

# REPORT ON THE ACTIVITIES OF THE POLISH FINANCIAL SUPERVISION AUTHORITY IN 2014

Pursuant to Article 4(2) of the Act of 21 July 2006 on Financial Market Supervision, the Polish Financial Supervision Authority is obliged to submit to the Prime Minister the annual report on its activities by 31 July of the following year. In execution of its statutory obligation, the Polish Financial Supervision Authority adopted the *Report on the Activities of the Polish Financial Supervision Authority in 2014* at its 251th meeting held on 10 March 2015.

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## LETTER FROM THE CHAIRMAN OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

The mission of the Polish Financial Supervision Authority (KNF) is to support the stable functioning and secure development of the financial market. The financial sector in Poland is one of the safest and most promising in Europe.

The net profit of the banking sector in 2014 totalled PLN 16.23bn and was the highest in history, with the average Tier 1 ratio of 14.05% as at the end of 2014. The strength of the Polish banks against banks from the euro area was confirmed by the European asset quality review and by stress tests. The scale of the review and the full application of the asset quality review methodology used by the ECB were the KNF's own initiatives distinguishing Poland from the non-euro area Member States. In addition, the KNF, as the only supervisor in the EU, had the inspection potential to conduct the review independently. The KNF issued Recommendation U on bancassurance to improve the quality of cooperation standards between banks and insurance companies. Moreover, principles for Recommendation W on internal models at banks were approved. The application for establishing PKO Bank Hipoteczny [PKO Mortgage Bank] was approved and now other banks are also working on similar projects to support obtaining long-term funding. In connection with the exhaustion of the existing business model and the implementation of the CRD IV/CRR package, the environment of cooperative banks is at a turning point.



In 2014, two new insurance companies were granted the KNF's authorisation, and two out of three significant insurers, which previously carried on business through a branch of a company from another EU Member State, declared their intent to make structural changes by creating separate entities based in Poland and subject to the KNF's supervision. The Authority began to issue guidelines for insurance companies, which concerned, inter alia, reinsurance, insurance distribution, floods and IT. Guidelines on the adjustment of claims under motor insurance, which are complementary to the direct claims adjustment project, are of particular importance. The challenge for insurance companies is the preparation of the Solvency II regime, including the pre-application processes for internal models.

On the capital market, an authorization was granted to KDPW\_CCP SA for the provision of clearing services as a CCP under the provisions of EMIR. We also managed to reduce, by law, the leverage offered by investment firms to customers on the forex market. In the pension sector, the assets of pension funds were reduced by regulation, and the management of OFE Warta was taken over by PTE Allianz.

As far as the integrated supervision is concerned, cross-sectoral projects benefiting from the exchange of experience and information are of particular importance. In 2014, the following issues were added to the common dividend policy: principles of corporate governance for supervised institutions and standardized supervisory review and evaluation process (SREP) methodology, guidelines on IT and an increased interest in mediation as an alternative way of dispute resolution. We also built our own Data Processing Centre (CPD) that meets the highest safety standards.

At the same time, in every community (and there are as many as 2.7 thousand entities supervised by the Polish Financial Supervision Authority), there are problems that need to be solved. The cooperative savings and credit unions sector is undergoing restructuring, which is necessary due to many years of neglect and the fact that for about 20 years unions were left out of the KNF's supervision. Unfortunately, the costs of remedying cooperative savings

and credit unions are borne by banks through contributions to the Bank Guarantee Fund ('BGF') and, indirectly, by bank customers and taxpayers. The current bill amounts to about PLN 3.2bn. For the first time in history, the Polish Financial Supervision Authority prohibited exercising voting rights attached to shares, and namely the shares of FM Bank PBP, and ordered the sale of the bank's shares, which was a consequence of defaulting on investor obligations. The Authority took back the license of Inventum Towarzystwo Funduszy Inwestycyjnych [Investment Fund Company] and two brokerage houses: IDM and First International Traders, due to violations of law and clients' interests. The issue of the risk generated by payment service offices still has no statutory resolution. In 2014, a record number of 19 charges were brought and 15 sentences were passed in cases under the KNF's notification, which is the largest number in history. 2014 was also a record year in terms of decisions imposing a fine on financial market entities - a total of 67 decisions were issued. This has been the largest number since 2006, when the KNF was established, and by 16 decisions more than in 2013.

Unfortunately, also last year an unprecedented event in the history of supervision in Poland took place, namely assault and battery on the Deputy Chairman of the KNF. The perpetrators were apprehended by the police.

On behalf of all the members of the Polish Financial Supervision Authority, I would like to thank everyone for their work in 2014.

Andrzej Jakubiak  
Chairman of the Polish Financial Supervision Authority (KNF)

**FOR THE DESCRIPTION OF THE ISSUES MENTIONED IN THE LETTER OF THE KNF  
CHAIRMAN SEE THE TEXT OF THE REPORT.**

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# 1. POLISH FINANCIAL SUPERVISION AUTHORITY

## LEGAL GROUNDS FOR OPERATION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

The Polish Financial Supervision Authority (hereinafter referred to as the “Authority”, “KNF” or “regulator”) operates under the Act of 21 July 2006 on Financial Market Supervision (Dz.U. of 2012, item 1149, as amended) hereinafter referred to as the Act on Financial Market Supervision.

The Polish Financial Supervision Authority exercises supervision of the financial market, including: banking supervision, supervision of capital market, supervision of insurance market, supervision of pension market, supplementary supervision of financial conglomerates, supervision of electronic money institutions, payment institutions and payment service bureaus, as well as supervision of co-operative savings and loan associations.

The aim of the supervision of the financial market is to ensure the proper functioning of this market, its stability, security and transparency, confidence in the financial market, and to ensure that the interests of this market’s participants are protected.

The President of the Council of Ministers exercises supervision of operations of the Authority.

## COMPOSITION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

The KNF is a collective body composed of the Chairman, two Vice-Chairmen and four members: the minister competent for financial institutions or such minister’s representative, the minister competent for social security or such minister’s representative, the Governor of the National Bank of Poland or the Deputy Governor delegated by him or her, and a representative of the President of the Republic of Poland.

In 2014, the Polish Financial Supervision Authority was composed of:

### **Chairman**

Andrzej Jakubiak

### **Vice-Chairman**

Lesław Gajek

### **Vice-Chairman**

Wojciech Kwaśniak

### **Members:**

#### **Representative of the Minister of Finance**

Ludwik Kotecki

#### **Representative of the Minister of Labour and Social Policy**

Jacek Męcina

#### **Governor of the National Bank of Poland or Deputy Governor of the National Bank of Poland delegated by him or her**

Witold Koziński - Vice-President of the National Bank of Poland - until 24 October 2014

Piotr Wiesiołek - Vice-President of the National Bank of Poland - since 25 October 2014

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

Jerzy Pruski

## COMPOSITION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY in 2014

### Chairman of the Polish Financial Supervision Authority



Andrzej Jakubiak

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



Lesław Gajek



Wojciech Kwaśniak

### Other Members of the Polish Financial Supervision Authority



Ludwik Kotecki  
Representative  
of the Minister of  
Finance



Jacek Męcina  
Representative  
of the Minister of  
Labour  
and Social Policy



Witold Koziński  
Deputy Governor  
of the National  
Bank of Poland  
(until 24.10.2014)



Piotr Wiesiołek  
Deputy Governor  
of the National  
Bank of Poland -  
First Deputy  
Governor of the  
NBP (since  
25.10.2014)



Jerzy Pruski  
Representative  
of the President  
of the Republic of  
Poland

## MEETINGS AND RESOLUTIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

The Polish Financial Supervision Authority within its powers adopts resolutions including administrative decisions and rulings. The Authority adopts resolutions by ordinary majority of votes in open voting in the presence of at least four members, including the Authority's Chairman or Vice-Chairman. In case of a tie, the KNF Chairman has the casting vote.

In 2014, the Polish Financial Supervision Authority held 44 meetings, at which a total of 415 resolutions were adopted, including 353 resolutions in the form of decisions and rulings.

**Table 1. Number of resolutions adopted by the KNF, 2011-2014**

Resolution subject	Number of adopted resolutions			
	2011	2012	2013	2014
Issues regarding banking sector	76	67	76	76
Issues regarding co-operative savings and loan associations sector	-	-	16	47
Issues regarding payment services sector	-	3	17	10
Issues regarding insurance market	43	59	36	54
Issues regarding pension market	82	74	67	71
Issues regarding capital market	152	152	214	153
Cross-sectoral issues and issues regarding internal organisation of the KNF works	12	4	4	4
<b>Total</b>	<b>365</b>	<b>359</b>	<b>430</b>	<b>415</b>

Source: In-house materials by the KNF Office

Detailed information on the number of adopted resolutions per subject is presented in Table 1.1. in Annex 1.

## DECISIONS ISSUED BY THE CHAIRMAN OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

In 2014, the Chairman of the KNF issued 5 decisions on the instigation of ex officio proceedings pursuant to Article 13 of the Act on Capital Market Supervision.

## RULINGS AND ADMINISTRATIVE DECISIONS ISSUED UNDER THE AUTHORITY'S AUTHORISATION

Pursuant to Article 12(1) of the Act on Financial Market Supervision, the Authority may authorise its Chairman, its Vice-Chairmen and the employees of the KNF Office to take actions within the KNF's scope of competence, including to issue rulings and administrative decisions.

In 2014, under the authorisation by the Polish Financial Supervision Authority 2246 decisions and rulings were issued.



**Table 2. Number of decisions and rulings issued under the authorisation granted by the KNF, 2011-2014**

Subject of decisions and rulings	Number of decisions and rulings			
	2011	2012	2013	2014
Issues regarding banking sector	409	418	374	563
Issues regarding payment services sector	-	63	247	102
Issues regarding co-operative savings and loan associations sector	-	-	316	95
Issues regarding insurance market	297	393	347	424
Issues regarding pension market	329	396	293	357
Issues regarding capital market	902	878	670	686
Cross-sectoral issues	14	19	23	19
<b>Total</b>	<b>2 554</b>	<b>1 951</b>	<b>2270</b>	<b>2246</b>

Source: In-house materials by the KNF Office

Detailed information on the administrative decisions and rulings issued under the authorisation by the KNF per subject is presented in Table 1.2. in Annex 1.

## OFFICIAL JOURNAL OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

The Authority issues the Official Journal of the Polish Financial Supervision Authority. In the period covered by the report, there were 30 KNF Official Journals issued, which included, among other things, the publication of the resolutions issued by the KNF and Announcements of the Examination Boards consisting of members appointed by the Chairman of the Polish Financial Supervision Authority (as long as such publication was required by law).

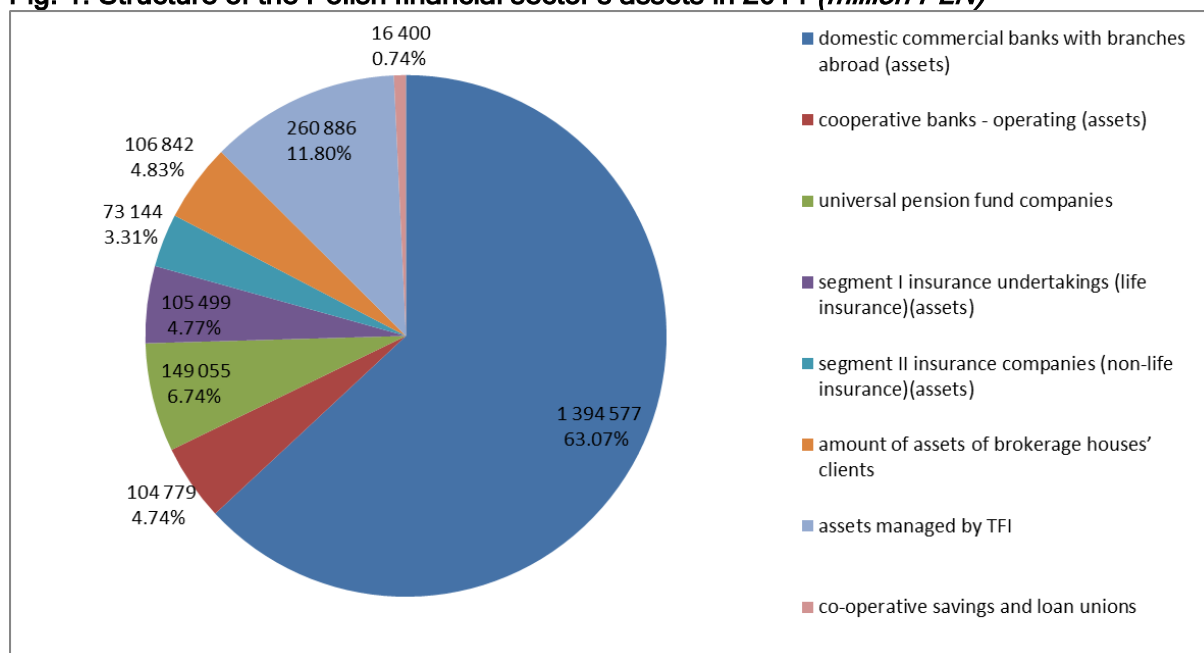
The list of items of the Official Journal of the Polish Financial Supervision Authority issued in 2014 is provided in Annex 3.

## 2. FINANCIAL MARKET IN POLAND - OVERVIEW

In 2014, the Polish economy, also thanks to the domestic demand, maintained a positive and high rate of changes in GDP (3.3%) in comparison with other European countries. Throughout 2014, both inflation (the retail prices index amounted to exactly 100.0) and the central bank's reference rate (down to 2.0%) remained low. It should be emphasized that for the first time since the political transformation in 1989, deflation has been recorded in several months (from July to December). In December, the consumer price index fell by 0.3% per month and by 1% per year. In addition, during the year there was a systematic decline in the unemployment rate, which at the end of the year amounted to 11.5% compared to 13.4% at the end of the previous year. The current account balance was positive in four months of the year (for comparison, in 2013 only in one month, and in 2012 in no month at all). On the other hand, the cumulative current account balance for the entire 2014 amounted to PLN -5.3bn and remained at a similar level as in 2013. Other items of the payment account in 2014 were as follows: the capital account balance equal to PLN 10bn, and the financial account balance equal to PLN -2.9bn.

In 2014, the situation on the Polish financial market was stable, although in the second half of the year the Polish zloty began to weaken against the US dollar. At the end of the year, moderate depreciation against the euro and the Swiss franc was also recorded. At the end of 2014 the average NBP exchange rates were as follows: USD/PLN: 3.51, EUR/PLN: 4.26 and CHF/PLN: 3.54 against 3.01, 4.15 and 3.38 respectively at the end of 2013.

**Fig. 1. Structure of the Polish financial sector's assets in 2014 (million PLN)**



Source: In-house materials by the KNF Office

\* Total assets of the banking sector at the end of December 2014 amounted to PLN 1,532.3bn - the data presented in the figure does not cover branches of credit institutions that are not supervised by the Polish Financial Supervision Authority. The presented data for 2014 is derived from the monthly December 2014 reporting of banks and cooperative savings and credit unions, and was not audited.

In the entire 2014, total assets of the banking sector increased by about 9%. This change was considerably higher than the asset value increase achieved in the previous year (5%). The situation of the whole sector remained stable and liquidity ratios were maintained at safe levels. The profit of the whole sector exceeded PLN 16bn and was higher than the profit achieved in 2013 (PLN 14bn).

At the end of the fourth quarter of 2014, 50 savings and credit unions were operating. They had nearly 2.5m members (as of December 2014), their assets amounted to PLN 16.4bn (PLN 13.9bn excluding the unions whose operations have been suspended) and were by more than PLN 2.2bn lower than in December 2013. In the fourth quarter of 2014, unions recorded in total a loss of PLN 766m (PLN 126m excluding unions whose operations have been suspended). Unions' own funds at the end of 2014 amounted to PLN -571m (PLN 346m without the unions whose operations have been suspended). The data presented is preliminary, has not been audited by a statutory auditor and is subject to change. The financial performance of unions was negatively affected mainly by a deteriorating quality of the loan portfolio and the related need to recognise impairment losses. The size of the sector's deposit operations and assets is still inadequate to the level of own funds. In 2014, the KNF first suspended, and then filed a petition for the bankruptcy of two unions, namely SKOK "Wspólnota" and "Wołomin". As a result of the losses incurred by these unions, the Bank Guarantee Fund was forced to pay their customers PLN 815m and PLN 2.2bn respectively. Moreover, in 2014, SKOK Jana z Kęt was taken over by Alior Bank S.A. and SKOK Kopernik by Bank PEKAO S.A. In addition, the KNF has approved the merger of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Szopienice (as the acquiring union) with Spółdzielcza Kasa Oszczędnościowo-Kredytowa Dziedzice (as the union being acquired). Attention should be drawn to the fact that at the end of 2014, recovery proceedings was conducted in 42 unions.

In 2014, the Warsaw Stock Exchange recorded an increase of only 0.26% in WIG, its main index, which was accompanied by a decrease in the WIG20 index (-3.5%). For comparison, in the previous year the changes in these indexes amounted to 8% and 7% respectively.

Share trading in 2014 totalled over PLN 230bn, down by approx. 9% against the previous year. In the entire 2014, 28 new listings were recorded on the WSE, i.e. by 5 more than in the previous year. Pension funds account for the vital part of demand on the stock exchange. The value of WSE-listed shares held in OFEs' portfolios, as measured by the share in the total capitalisation of the WSE, reached 9.4% as at the end of 2014 against 14.2% as at the end of 2013. The value of OFEs' investments in shares listed on the regulated market decreased over this period from PLN 123.6bn to PLN 123.3bn (down by 0.2%). It should be noted that in 2014 an unprecedented operation of transfer of 51.5% of OFEs' assets to the Social Insurance Institution [ZUS] took place. In addition, in accordance with the rules applicable as of this year (the so called 'safety slider'), in subsequent years the contributions of those who will retire in less than 10 years will be gradually transferred from OFEs to ZUS. In 2014 OFEs transferred to ZUS, on this basis, contributions amounting to nearly PLN 3.7bn.

There were also significant increases as far as investment fund companies and insurance companies are concerned. At the end of 2014, the value of insurance and reinsurance companies' assets amounted to PLN 178.64bn.

**Table 3. Number of entities regulated by the KNF as at 31 December 2014**

Type of entity	Number of entities
Commercial banks (including 1 state-owned bank and 2 associating banks)	38
Co-operative banks	565
Cooperative savings and credit unions, National Cooperative Savings and Credit Union	51
National payment institutions	28
Payment service offices	1 355
Segment I insurance companies (life insurance)	28
Segment II insurance and re-insurance companies (non-life insurance)	31
Universal pension fund companies	12
Occupational pension fund companies	4
Entities conducting brokerage business	66
Investment fund companies	58
Power utilities keeping commodity accounts or registers	57
Commodity brokerage houses	1

Source: In-house materials by the KNF Office

**Table 4. Number of entities which submitted a notification of intent to conduct activities in Poland through a branch as at 31 December 2014**

Type of entity	Number of entities
Credit institutions	11
Payment institutions	6
Insurance companies	26
Reinsurance companies	1
Investment firms*	14
Management companies**	1

\* 20 branches of credit institutions also submitted notifications of intent to conduct investment activities.

\*\* An entity that obtained authorisation for management of UCITS funds.

Source: In-house materials by the KNF Office

## 2.1. BANKING AND CO-OPERATIVE SAVINGS AND LOAN ASSOCIATIONS SECTOR

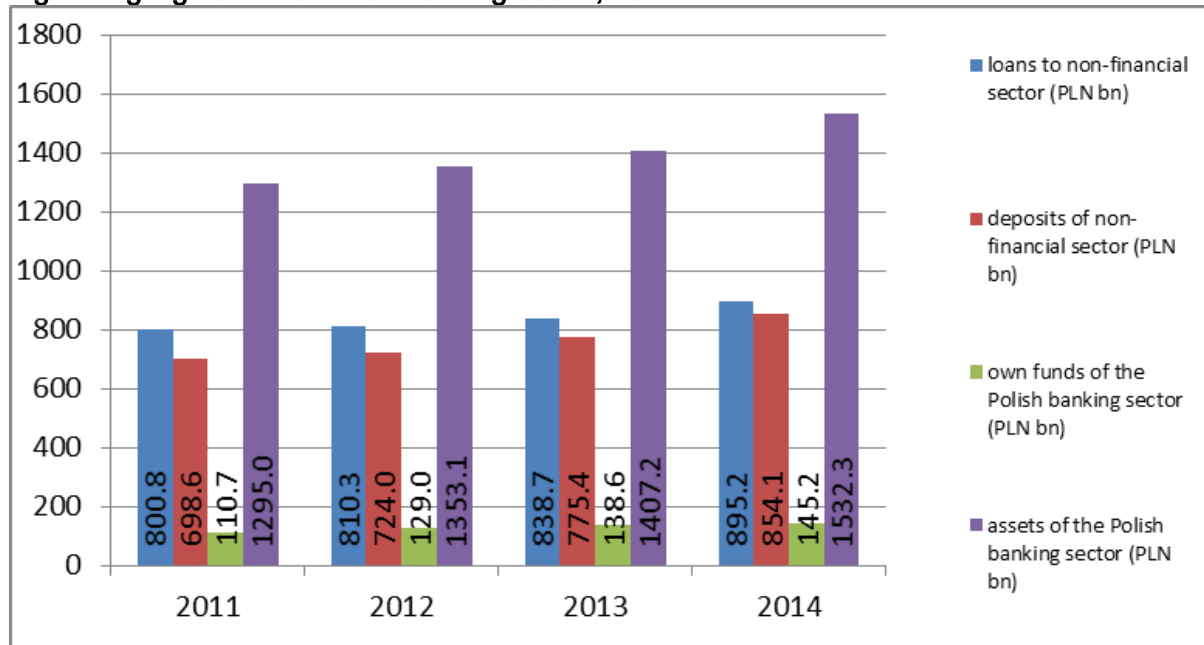
As at the end of 2014, the Polish Financial Supervision Authority regulated the activities of 38 commercial banks (including 1 state-owned bank and 2 associating banks), 565 cooperative banks, 28 branches of credit institutions, 50 cooperative savings and credit unions and the National Cooperative Savings and Credit Union.

As at 31 December 2014, cooperative banks were associated in Bank Polskiej Spółdzielczości S.A. in Warsaw (360) and SGB-Bank S.A. in Poznań (204). One co-operative bank operated independently (KBS in Cracow).

In 2014, None of the cooperative banks changed its association, and the Polish Financial Supervision Authority granted its permission to the merging processes in the case of 6 cooperative banks.

As at 31 December 2014, there were 52 cooperative savings and credit unions, including 50 active unions, associated in the National Union. In the course of 2014, the number of active unions decreased from 55 to 50, due to the merging processes, acquisitions and due to the fact that the KNF suspended two entities and one of them was declared bankrupt by the court in 2014.

**Fig. 2. Highlights of the Polish banking sector, 2011-2014**



Source: In-house materials by the KNF Office

The presented data for 2014 comes from banks' monthly December 2014 reporting and was not audited. The data for previous years may differ from those published in previous reports because of adjustments made by the banks themselves, and because of the subsequent auditing process.

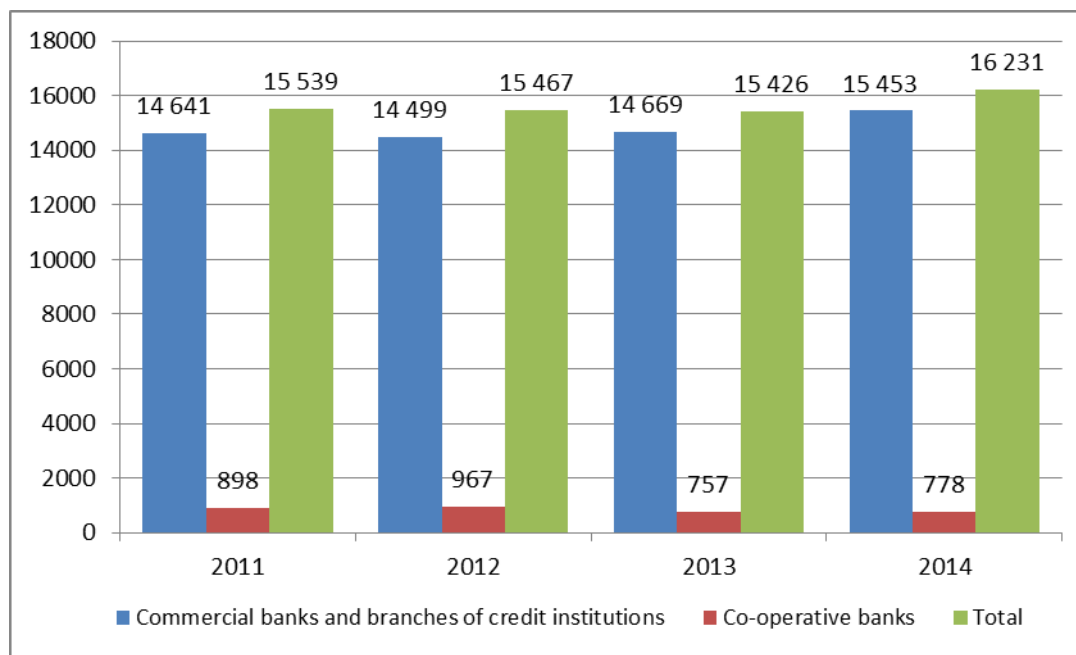
The balance-sheet total of the Polish banking sector as at the end of December 2014 amounted to PLN 1,532.3bn (up by 9% against the end of December 2013). Domestic commercial banks (including branches abroad) account for 91% of the value of the sector's assets, branches of credit institutions - for 2.1% and cooperative banks - for 6.8%.

In the assets' structure, loans and other receivables accounted for 69.7% (PLN 1,068.5bn), available-for-sale financial assets accounted for 15.1% (PLN 232bn), financial assets held for trading accounted for 3.6% (PLN 54.6bn) and cash in hand and balances with central banks accounted for 4.4% (PLN 67.6bn). In the equity and liabilities structure, deposits accounted for 68.3% of the balance sheet total (PLN 1,046.6bn) and equity for 10.9% (PLN 166.5bn).

Gross receivables from the non-financial sector grew in 2014 by 6.8% and as at the end of December reached PLN 895.2bn.

An important component of the banking sector's assets are mortgages, including mortgages denominated or indexed in Swiss francs (CHF). 2014 was another year of a clear decrease in the volume of loans in CHF - their sum in the original currency decreased from CHF 40.1bn at the end of December 2013 to CHF 37.4bn at the end of December 2014, which means a decrease of 7.2%, and in a five-year period - a decrease of more than 28% (from CHF 48bn at the end of December 2009). At the same time the quality of housing loans, including those denominated in CHF, remains good - the share of non-performing loans in the portfolio of housing loans is the lowest of all loan portfolios, both for households and businesses.

**Fig. 3. Net profit of the banking sector, 2011-2014 (million PLN)**



Source: In-house materials by the KNF Office

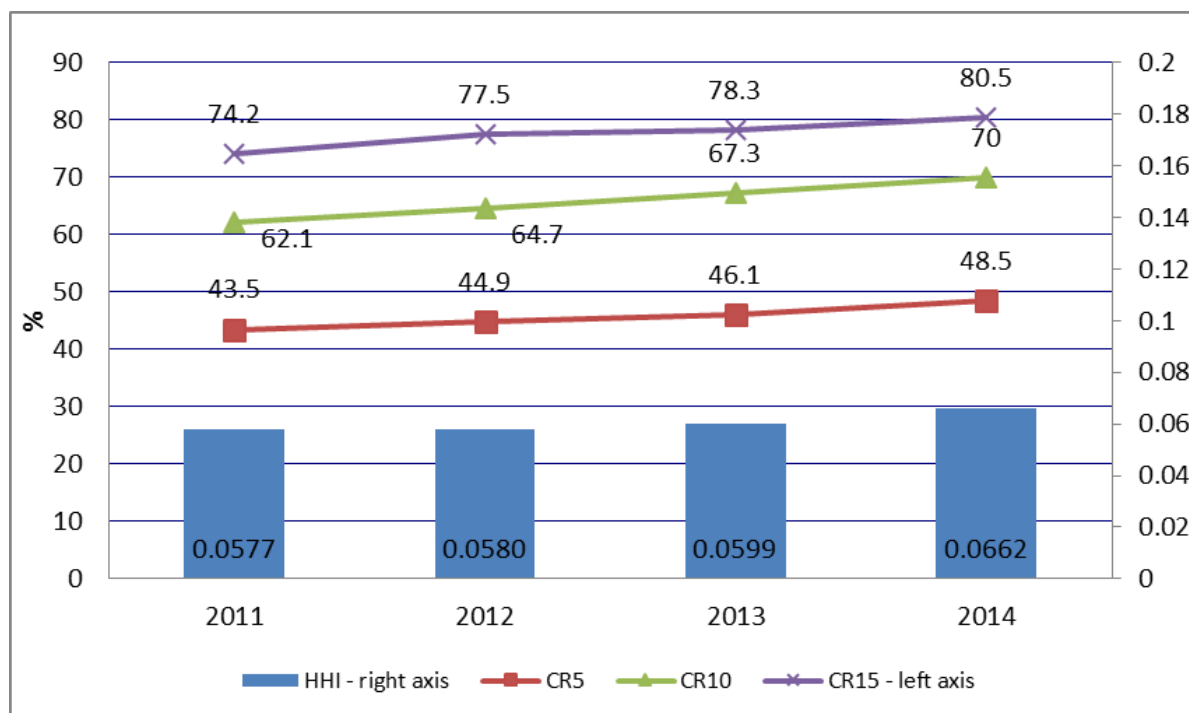
The presented data for 2014 comes from banks' monthly December 2014 reporting and was not audited. The data for previous years may differ from those published in previous reports because of adjustments made by the banks themselves, and because of the subsequent auditing process.

The net profit of the banking sector in 2014 totalled PLN 16.23bn and was the highest in history. Net interest income totalled PLN 34.7bn (7.15% year on year), including interest income of PLN 58.9bn (-4.9% year on year) and interest costs of PLN 21.7bn (-20.3%). Net commission income totalled PLN 13.5bn (0.7% year on year). Net income on banking activity grew in the analysed period by 4% to PLN 57.7bn. The banks' operating expenses were by 1.3% lower than in the previous year and amounted to PLN 27.2bn, and impairment losses increased by 5.6% year on year to PLN 8.2bn.

The assets of cooperative savings and credit unions as at the end of the fourth quarter of 2014 totalled more than PLN 16.4bn (assets excluding suspended unions amounted to PLN 13.9bn). In addition, according to reporting data, the SKOK sector recorded a net loss of PLN 766m (PLN 126m excluding suspended union). Unions' own funds at the end of 2014 amounted to PLN -571m (PLN 346m without the unions whose operations have been suspended). The data presented is preliminary, has not been audited by a statutory auditor and is subject to change. The following factors had a significant impact on the sector's financial performance: the deteriorating quality of the loan portfolio, a decrease in the cost of attracting deposits, one-off transactions relating to the separation of parts of a continuing business, which were carried by several unions, and improving profitability of some unions.

Impairment losses due to the deteriorating quality of the loan portfolio had a significant negative influence on unions' financial performance.

**Fig. 4. Asset concentration, 2011-2014**



Source: In-house materials by the KNF Office

CR5, CR10, CR15 - indicators showing the shares of the five, ten and fifteen largest banks in the banking sector's total assets.

HHI - Herfindahl-Hirschman Index (the sum of the squares of banks' shares in the banking sector's assets) is the market concentration measure used to assess the competition level on a given market. This index takes account not only of the number of entities but also of their relative size. HHI at the level of 0.058 describes a competitive market.

The presented data for 2014 comes from banks' monthly December 2014 reporting and was not audited. The data for previous years may differ from those published in previous reports because of adjustments made by the banks themselves, and because of the subsequent auditing process.

## 2.2. PAYMENT SERVICES SECTOR

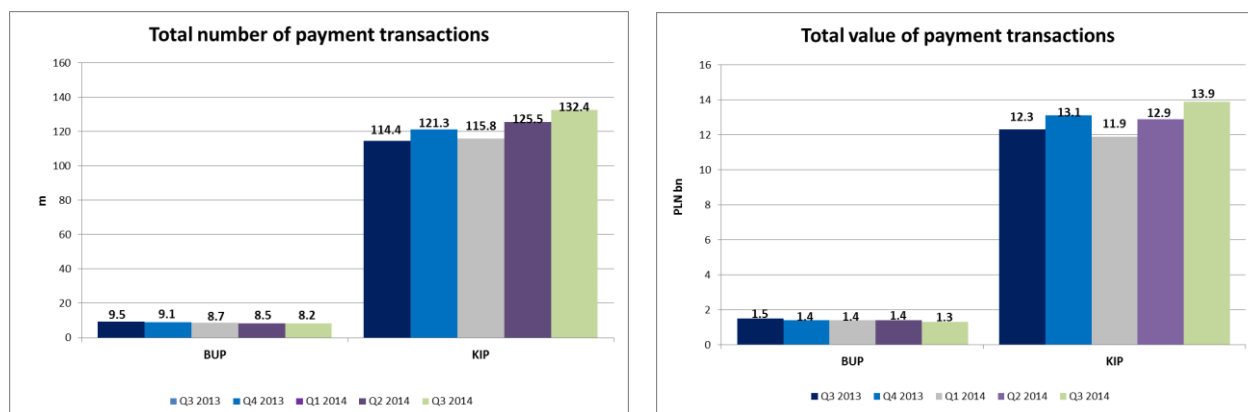
The Act on Payment Services (consolidated text: Dz.U. of 2014, item 873, "APS") introduced a closed list of payment service providers. The two categories of payment service providers, i.e. domestic payment institutions ("KIP") and payment service offices ("BUP") were put under the Polish Financial Supervision Authority's supervision.

As at 31 December 2014, a total of 28 domestic payment institutions held authorisations. The payment service register as at 31 December 2014 covered 1,381 payment service offices.

Because of the conditions and deadlines for the provision of reporting data by payment services providers, as set forth in UUP, at the end of the period covered by the report the KNF has reporting data of KIP and BUP for the period covering the first, second and third quarter of 2014.

It follows from the data held by the KNF that as further entities obtained authorisations to operate as a domestic payment institution, the disproportion between the total volume of operations of KIPs and BUPs, as measured by the total number and the total value of executed transactions increased rapidly in consecutive quarters.

**Fig. 5. Comparison of the total number and value of payment transactions executed by BUPs and KIPs for the period from Q3 2013 to Q3 2014**



Source: In-house materials by the KNF Office

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

### INSURANCE MARKET ENTITIES

As at the end of 2014, authorisations to conduct insurance activities in Poland were held by 59 domestic insurance companies (including 28 life insurance companies and 31 non-life insurance companies, including 1 reinsurance company). As at 31 December 2014, 1 insurance company was put into liquidation (UNIVERSUM Towarzystwo Ubezpieczeń na Życie S.A. in liquidation).

Two new insurance undertakings appeared on the insurance market: in 2014, Credit Agricole Towarzystwo Ubezpieczeń S.A. and Pocztove Towarzystwo Ubezpieczeń na Życie S.A. were granted an authorization to perform insurance operations (the latter undertaking has not yet started to perform insurance operations). In addition, there was a merger of two insurance companies: Benefia Towarzystwo Ubezpieczeń na Życie S.A. VIG with Compensa Towarzystwo Ubezpieczeń na Życie S.A. VIG (since the merger, the insurance undertaking has been operating under the name Compensa Towarzystwo Ubezpieczeń na Życie S.A. VIG) and of Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A. with MTU Moje Towarzystwo Ubezpieczeń S.A. (since the merger, the insurance undertaking has been operating under the name Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.).

In 2014, Compensa Towarzystwo Ubezpieczeń S.A. VIG notified the KNF of its intent to start insurance operations in the form of a branch within the territory of the Republic of Estonia.

### SECURITY OF THE INSURANCE AND REINSURANCE SECTOR

In the entire 2014, the situation of the insurance sector was stable. A surplus of own funds in relation to capital requirements was recorded. The ratio of available solvency margin to required solvency margin fell by 11.70pp to the level of 345.57%, while the available solvency margin covering guarantee fund to guarantee fund decreased by 35.26pp to 959.28%.

All the insurance companies complied with the condition of maintaining available solvency margin to required solvency margin and available solvency margin covering guarantee fund to guarantee fund as well as the condition of maintaining the technical provisions coverage ratio.

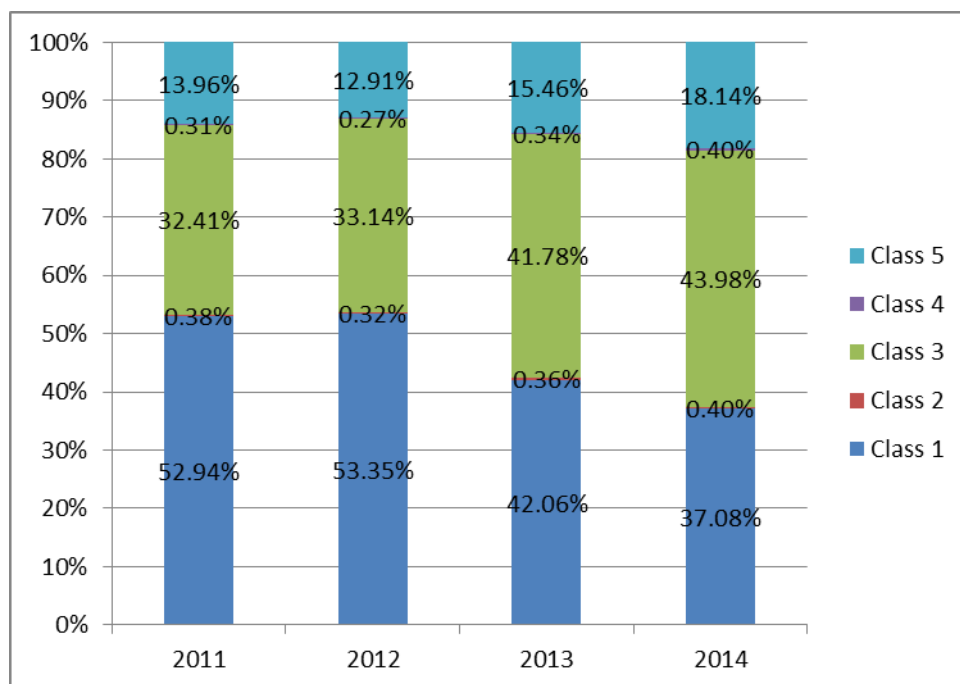
<sup>1</sup>The data presented for 2014 is derived from the financial statements of insurance and reinsurance undertakings for the fourth quarter of 2014 and should be treated as preliminary. The data for previous years may differ from those published in previous reports due to adjustments made by the companies themselves.

## REVENUE OF INSURANCE COMPANIES

In 2014, the gross premium written being the main source of income of insurance undertakings totalled PLN 54.92bn, which means that the insurance sector recorded a fall of 5.09% against 2013. This fall was mainly due to the decrease in the premium of life insurance undertakings (segment I) of PLN 2.60bn or 8.31% (the premium of PLN 28.67bn). For segment II insurance companies gross premium written totalled PLN 26.25bn, down by 1.31%.

Class 3 insurances (life insurance with unit-linked insurance plan) with a premium equal to PLN 12,60bn were dominant in the segment I direct insurance portfolio and accounted for 43.98% of the total gross premium written from direct insurance of segment I undertakings. In this class, there was a decrease of PLN 0.45bn in gross premium written. Class 1 insurances (life insurance) with premium equal to PLN 10.62bn (an annual decrease of PLN 2.52bn) accounted for 37.08% of segment I direct insurances. The decrease in the premium written in segment I resulted mainly from reductions in the sale of short-term life insurances (unit-linked life insurance products - Polish: polisolokaty) and small interest in life insurance with unit-linked insurance plan (hereinafter: 'UFK')

**Fig. 6. Structure of segment I insurance portfolio, 2011-2014**



Source: In-house materials by the KNF Office

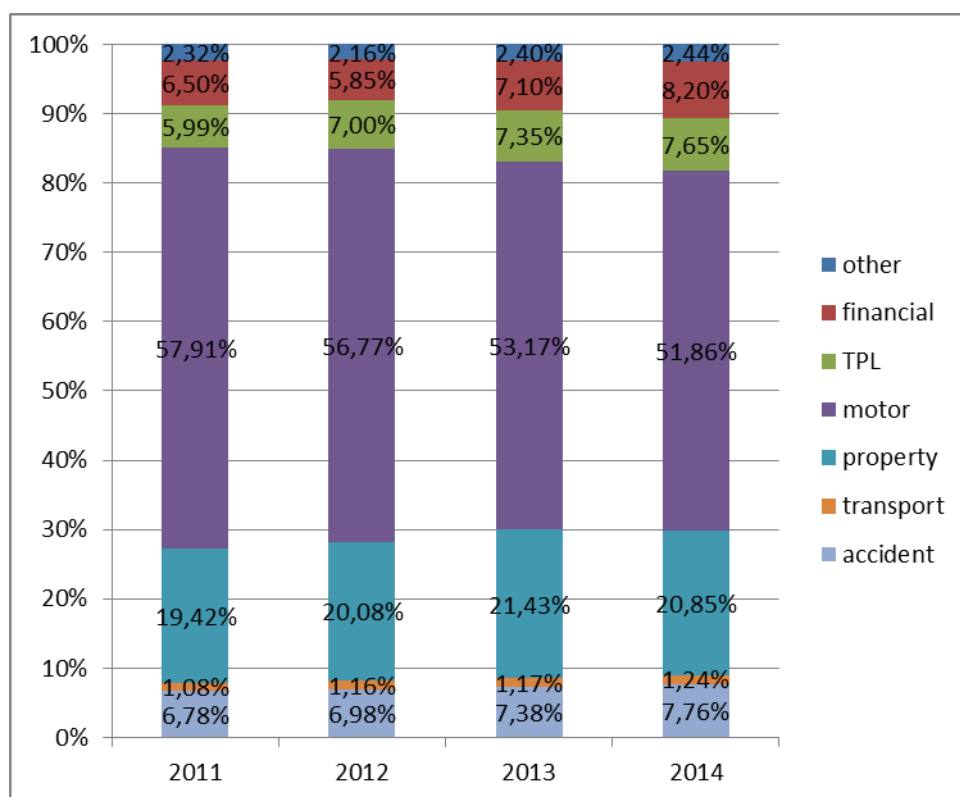
In the case of non-life insurance undertakings, the largest increase in gross premium written was recorded in class 16 "insurance of various financial risks" (an increase of PLN 0.25bn to the amount of PLN 1.27bn) and in class 13 "other civil liability insurance" (an increase of PLN 0.06bn to PLN 1.92bn). A fall in premiums written in class 10 (third-party liability insurance), class 8 (insurance against damage caused by natural forces) and class 3 (Casco insurance) of PLN 0.65bn in total had the greatest impact on the drop in the market:

- in class 10 (third-party liability insurance), gross premium written amounted to PLN 8.07bn and was lower compared with the previous year by PLN 0.39bn (4.65%),
- in class 8 (insurance against damage caused by natural forces), the premium decreased by PLN 0.19bn (6.13%) to PLN 2.93bn,
- in class 3 (casco insurance) a premium of PLN 5.26bn was collected, less by PLN 0.06bn (1.17%) than in the corresponding period of the previous year.



The segment II insurance continues to be dominated by automobile insurance (TPL and comprehensive insurance) accounting for 51.86% of the direct insurance portfolio.

**Fig. 7. Structure of segment II insurance portfolio, 2011-2014**



Source: In-house materials by the KNF Office

## PERFORMANCE OF INSURANCE COMPANIES

The insurance sector in total recorded the technical profit of PLN 4.06bn (lower by 4.79% compared to 2013). and the financial profit of PLN 6.80bn (lower by 23.70% than in the previous year).

In the life insurance segment, the technical profit of PLN 3.31bn (higher by 9.99% compared to the same period of the previous year) and the financial profit of PLN 3.14bn (higher by 11.65% compared to the same period of the previous year) were generated. From the point of view of the performance of each insurance class, an increase of PLN 0.31bn in class 1 (life insurance) over the year and a high technical profit in class 5 (accident and sickness insurance) had the decisive influence on the improvement in the technical profit.

The technical profit of PLN 0.75bn (lower by 40.17% compared to the same period of the previous year) and the net financial profit of PLN 3.67bn (lower by 39.96% compared to the same period of the previous year) were generated in non-life insurances. From the point of view of the financial performance in each insurance class, a decrease of PLN 0.47bn in class 10 (motor TPL insurance) and lower technical profits in class 3 (casco insurance) and class 9 (insurance against other damage to property) had an influence on the deterioration of the technical profit over the year. The biggest improvement in the technical profit took place in class 8 (insurance against damage caused by natural forces), where an increase of PLN 0.22bn was recorded over the year.

**Table 5. Highlights of the performance of segment I insurance companies, 2011-2014 (billion PLN)**

Detailed items	2011	2012	2013	2014
<b>Balance-sheet highlights</b>				
Investments	47,31	49,28	45,46	45,18
Life insurance net assets, where the investment risk is borne by the policyholder	37,46	45,11	49,83	53,99
Equity	12.76	14.77	12.79	13.17
Technical provisions	73.02	81.11	83.73	86.54
Balance-sheet total	89.87	99.92	101.37	105.50
<b>Income statement highlights</b>				
Gross premiums written	31.83	36.38	31.26	28.67
Gross compensation and benefits paid	26.07	25.92	23.09	20.36
Cost of insurance operations	5.54	6.35	6.05	6.39
Client acquisition cost	3.98	4.68	4.47	4.89
Administrative expenses	1.63	1.74	1.67	1.71
Result on insurance operations	3.35	3.13	3.01	3.31
Profit (loss) for the period	2.92	2.97	2.81	3.14
<b>Selected solvency items</b>				
Own funds	11.87	13.64	11.77	11.99
Solvency margin	3.78	3.92	3.95	4.01
Guarantee fund	1.36	1.42	1.41	1.43

Source: In-house materials by the KNF Office

**Table 6. Highlights of the performance of segment II insurance undertakings, 2011-2014 (billion PLN)**

Detailed items	2011	2012	2013	2014
<b>Balance-sheet highlights</b>				
Investments	45.47	51.76	53.53	59.10
Equity	18.14	21.41	20.76	21.52
Technical provisions	36.30	40.05	43.13	46.43
Balance-sheet total	56.24	62.77	65.86	73.14
<b>Income statement highlights</b>				
Gross premiums written	25.29	26.25	26.60	26.25
Gross compensation and benefits paid	13.74	14.05	13.72	13.81
Cost of insurance operations	6.65	7.05	7.01	7.39
Client acquisition cost	5.36	5.66	5.96	6.22
Administrative expenses	1.92	2.07	1.81	1.84
Result on insurance operations	0.30	0.66	1.26	0.75
Profit (loss) for the period	3.08	3.33	6.11	3.67
<b>Selected solvency items</b>				
Own funds	14.33	17.65	16.58	15.86
Solvency margin	3.76	3.85	3.99	4.05
Guarantee fund	1.37	1.41	1.44	1.47

Source: In-house materials by the KNF Office

## 2.4. PENSION SECTOR

### OPEN-END PENSION FUNDS AND UNIVERSAL PENSION FUND COMPANIES

As at the end of 2014, authorisations were held by 12 open-end pension funds and the same number of pension fund companies managing the funds. In 2014, the management of OFE Warta was taken over by PTE Allianz Polska S.A.

As from 1 May 2011, following the reduction of the assessment basis of contributions transferred from the Social Insurance Institution ("ZUS") to open-end pension funds ("OFEs"), OFEs were receiving 2.3% of the contribution assessment basis, and then the ratio increased to 2.5% in 2012 and to 2.8% in 2013, and in January 2014 to 3.1%. As a result of thorough legal changes in the pension system, which were adopted in December 2013, the rate of 2.92% has been in force since February 2014. In addition, as from 1 July 2014 the contributions are transferred to OFEs only for those who filed a special declaration with ZUS (such a declaration was filed by about 15% of members of OFEs). From that moment on, contributions of other pension fund members and of persons subject to social insurance who are not members of OFE are recorded on individual accounts at ZUS.

**Table 7. Net asset value of open-end pension funds as at year-end, 2011-2014**

Open-end pension fund	Net asset value (million PLN)				Market share (%)
	2011	2012	2013	2014	
AEGON OFE	9 692.7	11 601.4	12 645.8	6 329.6	4.2
Allianz Polska OFE	6 725.7	8 220.2	9 104.3	6 669.3	4.5
Aviva OFE Aviva BZ WBK	51 272.0	60 901.4	66 710.3	33 285.2	22.3
AXA OFE	14 142.9	16 912.6	18 639.0	9 490.3	6.4
Generali OFE	11 270.0	13 529.1	15 006.1	7 500.7	5.0
ING OFE	53 301.7	64 169.7	72 157.6	35 862.2	24.1
MetLife OFE (formerly Amplico OFE)	17 444.7	21 368.3	23 953.2	11 836.7	7.9
Nordea OFE	10 083.9	12 048.3	13 532.8	6 882.5	4.6
Pekao OFE	3 387.7	4 047.6	4 510.2	2 217.6	1.5
PKO BP Bankowy OFE	7 558.3	9 447.0	13 186.7	6 645.3	4.5
OFE Pocztylion	4 261.3	5 092.0	5 692.7	2 781.5	1.9
OFE Polsat	2 000.0	2 369.7	-	-	-
OFE PZU „Złota Jesień”	30 523.0	36 282.4	40 114.7	19 553.7	13.1
OFE WARTA	3 056.4	3 606.7	4 019.1	-	-
<b>Total</b>	<b>224 720.1</b>	<b>269 596.5</b>	<b>299 272.5</b>	<b>149 054.6</b>	<b>100.0</b>

Source: in-house materials by KNF Office prepared based on daily reports of open-end pension funds

At the year-end of 2014, open-end pension funds' assets reached PLN 149.1bn, having decreased by 50.2% (PLN 150.2bn) over the year. In accordance with the provisions of Article 23 of the Act of 6 December 2013 *amending certain acts in connection with defining the principles for the payment of pensions from funds accumulated in open-end pension funds*, on 3 February 2014 open-end pension funds transferred to the Social Insurance Institution (ZUS) assets amounting to PLN 153.2bn.

The transfer of a portion of OFEs' assets to ZUS was not the only consequence of the implementation of the new regulations, which came into force in 2014. OFE assets decreased also by PLN 3.7bn in connection with the gradual transfer, to ZUS, of the funds of members who have less than 10 years to reach the retirement age.

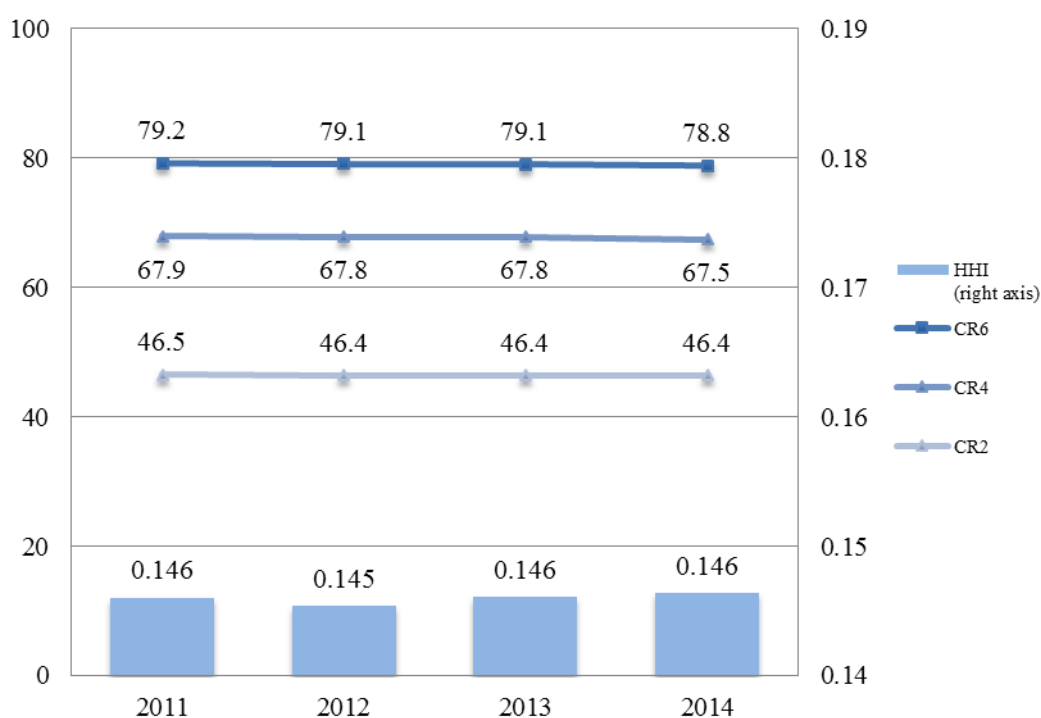
The transfer, to PTEs, of funds from the liquidation of the additional part of the Guarantee Fund, worth of over PLN 950m, was another factor affecting the value of the net assets of OFEs. This operation did not affect the value of funds belonging to OFE members.

Due to an unfavourable situation in the financial market, the OFE sector was unable to make a profit and the generated financial performance of OFEs was slightly negative and amounted to PLN -147.6m. The recorded loss is insignificant considering that the amount of OFE assets in January 2014 fluctuated around PLN 300bn, and in the period from February

to December 2014 - around PLN 150bn. In 2014, the rates of return generated by open-end pension funds ranged from -0.9% to 2.3%; the weighted average rate of return reached 0.8%. A decrease in assets caused by the above-mentioned factors was partially offset by the contributions transferred by the Social Insurance Institution, the value of which in 2014 amounted to PLN 8.3bn.

The aggregate market share of the four largest pension funds, measured in terms of net asset value as at the end of 2014, was 67.5% (a decrease of 0.3pp over the year). In 2011-2014, there were only slight changes in the CR2, CR4 and HHI indicators, which indicates a stabilization of the market structure.

**Fig. 8. Concentration of net assets of open-end pension funds, 2011-2014**



CR2, CR4, CR6 - indicators showing the shares of the two, four and six largest open-end pension funds in total assets

HHI (Herfindahl-Hirschman Index) - a measure of market concentration, specifying the estimated level of concentration in a given industry and the level of competition in a given market; it is calculated as the sum of the squares of the market shares of individual companies (e.g. the sum of the squares of the shares of individual open-end pension funds in the open-end pension funds total assets)

Source: In-house materials by the KNF Office

As at the end of 2014, there were 16.6m members of open-end pension funds. The market share of 4 largest funds, measuring by the number of members, did not change compared to the previous year and amounted to 57.6%.

**Table 8. Number of open-end pension fund members as at year-end, 2011-2014**

Open-end pension fund	Number of members ('000)				Market share (%)
	2011	2012	2013	2014	2014
AEGON OFE	948.5	947.0	941.3	929.0	5.6
Allianz Polska OFE	508.1	553.7	593.0	1 082.5	6.5

Aviva OFE Aviva BZ WBK	2 687.5	2 672.9	2 676.4	2 667.0	16.0
AXA OFE	1 109.4	1 162.2	1 163.8	1 158.2	7.0
Generali OFE	890.1	1 006.3	1 010.3	1 005.9	6.1
ING OFE	2 954.1	3 010.2	3 060.3	3 081.5	18.5
MetLife OFE (formerly Amplico OFE)	1 192.6	1 269.9	1 537.3	1 601.1	9.6
Nordea OFE	898.8	888.3	925.4	994.5	6.0
Pekao OFE	344.5	342.8	342.0	338.4	2.0
PKO BP Bankowy OFE	539.5	657.8	956.9	949.9	5.71
OFE Pocztylion	588.3	595.9	594.8	-	-
OFE Polsat	302.5	300.8	-	589.4	3.5
OFE PZU „Złota Jesień”	2 215.0	2 222.9	2 229.8	2 224.3	13.4
OFE WARTA	314.5	311.5	346.3	-	-
<b>Total</b>	<b>15 493.4</b>	<b>15 942.3</b>	<b>16 377.7</b>	<b>16 621.7</b>	<b>100.0</b>

Source: Social Insurance Institution (ZUS)

The rates of return generated by open-end pension funds depend largely on the financial market situation. In 2014, the rates of return generated by the majority of funds were positive, but also significantly lower than in the previous year. It should be remembered that in 2014, deflation occurred in Poland (the inflation rate amounted to 1% in the period from December 2013 to December 2014), so the real value of assets managed by OFEs has not decreased.

**Table 9. Rates of return of open-end pension funds, 2011-2014 (%)**

Open-end pension fund	2011	2012	2013	2014
AEGON OFE	-4.8%	16.4%	5.5%	1.9%
Allianz Polska OFE	-4.5%	18.0%	6.3%	1.6%
Aviva OFE Aviva BZ WBK	-4.6%	16.6%	6.3%	1.7%
AXA OFE	-3.3%	14.9%	6.2%	2.3%
Generali OFE	-4.0%	15.0%	6.6%	0.3%
ING OFE	-4.5%	16.6%	8.4%	-0.9%
MetLife OFE (formerly Amplico OFE)	-4.8%	17.2%	8.0%	0.6%
Nordea OFE	-4.1%	17.6%	8.4%	1.7%
Pekao OFE	-5.3%	16.1%	7.4%	-0.7%
PKO BP Bankowy OFE	-4.8%	16.4%	7.9%	1.5%
OFE Pocztylion	-6.1%	15.3%	7.5%	-0.6%
OFE Polsat	-7.2%	14.6%	-	-
OFE PZU „Złota Jesień”	-5.3%	15.7%	7.2%	-0.2%
OFE WARTA	-4.2%	16.2%	7.4%	-
<b>Average</b>	<b>-4.8%</b>	<b>16.2%</b>	<b>7.2%</b>	<b>0.8%</b>

Source: in-house materials by KNF Office prepared based on daily reports of open-end pension funds

In 2014, the major items in the income statements of pension fund companies were revenues related to the management of pension funds (open-end and voluntary), including:

- revenue from payments from the Guarantee Fund (48.3% of revenue)
- revenue from the fee for open-end pension fund management (38.6% of total revenue),
- revenue from charges on contributions to open-end pension funds (8% of revenue),

and costs:

- PTE general management costs (26.4% of costs),
- payments to the Guarantee Fund (21.1% of costs),
- transfer agent costs (20.1% of costs),
- acquisition for OFEs and DFEs (15.1%).

The financial situation of PTEs in 2014 changed significantly compared to previous years. The revenue from the management of pension funds increased by 20.7% and amounted to just over PLN 2bn, and at the same time the costs associated with the management of pension funds increased by 5.7% and amounted to PLN 742.9m. This was, to a large extent, the result of legislative changes which came into force at the beginning of 2014, which is especially visible in cash flows relating to the Guarantee Fund. In accordance with regulations applicable as from February, the additional portion of the Guarantee Fund was liquidated, and the Guarantee Fund's portion administered by KDPW was increased. As a result of these operations, there was a significant, but one-off increase in the profits of PTEs in 2014.

## OCCUPATIONAL PENSION FUNDS AND OCCUPATIONAL PENSION FUND COMPANIES

As at 31 December 2014, there were 4 occupational pension fund companies on the market, and they managed 4 occupational pension funds. Since June 2014, one entity has left the market of occupational pension funds in connection with the fact that some employers changed the form of saving from an occupational pension fund into payment of employee contributions by the employer to the investment fund.

As at the end of 2014, net assets accumulated in occupational pension funds (PFE) stood at PLN 1,774.8m. Compared to 2013, net assets of PFEs decreased by PLN 264.1m or 13%. This decrease was mainly due to the aforementioned change in the form of saving by one entity. In the period covered by the Report, base and additional contributions worth of PLN 135.2m were transferred to the accounts of occupational pension funds' members.

**Table 10. Net assets of occupational pension funds, 2011-2014 (as at 31 December)**

Detailed items	Net assets (million PLN)				Share in the market (%)
	2011	2012	2013	2014	2014
PFE NESTLE POLSKA	27.7	36.5	43.8	50.7	2.9
PFE "Nowy Świat"	300.7	361.7	390.6	405.1	22.8
PFE Orange Polska	909.4	1 097.0	1 167.0	1 258.1	70.9
PFE Słoneczna Jesień	288.1	344.4	385.9	-	-
PFE UNILEVER POLSKA	31.7	42.7	51.5	60.9	3.4
<b>Total</b>	<b>1 557.6</b>	<b>1 882.4</b>	<b>2 038.9</b>	<b>1 774.8</b>	<b>100.0</b>

Source: Occupational pension funds

Contributions to occupational pension funds are free of any charges, and some occupational pension fund companies do not charge management fees, which - from the participants' perspective - makes this form of saving more profitable.

As at the end of 2014, occupational pension funds had 44.7 thousand members. Year on year the number dropped by 21.6%. Such significant decrease in the number of members was due to the aforementioned change in the form of saving by one entity.

In 2014, the average rate of return reported by occupational pension funds was 4% (in 2013: 4.8%). The moderate increase in the accounting unit value was due to the conditions in the financial market.

**Table 11. Investment performance of occupational pension funds, 2011-2014 (rate of return or percentage index change)**

Detailed items	2011	2012	2013	2014
PFE average rate of return	-4.3	14.7	4.8	4.0
PFE lowest rate of return	-5.2	13.6	3.5	2.6
PFE highest rate of return	-3.1	15.8	5.7	4.9
Inflation rate	4.3	3.7	0.9	-1.0
WIG change	-20.8	26.2	8.1	0.3
WIG20 change	-21.9	20.4	-7.0	-3.5

Source: Occupational pension funds

## VOLUNTARY PENSION FUNDS

In 2012, nine voluntary pension funds (DFE) started operating. In 2013, they generated rates of return from 2.3% to 59.1%, and in 2014, the generated rates of return ranged from -2.2% to 10.8%. This diversity is largely a consequence of relatively small assets available to these entities. In such a situation, one transaction or an investment in a single instrument can determine the performance. As a result, the performance may not fully reflect the systematic investment activities, and the rates of return generated in subsequent years may change significantly.

**Table 12. Rates of return and net assets of voluntary pension funds, 2013-2014**

Detailed items	2013		2014	
	Net assets (million PLN)	Rate of return (%)	Net assets (million PLN)	Rate of return (%)
Allianz DFE*	1.6	7.2	2.7	4.0
Generali DFE	0.05	2.3	0.1	4.3
ING DFE	2.0	59.1	4.9	-0.7
MetLife DFE	11.2	56.7	18.6	6.1
Nordea DFE*	0.4	25.6	1.4	10.8
DFE Pekao	2.9	16.3	12.8	1.3
PKO DFE	2.6	16.9	5.9	2.5
DFE Pocztylion Plus	0.3	6.9	0.5	-2.2
DFE PZU	5.8	32.8	8.8	3.6

\* Rate of return calculated on the basis of the accounting unit type A

Source: Voluntary pension funds

At the end of 2014, nine DFE had 81.9 thousand members, who deposited their savings there in the form of IKZE or IKE. The number dropped by 15.7% year on year. This decrease resulted from the review of records of DFEs' members and elimination of invalid records.

## OCCUPATIONAL PENSION SCHEMES, INDIVIDUAL PENSION ACCOUNTS AND INDIVIDUAL PENSION SECURITY ACCOUNTS

Occupational pension schemes (PPE), individual pension accounts (IKE) and individual pension security accounts (IKZE), in which participation is voluntary, are organised on an institutional basis, unlike other forms of voluntary accumulation of savings for pension

purposes, and funds are accumulated in them on the terms and conditions provided for in the law.

The development of Pillar III of the pension system is supported by such incentives as tax exemptions and social security contribution allowances.

The occupational pension schemes' market has been operating since 1999. The development of occupational pension schemes' market in the years 2011-2014 is presented in Table 13.

**Table 13. Development of occupational pension schemes, 2011-2014**

Detailed items	2011	2012	2013	2014
Number of occupational pension schemes	1 116	1 094	1 070	1 065
Number of PPE members ('000)	345	358	375	381
Value of assets accumulated ( <i>million PLN</i> )	6 598	8 351	9 407	10 259

Source: in-house materials by KNF Office, institutions managing funds of occupational pension schemes

As at 31 December 2014, there were 1,065 occupational pension schemes, including:

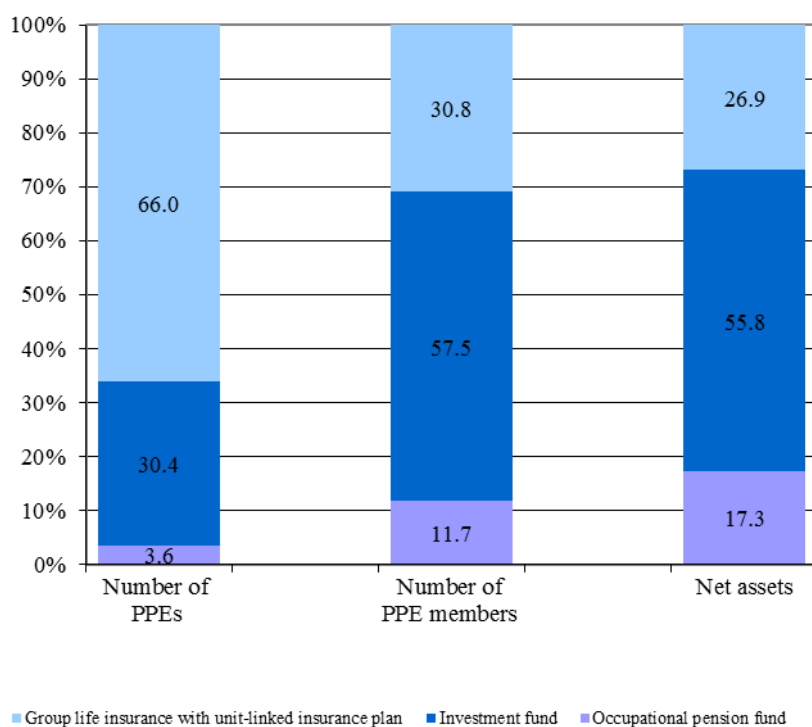
- 703 schemes operated under agreements for employee group life insurance in the form of group unit-linked life insurance,
- 324 schemes operated under agreements for payment by employers of employee contributions to investment funds,
- 38 schemes operated as occupational pension funds.

As at the end of 2014, occupational pension schemes had 381 thousand participants, and the value of their assets stood at PLN 10,259m, which means that the value of assets accumulated in PPE participants' accounts grew by PLN 852m (or about 9%) compared to 2013.

The share of individual forms in the PPE market is shown in Figure 9.



**Fig. 9. Structure of the occupational pension schemes (PPE) market in 2014 (%)**



Source: In-house materials by the KNF Office, institutions managing funds of occupational pension schemes

## 2.5. CAPITAL AND COMMODITY MARKETS

Participants of the capital and commodity markets supervised by the Polish Financial Supervision Authority include entities operating on the market of securities and other financial instruments, undertakings for collective investment and entities operating on the commodity market.

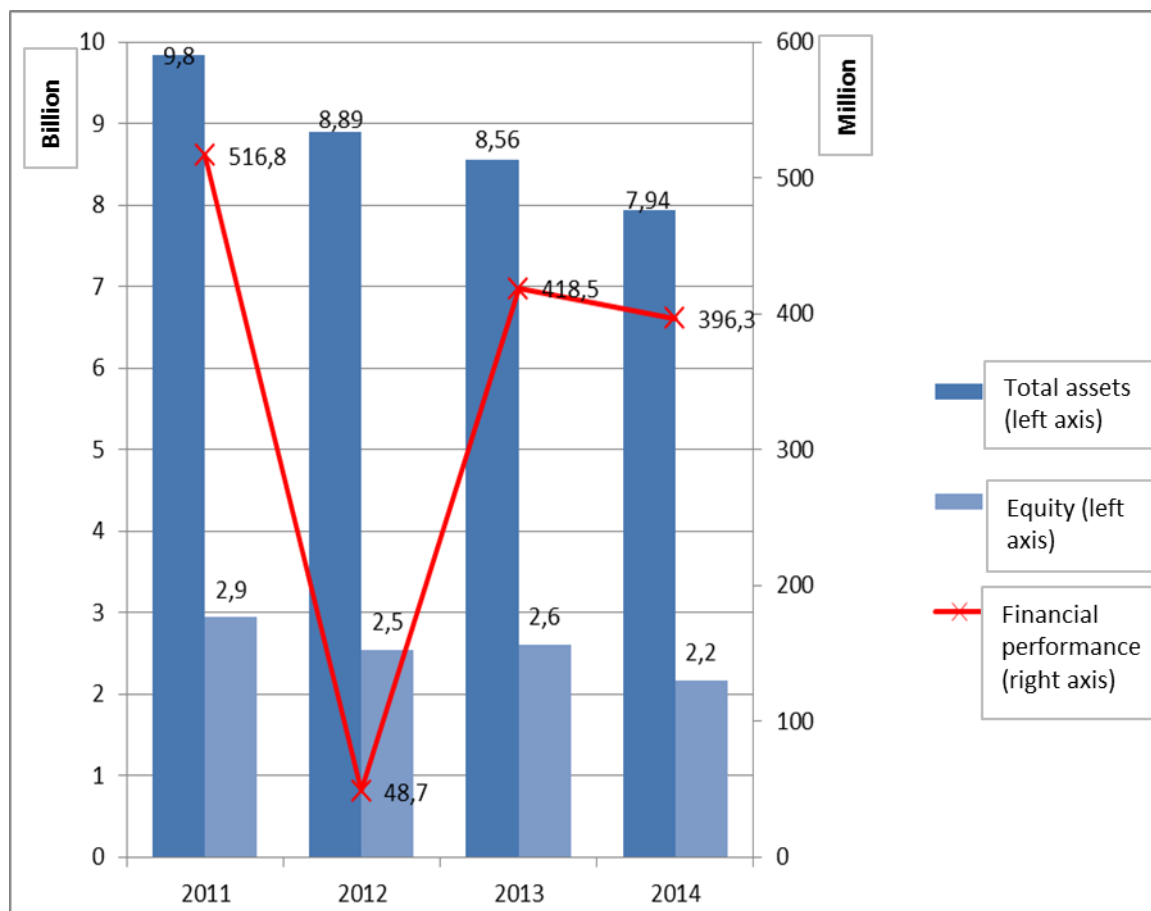
### INVESTMENT FIRMS AND BANKS OPERATING SECURITIES ACCOUNTS (TRUST BANKS)

**Table 14. Number of entities pursuing brokerage and trust business, 2011-2014**

Type of entity	2011	2012	2013	2014
Brokerage house	51	54	57	53
Commodity brokerage houses	0	1	1	1
Banks conducting brokerage activities	14	15	14	13
Trust banks	15	15	13	13
<b>Total</b>	<b>80</b>	<b>85</b>	<b>85</b>	<b>80</b>

Source: In-house materials by the KNF Office

Fig. 10. Highlights of the brokerage houses sector, 2011-2014



Source: In-house materials by the KNF Office

Table 15. Number of client accounts operated by brokerage houses and offices, 2011-2014

Detailed items	Number of client accounts				Share in total assets (%)
	2011	2012	2013	2014	2014
Brokerage house	1 210 088	1 195 884	1 229 723	1 089 443	57,32
Banks conducting brokerage activities	675 327	696 773	700 063	811 029	42,68

Source: In-house materials by the KNF Office

## ORGANISED SECURITIES MARKETS

### Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange)

In 2014, the main WSE indexes moved within a moderate range of fluctuations. WSE capitalization in 2014 went up by 24.7% compared to the previous year. In particular, the admission to public trading of shares of Banco Santander S.A. had a significant influence on the value of capitalisation.

**Table 16. Rates of return of the Warsaw Stock Exchange indexes, 2011-2014 (%)**

Detailed items	2011	2012	2013	2014
WIG	-20.83	26.24	8.06	0.26
WIG20	-21.85	20.45	-7.05	-3.5
mWIG40	-22.51	17.42	31.06	4.13
sWIG80	-30.47	22.92	37.28	-15.55

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

**Table 17. Number of instruments traded on the Warsaw Stock Exchange, 2011-2014**

Detailed items	2011	2012	2013	2014
Companies	426	438	450	471
- including foreign	39	43	47	51
Number of initial offerings	38	19	23	28
Delistings	12	7	11	7
Bonds	51	62	94	105
- including foreign	2	2	1	1
Futures	79	91	134	220
Options	122	120	116	129

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

**Table 18. Warsaw Stock Exchange's capitalisation at year-end, 2011-2014 (million PLN)**

Detailed items	2011	2012	2013	2014
Polish companies	446 151	523 390	593 464	591 165
Foreign companies	196 712	210 657	247 316	661 793
Polish bonds	521 746	588 635	590 265	531 983
Foreign bonds	173	173	98	98
<b>Total</b>	<b>1 164 782</b>	<b>1 322 855</b>	<b>1 431 143</b>	<b>1 785 039</b>

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

**Table 19. Trading volumes on the Warsaw Stock Exchange, 2011-2014 (million PLN)<sup>2</sup>**

Detailed items	2011	2012	2013	2014
Equities	268 139	202 880	256 147	232 864
Bonds	836	1 043	1 653	992
Futures	361 665	216 436	218 839	230 148
Options	23 562	16 269	17 419	11 584

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

#### Alternative trading facility (NewConnect)

In addition to the regulated market, the Warsaw Stock Exchange operates an organised equity market in the form of an alternative trading facility under the name of NewConnect.

**Table 20. Highlights of the NewConnect alternative trading facility, 2011-2014**

Detailed items	2011	2012	2013	2014
NCIndex at year end	41.62	33.26	366.01	290.36
Rate of return of NCIndex in current year (%)	-34.39	-20.09	10.05	-20.68

<sup>2</sup> Trading volumes standardised to single format.

Capitalisation of companies at year end ( <i>million PLN</i> )	8 383.50	10 804.74	10 444.88	8 752.35
Number of companies at year end	351	429	445	431
Number of initial offerings	172	89	42	22
Number of trading sessions	251	249	247	249
Trading volume ( <i>million PLN</i> ) <sup>3</sup>	1 858.478	1 140.87	940	1 220
Number of trades per session	4311	3105	2916	3 474
Average trading volume per session ( <i>million PLN</i> )	7.40	4.58	3.80	4.89

Source: [http://www.newconnect.pl/pub/statystyki\\_roczne/2014\\_NC.pdf](http://www.newconnect.pl/pub/statystyki_roczne/2014_NC.pdf)

## BondSpot SA

Regulated OTC Market ("OTC") in Poland is operated by the company BondSpot SA, which in addition to the regulated market also organizes trading in debt instruments in the formula of the alternative trading system ("ATS").

**Table 21. Data on the OTC and ATS market, 2011-2014<sup>4</sup>**

Detailed items	2011	2012	2013	2014
<b>RRP (Regulated OTC Market) BondSpot</b>				
Session trading volume ( <i>million PLN</i> )	84,12	23,84	52,26	2,84
Number of trades per session	111	44	4	9
Number of instruments	71	84	94	103
<b>ASO BondSpot</b>				
Session trading volume ( <i>million PLN</i> )	58,36	66,39	493,27	591,02
Number of trades per session	87	128	226	405
Number of instruments	92	125	146	183

Source: <http://www.gpwcatalyst.pl/>

## SETTLEMENT AND DEPOSITORY SYSTEM

**KRAJOWY DEPOZYT PAPIERÓW WARTOŚCIOWYCH S.A.** (the "Central Securities Depository of Poland", "KDPW") is a central institution responsible for operating and supervising the settlement and depository system supporting financial instruments trading in Poland.

The Central Securities Depository functioned in 2014 also as exchange clearing house, trade repository and globally recognized pre-LOU entity authorized to transmit pre-LEI codes required to report information on derivative contracts to trade repositories. In addition, KDPW establishes and maintains a mandatory compensation scheme for payment of compensation to investors, if the brokerage house is unable to perform its obligations arising from investors' claims.

In 2014, significant changes took place in the transaction settlement process carried out by the Central Securities Depository. As from 4 August 2014, KDPW introduced an optional functionality of automatic settlement of transactions in parts. Since 6 October 2014, a T+2 settlement period has been in force, which replaced the previous T+3 settlement period, as a

<sup>3</sup> Trading volumes standardised to single format.

<sup>4</sup> Trading volumes standardised to single format.

result of which the execution period of the concluded transactions has shortened. In addition, on 1 October 2014 a system of negotiated securities loans was launched, which aims to increase the liquidity of transaction settlements.

*KDPW\_CCP SA* is a clearing house. On 8 April 2014, KDPW\_CCP was granted an authorization of the Polish Financial Supervision Authority to render clearing services as CCP on the basis of Article 14 in connection with Article 17 of the Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs) (EMIR) (OJ L 201/1, 2012). The authorisation of the Polish Financial Supervision Authority for KDPW\_CCP SA, granted following a favourable opinion of the college of supervisors, was the third authorization for a CCP in the European Union. The authorisations obtained by KDPW\_CCP SA allowed KDPW\_CCP SA to provide clearing services in the EU in accordance with the EU standards stipulated in the above regulation and adopted regulatory technical standards.

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

In 2014, there was a decrease in public offerings as compared to previous years. The value of IPOs totalled more than PLN 6.7bn, which represents a decrease of more than half compared to the previous year and of nearly 25% compared to 2012. The main reason for this was no activity of the Treasury on the offerings market (in 2013, the Treasury made two public offerings - sale of shares in Polski Holding Nieruchomościami SA, with a value of PLN 0.24bn at the beginning of 2013, and the sale of shares in Energa SA, with a value of PLN 2.16bn at the end of 2013). Also in 2013, at the Treasury's initiative, PKP SA conducted a share sale offer for the shares in PKP Cargo SA, with a value of PLN 1.4bn. 2014 was exceptional due to the fact that in this period the Treasury acted not as the seller of shares, but as the capital provider. The Treasury subscribed for the shares of the Lotos SA Group in exercise of subscription rights under the public offering of newly issued shares worth of nearly PLN 1bn.

However, an improvement was recorded in the most important segment of capital raising through public offerings (the primary market). The number of subscriptions increased from 44 to 50. There has also been a clear increase in their value (an increase of nearly 70%).

At the same time, a significant decrease in activity could be observed in the segment of public offerings of shares, where a more than tenfold decrease in their value was recorded compared to 2013. A substantial decrease, although on a smaller scale, was also recorded for initial public offerings, despite an increase of 37 in their number to 43.

The activity on the market of public offering of bonds was maintained. In 45 offerings, issuers raised more than PLN 3.5bn - over 5% more than in the previous year.

The number of public offerings placed on the market in 2014 was 136; the structure is presented in Table 22.

**Table 22. Public offerings carried out in 2014**

136 public offerings, including: carried out by foreign issuers	
134 cash offerings	2 non-cash

<p><b>80</b> public offerings of shares</p> <p style="text-align: center;"><b>including:</b> <i>41 offerings exempt from the requirement to prepare and seek approval of the prospectus</i></p> <p style="text-align: center;"><i>37 offerings carried out by foreign issuers</i></p>	<p><b>9</b> public offerings of structured products</p> <p style="text-align: center;"><b>including:</b>  <i>all carried out by foreign issuers</i></p>	<p><b>45</b> public offerings of bonds</p> <p style="text-align: center;"><b>including:</b>  <i>17 offerings exempt from the requirement to prepare and seek approval of the prospectus</i></p> <p style="text-align: center;"><i>2 offerings carried out by a foreign issuer</i></p>	<p>offerings</p>
<p><b>30</b> public offerings</p>	<p><b>50</b> public subscriptions</p>		

Source: In-house materials by the KNF Office

The aggregate value of public cash offerings executed in 2014 amounted to PLN 6,700.9m, including PLN 2,181.65m in share subscriptions, PLN 918.73m in share sale offerings, PLN 3,513.75m in bond issues and PLN 86.81m in public offerings of structured products.

**Table 23. Value and number of public cash offerings, 2011-2014**

Year	2011		2012		2013		2014	
	Number of offerings*	Value (million PLN)	Number of offerings*	Value (million PLN)	Number of offerings**	Value (million PLN)	Number of offerings****	Value (million PLN)
Public issues of shares	69	3 735.80	53	3 597.71	44	1 286.20	50	2 181.65
Public offerings of bonds	54	2 236.50	66	2 867.69	42	3 320.11	45	3 513.75
Share sale public offerings	30	6 671.10	27	2 272.55	32	9 395.81	30	918.73
Public offerings of structured products	24	692.7	12	143.71	9	161.82	9	86.81
<b>Total public offerings</b>	<b>177</b>	<b>13 336.1</b>	<b>158</b>	<b>8 881.7</b>	<b>127</b>	<b>14 163.9</b>	<b>134</b>	<b>6 700.9</b>
<i>including:</i>								
Initial public offerings	66	8 560.4	40	3 409.3	37	5 043.8	43	1 881.1

Source: In-house materials by the KNF Office

\* In 2011, 7 non-cash public equity offerings were also carried out

\*\* In 2012, 4 non-cash public equity offerings were also carried out

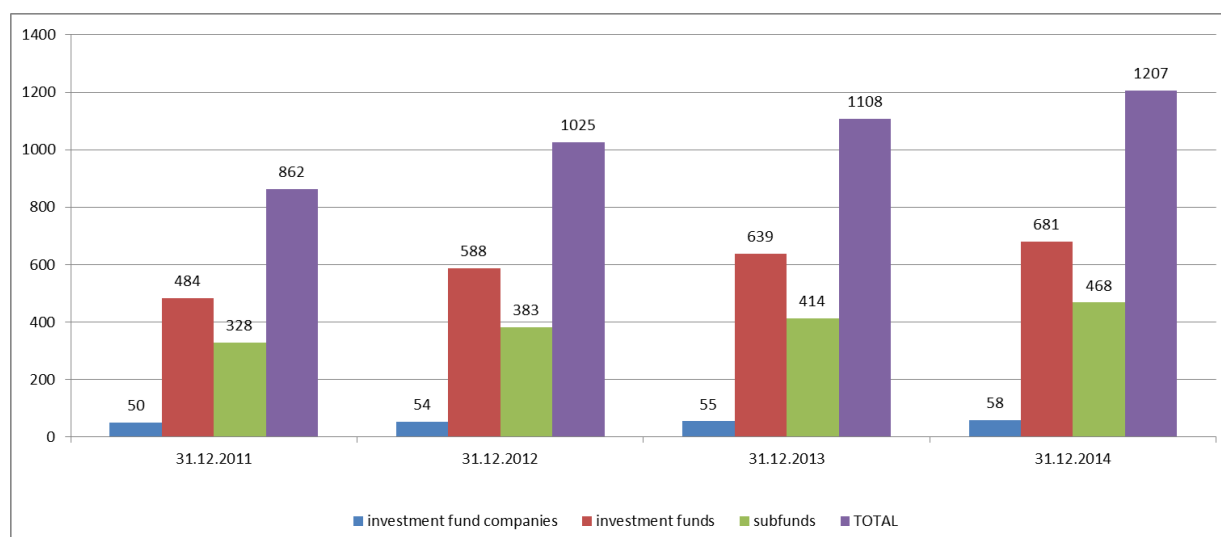
\*\*\* In 2013, 5 non-cash public equity offerings were also carried out.

\*\*\*\* In 2014, 2 non-cash public equity offerings were also carried out.

## INVESTMENT FUND COMPANIES AND INVESTMENT FUNDS

2014 was yet another year of growth in the number of regulated domestic entities in the investment funds sector, which is illustrated in Fig. 11 (cumulatively).

**Fig. 11. Total number of investment fund companies, investment funds and sub-funds under the KNF's supervision (cumulatively, broken down by type), the end of 2011-2014**

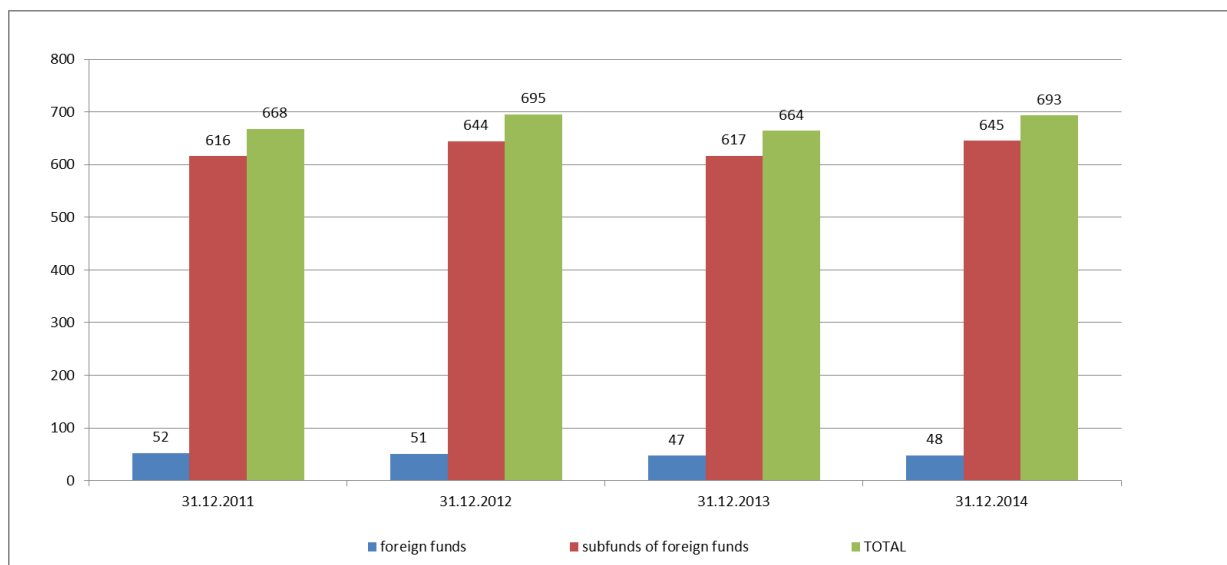


Source: In-house materials by the KNF Office

As at 31 December 2014, the KNF authorisations were held by 58 investment fund companies, which managed a total of 681 investment funds, including: 40 open-end investment funds, 47 specialist open-end investment funds, and 594 closed-end investment funds.

The Polish Financial Supervision Authority exercises supervision of marketing in the Republic of Poland of shares of foreign investment funds.

**Fig. 12. Total number of foreign investment funds and sub-funds comprising foreign investment funds (cumulatively, broken down by type), at year-end, 2011-2014**



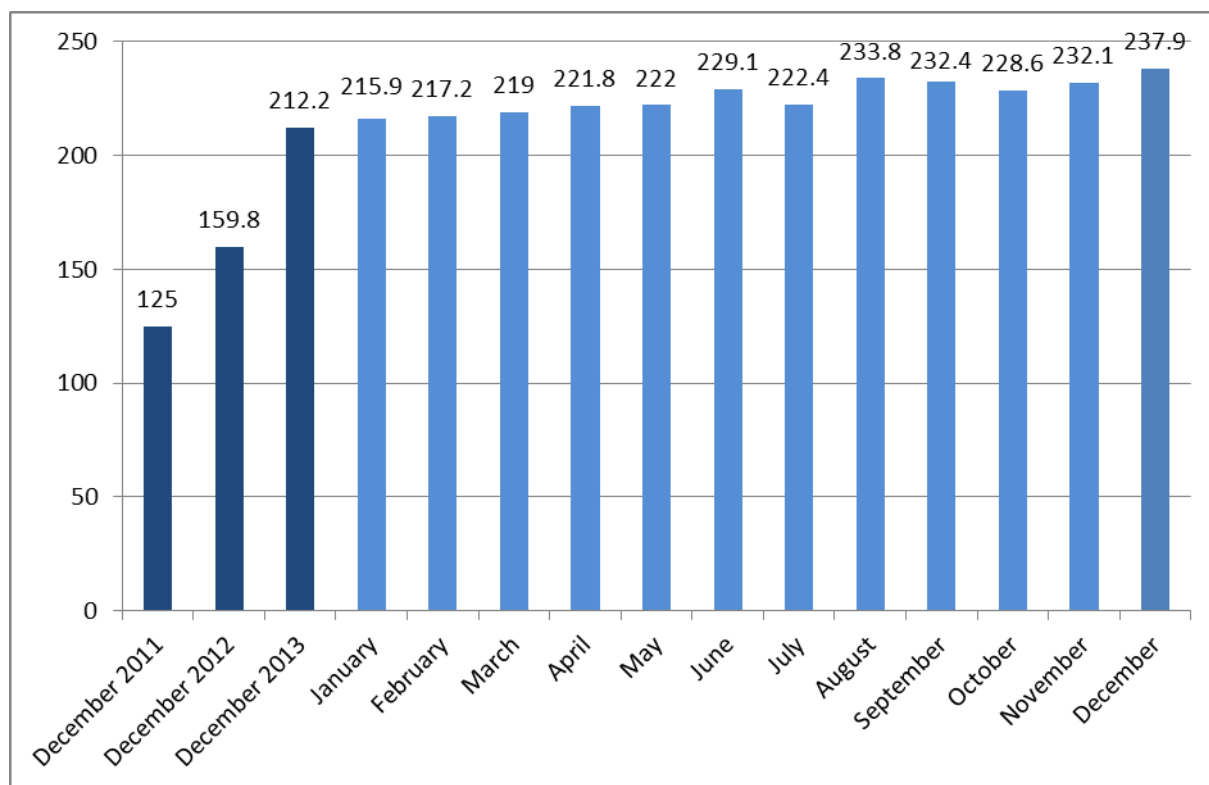
Source: In-house materials by the KNF Office

2014 brought, similarly as previous years, an increase in the value of investment funds' assets managed by TFIs. Over 2014, the value of investment funds' assets grew by PLN 25.7bn, to PLN 237.9bn as at 31 December 2014.

Figure 13 shows the value of investment funds' assets managed by TFIs at the end of 2011-2013 and in individual months of 2014.



**Fig. 13. Assets under management of investment fund companies at year-end, 2011-2013 and in 2014 (billion PLN)<sup>5</sup>**



Source: In-house materials by the KNF Office

As shown in the table above, in relation to the value of investment funds' assets, an upward trend continued in the first half of 2014, while in the second half of the year both growths and reductions in their value could be observed. As at 31 December 2014, the value of investment funds' assets exceeded the December 2013 level by PLN 25.7bn or 12%. The biggest increases in the value of assets were recorded in June and August, while their biggest reductions occurred in July and October.

The increase in the value of investment funds' assets contributed to an increase in revenue generated by TFIs, which in 2014 amounted to PLN 2.834m and was by PLN 180m higher compared to its level in the previous year. The aggregate financial performance of TFIs also improved and amounted to PLN 477m at the end of December 2014, i.e. PLN 51m more than in the previous year.<sup>6</sup> Table 24 presents information about revenue, costs and net financial result of investment fund companies in the years 2011-2014.

<sup>5</sup>Based on monthly reports filed by investment fund companies. Such reports are not audited or reviewed by statutory auditors, and so they may be subject to subsequent adjustments.

<sup>6</sup>Based on monthly reports filed by investment fund companies. Such reports are not audited or reviewed by statutory auditors, and so they may be subject to subsequent adjustments.

**Table 24. Aggregate revenue, costs and net financial result of investment fund companies, 2011-2014 (million PLN)<sup>7</sup>**

Detailed items	2011	2012	2013	2014	
Total revenue	2 231	2 169	2 654	2 834	-
Total costs, including:	1 731	1 763	2 129	2 249	100,00%
- fixed costs	447	553	589	592	26,32%
- variable costs, including:	1 284	1 210	1 540	1 657	73,68%
- variable distribution costs*	958	861	1 079	1 160	51,58%
Net profit (loss) for the period	429	325	426	477	-

\* Costs related directly to acceptance and execution of orders for subscription, redemption and conversion of units in investment funds or acceptance of subscription orders for investment certificates and allotment of investment certificates, representing the distributor's fees or incurred in connection with the funds' promotion or marketing  
Source: In-house materials by the KNF Office

## COMMODITY MARKET

### Electricity

In 2014 the total trading volume in the electricity markets of Towarowa Gielda Energii S.A. (Polish Power Exchange, also "TGE") amounted to 186.8 TWh (an increase of 5.8% compared to 2013).

On the spot market (Day-Ahead Market and Intraday Market), the trading volume stood at 23.82 TWh (an increase of 6.7% compared to 2013). The weighted average price of electrical energy for the whole day, based on all transactions concluded in 2014, amounted to PLN 184.75/MWh. This means an increase of PLN 28.62/MWh compared to 2013.

The total trading volume on the electricity Commodity Forward Market amounted to 163 TWh (an increase of 5.6% compared to 2013). The volume-weighted average price of the annual contract BASE\_Y-15 in the entire 2014 stood at PLN 169.25/MWh.

### Natural gas

On the trading floor of natural gas, the total trading volume reached 111.6 TWh, which means an almost 47-fold increase in relation to the 2013 volume.

On the gas spot market (gas Day-Ahead Market and gas Intraday Market) - the trading in this fuel reached 6.6 TWh (a 16-fold increase compared to 2013). The volume-weighted average price of gas for the whole day based on all transactions concluded in 2014 amounted to PLN 105.00/MWh.

On the Forward Market for Commodities, the turnover amounted to 105 TWh (a 54-fold increase compared to 2013). The volume-weighted average price of the annual contract GAS\_BASE\_Y-15 in the entire 2014 stood at PLN 110.46/MWh.

### Property rights market

In 2014, the total trading volume on the Property Rights Market amounted to 36.02 TWh (down by 8.31% y/y).

<sup>7</sup>Based on monthly reports filed by investment fund companies. Such reports are not audited or reviewed by statutory auditors, and so they may be subject to subsequent adjustments.

On 9 January 2014, the first transaction on the Market of Property Rights arising from Energy Efficiency Certificates was concluded. Energy performance certificates referred to in Article 21(1) of the Energy Efficiency Act of 15 April 2011 (Dz.U. No 94, item 551, as amended) are issued by the President of the Energy Regulatory Office ('ERO') at the request of the operator who won the tender, and constitutes confirmation of the declared energy savings resulting from the project or projects of the same type improving energy efficiency.

On 27 February 2014, Towarowa Gielda Energii S.A. [Polish Power Exchange] ('TGE') launched an Exchange Information Platform (in Polish: Gieldowa Platforma Informacyjna 'GPI'), which contains up-to-date, transparent and structured data on the electricity market in Poland. GPI is also prepared for publishing information arising from meeting obligations in accordance with Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (OJ L 326, 8.12.2011). - the so-called REMIT Regulation. The Platform was created at the initiative of the President of the ERO, and representatives of the entire energy sector in Poland participated in its creation.

On 8 January 2015, TGE started the process of registration in the Agency for the Cooperation of Energy Regulators (ACER) in order to obtain the status of a Registered Reporting Mechanism ('RRM'). TGE's registration as an RRM will allow the Exchange to report transactions concluded by market participants in accordance with the requirements of Regulation on wholesale energy market integrity and transparency (REMIT).

On 17 June 2014, the Management Board of Towarowa Gielda Energii S.A. approved the "Detailed rules for the supervision of the Exchange Commodity Market of Towarowa Gielda Energii S.A.". The regulation entered into force on 7 July 2014. The document defines events that constitute or may constitute manipulation, as well as confidential information, prohibits manipulation and use of confidential information on the exchange commodity markets. It also lays down the rules for reporting by the Market Surveillance Office on the tasks being performed and the scope of applied sanctions.

On 30 July 2014, Towarowa Gielda Energii S.A. launched trading in gas fuel on the Intraday Market.

On 1 October 2014, Agencja Rozwoju Przemysłu S.A. ('ARP S.A.', Industrial Development Agency) and Towarowa Gielda Energii S.A. started to publish two coal price indexes on GPI. The indexes of the reference power coal sold by mines, coal companies on the domestic market to producers of electricity and heat are made available. They show the commercial value of the raw material of certain quality in terms of assortment, the sulphur content and calorific value and the defined terms of delivery. The indexes are based on monthly ex-post data available to the Katowice branch of ARP S.A., which executes, on behalf of the Minister of Economy, the Statistical Research Programme of Official Statistics "Mining of hard coal and lignite." The project emerged as a response to market participants' demand for price information helping to estimate and compare the cost of production and sale of coal of Polish and international producers and suppliers.

As from 3 November 2014, Towarowa Gielda Energii S.A. offers a possibility to trade in Polish guarantees of origin. These are new instruments in support of renewable energy sources, the purpose of which is prove to final customers that the quantity of energy specified in that document and introduced to the network of energy distribution or to the transmission network was produced from a renewable energy source. The provisions of Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC (OJ L 140, 5.6.2009), ordering the creation of registers of guarantees of origin in the European Union, were implemented into Polish law by a revision of the Energy Law Act (the so-called "small energy three-pack"), which entered into force on 11 September 2013. The revision imposed on TGE an obligation to maintain a Register of

Guarantee of Origin and to organize trading in guarantees of origin. No property rights arise from the guarantee of origin. The guarantee is issued independently of the property rights resulting from certificates of origin.

## 3. LICENSING AND AUTHORISATION ACTIVITIES

### 3.1. BANKING SECTOR

#### ESTABLISHMENT OF A BANK

The Polish Financial Supervision Authority, by its decision of 26 August 2014, authorized the establishment, by Powszechna Kasa Oszczędności Bank Polski S.A., of a bank in the form of a public limited company under the name of "PKO Bank Hipoteczny Spółka Akcyjna".

#### TASKS CONCERNING CHANGES IN COMPOSITION OF BANKS' CORPORATE BODIES

In 2014, the Polish Financial Supervision Authority took 31 decisions by way of resolution on granting the consent to appoint management board members, including presidents, including.

- 4 decisions granting consent to appoint the president of the management board of a bank operating as a joint-stock company,
- 20 decisions granting consent to appoint the president of the management board of a cooperative bank, including 1 refusal,
- 7 decisions granting consent to appoint members of the management board of a bank operating as a joint-stock company.

In addition, there were 3 decisions to discontinue the proceedings in the above-mentioned matters.

#### TASKS CONCERNING CHANGES IN THE SHAREHOLDING STRUCTURE OF BANKS BEING JOINT-STOCK COMPANIES

In 2014, the Polish Financial Supervision Authority took 4 decisions in the form of a resolution stating that there are no grounds to raise an objection to the planned purchase of shares in a bank, and issued 1 authorisation to the merger of banks in the form of a joint-stock company.

The KNF issued 1 decision prohibiting the exercise of voting rights and ordering to sell the shares of FM Bank PBP S.A. As a result of re-examination of the case, the Polish Financial Supervision Authority issued 1 decision upholding the decision on the prohibition to exercise voting rights, and annulled the contested decision as regards the order to sell shares, and discontinued the proceedings in this regard. In connection with re-examination of the case and with the upholding of the decision prohibiting the exercise of voting rights, the Polish Financial Supervision Authority initiated an ex officio proceedings on the order to sell shares, which was closed with 1 decision issued in the case.

#### BANKS' BASE FUNDS

The Polish Financial Supervision Authority issued 1 authorisation to exceeding the 15% limit of the share of contribution in kind in the bank's base funds.

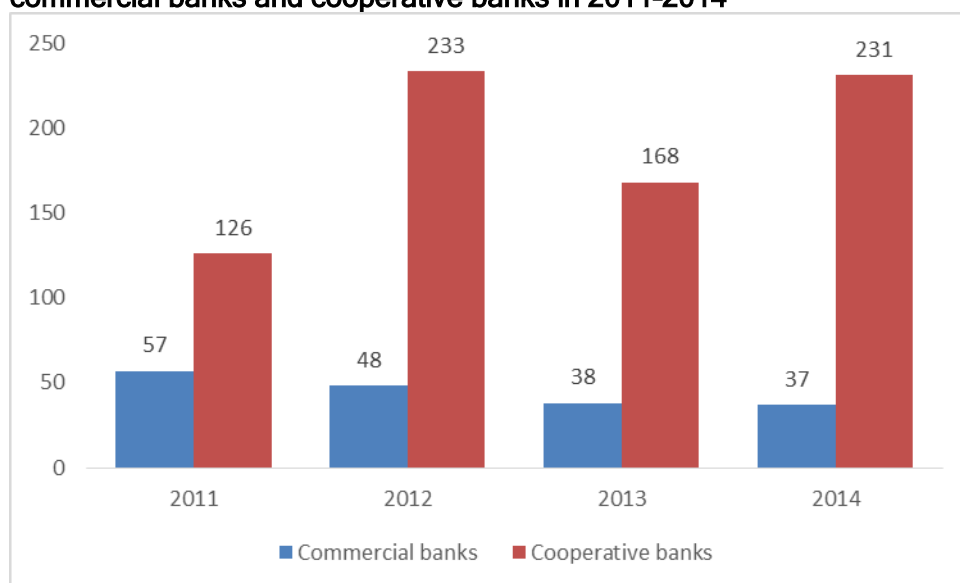
## AMENDMENTS TO BANKS' CHARTERS

In 2014, upon consideration of the requests concerning amendments to banks' charters, the Polish Financial Supervision Authority issued 269 decisions, including:

- 37 decisions on authorisation to amend charters of banks being joint-stock companies,
- 232 decisions on authorisation to amend charters of co-operative banks, including 1 decision issued as a result of re-consideration of the case.

In addition, there were 9 decisions to discontinue the proceedings in the above-mentioned matters.

**Fig. 14. Number of issued decisions granting consent to amendments to charters of commercial banks and cooperative banks in 2011-2014**



Source: In-house materials by the KNF Office

## OPENING REPRESENTATIVE OFFICES OF FOREIGN BANKS AND CREDIT INSTITUTIONS AND THEIR OPERATION

In 2014, the Polish Financial Supervision Authority issued 1 decision granting authorisation to open representative office by a credit institution and 2 decisions on stating expiry of an authorisation to open a representative office of credit institutions.

## CONDUCTING ACTIVITY AS PART OF CROSS-BORDER ACTIVITY

In 2014, the Polish Financial Supervision Authority received 32 notifications of the intention of credit institutions to conduct cross-border activities in Poland.

## 3.2. CO-OPERATIVE SAVINGS AND LOAN ASSOCIATIONS (SKOK) SECTOR

### APPROVING CHARTERS AND APPROVING AMENDMENTS TO CHARTERS OF COOPERATIVE SAVINGS AND CREDIT UNIONS

In accordance with Article 86(1)(1) of the Act on Cooperative Savings and Credit Unions, unions were required to apply to the Polish Financial Supervision Authority within 9 months from the date of its entry into force, i.e. until 27 July 2013, for approval of charters adapted to

the provisions of the Act. Pursuant to the second sentence of Article 86(3) of the Act on Cooperative Savings and Credit Unions, the Polish Financial Supervision Authority shall adopt the decision on the approval of the charter in accordance with Article 8(3), according to which the Polish Financial Supervision Authority shall refuse to approve amendments to the charter of a union if such an amendment would violate the law or safety of funds held by the union. Thus, pursuant to the mentioned provisions it should be assumed that the Polish Financial Supervision Authority shall refuse to approve the charter of an association if the charter would violate the law or safety of funds held by the association. 52 applications for approval of the charter were filed with the Polish Financial Supervision Authority by the statutory deadline. Three unions failed to fulfil the obligation on time, however the Act does not provide for any consequences of such conduct. As at 31 December 2014, the Polish Financial Supervision Authority approved charters of all 55 cooperative savings and credit unions.

In 2014, the Polish Financial Supervision Authority issued 21 decisions approving charters of cooperative savings and credit unions and 1 decision dismissing the proceedings on reconsideration of the case.

Moreover, the Polish Financial Supervision Authority issued 17 decisions approving amendments in charters of cooperative savings and credit unions, 1 refusal and 2 decisions dismissing the proceedings.

In addition, the Polish Financial Supervision Authority issued 18 decisions on admission of the National Cooperative Savings and Credit Union (hereinafter also: the National Union) to participate as a party in the administrative procedure for approval of a charter.

#### APPROVAL OF PRESIDENTS OF COOPERATIVE SAVINGS AND CREDIT UNIONS

In accordance with Article 86(1)(2) of the Act on Cooperative Savings and Credit Unions, unions were required to apply to the Polish Financial Supervision Authority within 9 months from the date of the Act's entry into force, i.e. until 27 July 2013, for approval of president of management boards. Pursuant to Article 86(4) of the Act on co-operative savings and credit unions, Article 21(1)-(3) of this Act shall apply mutatis mutandis to decisions of the Polish Financial Supervision Authority on the approval of the president of the union's management board. In accordance with Article 21(1) of the Act on cooperative savings and credit unions, the president of the union's management board shall be appointed with the approval of the Polish Financial Supervision Authority. The supervisory board puts forward an application for approval. In accordance with Article 21(2) of the Act on Cooperative Savings and Credit Unions, the Polish Financial Supervision Authority shall refuse to approve the president of the union's management board if the president:

- has been convicted of intentional or fiscal offence, excluding the offenses that are prosecuted upon private accusation;
- was responsible for documented losses at his or her place of employment or in connection with his or her function as a member of the body of a legal person;
- has been prohibited from carrying out business activity on his or her own behalf or from performing functions of a representative or attorney of an entrepreneur, a member of the supervisory board or audit committee in a joint-stock company, limited liability company or cooperative,
  - does not fulfil the requirements referred to in Article 18(4), i.e.,
    - does not guarantee the sound and prudent management of the association,
    - has not attained at least secondary education and the qualifications and experience necessary to manage the association.

The Polish Financial Supervision Authority may refuse to approve the president of the management board of an association if the president:

- 1) is the subject of penal proceedings or court proceedings involving fiscal offences;
- 2) has been convicted of a criminal offense other than those specified in item 1 above.

In 2014, the Polish Financial Supervision Authority issued 24 decisions on the approval/appointment of the president of the union's management board, including:

- 9 decisions approving the president of the management board of a union,
- 1 decision expressing consent to the appointment of the president of a union's management board,
- 14 refusals to approve the president of the union's management board (including 1 refusal examined in the second instance)

Moreover, 6 proceedings on the approval of the president of the union's management board were discontinued.

In one case (in which an administrator was appointed), the proceedings have been left without examination due to failure to correct formal defects. All refusal to approve the president of the management board resulted from a lack of guarantee of sound and prudent management of the union, i.e. failure to meet one of the requirements referred to in Article 18(4) of the Act on co-operative savings and credit unions. All positive decisions relate to the approval of the presidents of unions whose economic and financial position is relatively good. Those unions are relatively small and focus their operations on a group of members joined by a real bond. In addition, they retained large autonomy and distance to the systemic activities and recommendations of the National Union. None of them was involved in the transactions of disposals of claims to ASK Invest s.a.r.l. in return for debt instruments.

In addition, the Polish Financial Supervision Authority issued 10 decisions on admission of the National Cooperative Savings and Credit Union to participation, as a party, in the proceeding for approval of the president of the union's management board. Moreover, the Polish Financial Supervision Authority issued 11 refusals concerning admission of social organizations (other than unions) to proceedings concerning the approval of the president of the management board, including 1 refusal was examined in the second instance.

## UNIONS' COMBINATIONS

The Polish Financial Supervision Authority, by decision of 17 July 2014, upheld the contested decision of the Polish Financial Supervision Authority of 20 December 2013 refusing to approve the merger of Spółdzielcza Kasa Oszczędnościowo-Kredytowa "Wspólnota" in Gdańsk (as the union being acquired) with Spółdzielcza Kasa Oszczędnościowo-Kredytowa im. Franciszka Stefczyka w Gdyni (as the acquiring union).

## APPROVAL OF THE CHARTER OF THE NATIONAL COOPERATIVE SAVINGS AND CREDIT UNION

The objective of the Polish Financial Supervision Authority's supervision of the National Cooperative Savings and Credit Union is to ensure:

- the financial stability of the National Union,
- the correct use of the stabilization fund and other funds deposited by unions with the National Union,
- the compliance of the National Union's operations with the Act on co-operative savings and credit unions.

In accordance with Article 86(2)(1) of the Act on Cooperative Savings and Credit Unions, the National Cooperative Savings and Credit Union was required to apply to the Polish Financial

Supervision Authority within 6 months from the date of the Act's entry into force, for approval of the charter adapted to the provisions of the Act. The National Union filed such an application on to the Polish Financial Supervision Authority on 24 April 2013. In accordance with Article 86(5)(2) of the Act on co-operative savings and credit unions, Article 53(3) shall apply to the decision of the Polish Financial Supervision Authority on the approval of the National Unions' charter, according to which Article the National Union shall refuse to approve an amendment to the National Union's charter, if the amendment leads to a violation of law, the safety of funds deposited with unions or safety of deposits of cooperative savings and credit unions with the National Union.

By the decision of 22 July 2014, the Polish Financial Supervision Authority refused to approve the charter of the National Union. The refusal resulted from the charter's provisions leading to the violation of law, which concerned in particular:

- types of activities carried out by the National Union,
- convening a general meeting of the National Union,
- selecting members of the National Union's supervisory board
- creating an advertising and promotional fund,
- covering the balance sheet loss of the National Union,
- the financial management in terms of cooperation of credit unions affiliated with the National Union,
- settling disputes between the National Union and its members,
- amending the National Union's charter.

Moreover, the Polish Financial Supervision Authority issued 1 decision on the approval of the charter of the National Cooperative Savings and Credit Union. In addition, the Polish Financial Supervision Authority issued 1 decision refusing admission of one cooperative savings and credit union to participation in the proceeding for approval of the National Union's charter.

#### APPROVAL OF THE MANAGEMENT BOARD OF THE NATIONAL COOPERATIVE SAVINGS AND CREDIT UNION

In accordance with Article 86(2)(2) of the Act on Cooperative Savings and Credit Unions, the National Cooperative Savings and Credit Union was required to apply to the Polish Financial Supervision Authority within 6 months from the date of the Act's entry into force, for approval of the management board. Due to the fact that two members of the management board resigned earlier, the National Union complied with the statutory deadline and applied for approval of the president of the management board and for consent to the appointment of two members of the management board.

In accordance with Article 86(6) of the Act on co-operative savings and credit unions, Article 51(3) shall apply to the decision of the Polish Financial Supervision Authority on the approval of members of the management board, according to which article the Polish Financial Supervision Authority shall refuse to give consent to the appointment of a member of the Management Board of the National Union if the member:

- has been validly convicted of offences committed intentionally or of fiscal offences,
- was responsible for documented losses at his or her place of employment or in connection with his or her function as a member of the body of a legal person,
- has been prohibited from carrying out business activity on his or her own behalf or from performing functions of a representative or attorney of an entrepreneur, a member of the supervisory board or audit committee in a joint-stock company, limited liability company or cooperative,
- does not guarantee the sound and prudent management of the National Union,



- has not completed the education and does not have the experience necessary to direct the financial institution.

In addition, the Polish Financial Supervision Authority may refuse to give its consent to the appointment of the member of the National Union's management board if:

- is the subject of penal proceedings or court proceedings involving fiscal offences,
- has been convicted of a criminal offence other than those specified above.

By the decision of 29 April 2014, the Polish Financial Supervision Authority expressed its consent to the appointment of one of the members of the National Union's management board. By decisions of 2 September 2014, the Polish Financial Supervision Authority refused to approve the president of the Management Board of the National Union and to give consent to the appointment of the second member of the Management Board of the National Union due to lack of guarantee of sound and prudent management of the National Union, i.e. failure to comply with one of the requirements referred to in Article 51(3) of the Act on co-operative savings and credit unions.

In addition, the Polish Financial Supervision Authority issued 7 decisions refusing admission of unions, including 1 refusal examined in the second instance, and 2 decision refusing admission of social organisations (other than unions) to participation in the proceedings on the approval of the president and appointment of a member of the management board of the National Union.

### 3.3. PAYMENT SERVICES SECTOR

#### PAYMENT INSTITUTIONS

In connection with executing tasks of supervision of payment institutions, in 2014 the Polish Financial Supervision Authority conducted 31 proceedings on the authorization to provide payment services as a domestic payment institution, out of which 2 proceedings were suspended, and in one case the Polish Financial Supervision Authority refused to resume the suspended proceedings. In addition, 2 applications were filed to change the authorization for the provision of services as a domestic payment institutions, out of which 1 proceedings was discontinued.

In 2014 the Polish Financial Supervision Authority issued 9 authorizations for domestic payment institutions and 1 decision refusing an authorization to the provision of payment services as a domestic payment institution, and 1 procedure was carried out on stating the expiry of an authorization to the provision of payment services, which has not been completed.

#### PAYMENT SERVICE OFFICES

As part of the responsibilities of the Polish Financial Supervision Authority relating to the supervision of payment service offices (hereinafter 'BUPs'), the Polish Financial Supervision Authority maintains a Payment Services Register (hereinafter 'RUP'), into which payment service offices are entered. In view of the fact that the activities of payment service offices are regulated activities within the meaning of the Act on freedom of economic activity, it is not necessary to hold an authorisation of the Polish Financial Supervision Authority to conduct such operations. The only requirement is to obtain entry into RUP, which is available via the website of the Polish Financial Supervisory Authority (<https://erup.knf.gov.pl/View/>). In 2014, 326 entries of BUPs were made, including 144 amendments to entries, and 122 offices were deleted. As at the end of 2014, 1,355 payment service offices were entered into RUP.

It should be stressed that payment service offices may only provide the money remittance service. Both payment institutions and payment service offices may conduct, apart from

providing payment services, also other economic activity and then obtain the status of hybrid payment institutions or hybrid payment service offices, respectively.

## 3.4. INSURANCE SECTOR

### AUTHORISATIONS TO CONDUCT INSURANCE AND REINSURANCE ACTIVITY

In 2014, 2 authorisations were granted to national insurance undertakings to conduct insurance activity.

During the period covered by the Report, one application for an authorization to conduct insurance activities for a domestic insurance undertaking and one application for the extension of the scope of activities of a domestic property insurance undertaking were left unexamined in connection with the failure to correct formal defects.

### NOTIFICATIONS OF CONDUCTING INSURANCE ACTIVITIES IN POLAND

As at the end of 2014, 612 insurance undertakings from the European Union and European Economic Area Member States submitted notifications of pursuing insurance business in Poland under the freedom to provide services, and 25 insurance undertakings and 1 reinsurance undertaking notified their operations through a branch.

In 2014, the KNF received, from foreign insurance undertakings, 22 notifications of the intent to conduct insurance activity as cross-border activity and 4 notifications from foreign insurance undertakings from an EU Member State of the intent to conduct insurance activity in the Republic of Poland through a branch. In addition, in the case of one notification of the intent to conduct insurance activities in the Republic of Poland through a branch, a refusal was sent due to formal defects.

In 2014, 12 insurance undertakings from EU Member States notified their intention to change the scope of the insurance activities conducted in the Republic of Poland under the freedom to provide services, and one insurance undertaking notified its intention to extend the insurance activities in the Republic of Poland through a branch.

In 2014, 4 insurance undertakings withdraw from the conduct of insurance activities in the Republic of Poland. In addition, 2 insurance undertakings that notified their intent to conduct insurance activities in the Republic of Poland under the freedom to provide services merged.

### CHANGES IN COMPOSITION OF INSURANCE COMPANIES' CORPORATE BODIES

In 2014, the KNF issued 14 decisions on granting approval to the appointment of members of insurance undertakings (6 concerning management board presidents and 8 concerning members of insurance undertakings' management boards); in 6 cases the proceedings were discontinued. Furthermore, in two cases the KNF refused to grant an authorisation to the appointment of the president of the management board of an insurance undertaking.

### AMENDMENTS TO CHARTERS OF REGULATED ENTITIES

In 2014, the KNF issued 32 decisions on approval of amendments to charters of domestic insurance undertakings.

### PURCHASE OF OR SUBSCRIPTION FOR SHARES OR RIGHTS ATTACHED TO SHARES

In 2014 the KNF issued 9 decisions in the proceedings in question. Under those decisions, 2 proceedings concerning 2 domestic insurance undertakings were discontinued, in 7 cases

there were no grounds found for raising an objection to direct purchase of shares, and in 6 cases there were no grounds found for raising an objection to indirect purchase of shares.

## MERGER OF DOMESTIC INSURANCE COMPANIES

In 2014, in two cases the Polish Financial Supervision Authority refrained from raising an objection to the planned merger of domestic insurance companies.

## ENTRY INTO THE REGISTER OF ACTUARIES

In the period covered by the report, there were 31 requests filed for entry to the actuaries register, and 29 decisions in this regard were issued.

## INSURANCE AGENTS

In 2014, 103,504 actions were performed in the electronic register of insurance agents, consisting in registration of requests for entry into the register, change of the data subject to entry into, and removal from, the register. There were 70,901 changes of data concerning individual agents and 221,467 changes concerning persons acting as agents. 6,209 agents and 27,839 persons acting as agents were removed from the register.

As at 31 December 2014, 33,685 insurance agents and 176,586 persons acting as agents were entered in the register.

**Table 25. Number of registered insurance agents and persons acting as agents, 2011-2014**

Detailed items		2011	2012	2013	2014
Agents	sole	6 266	7 351	7 932	7 301
	multi-agents	3 360	4 515	4 510	3 523
	<b>total</b>	<b>9 626</b>	<b>11 866</b>	<b>12 442</b>	<b>10 824</b>
Persons acting as insurance agent	working for one agent	44 193	46 083	47 649	63 167
	working for at least two agents	7 568	9 574	11 360	11 174
	<b>total</b>	<b>51 761</b>	<b>55 657</b>	<b>59 009</b>	<b>74 341</b>

Source: In-house materials by the KNF Office

In 2014, the register of insurance agents included also 111 entities performing agency activities through persons working under an employment contract, for which law provides for a simplified manner to obtain qualifications, including:

- 30 banks conducting agency activity through persons obliged to train themselves only as to the general and specific insurance conditions of the insurance company that the registered entities co-operate with, information about rate structures, rules of calculating insurance premiums and settlements as to the quantity and value under the concluded insurance agreements and collection of insurance premiums,
- 81 entrepreneurs who conduct, under an agreement concluded with a segment II insurance undertaking, agency activities as activities supplementary to the core economic activities, if the agency activities are directly related to the core business of the entrepreneur, do not require detailed insurance knowledge and the duration of the agreement does not exceed 12 months.

## INSURANCE AND REINSURANCE BROKERS

**Table 26. Brokers register at year-end, 2011-2014**

Brokers	2011	2012	2013	2014
---------	------	------	------	------

Insurance	natural persons	707	738	775	801
	legal persons	299	339	370	395
	<b>total</b>	<b>1006</b>	<b>1077</b>	<b>1145</b>	<b>1196</b>
Reinsurance	natural persons	4	5	8	10
	legal persons	16	19	23	23
	<b>total</b>	<b>20</b>	<b>24</b>	<b>31</b>	<b>33</b>

Source: In-house materials by the KNF Office

In 2014, the Polish Financial Supervision Authority issued a total of 96 authorisations to conduct brokerage activities as regards insurance and reinsurance, including 59 authorisations for natural persons and 37 for legal persons. There were also 2 authorisations granted to legal persons for conducting reinsurance brokerage activity and 2 for natural persons.

In the reporting period there were proceedings held on withdrawal of the authorisation to conduct brokerage activity as regards insurance and reinsurance, including 27 on the party's initiative and 7 ex officio.

**Table 27. Number of authorisations to conduct brokerage activities as regards insurance granted by the Polish Financial Supervision Authority, 2011-2014**

Detailed items	2011	2012	2013	2014
Natural persons	79	57	65	57
Legal persons	29	52	44	35
<b>Total (reinsurance excluded)</b>	<b>108</b>	<b>109</b>	<b>109</b>	<b>92</b>

Source: In-house materials by the KNF Office

In the period covered by the Report, 6 examinations were held by the Examination Board appointed by the Minister of Finance, including 3 examinations for insurance brokers and 3 examinations for reinsurance brokers. A total of 516 persons took the examinations (including 19 persons who took a reinsurance broker qualifying examination). 388 persons passed the examinations (including 18 persons who took a reinsurance broker qualifying examination).

**Table 28. Statistics of persons taking the examination for insurance brokers, 2011-2014**

Detailed items	2011	2012	2013	2014
Persons taking the examination - total	657	567	548	497
Persons who passed the examination for brokers	457	339	335	370

Source: In-house materials by the KNF Office

**Table 29. Statistics of persons taking the examination for reinsurance brokers, 2011-2014**

Detailed items	2011	2012	2013	2014
Persons taking the examination - total	23	36	13	19
Persons who passed the examination for brokers	21	19	10	18

Source: In-house materials by the KNF Office

## NOTIFIED INSURANCE AGENTS

In 2014, 277 insurance agents intending to conduct activity in the territory of the Republic of Poland were notified by registration bodies or regulators of European Union member states and notifications for 157 agents were withdrawn.

## 3.5. PENSION SECTOR

### PENSION FUNDS AND PENSION FUND COMPANIES

As regards licensing functions, in 2014 procedures were conducted, which finished with the issue of 96 administrative decisions. There were also 13 decisions made in relation to pension market entities. The number and subject matter of issued decisions and rulings are presented in Table 1.2 in Annex 1.

### CHANGES IN PENSION FUNDS' CHARTERS

On 1 February 2014, the provisions of the Act of 6 December 2013 amending certain acts in connection with defining the principles for the payment of pensions from funds accumulated in open-end pension funds entered into force, which amended the provisions of the Act of 28 August 1997 on Organisation and Functioning of Pension Funds. According to Article 29 of the amending Act, open-end pension funds were required to adapt their charters to the provisions of the amended Act on the organization and operation of pension funds by 1 July 2014.

The necessary amendments to be introduced into funds' charters included:

- change of the fund's object,
- change in the amount of the fee deducted from the contribution,
- the introduction of a provision of the possibility to cover public levies from the fund's assets, if the fund is not exempt from their payment under separate regulations, and if their incurrance is related to the activities carried out by the fund under its charter,
- adaptation to the current wording of Article 141(4) of the Act on the organization and operation of pension funds, according to which the pension fund's assets may be invested in assets denominated in the Polish zloty or in the currencies of EU Member States or states being parties to the Agreement on the European Economic Area, or members of the Organisation for Economic Cooperation and Development,
- removing restrictions in covering, from the fund's assets, costs related to
- storing as well as executing and settling transactions of acquisition or disposal of the fund's assets, which are equivalent to the fees incurred by the depository to foreign clearing institutions which the fund is required to use under separate provisions to the amount not exceeding the corresponding costs of domestic clearing institutions,
- clarifying the method of determining the value of the fund's net assets being managed,
- introduction of a provision on the obligation to transfer, to the fund, the funds not withdrawn by the company as a result of failure to comply with the requirement referred to in Article 181a(1) of the Act on the organization and functioning of pension funds,
- updating the elements of the fund's information prospectus,
- updating the elements of the information mandatorily provided to the fund's members,
- removing provisions on the additional part of the Guarantee Fund.

Each amendment to the fund's charter requires approval of the Polish Financial Supervision Authority. The review carried out by the supervisory authority includes examining whether the proposed amendments are compliant with law and not contrary to the interests of the fund's members.

All open-end pension funds complied with the obligation to adapt their charters to the amended regulations.

### The take-over of the management of OFE WARTA

The take-over of the management of OFE WARTA [Open-end Pension Fund WARTA] by Powszechna Towarzystwo Emerytalne [Universal Pension Fund Company] Allianz Polska S.A., which was approved by the Polish Financial Supervision Authority on 25 March 2014,

took place in 2014. By approving the consolidation process the supervisory authority stated that the Company taking over the management guarantees that the Fund's matters will be dealt with in a proper manner, and that the authorization issued will not be in conflict with the interests of pension fund members or other public good.

Since the completion of the liquidation of OFE WARTA, which took place on 19 September 2014, the pension fund market has consisted of 12 open-end funds. Another liquidated entity was Powszechne Towarzystwo Emerytalne POLSAT S.A., for which on 8 July 2014 the supervisory authority revoked an authorisation to establish the company.

## CHANGES IN THE COMPOSITION OF GOVERNING BODIES OF PENSION FUND COMPANIES

In 2014, the following decisions were made:

- 5 decisions as regards granting an authorisation to appoint a management board member in a universal pension fund company,
- 6 decisions as regards granting an authorisation to appoint a supervisory board member in a universal pension fund company,
- 2 decisions as regards granting authorisation to appoint a supervisory board member in an occupational pension fund company.

## OCCUPATIONAL PENSION SCHEMES (PPE)

In the period covered by the report, the KNF Office noticed:

- a drop in the number of requests for entry of the scheme into the register, by approx. 27% (27 requests in 2014 versus 37 requests in the previous year),
- a growth in the number of requests for entry of amendments to the scheme into the register, by approx. 30% (192 requests in 2014 versus 147 requests in the previous year),
- a drop in the number of requests for removal of the scheme from the register, by approx. 24% (38 requests in 2014 versus 50 requests in the previous year),
- a drop in the number of notifications of the change of employer's or manager's details, by approx. 56% (65 notifications in 2014 and 148 notifications in the previous year).

The number and subject matter of decisions issued by the KNF in proceedings concerning occupational pension schemes in 2014 are presented in Table 1.2 in Annex 1, while the number and subject matter of resolutions passed by the KNF in 2014, concerning occupational pension schemes, is presented in Table 1.1 in Annex 1.

## 3.6. CAPITAL AND COMMODITY MARKETS

### INVESTMENT FIRMS AND TRUST BANKS

In 2014, the KNF issued 1 decision, to a new brokerage house, on granting an authorisation to pursue the brokerage business, 6 decisions on granting an authorisation to pursue the brokerage business as the extension of the existing scope of brokerage houses' business, 3 decisions on granting an authorisation to pursue the brokerage business as the extension of the existing scope of banks' brokerage business, 1 decision stating the expiry of the authorization to pursue the brokerage business and 1 decision declaring partial expiry of authorization to pursue the brokerage business.

In addition, in relation to 2 investment firms (Dom Maklerski IDM SA and First International Traders Dom Maklerski SA), decisions on taking back the authorization to conduct brokerage activities were issued on the basis of Article 167(1) of the Act of 29 July 2005 on Trading in Financial Instruments. One investment firm was dissolved without being wound up, in accordance with Article 493(1) of the Code of Commercial Companies and Partnerships (KSH) through its acquisition by an investment fund company according to the procedure

specified in Article 492(1) of the KSH. One investment firm was dissolved without being wound up, in accordance with Article 530(1) of the KSH through its acquisition by a bank according to the procedure specified in Article 521(1)(3) of the KSH. The brokerage operations conducted by one of the brokerage houses were transferred to the structures of the bank being its only shareholder, through the division of the brokerage house.

In the period covered by the Report, the Polish Financial Supervision Authority also examined 1 notification of the intent to perform brokerage activities-related operations outside the bank's separate unit, where the KNF did not raise any objection to the performance of such operations. As at 31 December 2014, the following applications were being examined: 9 applications for authorization to conduct brokerage operations, 1 application for stating expiry of the authorisation to conduct brokerage operations and 1 application for revocation of decision on the authorisation to conduct brokerage operations.

In 2014, 14 notifications of the intention to purchase or subscribe for shares of brokerage houses were examined. In 6 cases, a decision was issued stating that there are no objections to the intent to purchase or subscribe for shares of a brokerage house and setting the timeframe within which the purchase or subscription may take place, and in 8 cases the proceedings were discontinued. The KNF issued also 1 decision amending the decision on no objections to the intent to purchase or subscribe for shares of a brokerage house in respect of the timeframe within which the purchase or subscription may take place.

As at 31 December 2014, 1 proceeding regarding notification of the intent to purchase or subscribe for shares of brokerage houses was being examined.

#### Investment firms' notifications

In the period covered by the report, the KNF received 135 notifications of the intent to conduct brokerage activities without a branch and 1 notification of the intent to conduct brokerage activities through a branch in the Republic of Poland by foreign investment companies as well as 424 notifications of changes to the details included in the original notification.

145 entities resigned from conducting brokerage activity without a branch in the Republic of Poland. 1 entity resigned from pursuing operations through a branch due to the decision by the home supervisor.

**Table 30. Number of notified foreign investment firms at year-end, 2011-2014**

Type of entity	2011	2012	2013	2014
Foreign investment firm, without a branch	1482	1625	1762	1778
Foreign investment firm (branch)	16	17	14	14
<b>Total</b>	<b>1774</b>	<b>1925</b>	<b>2061</b>	<b>1792</b>

Source: In-house materials by the KNF Office

In the period covered by the Report, the Polish Financial Supervision Authority passed 6 resolutions on the transfer of information regarding the intent of Polish investment firms to conduct brokerage activities without opening a branch in another Member State, 5 branches of Polish investment firms ceased to conduct operations.

**Table 31. Number of Polish investment firms that notified their intent to conduct brokerage activities outside the Republic of Poland at year-end, 2011-2014**

Type of entity	2011	2012	2013	2014
Brokerage house (number of branches)	3 (11)	4 (13)	4 (13)	2 (8)
Brokerage house, without a branch	8	11	13	13

Source: In-house materials by the KNF Office

## INVESTMENT FIRMS' AGENTS

As at 31 December 2014, the register of investment firms' agents comprised 217 entities, including 32 legal persons and 185 natural persons.

In 2014, 21 natural persons and 4 legal persons were entered into the register of investment firms' agents.

**Table 32. Register of investment firms' agents at year-end, 2011-2014**

Investment firms' agents	2011	2012	2013	2014
Natural persons	89	144	164	185
Legal persons	28	28	29	32
<b>Total</b>	<b>117</b>	<b>172</b>	<b>193</b>	<b>217</b>

Source: In-house materials by the KNF Office

In the period covered by the Report, one examination for an investment firm's agent was held. 49 persons took the examination. 14 persons passed the examination.

## SECURITIES BROKERS

As at 31 December 2014, there were 2,791 licensed securities brokers.

In 2014, 82 persons were entered into the list of securities brokers.

**Table 33. Number of persons entered in the list of securities brokers and a total number of licensed securities brokers, 2011-2014**

Detailed items	2011	2012	2013	2014
Number of persons entered in the list of securities brokers in a given year	130	125	84	82
Total number of licensed securities brokers	2 502	2 627	2 710	2 791

Source: In-house materials by the KNF Office

In 2014, there were 2 examinations held for candidates for securities brokers. A total of 402 persons took these examinations and 75 persons passed the examination. So far 2,967 persons passed the examination for candidates for securities brokers.

Moreover, in the period covered by the Report, there was 1 supplementary examination for securities brokers. 3 persons took the examination and 2 persons passed it. So far 98 persons passed the supplementary examination for securities brokers.

## INVESTMENT ADVISORS



As at 31 December 2014, there were 504 licensed investment advisors. In 2014, there were 27 persons entered into the list of investment advisors.

**Table 34. Number of persons entered in the list of investment advisors and a total number of licensed investment advisors, 2011-2014**

Detailed items	2011	2012	2013	2014
Number of persons entered in the list of investment advisors in a given year	47	29	67	27
Total number of licensed investment advisors	383	410	477	504

Source: In-house materials by the KNF Office

In 2014, there were 6 partial examinations of the examination for investment advisors. 27 persons passed the entire examination cycle.

#### COMPANIES OPERATING A REGULATED MARKET AND ENTITIES OF CAPITAL MARKET INFRASTRUCTURE

**Table 35. Number of decisions issued in 2014**

Entity being a party to the decision	Number of decisions
Giełda Papierów Wartościowych w Warszawie SA	5
BondSpot SA	2
KDPW SA	5
KDPW_CCP SA	2
Towarowa Giełda Energii SA	6

Source: In-house materials by the KNF Office

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

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

In 2014, the KNF issued 139 decisions on approval of issue prospectuses, information memoranda and annexes updating their content, including:

- 45 decisions approving issue prospectuses of securities other than investment certificates (developed as one or three documents),
- 1 approval of an information memorandum,
- 93 decisions approving annexes to issue prospectuses (and to information memoranda) of securities other than investment certificates.

**Table 36. Number of approved issue prospectuses and annexes to issue prospectuses, 2011-2014**

Detailed items	2011	2012	2013	2014
Number of approved issue prospectuses	57	43	29	45

Number of approved information memoranda / statements of the information memorandum's equivalence to the requirements for the issue prospectus	5	2	3	1
Number of approved annexes to issue prospectuses	128	145	106	93

Source: In-house materials by the KNF Office

In the reporting period, the Polish Financial Supervision Authority also received 65 confirmations of approval of issue prospectuses from other Member States' regulators.

In the course of 76 procedures conducted in 2014 for approval of issue prospectus (information memorandum), the KNF made over 6,900 remarks to the documents submitted. Moreover, the KNF issued 12 decisions on suspension of the administrative procedure on approval of issue prospectus (information memorandum, annex to issue prospectus) and 7 decisions on resuming a suspended procedure and 18 decisions on discontinuation of the administrative procedure on approval of issue prospectus (information memorandum, annex to the issue prospectus).

In 2014, the KNF issued 31 opinions as regards public offerings or admitting securities to trading on a regulated market.

The overview of issuers whose issue prospectuses were approved by the Polish Financial Supervision Authority in 2014 is presented in Table 2.1 in Annex 2, while the up-to-date list of issue prospectuses approved by the KNF is available on the KNF website.

In 2014, the KNF also received 40 notices of the intent to carry out a promotional campaign associated with the public offering of securities.

## UNDERTAKINGS FOR COLLECTIVE INVESTMENT

In 2014, the regulator made 183 rulings concerning undertakings for collective investment. The number and the subject matter of adopted resolutions, decisions and rulings are presented in Table 1.1 and Table 1.2 respectively in Annex 1.

As at 31 December 2014, the KNF authorisations were held by 58 investment fund companies, which managed a total of 681 investment funds, including: 40 open-end investment funds, 47 specialist open-end investment funds, and 594 closed-end investment funds.

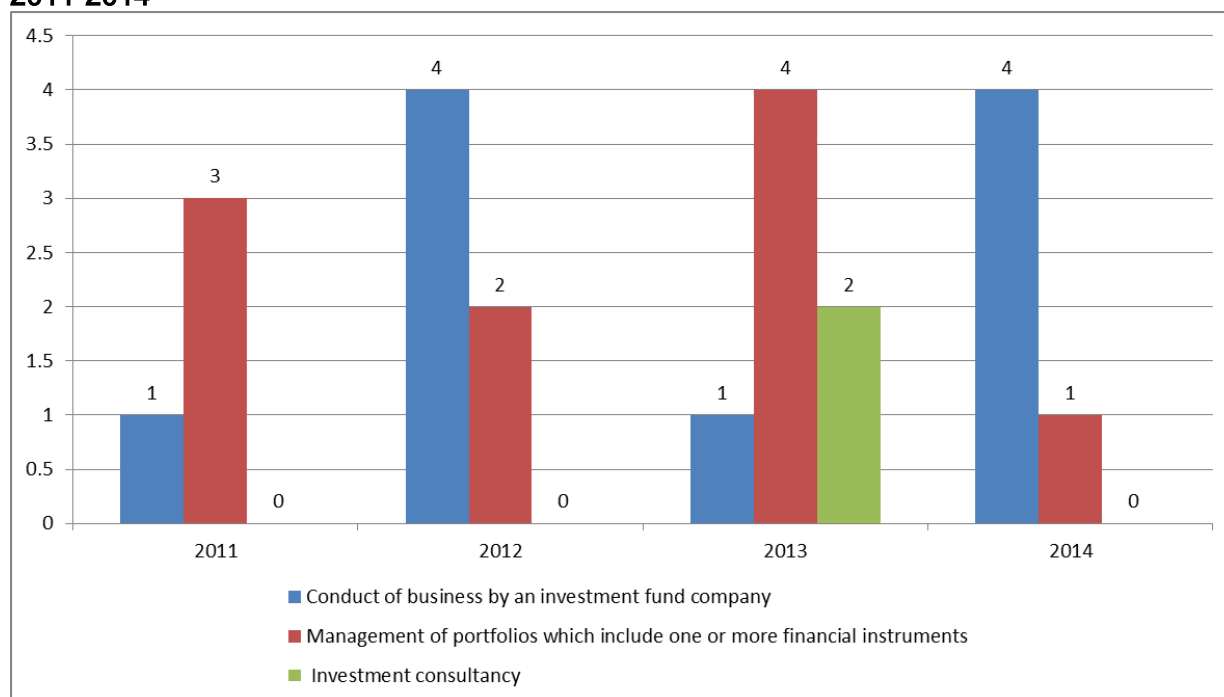
**Table 37. Number of investment fund companies and investment funds, 2011-2014, cumulatively**

Detailed items	2011	2012	2013	2014
Investment fund companies	50	54	55	58
Investment funds	484	588	639	681

Source: In-house materials by the KNF Office

In 2014, the Polish Financial Supervision Authority issued 4 authorizations to conduct operations through an investment fund company (Amundi Polska TFI SA, TFI BGK SA, OPTI TFI SA, IB TFI SA), and withdraw 1 authorization to conduct operations through an investment fund company (Inventum TFI SA).

**Fig. 15. Number of authorisations concerning operations of investment fund companies, 2011-2014**



Source: In-house materials by the KNF Office

In 2014, the Polish Financial Supervision Authority issued:

- 1 authorisation to establish open-end investment fund,
- 2 authorisations to establish specialist open-end investment fund,
- 3 authorisation to establish public closed-end investment fund.

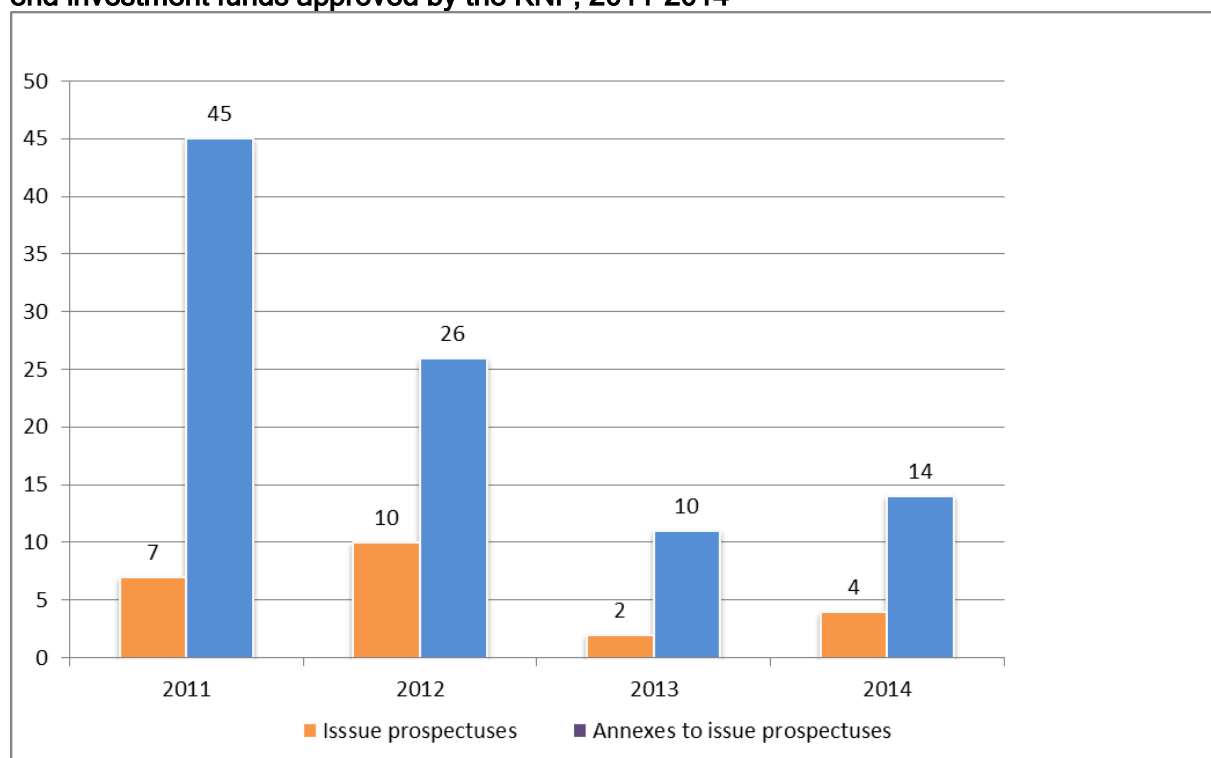
In 2014, 5 new funds with separated sub-funds started operating. As a result of their establishment, the transformation of open-end investment funds into a new sub-fund of the existing open-end investment fund with separated sub-funds and changes in the fund's articles of association as to the establishment of a new sybfund, the number of sub-funds separated as part of funds of this type grew from 414 sub-funds in December 2013 to 468 sub-funds as at the end of December 2014.

In 2014, the KNF registered 136 closed-end investment funds whose investment certificates, in line with the fund's charter, will not be offered as part of public offering, admitted to trading on regulated market or introduced to alternative trading system.

In 2014, in the investment funds sector the Polish Financial Supervision Authority issued 18 decisions on approval of issue prospectuses and annexes, including:

- 4 decisions approving issue prospectuses of investment certificates issued by public closed-end investment funds,
- 14 decisions approving annexes to issue prospectuses of investment certificates issued by public closed-end investment funds.

**Fig. 16. Number of issue prospectuses and annexes to issue prospectuses of public closed-end investment funds approved by the KNF, 2011-2014**



Source: In-house materials by the KNF Office

In 2014, with regard to foreign funds and sub-funds of foreign funds, the number of notifications decreased compared to 2013. In 2014, the Polish Financial Supervision Authority received electronically 11 complete notifications of the intention to sell foreign investment fund units in the Republic of Poland, which concerned 2 new foreign funds and 24 sub-funds of foreign funds. For comparison, in 2013, the KNF received 15 complete notifications concerning 1 foreign fund and 60 subfunds of foreign funds.

In 2014, the Polish Financial Supervision Authority did not receive any notifications from managing companies intending to pursue their business in the Republic of Poland. Also in 2013, the KNF did not receive any notifications of management companies.

#### Intermediaries in selling and redeeming investment fund units or shares

As at 31 December 2014, there were 91 entities in the list of investment fund units' distributors holding authorisations of the Polish Financial Supervision Authority. In the period covered by the report, the Polish Financial Supervision Authority granted 14 authorisations to intermediation in selling and redeeming investment fund units and/or shares of foreign funds.

#### BROKERAGE HOUSES TRADING IN COMMODITIES AND ENTITIES KEEPING EXCHANGE-COMMODITY REGISTERS OR ACCOUNTS

In 2014, 5 authorisation were issued for power utilities for keeping commodity registers or accounts. The Authority issued 1 decision stating the expiry of the authorization for keeping commodity accounts or registers, and 2 applications for such authorizations were left without being examined. As at 31 December 2014:

- 57 power companies held authorisation to keep commodity registers or accounts,
- 1 commodity brokerage house held an authorisation to conduct commodity brokerage activity.

## COMMODITY BROKERS

As at 31 December 2014, there were 347 licensed commodity brokers. In 2014, there were 31 persons entered into the list of commodity brokers.

**Table 38. Number of persons entered in the list of commodity brokers and a total number of licensed commodity brokers, 2011-2014**

Detailed items	2011	2012	2013	2014
Number of persons entered in the list of commodity brokers in a given year	28	39	47	31
Total number of licensed commodity brokers	230	269	316	347

Source: In-house materials by the KNF Office

In the period covered by the Report, there was 1 examination held for commodity brokers. 51 persons took the examination and 22 persons passed it. So far 338 persons passed the examination for commodity brokers.

## GRANTING AUTHORISATIONS TO CONVERT SHARES INTO CERTIFICATED FORM (REMATERIALISATION OF SHARES)

In 2014, the Polish Financial Supervision Authority issued 7 decisions granting an authorization to convert the shares of a publicly traded company into certificated form (rematerialisation of shares - Article 91(1) and (2) of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies).

## 4. OFF-SITE SUPERVISION

### 4.1. BANKING SUPERVISION

#### PRUDENTIAL SUPERVISION OF DOMESTIC BANKS

The supervisory activities taken by the KNF Office in 2014 involved ongoing monitoring and quarterly analysis of banks' economic and financial standing (rating awarded for Q4 2013 and 3 quarters of 2014). Based on the analysis results, the banks were awarded rating according to the KOBRA rating system. In 2014, all commercial and cooperative banks were rated, including 15 systemically important banks. 151 quarterly analyses of commercial banks, 2270 quarterly analyses of cooperative banks and 8 quarterly analyses of associating banks were prepared.

In addition, 112 executive summaries for branches of foreign banks were prepared (rating awarded for Q4 2013 and 3 quarters of 2014). Apart from the quarterly rating, banks are also covered by the SREP, i.e. the Supervisory Review and Evaluation Process. Detailed information on the SREP process in the banking sector is presented in the Supervisory Review and Evaluation Process (SREP) section.

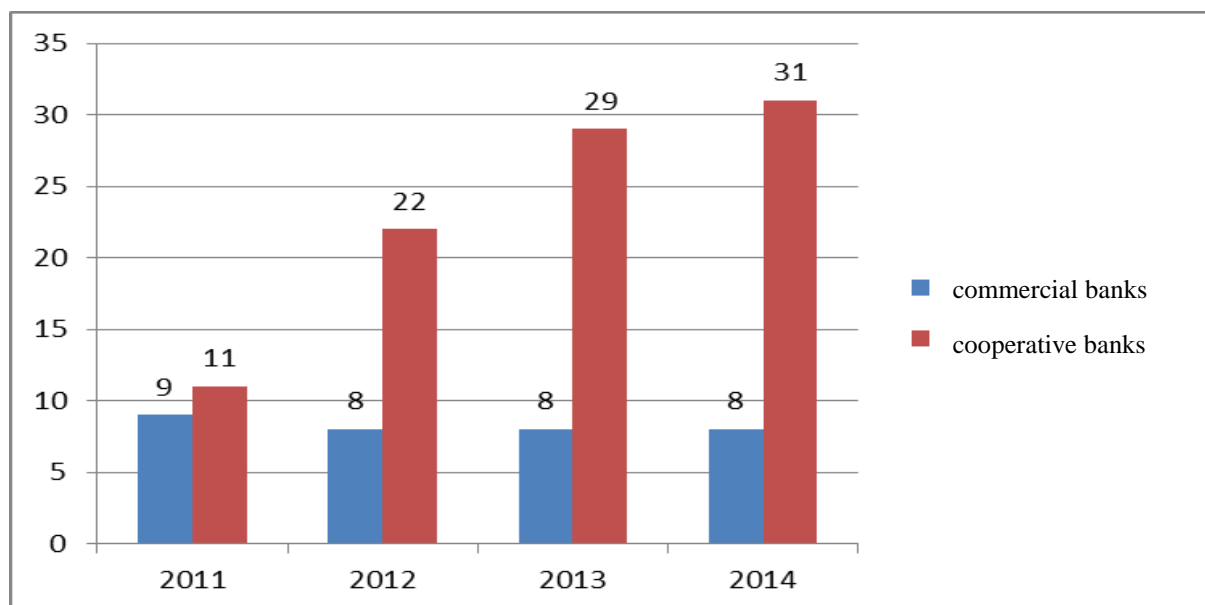
In the area of consolidated supervision, the regulator reviewed consolidated financial statements of banks and the economic and financial standing of holdings, banks' parent companies and banks included in conglomerates. Direct off-site supervision involved the selection of banks for comprehensive and problem-oriented inspections, and the results of the selection process were passed to the KNF Office's organisational units responsible for inspection. Data were developed for inspections carried out at banks.

Comparative (quarterly) analyses were conducted to examine the manner in which debt owed by the same borrower is classified by different banks and how shareholder structures of some major bank clients are presented; if any discrepancies were identified, relevant steps were taken with respect to the regulated entities involved. Supervision activities were conducted in the following areas:

- strengthening the capital base, including the rules on dividend payments,
- bancassurance,
- transformation processes,
- administrative proceedings, including applications for recognising subordinated liabilities, interim profits under funds, the appointment of an administrator,
- liquidity,
- recovery proceedings plans, including the assessment of the degree of their implementation, completion or imposition of the recovery proceedings plan,
- implementation of recommendations issued in the course of inspections, the SREP process and other recommendations issued under the offsite supervision.

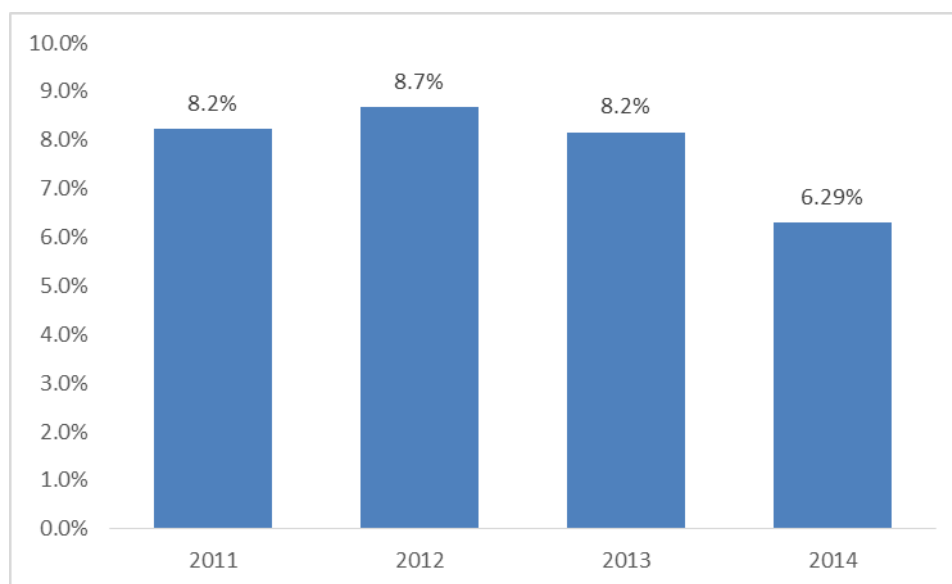
In 2014, 8 commercial banks were covered by recovery proceedings. As far as cooperative banks are concerned, at the beginning of 2014, 29 cooperative banks were subject to recovery proceedings, whereas at the end of 2014, 31 cooperative banks were covered by recovery proceedings. In 2014, one of the associating banks was obligated to prepare a recovery proceedings programme.

**Fig. 17. Number of commercial and cooperative banks covered by recovery proceedings, 2011-2014**



Source: In-house materials by the KNF Office

**Fig. 18. Share of assets of commercial and cooperative banks covered by recovery proceedings in the banking sector's assets (%), 2011-2014**



As at the end of 2014, the share of assets of co-operative banks covered by recovery proceedings in the banking sector's assets amounted to 0.006%.

Source: In-house materials by the KNF Office

## EUROPEAN ASSET QUALITY REVIEW AND STRESS TESTING

In 2014, the KNF Office performed for the fifth time stress tests aimed at determining the potential impact of the volatile macroeconomic environment on the financial standing and capital position of the Polish banking sector institutions as well as assessing the sector's resilience to the shock suffered.

The new element of the analysis was a simultaneous asset quality review, where the expected result of recommended supervisory activities was reliable estimation of write-downs to cover the risk related to credit exposures, and the strengthening of banks' capitals. Both analyses were aimed at as comprehensive evaluation of credit institutions.

### Asset Quality Review (AQR)

On 21 October 2013, EBA issued Recommendations on asset quality reviews (EBA/REC/2013/04) addressed to the relevant supervisory authorities in the European Union. On the other hand, ECB's Note: comprehensive assessment / October 2013 issued on 23 October 2013 put an obligation on the euro area countries to conduct, inter alia, an asset quality review as at 31 December 2013 with reference to harmonized definitions for non-performing exposures and forbearance.

Recognizing the above-mentioned asset quality review as vital for ensuring the transparency of information on banks' financial position, the KNF Office conducted, under the European asset review, a comprehensive analysis in relation to the group of 15 domestic banks, covering 79% of the commercial banking sector's assets (the selection criteria applied were identical to those for the selection of banks for European stress tests). The review was conducted, maintaining the highest possible consistency with the methodology applied by the ECB at all stages of the AQR. Such approach was dictated by the need to ensure consistency and ability to compare the planned announcement on the results of asset quality review and stress tests at the national level with the announcement at EU level. The scale of the review and the full application of the asset quality review methodology used by the ECB

were the KNF's own initiatives distinguishing Poland from the non-euro area Member States. In addition, the KNF, as the only supervisor in the EU, had the inspection potential to conduct the review independently.

The asset quality review in accordance with the ECB's methodology was divided into 10 workblocks. The phase preceding their execution was the selection of the portfolios (in line with the asset segmentation indicated by the ECB) for which the reviews were conducted. The main criterion for the selection of portfolios for review in a bank was covering, by the selected portfolios, at least 50% of risk-weighted assets (RWA) of the bank's banking book.

The KNF's activities under the asset quality review were conducted in close cooperation with the relevant home supervisors and with audit firms engaged by such supervisors (in relation to 3 banks) or independently (in relation to the remaining 12 banks). The review covered 32 portfolios, including portfolios of companies (small and medium-sized and large companies), retail loans secured on residential properties, retail loans to SMEs and other retail loans. The average share of portfolios covered by the review in the sum of risk-weighted assets (RWA) of banks amounted to 59%. The average number of reviewed economic entities at a bank amounted to 175, while the average number of reviewed credit exposures secured by mortgages on immovable property - 271. Exposures amounting to PLN 82bn in total were reviewed. The analysis also involved the review of the valuation of 5,775 collaterals.

The main outcome of the asset quality review in accordance with the ECB's Methodology was adjustment of the valuation of portfolios covered by the review, as a result of which Common Equity Tier 1 was reduced accordingly. On this basis, adjusted Common Equity Tier 1 capital ratio was established (hereinafter 'CET1 ratio').

The final adjustment to the valuation of portfolios covered by the review was influenced by changes in the classification of individual exposures and borrowers from the status of 'performing exposures' (PE) to 'non-performing exposures' (NPE), according to EBA's harmonised definitions adopted for the purposes of the AQR, as well as corrections to provisions. For non-retail portfolios, adjustments assessed in accordance with the ECB Methodology concerned specific impairment losses/provisions and IBNR provisions, whereas for retail portfolios, adjustments to collective provisions were made (IBNR and an impaired portfolio). Both changes in classification, as well as adjustments to provisions resulted from the credit file and collateral valuation review process conducted at individual banks. The findings from these blocks provided input for their extrapolation to the portfolios not covered by the review. On the other hand, the outcome of collective provisions resulted from the extrapolation of findings and a comparative analysis of the outcomes of bank provision estimation models with challenger models prepared in accordance with the ECB's Methodology for the purposes of the AQR.

The adjustment to the valuation of portfolios covered by the review and the adjusted CET1 were then used for the purpose of stress tests, which were conducted in parallel to the AQR.

## Stress testing

The latest edition of stress tests conducted every year by the KNF Office was connected with the EU-wide stress tests, whose fourth edition was coordinated by the European Banking Authority (EBA). Therefore, the exercise carried out in 2014 contained a number of assumptions which significantly differed from those adopted in previous years. The most important points are:

- a 3-year forecast period;
- the following risks taken into account in calculations by banks:
  - credit risk,
  - market risk,



- sovereign risk,
  - securitization risk,
  - cost of funding risk;
- the scenarios for stress tests were developed on the basis of the European Commission's projections from February 2014 (baseline scenario), and a market collapse added to it (adverse scenario), developed in cooperation with the ESRB, the ECB and other central banks of the EU;
- the adverse scenario assumes strong economic slowdown in the US, which is imported into the EU by 4 channels: an increase in the cost of funding of individual countries, a decrease in credit quality in countries in crisis, postponing structural reforms, a loss of confidence in the market;
- additionally, depreciation of Central and Eastern European currencies against the euro has been assumed (in Poland, the depreciation of the currency by 25%);
- Static balance sheet assumption - the nominal value of loans is constant in time. In addition, the structure of the balance sheet cannot change, and each instrument that matures within the time horizon of the exercise should be replaced with a similar instrument with the same original maturity. The following is not possible:
- risk mitigating activities (constant balance sheet structure assumption),
  - change in the quality of the portfolio as a result of an increase in lending (constant nominal balance sheet total assumption);
- costs of funding incurred by the bank - it is assumed that the cost of funding must increase in proportion to the cost of funding for the country. At the same time, this increase can only partly be passed on to customers;
- the exercise assumed a 30% uniform rate of tax on profits in the entire European Union, due to which both profits and the capital adequacy ratio shown in the results may differ from the assumptions contained in banks' strategies;
- banks presented the financial performance of the entire banking group (the financial performance at the consolidated level) as opposed to separate data taken into account in previous years;
- banks prepared their projections according to the CRR/CRD IV, taking into account the approach to national options and interim periods, as applicable in Poland. Consequently, there are differences in definitions of capital between different countries due to different implementation of the CRD (the only exception is the standardization of approach to prudential filters and taking into account losses from depreciation of government bonds).

The review covered all commercial banks operating in Poland, which account for over 90% of total assets of the entire banking sector (excluding BGK). The results of stress tests for banks with a significant position in the market, quoting WIBID/WIBOR rates and listed on the Warsaw Stock Exchange, have been published on the KNF's website. The data submitted to the KNF Office was first subject to an initial analysis. The Authority analysed the internal consistency of forecasts and their compliance with the methodology, as well as the plausibility of extrapolated trends. Any doubts arising during this process were consulted on an ongoing basis with the banks. In addition, the models developed by the Authority were used.

The acceptable minimum level of CET1 ratio for banks according to the EBA amounts to:

- 8.0% for the baseline scenario,
- 5.5% for the adverse scenario.

The results of the exercises were used in determining the SREP rating.

## Summary

For banks participating in the AQR and stress tests, the results of both exercises were merged, in accordance with the guidelines of the EBA and the ECB. As a result of the merger, an adjusted CET1 ratio at 31 December 2013 and for the period from 2014 to 2016 in each of the stress test scenarios was obtained. The expected thresholds for the minimum values of the adjusted CET1 ratio were 8% for 2013 and the period from 2014 to 2016 for the baseline scenario and 5.5% for the adverse scenario. Failure to reach these thresholds indicated the need to increase Common Equity Tier 1. The above threshold levels were the same for all European banks covered by the exercise.

The results of the AQR and stress tests did not result in the need to take recovery actions (e.g. a recovery proceedings plan, acquisition, bankruptcy) in relation to the banks covered by the exercise. Two instances of failure to achieve the expected threshold levels were established, but the shortage of Common Equity Tier 1 on a scale sector was marginal (PLN 262.5m, 0.23% of Common Equity Tier 1 as at 31 December 2013).

As a result of the AQR, the value share of NPE in the sample under review (all banks participating in the exercise) increased for the companies portfolio from 7.51% to 10.03%, while for the portfolio of loans secured on residential property, there was an increase from 3.41% to 4.34%. For special provisions, the total adjustment resulting from the findings of the AQR amounted, for the companies portfolio, to PLN 1.839m (an increase of 34.8% in provisions), while the total correction of IBNR provisions for this portfolio - by PLN 1,010m (an increase of 186.7% in provisions). For collective provisions (IBNR and an impaired portfolio) concerning the portfolio of retail loans secured by residential property, the correction to provisions amounted to PLN 1,747m (an increase of 39.2% in provisions).

The adjusted CET1 capital adequacy ratio as at 31.12.2013, calculated for the purposes of AQR, totaled 13.31% for the banks covered by the review (14.05%, without the AQR correction). As a result of the inclusion of the AQR findings into the result of stress tests, the total value of the consolidated capital adequacy CET1 ratio for tested banks in an adverse scenario decreased from 13.31% to 12.48%.

With regard to the areas in which deficiencies in procedures and processes were found, appropriate recommendations were issued, including recommendations concerning the valuation of the loan portfolio.

**Table 39. The main irregularities identified during the AQR**

1.	Errors and deficiencies in data that is material from the point of view of the correct valuation of credit exposures, including: non-unique internal numbers of borrowers, deficiencies as to collateral valuation dates and incorrect (too low) values of the collateral (resulting in unreasonably high levels of LtV), deficiencies in selected financial data of borrowers and debt-to-income ratio for individual customers, incorrect calculation of the effective interest rate, lack of possibility to mark the restructuring in IT systems, deficiencies as to the information on the number of days of delay.
2.	Failure to change the classification of credit exposure (from PE to NPE) as a result of the following events: significant deterioration of the borrower's economic and financial position (cases of banks' failure to precisely define the minimum scope of objective, measurable criteria for the event "significant financial difficulties of the counterparty" resulting in the recognition of the objective evidence of impairment), restructuring forced by the borrower's financial difficulties (cases of banks' failure to precisely define the criteria for the following event: "the bank granting, to a counterparty for economic or legal reasons related to financial difficulties of the counterparty, a facility which otherwise would not be granted by the bank", resulting in the recognition of objective evidence of impairment),

	failure to meet the criteria for exiting the forbore NPE status (as defined by the EBA) during the quarantine period (delays in repayment after the restructuring, granting another facility).
3.	Comments on the models used by banks to value exposures, including: failure to recognise, in the analysis of collective provisions, the value of the LIP parameter adopted by the bank for 15 models (out of 32 tested models), resulting from the lack of sufficient justification of the LIP parameter adopted by the bank (determining the LIP parameter by an expert method or incorrect determination of the event date, as a result of which it was found that the borrower's exposure became impaired), cases of using conceptually inadequate models - the final nature of their estimates differs from the required Point-In-Time (PIT) nature, reservations to the quality of data used by banks in the process of estimating the LGD/LGI parameter.
4.	Reservations to the effectiveness of the process of monitoring the value of real property constituting a collateral, including: cases of lack of current collateral valuations for a significant portion of retail loans secured on residential properties (adopting, for determining the market value of the real property, the values current as at the time of extending the loan (2007, 2008) or derived from outdated real property insurance policies; cases of discrepancies between the real property values adopted by banks and their current market values), cases of deficiencies as to the data presented by banks on the market value of the real property on which the exposure is secured.

Source: In-house materials by the KNF Office

The results of the AQR and of stress tests were provided to individual banks in the form of individual recommendations, following an explanatory procedure. Each bank received, as attached to the recommendations, a completed EBA results form with stress test results and an ECB form with the results of the AQR and its impact on the results of stress tests. In accordance with the European/ECB standard used for the purpose of the review, each bank was required to provide the KNF Office with the implementation schedule of recommendations within two weeks.

On 26 October 2014, the KNF Office made the results of the AQR and stress tests public by posting, on the Office's website, the forms disclosed to the EBA and the ECB for each of the banks under review.

The systemic conclusions concerning the areas to which reservations were made during the AQR and the supervisor's expectations as to certain measures to be taken were presented to commercial banks applying the International Accounting Standards in a letter to the Presidents of the Management Boards of Banks of 19 December 2014. The letter was also sent to the auditors conducting audits of the financial statements of those banks for 2014. The main systemic conclusions concerning the results of the AQR included issues related to data quality, identification of impairment and determining impairment losses on credit exposures and provisions for off-balance sheet credit liabilities, the use of models to value exposures, and the collateral valuation process. The supervisor also expressed the expectation that the above-mentioned issues would be taken into account in the process of auditing the financial statements of banks to which the letter was sent.

## SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

In 2014, the KNF Office was working to adjust the SREP Methodology, as presented to banks in December 2013, to the changing regulatory environment, in particular taking into account the provisions of *Commission Implementing Regulation (EU) No 710/2014 of 23 June 2014*

*laying down implementing technical standards with regard to conditions of application of the joint decision process for institution-specific prudential requirements according to Directive 2013/36/EU of the European Parliament and of the Council.*

The work on the SREP Methodology will continue in 2015. The expected modifications, in addition to adaptation to changes in the national and EU legislation, will take into account the issues identified in the “*Guidelines for common procedures and methodologies for the supervisory review and evaluation process*”<sup>8</sup> issued by the European Banking Authority on 14.12.2014. In the course of work on the revised SREP Methodology, the demands and proposals made by banks, also through the Polish Bank Association, will also be taken into account.

The SREP process conducted by the KNF Office takes into account the findings of the analytical and inspection activities conducted by the supervisory authority at banks. The intensity of the SREP process in individual banks depends primarily on the results of the business model sensitivity analysis and the banks' grouping during the categorization process. The SREP Methodology assumes a continuous review of SREP ratings under a quarterly offsite analysis and the regulator's dialogue with banks.

It should be stressed that - in order to present the issues related to the applicable SREP Methodology and the work on its adaptation to the new European solutions - in 2014 two seminars were carried out for banks under the CEDUR project.

As part of the SREP process covering commercial banks for the year 2013, which was conducted in 2014, a supervisory rating was awarded to 37 banks. The ratings were awarded as at 31 December 2013. Where necessary, the banks were given, together with the results, recommendations to address irregularities identified during the analysis, which related to the management of individual risk categories. Such recommendations were also part of recovery plans imposed.

However, in the case of cooperative banks, in the period covered by the report 760 SREP analyses were conducted, including 756 analyses concerning cooperative banks (192 analysis under the SREP process for 2013 and 564 analyses for 2014) and 4 analyses concerning associating banks (2 as part of the SREP process for 2013 and 2 for 2014). As a result of the analytical work, 6 supervisory warnings were issued for cooperative banks.

## MONITORING OF BANKS' COMPLIANCE WITH APPLICABLE REGULATIONS

The KNF Office performs systematic desktop monitoring of banks' financial standing, including the liquidity and capital position. In 2014, special attention was again paid to banks' maintenance of good quality of equity and their appropriate value. Equity ensures bank's safety in case of undesirable external events that may occur as a result of crisis in the real zone or turmoil in the international financial markets, for example.

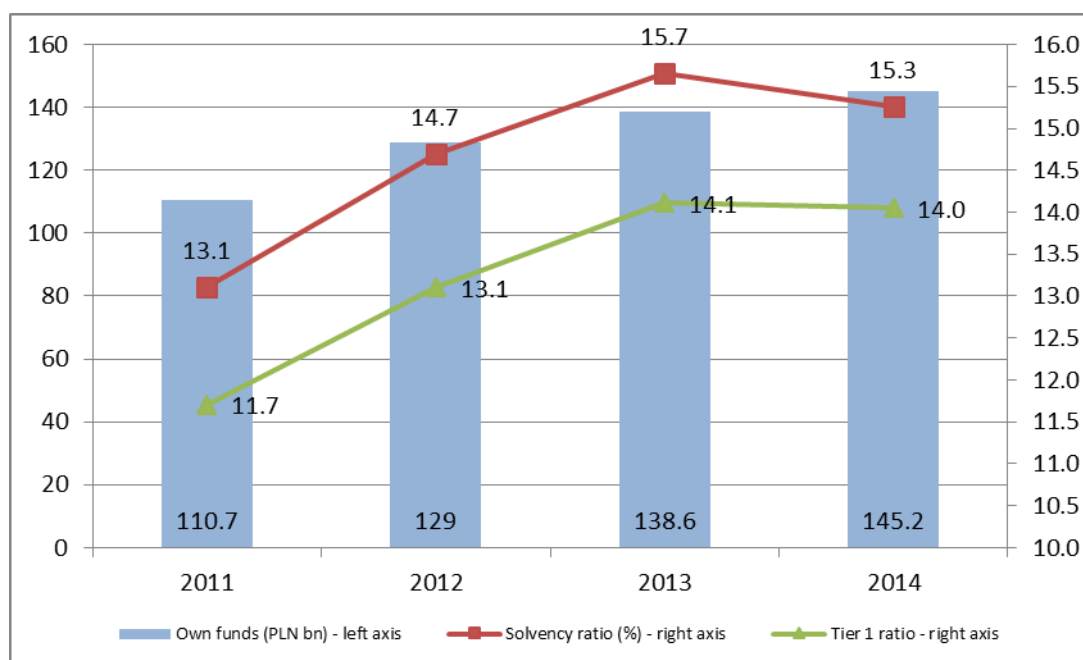
To maintain capital adequacy on the level recognized as safe, the supervisory authority recommended that banks limit dividend payout. The result of the Office's existing dividend policy is a stable and high capital adequacy ration in the sector, of 15.26% as at the end of 2014 (against 15.75%% at the end of 2013). Despite the good current situation, it is recommended to maintain a strong capital base, and in the case of some banks - its further

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<sup>8</sup> <https://www.eba.europa.eu/documents/10180/935249/EBA-GL-2014-13+%28Guidelines+on+SREP+methodologies+and+processes%29.pdf/4b842c7e-3294-4947-94cd-ad7f94405d66>

strengthening, due to the level of the risk already accumulated in banks' balance sheets, as well as uncertainty about the future economic prospects.

**Fig. 19. Equity and capital adequacy ratio of the Polish banking sector, 2011-2014**



Source: In-house materials by the KNF Office

#### THE WORKS RELATED TO THE PREPARATION OF LEGISLATIVE AMENDMENTS IN THE COOPERATIVE BANKING SECTOR AS REGARDS THE IMPLEMENTATION OF THE CRD IV DIRECTIVE, INCLUDING THE INSTITUTIONAL PROTECTION SYSTEM (IPS) AND PROPOSALS FOR BRR AND DGS DIRECTIVES

The KNF Office regularly analysed the new proposals of the Bank Recovery and Resolution (BRR) Directive, the Deposit Guarantee Schemes (DGS) Directive and the accompanying delegated regulations, the delegated regulations to the Capital Requirement Regulation (CRR) as well as the assumptions of BSR, and provided, several times, comments to the Ministry of Finance in favour of solutions aimed at stabilizing the Polish cooperative banking sector. The comments were made, among other things, on:

- definition of liquid assets in terms of the possibility of inclusion of cooperative banks' deposits in associating banks in such assets (satisfactory provisions have been obtained),
- taking, in the Resolution process and in the Recovery process, account of the specificity of banks' operation within the IPS group and the possibilities to use the principle of proportionality, including:
  - development of the Recovery and Resolution plans at the level of the IPS association (satisfactory provisions have been obtained in relation to Recovery plans)
  - the application of a narrower substantive scope for IPS' participation in Recovery and Resolution plans (satisfactory provisions have been obtained; an employee of the KNF participated in EBA's works concerning the development of appropriate technical standards),
  - taking account of lower fees for the guarantee and assistance fund (BFG) and the Resolution fund (satisfactory provisions have been obtained),

- the initiation of the Resolution procedure by IPS (a provision has been established according to which the Resolution process shall be initiated if certain conditions are met, including a situation where all IPS assistance possibilities have been exhausted).

The representatives of the KNF Office actively participated in the legislative process concerning the amendments to the Act on the functioning of cooperative banks, their associations and associating banks. Representatives of the KNF Office participated both in consultative conferences and in the process of giving opinions on new proposals for acts, and in the work of the legal committee at the Government Legislation Centre. At the same time, the KNF Office was systematically passing on to the sector the most important information on new regulations, with particular emphasis on capital changes. Similarly as in previous years, the Office corresponded with sector representatives and explained the emerging doubts about the discrepancies between national and EU regulations.

In view of both associations' preparations for changes in their organization to increase their security, help comply with the mandatory liquidity standards and prevent problems that may occur during the crisis, representatives of the KNF Office repeatedly met with representatives of both active associations. The result of these meetings are decisions made by the highest bodies of the above-mentioned groups as to the creation of IPS, as well as solutions preparing the banks belonging to these associations to legislative and organizational changes.

In 2014, the Polish Financial Supervision Authority examined a total of four analyses on the situation of the cooperative banking sector: the Information on the situation of the cooperative banking sector in 2013, the Information on the situation of the cooperative banking sector in the first quarter of 2014, in the first half of 2014 and in the third quarter of 2014. The report on the situation of the cooperative banking sector in the third quarter of 2014 also presented information about the level of LCR indicators in the cooperative banking sector in the context of cooperative banks' and associating banks' ability to meet the standards depending on the adopted legal and organizational changes relating to the functioning of the association. The Authority familiarized itself with two semi-annual reports on the situation of cooperative banks subject to the recovery proceedings.

## 4.2. SUPERVISION OF COOPERATIVE SAVINGS AND CREDIT UNIONS (SKOK)

In 2014, the Polish Financial Supervision Authority decided on the appointment of administrators in two unions. In addition to the management of current operations, administrators held consultations with unions' owners (members) and potential investors to prepare a restructuring model appropriate for the situation established.

In 2014, the Polish Financial Supervisory Authority took a decision to suspend the operations of two unions: Spółdzielcza Kasa Oszczędnościowo-Kredytowa „Wspólnota” and Spółdzielcza Kasa Oszczędnościowo-Kredytowa in Wołomin. As far as SKOK 'Wspólnota' is concerned, on 18 July 2014 the KNF filed, with the competent court, a petition for the declaration of the union's bankruptcy. On 26 September 2014, the District Court for Gdańsk-Północ entered a judgement declaring the bankruptcy of Spółdzielcza Kasa Oszczędnościowo-Kredytowa 'Wspólnota' (case number VI GU 131/14). As far as SKOK in Wołomin is concerned, on 12 December 2014 the KNF decided to file, with the District Court for Warszawa Praga Północ, a petition for declaring the Union's bankruptcy.

In 2014, the KNF took decisions on the takeover of two cooperative savings and credit unions by banks on the basis of the Act of 5 November 2009 on the cooperative savings and credit unions.

SKOK Jana z Kęt was taken over by Alior Bank SA and SKOK Kopernik by Bank PEKAO SA. The criteria established and published by the KNF in February 2014 were the basis for assessing the financial entities' ability to take over the unions.

Moreover, in 2014 the KNF approved the merger of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Szopienice (as the acquiring union) with Spółdzielcza Kasa Oszczędnościowo-Kredytowa Dziedzice (as the union being acquired).

The Polish Financial Supervision Authority, in the course of an administrative procedure, approved in 2014 the model contracts prepared by the National Union and approved with the SKOK sector, including model contracts on:

- a loan from the Stabilization Fund,
- a loan from the Stabilization Fund (subordinated liability)
- deposit account,
- organizing publishing operations,
- the provision of legal, organizational and financial consultancy services.

The KNF Chairman presented, during the 65th session of the Senate of the Republic of Poland on 20 November 2014, at the forum of the upper chamber of the Polish Parliament, the situation of cooperative savings and credit unions after the entry into force of the Act of 10 October 2012 amending the Act on cooperative savings and credit unions, with particular emphasis on the guarantee of security of funds deposited by their members. In addition, on 18 December 2014, the KNF Chairman gave a speech at a session of the Sejm's Public Finance Committee informing about the situation of cooperative savings and credit unions.

In 2014, the Polish Financial Supervision Authority familiarized itself with a total of four periodic reports on the situation of the cooperative savings and credit unions sector: Information on the situation of cooperative savings and credit unions in 2013, in the first quarter of 2014, in the first half of 2014 and in the third quarter of 2014. In 2014, the Authority also familiarized itself with two semi-annual reports on the situation of unions required to implement the recovery proceedings plans.

### 4.3. SUPERVISION OF PAYMENT SERVICES PROVIDERS

Payment services operations conducted by domestic payment institutions and payment service offices are subject to the supervision of the KNF in the scope and on the terms specified in the APS and in the Act on Financial Market Supervision.

The main goal of the KNF's supervision of domestic payment institutions (hereinafter "KIPs") is to ensure the financial security of domestic payment institutions, compliance of operations of domestic payment institutions with the applicable national and EU regulations governing the functioning of the payment services market, and to protect the interests of users and holders of electronic money.

In relation to payment service offices (hereinafter "BUPs"), the objective of the KNF's supervision is to ensure that payment service offices operate in compliance with the provisions of the APS, and to protect the interests of payment services market participants (users).

The initial capital of domestic payment institutions are several times greater than the minimum level required by the Act.

**Table 40. Statement of own funds of KIPs (PLN '000)**

Item	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Own funds, including	304 217 603	329 027 353	357 060 393	375 234 095
– initial capital	295 311 675	295 311 675	321 742 324	338 261 844
– revaluation reserve	0	-	1 785 258	1 785 258
– retained profit from previous years	3 809 972	18 547 674	2 317 504	6 681 636
– profit under approval and net profit of the current reporting period	5 095 956	15 168 004	31 215 307	28 505 357
Deductions from own funds	35 330 325	35 935 402	33 503 984	44 999 811
– shares in the payment institution held by the payment institution itself, valued at the carrying amount net of impairment losses	0	-	-	-
– all liabilities arising from the issue of preference shares	0	-	-	-
– intangible assets valued at the carrying amount	31 219 302	30 507 675	30 237 466	29 803 160
– Loss of previous years	4 111 023	3 878 383	2 505 255	11 379 317
– loss under approval	0	972 044	-	-
– net loss for the current period	0	577 300	761 263	3 817 334
Own funds (after deductions)	268 887 278	293 091 951	323 556 409	330 234 284

Source: In-house materials by the KNF Office

Total number and value of payment transactions executed by KIP in the quarters of 2014 is presented in Table 41.

**Table 41. Information on payment transactions made by domestic payment institutions ("KIPs")**

KIP	Number of transactions ( <i>'000</i> )			Value of transactions ( <i>million PLN</i> )			Fees and commissions ( <i>thousand PLN</i> )		
	Q1 2014	Q2 2014	Q3 2014	Q1 2014	Q2 2014	Q3 2014	Q1 2014	Q2 2014	Q3 2014
<b>Total</b>	115 986	125 534	132 393	11 853	12 900	13 904	176 769	192 063	155 024

Source: In-house materials by the KNF Office

The average value of a single payment transaction executed by KIP in the first quarter of 2014 amounted to PLN 102, in the second quarter of 2014 - PLN 103, while in the third quarter of 2014 - PLN 105. The average value of fees and commissions collected by the KIP for the execution of a single payment transaction in the first quarter of 2014 amounted to PLN 1.52, while in the second and third quarter of 2014 - PLN 1.53 and PLN 1.17 respectively.

The analysis of data provided to the KNF on the domestic payment services market leads to the conclusion that several KIPs with established market position, which operate on a large scale, have a dominant position in this field.

Pursuant to the APS, payment service offices are required to submit to the KNF Office reporting information for quarterly and annual periods, containing data on the number and value of completed money remittances.



For the first quarter of 2014, 1,037 payment service (78%) offices out of 1,331 entities covered by this requirement submitted reporting information to the KNF Office, while for the second quarter of 2014 - 1,041 (78%) out of 1,336 offices submitted reporting information to the KNF Office. In the third quarter of 2014, 1,356 payment service offices were required to submit reporting information to the KNF, and the information was submitted by 1,062 offices (78% of offices).

The number and value of money remittances executed by BUP amounted to:

- in the first quarter of 2014 - 8.7m remittances with a total value of PLN 1.4bn,
- in the second quarter of 2014 - 8.5m remittances with a total value of PLN 1.4bn,
- in the third quarter of 2014 - 8.2m remittances with a total value of PLN 1.3bn.

It follows from the reporting information submitted by payment service offices for Q1, Q2 and Q3 2014 that the following percentages of offices failed to meet their obligations to the KNF:

- about 20% of offices failed to submit the information about the number and value of executed money remittances, and
- about 30% of offices failed to submit to the KNF the original document confirming the conclusion of an insurance contract, or bank or insurance guarantee contract.

Under the existing regulations governing the operation of the national payment services market, the supervisory authority has no powers that would enable it to remove from the register BUPs that failed to comply with their reporting obligations referred to above.

The level of securing the transactions executed by payment service offices (the protection level of funds) is determined based on the ratio of the average monthly value of money remittances executed by these entities to the value of security held by them (i.e. concluded insurance contracts or guarantee agreements).

According to data for the first quarter of 2014, the average monthly protection level of the funds received to execute payment orders by BUPs amounted to 6.6%, 6.8% in the second quarter of 2014 and 7.3% in the third quarter of 2014. The level of protection (in a monthly period) in the third quarter of 2014 was lower than in the record third quarter of 2012 (in which the level of protection amounted to 7.9%), but also the highest for the periods from the fourth quarter of 2012 (7%) to the second quarter of 2014 (6.8%).

The KNF's supervisory activities in relation to BUPs include monitoring the timeliness of submission of reporting information, the compliance with the obligation to protect customers' funds, the timeliness of transferring funds to the recipient and the recipient's supplier, informing BUPs of the obligation to reduce the scale of operations or the need to transform into a KIP in the case of exceeding the statutory limit of monthly turnover of EUR 500,000, giving recommendations to offices in connection with negative financial results arising from activities other than the provision of payment services or lack of revenue from such additional activities, and conducting survey studies on payment service offices aimed at collecting information about the specific character of payment service offices' operations.

As part of the supervisory activities in relation to domestic payment institutions, the KNF examines applications for authorization to operate as a domestic payment institution and analyzes the financial performance of KIP in the context of their compliance with the financial plans presented on the stage of granting an authorization. In addition, in 2014 in two domestic payment institutions selected by the KNF, inspections were conducted to verify the financial security of KIPs, the compliance of data included in the periodic reporting information with the factual situation and the operation of KIP in accordance with the applicable regulations governing the functioning of the payment services market at the national and Community level.

## THE NECESSARY REGULATORY CHANGES IN THE FUNCTIONING OF BUP

Taking into account the problems identified by the KNF, relating to the effective supervision of payment services offices, in 2013 consultations with the Ministry of Finance were initiated

on the possible directions of changes in the current approach to the supervision of payment services offices. The deregulation of the market of payment services provided by payment services offices is the subject of ongoing works. The deregulation is to be carried out by limiting the KNF's supervision of BUPs to the minimum scope required by Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market.

## 4.4. SUPERVISION OF INSURANCE MARKET

### SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) OF INSURANCE COMPANIES

In 2014, the fifth edition of the Supervisory Review and Evaluation Process (SREP) of insurance undertakings was performed. Ratings for 2013 were granted to 58 undertakings, including 27 segment I undertakings and 31 segment II undertakings.

Supervisory review and evaluation process (SREP) is a comprehensive process using all information available to the KNF Office about insurance undertakings, including information obtained as a result of licensing-related activities, off-site analysis and on-the-spot checks in insurance undertakings, as well as on the basis of inquiries/questionnaires sent to insurance undertakings.

As a result of SREP, the supervisory authority conducts a risk assessment and a significance assessment of insurance undertakings, based on which it takes supervisory activities, including inspection activities, taking into consideration the principle of proportionality.

The main objectives of SREP include:

- assessment of the insurance sector standing, including the identification of systemically important undertakings and risk areas,
- assessment of insurance undertaking risk, including:
  - identification of increased risk or high risk areas of the insurance undertaking's operations,
  - assessment of the quality of the insurance undertaking's management process,
  - assessment of the insurance undertaking's financial standing,
  - assessment of compliance of the insurance undertaking's operations with relevant laws and internal regulations,
- establishing the priorities in relation to supervisory activities, and effective allocation of the KNF Office's resources, which will be assigned to areas and entities with the highest risk profiles,
- preparation for "Solvency II", including in particular for the requirements of the supervisory review process as provided for in Article 36 of the "Solvency II" Directive.

Compared with the SREP process for 2012, some changes were made to the SREP methodology in connection with the unification of the SREP methodologies in different sectors of the financial market, as well as in connection with the experience gathered during the previous SREP processes and comments made by insurance/reinsurance undertakings, including comments submitted by the Polish Insurance Association. The changes concerned the method of calculating indicators used in the quantitative assessment, adding or removing individual indicators, adding or clarifying adjustments for selected indicators and updating qualitative assessment issues in the SREP methodology.

In 2014, as part of cross-sectoral activities of the KNF working group, a review of the SREP methodology for insurance undertakings was conducted to ensure that, in the process of granting ratings to entities from individual sectors of the financial market, account will be

taken of the customer complaints handling mechanism consisting in the introduction and functioning of procedures that are to lead to reaching a compromise in the dispute and to a settlement.

As a result of the work of the aforementioned group it was established that the assessment of customer relations will be carried out in the risk areas covered by the SREP process and functioning in different sectors. At the same time, the SREP evaluation will be extended to include elements of individual stages of financial institutions' relations with customers (taking into account the specific nature of individual markets), as identified on the basis of gap analysis, including as to taking into account entities' desire to resolve disputes amicably. The supervised entities were informed by letter of the KNF Chairman of the planned extension of the areas assessed in the evaluation of BION accordance with the findings of the working team.

## MONITORING OF THE FINANCIAL STANDING OF INSURANCE COMPANIES

The key objective in the area of analytical supervision is to ensure ongoing monitoring and safeguard the financial stability of the market, and take appropriate remedial measures in the event of any identified threats. The overall goal of those activities is to guarantee that insurance companies have the ability to pay benefits due to insurers, the insured, the beneficiaries or the entitled persons under insurance agreements. Assessment of the financial standing of insurance companies and their solvency in particular relies chiefly on their quarterly and annual financial statements.

Each of the financial and statistical statements submitted by insurance undertakings is subject to a separate analysis, the results of which are published in the relevant reports constituting the basis for taking further individual regulatory decisions. The degree of details in reports depends on the SREP rating granted to an insurance undertaking, which enables matching the degree of details in the analyzes conducted and the level of risk identified for individual undertakings.

In addition, the financial position of insurance undertakings is monitored pursuant to the obligation, which was imposed in 2008, of monthly submission of data on basic solvency ratios, and of other information provided by undertakings on an ad hoc basis at the supervisory authority's special request. Such information is used to identify elevated risk and high risk of capital adequacy under the Early Warning System.

It follows from the conducted analyses that the financial position of insurance undertakings in 2014 was stable, similarly as in previous years.

Out of many activities carried out in 2014, the following activities should be indicated whose objective was to monitor the risk in the business of insurance undertakings:

- monitoring insurance undertakings' activities aimed at limiting the excessive concentration of deposits in one entity or one type of assets (as a result of supervisory actions taken by the KNF Office it was stated that undertakings execute actions aimed at limiting the concentration of deposits in credit institutions),
- compliance analysis as regards planned and executed dividend payout for 2013 with recommendation of the KNF Chairman and their impact on insurance companies' results,
- monitoring the profitability of individual insurance undertakings in important classes of insurance, and the trends in the tariff policy,
- monitoring the financial consequences of lawsuits and judgments in the cases relating to termination fees in insurance contracts,
- assessing the impact of the regulation proposed by the Ministry of Finance on the amount of termination fees in life insurances with unit-linked insurance plans on the financial performance and solvency of insurance undertakings.

## SUPERVISION OF PERFORMANCE OF DISCLOSURE AND REPORTING OBLIGATIONS AND COMPLIANCE OF INSURANCE UNDERTAKINGS' OPERATIONS WITH LAW

The provisions governing insurance activities impose on insurance undertakings a number of obligations to inform both the supervisory authority as well as policyholders. The supervisory authority's task in this respect is to verify both the fact of publication of the relevant information, as well as its content. The timely and full performance of disclosure requirements constitutes one of the key duties of undertakings, and provides both the regulator and insurance services buyers with access to some operational data of insurance undertakings.

With reference to performance of the mandatory disclosure requirements by the companies, the following were analysed in 2014:

- financial statements, including 241 quarterly financial statements, 59 annual separate financial statements and 7 annual consolidated financial statements,
- disclosure on selecting or changing the entity authorised to audit financial statements - in 47 cases,
- information on appointing (or dismissing) an actuary - 2 cases,
- information on selecting the person entrusted with keeping the books of accounts - 8 cases,
- information on authorising another entity to submit declarations of will as regards claims - 4 cases,
- information on change to premium rate structures in mandatory automobile insurance (motor TPL insurance) and mandatory agricultural insurance (farmers TPL insurance and farm buildings insurance) - 58 cases,
- publication of annual statements of unit-linked insurance funds (hereinafter referred to as "UFKs") as at 31 December 2013 (23 insurance undertakings, 1965 UFKs) and semi-annual statements of UFKs as at 30 June 2014 (23 insurance undertakings, 2109 UFKs) on the undertakings' websites,
- Information on Individual Pension Accounts and Individual Pension Security Accounts as at 31 December 2013 (27 segment I companies),
- Information on Individual Pension Accounts and Individual Pension Security Accounts as at 30 June 2014 (27 segment I insurance undertakings).

The results of the analysis performed suggest that insurance undertakings, save for rare exceptions, fulfil the disclosure requirements as stipulated under applicable laws.

In the course of exercising the ongoing supervision of the insurance sector, the compliance of insurance undertakings with law is also monitored by analysing the manner of performing requirements and by analysing insurance undertakings' internal regulations:

- undertakings' internal regulations (including rules governing the recognition of technical provisions and the development of premium rate structures) were analysed in 61 cases,
- performance of requirements issued to companies following inspections carried out by the regulator was reviewed in 26 cases (in 8 cases the recommendation was ultimately considered as performed),
- fulfilment of recommendations to bring an insurance undertaking's operations into compliance with applicable laws, as part of ongoing supervision, was examined in 3 cases.

## PROCESSING OF REQUESTS SUBMITTED BY INSURANCE AND REINSURANCE UNDERTAKINGS

Apart from supervision of companies' operations, the Polish Financial Supervision Authority also processed the requests submitted by regulated entities for granting certain rights or authorisations for certain activities within the competence of the financial supervision authority.

In 2014, insurance companies' requests concerning the following were processed:

- granting consent to recognize certain assets as assets for covering technical provisions - as a result of 61 procedures instituted, 54 decisions were issued as regards granting relevant consent, and 7 procedures were not completed in 2014 - this concerns procedures for which the term within which they should be dealt with, as mentioned in Article 35 § 3 of the Act on the Code of Administrative Procedure of 14 June 1960 (consolidated text Dz.U. of 2000, No 98, item 1071, as amended) had not expired by 31 December 2014,
- granting consent to recognize a subordinated loan under own assets - 4 decisions on granting the consent were issued as a result of 4 procedures,

## REINSURANCE OPERATIONS OF INSURANCE UNDERTAKINGS

In 2014, the KNF prepared a report on the reinsurance of domestic insurance undertakings, including in particular reinsurance of catastrophic events. The report focused primarily on outward reinsurance, because apart from few exceptions, the scope of domestic insurance/reinsurance undertakings' inward reinsurance activities is not significant. On the other hand, outward reinsurance is for many insurance undertakings a significant area of activity, and - as shown by the risk questionnaire results and stress tests - it is a basic technique of limiting risks, particularly catastrophic risk. The report was prepared based on the annual financial statements, an additional survey on catastrophic events, stress tests and the SREP questionnaire.

Due to significant impact of disaster-related events on the operations of insurance undertakings from segment II, the KNF Office assesses the sector II insurance undertakings' protection against effects of occurrence of losses due to disasters. Performing the aforesaid task the KNF Office requested twice the segment II insurance companies to present additional information, including:

- disaster reinsurance plans for 2014 and description of the reinsurance policy together with information which risks are not covered by the reinsurance protection,
- disaster events that occurred in 2013, which were covered by an undertaking's insurance, as well as settlements of such events as part of the reinsurance programme (losses on own share and losses on individual reinsurance contracts/reinsurers).

It follows from the analysis of the surveys that the gross value of damage resulting from catastrophic events in 2013 amounted to PLN 478.85m (in 2012: PLN 1,070.77m, in 2011: PLN 681.69m). The largest damage in terms of gross value was in the category of events including rainstorm, hailstorm and hurricanes. The gross value of the damage in this category amounted to nearly PLN 396.83m (which represents 82.9% of all gross damage arising from catastrophic events in 2013). A single event that caused the greatest insured damage was Cyclone Xaver, which resulted in damage in the amount of PLN PLN 62.46m (which accounted for 13.0% of all catastrophic damage).

Although in 2013 no major catastrophic events occurred in Poland, most insurance undertakings did not reduce the catastrophic reinsurance coverage for 2014, and nearly half of the insurance undertakings increased their reinsurance coverage (it was reduced by only two insurance undertakings). This shows that in planning catastrophic reinsurance coverage, insurance undertakings take a long-term view and are not influenced by performance in single years.

## PRE-APPLICATION PROCESSES CONCERNING INTERNAL MODELS

The Solvency II System gives insurance and reinsurance undertakings the possibility to determine the Solvency Capital Requirement (SCR) in a manner appropriate to their risk

profile and scale of operations. A set of tools, systems and procedures that should be used to achieve this aim constitute the so-called internal model. The said model should fulfil a number of strict requirements indicated in the Directive of the European Parliament and of the Council 2009/138/EC on the taking up and pursuit of the business of insurance and reinsurance ('Solvency II') and its use must be approved by the regulator. Verification of and advising on the model constitute a complex process requiring highly specialised knowledge of many domains, and the Solvency II Directive provides for a relatively short period of time to carry out this process (6 months). In 2014, the KNF Office continued actions aimed at preparing both the KNF Office and the insurance market entities to the forthcoming tasks related to assessment and approval of internal models. In 2014, the most important undertaking in that regard was continuation of the so-called pre-application processes initiated in 2011.

By conducting the pre-application processes, the KNF Office continues its mission to support stable functioning and secure development of the financial market as well as to develop dialogue between the insurance market and the regulator. The said process has many advantages related, above all, to early diagnosis of gaps and identification of problem areas of the internal model, whereby it facilitates acceleration of the implementation speed of internal models as well as solutions concerning Solvency II in undertakings. Additionally, insurance or reinsurance undertakings have the option to familiarise themselves with the supervisor's expectations as to internal models.

As at 31 December 2014, the KNF Office conducted pre-application processes for 10 domestic insurance undertakings (3 from segment I and 7 from segment II, which constituted in total 51% of the Polish insurance market, as measured by the 2013 gross premium written).

The scope of work carried out as part of the pre-application processes in 2014 was divided into two streams.

The first stream was related to the implementation of EIOPA Guidelines on Pre-Application of Internal Models. In implementing these guidelines and in view of the need to intensify efforts to adapt to the Solvency II requirements, the KNF Office sent to domestic insurance and reinsurance undertakings a schedule of activities related to the preparation of insurance sector entities to the Solvency II requirements. The KNF Office asked the insurance undertakings involved in the pre-application process, to submit, inter alia, a self-assessment of compliance with the Solvency II requirements in terms of internal models, the summary of gaps in the internal model and the timetable for achieving compliance with the Solvency II requirements in terms of internal models (taking into account the elimination of gaps that had been identified at the validation phase and in the pre-application process). The assessment was conducted on the basis of documents submitted to the supervisory authority, as well as during regular meetings held with representatives of insurance undertakings. A total of 33 meetings were held in 2014, during which the following issues were discussed: internal model management, internal model validation process, the process of making assumptions and expert assessment in the internal model and the progress in adapting the internal model to the Solvency II requirements, as well as issues relating to the comparative study of internal models, which was the second stream of work carried out as part of the internal model pre-application processes in 2014.

A comparative study of internal models (hereinafter: the Study) was designed to analyze the results of internal models, both for individual undertakings, as well as from the cross-sectional perspective. The Study covered market risk, non-life insurance, life insurance and aggregation methods. The results of the study will contribute to the assessment of insurance undertakings' preparation for applying for the use of the internal model in determining the Solvency Capital Requirement in the Solvency II system. The discussion about the internal model's results will enable better understanding of the extent of reflection of an insurance

undertaking's risk profile, the impact of assumptions made and their reasonableness. The Study also contributes to better communication about the internal model, both within an insurance undertaking and with the supervisory authority. The analysis of the results of the Study will help to show areas that require improvement before applying for the use of the internal model in determining the Solvency Capital Requirement in the Solvency II system. This approach corresponds to the initiatives undertaken by EIOPA and foreign supervisors to assess internal models. In order to ensure comparability, insurance undertakings were provided with standardized data needed to parameterize their internal models. When designing the Study, the comments received by the KNF Office from the participants of the Study at the consultation phase were taken into account.

In 2014, representatives of the KNF Office also participated in meetings at the international level, including study visits and colleges of supervisors as well as meetings of EIOPA working groups and teams (IMC<sup>9</sup>, ISM<sup>10</sup>, TPSG<sup>11</sup> under FinReq<sup>12</sup>, SRP subgroups<sup>13</sup> under IGSRR<sup>14</sup>, Review Panel<sup>15</sup>) and the ESRB<sup>16</sup> (Insurance Team).

In 2014, on the initiative of the KNF Office, bilateral meetings were also held with representatives of foreign supervisors, during which the issues concerning the quality requirements, dependencies modelling methods and harmonization of supervisors' approaches to internal models' assessment were discussed. During the meetings, the problem areas related to risk modelling using internal models were also discussed.

Further works (both domestic and international) will be continued in 2015.

## QUANTITATIVE IMPACT STUDY (QIS) 2014 IN THE INSURANCE SECTOR

As part of the monitoring of preparations of insurance sector entities to the quantitative requirements (Pillar I) of the Solvency II system, in the period from 8 September to 7 November 2014, the KNF Office conducted among domestic insurance undertakings and reinsurance undertakings the third compulsory quantitative impact study (QIS2014). The results of the study were an important source of information about the degree of undertakings' preparation for operating in accordance with the Solvency II principles in terms of quantitative requirements, due to the fact that the study was carried out a little more than a year before the entry of Solvency II into force.

QIS2014 was performed by all the domestic insurance and reinsurance undertakings as at 31 December 2013.

Employees of the KNF Office prepared the following documents for insurance undertakings and reinsurance undertakings:

- the Polish translation of Technical Specifications (developed by EIOPA) for the Solvency II valuation and Solvency Capital Requirements calculation in the Preparatory Phase,
- Annex to the Technical Specifications, prepared by the KNF Office (taking into account the outcome of the meetings with undertakings after previous studies),
- a spreadsheet to be completed with the results of quantitative research.

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<sup>9</sup> Internal Models Committee at EIOPA.

<sup>10</sup> Informal Supervisory Meetings - supervisor's informal meetings on internal models.

<sup>11</sup> Technical Provisions Sub Group.

<sup>12</sup> Financial Requirements Committee at EIOPA.

<sup>13</sup> Supervisory Review Process Sub-Group.

<sup>14</sup> Internal Governance, Supervisory Review and Reporting Committee at EIOPA.

<sup>15</sup> The panel for the review of the functioning of colleges of supervisors and the panel for the review of joint inspections.

<sup>16</sup> European Systemic Risk Board.

The Technical Specification of QIS2014, compared with the previous studies, included Solvency II issues concerning risk-free interest rate and arrangements applicable in the transition period. The Specification also included specific solutions for mutual insurance companies to ensure that the Solvency II requirements correctly render their risk profile and reflect the reciprocity rules in quantitative and qualitative requirements of Solvency II.

The results of the QIS2014 conducted by insurance and reinsurance undertakings indicated, to the KNF Office, areas which are the source of the biggest problems for the domestic insurance market, as well as the undertakings that as at 1 January 2016, without transitional arrangements, would not be able to meet capital requirements in accordance with the Solvency II system. In addition, the analysis of the results of the study shows that the supervisory authority should even more intensely engage in preparing undertakings for the Solvency II system so that they are adequately prepared for meeting the capital requirements as from 1 January 2016.

#### STRESS TESTING OF THE INSURANCE SECTOR

In order to examine the stability and security of the Polish insurance sector, in particular to test the resistance and the capital needs, if any, of the Polish insurance sector and of individual insurance and reinsurance undertakings to extreme but still likely occurrences, in 2014 the KNF continued work related to using stress tests in the process of supervising insurance and reinsurance undertakings, in particular with regard to examining the resistance of the Polish insurance sector to extreme but still likely occurrences, as well as improving risk management in insurance and reinsurance undertakings.

Since the beginning of 2014, the KNF Office continued efforts to verify the methodology of stress tests in the insurance sector. In comparison to the previous year, the following changes have been introduced: recalibration of the intensity of shocks for interest rate risk and equity price risk, a new stress test for the reserve risk for segment II insurance undertakings has been introduced, new assumptions have been introduced concerning the period of accounting for the agency commission costs in the stress test for the risk of cancelling contracts in segment I insurance undertakings and a requirement was introduced to conduct an additional prospective stress test for these types of risks for which the insurance/reinsurance undertaking has not passed stress tests and standard stress tests for other types of risk. On 5 March 2014, the stress testing methodology for 2013 was published on the KNF website and insurance and reinsurance undertakings were requested to conduct stress tests at 31 December 2013 by 25 April 2014.

One of the test results was identification of higher-risk insurance companies, i.e. companies that did not pass positively stress tests and the explanations provided by them were considered insufficient. These companies were requested to conduct additional stress tests as at 30 June 2014 for the risk types in question.

#### EUROPEAN STRESS TESTING OF THE INSURANCE SECTOR

Europe-wide stress tests began on 30 April 2014 with the publication, on EIOPA website, of the documents concerning the tests, including stress tests specifications, qualitative and quantitative questionnaires, technical specifications for the Solvency II valuation and solvency capital requirements calculation in the preparatory phase. Insurance undertakings from all countries of the European Union participated in tests - in total at least 50% of the market in each country<sup>17</sup>. From among the domestic insurance undertakings, the PZU Group

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<sup>17</sup> In basic stress tests, which were performed at the level of insurance groups, the share was measured by gross premium written, while in the scenario of prolonged low interest rates, which was carried out at the level of individual undertakings, the share was measured by technical provisions.



participated in basic tests (30 other insurance undertakings were included in stress tests carried out by insurance groups to which they belong), and 7 domestic insurance undertakings participated in the low interest rates scenario. Europe-wide stress tests were conducted as at 31 December 2013, on the basis of the balance sheet and capital requirements determined in accordance with the Solvency II rules. Domestic insurance undertakings submitted the results of stress tests to the KNF Office by 11 July 2014.

The analysis of the stress tests' results shows that Polish participants came out well against participants from other countries of the European Union (the highest ratio of the coverage of SCR with own funds in the low interest rates test, both before shocks and after shocks for both scenarios).

## GUIDELINES ON PREPARING FOR SOLVENCY II

On 1 January 2014, a two-year period of application of EIOPA guidelines on preparing for Solvency II started<sup>18</sup>. The guidelines establish a coherent EU approach to analysing and monitoring by supervisors the state of preparation of insurance sector entities for complying with selected requirements of the Solvency II system. The guidelines cover 4 areas: system of governance, forward-looking assessment of own risks (based on the ORSA principles), submission of information to National Competent Authorities and pre-application of internal models. EIOPA let national supervisory authorities (formal recipients of the guidelines) decide about the detailed scope and methods of application of the guidelines.

After the supervisory authority's initial position on the application of the guidelines in Poland was presented in December 2013, in the period from February to April 2014 domestic insurance sector entities received letters containing detailed requirements of the supervisory authority in this area. The first reporting activity which the supervisory authority required from the supervised entities was to carry out self-assessment of compliance with the Solvency II requirements contained in the guidelines in question. The activity was carried out as part of the SREP survey and through the KNF Office form on the requirements relating to internal models. The responses indicated a relatively high average level of implementation of the requirements contained in the guidelines, but also highlighted areas that are less advanced or cause more difficulties in interpretation (e.g. capital management rules, certain requirements as regards the actuarial function and as regards the competence and reputation of members of the management board and the supervisory board). Subsequent self-assessment will be carried out at the beginning of 2015 and at the beginning of 2016. The supervisory authority will then submit to EIOPA a report on the progress in the implementation of the preparatory guidelines on the domestic market. In September 2014, the KNF Office participated in developing a template report in EIOPA.

In May 2014, the KNF Office asked domestic insurance sector entities to carry out, in 2014, forward-looking assessment of own risks, based on the ORSA principles, and to provide a report of its results within 2 weeks of its approval by the Management Board, however not later than by 14 January 2015. All entities were required to assess the overall solvency needs. In addition, 7 entities were required to analyze the continuous compliance with capital requirements and the requirements for the calculation of technical provisions and to assess whether an undertaking's risk profile deviates from the assumptions underlying the calculation of the Solvency Capital Requirement and whether the deviations, if any, are significant. In 2015, all entities will be required to carry out all three assessments in the context of forward-looking assessment of own risks.

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<sup>18</sup> <https://eiopa.europa.eu/regulation-supervision/guidelines>

Throughout 2014, the KNF Office provided answers to questions asked by insurance and reinsurance undertakings about the application of the Solvency II requirements covered by the preparatory guidelines (also as part of conducting the SREP surveys and the pre-application processes). In November 2014, the KNF Office launched a series of thematic meetings, with supervised entities, on the requirements of Pillar 2 and 3 of the Solvency II system. In 2014, the KNF Office also continued the thematic meetings on Pillar 1 requirements as regards the standard formula (also as part of the national quantitative study) as well as meetings held as part of the pre-application processes of internal models. The above-mentioned activities will be continued in 2015. Selected Solvency II requirements were also presented in November and December 2014 at the meetings of the KNF Office with actuaries and statutory auditors auditing financial statements of insurance and reinsurance undertakings.

In December of 2014, the KNF Office requested, from domestic insurance and reinsurance undertakings, information about undertakings' intentions as regards taking advantage of transitional arrangements and certain specific solutions of the Solvency II system. The information will be used in the supervisory authority's preparatory work to perform tasks related to the above-mentioned regulations of the Solvency II system and to plan further communication in this respect with insurance sector entities in 2015.

#### A STUDY ON RISK MANAGEMENT IN THE INSURANCE SECTOR

As part of monitoring the preparation of insurance sector entities to the requirements of the Solvency II system, relating to the risk management system, in 2014 activities were also continued in the area of analysis of the risk occurring in current operations of insurance undertakings and reinsurance undertakings, and assessment of the progress of activities taken by undertakings to develop an effective risk management system. Although the Act on Insurance Activity does not contain any detailed provisions in this regard, the KNF Office seeks to prepare insurance undertakings and reinsurance undertakings for future risk management requirements as soon as possible. The Solvency II Directive introduces, for insurance undertakings and reinsurance undertakings, a requirement to have an effective risk-management system in place and to conduct own risk and solvency assessment (ORSA). In accordance with EIOPA Guidelines of System of Governance, which came into force on 1 January 2014, insurance/reinsurance undertakings should take steps to build an effective risk-management system, so that the risk-management system in individual undertakings meets the Solvency II requirements not later than on 1 January 2016.

Based on insurance and reinsurance undertakings' responses to the review of risk management in the business of insurance/reinsurance undertakings, as well as to a questionnaire on the system of governance in the insurance undertaking (SREP surveys) as regards the 'Risk Management System' area, the KNF Office developed a report entitled 'The results of the review of risk management in the business of insurance/reinsurance undertakings in 2013'. The result of the analysis was assessment to what degree the insurance undertakings and reinsurance undertakings are prepared to meet the requirements stipulated in Article 44 of the Solvency II Directive.

#### PREPARATION FOR SOLVENCY II REPORTING

As part of the application of EIOPA guidelines concerning Solvency II preparatory phase activities as regards submission of information to the supervisory authority, the KNF Office expects that in 2015 all domestic insurance and reinsurance undertakings will submit, to the supervisory authority, one annual report as at 31.12.2014 and one quarterly report as at 30.09.2015. In order to make it easier for the entities to prepare for the submission of the required information, the KNF Office in 2014 - except for the above-described activities concerning the application of the preparatory guidelines - prepared and published a visualization of reporting forms, based on which a template of the individual report of an

insurance and reinsurance undertaking for 2014 will be prepared in the SNU Reporting Application.

The KNF Office also resumed work on a set of forms which should complement the harmonized reporting under the Solvency II system (the so-called 'national specificity'). The draft, following the consultation with insurance and reinsurance undertakings, will form a basis for the initial proposal for the Ministry of Finance, for the purposes of developing a proposal for the regulation specifying the scope, frequency, form and manner of preparing additional reports and the deadlines for their submission to the supervisory authority.

## 4.5. SUPERVISION OF PENSION MARKET

Offsite supervision of the pension market covers the financial standing as well as operating and investment activities of pension fund companies and pension funds (the so-called 2nd and 3rd pillar of the pension system, including individual pension accounts and individual pension security accounts). The KNF Office also monitors the above institutions in terms of compliance with applicable laws and their charter as well as in terms of fulfilment of disclosure requirements. The goal behind the supervisory efforts in that regard is to protect the interests of pension fund members.

### MONITORING OF THE FINANCIAL STANDING OF PENSION FUND COMPANIES AND INVESTMENT ACTIVITY OF PENSION FUNDS

Tasks related to the ongoing supervision of financial operations and investment policy of open-end, occupational and voluntary pension funds as well as activity of universal and occupational pension fund companies were performed through systematic analysis of reporting data submitted by the regulated entities to the KNF Office in electronic form:

- daily and quarterly financial reports of pension funds including funds' balance sheet with explanatory notes, lists of investment portfolios, income statements with explanatory notes, lists of concluded transactions and important orders as well as information on the value and number of accounting units;
- monthly, semi-annual and annual structures of funds' assets;
- funds' operational reports on concluded fund membership agreements, the contribution paid, external and internal transfer payments, payments of periodic capital pensions, the number of members and the number of maintained accounts;
- financial statements of pension fund companies, covering balance sheets, income statements, information on fees in universal pension fund companies, universal pension fund companies' liabilities and capital links of pension fund companies.

The monitoring of financial standing of pension fund companies and investment policies of pension funds was carried out through, among other things:

- analysis of capital market transactions in terms of profitability and risk related to the acquisition of a given financial instrument, resulting from structure of the instrument and the financial standing of its issuer;
- monitoring of investment activity of pension funds with respect to compliance with the overriding principle of investment profitability and security;
- review of the valuation of financial instruments held in pension funds' investment portfolios;
- analysis of the structure of pension funds' investment portfolios and its changes over time, as well as of accepted risk levels;
- assessment of the effectiveness of the investment activity of pension funds considering the conditions prevailing on capital markets and macroeconomic environment;
- analysis of internal procedures and declared rules of conducting investment activities at regulated entities.

In connection with entry into force of the Act of 6 December 2013 *amending certain acts in connection with defining the principles for the payments of pension from the funds accumulated in open-end pension funds*, new areas of the KNF's regulatory activity were created or some changes were required in the previous supervisory model. In particular, the changes affected the following scope of supervisory activities:

- monitoring the activities of funds as regards outsourcing asset management to entities having their registered offices outside Poland and issuing decisions ordering a fund to amend or terminate the above-mentioned agreements,
- announcing periodic rates of returns of OFEs and periodic comparative rates of return,
- monitoring the process of the gradual transfer, to ZUS, of the funds of OFE members who had less than 10 years to reach the retirement age (the so-called 'safety slider'),
- adapting the indirect supervision processes to the changed regulatory environment of the operation of funds and pension companies by changing the KNF Office's internal rules of procedure, by changing the SREP methodology and by adapting the information systems and the format of reporting data submitted to the supervisory authority by pension sector entities,
- monitoring whether the process of transferring 51.5% of assets of OFE members to the Social Insurance Institution [ZUS] is correct,
- taking action to eliminate the irregularities in the operation of pension funds, which result from legal changes as regards investment activities, including the issuance, at a fund's request, decisions expressing consent to extend, to 12 months, the deadline for bringing the investment fund's operations into compliance with laws,
- monitoring the content of information disseminated or made available by companies or funds in a different manner than in advertisements; monitoring the correctness of operation of OFEs and PTEs as regards the amended provisions on the Guarantee Fund
- Analysis of the planned changes in the secondary legislation to the Act on Organisation and Functioning of Pension Funds.

An important task of a supervisory authority is to review pension funds' detailed valuation methodologies applied to financial instruments for which there is no market or it is impossible to value them on the arm's length basis, while observing the principle of conservative valuation. During the reported period, 374 valuations submitted by open-end pension funds, voluntary pension funds and occupational pension funds were subject to approval by the supervision authority.

**Table 42. Valuation methodologies submitted by pension funds for approval by the KNF, 2011-2014**

Fund type	Number of submitted methodologies			
	2011	2012	2013	2014
OFE	267	420	293	329
PFE	1	16	29	21
DFE	-	6	33	24

Source: In-house materials by the KNF Office

As financing provided by employers accounts for a high share of current and successive financing of occupational pension fund companies, supervision of occupational pension fund companies is largely exercised on an indirect basis. This supervision is necessary to ensure the financial security and business continuity of the companies. Another characteristic feature of occupational pension fund companies is that they rely on outsourced processes to a larger extent than universal pension fund companies. As a result, supervision activities partly cover entities other than occupational pension fund companies.

In the period covered by the Report, the KNF established and published the average weighted rates of return of all open-end pension funds twice - for the periods from 31 March

2011 to 31 March 2014 and from 30 September 2011 to 30 September 2014. As from 2014, the minimum required rate of return of OFE and the shortage, if any, are not determined.

**Table 43. Statutory rates of return of open-end pension funds calculated and published by the KNF in 2014 (%)**

Open-End Pension Fund	Rates of return for the period	Open-End Pension Fund	Rates of return for the period
	from 31 March 2011		from 30 September 2011
	to 31 March 2014		to 30 September 2014
Nordea OFE	24.279%	Nordea OFE	35.952%
MetLife OFE (formerly Amplico OFE)	22.293%	MetLife OFE (formerly Amplico OFE)	34.096%
ING OFE	21.785%	PKO BP Bankowy OFE	33.215%
Allianz Polska OFE	21.217%	Allianz Polska OFE	33.212%
PKO BP Bankowy OFE	21.214%	Aviva OFE Aviva BZ WBK	32.464%
OFE WARTA	20.343%	AEGON OFE	31.620%
Aviva OFE Aviva BZ WBK	19.948%	Pekao OFE	31.493%
AXA OFE	19.616%	ING OFE	31.276%
OFE PZU "Złota Jesień"	19.611%	AXA OFE	31.091%
Generali OFE	19.445%	OFE PZU "Złota Jesień"	30.759%
Pekao OFE	18.708%	OFE Pocztylion	29.855%
AEGON OFE	18.682%	Generali OFE	28.815%
OFE Pocztylion	17.525%		
<b>Weighted average rate of return</b>	<b>20.599%</b>	<b>Weighted average rate of return</b>	<b>31.993%</b>

Source: In-house materials by the KNF Office

The following reports on the operations of the pension market entities were submitted at the KNF meetings:

- "The financial situation of universal pension fund companies in 2013"
- "Individual pension accounts and individual pension security accounts in 2013",
- "The investment activities of pension funds in the period from 31 March 2011 to 31 March 2014",
- "The financial situation of universal pension fund companies in the first half of 2014"
- "The investment activities of pension funds in the period from 30 September 2011 to 30 September 2014",
- "The market of open pension funds in the fourth quarter of 2013",
- "The market of open pension funds in the first quarter of 2014",
- "The market of open pension funds in the second quarter of 2014",
- "The market of open pension funds in the third quarter of 2014",

On the basis of all the information sent to the KNF in the year covered by the report, the KNF regularly developed and published monthly, quarterly or annual statistical and financial data on the OFE, PPE and IKE market, and information about transfers and draws of OFE members.

## SUPERVISION OF LEGAL COMPLIANCE BY PENSION FUND COMPANIES AND PENSION FUNDS

The supervision exercised by the KNF Office in the area of monitoring compliance of operations of pension funds and pension fund companies with the law included:

- checking the fulfilment by pension fund companies of capital requirements specified by legal provisions,
- checking compliance of exposure of pension funds' assets to investment categories determined by the provisions of law,
- the analysis of costs covered by the pension funds' assets,
- regulated entities' compliance with requirements to disclose information to the regulator.

**Table 44. Provisions of law on investment limits, breached by OFEs in 2014**

Legal provision	Number of breaches*	including involuntary breaches**
Article 142(1)(1) of the Act on the Organisation and Functioning of Pension Funds	9	0
Article 142(1)(4) of the Act on the Organisation and Functioning of Pension Funds	319	319
Article 142(2)(5) of the Act on the Organisation and Functioning of Pension Funds (the Act's previous version in force before 1 February 2014)	31	31
Article 141(1) of the Act on the Organisation and Functioning of Pension Funds	2923	2923
Article 141(5)-(6) of the Act on the Organisation and Functioning of Pension Funds	314	314

\*Infringement of the same provision of law by one fund as regards the same financial instrument or group of instruments occurring on subsequent valuation days are treated for reporting purposes as subsequent overruns of the investment limit.

\*\* Infringements of laws occurred as a result of change to market prices being the basis for fund's assets and liabilities valuation, estimation of exchange rates and organisational- or capital-related links between entities whose financial instruments were basis of the investment of fund's assets or as a result of any other circumstances whereon the fund has no direct impact.

Source: In-house materials by the KNF Office

As part of supervision of fulfilment of disclosure requirements, the KNF Office verified the timeliness and correctness of daily and quarterly financial reports of pension funds, operational reports of open-end pension funds and voluntary pension funds, financial statements of pension fund companies as well as monthly, semi-annual and annual assets structures published by open-end pension funds. Acceptance of and verification of the correctness of submitted daily reports and other information was performed on an ongoing basis, together with simultaneous explanation of any potential errors stated in the submitted data.

**Table 45. Reports with adjustments submitted and verified as part of fulfilment of the disclosure requirements of pension funds and pension fund companies, submitted in 2014**

Type of submitted reports	Correct reports	Erroneous reports
Open-end pension funds' financial reports	55 524	913
Open-end pension funds' operational reports	3 639	228
Voluntary pension funds' financial reports	2 812	43

Voluntary pension funds' operational reports	39	0
Occupational pension funds' financial reports	40	12
Occupational pension funds' operational reports	40	1
Universal pension fund companies' reports	539	138
Occupational pension fund companies' reports	20	2
<b>Total</b>	<b>62 653</b>	<b>1 337</b>

Source: In-house materials by the KNF Office

## SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) OF UNIVERSAL PENSION FUND COMPANIES

Supervisory review and evaluation process (SREP) is a comprehensive process using all available information acquired by the regulator when performing direct supervision as part of on-the-spot inspections conducted in regulated entities and indirect supervision executed through activities related to licensing, analysis of reporting data and additional enquiries addressed to universal pension fund companies in the form of supervisory requests or surveys.

In 2014, the SREP process was conducted in universal pension fund companies for the year 2013. Supervisory grades were assigned to 12 Universal Pensions Fund Companies and the results thereof were provided to the management boards of individual entities.

## SUPERVISION OF OCCUPATIONAL PENSION SCHEMES (PPE)

As at the end of 2014, there were 1,066 PPEs. Some PPEs are intercompany - more than one employer participates in such PPEs. In consequence, the duty to submit a statement on the operated occupational pension scheme for 2014 lies with 1,112 employers who as at 31 December 2014 operated an occupational pension scheme.

In 2014, the regulator conducted 6 procedures in the form of direct supervision with respect to employers offering occupational pension scheme and 117 procedures with respect to employers who did not fulfil the duty to submit statements on the conducted occupational pension scheme for the year 2013 within the said time limit.

## 4.6. SUPERVISION OF CAPITAL AND COMMODITY MARKET

### SUPERVISION OF ENTITIES OPERATING ON THE SECURITIES MARKET

#### Ongoing supervision of investment firms

The KNF supervises the operations and financial standing of brokerage houses by reviewing their periodic and current reports, including financial statements submitted in accordance with applicable laws. Moreover, meeting the obligations specified by the provisions of the Regulation of the Minister of Finance on the performance of supervisory review and evaluation of brokerage houses of November 20th 2009, the process of supervisory assessment of brokerage houses (SREP process) is being conducted.

In 2014, as part of supervision of brokerage houses' operations, annual financial statements for the year 2013, semi-annual financial statements for the first half of 2014, monthly and current reports of 57 brokerage houses as well as monthly and current reports of 11 brokerage offices were reviewed. In 2014, consolidated financial statements for the year

2013 and reports concerning the consolidated capital adequacy requirements for brokerage houses, submitted in accordance with binding laws, were also reviewed.

In connection with the entry into force, in 2014, of the provisions of the CRR Regulation<sup>19</sup> and the correlated Commission Implementing Regulation (EU) No 680/2014<sup>20</sup>, the mechanism for determining the capital adequacy of brokerage houses as well as the scope of data provided as part of presenting the degree of compliance with capital adequacy standards have changed. COREP reports became the key reports used for exercising supervision of the financial position of brokerage houses, in particular for exercising supervision of the capital adequacy, which is closely related to it. The scope of information of these reports has been significantly extended compared to the scope that was defined for information on capital adequacy in the previous regulations.

**Table 46. Average capital requirements (*million PLN*) and average capital requirements coverage ratios at brokerage houses, 2011-2014**

Detailed items	2011	2012	2013	2014
Average regulated capital	46.49	41.00	40.2	
Average total capital requirement	35.51	13.63	13.75	
Average coverage of total capital requirement with regulated capital*	1.31	3.01	2.92	
Average level of own funds				31.84
Average total risk exposure amount				121.74
Total capital ratio				26.16%

Source: In-house materials by the KNF Office

Data sourced from monthly MRF-form reports as at 31.12.2011, 31.12.2012 and 31.12.2013 as well as COREP reports as at 31.12.2014.

\* Data expressed in abstract units, representing the average quotient of the regulated capital to the total capital requirement.

**Table 47. Basic data from the balance sheets of brokerage houses (million PLN), 2011-2014**

Balance sheet	2011	2012	2013	2014
I. Cash and cash equivalents	5 485.61	4 979.18	5 496.12	5 161.57
II. Short-term receivables	2 031.96	2 793.89	1 936.94	1 988.05
III. Financial instruments held for trading	1 062.14	353.18	401.19	183.59
IV. Current prepaid expenses and accrued income	20.62	19.07	23.71	21.20
V. Financial instruments held to maturity	276.68	74.68	83.21	85.80

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

<sup>20</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 Text (OJ L 191, 28.6.2014)



VI. Financial instruments available for sale	577.46	317.03	309.93	244.35
VII. Long-term receivables	28.40	35.41	31.25	6.23
VIII. Long-term loans granted	6.21	2.20	4.40	7.45
IX. Intangible assets	68.81	83.35	81.53	71.11
X. Property, plant and equipment	110.42	108.82	108.56	95.52
XI. Non-current prepayments	165.15	123.38	82.14	75.28
<b>TOTAL ASSETS</b>	<b>9 833.46</b>	<b>8 890.19</b>	<b>8 558.97</b>	<b>7 940.15</b>
I. Short-term liabilities	6 601.96	6 162.72	5 727.91	5 572.46
II. Long-term liabilities	83.98	10.37	9.50	17.03
III. Accruals and deferred income	129.76	110.10	125.55	98.59
IV. Provisions for liabilities	76.11	65.55	88.80	70.01
V. Subordinated liabilities	0.70	0.36	0.30	10.20
VI. Equity	2 940.95	2 541.09	2 606.92	2 171.86
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>9 833.46</b>	<b>8 890.19</b>	<b>8 558.97</b>	<b>7 940.15</b>

Source: In-house materials by the KNF Office

Data for the years 2011-2013 sourced from audited financial statements, data for the year 2014 sourced from monthly MRF-form statements as at 31 December 2014,

The data does not include the data of brokerage houses whose financial year is not the same as the calendar year (two brokerage houses in the years 2011-2012, and one brokerage house in 2013-2014)

**Table 48. Basic data from the income statement of brokerage houses (*million PLN*), 2011-2014**

<b>Income statement</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
I. Income on brokerage activity	1 388.85	1 075.99	1 201.85	965.28
II. Cost of brokerage activities	1 263.75	1 138.51	1 171.89	997.17
III. Profit (loss) on brokerage activities (I-II)	125.10	-62.52	29.97	-31.89
IV. Income on financial instruments held for trading	1 632.84	675.11	523.06	376.70
V. Costs due to financial instruments held for trading	1 328.99	563.91	215.10	82.89
VI. Profit (loss) on operations with financial instruments held for trading (IV-V)	303.85	111.20	307.96	293.81
VII. Income on financial instruments held to maturity	5.53	10.48	2.11	2.53
VIII. Costs due to financial instruments held to maturity	0.00	0.00	0.32	0.00

IX. Profit (loss) on operations with financial instruments held to maturity (VII-VIII)	5.53	10.48	1.79	2.53
X. Income on financial instruments available for sale	202.30	193.26	114.08	131.32
XI. Costs due to financial instruments available for sale	1.77	9.40	1.85	2.08
XII. Profit (loss) on operations with financial instruments available for sale (X-XI)	200.53	183.86	112.24	129.24
XIII. Other operating income	17.92	40.36	37.77	33.60
XIV. Other operating costs	13.39	29.92	19.48	18.22
XV. Difference in the amount of provisions and impairment losses on receivables	-14.72	-49.53	-28.26	-18.80
XVI. Profit (loss) on operating activity (III+VI+IX+XII+XIII-XIV+XV)	624.82	203.93	441.99	390.27
XVII. Finance income	278.77	234.22	171.71	102.77
XVIII. Finance costs	312.48	284.21	56.26	26.51
XIX. Profit (loss) on economic activity (XVI+XVII-XVIII)	591.11	153.94	557.44	466.53
XX. Extraordinary gains	0.00	0.00	0.00	0.01
XXI. Extraordinary losses	0.00	0.00	0.00	0.01
XXII. Gross profit (loss) (XIX+XX-XXI)	591.11	153.94	557.44	466.52
XXIII. Income tax	74.13	104.82	139.14	70.30
XXIV. Other mandatory profit decrease (loss increase)	0.13	0.39	-0.15	-0.07
XXV. Net profit (loss) (XXII-XXIII-XXIV)	516.85	48.73	418.46	396.29

Source: In-house materials by the KNF Office

Data for the years 2011-2013 sourced from audited financial statements, data for the year 2014 sourced from monthly MRF-form statements as at 31 December 2014,

The data does not include the data of brokerage houses whose financial year is not the same as the calendar year (two brokerage houses in the years 2011-2012, and one brokerage house in 2013-2014)

### Supervisory review and evaluation process (SREP) of brokerage houses

On 31 December 2014, the fourth formal process of supervisory evaluation of brokerage houses was finalised. 54 supervisory ratings were assigned.

Due to the ongoing legislative work on the implementation, into the Polish legal system, of the provisions of the CRD IV Directive<sup>21</sup>, which govern, inter alia, the conduct of the SREP process and issues relating to the risk management system in investment firms, the SREP process was conducted for adjusting purposes and, except for the issues relating to the review of the risk management system's effectiveness, it involved the review of entities' adaptation to the applicable provisions of the CRR. From 2014, a rule was introduced to assign ratings at two cut-off dates, i.e. 30 June and 31 December, and the period in which the SREP process is carried out has been standardized to a calendar year.

#### Companies operating a regulated market and entities of capital market infrastructure

The KNF's representatives took part in 32 Supervisory Boards' meetings and 5 General Meetings, including:

- 12 meetings of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange), the General Meeting of Giełda Papierów Wartościowych w Warszawie S.A.,
- 8 meetings of the Supervisory Board of Krajowy Depozyt Papierów Wartościowych S.A. (Polish National Depository for Securities), the General Meeting of Krajowy Depozyt Papierów Wartościowych S.A.,
- 6 meetings of the Supervisory Board of KDPW\_CCP S.A., the General Meeting of KDPW\_CCP S.A.,
- 6 meetings of the Supervisory Board of BondSpot S.A., 2 General Meetings of BondSpot S.A.

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

In 2014, the KNF Office reviewed for compliance with the applicable laws more than 31 thousand current and interim reports as well as inside information filed by public companies, and more than 2700 notifications submitted by buyers and sellers of major holdings of shares in public companies, pursuant to Article 69 of the Public Offering Act as well as 4700 notifications submitted by obliged entities under Article 160 of the Act on Trading in Financial Instruments of July 29th 2005 (Dz.U. of 2014, item 94, as amended) - persons who are members of an issuer's management or supervisory bodies or who are proxies of an issuer, and other persons in managerial positions in an issuer's organizational structure, who have permanent access to inside information directly or indirectly relating to the issuer, and power to take decisions affecting the issuer's development and business prospects.

The activities performed by the KNF Office in 2014 as part of supervision of reporting by securities issuers other than investment funds included, among other things:

- review of 213 financial statements (including consolidated financial statements) of 109 issuers in terms of their compliance with applicable accounting standards, especially International Accounting Standards/International Financial Reporting Standards ("hereinafter referred to as IFRS), selected based on the selection rules referred to in Standard No 1 of CESR (Committee of European Securities Regulators; at present ESMA: European Securities and Markets Authority) on Financial Information "Enforcement of Standards on Financial Information in Europe". The results of the review are used to prepare a report, which is then published on the KNF's website. ESMA Guidelines on enforcement of financial information (ESMA/2014/1293en, 28.10.2014),

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<sup>21</sup>Directive of the European Parliament and of the Council 2013/36/EC of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, as amended)

which replaced the above-mentioned Standard No 1, entered into force on 29 December 2014

- preparation and delivery of 165 positions and opinions, including 91 for external entities, concerning, among other things, application of IFRS, correctness of fulfilment by issuers of disclosure requirements related to interim reports, as well as in connection with proceedings conducted by the KNF Office with respect to securities issuers' reporting and historical financial information presented in prospectuses.

In the period covered by the Report, the Polish Financial Supervision Authority issued 26 decisions on the request from Giełda Papierów Wartościowych w Warszawie S.A. for suspension of trading in shares of a public company due to failure to timely meet disclosure requirements pursuant to Article 20(2) of the Act of 29 July 2005 on trading in financial instruments and 1 decision on the request from Giełda Papierów Wartościowych w Warszawie S.A. for suspension of trading in shares of a public company due to regulatory measures taken by the Polish Financial Supervision Authority in relation to that company, pursuant to Article 20(2) of the Act of 29 July 2005 on trading in financial instruments.

In 2014, over 350 interventions were conducted if undue fulfilment of the disclosure requirements was stated in the case of public companies which resulted in disclosure of current and period reports compliant with binding laws.

In 2014, 26 calls for subscription for shares in a public company were announced. From the above total number of calls, 7 calls were announced in connection with exceeding the 33% threshold of the total number of votes in public companies, and another 12 calls were announced for all the remaining shares in the said companies. Moreover, 7 calls were announced under Article 72 of the Public Offering Act. In 2014, the KNF demanded that the necessary changes be introduced in one call, and in another case, the KNF asked for explanations.

The value of shares covered by calls announced in 2014 totalled more than PLN 6.7bn. For comparison, in 2013 the value of acquisitions of public companies amounted to approximately PLN 6.2bn, whereas in 2012, the total value of calls amounted to nearly PLN 7.2bn.

## SUPERVISION OF COLLECTIVE INVESTMENT UNDERTAKINGS

The supervisory duties of the KNF in relation to investment fund companies (hereinafter “TFIs”) and investment funds, once they receive the required authorisations, include monitoring of their current situation through the analysis of current reports, current information, as well as periodic statements and reports.

Current reports and information of investment funds can be divided into two groups:

- current reports and information of open-end investment funds, specialist open-end investment funds and closed-end investment funds provided exclusively for the KNF,
- current reports of public closed-end investment funds provided for the KNF and made public.

Apart from semi-annual and annual financial statements of investment funds, the following are also included in the group of periodic statements submitted mandatorily:

- quarterly statements of open-end investment funds, specialist open-end investment funds and closed-end investment funds issuing investment certificates which are provided exclusively for the KNF,
- quarterly reports of public closed-end investment funds provided for the KNF and made public.

Periodic statements of investment fund companies include:

- monthly statements
- annual financial statements
- semi-annual financial statements for the collective securities portfolio
- annual financial statements for the securities portfolio
- annual statements on internal control functioning

Performing its supervisory tasks in relation to investment fund companies and investment funds, the KNF also regularly reviews the information sent by investment fund depositaries under Article 231 of the Act on Investment Funds of 27 May 2004 (Dz. U. No 146, item 1546, as amended).

**Table 49. Number of reviewed current and periodic reports of investment funds and investment fund companies, and information from depositaries, 2011-2014**

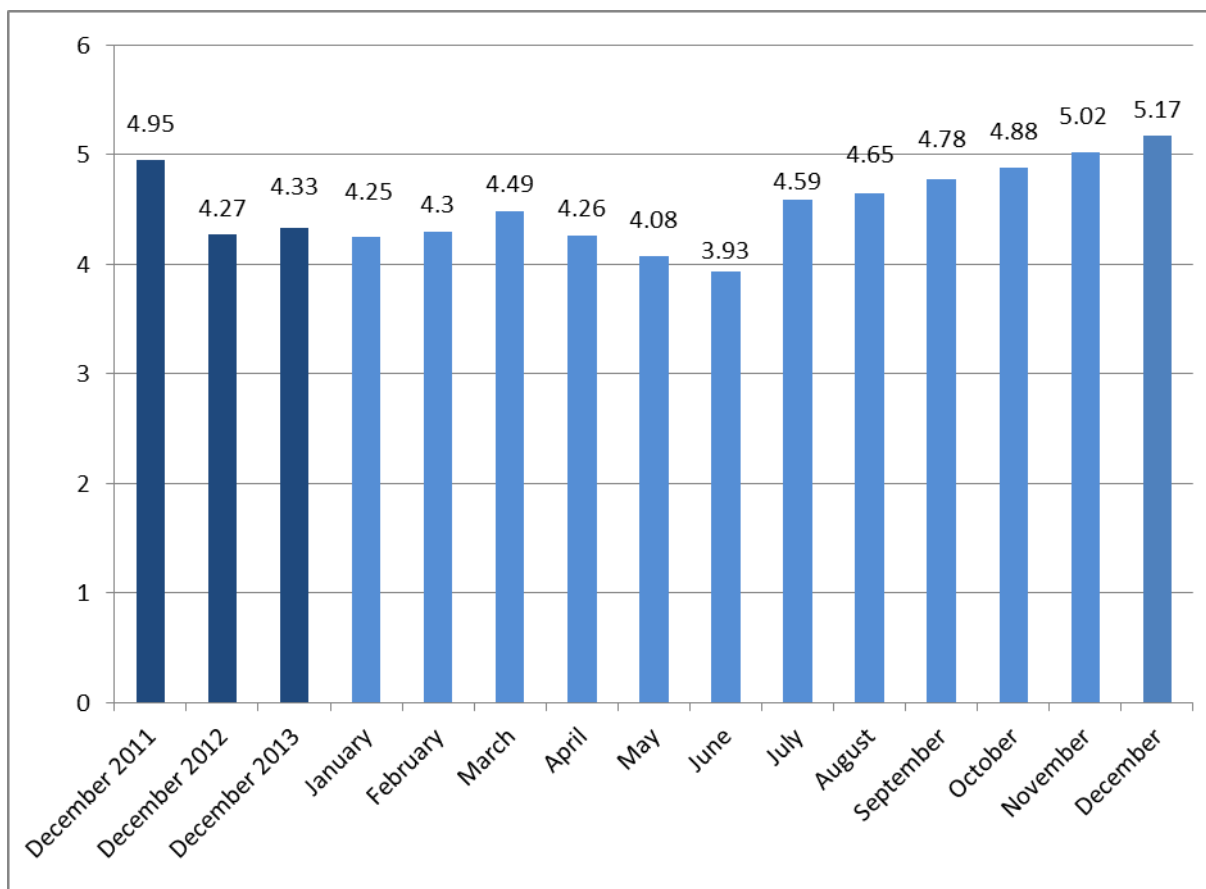
Type of report/information	2011	2012	2013	2014
Current and interim reports of investment fund companies	2952	4019	4120	4509
Current and interim reports of investment funds	15068	17238	21192	22181
Information from depositaries	3446	3978	4214	4708
<b>Total</b>	<b>21466</b>	<b>25235</b>	<b>29526</b>	<b>31398</b>

Source: In-house materials by the KNF Office

As part of its supervision activities, the KNF also monitors the fulfilment of capital requirements by TFIs. Figure 20 shows the average capital coverage ratios for the investment fund companies sector at year end in 2011-2013 and in subsequent months of 2014.

**Fig. 20. Average capital coverage ratio of investment fund companies at year-end of the years 2011-2013, and in 2014 (equity to minimum capital requirement)**

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Source: In-house materials by the KNF Office

As it follows from the data presented in the above figure, in 2014 the average capital coverage ratio for the entire sector of investment fund companies remained at a slightly higher level than in the previous year. Its value ranged from 3.93 to 5.17, and so the equity of companies was, on average, more than four times higher than the minimum capital requirement level determined in accordance with the provisions of the Act on Investment Funds. After fluctuations in the average ratio in the first half of 2014, during the second half of the year its value increased again to the level of 5.17 at the end of December 2014.

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

According to the principles of the SREP process in relation to TFIs, in 2014 there were two SREP studies conducted as at 31 December 2013 (28 TFIs) and as at 30 June 2014 (28 TFIs).

The assessment's general methodology did not change over 2014, i.e., the assessment covered still three areas relating to:

- the risk exposure of investment fund companies,
- the capital adequacy of investment fund companies,
- the quality of investment fund companies' management.

<sup>22</sup>Based on monthly reports filed by investment fund companies. Such reports are not audited or reviewed by statutory auditors, and so they may be subject to subsequent adjustments.

In the review of investment fund companies in 2014, for the first time it was possible to use information about the operation of risk management systems in the companies, which information is included in statutory auditors' statement on risk management systems.

56 TFIs were subject to the SREP process carried out in 2014. Ratings are assigned in the range of 1 (the best rating) to 4 (the worst rating). The average SREP rating assigned to companies in 2014 amounted to 1.96 and was similar to the average SREP rating in 2013 (1.9).

## SUPERVISION OF ENTITIES OPERATING ON THE EXCHANGE COMMODITIES MARKET

The KNF's representatives took part in 10 meetings of Supervisory Boards of exchange commodities market institutions, including:

- 5 meetings of the Supervisory Board of TGE SA,
- 5 meetings of the Supervisory Board of IRGiT SA,

## 5. INSPECTION TASKS

### 5.1. BANKING SECTOR

#### INSPECTIONS AT BANKS

Inspection activities at banks in 2014<sup>23</sup> were performed under the regulations and prudential recommendations of the KNF, considering the EBA and BCBS guidelines, based on uniform standards and procedures of the review as set out in the Inspection Handbook and supplementary specific methodologies.

Inspection activities comprised comprehensive and problem-oriented inspections, explanatory proceedings and validation proceedings.

**Tabel 50. Inspection tasks performed by the KNF Office at banks in 2014**

Inspection activities	Number
Comprehensive inspections, including:	5
– inspections at commercial banks	3
– inspections at co-operative banks	2
Problem-oriented inspections, including	23
– inspections at commercial banks	8
– inspections at co-operative banks	15
Validation proceedings at commercial banks	4
Investigation procedures, including 16 in the field of AQR at commercial banks	17

Source: In-house materials by the KNF Office

As part of the co-operation between the KNF Office and the National Bank of Poland, inspections designed to check the correctness of calculating and transferring the amount of mandatory reserves required for commercial banks were performed (as part of 3 comprehensive inspections).

In 2014, the proportions of time allocated to checking activities, as well as the number of completed checks were subordinated to asset quality review hereinafter "AQR") at selected commercial banks, including systemically important banks.

A total of 16 investigation procedures were conducted in the field of AQR<sup>24</sup>. The review was conducted in the context of the EBA's Recommendations on asset quality reviews, EBA/REC/2013/04), on the basis of uniform guidelines defined in the methodology published

<sup>23</sup>They included inspection activities as at review dates: 31.12.2013; 31.03.2014; 30.06.2014 and 30.09.2014.

<sup>24</sup>Out of which 15 as part of the European assets review - see the next section.

by the European Central Bank (hereinafter the 'ECB') in March 2014 (Asset Quality Review, Phase 2 Manual, March 2014, hereinafter the "ECB Methodology").

## COMPREHENSIVE AND PROBLEM-ORIENTED INSPECTIONS AT BANKS

As far as comprehensive inspections are concerned, inspection activities focused on examining the management process of individual risk types at banks, in particular credit, liquidity, market and operational risks, as well as assessment of banks' capital adequacy and management of the bank in question, taking into account compliance with regulations governing banking operations, the charter and meeting the terms and conditions specified in the banking licence.

As part of problem-oriented inspections, checking activities were carried out, in particular:

- asset quality review and review of credit risk management with particular emphasis on the degree of implementation of KNF Recommendation T *on best practices in managing credit risk related to retail credit exposures*;
- Operational risk management taking into account:
  - guidelines included in the KNF's Recommendation M *concerning operational risk management at banks*,
  - the degree of implementation of guidelines included in the KNF's recommendation D *concerning IT management and safety of IT environment at banks*;
- market risk management, as part of the bank management's oversight of the treasury activities, including:
  - the effectiveness of operation of current controls,
  - the process of reviewing the market-based nature of transaction prices
  - selected elements of investing activities;
- banks' involvement in the distribution of structured products;
- reviewing the accuracy of the methodology of accounting for income from bancassurance.

As far as problem-oriented inspections at cooperative banks are concerned, the inspections in the area of credit risk, which is the most essential in this segment, were prevailing.

Fulfilment of selected KNF recommendations issued as a result of previous inspections was yet another aspect assessed during the inspection activities.

The findings from inspection activities conducted were included in inspection reports and the information on the results of the review of a bank with foreign capital was also provided to the respective regulator of the bank's parent entity.

The tables below contain synthetic information on identified material irregularities (which concerned controlled entities to various extent) in relation to the areas reviewed in the largest number of banks: i.e. operational risk for commercial banks (8 banks) and credit risk for cooperative banks (17 banks).

**Table 51. Significant irregularities in risk management, with special emphasis on the degree of implementation of KNF Recommendation M and KNF Recommendation D, as identified in the course of inspection activities at commercial banks in 2014**

Operational risk management	
1.	Failure to comply with the provisions of Article 6a(1), Article 6c(1)(2), Article 6c(3) of the Banking Law Act due to the incorrect definition of outsourcing, failure to conduct a full risk analysis when outsourcing tasks to external entities and incomplete records of contracts on outsourcing.
2.	Delays in the process of recording operational events and failure to gather information about events related to external fraud.
3.	Incorrect operational risk identification rules for the introduction of new products or making significant changes in the existing processes.



4.	Failure to organize training on operational risk identification rules for all employees of the bank.
5.	Failure to include subsidiaries in the operational risk management process
6.	Incorrect functioning of the process of creating provisions for legal risk (failure to designate a unit responsible for the process supervision and control, and incorrect estimation of potential losses from legal risks).
7.	The lack of effective preventive measures after the occurrence of significant operational events, e.g. a failure in the electronic banking.
8.	Wrong assumptions about the method of determining the operational risk appetite, without taking into account the amount of actually incurred operating losses.
9.	Incorrect calculation of the total amount of operating losses for the year.
10.	Insufficient scope and frequency of monitoring and reporting key risk indicators, incorrect construction of selected indicators.
11.	Inadequate control mechanisms in the rights management process for some IT systems classified as critical (failure to carry out an independent review of the rights granted).
12.	Incorrect rules of identification of critical processes in the business continuity management process.
13.	Deficiencies in the implementation of mechanisms protecting against threats such as Distributed Denial of Service.
14.	Incomplete internal rules of procedure in the area of information security policy and stress tests, and failure to specify actions taken after exceeding the operational risk appetite and the procedure for notifying about the occurrence of a significant operational event.
15.	Insufficient scope of internal audit in the area of security of IT systems.
16.	Risk of failure to fully implement KNF Recommendation D by the end of 2014, including: <ul style="list-style-type: none"> <li>– lack of comprehensive management of the architecture and quality of data used in the conduct of business,</li> <li>– lack of effective technical and organizational measures ensuring the safety of clients' funds,</li> <li>– insufficient scope of the management information in the IT area,</li> <li>– lack of solutions that automate the activities in the field of controlling the risk related to the security of information processed in the ICT environment,</li> <li>– failure to cover all critical applications by the central rights management system,</li> <li>– failure to ensure the appropriate qualifications of internal auditors in the area of IT and safety of IT environment,</li> </ul>

Source: In-house materials by the KNF Office

**Table 52. Significant irregularities in credit risk management, as identified in the course of inspection activities at cooperative banks in 2014**

<b>Credit risk management</b>	
1.	<p>Errors in the credit risk identification process as regards:</p> <ul style="list-style-type: none"> <li>– retail customers (awarding loans without regard to the provisions of the KNF's Recommendation T on best practices in managing credit risk related to retail exposures), in particular: <ul style="list-style-type: none"> <li>○ determining the cost of living below the minimum subsistence figure and</li> <li>○ incorrect verification of the income declared by individuals in their statements;</li> </ul> </li> <li>– business entities, in particular: <ul style="list-style-type: none"> <li>○ granting loans to entities without creditworthiness, where the requirements of Article 70(1) and (2) of the Banking Law Act were not met,</li> <li>○ failure to obtain the information necessary for a reliable assessment of creditworthiness.</li> </ul> </li> </ul>
2.	<p>Irregularities in the review and classification of credit exposures, consisting in:</p> <ul style="list-style-type: none"> <li>– failure to assess the fulfillment of financial projections and failure to take account of the financial difficulties in the assessment of economic entities,</li> <li>– incorrect classification of credit exposures, taking into account the economic and financial situation and the timeliness of payments, which is in breach of the Regulation of the Minister of Finance on the rules of recognition of provisions for risks related to the banking activity.</li> </ul>

3.	<p>Irregularities in the process of concentration risk management taking into account 'large exposures', in particular:</p> <ul style="list-style-type: none"> <li>– failure to adapt the bank's limit structure to the scale of complexity of the bank's operations in accordance with the requirements of § 4(1) of Annex No 1 to KNF Resolution No 384/2008,</li> <li>– failure to carry out stress tests for concentration risk, taking into account the scenarios of significant deterioration in the financial position of entities with large exposures and in the amounts of realisable security, which is in breach of § 3(2) of the Annex to Resolution No 384/2008 of the Polish Financial Supervision Authority.</li> </ul>
4.	<p>Equity and debt instrument risk management process not adapted to the scale of operations, in particular:</p> <ul style="list-style-type: none"> <li>– failure to specify, in internal rules of procedure, indicators of impairment of securities and the rules for recognising impairment losses,</li> <li>– failure to take into account, in the bank's risk management strategy, the risk related to investments in financial instruments,</li> <li>– failure to specify, in the investment policy, the acceptable level of risk related to financial instruments, i.e. the total potential loss level.</li> </ul>
5.	<p>Failure to maintain the independence of the risk measurement, monitoring and control function from operating activities, also at the management board level, which is in breach of § 8(2) of KNF Resolution No 258/2011.</p>
6.	<p>Irregularities in the loan recovery and restructuring process, in particular failure to identify restructured exposures properly, despite the inclusion in the procedures of the definition of restructuring, including:</p> <ul style="list-style-type: none"> <li>– withdrawal from treating, as restructuring, the application of multiple reliefs in repayment, concerning major changes in repayment dates and amount of installments,</li> <li>– assessing creditworthiness, when granting reliefs in debt repayment and debt restructuring, in breach of Article 70 of the Banking Law Act.</li> </ul>
7.	<p>Insufficient scope and quality of management information, which did not support the risk management process, in particular:</p> <ul style="list-style-type: none"> <li>– failure to taken into account, in the reports, information about watch-list and past due exposures, as well as exposures for which the current LTV ratio exceeded the limits set by the Bank,</li> <li>– failure to mention the Supervisory Board in the list of addressees of reports prepared by the internal auditor,</li> <li>– the lack of reports presenting the credit portfolio structure by Dtl of retail clients,</li> <li>– insufficient information about restructured exposures and effectiveness of the debt recovery process.</li> </ul>
8.	<p>Inadequate effectiveness of the internal control system's operation in the area of credit risk, consisting in:</p> <ul style="list-style-type: none"> <li>– failure, by the bank's management board, to obtain information on the method and date of implementation of the recommendations,</li> <li>– too general subjects of planned audits - the audit plans addressed to the Associating Bank did not indicate any areas particularly generating risk,</li> <li>– failure to inspect large exposures and management of such exposures by the internal audit unit, which was in violation of § 11 of the Annex to KNF Resolution No 384/2008</li> <li>– the occurrence of cases of violations of laws (e.g. Article 70-71 of the Banking Law Act), of internal rules of procedure and errors in reporting.</li> </ul>

Source: In-house materials by the KNF Office

When instances of breach of laws and prudential regulations as well as risk management-related irregularities were identified for a bank, the bank received a recommendation from the KNF and was required to develop and deliver to the KNF a detailed work schedule to implement recommendations.

Fulfilment of post-inspection recommendations for banks is monitored as part of offsite analyses and is assessed during the follow-up as well as discussed with the bank management and the regulator of the bank's parent entity.

## CONTROL ACTIVITIES AND PROCEDURES CONCERNING SUPERVISORY VALIDATION OF INTERNAL METHODS OF CAPITAL REQUIREMENTS' CALCULATION,<sup>25</sup> AND OF APPLICATIONS FOR APPROVAL OF DELTA RATIO CALCULATION USING IN-HOUSE OPTION PRICING MODELS<sup>26</sup>

In 2014, the activities relating to the supervisory validation of internal methods focused on cooperation with banks and the consolidating supervisor in the area of the post-application phase covering activities carried out by a bank after obtaining the approval (or conditional approval) to use the internal method (i.e. the IRB method or AMA method).

These activities were carried out both during the validation procedures and as part of the off-site analysis, and included in particular:

- analysis of solutions for exposures covered by internal ratings-based approach, in accordance with gradual implementation plans of individual banks,
- analysis of extensions of, and changes to, the internal methods (including significant extensions and changes)
- verification of conditions arising from previous authorisations,
- periodic review of internal methods.

At the same time, cooperation (formal communication and meetings) was maintained with 4 banks as part of the pre-application phase, as regards the plans of these banks to implement internal methods.

In consequence of the activities, the KNF:

- issued 1 authorisation for the introduction of a significant extension of the AMA method,
- submitted, to the relevant consolidating supervisors, 3 opinions on the matters conducted as part of the pre-application phase, including 2 in respect of the IRB approach (concerning the analysis of solutions for the portfolios covered by progressive implementation plans and findings resulting from the verification of conditions of high importance) and 1 in respect of a substantial change to the AMA approach,
- submitted, to 3 banks, information about the findings of the review of conditions resulting from prior authorizations<sup>27</sup> (2 notifications of information on the IRB approach, and 1 on the AMA approach),
- participated in the process of issuing decisions/presenting positions by consolidating supervisors on matters arising from the post-application phase based on the KNF's opinions submitted in 2013 and 2014 (6 cases concerning the IRB method and 1 case concerning the AMA method),
- maintained systematic communication and cooperation with consolidating supervisors and banks in relation to other matters relating to internal methods and their functioning, including taking into account the issues being the subject of EU laws being implemented.

In 2014, the KNF issued 1 authorization for the use of own option pricing models for calculating delta equivalents, and cooperated with other banks in connection with the plans of these banks concerning the use of their own models in the above-mentioned scope.

## SUPERVISORY ACTIVITIES CONCERNING THE IT AREA AND SAFETY OF IT ENVIRONMENT

In 2014, the KNF carried out a number of activities related to the supervision of the IT area and safety of IT environment In particular:

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<sup>25</sup> referred to in Article 3(1)(59) of Directive of the European Parliament and of the Council 2013/36/EC of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

<sup>26</sup> referred to in Article 329(1), Article 352(1) and Article 358(3) of the Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and in § 4(2) of Annex 2 to the KNF Resolution No 76/2010 (as amended).

<sup>27</sup> The information in this regard was also submitted to the relevant consolidating supervisors.

- banks, branches of credit institutions, payment institutions and cooperative savings and credit unions operating in Poland were provided with the ‘Recommendation for the Security of Internet Payments’, developed by the Secure Pay Forum - Security of Retail Payments Forum at the European Central Bank, together with information on the need to adapt operations to the expectations contained in the document by 1 February 2015,
- a survey "IT and security at banks" was carried out among commercial banks operating in Poland. The analysis of the results brought a number of conclusions, which will be used in the supervisory activities in this area,
- communications were directed to financial market participants, warning against the risks related to the use of services based on granting, to third parties (including other banks), access to online banking accounts,
- representatives of the KNF Office participated in many conferences and workshops, during which they presented detailed supervisory expectations regarding the subject in question, and regarding the implementation of the amended “Recommendation D concerning the management of IT area and safety of IT environment at banks”,
- in addition, representatives of the KNF Office participated in the consultations conducted by the National Security Bureau on the development of Cyber Security Doctrine of the Republic of Poland.

## 5.2. COOPERATIVE SAVINGS AND CREDIT UNIONS SECTOR

In 2014, the KNF conducted 8 comprehensive inspections at cooperative savings and credit unions and 5 inspections covering selected areas of cooperative savings and credit unions' operations.

The irregularities found by the KNF at the inspected unions, by inspection area, are as follows (they concerned different entities to various extent):

**Table 53. Significant irregularities in credit risk management, as identified in the course of inspection activities in cooperative savings and credit unions in 2014**

<b>Credit risk management</b>	
1.	<p>The performance of the creditworthiness assessment process does not ensure a fair identification of the credit risk and is not compliant with Article 36(2) of the Act on cooperative savings and credit unions in connection with Article 70(2) of the Banking Law Act, in particular:</p> <ul style="list-style-type: none"> <li>– granting loans to members with no ability to repay them,</li> <li>– failure to document the performance of the creditworthiness assessment,</li> <li>– no creditworthiness assessment when deciding about extending temporary loans,</li> <li>– recognizing the cost of living at a lower level than the subsistence minimum promulgated by the Institute of Labour and Social Affairs (ILSS),</li> <li>– failure to take the following into account when assessing the creditworthiness: certain obligations arising from BIK, temporary loans, monthly instalments under the group insurance contract, the highest loan installment in the case of decreasing installments,</li> <li>– failure to take into account the actual cost of living declared by applicants, if higher than the standard cost of living recognised by the union,</li> <li>– failure to take into account all the dependants in the household,</li> <li>– establishing the amount of income on the basis of a statement submitted by the member,</li> <li>– failure to assess the member's ability to repay "balloon installment" in the case of loans and borrowings with a "balloon installment"</li> <li>– no assessment of guarantors' creditworthiness.</li> </ul>
2.	Irregularities in the method of estimating impairment losses on past due debts, which resulted in underestimation of the amount of recognised provisions (adopting too liberal restructuring principles, for example reducing the level of provisions required at the date of settlement, shortening the period of maintaining provisions and irregularities in the use of legal security).
3.	Measurement of notes received on account of the sale of portfolios of impaired

	borrowings/loans to third parties not in compliance with the prudence principle (fair value measurement). Lack of reliable valuation of debentures to estimate reliable cash flows associated with financial instruments.
4.	Unreliable measurement of another company's shares acquired in exchange for a part of the union's continuing business, which part was previously separated from the union and contributed to that company, which resulted in overstatement of assets and financial result.
5.	Incorrect reduction in the basis for the creation of provisions for legal security of loan repayment, due to: <ul style="list-style-type: none"> <li>– lack of current (i.e. not older than 3 years) valuations of immovable properties, which was in breach of the provisions of § 6(9) of the Regulation of the Minister of Finance on specific accounting principles of cooperative savings and credit unions (hereinafter: MFR on the accounting of SKOKs)</li> <li>– lack of current immovable property insurance policies,</li> <li>– the use of guarantees of natural persons, despite the lack of assessment of their economic and financial position, which was in breach of the provisions of § 6(5) of the MFR on the accounting of SKOKs.</li> </ul>
6.	Establishing security of high-amount loans on immovable properties with a much lower (compared with the loan) market value.
7.	Significant irregularities in the organization of the loan process, including: <ul style="list-style-type: none"> <li>– lack of separation of the creditworthiness assessment function from the loan decision-making function,</li> <li>– exceeding the concentration limits stipulated in Article 32 of the Act on the Cooperative Savings and Credit Unions in connection with granting business borrowings and loans in the amount exceeding 150% of the union's own funds,</li> <li>– exceeding the concentration limits stipulated in Article 37(2) of the Act on the Cooperative Savings and Credit Unions by establishing interbank deposits significantly exceeding the maximum level of 8% of assets,</li> <li>– exceeding the concentration limits stipulated in Article 37(3) of the Act on cooperative savings and credit unions in connection with the purchase of fixed assets, despite negative own funds,</li> <li>– extending, to members conducting a business / running a farm, consumer loans for large amounts, which were actually used to finance the conducted business,</li> <li>– no internal limits within the loan/ borrowing portfolio.</li> </ul>
8.	Significant irregularities related to the debt restructuring process, i.e.: <ul style="list-style-type: none"> <li>– no assessment of the creditworthiness of persons covered by restructuring (instalments established only on the basis of a statement by the member about his or her ability to repay instalments)</li> <li>– no assessment of the creditworthiness of the borrower and the guarantor in the event of changes in the loan repayment conditions,</li> <li>– possibility to change the terms of the loan without the consent of guarantors in the event of renegotiation of loan agreements,</li> <li>– conclusion of the restructuring agreement with members with no creditworthiness,</li> <li>– unjustified extension of maturity of loans, for example, from 5 to 30 years,</li> <li>– shortening the period of maintaining provisions, for example, from 3 to 2 months (equivalent to the adoption of an assumption that timely debt service for a period of only two months is sufficient to assume that the cause of creating provisions has expired, as referred to the MFR on the accounting of SKOKs).</li> </ul>

Source: In-house materials by the KNF Office

**Table 54. Significant irregularities in liquidity risk management, as identified in the course of inspection activities in cooperative savings and credit unions in 2014**

Liquidity risk management	
1.	Failure to determine the acceptable level of liquidity risk.
2.	Insufficient scope and quality of internal regulations on liquidity risk management process, for example, failure to formalize the rules for measuring liquidity, failure to define or incorrect definition of liquidity in different time horizons, failure to define large deposits.

3.	Focusing exclusively on managing current liquidity, despite the portfolio of long-term assets.
4.	Insufficient liquidity risk measurement methods or objections to the adopted solutions, for example, failure to prepare liquidity forecasts, irregularities in the manner of estimating judgement, rules of preparation and realignment of the liquidity gap, failure to include off-balance sheet liabilities in the risk measurement.
5.	Failure to develop contingency plan for maintaining liquidity or irregularities related to such plan, for example, failure to specify reserve funding sources, failure to specify measures triggering the contingency plan, the lack of crisis scenarios and organization of activities related to the implementation of the plan.
6.	Failure to prepare stress tests or limited or non-formalized scope of such tests.
7.	Irregularities relating to the limits system, for example, the lack of medium- and long-term liquidity limits, failure to review the limits, failure to explain the exceeding of limits.
8.	Failure to include the liquidity risk area with internal control.

Source: In-house materials by the KNF Office

**Table 55. Significant irregularities in the capital adequacy area, as identified in the course of inspection activities in cooperative savings and credit unions in 2014**

Capital adequacy area	
1.	Overstating the reported amount of own funds. Own funds did not provide economic security and were not adapted to the business.
2.	The solvency ratio in the credit unions inspected did not meet the requirements of Article 24(5) of the Act on cooperative savings and credit unions and was below 5%. After taking into account the results of inspection activities in 7 credit unions, the solvency ratio was below zero.
3.	Irregularities in recording members' shares, including: <ul style="list-style-type: none"> <li>– including, in the share fund, shares of non-mandatory persons who filed an application for payment of these shares,</li> <li>– failure to derecognise, from the share fund, the shares of persons whose membership has expired,</li> <li>– including, in the share fund, the amounts which do not constitute shares - overpaid shares,</li> <li>– inconsistencies between accounting records and members' declarations.</li> </ul>
4.	Irregularities in the calculation of the capital requirement: <ul style="list-style-type: none"> <li>– adopting an incorrect (lower) risk weight for debentures,</li> <li>– adopting an incorrect risk weight for receivables secured by a mortgage on an immovable property,</li> <li>– understatement of the requirement for operational risk, for example, by recognising reduced realized losses on the sale of receivables and improper disclosure of revenue.</li> </ul>
5.	Irregularities relating to capital management, including: irregularities in internal regulations concerning the calculation of capital requirements: lack of procedure for calculating capital requirements, lack of procedure for calculating the solvency ratio, failure to describe algorithms for calculating requirements, too general provisions or unrealistic assumptions of the capital strategy/plan, of the recovery plan in comparison with the assumed level of capital, insufficient regulations concerning contingency capital activities.

Source: In-house materials by the KNF Office

**Table 56. Significant irregularities in interest rate risk management, as identified in the course of inspection activities in cooperative savings and credit unions in 2014**

Interest rate risk management	
1.	Failure to determine the acceptable level of interest rate risk.
2.	Errors in measurement, identification and monitoring of interest rate risk.
3.	Incomplete internal procedures or lack of compliance with internal procedures in the area of interest rate risk management.
4.	Incomplete scope and too low frequency of management information.
5.	Failure to analyze interest rate risk in the process of implementation of new products.

6.	Failure to perform or insufficient internal audits in the interest rate risk area.
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Source: In-house materials by the KNF Office

**Table 57. Significant irregularities in operational risk management, as identified in the course of inspection activities in cooperative savings and credit unions in 2014**

Operational risk	
1.	Failure to regulate the operational risk management process, including failure to specify the operational risk profile and failure to separate operational and control functions in the operational risk area.
2.	Limitation of operational risk management to the management of information security and protection of personal data and physical security of objects.
3.	Failure to keep the operational events database to identify, measure and monitor operational risk.
4.	Failure to specify the internal limits for operational risk and key risk indicators.
5.	No backup data processing centre and failure to define the processes, resources and critical systems.
6.	Deficiencies in business continuity plans for ensuring the continued business processes in the event of unfavourable internal and external events.
7.	No internal procedures governing the process of managing the risk related to outsourcing IT activities.
8.	Giving employees, including members of the management board, too broad powers to access the operational and accounting system, lack of protection against the possibility to modify transaction parameters
9.	Failure to designate a member of the management board responsible for ensuring the implementation and operation of the calculation system for the Bank Guarantee Fund, failure to define the rules for the conduct of periodic tests of the system and a number of errors in the depositor database.
10.	Insufficient scope and frequency of management information relating to operational risk.
11.	Failure to develop the rules for carrying out internal control in the area of operational risk and the rules for operational risk management in subsidiaries.

Source: In-house materials by the KNF Office

**Table 58. Significant irregularities in the management process, as identified in the course of inspection activities in cooperative savings and credit unions in 2014**

Management	
1.	<p>As regards the responsibilities of members of a credit union's management board and supervisory board:</p> <ul style="list-style-type: none"> <li>– members of the management board and the supervisory board without the required qualifications referred to in Article 18(4) of the Act on cooperative savings and credit unions,</li> <li>– failure to hold supplementary elections to the management board and failure to determine the remuneration of the members of the management board by the supervisory board,</li> <li>– failure to allocate duties and responsibilities to individual members of the management board,</li> <li>– conflict of interest in the form of family links of members of bodies in the organizational structure and the conclusion, by a credit union, of the unfavourable contracts with entities controlled by members of the credit union's bodies,</li> <li>– lack of complete and accurate information for the supervisory board, especially about different types of risk occurring in the credit union's operations and the internal control exercised,</li> <li>– failure to properly supervise the internal control,</li> <li>– failure to discuss, at the meetings of the credit union's bodies, issues relating to the management of different types of risk,</li> <li>– adopting decisions, without any economic justification, to spin-off a portion of the credit</li> </ul>

	union's operations.
2.	In respect of the organisational structure: <ul style="list-style-type: none"> <li>– poorly documented or undocumented links between members of the credit union,</li> <li>– lack of internal regulations of organizational units,</li> <li>– failure to separate operational activities and the management of different types of risk and internal control,</li> <li>– failure to clearly assign the tasks and responsibilities to organizational units and employees,</li> <li>– failure to specify rules of subordination of employees.</li> </ul>
3.	In terms of financial management and planning: <ul style="list-style-type: none"> <li>– lack of formal planning process,</li> <li>– defectively prepared recovery plans, which failed to obtain consent of the KNF,</li> <li>– unreliable measurement of shares, understating the level of required provisions or lack of provisions, overstating the significance thresholds in the accounting policy, exceeding the amount of planned costs.</li> </ul>
4.	As regards risk management and regulatory standards for risk: <ul style="list-style-type: none"> <li>– failure to establish a comprehensive risk management system, failure to define the risk profile and level, failure to adapt own funds to the volume of business and risk profile.</li> </ul>
5.	As regards the management information system: <ul style="list-style-type: none"> <li>– insufficient scope of information on the management of different types of risk,</li> <li>– failure to formalize the rules of preparing management information,</li> <li>– lack of information for the supervisory board on internal control and outsourced activities.</li> </ul>
6.	As regards outsourcing: <ul style="list-style-type: none"> <li>– lack of economic analysis to justify outsourcing,</li> <li>– Outsourcing important activities related to risk management, especially credit risk management (credit risk analysis and debt collection).</li> <li>– unfavourable contractual terms relating in particular to termination of the contract and the scope of services provided, lack of records of outsourcing contracts</li> <li>– lack of internal regulation concerning outsourcing risk management, for example, the rules for receiving information, the ability to conduct inspections of outsourced activities; failure to adapt the quality of the management process of that risk to the scale and scope of outsourced services.</li> </ul>
7.	As regards the internal control: <ul style="list-style-type: none"> <li>– ineffective internal control due to numerous, significant irregularities in the entire area of operations of the credit union,</li> <li>– internal control inconsistent with the provisions of the credit union's charter and other internal regulations of the credit union, not adjusted to the risk level,</li> <li>– failure to clearly assign duties at the level of unit managers and employees of internal control,</li> <li>– insufficient scope of internal control, including failure to control the following: the management of various types of risk, compliance with laws, the quality of financial reporting and accounting records,</li> <li>– failure to implement control plans, failure to approve control plans by the supervisory board and failure to inform the supervisory board about internal control activities,</li> <li>– in credit unions in which the internal audit was established, the following issues were found: internal audit and internal controls were performed by the same employees, the lack of independence of the internal audit unit due to the involvement of its employees in operational activities, a limited scope of audits performed by the internal audit.</li> </ul>

Source: In-house materials by the KNF Office

### 5.3. PAYMENT SERVICES SECTOR

In 2014, 2 inspections were carried out at domestic payment institutions. The inspections assessed the quality of the management system (including the internal control and risk management system). The irregularities found by the KNF at inspected entities, by inspection area, are as follows (they concerned different entities to various extent):



**Table 59. Significant irregularities in the management process, as identified in the course of inspection activities at domestic payment institutions in 2014**

<b>Management</b>	
1.	Failure to approve business plans at the level of the supervisory board and outdated rules of operation of statutory bodies.
2.	Failure to regulate the strategic planning process, the monitoring of the strategy implementation and its reviews
3.	Failure to define, in the organizational bylaws, responsibilities of some organizational units as well as consultative and decision-making bodies.
4.	Failure to regulate, in a comprehensive manner, the management information system, for example, failure to specify all types of reports covering the entire area of operations, together with an indication of the scope and frequency of financial reports and their addressees.
5.	Lack of formal personnel policies defining the general rules of employment, with reference to the applicable procedures in this regard.
6.	Failure to define key employees and failure to specify a list of reserve personnel for management positions.

Source: In-house materials by the KNF Office

**Table 60. Significant irregularities in the risk management system, as identified in the course of inspection activities at domestic payment institutions in 2014**

<b>Risk management system</b>	
1.	Failure to implement the risk management policy relating to all significant risks, together with the specification of their definition, management rules and organizational units involved in practice in the risk management process.
2.	Failure to develop a risk map showing all the risks identified, together with the specification of their level, the existing preventive measures and risk owners.
3.	Lack of operating procedures for risk measurement and monitoring.
4.	Failure to regulate the process of establishing internal limits, and to maintain the register of incidents.
5.	Failure to regulate the procedure for transmitting management information relating to the risk management system.
6.	Failure to specify activities related to risk analysis, prior to entering into a contract with a business entity, and to assess the cooperation with entities in the performance of outsourcing contracts.
7.	No contingency plans for the event of interruption of activities outsourced to an entrepreneur under a contract.
8.	Untimely processing of complaints of users.

Source: In-house materials by the KNF Office

**Table 61. Significant irregularities in the internal control system, as identified in the course of inspection activities at domestic payment institutions in 2014**

<b>Internal control system</b>	
1.	The lack of regulations specifying the rules of functioning of the internal control system, and defining, inter alia, its scope, the rules of planning, documentation and reporting.
2.	Irregularities in organizational solutions of the internal control system, such as failure to separate the control functions and the risk management functions.
3.	Failure to define the frequency of informing the management board of timely performance of corrective and preventive tasks following audits.
4.	Failure to conduct audits to evaluate the implementation of strategic objectives and the management information system.

Source: In-house materials by the KNF Office

## 5.4. INSURANCE SECTOR

### ON-SITE INSPECTIONS AT INSURANCE COMPANIES

In 2014, inspections were carried out at 17 insurance companies (including 7 inspections at life insurance companies and 10 in non-life insurance companies) with the aim of examining their activity and assets.

The inspections focused mainly on 5 material aspects of insurance undertakings' operations, and in the area of:

- management of the insurance company - 11 insurance companies were inspected,
- accounting policies and preparation of financial statements - 7 insurance undertakings were inspected,
- loss adjustment/settlement of benefits - 6 insurance undertakings were inspected,
- investment policies - 3 insurance undertakings were inspected,
- measurement of technical provisions - 3 insurance undertakings were inspected,

Moreover, in 2014 inspections in the following areas were conducted:

- implementation of recommendations issued on the basis of findings of inspections conducted in insurance undertakings, where 2 insurance undertaking was inspected.
- unit-linked insurance plans, where 1 insurance undertaking was inspected,
- acquisition costs, where 1 insurance undertaking was inspected,
- insurance-related settlements, where 1 insurance undertaking was inspected.

Three of the inspections mentioned above were comprehensive inspections covering the main areas of the insurance undertakings' activity. The other inspections were problem-oriented and covered from one to three aspects.

**Table 62. The most frequent irregularities identified in the course of inspection activities at insurance sector entities in 2014 in the area of organisation and management**

Organisation and management	
1.	Irregularities in managing the insurance undertaking (improper preparation of minutes of management board meetings, failure to ensure the functioning of internal regulations, in particular organisational regulations, internal control and/or internal audit regulations, investing operations and outsourcing regulations).
2.	Irregularities in exercising supervisory functions by the supervisory board (incorrect preparation of minutes of supervisory board meetings, the Audit Committee's failure to perform obligations related to the monitoring of the effectiveness of internal control, internal audit and risk management systems).
3.	Irregularities in the internal documentation specifying the manner of performing insurance activities, in particular in relation to the provisions of internal control and of outsourcing insurance activities (incomplete documentation, failure to follow the adopted regulations).

Source: In-house materials by the KNF Office

**Table 63. The most frequent irregularities in the loss adjustment/settlement of benefits procedure, as identified in the course of inspection activities at insurance market entities in 2014**

Claims settlement procedure	
1.	Irregularities in the documentation describing the claim settlement procedure (incorrectly developed regulations, failure to follow the adopted regulations).
2.	Improper execution of activities in the claim settlement process (delayed payments, violating disclosure requirements, lack of due diligence in aiming to complete the settlement process as soon as possible and taking the decision on meeting / refusal to meet the claim).

3.	Irregularities in the internal documentation defining the outsourcing of activities related to claims adjustment/settlement of benefits (incomplete documentation, failure to follow the adopted regulations).
4.	Failure to record or incorrect recording of claims in the claims database.
5.	Failure to take into account, in establishing the amount of the provision for claims, the actual course of the claim settlement procedure.

Source: In-house materials by the KNF Office

**Table 64. The most frequent irregularities in accounting policies and preparation of financial statements, as identified in the course of inspection activities at insurance market entities in 2014**

Accounting policies and preparation of financial statements	
1.	Irregularities in the documentation describing the accepted accounting principles (policy) (failure to update the documentation, documentation updated by unauthorised persons, incomplete documentation, regulations not in accordance with the law).
2.	Incorrect recognition of economic events in the books of accounts (failure to ensure matching of revenues and the related costs, recognition not in accordance with the economic substance).
3.	Irregularities in the preparation of accounting documents to be recognized in the books of accounts.
4.	Failure to keep current registers (the register of insurance contracts, of reported claims).

Source: In-house materials by the KNF Office

**Table 65. The most frequent irregularities in investment policies, as identified in the course of inspection activities at insurance sector entities in 2014**

Investment policies	
1.	Irregularities in the documentation describing the adopted accounting principles (policy) in the area of measurement of financial instruments (documentation not updated, the update carried out by unauthorised persons, incomplete documentation, regulations inconsistent with laws, incorrect measurement bases, lack of information about the simplification used in the measurement).
2.	Irregularities in the functioning of internal regulations on the investment policy (lack of updates, inconsistency, failure to follow the adopted regulations).
3.	The investment policy conducted by the management board in violation of internal investment regulations.
4.	Lack of classification and incorrect classification of financial instruments.
5.	Measurement of financial instruments not in conformity with legal requirements.
6.	Failure to verify the financial instruments' valuation received from an external entity.
7.	Incorrect recognition of financial instruments in the books of accounts (offsetting different types of assets and liabilities, recognition not in accordance with the economic substance).
8.	Incorrect preparation of financial statements and reporting forms in relation to financial instruments (incorrect presentation of the measurement of financial instruments, presentation of incorrect number and value of units of unit-linked insurance plans).

Source: In-house materials by the KNF Office

**Table 66. The most frequent irregularities in the measurement of technical provisions, as identified in the course of inspection activities at insurance sector entities in 2014**

Measurement of technical provisions	
1.	Irregularities in the documentation describing the adopted accounting principles (policy) in the area of measurement of technical provisions (documentation not updated, incomplete documentation, regulations inconsistent with laws, incorrect measurement bases, lack of information about the simplification used in the measurement).
2.	Using incorrect methods and incorrect data to measure technical provisions.
3.	Failure to take into account in the measurement all liabilities and costs arising from insurance

	contracts.
4.	Incorrect preparation of financial statement forms relating to technical provisions (lack of adequate presentation of recognised technical provisions)
5.	Deficiencies in the documentation enabling the reconstruction of the calculation of technical provisions.

Source: In-house materials by the KNF Office

**Table 67. The most frequent irregularities identified in the course of inspection activities at insurance sector entities in 2014 in the area of investment-linked insurance funds**

Unit-linked insurance plans	
1.	Irregularities in the documentation describing the accepted accounting principles (policy) (failure to update the method of reviewing the valuation provided by an external entity).
2.	Practices infringing the interests of policyholders, insured, beneficiaries or persons entitled under insurance contracts (conducting operations not in accordance with the provisions of insurance contracts as regards determining a unit's price, accuracy of recording the number of units).

Source: In-house materials by the KNF Office

**Table 68. The most frequent irregularities identified in the course of inspection activities at insurance sector entities in 2014 in the area of acquisition costs**

Client acquisition cost	
1.	Irregularities in the documentation describing the accepted accounting principles (policy) (failure to update the documentation and documentation updated by unauthorised persons).
2.	The use of inappropriate methods for capitalising acquisition costs.
3.	Capitalising of costs that should not be capitalised.

Source: In-house materials by the KNF Office

**Table 69. The most frequent irregularities identified in the course of inspection activities at insurance sector entities in 2014 in the area of insurance- and reinsurance-related settlements**

Insurance- and reinsurance-related settlements	
1.	Irregularities in the documentation describing the accepted accounting principles (policy) (failure to include information on the simplification used).
2.	Recognising incorrectly economic events in the books of accounts (offsetting different types of assets and liabilities).

Source: In-house materials by the KNF Office

In 2014, there were 108 post-inspection recommendations issued in total for 13 insurance undertakings inspected; they concerned bringing the business of the insurance undertaking into line with the laws and discontinuing to breach the interests of the insuring parties, the insured, the beneficiaries, or the entitled under insurance agreements.

#### ON-SITE INSPECTIONS AT INSURANCE COMPANIES CONCERNING USE OF INSURANCE AGENTS

In the period covered by this report, there were 11 inspections carried at insurance companies with the aim of verifying the correctness of conduct of insurance agency activities by them as regards use of services of insurance agents, and in particular:

- observance, by insurance agents, of the requirement that insurance agency activities should be performed by natural persons satisfying the statutory requirements, and
- observance of effective laws by insurance agents in their business,
- correctness of conclusion of insurance agency agreements,
- timely submission of the application for entering into the register of insurance agents, the entity with which the insurance agency agreement was concluded,

- timely submission of the application for register entry change or removal of the entity from the register,
- correctness of insurance agents-related data delivered to the regulator by the insurance company along with the application for entering the insurance agent into the register, agent data change in the register or agent removal therefrom,
- scope of training courses and examinations for applicants for insurance agents,
- 
- complaints made about insurance agents.

As a result of the inspections performed, in 2 cases the conditions occurred to issue post-audit recommendations, due to infringing:

- the Regulation of the Minister of Finance of 4 July 2005 on provision of professional training for persons performing agency activities or brokerage activities (Dz.U. of 2004, No 124, item 1154 as amended). - due to lack of a professional training completion certificate,
- Regulation of the Minister of Finance of 8 September 2010 on applications for entry or change of entry in the register of insurance agents and the list of documents enclosed therewith (Dz.U. of 2010, No 173, item 1170) - due to deficiencies in the documentation of persons performing agency activities,
- Article 41(1) of the Insurance Brokerage Act of 22 May 2003 (Dz.U. of 2014, item 1450) - due to failure to timely report changes to the data entered into the register of insurance agents,
- Article 42(1) of the Insurance Brokerage Act of 22 May 2003 (Dz.U. of 2014, item 1450) - due to failure to timely submit the application for removal of the insurance agent from the register of insurance agents.

As at 31 December 2014, in 7 cases the documentation was being exchanged with inspected entities.

#### ON-SITE INSPECTIONS AT ENTITIES CONDUCTING BROKERAGE ACTIVITIES

In the period covered by the Report, there were 17 on-site inspections performed for brokerage activities. These were primarily aimed at verifying whether the brokerage activities of the entity conducting brokerage activities were in compliance with the law and the licence obtained. In particular the following was inspected:

- satisfaction of the requirements preconditioning the obtaining of a licence and conduct of brokerage activities,
- agreements concluded with insurance companies, and
- conclusion or causing the conclusion of insurance agreements, preparatory activities for the conclusion of insurance agreements and participation in insurance agreement management and performance as well as in claims settlement proceedings, and organisation and supervision of brokerage activities.

The most frequent irregularities identified are as follows:

- the certificates of training, referred to in Article 4c of the Act on Insurance Mediation, did not meet the formal requirements,
- the conduct of the brokerage business in violation of Article 22(1), Article 23(1), Article 24(1)(1) and Article 26(1)(2) of the Act on Insurance Mediation,
- No or untimely submission, with the regulator, of applications for changing the entry in the register of insurance brokers following a change to the data subject to entry into the register of insurance brokers (Article 46(1) of the Insurance Brokerage Act),
- inconsistencies of the text of agreements on mutual settlements for the performance of brokerage activities, with laws.

## 5.5. PENSION SECTOR

In 2014, there were 13 inspections conducted at entities operating in the pension market, including 11 inspections at universal pension fund companies and open-end pension funds, 1 inspection at a depositary bank and 1 inspection at an occupational pension fund.

Inspections at pension companies and pension funds covered the following areas:

- organisation and management,
- internal control system, audit and risk management,
- investing policy of the pension fund company and the pension fund,
- agreements with shareholders, members of governing bodies and other group companies, other agreements,
- outsourcing of certain activities of pension funds and pension fund companies,
- adopted accounting policies, books of accounts, and preparation of financial statements,
- transfer of members as part of asset transfers between funds,
- maintenance of fund members' individual accounts,
- handling fund members' complaints, and
- the implementation of a post-audit notification.

**Table 70. Irregularities in organisation and management, as identified in the course of inspection activities at pension market entities in 2014**

Organisation and management	
1.	Violation of the company's Articles of Association by convening the meetings of the Supervisory Board by the Member/Vice-Chairman of the Supervisory Board.
2.	Violation of Article 22 of the Act on the National Court Register by reporting, to the Register of Business Entities of the National Court Register, changes in the composition of the Supervisory Board and the Management Board after the expiry of 7 days' period from the date of the event.
3.	Violation of Article 25(1) in connection with Article 17(1)(3) of the Act on the organization and operation of pension funds, by failing to immediately submit an application for entry into the register book of the pension fund register, kept for the Voluntary Pension Fund, changes in the composition of the Company's Management Board, consisting in the appointment of the President of the Management Board.

Source: In-house materials by the KNF Office

**Table 71. The most frequent irregularities in accounting policies and preparation of financial statements, as identified in the course of inspection activities at pension sector entities in 2014**

Accounting policies and preparation of financial statements	
1.	Violation of Article 10(1)(2) of the Accounting Act, by failing to specify, in the documentation describing the accounting policy of the Company, the valuation methods (valuation market) for Treasury securities held, and by failing to include, in the documentation describing the accounting policies of an open-end pension fund, the information on the valuation methods for illiquid debt instruments held by OFE (measured by means of mathematical models).
2.	Violation of Article 10(1)(3)(a) of the Accounting Act, by failing to adopt, in the documentation describing the accounting policies of the Company, the event classification rules.
3.	Violation of Article 10(1)(4) of the Accounting Act, by failing to include, in the documentation describing the accounting policies of the Fund, the description of the rules of accounting data protection.
4.	Violation of Article 10(2) of the Accounting Act, by failing to include, in the documentation describing the accounting policies of the Company and in the documentation describing the accounting policies of the Fund, information about the technique used for documenting

	accounting records.
5.	Violation of Article 46(5)(1) of the Accounting Act, by failing to present, in the balance sheet in the financial statements of the Company for 2013, financial instruments broken down into long-term and short-term ones.
6.	Violation of Article 69(1) of the Accounting Act, by submitting an application to the register book of the pension fund register, with the financial statements of an occupational pension fund after the expiry of 15 days' period after the date of their authorisation for issue.
7.	Violation of § 40 of the Regulation of the Minister of Finance on detailed rules for recognition, measurement methods, scope of disclosure and manner of presentation of financial instruments, due to failure to include, in the notes to the financial statements of a company, information on the financial instruments held.
8.	Violation of the interest of the Fund's members by failing to control the costs incurred by KDPW S.A. on account of keeping securities (re-invoiced by the Depository), and by failing to transfer, to the Fund, the benefits lost in connection with the reimbursement of costs of KDPW S.A. overpaid by the Fund, arising from keeping foreign securities in 2010 -2012.

Source: In-house materials by the KNF Office

**Table 72. The irregularities in investing policies, as identified in the course of inspection activities at pension sector entities in 2014**

<b>Investment policies</b>	
1.	Violation of § 18(4) of the Regulation of the Council of Ministers on disclosure requirements of pension funds, by including, in daily reports submitted to the supervisory authority (PF06), incorrect data on brokerage offices intermediating in the conclusion of 59 transactions.
2.	Violation of the interest of the Fund's members by charging a higher rate of commission to the Fund for the execution of transactions on the shares in Giełda Papierów Wartościowych w Warszawie S.A. [Warsaw Stock Exchange] than the rate resulting from the provisions of the relevant agreement for the provision of brokerage services.
3.	Violation of the interest of the Fund's members by accepting a situation of concluding transactions for the same securities on the same day for the private account of the Company's employee and for the account of the Fund, which leads to a conflict of interest between the investment activities for the own account of an employee and the investment activities for the account of the Fund.

Source: In-house materials by the KNF Office

**Table 73. The most frequent irregularities in the operational area (maintaining accounts - disclosure requirements), as identified in the course of inspection activities at pension sector entities in 2014**

<b>Operating area (keeping accounts - disclosure obligations)</b>	
1.	Violation of Article 129a of the Act, by exceeding, in relation to 1 person, a 14-day period for payment.
2.	Violation of Article 130(2) of the Act on the organization and operation of pension funds, by payment of all the funds deposited in the account of a deceased member of the Fund to the heirs, with the omission of the right of the spouse to the funds falling to the spouse due to the marital community property regime existing before the death of the member of the Fund.
3.	Violation of Article 130(1) of the Act on the organization and operation of pension funds, by making a transfer payment of funds deposited in the account a member of the Fund, which were included in the marital community property, to the member of the Fund and the member's former spouse, without the need to submit documents proving the separation of the common property between former spouses.
4.	Violation of Article 132(3) of the Act, by exceeding, in relation to 1 person, a 3-month deadline for making the payment of outstanding funds, transferred by the Social Insurance Institution [ZUS] after the death of the member, to a person designated by the deceased member.
5.	Violation of Article 133(2) of the Act on the organization and operation of pension funds, by making payments of funds after the death of a member of the Fund, to the member's heirs on the basis of a judicial decision confirming the acquisition of inheritance or on the basis of a notary certificate of inheritance, according to the shares of the estate which were allocated to individual beneficiaries, without the need to submit documents proving the division of the estate between heirs.

6.	Violation of Article 164(2) of the Act on organization and operation of pension funds, by failing to inform the supervisory authority of irregularities in determining, by the Fund, the net asset value.
7.	Infringement of § 5(5) of the Regulation on the manner and mode of concluding an agreement under which one may become a member of an open-end pension fund, due to failure to submit, within the established 30-day deadline, information on the account number in the fund, to 7 persons intending to join the fund.
8.	Infringement of § 4(1) of the Regulation on the mode and dates of informing the Social Insurance Institution (ZUS) by an open-end pension fund about the conclusion of an agreement with a member and making a transfer payment, due to the fact that 29 agreements on membership in the Fund were reported to ZUS after the expiry of the period of 6 working days after the conclusion of agreements.
9.	Violation of § 6 of the Regulation of the Council of Ministers of 26 April 2011 on disclosure requirements of pension funds, by violating the period of 14 days for sending, to a member of the Fund, annual information on the funds deposited in the member's account, dates of contribution payments and transfer payments made in that period and conversion of these contributions and transfer payments into accounting units, as well as the financial performance of the fund's investment activities.
10.	Violation of § 7(1)(1) of the Regulation of 26 April 2011 on disclosure requirements of pension funds and § 12 of the Regulation of the Council of Ministers of 23 January 2014 on disclosure requirements of pension funds, by violation of a 14-day period for sending information about the funds deposited in the account of a member of the Fund, at the request of the members of the Fund.
11.	Violation of § 8 of the Regulation of the Council of Ministers of 23 December 2011 on the dates and manner of performing, by the Social Insurance Institution and open-end pension funds, of activities relating to periodic annuities (Dz.U. No 295, item 1745; hereinafter: the Regulation of 23 December 2011 on periodic annuities), by violation, in 1 case, of a 3-working day period for transferring to the indicated separate bank account of the Social Insurance Institution [ZUS], the funds for payment of periodic annuities, in the portion calculated from the funds deposited in the Bank Open-End Pension Fund.
12.	Violation of the interests of members of the Fund, by overstating the amount of supplementary and transfer payments, from the Fund's capital, due to adjustments to redemptions for payment and transfer payments.
13.	Violation of the interest of members of the Fund, through the application of a form used for the appointment of an additional beneficiary, which did not allow the members of the Fund to make changes in the percentage shares in the funds deposited in the account of a member of the Fund for originally appointed beneficiaries.

Source: In-house materials by the KNF Office

In 2014, 9 notifications of identified irregularities were issued for the pension market. 31 irregularities were reported in total.

## 5.6. CAPITAL AND COMMODITY MARKETS

### INSPECTIONS OF INVESTMENT FIRMS AND INVESTMENT FIRMS' AGENTS

In 2014, there were 11 inspections of entities conducting brokerage business or performing brokerage activities, including brokerage houses along with organizational units (customer service points and order acceptance points), units of banks accepting and transmitting orders to buy or sell financial instruments, branches of foreign investment firms operating in the Republic of Poland and agents of investment firms. Inspections were problem-oriented inspections. They covered selected aspects of licenced operations or operations subject to notification in the Republic of Poland.

The inspections focused in particular on the following material aspects of the investment firm's operations:

- Organisational structure, functioning and technical conditions of conducting operations,



- functioning of the internal control system, system for supervision of compliance with the law and internal audit system,
- supervision by the investment firm of the business of the investment firm's agent,
- supervision by the investment firm of advertising and promotional activities in connection with brokerage services and financial instruments offered by the investment firm run by third parties (other than the investment firm's agents) on behalf of the investment firm,
- performing brokerage activities in connection with the provision of brokerage services,
- the procedure of contacts with clients, including as regards the activities performed by investment firms' agents and other entities cooperating with investment firms in acquiring clients and pursuing advertising and promotional activities in connection with brokerage services,
- counteracting the manipulation involving financial instruments.

The inspections of brokerage activities covered both organised trading as well as deals made outside the organised trading, taking into account in particular transactions concluded on the forex market. The topics of individual inspections depended on the scope and size of the operations conducted, considering the events and occurrences reported on the capital market in the area of provision of brokerage services.

The audit also included examining the manner and scope of application by investment firms of the following:

- the Guidelines on certain aspects of the MiFID compliance function requirements - ESMA/2012/388;
- 
- Guidelines. Systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities - ESMA/2012/122,
- Guidelines on remuneration policies and practices (MiFID) - ESMA 2013/606,
- Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps (OJ L 86, 24.03.2012, p.1),
- Commission Delegated Regulation (EU) No 918/2012 of 5 July 2012 supplementing Regulation (EU) No 236/2012 of the European Parliament and of the Council on short selling and certain aspects of credit default swaps with regard to definitions, the calculation of net short positions, covered sovereign credit default swaps, notification thresholds, liquidity thresholds for suspending restrictions, significant falls in the value of financial instruments and adverse events (OJ L 274, 9.10.2012, p. 1).

**Table 74. The most frequent irregularities in organisational structures, functioning and technical conditions of conducting operations by investment firms, as identified in the course of inspection activities in 2014**

<b>Organisational structure, functioning and technical conditions of conducting operations by investment firms</b>	
1.	Failure to exercise the supervision of compliance, which would be adequate for the type and extent of operations of investment firms, resulting in violation of laws, internal regulations, as well as agreements concluded with clients in connection with the provision of brokerage services by investment firms.
2.	Failure to provide the compliance unit with appropriate organizational conditions for the performance of its duties in an independent and effective manner.
3.	Failure to perform internal control, in particular in the area of reviewing the compliance of operations of investment firms and activities performed in the framework of such operations by persons related to the regulations of GPW S.A. (Warsaw Stock Exchange) and Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities).

4.	Failure, by the management boards of investment firms, to engage in developing and supporting the operation of the compliance system and the internal control system.
5.	Failure, by the internal audit system, to adequately perform the duties relating to the regular review of applied systems, implemented regulations and internal procedures for their correctness and effectiveness in the performance of statutory obligations by investment firms.
6.	Failure to ensure, by investment firms, the proper performance of the obligation to carry out, by investment advisors, of the activities of the financial instrument portfolio management, and accepting a situation in which unlicensed employees of investment companies, who do not have the necessary knowledge, skills and qualifications, independently manage asset entrusted by clients.
7.	Failure to record the data related to the brokerage business pursued by investment firms and to the activities performed by investment firms' individual organizational units.
8.	Failure to properly develop, implement and apply the procedures and measures for the management of conflicts of interest, adequate to the type and scope of the brokerage business conducted by investment firms.
9.	Failure to duly satisfy, by investment firms, the duties set out by the law for conclusion and performance of agreements under which an entrepreneur or a foreign entrepreneur is entrusted with performing brokerage business activities (outsourcing agreements).
10.	Concluding, by investment firms, of outsourcing contracts, which result in illegal sub-outsourcing.
11.	Lack of systematic and organized activities of investment firms as regards the proper performance of the statutory duty of supervising the activities carried out by agents of investment firms on the basis of agreements.
12.	Lack of adequate supervision, by an investment firm, of activities performed by third parties (other than the investment firm's agents) as related parties, acting on behalf of the investment firm.
13.	Lack of systematic training of employees of investment firms on internal regulations of investment firms, the relevant national and EU laws and regulations, standards and guidelines issued by the relevant supervisory authorities (KNF and ESMA), which may apply to the operations conducted investment firms, and any amendments thereto.

Source: In-house materials by the KNF Office

**Table 75. The most frequent irregularities in investment firms' contacts with clients, as identified in the course of inspection activities in 2014**

Contact with clients procedure	
1.	Failure to properly implement the laws on the creation and application of the assessment of the adequacy of the brokerage service or financial instruments to a client, in particular in respect of the following services: execution of orders to buy or sell financial instruments for the account of the ordering party and the management of portfolios including one or more financial instruments.
2.	Failure to check the adequacy of the brokerage service for the client before the start of its provision.
3.	Failure to act in accordance with law due to providing clients or prospects with unreliable, causing doubt or misleading information to advertise or promote the services provided.
4.	Failure to duly satisfy the requirements of the law as regards disclosure obligations in respect of clients due to provision of the brokerage service.
5.	Failure to duly satisfy legal requirements due to failure to properly inform clients or prospects of the risk related to investing in financial instruments, in particular as regards the investment strategies offered in connection with the provision of the portfolio management service.

6.	Failure to duly satisfy the requirements of law as regards acceptance and transfer of cash and non-cash payments by an investment firm in connection with the provision of a brokerage service
7.	Failure to duly satisfy legal requirements due to failure to properly inform clients of all changes and fees collected in connection with the provision of brokerage services.
8.	Failure to keep and record assets of a client in such a manner as to make it possible to separate, at any time, the assets held for one client from the assets held another client.
9.	Failure to take action as may be indispensable to ensure that the client's monetary funds-related data held by the investment firm is reliable, accurate and true.
10.	Failure to deposit the cash of clients in a continuous manner that guarantees the rights of clients to cash.
11.	Failure to select, with due diligence, the entity in which the investment firm deposits the cash of clients, in particular by checking whether the entity guarantees the protection of the clients' rights and whether its market practices related to keeping the cash of clients could adversely affect the right of ownership of the cash belonging to clients.
12.	Circumventing legal requirements relating to the activities of an investment firm's agent or to an outsourcing agreement by outsourcing the verification and validation of customer data to a carrier in connection with concluding contracts for the provision of brokerage services by mail.
13.	Provision of brokerage services without observing the principle of the client's best interests.

Source: In-house materials by the KNF Office

**Table 76. The most frequent irregularities in the provision of brokerage services by investment firms, as identified in the course of inspection activities in 2014**

Provision of brokerage services	
1.	Failure to properly comply with the laws and agreements concluded with clients in connection with exceeding, by the investment firm, of the scope of the power of attorney granted by the client to take and carry out investment decisions relating to the portfolio management.
2.	Instances of breach of law due to acting without due diligence or unprofessionally, at variance with fair trading practices or at variance with the best interests of clients, in particular as regards provision of portfolio management services.
3.	Conclusion, by investment firms, for their own account, of short sale transactions without meeting the conditions referred to in the laws.
4.	Provision of brokerage services with an unauthorized use of clients' funds held in a bank account, and keeping clients' funds in a way that makes it possible to use the funds of some clients to the benefit of other clients of the investment firm.
5.	Lack of correct identification of brokerage activity types, in connection with which a conflict of interest associated with a significant risk of infringing the customer's interests arose or might arise.
6.	Failure to implement or apply correctly the order execution policy.
7.	Failure to take sufficient measures to identify and prevent behaviors that lead or might lead to manipulating a financial instrument by customers or persons related to the investment firm in order to properly perform the obligation to counteract manipulation of financial instrument.

Source: In-house materials by the KNF Office

As a result of the inspections performed, post-audit recommendations were issued for all entities inspected. In the case of part of the inspected supervised entities, a further analysis is conducted involving the initiation of an administrative procedure to impose a fine or to report a suspicion of committing an offence in connection with the identified violations of the law.

## ON-SITE INSPECTIONS AT INVESTMENT FUND COMPANIES AND INVESTMENT FUNDS

In the period covered by this report, 14 inspections were conducted, including 9 at investment fund companies and investment funds managed by those companies, 3 inspections at entities acting as intermediaries in the sale and redemption of units, 1 inspection at a representative of a foreign fund and 1 inspection at an entity managing securitized claims of a securitization fund.<sup>28</sup>

**Table 77. Selected irregularities in managing investment funds and representing investment funds in dealings with third parties, as identified in the course of inspection activities at investment fund companies in 2014**

<b>Managing investment funds and representing investment funds in dealings with third parties</b>	
1.	Failure, by the fund, to act with particular attention to the interests of fund members.
2.	Failure, by investment fund companies, to act in the interests of fund members.
3.	Failure, by companies, to ensure an adequate organizational structure, with a clear division of functions, roles and responsibilities in the area of supervision of investing activities of investment funds.
4.	Delays in payments of cash due to participants of funds/sub-funds on account of the effected unit redemption orders.
5.	Failure to supervise, by persons holding the title of an investment advisor, the process of making and effecting investment decisions in a situation where the fund was managed by an unlicensed investment advisor.
6.	Failure, by an entity, to properly comply with the obligation to submit, to the KNF Office, information, documents and explanations necessary to perform effective supervision.
7.	Providing unreliable information in the reports to the KNF Office.
8.	Failure to include all the data required by law in the records of transactions and records of orders.
9.	Lack of sufficient justification for investment decisions and failure to archive documents indicating the basis for investment decisions.
10.	Failure to exercise supervision of the process of handling complaints of fund participants and keeping a register of complaints.
11.	Infringement of the investment restrictions set out in the Act on Funds and in funds' charters.
12.	Failure to immediately adjust, by the funds that violated the investment restrictions, own assets to the requirements set out in the Act on Funds and in funds' charters.
13.	Failure by the compliance unit to carry out checks of the company's operations.
14.	Infringing the interests of investment funds' participants by not taking appropriate actions to ensure the liquidity of funds and timely payments on account of redemption of units for investment funds' participants.

Source: In-house materials by the KNF Office

**Table 78. Selected irregularities identified in the course of inspection activities at an entity managing securitized debts**

<b>Checking the compliance of the operations of an entity managing the securitized debts, with law, the Articles of Association of the investment fund, the agreement with the company and with the authorization granted, and in particular: the Act of 27 May 2004 on investment funds (Dz.U. of 2014, item 157)</b>	
1.	Infringement of the provisions of agreements on the management of securitised debts.
2.	Failure to archive data and documents related to valuation.

<sup>28</sup> 3 out of 14 of the inspections instituted in 2014 were conducted at the end of 2014 and at the beginning of 2015.

Source: In-house materials by the KNF Office

**Table 79. Selected irregularities in the performance of activities pursuant to the Act of 27 May 2004 on Investment Funds (Dz.U. of 2014, No 157) and the Regulation of the Minister of Finance of 16 July 2013 on the operations of entities conducting activities in the scope of intermediation in selling and redeeming units and shares, and investment advisory in relation to such instruments (Dz.U. item 847), as identified in the course of inspection activities at distributors in 2014**

<b>Checking the performance of activities by distributors in accordance with the Act of 27 May 2004 on Investment Funds (Dz.U. of 2014 No 157), and the Regulation of the Minister of Finance of 16 July 2013 on the operations of entities conducting activity in the scope of intermediation in selling and redeeming investment fund units and shares, and investment advisory in relation to such instruments (Dz.U. of 2013, item 847)</b>	
1.	Failure to satisfy the requirement to store and archive documents related to conducting intermediation operations.
2.	Failure to designate a person responsible for carrying out inspections covering the operations of taking and transmitting orders.
3.	Failure to develop and implement internal regulations.
4.	Failure to comply with the requirement to provide training.
5.	Failure to conduct internal controls.
6.	Failure to complete entries in the audit log.
7.	Failure to exercise supervision and failure to control the operations of the entity and its personnel according to the criterion of compliance with law as well as procedures and internal regulations.
8.	Failure to exercise supervision of the process of handling complaints made by clients.
9.	Failure to complete full personal details of employees and natural persons linked with the inspected entity by a mandate relationship or other similar legal relation, and failure to indicate the scope of the power of attorney.
10.	Failure to indicate the funds whose units or shares will be distributed under the concluded agreement.
11.	Failure to adapt internal regulations to the applicable law.

Source: In-house materials by the KNF Office

**Table 80. Selected irregularities in the performance of duties in accordance with law, as identified during the inspection activities at the representative of a foreign fund**

<b>Checking whether the activities of the representative of a foreign fund are compliant with law and the agreement concluded with the foreign fund</b>	
1.	Violation of the provisions of agreements concluded with a foreign asset management company as regards the update of the internal procedure and as regards: failure to comply with the obligation to submit, to the KNF, all information on changes in the documentation of funds, in connection with failure to publish the documents required by law on the website of the controlled entity, failure to provide participants of foreign funds with access to information and documentation on managed funds, failure to publish, on the website, information prospectuses as well as annual and semi-annual financial statements in Polish.
2.	Inconsistencies between the provisions of internal regulations and the provisions of funds' informational prospectuses.

Source: In-house materials by the KNF Office

## INSPECTIONS AT ENERGY COMPANIES

In 2014, the KNF Office conducted one inspection of an energy company. The subject of the inspection was compliance, by the energy company, with laws, regulations, terms and conditions specified in authorizations, fair trading practices and interest of ordering parties, and in particular with the Act of 26 October 2000 on Commodity Exchanges. The scope of the inspection included:

- the organizational structure and activities of the entity's bodies,
- concluding transactions in commodities on the commodity exchange,
- keeping accounts and commodity registers,
- protection of professional secrecy.

**Table 81. Irregularities identified in the conclusion of transactions on the commodity exchange, as identified in the course of inspection activities in 2014 at the electricity undertaking**

Provision of brokerage services	
1.	Conclusion of transactions on Towarowa Gielda Energii S.A. [the Polish Power Exchange] by a non-licensed commodity broker.

## 5.7. ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

Anti-money laundering and combating the financing of terrorism was the issue reviewed during the inspections conducted in all financial market sectors supervised by the Polish Financial Supervision Authority. The obligated institutions supervised by the KNF include entities from the banking sector, life insurance sector, capital sector, cooperative savings and credit unions as well as domestic payment institutions.

In 2014, both comprehensive and problem-oriented inspections of meeting the obligations imposed by the provisions of the Act of 16 November 2001 on Anti-Money Laundering and Combating the Financing of Terrorism (consolidated text: Dz.U. of 2014, item 455) were conducted (hereinafter referred to as the 'AML/CFT Act'). In 2014, as part problem-oriented inspections, the KNF Office focused on two issues generating significant risk, i.e. establishing and maintaining relations with customers of the private banking sector and establishing relations with customers not present for identification purposes.

**Table 82. Inspection activities performed by the KNF Office at regulated entities in 2014 in the area of anti-money laundering and combating the financing of terrorism**

Inspection activities at entities	Number
commercial banks	16
cooperative banks	7
branches of credit institutions	5
brokerage house	7
investment fund companies	1
life insurance companies	2
SKOK	8
domestic payment institutions	1
<b>Total</b>	<b>47</b>

Source: In-house materials by the KNF Office

In the majority of inspections carried out in 2014, the KNF Office found irregularities concerning certain aspects of anti-money laundering and combating the financing of terrorism. The most frequent irregularities concern issues related to the organization of the process of anti-money laundering and combating the financing of terrorism, the keeping of the register of transactions the equivalent of which exceeds EUR 15,000 (according to Article 8(1) of the AML/CFT Act) and client risk assessment. In cases where numerous and

significant violations were identified in the course of the inspection, the Polish Financial Supervision Authority recommended repeated training of employees directly performing activities concerning anti-money laundering and combating the financing of terrorism. This also concerned the need to strengthen internal control systems in these financial institutions.

The most significant irregularities found in the SKOK sector. They consisted in the failure to comply with statutory obligations, including in the area of customer risk assessment, keeping records of transactions, the management information system and the internal control system.

As a result of inspections at banks, a significant decrease in irregularities in comparison with the previous reporting period was recorded, in particular in the area of concluding contracts with clients and risk assessment. The irregularities found concerned mainly the organization of the process of anti-money laundering and combating the financing of terrorism - mainly insufficient support of analytical units by IT systems.

Relatively few irregularities were found at the capital market entities. The irregularities consisted mainly in delays in recording transactions and unnecessary data entries in the different fields of the register, as well as redundant recording of transactions, which were not subject to this requirement.

Irregularities at insurance sector entities and at a domestic payment institution concerned, in particular, deficiencies and errors in internal procedures and irregularities in the timely recording of transactions.

As a consequence, the controlled entities were required to take measures aimed at the proper performance of the obligations specified in the AML/CFT Act. The KNF recommended that banks take measures to modify the systems supporting the transaction analysis process. The SKOK sector was required to introduce organizational solutions to minimize the risk of failure to comply with the applicable statutory requirements. As far as the capital market is concerned, the KNF Office highlighted the need to strengthen cooperation of brokerage houses with distributors, and for investment fund companies - with transfer agents. Insurance sector entities and the domestic payment institution were recommended to revise internal procedures and to hold supplementary training, in particular on the proper recording of transactions.

Table 83 shows the most frequent individual errors found in all sectors.

**Table 83. Significant irregularities in anti-money laundering and combating the financing of terrorism, as identified in the course of inspection activities in 2014**

Anti-money laundering and combating the financing of terrorism	
1.	Deficiencies and errors in the internal procedure as regards, inter alia, non-compliance with the provisions of the AML/CFT Act (for example, incorrect definition of the criteria of applying simplified financial security measures or the list of situations in which a certain type of security measures is applied).
2.	Entering wrong data into the register of transactions (deficiencies in completion or incorrect completion of fields in the register of transactions).
3.	Wrong assignment of clients to risk groups due to the incorrect client risk assessment process, resulting in the incorrect financial security measures (including as a result of failure to take account of typical risk assessment criteria, for example, of high-risk industries or the incorrect definition of the criteria of the client's geographical risk).
4.	Deficiencies in the periodic training of employees (no refresher training for employees in longer time horizons).
5.	Irregularities in the internal control system area as regards the quality, frequency and effectiveness of the internal control, for example, insufficient scope of the audit, vague

	nature of the inspection activities, weaknesses of monitoring and implementation of audit recommendations).
6.	Incorrect methodology or practice as regards the identification of related transactions (that is transactions performed by using more than one operation in which the circumstances indicate that they are interrelated and were divided into operations of lesser value with the intention of avoid registration), resulting in non-compliance with the provisions of the AML/CFT Act.
7.	Delays in the registration of transactions subject to registration, causing violations of applicable laws.
8.	Incompleteness of the Management Information System (in particular as regards insufficient quality and frequency of management reports).
9.	Recording transactions exempt from this requirement, which resulted in a violation of the AML/CFT Act.
10.	Failure to identify, for the clients of the private banking segment, the origin of the client's property values.
11.	Irregularities as regards data and documents, at the time of entering into relationships with clients at a distance, i.e. with clients that are not present at the bank for identification purposes (for example, incomplete and untimely completion, by the courier, of a client identification form).

Source: In-house materials by the KNF Office

As a result of the analysis and control activities, the Polish Financial Supervision Authority sent to the General Inspector of Financial Information (the "GIFI") 6 notifications of transactions that have been identified as transactions that may be related to money laundering.

As in previous years, the KNF continued its cooperation with the GIFI, in particular as regards:

- mutual transfer of information on the planned inspections and the results of inspections carried out at obligated institutions,
- providing information for the purposes of administrative proceedings conducted by the GIFI in matters relating to the imposition of penalties on the obligated institutions,
- expressing opinions on the performance of obligations resulting from the provisions of the AML/CFT Act,
- participating in working meetings.

## 6. REGULATORY AND PRUDENTIAL TASKS

The key regulatory and prudential regime tasks that were completed in 2014 included the preparation of the KNF's resolutions and prudential recommendations.

### 6.1. RESOLUTIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

In 2014, the Polish Financial Supervision Authority adopted the following resolution:

**Resolution No 220/2014 of the Polish Financial Supervision Authority of 22 July 2014 on establishing a template of the register of mortgage bonds' security.**

Due to the need to maintain the existing general form of the register template (the need to ensure the continuity of the documentation form), KNF Resolution No 388/2008 of 17 December 2008 establishing a template of the register of mortgage bonds' security was repealed, and a new version of the resolution was adopted, containing the following changes in relation to the previously existing template (Annex No 1 and No 2 to the Resolution):



#### 1. Changes in column 8:

a) Removal of the requirement of the trustee's consent to each entry made in the register by the mortgage bank (by putting his or her signature next to each entry in the register).

As part of the demands of mortgage banks, the banks indicated a lack of the obligation to obtain the trustee's consent as a condition for entry of a claim into the register of mortgage bonds' security and, consequently, qualification and entry of the claim in the register by a mortgage bank. In the current version of KNF Resolution No 388/2008, in column 8 of the security register, both the date of entry and the trustee's signature as well as the date of deletion and the trustee's signature are contained, which could suggest that the trustee's consent is also required for the exposure's entry into the register. In accordance with Article 31(3) of the Act on mortgage bonds and mortgage banks, the trustee's consent is required for an item's deletion from the register, which should be confirmed by his or her signature.

b) Transfer, from column 8 to column 7, of the requirement of putting by the trustee his or her signature next to every annotation on an entry's deletion from the register of mortgage bonds' security.

#### 2. Changes in column 7:

a) The introduction of the item "confirmation by the trustee of the review of an item in the register" (a change in conjunction with section 1a).

When demanding changes in the regulations concerning the rules of operation of the register of mortgage bonds' security, mortgage banks proposed that the trustee is allowed to review a sample of claims entered into the security register and that the trustee be able to select the sample.

In the opinion of the KNF Office, the manner in which the trustee reviews the register is not specifically defined, and various solutions are possible, but the overarching principle should be kept in mind that the trustee must be able to verify whether the liabilities arising from the traded mortgage bonds are secured by the mortgage bank in accordance with the provisions of the Act.

b) The introduction of the item "confirmation by the trustee of the consent to an item's removal from the register", which is also a place for the trustee's signature if the trustee consents to the entry's removal from the register (a change in conjunction with section 1b).

In accordance with Article 31(3) of the Act on mortgage bonds and mortgage banks, the trustee's consent is required for an entry's deletion from the register of mortgage bonds' security. A legible signature put by the trustee next to the annotation on the deletion of an entry from the register is tantamount to consent in writing.

The KNF indicated 1 January 2015 as the expected date from which banks should comply with the provisions of the resolution.

## 6.2. RECOMMENDATIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

In 2014, the Polish Financial Supervision Authority adopted the following recommendations:

### RECOMMENDATION U

Recommendation U concerning good practices in bancassurance was adopted by the Polish Financial Supervision Authority at the meeting on 24 June 2014.

When drafting the provisions of Recommendation U, the supervisory authority took into account the purpose of eliminating the deficiencies identified during the supervisory process and preventing an undue burden which could cause banks to abandon this type of activity.

The provisions should rather create conditions for the stable development of the bancassurance market.

The good practices in bancassurance, as defined in Recommendation U, are to change the improper market practices, in particular by:

- organizing the cooperation between banks and insurance undertakings: the bank as the policyholder in an insurance contract should not act as an insurance intermediary in the same contract,
- preventing legally unacceptable situations in which the bank acting as the policyholder receives remuneration from the insurance undertaking (execution of insurance insurance intermediation without complying with the statutory requirements),
- reaching a situation where non-professional recipients of services provided under bancassurance obtain actual insurance coverage, and strengthening their legal position in relation to banks,
- obtaining, for the bank, a protection that will really hedge the bank against the risk, and not only create additional income for the bank,
- improving the quality of services and the scope of the insurance offer by enhancing competition, i.e. achieving greater diversification in terms of the scale and number of cooperating entities,
- the procedures in place at banks in relation to termination fees in the event of early termination of an investment insurance contract (the banks participating in the process of offering these types of insurance are exposed to reputational and legal risks, for example fines imposed by the Office of Competition and Consumer Protection, compensation, class actions).

The scope of application of Recommendation U is limited to the banking market entities.

The KNF indicated 31 March 2015 as the expected date from which banks should comply with the provisions of the Recommendation.

#### RECOMMENDATION K (AMENDMENT)

Recommendation K on the principles of maintaining registers of mortgage bonds' security and the account of mortgage bonds' security by mortgage banks, and its projection was adopted by the Polish Financial Supervision Authority at the meeting on 22 July 2014.

The revision of Recommendation K consists primarily in adding a set of recommendations on record keeping to the previous Recommendation K. In particular, the revised Recommendation K introduces qualitative indications related to the safety of record keeping and additional recommendations in relation to the register kept in an electronic form. In addition, the revised Recommendation K contains provisions on the documentation requirements for the bank, for verifying register entries using a sample.

The KNF indicated 1 January 2015 as the expected date from which banks should comply with the provisions of the Recommendation.

#### RECOMMENDATION F (AMENDMENT)

Recommendation F on the basic criteria applied by the Polish Financial Supervision Authority in approving the rules issued by mortgage banks for determining the mortgage lending value of property was adopted by the Polish Financial Supervision Authority at the meeting on 22 July 2014.

The revised structure of Recommendation F corresponds, to a greater extent, to the market practice and is more flexible, which is a consequence of consultations with mortgage banks

and the work of the Working Team for Development of Public Market of Long-Term Banking Debt Securities at the KNF.

The key changes in Recommendation F include the reorganization of the procedure of a simplified mortgage banking expert opinion of the property value and the introduction of an analysis related to the market value of the immovable property into the basic directions of the analysis of the risk associated with the immovable property as the collateral of loans financed by a mortgage bank. The analysis can be based on, inter alia, information about the current transaction prices for similar immovable properties, which come from databases kept on the rules specified in KNF Recommendation J on the rules for the collection and processing of immovable property data by banks. It is expected that this solution will positively affect the efficiency of transferring the portfolios of claims secured on residential immovable property from universal banks to mortgage banks.

The KNF indicated 1 January 2015 as the expected date from which banks should comply with the provisions of the Recommendation.

## RECOMMENDATION P

In 2014 the KNF was working on the revision of Recommendation P on the bank liquidity monitoring system.

External (public) consultations have been conducted, and another draft Recommendation was prepared on the basis of the comments received. The draft Recommendation will be presented to the banking sector for opinion. The presentation of the draft recommendation is scheduled for the KNF meeting in the first quarter of 2015.

## RECOMMENDATION A-SKOK AND RECOMMENDATION B-SKOK

In 2014, the preparatory works in connection with the following documents were conducted:

- Recommendation A-SKOK on good practices in credit exposure risk management at cooperative savings and credit unions, and
- Recommendation B-SKOK on good practices in corporate governance at cooperative savings and credit unions.

On 28 November 2014, the KNF Office sent both of the above-mentioned draft Recommendations for public consultation.

## GUIDELINES FOR RECOMMENDATION W CONCERNING GOOD PRACTICES IN MANAGING MODEL RISK AT BANKS

The Polish Financial Supervision Authority, at the meeting on 18 March 2014, adopted guidelines for Recommendation W concerning good practices in managing model risk at banks.

Models are more and more common in banking operations, including risk management. Model estimations have a significant impact, for example, on banks' asset quality and financial performance. At the same time the findings of the KNF Office's inspection in respect of the assessment of risk management models used by banks indicate a moderate degree of universality of defined risk management standards within individual institutions, or the existence of multiple, often inconsistent standards developed by individual organizational units. Non-uniformity of standards also results from the use, by many domestic banks, of models developed and implemented at the parent level.

So far, the Polish banking sector avoided the occurrence of significant adverse effects of model risk's materialization. However, it should be assumed that with time the importance of model risk in banking operations will grow, due to the growing scale of automation,

standardization and objectification of a number of banking processes. The clear definition of supervisory expectations for model risk management, while taking into account external models, will be an impulse for the banking sector's fair and comprehensive approach to this issue.

### 6.3. THE PRINCIPLES OF CORPORATE GOVERNANCE FOR SUPERVISED INSTITUTIONS

At its meeting on 22 July 2014, the Polish Financial Supervision Authority adopted, by Resolution No 82/2014, the following document: "*Principles of corporate governance for supervised institutions*", which covers issues related to:

- organization and organizational structure
- relations with shareholders,
- with the management body;
- with the supervisory body;
- remuneration policy;
- information policy;
- promotional activities and customer relations;
- key systems and internal functions;
- risk management,
- exercising the rights attached to the assets acquired at the customer's risk.

According to the guidelines, the *Principles of corporate governance for supervised institutions* shall apply to all institutions subject to the supervision of the Polish Financial Supervision Authority which have not been expressly excluded. A supervised institution shall apply the adopted principles of corporate governance on a proportional basis, taking into account the scale and nature of the entity and the specificity of its operations.

In accordance with the KNF resolution adopting the Principles of corporate governance for supervised institutions, supervised entities shall implement the adopted principles as from 1 January 2015. The process of implementation and application of the said principles is to be reviewed by the KNF as part of the SREP process.

The document in question was published on 30 October 2014 in Dziennik Urzędowy [Official Journal] of the Polish Financial Supervision Authority.

As a result of questions asked in writing and during meetings with individual sectors, on the understanding of individual provisions of the Principles and their application, the Team that developed the Principles of Corporate Governance prepared the document "Questions and Answers to the principles of corporate governance for supervised institutions" which was published on 28 November 2014 on the KNF website.

### 6.4. GUIDELINES AND POSITIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY AND OF THE OFFICE OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

#### GUIDELINES ON THE SELECTED AREAS OF OPERATIONS OF INSURANCE UNDERTAKINGS

After the consultation process with insurance market institutions. The KNF issued a number of guidelines on selected areas of insurance undertakings' operations, which, as a result of

the SREP process and review of insurance undertakings' operations, were considered as areas generating a relatively significant risk.

These guidelines concern:

- distribution,
- outward reinsurance and retrocession,
- loss adjustment in motor insurances,
- IT systems.

#### Guidelines for insurance companies concerning the distribution of insurances

In the course of work on the adoption of Recommendation U on bancassurance, which was addressed to the banking sector entities, the supervisory authority identified irregularities in individual areas of insurance undertakings' operations as regards the above-mentioned scope. A significant portion of these irregularities may also materialize when insurance operations are conducted without banks' participation, i.e. outside the bancassurance channel.

On the other hand, while striving to establish good practices in bancassurance, it should be noted that there is a need to harmonize standards for conducting insurance operations regardless of the channel (manner) of insurance distribution. Such solution will ensure that the situation of clients of insurance undertakings will not vary significantly depending on the channel (manner) of insurance distribution. At the same time, the unification of insurance distribution standards and issues related to insurance distribution, including the scope of clients' rights in various insurance distribution channels, should minimize the risk of reduced competitiveness of individual market participants due to the requirements resulting from the good practices indicated by the supervisory authority.

The provisions of the Guidelines are addressed to all insurance undertakings operating under the Polish laws. These provisions may result in a weaker competitive position of domestic insurance undertakings compared to entities operating on the Polish market which are subject to a foreign jurisdiction, which would inevitably lead to unequal treatment of entities and potentially to an increased systemic risk. Therefore, based on the general good rules, in order to reduce the risk of such events, the Polish Financial Supervision Authority expects that insurance undertakings established in the Member States of the European Union within the meaning of the Act of 22 May 2003 on insurance activity (consolidated text: Dz.U. of 2013, item 950

as amended) and operating on the Polish territory will appropriately comply with the provisions of the Guidelines.

The Polish Financial Supervision Authority expects that the Guidelines on insurance distribution

forming an appendix to Resolution No 184/2014 of the Polish Financial Supervision Authority of 24 June 2014 (Dz.Urz. KNF, item 13) will be implemented by 31 March 2015.

#### Guidelines for insurance undertakings concerning outward reinsurance/retrocession

At the meeting on 30 June 2014, the KNF issued guidelines for insurance undertakings and reinsurance undertakings concerning outward reinsurance/retrocession.

Outward reinsurance is a contract in which an insurance/reinsurance undertaking assigns all or part of the insured risk to another insurance/reinsurance undertaking.

Reinsurance/retrocession (hereinafter 'reinsurance') is one of the basic tools in the risk management process in insurance/reinsurance undertakings and plays a significant role in the movement of capital on the insurance market thanks to increasing its insurance capacity, and enables insuring rare risks. An undertaking should ensure that the degree of the risk

transfer be sufficient in terms of the level of capital buffers and proportionate to the nature, scale and complexity of the risks inherent in its business. Regardless of whether an insurance/reinsurance undertaking applies reinsurance, it shall remain fully responsible for the performance of all obligations under insurance contracts. Moreover, all material risks in the reinsurance area should be identified and taken into account in the risk management process by the insurance/reinsurance undertaking. This requires the application of appropriate standards for reinsurance.

The Guidelines for outward reinsurance and retrocession provide a framework for the proper identification, measurement, monitoring and reporting of risks related to reinsurance, as well as management of such risks. They include a set of recommended actions in relation to the internal control systems, which should ensure directly and indirectly the implementation of appropriate standards in all reinsurance-related processes. The guidelines include standards concerning:

- general rules,
- risk management system in the reinsurance area,
- responsibilities of the Management Board, Supervisory Board and individuals dealing with reinsurance,
- internal reinsurance procedures,
- reinsurance scheme,
- current risk management in the reinsurance area,
- financial reinsurance,
- internal control system in the reinsurance area,
- accounting and reporting.

The standards, including those on the documentation and control mechanisms, may cover only reinsurance, or be part of larger processes.

The guidelines should be applied on a proportionate basis, which assumes the differentiation of approach depending on the type, scale and complexity of the risks inherent in the business of an insurance/reinsurance undertaking, as well as on the scale of using reinsurance.

The Polish Financial Supervision Authority expects that the Guidelines will be implemented by 1 January 2015.

### Guidelines on loss adjustment in motor insurances

At the meeting on 16 December 2014, the Polish Financial Supervision Authority issued Guidelines on loss adjustment in motor insurances.

The need for the supervisory authority to address the issue of loss adjustment in motor insurances results from the irregularities found in the course of supervision and signalled by other institutions of insurance market, including the Insurance Ombudsman, concerning in particular:

- untimely payment of benefits,
- payment of benefits in breach of the principle of full compensation,
- infringements in fulfilling disclosure obligations in the course of loss adjustment,
- a defective organization of the loss adjustment process, and in particular its insufficient transparency,
- unclear, incomplete, outdated internal procedures of insurance undertakings governing the loss adjustment procedure,
- insufficient internal control in the claims adjustment process,
- insufficient supervision and control, exercised by insurance undertakings, of third parties performing for these undertakings loss adjustment activities,
- insufficient supervision and control of the loss adjustment process by an insurance undertaking's bodies.

An insurance undertaking, as a public trust institution, should operate in compliance with law and with utmost diligence. In this context, the supervisory authority is increasingly concerned due to the observed cases of loss adjustment practices in motor insurance, which are inconsistent with law as well as the resulting case-law of the Supreme Court and the established case-law of the courts of general jurisdiction, in particular as regards the method of determining the amount of benefits under motor insurance. It is all the more disturbing that insurance undertakings employ highly qualified staff, while the observed irregularities in loss adjustment in motor insurance result from ignorance of the basic rules of the compensation law or failure to apply that law. Therefore, in the opinion of the supervisory authority, special attention should be paid to ensuring professionalism and compliance with professional ethics standards of insurance undertakings' staff handling loss adjustment in motor insurance, from the lowest level up to the members of their bodies. It should be considered unacceptable to value the financial performance over the principles of honesty, loyalty and respect for the interests of beneficiaries under the insurance contract.

These guidelines are addressed to domestic insurance undertakings within the meaning of the Act on insurance activity. The guidelines should also be applied by the main branches of foreign insurance undertakings. As far as the method of conducting the loss adjustment procedure and the method of calculating benefits are concerned, the Guidelines should be also applied by foreign insurance undertakings established in the Member States of the European Union/Member States of the European Free Trade Association (EFTA) - parties to the Agreement on the European Economic Area and conducting insurance operations on the territory of the Republic of Poland, in relation to motor insurance on the terms specified in the Act on insurance activity.

The document contains 21 Guidelines, which are divided into the following areas:

- organisation, management, supervision and control of the loss adjustment process in motor insurances,
- the manner of conducting the loss adjustment procedure,
- the method of calculating the benefit.

The supervisory authority expects that decisions on the manner of implementation of the solutions indicated in the Guidelines will be preceded by a thorough analysis and supported by adequate reasoning. The supervisory authority also expects that the standards indicated in the Guidelines will be implemented by the supervised entities by 31 March 2015. The Guidelines are applied in accordance with the "comply or explain" principle. If an insurance undertaking refrains from the application of the Guidelines, the supervisory authority expects such entity to explain the reasons justifying its failure to take account of the Guidelines in its operations. The information on the application of the Guidelines should be submitted on a form that insurance undertakings will complete as part of their own assessment of compliance with the Guidelines and which will be one of the methods of review, by the supervisory authority, whether and how insurance undertakings have implemented the Guidelines. Insurance undertakings are responsible for complying with the standards contained in the Guidelines. In particular, a situation in which a third party is ordered to meet these standards is unacceptable.

### [Guidelines on flood risk management in the insurance sector](#)

At the meeting on 16 December 2014, the Polish Financial Supervision Authority issued unanimously Guidelines for insurance undertakings and reinsurance undertakings on flood risk management in the insurance sector.

The extent of the damage caused by floods in Poland, the outcome of supervisory activities as regards catastrophe risk management and modelling by insurance undertakings and the requirements arising from Solvency II confirmed the KNF in the belief that there is a need to develop uniform flood risk management standards. The Guidelines are the outcome of joint efforts, of more than two years, of representatives of the KNF, insurance undertakings and

the Polish Insurance Association, working in the floor risk expert group set up by the KNF Office (NatCat Forum).

The Guidelines provide a flood risk management framework which should be applied by insurance and reinsurance undertakings operating in the non-life insurance area and having significant flood risk exposure, taking into account the principle of proportionality. An insurance undertaking or a reinsurance undertaking is responsible for the fulfilment of requirements contained in the Guidelines. In particular, a situation in which a third party is ordered to comply with the requirements contained in the Guidelines is unacceptable.

The KNF document contains 20 guidelines divided into the following areas:

- responsibilities of the management board and the supervisory board in terms of flood risk,
- flood risk management,
- data,
- selection and update of the external flood risk model,
- validation of the flood risk model,
- documentation.

The KNF expects that appropriate activities aimed at implementing the Guidelines will be taken in insurance or reinsurance undertakings in a manner coordinated with the schedule of entry into force of Solvency II. For insurance or reinsurance undertakings planning to use an internal model in respect of flood risk, the implementation should be completed by the earlier of the time of submitting an application or 1 January 2016, and by 1 January 2016 for other insurance and reinsurance undertakings. It is allowed to complete the implementation of the Guidelines at a later date, if this results from the schedule arranged with the KNF.

## GUIDELINES CONCERNING THE MANAGEMENT OF THE IT AREA AND SAFETY OF IT ENVIRONMENT

At the meeting on 16 December 2014, the KNF issued guidelines concerning the management of the IT area and safety of IT environment at:

- universal pension fund companies,
- insurance and reinsurance undertakings,
- investment fund companies,
- entities of capital market infrastructure,
- investment firms.

The necessity to issue IT guidelines results from the technological development and the systematically growing importance of the information technology area for the operations of the supervised entities, as well as the emergence of new risks in this area. The Guidelines constitute a version of the 2013 “Recommendation D concerning the management of the IT area and safety of IT environment at banks” adjusted to the needs of individual sectors.

The KNF document contains 22 guidelines divided into the following areas:

- the strategy and organisation of the IT area and safety of IT environment,
- the development of the ICT environment,
- the maintenance and operation of the ICT environment,
- the management of the ICT environment safety,

The KNF expects that appropriate actions aimed at the implementation of the standards indicated in the guidelines will be taken by the supervised entities by 31 December 2016.



## POSITION OF THE KNF OFFICE ON BANK ACCOUNT OVERDRAFT (ADDRESSED TO THE POLISH BANK ASSOCIATION AND THE NATIONAL ASSOCIATION OF COOPERATIVE BANKS)

With reference to the Recommendation of the Payment System Council on safety of proximity cards, of 30 September 2013, on 29 January 2014 the following document was sent to the Polish Bank Association and the National Association of Cooperative Banks: the position on banks' practice of allowing account holders to overdraw the amount of funds deposited in a bank account (hereinafter referred to as the overdraft). A situation in which the bank accepts, on a non-contractual basis, the creation of a debit balance in the account and at the same time charges the account holder, who has the status of a consumer, for the related costs seems, in the KNF opinion, contrary to Article 3 of the Act of 23 August 2007 on prevention of unfair market practices (Dz. U. No. 171, item. 1206).

The Polish Financial Supervision Authority is of the opinion that the possibility of an overdraft (including the case of current and savings account agreements concluded with consumers) should be arranged individually. The practice in which banks impose the possibility of an overdraft by introducing the corresponding provisions in the standard agreement binding on the account holder under the terms specified in Article 384 of the Civil Code should be considered unacceptable. In the opinion of the Polish Financial Supervision Authority, the agreement allowing for an overdraft, in which the provisions governing the overdraft institution are contained in the standard contract, must be assessed in the context of its compliance with the principles of social coexistence.

In the KNF's opinion, if the possibility of an overdraft is arranged individually, the counterparties should also agree on the overdraft limit. Such practice should also apply to the possibility of overdrawing the balance of funds deposited in the current and savings account, as arranged with the consumer. Although the Consumer Credit Act does not introduce the maximum allowable limit of an overdraft, but at the same time, if the agreement allows for an overdraft, the lender is not required to assess the credit risk of the consumer. Failure to introduce an adequate overdraft limit could generate a significant risk not only for banks, but also for bank account holders in terms of their ability to repay the debt incurred as a result of overdrawing the account balance. Failure to introduce an overdraft limit on a contractual basis should be, in the KNF's opinion, assessed in the context of the provisions of Article 58(1) of the Civil Code, namely whether such legal act is not intended to circumvent the law.

It should be also noted that for credit cards, the credit limit agreed in the agreement sets the upper limit of funds made available to borrowers. The limit results, in particular, from the needs of borrowers (as defined in the credit application) and their creditworthiness. Therefore, the practice of allowing borrowers to overdraw the contractually agreed credit limit and charging borrowers for the related additional costs should be considered incorrect.

## POSITION ON THE CORRECT APPLICATION OF THE COMPANY LAW BY BANKS

In a letter of 7 March 2014 addressed to the management boards of banks, the KNF Office asked the Management Boards of banks to ensure the correct application of the business name law. The analysis of marketing activities of banks, as well as numerous signals reported to the KNF by non-professional market participants suggest non-compliance with the business name law. Situations in which specialized banking services are offered by separate organizational units operating under the brand name different than the business name of the bank, as well as advertising campaigns that expose only the brand are more and more frequent and cause confusion among customers. The average recipient of such messages often treats specialized branches marked in such way as independent banks. For this reason, the KNF receives information on entities allegedly operating without a banking license, because customers do not find them on the list of banks operating in Poland, as published on the website of the Polish Financial Supervision Authority. This situation indicates that a failure to comply with the business name law may also entail negative

consequences for the banks that do not mark the messages addressed to customers with their business name or mark such messages unclearly, because such banks are perceived as unlicensed entities. If misperceptions on that subject consolidate, it can lead to a lack of customers' confidence not only in the banks applying such practices but also in the entire banking sector.

The Polish Financial Supervision Authority does not negate the possibility for banks to conduct operations under the brand name that is different than the business name. However, the customers of banks have the right to clear and unambiguous information about the entity offering and providing services and banks are required to provide such information. The brands and trademarks used by banks should be accompanied by a clear, easily identifiable information about their owner by stating the business name of the bank, regardless of the distribution channel of services, that is directly at the premises of the bank, through an intermediary or through a website. This applies in particular to the marking of the premises in which the banking operations are conducted, banks' websites, advertising messages and any printed materials and forms made available to customers. Particular attention should be paid to the appropriate display of the bank's business name in agreements concluded with customers.

#### POSITION ADDRESSED TO BANKS ON THE MINIMUM TIER 1 RATIO AND CAPITAL ADEQUACY RATIO

In a letter of 21 March 2014, addressed to banks, the KNF Office contained its position on the minimum Tier 1 ratio and capital adequacy ratio.

In the explanatory statement to the Recommendation issued on 8 December 2011, the EBA indicated to all national supervisory authorities (and therefore also to the Polish Financial Supervision Authority) that exceptional measures to restore confidence in the banking sector are urgently needed to enhance the quality and quantity of banks' capital to withstand shocks and to address systemic risk. Similar position was taken on 21 September 2011 by the European Systemic Risk Board.

After considering the EBA recommendation and the situation of the domestic banking sector, on 29 December 2011, the KNF Office sent a letter to banks in which it stressed the need to maintain:

- the Tier 1 ratio at the level of not less than 9%,
- the solvency ratio at the level of not less than 12%,

On 22 July 2013, the EBA issued another Recommendation on the preservation of capital of banks during the transition to CRD IV framework.

When justifying the Recommendation, the EBA indicated in particular that although market conditions have improved since 2011, it is necessary to preserve capital at the level corresponding to the Recommendation of 8 December 2011 and to prevent its unjustified reduction. In no event may the level of capital at banks fall below the target requirements of CRD IV. Moreover, banks should continue to improve the quality of their capital and increase its amount to maintain their safety on the proper level. The EBA recommended that national supervisory authorities apply, when informing the EBA and the relevant colleges of supervisors, where relevant, all the necessary measures to facilitate the capital increase, such as restrictions on the dividend payment.

The experience shows that the recommendation expressed in the letter of 29 December 2011 fulfills its purpose, because it contributes to greater confidence of markets and the supervisory authorities of other Member States in Polish banks and has an impact on the rating assigned to the domestic banking system by the rating agencies. Therefore, similarly as the EBA, the KNF Office, guided by the need to maintain that confidence, assumes that Polish banks will continue to maintain their own funds at the 2012 and 2013 level, that is:

- Tier 1 ratio at the level of not less than 9%,
- the solvency ratio at the level of not less than 12%.

The KNF Office informed that the recommendation of the Polish Financial Supervision Authority in the context of both the EBA Recommendation as well as the capital charges for banks, as expected in the medium term, are still valid. The KNF position will be, as it was the case previously, taken into account in the process of assigning SREP ratings in 2014.

#### POSITION ADDRESSED TO BANKS AND BRANCHES OF CREDIT INSTITUTIONS ON DETERMINING THE EXPIRY DATE OF IDENTITY CARDS

In connection with the information that has been reported to the Office of Polish Financial Supervision Authority about banks' practice, which finds no legal basis, consisting in demanding that customers holding identity cards issued for an indefinite period to indicate the expiry date of such identity card, and having regard to the implementation of the tasks that have been entrusted to the Polish Financial Supervision Authority by the Act of 21 July 2006 on the financial market supervision (Dz.U. of 2012, item 1149, as amended), the KNF Office, on 29 May 2014, sent to banks and branches of credit institutions a position on determining the expiry date of identity cards.

In light of the Act of 10 April 1974 on registration of population and identity cards (Dz.U. of 2006, No 139, item 993, as amended) identity cards are valid, as a rule, for 10 years from the date of issue (see Article 36(1)). Identity cards for persons who have not attained the age of 18 are issued with a five-year expiry date. Furthermore, in accordance with Article 36(3) of the aforementioned Act, an identity card for an indefinite period may be issued to persons who have attained 65 years of age, if they apply for the issue of an identity card with such expiry date.

Therefore, demanding from persons holding identity cards issued for an indefinite period to specify the expiry date of their identity cards should be seen as a procedure with no legal basis.

#### POSITION ADDRESSED TO BANKS AND BRANCHES OF CREDIT INSTITUTIONS ON THE LIST OF PUBLIC WARNINGS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

On 14 August 2014, the KNF Office addressed, to banks and branches of credit institutions, a position on the list of public warnings of the Polish Financial Supervision Authority. It was stressed in the position that there was a categorial change in the legal area as regards the list of public warnings kept by the Polish Financial Supervision Authority, and its structure and function were subject substantial modifications.

Under the Act of 23 October 2013 amending the Act on the Financial Market Supervision, and certain other acts (Dz.U. item 1567), the provision of Article 6b was introduced into the Act of 21 July 2006 on the financial market supervision, hereinafter "FMSA", in the light of which the Polish Financial Supervision Authority is obliged to make public information about filing a notification of suspicion of committing an offence stipulated in Article 215 and Article 216 of the Act of 28 August 1997 on the organization and operation of pension funds, Article 171(1)-(3) of the Banking Law Act, Article 56a and Article 57 of the Act of 26 October 2000 on Commodity Exchanges, Article 225 of the Act on Insurance Activity, Article 47 and Article 48 of the Act of 22 May 2003 on insurance mediation, Article 50(1) and (2) of the Act of 20 April 2004 on occupational pension schemes, Article 40 of the Act of 20 April 2004 on individual pension accounts and individual pension security accounts, Article 287 and Articles 290-296 of the Act on Investment Funds, Article 178 of the Act of 29 July 2005 on Trading in Financial Instruments, Article 99 and Article 99a of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies, and Article 150 and Article 151 of the Act of 19 August 2011 on payment services.

In accordance with the provisions of the Act, the only information made public is the business name of an entity in connection with the activities of which a notification of suspicion of committing an offence has been made, and if the entity operates under a different designation, such designation shall also be made public. The information is published on a

separate website of the Polish Financial Supervision Authority as the "List of public warnings of the Polish Financial Supervision Authority". This information is supplemented in each case, on the basis of notifications submitted to the Polish Financial Supervision Authority by the public prosecutor, with a mention of the final refusal to institute the preparatory proceedings or of a final discontinuance of the preparatory proceedings, and if charges are filed, a mention of the final and non-appealable court decision. The information published also includes information on the cases of proceedings conducted ex officio or upon the notification by an entity other than the Polish Financial Supervision Authority, in which the KNF Chairman exercises the rights of the victim under Article 6(2) of FMSA.

The entry on the list of public warnings is made on the basis of the notification of suspicion of committing an offence. Therefore, it has an important informative value and its purpose is to make public the information about the incident - the fact of filing a notification of suspicion of committing an offence or joining the preparatory proceedings. It is the KNF's statutory obligation to keep the public warnings list as a systematic list of entities which are suspected of committing a particular type of an offence. Therefore, publishing information about filing a notification of suspicion of committing an offence is a kind of legal constraint imposed on the KNF, which should be recognized as a means of ensuring equal access to information to all participants in legal transactions, including banks and branches of credit institutions. How this information will be used remains in the sphere of autonomy of its recipients.

Taking into account both the safety and confidence in the financial market, as well as the legitimate interests of clients, it should be noted that there is no place for schematic actions as regards the response of financial institutions to placing an entity on the KNF public warnings list. Each time, the response to placing an entity on the public warnings list should be preceded by an in-depth analysis, taking into account all the factual circumstances surrounding its placing on the public warnings list.

#### THE POSITION OF THE KNF OFFICE ON THE USE OF SO-CALLED COOKIES BY BANKS

In connection with the signals incoming to the KNF Office, containing reservations as to providing customers with access to electronic banking systems in the context of changes in the Telecommunications Law Act of 16 July 2004 (Dz.U. of 2004, No 171, item 1800, as amended) concerning the disclosure obligations in relation to end users, the KNF Office, in a letter of 2 September 2014 addressed to the Polish Bank Association and the National Association of Cooperative Banks, presented its position on the use of cookies by banks.

In the opinion of the KNF Office, the use, to the full extent, of the electronic banking system's features may be made conditional on the acceptance of cookies in a situation where these files are to be used for increasing the level of security and identification of the user session, thus ensuring that all calls to the server come from the client computer. However, it seems that in this case the terms of using online banking, with the use of cookies, should be first included in the agreement between the client and the bank. In addition, it seems vital that the bank indicates precisely, in agreements, the types of cookies used and also the purpose of saving them, given their other applications which are not essential for the provision of electronic banking services. Moreover, it is reasonable to inform the client adequately of the possible consequences related to non-acceptance of files of this type by the client. It seems that as early as at the stage of the agreement conclusion, the client should be fully aware of the limitations that may occur in the case of resignation from saving cookies on the client's device.

Having regard to the applicable law, it should be noted that it is difficult to accept, as its correct implementation, the use of the practice involving the prevention or significant impediment in the use of the electronic banking in a situation where these issues have not been precisely regulated in the agreement. For it should be noted that access to online

banking is granted to the user on the basis of an agreement concluded between the bank and its customer, and this situation could thus be considered as non-compliance by the bank with the agreement.

#### POSITION ON THE CLEARING OF OTC DERIVATIVE CONTRACTS BY AUTHORIZED CENTRAL COUNTERPARTIES

In a letter of 7 November 2014, addressed to the banking sector, the KNF Office drew attention to the important issues concerning obligations imposed on banks by Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs) (European Market Infrastructure Regulation, hereinafter: EMIR regulation) and the technical standards issued on the basis thereof.

It was indicated in the letter that, for example, the applicable ESMA regulations do not provide for the introduction of the obligation of central clearing of OTC interest rate derivative contracts denominated in PLN (such an obligation is scheduled for introduction further in the future). However, due to the benefits, as mentioned in the letter, resulting from the use of this form of clearing, the KNF Office recommends that banks - in accordance with the recommendation of the Payment System Council (a consultative and advisory body to the Management Board of the National Bank of Poland), as mentioned in the letter, start clearing OTC interest rate derivative contracts denominated in PLN at CCP not later than as from 1 July 2015.

#### POSITION OF THE KNF OFFICE ON OUTSOURCING IN COOPERATIVE SAVINGS AND CREDIT UNIONS UNIONS

On 28 January 2014, the KNF Office sent, to the management boards of cooperative savings and credit unions, a position on outsourcing in SKOKs.

On the basis of the analysis of reporting data submitted by the co-operative savings and credit unions (hereinafter "unions"), and as a result of supervisory activities conducted by the Polish Financial Supervision Authority, some phenomena have been identified whose impact on unions' operation should be - in the Authority's opinion - assessed as one that may have a negative effect on the financial stability of unions, the correctness of unions' financial operations, the security of the funds deposited in unions and the compliance of unions' operations with the provisions of the Act of 5 November 2009 on cooperative savings and credit unions (consolidated text: Dz.U. of 2013, item 1450, as amended; hereinafter the "Act on credit unions"). These phenomena relate, in particular, to the issue of unions entrusting certain activities to other entities under the provisions of Article 9a-9d of the Act on credit unions (outsourcing). In the Authority's opinion, it is recommended that unions' operations be reviewed as quickly as possible for compliance with applicable laws, and that appropriate changes be implemented if any non-compliance is found.

Guided by the rules of prudent operation, on the basis of Article 71(1) in conjunction with Article 61(1) of the Act on credit unions, the KNF recommended that unions:

- review agreements referred to in Article 9a(1) and Article 9b of the Act on credit unions, in terms of their compliance with Article 9a-9d of the Act on credit unions - by 31 March 2014;
- report to the Authority on the outcome of the review of agreements referred to in Article 9a(1) and Article 9b of the Act on credit unions, in terms of their compliance with Article 9a-9d of the Act on credit unions - by 15 April 2014;
- develop and provide the Authority with a schedule of adapting agreements to the requirements referred to in Article 9a-9d of the Act on credit unions - by 30 April 2014.

## THE KNF'S POSITION ON THE DIVIDEND POLICY OF INSURANCE AND REINSURANCE UNDERTAKINGS

In a letter of 3 December 2014, addressed to the insurance undertakings, following the example of recommendations issued in previous years as to the dividend payment from profits generated for the year, the KNF has recommended that insurance/reinsurance undertakings continue to apply a conservative dividend policy and allocate profit to strengthening their capital position.

In the supervisory authority's opinion, a conservative policy adopted by insurance/reinsurance undertakings brought positive effects, in particular the effect of maintaining solvency ratios at a relatively high level, and thus the creation of adequate capital buffers.

### *THE KNF'S POSITION ON THE INFORMATION OF OPEN-END PENSION FUNDS (OFE) PREPARED IN ACCORDANCE WITH ARTICLE 11(3) OF THE ACT OF 6 DECEMBER 2013 AMENDING CERTAIN ACTS IN CONNECTION WITH DEFINING THE PRINCIPLES FOR THE PAYMENTS OF PENSION FROM THE FUNDS ACCUMULATED IN OPEN-END PENSION FUNDS*

In a letter of 25 March 2014, the KNF Office informed universal pension fund companies that the Social Insurance Institution forwarded to the Polish Financial Supervision Authority the information prepared by open-end pension funds in accordance with the provisions of Article 11(3) of the Act of 6 December 2013 *amending certain acts in connection with defining the principles for the payments of pension from the funds accumulated in open-end pension funds* (Dz.U. of 2013, item 1717) - hereinafter "Amending Act". This fact gave the basis for the Polish Financial Supervision Authority to analyse the content of the aforementioned information and to review it from the point of view of the statutory criteria.

The overall assessment of the information in question indicates that in some cases the information does not meet the statutory requirements. This is especially the case in situations where the data contained in the above-mentioned information is incomplete, goes beyond the scope defined in Article 191(1a) of the Act of 28 August 1997 *on the organization and operation of pension funds* (consolidated text: Dz.U. of 2013, item 989 as amended), or whether the specific data is presented in a manner that may be misleading for the recipient. The KNF also noticed that the information in question contains data that may be regarded as bearing the hallmarks of and similar to advertising activities.

The KNF Office presented its position on the scope of information prepared by open-end pension funds in accordance with Article 11(3) of the Amending Act and the manner of the presentation of the above-mentioned data. In presenting its comments, the KNF Office was guided by the intent to ensure compliance of operations of open-end pension funds with the law and the interests of pension fund members, who should be given the opportunity to familiarize themselves with comparable information on the individual open-end pension funds. The information policy of an open-end pension fund, regardless of the form in which it is carried out, should always be characterized by reliability, objectivity and intelligibility. At the time when the insured makes the decision on submitting the declaration referred to in Article 11 of the Amending Act, the insured should have complete knowledge to make the decision, being aware of all its consequences. It is unacceptable to manipulate the person making the decision and to influence him or her through the content of that information, which - in light of the law - may be included in it.

### KNF POSITION ON THE DIVIDEND POLICY OF UNIVERSAL PENSION FUND COMPANIES IN 2014

The Polish Financial Supervision Authority, in its position of 27 March 2014, recommended that the dividend paid in 2013 should allow a pension fund company to maintain the amount

of equity and liquid assets, respectively, plus the amount of the Guarantee Fund's funds attributable to the company, at a level not lower than the one indicated in the criteria specified in the position for the period of at least 1 year from the date of approval of the 2013 financial statements by the shareholders' general meeting of the pension fund company. In addition, a universal pension fund company that manages a voluntary pension fund should take into account the risks associated with that part of operations and its possible impact on the financial performance.

The dividend payment, if any, in excess of the profit earned in 2013, subject to compliance with the relevant provisions of the Code of Commercial Companies and Partnerships, can be made at a later date, that is after closing the period in 2014 in which OFE members may submit declarations on the transfer of a portion of the pension insurance contribution to the open-end pension fund, and after assessing the impact of this process on the open-end pension fund and the financial position of the universal pension fund company.

#### POSITION OF THE KNF OFFICE ON THE PROHIBITION TO CONDUCT ACQUISITION ACTIVITY FOR OPEN-END INVESTMENT FUNDS

In the position of 28 March 2014 addressed to universal pension fund companies, the Polish Financial Supervision Authority reminded that, in accordance with the provisions of Article 92(1) of the Act on the organization and operation of pension funds, it is prohibited to conduct, for the benefit of an open-end fund, acquisition activities involving activities aimed at inducing anyone to join the open-end fund or to remain its member. In addition, the KNF indicated that on 15 January 2014 the provision of Article 36 of the 'Act amending certain acts in connection with establishing the rules for payments of pensions from the funds accumulated in open-end pension funds' came into effect, which prohibited the advertising of open-end pension funds until 31 July 2014. According to the aforementioned provision, any advertisement containing information on open-end pension funds or the information suggesting that the advertisement refers to open-end pension funds is prohibited.

The Polish Financial Supervision Authority noted that the actions taken by entities/persons acting on behalf of or for open-end pension funds, in particular by insurance agents acting, inter alia, within the financial groups that include both insurance undertakings and pension fund companies, and related to informing about the possibility of choosing between ZUS and OFE can lead to violations of law, to the extent to which such activities will be aimed at encouraging anyone to join an open-end pension fund or remain a member of the fund, or to the extent to which they will be a form of advertising open-end pension funds. The above-mentioned provisions significantly reduce an open-end pension fund's ability to conduct informational activity in relation to its current members in connection with the submission of the declarations referred to in the introduction, in particular they rule out such activities as far as the possibility to indicate the choice of a particular pension fund is concerned.

The KNF reminded that in accordance with the provisions of Article 219 of the Act on the organization and operation of pension funds, anyone who engages in acquisition activities in violation of the prohibition shall be liable to a fine of up to PLN 1,000,000. At the same time, the KNF indicated that the advertising of open-end pension funds, which is covered by the statutory prohibition, requires a response on the part of the supervisory authority in the form of a fine in the amount between PLN 1,000,000 and PLN 3,000,000.

## KNF POSITION ON INVESTING PENSION FUNDS' ASSETS IN DEPOSITS DENOMINATED IN THE CURRENCIES OF EU MEMBER STATES OR STATES BEING PARTIES TO THE AGREEMENT ON THE EUROPEAN ECONOMIC AREA, OR MEMBERS OF THE ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT AND THE CLASSIFICATION OF FUNDS' DEPOSITS AS DEPOSITS DENOMINATED IN THE LOCAL CURRENCY OR DENOMINATED IN THE CURRENCY OTHER THAN THE LOCAL CURRENCY

In a letter of 30 June 2014 addressed to universal pension fund companies, occupational pension fund company and depositary banks, the KNF Office presented its position on investing pension funds' assets in deposits denominated in the currencies of EU Member States or states being parties to the Agreement on the European Economic Area, or members of the Organisation for Economic Cooperation and Development and the classification of funds' deposits as deposits denominated in the local currency or denominated in the currency other than the local currency.

In the opinion of the supervisory authority, the decisive criterion for the classification of investments in securities is the currency of the nominal value of the securities which are the subject of a pension fund's investments. The following criteria are of no importance: the country in which the company-issuer of the securities is incorporated, the place and market of quotation of the securities, the currency in which they were offered and the currency in which the acquisition of such securities was settled by the pension fund.

Therefore, it should be assumed that the shares making up the share capital of the company, whose nominal value is not expressed in the Polish zloty, but in the foreign currency of a country that is a Member State of the European Union or a party to the Agreement on the European Economic Area, or a member of the Organisation for Economic Cooperation and Development, listed both on a regulated market in the Republic of Poland, as well as on a regulated market outside the Republic of Poland (so-called "dual listing" shares), should be treated by a pension fund as an investment denominated in a foreign currency. Similarly, the shares of domestic companies, whose nominal value is expressed in the Polish zloty and which are purchased by a pension fund on a regulated market outside the Republic of Poland should be treated as investments denominated in the Polish zloty.

However, for debt securities mentioned in Article 141 of the Act of 28 August 1997 on the organization and operation of pension funds as eligible for investing for pension funds, the decisive criterion in classifying individual instruments is the currency specifying the nominal value of such security, as indicated in the issue prospectus or other offering document under which the fund acquired the debt instrument in question.

## POSITION OF THE KNF OFFICE ON THE REQUIREMENT UNDER ARTICLE 69 OF THE ACT ON PUBLIC OFFERING

Due to doubts of the shareholders of publicly-held companies as to the manner of performing obligations referred to in Article 69 of the Act of 29 July 2005 *on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies*, hereinafter "Act on Public Offering", the KNF Office, in the letter of 17 March 2014, presented its position on the issue in question in the following areas:

- a change of the share by at least 2% or 5% - Article 69(2)(1) of the Act on Public Offering",
- the number of shares currently held - Article 69(4)(3) of the Act on Public Offering,
- the manner of delivering the notification - Article 69(1) of the Act on Public Offering.

The KNF Office expects that the comments made in the position will contribute to improving the manner of performing obligations arising from the above-mentioned provisions, and thus to an increase in the level of transparency of transactions being concluded. At the same time, the KNF Office pointed out that in accordance with Article 97(1)(2) of the Act on Public Offering, the Polish Financial Supervision Authority may impose, by decision, on anyone who fails to submit the notification referred to in Article 69 of the Act on Public Offering on



time, or submits such notification in violation of the conditions set out in these provisions, a fine of up to PLN 1,000,000.

#### POSITION OF THE KNF OFFICE ON THE RULES OF CONDUCT OF INVESTMENT FUND COMPANIES IN ACCORDANCE WITH THE PROVISIONS OF THE ACT ON INVESTMENT FUNDS IN RELATION TO THE ORGANIZATION AND OPERATION OF INVESTMENT FUNDS COMPANIES

In its position of 17 March 2014, addressed to investment funds companies, the KNF Office drew attention to the phenomena identified in the course of exercising ongoing supervision of the activities of investment fund companies, which may pose a threat to the proper functioning of the capital market in the scope covered by the provisions of the Act of 27 May 2004 on investment funds.

The Authority, having regard to the need to ensure security and transparency, as well as to protect the interests of capital market participants, drew the attention of investment fund companies to undesirable consequences related to the simultaneous employment (performance of functions) in entities other than a given investment fund company by the company's board members, and by those having influence on investment decisions concerning assets managed by the investment fund company and the employees of the company's organizational units responsible for monitoring the company's compliance with law, internal audit and risk management.

At the same time, the KNF requested investment fund companies to provide detailed information on the identified areas that, in view of the position in question, were considered sensitive, and to inform about all the activities that a given company took or intends to take, including a timetable for such activities, in order to eliminate the above-mentioned situation and about the activities taken to ensure the proper functioning of the company, and implementation of regulatory and organizational solutions ensuring the proper performance of activities by the company, in a manner raising no doubts in terms of conflicts of interest and relationships with other entities.

#### POSITION OF THE KNF OFFICE ON THE PUBLICATION, BY INVESTMENT FUND COMPANIES, OF INFORMATION PROSPECTUSES, KEY INVESTOR INFORMATION AND ADVERTISING INFORMATION

In its letter of 20 March 2014, addressed to investment fund companies, the KNF Office presented explanations on the presentation of information in information prospectuses, key investor information and advertising information concerning investment funds (sub-funds) managed by companies.

The KNF Office drew attention to the necessity of exercising due care when preparing, drawing up and publishing documents and information addressed to participants and potential participants in the funds managed by companies, including, in particular, information prospectuses, key investor information and advertising information concerning the funds managed by companies.

Bearing in mind that a certain level of risk is an inherent feature of the investment policy pursued by investment funds, the use, in relation to funds that, in fact, have a strong exposure to corporate securities (characterized by limited possibility of liquidation at any time at a price resulting from the fund's accounting records), of expressions suggesting the absence of risk in the activity of the investment fund, a very high level of security of its investment policies, high level of liquidity of the investment portfolio, the ability to withdraw

funds by the investor at any time, or expressions suggesting that the the nature of the fund is similar to a bank deposit is illegitimate and misleading for participants and potential participants in the fund.

#### POSITION ON THE FUNCTIONING OF THE COMPLIANCE OVERSIGHT SYSTEM WITHIN INVESTMENT FIRMS

On 27 May 2014, the KNF Office sent, to investment firms, its position on the functioning of the compliance oversight system within investment firms. The aforementioned position has been developed in connection with the practices relating to the operation of the compliance oversight system, as observed in the course of supervisory activities performed by the KNF Office. An important impulse for the preparation of this letter was also the approach presented by some investment firms, which came down to significant limitation of the importance of the compliance function in the brokerage activities.

The position focuses on the following issues that constitute the normative content of the compliance function:

- responsibility for the correct functioning of the compliance unit,
- the degree of workload of employees of the compliance unit, independence of the compliance unit,
- independence of the compliance unit,
- competence of the persons performing the oversight of compliance with law,
- access, by persons performing the compliance oversight, to all information necessary for the proper performance of the function,
- regular assessments of the adequacy, effectiveness and accuracy of the implemented solutions.

Regulations on the system for supervision of compliance are a consequence of the implementation into the Polish legal system of the provisions of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (OJ L 145, 30.4.2004).

#### KNF POSITION ON LACK OF POSSIBILITY TO MAKE, BY AN ATTORNEY, IN THE INFORMATION DOCUMENT, A STATEMENT REFERRED TO IN ARTICLE 22(5) OF THE ACT OF 29 JULY 2005 ON PUBLIC OFFERING, CONDITIONS GOVERNING THE INTRODUCTION OF FINANCIAL INSTRUMENTS TO ORGANISED TRADING, AND PUBLIC COMPANIES

The said position of 17 November 2014 indicated that according to Article 22(5) of the Act on Public Offering, the issue prospectus should include a declaration as to the truthfulness, fairness and completeness of information, as stipulated by the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements. In accordance with Article 41(2) of the Act on Public Offering, the above-mentioned provision shall apply mutatis mutandis to the information memorandum. The position also indicates entities submitting the relevant representations in the information document.

Providing false data in the information document or suppressing the true data involves criminal liability (Article 100 of the Act on Public Offering). As far as criminal liability is concerned, the liability is individualized and personal, which means that the liability for the

act committed cannot be taken over by anyone else than the perpetrator of the offence. The criminal liability under Article 100 of the Act on Public Offering, for providing false data or suppressing the true data in the information document, cannot be taken over by an attorney-in-fact, and therefore he or she may not sign the representation that the data in the issue prospectus is true, fair and complete.

Such representations must be submitted directly by the party to the proceedings who is criminally responsible for the accuracy of the representations made. If the representation in the information document has not been made and signed by a competent person incurring criminal liability for its submission, this means that in the preparation of the information document, not all the requirements were met that should be met in connection with its preparation and that it does not meet the formal requirements in the administrative proceedings.

#### POSITION OF THE KNF OFFICE ON ACTIVITIES TO BE TAKEN BY REGULATED ENTITIES IN CONNECTION WITH A GROWING NUMBER OF ENTRIES INTO THE REGISTER OF UNFAIR CONTRACT TERMS

In connection with the dynamics, as observed in recent years, of an increase in the number of standard contract terms entered into the register, kept by the President of the Office of Competition and Consumer Protection, of standard contract terms considered unfair (the "Register"), which were found to be used in contracts concluded by financial institutions subject to supervision by the Polish Financial Supervision Authority, and in connection with the information on practices used in providing financial services, the KNF Office, in a letter of 11 February 2014, addressed to the institutions associating supervised entities, presented its opinion as to the activities in the area of product offer and sales management, which seem justified for supervised entities in these circumstances. The KNF Office noted that it is necessary for supervised institutions to maintain appropriate standards in the course of their activities, which should result in particular attention to transparency and unambiguous nature of provisions in standard contracts used in transactions with consumers.

The KNF Office considered it reasonable to systematize and expand product management processes, particularly in the context of relationships with customers who are also consumers. In this regard, it seems that the most important issue is that the terms contained in the Register are taken into account in designing standard contracts. It is also essential to draw attention to the issue of tailoring the offer to the needs of its addressees, and to control the sales process and to use the conclusions drawn from the analysis of complaints made by customers.

#### KNF POSITION ON THE DIVIDEND POLICY OF FINANCIAL INSTITUTIONS

At the meeting on 2 December 2014, the Polish Financial Supervision Authority adopted a position on the dividend policy of banks, insurance and reinsurance undertakings, universal pension fund companies, investment fund companies and brokerage houses in 2015 for the year 2014.

The dividend policy applied in recent years by financial institutions in accordance with the recommendations of the Polish Financial Supervision Authority helped to strengthen their capital base and improve their ability to absorb potential losses. This situation has a positive effect on the stability of the financial system in Poland, and, in consequence, on its further development. However, due to the prevailing elevated risk in the external environment of the Polish economy and the most common level of capital equipment of other banking systems in EU Member States, the KNF recommended to maintain a strong capital base and, in some cases, to further strengthen it. This will contribute to the stability and safety of the financial system and the Polish economy.

## KNF POSITION ON THE PROCESSING OF CLIENTS' PERSONAL DATA BY FINANCIAL INSTITUTIONS

In connection with the complaints received from the customers of financial institutions in respect of incorrect processing of their personal data in information systems, in particular wrong spelling of names of customers, the Polish Financial Supervision Authority, in the letter of 30 December 2014 addressed to the institutions associating supervised entities, presented its position in the case in question.

Article 26(1)(3) of the Personal Data Protection Act of 29 August 1997 (Dz.U. 2014.1182, consolidated text) regulates the obligation of the personal data controller to exercise special care to protect the interests of persons to which such data relates, in particular to ensure that data is factually correct. The provision of Article 26 of the the Personal Data Protection Act corresponds to Article 5 of the Council of Europe Convention 108 of 28 January 1981 for the Protection of Individuals with regard to Automatic Processing of Personal Data (Dz.U. of 2003, No 3, item 25), which provides, inter alia, that the data undergoing automatic processing shall be processed fairly, shall be accurate and, where necessary, kept up to date, and Article 6 of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (OJ L 281, 23 November 1995. p. 31), according to which Member States shall provide that personal data must be, in particular, accurate and, where necessary, kept up to date, and according to which every reasonable step must be taken to ensure that data which are inaccurate or incomplete are erased or rectified. The aforementioned directive has been fully implemented into the Polish Personal Data Protection Act. It shows the importance of the problem of ensuring that in the European Union personal data processed is factually correct, and thus of ensuring adequate data quality.

Ensuring factual correctness involves ensuring the original spelling of personal data, and not only the right sound of it. If personal data is processed in IT systems, personal data should be processed in the form in which they are contained in vital records and identity documents issued on the basis of such vital records. The spelling which is different from the original one is incorrect and can be misleading as to a person's identity, and constitutes incorrect processing of personal data.

Detailed list of guidelines and positions of the Polish Financial Supervision Authority and of the Office of the Polish Financial Supervision Authority is included in Table 8.1 and 8.2 in Annex 8.

## 7. OTHER ACTIVITIES

### 7.1. MEASURES TAKEN TO COUNTERACT FINANCIAL MARKET ABUSE

#### EXPLANATORY AND ADMINISTRATIVE PROCEDURES RELATED TO SUPERVISION OF THE FINANCIAL MARKET

In 2014, the KNF conducted explanatory procedures in 13 cases in order to determine whether there were grounds for filing a notification of a suspected offence concerning offences specified in the acts regulating the financial market in Poland, or for instigating administrative procedures concerning violation of the law, to the extent falling within the scope of the KNF's supervision. The procedures pertained to:

- manipulation involving a financial instrument- 2 infringements,
- failure to disclose the fact of holding public company shares - 2 infringements,

- trading in financial instruments without an authorization - 8 infringements,
- making a public offer or promotion of a public offer without observing the conditions - 4 infringements.

In 2014, the KNF conducted administrative procedures in 695 cases concerning the following statutes:

- Act on Trading in Financial Instruments - 28,
- Act on Public Offering - 49,
- Act on Investment Funds - 15,
- Act on Insurance Activity - 4,
- Act on Compulsory Insurance, Insurance Guarantee Fund and Polish Motor Insurers' Bureau - 18,
- Act on Organisation and Operation of Pension Funds - 3,
- Act on Insurance Intermediation - 38,
- Act on Payment Services - 526,
- Act on Commodities Exchanges - 1,
- other acts - 13.

The administrative procedures conducted concerned:

- manipulation involving a financial instrument (Article 39 of the Act on Trading in Financial Instruments) - 6,
- execution of a transaction on involving issuer's shares during a restricted period (Article 159 of the Act on Trading in Financial Instruments) - 8,
- failure to discharge or improper discharge of disclosure obligations by the issuer (Article 56 of the Act on Public Offering and Article 56 and Article 57 of the Act on Public Offering) - 20,
- failure to discharge or improper discharge of disclosure obligations by the issuer (Article 56 and Article 70 of the Act on Public Offering) - 1,
- failure to discharge or improper discharge of disclosure obligations by the issuer (Article 56, Article 57 and Article 70 of the Act on Public Offering) - 1,
- failure to discharge or improper discharge of duties concerning significant holdings of shares (Article 69 of the Act on Public Offering and Article 69 in conjunction with Article 87 of the Act on Public Offering and Article 69 in conjunction with Article 69 a of the Act on Public Offering) - 15,
- imposition of fines on issuer's management board members due to a gross violation by the issuer of Article 56 of the Act on Public Offering (Article 96(6) of the Act on public offering) - 10,
- failure to discharge duties concerning significant holdings of shares within the statutory timelines (Article 70 of the Act on Public Offering) -1,
- failure to notify or improper notification of transactions of persons being members of the management or supervisory bodies of the issuer or being holders of a commercial power of attorney (Article 160 of the Act on Trading in Financial Instruments) - 3,
- failure to timely submit a notification referred to in Article 69 of the Act on Public Offering, or submitting such notification in violation of the conditions specified in these provisions, despite another deadline set by the Authority to meet the obligation or to perform the act required by law the violation of which was the basis for imposing a fine (Article 97 of the Act on Public Offering) - 1,
- procedure on the relief in payment of statutory debts - 7,
- irregularities relating to investment firms' brokerage operations, in breach of the law, fair trade rules and the principal's interests (Article 167 of the Act on trading in financial instruments, provisions of the secondary legislation to the Act) - 5,
- failure to meet capital adequacy standards (Article 98a(1) of the Act on Trading in Financial Instruments) - 2,

- infringement by an investment advisor of the law or rules and other internal regulations (Article 130(1) of the Act on Trading in Financial Instruments) - 1,
- irregularities related to the operation of undertakings and investment funds (exceeding investment limits, violating the investment fund's Articles of Association, lack of required internal regulations, failure to meet disclosure obligations in a timely and diligent manner, incorrect measurement of assets - breach of the provisions of the Act on Investment Funds and the secondary legislation to the Act) - 6,
- investing in inadmissible instruments (Article 101 of the Act on investment funds) - 2,
- failure to immediately pay the amounts due to participants on account of the redemption of units (Article 89(3) of the Act on investment funds) and the conduct of activities by the fund without special attention to the interests of participants (Article 3(3) of the Act on investment funds) - 1,
- failure to submit a notification of the intent to acquire or subscribe for shares in an investment fund company (Article 54 (1) of the Act on Investment Funds) - 2,
- failure to perform duties of the depositary (Article 72(1)(4) and (6), Article 10 and Article 231(1) of the Act on investment funds) - 2,
- the performance, by the entity to which the investment fund company entrusted performance of obligations under the contract the subject matter of which is entrusting to that entity, by the investment fund company, the management of investment portfolios of investment funds, not in accordance with that contract and the charter of that funds - 1,
- breach, by an open-end investment fund, of the provisions of the charter (Article 228(2) in connection with Article 228(1) of the Act on insurance funds) - 1,
- failure to make a transfer payment (violation of the Act on the organization and operation of pension funds, and of secondary legislation) - 2,
- irregularities in investment operations (Article 139 of the Act on the organisation and operation of pension funds) - 1,
- irregularities in the functioning of a pension fund company, involving an influence of persons from outside the company's management board on the decisions concerning the conduct of affairs reserved for the exclusive competence of the company - 1,
- failure to remedy irregularities by the employer operating an occupational pension scheme within the time limit set by the supervisory authority - 2,
- failure to meet the deadlines for the claims settlement procedure (Article 14 of the Act on compulsory insurance) - 18,
- failure to notify promptly of the selection of a statutory auditor (Article 170(2) of the Act on insurance activity) - 1,
- failure by the insurance undertaking - represented by a member of the management board or a commercial attorney-in-fact - to provide information on the insurance undertaking's activity, involving refusal to provide, on the demand of the supervisory authority, the requested information (Article 212(1)(1) of the Act on insurance activity) - 2,
- breach of the rules to maximize the security and profitability in the course of investing activities (Article 30(1) and Article 153 of the Act on insurance activity) - 1,
- failure, by the payment service office, to comply with reporting obligations towards the supervisory authority, and failure to submit on time a document confirming the conclusion of an insurance contract - 526 (Article 125(6) or Article 128(1) of the Act on payment services),
- violation of law or improper performance of the profession of a commodity broker - 1,
- violation of law, or by-laws and other internal rules of an investment company by a securities broker - 1,
- dividing a fine into instalments - 3,
- examination of an application for the reopening of an administrative procedure (Article 148 § 1 et seq. of the Code of Administrative Procedure) - 1,
- failure to provide the Polish Financial Supervision Authority, within the prescribed deadline, with the information necessary to update the rating assigned in the supervisory review and assessment process (Article 139(1)(2) of the Banking Law Act) and failure to recognize as cost the required amount of specific provisions for impaired credit exposures

(Regulation of the Minister of Finance on the rules of recognition of provisions for risks related to the banking activity) - 1,

- irregularities consisting in infringing the law in connection with conducting brokerage activities (Article 22(1), Article 28(3)(2)(a), Article 28(3)(1)(g) of the Act on Insurance Intermediation) - 38.

In 2014, the KNF conducted administrative procedures in 72 cases remitted for reconsideration upon a party's request in respect of the following statutes:

- Act on Public Offering - 37,
- Act on Trading in Financial Instruments - 13,
- Act on Investment Funds - 9,
- Act on Insurance Activity - 3,
- Act on Compulsory Insurance, Insurance Guarantee Fund and Polish Motor Insurers' Bureau - 3,
- Banking Law Act - 3,
- Act on Organisation and Operation of Pension Funds - 1,
- other acts - 3.

The administrative procedures conducted concerned:

- failure to discharge or improper discharge of disclosure obligations by the issuer (Article 56 of the Act on Public Offering) - 16,
- failure to discharge or improper discharge of duties concerning significant holdings of shares (Article 69 of the Act on Public Offering and Article 69 in conjunction with Article 87 of the Act on Public Offering) - 10,
- failure to discharge duties concerning significant holdings of shares within the statutory timelines (Article 70 of the Act on Public Offering) - 1,
- imposition of fines on the issuer's management board members due to a gross violation by the issuer of obligations stipulated in the Act on Public Offering (Article 96(6) of the Act on Public Offering) - 10,
- violation of internal by-laws of a brokerage house by a securities broker - 1,
- disclosure, by brokers and advisers, of confidential information and breach of the duty to keep professional secrets confidential (Article 156(2)(1) and Article 148(1)(1) of the Act on trading in financial instruments) - 3,
- infringing the requirement according to which a company should employ a specific number of investment advisors (Article 45(4)(1) of the Act on investment funds) - 1,
- premium/ contribution determination in breach of law (Article 18(1) and Article (2) of the Act on insurance activity) - 1,
- failure to meet the deadlines for the claims settlement procedure (Article 14 of the Act on compulsory insurance) - 3,
- investment activities pursued by an insurance undertaking (Article 30 and 153 of the Act on Insurance Activity) - 1,
- failure to provide information to the Social Insurance Institution [ZUS] resulting in gross violation of the interests of fund members (Article 204(9) of the Act on organization and operation of pension funds) - 1,
- dividing the fine imposed into instalments - 1,
- resumption of an administrative procedure - 2,
- executing a transaction during a restricted period (Article 159 of the Act on Trading in Financial Instruments) - 1,
- dissemination of unreliable or false information or rumours that are or may be misleading for market participants (Article 39 of the Act on Trading in Financial Instruments) - 5,
- violation, by a bank, of Article 139(1)(2) of the Banking Law Act by failure to provide the Polish Financial Supervision Authority, within the prescribed deadline, with the information necessary to update the rating assigned in the supervisory review and assessment process (Article 139(1)(2) of the Banking Law Act) - 3,

- maintaining consolidated supervised capital at a lower level than the level of the consolidated internal capital (Article 98F(1)(1) of the Act on trading in financial instruments) - 1,
- Failure to deposit the funds from clients (§ 32(1) and § 32(3)(2) of the Regulation of the Minister of Finance of 20 November 2009 on the procedures and terms of operations of investment firms, banks referred to in Article 70(2) of the Act on Trading in Financial Instruments and custodian banks) -1,
- placing an order of redemption of shares in a manner inconsistent with the Act and regulations (Article 228(1) and Article 228(2) of the Act on investment funds) - 1,
- unfair presentation of the annual and semi-annual financial statements (§ 3(1) of the Regulation of the Minister of Finance of 1 September 2009 on interim reporting and current information concerning activity and financial standing of investment fund companies and investment funds delivered by those entities to the Polish Financial Supervision Authority) - 1,
- significant violations of law as regards the failure to archive periodic reports for the clients of a brokerage house, the use of technical means for storing periodic reports, failure to archive the agreement on the management of brokerage financial instruments portfolio, failure to archive documents being the basis for taking investment decisions by the person managing client portfolios in connection with the acquisition, for brokerage portfolios, of financial instruments in IPOs, failure to conduct internal controls as regards the archiving of documents, the accuracy of the data contained in the reports sent to customers and for violation of the interests of the ordering parties in connection with providing clients with inaccurate information regarding the profitability of investments, in the context of managed portfolios - (Article 167(2)(1) in connection with Article 167(1)(1) and (3) of the Act on trading in financial instruments) - 1,
- infringement of the provisions of the Act on investment funds and the implementing regulations to the Act on investment funds (Article 10, Article 46(9), Article 229(7), Article 89(4)(1) in conjunction with paragraph 2 of the Act on investment funds, Article 225(1) of the above-mentioned Act in connection with § 15(1)(3) of the Regulation of the Minister of Finance on interim reporting and current information concerning activity and financial standing of investment fund companies and investment funds delivered by those entities to the Polish Financial Supervision Authority in connection with Article 54(1) of the Accounting Act in connection with Annex 1(8)(2) of the Regulation of the Minister of Finance on detailed accounting principles of funds, § 8(1) in connection with (2), § 4(1) and § 4(3)(8) of the Regulation of the Minister of Finance on internal control, registration of transactions concluded, counteracting occurrence of conflicts of interest and documentation of sources used to make investment decisions by an investment fund company, § 11(1)(12) and (13) in conjunction with § 3(1) of the Regulation of the Minister of Finance on information prospectuses of open-end investment funds and specialized open-end investment funds, as well as summary prospectuses, § 9(1)(7) of the Regulation of the Minister of Finance on interim reporting and current information concerning activity and financial standing of investment fund companies and investment funds delivered by those entities to the Polish Financial Supervision Authority infringement, by a specialist open-end investment fund and open-end investment fund, of provisions on unreliability of information and advertising materials published on the investment fund) - 1,
- infringement, by an open-end investment fund, of investment limits and disclosure requirements (Article 104(1) of the Act on Investment Funds and § 9(1)(7) in connection with § 20(1) of the Regulation of the Minister of Finance on interim reporting and current information concerning activity and financial standing of investment fund companies and investment funds delivered by those entities to the Polish Financial Supervision Authority) - 1,
- recognizing the shares in a universal pension fund company (PTE) as assets covering technical provisions, where the share of the insurance undertaking in the share capital of PTE exceeded 10% (Article 155(1)(3) of the Act on insurance activity) - 1,



- maintaining consolidated supervised capital at a lower level than the level of the consolidated internal capital (Article 98a(1)(1) of the Act on trading in financial instruments) - 1,
- investing, by the fund, in prohibited assets within the meaning of the Act (Article 101(1)(3) of the Act on investment funds) - 1,
- placing an order of redemption of all shares in an open-end investment fund (Article 10 of the Act on insurance funds, § 11(1)(2) in connection with paragraph (3) and § 11(2) of the Regulation of the Minister of Finance of 4 march 2009 on internal control, registration of transactions concluded, counteracting occurrence of conflicts of interest and documentation of sources used to make investment decisions delivered by those entities to the Polish Financial Supervision Authority) and Article 145(7) and Article 196 of the Act on Funds and § 20(1) of the Regulation on interim reporting and current information) - 1
- infringement of investment limits by an open-end investment fund and failure to develop internal procedures (Article 65a(1)(1) and subparagraph (2) of the Act on Funds, Article 104(5) of the Act on Funds, Article 93(1)(5) of the Act on Funds and § 20(1) of the Regulation of the Minister of Finance of 1 September 2009 on interim reporting and current information concerning activity and financial standing of investment fund companies and investment funds delivered by those entities to the Polish Financial Supervision Authority) - 1,

**Table 84. Number of explanatory and administrative procedures instituted and closed, 2011-2014**

Detailed items	2011		2012		2013		2014	
	No of procedures instituted	No of procedures closed	No of procedures instituted	No of procedures closed	No of procedures instituted	No of procedures closed	No of procedures instituted	No of procedures closed
Explanatory	9	7	9	13	8	12	11	6
Administrative	48	44	101	96	319	102	446	191
<b>Total</b>	<b>57</b>	<b>51</b>	<b>110</b>	<b>109</b>	<b>327</b>	<b>114</b>	<b>457</b>	<b>197</b>

Source: In-house materials by the KNF Office

In 2014, 186 administrative decisions were issued, including:

- 67 decisions imposing a fine,
- 99 decisions to dismiss the administrative proceedings,
- 11 decisions on making the information on the issue of an administrative decision public.

In 2014, 24 administrative decisions were issued following the examination of requests for reconsideration of the case, including:

- 13 decisions upholding the decision issued in the first instance,
- 1 decisions revoking the contested decision and imposing a fine in the same amount,
- 8 decisions revoking the contested decision and reducing the fine imposed,

The fines imposed in 2014 totalled PLN 11,181.5 thousand, including fines imposed on:

- issuers - PLN 3,430,000,
- shareholders and other persons - PLN 2,032,500,
- members of the management board in a public company - PLN 920,000,

- investment fund companies - PLN 1,395,000,
- insurance undertakings - PLN 2,485,000,
- brokerage houses - PLN 650,000,
- depositaries of investment funds - PLN 100,000,
- transfer agents - PLN 100,000,
- an employer operating an occupational pension scheme - PLN 25,000,
- members of the management board in cooperative banks - PLN 33,000,
- insurance brokers - PLN 11,500.

In 2014, there were 6 rulings on the exclusion of the Chairman of the KNF, the Vice-Chairman of the KNF, the Member of the KNF and employees of the KNF Office from the participation in the proceedings.

Moreover, in 2014, there was 1 refusal to resume an administrative proceeding.

#### NOTIFICATIONS OF SUSPECTED OFFENCE

In 2014, the KNF Office filed 65 notifications of justified suspected offences with the Regional Public Prosecutor's Office of Warsaw, including notifications relating the following acts:

- Act on Trading in Financial Instruments - 36,
- Act on Public Offering - 4,
- Act on Investment Funds - 2,
- Act on the Supervision of the Capital Market - 3.
- Banking Law Act - 8,
- Criminal Code Act - 4,
- Act on Insurance Activity - 6,
- Accounting Act - 5,
- Act on Payment Services - 3.
- Personal Data Protection Act - 1,
- Act on Bonds - 2.

In some cases, notifications concerned several norms, therefore the number of violated legal norms is greater than the total number of notifications submitted in 2014.

**Table 85. Notifications filed, by type of offence, 2011-2014**

Offence	Number of notifications			
	2011	2012	2013	2014
Breach of Article 183 of the Act on Trading in Financial Instruments (financial market manipulation)	9	13	20	9
Breach of Article 180 and Article 181 of the Act on Trading in Financial Instruments (information disclosure and insider trading)	12	8	8	17
Breach of Article 100 of the Act on Public Offering (misrepresentation and concealment of facts in a prospectus or reports)	6	1	2	3
Breach of Article 178 of the Act on Trading in Financial Instruments (unauthorized trading in broker-traded financial instruments)	2	3	12	10
Breach of Article 171(1) of the Banking Law Act (unauthorized banking activity)	7	16	14	5

Other *	35	18	22	21
<b>Total</b>	<b>71</b>	<b>59</b>	<b>78</b>	<b>65</b>

Source: In-house materials by the KNF Office

\* The following provisions were breached:

- Article 99(2) of the Act on Public Offering (promoting the offering without observing the conditions),
- Article 103 of the Act on Public Offering (failure to provide the annex to the prospectus or information memorandum),
- Article 179 of the Act on Trading in Financial Instruments (disclosure or use of trade secret),
- Article 46 of the Act on Capital Market Supervision (preventing or obstructing the activities performed in explanatory proceedings),
- Article 296 of the Act on Investment Funds (use of expressions restricted by the Act),
- Article 171(2) of the Banking Law Act (using the term “bank” [bank] or “kasa” [union]),
- Article 171(5) of the Banking Law Act (disclosure of banking secret),
- Article 77 of the Accounting Act (keeping books of accounts in breach of the rules provided for in the Act, preparing the financial statements in breach of the provisions of the Act),
- Article 79(3) of the Accounting Act (failure to submit the financial statements for publication),
- Article 280 of the Act on Investment Funds (breach of trade secret),
- Article 51 of the Personal Data Protection Act (providing or granting access to data files to unauthorised persons),
- Article 225 of the Act on Insurance Activity (unauthorised insurance or reinsurance operations),
- Article 232 of the Act on Insurance Activity (disclosure of insurance agreement-related secret),
- Article 150 of the Payment Services Act (non-registered payment services provision-related operations),
- Article 190 of the Criminal Code Act (unlawful threat),
- Article 271 of the Criminal Code Act (forgery),
- Article 276 of the Criminal Code Act (destruction, deletion of documents),
- Article 284 § 1 of the Criminal Code Act (appropriation of someone else’s property),
- Article 286 § 1 of the Criminal Code Act (fraud),
- Article 296 § 3 of the Criminal Code Act (sizeable material damage following abuse of rights of failure to discharge the duty),
- Article 297 § 1 of the Criminal Code Act (obtaining loan under false pretences),
- Article 300 § 1 of the Criminal Code Act (hiding out property from creditors),

Based on the notifications filed with the Public Prosecutor's Office in 2014, 50 preparatory proceedings were instituted (with 7 dismissed); institution of investigation was refused in 2 cases. Other notices as at 31 December 2014 awaited the prosecutor's decision as to the further course of the proceedings.

## INDICTMENTS

In 2014, the KNF Office was notified that 19 indictments were filed by the Public Prosecutor’s Office with common courts of law based on the notifications of suspected offence received from the KNF Office.

**Table 86. Indictments filed by the Public Prosecutor’s Office with courts, by type of offence, 2011-2014**

Offence	Indictments			
	2011	2012	2013	2014
Breach of Article 183 of the Act on Trading in Financial Instruments (financial market manipulation)	9	6	2	6
Breach of Article 180 and Article 181 of the Act on Trading in Financial Instruments (information disclosure and insider trading)	1	2	1	-
Article 171(1) and (3) of the Banking Law Act (unauthorised banking operations)	-	1	3	7

Other*	5	6	5	6
<b>Total</b>	<b>15</b>	<b>15</b>	<b>11</b>	<b>19</b>

Source: In-house materials by the KNF Office

\* The following provisions were breached:

- Article 100 of the Act on Public Offering (misrepresentation and concealment of facts in a prospectus),
- Article 99 of the Act on Public Offering (offering of securities in breach of the statutory requirements),
- Article 178 of the Act on Trading in Financial Instruments (unauthorized trading in broker-traded financial instruments),
- Article 150 of the Payment Services Act (non-registered payment services provision-related operations),
- Article 171(2) of the Banking Law Act (using the terms “bank” [bank] or “kasa” [union] in the name of an organisational unit other than bank),
- Article 38 of the Act on Bonds (issuing bonds without meeting the conditions specified in the Act),
- Article 77 of the Accounting Act (keeping books of accounts in breach of the rules provided for in the Act, preparing the financial statements in breach of the provisions of the Act),
- Article 225 of the Act on insurance activity (unauthorised insurance operations),
- Article 270 of the Criminal Code Act (falsification),
- Article 286 of the Criminal Code Act (fraud),
- Article 296 § 1 and 2 of the Criminal Code Act (abuse of rights, failure to discharge duties),
- Article 297 § 2 of the Criminal Code Act (obtaining a loan under false pretences),
- Article 302 of the Criminal Code Act (repayment or collateralisation of certain lenders only),
- Article 47(1) of the Act on insurance intermediation (unauthorised agency operations and unauthorised use of the name),

## CONVICTIONS AND CONDITIONAL DISCONTINUATION OF PROCEEDINGS

In 2014, common courts of law issued 15 convictions and conditional discharges of the criminal proceedings in cases brought under KNF Office's notifications of justified suspicion of offences relating to the following acts:

- Act on Trading in Financial Instruments - 7 convictions,
- Banking Law - 6 convictions,
- Act on Payment Services - 2 convictions.

Sentence passed by the District Court for Wrocław-Śródmieście in Wrocław on 18.02.2014 in the case under Article 171(1) and (3) of the Banking Law Act. The Court sentenced the defendant to 1 year's imprisonment with execution suspended for 2 years' probation, and to a fine of PLN 20,000 (the sentence is final). The notification was submitted on 18.01.2011.

Sentence passed by the District Court Katowice-Zachód in Katowice on 10.03.2014 in the case under Article 183(1) of the Act on Trading in Financial Instruments. The Court sentenced the defendant to a fine of PLN 2,000. Appeal against the sentence (as at 31.12.2014, the case was pending). The notification was submitted on 30.12.2008.

Sentence passed by the District Court for Warszawa-Wola in Warsaw on 24.03.2014 in the case under Article 183(1) of the Act on Trading in Financial Instruments. The Court sentenced the defendant to 7 months' imprisonment (the sentence is final). The notification was submitted on 28.04.2010.

Sentence passed by the District Court in Tomaszów Mazowiecki on 23.05.2014 in the case under Article 150(1) and (3) of the Act on Payment Services. The Court conditionally dismissed the criminal proceedings for the probation period of 1 year and required the defendant to pay an allowance of PLN 1 000. (the sentence is final). The notification was submitted on 14.10.2013.

Sentence passed by the Regional Court in Katowice on 23.05.2014 in the case under Article 171(1) of the Banking Law Act. The court sentenced the defendant to 2 years' imprisonment, with execution suspended for 5 years' probation and to a fine of PLN 20,000, and required

the defendant to redress the damage caused by the offence (the sentence is final). The notification was submitted on 28.09.2012.

Sentence passed by the District Court for the capital city of Warszawa in Warsaw on 18.06.2014 in the case under Article 183(1) of the Act on Trading in Financial Instruments. The Court sentenced each of the 2 defendants to a fine of PLN 30,000. Appeal against the sentence (as at 31.12.2014, the case was pending). The notification was submitted on 2.02.2006.

Sentence passed by the District Court for Warszawa-Wola in Warsaw on 15.07.2014 in the case under Article 183(1) of the Act on Trading in Financial Instruments. The Court conditionally discontinued the criminal proceedings for the probation period of 2 years and required the defendant to pay an allowance of PLN 5,000. (the sentence is final). The notification was submitted on 15.02.2012.

Sentence passed by the District Court for Kraków-Śródmieście in Kraków on 15.07.2014 in the case under Article 171(2) of the Banking Law Act. The Court conditionally discontinued the criminal proceedings for the probation period of 1 year and required the defendant to pay an allowance of PLN 700. (the sentence is final). The notification was submitted on 3.02.2014.

Sentence passed by the District Court in Bartoszyce on 24.07.2014 in the case under Article 150(1) of the Act on Payment Services. The Court conditionally discontinued the criminal proceedings for the probation period of 2 years and required the defendant to pay an allowance of PLN 2,000. (the sentence is final). The notification was submitted on 21.01.2014.

Sentence passed by the District Court in Poznań on 8.09.2014 in the case under Article 171(1) of the Banking Law Act, the Court sentenced the defendant to 2 years' imprisonment, with execution suspended for 5 years' probation and to a fine of PLN 5,000, and also required the defendant to redress the damage caused by the offence, and ordered supervision by a probation officer during the probation period (the sentence is not final). The notification was submitted on 29.10.2012.

Sentence passed by the District Court in Bydgoszcz on 5.09.2014 in the case under Article 183(1) of the Act on Trading in Financial Instruments. The Court sentenced the defendant to a fine of PLN 3,000 (the sentence is not final). The notification was submitted on 5.03.2009.

Sentence passed by the District Court in Bydgoszcz on 29.09.2014 in the case under Article 171(1) of the Banking Law Act. The Court sentenced the defendant to 1 year of imprisonment with execution suspended for 3 years' probation, and to a fine of PLN 40,000 (the sentence is final). The notification was submitted on 23.04.2013.

Sentence passed by the District Court in Białystok on 21.10.2014 in the case under Article 171(1) of the Banking Law Act. The Court conditionally discontinued the criminal proceedings for the probation period of 2 years and required the defendant to pay an allowance of PLN 10,000 (the sentence is final). The notification was submitted on 11.09.2012.

Sentence passed by the District Court Gdańsk-Południe on 9.12.2014 in the case under Article 183(1) of the Act on Trading in Financial Instruments. The Court sentenced the defendant to a fine of PLN 10,000 (the sentence is not final). The notification was submitted on 30.12.2011.

Sentence passed by the Regional Court in Warsaw on 18.12.2014 in the case under Article 178 of the Act on Trading in Financial Instruments. The Court conditionally discontinued the criminal proceedings for the probation period of 2 years and required the defendant to pay an

allowance of PLN 2,000. (the sentence is final). The notification was submitted on 19.02.2009.

Details for the sentences being final or not were given as available as at 31 December 2014.

**Table 87. Convictions and conditional discontinuations, by type of offence, 2011-2014**

Legal grounds for conviction	Number of convictions			
	2011	2012	2013	2014
Article 177 of the Act on Public Trading in Securities / Article 183 of the Act on Trading in Financial Instruments (financial market manipulation)	5	4	8	7
Article 176(1) and (2) of the Act on Public Trading in Securities / Article 180 and Article 181 of the Act on trading in financial instruments (information disclosure and insider trading)	-	1	1	-
Other *	2	3	2	8
<b>Total</b>	<b>7</b>	<b>8</b>	<b>11</b>	<b>15</b>

Source: In-house materials by the KNF Office

\* Legal grounds for conviction

- Article 178 of the Act on Trading in Financial Instruments (unauthorized trading in broker-traded financial instruments),
- Article 100 of the Act on Public Offering (misrepresentation and concealment of facts in a prospectus),
- Article 296 of the Criminal Code (abuse of rights or failure to discharge the duty by a person obligated to handle property-related affairs or the business a natural person),
- Breach of Article 171(1) of the Banking Law Act (unauthorized banking activity),
- Article 171(2) of the Banking Law Act (using the terms "bank" [bank] or "kasa" [union] in the name of an organisational unit other than bank),
- Article 150 of the Payment Services Act (non-registered payment services provision-related operations),
- Article 77 of the Accounting Act (keeping books of accounts in breach of the rules provided for in the Act, preparing the financial statements in breach of the provisions of the Act).

## POWERS EXERCISED IN CRIMINAL PROCEEDINGS

In exercise of the KNF's powers in criminal proceedings, legal counsels, duly authorised by the Chairman of the KNF, act as victim's attorneys or as attorneys for auxiliary prosecutors.

In 2014, legal counsels, duly authorised by the Chairman of the KNF, acted as victim's attorneys (preparatory proceedings) in 103 cases, and as attorneys for auxiliary prosecutors (court proceedings) in 27 cases.

Legal counsels also lodged 28 appeals against the decisions of the Public Prosecutor's Office concerning refusal to initiate or discontinuation of the preparatory proceedings.

**Table 88. Number of cases in which legal counsels were duly authorised by the Chairman of the KNF in criminal proceedings, 2011-2014**

Function	2011	2012	2013	2014
Acting as victim's attorney	65	77	80	103
Acting as attorney for auxiliary prosecutor	15	26	24	27
<b>Total</b>	<b>80</b>	<b>103</b>	<b>104</b>	<b>130</b>

Source: In-house materials by the KNF Office

## POWERS EXERCISED IN CIVIL PROCEEDINGS

In civil cases arising from the relationships involving participation in trading on the financial market or relative to the entities operating on that market, Chairman of the KNF may act in the capacity of the public prosecutor set out in Article 60 of the Code of Civil Procedure, among other laws.

As regards the insurance market, the KNF Chairman exercised the powers of a public prosecutor, provided for in the Code of Civil Procedure, in the procedure before the Regional Court in Warsaw, 17th Division - the Court of Competition and Consumer Protection. The case concerned the terms of a standard contract used to conclude a life insurance contract with unit-linked insurance plan. The case concerned establishing that no other contracts than life insurance contracts with a unit-linked insurance plan are concluded in this regard, in particular that there is no circumvention of laws, namely tax laws and regulations binding on the institutions conducting brokerage activities. The Chairman of the Polish Financial Supervision Authority considered it appropriate to exercise in this case the powers of the public prosecutor by presenting a statement (position) in relation to arguments made by Court of Appeal in this case and the recommendations formulated by that Court for the court of first instance.

As regards the insurance market, the KNF Chairman also exercised the powers of a public prosecutor, provided for in the Code of Civil Procedure, in the procedure before the District Court Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register. The case concerned the entry of the president of an insurance undertaking's management board into the National Court Register, despite the failure to obtain the consent of the Polish Financial Supervision Authority to appoint this person for the position. The KNF Chairman lodged a complaint about the decision by the registrar of the court on the discontinuation of proceedings in an ex officio case concerning compelling an insurance company to file an application for an entry in the National Court Register.

On the other hand, as far as the capital market is concerned, the KNF Chairman exercised the powers of the public prosecutor provided for in the Code of Civil Procedure in the proceedings pending before the District Court in Białystok, 12th Commercial Division of the National Court Register. The proceedings concerned the registration of a conditional share capital increase in a publicly-held company after more than 20 months from the date of adoption of the resolution on the increase. The KNF Chairman intended to question the correctness of such action as contrary to the essence of the conditional increase, the social and economic objective of that institution and the security of trading in financial instruments on the capital market.

## 7.2. PARTICIPATION IN LEGISLATIVE PROCEEDINGS

The statutory tasks of the KNF include participation in drafting laws regulating supervision of the financial market. In this process, the KNF Office acts as advisor and gives opinions to authorities and agencies which, under separate legal regulations, initiate and conduct legislative work. The KNF's activity includes in particular co-operation with the Minister of Finance and the Minister of Labour and Social Policy. In 2014, experts of the KNF Office were involved in drafting and advising on several dozen bills. This Chapter outlines the most important legislative work in which the KNF Office participated. See Annex 4 for the list of regulations and proposals of regulations which the KNF Office advised on in 2014.

## ACTS AND PROPOSALS OF ACTS

**Act of 26 June 2014 amending the Energy Law Act** (Dz.U. of 2014, item 942). The Act is an instrument for the introduction of structural changes in the gas market in Poland. This Act provides a basis for conducting the legal division of the wholesale and retail trade in the parent undertaking on the domestic gas market.

**Act of 24 August 2014 amending the Corporate Income Tax Act, the Personal Income Tax Act and amending certain other acts** (Dz.U. of 2014, item 1328). The Act concerns, inter alia, the manner of determining the income from investing insurance premiums in connection with an insurance contract concluded on the basis of the regulations on insurance activity, as well as from investing insurance premiums in connection with an life or endowment insurance contract concluded on the basis of separate regulations.

**Act of 5 December 2014 amending the Act on Trading in Financial Instruments and certain other acts** (Dz.U. of 2015, item 73). The purpose of the Act is to adapt Polish regulations to the solutions provided for in the Regulation No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps (OJ L 86/1, 24.03.2012) and in the Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs) (EMIR) (OJ L 201/1, 27.07.2012). It also introduces changes in law aimed at establishing a maximum permissible leverage on the derivatives market.

**Act of 28 November 2014 amending the Act on the National Court Register** (Dz.U. of 2014, item 1924). The Act introduced a reform of inefficient compulsory proceedings, and strengthened the control functions of the registry court (ability to delete non-existent entities), the extension of the registry court's ability to update entries ex officio, and regulated property issues after compulsorily liquidated inactive entities.

**Act of 28 November 2014 amending the Act on Payment Services** (Dz.U. of 2014, item 1916). The Act reduces the maximum statutory rate of the interchange fee for domestic card-based payment transactions, in order to reduce the negative effects of entry into force of the new rules governing the provision of the service of cross-border settlement of credit card transactions (the so-called acquiring) in the European Union, in connection with the decision issued by the European Commission on 26 February 2014 in relation to VISA Europe Limited. Moreover, the Act clarifies the disclosure obligations of acquirers towards merchants and extends the preference period as regards the rate of the interchange fee for newly created card organizations. These rules came into force on 1 January 2015.

**Act of 11 July 2014 amending the Accounting Act and certain other acts** (Dz.U. of 2014, item 1100). Amendment to the Accounting Act of 29 September 1994 (Dz.U. of 2013, item 330, as amended) results from the implementation of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.06.2013, p. 19). The Directive entered into force on 19 July 2013. The amendment transposes the provisions of Directive 2013/34 on micro units. The purpose of the Act is to create a legal framework for extending the financial reporting simplifications to include a large number of small entities. The purpose of such actions is to implement the government objectives aimed at reducing administrative barriers and reducing the costs of economic activity - the factors that significantly limit the development of entrepreneurship. The Act was published in Dz.U. of 21 August 2014 under item 1100 and its provisions came into force on 9 September 2014.

**The Reverse Mortgage Act** (Dz.U. of 2014, item 1585). In 2014, the Parliament was working on the governmental proposal for an act regulating the reverse mortgage institution. Representatives of the Polish Financial Supervision Authority participated in this work, providing MPs and senators with expert opinion on the financial market supervision. The essence of the reversed mortgage is that a credit institution (a bank, a branch of a credit institution or a branch of a foreign bank) pays out some funds in exchange for the possibility to satisfy its claims on account of paid funds out of the property belonging to the borrower,



after the borrower's death. The work on the proposal ended with passing the Reverse Mortgage Act of 23 October 2014.

**Proposal for an Act amending the Act on Trading in Financial Instruments and certain other acts.** The proposal concerns the so-called single banking license. The purpose of the proposed amendment is to abolish a separate authorization to conduct brokerage activities for banks. As a result of the amendment, banks will conduct brokerage activities on the basis of authorizations obtained in accordance with the Banking Law. They will not be required to obtain a separate authorization to conduct brokerage activities. As at 31.12.2014, the Working Group for Long-Term Debt Instruments at the Ministry of Finance was working on the proposal.

**Proposal for an Act amending the Act on Trading in Financial Instruments and certain other acts.** The purpose of the proposal is to remove the regulated market's division into the stock exchange market and OTC market. The changes provide that the standards currently required for the regulated market will apply to both types of markets. The proposal also provides for repealing the power of the minister responsible for public finance to issue an authorization to operate a stock exchange. The Polish Financial Supervision Authority will be the only authority competent to issue authorizations to operate a regulated market. This authority will be also competent to apply sanctions for entities operating a regulated market. As at 31.12.2014, the proposal was subject to inter-departmental consultations.

**Draft Act amending the Act on financial market supervision, the Banking Law Act and certain other acts.** The purpose of the proposed changes is, inter alia, to invest the KNF with powers to request information from non-regulated entities for which there is a suspicion that they conduct operations involving the gathering of funds of others in order to burden them with risk, or other licensed operations on the financial market. As at 31.12.2014 the proposal was as the phase of inter-ministerial consultations.

**Proposal for an Act amending the Act on the Investment Funds and certain other acts.** Implementation of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EC) No 1095/2010 (OJ L 174/1, 1.07.2011). As at 31.12.2014, the works on the proposal were conducted by the Government Legislation Centre.

**Proposal for an Act amending the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies, and certain other acts.** The proposal provides for a change in the call announcement mechanism to improve the functioning of the institution of calling for the subscription for the sale or exchange of shares in publicly-held companies, so as to ensure a more comprehensive protection of shareholders of publicly-held companies that are the subject of takeover. The proposal provides that each compulsory call will be announced for all the remaining shares in a company. In addition, the proposed changes provide for a possibility of announcing a voluntary call. The proposal also provides for a resignation from the obligation to announce a call referred to in Article 72(1) of the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies. As at 31.12.2014, the Standing Committee of the Council of Ministers was working on the proposal.

**Proposal for an Act amending the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies.** The purpose of the proposal is to implement the provisions of the Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013 amending the Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC. Moreover, some provisions will be clarified which relate to disclosure obligations of issuers whose securities were admitted to trading on an organized market, with the performance of IPOs and the procedure for approval of an

issue prospectus. As at the end of 2014, the proposal was at the phase of inter-ministerial consultations.

**Proposal for an Act on Bonds.** The Act introduces a number of changes into the Polish legal system - the bondholders' meeting institution, perpetual bonds, subordinated bonds. The Act also provides for a possibility to change the terms of the issue after the bond issue, by a resolution of bondholders' meeting and with the consent of the issuer. As at 31.12.2014, the Higher Chamber of the Polish Parliament (Senat) was working on the proposal.

**Proposal for an Act amending the Banking Law Act and certain other acts.** The purpose of the proposal is to implement Directive 2013/36/EC of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC. As at 31.12.2014, the proposal was subject to inter-departmental consultations.

**The government's proposal for an Act amending certain acts in connection with changes in the system of financing the costs of supervision of the capital market.** The purpose of the amendment is to distribute more evenly the supervision costs between individual categories of entities covered by the KNF supervision. A new fiscal burden will be imposed on the regulated entities which in the present legal system do not participate in the incurrence of the supervision costs, or participate in such costs to the extent inadequate to the scale of their operations. The proposed change will approximate the model of financing the costs of capital market supervision to the solutions functioning in other financial market sectors under the supervision of the Polish Financial Supervision Authority on the basis of the provisions of the Act on financial market supervision. As at 31.12.2014, the Ministry of Finance was working on the proposal.

**Proposal for an Act amending the Code of Commercial Companies and Partnerships Act and certain other acts.** The purpose of this amendment is to introduce a possibility of creating shares without a nominal value in a limited liability company, as an alternative to the traditional share capital-based model. The proposal also provides for the adoption of new solutions concerning the protection of company creditors, including the solvency test and the obligation to accumulate supplementary capital at the expense of a portion of the profit. As at 31.12.2014, the proposal was subject to inter-departmental consultations.

**Proposal for an Act amending the Energy Law Act and certain other acts.** The purpose of the change is to ensure the application of the so-called REMIT Regulation - Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and Transparency (OJ L 326, 8.12.2011, p. 1). The KNF Office is actively involved in the work on the proposal to the extent that it relates to the KNF's supervision of trading in wholesale energy products which are also financial instruments (in particular, changes in the Act of 26 October 2000 on commodity exchanges). As at 31.12.2014, the Standing Committee of the Council of Ministers was working on the proposal.

**Proposal for an Act on the system for greenhouse gas emission allowance trading.** The draft adjusts Polish provisions to the text of the Commission Regulation (EU) No 1031/2010 of 12 November 2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community. The KNF Office participates in the work on the proposal to the extent that it provides for amendments to the Act of 29 July 2005 on trading in financial instruments, the Act of 26 October 2000 on commodity Exchanges, the Act of 29 July 2005 on capital market supervision.

The proposal provides for, inter alia, the sale of greenhouse gas emission allowances in the form of futures contracts or two-day spots on a special trading platform - an auction platform organized by the entity operating the stock exchange, and lays down the rules for the supervision of trading in such allowances, as well as issues related to obtaining an authorization to operate an auction platform. As at 31.12.2014, the Standing Committee of the Council of Ministers was working on the proposal.

**Proposal for a Restructuring Law Act.** The Act introduces a fundamental reform of the bankruptcy proceedings, by eliminating the current recovery proceedings and replacing it with

4 new proceedings. The main objective of the proposal is to introduce effective instruments to conduct the restructuring of the debtor's undertaking and to prevent its liquidation. As at 31.12.2014, the Lower Chamber of the Polish Parliament (Sejm) was working on the proposal.

**Proposal for an Act on the Bank Guarantee Fund, resolution of banks, and amending certain other acts.** The purpose of the proposal is to implement the following into the Polish legal system: 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/EC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC and 2011/35/EC, 2012/30/EU and 2013/36/EU of the European Parliament and of the Council and Regulation (EU) No 1093/2010 of the European Parliament and of the Council and No 648/2012, as well as Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes. The purpose of the Act is to create a legal framework for conducting the resolution of banks, investing the Bank Guarantee Fund with powers to conduct such proceedings, and to determine the sources of funding for these processes. During the work, which has been ongoing since 2013, the proposal required major changes due to the adoption of the directive. Consequently, the Ministry of Finance started to develop a new proposal of the act corresponding to the solutions proposed in the directive. As at 31.12.2014, the proposal was subject to inter-departmental consultations.

**The proposal for a Life Annuity Act.** In 2014, the Minister of Economy forwarded for inter-ministerial consultations a proposal for a Life Annuity Act. The subject matter of the proposal is regulating the life annuity institution in exchange for the transfer of the title to property. According to the proposal, this type of services are to be provided by business entities operating with an authorization and under the supervision of the Polish Financial Supervision Authority. The supervisory authority objected to this solution and indicated that there is no regulation provided for in the proposal, ensuring adequate supervision of such entities. Alternatively, the supervisory authority proposed this service to be provided only by insurance undertakings. The consultations concerning the above-mentioned proposal were not completed in 2014.

**MPs' proposal for a Cooperative Law Act.** The legislative works were conducted in the Lower Chamber of the Polish Parliament (Sejm), in the Extraordinary Committee for examination of proposals of acts on cooperative law. The reason for taking up the work on the new shape of the Cooperative Law Act is that the legal basis for the operations of cooperatives is still the Cooperative Law Act of 16 September 1982, which is a systemic act, not adapted to changing economic conditions. In view of the above, the amendment covered issues such as: voluntary and open-to-everyone membership in a cooperative, limited dividend rate, the obligation to recognise provisions and funds, indivisible current reserves, disposal of shares, organizational transformation, dissimilarity between the cooperative sector and capital companies. As at 31.12.2014, the Sejm had not finished working on the proposal.

**Proposal for an Act amending the Act on the functioning of cooperative banks, their associations and associating banks, and certain other acts.** The objective of the solutions contained in the project is to adjust the Polish law to the requirements of the Regulation of the European Parliament and of the Council No 575/2013/EU of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012/EU (CRR), in the scope of own funds of cooperative banks and the possibility to establish an institutional protection system. The proposed changes in relation to own funds grant cooperative banks the right to limit or refuse the return of payments made for member shares, which have been terminated. They are a consequence of Article 29 CRR, which defines such powers as one of the conditions for qualifying capital raised from contributions for member shares at cooperative banks as Common Equity Tier 1 capital, which is required to cover the risk assumed by the bank. CRR also provides for the obligation to meet after 1 January 2015 the requirement to maintain a high quality of liquid assets to cover cash outflows within 30 calendar days. At the same time, Article 8 CRR provides for an option to create a liquidity group which will enable meeting the requirement at the group level or the institutional protection scheme. In order to enable associating banks and cooperative banks

to use the option of establishing a liquidity group, the proposal for the act provides for a possibility to establish an institutional protection scheme. The conditions to be met by such a scheme are specified in Article 113(7) CRR and involve, inter alia, the necessity of mutual guarantee of liabilities by the scheme members, setting up an aid fund, organising risk monitoring mechanisms for the entire scheme and approval of the scheme by the Polish Financial Supervision Authority. It should be borne in mind that the scheme is established on a voluntary basis, and therefore, the current associations will be able to operate under the existing rules. As at 31.12.2014, the Government Legislation Centre's Legal Committee was working on the proposal.

**Proposal for an Act on Macro-prudential Supervision of the Financial System.** The introduction of the solutions planned in the proposal is necessary to implement the recommendations of the European Systemic Risk Board of 16 January 2012 on the macro-prudential mandate of national authorities. These solutions will strengthen the stability of the national financial system by reducing systemic risk in connection with the implementation, into the Polish law, of a formal macro-prudential policy framework for the evaluation, monitoring and limiting the systemic risk of the national financial system, and establishing the Systemic Risk Board, which will be an authority responsible for the national macro-prudential supervision in relation to the national financial system. As at the end of 2014, the proposal for the act was at the stage of government works.

**A proposal for an act amending the Act on state aid in purchasing first flat by young people.** The KNF Office made comments on the proposal, which assumed, inter alia, the extension of the Act's scope in terms of its subject matter and entities covered (increasing the offer of housing units eligible for the scheme, extending the range of persons who may apply for inclusion in the scheme), changes to streamline the implementation of the scheme and to avoid doubts related to the application of some of the provisions of the Act. The proposal for the Act was put on 11 December 2014 by the Ministry of Infrastructure and Development before the Standing Committee of the Council of Ministers. As at 31.12.2014, the Standing Committee of the Council of Ministers was working on the proposal.

**Proposal for an Act amending the Act on mortgage bonds and mortgage banks and certain other acts.** In 2014, the works on the guidelines for the amendment to the Act on mortgage bonds and mortgage banks were continued. The objective of the proposal is to remove the barriers to the development of long-term debt instruments (mortgage bonds), which allows banks to limit the structural mismatch of maturities of funding, and to fulfil the regulatory provisions which oblige banks to limit the risks resulting from the financing of long-term assets with short-term liabilities. The KNF Office, both at the phase of work on the guidelines as well as the proposal for the Act, made a number of comments not only in respect of the amendment to the Act on mortgage bonds and mortgage banks, but also in respect of the Act on the organization and operation of pension funds, the Act on insurance activity, the Land and Mortgage Registers and Mortgage Act, the Bankruptcy and Reorganization Law Act, the Act on cooperative savings and credit unions and European regulations. Representatives of the KNF Office also took part in working meetings organized by the Ministry of Finance (in the course of work on the guidelines for the Act). As at the end of 2014, the Government Legislation Centre was working on the proposal.

**MPs' proposal for the Act on the suspension of repayment of certain borrowings and loans incurred in connection with running a farm.** The proposal for the Act is a response to the introduction, by the Russian Federation, of a ban on imports into its customs territory, of certain agricultural commodities from Poland, and then from the entire European Union. This situation resulted in serious disturbance in the market of agricultural products, especially fruits, vegetables and meat, but also other commodities covered by the Russian embargo. This situation places in a very difficult situation especially those farmers who suffer the consequences of losing the selling market and the related drop in prices. The situation is particularly difficult for farmers who, for the purposes related to running a farm, took out loans or borrowings, which they are not able to repay, because, as a result of the Russian embargo, their income has decreased or they have no income at all. The proposal was submitted for the first reading before the Public Finance Committee, with a recommendation

to consult the Committee on Agriculture and Rural Development. As at 31.12.2014, the Sejm was working on the proposal.

#### DRAFT GUIDELINES TO THE PROPOSALS OF ACT

**Draft guidelines for the proposal for an Act amending the Act on Financial Market Supervision, the Banking Law Act and certain other acts.** The work on the guidelines for the Act, including arrangements and public consultation, was carried out in the Ministry of Finance. The essence of the solutions covered by the proposal was to invest the KNF with powers to demand information from entities from outside the banking sector (e.g. under the investigation procedure), for which there is a suspicion that they conduct operations involving the collection of funds in order to charge them with risk, or other shadow banking operations, to toughen the penal sanction for conducting banking operations without the required authorization (Article 171 of the Banking Law), to introduce a compulsory registration in a separate register of entities conducting the business of granting borrowings and consumer loans, to introduce the maximum amount of interest for late payment and interest on interest, as well as the maximum amount of the annual percentage rate of charge, to introduce the possibility of making available, by the KNF, information which is a professional secret, when filing, with the Public Prosecutor's office, notifications of suspicion of committing offences specified in the acts indicated in the Act on financial market supervision. As at 31.12.2014, the Ministry of Finance was working on the proposal for guidelines.

**Draft guidelines for the proposal for an Act amending the Act on Payment Services and the Act on the Financial Market Supervision.** The proposal provides for amendments to the Act of 11 August 2011 on Payment Services, which involve the reduction of administrative barriers in the operations of payment services offices, and aims at partial deregulation of such entities' operations and at modifying the rules of their supervision by the Polish Financial Supervision Authority. Additionally, the proposal provides for the introduction of settlement numbers for non-bank payment service providers participating in the payment system and keeping payment accounts. As at 31.12.2014, draft guidelines were at the stage of government works.

**Draft guidelines for the Mortgage Act.** The draft implements into the Polish legal system the provisions of Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property. The Directive lays down a common framework for the provisions concerning agreements covering credit for consumers secured by a mortgage or otherwise relating to residential immovable property, including an obligation to carry out a creditworthiness assessment before granting a credit, as a basis for the development of effective underwriting standards in relation to residential immovable property in the Member States, and for certain prudential and supervisory requirements, including for the establishment and supervision of credit intermediaries, appointed representatives and non-credit institutions. As at 31.12.2014, draft guidelines were at an early stage of government works.

**Draft guidelines for the proposal for an Act on out-of-court settlement of consumer disputes.** The proposal concerns the out-of-court forms of resolving consumer disputes. The out-of-court settlement of disputes will cover all branches except for medical services and certain educational services. As at 31.12.2014, the Committee for European Affairs was working on the draft guidelines.

**Draft guidelines for the proposal for an Act on supporting alternative dispute resolution.** The main objective of the proposal is to raise citizens' awareness of the existence of mediation and other out-of-court dispute resolution methods. As at 31.12.2014, the Standing Committee of the Council of Ministers was working on the proposal for the guidelines.

**Draft guidelines for the proposal for a Commercial Activity Law Act.** The Act is to replace the Act on Freedom of Economic Activity. The purpose of the change is to systematize the general rules governing the conduct of economic activity, the introduction of new institutions aimed at strengthening the dialogue between the administration and businesses, standardization of the business terminology, the introduction of model institutions to ensure consistency of all business law regulations. As at the end of 2014, draft guidelines were subject to inter-departmental consultations.

**Draft guidelines for the proposal for an Act amending the Act on making economic information available and sharing economic data.** The draft guidelines provide for, inter alia, an obligation for certain public administration bodies to inform economic information bureaus about outstanding statutory liabilities, including those relating to sanctions in the form of administrative fines. As at the end of 2014, draft guidelines were subject to inter-departmental consultations.

**Draft guidelines to the proposal of the Act on insurance and reinsurance activity.** In 2013, works continued on the Draft guidelines made by the Ministry of Finance to the proposal of the Act aimed at implementing Directive 2009/139/EC introducing new solvency rules for insurance companies, based not only on quantitative criteria, but also on qualitative ones. In 2014, the Standing Committee of the Council of Ministers, with the participation of the Polish Financial Supervision Authority, was working very intensively on the proposal. In the course of this work, a number of the supervisory authority's legislative proposals were adopted concerning, inter alia, the improvement of insurance clients' situation, and strengthening the supervision of insurance undertakings. The legislative work on the above-mentioned proposal in the Committee of the Council of Ministers ended with its adoption on 13 November 2014. The proposal was submitted for adoption by the Council of Ministers. As at 31.12.2014, the Council of Ministers was working on the proposal.

### 7.3. INTERNATIONAL CO-OPERATION

The vast majority of entities providing financial services to Polish customers are registered in Poland, and as such are subject to the supervision of the Polish Financial Supervision Authority. However, a large part of the challenges faced by the supervision results from the international context of their operations. About 60% of the banking sector is controlled by foreign capital and the situation in other market segments is similar. At the same time, the Polish financial institutions more and more often expand their operations on other countries. Moreover, dozens - if not hundreds - of foreign companies, using the advantages provided by the EU law, provide their services to the Poles without registering their business in our country. Consequently, the cooperation of the KNF Office, in particular with the financial supervisory authorities of other EU Member States acquires special significance.

It should also be noted that the key acts of law providing a framework for the functioning of financial institutions are adopted not in Poland but at the EU level. Prudential requirements for banks are regulated by CRD IV and CRR, similar standards for insurance undertakings - by Solvency II, and the principles of operation of brokerage houses - by, for example, MiFID and MiFIR. Poland's active participation in the EU negotiations is necessary to protect the interests of the Polish financial market.

For these reasons, the activity in the international arena is an important and constant element of the KNF Office's activities.

#### CO-OPERATION WITH SUPERVISION AUTHORITIES FROM OTHER COUNTRIES

##### Colleges of supervisors

Colleges of supervisors are the basic ground for the KNF Office's co-operation with supervisory authorities from other states.

In 2014, the KNF Office participated in 15 colleges of supervisors for cross border banking groups as well as in 3 crisis management groups. The goal of the above-referred colleges and groups is to coordinate supervisory actions taken towards banking groups, with preparations for potential anti-crisis measures included. In the colleges of supervisors, consultations were held with foreign supervisors, concerning joint assessment of risk and capital adequacy (Joint Risk Assessment and Decision Process) and the use of advanced methods for the purposes of calculating capital requirements (decisions on AMA and IRB). The anti-crisis groups focused mainly on preparing subsequent versions of recovery plans for the largest banking groups, and on adjusting them to the Directive establishing a framework

for the recovery and resolution of credit institutions and investment firms, which was published in 2014.

In the period covered by the Report, the KNF Office also participated in the work of 18 colleges of supervisors for international insurance groups. As part of the cooperation in colleges, representatives of the KNF Office participated in meetings aimed at sharing information and experience by the supervisors responsible for overseeing the insurance undertakings belonging to insurance groups and evaluation of the financial standing of groups and the manner in which they conduct their activities. At the meetings of the colleges of supervisors, the status of preparation of individual groups and companies being their members for implementation of the Solvency II system and internal models-related topics were discussed as well. In addition, the KNF Office performed the tasks associated with performing the function of a group supervisor for the PZU Group.

Representatives of the KNF Office also attended the meetings of colleges of supervisors, dedicated to internal models and pre-application processes underway for 4 foreign insurance groups. During the said meetings, they strived for taking account of the specific nature of the Polish companies in group internal models of foreign insurance groups.

### Bilateral co-operation

The KNF Office is engaged in ongoing co-operation with other supervisors. Bilateral relationships cover sharing supervisory information, opinions and experience, and they are maintained mainly on the working level.

The bilateral co-operation is facilitated by memoranda on co-operation and information exchange, which the KNF has concluded with the regulators from as many as 29 jurisdictions (not including multilateral memoranda under IOSCO and IAIS). In 2014, such memorandum was signed with the State Securities Commission of the Republic of Azerbaijan, whereas a multilateral memorandum of EEA supervisory authorities was signed with the Bermuda Monetary Authority (BMA).

Also in 2014, the Multilateral Memorandum of Understanding on Cooperation Arrangements and Exchange of Information came into force. It was concluded by capital market supervisory authorities of the 28 EU Member States and the European Securities and Markets Authority (ESMA). It replaces a similar memorandum of understanding of the Committee of European Securities Regulators (CESR), to which the KNF was a signatory from 1 May 2004. Thanks to the above-mentioned memorandum of understanding, the KNF Office will be able to exchange capital market information safely and efficiently with other EU supervisory authorities, and with ESMA itself.

### European Central Bank

On 4 November 2014, the European Central Bank took over the supervision of major banking groups in the euro area, as the implementation of the so-called Single Supervisory Mechanism (SSM). This fact is the realization of one of the parts of the so-called banking union project. Therefore, the KNF Office took steps to form relations with the SSM. First, the cooperation between the KNF Office and the ECB should be formalized on the basis of a bilateral agreement required by the Regulation on SSM. In addition, a dialogue was started in order to resolve a number of practical issues, such as the flow of information on ECB inspections at Polish banks belonging to international groups, cooperation in the internal model validation processes and the launch of the channels for current communication.

## PARTICIPATION IN THE EUROPEAN SYSTEM OF FINANCIAL SUPERVISION

On the basis of the EU regulations, the KNF Office is a member of the European System of Financial Supervision. This system is formed, except for the supervisory authorities from all EU Member States, by three institutions corresponding to individual market sectors, namely: the European Banking Authority (or EBA), the European Insurance and Occupational Pensions Authority (or EIOPA) and the European Securities and Markets Authority (or

ESMA). The EBA, the EIOPA and the ESMA promote convergence of supervisory practices within the EU, develop technical standards and guidelines supplementary to EU regulations, and facilitate exercise of supervision of cross border finance groups. In addition, the European Systemic Risk Board (ESRB) is responsible for the macroprudential supervision (concerning interactions between the financial sector as a whole and the real economy). Although these are the EU institutions, their executive bodies are composed of representatives of supervisory authorities from the Member States. Acting on the forum of EBA, EIOPA, ESMA and ESRB, the KNF's representatives want these institutions to become a useful complement to national authorities, coordinating the regulatory cooperation from the EU single market perspective, while remembering that each EU Member State is characterized by diversity and requires special attention.

In 2014, after three years of their existence, the European Commission started to review the functioning of these institutions. In August, the reports indicating the direction of changes were published<sup>29</sup>. Some of them involve practical organizational improvements, whereas others are aimed at an unjustified transfer of decision-making powers from Member States to the EU level. Therefore, the KNF Office submitted its assessment of the EC documents to the Ministry of Finance, and developed, together with partner supervisory authorities from the Central and Eastern European states, its position on the revision of the ESFS system (see section on the CEE Forum).

### European Banking Authority (EBA)

The European Banking Authority performs a wide array of tasks relating mainly to the banking sector, but also payment and electronic money institutions, corporate governance, audit and financial reporting. The KNF Office's involvement in the work of EBA manifested itself through actions at both the substantive and organizational levels. The latter of the above-mentioned types of activities was closely linked to the fact that the KNF Office's representative at the EBA Board of Supervisors - Mr Andrzej Reich, Director of the Banking, Payment Institutions and Credit Unions Regulations Department - was, at the same time, a member of the Board of that institution (appointed in 2013 for 2.5-year term of office).

The employees of the KNF Office participated in the works of 36 EBA Committees, working teams and groups dealing with issues such as assessment of risks and threats for the banking sector in the EU, assessment of the quality of bank operation models, cross border operations of the electronic money institutions and payment institutions, register of credit institutions, customer protection, money laundering, liquidity monitoring, capital requirements, audit, reporting and supervisory assessment practice applied. In 2014, the Directive establishing a framework for the recovery and resolution of credit institutions and investment firms was published. That document requires the preparation of a considerable number of delegated acts for it contains a number of mandates to the EBA to develop regulatory technical standards (RTS) and implementing technical standards (ITS), as well as guidelines. The Directive on Deposit Guarantee Schemes, which was also published in 2014, also entails similar consequences. In connection with the above legislative obligations of EBA, the employees of the KNF Office participated in the work of working groups preparing the above-mentioned delegated acts. The KNF Office was also involved in the activities of the EBA Task Force, whose principal objective was to prepare a number of important guidelines for the European Commission on crisis management issues.

The representatives of the KNF Office actively participated in developing EBA regulations on regulatory activities, which involved the finalization of the work on other delegated acts, including the Directive on credit agreements for consumers relating to residential immovable property. The work on delegated acts to the CRD IV/CRR package, which was published in 2013, was continued. These acts concerned, to a large extent, the macro-prudential oversight, that is, for example, the methodology for designating entities considered important from the systemic point of view. A major project in the creation of which the KNF Office

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<sup>29</sup> [http://ec.europa.eu/finance/general-policy/committees/index\\_en.htm](http://ec.europa.eu/finance/general-policy/committees/index_en.htm)



representatives played a part was also the development of next parts of a comprehensive supervisory handbook covering different aspects of conducting the supervisory review and evaluation process at banks ( SREP). In addition, important technical standards on the functioning of colleges of supervisors and taking joint decisions about internal models have been developed.

On 10-11 July 2014, the KNF Office was the host of an away session of EBA's Board of Supervisors. The meeting was held in Kraków and it was, according to the assurances of its participants, an extremely positive experience from both the working and organizational perspective.

As far as the participation in the EBA is concerned, 2014 was an important year also due to two events involving the verification of the stability and confidence in the EU banking sector, namely the asset quality review before taking over the supervision of major banking groups by the ECB (AQR) and stress tests of banks in the EU. As regards the first of the above-mentioned events, it should be mentioned that the review was coordinated by the ECB and conducted in accordance with the methodology prepared by that institution. However, the role of the EBA was also important, and was fulfilled by, for example, issuing recommendations on asset quality reviews, as well as coordination of the announcement and communication of AQR results to the public. For stress tests, the European Banking Authority was the leading authority. The KNF Office participated in both events, using the methodology developed by the ECB and the EBA, and coordinating its publishing of results with both institutions.

#### European Insurance and Occupational Pensions Authority (EIOPA)

The involvement of the KNF Office in the work of EIOPA manifested itself in the participation in 21 committees and working groups, and concerned mainly Solvency II. In particular, it involved development of the proposals of technical standards and supervisory guidelines to Directive 2009/138/EC of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), the so-called level 3 legislation acts. Representatives of the KNF Office coordinated the preparation of proposals, or fragments thereof, on, for example, the application of parameters specific for an insurance undertaking and the use of credit ratings, assigned by rating agencies, in the calculation of the Solvency Capital Requirement using the standard formula, the solvency of an insurance group, the functioning of colleges of supervisors. The representatives of the KNF Office also contributed significantly to the preparation of proposals for reporting to the supervisory authority, the management system, the use of internal models in calculating the Solvency Capital Requirement. They also took part in discussions within the EIOPA on the practical aspects of supervision in accordance with the Solvency II requirements, in particular as regards internal models, technical provisions, the prudent investor rule, risk assessments in the operation of entities, the functioning of the management board and the supervisory board within the management system.

In the context of other significant activities, the representatives of the KNF Office participated in the preparation of guidelines for the European stress tests for the insurance sector, which were conducted in 2014.

The KNF Office also continued its involvement in conducting peer reviews in the Review Panel chaired by the representative of the KNF Office. They concerned issues such as freedom to provide insurance services, the process of carrying out joint inspections, the functioning of colleges of supervisors for insurance groups. Some of the peer reviews also concerned certain aspects of the Solvency II project, e.g. the review of meeting the recommendation as regards the pre-application process for internal models.

#### European Securities and Markets Authority (ESMA)

Representatives of the KNF Office participated in the work of ESMA's Board of Supervisors, nine Standing Committees and eighteen working groups, task forces and their subgroups. The effects of the work of these bodies comprise mainly development of draft technical standards, advice to the European Commission, recommendations and guidelines. As far as

the latter is concerned, the Corporate Reporting Standing Committee prepared "Guidelines on enforcement of financial information", and in connection with the ongoing work on EMIR, "Guidelines and Recommendations regarding the implementation of the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMI) in respect of Central Counterparties" were issued, the purpose of which is to ensure that the legal framework for CCPs contributes to the consistent application of PFMI issued in 2012 by the Bank for International Settlements. In relation to the investment management, the following documents were published: "Guidelines on reporting obligations under Articles 3(3)(d) and 24(1), (2) and (4) of the AIFMD" and "Guidelines on ETFs and other UCITS issues".

In cooperation with the European Banking Authority, ESMA has developed "Guidelines for complaints-handling for the securities (ESMA) and banking (EBA) sectors". Notwithstanding the general provisions aligning the supervisory practice across the European Union, the guidelines clarify expectations relating to the organisation relating to complaints-handling, including detailed information on how to register a complaint, the provision of information to complainants and the submission of reports on complaint-handling.

The guidelines were developed to contribute to the protection of investors, promote market confidence and to eliminate regulatory arbitrage. By taking part in creating these guidelines by working in the mentioned standing committees and task forces, the KNF's employees contributed to the development of guidelines corresponding to the rules prevailing in the domestic market, which in turn enabled the KNF Office to confirm that the Office will adhere to the requirements contained therein.

The election of a representative of the KNF Office - Mr Marek Szuszkiewicz, Director of the Investment Firms and Capital Market Infrastructure Department - as a member of the Management Board of the ESMA was an undoubted success in 2014. He will perform this function until February 2017. The main purpose of this role is to express the interests of Central and Eastern European countries, which so far have not been represented on the Management Board.

### European Systemic Risk Board (ESRB)

Representatives of the KNF Office participated in the meetings of the General Board (the primary decision-making body), Advisory Technical Committee (ATC) and several working groups of the ESRB. These bodies hold discussions about the key areas of risk to the stability of the financial system in the European Union. The Council's most important arrangements made in 2014 include the decision to issue a Recommendation on guidance for setting countercyclical buffer rates (Recommendation ESRB/2014/1) and approval of the documents summarizing previous work on the practical aspects of macro-prudential policy at the EU level and at the national level (for example, a comprehensive handbook of this policy)<sup>30</sup>.

In 2014, the work was continued on the scenarios of macroeconomic and financial situation for tests in the EU banking sector. One of the tasks of Poland's representatives consisted in the calibration of the scale of shock to the GDP and the prices of immovable properties in Poland, as well as adding, to the scenario, the depreciation of the Polish zloty against the currencies of the base markets.

ESRB published a follow-up report on the implementation by EU Member States of the provisions of 2011 ESRB Recommendation on the macro-prudential mandate of national authorities (overall assessment concerning systemic, institutional and legal solutions relating to the performance of macro-prudential oversight at the national level).

An important decision of the ESRB was the one on the publication of the report on the regulatory treatment of sovereign exposures. The report, which was developed as early as in 2013 by a working group with the participation of a representative of the KNF Office, presents

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<sup>30</sup> [http://www.esrb.europa.eu/pub/pdf/other/140303\\_esrb\\_handbook.pdf?fa27988fa0ca3e23a9dc4650cb3b771d](http://www.esrb.europa.eu/pub/pdf/other/140303_esrb_handbook.pdf?fa27988fa0ca3e23a9dc4650cb3b771d)

for the first time the possibilities of departure from the zero risk paradigm associated with sovereign exposures. The publication of the report is expected in February 2015.

## PARTICIPATION IN REGULATORY REFORMS IN THE EU

In 2014, the post-crisis regulatory wave was slowly going down in Europe. The work on almost all the major reforms were completed, including MiFID/MiFIR, EMIR and MAR. In the banking sector, the new proposals for regulations affect more and more specific issues. Regulations concern not only the institutional framework (the banking union), but also individual services and products offered by credit institutions. Examples of such solutions, only from 2014, include the Directive on credit agreements for consumers relating to residential immovable property, the Directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, as well as new, further solutions introduced to the Directive on Deposit Guarantee Schemes. Moreover, there is ongoing work on the new directive on payment services (PSD2) and solutions as regards the structural reform of the EU banking sector, which are aimed at the introduction of a prohibition of trading (speculative) activities by bank for own account. When participating in the EU regulatory processes, the KNF Office strived to present such opinions and formulate such proposals as may best express the interests of Poland.

### Banking union

As mentioned above, in November 2014 the Single Supervisory Mechanism (SSM), the first of the banking union's pillars, started to operate. In 2014, the final shape of the second pillar, i.e. the Single Resolution Mechanism for the euro area countries, was agreed on. The SRM Regulation entered into force in July 2014.<sup>31</sup> This regulation and the complementary Intergovernmental Agreement (IGA) provide an environment for raising and disbursing funds, in a particular way, by the Single Resolution Fund. The third pillar of the banking union, namely the new solutions for deposit guarantee schemes, was implemented to a very limited extent, by changing the previous regulations - without the so-called risk communitisation.

### The so-called Bank Recovery and Resolution Directive<sup>32</sup>

In June 2014, the Directive establishing a framework for the recovery and resolution of credit institutions and investment firms entered into force (also known as the Bank Recovery and Resolution Directive or the BRRD). The act establishes the framework for overcoming crisis occurring in the above entities in such a manner as to minimise the adverse impact on the financial system and reduce the potential costs incurred in that case by taxpayers. For the countries participating in the banking union, the BRRD was supplemented by the aforementioned SRM Regulation.

Many delegated acts to the Directive have already been presented for public consultation, and some of them have been published in their final versions on the website of EBA. The latter group includes mainly acts on recovery plans, including technical standards on the content of recovery plans and the evaluation of recovery plans, as well as guidance on the scenarios for the preparation of recovery plans. However, it should be remembered that while

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<sup>31</sup> REGULATION (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010.

<sup>32</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).

both types of acts are prepared by EBA, technical standards are issued in the form of EC regulations and they are still waiting for official publication in the Official Journal of the EU.

### The structural reform of the EU banking sector

In January 2014, the European Commission presented a proposal for a structural reform of the European banking sector. The main objective of the new solutions would be the separation of the "traditional" banking activity and the trading or speculative activity. In the course of 2014, fundamental arrangements and discussions were held on the definitions of self-employment, and the scope of application of the drafted provisions (whether they will apply to all credit institutions and investment firms, or whether some of them will be exempt from the regulation based on the decision of local supervisors). The KNF Office analyzed the new proposals and forwarded its positions to the Ministry of Finance, which, as in the case of other proposals for reforms, is the body directly participating, on behalf of Poland, in the work at the EU forum.

### Solvency II - Omnibus II Directive

The European Parliament adopted on 11 March 2014 the Omnibus II Directive, which sealed the previous arrangements concerning the dates of transposition and phasing-in of the Solvency II Directive. The new regime will apply as from 1 January 2016, and some of the provisions of the Directive should apply as from April and July 2015. In October 2014, the European Commission adopted a proposal for a delegated (2nd level) act.

### Legal acts concerning the capital market

In April of 2014, the Directive on criminal sanctions for market abuse (MAD II)<sup>33</sup> and the Regulation on market abuse (MAR)<sup>34</sup> were adopted. They cover issues related to the use of inside information, market manipulation and unauthorized disclosure of inside information. Comments of the representatives of the KNF Office to proposals for these legal acts concerned, in particular, the definition of inside information in the context of the judgment of the European Court of Justice in Case C-19/11 (Geltl vs. Daimler), and the scope of the powers of supervisory authorities in the context of examining violations on the capital market. In May of 2014, the Directive on markets in financial instruments (MiFID II)<sup>35</sup> and the Regulation on markets in financial instruments (MiFIR)<sup>36</sup> were adopted. Both legal acts are to strengthen the regulatory framework for markets in financial instruments in order to increase the level of transparency and to ensure better protection of investors. They contain not only new requirements for position limits, algorithmic trading and transparency, but also new requirements for conduct of business for investment firms. The provisions of the Directive must be implemented into the Polish legal system. The MiFIR Regulation will apply directly, without the need for implementation. Comments made by the representatives of the KNF Office concerned mainly the definition of OTF, the distinction between OTF and other trading platforms, the possibilities for the OTF operator to invest on own account as well as the definition of financial instruments, and in particular derivatives.

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<sup>33</sup> Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market abuse directive).

<sup>34</sup> 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.

<sup>35</sup> Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

<sup>36</sup> Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

In July of 2014, UCITS V Directive was adopted<sup>37</sup>. The Directive introduces new provisions relating to depositaries, determines which entities may perform this function, their tasks, responsibilities and the general rules for remunerating fund managers. In 2014, the KNF Office reported, to the Ministry of Finance, comments to be used in tripartite negotiations between the European Commission, the European Parliament and the Council. The comments of the representatives of the KNF Office related to, inter alia, the catalogue of entities that may act as the depositary of an UCITS fund, the rules of reviewing the remuneration policy applied by the UCITS funds' management companies and the organization of communication channels which are to be used to notify of infringements of the provisions implementing the UCITS V Directive.

In July 2014, the Regulation on improving securities settlement in the European Union and on central securities depositories was adopted<sup>38</sup>. This is another step to strengthen the safety of the financial system. Thanks to the provisions of the Regulation, the settlements of transactions in the European Union will be made in a safer and more efficient manner.

In 2014, the KNF Office's representatives gave their opinions on the proposal for a Regulation of the European Parliament and of the Council on European long-term investment funds (ELTIF). First of all, attention was drawn to the fact that the proposal contains provisions that will directly affect the legal structure of alternative investment funds (AIF), which in each case are created in accordance with Member States' internal law. The KNF Office suggested that the proposal in question has the form of a Directive (which provides the necessary flexibility of regulations and allows Member States to adapt their national legal systems accordingly) or, if this suggestion is not considered - that its content is transformed in such a way as to avoid the direct regulation of the legal status of an AIF being a ELTIF. In connection with the fact the form of a regulation was retained, the KNF Office also drew attention to the fact that due to the direct application of the drafted provisions in the national legal systems, it would be reasonable to give them a precise wording in order to avoid the use of regulatory arbitrage by ELTIF.

In 2014, representatives of the KNF Office provided opinions on the proposal for the revision of the Shareholder Rights Directive (SRD). Attention was drawn to the fact that at present, a number of European Union legal acts apply which regulate the remuneration policies in companies operating in various sectors of the financial market. It was suggested that the proposal should contain a conflict of laws rule, thanks to which the specific sectoral rules on remuneration policy, which are better adapted to the specific nature of activities of a regulated entity (e.g. concerning alternative investment fund managers), would have priority over the rules laid down in the proposal.

### Strengthening the coalition with regulators from host states (CEE Forum)

To leverage its position in the negotiations concerning the regulatory initiatives discussed hereinabove, the KNF Office co-operates with partners having a similar vision of the regulatory and supervisory architecture within the European Union. These are, first and foremost, the financial supervision bodies from "new" EU Member States. The CEE Forum - an informal forum of regulators from eleven Central and Eastern Europe states established in 2010 upon the initiative of the KNF Office - is the most important ground for co-operation. Its primary objective is to bring closer the positions of members towards proposals of the EU regulations so as to secure as far as possible the interest of host states. In the past year, the current consultations of the CEE Forum were intensified, using a network of national

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<sup>37</sup> Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions.

<sup>38</sup> Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

coordinators and teleconferences dedicated to controversial proposals discussed at the EU forums.

## CO-OPERATION WITH INTERNATIONAL ORGANISATIONS

### International Association of Insurance Supervisors (IAIS)

On 25 October 2014, by a resolution of the General Assembly of the International Association of Insurance Supervisors (IAIS), an employee of the KNF Office, representing the Authority in the Association, was appointed as a Member of the Executive Committee for a 2-year term of office. As part of the membership in the Association, the KNF Office participates in the works of the Technical Committee, the Financial Stability Committee and the Implementation Committee. In addition, the Office is constantly involved in the work of the Insurance Groups Working Group.

Last year, representatives of the KNF Office were involved, among other things, in the development of the Common Framework for the supervision of internationally active insurance groups and the rules of supervision of global systemically important insurance groups (G-SII).

Due to its global nature, the tasks of the Association are performed in 7 regions. A representative of the KNF Office acts as the regional coordinator for Central and Eastern Europe and Transcaucasia. The tasks of the coordinator include analysis of training needs, coordination of relevant initiatives, and propagation of basic insurance principles in the countries that have not joined the IAIS yet.

### International Organisation of Securities Commissions (IOSCO)

In 2014, representatives of the KNF Office participated in works of 9 standing committees and working groups of the IOSCO.

A two-year transitional period of the Organization's functioning in the new revised structure ended this year. In September 2014, elections of chairmen and deputies of the Organization's all committees and working groups were conducted at the IOSCO Annual Conference. Moreover, in the middle of the year the development of the IOSCO work plan and priorities for 2015-2020 started. As a result of the work, a report was published according to which the main objectives of IOSCO for that period will include the protection of investors, regular monitoring of the implementation of the regulations and adequate development of additional standards, risk identification reviews and analyses, as well as supervisory cooperation.

### International Organisation of Pension Supervisors (IOPS)

In 2014, the work of the Organization concerned primarily the analysis of the role of supervisory authorities in the process of automatic registration of employees in pension schemes, the supervision of offering annuities and other forms of pension payments during pension decumulation, the supervision of actuarial reviews and other actuarial pension calculations and the supervision and creation of pension schemes for low-income groups. Representatives of the KNF Office also took part in the work and discussions organized by the Technical Committee of the IOPS.

### Basel Committee on Banking Supervision

The KNF Office is not a member of the Committee, since the Committee gathers banking regulators from 27 states of most significance for the world financial system. Nonetheless, we participate in public consultations conducted by that institution and in its several working groups. In addition, our Office takes part in the meetings of the Financial Stability Board Regional Consultative Group for Europe, where discussions are held on some of the issues raised by the Committee. The KNF Office is also a member of the BSCEE - a regional group gathering banking regulators and co-operating with the Basel Committee.

In 2014, the Committee was primarily involved in the projects relating to the leverage ratio, the net stable funding ratio, the review of capital requirement calculation methods, as well as the new standard method for calculating the requirement for operational risk. Furthermore, the Committee published the revised good practice principles for supervisory colleges, and launched consultations on amendments to the "Corporate governance principles for banks". The work of the Committee concerns, to a large extent, the same issues that are the subject of the work within the EU, both in terms of the implementation of the provisions of CRD IV, as well as the solutions provided for in the provisions on recovery and resolution of credit institutions and investment firms. In addition, the Authority participated in selected public consultations conducted by the Committee, relating to, inter alia, the aforementioned NSFR or planned changes to the Basel III system.

### Banking Supervisors from Central and Eastern Europe (BSCEE)

Since 2006, the KNF Office has been running the Secretariat of the BSCEE Group - an organisation gathering banking regulators from 24 Central and Eastern Europe countries. In contrast to the CEE Forum, the BSCEE is focused on sharing experience and information, and on the training activity.

In 2014, the work of the BSCEE Secretariat operated by the KNF Office covered co-organizing and coordinating: a regional seminar of the Group in Tula on 13-15 May in cooperation with the Financial Stability Institute (topic: Basel III and Systemic Stability Policy), 27th Conference of Members of the Group, which was held in Yerevan on 12-14 June (topics: Financial Stability as a Cornerstone for Sustainable Growth), and 18th ICBS World Conference in Tianjin on 22-25 September (topics: Post-Basel III Agenda, the Role of the Financial System in Promoting Growth).

### International Monetary Fund (IMF), World Bank

Both institutions regularly send to Poland expert missions analyzing various aspects of the Polish financial system. As part of these contacts, the KNF Office held four meetings in 2014. Two meetings with the International Monetary Fund - in May and in October - were carried out as part of the regular assessment of Poland as a member of the IMF and concerned the most important issues determining the safety of the banking sector in Poland. The meeting with the World Bank in December concerned the fulfillment of Poland's obligations under the Development Policy Loan. In addition, in August a meeting was held with the International Finance Corporation, the World Bank's investment arm, which is preparing to expand its presence in Poland.

Employees of the KNF Office hold meetings on similar subjects also with rating agencies and foreign financial institutions investing in Poland. The objective of such contacts is to increase the transparency of the Polish market for external parties, which results in its better perception, and thus, for example, in more favourable conditions of obtaining financing by domestic entities.

### Organization for Economic Cooperation and Development

The KNF Office participates in the work of the following committees and working groups of the OECD: the Committee on Financial Markets, the Corporate Governance Committee and the Insurance and Private Pensions Committee (including: Working Party on Private Pensions). Moreover, representatives of the KNF Office participated in meetings with OECD experts and prepared materials and answers to questionnaires for the purposes of research conducted by OECD. One of the most important topics which the organization is currently working on and the KNF Office is involved in is the revision of the "Principles of Corporate Governance", which are a point of reference for national and private corporate governance standards.

## Council of Europe

The KNF Office participates in the work of the Council of Europe's Committee of Experts MONEYVAL, whose main task is the evaluation of the national anti-money laundering measures and combating the financing of terrorism in Member States. In 2014, a representative of the KNF Office took part in the mutual evaluation of the Crown Dependency Guernsey, as the financial evaluator, and examined the extent of compliance of the laws of Guernsey with the FATF recommendations, and the effectiveness of the national anti-money laundering measures and combating the financing of terrorism.

## ASSISTANCE AND EDUCATIONAL PROJECTS

### Training Initiative for Financial Supervision (TIFS)

The Training Initiative for Financial Supervision (or TIFS), established by the KNF in 2009 is a training centre for regulators of all financial market sectors from the European countries. The purpose of the TIFS is to create capacity for upgrading professional expertise and sharing experience by regulators' employees.

In 2014, there were three seminars held under the TIFS: the first one addressing the capital market supervision-related topics ("Market abuse and investigation techniques leading to its effective combat") was held on 15-17 April; the second one addressing banking supervision topics (Tools for off-site supervision) was held on 11-13 June; and the third one addressing the insurance supervision topics (Internal Models assessment: qualitative and quantitative approach) was held on 10-12 December. Seminars hosted a total of 57 attendees from 27 countries.

### Twining Project for Capital Supervision in Azerbaijan

In July 2014, the KNF successfully completed the twinning project, started in 2012, for the benefit of the State Committee for Securities (SCS) of the Republic of Azerbaijan under ENPI<sup>39</sup>. The twinning project, with a budget of almost EUR 1m, had three components, under which the following activities were carried out in close co-operation with the employees of the Azerbaijani regulator:

- review and analysis of as well as support in adaptation of local securities market regulations in Azerbaijan to the EU legislation,
- familiarisation of SCS employees and market players with relevant EU directives and regulations as well as best practices and standards used by the regulators,
- preparation and development of guidelines, manuals, templates of forms and working papers, including for regulation, control and supervision of the securities market in Azerbaijan,
- support in review of SCS framework and development of SCS procedures,
- support in information activities dedicated to the securities market and its regulations in Azerbaijan;
- delivery of training courses in Baku for SCS employees and securities market players, and
- study visits and traineeships of SCS employees at EU member states' regulators'.

In 2014, the KNF's experts (in cooperation with ad hoc experts from KDPW and the Warsaw Stock Exchange), in line with plans, carried out 14 project activities involving 13 expert missions in Baku and an internship of representatives of the Azerbaijani administration at the

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<sup>39</sup>*European Neighbourhood and Partnership Instrument* - is an initiative of the European Commission, primarily aimed at developing cooperation between the European Union and partner countries outside the EU through ensuring integrated and sustained regional development. The global ENPI coverage: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Libyan, Libya, Moldavia, Morocco, the Palestinian Authority, Syria, Tunisia, Ukraine.



Polish supervisor. Thanks to the input of work by experts, it was possible to approximate the capital market regulations applicable in Azerbaijan to the EU legislation. With the KNF's expert support, the project's objectives and results have been successfully achieved. The final report of the project implementation was approved without reservations by the EU Delegation to Azerbaijan on 1 August 2014.

### Technical Assistance under TAIEX

Upon request of the EC Directorate-General for Enlargement and regulators of the states being beneficiaries of the technical assistance instrument TAIEX<sup>40</sup>, experts of the KNF actively participated in the training missions for the Ukraine and the Turkish Republic of Northern Cyprus.

### Development cooperation project for the support and improvement of the financial market of the Republic of Moldova

As a result of a positive decision of the Ministry of Foreign Affairs, the KNF received funding in the amount of PLN 188,004 for the execution of the development cooperation project 446/2014 "Support and improvement of the financial market of the Republic of Moldova - Part 2" under the Polish Development Cooperation Programme of the Ministry of Foreign Affairs of the Republic of Poland in 2014.<sup>41</sup>The project was carried out by the KNF Office for the benefit of public administration bodies related to the supervision of the financial market of Moldova, i.e. the National Commission for Financial Markets and the National Bank of Moldova in the period from January to December 2014. The project was a continuation of the KNF project carried out in 2013 taking into account the current needs of the supervision of the financial market in Moldova. The scope of the project covered preparation and successful execution, by the KNF Office's specialists, of 6 training mission in Chisinau, concerning the issues of supervision of the insurance, banking and capital markets. The project activities conducted by the experts of the KNF helped to support the institutional development and competence of the Moldovan supervisory authorities as regards the supervision of the financial market in Moldova.

### Twinning Project for Non-banking Supervision in Moldova

By the decision of 29 September 2014 of the European Union Delegation to Moldova, the KNF was elected the executor of the twinning project for the National Commission for Financial Markets of the Republic of Moldova, under the ENPI aid instrument, and then, on 28 November 2014, the Delegation in Chisinau was provided with a draft twinning contract developed jointly by the KNF and the twin Moldovan supervisory authority. It is planned that the process of signing the contract will be finalized by 28 February 2015. The project with a budget of EUR 1.3 million will be executed in the period from March 2015 to May 2017.

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<sup>40</sup> TAIEX (Technical Assistance and Information Exchange) is a technical assistance instrument financed by the European Commission and addressed to public institutions of the EU member states remaining the beneficiaries of post-accession assistance (Bulgaria, Romania, Croatia), of EU member candidates (the former Yugoslav Republic of Macedonia, Turkey) as well the states with status of potential candidates (Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Serbia), and also public institutions in the states being the beneficiaries of the European Neighbourhood and Partnership Instrument (ENPI) and Russia.

<sup>41</sup>Polish Development Cooperation Programme ("Polish Aid") - financed from the funds of the Ministry of Foreign Affairs and the specific state budget provision for the development cooperation, aimed at providing humanitarian and development aid to countries that are poorer and less developed than Poland. According to the "Long-term development cooperation programme 2012-2015", Poland's involvement in development cooperation focuses on two areas covering the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and the countries of the region of East Africa (Burundi, Ethiopia, Kenya, Rwanda, Somalia, South Sudan, Tanzania, Uganda), North Africa (Libya, Tunisia), Afghanistan, Kyrgyzstan, Tajikistan and the Palestinian National Authority.

## 7.4. PROTECTION OF FINANCIAL MARKET PARTICIPANTS

### BASIC AREAS OF OPERATION

One of the statutory objectives behind the financial market supervision is to ensure protection of interests of the market participants. The supervisory activities of the KNF Office in this respect involve monitoring of market practices on an ongoing basis and intervention measures, focusing in particular on those areas of the regulated entities' operations which are exposed to the risk of law infringement or abuse of rights of non-professional market participants.

The KNF Office monitors market practices by exercising its supervisory powers, which allow it to demand information and clarifications directly from the regulated entities, and by obtaining relevant data on its own. The supervisory measures are taken in response to the current market problems identified, among other things, on the basis of the information provided in complaints.

The tasks performed by the KNF to protect non-professional participants of the financial market include in particular:

- performing analytical and explanatory activities as regards signals reported in complaints of non-professional financial markets participants about regulated entities,
- monitoring advertising communication concerning regulated entities,
- supervision of market practices by financial market participants,
- analytical activities regarding agreement templates and products structure,
- educational activities,
- expert and administrative support for the Conciliatory Court at the KNF.

### ANALYTICAL ACTIVITIES AND INTERVENTIONS

In the course of the performed activities, based on the issues reported in complaints, the regulator performed analytical activities. The detailed information in this regard is presented in Table 5.1 in Annex 5.

### EXPLANATORY PROCEEDINGS FOLLOWING COMPLAINTS

Complaints about regulated entities sent to the KNF Office by non-professional financial market participants are an important source of information on the occurrence of unfavourable phenomena as regards practices applied by financial institutions. The analysis of the information provided in complaints consists in particular in verification of actions taken by regulated entities in the context of their compliance with the law. The findings of analytical and explanatory actions taken towards supervised entities may become the basis for applying supervisory measures to eliminate the doubtful market practices.

### COMPLAINTS IN GENERAL

In 2014, the KNF Office received a total of 9,708 complaints of clients of insurance sector entities, capital market entities, banking sector entities, open-end pension funds, voluntary pension funds, payment service providers and cooperative savings and credit unions. Compared to 2013, when the KNF Office received 10,619 complaints, there was a 9% drop in complaints in the period covered by the Report.

#### Complaints concerning the functioning of banking sector entities

In the period covered by the Report, the KNF Office received 5,193 letters concerning incorrect functioning of the banking sector. Against 2013, the number of complaints concerning the banking sector went up by approx. 3%.

The most frequently reported issues concerned the following:

- the quality of services (bank customers reported problems concerning improper or incompetent service provided by bank employees and raised the problem of lack of reliable information on the bank's products/services, lack of response to complaints or prolonged term of their examination),
- improper sales practices applied when offering insurance products of investment nature,
- loans and borrowings (problems related to granting and servicing loans, including irregularities in the debt collection activities conducted by banks, reservations as to proper review, by banks, of creditworthiness before granting a loan, irregularities in loan disbursement, or delayed repayment of a loan, as well as in conducting the total or a partial early repayment of the loan, and the lack of up-to-date information on debt),
- legitimacy of requests for payment sent by banks and the refund of an insurance premium in the event of early repayment of a loan/borrowing
- maintaining bank accounts, in particular, irregularities associated with the blockade of an account due to debt enforcement proceedings, a delayed execution of orders or failure to execute orders, the amount of fees charged for maintaining bank accounts or errors in clearing operations in accounts,
- credit card handling (incorrect settlement of transactions made using the card, settlement of credit card debt repayment and issues relating to fees for card issue or card use).

**Table 89. Number of complaints about the banks activity, 2013-2014**

Complaints sent to KNF	2013	%	2014	%
Commercial banks	4967	98,36	5096	98,13
Co-operative banks	83	1,64	97	1,87
<b>Total</b>	<b>5050</b>	<b>100,00</b>	<b>5193</b>	<b>100,00</b>

Source: In-house materials by the KNF Office

The list of complaints about the operation of commercial banks and cooperative banks, submitted to the KNF Office in 2013-2014, broken down by subject, is presented in Tables 6.1 and 6.2 in Annex 6.

#### The complaints regarding payment services provided by entities other than banks

In 2014, the KNF Office received 80 complaints concerning irregularities as regards payment services provision. The problems raised in these complaints concerned the timeliness of transfer orders' execution or irregularities relating to their execution and the method of settling a transaction.

#### Complaints about co-operative savings and loan associations

In the period covered by the report, the KNF Office received 241 complaints about cooperative savings and credit unions. The issues raised in these complaints covered, among other things, the issues related to:

- servicing loans and borrowings, including problems related to debt collection and the sale of amounts receivable, transferring data to BIK (credit bureau).
- absence of up-to-date information about the debt, or repayment and clearing of liabilities,
- maintaining accounts (in particular, they draw attention to the issues related to the amount of fees charged for maintaining accounts, delayed execution of operations or failure to execute operations).

#### Complaints about the activity of insurance companies

In the period covered by the report, the KNF Office received a total of 3,722 complaints about the activity of the insurance sector, including 504 complaints about life insurers (15.60% of all complaints) and 2727 complaints about non-life insurers (84.40% of all reported complaints), as well as 1 complaint about brokerage activities, 59 complaints about the operations of insurance agents and 431 complaints about the operations of branches of insurance undertakings from EU Member States. The number of complaints about the operations of insurance undertakings in 2014 decreased by 26% compared to 2013.

**Table 90. Number of complaints about the activity of insurance undertakings in 2013-2014**

Complaints sent to KNF	2013	%	2014	%
Segment I insurance undertakings - Life insurance	462	9,44	504	13,76
Segment II insurance undertakings - Non-life insurance	3933	80,33	2727	74,47
Branches of insurance companies of EU member states	501	10,23	431	11,77
<b>Total</b>	<b>4896</b>	<b>100</b>	<b>3662</b>	<b>100</b>

Source: In-house materials by the KNF Office

As far as life insurance is concerned, the issues reported by customers most frequently related to the surrender value of the policy in the event of early termination of the contract, an insurance agent's negligence and failure to obtain adequate information on the characteristics of investment insurance products for the contracts concluded in previous years. Reservations reported by individuals filing complaints focused on two areas:

- service-related irregularities at the selling stage (preceding agreement conclusion), consisting in providing, by the entities offering the said products, only some information on material features of the product or providing this information in a way that may be misleading,
- structuring insurance conditions in a complicated and incomprehensible manner.

Some of the complaints also concerned issues related to the refusal to pay the benefit or tardiness in payment.

As far as non-life insurance is concerned, the most commonly identified problems included:

- the amount of compensations paid, and failure to meet the time limits for claim settlement,
- tardiness in adjusting claims relating mainly to motor insurance, especially TPL insurance of motor vehicle owners,
- issues relating to the refusal to pay compensation,
- irregularities in providing access to loss files by the insurance undertaking, the exercising of the right to terminate an insurance agreement (in particular motor TPL insurance agreement by vehicle buyers), as well as failure to provide adequate information as regards the characteristics of insurance products
- issues concerning the refusal to refund the insurance premium or the amount of the premium refunded for the unused period of cover.

The list of complaints about life insurance undertakings submitted to the KNF Office in 2013-2014, broken down by subject, is presented in Table 6.3 in Annex 6 and the list of complaints about non-life insurance undertakings - in Table 6.4 in Annex 6.

Moreover, Table 6.5 in Annex 6 presents the list of complaints about branches of insurance undertakings of the European Union member states received by the KNF Office in the period covered by the report, broken down by subject.

### Complaints about the operations of open-end pension funds

In 2014, 37 complaints relating to the improper functioning of open-end pension funds were received, as well as 1 complaint relating to Voluntary Pension Funds operated by PTEs. Compared to 2013, the number of complaints received has not changed.

Complaints about the activity of open-end pension funds, which were received by the KNF Office, concerned mainly irregularities in the division and payment of funds accumulated in the account. The majority of those complaints were related to lack of knowledge or understanding of the relevant regulations. The complaints in that scope, broken by subject are presented in Table 6.6 in Annex 6.

### Complaints concerning the functioning of capital market entities

In the period covered by the report, the KNF Office received 434 letters concerning incorrect functioning of the capital market. Against 2013 the number of complaints went up by approx. 20%.

As regards investment fund companies, reservations usually mainly concerned the quality of services, as well as issues related to the execution of orders for the purchase and redemption of shares, the valuation of shares in investment funds and irregularities in the implementation of the investment policy.

The remarks made as to the operations of investment firms concerned mainly the quality of services provided, as well as the execution of orders.

As far as publicly held companies are concerned, the reported problems usually related to the quotation of a security, shareholders' corporate rights and disclosure requirements of both the companies listed on the regulated market of the WSE as well as NewConnect.

**Table 91. Number of complaints about the activity of capital market entities, 2013-2014**

Complaints sent to KNF on capital market operations	2013	%	2014	%
Publicly held company and other capital market participants	203	56,23	198	45,62
Investment firms	88	24,38	141	32,49
Investment Fund Company	65	18,01	85	19,59
Stock-exchange operators	5	1,39	8	1,84
Supervision of offerings	0	0,00	2	0,46
<b>Total</b>	<b>361</b>	<b>100</b>	<b>434</b>	<b>100</b>

Source: In-house materials by the KNF Office

The list of complaints about capital market entities' activities sent to the KNF Office in 2013-2014 broken into individual market segments is presented in Annex 6 in Tables 6.7, 6.8 and 6.9, respectively.

### SUPERVISORY ACTIVITIES OVER MARKET PRACTICES BY FINANCIAL MARKET PARTICIPANTS

The KNF's monitoring of market practices employed by the regulated entities and directly affecting their clients results from the comprehensive approach to the protection of interests of non-professional financial market participants.

The activities of the KNF conducted in 2014 focused on identifying and eliminating market practices generating material legal risk for financial institutions, in particular the practices violating the law or infringing interests of non-professional financial market participants in particular areas. To achieve this objective, the KNF undertook relevant supervisory measures and encouraged self-regulation of the market. The measures undertaken by the KNF were targeted, among other things, at the following market practices of regulated entities:

**The review of the practices applied by banks as regards the use of cookies and their influence on access to online banking.** The review showed that banks did inform about the fact of using cookies, but as a result of non-acceptance of cookies by the client in a web browser, the online banking website was often disabled or its operation was severely hindered. A large number of electronic banking websites ceased to operate normally. In some cases, the session expired message was displayed, there were problems with logging in, and repeated logging in on the online banking website immediately after entering a username and password.

In view of the above, the Polish Financial Supervision Authority informed banks that the use, to the full extent, of the electronic banking system's features may be made conditional on the acceptance of cookies in a situation where these files are to be used for increasing the level of security and identification of the user session. At the same time, in this case the terms of using online banking should be first included in the agreement between the client and the bank. In addition, the supervisory authority indicated a necessity to stipulate precisely, in agreements, the types of cookies used and also the purpose of saving them, and to inform clients about any possible consequences of failure to accept such files.

**The review of the practice applied by banks, relating to the enforcement of payments from bank accounts.** Taking into account the complaints filed with the KNF Office by non-professional financial market participants, as well as the signals reported by enforcement authorities concerning a non-uniform practice applied by banks as regards enforcement activities in relation to bank accounts, and taking into account the interpretation uncertainty related to the application of provisions on enforcement activities, which are raised by the banks themselves, the KNF Office started to review the issue of the application of provisions relating to the enforcement of payments from bank accounts. The review covered the application, by a selected group of domestic banks, of the provisions of the Code of Civil Procedure Act of 17 November 1964 (consolidated text Dz.U. of 2014, item 101, as amended), the Act of 17 June 1966 on enforcement proceedings in administration (consolidated text Dz.U. of 2012, item 1015, as amended) and of the Banking Law Act of 29 August 1997 (Journal of Laws 2012, item 1376, as amended) as regards enforcement of receivables from bank accounts.

Due to the fact that a number of issues concerning the enforcement of payments from bank accounts were identified, the KNF requested the Minister of Justice and the Minister of Finance to consider the advisability of taking action to clarify the laws, and to standardize the practice of enforcement authorities.

**The review of the practice of determining the date of executing a payment from the redemption of an insurance contract.** The generally applicable laws provide for a date for payment of the benefit under the insurance contract only if the benefit is related to the occurrence of an insured event. The payment for the redemption is not associated with an insured event and therefore, as a rule, insurers are free to shape the provisions determining the date of such payment. This does not mean complete freedom, because - as it follows from the case-law of the Court of Competition and Consumer Protection (CCCP) - some of the solutions for determining the date of payment for redemption may be abusive. Based on the positions formulated in the judgments of the CCCP, the provisions on the date of redemption, as contained in the general insurance conditions of ten life insurance companies were reviewed. As a result of the review, the solutions used by two insurance companies were questioned, and the KNF Office notified the insurers in question of the risks arising from the continued use of such provisions in transactions with consumers.

**The review of the practice of an insurance undertakings with respect to customers insured under insurance contracts containing provisions that the Court of Competition and Consumer Protection found prohibited.** The insurer demanded from their customers to pay certain fees,

but - due to the judgment of the CCCP - it could not refer to the provisions of the general insurance conditions governing the manner of calculating these fees. The insurer found, however, that the fees may be charged based on the remaining provisions of the general insurance conditions, and the method of their calculation may be derived from the judgment of the CCCP. Such practice was found to be unjustified, taking into account the content of insurance contracts, and the KNF Office recommended that it should not be applied any longer. The recommendation has been implemented.

**The review of the practice of domestic payment institutions as regards obligations to provide information to customers in connection with the provision of services.** The scope of the review covered issues related to fulfilment, by domestic payment institutions, of the obligation to make available and provide the users with the necessary information required by the Act of 19 August 2011 on payment services (Dz.U. of 2014, item 873), both in conducting single payment transactions as well as the provision of services based on framework agreements. As a result of the review in question, no significant irregularities were found in the fulfilment, by the supervised entities, of their information obligations, which could be the basis for taking individual supervisory measures.

**Other activities aimed at eliminating the market practices infringing the interests of financial institutions' customers concerned, among other things, the following:**

- the review of the practice of some banks related to the change in the content of regulations as regards the rules for determining the exchange rate and the amount of the currency spread in mortgages indexed/denominated in a foreign currency;
- the analysis of the practice of cooperative savings and credit unions as regards the possibility of an overdraft,
- the review of the practices relating to informing payment services users as regards the rules for the currency translation of transactions effected using cards issued in a foreign currency;
- the review of a bank's practices as regards displaying, in the electronic banking system, commercial information relating to the bank's own products and the processing of personal data of the bank's customers who are users of the electronic banking system;
- the review of the practices of financial institutions as regards incorrect processing of personal data of customers in the information systems, in particular the distortion of the spelling of customers' names;
- analysis of the general conditions of life insurance with unit-linked insurance plan,

**Analysis of fairness of advertising communication by the regulated entities**

In order to protect the interests of non-professional participants of the financial market against dishonest advertising information, the Polish Financial Supervision Authority conducted monitoring of advertising messages, which consisted in a review of information and advertising materials published by, or on behalf or for the benefit of the entities supervised by the KNF.

The monitoring covered advertising messages in selected press titles and TV channels. The monitoring also covered selective review of supervised entities' websites, as well as of popular sites where advertising messages are disseminated. A fragmentary review of supervised entities' advertising leaflets and information materials was also conducted. In addition, information was collected about irregularities reported by financial services customers, including irregularities reported through the form made available on the KNF website, which enables individuals to signal objectionable advertising messages.

The purpose of the reviews of advertising communications was to establish whether the reviewed content complied with the law and respected the interests of non-professional financial market participants - in particular whether these communications did not mislead the target audience at the pre-contractual stage.

In 2014, the supervisory authority questioned 6 potentially misleading advertising communications of financial institutions (4 advertisements of banks and 2 advertisements of

SKOKs. The majority of interventions related to practices involving the use, in an advertisement, of expressions that might be misleading as to the nature of the product or the scope of services.

## THE OPERATION OF THE ARBITRATION COURT AT THE KNF

In 2014, the Arbitration Court at the Polish Financial Supervision Authority conducted a series of promotional and information activities aimed at the dissemination of the amicable settlement of disputes in the financial market, in particular through mediation.

In order to carry out the above-mentioned task, the film entitled *The history of an annex* was prepared at the end of March and the beginning of April, which showed the process of mediation between a financial institution and its client. The film, which was prepared for a broad audience, was displayed during the events organized by the Arbitration Court at the Polish Financial Supervision Authority and is available on the KNF website and on social networking websites.

Significant promotional activities also include the organization of two conferences in May and June. The first conference, entitled *Mediation in the financial market in the practice of the system of justice*, was addressed to the judicial community. Its purpose was, inter alia, to introduce judges into the institution of mediation in disputes in the financial market, the mechanisms of its functioning and the benefits for the court referring the case to mediation. The second conference, entitled *Why 'yes' to mediation in the financial market?*, was addressed to representatives of financial institutions. Its purpose was, inter alia, to present mediation as a method of dispute resolution in the financial market.

In view of the dissemination of the amicable dispute resolution in the financial market, on 8 September 2014, the KNF adopted a resolution on awarding the *Mediation friendly financial institution* distinction to financial institutions. The distinction is awarded to ensure the proper functioning of the financial market and the protection of participants in this market by promoting the amicable resolution of disputes between financial institutions and the clients using their services, as well as the recognition of the financial institutions that base their contacts with customers on openness, dialogue and attempts to reach an agreement.

The distinction is awarded to a financial institution meeting the conditions specified in a resolution, by the Distinction Board composed of the KNF Chairman, the President of the Arbitration Court at the KNF and three members of the General Assembly of Arbitrators and Mediators of the Arbitration Court at the KNF elected by the General Assembly. The distinction is associated with the right of the financial institution to use a special logo in its operations

It is worth mentioning that in October, on the occasion of the World Mediation Day, workshops were organized for local/regional consumer ombudsman, whose programme covered dispute resolution in the financial market through mediation, and legal aspects of consumer empowerment in a dispute in the financial market, with an emphasis on practical solutions. In addition, as part of the celebrations, there were open screenings of the film entitled *The history of an annex* and the mediators of the Arbitration Court were available for consultations.

Except for promotional activities aimed at the dissemination of mediation as a way of resolving disputes between financial institutions and service recipients, legislative initiatives aimed at the systemic development of mediation should be indicated. A proposal to change the provisions of the Code of Civil Procedure in relation to mediation was sent to the Minister of Justice. Its purpose is to promote the institution of mediation and more efficient use of the time of court proceedings from the date of filing a claim to the date of the first hearing.



In addition, the KNF Office participated in legislative work concerning the amicable dispute resolution mechanisms, by presenting opinions on draft guidelines for the Act on out-of-court consumer dispute resolution and the Act on promoting amicable dispute resolution methods.

On 8 October 2014, the Second General Meeting of Arbitrators and Mediators of the third term of the Arbitration Court at the Polish Financial Supervision Authority was held. During the General Meeting, three members of the Award Committee of the distinction *Mediation-friendly Financial Institution* were selected.

**Table 92. Petitions filed with the Arbitration Court (AC) at the KNF in 2014.**

Detailed items	Total	Arbitration proceedings	Mediation proceedings
Requests	347	62	285
Consents	62	3	59
Cases adjudicated in favour of the petitioner without starting a dispute (settlement or settlement proposal was made)	18	3	15
Refusals	247	51	196
Other (withdrawal of the petition of failure by the petitioner to supplement the petition)	4	2	2
Pending (no response from the other party)	16	3	13

Data - as at 31.12.2014

Source: In-house materials by the KNF Office

## 7.5. EDUCATIONAL AND INFORMATION INITIATIVES

In order to fulfil its statutory task of a regulator as regards popularising knowledge of the financial market's functioning, since 2009 the KNF Office has been carrying out the Educational Centre for Market Participants project (CEDUR), under which it organized training and publishing initiatives in the period covered by the report. In 2014, the KNF Office held 93 seminars and training workshops, which were addressed mainly to the representatives of entities supervised by the KNF, from all financial market sectors, representatives of the judiciary and law enforcement agencies, teachers of *Basic Entrepreneurship* and *Economy in Practice* as well as methodologists of these subjects at upper secondary schools. The meetings were attended by nearly 8 thousand participants. The list of seminars and training workshops organized under the CEDUR project in 2014 is shown in Annex 7.

Moreover, the representatives of the KNF Office participated as speakers in 99 external events, such as panels, congresses and conferences.

In the period covered by the Report, 11 educational brochures were published under the imprint of the KNF: "Financial security in electronic banking - financial offences related to online banking," "A Guide to Consumer Credit", "The rights and obligations of members of cooperative savings and credit unions - legal analysis", "Domestic payment institutions - rights and obligations", "Payment service offices - rights and obligations", "Insurance undertakings and their services - supervision, licenses and products", "Capital pension system after changes - selected legal aspects", "The third pillar for beginners. A guide for a future pensioner", "How to meet reporting obligations properly. A guide for issuers", "The activities of the Polish Financial Supervision Authority in the case-law of Administrative Courts" and "Let's talk about finances. A handy ABC for Janek and Hania". The brochures are available on the KNF website in the form of e-books.

Another form of educational initiatives addressed to the academic community was the organisation of the third edition of the Competition for the KNF Chairman's Award for the best PhD thesis on the financial market.

The main tool used by the KNF Office to disseminate information is its official website with nearly 7.6m views in 2014.

In 2014, the media released 68,638 publications containing references to the Polish Financial Supervision Authority, of which 61,151 were on-line publications, 4,867 were press publications and 2,620 references were made on the radio and on television.

When co-operating with the media, the KNF Office pursues open communication policy. The tasks in this area include, but are not limited to:

- presentation of positions and results of work of the KNF and the KNF Office to the public,
- informing the public of activities, initiatives and programmes managed by the KNF and the KNF Office,
- commenting on financial market developments,
- responding to questions of the media representatives.

As required by the Act of 6 September 2001 on access to public information (Dz.U. No 112, item 1198, as amended) and the accompanying regulation of the Ministry of Internal Affairs and Administration, the KNF is obliged to publish certain information on the web pages of Biuletyn Informacji Publicznej (BIP, Public Information Bulletin) assigned to particular entities, representing an autonomous part of the KNF on-line service. In execution of the provisions of the Act on access to public information, 161 requests for access to public information were examined in 2014.

## 7.6. CO-OPERATION WITH THIRD PARTIES

### CO-OPERATION WITH FINANCIAL MARKET PARTICIPANTS

In 2013, meetings of the KNF Office's senior personnel with representatives of regulated entities and financial trade organisations were continued. The main purpose of the initiative is to improve the standards of communication and co-operation with the market and to facilitate the assessment of satisfaction of all market participants.

### THE "CHECK TO WHOM YOU ENTRUST" SOCIAL CAMPAIGN

In the period from 4 August to 2 November 2014, the KNF Office conducted the "Check to whom you entrust" social campaign, in collaboration with the public media - Telewizja Polska SA [Polish Television] and Polskie Radio SA [Polish Radio]. The aim of the campaign was to draw customers' attention to a safe and conscious saving in the financial market. During the campaign, 30-second spots informing about the risk existing in the financial market were broadcast in the following channels: TVP1, TVP2, TVP Info, TVP Regionalna and PR1, PR3, PR4 and PR24. The socio-informational campaign in the public media was supported by a dedicated website: [http://www.knf.gov.pl/sprawdz\\_komu\\_powierzasz.html](http://www.knf.gov.pl/sprawdz_komu_powierzasz.html) under the motto "All that glitters is not gold. Check to whom you entrust your money."

## SOCIAL CAMPAIGN “NIE DAJ SIĘ NABRAĆ. SPRAWDŹ, ZANIM PODPISZESZ” (Don’t get fooled, check before you sign)

In 2014, the KNF Office continued the activities in the second part of the social campaign “Nie daj się nabrać. Sprawdź, zanim podpiszesz”. (Don’t get fooled, check before you sign)

The aim of the campaign is to draw public attention to the risk involved with conclusion of financial agreements, mainly taking out high-interest bearing short-term borrowings, the so-called “temporary loans” and using financial services that are not regulated by the state. The social campaign is organised by seven public institutions: Bank Guarantee Fund, Polish Financial Supervision Authority, Ministry of Finance, Ministry of Justice, National Bank of Poland, Police and Office of Competition and Consumer Protection.

The website [www.zanim-podpiszesz.pl](http://www.zanim-podpiszesz.pl) provides basic information on security in financial market, presents four principles of secure loan taking, provides financial calculators and warns about loopholes in agreements; the website also provides access to key legal acts. The KNF Office also operates a helpline where one can get information whether a given entity is covered by the KNF supervision.

## CO-OPERATION WITH THE AUDIT OVERSIGHT COMMISSION ("KNA"), THE MINISTRY OF FINANCE AND WITH STATUTORY AUDITORS

There is a Committee for Relations with Statutory Auditors established by the Chairman of the KNF within the KNF Office.

In 2014, the Committee for Relations with Statutory Auditors took the following actions within its powers:

- advising on the proposed Directive amending the Directive on statutory audits of annual accounts and consolidated accounts and Regulation of the European Commission on specific requirements regarding statutory audit of public-interest entities,
- preparing responses to the inquiries of KNA on the proposed solutions concerning the amendment to the Act on statutory auditors (...),
- giving opinions on the proposals for amendments to the regulations issued pursuant to the Act on statutory auditors (...),
- collecting, for the needs of the Ministry of Finance, data and information from supervised entities on audits of financial statements and the method of selecting, appointing and changing entities authorized to audit financial statements, including the information on the rotation of entities authorized to audit financial statements,
- co-operation with representatives of the KNF Office being members of KNA,
- organising meetings of representatives of the KNF Office with statutory auditors auditing financial statements of securities issuers, banks and insurance undertakings.

## COOPERATION WITH THE NATIONAL BANK OF POLAND

The KNF Office cooperates in a permanent and bilateral manner in exchanging the information necessary to perform the statutory tasks of the central bank and the financial market supervisory authority. The principles of cooperation are set out in a bilateral agreement on cooperation and exchange of information between the KNF and the NBP. Under the agreement, the KNF passed in 2014 to the NBP much data on the insurance sector.

## CO-OPERATION WITH OTHER INSTITUTIONS

In the period covered by the report, the KNF Office co-operated with the following institutions:

- Central Statistical Office (GUS): regular transmission, to the Central Statistical Office, of data on the insurance and reinsurance sector on the basis of the Statistical Research Programme of the Official Statistics, the KNF Office also participated in the work on the research programmes for 2014, 2015 and 2016.
- The principles of cooperation between the KNF and UFG are set out in the agreement on cooperation and exchange of information between the KNF and the UFG. Under the agreement, the KNF and UFG exchange information on motor and mandatory insurance,
- Polish Insurance Association by participation of the KNF Office employees as speakers in conferences organised by the Association.

## 8. KNF OFFICE ORGANISATION

The Polish Financial Supervision Authority and its Chairman perform their tasks with the aid of the KNF Office operating under the charter (Notice of the Prime Minister of 14 August 2013 on the announcement of the uniform text of the Order of the Prime Minister on the Charter of the Office of the Polish Financial Supervision Authority - M.P. of 2013, item 798).

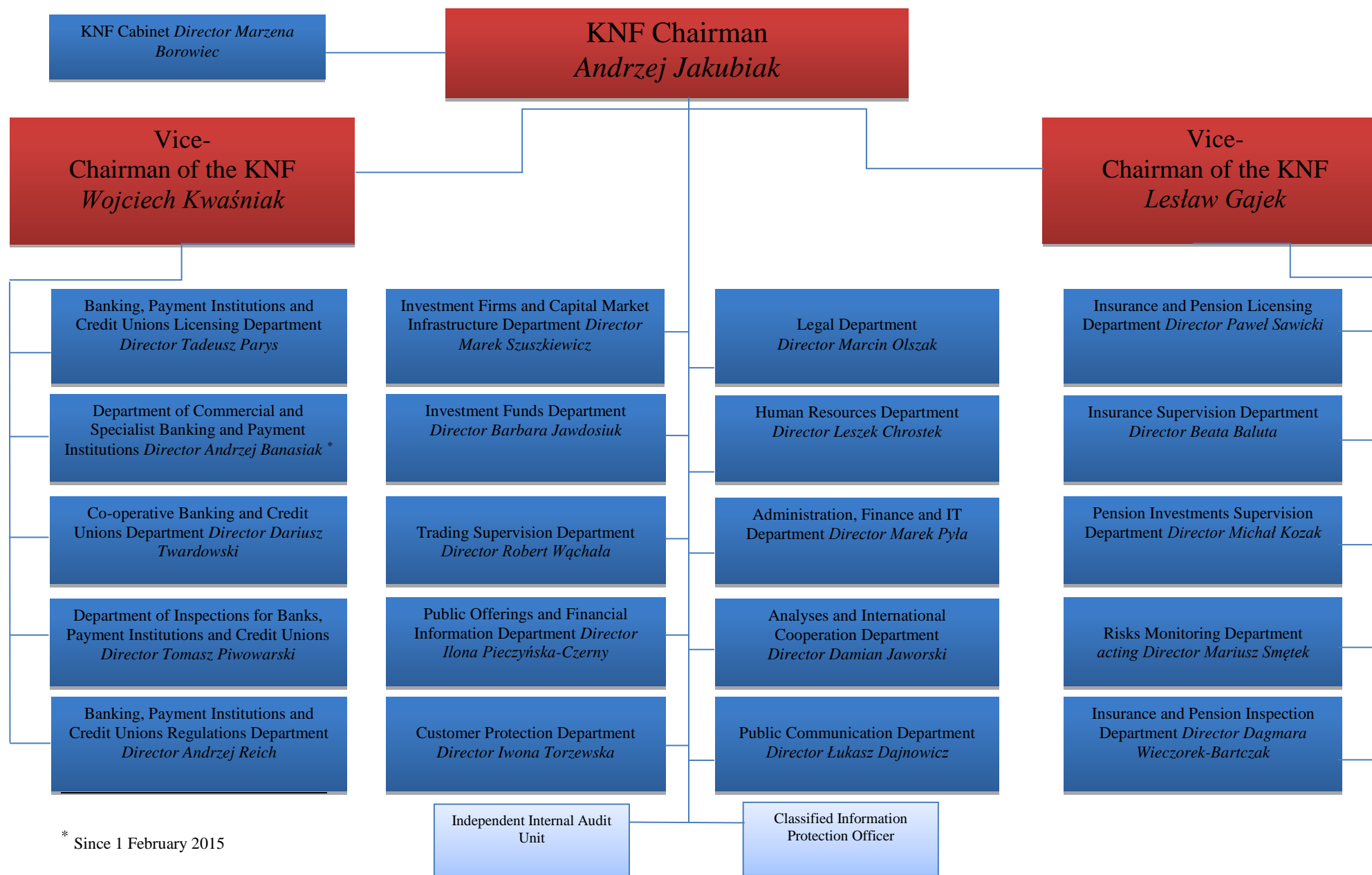
The KNF Office is led by the KNF Chairman, aided by Vice-Chairmen and heads of organisational units. The tasks of the organisational units of the KNF Office are specified in the organisational by-law of the KNF Office issued with the ordinance of the KNF Chairman.

The management control system defined as a set of actions to ensure that the goals and tasks are performed in accordance with applicable laws, and in a cost-effective, efficient, competent and timely manner functions in the Office. The aim of the management control is to ensure in particular compliance of operation with legal provisions and internal procedures as well as the effectiveness of operations, reliability of reports, protection of resources, compliance with and promotion of ethical rules, effectiveness and efficiency of information flow and risk management.

In addition, in order to ensure adequacy, effectiveness and efficiency of management control, the risk management principles were introduced at the KNF Office. They are aimed at providing mechanisms of identifying risks that constitute a threat to efficient, cost-effective, timely and compliant in legal terms execution of goals and tasks of the KNF Office, determining the results and weights of those risks and taking adequate preventive measures to mitigate the identified risks.

The year 2014 was another year in which the KNF Office functioned under the performance budget, in accordance with the Act on public finances.

Diagram 1: Organisational structure of the Polish Financial Supervision Authority Office as at 31.12.2014.



## BUDGET OF THE KNF OFFICE

The KNF Office is a publicly financed entity. Expenditure of the Office is covered directly from the state budget. The Office's revenue is the budget revenue transferred to the state budget account. As a public sector entity, the Office manages its finances in accordance with applicable laws, in particular the Act on public finances of 27 August 2009 (Dz.U. of 2009, No 157, item 1240, as amended), the Public Procurement Law Act of 29 January 2004 (consolidated text Dz.U. of 2010, No 113, item 759, as amended), and the Budget Act, as well as the annual financial plan for a budget year.

Like in many other European countries, in Poland the costs of state supervision of the financial market are borne from mandatory charges paid by regulated entities.

Fees collected by the KNF Office for official duties related to examinations for brokers and actuaries represent state budget revenue not allocated to cover the costs of supervision. Fines imposed by the Polish Financial Supervision Authority on regulated entities and on members of their governing bodies for any illegal activity also count towards state budget revenue.

The budget revenue of the KNF Office for 2014 was planned at PLN 224,139 thousand, while measured on an accrual basis and cash basis it amounted to PLN 258,950.1 thousand and PLN 196,540 thousand respectively. A bulk of the revenue was derived from payments made by regulated entities to cover the costs of supervision. The fines imposed on regulated entities and paid by them as well as other revenue not classified as costs of supervision totalled PLN 5,789 thousand.

Expenditure earmarked in the budget for the Authority's activities in 2014 were planned in the amount of PLN 218,553 thousand, including:

- |  |                       |
|--|-----------------------|
| – expenditure in section 758 “Miscellaneous settlements” | PLN 218,350 thousand, |
| – expenditure in section 752 “Defence”                   | PLN 15 thousand,      |
| – specific provisions                                    | PLN 188 thousand,     |

In 2014, the public funds were spent in a rational, appropriate and economical manner.

The KNF's budget plan for 2014 was prepared in the amount of PLN 218,365 thousand and was by PLN 15m or 9.7 percentage points higher than the budget for 2013, while at the same time the Office had significantly more supervisory responsibilities arising from an increase in the scale of the financial market's operations and an increase in the number of supervised entities.

In performance of the Minister of Finance's Regulation of 13 June 2013 on the detailed manner, procedure and deadlines for the preparation of materials for the proposal for the 2014 Budget Act, the KNF developed and submitted to the Minister of Finance its draft budget for the budget year, prepared in the standard and performance layout.

Tables 93 and 94 present, in the traditional layout, the plan and the performance of budget revenues and expenditure carried out in 2014, compared to 2013.

**Table 93. Execution of the KNF's 2014 budget revenue plan**

Budget revenue	2013 planned (PLN '000)	2013 actual (accrual basis)		2014 planned (PLN '000)	2014 actual (accrual basis)		Planned 2014 vs. 2013 (%)	Actual - 2014 vs. 2013 (%)
		(PLN '000)	(%)		(PLN '000)	(%)		
1	2	3	4	5	6	7	8	9
Fees towards the costs of supervision of insurance and brokerage activities paid by insurance companies	26 700.0	30 998.0	116.1	32 752.0	33 698.5	103.0	122.7	108.7
Fees towards the costs of supervision of open-end pension funds paid by universal pension fund companies	16 400.0	20 322.5	124.0	13 101.0	15 106.0	115.0	79.9	74.3
Fees towards the costs of supervision paid by the capital market	37 000.0	37 585.7	102.0	43 670.0	47 880.4	110.0	118.0	127.4
Fees towards the costs of supervision paid by supervised banking market entities (commercial banks, cooperative banks, SKOKs, BUPs, KIPs)	125 400.0	149 929.0	120.0	128 827.0	156 796.6	122.0	102.7	104.6
Fees for official duties connected with examinations for brokers, actuaries and insurance agents	400.0	475.2	119.0	342.0	480.2	140.0	85.5	101.1
Fines imposed on the industry	4 000.0	3 906.5	98.0	5 387.0	4 465.3	83.0	134.7	114.3
Other	60.0	323.1	540.0	60.0	523.1	872.0	100.0	161.9
<b>Total</b>	<b>209 960.0</b>	<b>243 540.0</b>	<b>116.0</b>	<b>224 139.0</b>	<b>258 950.1</b>	<b>116.0</b>	<b>106.7</b>	<b>106.3</b>

Source: in-house materials by KNF Office

**Table 94. Execution of the KNF's 2014 expenditure plan**

Budget expenditure	2013 planned (PLN '000)	2013 actual		2014 planned (PLN '000) after changes	2014 actual		Planned 2014 vs. 2013 (%)	Actual - 2014 vs. 2013 (%)
		(PLN '000)	(%)		(PLN '000)	(%)		
Payroll, including overheads	124 456.8	119 145.0	95.7	126 313.0	123 892.0	98.0	101.5	104.0
Non-payroll expenditure including:	74 558.2	68 639.0	92.1	92 240.0	84 503.0	91.6	123.7	123.1

out-of-pocket expenses	53 558.2	50 634.0	94.5	52 940.0	47 140.7	89.1	98.8	93.1
assets-related spending	21 000.0	18 005.0	85.7	39 300.0	37 362.3	95.1	187.1	207.5
<b>Total</b>	<b>199 015.0</b>	<b>187 784.0</b>	<b>94.4</b>	<b>218 553.0</b>	<b>208 395.0</b>	<b>95.4</b>	<b>109.8</b>	<b>111.0</b>

Source: in-house materials by KNF Office

Pursuant to Article 2(1) of the Act of 22 January 2010 on the Supreme Audit Office, the execution of the state budget in section 70 Polish Financial Supervision Authority is audited annually by the Supreme Audit Office. The audit results, i.e. publicly available information on the audit results and a post-audit statement, are published on the website of the Public Information Bulletin of the Supreme Audit Office. Moreover, pursuant to Article 182 of the Act on Public Finances 27 August 2009, a report on the execution of the KNF Office's budget, in the form of tables and descriptions, is submitted to the Ministry of Finance, and by the end of the second quarter of each year a report on the execution of the KNF Office's budget is submitted to the Public Finance Committee of the Sejm (lower chamber of the Polish Parliament) and to the Budget and Public Finance Committee of the Senate (upper chamber of the Polish Parliament).

**Table 95. Costs of supervision of particular markets in 2014 versus 2013**

Market	2013		2014		in relation to the previous year	
	planned (PLN '000)	actual (PLN '000)	planned (PLN '000)	actual (PLN '000)	planned (2013=100)	actual (2013=100)
Capital market	37 000.0	39 135.0	43 670.0	44 952.8	118.0	114.9
Insurance market	26 700.0	29 920.0	32 752.0	32 666.2	122.7	109.1
Pension market	16 400.0	12 470.0	13 101.0	12 930.7	79.9	103.7
Banking market	125 400.0	105 873.0	128 827.0	117 662.2	102.7	111.1
<b>Total</b>	<b>205 500.0</b>	<b>187 398.0</b>	<b>218 350.0</b>	<b>208 211.9</b>	<b>106.3</b>	<b>111.1</b>

Source: in-house materials by KNF Office

In connection with the Regulation of the Minister of Finance of 13 June 2013 on the detailed manner, procedure and deadlines for the preparation of materials for the proposal of the Budget Act for 2014, the Polish Financial Supervision Authority also developed a draft budget in performance layout. For execution of the task 4.4 "Supervision of the capital, insurance, pension and banking markets in 2014", in line with the "Catalogue of functions, tasks, subtasks and actions for 2014", the Polish Financial Supervision Authority allocated the amount of PLN 218,538 thousand. For the task 11.4.2.4.W "The defense training of public administration and businesses", the Polish Financial Supervision Authority planned the amount of PLN 15,000

The KNF Office's budget in performance layout is presented in Table 96.

**Table 96. State budget expenditure by activity (part 70 - the Polish Financial Supervision Authority) in 2014 (PLN '000)**

No	Function/activity/sub-activity	Planned for 2014 after changes	Actual as at 31.12.2014
4.	<b>Management of public finances</b>	<b>218 538.0</b>	<b>208 380.0</b>
4.4.	Supervision of the capital, insurance, pension and banking markets	218 538.0	208 380.0
4.4.1.	Supervision of capital market entities	45 654.0	45 010.0



4.4.2.	Supervision of insurance companies	34 999.0	32 711.0
4.4.3.	Supervision of the pension market	14 542.0	12 933.0
4.4.4.	Banking supervision	123 343.0	117 726.0
<b>11.</b>	<b>External security and inviolability of borders</b>	<b>15.0</b>	<b>15.0</b>
11.4.2.4.W	The defense training of public administration and businesses	15.0	15.0

Source: in-house materials by KNF Office

#### Task 4.4. Supervision of the capital, insurance, pension and banking markets.

The objective of the task was to ensure compliance of operations of regulated entities with financial market regulations and to ensure the protection of interests of financial market participants. This objective was to be achieved by:

- performing control activities (comprehensive and problem-oriented inspections) in the regulated entities and the mode of performance thereof depended on the selected inspection activities in individual cases, control-related legal provisions and the problem complexity which translated into the scale of dedicated resources,
- conducting administrative procedures consisting in considering requests filed by the regulated entities and issuing decisions the processing of which depended on the complexity of cases and the quality and completeness of documentation submitted by a party.

The following metric was applied to monitor the execution of task 4.4:

- weighted average number of completed administrative procedures concerning the financial market in relation to the number of requests for these procedures, as filed by the supervised entities, and the number of completed inspection procedures in the supervised entities in relation to the number of planned inspection procedures.

The adopted measure was used for in the 2014 performance budget and amounted to 98.65%.

#### PUBLIC CONTRACTS

All current and capital expenditure in the KNF Office is made on the basis of the Public Procurement Plan and in accordance with the internal regulations of the KNF Office on public procurement. In 2014, the KNF Office conducted 111 public procurement proceedings in accordance with the procedure provided for in the Public Procurement Act, for a total amount of PLN 54,442,405.17.

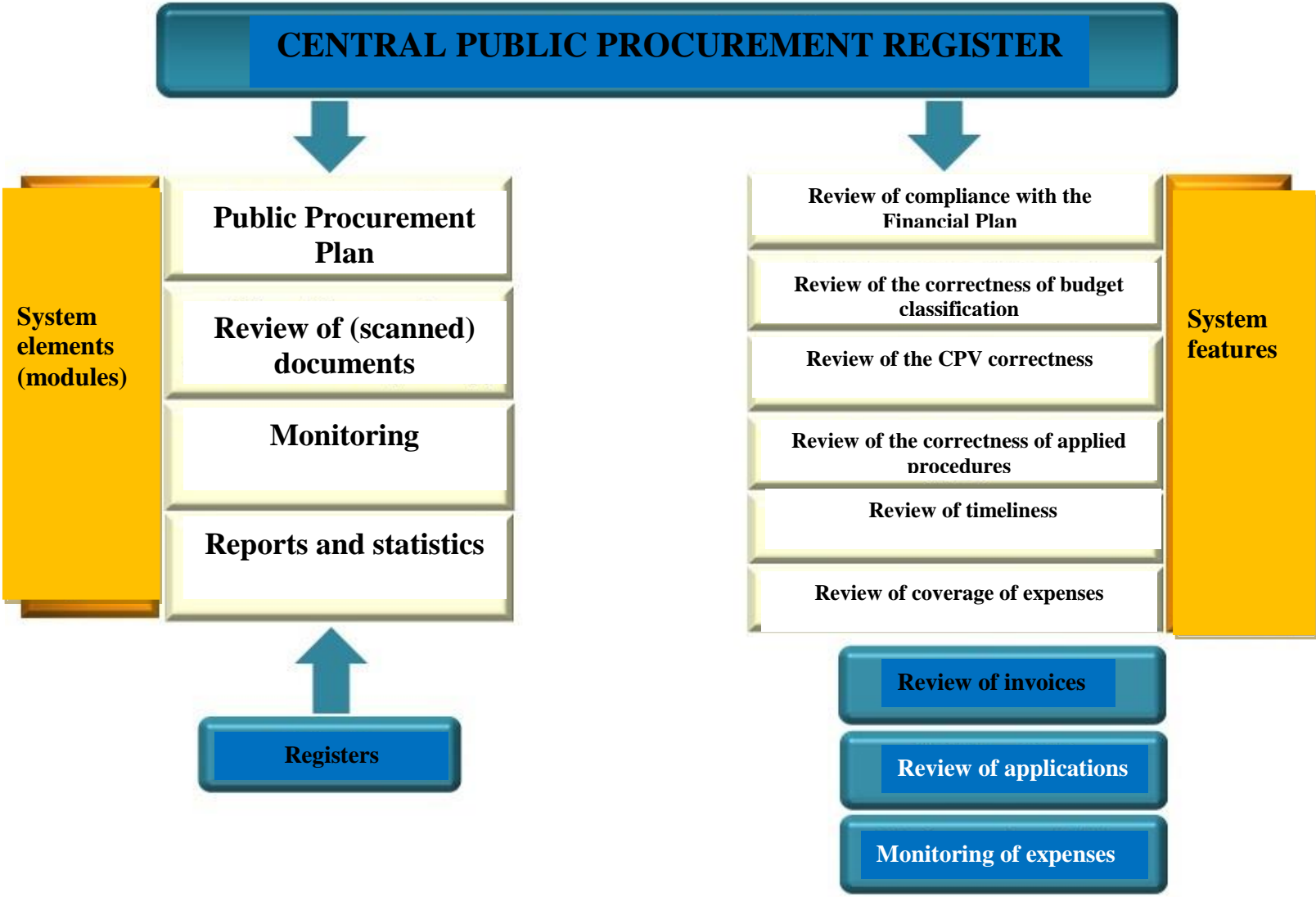
The public procurement process is supported by the internally developed information system under the name: Central Public Procurement Register, which, based on the needs of operational control of the public procurement process at the KNF Office, is the central database for planning, awarding, performing and accounting for all public procurement contracts at the KNF Office.

The database of the Central Public Procurement Register contains scanned source documents, including approved applications for consent to public procurement, tenders submitted in the procedures conducted under the Public Procurement Act, signed contracts and the invoices received, as a result of which an electronic archive of documents in the public procurement process is created.

There are some mechanisms implemented in the Central Public Procurement Register to control the deadlines for taking the necessary measures, to control the reflection of expenses in the Financial Plan, to control the appropriateness of the procedures applied pursuant to the Public Procurement Act, as well as many other tools supporting the management of the procurement process and mitigating operational risk.



Diagram 2: Central Public Procurement Register



## INSPECTION SUPPORT SYSTEM IMPLEMENTATION PROJECT

In June of 2014, a project was started in the KNF Office to implement the Inspection Support System for the banking supervision activity. The system in question is to provide an environment for planning, conducting, accounting for and reporting the inspection and validation processes carried out by the KNF Office. In particular, the system is to support the following phases of inspection processes:

- planning inspection activities,
- preparing, conducting and summarizing the results of inspections,
- monitoring the progress of inspections,
- monitoring the implementation of recommendations and fulfilment of conditions,
- accounting for inspectors' work time,
- preparing cross-sectional analysis on the basis of the data gathered,

As at 31 December 2014, most of the work related to the system's pre-implementation analyses was completed (in particular, the Functional and Non-Functional Requirement Specification had been developed for the System and the market research had been conducted on the information systems meeting the project objectives, which was carried out by a public notice of request for the provision of relevant information by suppliers of such solutions), and the work on developing tender specifications is being finalized.

## IT DEVELOPMENT

In 2014, the main effort in the IT area was focused on the development and implementation of the KNF Office Computerization Strategy for 2014-2018. The Strategy, which was approved by the Office's management, together with the IT Strategic Action Plan, assumes that the following three strategic objectives will be met:

- Objective 1 - To provide entities from all supervised markets with a single communication channel with the KNF Office,
- Objective 2 - To provide entities from all supervised markets with a possibility to submit reports in the XBRL standard,
- Objective 3 - To provide powerful tools for the analysis of data supporting the supervisory processes.

The most important achievement of 2014 was the construction, by the KNF Office, of an in-house, high availability, secure data processing centre (CPD), based on the IT technical chamber, ensuring the highest security and business continuity of the Office's IT systems. The technology of modular multi-layered panels, which give protection against fire, corrosive gases, water, dust, explosion and burglary, protects the whole infrastructure, information systems, and data stored in CPD even in the case of exposure to extremely adverse and undesirable physical factors, which in practice ensures uninterrupted operation of IT processes. The functioning of the CPD centre in the location at 6E Niedźwiedzia Street (CPD N6E) is based on two independent sources of the supply of energy directly from the municipal power grid, and in case of failure - the batteries of the emergency power supply and a generator will ensure uninterrupted operation for at least 24 hours. Additionally, CPD N6E is equipped with a management system to monitor the entire technical infrastructure and to control all of its elements remotely. One of the most modern cooling systems based on intelligent, highly efficient ice water-air heat exchangers, working on the basis of direct cooling of data racks from the inside, which is exactly where the sources of heat are located, is responsible for maintaining the proper temperature and humidity. The heat exchangers precisely blow air, which is previously cooled by the refrigerant supplied by ice-water aggregates, using, to a maximum extent, free cooling, which is an eco-friendly technology using the temperature of the external air to cool the liquid. Such cooling is not only very efficient, but also in line with the applicable "green CPD" standards, because it consumes significantly less power than the solutions working on the basis of the freon factor used so far in the majority of CPDs in Poland and abroad.

Parallel to the task of building an in-house CPD, in the period covered by the report, measures were taken to launch an independent data processing centre on the separate, rented area of CDP NBP. In August 2013, an agreement with the National Bank of Poland was concluded to lend for use a separate area in CPD NBP, and in 2014 subsequent IT systems of the KNF Office were launched in it. Currently, the centre at NBP achieved full independence and took over the functions of the centre rented from an external company. In order to achieve this, it was necessary to migrate the KNF infrastructure and systems from the colocation centre. This operation was carried out from May to October 2014. This whole complicated process was prepared by the Polish Financial Supervision Authority, in accordance with an internally developed concept assuming a continuous and uninterrupted access to the systems being migrated, whereas the equipment transfer process was carried out by a specialist company under the supervision of KNF Office specialists. It was an extremely complex task due to the existing limitations. In total, by the exertions of the KNF Office, all of the Office's ICT environments were transferred, including 15 of critical importance for the Office's functioning.

Among the other key activities carried out by the IT area in 2014, the following should also be mentioned:

- preparing, at the KNF Office, IT solutions supporting the implementation of the revised requirements of the European Union in the area of financial reporting in the banking and capital markets (ITS (Implementing Technical Standards) project).
- implementing the SASSKOK reporting system, in accordance with the Regulation of the Minister of Finance on the reporting information of cooperative savings and credit unions and the National Cooperative Savings and Credit Union, which introduced changes in reporting and imposed an obligation to submit, as from June 2014, data on significant credit and deposit exposures of unions,
- modernizing and improving the efficiency of the technical platform for the key IT systems and environments at the KNF Office,
- expansion of the disk array environment, due to the constantly growing volume of data collected and produced in the supervisory process.

## HUMAN RESOURCES MANAGEMENT

The priority actions taken by the KNF Office in 2014 in the human resources management area focused, similarly as in previous years, on ensuring appropriate resources for the execution of increased supervisory tasks, the changing market environment and the situation on the labour market.

In 2014, efforts related to the implementation, by the KNF, of the concept of supervision exercised in relation to the IT and IT security areas were commenced. In the area of human resource management, they involved, in the first stage, creating job profiles corresponding to this area, and attracting candidates with qualifications covering the broadly understood IT competence and knowledge in the field of information security. For this purpose, selected departments of the banking, insurance and capital sectors were reinforced with additional staff. In parallel with the measures related to the organization of the IT supervision, the IT area was reinforced with additional personnel in IT teams of the KNF Office, which was a consequence of the audit of IT systems used at the Office, as carried out in 2013, and resulted in the employment of four additional IT professionals in 2014.

The planned headcount for 2014 included 977 FTEs. As at 31 December 2014, the headcount was 937.505 FTEs (not including replacement employment contacts).

The employee turnover rate in 2014 was 8.86%. For comparison, in 2009-2013 the rate was 17.01%, 7.1%, 9.73% and 8.24%, and 7.25% respectively. The above ratios prove that the employment was stable and the employee turnover rate was maintained at a low level of several per cent, which favours optimisation of the process of work and its organisation.

The preparation of human resources, including attracting new persons qualified to work in the supervision related to alternative investment funds (AIF) will be one of the main tasks for 2015. The effective management of the remuneration fund, both as regards the growing competency requirements and attracting new employees, as well as retaining the existing qualified personnel of the KNF Office, will be one of the key challenges in the human resources area in the environment of a supervisory area that is expanding in the subjective, quantitative and qualitative aspect, and will require providing employees with extensive possibilities of individual development, which will translate into increased motivation and efficiency of employees, who will be fully ready to carry out supervisory tasks.

In 2014, as part of the actions aimed at improving qualifications of employees, many training initiatives reported by individual organisational units of the KNF Office were carried out. To meet the expectations of the staff and the KNF Office's needs as fully as possible, all the training programmes were prepared based on relevant guidelines and detailed descriptions of programme assumptions and consulted with experts in a given field, and subsequently approved by the management of the organisational units that proposed subjects for the training programmes. Group training courses on 85 subjects and 3 e-learning training courses were held throughout the year. The training courses covered mainly the following areas: banking, reporting and accounting, financial markets, insurance and widely understood legal issues. In 2014, large expenditure was incurred for specialized training in XBRL, which was attended by 170 employees, and on individual IT training.

As a result of the systematic analysis of needs, the group training processes were supported by individual training courses, which in 2014 were attended by 571 employees (423 employees attended domestic training courses and 148 attended international training courses). The trend of increased demand for employee participation in training abroad is still maintained. The participation of employees in these courses in 2009-2013 was as follows: 94, 127, 104, 143 and 138. This is important due to the extensive co-operation with the EU supervisory authorities and the KNF Office's in the international forum.

The intensity of 2014 training is illustrated by the ratio of 5.4 training man-days per employee, i.e. 43 training hours per employee. For comparison, the ratio in 2009-2013 was 38, 26, 37, 43 and 39 hours respectively.

In 2014, the guidelines for the proposal for an Act on alternative investment funds were adopted. The proposed regulations will create new supervisory duties for the KNF, involving, inter alia, granting authorisations for the conduct of business to alternative investment fund managers (AIFM), examining notifications of AIFM from the EU and notifications about changes in the terms of authorizations granted to entities established in the Republic of Poland, who perform AIFM activities. At the stage of the preparatory work it was estimated that in order to ensure effective supervision in the scope covered by the drafted regulation, it will be necessary to obtain 20 additional FTEs for the KNF Office.

#### TASKS IN THE AREA OF SECURITY AND PROTECTION OF INFORMATION PROCESSED BY THE KNF OFFICE

In 2014, the KNF Office executed tasks related to security and protection of information, physical protection, fire protection and defensive preparations. The most important tasks included:

- performing obligations pursuant to the provisions of the Act on Protection of Classified Information, the Personal Data Protection Act, the Act on Protection of Persons and Property, as well as other sectoral acts,
- performing obligations relating to defence planning and non-military defence planning,
- ensuring security of the processing of information protected pursuant to statutes or under the KNF Office's internal regulations,
- ongoing co-operation with Krajowe Centrum Informacji Kryminalnych (National Centre for Criminal Information),

- fulfilment of the obligation under Article 47 of the Act on the organisation and functioning of pension funds,
- co-operation with bodies and institutions ensuring state security in the area of counteracting threats to the financial system security,
- supervising and monitoring IT security systems,
- supervising and monitoring physical security systems in KNF Office's premises and buildings,
- supervising and monitoring tasks in the area of crisis management, emergency planning and business continuity.

As regards the above-mentioned tasks, in the period covered by the report:

- the system of protection of classified information in the KNF Office was strengthened, in particular in terms of the protection zones and a special protection zone,
- a cycle of training courses was held, concerning the state's defences in the context of the KNF Office's tasks,
- the KNF Office Functioning Operational Plan and the Non-Military Defence Planning Questionnaire in relation to the KNF Office were reviewed.
- the KNF Office's Contingency Plan and the KNF's Business Continuity Plan were reviewed,
- the access control systems and fire alarm systems were extended at the Office's premises,
- the audits of IT systems' security were conducted (external tests and security analysis of the interactive web applications made available),

#### INTERNAL INSPECTIONS AND COMPLAINTS ABOUT THE OPERATIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY OFFICE AND BEHAVIOUR OF THE EMPLOYEES OF THE POLISH FINANCIAL SUPERVISION AUTHORITY OFFICE

In 2014, the KNF Office executed tasks relating to internal inspections aimed at:

- ongoing checks of the effectiveness of exercising functional control at the KNF Office;
- control of the compliance of operations of organisational units, working teams or committees with the applicable legal provisions and internal regulations of the KNF Office;
- review of the KNF Office functioning as regards lawfulness, usefulness and timeliness of tasks exercised, and determining the procedure and measures that should be undertaken in order to correct irregularities and prevent them in the future.

In the period covered by the Report, the internal control unit at the KNF Office conducted 6 planned problem-oriented inspections and 2 ad-hoc problem-oriented inspections.

In 2014, the discovery process was performed as regards handling complaints and requests concerning the work of the KNF Office and conduct of KNF Office employees.

61 letters from 40 persons/ entities were received in that scope.

#### INSPECTIONS BY EXTERNAL BODIES

The Supreme Audit Office [NIK] assessed positively the execution of the state budget in 2013 in section 70 "Polish Financial Supervision Authority". The Supreme Audit Office assessed positively the planning and execution of the budget revenue and actions taken to collect debts, and assessed positively the execution of expenditure under the KNF budget. The post-audit statement for 2013, addressed to the Chairman of the Polish Financial Supervision Authority, did not include any post-audit conclusions.

In 2014, the Supreme Audit Office conducted an audit of the Supervision of public trading in financial instruments. As a result of the audit, the Supreme Audit Office positively assessed the performance, by the Polish Financial Supervision Authority, of tasks related to the



supervision of public trading in financial instruments in the period from the beginning of 2012 to the end of the first half of 2014. The positive assessment is the highest rating in the three-point scale used by NIK.

## ANNEXES

### ANNEX 1. INFORMATION ON RESOLUTIONS, ADMINISTRATIVE DECISIONS AND RULINGS ISSUED BY THE KNF IN 2014

**Table 1.1. Number of resolutions adopted by the KNF in 2014**

Resolution subject	Number of adopted resolutions
<b>Issues regarding banking sector</b>	
Authorisation to establish a bank, approval of the charter and the first composition of the Management Board	1
Granting consent to appoint a management board president in a bank	24
Granting consent to appoint a management board member in a bank	7
Granting an authorisation to banks' merger	7
Imposing a fine	6
Stating that there are no grounds to raise an objection to the planned purchase of shares	4
The consent to exceed the limit of contributions in kind made to a bank	1
Refusal to issue an authorisation to amend the charter	1
Other	25
<b>Total:</b>	<b>76</b>
<b>Cases concerning the sector of cooperative savings and loan unions</b>	
Appointment to the position of the president of the management board	1
Refusal of appointment to the position of the management board president/member of the National Cooperative Savings and Credit Union	1
Appointment to the position of the management board/ member of the National Cooperative Savings and Credit Union	1
Refusal of appointment to the position of the management board/ member of the National Cooperative Savings and Credit Union	1
Refusal to approve the charter of the National Cooperative Savings and Credit Union	1
Appointing an administrator	2
Decisions approving a standard contract	5
Decision on discontinuation of administrative proceedings to approve a standard contract	1
Decision on discontinuation of proceedings	5
Refusal to approve the president of the management board of a cooperative savings and loan union	14

Approval of the president of the management board of a cooperative savings and loan union	9
Refusal to issue a permission for the combination of unions	3
Upholding the decision	1
Decision approving a merger	1
Decision approving an acquisition	1
<b>Total:</b>	<b>47</b>
<b>Issues regarding payment services sector</b>	
Granting an authorisation to provide payment services as a domestic payment institution	9
Refusing authorisation to provide payment services as a domestic payment institution	1
<b>Total:</b>	<b>10</b>
<b>Issues regarding insurance market</b>	
Granting consent to appoint a management board member in an insurance company	8
Granting consent to appoint a management board president in an insurance company	6
Refusal of consent to appoint a management board president in an insurance company	2
Imposing a fine	17
Revoking a decision to impose a monetary sanction and to reduce a monetary sanction	1
Decisions in cases concerning a direct or indirect purchase of or subscription for shares or rights attached to shares or as to becoming the parent of a domestic insurance undertaking	7
Granting an authorisation to amend the object of activity of an insurance company	2
Issuing KNF Guidelines on flood risk management in the insurance sector	1
Issuing Guidelines on loss adjustment in motor insurances	1
Issuing KNF Guidelines on the management of the IT area and safety of the IT environment at insurance undertakings and reinsurance undertakings.	1
Notification of the merger plan of insurance undertakings	2
A decision requiring an insurance undertaking to calculate the insurance undertaking's own funds using lower amounts of elements used to their calculation than it follows from the measurement bases adopted by the insurance undertaking, issued on the basis of Article 186(8) of the Act on insurance activity).	1
Issuing an authorisation, to domestic insurance undertakings, to conduct insurance activity.	2
Decision approving the charter of the newly established domestic insurance undertaking	2
Other	1

<b>Total:</b>	<b>54</b>
<b>Issues regarding pension market</b>	
Granting an authorisation to amend the charter of a universal pension fund company	6
Granting an authorisation to amend the charter of an open-end pension fund	15
Granting an authorisation to accelerate the implementation date of amendments to the charter of an open-end pension fund	15
Granting an authorisation to amend the charter of a voluntary pension fund	8
Granting an authorisation to accelerate the implementation date of amendments to the charter of a voluntary pension fund	8
Granting an authorisation to purchase shares of a universal pension fund company	1
Granting an authorisation to the take-over of management in open-end pension fund by a universal pension fund company	1
Withdrawing an authorisation to establish a universal pension fund company	1
Granting an authorisation to appoint a management board member in a universal pension fund company	4
Determination of the average weighted rate of return of pension funds	2
Imposing a fine on the transfer agent	1
Imposing a fine on the employer operating an occupational pension scheme	1
Granting an authorisation to amend the charter of an occupational pension fund company	3
Granting an authorisation to amend the charter of an occupational pension fund	3
Granting an authorisation to accelerate the implementation date of amendments to the charter of an occupational pension fund	1
Issuing KNF Guidelines on the management of the IT area and safety of the IT environment at universal pension fund companies.	1
<b>Total:</b>	<b>71</b>
<b>Issues regarding capital market</b>	
Granting an authorisation to convert shares into certificated form (rematerialisation of shares)	7
Granting an authorisations to conduct brokerage activity	10
Granting authorisation to conduct activity by an investment fund company	4
Granting an authorisation to establish an open-end investment fund,	1
Revoking an authorisation to conduct activity by an investment fund company	1
Revoking an authorisations to conduct brokerage activity	2
Granting consent to change the depositary	4
Imposing fines on TFIs	4
Imposing fines on entities	16

Imposing fines on natural persons	14
Upholding the decision	13
Discontinuation of administrative procedure	5
Revoking the decision	6
No grounds to raise an objection to the planned purchase of/subsription for shares of an investment fund company	2
Making the information on the issue of an administrative decision public	14
Making the information on instituting administrative proceedings public	2
Notifying a relevant regulator of another member state of the intention to conduct brokerage activity in this state	6
An order to transfer financial instruments, cash and documents related to maintaining the accounts referred to in Article 69(4)(1) of the Act on Trading	1
Granting consent to redemption of open-end or specialist investment fund units in instalments	1
Decision on refusal to grant a motion for evidence	1
Deletion from the list of securities brokers	1
Instigation of proceedings ex officio	2
No grounds to raise an objection to the intent to perform brokerage business-related activities outside a bank unit in which the brokerage activity is conducted.	1
No grounds to raise an objection to the purchase of shares in a brokerage house	6
A change in the decision concerning lack of grounds to raise an objection to the purchase of shares in a brokerage house	1
Other	19
<b>Total:</b>	<b>153</b>
<b>Cross-sectoral issues and issues relating to the internal organisation of the KNF works</b>	
Establishing the "Mediation-Friendly Financial Institution" award and establishing the rules for granting the award	1
Other	3
<b>Total:</b>	<b>4</b>
<b>Total:</b>	<b>415</b>

Source: In-house materials by the KNF Office

**Table 1.2. Number of decisions and rulings issued under the authorisation by the KNF in 2014**

Subject of decisions and rulings	Number of issued decisions and rulings
<b>Issues regarding banking sector</b>	
Corrigendum of editorial and other obvious errors	3

Acceptance of recovery proceedings plans	12
Decision on recognising subordinated loan liabilities under own funds	24
Decisions on recognising cash from the issue of long-term bonds under supplementary funds	16
Decisions expressing consent to the reduction of own funds by payment of funds from the equity fund	66
Decisions authorizing the recognition of profit for the period in Common Equity Tier 1	13
Decision on taking a stand in the case for entering a bank into the list of guarantors referred to in Article 52(1) of the Customs Law Act	8
Decision on refusal to suspend administrative proceedings	1
Notification of initiation of proceedings ex officio	5
Granting an authorisation to early repayment of cash under the subordinated loan recognised as the bank's additional funds	7
Discontinuation in other procedures	10
Discontinuation of proceedings on appointment of a new president/ member of the bank's management board (request withdrawal)	3
Discontinuation of proceedings in cases relating to the prohibition to exercise voting rights related to shares in the bank or the order to sell the shares in the bank.	1
Granting an authorisation to amend the bank's charter	269
Discontinuation of proceedings on amendments to the bank's charter	9
Decision to discontinue proceedings on granting an authorisation to amend the bank's charter	3
Decision to resume the suspended proceedings on granting an authorisation to amend the bank's charter	1
A procedure explaining the content of the KNF decision, concerning the amendment to the bank's statute	1
Decision on examination of testimonial evidence	1
Decision on suspension of the proceedings	1
Decision on correcting editorial and other obvious errors	5
Granting an authorisation to open a representative office by a foreign bank or credit institution	1
Stating expiry of the authorisation to open a representative office of a foreign bank and credit institution	2
Refusal to resume the proceedings.	1
Appointment of trustee and deputy trustee	2
Ruling on recognising the call for the correction of formal defects as unjustified	2
Decision on recognising profit under own funds	30

Expressing consent to limiting the scope of the translation of the consolidated financial statements	7
Authorizations for the use of internal methods and other models and for the introduction of significant extensions/changes to internal methods	2
Conclusions left without being examined (in connection with Article 64 § 2 of the Code of Administrative Procedure Act)	1
An authorisation to enter into or amend the inter-company service agreement with a foreign entrepreneur	26
Refusal to initiate the proceedings	2
Other	28
<b>Total</b>	<b>563</b>
<b>Issues regarding payment services sector</b>	
Returning the request for entry into the Payment Services Register	1
Suspension of proceedings in the case of issuing an authorisation for the provision of payment services as a domestic payment institution	2
Discontinuation of the proceedings in the case of issuing an authorisation for the provision of payment services as a domestic payment institution, and the revision of the authorisation	5
Decisions to discontinue the administrative proceedings	94
<b>Total</b>	<b>102</b>
<b>Issues regarding co-operative savings and loan associations sector</b>	
Acceptance of recovery proceedings plans	2
Refusal to grant a motion for evidence	12
KNF decision on refusal to suspend administrative proceedings	6
Refusal to grant a request for a hearing	1
Refusal to exclude a KNF member from participation in the administrative proceedings.	5
Refusal to participation as a party to the proceedings	15
Decision on admission to participate as a party in the administrative proceedings	16
Decision to uphold the decision	5
Notification of initiation of proceedings ex officio	3
Decision on refusal to suspend administrative proceedings	1
Decision to resume the suspended proceedings	3
Decision on recognising a subordinated liability under the Union's own funds	7

Consent to recognise a portion of the additional liability of union members under own funds	4
Discontinuation in other procedures	8
Other decisions	6
Other	1
<b>Total</b>	<b>95</b>
<b>Issues regarding insurance market</b>	
Approval of amendments to the charter of an insurance undertaking	32
Stating the expiry of the decision	2
Entry into the register of actuaries	29
Decision on suspension of the proceedings	3
Decision on setting a new date for handling the case	57
Discontinuation of proceedings	27
Refusal to issue a certificate	1
Decision to remit the fee	3
Granting consent to recognising a subordinated loan under own funds	4
Granting an authorisation to recognise certain assets as assets for covering provisions other than the ones defined in Article 154(4) of the Act on insurance activity	54
Granting an authorisation to conduct brokerage activity as regards insurance	92
Granting an authorisation to conduct brokerage activity as regards reinsurance	4
Imposing a fine	8
Issuing a decision revoking an authorisation to conduct brokerage activity	34
Issuing a decision in accordance with Article 155 of the Code of Administrative Procedure Act of 14 June 1960 on issuing a decision changing the decision on the authorization to pursue brokerage activities	2
Refusal to initiate the proceedings	72
<b>Total</b>	<b>424</b>
<b>Issues regarding pension market</b>	
Notification of identified irregularities in the operations of a pension fund, a pension fund company or depositary bank	22
Notification of consideration of reservations made by the pension fund company to the content of the notification of identified irregularities in the operations of the pension fund	4



Approval of the report on the activities of KDPW S.A. in the scope of administering the Guarantee Fund for 2013.	1
Granting an authorization to KDPW to change the rules of transfer payments between open-end pension funds.	1
Authorisation granted to an open-end pension fund to extend the period for adjusting the investment activity to statutory requirements to 12 months	7
Authorisation granted to a voluntary pension fund to extend the period for adjusting the investment activity to statutory requirements to 12 months	2
Authorisation granted to an occupational pension fund to extend the period for adjusting the investment activity to statutory requirements to 12 months	2
Granting an authorisation to appoint a supervisory board member in a universal pension fund company	6
Granting an authorisation to amend an agreement with a depositary of an open-end pension fund	7
Granting an authorisation to appoint a supervisory board member in an occupational pension fund company	2
Granting an authorisation to amend the agreement with a depositary of a voluntary pension fund	7
Expiry of the decision on granting an authorisation to partial amendment to the charter of a universal pension fund company	1
Entry of an occupational pension scheme to the register	29
Entry of amendments to an occupational pension scheme to the register	168
Removal of an occupational pension scheme from the register	28
Entry of the agreement on limiting the amount of calculated contributions to the register	7
Entry of the agreement on suspending calculation and payment of contributions to the register	16
Refusal to enter the changes in the occupational pension scheme to the register	2
Decision on resuming the suspended proceedings	7
Decision on suspending the proceedings	8
Discontinuation of proceedings	16
Decision on restoring the date for correction of formal defects/ irregularities	13
Refusal to initiate the proceedings	1
<b>Total</b>	<b>357</b>
<b>Issues regarding capital market</b>	

Approval of the issue prospectus of investment certificates of a closed-end investment fund	1
Approval of the annex to the issue prospectus of investment certificates of a closed-end investment fund	2
Approval of an issue prospectus	45
Approval of an information memorandum	1
Approval of an annex to the issue prospectus	86
Approval of an annex to the information memorandum	7
Suspension of an administrative procedure	36
Resumption of an administrative procedure	14
Instigation of an administrative procedure ex officio	31
Discontinuation of administrative procedure	63
Instigating proceedings on a demand to change the content of an order	2
Demand to change the content of an order	1
Decision on a demand to suspend trading in shares of a public company	27
Decision on changing the decision	3
Decision on stating the expiry of the decision	1
Stating the expiry of an authorisations to conduct brokerage activity	1
Stating partial expiry of an authorisations to conduct brokerage activity	1
Granting authorisation to keeping commodity registers or accounts	5
Stating the expiry of an authorisation to keep accounts and commodity registers	1
Approval of amendments to the By-laws of Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities)	5
Approval of amendments to the Transaction Clearing Rules at KDPW_CCP S.A.	1
Granting consent to amend the charter of Towarowa Giełda Energii S.A.	3
Granting consent to amend the By-laws of Towarowa Giełda Energii S.A.	2
Granting consent to changes in the Trading Regulations of the OTC market BondSpot S.A.	1
Granting consent to amend the Regulations of Giełda Papierów Wartościowych w Warszawie S.A. (WSE)	2
Entry into the register of investment firm agents	25
Determining the need to complete an adaptation traineeship or to take a test of skills concerning the exercising of a regulated profession;	3

Granting an authorisation to extending the thematic scope of operation of an investment fund company to include management of portfolios comprising one or more financial instruments	1
Consent to internal merger of two sub-funds of an open-end investment fund or a specialist investment fund	9
Authorisation to manage securitised debts of the securitisation fund by an entity other than the company	5
Authorisation to transform an open-end investment fund into a new sub-fund of the existing open-end investment fund with separated sub-funds, or a specialist open-end investment fund into a new sub-fund of the existing specialist open-end investment fund with separated sub-funds	1
Authorisation to transform open-end investment funds or specialist open-end investment funds into one fund with separated sub-funds	2
Authorisation to amend the charter of an investment fund, including to accelerate the implementation date of amendments to the fund's charter	53
Authorisation to establish public closed-end investment fund, which is tantamount to approval of the issue prospectus of investment certificates	3
Authorisation to establish specialist open-end investment fund	2
Approval of the issue prospectus of investment certificates of a closed-end investment fund	3
Approval of the annex to the issue prospectus of investment certificates of a closed-end investment fund	12
Appointing a liquidator of an investment fund	1
Granting an authorisation to intermediation in selling and redeeming investment fund units or shares of foreign funds	14
Order to suspend the sale and/or redemption of units	10
Granting consent to the extension of the suspension period to sell/redeem units	1
Refusal to admit a motion for evidence	13
Refusal to suspend the execution of the decision	3
Failure to meet the deadline to file a request for the case reconsideration	1
Suspension of the decision's execution	1
Admission of a social organizations to participate as a party in the proceedings	1
Rectifying an obvious error	1
Refusal to resume the administrative proceedings	1
Entry into the list of investment advisors	27
Entry into the list of commodity brokers	31

Entry into the list of securities brokers	82
Other	38
<b>Total</b>	<b>686</b>
<b>Cross-sectoral issues</b>	
Other	19
<b>Total</b>	<b>19</b>
<b>TOTAL</b>	<b>2246</b>

Source: In-house materials by the KNF Office

**ANNEX 2. ISSUERS WHOSE ISSUE PROSPECTUSES WERE APPROVED BY THE POLISH FINANCIAL SUPERVISION AUTHORITY IN 2014, ISSUERS WHOSE MEMORANDA WERE APPROVED AND CONSIDERED EQUIVALENT WITH THE REQUIREMENTS FOR THE ISSUE PROSPECTUS IN 2014 AND ISSUERS WHOSE MEMORANDA WERE APPROVED AND CONSIDERED EQUIVALENT WITH THE REQUIREMENTS FOR THE ISSUE PROSPECTUS IN 2014**

**Table 2.1. Issuers whose issue prospectuses were approved by the Polish Financial Supervision Authority in 2014**

Item	Issuer	Date of the issue prospectus' approval
1.	Medicalgorythmics S.A.	10.01.2014
2.	Energa S.A.	17.01.2014
3.	PCC Rokita S.A.	27.01.2014
4.	Comperia.pl S.A.	30.01.2014
5.	DTP S.A.	7.02.2014
6.	Czerwona Torebka S.A.	27.02.2014
7.	Prime Car Management S.A.	17.03.2014
8.	Briju S.A.	18.03.2014
9.	Livechat Software S.A.	18.03.2014
10.	CUBE.itg S.A.	19.03.2014
11.	Best S.A.	21.03.2014
12.	BNP Paribas S.A.	22.04.2014
13.	Cyfrowy Polsat S.A.	28.04.2014
14.	PCC Rokita S.A.	7.05.2014
15.	Multimedia Polska S.A.	13.05.2014
16.	Hygienika S.A.	14.05.2014
17.	Grupa SMT S.A.	3.06.2014
18.	TFI Altus S.A.	10.06.2014
19.	Getin Noble Bank S.A.	11.06.2014
20.	Grodno S.A.	12.06.2014
21.	Torpol S.A.	13.06.2014
22.	Alumetal S.A.	17.06.2014
23.	Echo Investment S.A.	24.06.2014
24.	JW. Constructions S.A.	14.07.2014
25.	Termo-Rex S.A.	22.07.2014

26.	Admiral Boats S.A.	7.08.2014
27.	Getin Noble Bank S.A.	12.08.2014
28.	Polwax S.A.	8.09.2014
29.	CDRL S.A.	23.09.2014
30.	WDM Capital S.A.	25.09.2014
31.	Serinus Energy S.A.	26.09.2014
32.	Synektik S.A.	2.10.2014
33.	Internet Media Services. S.A.	3.10.2014
34.	VIGO System S.A.	16.10.2014
35.	Skarbiec Holding S.A.	22.10.2014
36.	Grupa Lotos S.A.	7.11.2014
37.	Ghelamco Invest Sp. zo.o.	13.11.2014
38.	Capital Park S.A.	24.11.2014
39.	Selvita S.A.	25.11.2014
40.	Dekpol S.A.	27.11.2014
41.	Rank Progress S.A.	2.12.2014
42.	Kino Polska S.A.	11.12.2014
43.	Kruk S.A.	22.12.2014
44.	Ursus S.A.	31.12.2014
45.	JHM Development S.A.	31.12.2014

Source: In-house materials by the KNF Office

**Table 2.2. Issuers' memoranda approved by the Polish Financial Supervision Authority and considered by the KNF equivalent to the requirements for the issue prospectus in 2014**

Item	Issuer	Date
1.	Bumech SA	28.10.2014

Source: In-house materials by the KNF Office

**Table 2.3. Public closed-end investment funds whose issue prospectuses were approved by the KNF in 2014**

Item	Fund	Date of the prospectus' approval
1.	PKO Strategii Obligacyjnych FIZ	29.01.2014
2.	Trigon Polskie Perty FIZ	19.03.2014
3.	KBC Alokacji Sektorowych FIZ	05.09.2014
4.	Unisystem FIZ - subfund of Unisystem 1 (Series G, H, I, J, K, L)	20.03.2014

Source: In-house materials by the KNF Office

### ANEX 3. THE LIST OF ITEMS OF THE OFFICIAL JOURNAL OF THE POLISH FINANCIAL SUPERVISION AUTHORITY ISSUED IN 2014

- 1) Item 1 of 23 January 2014, Announcement of the Polish Financial Supervision Authority of 17 January 2014 on the maximum technical rate.
- 2) Item 2 of 31 March 2014. Announcement of the Chairman of the Polish Financial Supervision Authority of 28 March 2014 on the costs of supervision of payment services offices in 2013 and the maximum amount due from all payment services offices for 2013.
- 3) Item 3 of 16 June 2014 Decision of 30 May 2014 DRK/WNP/476/1/9/14.

- 4) Item 4 of 22 July 2014. Announcement No 157 of the Examination Board for Investment Advisors of 17 July 2014 on the date of the first stage of the qualifying examination for investment advisors.
- 5) Item 5 of 22 July 2014. Announcement No 158 of the Examination Board for Investment Advisors of 17 July 2014 on the thematic scope of the qualifying examination for investment advisors.
- 6) Item 6 of 28 July 2014. Announcement No 1/2014 of the Examination Board for Securities Brokers of 17 July 2014 on the date of the examination for securities brokers.
- 7) Item 7 of 28 July 2014. Announcement No 2/2014 of the Examination Board for Securities Brokers of 17 July 2014 on the thematic scope of the examination for securities brokers.
- 8) Item 8 of 28 July 2014. Announcement No 38 of the Examination Board for investment firms' agents of 18 July 2014 on the date of examination for investment firm agents.
- 9) Item 9 of 28 July 2014. Announcement No 39 of the Examination Board for investment firms' agents of 18 July 2014 on the thematic scope of the examination for investment firm agents.
- 10) Item 10 of 31 July 2014. Announcement of the Chairman of the Polish Financial Supervision Authority of 28 July 2014 on the amount of gross premium written of insurance undertakings and reinsurance undertakings and the costs of insurance supervision of insurance operations, reinsurance operations and insurance intermediation in 2013.
- 11) Item 11 of 7 August 2014. Announcement of the Chairman of the Polish Financial Supervision Authority of 5 August 2014 on the maximum amount due from all national domestic payment institutions, the amount of costs of supervision of payment institutions and the total fees paid by all domestic payment institutions in 2013.
- 12) Item 12 of 28 August 2014. Resolution No 183/2014 of the Polish Financial Supervision Authority of 24 June 2014 on the issue of Recommendation U on good practices in bancassurance.
- 13) Item 13 of 28 August 2014. Resolution No 184/2014 of the Polish Financial Supervision Authority of 24 June 2014 on the issue of Guidance for insurance undertakings relating to insurance distribution.
- 14) Item 14 of 28 August 2014. Resolution No 188/2014 of the Polish Financial Supervision Authority of 30 June 2014 on the issue of Guidance for insurance undertakings relating to outward reinsurance/retrocession.
- 15) Item 15 of 17 October 2014. Announcement of the Polish Financial Supervision Authority of 9 October 2014 on the applicable base rates of KGR1, KGR2, and KGR3 for reinsurance undertakings.
- 16) Item 16 of 17 October 2014. Announcement of the Polish Financial Supervision Authority of 9 October 2014 on the applicable base rates of KGR1, KGR2, for insurance undertakings with a significant share of the reinsurance business.
- 17) Item 17 of 30 October 2014. Resolution No 218/2014 of the Polish Financial Supervision Authority of 22 July 2014 on the issue of the "Principles of corporate governance for supervised institutions".
- 18) Item 18 of 3 November 2014. Resolution No 219/2014 of the Polish Financial Supervision Authority of 22 July 2014 on the issue of Recommendation K on the principles of maintaining registers of mortgage bonds' security and the account of mortgage bonds' security by mortgage banks, and their projection.
- 19) Item 19 of 3 November 2014. Resolution No 220/2014 of the Polish Financial Supervision Authority of 22 July 2014 on establishing a template of the register of mortgage bonds' security.
- 20) Item 20 of 5 November 2014. Decision of 21 October 2014 DRK/WNF/476/1/42/14.
- 21) Item 21 of 18 November 2014. Announcement of the Polish Financial Supervision Authority of 16 October 2014 on the changes in the data subject to entry into the list of commodity brokers.
- 22) Item 22 of 24 November 2014. Announcement No 161 of the Examination Board for Investment Advisors of 4 November 2014 on the date, content of problem-oriented tasks, marking rules and awarding credits for tasks of the second stage of the qualifying examination for investment advisors.
- 23) Item 23 of 25 November 2014 Resolution No 288/2014 of the Polish Financial Supervision Authority of 8 September 2014 on establishing the "Mediation-friendly Financial Institution" distinction and the rules of awarding the distinction.
- 24) Item 24 of 15 December 2014. Announcement of the Polish Financial Supervision Authority of 20 November 2014 on the changes in the data subject to entry into the list of commodity brokers.
- 25) Item 25 of 16 December 2014 Announcement of the Chairman of the Polish Financial Supervision Authority of 11 December 2014 on suspending advance payments for the costs of supervision of insurance operations, reinsurance operations and insurance intermediation in 2014.
- 26) Item 26 of 23 December 2014. Announcement No 163 of the Examination Board for Investment Advisors of 19 December 2014 on the date of the first stage of the qualifying examination for investment advisors.

- 27) Item 27 of 23 December 2014. Announcement No 164 of the Examination Board for Investment Advisors of 19 December 2014 on the thematic scope of the examination for investment advisors.
- 28) Item 28 of 24 December 2014. Announcement No 3/2014 of the Examination Board for Securities Brokers of 19 December 2014 on the date of the examination for securities brokers and the supplementary examination.
- 29) Item 29 of 24 December 2014. Announcement No 4/2014 of the Examination Board for Securities Brokers of 19 December 2014 on the thematic scope of the examination for securities brokers and the supplementary examination.
- 30) Item 30 of 30 December 2014. Resolution No 221/2014 of the Polish Financial Supervision Authority of 22 July 2014 on the issue of Recommendation F on the basic criteria applied by the Polish Financial Supervision Authority in approving the rules issued by mortgage banks for determining the mortgage lending value of property.

Source: In-house materials by the KNF Office

## ANNEX 4. LIST OF DRAFT REGULATIONS WHICH THE KNF OFFICE ADVISED ON IN 2014

**Table 4.1. List of regulations which the KNF Office advised on in 2014**

Item	Regulations
1.	Regulation of the Minister of Finance of 14 February 2014 on asset categories and the maximum amount of funds invested by domestic electronic money institutions (Dz.U. item 252).
2.	Regulation of the Minister of Finance of 26 November 2014 on detailed scope of information as well as the type and form of documents attached to the request for granting authorisation to conduct activity as a domestic payment institution (Dz.U. item 1805).
3.	Regulation of the Minister of Finance of 6 March 2014 on detailed scope of documents attached to the notification of the intent to purchase or subscribe for shares in a domestic electronic money institution (Dz.U. item 386).
4.	Regulation of the Minister of Finance of 24 September 2014 on the minimum bank and insurance guarantee sum required in connection with to effecting payment transactions, by the payment services office, under the agreement for the provision of payment services, and on the date when the obligation to conclude a guarantee agreement arises (Dz.U. item 1308).
5.	Regulation of the Minister of Finance of 24 September 2014 on compulsory insurance of payment services offices, required in relation to effecting payment transactions under the agreement for the provision of payment services (Dz.U., item 1309).
6.	Regulation of the Minister of Finance of 15 October 2014 on the detailed scope and manner of submitting information to the National Bank of Poland by clearing brokers, issuers of payment instruments and issuers of electronic money (Dz.U. item 1427).
7.	Regulation of the Minister of Finance of 24 October 2014 on quarterly and additional annual financial statements and statistical reports of a domestic payment institution (Dz.U. item 1475).
8.	Regulation of the Prime Minister of 28 October 2014 on payments to cover the cost of supervision of electronic money institutions, on the business relating to electronic money issue, and fees for certain activities of the Polish Financial Supervision Authority (Dz.U. item 1523).
9.	Regulation of the Prime Minister of 8 December 2014 on payments to cover the costs of supervision of payment institutions and fees for certain activities of the Polish Financial Supervision Authority (Dz.U. item 1776).
10.	Regulation of the Minister of Finance of 21 February 2014 on reporting information of cooperative savings and credit unions and the National Cooperative Savings and Credit Union (Dz.U. item 248).
11.	Regulation of the Minister of Finance of 28 May 2014 on the list of documents attached by cooperative savings and credit unions to requests for granting authorisation to conclude an agreement with a foreign undertaking (Dz.U. item 766).
12.	Regulation of the Minister of Finance of 18 June 2014 on the detailed procedure of performing inspection activities by the Polish Financial Supervision Authority in cooperative savings and credit unions and in the National Cooperative Savings and Credit Union (Dz.U. item 879).

13.	Regulation of the Minister of Finance of 25 June 2014 on specific accounting principles of cooperative savings and credit unions (Dz. U. item 880).
14.	Regulation of the Minister of Finance of 15 July 2014 on the detailed procedure of performing inspection activities of the National Cooperative Savings and Credit Union in cooperative savings and credit unions (Dz.U. item 952).
15.	Regulation of the Minister of Finance of 5 November 2014 repealing the Regulation on the adaptation placement and the aptitude test conducted for the recognition of qualifications to provide bookkeeping services (Dz.U. item 1557).
16.	Regulation of the Minister of Finance of 13 November 2014 on the qualification proceedings for statutory auditors (Dz.U item 1611).
17.	Regulation of the Minister of Finance of 21 November 2014 on the mandatory continued training for statutory auditors (Dz.U item 1730).
18.	Regulation of the Minister of Finance of 5 December 2014 amending the Regulation on the rules of recognition of provisions for risks related to the banking activity (Dz.U. item 1811).
19.	Regulation of the Minister of Finance of 14 October 2014 on the examination for persons applying to perform agency activities (Dz.U. item 1485).
20.	Regulation of the Council of Ministers of 27 November 2014 on the amount of premium subsidies for crops and livestock insurance in 2015 (Dz.U. item 1670).
21.	Regulation of the Minister of Agriculture and Rural Development of 20 November 2014 on the maximum sum insured for individual crops and livestock for 2015 (Dz.U. item 1655).
22.	Regulation of the Council of Ministers of 23 December 2004 on the manner of calculating the turnover of undertakings participating in a business combination (Dz.U. of 2015, item 79).
23.	Regulation of the Council of Ministers of 27 August 2014 on the statistical research programme of official statistics for 2015 (Dz.U. item 1330).
24.	Regulation of the Minister of Justice of 5 May 2014 on the provision of information about individuals and collective entities based on data gathered in the National Criminal Register (Dz.U. item 660).
25.	Regulation of the Minister of Justice of 18 June 2014 on the procedure of providing information from the National Criminal Register about individuals and collective entities through a communication and information system (Dz.U. item 841)
26.	Regulation of the Council of Ministers of 23 December 2014 on the notification of the intent of a business combination (Dz.U. of 2015, item 80).

Source: In-house materials by the KNF Office

**Table 4.2. List of proposals of regulations which the KNF Office advised on in 2014**

Item	Proposal for the regulation
1.	Proposal for a Regulation of the Minister of Finance on applications to change the entry into the insurance brokers register.
2.	Proposal for a Regulation of the Minister of Finance on applications for an entry into the insurance agents register.
3.	Proposal for a Regulation of the Minister of Finance on the list of documents attached to the application to issue an authorization to perform brokerage activities.
4.	Proposal for a Regulation of the Minister of Finance on the examination for insurance and reinsurance brokers and the Examination Board for Insurance and Reinsurance Brokers.
5.	Proposal for a Regulation of the Minister of Finance on payments to cover the costs of operation of the Insurance Ombudsman and the Office of the Insurance Ombudsman.
6.	Proposal for a Regulation of the Minister of Finance on quarterly and additional annual financial statements and statistical reports of insurance undertakings.
7.	Proposal for a Regulation of the Minister of Finance on quarterly and additional annual financial statements and statistical reports of reinsurance undertakings.
8.	Proposal for a Regulation of the Minister of Finance on reports on the transactions effected by insurance undertakings in insurance groups.
9.	Proposal for a Regulation of the Minister of Finance on reports on the transactions effected by reinsurance undertakings in insurance groups.



10.	Proposal for a Regulation of the Minister of Finance on the detailed manner of determining own funds of domestic insurance undertakings belonging to an insurance group.
11.	Proposal for a Regulation of the Minister of Finance on the detailed manner of determining own funds of domestic reinsurance undertakings belonging to an insurance group.
12.	Proposal for a Regulation of the Minister of Finance on the cooperation of the Insurance Guarantee Fund and the body maintaining the Central Register of Vehicles.
13.	Proposal for a Regulation of the Council of Ministers on the Guarantee Fund.
14.	Proposal for a Regulation of the Minister of Finance on the qualifying examinations for actuaries.
15.	Proposal for a Regulation of the Minister of Finance on granting the rules of procedure of the Examination Board for Actuaries, determining the amount of the examination fees and the remuneration of members of the Board.
16.	Proposal for a Regulation of the Minister of Finance on mandatory TPL insurance of the brokerage business.
17.	Proposal for a Regulation of the Minister of Finance on mandatory TPL insurance of the agency business.
18.	Proposal for a Regulation of the Minister of Finance on mandatory TPL insurance of entrepreneurs providing bookkeeping services.
19.	Proposal for a Regulation of the Minister of Finance on the periodic and periodically comparative rate of return of an open-end pension fund.
20.	Proposal for a Regulation of the Minister of Finance amending the Regulation on special accounting principles of pension funds.
21.	Proposal for a Regulation of the Council of Ministers on the timing, method and procedure for the transfer of funds deposited in the account of the open-end pension fund's member to the pension fund of the Social Security Fund in connection with reaching, by the insured person, the aged of 10 years less than the retirement age.
22.	Proposal for a Regulation of the Minister of Finance on the terms and procedure of granting securities loans by pension funds.
23.	Proposal for a Regulation of the Council of Ministers on the manner and procedure for handling an application submitted to the President of the Office of Competition and Consumer Protection for refraining from imposing a monetary punishment or for its reduction.
24.	Proposal for a Regulation of the Council of Ministers on the application for conducting the qualifications proceedings. Proposal for a Regulation implementing Article 49a of the Geological and Mining Law Act.
25.	Proposal for a Regulation of the Council of Ministers amending the Regulation on the statistical research programme of official statistics for 2015.
26.	Proposal for a Regulation of the Prime Minister on reporting forms' templates, explanations as to how to complete them, and statistical questionnaires' and surveys' templates used in statistical research established in the statistical research programme of official statistics for 2016.
27.	Appendix to the proposal for a Regulation of the Council of Ministers on the statistical research programme of official statistics for 2016.

Source: In-house materials by the KNF Office

## ANNEX 5. PROTECTION OF FINANCIAL MARKET PARTICIPANTS - ANALYTICAL ACTIONS TAKEN BY THE KNF OFFICE

**Table 5.1 Protection of financial market participants - analytical actions taken by the KNF Office in 2014**

<b>Banking sector</b>
Analysis of a bank's co-operation with commercial points offering instalment loans for the purchase of products, as regards the correctness of concluding loan agreements with consumers.
Analysis of a bank's practice involving the restructuring process of loan agreements.
Analysis of cases of unauthorized transactions on customer accounts in a bank.
Analysis of cases of unjustified establishment of accounts for individuals by a bank's employees.

Analysis of the practice applied by a bank as regards establishing a person's right to obtain information about the balance and transactions on the bank account.
Analysis of the practice of a bank as regards the process of informing clients about the conditions and rules of functioning of the products offered to clients, and providing clients with contract documents by courier.
Analysis of the practice of two banks as regards presenting information on statements from bank accounts.
Analysis of the case of failure to place on a bank's website information about the rules for calculating the spread.
Analysis of a bank's practice involving the authorization of transactions effected using payment cards in NESTE A24 automated stations (currently Shell).
Analysis of a bank's practice of presenting data on the confirmation of opening a term deposit.
Analysis of the practice of two banks as regards reporting data to BIK S.A. [Credit Information Bureau]
Analysis of a bank's practice involving the processing of applications for the extension of the crediting period.
Analysis of a bank's practice involving the provision of information to the guarantor of a loan in the event of being informed about the borrower's death.
Analysis of a bank's practice involving handling the account in the period between the termination of the agreement by the account holder and the account's closure.
Analysis of a bank's practice involving effecting a foreign currency transfer to another domestic bank and the fees charged for it.
Analysis of a bank's practice as regards the release from charging fees for the use of debit cards.
Analysis of a bank's practice involving the use of the Schedule of Fees and Commissions' provisions defining the bank's right to charge fees for the "execution of an enforcement title and a document having the same legal validity" - the clauses is entered into the Register of prohibited clauses.
Analysis of cases of unauthorized transactions on the accounts of the users of a bank's electronic banking system.
Analysis of the practice of exchanging the damaged bills and coins by one of the banks
Analysis of a bank's practice in terms of cash withdrawals from foreign currency accounts, made partly in the Polish zloty, and the use of own exchange rate for this purpose.
Analysis of a bank's practice involving establishing a technical blockade on the account in the event of the death of the account holder.
Analysis of a bank's practice involving charging fees for each instant transfer executed through Express Elixir.
Analysis of cases of lack of visibility of deposits in a bank's transaction system.
Analysis of the practice applied by two banks as regards disbursement of loans on the basis of agreements concluded by an intermediary.
Analysis of a bank's practice involving generating automatic notifications on delays in debt repayment.
Analysis of the case of opening a bank account by one of the banks for civil partnership without the required documents.
Analysis of a bank's practice involving execution of standing orders.
Analysis of a bank's practice involving incorrect information provided to clients on the possibility to appeal against the bank's decision to the Polish Financial Supervision Authority.
Analysis of the case of executing, by a bank, the transfer of funds coming from a loan disbursed on the basis of an instruction not given by the account holder.
Analysis of a bank's practice involving repayment of the loan after the death of the borrower out of the insurance policy securing the loan.
Analysis of a bank's practice involving the processing of the client's personal data after the termination of the agreement.
Analysis of a bank's practice involving sending information to clients about the settlement of loan overpayment.
Analysis of a bank's practice concerning the manner of notifying the bank's clients of changes in the Schedule of Fees and Commissions as regards the introduction of an account maintenance fee.
Analysis of cases of an unauthorized use, by a bank's employees, of clients' personal data in order to obtain a loan under false pretences.

Analysis of a bank's practice concerning sending demands to clients, in the form of text messages, to establish security for the loan in the form of assignment of an insurance policy.
Analysis of the process of executing attachments in three banks.
Analysis of cases involving unauthorized misappropriation of funds deposited in clients' accounts by a bank's employee.
Analysis of cases of lack of functionality of a bank's electronic banking system.
Analysis of a bank's practice involving the change in interest rates of cash credit.
Analysis of the process of implementing the integration project of a bank's electronic banking systems.
Analysis of cases of a bank's refusal to accept payment in coins.
Analysis of a bank's practice involving identification of the risk of money laundering.

#### **Cooperative savings and credit unions**

Analysis of a union's practice involving the introduction of changes in interest rates of loans and borrowings.
Analysis of a union's practice involving the return of promissory note forms after fulfilling the obligation by the borrower.
Analysis of cases of incorrect calculation, by a union, of interest on deposits in which there the interest capitalization was changed from monthly capitalization to capitalization at the end of the term of the deposit.
Analysis of a union's practice involving charging a fee of PLN 150 for the removal of data from BIK S.A.
Analysis of a union's practice involving the transfer of the amount exempt from attachment to the enforcement body
Analysis of the practice followed by one union as regards exercising members' rights to familiarize oneself with annual financial statements.
Analysis of a union's practice involving handling deposit products.
Analysis of a union's practice involving handling Western Union transactions.
Analysis of the case of transmitting information covered by professional secrecy, to a third party, by an external company acting on behalf of a union.

#### **Payment services provided by other entities than banks**

Analysis of the practice of two payment service offices as regards payment orders' execution.
Analysis of the case of the provision of services by a payment services office without meeting the requirements specified in the Act on payment services.
Analysis of the practice applied by a payment service office as regards operating under the name of one of the banks.

#### **Insurance Sector**

Analysis of the practice applied by two insurance intermediaries in relation to the way of offering, to customers, life insurance with unit-linked insurance plan.
Analysis of an insurance undertaking's practice involving the method of calculating the surrender value under the group life insurance contract with unit-linked insurance plan.
Analysis of an insurance undertaking's practice involving the rules of performing the instruction of termination of TPL insurance contracts of vehicle owners.
Analysis of the practice of three insurance undertakings in relation to providing access to claims files at the request of the aggrieved party, under Article 16(4) of the Act on Insurance Activity, including in the scope of the procedures in place and the rules of providing access to claims files.
Analysis of the practice of one insurance undertaking as regards determining the rate of renting a replacement car.
Analysis of an insurance undertaking's practice involving the manner of conducting debt collection activities.
Analysis of activities of an insurance intermediary as regards performance of agency activities related to collecting and accounting for insurance premiums.
Analysis of activities of an insurance intermediary as regards performance of agency activities related

to the conclusion of insurance contracts.
Analysis of an insurance undertaking's practice involving sending to policyholders, along with the policy anniversary letter, an additional offer of insurance cover.
Analysis of the general terms of life insurance with unit-linked insurance plans, applied by two life insurance undertakings, as regards charging fees related to the performance of the insurance contract.
Analysis of the general terms of life insurance with unit-linked life insurance plans applied by the selected insurance undertakings, as regards making payments of the redemption value and charging the associated fees (liquidation fee, redemption ratio).
Analysis of the practice of two insurance companies as regards formal requirements used in relation to individuals applying for the total redemption in the context of the provisions of the general conditions of insurance.
Analysis of an insurance undertaking's practice involving sending information to customers about the password given to the Internet application containing information about the insurance contract concluded.
Analysis of an insurance undertaking's practice involving double insurance cover under a motor vehicle owner's TPL insurance contract as regards a vehicle being the subject of a lease.
Analysis of the practice of two insurance undertakings as regards the method of confirming the coverage and storing the relevant documentation under group life insurance contracts with unit-linked insurance plans.
Analysis of the practice of three insurance undertakings as regards processing claims under TPL insurance contracts for motor vehicles owners as regards the lease of a replacement vehicle.
Analysis of the practice of three insurance undertakings as regards calculating the compensation due in the event of a total loss in the context of the provisions of the general conditions of casco insurance.
Analysis of the practice applied by one insurance undertaking as regards the rules of concluding insurance contracts by means of distance communication.
Analysis of an insurance undertaking's practice involving the rules and manner of accepting statements relating to insurance contracts by insurance intermediaries.
Analysis of the practice of two insurance undertakings as regards their compliance with Article 105(2) of the Act on insurance obligations (the transfer of data to the Insurance Guarantee Fund).
Analysis of an insurance undertaking's practice involving the method of processing declarations of intent on the resignation from the insurance coverage under the life insurance contract concluded with a bank.
Analysis of an insurance undertaking's practice involving presenting the offer of a TPL insurance contract for vehicle owners to the buyer of the vehicle.
Analysis of the practice applied by an insurance undertaking as regards the application of the bonus protection clause in the context of the provisions of the general terms and conditions of insurance.
Analysis of an insurance undertaking's practice involving meeting the obligation under Article 811 § 1 of the Civil Code.
Analysis of the practice of one insurance undertaking as regards the rules of payment of compensation for individual insurance occurrences in the context of the provisions of the general terms of insurance.
Analysis of an insurance undertaking's practice involving the rules of payment of compensation to an individual entitled to use the vehicle in the context of the provisions of the general terms of insurance.
Analysis of an insurance undertaking's practice involving accepting orders of premium payments on account of the concluded insurance contract by telephone.
Analysis of an insurance undertaking's practice involving accepting the termination of a motor vehicle owner's TPL insurance contract concluded in accordance with Article 28(1) of the Compulsory Insurance Act, which termination was made in accordance with Article 28a(1) of the Compulsory Insurance Act.

#### **Pension sector**

Analysis of the practice of two open-end pension funds, involving the rules for withdrawal of funds deposited in the deceased spouse's account.
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#### **Capital market**

Analysis of an investment firm's practice of informing clients about changes in the Rules for maintaining brokerage accounts.
Analysis of an investment firm's practice of providing access to the package dedicated for a special

group of clients on the electronic service platform.

Source: In-house materials by the KNF Office

## ANNEX 6. COMPLAINTS TO THE KNF - BY SUBJECT

**Table 6.1. Complaints filed to the KNF Office about the operations of commercial banks in the years 2013-2014, by subject**

Complaint subject	2013	%	2014	%
Service quality	1331	26,80	1854	36,38
Account maintenance	1113	22,41	1116	21,90
Loans and borrowings	1197	24,10	1062	20,84
Mortgage loans	427	8,60	461	9,05
Other complaints	435	8,76	171	3,36
Credit cards	168	3,38	158	3,10
Payment cards	148	2,98	135	2,65
Other bank operations	141	2,84	135	2,65
Merger	7	0,14	4	0,08
<b>Total</b>	<b>4967</b>	<b>100</b>	<b>5096</b>	<b>100</b>

Source: In-house materials by the KNF Office

**Table 6.2. Complaints filed to the KNF Office about the operations of cooperative banks in the years 2013-2014, by subject**

Complaint subject	2013	%	2014	%
Loans and borrowings	23	27,71	28	28,87
Service quality	19	22,89	27	27,84
Account maintenance	14	16,87	23	23,71
Other complaints by clients	21	25,30	8	8,25
Mortgage loans	4	4,82	6	6,19
Credit cards	0	0,00	2	2,06
Payment cards	0	0,00	2	2,06
Other bank operations/ services	2	2,41	1	1,03
<b>Total</b>	<b>83</b>	<b>100</b>	<b>97</b>	<b>100</b>

Source: In-house materials by the KNF Office

**Table 6.3. Complaints filed to the KNF Office about life insurance undertakings in 2013-2014, by subject**

Complaint subject	2013	%	2014	%
Repurchase amount	76	16,45	113	22,42
Agent's negligence	69	14,94	90	17,86
Information policy of insurance companies	131	28,35	73	14,48
Refusal to pay compensation	71	15,37	61	12,10
Tardiness	20	4,33	27	5,36
Problems with obtaining a premium refund	9	1,95	21	4,17

The method of contract performance	1	0,22	20	3,97
Problems with agreement termination	21	4,55	20	3,97
Problems with withdrawal from an agreement	7	1,52	17	3,37
Claim amount	22	4,76	16	3,17
Valuation of CIF units	12	2,60	15	2,98
Problems with gaining access to claims files	8	1,73	11	2,18
Reservations as to the amount of the computed premium	5	1,08	7	1,39
Change of contractual conditions	1	0,22	6	1,19
Problems with concluding an agreement	0	0,00	2	0,40
Agent's complaint about the insurance company	0	0,00	1	0,20
Refusal to insure	0	0,00	1	0,20
Suspicion of personal data breach	0	0,00	1	0,20
Premium indexation	3	0,65	1	0,20
Questioning power of attorney by an insurance company	0	0,00	1	0,20
Amount of sum insured	6	1,30	0	0,00
<b>Total</b>	<b>462</b>	<b>100</b>	<b>504</b>	<b>100</b>

Source: In-house materials by the KNF Office

**Table 6.4. Complaints filed to the KNF Office about non-life insurance undertakings in 2013-2014, by subject**

Complaint subject	2013	%	2014	%
Tardiness	1098	27,92	883	32,38
Claim amount	1803	45,84	886	32,49
Refusal to pay compensation	549	13,96	531	19,47
Problems with gaining access to claims files	228	5,80	180	6,60
Problems with agreement termination	84	2,14	66	2,42
Information policy of non-life insurance company	70	1,78	58	2,13
Reservations as to the amount of the computed premium	48	1,22	34	1,25
Problems with obtaining a premium refund	20	0,51	30	1,10
Problems with withdrawal from an agreement	7	0,18	6	0,22
Agent's negligence	8	0,20	5	0,18
Problems with concluding an agreement	0	0,00	5	0,18
Change of contractual conditions	1	0,03	4	0,15
Questioning power of attorney by an insurance company	0	0,00	3	0,11
Refusal to insure	5	0,13	1	0,04
Amount of sum insured	1	0,03	1	0,04
Breach of insurance secret	1	0,03	1	0,04
GCI interpretation	3	0,08	1	0,04
Agent's complaint about the insurance company	3	0,08	0	0,00
Unjustified debt recovery	0	0,00	1	0,04

The method of contract performance	3	0,08	31	1,14
Suspicion of personal data breach	1	0,03	0	0,00
<b>Total</b>	<b>3933</b>	<b>100</b>	<b>2727</b>	<b>100</b>

Source: In-house materials by the KNF Office

**Table 6.5. Complaints to the KNF Office about branches of insurance companies of EU member states in 2013-2014, by subject**

Complaint subject	2013	%	2014	%
Tardiness	241	48,10	152	35,27
Claim amount	159	31,74	146	33,87
Refusal to pay compensation	43	8,58	49	11,37
Problems with gaining access to claims files	27	5,39	37	8,58
Problems with agreement termination	4	0,80	16	3,71
Information policy of an insurance undertaking	11	2,20	11	2,55
Reservations as to the amount of the computed premium	5	1,00	6	1,39
Agent's negligence	3	0,60	4	0,93
Problems with withdrawal from an agreement	3	0,60	4	0,93
Problems with obtaining a premium refund	1	0,20	4	0,93
Suspicion of personal data breach	1	0,20	0	0,00
The method of contract performance	0	0,00	2	0,46
GCI interpretation	1	0,20	0	0,00
Amount of sum insured	2	0,40	0	0,00
<b>Total</b>	<b>501</b>	<b>100</b>	<b>431</b>	<b>100</b>

Source: In-house materials by the KNF Office

**Table 6.6. Complaints to the KNF Office about open-end pension funds, 2013-2014, by subject**

Complaint subject	2013	%	2014	%
Irregularities concerning the distribution and payments of funds gathered in the account	14	37,84	15	40,54
Funds gathered in the account in an open-end pension fund	8	21,62	12	32,43
Irregularities in making transfers to other funds	7	18,92	3	8,11
Information activity of the fund	2	5,41	3	8,11
Complaints concerning data in the register of open-end pension fund members and changes thereto	3	8,11	3	8,11
Conducting acquisition activity	1	2,70	1	2,70
No subject of the complaint	2	5,41	0	0,00
<b>Total</b>	<b>37</b>	<b>100</b>	<b>37</b>	<b>100</b>

Source: In-house materials by the KNF Office

**Table 6.7. Complaints filed to the KNF Office about the operations of publicly-held companies and other participants in the capital market, 2013-2014, by subject**

Complaint subject	2013	%	2014	%
Quotation of a financial instruments	52	25,62	79	39,90
Corporate rights of shareholders	27	13,30	39	19,70
Disclosure obligations of companies listed on a regulated market	18	8,87	27	13,64
Disclosure obligations of companies listed on NewConnect	12	5,91	14	7,07
Quality of services provided	6	2,96	11	5,56
Other	31	15,27	11	5,56
Managing a publicly held company	48	23,65	11	5,56
Private issue of financial instruments	6	2,96	3	1,52
Companies withdrawn from the market (regulated and alternative market)	2	0,99	3	1,52
Disclosure obligations	1	0,49	0	0,00
<b>Total</b>	<b>203</b>	<b>100</b>	<b>198</b>	<b>100</b>

Source: In-house materials by the KNF Office

**Table 6.8. Complaints filed to the KNF Office about the operations of investment firms in the years 2013-2014, by subject**

Complaint subject	2013	%	2014	%
Quality of services provided	33	37.50	107	75.89
Execution of recommendations	0	0.00	16	11.35
Service provision via Internet	5	5.68	5	3.55
Management result	4	4.55	3	2.13
Other	20	22.73	3	2.13
Public issue support	3	3.41	2	1.42
Rate of fees and commissions	5	5.68	2	1.42
Recommendations	3	3.41	1	0.71
Distribution of units in investment firm	0	0.00	1	0.71
The collection of capital gains tax	2	2.27	1	0.71
Distribution of investment certificates	1	1.14	0	0.00
Execution of orders	11	12.50	0	0.00
Maintenance of IKE	1	1.14	0	0.00
<b>Total</b>	<b>88</b>	<b>100</b>	<b>141</b>	<b>100</b>

Source: In-house materials by the KNF Office

**Table 6.9 Complaints filed to the KNF Office about the operations of investment fund companies in 2013-2014, by subject**

Complaint subject	2013	%	2014	%
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Quality of services provided	13	20.00	20	23.53
Order execution date (refers to units in investment firm)	6	9.23	17	20.00
Valuation of units in investment firm	5	7.69	13	15.29
Implementation of investment policies	16	24.62	11	12.94
Order execution date (refers to investment certificates)	1	1.54	7	8.24
Rate of fees and commissions	1	1.54	4	4.71
Valuation of investment certificates	4	6.15	3	3.53
Other	7	10.77	2	2.35
Fund liquidation	3	4.62	2	2.35
Succession to units in investment firms	2	3.08	2	2.35
Merger of investment funds	3	4.62	1	1.18
Maintenance of IKE	3	4.62	1	1.18
Informing a member about amendments to statutes	0	0.00	1	1.18
Transfer of receivables to securitization closed-end investment fund	0	0.00	1	1.18
Service provision via Internet	1	1.54	0	0.00
<b>Total</b>	<b>65</b>	<b>100</b>	<b>85</b>	<b>100</b>

Source: In-house materials by the KNF Office

#### ANNEX 7. SUMMARY OF SEMINARS AND TRAINING WORKSHOPS ORGANIZED BY THE KNF OFFICE AS PART OF THE CEDUR PROJECT IN 2014

**Table 7.1. Training seminars for representatives of regulated entities (broken down by sector) as part of the CEDUR (Educational Centre for Market Participants) initiative**

Item	Seminar subject	Seminar date
<b>Banking sector</b>		
1.	Enforcement of receivables from bank accounts.	9 January 2014
2.	Bank's debt collection. Part Three (debt collection according to the Code of Civil Procedure).	14 January 2014
3.	Payment services account versus bank account agreement - applying the provisions of the Act on Payment Services.	20 February 2014
4.	Payment cards in light of amendments to the Act on Payment Services. Part One.	26 February 2014
5.	Provisions according to the Polish Accounting Standards versus write-downs according to the International Accounting Standards.	11 March 2014
6.	Payment cards in light of amendments to the Act on Payment Services. Part Two.	18 March 2014
7.	Confidential information in banking operations.	25 March 2014
8.	Anti-money laundering and combating the financing of terrorism at banks - the specificity of the banking sector.	6 May 2014
9.	The availability of information subject to banking secrecy to entitled parties.	9 May 2014
10.	Tasks of Audit Committees in light of the Act on Auditors.	13 May 2014

11.	The Act on Payment Services and the protection of payment services customer.	14 May 2014
12.	Anti-money laundering and combating the financing of terrorism at banks - the specificity of the banking sector - second edition.	30 May 2014
13.	Outsourcing of banking activities.	10 July 2014
14.	The new SREP methodology for the banking sector - first edition.	22 September 2014
15.	Changes in the functioning of cooperative banks arising from changes in EU regulations.	25 September 2014
16.	Workshops on the new reporting requirements in accordance with the CRR - the COREP package.	21 October 2014
17.	Securitisation of bank debts.	22 October 2014
18.	The new SREP methodology for the banking sector - Second edition.	14 November 2014
19.	Bills of Exchange Law	1 December 2014
20.	Changes in the compulsory reporting of co-operative banks.	8 December 2014
21.	Mortgage as security of repayment of loans and borrowings in the banking practice.	10 December 2014
<b>The cooperative savings and credit unions (SKOK) sector</b>		
1.	Enforcement of SKOKs' receivables in execution of agreements securing unions' receivables (Part I).	14 March 2014
2.	Enforcement of SKOKs' receivables in execution of agreements securing unions' receivables (Part II).	26 March 2014
3.	Anti-money laundering and combating the financing of terrorism at cooperative savings and credit unions.	12 June 2014
4.	Payment services in comparison to activities of cooperative savings and credit unions.	17 June 2014
5.	Conclusion of outsourcing contracts by unions.	24 June 2014
6.	The accounting of cooperative savings and credit unions - practical aspects for auditors.	26 June 2014
7.	The role of supervisory boards at cooperative savings and loan unions.	8 September 2014
8.	Reporting at cooperative savings and credit unions in view of changes in law.	12 September 2014
9.	The rules for determining, paying and accounting for payments on account of the cost of supervision by cooperative savings and credit unions - First Edition.	16 September 2014
10.	The rules for determining, paying and accounting for payments on account of the cost of supervision by cooperative savings and credit unions - Second Edition.	9 October 2014
11.	The formulation of loan agreements by unions (abusive clauses).	14 October 2014
12.	Audit and internal control at SKOKs (function, tasks and structure).	27 October 2014

<b>Payment services sector</b>		
1.	The rules and legal basis for running a payment services office.	25 April 2014
2.	Contractual relations in the operational practice of entities providing payment services - framework agreement.	29 April 2014
3.	The reporting obligation of Payment Services Offices towards the Polish Financial Supervision Authority.	15 November 2014
4.	The reporting requirements of KIPs and the calculation of own funds of KIPs.	20 November 2014
<b>Capital market</b>		
1.	Own funds of brokerage houses in accordance with CRR.	16 January 2014
2.	Anti-money laundering and combating the financing of terrorism on the capital market - the specificity of capital market entities.	22 May 2014
3.	The obligations of a depository - selected issues.	27 May 2014
4.	Information obligations of investment funds - the most common mistakes.	2 July 2014
5.	Monitoring the compliance by investment funds with the investment limits.	18 September 2014
6.	Mandatory disclosures in the financial statements of brokerage houses.	10 October 2014
7.	Irregularities in respect of meeting the disclosure obligations by issuers - a case study and a list of persons having access to confidential information.	16 October 2014
8.	Information obligations of a publicly traded company operating within a group.	29 October 2014
9.	The issue prospectus - selected practical issues.	28 November 2014
10.	Interim reporting - compliance with effective regulations (financial framework).	3 December 2014
11.	Information obligations of investment fund companies - the most common mistakes.	9 December 2014
12.	Information obligations in the context of new European Union regulations.	15 December 2014
<b>Insurance Sector</b>		
1.	Anti-money laundering and combating the financing of terrorism on the insurance market - the specificity of insurance market entities.	20 May 2014
2.	Risk-free interest rate in Solvency II	6 November 2014
3.	Selected aspects of the assessment of internal models.	13 November 2014
<b>Pension sector</b>		

1.	Amendment to the Act on organisation and functioning of pension funds.	3 April 2014
2.	Information obligations and advertising activities open-end pension funds.	8 April 2014
3.	"The interests of pension fund members" as a legally protected value in the supervisor's practice and in the case-law.	15 May 2014
4.	Membership in a pension fund - the legal nature, rights and obligations of members.	15 October 2014
5.	Open-end pension funds in the case-law of administrative and common courts of law - selected issues (also includes issues regarding "The conflict of interest in the operations of pension funds and the protection of professional secrecy").	5 November 2014
<b>Cross-sectoral</b>		
1.	Reporting obligations under the EMIR Regulation (in cooperation with KDPW)	27 January 2014
2.	Reporting obligations under the EMIR Regulation - Second Edition (in cooperation with KDPW)	10 February 2014

Source: In-house materials by the KNF Office

**Tabel 7.2. Seminars for representatives of the judiciary and law enforcement agencies, as part of the CEDUR (Educational Centre for Market Participants) initiative**

Item	Seminar subject	Seminar date
1.	Professional secrecy of entities providing payment services versus banking secrecy.	22 January 2014
2.	Payment cards - legal issues	24 January 2014
3.	Disclosure obligations on the capital market.	27 January 2014
4.	Lecture on Pyramid schemes - how they raise funds and how to identify them? Can near-banks operate legally in Poland? The offense of unauthorized operations according to the types set out in the financial market regulations. The scope of cooperation of the Polish Financial Supervision Authority with the Police as part of training organized by the Police Headquarters	13 March 2014
5.	Professional secrecy of SKOKs versus banking secrecy.	9 April 2014
6.	Life insurance contracts with unit-linked insurance plan (UFK) as insurance products of investment nature	10 April 2014
7.	Legal risk in banking operations.	24 April 2014
8.	Virtual means of payment - the concept, types, legal classification in the context of financial services, criminal liability for theft	16 May 2014
9.	Penalized acts actions in the Banking Act in the context of operations of banks and other entities authorized to carry out banking activities	21 May 2014

10.	Lectures on "Pyramid schemes - how they raise funds and how to identify them? Can near-banks operate legally in Poland? The offense of unauthorized operations according to the types set out in the financial market regulations. The scope of cooperation of the Polish Financial Supervision Authority with the Police. Virtual means of payment - the concept, types, legal classification in the context of financial services, criminal liability for theft", as part of training organized by the National Police Headquarters	5 June 2014
11.	Selected legal aspects of operations of open-end pension funds, with particular attention to private-law issues concerning the legal status of pension contributions accumulated in a member account of open-end pension fund (Part I).	9 June 2014
12.	Selected legal aspects of operations of open-end pension funds, with particular attention to private-law issues concerning the legal status of pension contributions accumulated in a member account of open-end pension fund (Part II).	10 June 2014
13.	The system of anti-money laundering and combating the financing of terrorism in financial institutions - experiences of the financial supervision body.	13 June 2014
14.	Pyramid schemes - how they raise funds and how to identify them? Can near-banks operate legally in Poland? The offense of unauthorized operations according to the types set out in the financial market regulations.	16 June 2014
15.	Activities of persons authorized to manage property affairs at a bank, including acting to the detriment of the bank - liability under Article 296 of the Penal Code.	3 September 2014
16.	Crimes involving the use of payment cards.	4 September 2014
17.	Judicial enforcement out of financial instruments credited to a securities account.	4 September 2014
18.	Regulatory environment and the functioning of the commodities market in Poland. Price formation and the characteristics of trading in commodities.	9 September 2014
19.	Secrecy in the operations of entities providing financial services (Part I).	11 September 2014
20.	Secrecy in the operations of entities providing financial services (Part II).	12 September 2014
21.	Lectures on "Pyramid schemes - how they raise funds and how to identify them? Can near-banks operate legally in Poland? The offense of unauthorized operations according to the types set out in the financial market regulations. The scope of cooperation of the Polish Financial Supervision Authority with the Police. Virtual means of payment - the concept, types, legal classification in the context of financial services, criminal liability for theft", as part of training organized by the National Police Headquarters.	17 September 2014
22.	Offences in the capital market.	24 September 2014
23.	The functioning of payment service offices and domestic payment institutions - protection, accountability, disclosure obligations.	9 October 2014
24.	The capital market functioning mechanisms. Organisation and operation of the Warsaw Stock Exchange. Trading in financial instruments.	24 October 2014

25.	Lectures on "Pyramid schemes - how they raise funds and how to identify them? Can near-banks operate legally in Poland? The offense of unauthorized operations according to the types set out in the financial market regulations. The scope of cooperation of the Polish Financial Supervision Authority with the Police. Virtual means of payment - the concept, types, legal classification in the context of financial services, criminal liability for theft", as part of training organized by the National Police Headquarters	29 October 2014
26.	The offence of breach of trust and trading in influence at banks - in the context of Article 296 of the Penal Code and Article 296a of the Penal Code.	14 November 2014
27.	Offences with the use of electronic banking systems.	18 November 2014

Source: In-house materials by the KNF Office

**Table 7.3. Seminars for local and regional consumer ombudsmen, as part of the CEDUR (Educational Centre for Market Participants) initiative**

Item	Seminar subject	Seminar date
1.	Consumer contracts for the provision of financial services by banks - special rights and obligations of counterparties, abusiveness of contractual provisions (Part I).	25 June 2014
2.	Consumer contracts for the provision of financial services by banks - special rights and obligations of counterparties, abusiveness of contractual provisions (Part II).	26 June 2014

Source: In-house materials by the KNF Office

**Table 7.4. Workshops for teachers of economic subjects, as part of the CEDUR (Educational Centre for Market Participants) initiative**

Item	Seminar subject	Seminar date
1.	Banking operations and entities operating in the banking services market.	4 April 2014
2.	How to make payments or everything about the provision of payment services.	19 September 2014
3.	Privileges in the operations of banks - the special role of banks and the National Bank of Poland in the financial system.	6 October 2014
4.	How to become a holder of a bank account at the age of 13?	21 October 2014
5.	Consumer on the insurance market as regards non-life insurance - rights and obligations.	29 October 2014

Source: In-house materials by the KNF Office

ANNEX 8. LIST OF GUIDELINES AND POSITIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY AND OF THE OFFICE OF THE POLISH FINANCIAL SUPERVISION AUTHORITY IN 2014

**Table 8.1. Guidelines of the Polish Financial Supervision Authority issued in 2014**

Item	Subject of guidelines	Date
<b>Guidelines concerning the management of the IT area and safety of IT environment.</b>		
1.	Guidelines on the management of the IT area and safety of the IT environment at universal pension fund companies.	16 December 2014
2.	Guidelines concerning the management of the IT area and safety of IT environment in insurance and reinsurance undertakings.	16 December 2014
3.	Guidelines concerning the information technology and IT environment safety management at investment fund companies.	16 December 2014
4.	Guidelines concerning the management of the IT area and safety of IT environment in capital market infrastructure entities.	16 December 2014
5.	Guidelines concerning IT management and safety of IT environment at investment firms.	16 December 2014
<b>Cross-sectoral guidelines</b>		
1.	The Principles of Corporate Governance for supervised institutions	22 July 2014
<b>Other guidelines concerning the insurance sector</b>		
1.	Guidelines for insurance companies concerning the distribution of insurances.	24 June 2014
2.	Guidelines for outward reinsurance/retrocession.	30 June 2014
3.	Guidelines on flood risk management in the insurance sector.	16 December 2014
4.	Guidelines on loss adjustment in motor insurances.	16 December 2014

**Table 8.2. Positions of the Polish Financial Supervision Authority and of the Office of the Polish Financial Supervision Authority, presented in 2014**

Item	The subject matter of the position	Date
<b>Banking sector</b>		
1.	Letter to the cooperative banking sector on decisions expressing consent to the reduction of own funds by payment of funds from the equity fund.	3 January 2014
2.	Letter to the cooperative banking sector on the introduction of the new SREP methodology by the KNF Office.	20 January 2014
3.	Letter to the cooperative banking sector as regards establishing new conditions and rules for inclusion of financial instruments and subordinated loans under Tier II.	27 January 2014
4.	Position of the KNF Office on bank account overdraft (addressed to the Polish Bank Association and the National Association of Cooperative Banks).	29 January 2014
5.	Position of the KNF Office on the reporting of banks and the obligation to apply the provisions of the CRR Regulation as from 1 January 2014.	14 February 2014

6.	Position on the correct application of the company law by banks.	7 March 2014
7.	Letter to the cooperative banking sector on the extension of the deadline for submission of materials in connection with the SREP process to the KNF Office.	10 March 2014
8.	Position addressed to banks on the minimum Tier 1 ratio and capital adequacy ratio.	21 March 2014
9.	Letter to the cooperative banking sector on the new system of the Quarterly Review of Banks - Risk Analysis Report.	4 April 2014
10.	Letter to the cooperative banking sector on applications for an authorization to include reviewed annual profits and profits for the period in common equity Tier 1 capital.	11 April 2014
11.	Letter to the cooperative banking sector on the mode of transmission of ratings granted under the KOBRA system to affiliated cooperative banks and associating banks.	23 April 2014
12.	Letter to the cooperative banking sector on the limit of large exposures in the light of provisions of EU Regulation No 575/2013 and the transmission of information on exceeding that limit.	25 April 2014
13.	Letter to the cooperative banks sector on reciprocal cross holdings causing artificial overstatement of banks' own funds	13 May 2014
14.	Letter to the cooperative banking sector on determining the limit of exposure to another domestic bank, credit institution, foreign bank or group of entities with capital or organisational links, consisting of at least one domestic bank, credit institution or foreign bank excluding exposures to the Associating Bank.	26 May 2014
15.	Position addressed to banks and branches of credit institutions on determining the expiry date of identity cards.	29 May 2014
16.	Position on the risks associated with providing another bank with login details to a bank account	14 July 2014
17.	Position addressed to banks and branches of credit institutions on the list of public warnings of the Polish Financial Supervision Authority.	14 August 2014
18.	The position of the KNF Office on the use of so-called cookies by banks.	2 September 2014
19.	Position on the clearing of OTC derivative contracts by authorized central counterparties.	7 November 2014
20.	Letter to the cooperative banks sector on the rules of the dividend policy of banks, insurance and reinsurance companies, universal pension fund companies, investment fund companies and brokerage houses in 2015 for the year 2014.	18 December 2014
<b>The cooperative savings and credit unions (SKOK) sector</b>		
1.	Position of the KNF Office on outsourcing in cooperative savings and credit unions unions.	28 January 2014
2.	Position on the criteria taken into account in assessing the ability to participate in the SKOK sector's restructuring	4 February 2014
3.	Letter to the SKOK sector on transactions made by cooperative savings and credit unions involving the separation of a part of a continuing business and its contribution to commercial-law companies.	7 February 2014
4.	Letter to the SKOK sector on the position of the KNF as regards the possibility of outsourcing, collection of a union's debt, outsourcing of keeping a union's books of accounts.	14 April 2014
5.	Letter to the SKOK sector informing about the position of the Ministry of Finance in relation to the possibility of reversing previously recognised impairment losses on receivables on account of loans and borrowings granted, in the event of conclusion, by a union, of a settlement with the borrower.	16 April 2014



6.	Letter to the SKOK sector in connection with irregularities found in the calculation of the capital requirement for credit risk, as a result of improper assignment of risk weights to individual assets.	23 April 2014
7.	Letter to the SKOK sector presenting the KNF position on the issue, by the National Union, of an act imposing reporting obligations on unions.	4 August 2014
8.	Letter to the SKOK sector informing about the decision of the Polish Financial Supervision Authority of 22 July 2014 on refusal to approval of the Charter of the National Cooperative Savings and Credit Union.	4 August 2014
9.	Letter to the SKOK sector presenting the position of the Minister of Finance assessing the correctness of operations of cooperatives' bodies in relation to financial statements' approval.	12 November 2014
<b>Insurance Sector</b>		
1.	Address to the Polish Insurance Association on the support for the implementation of the direct claims adjustment model.	12 May 2014
2.	The KNF's Position on the dividend policy of insurance and reinsurance undertakings.	4 December 2014
<b>Pension sector</b>		
1.	The KNF's position on the information of open-end pension funds (OFE) prepared in accordance with Article 11(3) of the <i>Act of 6 December 2013 amending certain acts in connection with defining the principles for the payments of pension from the funds accumulated in open-end pension funds.</i>	25 March 2014
2.	KNF position on the dividend policy of universal pension fund companies in 2014	27 March 2014
3.	Position of the KNF Office on the prohibition to conduct acquisition activity for open-end investment funds.	28 March 2014
4.	KNF position on investing pension funds' assets in deposits denominated in the currencies of EU Member States or states being parties to the Agreement on the European Economic Area, or members of the Organisation for Economic Cooperation and Development and the classification of funds' deposits as deposits denominated in the local currency or denominated in the currency other than the local currency.	30 June 2014
<b>Capital market</b>		
1.	Position of the KNF Office on the requirement under Article 69 of the Act on Public Offering.	17 March 2014
2.	Position of the KNF Office on the rules of conduct of investment fund companies in accordance with the provisions of the Act on Investment Funds in relation to the organization and operation of investment funds companies.	17 March 2014
3.	Position of the KNF Office on the publication, by investment fund companies, of information prospectuses, key investor information and advertising information.	20 March 2014
4.	Position of the KNF Office on the functioning of the compliance oversight system within investment firms.	27 May 2014
5.	KNF position on lack of possibility to make, by an attorney, in the information document, a statement referred to in Article 22(5) of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies.	17 November 2014
<b>Cross-sectoral positions</b>		

1.	Position of the KNF Office on activities to be taken by regulated entities in connection with a growing number of entries into the register of unfair contract terms.	11 February 2014
2.	KNF position on the dividend policy of financial institutions.	2 December 2014
3.	KNF position on the processing of clients' personal data by financial institutions.	30 December 2014

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