Polish
Financial
Supervision
Authority

REPORT ON ACTIVITIES OF THE POLISH FINANCIAL SUPERVISION AUTHORITY IN 2008 (SHORT VERSION)

CONTENTS:

Letter from the Chairperson of the Polish Financial Supervision Authority

In the year of 2008 the completion of the multi-stage process of integrating supervision over particular segments of the Polish financial market has been finally achieved. In the banking sector, the Polish Financial Supervision Authority (the PFSA) took over the tasks performed until the end of 2007 by the Commission for Banking Supervision, and as of January 1st 2008 the PFSA became the state administration body supervising the entire financial market in Poland.

The consolidation of the various areas of supervision came as a consequence of changes on the financial market: the growing importance of international financial groups and the mutual permeation of financial products. The integration of functions has provided a full view of the market, facilitating quick and effective response to problems, especially safe diversification of investments within corporate groups. For the first time we were able to conduct joint supervision activities at entities from different sectors, e.g. joint inspections at banks, insurance undertakings and brokerage houses. While developing the supervisory tools, we set the goal to build a new supervision system based on risk analysis, which will facilitate the allocation of supervisory resources in a manner appropriate for the risk inherent in the operations of financial market actors.

In turbulent times, retention of profits is the simplest and the best form of capital support for financial institutions. The measures undertaken by the PFSA inclined the management and supervisory boards of practically all banks to recommend to their shareholders the retention of the profits for 2008. In the previous years, when banking supervision was beyond the scope of powers of the PFSA, banks allocated most of their profits to dividends. In 2007, commercial banks allocated for dividends PLN 5.7bn, i.e. 53% of their 2006 earnings, while in 2008 the amount was PLN 4.5bn (40% of the 2007 earnings). This is the evidence of a change in the policy of the banks, which in 2008 strengthened their capital base. Banks should strive to maintain an adequate capital base, that it is absolutely essential for active lending, without any threat of exceeding the prudential limits and at a secure level ensuring operating stability.

Another measure of the efficiency of our supervisory efforts is the positive balance of cash flows between the banks operating in Poland and foreign banks. In 2008, the difference between the liabilities of the Polish banking sector towards foreign financial institutions and the receivables was PLN 115bn. In 2007, before the transfer of banking supervision duties to the PFSA, the balance was PLN 25bn. The PFSA made a considerable contribution to encouraging foreign financial players to increase the financing for the Polish banking sector by PLN 90bn, while significantly limiting placement of funds with foreign banks. This figure clearly shows how successful we are in ensuring that foreign owners of Polish banks safeguard the banks' liquidity. As the adverse phenomena on the financial markets intensified, the PFSA imposed on banks the obligation to file daily reports on new exposures to foreign entities. We also advocated against transactions having the appearance of unjustified transfer of funds to parent entities abroad. No such transactions were identified during our daily monitoring activities.

Another pressing issue are housing loans denominated in the Swiss francs . In 2006, the Commission for Banking Supervision (the PFSA's predecessor) issued Recommendation S. In our opinion it was a move in the right direction, however Recommendation S has not fulfilled all the objectives it was meant to serve. Two years after the recommendation came into force, the share of foreign-currency loans did not change. A survey carried out by the PFSA last year immediately after it took over the banking supervision duties showed deficiencies in banks' credit risk management. The survey revealed a common practice of accepting an excessive ratio of debt to the borrower's income, assuming low living expenses and granting loans whose amounts exceeded the value of collateral. For this reason, in 2008 the PFSA started work on drafting Recommendation T on risk management, which limits competition between banks at the expense of security in lending and sets forth the standards of fair creditworthiness assessment.

In 2008, we supported the Ministry of Finance in the preparation of a few hundred legal acts concerning the financial market. The supervision authority also recognises the need to protect the interests of non-professional participants of the financial market. Thanks to the widened scope of statutory tasks assigned to the PFSA, since 2008 we have been able to deal with this aspect also in the banking sector. As part of its initiatives in this respect, the PFSA has developed an amendment to Recommendation S, which changed banks' practices concerning currency spreads (Recommendation S II) and issued guidelines to insurance undertakings with respect to inclusion of VAT in payments of compensation under automobile liability insurance and acceptance of termination of such insurance by agents.

Despite the violent changes triggered by the bankruptcy of Lehman Brothers in the middle of 2008, none of the entities of the Polish financial market went out of business. Unlike most countries, Poland did not have to support any financial institution with any direct financial aid financed by the tax payers. However, we are now facing further challenges. The expected economic slowdown and the turmoil on global financial markets will necessitate huge efforts to maintain an appropriate environment for secure functioning of the financial market in Poland. Our goal will be to ensure that the stability of our financial system remains a clear advantage of the Polish economy.

Stanisław Kluza
Chairperson of the Polish Financial Supervision Authority

Polish Financial Supervision Authority

1

Polish Financial Supervision Authority

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

IN 2008, THE POLISH FINANCIAL SUPERVISION AUTHORITY WAS COMPOSED OF:

Chairperson
STANISŁAW KLUZA

Vice-Chairperson
ARTUR K. KLUCZNY

Vice-Chairperson
LESŁAW GAJEK – since April 22nd 2008

MEMBERS:

Representative of the Minister of Finance
ADAM PĘZIOŁ – until January 10th 2008
PIOTR PIŁAT – from January 11th 2008 to November 12th 2008
DARIUSZ DANILUK – since November 13th 2008

Representative of the Minister of Labour and Social Policy
AGNIESZKA CHŁOŃ - DOMIŃCZAK

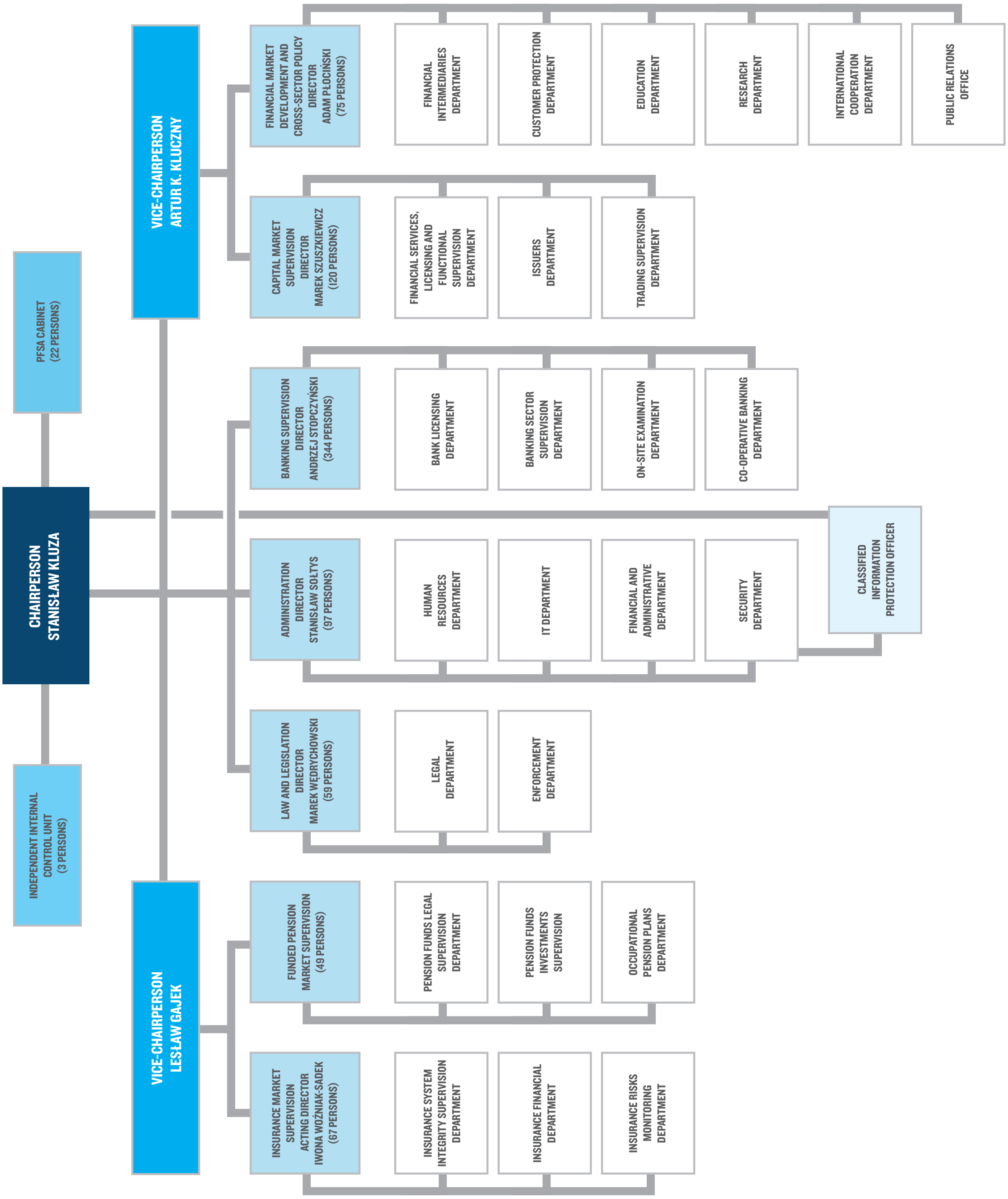
President of the National Bank of Poland or delegated Deputy President
KRZYSZTOF RYBIŃSKI – Deputy President – until February 18th 2008
SŁAWOMIR SKRZYPEK – President – from February 19th to March 12th 2008
PIOTR WIESIOŁEK – Deputy President – since March 13th 2008

Representative of the President of the Republic of Poland
DANUTA WAWRZYNKIEWICZ

The Polish Financial Supervision Authority and the Chairperson of the PFSA perform their duties through the PFSA Office, which acts in accordance with its by-laws adopted by Decision No. 172 of the President of the Council of Ministers of November 22nd 2006 (*Monitor Polski* of November 24th 2006), as amended by Decision No. 1 of the President of the Council of Ministers of January 3rd 2008 (*Monitor Polski* of January 8th 2008).

The PFSA Office is led by the PFSA Chairperson, aided by Vice-Chairpersons, heads of divisions and heads of organisational units. The organisational chart of the PFSA Office is presented on the following page.

ORGANISATIONAL CHART OF THE POLISH FINANCIAL SUPERVISION AUTHORITY OFFICE



Situation on the Financial Markets

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Situation on the Financial Markets

Key Facts

In the aftermath of the crisis on the US real-estate market, in 2008 the standing of many financial institutions worsened dramatically. Risks involved in financial transactions increased and mutual confidence between counterparties deteriorated. The turmoil on the global financial markets adversely affected the Polish capital market. The key indices of the Warsaw Stock Exchange, WIG and WIG20, gave up roughly half of their values in 2008. The number of public offerings dropped significantly as many companies with prospectuses already approved by the PFSA in 2008 abandoned their plans of tapping the public market for funding.

Falling stock prices reduced the value of shares in investment and pension funds. The value of assets managed by investment fund companies shrank by one-third in 2008, partly on the back of withdrawals by clients. Assets of open-end pension funds dropped by 1.3%, despite PLN 20.9bn in new money being transferred to the funds; the new contributions were equivalent to nearly 15% of the total value of all assets of open-end pension funds as at the end of 2007.

In 2008, all open-end pension funds suffered decline in the value of units of account by at least 10%, with the average fall of 14.3%. The PFSA was particularly interested in the funds' exposure to financial instruments issued by entities most severely affected by the crisis, and the risks related to such instruments, especially the issuers' default risk. The analysis indicated that the share of the so-called "toxic assets" in the Polish market was marginal, and the markedly deteriorated performance of the investment funds, caused by the falling stock prices, posed no threat to the financial stability of the market participants.

Despite the continuing crisis on the global financial markets, in 2008 the situation in the insurance and banking sectors could be described as good. Insurers' assets rose by nearly 9%, while their equity – by over 9%. Aggregate net profit of the entire insurance sector was nearly PLN 6bn, up by over 12% on the previous year, but down by 10% on 2006, the record year.

In 2008, the value of assets of the Polish banking sector rose by over 31%, while the increase in the value of loans to the non-financial sector was even higher, at nearly 39%. In the same period, the banks' own funds gained nearly 26%, resulting in the Polish banking sector's capital adequacy ratio falling from 12.1% as at the end of 2007 to 10.8% as at the end of 2008.

In 2008, net profit of the banking sector reached a historical high of PLN 14.7bn (up by over 8% on the previous year). However, Q4 2008 saw the first signs of worsening of the market conditions, resulting in many banks incurring losses. In response to the deteriorating financial environment, the PFSA took a number of steps with respect to the supervised entities, with a view to monitoring their operations and taking appropriate measures when necessary.

Capital and Commodity Markets

In 2008, the key indices of the Warsaw Stock Exchange were on a decline, with the leading two WSE indices, WIG and WIG20, losing approximately half of their value[1] throughout the year. The sharpest falls were seen on the European stock exchanges in October, caused by the emerging signs of the financial crisis expanding to the global scale.

TABLE 1. RATES OF RETURN OF THE WARSAW STOCK EXCHANGE INDICES IN 2006–2008 (IN %)

ITEM	2006	2007	2008
WIG20	23.75	5.19	-48.21
mWIG40	69.10	7.90	-62.48
sWIG80	132.42	25.17	-56.95
WIG	41.60	10.39	-51.07
WIG-PL	42.76	9.23	-50.62

Due to the global financial crisis, many companies whose prospectuses were approved in 2008 resigned from carrying out public offering and raising funds. In 2008, 32 companies abandoned their public offerings or their offerings were not successful, with the vast majority of cases occurring in Q3 and Q4 of 2008. Eight companies whose prospectuses were approved in 2008, postponed the launch of their offerings until 2009.

The total value of cash public offerings carried out in 2008 was PLN 7,301.4m, including PLN 4,312.7m in issued shares, PLN 900.0m in issued bonds, PLN 1,016.2m in public sale offerings and PLN 1,072.5m in public offerings of structured products.

TABLE 2. NUMBER OF INSTRUMENTS TRADED ON THE WARSAW STOCK EXCHANGE IN 2006–2008

ITEM	2006	2007	2008
Equities	284	351	374
Including foreign equities	12	23	25
Number of debuts	38	81	33
Number of delistings	9	14	10
Bonds	65	57	51
Including foreign bonds	4	4	3
Futures	48	42	40
Options	154	98	138

[1] On December 27th 2007, WIG closed at 56,560.9 points while on December 29th 2008 – at 27,095.9 points. WIG20's closing values were 3,529.9 points and 1,775.3 points, respectively.

Falling stock prices and a concurrent absence of new issuers reduced the aggregate capitalisation of the WSE-listed companies during the year. However, it should be noted that although the number of Polish and foreign companies remained fairly unchanged, the loss in aggregate capitalisation relative to the end of 2007 has been more severe for the foreign companies .

TABLE 3. WARSAW STOCK EXCHANGE'S CAPITALISATION IN 2006–2008 (PLNM)

ITEM	2006	2007	2008
Polish companies	437,719	509,887	267,359
Foreign companies	198,190	570,370	197,756
Polish bonds	323,556	348,535	362,357
Foreign bonds	720	719	586

In 2008, the total value of turnover on the WSE was lower year on year across all segments of the market except the bond segment, where the turnover grew by 43%. The futures segment also recorded a slight decline in the value of turnover, by 9%, despite a 28% growth of in the average trading volume per session.

TABLE 4. VALUE OF TURNOVER AT THE WARSAW STOCK EXCHANGE IN 2006–2008 (PLNM)

ITEM	2006	2007	2008
Equities	338,696	479,480	331,316
Bonds	5,536	3,495	4,999
Futures	380,939	674,132	613,495
Options	19,453	28,511	16,590

NewConnect, the alternative trading facility operated by the Warsaw Stock Exchange, was slightly less affected by the downturn on the global and the local equity markets. In 2008, despite a decline of the key index NCIndex, the market attracted 61 new issuers who floated their shares. New-coming companies increased the capitalisation of the entire market even though the stock prices were falling. Table 5 shows the key figures relating to NewConnect. Please note that NewConnect was launched on August 30th 2007, and therefore not all items of the 2008 summary are directly comparable with the incomplete year 2007.

TABLE 5. HIGHLIGHTS OF THE ALTERNATIVE TRADING FACILITY NEWCONNECT IN 2007-2008

ITEM	2007*	2008
NCIndex at year end	144.17	38.19
Rate of return of NCIndex in current year (%)	44.17	-73.51
Companies' capitalisation at year end (PLNm)	1,184.79	1,396.17
Number of companies at year end	24	84
Number of debuts	24	61
Number of sessions	83	251
Value of turnover (PLN '000)	302,565.96	826,441.55
Number of transactions	59,674	247,576
Average value of turnover per session (PLN '000)	3,645	3,293

* figures for August 30th – December 31st 2007.

As at the end of 2008, there were 77 instruments listed on MTS-CeTO, an OTC securities market, including five equities, 14 mortgage bonds and 58 bonds. The downturn on the securities market had the most significant impact on the equity segment of the market. In 2008, the ITO index recorded a sharp fall. At the last session in 2007, the index closed at 41,197.2; by the end of December 2008 it dropped by 26%, to 30,154.3. Concurrently, capitalisation of the equity market gave up 20%, falling to PLN 380,626.8 thousand at the last session in 2008. Also the turnover on the MTS-CeTO equity market suffered a significant drop. In 2007, double-counted value of trading in equities was PLN 343,043.2 thousand, to plummet to PLN 5,986.6 thousand in 2008 (down 98%). In the same period, the value of trading in bonds and mortgage bonds grew.

In 2008, the Polish Financial Supervision Authority received 331 notifications from foreign investment firms of an intention to carry out brokerage activities in Poland not only by cross-border operations but also through local branches. In the same period only 32 entities decided to discontinue their brokerage activities in Poland, including 31 foreign investment firms and one foreign credit institution. This trend confirms that foreign investment firms still perceive Poland as an attractive market for providing brokerage services – a market which also offers investment opportunities.

TABLE 6. NUMBER OF FOREIGN ENTITIES CONDUCTING BROKERAGE ACTIVITIES NOTIFIED IN POLAND (AS AT DECEMBER 31ST 2008)

ENTITY	NO. OF FOREIGN ENTITIES CONDUCTING BROCKERAGE ACTIVITIES NOTIFIED IN POLAND
Foreign investment firm operating without opening a branch	913
Foreign credit institution operating without opening a branch	203
Foreign investment firm operating through a branch	7
Foreign credit institution operating through a branch	20

As compared with previous years, further development was seen in the expansion of Polish investment firms into markets of other EU Member States. Polish investment firms have more readily used the single passport to expand their services and the group of clients. In 2008, the Polish Financial Supervision Authority received four notifications from a Polish investment firm X-Trade Brokers Dom Maklerski S.A. of its intention to conduct operations through branches in other Member States (Slovakia, Germany, Romania and France). Such developments may also be an indication that Polish companies actively participate in the integration of EU capital markets and their presence broadens the availability of products and services for EU investors.

As at December 31st 2008, the intention to conduct brokerage activities in EU Member States other than Poland was notified by six brokerage houses, of which five would operate without opening branches and one would operate through three branches.

2008 was yet another year of development in the investment funds sector. As at December 31st 2008, PFSA authorisations were held by 39 investment fund companies, which managed a total of 319 investment funds, including 102 open-end investment funds, 39 specialist open-end investment funds, and 178 closed-end investment funds.

The year 2008 saw a higher number of umbrella funds – ten such funds were launched last year. The number of subfunds comprised in umbrella funds also rose – from 140 in December 2007 to 222 at the end of December 2008. Growth was also seen in the number of newly created closed-end funds. Authorisations were issued to launch 121 closed-end investment funds, of which 12 funds issued public investment certificates. 2008 also saw a growing interest in creating private equity funds. This results from the fact that such funds are designed for relatively high-net worth investors.

Investment fund companies' interest in establishing closed-end funds is attributable to the fact that the investment opportunities available to such funds are far wider (they may invest in private limited liability companies, real estate or debt instruments) and that they offer more freedom in tailoring investment policies to the preferences of particular investors. For this reason closed-end investment funds are increasingly more frequently dedicated and designed for specific investors.

Throughout 2008, the value of assets managed by investment fund companies dropped by PLN 40.3bn, to PLN 81.2bn[2] as at December 31st 2008. From its peak at the end of October 2007, when assets managed by the investment fund companies were valued PLN 149.9bn, to December 31st 2008 the assets' value fell by PLN 68.7bn. The most severe declines were seen in January and October 2008. The drop was attributable to withdrawals by investment fund participants as well as the bear market on stock exchanges globally, which was reflected in the valuation of assets managed by the investment fund companies.

Apart from the capital market, there is also a commodity market in Poland, though its breadth is limited. Since the middle of 2000, an electric energy exchange has been operated by Towarowa Giełda Energii S.A. (TGE). TGE operates four markets, where the traded commodities include electricity, certificates and CO2 emission allowances. TGE also settles transactions executed by its members on particular markets, as well as off-session trades.

In 2008, over 40 utilities in Poland held authorisations to keep commodity registers or accounts used to trade in commodities on the commodity exchange. As at December 31st 2008, 47 power utilities held authorisations to keep commodity registers or accounts. The number of authorisations granted to power utilities to keep commodity registers or accounts was significantly lower as compared with the previous years. This may suggest that

[2] Financial standing of the investment fund companies and investment funds was presented based on unaudited data provided to the PFSA by those companies in their monthly filings.

the number of power utilities is sufficient relative to the demand for the services provided by such utilities.
In 2008, Polish entrepreneurs showed continued interest in providing brokerage activities, which was confirmed by the number of filed applications requesting authorisation to conduct brokerage activities. However, particularly in the second half of 2008, in view of the situation on the financial markets a large number of entities applying for the authorisation to conduct brokerage activities requested discontinuation or suspension of the proceedings at the PFSA. Nonetheless, in explanations submitted to the PFSA those entities expressed intention to apply for such authorisations in the future, when the market situation stabilises.

The PFSA issued five authorisations to conduct brokerage activities in 2008. Four of them were granted to the following brokerage houses:

- Investors Dom Maklerski S.A. (on January 23rd 2008);
- Doradztwo dla Polskich Przedsiębiorstw Securities S.A. (on May 20th 2008);
- Dom Maklerski DFP Sp. z o.o. (on July 7th 2008);
- Dom Maklerski Banku BPS S.A. (on December 17th 2008),

and one authorisation was granted to a bank conducting brokerage activities – Alior Bank S.A. (on September 5th 2008). Twenty-two applications for authorisation to conduct brokerage activities were under consideration. Five proceedings concerning authorisation to conduct brokerage activities were discontinued, two applications were not considered, and in ten cases proceedings were not concluded (including three that were suspended).

TABLE 7. NUMBER OF ENTITIES CONDUCTING BROKERAGE ACTIVITIES AND OPERATING SECURITIES ACCOUNTS IN 2006–2008

	2006	2007	2008
Brokerage houses	37	41	45
Banks conducting brokerage activities	10	12	13
Custodian banks	14	13	13
Total	61	66	71

TABLE 8. NUMBER OF SECURITIES ACCOUNTS IN 2006–2008

	2006	2007	2008
Banks conducting brokerage activities	606,821	555,434	547,422
Brokerage houses	568,440	646,652	693,948
Total	1,175,261	1,202,086	1,241,370

In 2008, a tendency was observed among large businesses, notably financial institutions, to buy shares of brokerage houses. The related ownership changes will unquestionably benefit the functioning of the brokerage houses, particularly by enhancing their stability and laying foundations for further growth in a number of areas, including product portfolios.

Over the same period, the PFSA considered 10 notifications of an intention to purchase or subscribe for shares in brokerage houses. In four cases the PFSA issued decisions stating no objection to the intended acquisition or subscription for shares in brokerage houses and setting the deadline by which the acquisition of subscription may be effected. In three cases objections were raised against the intended acquisition of equity interest in a brokerage house. In the remaining three cases, the proceedings were discontinued. Furthermore, as at December 31st 2008, one notice was still being considered.

The nature of changes made by the entities, that form the backbone of the capital market, in their articles of association and rules of procedure clearly suggests that these entities are making efforts to optimise their offerings, while seeking to strengthen public confidence in the capital market and ensuring that due regard is given to the interests of its participants.

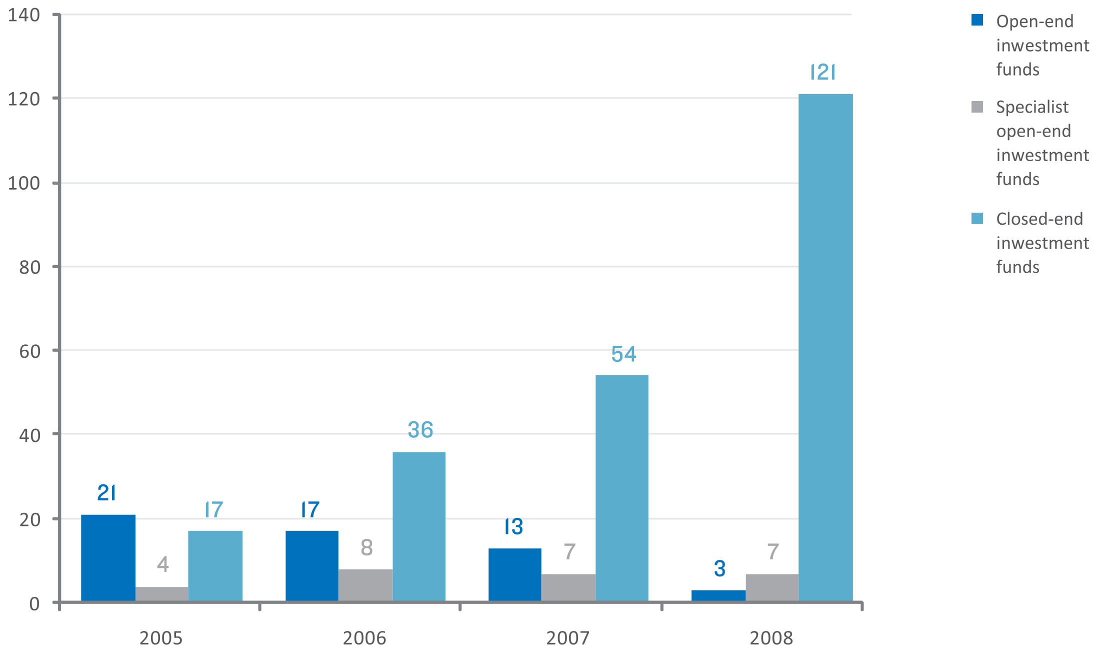
A good example of such changes is the Warsaw Stock Exchange's decision to stop charging annual fees and fees for access to the stock exchange's IT systems from market makers. This has enhanced the conditions for further development of the capital market by helping reduce operating expenses of the entities providing liquidity of financial instruments, and, consequently, stimulating the market makers' activities in their area of business (i.e. ensuring adequate level of liquidity).

Moreover, in order to enhance its value proposition and improve ability to promptly react to the ever-changing market conditions, the Warsaw Stock Exchange shifted the opening bell from 9:00am to 8:30am. This creates an environment for the proper correspondence of investors' behaviour on capital markets across Europe.

Yet another confirmation of the efforts to further consolidate the strong position of the entities forming the backbone of the capital market is an initiative sponsored by the National Depository for Securities concerning the procedure for registering securities issued by foreign issuers. The initiative is consistent with the endeavours aimed at encouraging foreign companies to participate in the Polish capital market.

The National Depository for Securities promulgated new regulations governing the development of procedures for keeping records of financial instruments by the depository members. The changes were designed to eliminate the inflexible and excessively complicated procedures for recording transactions, applied so far by the National Depository for Securities, and provide market participants with greater freedom in this respect, thus offering them an opportunity to act swiftly in the context of the changing needs of investors on the capital market.

FIGURE 1. NUMBER OF AUTHORISATIONS TO CREATE INVESTMENT FUNDS ISSUED BY THE PFSA IN 2005–2008



As was the case in 2007, the number of applications for authorisation to create closed-end investment funds greatly exceeded the number of applications for authorisation to create open-end or specialist open-end investment funds; moreover the number of authorisations to create closed-end investment funds granted by the PFSA more than doubled (121 authorisations in 2008 vs. 54 in 2007). It should also be emphasised that these pertained mainly to private equity funds, and only to a lesser extent to funds issuing public investment certificates or securitisation funds. A substantial proportion of these funds was represented by funds investing assets in other domestic and foreign funds.

There was a strong year-on-year growth in the number of notifications from foreign funds and subfunds. The PFSA received 34 notifications from foreign funds planning to offer their shares in Poland. Acting upon the notifications, in 2008 the PFSA entered 20 funds and 377 subfunds into the register of foreign funds (in 2007, the numbers were 13 and 105, respectively).

Furthermore, the PFSA received five notifications from investment fund companies that expressed their intention to operate in Poland.

In 2008, for the first time in its history, the PFSA issued a permit for investing assets in securities or money market instruments traded on organised markets: *PFTS Stock Exchange* (Ukraine), *Tel-Aviv Stock Exchange* (Israel), *Bolsa de Valores de Sao Paulo* (Brasil) and *Johannesburg Securities Exchange* (Republic of South Africa).

Insurance Market

Despite the turmoil on global financial markets the overall situation of the Polish insurance sector in 2008 was favourable. Particularly noteworthy is the aggregate net profit of insurance undertakings for 2008, which reached PLN 5.95bn. This is the second best result on record – higher profits were reported by insurance undertakings only for 2006 (PLN 6.65bn).

2008 saw a strong increase in the life insurance sector, the highest since 1993 (Segment I). Gross premium written in life insurance rose by 52.85% (20.85% in 2007). The segment of other personal insurance and property insurance reported a steady growth (Segment II): its gross premium written went up by 11.29%, up by 0.24pps on 2007 (the strongest increase since 1999). There was also a huge upturn in gross compensation and benefits paid in Segment I (by 85.91%).

In addition, 2008 saw the following developments on the insurance market:

- The structure of the insurance portfolio in Segment I changed: the share of life insurance (from Group 1) rose by 34.15pps, to 72.79%, mainly at the expense of Group 3 insurance (unit-linked life insurance), whose market share fell from 46.88% (in 2007) to 16.13%.
- There were no significant changes in the structure of Segment II portfolio: it was dominated by automobile insurance, with Group 10 automobile liability insurance accounting for 34.43% of the segment's gross premium written, and Group 10 automobile collision insurance representing 25.58% of gross premium written.
- The structure of the investment portfolio of Segment I insurance undertakings changed – the share of investments placed with credit institutions rose from 10.63% as at the end of 2007 to 34.03% at the end of 2008, and was accompanied by a drop in the share of debt securities (by 17pps).

The key financial ratios of the insurance sector for 2007 and 2008 serve as evidence of the sector's sound financial standing. The statutory solvency ratios fell, but still remained much higher than the minimum requirements (100%). Table 9 shows the selected financial ratios for 2007–2008.

TABLE 9. FINANCIAL RATIOS IN THE INSURANCE SECTOR IN 2007–2008 (%)[3]

	SEGMENT I			SEGMENT II			TOTAL		
	2007	2008	Y-O-Y CHANGE (PPS)	2007	2008	Y-O-Y CHANGE (PPS)	2007	2008	Y-O-Y CHANGE (PPS)
STATUTORY REQUIREMENT COVER RATIOS									
Available own funds to required solvency margin	347.33	290.49	-56.84	667.05	647.02	-20.03	499.90	454.20	-45.69
Available own funds for covering guarantee capital to guarantee capital	897.92	802.01	-95.92	1729.86	1723.71	-6.15	1294.16	1233.30	-60.86
Assets covering provisions to technical provisions	108.8	108.7	-0.17	153.9	155.3	1.4	120.9	121.4	0.51
SELECTED FINANCIAL RATIOS									
External capital to equity	593.99	625.57	31.58	122.63	121.92	-0.71	284.85	284.75	-0.11
Gross loss ratio				60.68	60.79	0.11			
Cost of insurance operations to premiums written net of reinsurance	17.36	13.05	-4.31	28.22	28.09	-0.12	21.64	18.03	-3.62
Technical result to gross premium written	13.53	8.84	-4.68	6.83	3.69	-3.14	10.73	7.08	-3.66
Net profit (loss) to equity	29.08	22.27	-6.81	9.39	13.92	4.53	16.16	16.62	0.45
Net profit (loss) to assets	4.13	3.03	-1.1	4.27	6.38	2.11	4.18	4.31	0.13

As at the end of 2008, authorisations to conduct insurance activity in Poland were held by 66 domestic insurance undertakings and one main branch of a foreign insurance undertaking, where 65 domestic insurance undertakings and one main branch actually conducted insurance activities.

The domestic insurance undertakings which conducted insurance activities comprised 30 life insurance undertakings (Segment I) and 35 other personal insurance and property insurance undertakings (Segment II), including one reinsurance undertaking.

At the end of 2008 the freedom to provide services in Poland was exercised by 490 insurance undertakings from EU and EEA Member States , while 15 insurance undertakings exercised the freedom to provide services in Poland through a branch . Compared with 2007, the numbers rose by 70 – in the case of insurance undertakings, and by 1 – in the case of branches.

[3] The 2008 data shown in the table is sourced from quarterly financial statements of insurance undertakings (unaudited).

■ TABLE 10. KEY DATA ON THE ACTIVITIES OF INSURANCE UNDERTAKINGS IN 2007–2008 (PLN BN)[4]

	SEGMENT I			SEGMENT II			TOTAL		
	2008	Y-O-Y CHANGE (PP)	2007	2008	Y-O-Y CHANGE (PP)	2007	2008	Y-O-Y CHANGE (PP)	Y-O-Y CHANGE (%)
INCOME STATEMENT HIGHLIGHTS									
Gross premium written	25.5	39.0	52.83	18.3	20.4	11.29	43.8	59.3	35.48
Gross compensation and benefits paid	10.4	19.4	85.91	9.2	10.3	11.07	19.7	29.6	50.77
Cost of insurance operations	4.4	4.9	12.52	4.6	5.2	13.02	9.0	10.2	12.78
Client acquisition cost	3.0	3.6	20.58	3.1	3.7	19.82	6.1	7.3	20.19
Administrative expenses	1.5	1.5	1.89	2.0	1.9	-1.78	3.5	3.5	-0.19
Technical result	3.5	3.4	-0.08	1.2	0.8	-39.92	4.7	4.2	-10.67
Net profit/(loss)	3.3	2.6	-21.48	2.0	3.4	66.96	5.3	6.0	12.20
BALANCE-SHEET HIGHLIGHTS									
Investments (item B under assets)	40.4	54.5	34.93	40.8	45.2	10.57	81.3	99.7	22.69
Net life insurance assets, where investment risk is borne by the insuring party	36.0	26.3	-26.88				36.0	26.3	-26.88
Equity	11.3	11.6	2.51	21.5	24.2	12.60	32.8	35.8	9.13
Subscribed capital	2.3	2.5	7.25	2.6	2.7	3.42	5.0	5.2	5.21
Gross technical provisions	65.7	71.0	8.00	24.3	26.9	11.03	90.0	97.9	8.81
Balance-sheet total	79.6	85.2	7.00	47.3	52.9	11.70	127.0	138.1	8.75

The end of 2008 saw a marked growth in the number of individuals interested in obtaining the actuary licence. Accordingly, the number of requests for entry in the register of actuaries, maintained by the PFSA, was higher than in the previous years. In addition, the PFSA received inquiries concerning the rules for recognising the qualifications of persons who obtained the actuary licence in other EU Member States.

[4] The 2008 data shown in the table is sourced from quarterly financial statements of insurance undertakings (unaudited).

Funded Pension Sector

In 2008, the PFSA supervised 15 open-end pension funds and 15 pension fund companies managing the funds. Following the merger of AEGON PTE S.A. with PTE Skarbiec-Emerytura S.A. and completion of the process of liquidation at OFE Skarbiec–Emerytura on November 7th 2008 upon transfer of the fund's assets to AEGON OFE, there were 14 open-end pension funds and 14 pension fund companies on the market.

As at the end of 2008, open-end pension funds had 13.8m members. The funds' assets were in excess of PLN 138bn, having fallen 1.26% over the year.

TABLE 11. NET ASSET VALUE OF OPEN-END PENSION FUNDS IN 2006-2008

	AS AT DEC 31 2006		AS AT DEC 31 2007		AS AT DEC 31 2008	
OPEN-END PENSION FUND	NET ASSET VALUE (PLN '000)	SHARE (%)	NET ASSET VALUE (PLN '000)	SHARE (%)	NET ASSET VALUE (PLN '000)	SHARE (%)
AEGON*	2,682,474.4	2.30	2,945,276.6	2.10	5,897,308.8	4.27
AIG	9,701,305.3	8.32	11,467,587.3	8.19	11,116,810.0	8.04
Allianz Polska	2,873,353.3	2.46	3,458,509.1	2.47	3,644,819.4	2.64
AXA	4,881,776.5	4.19	6,194,058.5	4.42	6,557,593.2	4.74
BANKOWY	3,706,296.6	3.18	4,274,602.6	3.05	4,030,435.7	2.92
Commercial Union BPH CU WBK	30,955,855.9	26.55	37,323,999.2	26.65	36,116,879.3	26.12
Generali	4,186,384.6	3.59	5,264,475.7	3.76	5,476,018.4	3.96
ING	27,193,845.4	23.33	32,870,166.6	23.47	33,058,448.0	23.91
Nordea	4,224,523.7	3.62	4,950,558.2	3.54	5,122,815.3	3.71
PEKAO	1,853,768.6	1.59	2,245,213.7	1.60	2,218,323.1	1.60
Pocztylion	2,367,405.0	2.03	2,826,073.5	2.02	2,777,543.3	2.01
POLSAT	1,084,105.3	0.93	1,276,203.0	0.91	1,243,592.3	0.90
PZU Złota Jesień	15,987,325.5	13.71	19,301,426.8	13.78	18,952,334.5	13.71
Skarbiec-Emerytura*	3,069,455.7	2.63	3,547,512.0	2.53	N/A	N/A
WARTA	1,809,856.0	1.55	2,085,230.9	1.49	2,048,526.1	1.48
Total:	116,577,731.7	100.00	140,030,893.5	100.00	138,261,447.3	100.00

Source: daily reports of open-end pension funds.
* In November 7th 2008 the liquidation of OFE Skarbiec–Emerytura and transfer of its assets to AEGON OFE has been finalised.

TABLE 12. NUMBER OF OPEN-END PENSION FUND MEMBERS IN 2006–2008

	AS AT DEC 31 2006		AS AT DEC 31 2007		AS AT DEC 31 2008	
OPEN-END PENSION FUND	NO. OF MEMBERS	MARKET SHARE (%)	NO. OF MEMBERS	MARKET SHARE (%)	NO. OF MEMBERS	MARKET SHARE (%)
AEGON*	370,943	3.00	351,050	2.67	770,268	5.57
AIG	1,029,101	8.33	1,070,319	8.15	1,113,209	8.05
Allianz Polska	306,883	2.48	327,001	2.49	354,721	2.57
AXA	535,778	4.34	608,538	4.63	680,188	4.92
BANKOWY	441,514	3.57	445,941	3.40	436,522	3.16
Commercial Union BPH CU WBK	2,610,638	21.13	2,725,239	20.75	2,859,620	20.69
Generali	473,560	3.83	538,874	4.10	605,920	4.38
ING	2,401,091	19.44	2,591,613	19.73	2,787,715	20.17
Nordea	688,580	5.57	731,651	5.57	776,365	5.62
PEKAO	245,189	1.98	291,799	2.22	333,944	2.42
Pocztylion	362,777	2.94	431,409	3.28	445,514	3.22
POLSAT	267,564	2.17	301,267	2.29	328,317	2.38
PZU Złota Jesień	1,894,778	15.34	1,959,058	14.92	2,018,066	14.60
Skarbiec-Emerytura*	443,630	3.59	446,440	3.40	N/A	N/A
WARTA	281,301	2.28	313,882	2.39	313,437	2.27
Total	12,353,327	100.00	13,134,081	100.00	13,823,806	100.00

Source: Social Insurance Institution (ZUS)
* In November 7th 2008 the liquidation of OFE Skarbiec–Emerytura and transfer of its assets to AEGON OFE has been finalised.

The aggregate market share of the four largest pension funds (Commercial Union OFE BPH CU WBK, ING OFE, OFE PZU Złota Jesień and AIG OFE) in terms of net asset value as at the end of 2008 was 71.8% (72.1% in 2007). AEGON OFE moved to the sixth position, following the merger with OFE Skarbiec-Emerytura. Changes in the market shares of the other funds did not exceed 1pp. The structure of the market in terms of the number of pension fund members remained similar. The aggregate share of the four largest funds did not change materially and amounted to 63.5% at the end of 2008, compared with 63.6% in the preceding year.

The structure of the open-end pension funds' investment portfolio in 2008 showed a clear change relative to 2007. The funds markedly reduced their investments in equity instruments – from 34.6% to 21.6% of the portfolio value, while increasing exposure to debt instruments, chiefly bonds and treasury bills – from 64.4% to 77.8% of the portfolio value. The situation was primarily driven by the downturn on the stock markets, which started in July 2007 and continued in 2008 – to evolve into a financial crisis on a global scale.

The equity investments of the open-end pension funds comprised primarily large cap stocks covered by the WIG20 index. The debt portion of the portfolios was dominated by Polish treasury instruments, mainly fixed-rate bonds. Pension funds' foreign investments accounted for 0.65% of the portfolio value as at the end of 2008 and fell by 0.4pp from the 2007 level.

Due to the continued slump on the securities market in 2008, all open-end pension funds reported an over 10%

drop in the value of the unit of account throughout the year. The average asset-weighed value of the unit of account fell by 14.3% in 2008, while WIG, the all-in index of the Warsaw Stock Exchange, shrank by 51%.

In addition to Pillar II, comprising open-end pension funds in which membership is mandatory, the PFSA also supervises the activities of occupational pension schemes (Pillar III), which are created by employers on a voluntary basis.

As at December 31st 2008, there were 1,078 occupational pension schemes, including:

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

The occupational pension schemes had 325 thousand participants. The value of their assets stood at PLN 3,608m, that is almost PLN 200m down on 2007.

Occupational pension funds (OPFs) and occupational pension fund companies (which manage occupational pension funds) are special forms of financial institutions which operate exclusively within Pillar III. As at December 31st 2008, there were five occupational pension fund companies on the market, and they managed five occupational pension funds. The first pension fund company was established in 1999, while the last one started operations towards the end of 2004. Thus the entities operating on this market are at various stages of development. The average rate of return generated by the occupational pension funds was -11.03% in 2008 (5.54% in 2007). Contributions to occupational pension funds are free of any charges, and some occupational pension fund companies do not charge asset fees, which – from the participants' perspective – makes this form of saving more profitable: the entire amount of contributions paid to such financial institutions is invested.

The average value of funds accumulated in accounts of occupational pension fund participants as at the end of Q4 2008 exceeded PLN 17 thousand per account and did not change relative to 2007, while the number of occupational pension fund participants was slightly above 59 thousand and fell by approximately 800.

TABLE 13. INVESTMENT PERFORMANCE OF OCCUPATIONAL PENSION FUNDS IN 2006-2008 (RATE OF RETURN OR PERCENTAGE INDEX CHANGE)

	YEAR		
	2006	2007	2008
OPF average rate of return	13.40	5.54	-11.03
OPF lowest rate of return	10.60	4.52	-13.86
OPF highest rate of return	15.40	6.23	-6.34
Inflation rate	1.00	2.50	3.30
WIG change	41.60	10.39	-51.07
WIG20 change	23.70	5.19	-48.21

Source: Occupational pension funds (data based on the funds' statutory quarterly filings with the PFSA).

■ TABLE 14 NET ASSETS OF OCCUPATIONAL PENSION FUNDS AS AT THE END OF 2008

	NET ASSETS (PLN '000)	MARKET SHARE (%)	CUMULATIVE MARKET SHARE (%)
PFE TELEKOMUNIKACJI POLSKIEJ	672,915.2	64.97	64.97
PFE Nowy Świat	189,141.9	18.26	83.23
PFE Słoneczna Jesień	145,565.6	14.05	97.28
PFE UNILEVER POLSKA	16,264.2	1.57	98.86
PFE NESTLE POLSKA	11,858.4	1.14	100.00
Total	1,035,745.3	100.00	

Source: Occupational pension funds (data based on the funds' statutory quarterly filings with the PFSA).

The most important development on the pension funds market in 2008 was submission of a request to approve merger of AEGON Powszechne Towarzystwo Emerytalne S.A. with Powszechne Towarzystwo Emerytalne Skarbiec-Emerytura S.A. When considering the request, the PFSA carried out a thorough analysis of all legal and economic aspects of the merger as well as its impact on the level playing field of the open-end pension funds market. In the course of the analysis, the PFSA did not identify any reasons to refuse approval on the grounds of the Act on Organisation and Operation of Pension Funds of August 28th 1997 (Dz.U. of 2004, No. 159 item 1667, as amended). Consequently, on May 9th 2008 the PFSA agreed to approve the merger of the pension fund companies. November 7th 2008 marked the end of the liquidation process of OFE Skarbiec-Emerytura, and its members became members of the "new" AEGON OFE.

Moreover, in the reported period the PFSA noted:

- Drop in the number of applications for registration of occupational pension schemes by approximately 9% (2008 – 75 applications, 2007 – 82 applications),
- Rise in the number of applications for registration of changes in the occupational pension schemes by approximately 113% (2008 – 289 applications, 2007 – 136 applications),
- Rise in the number of applications for deregistration of occupational pension schemes by approximately 39% (2008 – 25 applications, 2007 – 18 applications),
- Drop in the number of notifications of changes in the employer's or pension fund company's data in the register of occupational pension schemes by approximately 27% (2008 – 84 notifications, 2007 – 115 notifications).

Banking Sector

The banking sector is the largest and the most developed sector of the Polish financial market. In 2008, its assets reached PLN 1,042bn, up by 31.4% on the previous year. They represented 82.7% of GDP (67.4% in 2007)[5]. Table 15 shows key data on the Polish banking sector in 2004 – 2008.

TABLE 15. HIGHLIGHTS OF THE POLISH BANKING SECTOR IN 2004-2008

	2004	2005	2006	2007	2008
Loans to the non-financial sector (PLNbn)	227.7	258.5	322.8	427.5	593.6
Deposits of the non-financial sector (PLNbn)	302.9	329.1	375.6	419.3	494.1
Own funds (PLNbn)	42.1	45.6	51.2	61.8	75.0
Assets (PLNbn)	538.5	586.4	681.8	792.8	1041.8
GDP (PLNbn)	922.0	980.7	1060.0	1175.3	1232.7
Assets' share in GDP (%)	58.4	59.8	64.3	67.5	84.6

As at the end of 2008, in total 649 banks operated in Poland, including:

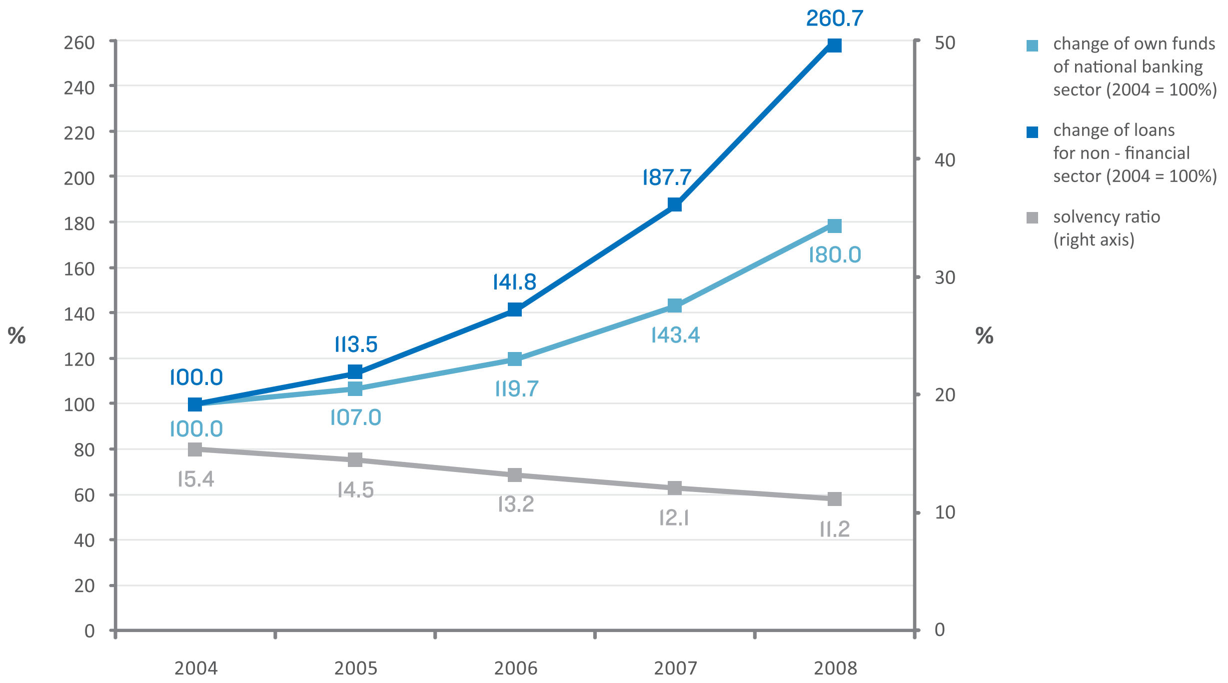
- 51 banks operating as joint-stock companies (including three companies associating cooperative banks),
- one state-owned bank,
- 18 branches of credit institutions,
- 579 cooperative banks, of which one cooperative bank operates independently, 350 banks were associated in Bank Polskiej Spółdzielczości S.A. of Warsaw, 151 banks were associated in Gospodarczy Bank Wielkopolski S.A. of Poznań and 77 banks were associated in Mazowiecki Bank Regionalny S.A. of Warsaw.

The level of own funds is a key factor determining the banking system's resilience to the economic cycle, as well as to internal and external shocks. In 2008, own funds of the Polish commercial banks grew by 21.8%[6], and of the Polish cooperative banks – by 16.2%. An increase in total capital requirement was not offset by a sufficiently high growth of own funds. As a consequence, the average capital adequacy ratio of the Polish banking sector shrank from 12.1% as at the end of 2007 to 10.7% a year later (commercial banks: down from 12.0% to 10.7%; cooperative banks: down from 13.8% to 13.2%). However, the ratio remains above the required minimum level.

The credit risk requirement was most significant, and amounted to PLN 48.7bn, representing 87.6% of the total capital requirement (PLN 55.6bn). The requirement's portion related to operating risk was PLN 5.7bn, and accounted for 10.2% of the total requirement. The share of the requirements relating to other types of risk was marginal.

[5] The data for December 2008 presented in this section should be regarded as preliminary data.
[6] It has to be noted that the calculation of the capital adequacy of commercial banks (and thus, the entire banking sector) was partially distorted due to the inclusion of two new banks with significant own funds which commenced operations in Poland.

■ **FIGURE 2. OWN FUNDS, LOANS TO THE NON-FINANCIAL SECTOR AND CAPITAL ADEQUACY RATIO OF THE POLISH BANKING SECTOR IN 2004–2008**

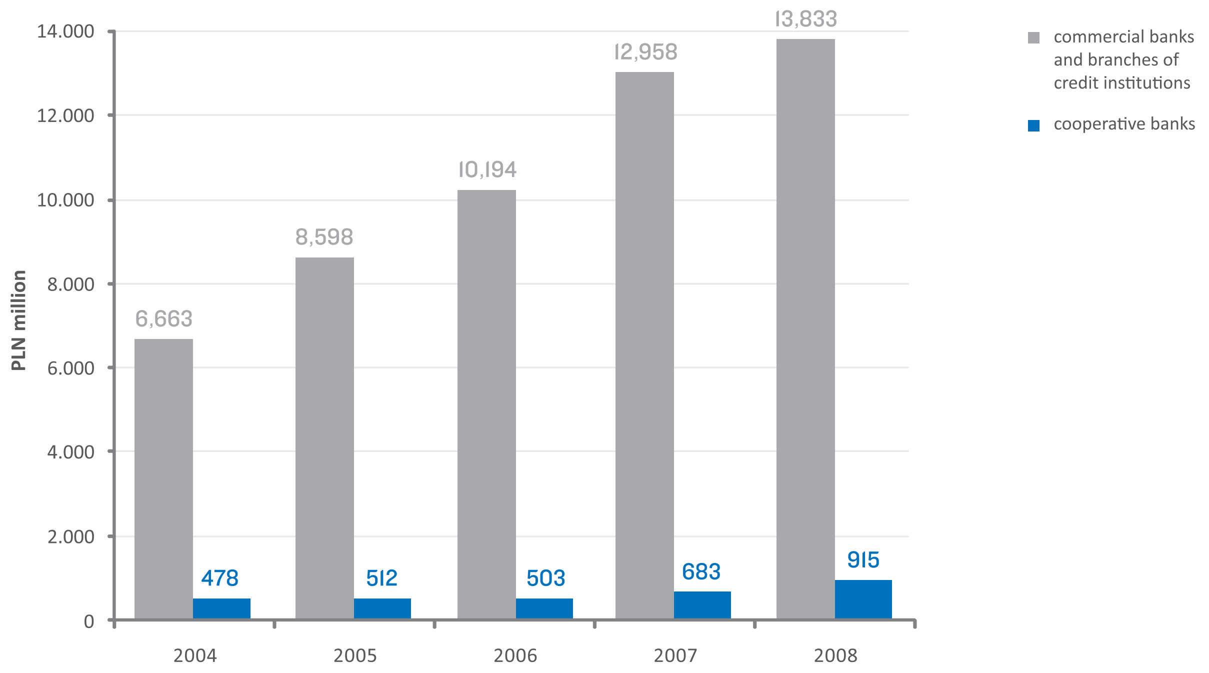


Despite signs of the worsening economic landscape, in 2008 the situation of the Polish banking sector was good (particularly in the first three quarters). Sufficient amount of capital helped the sector to absorb even considerable losses suffered by many banks in Q4.

Higher capacity to service debt and increasing interest in loans among retail and corporate clients resulted in the banks' loan portfolio growing to PLN 593.6bn, up by 38.8% relative to 2007. Deposits of the non-financial sector also increased, by 17.8%. Entities from the non-financial sector placed with the banks deposits worth over PLN 494.1bn, of which PLN 41.5bn was deposited in cooperative banks.

Net financial result of the sector was PLN 14.7bn, which has been the strongest performance since the start of the democratic transformation (up by 8.1% on 2007). The net result of commercial banks and branches of credit institutions increased by 6.8%, while the net result of cooperative banks advanced by 33.4% (Fig. 3).

FIGURE 3. NET FINANCIAL RESULT OF COMMERCIAL BANKS AND BRANCHES OF CREDIT INSTITUTIONS AND NET RESULT OF COOPERATIVE BANKS IN 2004–2008



In 2008, authorisations were granted to establish Allianz Bank Polska S.A. and Alior Bank S.A., both headquartered in Warsaw. The banks were also granted authorisations to launch their activities. The Polish Financial Supervision Authority refused to issue an authorization to establish Bank Oszczędnościowo-Kredytowy S.A. headquartered in Sopot.

Following consideration of the applications concerning amendments to articles of association of the supervised banks, in 2008 the Polish Financial Supervision Authority issued 414 decisions approving changes in the articles of association, including:

- 50 decisions concerning authorisation to introduce amendments to the articles of association of banks operating as joint-stock companies,
- 364 decisions concerning authorisation to introduce amendments to the articles of association of cooperative banks.

The PFSA has checked the applications for amendments to articles of association of banks for their compliance with the law and for their possible effect on the efficient and secure management of the banks concerned. In the approval process the conformity of articles of association with corporate governance rules plays an important role. Promulgation of corporate governance rules among the WSE-listed and non-listed companies increases transparency of the banking sector, which in turn improves its stability.

The Polish Financial Supervision Authority paid particular attention to the division of powers between members of the banks' management boards whose appointment requires approval of the PFSA, with particular focus on the division of powers related to supervision over credit risk management and supervision over internal audit. In the segment of cooperative banks, the PFSA was particularly interested whether the powers of presidents of management boards include responsibility for credit risk management and whether the banks' funds and organisational structures are adequate for their territorial reach.

In 2008, the Polish Financial Supervision Authority considered two applications for authorisation to exercise voting rights at banks' general shareholders meetings, and issued two decisions in the form of resolutions.

When granting an authorisation to exercise voting rights at general shareholders meetings of a bank, in each individual case the Polish Financial Supervision Authority assessed whether the investor could guarantee that the bank's affairs would be managed whilst ensuring protection of its clients' interests, and investigated the economic and financial standing of the investor (possibility of contributing the declared amount of funds and providing the bank with financial assistance if it experiences financial distress in the future) and its financial group. The PFSA was also interested in the investor's to-date activities in Poland, its strategy towards the bank and whether the funds for the purchase of shares did not come from a loan, a borrowing or unofficial sources.

The Polish Financial Supervision Authority attaches special importance to transparent presentation of the investor's shareholder structure and the structure of other relationships. In the case of foreign investors, the PFSA took also into consideration ratings assigned to the investors by international rating agencies.

When assessing applications for authorisation to exercise voting rights conferred by significant blocks of shares, which would enable investors to take control over banks, the Polish Financial Supervision Authority took into consideration, *inter alia*, the bank's size and its importance for the entire banking sector. If an authorization concerned a bank of significant importance to the Polish banking sector, the strategic investor had to make certain commitments to take appropriate steps towards the acquired bank. Such commitments included:

- Commitment to preserve the local nature of the bank by retaining its Polish name and ensuring that the majority of the management and supervisory personnel consists of Polish citizens,
- Commitments relating to business strategy and securing bank's development, including in particular commitments relating to capital increase, cost reduction, development of products and services, and dividend payment,
- In the case of WSE-listed banks:
  - commitment not to delist the bank, and to ensure trading liquidity,
  - commitment to guarantee compliance with corporate governance rules, in particular ensuring that the Articles of Association require that independent members be appointed to the supervisory board.

Supervisory Activities

3

Supervisory Activities

Capital and Commodity Market Supervision

As part of the financial supervision exercised over investment companies based on financial statements filed by the regulated entities with the PFSA, an interim report on the standing of such entities in the first half of 2008 was prepared for discussion at the PFSA's meeting.

TABLE 16. DATA DERIVED FROM MONTHLY FINANCIAL STATEMENTS FILED FOR THE TWELVE MONTHS OF 2007 (JANUARY 1ST 2007 – DECEMBER 31ST 2007) AND FOR THE TWELVE MONTHS OF 2008 (JANUARY 1ST 2008 – DECEMBER 31ST 2008)

ITEM	AVERAGE COVERAGE OF TOTAL CAPITAL REQUIREMENT WITH REGULATED CAPITAL	AVERAGE COVERAGE OF THE FIXED COST CAPITAL REQUIREMENT WITH REGULATED CAPITAL	AVERAGE COVERAGE OF MINIMUM FOUNDING CAPITAL WITH REGULATED CAPITAL
Brokerage offices 2008	26.83	6.33	15.74
Brokerage offices 2007	47.51	7.29	17.08
Brokerage houses 2008	10.56	6.74	16.33
Brokerage houses 2007	6.39	7.41	13.31
Affiliated brokerage houses 2008	73.22	10.62	12.99
Affiliated brokerage houses 2007	51.62	21.35	13.63

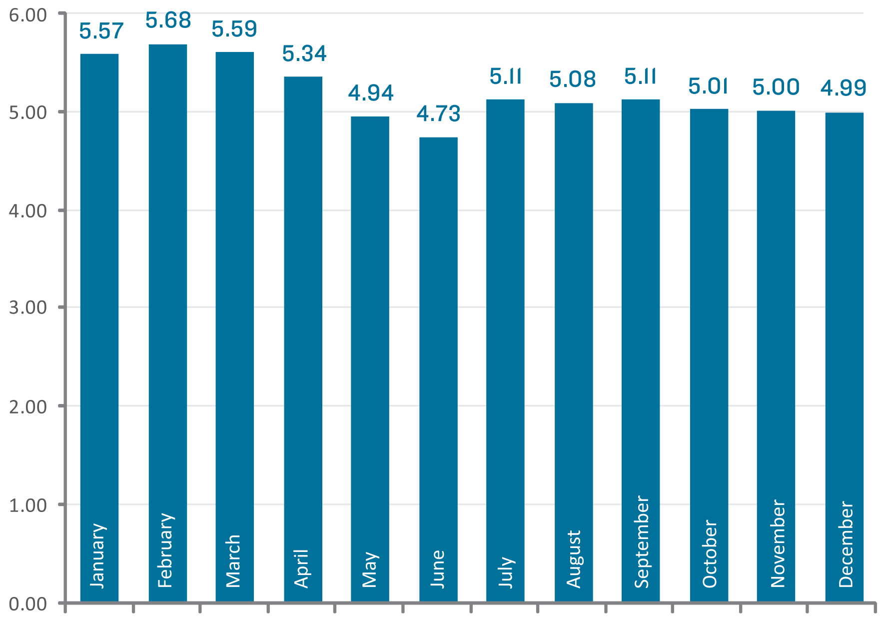
Data represents the average quotient of the regulated capital to the individual capital requirements.

The presented data suggests that investment companies generally have capital reserves exceeding the capital limits currently required under the applicable regulations. This is important, in particular, in the context of the implementation of the CRD Directive with respect to investment companies, as following the implementation of the amended Act on Trading in Financial Instruments and the secondary legislation adapting the domestic regulations to the EU standards, the existing capital requirements are expected to be raised.

In connection with the information appearing in the fourth quarter of 2008 regarding the problems resulting from the public companies' exposure to foreign currency financial instruments, the PFSA undertook steps to obtain information on the exposure to derivative instruments of the issuers whose shares are admitted to trading on the regulated market. In response to the steps taken by the PFSA, most of the companies holding open options as at the end of 2008 published information on the valuation of their positions in the form of current reports. The remaining companies declared to the PFSA that the impact of the valuation of such positions on their financial performance was not material. The analysis based on the collected data helped to estimate the companies' liabilities under the foreign currency transactions, identify the possible consequences of the concluded transactions, and determine any further supervisory actions to be taken.

As part of its supervision over the statutory reporting by securities issuers other than investment funds, in 2008 the PFSA assessed the issuers' 2007 annual consolidated financial statements for their compliance with IAS/IFRS.

FIGURE 4. AVERAGE CAPITAL COVERAGE RATIOS OF THE INVESTMENT FUND COMPANIES IN 2008 (OWN CAPITAL/MINIMUM CAPITAL REQUIREMENT)



The average capital coverage ratio for the entire sector of investment fund companies exceeded 5, which meant that the capital of investment fund companies were on average five times higher than the minimum obligatory own capital required under the Investment Fund Act.

In 2008, the Official Appointed Mechanism was made available to investors. OAM is a system for centralised collection of regulated information filed by issuers whose securities are admitted to trading on a regulated market.

Moreover, as part of the capital and commodity market supervision, a number of reports and information materials were prepared, which concerned, inter alia, the financial standing of the investment funds in 2007 and H1 2008, sale of participation units issued by foreign funds in Poland, responsibility for the preparation of prospectuses and other documents prepared in connection with public offerings, and seeking of admission of securities to trading on a regulated market.

Insurance Market Supervision

In 2008, as part of the insurance market supervision exercised by the Polish Financial Supervision Authority, post-inspection recommendations were issued to insurance undertakings in order to ensure compliance of the insurance undertaking's activities with the law and to ensure that the insurance undertakings are at all times able to perform their obligations. The recommendations related to both individual and systemic violations. In the case of systemic violations, the purpose of the regulator's intervention was to eliminate certain irregular market practices constituting infringement of the law and of the interests of the financial institutions' clients. Moreover, based on inspection findings, in 2008 two requests were filed to impose penalties on insurance undertakings.

As symptoms of the global financial crisis became visible in August 2008, the Polish Financial Supervision Authority requested insurance undertakings to provide information on any assets held by them and issued by financial institutions threatened with insolvency. The provided information was used for the assessment of any potential threat of illiquidity to the Polish insurance sector. As the crisis on the international financial markets deepened, the Polish Financial Supervision Authority requested the insurance undertakings to provide monthly information relating to their basic solvency indicators and their investments, as well as quarterly information on transactions executed by particular insurance group members, along with the list of acquired investment instruments and names of their issuers. In addition, Segment I insurance undertakings were requested to provide information on the offered insurance products with embedded structured instruments. The requirement to provide the information was maintained in 2009.

As part of the supervision over insurance undertakings, the PFSA also analysed such matters as outsourcing of services by insurance undertakings; effects of the crisis on the US financial market on the standing of the Polish insurance undertakings; the functioning of internal control at insurance undertakings; the risks inherent in operations of insurance undertakings and internal control; the method of determination of deferred tax assets; and structured products offered by insurance undertakings. Relevant reports were prepared based on these analyses.

The Polish Financial Supervision Authority also worked on the actuarial aspects of the market; this included preparation of a simulation of bankruptcy of an insurance undertaking; introduction of changes to the econometric model of the financial flows of pension fund companies; preparation of a report on synthesis of information related to mortality tables used by insurance undertakings in Poland; and an analysis of the actuarial reports on the quality of the 2007 portfolios, prepared by insurance undertakings.

In September 2008, a report entitled *Summary of the results of survey on the risks associated with operations of an insurance undertaking and internal control* was prepared. The report reviews results of the analysis of risks associated with day-to-day operations of insurance undertakings, the assessment of undertakings progress on the development of a risk management system, the preparation of domestic insurance undertakings to the implementation of the solutions of the Solvency II project in this area, and the assessment of internal control. The report was prepared based on the results of a questionnaire survey carried out in April 2008 among 66 insurance undertakings operating in Poland. The findings of the report will be used to implement a supervision system based on risk analysis at the Insurance Supervision Division of the PFSA and to develop methodology for supervisory review and evaluation process (SREP).

In order to improve the effectiveness of the insurance supervision, the following special working teams were established:

- Working team in charge of the project involving modification and implementation of the Insurance Supervision System (SNU), focused mainly on the defining and introducing the necessary functional changes to three system modules: the register of insurance undertakings, the register of brokers and the register of actuaries;

- Working team in charge of the implementation of the EU's Solvency II project;
- Working teams *The role of the insuring party versus the insurance brokerage in the area of group life insurance and The rights of the insured in the group life insurance agreement,*
- Working team *The reporting requirements related to structured products, product structure, publication of results, cost presentation, etc. (also related to the structure of the premium component of the benefit paid in pure endowment),*
- Team in charge of financial conglomerates;
- Team in charge of health insurance (participation of the representatives of certain organisational units of the PFSA in work of the working team affiliated by the Minister of Health).

Moreover, as part of the supervision over the insurance market, a number of various information materials were prepared.

Funded Pension Market Supervision

The unfolding financial crisis and its impact on the Polish financial market urged the PFSA to concentrate on monitoring the open-end pension funds' exposure to financial instruments issued by entities most severely affected by the crisis, as well as on the assessment of risks related to such instruments, in particular the issuers' credit risk.

The crisis had an impact on the rates of return and the structure of investment portfolios, yet it posed no threat to the financial stability of the entities operating on the market.

It should be noted that the proportion of toxic assets in the overall market was negligible; the substantial deterioration in the financial performance and negative rates of return recorded in 2008 followed primarily from the bearish mood on the Warsaw Stock Exchange induced by the financial crisis on global markets.

In response to the crisis, the PFSA monitored the risk of incurring a deficit by open-end pension funds and the ability of open-end pension fund companies to cover such deficit, if any was to occur. In 2008, three-year rates of return posted by all open-end pension funds outperformed the minimum required rate of return, and no deficit was incurred.

Particular focus was placed on any instances of exceeding the investment limits and valuation of financial instruments by the regulated entities. As a result of its ongoing supervision, the PFSA identified a number of instances where open-end pension funds failed to comply with the investment limits. In most cases, the immediate causes included increase in the market price of investments and increased proceeds from disposal of portfolio assets.

In the period covered by this Report, the PFSA calculated and published the average weighted rate of return for all open-end pension funds twice – for the periods March 31st 2005–March 31st 2008 and September 30th 2005–September 30th 2008. In both periods, all open-end pension funds achieved rates of return higher than the minimum required rate of return.

TABLE 17. STATUTORY RATES OF RETURN OF OPEN-END PENSION FUNDS CALCULATED AND PUBLISHED BY THE PFSA IN 2008

OPEN-END PENSION FUND	RATE OF RETURN MAR 31 2005 TO MAR 31 2008 (%)		OPEN-END PENSION FUND	RATE OF RETURN SEP 30 2005 TO SEP 30 2008 (%)
Pekao OFE	35.242		Pekao OFE	17.944
OFE Polsat	34.280		OFE Polsat	16.766
AIG OFE	34.197		Generali OFE	16.637
Generali OFE	33.638		OFE Skarbiec-Emerytura	15.074
OFE Skarbiec-Emerytura	32.844		OFE Pocztylion	14.114
OFE Pocztylion	32.541		AIG OFE	13.925
OFE PZU „Złota Jesień”	31.864		Allianz Polska OFE	13.671
ING OFE	31.267		AXA OFE	13.649
Commercial Union OFE BPH CU WBK	31.068		OFE PZU „Złota Jesień”	12.153
AXA OFE	30.671		Commercial Union OFE BPH CU WBK	11.579
OFE WARTA	29.882		AEGON OFE	11.563

Allianz Polska OFE	29.257		Nordea OFE	11.316
Nordea OFE	29.084		OFE WARTA	10.796
AEGON OFE	28.830		ING OFE	10.710
Bankowy OFE	25.917		Bankowy OFE	8.196
Weighted average rate of return	31.481		Weighted average rate of return	12.576
Minimum rate of return	15.741		Minimum rate of return	6.288

While monitoring the amount of the pension funds' costs incurred and covered from the funds' assets, the PFSA analysed costs paid by the open-end pension funds to their custodian banks. In 2008, three open-end pension funds reduced the relevant fees.

Furthermore, a merger of open-end pension funds was put under scrutiny during a comprehensive inspection. The operations of two merging open-end pension funds and the pension fund company managing the merging funds were looked into. Also, one problem-oriented inspection was carried out which concerned the conduct of client acquisition activities by an open-end pension fund.

The most frequent irregularities revealed in the activities of the inspected pension funds and pension fund companies were: delays in reporting fund membership agreements to the Social Insurance Institution (ZUS), irregularities related to the conclusion of open-end pension fund membership agreements, failure to report events which are to be obligatorily recorded in the National Court Register or the register of open-end pension funds, failure to observe disclosure requirements to the detriment of the members of open-end pension funds, and suspension of transfers to other open-end pension funds.

The voluntary part of the pension system forms the so-called Pillar III of the pension security system and comprises occupational pension schemes and individual pension accounts *(indywidualne konto emerytalne, IKE)*. Pillar III differs from the other system pillars by the voluntary nature of participation and the state's involvement in the market development through definition of the legal framework for accumulation of assets and creation of new financial products. The market development is supported with incentives in the form of tax allowances and fund members' ability to use relieves in social security premiums. The creation of voluntary forms of pension savings accumulation is a part of the social policy of securing appropriate levels of pension savings. Accordingly, numerous legal regulations govern the activities of institutions operating within Pillar III and products offered on the market. These regulations have been designed to:

- protect interests of the members of occupational pension schemes,
- guarantee that accumulated assets are applied towards pension financing,
- guarantee that pension capital is accumulated regularly, over a long term.

In comparison with the regulations governing the operation of Pillar II, the legal provisions governing the activities of institutions operating within Pillar III provide more flexibility, owing to the voluntary nature of additional forms of pension saving.

In 2008, based on the information furnished by employers, the PFSA identified a number of pension schemes whereunder certain remitters, notably employers, failed to remit base contributions on behalf of the scheme members despite a requirement to do so arising under the employer pension scheme agreements concluded with employee representatives. There were also cases where employers failed to take any steps whatsoever to launch a pension scheme. The regulator initiated supervision proceedings against these employers.

Given the large share of day-to-day financing of occupational pension fund companies by employers, a significant part of supervision is performed through indirect supervision, focusing in particular on monitoring uninterrupted financing of occupational pension fund companies necessary to guarantee financial security and uninterrupted operations of the pension fund companies.

As a result of its supervision over investment operations of occupational pension funds, the PFSA identified a number of instances where pension funds failed to comply with the investment limits. In most cases, the immediate cause was an increase in proceeds from disposal of portfolio assets.

In 2008, the PFSA conducted six proceedings in connection with identified irregularities in the operation of occupational pension fund companies and occupational pension funds. The proceedings followed inspections carried out at the registered offices of the regulated entities and were the effect of indirect supervision measures discussed above.

The most frequent irregularities revealed in the activities of the inspected pension funds and pension fund companies were those related to the maintenance of individual member accounts, payments made to members of occupational funds, the requirement to disclose information to members of occupational funds, the bookkeeping process, the operation of the governing bodies of occupational pension fund companies and irregularities concerning investment activities.

As regards the development of the financial market and strengthening of its competitiveness, the PFSA, having analysed the pension market, pinpointed the main problems and prepared draft solutions. These efforts yielded documents *Competition on the Market of Open-end Pension Funds* and *Recommended Changes in Limitations on Investments by Open-End Pension Funds*, which were submitted to the Board of PFSA and, subsequently, released for public consultation. In particular, it was recommended that efforts be undertaken in the area of capital adequacy of open-end pension fund companies, that subfunds with diversified investment policies and risk exposures be created, and that changes be introduced with respect to the client acquisition system and limitations on the investment policies of open-end pension funds. Some of these solutions were incorporated into the assumptions underlying the amendment to the Act on Organisation and Operation of Pension Funds, prepared by the Ministry of Labour and Social Policy.

Furthermore, the PFSA dealt with issues associated with investment risk of open-end pension funds and capital adequacy of open-end pension fund companies, as well as issues related to the development of IT tools supporting the execution of supervision tasks. As part of these efforts:

- New sources of information relevant for effective supervision over cross-border investment activities of open-end pension funds were established;
- Underlying assumptions were developed and work commenced on implementing a model used to monitor valuations of illiquid instruments;
- Work preparatory to exercising supervision over a new segment of the pension market (i.e. payments of temporary annuities by open-end pension funds, which were disbursed for the first time in 2009) commenced;
- Simulation model for revenue streams generated by open–end pension fund companies was developed, and the model of open-end pension fund market was further refined;
- The PFSA participated in design work aimed at implementing an integrated financial market supervision system based on risk assessment;
- Work was conducted to improve the efficiency of the reporting system, to streamline databases, and to automate the data input and error tracking processes.

In 2008, efforts were made to overcome obstacles in the launch of schemes designed for public sector employers. Legal aspects of the matter were thoroughly examined in a document which comprehensively presents the legal aspects of the permissibility of launching occupational pension schemes by public sector employers.

The document also contained a description of the desired course of development for the occupational pension scheme market and of the existing legal framework.

Also, a report was drafted on identified factual and legal obstacles impeding the progress of work on issues related to occupational pension schemes. In December 2008 work commenced on standardising application forms used to enter an occupational pension scheme into a relevant register, in order to make the application processing more efficient.

Another hurdle in the development of the Pillar III pension system component was identified in the area of public awareness. As part of the awareness-raising effort, in 2008 *Guide for Participants in Occupational Pension Schemes* was compiled; the Guide is meant for persons participating in occupational schemes run by employers. Moreover, in 2008 work was completed on drafting *The Guide for Employers Maintaining Occupational Pension Schemes,* targeted at employers who run employee pension schemes.

As part of cooperation with the Central Statistics Office (GUS), relevant data on the market of open-end pension funds and open-end pension fund companies was delivered regularly for the purpose of the 2008 Public Statistics Research Programme *(Program Badań Statystycznych Statystyki Publicznej)*.

Banking Supervision

In connection with the difficult situation on the financial markets and the incoming information on deepening problems of financial institutions on global markets, caused by the crisis on the US real estate market, the PFSA has taken a number of measures with respect to the supervised entities to enable continuous monitoring of their operations and, in particular, their liquidity positions. The PFSA immediately reacted to any signs of financial groups' problems which could affect the situation of their subsidiaries operating in Poland by focusing on meetings with banks' management boards, communicating with their home supervision authorities and conducting regulatory activities.

The PFSA's monitoring activities carried out in response to the financial crisis were diverse and included:

- Imposition of an obligation on banks to provide information on their currency liquidity and transactions with foreign entities on a regular basis, including daily reports on the banks' new exposures to foreign entities;
- Imposition of an obligation on banks to review their credit policy, in particular to re-analyse their credit standing;
- Analysis of data related to derivative currency transactions, holding meetings with representatives of banks, customers and institutions representing banks' customers;
- Individual steps taken with respect to selected banks, which included: imposing an obligation on a bank to submit more detailed reports on its current liquidity position on a daily basis, specific monitoring of bank's exposure towards a strategic investor, group or group members.

The PFSA paid particular attention to transactions with possible features of unjustified transfers to parent institutions. In its daily monitoring activities no such transactions were observed. Transactions with related and non-related institutions remained at a normal level.

The analysis of foreign transaction cash flows in the Polish banking sector indicated that as at the end of 2008 the share of receivables from the foreign financial sector in total receivables declined to 40.6% (from 46.3% in December 2007) whereas the share of liabilities to the foreign financial sector in total liabilities increased to 65.8% (from 52.1%). As at the end of 2008, the balance of receivables and liabilities with respect to the foreign financial sector stood at PLN −115.7bn, compared with PLN −24.6bn as at the end of 2007.

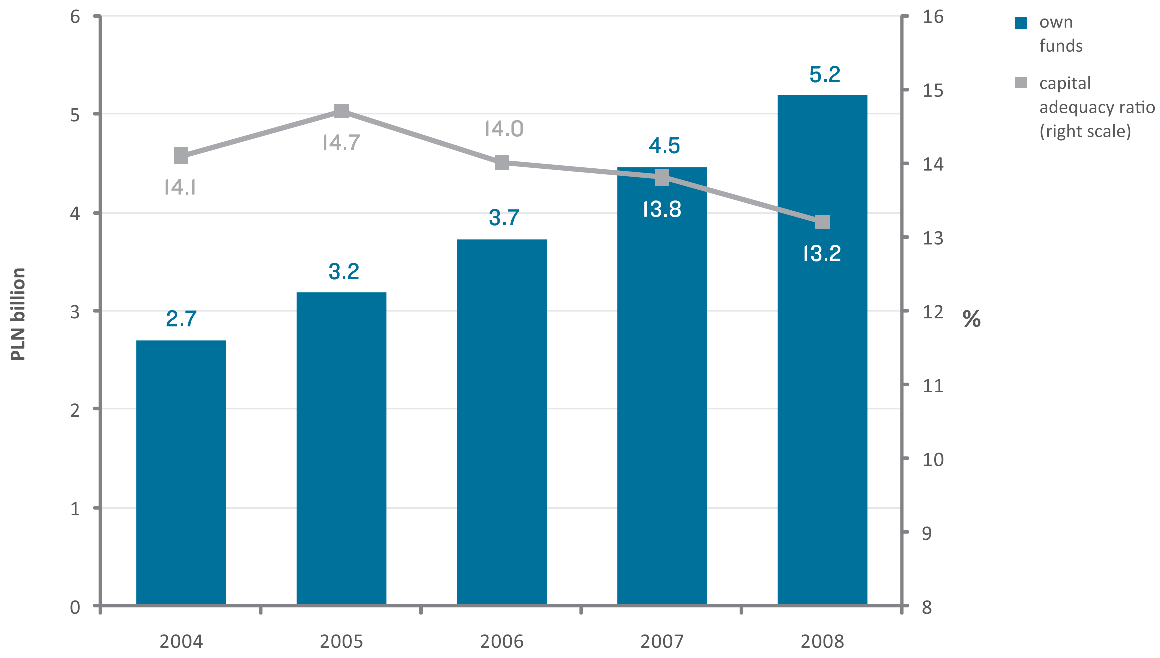
In connection with the deterioration of the financial situation of certain borrowers and their groups the PFSA composed ad hoc cross-sectional listings. Moreover, the PFSA monitored the compliance with concentration limits, and prepared analyses of capital and personal links between banks and borrowers' groups.

In 2008, as in the previous years the PFSA carried out comparative analyses of classification of receivables from a particular borrower made by different banks as well as the presentation of shareholder structure of certain large clients of banks – wherever inconsistencies occurred the PFSA took appropriate steps.

In addition, the supervision authority issued a recommendation to assume a careful approach towards dividend payment and to allocate the largest possible part of profit generated in 2008 to increase own funds. In the event of making a decision on dividend payment and if the level of own funds in PFSA's opinion is low, banks should not expect PFSA's approval of counting subordinated loans towards own funds.

The PFSA continuously monitors the compliance of cooperative banks' own funds denominated in the euro with the required minimum. It needs to be noted that from the prudential point of view, apart from the level of own funds denominated in the euro, the standing of cooperative banks raises no major concerns. In particular, the capital adequacy ratio of such banks stands at a much higher level than the statutory minimum.

FIGURE 5. OWN FUNDS AND CAPITAL ADEQUACY OF COOPERATIVE BANKS IN 2004–2008



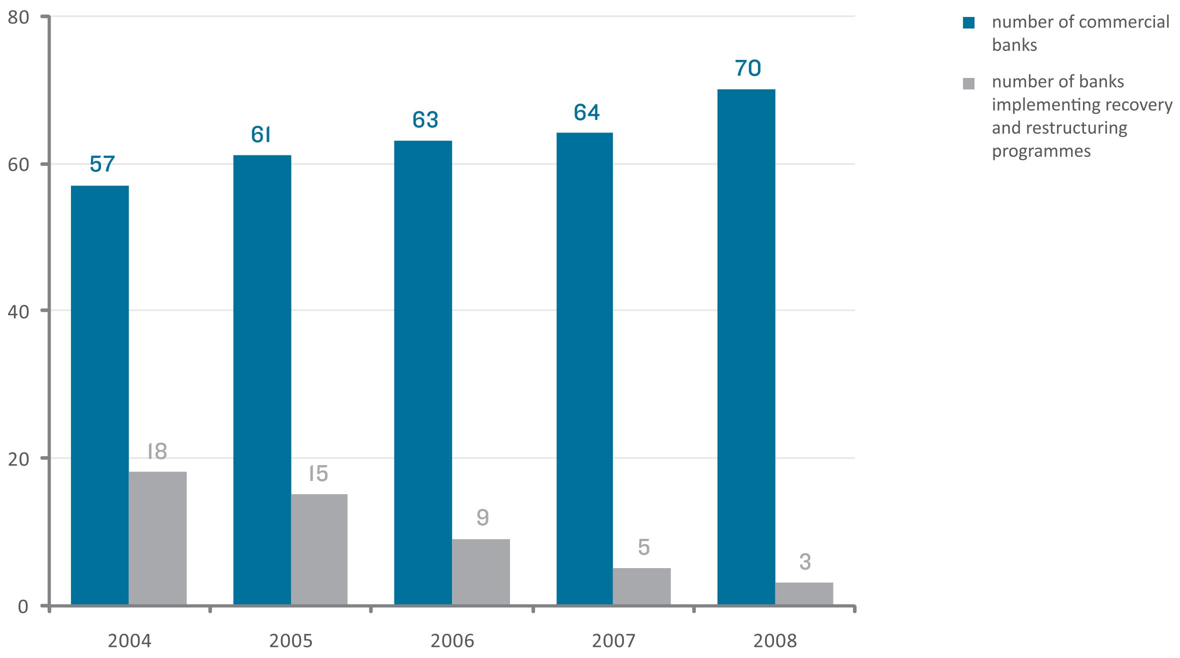
As in the previous years, the Polish Financial Supervision Authority's measures with respect to banks under recovery proceedings were aimed at improving their operational efficiency and quality of management. The supervisory measures taken by the PFSA with respect to the banks were proportional to the assessment of risk applicable to those banks.

The analysis of situation of banks under recovery proceedings indicated that their financial standing was stabilising and that they achieved greater security of operations. Supervisory tasks with respect to that group of banks included in particular:

- Ongoing analysis of the banks' economic and financial standing and assessment of the implementation of the recovery programmes;
- Preparation of opinions on recovery programmes developed by banks;
- Preparation of proposed supervisory measures for the PFSA;
- Cooperation with the banks' administrators;
- Exchange of information with the Banking Guarantee Fund concerning the financial standing of certain banks and notification to the Fund of any supervisory measures taken;
- Exchange of information with the National Bank of Poland as part of the agreement concerning cooperation and exchange of information between the PFSA and the National Bank of Poland.

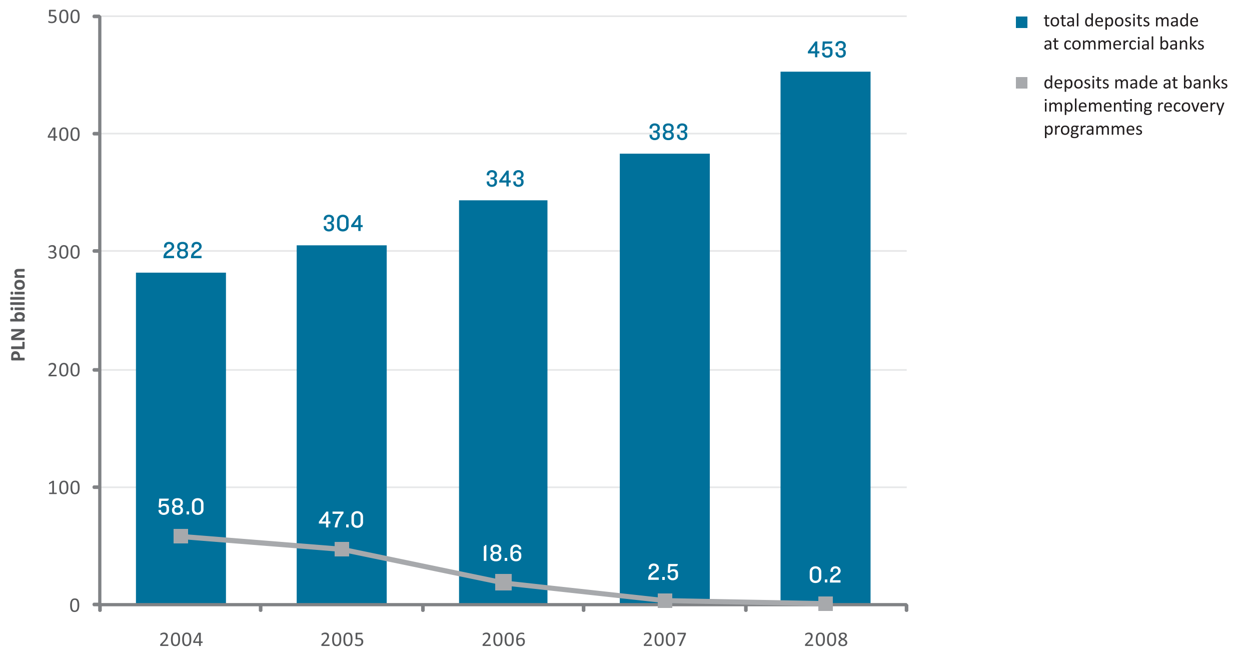
As compared with 2007, the number of commercial banks implementing recovery and restructuring programmes declined, which is shown in Figure 6.

FIGURE 6. RECOVERY AND RESTRUCTURING PROGRAMMES IMPLEMENTED AT COMMERCIAL BANKS IN 2004–2008



Steps taken by the PFSA with respect to banks were aimed to ensure the security of deposits placed with the banks. This is particularly important in view of the value of deposits placed by non-financial entities.

FIGURE 7. DEPOSITS BY NON-FINANCIAL ENTITIES AT COMMERCIAL BANKS IN 2004–2008



In the case of one bank the PFSA instigated administrative proceedings *ex officio* to restrict the bank's operations in the area of advancing long-term loans. Such measures were taken as a result of the bank's failure to implement the PFSA's post-inspection recommendations issued in 2006 and 2007 concerning the obligation to secure the financing of long-term mortgages with liabilities with relevant maturity dates and to ensure proper diversification of such liabilities. As at December 31st 2008, the case was pending.

In connection with one bank's liquidity problems related to deposit outflow, the PFSA imposed an obligation on the bank to submit daily reports on its liquidity position. Three meetings with the bank's representatives were held at the supervision authority's head office. The PFSA also exchanged correspondence with a foreign supervision authority concerning the Polish subsidiary's standing in connection with the difficult situation in the bank's group.

The following issues came into particular focus during the inspections:

- Compliance of the banks' operations with the amended Banking Law and resolutions of the PFSA implementing the Directives of the European Parliament and of the Council
- The way banks assess the creditworthiness of their clients
- Liquidity management by banks
- Market risk management by banks
- The way banks manage the risk related to loans financing real estate, e.g. matters related to the practical implementation of Recommendation S, setting forth best practices concerning mortgage-backed loan exposures and their effect on the efficiency of risk management by the inspected banks (taking into account particularly housing loans denominated in foreign currencies, granted to households)
- Sale of currency derivatives.

As part of their cooperation, the PFSA and the NBP reviewed the correctness of calculating and maintaining required reserves by commercial banks (parting the course of nine comprehensive inspections).

The inspections carried out in 2008 revealed that banks did not ensure sufficient compliance with the amended laws. The most significant or frequent irregularities concerned:

- Creditworthiness assessment
- Monitoring of the portfolio of mortgage-backed loan exposures
- System of limits mitigating the risk related to the portfolio of mortgage-backed loan exposures
- Mismatch between the maturity terms of financing sources and long-term assets
- Estimating and maintaining internal capital
- Business continuity management
- Non-compliance risk management
- Scope, quality and/or frequency of management reporting
- Internal audit.

As a consequence of the irregularities revealed by the inspections, the PFSA issued follow-up recommendations to the banks. Following the comprehensive inspections carried out in 2008, the PFSA issued 467 special recommendations[7] (to commercial banks).

Following each inspection, banks were obliged to prepare a detailed work schedule for implementing the follow-up recommendations and removing the irregularities. The work performed to implement the recommendations was monitored by the PFSA at the office, on the basis of quarterly implementation reports submitted by the banks' management boards, as well as by way of on-site inspections at the banks.

The findings of the inspections as well as the analyses carried out by the PFSA served as a basis for undertaking regulatory activities of a systemic nature. The PFSA recognised the need to implement, *inter alia*, Recommendation S (II) on best practices concerning mortgage-backed loan exposures, and the need to amend Resolution No. 382/2008 of the PFSA, on detailed terms and conditions for taking into account the exposures when determining compliance with the exposure concentration limit and the large exposure limit, with respect to applied exemptions from exposure concentration limits.

The inspections carried out in 2008 and the resultant supervisory measures contributed to improving the stability of the banking system and the security of funds in banking accounts.

The key regulatory and prudential tasks in 2008 included:

- Preparation of amendments to the laws governing the banking sector,
- Explanation and resolution of banks' uncertainties regarding prudential regulations, development of changes in regulatory reporting by banks in cooperation with banks and the NBP,
- Development – through participation in the expert groups of the EU, the Basel Committee on Banking Supervision, as well as on the basis of other information related to banking supervision, issued by foreign banking supervision authorities taking into account the local risk factors and the situation of the Polish banking sector – of regulations' proposals or amendments to existing regulations and prudential guidelines.

The resolutions adopted by the Board of PFSA include one of particular importance, on detailed terms and conditions for taking into account the exposures when determining compliance with the exposure concentration limit and the large exposure limit. The resolution introduces, among others, a limit of 100% of bank's own funds for exposures to entities with which the bank has capital or organisational links. The aim of the resolution was to ensure higher diversification of exposures in the Polish banking sector.

[7] As at March 26th 2009, post-inspection activities comprising issuing of recommendations had not been completed with respect to two banks.

In 2008, a number of interpretations of local laws was prepared, concerning the Banking Law and the PFSA resolutions of 2007. In the performance of its supervisory duties, the PFSA issued to the banking sector letters intended to curb certain unfavourable phenomena, particularly those related to the process of risk acceptance and liquidity management.

Recommendation T Draft

On June 9th 2008, banks received a questionnaire concerning the rules and procedures of creditworthiness assessment by the banks. In addition, as part of a survey research, a simulation was carried out, designed to establish the maximum loan amount which the banks were prepared to grant under specified conditions.

Based on the questionnaire, reporting data of the banks and post-inspection reports, a draft of Recommendation T, concerning best practices in managing the credit risk related to exposures to the households, was prepared. The basis for preparing the recommendation was Recommendation S, on best practices regarding mortgage-backed loan exposures.

Proposed Revision of Recommendation A

2008 saw the start of work on supplementing and extending Recommendation A (management of risk related to derivate transactions executed by banks) by elaborating on matters which showed certain weaknesses in the management of risk related to currency derivates.

The rapidly growing financing of housing loans for households was among the issues which were given particular attention. The results of the analysis were included in the annual report entitled *Financing of Real Estate by Banks in Poland*, which, in addition to the analytical part, contained the PFSA's opinion on opportunities and threats potentially faced by the banking system in connection with the scale of exposure to the real estate sector. Also the risks for the Polish banking sector posed by the crisis in the US were monitored.

Given the considerable weakening of the złoty exchange rate, driven by the adverse developments on global financial markets, and the growing level of liabilities on the part of banks' clients under currency derivatives, the PFSA took measures to estimate the scale of the problem and identify the risk areas. In December 2008, the PFSA prepared a report presenting the size and structure of the exposures and assessing the impact of currency derivatives contracts entered into by banks with their clients on the stability of the banking system. The conclusions of the analyses, concerning in particular the issues requiring improvement with respect to risk management and informing customers of potential consequences of entering into currency derivatives contracts, were communicated at meetings with the banks.

Supervision over Financial Intermediaries

The PFSA supervises the activities of financial intermediaries operating in various segments of the financial market: the capital segment (intermediaries in selling and redeeming investment fund units, investment firm agents, securities brokers and commodity brokers as well as investment advisers), the insurance segment (insurance agents, insurance brokers), and the pension segment (persons authorised to acquire clients for pension funds).

In 2008, five legal persons and four natural persons were entered in the register of investment firm agents. As at December 31st 2008, the register included 43 entities (19 legal persons and 24 natural persons).

As at December 31st 2008, the list of intermediaries in selling and redeeming investment fund units included 213 entities not engaged in brokerage activities. Over the period covered by the Report, the PFSA issued 30 authorisations to act as intermediaries in selling and redeeming investment fund units or shares of foreign investment funds (including two decisions expanding the authorisation to include intermediation in selling and redeeming units or shares of foreign investment funds). Cooperative banks obtained nine authorisations from the PFSA, limited liability companies – 10 authorisations, and nine authorisations were issued to other entities.

As at December 31st 2008, the number of licensed securities brokers was 1,992, while the number of licensed investment advisers was 271. In 2008, 14 new persons were entered on the list of licensed investment advisers.

The regulatory duties of the PFSA include the keeping of an electronic register of insurance agents. In 2008, the PFSA carried out 59,871 changes in the register, including registration of applications for entry in the register, change of data, and deletions from the register. The agents' data were changed 9,054 times, and the data concerning persons carrying out insurance agent activities were changed 44,869 times. Following termination of 10,941 agency agreements, 7,624 agents were deleted from the register, and the data of 3,317 multi-agents were changed. 30,481 persons carrying out insurance agent activities were deleted from the register, including 16,091 persons whose data were completely deleted, and 14,390 persons whose data were changed.

In 2008, there were also 80 registrations of entities conducting insurance agency activities through persons employed under employment contracts, with respect to whom applicable regulations provide for simplified authorisation procedures.

In 2008, the PFSA issued 44 authorisations to conduct insurance brokerage activities, including 28 authorisations to natural persons and 16 to legal persons. In the same period, the PFSA issued 3 authorisations to conduct reinsurance brokerage activities (all to the legal persons).

TABLE 18 NUMBER OF REGISTERED INSURANCE AGENTS, PERSONS CARRYING OUT INSURANCE AGENT ACTIVITIES, AND BROKERS AS AT THE END OF 2007 AND 2008

		2007	2008
INSURANCE AGENTS	Exclusive agents	24,575	23,324
	Multi-agents	14,659	15,267
	Total	39,234	38,591
PERSONS CARRYING OUT INSURANCE AGENT ACTIVITIES	Representing one agent	88,735	104,151
	Representing at least two agents	22,425	23,373
	Total	111,160	127,524
INSURANCE BROKERS	Natural persons	632	633
	Legal persons	257	255
	Total	889	888
REINSURANCE BROKERS	Natural persons	6	5
	Legal persons	10	12
	Total	16	17

In 2008, the PFSA received 789 notifications of insurance intermediaries intending to operate in Poland, from registration bodies / competent authorities in EU Member States. As at December 31st 2008, the number of notified insurance intermediaries was 7,711.

As at December 31st 2008, the register of open-end pension funds' sales agents included 132,361 active agents.

TABLE 19. KEEPING OF THE REGISTER OF FUNDS' SALES AGENTS IN 2007-2008

	2007	2008
New entries of sales agents in the register (new agents in the register)	15,305	20,053
Changes in register entries (change of the entity or fund or change of personal data)	4,550	13,120
Entry of information on discontinuing client acquisition activities	12,390	24,321
Deletion of notice on discontinuing client acquisition activities (resumption of client acquisition activities for the same entity and fund)	546	555

An active dialogue with the supervised entities helped to build the relations with the financial market actors, while disseminating the knowledge of applicable laws.

Protection of Financial Market Participants

4

Protection of Financial Market Participants

One of the objectives behind the supervision over the financial market is to ensure protection of interests of the market participants. The PFSA's actions in this respect involve monitoring of market practices on an ongoing basis and intervention measures with particular emphasis on those areas of the regulated entities' operations which are exposed to the risk of law infringement or abuse of rights held by non-professional market participants.

Supervision over the Reliability of Advertisements Issued by Financial Market Entities

In order to protect interests of non-professional financial market participants against unreliable advertising information, the PFSA monitors advertising communications, i.e. it reviews information and advertising materials published at the request of, for or by the entities supervised by the PFSA.

The purpose of the reviews of advertising communications is to establish whether the reviewed contents comply with the law and respect the interests of non-professional financial market participants – in particular whether these communications do not mislead the target audience during the pre-contractual stage. As a standard measure, presentation of advertising information is reviewed in terms of the context of the information designed for a typical, non-professional consumer.

In order to eliminate instances where advertising communications on banking and insurance services violate the law and mislead consumers, the PFSA initiated extensive analyses, educational efforts and regulatory steps. Particularly notable examples include two resolutions concerning the rules applicable to the advertising of banking and insurance services adopted by the Board of PFSA on October 2nd 2008. These resolutions constitute a set of rules defining in detail the expectations of the PFSA regarding advertising of services by banks and insurers. The resolutions come as an extension of the PFSA's efforts designed to enhance security of the financial market participants by offering access to reliable advertising information.

Furthermore, the PFSA exercised 22 supervisory measures with a view to preventing banks and insurers from disseminating potentially misleading advertising communications.

In 2008, the PFSA prepared and submitted to the Ministry of Finance a proposed amendment to the laws regulating particular segments of the financial market, insofar as they relate to the publication of advertising information by the regulated entities.

Supervisory Activities in the Area of Market Practice

The PFSA monitors market practices by exercising its supervisory powers, which allow to demand information and clarifications directly from the regulated entities, and by obtaining relevant data on its own account. Intervention measures can be also undertaken in response to queries and complaints filed by non-professional participants of the market. In 2008, a total of 6,018 such complaints were filed. They concerned all the sectors of the market: the insurance, capital, banking and pension fund segments. In order to address the systemic character of information contained in complaints in a more effective manner and to introduce solutions to address the identified abusive market practices, a new model of handling complaints based on a holistic approach was introduced.

The PFSA's monitoring of market practices employed by the regulated entities results from the comprehensive approach to the protection of interests of non-professional financial market participants. The supervision authority must have an up-to-date knowledge of regulated entities' activities directly affecting their clients.

The key actions included those which focused on currency spreads applied by banks when advancing foreign-currency denominated loans, especially mortgage loans. The difference between the exchange rate for a currency at which the bank calculates the amount of the loan denominated in a given currency on the disbursement date, which is lower than the exchange rate for the currency used by the bank to determine the amount of loan instalments affects the cost of the loan to the client.

Accordingly, on December 17th 2008, the PFSA adopted Recommendation S (II) concerning good practice in the area of mortgage-backed loan exposures. Under Recommendation S (II), with respect to foreign-exchange spreads applied by banks, those banks which advance foreign-currency-denominated loans should furnish their clients with reliable information on how they use foreign-exchange spread and of its impact on the loan cost; additionally, under Recommendation S (II), loan agreements should contain precise, explicit and clear provisions specifying how the banks determine their foreign exchange rates and use these rates to calculate loan amounts and instalments. Additionally, under Recommendation S (II), at their request, clients are allowed to change the method of repaying foreign-currency-indexed loans and repay them in the indexing currency.

The proper practice should allow clients to make decisions relating to loan agreements in full knowledge of facts and select a loan which is best suited to their specific needs. As a result, this should increase the clients' confidence in banks.

In 2008, two inspections were carried out to establish whether interests of non-professional financial market participants were not infringed (both initiated in 2007). The first inspection focused on preparation and dissemination of advertising information by an investment fund company, and the reliability of published advertising information concerning the investment funds managed by the company. The other inspection was aimed to establish whether an insurance undertaking's declaration on compliance with the recommendation in respect of VAT inclusion in the value of claims paid under motor vehicles compulsory insurance was true and correct. In both cases, the PFSA performed the relevant supervisory tasks with a view to preventing infringement of interests of non-professional participants of the financial market to the extent covered by the inspection.

Organisation and Administrative Support of the Conciliatory Court at the PFSA

In order to fulfil its statutory obligation under Art. 18 of the Act on Financial Market Supervision, on March 31st 2008, the supervision authority established a Conciliatory Court at the PFSA. Pursuant to a resolution of the General Assembly of Judges of the Conciliatory Court, Dr Hab. Aleksander Chłopecki was elected as the first President of the Conciliatory Court. For the membership in the General Assembly of Judges of the Conciliatory Court 38 renowned theoreticians and practitioners of the Polish financial market were appointed by the Chairperson of the PFSA.

In 2008, the Conciliatory Court operated for nine months only, but although it was a very brief period, the effects of the Court's efforts should be assessed as positive developments. Until December 31st 2008, 43 applications concerning queries by counterparties to seek approval for dispute resolution by the Conciliatory Court at the PFSA were submitted to the Court. The accumulated value of claims in all the submitted cases exceeded PLN 12 million. This figure is higher than amounts recorded by many other conciliatory authorities. In four cases, the disputes referred to the Court induced financial institutions to arrive at a solution favourable to consumers without engaging in a dispute. In November 2008, an institution agreed to a dispute resolution by the Conciliatory Court at the PFSA for the first time on record.

Best Practices on the Financial Market

In 2008, work continued on the Canon of Best Practices on the Financial Market. As many as 30 organisations comprising providers of financial products and services, organisations and institutions representing clients' interests, and other market organisations (including the PFSA) participated in the project. The group of participants also included academics recognised as noted authorities on market and business ethics. The final text of the Canon was presented in March 2008 at a joint press conference. Subsequently, implementation of the Canon commenced. In March 2008, the Polish Financial Supervision Authority passed a resolution recommending adoption of the Canon by financial entities. The PFSA accepts the Canon's prevailing role as a set of universal rules developed by a large group of financial market participants, and uses the Canon as a point of reference for more detailed recommendations. In October 2008, the PFSA adopted two resolutions containing clear references to the Canon; one of them concerning the rules to be observed when advertising banking services and the other – the rules applicable to advertising of insurance services. The PFSA also follows the Canon's guidance when deciding how to handle complaints filed by participants of the financial market, in particular the recommendation to resolve disputes in an amicable manner. By the end of 2008, 14 participants of the project (including the PFSA) firmly decided to recommend the Canon for adoption by financial entities.

Educational Activities

As part of the activities targeting professional participants of the financial market, in 2008 the PFSA organised a series of 24 seminars attended by nearly 2000 participants representing all groups of institutions supervised by the PFSA. The seminars were also attended by the judiciary and prosecutors, as well as municipal and county consumers' ombudsmen. In five centres outside of Warsaw the PFSA organised meetings devoted to occupational pension schemes for employers, employers associations and employees, as well as self-government institutions.

Financial education undertaken by the PFSA is focused on promotion and dissemination of understanding of how the financial market operates.

The PFSA's educational activities are targeted at:

- Non-professional participants of the financial market: students, teachers and principals of secondary schools and colleges, university students, consumers and investors,
- Professional participants of the financial market,
- Other target groups such as the judiciary, prosecutors and members of the press.

The key areas of the PFSA's interest are:

- Enhancement of the importance of economics education in public schools at all levels,
- Improvement of professional qualifications of teachers on Economics, financial subjects and protection of clients using financial services,
- Improvement of the knowledge of the financial market among students,
- Support of initiatives of higher education institutions designed to improve the quality of financial-market-related conferences, seminars and workshops,
- Improvement of the quality of textbooks and other teaching aids used to teach Economics and financial matters,
- Promotion of financial literacy and development of confidence in the financial market among prospective consumers of financial services,
- Promotion of understanding the rules governing financial market among professional market participants.

In connection with the Ministry of National Education's publication of draft changes to the educational curriculum of Basic Entrepreneurship (as part of the educational system reform), the PFSA, as a member of an educational coalition, took steps aiming at introduction of Basic Entrepreneurship as a subject of choice at the *matura* examination concluding the secondary education. The PFSA invited the academic community to participate in those activities.

As part of cooperation with the Ministry of National Education, a representative of the PFSA participated in four meetings with Professor Zbigniew Marciniak, Secretary of State. The objective of the meetings was to increase the number of lesson units of Basic Entrepreneurship, and a discussion on subjects related to the introduction of Economics in Practice as an additional school subject (from 2012).

In 2008, the PFSA launched the following initiatives aimed at the promotion of economic knowledge and competencies among students and teachers:

- *Effective Investing* Workshop targeting teachers of Basic Entrepreneurship, ran on March 7th 2008 (Wyższa Szkoła Bankowa in Toruń, Faculty in Bydgoszcz).
- 4th National Conference of Entrepreneurship Teachers *How to Safely Invest on the Capital Market* – ran on June 4th 2008 (the Warsaw Stock Exchange),
- 9th Seminar for teachers of Entrepreneurship – ran on October 23rd 2008 (the Warsaw Stock Exchange),
- further (2nd and 3rd) editions of the e-learning course *The Stock Exchange and Capital Market*, run in March – May 2008 by the Capital Market Education Foundation in cooperation with the PFSA. A book was published based on the course materials,

- *Lesson of Entrepreneurship: No Risk – No Return* – Project organised in cooperation with the Capital Market Education Foundation and the Polish Association of Stock Exchange Issuers which took place in the period September 17th 2007 – April 21st 2008, addressed to secondary school students,
- assisting Polish Economic Society in the organisation of 21st Economic Knowledge Contest.

As part of its educational activities, the Polish Financial Supervision Authority participated in a number of initiatives designed to promote economic knowledge and competencies among students and teachers, some of which were ran at a national level:

- *School of Entrepreneurship* Quality Certificate – an initiative coordinated by Junior Achievement. Under the programme for promoting school-based economic and financial education, sixteen conferences were organised in March and April 2008 in a number of Polish major cities. Approximately 22 thousand secondary school students participated in the initiative (226 schools were awarded special recognition).
- 2nd edition of the *Savings Week* social campaign connected with the celebrations of the World Savings Day. A social website was launched for the purpose of the campaign, and programmes were prepared for schools, in order to draw public attention to the need for saving and increasing financial literacy. Competitions for students were organised. As part of the campaign, a *Newsweek* insert on Poles' financial literacy and saving habits was prepared and published in 50 thousand copies. Educational films were produced and published for downloading from the campaign's dedicated website and the PFSA's website. In connection with the campaign, the PENTOR agency prepared a report on the Poles' saving habits. The campaign was conducted at the national level, with over 90 thousand active participants either sharing materials via the website or participating in competitions.

In addition, the Polish Financial Supervision Authority actively works with the academic community, including universities, and scientific groups and associations, in the area of financial education. In 2008, the PFSA organised, in cooperation with the academic community, ten scientific conferences at various university centres around Poland.

In 2008, the PFSA ran the first edition of the *Master's Thesis Contest for the PFSA Chairperson Prize,* whose objective is to disseminate knowledge of the regulation and supervision of the financial market, and promotion of this knowledge within the academic community. At the same time, the first edition of the contest for the best PhD thesis was announced, whose winner will be selected in 2009.

As part of its activities addressed to a wide group of potential participants of the capital market, the PFSA offered its insight on the protection of clients of financial services at the Open Days of the Warsaw Stock Exchange.

On June 16th 2008, Professor Edward C. Prescott, Nobel Prize Laureate in Economics in 2004, visited Warsaw at the invitation of the PFSA Chairperson. In his lecture, Professor Prescott addressed the issues related to the financial crisis in the US. The lecture was attended by over 500 participants representing all sectors of the Polish financial market.

Information Policy

Openness is key to the PFSA's information policy, which is based on accessibility (press conferences and interviews) coupled with an increasingly greater role of the Internet as a mean of communication.

In 2008, eight thematic press conferences were held with the participation of the PFSA's Chairperson, Mr Stanisław Kluza:

- *Banking Supervision at the PFSA – Opening Balance* – January 11th 2008;
- *Integrated Supervision – Opportunities and Challenges* – January 28th 2009;
- *Pillar III of Pensions Scheme in 2007* – February 19th 2008;
- *Canon of Best Practices on the Financial Market* – March 13th 2008;
- *Amendments to the Prospectus Approval Procedure* – April 3rd 2008;
- *Polish Banking Sector in View of the Situation on the International Markets and Basic Entrepreneurship as a Subject on the High School Graduation Exam* – April 8th 2008;
- *Financial Market in Poland in View of the Financial Crisis in USA* – with the participation of Professor Edward Prescott, Nobel Prize Laureate – June 16th 2008;
- *Condition of the Polish Financial Sector and Measures Taken by the PFSA* – October 22nd 2008.

Integration of Supervisory Practices and Activities

One of the immediate benefits of passing banking supervision to the Polish Financial Supervision Authority, effected on January 1st 2008, was an improved flow of information, in particular as part of proceedings related to granting PFSA's approval for appointment of members of financial institutions' governing bodies. Such improvement provided quicker and easier access to information on supervision authority's concerns, if any, with respect to the candidates for such posts, raised in connection with their prior function at other financial institutions. The increased availability of information related to supervision over other sectors of the financial market was also seen in the area of other proceedings, in particular related to the intention to acquire shares or rights attached to shares in regulated entities (insurance undertakings, brokerage houses) in a number which would result in reaching or exceeding the thresholds provided for in the relevant regulations.

Integrated supervision made it possible to conduct common supervisory activities with respect to related entities. In 2008, the following common supervisory activities were carried out by the Banking Supervision Division:

- in cooperation with the Capital Market Supervision Division – inspection at a commercial bank and control of a brokerage house;
- in cooperation with the Insurance Supervision Division – inspection at a commercial bank and control of an insurance undertaking with respect to correctness of settlements with other financial institutions, including the entities belonging to the same financial group.

The merger of banking supervision into the organisational structure of the PFSA was essential for the realisation of the risk assessment-based supervision system development project. The bank scoring model, successfully applied in banking supervision in Poland in the recent years, was adopted as a reference solution for the supervision of the remaining regulated entities. In 2008, the Banking Supervision Division completed the development of the methodology of supervisory review and evaluation process (SREP), which is to be implemented in 2009 and will be used for carrying out annual research and making a supervisory review.

This project is aimed at developing a uniform methodology for supervisory activities of the PFSA, which applies the level of risk as the basic criterion for establishing the priority and frequency of such activities. The methodology will be applied both to analyses carried out behind a desk as well as on-site inspections. Consequently, a decision was made that all divisions of PFSA will prepare handbooks based on uniform approach, which will present the scoring model of assessment applied to regulated entities, define a method of assessment of risk related to the operations of individual regulated entities, and allow a better assessment of risk related to the operations of various financial groups on the Polish financial market. Those handbooks will identify the methods of assessment of risk management systems and monitoring mechanisms applied at regulated entities, assessment methods with respect to compliance of such entities with applicable laws and prudential regulations, and methods of identification of irregularities in the entities' operations.

In June 2008, the Capital Market Supervision Division organised a meeting with the investment fund community related to the assumptions of the investment fund supervision system based on risk assessment, and in the second half of 2008 – a meeting with representatives of the Chamber of Brokerage Houses to present the SREP methodology developed in the division. Still in 2008, a test supervisory review was carried out at four brokerage houses, which were assigned a supervisory score. These reviews were aimed at calibrating the SREP procedure developed by the Capital Market Supervision Division. Further 12 test SREP supervisory reviews of regulated entities are scheduled for 2009.

In order to implement the risk assessment-based supervision system and develop the methodology of research and supervisory review in the insurance sector, surveys were conducted concerning the analysis of the risks associated with the day-to-day operations of insurance undertakings, the assessment of the progress of work on the development of a risk management system, the preparation of the domestic insurance undertakings to the implementation of the solutions of the Solvency II project in this area and the assessment of internal control. On April 29th 2008, a meeting with the representatives of insurance undertakings was held concerning the development of risk assessment-based supervision system. The results of the above survey were presented in the report entitled *Summary of the results of the survey on the risks associated with the operations of an insurance undertaking and internal control*.

The Pensions Supervision Division dealt with issues associated with the assessment of investment risk of open-end pension funds. Its activities included participation in design work, aimed at implementing an integrated financial market supervision system based on risk assessment.

A working team has been appointed to coordinate works related to the development of the risk assessment-based supervision system, which is composed of the persons responsible for methodology-related works in each supervisory division of the PFSA Office. The team is also engaged in the preparation of handbooks concerning inspection of the regulated entities particularly focusing on risk assessment, which are aimed at unifying supervision-related practices.

In 2008, the Banking Supervision Division dealt with adjusting the review and operation methods of inspection teams to the amended legal regulations concerning banking activities. Supervisory activities with respect to banks have already been conducted based on the uniform standards of inspection contained in the On-Site Inspection Handbook and supplementary inspection methodologies. In order to improve the developed On-Site Inspection Handbook, the Capital Market Supervision Division uses conclusions from its consultations with the capital market community and the test SREP surveys carried out in regulated entities. The PFSA expects that at the end of 2009 it will be ready for testing the risk assessment-based supervision system in practice. The ongoing activities also incorporate the experience of foreign supervision authorities, which already apply such supervisory methods based on risk assessment.

Contingency Plans

In accordance with the guidelines adopted in the EU by the ECOFIN Council and the Economic and Finance Committee, Member States are obliged to develop contingency plans. The supervision authority appointed a team for the development of PFSA's contingency plan in the event of a threat to the stability of the financial system in Poland.

In the capital sector, activities were focused on devising contingency plans in the event of a crisis in the area of operations of regulated entities, in particular those responsible for the organisation of trading and settlements as well as investment firms. In the insurance sector, such treat is considered to consist in a material negative change in the functioning of the insurance market, its stability, security and transparency, which could impair the protection of interests of the market participants (insuring parties, the insured, beneficiaries of and entitled persons under insurance contracts) or undermined confidence in the market. The activities in the banking sector included the development of contingency plans in the event of extremely negative changes on the real estate market and review of contingency plans aimed at maintaining liquidity.

Measures Taken to Counteract Financial Market Abuse

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Measures Taken to Counteract Financial Market Abuse

In 2008, the PFSA conducted 13 explanatory proceedings in order to determine whether there were grounds for filing a notification of a suspected offence concerning offences specified in the acts regulating the financial market in Poland, or for instigating administrative proceedings concerning violation of the law, to the extent falling within the scope of the PFSA's supervision. The proceedings pertained to:

- Disclosure and use of inside information,
- Manipulation involving a financial instrument,
- Failure to discharge or improper discharge of the duties relating to significant blocks of shares,
- Disclosure of a professional secret.

In the period covered by this Report, the PFSA conducted 91 administrative proceedings relating to violation of the following acts:

- Act on Trading in Financial Instruments – 28 proceedings,
- Public Offering Act – 37 proceedings,
- Act on Investment Funds – 7 proceedings,
- Act on Insurance Activity – 10 proceedings
- Act on Compulsory Insurance, Insurance Guarantee Fund and the Polish Motor Insurers' Bureau of May 22nd 2003 (Dz.U. of 2003, No. 124, item 1152, as amended), hereinafter referred to as the Compulsory Insurance Act – 7 proceedings,
- Act on Organisation and Functioning of Pension Funds – 2 proceedings.

In 2008, the PFSA issued 84 decisions in the administrative proceedings conducted and imposed pecuniary penalties totalling PLN 4,249,000.

In 2008, the PFSA filed 42 notifications of suspected offences with the Regional Public Prosecutor's Office of Warsaw, relating to violation of the following acts:

- Act on Trading in Financial Instruments – 27 notifications,
- Public Offering Act – 9 notifications,
- Act on Investment Funds – 2 notifications,
- Criminal Code – 3 notifications,
- Act on Insurance Brokerage of May 22nd 2003 (Dz.U. of 2003, No. 124, item 1154, as amended), hereinafter referred to as the Insurance Brokerage Act – 1 notification.

In 2008, the PFSA was notified that the prosecutor's office filed 8 indictments with common courts of law. Moreover, the Chairperson of the PFSA exercised his right to file one subsidiary indictment with the court.

In 2008, common courts of law issued 10 sentences for violation of the following acts:

- Act on Trading in Financial Instruments – 7 sentences,
- Act on Investment Funds – 2 sentences,
- Insurance Brokerage Act – 1 sentence.

In the same period, the PFSA was also notified of one decision issued by the common court of law to conditionally discontinue criminal proceedings. The decision pertained to an offence under Art. 177 of the Act on the Public Trading in Securities (currently Art. 183 of the Act on Trading in Financial Instruments). When conditionally discontinuing the criminal proceedings, the court set a two-year probation period and awarded a payment of PLN 5,000.

In 2008, legal counsels authorised by the Chairperson of the PFSA acted as subsidiary prosecutors in 25 cases:

- in ten cases sentences were passed,
- in one case a decision was issued to conditionally discontinue the criminal proceedings,
- in one case the court discontinued the criminal proceedings due to depenalisation of the imputed act.

All the remaining cases were pending as at December 31, 2008.

Legislative Efforts

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Legislative Efforts

In 2008, the representatives of the PFSA took an active role in the work on the government's amendment to draft *Act Amending the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies and Amending Other Acts* and on related three implementing regulations. The proposed amendments were intended to implement the provisions of Directive 2004/109/EC of the European Parliament and of the Council of December 15th 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 ("Transparency Directive"), and Directive 2004/25/EC of the European Parliament and of the Council of April 21st 2004 on takeover bids. The proposed amendments are also intended to refine certain provisions of the Act and to eliminate certain loopholes in the Act, which became apparent only in the practice of its application.

The draft act prepared by the PFSA was, following minor changes, submitted by the government to the parliament. Finally, the act was published on December 29th 2008 and became effective on January 13th 2009. The act provides for, *inter alia*, changes relating to entitled entities and procedures for seeking admission of securities to trading on the regulated market, as well as changes concerning disclosure requirements and tendering offers to acquire or exchange shares in a public company.

The amendments to the Act on Trading in Financial Instruments of July 29th 2005 (Dz.U. No. 183, item 1538, as amended) follow primarily from the need to implement in the Polish legislation the provisions of Directive 2004/39/EC of the European Parliament and of the Council of April 21st 2004 on markets in financial instruments ("MiFID"), Commission Regulation (EC) No. 1287/2006 of August 10th 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards recordkeeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive; as well as Directive 2006/49/EC of the European Parliament and of the Council of June 14th 2006 on the capital adequacy of investment firms and credit institutions.

In addition to the implementation of the directives, the amendments to the Act also introduce solutions promoting development of the Polish capital market, including solutions facilitating short sale transactional mechanisms. In particular, the amendments propose extension of the catalogue of available financial instruments, introduce more detailed provisions concerning execution of transactions by investment firms directly with entities placing orders (as part of order execution services), and change the settlement system regulations and the existing commodity market supervision model.

On September 4th 2008, the *Act Amending the Act on Trading in Financial Instruments and Amending Certain Other Acts* was passed; however, on September 22nd 2008 the act was referred by the President of the Republic of Poland to the Constitutional Tribunal for examination of its compliance with the Constitution.

The PFSA also participated in the preparation of 18 draft implementing regulations to the said act.

In 2008, the representatives of the PFSA were actively involved in the work on the government's amendment to the draft *Act Amending the Act on Investment Funds of May 27th 2004*, which transposes into the Polish legislation relating to investment funds the provisions of the following directives:

- Directive 2004/39/EC of the European Parliament and of the Council of April 21st 2004 on markets in

financial instruments (MiFID), amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC;
- Commission Directive 2006/73/EC of August 10th 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and the terms defined for the purposes of the Directive;
- Commission Directive 2007/16/EC of March 19th 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions.

In connection with the proposed amendments to the Act on Investment Funds, the PFSA took part in the drafting of five implementing regulations to that Act.

The Act amending the Act on Investment Funds, the Banking Law Act and the Act on Financial Market Supervision, dated September 4th 2008 (Dz.U. of 2008, No. 231, item 1546) envisages a number of systemic changes as well as changes aimed at enabling the PFSA to exercise more efficient supervision over investment funds. The bill drafted by the PFSA was, after minor modifications, presented by the government at a parliamentary session. Eventually, the bill was enacted on December 29th 2008, and took effect as of January 13th 2009.

In 2008, representatives of the PFSA actively participated in the work on government's draft *Act amending the Act – Commercial Companies Code and the Act on Trading in Financial Instruments,* which implements into the Polish legal system the provisions of Directive 2007/36/EC of the European Parliament and of the Council on the exercise of certain rights of shareholders in listed companies on a regulated market, dated July 11th 2007.

The bill was enacted on December 5th 2008 and published on January 28th 2009. It took effect as of August 3rd 2009. The Act introduces a number of significant changes to the organisation of general shareholders meetings of public companies, including:
- The scope of information available before a general shareholders meeting will be wider and the information's availability will be improved;
- Companies will be obliged to address all questions concerning matters placed on the agenda;
- Shareholders will have more possibilities of influencing the agenda;
- The following will be forbidden:
  - making attendance in a general shareholders meeting dependent on a blockage of or restriction in disposal of shares,
  - limitation of the right to appoint proxies, with a concurrent clear definition of the proxies' obligations towards their principals;
- It will be possible to:
  - attend general shareholders meetings from a distance via means of electronic communication,
  - cast votes by mail prior to the general shareholders meeting;
- The scope of information available after a general shareholders meeting will be wider and the information's availability will be improved.

The draft *Act amending the Act on Insurance Activities and certain other Acts* is intended to implement into the Polish legal system the provisions of Directive 2005/68/EC of the European Parliament and of the Council of November 16th 2005 on reinsurance and amending Council Directives 73/239/EEC, 92/49/EEC as well as Directives 98/78/EC and 2002/83/EC. On January 9th 2009, the Parliament passed the *Act amending the Act on Insurance Activities and certain other Acts.*

In order to regulate the payment of pension benefits which are paid for with the capital deposited in open-end pension funds, two issues had to be resolved. First of all, the entity authorised to pay the benefits had to be named, and secondly, the types of benefits had to be defined. Answers to these questions, fundamental from the perspective of the pension scheme reform, were provided by two bills prepared by the Ministry of Labour and Social Policy. The first question was connected with the draft *Act on Lifetime Capital Pension Funds,* which provided for the establishment of lifetime capital pension funds managed by pension fund companies or special pension undertakings operating as joint-stock companies, dedicated exclusively for that purpose. The said draft *Act on Lifetime Capital Pension Funds* specified the special legal requirements applying to the establishment and operation of lifetime capital pension funds, the principles of their financial management, the form of restrictions imposed on the funds' activities and supervision over the funds. The bill has not been enacted yet.

The question relating to the types of benefits to be received by members of open-end pension funds is different. This issue is regulated by the *Act on Capital Pensions* of November 21st 2008. The Act specifies the types of monetary benefits paid out using the capital deposited in open-end pension funds, the rules for acquiring entitlement to capital pensions, the principles of and the procedure for granting capital pensions, the rules for determining the amount of capital pensions and the rules for payment of capital pensions. The Act on Capital Pensions introduces a rule whereby the capital deposited in open-end pensions funds confers the right to receive a capital pension in the form of a periodical capital pension or lifelong capital pension. It needs to be particularly stressed that both bills were prepared with a strong support and input from the employees of the PFSA who prepared special analyses, summaries and presentations to aid the legislative work. The employees of the PFSA actively participated in the preparation of both bills by the Working Team appointed at the Ministry of Labour and Social Policy, supported the Ministry of Labour and Social Policy with their insight during the parliamentary work and responded to numerous queries from the Members of Parliament and Senators. It can be concluded that the representatives of the PFSA left an imprint on the adopted legal and organisational solutions and on the wording of individual provisions of the law due to the fact that during the legislative work the Ministry of Labour and Social Policy relied on the PFSAs knowledge and experience in the area of the rules of operation of the financial market, in particular the pension and insurance markets. In addition, in connection with the passing of the Act on Capital Pensions, the representatives of the PFSA were involved in the preparation of implementing regulations to that Act, particularly the Council of Ministers' Regulation on the dates for and the manner of performance of actions connected with periodical capital pensions by the Social Insurance Institution and open-end pension funds.

In connection with the payment of pensions from open-end pension funds which commenced in 2009, the PFSA, in cooperation with the Ministry of Labour and Social Policy and the Social Insurance Institution, participated in the preparation of and the issue of opinions on the acts of law regulating this activity (including the Council of Ministers' Regulation on the dates for and the manner of exchange of information concerning determination of entitlement to and the amount of periodical capital pensions between the Social Insurance Institution and the open-end pension funds, and the dates of and the manner for the transfer funds by open-end pension funds for the payment of pensions). Conceptual work was also conducted necessary for exercising supervision over a new area, and numerous arrangements with the entities involved in the process were made (the Social Insurance Institution and pension fund companies).

The objective of work on the *Act amending the Act on Individual Pension Accounts and certain other Acts* was to introduce changes which would lead to higher savings to supplement pension income and encourage persons who did not save money on individual pension accounts to start saving under the system. Amendments to the Act on Individual Pension Accounts seek to make the individual pension accounts more appealing to Polish citizens and encourage them to save on such individual accounts for their future pensions. The Act was published on December 12th 2008 and took effect as of January 1st 2009.

In connection with its obligation under Art. 80 of the Act on Financial Market Supervision to enact – by January

1st 2009 – implementing regulations to the Banking Law (as the regulations previously enacted by the Commission for Banking Supervision were due to expire at the end of 2008), the PFSA enacted amendments to nine resolutions of the Commission for Banking Supervision:

- Resolution on determination of a list of documents pertaining to the business activity of a foreign entrepreneur entrusted by a bank with activities described in Art. 6a.1 of the Banking Law (Resolution No. 379/2008 of the Polish Financial Supervision Authority has superseded Resolution No. 3/2004 of the Commission for Banking Supervision);
- Resolution on the scope and detailed rules of specifying capital requirements for individual types of risk, including the scope and rules of applying statistical methods and the scope of information to be provided together with requests for approval of their application, rules and conditions of taking into account debt assignment agreements, sub-participation agreements, agreements on credit derivative instruments, and agreements other than debt assignment agreements and sub-participation agreements, for the purpose of specifying capital requirements, the conditions, scope and manner of relying on credit ratings assigned by external credit assessment institutions and export credit agencies, the manner and detailed rules of calculating bank's capital adequacy ratio, the scope and manner of taking into account bank's operation within a holding company when calculating capital requirements and capital adequacy ratios, and of defining additional items of bank's balance-sheet disclosed together with bank's own funds in the calculation of capital adequacy , as well as the scope, manner and conditions of determination thereof (Resolution No. 380/2008 of the Polish Financial Supervision Authority has superseded Resolution No. 1/2007 of the Commission for Banking Supervision),
- Resolution on other reductions of core capital, their amount, scope and conditions of deduction thereof from bank's core capital, other items of bank's balance-sheet included in supplementary capital, their amount, scope and conditions of inclusion thereof in bank's supplementary capital, reductions of supplementary capital, their amount, scope and conditions of deduction thereof from bank's supplementary capital, as well as the scope and manner of taking into account bank's operation within a holding company when determining a method for calculating bank's own funds (Resolution No. 381/2008 of the Polish Financial Supervision Authority has superseded Resolution No. 2/2007 of the Commission for Banking Supervision),
- Resolution on detailed rules and conditions of qualifying exposures when determining whether an exposure concentration limit or a large exposures limit has been complied with, determination of exposures to which the regulations on exposure concentration limits and large exposures limits do not apply, and the conditions they must meet, determination of exposures with respect to which the Polish Financial Supervision Authority's approval is required for non-application of the regulations on exposure concentration limits and large exposures limits, as well as the scope and manner of taking into account bank's operation within a holding company when calculating the exposure concentration limits (Resolution No. 382/2008 of the Polish Financial Supervision Authority has superseded Resolution No. 3/2007 of the Commission for Banking Supervision),
- Resolution on detailed rules of the operation of risk management and internal auditing systems and detailed conditions of estimating internal capital by banks and reviewing the process of estimating and maintaining such capital (Resolution No. 383/2008 of the Polish Financial Supervision Authority has superseded Resolution No. 4/2007 of the Commission for Banking Supervision),
- Resolution on requirements for identification, monitoring and control of exposure concentration, including large exposures (Resolution No. 384/2008 of the Polish Financial Supervision Authority has superseded Resolution No. 5/2007 of the Commission for Banking Supervision),
- Resolution on detailed rules and manner of disclosure by banks of qualitative and quantitative infor-

mation pertaining to capital adequacy and the scope of information subject to disclosure (Resolution No. 385/2008 of the Polish Financial Supervision Authority has superseded Resolution No. 6/2007 of the Commission for Banking Supervision),

- Resolution on determination of liquidity requirements binding upon banks (Resolution No. 386/2008 of the Polish Financial Supervision Authority has superseded Resolution No. 9/2007 of the Commission for Banking Supervision),
- Resolution on determination of credit ratings assigned by external credit assessment institutions which a bank may rely on to determine capital requirements, as well as the extent to which such ratings may be relied on and their relation to credit enhancement levels (Resolution No. 387/2008 of the Polish Financial Supervision Authority has superseded Resolution No. 10/2007 of the Commission for Banking Supervision as amended by Resolution No. 11/2007 of the Commission for Banking Supervision).

The above listed resolutions were adopted by the Board of PFSA on December 17th 2008.

Moreover, the PFSA cooperated with the Ministry of Finance in the area of legislative work on amending the principal laws governing the Polish banking sector to reflect changes in the International Accounting Standards, International Financial Reporting Standards and related interpretations issued as regulations of the European Commission.

In 2008, representatives of the PFSA participated in the work of the Financial Market Development Council, advisory and consultative body formed by the Minister of Finance.

The PFSA representatives were members of the following working groups:

- Working group for investment funds, whose objective was to review and analyse options for streamlining the Act on Investment Funds with respect to disclosure requirements, simplify the authorisation procedure, or facilitate venture capital funds,
- Working group set up to review the banking regulations, which is well advanced in the work on draft amendments to the Banking Law, especially with respect to confidential banking information and outsourcing in banking activities,
- Working group for payment services, which is preparing the draft Act on Payment Services, implementing Directive 2007/64/EC of the European Parliament and of the Council of November 13th 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC,
- Working group for mortgage loans, responsible for a comprehensive review of mortgage lending issues, including the reversed mortgage,
- Working team for changes on the laws governing the operations of open-end pension funds, appointed by the Minister of Finance,
- Working group for the EU project called Solvency II, devoting its efforts in particular to a draft directive of the European Parliament and the Council setting forth a new regulatory regime for insurance activities, including solvency of insurance undertakings, reinsurance, and risk-based supervision.

International Activity of the Polish Financial Supervision Authority

7

International Activity of the Polish Financial Supervision Authority

International Organizations

International Organization of Securities Commissions (IOSCO)

The PFSA is a member of the IOSCO Emerging Markets Committee. Within the Committee, the PFSA manages the works of IOSCO EMC Working Group No 4 on Enforcement and Exchange of Information (EMC WG4). Representatives of the PFSA Office, in cooperation with the Turkish Capital Markets Board, organized an IOSCO EMC Working Group 4 Seminar on Enforcement Aspects of Takeover Regulations (June 11-14 2008, Istanbul, Turkey). The Seminar, which gathered about 80 participants from 30 countries was an opportunity to present the updated version of the Report on Takeover Regulation in the Jurisdictions of IOSCO EMC Members.

The PFSA has been also a member of:

- Standing Committee No 4 of the Technical Committee,
- Advisory Group of Emerging Markets Committee,
- Technical Committee Task Force on Corporate Governance.

International Association of Insurance Supervisors (IAIS)

The PFSA representatives are contributing to the works of the International Association of Insurance Supervisors (IAIS) that focus on issues relating to new solvency standards for insurance groups, and particularly to more balanced approach to the treatment of insurance groups than proposed in the draft of Solvency II directive.

The PFSA's representative acts as IAIS regional coordinator for Central and Eastern Europe and the Transcaucasus. In this capacity, the PFSA supports countries from the region in organization of seminars, implementation of translation programme, identification of training needs, implementation of standards, and fulfilling the targets set in IAIS's document „Roadmap for Standard Implementation Activities". The PFSA representatives also participated in the IAIS Technical Committee.

International Organisation of Pension Supervisors (IOPS)

The representatives of the PFSA attended three meetings which focused on the revision of supervisory systems, risk-based supervision of pension schemes, obligation imposed on pension funds to provide clients with certain information and the impact of the global financial crisis on pension schemes.

During two IOPS conferences, the representatives of the PFSA had a possibility to present Polish solutions relating to the payment of pensions and to the increase of social awareness in the field of the pension system.

Basel Committee on Banking Supervision (BCBS)

The PFSA contributed to the works of following three working groups:

- Accord Implementation Group's Operational Risk Subgroup (AIGOR) – which focuses on developing best methods as to the use of Advanced Measurement Approaches (AMA) to calculate capital requirement for operational risk and ensures coherent approach of banking supervisors to the evaluation of AMA and statistical models;
- Accord Implementation Group - Validation (AIGV) – which formulates the best practices in relation to the use of advanced methods (IRB) to calculate capital requirement due to credit risk and Pillar II of the Capital Requirement Directive;
- International Liaison Group (ILG) – a contact group that gathers countries participating in the BC Committee and other selected members. In 2008 the group met three times with the participation of the PFSA representative as one of three countries from Central and Eastern Europe region (together with Russia and the Czech Republic). The subjects of information and discussion were, in particular, the BCBS further impact on the implementation and revision of Basel II arrangements.

Banking Supervisors from Central and Eastern Europe (BSCEE)

The Group's Secretariat is run by the PFSA. In 2008, the Secretariat focused on the co-organization of the annual Conference. XXI annual BSCEE Conference took place in Belgrade and concentrated on the subject of Rapid credit growth implication on financial stability. The Second BSCEE Conference, co-organized and coordinated by the Secretariat, took place in Brussels and concerned the subjects of Liquidity risk and Valuation, provisioning and risk disclosure.

The BSCEE Secretariat lent administrative support to the Chairperson of BSCEE Group, cooperated and kept liaison with the Basel Committee and with other institutions and organizations connected to the banking supervision as well as to the other regional BCBS groups.

The Organisation for Economic Cooperation and Development (OECD)

The PFSA experts supported the OECD Working Party on Private Pensions - WPPP. Furthermore, certain tasks related to the Taskforce on Funded Pension Statistics were performed through consultation, release of data and survey responses and also by amending documents during the period between WPPP sessions.

The Steering Committee on Corporate Governance was appointed within OECD. Delegations from the OECD member states as well as the representatives of the European Commission and the World Bank participated in its works. In April 2008 a representative of the PFSA was appointed to the Steering Committee as the only representative from the new EU Member States.

Cooperation on the European Level

Committee of European Securities Regulators (CESR)

All new Committee workstreams result from the European Commission mandates; many of them are connected to the reaction to the financial crisis. Consequently, the participation of the PFSA experts in CESR has been significantly higher in 2008 compared to previous years.

In the new *Post-ECOFIN Task Force* (meetings at the level of high representatives of CESR members) future functioning of the Committee was discussed in relation to changes of the international financial markets. As a result of ECOFIN mandate, qualified majority voting has been introduced in place of the previous unanimity voting. This solution significantly strengthens CESR decision making process. The opinion of the PFSA was that the scope of such decisions, introduced to the CESR statute, shall not include possible future decisions that will be binding for supervisors (especially decisions regarding supervised entities).

Since August 2008, CESR has been working on the future regulation setting the functioning of the Credit Rating Agencies sector (CRA). The PFSA actively participates in the works of the CESR Taskforce on Credit Rating Agencies leading to the new legislative framework enabling effective supervision of CRAs' activities.

PFSA experts participated in all exercises of the CESR Review Panel, which is a working group mandated to review compliance of CESR Members with financial sector Directives and Level 3 non-binding acts such as CESR standards, guidelines and recommendations.

PFSA experts are members of almost all CESR working groups, including:

- Operational Group CESR-Fin,
- Operational Group CESR-Pol,
- Post–Trading Expert Group (PTEG)
- Prospectus Contact Group,
- MIFID Level 3 Expert Group,
- Investment Management Expert Group,
- Transparency Expert Group,
- CESR-Tech,
- Takeover Bids network,
- CESR Corporate Governance Network.

The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

In 2008 an intensive exchange of information took place concerning financial situation of insurance undertakings operating in the EU. Exposure of insurance undertakings to investments which could generate losses was constantly monitored. The PFSA provided information regarding the financial involvement of Polish insurance undertakings. The PFSA experts within CEIOPS contributed to developing conclusions on financial crisis for the Solvency II project.

According to the ECOFIN recommendations relating to the strengthening of the Level 3 Committees of the Lamfalussy procedure, CEIOPS has changed its statute, extending the range of decisions taken through qualified majority voting instead of unanimity. The PFSA representatives supported exclusion of statute changes and legally binding decisions out of the new voting scheme.

The PFSA representatives participated in the works of CEIOPS' Review Panel contributing to the preparation of procedures used in on-going supervision as well as practices related to the exchange of information between the authorities.

Financial Stability Committee (FSC)

In 2008 the PFSA provided the Financial Stability Committee (FSC) with information about the financial situation on insurance and occupational pension funds markets which were used in spring and autumn financial stability report. PFSA also participated in the preparation of the final versions of both reports.

Committee on Consumer Protection (CCP)

During the works of the Committee on Consumer Protection (CCP) the PFSA actively supported the inclusion of the advertisement issue to the review of competence and structure of the Member States supervisory authorities in relation to consumer protection.

Committee of European Banking Supervisors (CEBS)

The PFSA participated in the creation of standards and guidelines prepared by CEBS. The most important tasks included analysis of the crisis situation on the financial markets and coordination of joint preventive actions carried out within the Committee. In 2008 the PFSA actively participated in works of the Committee and the following working groups:

- Group de Contact (GdC)
- Expert Group on Financial Information (EGFI)
- Liquidity Risk Management Task Force (LiqTF)
- Expert Group on Prudential Regulation (EGPR)
- Pillar 2 Convergence Network (P2CN)
- Working Group on Cyclicality

European Central Bank (ECB)

The PFSA participates in the four working groups of the European Central Bank:

- Working Group on Macroprudential Analysis (WGMA)
- The Joint Task Force on the Impact of the New Capital Framework (TFICF)
- Working Group on Developments in Banking (WGDB)
- Joint Task Force on Crisis Management (CMTF)

The Statistical Office of the European Communities (EUROSTAT)

The PFSA regularly submits to Eurostat data regarding markets under its supervision. The PFSA contributed to the “Improvement of quality of national accounts” project pursuant to the arrangements between the PFSA and the Polish Central Statistical Office (GUS) and based the recommendation of EUROSTAT. The project was executed by the European Commission and co-financed by the GUS in accordance with agreement between the EUROSTAT and the GUS.

Bilateral Cooperation

Renewal of memoranda of understanding concluded by the former Polish Committee on Banking Supervision

After the Committee on Banking Supervision has merged with the PFSA, a necessity to revalidate the memoranda concluded by the CBS occurred. Memoranda with the following supervisors were renewed in 2008:

- Bundesanstalt fur Finanzdienstleistungsaufsicht (German supervision authority),
- Banca d'Italia,
- CBFA (Belgian supervision authority),
- China Banking Regulatory Commission,
- De Nederlandsche Bank,
- Federal Deposit Insurance Corporation,
- Board of Governors of the Federal Reserve System,
- New York State Banking Department,
- US Office of the Controller of the Currency,
- US Office of Thrift Supervision,
- Banque de France,
- Lietuvos Bankas (Bank of Lithuania),
- Banco de Portugal.

Main Legislative Areas of Activity

Solvency II

On 5 February 2008 a Working Team on the implementation of the EU project Solvency II was established. Team members have contributed to CEIOPS workstreams connected to the implementation of the Solvency II project, such as:

Quantitative Impact Study4 - QIS 4

The PFSA Office coordinated the conducting of Quantitative Impact Study 4 - QIS 4 in Poland. The Office organized meetings and trainings for the representatives of the insurance undertakings devoted to the principles and methodology of QIS 4. After the conclusion of the study the Office prepared and submitted to CEIOPS a report containing results for Polish insurance undertakings. The results of the study of the Polish market were also presented to the participants of the study.

Financial Requirements Expert Group- FinReq

In 2008 the group prepared, inter alia: a CEIOPS advice for the EC concerning the principle of proportionality, technical specification of the Quantitative Impact Study 4 (QIS 4) and European report on the QIS 4. In 2008 The PFSA Office representatives participated in all 10 meeting of the Group.

Internal Model Expert Group - IMEG

In 2008 the group drafted a section on internal models in European report on QIS 4, report on the market study „Stock-taking report on the use of Internal Models in Insurance" concerning the currently used models (Polish experts contributed to the preparation of the stress test as well as backtesting). In 2008, 11 meetings of the Group took place (including one hosted by the PFSA in Warsaw) and one meeting of its sub-group on quantitative issues. The PFSA Office representatives participated in all the meetings.

Internal Governance, Supervisory Review and Reporting Expert Group - IGSRR

In 2008 the group focused on drafting the projects secondary legislation to the Solvency II directive and some proposals were consulted with the market (especially related to the own risk assessment and solvency, supervision process, the basis requirements concerning reporting and the management system). The Group also carried out works related to creation of the unified reporting of the entities supervised within EEA. Additionally, the Group has also evaluated documents of the international organizations (IAIS, IASB) concerning accountancy and reporting. In 2008 the PFSA Office representatives took part in 9 meetings of the group.

Insurance Groups Supervision Committee - IGSC

The Members of the Working Team dealing with the implementation of the EU project Solvency II, took part in the evaluation of documents and formulation of Poland's official position on matters related to the Solvency II project, which were brought up on the EU institutions forum, where Poland is represented by the Ministry of Finance At the invitation of the Ministry of Finance., the representatives of the PFSA Office have also participated, as technical experts, – in meetings of the working Group on financial services and other working meetings including the meetings of the Working Group on Solvency II at the Financial Market Development Council.

Amendments to CRD Directive

In the period covered by this Report, the European Commission presented an official draft amendment to the CRD, which constitutes a main legal act pertaining to the activities of the banking sector in the European Union. Key issues relate to new rules of securitisation and rules of defining and enforcing Pillar II capital requirements in banking groups. The proposed mechanism according to which the bank would retain certain amount of the securitised debt whose distribution is intermediated by a given credit institution, was a result of the influence of the securitisation process on the spillover of the global financial crisis.

In relation to the changes in Pillar II capital requirements, the project assumed granting the consolidating supervisor the right of casting vote with respect to the application of Pillar II requirements in the bank group.

Additional changes to the CRD include the creation of joint supervisory bodies consisting of the given bank group members' supervisors, the introduction of uniform reporting formats for the European banking sector and the technical issues relating to hybrid instruments as well as solutions concerning large exposures.

UCITS IV Directive

PFSA experts have actively contributed to the works upon UCITS Directive recast, which have been conducted by CESR on the basis of the EC mandate. The relevant CESR Investment Management Expert Group held several meetings in 2008. CESR contribution to the Commission included:

- input to EC's work on amendments to the UCITS Directive introducing the full management company passport (MCP, solution opposed by several countries including Poland), notification procedure of foreign UCITS funds as well as cross-border mergers of UCITS funds,
- analysis of format and contents of the new information document for investors in UCITS funds, which in accordance with amendments to the UCITS Directive, is to replace the current simplified prospectus. The new information document (Key Investor Document – KID) would address the needs of retail investors. The document should have a universal form across the EU so that it would be possible to compare UCITS funds from various EU Member States. Based on the concept formulated by CESR, in 2008 the European Commission started testing new solutions in several Member States, including Poland. The tests investigate in detail how investors and distributors of UCITS fund units respond to the KID,

Review of the Lamfalussy Process

In 2008, the review of the Lamfalussy process has been continued in the European Union. At the end of 2007, the assessment of functioning of the Process was completed and, during the meeting held on 4 December 2007, the Council of the European Union (ECOFIN) issued detailed recommendations concerning changes necessary for better functioning of the Process in the future. The PFSA actively participated in the activities related to the realisation of these recommendations, especially in activities connected to the changes to the rules of functioning of the so-called Level 3 Committees (CESR, CEIOPS, CEBS). In accordance with the ECOFIN recommendations, the Committees were obliged to include in their statutes the provisions allowing for a greater number of decisions to be made by means of a qualified majority, at the same time applying the complain-or-explain procedure. The PFSA representatives actively participated in drafting of the new provisions of the statutes, keeping in mind that their content would have consequences for the Level 3 Committees status as well as for the shape of the EU financial supervision system. For similar reasons, PFSA decided to take an active part in the process of preparing and submitting comments on changes to the decisions establishing CESR, CEIOPS and CEBS which were proposed by the European Commission. These decisions were also reviewed by the Commission as a result of an ECOFIN recommendation.

Memoranda of Understanding

The PFSA is a signatory of a multilateral Memorandum of Understanding on cooperation between financial supervision institutions, central banks and EU ministries of finance in the scope of cross-border financial stability signed on 1 June 2008. The agreement describes in detail the rules of cooperation in financial crisis situations between EU Members. It also sets forth some preliminary criteria for the division of costs in relation to the volume of incurred losses and the division of supervisory competencies between home states and host Member States.

The PFSA is a signatory of two multilateral agreements on cooperation and information exchange: IOSCO Multilateral Memorandum of Understanding and the CESR Multilateral Memorandum of Understanding.

Within IOSCO, the PFSA has participated in the works of the Monitoring Group comprising MMoU signatories, responsible for analysing the exchange of information between regulators based on the Memorandum of Understanding. Also he activity of the group assessing the ability of particular regulators to join the IOSCO Multilateral Memorandum of Understanding developed significantly in 2008. In accordance with the adopted objectives, all IOSCO's ordinary members should become signatories of the Memorandum of Understanding no later than 1 January 2010. In 2008, the PFSA continued works on the application received in December 2007 from the Albanian Financial Supervision authority. Moreover, in September 2008 the PFSA also received an application for verification from the Macedonian Securities and Exchange Commission.

On 27-28 March 2008 an IOSCO Regional Seminar and Workshop on Cooperation and Exchange of Information between Securities Supervisors from Eastern and Southern Europe: how to join and effectively use IOSCO MMoU, was organized by the PFSA in Warsaw. Over 50 participants from 25 countries took part in the seminar, which was addressed to the representatives of foreign supervisory bodies from Central, Eastern and Southern Europe, designed to promote cooperation and the exchange of information between securities regulators as well as to encourage countries to join the IOSCO Multilateral Memorandum of Understanding.

EU Twinning Projects

Twinning project for the Bulgarian Financial Supervision Commission

The project of strengthening the administrative capacity of the Bulgarian Financial Supervision Commission Phare[8] BG/2004/IB/FI/02 ("Strengthening of the administrative capacity of the Financial Supervision Commission to implement the acquis communautaire in the field of securities, insurance and pensions") was implemented by the PFSA acting as the lead partner in cooperation with the junior partner – the Spanish General Directorate for Insurance and Pension Funds (Dirección General de Seguros y Fondos de Pensiones).

The main objective of this EUR 1.3 million worth project was to assist the Bulgarian side in implementation of EU directives and standards in the field of Bulgarian financial market supervision through development, strengthening and harmonisation of the laws, structures and control procedures in accordance with the requirements resulting from Bulgaria's accession to the EU on 1 January 2007.

The Final Report was approved by the Central Finance and Contracting Unit (CFCU) in the Bulgarian Ministry of Finance on 15 January 2008. The Project was closed and settled in Q1 2008. At the same time, on 6 March 2008 the European Commission expressed its appreciation to the PFSA representative, as a project leader, for the realisation of very good project.

Multi-sector project for strengthening administrative capacity

According to the European Commission decision of August 2nd 2006, within the allocation of Transition Facility 2005, the PFSA Office became beneficiary of a multi-sector project for strengthening the administrative capacity: Enhancing protection of victims in the light of motor insurance directives through analysis of functions and tasks of respective insurance market institutions.

The main objective behind this technical assistance project was to improve the qualifications and knowledge of the PFSA's employees on the EU solutions in the field of compulsory motor insurance, including insurance tariffs, risk assessment and creation of technical provisions.

As part of the project, a report was prepared and published on the PFSA website as well as on websites of other Polish institutions involved. The report concerned solutions implemented on the Polish market with relation to rules on tariffs, risk assessment and creation of technical provisions concerning compulsory motor insurance. The analysis of solutions coming from motor insurance directives adopted by other Member States was also published on the above mentioned websites. Additionally, the PFSA website also included a new section concerning the EU motor insurance directives in order to allow the campaign addressees to learn about their rights and duties stemming from the implementation of five motor insurance directives as well as in order to show citizens the relevant Polish institutions responsible for enforcing their rights.

[8] Phare - a programme within the scope of projects implementation in which Polish public administration institutions, as the EU side, provide support to the EU candidate countries on a twinning basis financed from EU pre-accession funds.

Budget of the PFSA

8

Budget of the PFSA

In 2008, the PFSA reported budget revenue of PLN 239,982.4 thousand. It derived mainly from fees paid by the industry to cover the costs of supervision. The fines incurred and paid by the industry amounted to PLN 3,999.6 thousand. The expenditure allocated in the 2008 state budget to the PFSA operations amounted to PLN 202,773.0 thousand. The actual spend was PLN 183,491.2 thousand, which means that the PFSA 's expenditure was 9.51% lower than the budgeted amount.

TABLE 20. EXECUTION OF THE PFSA'S 2008 BUDGET REVENUE PLAN

BUDGET REVENUE	PLANNED (PLN)	ACTUAL	
		(PLN)	(%)
Fees towards the costs of supervision over insurance and brokerage activity paid by insurance undertakings	22,438,000	30,238,409	135
Fees towards the costs of supervision over open-end pension funds paid by general pension fund companies	13,940,000	15,758,118	113
Fees towards the costs of supervision paid by the capital market	24,762,000	16,258,789	66
Payments made by supervised banks to cover costs of supervision	141,633,000	172,411,931	122
Fees for official duties connected with examinations for brokers, actuaries and insurance agents	180,000	324,600	180
Fines imposed on the industry	2,555,000	3,999,645	157
Other	265,000	990,859	374
Total:	205,773,000	239,982,351	117

TABLE 21 EXECUTION OF THE PFSA'S 2008 EXPENDITURE PLAN

BUDGET EXPENDITURE	PLANNED (PLN)	ACTUAL	
		(PLN)	(%)
Payroll, including overheads	100,111,000	93,314,462	93
Non-payroll expenditure	102,662,000	90,259,595	88
including:			
out-of-pocket expenses	47,664,000	44,259,500	93
spending on assets	54,998,000	45,917,238	83
Total	202,773,000	183,491,200	90

In line with the Act on Financial Market Supervision, in 2008 the PFSA took over the tasks previously assigned to the Commission for Banking Supervision.

In a report prepared following an inspection carried out to review the performance of the PFSA budget in 2008, the Supreme Chamber of Control concluded that the costs of banking supervision within the structures of the PFSA in 2008 were much lower from the figures presented by the National Bank of Poland in this respect, and lower than the amounts assumed by the PFSA. This permits a conclusion that the savings were achieved also thanks to the economies of scale.

Annex. Publications and Studies Referred to in the Report on the PFSA Activities in 2008

9

Annex. Publications and Studies Referred to in the Report on the PFSA Activities in 2008

- Supervision over the capital and commodity markets
  - Financial standing of investment fund companies in 2007 and H1 2008
  - Report on brokerage activities in 2007 and H1 2008
  - Information on sale in Poland of participation titles of foreign investment funds in the period January 1st – June 30th 2008
  - Information on sale in Poland of participation titles of foreign investment funds in the period July 1st – December 31st 2007
  - Responsibility for preparation of a prospectus and other documents prepared in connection with a public offering and seeking of admission of securities to trading on the regulated market.
- Supervision over the insurance market
  - Quarterly Bulletin. Insurance Market.
  - Annual Bulletin. Insurance Market in 2007.
  - Report on risk in the operations of insurance undertakings and internal audit.
  - Summary of the results of a survey on risk in the operations of insurance undertakings and internal audit.
  - Report on solvency of insurance undertakings as at September 30th 2008
  - Report on an analysis of the semi-annual reports of insurance capital funds of life insurance undertakings prepared as at June 30th 2008
  - Activities of insurance brokers in 2007
  - Report on solvency of insurance undertakings as at June 30th 2008
  - Report on solvency of insurance undertakings as at March 31st 2008
  - Report on solvency of insurance undertakings as at December 31st 2007
  - Report on an analysis of the semi-annual reports of insurance capital funds prepared as at December 31st 2007
  - Report entitled *Outsourcing at Insurance Undertakings.*
  - Report entitled *The Effect of the Crisis on the American Mortgage Loans Market on the Polish Insurance Market.*
  - Report entitled *Internal Control and Internal Audit at Insurance Undertakings.*
  - Report entitled *Deferred Income Tax Assets and Liabilities.*
  - Assets and liabilities related to structured insurance products.
- Supervision over the pension fund market
  - Quarterly Bulletin. Market of Open-End Pension Funds.
  - Quarterly Bulletin. Market of Occupational Pension Funds.
  - Annual Bulletin. Market of Open-End Pension Funds.
  - Statistical releases:
    - Membership Draws for Open-End Pension Funds,
    - Rates of Return of Open-End Pension Funds,
    - Transfers,
    - Draws at the Social Insurance Institution (ZUS).
  - Market of Occupational Pension Schemes in 2007.

- Information on personal pension accounts prepared on the basis of figures for 2007.
- Information on personal pension accounts prepared on the basis of figures for H1 2008.
- Financial Standing of the Open-End Pension Fund Companies in 2007.
- Financial Standing of the Open-End Pension Fund Companies in H1 2008.
- Investment Activities of the Pension Funds in the Period March 31st 2005 – March 31st 2008.
- Investment Activities of the Pension Funds in the Period September 30th 2005 – September 30th 2008.
- Competition on the Market of Open-End Pension Funds.
- Recommended changes for investment limits binding on open-end pension funds.
- Market of Open-End Pension Funds in 2007.
- Guide for Occupational Pension Scheme Members.
- Guide for Employers Maintaining Occupational Pension Schemes.
- Pillar III – data for 2007.

- Banking supervision
  - Report on the Situation of the Banking Sector in 2007.
  - Information on Banks' Standing as at June 2008.
  - Information on Banks' Standing after the First Three Quarters of 2008.
  - Financing of Real Estate by Banks in Poland – as at June 2008.
  - Review of operating rules and practices of selected credit union systems and saving-and-loan cooperatives in Poland.
- Cross-sectoral reports and studies
  - Draft analysis of the financial system stability.
  - Report on profitability of investments in personal pension accounts and investment activity of Poles, investor expectation barometer.
  - Reports under preparation (to be completed in 2009):
    - Report on reinsurance of catastrophic risk,
    - Report on insurance undertakings' internal regulations and profit distribution policy,
    - Report on the implementation of the provisions of Art. 4a of the Polish Accountancy Act of September 29th 1994 (Dz.U. of 2002, No. 76, item 694, as amended),
    - Report on the use of stress tests in supervision over insurance undertakings.