

**REPORT ON THE ACTIVITIES
OF THE UKNF AND THE KNF BOARD
IN 2020**

Pursuant to Article 4(2) of the Act of 21 July 2006 on financial market supervision (Journal of Laws *[Dziennik Ustaw]* 2020, item 2059, and Journal of Laws 2021, item 680), the Polish Financial Supervision Authority (PL: *Urząd Komisji Nadzoru Finansowego* – UKNF) must submit an annual report on its activities and on the activities of the Board of the Polish Financial Supervision Authority (PL: *Komisja Nadzoru Finansowego* – KNF Board) to the President of the Council of Ministers by 31 July of the following year. In order to comply with the above-mentioned statutory requirement, on 30 April 2021 the KNF Board accepted, within its remit, *Report on the activities of the UKNF and the KNF Board in 2020*. On 10 May 2021, the *Report on the activities of the UKNF and the KNF Board in 2020* was approved by the Chair of the KNF Board, acting under Article 3(4) point 2 of the Act of 21 July 2006 on financial market supervision.

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LETTER FROM THE CHAIR OF THE KNF BOARD

In 2020, the key event which captured the attention of the entire world and the key challenge, also for the Polish financial sector, was the outbreak of a global epidemic, and then pandemic, of SARS-CoV-2, causing the COVID-19 disease. Its impact on particular sectors of the Polish financial market turned out to be varied. We have seen, among others, an outflow of funds from low-interest bank deposits towards alternative capital investment forms. Beneficiaries of that outflow included investment funds, which as a result reported a positive balance of capital inflows. Low interest rates contributed to increased activity of non-professional investors, which was confirmed by an increased number of brokerage accounts and increased stock exchange turnover. The COVID-19 pandemic negatively affected the insurance sector. The worsening situation of enterprises translated into the occurrence of risks related to a decline in insurance sales, increased loss ratio in insurance and insurance guarantees for industries most affected by restrictions in 2020.

At the very start of the epidemic, the UKNF took firm action to support the functioning of the supervised sectors: banking, capital and insurance sectors. It developed and published #PIN, i.e. the Supervisory Stimulus Package for Security and Development. #PIN was aimed at ensuring the necessary balance between the relevant stability indicators of the Polish financial system on the one hand, and supporting business activities (particularly maintaining credit availability for businesses) on the other. Moreover, as a supervisory authority, we have demonstrated pragmatism in those areas where we have previously shown widespread conservatism. By an open, constructive dialogue with the market, we have developed pragmatic solutions which enable us to act with flexibility and caution. By maintaining ongoing contact with supervised sectors, we managed to respond in a timely manner to numerous situations which required an explanation or swift and firm action. It contributed to developing new standards of cooperation, thus mitigating the negative economic effect of the first wave of the pandemic, from the perspective of customers and the financial sector itself.

A comprehensive work organisation system introduced at the UKNF made it possible to ensure a COVID-secure workplace while also maintaining continuity of the performed processes. It is also worth noting that at the initiative of the UKNF, provisions were introduced to the Act on financial market supervision to allow for remote meetings of the KNF Board, or remote participation of its particular members, which was especially important for ensuring the continuity of that collective body in times of the pandemic restrictions. In order to respond to market needs, including those related to the pandemic, the UKNF expanded the use of electronic communication means, which were applied also in its administrative proceedings.

2020 also saw further actions initiated at the UKNF at the beginning of my term of office, aimed at strengthening the supervision over the financial market in Poland, through its professionalisation and by making up for organisational and technological delays in many areas of its functioning. It is still being done in an ongoing manner, by providing the UKNF with new software and tools which support the supervisory mechanisms, and also with specialised human resources necessary to supervise the Polish financial market in an efficient and effective manner.

Jacek Jastrzębski
Chair of the KNF Board

1. KEY ACTIVITIES OF THE UKNF AND THE KNF BOARD IN 2020

1.1. ACTIVITIES WHICH MITIGATED THE NEGATIVE IMPACT OF THE PANDEMIC

In the light of the SARS-CoV-2 pandemic, which in 2020 was a challenge for financial markets around the world, the UKNF recognised a special need for ensuring security and stability of the financial market. With that in mind, the UKNF prepared a package of proposals for supervised entities to make it easier for them to operate in the changed market environment, under the common name of #PIN – Pakiet Impulsów Nadzorczych na rzecz Bezpieczeństwa i Rozwoju:

- Supervisory Stimulus Package for Security and Development — a package of measures to boost the resilience of the Polish banking sector and its capacity for financing the economy;
- Supervisory Stimulus Package for bank financing of corporate customers in the face of the COVID-19 pandemic – to enable banks to maintain or change the terms of bank financing (e.g. to extend repayment deadlines or to increase amounts) of corporate customers (not subject to the special statutory rules introduced for micro-, small- and medium-sized enterprises as part of the Anti-Crisis Shield) in the face of the COVID-19 pandemic, the UKNF, in agreement with the banking industry, presented its position on the interpretation and application of Article 70(2) of the Banking Law;
- Supervisory Stimulus Package for bank financing of micro-, small and medium-sized enterprises – banks were offered an approach which, on the one hand, paves the way for secure bank financing of the SMEs that despite their good business activity history have not been assigned a positive credit score on or after 30 September 2019, and, on the other hand, ensures proper allocation of risks and distribution of economic incentives between the funding banks and such SMEs and their owners;
- Supervisory Stimulus Package for Security and Development in the area of capital market¹
 - legislative proposals were prepared which extend:
 - time limits for preparing, approving and publishing annual financial statements and annual consolidated financial statements of KNF-supervised entities;
 - the time limit for publishing quarterly reports and consolidated quarterly reports of issuers for the first quarter of the financial year starting on 1 January 2020;
 - the time limit for holding the Annual General Meeting;
 - the time limit for approving the remuneration policy;
- The Supervisory Stimulus Package for Security and Development in the area of insurance market – enabled the supervised entities to focus on the reorganisation of work when switching to remote work.

1.2. DEVELOPMENT OF FINANCIAL INNOVATION²

As part of the [Digital Supervisory Agenda](#), the UKNF explained cloud-based information processing, the functioning of crowdfunding platforms, and the delivery of robo-advisory services, and also announced its position on the issuance and trade of crypto-assets. Detailed guidelines can be found in the following documents:

- Communication of 23 January 2020 on information processing by supervised entities using public or hybrid cloud computing services,

¹ See sub-chapter 8.2.1. *Key activities*.

² See sub-chapter 10.1.3. *Actions supporting the development of financial innovation (FINTECH)*.

- Position of 9 April 2020 on the operating principles of investment crowdfunding platforms,
- Position of 4 November 2020 on robo-advisory services,
- Position of 10 December 2020 on the issuance and trade of crypto-assets.

The UKNF launched the [PSD2 Virtual Sandbox](#) – a test environment which makes it possible to simulate selected bank operations and test solutions based on the Open API interface³. An entity planning to offer innovative payment services may use the Virtual Sandbox to test its solution in an IT testing environment simulating the basic services provided for in the Payment Services Directive 2 (PSD2), i.e. the Payment Initiation Service (PIS), Account Information Service (AIS), and Confirmation of Availability of Funds (CAF).

1.3. MEASURES IN THE AREA OF FRAUD DETECTION

Establishing a special unit for OSINT tasks – In order to prioritise increasing the rate and speed of detecting financial fraud which is to be detected mainly using open source intelligence (OSINT) techniques, in 2020 the UKNF appointed a unit which analyses open source data on entities contacting the UKNF. This unit carries out analytical work at the request of other UKNF organisational units.

At the same time, as part of structures responsible for analysing reports on irregularities, the existing methods of operation were optimised or modified. The taken measures were aimed at improving the identification of the growing phenomenon of illegal intermediation on the capital market⁴, and at intensifying the cooperation with law enforcement authorities in the area of the exchange of information.

1.4. ACTIVITIES RELATED TO THE BANKING SECTOR AND THE INSURANCE SECTOR

The COVID-19 crisis caused significant organisational challenges related to the performance, on a big scale, of inspection activities at banking sector entities⁵, which results from a high number of simultaneous inspection activities as well as the broad scope of inspection. The taken measures, related to developing new organisational solutions, ensured an efficient and effective course of inspection activities at the entities under inspection. The adopted solutions made it possible to carry out inspection activities in a secure and effective manner, making maximum use of remote work.

The UKNF participated in the work of the Financial Market Development Council's Special Task Force for analysing legal solutions related to financial instruments which could be classified as Additional Tier 1 capital (AT1). As a result of the works of that Task Force, draft Act amending the Act on bonds and certain other laws (UC 32) was prepared that at the turn of 2020/2021 was still subject to interministerial consultations, in which the UKNF participated. The draft introduces instruments which banks and brokerage houses will be able to classify as Additional Tier 1 capital and as RT1 own funds of insurance and reinsurance undertakings.

The UKNF worked on the project 'Reforma modelu banków hipotecznych' (Reform of the mortgage bank model). The need to start this work resulted from the need to implement the Covered Bond Directive (CBD) and from regulatory changes proposed by the banking sector

³ Complying with the requirements of the PSD2 and the Polish API standard.

⁴ See sub-chapter 10.5.2. *Notification of a suspected criminal offence.*

⁵ This also applied to validation proceedings. See sub-chapter 4.3.3.2. *Irregularities identified during inspection activities at commercial banks.*

in relation to reducing the operating costs of mortgage banks, which are supposed to lead to increasing the volume of the issue of mortgage bonds.

Under the project, the UKNF prepared a detailed analysis of:

- legal changes proposed by mortgage banks;
- possibility of introducing the proposed changes to the Act of 29 August 1997 on mortgage bonds and mortgage banks and the Act of 29 August 1997 – the Banking Law.

The main focus was placed on matters related to differences between the regulations on mortgage bonds in Poland as compared to other European markets. As a result of the work, the UKNF proposed significant changes to the Act on mortgage bonds and mortgage banks in the context of outsourcing in the banking sector as part of capital groups, and other measures facilitating the operations of mortgage banks. The work on the reform will be continued in 2021.

1.5. ACTIVITIES UNDERTAKEN IN THE AREA OF CAPITAL AND COMMODITY MARKETS

Recognising a special need to ensure the proper functioning of the capital market, including security, observing the rules of fair trading, and investor protection, the UKNF prepared a package of proposals for supervised entities to make it easier for them to operate in the market environment changed as a result of the pandemic.

The UKNF also initiated a series of meetings with particular groups of capital market entities, which were devoted to discussing the situation of investment fund management companies, general pension societies, transfer agents and brokerage houses due to the pandemic, in order to develop the best organisational and legal solutions for the market and its entities.

On 31 March 2020, the President of the Republic of Poland signed the Act amending the Act on special solutions related to the prevention, counteracting and combating of COVID-19, other infectious diseases and emergencies caused by them, and certain other statutory laws. The amended legislation provides for solutions included in the Supervisory Stimulus Package for Security and Development in the area of capital market drawn up by the UKNF.

The solutions that apply to all entities, including:

- public companies,
- brokerage houses,
- tied agents of investment firms,
- energy companies,
- commodity brokerage houses,
- general pension societies (PTE),
- investment fund management companies (TFI),

are the provisions that allow for changes in the time limits for the fulfilment of requirements laid down in the legislation on financial market.

As part of educational activities, two public campaigns were prepared: *Invest Knowledgeably*, aimed at making investors aware of key risks related to investing in financial instruments, and *Investment notes*, warning them against investing in a product outside the capital market⁶. In response to the 2019 trend consisting in the growing number of public offerings in Poland carried out in the crowdfunding formula, in 2020 the UKNF launched *an information campaign on investment crowdfunding*. The campaign was addressed to investors, crowdfunding platforms and issuers which planned to choose crowdfunding as a way of raising capital for development. The campaign was aimed at raising the level of investor protection and supporting the development of that capital market segment. The UKNF's initiative contributed

⁶ See sub-chapter 10.11.2. *Public campaigns*.

to developing standards for the infrastructure used when promoting both public offerings and in the area of advertising or content of the securities note, which is a basic source of knowledge on the issuer and the securities it offers.

The UKNF participated in the work related to performing the tasks resulting from the Development Strategy for Capital Markets as part of groups for gold-plating, structured products, and developing the concept of a single banking licence. These activities also included reviewing the application of requirements in the area of product governance, adequacy assessment and suitability assessment. Verification covered the compliance of introducing so-called cross-selling of products and services at investment firms and banks with Article 70(2) of the Act on trading in financial instruments, as well as the application of the product intervention measure in the area of fulfilling obligations related to protecting customer rights.

The UKNF prepared a proposal for rules on crowdfunding supervision and actively participated in implementing Directive 2019/2034 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, (so-called IFD). Important activities undertaken by the UKNF in 2020 also included analysing the segment of public offerings implemented in the form of share-based crowdfunding.

In order to prepare for ESEF-compliant reporting, in 2020 the UKNF adapted the Electronic Information Transfer System (ESPI) to support the receipt, technical validation and publication of ESEF-compliant annual reports. In October 2020, infrastructure tests were carried out with the participation of issuers.

The UKNF also harmonised its supervision of investment services provided by banks, specified in Article 70(2) of the Act on trading in financial instruments, and investment firms in the area of implementing MiFID II.

Due to implementing new regulations, the UKNF also prepared a position on investment advisory services, and a series of answers to questions concerning the register of shareholders⁷ and so-called sales report⁸.

Following the introduction of the requirement to obtain the KNF Board's consent to the appointment of members of management board of investment fund management companies who supervise the risk management system and the process of making investment decisions, the UKNF prepared a position addressed to investment fund management companies on implementing new regulations related to appointing the above-mentioned members of management board.

Upon entering into force of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (OJ C 144 I of 25 April 2019, p. 1), on 31 December 2020, the United Kingdom, in accordance with EU legislation, lost the status of an EU Member State. It was therefore necessary to adjust the articles of association of open-end investment funds or specialist open-end investment funds to the Act on investment funds and management of alternative investment funds, in the area of designating the organised markets in the United Kingdom as markets in a non-EU country. In the fourth quarter of 2020, the UKNF received nearly 60 applications in this regard. All applications were processed until 31 December 2020, i.e. before the end of the transition period.

⁷ See sub-chapter 10.4.2.2. *Selected positions of the KNF Board and the UKNF, and positions in the form of UKNF communications.*

⁸ See sub-chapter 10.4.2.2. *Selected positions of the KNF Board and the UKNF, and positions in the form of UKNF communications.*

As of 1 January 2020, the UKNF replaced the existing Register of Financial Instruments with the Register of Shares (SEA). The new system includes basic data on public offerings of shares and on admitting shares to trading on a regulated market/introduction of shares to trading in an alternative trading system. In 2020, 250 issuers filed over 600 entries to SEA.

In the area of supervision of trading in financial instruments, in 2020 the UKNF carried out a project named STOR 2020 Initiatives, which related to detecting and reporting MAR breaches by supervised entities as part of implementing ESMA guidelines. Under the Initiative, the UKNF carried out analyses in the area of detecting and reporting abuse by entities obliged to do so by MAR. As a result of these analyses, the UKNF performed 18 activities addressed to three groups of market participants, which were described in the report 'STOR 2020 Initiative'. The second, supplementary, initiative consisted of work on the ESPI online form for suspicious transaction and order reports (STOR).

Key activities in the area of capital and commodity market infrastructure entities⁹:

- the KNF Board authorised the National Depository for Securities (KDPW) to operate as a central depository for securities in accordance with the CSDR,
- the KNF Board authorised the National Depository for Securities to provide a non-banking ancillary service, i.e. support in reporting to the trade repository,
- the KNF Board authorised Towarowa Gielda Energii to operate an organised trading facility,
- the KNF Board authorised Towarowa Gielda Energii to operate an auction platform for primary trading of CO₂ emission allowances.

1.6. COMPLIANCE RISK MANAGEMENT AT THE UKNF¹⁰ AND ACTIVITIES IN THE AREA OF PREVENTING MONEY LAUNDERING AND TERRORIST FINANCING

In 2020, the UKNF adopted 'Compliance risk management policy of the UKNF'. It also strengthened supervision in the area of preventing money laundering and terrorist financing by establishing a dedicated analytical section and international cooperation section.

⁹ See sub-chapter 8.2.6. *KNF Board's activities towards capital and commodity market infrastructure entities.*

¹⁰ See Chapter 11. *Organisation of the UKNF.*

2. THE UKNF AND THE KNF BOARD

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

The UKNF and the KNF Board operate under the Act of 21 July 2006 on financial market supervision¹¹, hereinafter: 'Act on financial market supervision'. The UKNF has the status of a state legal person, the bodies of which are the KNF Board and the Chair of the KNF. The Chair of the KNF Board manages the activities of the KNF Board and the UKNF and represents them externally.

The KNF Board is competent for supervision of the financial market, which under the legal framework as at 31 December 2020 included:

- banking supervision,
- pension supervision,
- insurance supervision,
- capital market supervision,
- supervision of payment institutions, payment services offices, electronic money institutions, branches of foreign electronic money institutions,
- supervision of credit rating agencies,
- supplementary supervision of credit unions, insurance undertakings, reinsurance undertakings and investment firms included in a financial conglomerate,
- supervision over credit unions and the National Association of Credit Unions,
- supervision of mortgage credit intermediaries and their agents,
- supervision as provided for in Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014¹² and supervision as provided for in Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012¹³.

The purpose of supervision of the financial market is to ensure its proper functioning, stability, security and transparency, confidence in the financial market, and to ensure that the interests of market participants are protected. That purpose is also achieved through reliable information concerning the functioning of the market, through the pursuit of objectives stated, in particular, in the Banking Law of 29 August 1997¹⁴, the Act of 22 May 2003 on insurance and pension supervision¹⁵, the Act of 15 April 2005 on supplementary supervision of credit institutions, insurance undertakings, reinsurance undertakings and investment firms being part of a

¹¹ On 5 February 2020, the consolidated text of the Act was announced (Journal of Laws 2020, item 180), in 2020 amendments were announced in the Journal of Laws items 284, 568 and 695. On 20 November 2020, the consolidated text of the Act was announced (Journal of Laws 2020, item 2059).

¹² OJ L 171, 29.6.2016, p. 1, and OJ L 137, 24.5.2017, p. 41.

¹³ OJ L 347, 28.12.2017, p. 35.

¹⁴ Journal of Laws 2020, item 1896.

¹⁵ Journal of Laws 2019, item 207.

financial conglomerate¹⁶, the Act of 29 July 2005 on capital market supervision¹⁷, the Act of 5 November 2009 on credit unions¹⁸ and the Act of 19 August 2011 on payment services¹⁹.

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

- undertaking measures to ensure the proper functioning of the financial market, promote the development of the financial market and its competitiveness, and support the development of innovativeness of the financial market,
- undertaking educational and information measures with regard to the functioning of the financial market, its risks and participants to safeguard the legitimate interests of financial market participants, in particular by publishing – in the form and at the time determined by the KNF Board – free warnings and statements in the public radio and television²⁰,
- participating in the drawing up of draft legal acts pertaining to financial market supervision,
- creating opportunities for amicable and conciliatory dissolution of disputes between financial market participants, including in particular disputes arising from contractual relationships between the KNF-supervised entities and the users of services provided by those entities.

The KNF Board is also an authority competent for cybersecurity for the banking sector and the financial market infrastructure under the Act of 5 July 2018 on the national cybersecurity system²¹.

The UKNF's statutory task is to provide assistance to the KNF Board and the Chair of the KNF Board. The activities of the UKNF as a state legal person are supervised by the President of the Council of Ministers.

The status of a state legal person, acquired by the UKNF on 1 January 2019, is mainly to ensure more financial independence of the UKNF. The operating costs of the UKNF are paid directly with the payments made by supervised entities. The UKNF conducts independent financial management based on the annual financial plan adopted by the KNF Board and approved by the President of the Council of Ministers. The annual financial statements of the UKNF are reviewed by an audit firm selected by the President of the Council of Ministers. These financial statements are approved by the President of the Council of Ministers.

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

The UKNF has seven divisions:

- Banking Supervision,
- Insurance Supervision,
- Capital Market Supervision,
- Strategy and International Cooperation,

¹⁶ Journal of Laws 2020, item 1413.

¹⁷ Journal of Laws 2020, item 1400, as amended.

¹⁸ Journal of Laws 2020, item 1643, as amended.

¹⁹ Journal of Laws 2020, item 794, as amended.

²⁰ Journal of Laws 2020, item 805.

²¹ Journal of Laws 2020, item 1369.

- Management and Organisation,
- Innovation and Technology,
- Regulatory and Legal.

The work of organisational units forming part of divisions is coordinated and supervised by managing directors. Most departments of the UKNF form part of divisions. In 2020, five organisational units were not part of any division. The organisational chart of the UKNF as at 31 December 2020 is shown in Chapter 11. *Organisation of the UKNF*.

2.2. COMPOSITION OF THE KNF BOARD

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

Members of the KNF Board with a voting right

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

Members of the KNF Board acting in the capacity of advisers

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

In 2020, the composition of the KNF Board was as follows:

Chair of the KNF Board

Jacek Jastrzębski

Deputy Chairs of the KNF Board

Rafał Mikusiński

Dagmara Wieczorek-Bartczak

Members of the KNF Board:

Representative of the minister competent for financial institutions

Krzysztof Budzich

Representative of the minister competent for economy

Jan Pawelec

Representative of the minister competent for social security

Jan Wojtyła

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

Andrzej Kaźmierczak – Member of the Management Board of the NBP – until 13 August 2020
Paweł Szafamacha – Member of the Management Board of the NBP – from 13 August 2020

Representative of the President of the Republic of Poland

Robert Tomanek – from 24 January 2020 to 29 October 2020.
Wojciech Dyduch – from 30 October 2020

Representative of the President of the Council of Ministers

Maciej Tomczak – from 8 June 2020

Representative of the Bank Guarantee Fund

Mirosław Panek – President of the Management Board of the BGF – until 10 March 2020
Piotr Tomaszewski – President of the Management Board of the BGF – from 12 March 2020

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

Marek Niechciał – President of the UOKiK – until 27 January 2020
Tomasz Chróstny – President of the UOKiK – from 27 January 2020

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

Maciej Wąsik – until 9 October 2020
Stanisław Żaryn – from 9 October 2020

2.3. WORK MODE OF THE KNF BOARD

The KNF Board, within its remit, adopts resolutions, including the issuance of final and interim administrative decisions. The KNF Board adopts resolutions by a simple majority of votes by open vote, in the presence of at least five members, including the Chair or Deputy Chair of the KNF Board. In the case of an equal number of votes, the Chair of the KNF Board has the casting vote, and in the event of his absence – the Deputy Chair authorised to manage the activities of the KNF Board. Members of the KNF Board acting in the capacity of advisers do not participate in the voting and are not considered for the purpose of calculating the quorum.

Due to announcing the state of epidemic in Poland, it was necessary to change the KNF Board's work mode in order to enable an effective performance of statutory tasks while minimising the dangers resulting from the current epidemic situation. In the first period, after introducing the state of epidemic, the KNF Board decided to change the rules for making decisions as part of voting by circulation. For the duration of the epidemic, voting by circulation in writing was replaced by voting by e-mail, which significantly shortened and streamlined the process of voting by circulation. As a result of amending the Act on financial market supervision, the KNF Board gained the opportunity of holding meetings remotely using electronic means of communication which ensure real-time communication. In June 2020, in exercising the above-mentioned right, the KNF Board adopted the KNF Board's new Rules of Procedure, which laid down the principles of organising remote meetings and introduced the electronic vote by circulation as a permanent solution. These changes significantly streamlined the work of the KNF Board. As a result, during the state of epidemic, all meetings are held remotely, and all materials necessary to adopt resolutions are in electronic form only. The majority of the KNF Board's resolutions, including final and interim administrative decisions, are signed with a qualified electronic signature and issued in the form of electronic documents. Solutions are applied which ensure the security and confidentiality of these materials. In

comparison to the previous year, the number of cases processed by circulation significantly increased, and the KNF Board's meetings are called mainly for the purpose of particularly important matters or matters which require discussion, and also if a member of the KNF Board requests that a given matter be discussed during a meeting.

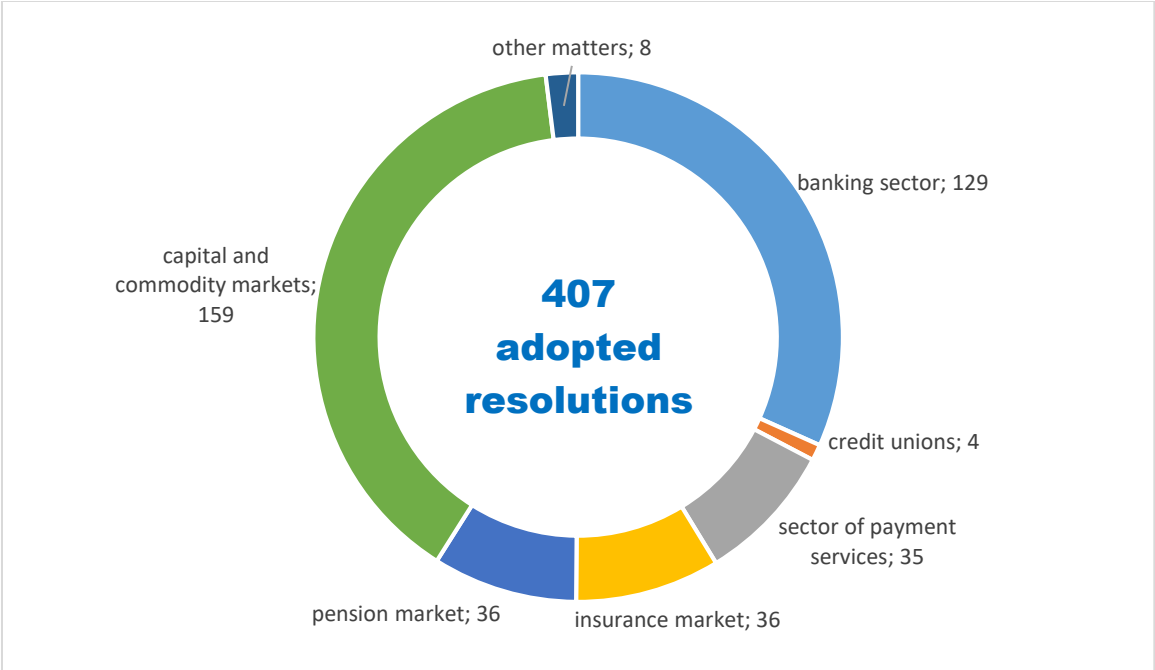
In 2020, 26 meetings of the KNF Board were held:

- 8 on-site meetings (all of them were held before 13 March 2020, i.e. the day when the state of epidemic threat was announced in Poland),
- 18 remote meetings.

Moreover, 27 votes were held by circulation.

In 2020, the KNF Board adopted 407 resolutions, including 314 final decisions and 3 interim decisions.

Diagram 1. Number of resolutions adopted by the KNF Board in 2020



Source: UKNF

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

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

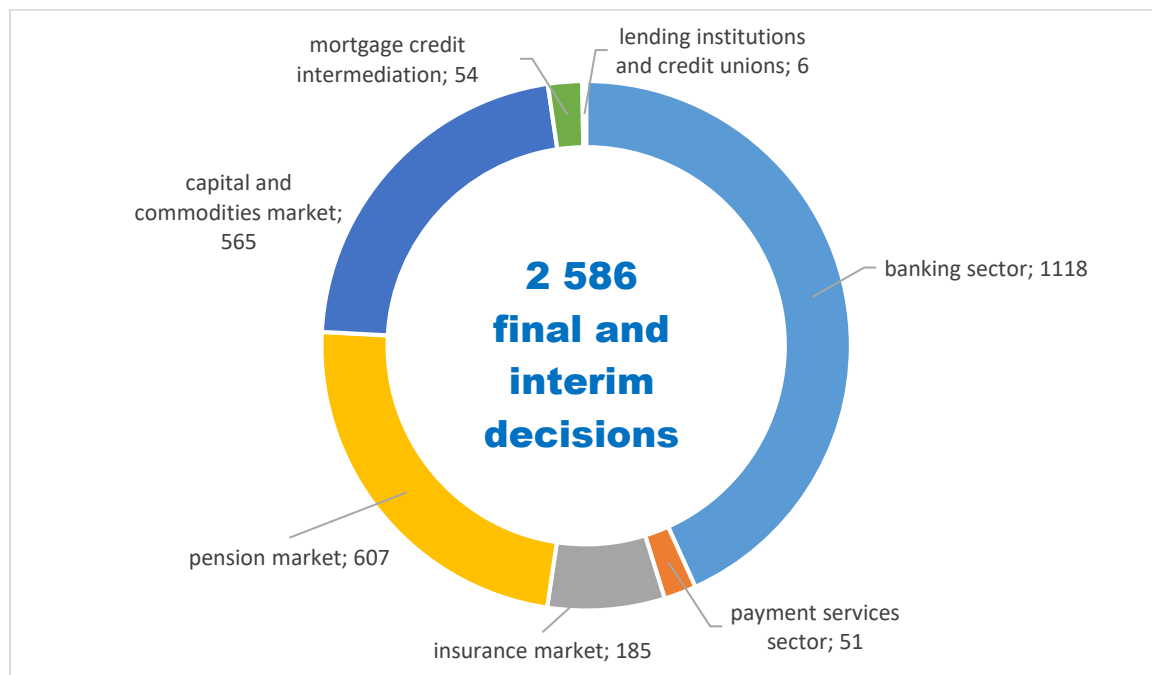
In 2020, the Chair of the KNF Board issued 75 interim decisions to initiate *ex officio* administrative proceedings or to extend the scope of proceedings under Article 13 of the Act of 29 July 2005 on capital market supervision²².

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

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

In 2020, on the basis of authorisation granted by the KNF Board, 2 586 interim and final administrative decisions were issued.

Diagram 2. Number of final and interim decisions issued in 2020 based on the authorisation of the KNF Board



Source: UKNF

Detailed information on the number of final and interim decisions issued in 2020 on the basis of an authorisation granted by the KNF Board and the Chair of the KNF Board by subject-matter of the case is given in Table 12.1.2 in Annex 12.1.

²² Journal of Laws 2020, item 1400, as amended, hereinafter: Act on capital market supervision.

2.6. OFFICIAL JOURNAL OF THE KNF BOARD

The Official Journal of the KNF Board is an official journal as defined in the Act of 20 July 2000 on the publication of normative acts and certain other legal acts²³. From 2019 onwards, the Official Journal of the KNF Board is issued by the Chair of the KNF Board. In accordance with Article 12(1a) of that Act, the following must be announced in the Official Journal of the KNF Board: resolutions and final decisions of the KNF Board, public announcements, notices, communications and other acts and/or documents as well as registers (lists), if separate provisions of law so provide. Where separate provisions of law do not require publication of a resolution of the KNF Board in the Official Journal of the KNF Board, the KNF Board may decide to publish the resolution in the Official Journal of the KNF Board. The Chair of the KNF Board may also have the announcements, notices and/or communications published, provided that they are related to the tasks of the bodies of the UKNF.

In 2020, the Official Journal of the KNF Board was adapted to the ELI (European Legislation Identifier) standard of access to legal information. ELI helps improve the quality and reliability of legal information online and encourages interoperability among information systems. Other official journals in Poland are also published in this standard.

In 2020, two resolutions of the KNF Board were published in the Official Journal of the KNF Board in the area of recommendations for the banking sector, namely: Resolution No 173/2020 of the KNF Board of 14 July 2020 amending the Resolution on the issuance of Recommendation S on good practices in the management of credit exposures secured by mortgages (item 19), and Resolution 289/2020 of the KNF Board of 9 October 2020 on the issuance of Recommendation Z on the principles of internal governance at banks (item 29).

In cases provided for in the Act on financial market supervision, final administrative decisions of the KNF Board to apply financial sanctions against supervised entities are also published in the Official Journal of the KNF Board; in 2020 there were 5 such announcements, related mainly to financial penalties imposed on investment fund management companies.

Apart from decisions on sanctions, the decisions published in the Official Journal of the KNF Board included the KNF Board's final decision on granting authorisation to Instytut Rynku Finansowego sp. z o.o. with its registered office in Warsaw to operate as an administrator of interest rate benchmarks (Case File No DAS-DASZ2.4000.1.2019) and the decision of the KNF Board on granting authorisation to GPW Benchmark S.A. with its registered office in Warsaw to operate as an administrator of interest rate benchmarks (Case File No DAS-DASZ2.4000.2.2019).

Most items in the Official Journal of the KNF Board were communications published under separate provisions of law. January saw the publication of the Communication from the KNF Board on the maximum technical rate for insurance undertakings. The Official Journal of the KNF Board also includes communications from the Chair of the KNF Board on the costs of supervision of particular sectors of the financial market – in 2020, 12 such communications were published. The Official Journal of the KNF Board also includes announcements made by examination boards conducting professional examinations for securities brokers and investment advisers – in 2020, 10 such announcements were published.

In 2020, a total of 32 items were published in the Official Journal of the KNF Board. The list of items published in the Official Journal of the KNF Board in 2020 is included in Annex 12.3.

3. FINANCIAL MARKET IN POLAND – OVERVIEW

²³ Journal of Laws 2019, item 1461.

The COVID-19 pandemic had a huge impact on the functioning of the financial market in Poland in 2020. The pandemic contributed to a deep economic recession which has its roots in widespread restrictions (lockdown) aimed at minimising the spread of SARS-CoV-2. The economic shock caused by the COVID-19 pandemic is comparable to the greatest crises faced by the global economy in the last century. The recession amplified some tendencies which were present on the market earlier, mainly contributing to further interest rate cuts and flattening the yield curve. In the face of the pandemic, the Monetary Policy Council decided to lower interest rates three times. The reference rate was decreased by a total of 140 basis points and is currently at a record low of 0.1%.

Referring to the macroeconomic environment, according to preliminary estimates of Statistics Poland (GUS), Poland's GDP in fixed prices decreased by 2.7% in 2020 (compared to an increase of 4.5% in 2019 and 5.4% in 2018). The first economic recession in Poland, after many years of intensive growth, was caused by the COVID-19 pandemic. However, taking into account the level of GDP decrease in 2020, Poland is one of the European countries which were least affected by the COVID-19 crisis. Detailed data of GDP structure show that the main factor contributing to the GDP decrease in 2020 was decreased domestic demand (including household consumption). It is estimated that the domestic demand decreased by 3.9% as compared to the previous year, when it increased by 3.5%. Moreover, gross capital formation significantly decreased, by 12.8% as compared to 2019, and gross fixed capital formation decreased by 8.4% (in 2019, gross capital formation increased by 0.1%, and gross fixed capital formation by 7.2%). In addition, although export of goods and services decreased by 0.5% as compared to 2019, a greater decline (2.6%) was observed in the case of import of goods and services. Therefore, the decrease in GDP in the previous year was mitigated by net export, whose contribution was positive.

The pandemic also adversely affected other macroeconomic indicators. On the domestic labour market, in December 2020, the officially recorded unemployment rate was 6.2% (as compared to 5.2% at the end of 2019). It means halting the positive trend in the area of unemployment rate decline, which started in 2013. The average annual inflation measured by consumer price index (CPI) in 2020 was 3.4% compared to 2.3% in 2019.

The cumulative balance of the current account from the previous twelve months amounted to PLN 81.4 billion in December 2020 (compared with PLN 11.2 billion in December 2019). Differences compared to the previous year were noticed mostly in the area of commodity trade, whose balance was higher by PLN 47.2 billion than in the same period of the previous year.

2020 saw the weakening of the Polish zloty against the euro and the Swiss franc. At the end of the year, the average PLN/EUR exchange rate was 4.61 compared to 4.30 at the beginning of the year, and the average PLN/CHF exchange rate was 4.26 (compared to 3.90). On the other hand, the Polish zloty strengthened against the US dollar (USD). At the end of 2020, the average PLN/USD exchange rate was 3.76 compared to 3.90 at the beginning of 2020. At the end of 2020, the interest rate on 10-year Treasury bonds amounted to 1.25% and was much lower than the year before (2.06%).

The balance sheet total of the banking sector at the end of December 2020 was PLN 2 355.6 billion and was 17.8% higher than in the previous year (PLN 2 000.1 billion). Commercial banks with foreign branches account for 89.6% of the banking sector. As at the end of 2020, their balance sheet total was PLN 2 111.6 billion, while the balance sheet total of cooperative banks was PLN 167.2 billion. In the period concerned, the banks generated a profit of PLN 7.6 billion, which was approximately 45.3% lower than in the previous year (PLN 13.8 billion).

At the end of 2020, there were 23 credit unions in Poland. As at the end of 2020, their assets amounted to over PLN 9.5 billion. According to the reporting data, in 2020 the credit unions sector recorded a net profit of PLN 2.9 million. As at the end of 2020, the amount of own funds

of credit unions (calculated in accordance with the Act on credit unions) was PLN 468.3 million. The data for the banking sector and credit unions are preliminary, have not been audited by a statutory auditor and are subject to change.

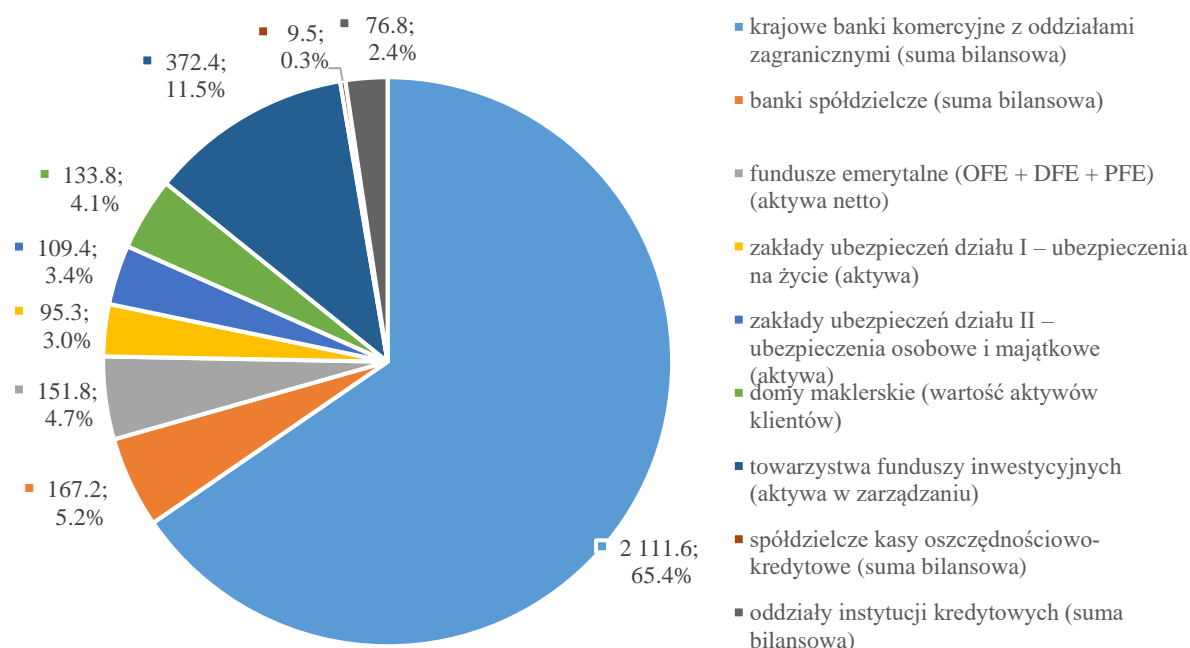
The balance sheet total of the insurance sector increased by 5.5% during the year and amounted to PLN 204.7 billion at the end of December 2020, of which PLN 95.3 billion was allocated to life insurance undertakings and PLN 109.5 billion to non-life insurance undertakings. In the period concerned, insurers generated a profit of PLN 6.09 billion (of which PLN 2.2 billion was attributable to life insurance, and PLN 3.9 billion to non-life insurance), which was 15.7% lower than in the previous year.

The total net asset value of open pension funds (PL: *otwarty fundusz emerytalny* – OFE), voluntary pension funds (PL: *dobrowolny fundusz emerytalny* – DFE) and occupational pension funds (PL: *pracowniczy fundusz emerytalny* – PFE) as at 31 December 2020 amounted to PLN 151.8 billion and was 3.5% lower than at the end of the previous year (PLN 157.3 billion).

In 2020, the Warsaw Stock Exchange recorded high index volatility. Over the year, the value of the WIG index decreased by 1.4% to 57 025.84. The minimum value of that index (35 588.11) was reported in March, and the maximum (59 298.22) in January. The value of the WIG20 index in 2020 decreased by 7.73%. The value of trading in shares amounted to PLN 297 billion and was 55.2% higher than in the previous year (PLN 191 billion). At the end of 2020, the capitalisation of domestic companies amounted to PLN 538.8 billion (a 2.1% decrease compared to the previous year). The capitalisation of foreign companies amounted to PLN 529.9 billion compared to PLN 553.6 billion in the previous year. In the period concerned, 7 initial offerings (including one foreign company) and 23 delistings were recorded; in consequence, the number of listed companies did not increase during the year for the fifth consecutive year.

At the end of 2020, the value of assets managed by investment fund management companies amounted to PLN 372.4 billion and was 16.2% higher than at the end of the previous year (PLN 320.4 billion). The value of customer assets recorded on the accounts at brokerage houses as at the end of 2020 amounted to PLN 133.8 billion and was almost twice as high (i.e. by 96.6%) as at the end of 2019 (PLN 68.1 billion). Such high increase in the value of customer assets recorded on the accounts at brokerage houses could result, among others, from an outflow of funds from low-interest bank deposits.

Diagram 3. Asset structure of the Polish financial sector as at the end of 2020 (in PLN billion)*



Source: UKNF

* The data for 2020 have not been audited.

Table 1. Number of KNF-supervised entities as at 31 December 2020

Type of entity	Number of entities
Commercial banks (including 1 state bank and 2 affiliating banks)	30
Cooperative banks	530
Representative offices of foreign banks and credit unions	9
Institutional Protection Systems (IPS)	2
Credit unions, National Association of Credit Unions	23
Domestic payment institutions	38
Electronic money institutions	1
Account information service providers	4
Small payment institutions	82
Payment services offices	1 340
Mortgage credit intermediaries	715
Agents of mortgage credit intermediaries	7 025
Brokerage houses	37
Banks conducting brokerage activities	9
Tied agents of investment firms	258
Custodian banks	11
Entities of the capital market infrastructure (GPW S.A., KDPW S.A., KDPW_CCP S.A., BondSpot S.A.)*	4
Issuers whose financial instruments are admitted to trading on a regulated market****, including: – issuers of shares for which Poland is the home country, – issuers of bonds and covered bonds, – foreign issuers	471
Issuers whose securities are admitted to an alternative trading system**	460
Investment funds	737
Investment fund management companies	56
Managers of alternative investment companies/partnerships	196

19

Other entities operating investment funds or alternative investment funds, including entities entrusted with the performance of duties of an investment fund management company or a manager of an alternative investment company/partnership as defined in the Act on investment funds***	292
Entities of the commodity market infrastructure (Towarowa Giełda Energii S.A., Izba Rozliczeniowa Giełd Towarowych S.A.)	2
Commodity brokerage houses	1
Entities holding authorisation to keep accounts or registers of commodities	58
Open pension funds	10
General pension societies	10
Occupational pension funds	2
Occupational pension societies	2
Depositaries of pension funds	6
Transfer agents of pension funds	7
Voluntary pension funds	7
Target-date voluntary pension funds	32
Life insurance undertakings	27
Non-life insurance undertakings and reinsurance undertakings	33
Insurance brokers, including – natural persons, – legal persons	1 417, including: 886 531
Reinsurance brokers, including – natural persons, – legal persons	56, including: 14 42
Insurance agents	30 975
Persons who perform agency activities	239 242

Source: UKNF

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

** The direct enforcement of information requirements of these issuers is exercised by companies operating a regulated market which organise the alternative trading system.

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

**** To the exclusion of closed-end investment funds whose securities are admitted to trading on regulated markets.

Table 2. Number of entities which are not supervised by the KNF Board but have been entered in the relevant registers/lists kept by the KNF Board as at 31 December 2020

Type of entity	Number of entities in the register
Actuaries	413
Securities brokers	3 174
Investment advisers	783
Consumer credit intermediaries	35 367
Non-bank lending institutions	504
Entities carrying out activities specified in Article 6 point 11 of the Act on payment services, to which Article 6c(1) of the Act on payment services applies	4
Entities carrying out activities specified in Article 6 point 12 of the Act on payment services, to which Article 6d(1) of the Act on payment services applies	8

Source: UKNF

Table 3. Number of entities which notified operation as a branch in Poland as at 31 December 2020

Type of entity	Number of entities
Credit institutions ⁱ	37
Payment institutions ⁱ	10
Electronic money institutions ⁱ	4
Insurance undertakings ^{i i} , including	27
– life insurance undertakings,	5
– non-life insurance undertakings	22
Reinsurance undertakings ^{i i}	1
Investment firms ⁱ	17*

Source: UKNF

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

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

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

4. BANKING SECTOR

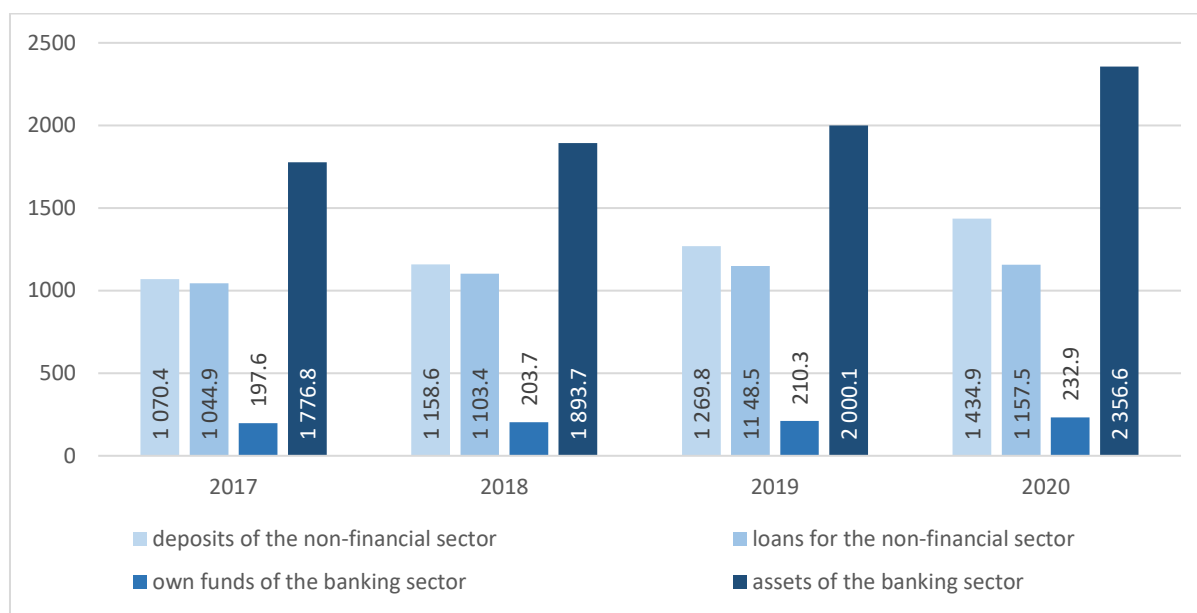
4.1. BASIC INFORMATION

At end of 2020, the KNF Board supervised 30 commercial banks (including 1 state bank and 2 affiliating banks), 2 institutional protection systems, 530 cooperative banks, and 37 branches of credit institutions.

In 2020, the KNF Board approved the merger processes for four cooperative banks.

²⁴ See sub-chapter 10.2.6. of the Report.

Diagram 4. Basic data of the banking sector in Poland in the years 2017–2020 (in PLN billion)



Source: UKNF

The data for 2020 come from the monthly bank reporting for December 2020 and have not been audited. The data for previous years may differ from the data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

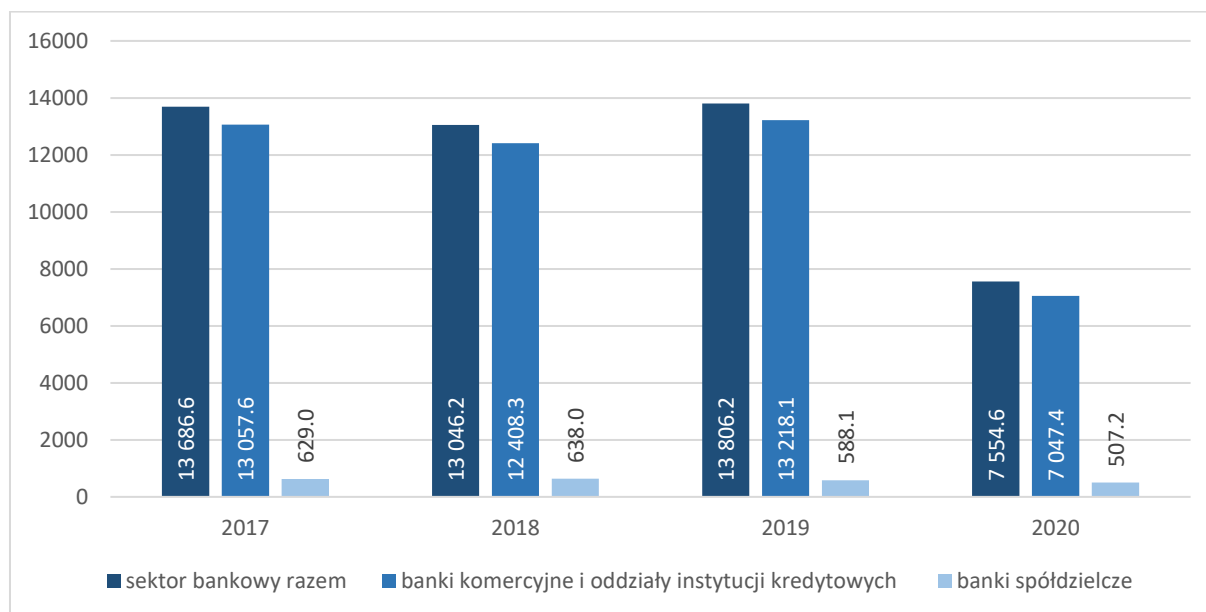
The balance sheet total of the Polish banking sector at the end of December 2020 amounted to PLN 2 355.6 billion (an increase of 17.8% as compared with the end of December 2019). Domestic commercial banks (with foreign branches) account for 89.6% of the sector's assets, branches of credit institutions for 3.3%, and cooperative banks for 7.1%.

In the structure of assets, 57.3% (PLN 1 350.4 billion) were loans and other receivables, 20.7% (PLN 487.9 billion) were available-for-sale financial assets, 1.5% (PLN 35.4 billion) were held-for-trading financial assets, and 4.8% (PLN 112.7 billion) were cash, cash at central banks and other demand deposits. As for liabilities, deposits accounted for 72.1% of total liabilities (PLN 1 697.9 billion), and equity for 9.7% (PLN 227.6 billion).

In 2020, gross receivables from the non-financial sector increased by 0.8%, reaching PLN 1 157.5 billion at the end of December.

An important component of the banking sector's assets are housing loans, including loans denominated in or indexed to Swiss franc (CHF). In 2020, for another year, there was a clear decrease in the volume of loans in CHF; their sum decreased from CHF 25.0 billion at the end of December 2019 to CHF 22.7 billion at the end of December 2020, i.e. a decrease of 9.1% over the year and 34.9% over five years (from CHF 34.9 billion at the end of December 2015). At the same time, the quality of housing loans, including those denominated in CHF, remains good – in 2020 it was at a level similar to the previous year. The share of non-performing loans in the portfolio of housing loans is the lowest of all loan portfolios.

Diagram 5. Net financial result of the banking sector in the years 2017–2020 (in PLN million)

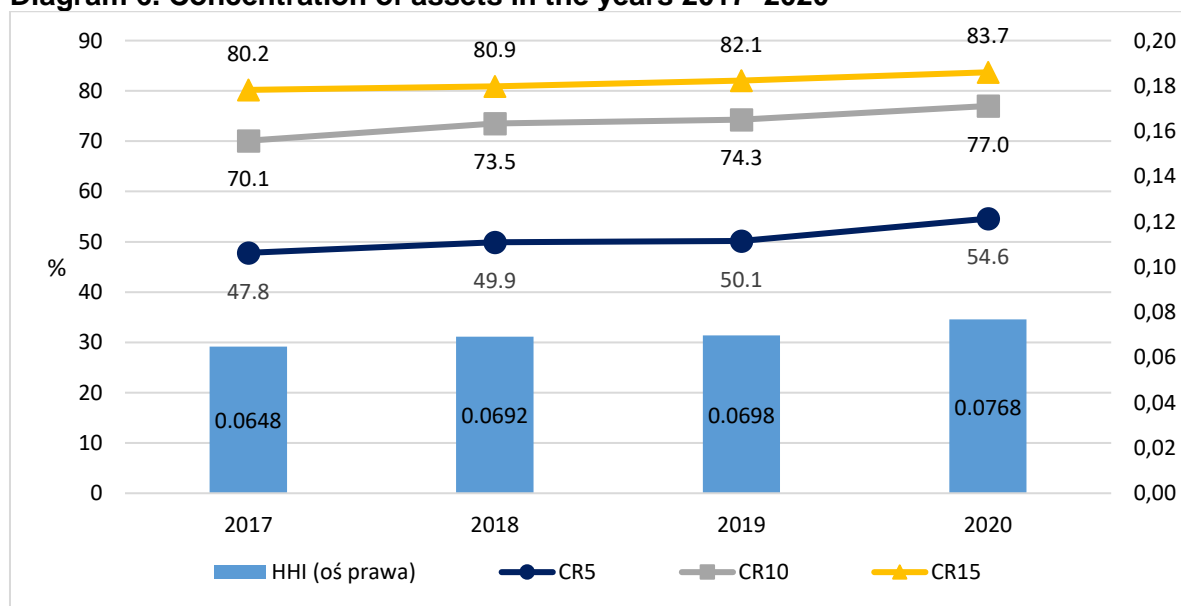


Source: UKNF

The data for 2020 come from the monthly bank reporting for December 2020 and have not been audited. The data for previous years may differ from the data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

In 2020, the net financial result of the banking sector amounted to PLN 7.6 billion and was lower by 45.3% as compared to 2019. In 2020, 16 commercial banks and 8 branches of credit institutions paid a total of PLN 4.5 billion on account of the banking tax. It is PLN 0.44 billion (+108%) more than in 2019. The net interest income amounted to PLN 47.0 billion (–4.3% YoY), of which the interest income amounted to PLN 56.6 billion (–14.3% YoY), and interest expenses to PLN 9.6 billion (–43.4%). The commission income was PLN 14.9 billion (+11.1% YoY). Banks' operating expenses were 0.4% lower than in the previous year and amounted to PLN 34.7 billion, and impairment write-downs of financial assets increased by 34.1% YoY to PLN 11.8 billion.

Diagram 6. Concentration of assets in the years 2017–2020



Source: UKNF

CR5, CR10, CR15 – indicators specifying shares of 5, 10 and 15 largest banks in total banking sector assets. HHI – the Herfindahl-Hirschman index (the sum of squares of banks' shares in the banking sector assets), being a measure of market concentration used to assess the level of competition in a given market. The indicator takes into account not only the number of entities but also their relative size. A HHI of 0.0768 indicates a competitive market. The data for 2020 come from the monthly bank reporting for December 2020 and have not been audited. The data for previous years may differ from the data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

4.2. KEY ACTIVITIES

4.2.1. EXAMINING THE IMPACT OF THE PANDEMIC ON THE BANKS' CREDIT PORTFOLIO

Due to the development of the COVID-19 pandemic in 2020, the UKNF constantly monitored the impact of the COVID-19 crisis on particular banks. Regular review covered assistance funds used by the banks in response to the COVID-19 crisis, including the banks' use of legislative and non-legislative moratoria, adopting other restructuring measures and taking advantage of public guarantee programmes. These activities were aimed at a timely identification of situations which are a potential threat to the security of particular banking sector entities and the stability of the sector as a whole, and at enabling preventive measures.

4.2.2. ASSESSMENT OF THE RRE(FX) PORTFOLIOS

In 2020, due to a significant increase in the number of disputes related to the portfolio of foreign currency mortgage loans for households, the impact of the growing legal risk on the situation of particular banks was constantly monitored. The UKNF also regularly assessed the legal risk resulting from the portfolio of mortgage-secured CHF- and EUR-denominated loans for households. These activities were aimed at a timely identification of situations which are a potential threat to the security of particular banking sector entities and the stability of the sector as a whole, and at enabling preventive measures.

4.2.3. STRESS TESTS²⁵

As in previous years, in 2020 the UKNF carried out stress tests in the commercial banks sector, which make it possible to assess the banks' resilience to macroeconomic shocks. Banks provided the estimate assessments of their capital position on the basis of the NBP's macroeconomic scenarios, using the reporting template drawn up by the UKNF. The UKNF verified the received results for their internal coherence and the reality of the financial projections. It paid special attention to credit risk projections, the quality of the asset portfolio, and covering non-performing exposures by write-downs. It assessed the level of provisions for the risk of mortgage-secured foreign currency loans. It also adjusted the estimates related to, among others, asset profitability, commissions and funding costs.

²⁵ See sub-chapter 4.3.2.5. *Stress tests*.

4.3. BANKS AND CREDIT INSTITUTIONS

4.3.1. LICENSING

4.3.1.1. ESTABLISHING A BANK AND COMMENCING OPERATIONS

On 16 June 2020, the KNF Board adopted a resolution to authorise the establishment of a bank in the form of a joint-stock company styled 'Millennium Bank Hipoteczny Spółka Akcyjna'. As part of the authorisation, the KNF Board approved the composition of the first management board of the bank and specified the conditions for authorising the bank to commence operations.

On 23 December 2020, the KNF Board issued a final decision on the authorisation to establish a branch of a foreign bank styled 'FCE Bank Spółka Akcyjna Oddział w Polsce' and two related decisions: on the appointment of the director and the deputy director of that Branch.

FCE Bank Spółka Akcyjna Oddział w Polsce is a branch of a foreign bank, established on the basis of the KNF Board's authorisation granted on 23 December 2020. Due to the fact that as of 1 February 2020, the United Kingdom of Great Britain and Northern Ireland left the European Union (Brexit), British banks providing services in the European Union under the freedom to provide services ceased to be credit institutions, and according to Polish law became foreign banks. Until 31 December 2020, FCE Bank Spółka Akcyjna Oddział w Polsce provided services as a credit institution, but due to the fact that there was no agreement governing future relations between the European Union and the United Kingdom on the functioning, after the transition period, of entrepreneurs which previously operated under the freedom of establishment, and there were no provisions in the Polish law governing the status of these entrepreneurs after 31 December 2020, it was necessary to regulate the further operations of FCE Bank Spółka Akcyjna Oddział w Polsce on the basis of existing provisions of national law regulating the establishment and operations of foreign banks in Poland.

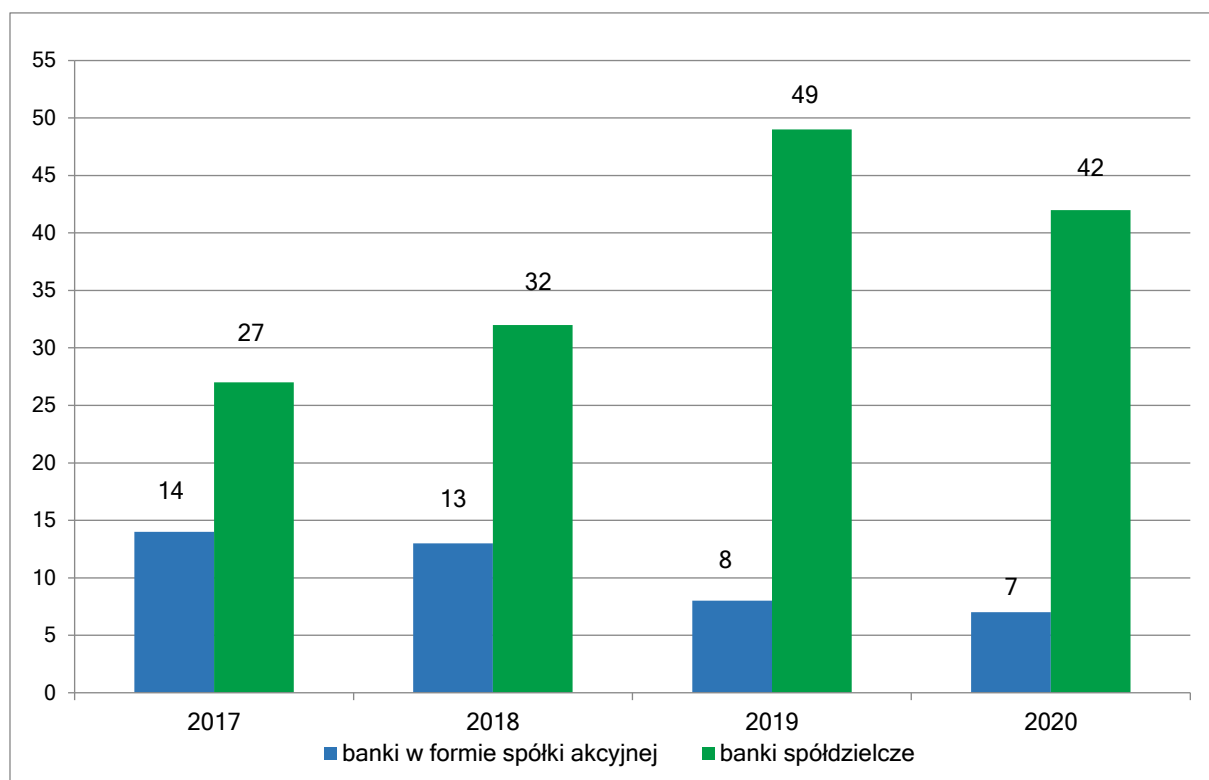
4.3.1.2. TASKS RELATING TO CHANGES IN THE GOVERNING BODIES OF BANKS

In 2020, the KNF Board adopted 50 final decisions in the form of resolutions on approval of the appointment or entrusting the function of members of management boards, including presidents, including:

- 1 final decision on approval of the appointment of president of the management board of a bank operating as a joint-stock company,
- 40 final decisions on approval of the appointment of presidents of management boards of cooperative banks,
- 5 final decisions on approval of entrusting the function of members of management boards supervising the management of material risks in the activity of banks operating as joint-stock companies,
- 2 final decisions on approval of entrusting the function of members of management boards supervising the management of material risks in the activity of non-affiliated cooperative banks where under Article 22a(4) in conjunction with Article 20a(1) of the Banking Law there is a separate member of the management board responsible for supervising the management of material risks in the activity of the bank,
- 1 final decision to refuse to approve entrusting the function of member of the management board supervising the management of material risks in the activity of a bank operating as a joint-stock company,
- 1 final decision on the appointment of president or member of the management board of a cooperative protection scheme.

Moreover, in the above-mentioned cases, 6 final decisions to discontinue proceedings were issued. Until the end of 2020, 6 processes of *ex post* suitability assessment and 6 processes of suitability re-assessment were initiated.

Diagram 7. Number of final decisions issued in the form of resolutions deciding on the merits of the case, on approval of the appointment or delegation of functions of members of management boards, including presidents, of commercial banks and cooperative banks in the years 2017–2020



Source: UKNF

4.3.1.3. TASKS RELATING TO CHANGES IN THE SHAREHOLDER STRUCTURE OF AND MERGER OF BANKS OPERATING AS JOINT-STOCK COMPANIES

In 2020, the KNF Board adopted 1 final decision in the form of resolution declaring that there were no grounds for objecting to the planned acquisition of a bank's shares or becoming a parent undertaking of a domestic bank.

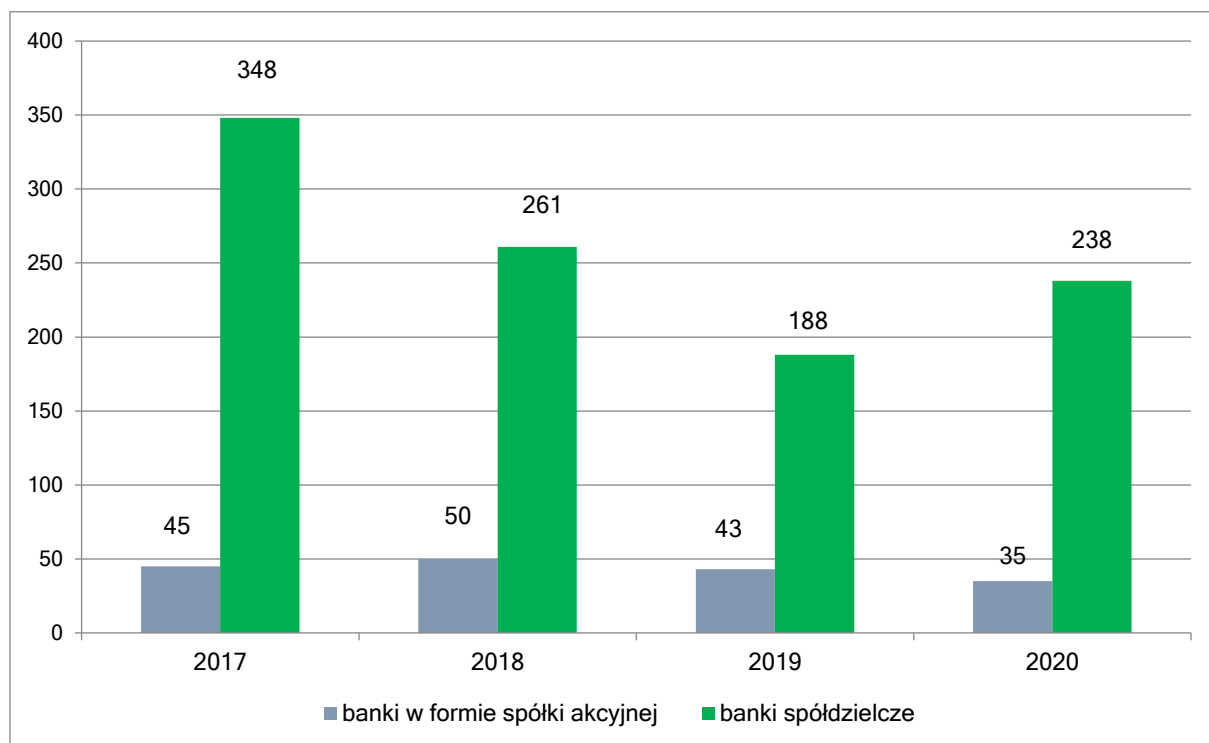
4.3.1.4. AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF BANKS

In 2020, the KNF Board conducted 284 administrative proceedings initiated at the request of banks on the authorisation to make amendments to banks' articles of association. As a result of closed proceedings, the KNF Board issued:

- 35 final decisions to authorise the amendment to the articles of association of banks operating as joint-stock companies,
- 238 final decisions to authorise the amendment to the articles of association of cooperative banks.

In 11 cases, the KNF Board discontinued proceedings.

Diagram 8. Number of final decisions on the merits of the case to authorise the amendment to the articles of association of commercial banks and cooperative banks in the years 2017–2020



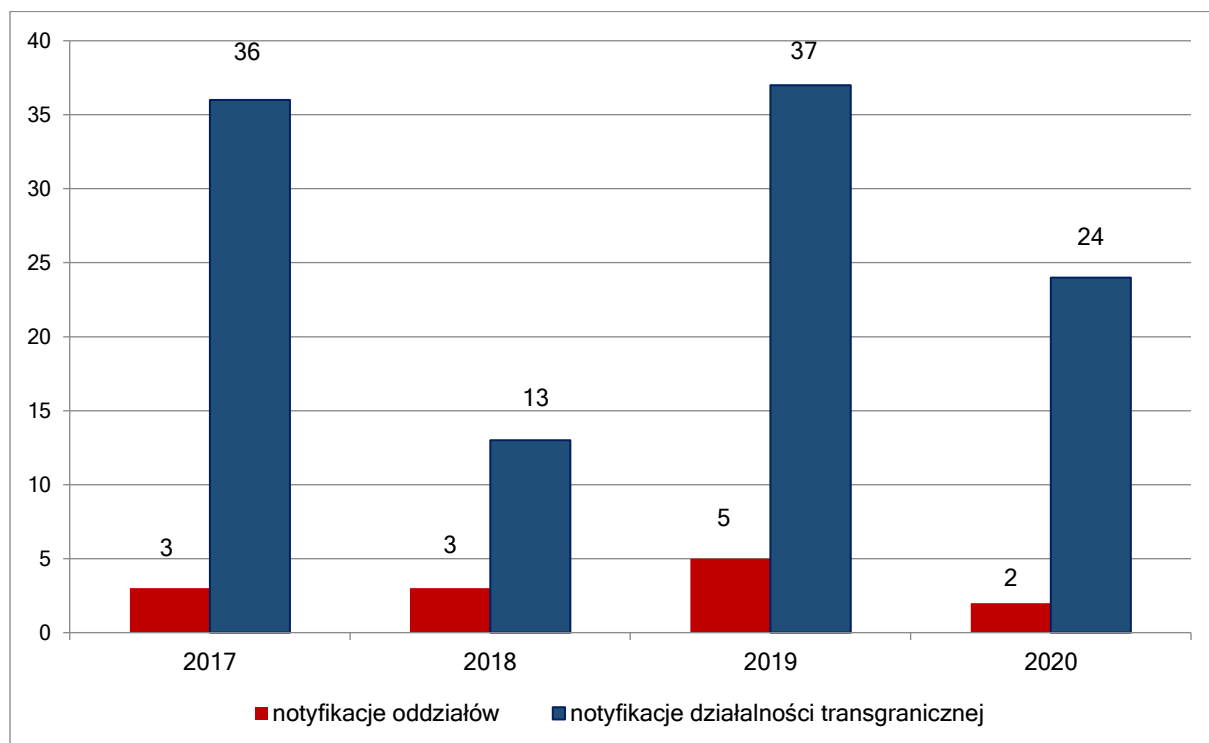
Source: UKNF

4.3.1.5. OPERATING AS PART OF CROSS-BORDER ACTIVITY

In 2020, the KNF Board received:

- 24 notifications from credit institutions on their intention to carry out cross-border activity in the Republic of Poland,
- 26 notifications from credit institutions on the amendment of notifications concerning cross-border activity in the Republic of Poland.

Diagram 9. Number of new notifications of credit institutions and financial institutions concerning operating in the Republic of Poland through a branch and as part of cross-border activity in the years 2017–2020



Source: UKNF

In 2020, two credit institutions notified the KNF Board of their operation in the Republic of Poland through a branch. In relation to these entities, the KNF Board issued 2 final decisions indicating the conditions to be met by a branch of a credit institution in the interest of the general good when operating in the Republic of Poland. Moreover, in 2020 the KNF Board received from credit institutions 24 notifications of a change in the notification concerning operating in the Republic of Poland through a branch.

In 2020, domestic banks also notified the KNF Board of their intention to carry out cross-border activity in a member state of the European Economic Area; 5 such notifications were received.

4.3.1.6. REPRESENTATIVE OFFICES OF CREDIT INSTITUTIONS AND FOREIGN BANKS IN POLAND

In 2020, the KNF Board issued one decision on the authorisation to open a representative office of a credit institution.

4.3.1.7. OTHER RULINGS IN THE AREA OF BANKING LICENCES

2020 also saw 4 other rulings in the form of resolutions of the KNF Board and 23 other rulings in the form of final and interim decisions issued based on the authorisation of the KNF Board.

4.3.2. SUPERVISORY ACTIVITIES

4.3.2.1. PRUDENTIAL SUPERVISION OF DOMESTIC BANKS

The supervisory activities undertaken by the UKNF in 2020 consisted in ongoing monitoring and quarterly review of the economic and financial standing of banks. On that basis, quarterly bank ratings were assigned in the KOBRA system. In 2020, all commercial banks were assessed, and 104 quarterly analyses of commercial banks were drawn up. In 2020, the process of cyclical review and supervisory assessment of cooperative and affiliating banks was continued. 2 090 quarterly analyses of cooperative banks and 6 quarterly analyses of affiliating banks were drawn up.

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

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

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

- strengthening the capital base, including a recommendation to stop dividend payment,
- transformation processes,
- administrative proceedings, including applications to classify subordinated debt as funds, and interim profits,
- monitoring the liquidity status,
- checking the banks' resilience to possible negative changes in the macroeconomic environment (stress tests),
- rehabilitation plans (PL: plan postępowania naprawczego – PPN), including the assessment of the status of their implementation and/or completion,
- processes for the approval of recovery plans and of monitoring their implementation,
- assignment of SREP ratings,
- implementation of recommendations issued as part of an inspection, SREP assessment and any other recommendation following off-site supervision,
- analysing the geographic and industry-related structure of receivables of domestic banks and branches of credit unions.

In 2020, the KNF Board familiarised itself with the following papers regarding the banking sector:

- Report on the standing of banks in 2019,
- Information on the standing of banks in the first quarter of 2020,
- Information on the standing of banks in the second quarter of 2020,
- Information on the standing of banks in the third quarter of 2020,
- Information on extraordinary assistance measures applied in response to the COVID-19 crisis in the Polish banking sector as at 30 June 2020,
- Results of capital stress tests in the Polish banking sector in 2020,
- Results of liquidity stress tests in the Polish banking sector in 2020,
- Information on RRE (FX) portfolios,
- Information on the standing of cooperative banks in 2019,
- Information on the standing of cooperative banks in the first quarter of 2020,
- Information on the standing of cooperative banks in the second quarter of 2020,
- Information on the standing of cooperative banks in the third quarter of 2020,

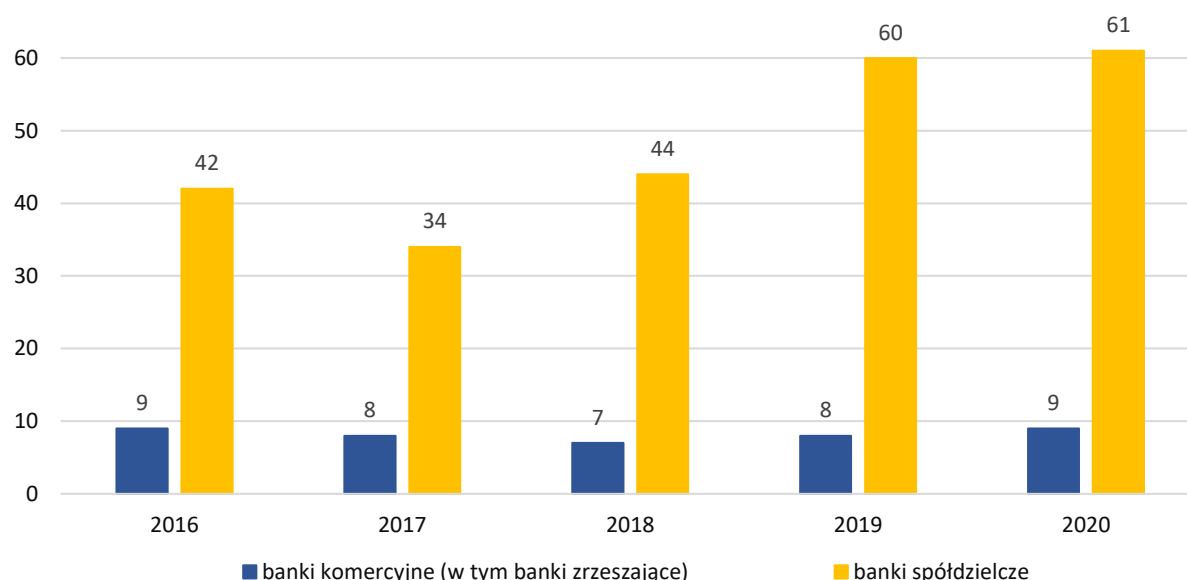
- SREP Report for cooperative and affiliating banks for 2020,
- Information on the distribution of profit generated by cooperative banks in 2019.

In 2020, the UKNF also drew up 204 publications containing analyses/reports/information/aggregated statistical data presented at the KNF Board meetings/published on the KNF Board's website in relation to ongoing supervisory activities. It analysed 29 567 financial reports/financial statements/reporting information provided by supervised entities.

4.3.2.2. SUPERVISION OF BANKS SUBJECT TO REHABILITATION PROCEEDINGS

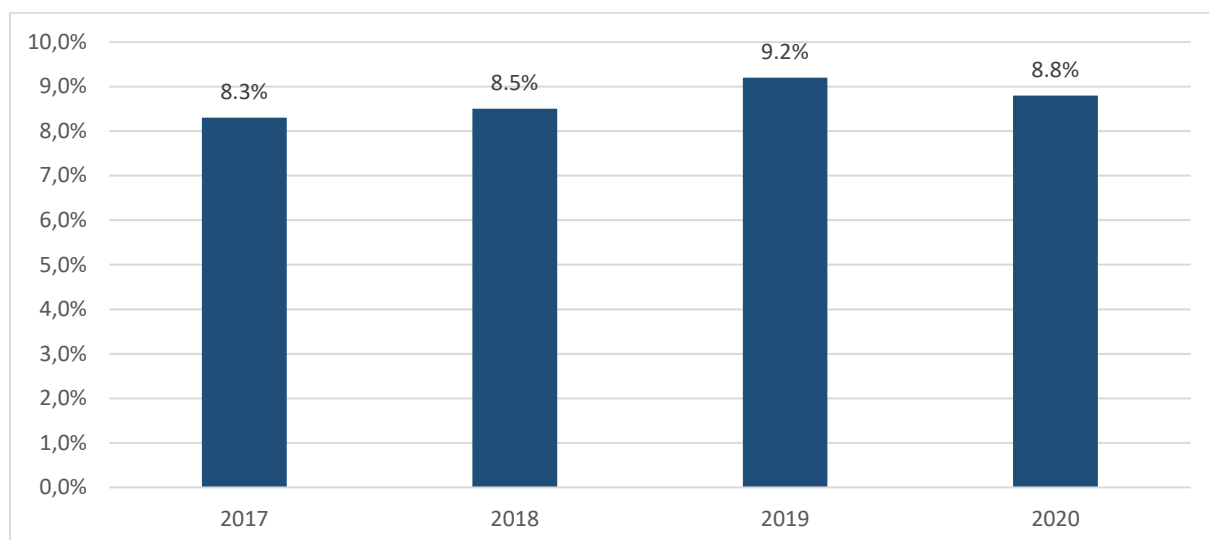
In 2020, 7 commercial banks were subject to rehabilitation proceedings; as of the end of the year, a rehabilitation plan was being implemented by 3 commercial banks, and 4 commercial banks have implemented a recovery plan. As at the beginning of 2020, 59 cooperative banks and two affiliating banks were subject to rehabilitation measures. As at the end of 2020, 61 cooperative banks and two affiliating banks were subject to rehabilitation measures.

Diagram 10. Number of commercial and cooperative banks subject to rehabilitation proceedings in the years 2017–2020



Source: UKNF

Diagram 11. Share of assets of commercial and cooperative banks subject to rehabilitation proceedings in the banking sector assets (in %) in the years 2017–2020



Source: UKNF

At the end of 2020, the share of assets of cooperative banks subject to rehabilitation proceedings in the banking sector assets was 0.9%.

4.3.2.3. FINAL DECISIONS ON OWN FUNDS

Final decisions issued in 2020 in individual cases were related to:

- authorisation to classify bank's profit for a given period as Tier 2 capital (29 final decisions),
- authorisation to classify the issued shares as core Tier I capital (3 final decisions),
- permission to classify liabilities arising from the financial instruments issued by the bank as Tier I capital (87 final decisions),
- permission to reduce own funds (474 final decisions),
- permission to reduce own funds – prior consent (46 final decisions),
- permission to classify the bank's cash gained from the issue of long-term bonds and subordinated loans as instruments as Tier II capital (6 final decisions).

4.3.2.4. FINAL DECISIONS CONCERNING MERGERS AND APPOINTING A TEMPORARY ADMINISTRATOR

The KNF Board authorised the merger of:

- Lubelski Bank Spółdzielczy (the acquiring bank) with Bank Spółdzielczy w Księżpolu (the bank being acquired),
- Mikołowski Bank Spółdzielczy w Mikołowie (the acquiring bank) with Rybnicki Bank Spółdzielczy (the bank being acquired),
- Tatrzański Bank Spółdzielczy (the acquiring bank) with ETNO Bank Spółdzielczy and Bank Spółdzielczy Muszyna Krynica Zdrój (the banks being acquired).

Moreover, the KNF Board decided on the take-over of Bank Spółdzielczy w Dołhobyczowie (the bank being acquired) by Powiatowy Bank Spółdzielczy w Zamościu (the acquiring bank), with the consent of the acquiring bank.

At its meeting on 15 May 2020, the KNF Board unanimously decided to appoint a temporary administrator at Warszawski Bank Spółdzielczy as of 18 May 2020.

4.3.2.5. STRESS TESTS

Stress tests are one of the main tools used to assess banks' stability and capital adequacy. They make it possible to assess the banks' resilience to potential macroeconomic shocks.

As in previous years, in 2020 the UKNF carried out stress tests in the commercial banks sector. Banks provided the estimate assessments of their capital situation on the basis of the NBP's macroeconomic scenarios, using the reporting template drawn up by the UKNF. The UKNF verified the received results for their internal coherence and the reality of the financial projections. It paid special attention to credit risk projections, the quality of the asset portfolio, and covering non-performing exposures by write-downs. It assessed the level of provisions for the risk of mortgage-secured foreign currency loans. It also adjusted the estimates related to, among others, asset profitability, commissions and funding costs.

Moreover, two largest Polish banks in terms of balance sheet total participate in European stress tests coordinated by the European Banking Authority. The 2020 edition was postponed to 2021 due to the COVID-19 pandemic. Representatives of the UKNF actively participate in working groups which are responsible for preparing a stress test package (assessment methodology, reporting sheets, macroeconomic scenarios). Apart from a standard assessment of banks' capital situation, the participation in stress tests makes it possible to compare domestic banks with similar institutions from other EU countries.

In 2020, the UKNF also conducted the second edition of supervisory liquidity stress testing. The purpose of the liquidity stress testing was to analyse the sensitivity of banks' short-term liquidity position, verify the banks' liquidity buffers, and estimate possible shortages of liquid assets to comply with the LCR standard.

4.3.2.6. SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

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

In 2020, SREP was being implemented in a slightly non-standard way, due to the supervisory authority's priority consisting in ensuring the orderly functioning of the banking sector and protecting its customers against the negative effects of the COVID-19 pandemic. During the COVID-19 crisis, the supervisory review and evaluation process was implemented in accordance with:

- the provisions of the Supervisory Stimulus Package for Security and Development, announced by the UKNF on 18 March 2020 (PIN),
- the focus on key threats to the banks' stability and ability to operate during the COVID-19 pandemic,
- the process' convergence at the EU level, which was particularly important in the case of banks operating as part of capital groups whose parent undertaking is based in the EU.

In June 2020, 'Methodology of supervisory review and evaluation of commercial, affiliating and cooperative banks', including the Annex, was published on the KNF website. The amendments to the SREP Methodology included the catalogue of regulations in the area of domestic and EU legislation and guidelines/recommendations concerning banks as of 31 December 2019,

taking into account the CRR II²⁶ and the CRD V²⁷. The Annex to the SREP Methodology indicated the elements of the supervisory review and evaluation process which were specific to the supervisory review in 2020 in relation to the COVID-19 crisis, i.e. the date of SREP was set to 30 June 2020 – due to dynamic changes in the country’s economic situation observed from early 2020, applying the simplified mode for all commercial banks (for which a comprehensive inspection was not conducted) – by way of derogation from the rules concerning the intensity of SREP specified in the 2020 SREP Methodology, the scope of the SREP in 2020 taking into account the published positions:

- of the UKNF included in PIN of 18 March 2020,
- of European Supervisory Authorities which directly relate to the Supervisory Review and Evaluation Process, including in particular the statements of the European Banking Authority of 12 March 2020²⁸ and 22 April 2020²⁹.

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

The intensity of the SREP at individual banks depends primarily on the overall SREP score assigned in the previous SREP cycle and the results of the categorisation process. The SREP methodology involves periodic updates of the SREP score as part of quarterly off-site analyses, and a dialogue between the supervisory authority and banks. Similarly to previous years, the SREP conducted during the COVID-19 crisis also took into account the results of *ad hoc* analyses conducted by the supervisory authority, e.g. in the form of surveys.

In the 2020 SREP cycle, commercial banks were given 27 final SREP ratings, while affiliating banks and cooperative banks were given 415 final SREP ratings.

4.3.2.7. RECOVERY PLANS

The main objective of a recovery plan is to introduce preventive measures to avoid the escalation of adverse events which might lead, in extreme cases, to the bank’s bankruptcy or to the launch of compulsory restructuring by the bank’s compulsory restructuring body, and to secure the continuity of business in areas deemed critical.

Following the announcement of the state of COVID-19 epidemic in Poland, the UKNF decided to extend the time limits for updating recovery plans by banks to 31 July 2020. The UKNF also indicated that in test scenarios, banks should take into account the impact of COVID-19, and the impact of the pandemic on recovery options. Moreover, the UKNF obliged banks to monthly report the level of indicators included in the recovery plan.

In 2020, in the case of commercial banks, the KNF Board approved 4 recovery plans, including one group recovery plan, and issued one refusal to approve the recovery plan.

²⁶ Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012.

²⁷ Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

²⁸ <https://eba.europa.eu/eba-statement-actions-mitigate-impact-covid-19-eu-banking-sector>

²⁹ <https://eba.europa.eu/eba-provides-further-guidance-use-flexibility-relation-covid-19-and-calls-heightened-attention-risks>

4.3.2.8. MONITORING OF BANKS' COMPLIANCE WITH APPLICABLE REGULATIONS

The UKNF carries out regular off-site monitoring of the financial situation of banks, including the liquidity and capital situation. In 2020, once again special emphasis was placed on maintaining good quality of equity and its appropriate level by banks. Equity ensures safety for a bank in the event of adverse external events which might arise, for example, in connection with a crisis in real terms or turbulence in international financial markets.

4.3.2.9. DIVIDEND POLICY AND ADDITIONAL CAPITAL REQUIREMENT

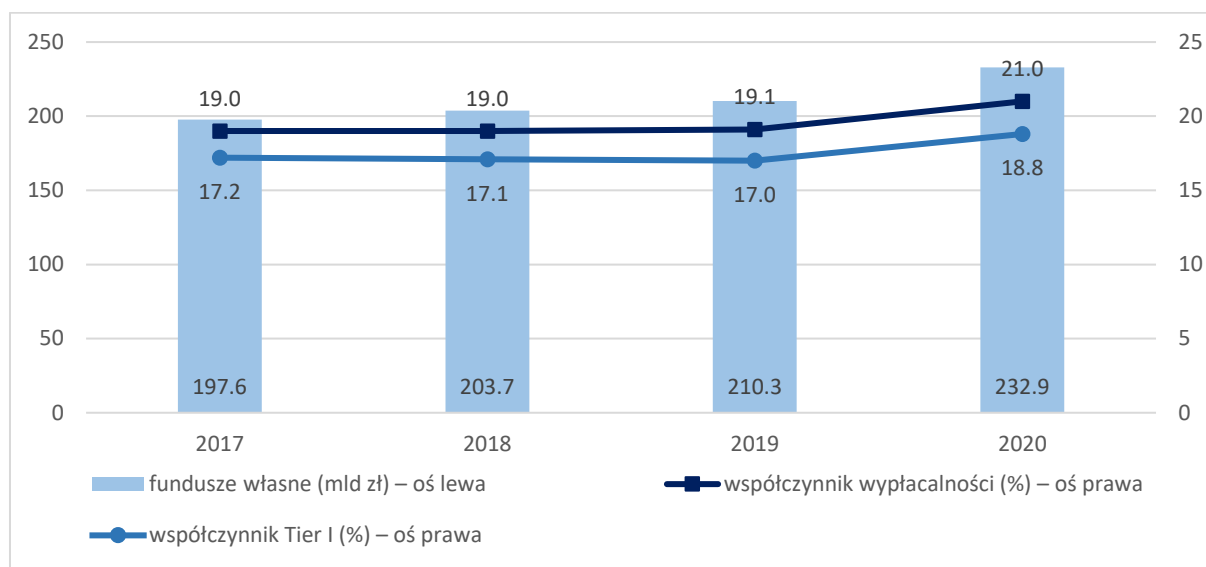
The objective of the dividend policy is to ensure stability of the banking sector by adjusting the bank's capital base to the level of risk borne by them, and to protect the users of financial services, including depositors. In accordance with EBA's³⁰ statement on actions to mitigate the impact of COVID-19 on the EU banking sector, and the material uncertainty as to further developments, the KNF Board recommended that the entire profit achieved in 2019 be retained and that all activities which might weaken the capital base, including dividend payment and buy-back of own shares, require prior consultation with the supervisory authority.

Similarly to previous years, additional capital requirements were imposed (in the form of final administrative decisions) on banks with material exposures³¹ to foreign currency mortgage loans. These requirements contribute to increasing the regulatory requirements on minimum capital ratios. Such approach has a direct impact on improving the security of the financial sector.

³⁰ https://www.knf.gov.pl/aktualnosci?articleId=69433&p_id=18

³¹ Banks where foreign currency loans granted to unsecured borrowers (from the household category) constitute at least 10% of the entire portfolio of the bank's loans for the non-financial sector, and the portfolio of loans for the non-financial sector constitutes at least 25% of the bank's total assets.

Diagram 12. Own funds and capital adequacy of the domestic banking sector in the years 2017–2020



Source: UKNF

The data for 2020 come from the monthly bank reporting for December 2020 and have not been audited. The data for previous years may differ from the data published in previous reports due to corrections made by the banks as well as the subsequent audit process.

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

Under the Act of 5 August 2015 on macro-prudential supervision³², the KNF Board is obliged to identify other systemically important institutions and to set appropriate capital buffers for them. Moreover, in accordance with the said Act, the KNF Board is obliged to annually review the adequacy of the buffer rate of other systemically important institutions.

Following the review of the adequacy of the buffer rate of other systemically important institutions and taking into account the opinion of the Financial Stability Committee, by its final decision of 29 October 2020, the KNF Board confirmed the identification of nine banks as other systemically important institutions. Accordingly, the KNF Board also decided to maintain and/or change appropriate capital buffers.

Also on 29 October 2020, the KNF Board, in accordance with the said Act, taking into account the opinion of the Financial Stability Committee, identified one additional systemically important institution compared to the review conducted in 2019.

4.3.2.11. ASSESSMENT OF THE PORTFOLIO OF CONSUMER LOANS FOR HOUSEHOLDS AS AT THE END OF 2019 + MID-YEAR AS AT THE END OF SEPTEMBER 2020

The UKNF has carried out an assessment of the portfolio of consumer loans annually since 2008, and since 2019 mid-year surveys are also conducted in that respect. The assessment covered banks and branches of credit institutions where the value of consumer loans for households exceeded PLN 100 million.

The annual assessment covered 26 entities. The gross carrying amount of consumer loans³³ included in the portfolio of these banks as at the end of 2019 was PLN 171.6 billion (+4.4%

³² Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system (Journal of Laws 2015, item 1513, as amended).

³³ Measured at amortised cost.

YoY). High-amount loans (with a nominal value exceeding PLN 50 thousand) with a long initial repayment period (above 5 years) accounted for 40.2% of the value of consumer loans. The nominal value of consumer loans granted in 2019 was PLN 88.0 billion and was PLN 745.5 million higher than the value of loans granted in 2018 (an increase of 0.9%).

The mid-year assessment covered 28 entities. Due to the COVID-19 situation, the mid-term assessment was postponed by one quarter and covered three quarters of 2020. The emphasis was placed on the banks' lending activity in 2020. In the first three quarters of 2020, banks granted to households consumer loans with a nominal value of PLN 52.5 billion, i.e. PLN 13.8 billion less than in the same period in 2019. Moreover, the assessment covered the credit terms, the structure of the lending activity and the quality of the consumer credit portfolio.

4.3.2.12. ASSESSMENT OF THE PORTFOLIO OF HOUSING LOANS FOR HOUSEHOLDS AS AT THE END OF 2019 + MID-YEAR AS AT THE END OF SEPTEMBER 2020

The UKNF has carried out an assessment of the portfolio of housing loans annually since 2008, and since 2019 mid-year surveys have also been conducted in that respect. The assessment covered banks and branches of credit institutions where the value of housing loans for households exceeded PLN 100 million.

The annual assessment covered 27 entities. The gross carrying amount of housing loans included in the portfolio of these banks as at the end of 2019 was PLN 432.2 billion (+6.3% YoY). Loans in PLN accounted for 72.1% and loans in CHF for 22.7% of the portfolio of housing loans (the share according to the gross carrying amount). In 2019, banks granted 220.7 thousand (+6.1% YoY) housing loans with a total nominal value of PLN 60.9 billion (+16.0% YoY).

The mid-year assessment covered 28 entities. In the first three quarters of 2020, banks granted to households housing loans with a nominal value of PLN 43.4 billion, i.e. PLN 2.2 billion less than in the same period in 2019. During the assessment, the main emphasis was placed on lending activity, its structure, terms of housing loans, and selected aspects related to credit risk borne by banks.

4.3.2.13. ASSESSMENT OF SALES ACTIVITY OF BANKS REFERRED TO IN ARTICLE 70(2) OF THE ACT ON TRADING IN FINANCIAL INSTRUMENTS

In 2020, the UKNF strengthened the supervision of sales activity of investment firms and banks operating under Article 70(2) of the Act of 29 July 2005 on trading in financial instruments. As part of new activities, the UKNF started to prepare analytical reports relating to the sale of financial instruments, conducted by banks operating under Article 70(2) of the Act. The reports are drawn up on the basis on quarterly reports provided by supervised entities under the Regulation of the Minister of Finance of 22 February 2019 on the scope, procedure, form and time limits for submission to the KNF Board of information by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks.

4.3.2.14. NETTING AGREEMENTS (CRR)

Due to the requests of the representatives of the banking sector to apply a pragmatic and flexible approach in the area of the assessment of netting agreements by the KNF Board, work was carried out in order to examine this issue and develop an approach which meets the expectations of the banking sector while complying with the standards laid down in the provisions of law.

As a result, the KNF Board established a course of action aimed at reducing the administrative burden while complying with the requirements of the CRR in this respect (which was communicated to the banks by a letter to the banking sector on 17 February 2020).

The approach adopted by the KNF Board makes it possible to recognise netting agreements that a bank treats or intends to treat as risk-mitigating agreements, by means of de-formalised supervisory activities, without the need for an application procedure and the rules governing the taking of evidence under the Administrative Procedure Code.

The solution proposed by the UKNF significantly streamlined correspondence with the supervisory authority and shortened the time of handling formalities, the multiplicity of which was earlier highlighted by the banking sector.

4.3.2.15. REQUIREMENT TO APPLY STRONG CUSTOMER AUTHENTICATION

In 2020, the UKNF continued the performance of tasks resulting from the implementation by the banking sector of particular plans of migration to the SCA standards (under Article 32i of the Act of 19 August 2011 on payment services and relevant EU legislation), in particular with regard to reporting the implementation schedule by banks.

4.3.3. INSPECTION ACTIVITIES

4.3.3.1. INSPECTION ACTIVITIES AT COMMERCIAL BANKS: GENERAL INFORMATION

Inspection activities at commercial banks in 2020 were carried out on the basis of the provisions of law and the KNF Board’s prudential recommendations, taking into account the guidelines of the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS), based on uniform standards and examination procedures included in methodologies concerning inspection activities.

Inspection activities were carried out in the form of comprehensive and targeted inspections, preliminary investigations and validation proceedings. A particular area of concern for inspections, which has a direct impact on economic and financial situation presented by banks, was the assessment of credit risk management, taking into account the measurement of assets according to IFRS 9³⁴.

Table 4. Inspection activities carried out by the UKNF at commercial banks in 2020³⁵

Inspection activities	Number
Comprehensive inspections	1
Targeted inspections	15

Source: UKNF

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

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

³⁴ Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9.

³⁵ This table does not include validation proceedings (conducted at commercial banks).

- implementation of selected recommendations issued following inspections carried out in previous years,
- management of liquidity and funding risks,
- management of market risk and overall interest rate risk in the banking book,
- management of operational risk,
- capital adequacy,
- bank management, including selected aspects of cooperation with the parent undertaking.

Tables 5–10 provide summary information on the material irregularities (concerning to varying degrees the entities under inspection) identified with respect to material issues examined during targeted and comprehensive inspections.

4.3.3.2. IRREGULARITIES IDENTIFIED DURING INSPECTION ACTIVITIES AT COMMERCIAL BANKS

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

Table 5. Material irregularities identified during inspection activities at commercial banks in 2020 in the area of credit risk management, taking into account the measurement of assets according to IFRS9

Management of credit risk, taking into account the measurement of assets according to IFRS9	
1.	Irregularities concerning the estimation of expected credit loss, allowances and provisions: <ul style="list-style-type: none"> – incorrect method of setting, or failure to consider, the behavioural lifetime of exposures, – incorrect estimation of discounted cash flows as a result of: <ul style="list-style-type: none"> • failure to apply at least two scenarios with a risk or likelihood of credit loss, • failure to consider information about forecasts of future macroeconomic conditions.
2.	Irregularities related to the identification of impairment of financial assets: <ul style="list-style-type: none"> – improper classification criteria for Stage 3, – lack of, or improper rules of, internal classification of restructured exposures.
3.	Irregularities related to the identification of a significant increase in credit risk: <ul style="list-style-type: none"> – lack of or insufficient quantitative and qualitative criteria, – lack of identification (linking) of events which qualify for the early warning list (Watch List) with significant increase in credit risk.
4.	Improper rules of identifying or failure to identify POCI assets, including failure to recognise credit assets restructured for which a substantial modification took place as POCI assets.
5.	Failure to use an objective quantity criterion (the 10% test) when determining the materiality of modifications.
6.	Objections to the rules of classification of financial instruments to the category of financial instruments characterised by low credit risk.
7.	Irregularities in the assessment of creditworthiness with respect to: <ul style="list-style-type: none"> – assuming an insufficient level of monthly repayments due to liabilities resulting from credit card and revolving credit products, – lack of proper verification of the source and amount of income and assessment of income stability, including failure to consider the fact of retiring, – lack of or insufficient interest rate risk buffer.
8.	Reservations regarding the process of managing credit risk, concerning: <ul style="list-style-type: none"> – lack of rules, or incorrect assumptions regarding conducted stress tests, – insufficient range of internal limits.

Source: UKNF

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

Table 6. Material irregularities identified during inspection activities at commercial banks in 2020 with respect to management, taking into account the internal control system

Bank management, taking into account the internal control system	
1.	Irregularities concerning the organisation and functioning of the bank's bodies and the bank's organisational structure, including: <ul style="list-style-type: none"> – concerns about the rules and the process of assessing the suitability of members of the bank's governing bodies and persons exercising key functions, – failure to ensure independence of Level 1 risk management from Level 2 risk management.
2.	Supervisory board's failure to perform, or improper performance of, an annual assessment of adequacy and effectiveness of the risk management system.
3.	Irregularities in the policy on variable components of remuneration, including: <ul style="list-style-type: none"> – failure to include members of the supervisory board in the list of persons whose professional activity has a material effect on the bank's risk profile, – lack of independent, internal review of the implementation of the remuneration policy at the bank, – reservations as to the rules of payment and deferral of variable components of remuneration.
4.	Incomplete management information in the reports for the bank's management board and supervisory board.
5.	Concerns regarding the process of handling conflicts of interest, due to banks' incomplete adaptation to supervisory standards.
6.	Irregularities in the process of introducing new products, including the failure to analyse the conformity of a new product to the bank's management strategy and risk management strategy, and the bank's management board's failure to approve the introduction of new products into the bank's offer.
7.	Reservations as to the rules of reporting by employees of breaches of law and the bank's internal procedures and ethical standards, including failure to ensure protection from retaliatory measures to anyone reporting an irregularity.
8.	Irregularities related to the organisation of the internal control system (ICS), including: <ul style="list-style-type: none"> – improper organisation and functioning of the ICS in the area of control mechanisms and the independent monitoring of compliance with such mechanisms and reporting them as part of control functions, – too vague criteria for separation of material processes, – unclear criteria for classification of irregularities identified as part of the ICS, – supervisory board's failure to carry out the annual assessment of efficiency of compliance risk management, – failure to ensure full independence of the compliance function, in particular the lack of participation of the head of the compliance unit or his/her alternate in certain meetings of the management board and/or the supervisory board, – too broad scope of information provided to the audit unit of the parent undertaking.
9.	Irregularities concerning various aspects of the fulfilment of obligations towards account holders and other authorised persons, related to the failure to comply with the requirements under the Act of 29 August 1997 – the Banking Law (Journal of Laws 2020, item 1896, as amended), related to so-called 'dormant accounts' and timely receipt and response from/to the Central Information System.

Source: UKNF

4.3.3.3. Management of liquidity and funding risks

Table 7. Material irregularities identified during inspection activities at commercial banks in 2020 in the area of management of liquidity and funding risks

Management of liquidity and funding risks	
1.	Irregularities related to the system of internal limits, including: <ul style="list-style-type: none"> – insufficiently conservative level of the limits adopted, – lack of documented analyses serving as a basis for the limits,

	<ul style="list-style-type: none"> – incomplete system of limits, e.g. in the area of intra-day liquidity, – lack of control mechanisms for limits protecting from exceeding the liquidity risk appetite.
2.	<p>Irregularities related to stress testing, including:</p> <ul style="list-style-type: none"> – supervisory board's failure to approve the rules of stress testing, – adoption of insufficiently conservative assumptions for tests, which fail to ensure full estimation of liquidity risk, – insufficient scope of test scenarios, – failure to ensure full consistency between the assumptions of the tests with the contingency liquidity plan, – failure to use test results in liquidity risk management, – insufficient frequency of tests.
3.	<p>Irregularities with respect to contingency liquidity plan, including:</p> <ul style="list-style-type: none"> – adopting incorrect criteria for launching the plan, – insufficient monitoring and reporting of the indicators/grounds for launching the plan, – failure to carry out cyclical, comprehensive tests regarding the process of generating the pools of debts in order to check the bank's readiness to conduct this process, – failure to meet the NBP and KNF requirements related to the terms of taking out a refinance loan, – insufficient testing of the liquidity contingency plan with respect to the possibility of launching contingency sources of financing other than a refinance loan, – failure to prepare cyclical, detailed statements concerning the estimated outflow of funds and obtaining funds for particular scenarios of the plan, – failure to define the scope of reporting which ensures internal coordination and ongoing exchange of information between various business lines and locations in an emergency.
4.	<p>Irregularities in the calculation of the LCR related to non-compliance with the requirements of Regulation 2015/61³⁶ consisting in:</p> <ul style="list-style-type: none"> – recognising inflows from credit exposures without excluding past-due funds and exposures for which default can be expected within 30 calendar days, – failure to regularly assess the probability and potential volume of outflows with respect to offered off-balance sheet products and services in accordance with Article 23 of Regulation 2015/61, – improper identification of deposits on trading accounts, – failure to consider additional outflows corresponding to needs in the area of security, which would result from the scenario of unfavourable market conditions, on the bank's operations as part of transactions in derivatives, – improper identification of operational deposits.

Source: UKNF

4.3.3.4. Management of market risk and overall interest rate risk in the banking book

Table 8. Material irregularities identified during inspection activities at commercial banks in 2020 in the area of management of market risk and overall interest rate risk in the banking book

Management of market risk and overall interest rate risk in the banking book	
1.	<p>Irregularities in risk identification and measurement, including:</p> <ul style="list-style-type: none"> – lack of control mechanisms regarding the timeliness of recording, by dealers, of transactions made by phone in the front office system, and control mechanisms concerning the correct functioning of the VaR model, – incomplete analysis of option risk and irregularities in the measurement of basis risk and repricing risk with regard to interest rate risk in the banking book, – failure to include open currency positions at subsidiaries in the measurement of foreign-exchange risk on a consolidated basis.
2.	Irregularities related to the system of internal limits, including failure to:

³⁶ Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to liquidity coverage requirement for Credit Institutions (as amended).

	<ul style="list-style-type: none"> – take effective measures to eliminate breaches of limits, – document analysis underlying the limits, – indicate limit breaches in management reports, – set a limit on the change of the economic value of equity and the overall currency position, – include stress test (ST) results in the periodic review of limits, – specify in internal regulations the rules of handling and reporting limit breaches.
3.	<p>For stress tests (ST), the irregularities included failure to:</p> <ul style="list-style-type: none"> – consider scenarios related to the COVID-19 pandemic and its impact in relation to market risk, – consider proper scenarios in relation to interest rate risk in the banking book, – conduct reverse ST in relation to interest rate risk in the banking book.
4.	<p>Irregularities in the process of concluding treasury transactions with clients included a failure to:</p> <ul style="list-style-type: none"> – obtain sufficient information about the customer’s exposure to derivatives in other banks, – verify the goal of the transaction in the case of deposit-secured transactions, – specify the rules of rolling over transactions in internal regulations, – identify clients through passwords.
5.	<p>Irregularities in the process of verifying marketability of transaction prices, consisting in, among other things:</p> <ul style="list-style-type: none"> – insufficient documenting of explanations related to transactions identified as potential non-market price transactions, – low effectiveness or lack of control mechanisms in the area of the internal control system (including discretionary nature of the process, lack of full independence), – failure to include certain transactions in the process of verification, – adopting assumptions which are inadequate in relation to market conditions, – incomplete internal regulations.
6.	<p>Irregularities in the management information system, including:</p> <ul style="list-style-type: none"> – its insufficient scope due to, among others, failure to consider: <ul style="list-style-type: none"> • information on executed roll-over transactions and the grounds for roll-over, • information on exceeding a currency position limit, • explanations of the reasons for exceeding market prices in transactions as part of the process of assessing the marketability of transaction prices, • information on open currency positions at subsidiaries, • results of backtesting of the VaR model and hedge accounting, – insufficient frequency of the management information system in the area of derivative transaction pricing and the level of using treasury limits, – poor quality of management reports (including misinterpretations and data errors).

Source: UKNF

4.3.3.3.5. Management of operational risk

Table 9. Material irregularities identified during inspection activities at commercial banks in 2020 in the area of operational risk management

Management of operational risk	
1.	<p>Irregularities in operational risk monitoring:</p> <ul style="list-style-type: none"> – failure to approve a set of Key Risk Indicators (KRI) and their reference levels by a competent committee or the management board of the bank, – failure to comprehensively review KRIs, including failure to inform the bank’s management of the results of the review.
2.	<p>Irregularities with respect to the database of operational events:</p> <ul style="list-style-type: none"> – untimely recording of operational events, – excessively long period, or failure to define the period, for recording operational events.
3.	<p>Irregularities in the business continuity management process:</p> <ul style="list-style-type: none"> – deficiencies in procedures constituting the business continuity management system, – insufficient tests verifying the effectiveness of business continuity plans for critical business processes.
4.	<p>Insufficient internal regulations (lack of rules for detecting and classifying serious operational incidents related to payment services, insufficient procedures related to specifying the period for</p>

	carrying out the test of the system for calculating the amount of contributions to the Bank Guarantee Fund).
5.	Lack of or insufficiently formal rules for estimating and approving provisions for foreign currency mortgage loans, including incorrect procedure for approving their level.
6.	Incorrect management of the complaint handling process (procedural deficiencies, errors in the register, processing complaints after the statutory time limit).
7.	Irregularities in model risk management at banks, resulting from incomplete adaptation of banks' operations with respect to model risk management to the standards laid down in KNF Board's Recommendation W on model risk management at banks, including: <ul style="list-style-type: none"> – failure to ensure that the information included in the register of models or in model logs is up to date, – failure to specify minimum acceptance criteria (thresholds) for the quality of the operation of the bank's models, – lack of consistent and reliable criteria for classifying models to appropriate materiality classes, – lack of monitoring methodologies for all models functioning at the bank, – failure to carry out, or irregular and/or untimely, monitoring of models, – failure to conduct validations, or the period between validations is too long, – failure to consider, in the list of remedial and corrective measures included in model monitoring methodologies, the division into potential and obligatory measures in response to the occurrence of specific circumstances in relation to a given model, – audit activities' failure to cover all aspects of the operation of model risk management.

Source: UKNF

4.3.3.3.6. Capital adequacy

Table 10. Material irregularities identified during inspection activities at commercial banks in 2020 in the area of capital adequacy

Capital adequacy	
1.	<p>Irregularities in the calculation of capital requirements:</p> <ul style="list-style-type: none"> – incorrect segmentation of credit exposures and assignment of risk weights: <ul style="list-style-type: none"> • incorrect classification of exposures to open-end investment funds as exposures to institutions with a risk weight of 50%, instead of exposures to enterprises with a risk weight of 100%, • unjustified application of a risk weight of 0% to credit exposures to brokerage houses, • failure to identify links between customers in the case of retail exposures, which makes it impossible to verify whether the conditions of classification to this category are met, • incorrect application of the category of exposures to self-government units and local authorities instead of the category of exposures to public sector entities, • incorrect classification of exposures backed by a mortgage as residential instead of commercial, • incorrect application of a risk weight of 100% for exposures secured by mortgage on residential property affected by: (i) incompatibility between the currency of the loan and the currency of the client's income, (ii) default, – incorrect calculation of adjustments on account of special credit risk, – incorrect attribution of the SME supporting factor (0.7619), – incorrect attributing, to off-balance sheet obligations, of a CCF of 0% instead of 20% or 50%, – errors in the calculation of capital requirements on account of operational risk, consisting in the failure to consider relevant data from financial statements.
2.	<p>Irregularities related to the estimation of internal capital, including:</p> <ul style="list-style-type: none"> – failure to identify certain material risks during ICAAP reviews, – defective (e.g. too vague) criteria for assessing risk materiality, – failure to document the risk materiality assessment process, – errors in the estimation of internal capital for certain risks, e.g. underestimation of the volume of internal capital for operational risk, – failure to reflect, in the bank's internal regulations, the bank's practice in the area of ICAAP review.

3.	Reservations concerning the capital and contingency capital planning, including: <ul style="list-style-type: none"> – incomplete capital plan, – incorrect identification of the symptoms of an emergency, including identifying the triggers of the contingency plan at a level which prevents timely detection of potential threats, – failure to conduct a periodic assessment of capital amounts which can be obtained as a result of applying particular corrective measures, – failure to specify the amount of the risk exposure decrease as a result of adopting the defined corrective measures.
4.	Irregularities related to stress testing, including: <ul style="list-style-type: none"> – insufficient frequency of stress tests, – insufficient scope of stress tests, – failure to adapt reverse stress tests to EBA Guidelines of 19 July 2018 on institutions' stress testing (EBA/GL/2018/04).
5.	Irregularities related to the system of internal limits, including: <ul style="list-style-type: none"> – lack of documented analyses serving as a basis for the limits, – failure to specify the rules of setting and updating the limits.

Source: UKNF

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

The 2020 work – as part of the off-site analysis and/or in the course of remote inspection activities – in the area of validation proceedings in respect of internal approaches in relation to domestic banks included activities within the application phase (the bank's application for authorisation to use internal approach) and the post-application phase (a series of activities undertaken after the bank has been authorised to use internal approach). With respect to the IRB approach³⁷, priorities included reviewing an application for authorisation to use internal approach, and reviewing applications (and matters which are being processed otherwise than by issuing a decision) carried out in cooperation with the European Central Bank (hereinafter: 'ECB') as the home supervisor body for certain domestic banks, in particular related to the adaptation of domestic banks to the new requirements concerning the definition of default. With respect to the AMA approach³⁸, the activities focused on the assessment of applications in the post-application phase and verification of implementation of supervisory expectations resulting from prior supervisory activities. A total of 15 proceedings with respect to internal approaches were conducted: in relation to 1 case the KNF Board issued a decision, and in relation to 12 cases it formulated an opinion or a position.

As regards proceedings concerning internal models, the KNF Board issued 3 decisions on banks' applications for authorisation to use own OTC option pricing models for calculating delta equivalent. Preliminary investigation was also conducted, as a result of whose findings the KNF Board adopted a resolution on an individual credit risk model for the purposes of estimating special-purpose provisions and revaluation write-offs for receivables related to credit exposures.

4.3.3.4. INSPECTIONS AT COOPERATIVE BANKS

4.3.3.4.1. Inspections at cooperative banks: general information

In 2020, inspection activities at cooperative banks were carried out on the basis of the provisions of law and the KNF Board's prudential recommendations, taking into account the guidelines of the European Banking Authority (EBA) and the Basel Committee on Banking

³⁷ Internal Ratings Based Approach (credit risk) – 4 domestic banks hold an authorisation.

³⁸ Advanced Measurement Approach (operational risk) – 3 domestic banks hold an authorisation.

Supervision (BCBS), based on uniform standards and examination procedures included in methodologies related to inspection activities.

Inspection activities were carried out in the form of targeted inspections, and the main area of inspection was credit risk.

Table 11. Inspection activities carried out by the UKNF at cooperative banks in 2020

Inspection activities	Number
Targeted inspections	32

Source: UKNF

4.3.3.4.2. Irregularities identified during inspection activities at cooperative banks

Table 12. Material irregularities identified during inspection activities at cooperative banks in the area of credit risk in 2020

Credit risk	
1.	<p>Failure to comply with the Act of 29 August 1997 – the Banking Law (Journal of Laws 2020, item 1896, as amended, hereinafter: ‘Banking Law’), resulting from:</p> <ul style="list-style-type: none"> – incorrect assessment of creditworthiness, related to, among others, the failure, at the time of granting a loan, to: <ul style="list-style-type: none"> • accept the minimum household maintenance costs at a level not lower than those published cyclically by the Institute of Labour and Social Studies (Instytut Pracy i Spraw Socjalnych), • verify the quantitative data submitted by clients, and financial forecasts for the entire lending period, • obtain or assess the recovery plans, or the failure to establish special security where the client was not creditworthy, – the failure to assess the financial and economic standing of a client in the case of amendment to the contractual terms and time limits for the repayment of credit.
2.	<p>Irregularities in the classification of credit exposures to risk categories leading to incorrect presentation of the credit portfolio, insufficient special-purpose provisions and write-downs, including:</p> <ul style="list-style-type: none"> – failure to identify any significant deterioration of the financial and economic situation of a debtor, – failure to recognise significant negative deviations in the performance from the related financial forecasts made in loan applications, – classification of exposures as ‘watch-list’ due to the borrower’s economic and financial situation.
3.	<p>Irregularities in the measurement of collateral, leading, in some cases, to insufficient special-purpose provisions and write-downs, i.e.:</p> <ul style="list-style-type: none"> – reduction of the basis for calculation of special-purpose provisions and write-downs on the basis of outdated valuation reports for commercial real estate, or without considering previous encumbrances in the land and mortgage register, – disregarding legal, economic and factual constraints which may affect the actual ability of the bank to satisfy their claim with collateral, – failure to use a reliable inter-bank database on the real estate market, – lack, or low quality, of data in the internal database on real estate.
4.	<p>Irregularities in the lending process, related to exemptions applied for example:</p> <ul style="list-style-type: none"> – in the process of granting credit: <ul style="list-style-type: none"> • to persons/entities who/which are not creditworthy without any special security or without a plan to improve the economic and financial situation, • with respect to the score at BIK, which shows that the client is unreliable, • the down payment was below the required level, – with regard to security accepted, e.g. excessive level of LtV, – the influence of derogations on the bank’s level of credit risk and performance was not analysed or monitored,

	<ul style="list-style-type: none"> – lack of reporting (at the management and supervisory board level) on the scope, scale and impact of the derogations applied.
5.	<p>Irregularities due to a limited scope of internal regulations which might result in improper identification of credit risk, including:</p> <ul style="list-style-type: none"> – failure to define the industries which, in the bank’s view, require special attention, – failure to develop rules for debt restructuring, including classification and reclassification of forborne exposures, – lack of rules for application of deviations from lending procedures, including lack of a catalogue of acceptable deviations and limit on the total amount of credit facilities granted with such deviations.
6.	<p>Other irregularities identified in the area of credit risk:</p> <ul style="list-style-type: none"> – failure to identify, or incorrect identification of, groups of entities related by equity or internal organisation, including exceeding the limit laid down in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, – failure to identify, or improper identification of, debt restructuring measures, – failure to implement or fully implement EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06), – lack of independence between Level 1 and Level 2 credit risk management.

Source: UKNF

Other material irregularities identified during inspection activities at cooperative banks in 2020 concerned the bank management process. They concerned, among others, the organisation and functioning of the bank’s bodies, remuneration policy, organisation of the risk management system and internal control system, reporting of fraudulent practices, and dormant accounts. In particular, the irregularities resulted from the banks’ failure to consider certain requirements under the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and the detailed method for estimation of internal capital at banks (Journal of Laws 2017, item 637), the Banking Law, and the standards set out in KNF Board’s Recommendation H on internal control system at banks. Critical comments were made on the bank’s failure to define the acceptable level of risk, failure to adapt the system of limits to the scale and nature of operations, and the management board’s ability to decide on exceeding the applicable internal limits. Reservations were made with regard to the organisation and functioning of the internal control system, which was not fully effective and failed to ensure the proper effectiveness of banks’ operations, compliance with credit risk management rules, and compliance with laws, supervisory recommendations and internal regulations. Other concerns included the process of managing dormant accounts in the light of the requirements under the Banking Law.

5. SECTOR OF CREDIT UNIONS

5.1. BASIC INFORMATION

At the end of 2020, the KNF Board supervised 23 credit unions (SKOK), and the National Association of Credit Unions. In 2020, the KNF Board approved the merger of two credit unions with other credit unions.

The biggest impact on the operations of credit unions in 2020 came from the COVID-19 pandemic. The new market environment in which the credit unions operated was characterised in particular by decreased profitability, driven mainly by significant reduction of interest rates, decreased creditworthiness of borrowers, and deterioration of the quality of the credit portfolio. In the conditions of significant decrease of business activity, the cost of credit risk increased, particularly in the first half of 2020. The credit unions’ profitability in 2020 was also significantly affected by the consequences of the Judgment of the Court of Justice of the European Union of 11 September 2019 in Case C-383/18 concerning the right of the consumer to a reduction in the total cost of the credit in the case of early repayment.

At the end of 2020, the assets of credit unions amounted to PLN 9.50 billion, and the credit unions sector recorded a net profit of PLN 2.90 million. As at the end of 2020, the amount of own funds of credit unions (calculated in accordance with the Act on credit unions) was PLN 468.30 million. The data are preliminary, have not been audited by a statutory auditor, and they may change.

Table 13. Selected financial data of credit unions operating in particular reporting periods in PLN million in the period from Q4 2019 to Q4 2020

Breakdown	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Number of operating credit unions	25	25	25	24	23
Balance sheet total (PLN million)	9 431.0	9 215.1	9 188.9	9 297.3	9 535.7
Own funds in accordance with the Act on credit unions (PLN million)	537.7	525.6	541.0	532.9	468.3
Deposits (PLN million)	8 711.9	8 535.9	8 523.1	8 589.5	8 863.9
Gross loans (PLN million)	6 711.6	6 723.2	6 797.1	7 046.2	7 192.2
Net profit (loss) (PLN million)	9.3	-4.6	3.4	-6.1	2.9

Source: UKNF

5.2. KEY ACTIVITIES

In 2020, supervisory activities with regard to credit unions focused primarily on monitoring current liquidity and financial situation, improving the quality of management, particularly in the area of limiting the increased credit risk, improving the effectiveness of operations, and ensuring the effective functioning of liquidity and stabilisation mechanisms in the sector. In this context, in 2020, in the sector of credit unions, the UKNF continued to support restructuring processes, including merger processes, aimed at protecting deposits and reducing the risk of weakening of the sector as a result of problems faced by entities which are in difficulties. As a result, the bankruptcy of credit unions was averted, while depositors had continuous access to the funds entrusted to credit unions.

5.3. LICENSING ACTIVITIES

In 2020, the KNF Board issued 1 final decision on amendment to the articles of association of a credit union and 2 final decisions on approving the appointment of presidents of management boards of credit unions. It also issued 1 final decision to discontinue administrative proceedings in respect of refusal to approve the appointment of president of the management board of a credit union.

5.4. SUPERVISORY ACTIVITIES

In 2020, the KNF Board authorised two mergers of credit unions, under Article 74a(1) of the Act of 5 November 2009 on credit unions, i.e.: Spółdzielcza Kasa Oszczędnościowo-Kredytowa „Poznaniak” (the acquiring credit union) with Spółdzielcza Kasa Oszczędnościowo-Kredytowa „Beskidy” (the credit union being acquired), and Spółdzielcza Kasa Oszczędnościowo-Kredytowa „Szopienice” (the acquiring credit union) with Międzyzakładowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa w HPR Dąbrowa Górnicza (the credit union being acquired).

After completing the merger process, at the end of 2020 the number of operating credit unions decreased to 23 entities, including 12 credit unions subject to rehabilitation proceedings.

In 2020, the KNF Board took cognisance of five periodic reports on the standing of the credit unions sector, for the third quarter of 2019, the fourth quarter of 2019, the first quarter of 2020, the second quarter of 2020 and the third quarter of 2020. The KNF Board also took cognisance of reports on the standing of the credit unions obliged to implement rehabilitation plans for the second half of 2019 and for the first half of 2020.

5.5. INSPECTION ACTIVITIES

5.5.1. INSPECTIONS AT CREDIT UNIONS – GENERAL INFORMATION

In 2020, 2 inspections were carried out at credit unions (1 in the area of asset quality assessment and credit risk management, and 1 comprehensive inspection). Following the inspections, reservations were expressed as to the quality of those entities' management activities, in particular due to irregularities in credit risk identification, measurement and control. In this context, material irregularities concerned:

- measurement of loan exposures leading to missing write-downs (inconsistent classification of all the debtor's liabilities; too early classification of a liability (whose payment terms have been changed) to a lower risk category; lack of quarterly monitoring based on the criterion of economic and financial standing),
- assessment of creditworthiness/assessment of economic and financial standing for the purposes of restructuring (granting loans to entities which are not creditworthy and debt restructuring which is not adjusted to the debtor's financial standing; failure to assess income stability for the entire lending period; assuming too low minimum household maintenance costs and recurring liabilities; granting investment loans without a business plan),
- the restructuring process (incorrect definition of restructured exposures and incorrect process for identifying such exposures),
- collateralisation of credit exposures (too vague or incomplete provisions of regulations describing the process of measurement of collateralisation of credit exposures),
- concentration risk management (lack of detailed regulations; incorrect identification of entities related by equity or internal organisation),
- complaint processing (processing complaints after the statutory time limit).

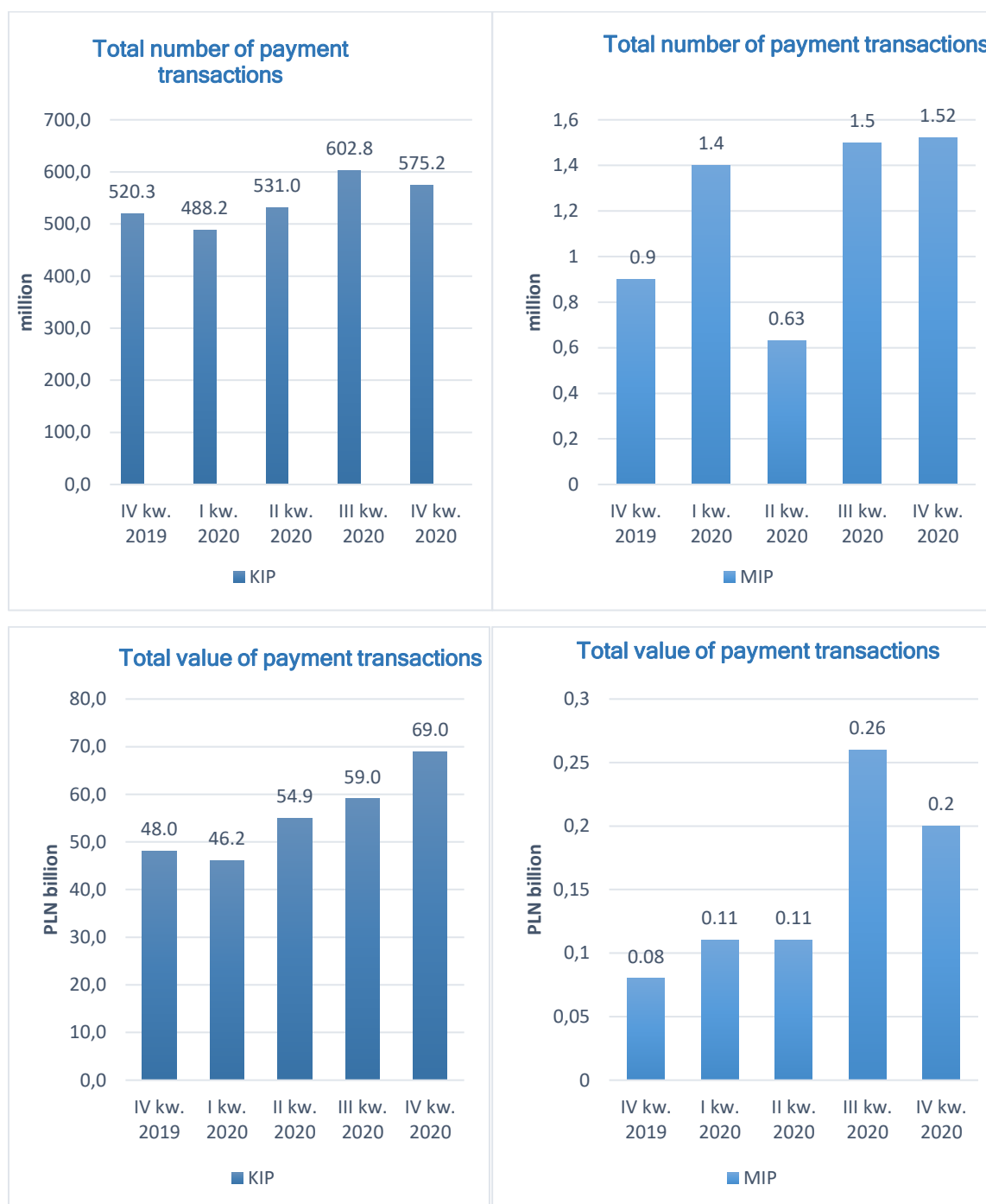
6. SECTOR OF PAYMENT SERVICES

6.1. BASIC INFORMATION

As at 31 December 2020, 38 domestic payment institutions (KIP) and 1 electronic money institution held authorisations. As at 31 December 2020, 1 340 payment services offices were entered in the Register of Payment Services Offices. As at 31 December 2020, 82 small payment institutions (MIP) were included in the Register of Small Payment Institutions. 4 entities were entered in the Register of Account Information Service Providers. The reporting data submitted to the KNF Board show that despite a high and constantly growing number of registered small payment institutions, the scale of their operations measured by the value of conducted payment transactions is significantly lower than in the case of domestic payment institutions, and this disproportion is still growing.

In the sector of domestic payment institutions, the number and value of payment transactions increased – by ca. 10.55% and 43.75%, respectively, when comparing the fourth quarter of 2020 to the fourth quarter of 2019. This was probably largely due to the COVID-19 pandemic, which lead to an increased interest in cashless payments.

Diagram 13. Comparison of the total number and value of payment transactions carried out by MIPs and KIPs between the fourth quarter of 2019 and the fourth quarter of 2020



Source: UKNF

6.2. KEY ACTIVITIES

In 2020, supervisory activities towards payment institutions focused mainly on authorising entities to operate in the payment services market (licensing and registration activities), assessing the compliance of supervised entities (particularly in the area of implementing strong customer authentication when providing services electronically), and adopting supervisory measures in this regard, and identifying breaches of law by entities acting without the required authorisations.

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

6.3.1. LICENSING AND REGISTRATION ACTIVITIES

In 2020, the KNF Board received 14 applications for authorisation to provide payment services as a domestic payment institution, including 7 applications for amendment to the previous authorisation. During that period, the KNF Board issued 1 final decision on authorisation to provide payment services as a domestic payment institution and 6 final decisions on amendment to such authorisation; 2 proceedings were suspended (at the request of applicants), and 4 applications for authorisation to provide payment services as an electronic money institution were withdrawn.

The KNF Board upheld 1 decision on withdrawal of authorisation to provide payment services as a domestic payment institution, and withdrew 1 authorisation to provide payment services as a domestic payment institution (at the request of the entity).

As at the end of 2020, 38 domestic payment institutions and 1 electronic money institution held authorisations.

In 2020, 6 notifications were made to other EU Member States in relation to cross-border activity of domestic payment institutions, 1 notification on operating through a branch, and 1 notification on cross-border activity of an account information service provider.

In 2020, 2 final decisions were made concerning the lack of objection as to the entity's intention to acquire or take up, directly or indirectly, shares of a domestic payment institution in a number sufficient to reach or exceed 20%, 30% or 50%, respectively, of the total number of votes at the decision-making body or a share in the share capital.

In 2020, 39 small payment institutions were entered in the Register of Small Payment Institutions, 16 entries regarding those entities were amended, and 3 entities were removed from the register. In this period, the KNF Board issued 2 final decisions on the refusal to enter a small payment institution in the Register. As at 31 December 2020, 82 small payment institutions were registered.

In 2020, 2 entities were entered in the Register of Account Information Service Providers and as at 31 December 2020, 4 such providers were registered.

In 2020, 109 entities were entered in the Register of Payment Services Office, and 135 entities were removed from the register. As at 31 December 2020, 1 340 such offices were registered. In 2020, the KNF Board received 5 notifications from entities providing payment services within a limited network, and the KNF Board registered 4 such entities.

In 2020, the KNF Board received 1 notification from an entrepreneur benefiting from an exemption for telecommunications operators from being subject to legislation on payment services, and as at the end of 2020, 8 such entities were registered.

In 2020, the KNF Board received 186 notifications from competent supervisory authorities concerning the activities of EU payment institutions and 157 notifications concerning the activities of EU electronic money institutions operating in Poland through a branch, through agents and on a cross-border basis. A significant portion of these notifications concerned changes resulting from the end of the transition period following the withdrawal of the United Kingdom from the European Union (Brexit).

6.3.2. SUPERVISORY ACTIVITIES

6.3.2.1. ONGOING SUPERVISION

As part of ongoing supervision of domestic payment institutions, the KNF Board analyses the financial data and other data on the operations of payment institutions, in the context of statutory requirements and financial plans, and takes supervisory measures on that basis. The KNF Board's supervisory activities in relation to small payment institutions (KIPs) and payment services offices (BUPs) include the assessment and monitoring of timely submission of reporting information, and monitoring of compliance with the obligation to protect the clients' funds and the requirement to limit the scale of operations if the statutory limits are exceeded.

In 2020, the UKNF addressed 10 letters to the payment services sector, concerning operating in the market in accordance with the law.

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

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

6.3.2.1.1. Domestic payment institutions (KIPs)

The analysis of the reporting data on the domestic market of payment services submitted to the KNF Board leads to the conclusion that this area is dominated by several well-established KIPs, which operate on a large scale. In the fourth quarter of 2020, domestic payment institutions providing only money transfer services (Group C) carried out 1.48% of all payment transactions (8.49 million transactions). The second group of entities (Group B), which, in addition to money transfer services, also provide other payment services, including transfer orders and direct debits, carried out 0.02% of all payment transactions (0.13 million transactions) in that period. The vast majority of payment transactions, i.e. 98.50% (566.63 million transactions), were carried out by Group A (KIPs), which, in addition to providing payment services from the above-mentioned Group B, also act as clearing agents providing the acquiring service, i.e. a service consisting in enabling the acceptance of payment instruments and the execution of payment transactions initiated by or through an acceptor with the payer's payment instrument, especially consisting in the service of authorisations, sending payment orders of the payer or the acceptor to the issuer of the payment instrument or to payment systems, in order to provide the acceptor with the funds due (acquiring).

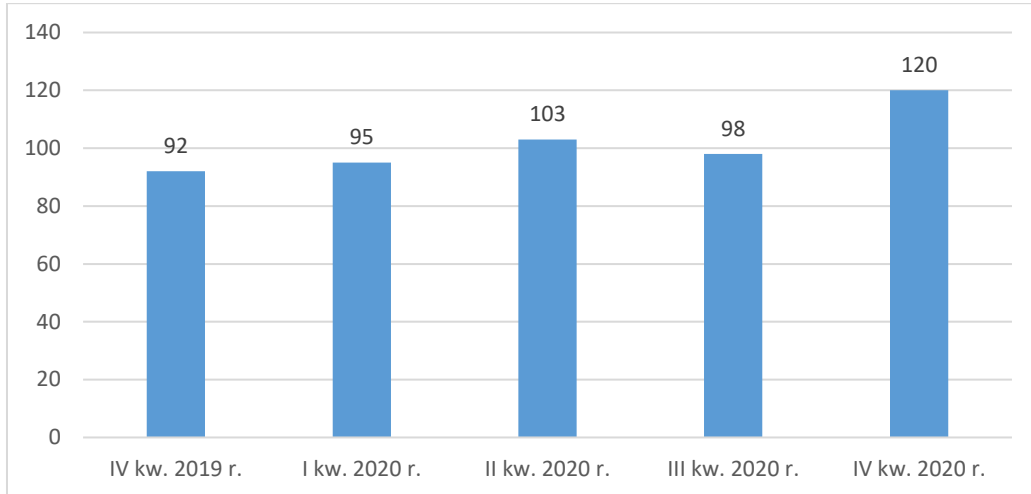
Table 14. Number and value of payment transactions executed by KIPs

KIP	Number of transactions (million)				
	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Group A	510.09	477.80	522.18	594.01	566.63
Group B	0.11	0.11	0.11	0.12	0.13
Group C	10.17	10.33	8.67	8.65	8.49
Total	520.37	488.24	530.96	602.78	575.25
KIP	Value of transactions (PLN million)				
	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Group A	45 943.79	43 875.99	52 895.41	56 812.03	66 640.47
Group B	182.71	211.01	276.50	432.35	623.90

Group C	1 915.66	2 062.37	1 749.02	1 791.12	1 769.64
Total	48 042.16	46 149.37	54 920.93	59 035.50	69 034.01

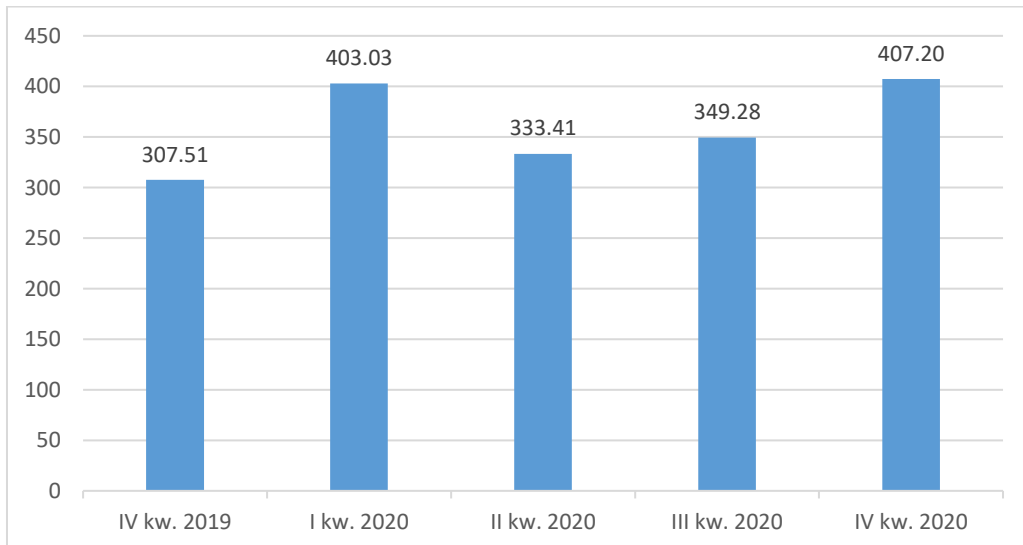
Source: UKNF

Diagram 14. The average value of a single transaction carried out by KIP (in PLN)

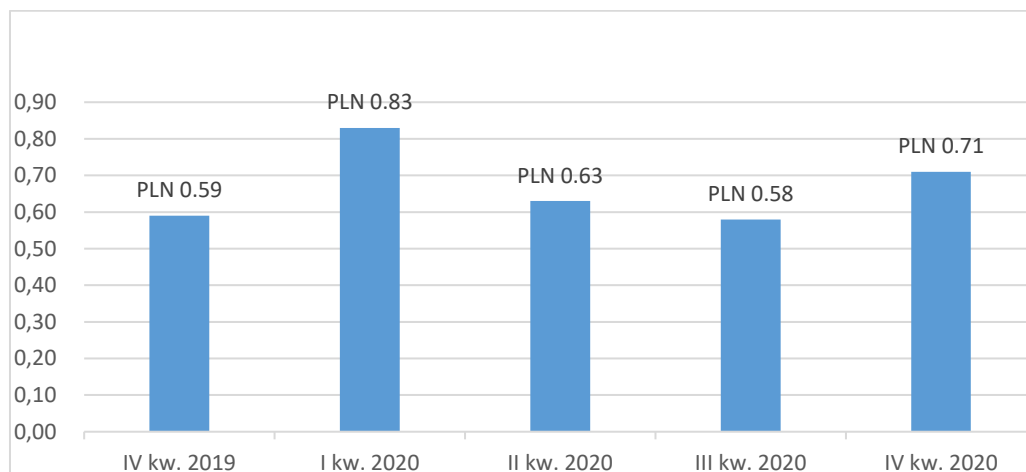


Source: UKNF

Diagram 15. The value of fees and commissions collected by all KIPs (in PLN million)



Source: UKNF

Diagram 16. Average amount of fees and commissions on transactions (in PLN)

Source: UKNF

At the end of the fourth quarter of 2020, own funds of KIPs (after deductions) totalled PLN 674.6 million. In the fourth quarter, two KIPs failed to meet the capital requirement laid down in Article 76(1) of the Act on payment services, under which a domestic payment institution is required, at any time, to have its own funds in the amount relevant to the size of its operations and the type of payment services it is allowed to provide under the licence granted.

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

Item	Q4 2019 (PLN million)	Q1 2020 (PLN million)	Q2 2020 (PLN million)	Q3 2020 (PLN million)	Q4 2020 (PLN million)
Own funds, including:	813.12	880.49	961.17	971.99	957.42
– initial capital	408.05	423.69	427.68	410.15	421.59
– revaluation capital	5.49	0.00	1.80	1.80	1.80
– retained earnings	10.70	21.42	39.87	56.72	10.72
– profit during approval and net profit of the current reporting period	0.99	15.58	46.79	2.93	20.61
– supplementary capital	219.69	253.63	271.28	278.95	280.98
– other reserve capitals	168.20	166.18	173.75	221.44	221.72
Deductions of own funds:	232.11	222.31	222.34	218.78	282.80
– own shares held by a payment institution, valued at carrying amount, less any revaluation write-off	0.00	0.00	0.00	0.00	–
– all liabilities resulting from the issue of preference shares	0.18	0.00	0.00	0.00	–
– intangible assets valued at carrying amount	116.00	114.36	112.05	103.56	156.01

– loss from previous years	93.16	80.98	79.26	93.00	92.85
– loss during approval	6.61	15.73	14.81	0.00	1.55
– net loss of the current period	16.15	11.24	16.22	22.22	32.40
Own funds (after deductions)	581.01	658.18	738.83	753.21	674.61

Source: UKNF

6.3.2.1.2. Domestic electronic money institutions (KIPE)

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

Table 16. Scale of KIPE operations

Breakdown	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Number of electronic money transactions	3 288	7 494	14 849	18 135
Value of electronic money transactions (PLN)	705 430	1 110 569	1 501 119	1 751 857
Value of fees and commissions on electronic money transactions (PLN)	9 290	44 921	111 148	103 667

Source: UKNF

6.3.2.1.3. Small payment institutions (MIP)

As at the end of the fourth quarter of 2020, 38 MIPs submitted reports on the number and value of executed transactions, presenting the execution of 1.52 million payment transactions with a total value of PLN 202.12 million. The average value of a single payment transaction at MIP was PLN 133.19.

6.3.2.1.4. Payment services offices (BUP)

2020 saw a change of rules of meeting reporting obligations by payment services offices. From 1 January 2020, BUPs are not obliged to submit quarterly reports. However, under Article 128(1) point 2 of the Act on payment services, a payment services office must provide the KNF Board with information on the total value and number of payment transactions performed, including those made by its agents, in each month of a given year – by 31 January of the following year. It means that BUPs must provide data only once a year.

As at 31 December 2020, 1 340 BUPs were registered. Based on available reporting data, the number of transactions executed by BUPs amounted to ca. 36.6 million, and their value to ca. PLN 7.3 billion, with an average value of a single transaction of ca. PLN 200.

Under the applicable legislation governing the domestic market of payment services, the supervisory authority does not have the power to remove the BUPs that fail to comply with the above-mentioned requirements from the register.

6.3.3. INSPECTIONS AT DOMESTIC PAYMENT INSTITUTIONS

6.3.3.1. INSPECTIONS AT DOMESTIC PAYMENT INSTITUTIONS AND SMALL PAYMENT INSTITUTIONS (KIP/MIP): GENERAL INFORMATION

In 2020, at domestic payment institutions (which include domestic payment institutions and small payment institutions as defined by the Act of 19 August 2011 on payment services, hereinafter: 'Act on payment services'), 3 inspections were carried out to assess the quality of their management system (including internal control system), the compliance of their operations with the Act on payment services, and the quality of operational risk management.

Material irregularities identified during inspection activities at KIPs/MIPs referred to:

- operating in breach of the Act on payment services (failure to meet the requirements applying to MIPs, failure to assess the functioning of the risk management system and internal control system),
- operational risk management process (including managing business continuity and the risk related with outsourcing certain activities),
- defective functioning of a company's bodies, resulting in violation of the provisions of law, including the Act of 15 September 2000 – the Commercial Companies and Partnerships Code (Journal of Laws 2020, item 1526),
- complaint handling process (procedural deficiencies, failure to provide the Financial Ombudsman with the report specified in Article 33 of the Act of 5 August 2015 on handling complaints by financial market entities and on the Financial Ombudsman (Journal of Laws 2019, item 2279),
- failure to take account of certain standards included in the *Principles of corporate governance for supervised institutions*.

7. MORTGAGE CREDIT INTERMEDIARIES AND THEIR AGENTS

According to the Act on mortgage credit and supervision of mortgage credit intermediaries and agents (Journal of Laws 2020, item 1027; hereinafter: 'Act on mortgage credit'), mortgage credit intermediaries and their agents must be supervised by the KNF Board.

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

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

In 2020, the KNF Board entered 98 mortgage credit intermediaries in Section I of the Register of Credit Intermediaries, of which:

- 10 mortgage credit intermediaries were entered on the basis of authorisation (10 final decisions on authorisation);
- 88 mortgage credit intermediaries were entered at the request of lenders.

In 2020, the KNF Board removed 177 mortgage credit intermediaries from Section I of the Register of Credit Intermediaries, of which:

- 34 intermediaries were removed on the basis of a final decision to withdraw authorisation;

- 143 intermediaries were removed at the request from lenders for the removal of intermediaries they had registered.

As at 31 December 2020, 715 mortgage credit intermediaries were included in the register.

In the course of proceedings in respect of mortgage credit intermediaries, in 2020 the KNF Board issued: 10 final decisions to grant authorisation to operate as a mortgage credit intermediary, 1 final decision to discontinue proceedings for granting authorisation, 33 final decisions to withdraw authorisation to operate as a mortgage credit intermediary, 2 final decisions upholding the final decision to withdraw authorisation to operate as a mortgage credit intermediary, 1 final decision to repeal the decision to withdraw authorisation to operate as a mortgage credit intermediary and to discontinue proceedings for withdrawing authorisation to operate as a mortgage credit intermediary, 10 final decisions to discontinue proceedings for withdrawing authorisation to operate as a mortgage credit intermediary, and 1 final decision to discontinue appeal proceedings initiated following an application for review (the applicant withdrew the application).

In 2020, 2 entities (1 from Finland and 1 from Slovakia) were entered in the register of passport notifications concerning the operation of mortgage credit intermediaries in the Republic of Poland that benefit from the freedom to provide services; thus, as at 31 December 2020, 8 entities were included in the register.

In 2020, as part of supervision of mortgage credit intermediaries, the UKNF addressed a letter to the sector, concerning operating in the market in accordance with the law.

In 2020, the UKNF was also implementing the process of digitisation of its registers – the first stage of the project of UKNF digitisation and process improvement included the implementation of a secure and effective IT platform for registering mortgage credit intermediaries and their agents, aimed at streamlining the supervision of these entities. The new platform includes the Register of Credit Intermediaries, the Register of Agents of Mortgage Credit Intermediaries, and a register of applications submitted by these entities. Ultimately, at a further stage of works, this tool will be directly integrated with a platform being developed on the UKNF website, which will present current data from these registers and which will make it possible to search, in a simple and intuitive manner, mortgage credit intermediaries and their agents, and which will also include interactive electronic forms which can be used among others for submitting applications by interested entities.

As regards an important formal requirement for authorisation to operate as mortgage credit intermediaries, relating to the passing of the examination for mortgage credit intermediaries, referred to in Article 49(1) point 1(d) in conjunction with Article 53 of the Act on mortgage credit, the Examination Board for Mortgage Credit Intermediaries, referred to in Article 52 of the Act on mortgage credit, acted in 2020 in its full composition and conducted 2 exams (on 2 March and 18 September 2020), taken by 27 individuals, of whom 18 passed the exam.

For mortgage credit intermediaries, the Act on mortgage credit provides for the entry of agents in Section I of the Register of Credit Intermediaries at the request of a mortgage credit intermediary.

In 2020, the KNF Board:

- entered 1 607 agents in the register (each time at the request of a mortgage credit intermediary),
- removed 1 514 agents from the register (each time at the request of a mortgage credit intermediary).

As at 31 December 2020, 7 025 agents of mortgage credit intermediaries were included in the register.

8. CAPITAL AND COMMODITY MARKETS

8.1. BASIC INFORMATION

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

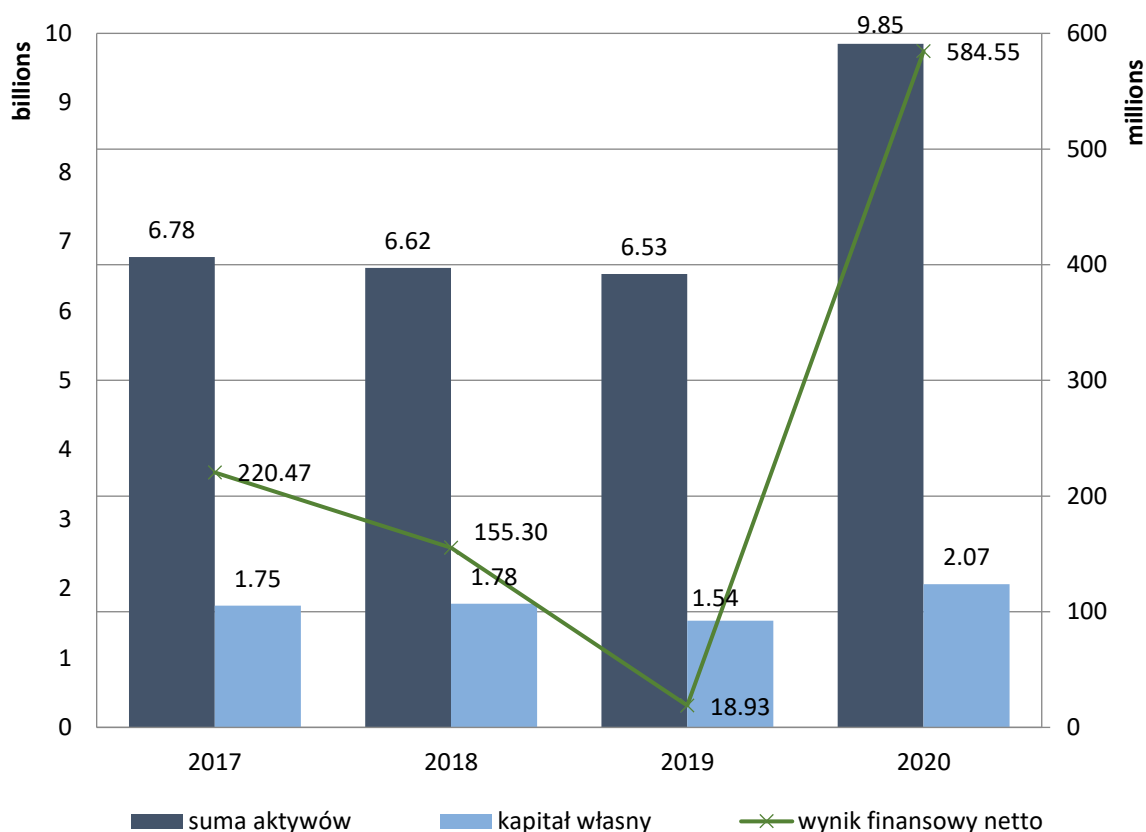
8.1.1. BROKERAGE AND FIDUCIARY ACTIVITIES

Table 17. Number of entities performing brokerage and fiduciary activities in the years 2017–2020

Type of entity	2017	2018	2019	2020
Brokerage houses	44	40	38	37
Commodity brokerage houses	1	1	1	1
Banks conducting brokerage activities	11	9	9	9
Custodian banks	13	12	12	11
Total	69	62	60	58

Source: UKNF

Diagram 17. Basic data of the sector of brokerage houses in the years 2017–2020



Source: UKNF

The data for the years 2017–2018 come from audited financial statements.

The data for 2019 come, as a rule, from audited financial statements, except for preliminary data of 2 brokerage houses which ceased their operations in 2020. The data for 2020 come from monthly MDF reports as at 31 December 2020.

The data do not include data of a brokerage house whose financial year does not coincide with the calendar year. The data take into account the changing number of brokerage houses operating in the years 2017–2020.

Table 18. Number of client accounts of brokerage houses in the years 2017–2020

Breakdown	Number of client accounts				Share in total value
	2017	2018	2019	2020	(in %) 2020
Brokerage houses	744 399	714 964	594 294	621 700	30.43
Banks conducting brokerage activities	1 192 413	1 113 066	1 335 851	1 421 078	69.57
Total	1 936 812	1 828 030	1 930 145	2 042 778	100

Source: UKNF

Table 19. Register of tied agents of investment firms at the end of the years 2017–2020

Tied agents of investment firms	2017	2018	2019	2020
Natural persons	187	244	226	215
Legal persons and organisational units without legal personality	36	41	47	43
Total	223	285	273	258

Source: UKNF

Table 20. Number of persons entered on the list of securities brokers and the total number of licensed securities brokers in the years 2017–2020

Breakdown	2017	2018	2019	2020
Number of persons entered on the list of securities brokers in a given year	37	63	73	32
Total number of licensed securities brokers	3 008	3 070	3 142	3 174

Source: UKNF

Table 21. Number of persons entered on the list of investment advisers and the total number of licensed investment advisers in the years 2017–2020

Breakdown	2017	2018	2019	2020
Number of persons entered on the list of investment advisers in a given year	87	51	45	31
Total number of licensed investment advisers	657	708	752	783

Source: UKNF

Table 22. Number of entities holding authorisation to keep accounts or registers of commodities at the end of the years 2017–2020

Type of entity	2017	2018	2019	2020
Energy company	53	56	58	58

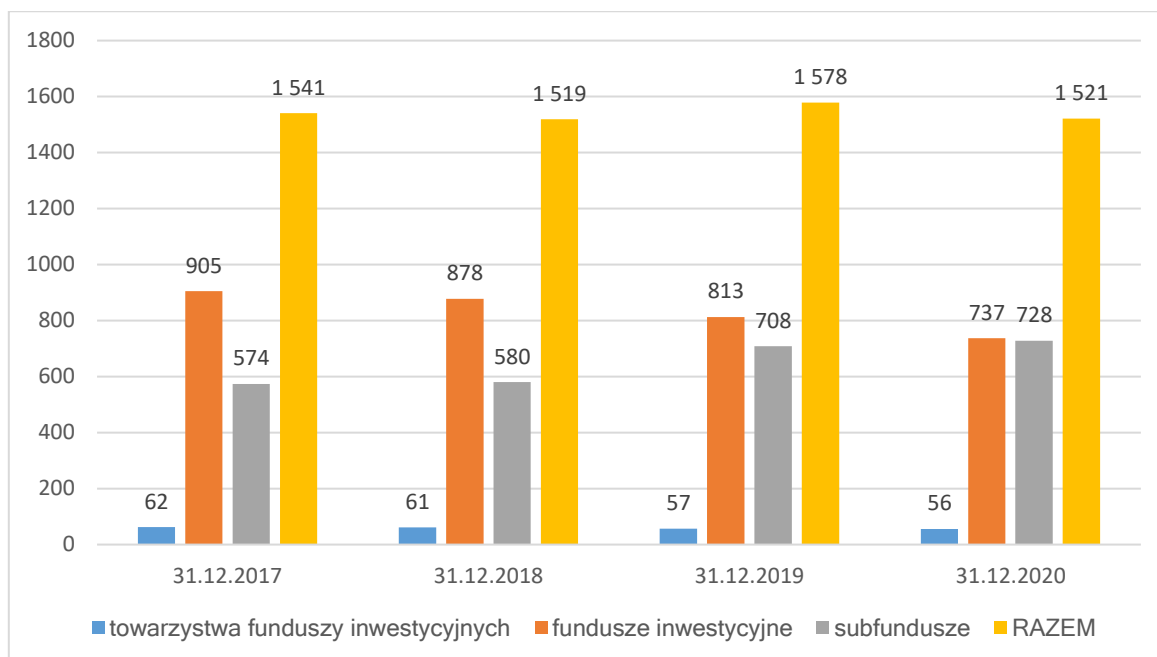
Source: UKNF

8.1.2. COLLECTIVE INVESTMENT INSTITUTIONS

As at 31 December 2020, 56 investment fund management companies, managing a total of 737 investment funds, held authorisations from the KNF Board, including: 47 open-end investment funds, 68 specialist open-end investment funds, and 622 closed-end investment funds.

In 2020, the number of investment fund management companies and investment funds decreased, but the number of sub-funds increased.

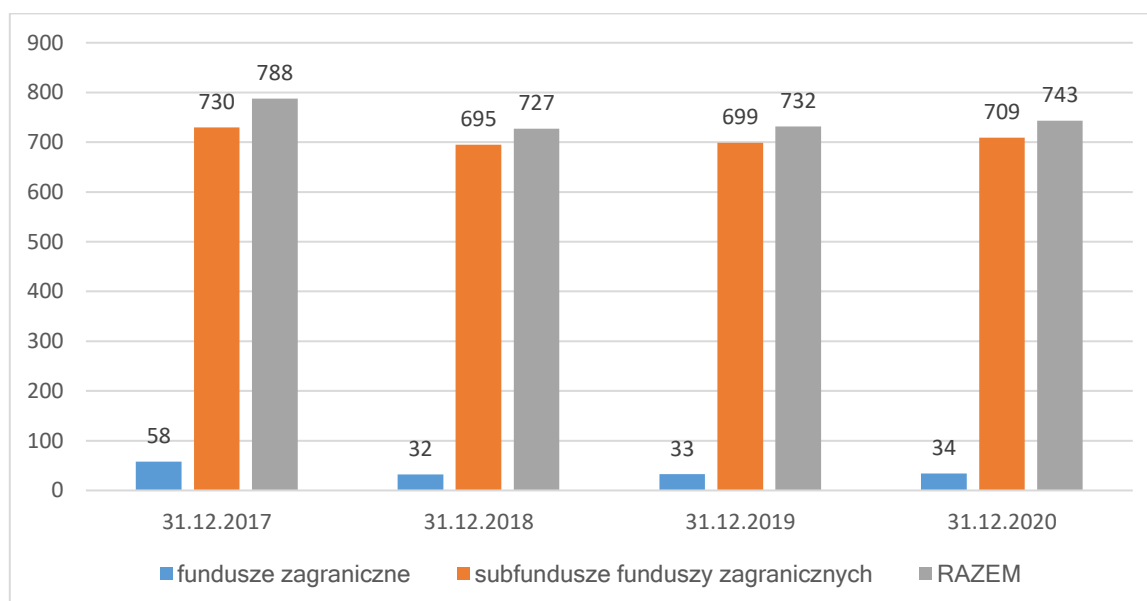
Diagram 18. Total number of supervised investment fund management companies, and investment funds and sub-funds at the end of the years 2017–2020 (cumulatively, by type)



Source: UKNF

As at 31 December 2020, 34 foreign investment funds and 709 sub-funds included in foreign investment funds were entered in the register of UCITS type foreign investment funds kept by the KNF Board.

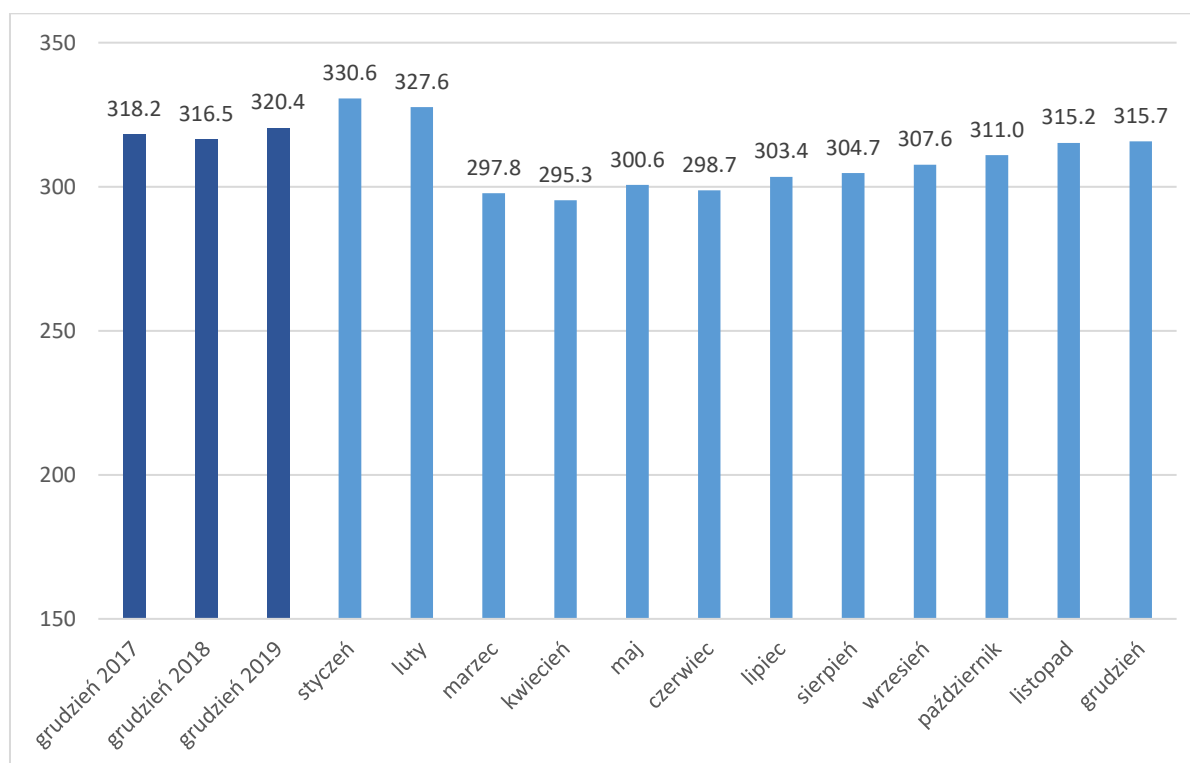
Diagram 19. Total number of supervised foreign investment funds (UCITS type) and sub-funds included in foreign investment funds at the end of the years 2017–2020 (cumulatively, by type)



Source: UKNF

Despite a strong growth in the value of investment funds' assets in January 2020 (in the amount of PLN 10.2 billion), the following three months were characterised by a downward trend, caused by the pandemic. The largest decrease took place in March, when the value of assets fell by PLN 29.8 billion, a decrease of 9% compared to the end of the previous month. In total, in the period from February to April 2020, the sum of assets of investment funds decreased by PLN 35.3 billion. The second half of the year saw a gradual increase in the value of assets of investment funds, by an average of PLN 3 billion a month. However, at the end of 2020 their total value was PLN 4.7 billion lower compared to the end of 2019.

Diagram 20. Assets of investment funds at the end of the years 2017–2019 and in 2020 (in PLN billion)³⁹



Source: UKNF

Due to a significant decrease in the value of assets of investment fund management companies in March 2020, the average value of assets as at the end of particular months of 2020 was lower than in the previous year, which contributed to reducing the total revenue generated by investment fund management companies. The total revenue in 2020 amounted to PLN 3 444 million, i.e. 3.2% less than in 2019. The total cost amounted to PLN 2 389 million, i.e. 0.8% more than in the previous year. As the revenue decreased and the costs increased, the aggregate net financial result of TFIs for 2020 was 11.5% lower than in 2020 and amounted to PLN 847 million⁴⁰.

Table 23. Aggregate costs, revenues and net financial result of investment fund management companies in the years 2017–2020 (in PLN million)⁴¹

³⁹ Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so the information included therein may be subject to subsequent corrections.

⁴⁰ Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so the information included therein may be subject to subsequent corrections.

⁴¹ Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so the information included therein may be subject to subsequent corrections.

Breakdown	2017	2018	2019	2020	
Total revenue	3 884	3 940	3 559	3 444	–
Total costs, including:	3 036	2 794	2 371	2 389	100.00%
- overhead costs	1 158	1 243	1 190	1 290	54.00%
- variable costs, including:	1 878	1 551	1 181	1 099	46.00%
- variable distribution costs*	1 398	936	521	490	20.51%
Net financial result	546	911	957	847	–

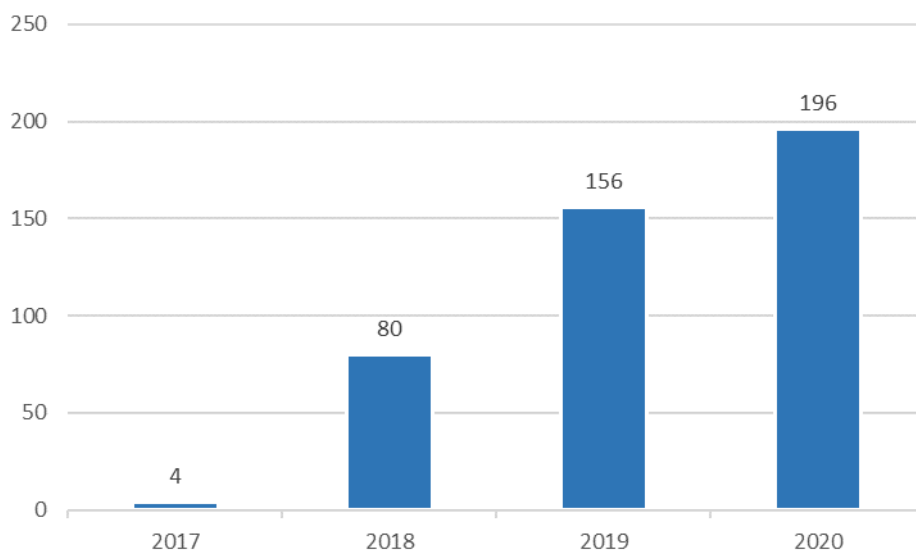
Source: UKNF

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

As at 31 December 2020, only one joint-stock company held the KNF Board's authorisation to manage alternative investment companies/partnerships (AICs), and 195 entities were entered in the Register of AICMs.

2020 saw a further increase in the number of AICMs and a further increase in the value of assets managed by these entities.

Diagram 21. Number of supervised AICMs at the end of the years 2017–2020 (cumulative)



Source: UKNF

8.1.3. ENTITIES OF THE CAPITAL AND COMMODITY MARKET INFRASTRUCTURE

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

- Giełda Papierów Wartościowych w Warszawie S.A. (GPW),
- BondSpot S.A. (BondSpot),
- Towarowa Giełda Energii S.A. (TGE),
- Izba Rozliczeniowa Giełd Towarowych S.A. (IRGiT),
- Krajowy Depozyt Papierów Wartościowych S.A. (KDPW),
- KDPW_CCP S.A. (KDPW_CCP).

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

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

- regulated market – WSE’s main market. Main instruments traded on this market are:
 - securities, i.e. shares, bonds, pre-emptive rights, rights to shares, investment certificates, and
 - financial instruments other than securities, i.e. futures contracts, options, index participation units;
- Alternative Trading System – NewConnect and ASO Catalyst, which have the status of Small and Medium-Sized Enterprises Market. This market is dedicated to young companies with a relatively small capitalisation. Main instruments traded on NewConnect are shares and rights to shares of small and medium-sized companies. Main instruments traded on ASO Catalyst are debt instruments.

In 2020, there was a slight decrease in the capitalisation of public companies listed on WSE compared with the previous year. Total capitalisation amounted to more than PLN 1 068 billion, which represents a decrease of more than 3% compared with the previous year.

Table 24. Capitalisation of the Main WSE Market at the end of the years 2017–2020 (PLN million)

Breakdown	2017	2018	2019	2020
Domestic companies	670 976	578 937	550 243	538 752
Foreign companies	708 882	549 571	553 603	529 899
Total	1 379 858	1 128 508	1 103 846	1 068 651

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

In 2020, there was a sharp increase in the value of NewConnect listed companies compared to the previous year. The total capitalisation amounted to more than PLN 19 billion, which represents a decrease of more than 103% compared with 2019.

Table 25. Capitalisation of the NewConnect at the end of the years 2017–2020 (PLN million)

Breakdown	2017	2018	2019	2020
Domestic companies	9 409	7 151	9 095	18 669
Foreign companies	208	235	610	1 091
Total	9 617	7 386	9 714	19 760

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

In 2020, both the WSE and NewConnect saw a significant increase in trading compared to the previous year.

Table 26. Value of trading in shares (PLN million) – Main Market and NewConnect

Breakdown	2017	2018	2019	2020
Trading value – Main Market	260 979	211 850	195 266	311 124
Trading value – NewConnect	1 468	1 660	1 533	14 942

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

8.1.3.2. BONDSPOT S.A.

BondSpot S.A. operates as part of:

- regulated market – main instruments traded there are treasury bonds, corporate bonds, cooperative bonds and other debt securities,

- alternative trading system – instruments traded there may include dematerialised bonds, mortgage bonds and other debt instruments incorporating property rights corresponding to the rights resulting from debt incurred,
- Treasury BondSpot Poland (TBSP) – it is a market for wholesale trading in treasury bonds, treasury bills (minimum trading unit is PLN 5 million), organised according to the formula of the alternative trading system. TBSP is operated under an agreement with the Ministry of Finance.

The highest turnover is observed on the TBSP market. In the recent years, it has been significantly decreasing.

Table 27. Trading value (PLN billion) – TBSP BondSpot S.A.

Breakdown	2017	2018	2019	2020
Trading value	534	407	282	169

Source: UKNF, based on https://www.bondspot.pl/statystyki_TBSPoland

8.1.3.3. TOWAROWA GIEŁDA ENERGII S.A.

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

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

As an OTF, TGE operates the following markets:

- Rynek Terminowy Produktów z dostawą energii elektrycznej (RTPE) (commodity forward market with physical delivery of electricity),
- Rynek Terminowy Produktów z dostawą gazu (RTPG) (commodity forward market with physical delivery of gas),
- Rynek Terminowy Praw Majątkowych (RTPM) (forward market with physical delivery of property rights resulting from Certificates of Origin from renewable energy sources (RES)).

As a regulated market, TGE operates Rynek Instrumentów Finansowych (RIF) (financial instruments market), on which currently the EU Allowances (EUA) are traded (cash trading in Emission Allowances).

The trading in electricity and natural gas is the most developed. In the period from 2017 to 2020, the number of TGE members stabilised. In this period, the electricity and natural gas trading volume significantly increased – from 251 TWh in 2017 to 394 TWh in 2020.

Table 28. Number of members and volume of trading in electricity and natural gas (TWh) – TGE commodity market

Breakdown	2017	2018	2019	2020
Number of members	72	76	77	76
Trading volume	251	369	375	394

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

8.1.3.4. THE COMMODITY CLEARING HOUSE (PL: IZBA ROZLICZENIOWA GIEŁD TOWAROWYCH S.A.)

Izba Rozliczeniowa Giełd Towarowych S.A. (IRGiT) settles all transactions carried out on markets operated by TGE.

As a clearing and settlement house, IRGiT settles transactions carried out on the regulated market and on the organised trading facility (financial instruments).

As an exchange clearing house, IRGiT settles all transactions carried out on the commodity exchange and on the organised trading facility (wholesale energy products which are not financial instruments).

In 2020, the KNF Board exercised licence supervision and ongoing supervision of IRGiT related to IRGiT's operations.

8.1.3.5. NATIONAL DEPOSITORY FOR SECURITIES (PL: KRAJOWY DEPOZYT PAPIERÓW WARTOŚCIOWYCH S.A.)

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

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

The activity of the National Depository for Securities in this regard is subject to the KNF Board's licence supervision and ongoing supervision. In 2020, the KNF Board conducted supervisory activities laid down in the law towards this entity.

8.1.3.6. KDPW_CCP S.A.

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

KDPW_CCP clears transactions entered into:

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

KDPW_CCP clears transactions in PLN and EUR.

KDPW_CCP organises the system for securing the liquidity of settlements, consisting of:

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

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

8.1.3.7. PUBLIC OFFERINGS OF FINANCIAL INSTRUMENTS OTHER THAN INVESTMENT CERTIFICATES

Following the entry into force on 21 July 2019 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC, the definition of public offer of securities was expanded to include more cases in which the public offer takes place. According to the new definition, which applies already since mid-2019, an offer of securities to the public is a communication to persons (i.e. to at least 2 persons) in any form and by any means, presenting sufficient information on the terms of the offer and the securities to be offered, so as to enable an investor to decide to purchase or subscribe for those securities. As a result of changing the definition of public offering, 2020 saw a significant increase in the number and value of public offerings of shares conducted in Poland, as compared to previous years.

The number of offerings conducted in 2020 reported to the KNF Board in the Register of Shares increased almost fivefold and amounted to 364, and the total value of public offerings of shares amounted to over PLN 13 887.95 million, which was a significant increase compared to the previous year (from PLN 1 045.73 million).

Table 29. Value and number of public cash offerings in the years 2017–2020

Year	2017		2018		2019		2020	
Breakdown	Number of offerings	Value (in PLN million)	Number of offerings	Value (in PLN million)	Number of offerings	Value (in PLN million)	Number of offerings	Value (in PLN million)
Public issue of shares	71	2 184.62	46	1 047.71	58	683.40	250	3 440.16
Public offerings of shares	51	7 047.82	20	331.27	19	362.33	114	10 447.79
Total public offerings	122	9 232.44	66	1 378.98	77	1 045.73	364	13 887.95
including								
Initial public offerings*	10	7 501	9	312	6	50.8	18	11 075.28

Source: UKNF

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

The year 2020 definitely stood out compared to previous years with regard to the number and value of conducted public offerings. Growth was reported both with regard to the number of public offerings and the value of capital raised via public offerings of shares and the sale of shares as a result of conducted public offerings.

The total value of public offerings of shares in 2020 amounted to PLN 13 887.95 million, including the value of share subscriptions of PLN 3 440.16 million, and the value of public offerings of shares of PLN 10 447,79 million. 2020 saw a record high value of initial public offerings – it amounted to over PLN 11 075 billion, compared to nearly PLN 51 million in 2019. This significant growth was mainly caused by the initial public offering of Allegro.eu.

2020 also saw a record number of public offerings launched using crowdfunding platforms. As part of 50 public offerings of shares launched in 2020, nearly PLN 76.8 million was raised.

Despite the COVID-19 pandemic which started at the turn of the first and second quarter of 2020, the second quarter of 2020 saw the highest number of payments towards shares and

the highest number of active public offerings on platforms; in 2020, 1/5 of issuers who decided to conduct a public offering in the crowdfunding formula used the services of platforms for the second time. 40% of offerings launched on platforms in 2020 reached 100% of the issue target.

8.2. KEY ACTIVITIES

8.2.1. THE SUPERVISORY INITIATIVES PACKAGE RELATED TO THE COVID-19 PANDEMIC

The Act of 31 March 2020 amending the Act of 2 March 2020 on special solutions related to the prevention, counteracting and combating of COVID-19, other infectious diseases and emergencies caused by them (Journal of Laws 2020, item 374, as amended) provides for a derogation from the requirement of approval, by the KNF Board, of the information memorandum specified in Article 38b(1) of the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies. Due to this regulation, issuers are only obliged to draw up and publish such information memorandum in the manner laid down in the Act. The KNF Board's approval is not required. This solution entered into force on 31 March 2020 and will apply for the duration of the state of epidemic or epidemic threat and one month after the declaration of such a state is lifted.

Moreover, as part of the Supervisory Stimulus Package for the Capital Market, the UKNF extended the time limits for preparing, approving and publishing annual financial statements and consolidated annual financial statements of KNF-supervised entities; the time limit for publishing quarterly reports and consolidated quarterly reports of issuers for the first quarter of the financial year starting on 1 January 2020; the time limit for holding the Annual General Meeting, and the time limit for approving the remuneration policy.

8.2.2. LAUNCHING THE REGISTER OF SHARES (SEA)

On 1 January 2020, the UKNF launched the Register of Shares (System Ewidencji Akcji – SEA) which includes basic data on public offerings of shares and on admitting shares to trading on a regulated market/introduction of shares to trading in the alternative trading system. The Register of Shares replaced the Register of Financial Instruments. As opposed to the previous register, SEA does not include other securities such as bonds, mortgage bonds and investment certificates; moreover, the entries related to admitting/introduction to trading are made by the issuers themselves. The UKNF reviews the entry for completeness and then publishes it within 5 business days in a publicly available register on the KNF website at ewidencjaakcji.knf.gov.pl.

8.2.3. ESEF (EUROPEAN SINGLE ELECTRONIC FORMAT)

The initial assumptions of EU legislation provided that issuers of securities admitted to trading on a regulated market in the European Union will prepare their financial reports in the European Single Reporting Format (ESEF), starting from the reports for 2020. The most important and most demanding element of ESEF is the obligation to tag, in detail, the positions in the main parts of IFRS/IAS financial statements. In order to prepare for ESEF-compliant reporting, in 2020 the UKNF adapted the Electronic Information Transfer System (ESPI) to support the receipt, technical validation and publication of ESEF-compliant annual reports. In October 2020, the solution was tested, with the participation of issuers.

As at 31 December 2020, EU institutions were processing amendments to the law which would postpone the obligation to prepare reports in accordance with the ESEF requirements. Nevertheless, issuers which prefer to prepare and publish their annual reports for the last financial year in ESEF are allowed to do so.

8.2.4. CAN PROJECT – CROWDFUNDING

The UKNF's team participating in the project 'New developments in the financial market', carried out within the framework of the Digital Supervisory Agenda (Cyfrowa Agenda Nadzoru – CAN), was preparing draft regulations which introduce into the Polish legal system the provisions of Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937 (OJ L 347 of 20 October 2020).

The work of the UKNF consisted mainly in adapting the existing regulations to changes related to increasing the threshold for proceeds from issue of securities which does not require a prospectus, from EUR 2.5 million to EUR 5 million – with regard to all public offerings, regardless of their form.

In addition, the UKNF prepared draft regulations which standardise the information requirements to be met by issuers, whether they use the intermediation of an investment firm or a social financing service provider, by replacing the information memorandum and information document by Key investment information sheet – if the offering is conducted via an investment firm.

8.2.5. ACTIVITIES OF THE UKNF WORKING TEAM FOR GOLD-PLATING

In 2020, representatives of the UKNF's working team for gold-plating participated in consultations with entities from all capital market sectors in order to identify regulations which are redundant in relation to EU regulations. The team analyses the legislation which has been identified during said consultations, and checked whether such legislation really meets the criteria for gold-plating, and assessed whether such legislation is a barrier to the development of the Polish capital market. Members of the team also participated in preparing and assessing the proposals for modifying the regulations which were earlier classified as redundant.

8.2.6. KNF BOARD'S ACTIVITIES TOWARDS CAPITAL AND COMMODITY MARKET INFRASTRUCTURE ENTITIES

- The National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A. – KDPW) obtained the KNF Board's authorisation to operate as a central depository for securities in accordance with the CSDR. By obtaining the authorisation, KDPW confirmed its readiness to provide services in the area of, e.g., registering securities and keeping a deposit and settlement system for securities. As a result, the entities which use KDPW services gained a partner meeting highest European standards. The obtained authorisation enables KDPW to offer services in the entire European market.
- In accordance with the company's request, the KNF Board conducted the proceedings of notifying the KDPW operations in other European countries. As a result of conducted notification proceedings, since the day of obtaining authorisation, KDPW has been authorised to the first registration of the securities of issuers based in the Netherlands, Cyprus and Luxembourg.
- The KNF Board conducted proceedings in relation to expanding the operations of KDPW S.A. as a central depository for securities with regard to the provision by KDPW S.A. of a non-bank auxiliary service, i.e. reporting to the transaction repository. Granting the authorisation will help entities operating in the market to perform obligations imposed on them by British law, related with the need to report detailed information on performed transactions. As a result of the issued decision, KDPW is authorised to perform the service consisting in reporting transaction data to the British transaction repository on behalf of its customers.
- At the request of KDPW S.A., the KNF Board conducted proceedings related to adapting the Rules of KDPW to SRD II and its implementing provisions. The approved amendments

to the Rules will streamline the flow of information between the company and its shareholders relating to the organisation of the General Meeting, and will also help the company to identify its shareholders, which should ultimately contribute to improving communications between the company and its shareholders.

- Towarowa Gielda Energii S.A. (TGE) obtained the KNF Board's authorisation to operate an organised trading facility. Obtaining the authorisation to operate an OTF by TGE confirms that TGE has adapted to the requirements resulting from the EU's MiFID II/MiFIR legislative package. It is also the first Polish system for trading in financial instruments operating as an OTF.
- TGE obtained the KNF Board's authorisation to operate an auction platform for primary trading in CO₂ Emission Allowances. The EU emissions trading system is based on Member States selling their Emission Allowances on auction platforms. The KNF Board's authorisation for TGE will make it possible to sell the Polish volume of Emission Allowances on an auction platform operated by TGE. Apart from the EEX exchange in Leipzig, TGE is the only regulated market in the EU which holds such authorisation.
- KDPW_CCP provided the service of clearing IRS transactions for WIBOR 1M with the tenor extended to 20 years. To date, the clearing service covered only tenors of up to 3 years. Thus, the tenor of transactions accepted for clearing is the same for all IRS transactions based on WIBOR 1M, 3M and 6M and amounts to 20 years.

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

8.3.1. LICENSING ACTIVITIES

8.3.1.1. INVESTMENT FIRMS AND CUSTODIAN BANKS

In 2020, the KNF Board issued 1 final decision on granting authorisation to conduct brokerage activities for an entity which does not have an investment firm status, 5 final decisions on extending brokerage activities, 1 final decision on withdrawing authorisation to conduct brokerage activities, and 3 final decisions on withdrawing authorisation to conduct brokerage activities in part, 1 final decision on withdrawing authorisation to conduct fiduciary activities and 3 final decisions on approval of the appointment of president of the management board of a brokerage house or member of the management board of a brokerage house responsible for supervising the risk management system.

The KNF Board also issued 14 final decisions to discontinue proceedings – 3 final decisions on expanding the authorisation to conduct brokerage activities, and 11 final decisions on approval of the appointment of president of management board of a brokerage house or member of management board of a brokerage house responsible for supervising the risk management system. In that period, 1 set of proceedings on extending brokerage activities and 1 set of proceedings on approval of the appointment of member of the management board of a brokerage house for risk management were suspended.

As at 31 December 2020, pending applications included 3 applications for authorisation to conduct brokerage activities by entities which do not have an investment firm status, 6 applications for extending brokerage activities and 4 applications for approval of the

appointment of president of management board of a brokerage house or member of management board of a brokerage house responsible for supervising the risk management system.

In 2020, 1 notification of the intention to acquire or take up shares in brokerage houses was considered. The KNF Board did not raise any objections.

As at 31 December 2020, 2 proceedings were pending regarding the notification of the intention to acquire or take up shares in a brokerage house.

8.3.1.2. TIED AGENTS OF INVESTMENT FIRMS

As of 31 December 2020, the register of tied agents of investment firms contained 258 entities, including 43 legal persons and non-corporate entities and 215 natural persons.

In 2020, 7 natural persons and 3 legal persons and non-corporate entities were entered in the register of tied agents of investment firms. Under Article 79(9) point 2 of the Act on trading in financial instruments, the KNF Board issued 25 final decisions to remove tied agents of investment firms from the register. The KNF Board discontinued 4 proceedings in respect of entry in the register of tied agents of investment firms.

As at 31 December 2020, pending applications included 12 applications for entry in the register of tied agents of investment firms.

8.3.1.3. SECURITIES BROKERS

As at 31 December 2020, there were 3 174 licensed securities brokers. In 2020, 32 persons were entered on the list of securities brokers.

In 2020, one exam for securities brokers was held. 105 persons took the exam and 27 persons passed it. So far, 3 351 persons have passed the exam for securities brokers.

8.3.1.4. INVESTMENT ADVISERS

As at 31 December 2020, there were 783 licensed investment advisers. In 2020, 31 persons were entered on the list of investment advisers.

Due to the need of preventing and fighting COVID-19, one partial exam for investment advisers was held. It was the first stage, held on 13 September 2020. The exam was passed by 5 persons. Moreover, 1 aptitude test was held, which was passed by 6 persons. The Regulation of the Council of Ministers of 9 October 2020 on the establishment of certain restrictions, orders and prohibitions in connection with the occurrence of a state of epidemic specifies a catalogue of state exams which may be held during the state of epidemic. The exam for investment advisers has not been included as an exception in this regulation.

8.3.1.5. BROKERAGE AND FIDUCIARY ACTIVITIES

In 2020, one entity obtained authorisation to conduct brokerage activities, and at the request of two brokerage houses, the KNF Board issued final decisions on withdrawing authorisation to conduct brokerage activities. Moreover, as one of brokerage houses limited the scope of its brokerage activities, the KNF Board issued 1 final decision on the transfer of financial instruments and funds and documents relating to account keeping referred to in Article 69(4) point 1 of the Act on trading in financial instruments. At the request of one bank, the KNF Board issued a decision revoking authorisation to conduct fiduciary activities.

8.3.1.6. NOTIFICATION OF INVESTMENT FIRMS

In the period covered by this report, the KNF Board submitted 1 notification of an investment firm's intention to conduct brokerage activities in another Member State without a branch. Two brokerage houses ceased their cross-border activities in the United Kingdom due to Brexit. As at 31 December 2020, the KNF Board did not conduct any proceedings in respect of notification of the intention of Polish investment firms to conduct brokerage activities in other Member States.

The KNF Board received 2 notifications of a foreign investment firm's intention to conduct brokerage activities in the Republic of Poland through a branch. 3 foreign investment firms ceased their brokerage activities in Poland through a branch. In addition, due to the end of the transition period related to the United Kingdom's withdrawal from the European Union on 31 December 2020, the existing rights resulting from the United Kingdom's membership in the European Union, i.e. the freedom to provide investment services and conduct investment activities in the European Union, ceased to apply. Therefore, as of the end of 2020, 7 entities which notified their intention to conduct brokerage activities through a branch in Poland from the United Kingdom are no longer allowed to conduct those activities in Poland.

Table 30. Number of notified foreign investment firms at the end of the years 2017–2020

Type of entity	2017	2018	2019	2020
Foreign investment firms – a branch	14	15	18	17*

Source: UKNF

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

Table 31. Number of Polish investment firms which notified their intention to conduct brokerage activities outside the Republic of Poland as at the end of the years 2017–2020

Type of entity	2017	2018	2019	2020
Brokerage houses (number of branches)	2 (8)	2 (8)	2 (8)	3 (9)
Brokerage houses without a branch	11	12	11	11

Source: UKNF

8.3.2. SUPERVISORY ACTIVITIES

8.3.2.1. ONGOING SUPERVISION OF INVESTMENT FIRMS

In 2020, the supervision over the activities of investment firms comprised an analysis of monthly reports and current reports of 38 brokerage houses and 7 banks providing investment services, as well as annual financial statements for 2019, semi-annual financial statements for the first half of 2020, and reports on capital adequacy of brokerage houses. In total the review covered over 5.5 thousand reports submitted through the Electronic Information Transfer System (ESPI). In 2020, consolidated financial statements for 2019 and reports of brokerage houses concerning capital adequacy of brokerage houses on a consolidated basis, submitted in accordance with the provisions in force, were also analysed. Out of 38 brokerage houses indicated above, 2 brokerage houses ceased brokerage in 2020.

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

As part of the supervision over the application, by brokerage houses, of the legislation on capital adequacy, 13 final decisions and 1 interim decision were issued.

As part of ongoing supervision, the details of KNF-supervised entities presented on the KNF website were updated. Quarterly financial data and quarterly data on capital adequacy of brokerage houses were also published. 'Report on the financial standing of brokerage houses in 2019' was presented at the KNF Board's meeting.

The review of financial reporting shows an improvement of the situation of the sector in 2020, which resulted from customers' increased interest in investing in financial instruments due to low interest rates. Tables 32–34 show basic information about the financial standing and capital adequacy of the sector.

Table 32. Average value of own funds (in PLN million), total risk exposure amount (in PLN million) and total capital ratio of brokerage houses in the years 2017–2020

Breakdown	2017	2018	2019	2020
Average level of own funds	34.83	39.30	38.80	44.70
Average total risk exposure amount	141.54	127.14	155.19	162.86
Total capital ratio	24.61%	30.91%	25.00%	27.45%

Source: UKNF

The data come from quarterly COREP reports as of 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020.

The data take into account the changing number of brokerage houses operating in the years 2017–2020.

Table 33. Basic data from the balance sheets of brokerage houses (in PLN million) for the years 2017–2020

Balance sheet item	2017	2018	2019	2020
I. Cash and cash equivalents	4 391.39	4 437.24	4 207.57	6 321.63
II. Short-term receivables	1 608.56	1 425.81	1 642.08	2 338.85
III. Financial instruments held for trading	260.81	223.72	286.90	834.40
IV. Short-term prepayments and accruals	14.77	14.86	15.95	17.85
V. Short-term loans	8.13	18.40	11.85	2.43
VI. Financial instruments held to maturity	93.21	100.55	26.03	28.47
VII. Financial instruments available for sale	225.91	230.37	179.94	138.53
VIII. Long-term receivables	6.58	9.04	16.47	22.69
IX. Long-term loans	8.09	8.77	15.99	8.95
X. Intangible assets	33.66	33.65	22.34	25.32
XI. Tangible fixed assets	67.00	62.21	65.26	58.02
XII. Long-term prepayments and accruals	58.05	52.53	40.34	50.48
XIII. Called-up share capital not paid	0.00	0.00	0.00	0.00
XIV. Own shares	2.35	1.20	1.19	0.00
TOTAL ASSETS	6 778.51	6 618.35	6 531.91	9 847.62
I. Short-term liabilities	4 884.31	4 717.30	4 892.55	7 631.10
II. Long-term liabilities	6.63	9.52	18.75	15.67
III. Accruals	57.49	43.39	25.97	40.83

IV. Provisions for liabilities	64.70	53.66	54.77	92.77
V. Subordinated debt	13.06	13.84	0.71	1.77
VI. Equity capital	1 752.32	1 780.64	1 539.16	2 065.48
TOTAL LIABILITIES	6 778.51	6 618.35	6 531.91	9 847.62

Source: UKNF

The data for the years 2017–2018 come from audited financial statements.

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

The data for 2020 come from monthly MDF reports as of 31 December 2020.

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

The data take into account the changing number of brokerage houses operating in the years 2017–2020.

Table 34. Basic data from the profit and loss account of brokerage houses (in PLN million) for the years 2017–2020

Item of the profit and loss account	2017	2018	2019	2020
I. Revenue from core activities, including:	775.29	640.28	456.11	624.78
1. Revenue from investment services and activities	724.90	569.9	401.45	566.51
2. Revenue from other core activities	50.39	70.38	54.66	58.27
II. Costs of investment services and activities	889.10	857.36	725.07	885.58
III. Profit (loss) on core activities (I–II)	-113.81	-217.08	-268.96	-260.80
IV. Revenue from financial instruments held for trading	419.21	391.81	330.05	1081.96
V. Costs of financial instruments held for trading	45.02	37.53	30.78	136.15
VI. Profit (loss) on operations of financial instruments held for trading (IV–V)	374.19	354.28	299.27	945.81
VII. Revenue from financial instruments held to maturity	1.90	2.06	0.49	0.45
VIII. Costs of financial instruments held to maturity	0.48	0.21	0.01	0.01
IX. Profit (loss) on operations of financial instruments held to maturity (VII–VIII)	1.42	1.85	0.48	0.44
X. Revenue from financial instruments available for sale	31.50	37.75	12.15	23.49
XI. Costs of financial instruments available for sale	13.19	8.46	22.67	11.76
XII. Profit (loss) on operations of financial instruments available for sale (X–XI)	18.31	29.29	-10.52	11.73
XIII. Other operating revenues	29.22	29.87	26.62	43.21
XIV. Other operating costs	35.76	41.18	27.69	36.85
XV. Profit (loss) on operating activities (III+VI+IX+XII+XIII–XIV)	273.57	157.03	19.2	703.54
XVI. Financial revenues	48.13	55.3	42.19	32.06
XVII. Financial costs	48.21	18.2	14.16	20.64
XVIII. Gross profit (loss) (XV+XVI–XVII)	273.49	194.13	47.23	714.96
XIX. Income tax	53.02	38.83	28.57	130.40
XX. Other statutory reductions in profit (increases in loss)	0.00	0	-0.27	0.01
XXI. Net profit (loss) (XVIII–XIX–XX)	220.47	155.3	18.93	584.55

Source: UKNF

The data for the years 2017–2018 come from audited financial statements. As a rule, the data for 2019 come from audited financial statements, except for preliminary data of 2 brokerage houses which ceased their operations in 2020. The data for 2020 come from monthly MDF reports as of 31 December 2020. The data do not include data of a brokerage house whose financial year does not coincide with the calendar year. The data take into account the changing number of brokerage houses operating in the years 2017–2020.

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

The KNF Board prepared the SREP methodology for evaluating brokerage houses in 2020. In the period covered by this report, the process of supervisory evaluation of brokerage houses was carried out. The evaluation covered 36 brokerage houses. Due to the epidemic situation related to the spread of COVID-19, special rules for supervisory review and evaluation were introduced in 2020. All brokerage houses were subject to evaluation in a simplified formula based on analysis of information provided by brokerage houses in the fulfilment of information requirements resulting from legislation and information received from brokerage houses relating to acting based on the findings of the previous SREP. The evaluation was carried out as at 31 December 2019.

The Report on the Supervisory Review and Evaluation Process (SREP) for Brokerage Houses in 2019 was presented at the KNF Board's meeting.

8.3.3 INSPECTION ACTIVITIES

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

In 2020, 4 inspections commenced in 2019 were completed and until 31 December 2020, another 6 inspections were conducted. Due to the requirements related to the state of epidemic, starting from the 2nd quarter of 2020 inspections were carried out mostly with the use of electronic means of communication. In accordance with the Supervisory Stimulus Package for Security and Development of the capital market, the number of planned inspections was limited and their duration extended due to the fact that the entities in question operated remotely and had to prioritise ongoing customer service.

In 2020, the entities under inspection included: 3 brokerage houses, 3 banks referred to in Article 70(2) of the Act on trading in financial instruments, 2 tied agents of investment firms, 1 bank conducting brokerage activities and 1 bank operating under Article 113 of the Act on trading in financial instruments.

In 2020, the inspections:

- were dedicated to specific problems and included selected issues in the field of the activities which are licensed in the Republic of Poland,
- included the evaluation of facts in relation to legislation, as a rule, after the introduction of amendments which implement MiFID II,
- were aimed at finding out whether the entity acts in the best interest of the client, and how it is ensured.

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

- providing the service of offering financial instruments, taking into account the evaluation of the issuer, the reliability of preparing securities notes, and cooperation with other entities when searching for investors,

- providing the service of acceptance and transmission of orders, including those related to the service of offering financial instruments,
- preparing and conducting classification to target groups and defining the distribution strategy in relation to the requirements on product governance,
- recording the activities performed towards clients in relation to providing investment services, also as part of direct contacts with customers,
- training and qualifying authorised employees and supervision over unauthorised employees,
- accepting and giving ‘incentives’,
- performing activities by a tied agent of an investment firm,
- investment firm’s supervision over a tied agent of an investment firm.

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

- organisational structure and technical conditions of the business, including IT systems,
- the functioning of the internal control system, the system of supervision over compliance of the business with the law, and the internal audit system,
- supervision of a brokerage house over the bank’s activities referred to in Article 113 of the Act on trading in financial instruments,
- performance of activities by a bank conducting brokerage activities at a separate organisational unit,
- performance of brokerage activities in connection with the provision of brokerage services,
- performance of the activities referred to in Article 70(2) of the Act on trading in financial instruments,
- rules of conduct in relations with a client.

The subject matter of individual inspections depended on the scope and size of business, taking into account events and phenomena recorded in the capital market in relation to providing brokerage services.

The inspections also covered a review of how and to what extent the examined entities apply:

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

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

- Act of 29 July 2005 on trading in financial instruments (Journal of Laws 2020, item 86, as amended),
- Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (OJ L 87 of 31 March 2017),
- Regulation of the Minister of Finance of 30 May 2018 on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws 2020, item 1920),
- Regulation of the Minister of Finance of 29 April 2018 on detailed technical and organisational conditions for investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks (Journal of Laws 2018, item 1111),
- internal regulations of investment firms, regulations for the provision of brokerage services and agreements concluded by investment firms with clients with respect to the provision of brokerage services.

Table 35. Most common irregularities identified during inspection activities in 2020 in the area of organisational structure, functioning and technical conditions for the operation of investment firms and banks referred to in Article 70(2) of the Act on trading in financial instruments

Organisational structure, functioning and technical conditions for the operation of investment firms and banks referred to in Article 70(2) of the Act on trading in financial instruments	
1.	Failure to identify the compliance with legislation at a bank referred to in Article 70(2) of the Act on trading in financial instruments.
2.	Failure to verify the investment firm's compliance with its decisions and procedures by establishing, implementing and maintaining an ineffective internal control system.
3.	Failure to implement control mechanisms which verify the performance of obligations related to investing in financial instruments by the persons involved.
4.	Failure to properly perform risk assessment in the area of brokerage services in relation to developing and implementing the supervision over compliance of operations with legislation at an investment firm.
5.	Determining the remuneration for Supervision Inspector in the contract in a manner which may potentially affect their objectivity when exercising their function.
6.	Failure to introduce processes which document appointing and dismissing internal auditors, rules of preparing reports which document the work of an internal auditor, and reliable solutions for distributing the data from internal audit reports to senior management at an investment firm.
7.	Failure to properly secure electronic data created during the performance of brokerage activities, to implement adequate procedures and a control process.
8.	Failure to develop and implement a business continuity plan which would adequately mitigate the risk of adverse internal and external events that might cause a serious disruption to the operations of an investment firm.
9.	Failure to develop and implement adequate procedures which govern the access to IT systems and subsystems and access control, in the area of protecting IT systems from criminal attempts at gaining access to those systems.
10.	Failure to analyse notes made after an appointment with the customer for the purpose of recording material information related to conversations in the direct presence of a customer.
11.	Failure to register, store and archive electronic correspondence between the bank's employees and customers in relation to activities referred to in Article 70(2) of the Act on trading in financial instruments.
12.	Allowing employees to contact customers electronically via sms and mms messages while failing to define and regulate those channels as permitted electronic communication, as a result of which this correspondence with customers is not registered, archived and controlled.
13.	Making phone calls, sending or receiving correspondence by employees with the use of equipment which does not register phone calls and/or archive electronic communication, and has not been approved for use by an investment firm or bank referred to in Article 70 of the Act on trading in financial instruments.
14.	Failure to train employees on providing general advice.
15.	Failure to ensure that brokerage activities are entrusted to involved persons in a manner which ensures proper, fair and reliable performance of such activities, due to failure to properly define the scope of their obligations.
16.	Failure to ensure that the remuneration rules applicable at an investment firm apply when developing, implementing and monitoring the strategy for remunerating the employees of tied agents of investment firms.
17.	Failure to analyse the places of work and activities performed by employees of a tied agent of an investment firm, if they are employed by another employer than the tied agent or run their own business, in relation to possible conflicts of interest.

18.	Investment firm's failure to apply technical and organisational solutions to ensure the safety of the provided brokerage services, by entrusting the activities related with these services to involved persons (contractors) outside the firm's registered office and failure to properly supervise these activities.
19.	Failure by the investment firm to effectively supervise a tied agent, as the agent being a natural person was allowed to grant further powers of attorney (prohibited sub-agency).
20.	Failure by the investment firm to exercise supervision with regard to conflict of interest due to the employment of employees of a tied agent being a legal person at other employers or due to such employees running their own business.
21.	Failure to ensure the recording of all relevant information relating to the conversations of a tied agent in the direct presence of a customer.
22.	Failure by the investment firm to properly supervise the activities of a tied agent of an investment firm

Source: UKNF

Table 36. Most common irregularities identified during inspection activities in 2020 in the area of conduct in relations with the client by investment firms, tied agents of investment firms, and banks referred to in Article 70(2) of the Act on trading in financial instruments

Conduct in relations with the client	
1.	Failure to efficiently monitor the adopted procedures in the area of applying legislation on product governance.
2.	Adopting, in the customer service process, solutions which make it possible to acquire or take up a financial instrument even if based on available information and data the investment firm concludes that a given financial instrument does not correspond to the needs and characteristics of existing and/or potential clients.
3.	Offering the acquisition of financial instruments to clients for whom a given product is not appropriate.
4.	Taking activities encouraging an existing or potential client not to present information which would make it possible to assess whether the offered financial instrument is appropriate for them.
5.	Providing clients with unreliable and misleading information, also through a tied agent of an investment firm.
6.	Failure to properly qualify activities aimed at acquiring a financial instrument outside the target group, as taken on the client's own initiative.
7.	Providing clients with an offer of financial instruments from a negative target group, particularly in relation to offering financial instruments or accepting and transferring orders to buy or sell financial instruments.
8.	Failure to provide electronic notification which includes a website address and the exact location on the website where information required by law can be found, before the client becomes bound by the agreement for providing investment services, or before such services are provided.
9.	Failure to inform the client on the content of amendment to the rules for providing brokerage services at such a date that the client can terminate the agreement with a notice period, and the agreement can be terminated before the amendment becomes effective.
10.	Failure to inform clients about an existing conflict of interest related to the provision of a brokerage service.
11.	Failure to provide clients with sufficiently detailed information about an existing conflict of interest related to accepting and transferring orders in the area of accepting subscription for financial instruments of an issuer which belongs to the same capital group as the investment firm, and presenting such information in a manner which does not enable the client to make an informed decision about concluding an agreement.

12.	Failure to record relevant information relating to the conversations in the direct presence of a client.
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Source: UKNF

Table 37. Most common irregularities identified during inspection activities in 2020 in the area of providing brokerage services by investment firms or banks referred to in Article 70(2) of the Act on trading in financial instruments

Provision of brokerage services	
1.	Failure to properly edit the Rules for providing brokerage services, i.e. the failure to consider all requirements regarding the method and form of providing services, appointing proxies by clients, and the manner and dates of providing the client with information on the brokerage service provided to the client, as well as the scope of such information.
2.	Employees' failure to follow procedures for the protection of information protected by law (e.g. professional secrecy, bank secrecy).
3.	Failure to consider, in the Organisational Rules, the operations carried out by the bank pursuant to Article 70(2) of the Act, in particular through inaccurate definition of tasks and responsibilities of organisational units in that respect and ambiguous assignment of responsibilities to those units.
4.	Providing clients with inaccurate information on securing the bonds, although according to securities notes, the issue was not secured by mortgage on third party property.
5.	Providing the client with information about the offer and offered financial instruments before submitting a proposal for acquisition of a financial instrument.
6.	Offering financial instruments in violation of the contract with the issuer.
7.	Failure to consider, in the rules for managing conflicts of interest, all factors which may lead to a conflict of interest of which the investment firm knows or should know, and which result from the organisational structure and type of operations of other members of the investment firm's capital group.
8.	Failure to define, in the rules for managing conflicts of interest, the circumstances resulting from organisational structure and operations of other members of the investment firm's capital group which, in relation to each brokerage activity, cause or might cause a conflict of interest associated with a material risk of violation of the client's interests.
9.	Failure to regularly update the register of conflicts of interest.
10.	Failure to register the manner in which cash considerations, including fees and commissions, or non-monetary benefits accepted or transferred by an investment firm, or intended to be used to improve the quality of provided services, improve the quality of services provided to existing or potential clients.
11.	Failure to keep a register of adequacy assessments for customers.
12.	Failure to implement and/or apply a proper procedure for accepting and handling complaints from clients of an investment firm by failure to ensure the participation of Supervision Inspector, and to consider all the facts and archive documents from the process of handling complaints.

Source: UKNF

Following inspections, post-inspection recommendations were issued for the inspected entities. To one of the banks referred to in Article 70(2) of the Act on trading in financial instruments, a warning was given under the Banking Law. For one of the supervised entities, further analysis is being carried out in relation to instituting administrative proceedings due to identification of breaches of laws.

8.4. PENSION SECTOR ENTITIES

8.4.1. BASIC INFORMATION

8.4.1.1. OPEN PENSION FUNDS AND GENERAL PENSION SOCIETIES

As at the end of 2020, 10 open pension funds (PL: *otwarty fundusz emerytalny* – OFE) and the same number of general pension societies (PL: *powszechnie towarzystwo emerytalne* – PTE) managing them held authorisations to operate.

Table 38. Net asset value of OFEs in the years 2017–2020 (as at 31 December)

Open pension fund	Net assets (in PLN million)				Market share (in %)
	2017	2018	2019	2020	
Aegon OFE	15 479.4	13 620.0	13 391.0	12 970.5	8.7
Allianz Polska OFE	8 090.6	7 152.3	7 160.2	6 773.1	4.5
Aviva OFE Aviva Santander	39 468.9	34 493.3	33 803.3	32 380.2	21.8
AXA OFE	11 555.5	10 126.9	9 829.6	9 485.0	6.4
Generali OFE	8 803.8	7 825.8	7 679.6	7 284.8	4.9
MetLife OFE	14 256.7	12 391.7	12 064.3	11 436.0	7.7
Nationale-Nederlanden OFE	44 576.6	39 748.0	39 632.0	38 740.1	26.1
Pekao OFE	2 655.2	–	–	–	–
PKO BP Bankowy OFE	8 074.9	7 046.0	6 922.3	6 544.5	4.4
OFE Pocztylion	3 234.2	2 809.9	2 727.0	2 626.8	1.8
OFE PZU „Złota Jesień”	23 333.5	22 120.1	21 606.8	20 363.1	13.7
Total	179 529.30	157 334.9	154 816.1	148 604.1	100.0

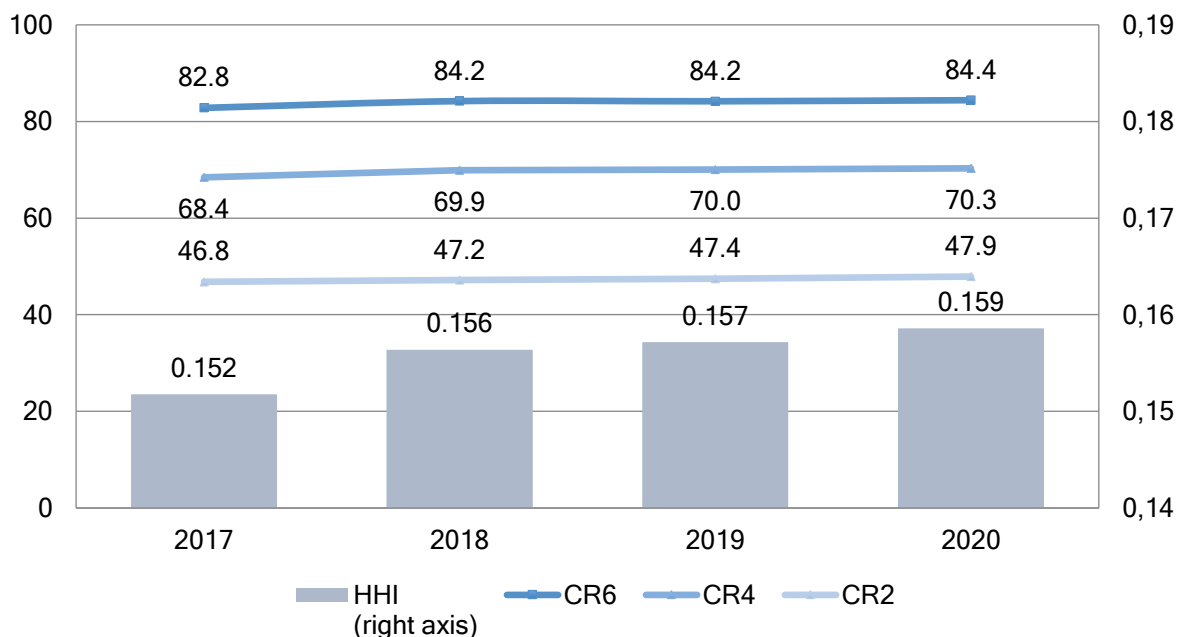
Source: UKNF, based on daily reports of OFEs

At the end of 2020, net assets of open pension funds reached PLN 148.6 billion and were PLN 6.2 billion (4%) lower than a year before.

2020 was a special year for institutions managing financial assets, also for OFEs. The global COVID-19 pandemic contributed to declines in the price of shares of many companies listed on stock exchanges in Poland and abroad, and to deteriorating the financial situation of these companies. As a result, in 2020 OFEs reported significantly lower revenue, including revenue from dividends and profit sharing, and from interest on deposits and equity securities. 2020 also saw a decrease in the valuation of companies in OFEs' investment portfolios. An additional driver of the decrease in the net asset value of OFEs in 2020 was the negative balance of settlements between OFEs and the Polish Social Insurance Institution (ZUS). In 2020, OFEs transferred PLN 5.7 billion to ZUS, i.e. PLN 1.2 billion less than in 2019 under the safety slider, that is a regime of ongoing transfer of funds from the account of members who would reach the pensionable age in less than 10 years. In the same period, ZUS transferred PLN 3.3 billion of premiums to OFEs, i.e. PLN 0.2 billion more than in the previous year.

The market share of the two largest pension funds measured by the value of assets in 2020 increased by 0.5 percentage points (to 47.9%), the market share of the four largest pension funds increased by 0.3 percentage points (to 70.3%), and the market share of the six largest pension funds increased by 0.2 percentage points (to 84.4 %). The HHI index reached 0.159 (compared to 0.157 in 2019).

Diagram 22. Concentration of net assets of OFEs in the years 2017–2020 (as at 31 December)



Source: UKNF

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

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

At the end of 2020, OFEs had 15.4 million members. Over the year, there was another fall in the number of members, by 0.3 million. The total market share of the 3 largest funds fell marginally as compared to the previous year (by 0.1 percentage points), reaching nearly a half of the entire market (49.8%).

Table 39. Number of members of OFEs in the years 2017–2020 (as at 31 December)

Open pension fund	Number of members (in thousand)				Market share (in %)
	2017	2018	2019	2020	
Aegon OFE	1 829.7	1 804.0	1 776.9	1 747.7	11.3
Allianz Polska OFE	1 059.6	1 050.7	1 032.0	1 020.6	6.6
Aviva OFE Aviva BZ WBK	2 577.2	2 539.4	2 496.1	2 447.9	15.9
AXA OFE	1 130.8	1 119.4	1 106.3	1 091.5	7.1
Generali OFE	980.4	970.4	959.6	948.7	6.1
MetLife OFE	1 554.2	1 536.2	1 516.8	1 496.8	9.7
Nationale-Nederlanden OFE	3 013.5	2 981.6	2 945.0	2 904.8	18.8
Pekao OFE	327.0	-	-	0.0	0.0
PKO BP Bankowy OFE	922.9	912.6	901.4	889.8	5.8
OFE Pocztylion	573.4	567.6	561.3	554.8	3.6
OFE PZU „Złota Jesień”	2 133.9	2 420.0	2 375.0	2 328.3	15.1
Total	16 102.6	15 901.9	15 670.4	15 430.9	100.0

Source: The Polish Social Insurance Institution (ZUS)

In 2020, the average rate of return generated by open pension funds was negative (–2.1%), unlike in 2019, when it was positive. All OFEs had a negative rate of return in 2020. The volatility of investment performance results from a strong involvement of funds in domestic equity instruments, as a consequence of the significant dependence of performance on the

situation in the stock market. In 2020, the broad market index of the Warsaw Stock Exchange (WIG) fell by 1.4%, and the index of the largest companies (WIG20) fell by 7.7%.

Table 40. Rates of return of OFEs in the years 2017–2020 (in %)

Open pension fund	2017	2018	2019	2020
Aegon OFE	16.4	-9.3	0.8	-1.0
Allianz Polska OFE	17.8	-9.5	1.9	-4.2
Aviva OFE Aviva BZ WBK	19.8	-9.4	1.2	-1.5
AXA OFE	18.8	-9.9	-0.7	-1.6
Generali OFE	19.4	-8.8	0.0	-4.1
MetLife OFE	19.4	-9.3	0.8	-2.5
Nationale-Nederlanden OFE	19.6	-9.4	0.7	-1.8
Pekao OFE	19.6	-	-	-
PKO BP Bankowy OFE	17.5	-10.0	0.8	-3.5
OFE Pocztylion	17.8	-9.3	0.5	-0.8
OFE PZU „Złota Jesień”	20.9	-10.7	1.5	-2.6
Average	18.8	-9.6	0.9	-2.1

Source: UKNF, based on daily reports of OFEs

In 2020, the dominant categories in the income statement of the general pension societies were revenues and costs relating to the management of pension funds (OFE and DFE), including:

- revenue from OFE management fee (69.4% of revenues),
- revenue from contributions to OFE (5.6% of revenues),
- revenue from refund of overpayment from the funds of the Guarantee Fund (13.5% of revenues)

and costs of:

- general management of PTE (30.7% of costs),
- a transfer agent of OFE and DFE (17.2% of costs),
- acquisition services for OFE and DFE (13.6% of costs).

8.4.1.2. OCCUPATIONAL PENSION FUNDS AND SOCIETIES

In 2020, there were 2 occupational pension societies managing occupational pension funds (PFE). As at 31 December 2020, occupational pension societies managed 2 PFEs with 31.2 thousand members, 1 thousand (3.1%) less than in the previous year. In the reporting period, basic and additional contributions in the amount of PLN 105.1 million were transferred to the accounts of PFE members, PLN 2.8 million less than in 2019. The value of net assets accumulated in occupational pension funds amounted to PLN 2.0 billion at the end of 2020. Compared to 2019, the value of net assets of PFEs increased by PLN 130.9 million, i.e. by 7.0%.

Table 41. Net assets of PFEs in the years 2017–2020 (as at 31 December)

Occupational pension fund	Net assets (PLN million)				Market share (in %)
	2017	2018	2019	2020	
PFE „Nowy Świat”	466.4	406.0	401.9	392.6	19.5
PFE Orange Polska	1 396.0	1 394.2	1 476.5	1 616.7	80.5
PFE Unilever Polska	0.6	0	-	-	-
Total	1 863.0	1 800.2	1 878.4	2 009.3	100.0

Source: Occupational pension funds

Both occupational pension funds operating at the end of 2020 achieved positive rates of return in the reporting period.

Table 42. Rates of return of PFEs in the years 2017–2020 (in %)

Occupational pension fund	2017	2018	2019	2020
PFE „Nowy Świat”	8.9	-2.7	1.6	1.8
PFE Orange Polska	8.2	-1.1	5.6	8.4

Source: occupational pension funds

8.4.1.3. VOLUNTARY PENSION FUNDS

As at 31 December 2020, 7 voluntary pension funds (PL: *dobrowolny fundusz emerytalny* – DFE), managed by general pension societies, were authorised to pursue business. All active DFEs collected payments from savers under individual retirement protection account (PL: *indywidualne konto zabezpieczenia emerytalnego* – IKZE) contracts, while 5 of them also operated individual pension accounts (PL: *indywidualne konto emerytalne* – IKE). As of 1 July 2019, general pension societies have also managed target-date voluntary pension funds (FZD).

At the end of 2020, DFEs had 66.6 thousand members (a decrease of 0.4% compared with the previous year), who accumulated savings on IKE or IKZE accounts. The value of the aggregate net assets accumulated in DFEs at the end of 2020 amounted to PLN 785.1 million, which represented an increase of 42.7% compared with the previous year (driven mainly by an inflow of contributions to DFEs in the amount of PLN 183 million).

Table 43. Net assets of DFEs in the years 2017–2020 (as at 31 December)

Voluntary pension fund	Net assets (in PLN million)				Market share (in %)
	2017	2018	2019	2020	
Allianz Polska DFE	11.7	13.5	16.7	20.0	2.6
Generali DFE	0.3	0.5	0.7	1.4	0.2
MetLife DFE	33.4	30.5	34.9	46.1	5.9
Nationale-Nederlanden DFE	69.5	98.7	152.6	250.8	31.9
DFE Pekao	82.0	–	–	0.0	0.0
PKO DFE	55.0	67.8	86.9	117.9	15.0
DFE Pocztylion Plus	1.4	2.4	4.0	5.8	0.7
DFE PZU	45.6	168.4	254.5	343.1	43.7
Total	298.9	381.8	550.3	785.1	100.0

Source: voluntary pension funds

In 2020, unlike in 2019, all DFEs achieved positive rates of return. Large diversification of investment results of DFEs was largely the consequence of different investment strategies used by managers. The funds varied in terms of allocation of each asset class, the choice of individual financial instruments, and the pace of changes in the portfolio structure.

Table 44. Rates of return of DFEs in the years 2017–2020 (in %)

Voluntary pension fund	2017	2018	2019	2020
Allianz Polska DFE	* 11.5	* -6.6	* 5.4	* 2.9
Generali DFE	6.4	-10.4	16.5	21.0
MetLife DFE	6.6	-16.6	9.7	33.3
Nationale-Nederlanden DFE	* 9.0	* -8.6	* 8.9	* 15.3

DFE Pekao	6.8	–	–	–
PKO DFE	8.6	–6.7	0.1	11.0
DFE Pocztylion Plus	–1.0	–4.8	1.0	8.0
DFE PZU	14.7	–9.9	3.4	1.6

Source: voluntary pension funds

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

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

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

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

The development of the PPE market in the years 2017–2020 is presented in Table 45.

Table 45. Development of occupational pension schemes (PPEs) in the years 2017–2020

Breakdown	2017	2018	2019	2020
Number of PPEs	1 054	1 230	1 907	2 110
Number of participants (in thousand)	396	425	613	632
Value of accumulated assets (in PLN million)	12 643	12 735	14 547	17 016

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

2020 was characterised by high activity of employers in the area of occupational pension schemes. As a result, the UKNF initiated 583 administrative proceedings related to entering an employer in the PPE register or making changes to such entry. As a consequence, the number of decisions in the area of PPE in 2020 was comparable with 2018, when the number of registered schemes exceeded three figures.

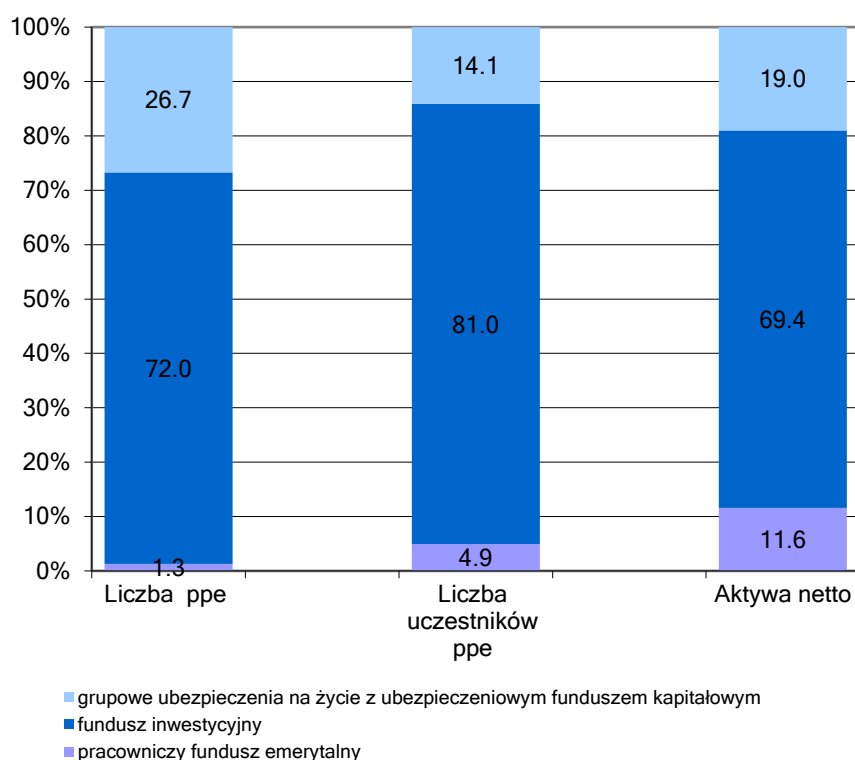
2 110 occupational pension schemes were operating as at 31 December 2020, including:

- 564 in the form of a unit-linked group life insurance contract,
- 1 519 in the form of an agreement on the payment by the employer of employees' contributions to the investment fund,
- 27 in the form of an occupational pension fund.

At the end of 2020, PPEs had nearly 632 thousand participants, and the value of collected assets amounted to PLN 17 016 million, which means that the value of assets collected on accounts of PPE participants increased by PLN 2 468 million compared with 2019 (by nearly 17%).

The share of individual forms in the PPE market is shown in Diagram 23.

Diagram 23. Structure of the PPE market in 2020 (in %)

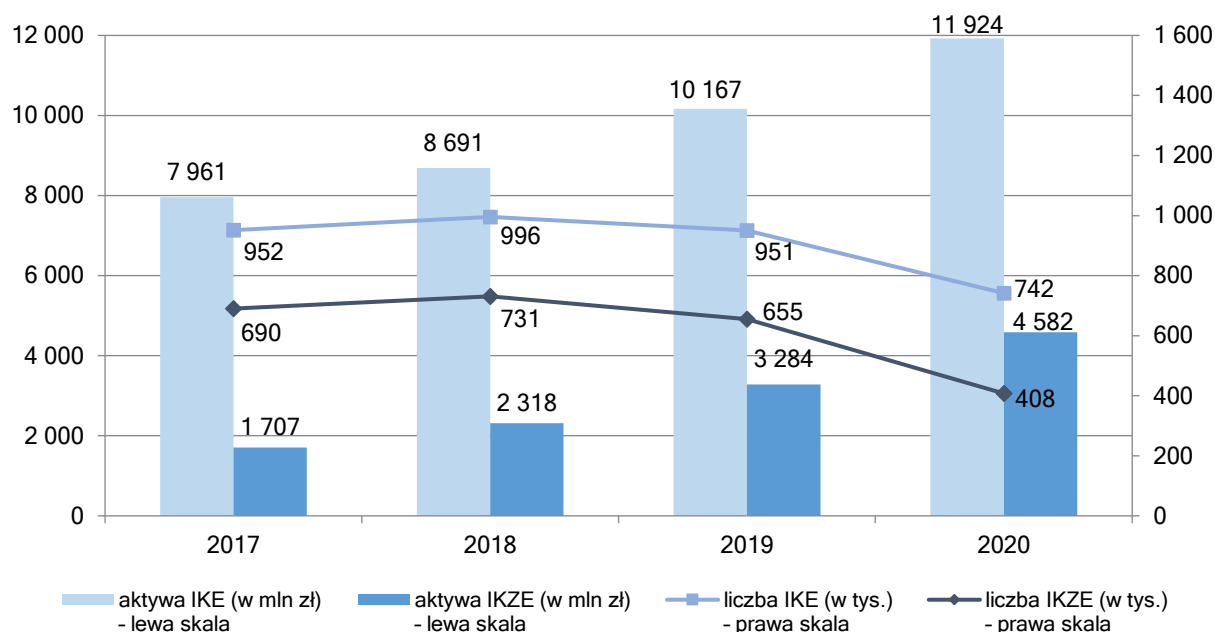


Source: UKNF, institutions managing the funds of occupational pension schemes

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

'Raport emerytalny w Polsce (stan na koniec 2019 roku)' (Report on pensions in Poland as of the end of 2019) was submitted to a KNF Board meeting.

Diagram 24. Value of assets and number of IKE and IKZE accounts in the years 2017–2020 (as at 31 December)



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

As at the end of 2020, entities authorised to operate IKEs and/or IKZEs handled 741.6 thousand IKEs and 407.6 thousand IKZEs, with assets of PLN 11.9 billion and PLN 4.6 billion, respectively. In 2020, savers contributed PLN 2.0 billion to IKE accounts and PLN 1.2 billion to IKZE accounts, a total of 19.1% more than the year before.

Table 46. Number of IKE accounts and value of IKE assets in the years 2017–2020 (as at 31 December)

Entities maintaining IKE accounts	Number of accounts (in thousand)				Market share (in %)	Value of assets (in PLN million)				Market share (in %)
	2017	2018	2019	2020		2017	2018	2019	2020	
Insurance undertakings	568.5	562.5	462.2	199.9	27.0	2 591.9	2 582.7	2 738.9	2 932.3	24.6
Investment funds	275.8	317.1	355.0	393	53.0	2 447.0	2 725.0	3 266.4	3 970.2	33.3
Entities conducting brokerage activities	30.4	32.6	39.0	55.8	7.5	1 285.1	1 434.7	1 784.7	2 438.9	20.4
Banks	71.9	78.3	88.5	85.7	11.5	1 581.2	1 886.5	2 296.7	2 465.5	20.7
Voluntary pension funds	4.9	5.3	6.1	7.2	1.0	56.1	62.7	80.7	116.8	1.0
Total	951.5	995.8	950.8	741.6	100.0	7 961.3	8 691.6	10 167.4	11 923.70	100.0

Source: UKNF, institutions maintaining IKE accounts

Table 47. Number of IKZE accounts and value of IKZE assets in the years 2017–2020 (as at 31 December)

Entities maintaining IKZE accounts	Number of accounts (in thousand)				Market share (in %)	Value of assets (in PLN million)				Market share (in %)
	2017	2018	2019	2020		2017	2018	2019	2020	
Insurance undertakings	448.9	447.3	376.8	96.4	23.7	545.4	635.1	783.6	956.2	20.9
Investment funds	120.2	150.9	175.0	191.7	47.0	719.8	1 086.1	1 608.7	2 257.6	49.3
Entities conducting brokerage activities	8.5	11.2	16.8	31.5	7.7	94.3	119.4	197.2	392.3	8.5
Banks	18.1	20.3	24.4	28.2	6.9	106.7	156.2	224.3	307.0	6.7
Voluntary pension funds	94.3	101.4	61.4	59.8	14.7	240.7	320.8	470.0	668.8	14.6
Total	690.0	731.1	654.4	407.6	100.0	1 706.9	2 317.6	3 283.8	4 581.8	100.0

Source: UKNF, institutions maintaining IKZE accounts

8.4.1.5. EMPLOYEE CAPITAL PLANS

Under the Act of 4 October 2018 on employee capital plans, employee capital plans (PL: *pracowniczy plan kapitałowy* – PPK) have been in operation since 1 July 2019. A participant of a PPK is a natural person who is over 18 years of age, for and on behalf of whom an employer has entered into an agreement to operate a PPK with a financial institution. As at the end of 2020, 20 financial institutions were entitled to operate PPKs:

- 16 investment fund management companies,
- 3 general pension societies (including 1 suspended general pension society),
- 1 insurance undertaking.

In 2020, at the request of the KNF Board, PFR S.A. suspended Aegon PTE S.A.'s entry in the PPK register, due to the fact that Aegon PPK's management of target-date voluntary pension funds was taken over by Pocztylion-Arka PTE S.A. Following *ex officio* initiation of administrative proceedings on 18 December 2020, the KNF Board issued a decision to remove PPK Aegon PTE S.A. from the register.

According to information received from institutions that operated PPK accounts at the end of 2020, the number of persons who joined PPK amounted to 1.5 million. In the period covered by the report, PLN 2.2 billion was paid into PPK. At the end of 2020, assets amounting to PLN 2.8 billion were collected on the PPK accounts. As PPK were launched in the second half of 2019, the data were not compared with 2019 figures. In 2019, 0.3 million persons joined PPK, PLN 86.3 million was paid, and assets amounting to PLN 84.7 million were collected on PPK accounts.

8.4.2. LICENSING ACTIVITIES

8.4.2.1. PENSION FUNDS AND PENSION SOCIETIES

In the context of licensing functions, administrative proceedings were conducted in the pension market which resulted in issuing 52 final administrative decisions. In addition, 23 interim decisions were issued in relation to pension market entities. The number and subject-matter of the final and interim decisions are presented in Table 12.1.1 and Table 12.1.2 in Annex 12.1.

Acquisition of 100% of AXA PTE S.A. shares

In 2020, the pension market saw a material ownership change. After obtaining the KNF Board's approval, on 15 October 2020, UNIQA Österreich Versicherungen AG acquired from Société Beaujon SAS all shares in the share capital of AXA Powszechna Towarzystwo Emerytalne S.A.

Agreement on taking over the management of target-date funds

Market changes resulted in initiating the first consolidation process in the sector of institutions offering PPK, i.e. in taking over the management of target-date funds conducted by Aegon PTE by Pocztalion-Arka PTE S.A.

8.4.2.2. OCCUPATIONAL PENSION SCHEMES (PL: *PRACOWNICZY PROGRAM EMERYTALNY – PPE*)

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

- a decrease of over 59% in the number of applications for entry of a scheme in the register (252 applications in 2020 and 620 applications in the previous year),
- a decrease of nearly 15% in the number of applications for entry of changes to a scheme in the register (202 in 2020 and 237 in the previous year),
- an increase of over 93% in the number of applications for removal of a scheme from the register (58 applications in 2020 and 30 applications in the previous year),
- an increase of over 136% in the number of notifications of changes in the details of an employer or manager (71 notifications in 2020 and 30 in the previous year).

The number and subject-matter of PPE-related final decisions issued in 2020 based on the KNF Board's authorisation are presented in Table 12.1.2 in Annex 12.1.

8.4.3. SUPERVISION OVER OCCUPATIONAL PENSION SCHEMES (PPEs)

An employer running a PPE is required to submit an annual report on the running of such a PPE in a given calendar year to the supervisory authority. Thus, the supervisory authority receives the relevant information on the functioning of individual PPEs, and – after aggregation of the reports – the data on the market, relevant developments and trends.

2 110 PPEs were in operation at the end of 2020, some of them being of an inter-company nature, with more than one employer involved, which means that 2 370 employers who were operating a PPE as at 31 December 2020 were required to submit the report for 2020.

In 2020, the KNF Board imposed fines on 6 employers operating PPEs for failure to submit annual information.

8.4.4. INSPECTION ACTIVITIES

In 2020, no inspections were conducted at pension market entities.

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

8.5.1. LICENSING ACTIVITIES

In 2020, the KNF Board granted 4 authorisations to keep accounts and registers of exchange commodities to energy undertakings, 2 final decisions in respect of an amendment to a decision to grant authorisation to keep accounts and registers of exchange commodities, 2 final decisions to withdraw authorisation and 1 final decision ascertaining the expiry of a final decision to grant authorisation to conduct the activities in question. 1 proceedings in respect of authorisation to keep accounts and registers of exchange commodities was discontinued, and 2 applications for this authorisation were left undecided.

In the period in question, the KNF Board issued 1 final decision to grant authorisation to acquire or take up shares of a commodity brokerage house and 1 final decision to discontinue proceedings on revoking the authorisation to operate as a commodity brokerage house, and 1 proceedings on granting authorisation to operate in the area of trading in exchange commodities was suspended.

As at 31 December 2020, the KNF Board did not conduct any proceedings in respect of trade in exchange commodities. An authorisation to keep accounts and registers of exchange commodities was held by 58 energy companies, and an authorisation to operate in the area of trade in exchange commodities was held by 1 commodity brokerage house.

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

8.6.1. LICENSING ACTIVITIES

In 2020, the KNF Board issued:

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

In respect of investment funds, in 2020 the KNF Board issued 13 final decisions on establishing public closed-end investment funds, including the approval of prospectuses and annexes/supplements, including:

- 7 final decisions approving prospectuses for investment certificates issued by public closed-end investment funds,
- 6 final decisions approving annexes/supplements to prospectuses for investment certificates issued by public closed-end investment funds.

In 2020, 2 authorisations to operate were withdrawn in relation to the following investment fund management companies:

- ALTUS Towarzystwo Funduszy Inwestycyjnych S.A.,
- Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A.

At the request of the applicant, in 2020 the authorisation to operate was revoked for:

- CORUM Towarzystwo Funduszy Inwestycyjnych S.A.

In 2020, 12 closed-end investment funds, whose investment certificates in accordance with the fund's articles of association will not be offered by public offering or admitted to trading on a regulated market or placed in the alternative trading system, were registered.

In 2020, the supervisory authority issued 266 final and interim decisions relating to the entities of the investment fund market.

The number and subject-matter of the resolutions as well as final and interim decisions, issued based on the authorisation of the KNF Board in 2020, is presented in Tables 12.1.1 and 12.1.2, respectively, in Annex 12.1.

In 2020, the Chair of the KNF Board issued 12 interim decisions to institute *ex officio* proceedings or to extend the scope of proceedings under Article 13 of the Act of 29 July 2005 on capital market supervision (Journal of Laws 2020, item 1400, as amended, hereinafter: 'Act on capital market supervision').

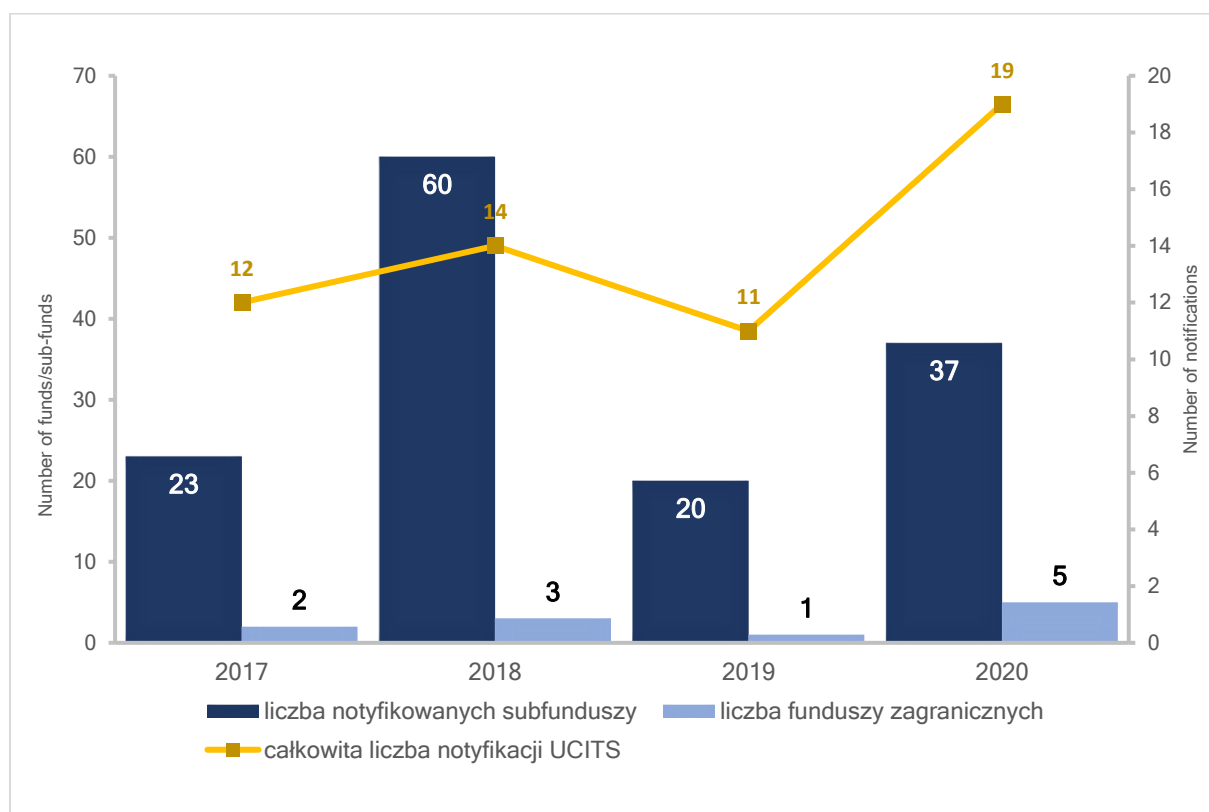
8.6.1.1. ACQUISITION OR TAKING UP OF SHARES AND/OR RIGHTS ATTACHED TO SHARES

In 2020, 4 notifications of the intention to acquire or take up shares of an investment fund management company were considered. In 2 cases, a decision was made not to object to the intention to acquire or take up shares of an investment fund management company and to set a date within which the acquisition or take-up may take place, and in 2 cases a decision was made to discontinue proceedings as being unsubstantiated. As at 31 December 2020, 4 proceedings regarding notification of the intention to acquire or take up shares of an investment fund management company were still pending. Compared to 2018 and 2019, 2020 saw a further increase in the number of notifications of the intention to acquire or take up shares of an investment fund management company.

8.6.1.2. CROSS-BORDER ACTIVITY

In 2020, the KNF Board received, by e-mail, 19 complete notifications of the intention to dispose of shares of foreign funds in the territory of the Republic of Poland which pertained to 5 new foreign funds and 37 new sub-funds of foreign funds. For comparison, in 2019, 11 complete notifications concerning 1 new foreign fund and 20 new sub-funds of foreign funds were received.

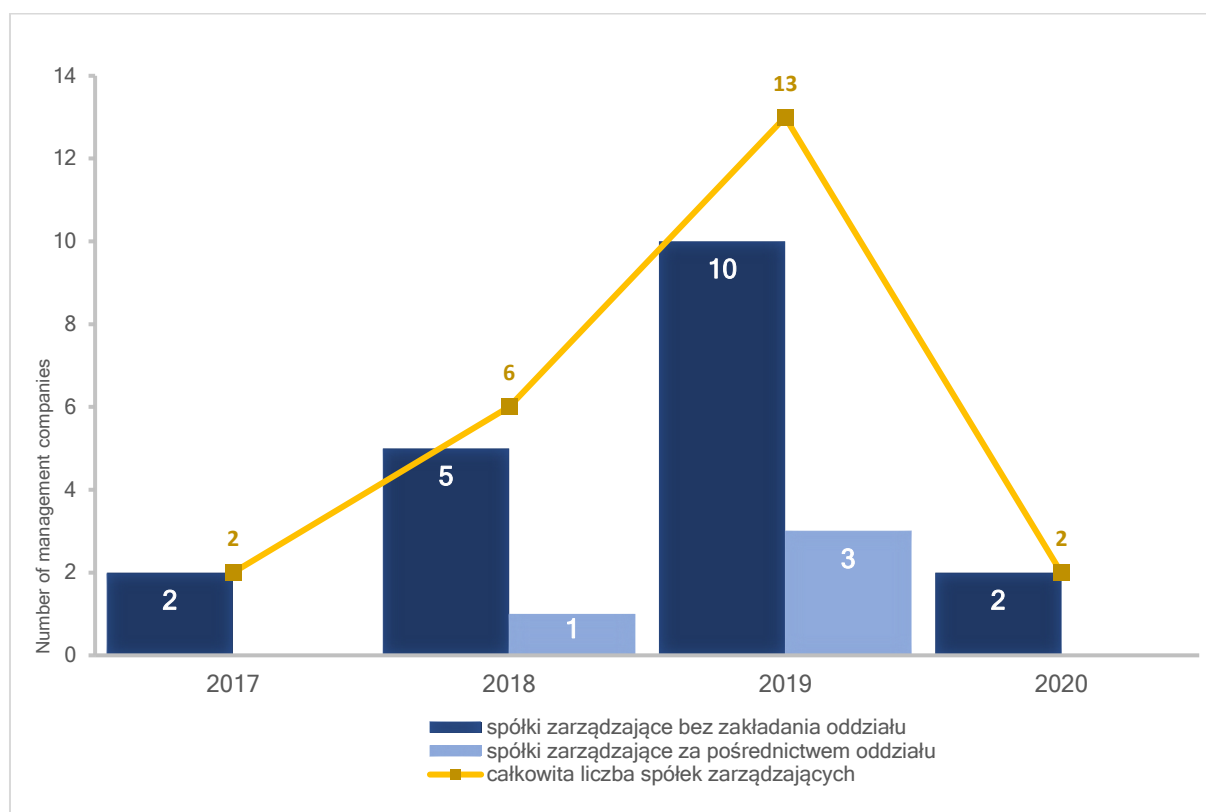
Diagram 25. UCITS investment funds in the years 2017–2020 (as at 31 December each year)



Source: UKNF

In 2020, the KNF Board received 2 notifications from management companies (entities managing UCITS funds) on their intention to operate in the Republic of Poland under the freedom to provide services (i.e. without a branch). In that period, the KNF Board received no notifications from management companies on their intention to operate in the Republic of Poland through a branch. For comparison, in 2019 the KNF Board received 10 notifications from management companies on their intention to operate in the Republic of Poland under the freedom to provide services and 3 notifications from management companies intending to operate in the Republic of Poland through a branch.

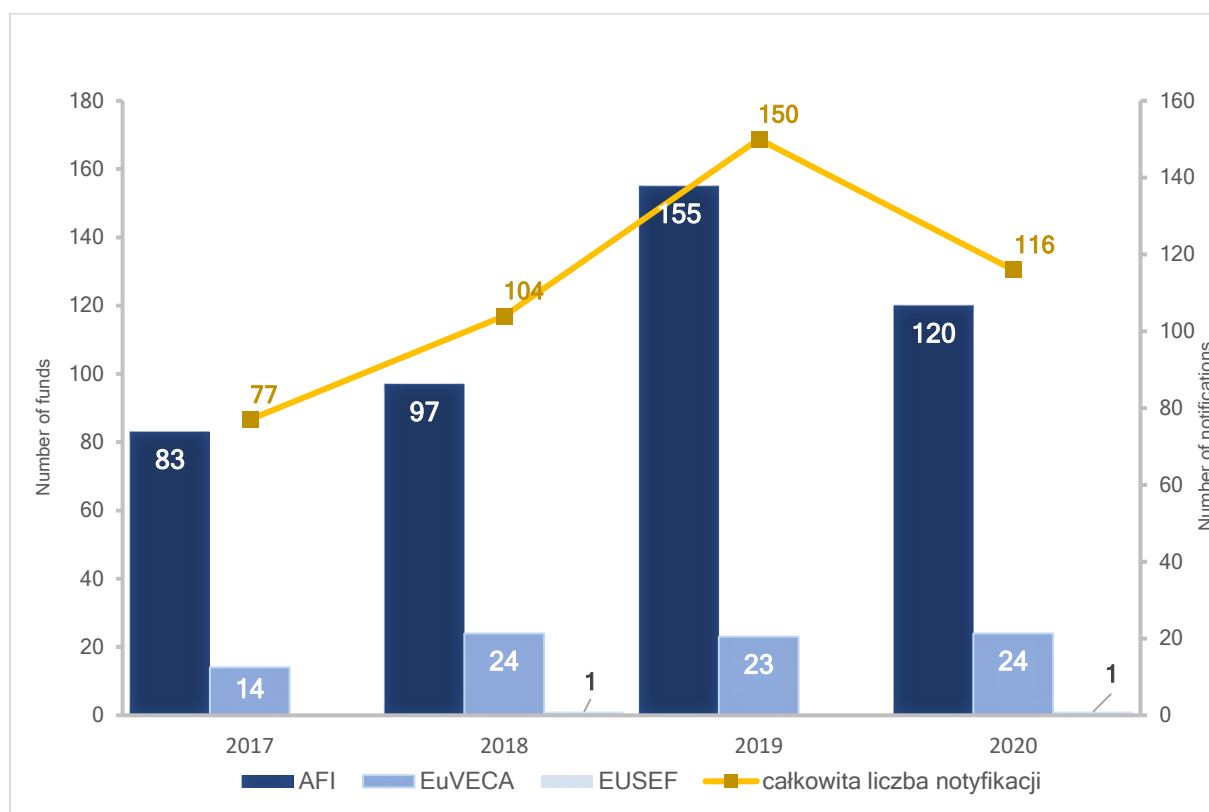
Diagram 26. Management companies in the years 2017–2020 (as at 31 December each year)



Source: UKNF

As regards alternative investment funds (i.e. non-UCITS funds) with their registered offices in an EU Member State other than the Republic of Poland, the KNF Board received, in 2020, 116 complete notifications of the intention to market 120 alternative investment funds, 24 European venture capital funds (EuVECA) and 1 European social entrepreneurship fund (EuSEF) in the Republic of Poland. For comparison, in 2019 the KNF Board received 150 complete notifications of the intention to market in the Republic of Poland 155 alternative investment funds and 23 European venture capital funds (EuVECA), and no notifications concerning European social entrepreneurship funds (EuSEF).

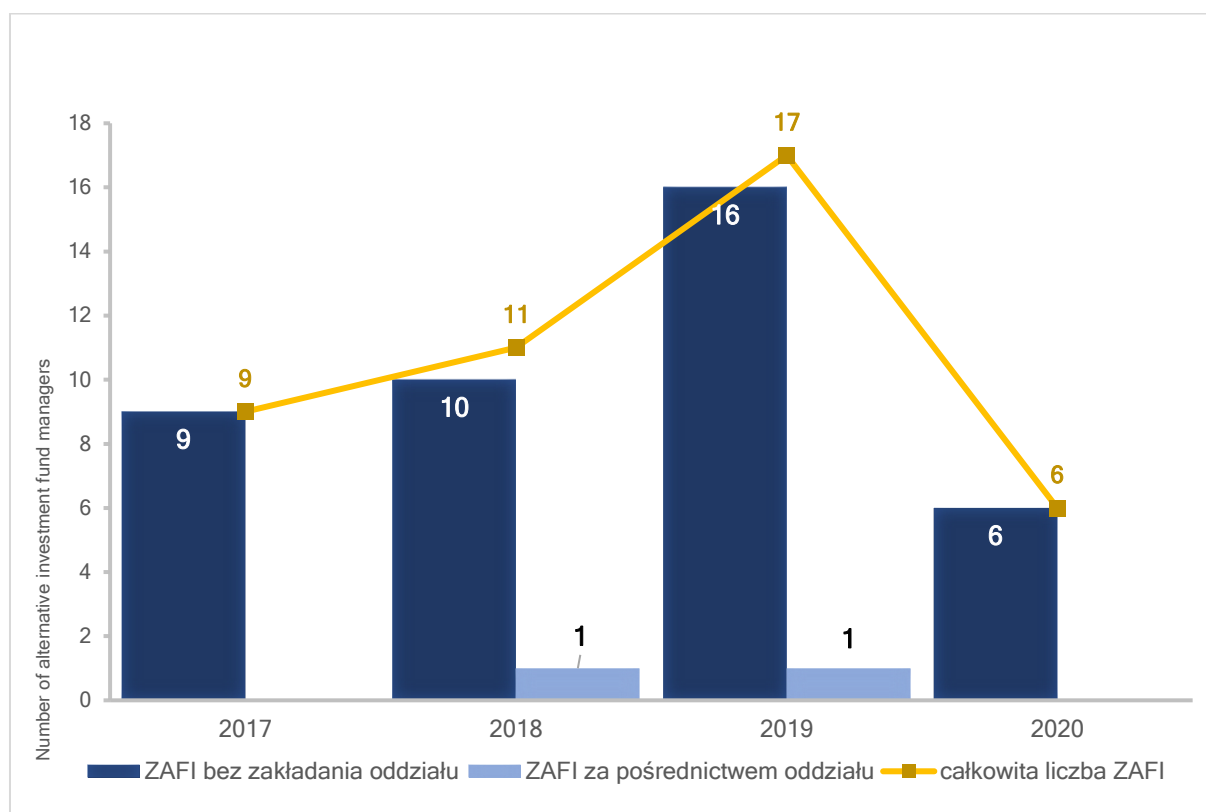
Diagram 27. Alternative investment funds AFI, EuVECA, EUSEF in the years 2017–2020 (as at 31 December each year)



Source: UKNF

Moreover, in 2020, the KNF Board received notifications from 6 alternative investment fund managers based outside the Republic of Poland on their intention to operate in the Republic of Poland without a branch. For comparison, in 2019 the KNF Board received 16 notifications on the intention to operate without a branch and 1 notification from an alternative investment fund manager with its registered office outside the Republic of Poland on its intention to operate in the Republic of Poland through a branch.

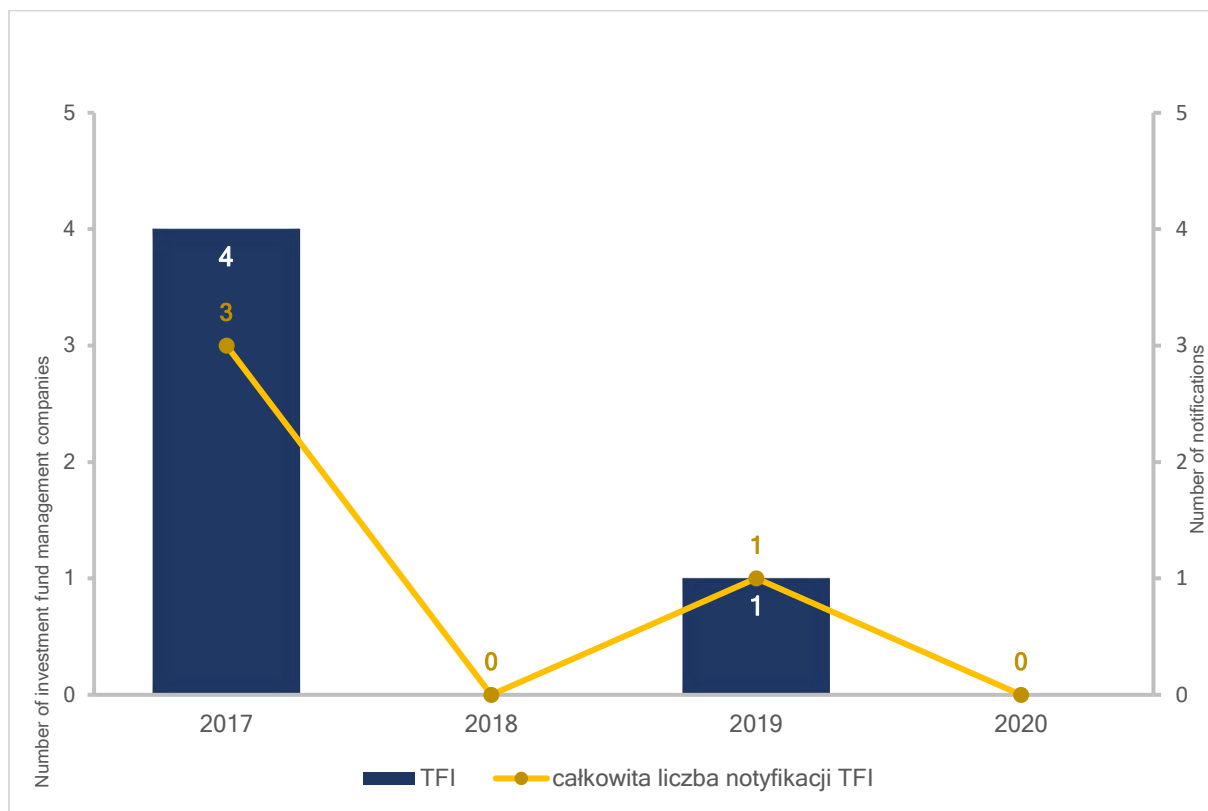
Diagram 28. Alternative investment fund managers in the years 2017–2020 (as at 31 December each year)



Source: UKNF

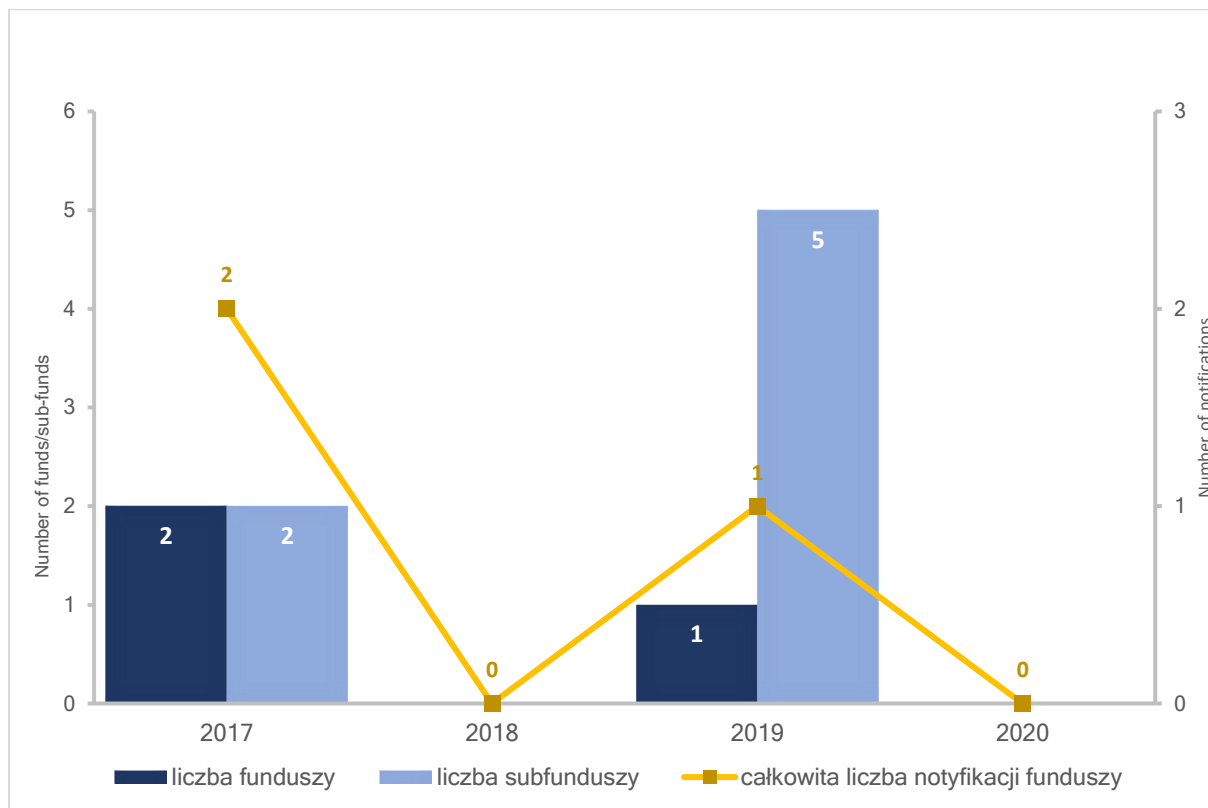
In 2020, there were no notifications from an investment fund management company intending to operate in another EU Member State, or notifications from investment fund management companies on the intention to market their funds outside the Republic of Poland. For comparison, in 2019 the KNF Board received 1 notification from an investment fund management company intending to operate in another EU Member State in the field of management of alternative investment funds established in that Member State. The KNF Board also received 2 notifications from investment fund management companies on their intention to market their funds outside the Republic of Poland. The notifications pertained to 2 investment fund management companies and two EU Member States (Luxembourg and Germany).

Diagram 29. Investment fund management companies in the years 2017–2020 (as at 31 December each year)



Source: UKNF

Diagram 30. Investment funds in the years 2017–2020 (as at 31 December each year)



Source: UKNF

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

In 2020, the KNF Board issued one authorisation to operate as an AICM. The company in question started operating on 14 July 2020. In 2020, the KNF Board entered 43 entities in the Register of AICMs, and removed 4 AICMs from the register.

As at 31 December 2020, since the UKNF commenced its supervision of AICMs, it has received a total of 351 applications, including 339 applications for entry in the Register of AICMs, 1 application for authorisation to operate as an AICM, 8 applications for a review of a case concluded with the KNF Board's final decision on the refusal to make an entry in the Register of AICMs, and 3 applications for removal from the Register of AICMs.

Table 48. Number of applications received by the KNF Board in the years 2017–2020

Type of application	2017	2018	2019	2020	2017–2020
Applications for entry in the Register of AICMs	174	73	40	51	338
Applications for a review of a case	1	6	1	0	8
Applications for authorisation to operate as an AICM	1	0	0	0	1
Applications for removal from the Register of AICMs	0	0	0	3	3
Total	176	79	41	54	350

Source: UKNF

In 2020, with regard to the market of alternative investment companies/partnerships, the KNF Board issued 26 final and interim decisions, including:

- 6 final decisions on the refusal to make an entry in the Register of AICMs,
- 1 final decision at second instance on upholding a final decision of the KNF Board on the refusal to make an entry in the Register of AICMs,
- 9 final decisions to discontinue proceedings at the request of a party, including 4 final decisions to discontinue appeal proceedings,
- 5 final decisions on removal of an AICM from the Register of AICMs,
- 1 final decision to grant authorisation to operate as an AICM,
- 4 interim decisions to initiate proceedings to remove an AICM from the Register of AICMs.

In 2020, the KNF Board focused on reviewing applications for entry in the Register of AICMs. The KNF Board also continued analysing the legal and factual aspects of the operation of AICs and AICMs, including in particular the problems reported by capital market participants. In 2020, compared with previous years, a greater number of entities were removed from the Register of AICMs as a result of their liquidation or non-performance of AICM operations.

In addition, in 2020, as a consequence of the significant number of entries made in the Register of AICMs in previous years, intensive efforts were made in connection with the verification of the reporting obligations of AICMs for 2019.

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

Under Article 32(2) of the Act on investment funds and the management of alternative investment funds, units of investment funds or shares of foreign funds may be disposed of and

repurchased through an entity having its registered office or place of residence in the Republic of Poland.

As of 31 December 2020, the list of distributors of participation units and/or shares authorised by the KNF Board included 71 entities.

In the period covered by this report, the KNF Board issued 8 final decisions ascertaining the expiry of a final decision to grant authorisation to conduct the activities in question.

8.6.2. SUPERVISION OF COLLECTIVE INVESTMENT INSTITUTIONS

The supervisory activities of the KNF Board towards investment fund management companies and investment funds – after such entities have obtained the necessary permission – include monitoring the current situation of these entities by analysing current reports, current information and periodic reports.

Table 49. Number of analysed current and periodic reports of investment funds and investment fund management companies and information from depositaries in the years 2017–2020

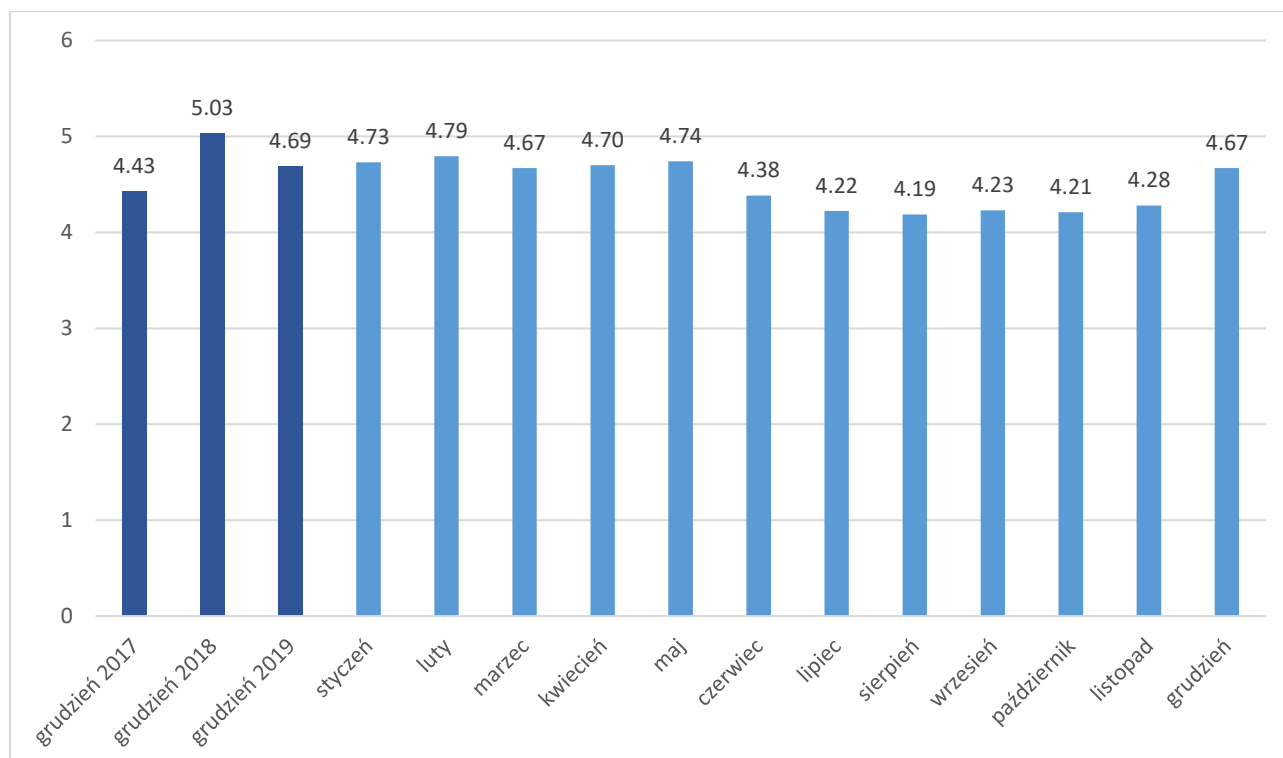
Type of report	2017	2018	2019	2020
Current and periodic reports of investment fund management companies	5 791	5 990	4 746	6 452
Current and periodic reports of investment funds	28 851	29 072	24 588	23 208
Information from depositaries	4 398	4 506	4 135	5 513
Total	39 040	39 568	33 469	35 173

Source: UKNF

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

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

Diagram 31. Average value of capital requirement coverage ratio of investment fund management companies at the end of the years 2017–2019 and in 2020 (equity/minimum capital requirement)⁴²



Source: UKNF

After the average value of the capital requirement coverage ratio for the investment fund management companies sector increased to 4.79 in the first two months of 2020, it decreased in March due to increased EUR exchange rate and thus increased capital requirement. In April and May, the value of the ratio increased to the level approaching that of the first months of 2020. The largest decrease in the average value of the capital requirement coverage ratio took place in June 2020, which was caused by dividend payments made by investment fund management companies from the profits for 2019. In the following months, the ratio remained at a similar level, and in the last months of 2020 it increased to 4.67.

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

- Report on the financial standing of investment fund management companies in 2019,
- Report on the SREP for investment fund management companies in 2019,
- Information on the assumptions concerning the position of the supervisory authority on the dividend policy of investment fund management companies in 2021,
- Report on the total volume of assets managed by AICMs.

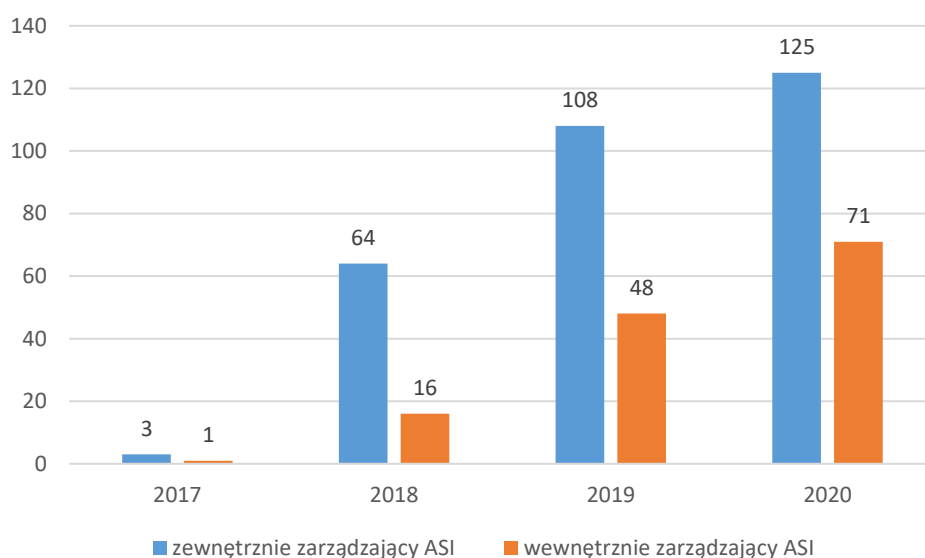
⁴² Based on monthly reports provided by investment fund management companies. Monthly reports are not audited or reviewed by a statutory auditor so information included therein may be subject to subsequent corrections.

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

As at 31 December 2020, 196 entities operated as an AICM in the capital market, including: 195 entities based on an entry in the Register of AICMs (125 AICMs involved in external management and 70 AICMs involved in internal management) and one entity based on authorisation to operate as an AICM, as AICM involved in internal management.

All KNF-supervised entities operating as AICMs were entered in the Register of AICMs or obtained authorisation in the years 2017–2020. It should be noted that the entry in the Register of AICMs is a substantive and technical act which does not require any binding administrative act (e.g. a final administrative decision).

Diagram 32. Number of AICs operating as AICMs in the years 2017–2020 by external management and internal management (cumulatively)



Source: UKNF

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

In 2020, the KNF Board entered 43 entities in the Register of AICMs, including 19 AICMs involved in external management and 24 AICMs involved in internal management. It also removed 4 entities from the Register of AICMs. Moreover, the KNF Board granted one entity authorisation to operate as an AICM, as an AICM involved in internal management.

8.6.2.1.1. AICMs operating on the basis of an entry in the Register of AICMs

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

Since those entities are required to submit periodic reports of AICMs annually, as at 31 December 2020 the KNF Board had the data concerning the value of assets managed by AICMs for 2019. The data concerning the value of assets managed by AICMs for 2020 should be submitted by 31 January 2021.

As at 31 December 2019, the value of assets managed by the AICMs entered in the Register of AICMs was PLN 877.18 million. PLN 400.71 million of assets were managed by AICMs involved in internal management and PLN 476.47 million by AICMs involved in external

management. These data covered 96.5% of all AICMs obliged to send the reports for 2019. The entities which failed to meet this obligation received requests to send the report for 2019.

For comparison, as at 31 December 2018 the value of assets managed by AICMs was PLN 171.24 million, which means that in 2019 it increased over fourfold (by 412%). This results from an increase in the number of entities entered in the Register of AICMs in 2019 and the development of investment activities of entities entered in the previous years.

As at 31 December 2020, the preliminary value of assets managed by AICMs entered in the Register of AICMs, determined on the basis of correct reports of AICMs (78.5% of all AICs obliged to send the reports for 2020), was PLN 2.2 billion. PLN 862 million of assets were managed by AICMs involved in internal management and PLN 1.4 billion by AICMs involved in external management. These *incomplete* data show that compared to 2019, the value of assets managed by AICMs increased 2.5 fold (by 256%). This results from an increase in the number of entities entered in the Register of AICMs in 2020 and the development of investment activities of entities entered in the previous years.

Table 50. Value of assets managed by AICMs in the years 2017–2020

Value of assets managed by AICMs (in PLN million)	2017	2018	2019	2020
AICMs involved in external management	40.77	89.07	476.48	1 386.55
AICMs involved in internal management	53.63	82.17	400.70	862.39
Total	94.40	171.24	877.18	2 248.94

Source: UKNF

8.6.2.1.2. AICM operating on the basis of an authorisation to operate as an AICM

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

Periodic reports of licensed AICMs include:

- monthly reports,
- annual financial statements.

Due to the fact that the KNF Board's decision to grant authorisation to operate as an AICM was issued in July 2020, the entity which obtained it provided the KNF Board with reports for an incomplete year, i.e. submitted 6 monthly reports concerning the value of assets managed by the AICM.

As at 31 December 2020, the value of assets managed by the AICM operating on the basis of an authorisation was PLN 1.7 billion.

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

Due to the SARS-CoV-2 epidemic, in 2020 the KNF Board decided to carry out the SREP supervisory assessment of investment fund companies for 2019 in a simplified form. The SREP assessment covered 54 investment fund management companies.

8.6.3. INSPECTIONS AT INVESTMENT FUND MARKET ENTITIES

In the period covered by this report, 15 inspections were commenced, conducted or completed, including 11 inspections at investment fund management companies and investment funds managed by them, 2 inspections at entities managing the securitised loans of securitisation funds, 1 inspection of a transfer agent and 1 inspection at an entity entrusted by an investment fund management company to carry out activities related to the company's business.

Table 51. Selected irregularities identified during inspection activities at investment fund management companies and investment funds managed by them in 2020

Compliance of the operations of investment fund management companies with the law, articles of association and internal regulations and the granted authorisation, and in particular with the Act of 27 May 2004 on investment funds and management of alternative investment funds (Journal of Laws 2020, item 95), hereinafter: 'Act on investment funds'	
1.	Breaches of the Act on investment funds and Regulation (EU) No 231/2013 ⁴³ to the extent the investment fund management companies failed to employ a sufficient number of employees who have sufficient knowledge, skills and experience to exercise their tasks.
2.	Breaches of Regulation No 1312 ⁴⁴ to the extent the internal regulations adopted by investment fund management companies included solutions which violate applicable laws.
3.	Breaches of professional secrecy by investment fund management companies.
4.	Activities conducted by investment fund management companies in breach of the Act on investment funds to the extent the investment fund management companies failed to verify the reports of valuation and failed to analyse the correctness of source documents, which means a breach of the duty to act fairly and professionally, with due professional care and in accordance with the principles of fair trading, and also failed to act in the interest of participants of funds in which they were a governing body.
5.	Breaches of the Act on investment funds by failure to provide appropriate mechanisms for verifying investment decisions made by the entity managing the fund's portfolio, including investment decisions realised through the fund's portfolio companies.
6.	Breaches of the Act on investment funds and Regulation 231/2013 to the extent the management of investment funds was entrusted to third parties, and in particular failure to supervise the managing entities and failure to carry out inspections at these entities.
7.	Breach of the Act on investment funds to the extent the investment fund management company actually entrusted the performance of the risk management function to a third party without the KNF Board's authorisation.
8.	Breaches of Regulation No 1444 ⁴⁵ , Regulation No 1312, Regulation (EU) 231/2013 and internal regulations on the adopted system for supervising the compliance of operations with the law.
9.	Breaches of Regulation (EU) No 231 to the extent the investment fund management companies failed to establish and implement a consistent area for managing operational risk, failed to conduct regular internal reporting concerning exposure to operational risk and sustained losses, and failed to establish and implement quantity and/or quality risk limits which include at least market risk, liquidity risk and operational risk.

⁴³ Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (OJ L 83, 22.3.2013).

⁴⁴ Regulation of the Minister of Finance of 2 July 2019 on the method, procedure and conditions for conducting the activities of investment fund management companies (Journal of Laws 2019, item 1312).

⁴⁵ Regulation of the Minister of Development and Finance of 20 July 2017 on the method, procedure and conditions for conducting the activities of investment fund management companies (Journal of Laws 2017, item 1444).

10.	Breaches of Regulation (EU) No 231/2013 and Regulation 1312 to the extent the investment fund management companies failed to keep a register of conflicts of interest and register of types of activity performed on their own account or activity performed by another entity for the investment fund management company in connection with which there is or might be a conflict of interest related to a significant risk of violation of the interests of the fund or the fund's participants.
11.	Breaches of the Act on investment funds and Regulation No 1312 by failure to properly document the sources which form the basis of investment decisions.
12.	Breach of the Act on investment funds and the fund's articles of association to the extent the remuneration for managing the funds was calculated contrary to the provisions of law and the funds' articles of association.
13.	Breaches of the Act on investment funds and the funds' articles of association to the extent the funds failed to operate in accordance with the principles of limiting investment risk.
14.	Breaches of Regulation (EU) 231/2013 to the extent the investment fund management company failed to ensure that the investment strategy, liquidity profile, and the policy for redeeming the funds' Investment Certificates are aligned and enable all participants to effectively redeem Investment Certificates (exiting the investment in the fund), in line with the principle of fair treatment of all fund participants.

Table 52. Selected irregularities identified during inspection activities at the entities managing securitised receivables of securitised funds in 2020

Compliance of operations with the law, investment funds' articles of association, contracts with investment fund management companies, internal regulations and the granted authorisation	
1.	Operating as manager of securitised receivables of investment funds in breach of certain provisions of the agreements for the management of securitised receivables.
2.	Failure to manage securitised receivables in a manner that guarantees proper protection of the interests of securitisation fund participants, consisting in the fact that the same person exercised a function in the management board of an investment fund management company which entrusted the management, and the risk management function at the manager of securitised receivables.

Source: UKNF

Table 53. Selected irregularities identified during inspection activities at a transfer agent in 2020

Compliance of operations of an entity keeping a register of investment fund participants with the contracts on keeping a register of investment fund participants, investment funds' articles of association, and the law	
1.	Operating as a transfer agent in breach of selected provisions of contracts on keeping a register of investment fund participants.

Source: UKNF

Table 54. Selected irregularities identified during inspection activities at an entity entrusted by an investment fund management company with the performance of activities related to the company's business in 2020

Compliance of operations with contracts with investment fund management companies, the law, and investment funds' articles of association	
1.	Operating based on contracts concluded with investment fund management companies, in which the scope of responsibilities resulting from service agreements does not correspond to the scope of activities actually performed by the entity, which may result in doubts as to the contract's nature and the scope of performed services.

Source: UKNF

In 2020, post-inspection recommendations were issued for 8 supervised entities. The implementation of post-inspection recommendations for the 14 supervised entities was verified.

8.7. SUPERVISION OF CAPITAL AND COMMODITY MARKET INFRASTRUCTURE COMPANIES

As part of supervision of capital and commodity market companies, the KNF Board decides on granting or extending licences and approves, or consents to:

- amending the rules of: Giełda Papierów Wartościowych w Warszawie S.A., Towarowa Giełda Energii S.A., BondSpot SA, Krajowy Depozyt Papierów Wartościowych S.A. and KDPW_CCP S.A.,
- amending the articles of association of: Giełda Papierów Wartościowych w Warszawie S.A., Towarowa Giełda Energii S.A., and BondSpot S.A.,
- changes in the composition of the management board of Giełda Papierów Wartościowych w Warszawie S.A., Towarowa Giełda Energii S.A., and BondSpot S.A.,
- outsourcing the performance of key operational functions by a company operating a regulated market,
- admission of non-securitised financial instruments to trading on a regulated market.

Table 55. Number of final decisions issued in the years 2017–2020

Entity being a party to the final decision	2017	2018	2019	2020
Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)	6	5	8	4
BondSpot S.A.	2	4	1	4
KDPW S.A.	4	2	6	8
KDPW_CCP S.A.	4	3	5	5
Towarowa Giełda Energii S.A.	2	5	7	9
Izba Rozliczeniowa Giełd Towarowych S.A.	–	1	1	–
Total	18	20	28	30

Source: UKNF

The number and the subject-matter of final decisions included in Table 55 are presented in Table 12.1.2 in Annex 12.1.

Representatives of the KNF Board attended 36 meetings of supervisory boards and 3 general meetings of shareholders:

- 8 meetings of the Supervisory Board of GPW w Warszawie S.A.,

- 7 meetings of the Supervisory Board of KDPW S.A.,
- 2 General Meetings of KDPW S.A.,
- 6 meetings of the Supervisory Board of KDPW_CCP S.A.,
- 6 meetings of the Supervisory Board of BondSpot S.A.,
- 4 meetings of the Supervisory Board of TGE S.A.,
- 5 meetings of the Supervisory Board of IRGiT S.A.,
- 1 General Meeting of IRGiT S.A.

Other tasks of the KNF Board in the area of supervision of capital market infrastructure companies also include inspection activities, such as:

- inspection activities at head offices of supervised institutions,
- drawing up official inspection reports.

In 2020, the KNF Board completed 1 inspection at a capital market infrastructure company.

The KNF Board also conducted 1 notification proceedings concerning a foreign depository of securities which already holds authorisation to operate as a depository in the EU. The granted notification enables the foreign entity to operate as a depository also in the Republic of Poland, in the scope covered by the notification.

8.8. APPROVAL OF PROSPECTUSES OF FINANCIAL INSTRUMENTS OTHER THAN INVESTMENT CERTIFICATES

In 2020, the KNF Board issued 40 final decisions on the approval of prospectuses and annexes/supplements updating the wording of the prospectus, including:

- 16 final decisions approving prospectuses of securities other than investment certificates (drawn up in the form of a single document or three documents),
- 24 final decisions approving annexes/supplements to prospectuses of securities other than investment certificates.

The data on the number of approved prospectuses and annexes/supplements to prospectuses in the years 2017–2020 are shown in Table 56.

Table 56. Number of approved prospectuses and annexes/supplements to prospectuses in the years 2017–2020

Breakdown	2017	2018	2019	2020
Number of prospectuses	37	25	18	16
Number of approved information memoranda	3	2	0	0
Number of approved annexes/supplements	96	71	53	24

Source: UKNF

In the period covered by this report, the KNF received 48 notifications of the approval of prospectus from supervisory authorities of other Member States.

In the course of 38 proceedings for the approval of prospectus in 2020, the KNF Board made more than 4 400 comments on the submitted documents.

In addition, the KNF Board issued 3 interim decisions to suspend administrative proceedings in respect of approval of a prospectus, 2 interim decisions to resume suspended proceedings, and 8 final decisions to discontinue administrative proceedings in respect of approval of a prospectus (annex/supplement to a prospectus).

The list of issuers whose prospectuses were approved by the KNF Board in 2020 is presented in Table 12.2.1 in Annex 12.2, while the current list of prospectuses approved by the KNF Board is available on the KNF Board's website.

8.9. GRANTING AUTHORISATIONS TO WITHDRAW SHARES FROM TRADING ON A REGULATED MARKET OR IN AN ALTERNATIVE TRADING SYSTEM

In 2020, the UKNF received 3 applications for withdrawal of shares from trading on a regulated market or in an alternative trading system, submitted pursuant to the amended Article 91(1) of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies (Act on public offering). In 2020, the KNF Board granted 25 authorisations to withdraw shares from trading; two of them were issued in response to applications received in 2019. Moreover, in 2020, 3 administrative proceedings in respect of granting authorisation to withdraw shares from trading were discontinued. Except for one, these rulings were issued as part of proceedings initiated by requests received by the UKNF at the end of 2019.

Table 57. Number of final decisions to grant authorisation to withdraw shares from trading on a regulated market or in an alternative trading system (Article 91(1) and (2) of the Act on public offering), issued by the KNF Board in the years 2017–2020

2017*	2018*	2019*	2020
21	22	16	25

Source: UKNF

* The data refer to the number of final decisions granting authorisation to restore shares to a certificated form.

8.10. SUPERVISION OF ISSUERS OF SECURITIES OTHER THAN INVESTMENT FUNDS

As part of supervision of issuers of securities other than investment funds, the UKNF supervises, in particular, the timeliness and correctness of meeting disclosure requirements, audit committees, reports on non-financial information, public offerings, and compliance with the requirements concerning announcement and implementation of tender offers to subscribe for the sale or exchange of shares of public companies.

8.10.1. ENFORCEMENT OF INFORMATION REQUIREMENTS

In 2020, the UKNF verified legal compliance of 1513 notifications made by persons acquiring or disposing of qualifying shareholdings in public companies pursuant to Article 69 of the Act on public offering, as well as 3 100 notifications made by entities obliged under Article 19 of MAR, pertaining to transactions of persons discharging managerial responsibilities and persons closely associated with them.

In 2020, public companies made public over 29 000 current reports, periodic reports, inside information and information relating to a list of shareholders holding at least 5% of the total number of votes at the general meeting. In 2020, as a result of supervising the compliance of meeting disclosure requirements with particular provisions of the Act on public offering and MAR, the KNF Board undertook 424 supervisory measures due to a suspicion of improper fulfilment of disclosure obligations by issuers. The KNF Board issued 232 recommendations for public companies to enforce compliance with disclosure requirements. The recommendations concerned irregularities in: periodic reports (49 recommendations, including

4 recommendations on non-financial information); inside information (67 recommendations), a list of shareholders authorised to participate in a company's general meeting and/or a list of shareholders holding at least 5% of the total number of votes at the general meeting actually held (15 recommendations); current reports (99 recommendations), and other information published by companies (2 recommendations).

In 2020, as part of its supervision over the reporting of issuers of securities other than investment funds, the KNF Board carried out, among others, the following activities:

- financial statements (including consolidated ones) of 59 issuers were reviewed for compliance with the applicable accounting standards, in particular International Accounting Standards, International Financial Reporting Standards and related Interpretations in the form of regulations of the European Commission, selected according to the selection methodologies referred to in ESMA Guidelines on enforcement of financial information (ESMA32-50-218, 4 February 2020). Based on the results of the analysis, a report is prepared and published on the KNF website,
- 141 positions and opinions for external entities were formulated and published in relation to, among others: application of IFRS, issuers' compliance with disclosure requirements with respect to periodic reports, and requirements concerning statutory audits of financial statements of public-interest entities,
- 25 recommendations were issued to enforce compliance with disclosure requirements in relation to financial statements.

8.10.2. SUPERVISION OF AUDIT COMMITTEES

In 2020, the supervision of audit committees of public-interest entities (PIEs) being issuers of securities admitted to trading on a regulated market covered 410 entities. In 2020, the following activities were undertaken in order to monitor compliance with the provisions concerning the appointment, composition and functioning of the audit committee or the supervisory board or other supervisory or controlling body

in the event that they are entrusted with the function of the audit committee:

- 67 PIEs were reviewed in terms of compliance with the obligation to appoint an audit committee, as required in the Act on statutory auditors⁴⁶,
- 92 PIEs were reviewed in terms of compliance of the composition of the audit committee or supervisory board performing the function of an audit committee with the requirements of the Act on statutory auditors with respect to independence and appropriate skills and knowledge of members of the audit committee/supervisory board,
- last annual reports of 66 issuers were reviewed in terms of complying with the disclosure requirement concerning the composition and operation of the audit committee or supervisory board performing the tasks of an audit committee, laid down in § 70(6) point 6(l) of the Regulation on current and periodic information⁴⁷,
- 11 PIEs were reviewed in terms of the operation of the audit committee with respect to the performance of tasks under the Act on statutory auditors.

In 2020, the KNF Board issued 7 recommendations for issuers to enforce compliance with obligations under the Act on statutory auditors and/or Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ L 158 of 27 May 2014, p. 77, as amended).

⁴⁶ Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws 2020, item 1415).

⁴⁷ Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws 2018, item 757).

8.10.3. ENFORCEMENT OF NON-FINANCIAL INFORMATION

The 2020 review of annual reports for 2019 has shown that 150 issuers whose securities are admitted to trading on regulated markets were subject to the requirement to disclose non-financial information, of which 66 entities made a statement on non-financial information pursuant to Article 49b(1) of the Accounting Act⁴⁸, 74 entities made separate reports on non-financial information, 4 entities submitted integrated reports, and 6 issuers benefited from the exemption under Article 49b(11) of the Act. In 2020, as part of the enforcement of non-financial information, the UKNF reviewed 100 non-financial reports made public by issuers admitted to trading on a regulated market, in terms of compliance with Article 49b of the Accounting Act. As a result of those supervisory activities, the KNF Board formulated 4 recommendations on publication of annual reports containing statements/reports on non-financial information as provided for in the legislation.

8.10.4. SUPERVISION OVER PUBLIC OFFERINGS

In 2020, in order to review public offerings conducted without the obligation to draw up and publish a prospectus or information memorandum approved by the KNF Board, the UKNF monitored the largest Polish crowdfunding platforms, the press, and the electronic media on an ongoing basis. In this manner, it identified 70 public offerings; 64 public offerings concerned shares, and 6 concerned bonds. 50 offerings were conducted with the use of crowdfunding platforms. In the case of 64 offerings, the UKNF requested the issuers to submit explanations or modify the information included in the securities note published in relation to the offering or in advertising materials. In one case, an issuer received a recommendation due to identification of a minor breach of law. In two cases, supervisory activities were undertaken in order to stop an announced public offering of shares. Both issuers voluntarily withdrew from continuation of a public offering. The basis for such action was, in the case of an issuer which conducted a public offering on a crowdfunding platform, conducting a public offering without an appropriate securities note, and in the second case, conducting a public offering without a legal basis. As a result of identifying the above breaches, the UKNF adopted measures in order to make a notification of a suspected criminal offence and enter the issuers on the list of public warnings.

Due to the growing number of public offerings conducted with the use of crowdfunding platforms, the UKNF, as part of preventive supervision, carried out an information campaign on investment crowdfunding. The campaign included publishing a guide for issuers, with guidelines explaining how to advertise public offerings on platforms. The UKNF also notified UOKiK about improper marketing activities of issuers.

8.10.5. ENFORCEMENT OF REQUIREMENTS CONCERNING ANNOUNCEMENT AND IMPLEMENTATION OF TENDER OFFERS TO SUBSCRIBE FOR THE SALE OR EXCHANGE OF SHARES OF PUBLIC COMPANIES

In 2020, 38 tender offers to subscribe for the sale of shares of public companies were announced and their formal and legal aspects were analysed; of which 10 tender offers to subscribe for the sale of shares were announced due to exceeding the threshold of 33% of the total number of votes at public companies, and 27 tender offers were announced for all other shares of the companies.

⁴⁸ Accounting Act of 29 September 1994 (Journal of Laws 2019, item 351, as amended).

The KNF Board undertook supervisory activities in relation to the tender offer to subscribe for the sale of shares of a WSE-listed public company, in which, when determining the price per share, the company failed to consider a prior transaction of indirect acquisition of its shares despite being obliged to do so. As a result of the KNF Board's activities, the company in question increased the price per share offered in the tender offer to the level which meets the legal requirements, which contributed to respecting the rights and interest of minority shareholders. In the period covered by this report, 1 tender offer was also made in connection with the intention to withdraw from trading, on a regulated market operated in the Republic of Poland, the shares of a foreign public company which is also listed in another EU Member State.

In 2020, the KNF Board, under Article 78(1) of the Act on public offering, in the case of 2 tender offers requested the company in question to change the content of the tender offer, and in the case of 10 tender offers requested explanations concerning the content of the tender offer. The value of the shares mentioned in the tender offers made in 2020 amounted to over 14.2 billion. For comparison, the value of tender offers made in 2019 amounted to almost PLN 11.2 billion, in 2018 it amounted to over PLN 4.5 billion, and in 2017 it amounted to over PLN 11.7 billion.

8.10.6. OTHER SUPERVISORY ACTIVITIES UNDERTAKEN TOWARDS ISSUERS OF SECURITIES OTHER THAN INVESTMENT FUNDS

In the period covered by this report, the KNF Board passed:

- one resolution on the public disclosure of information on the legal measures adopted by the KNF Board to prevent the breach of Regulation 596/2014 in relation to trading in shares of a public company,
- two resolutions on enforcement of public disclosure of information on the legal measures adopted by the KNF Board to prevent the breach of the Act on public offering in relation to making a tender offer to subscribe for the sale of shares of a public company.

In 2020, under the Act on trading in financial instruments, the KNF Board also issued 15 final administrative decisions on the request made by the Warsaw Stock Exchange for suspension of trading in shares of a public company due to possible violation of the interests of investors, in particular due to failure to comply with disclosure requirements in a timely manner or due to failure to provide accurate information, required by law, on the issuer's financial standing.

8.11. PENSION INVESTMENT SUPERVISION

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

8.11.1. MONITORING THE FINANCIAL SITUATION AND INVESTMENT AND OPERATING ACTIVITIES OF PENSION SOCIETIES

The supervision of financial and operating activities and investment policies of open, occupational and voluntary pension funds as well as the activities of general and occupational pension societies was performed through a systematic analysis of reporting data submitted by

the supervised entities to the UKNF. Another key task of the supervisory authority is to review, on a case-by-case basis, the detailed methodology for the valuation of financial instruments for which no valuation market is established or for which no prudent market-based valuation is possible, as provided for by pension funds. In the period covered by this report, the supervisory authority assessed 746 valuations provided by open pension funds (OFE), occupational pension funds (PFE), voluntary pension funds (DFE) as part of individual retirement accounts (IKE) or individual retirement protection accounts (IKZE), and voluntary pension funds (DFE) as part of employee capital plans (PPK).

Table 58. Valuation methodologies submitted by pension funds to the KNF Board for approval in the years 2017–2020

Type of funds	Number of methodologies submitted			
	2017	2018	2019	2020
OFE	344	285	307	429
PFE	16	5	16	31
DFE and FZD*	54	50	90	286
Total	414	340	413	746

Source: UKNF

* Since 2019, voluntary pension funds and target-date funds have been considered jointly.

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

In the period covered by this report, the KNF Board established and published the weighted average rate of return of all open pension funds twice, for periods from 31 March 2017 to 31 March 2020, and from 29 September 2017 to 30 September 2020.

Table 59. Statutory rates of return of open pension funds (OFE) calculated and published by the KNF Board in 2020 (in %)

Name of the open pension fund	Rate of return for the period	Name of the open pension fund	Rate of return for the period
	from 31 March 2017		from 30 September 2017
	to 31 March 2020		to 30 September 2020
Allianz Polska OFE	-23.723	AEGON OFE	-20.561
Aviva OFE Aviva Santander	-23.860	MetLife OFE	-21.523
MetLife OFE	-24.010	OFE Pocztylion	-21.708
AEGON OFE	-24.100	Allianz Polska OFE	-22.092
Nationale-Nederlanden OFE	-25.056	Aviva OFE Aviva Santander	-22.348
OFE Pocztylion	-25.855	Nationale-Nederlanden OFE	-22.563
Generali OFE	-26.146	OFE PZU „Złota Jesień”	-24.018
AXA OFE	-26.224	AXA OFE	-24.393
PKO BP Bankowy OFE	-26.402	Generali OFE	-24.535
OFE PZU „Złota Jesień”	-26.837	PKO BP Bankowy OFE	-24.563
Weighted average rate of return	-25.141	Weighted average rate of return	-22.836

Source: UKNF

Based on all information sent to the KNF Board in 2020, monthly, quarterly and/or annual statistical and financial data on the OFE, PPE and IKE markets and information on transfers of the OFE members were prepared and published on a regular basis.

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

- ‘Sytuacja finansowa powszechnych towarzystw emerytalnych w 2019 roku’ (Financial situation of general pension societies in 2019),
- ‘Raport emerytalny w Polsce (stan na koniec 2019 roku)’ (Report on pensions in Poland as of the end of 2019).

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

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

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

Table 60. Provisions of law on investment limits violated by pension funds in 2020

Provision of law	Number of violations*
Article 141(1) of the Act on the organisation and operation of pension funds	139
Article 142(1) point 1a of the Act on the organisation and operation of pension funds	3
Article 142(1) point 4 of the Act on the organisation and operation of pension funds	3
Article 142(1) point 5 of the Act on the organisation and operation of pension funds	176
§ 2(1) in conjunction with § 2(4) of the Regulation of the Council of Ministers on additional restrictions on investment activities pursued by pension funds	796
§ 2(2) of the Regulation of the Council of Ministers on additional restrictions on investment activities pursued by pension funds	3
Article 37(5) of the Act on employee capital plans	48
Article 37(11) point 1 of the Act on employee capital plans	530
Article 37(11) point 2 of the Act on employee capital plans	1 154
Article 37(13) point 1 of the Act on employee capital plans	698
Article 37(13) point 2 of the Act on employee capital plans	614
Article 37(13) point 3 of the Act on employee capital plans	607
Article 37(13) point 4 of the Act on employee capital plans	864
Article 37(8) of the Act on employee capital plans	212
Article 40(1) point 3 of the Act on employee capital plans	116
Article 40(1) point 4 of the Act on employee capital plans	238
Article 40(1) point 5 of the Act on employee capital plans	695
Article 96(1) of the Act on investment funds and management of alternative investment funds	210

Article 96(2) of the Act on investment funds and management of alternative investment funds	344
Article 96(3) of the Act on investment funds and management of alternative investment funds	9
Article 96(5) of the Act on investment funds and management of alternative investment funds	344
Article 100(1) of the Act on investment funds and management of alternative investment funds	4

Source: UKNF

* For reporting purposes, violations of the same provision by the same fund in respect of the same instrument or group of instruments occurring on successive valuation days are treated as further violations of the investment limit. The monitoring of infringements of laws has shown that the infringements resulted from changes in market prices being the basis of the valuation of assets and liabilities of funds, exchange rates or organisational or capital relations between entities whose financial instruments are the subject of a term deposit of the fund's assets, or from other circumstances on which the fund had no direct influence.

As part of the supervision over compliance with disclosure requirements, the UKNF verified the timeliness and correctness of daily and quarterly financial reports, operational reports of pension funds, financial statements of pension societies as well as monthly, semi-annual and annual asset composition published by the OFE. Submitted daily reports and other information were received and verified on a regular basis and, at the same time, any errors found in the transmitted data were clarified.

Table 61. Electronic reports on the financial and operational activities, together with corrections, sent and verified as part of the disclosure requirements of pension funds and societies, received in 2020

Type of reports submitted	Correct reports	Incorrect reports
Financial statements of the OFE	37 604	220
Operational reports of the OFE	2 541	26
Financial reports of the DFE* and FZD**	11 501	165
Operational reports of the DFE* and FZD**	127	8
Financial statements of the PFE	76	5
Operational reports of the PFE	16	1
Reports of the PTE	439	18
Reports of the PFE	8	0
Total	52 312	443

Source: UKNF

* Voluntary pension fund maintaining IKE and/or IKZE accounts.

** Target-date voluntary pension fund as part of PPK.

The results of the review and analysis show that in general, pension societies complied with the disclosure requirements in a proper and timely manner. The monitoring of the financial and investment situation of pension societies and pension funds managed by them allowed for a conclusion that:

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

The fulfilment by pension societies and pension funds of disclosure requirements, including reporting requirements, is subject to ongoing inspection, review and analysis. The results of the analysis, depending on their relevance and nature, form the basis for further individual supervisory decisions and support the supervisory review process for general pension societies (PTEs).

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

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

8.11.3. SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) FOR GENERAL PENSION SOCIETIES

The supervisory review and evaluation process (SREP) is a comprehensive process which uses all available information obtained by the supervisory authority in the exercise of direct supervision as part of inspection activities carried out at the supervised entities and indirect supervision through licensing, analysis of reporting data and additional inquiries sent to the PTEs in the form of supervisory calls or questionnaires. In 2020, due to the COVID-19 pandemic and the necessity of remote work not only for the employees of the UKNF but also the employees of supervised entities, a simplified (compared to previous years) supervisory review and evaluation process was conducted for 2019. The supervisory evaluation was made in relation to 11 PTEs and its results were reported to the management boards of 10 entities operating as at the day on which the relevant notice was sent.

9. INSURANCE MARKET

9.1. BASIC INFORMATION

9.1.1. INSURANCE SECTOR ENTITIES

As at the end of 2020, 60 domestic insurance undertakings were authorised to conduct the business of insurance in Poland: 27 life insurance undertakings and 32 non-life insurance undertakings (other personal insurance and property insurance) and 1 reinsurance undertaking.

Among domestic insurance undertakings, as at the end of 2020, 26⁴⁹ life insurance undertakings, 32 non-life insurance undertakings and 1 reinsurance undertaking carried out insurance activities.

9.1.1.1. BALANCE SHEET OF INSURANCE UNDERTAKINGS

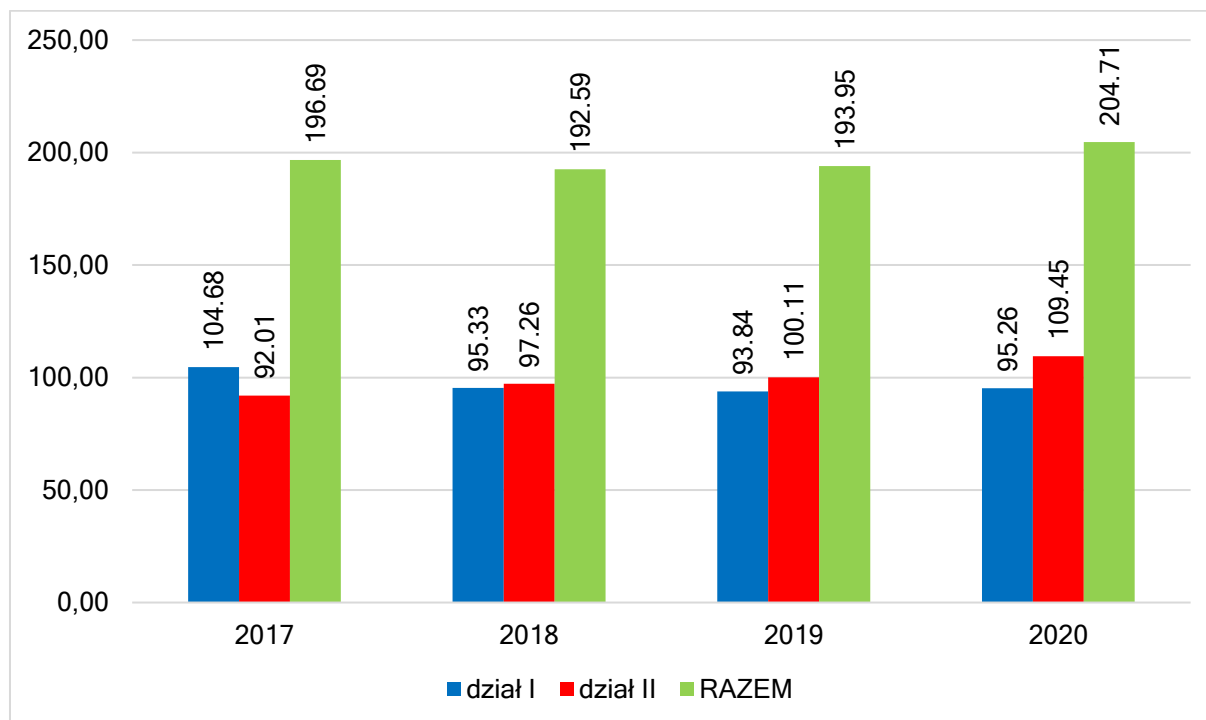
The value of assets of insurance undertakings in 2020 amounted to PLN 204.71 billion and increased as compared to the previous year by 5.55%, i.e. by PLN 10.76 billion.

Assets of life insurance undertakings, equal to PLN 95.26 billion, increased by 1.52% (i.e. by PLN 1.42 billion) in comparison with the previous period.

At non-life insurance undertakings, the value of assets amounted to PLN 109.45 billion, which represented an increase of 9.32%, i.e. PLN 9.33 billion, compared with the corresponding period of the previous year.

⁴⁹ On 31 July 2020, the Annual General Meeting of AMERIGO Życie TUW passed a resolution to dissolve the company and open its liquidation (17 April 2020 – decision of the KNF Board on transferring the portfolio of MACIF ŻYCIE TUW to SALTUS TU na ŻYCIE SA; 21 May 2020 – change to the entry in the register from 'MACIF ŻYCIE TUW' to 'AMERIGO ŻYCIE TUW').

Diagram 33. The balance sheet total in the years 2017–2020 (in PLN billion)



Source: UKNF

The data for 2020 come from the financial statements of insurance and reinsurance undertakings for the fourth quarter of 2020 and they should be treated as preliminary. The data for previous years may differ from the data published in previous reports due to corrections made by undertakings.

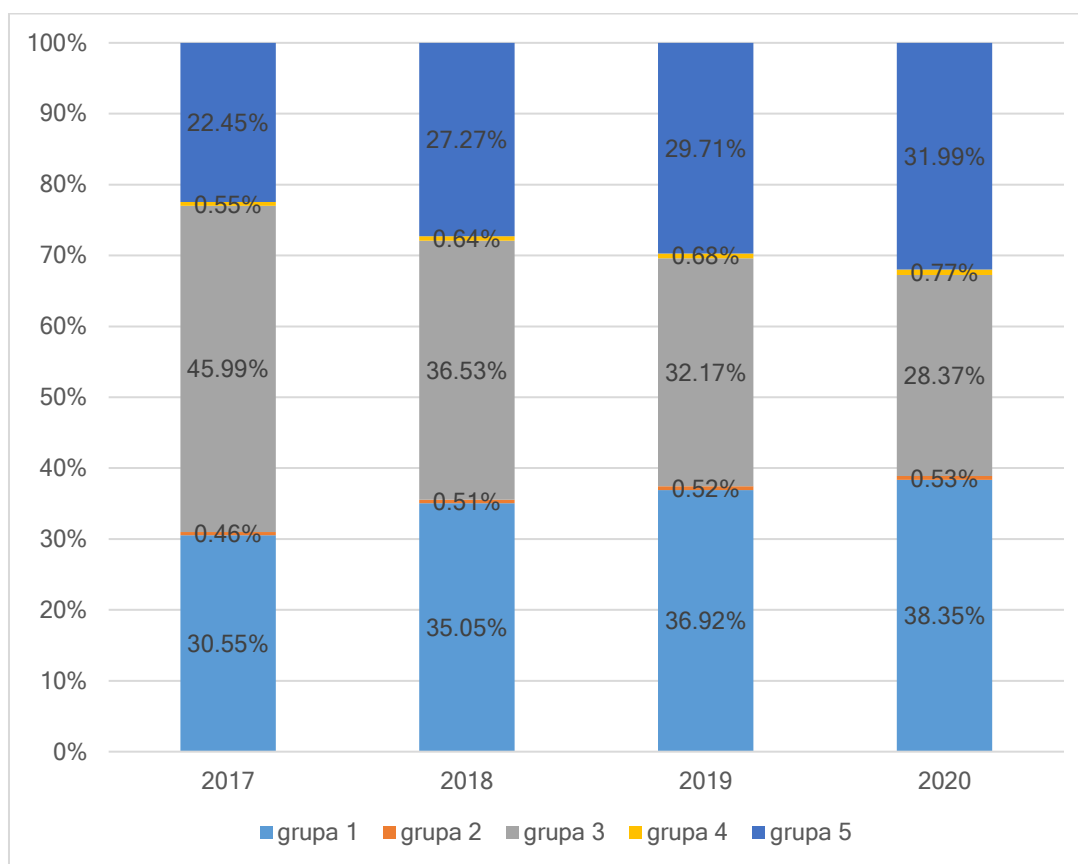
The main item of insurance undertakings is represented by deposits (investments), which represent 63.82% of the balance sheet total, and net assets of life insurance (where the investment risk is borne by the policyholder), whose share in the balance sheet total amounts to 23.73%. The structure of liabilities was dominated by gross technical provisions, which accounted for 74.62% of liabilities, and capital and reserves, which accounted for 22.91% of liabilities.

9.1.1.2. REVENUE OF INSURANCE UNDERTAKINGS

In 2020, the gross written premium, being the main source of revenue of insurance undertakings, amounted to PLN 63.42 billion, which means that the insurance market recorded a decrease of 0.62% as compared to 2019. The change was due to a decrease in the gross written premium for life insurance undertakings of PLN 0.53 billion, i.e. 2.42% (the premium reached PLN 20.75 billion) and there has been a slight increase for non-life insurance undertakings of PLN 0.12 billion, i.e. 0.28% (the premium of PLN 42.68 billion).

The direct insurance portfolio of life insurance sector was dominated by Class 1 insurance products (life insurance products) with a premium of PLN 7.96 billion, which products accounted for 38.35% of the total gross written premium from life direct insurance undertakings. This class recorded an increase of gross written premium by PLN 0.12 billion. Class 5 insurance (accident and sickness insurance, as long as it supplements insurance listed in Classes 1–4) with a premium of PLN 6.64 billion (an annual increase of PLN 0.32 billion) accounted for 31.99% of direct life insurance.

Diagram 34. Structure of the life insurance portfolio in the years 2017–2020



Source: UKNF

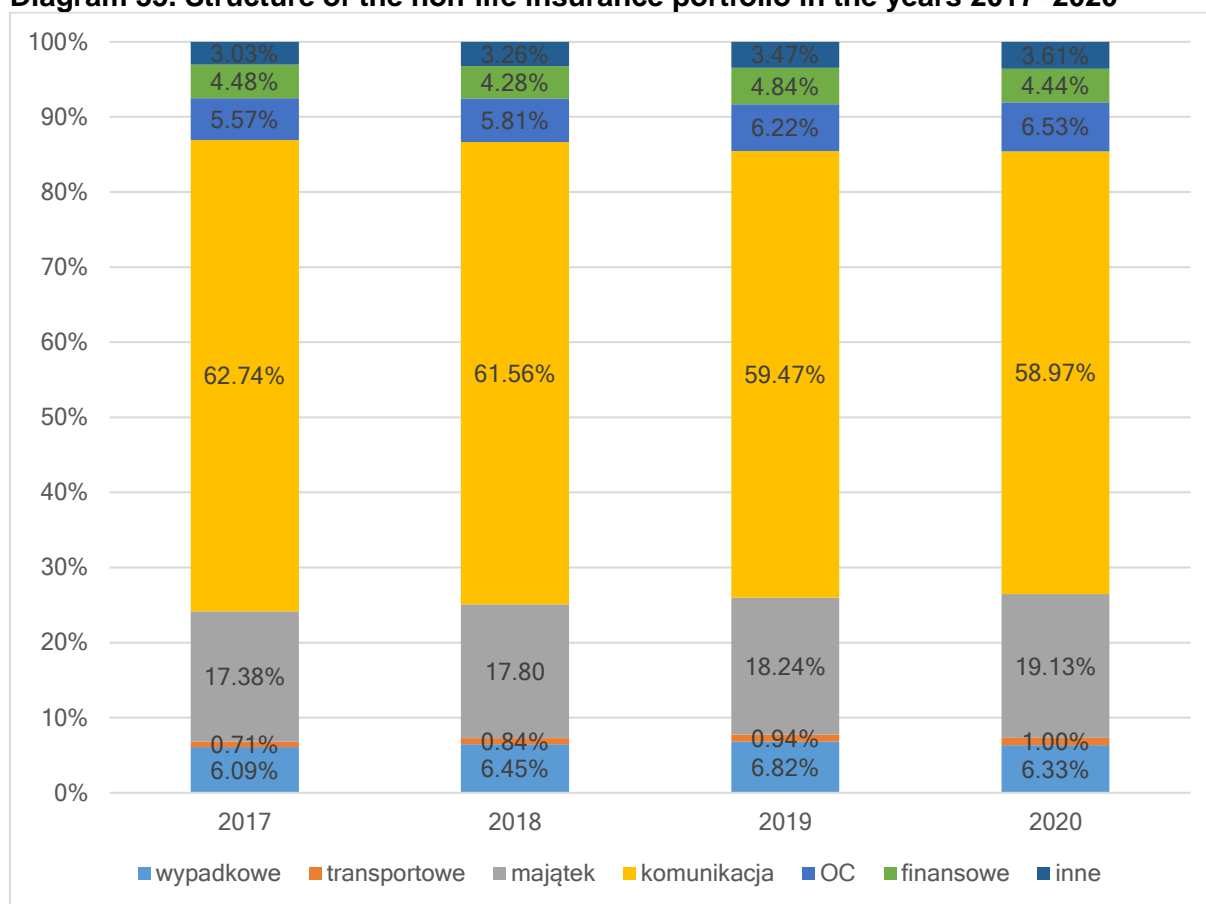
For non-life insurance undertakings, an increase in the premium was reported in 10 out of 18 insurance classes. The largest increase in the gross written premium was reported in Class 8 (insurance against damage caused by natural forces, including damage to or loss of property not included in Classes 3–7), of PLN 0.39 billion to PLN 3.94 billion (10.99% YoY) and in Class 13 (general third party liability not included in Classes 10–12), of PLN 0.17 billion to PLN 2.55 billion (6.95% YoY). There was also an increase in Class 3 (accident and theft insurance), of PLN 0.13 billion to PLN 8.80 billion (1.48% YoY).

7 out of the remaining 10 classes of non-life insurance reported a total increase in the gross written premium of PLN 0.15 billion (Classes: 1, 4, 5, 7, 14, 17, 18).

Among 18 classes of non-life insurance, a decrease in the premium occurred in eight classes, and in that respect particular attention should be paid to motor insurance, i.e. Class 10 (third party liability motor insurance), which recorded a decrease of PLN 0.29 billion (i.e. of 1.69% YoY) to PLN 14.63 billion, and in Class 2 (sickness insurance), which recorded a decrease of PLN 0.24 billion to PLN 0.78 billion (23.41% YoY). A decrease was also recorded in Class 16 (insurance against various financial risks), of PLN 0.14 billion to PLN 0.80 billion (15.03% YoY), and in Classes 6, 9, 11, 12 and 15 (a total decrease of PLN 0.09 million).

The structure of non-life insurance is still dominated by motor insurance (TPL, and accident and theft insurance), which accounts for 58.97% of the direct insurance portfolio.

Diagram 35. Structure of the non-life insurance portfolio in the years 2017–2020



Source: UKNF

9.1.1.3. RESULTS OF INSURANCE UNDERTAKINGS

Overall, the insurance market recorded a technical profit of PLN 6.10 billion (1.52% lower than in 2019) and a financial profit of PLN 6.09 billion (15.67% lower than in the previous year).

The life insurance sector generated a technical profit of PLN 2.97 billion (9.03% lower than in the corresponding period of the previous year) and a financial profit of PLN 2.21 billion (14.25% lower than in the corresponding period of the previous year). In terms of results of individual insurance classes, the deterioration of the technical result was due to the deterioration of the technical result in Class 1 (life insurance) – by PLN 0.59 billion (73.87%).

Other personal and property insurance products (the non-life insurance sector) generated a technical profit of PLN 3.13 billion (6.84% higher than in the corresponding period of the previous year) and a net financial profit of PLN 3.88 billion (16.45% lower than in the corresponding period of the previous year). In terms of results in individual classes of insurance, the increase of the technical profit over the year was mainly due to the improvement of the result in Class 3 (accident and theft insurance – the largest increase in non-life insurance by PLN 0.35 billion and in Class 8 (insurance against damage caused by natural forces, including damage to or loss of property not included in Classes 3–7) – an increase of PLN 0.14 billion compared with the previous year. In addition, it is worth noting that the technical profit in inwards reinsurance increased (an increase of PLN 0.14 billion, i.e. 134.90% YoY). For none of the other seven classes in which the technical result improved did the change exceed PLN 0.09 billion. However, there was a significant deterioration of the technical result in Class 10 (TPL motor insurance) by PLN 0.38 billion (a decrease of 42.35% YoY) and in Class 9 (insurance against other material damage, not included in Classes 3–7, but caused by natural forces other than those in Class 8) by PLN 0.11 billion (a decrease of 33.70% YoY).

Table 62. Basic figures characterising the activities of life insurance undertakings in the years 2017–2020 (financial data in PLN billion)

Breakdown	2017	2018	2019	2020
Selected balance sheet items				
Deposits (item B)	40.67	39.77	40.36	41.75
Net assets of life insurance where the investment risk is borne by the policyholder	59.13	50.76	49.05	48.57
Equity capital	11.93	11.54	11.46	12.82
Gross technical provisions	88.84	80.63	78.94	78.83
Balance sheet total	104.68	95.33	93.84	95.26
Selected income statement items				
Gross written premiums	24.56	21.70	21.28	20.75
Gross claims incurred	20.44	21.50	18.33	17.26
Costs of insurance activities	5.34	5.10	5.08	5.03
Acquisition costs	3.87	3.59	3.46	3.40
Administrative costs	1.65	1.64	1.71	1.72
Technical result	3.04	3.08	3.26	2.97
Net profit (loss)	2.28	2.44	2.57	2.21

Source: UKNF

Table 63. Basic figures characterising the activities of non-life insurance undertakings in the years 2017–2020 (financial data in PLN billion)

Breakdown	2017	2018	2019	2020
Selected balance sheet items				
Deposits (item B)	72.16	77.14	79.50	88.90
Equity capital	24.65	26.17	28.54	34.08
Gross technical provisions	60.91	65.99	70.31	73.92
Balance sheet total	92.01	97.26	100.11	109.45
Selected income statement items				
Gross written premiums	37.78	40.46	42.56	42.68
Gross claims incurred	17.81	19.50	20.40	20.66
Costs of insurance activities	8.39	9.17	9.98	10.39
Acquisition costs	7.94	8.99	9.69	10.03
Administrative costs	2.04	2.03	2.22	2.30
Technical result	2.07	2.93	2.93	3.13
Net profit (loss)	3.49	4.24	4.64	3.88

Source: UKNF

9.2. KEY ACTIVITIES

Considering the situation related with the state of epidemic announced in Poland and possible further economic impact of that state, and their expected impact on the insurance sector, numerous activities and initiatives were taken:

- preparing the Supervisory Stimulus Package for Security and Development in the area of insurance market, which enabled the supervised entities to focus on the reorganization of work when switching to remote work,
- strengthening the capital base of insurance undertakings by issuing a position on the dividend (retaining the dividend) and variable components of remuneration (postponement),
- introducing daily reports on the surrenders of unit-linked insurance products and additional weekly/bi-weekly reporting on identification of risks/threats related to COVID-19,

- modifying the stress test process and methodology in the sector of insurance, in particular with regard to prospective tests, which were to show, among others, the impact of the second wave of COVID-19.

Activities taken in order to diagnose the current situation in the area of unit-linked insurance products and prevent irregularities in future included:

- analysing the solutions used in the market to offer unit-linked insurance contracts, especially in terms of application of the analysis of product adequacy and supervision of insurance agents acting for insurance undertakings, and issuing positions in this regard,
- introducing additional reporting requirements related to unit-linked insurance products,
- assessing the value of an insurance product for clients,
- continuing intensive work aimed at issuing a product intervention measure (the first insurance product intervention measure in Europe) on the prohibition on marketing, distribution and sale of unit-linked life insurance products, products bearing excessive risk, unclear or unbeneficial for clients.

A reform of the insurance SRP was continued in order to strengthen market conduct supervision in the review, and to strengthen proportionality and supervision based on risk analysis. The KNF Board increased emphasis on prospective risk assessment, paying more attention to the specifics of operations and the nature of particular undertakings, introducing elements of assessing the macro risk (new and emerging threats in the macro perspective), division into peer groups specifying systemic importance of particular undertakings, and introducing two types of SRP – simplified SRP which covers only the quantitative assessment, and full SRP.

As a result of introducing a new model of supervision of the distribution of insurance, the following activities were performed: examining the degree of implementation and application by insurance agents of the requirements and obligations for insurance distribution and the model of cooperation between insurance undertakings and insurance intermediaries, preparing positions on performing the requirement on professional training, and reporting obligations were imposed on selected largest brokers and agents.

9.3. LICENSING ACTIVITIES

9.3.1. AUTHORISATION TO CONDUCT THE BUSINESS OF INSURANCE AND REINSURANCE

In 2020, one decision was granted in respect of authorisation to conduct the insurance business by a domestic insurance undertaking. The authorisation concerned CA Życie Towarzystwo Ubezpieczeń Spółka Akcyjna. Moreover, one final decision was issued on the change in the material scope of business.

As regards regulation of the business of insurance, in relation to two entities the KNF Board did not raise an objection to the general meeting's intention to adopt a resolution to dissolve a mutual insurance society. In addition, in 2020, there was also one case when the supervisory authority appointed a liquidator, and one case when it discontinued a proceedings on compulsory liquidation of an insurance undertaking.

Also, in one case, the whole insurance portfolio was transferred between domestic insurance undertakings.

9.3.2. NOTIFICATION CONCERNING THE CONDUCT OF INSURANCE BUSINESS IN POLAND

As at 31 December 2020, 727 insurance undertakings in EU Member States and other member states of the European Economic Area conducted insurance business in Poland under the freedom to provide services; there were also 27 insurance undertakings operating through a branch, and 1 reinsurance undertaking.

In 2020, the KNF Board received 24 notifications from foreign insurance undertakings of their intention to conduct cross-border business of insurance under the freedom to provide services, and 1 notification of the intention of a foreign insurance undertaking in an EU Member State to establish a branch in Poland under the freedom of establishment.

Moreover, 28 insurance undertakings in EU Member States notified their intention to change the scope of their insurance business conducted in the Republic of Poland, and 14 insurance undertakings (including 4 operating through a branch) from EU Member States reported the cessation of their insurance business in the Republic of Poland.

In addition, in 2020, the KNF Board received 29 notifications concerning insurance undertakings in EU Member States in relation to notification of the intention to transfer or take over an insurance portfolio in whole or in part, and 1 notification regarding merger of insurance undertakings involving a transfer of a portfolio.

9.3.3. CHANGES IN THE GOVERNING BODIES OF INSURANCE AND REINSURANCE UNDERTAKINGS

In 2020, the KNF Board issued 14 decisions on approval of the appointment of members of the management board of insurance and reinsurance undertakings (5 decisions on approval of the appointment of the president of the management board of an insurance undertaking, and 9 decisions on approval of the appointment of a member of the management board of an insurance undertaking responsible for risk management).

In 2 cases in respect of approval of appointment of a member of the management board, the proceedings were discontinued. A final decision to discontinue proceedings was also made in 1 case for derogation from the requirement that a member of the management board must have a university-level qualification.

9.3.4. AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF KNF-SUPERVISED ENTITIES

In 2020, the KNF Board issued 22 final decisions on approval of amendments to the articles of association of domestic insurance undertakings. Moreover, in 1 case the KNF Board ascertained the expiry of the decision to approve amendments to the articles of association.

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

In 2020, the KNF Board issued 5 final decisions on the proceedings in question. In all cases, no grounds have been found for objecting to the direct acquisition or take-up of shares. One of important ownership changes in the insurance market was the acquisition of the shares of AXA TUIR S.A. and AXA Życie TU S.A. by UNIQA Österreich Versicherungen AG.

9.3.6. ENTRY IN THE REGISTER OF ACTUARIES

In the period covered by this report, 9 final decisions on entry in the Register of Actuaries were issued. In addition, 1 final decision was issued on exemption from the requirement to take an actuarial exam. As at 31 December 2020, 413 actuaries were included in the register.

9.3.7. LEGAL CHANGES CONCERNING INSURANCE INTERMEDIARIES

Due to the epidemic situation in Poland and the related restrictions, at the initiative of the supervisory authority changes were introduced to the solutions included in the Regulation of the Minister of Finance of 21 August 2018 on the examination for persons applying for a license to provide agency services, distribution activities of an insurance undertaking and distribution activities of a reinsurance undertaking (Journal of Laws 2018, item 1746), by supplementing the existing regulations on the organisation of onsite agency examinations by insurance undertakings with provisions which allow conducting such examinations remotely, via an ICT system. The changes have been regulated in the Regulation of the Minister of Finance of 14 May 2020 (Journal of Laws 2020, item 883).

In view of the need to ensure proper supervision over preparing and conducting the examination by an insurance undertaking, the new regulation requires the insurance undertakings to submit, before the first examination conducted in the ICT system, a description of the system's functionalities which ensures a proper conduct of the examination, including confirming the identity of candidates and making sure that they work independently.

By the end of 2020, 51 insurance undertakings submitted the descriptions of functionalities of the systems in use, of which 45 insurance undertakings conduct the examinations in the manner specified in § 8a(1) of the Regulation in question.

Another legislative initiative of the supervisory authority which resulted from the epidemic was the amendment to the Regulation of the Minister of Finance of 12 December 2018 on the applications for entry in the register of insurance agents and agents offering supplementary insurance (Journal of Laws 2018, item 2417), consisting in providing the possibility of applying for the entry in the register based on document scans.

9.3.8. INSURANCE AGENTS AND PERSONS PROVIDING AGENCY SERVICES

In 2020, a total of 131 063 applications were processed in the electronic Register of Insurance Agents, including 9 159 applications for entry, 112 267 applications for modification of data entered in the Register, and 9 637 applications for removal from the Register.

As at 31 December 2020, the Register included 30 975 insurance agents and 239 242 persons providing agency services, including 28 agents offering supplementary insurance under Article 3(1) point 1 of the Act on insurance distribution and 1 201 persons providing agency services.

Table 64. Number of registered insurance agents and persons providing agency services in the years 2017–2020

Breakdown	2017	2018	2019	2020
Agents	31 828	31 427	31 293	30 975
including agents offering supplementary insurance	–	–	23	28
OFWCA	233 346	237 692	237 033	239 242

Source: UKNF

In 2020, the following number of entities were entered in the Register of Insurance Agents: 96 entities performing agency activities through persons employed at banks and credit unions

carrying out agency activities only in relation to insurance contracts or insurance guarantee agreements concluded by or through those entities, referred to in § 8 point 6 of the Regulation on the examination for persons applying for a license to provide agency services, including: 93 banks and 3 credit unions.

In 2020, parallel to the ongoing registration of applications, individual elements of the external online form and the internal register were systematically developed to achieve compliance of the application solutions with regulatory requirements.

9.3.9. INSURANCE BROKERS AND REINSURANCE BROKERS

Table 65. Register of brokers at the end of the years 2017–2020

Brokers		2017	2018	2019	2020
Insurance brokers	Natural persons	869	878	885	886
	Legal persons	505	516	523	531
	Total	1 374	1 394	1 408	1 417
Reinsurance brokers	Natural persons	12	14	13	14
	legal persons	37	40	40	42
	Total	49	54	53	56

Source: UKNF

In 2020, 3 589 changes were made in the data entered in the Register of Insurance Brokers and Reinsurance Brokers. As at 31 December 2020, 1 417 insurance brokers and 56 reinsurance brokers were included in the register.

In 2020, the KNF Board issued 56 authorisations to conduct brokerage activities in the field of insurance and reinsurance, including 28 authorisations for natural persons and 28 authorisations for legal persons. In the period covered by this report, 44 proceedings were conducted in respect of withdrawal of authorisation to conduct brokerage activities in the field of insurance and reinsurance.

Table 66. Number of authorisations to conduct brokerage activities in the field of insurance, granted by the KNF Board in the years 2017–2020

Breakdown	2017	2018	2019	2020
Natural persons	32	33	45	27
Legal persons	44	46	28	26
Total (excluding reinsurance)	76	79	73	53

Source: UKNF

In the period covered by this report, 4 examinations were conducted by the Examination Board appointed by the Minister of Finance, including 2 exams for insurance brokers and 2 exams for reinsurance brokers. In total, 457 persons took the exam. 261 candidates were successful (including 18 candidates for reinsurance brokers).

Table 67. Statistics on candidates taking the examination for insurance brokers in the years 2017–2020

Breakdown	2017	2018	2019	2020
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All candidates taking the exam	388	479	674	437
Candidates who passed the brokerage exam	186	341	221	243

Source: UKNF

Table 68. Statistics on candidates taking the examination for reinsurance brokers in the years 2017–2020

Breakdown	2017	2018	2019	2020
All candidates taking the exam	22	23	23	20
Candidates who passed the brokerage exam	18	23	21	18

Source: UKNF

9.3.10. NOTIFIED INSURANCE INTERMEDIARIES

In 2020, 267 insurance intermediaries intending to operate in the territory of the Republic of Poland were notified by registration and/or supervisory authorities in the European Union Member States, and notifications concerning 1 234 intermediaries were withdrawn.

9.4. SUPERVISORY ACTIVITIES

9.4.1. SUPERVISORY REVIEW PROCESS (SRP) FOR INSURANCE UNDERTAKINGS

9.4.1.1. ANNUAL

In 2020, the tenth edition of the Supervisory Review Process (SRP) for insurance undertakings was carried out. The SRP scores for 2019 were assigned to 57 undertakings⁵⁰, including 24 life insurance undertakings and 33 non-life insurance undertakings.

The SRP methodology is updated annually. The changes introduced to the SRP Methodology for 2019 result from a comprehensive overhaul of this methodology, which commenced in the year before and was planned for two years. In the course of changes introduced for the purposes of the SRP in 2019, the applied ratios, weights and limits were reviewed, the process of adjusting the SRP to the specifics of the undertakings' operations and the materiality of risks was continued, and new and emerging threats in the macro perspective in the risk assessment at undertakings were more broadly considered. The SRP was also expanded by adding the assessment of the undertakings' readiness to changes in the area of sustainability expected in the nearest future.

⁵⁰ As the licence for TUW Medicum w likwidacji was revoked on 31 December 2019, that undertaking was not subject to the SRP (on 28 September 2020, the liquidation of TUW MEDICUM was registered in the National Court Register under the name of 'TUW MEDICUM w likwidacji'). In addition, on 15 July 2020, the KNF Board informed on the lack of objection to the intention to dissolve AMERIGO ŻYCIE TUW, which on 5 August 2020 filed an application for voluntary liquidation of the undertaking (on 16 November, the liquidation of AMERIGO ŻYCIE TUW was registered in the National Court Register under the name of 'AMERIGO ŻYCIE TUW w likwidacji'). In addition, as the KNF Board issued a decision to authorise the conduct of life insurance business by CA ŻYCIE TU S.A. on 29 June 2020 (the undertaking started insurance operations on 22 November 2020), and as POLSKI GAZ TUW na ŻYCIE obtained authorisation to conduct the business of insurance under the decision of the KNF Board of 5 November 2019 and started insurance operations only on 1 July 2020, these undertakings were not subject to the SRP for 2019.

More information on the SRP and its place in the supervisory process can be found on the UKNF's website: The process of supervising insurance/reinsurance undertakings⁵¹.

As a result of the SRP, the undertakings were assessed for risk and the assessment, together with the classification of the undertaking, determined whether the supervisory authority should adopt appropriate supervisory measures, including inspections, in accordance with the principle of proportionality. Due to the new review methodology, although the SRP was conducted as of 31 December 2019, the events which took place until the date of awarding the assessment and had a significant impact on the result of the assessment, were taken into account when awarding the SRP assessment.

In December 2020, the KNF Board received information about the results of the Supervisory Review Process for insurance and reinsurance undertakings for 2019.

9.4.1.2. QUARTERLY

Apart from the annual SRP, a quarterly SRP was introduced, whose overarching objective is not to award a specific assessment, but to identify the level and assessment of particular ratios. Moreover, compared to the annual SRP, the quarterly review is a collection of selected key ratios (fully automatic assessment). The results of the quarterly SRP are sent to insurance/reinsurance undertakings.

The quarterly SRP has been conducted since the first quarter of 2020.

9.4.2. MONITORING FINANCIAL SITUATION OF INSURANCE UNDERTAKINGS

The assessment of the financial situation of insurance undertakings, in particular the assessment of their solvency, is carried out mainly on the basis of the quarterly and annual financial reports, additional reports required by the supervisory authority, as well as other information provided by undertakings on an *ad hoc* basis at the request of the supervisory authority.

In 2020, the activities in this regard concerned:

- analysis of financial statements and data and information for supervisory purposes submitted on a quarterly basis (240 reports) and annual basis (59 reports);
- analysis of changes to the operations of insurance undertakings as part of the Early Warning System based on 715 monthly reports;
- analysis of information provided as part of additional monthly reporting on the activities under Class 15, i.e. insurance guarantees (a total of 15 reports were analysed);
- analysis of information provided as part of additional monthly and *ad hoc* reporting (i.e. above the level set by the supervisory authority) for intra-group transactions (a total of 176 reports in that respect were analysed);
- analysis of the number of surrenders of unit-linked insurance policies reported daily and weekly for selected insurance undertakings, in particular in relation with the COVID-19 pandemic. The KNF Board received a total of 767 daily reports and 77 weekly reports. The submitted data show that in particular in the early stages of the pandemic, the number and value of surrenders was increased;
- analysis of activities of selected insurance undertakings in terms of investing the funds from premiums for unit-linked insurance products in investment certificates of closed-end funds, and in terms of suspended surrenders. A total of 87 reports submitted by insurance undertakings have been analysed;

⁵¹ https://www.knf.gov.pl/dla_rynku/Informacje_dla_podmiotow_nadzorowanych/proces_nadzoru

- the analysis of information provided by the Insurance Guarantee Fund (UFG) with respect to correctness and timeliness of fulfilment by insurance undertakings of the obligation to provide data to the Polish central database of the UFG Information Centre;
- analysis of information provided as part of additional reporting related to risks under Class 3 of Section I, i.e. unit-linked life insurance, reported monthly and quarterly;
- analysis of additional quarterly reporting in the area of third party liability insurance of motor vehicle holders (TPL motor insurance);
- meetings with the representatives of insurance undertakings to discuss the financial and property-related situation of undertakings and the situation related to the solvency of selected insurance undertakings, including the impact of the COVID-19 pandemic on their operations;
- meetings with European supervisory authorities to exchange information on the impact of the COVID-19 pandemic on the financial situation of the entire insurance group as well as particular insurance undertakings;
- meetings with statutory auditors to discuss the material risks in the operations of selected insurance undertakings, material from the perspective of auditing the financial statements.

Due to the COVID-19 pandemic, insurance undertakings have been directed to submit additional periodic information concerning among others the potential impact of the COVID-19 pandemic on the liquidity and solvency of insurance undertakings, and on identifying the risks/threats related with COVID-19. In 2020, insurance undertakings submitted a total of 1 663 reports in question. The reports in question did not show a material impact of the pandemic on the solvency and financial situation of insurance undertakings. However, in many cases the pandemic brought about significant changes to the operations of insurance undertakings. The obligation to submit additional periodic information on the impact of the COVID-19 pandemic on the operations has also been imposed on selected insurance distributors (insurance agents and brokers). In 2020, insurance distributors submitted a total of 126 reports in question.

9.4.3. STRESS TESTS IN THE INSURANCE SECTOR

In the first quarter of 2020, the UKNF prepared a report presenting the results of additional stress tests in insurance undertakings as of 30 September 2019, which covered two scenarios for the risk of blackout in non-life insurance and expected profits from future premiums (4 variants). Their methodology and assumptions were developed as a result of, among others, the cooperation between the representatives of the UKNF with the representatives of the expert group on the risk of drought and blackout, and the expert group on expected profits from future premiums, appointed as part of the Solvency II Sub-Committee at PIU.

In 2020, work continued on the use of stress testing in the supervision of insurance undertakings, in particular with regard to the assessment of resistance of the Polish insurance sector to extreme but still probable events, and to the improvement of management of risks at insurance undertakings.

The related activities of the UKNF started in early second quarter of 2020 from verification of the stress testing methodology for the insurance sector. The methodology of stress tests was changed compared to the previous year, taking into account their results for the previous year, the conclusions from the Own Risk and Solvency Assessment reports, the financial plans for 2020, the remarks of insurance undertakings regarding the previous stress test methodology, and, most of all, the situation related with the COVID-19 pandemic. Due to significant changes in the stress testing methodology as compared to the previous edition, the UKNF conducted public consultations on the new methodology. Based on the received remarks of insurance undertakings and the Polish Chamber of Insurance, the final version of the methodology was developed. The shock values of the conducted stress tests were recalibrated. Some of the scenarios were removed and new, prospective test scenarios were added: a second COVID-19 wave scenario and a liquidity risk scenario (covering non-life insurance undertakings).

In the end, apart from scenarios as of 31 December 2019, the 12th stress testing edition included scenarios as of 30 June 2020 and prospective tests based on updated financial plans of insurance undertakings for 2020.

On 1 July 2020, the revised stress testing methodology for insurance undertakings was published on the KNF website as part of the 12th edition, and insurance undertakings were asked to carry out stress tests.

The UKNF used the results of the stress tests to identify insurance undertakings with higher risks, i.e. those that did not pass stress tests and did not provide sufficient explanations. In addition, the stress tests for the second COVID-19 wave scenario were used to estimate its potential impact on the solvency of insurance undertakings even before it happened. The stress test results also identified the insurance undertakings in which inspection should be carried out.

Moreover, a new working group was appointed in the Polish Chamber of Insurance, which will develop stress testing scenarios related to climate change. They will ultimately be used by insurance undertakings as part of the ORSA process.

9.4.4. DIVIDEND POLICY OF INSURANCE UNDERTAKINGS

Due to announcing the state of epidemic in Poland and possible negative economic consequences of that state, and their expected impact on the insurance sector, on 26 March 2020 the supervisory authority issued a position in which it recommended that the entire profit generated in previous years be retained and that banks, without prior approval by the supervisory authority, refrain from taking other action, especially in areas outside day-to-day business and operating activities, that might weaken the capital base.

On 16 December 2020, the KNF Board unanimously adopted a position on dividend policy of commercial banks, cooperative and affiliating banks, insurance undertakings, reinsurance undertakings, insurance and reinsurance undertakings, investment fund management companies, general pension societies and brokerage houses in 2021⁵².

Compared with the position of the supervisory authority on the dividend policy of insurance undertakings of 3 December 2019, the criteria which allow insurance undertakings to pay dividend did not change. However, the dividend payment was limited to the amount of 100% of the profit generated in 2019 and 50% of the profit generated in 2020, and the coverage of capital requirements (after deduction of own funds for the expected dividend) as at 31 December 2020 and for the quarter in which the dividend was paid must be at least 175% for life insurance undertakings and at least 150% for non-life insurance undertakings.

9.4.5. REINSURANCE OF INSURANCE UNDERTAKINGS

In 2020, the UKNF drew up a report on outward reinsurance of domestic insurance undertakings, including reinsurance of catastrophic events. The report was created based on aggregated financial data included in financial statements of insurance undertakings for 2019, and the answers of insurance undertakings to the supervisory authority's question about the list of reinsurance undertakings and catastrophic events in 2019.

Reinsurance, especially reinsurance of catastrophic events, plays an important role among others in managing the risk of insurance undertakings, stabilising their financial results, and ensuring protection against the effects of catastrophic events. Life insurance undertakings use reinsurance to a very limited extent, which follows from the nature of their insurance business (e.g. long contracts terms). In non-life insurance undertakings, the level of outward reinsurance⁵³ was ca. 17.9% in 2019.

⁵²https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_KNF_ws_polityki_dywidendowej_w_2021_r_71933.pdf

⁵³ The relation between the share of reinsurance undertakings in the gross written premium, and the gross written premium.

The analysis of 33 questionnaires from non-life insurance undertakings has shown that the gross value of damages resulting from catastrophic events in 2019 was PLN 1 437.7 million, of which 32.1% was damage caused by natural catastrophes. About 38% of gross damages from catastrophic events, i.e. PLN 547.9 million, were incurred by insurance undertakings, and 62%, i.e. PLN 889.8 million, by reinsurers. In 2019, damages from catastrophic events accounted for 6.1% of the gross amount of damages and benefits from direct insurance⁵⁴ in non-life insurance undertakings. The largest gross damages were incurred due to events involving fires. Those gross damages amounted to PLN 537.7 million (37.4% of all gross damages from catastrophic events which occurred in 2019), of which PLN 98.8 million were incurred by insurance undertakings. It should be noted that catastrophic events included a very low number of events related to floods, droughts and spring frosts.

9.4.6. CLAIM DEVELOPMENT TRIANGLES

On 17 December 2020, on the KNF website there were published claim development triangles⁵⁵, which present cumulative damage payments broken down by year of damage and year of compensation payment for each business line, and claim development factors (or transition rates) that present average relations between payments in adjacent years.

The analysis of claim development factors was carried out on the basis of annual data and information for supervisory purposes prepared by insurance undertakings as of 31 December 2019 based on Template S.19.01 of Commission Implementing Regulation (EU) 2015/2450 for business lines 1 to 12 (shown together with their corresponding proportional reinsurance) of total liabilities from non-life insurance contracts aggregated by insurance undertakings. The analysis covered insurance undertakings operating in a given business line at least during one of the years covered by the analysis.

9.4.7. OWN RISK AND SOLVENCY ASSESSMENT (ORSA)

In 2020, the UKNF conducted an analysis of ORSA reports sent on a regular basis and *ad hoc*. The quality of ORSA reports improves year by year, especially in terms of broader identification of risks, better selection of stress tests and scenarios, and involvement of management boards of insurance undertakings in the ORSA process.

The conclusions from ORSA reports are used by the UKNF in ongoing supervision and for identifying risks which are most important for particular insurance undertakings and the entire insurance sector. The analyses serve as a basis for developing stress testing scenarios for next editions.

9.4.8. THIRD PARTY LIABILITY MOTOR INSURANCE

Similarly to previous years, one of important activities of the supervisory authority was analysing the situation in the motor insurance market, particularly in the area of Class 10 of non-life insurance, i.e. third party liability insurance of motor vehicle holders.

Based on information on changes in premium tariffs of TPL motor insurance, the supervisory authority monitored the appropriateness of changes in tariffs and analysed the impact of those changes on the technical result in Group 10.

In 2020, the UKNF also analysed the data submitted by insurance undertakings covering the policy years 2016–2019 with regard to, among others, the amount of premium, claims, and the number of risks, also by risk classes of the portfolio of TPL motor insurance. As a result of

⁵⁴ Gross claims incurred increased by the gross change in the provision for outstanding claims.

⁵⁵

https://www.knf.gov.pl/publikacje_i_opracowania/raporty_i_opracowania/ubezpieczeniowy?articleId=72000&p_id=18

conducted analysis, it was found that in the years 2017–2019, the situation in the area of TPL motor insurance stabilised, which was related to higher revenue from gross written premium mainly as a result of higher risk premium, as well as decreasing the technical provisions ('extinguishing' the impact of changes in the legal environment – this case law should be taken into account when calculating the premium in new contracts). It should be stressed that a positive development was the increase of the risk premium in TPL motor insurance, which amounted to PLN 521 at the end of 2019, compared to PLN 429 in 2016. Moreover, the risk premium in the policy years 2016–2019 amounted to, respectively, PLN 457, PLN 560, PLN 556 and PLN 528.

9.4.9. TECHNICAL RATE

In 2020, the supervisory authority sent a survey to non-life insurance undertakings in order to collect information necessary for assessing the applied technical rates and mortality tables in the area of TPL motor insurance when determining the amount of provisions for the capitalised value of annuities. The quantitative data submitted by insurance undertakings for financial years 2017–2019 made it possible to check the correctness of the weighted average rate of return on deposits for the last 3 years. As a result of analysing the submitted data, it was found that the technical rates applied by insurance undertakings did not pose a threat to meeting obligations due to annuities. However, due to a significant decrease in interest rates in 2020, the UKNF is preparing a request for insurance undertakings for adding the data for 2020 to the reports in question. The need for re-assessment stems from the 2020 decrease in the price of financial instruments valued at fair value, constituting deposits taken into account when calculating the provision for the capitalised value of annuities.

9.4.10. PRODUCT INTERVENTION

Due to irregularities identified in recent years in the area of consumer protection, in 2020 the UKNF continued intensive work aimed at issuing a product intervention measure in the area of prohibition on the marketing, distribution and sale of unit-linked insurance products. Intensive work was conducted based on cooperation with the representatives of the insurance market in Poland and cooperation with supervisory authorities in the EU, including EIOPA. Because of the pandemic, the decision was postponed from 2020 to 2021, which was communicated by the UKNF in the communication of 20 March 2020 entitled 'Supervisory Stimulus Package for Security and Development in the area of insurance market'.

9.4.11. ADDITIONAL REPORTING REQUIREMENTS IMPOSED BY THE UKNF ON INSURANCE UNDERTAKINGS

In 2020, additional reporting requirements were imposed on life insurance undertakings carrying out the business of insurance in Class 3 with regard to unit-linked insurance products. The forms in question are submitted to the UKNF by particular life insurance undertakings starting from the data for the second quarter of 2020 (taking into account the monthly data concerning unit-linked insurance policy surrenders and quarterly data concerning, among others, net assets of unit-linked funds, paid out claims concerning unit-linked insurance products, unit-linked insurance products, number of unit-linked life insurance policies etc.). In addition, in 2020 the UKNF introduced the obligation for life and non-life insurance undertakings to report data concerning 10 major products, distribution channels, 10 major entities (according to gross written premium) acting as intermediaries when concluding contracts for the insurance undertaking (excluding the sales conducted by the insurance undertaking directly), also by 5 major products, and in the case of non-life insurance undertakings also data concerning TPL motor insurance. The forms in question are submitted to the UKNF by particular life and non-life insurance undertakings starting from the data for the third quarter of 2020.

In order to implement the additional reporting forms in question for the purpose of additional reporting by insurance undertakings (and also taking into account the need to introduce further modifications to additional reporting forms based on conclusions from the analysis of data received from insurance undertakings), the UKNF, in its letter of 5 October 2020, asked the Ministry of Finance to start a legislative process aimed at amending the Regulation of the Minister of Finance of 29 April 2016 on additional financial and statistical reports of insurance and reinsurance undertakings (Journal of Laws 2018, item 392).

9.4.12. SUPERVISION OF INSURANCE UNDERTAKINGS FOR COMPLIANCE WITH THE DISCLOSURE AND REPORTING REQUIREMENTS AND THE LAW

Provisions governing the insurance business impose a number of disclosure requirements on insurance undertakings, towards both the supervisory authority and policy holders. Timely and complete fulfilment of disclosure requirements is one of the basic tasks of insurance undertakings and enables both the supervisory authority and the purchasers of insurance services to gain access to certain data relating to the operations of insurance undertakings. Due to the fulfilment of the statutory disclosure requirements by the undertakings, in 2020 the analyses covered:

- financial statements, including 234 additional quarterly financial statements and statistical reports, 60 additional annual separate financial statements and 5 consolidated annual statements,
- quantitative reports, including 240 quarterly reports for supervisory purposes, 60 annual reports for supervisory purposes, and 1 group report,
- solvency and financial condition reports (in terms of compliance with the requirements laid down in the legislation and EIOPA guidelines on disclosures), including 60 separate reports and 1 group report,
- regular surveillance reporting – 60 separate reports (including 32 reports on changes) and 1 group report,
- information on intra-group transactions/risk concentration (14 reports),
- financial plans of insurance undertakings for 2020 (60 reports),
- publication of annual reports of unit-linked funds (PL: *ubezpieczeniowy fundusz kapitałowy* – UFK) as at 31 December 2019 on the insurance undertakings' websites and semi-annual reports of unit-linked funds as at 30 June 2020 and 31 December 2019,
- information on individual retirement accounts (PL: IKE) and individual retirement protection accounts (PL: IKZE) as at 30 June 2020 (23 life insurance undertakings),
- information on Employee Capital Plans (13 reports).

9.4.13. EXAMINATION OF APPLICATIONS SUBMITTED BY INSURANCE UNDERTAKINGS

In 2020, the KNF considered the applications from insurance undertakings on:

- proceedings in respect of authorisation to repay a subordinated loan – 2 proceedings concluded with a final decision,
- exemption of an intra-group transaction on derivatives from the obligation to apply collateral – 1 proceedings concluded with a final decision, 1 proceedings started in 2020.

9.4.14. SUPPLEMENTARY SUPERVISION OF REGULATED ENTITIES IN FINANCIAL CONGLOMERATES

The UKNF has developed a concept and proposals for possible legal solutions for effective risk management at financial conglomerates. They cover a number of areas and take into account the legal environment and the practical aspects of the functioning of a financial conglomerate, and include an analysis of the admissibility of using legal solutions provided for in the draft holding law (i.e. in a regulation concerning groups of companies included in the draft Act amending the Commercial Companies and Partnerships Code and certain other laws).

9.4.15. SUPERVISION OVER INSURANCE DISTRIBUTION

As part of the supervisory tasks in the area of insurance distribution, in 2020 the UKNF prepared a Report on the Survey on insurance distribution addressed to insurance undertakings, which included conclusions and recommendations related to:

- verifying the fulfilment of insurance distribution requirements,
- examining the cooperation between insurance undertakings and insurance intermediaries,
- carrying out a systemic analysis of the commitment at the level of governing bodies of insurance undertakings and in the area of management system.

The report's findings and recommendations form a basis for planning and carrying out further supervisory activities.

9.4.15.1. SECOND EDITION OF A SURVEY FOR INSURANCE UNDERTAKINGS RELATED TO INSURANCE DISTRIBUTION

As part of the supervisory tasks in the area of insurance distribution, in 2020 the UKNF started the second edition of the survey on insurance distribution, addressed to selected life and non-life insurance undertakings. Compared with the first edition of the survey and drawing on the conclusions from the 'Report on the Survey on insurance distribution', the second survey was modified and focuses on the key aspects of distribution. The undertakings should send their answers by the end of February 2021.

9.4.15.2. SURVEY FOR DISTRIBUTORS RELATED TO INSURANCE DISTRIBUTION

Based on a survey on insurance distribution, sent to selected insurance agents in December 2019, in 2020 works were started on the report aimed at assessing the degree of implementation and application, by insurance agents, of requirements and obligations related to the distribution of insurance addressed to this category of insurance intermediaries. The work on the report is scheduled to complete in the first quarter of 2021.

9.4.15.3. DISTRIBUTION OF GEFION INSURANCE A/S INSURANCE

As on 24 March 2020 the Danish supervisory authority (Finanstilsynet) prohibited Gefion Insurance A/S from concluding insurance contracts, also as part of 'automatic renewals'⁵⁶, the UKNF obliged insurance intermediaries who participated in concluding related insurance contracts to provide clients with information to that effect. This activity was aimed at minimising the risk of the situation where, as a result of Gefion's inability to offer insurance contracts, clients are deprived of insurance cover, particularly in the area of TPL motor insurance. The UKNF monitors the fulfilment of this information requirement on an ongoing basis. If it finds irregularities consisting in the failure to provide clients with information about the lack of

⁵⁶ Insurance contracts concluded under Article 28(1) of the Act of 22 May 2003 on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau (Journal of Laws 2019, item 2214, as amended).

possibility of concluding a contract for TPL motor insurance with Gefion Insurance A/S, it conducts enforcement proceedings towards intermediaries.

9.4.15.4. SUPERVISION OVER THE FULFILMENT OF THE REQUIREMENT ON PROFESSIONAL TRAINING BY DISTRIBUTORS

On 23 June 2020, the UKNF published 'Communication from the UKNF concerning the consequences of the failure to meet the requirement on professional training specified in Article 12(1) of the Act of 15 December 2017 on insurance distribution (Journal of Laws 2019, item 1881)⁵⁷. The document focused on confirming the lack of possibility of fulfilling the requirement on professional training for 2019 in 2020, and on indicating the responsibility of the agent for using, in the distribution process, natural persons providing agency services (hereinafter: OFWCA) who did not fulfil the requirement on professional training, and specified the consequences of the failure to fulfil the requirement on professional training.

On 22 July 2020, the UKNF started to examine the fulfilment of the requirement on professional training for 2019. The analysis covered 59 domestic insurance undertakings⁵⁸ and 34 insurance agents. Based on the collected information, a report is being prepared on the fulfilment of the requirement on professional training for 2019. Work on the report is scheduled to complete in the first quarter of 2021.

9.4.15.5. SURVEY ON THE DISTRIBUTION OF UNIT-LINKED INSURANCE CONTRACTS

On 25 February 2020, the UKNF sent a survey on the conclusion of unit-linked insurance contracts to selected life insurance undertakings under Article 21(4) and (6) of the Act of 11 September 2015 on the business of insurance and reinsurance (consolidated text: Journal of Laws 2020, item 895, as amended) (hereinafter: 'Act on the business of insurance'). The questions related to, among others, the reasons for concluding such contracts, rules of cooperation with insurance intermediaries, and taking into account the issues related with concluding unit-linked insurance contracts in risk management, compliance and internal audit contracts. In the second stage, the UKNF sent a survey covering selected aspects of offering unit-linked insurance contracts under Article 21(4) and/or (6) of the Act on the business of insurance to insurance intermediaries.

Based on the collected information, a report is being prepared concerning problems related to offering unit-linked insurance contracts. The work on the report is scheduled to complete in the first quarter of 2021.

9.4.15.6. DISTRIBUTORS' REPORTING

Due to commencing the supervision of insurance intermediaries, the UKNF introduced, under Article 80(3) of 15 December 2017 on the distribution of insurance (Journal of Laws 2019, item 1881), periodic reporting aimed at obtaining from insurance intermediaries (selected insurance agents and insurance brokers) financial information and data on the distribution of insurance, including information on premiums, commissions, types of distributed products, and cooperation with insurance undertakings. Data collection will be continued in 2021. The information obtained in such manner is subject to ongoing analyses and is aimed at building a knowledge base on the insurance mediation market, including sales and product trends and relations between insurance undertakings and intermediaries. In 2021, the UKNF will gradually expand the reporting in question and undertake supervisory activities based on obtained information.

⁵⁷ https://www.knf.gov.pl/komunikacja/komunikaty?articleId=70119&p_id=18

⁵⁸ All domestic insurance undertakings conducting insurance operations in 2019.

9.4.16. PRE-APPLICATION PROCESSES FOR INTERNAL MODELS

The activities conducted by the UKNF in 2020 represented a continuation of activities carried out in previous years and consisted in maintaining working communication with undertakings, which translated into further actions aimed at eliminating errors in internal models and improving the models in terms of compliance with the provisions of Solvency II for the purposes of future submission of applications for the use of the internal model to calculate the solvency capital requirement.

In 2020, the UKNF's work on the assessment of internal models at the European level took the form of a pre-application process or a process of verification of continuous adequacy of the model. The representatives of the UKNF participated in international meetings and consultation, including with the representatives of a foreign supervisory authority as part of cooperation for the assessment of a planned request for a major change to a group internal model and in the activities of expert teams appointed by EIOPA. In addition, the employees of the UKNF were involved in preparing positions for the meetings of the Board of Supervisors of EIOPA (BoS) on issues related to internal models.

Work on the assessment of internal models (at both national and international levels) will continue in 2021.

9.4.17. REPORT ON THE COMPLIANCE FUNCTION

May 2020 saw the publication of the report 'Organisation of the compliance function in the functional and organisational structure of insurance undertakings – conclusions from analysing a survey on the compliance function', based on a survey addressed to selected life and non-life insurance undertakings in 2019. The survey was aimed at assessing the market practices related to organising the compliance function at insurance undertakings, and its role in the insurance undertaking's management system and product management system. Based on analysing the collected materials, the UKNF identified the general framework and market practices related to organising and exercising the compliance function.

The report's findings and recommendations form a basis for planning and carrying out further supervisory activities.

9.4.18. OTHER MATTERS RESULTING FROM ONGOING SUPERVISION OVER THE OPERATIONS OF INSURANCE UNDERTAKINGS AND OVER INSURANCE DISTRIBUTION

In other supervisory areas, the following activities were undertaken in 2020:

- at the request of insurance undertakings, 24 opinions were issued on the financial situation of insurance undertakings, including on meeting the solvency requirements provided by law,
- reports on the course of liquidation and the opening balance of the liquidation were analysed in order to assess the correctness of actions taken by the liquidators,
- 8 administrative proceedings were initiated towards insurance distributors, concerning a suspected breach of the Act on insurance distribution,

and the following cases were conducted:

- 33 cases related to reporting changes on the positions of persons supervising key functions, other than members of the management board, in insurance undertakings,
- 94 cases (preliminary investigations) related to the distributors' fulfilment of the training requirement specified in Article 12 of the Act on insurance distribution,
- 14 cases (preliminary investigations) related to the request to remedy the shortcomings or give explanations in the area of distributors' reporting,

- 32 cases (preliminary investigations) on offering unit-linked insurance contracts, in relation to insurance undertakings and insurance agents,
- 186 cases related to assessing the report on outsourcing or its significant change.

9.4.19. STUDIES ON THE INSURANCE MARKET SUBMITTED AT THE MEETINGS OF THE KNF BOARD

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

- Analysis of the motor insurance segment in the years 2016–2019 and in the first quarter of 2020,
- Additional stress tests in insurance and reinsurance undertakings as at 30 September 2019,
- Stress tests of insurance and reinsurance undertakings, 12th edition,
- Reinsurance of domestic insurance undertakings and catastrophic events in 2019,
- Information on the approval of Report on the activities of the Insurance Guarantee Fund in 2019,
- Reports on the condition of the insurance sector (after three quarters of 2019, after four quarters of 2019, after the first quarter of 2020 and after the first half of 2020),
- Position on the dividend policy of insurance undertakings, reinsurance undertakings, and insurance and reinsurance undertakings in 2021,
- Results of the Supervisory Review Process (SRP) for insurance/reinsurance undertakings for 2019,
- Activity of foreign insurance undertakings in Poland and domestic insurance undertakings abroad in 2018.

9.5. INSPECTION ACTIVITIES

9.5.1. INSPECTIONS AT INSURANCE UNDERTAKINGS AND REINSURANCE UNDERTAKINGS

In 2020, inspection activities were carried out at 18 insurance undertakings and reinsurance undertakings, including 12 inspections and 7 supervisory visits; at one entity, both an inspection and a supervisory visit took place. In total, inspection activities were conducted at 5 life insurance undertakings (4 inspections and 1 supervisory visit) and 13 personal and property insurance and reinsurance undertakings (8 inspections and 6 supervisory visits). It should be pointed out that due to the pandemic, new inspections at insurance undertakings and distributors were suspended in the period from March to June, and the ongoing inspections were conducted with lower intensity, mostly using electronic communication.

All inspections were targeted and covered between one and three issues.

In 2020, inspection activities were carried out in the following areas:

- assessment of risk to be covered (Article 21 of the Act on the business of insurance),
- claims settlement/payment of benefits,
- preparation of data and information for supervisory purposes,
- valuation of assets and liabilities for solvency purposes,
- valuation of technical provisions for solvency purposes,
- fulfilment of requirements concerning the solvency capital requirement (SCR) with regard to certain modules of the standard formula,
- investment policy,
- implementation of the recommendations submitted to the insurance undertaking in previous years,
- compliance with the requirements concerning the functioning of the management system,
- the manner of stress testing.

Due to the findings made in the course of the inspection activities towards insurance undertakings, in 2020 82 recommendations were issued to ensure compliance of the undertaking's activities with the law, articles of association and/or scheme of operations, to prevent infringement of interests of policyholders, the insured and beneficiaries under insurance contracts, and to remedy the irregularities found during the supervision process.

Table 69. Most common irregularities found during inspection activities at insurance undertakings and reinsurance undertakings in 2020

1.	Irregularities consisting in the failure to obtain – before obtaining the consent of the insured to the insurance cover – information about the policyholder's needs, knowledge and experience in the area of life insurance and about the financial situation of the insured.
2.	Irregularities consisting in presenting offers of insurance that are inappropriate for policyholders' needs due to including, in the list of unit-linked funds offered as part of an insurance contract, funds with a risk profile inconsistent with the level of risk specified in the questionnaire on the customer's needs and capacities.
3.	Irregularities consisting in the presentation of offers of insurance that are inappropriate for the policyholders' needs in terms of the investing period.
4.	Irregularities consisting in failure to provide the policyholder/insured with the reasons for an offer, or recommended insurance, including in particular identification of needs and explanation of how the presented offer of insurance or insurance cover under the insurance contract meets those needs.
5.	Irregularities consisting in submitting an offer of insurance on any other durable medium instead of in writing, without having the evidence of the policyholder's consent to such method of submitting the offer of insurance.
6.	Irregularities consisting in the failure to include, in the documents submitted to the policyholder, all basic information related to insurance contracts.
7.	Infringing the interests of the beneficiaries of TPL motor insurance, consisting in applying, for the purpose of determining the compensation with the use of cost estimate method, unreliable data on man-hour rates in the motor vehicle repair industry which do not reflect the real man-hour rates applicable at local repair garages, i.e. do not correspond to the actual costs of repair applicable at the place of residence or head office of the aggrieved party, or at the location of performing the repair.
8.	Irregularities consisting in the application of incorrect or unjustified assumptions in the valuation of technical provisions for solvency purposes.
9.	Irregularities consisting in incorrect definition of parameters used in the valuation of technical provisions for solvency purposes.
10.	Irregularities related to the application of incorrect assumptions when setting the solvency capital requirement.
11.	Errors in the implementation of the calculation formulas for the valuation of technical provisions for solvency purposes.
12.	Lack of measurement of assets and liabilities at fair value, and other irregularities related to the measurement of assets and liabilities at fair value.
13.	Irregularities relating to the documentation describing the method of valuation of assets and liabilities for solvency purposes as regards the description of the applied valuation methods.
14.	Irregularities in the area of investing the assets of unit-linked funds: failure to set uniform criteria for selecting assets for a unit-linked fund, failure to monitor if the investment limits of particular unit-linked funds are being observed, failure to comply with the investment risk management system implemented at the investment fund management company.

Source: UKNF

9.5.2. INSPECTIONS AT INSURANCE DISTRIBUTORS

In 2020, inspection activities were carried out at 9 insurance agents and 3 insurance brokers. The inspection activities were comprehensive and covered the insurance intermediary's operations in terms of compliance with the law.

Due to the findings made in the course of the inspection activities towards insurance undertakings, in 2020 52 recommendations were issued to ensure compliance of insurance distributors' operations with the law.

Table 70. Most common irregularities identified in the activities of insurance brokers during inspections in 2020

1.	Failure to provide advice to customers with a recommendation on the best contract, or recommending a contract without any fair analysis of the insurance products available on the market and without explaining the reasons for the recommendation.
2.	Providing advice to customers with a recommendation on the best offer otherwise than in writing.
3.	Failure to provide customers with documents containing information on the product before concluding the insurance contract.
4.	Failure to make changes in the Register of Intermediaries in relation to details of natural persons performing brokerage activities, immediately but not later than 7 days from the occurrence of such changes.
5.	Conducting brokerage activities in the area of insurance distribution, including activities consisting in providing assistance in cases for compensation or benefits, through persons who were not entered in the Register of Brokers.
6.	Conducting agency activities in the area of insurance distribution through persons who were not entered in the Register of Agents.
7.	Failure to provide the customer, at the time of the first act, with information about the entry number in the Register of Insurance Intermediaries, the address of the website on which the Register is available, how to check the entry in that Register, about the remuneration received in connection with the proposed conclusion of an insurance contract, about the option for filing a complaint and alternative dispute resolution, or providing such information otherwise than in paper form.
8.	Agent's failure to ensure appropriate supervision of persons conducting agency activities on behalf of the agent.
9.	Failure to fulfil the training requirement by natural persons entered in the Register of Insurance Intermediaries.

Source: UKNF

10. CROSS-SECTORAL ACTIVITIES

10.1. INNOVATIVE ACTIVITIES AND NEW TECHNOLOGIES

10.1.1. DEVELOPMENT OF INFORMATION TECHNOLOGIES

In 2020, as part of the development of information technologies, the following activities (divided by area) were carried out.

In the area of insurance supervision:

- the Insurance Supervision System (SNU) was adapted to the management of statements compliant with Solvency II Directive, including management of new Solvency II reporting packages 2.4.0. (quarterly data and information for supervisory purposes – insurance and reinsurance undertakings; quarterly data and information for supervisory purposes concerning SCR – insurance undertakings; quarterly data for financial stability purposes submitted by groups; annual data for financial stability purposes submitted by groups; quarterly data and information for supervisory purposes – groups; annual data and information for supervisory purposes – insurance and reinsurance undertakings; annual

data and information for supervisory purposes – groups), the SAP BO reporting was adapted accordingly;

- a system was designed and deployed to maintain the List of Notified Intermediaries. The project included the delivery of the List of Notified Intermediaries in Poland, with a public search engine;
- the SNU system was modified with regard to its database on the legal and organisational situation of insurance/reinsurance undertakings. The work involved modifications related to the new scope of information and the methods of displaying and sorting data. The modifications related to options for:
 - representatives of insurance undertakings,
 - international activities of undertakings,
 - supervisory and management boards of undertakings,
 - documents related to the undertaking;
- a functionality was added to the SNU system to enable exporting data from reports to the .xlsx format without opening them in the Reporting Application;
- an initiative to create reports for the purpose of the Annual Report on Brokerage Activities was successfully completed. A set of over 30 supporting reports was created using new elements of the infrastructure: Microsoft SQL Server and Power BI;
- a project for the development and modification of the system of the Register of Insurance Intermediaries (RPU-RW) was carried, aimed at:
 - adding a functionality to enable the correction of invalid entries identified during ongoing supervision over the register of insurance intermediaries,
 - adding a functionality to enable the processing of previous applications submitted by persons who did not hold Personal Identification Number (PESEL) and those without a trusted profile,
 - adding a functionality to enable entry in the Register for applications submitted by undertakings notified by foreign institutions,
 - responding to requests made by representatives of undertakings during training courses organised by the UKNF as part of the CEDUR educational project by changing the scope of data visible in the external application, thus improving communication and exchange of information between the UKNF and insurance undertakings.

In the area of capital supervision:

- the ESPI system was adapted to the acceptance and validation of annual reports for financial years beginning on or after 1 January 2020 prepared by issuers in the European single reporting format (ESEF);
- as part of the initiative, comprising the adaptation of the ESPI system for the purpose of reporting infringements of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (MAR), the functionalities of reports were expanded to include suspicious transaction and order reports (STOR) and an analytical tool was created to enable reporting of infringements;
- to prepare for the UK's withdrawal from EU structures (Brexit), the following ESMA databases were switched to reporting without considering the data from the UK: FIRDS, FITRS, TREM. The work consisted in considering new reference data provided by ESMA and blocking the option of sending transactions executed on Polish financial markets to the UK;
- a set of IT tools were developed to manage unit-linked insurance funds (PL: *ubezpieczeniowy fundusz kapitałowy* – UFK), including:
 - UFK glossary, with functions such as automated feeding based on reports from insurance undertakings transmitted via the Reporting Application, a mechanism for approving those entries, storing the history, synchronisation with the SNU and Sharepoint;

- UKF rules library – a database of unstructured documents for more than 2 500 unit-linked insurance funds with fully automated feeding from reports of insurance undertakings, including metadata from the UFK glossary;
 - making available the data from the SNU – a set of dedicated optimally efficient data marts;
- modifications were made in ESPI, ESNaR and SNARK systems following the implementation of new versions of reporting forms. Under the Regulation of the Minister of Development and Finance of 28 June 2017 on periodic reports and current information concerning the activity and financial standing of investment fund management companies and investment funds provided by such entities to the Polish Financial Supervision Authority (Journal of Laws 2017, item 1285) currently in force, current reports, current information and periodic reports of TFIs and investment funds submitted to the KNF Board should contain identification data and a legal basis, and they should be numbered consecutively in a given calendar year (§ 3 sub-paragraphs 4 and 5). Modification was made in the mechanisms of the schedule and for detaching attachments to the reports sent via ESPI;
 - mechanisms were created to export data from internal registers of Issuers and Issuers from Alternative Trading Systems (ATS) and from the Short Sale Register to the search engine of supervised entities on the KNF website.

In the area of banking supervision:

- the purpose of the EUCLID project is to comply with the requirements imposed by EBA on the UKNF in relation to the exchange of registration and reporting data relating to credit institutions supervised by the UKNF. The project will involve the design and deployment of IT solutions and defined processes for the processing and submission to EBA of data of credit institutions for purposes of the register of credit entities and for supervisory reports of credit institutions in a format required by EBA (ITS). The following tasks were completed under the project:
 - a channel was created and launched to enable data transmission to EBA,
 - infrastructure was prepared for the UKNF data warehouse,
 - a data storage structure and tool were prepared (to ultimately store data in a single UKNF data warehouse),
 - a tool was implemented to enable validation and processing of XBRL data (conversion of XBRL to Excel),
 - a structure was created for parallel processing and Big Data analysis (Hadoop cluster),
 - the conversion of data feeds to the old analytical tools was successfully completed in line with the set policy (enabling specialised departments to work after changes in the data structures at the NBP),
 - new analytical tools were deployed;
- the BIONB IT system, supporting the process of audit and supervisory assessment, was adapted to the current methodology, which enabled the assessment to be carried out in 2020.

In other areas:

- the Registers of Credit Intermediaries and Non-bank Lending Institutions were designed and deployed to enable the maintenance of four registers:
 - Register of Mortgage Credit Intermediaries (RPH),
 - Register of Agents of Mortgage Credit Intermediaries (RHA),
 - Register of Consumer Credit Intermediaries (RPK),
 - Register of Non-bank Lending Institutions (RIP).

The project included development of a register to process applications for entry, to update information and to remove the entity. In the register of applications and the register of entities, appropriate validation functions and relations between specific data were provided, which functions significantly improve the quality of data in the register. A function was also

created to enable the importing of data on agents from an Excel file, thus streamlining the process of making entries. The system also includes a reporting module. As part of deployment and data migration, mechanisms for validation and verification of data accuracy were used, which improved the quality of data in the system. The registers are designed to enable automated processing of applications where external forms are created, and to provide a user authorisation module;

- the KNF Portal system was adapted to enable transmission of large surveys from domestic payment institutions which must be submitted to the UKNF under the Regulation of the Minister of Finance of 2 December 2019 on quarterly and additional annual financial and statistical reports of a domestic payment institution (Journal of Laws 2019, item 2431);
- reporting functionalities were implemented for payment services offices (BUP) and small payment institutions (MIP) in the new eRUP system (Electronic Register of Payment Services), consisting in creating forms to comply with reporting requirements (BUP – monthly and annual reports, MIP – monthly, quarterly and annual reports) and in providing a reporting channel together with tools to analyse the reports at the UKNF. Another functionality is the option for correcting the reports using the same channel;
- modifications were also made in the eRUP2 (PSD2) register to enhance the performance and speed up the work in the register, such as:
 - deployment of a functionality for updating all registration data (of entities) based on XLSX files,
 - assigning UKNF reference numbers at the time of accepting an entity.

In the area of supervision of the entire financial market:

- under the ‘Digital Supervisory Agenda’ (PL: Cyfrowa Agenda Nadzoru – CAN) project of the ‘E-Supervisor’ (PL: Elektroniczny Urząd) sub-project: work was undertaken to determine business and technical requirements for the construction and launch of the Register of Entities, Register of Powers of Proxy, the new UKNF Portal, and the Central Repository of Data and Documents;
- a tool was deployed to create online forms to facilitate communication between supervised entities and the UKNF, including compliance with statutory requirements;
- as part of adaptation to the requirements under Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law, a channel for such reports was prepared.

In the area of management and organisation:

- the eRUP system was modified in regard to statements on advance payments made to cover the costs of supervision of:
 - Mortgage Credit Intermediaries for 2020,
 - Domestic Payment Institutions for 2019,
 - Capital Market for 2020.

In the area of infrastructure modernisation:

- the UKNF’s infrastructure was prepared for an increased load resulting from the need to switch to remote work mode. internet connection bandwidth and the capacity of the virtual private network were increased ;
- the IP telephony system was modernised, thanks to which employees can now contact each other more easily when working from home, and can participate in video conference calls and communicate using their existing phone numbers even when working from home;
- the server infrastructure was modernised – the virtualisation environment was expanded by adding new servers, which equips the UKNF with a state-of-the-art infrastructure providing high processing capacity for the systems which supervise the Polish financial market;
- data processing at the UKNF was unified and optimised. Data processing is one of the top priorities for IT development at the UKNF which significantly improves work efficiency at

specialist departments. The universality of the data storage model and advanced data processing tools will allow for flexibility and cost reduction when creating new applications for the UKNF;

- work continued to upgrade the database environment at the UKNF by launching servers for the new infrastructure, and procedures were launched to start data migration to a new environment, so the UKNF gained more computing power for the processing of data collected from the financial market;
- the UKNF started building a unified system for data acquisition, storage and distribution by delivering a database software subscription – building this system is necessary to carry out broadly defined analytical and supervisory functions. In 2020, the UKNF launched many additional projects based on Big Data collection, processing and analysis.

10.1.2. CYBERSECURITY RISK SUPERVISION IN THE FINANCIAL MARKET AND AT THE UKNF

The KNF Board exercises supervision over the cybersecurity of financial market entities. The UKNF performs tasks under the Act of 5 July 2018 on the national cybersecurity system (Journal of Laws 2018, item 1560, hereinafter: u.k.s.c.) (under the Act, the KNF Board is an authority competent for cybersecurity for the banking sector and the infrastructure of financial markets), and undertakes actions to ensure high level of cybersecurity at the UKNF.

10.1.2.1. INSPECTION ACTIVITIES

10.1.2.1.1. INSPECTIONS AT SUPERVISED ENTITIES

In 2020, inspection activities at supervised entities were carried out on the basis of the provisions of law and the KNF prudential recommendations, taking into account, *inter alia*, the guidelines of the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS), based on uniform standards and examination procedures included in the Inspection Manual.

Table 71. Inspection activities carried out by UKNF at supervised entities in 2020 in the area of ICT risk

Sector	Inspection activities	Number
Banking – commercial banks	Targeted inspection	5 ⁵⁹
Banking – cooperative banks	Targeted inspection	1
Insurance	Supervisory visit	2
Domestic payment institutions, payment services offices and domestic electronic money institutions	Targeted inspection	2
Capital	Targeted inspection	2
Total		12

Source: UKNF

Table 72. Material irregularities identified during inspection activities at supervised entities in 2020 in relation to ICT risk

Item	ICT risk
1.	Ineffective management of operational risk within the management system – in particular ICT security risk, which consists in failure to conduct a specialist audit in the areas of information

⁵⁹ 1 inspection at a banking sector entity operating as a key service operator as defined in the Act on the national cybersecurity system.

	technology and ICT security, usually related to the security of the system of insurance policies and claims, with a system component being available on the internet, or an audit of security of the WiFi network used in day-to-day operational activities.
2.	Failure to test business continuity plans and failure to carry out a full analysis of the impact on the business.
3.	Failure to carry out cyclical specialised security tests and internal audits in the area of mobile banking.
4.	Failure to monitor privileged users in IT systems.
5.	Lack of ongoing monitoring of threats related to attempts of malware to match the look of a bank's original mobile application made available to customers through Google Play and App Store.
6.	Failure to develop a contingency plan to be launched in case of inability of a third party supplier to perform the operations entrusted to it (IT services, online banking).
7.	Failure to carry out internal audits in the area of security and failure to ensure continuity of online banking services.
8.	Failure to carry out an annual analysis of performance and capacity.
9.	Failure to perform a regular review of documents and to record the review in the document metrics.
10.	Failure to indicate, in the computerisation strategy, priorities for ICT security and expected deadlines for the achievement of related goals.
11.	The management information system fails to contain an item regarding the reporting of IT service parameters in the area of online banking.
12.	The use of obsolete TLS protocols (in versions 1.0 and 1.1) in online banking.
13.	Lack of information reports on IT risks for key IT service providers in the area of online banking.
14.	Incomplete implementation of certain guidelines on the management of information technology and ICT environment security, despite the declaration of complete implementation.

Source: UKNF

In 2020, post-inspection recommendations were issued for 11 supervised entities.

10.1.2.2. PERFORMANCE OF OBLIGATIONS UNDER THE ACT ON THE NATIONAL CYBERSECURITY SYSTEM

The Act of 5 July 2018 on the national cybersecurity system (consolidated text: Journal of Laws 2020, item 1369–, hereinafter: 'Act on the national cybersecurity system', entered into force on 28 August 2018. The KNF Board, as an authority competent for cybersecurity for the banking and financial market infrastructure sectors, pursuant to Articles 42 and 53–54 of the Act on the national cybersecurity system, carried out the following activities. The responsibilities of the Competent Authority include without limitation identifying key service operators in accordance with the Implementing Regulation (to the Act on the national cybersecurity system) on the list of key services and materiality thresholds of the disturbing effect of an incident on the provision of key services – in relation to the key services for the banking and financial market infrastructure sectors, and then performing an ongoing analysis of entities in a given sector or sub-sector for recognising them as key service operators or non-compliance with the eligibility requirements for key service operators.

In the performance of its tasks under the Act on the national cybersecurity system, the KNF Board – as Competent Authority – has so far issued relevant administrative decisions on 21 entities in the banking and financial market infrastructure sectors, including one decision on the expiration of the decision to recognise an entity as a key service operator. As at 31 December 2020, there were 20 entities recognised by the KNF Board as key service operators.

Table 73. Number of key service operators in the banking and financial market infrastructure sectors as at 31 December 2020

Type of entity	2018	2019	2020
Banking and credit unions sector entities	15	16	16

Financial market infrastructure entities	4	4	4
Total	19	20	20

Source: UKNF

The Competent Authority was also responsible for cooperating with the Minister of Digital Affairs in relation to: the collection, analysis and submission to the Minister of Digital Affairs of information about the implementation progress of the tasks imposed, under the Act on the national cybersecurity system, on the key service operators in the banking and financial market infrastructure sectors, and in relation to the communication of information from the Minister of Digitalisation to the key service operators.

Moreover, in January 2020 the Competent Authority sent to key service operators a reminder about the new regulation (Regulation of the Minister of Digital Affairs of 4 December 2019 on the organisational and technical conditions for entities providing cybersecurity services and internal organisational structures of key service providers responsible for cybersecurity) and the related requirement to adapt premises or groups of premises.

In March 2020, the Competent Authority sent to key service operators (which were recognised as such a year before) a request for information about the implementation status of the tasks specified in Article 15 of the Act on the national cybersecurity system, i.e. the task of ensuring that the key service operator conducts a security audit of the IT system used to provide a key service. Under that Article, the security audit should be carried out within a year of the delivery of the decision to recognise an entity as a key service operator. The analysis of information as declared by the key service operators in the surveys indicates that the obligations imposed on them have been performed but full verification will only be possible during an on-site inspection conducted by authorised employees of the UKNF.

In May 2020, the Competent Authority asked key service operators to complete a survey concerning the security audit of the IT system used to provide a key service, which must be conducted under Article 15 of the Act on the national cybersecurity system in conjunction with Article 16 point 3. The analysis of information as declared by the key service operators in the surveys indicates that the obligations imposed on them have been performed but full verification will only be possible during an on-site inspection conducted by authorised employees of the UKNF.

In June 2020, the Competent Authority informed the key service operators about the formation of the Computer Security Incident Response Team (CSIRT) for the banking sector and financial market infrastructure.

In July 2020, the Competent Authority announced the commencement of consultations on the revision of the Network and Information Systems (NIS) and requested information about the dependence of the key services on the services delivered by digital service providers, which information is required by the Ministry of Digital Affairs. In September 2020, the Competent Authority participated in the KSC EXE nationwide, cross-sectoral cybersecurity exercises.

In October 2020, the Competent Authority in cooperation with NASK PIB organised a presentation of an IT system supporting a series of activities of entities being part of the national cybersecurity system. In December 2020, the Competent Authority informed key service operators about the position of the European Cyber Security Organisation (ECISO) on the revision of the NIS Directive, submitted to key services operators a cover letter with a questionnaire on phishing addressed to online banking clients and requested a review of the list of contact persons designated by key service operators (as referred to in Article 9(1) point 1 of the Act on the national cybersecurity system), responsible for maintaining relations with entities in the national cybersecurity system.

In addition to the above-mentioned activities, the Competent Authority communicated to key service operators, from time to time, information about cyberthreats related to the Polish financial market.

10.1.2.3. ACTIVITIES OF THE KNF CSIRT

On 1 July 2020, the KNF CSIRT was launched – to perform the tasks of the Sectoral Team for Cybersecurity, in cooperation with entities in the national cybersecurity system, in particular CSIRTs operating at national level – it supports the key service operators in the management of serious incidents occurring at those entities and carries out activities to analyse other incidents, trends and threats in the area of cybersecurity. The Sectoral Team for Cybersecurity was established by the KNF Board to coordinate activities and support the management of security incidents at financial market entities recognised as Operators of Key Services as defined in the Act of 5 July 2018 on the national cybersecurity system.

The main goal of the Sectoral Team for Cybersecurity is to support supervised entities in their fight against cybersecurity threats and to perform the tasks specified in Article 44 of the Act on the national cybersecurity system, including but not limited to:

- accepting reports on serious incidents and providing support in handling such incidents,
- supporting key service operators in their performance of obligations under the Act,
- analysing serious incidents, searching for links between incidents, and preparing post-incident conclusions,
- cooperating with the CSIRT MON, CSIRT NASK and CSIRT GOV, as appropriate, to ensure a coordinated process of handling serious incidents.

The formation of the KNF CSIRT is a response to the requests from supervised entities regarding the need to coordinate activities in the area of cybersecurity, to improve the exchange of information between financial market entities and to face the threats in a consolidated manner.

The KNF CSIRT also engaged in activities to improve the level of cybersecurity of non-professional market participants by:

- conducting training and educational activities in the area of cybersecurity,
- publishing warnings to financial service consumers about the *modus operandi* of cybercriminals,
- cooperating with CSIRTs at national level in the process of limiting access to domains used in the theft of funds – in 2020, the KNF CSIRT identified and reported more than 400 domains so that they could be blocked.

10.1.3. ACTIONS SUPPORTING THE DEVELOPMENT OF FINANCIAL INNOVATION (FINTECH)

In January 2018, the UKNF launched the Innovation Hub Programme. The supervisor uses the Programme to maintain a dialogue with FinTech businesses by providing answers to their questions, thus supporting the development of modern technologies in the financial market while ensuring security and appropriate customer protection. The Programme is open to KNF-supervised financial entities which are planning to deploy a new innovative solution and to non-supervised entities which are planning to start operating as part of the financial market – in particular early-stage firms (start-ups) that have an innovative financial product/service based on new IT technologies.

Innovation Hub Programme is very popular among financial market participants. The key topics discussed during the meetings include crypto-assets, crowdfunding, payment services

(including new PIS and AIS services), acquiring, mobile applications for smartphones, and video verification tools.

The functioning of the Innovation Hub Programme represents one of the mechanisms which achieve the statutory objective imposed on the KNF Board – supporting innovativeness in the financial market, as referred to in Article 4 item 3a of the Act of 21 July 2006 on financial market supervision (Journal of Laws 2020, item 2059).

In 2020, activities related to the Innovation Hub Programme continued. In the third year of the Programme, 34 entities applied to the UKNF to join the Programme: 16 applications concerned payment services, 8 applications concerned the capital market, 4 applications related to the banking market, 3 applications concerned systemic issues (related to all segments of the financial market), 1 application concerned the insurance sector, and 2 applications were not admitted to the Programme due to eligibility criteria. The applications concerned issues such as e.g.: electronic money institutions, crypto-currency exchanges, crowdfunding, smartphone applications, video verification, blockchain-based solutions, and crypto-assets.

Applicants are most interested in issues related to the capital market. In that respect, in 2020 the UKNF received 6 applications (50% of all applications in 2020), which regarded services related to the capital market (in particular crowdfunding, ICO and crypto-currencies), and 5 applications (40% of all applications in 2020) which regarded the payment services market.

In 2020, the UKNF coordinated the work of the Special Task Force for Financial Innovation (FinTech). The Task Force was appointed at the turn of 2016 and 2017 and its first meeting was held on 13 January 2017 to identify the barriers to the development of the FinTech sector and to come up with ideas how to remove them. In 2020, the Task Force held a total of 23 meetings in four working sub-groups:

- Systemic Sub-Group,
- Capital Market Sub-Group,
- Identity and AML Sub-Group,
- Consumer and Data Processing Sub-Group.

Due to a strong interest in the interpretation of the *Communication from the UKNF of 23 January 2020 on information processing by supervised entities using public or hybrid cloud computing services* in relation to barriers, after holding 18 meetings of the Task Force the UKNF organised another five meetings dedicated to the Communication. The outcome was the publication of Questions and Answers (Q&A) on the concerns about the application of the UKNF's Communication.

In August 2020, the OSINT Analyses Team was created by the UKNF at the FinTech Department to undertake work on the protection of interests of non-professional financial market participants and prevention of financial market abuse by raising the skills and awareness of the UKNF employees in the area of the use, analysis and understanding of information available on the Internet.

In the performance of the tasks in the area of FinTech as set out in the UKNF Digital Supervisory Agenda, on 25 November 2020 the PSD2 Virtual Sandbox was launched as a test environment for the simulation of a series of banking operations and the testing of solutions based on the Open API interface, in compliance with the Polish API standard. An entity planning to offer an innovative financial payment service may use the Sandbox to test the functionality of services such as PIS, AIS and CAF. As part of the Digital Supervisory Agenda, deployment work started on the test environment simulating a blockchain network to develop the blockchain network and technology in Poland.

The Agenda also involved the publication of Communication from the UKNF of 23 January 2020 r. on information processing by supervised entities using public or hybrid cloud computing services, Position of UKNF of 9 April 2020 on the operating principles of investment crowdfunding platforms, Position of the UKNF of 4 November 2020 on robo-advisory services

(i.e. the provision of investment advisory services using artificial intelligence), and Position of the UKNF of 10 December 2020 on the issuance and trade of crypto-assets.

Since 2019, within the Steering Committee for FinTech, the UKNF has continued activities aimed at ensuring coordination of actions and cooperation of state institutions for the development of the FinTech sector in Poland. The Steering Committee for FinTech is composed of representatives of: the Polish Financial Supervision Authority, the Ministry of Finance, the National Bank of Poland, the Chancellery of the President of the Council of Ministers – GovTech Polska, the Ministry of Development Funds and Regional Policy, the Ministry of Economic Development, Labour and Technology, and the Office of Competition and Consumer Protection. In 2020, four meetings were held on a quarterly basis.

Under the UKNF project: *Feasibility study on innovative technological solutions in the Polish financial market and identification of any legal, regulatory and supervisory impediments to its use, especially regarding DLT and RegTech (#FinTech) & sandbox*, the beneficiaries of which are the Ministry of Finance and the UKNF, as at 31 December 2020 work was under way to issue a UKNF recommendation on a model of a regulatory sandbox and a recommendation on solutions on how to use new technologies in SupTech (Supervisory Technology) processes. In December 2020, the UKNF initiated actions to become a member of the Global Financial Innovation Network (GFIN), an international network gathering more than 60 supervisory and regulatory authorities and related organisations pooling their efforts to promote financial innovation.

In May 2020, the National Centre for Research and Development (NCBR) announced the 3rd open competition GOSPOSTRATEG – *Social and economic development of Poland in the context of globalising markets*. The range of topics was relevant to the needs of the UKNF in regard to potential use of Big Data analyses in supporting decision making in institutional supervision in relation to the detection of anomalies and protection of interests of non-professional financial market participants. For that reason, for the first time the UKNF decided to apply for a grant as part of research and development programmes. The application was submitted in cooperation with members of a consortium established for that very purpose, i.e. University of Warsaw and SWPS University of Social Sciences and Humanities. The expert team of the consortium developed the concept of a project entitled: *Findexan – computational intelligence, social psychology and contextual parametrisation of information for the purpose of supporting institutional financial supervision in the face of an increasing threat associated with the digitisation of life*. The potential funding for projects in the GOSPOSTRATEG competition depends on the results of the formal and substantive assessment of the applications.

The knowledge of new phenomena in the financial market is not common so the UKNF undertakes actions to share the knowledge in the form of training courses/workshops and educational content with public administration institutions, representatives of certain European supervisory authorities, and financial market participants. The topics in question included safe and informed use of technological innovations in financial services, issues related with crypto-assets and crypto-currencies, and OSINT analysis.

The UKNF participated in the work on the report entitled *How to do FinTech in Poland*. The report contains information on Poland as a country open to FinTech firms and describes its main strengths, such as large groups of well-educated specialists, great academic background, and the presence of outsourcing centres of large corporations. Finally, the report mentions the main areas of UKNF support for FinTech businesses, including the Innovation Hub Programme, the issuance of KNF interpretations pursuant to Article 11b of the Act on financial market supervision, the issuance of official positions, and the activity of the Special Task Force for Financial Innovation, whose goal is to identify and remove the barriers to the FinTech sector's development in Poland.

The UKNF is engaged in an active dialogue with financial market participants, including FinTech firms, not only through official channels but also through participation in specialised

events, meetings held with the use of state-of-the-art communication technologies, and through social media. Those activities promotes the UKNF's initiatives to support the development of financial innovations and create a positive image of an open supervisory authority. Additionally, in order to expand the channels of communication with market participants, in 2020 the UKNF became engaged in a cycle of webinars entitled *SuperVision FinTech Talks*, organised by FinTech Poland Foundation and dedicated to the FinTech sector. Through the webinars, the UKNF experts held meetings with market participants to discuss current regulatory, technological and business-related issues in the FinTech market. The webinars provided the opportunity to become familiar with the position of the supervisory authority on those issues in relation to their practical aspects.

Continuing the initiatives from previous years, also in 2020 the UKNF was actively involved in the events aimed at promoting the topic of FinTech in Poland and abroad. Representatives of the UKNF took part in Impact'20 (23–24 September 2020) and Impact Finance'20 (25–26 November 2020) in Katowice, online. Representatives of the UKNF took part in the 12th Congress of Banking Law and Financial Technology and the Vision for Development Forum. In June and November 2020, for the first time the UKNF became a partner in the HackYeah hackathon, during which the participants developed for the UKNF an original tool called Scammtrapper, to support the OSINT analysis. The UKNF also participated in a number of other events promoting the topic of FinTech in Poland.

The activities promoting the FinTech environment were also carried out by the UKNF abroad. Representatives of the UKNF attended e.g. Singapore FinTech Festival 2020 (7–11 November 2020, through Impact Finance'20).

10.2. KNF REGISTERS OF NON-SUPERVISED ENTITIES

10.2.1. CONSUMER CREDIT INTERMEDIARIES

Section II of the Register of Credit Intermediaries applies to consumer credit intermediaries as defined in Article 5 point 3 of the Act on consumer credit (Journal of Laws 2019, item 1083). The KNF Board does not supervise that category of intermediaries but it keeps a register of them. Consumer credit intermediaries are entered in Section II of the Register of Credit Intermediaries at their own request.

In 2020, the KNF Board:

- entered 3 242 consumer credit intermediaries in the register,
- removed 84 consumer credit intermediaries from the register.

In the course of administrative proceedings related to consumer credit intermediaries in 2020, the KNF Board issued 1 decision to revoke the entire interim decision in respect of refusal to initiate proceedings for entry in the Register of Credit Intermediaries.

As at 31 December 2020, 35 367 consumer credit intermediaries were included in the register.

10.2.2. NON-BANK LENDING INSTITUTIONS

Non-bank lending institutions, as defined in Article 5 point 2a of the Act on consumer credit, are not supervised by the KNF Board. The KNF Board keeps the Register of Non-Bank Lending Institutions referred to in Article 59ab of the Act on consumer credit. An entry in the Register of Non-Bank Lending Institutions is made at the request of such an institution.

In 2020, the KNF Board:

- entered 40 non-bank lending institutions in the register,

- removed 12 non-bank lending institutions from the register.

In the course of administrative proceedings in relation to non-bank lending institutions, in 2020 the KNF Board issued 1 decision to refuse to enter a non-bank lending institution in the Register of Non-Bank Lending Institutions. As at 31 December 2020, 504 non-bank lending institutions were included in the register.

In 2020, 1 entity that had made a notification regarding its activities to be pursued in Poland through a branch was entered in the register, thus as at 31 December 2020 the register in question contained entries concerning 4 non-bank lending institutions which made a notification regarding their activities to be pursued in Poland through a branch.

10.2.3. ENTITIES CARRYING ON THE BUSINESS SPECIFIED IN ARTICLE 6 POINT 11 OF THE ACT ON PAYMENT SERVICES TO WHICH ARTICLE 6C(1) OF THE SAID ACT APPLIES

Entities carrying on the business specified in Article 6 point 11 of the Act on payment services to which Article 6c(1) of the said Act applies are not supervised by the KNF Board. The KNF Board keeps a register of those entities and the entry is made at the request of the entity. As at 31 December 2020, 4 such entities were included in the register.

10.2.4. ENTITIES CARRYING ON THE BUSINESS SPECIFIED IN ARTICLE 6 POINT 12 OF THE ACT ON PAYMENT SERVICES TO WHICH ARTICLE 6D(1) OF THE SAID ACT APPLIES

Entities carrying on the business specified in Article 6 point 12 of the Act on payment services to which Article 6d(1) of the said Act applies are not supervised by the KNF Board. The KNF Board keeps a register of those entities and the entry is made at the request of the entity. As at 31 December 2020, 8 such entities were included in the register.

10.2.5. FOREIGN INVESTMENT FIRMS WITHOUT A BRANCH

During the period covered by this report, the KNF Board received 84 notifications of the intention of foreign investment firms to conduct brokerage activities without a branch in the territory of the Republic of Poland, 177 reports on changes to notifiable data, and 57 reports on the cessation of brokerage activities in Poland.

As at 31 December 2020, there were 1 947 notified foreign firms without the branch.

10.3. PUBLIC SUPERVISION EXERCISED BY THE KNF BOARD IN CONNECTION WITH THE ACT ON STATUTORY AUDITORS, AUDIT FIRMS AND PUBLIC SUPERVISION

10.3.1. ACTIVITIES COMPLETED BY THE KNF BOARD IN RELATION TO THE KNF ACTION PLAN FOR 2020 WITH REGARD TO PUBLIC SUPERVISION UNDER THE ACT ON STATUTORY AUDITORS

In 2020, various UKNF departments conducted inspections of Public-Interest Entities (PIEs) in relation to compliance with the requirements under the Act on statutory auditors, including:

- verification of how the audit firm is selected in the case of 3 commercial banks, 10 cooperative banks, and 1 credit union;

- verification of appointment by PIEs of audit committees, including verification of compliance of the composition of those audit committees with the requirements of the Act on statutory auditors with respect to independence and appropriate skills and knowledge of members of the audit committee/supervisory board in the case of 3 commercial banks, 10 cooperative banks, 1 credit union, and 2 insurance undertakings;
- analysis of operation of audit committees with regard to the performance of tasks resulting from the Act on statutory auditors in the case of 3 commercial banks, 9 cooperative banks, 1 credit union, and 2 insurance undertakings;
- verification of development and implementation of the policy for choosing the audit firm to perform the audit and the policy on the provision, by the audit firm responsible for the audit, the entities related to that audit firm and the member of the audit firm network, of acceptable services other than audit in the case of 3 commercial banks, 9 cooperative banks, and 1 credit union.

In 2020, in the area of public supervision the UKNF conducted activities consisting in:

- reviewing the practices followed by selected PIEs to select an audit firm;
- monitoring compliance by selected PIEs with requirements on the rotation of audit firms and key auditors;
- reviewing the performance by selected PIEs of their obligation to appoint an audit committee, as required by statutory law;
- assessing selected PIEs in terms of the functioning of the audit committee in relation to the performance of tasks under statutory law;
- reviewing, in relation to selected PIEs, the development and implementation of the policy for choosing the audit firm to perform the audit and the policy on the provision, by the audit firm responsible for the audit, the entities related to that audit firm and the member of the audit firm network, of acceptable services other than audit;
- verifying whether selected PIEs have a policy regarding the provision of additional services by an audit firm, an entity affiliated to an audit firm or a member of its network.

In 2020, by means of decision, the KNF Board authorised 1 PIE (a securities issuer) to extend the term of the assignment of financial audit after the lapse of the maximum period of the assignment as specified in the Act on statutory auditors.

In 2020, administrative proceedings were conducted in connection with an infringement of Article 192(1) of the Act on statutory auditors by certain PIEs, including in relation to 1 securities issuer, members of the audit committee of 1 securities issuer, 1 commercial bank, and 1 cooperative bank.

Moreover, in the case of 2 insurance undertakings, a request was made to initiate proceedings in respect of an infringement of law punishable by administrative penalty for identified breaches referred to in Article 192(1) point 5 of the Act on statutory auditors, audit firms and public supervision, i.e. for non-compliance with the provisions on the appointment, composition and functioning of the audit committee.

During 2020, the following 2 meetings and 1 teleconference were held with auditors reviewing financial statements of individual PIEs:

- a meeting of representatives of the UKNF held on 6 February 2020 with auditors reviewing financial statements of investment firms and investment fund management companies,
- a meeting of the management of the UKNF held on 10 February 2020 with auditors performing audits of insurance undertakings classified under Class 3 of Division I (unit-linked life insurance),
- a teleconference of the management of the UKNF held on 17 December 2020 with auditors reviewing financial statements of insurance undertakings during which the auditors presented main conclusions/comments on the reviews performed in 2020 and the audits of financial statements of insurance undertakings for 2020.

Additionally in 2020, individual meetings/teleconferences were held with auditors regarding reports of respective PIEs (including 2 insurance undertakings, 4 commercial banks, and 1 cooperative bank).

It should be noted that for 3 commercial banks, 8 cooperative banks and 1 affiliating bank, representatives of audit firms also attended meetings of the UKNF inspection team with management boards of those banks aimed at summing up the findings made during the inspection.

Moreover, in the 1st half of 2020, e-mails were exchanged with auditors reviewing the reports of insurance undertakings on the impact of COVID-19 on the issues related to the audit of the solvency and financial condition report (SFCR) and the audit of statutory reports.

In 2020, following the requests from the Ministry of Finance, the UKNF submitted positions and opinions on the proposed amendments to the Act on statutory auditors, including the issue of extension of the rotation period for audit firms. The amendment to the rules on the rotation period, consisting in the direct application of provisions of Regulation 537/2014, came into force on 31 March 2020. At the same time, in the implementation of point 14 of the Action Plan for 2020, the UKNF performed a comprehensive review of the provisions of the Act on statutory auditors and, based on the experiences in public supervision of PIEs, presented on 29 July 2020 a detailed statement of issues, including proposals for amendments to the provisions of that Act which, in the UKNF's view, should be considered by the Ministry of Finance in the planned post-implementation review of the Act on statutory auditors.

In 2020, the UKNF was also engaged in cooperation with the Polish Agency of Audit Supervision (PANA) with regard to the tasks related to public supervision, e.g. the UKNF submitted to PANA a statement on the termination of contracts for the audit of financial statements of PIEs, information on the publication of the annual report on the activities of the UKNF for 2019 (which also contains a report on public supervision over PIEs for 2019), information on irregularities in the rotation of an auditor of a PIE, irregularities in the operation and reports of PIEs, and possible omissions or irregularities in the activities of an audit firm, and information that may be relevant in terms of PANA's tasks specified in Article 106(2a) of the Act on statutory auditors.

10.3.2. KNF ACTION PLAN FOR 2021 IN THE AREA OF PUBLIC SUPERVISION UNDER THE ACT ON STATUTORY AUDITORS

Taking into account the obligation under Article 89(3) of the Act on statutory auditors to publish, on the KNF website, information on the action plan for the following year, on 11 December 2020 the KNF Board published the 'Action plan of the Polish Financial Supervision Authority for 2021 in the area of public supervision under the Act on statutory auditors, audit firms and public supervision'

(https://www.knf.gov.pl/knf/pl/komponenty/img/Plan_KNF_na_rok_2021_wz_nadzoru_nad_JZP_71823.pdf).

10.4. REGULATORY AND LEGAL ACTIVITIES

10.4.1. PARTICIPATION IN LEGISLATIVE WORK

The KNF Board's statutory tasks include participation in the preparation of draft legal acts in the field of financial market supervision. The task is performed mostly through cooperation with the minister competent for financial institutions as part of the government's legislative process and also often at stages preceding the formal commencement of the governmental legislative process. In 2020, the UKNF submitted to the Ministry of Finance more than 150 legislative proposals on the functioning, organisation and supervision of the financial market in Poland.

In 2020, as in previous years, the UKNF representatives also took part in legislative work at the further stages of the government's legislative process, participating in consensus conferences and the work of legal committees, and in the case of legislative proposals also at the parliamentary stage, in particular through participation in the parliamentary Committee on

Public Finance and the Permanent Subcommittee on Financial Institutions and the Senate Committee on Budget and Public Finance.

As regards the most important legislative projects in which the UKNF participated in 2020 and which resulted in the adoption of statutory laws in 2020, the following should be mentioned:

- **Act of 31 March 2020 amending the Act on special solutions related to the prevention, counteracting and combating of COVID-19, other infectious diseases and emergencies caused by them, and certain other statutory laws** (Journal of Laws item 568, as amended). The second amendment to the *Act on special solutions related to the prevention, counteracting and combating of COVID-19, other infectious diseases and emergencies caused by them* included e.g. temporary rules on the withholding and suspension of the running of time limits for supervisory tasks and the running of limitation periods and amendments ensuring effective action of the KNF Board also in times of the epidemic, consisting in adding paragraphs 2a–2e containing provisions allowing for the conduct of remote meetings or meetings with remote participation of individuals sitting on the KNF Board. The Act also introduced the possibility for using other financial statements where the reviewed financial statements for 2019 are not available. Another essential change consisted in authorising the minister competent for financial institutions to determine, by way of order, other time limits for the preparation, review, approval, disclosure, presentation, submission and publication of financial statements and for the submission or provision of data, information, declarations, statements, reports, lists, results of the review, decisions, opinions, demands, requests, contributions, fees, payments, advance payments, as well as for handling complaints and performance of obligations or activities specified in statutory laws regulating the financial market.
- **Act of 16 July 2020 on supporting the trade credit insurance market for the prevention of economic impacts of COVID-19** (Journal of Laws item 1422). The Act defines the rules for supporting the trade credit insurance market for the prevention of economic impacts of COVID-19. The Act was announced in the Polish Journal of Laws on 20 August 2020.
- **Act of 18 November 2020 on electronic delivery** (Journal of Laws item 2320). The Act concerns the rules for the exchange of letters between public entities as well as between public entities and non-public entities, including natural persons. The default method to be used in the exchange of letters is a public service of electronic registered delivery provided on the terms inspired by those indicated in Regulation (EU) No 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC (OJ L 257 of 28 August 2014, p. 73) (hereinafter referred to as 'Regulation 910/2014') for qualified electronic registered delivery services. The Act introduces amendments to, e.g., the Banking Law, the Act on capital market supervision, Act on trading in financial instruments, Act on occupational pension schemes, Act on the business of insurance and reinsurance, Act on mortgage credit and on supervision of mortgage credit intermediaries and agents.
- **Act of 19 November 2020 amending the Act on the principles for the recognition of professional qualifications acquired in the Member States of the European Union** (Journal of Laws 2021, item 78). The initiation of legislative work was needed to implement the provisions of Directive (EU) 2018/958 of the European Parliament and of the Council of 28 June 2018 on a proportionality test before adoption of new regulation of professions.

As regards the legislative projects in which the UKNF participated in 2020 and for which the legislative process did not end in 2020, the following should be mentioned:

- **Draft Act amending the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring and certain other acts (UC23)**. The draft Act implements into the Polish legal order Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms, and

Directive 98/26/EC (OJ L 150 of 7 June 2019), hereinafter: BRRDII, which represents another stage of changes to bank resolution. The draft Act amends in particular the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring (Journal of Laws 2020, item 842), which implemented the Bank Recovery and Resolution Directive (BRRD) and Directive on deposit guarantee schemes. BRRDII introduces modified arrangements for the minimum requirement for own funds and eligible liabilities (MREL), which aims to strengthen banks' loss-absorbing and recapitalisation capacity where a resolution process is necessary. In addition to the amendments resulting from BRRDII, the proposed amendments also cover issues arising from past experience and practice in applying that Act. The amendments are related to, for example, the amendments to the Act of 12 February 2010 on the recapitalisation of certain institutions and on government financial stabilisation tools (Journal of Laws 2018, item 124, as amended). The amendments aim at streamlining the existing arrangements for the use of Government Financial Stabilisation Tools (GST), i.e. the public equity support instrument and temporary take-over of financial institutions by the State Treasury.

- **Draft Act amending the Act on the prevention of money laundering and terrorist financing and certain other acts (UC24).** The main objective of the draft Act is to implement the provisions of Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU (OJ L 156 of 19 June 2018, p. 43), hereinafter: 'Directive 2018/843'. The deadline for EU Member States to implement the provisions of Directive 2018/843 was set for 10 January 2020.
- **Draft Act amending the Banking Law and certain other acts (UC 28).** The aim of the draft Act is to amend the national legal order following the entry into force of EU legislation on capital requirements for financial institutions (the CRD V/CRR II package).
- **Draft Act amending the Act on bonds and certain other acts (UC 32).** The purpose of the draft Act is to lay down the rules for the issuance of equity instruments eligible for the regulatory capital of banks and brokerage houses and own funds of insurance and reinsurance undertakings, including the issuance – by those financial market entities – of capital bonds as a new class of bonds, in accordance with the relevant provisions of EU law. The proposed measures aim to mainly remove barriers to the issuance of instruments that can be classified in Additional Tier I and Tier II capital, and as own funds in Tier 1, Tier 2 and Tier 3 own fund items in the case of insurance sector entities. It is also proposed to clarify the existing legal arrangements and to define the group of issuers entitled to issue instruments that may be included in own funds or own resources. The work on that Act involved submission to the Ministry of Finance of draft legislation restricting the possibility for insurance undertakings to purchase capital bonds and instruments with similar features. The proposed restrictions are limited to cases where investment risk related to the instruments being acquired will be borne by the policyholder under a unit-linked life insurance contract. The proposed measures will safeguard the interests of customers of insurance undertakings who have entered into unit-linked insurance contracts, as they will not be able to assume without any limitations the investment risk of illiquid and complex financial products such as capital bonds.
- **Draft Act amending the Act on trading in financial instruments (UC33).** The draft Act aims to amend the national legal order following the entry into force of EU regulations being the result of the review of the rules on European Supervisory Authorities (ESAs). Amendments are made to the provisions on the activities of data reporting service providers that provide services as an approved publication arrangement, approved reporting mechanism or consolidated tape provider. With the increasing share of cross-border insurance and reinsurance activities pursued by insurance and reinsurance undertakings under the freedom to provide services or through a branch, and in view of cases of insolvency and bankruptcy of European insurance undertakings pursuing significant cross-border activities, the draft Act provides for the enhancement of supervision over such activities and a more effective protection for the customers of such undertakings.

- **Draft Electronic Communications Law and draft Act introducing the Electronic Communications Law (UC45 and UC46).** The proposal regulates all aspects of, e.g., pursuing a business consisting in the provision of electronic communications services, regulation of electronic communications markets, conditions for the management of frequencies, orbital resources and numbering resources, as well as rights and obligations of users, conditions for data processing within telecommunications and the protection of electronic communications confidentiality.
- **Draft Act amending the Act on investment funds and management of alternative investment funds (UC 55).** The proposed Act implements into the Polish legal order Directive (EU) 2019/1160 of the European Parliament and of the Council of 20 June 2019 amending Directives 2009/65/EC and 2011/61/EU with regard to cross-border distribution of collective investment undertakings (hereinafter: 'Directive 2019/1160') and is to be used in the application of the related Regulation (EU) 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014 (hereinafter: 'Regulation 2019/1156'). Directive 2019/1160 repeals the provisions of the Directive on UCITS which became redundant after the entry into force of Regulation 2019/1156. In consequence, it also became necessary to repeal the passages of the Act on investment funds which implemented those provisions. The Directive introduces provisions updating and clarifying the requirements on the provision of solutions for retail investors. It also introduces a rule that Member States must not require physical presence in a given country for the purpose of complying with the requirements to provide information to investors. To ensure consistent treatment of retail investors, the Directive extends the requirements for arrangements to include AIFMs where they market units or shares of alternative investment funds (AIFs) among retail investors in the territory of a given country. The overarching objective of the regulation is to continue to ensure that investors have access to information to which they are entitled.
- **Draft Act amending the Public Prosecution Service Law and certain other acts (UD61).** The Act introduces a rule indicating that the deposit sums obtained in connection with proceedings conducted or supervised at public prosecutor's offices or with day-to-day operation of those units should be stored in deposit accounts of the Minister of Finance held by Bank Gospodarstwa Krajowego, in accordance with the same rules as those applicable to court deposits.
- **Draft Act on Financial Information System Act (UC66).** The draft Act provides the basis for carrying out the task: 'Creation of a register enhancing the security of the financial market with regard to bank account information, insurance contracts with investment components, as well as other products for the collection, storage and/or investment of funds and providing access to it to law enforcement authorities and other competent entities', under specific objective No 1 – 'Strengthening the fight against economic crime' set out in the 'Programme for preventing and combating economic crime for 2015–2020'.
- **Draft Act on pan-European Personal Pension Products (UC 67).** The draft Act aims to introduce necessary changes to the national legal order following the entry into force of Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP) and to ensure effective application of that Regulation in Polish law. The introduction of the new pan-European Personal Pension Product (PEPP) is to provide EU citizens with new pension savings opportunities. The greatest value of it will be the opportunity for cross-border investment and portability of the PEPP from one EU Member State to another in the event of a change of residence.
- **Draft Act on savings and loans scheme for employees (UD80).** Following an extension of rights of the trade union coalition, the 2018 amendment introduced changes to Article 39(1) of the Act on trade unions. The term 'employing establishment' was replaced with 'employer', and the term 'employees' – with 'persons engaged in gainful employment' (in the correct grammatical case and number); a change was also made to the name of 'savings and loans scheme for employees' (PL: *kasa zapomogowo-pożyczkowa* –

hereinafter 'KZP') by removing the words 'for employees'. The amendment to the current 1992 Regulation did not appear, to the author of the proposal, to be justified at least due to the fact that it would require a transfer, from the 1992 Regulation to the Act on trade unions, of the provisions governing the rights and obligations of citizens (the statutory elements), which constitute a significant part of the provisions of that legal act. The inclusion of the provisions governing the operation of KZPs in a single statutory instrument will make it easier for the addressee of the legal rules to apply them, and may contribute to the dissemination of the institution of KZP.

- **Draft Act amending the Civil Code (UD111)**. The proposed amendments concerned, *inter alia*, the addition of lack of discernment to the list of grounds the existence of which allows a situation to be assessed as exploitation within the meaning of the law. Lack of discernment reflects the essence of the situations described above – lack of knowledge necessary to consider responsibly the purpose and consequences of a proposed agreement.
- **Draft Act of 16 December 2020 on the settlement of the price of premises or buildings in the price of real property disposed of from the real property resources of the commune (Sejm paper No 766)**. The Act represents the legal basis for the 'Premises in exchange for land' [*Lokal za grunt*] programme, by introducing, *inter alia*, the possibility of acquiring municipal real property for broadly defined investment purposes with settlement, in the price of the real property, of the price of the residential or commercial premises/buildings transferred to the commune by the acquirer of the real property.
- **Draft Act amending the Accounting Act and certain other acts (UD154)**. The main purpose of the proposal is to align existing rules with the requirements for issuers whose securities are admitted to trading on a regulated market within the European Union to prepare financial statements and activity reports in the single electronic reporting format (ESEF) specified in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (OJ L 143 of 29 May 2019, p. 1, as amended).

The UKNF was also involved in the legislative work on the following acts of EU law:

- **Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937**. The Regulation aims to address the differences between the legal framework applicable to crowdfunding services to ensure the proper functioning of the internal market for such services, while enhancing investor protection and market efficiency and contributing to the establishment of the capital markets union; the UKNF prepared and submitted to the Ministry of Finance a preliminary draft Act on the provision of crowdfunding services. The proposed provisions are intended to amend the national legal order as necessary to ensure the application of the said Regulation.
- **Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU**. The objective of the Directive is to establish a common framework for covered bonds to ensure that the features of the structure of covered bonds across the European Union are consistent with a lower risk profile justifying Union preferential treatment.
- **Proposal for a Regulation of the European Parliament and of the Council on digital operational resilience for the financial sector (Digital Operational Resilience Act – DORA) (COM (2020) 595) and Proposal for a Directive of the European Parliament and of the Council amending Directives 2006/43/EC, 2009/65/EC, 2009/138/EU, 2011/61/EU, EU/2013/36, 2014/65/EU, (EU) 2015/2366 and EU/2016/2341**. The proposals concerned a fundamental change in the requirements for financial market entities, new requirements for supervised entities in relation to the current KNF regulations

(Recommendation D and IT Guidelines), and the need to change the current supervisory model not only in terms of IT security but above all in terms of supervision of the safe and stable functioning of supervised entities in relation to their key and critical processes.

- **Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability (Motor Insurance Directive – MID).** The purpose of the Directive is to ensure that the following Directives are clear and understandable by codifying them: Directive 72/166/EEC of 24 April 1972 on the approximation of the laws of Member States relating to insurance against civil liability in respect of the use of motor vehicles, and to the enforcement of the obligation to insure against such liability; Directive 84/5/EEC of 30 December 1983 on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles; Directive 90/232/EEC of 14 May 1990 on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles; and Directive 2000/26/EC of the European Parliament and of the Council of 16 May 2000 on the approximation of the laws of the Member States relating to insurance against civil liability in respect of the use of motor vehicles (Fourth Motor Insurance Directive).
- The work on the revision of **Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents.** The purpose of the revision of the Regulation was to modify the regulations on key information documents concerning packaged retail and insurance-based investment products (PRIIPs), provided to retail investors as part of a key information document (KID).
- Preparation of **Regulatory Technical Standards (RTS)** for Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. The purpose of the RTS is to prepare rules for financial market participants and financial advisers, to supplement Regulation 2019/2088 in relation to their sustainability-related disclosures on financial products.
- Participation in the formulation of a **proposal for amendments on securitisation** covering solutions for synthetic securitisation under Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012, thus amendments to Regulation (EU) No 575/2013 (CRR II) in relation to the adjustment of the framework for securitisation to support economic recovery in response to the COVID-19 crisis. Due to the high priority given to that work, **amendments to the CRR II Regulation** were developed at a rapid pace and were published on 26 June 2020 as **Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic.** The recent changes concerned the secondary market and the trading of non-performing loans (NPLs) on that market. The final linguistic work was postponed to the beginning of 2021.
- Participation in the work on a **proposal for a Regulation on Markets in Crypto-assets (MiCA).**
- Submission of comments on the final text of **Regulation of the European Parliament and of the Council on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, and**

(EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132.

- Work on amendments to **Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse** (Market Abuse Regulation – MAR) and **Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments** (MiFIR);
- Participation in the preparation of amendments to the Markets in Financial Instruments Directive (**MiFID II**) and the Prospectus Regulation as part the Capital Markets Recovery Package created to support economic recovery from the COVID-19 crisis. The aim of the package was to provide immediate support for the economic recovery by facilitating access to finance for EU companies and, in particular SMEs.

On the initiative of the UKNF, a corrigendum was published to Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012.

The UKNF also participated in consultations on the revision of the existing professional secrecy rules for clients adversely affected by the activities of financial institutions. The aim of the amendments was to give customers of certain financial institutions adversely affected by their activities wider access to information constituting professional secrecy. The amendments would cover the following acts: Act on trading in financial instruments, Act on investment funds and management of alternative investment funds, and the Banking Law. In response to the proposal, the UKNF submitted an alternative proposal for an amendment to the *Act on capital market supervision* liberalising the protection of professional secrecy and requiring a consent of a common court to the disclosure of information covered by professional secrecy before bringing a civil action.

In 2020, the UKNF also prepared assumptions for a new concept of tender offers to subscribe for the sale of shares of a public company. First of all, the proposal provided for the adoption of a single mandatory call model as a follow-up call and the establishment of a threshold of 50% of the total number of votes at the general meeting as a threshold for the acquisition of control giving rise to the obligation to announce a tender offer to subscribe for the sale or exchange of all other shares. The proposal was submitted to the Minister of Finance for further processing.

The UKNF also prepared a preliminary proposal for a new Regulation of the Minister of Finance on examinations for securities brokers and investment advisers and on the aptitude test. The proposed promulgation of new implementing provisions pursuant to Article 128(11) of the Act of 29 July 2005 on trading in financial instruments (Journal of Laws 2020, item 89, as amended) is primarily aimed at optimising the organisation of examinations for securities brokers and investment advisers and is based on the experience of the examination boards responsible for organising the examinations for securities brokers and investment advisers and the aptitude test. The proposal was sent to the Ministry of Finance on 11 February 2020. No legislative work has been initiated in that respect so far.

10.4.2. REGULATORY AND PRUDENTIAL ACTIVITIES

10.4.2.1. KNF RECOMMENDATIONS AND GUIDELINES

AMENDMENTS TO THE RECOMMENDATIONS FOR INSURANCE UNDERTAKINGS ON PRODUCT ADEQUACY TESTING OF 22 MARCH 2016

The UKNF established a Team for the amendment to 'Recommendations for insurance undertakings on product adequacy testing of 22 March 2016.' The Team aims to prepare a new text of the Recommendations for insurance undertakings on product adequacy testing, considering, in particular, a new legal framework for distribution of insurance-based investment products and the related practice of offering such products.

RECOMMENDATION G (PROPOSAL)

In 2020, work was carried out to prepare a proposal for *Recommendation G on the management of interest rate risk at banks*.

The proposed amendment to Recommendation G is to adapt its requirements to the changing regulations on market risk and interest rate risk applicable in other countries, in particular a document published by the European Banking Authority (EBA): *Guidelines on the management of interest rate risk arising from non-trading book activities*.

Following the entry into force of the above-mentioned EBA guidelines and the revision of the CRD IV/CRR package, the regulatory environment was defined in the area of interest rate risk, which includes primarily CRD V, CRR II and related technical standards, EBA guidelines, and *Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and the detailed method for estimation of internal capital at banks*.

The updated Recommendation G is not only intended to complement the existing regulations, but also includes recommendations which are not included in the above-mentioned regulations, in particular those concerning the specific features of the Polish financial market and banking sector, as well as recommendations which highlight and elaborate on the provisions of the above-mentioned regulations.

In 2020, draft Recommendation G was submitted for public consultation. As at 31 December 2020, the UKNF worked on the final version of the draft.

RECOMMENDATION S (AMENDMENT)

On 14 July 2020, the KNF Board unanimously amended its Resolution of 3 December 2019 on the issuance of an amendment to Recommendation S on good practices in the management of credit exposures secured by mortgages. The amendment to the Resolution concerns the expectation expressed by the KNF Board that commercial banks and branches of credit institutions should adapt their practices to Recommendation S by 31 December 2020. The new deadline for adaptation set by the KNF Board is 30 June 2021. The new deadline does not apply to cooperative banks, for which the expectation that the amended Recommendation S will be introduced by 31 December 2022 does not change.

In connection with activities undertaken under the Supervisory Stimulus Package for Security and Development in the area of the banking sector (#PIN), the UKNF published on 31 March 2020 its Position on bank financing of corporate customers in the face of the COVID-19 pandemic, in which the UKNF declared that it would apply to the KNF Board for postponement of the implementation of Recommendation S until 30 June 2021. It should be stressed that the rationale for the KNF Board to implement the measures adopted in the revised Recommendation S has not ceased. The postponement is intended to enable banks to focus on customer service activities and key processes in view of the challenges posed by the COVID-19 pandemic.

In accordance with Article 137(2) of the Banking Law, the proposal for that amendment was reviewed by the Financial Stability Committee in the area of macroprudential supervision (FSC-M). In a communication of 15 June 2020 after the meeting of the FSC-M, the Committee supported the request from the Chair of the KNF Board to postpone until 30 June 2021 the

deadline for commercial banks and branches of credit institutions to implement the provisions of the revised Recommendation S.

RECOMMENDATION Z

On 9 October 2020, the KNF Board unanimously adopted Recommendation Z on the principles of internal governance at banks, addressed to banks.

Recommendation Z constitutes a set of good practices on the principles of internal governance. Internal governance includes, in particular: bank management system, bank organisation, rules of operation, rights, duties and responsibilities, and mutual relations between the supervisory board, management board and key function holders at the bank.

Recommendation Z complements, clarifies and expands on the issues of internal governance at banks, which have already been regulated in the legislation and KNF documents.

The provisions of Recommendation Z have been developed primarily taking into account the guidelines of the European Banking Authority (EBA) and jointly by EBA and the European Securities and Markets Authority (ESMA).

The Recommendation takes into account selected recommendations from guidelines of other international organisations.

The Recommendation also takes into account conclusions based on the observations and experiences gained through supervisory activities, including the findings of inspections conducted at banks, the assessment of banks' statutory solutions, and other supervisory activities.

The Recommendation provides for an approach based on the principle of proportionality. It means that its provisions should be applied by banks taking into account the scale, complexity and nature of their business (i.e. factors such as the legal form of the bank, the size of its business, the risks associated with its business, its internal organisation, ownership structure, geographical area of the business, or the stage of corporate development). The foregoing applies, in particular, to cooperative banks and affiliating banks being participants of protection schemes.

The draft of Recommendation Z was submitted to public consultations, including with the Polish Bank Association, National Association of Cooperative Banks, Ministry of Finance, National Bank of Poland, Bank Guarantee Fund, PwC, EY, Institute of Internal Auditors (IIA) Poland, and the Risk Management Association POLRISK.

The time limit for banks to comply with Recommendation Z was set to 1 January 2022.

10.4.2.2. SELECTED POSITIONS OF THE KNF BOARD AND THE UKNF, AND POSITIONS IN THE FORM OF UKNF COMMUNICATIONS

POSITION OF THE UKNF OF 12 FEBRUARY 2020 ON THE FULFILMENT OF THE OBLIGATION TO IMPROVE PROFESSIONAL SKILLS REFERRED TO IN ARTICLE 12(1) OF THE ACT ON INSURANCE DISTRIBUTION

On 12 February 2020, the UKNF published its position on the fulfilment of the obligation to improve professional skills referred to in Article 12(1) of the Act on insurance distribution. The position aims to highlight important issues regarding the method of fulfilling the obligation under Article 12 of the Act on insurance distribution in relation to:

- the annual volume and thematic scope of vocational training,
- the document to certify completion of vocational training,
- the method of verification of compliance with the requirement to complete vocational training,
- sanctions for failure to comply, in whole or in part, with the obligation to improve professional skills through vocational training.

POSITION OF THE UKNF OF 20 JULY 2020 ON THE INTERPRETATION OF ARTICLE 14(2) OF THE ACT ON MORTGAGE CREDIT AND SUPERVISION OF MORTGAGE CREDIT INTERMEDIARIES AND AGENTS

The document is a result of a market analysis carried out by the UKNF which revealed concerns of supervised entities about the interpretation of the provision in question. The supervisory authority expressed the position that the running of the 21-day time limit specified in the Act must not start before the consumer submits the necessary documents and information for creditworthiness assessment.

POSITION OF THE KNF BOARD OF 26 MARCH 2020 ON THE DIVIDEND POLICY OF INSURANCE UNDERTAKINGS IN 2021

In connection with the state of epidemic announced in Poland and its possible negative economic consequences, as well as their expected impact on the insurance sector, on 26 March 2020 the supervisory authority published a position in which it recommended that all profits made in previous years be retained and that insurance undertakings and banks do not take any other action without prior approval by the supervisory authority, in particular actions beyond the scope of day-to-day business and operating activities that might weaken the capital base.

On 16 December 2020, the KNF Board unanimously adopted a position on the dividend policy of commercial banks, cooperative banks and affiliating banks, insurance undertakings, reinsurance undertakings, investment fund management companies, general pension societies, and brokerage houses in 2021⁶⁰.

Compared with the position of the supervisory authority on the dividend policy of insurance undertakings of 3 December 2019, the criteria for the payment of the dividend have not been changed. At the same time, the dividend payment is limited to 100% of the profit generated in 2019 and 50% of the profit generated in 2020, and the coverage of capital requirements (net of expected dividends deducted from own funds) as at 31 December 2020 and for the quarter in which the dividend was paid will be at a level of at least 175% for life insurance undertakings and at least 150% for non-life insurance undertakings.

POSITION OF THE UKNF OF 16 NOVEMBER 2020 ON A CONTRACT BOUNDARY FOR THE PURPOSE OF DETERMINING INSURANCE OR REINSURANCE OBLIGATIONS

On 16 November 2020, the UKNF published a position on determining a contract boundary. The position aims to highlight important issues regarding a contract boundary for the purpose of determining insurance or reinsurance obligations. The position is addressed to domestic insurance and reinsurance undertakings and contributes to a consistent approach to the determination of insurance or reinsurance contract boundaries for the valuation of technical provisions for solvency purposes.

POSITION OF THE KNF BOARD OF 16 DECEMBER 2020 ON THE DIVIDEND POLICY IN 2021

On 16 December 2020, the KNF Board unanimously adopted a position on the dividend policy of commercial banks, cooperative banks and affiliating banks, insurance undertakings, reinsurance undertakings, investment fund management companies, general pension societies, and brokerage houses in 2021.

COMMUNICATION OF 25 JUNE 2020 TO POLISH CUSTOMERS OF GEFION INSURANCE A/S

After losing supervisory powers over a foreign insurance undertaking following the withdrawal of notification of the intention to carry out insurance activities in Poland, the UKNF posted on its website a communication to Polish customers of Gefion Insurance A/S to inform them about legal consequences of that fact. The Communication contained, for example, information about domestic entities authorised to deal with complaints on behalf of Gefion Insurance A/S, the continuing possibility for a natural person to submit a complaint to the Financial Ombudsman, and basic information on how to pursue claims under insurance contracts concluded with Gefion Insurance A/S, including claims concerning the determination of the court with territorial jurisdiction to examine a given claim.

COMMUNICATION FROM THE UKNF OF 29 OCTOBER 2020 ON THE EBA REPORT ON THE MONITORING OF LIQUIDITY COVERAGE RATIO IMPLEMENTATION

The Communication indicates the dates for banks to report the implementation of recommendations formulated by the European Banking Authority (EBA) in its *Monitoring of Liquidity Coverage Ratio Implementation in the EU – First Report*.

POSITION OF THE UKNF OF 14 FEBRUARY 2020 ON SELECTED ASPECTS OF INVESTMENT ADVISORY SERVICES PROVIDED BY INVESTMENT FIRMS AND BANKS REFERRED TO IN ARTICLE 70(2) OF THE ACT ON TRADING IN FINANCIAL INSTRUMENTS

On 14 February 2010, the UKNF published a single up-to-date document concerning the investment advisory service that superseded and largely supplemented the previous position of the UKNF on that topic. The Position contains a detailed analysis of the new definition of investment advisory service. The Position addresses, among others, the requirements for persons providing the advisory service, and the role of the systems of legal compliance and internal control. A special focus was placed on the primacy of the best interest of the customer, ensured by, e.g., personalising recommendations, taking account of individual needs of the customer and distinguishing between independent and non-independent advice. An important part of the publication is an annex illustrating the issues with examples of facts which give rise to the classification of certain activities as investment advice.

Q&A ON THE REGISTER OF SHAREHOLDERS

On 12 May 2020, the UKNF published the answers to frequently asked questions about the obligations of KNF-supervised entities in relation to the register of shareholders. The publication, containing 32 detailed answers, aims to mitigate legal risk associated with a new form of business and supports investment firms in their efforts to develop uniform market standards.

Q&A FOR INVESTMENT FIRMS AND BANKS CONCERNING THE SALES REPORT

On 26 June 2020, the UKNF published answers to the most frequently asked questions about the sales report. The publication contains 44 detailed answers and additional explanations to facilitate compliance by supervised entities with reporting requirements.

COMMUNICATION FROM THE UKNF OF 5 NOVEMBER 2020 ON THE MANDATORY DEMATERIALISATION OF SHARES

The Communication draws attention to the entry into force, as of 1 March 2021, of the requirement for mandatory dematerialisation of shares previously in the form of a document (certificated form) and the related obligation to call the shareholders five times to submit the

share title deed in a manner appropriate to the convening of the company's general meeting. The UKNF found that the obligation to submit share title deeds at a company may raise concerns mainly among non-professional financial market participants. Thus the Communication seeks to explain the issue and represents an essential informative and educational value for shareholders.

COMMUNICATION ON THE ESEF

On 15 December 2020, a Communication from the Ministry of Finance and the UKNF on the postponement of the date for applying the ESEF was published. The Communication states that in connection with the announcement by the European Parliament and the Council on the amendment to Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 390 of 31 December 2004, p. 38) and in connection with COVID-19, the Ministry of Finance and the UKNF decided to postpone, for a year, the mandatory application, by issuers whose securities are admitted to trading on a regulated market, of the European Single Electronic Format (ESEF), maintaining the possibility of reporting in that format already for 2020. The Communication also indicates that the provisions implementing the EU legislation to the Polish legal order will be prepared by the Ministry of Finance in cooperation with the UKNF after the adoption of amendments to the said Directive and then immediately published.

Q&A ON THE ESEF

On 18 December 2020, the UKNF published answers to frequently asked questions about the ESEF. The Q&As aim to make it easier for issuers to comply with their disclosure requirements concerning the new format for drawing up the annual reports.

A detailed list of positions/communications of the KNF Board and the UKNF as well as communications from the UKNF is provided in Table 12.8.2 in Annex 12.8.

10.5. PREVENTION OF FINANCIAL MARKET ABUSE

10.5.1. PRELIMINARY INVESTIGATION AND ADMINISTRATIVE PROCEEDINGS

In 2020, the KNF Board conducted 30 preliminary investigations to determine whether there were grounds to file a notification of suspected criminal offence, specified in the laws governing the functioning of the financial market in Poland, and 5 preliminary investigations to determine whether there were grounds to initiate administrative proceedings with regard to violation of the legislation to the extent subject to the KNF supervision.

Table 74. Number of administrative proceedings (of the 1st instance) conducted by the KNF Board in 2020 by legal act

Item	Legal act	Number of administrative proceedings
1.	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation)	3
2.	The Banking Law	1
3.	Act on trading in financial instruments	9
4.	Act on public offering	33

5.	Act on investment funds and management of alternative investment funds	9
6.	Act on occupational pension schemes	6
7.	Act on the business of insurance and reinsurance	3
8.	Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau	4
9.	Act on payment services	51
10.	Act on statutory auditors, audit firms and public supervision	4
11.	Tax Ordinance	3
12.	other statutory laws	4
Total		130

The administrative proceedings were related to:

- non-performance or improper performance of obligations relating to immediate publication of inside information (Article 17(1) of MAR): 3,
- manipulation of a financial instrument (Article 39 of the Act on trading in financial instruments): 1,
- non-performance or improper performance of disclosure obligations by the issuer (Article 56 of the Act on public offering): 6,
- imposing penalties on members of the issuer's management board due to gross violation of Article 56 of the Act on public offering by the issuer (Article 96(6) of the Act on public offering): 8,
- imposing penalties on members of the issuer's supervisory board due to gross violation of Article 56 of the Act on public offering by the issuer (Article 96(6a) of the Act on public offering): 7,
- non-performance or improper performance of obligations relating to qualifying holdings (Article 69 of the Act on public offering): 5,
- non-performance or improper performance of obligations relating to qualifying holdings (Article 69 in conjunction with Article 87 of the Act on public offering): 6,
- non-performance or improper performance of obligations relating to qualifying holdings (Articles 69 and 73 of the Act on public offering in conjunction with Article 87 of the Act on public offering): 1,
- failure to comply with the obligation to notify a transaction conducted by a person discharging managerial responsibilities or a person closely associated with them (Article 19(1) and (8) of MAR): 3,
- compliance with the provisions concerning the appointment, composition and functioning of the audit committee at public-interest entities: 4,
- granting a fine reduction (arrangement of payment in instalments — Article 189k of the Administrative Procedure Code): 3,
- granting a fine reduction (Article 67a of the Tax Ordinance): 3,
- violation of laws or regulations and other internal rules in connection with practising the profession of an investment adviser and a securities broker: 2,
- irregularities relating to performance of brokerage activities by investment firms, constituting a violation of the law, rules of fair trading, interests of the client (Article 167 of the Act on trading in financial instruments, provisions of implementing regulations to the Act on trading in financial instruments): 1,
- imposition of a fine and withdrawal of authorisation to conduct brokerage activities due to the provision of the service of offering financial instruments in a way that violates the law: 1,
- failure to notify the KNF Board of the intention to acquire or take up shares of a brokerage house (Article 106(1) of the Act on trading in financial instruments): 1,
- irregularities related to the conduct of activities by investment fund management companies and investment funds (managing investment funds by a company in an unfair or unprofessional manner that failed to ensure due diligence or to consider the best

interests of the funds and unit-holders, improper ongoing supervision of an entity entrusted by the company with the management of a portfolio of investment funds, exceeding investment limits, incorrect valuation of assets, irregularities related to the function of the liquidator of investment funds, participation of investment funds in general meetings of issuers): 4,

- violation of Article 50(1) and (6) of the Act on investment funds, in connection with the failure to maintain, from 20 November 2019, equity at the minimum level required by the Act on investment funds: 1,
- violation, by an entity managing securitised receivables, of provisions of law or articles of association of the funds entrusted to it by investment fund management companies with which contracts for the management of securitised receivables were signed, and violation of the conduct of business rules consisting in operating outside the scope of authorisation, violation of the principles of fair trading and infringement of the interest of securitisation fund participants: 1,
- failure to submit to the supervisory authority annual information on the implementation of an occupational pension scheme by the employer (Article 23(1) of the Act on occupational pension schemes): 6,
- failure to meet deadlines for the settlement of claims (Article 14 of the Act on compulsory insurance): 4,
- failure of payment services offices to provide timely information on the total value and number of executed payment transactions and failure to provide or conclude an insurance contract, a bank guarantee contract or an insurance guarantee contract: 51,
- presenting to policyholders a proposal for insurance which is not appropriate to their needs: 1,
- failure to ensure effective asset and liability management and investment of financial resources in assets the risk of which the insurance undertaking could not properly determine, measure or manage (Article 56(1) in conjunction with Article 57(2) point 2 and Article 276(1) in conjunction with Article 276(2) of the Act on the business of insurance and reinsurance: 2,
- fulfilling the function of depositary of investment funds in breach of the obligations under the Act on investment funds and management of alternative investment funds: 3,
- failure of a bank's shareholder to comply with the investor's obligation referred to in Article 25h(3) of the Banking Law: 1,
- violation of other statutory laws: 1.

In 2020, the KNF Board conducted 41 administrative proceedings following the submission of an application for review of a case, in relation to the following acts and regulations:

- Act on public offering: 13,
- Act on trading in financial instruments: 4,
- Act on trading in financial instruments, and the implementing regulation thereto: 1,
- Act on the business of insurance and reinsurance: 1,
- Act on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau: 1,
- Act on investment funds and management of alternative investment funds: 10,
- Act on occupational pension schemes: 1,
- Administrative Procedure Code: 1,
- Act on payment services: 3,
- Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (MAR): 5,
- The Banking Law: 1.

The administrative proceedings were related to:

- non-performance or improper performance of disclosure obligations by the issuer (Article 56 of the Act on public offering): 2,

- non-performance or improper performance of obligations relating to qualifying holdings (Article 69 of the Act on public offering, Article 69 in conjunction with Article 87 of the Act on public offering, Article 73 of the Act on public offering): 7,
- imposing penalties on members of the issuer’s management board due to gross violation, by the issuer, of obligations specified in the Act on public offering (Article 96(6) of the Act on public offering): 4,
- failure to comply with the prohibition of manipulation of financial instruments (Article 39(1) in conjunction with Article 39(2) point 4(b) of the Act on trading in financial instruments): 3,
- entrusting a foreign entity with the operations of transmission of customers’ orders for the purpose of their execution without an appropriate contract and collecting a cash benefit (a rebate) in a manner contrary to the provisions of law (Article 81a(1) of the Act on trading in financial instruments, and § 8(2) of the Regulation on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks): 1,
- failure to meet the deadlines for the settlement of claims (Article 14 of the Act on compulsory insurance): 1,
- remaining, unlawfully, the sole unit-holder of closed-end investment funds of non-public assets for a period exceeding 6 months, or failure to liquidate closed-end investment funds of non-public assets due the expiry of the 6 months’ period (Article 65(3a) and Article 246(1) of the Act on investment funds and management of alternative investment funds): 1,
- breach of investment limits, placement of assets in a public company without a fair analysis of its situation, failure to prepare financial statements at the date of opening the liquidation of investment funds, failure to announce half-yearly information on the liquidation of the investment fund, and maintaining liquid assets of the investment fund at the date of valuation below the required threshold (Articles 145, 196 and 10 of the Act on investment funds and management of alternative investment funds): 1,
- carrying out the liquidation of an investment fund in a manner contrary to the law, and introduction into the statutes of an investment fund of a provision that is incompatible with the law (Article 249 of the Act on investment funds and management of alternative investment funds): 1,
- irregularities related to the conduct of activities by investment fund management companies and investment funds (managing investment funds by a company in an unfair or unprofessional manner that failed to ensure due diligence or to consider the best interests of the funds and unit-holders, placing the fund’s assets under conditions of conflict of interest and the breach of investment limits (Article 48(2a) point 2 in conjunction with Article 10 and Article 107(2) point 1 in conjunction with Article 145(9) and Article 145(3) and Article 146(6) of the Act on investment funds and management of alternative investment funds): 3,
- interpretation of the effect of delivery of a decision after the date and time of the General Meeting’s decision on liquidation, violation of Article 50(1) and (6) of the Act on investment funds, in connection with the failure to maintain, from 20 November 2019, equity at the minimum level required by the Act on investment funds: 1,
- violation, by an entity managing securitised receivables, of provisions of law or articles of association of the funds entrusted to it by investment fund management companies with which contracts for the management of securities receivables were signed, and violation of the conduct of business rules consisting in operating outside the scope of authorisation, violation of the principles of fair trading and infringement of the interests of securitisation fund participants: 1,
- failure to submit annual information on the implementation of an occupational pension scheme by the employer within the statutory time limit, and failure to provide explanations regarding the occupational pension scheme of the employer within the time limits specified in the requests (Article 23(1) and Article 36(2) of the Act on occupational pension schemes): 1,

- failure by payment services offices to provide or conclude in a timely manner an insurance contract, bank guarantee contract or insurance guarantee (Article 125(6) of the Act on payment services): 1,
- failure by payment services offices to provide timely information on the total value and number of executed payment transactions (Article 128(1) of the Act on payment services): 2,
- conducting transactions during a closed period (Article 19(11) of MAR): 2,
- failure to report transactions conducted during a closed period by a person discharging managerial responsibilities within an issuer or persons closely associated with them (Article 19(1) and (8) of MAR): 3,
- failure to ensure effective management of the assets and liabilities in relation to a unit-linked product and placing funds in assets the risks of which the company could not properly determine (Article 362(2) point 1 in conjunction with Article 362(1) point 2 of the Act on the business of insurance for violation of Article 56(1) in conjunction with Article 56(2) point 2 of the Act on the business of insurance, and Article 276(1) in conjunction with Article 276(2) of the Act on the business of insurance): 1,
- refusal to initiate the proceedings (61a § 1 of the Administrative Procedure Code): 1,
- violation of the statutes of an issuer or provisions of a statutory law, and creating a threat to persons involved in trading in financial instruments: 1,
- providing the service of offering financial instruments in a manner contrary to the obligation to act honestly and professionally (8(1) of the Regulation of the Minister of Finance of 24 September 2012 on the procedure and conditions to be followed by investment firms, banks referred to in Article 70(2) of the Act on trading in financial instruments, and custodian banks in conjunction with Article 70(2) of the Act on trading in financial instruments): 1,
- improper exercise of ongoing supervision of operations related to the management of a closed-end investment fund: 1,
- failure by a closed-end investment fund, represented by an investment fund management company, to pay the total amount of the redemption price of investment certificates at the due date (Article 139(7) of the Act on investment funds and management of alternative investment funds): 1.

Table 75. Number of preliminary investigations and administrative proceedings (1st instance) initiated and concluded in the years 2017–2020

Detailed list	2017		2018		2019		2020	
	Number of initiated proceedings	Number of concluded proceedings	Number of initiated proceedings	Number of concluded proceedings	Number of initiated proceedings	Number of concluded proceedings	Number of initiated proceedings	Number of concluded proceedings
Preliminary investigation	10	10	5	1	13	13	19	24
Administrative proceedings	385	205	56	68	45	112	37	71
Total	395	215	61	69	58	125	56	95

Source: UKNF

In 2020, 81 administrative decisions (1st instance) were issued, including:

- 25 final decisions on the imposition of a fine,
- 1 final decision on the imposition of a fine and the exclusion of an issuer from trading on the regulated market,
- 1 final decision to withdraw authorisation to conduct business as an investment fund management company and to impose fines,
- 1 final decision to withdraw authorisation to conduct business as an investment fund management company,
- 1 final decision to withdraw authorisation to conduct business as a manager of securitised receivables,
- 7 final decisions on the imposition of a fine and partial discontinuance of administrative proceedings,
- 42 final decisions to discontinue administrative proceedings,
- 3 final decisions not to impose a fine pursuant to Article 189f of the Administrative Procedure Code.

In 2020, 25 final administrative decisions were issued following the examination of requests for review of a case, including:

- 14 final decisions upholding a final decision appealed against,
- 8 final decisions to reverse a final decision appealed against and to impose a smaller fine,
- 2 final decisions to reverse a final decision appealed against, to discontinue part of proceedings in the first instance and to impose a smaller fine,
- 1 final decision to impose a fine.

The total amount of fines imposed in 2020 was PLN 26 078 800 (1st instance), including fines imposed on:

- issuers: PLN 600 000,
- shareholders and other natural persons: PLN 350 000,
- members of management boards of public companies: PLN 2 930 000,
- banks: PLN 10 000 000,
- investment firms: PLN 1 800 000,

- members of management boards of investment firms: PLN 300 000,
- investment fund management companies: PLN 8 350 000,
- entity authorised to managed securitised receivables of investment funds: PLN 50 000,
- insurance undertakings: PLN 1 630 000,
- payment services offices: PLN 14 800,
- general pension societies: PLN 50 000,
- employers running occupational pension schemes: PLN 4 000.

10.5.2. NOTIFICATIONS OF A SUSPECTED CRIMINAL OFFENCE

In 2020, the UKNF submitted 81 notifications of reasonable suspicion of a criminal offence to the Regional Prosecutor's Office in Warsaw and to District Prosecutor's Offices, with regard to, among others, the following legal acts:

- Act on trading in financial instruments: 37,
- Act on public offering: 1,
- Penal Code: 19,
- Accounting Act: 8,
- Act on payment services: 7,
- Act on investment funds and management of alternative investment funds: 1,
- Act on consumer credit: 2,
- Act on insurance distribution: 3,
- Act on bonds: 3,
- Act amending certain laws to strengthen financial market supervision and investor protection: 1.

In some cases, the notifications concerned several legal norms, hence the sum of the violated legal norms is greater than the total number of notifications sent in 2020.

Table 76. Notifications drawn up in the years 2017–2020 by type of the violated provision of law

Type of violated provision of law	Number of violations of individual provisions of law reported in notifications of a suspected criminal offence			
	2017	2018	2019	2020
Article 183 of the Act on trading in financial instruments (manipulation of a financial instrument)	14	5	15	15
Articles 180 and 181 of the Act on trading in financial instruments (unlawful disclosure of inside information and insider trading)	9	7	11	10
Article 100 of the Act on public offering (providing false data or holding back true data in the prospectus and reports)	2	5	3	1
Article 178 of the Act on trading in financial instruments (pursuing activities in the area of trading in financial instruments without permission)	12	10	9	13
Article 171(4) of the Banking Law (giving false data or holding back real data)	9	7	6	3
Other*	27	19	19	49

Total**	73	53	63	91
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Source: UKNF

* Violated provisions of law:

- Article 150(1) of the Act on payment services (operating without authorisation in the area of provision of payment services),
- Article 152 of the Act on payment services (improper performance of information disclosure obligations),
- Article 289(1) of the Act on investment funds (disclosure or misuse of information protected by professional secrecy),
- Article 45 of the Act amending certain laws to strengthen financial market supervision and investor protection (non-performance or improper performance of obligations related to the issuance of bonds, covered bonds or investment certificates),
- Article 77 of the Accounting Act (bookkeeping contrary to the principles set out in the Act),
- Article 79 of the Accounting Act (responsibility for violation of other provisions of the Act),
- Article 59e of the Act on consumer credit (non-compliance with requirements for non-bank lending institutions),
- Article 59h of the Act on consumer credit (pursuing business without the required entry in the register of non-bank lending institutions),
- Article 90 of the Act on bonds (giving false data when offering the acquisition of bonds),
- Article 93 of the Act on bonds (allocation of funds from the issuance of bonds for purposes other than those specified in the terms of issue),
- Article 89 of the Act on insurance distribution (conduct of business without licence or authorisation),
- Article 227 of the Penal Code (posing as the KNF Board),
- Article 270 of the Penal Code (forgery of documents),
- Article 286 § 1 of the Penal Code (fraud),
- Article 296 § 1a of the Penal Code (acting to the detriment of an organisational unit).

** The number of notifications made to the Prosecutor's Office in 2020 was 81; they concerned 91 breaches of provisions of specific statutory laws. The number of notifications does not include supplementary notifications.

In 2020, 38 additional notifications (supplementing a previous notification) were submitted to prosecutor's offices.

The noticeable increase in the number of notifications of breaches of criminal provisions other than provisions of law pertaining to financial market is a result of, in particular, increased illegal activity of trading platforms. The entities in question engage in fraudulent activities, misleading investors and obtaining money from them by fraud.

Moreover, in 2020, pursuant to Article 17ca of the Act on financial market supervision, the UKNF strengthened its cooperation with central offices and units of public services and agencies in the area of exchange of documents and information necessary to achieve statutory objectives in the field of prevention and detection of criminal offences in the financial market. Through the exercise of the above-mentioned statutory right, the UKNF made more than 60 statements concerning the phenomena and entities operating illegally in the financial market or posing as licensed entities.

In the performance of statutory tasks, pursuant to Article 83(1) of the Act on prevention of money laundering and terrorist financing, the UKNF also submitted to the GIFI notifications of suspected offences punishable under Article 299 § 1 of the Penal Code which were then used to make notifications of suspected offences to prosecutor's offices.

The exchange of information with those bodies is related to the constant strengthening of the UKNF's organisational units responsible for performing acts in criminal cases and to enhancing activities related to obtaining and processing information about criminal phenomena identified in the financial market.

The year 2020 is also the time of intensified cooperation between the UKNF and law enforcement authorities in the area of detection and combating illegal activities in the financial market. The cooperation took place both on the general level (to develop the best model of cooperation) and on a more specific level (in relation to individual cases). Given the increasing illegal activities, the cooperation focuses on, among other things, illegal intermediation in

investments in the capital market and on supporting the prosecuting authorities in identifying the patterns used in such malpractices.

Out of the notifications submitted to the prosecutor's office in 2020, 61 preparatory proceedings were initiated (5 of them were subsequently discontinued, a complaint was lodged in 5 cases; as at 31 December 2020, the complaint was still pending at the court); initiation of investigation was denied in 2 cases. As at 31 December 2020, the remaining notifications awaited the prosecutor's final decision as to further course of the proceedings.

10.5.3. BILLS OF INDICTMENT

In 2020, the UKNF received information that prosecutor's offices sent 23 bills of indictment to common courts following notifications of reasonable suspicion of criminal offence from the UKNF.

Table 77. Bills of indictments sent by prosecutor's offices to courts in 2020 by type of violated provision of law

Type of violated provision of law	Bills of indictment
Article 178 of the Act on trading in financial instruments (conducting brokerage activity without authorisation)	2
Article 183 of the Act on trading in financial instruments (manipulation of a financial instrument)	2
Article 171(1) and (3) of the Banking Law (conducting banking activity without authorisation)	1
Article 150 of the Act on payment services (illegal pursuit of activities)	6
Article 181 of the Act on trading in financial instruments	2
Other*	10
Total	23

Source: UKNF

* Violated provisions of law:

- Article 296 of the Penal Code (abuse of powers or failure to fulfil obligations),
- Article 77 of the Accounting Act (infringement of obligations in the field of bookkeeping and preparation of financial statements),
- Article 258 of the Penal Code (participation in an organised crime group),
- Article 90 of the Act on bonds (giving untrue data when offering the acquisition of bonds),
- Article 59h of the Act on consumer credit (pursuing business without the entry in the register of non-bank lending institutions),
- Article 286 of the Penal Code (fraud),
- Article 284 of the Penal Code (misappropriation).

10.5.4. JUDGMENTS OF CONVICTION AND CONDITIONAL DISCONTINUANCE

In 2020, common courts issued 20 judgments of conviction and conditional discontinuance of criminal proceedings following notification of justified suspicion of a criminal offence submitted by the UKNF and following the activities undertaken *ex officio* by the prosecutor's office in respect of the following statutory laws:

- Act on trading in financial instruments: 7 judgments,
- Act on bonds: 1 judgment,
- Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies: 4 judgments,
- Act on payment services: 1 judgment,
- Accounting Act: 1 judgment,
- Act on consumer credit: 1 judgment,
- Commercial Companies and Partnerships Code: 1 judgment,
- Penal Code: 4 judgments.

Judgments issued in 2020:

- Judgment of the Regional Court in Warsaw of 13 January 2020 in a case under Article 183(1) of the Act on trading in financial instruments, upholding the judgment of the court of the first instance. The court conditionally discontinued proceedings against one defendant for a probationary period of 2 years and ordered a monetary performance in the amount of PLN 15 000 (final judgment). The notification was submitted on 31 August 2015;
- Judgment of the District Court in Płock of 23 January 2020 in a case under Article 99(1) point 1 in conjunction with Article 99(3) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. The court ordered the defendant to pay a fine of PLN 30 000 (non-final judgement). The notification was submitted on 21 February 2018;
- Judgment of the District Court for Warszawa-Mokotów of 29 January 2020 in a case under Article 586 of the Commercial Companies and Partnerships Code. The court conditionally discontinued the proceedings against two defendants for a probationary period of 1 year and ordered a monetary performance in the amount of PLN 16 000 and 8 000 (final judgment). The notification was submitted on 3 April 2015;
- Judgment of the District Court for Warszawa-Śródmieście of 25 February 2020 in a case under Article 184(1) in conjunction with Article 88 of the Act on trading in financial instruments. The court imposed a fine of PLN 1000 (final judgment). The notification was submitted on 28 October 2019;
- Judgment of the District Court for Warszawa-Śródmieście of 6 March 2020 in a case under Article 150(1) of the Act on payment services. The court conditionally discontinued the proceedings for a probationary period of 1 year and ordered a monetary performance in the amount of PLN 1000 (final judgment). The notification was submitted on 28 March 2019;
- Judgment of the District Court for Warszawa-Wola in Warsaw of 23 March 2020 in a case under Article 296 § 2 of the Penal Code. The court sentenced the defendant to 1 year and 6 months of imprisonment suspended for a probationary period of 2 years and ordered the defendant to make full compensation for the damage caused by the offence (final judgment). The notification was submitted on 14 October 2016;
- Judgment of the Court of Appeal in Katowice of 4 June 2020 in a case under Article 38(1) and (2) of the Act on bonds in conjunction with Article 286 § 1 of the Penal Code in conjunction with Article 294 § 1 of the Penal Code, upholding the judgment of the court of first instance. The court ordered a penalty of deprivation of liberty for 2 years conditionally suspended for 4 years and imposed a fine of 100 daily rates of PLN 20 each (final judgment). The notification was submitted on 1 February 2013;
- Judgment of the District Court for Warszawa-Wola of 4 June 2020 in a case under Article 178 of the Act on trading in financial instruments. The court ordered the defendant to pay a fine of PLN 40 000 (final judgment). The notification was submitted on 23 December 2015;
- Judgment of the Regional Court in Szczecin of 7 July 2020 in a case under Article 286 § 1 of the Penal Code in conjunction with Article 294 § 1 of the Penal Code concurrently with Article 171(1) in conjunction with Article 171(3) of the Banking Law. The court imposed a penalty of deprivation of liberty for 8 years and 6 months and made a

confiscation order for PLN 749 259.46 (non-final judgment). The notification was submitted on 6 September 2011;

- Judgment of the Regional Court in Warsaw of 10 July 2020 in a case under Article 180 of the Act on trading in financial instruments. The court conditionally discontinued the criminal proceedings for a probationary period of 2 years and ordered a monetary performance in the amount of PLN 7 000 (final judgment). The notification was submitted on 21 November 2016;
- Judgment of the District Court for Warszawa-Śródmieście of 15 July 2020 in a case under Article 100 of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies, and Article 181(1) of the Act on trading in financial instruments. The court imposed on the defendant a fine of PLN 200 000. The notification was submitted on 30 April 2019;
- Judgment of the Regional Court in Warsaw of 20 August 2020 in a case under Article 183(1) of the Act on trading in financial instruments, upholding the judgment of the court of the first instance. The court conditionally discontinued the criminal proceedings for a probationary period of 2 years and ordered a monetary performance in the amount of PLN 5 000 (final judgment). The notification was submitted on 20 January 2015;
- Judgment of the District Court for Kraków-Podgórze of 24 August 2020 in a case under Article 183(1) of the Act of 29 July 2005 on trading in financial instruments. The court ordered a penalty of deprivation of liberty for 6 months conditionally suspended for one year and imposed a fine of PLN 10 000 (final judgment). The notification was submitted on 26 April 2016;
- Judgment of the District Court in Płock of 25 September 2020 in a case under Article 100(1) and (2) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies. The court imposed a fine of PLN 50 000 (final judgment). The notification was submitted on 24 March 2017;
- Judgment of the Regional Court in Warsaw of 30 September 2020 in a case under Article 258 § 1 of the Penal Code in conjunction with Article 178 of the Act on trading in financial instruments concurrently with Article 286 § 1 of the Penal Code in conjunction with Article 294 § 1 of the Penal Code and Article 299 § 1 and § 5 of the Penal Code. The court imposed on the defendant a fine in the amount of 200 daily rates of PLN 100 each and ordered the defendant to make a compensation for the damage in the amount of PLN 40 000 (final judgment). The notification was submitted on 21 February 2018;
- Judgment of the Regional Court in Wrocław of 14 October 2020 in a case under Article 77 point 1 of the Accounting Act, upholding the judgment of the court of the first instance. The court conditionally discontinued the proceedings against two defendants for a probationary period of one year (final judgment). The notification was submitted on 26 November 2015;
- Judgment of the Regional Court in Warsaw of 26 October 2020 in a case under Article 296 §§ 1, 2 and 3 of the Penal Code and others. The court imposed penalties on 7 defendants: 3 years of deprivation of liberty and a fine of 150 daily rates of PLN 500 each, 2 years and 6 months of deprivation of liberty, 2 years of deprivation of liberty suspended for a probationary period of 5 years, 1 year of deprivation of liberty suspended for a probationary period of 2 years and a fine of 250 daily rates of PLN 100 each, 2 years and 6 months of deprivation of liberty suspended for a probationary period of 6 years and a fine of 250 daily rates of PLN 600, 1 year of deprivation of liberty suspended for a probationary period of 3 years and a fine of 150 daily rates of PLN 150 each, 1 year of deprivation of liberty suspended for a probationary period of 3 years and a fine of 15 daily rates of PLN 200 each (non-final judgment). The notification was submitted on 4 February 2016;
- Judgment of the District Court in Toruń of 29 October 2020 in a case under Article 59h of the Act on consumer credit. The court conditionally discontinued the proceedings towards the defendant for a period of 1 year and ordered a monetary performance in the amount of PLN 15 000 (final judgment). The notification was submitted on 13 May 2019;

- Judgment of the Regional Court in Płock of 4 November 2020 in a case under Article 100(1) and (2) of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies, upholding the judgment of the court of first instance. The court ordered the defendant to pay a fine of PLN 50 000 (final judgment). The notification was submitted on 21 February 2018;
- Judgment of the Regional Court in Warsaw of 17 December 2020 in a case under Articles 181 and 183 of the Act on trading in financial instruments, upholding the judgment of the court of the first instance. The court ordered the defendant to pay a fine of PLN 50 000 (final judgment). The notification was submitted on 15 May 2014.

Information about the final and binding nature of judgements or the lack thereof is given as at 31 December 2020.

Table 78. Judgments of conviction and conditional discontinuance in 2020 by type of violated provision of law

The basis for conviction	Number of judgments
Article 183 of the Act on trading in financial instruments (manipulation of financial instrument)	4
Article 178 of the Act on trading in financial instruments (pursuing activities in the area of trading in financial instruments without authorisation)	1
Article 180 of the Act on trading in financial instruments (unlawful disclosure of inside information)	1
Article 100 of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies	3
Other*	11
Total	20

Source: UKNF

* Basis for conviction:

- Article 184 of the Act on trading in financial instruments (obstruction of inspection activities),
- Article 150 of the Act on payment services (illegal pursuit of activities),
- Article 77 point 1 of the Accounting Act (infringement of obligations in the field of bookkeeping),
- Article 38(1) and (2) of the Act on bonds (issuing bonds contrary to the Act),
- Article 296 § 1 of the Penal Code (damage to trade),
- Article 59h of the Act on consumer credit (pursuing business without the entry in the register of non-banking lending institutions),
- Article 258 of the Penal Code (participation in an organised crime group),
- Article 284 § 2 of the Penal Code (misappropriation),
- Article 286 § 1 of the Penal Code (fraud),
- Article 296 §§ 1, 2 and 3 of the Penal Code (damage to trade),
- Article 99 of the Act on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies (offering the acquisition of securities)

10.5.5. POWERS EXERCISED IN CRIMINAL PROCEEDINGS

As part of the powers exercised in criminal proceedings, the attorneys-at-law authorised by the Chair of the KNF Board act as agents of aggrieved parties and agents of the subsidiary prosecutors.

Table 79. Number of cases in the years 2017–2020 in which attorneys-at-law were authorised by the Chair of the KNF Board in criminal proceedings

Type of appearance	Number of cases
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	2017	2018	2019	2020
Appearances as agents of the aggrieved party	150	218	241	221
Appearances as agents of the subsidiary prosecutor	36	60	60	70
Total	186	278	301	291

Source: UKNF

In addition, attorneys-at-law filed 22 complaints against the interim decisions of the prosecutor's office refusing to initiate or discontinue preparatory proceedings.

10.5.6. POWERS EXERCISED IN CIVIL PROCEEDINGS

As regards the capital market, in 2020 the Chair of the KNF Board exercised his rights of a public prosecutor in civil proceedings in respect of:

- payment of a fee for the transfer of funds referred to in Article 79(2) of the Act on investment funds and management of alternative investment funds. As at 31 December 2020, the appeal proceedings were closed. The appeal was dismissed in accordance with the position of the Chair of the KNF Board;
- redress of damage resulting from the non-performance or improper performance of an obligation arising from the management of a fund. As at 31 December 2020, the appeal proceedings were still pending.

As regards the banking sector, in 2020 the Chair of the KNF Board exercised his rights of a public prosecutor in civil proceedings in respect of:

- ascertainment of invalidity and repeal of resolutions of the meeting of representatives of a cooperative bank. As at 31 December 2020, the appeal proceedings were closed. The appeal was dismissed in accordance with the position of the Chair of the KNF Board.

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

Under the Act of 1 March 2018 on the prevention of money laundering and terrorist financing (Journal of Laws 2020, item 971, as amended), hereinafter: 'AML Act', the KNF Board acts as a body cooperating with the General Inspector of Financial Information (GIFI) and performing, as part of its supervisory powers, inspection and analytical activities in the area of prevention of money laundering and terrorist financing (hereinafter: 'AML/CFT') at obliged institutions supervised by the KNF Board. The inspection activities in 2020 were carried out, in particular, on the basis of information about the threats and main areas of risk in relation to money laundering and terrorist financing (hereinafter: 'ML/TF') as well as the AML/CTF guidelines and policies described in the following documents:

- *National Assessment of the Risks of Money Laundering and Financing of Terrorism* of 17 July 2019 (hereinafter: 'National Risk Assessment' – NRA),
- *Report from the Commission to the European Parliament and the Council on the assessment of the risks of money laundering and terrorist financing affecting the internal market and relating to cross-border activities* of 24 July 2019 (hereinafter: 'Supra-national Risk Assessment' – SNRA),
- *Joint Opinion of the European Supervisory Authorities on the risks of money laundering and terrorist financing affecting the European Union's financial sector* of 4 October 2019 (hereinafter: 'Joint Opinion of ESAs'),

as well as on the basis of the available information about the risk obtained in the course of on-site inspection activities carried out at supervised entities and as part of the off-site analytical

process carried out at the UKNF (without the UKNF inspectors being physically present at the entity under inspection).

Considering that the AML Act imposed on obliged institutions new and more stringent requirements, the inspection activities were carried out in relation to the entities which were most exposed to the risk of their business being used for money laundering and terrorist financing. Despite the extraordinary situation caused by the COVID-19 pandemic, the inspection and/or analytical activities were gradually conducted in remote mode in relation to the entities listed in the Plan of AML/CFT inspection activities for 2020. Thus, despite the pandemic, the initial plan of AML/CFT inspection activities for 2020 was only slightly amended.

The inspections of compliance with the AML Act were conducted in the form of comprehensive exercises (covering all provisions of the AML Act), thematic exercises (examination of certain topics at the entities selected for inspection) and targeted exercises (covering e.g. the implementation of recommendations based on previous inspections). An important factor taken into account in the 2020 work plan was the verification of performance of the obligation under Article 27(1) of the AML Act, which requires obliged institutions to draw up their own risk assessment of money laundering and terrorist financing in relation to their activities.

Table 80. Number of inspection activities carried out by the UKNF at supervised entities in 2020 in the area of prevention of money laundering and terrorist financing

Inspection activities at entities	Number
Commercial banks	8
Cooperative banks	8
Brokerage houses	1
Investment fund management companies	3
Small payment institutions	1
Credit unions	1
Life insurance undertakings	2
Total	24

Source: UKNF

In the course of 23 AML/CFT inspection activities (for 1 entity, the inspection activities were not completed), 290 irregularities were identified and grouped in 13 categories of breaches corresponding to the areas inspected.

Table 81. Irregularities identified in 2020 at obliged institutions by type of breach

Item	Areas of failures	Number	Share (%)
1.	Risk assessment and application of preventive measures	101	34.83
2.	Analysis of transactions	39	13.45
3.	Assessment of institution's risk	30	10.34
4.	Internal control system	30	10.34
5.	Internal procedures	27	9.31
6.	Organisation of the AML/CFT process	26	8.97

7.	Submission of information to the General Inspector of Financial Information	16	5.52
8.	Training for employees	13	4.48
9.	Implementation of KNF Recommendations	3	1.03
10.	Stopping transactions, blocking accounts and freezing assets	3	1.03
11.	Information accompanying money transfers	2	0.69
Total		290	100

Source: UKNF

In all sectors, most irregularities were found in relation to risk assessment and application of preventive measures towards a customer, and analysis of transactions.

The process of removing the irregularities identified during the UKNF inspections was monitored on the basis of periodic reports submitted by the entities under inspection in which the entities provided a detailed description of corrective measures taken by them to eliminate the irregularities. The UKNF exchanged additional correspondence in case of doubts as to the timeliness or adequacy of the implementation of post-inspection recommendations. The KNF Board, as a cooperating body, submitted inspection results to the GIFI.

In connection with the violations of the AML Act identified during inspections:

- In 2020, the KNF Board issued a warning to two commercial banks and two cooperative banks for operating in violation with the provisions of law governing the matters in the area of AML/CFT;
- 8 requests were filed (including following the inspection activities conducted in 2019) to initiate administrative proceedings in respect of the imposition of administrative penalties on obliged institutions.

Regardless of the above-mentioned inspection activities, data were collected and in-depth off-site analyses were conducted, in particular in relation to entities generating high risks of ML/TF. The outcome of those activities was, among other things, the publication of 2 positions of the KNF Board:

- the experience of the KNF Board has shown that financial institutions do not fully understand the importance and essence of correct performance of the obligation to carry out the risk assessment of the obliged institution as referred to in Article 27(1) of the AML Act. In view of the foregoing, on 15 April 2020, having analysed the methodologies and recommendations of the European Commission, the UKNF published its position on the risk assessment of obliged institutions. In its position, the UKNF stated that the risk assessment of an obliged institution is the basis for creating internal AML/CFT processes with regard to proper risk assessment of obliged institutions supervised by the KNF Board;
- following an in-depth analysis and consultations with the GIFI and representatives of financial sectors concerned, the UKNF could finally express, on 2 June 2020, its position and proposal for a questionnaire to mitigate the risk in the area of cooperation between payment institutions and the banking sector, which risk has been assessed by the European Commission, continuously since 2017, as significant risk. The position contains an example of information that banks should obtain from a customer being a payment institution in the payment services sector in order to increase the security of their transactions and to develop a uniform approach towards the payment services sector.

In 2020, the KNF Board continued its cooperation with the GIFI, in particular in the area of:

- preparation, as appropriate, of the list of information on technical compliance of the Polish AML/CFT system with the recommendations of the Financial Action Task Force (FATF) and demonstration of the effectiveness of the system in connection with the planned evaluation of the Polish AML/CFT system as part of the 5th round of evaluation of Poland

- run by the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) at the Council of Europe;
- participation in the work on the implementation of the Fifth AML Directive;
 - participation in activities aimed at preparing an update of the national risk assessment of money laundering and terrorist financing, including providing a substantive contribution to the GIFI;
 - active participation in the Financial Security Committee attached to the GIFI;
 - notification of transactions the circumstances of which indicate that the transaction is related to money laundering or terrorist financing;
 - reporting irregularities identified at obliged institutions in the course of ongoing analysis;
 - exchange of information on the plans and results of inspections at obliged institutions;
 - participation in working meetings, training sessions and workshops.

The continuous cooperation with the GIFI also took place as part of the work of the Standing Committee on anti-money laundering and countering terrorist financing (AMLSC), created in 2020 at the European Banking Authority (EBA).

The UKNF also carried out the following AML/CFT activities:

- issuing opinions on draft internal AML/CFT regulations submitted to the UKNF by KNF-supervised entities,
- the quarterly analysis of statistical reports pertaining to the information on the implementation of the AML Act submitted to the GIFI,
- assessment of the preventive measures adopted by supervised entities and declared at the request of the KNF Board, in particular at entities in which an increased risk of money laundering and terrorist financing was identified.

Moreover, considering the need to intensify the activities in the area of analytical supervision at the UKNF in the area of AML/CFT, a Section of Analyses was created in 2020. As part of analytical activities, measures were adopted to increase the efficiency of inspection activities at KNF-supervised entities, in-depth and comprehensive analyses were carried out in the context of the performance by supervised entities of their AML/CFT obligations, and risks of ML/FT were identified in the operations of those entities.

The goal was to continue the cooperation with the National Clearing House (PL: Krajowa Izba Rozliczeniowa, KIR), initiated in 2019, on the use of the resources of the KIR ICT system (STIR). In accordance with the applicable provisions of the Tax Ordinance (Journal of Laws 2020, item 1325, as amended), pursuant to Article 119z point 8, the Chair of the KNF Board may request from the President of the Management Board of KIR information being processed in STIR. At the same time work was ongoing on the development of analytical supervisory tools for the prevention of money laundering and terrorist financing. A tool was developed to calculate a partial SREP score in the area of AML/CFT in connection with inspection activities at KNF-supervised entities.

As it was necessary to coordinate more tasks performed at the UKNF in the area of AML/CFT internationally, including in the European Union, a new Section for International Cooperation was established. The intensification of activities in this area resulted from, among other things, the need in the European Union to reorganise the AML/CFT system and to strengthen the activities in this area. This phenomenon was affected by: the previous experiences of the European System of Financial Supervision, the changing international environment (COVID-19, economic crisis), and new challenges and needs related to civilisation and technology.

It should be stressed that in 2020 representatives of the UKNF attended regular and *ad hoc* meetings of the Standing Committee on anti-money laundering and countering terrorist financing (AMLSC) at the European Banking Authority (EBA). The AMLSC was tasked with, for example, coordination and monitoring of AML/CFT efforts made by all EU financial service providers and competent authorities.

The UKNF also analysed and prepared various materials for the European Supervisory Authorities in terms of the key aspects of AML/CFT. The outcome of the joint work of

supervisory authorities include, for example, EBA publications setting further trends and policies in this area in the European Union, for both supervised entities and supervisory authorities.

An essential element of the action addressed to KNF-supervised entities is the organisation and conduct of educational activities under the Education Centre for Market Participants (CEDUR) project. In 2020, 3 webinars on AML/CFT were organised, which were attended by approx. 1 200 representatives of commercial and cooperative banks, payment institutions, etc. The CEDUR initiative also involved a webinar for representatives of law enforcement authorities and the judiciary, including a presentation of the system for prevention of money laundering and terrorist financing at financial institutions and the results of inspections and experiences in that respect, pointing to the possibility for the public services to use the information collected by the UKNF.

10.7. SUPERVISION OVER THE BENCHMARKS SECTOR

Work continued in 2020 to adapt the Polish financial market to the full implementation of the requirements of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (OJ L 171/1 of 29 June 2016) (BMR). The main focus of market participants was the preparation of so-called contingency plans to be implemented in the event of a material change or discontinuation of publication of a benchmark. The most important aspect being discussed was the inclusion of the plans in contractual relations with customers and their possible implementation in the portfolio of contracts prior to the entry into force of the BMR, i.e. 1 January 2018. That issue, in particular in the context of the historical portfolio, remains extremely important also in 2021, as by the end of the year several LIBOR benchmarks will probably no longer be published.

In 2020, the KNF Board issued two decisions authorising operation as an administrator of an interest rate benchmark. The authorisation was granted to a WIBOR critical benchmark administrator (the company GPW Benchmark S.A.) and the WKF benchmark administrator (the company Instytut Rynku Finansowego Sp. z o.o.). Those administrative decisions allow both entities to develop interest rate benchmarks, and to launch new benchmarks of this type.

Nevertheless, intense work started in 2020 on new alternatives to the WIBOR critical benchmark. Various concepts are being considered, including those based on the extended spectrum of data used to compile WIBOR and on building a risk-free benchmark (risk-free rate) for PLN. The work is to be continued in 2021.

10.8. PROTECTION OF INTERESTS OF NON-PROFESSIONAL FINANCIAL MARKET PARTICIPANTS

10.8.1. BASIC AREAS OF ACTIVITY

One of the statutory objectives of financial market supervision is to ensure protection of interests of participants in this market. The supervisory activities of the KNF Board in this respect consist in constant monitoring of market practices as well as in interventions, especially in the areas of activity of the supervised entities where violations of the law or interests of non-professional financial market participants may occur.

The KNF Board monitors market practices by exercising its supervisory powers allowing it to request information and clarifications directly from KNF-supervised entities, and to collect data on its own. Supervisory activities are undertaken in response to problems currently occurring

in the market, identified on the basis of, *inter alia*, information from non-professional financial market participants.

Such reports are a very valuable source of information on the functioning of the financial market. The reports are used to examine and assess the operation of supervised entities. However, it should be stressed that the tasks of the KNF Board do not include reviewing the reported defences or taking a position on individual matters presented in the correspondence addressed to the supervisory authority.

If the irregularities found in the activities of a supervised entity are confirmed, the collected information provide the grounds for adopting appropriate systemic supervisory measures to eliminate such practices and to properly shape the market in the future. The following supervisory activities are conducted to the extent of the powers conferred on the KNF Board according to the applicable legislation.

The scope of tasks carried out by the supervisory authority in the area of protection of non-professional financial market participants includes in particular:

- analytical and explanatory work on signals received, in particular, from the recipients of financial services and government authorities or civil society organisations acting for the protection of financial market participants, regarding the activities of KNF-supervised entities, with regard to violations of law or legally protected interests of the recipients of financial services and threats to transparency and confidence in the financial market associated with it,
- undertaking supervisory measures with respect to market practices of financial market entities on the basis of signals received;
- carrying out analytical activities related to standard contracts and product design, on the basis of signals received.

10.8.2. TOTAL REPORTS FROM THE MARKET

In 2020, the UKNF received a total of 4 476 signals from non-professional financial market participants regarding irregularities related to the activities of KNF-supervised entities in the insurance, capital, banking, pension, payment services and credit unions sectors. Those reports were related to activities subject to the KNF supervision or supervision by a supervisory authority of an EEA Member State which authorised the entity (granted a licence) to carry out the activity taken up by that entity in the territory of the Republic of Poland under the Community freedom of establishment using the principle of the EU single passport.

Compared to 2019 (which saw 4 812 notifications of irregularities), during the period covered by this report the number of notifications decreased by 7%.

In 2020, the UKNF also reported the receipt of 910 other messages regarding the activities of KNF-supervised entities or the functioning of financial markets.

10.8.2.1. INFORMATION CONCERNING BANKING SECTOR ENTITIES

During the period covered by this report, the UKNF received 2 287 signals concerning improper functioning of banking sector entities. Compared to 2019, the number of reports regarding the banking sector increased by 0.26%.

The main issues were related to:

- maintaining bank accounts (including management of an account, irregularities related to account blocking due to bailiff execution, the amount of the fees and commissions collected),
- servicing credit facilities (the signals concerned mostly irregularities resulting from the management of agreements, the amount of fees and commissions collected by banks, and the assessment of creditworthiness/granting the credit decision),

- other activities carried out by banks (including distribution of funds, offering insurance-based investment products, and bonds offered by banks),
- quality of service (problems related mainly to improper or incompetent service provided by bank employees were signalled),
- servicing mortgage loans (the reports concerned mostly irregularities in the performance of the contract),
- the handling of payment instruments (including irregularities regarding the method and/or date of settlement of transactions made with cards as well as the amount of fees and commissions collected by banks).

Table 82. Reports received by the UKNF and relating to the activities of banking sector entities in the years 2019–2020

Type of entity	2019	%	2020	%
Commercial banks	2 078	91.10	2 096	91.65
Cooperative banks	119	5.22	131	5.73
Branches of EU credit institutions	76	3.33	50	2.19
Mortgage credit intermediaries and agents	2	0.09	3	0,13%
State-owned banks	0	0.00	6	0.26
EU cross-border credit institutions	6	0.26	1	0.04
Total	2 281	100.00	2 287	100.00

Source: UKNF

The breakdown of reports received by the UKNF in the years 2019–2020 and relating to the activities of commercial and cooperative banks (by subject-matter) is presented in Tables 12.6.1 and 12.6.2 in Annex 12.6.

10.8.2.2. INFORMATION CONCERNING PAYMENT SERVICE PROVIDERS OTHER THAN BANKING SECTOR ENTITIES AND CREDIT UNIONS

In 2020, 131 reports were received in relation to irregularities in the activities of payment service providers other than banking sector entities and credit unions. The issues raised in those reports were related primarily to non-execution or late execution of transactions, and subsequently the performance of a contract. Compared to 2019, the number of reports concerning payment services provided by entities other than banking sector entities and credit unions increased by 57.83%.

10.8.2.3. INFORMATION CONCERNING CREDIT UNIONS

During the period covered by this report, 55 reports related to credit unions were received. Compared to 2019, the number of the reports increased by nearly 10.00%.

The issues raised in those reports concerned, among others:

- the servicing of credit facilities (including, first of all, problems with contract management, debt collection, and the amount of the fees and commissions collected),
- maintaining accounts (including account management).

The breakdown of reports received by the UKNF in the years 2019–2020 and relating to the activities of credit unions (by subject-matter) is presented in Table 12.6.3 in Annex 12.6.

10.8.2.4. INFORMATION CONCERNING INSURANCE SECTOR ENTITIES

During the period covered by this report, the UKNF received a total of 1 342 reports concerning the activities of insurance sector entities, including 112 reports concerning insurance undertakings established in Poland and offering life insurance (which accounted for 8.41% of all signals reported in the sector), 1 114 reports concerning insurance undertakings offering

non-life insurance (which accounted for 82.95% of all signals reported in the sector), 14 reports concerning the activities of insurance intermediaries (2 reports concerning the activities of a broker and 12 reports concerning the activities of insurance agents), 10 reports concerning the activities of branches of EU insurance undertakings (all the reports concerned non-life insurance), and 91 reports concerning the activities of notified EU insurance undertakings (concerning non-life insurance). The number of reports concerning the activities of insurance sector entities decreased by 27.33% compared to 2019.

Table 83. Reports received by the UKNF and relating to the activities of insurance sector entities in the years 2019–2020

Type of entity	Division	2019	%	2020	%
Insurance undertakings in Poland	I	158	8.55	112	8.35
Insurance undertakings in Poland	II	1 498	81.06	1 114	83.01
Branches of EU insurance undertakings	I	4	0.22	1	0.07
Branches of EU insurance undertakings	II	18	0.97	10	0.75
Notified EU insurance undertakings	I	0	0.00	0	0.00
Notified EU insurance undertakings	II	139	7.52	91	6.78
Insurance agents	–	24	1.30	12	0.89
Insurance brokers	–	7	0.38	2	0.15
Total	–	1 848	100.00	1 342	100.00

Source: UKNF

In the area of life insurance, the most frequent problems reported by customers included issues related to the refusal to pay out benefits and, to a lesser extent, issues related to the performance of a contract by an insurance undertaking, as well as issues related to dilatory claims handling practices.

In the area of non-life insurance, the most frequently reported problems were related to:

- the amount of compensation paid,
- irregularities in the claims handling process,
- lengthy procedures for the settlement of claims, mainly of motor insurance, primarily of the TPL motor insurance,
- irregularities in the provision of damage files by the insurance undertaking,
- refusal to pay compensation.

The breakdown of reports received by the UKNF in the years 2019–2020 concerning life insurance undertakings (by subject-matter) is presented in Table 12.6.4 in Annex 12.6, whereas the breakdown of reports concerning non-life insurance undertakings — in Table 12.6.5 in Annex 12.6.

Moreover, Tables 12.6.6 and 12.6.7 in Annex 12.6 show the breakdown of reports concerning the activities of insurance undertakings in EU Member States (by subject-matter) received by the UKNF during the period covered by this report.

10.8.2.5. INFORMATION CONCERNING PENSION SECTOR ENTITIES

In 2020, the UKNF received 15 reports concerning improper functioning of pension sector entities. 10 reports concerned the activities of open pension funds (OFEs) and 5 reports concerned a general pension society. Compared to 2019, the number of reports concerning the activities of pension sector entities increased by 25.00%, while in relation to the functioning of open pension funds the number of reports did not change.

Information concerning the activities of OFEs received by the UKNF in 2020 related mainly to problems in obtaining payment of funds from an account of deceased members of the OFE encountered by authorised persons.

The breakdown of information in this respect (by subject-matter) is presented in Table 12.6.8 in Annex 12.6.

10.8.2.6. INFORMATION CONCERNING CAPITAL MARKET ENTITIES

During the period covered by this report, 644 reports concerning the functioning of capital market entities were received. Compared to 2019, the number of reports in that sector increased by 19.70%. In the case of public companies, the most frequently reported issues related to possible manipulations on the price of financial instruments, and, to a lesser extent, to information requirements for companies listed on the NewConnect market. Comments were made with regard to the activities of investment firms, including foreign investment firms, and focused mainly on the quality of the services provided. With regard to investment fund management companies, most objections concerned the management of the fund and the quality of services. There were also reports containing objections to the way of carrying out debt collection by the entities managing securitised liabilities of a securitisation fund.

Table 84. Reports received by the UKNF and relating to the activities of capital market entities in the years 2019–2020

Type of entity	2019	%	2020	%
Public companies and other capital market participants	206	38.29	339	52.64
Investment firms	82	15.24	115	17.86
Investment fund management companies	141	26.21	108	16.77
Foreign investment firms	9	1.67	13	2.02
Managers of securitisation fund assets	98	18.22	64	9.94
Companies operating an exchange/an exchange market	2	0.37	5	0.78
Distributors of participation units in investment funds or participation units in foreign funds	1	0.00	0	0.00
Total	593	100.00	644	100.00

Source: UKNF

The reports received by the UKNF in the years 2019–2020 and relating to the activities of capital market entities (by subject-matter and market segment) are presented in Tables: 12.6.9, 12.6.10, 12.6.11, and 12.6.12, respectively, in Annex 12.6.

10.8.3. INVESTIGATIONS FOLLOWING THE RECEIPT OF INFORMATION FROM NON-PROFESSIONAL FINANCIAL MARKET PARTICIPANTS, ANALYTICAL WORK AND INTERVENTIONS

The reports concerning the activities of KNF-supervised entities submitted to the UKNF by non-professional financial market participants represent an important source of information on the emerging phenomena in the practices of financial institutions. The subject-matter of the analysis of information included in such reports is, in particular, the assessment of actions taken by KNF-supervised entities in the context of compliance of such actions with provisions of law. The findings made on the basis of analytical and investigative activities undertaken in

relation to KNF-supervised entities may serve as a basis for supervisory measures to eliminate market practices that raise concern.

A detailed list of analytical tasks is provided in Annex 12.5.1, while below is a summary of the most important analyses carried out in 2020.

Analysis of practices followed by selected entities in relation to the time limits for submission of the decision on granting mortgage credit

The analysis was initiated in 2019. In connection with the identified doubts of supervised entities as to the application of Article 14(2) of the Act of 23 March 2017 on mortgage credit and on supervision of mortgage credit intermediaries and agents (Journal of Laws 2020, item 1027), on 20 July 2020 the UKNF published on its website a position on this matter, and then on 30 July 2020 addressed the relevant letter to supervised entities. The supervisory authority is of the view that the running of the 21-day time limit specified in the Act must not start before the consumer submits the necessary documents and information for creditworthiness assessment. However, in case of unnecessary delays in the lender's process of collecting documents and information, the lender's position may be abused so lenders should make every effort to eliminate the risk of any such accusation.

Analysis of compliance by selected obliged entities with the requirements under the Act on 'dormant accounts'

The analysis is carried out cyclically in connection with the obligations imposed on the KNF Board and specified in Article 133(1) point 8 and Article 138(1) point 10 of the Act of 29 August 1997 — the Banking Law, and analogous solutions adopted in Article 67 point 8 and Article 71(1) point 6 of the Act of 5 November 2009 on credit unions. The analysis covered 18 commercial banks, 1 state-owned bank, 2 affiliating banks, 527 cooperative banks, 6 branches of credit institutions, and 25 credit unions. In total, 579 entities were assessed. The analysis covered issues relating to instruction concerning the deposit in the event of death, verification of contracts in circumstances specified in the Act, the handling of queries in the Central Information System, and informing the municipalities of the last place of residence. The analysis confirmed the need to continuously verify the data submitted by entities in relation to 'dormant accounts' due to the still existing discrepancies. The analysis identified the need to verify the comments made by entities on the difficulties in providing replies within the Central Information system from KIR S.A. The analysis also made it possible to identify entities for which additional investigative operations will be carried out in connection with the provision of inaccurate data or provision of information on ongoing processes, e.g. dealing with backlogs arising from, *inter alia*, the merger of entities, or the organisation of work during the COVID-19 epidemic.

Analysis of certain banks' practice of concluding contracts through a courier

The analysis was initiated in 2019 following a complaint regarding an entity in which irregularities were identified, consisting in failure by a group of couriers to properly identify the persons who had declared their intention to enter into a contract with a bank, which ultimately resulted in the submission of false data to the bank. The UKNF analysed analogous processes at other entities on a sample of 8 banks. All banks under assessment ensured that couriers were obliged to verify the identity document (by comparing the data and image and checking the validity date of the document); the banks also carry out additional verification (against the databases of the bank, MIG_DZ, and other databases) of documents received from the courier of the documents prior to the conclusion of the contract.

Analysis of compliance by selected commercial banks with the requirements under Article 15a(2)–(3) of the Act on payment services (in relation to complaint handling)

The analysis is a continuation of the supervisory activities carried out by the KNF Board since 2019. The analysis showed that during the period under assessment in 2020 compared to the period covered by the assessment in 2019, banks reported an increase in the number of

complaints. An increased number of cases of breach of the time limit of 35 days for response was identified at five banks, and at other five banks the number of cases of the similar breach decreased; four banks were not in breach of the 35-day time limit, and in two banks the breach of that time limit occurred in 2020. The entities which replied to users' complaints after the lapse of statutory time limits indicated the reason of the breach of statutory time limits and reported on the measures taken to reduce the risk of similar delays in the response. Due to those findings, the process of performing the obligations under the Act on payment services will be continuously monitored by the KNF Board as part of ongoing supervision.

Analysis of compliance by cooperative banks with the requirements under Article 15a(1)–(6) of the Act on payment services (in relation to complaint handling)

The UKNF asked 533 cooperative banks to provide information about the fulfilment of new requirements resulting from the amended Act on payment services. The analysis in question revealed that 141 cooperative banks replied to users' complaints after the lapse of the statutory time limit of 35 working days. The banks indicated the reason for the breach of the statutory deadlines and reported on the measures taken to reduce the risk of delays in the response. Due to those findings the process of performing the obligations under the Act on payment services will be continuously monitored by the KNF Board as part of ongoing supervision.

Analysis of compliance by selected banks with the requirements under the Act on support for borrowers who have taken out a housing loan

The analysis was carried out on a sample of 13 banks in connection with the applicable legal regulations introduced by the Act of 9 October 2015 on support for borrowers who have taken out a housing loan and are in financial difficulties (Journal of Laws 2019, item 2138). The analysis aimed to verify the effectiveness and timeliness of the support solutions applied in the Act. The analysis established that in organisational terms, banks are prepared to perform the obligations resulting from the Act. They also adapted to the new circumstances and additional tasks introduced on 1 January 2020. In the 2nd half of 2021, the supervisory authority will undertake supervisory activities in this area again. The amendment to the provisions of statutory law effective from 1 January 2020 gave rise to doubts as to interpretation, which were highlighted on behalf of banks by the Polish Bank Association with regard to the adopted group of borrowers excluded from the possibility of obtaining support or loan for the repayment of debt. In that respect, some banks exclude the possibility of supporting a person who has a cooperative right to a single dwelling or a single-family house in a housing cooperative, while other banks consider that such persons are entitled to support. In consequence, that could lead to differences in the treatment of borrowers, depending on the lender that granted the housing loan to the borrower. The issue will be further examined.

Analysis of practices followed by certain banks in relation to the performance of obligations under Article 52 of the Act on consumer credit

The analysis was carried out following the imposition on borrowers of the obligation to settle the credit with the consumer within 14 days of the date of the early repayment of the total credit, and following the receipt by the UKNF of first signals indicating that banks did not make the appropriate settlement and that there were differences in the banks' practices concerning the performance of that obligation. The analysis covered the period from 2018 to 2020 and applied to 10 banks. In view of the fact that the legislator does not specify the settlement referred to in Article 52 of the Act on consumer credit, banks interpret their obligation primarily as calculating the amount of any overpayment and, in the case of customers holding a payment account, as transferring it to the customer's account and, in the case of customers who do not have a payment account with a bank, as placing the amount of the overpayment at the customer's disposal on the bank's technical account. In the banks' opinion, the requirement to settle the credit as formulated in the above provision does not oblige them to provide information to customers. The practice adopted by some banks in relation to customers for whom no automatic settlement of the credit is possible as the customers have no payment account with the bank generates, on the bank's technical accounts (used to manage consumer

credit or banks' general internal accounts), amounts due to customers which are to be disposed of by customers. The final findings will be further examined.

Analysis of options for cancelling payment orders

Following Judgment of the Court of Appeal in Kraków of 13 December 2018 Case File No I AGa 322/18 and reports received from non-professional financial market participants, an analysis was carried out in relation to the approach of payment service providers to the payment orders for which the payer revoked their consent to execution. The right to cancel a payment order was analysed, as a substantive right of the payer. The analysis covered 14 entities. It has been established that some providers prevent their customers from cancelling a payment order which has not yet been executed in the settlement system, although the customer/payer informed the provider that the payment order was placed incorrectly (to an incorrect account number, to a non-existent account number, for an incorrect amount) and that therefore the customer did not consent to its execution.

Most of the entities indicated that their rules define the cut-off hours which were introduced in view of the need to adapt banks' activities to the requirements of Article 54 of the Act on payment services (Journal of Laws 2020, item 794) pertaining to the calculation of time limits for execution of payment orders and which, in their view, meet that objective only. The definition of cut-off hours by some banks enables their customers to cancel an incorrect payment order within a certain period of time. For some banks, the definition of cut-off hours is irrelevant, and the customer cannot cancel the order after he/she has authorised the order or after the funds have been secured on the account. In the UKNF's view, the practice should be harmonised and requires supervisory intervention. The work in this respect will continue in 2021.

Analysis of the practice of replacing used or damaged legal tender for customers, carried out on a group of banks

The analysis covered 10 commercial banks and 14 cooperative banks. The analysis established that each of the banks under assessment had internal regulations including instructions and procedures for the replacement of used or damaged legal tender (notes and coins), the personnel in charge of cash service, prior to taking up their post, complete a training course on how to recognise the authenticity of legal tender and cash flows and familiarise themselves with the bank's internal regulations, including with respect to the replacement of used or damaged legal tender. As part of internal control, banks analyse the operations executed by the staff responsible for cash service in relation to the replacement of used or damaged legal tender. During the period under assessment, 16 banks did not record any effect of complaints concerning the process in question, and the other banks recorded single complaints concerning the review of appropriateness of the refusal to replace legal tender. The incidental nature of such cases and the possibility to clarify them through a complaint procedure does not allow for the formulation of an accusation that this area is affected by irregularities.

Analysis of the adaptation of banks to the requirements laid down in Article 3b point 2 of the 2019 CBP Regulation — Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) 924/2009 as regards certain charges for cross-border payments in the Union and currency conversion charges (OJ L 2019 No 91 of 2019, p. 36). The 9 banks under assessment confirmed the adaptation of their operations to the said regulation in terms of equivalence and transparency of charges for currency-exchange transactions.

Analysis of practices followed by certain banks during the COVID-19 pandemic to enforce contractual sanctions for the failure to ensure turnover/remuneration on the client's account

The analysis covered a sample of 9 banks whose portfolios include credit facilities providing for the requirement to ensure a certain level of turnover/the payment of remuneration. It has

been established that the requirement applies first of all to limits on the current and savings account and current account, credit facilities for micro-enterprises and business, and mortgage loans. The consequences of the customer's failure to comply with the requirement are different, but banks mainly apply a penalty of increasing the loan margin or an additional commission. Almost all of the banks under assessment declared that during the COVID-19 pandemic they either stopped verifying the borrowers' compliance with the obligation to maintain certain turnover/remuneration on the account or identified a group of customers that did not meet that contractual obligation and suspended the imposition of sanctions, or prepared other support solutions.

Analysis of practices followed by certain banks in relation to the credit policy adopted at the time of the pandemic toward the customers who benefited from 'repayment holiday'

The analysis covered a sample of 10 banks. It has been found that as a rule, at the time of suspension of repayment, banks do not grant new credit facilities to persons benefiting from an active suspension of credit repayment, due to the negative result of the creditworthiness assessment. The banks make the decision to extend new credit to clients previously benefiting from the support measures launched in connection with the pandemic depending on the individual situation of each applicant. The banks do not exclude the possibility of extending new credit if only the customer can prove, during the creditworthiness assessment, that the customer has a stable financial situation, including a source of income or assets which will allow full and timely repayment of all financial liabilities held and requested.

Analysis of certain banks' practices of reviewing requests for 'repayment holiday'

The received complaints served as a basis for verification of banks' rules and time limits for reviewing requests for 'repayment holiday' during the COVID-19 epidemic. Irregularities were identified in the procedure for processing requests, including excessive duration of the procedure and lack of accurate information about the request status. However, in general, issues were only incidental and temporary. The excessive duration was very often caused by errors in customers' requests and their high numbers as compared to the number of employees responsible for handling and reviewing the requests. Banks declared on an ongoing basis the introduction of additional arrangements and procedures aimed at speeding up the processing of customers' requests.

Analysis of certain banks' practices for the implementation of support measures in connection with the COVID-19 pandemic

On the basis of the signals received, the UKNF considered that some of the banks' proposed support arrangements resulting in higher loan instalments after the expiry of the grace period, following the calculation of higher interest on the increased amount of capital, could constitute additional, unjustified charges for borrowers. The findings were submitted for the use according to the remit of the Office of Competition and Consumer Protection (UOKiK). On 23 April 2020, the President of UOKiK issued a statement on the effects of entering into annexes concerning the postponement of the repayment of credit instalments and bank loans as part of so-called 'repayment holiday'.

Analysis of practices followed by certain banks in relation to the proportional reimbursement of the commission in the case of total early repayment of consumer credit

On the basis of complaints, a sample of 9 banks was analysed in relation to the implementation of the Judgment of the CJEU on credit agreements for consumers in Case C-383/18 ('small CJEU judgment'). An inconsistent practice was identified in regard to the approach to the reimbursement of part of the total cost of consumer credit in the event of early repayment of that credit. The results of the analysis were submitted to UOKiK according to its remit, with an indication of the need for UOKiK to clarify information concerning the period of time when applying the reduction in the cost of the credit and under Article 17ca of the Act of 21 July 2006

on financial market supervision (Journal of Laws 2020, item 180); some of the related complaints were also submitted to UOKiK, given its remit.

Analysis of the practice adopted by payment service providers in the identification of participants to payment transactions

The complaints provided the basis for identifying the issue of lack of harmonisation of identification details of actual participants to a payment transaction, submitted by payment service providers. Payment service providers are required to properly identify the parties to a transaction, without any discretion. If a payment transaction is executed remotely, the payer's providers have the authentication data of the actual payer, thus only such data should be provided to the payer's provider in the payment message, not any other identification details (e.g. details of another user, being a co-holder of the account). The results of the analysis were incorporated in the process of arrangements with the banking sector, the payment services sector and the National Clearing House which aim to eliminate the irregularities noted by the supervisory authority. The process will continue in 2021.

Analysis of practices followed by certain banks in relation to the method of settling a consolidation loan where the funds of the loan were allocated to the repayment of consolidated liabilities before the borrower exercised the right to terminate the loan agreement as referred to in Articles 53 and 54 of the Act on consumer credit

A sample of 12 banks was used to analyse lenders' practices of settling a consolidation loan where the funds of the loans were allocated to the repayment of consolidated liabilities before the borrower exercised the statutory right to terminate the loan agreement. It has been established that the banks, in processing the customer's notice of termination of the consolidation loan agreement, ask the customer to repay the consolidation loan granted, together with the interest due until the date of repayment. Most banks indicate that as part of mutual settlements between the parties it is not possible to restore the loan balance when the funds from the consolidation loan have been allocated to the repayment of consolidated liabilities also at other banks. Thus, each such case gives rise to a new contractual obligation, but the status existing prior to the conclusion of the consolidation loan agreement is not restored. In connection with the identified practice, further supervisory activities will be undertaken in that respect in 2021.

Analysis of practices followed by certain banks following a reliable report concerning outdated identification details of the customer

In the light of the signals received, the way banks communicate with customers for whom the bank has information about outdated contact details has been extensively analysed. Considering the secrecy rules applicable to banks, 13 banks were asked to indicate how they comply with their obligation to provide information to customers when the banks obtain reliable information that the data to which the banks send the bank correspondence are out of date and that the customer has not modified them. The analysis identified the lack of a uniform practice in this area. Further supervisory activities will be undertaken in that respect in 2021.

Analysis of the practice of not honouring powers of attorney given to professional attorneys

Based on the correspondence in which a professional attorney-in-fact referred to a communication of 2015 from the Supreme Bar Council to the KNF Board on banks' practice of failure to honour the right of an advocate, as well as a notary, to certify documents as true copies, the UKNF asked 8 banks to express their position on that matter. It has been established that the banks under assessment adopted measures to reduce the excessive nuisance in honouring powers of attorney given to professional attorneys, and they are fully aware of their duty to use care and caution when accepting documents of power of attorney given outside the bank's premises.

Analysis of the practice followed by one of banks to execute and manage instructions related with the death of the bank account holder

On the basis of the signals received, an analysis was carried out and problems with the quality of service were identified, including the incompetence of the front desk staff to process the account contract after the death of one of the account co-holders, the slow procedure for the realisation of the estate, and the irregularities in the execution of the instruction concerning the deposit in the event of death. The bank assured that, in order to prevent any future irregularity, it prepared a communication for the front desk staff to remind them about the rules for managing joint accounts in the event of death of one of the co-holders, implemented operational support for the front desk staff and expanded the training path.

Analysis of the practice followed by one of banks in relation to the processing of requests for payment of the estate of the deceased account holders

As a result of the adopted supervisory measures it has been established that at the bank there were delays in processing the requests for inheritance, due to a significant increase in the workload of the responsible unit. The bank took remedial action to address the delays in the future.

Analysis concerning an adjustment of the interest rate on certain types of bank accounts, made by one of banks

Based on a complaint, it has been established that at one of banks there were systemic irregularities in calculating interest rate on certain savings accounts. The bank modified the software in order to remove the error and made the adjustments on the accounts of natural persons and business owners, according to the bank's rules for providing services. The error occurred for 558 416 retail clients who were holders of 586 166 savings accounts, and 12 456 clients carrying on a business and being holders of 12 814 open savings accounts.

Analysis of the practice followed by one of banks in relation to blocking a client's bank account in connection with enforcement proceedings

The UKNF received a complaint which stated that one of banks had effected a blocking of a bank account owned by an association, while the garnishment applied to a personal bank account of the association's attorney. The review of the complaint has revealed an error in the designation of personal links in the IT system. Overall, similar irregularities occurred in 139 cases and resulted in incorrect realisation of garnishments at the bank. As a result of the actions taken by the supervisory authority, the bank implemented, at the end of May 2020, changes to eliminate similar errors in the future.

Analysis of the practice followed by one of banks in relation to the management of bank accounts of a person under the care of a Social Welfare Centre

The UKNF received a complaint which stated that one of banks suspended the execution of all instructions on bank accounts of clients who were charges of a Social Welfare Centre. The situation was caused by identified irregularities concerning, for example, improper interpretation of court decisions to appoint a guardian, and by powers of attorney being granted to the Centre's employees by the legal guardians of incapacitated persons. The bank stated that the irregularities may have occurred for the bank accounts of charges of the Centre opened from 2005 onwards. In order to ensure a proper management of clients' accounts and to eliminate similar situations in the future, the relevant documentation was updated in terms of its formal legal aspects; the charges of the Centre affected by the irregularities granted new powers of attorney for their accounts, in person, on the bank's premises.

Analysis of cases of identity theft and then conclusion of bank account contracts through a courier, identified at one of banks

The analysis was performed following a report concerning the conclusion of a bank account contract through a courier based on personal data obtained illegally. The review of the report has shown that the databases used by the bank are not adequate to detect such irregularities, since the bank did not use the Register of ID Cards when processing the requests for a bank account, finalised by concluding a contract through a courier company. For all processes

related to requests for a bank account, the bank introduced a rule to check the Register of ID Cards to ensure that the person indicated on the request has a valid identity document as indicated on the request.

Analysis of a bank's practice in relation to irregularities in concluding a contract through a courier and in creating a Trusted Profile using that account

As a result of supervisory measures, the bank identified 112 cases in which the fact of signing a contract in the process of concluding a contract through a courier was challenged. The bank introduced changes to the process of opening bank accounts through a courier. The changes result in the lack of possibility of creating a Trusted Profile until the identity is confirmed at the bank.

Analysis of the practice followed by one of banks in relation to the amount of fees collected for a credit balance and/or repayment history certificate

Based on the complaints received, an analysis was performed in relation to the practice of a bank which charges a high fee for a credit balance and/or repayment history certificate, issued at the request of a client/borrower having a foreign-currency mortgage loan at the bank, which fee was not reflected in expenses incurred by the bank in connection with the processing of the request. Due to the nature of the identified practice, which is related with unfair market practices, the documentation collected in the case was forwarded to UOKiK, according to its remit. The President of UOKiK imposed on the entity an administrative penalty, whose details were published in a relevant communication.

Analysis of the practice followed by one of banks in relation to the application of legislative moratoria on loan repayments

A complaint provided the grounds for an analysis of information published on the website of one of banks in relation to the possibility for obligors to request a legislative moratorium on loan repayments. The bank's website stated that as of 30 September 2020 the bank stopped accepting requests for the postponement of loan repayments, and as of 21 October 2020 – declarations on termination, and thus infringed Article 31fa of the Act on special solutions related to the prevention, counteracting and combating of COVID-19, other infectious diseases and emergencies caused by them. Supervisory activities were undertaken, following which the bank modified the website so that it was not misleading for the bank's customers as to the actual possibility of requesting the application of legislative moratoria.

Analysis of the practice of one of banks in relation to the execution of an order for withdrawal of foreign currency

A complaint provided the grounds for launching an analysis of procedures for the withdrawal of foreign currencies. The analysis identified cases where orders for withdrawal of foreign currency were executed in tranches. The customer did not receive requested foreign currencies on a specific day. The bank executed the order in several payments at different exchange rates and the customer had no influence either on the timing or on the amount of the withdrawal. The analysis revealed that the rules for banking services did not provide for any procedure for the withdrawal of foreign currencies. As a result of the adopted supervisory measures, the bank stated that it would modify the existing procedures.

Analysis of the practice followed by one of banks in relation to including the credited costs of life insurance in the total amount of credit

A complaint provided the grounds for analysing the practice of one on banks in relation to the legitimacy of including, in the total amount of credit, the credited costs of life insurance which do not have to be incurred to obtain the loan. Doubts were raised as to whether such solution was consistent with the definition of the total amount of credit referred to in Article 5 point 7 of the Act on consumer credit (Journal of Laws 2019, item 1083). The legislator expressly states that the total amount of credit does not include the costs credited, irrespective of whether they have been incurred voluntarily or whether they must be incurred. The bank failed to act

properly, as it included the cost of life insurance in the total amount of credit and non-interest costs of credit and, at the same time, failed to include that cost in the total costs of credit. In fact, according to the relevant literature, an item in a credit agreement (in this case the cost of life insurance) must not be included at the same time in the total amount of credit and total costs of credit (i.e. also non-interest costs of credit). The bank also made a wrong decision by including the cost of life insurance in non-interest costs of credit and, at the same time, failing to include the cost in the total costs of credit. The practice will be used in the course of ongoing supervision.

Analysis of the practice followed by one of banks in relation to termination of an account contract despite the customer's declaration on beneficial owner

As a result of supervisory measures, a bank detected irregularities related to the functioning of a control mechanism used to cancel the termination of a contract by a bank after the customer completes all required data. In order to prevent similar situations in the future, the bank has improved its control mechanism by introducing automated reporting.

Analysis of the practice followed by one of banks in relation to the return of funds paid in cash on a customer's account by a third party who is not a customer of the bank

Following supervisory measures, a bank identified a gap in the procedure for the return of cash payments at the request of a third party (who is not a customer) – the lack of a scenario of the return of funds at the request of the person who made the payment. In order to address and prevent such irregularities in the future, the bank modified the procedures for handling cash payments.

Analysis of the practice followed by one of banks in relation to an improperly collected commission for the renewal of a revolving loan as part of a special offer

As a result of supervisory measures, a bank identified 1034 customers from whom it unduly collected a commission for the renewal of a revolving loan. The bank reported that the irregularities had been caused by a technical error, which was identified and resolved. The unduly collected commissions were returned to the customers.

Analysis of the practice followed by one of banks in relation to the automatic change of the transaction authorisation method to the mobile method against the customer's will

As a result of supervisory measures, a bank reported that the automatic change of the authorisation method at the time of downloading and updating the application was implemented by the bank for all customers. The bank explained that it decided to change that functionality. After the mobile application was updated, the bank no longer automatically changes the authorisation method to mobile authorisation. Now the bank allows the use of the mobile application while the authorisation through text message passwords can also be used at the same time.

Analysis of a bank's practice of requiring non-standard documentation to initiate the chargeback procedure

As a result of supervisory measures, a bank identified 6 customers who, in response to a request, were asked by the bank to provide the confirmation regarding the entry of a service provider in the KNF List of public warnings. The bank reported that currently where it is necessary to supplement the documentation required to initiate the chargeback procedure, the bank requests only the documents specified by a payment organisation.

Analysis of a bank's practice of charging a fee for an electronic account statement, which is free according to the list of fees

As a result of the adopted supervisory measures, a bank confirmed unfounded collection of fees for an electronic statement, which issue occurred for 1 701 customers. The issue has been caused by an IT error, which was resolved. The unduly collected fees were returned to the customers.

Analysis of a bank's practice of launching the functionality of contactless card payment despite the customer's refusal to use that option

As a result of supervisory measures, a bank identified a systemic issue which occurred for 104 payment cards. The bank confirmed that the service provider had identified an issue in data synchronisation and informed the bank that the issue had been resolved and delivered improvements to the application to prevent similar incidents in the future. The bank initiated monitoring of whether the solutions delivered by the service provider address the problem effectively.

Analysis of a bank's practice of charging a fee for an additional service to a bank account despite the account holder being eligible for the exemption from that fee

A complaint provided the grounds for an analysis and subsequent identification of a systemic error, consisting in the failure to include a portion of inflows in the mechanism exempting the account from charges. The bank committed to introducing a change to remove the cause of the irregularities and to reimbursing the fees unduly charged in January 2021.

Analysis of the practice followed by one of banks in relation to returning the funds to the sender's account on suspicion of money laundering

A complaint provided the grounds for an analysis and subsequent identification of an issue related with the quality of customer service and understaffing. The bank blocked a customer's funds in order to verify them in terms of money laundering risk. After the sender's bank confirmed the legality of the transfer, the funds were still being kept on technical accounts. It was only after the customer's complaint intervention that the funds were returned, after several months' delay. In order to avoid similar situations, the bank introduced changes in complaint handling procedures, provided additional checkpoints and hired more people to handle such cases.

Analysis of the practice followed by one of banks in relation to providing customers with incorrect loan repayment schedules

A complaint provided the grounds for an analysis and subsequent identification of irregularities consisting in sending schedules for 12 914 contracts in which a maximum interest rate inconsistent with the rate provided for in the Civil Code was applied. The irregularities were caused by incorrect historical parametrisation of tables of maximum interest rates. The bank assured that as part of its corrective measures it prepared scripts changing the table of maximum interest rates, made adjustments to repayment schedules and sent them to the customers affected by the issue. In order to avoid similar irregularities in the future, the tables for different types of loans existing in the bank's main system have been revised.

Analysis of the practice followed by one of banks in relation to double-charging customers' accounts for card operations

A complaint provided the grounds for an analysis and subsequent identification of irregularities consisting in generating double accounting notes for card operations, which then resulted in double charges on the accounts. In total, 32 315 customers were affected by the technical failure. The bank explained that the irregularities had been caused by a human error made when importing data on card transactions into the bank's IT system, an interrupted session, and relaunching of the process of generating account notes. As part of corrective measures, the bank contacted the supplier of the IT system to prepare a solution to resolve the incident. Competent units at the bank also received necessary information about the failure as well as guidelines on the communication with customers. The bank ensured that adjustments were made to customers' accounts by reversing incorrect transactions and restoring correct balances on those accounts.

Analysis of the practice followed by one of banks in relation to charging undue fees for transfers for the return of funds from deposits matured

A complaint provided the grounds for an analysis and subsequent identification of irregularities consisting in reducing by PLN 5 the amount of the deposit matured, due to a charge for the Elixir transfer. The bank confirmed the irregularities in that respect and explained that the incident had been caused by a systemic error. The bank ensured that work had been initiated to eliminate the error on the existing open and future deposits, and confirmed the execution of the operations to return the fees unduly charged.

Analysis of the practice followed by an investment fund management company in relation to the timeliness of sending the IKE-2 form to a new IKE operator

The analysis has shown that the delays in the transfer of an IKE account to another managing institution resulted mainly from an increased number of cases where IKE/IKZE questionnaires had to be issued manually. The delays occurred for approx. 44% of cases in February 2020. In order to prevent such irregularities from occurring in the future, the company undertook work to ensure a fully automated preparation of information questionnaires which it plans to complete in the first quarter of 2021.

Analysis of the practice followed by a tied agent of an investment firm in relation to the possibility of misleading customers as to the actual scope of the agent's activities

A tied agent of an investment firm received complaints from 25 individuals, who may be adversely affected by the activities of one of the agent's employees who offered the acquisition of corporate bonds of a limited liability company (*spółka z o.o.*). The tied agent actually did not participate in the distribution of any products of the company. The analysis of the case has shown that the tied agent may not have adequately supervised the activities of its employee, which resulted in the failure to detect the irregularities in a timely manner and in the aggrieved parties being misled as to the actual scope of the agent's activities. In connection with this case, the tied agent terminated the contractual relationship with the above-mentioned entity with immediate effect and notified the prosecutor of a suspected crime committed by the agent's employee.

Analysis of the practice followed by one of brokerage houses in relation to collecting information from participants in individual pension accounts (IKEs)

A signal from a financial market participant provided the grounds for an analysis of the content of a form prepared by a brokerage house which, under Article 7 of the Act on individual pension accounts and individual retirement protection accounts (Journal of Laws 2019, item 1808), must be filled in by a client applying for the opening of the IKE register. The analysis revealed that the scope of information actually collected went beyond the statutory requirements. The brokerage house requested a declaration as to whether the client was ever collecting funds on an IKE account, while the said Act only provides for the right of a brokerage house to collect information on the funds currently accumulated on an IKE account at another institution. The supervisory measures resulted in the modification of the forms the brokerage house submitted to the client.

Analysis of the practice followed by one of brokerage houses in relation to blocking the possibility of placing orders in the trading system

A signal from a financial market participant provided the grounds for an analysis of the practice of one of brokerage houses which makes the possibility of placing orders via a trading system conditional on the prior completion of a declaration published as a pop-up message. After logging on to the system, a pop-up message appeared to obtain information from the clients of the brokerage house on their preferred form of dispatch of information about the investment activity and other information concerning the services provided by the brokerage house. The clients could not close the message, which prevented them from placing the order. As a result of supervisory measures taken, the brokerage house introduced the option for closing the message in order to enable the clients to place orders freely/without limitations.

Analysis of the practice followed by one of investment firms in relation to obligatory sale

A complaint provided the grounds for an analysis of the practice of one of investment firms which used the mechanism of obligatory sale of the instruments recorded on the customers' investment account in the case where there were no sufficient funds on the client's account to pay the fees and commissions. The firm was asked whether before effecting the 'obligatory sale' the firm informed the clients about the lack of sufficient funds on the account to pay the fees and commissions due. According to the findings, the firm notified only the clients who had agreed to electronic communication, which means that no standardised practices were applied towards the clients. Clients who indicated an e-mail represented a privileged group. It was also found that the mechanism of 'obligatory sale' of financial instruments operates according to criteria that were not defined in the firm's rules. The investment firm decides at its own discretion which financial instruments are held for sale. The clause pertaining on the 'obligatory sale' in the firm's rule does not indicate how often the firm may exercise that right. In the supervisory authority's view the identified practice may indicate the infringement of the client's best interests rule. The findings made in the case were used for further supervisory activities.

Analysis of a practice concerning amendments to the articles of association of one of closed-end investment funds in relation to the redemption rules

A signal from a financial market participant being a holder of investment certificates of a fund provided the grounds for an analysis of the fund's official redemption rules and amendments made to those rules in relation to requests for redemption previously not considered in connection with the application of the proportional reduction mechanism. The amendments to the wording of one of the provisions of the fund's articles of association stipulated that the requests for redemption that were unrealised in connection with the proportional reduction mechanism may be effected on the next redemption date, based on a new request submitted by the unit-holder. The previous wording of the articles of association provided that where a proportional reduction of redemption of investment certificates is applied, the outstanding certificates will be redeemed on the next redemption date, without the need for the unit-holder to make a new request. The analysis has concluded that the company should not oblige unit-holders to make a new request for redemption, since the previous requests are still valid and should be executed on the next redemption date. The amendment in question was assessed negatively in terms of its compatibility with the interests of the existing unit-holders. The findings made in the case were used for further supervisory activities.

Analysis of an insurance undertaking's practice of recordings claims made electronically

Following a report from a non-professional financial market participant, the supervisory authority identified a case of an insurance undertaking recording claims one month after the actual date of receiving the claim. The situation was caused by improper classification of the policy number as the claim number by the robot indexing the incoming e-mails received by the insurance undertaking. In consequence, the incoming correspondence was assigned to a wrong loss, additionally assigned to the claim adjuster who, at the moment the correspondence was sent, was no longer employed at the insurance undertaking. Following the measures adopted by the UKNF, the insurance undertaking made changes to the algorithm of the robot indexing the correspondence. Moreover, the insurance undertaking modified the procedure for forwarding the correspondence by introducing a solution to prevent the correspondence from being forwarded to the loss handled by the inactive claim adjuster, and the correspondence will now be forwarded to the claim adjuster currently handling the relevant claim.

Analysis of the rules applied by 3 insurance undertakings for the reimbursement of the costs of disinfection of a replacement vehicle and a vehicle damaged and repaired under contracts of third party liability motor insurance

Non-professional financial market participants reported that three insurance undertakings refused to reimburse the costs of disinfection of a replacement vehicle and a vehicle damaged and repaired, despite the ongoing COVID-19 pandemic, which refusal they deemed unfounded. The UKNF analysed the undertakings' practice of handling claims for the reimbursement of the costs of disinfection of a replacement vehicle and a vehicle damaged and repaired under TPL motor insurance contracts. Following its analysis, the UKNF concluded that there was no adequate causal link between the costs of disinfection of a replacement vehicle and a vehicle damaged and repaired and the event which caused the loss. The need to disinfect vehicles as a consequence of the pandemic is not a normal consequence of the event with which the legal system associates the obligation to compensate for the loss. Therefore, the refusal by insurance undertakings to reimburse the costs of disinfection of a replacement vehicle and a vehicle damaged and repaired is justified.

Analysis of the rules applied by an insurance undertaking for providing information and documents collected to establish the liability of the insurance undertaking and/or the amount of compensation or benefit

A non-professional financial market participant claimed that an insurance undertaking failed to make available claim files despite many requests made electronically to the undertaking's e-mail address. Following the measures taken by the UKNF, the insurance undertaking established that its incoming mail server classified certain e-mails as unsafe. The insurance undertaking carried out a careful systemic analysis of the issue and identified a domain the correspondence from which was rejected as unsafe. The insurance undertaking added the domain to the list of trusted addresses.

Issuing a recommendation for an insurance undertaking to adapt the procedure for providing the purchasers of claims or prospective claims for pecuniary or non-pecuniary damages under TPL motor insurance with information and documents collected to establish the liability of an insurance undertaking and/or the amount of compensation or benefit to the requirements of Article 29(6) of the Act of 11 September 2015 on the business of insurance and reinsurance (Journal of Laws 2020, item 895, as amended)

The UKNF identified limitations imposed by the insurance undertaking on the access to claim files for purchasers (assignees) of claims for a benefit under TPL motor insurance by creating a link between the right of access to claim files and the undisputed existence of a given claim. The insurance undertaking refused to make available the claim files if, in its opinion, it has satisfied all the claims which the injured party may have brought in connection with the event. In response to the recommendation, the undertaking stated that it had abandoned the previous practice and declared that it would make available the claim files to all purchasers of claims, to the extent the file of a given loss is related with a given claim.

Analysis of the justification by an insurance undertaking of negative adjustments applied by technical account managers when determining the pre-damage value of the vehicle in the course of handling claims under TPL motor insurance

The analysis identified the failure to properly justify the negative adjustments made by technical account managers when determining the pre-damage value of the vehicle in the course of handling claims under TPL motor insurance. The technical account manager, when determining the pre-damage value, applied negative adjustments in a manner which is inconsistent with the procedure adopted at the insurance undertaking. Moreover, the justification of the negative adjustment prepared by the technical account manager did not allow the verification of appropriateness and correctness of such decision. Following the measures adopted by the UKNF, the insurance undertaking committed to providing additional training to technical account managers in regard to the justification of negative adjustments, whose application and extent depend on an individual decision of the account manager and on the procedures applicable at the insurance undertaking in relation to determining the pre-damage value of the vehicle.

Recommendations issued for an insurance broker in relation to irregularities concerning the broker's document setting out an offer for accident insurance for children and young people during the school year 2019/2020

Recommendations were issued for an insurance broker to put an end to the breach of Article 7(4) of the Act of 15 December 2017 on insurance distribution (Journal of Laws 2019, item 1881, as amended), consisting in preparing advertisement and marketing information for clients in such a manner that it is not clearly designated, and to put an end to the breach of Article 7(3) point 1 of the Act of 15 December 2017 on insurance distribution, consisting in preparing information for clients, including advertisement and marketing information, in such a manner that it is unclear, inaccurate and misleading. The insurance broker reported the implementation of the recommendations.

Analysis of the rules applied by an insurance undertaking for providing information and documents collected to establish the liability of the insurance undertaking and/or the amount of compensation or benefit

The UKNF received information from non-professional financial market participants claiming that an insurance undertaking failed to make available claim files despite many requests made electronically to the undertaking's e-mail address. As a result of the measures taken by the UKNF, the insurance undertaking established that the requests for access to claim files did not reach the undertaking's electronic mailbox because the incoming mail server classified those e-mails as unsafe. The systemic analysis of the issue carried out by the insurance undertaking revealed that part of the correspondence sent to the undertaking from two designated domains was rejected as unsafe. In order to resolve the issue, the insurance undertaking added the domains to the list of trusted addresses.

Recommendations for 7 insurance undertakings to adapt the business to the requirements of Article 31(1) of the Act of 22 May 2003 on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau (Journal of Laws 2019, item 2214, as amended), hereinafter: 'Act on compulsory insurance'

Recommendations were issued to insurance undertakings which did not respect the right of the new owner of the vehicle to terminate the contract of third party liability insurance of motor vehicle holders (hereinafter: 'TPL motor insurance contract'), arising from Article 31(1) of the Act on compulsory insurance, where during the term of the TPL motor insurance contract the ownership of the vehicle has been transferred or has passed to another person, and the acquirer was also the policyholder who originally concluded the contract being terminated. A typical example of this is the acquisition of a vehicle by the lessee on expiration of the lease contract if, during the term of the lease relationship, the vehicle in question was insured under a TPL motor insurance contract concluded by that lessee. The above-mentioned recommendations stemmed precisely from the signals received from former lessees, for whom the insurance undertakings had denied recognition of the effectiveness of the notices of termination given under Article 31(1) of the Act on compulsory insurance in relation to TPL motor insurance contracts entered into by those lessees as policyholders during the term of the lease contract. Among many legal effects of the KNF Board's position expressed in the above-mentioned recommendations – for non-professional financial market participants – the following three are the most prominent: 1) The creation of the entitlement of the acquirer of the vehicle to terminate the TPL motor insurance contract in writing (the second sentence of Article 31(1) of the Act on compulsory insurance), (2) The absence of automatic conclusion of a TPL motor insurance contract for another twelve-month period of cover, as a result of the exclusion of the application of Article 28 of the Act on compulsory insurance (the fourth sentence of Article 31(1) of the Act on compulsory insurance), (3) The creation of the acquirer's right to demand recalculation of the premium for the period from the acquisition of ownership of the vehicle (the second sentence of Article 31(2) of the Act on compulsory insurance). Therefore, the acquirer of the vehicle, including the one who entered into an TPL motor insurance contract where the freedom to choose the insurer was limited, for example the above-mentioned lessee,

becomes entitled to immediately terminate such a TPL motor insurance contract and to enter into a new contract, appropriate for his/her needs and requirements. In addition, the KNF Board took the view that where the acquirer decides to terminate the TPL motor insurance contract under the second sentence of Article 31(1) of the Act on compulsory insurance, the purpose-related interpretation of Article 41(1) point 3 of the Act on compulsory insurance leads to the conclusion that only the previous policyholder is entitled to the reimbursement of the premium for the unused period of insurance. This means that the reimbursement of the premium in the case in question should be made for the benefit of the person who paid the premium, not – according to the literal interpretation of Article 41(1) point 3 of the Act on compulsory insurance – the transferor of the vehicle. All the insurance undertakings to which the recommendations were addressed reported their implementation.

10.9. ARBITRATION COURT AT THE POLISH FINANCIAL SUPERVISION AUTHORITY

The KNF Board provides financial market participants with the possibility of out-of-court settlement of disputes in the Arbitration Court at the Polish Financial Supervision Authority. The jurisdiction of the Arbitration Court at the Polish Financial Supervision Authority covers the handling of disputes between financial market participants, in particular the disputes arising from contractual relationships between KNF-supervised entities and the users of their services. It is not a court for consumer disputes only, although it is one of the institutions in the Alternative Dispute Resolution (ADR) system for mediation and simplified arbitration proceedings.

Proceedings before the Arbitration Court at the Polish Financial Supervision Authority are voluntary. This means that the condition for initiating the proceedings is that both parties agree to an amicable settlement of the dispute within the framework of the Arbitration Court at the Polish Financial Supervision Authority. The Arbitration Court at the Polish Financial Supervision Authority offers two fundamentally different ways of proceeding: mediation and arbitration. Within the framework of arbitration, it is possible to conduct proceedings in electronic form (simplified arbitration).

Financial market participants are particularly interested in mediation proceedings. In 2020, the Arbitration Court at the Polish Financial Supervision Authority received 2 187 applications for mediation, submitted by both financial institutions and their clients. In 1 006 cases, both parties to the dispute expressed their willingness to attempt to resolve the dispute by mediation proceedings, which means that mediation proceedings were conducted for 46% of applications. In 2020, 29 financial institutions from various market sectors expressed their will to resolve the dispute with their clients through mediation. 16 financial institutions submitted applications to the Mediation Centre of the Arbitration Court, suggesting mediation to their clients as a way to resolve the dispute.

More than 78% of the applications submitted to the Arbitration Court at the Polish Financial Supervision Authority, according to the subject-matter of the dispute, concerned the refusal or partial refusal to pay compensation or benefits.

In 2020, the new edition of 'Mediator-friendly Financial Institution' awards took place, which aims to promote the amicable settlement of disputes between financial institutions and the recipients of their services, and to appreciate financial institutions which base their contacts with their clients on openness, dialogue and striving for agreement. Seven entities received the awards: PZU S.A., STU ERGO Hestia S.A., Generali TU S.A., TUIR Warta S.A., Ubezpieczeniowy Fundusz Gwarancyjny, InterRisk TU S.A., and AXA Ubezpieczenia TUIR S.A.

It was the third time the 'Ambassador of Mediation in the Financial Market' distinction was awarded. The purpose of the distinction is to promote amicable dispute resolution in the financial market by awarding distinctions to natural persons, legal entities and other entities which undertake actions of outstanding importance or effectiveness to promote the idea of amicable dispute resolution in the financial market. The distinction may also be awarded to the parties' representatives in mediation proceedings conducted at the Mediation Centre of the Arbitration Court at the Polish Financial Supervision Authority who through their conduct and involvement significantly contribute to the amicable settlement of disputes. In 2020, two individuals received the distinction: Mr Jakub Sewerynik and Mr Wojciech Kolasa – representatives of insurance undertakings.

From 16 March to 15 April 2020, due to the epidemiological situation in the country, the activities of the Arbitration Court were suspended. Since mid-April 2020, the Arbitration Court has operated in remote mode, and the proceedings were conducted using means of distance communication.

Table 85. Applications submitted to the Arbitration Court at the Polish Financial Supervision Authority in 2020 compared to 2017, 2018 and 2019

Detailed list	Total				Arbitration				Mediation			
	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
Year	2 964	2 361	2 748	2 203	23	47	24	16	2 941	2 314	2 724	2 187
Applications	2 964	2 361	2 748	2 203	23	47	24	16	2 941	2 314	2 724	2 187
Permissions	1 020	1 044	1 571	1 009	4	4	2	3	1 016	1 040	1 569	1 006
Cases settled in favour of the applicant prior to the commencement of the arbitration proceedings (a settlement was reached or a settlement proposal was made)	43	28	43	22	0	0	1	0	43	28	42	22
Refusals	1 349	1 170	1 005	768	12	34	19	6	1 337	1 136	986	762
Other (e.g. the withdrawal of, or failure to complete, an application by the applicant, lack of court jurisdiction)	13	32	38	43	1	5	1	2	12	27	37	41
Pending cases (lack of response from the other party regarding the permission to mediation/arbitration)	539	87	91	361	6	4	1	5	533	83	90	356

Source: UKNF

Table 86. Applications submitted to the Arbitration Court at the Polish Financial Supervision Authority in 2020 compared to 2017, 2018 and 2019 by financial market sector

Financial market sector	2017	2018	2019	2020
Insurance sector	2 458	2 103	2 528	2 085

Banking sector	497	249	152	103
Capital market	3	3	58	2
Credit unions	2	1	2	0
Other	4	5	8	13
Total	2 964	2 361	2 748	2 203

Source: Arbitration Court at the Polish Financial Supervision Authority

10.10. INTERNATIONAL COOPERATION

Involvement of the UKNF in international fora is an essential element in the process of building a stable regulatory environment for financial market participants in Poland. Cooperation with financial supervisory authorities from other countries in bilateral and multilateral forms, including colleges of supervisors, by exchanging information and experiences, serves the implementation of the UKNF's supervisory objectives.

A particularly important field of international activity is the European System of Financial Supervision, which results from the fact that the key legal acts (e.g. CRD IV, Solvency II, MiFID II, CRR and MiFIR, and Regulation on PRIIPs) setting the framework for the functioning of financial institutions are adopted on the EU level.

The UKNF's international activities also take the form of deepening cooperation within Central and Eastern Europe and with non-euro area countries whose supervisors, due to the characteristics of those markets or convergent interests, quite often present similar positions. The UKNF cooperates on an ongoing basis with central authorities (Ministry of Finance, Ministry of Foreign Affairs, Ministry of Development) and European financial supervisory authorities in the context of international events which may affect the stability of the Polish financial market. Throughout 2020, the cooperation of European institutions within the European System of Financial Supervision involved actions related with the need to introduce solutions aimed at minimising the negative consequences of the COVID-19 pandemic. A discussion was also held on the tasks outlined in the new action plan of the European Commission aimed at harmonising the functioning of capital markets in each Member State within the Capital Markets Union (CMU).

In 2020, efforts continued as part of the cooperation following the withdrawal of the United Kingdom from the European Union (Brexit) and related consequences for the Polish and EU financial markets. In consequence, the UKNF engaged in, among other things, analysing the situation together with foreign partners, the communication with financial market participants from both Poland and the UK, was involved in the preparation of Polish positions for the EU-UK Trade and Cooperation Agreement, and cooperated with the Ministry of Finance on legal solutions to mitigate the impact of Brexit (which resulted in the adoption by the Council of Ministers at the end of 2020 of draft legislation governing the continuation of the implementation by UK-based and Gibraltar-based insurance undertakings of existing insurance contracts).

10.10.1. COOPERATION WITH SUPERVISORY AUTHORITIES FROM OTHER COUNTRIES

10.10.1.1. COLLEGES OF SUPERVISORS AND RESOLUTION COLLEGES

The basic level of cooperation between the UKNF and supervisory authorities from other countries are colleges of supervisors. In 2020, employees of the UKNF participated in 74 meetings of 37 colleges of supervisors (in the area of banking and insurance). In the area of banking, the colleges were organised mostly by the European Central Bank (ECB), which has been directly supervising the largest banks in the euro area since November 2014. As in previous years, in 2020 the UKNF representatives participated in 7 meetings of 7 supervisory colleges organised by the ECB for international banking groups whose subsidiaries are present in the Polish market. The colleges are to coordinate supervisory activities with regard to

banking groups, including preparation for possible anti-crisis measures. Arrangements for joint risk assessment and decision process as well as capital and liquidity requirements at group level were made in the framework of the meetings of supervisors. Draft decisions regarding the assessment of recovery plans prepared by parent entities in the group were also discussed and agreed on.

Moreover, there has been an intensive exchange of information on the developed supervisory practices, tools and methodologies with a view to harmonising supervisory approaches.

According to the Bank Recovery and Resolution Directive (BRRD) and its implementing provisions, the UKNF is a member (without voting rights) of resolution colleges established for banking groups whose subsidiaries operate in the Polish market. 2020 was another year of operation of the above-mentioned colleges, whose primary task is to develop the principles of cooperation between the authorities of resolution and supervisory authorities in a crisis. Representatives of the UKNF took part in 11 meetings of 10 colleges together with the representatives of the Bank Guarantee Fund, the National Bank of Poland and the Ministry of Finance, participating in discussions on resolution plans prepared by the competent authorities for resolution.

During the period covered by this report, representatives of the UKNF took part in 29 teleconference meetings of 19 colleges of insurance supervisors. The purpose of cooperation in colleges was to exchange information and experiences between supervisory authorities responsible for supervision of insurance undertakings from international insurance groups, including to assess the financial situation and risks identified at the level of groups and individual insurance undertakings, the impact of the COVID-19 pandemic, as well as supervisory actions taken and planned, including supervisory inspections.

Representatives of the UKNF were also involved in the pre-application processes and the processes of verifying continuing suitability of internal models of international insurance groups.

In 2020, representatives of the UKNF participated in 5 teleconference meetings with the European supervisory authorities to exchange information following the acquisitions of insurance undertakings being part of international insurance groups.

The UKNF also continued to perform the tasks related to its role of a group supervisor for the PZU Group. The KNF Board coordinated the cooperation with members of the College for the PZU Group and prepared and monitored the implementation of the College's work plan. The KNF Board also organised the annual meeting of the College of supervisors of the PZU Group. The KNF Board again accepted information that the PZU Group continued to meet the criteria that allowed it to be recognised as a financial conglomerate and that the Group was still to be subject to supplementary supervision.

In 2020, representatives of the UKNF participated in an extraordinary meeting (related to the impact of the COVID-19 pandemic) of the EURIBOR College of Supervisors. The main purpose of the College is to exchange supervisory information between competent authorities and to coordinate their activities and measures aiming at harmonising the supervisory practices in regard to benchmarks.

10.10.1.2. BILATERAL COOPERATION

The UKNF is in continuous contact with foreign supervisory authorities. Bilateral relations include the exchange of supervisory information, opinions and experiences, and occur primarily at the working level.

Bilateral cooperation is facilitated by the memoranda of cooperation and exchange of information that the KNF Board has so far signed with 62 foreign institutions, in addition to multilateral agreements stemming from the membership in European and international institutions.

In the current reporting period, a cooperation and information exchange agreement was signed with the National Commission for Financial Markets (in Romanian: *Comisia Națională a Pieței Financiare*) – a supervisory authority competent for non-banking sectors of the financial market in the Republic of Moldova.

10.10.2. PARTICIPATION IN THE EUROPEAN SYSTEM OF FINANCIAL SUPERVISION

Under the EU legislation, the KNF Board is a member of the European System of Financial Supervision. The system is formed – in addition to the supervisory authorities from all EU Member States and the European Systemic Risk Board (ESRB) – by three institutions corresponding to individual market sectors, i.e.: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities and Markets Authority (ESMA), and their Joint Committee. EBA, EIOPA and ESMA develop draft technical standards and guidelines complementary to EU legislation, and facilitate the supervision of cross-border financial groups.

One of the key topics in that respect in 2020 was the preparation of proposals for amendments to legislation and formulation of guidelines and recommendations aimed at taking urgent measures to reduce the negative impact of the COVID-19 pandemic on both financial institutions and the real economy. The information campaign addressed to market participants continued to remind them about the consequences of Brexit. The work of European Supervisory Authorities (ESAs) also focused on issues related to cybersecurity and instruments supporting the considering of environmental, social and governance factors in a consistent manner across all sectors.

One of essential topics in 2020 was the implementation of the package of regulations to reform the competences of the European Supervisory Authorities, which was adopted on 18 December 2019 (the regulations came into force on 1 January 2020).

Following the amendment to the regulations, the European Supervisory Authorities have been entrusted with the task of, for example, creating and coordinating EU Strategic Supervisory Priorities, which are to be the response to the tendencies and challenges in the financial markets in the EU. Under the current regulations, those priorities must be cyclically agreed upon among the ESAs, considered in the work of the national financial supervisory authorities, and then monitored for the actions being taken. For that reason, the goal of the UKNF was (and will be in the years to come) to actively participate in the creation of those priorities within EIOPA, EBA and ESMA – so that the priorities take into account the specifics of the Polish financial market as far as possible.

In recent years, the European Supervisory Authorities, with the support from national supervisors, developed the topic of supervisory convergence, that is the consistency between supervisory practices in EU Member States. The activities of EBA, ESMA and EIOPA are aimed at eliminating regulatory arbitrage, which consists in a different interpretation and enforcement of law by national supervisors.

The purpose of supervisory convergence is therefore to identify and disseminate good practices as a model of conduct for national supervisory authorities. As a result of the revision of the Regulations establishing the European Supervisory Authorities, changes were made and the process of management of the area of deepening supervisory convergence was taken over directly by ESAs.

The work within EIOPA aimed at supporting supervisory convergence, in which employees of the UKNF were engaged, involved peer reviews to review EIOPA's *Decision on the collaboration of the insurance supervisory authorities* and regular supervisory reports (RSRs), and to prepare another chapters of EIOPA's Supervisory Handbook.

Representatives of the UKNF within EBA, EIOPA, ESMA and ESRB are striving for these institutions to become a complement to national authorities, coordinating supervisory cooperation within the EU single market, bearing in mind the high diversity of financial markets across European countries.

10.10.2.1. EUROPEAN BANKING AUTHORITY (EBA)

The European Banking Authority (EBA) carries out a wide range of tasks, primarily for the banking sector, but also for payment institutions and electronic money institutions. Employees of the UKNF took part in the activities of 56 committees, teams and working groups of EBA, dealing with issues such as: assessment of risks and threats in the EU banking sector, assessment of the quality of models of banking operations, cross-border activities of electronic money institutions and payment institutions, register of credit institutions, client protection, anti-money laundering, liquidity monitoring, capital requirements, audit, reporting and practices in the area of supervisory evaluation, as well as in the field of crisis management.

During the COVID-19 crisis, the UKNF actively cooperated with the EBA in preparing positions/guidelines in support of banks' operating activities and focusing supervisory processes on the assessment of key risks in the sector, including risks caused by the pandemic, for example in preparing guidelines on legislative and non-legislative moratoria on loan repayments. Actions were also taken to ensure the convergence of supervisory practices with respect to the 2020 supervisory review and evaluation process at the EU level. The new arrangements were reflected in the UKNF's initiative in the form of the Supervisory Stimulus Package (SSP) and allowed for effective bank supervision during the crisis. To help achieve that goal, positions were prepared on the postponement of reporting deadlines, as well as draft regulatory technical standards on disclosures under the Capital Requirements Regulation (CRR) and disclosures for investment firms under the Investment Firms Regulation (IFR).

Employees of the UKNF were also actively engaged in the updating of the methodology for the EU-wide stress tests. The main emphasis in that work was to consider the impact of the COVID-19 pandemic (and related remedial measures) on the situations of banks in the stress test exercise.

To reduce the direct operational burden on banks caused by the COVID-19 pandemic, a decision was made to postpone the EU-wide stress test until 2021. The test results will be crucial to assess the resilience of financial institutions to further adverse market developments, particularly relevant in 2021.

In 2020, issues related to the implementation of the PSD2 requirements to report incidents and fraud in the payment services market were also highlighted (EBA's Opinion on obstacles to the provision of payment transaction initiation and account information services). In addition, the European Banking Authority issued an opinion indicating the consequences of Brexit for payment service users (including the expiry of the single passport rule or the expiry of eIDAS certificates).

The European Banking Authority also adopted EU supervisory priorities for 2021–2023 promoting the sustainable development of business models and an appropriate governance structure, and defined specific operational priorities for 2021, pointing to the need to implement a risk reduction package and effective resolution tools, to review the EU stress testing framework, to build infrastructure in the EU to conduct, coordinate and monitor supervision in the area of preventing money laundering and terrorist financing, and to boost financial innovation and operational resilience in the financial sector.

10.10.2.2. EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

The tasks focused on the promotion of a common supervisory culture, implementation of the package of legislative changes concerning EIOPA (as part of the review of European Supervisory Authorities), the work on the legislative changes as part of the review of the Solvency II Directive, and the issues related to the consequences of Brexit. An important element of the supervisory cooperation with EIOPA is the work of platforms of cooperation formed in case of identified problems related to the conduct of cross-border activities by insurance undertakings under the freedom to provide services.

Representatives of the UKNF participated in the activities of the EIOPA Board of Supervisors and in the work of more than 40 committees, working groups and expert networks dealing with issues such as insurance policy, financial stability, capital requirements, internal models, technical provisions, own risk and solvency assessment, risk management system, structured bankruptcy, insurance mediation, consumer protection, sustainable investments, pension funds, a pan-European Personal Pension Product, as well as insurance against cybersecurity risks, cybersecurity, and development of technological innovation in the insurance sector.

In the field of ensuring stability of the financial sector and its participants, UKNF representatives took part in the work on the methodology of the European stress tests for the insurance sector and on the report and recommendations regarding those tests. UKNF representatives continued their efforts to create a legal framework for European principles of rehabilitation, restructuring and resolution of insurance undertakings, and to incorporate the International Financial Reporting Standard 17 in EU law.

The involvement in the amendment to Solvency II focused on updating the regulatory framework and supervisory tools, including *inter alia* the implementation of the principle of proportionality, the modification of the parameters used in the calculation of the Solvency Capital Requirement (SCR), the use of reinsurance as a risk mitigation tool, including the recognition of non-proportional reinsurance, as well as reporting and disclosure issues for solvency purposes, including changes to the reporting templates for groups.

Employees of the UKNF also participated in EIOPA's activities aimed at strengthening supervisory capacity in the field of voluntary forms of pension protection (occupational pension schemes) and supervision of insurance undertakings. The work was also related to the supervision of cross-border activities of institutions for occupational retirement provision (IORPs) in relation to the application of the IORP II Directive.

10.10.2.3. EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

In 2020, representatives of the UKNF participated in the activities of the ESMA Board of Supervisors, 13 standing committees and several working groups and task forces. By actively participating within ESMA, representatives of the UKNF were striving for that institution to become a useful complement to national authorities, coordinating supervisory cooperation from the perspective of the EU single market while also bearing in mind that the individual European countries are highly diverse.

The work involved preparation of draft technical standards, guidelines, consultation papers as well as Q&As concerning MiFID II and MiFIR, MAR, EMIR, UCITS, AIFMD, CSDR, BMR, SSR, SFTR, the Prospectus Regulation, the Regulation on securitisation, the Regulation on credit rating agencies (CRAs), and the Regulation on sustainability-related disclosures in the financial services sector.

In particular, representatives of the UKNF participated in the work on Guidelines on leverage limits, referred to in Article 25 of the AIFMD, Guidelines on performance fees in UCITS and certain types of AIFs, Guidelines on marketing communications, and in the work on amendments to the Guidelines on enforcement of financial information.

Implementing technical standards developed under the Regulation on facilitating cross-border distribution of collective investment undertakings have been created and approved.

Work continued on the implementation of MiFID II in the area of commodity derivatives with respect to delegated acts and practical aspects of implementation. Top priority in this regard was to introduce changes to regulatory technical standards from the MiFID II/MiFIR package. Representatives of the UKNF participated in the preparation of the final report on the revision of the Market Abuse Regulation (MAR) and in the preparation of reports at the request of the European Commission in relation to the preparation for the revision of MiFID II/MiFIR. Work continued on the implementation and practical application of the MiFID II/MiFIR package in the area of secondary markets for financial instruments. Employees of the UKNF also participated in the preparation of ESMA's opinion on a series of exemptions from pre-trade transparency obligations. Work was also under way to prepare, conduct and formulate the final conclusions on the EU-wide stress tests for CCPs. Source data and calculations made in the course of the

stress tests were reviewed and the final report was prepared, which identified areas of risk. Work continued on the new European securitisation framework, including in particular cross-sectional and cross-sectoral issues.

ESMA's statement on the publication of execution reports and ESMA's statement on the European common enforcement priorities for 2020 annual financial reports were prepared and published. Another important publication was the package of decisions on the application of International Financial Reporting Standards approved for application in the European Union (EU IFRS).

In connection with the crisis caused by the outbreak of the COVID-19 pandemic, representatives of the UKNF were actively involved in ESMA's work aimed at minimising the impact of the pandemic on the capital market, especially in the work on the implementation of the recommendation of the European Systemic Risk Board (ESRB) concerning additional supervisory measures to be taken by ESMA services in relation to risks associated with liquidity of certain types of investment funds. Also, a series of public statements and questions and answers were prepared and published relative to the impact of the COVID-19 pandemic on issues related to financial reporting, disclosure of information in the market, and business continuity plans.

It was also a time of intense work in relation to the withdrawal of the United Kingdom from the European Union. Representatives of the UKNF participated in the work of the working group established to provide a forum for exchange of information and experiences regarding the relocation of UK entities to other Member States after Brexit. The exchange of views and experiences helped to raise the awareness of competent supervisory authorities, and a common approach and common supervisory solutions were successfully developed in many matters.

An undisputed success of the UKNF in 2020 was the appointment of Ms Magdalena Łapsa-Parczewska, Managing Director for Capital Market Supervision at the UKNF, as Chair of ESMA's Advisory Committee on Proportionality (ACP). The Committee was established following the entry into force of the revised Regulation establishing ESMA, under which ESMA establishes, as an integral part thereof, a Committee advising it as to how, in full compliance with applicable rules, its actions and measures should take account of specific differences prevailing in the sector, pertaining to the nature, scale and complexity of risks, to business models and practice as well as to the size of financial institutions and of markets to the extent that such factors are relevant under the rules considered.

10.10.2.4. EUROPEAN SYSTEMIC RISK BOARD (ESRB)

In 2020, representatives of the KNF Board participated in the meetings of the General Board (the most important decision-making body), the Advisory Technical Committee (ATC) and selected working groups of the ESRB. Starting from the first quarter of 2020, the ESRB has taken a number of actions aimed at: analysing the impact of the COVID-19 pandemic on financial stability, exchange of information on the actions taken by individual Member States to mitigate the crisis (a new database was created and made available through the ESRB website, which is periodically updated) and issued a number of recommendations concerning the current situation of financial markets.

One of the major initiatives of the ESRB was the publication, in May 2020, of a recommendation on the restriction of distributions during the COVID-19 pandemic (encouraging entities to refrain from making the payment of dividends, share buybacks and the rules for the payment of variable remuneration or discretionary pension benefits), which was due to apply until the end of 2020. In connection with the continuing difficult situation related to the consequences of the pandemic, the General Board decided, in December 2020, to extend that recommendation until 30 September 2021, to modify its scope and to ensure certain flexibility in the recommendation's wording (an extremely prudent approach to pay-outs until 30 September 2021).

Focusing on the current priorities, the ESRB issued a recommendation on monitoring the financial stability implications of measures taken by Member States to protect the real economy in response to the COVID-19 pandemic.

During the period covered by this report, the ESRB also issued: a recommendation on liquidity risks in investment funds, a recommendation on liquidity risks arising from margin calls, and a recommendation on the legal entity identifier (LEI) promoting the use of the LEI in the financial market.

The ESRB published a report on financial stability implications of support measures taken by EU Member States to protect the real economy from the COVID-19 pandemic. Similarly as in previous years, the General Board made the decision to accept the adverse scenario to be used in the 2021 EU-wide stress-testing exercise coordinated by the EBA.

10.10.3. COOPERATION WITH INTERNATIONAL ORGANISATIONS

Representatives of the UKNF participated in the activities of international working groups dealing with, for example, FinTech, SupTech and RegTech. In addition to the transfer of knowledge, the UKNF actively cooperated with its peers in the European Union in the area of exchange of market information obtained using the OSINT analysis. As part of the monitoring of the network in terms of detection of entities' activities with features of risky activities, employees of the UKNF identified tens of high-risk entities whose activities targeted European Union citizens. An extensive body of analytical material was submitted to certain European supervisory authorities as part of exchange of information.

In 2020, the KNF Board became an official member of the Network for Greening the Financial (NGFS), an international forum set up at the initiative of central banks and financial supervisors to ensure cooperation in the management of environmental and climate risks and to work towards a broader sustainable development of the financial sector.

In 2020, the UKNF initiated actions to become a member of the Global Financial Innovation Network (GFIN), an international network gathering more than 60 supervisory and regulatory authorities pooling their efforts to promote financial innovation.

10.10.3.1. INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO)

In 2020, representatives of the UKNF took part in the work of 11 permanent committees and working groups of IOSCO. Last year, IOSCO's activity was determined by measures taken to address the consequences of COVID-19. Priorities of tasks were changed and certain activities were put on hold. Participating in the work of standing committees and working groups, employees of the UKNF engaged in activities and mandates related to guidelines and joint supervisory actions in the area of: regulation and supervision of commodity derivatives markets, oil price reporting agencies, outsourcing, sustainable finance, minimisation of the impact of market fragmentation, and more. The active participation of representatives of the UKNF in the above-mentioned work contributed to the development of the content of documents establishing international standards in line with the principles in force in the EU. Representatives of the UKNF also continued the work related to the review of applications from supervisory authorities to join IOSCO Multilateral Memoranda of Understanding.

10.10.3.2. INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS)

In 2020, representatives of the UKNF were involved in the work of the Policy Development Committee, and the Implementation and Assessment Committee. Representatives of the UKNF continued their involvement in the work on the Common Framework for supervision of cross-border insurance groups, on an *Insurance Capital Standard* (ICS), and on the principles of supervision of Global Systemically Important Insurers (G-SII). In 2020, the IAIS also started implementing a holistic framework for the assessment and mitigation of systemic risk in the insurance sector and started preparations for the first Global Monitoring Exercise (GME) to

review global market trends and changes in the insurance sector. Representatives of the UKNF were also involved in the work to identify the needs of supervisory authorities representing emerging markets, as well as the development of documents supporting the proper implementation of the standards adopted by the Association.

10.10.3.3. ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)

In 2020, the UKNF was involved in the activities of the Organisation for Economic Cooperation and Development (OECD) by participating in work of the Committee on Financial Markets (CFM), the Corporate Governance Committee (CGC), the Insurance and Private Pensions Committee (IPPC), the Working Party on Private Pensions (WPPP), the Expert Group on Finance and Digitalisation, and the Working Party supporting the Global Money Week initiative coordinated by the OECD International Network on Financial Education.

The work of those groups focused on the impact of the COVID-19 pandemic on each area and on the monitoring of actions and exchange of related experiences. Other topics include, for example: the work of the CGC on an update of the OECD Corporate Governance Factbook (which describes the legal and institutional corporate governance framework in each country), the analytical exercises of the CMF related to real estate markets in OECD countries, the issue of considering the factors of sustainable finance in the insurance market (IPPC), the assessment of adequacy of pension benefits (WPPP), or opportunities for the development of new technologies related with Central Bank Digital Currencies (CBDC).

10.10.3.4. INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS (IOPS)

In 2020, representatives of the UKNF took part in the IOPS work within the Technical Committee. The engagement included topics such as strengthening cybersecurity in the private pension sector, analyses in the area of risk-based supervision, exchange of information on the measures taken worldwide by pension supervisors in connection with the COVID-19 pandemic.

10.10.3.5. ACTIVITIES WITHIN OTHER INSTITUTIONS AND INTERNATIONAL ORGANISATIONS

In 2020, representatives of the UKNF took part in a joint global survey undertaken by the World Bank and the Basel Committee on Banking Supervision: *Proportionality in bank regulation and supervision*. The UKNF also continued its participation in the Regional Consultative Group of the Financial Stability Board (FSB) for Europe, which in 2020 focused on the key challenges faced by financial markets such as: the impact of the COVID-19 pandemic, the future of LIBOR, and the increasing roles of BigTech firms.

Since 2006, the UKNF has been managing the Secretariat of the BSCEE Group – organisation associating 26 banking supervisors from 25 Central and Eastern European countries, cooperating with, among others, the Basel Committee. In 2020, supervisory authorities being members of the BSCEE Group decided to extend the mandate of the KNF Board to manage the Group's Secretariat for another 5 years. In October 2020, the BSCEE Group organised an online meeting during which supervisors exchanged experiences with the COVID-19 crisis, and a representative of the Basel Committee on Banking Supervision presented the key recent initiatives launched by the BCBS.

The International Monetary Fund (IMF) and the World Bank send expert missions to Poland regularly (missions under Article IV of the IMF's Articles of Agreement). The meetings also took place during the period covered by this report, and from March 2020, due to COVID-19, they were held in a remote mode.

In 2020, the UKNF was involved in activities of the Legal Entity Identifier Regulatory Oversight Committee (LEI ROC), which oversees the global system identifying trading partners in financial markets.

10.10.4. ASSISTANCE AND EDUCATIONAL PROJECTS

10.10.4.1. TWINNING PROJECT FOR THE NATIONAL BANK OF GEORGIA

As part of its activities carried out to support state administrations of priority non-EU countries in the Polish foreign policy, the UKNF continued the implementation of the EU-funded Twinning Project for the National Bank of Georgia (NBG). The Project, with a budget of EUR 1.750 million, is implemented during the period from March 2019 to May 2021 as part of two components, comprising the joint actions taken by the Polish and Georgian supervisory authorities to adapt the Georgian laws to the EU legislation in the field of the banking sector and payment services, in accordance with the requirements of appropriate directives and regulations, as well as the support in the implementation of those requirements.

This is the fourth twinning project run by the UKNF and the first project successfully implemented by the Polish supervisor using electronic communication platforms and expert work in a remote mode, together with Polish, Lithuanian and Georgian administrations. In response to the challenges related to COVID-19, in the second quarter of 2020 the UKNF successfully transformed the complex structure of the project from on-site missions in Tbilisi into fully remote work mode. The results of missions held in such form receive positive reviews from the representatives of the administration of the project beneficiary and the Delegation of the EU to Georgia.

By the end of 2020, 78% of missions scheduled in the Project work plan were successfully completed, taking into account additional matters in response to the NBG's current requirements. The UKNF, as the Implementing Partner, was responsible for managing the budget, the work plan and the team of about 50 experts, supported by 33 experts from the UKNF and 16 representatives from competent Polish and Lithuanian cooperating institutions. In 2020, experts from the UKNF and – for actions falling within the relevant remit – in cooperation with experts from the National Bank of Georgia, the National Bank of Poland, the Bank of Lithuania, the Bank Guarantee Fund and the Financial Ombudsman's Bureau, successfully completed a total of 28 specialised expert missions in Tbilisi and in the remote work mode, attended by 43 participants representing the National Bank of Georgia.

The project activities were aimed at further gradually adapting the regulatory, supervisory and sanction-related rules to EU legislation, strengthening the NBG's supervisory functions and capacities in terms of regulation of the banking and payment services market in line with the EU *acquis communautaire* and best practices applied at supervisory authorities in the Union, and providing training to the NBG staff and preparing them to apply the new rules and regulations. During the missions, the experts reviewed Georgian regulations and provided practical guidance on the necessary amendments and prepared reports with recommendations regarding proposals for amendments to the legislation, as well as workshop and support material to be used in the NBG's supervisory work.

10.10.4.2. TECHNICAL ASSISTANCE UNDER TAIEX

In response to the invitation from the European Commission, following a selection procedure, an expert from the UKNF was re-selected to participate in the next cycle of TAIEX technical assistance activities in the area of payment system and payment services for the benefit of the Turkish Republic of Northern Cyprus, planned as advisory and training missions for 2021–2022. It will be the third edition of the programme with participation of a representative of the UKNF, who will provide expert support and share the experiences of the Polish supervisor in adapting the beneficiary's regulations to the relevant EU requirements.

10.10.4.3. ASSISTANCE INITIATIVES TO SUPPORT THE CAPACITIES AND COMPETENCE OF POLAND'S FINANCIAL SUPERVISOR

With the financial support under the EU Structural Reform Support Programme, the UKNF was engaged in multi-dimensional tasks for the promotion of FinTech in Poland within the project entitled *Feasibility study on innovative technological solutions in the Polish financial market and identification of any legal, regulatory and supervisory impediments to its use, especially regarding DLT and RegTech (#FinTech) & sandbox*.

The project is funded by the European Commission and implemented by advisers from a consortium of private firms hired by the European Bank for Reconstruction and Development. The project activities have been planned for the period of 18 months, and are expected to be completed by the end of June 2021.

The main area of support for the UKNF is the assessment of possibilities for implementing a Regulatory Sandbox in Poland based on the supervisory mechanisms existing in other countries and the preparation of a proposal for a model and draft amendments to the Polish law and the evaluation and guidance as part of the analysis of feasibility of application of innovative technologies at an institution responsible for financial supervision.

The project activities in 2020 included a multi-jurisdictional analysis with a review of legislation, supervisory arrangements, mechanisms and practices that could support the development of FinTech, in particular those related to the functioning of the regulatory sandbox. Based on the review, the contractor initiated work on the recommendation for a sandbox model that could be implemented in Poland. At the same time, the UKNF received proposals for the use of innovative technologies to support supervisory competence in certain market areas (SupTech) and the assessment of usefulness of the proposed arrangements in the supervisory practice. The recommended solutions will contribute to the digitisation and automation of regulatory and supervisory processes for better effectiveness and efficiency of financial market supervision in Poland.

Moreover, during the fourth round of the application procedure under the Structural Reform Support Programme, the UKNF received support from the European Commission in the field of strengthening the competence of employees of the Polish supervisory authorities to meet the new challenges in the insurance sector. The SRSS-EIOPA Pilot Insurance Training Programme will cover the application of Solvency II. The project will support the UKNF's process of updating the supervision model for insurers and reinsurers in Poland. The expected implementation date is May 2021.

10.11. EDUCATION AND INFORMATION ACTIVITIES

In the performance of its statutory tasks in the area of dissemination of knowledge on the functioning of the financial market, the UKNF continued the educational project called the Education Centre for Market Participants (CEDUR), launched in 2009, as part of which mainly training and publishing activities were carried out in the period covered by this report.

Adapting to the needs and expectations of beneficiaries, the training activities in 2020 were carried out online. From September to December 2020, the UKNF organised 47 webinars conducted by employees of the UKNF, addressed mainly to KNF-supervised entities, officers from law enforcement agencies, and the school environment. More than 9.4 thousand participants took part in the webinars.

The list of webinars organised under the CEDUR educational project in 2020 can be found in Annex 12.7.

Representatives of the UKNF took part as speakers or participants in nearly 30 external events, i.e. panels, congresses and conferences. Due to the pandemic, their number decreased in relation to 2019. To a large extent, representatives of the UKNF attended the last year's events in online form.

During the period covered by this report, the UKNF used its own resources to publish an educational booklet entitled *Consumer credit intermediaries and non-bank lending institutions: formal and practical aspects of registration [Pośrednicy kredytowi w zakresie kredytu konsumenckiego oraz instytucje pożyczkowe – formalne i praktyczne aspekty rejestracji]*.

As part of the fourth edition of the international educational campaign organised by IOSCO – *World Investor Week (WIW)* – the UKNF held a cycle of three webinars for schools, addressed mainly to educational counsellors, teachers of subjects related to economics, vocational teachers, and other teachers interested in finance, e.g. school coordinators of the GMW campaign. The training cycle covered the following topics: 'Activities of investment firms', 'How to use technology innovations in financial services safely and knowledgeably', and 'Activity of investment funds'. The purpose of the training was to offer an introduction to the activities of investment firms and the functioning of capital markets, considering the investment funds market and the related role of the UKNF, to present the professions of securities broker and investment adviser, and to explain key concepts relating to the safe and knowledgeable use of financial innovations.

Another form of education activities addressed to the academic community was the organisation of the 9th edition of the Competition for the Award of the Chair of the KNF Board for the best PhD dissertation in the field of financial market. The competition aims to inspire the development of the financial market and its innovativeness by increasing the interest of the academic community in the topics related to the organisation, functioning and supervision of the financial market.

The UKNF continued to participate in the activities of the Working Group for Education Activities

in the area of Financial Market Functioning, established at the Financial Market Development Council. Representatives of the UKNF also participated in a working group coordinated by the Ministry of Finance and drawing up recommendations for the Financial Education Council on the methods of developing the financial education strategy, and then continued the work within the working group on financial education strategy appointed by the Minister of Finance.

As initiator and coordinator of the Global Money Week campaign in Poland, the UKNF was present at the international forum on financial education through the participation of a representative as an observer in the work of the Global Money Week Working Group of the OECD International Network on Financial Education (OECD/INFE), whose task is to coordinate project activities related with the GMW educational campaign globally.

10.11.1. PRESENCE IN THE MEDIA AND THE KNF WEBSITE

The main tool the UKNF uses to conduct information activities is its website, which recorded nearly 5.8 million page views in 2020. Information presented on the website of the KNF Board as the financial market supervisor includes tasks and composition of the KNF Board, communications from the meetings, organisational structure of the UKNF, tasks of departments, public procurement, job advertisements and public warnings of the Polish Financial Supervision Authority. Moreover, the website contains extensive information on the supervised markets: up-to-date lists of entities operating in each market, financial data and statistics, publications (reports, including thematic reports), legal acts, including instruments of Community law, information on activity in the EU institutions, etc.

In 2020, 103 365 pieces of media material included references to the Polish Financial Supervision Authority, of which: 99 392 on the Internet, 2 100 in the press, and 1873 on the radio and television.

When cooperating with the media, the UKNF is pursuing an open communication policy. Tasks in this area include among others:

- public presentation of positions and results of activities of the KNF Board and the UKNF,
- providing information on actions, initiatives and programmes taken by the KNF Board and the UKNF,
- commenting on events in the financial market,
- answering questions of media representatives.

10.11.2. PUBLIC CAMPAIGNS

In 2020, the UKNF ran 4 public campaigns.

The first campaign, in April, focused on the **idea of crowdfunding**. The purpose of the campaign was to explain the functioning of this alternative way of raising capital. Educational materials have been prepared on the risks arising from such investment, the rules of crowdfunding, and proper advertising of projects. The contents were divided by subject into platforms, investors and issuers.

In June 2020, a message was addressed to market participants to remind them that decisions to use an offer of investment notes should be well thought out and that any person interested in such offer should be aware of potential risks. A special page was created on the KNF website **Investment notes – be aware of the risks!**, which contains educational materials and a call for caution. The UKNF has also stated that investment notes are not subject to KNF supervision or guarantees under the Bank Guarantee Fund.

In September 2020, as part of the campaign **Invest Knowledgeably!**, materials were published to draw the attention of clients of investment firms and banks to the key elements that should be considered by any person making the decision to buy an investment product. The campaign's website provides guidance on how to invest knowledgeably, where to check information about the issuer, what data are particularly relevant, and what can be required of the seller. The campaign was accompanied by radio news spots presented on radio stations of the RMF and Radio Zet groups.

At the end of 2020, in mid-December, the UKNF launched an awareness-raising campaign **UWAGA! CYBEROSZUST [PROTECT YOURSELF FROM FRAUD AND SCAMS!]** in connection with reports on scams perpetrated using documents bearing the logo of KNF/UKNF or by individuals posing as representatives of the KNF. Jointly with the Police, the UKNF explains the methods used by criminals and raises awareness of potential risks and threats among customers in the financial sector. The campaign is to identify the mechanisms fraudsters use when attempting to swindle money, for example during crypto-currency exchange intermediation transactions or fraudulent actions allegedly taken by the KNF Board or the UKNF.

In addition to the above-mentioned public campaigns, the KNF Board also engaged in the **FakeHunter** project, created in cooperation with the Polish Press Agency and GovTech Polska. The aim of the project is to prevent the dissemination of fake news which might destabilise the financial market in Poland, and to verify the content concerning the SARS-CoV-2 virus published on the Internet.

10.11.3. CYCLICAL MEETINGS WITH THE POLISH CHAMBER OF BROKERAGE HOUSES AND THE POLISH BANK ASSOCIATION

In 2020, the UKNF organised 5 cyclical meetings with market representatives associated in the Polish Chamber of Brokerage Houses and the Polish Bank Association. During the meetings, discussions were held on the current problems faced by investment firms and on their doubts as to the interpretation of regulations. An open dialogue with investment firms

allowed the KNF Board to effectively respond to the irregularities identified in the market and to develop solutions that are optimal also for investment firms.

10.11.4. PROCESSING REQUESTS FOR ACCESS TO PUBLIC INFORMATION

Under Article 4(1) point 4 of the Act of 6 September 2001 on access to public information (Journal of Laws 2020, item 2176) in conjunction with Article 3(1) and (4) point 2 of the Act of 21 July 2006 on financial market supervision (Journal of Laws 2020, item 2059), the Chair of the KNF Board is a body required to provide public information. Under the law, for state legal persons such as the UKNF (PL: Urząd Komisji Nadzoru Finansowego), the obligation to provide public information lies with the bodies representing the state legal person in question. The Chair of the KNF Board has such a status because, being a body of the UKNF, the Chair is entitled to direct its activities and represent it externally. The UKNF's task of providing public information covers all the activities of that state legal person, including information about the activity of one of the bodies of the UKNF which is the KNF Board (PL: Komisja Nadzoru Finansowego), being the body competent for financial market supervision.

Under the provisions of the Act on access to public information, as a rule, there are two ways in which public information is provided. The primary way of providing public information is to publish it in the Public Information Bulletin of the UKNF. If public information has not been published in the Public Information Bulletin, an entity concerned may apply for access to public information and each such application is processed individually. In 2020, the UKNF received 458 requests for access to public information.

10.12. COOPERATION WITH STATE BODIES AND EXTERNAL ENTITIES

10.12.1. COOPERATION WITHIN THE FINANCIAL STABILITY COMMITTEE (FSC)

The Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system has provided the Financial Stability Committee with powers in relation to macro-prudential supervision and crisis management. Four most important institutions included in the financial security network in Poland are represented in the Financial Stability Committee, i.e. the National Bank of Poland, the Polish Financial Supervision Authority, the Ministry of Finance, and the Bank Guarantee Fund. As regards macro-prudential supervision, the meetings of the Committee are chaired by the President of the NBP, and as regards crisis management – by the Minister of Finance.

The subject-matter of the meeting of 16 March 2020 was to discuss the possible remedial measures aimed at reducing the impact of the COVID-19 pandemic on the domestic banking sector and the economic environment. The Committee decided to issue a recommendation on immediate repeal of the obligation of institutions to apply the systemic risk buffer. The Committee pointed out that a lower capital requirement translates simultaneously into a lower MREL requirement.

At the meeting on 15 June 2020, the Committee approved the request of the Chair of the KNF Board for the postponement, until 30 June 2021, of the time limit for commercial banks and branches of credit institutions to implement the amended KNF Recommendation S on good practices in the management of mortgage-backed credit exposures. The meeting also included a review of the current course of the 'repayment holiday' being offered by domestic banks.

At the meeting held on 13 July 2020, the Committee's deliberations focused on the risk weights applicable at banks in relation to certain loans secured on real estate property. In the Committee's opinion, the impact of COVID-19 called for actions to support the banks' capacity to lend and to maintain their business activities in the country. The Committee recommended that the risk weights for exposures secured on commercial real property used by the borrower for own business purposes and not generating any income through rent or profit from their sale should be reduced from 100% to 50%.

At the meeting of the Financial Stability Committee held on 21 September 2020, a resolution was passed on the recommendation addressed to the Minister of Finance to maintain the rate of the countercyclical buffer at 0% in the 2nd and 3rd quarters of 2020. At the request of the KNF Board, the Committee issued an opinion on the identification of other systemically important institutions (O-SII) and on the imposition of an O-SII buffer on them.

At the meeting held on 11 December 2020, a resolution was passed on the recommendation addressed to the Minister of Finance to maintain the rate of the countercyclical buffer at 0% in the 4th quarter of 2020. The Committee pointed to the increasing risk associated with the portfolio of foreign-currency housing loans, caused by their legal status being undermined. The Committee familiarised itself with the most recent data and analyses concerning such risk and discussed the proposals for out-of-court solutions in relation to the portfolio of foreign-currency loans.

10.12.2. COOPERATION WITHIN THE STEERING COMMITTEE FOR FINTECH

The Committee for FinTech aims to coordinate the activities and cooperation of state institutions in the area of the development of the Polish FinTech sector.

The activities of the Steering Committee for FinTech are coordinated by the UKNF.

As of 31 December 2020, the Steering Committee for FinTech is composed of representatives of:

- the Polish Financial Supervision Authority (UKNF),
- the Ministry of Finance,
- the National Bank of Poland,
- the Chancellery of the Prime Minister – GovTech Polska,
- the Ministry of Development Funds and Regional Policy,
- the Ministry of Economic Development, Labour and Technology,
- the Office of Competition and Consumer Protection.

The meetings of the Steering Committee for FinTech are held quarterly. In 2020, four meetings were held.

10.12.3. COOPERATION WITH THE NATIONAL BANK OF POLAND

The UKNF engages in permanent bilateral cooperation for the exchange of information necessary to perform the statutory tasks of the central bank and the financial supervision authority. The terms of cooperation are laid down in bilateral memoranda of cooperation and exchange of information between the KNF Board and the National Bank of Poland (NBP).

Under the agreement, the KNF Board submitted a series of data to the NBP in 2020 in the area of:

- the banking sector, on: stress tests, the use of aid measures offered by banks in response to the COVID-19 crisis, the legal risk associated with a portfolio of foreign-currency housing loans, and the related additional capital requirement imposed, non-reporting information on consumer and housing loans, the SREP score, and information about inspection results

with supervisory recommendations for systemically important banks and results of inspection activities undertaken in relation to the calculation and transfer of the required amount of the minimum reserve;

- the payment service sector: the allocation of sort codes to payment accounts, the exchange of data on transactions performed by the acquirers and the issuers of payment instruments, and in the area of electronic money – exchange of data on payment schemes. The NBP also reports on frauds committed using payment instruments; the credit unions sector: submission of information about credit unions' liquidity, solvency ratio, information about the situation of credit unions subject to rehabilitation plans, and the risk assessment score granted by the UKNF to each credit union. On the other hand, the NBP sent the KNF Board a number of analytical materials regarding issues covered by the KNF Board's activities. At the same time, both institutions worked together at the operational level (with respect to information exchange, agreeing on the positions, and IT issues), also with regard to individual supervised entities;
- the insurance sector: information based both on additional financial statements and statistical reports of insurance and reinsurance undertakings (statutory), and on reports consistent with Solvency II. The above-mentioned data of insurance and reinsurance undertakings and actions undertaken as part of cooperation were carried out to perform the tasks of the NBP and the tasks following from the participation of the NBP in the European System of Central Banks;
- the pension sector: data on pension funds and pension societies, occupational pension schemes, individual pension accounts and individual retirement protection accounts. The data are submitted and/or made available by the UKNF to the NBP at monthly, quarterly and annual intervals. In 2020, 72 monthly data sets, 56 quarterly data sets and 12 annual data sets were made available to the NBP;
- the investment fund market sector, in particular data on: shareholders of investment fund management companies, selected financial data of investment fund management companies, entities operating investment funds (depositories and entities maintaining registers of fund participants), selected financial data of investment funds and sub-funds, and data identifying investment fund management companies, investment funds and sub-funds;
- the sector of brokerage houses: statistics on entities conducting brokerage and custodian banks. Information on the number of brokerage houses, banks providing investment services, and organisational units of banks, as well as information on public and private issues, and securities traded on the regulated market is provided annually. Information on securities accounts and cash accounts kept by entities conducting brokerage and by custodian banks, as well as aggregated data on balance sheet and profit and loss account of brokerage houses is provided on a semi-annual basis;
- data on primary and secondary public and non-public offerings of shares made through investment firms.

Pursuant to the Act on trading in financial instruments, the rules of the National Depository for Securities, rules of KDPW_CCP S.A., rules of the settlement house and the clearing house together with the rules of the fund securing proper performance of liabilities arising from the transactions settled by the settlement house, and amendments thereto to the extent indicated in the said Act are approved by the KNF Board following consultation with the President of the NBP. Therefore, the UKNF sends to the President of the NBP decisions on the request for an opinion on the requests of the KDPW and the KDPW_CCP for approval of amendments to the rules of the National Depository for Securities, rules for settling transactions (organised trading), rules for settling transactions (non-organised trading), and the rules of a compensation fund, as well as requests from IRGiT S.A. for the approval of amendments to the rules of the settlement house and the clearing house and the rules of the guarantee fund of the settlement house and the clearing house. Moreover, the NBP is a member of the supervisory college for KDPW_CCP S.A. appointed by the KNF Board in 2013 to exercise ongoing supervision of KDPW_CCP S.A. in connection with the requirements of EMIR. In

addition, pursuant to Article 12 of the CSDR, the NBP acts as an authority competent for the supervision of KDPW S.A. as a central securities depository, and is therefore the body with which the KNF Board is obliged to consult on, *inter alia*, the characteristics of the securities settlement system operated by KDPW S.A., in accordance with Article 17(4) of CSDR.

Pursuant to the cooperation agreement with the National Bank of Poland, in 2020 the KNF Board forwarded to the President of the NBP two requests regarding authorisation of a domestic payment institution.

Depending on the specific nature of each case, cooperation between the NBP and the UKNF is based on both periodic (annual, quarterly, monthly) exchange of information and *ad hoc* contacts. In particularly important issues, such cooperation is continuous.

10.12.4. COOPERATION WITH INSTITUTIONS PROTECTING CLIENTS' RIGHTS

The UKNF submitted to the Financial Ombudsman documents and information relating to winding-up proceedings in which insurance undertakings failed to comply with the obligations laid down in Articles 5 to 10 of the Act of 5 August 2015 on the handling of complaints by financial market operators and on the Financial Ombudsman (Journal of Laws 2019, item 2279, as amended).

When implementing the provisions of the cooperation agreement concluded between the Polish Financial Supervision Authority and the President of the Office of Competition and Consumer Protection (UOKiK), the UKNF undertook activities aimed at ensuring protection of the interests of financial market participants and preventing and combating the financial practices that infringe the collective interests of consumers. Information was exchanged with the UOKiK on an ongoing basis with regard to irregularities in the operation of financial market entities, as well as information relevant for the proceedings conducted by the President of the UOKiK.

10.12.5. COOPERATION WITH OTHER INSTITUTIONS

During the period covered by this report, the UKNF cooperated in particular with:

- The Bank Guarantee Fund (BGF) pursuant to the Banking Law and the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring, as well as on the basis of the Agreement for Cooperation and Exchange of Information between the Polish Financial Supervision Authority and the BGF of 27 December 2016. Under the agreement, the KNF Board and the BGF provided each other with information necessary for the performance of their statutory tasks. With regard to banks, the UKNF provided the BGF with, among other things, information on the scores assigned to banks under the Supervisory Review and Evaluation Process and quarterly assessments of the level of risk existing in banks' operations, as well as information on the economic and financial standing of banks, including their liquidity and capital position. One of important issues in the cooperation between the KNF Board and the BGF was the issue of recovery plans drafted by banks and the plans for the forced restructuring of the banks drawn up by the BGF (the national forced restructuring authority). The UKNF cooperated with the BGF with regard to the BGF's tasks related with deposit guarantees and the resolution of credit unions. The UKNF also provided information on the scores granted to brokerage houses in the supervisory review and evaluation process, and information on the financial situation and capital adequacy. Representatives of the UKNF and representatives of the BGF participated in 5 teleconference meetings of 4 resolution colleges;
- the General Inspector of Financial Information (GIFI): The KNF Board, acting as a body cooperating with the GIFI under the Act of 1 March 2018 on the prevention of money

laundering and terrorist financing, carries out as part of its supervisory powers inspection and analytical activities in the area of prevention of money laundering and terrorist financing at obliged institutions under the KNF supervision. In accordance with the statutory requirements, the results of inspections must be each time communicated to the GIF⁶¹;

- Statistics Poland (GUS): regular transmission of data to GUS under the Programme of Statistical Surveys of Official Statistics regarding the insurance sector, the pension sector, and the investment fund market sector. The UKNF also took part in the work on the programme of surveys for 2020, 2021, 2022;
- the Insurance Guarantee Fund (UFG): Since the fourth quarter of 2020, the supervisory authority has been represented in the Fund Council by Ms Dagmara Wieczorek-Bartczak, Deputy Chair of the KNF Board. The year 2020 required particular engagement of the UFG and the UKNF in the monitoring of the situation of Polish citizens who were customers of a Danish insurer Gefion Insurance A/S. Following the decision of Finanstilsynet dated 24 March 2020, Gefion Insurance A/S may no longer enter into new insurance contracts or renew the existing contracts. The UKNF and the UFG placed special emphasis on informing the insured at Gefion Insurance A/S that insurance may not be continued, in order to prevent a situation where those individuals would lose their insurance cover, thus being exposed to the risk of a penalty for the failure to perform the obligation to enter into an insurance contract, or the risk of potential costs of accidents caused by them. Moreover, in 2020 the UKNF worked with the UFG on the proposals for amendments to the legislation (regarding the issue of ‘dormant policies’, proposal for Regulation of the Minister of Finance on specific accounting rules and reports on the activity of the Insurance Guarantee Fund); the UKNF supported the proposal for the Compulsory Insurance Monitoring System – modifying the UFG’s IT system handling cases regarding the imposition of charges for the lack of third-party liability insurance, and presented its position on the methodology for estimating the provisions for specific damages. The uncertainty surrounding the evolution of the epidemic has led the UKNF to closely monitor the impact of the epidemic on the Fund’s statutory activities. The analysis of the UFG’s financial data does not indicate any significant deterioration of the results of the Fund’s operating and financial activities due to COVID-19. The COVID-19 pandemic has had an undeniable adverse impact on the condition of the Tourism Guarantee Fund. To mitigate the adverse economic impact on the tourist industry, under the Act of 17 September 2020 amending the Act on special solutions related to the prevention, counteracting and combating of COVID-19, other infectious diseases and emergencies caused by them, and certain other statutory laws (Journal of Laws 2020, item 1639), the Tourism Fund for Refunds and the Tourism Assistance Fund have been established; both funds are managed by the Insurance Guarantee Fund.
- the National Clearing House (PL: Krajowa Izba Rozliczeniowa, KIR) in relation to the use of the resources of the KIR ICT system (STIR);
- the Polish Insurance Association (PIU): the supervisory authority presented to the PIU members the objectives of a product intervention measure. At the same time, following the market consultation process, the final objectives of the product intervention were submitted to the PIU, together with the implementation schedule and the concept of a test of compliance of unit-linked insurance products with the requirements of the intervention measure. The methodology of the annual Supervisory Review Process (SRP) for insurance undertakings for 2019 was consulted with the PIU, and the final version of the methodology is the result of cooperation between the PIU and representatives of insurance undertakings. In 2020, the UKNF took action to prepare supervised entities and the UKNF for regulatory and supervisory changes regarding sustainability, including public disclosures by those entities. In the course of those activities, cooperation was established with the PIU to develop solutions to be used for stress testing and disclosures which, on the one hand, meet the expectations of the supervisory authority and, on the other, ensure the optimal use of the available data and the reflection of the effect of the changes on the

⁶¹ See sub-chapter 10.6. of the Report.

Polish insurance market. The SRP assessment was also expanded to include the assessment of the preparedness of undertakings for the upcoming changes regarding sustainability. As regards stress tests, the UKNF cooperated with the PIU in order to prepare:

- scenarios for the risk of blackout in non-life insurance undertakings and the expected profits from future contributions within the Expert Group on Drought and Blackout Risks and the Expert Group on the Expected Profits from Future Contributions, appointed within the Solvency II Sub-Committee at the PIU,
 - the final version of the test methodology,
 - stress test scenarios concerning climate change.
- the Polish Bank Association (ZBP): a representative of the KNF Board is a member of the Board of the Bank Arbitrator, which discusses comments on market practices followed by banks in relations with clients;
 - the Ministry of Agriculture and Rural Development: participation of a representative of the KNF Board in the work of the Commission for the Assessment of Offers, referred to in Article 8 of the Act of 7 July 2005 on insurance of agricultural crops and livestock. Under Article 9(5) of the Act on insurance of agricultural crops and livestock, the Commission must check whether the offers submitted to the Minister of Agriculture by insurance undertakings pursuing the business of property insurance which are interested in entering into agreements with the Minister of Agriculture on the subsidies to contributions to insurance of agricultural crops and livestock meet the formal requirements laid down in Article 9(4) of the Act on insurance of agricultural crops and livestock. In particular, the Act imposed on the Commission the requirement to check whether the opinion of the KNF Board confirms that the financial situation of an insurance undertaking guarantees the performance of the insurance contract. In 2020, the meeting of the Commission for the Assessment of Offers took place on 8 December 2020.
 - the Ministry of Science and Higher Education and the Ministry of Finance in connection with the requirements of the Act of 22 December 2015 on the principles for the recognition of professional qualifications acquired in the Member States of the European Union (Journal of Laws 2020, item 220, as amended);
 - the Financial Education Council (REF): a representative of the KNF Board is a member of the Financial Education Council, whose main task is to raise financial awareness of citizens and to determine the direction and the method of performance of the tasks of the Financial Education Fund (FEF). The representative of the Chair of the KNF Board was actively involved in the work of the Council, which sets the directions and methods of performing the tasks of the Fund to finance financial education, and supervises the performance of tasks of the FEF and the management of its assets. In 2020, the REF dealt with many legal and procedural issues concerning the expenses of the FEF and the preparation of the financial education strategy.

The UKNF also worked very extensively with the Ministry of Finance on a number of legislative initiatives, as further mentioned in sub-chapter 10.4.1. 'Participation in legislative work'.

In 2020, pursuant to Article 17ca of the Act on financial market supervision, the UKNF strengthened its cooperation with central offices and units of public services and agencies in the area of exchange of documents and information necessary to achieve statutory objectives in the field of prevention and detection of criminal offences in the financial market. In 2020, three new agreements on the rules for cooperation and submission of documents and information were concluded with the Commander-in-Chief of Police, the Head of the Central Anti-Corruption Bureau (CBA) and the Head of the Internal Security Agency (ABW), respectively. The year 2020 is also the time of intensified cooperation between the UKNF and prosecuting authorities in the area of detecting and combating illegal activities in the financial market. The cooperation took place both on the general level (to develop the best model of cooperation) and on a more specific level (in relation to individual cases).

11. ORGANISATION OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

11.1 ACTIVITIES UNDERTAKEN TO PREVENT THE RISK OF CORRUPTION AND THE CONFLICT OF INTEREST

In 2020, in the area of management of conflicts of interest and prevention of corruption, the following tasks were completed:

- implementation of the process of identification and assessment of the risk of conflict of interest or corruption activities at the UKNF,
- centralisation and optimisation of both processes,
- identification of areas of conflicts of interest and corruption;
- providing opinions and advice, including the review of all concerns or information reported within the processes.

192 cases concerning the management of conflicts of interest were reported in 2020.

In 2020, the Order of the Chair of the KNF Board on the methods of preventing the risk of corruption and the rules of procedure to be followed in the case of actual or suspected occurrence of corruption at the UKNF was published to raise the awareness among the employees of the UKNF of the possibility of occurrence of the risk of corruption.

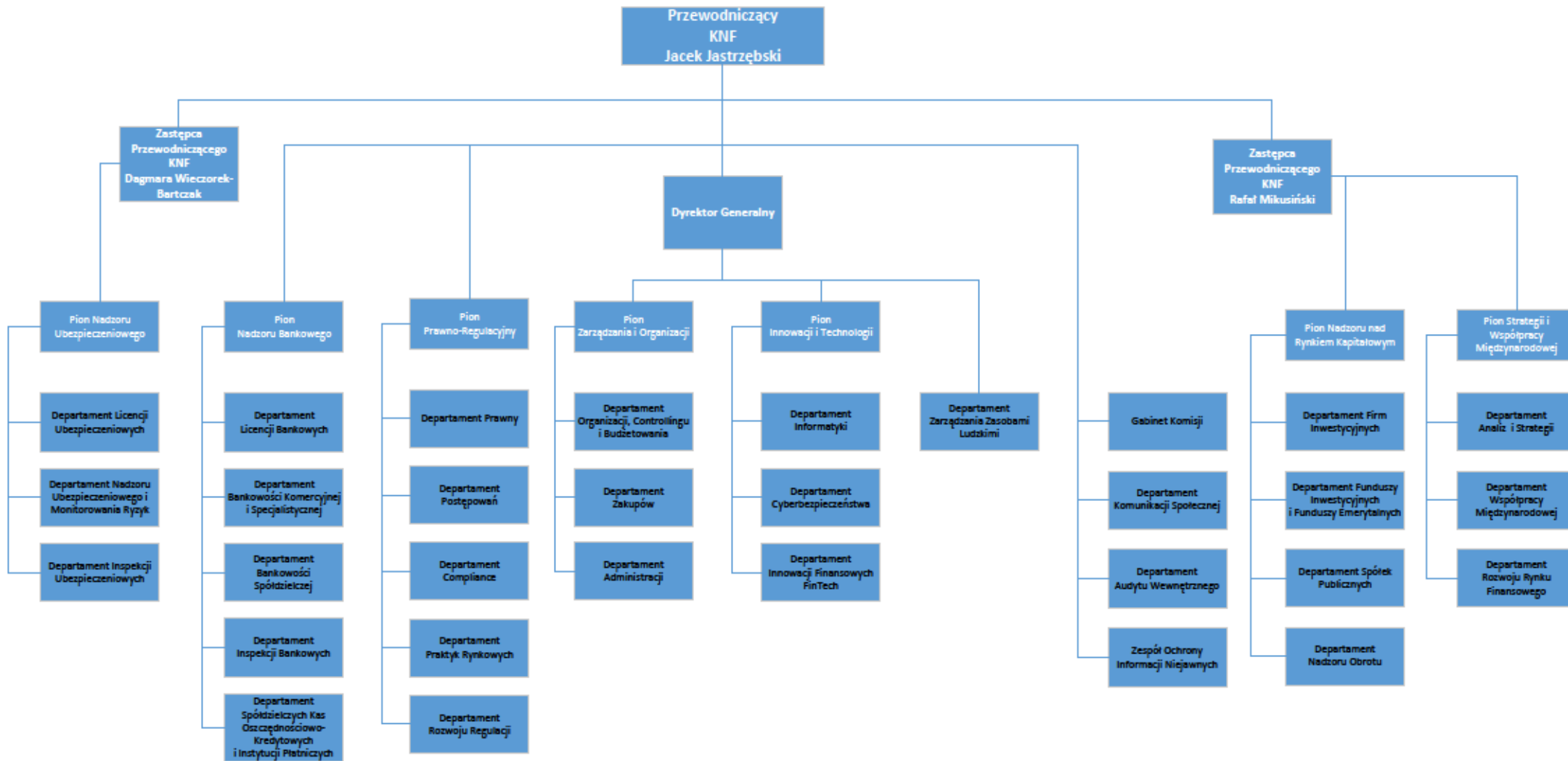
The Order of the Chair of the KNF Board on the rules for handling conflicts of interest at the UKNF was published to introduce new rules for handling a given conflict of interest by indicating general and specific rules for adopting measures to minimise the risk and to highlight the most essential area of activities, due to the UKNF's supervisory tasks, which activities may carry heightened risk of conflict of interest.

In the implementation of the Government's Anti-Corruption Programme for 2018–2020, the UKNF carried out anti-corruption training for the employees of the UKNF entitled 'Practical aspects of prevention of corruption', in cooperation with the Experts from the Central Police Headquarters, the Criminal Bureau, the Anti-Corruption Department.

11.2. INTERNAL AUDIT

The UKNF performs the tasks regarding periodic assessment of the internal control system, including management control, and tasks regarding advisory activities. The purpose of internal audit is to add value and improve the processes at the UKNF by issuing recommendations and giving advice on the shape, functioning and improvement of the existing control mechanisms. The internal audit activity is independent (ensured by, for example, an appropriate line of reporting to the Chair of the KNF Board) and impartial, which actively supports the Chair of the KNF Board in the achievement of goals and objectives. The role of internal audit is to regularly provide the Chair of the KNF Board with an assurance on the adequacy, effectiveness and efficiency of the internal control system, including management control, through impartial and risk-oriented assessment and evaluation.

Struktura organizacyjna Urzędu Komisji Nadzoru Finansowego wg stanu na 31.12.2020 r.



11.3. FINANCIAL MANAGEMENT AT THE UKNF

On 1 January 2019, under the Act of 9 November 2018 amending certain laws to strengthen financial market supervision and investor protection, the UKNF became a state legal person referred to in Article 9 point 14 of the Act of 27 August 2009 on public finance. The UKNF is responsible for providing assistance to the KNF Board and the Chair of the KNF Board. The activities of the UKNF are supervised by the President of the Council of Ministers.

The financial management at the UKNF is based on the principle of financing the operational costs of the UKNF and the KNF Board, as a rule, from payments from supervised entities. It means that, according to the assumptions, there is a balance between the planned revenue and planned costs.

The UKNF carries out financial management based on the financial plan, which is subject to a two-step approval procedure. The KNF Board passes the Financial Plan of the UKNF and submits it to the President of the Council of Ministers for approval. The Financial Plan of the UKNF for 2020 was prepared for an amount which takes into account the spending needs resulting from the extended subjective and objective scope of supervision exercised by the KNF Board in recent years.

The financial penalties imposed by the KNF Board do not represent revenue of the UKNF.

The proceeds from the financial penalties imposed by the KNF Board pursuant to Article 138(3) point 3a and Article 141 of the Banking Law are transferred to the Bank Guarantee Fund.

The proceeds from the financial penalties imposed by the KNF Board pursuant to Article 72 of the Act on credit unions are transferred to the stabilisation fund kept by the National Association of Credit Unions.

Other proceeds from financial penalties imposed by the KNF Board under Article 19e of the Act on financial market supervision represent the assets of the Financial Education Fund.

In the Financial Plan of the UKNF for 2020, the operating expenses and the revenue to pay such expenses were planned in the following amounts:

Total revenue:	PLN 407 695 thousand
– including: payments from supervised entities:	PLN 390 612 thousand
Total costs:	PLN 390 612 thousand

Tables 87 and 88 show the plan and execution of revenues and costs realised in 2020 (on accrual basis).

Table 87. Implementation of the UKNF's plan of revenue in the years 2019 and 2020

	Revenue	2019 plan	Implementation of the 2019 plan (on accrual basis)		2020 plan	Implementation of the 2020 plan (on accrual basis)		Plan for 2020 compared to 2019	Implementation for 2020 compared to 2019
		(PLN thousand)	(PLN thousand)	(%)	(PLN thousand)	(PLN thousand)	(%)	(%)	(%)
1	2	3	4	5	6	7	8	9	10
	Payments from insurance undertakings to cover the costs of supervision of the insurance and brokerage businesses	57 786	58 994	102	62 655	64 142	102	108	109
	Payments from general pension societies to cover the costs of supervision of the activities of open pension funds	22 042	16 207	74	14 726	12 772	87	67	79
	Payments from capital market entities to cover the costs of supervision	55 073	33 702	61	100 415	73 428	73	182	218
	Payments from banking market entities (commercial banks, cooperative banks, credit unions, BUP, PKH, KIP, MIP)	234 702	227 873	97	212 816	173 365	81	91	76
	Revenue from payments to cover the costs of supervision	369 604	336 776	91	390 612	323 708	83	106	96
	Fees collected for activities related to exams and improving professional qualifications	1 000	860	86	1 000	422	42	100	49
	Fines imposed on supervised entities	0	0		0	0			
	Other	89 450	93 319	104	16 083	22 077	137	18	24
	Other revenue	90 450	94 179	104	17 083	22 499	132	19	24
	Total revenue	460 054	430 955	94	407 695	346 206	85	89	80

Source: UKNF

Table 88. Implementation of the UKNF's plan of costs in the years 2019 and 2020

Budgetary costs	2019 plan	Implementation of the 2019 plan		2020 plan	Implementation of the 2020 plan		Plan for 2020 compared to 2019	Implementation for 2020 compared to 2019
	(PLN thousand) after changes	(PLN thousand)	(%)	(PLN thousand) after changes	(PLN thousand)	(%)	(%)	(%)
1	5	6	7	5	6	7	8	9
Costs relating to remuneration, including charges and derivatives for remuneration	170 626	167 525	98	232 609	208 730	90	136	125
Non-wage costs, including:	198 978	202 027	102	158 003	145 367	92	79	72
– overhead costs	182 978	184 757	101	142 003	125 670	88	78	68
– defence costs	0	0		0	0		n/a	n/a
– property costs	16 000	17 270	108	16 000	19 696	123	100	114
Total	369 604	369 552	100	390 612	354 096	91	106	96

Source: UKNF

The main part of income/revenues in Table 87 were income/revenue from payments from supervised entities to cover the supervision costs. Other income which is not supervision cost was executed in the amount of PLN 22 499 thousand.

Table 89 shows the breakdown of costs of supervision of individual markets into indirect and indirect costs.

Table 89. Breakdown of supervision costs into direct and indirect costs in the years 2019–2020 (in PLN thousand) in comparative terms

Name of the market	2019				2020			
	plan after changes	implementation	including:		plan after changes	implementation	including:	
			direct supervision costs	indirect supervision costs*			direct supervision costs	indirect supervision costs*
1	2	3	4	5	6	7	8	9
Capital market**	95 016	115 857	46 717	69 140	122 457	102 117	57 110	45 007
Insurance market**	59 282	57 536	23 197	34 339	60 818	59 929	26 903	33 026
Pension market	13 929	13 926	5 612	8 314	14 726	18 395	10 793	7 602
Banking market, including:	201 377	182 233	73 483	108 750	192 611	173 655	76 113	97 542
- Banks**	188 764	169 621	68 397	101 224	179 561	161 889	70 956	90 933

- BUP	1 482	1 482	598	884	1 903	1 716	752	964
- KIP	4 995	4 995	2 014	2 981	5 462	4 924	2 158	2 766
- Credit unions	3 542	3 542	1 428	2 114	3 449	3 110	1 363	1 747
- PKH	2 470	2 470	996	1 474	2 019	1 820	798	1 022
- MIP	124	123	49	74	217	196	86	110
- domestic electronic money institutions	0	0	0	0	0	0	0	0
- account information service providers	0	0	0	0	0	0	0	0
Total	369 604	369 552	149 009	220 543	390 612	354 096	170 919	183 177

Source: UKNF

* Administrative costs

** 18% of capital market costs are borne by banks and the insurance market, respectively: 16.5% and 1.5%

The breakdown of the operating costs of the UKNF and the KNF Board incurred in 2020, divided into areas of supervision defined in Article 1(2) of the Act on financial market supervision, and the administrative costs is presented in Annex 12.9.

According to the Regulation of the Minister of Finance of 13 June 2017 on detailed manner, mode and dates for preparing materials for the draft Budget Act, the UKNF also drew up a draft of the budget in a task-based format. The amount planned to carry out task 4.3. Supervision of the capital, insurance, pension and banking markets in 2020, in line with the 'Catalogue of functions, tasks, sub-tasks and activities for 2020', is PLN 390 612 thousand. The performance budget system of the UKNF is presented in Table 90.

Table 90. Execution of the financial plan in 2020 by task (in PLN thousand)

Item	Name of the function/task/sub-task/action	Plan for 2020 after changes	Implementation of the plan as at 31 Dec 2020
4.	Management of State finances	390 612	354 096
4.3.	Supervision of the financial market	390 612	354 096
4.3.2.	Supervision of the financial market	390 612	354 096
4.3.2.1.	Supervision of the capital market	122 457	102 117
4.3.2.2.	Supervision of the insurance market	60 818	59 929
4.3.2.3.	Supervision of the pension market	14 726	18 395
4.3.2.4.	Supervision of the banking market	192 611	173 655

Source: UKNF

Task 4.3. Supervision of the capital, insurance, pension and banking markets

The purpose of the task was to ensure compliance of the proceedings of the supervised entities with financial market regulations and protection of the interests of financial market participants.

This goal was achieved by:

- conducting inspection proceedings (comprehensive and targeted inspections) at the supervised entities, with the manner of conduct depending on the inspection activities selected in a given case, the provisions of law related to inspection and the complexity of the problem, and thus affecting the amount of dedicated resources,
- conducting administrative proceedings consisting in the examination of applications submitted by the supervised entities and issuing decisions which were proceeded depending on the complexity of a case and the quality and completeness of documentation submitted by a party.

The following measures were used to monitor the performance of task 4.3.:

- the number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities. The measure was planned at 89%,
- the number of completed inspection proceedings at the supervised entities in relation to the number of planned inspection proceedings. The value of the measure was planned at 100%.

The adopted measures were implemented in the performance system for 2020, and the values reached were 98% and 91%, respectively.

Differences in deviations from the values of the measures are largely due to the occurrence of the SARS-CoV-2 pandemic in the three quarters of 2020.

An increase in the measure of administrative proceedings is linked to the high level of commitment and efficiency of employees of the UKNF, and good and rapid organisation of remote work in the difficult situation that took place in 2020.

However, despite the best efforts, the good and rapid organisation of remote work, and the huge involvement of the UKNF staff, some of the on-site inspections could not take place due to the tightening of the country-wide restrictions, which had a significant impact on the measure of inspection proceedings, falling below the planned value.

Table 91 shows the planned and achieved values of measures at the level of activities (concerning individual markets) and sub-tasks.

Table 91. Classification of the performance-based budget: implementation of measures of 2020

Item	Name of the function/task/sub-task/action	Objective	Measure		
			Name	2020	
				Plan	Implementation of the measure as at 31 Dec 2020
4.	Management of State finances				
4.3.	Supervision of the financial market	Ensuring compliance of the proceedings of the supervised entities with financial market regulations and protection of the interests of financial market participants	The number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	88%	98%
			The number of completed inspection proceedings at the supervised entities in relation to the number of planned inspection proceedings	100%	91%
4.3.2.	Supervision of the financial market	Ensuring compliance of the proceedings of the supervised entities with financial market regulations and protection of the interests of financial market participants	The number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	88%	98%
			The number of completed inspection proceedings at the supervised entities in relation to the number of planned inspection proceedings	100%	91%
4.3.2.1.	Supervision of the capital market	Ensuring compliance of the proceedings with the capital market regulations	The number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	84%	104%
			The number of completed inspection proceedings at the supervised entities in relation to the number of planned inspection proceedings	100%	61%
4.3.2.2.	Supervision of the insurance market	Ensuring compliance of the proceedings with the insurance market regulations	The number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	90%	106%
			The number of completed inspection proceedings at the supervised entities in relation to the number of planned inspection proceedings	100%	103%

4.3.2.3.	Supervision of the pension market	Ensuring compliance of the proceedings with the pension market regulations	The number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	91%	92%
			The number of completed inspection proceedings at the supervised entities in relation to the number of planned inspection proceedings	100%	0%
4.3.2.4.	Supervision of the banking market	Ensuring compliance of the proceedings with the banking market regulations	The number of completed administrative proceedings related to the financial market in relation to the number of requests for conducting these proceedings submitted by the supervised entities	90%	97%
			The number of completed inspection proceedings at the supervised entities in relation to the number of planned inspection proceedings	100%	100%

Source: UKNF

The Implementation of the Financial Plan of the UKNF, which forms Annex No 14 to the Budget Act, is audited annually by the Supreme Audit Office. The annual financial statements of the UKNF are reviewed by an audit firm selected by the President of the Council of Ministers. The UKNF's annual financial statements drawn up by the KNF Board are submitted, together with the audit report, to the President of the Council of Ministers for approval. The approved financial statements of the UKNF are then submitted to the minister competent for financial institutions.

11.4. PUBLIC PROCUREMENT

All current and asset expenses at the UKNF are executed in accordance with the Public Procurement Plan, pursuant to the provisions of the Public Procurement Law (Journal of Laws 2019, item 1843, as amended) and in accordance with the UKNF's internal regulations on public procurement. In 2020, 58 public procurement contracts were signed at the UKNF under the procedures provided for by the Public Procurement Law, including: 12 delivery contracts, 45 service contracts, and 1 social service contract.

Table 92. Number of awarded public procurement contracts in 2020 by type of procedure

Type of procedure	Number of awarded public procurement contracts
Open tender with a contract value exceeding the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Law	32
Open tender with a contract value smaller than the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Law.	22

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Direct contracts with a contract value smaller than the amounts specified in the regulations issued pursuant to Article 11(8) of the Public Procurement Law	3
Procedure conducted pursuant to Article 138o of the Public Procurement Law, regarding contracts for social services and other specific services	1
Total number of public procurement contracts awarded under the procedures provided for by the Public Procurement Law in 2020	58

Source: UKNF

11.5. MANAGEMENT OF HUMAN RESOURCES

In 2020, the activities undertaken in the area of management of human resources focused on ensuring appropriate resources for the purpose of supervisory tasks and continuity of the activities in the case of an epidemic threat and transition to remote work. Those activities included the development and implementation of new work organisation and circulation of HR documents as well as planning, acquisition and allocation of human resources in the UKNF's organisational structure and the process of managing the funds for remuneration of the employees, financial management of the UKNF with regard to the remuneration fund, payment of monetary benefits under social insurance in case of disease and maternity, settlements with the Social Insurance Institution, settlements with the tax office, reporting on remuneration, and financial management of EU Twinning Projects.

The employment plan at the UKNF for 2020 envisaged 1 362 jobs. The employment level at 31 December 2020 amounted to 1 259.905 jobs (excluding replacement contracts).

Table 93. Employment fluctuation rate at the UKNF in the years 2017–2020 (in %)

2017	2018	2019	2020
10.99	12.87	11.48	7.26

Source: UKNF

Despite the epidemic threat and temporary suspension of recruitment and training procedures at the turn of the first and second quarters, 116 recruitment projects were initiated during the whole year, resulting in the employment of 229 new individuals. The recruitment procedures were launched to fill the vacancies as they occurred. The HR management was handled on an ongoing basis based on the new procedures for work organisation and circulation of documents.

In the area of training and development activities in 2020, the incentive analysis continued using the MAPP3 methodology for specific groups of employees, and new training initiatives were launched as part of 117 group training courses on 39 topics. As regards the topics, most training courses were specialised courses, mainly in the area of financial markets: capital, banking and insurance markets, as well as legal issues. Compared with the previous year, there was an increase in the number of training projects regarding 'soft skills', such as dispersed team management, change management, effective remote work. There was also an increase in the number of internal training courses. Employees completed obligatory training on the prevention of corruption and on occupational health and safety. As a result of the ongoing assessment of training needs, the group training processes were supported by individual training courses. In 2020, 475 employees benefited from training projects: 468 employees attended domestic projects and 7 employees attended international projects. The low number of people attending training abroad was due to the epidemic situation at home and abroad.

Overall, 3620.86 training 'man-days' were completed in 2020. For comparison, in 2018–2019, the respective rates were 5441.03 and 2836.91. The intensity of staff participation in the training in 2020 was 3.1 training days, which represents 25 hours of training per employee. For comparison, in 2018–2019, the respective rates were: 45 and 22 hours. Due to the global pandemic, from March 2020 the training projects were implemented remotely, so the

employees had access to a wide range of expertise while maintaining the sanitary regime. Despite the new form of work, the supervisory processes were carried out without interruptions.

11.6. ACTIVITIES AIMED AT IMPROVING THE SYSTEM FOR SECURITY AND PROTECTION OF CLASSIFIED INFORMATION AT THE UKNF

1. Rules of procedures for the prevention of COVID-19 at the UKNF were developed for the employees. The rules were defined in terms of both the probability of infection with SARS-CoV-2 and the mitigation of its possible effects. The well-planned measures for the time of the pandemic allowed for the continuity of the UKNF's operations. An agreement was signed with ALAB, a nation-wide network of diagnostic laboratories, for the performance of PCR tests in case of probability that an employee has been in contact with an infected person.
2. Rules of procedures were defined for the case where it is necessary to launch a permanent standby duty at the UKNF, in accordance with statutory requirements. The definition of the pattern and rules of procedure for individuals designated to work on the permanent standby duty allowed for a proper response in case the country remains in a permanent state of readiness or high state of readiness.
3. Regulations were put in place to define the UKNF's measures to be adopted where a state authority introduces various alarm alerts or CRP alerts (CRP – cyberspace of the Republic of Poland). The distribution of tasks and responsibilities arising from the statutory regulations prepares the UKNF to effectively respond to threats.
4. A set of requirements were defined for the supervision of work performed by external providers at the UKNF facilities. The employees of the UKNF responsible for the organisation and supervision of staff of external providers received instructions which ensured an appropriate level of security at the UKNF.
5. Rules of procedures were defined with regard to handling keys and access cards at the UKNF facilities. That solution ensures an appropriate level of control of access to security zones located at the UKNF facilities; access to each zone is granted according to the authorisation held.
6. The official duties performed by the officers of the Republic of Poland in the UKNF buildings were standardised. Rules of procedures were defined for the employees of the UKNF responsible for providing information to the officers.
7. The ongoing cooperation was held with authorities and institutions operating in the field of state security in the area of counteracting threats to the security of the financial system and critical infrastructure in connection with the Act on crisis management.
8. The general Occupational Health and Safety instructions for all employees and the rules of procedure to be followed in relation to receiving shipments of unknown origin were updated.
9. Security of information processed at the UKNF was continuously ensured, for example by upgrading the protection system and updating documentation regarding the protection of classified information.
10. The UKNF continued its ongoing cooperation with the National Crime Information Centre (PL: Krajowe Centrum Informacji Kryminalnych – KCIK).
11. The UKNF fulfilled the obligation arising from Articles 41a and 47 of the Act on the organisation and operation of pension funds.

11.7. TASKS IMPLEMENTED IN THE FIELD OF SECURITY AND PROTECTION OF INFORMATION PROCESSED AT THE UKNF

The tasks performed in the field of personal data protection for own purposes of the UKNF and the KNF include, in particular, the activities which fulfil the obligations arising from the

provisions of generally applicable law, e.g. performing information obligations, responding to requests from data subjects, and exercising their rights where it is justified by the applicable laws. This area at the UKNF is the responsibility of a specialised organisational unit and the Data Protection Officer.

11.8. TASKS IN THE AREA OF CYBERSECURITY

The tasks in the area of internal cybersecurity of the UKNF and the KNF Board include, in particular:

- supervision and monitoring of ICT security systems,
- security audits of ICT systems (security audits of the UKNF applications available from the public network),
- detection of vulnerabilities in the UKNF's ICT systems,
- implementation of security systems,
- activities related to the protection of digital evidence for the purpose of inspection activities undertaken by the UKNF in relation to supervised entities,
- raising employee awareness in the area of cybersecurity through recurrent training on cyberthreats and through dissemination of information on threats.

11.9. ACTIVITIES UNDERTAKEN IN THE AREA OF RISK MANAGEMENT

In 2020, the *Compliance risk management policy of the UKNF* was adopted to introduce basic principles for ensuring compliance in the processes related to the organisation and functioning of the UKNF. The policy provides guidance and support for employees of the UKNF for the management of compliance risk in the performance of official duties, thus preventing the negative consequences of non-compliance.

The UKNF performed tasks related to ensuring management control at the institution. The UKNF executed procedures related with risk management and assessment of management control, both in the form of an anonymous survey and assessment forms completed by directors of the UKNF's organisational units.

The UKNF implemented a tool for monitoring the level of adaptation of the UKNF to the legal environment; the tool aims to:

- ensure the consistency of the activities of organisational units with the legal requirements affecting the functioning of the KNF and the UKNF,
- assess compliance risk where a statutory time limit has passed and a given organisational unit is no longer adapted to an identified legal requirement,
- undertake a corrective measure to eliminate/mitigate compliance risk in the case of a gap.

In strengthening the internal control system at the UKNF, a cycle of training courses was prepared and held: 'Identification of control mechanisms in the UKNF's processes.'

11.10. COMPLAINTS ABOUTS THE ACTIVITY OF THE UKNF AND THE CONDUCT OF EMPLOYEES OF THE UKNF, AND THE UKNF'S MEASURES TO STRENGTHEN THE ETHICAL STANDARDS FOR ITS EMPLOYEES

In 2020, 38 complaints about the activity of the UKNF and the conduct of employees of the UKNF were received. In 2020, actions were taken to strengthen the ethical standards for employees of the UKNF. The UKNF updated the regulations on ethical standards and arrangements for prevention of workplace bullying and discrimination at the UKNF, in particular the *Code of conduct for employees of the UKNF* (hereinafter: Code of conduct) was updated,

which lays down the basic values and principles which should be followed by the UKNF. The Code of ethical standards for employees of the UKNF was drawn up, which specifies the values and principles mentioned in the Code of conduct. In 2020, the Ethics Officer was selected for 2020–2022.

In 2020, the UKNF set up a whistleblowing system in line with the requirements of Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law (OJ L 2019.305.17).

12. ANNEXES

ANNEX 12.1. INFORMATION ABOUT RESOLUTIONS, ADMINISTRATIVE FINAL AND INTERIM DECISIONS ISSUED BY THE KNF BOARD AND ON THE BASIS OF AUTHORISATION FROM THE CHAIR OF THE KNF BOARD, AND INTERIM DECISIONS TO INITIATE *EX OFFICIO* PROCEEDINGS OR TO EXTEND THE SCOPE OF THE PROCEEDINGS — UNDER ARTICLE 13 OF THE ACT ON CAPITAL MARKET SUPERVISION, ISSUED IN 2020

Table 12.1.1. Number of resolutions adopted by the KNF Board in 2020

Subject-matter of resolution	Number of adopted resolutions
Matters concerning the banking sector	
approval of appointment of a president or vice president of the management board of a bank operating as a joint-stock company, a cooperative bank or a cooperative protection scheme	42
approval of the delegation of the function of a member of the management board supervising the management of risks relevant to the activities of a bank operating as a joint-stock company or a cooperative bank	7
refusal to approve the delegation of the function of a member of the management board supervising the management of risks relevant to the activities of a bank operating as a joint-stock company	1
approval of bank merger or take-over	4
approval of the recovery plan of a bank operating as a joint-stock company or cooperative bank	10
authorisation to establish a bank or branch of a foreign bank	2
upholding a final decision, repealing a final decision, repealing a final decision and discontinuing proceedings, amending a final decision, discontinuing proceedings	15
approval of a bank's group recovery plan	4
refusal to approve a bank's recovery plan	2
imposition of a fine on a bank	3
appointment of a temporary administrator	1
assigning a SREP score to a bank operating as a joint-stock company or to a cooperative bank	3
lack of grounds for objecting to the planned take-up of a bank's shares	1
refusal to suspend the enforcement of a final decision	1
resolution on making information available to the public	2
other	31
Total	129
Matters concerning the pension sector	
approval of appointment of a member of the management board of a general pension society (PTE) or member of the management board of an occupational pension society	3
approval of an amendment to the articles of association of a general pension society, open pension fund, occupational pension society, voluntary pension fund	19
authorisation to shorten the deadline for entry into force of amendments to the articles of association of an open pension fund or voluntary pension fund	9
upholding a final decision	1
imposition of fines on PTEs	1
granting authorisation to acquire shares of a PTE	1
resolution on making information available to the public	1
other	1
Total	36
Matters concerning the insurance sector	

approval of appointment of a president of the management board of an insurance undertaking	5
approval of appointment of a member of the management board of an insurance undertaking responsible for risk management	9
granting authorisation to conduct the business of insurance	1
approval of articles of association of an insurance undertaking	1
approval of a change in the material scope of business of an insurance undertaking	1
imposition of a fine on the insurance undertaking	4
discontinuance of proceedings	3
lack of grounds for filing an objection to the acquisition of shares of a domestic insurance undertaking	5
other	7
Total	36
Matters concerning the capital sector	
withdrawal of shares from trading on a regulated/alternative market	25
granting authorisation to conduct brokerage activities	6
granting authorisation to operate as an investment fund management company (TFI)	2
granting authorisation to operate as an AICM	1
imposition of fines on entities (TFIs, issuers, shareholders being legal persons, investment firms) and indefinite exclusion of a company's shares from trading on a regulated market	11
imposition of fines on natural persons	17
upholding a final decision, repealing a final decision, discontinuance of proceedings	27
refusal to enter a company in the register of AICMs	6
lack of grounds for objecting to an entity becoming a direct parent undertaking of a TFI	2
granting authorisation to acquire shares	1
lack of grounds for objecting to the planned acquisition of shares in a TFI	2
lack of grounds for objecting to the planned acquisition of shares in a commodity brokerage house	1
lack of grounds for objecting to the planned acquisition of shares in a brokerage house	1
granting authorisation to change the depository	1
order for the transfer of financial instruments	1
authorisation of an issuer to delay public disclosure of inside information	1
resolution on making information available to the public	50
other	4
Total	159
Matters concerning the payment service sector	
imposition of fines on BUP/KIP/MIP	10
financial penalty waiver	1
repealing a final decision, repealing a final decision and discontinuing proceedings, amending a final decision of the KNF Board, upholding a final decision, discontinuing administrative proceedings	18
authorisation to provide payment services as a domestic/small payment institution	1
withdrawal of authorisation to provide payment services as a domestic/small payment institution	1
refusal to register a small payment institution	2
statement of no grounds for objecting to the acquisition of shares in a KIP	2
Total	35
Matters concerning the sector of credit unions	
approval of appointment of a president of the management board	2
approval of merger with another credit union	2
Total	4
Matters concerning internal organisation of the KNF Board's work	
Report on the activities of the KNF Board	1
Draft Financial Plan of the UKNF	3

other	4
Total	8

Source: UKNF

Table 12.1.2. Number of final and interim decisions issued in 2020 on the basis of authorisation granted by the KNF Board and by the Chair of the KNF Board

Subject-matter of final and interim decisions	Number of final and interim decisions issued
Matters concerning the banking sector	
authorisation to include profit for a given period in the core Tier 1 capital	29
authorisation to classify the issued shares to the core Tier 1 capital	89
authorisation to reduce own funds	474
authorisation to reduce own funds – prior consent	46
authorisation to classify cash of a bank gained from the issue of long-term bonds and subordinated loans as instruments to the Tier 2 capital	6
authorisation of early redemption of subordinated bonds included in the Tier 2 capital.	2
decision on the Institutional Protection Schemes (IPS) (including: giving up, on an individual basis, the application of the provisions of Articles 412 and 414 of the CRR which authorise banks not to apply the requirements of Article 113(1) of the CRR in respect of exposures to banks with which banks joined the Institutional Protection Scheme, allowing banks not to deduct participations in the affiliating bank held by them for the purpose of calculating own funds on an individual basis)	24
discontinuance of proceedings	17
refusal to initiate proceedings	1
recommendation to a bank to maintain an additional own funds requirement in accordance with Article 138(1) point 2a of the Banking Law	14
authorisation of early return of the funds deriving from a subordinated loan included in the Tier 2 capital	1
approval of the exemption from the obligation to provide translation of financial statements of the parent company into Polish	1
authorisation to limit the scope of the translation of consolidated financial statements	1
authorisation to entrust performance, by business owners indicated in the decision, of activities other than those specified in Article 6a(1) point 1(a–l) of the Banking Law for and on behalf of a bank	16
authorisation to conclude a contract with a foreign business owner who does not have a registered office in the territory of a Member State or an agreement providing for the performance of activities outside the territory of a Member State	13
authorisation to amend the articles of association of a bank operating as a joint-stock	35
authorisation to amend the articles of association of a cooperative bank	238
appointment of a trustee or deputy trustee at a mortgage bank	2
discontinuance of proceedings in respect of approval of appointment/delegation of functions of members of management boards supervising the management of risks relevant to the activities of a bank	6
discontinuance of proceedings in respect of authorisation to amend the articles of	11
discontinuance of proceedings (other)	2
KNF authorisation to modify/extend the application of the AMA Approach and to calculate delta using internal approaches to option valuation	4

initiation of <i>ex officio</i> administrative proceedings	14
exemption of BGK from the obligation to comply with the prudential requirements for the formation of groups of connected clients referred to in Article 4(1) point 39 of Regulation (EU) No 575/2013 and in the acts adopted under that Regulation, with participation of the central government by excluding the central government (Article 3(1e) of the Act of 14 March 2003 on Bank Gospodarstwa Krajowego (BGK) in conjunction with Article 4(1) point 39 of Regulation (EU) No 575/2013	1
authorisation to apply the 100% liquidity coverage ratio in relation to undrawn portion of a credit facility pursuant to Article 34(1) of Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for credit institutions	1
approval of the total exemption from the limitation of recognition of liquidity inflows to 75% of total liquidity outflows for undrawn portion of a credit facility pursuant to Article 33(2)(a) of Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for credit institutions	1
strong customer authentication (SCA) (under Article 17(6) of Regulation (EU) No 537/2014 of the European Parliament and of the Council)	4
final decisions issued under Article 17 of Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication	4
interim decision on the postponement of the deadline for supplementing the recovery plan by one month	3
authorisation to conclude an annex to an agency contract on entrusting a business owner the task of intermediation in the field of banking activities, consisting in concluding electronic banking agreements with the bank's customers – pursuant to Article 6a(1) point 1(m) of the Banking Law	1
a bank's request to reverse the decision not to apply a transitional period that mitigates the impact of the introduction of IFRS 9 on own funds, i.e. to grant the authorisation referred to in the first paragraph of Article 473a(9) of the CRR	1
interim decision to suspend proceedings in respect of approval of redemption of CET1 instruments	1
order to draw up a recovery plan	1
extension of proceedings for imposing an additional capital requirement	1
other final and interim decisions	53
Total	1 118
Matters concerning the sector of credit unions	
approval of an amendment to the articles of association of a credit union	1
discontinuance of proceedings in respect of approval of amendments to the articles of	2
interim decision on the refusal to allow an entity to act as a party to administrative proceedings in respect of appointment of a commissioned regulator at a credit union	1
interim decision on the resumption of suspended proceedings	1
Total	5
Matters concerning the payment service sector	
suspension of proceedings for granting authorisation to provide payment services as a domestic payment institution	2

discontinuance of entire proceedings for authorisation of provision of payment services as a domestic payment institution	4
discontinuance of proceedings	45
Total	51
Matters concerning the insurance sector	
final decision on the repayment of a subordinated loan	2
interim decision pursuant to Article 11(6) of Regulation (EU) No 648/2012 of the European Parliament and of the Council	1
suspension, resumption and refusal to suspend proceedings	4
discontinuance of proceedings	11
setting a new date to deal with the case	29
approval of amendments to the articles of association of an insurance undertaking	22
entry in the register of actuaries	9
authorisation to conduct brokerage in the area of insurance	53
authorisation to conduct brokerage in the area of reinsurance	3
withdrawal of authorisation to conduct brokerage in the area of insurance	44
notice of initiation of administrative proceedings	2
other	5
Total	185
Matters concerning the pension sector	
authorisation to appoint a member of the supervisory board of a general pension society	8
authorisation to amend the agreement on the safekeeping of assets of an open/voluntary pension fund	3
entry of an occupational pension scheme in the register	254
inclusion of an employer in an inter-company scheme	8
entry of changes to the occupational pension scheme in the register	170
removal of the occupational pension scheme from the register	54
resumption of suspended proceedings	19
suspension of proceedings	19
discontinuance of proceedings	12
extension of the time for removal of formal defects/irregularities	10
setting a new date to deal with the case	39
imposition of a financial penalty on an employer running an occupational pension scheme	6
approval of the report on activities of KDPW S.A. in respect of management of the Guarantee Fund for 2018	1
authorisation to extend the deadline for adjusting investment activity of the OFE	2
removal from PPK records	1
other	1
Total	607
Matters concerning the capital and commodity markets	
approval of a prospectus	16
approval of an annex/supplement to the prospectus	24
suspension of administrative proceedings	17

initiation of administrative proceedings	16
discontinuance of administrative proceedings	86
correction of an obvious error	2
authorisation to keep registers or accounts of commodities	4
refusal to take into account requests to provide evidence	16
refusal to suspend the enforcement of a final decision	10
upholding an interim decision on the refusal to resume proceedings	3
refusal to initiate administrative proceedings	1
refusal to give consent	1
refusal to suspend the enforcement of a final decision	2
refusal to give authorisation	1
demand to suspend trading in shares of a public company	15
repeal of a decision	21
demand to amend the notice pursuant to Article 78(1) of the Act on public offering	2
final decision under Article 17(5) and (6) of MAR	2
declaring a final decision to be expired	9
authorisation of an investment fund management company to extend its activities to include the management of portfolios composed of one or more financial instruments	1
authorisation to extend the scope of activity of an investment fund management company to include investment advisory services	1
authorisation of an investment fund management company to extend its activities to include acceptance and transmission of orders to acquire or dispose of financial instruments	1
authorisation to merge internally two sub-funds of an open-end investment fund or a specialised open-end investment fund	7
approval of amendments to the articles of association of an investment fund, including the shortening of the deadline for the entry into force of amendments to the fund's articles of association	122
authorisation to take over the management of a fund	2
authorisation to establish a public closed-end investment fund, which corresponds to the approval of a prospectus for investment certificates	2
authorisation to set up a specialised open-end investment fund	1
approval of a prospectus for investment certificates of a closed-end investment fund	5
approval of an annex/supplement to a prospectus for investment certificates of a closed-end investment fund	6
agreement to the suspension of disposal of units	2
agreement to the suspension of buy-back of units	3
approval of conclusion, by an investment fund management company, of the agreement referred to in Article 46(3a) of the Act on investment funds and management of alternative investment funds	6
appointment of a liquidator	1
removal from the Register of AICMs pursuant to Article 70zf of the Act on investment funds and management of alternative investment funds	5

entry on the list of investment advisers	31
entry on the list of securities brokers	32
entry in the Register of Tied Agents	10
removal of an investment firm's tied agent	25
amendment to a final decision	2
declaring a final decision to be expired	1
approval of appointment of a member of the management board of a brokerage house supervising the risk management system	3
refusal to suspend the enforcement of a final decision	1
inclusion of shares in the core Tier 1 capital	3
inclusion of profit for a given period in the core Tier 1 capital	4
authorisation to exceed the concentration limit	1
interim decision on the scope of information provided in a request	1
approval of the Regulations of KDPW S.A. or approval of amendments thereto	6
granting authorisation to extend the scope of activities of a central securities depository	1
approval of amendments to the rules for settling transactions of KDPW_CCP S.A. or the rules of a compensation fund	5
interim decisions on the expression of an opinion by the NBP	5
authorisation to run an auction platform	1
authorisation to run an organised trading facility	1
approval of amendments to the rules of a company operating a commodity exchange	3
approval of amendments to the rules of a company operating a regulated market	4
approval of changes in the composition of the management board of a company operating a regulated market	2
approval of amendments to the statutes of a company operating a regulated market	3
refusal to refer a case for mediation	4
authorisation to extend cooperation with an audit firm	1
other	2
Total	565
Matters concerning mortgage credit intermediaries	
authorisation to carry on business as a mortgage credit intermediary and entry in the Register of Credit Intermediaries (in Section I)	10
withdrawal of authorisation to carry on business as a mortgage credit intermediary and removal from the Register of Credit Intermediaries (from Section I)	33
discontinuance of proceedings in respect of authorisation to carry on business as a mortgage credit intermediary	1
discontinuance of proceedings in respect of withdrawal of authorisation to carry on business as a mortgage credit intermediary	10

Total	54
Matters concerning non-bank lending institutions	
refusal to enter a non-bank lending institution in the Register of Non-Bank Lending Institutions	1
Total	1
TOTAL	2 586

Source: UKNF

Table 12.1.3. Number of interim decisions to initiate *ex officio* proceedings or to extend the scope of proceedings – under Article 13 of the Act on capital market supervision, issued in 2020

Subject-matter of the interim decision	Number of interim decisions
initiation of <i>ex officio</i> administrative proceedings	75

Source: UKNF

Table 12.1.4. Number of final administrative decisions issued by the Chair of the KNF Board in 2020

Subject-matter of the final decision	Number of final decisions
on the refusal to provide public information	40

Source: UKNF

ANNEX 12.2. ISSUERS WHOSE PROSPECTUSES WERE APPROVED BY THE KNF BOARD IN 2020 AND CLOSED-END PUBLIC INVESTMENT FUNDS WHOSE PROSPECTUSES WERE APPROVED BY THE KNF BOARD IN 2020

Table 12.2.1. Issuers whose prospectuses were approved by the KNF Board in 2020

Item	Issuer	Date
1.	Ghelamco Invest Sp. z o.o.	27 February 2020
2.	Games Operators SA	28 February 2020
3.	Alior Bank SA	4 May 2020
4.	Gaming Factory SA	19 June 2020
5.	KRUK SA	24 August 2020
6.	Polwax SA	25 August 2020
7.	PKO Bank Hipoteczny SA	8 October 2020
8.	Polski Bank Komórek Macierzystych SA	27 October 2020
9.	Canal+ Polska SA	2 November 2020
10.	Pure Biologics SA	6 November 2020
11.	Mo-Bruk SA	17 November 2020
12.	PCF Group SA	25 November 2020
13.	Dadelo SA	3 December 2020
14.	Answer.com SA	8 December 2020
15.	Medinice SA	18 December 2020
16.	Alior Bank SA	31 December 2020

Source: UKNF

Table 12.2.2. Closed-end public investment funds whose prospectuses were approved by the KNF Board in 2020

Item	Name of the fund	Date of approval of the prospectus
1.	Beta ETF WIG40TR Portfelowy Fundusz Inwestycyjny Zamknięty	25 June 2020
2.	Beta ETF WIG20lev Portfelowy Fundusz Inwestycyjny Zamknięty	11 July 2020
3.	Beta ETF WIG20short Portfelowy Fundusz Inwestycyjny Zamknięty	11 July 2020
4.	Beta ETF WIG20TR Portfelowy Fundusz Inwestycyjny Zamknięty	20 October 2020
5.	Ipopema Benefit 3 Fundusz Inwestycyjny Zamknięty	8 December 2020

Source: UKNF

**ANNEX 12.3. LIST OF ITEMS OF THE OFFICIAL JOURNAL OF THE KNF BOARD
ISSUED IN 2020**

Item in the OJ of the KNF Board	Announcement date	Title of the act
1.	15 January 2020	Communication No 251 of the Examination Board for Investment Advisers of 15 January 2020 on the date, scoring rules and completing tasks of the third stage of the examination for investment advisers
2.	28 January 2020	Communication from the KNF Board of 27 January 2020 on the amount of the maximum actuarial interest rate
3.	5 February 2020	Announcement of the decision of the KNF Board on the imposition of fines on Altus Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw and withdrawal of authorisation to conduct business (Ref. No DFF-FIZ.456.4.2018.WZ)
4.	14 February 2020	Communication from the Chair of the KNF Board of 14 February 2020 on the level of the rate applicable in 2020 and the amount of the supervisory costs referred to in § 2(3) of the Regulation of the President of the Council of Ministers on payments to cover the costs of banking supervision, to be paid in 2020
5.	27 February 2020	Announcement of the decision of the KNF Board on the imposition of fines on Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (Ref. No DPS.456.22.2019.MZ)
6.	2 March 2020	Communication No 252 from the Examination Board for Investment Advisers of 27 February 2020 on the dates of aptitude tests
7.	2 March 2020	Communication No 253 from the Examination Board for Investment Advisers of 28 February 2020 on the thematic scope of the aptitude test
8.	11 March 2020	Communication No 1/2020 from the Examination Board for Securities Brokers of 11 March 2020 on the change of the date of the examination for securities brokers
9.	11 March 2020	Communication No 256 from the Examination Board for Investment Advisers of 11 March 2020 on the change of the date of the first stage of the examination for investment advisers
10.	13 March 2020	Communication from the Chair of the KNF Board of 12 March 2020 on the amount of the rate applicable in 2020 and the amount of the costs of supervision referred to in § 1 of the Regulation of the President of the Council of Ministers on payments to cover the costs of supervision of the insurance, reinsurance and insurance mediation activities, to be paid in 2020
11.	4 May 2020	Communication from the Chair of the KNF Board of 30 April 2020 on the level of the applicable rate and the amount of costs of supervision of payment services offices, to be paid in 2020
12.	4 May 2020	Communication from the Chair of the KNF Board of 30 April 2020 on the level of the applicable rate and the amount of costs of supervision of account information service providers, to be paid in 2020
13.	29 May 2020	Communication from the Chair of the KNF Board of 29 May 2020 on the costs of supervision of mortgage credit intermediaries in 2019 and the amount of advance payments due from all mortgage credit intermediaries in 2019

14.	29 May 2020	Communication from the Chair of the KNF Board of 29 May 2020 on the level of the rate applicable in 2020 and the costs of supervision of small payment institutions, to be paid in 2020
15.	2 June 2020	Communication No 2/2020 from the Examination Board for Securities Brokers of 1 June 2020 on a new change of the date of the examination for securities brokers
16.	2 June 2020	Communication No 257 from the Examination Board for Investment Advisers of 2 June 2020 on a new change of the date of the first stage of the examination for investment advisers
17.	2 June 2020	Communication No 258 from the Examination Board for Investment Advisers of 2 June 2020 on the change of the date of the aptitude test
18.	5 June 2020	Announcement of the decision of the KNF Board on the imposition of a fine on Copernicus Capital Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (Ref. No DPS.456.5.2019)
19.	21 July 2020	Resolution No 173/2020 of the KNF Board of 14 July 2020 amending the Resolution on the issuance of Recommendation S on good practices in the management of credit exposures secured by mortgages
20.	31 July 2020	Communication from the Chair of the KNF Board of 30 July 2020 on the amount of costs of supervision of electronic money institutions in 2019, the total fees paid by all domestic electronic money institutions in 2019 and the maximum amount due from all domestic electronic money institutions for 2019
21.	31 July 2020	Communication from the Chair of the KNF Board of 30 July 2020 on the level of the rate applicable in 2020 and the amount of costs of supervision of credit unions and the National Association of Credit Unions, to be paid in 2020
22.	20 August 2020	Communication from the Chair of the KNF Board of 19 August 2020 on the costs of supervision of payment institutions in 2019, the total fees for certain acts of the KNF Board paid by all domestic payment institutions in 2019, and the sum of the amounts referred to in Article 76(4) point 2 of the Act on payment services, determined for all domestic payment institutions for 2019
23.	31 August 2020	Communication from the Chair of the KNF Board of 28 August 2020 on the level of the rate applicable in 2020 and other data relating to the payment of the costs of capital market supervision for 2020
24.	31 August 2020	Announcement of the decision of the KNF Board on the imposition of a fine on Powszechne Towarzystwo Emerytalne PZU S.A. with its registered office in Warsaw by means of a decision (Ref. No DPS.456.14.2019.KE)
25.	14 October 2020	Announcement of the decision of the KNF Board on the imposition of a fine on Origin Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (Ref. No DPS.456.21.2019)
26.	14 October 2020	Communication No 261 from the Examination Board for Investment Advisers of 14 October 2020 on the date, the thematic scope of the content of problem-related tasks, the scoring rules and completion of tasks of the second stage of the examination for investment advisers
27.	28 October 2020	Communication No 262 from the Examination Board for Investment Advisers of 28 October 2020 on the cancellation of the second stage of the examination for investment advisers scheduled to 8 November 2020
28.	29 October 2020	Communication from the Chair of the KNF Board of 28 October 2020 on the level of the rate applicable in 2020, the total revenues from mortgage credit

		mediation in 2019, and the costs of supervision of mortgage credit intermediaries to be paid in 2020
29.	3 November 2020	Resolution No 289/2020 of the KNF Board of 9 October 2020 on the issuance of Recommendation Z on the principles of internal governance at banks
30.	4 November 2020	Announcement of the decision of the KNF Board on authorising Instytut Rynku Finansowego sp. z o.o. with its registered office in Warsaw to operate as an administrator of interest rate benchmarks (Ref. No DASZ2.4000.1.2019)
31.	20 November 2020	Communication from the Chair of the KNF Board of 20 November 2020 on the level of the rate applied to calculate the amount due for the costs of pension supervision for 2019, the level of the rate applied to calculate the first part of the amount due for the costs of pension supervision for 2020, the amount of the planned costs of pension supervision in 2019 and 2020, and the executed costs of pension supervision for 2019
32.	17 December 2020	Announcement of the decision of the KNF Board on authorising GPW Benchmark S.A. with its registered office in Warsaw to operate as an administrator of interest rate benchmarks, including critical benchmarks (Ref. No DASZ2.4000.2.2019)

Source: UKNF

ANNEX 12.4. LIST OF REGULATIONS, DRAFT REGULATIONS AND ANNOUNCEMENTS REVIEWED DURING THE LEGISLATIVE WORK IN 2020

Table 12.4.1. List of regulations issued in 2020 and reviewed during the legislative work in 2020

Item	Regulation
1.	Regulation of the Minister of Finance of 19 March 2020 on specific accounting rules and reports on the activity of the Insurance Guarantee Fund (Journal of Laws, item 541)
2.	Regulation of the Minister of Finance of 23 March 2020 amending the Regulation on the method of determining the risk profile of banks and branches of foreign banks and taking that profile into account when determining contributions to the bank guarantee fund (Journal of Laws, item 518)
3.	Regulation of the Minister of Finance of 7 April 2020 determining different time limits for the performance of certain reporting and information obligations (Journal of Laws, item 622)
4.	Regulation of the Minister of Finance of 8 April 2020 amending the Regulation on the minimum amount of insurance sum for travellers related to activities carried out by tour operators and entrepreneurs facilitating the purchase of related tourist services (Journal of Laws, item 649)
5.	Regulation of the President of the Council of Ministers of 23 April 2020 on payments to cover the costs of supervision of payment institutions and fees for certain acts of the KNF Board (Journal of Laws, item 767)
6.	Regulation of the President of the Council of Ministers of 23 April 2020 on payments to cover the costs of supervision of electronic money institutions in respect of activities related to the issuance of electronic money, and fees for certain acts of the KNF Board (Journal of Laws, item 770)
7.	Regulation of the Minister of Finance of 28 April 2020 amending the Regulation on the minimum amount of insurance guarantees on account of performance of agency tasks by ancillary insurance agents (Journal of Laws, item 768)
8.	Regulation of the Minister of Finance of 6 May 2020 amending the Regulation on the compulsory third party liability insurance on account of the conduct of brokerage business (Journal of Laws, item 845)

9.	Regulation of the Minister of Finance of 6 May 2020 amending the Regulation on the compulsory third party liability insurance on account of the conduct of agency business (Journal of Laws, item 846)
10.	Regulation of the Minister of Finance of 12 May 2020 on the detailed requirements for information memoranda (Journal of Laws, item 1053)
11.	Regulation of the Minister of Finance of 22 May 2020 amending the Regulation on requests for entry in the Register of Insurance Agents and Ancillary Insurance Agents (Journal of Laws, item 941)
12.	Regulation of the Minister of Finance of 3 June 2020 amending the Regulation on the actuarial examination (Journal of Laws, item 999)
13.	Regulation of the Minister of Finance, Funds and Regional Policy of 19 June 2020 amending the Regulation on the exemption or limitation of application of Article 26(2e) of the Act on corporate income tax (Journal of Laws, item 1096)
14.	Regulation of the Minister of Finance of 17 September 2020 amending the Regulation determining different time limits for the performance of certain reporting and information obligations (Journal of Laws, item 1606)
15.	Regulation of the Minister of Finance of 24 September 2020 on the admission of financial instruments other than securities to trading on a regulated market (Journal of Laws, item 1724)
16.	Regulation of the Council of Ministers of 25 September 2020 on the programme of statistical surveys of official statistics for 2021 (Journal of Laws, item 2062)
17.	Regulation of the Minister of Finance of 1 October 2020 amending the Regulation on specific accounting principles of credit unions (Journal of Laws, item 1710)
18.	Regulation of the Minister of Finance of 5 October 2020 on the scope of information disclosed in the financial statements and consolidated financial statements required in a prospectus for issuers with registered office in the territory of the Republic of Poland, which are subject to Polish accounting principles (Journal of Laws, item 2000)
19.	Regulation of the Minister of Finance of 8 October 2020 amending the Regulation on higher risk weight for exposures secured with mortgages on real estate (Journal of Laws, item 1814)
20.	Regulation of the Minister of Finance, Funds and Regional Policy of 13 November 2020 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 (Journal of Laws, item 2225)
21.	Regulation of the President of the Council of Ministers of 18 November 2020 on the costs of pension supervision (Journal of Laws, item 2041)
22.	Regulation of the President of the Council of Ministers of 18 November 2020 on the method, procedure and conditions for conducting the activities of investment fund management companies (Journal of Laws, item 2103)
23.	Regulation of the Minister of Finance, Funds and Regional Policy of 24 November 2020 on the requirements applicable to members of the management board and supervisory board of a company operating a regulated market and the rules of procedure and requirements for maintaining and improving their knowledge and competence (Journal of Laws, item 2100)
24.	Regulation of the Minister of Finance, Funds and Regional Policy of 26 November 2020 on the templates of the calls to subscribe for the sale or exchange of shares of a public company, the detailed manner of their announcement and the conditions for the acquisition of shares as a result of such calls (Journal of Laws, item 2114)
25.	Regulation of the Minister of Finance, Funds and Regional Policy of 3 December 2020 on the membership fee paid to the Polish Insurance Association (Journal of Laws, item 2223)
26.	Regulation of the Minister of Finance, Funds and Regional Policy of 4 December 2020 on the information contained in the warning (Journal of Laws, item 2194)
27.	Regulation of the Minister of Development, Labour and Technology of 22 December 2020 on the determination of the amount of the contribution to the Tourism Guarantee Fund (Journal of Laws, item 2372)
28.	Regulation of the Minister of Development, Labour and Technology of 22 December 2020 on the determination of the amount of the contribution to the Tourism Assistance Fund (Journal of Laws, item 2379)

Source: UKNF

Table 12.4.2. List of draft Regulations reviewed during the legislative work in 2020, not issued by the end of 2020

Item	Regulation
1.	Draft Regulation of the Minister of Finance on the rules of procedure for creditors of monetary claims
2.	Draft Regulation of the Minister of Finance amending the Regulation on specific accounting principles of investment funds
3.	Draft Regulation of the Minister of Finance amending the Regulation on specific accounting principles of credit unions
4.	Draft Regulation of the Minister of Finance, Funds and Regional Policy on the acquisition of shares in a public company by way of compulsory redemption
5.	Draft Regulation of the Minister of Finance, Funds and Regional Policy on the annual reporting of audit firms
6.	Draft Regulation of the Minister of Finance, Funds and Regional Policy amending the Regulation on certain payers (including tax payers) in relation to whom tasks are performed by the Head of a tax office other than the tax office which has a territorial jurisdiction
7.	Draft Regulation of the Minister of Finance, Funds and Regional Policy amending Regulation on the qualification procedure for auditors
8.	Draft Regulation of the Minister of Finance, Funds and Regional Policy on the granting of <i>de minimis</i> aid and State aid under operational programmes financed from the European Social Fund for 2014–2020
9.	Draft Regulation of the Minister of Finance, Funds and Regional Policy amending the Regulation on the financial support provided by the Polish Agency for Enterprise Development under the operational programme Knowledge Education Development for 2014–2020
10.	Draft Regulation of the Minister of Family, Labour and Social Policy defining the template of a declaration of a member of an open pension fund on the transfer of the funds accumulated on his/her account in the open pension fund to the Social Insurance Institution, acting for and on behalf of the Social Insurance Fund, and the detailed scope of information contained in the declaration
11.	Draft Regulation of the Minister of Family, Labour and Social Policy defining the template of a declaration on property relationships existing between the insured other than a saver on an individual retirement account at an investment fund established in connection with the transfer of assets from an open pension fund to an individual retirement account and that person's spouse
12.	Draft Regulation of the Minister of Development, Labour and Technology amending the Regulation on conferring the statutes on Bank Gospodarstwa Krajowego
13.	Draft Regulation of the Minister of the Interior and Administration amending the Regulation on the requirements for the protection of monetary values stored and transported by entrepreneurs and other organisational units
14.	Draft Regulation of the Council of Ministers amending the Regulation on the specific management of tangible movable property of the State Treasury
15.	Draft Regulation of the Minister of Finance on the rules of procedure for creditors of monetary claims

Source: UKNF

Table 12.4.3. List of reviewed consolidated texts of statutory laws announced in 2020

Item	Official announcement
1.	Announcement of the Marshal of the Sejm of the Republic of Poland of 27 October 2020 on the announcement of the consolidated text of the Act on financial market supervision
2.	Announcement of the Marshal of the Sejm of the Republic of Poland of 2 December 2020 on the announcement of the consolidated text of the Act on the functioning of cooperative banks, their affiliation and affiliating banks

Source: UKNF

ANNEX 12.5. PROTECTION OF NON-PROFESSIONAL FINANCIAL MARKET PARTICIPANTS: ANALYTICAL ACTIVITIES AND PRELIMINARY INVESTIGATIONS CARRIED OUT BY THE UKNF IN 2020 WITH REGARD TO MALPRACTICES OF KNF-SUPERVISED ENTITIES

Table 12.5.1. List of analytical activities undertaken by the UKNF in 2020 with regard to malpractices of KNF-supervised entities

Banking sector
Analysis of practices followed by selected entities in relation to the time limits for submission of the decision on granting mortgage credit
Analysis of compliance by selected obliged entities with the requirements under the Act on 'dormant accounts'
Analysis of several banks' practice of concluding contracts through a courier
Analysis of compliance by selected commercial banks with the requirements under Article 15a(2)–(3) of the Act on payment services (in relation to complaint handling)
Analysis of compliance by cooperative banks with the requirements under Article 15a(1)–(4) of the Act on payment services (in relation to complaint handling)
Analysis of compliance by selected banks with the requirements under the Act on support for borrowers who have taken out a housing loan
Analysis of practices followed by certain banks in relation to the performance of obligations under Article 52 of the Act on consumer credit
Analysis of certain banks' practices in relation to options for cancelling payment orders
Analysis of the practice of replacing used or damaged legal tender for customers, carried out on a group of banks
Analysis of the adaptation of banks' operations to the requirements laid down in Article 3b point 2 of Regulation (EU) 2019/518 (CBP 2019)
Analysis of practices followed by certain banks during the pandemic to enforce contractual sanctions for the failure to ensure turnover/remuneration on the client's account
Analysis of certain banks' practices of reviewing requests for 'repayment holiday', the possibility of waiving an application for 'repayment holiday' and the credit policy during the pandemic towards customers who have benefited from 'repayment holiday'
Analysis of practices followed by certain banks in relation to the proportional reimbursement of the commission in the case of total early repayment of credit
Analysis of the practice adopted by payment service providers in the identification of participants to payment transactions
Analysis of practices followed by certain banks in relation to the method of settling a consolidation loan where the funds of the loan were allocated to the repayment of consolidated liabilities before the borrower exercised the right to terminate the loan agreement as referred to in Articles 53 and 54 of the Act on consumer credit
Analysis of practices followed by certain banks following a reliable report concerning outdated identification details of the customer
Analysis of selected banks' practice of not honouring powers of attorney given to professional attorneys
Analysis of the practice followed by three banks to execute and manage instructions related with the death of the bank account holder
Analysis of the practice followed by one of banks in relation to the adjustment of the interest rate on certain types of bank accounts
Analysis of several banks' practice concerning the possibility of limiting cash withdrawals in foreign currencies during the COVID-19 pandemic
Analysis of the practice followed by one of banks in relation to blocking a client's bank account in connection with enforcement proceedings
Analysis of the practice followed by one of banks in relation to the management of bank accounts of a person under the care of a Social Welfare Centre
Analysis of the practice followed by one of banks in relation to the amount of fees collected for a credit balance and/or repayment history certificate
Analysis of the practice followed by one of banks in relation to including the credited costs of life insurance in the total amount of credit

Analysis of the practice followed by one of banks in relation to termination of an account contract even though the customer has supplemented a declaration on beneficial owner
Analysis of operations of one of banks in relation to transactions executed by the customer on a bank account
Analysis of the practice followed by one of banks in relation to the return of funds paid in cash on a customer's account by a third party who is not a customer of the bank
Analysis of the practice followed by one of banks in relation to an improperly collected commission for the renewal of a revolving loan as part of a special offer
Analysis of the practice followed by one of banks in relation to the automatic change of the transaction authorisation method to the mobile method against the customer's will
Analysis of a bank's practice of requiring non-standard documentation to initiate the chargeback procedure
Analysis of a bank's practice of charging a fee for an electronic account statement, which is free according to the list of fees
Analysis of a bank's practice of launching the functionality of contactless card payment despite the customer's refusal to use that option
Analysis of a bank's practice of charging a fee for an additional service to a bank account despite the account holder being eligible for the exemption from that fee
Analysis of the practice followed by one of banks in relation to returning the funds to the sender's account on suspicion of money laundering
Analysis of the practice followed by one of banks in relation to providing incorrect loan repayment schedules to customers
Analysis of the practice followed by one of banks in relation to double-charging customers' accounts for card operations
Analysis of the practice followed by one of banks in relation to charging undue fees for transfers for the return of funds from deposits matured
Analysis of the practice followed by one of banks in relation to responding to complaints within the statutory time limit of 30/60 days
Analysis of the practice followed by one of banks in relation to increasing the margin on a mortgage loan despite the fulfilment of the obligation to provide a renewal of the insurance policy together with the assignment of rights to the bank
Analysis of the practice followed by one of banks in relation to the execution of the order to close a bank account framework agreement in all access channels
Analysis of the practice followed by one of banks in relation to issuing certificates regarding the repayment of mortgage loans in foreign currencies
Analysis of the practice followed by one of banks in relation to the settlement of the total repayment of a mortgage loan and the issuing of certificates allowing for the removal of security interest
Analysis of a bank's practice of formulating an offer on the website, including failure to highlight information about the interest rate for customers as part of online banking
Analysis of the practice of leading credit services of one of banks by an external entity cooperating with the bank
Analysis of a bank's practice consisting in a failure to update the WIBOR 3M rate in accordance with the mortgage loan agreements
Analysis of the practice of generating incorrect repayment schedules for loans subject to 'repayment holiday', which led to automatic collection of overestimated instalments
Analysis of a bank's practice of charging a fee for managing a type of account which fee was not included in the tariff
Analysis of certain entities' practice of not responding to requests from KIR SA received through the Central Information System
Analysis of a bank's practice of generating incorrect individual bank accounts for members of a housing cooperative
Analysis of a bank's practice of charging a payment card with transactions executed without the knowledge and consent of the card holder
Analysis of the practice followed by one of banks in relation to requiring documents for the creditworthiness assessment of a limited liability company
Analysis concerning incorrect operation of the online banking website used for Split Payments at one of banks
Analysis of a bank's practice of posting the same operation multiple times on the customer's account

Analysis of the practice followed by one of banks in relation to inheritance based on a notarial certificate of succession
Analysis of the practice of refusing to open a bank deposit due to the fact that customers had no current and savings account at the bank
Analysis of the practice followed by one of banks in relation to blocking access to funds made available by the bank under an agreement on revolving credit on the current account
Analysis of a bank's practice of providing the service of conversion consisting in the conversion of the limit on the credit card to a cash loan
Analysis of the practice followed by one of banks in relation to insufficient protection of customer documents at a branch of the bank
Analysis of the practice followed by one of banks in relation to blocking assets from a bank account representing an amount not subject to seizure, i.e. 13th pension.
Analysis of a practice followed by a credit intermediary of one of banks consisting in making the possibility of contracting a loan conditional on the transfer of a significant amount from the disbursed loan to a third party
Analysis of a bank's practice in relation to the timeliness of issuing certificates on the repayment of a mortgage loan
Analysis of the practice followed by one of banks in relation to the functionality of accessing a bank account through a mobile application
Analysis of the practice followed by one of banks in relation to the time limits for terminating a tied loan agreement through an intermediary
Analysis of information that financial instruments allocated to the issue of 'donations for higher education institutions and technology centres' were deposited at one of banks
Analysis of the practice followed by one of banks in relation to the denial of withdrawal of funds from a bank deposit to another bank account, other than the account at the bank in which the customer opened the deposit
Analysis of a bank's practice of refusing to open a bank deposit for new funds despite the fulfilment, by the customer, of the conditions of the current special offer
Analysis of the practice followed by one of banks regarding the refusal to grant power of attorney for a bank account through the Online Access Channel
Analysis of the practice followed by one of banks in relation to the annual update of insurance policies used to secure the bank's monetary claims
Analysis of practices followed by four banks in relation to the application of legislative moratoria, processing borrowers' requests and accepting the withdrawal of a previously filed request
Analysis of the practice followed by one of banks in relation to blocking assets on an account up to the amount of the balance, regardless of the amount representing the security on the claim
Analysis of the practice followed by one of banks in relation to charging borrowers with overestimated non-interest costs for cash loans
Analysis of the functioning of the anti-fraud system in a bank in connection with cases of loans being swindled for the purchase of investment products, e.g. crypto-currencies – credit authorisation via text message
Analysis of procedures for access to the account of a temporary adviser ordered by a court in proceedings for complete incapacitation
Analysis of a bank's practice of including the credited costs of financing the premium for life insurance that is not necessary to grant the loan in the total cost of the credit
Analysis of a bank's practice of collecting and cancelling fees for the management of credit cards (the fee reduction mechanism)
Analysis of the practice followed by one of banks in relation to granting a loan using remote communication channels
Analysis of a bank's practice regarding lack of information on the whole history of a payment account in online banking or on the fee collected for a duplicate of a bank statement
Analysis of a bank's practice of charging a commission for the renewal of the acceptable debit balance during the period of notice of termination of a current account agreement
Analysis of a practice followed by a bank in relation to releasing security in the case of total repayment of mortgage loan
Analysis of cases of using bank accounts at five banks for illegal activities
Analysis of practices followed by certain banks in relation to collecting additional fees for making deposits of coins at branches of banks
Analysis of a bank's practice of restricting the possibility of closing a bank account

Analysis of a bank's practice of issuing unfounded calls for repayment of a credit obligation
Analysis of the practice related with issues in logging into a payment account at one of banks
Analysis of the practice of providing inaccurate information on a bank's website regarding the possibility of postponing the repayment of credit instalments
Analysis of a bank's practice of blocking an account following a request from the Social Insurance Institution for the return of benefits
Analysis of a bank's practice of deducting a fee for managing a current and savings account from an term deposit account without proper authorisation
Analysis of a bank's practice of processing a partial overpayment of the loan in an incorrect manner
Analysis of the practice followed by one of banks in relation to the execution of a payment transaction according to the unique identifier

Credit unions
Analysis of the practice followed by a credit union in relation to processing requests for proportional reimbursement of costs related to the lending period in the case of early repayment of consumer credit

Insurance sector
Analysis of an insurance undertaking's practice of recordings claims made electronically
Analysis of the reduction of the material scope of an insurance guarantee in the case of insolvency of a tour operator or travel agent
Analysis of the rules applied by 3 insurance undertakings for the reimbursement of the costs of disinfection of a replacement vehicle and a vehicle damaged and repaired under contracts of third party liability motor insurance
Analysis of the rules applied by an insurance undertaking for providing information and documents collected to establish the liability of the insurance undertaking and/or the amount of compensation or benefit
Analysis of the rules applied by an insurance undertaking for providing information and documents collected to establish the liability of the insurance undertaking and/or the amount of compensation or benefit
Analysis of the justification by an insurance undertaking of negative adjustments applied by technical account managers when determining the pre-damage value of the vehicle in the course of handling claims under TPL motor insurance
Analysis of an insurance broker's document setting out an offer for accident insurance for children and young people during the school year 2019/2020
Analysis of the insurance undertakings' policies to be followed in the case of acquisition of ownership of a vehicle by a person that concluded a contract of compulsory third party motor insurance before becoming the owner of the vehicle
Analysis, based on reports from non-professional financial market participants, of compliance by insurance undertakings with the requirements provided for in Article 14(1), (2) and (3) of the Act of 22 May 2003 on compulsory insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau (Journal of Laws 2019, item 2214, as amended)

Sector of payment services
Analysis of the practice related to procedures for identity verification based on a verification transfer at the time of activation of an account on the website of a domestic payment institution
Analysis of the practice related to the scope of personal data required for user identity verification at the time of activation of an account on the website of a domestic payment institution to buy a ticket

Capital sector
Analysis of the practice followed by an investment fund management company in relation to the timeliness of sending the IKE-2 form to a new IKE operator
Analysis of the practice followed by a tied agent of an investment firm in relation to the possibility of misleading customers as to the actual scope of the agent's activities
Analysis of the practice followed by one of brokerage houses in relation to collecting information from participants in individual pension accounts (IKEs)
Analysis of the practice followed by one of brokerage houses in relation to blocking the possibility of placing orders in the trading system
Analysis of the practice followed by one of investment firms in relation to obligatory sale

Analysis of amendments to the articles of association of one of closed-end investment funds in relation to the redemption rules
Analysis of the practice followed by a tied agent of an investment firm in relation to mediation in offering bonds in the context of the outcome of the survey on investment-related knowledge and experience under MiFID
Analysis of a technical failure preventing customers from logging into the trading platform run by a brokerage house
Analysis of a brokerage house's practice of rejecting online requests from customers for activation of access to the Register Account due to the AML status
Analysis of the practice of investment fund management companies in relation to the failure to execute the order to withdraw funds from the occupational pension scheme
Analysis of the practice of an investment fund management company in relation to determining the amount of remuneration for the management of an employee capital plan (PPK) and the amount of the benefit paid to members of the PPK
Analysis of the practice followed by one of investment firms in relation to automatic extension of the service of real-time view of stock prices on the Warsaw Stock Exchange
Analysis of the practice in relation to the accuracy of issuer verification in connection with a brokerage house acting as an intermediary in the public bond offering procedure
Analysis of the practice followed by one of brokerage houses in relation to additional roll-outs
Analysis of the practice followed by a brokerage house in relation to the application of asymmetrical value of swap points for open positions the value of which grossly deviates from market standards adopted at other investment firms
Analysis of the practice related to the failure by a sub-fund being part of a closed-end investment fund to carry out redemption
Analysis of the practice of granting access to the resources of a website dedicated to the publication of information about the activities of closed-end funds taken over from an investment fund management company whose authorisation to carry on business has been withdrawn
Analysis of amendments to the articles of association of a fund pertaining to the rules for making requests for redemption previously not executed due to the application of the proportional reduction mechanism
Analysis of the practice followed by one of investment firms in relation to the distribution of corporate bonds
Analysis of the practice followed by one of investment firms in relation to blocking access to the order book until the pop-up displayed at the time of logging into the trading system is completed

Source: UKNF

ANNEX 12.6. REPORTS SUBMITTED TO THE UKNF IN 2020 (BY SUBJECT-MATTER)

Table 12.6.1. Reports received by the UKNF and relating to the activities of commercial banks in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
Maintenance of accounts	863	41.53	710	33.87
Consumer credits and loans	407	19.59	419	19.99
Other activities of the bank	274	13.19	367	17.51
Mortgages	192	9.24	301	14.36
Quality of service	263	12.66	225	10.73
Payment instruments	77	3.15	72	3.44
Other	2	0.10	2	0.10
Total	2 078	100.00	2 099	100.00

Source: UKNF

Table 12.6.2. Reports received by the UKNF and relating to the activities of cooperative banks in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
Other	19	15.97	57	43.51

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Maintenance of accounts	54	45.38	42	32.06
Consumer credits and loans	23	19.33	10	7.63
Other activities of the bank	9	7.56	9	6.87
Quality of service	10	8.40	6	4.58
Mortgages	4	3.36	6	4.58
Payment instruments	0	0.00	1	0.76
Total	119	100.00	131	100.00

Source: UKNF

Table 12.6.3. Reports received by the UKNF and relating to the activities of credit unions (SKOK) in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
Consumer credits and loans	32	56.14	35	63.64
Maintenance of accounts	12	21.05	14	25.45
Quality of service	5	8.77	5	9.09
Other activities of credit unions	7	12.28	1	1.82
Mortgages	1	1.75	0	0.00
Total	57	100.00	55	100.00

Source: UKNF

Table 12.6.4. Reports received by the UKNF and relating to the activities of life insurance undertakings in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
Refusal of payment	31	19.50	24	21.43
Surrender value	14	8.81	16	14.29
Contract performance	24	15.09	15	13.39
Tardiness	21	13.84	10	8.93
Objections to the claim settlement process	14	8.18	9	8.04
The amount of compensation	10	6.33	9	8.04
Interpretation of General Terms and Conditions of Insurance	4	2.52	7	6.25
Valuation of units of a unit-linked insurance product or insurance undertaking's investment method	9	5.66	3	2.68
Problems with making damage files available	4	2.52	3	2.68
Unreliability of an agent	3	2.25	3	2.68
Problems with conclusion of contract	3	1.89	3	2.68
Change of contractual terms and conditions	1	0.63	3	2.68
Refusal to accept for insurance	3	1.89	2	1.79
Information policy of insurance undertakings	1	0.63	2	1.79
Cross-border activities of domestic entities	1	0.63	1	0.89
Withdrawal from a contract	1	0.63	1	0.89
Protection of personal data	0	0.00	1	0.89
Return of premium	1	0.63	0	0.00
IKE transfer	1	0.63	0	0.00
Premium rate	1	0.63	0	0.00
Indexation of the premium	1	0.63	0	0.00
Problems with termination of contract	10	6.33	0	0.00
Total	158	100.00	112	100.00

Source: UKNF

Table 12.6.5. Reports received by the UKNF and relating to the activities of non-life insurance undertakings in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
The amount of compensation	226	15.09	280	25.13
Objections to the claim settlement process	268	17.89	249	22.35
Tardiness	267	17.82	195	17.50
Problems with making damage files available	398	26.57	146	13.11
Refusal of payment	159	10.61	120	10.77
Problems with termination of contract	31	2.07	28	2.51
Premium rate	21	1.40	21	1.89
Contract performance	46	3.07	20	1.80
Unauthorised debt collection	39	2.60	17	1.53
Problems with conclusion of contract	8	0.53	9	0.81
Return of premium	6	0.40	5	0.45
Unreliability of an agent	2	0.13	5	0.45
Withdrawal from a contract	5	0.33	4	0.36
Protection of personal data	2	0.13	4	0.36
Interpretation of General Terms and Conditions of Insurance	4	0.27	3	0.27
Refusal to accept for insurance	3	0.20	3	0.27
Change of contractual terms and conditions	2	0.13	3	0.27
Information policy of the undertaking	5	0.33	2	0.18
Sum insured	6	0.40	0	0.00
Breach of insurance secrecy	0	0.00	0	0.00
Total	1 498	100.00	1114	100.00

Source: UKNF

Table 12.6.6. Reports received by the UKNF and relating to the activities of branches of insurance undertakings of EU Member States in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
Refusal of payment	6	27.27	2	20.00
Tardiness	5	22.73	2	20.00
Contract performance	4	18.18	2	20.00
The amount of compensation	1	4.55	2	20.00
Problem with making claim files available	2	9.09	1	10.00
Surrender value	0	0.00	1	10.00
Unauthorised debt collection	2	9.09	0	0.00
Unreliability of an agent	1	4.55	0	0.00
Protection of personal data	1	4.55	0	0.00
Total	22	100.00	10	100.00

Source: UKNF

Table 12.6.7. Reports received by the UKNF and relating to the activities of notified insurance undertakings of EU Member States in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
Tardiness	80	57.55	31	34.07
The amount of compensation	20	14.39	25	27.47
Objections to the claim settlement process	18	12.95	21	23.08

Problems with making damage files available	13	9.35	4	4.30
Refusal of payment	4	2.88	3	3.30
Unreliability of services provided	1	0.72	2	2.20
Contract performance	1	0.72	2	2.20
Change of contractual terms and conditions	0	0.00	2	2.20
Problems with termination of contract	1	0.72	1	1.10
Unauthorised debt collection	1	0.72	0	0.00
Total	139	100.00	91	100.00

Source: UKNF

Table 12.6.8. Reports received by the UKNF and relating to the activities of open pension funds (OFE) in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
Irregularities in the division and payment of funds collected in the account	4	40.00	7	70.00
Irregularities relating to the funds deposited in the OFE account	0	0.00	2	20.00
Complaints about data in the register of OFE members and their changes	0	0.00	1	10.00
Fund's information activity	3	30.00	0	0.00
Fund's investment policy	2	20.00	0	0.00
Transfers to other OFE	1	10.00	0	0.00
Total	10	100.00	10	100.00

Source: UKNF

Table 12.6.9. Reports received by the UKNF and relating to public companies and other financial market participants in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
Financial instrument quotation rate	62	30.10	174	51.33
Other	35	16.99	42	12.39
Disclosure requirements of NewConnect listed companies	14	6.80	40	11.80
Corporate rights of shareholders	53	25.73	30	8.85
Disclosure obligations of companies listed on the regulated market	30	14.56	29	8.55
Management of a public company	5	2.43	14	4.13
Companies withdrawn from official trading	2	0.97	9	2.65
Private issue of financial instruments	5	2.43	1	0.29
Total	206	100.00	339	100.00

Source: UKNF

Table 12.6.10. Reports received by the UKNF and relating to the activities of investment firms in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
Quality of services	31	37.80	33	28.70
Provision of online services	6	7.32	32	27.83
Other	20	24.39	18	15.65
Execution of orders	10	12.20	13	11.30
The amount of fees and commissions	6	7.32	10	8.70
Management result	1	1.22	3	2.61

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Distribution of investment certificates	3	3.66	2	1.74
Service of public issue	1	1.22	2	1.74
Recommendations	2	2.44	1	0.87
Maintaining the individual retirement account (IKE)	1	1.22	1	0.87
Collection of a capital gains tax	1	1.22	0	0.00
Total	82	100.00%	115	100.00%

Source: UKNF

Table 12.6.11. Reports received by the UKNF and relating to the activities of foreign investment firms in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
Quality of services	5	55.56	11	84.62
Other	2	22.22	1	7.69
Execution of orders	1	11.11	1	7.69
Provision of online services	1	11.11	0	0.00
Total	9	100.00	13	100.00

Source: UKNF

Table 12.6.12. Reports received by the UKNF and relating to the activities of investment fund management companies in the years 2019–2020 (by subject-matter)

Subject-matter of the report	2019	%	2020	%
Management of investment funds	34	24.11	41	37.96
Quality of services	12	8.51	14	12.96
Valuation of investment certificates	12	8.51	12	11.11
Other	13	9.22	10	9.26
Deadline for the execution of orders (regarding investment certificates)	28	19.86	8	7.41
Valuation of participation units	2	1.42	5	4.63
Deadline for the execution of orders (regarding participation units)	1	0.71	4	3.70
Liquidation of a fund	6	4.26	4	3.70
Implementation of an investment policy	12	8.51	2	1.85
Maintaining the individual retirement account (IKE)	8	5.67	2	1.85
The amount of fees and commissions	5	3.55	2	1.85
Transfer of receivables to the securitisation closed-end investment fund	4	2.84	2	1.85
Provision of online services	1	0.71	1	0.93
Maintaining the individual retirement account (IKZE)	1	0.71	1	0.93
Informing a unit-holder of a change in the articles of association	1	0.71	0	0.00
Combination of investment funds	1	0.71	0	0.00
Total	141	100.00	108	100.00

Source: UKNF

ANNEX 12.7. LIST OF WEBINARS ORGANISED BY THE UKNF AS PART OF THE CEDUR PROJECT IN 2020

Table 12.7.1. Webinars addressed to representatives of KNF-supervised entities (by sector)

Item	Topic	Date
Banking sector		
1.	Prevention of money laundering and terrorist financing at commercial banks in the context of the Act of 1 March 2018. Inspection results and related market practices	5 November 2020
2.	Prevention of money laundering and terrorist financing at cooperative banks in the context of the Act of 1 March 2018. Inspection results and related market practices	18 November 2020
3.	Reform of benchmarks: challenges for the Polish financial sector	2 December 2020
4.	Business continuity at a cooperative bank. Maintaining critical and key processes in their regulatory aspect: practical and supervisory approach	4 December 2020
5.	Management of information technology and ICT environment security at cooperative banks	9 December 2020
6.	Principles for assessing the credibility and creditworthiness of retail customers at cooperative banks: banking practice and regulatory requirements	14 December 2020
7.	Management of interest rate risk in the banking book (IRRBB) in the light of the EBA Guidelines and Recommendation G: a seminar for cooperative banks	16 December 2020
8.	Management of interest rate risk in the banking book (IRRBB) in the light of the EBA Guidelines and Recommendation G: a seminar for commercial banks	18 December 2020
Capital market		
1.	Reporting of investment fund management companies, and investment funds: changes in the reporting to the KNF Board resulting from, among other things, #PIN	29 September 2020
2.	Rules for conducting inspections at KNF-supervised investment funds	30 September 2020
3.	Management of information technology and ICT environment security at capital market entities: TFIs	21 October 2020
4.	Management of information technology and ICT environment security at capital market entities: investment firms	23 October 2020
5.	Detection of market abuse and suspicious transaction and order reports filed by investment firms under MAR	27 October 2020
6.	Investment fund management and representation before third parties; regulatory requirements, inspection results and other supervisory experiences	28 October 2020
7.	Public offering of shares: selected aspects regarding the scope and nature of information in the prospectus, approval of the prospectus by the KNF Board, obligations related to the offering based on the prospectus	9 November 2020
8.	New requirements for reporting in the single electronic reporting format (ESEF)	17 November 2020
9.	Forms, methods and scope of investment fund supervision: theory and practice	30 November 2020
10.	Legal requirements for members of governing bodies of investment fund management companies: the procedure and conditions to be followed when assessing and verifying compliance	8 December 2020
11.	Registration and reporting of alternative investment company managers	10 December 2020
12.	Issuers' periodical reporting: compliance with the applicable financial framework, in particular IAS/IFRS*	11 December 2020

13.	Capital requirements under the IFR/IFD package	15 December 2020
14.	Suspicious transaction and order reports filed by asset managers under MAR	17 December 2020
Insurance sector		
1.	Management of information technology and ICT environment security at insurance market entities	10 November 2020
2.	Conclusions from an inspection of insurance intermediaries with regard to compliance with the requirements under the Act on insurance distribution	23 November 2020
Sector of payment services		
1.	Legal aspects of strong authentication and new payment services: Payment Initiation Service (PIS) and Account Information Service (AIS)	3 November 2020
2.	Prevention of money laundering and terrorist financing at payment institutions in the light of the Act of 1 March 2018. Inspection results and market practices.	6 November 2020
Cross-sectoral		
1.	Imposition of administrative fines by the KNF Board in the light of amendments to the Administrative Procedure Code	22 September 2020
2.	Imposition of administrative fines by the KNF Board in the light of amendments to the Administrative Procedure Code Penalties imposed by the Financial Ombudsman for infringements of the Act on complaint handling**	26 October 2020

Source: UKNF

* A seminar addressed also to statutory auditors

** A seminar with a representative of the Office of the Financial Ombudsman, acting as a speaker

Table 12.7.2. Webinars addressed to law enforcement officers*

Item	Topic	Date
1.	Activities of investment funds, with a particular focus on open-end and closed-end investment funds Investment and securitisation funds: identification of holders, reporting obligations, state supervision	23 September 2020
2.	Organisation and conduct of sale of financial instruments by brokerage houses and banks in terms of infringement of provisions of criminal law	13 October 2020
3.	Conducting brokerage activities without KNF authorisation: unlawful offering and promoting of the acquisition of securities and the limits of permitted crowdfunding without a brokerage licence	29 October 2020
4.	Operation of investment fund management companies and cooperating entities. Rules of operation and functioning of investment funds. Supervisory and inspection practice of the UKNF	30 October 2020
5.	ICT security at investment fund sector entities. Practical approach	4 November 2020
6.	Cybersecurity in the financial sector from the perspective of the market and the customer. Systemic aspects and the practice of prevention of cybercrime	13 November 2020
7.	Rules for verification of reliability and credibility of entities offering services in the market of financial and investment services	16 November 2020
8.	Business continuity management at investment funds. Supervision over processes entrusted to external entities	19 November 2020
9.	Implementation of Regulation (EU) No 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds	25 November 2020
10.	System of prevention of money laundering and terrorist financing at financial institutions: the supervisor's experiences and inspection results. Overview of possible uses of information collected under the AML/CFT system for the purpose of cases conducted by the judiciary and law enforcement authorities	3 December 2020
11.	The functioning of the financial market during the pandemic. Cybersecurity in the remote working model, business and technological context	16 December 2020

Source: UKNF

* Seminars organised in cooperation with the Internal Security Agency, the Central Anti-Corruption Bureau, the Central Investigation Bureau of the Police, the Central Police Headquarters, the Border Guard Headquarters

Table 12.7.3. Webinars addressed to statutory auditors

Item	Topic	Date
1.	Cybersecurity in the banking and insurance sectors	20 November 2020
2.	Issuers' periodical reporting: compliance with the applicable financial framework, in particular IAS/IFRS*	11 December 2020

Source: UKNF

* A seminar addressed also to capital market entities

Table 12.7.4. Webinars addressed to schools

Item	Topic	Date
1.	Activities of investment firms*	8 October 2020
2.	How to use technology innovations in financial services safely and knowledgeably*	9 October 2020
3.	Activities of investment funds*	14 October 2020

Source: UKNF

* A seminar organised as part of 2020 World Investor Week

ANNEX 12.8. LIST OF RECOMMENDATIONS AND POSITIONS/COMMUNICATIONS OF THE KNF BOARD AND THE UKNF

Table 12.8.1. Recommendations of the KNF Board issued in 2020

Item	Subject-matter of the recommendation	Date
Banking sector		
1.	Recommendation S on good practices in the management of credit exposures secured by mortgages (amendment) https://www.knf.gov.pl/knf/pl/komponenty/img/Nowelizacja_Rekomendacja_S_23-07-2020_70340.pdf	14 July 2020
2.	Recommendation Z on the principles of internal governance at banks https://www.knf.gov.pl/knf/pl/komponenty/img/Rekomendacja_Z_70998.pdf	9 October 2020

Source: UKNF

Table 12.8.2. Positions of the KNF Board and the UKNF and communications from the UKNF in 2020

Item	Subject-matter of the position/communication	Date
Capital market		
1.	Position of the UKNF on the operating principles of investment crowdfunding platforms https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_dot_platform_crowdfundingu_inwestycyjnego_69487.pdf	9 April 2020
2.	Communication for issuers on the conduct and rules for carrying out tests of ESEF reporting https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_dla_emitentow_o_przebiegu_i_zasadach_przeprowadzania_testow_raportowania_zgdnego_z_ESEF_70917.pdf	5 October 2020
3.	Communication from the UKNF on the mandatory dematerialisation of shares https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_UKNF_ws_obowiazko wej_dematerializacji_akcji.pdf	5 November 2020

4.	Communication for issuers on additional option of testing the ESEF reporting https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_dla%20emitentow_o_dodatkowej_mozliwosci_testowania_raportowania_71796.pdf	10 December 2020
5.	Position of the Polish Financial Supervision Authority on the issuance and trade of crypto-assets https://www.knf.gov.pl/aktualnosci?articleId=71795&p_id=18	10 December 2020
6.	Communication from the Ministry of Finance and the UKNF on the postponement of the obligation to apply the ESEF https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_MF_i_UKNF_ws_odroczenia_obowiazku_stosowania_ESEF.pdf	15 December 2020
7.	Q&A on the register of shareholders https://www.knf.gov.pl/dla_rynku/Informacje_dla_podmiotow_nadzorowanych/Rynek_kapitalowy/Q&A_dot_rejestru_akcjonariuszy	12 May 2020
8.	Q&A on the ESEF https://www.knf.gov.pl/dla_rynku/ESEF/Q&A	18 December 2020
Banking sector		
1.	Communication from the UKNF on the EBA report on the monitoring of Liquidity Coverage Ratio implementation. https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat%20Raport_EBA_dot_LCR.pdf	29 October 2020
Sector of payment services		
1.	Communication from the UKNF on a new electronic channel for periodic reporting of payment services offices and small payment institutions https://www.knf.gov.pl/komunikacja/komunikaty?articleId=71693&p_id=18	2 December 2020
Mortgage credit intermediaries		
1.	Position of the UKNF on the interpretation of Article 14(2) of the Act of 23 March 2017 on mortgage credit and supervision of mortgage credit intermediaries and agents https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_ws_biegu_terminu_na_wydanie_ decyzji_kredytowej_70323.pdf	20 July 2020
Insurance sector		
1.	Communication on the supervisory measures undertaken by the Danish supervisory authority towards Gefion Insurance A/S https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_ws_dzialan_nadzorczych_dot_Gefion_AS%20_68540.pdf	14 January 2020
2.	Position on the fulfilment of the obligation to improve professional skills referred to in Article 12(1) of the Act on insurance distribution https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_dot_realizacji_obowiazku_art_12_ust_1_ustawy_o_dystrybucji_ubezpieczen_68834.pdf	12 February 2020
3.	Position of the UKNF on the change in the scope and time limits for submission of information in annual reports for 2019 and reports for the first quarter of 2020, drawn up for Solvency II purposes https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_dot_sprawozdawczosci_SII_w_zwiazku_ze_stanowiskiem_EIOPA_69333.pdf	24 March 2020
4.	Communication on the supervisory measures undertaken by the Danish supervisory authority towards Gefion Insurance A/S https://www.knf.gov.pl/o_nas/komunikaty?articleId=69353&p_id=18	27 March 2020

5.	Communication from the UKNF on the change in the scope and time limits for submission of information by insurance/reinsurance undertakings following the entry into force of the Regulation of the Minister of Finance of 7 April 2020 https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_UKNF_dot_rozporzadzenia_MF_z_7_kwietnia_2020_69455.pdf	7 April 2020
6.	Communication from the UKNF on the consequences of the failure to fulfil the obligation to improve professional skills referred to in Article 12(1) of the Act of 23 June 2020 on insurance distribution https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_dot_obowiazku_szkoleniowego_dystrybutorow_70118.pdf	23 June 2020
7.	Communication to Polish customers of Gefion Insurance A/S https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_dla_polskich_klientow_Gefion_Insurance_AS.pdf	25 June 2020
8.	Communication on the supervisory measures undertaken by the Danish supervisory authority towards Gefion Insurance A/S https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_ws_Gefion_Insurance_AS_70187.pdf	30 June 2020
9.	Communication on Gefion Insurance A/S https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_w_sprawie_Gefion_Insurance_AS_70280.pdf	15 July 2020
10.	Communication to Polish customers of Gefion Insurance A/S https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_dla_polskich_klientow_Gefion_Insurance_AS_70549.pdf	28 August 2020
11.	Position of the UKNF on a contract boundary for the purpose of determining insurance or reinsurance obligations https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_dotycz%C4%85ce_granicy_umowy_dla_cel%C3%B3w_wyznaczania_zobowi%C4%85za%C5%84_ubezpieczeniowych_lub_reasekuracyjnych_71444.pdf	16 November 2020
Cross-sectoral positions		
1.	Communication from the UKNF on information processing by supervised entities using public or hybrid cloud computing services https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_UKNF_Chmura_Obliczeniowa_68669.pdf	23 January 2020
2.	Position of the UKNF on selected aspects of investment advisory services provided by investment firms and banks referred to in Article 70(2) of the Act on trading in financial instruments https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_UKNF_ws_doradztwa_inwestycyjnego.pdf	14 February 2020
3.	Statement of the Chair of the KNF Board on the distribution of dividends of banks and insurance undertakings https://www.knf.gov.pl/knf/pl/komponenty/img/Wypowiedz_Przewodniczacego_KNF_ws_dywidend_bankow_oraz_zakladow_ubezpieczen.pdf	26 March 2020
4.	Q&A for investment firms and banks concerning the sales report https://www.knf.gov.pl/komunikacja/raportowanie/rozporzadzenie_obowiazki_informacyjne_firm_inwestycyjnych/Q&A	26 June 2020
5.	Communication from the UKNF on the exercise, by banks and other institutions authorised under statutory law to grant credit, of the applicant's right to demand written explanations concerning the assessment of creditworthiness https://www.knf.gov.pl/komunikacja/komunikaty?articleId=70333&p_id=18	21 July 2020
6.	Position of the KNF Board on the dividend policy in 2021 https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_KNF_ws_polityki_dywidendowej_w_2021_r_71933.pdf	16 December 2020

Source: UKNF

ANNEX 12.9. BREAKDOWN OF THE OPERATING COSTS OF THE UKNF AND KNF BOARD INCURRED IN 2020, DIVIDED INTO AREAS OF SUPERVISION DEFINED IN ARTICLE 1(2) OF THE ACT ON FINANCIAL MARKET SUPERVISION, AND THE ADMINISTRATIVE COSTS

Area	Cost of supervision
bank supervision	PLN 161 889 thousand, including administrative costs: PLN 90 933 thousand
pension supervision	PLN 18 395 thousand, including administrative costs*: PLN 7 602 thousand
insurance supervision	PLN 59 929 thousand, including administrative costs*: PLN 33 026 thousand
capital market supervision	PLN 102 117 thousand, including administrative costs*: PLN 45 007 thousand
supervision of payment institutions, small payment institutions, providers providing only the account information service, payment services offices, electronic money institutions, branches of foreign electronic money institutions	PLN 6 836 thousand, including administrative costs*: PLN 3 840 thousand
supervision of rating agencies	– **
supplementary supervision	– **
supervision over credit unions and the National Association of Credit Unions	PLN 3 110 thousand, including administrative costs*: PLN 1 747 thousand
supervision of mortgage credit intermediaries and their agents	PLN 1 820 thousand, including administrative costs*: PLN 1 022 thousand

Source: UKNF

* The provisions of the financial market cost financing regime do not require a distinction to be made between the costs of supplementary supervision and the costs of supervision of credit rating agencies. Due to the organisational solutions adopted at the UKNF, the cost of supplementary supervision and the costs of supervision over credit rating agencies are treated as costs not directly assigned to the separated sectors (they are treated as indirect costs).

** Administrative costs must be understood as so-called indirect costs, i.e. operating costs of the KNF Board and the UKNF which are not directly related to individual costs assigned separately. Such costs are allocated proportionally to individual, separately settled sectors, by direct cost.

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