
BGF Activity

REPORT ON THE OPERATIONS OF THE BANK GUARANTEE FUND IN 2009 (SHORT FORM)

I. LEGAL BASIS, ROLES AND CORPORATE BODIES

The Bank Guarantee Fund, one of the cornerstone institutions ensuring the stability of the Polish banking system, carries out the tasks set out in the Bank Guarantee Fund Act of 14 December 1994, under the supervision of the Finance Minister.

The BGF is a key component of Poland's financial security network, performing its statutory roles that involve guarantee, assistance and analytical activities.

In the mandatory accumulated sum guarantee scheme, these roles include:

- ❖ determining the amount of funds designated in a given year by entities covered by the guarantee scheme, in connection with the obligation to establish the guaranteed sum protection fund;
- ❖ fulfilling obligations resulting from guaranteeing sums on the terms set out in the Act.

The Fund's statutory responsibilities with regard to assisting entities covered by the guarantee scheme include:

- ❖ providing reimbursable financial assistance in accordance with the terms set out in Articles 19 and 20 of the Act, in the event of insolvency risk or for the purpose of purchasing shares of banks;
- ❖ acquiring debts of banks at risk of insolvency;
- ❖ assessing the proper use of the assistance provided;
- ❖ setting mandatory annual fees, as referred to in Articles 13.1 and 14 of the Act, which are paid to the Fund by entities participating in the scheme.

Moreover, pursuant to the Act on the operation of cooperative banks, their mergers and on the acquiring banks of 7 December 2000 (Journal of Laws No. 119, item 1252, as amended), the Fund may provide reimbursable financial assistance to cooperative banks at risk of insolvency from the resources of the cooperative bank restructuring fund (the CBRF).

As regards collecting and analysing information about entities participating in the deposit insurance scheme, the Fund is in particular responsible for preparing analyses and projections for the banking sector.

The statutory corporate bodies of the Bank Guarantee Fund are the Supervisory Board and the Management Board. On 31 December 2009 the BGF Supervisory Board was composed as follows:

Chairman of the Supervisory Board:	<i>Dariusz Daniluk</i>
Members of the Supervisory Board:	<i>Agnieszka Alińska Krzysztof Broda Alina Gużyńska Jerzy Nowakowski Krzysztof Pietraszkiewicz Piotr Piłat Jan Szambelańczyk</i>

In 2009, pursuant to a decision adopted by the Fund's Supervisory Board, the composition of the Management Board was modified, as a result of which on 31 December 2009, the Fund's Management Board was composed as follows:

President of the Management Board:	<i>Jerzy Pruski</i>
Vice-President of the Management Board:	<i>Anna Trzecińska</i>
Members of the Management Board:	<i>Krzysztof Majerczyk-Zabówka Marek Pyła</i>

II. GUARANTEE ACTIVITY

The source of financing the Fund's deposit guarantee activity are the resources collected by banks for the protection of guaranteed sums (FPGS). All banks participating in the Polish deposit insurance scheme are obligated to establish these funds. The amount of funds is calculated as the product of the sum of resources collected in the bank, which provide the basis for calculating the amount of mandatory provisions and the interest rate determined every year by the BGF Supervisory Board. The maximum interest rate is 0.4 percent. Taking into account the risks in the banking sector, the Supervisory Board of the BGF determined the

interest rate applicable to establishing the FPGS for 2009 at 0.4 percent for the sum of money collected in the bank in all accounts, which serves as the basis for calculating the mandatory provision level. In 2009, the Funds for the Protection of Guaranteed Sums established by all banks and maintained in their assets (updated on 1 July 2009) amounted to PLN 2,611,015.900. These funds were not utilised in 2009 as no bank insolvency occurred.

The method in which banks establish funds for the protection of guaranteed sums does not affect their financial obligations. It only restricts their freedom in administering a small – compared to the balance sheet sum – portion of their financial resources. Resources used to cover these funds are kept in the form of treasury bills, NBP money bills, treasury bonds or participation units of the money market funds, which brings banks income. The participants of the scheme submit to the BGF appropriate amounts for the disbursement of guaranteed sums only after the court declares the insolvency of a bank.

Between the commencement of its operations and the end of 2009, the BGF disbursed guarantee funds to depositors of five commercial banks and eighty-nine cooperative banks.

Bank insolvencies in the years 1995–2009

Year	Commercial banks	Cooperative banks
1995*	2	48
1996	1	30
1997	–	6
1998	–	4
1999	1	–
2000	1	–
2001	–	1
2002–2009	–	–
TOTAL	5	89

* Since 17 February 1995, i.e. from the effective date of the Bank Guarantee Fund Act.

The disbursements of guarantee sums made by the Bank Guarantee Fund in the years 1995–2009 amounted to PLN 814.4 million and were provided to 318,800 eligible depositors.

In 2009, the Bank Guarantee Fund obtained PLN 569,300 on account of receivables admitted to bank bankruptcy estates in connection with providing receivers with funds for depositor disbursements in previous years. These funds were sourced from the distribution of bankruptcy estates of three banks. The overall sum of the funds obtained from bankruptcy estates, as on 31 December 2009, amounted to PLN 53,423,700.

Funds allocated to guarantee disbursements in the years 1995–2009

Year	Funds allocated to guarantee disbursements (in PLN million)				Percentage of utilisation of the FPGS	Number of depositors
	Total	including:				
		from the FPGS	from liquidated bankruptcy estates	from the bankruptcy estate fund		
1995	105.0	85.9	19.1	0	38.1	89.939
1996	50.8	47.3	3.1	0.4	14.9	59.420
1997	6.4	4.7	0.6	1.1	2.3	10.418
1998	8.2	4.1	1.8	2.3	3.2	6.775
1999	4.7	0	2.0	2.7	0	1.572
2000	626.0	484.1	141.9	0	48.4	147.739
2001	12.5	0	4.5	8.0	0	2.658
2002	0.1	0	0.1	0	0	46
2003	0.1	0	0.1	0	0	27
2004	0.4	0	0.4	0	0	124
2005	0.1	0	0.1	0	0	99
2006	0.1	0	0.1	0	0	5
2007	0	0	0	0	0	0
2008	0	0	0	0	0	0
2009	0.004	0	0	0.004	0	1
TOTAL	814.4	626.1	173.8	14.5	6.15	318.823

In 2009, the Fund was notified of the completion of two bankruptcy proceedings of banks for whom the BGF was a creditor.

As at the end of December 2009, pending were still the bankruptcy proceedings of three banks that were declared bankrupt by the courts during the life of the Fund.

During the reporting period, the Fund provided all interested parties, and in particular customers of banks, with information concerning the terms and conditions of operating the deposit insurance scheme and the involvement of each financial institution in the deposit scheme. Telephone queries and correspondence (letters and emails) addressed to the Fund concerned matters related to possible bank bankruptcy, including the terms of exercising guarantees as well as procedures and options for retrieving sums deposited with banks in the event of bankruptcy. The Fund has also received numerous questions regarding the detailed terms of exercising guarantees, including in particular the terms of guaranteeing joint

accounts, branch offices of finance institutions operating in Poland and Spółdzielcze Kasy Oszczędnościowo-Kredytowe (cooperative savings and credit unions). In all cases, the depositors received detailed answers to their respective questions.

III. ASSISTANCE ACTIVITY – THE ASSISTANCE FUND

The fundamental purpose of the Fund's assistance activity is to grant financial assistance to banks at risk of insolvency in order to enable them to undertake restructuring operations, and, indirectly, to protect customers against the loss of funds they entrust with these banks. Pursuant to the Bank Guarantee Fund Act, assistance may be provided in the form of loans, guarantees or sureties, as well as by way of acquiring banks' safe debts, on terms more favourable than generally applicable terms. So far, the assistance provided by the BGF was solely in the form of loans.

The assistance fund out of which loans are extended is created from mandatory annual fees remitted by all participants of the guarantee scheme and the Fund's balance sheet surplus distributions. The fee payable by each bank is calculated as the product of the fee set by the Fund's Supervisory Board and the base set out in the Bank Guarantee Fund Act. The mandatory annual fee payable by banks in 2009 equalled 0.045 percent of the 12.5-fold sum of capital requirements under each risk type and capital requirements with regard to overdraft and breach of other standards defined in the Banking Law.

In 2009, the assistance fund was supplemented with annual fees remitted by banks in the total amount of PLN 308,159,900 and distributions of the Fund's balance sheet surplus of PLN 271,403,400.

The assistance fund is also a source of financing for disbursements of guarantee sums in the event that the resources accumulated in banks as part of the fund for the protection of guarantee sums.

Pursuant to Article 20 of the Act, financial assistance may be granted after specific conditions have been met, including in particular:

- ❖ the Fund's Management Board has approved the results of an audit of the financial statements with regard to the activity of the bank requesting assistance, and in the case of requests for assistance for the purpose of acquiring a bank, bank merger or acquisition of shares in another bank – the results of an audit of the financial statements of both banks,
- ❖ the bank has presented a recovery procedure plan, approved by the Financial Supervision Authority (FSA), and in the case of a bank acquisition or merger or purchase of shares in another bank – the FSA's approval of the validity of these efforts,
- ❖ the bank has demonstrated that the amount of the loan, guarantee or suretyship requested does not exceed the total guaranteed sums deposited with the bank in

depositors' accounts, and in the case of a request for financial assistance for the purpose of acquiring or merging with another bank – that it does not exceed the total guaranteed sums deposited with the target bank in depositors' accounts,

- ❖ the bank's existing own funds have been used to cover the losses of the bank requesting assistance or the target bank.

In 2009, financial support was offered on the terms and conditions presented in the table below.

Terms and conditions of providing financial support in 2009

Terms and conditions of providing support:	Purpose of the assistance:	
	elimination of the risk of insolvency	
– annual interest rate on the loan	0.1–0.4 bill rediscount rate determined by the Monetary Policy Council	
– commission	for commercial banks	for commercial banks
	0.3 percent of the loan amount, deducted from the loan amount	0.1 percent of the loan amount, deducted from the loan amount
– loan utilisation period	up to five years*	
– loan disbursement	once-off or in tranches	
– repayment of interest	once per quarter	
– repayment of principal	in quarterly or six-monthly instalments**	

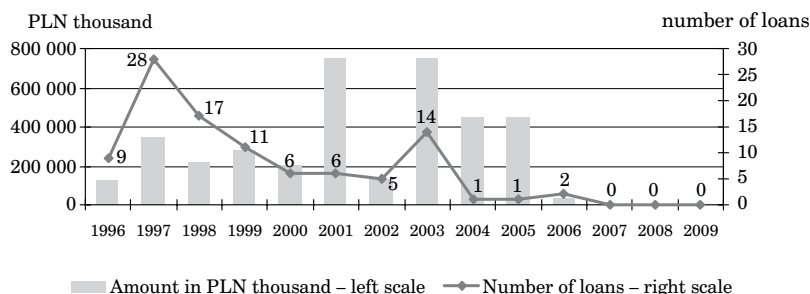
* In reasonably justified cases this period could be extended to ten years.

** In particularly justified cases it was possible to apply a grace period in the repayment of principal.

From its inception until the end of 2009, the BGF granted 100 loans from the assistance fund, of which 44 were extended to commercial banks and 56 to cooperative banks, for a total of PLN 3,746,842,400. The financial assistance granted by the BGF in the years 1995–2009 was allocated towards:

• banks' self-recovery plans	PLN 2,249,050,000
• acquisitions of banks at risk of insolvency	PLN 1,262,792,400
• purchase by new shareholders of shares in banks at risk of insolvency	PLN 235,000,000

Diagram 1. Disbursement of loans from the assistance fund in the years 1996*-2009



* A loan extended in December 1995 was disbursed in January 1996.

Loans granted from the assistance fund in the years 1995–2009

Type of bank and allocation of assistance:	Loan disbursements	
	Amount in PLN thousand	Share percentage
• commercial*	3,427,386.4	91.5
– self-recovery	2,066,000.0	55.1
– commercial bank acquisitions	981,906.4	26.2
– cooperative bank acquisitions	144,480.0	3.9
– share purchase	235,000.0	6.3
• cooperative	319,456.0	8.5
– self-recovery	183,050.0	4.9
– merger processes**	136,406.0	3.6
TOTAL	3,746,842.4	100.0

* Together with banks that acquired the cooperative banks.

** In 2009, the Fund's Management Board resolved to extend financial assistance in the amount of PLN 43,500,000, but the loan will be disbursed in 2010.

In 2009, no loan was extended out of the assistance fund. Moreover, the Fund administered loans granted in previous years.

**IV. ASSISTANCE ACTIVITY
- COOPERATIVE BANK RESTRUCTURING FUND**

Pursuant to the Act concerning the operation of cooperative banks, their mergers and on the acquiring banks of 7 December 2000, the Bank Guarantee Fund provides financial assistance to cooperative banks from the cooperative bank restructuring fund (the CBRF) established in 2001 to support cooperative bank merger processes.

In accordance with the above act, the Fund received PLN 123,409,700 to be allocated to the above initiatives of cooperative banks and to related investments, in particular towards:

- ❖ unification of IT software and hardware,
 - ❖ unification of banking technology,
 - ❖ unification of finance and accounting procedures,
 - ❖ unification of banking products and services offered,
- as well as towards purchasing shares in the acquiring bank.

Financial support is available only to those cooperative banks that are at no risk of insolvency and are fully capable of repaying their outstanding loans.

The amended Act on the Operation of Cooperative Banks broadened the subjective and objective scope of CBRF assistance, in that assistance may now be granted also towards financing planned investments, and the Fund’s Supervisory Board defined new forms, procedure and detailed terms and conditions of providing financial assistance from the cooperative bank restructuring fund.

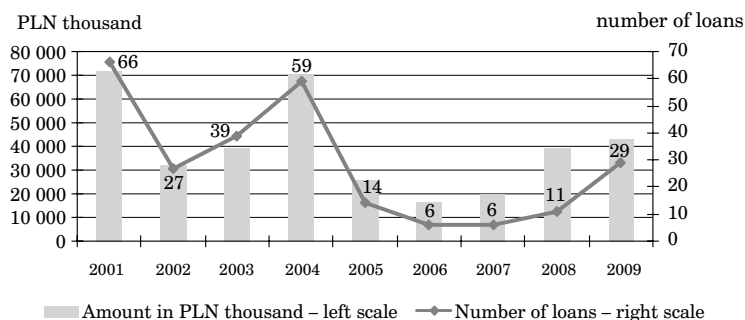
Terms of providing financial assistance from the CBRF for applications received after 13 December 2008

Terms and conditions of providing support:	Purpose of the assistance:	
	to support merger processes and non-merger investments	to purchase the shares in the acquiring bank
- annual interest rate on the loan	0.1 bill rediscount rate determined by the Monetary Policy Council	0.05 bill rediscount rate determined by the Monetary Policy Council
- commission	0.1 percent of the loan amount, deducted from the loan amount	
- loan utilisation period	up to five years	
- grace period in the repayment of principal	up to one year	
- loan disbursement	once-off/tranches	once-off
- repayment of interest	once per quarter	
- repayment of principal	in six-monthly instalments	

The Fund's Supervisory Board adjusted the forms, procedure and terms of granting assistance under the CBRF to the subjective and objective scope of assistance broadened under the amended Act on the Operation of Cooperative Banks (...). The purpose of the adjustments was to accelerate application processing and providing assistance to banks. Compared to previously existing terms, the principal repayment grace period was shortened from two years to one year.

In the years 2001–2009, the Bank Guarantee Fund extended 220 loans from the cooperative bank restructuring fund for a total of PLN 369,830,900. During that time, the amount of loans granted was more than double the size of the cooperative bank restructuring fund as funds obtained from repayments were allocated to new financial relief efforts. None of the cases processed reported any issues with repayment of borrowed funds.

Disbursement of loans from the CBRF in the years 2001–2009



In 2009, the Fund processed 35 requests for financial assistance under the CBRF, for a total of PLN 82,564,100, which included two requests for a total of PLN 2,200,000, submitted before the amended Act on the Operation of Cooperative Banks (...) entered into force, and processed on then-current terms and conditions.

Upon review of the amounts requested by banks before the end of 2009, the Fund's Management Board resolved to:

- ❖ grant 31 loans for a total of PLN 55,053,000, of which:
 - 27 loans were allocated to support merger processes or non-merger investments – for a total of PLN 51,885,000,
 - 4 loans were allocated to the purchase of shares in the acquiring bank – for a total of PLN 3,168,000.
- ❖ turn down requests for financial assistance submitted by eight banks due to insufficient amounts in the cooperative bank restructuring fund available at each application stage.

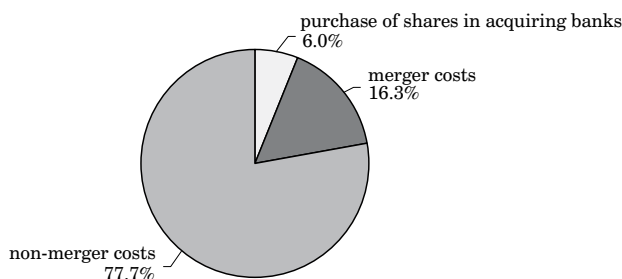
In 2009, twenty-nine loans were disbursed for a total of PLN 43,247,000.¹

As on 1 January 2009, forty-four banks were utilising fifty-eight loans from the cooperative bank restructuring fund, for a total indebtedness thereunder of PLN 85,469,400.

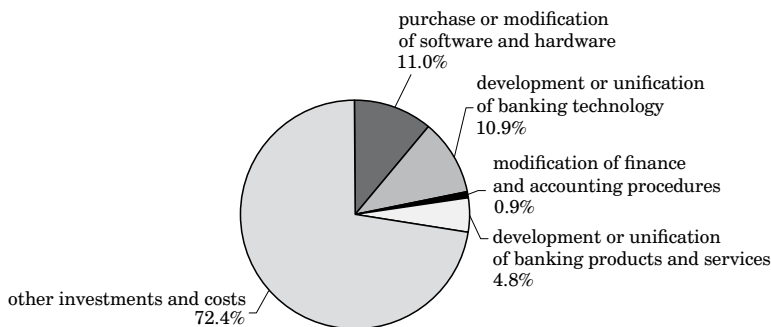
As at the end of 2009, in the collateral structure, the most common form was the freezing of funds on term deposit accounts (37 loans), nine loans were secured using pledges over the rights under securities issued by the State Treasury or the National Bank of Poland, while in eight cases, a bank guarantee issued by the acquiring bank was used.

The allocation of loans from the cooperative bank restructuring fund in 2009 is presented on the diagrams below.

Structure of loans granted in 2009 from the CBRF as on 31 December 2009



Structure of investments carried out under loans obtained in 2009 under the CBRF as on 31 December 2009



¹ Additionally, in 2009, the second tranche of the loan granted in 2008 for a total of PLN 2,707,100 was disbursed. One bank did not sign the loan agreement after assistance was approved, and one loan was disbursed in January 2010. For eleven loans, a total of PLN 6,200,000 remains to be disbursed under subsequent tranches.

A vast majority of the funds obtained by banks under CBRF loans was allocated to other investments and expenses (including construction, renovations and building updates) and the purchase or modification of IT software and hardware. This accounted for 83.4 percent of the loans granted in 2009.

In 2009, banks repaid principal for a total of PLN 24,439,200. Twenty-four banks repaid thirty-one loans in full. Taking into account repayments and disbursements of the loans granted, as at the end of 2009, forty-six banks were taking advantage of cooperative bank restructuring fund loans (utilising a total of fifty-six loans), for a total indebtedness thereunder of PLN 106,984,400.

V. SUPERVISING AND MONITORING UTILISATION OF THE FINANCIAL ASSISTANCE

The scope of the Fund's supervision includes:

With respect to banks using financial aid from the assistance fund	With respect to banks using loans from the cooperative bank restructuring fund
verifying whether the financial assistance is being used properly	verifying whether the financial assistance is being used in accordance with its purpose
verifying whether a recovery plan is being implemented	monitoring economic and financial standing and organisational efficiency
monitoring economic and financial standing	verifying the discharge of obligations under loan agreements
monitoring management procedures	

Banks utilising the Fund's financial assistance were supervised and monitored in two forms:

- ❖ in the form of analyses and evaluations carried out on the basis of available financial statements, information obtained from the banks, from the National Bank of Poland and the Financial Supervision Authority and from publicly available sources,
- ❖ in the form of audits carried out at banks utilising the Fund's financial assistance, in accordance with the 2009 audit plan.

In 2009, the Bank Guarantee Fund monitored the economic and financial standing as well as the performance of obligations under loan agreements for forty-eight banks.

In 2009, the Fund monitored twenty-six new banks that had received thirty loans, while the monitoring of twenty-four banks was completed. Upon monitoring the banks taking advantage of financial assistance, it was established that:

- ❖ the banks were not insolvent and that there was no risk of default on their obligations towards the BGF,
- ❖ the banks timely discharged their obligations under loan agreements.

In 2009, the Fund audited eleven banks utilising financial assistance from the BGF.

Upon auditing a bank utilising a loan from the assistance fund, it was established that the recovery plan is being implemented properly, and the financial results earned significantly exceeded the plan projections. Moreover, no objections were raised with regard to the performance of the remaining obligations under the loan agreement concluded with the BGF; the obtained funds were utilised and secured in accordance with the agreement. The audit confirmed that the assistance provided by the BGF has served its purpose, by supporting the acquisition of a bank threatened by insolvency.

As a result of the audit of banks utilising loans provided by the cooperative bank restructuring fund, it was established that:

- ❖ the BGF's financial assistance was utilised in accordance with the goals set out in the Act concerning the operation of cooperative banks, their mergers and on the acquiring banks of 7 December 2000 (as amended),
- ❖ there were no major variations in the performance of the banks' financial projections, with the exception of two cases,
- ❖ as on the date of the audit, the banks' economic and financial situation did not constitute a risk of defaulting on the loans,
- ❖ there were a few instances of failing to conform banks' internal regulations to the applicable laws, as well as irregularities in the internal audit system.

The conclusions from the audits completed, the irregularities identified as a result thereof, and the Fund's position were reflected in post-audit statements provided to the banks' management and supervisory boards and to the respective acquiring banks. In the case of one bank, due to the gravity of the irregularities identified, the Financial Supervision Authority was also notified of the results of the audit.

VI. ANALYTIC ACTIVITY

1. Updating and Developing the Database

The Fund independently analyses the banks' economic and financial standing and evaluated any existing and potential risks for their operations.

The Bank Guarantee Fund sources information about the banks from:

- ❖ the National Bank of Poland,
- ❖ the Financial Supervision Authority,
- ❖ the banks.

In 2009, a SIS reporting information system was implemented and the banks' analytic mechanism was developed using new reporting Technologies, FINREP and COREP; standardised information structures were also developed to allow processing of data for analysis in the form of reports with specified parameters, using BGF-developed utility software known as *Aplikacja SIS*.

In 2009, the procedures for providing SIS reporting-based analytic mechanisms were introduced and coincided with the completion of works on establishing an aggregate database and a standard analytic report database. Algorithms were determined for database processing for selected groups of banks, known as collective analytic profiles. The Bank Monitoring System application was modified, allowing component ratings of banks to be calculated and a risk index to be created using new reporting data.

Apart from FINREP, COREP and WEBIS reporting, another important source of information was the data provided to the Fund directly by banks pursuant to the Regulation of the President of the NBP. Banks provided information relevant for the scheme, concerning the amount of debt guaranteed by the Fund and the sums guaranteed by the BGF, as well as on the basis for calculating the mandatory annual fee and the basis for establishing the guaranteed sum protection fund.

Under the Regulation of the President of the NBP, reporting duties were expanded and specified, the frequency of information provided by banks increased, and a requirement was introduced to provide information solely in electronic form, using secure electronic signatures.

Pursuant to the Agreement on cooperation and exchange of information between the Financial Supervisory Authority and the Bank Guarantee Fund, in 2009, the Fund also received supervisory information required to duly identify risks involved in the activity of each bank, as well as the condition of the sector. The agreement sets out the cooperation of the two institutions to perform their statutory duties and to exchange information, in particular with respect to ensuring the stability of the banking sector and the safety of deposits of banking customers.

2. Bank Assessment Methodology

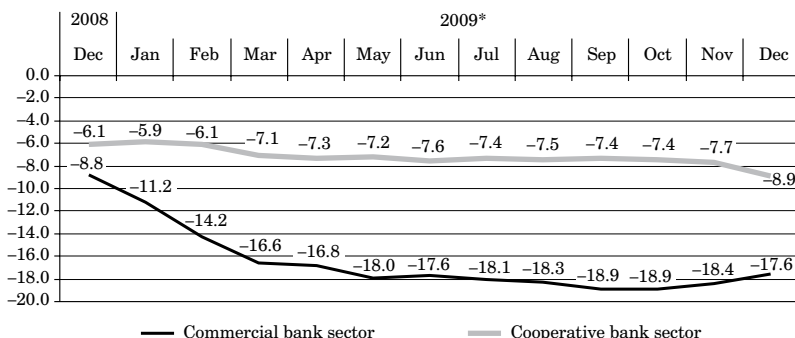
The Bank Guarantee Fund has its own methodology for the assessment of risks in the banking sector. By analysing the reporting and non-reporting factors, it assigns an individual risk rating to each bank. Depending on their ratings, banks are assigned to groups within the risk matrix.

These ratings and risk matrices are the basic source of information concerning each bank's standing. Banks identified as carrying a higher risk undergo more thorough evaluation, aimed at identifying the source of the risk.

The bases for discussing risks in the entire banking sector are the migration matrices and risk indices. A migration matrix is used to observe the position of a bank in relation to the risk index in each reporting period.

The risk index presents a combined, standardised assessment of the effectiveness, solvency, asset quality and the quality of off-balance sheet liabilities granted, weighted by each bank’s share in the deposits of the banking sector. The risk index is calculated separately for commercial and cooperative banks. It is presented on a scale of 0 (no risk) to -100 points (highest risk). Variations in index levels reflect changes in the assessment of risk in the sector. The diagram below presents the levels of index risks in the banking sector.

Index of risk in the commercial and cooperative banking sector



* Preliminary data for December 2009.

In 2009, efforts were undertaken to change the methodology of risk assessment for the banking sector using the new SIS reporting mechanism. These efforts were focused on modifying the procedures of assessing reporting and non-reporting factors in the banking assessment system.

3. Analysing the Situation in the Banking Sector and Identifying Risks

The Bank Guarantee Fund’s analytic roles are accomplished due to the fact that under the Act, the Fund is authorised to access information about banks, and thus able to make its independent analysis of each bank’s economic and financial standing and evaluate existing and potential risks involved in each bank’s operations.

The BGF’s primary analytic responsibilities include:

- ❖ the assessment of risk in the banking sector in order to define the demand for financial resources from the deposit guarantee scheme, accumulated in banks in the form of Funds for the Protection of Guaranteed Sums (the FPGS) in order to cover potential guarantee obligations,
- ❖ identifying at an early stage the risk of insolvency for banks and any actions required from the Fund in association with the Financial Supervision Authority and other institutions of the financial security network.

As part of consistent analyses (conducted monthly and quarterly), the economic and financial situation in the banking sector (including the commercial and cooperative banking sector) was evaluated, taking into consideration existing and potential risks. Moreover, basic macroeconomic data and structural and legal changes in the banking sector were analysed, together with information concerning the severity and implications of the crisis on international financial markets in terms of the effect it may have for the stability of the Polish banking system. Particular emphasis was placed on financial institutions investing into banks operating in Poland.

In 2009, projections were prepared concerning the amount and structure of deposits, the overall capital requirements in the banking sector and projections concerning the amount of the BGF's guarantee obligations and demand for assistance. In view of the fact that the amended Directive 94/19/EC allows for increasing the limit of guaranteed sums to EUR 100,000 in 2010, the works concerning both amounts took into consideration two options of the guarantee limit, i.e. EUR 50,000 and EUR 100,000.

The proposed amount of the fee under the fund for the protection of guaranteed sums and the mandatory annual fee for 2010 was presented to the BGF's Supervisory Board, which approved them by way of a resolution on 18 November 2009.

4. Other Analytic Efforts

In response to current problems and changes occurring throughout the banking sector in 2009, a number of analytic works were conducted with respect to:

- ❖ the origin and course of the global financial crisis, with particular emphasis on the key changes in both the ownership structure and the capitalisation of international financial institutions, some of which are owned by majority shareholders of banks operating in Poland,
- ❖ sources of financing banks operating in Poland and proposed changes thereto in the context of the financial market downturn.

VII. INVESTMENT ACTIVITY

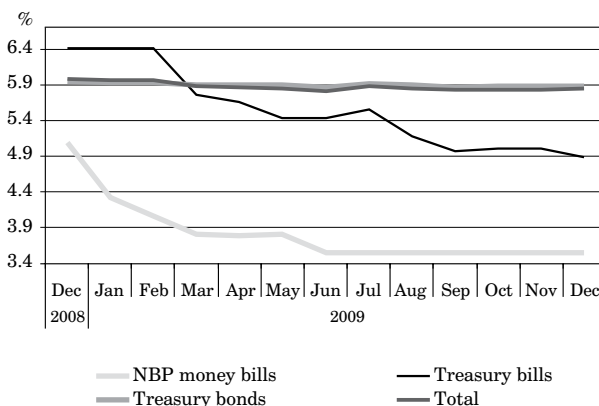
Under the Bank Guarantee Fund Act, the Fund may solely purchase securities issued or guaranteed by the State Treasury or the National Bank of Poland. Furthermore, the Fund may purchase participation units in the money market funds and establish term deposits with the NBP.

In 2009, in the area of the Fund’s investment activity, a total of 146 acquisitions were completed, of which:

- ❖ 55 involved treasury bonds,
- ❖ 26 involved treasury bills,
- ❖ 65 involved NBP money bills and 26 buyout transactions, of which:
 - ❖ 15 involved treasury bonds,
 - ❖ 8 involved treasury bills,
 - ❖ 3 involved NBP money bills.

Transactions in the area of investment fund participation units of the money market and allocation of funds in the form of term deposits with the NBP, due to low profitability of the above instruments, were not effected.

Profitability of securities in the Fund’s portfolio (on the basis of a 365-day period) as at the end of each month



In 2009, the BGF reported an increase in the share of treasury bonds in the total nominal value of the securities portfolio from 92.6 percent at the end of 2008 to 95.7 percent.

In Q4 2009, the Fund commenced the implementation of a new investment policy, aimed at boosting profitability at an acceptable risk level. Under the policy,

the average maturity of treasury bonds was extended and the value of funds invested in NBP money bills, treasury bills and funds deposited on NBP accounts was lowered.

Structure of the Fund's securities portfolio as on 31 December 2008 and 31 December 2009

Items	Structure		
	31 Dec 2008	31 Dec 2009	Change
	%		percentage points
NBP money bills	0.24	0.04	-0.2
Treasury bills	7.16	4.28	-2.9
Treasury bonds	92.60	95.68	+3.1
TOTAL	100.00	100.00	-

VIII. FUNDS AND FINANCIAL MANAGEMENT

The BGF's activity is financed using the following sources:

- ❖ the statutory fund,
 - ❖ the assistance fund,
 - ❖ sums provided to the Fund by banks from their own guaranteed sum protection funds for the purpose of delivering on depositor guarantees,
 - ❖ the cooperative bank restructuring fund,
 - ❖ the reserve fund,
 - ❖ the bankruptcy estate fund,
 - ❖ proceeds from the interest on loans extended to banks,
 - ❖ proceeds from the securities and funds deposited in the Fund's accounts maintained by the NBP,
 - ❖ sums obtained from non-reimbursable foreign aid,
 - ❖ subsidies from the public budget on terms set out in public finance legislation, requested by the Fund,
 - ❖ funds under a short-term loan from the NBP,
 - ❖ loans from the public budget,
 - ❖ other proceeds, e.g. from office space lease.
- These funds are used by the BGF to finance:
- ❖ tasks related to guaranteeing deposits,
 - ❖ tasks related to extending assistance to participants of the guarantee scheme,

- ❖ tasks related to extending CBRF loans to support merger processes and the implementation of projects carried out by cooperative banks,
- ❖ operating costs of the Fund's Office and corporate bodies.

In 2009, the position of the statutory and reserve fund, as well as the cooperative bank restructuring fund, remained unchanged.

The 2008 balance sheet surplus of PLN 271,403,400 was allocated in full towards increasing the assistance fund, taking into account the provisions of the Act². Moreover, the assistance fund was supplemented by a mandatory annual fee of PLN 308,159,900 and amounted to PLN 3,893,601,300.

The following breakdowns illustrate the performance of the 2009 financial plan.

Table 1. Balance sheet

No.	Item	2009 plan (PLN '000)	Performed as on 31 December 2009 (PLN '000)	Plan performance ratio (%)
I.	ASSETS	6,630,044.0	6,703,713.6	101.1
1.	Receivables under loans	2,812,110.0	554,044.0*	19.7
2.	Securities	3,755,607.0	6,086,873.9*	162.1
3.	Tangible fixed assets and intangible assets	61,722.0	62,477.7	101.2
4.	Other assets	605.0	318.0	52.6
II.	LIABILITIES	6,630,044.0	6,703,713.6	101.1
1.	Statutory fund	1,637,026.0	1,637,025.5	100.0
2.	Reserve fund	669,883.0	669,882.7	100.0
3.	Bankruptcy estate fund	51,443.0	53,423.7	103.9
4.	Assistance fund	3,876,987.0	3,893,601.3	100.4
5.	Cooperative bank restructuring fund	123,410.0	123,409.7	100.0
6.	Financial result	267,399.0	325,206.8	121.6
7.	Other liabilities	3,896.0	4,442.2	114.0
8.	Profit/loss from previous years (+/-)	x	-3,278.3	x
III.	CAPITAL EXPENDITURES	1,335.0	1,277.0	95.7
1.	Building	0.0	0.0	x
2.	IT	1,205.0	1,198.8	99.5
3.	Other expenditures	130.0	78.2	60.2

* In accordance with the specific accounting principles for the BGF applicable in the reporting period, receivables under loans and debt securities entered in books of account according to the adjusted purchase take into account the effective interest rate.

² Article 16.2, 16.2a, 16.2b of the Bank Guarantee Fund Act of 14 December 1994 (as amended).

The balance sheet indicates that a minor increase of the balance sheet sum against the proposed balance sheet sum (by 1.1 percent) significantly affected the proposed asset structure. Due to the stability of the banking sector, no BGF assistance funds were required in the form of loans from the assistance fund. Therefore, the performance of the plan in terms of receivables under loans is at 19.7 percent of the planned value. Unutilised financial assistance funds were allocated into securities, which resulted in a much higher than planned (62.1 percent) securities portfolio.

Table 2. Profit and loss account

No.	Proceeds/expenditures	2009 plan (PLN '000)	Performed as on 31 December 2009 (PLN '000)	Plan performance ratio (%)
I.	Total revenue	290,386.0	344,713.0	118.7
1.	Revenue from interest and commissions on the reimbursable assistance granted to banks	11,292.0	2,473.0	21.9
2.	Revenue from trading in securities	277,624.0	337,968.2	121.7
3.	Other revenue	1,470.0	4,271.8	290.6
II.	Operating costs of the corporate bodies and Office of the Fund	22,987.0	19,506.2	84.9
1.	Salary costs and overheads	12,397.0	11,238.6	90.7
2.	Outsourced services	2,553.0	2,148.6	84.2
3.	Building use and management services of the building	1,462.0	1,532.9	104.9
4.	Depreciation	2,436.0	1,654.1	67.9
5.	Other costs	4,139.0	2,932.0	70.8
III.	Financial result (profit)	267,399.0	325,206.8	121.6

In 2009, the Fund welcomed new regulations concerning:

- ❖ Chart of Accounts of the Bank Guarantee Fund with a commentary,
- ❖ Terms and conditions of financial management and handling financial and accounting documents at the Bank Guarantee Fund,
- ❖ Guidelines for accounting for transactions that involve securities and certain other financial assets at the Bank Guarantee Fund,
and an update of the bylaws concerning the accounting principles applicable to the Bank Guarantee Fund.

IX. ORGANISATION AND STAFF

In performance of its duties set out in the Act and the Statute of the Bank Guarantee Fund, the Supervisory Board held fifteen meetings in 2009, during which it adopted thirty-six resolutions and reviewed motions and information submitted by the Fund's Management Board on the basis of a work schedule, Supervisory Board guidelines or a Management Board request.

As part of its decision-making powers, the BGF's Supervisory Board adopted resolutions including on:

- ❖ determining:
 - the 2010 percentage rate applicable to the amount of guaranteed sum protection funds established by participants of the mandatory guarantee scheme,
 - the percentage rate for the 2010 mandatory annual fee paid to the Bank Guarantee Fund by participants of the mandatory guarantee scheme, and the date as on which the 12.5-fold capital requirement for each risk type and overdraft and other overage capital requirements, as set out in the Banking Law, will serve as the basis for calculating the annual fee and setting the deadline for its payment,
- ❖ amending the resolution concerning the principles, conditions and procedure of providing financial assistance to participants of the mandatory scheme for insuring sums deposited in bank accounts,
- ❖ selecting an entity authorised to audit the 2009 financial statements of the Bank Guarantee Fund,
- ❖ amending the Management Board Regulations of the Bank Guarantee Fund.

As part of its supervisory duties, the BGF Supervisory Board:

- ❖ approved the *Directions for Growth of the BGF to 2011*,
- ❖ adopted the *Plan for Operations and the 2010 BGF Financial Plan*,
- ❖ reviewed the *Extending the BGF portfolio term and interest rate risk*,
- ❖ distributed the 2008 balance sheet surplus,
- ❖ reviewed quarterly reports on the Fund's operations,
- ❖ evaluated the implementation of the *BGF Plan of Operations for 2009*.

During its ongoing activity, the BGF's Supervisory Board analysed the situation in the banking sector, taking into account the differences between commercial and cooperative banks, as well as the results of supervising and monitoring the financial standing and management systems at banks utilising assistance from the BGF.

The Management Board provided the Supervisory Board with periodic updates on the situation on international markets and on the Polish market, together with outlook for growth, which were used by the Supervisory Board to analyse the

mechanisms causing foreign financial institutions to struggle, as well as the causes and directions of change in the Polish banking sector.

The Fund's Supervisory Board also directed its efforts to:

- ❖ matters related to selecting and implementing a finance and accounting system,
- ❖ studying the effect of extending the term of securities on interest rate risk,
- ❖ monitoring amendments to Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit guarantee schemes,
- ❖ proposing amendments to legislation implementing into Polish law the amended Directive 94/19/EC on deposit guarantee schemes.

In 2009, the Fund's Management Board performed the duties set out in the Bank Guarantee Fund Act, in particular those related to:

- ❖ ensuring that the Fund is capable of performing its deposit guarantee roles,
- ❖ remaining prepared to provide assistance in the event of a risk of bank insolvency,
- ❖ providing assistance to cooperative banks pursuant to the Act on the operation of cooperative banks (...),
- ❖ collecting and reviewing information about banks participating in the deposit guarantee scheme,
- ❖ managing the Fund's resources.

In 2009, 64 meetings of the Fund's Management Board were held. The BGF Management Board adopted a total of 172 resolutions. The BGF Management Board President issued 27 decisions.

Table 3. Breakdown of resolutions adopted by the BGF's Management Board in 2009

Area	Number of resolutions adopted
Assistance Activity and Deposit Insurance	62
Investment, analytic and reporting activity	23
Assessing the utilisation of assistance and monitoring banks	15
Accounting and finance	23
Organisational matters	49
TOTAL	172

The Bank Guarantee Fund performs its statutory tasks through the following organisational units:

- ❖ **Treasury and Analysis Department** – responsible for collecting and analysing information concerning the economy and especially the banking sector, preparing macroeconomic studies and projections as well as assessing the economic and financial standing of entities participating in the guarantee scheme, and conducting investment activity by investing the Fund’s available financial resources,
- ❖ **Controlling, IT and Administration Department** – responsible for creating databases and disclosing information and reports essential for the Bureau’s operations, providing IT and administrative assistance and maintaining the reliability of the technical infrastructure and the Fund’s office security system,
- ❖ **Assistance Activity and Deposit Guarantee Department** – responsible for performing tasks related to the Fund’s duty to ensure disbursement of guaranteed sums to depositors and assisting banks at risk of insolvency, trading in debts acquired from these banks and providing support to banks from the cooperative bank restructuring fund to support their consolidation,
- ❖ **Financial Department** – responsible for managing the Fund’s finances and accounting,
- ❖ **Supervision and Monitoring Department** – responsible for supervising and monitoring the financial and economic standing of banks that have received assistance from the Fund, in terms of proper and suitable use of the financial assistance received and the implementation of corporate recovery or similar schemes as well as for monitoring the standing of the banks taking advantage of the Fund’s assistance and serving as the trustee in these banks,
- ❖ **The President’s Office** – responsible for ensuring support for the Fund’s corporate bodies, legal assistance, workflow management and employee matters, as well as cultivating relationships with foreign deposit insurers and financial institutions, and providing public information and promotion of the Fund,
- ❖ **Internal Audit Position** – responsible for evaluating the activity of the Fund’s organisational units in terms of accuracy and compliance with applicable laws and the Fund’s internal regulations.

Moreover, there are two permanent interdepartmental committees at the BGF:

- ❖ the Asset Management Committee, which determines the policy for investing the Fund’s available financial resources,
- ❖ the Committee for the Assessment of Requests for Assistance, responsible for approving or rejecting the banks’ requests for financial assistance from the assistance fund and for loans from the cooperative bank restructuring funds, prepared by the Assistance Activity and Deposit Insurance Department.

As at 31 December 2009, Management Board members, in accordance with the responsibilities assigned to them under the BGF Management Board Regulations, were responsible for the following organisational units:

- ❖ **Management Board President Jerzy Pruski** – the President’s Office, Treasury and Analysis Department, and Internal Audit Position,
- ❖ **Vice-President of the Management Board Anna Trzecińska** – Assistance Activity and Deposit Guarantee Department,
- ❖ **Management Board Member Krystyna Majerczyk-Żabówka** – Supervision and Monitoring Department and Financial Department,
- ❖ **Management Board Member Marek Pyła** – Controlling, IT and Administration Department.

In 2009, the Fund performed tasks related to its day-to-day and long-term IT needs. The key tasks in this area include:

- ❖ implementing a new finance and accounting system,
- ❖ fully implementing a new reporting system for banks and adapting the methodology for assessing risks to the new reporting database,
- ❖ developing the *BGF IT development plan to 2011*, which provides for enhanced infrastructure security and efficiency of IT systems and applications in use, and provides an option to disburse deposits within the deadline set out in *Directive 94/19/EC*, supporting the Fund’s analytic efforts and its need to process the ever-growing databases, as well as supporting the increased range of the Fund’s activity through greater use of IT solutions in processes and providing users with the requisite tools,
- ❖ extensively developing the *BGF IT system operating guidelines* and *BGF IT system security policy*.

Moreover, the Management Board completed tasks that involved:

- ❖ software that allows for creating, sending, viewing and receiving NDSR system messages for transactions concluded by the BGF and successful testing of the new settlement system on the NDSR securities market, implemented by the National Depository for Securities,
- ❖ software for the Fund’s new website; its security was confirmed by a security audit,
- ❖ a system for recording and archiving the servicing of the BGF’s IT system help desk requests; the application is aimed at streamlining the process of submitting and responding to system issues. It also fully records and reviews help desk requests.

In 2009, as part of its increased security policy, the BGF concluded a new Internet provider agreement with TP SA. Moreover, new contracts were also drafted with another independent telecommunication and internet service provider, using separate telecommunication transmission cables. Additionally, database organisation and administration tasks were performed.

In 2009, various renovation and modernisation works were carried out in order to maintain the technical state of the building, including improving the building's waterproofing, maintaining the air conditioning and completely replacing emergency and evacuation lighting. An inspection of equipment and fixed assets was conducted, followed by the removal or disposal of assets not useful for the Fund's activity. New depreciation rates were implemented on the basis of an evaluation of the life of fixed assets, and orders were given for the Fixed Asset programme to be adapted to the new depreciation rules and for the export of data to the new finance and accounting system to be ensured.

X. WORKING WITH POLISH AND INTERNATIONAL INSTITUTIONS

1. Working with Polish Institutions

1.1. Working with Banks

In 2009, the Fund maintained a close relationship with banks from the Polish banking sector. The Fund notified acquiring banks of, among other things, any changes to the procedures governing granting financial assistance to cooperative banks participating in the association. Members of the BGF's Management Board participated in the meetings of the Advisory Council of the Cooperative Banking Sector.

In November 2009, an advisory meeting was held with the Management Board of the Polish Bank Association regarding the proposed amount of the fee for the establishment by banks of a fund for the protection of guaranteed sums and the amount of the 2010 mandatory annual fee.

On 24 August 2009, the Bank Guarantee Fund and the Credit Score Information Office concluded the Agreement concerning cooperation with regard to the implementation of a research and analysis project involving analysis and projecting credit portfolio quality in the banking sector. The purpose of the project covered by the agreement is to conduct an analysis of the current status and prepare a projection of new lending and credit risk for household and corporate segments.

1.2. Working on Legislative Matters

In 2009, BGF representatives participated in reconciliation conferences concerning financial market legislation drafts. In the course of these works, proposals, opinions and statements concerning required changes and detailed

solutions were drafted and submitted. The Fund participated in legislation drafting devoted to widely applicable acts, such as those concerning:

- ❖ the responsibilities of the Bank Guarantee Fund and the operations of its corporate bodies;
- ❖ the operation of the deposit guarantee scheme (changes with regard to notification obligations and international cooperation in connection with Poland implementing Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay),
- ❖ improving the stability of the banking sector,
- ❖ recapitalising certain financial institutions and providing financial institutions with State Treasury support.

Moreover, the Bank Guarantee Fund presented the Ministry of Finance with a position with regard to the changes concerning the investor compensation system in which the BGF's Management Board opted for the acquisition of the system by the BGF.

The Fund participated in the process, coordinated by the Ministry of Finance, of evaluating European Commission documents, including *An EU Framework for Cross-Border Crisis Management in the Banking Sector*. In its evaluation of the document, the Fund opted for placing greater emphasis on the role of deposit insurance schemes in counteracting the crisis and its effects using its assistance responsibility.

The BGF conducted an analysis of the legal grounds for cooperating with entities responsible for deposit insurance schemes in other EU states in the event that a branch of a Polish credit institution asks to join the deposit insurance scheme of the host member state in order to supplement its coverage.

1.3. Participating in Conferences and Seminars

In 2009, Fund representatives participated in numerous conferences, seminars and meetings with representatives of the banking industry, financial institutions and public authorities, including those held by the Polish Bank Association, National Cooperative Bank Association, the Credit Information Bureau and the Gdańsk Institute for Market Economics, as well as several financial and economic academic centres.

On 27 April 2009, the BGF, in association with Linklaters, hosted a seminar entitled *Financial Institutions in Crisis – the Lehman Brothers Case*, attended by more than 100 people.

On 21 May 2009, the Bank Guarantee Fund and the Cooperative Banking Development Foundation held a conference entitled *Cooperative Banks – Challenges*

in the Face of New Regulations. The Fund's Management Board President outlined the effect of the new legislation concerning the BGF on the cooperative banking sector. The conference brought together about 200 people, among whom were representatives of institutions comprising the financial security network, members of the management boards of acquiring and cooperative banks, and representatives of the media and academia.

2. International Cooperation

2.1. Working with International Institutions

As a result of a change of President of the Bank Guarantee Fund, the Fund's representative in international institutions in which the BGF participates, primarily in the International Association of Deposit Insurers (IADI), also changed. The changes were also notified to the office of the European Forum of Deposit Insurers (EFDI).

In 2009, the BGF was represented at international meetings and conferences held by the IADI and the EFDI and devoted to important deposit insurance issues:

- ❖ primary responsibilities of deposit insurers in the event of a bank bankruptcy,
- ❖ insuring deposits during and after systemic crises,
- ❖ principles of effective management of deposit insurance schemes.

Moreover, BGF representatives participated in:

- ❖ *The Eurofi Financial Forum 2009*
- ❖ meeting of a European Commission Working Group concerning deposit insurance schemes
- ❖ at the *Crisis Management at Crossroads* conference, held by the SUERF, CEPS and the Belgian Financial Forum

2.2. Working with International Deposit Insurers

In 2009, the Fund regularly communicated with international deposit insurers and organisations that bring together deposit insurers, exchanging information concerning deposit insurance principles in different countries.

As a result of the amendment of Directive 94/19/EC and the resulting obligation for deposit insurance schemes to work together internationally within the European Union, in May 2009, the Fund once again proposed a cooperation agreement to the Greek deposit insurance scheme. However, the Greek institution was not interested in the agreement.

In 2009, efforts were also made to conclude an agreement with the Slovak guarantee fund, which would govern the increased insurance for customers of a Polish bank branch operating in Slovakia. In November 2009, a meeting was held with the Slovak delegates, during which valid earlier concerns of the Slovak partner, including the disbursement of guaranteed sums in Polish zlotys, were clarified. The issues that remain to be clarified include the expectation on the part of the Slovak Deposit Protection Fund to secure the same position in bankruptcy proceedings as the position of the BGF, to the extent set out in the Bankruptcy and Corporate Recovery Law of 28 February 2003, to be guaranteed a preferred position in the form of satisfaction of its claims and receivables from the insolvent bank first, directly after the payment of court fees for the bankruptcy proceedings and payment for work performed.

Final decisions with regard to the agreement with Slovakia should be made after the Slovaks present their draft wording of the agreement.

Moreover, as part of analysing different deposit insurance schemes, materials were prepared outlining the deposit insurance schemes in Norway, Finland, Slovakia, Ukraine and Greece.

XI. PROMOTIONAL AND INFORMATIONAL EFFORTS

2009 saw a continuation of efforts aimed at promoting in the banking sector the set of best practices, developed by the Fund in the form of two documents, i.e. *Best practices in banking with regard to notifying participation in the mandatory deposit guarantee scheme* and *Best practices in banking with regard to notifying customers of a bank's financial and economic standing*. In 2009, the Fund was notified that fifty-six cooperative banks approved the best practices. By the end of the year, a total of seventy-two banks, including five commercial banks and sixty-seven cooperative banks, notified the Fund of their approval of the best practices. As a result of adoption on 19 September 2009 of *the Act of 16 July 2009 amending the Bank Guarantee Fund Act*, amending the regulations concerning a bank's obligation to notify customers of participation in the deposit guarantee scheme and of its financial and economic standing, the BGF began to consider the purpose of continuing the project.

In 2009, the Fund continued to develop and distribute in Poland complimentary promotional materials for customers of Polish banks, presenting the new rules underlying the deposit insurance scheme. The promotional materials, a total of 900,000 copies, were distributed to commercial and cooperative banks. In late 2009, efforts were undertaken to redesign and update these materials.

Moreover, in response to growing needs reported by the banks, the Fund commissioned and distributed placards confirming a bank's participation in the

mandatory deposit insurance scheme. The BGF also prepared a brochure presenting the core activities of the Bank Guarantee Fund in each area of its expertise, taking into account the current legal status of the deposit insurance scheme in Poland.

The Fund distributed new issues of the BGF Newsletter, which contained resolutions of the Fund's Management and Supervisory Boards. The newsletter was distributed to all commercial and cooperative banks as well as selected Polish universities and libraries.

In 2009, the Fund also distributed an issue of the *Secure Banking* magazine issued late in 2008 (2/2008), and published two new issues (1/2009 and 2/2009), with *Safe Banking No. 2/2009* issued in English. The magazine is distributed to banks, selected Polish universities and libraries across Poland, as well as public administration bodies.

In 2009, the Fund completed work on educational materials which, as determined by the Minister of Education, were entered on the list of educational resources recommended for use in schools teaching *Business Basics*. The materials comprised three presentations (*Banks and the Banking System, Assessing Banks and the Polish Deposit Guarantee Scheme*) and a transcript. The 5,000 copies of the educational materials were provided free of charge in the form of a CD-ROM to comprehensive secondary schools across Poland.

The Fund undertook informational efforts concerning the new rules of granting financial assistance from the cooperative bank restructuring fund (CBRF). The rules were laid out in the *Nowoczesny Bank Spółdzielczy (Modern Cooperative Banking)* journal. Moreover, a press release concerning the CBRF was prepared and provided to acquiring banks and cooperative banking media.

On 28 February 2009, the Fund once again selected a bachelor's, master's and doctoral dissertation that best covered the issues of the deposit guarantee system, the Fund's operations, and the financial security of the banking industry. Four master's dissertations from the University of Gdańsk and Gdańsk Technical University were submitted of which the judges awarded two. A new edition of the competition was commenced and it will be completed in the next calendar year.

On 17 July 2009, the new BGF website was launched. The website proved popular with the Fund's customers, reporting approximately 60,000 visits by the end of the year.

As part of its promotional and informational activity, the Fund issued the Polish- and English-language *2008 Annual Report of the Bank Guarantee Fund*, which was distributed to banks in Poland, sixty-five deposit guarantee schemes and international institutions in which the Fund participates, i.e. the EFDI and the IADI.