thousand, including administrative costs*: PLN 41 090 thousand
capital market supervision	PLN 111 929 thousand, including administrative costs*: PLN 53 940 thousand
supervision of payment institutions, small payment institutions, account information service providers, payment services offices, electronic money institutions, branches of foreign electronic money institutions	PLN 1 447 thousand, including administrative costs*: PLN 812 thousand
supervision of rating agencies	- **
supplementary supervision	- **
supervision of credit unions and the National Association of Credit Unions	PLN 980 thousand, including administrative costs*: PLN 549 thousand
supervision of mortgage credit intermediaries and their agents	PLN 1 214 thousand, including administrative costs*: PLN 680 thousand

Source: UKNF

\*Administrative costs must be understood as so-called indirect costs, i.e. operating costs of the KNF Board and the UKNF, which are not directly related to individual costs assigned separately. Such costs are allocated proportionally to individual, separately settled sectors, by direct cost.

\*\*The provisions of the financial market cost financing regime do not require a distinction to be made between the costs of supplementary supervision and the costs of supervision of credit rating agencies. Due to the organisational solutions adopted at the UKNF, the cost of supplementary supervision and the costs of supervision over credit rating agencies are treated as costs not directly assigned to the separated sectors (they are treated as indirect costs).

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