
BGF Activity

REPORT ON THE OPERATIONS OF THE BANK GUARANTEE FUND IN 2008 (SHORT FORM)

I. LEGAL BASIS, TASKS AND AUTHORITIES

1. Legal Basis

The Bank Guarantee Fund operates pursuant to the Bank Guarantee Fund Act of 14 December 1994 (Journal of Laws of 2007, No. 70, item 474, as amended). The solutions incorporated into that Act comply with the requirements of the Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes.

The Act specifies mechanisms of establishing and operations of the mandatory deposit-guarantee scheme, types of actions which can be taken in order to grant assistance to banks at risk of insolvency as well as the rules for collecting and using information on entities participating in the guarantee scheme.

The Bank Guarantee Fund is supervised by the Minister of Finance.

2. Tasks

The Bank Guarantee Fund along with the Ministry of Finance, the Financial Supervision Authority and the National Bank of Poland account for the national financial safety net. As a part of the safety net, the Fund is to perform certain statutory tasks. As regards the mandatory deposit-guarantee scheme those tasks include:

- ❖ specifying for a given year, in accordance with Article 25 of *the Bank Guarantee Fund Act*, a limit of sums set apart by entities participating in the guarantee scheme due to the obligation to create a fund for the protection of guaranteed deposits,
- ❖ performing obligations stemming from funds guarantees on the terms and conditions specified in the Bank Guarantee Fund Act,
- ❖ collecting and analysing information on entities participating in the guarantee scheme.

The Fund's statutory tasks with regard to granting assistance to entities participating in the guarantee scheme include:

- ❖ granting repayable financial assistance on terms and conditions specified in Article 19 and Article 20 of the Bank Guarantee Fund Act in the event of the risk of insolvency or for the purchase of banks' shares,
- ❖ acquiring receivables of the banks at risk of insolvency,
- ❖ controlling the entities' activities to ensure that the assistance granted is used in an appropriate way,
- ❖ specifying the amount of mandatory annual contributions, referred to in Article 13.1 and Article 14 of the Bank Guarantee Fund Act, payable to the Fund by entities participating in the guarantee scheme.

Moreover, pursuant to the Act concerning 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 repayable financial assistance from the cooperative bank restructuring fund (the CBRF) to those cooperative banks that are not at risk of insolvency.

The Fund performs its tasks based on the adopted *Operational Plan* and *Financial Plan of the Bank Guarantee Fund*.

3. Authorities

The statutory authorities of the Bank Guarantee Fund are the Council (comprising eleven members) and the Management Board (comprising five members).

In 2008, the fourth-term Council was composed as follows:

Table 1. Composition of the fourth-term Council

Name and surname*	Position
1. Robert Jagiełło	Chairman
2. Agnieszka Alińska	Member
3. Wioletta Barwicka	Member
4. Janusz Czarzasty	Member
5. Alina Gużyńska	Member
6. Alfred Janc	Member
7. Andrzej Parafianowicz	Member
8. Krzysztof Pietraszkiewicz	Member
9. Piotr Piłat	Member
10. Bogdan Romaniuk	Member
11. Jan Szambelańczyk	Member

* In 2008, the Council of the BGF also included: Jacek Dominik (until 16 September 2008), Katarzyna Zajdel-Kurowska (until 30 May 2008) and Sławomir W. Zawadzki (until 30 October 2008).

- ❖ In the reporting period the Fund's fifth-term Management Board was composed as follows¹: Management Board President – Małgorzata Zaleska,
- ❖ Acting Management Board Member – Jan Koleśnik²,
- ❖ Management Board Member – Krystyna Majerczyk-Żabówka,
- ❖ Management Board Member – Adrian Markiewicz,
- ❖ Management Board Member – Marek Pyła.

II. GUARANTEE ACTIVITY

1. Financing Guarantee Activity

The primary source of financing the Fund's guarantee activity are the resources collected by banks in the form of funds for the protection of guaranteed deposits (FPGD). All banks participating in the Polish deposit guarantee scheme are obligated to establish these funds. The amount of funds is calculated as the

¹ Deputy-President, Joanna Wielgórska-Leszczynska, was removed from her function in the Management Board as at 6 May 2008 by the BGF's Council.

² From 26 November 2008.

product of the sum of resources collected in the bank, which provide the basis for calculating the amount of obligatory reserve and the interest rate determined every year by the BGF's Council. The maximum interest rate in 2008 was³ 0.4 percent. Taking into account the risks in the banking sector, the BGF Council in the resolution No. 20/2007 of 23 November 2007 determined the interest rate applicable to establishing the FPGD for 2008 at 0.26 percent for the sum of money collected in the bank in all accounts, which serves as the basis for calculating the obligatory reserve. In 2008, the funds for the protection of guaranteed deposits established by all banks and maintained in their assets (after the revaluation of 1 July 2008) amounted to PLN 1,416,682,700. These funds were not used in 2008 as no bank was declared bankrupt.

The method in which banks establish funds for the protection of guaranteed deposits 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 (as at the end of December 2008, it was 0.23 percent of the net balance sheet sum of the banking sector). Resources used to cover these funds are kept in the form of treasury bills, the NBP money bills, bonds issued by the NBP or participation units of the money market funds, which brings banks income from interest rates. The participants of the scheme submit to the BGF appropriate amounts for the compensation payouts only after the court declares the insolvency of a bank. The compensation payouts may also be financed from the amounts obtained by the Fund from the banks' bankruptcy estates, collected in the form of a fund of sums obtained from the bankruptcy estates.

2. Liabilities Due to Compensation Payouts

As at 31 December 2008, the overall sum of the Fund's liabilities for unpaid compensation amounted to PLN 67,300. This amount comprised the receivables of forty-three depositors, whose claims were not subject to the statute of limitations on 11 February 2005 as the period of the validity of these claims was interrupted.

In 2008, no eligible parties requested payment of compensation.

3. Guarantee Activity to Date

From the commencement of its operations until the end of 2008, the BGF paid out compensation to the depositors of five commercial banks and eighty-nine cooperative banks.

³ At the moment it is 0.3 percent.

Table 2. Bank bankruptcies in the years 1995–2008

Year	Commercial banks	Cooperative banks
1995*	2	48
1996	1	30
1997	–	6
1998	–	4
1999	1	–
2000	1	–
2001	–	1
2002–2008	–	–
Total	5	89

* From 17 February, i.e. from the date when the Bank Guarantee Fund Act came into force.

Compensation payouts made by the Bank Guarantee Fund amounted to PLN 814,400,000 and were provided to 318,800 of eligible depositors.

Table 3. Funds allocated to compensation payouts in the years 1995–2008

Year	Funds allocated to compensation payouts (in PLN million)				Percentage of utilisation of the FPGD	Number of deposi- tors
	Total	including				
		from the FPGD	from liquidated bankruptcy estates	from the fund of resources obtained from bankruptcy estates		
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

Table 3. Continued

Year	Funds allocated to compensation payouts (in PLN million)				Percentage of utilisation of the FPGD	Number of deposi- tors
	Total	including				
		from the FPGD	from liquidated bankruptcy estates	from the fund of resources obtained from bankruptcy estates		
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
Total	814.4	626.1	173.8	14.5	6.15	318 822

4. Funds Obtained from Banks' Bankruptcy Estates

The amounts provided to receivers for payment of compensation to depositors of bankrupt banks are claimed back from the banks' bankruptcy estates. Pursuant to the Bank Guarantee Fund Act, the amounts obtained are collected in the form of a fund of resources obtained from bankruptcy estates and may only be used to finance subsequent compensation payouts. As at 31 December 2008 a total value of the fund of resources obtained from bankruptcy estates amounted to PLN 52,854,400.

In 2008 the Bank Guarantee Fund obtained PLN 3,153,000 from receivables included in the banks' bankruptcy estates due to the fact that in the precedent years money was handed over for receivers to finance compensation payouts. That money was obtained from the bankruptcy estates of six banks.

During 2008 five bankruptcy proceedings of the banks being the Fund's debtors were completed. As at 31 December 2008, five proceedings were continued, with the claimed receivables amounting to PLN 5,066,400.

5. Other Activities

On 28 November 2008 the Act on the amendment of the Bank Guarantee Act and amendment of other acts of 23 October 2008 was announced (in Journal of Laws No. 209, item 1315), which made it necessary to change the former resolution of the BGF Management Board concerning a template of a list of depositors prepared by a receiver or a trustee of the bankruptcy estate. An appropriate resolution (No. 137/DPG/2008) specifying a new template of the list of depositors was adopted by the Fund's Management Board in December 2008.

In the reporting period the Fund provided all the interested parties, particularly banks' clients, with information concerning the mechanisms of the deposit guarantee scheme and participation of individual financial entities in the guarantee scheme. Requests directed to the Fund by telephone and mail (letters, e-mails) concerned mainly issues regarding potential bankruptcies of banks, including the mechanisms of executing the guarantee and the way and possibility of recovering the amounts deposited in banks if bankruptcy is declared. With respect to all issues the depositors received detailed replies to the questions raised. A major increase in the number of requests directed to the Fund by telephone and in writing was noted in October and November 2008, which was caused, among other factors, by the commenced legislative activity aimed at raising the guarantee limit up to EUR 50,000.

III. ASSISTANCE FUND

1. Purpose and Terms of Providing Assistance

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. The indirect purpose is to protect clients from the loss of financial resources entrusted to those banks. Pursuant to *the Bank Guarantee Fund Act*, the assistance may be granted in the form of loans, guarantees or sureties, as well as by acquiring banks' safe debts on more favourable terms than commonly accepted. Previously the Fund has granted assistance solely in the form of loans.

The assistance fund from which loans are financed is created from mandatory annual contributions paid by all the entities participating in the mandatory guarantee scheme. The contribution level applicable in a particular bank is calculated as the product of rates determined by the Fund's Council and the base set out in *the Bank Guarantee Fund Act*. In the resolution of 23 November 2007,

the Council of the Bank Guarantee Fund determined the rates of the mandatory annual contra payable by banks in 2008 at 0.045 percent for risk-weighted sum of balance sheet assets, guarantees and sureties and at 0.0225 percent for the sum of risk-weighted other off-balance sheet liabilities less promised credit lines.

In 2008, the banks remitted 50 percent of the mandatory contribution, with the remaining 50 percent being paid by the National Bank of Poland, i.e. PLN 101,651,900 each.

2. Terms and Conditions of Providing Assistance

Pursuant to Article 20 of *the Bank Guarantee Fund Act*, an entity is eligible for financial assistance upon meeting the specific requirements, in particular:

- ❖ the Fund's Management Board is to approve the results of the audit of financial statements concerning the operations of the bank requesting assistance, and when requesting assistance for the acquisition of a bank, a bank merger or the purchase of shares in another bank – the approval shall be obtained for the results of the audit of the financial statements of both banks,
- ❖ the bank is to present a recovery proceedings plan, which is to be approved by the Financial Supervision Authority and in the event of bank acquisition, merger or the purchase of shares in another bank, the Financial Supervision Authority's approval as to the viability of those actions is required,
- ❖ the entity is to demonstrate that the amount of the requested loan, guarantee or surety does not exceed the amount of guaranteed deposits in the depositors' accounts in that bank and when requesting financial assistance for the purpose of acquisition or merger with another bank, it must prove that the amount does not exceed the sum of the guaranteed deposits in the depositors' accounts in the acquired bank,
- ❖ the entity must evidence that it has used its own existing funds to cover the losses of the bank requesting assistance or the bank being acquired.

On the basis of the authorisation stipulated in Article 7.2.6 of *the Bank Guarantee Fund Act*, the Fund's Council set out the principles, form, conditions and manner of granting financial assistance to entities participating in the mandatory guaranteed sums scheme as well as the insolvency risk evaluation criteria.

In 2008, financial assistance in the form of loans could be granted on the terms and conditions presented in the Table 4.

Table 4. Terms and conditions of providing assistance in 2008

Terms and conditions of providing assistance	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 cooperative 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.

In 2008, none of the banks participating in the guarantee scheme requested financial assistance from the Fund's assistance fund. No loan was disbursed. At the same time the Fund managed the loans extended in the previous years.

As at 1 January 2008, four banks were taking advantage of the assistance fund loans for a total debt of PLN 482,980,500.

By the end of the analysed period two banks fully repaid their loans. As at 31 December 2008, the debt outstanding from the other two banks amounted to PLN 452,590,000.

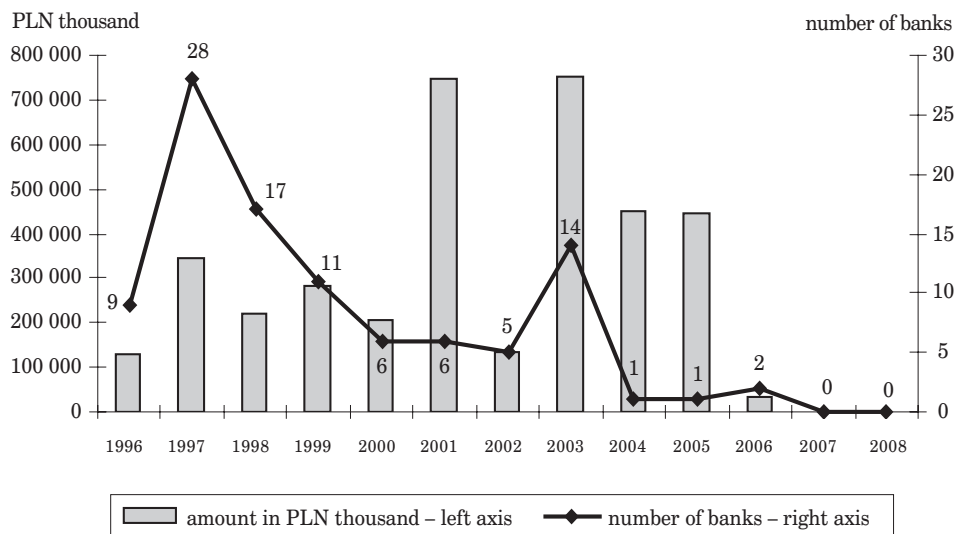
3. Assistance Activity to Date

From the commencement of the Fund's operations until the end of 2008, a hundred loans were granted from the assistance fund, of which forty-four were disbursed to commercial banks and fifty-six to cooperative banks, for a total of PLN 3,746,842,400.

The financial assistance granted by the BGF was allocated as follows:

- ❖ elimination of the risk of insolvency – PLN 2 249 050 000,
- ❖ acquisitions of banks at risk of insolvency – PLN 1 262 792 400,
- ❖ purchase of shares in banks at risk of insolvency by new shareholders – PLN 235 000 000.

Diagram 1. Disbursement of loans from the assistance fund in the years 1996*-2008



* The loan was granted in December 1995 and disbursed in January 1996

Table 5. Financial assistance granted by the BGF in the years 1995-2008

Type of banks and allocation of assistance	Loan disbursements	
	amount in PLN thousand	share percentage
Commercial*	3 427 386.4	91.5
– elimination of the risk of insolvency	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
– elimination of the risk of insolvency	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.

By preventing bank bankruptcies, the financial assistance provided by the Fund had a tangible financial and non-financial effect. It can be measured by:

- ❖ the amount of guaranteed deposits that the Fund would have had to pay if these banks went bankrupt (the total sum of deposits guaranteed at banks to which the Fund provided financial assistance in the years 1996–2008 was sixteen times higher than the amount of financial assistance granted to those banks),
- ❖ maintaining a network of banking units,
- ❖ saving a significant number of work places,
- ❖ keeping access to banking services,
- ❖ improved effectiveness of banking operations.

IV. COOPERATIVE BANK RESTRUCTURING FUND

1. Purpose and Terms of Providing Assistance

Pursuant to the Act concerning the operation of cooperative banks, their mergers and on the acquiring banks of 7 December 2000, in the reporting year the Bank Guarantee Fund provided financial assistance to support cooperative banks' merger processes from the Cooperative Bank Restructuring Fund (the CBRF)⁴ established in 2001.

In accordance with the above act, the Fund received PLN 123,409,700 to be allocated to finance cooperative bank merger processes and related investments, and particularly to ensure unification of:

- ❖ IT software and hardware,
- ❖ banking technology,
- ❖ financial and accounting procedures,
- ❖ offers of banking products and services,

as well as to purchase the shares in the acquiring bank.

The financial assistance from the CBRF allocated to finance the above activities until 13 December 2008 could be granted only to those cooperative banks that merged with other banks after 28 January 1998 (i.e. 3 years before the effective date of the aforementioned Act) or purchased shares in acquiring banks before 28 January 2004 (i.e. within 3 years from the effective date of the Act) and to

⁴ The fund is composed of resources with interests, from the following sources:

- liquidated Cooperative Bank Development Fund, previously administered by Bank Gospodarki Żywnościowej SA (on 6 April 2001 that funds amounting to PLN 4,031,800 were transferred to the BGF),
- transferred funds amounting to the funds obtained by banks from redeemed restructuring bonds of series D.

those which were not at risk of insolvency and were capable of repaying the loans taken out by them.

On 13 December 2008, the amended *Cooperative Bank Act* became effective. The amended provisions of this Act extended the scope as to both subject and object of the financial assistance provided under the CBRF. Under the provisions of the amended Act, financial assistance from the CBRF may be granted to a cooperative bank for the purpose of financing:

- ❖ the purchase of shares in the acquiring bank,
- ❖ completed or proposed investments related to cooperative bank mergers, aimed at enhancing the security of the funds accumulated or at improving or unifying customer service standards, in particular with respect to:
 - purchasing or modifying IT software or hardware,
 - developing or unifying banking technology,
 - modifying financial and accounting procedures,
 - developing or unifying banking products and services,
- ❖ proposed investments related to the above purposes.

2. Terms and Conditions of Providing Assistance

Table 6. The terms and conditions of providing financial assistance from the Cooperative Bank Restructuring Fund specified in the resolution No. 15/2001 of the Fund’s Council – binding with reference to applications submitted before 13 December 2008

Terms and conditions of providing assistance	Purpose of the assistance	
	to support merger processes	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 two years	
Loan disbursement	once-off	
Repayment of interest	once per quarter	
Repayment of principal	in six-monthly instalments	

As a result of the amended provisions of the *Cooperative Bank Act* becoming effective, the Fund's Council adopted resolution No. 24/2008 concerning *the specification of the form, manner and detailed conditions for granting financial assistance from the Cooperative Bank Restructuring Fund*. The resolution adjusted the forms, manner and conditions for granting assistance from the CBRF to the scope extended by *the Cooperative Bank Act*, as to the subject and object of granting assistance. The changes were introduced in order to improve the process of application processing and granting assistance to banks, by fixing two application periods for banks requesting assistance as well as a grading system. In comparison with the previous conditions the grace period in the repayment of principal was shortened from two years to one year. In the event of assistance provided to support the merger processes and investments unconnected with mergers the loan may be disbursed once-off or in tranches. Moreover a limitation as to the amount of the financial assistance was introduced, restricting the aid that could be provided to a bank to no more than 30 percent of the bank's own funds, and specifying that the amount of all the banks' receivables towards the BGF due to the financial assistance could not exceed PLN 5,000,000 as at the date the aid is granted.

3. Requesting Loans from the Cooperative Bank Restructuring Fund

Cooperative banks' applications for assistance from the Cooperative Bank Restructuring Fund, submitted to the Fund in 2008, pertained exclusively to loans supporting merger processes and related investments.

In late 2007, five applications were being processed, and in the reporting year six more applications were submitted for loans for a total amount of PLN 51,458,000 to finance merger processes and one application for a PLN 30,000 loan for the purchase of shares in an acquiring bank. By the end of 2008 the Fund's Management Board adopted a resolution granting entities ten loans for a total amount of PLN 35,063,400:

- ❖ nine of which to support the merger process and investments of PLN 35,033,400,
- ❖ one loan for the purchase of shares in the acquiring bank for an amount of PLN 30,000.

In 2008 eleven loans were disbursed for a total of PLN 39,063,300⁵. In 2009 two applications submitted by banks in 2008 will be processed.

⁵ Including one loan (PLN 4,000,000) extended pursuant to the resolution adopted in 2007.

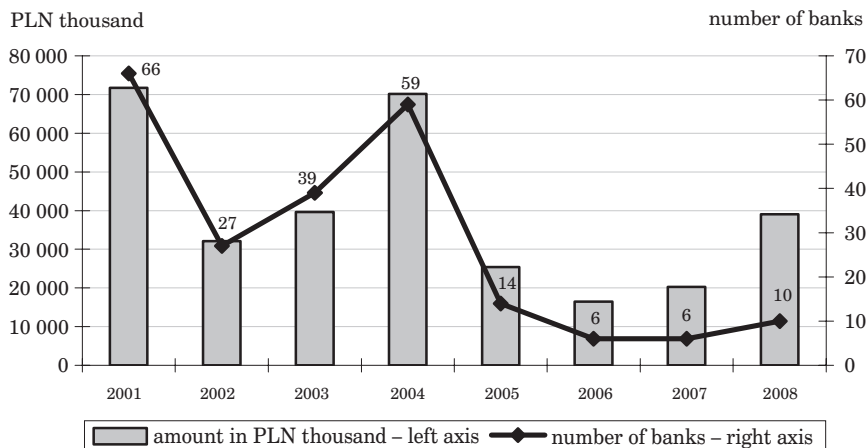
4. The CBRF Activity to Date

In 2008, banks repaid the principal in the amount of PLN 27,211,000. Twenty two banks fully paid off twenty seven loans, and three of them are still taking advantage of financial assistance.

As regards the repayments and disbursements of granted loans as at the end of 2008, forty four banks were taking advantage of the Cooperative Bank Restructuring Fund loans (fifty-eight loans) for a total debt of PLN 85,469,400.

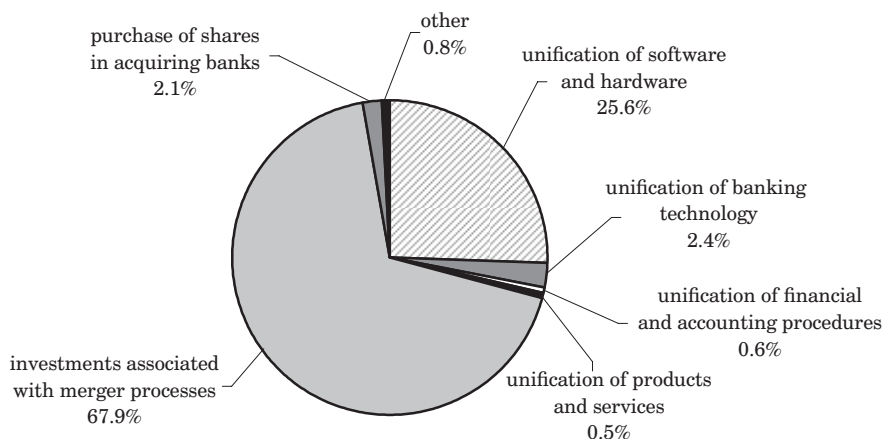
In the years 2001–2008, the Bank Guarantee Fund extended a total of one hundred and eighty-nine loans from the Cooperative Bank Restructuring Fund for a total of PLN 314,777,900, of which: PLN 308,096,400 were allocated to support merger processes and investments (i.e. 97 percent of the total values of extended loans) and PLN 6,681,500 to purchase shares in acquiring banks (i.e. 2.1 percent of the total value of extended loans). In that period the amount of the loans extended exceeded more than 2.5 times the value of the Cooperative Bank Restructuring Fund because the funds from the repayments were invested in further assistance activities (in none of the cases were there any problems with the repayment of the borrowed funds).

Diagram 2. Disbursement of loans from the CBRF in the years 2001–2008



The diagram 3 illustrates the allocation of loans granted from Cooperative Bank Restructuring Fund:

Diagram 3. Allocation of loans from the CBRF (in percent) in the years 2001–2008



V. CONTROL OF THE FINANCIAL ASSISTANCE USE

1. Direct Controls in Banks

In performing its statutory tasks set out in Article 4.2 of the Bank Guarantee Fund Act and in Article 36.3 of the Act concerning the operation of cooperative banks, their mergers and on the acquiring banks, the Fund – in accordance with the 2008 control schedule – carried out direct controls in seventeen banks utilising financial assistance from the BGF.

What is more, in the first quarter of 2008 one ad hoc control was carried out in the cooperative bank taking advantage of financial assistance from the Cooperative Bank Restructuring Fund due to its worse economic and financial standing as found during the monitoring process.

Table 7. The number of banks controlled in 2008

Banks taking advantage of the assistance	Number of banks controlled	
	from the assistance fund	from the Cooperative Bank Restructuring Fund
Commercial banks	1	–
Cooperative banks	1	16
Total	2	16

2. The Scope of Control

In each case the control covered as follows:

- ❖ in banks taking advantage of loans extended by the assistance fund – the evaluation of:
 - compliance of assistance funds utilisation with statutory objectives and objectives stipulated in loan agreements,
 - implementing the recovery proceedings plan,
 - effective utilisation of the assistance funds,
 - economic and financial standing of banks, including trends determining basic economic indices,
 - performance of obligations under loan agreements,
- ❖ in banks taking advantage of loans from the Cooperative Bank Restructuring Fund – the evaluation of:
 - compliance of utilisation of the financial assistance from the Fund with objectives specified in *the Cooperative Bank Act (...)*,
 - banks' solvency,
 - fulfilling the provisions of loan agreements, including the implementation of financial projections and securing the Fund's receivables,
 - fulfilling the requirements of *the Cooperative Bank Act (...)* as regards the distribution of balance surplus.

3. Results of Controls

It was deemed that in banks taking advantage of loans from the assistance fund, the granted funds were utilised and secured in accordance with contractual provisions. No objections were raised as to the performance of the remaining obligations under the loan agreements concluded with the BGF.

The results of controls confirmed that the financial support provided by the BGF, by assisting in the acquisition of banks at risk of insolvency, had served its purpose. The Fund's financial support allowed key objectives of the recovery proceedings plan to be met, while the restructuring of the credit portfolio of the acquired banks proceeded correctly. Thanks to the actions taken and the aid from the Bank Guarantee Fund it was possible to prevent the acquired banks from bankruptcy and avoid disbursing the guaranteed sums.

Planned controls conducted in the banks taking advantage of loans from the Cooperative Bank Restructuring Fund showed that:

- ❖ the BGF's financial assistance was utilised in accordance with the objectives specified in *the Cooperative Bank Act (...)*,

- ❖ banks were solvent and repayment of obligations towards the Fund was not threatened,
- ❖ the balance surplus was distributed in accordance with binding provisions of law and loan agreements,
- ❖ the implementation of the presented financial projections proceeded correctly,
- ❖ banks secured loans in accordance with the concluded agreements.

The conclusions stemming from the controls, cases of negligence identified during the control and Fund's stance were reflected in post-control statements, which were provided to the Management Boards and Councils of the banks and – in the event of cooperative banks – to relevant acquiring banks. In the case of three banks, the control results were also disclosed to the Financial Supervision Authority.

VI. THE TRUSTEE FUNCTION

In April 2008, the Bank Guarantee Fund completed its term as a trustee in the bank to which it granted financial assistance aimed at eliminating the risk of insolvency. The trustee's tasks were carried out by the trustee's authorised representative appointed by the Fund's Management Board.

Pursuant to the decision made by the Financial Supervision Authority, dated 17 April 2008, the Bank Guarantee Fund was recalled from the position of the trustee supervising the performance of the recovery proceedings plan for the bank and the Fund's Management Board recalled the trustee's authorised representative.

VII. COLLECTING AND ANALYSING INFORMATION ON BANKS

1. Updating and Developing Information Base

The primary sources of information on banks are their financial statements received by the Bank Guarantee Fund in 2008 from the National Bank of Poland pursuant to the *Bank Guarantee Fund Act* and the amended *Agreement concerning the subject, scope, manner and timeline for the National Bank of Poland when providing information to the Bank Guarantee Fund*, concluded on 27 December 2007.

On 25 April 2008, the *Agreement for the Use of the National Bank of Poland's Reporting Information System Website* was signed. The features of the Reporting Information System (RIS) website, developed by the National Bank of Poland for

the Fund, enable the user to download banks' financial statements using their individual taxonomies. The information from new reporting mechanisms, FINREP and COREP, are downloaded via the RIS website in XBRL taxonomy and identified in a comparable manner as in the NBP. The mechanisms of the WEBIS reporting mechanisms have not changed.

In 2008, the Fund continued design work regarding the implementation of the new reporting system – FINREP and COREP – and construction of the banks' new analytic database. The work in that respect was done with the use of the tool applications called *SIS Application*, developed by the Fund. A basic feature of that application is providing analysts with standardised, legible information structures allowing data to be processed for the purpose of analysis. They are generated in the form of reports with parameters fixed by analysts.

In addition to such reporting mechanisms as FINREP, COREP and WEBIS, a significant source of information is the data provided to the Fund directly by banks, pursuant to *Regulation No. 11/2006 of the President of the National Bank of Poland of 29 May 2006 concerning the scope, manner and timelines for the banks participating in the mandatory guarantee scheme to submit information to the Bank Guarantee Fund*. Pursuant to this regulation, banks submit information pertaining to the basis for calculating mandatory annual contributions and for establishing the fund for the protection of guaranteed deposits, as well as information concerning debt guaranteed by the Fund and the amount of funds guaranteed by the BGF. In 2008 the Fund for the first time obtained information relevant to the system, concerning an actual level of funds guaranteed in banks.

In 2008, as a consequence of the amended Bank Guarantee Fund Act, steps were undertaken to amend Regulation No. 11/2006 of the President of the National Bank of Poland of 29 May 2006 concerning the scope, manner and timelines for the banks participating in the mandatory guarantee scheme to submit information to the Bank Guarantee Fund. The amended Regulation takes account of changes in guarantee limits, in basis for calculating mandatory annual contributions, and stipulates extending and specifying the scope of information provided by banks.

On 12 June 2008, the Agreement concerning Cooperation and the Exchange of Information between the Financial Supervision Authority and the Bank Guarantee Fund was concluded. The agreement stipulates cooperation between the two institutions in order to perform their statutory tasks and to enable information exchange, in particular, to ensure the stability of the banking sector and the security of bank customers' deposits. Under this agreement signed with the Financial Supervision Authority, the Fund may gain access to supervisory information, required for correct identification of risks in the operations of each bank, as well as the situation in the industry.

2008 saw the beginning of work on the concept of System Controlling in the BGF, which comprised both operations of data warehouse – mainly for the purpose of analysing banks’ operations and financial controlling covering monitoring of the organisations’ own operations.


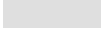
2. Bank Assessment Methodology

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 so called risk matrix.

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

Table 8. Migration matrix for commercial and cooperative banks* in the period from 31 December 2007 to 31 December 2008

31.12.2008 31.12.2007	Very low	Low	Medium	High	Very high
Very low	ComB – 20 CoopB – 522	ComB – 9 CoopB – 10	ComB – 1 CoopB – 0	ComB – 0 CoopB – 0	ComB – 0 CoopB – 0
Low	ComB – 1 CoopB – 22	ComB – 9 CoopB – 14	ComB – 1 CoopB – 0	ComB – 1 CoopB – 0	ComB – 2 CoopB – 0
Medium	ComB – 1 CoopB – 0	ComB – 0 CoopB – 1	ComB – 2 CoopB – 2	ComB – 1 CoopB – 1	ComB – 0 CoopB – 0
High	ComB – 0 CoopB – 0	ComB – 0 CoopB – 0	ComB – 0 CoopB – 2	ComB – 2 CoopB – 0	ComB – 0 CoopB – 0
Very high	ComB – 0 CoopB – 0	ComB – 0 CoopB – 1	ComB – 0 CoopB – 1	ComB – 0 CoopB – 1	ComB – 0 CoopB – 2

 better rating
 worse rating

* ComB – number of commercial banks, CoopB – number of cooperative banks.

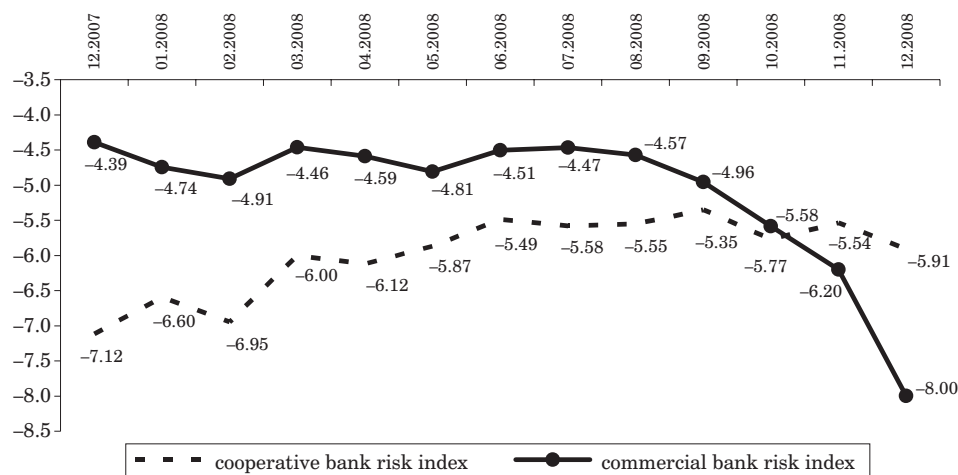
The bases for discussing risks in the entire banking sector are the so called migration matrices and risk indices. A migration matrix is used to observe the position of a bank in relation to the risk matrix in each reporting period. In 2008 the trends in banks’ migration indicated that the situation in the banking sector

was going to improve. The Table 8 illustrates the migration matrix for commercial and cooperative banks in the period from 31 December 2007 to 31 December 2008.

In the period from the end of 2007 to 31 December 2008 in the case of thirty banks, improvement was reported, whereas in the case of twenty-six banks the situation in the field of risk rating deteriorated. As at the end of the analysed period two commercial banks and two cooperative banks were assigned to the high-risk category.

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.

Diagram 4. Risk index in the banking sector



The diagram above presents the levels of risk indices in the banking sector. Risk index for the commercial bank sector deteriorated in 2008, while the index for the cooperative bank sector improved, remaining at a stable and relatively low level throughout the reference period.

In 2008 steps were taken to change the risk assessment methodology in the banking sector on the basis of new RIS reporting.

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

The analytical tasks of the Bank Guarantee Fund are performed due to the Fund's statutory authorisation to access information concerning banks, in other words the ability to be autonomous and independent in analysing banks' economic and financial standing and evaluating existing and potential risks to their operations.

Main functions of the BGF's analytical activity are: assessment of risks in the banking sector aimed at specifying the demand for funds from the deposit guarantee scheme, with the funds collected in banks in the form of the Fund for the Protection of Guaranteed Deposits in order to cover potential guarantee obligations, as well as early identification of the insolvency risk in banks, conditioning essential actions to be taken by the Fund in cooperation with the Financial Supervision Authority and other institutions forming a part of the financial safety net.

The systematic studies (monthly and quarterly) of the economic and financial situation in the banking sector, including the commercial and cooperative banking sector, were conducted, taking into account existing and potential risks. The Fund also regularly analysed the key macroeconomic data as well as structural and legal changes in the banking sector.

In 2008 in order to accurately assess the course and effects of the crisis on global financial markets, the information on incurred losses and deductions disclosed by subsequent financial institutions were updated and analysed. Special attention was devoted to financial institutions investing in banks operating in Poland.

In the reporting period projections concerning the level and structure of deposits, total capital requirements in the banking sector, as well as the value of BGF's guarantee obligations and demand for the assistance funds were prepared. When preparing the proposed mandatory annual contribution rates and the fees of the fund for the protection of guaranteed deposits for 2009, two crucial factors were taken into account: increasing the value of the guarantee to the PLN equivalent of EUR 50,000, as well as potential risks which may affect the stability of the Polish banking sector in connection with the global financial crisis. The proposed rates of the fund for the protection of guaranteed deposits and of the mandatory annual contributions for 2009 were submitted to the BGF's Council, which determined the value of rates, adopting resolutions on 19 and 26 November 2008, respectively.

4. Other Analytical Activities

In response to current problems and changes taking place in 2008 in the banking sector understood in its wider sense, a number of analytical activities were carried out concerning among other issues:

- ❖ the effect of changes on an interbank market caused by crisis on international financial markets (particularly concerning liquidity of Polish market) on the Fund's deposit and guarantee activity,
- ❖ deposit hybrid products in the context of the BGF's statutory tasks,
- ❖ the effect of deposit products on the risk of banks' reputation,
- ❖ the effect of introducing the Euro in Poland on the guarantee, assistance and investment operations of the Bank Guarantee Fund.

Moreover, due to anxiety on international financial markets, analysis was prepared in order to illustrate the changes in the deposit guarantee schemes in all the EU member states, introduced in response to the financial crisis, with special attention devoted to the increase in the guarantee limit.

5. Monitoring the Standing of Banks Taking Advantage of the Financial Assistance from the BGF

At the end of 2008 the Bank guarantee Fund monitored forty-six banks utilising financial assistance, with respect to their economic and financial standing and performance of obligations under the loan agreements.

Table 9. The number of banks monitored in 2008

Banks taking advantage of the assistance	Number of banks			
	1 January 2008		31 December 2008	
	from the assistance fund	from the Cooperative Bank Restructuring Fund	from the assistance fund	from the Cooperative Bank Restructuring Fund
Commercial banks	2	–	1	–
Cooperative banks	2	57	1	44
Total	4	57	2	44
	61		46	

In the analysed period five new banks which were granted aid by the Fund were included in the monitoring system and the monitoring ended in twenty banks (two banks taking advantage of loans from the assistance fund and eighteen banks taking advantage of loans from the Cooperative Bank Restructuring Fund, which paid up the financial assistance in full)⁶.

All banks taking advantage of the financial assistance from the Fund were subject to the monitoring procedures specified by the BGF. The monitoring process involved, in particular, assessing the economic and financial standing and performance of obligations stipulated in loan agreements, as well as:

- ❖ in the case of banks taking advantage of loans extended by the assistance fund – the evaluation of:
 - implementation of the recovery proceedings plans,
 - effectiveness of the assistance provided,
- ❖ in the case of banks taking advantage of loans from the Cooperative Bank Restructuring Fund – the evaluation of:
 - implementation of financial projections,
 - solvency and ability to repay the extended loans.

None of the banks to which the Cooperative Bank Restructuring Fund provided assistance was found to be at risk of insolvency.

Moreover, in the case of banks which repaid the loans in full, the analysis was conducted covering:

- ❖ economic and financial standing and effectiveness of the financial assistance granted in the case of banks utilising loans from the assistance fund after the loan utilisation period has been completed,
- ❖ viability of extending and utilisation of loans, as well as performance of obligations under loan agreements as regards banks taking advantage of funds from the Cooperative Bank Restructuring Fund.

6. Other Activities

The Fund's conclusions stemming from the analysis of the WEBIS reporting and instances of an increased number of the investment funds participation units revealed in some banks taking advantage of the BGF loans were mentioned in letters sent to those banks. The Fund requested the data concerning the units held and method of their revaluation.

⁶ Twenty-two banks repaid their debts, with eighteen banks repaying their financial obligations towards the BGF in full and four banks still taking advantage of the CBRS loans.

Since the new FINREP and COREP reporting is highly complex and the scope of information provided in reporting sheets differs from the one obtained to date, the Fund has identified a number of inaccuracies as to the preparation of COREP by banks, regarding among other things the presentation of internal capital evaluation and internal evaluation of internal capital needs. Taking into account the observed varied approaches to the presentation of those figures, the Fund requested the Financial Supervision Authority for explanations in this respect.

VIII. INVESTMENT ACTIVITY

Pursuant to *the Bank Guarantee Fund Act*, the Fund may purchase solely securities issued, endorsed or guaranteed by the State Treasury or the National Bank of Poland. Moreover, the Fund may purchase participation units of the money market funds and establish term deposits with the National Bank of Poland.

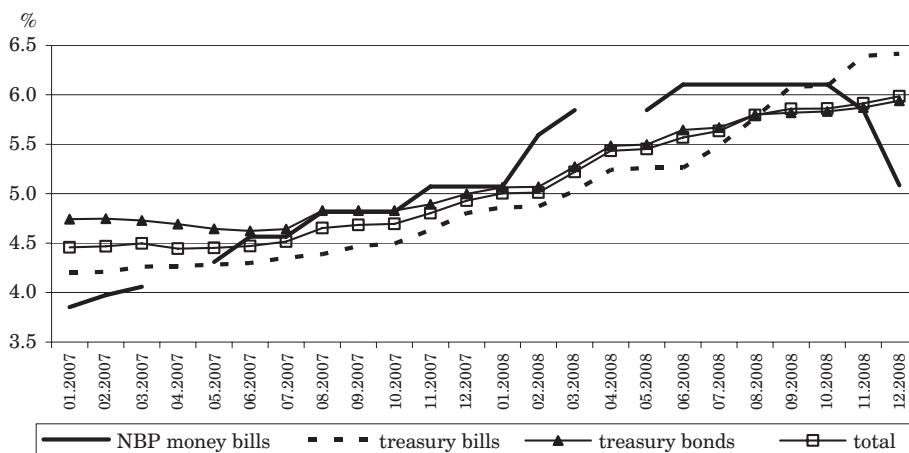
In 2008, the Fund carried out a total of one hundred and sixty two purchase transactions as part of its investment activity (including eighty-five transactions involving treasury bonds, twenty transactions involving treasury bills and fifty-seven transactions on NBP money bills) as well as thirteen sales transactions (including ten transactions involving treasury bonds, two transactions involving treasury bills and one transaction on NBP money bills).

The turnover volume, taking into account nominal values, for the purchase transactions amounted to PLN 4,880,433,000, including: PLN 3,627,063,000 for treasury bonds transactions, PLN 810,870,000 for the treasury bills transactions and PLN 442,500,000 for the NBP money bills transactions. For sales transactions, the turnover volume, taking into account nominal values, amounted to PLN 958,530,000.

Average profitability of securities purchased in the analysed period was 6.23 percent (with 6.24 percent for treasury bonds, 6.36 percent for treasury bills and 5.84 percent for NBP money bills respectively)⁷. No operations were conducted in the area of investment fund participation units of the money market or the allocation of assets in the form of NBP term deposits due to low profitability of these instruments.

⁷ Average profitability of securities is provided on the basis of and 365-day period in order to facilitate the comparison.

Diagram 5. Profitability of securities in the BGF's portfolio (on the basis of a 365-day period) as at the end of each month



Income from securities in 2008 amounted to PLN 284,100,000⁸, including:

- ❖ PLN 230,800,000 from treasury bonds,
- ❖ PLN 52,800,000 from treasury bills,
- ❖ PLN 5000,000 from NBP money bills.

In 2008, the BGF reported an increased share of treasury bonds in the total nominal value of the securities portfolio from 65.4 percent (as at the end of 2007) to 92.6 percent.

Table 10. Structure of the Fund's securities portfolio as at 31 December 2007 and 31 December 2008

Items	Structure		
	31 December 2007	31 December 2008	Change
	%		percentage points
NBP money bills	0.2	0.2	0.0
Treasury bills	34.4	7.2	-27.2
Treasury bonds	65.4	92.6	+27.2
Total	100.0	100.0	-

⁸ The result has been calculated as follows:

- a) for discount securities (i.e. NBP money bills, treasury bills and zero-coupon bonds) as the value of discount settled over time,
- b) for coupon bonds as income from interest settled over time and value of premium/discount settled over time.

Diagram 6. Duration of individual securities in the GBF portfolio

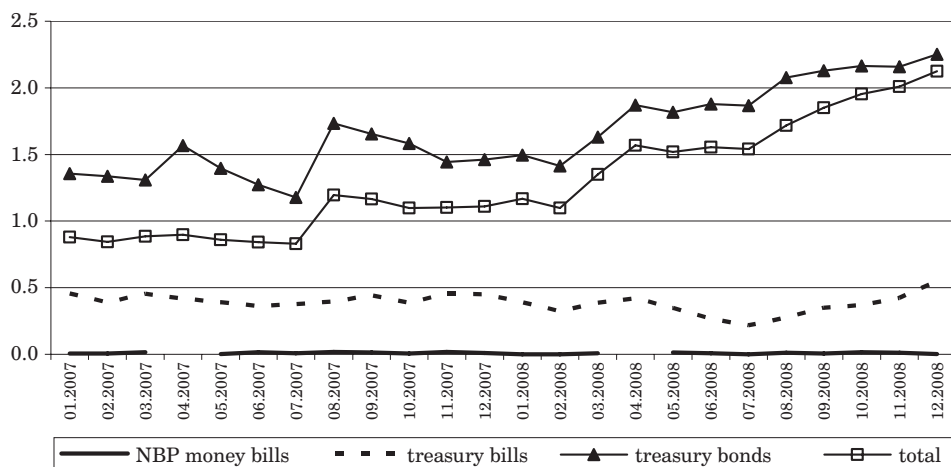
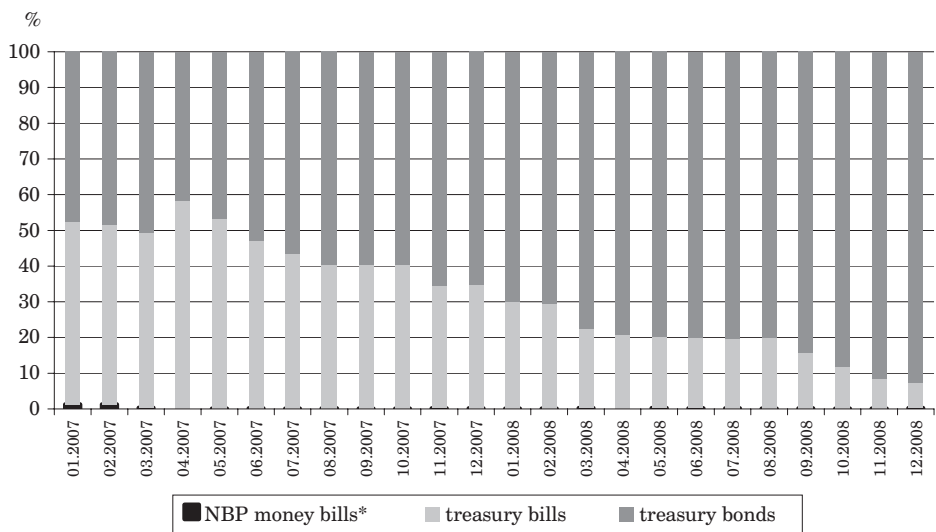


Diagram 7. Share of individual securities in the GBF portfolio



* In the analysed period the share of NBP money bills did not exceed 0.23 percent, therefore it is not clearly visible on a diagram.

The increased profitability of purchased securities allowed the profitability of the entire BGF securities portfolio to be increased from 4.94 percent (the state of the portfolio as at the end of 2007) to 5.99 percent (the state of the portfolio as at the end of 2008). In an analogous period the duration of the portfolio increased from 1.2 to 2.1 years.

As a part of the cooperation between the Fund and banks as regards investment activity, two new framework agreements were signed specifying the terms and conditions and way of concluding debt security transactions.

Moreover, in the fourth quarter of 2008, a document was adopted concerning the Fund's investment policy study accounting, among other issues, for the effect of the crisis on global financial markets on the Fund's liquidity and ability to fully perform its statutory (guarantee and assistance) obligations.

IX. FUNDS AND FINANCES

1. Sources of Financing and Funds

Among statutory sources of financing of the Bank Guarantee Fund's activity are:

- ❖ statutory fund,
- ❖ assistance fund,
- ❖ sums provided to the Fund by the banks – from funds for the protection of guaranteed deposits set up by the banks for depositors to be able to execute the guarantee,
- ❖ Cooperative Bank Restructuring Fund,
- ❖ reserve fund,
- ❖ funds obtained from bankruptcy estates,
- ❖ income from interest rate on loans extended to banks,
- ❖ income from securities and funds deposited in the Fund's accounts operated by the National Bank of Poland,
- ❖ funds obtained as non-repayable foreign financial assistance,
- ❖ State subsidies on terms stipulated in the public finance law, granted upon the Fund's request,
- ❖ funds from short-term credit facility extended by the National Bank of Poland,
- ❖ loans granted from the State budget,
- ❖ other income i.e. from lease of office space, parking spaces, sale of fixed assets.

The Bank Guarantee fund utilises the obtained funds to finance:

- ❖ tasks associated with guaranteeing deposits,
- ❖ tasks associated with granting aid to entities participating in the guarantee scheme,
- ❖ tasks associated with extending loans to cooperative banks in order to support the banks' merger processes,
- ❖ operating costs of the Fund's Office and authorities.

In 2008 the level of *statutory and reserve fund* of the Bank Guarantee Fund changed as a result of the resolution adopted by the Fund's Council on 19 November 2008, concerning *the distribution of balance surplus for 2007 and balance surplus for previous years*.

In accordance with the provisions of the amended Bank Guarantee Status, the fund for sums obtained from bankruptcy estates was established in the fourth quarter of 2008. The sums obtained from the bankruptcy estates as at the date of distribution of the BGF's balance surplus for 2007 and previous years as well as the sums obtained from bankruptcy estates in 2008 went towards that fund.

As at 31 December 2008 the value of the fund comprising sums obtained from bankruptcy estates amounted to PLN 52,854,400.

2. 2008 Financial Plan and its Implementation

The breakdowns presented below illustrate the degree to which the 2008 Financial Plan has been implemented.

Table 11. Profit and loss account

Revenues/costs	Plan for 2008 (amount in PLN thousand)	Implementation as at 31 December 2008 (amount in PLN thousand)	Plan implementation index (in %)
I. Total revenues	275 534.0	289 216.0	105.0
1. Revenues from interest rates and commissions on repayable financial assistance granted to banks	3 227.0	3 418.4	105.9
2. Revenues from securities traded in*	270 887.0	284 080.2	104.9

Table 11. Continued

Revenues/costs	Plan for 2008 (amount in PLN thousand)	Implementa- tion as at 31 December 2008 (amount in PLN thousand)	Plan imple- mentation index (in %)
3. Other revenues	1 420.0	1 717.4	120.9
II. Operating costs of the Fund's Office and authorities	20 101.0	17 812.6	88.6
1. Costs of remunerations with statutory liabilities	11 676.0	11 138.8	95.4
2. Outsourced services	2 502.0	2 361.3	94.1
3. Services associated with using and managing the building	1 141.0	1 085.7	95.2
4. Amortisation and depreciation	2 180.0	2 140.3	98.2
5. Other costs	2 602.0	1 086.5	42.0
III. Financial profit (loss)	255 433.0	271 403.4	106.3

* Pursuant to the BGF's special accounting rules applicable in the reporting period, debt securities are revaluated in accounting records according to current sale price, with the sale price being the purchase price corrected against interest calculated as at the balance sheet day or the part of discount as at that day.

Table 12. Balance sheet

Items	Plan for 2008 (amount in PLN thousand)	Implementa- tion as at 31 December 2008 (amount in PLN thousand)	Plan imple- mentation index (in %)
I. Assets	6 016 601.0	6 072 593.0	100.9
1. Loan receivables	546 711.0	538 660.9	98.5
2. Securities	5 405 470.0	5 470 714.8*	101.2
3. Tangible fixed assets and intangible assets	63 840.0	62 858.9	98.5%
4. Other assets	580.0	358.4	61.8
II. Liabilities	6 016 601.0	6 072 593.0	100.9
1. Statutory fund	1 625 826.0	1 637 025.5	100.7

Table 12. Continued

Items	Plan for 2008 (amount in PLN thousand)	Implementation as at 31 December 2008 (amount in PLN thousand)	Plan implementation index (in %)
2. Reserve fund	670 000.0	669 882.7	100.0
3. Funds obtained from bankruptcy estates	X.	52 854.4	X
4. Assistance fund:	3 288 044.0	3 314 038.0	100.8
a) used	452 589.0	452 590.0	100.0
b) to be used	2 835 455.0	2 861 448.0	100.9
5. Cooperative Bank Restructuring Fund:	123 410.0	123 409.7	100.0
a) used	94 122.0	85 469.4	90.8
b) to be used	29 288.0	37 940.3	129.5
6. Financial profit (loss)	255 433.0	271 403.4	106.3
7. Other liabilities	53 888.0	3 979.3	7.4
8. Profit(loss) from previous years	0.0	0.0	X.
III. Investment outlays	720.0	518.0	71.9
1. Building	0.0	32.0	X.
2. IT	720.0	449.7	62.5
3. Other outlays	0.0	36.3	X.

* Pursuant to the BGF's special accounting rules applicable in the reporting period, debt securities are revaluated in accounting records according to current sale price, with the sale price being the purchase price corrected against interest calculated as at the balance sheet day or the part of discount as at that day.

3. Other Activities

On 17 December 2008 the Bank Guarantee Fund's Council adopted a resolution concerning the *2009 Financial Plan of the Bank Guarantee Fund*, in line with which the Fund is to manage its finance in 2009.

In the analysed period, since the Bank Guarantee Fund Act, the BGF's Statute and BGF's special accounting rules were amended, steps were taken to amend the Fund's internal regulations concerning: Rules for managing finances, drafting, circulating and controlling financial and accounting documentation, accounting rules, an accounts plan and an inventory in the Bank Guarantee Fund.

X. ORGANIZATIONAL STRUCTURE AND HUMAN RESOURCES

1. Structure of the Fund's Office

In the period from 1 January to 31 December 2008 the Bank Guarantee Fund performed its statutory tasks through the following organisational units responsible for the tasks assigned to them:

- ❖ **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, as well as preparing reports essential for the Office's operations, providing IT and administrative assistance and maintaining the reliability of the technical infrastructure and the Fund's office security system,
- ❖ **Financial Assistance and Deposit Guarantee Department** – responsible for assisting banks at risk of insolvency, trading in debts acquired from these banks and providing assistance to banks from the cooperative bank restructuring fund in order to support merger processes in those banks, as well as performing tasks related to the Fund's duty to ensure compensation payouts to depositors,
- ❖ **Financial Department** – responsible for managing the Fund's finances and accounting,
- ❖ **Control 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 Cabinet** – responsible for ensuring support for the Fund's authorities, legal assistance, workflow management and employee matters, as well as cultivating relationships with foreign deposit guarantee institutions and financial institutions, and providing public information and promotion of the Fund,
- ❖ **Internal Control 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 in the BGF:

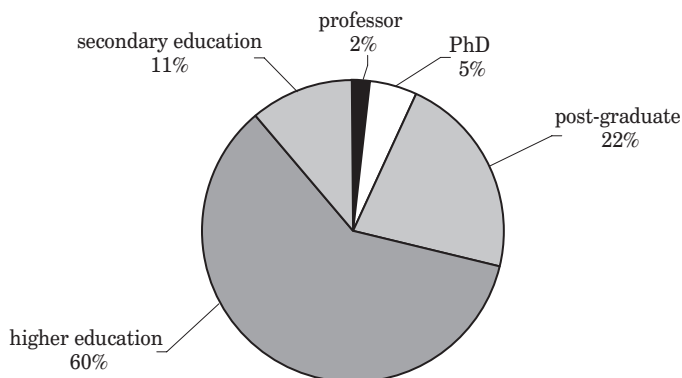
- ❖ Asset Management Committee, which determines the policy for investing the Fund's available financial resources,
- ❖ Committee for Assessment of Applications for Assistance, responsible for approving or rejecting the banks' applications for financial assistance from the assistance fund and for loans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

The Management Board Members, in accordance with the competencies assigned to them in the BGF's Management Board By-laws, supervised the following organisational units:

- ❖ **President of the Management Board – Małgorzata Zaleska** – the President's Cabinet, Treasury and Analysis Department and Internal Control Position,
- ❖ **Acting Management Board Member – Jan Koleśnik** – Assistance Activity and Deposit Guarantee Department⁹,
- ❖ **Management Board Member – Krystyna Majerczyk-Żabówka** – Control and Monitoring Department and Financial Department¹⁰,
- ❖ **Management Board Member – Adrian Markiewicz** – Assistance Activity and Deposit Guarantee Department,
- ❖ **Management Board Member – Marek Pyła** – Controlling, IT and Administration Department.

2. Employment

Diagram 8. Level of education among the BGF employees



⁹ From 26 November 2008.

¹⁰ From 23 November 2007.

As at 1 January 2008, the Bank Guarantee Fund employed seventy people, while as at 31 December 2008 it employed sixty-five people. Fifty-eight, i.e. eighty-nine percent of the Fund employees are university graduates or higher. The average age of employees was 42 years.

3. Employees' Matters

Among the most important tasks performed in 2008 in terms of employee matters was drafting new *Work Regulations* introducing employer's obligations as to prevention of employment discrimination and mobbing and specifying obligations in connection with dealing with newcomers to the job.

Moreover, the following internal regulations governing employee issues were introduced:

- ❖ amendments to the Regulations concerning Remunerations for the Employees of the Bank Guarantee Fund Office,
- ❖ rules governing the recruitment of employees of the Bank Guarantee Fund Office,
- ❖ rules governing the circulation of documents associated with employment, change of the employment agreement provisions or termination of employment relationship.

The Fund carried out a student work placement programme for university and college students, mainly from economic faculties. Nine students who took part in the programme had a chance to see the Fund operating and performing its tasks.

In 2008 steps were taken to prepare and implement in the Fund the Employee Pension Scheme in the form of an agreement with the insurance company concerning group life insurance for employees. The scheme has been in force since October 2008, when it was registered by the Financial Supervision Authority. The Programme introduced is one of the tools used to manage personnel, aimed at attracting and keeping well qualified employees as well as motivating them to improve their performance at work.

4. Training Activity

Training policy implemented in 2008 was aimed at broadening the employees' expertise, indispensable for performing current tasks. The organised courses and trainings were aimed at complementing and developing employees' significant skills. The issues covered by trainings include:

- ❖ economic capital and ICAAP process in the bank,
- ❖ FINREP/COREP financial reporting and Reporting Information System,
- ❖ IFRS – new and changed standards,
- ❖ register of securities,
- ❖ Securities market (Study of Financial Market Brokers),
- ❖ requirements of MiFID and their effect on banks' operations,
- ❖ managing credit facility risk in times of crisis on financial markets,
- ❖ using applications of MS Office (MS Excel, MS Word, MS Access) – e-learning training completed by more than a half of the employees of the BGF's Office,
- ❖ principles of personal data protection.

In order to ensure that it will be possible to entrust the guarantee-related tasks to employees who normally deal with other issues within the Fund, the employees were trained in Procedures for disbursing guaranteed deposits. The training programme covered in particular: discussing the procedures for suspending bank's operations and afterwards declaring its bankruptcy, preparing and verifying a list of depositors, the procedures for disbursing of guaranteed deposits, also the ones executed directly by the BGF. The employees of all organisational units of the Fund's Office participated in the training.

Another project involving a cycle of training courses for management was started. The training is aimed at improving managerial qualifications. In line with the objectives worked out on the basis of identified needs, the purpose of the training was to develop interpersonal skills and strategic management ability indispensable for determining and performing tasks, as well as goals and skills of systemic management.

Another cycle of the trainings started is aimed at improving the ability to speak in public and teaching people the principles of proper articulation and comprehensible self-expression.

As part of improving individual qualifications and education level, the employees of the Fund's Office continued to study management, administration and risk management.

English courses at all levels were also continued.

What is more, the Fund's employees carried out seven trainings for circa three hundred bank employees (including the employees of cooperative banks which are shareholders of BPS SA) on the deposit guarantee scheme in Poland. As part of a cycle of trainings organised by the National Bank of Poland for cooperative banks, the BGF's representative explained how to prepare new FINREP reporting sheets concerning the Fund's operations.

5. IT and Administrative Activities

In 2008, the Fund implemented plans connected both with its current and long-term IT needs. They included design and software development as well as the service and maintenance of the ICT infrastructure, used hardware and software, system administration, ensuring integration of databases, protection, security and information archiving. The most important projects carried out in 2008 included the implementation of new reporting mechanisms FINREP and FINREP, including the preparation of:

- ❖ an application for the analysis of dependencies defined by the NBP for XBRL taxonomies,
- ❖ an application for the visualisation of the content of a database holding the SIS reporting data obtained through the SIS Portal,
- ❖ an application for creating flexible reports from the SIS databases,
- ❖ tools for creating report definitions, taking into account data hierarchy,
- ❖ software for editing and calculating SIS aggregates, essential for analytical purposes.

In the reporting period the Fund conducted works on the Integrated Information System having the function of a general ledger and subsidiary ledgers used to:

- ❖ register loans from the assistance fund and the Cooperative Bank Restructuring Fund,
- ❖ register and manage securities.

Moreover, the Fund reviewed the functionality and analysed the possibility of extending the Trustee programme used for the performance of the tasks connected with the execution of guarantees by the BGF. As a result of the amended Bank Guarantee Fund Act becoming effective, the above programme has been updated and its name changed to Depositor.

As part of its administrative activities, in 2008, the Fund completed a number of renovation and modernisation works, including:

- ❖ development of a system directly informing the Fire Service of any fire hazards,
- ❖ completion of the essential adaptation and renovation works connected with the rental of free space on the first and second floor and on the ground floor of the building.

In 2008, the Fund finalised agreements for the rental of free office space with, among other contractors, the National Centre for Research and Development.

6. Activities of the Fund's Management Board

In 2008, the Fund's Management Board completed the tasks resulting from the Bank Guarantee Fund Act, in particular the ones connected with:

- ❖ ensuring that the Fund will be able to execute guarantees,
- ❖ being ready to provide assistance if a bank is threatened with insolvency,
- ❖ providing assistance to cooperative banks pursuant to the provisions of the Cooperative Bank Act,
- ❖ managing the Fund's resources,
- ❖ collecting and analysing information on banks participating in the guarantee scheme.

In the analysed period, the BGF's Management Board held fifty-two meetings altogether, during which decisions referring to the following issues have been made:

- ❖ assistance activity,
- ❖ verifying whether banks properly use financial assistance provided by the Fund,
- ❖ monitoring the economic and financial standing of banks,
- ❖ analytic and investment activity,
- ❖ managing finances,
- ❖ internal legislation,
- ❖ managing the workflow of the Fund's Office.

Table 13. Meetings of the BGF's Management Board and resolutions adopted in 2008

Number of meetings held by the BGF's Management Board	52
Number of resolutions adopted by the BGF's Management Board, including resolutions regarding the following issues:	138
assistance activity and execution of guarantees	29
verifying the use of financial assistance and monitoring	26
analytic as well as investment and deposit activity	12
activity related to the preparation of information and reports essential for the Office's operations, provision of IT, technical and administrative assistance	10
legislative activity, working with foreign deposit guarantee institutions, employee matters, providing information, promotion, managing workflow and providing support for the BGF's authorities	42
other areas of activity: managing BGF's finances, evaluating the activity of the Fund's organisational units	19

7. Activity of the Fund's Council

In performing the tasks provided for in the Bank Guarantee Fund Act and Statute, in 2008, the Fund's Council held 15 meetings, during which it adopted 25 resolutions and examined or became familiar with the motions and information submitted by the Fund's Management Board pursuant to the Council's work schedule or following the Management Board's own initiative.

In exercising its rights to introduce new regulations, the Council adopted the following resolutions:

- ❖ concerning:
 - the interest rate for 2009, determining the amount of funds for the protection of guaranteed deposits set up by the entities participating by the mandatory guarantee scheme,
 - the interest rate of the mandatory annual contribution for 2009 – paid to the Bank Guarantee Fund by the entities participating in the mandatory guarantee scheme – as well as determining the date as at which the total amount of the capital requirements due to individual types of risk and capital requirements due to exceeding the limits and violating other norms provided for in the Banking Law multiplied by 12.5 constitutes the basis for calculating the annual contribution and determining the deadline for making the payment,
- ❖ determining the methods, manner and detailed requirements for granting repayable financial assistance to cooperative banks from the Cooperative Bank Restructuring Fund.

Pursuant to its control and supervisory powers, the Council:

- ❖ presented its opinions regarding proposals to grant loans to banks from the Cooperative Bank Restructuring Fund,
- ❖ once per quarter examined the results of the Fund monitoring and performing control tasks with respect to banks utilising BGF's loans and the Fund serving as a trustee supervising the performance of the bank's recovery proceedings plan,
- ❖ examined quarterly reports on the Fund's activity prepared by the Management Board,
- ❖ evaluated the implementation of the BGF's operational plan for 2008,
- ❖ distributed the balance surplus for 2007 and the balance surplus for previous years,
- ❖ adopted *The BGF's Operational Plan and Financial Plan for 2009*.

The Council performed its control and supervisory functions with respect to the Management Board and the Fund's Office through permanent problem teams (Legal and Organisational Team, Financial Management Team, Assistance Activity Team, Deposit Guarantee Team), which are composed of delegated Council members. The above teams evaluated task performance by providing their opinions

regarding the Management Board's quarterly reports on the Fund's activity and prepared opinions and statements before the Council reached decisions regarding key issues lying within its competence.

On 6 May 2008, following the recommendation of the Legal and Organisational Team, the Council decided to recall Mrs. Joanna Wielgórska-Leszczynska from the function of the Vice-President of the Management Board.

Mrs. Joanna Wielgórska-Leszczynska was suspended in her duties as the Vice-President of the Management Board from 23 November 2007. It must be emphasised that the BGF finance management tasks provided for in the operational plan were fulfilled in 2008, despite the fact that for several months the Management Board consisted of only four members.

As a result of this decision, the Fund commenced a recruitment procedure for the position of a Management Board member responsible for financial supervision. It was agreed that the institutions which had their representatives on the Council, i.e. Ministry of Finance, the National Bank of Poland and the Polish Bank Association, will present candidates, who – after having their qualifications verified by the Legal and Organisational Team which will also check whether the candidates fulfil all formal requirements – will recommend to the Council the candidates that they have chosen for further recruitment. In 2008, the process of selecting a member of the Fund's Management Board responsible for financial supervision continued.

The Assistance Activity Team conducted a complex control of assistance and deposit guarantee operations as of supervising the works of the Assistance Activity and Deposit Guarantee Department. Main reservations concerned delays in the implementation of internal legal acts regulating issues connected with the provision of assistance and execution of guarantees as well as lengthy processing of applications submitted by banks requesting financial assistance. On 26 November 2008, the Council decided that there was a need to change the person responsible for supervising the Fund's activity connected with assistance and deposit guarantee and decided to release Mr. Adrian Markiewicz from the duty of supervising the Assistance Activity and Deposit Guarantee Department and delegate the related tasks to Mr. Jan Koleśnik who was also appointed a member of the Fund's Management Board.

In connection with the situation on global financial markets occurring in the second half of 2008, the Fund's Council devoted special attention to the possible consequences of the global crisis for the Polish market and analysed the risk of it spreading to the Polish financial market. As every month, the Management Board provided information on the situation on global markets and the national market together with projections as to their development, on the basis of which the Council analysed the possible sources of problems faced by international financial institutions as well as the reasons behind the changing situation of the Polish banking sector and the direction of such changes. At the same time, the Council

considered the best way to utilise resources available to the Fund – taking into account any additional sources of financing – in order to ensure stability of the sector and security of the funds deposited in the banking system. The Council also considered the relations between banks and other entities offering financial services, including operational services, in the context of the development of the so-called structured products market and the scope of guarantee connected with such products offered by the Bank Guarantee Fund. The analyses were based on materials prepared by the Fund’s employees on the basis of available macroeconomic data, bank reports and information about specific entities participating in the guarantee scheme. As part of the quarterly evaluation of the financial situation of the banking sector, the Council devoted special attention to the analysis of the situation of endangered banks and banks benefiting from the Fund’s financial assistance. In connection with the ongoing debate on the future shape of the compensation scheme and the possibility of integrating guarantee activity within the banking and capital markets, the Council examined analytical and conceptual materials as well as proposals of directional legislative changes connected with the idea of entrusting the Fund with certain tasks related to the management of the investor compensation scheme.

Acknowledging the necessity to intensify cooperation between institutions responsible for the financial sector and being aware of the need to introduce legislative solutions which would ensure ongoing exchange of information – also at the level of direct contacts between the representatives of such institutions – the Council of the Fund submitted a request to the Minister of Finance asking him to consider the following issues when preparing new legislation:

- ❖ the need to reinforce the BGF’s statutory right to obtain information on entities offering banking services,
- ❖ the justifiability of restoring the President of the BGF’s Management Board to a position on a banking supervisory body,
- ❖ the need to ensure that the Fund participates in the works of the Financial Stability Committee.

The Council examined information concerning legislative works commenced in connection with the Government’s plans to amend the provisions regulating the operation of the Bank Guarantee Fund.

In view of the financial markets’ downturn and the fact that Polish economy is threatened by the financial crisis, the Fund’s Council emphasised the necessity to ensure good cooperation between the BGF and the Office of the Polish Financial Supervision Authority, and especially the efficient flow of information relating to supervisory issues essential for the performance of the Fund’s statutory tasks. This matter is of primary importance in planning the Fund’s activities and for the functioning of the entire financial safety net. The Council expressed its position by asking the Chairman of the Polish Financial Supervision Authority to tighten

cooperation between the two institutions and requesting the Polish Financial Supervision Authority to more readily satisfy the Fund's needs regarding requests for information on banks participating in the statutory guarantee scheme.

XI. NATIONAL AND INTERNATIONAL COOPERATION

1. National Cooperation

1.1. Cooperation regarding banking sector

On 24 October 2008, the President of the Fund's Management Board was invited by the President of the Republic of Poland to participate in a meeting held by the President with representatives of economic and financial institutions, devoted to current issues faced in the wake of the crisis on global financial markets and its potential effect on Poland's economy.

The BGF worked with the Ministry of Finance primarily on regulatory matters or approving or rejecting draft legislation pertaining to the Bank Guarantee Fund (in particular the Regulation amending the BGF's Statute and the Regulation on special accounting rules to be followed by the BGF) or other financial market institutions. The representatives of the Fund and the Ministry of Finance presented their positions, opinions and proposals both in writing, during conferences held in order to reach an agreement, and as part of their working relationships. The Fund participated in preparing positions regarding the documents of the European Commission which referred to issued connected with deposit guarantee.

In 2008, the Fund continued to participate in the initiatives of the Financial Market Development Council operating within the Ministry of Finance. The representatives of the BGF participated in the Council's meetings during which the parties discussed the crucial issues concerning the Polish financial market.

2008 saw the conclusion of the discussions, commenced the year before, between the Bank Guarantee Fund and the Financial Supervision Authority with regard to regulating the principles of their cooperation. An agreement, specifying the terms of cooperation and exchange of information between the two institutions was signed on 12 June 2008.

The Fund continued to work together with the National Bank of Poland, primarily towards obtaining information on the banking sector, required by the Fund for the performance of its statutory tasks.

To promote cooperation with the banking sector, a meeting was held between the Fund and the representatives of the banking sector in order to negotiate the annual contribution amounts and the guaranteed sums protection fund for 2009.

In addition, discussions were held with representatives of banks that acquired cooperative banks with respect to the assumptions of the proposed resolution of the BGF's Council, which stipulated the form, manner and detailed conditions of providing financial assistance from the Cooperative Bank Restructuring Fund.

Moreover, during the period covered by the report, the Fund initiated a meeting with the Management Board Presidents of Revision Committees, aimed at facilitating the exchange of information and experiences with respect to reviewing and assessing the condition of cooperative banks, including the findings of the audit of the banks' financial statements.

The Fund remained in contact with the acquiring banks informing them, among other matters, about the Management Board's decisions regarding the provision of financial assistance to cooperative banks being acquired.

1.2. Cooperation regarding national legislation

In 2008, the BGF employees participated in conferences devoted to discussing draft amendments to the Bank Guarantee Fund Act and other acts, and maintained regular working relationships with the Ministry of Finance employees responsible for financial institution legislation. As a result, numerous proposals, opinions and statements were drafted and submitted, pertaining to the directions of the necessary amendments and to specific, detailed measures to be implemented.

The Bank Guarantee Fund participated in legislative processes connected with preparing the following draft acts:

- ❖ amendment of the Bank Guarantee Fund Act,
- ❖ the Act amending the Bank Guarantee Fund Act and Other Acts (the Banking Law, the Cooperative Bank Act, the National Bank of Poland Act, the Supreme Audit Chamber Act),
- ❖ the Act concerning the Establishment of the Financial Stability Committee,
- ❖ the Act Amending the National Bank of Poland Act,
- ❖ the Act concerning the Support for Financial Institutions provided by the State Treasury,
- ❖ the Regulation of the Council of Ministers amending the BGF's Statute,
- ❖ the Regulation of the Minister of Finance concerning special accounting rules to be followed by the BGF.

The representatives of the BGF also participated in the meetings of parliamentary committees and subcommittees, including:

- ❖ the Sejm Public Finances Committee and the permanent financial institutions subcommittee – in connection with the preparation of draft acts amending the Bank Guarantee Fund Act,

- ❖ the permanent financial institutions subcommittee of the Sejm Public Finances Committee – meeting held in connection with the situation on financial markets,
- ❖ the Senate Budget and Public Finances Committee – in connection with a draft amendment to the Bank Guarantee Fund Act.

As a result of a legislative process, the following legal acts concerning the Fund have been issued:

- ❖ the Act Amending the Bank Guarantee Fund Act of 3 October 2008 – amending the basis for calculating the annual contribution and the maximum rate (amendment entered into effect on 3 November 2008);
- ❖ the Act Amending the Bank Guarantee Fund Act and of Other Acts of 23 October 2008, implementing or amending provisions concerning:
 - increasing the limit of guaranteed deposits to the PLN equivalent of EUR 50 000 – by 100%, together with authorising the Council of Ministers to temporarily increase the amount and percentage of guaranteed deposits,
 - the definition of the depositor,
 - the Fund’s authorities,
 - the option of financing the BGF from the State budget (via subsidies and loans),
 - the option for the Fund to take out a short-term loan from the NBP.
 - the BGF’s terms of cooperation with the PFSA and the NBP regarding the provision of information on the situation of the entities participating in the guarantee scheme.

In order to continue the analytic and design efforts commenced in 2007, the Fund developed the assumptions for the concept of broadening the responsibilities of the Bank Guarantee Fund by including the task of managing the investor compensation scheme. The Fund prepared a proposal of legislative changes and materials containing a comparative study of the deposit guarantee scheme and the investor compensation scheme, together with foreign experience, and characterised potential risks involved for the Bank Guarantee Fund in taking over the compensation scheme, as well as the costs of operating the consolidated schemes.

1.2.1. Litigation Proceedings

As in 2007 Bank Handlowy w Warszawie SA did not settle the treasury bonds transaction and as the BGF became entitled to a contractual penalty, the Fund lodged a payment claim with the Court of Arbitration operating under the auspices of the Polish Bank Association. As at the end of 2008, a verdict has not been reached.

1.3. Participation in Conferences and Seminars

In 2008, the Members of the Management Board and employees of the BGF participated, also as speakers, in professional, free of charge seminars and conferences devoted to economic and financial, including:

- ❖ a series of academic seminars organized by the National Bank of Poland entitled: Risk and Stability of the Financial System – Evaluation and Management, Temptation to Misappropriate as the Reason for and Result of Financial Instability, Inflation on Polish and International Markets, Macro- and Micro-economic Implications of Globalisation for the Polish Economy, Effect of Euro Implementation on Price Transparency and Inflation and Bayesian Comparison of Econometric Models and Knowledge Combination (basic information and areas of application),
- ❖ academic conference entitled Common Currency and its Future: Lessons for the New Member States – organised by the National Bank of Poland,
- ❖ conference entitled Influence of the American Crisis on the Security and Stability of Financial Markets in the EU and in Poland – organised by the Senate of the Republic of Poland,
- ❖ panel discussion with prof. dr hab. Andrzej Sławiński on the perspectives of inflation and monetary policy development in Poland,
- ❖ lecture of Edward C. Prescott – Nobel laureate in Economy,
- ❖ conference entitled *Integrated Supervision – Chances and Challenges* – organised by the Polish Financial Supervision Authority,
- ❖ conference Innovations on Financial Markets 2008 – organised by the National Depository for Securities,
- ❖ Bank Forum 2008, which focused on the following issues: *Conclusions Drawn from Polish and Foreign Experience for the Development of the Baking Sector in Poland* – organized by the Polish Bank Association,
- ❖ meeting entitled Role of the Banking Sector in the Development of Polish Economy and intercommunity discussion – organized by the Management Board of the Polish Bank Association as part of the 19th General Meeting of the PBA,
- ❖ Banking Top Management Forum entitled Stability of the Banking System in the Era of the Subprime Crisis,
- ❖ special conference entitled Is the Polish economy threatened by the financial markets crisis? organised by the **Polish Confederation of Private Employers Lewiatan**,
- ❖ various conferences focusing on financial markets, European integration and retail banking organised by academic institutions such as the Maria Curie-Skłodowska University in Lublin, Rzeszów University of Technology, Wrocław University of Economics, Gdańsk Academy of Banking, Warsaw School

of Economics and the University of Warsaw in cooperation with the Credit Information Bureau (Biuro Informacji Kredytowej), including in particular:

- 8th National Polish Academic Conference entitled Financial Market. European Integration as a Source of Inspiration – organised by the Maria Curie-Skłodowska University in Lublin,
- conference of Finance Departments 2008 entitled *Contemporary Finances, Condition and Perspectives*,
- conference entitled WROFin 2008 – Standards, Models and Mechanisms of Retail Banking – organised by the Wrocław University of Economics,
- Retail Banking Congress – organised by the Gdańsk Academy of Banking.

Together with the Polish Financial Supervision Authority and the Polish Bank Association, the Fund was awarded patronage over the 3rd Bank Risk Congress entitled Implementation of Advanced Methods of Bank Risk Evaluation organised by the Credit Information Bureau on 20 October 2008. During the Congress, the BGF's Management Board President gave a presentation entitled Experience of the Bank Guarantee Fund Connected with the Methodology of Identifying Threats in Banks Participating in the Mandatory Deposit Guarantee Scheme. The Fund's representatives also gave a presentation on the most important changes in the cooperative bank sector which took place between the end of 1996 and end of June 2008 as well as the effect of such changes on the stability of the banking system in Poland.

2. International Cooperation

2.1. Cooperation with International Organisations

On 14 February 2008, the Fund joined the International Association of Deposit Insurers (IADI), whose primary objective is to work towards the stability of financial systems by promoting international cooperation with respect to deposit insurance and by cultivating relations with foreign deposit insurers and other institutions. By the end of 2008, the IADI covered 52 deposit guarantee schemes from around the world.

In 2008, the Fund cooperated with deposit insuring institutions, for instance within the European Forum of Deposit Insurers (EFDI) and the IADI, by presenting its experiences in the field and learning about the accomplishments of other institutions.

In 2008, the Members of the Management Board and the Fund's employees participated, also as speakers, in the following meetings:

- ❖ meeting of the representatives of the European Commission, EFDI and Joint Research Centre (JRC) held on 10 and 11 April 2008 during which the participants discussed the results of the review of Directive 94/19/EC and draft reports prepared for the European Commission by working groups appointed by the EFDI,
- ❖ seminar organised by the IADI on 27 and 28 May 2008, with the participation of the representatives of deposit guarantee schemes from 22 countries, the Management Board of the EFDI and experts of the International Monetary Fund. The seminar focused on the analysis of the risk involved in the operations of deposit guarantee schemes, ways of evaluating the ability to satisfy claims and methods of determining contribution levels,
- ❖ management training organised by the IADI and the Central Deposit Insurance Corporation (CDIC) between 1 and 4 September 2008,
- ❖ EFDI Annual General Meeting combined with the first joint international conference of the EFDI and Federal Deposit Insurance Corporation (FDIC) entitled “Financial Integration and the Safety Net” held on 22 and 23 September 2008,
- ❖ IADI Annual General Meeting combined with an international conference “Financial Stability and Economic Inclusion”, held between 29 and 31 October 2008.

During the EFDI Annual General Meeting, the Fund’s Management Board President was unanimously appointed by the EFDI Management Board the chairperson of the EFDI’s permanent Research Working Group, responsible for preparing analyses of the effectiveness of the banking sector safety net in EU Member States, in particular for the purpose of cooperating with the European Commission and the IADI. The following issues, among other matters, were discussed during the conference: differences between the banking market in the European Union and the United States and their consequences for the deposit guarantee schemes, cross-border banking in the context of national supervisory institutions and deposit guarantee schemes, as well as the plans of the European Commission concerning amendments to Directive 94/19/EC in the face of the turbulences in financial markets.

As part of its activity in the EFDI, the Fund led a working group which focused on the preparation of a report for the European Commission concerning the possibility of improving the scope and quality of informing consumers about the terms and conditions of deposit guarantee and on the preparation of the best practices model of informing depositors about deposit guarantee schemes. As the result of the group’s efforts a draft report was prepared and agreed on, and subsequently presented to the European Commission.

During the IADI Annual General Meeting, the Fund’s Management Board President was unanimously appointed the Member of the Management Board by

the representatives of deposit guarantee institutions from more than forty-five countries. The Annual General Meeting was accompanied by a conference, which, among other issues, covered the following topics: the role of deposit guarantee schemes at a time of crisis, challenges posed by the present financial market and their implications for financial institutions, the methods of measuring the level of economic integration, forms of its promotion and international financial education initiatives.

To promote cooperation with the IADI and the Canadian Insurance Deposit Corporation (CIDC), the Fund took part in an analytical study which focused on fourteen selected areas of the operation of deposit guarantee schemes, including relationships between the participants of a safety net, scope of rights, scheme membership, level and scope of coverage, organisation of payouts to depositors and information policy.

Moreover, the Fund took part in a study prepared by the International Monetary Fund (IMF), which was aimed at updating the data on the principles of the functioning of foreign deposit guarantee schemes. The study focused on eight selected areas of the operation of guarantee institutions, including scope of rights, level of coverage, financing and payout procedure.

The Fund has actively participated in the preparation of Poland's position pertaining to the suggested directional changes to the EU law aimed at increasing the effectiveness of the banking sector safety net which were described in the documents discussed during the meetings of:

- ❖ the EU Financial Services Committee (FSC),
- ❖ the European Banking Committee (EBC).

2.2. Amendment of Directive 94/19/EC on Deposit Guarantee Schemes

The Fund participated in discussions concerning the amendments to Directive 94/19/EC of the European Parliament and of the Council on deposit guarantee schemes, proposed by the European Commission as a result of the developments on international financial markets that occurred in the second half of 2008. In connection with determining and approving amendments to the Directive, on 27 October 2008, a meeting of the Deposit-Guarantee Schemes Working Group within the European Commission was held, in which the Fund's representative also participated. The amendments proposed by the Commission were designed to restore trust in the banking sector and to ensure a high level of convergence of the mechanisms of deposit guarantee schemes, in particular with respect to increasing the minimum coverage level, abolishing co-insurance, and shortening the deadline for the compensation payouts.

2.3. Cooperation with Foreign Deposit Guarantee Institutions

As a result of a Polish bank's decision to open a branch office in the Czech Republic, the Czech Deposit Guarantee Fund offered to work together and sign an agreement with the Bank Guarantee Fund. Moreover, the parties commenced drafting an agreement which would regulate increase in the level of coverage for the customers of the Polish bank's branch office, operating in Slovakia, up to the amount offered by the Slovak scheme.

The Fund continued work on the analysis of system solutions regarding deposit guarantee in the Member States of the European Union. Basing on source data, materials presenting the deposit guarantee scheme in Luxembourg and Great Britain were prepared.

In addition, an analysis of the organisation of the investor compensation schemes functioning in selected countries was conducted, also taking into account their relation to deposit guarantee schemes.

On 11 December 2008, a delegation of Ph.D. students from the Banking University of the National Bank of Ukraine visited the Fund's office. During the meeting, the BGF's employees presented the main areas of the Fund's activity, devoting special attention to Polish experience in the field of guarantee and assistance activity.

3. The BGF's International Conference

On 15 and 16 September 2008, the Bank Guarantee Fund organized in Warsaw a conference entitled "Deposit Guarantee Schemes Facing Integration of Financial Markets". The purpose of the conference was to facilitate the exchange of experiences regarding the conditions for the development of deposit guarantee schemes in the light of current challenges on global financial markets. The conference brought together more than 120 representatives of financial institutions from seventeen countries, including the Chairman of the European Forum of Deposit Insurers and members of the governing bodies of the International Association of Deposit Insurers. Also present at the conference were representatives of the Ministry of Finance, the National Bank of Poland, the Financial Supervision Authority and the governing bodies of Polish banks.

The agenda of the conference comprised three sessions devoted to the following topics:

- ❖ Influence of financial market's turbulence on the deposit safety and on DIS operations,
- ❖ Principles of deposit protection for credit unions in the EU,

- ❖ Model of financial instruments insurance system – integration of the deposit and investor protection.

Lectures were given by representatives of foreign deposit insurers, renowned financial institution experts and noted Polish academics.

XII. INFORMATION AND PROMOTION ACTIVITY

In 2008, due to the crisis on international financial markets, the Fund's information and promotion activity became particularly important. Therefore, the Fund intensified its efforts aimed at extending information concerning the guarantee scheme both to the clients of the banking sector and to bank employees, who service such schemes. The strategy adopted by the Fund involved numerous initiatives aimed to build widespread trust in the banking system and to teach people the principles of managing their finances.

One of the Fund's main efforts focused on developing Best Practices for Notifying Customers of their Bank's Participation in the Mandatory Guarantee Scheme and Best Banking Practices for Informing the Customers of their Bank's Economic and Financial Standing. The main objective in drafting Best Practices was to unify the standards for banks participating in the mandatory guarantee scheme to ensure they provide reliable and accurate information to their customers. This document facilitates the performance of banks' obligations stipulated in Article 38 b of the Bank Guarantee Fund Act.

Drafting these Best Practices is part of global efforts in this respect as deposit insurers participating in the IADI and EFDI consistently strive to devise a set of best practices for the banking sector.

The model suggested by the Fund was officially approved by six financial market institutions such as the National Bank of Poland, National Depository for Securities and the Insurance Guarantee Fund.

In 2008, banks commenced the implementation of the Fund's recommendations and by the end of 2008, sixteen of them declared their willingness to accept Best Practices as their official model for preparing information provided to their customers.

Another one of the Fund's efforts involved drafting Educational Materials, which consist of three banking system presentations together with a script, which have been approved by the reviewers appointed by the Ministry of National Education and entered on the list of educational resources recommended for teaching Business Basics in schools.

In order to evaluate the effectiveness of the completed and proposed promotion activity in 2008, a survey was conducted to assess the customers' and bank

employees' knowledge of the mechanisms of the deposit guarantee scheme. In June and July 2008, Pentor Research International completed the following modules of its quantitative survey:

- ❖ surveying the opinions of individual bank customers via face-to-face interviews,
- ❖ surveying microbusiness owners via telephone interviews,
- ❖ surveying bank and credit institution employees via mystery shopping (secret customer – direct survey),
- ❖ surveying bank branch employees, call centre employees and non-bank institution employees (credit unions) via mystery calling (secret customer – telephone survey).

In addition, a qualitative survey of the Fund's website was conducted, in the form of a webclinic. The report that followed the survey then served as a reference for creating a new website of the Fund.

Taking into account the results of the survey conducted by Pentor RI and the developments on global markets, in September 2008, the Fund offered to organise seminars for bank employees who deal with customers directly in order to broaden their knowledge of the Polish deposit guarantee scheme.

In connection with the amendment of the Bank Guarantee Fund Act, new informational materials on the deposit guarantee scheme were drafted and provided to banks, with separate sets addressed to customers and bank employees.

Two subsequent issues of the Safe Bank magazine and the BGF Bulletin were published and distributed to all commercial and cooperative banks in Poland, to selected Polish universities and to libraries across Poland. The Minister of Science and Higher Education awarded the Fund two points for getting published in the Safe Bank magazine, which enhanced this periodical's respectability on the market and among students and professors.

Moreover, the Fund once again selected a bachelor's, master's and doctoral dissertation that best covered the issues of the BGF's operations, deposit guarantee scheme and the financial safety of the banking sector, at the same time promoting this contest among students and professors. Employees of the Bank Guarantee Fund participated in conferences and meetings organised by academic institutions and circles.

Information and promotion activity also included the publication of the Annual Report of the Bank Guarantee Fund for 2007 in Polish and English, which was sent to banks and financial institutions operating in Poland as well as the representatives of foreign guarantee institutions. The report together with other materials was also presented on an information and promotion stand during the General Meeting of IADI Members, combined with an international conference: Financial Stability and Economic Inclusion which was held in Arlington (USA) in October 2008.

The Fund also worked on developing its relationships with the media, including the publishers of such newspapers as: Bank, Gazeta Bankowa, Forbes, Finansowanie Nieruchomości, Rzeczpospolita, Gazeta Prawna, magazines published by cooperative banks, with student portals and television and radio stations such as: TVN CNBC Business, Polsat, Radio PIN. As a result of its cooperation with the press, the BGF was featured in numerous articles discussing the banking system and the principles of the deposit guarantee scheme, as well as the role of the Bank Guarantee Fund itself. Moreover, due to a number of queries received by the Fund in the context of the developments on international financial markets and the amendment of the provisions of the Bank Guarantee Fund Act, the Fund's representative made more than thirty official statements aimed at being published in the media (newspapers, magazines, websites). In addition, the Fund's Management Board President was featured in a number of press, television and radio interviews.

The effectiveness of the information and promotion activity undertaken by the Fund was evidenced, among other things, by the results of public opinion polls conducted by the Pentor RI Institute in November 2008. According to the respondents, the Bank Guarantee Fund was the highest rated institution and its efforts to mitigate the effects of the global financial crisis on the Polish economy were well received, as compared to other institutions ranked in the survey.