

ANNUAL REPORT

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BFG

Bank Guarantee Fund

ul. ks. Ignacego Jana Skorupki 4, 00-546 Warszawa
tel. (0 22) 58 30 700, 58 30 701
e-mail: kancelaria@bfg.pl, www.bfg.pl

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Marek Grzybowski
Chairman of the Council

Letter of President of the Fund Council

Ladies and Gentleman,

We are presenting to you the Bank Guarantee Fund Annual Report for the year 2002. We hope that the presentation of our activity will enable all the parties concerned to get better acquainted both with the functioning principles of the BGF and its financial results, as well as with information characterizing changes in the Polish banking system that have been taking place during the last eight years, that is to say during the period of the Fund's activity.

2002 was a difficult year for Polish economy, which was also reflected in the financial results achieved by banks – nevertheless not one case of declared bankruptcy had been noted. This had been made possible, among other things, as result of stabilizing activity of the Bank Guarantee Fund. From the very beginning of its existence the BGF has consistently been enhancing the stability and safety of the Polish banking system, mainly through the support of those banks, which were threatened by losing its solvency.

In 2002 financial assistance, in the form of repayable loans, was given to 5 banks in the total sum of 33,042.4 thousand Euros. This protected deposits valued at 56.9 million Euros, including 41.5 million Euros of guaranteed deposits. Financial assistance given to banks, beside its economic dimension, also has its social consequences. The continued functioning of reformed banks allows them to remain in existence, thereby maintaining places of employment. In the context of high unemployment this is of considerable importance, particularly for small localities, where the given bank office is the only offerer of financial services. In 2002 assistance offered by the Fund protected 36 bank posts from being closed down and over three hundred work places from being liquidated.

Similar as in 2001, financial assistance given to co-operative banks was continued, by virtue of regulations of 7th December, 2000, on the functioning of co-operative banks, their organizing into associations and associating banks. The assistance is given in the form of repayable loans from a separate co-operative banks restructuring fund for the financing of merger processes of these banks. In 2002, 27 banks took advantage of such loans, receiving financial means in the sum of

7,975.2 thousand Euros. During 2 years this type of aid, in the total value of 25,810.2 thousand Euros, was given to 84 co-operative banks.

This was also a period of conceptual works in the Fund preparing new forms of assistance to banks and modifying legal solutions that regulate the BGF functioning principles.

As in previous years we continued our co-operation with deposit insurance institutions. In the European Forum of Deposit Insurers, the BGF representative was elected to the post of Vice-President.

In conformity with statutory obligations, last year additional actions were taken with the purpose of improving the bank customers' knowledge on the deposit insurance system in Poland. Beside the brochures on the safety of deposits, information boards about BGF guarantees appeared in all bank posts.

Success of the Fund's activity depends to great extent on the close and good co-operation with the National Polish Bank (Narodowy Bank Polski), Ministry of Finance and Association of Polish Banks (Związek Banków Polskich). Conditions of this co-operation have been determined by law, among other things, through the principle of direct participation of representatives of these institutions in works of the Fund Council. In practice this means that they have considerable influence on everyday functioning of BGF and continuously monitor its activity.

As in previous Reports, we would like to thank all banks operating in Poland, and numerous institutions, which the Fund co-operates with on a daily basis, for giving us the possibility to fulfil our mission that in practice consists in securing deposits in all banks and strengthening public trust in the Polish banking system.

Chairman of the Council



Marek Grzybowski



Ewa Kawecka-Włodarczak
Chairman of the Management Board

Report of the Management Board

The mission of the Bank Guarantee Fund consists in activity aimed at providing security and stability of the banking system in Poland and protecting depositors against loss of their financial means deposited in banks.

In conformity with its mission, understood in the foregoing way, the BGF has already been fulfilling its assignments for 8 years by virtue of the Act on the Bank Guarantee Fund decreed by the Sejm on 14th December, 1994. Regulations of the law adopted by this Act correspond to the directive of the European Parliament and European Union Council (94/19/EC of 30th May, 1994) on the deposit insurance system. The directives do not contain any specific legal norms, they only put forward the requirement of taking actions indispensable for achieving the specific objective. Hence, the differences between concrete legislative and organizational solutions in this type of institutions in countries of the European Union. Taking in consideration the needs of Polish banks, BGF fulfils two basic functions – guarantor of bank deposits and an institution offering financial support to banks threatened by insolvency. The role of the Fund thus conceived has its important historical justifications, resulting from the structure and needs of the Polish banking system.

Generalizing, the essence of Fund activity first of all lies in the protection of depositors against loss of pecuniary means deposited in banks, as well as prevents banks going bankrupt and supports restructuring processes. These strategic objectives are implemented in two basic forms:

1. in the event of bankruptcy of a bank – payment of guaranteed sums in the limits specified by the law;
2. in the situation when a bank is threatened by insolvency – support of reform processes, within the framework of assistance activity, by granting low-interest loans from the aid fund (on more favourable conditions than market conditions). Loans are granted both to threatened banks to conduct reforms and to banks with good financial standing, which undertake to reform threatened banks, by including them in their organization structures or becoming their strategic investors.

GUARANTEE ACTIVITY

Guarantee activity in 2002

In 2002 no bankruptcy of any bank was noted. Therefore, the means accumulated within the guaranteed means protection fund were not used and banks did not incur any costs involved with this.

Nevertheless, payments of guaranteed means were effected to depositors, who did not collect the means due to them during the period when payments were effected by official receivers of banks that had declared bankruptcy in previous years.

Functioning principles of deposit guarantee system

The deposit guarantee system, which includes all banks operating in Poland in conformity with uniform principles, constitutes one of the main elements of safe functioning of the entire banking sector in Poland. The fund of pecuniary means deposited in banks gives the people a feeling of security and trust not only in relation to renowned banks, but to smaller or simply local banking institutions. This fact was confirmed in 2002, when several smaller banks were experiencing financial and organizational difficulties. However, there weren't any signs of bank panic or anxiety among customers of other financial institutions.

Guarantee range and limit

In conformity with the Act on the Bank Guarantee Fund deposits and receivables resulting from other bank transactions of the following subjects are protected:

- natural persons,
- legal persons,
- organization units without legal personality, provided they have legal capacity,
- school savings banks and workers' benefit and mutual loan societies.

In the event of joint accounts each joint-owner of the account is entitled to the guarantee sum.

Deposits of:

- State Treasury,
- financial institutions such as: banks, brokerage houses, pension funds, investment funds, subjects rendering insurance services,
- subjects, who are not authorized to draw up simplified balance sheets and profit and loss accounts,
- bank managerial staff and its major shareholders (holding at least 5% of the bank shares) are not protected.

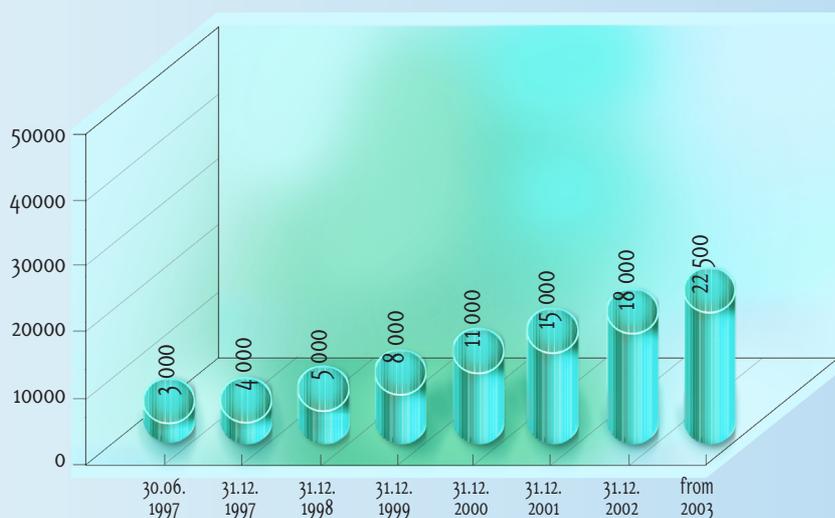
In case of bankruptcy of a bank the entitled persons receive the guaranteed sum. The upper limit of the sum is determined as the zloty equivalent of a given sum in Euros. This sum also includes the interest rate accrued until the day of declaring bankruptcy of the bank. The bank's obligations in relation to one depositor are summed up and then compensated with the depositor's obligations towards the bank.

The guaranteed means are paid in zloty according to the rate of exchange given by the National Polish Bank on the day that the court declares bankruptcy of the bank, whereas:

- 100% is paid for the equivalent in zloty of under 1000 Euros,
- 90% is paid for the equivalent in zloty of over 1000 Euros.

During the first two years of functioning of BGF (till June 1997) the guaranteed sum amounted to the equivalent of 3 thousand ECU, whereupon it was being systematically increased. In 2002 it rose to 18 thousand Euros. As from 2003 it will be the equivalent in zloty of 22.5 thousand Euros, that is the minimum level in force in countries of the European Union.

Guaranteed amounts (value in EUR)



Guaranteed means protection fund

With the purpose of conducting guarantee activity, the BGF has at its disposal financial means accumulated by banks in the form of guaranteed means protection funds (gmpf).

This is a fund established by every bank participating in the guarantee system. Means earmarked for gmpf are accumulated by banks in the form of securities – treasury bills or securities issued by the National Polish Bank. Every year the BGF Council establishes the percent rate for establishing the guaranteed means protection fund. Suitable sums are calculated, taking into account the level of deposits of a given bank in October of the preceding year, and then updated on the ground of the deposit level in April of the year, to which they refer.

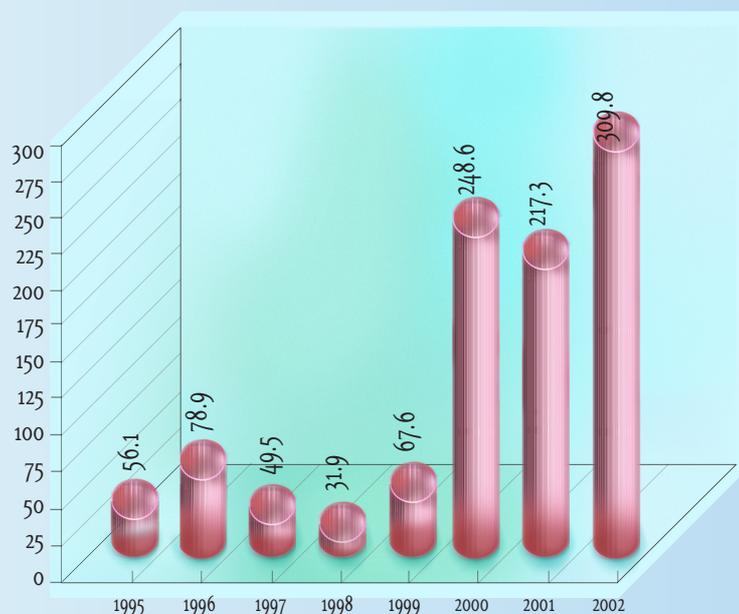
The maximum rate, according to which banks build up a guaranteed means protection fund, amounts to 0.4% of the total pecuniary means accumulated by banks.

It is worth noting, however, that the securities forming coverage for the guaranteed means protection funds remain in the banks. Thus bringing to the banks an interest income, until they are converted into pecuniary means and transferred to the BGF, for payment of guaranteed deposits. This takes place only in the event of bankruptcy of a bank, when the BGF turns to banks for the transfer of pecuniary means in proportion to their share in the guaranteed means protection fund.

Guaranteed means protection fund (gmpf) in the years 1995-2002

Year	Establishment rate of gmpf	
	Other banks	PKO BP SA, Pekao SA and BGŻ SA ¹
	in %	
1995	0.40	0.20*
1996	0.40	0.20
1997	0.18	0.09
1998	0.10	0.05
1999	0.16	0.08
2000	0.40	0.40
2001	0.30	0.30
2002	0.40	0.40

Value in million EUR



Means recovered from bankruptcy estates of banks and their settlement

In 2002 the Bank Guarantee Fund recovered the sum of 3,013.0 thousand Euros from debts submitted to the bankruptcy estate of banks. These receivables resulted from pecuniary means transferred to official receivers during previous years for payment to depositors. Recovered means are solely assigned to finance consecutive payments of guaranteed sums. To date the sum of 3,282.2 thousand Euros has been assigned for that purpose. As on 31st December, 2002, the sum of 7,303.5 thousand Euros remains to be used. During the years 1995-2002 the Fund received the total sum of 9,249.0 thousand Euros from bankruptcy estates of banks.

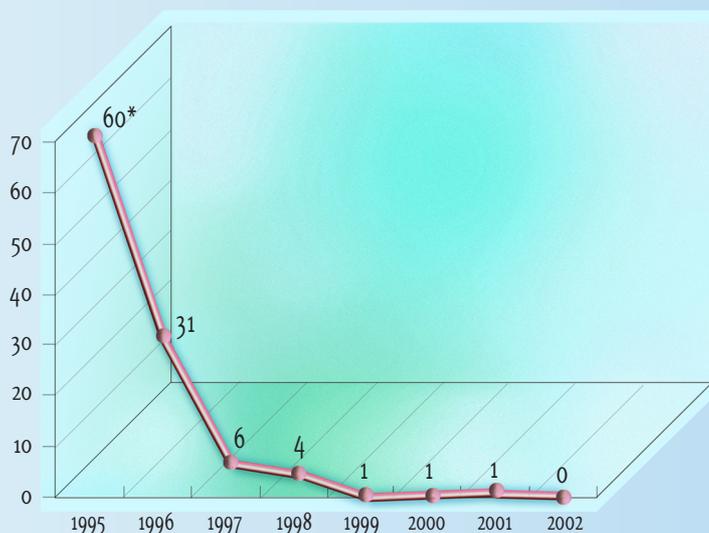
¹ By virtue of the Act on Bank Guarantee Funds the named banks established gmpf according to half the rate till 31.12.1999.

* In 1995 the reduced rate also included co-operative banks.

Guarantee activity during the years 1995-2002

During the functioning of the Bank Guarantee Fund 94 banks have been declared bankrupt, this including 5 commercial banks and 89 co-operative banks.

Bankruptcy of banks during the years 1995-2002



In the years 1995-2002 payment of guaranteed means to 309.4 thousand entitled depositors amounted to 201.7 million Euros, including gmpf 155.7 million Euros, i.e. 77.2% of the total payments made. The remaining 22.8% i.e. 46.0 million Euros, came from liquid assets of bankrupt banks and means recovered from bankruptcy estates.

Payment of guaranteed means in the years 1995-2002

Year	Payment of guaranteed means in million Euros		Degree of utility of gmpf in %	Number of depositors in thousands
	Total	including gmpf		
1995	25.8	21.3	38.0	88.7
1996	12.6	11.8	14.9	59.4
1997	1.6	1.2	2.4	10.4
1998	2.0	1.0	3.2	6.8
1999	1.2	0.0	0.0	1.6
2000	155.5	120.4	48.4	147.7
2001	3.0	0.0	0.0	2.5
2002	0.0	0.0	0.0	0.0

Limitation of claims by lapse of time

After the elapse of 5 years from the date of fulfilling guarantee conditions, i.e. the date of declaring bankruptcy of the bank, the depositors' claims are barred by the statute of limitations. In 2002 this referred to 3,484 customers of 8 bankrupt banks for the total sum of 7.8 thousand Euros. The average claim amounted to 2.3 Euros.

* This includes two commercial banks and 48 co-operative banks during the time when the act on BGF has been in force.

SYSTEM OF ASSISTANCE TO THREATENED BANKS

Loans from the assistance fund in 2002

In 2002 the Bank Guarantee Fund approved the decision on granting financial help to five banks (one commercial bank and four co-operative banks) in the form of repayable loans in the total sum of 33,042.4 thousand Euros. In one case the loan was designed for independent reforming, whereas the rest – for the takeover of banks that were threatened by insolvency.

The loans were given on the following conditions:

- the rediscount rate of bills of exchange resolved by the Monetary Policy Council was the base for establishing the loan interest rate;
- the annual interest rate amounted from 0.1 to 0.4% of the rediscount rate of bills of exchange;
- commission:
 - of commercial banks 0.3% of the loan sum,
 - of co-operative banks 0.1% of the loan sum;
- period of enjoyment of the loan up to 5 years (in exceptional cases it could be extended to 10 years);
- payment of loans – one-off payment or in tranches;
- repayment of loans – in quarter or half-year instalments;
- accrual and collection of interest – at quarterly periods;
- waiting period in payment of capital – possible in particularly justified cases.

The chief purpose of granting loans was to support merger processes, which was a continuation of the policy adopted by the Fund at the beginning of its activity. Basically it served to support the process of establishing banks strong in capital and economically strong.

In 2002, in conformity with the payment schedule, 13 banks fully repaid the financial aid received earlier, in the total sum of 9,384.9 thousand Euros. It is worth emphasizing that this aid efficiently supported the implementation of repair programmes in those banks. Their current economic and financial situation is satisfactory.

Aims and principles of assistance activity

In general the purpose of the Bank Guarantee Fund assistance activity is to protect depositors against losing money deposited in banks threatened by insolvency. This assistance has also much wider, positive consequences. The Fund's financial aid by preventing banks from going bankrupt, enhances trust to the whole banking sector, because it help its individual subjects to overcome critical situations and become stronger financially and economically.

The Fund in its assistance activity applies the following principles:

- equal treatment of banks in their access to aid means;
- making quickly available aid means to banks that meet the criteria of being granted assistance;

- ▣ stimulating the applicants to look for additional sources of financial support, with the help of BGF, with the purpose of implementing repair programmes, in particular support on the part of bank shareholders;
- ▣ providing economically high aid effectiveness, among other things, by determining such conditions in loan agreements, the banks' fulfilment of which should contribute to regaining permanent solvency. This applies in particular to: rationalization of activity costs, reinvestment of income obtained from received and utilized aid in profit-yielding financial instruments, allocation of the entire balance sheet surplus to increasing its own funds;
- ▣ supporting consolidation and restructuring processes by granting aid for the taking over by banks strong in capital of banks that are threatened by insolvency.

Decisions on granting aid are preceded by an analysis of repair programmes and assessment of the effectiveness of accepted assumptions, the performance of which guarantees the reforming of banks.

The Bank Guarantee Fund gives banks access to aid means primarily in the form of repayable loans, which are granted on conditions more favourable than market conditions.

Aid fund

The Bank Guarantee Fund gives financial aid to banks from means accumulated within the framework of the aid fund. This fund is established in a given year from annual obligatory bank fees calculated on the basis of:

- ▣ risk weighed assets as well as guarantees and sureties according to a uniform rate (maximum 0.4%), in the years 1995-1997;
- ▣ risk weighed assets as well as guarantees and sureties according to a uniform rate (maximum 0.4%) and non-balance sheet obligations minus the guarantees, sureties and promised credit lines according to 50% lower rate (i.e. a maximum of 0.2%), from the year 1998.

The foregoing items of balance sheet and non-balance sheet assets on 31st December of the preceding year form the calculation basis of fees. The rate of the obligatory annual fee – as in the case of the guaranteed means protection fund – is specified by the Bank Guarantee Fund Council.

The aid fund is accumulated by the Bank Guarantee Fund. Banks are obliged to transfer the obligatory annual fee at the beginning of the calendar year (in conformity with the Act on the Bank Guarantee Fund the date is specified by the Fund Council and cannot exceed 31st March). Starting from 1998 this share amounted to 30%, during the years 1999-2000 it increased to 40%, and as from 2001 it is 50%. The unused in a given year part of the aid fund remains in the Bank Guarantee Fund. This fund is additionally supplied with repayments of loans received by banks during previous years.

Aid fund during the years 1995-2002

Year	Rate of annual fee in %		Payments of banks (1)	Payment of NBP (2)	Total (1)+(2)	Loan repayment
	Other banks	PKO BP SA, Pekao SA and BGŻ SA				
in millions Euros						
1995	0.40	*0.20	43.2	0.0	43.2	0.0
1996	0.40	0.20	57.2	0.0	57.2	0.0
1997	0.40	0.20	65.0	0.0	65.0	0.0
1998	0.28	0.14	52.0	22.3	74.3	0.9
1999	0.24	0.12	50.6	33.7	84.3	11.5
2000	0.23	0.23	64.3	42.9	107.2	17.8
2001	0.14	0.14	39.5	39.5	79.0	36.9
2002	0.08	0.08	23.8	23.8	47.6	69.7

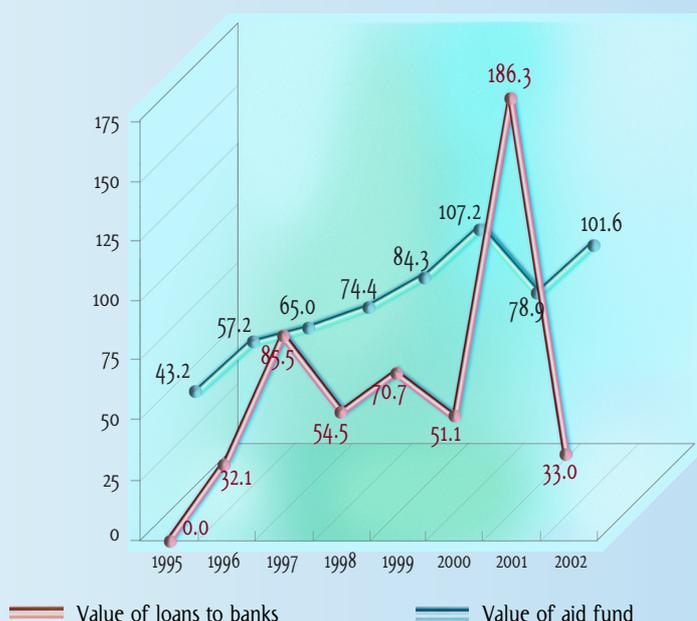
* In 1995 the reduced rate also included co-operative banks.

In the years 1995-1997 banks paid an obligatory annual fee in conformity with the maximum rate. During the following years this rate was being systematically reduced as far down as 0.08% in 2002.

Loans granted to banks in the years 1995-2002

First loan from the aid fund was granted in 1995 (payment was made at the beginning of 1996). Since then a total of 82 loans had been granted in the sum of 513.2 million Euros, constituting 83.9% of the accumulated fund.

Utilization of the aid fund in the years 1995-2002



Beneficiaries of loans can be divided in the following way:

- 55 loans were received by co-operative banks, whereas the remaining 27 by commercial banks;
- 37 loans were granted for independent reforms, whereas 45 banks received the loan for taking over of banks threatened by insolvency.

Loans to banks in the years 1996-2002

Borrower and purpose of the loan	Number of loans	Mount in millions of Euros
Independent reforms:		
– co-operative banks	29	45.5
– commercial banks	8	264.9
Total	37	310.4
Takeover/merger of banks by:		
– co-operative banks	26	39.5
– commercial banks taking over:		
– co-operative banks	12	21.5
– commercial banks	7	141.8
Sub-Total	45	202.8
Total	82	513.2

LOANS FROM CO-OPERATIVE BANKS RESTRUCTURING FUND

For two years now the co-operative banks restructuring fund has been an important source of financial aid to co-operative banks.

Loans from this fund are granted by virtue of regulations of 7th December, 2000, on the functioning of co-operative banks, their association and associating banks, to support merger processes of co-operative banks. The fund was established from the means of the liquidated Co-operative Banks Development Fund (managed by BGŻ SA) and from the sums paid to banks from the budget for servicing restructuring bonds of D series, which were redeemed on the day that the Act came into force. The means transferred to BGF amounted to 30,690.7 thousand Euros.

Financial aid paid from that fund is granted exclusively to banks which fulfil the criteria of solvency and have the ability to repay the taken loans. Banks, which were merged with other banks, not earlier than before the Act came into force, i.e. after 28th January, 1998, and merging at the present time, can avail of the aid.

In 2002 the BGF granted 18 loans in the total sum of 7,323.5 thousand Euros. Furthermore, the financial aid granted to 9 banks earlier was increased by the sum of 651.7 thousand Euros. In total during two years of granting these types of loans, 84 banks benefited from them in the total sum of 25,810.2 thousand Euros.

In 2002 aid from this fund was granted on the following conditions:

- ▣ annual interest rate on loans – 0.1 of the rediscount rate of bills of exchange determined by the Monetary Policy Council,
- ▣ commission – 0.1% of the loan sum,
- ▣ period of enjoyment – maximum 3 years,
- ▣ these were one-off payments of loans,
- ▣ repayment of loans – in half-yearly instalments, whereas payment of interest – at quarterly intervals.

In conformity with accepted procedure banks applying for the loans presented information about their current economic and financial situation, projection of how their situation was shaped during the period of utilising the aid and documents proving the incurred or planned costs/outlays connected with merging processes. The Fund made an assessment of the banks' standing and their ability to pay the loans together with interest. Furthermore, it analysed conformability of the purpose of outlays with the objectives stipulated by the Act.

The BGF, by virtue of the Act, grants loans from the co-operative banks restructuring fund for financing the costs of co-operative banks merger and investment ventures involved, in particular for the:

- unification of computer programmes and equipment,
- unification of banking technology,
- unification of financial and accounting procedures,
- unification of banking products and services offer.

Loans for acquiring shares of the associating bank can also be granted from this loan.

To date the applications submitted by banks only concerned loans for the financing of merger processes and implementation of involved investments. No application had been submitted for granting a loan to purchase the shares of the associating bank.

In 2002 the activity of the Bank Guarantee Fund in the range of implementing the Act on the functioning of co-operative banks, their association and associating banks, was controlled by the Chief Board of Supervision. Observance by the BGF of the Act regulations and the accepted principles of granting aid from that fund were assessed in a positive way.

BANK INSPECTIONS AND MONITORING OF FINANCIAL STANDING OF BANKS

Direct bank inspections

Inspections are carried out in banks availing of the Fund aid, on the ground of provisions of the Act on Bank Guarantee Fund, in the range of:

- the correct use of offered aid,
- implementation of repair procedure programme.

The assessments made in result of inspections are carried out from the point of view of purposefulness and effectiveness of employing the means, as well as conformity with the law and contract stipulations, on the ground of which the Fund granted the aid.

In 2002 there were 43 direct inspections carried out in banks availing of the aid offered by the BGF, this includes:

- 11 inspections in banks enjoying loans from the aid fund (in two commercial banks and 9 co-operative banks);
- 28 inspections in banks enjoying loans from the co-operative banks restructuring fund;
- 4 inspections in banks enjoying loans from both these funds.

In result of these inspections it was found that all banks enjoying the loans, were utilizing and securing the granted means as stipulated in the loan agreements. It was also stated that in result of conducted merger processes the banks:

- ❑ fulfilled the capital requirements,
- ❑ extended their scale of activity,
- ❑ enlarged their product offer,
- ❑ improved computer infrastructure and the quality of customer service.

The stated irregularities mainly concerned: excessively high risk being taken, low cost discipline and low effectiveness of activity.

Monitoring range

In 2002 the Bank Guarantee Fund monitored the economic and financial situation of 129 banks, which had been given financial assistance from the aid fund or the co-operative banks restructuring fund. This referred to:

- ❑ 16 commercial banks and 29 co-operative banks availing of means from the aid fund;
- ❑ 79 co-operative banks, which received means from the co-operative banks restructuring fund;
- ❑ 5 co-operative banks availing of means both from the aid fund and the co-operative banks restructuring fund.

The bank information base was build up, among other things, on the ground of:

- ❑ monthly information in the range provided by obligatory reporting for the National Polish Bank;
- ❑ bank reports from implementation of repair proceeding programmes and restructuring or merger programmes;
- ❑ opinions and reports of financial statement audits carried out by chartered accountants;
- ❑ direct bank inspection results;
- ❑ information conveyed by the General Inspectorate of Ranking Supervision;
- ❑ issue brochures, analyses of the bank sector and other information concerning monitored banks.

Analyses of the economic and financial situation was carried out within the framework of bank monitoring as well as implementation of repair procedure programmes. Basing on these analyses and risk assessment resulting from the dependence between bank operating effectiveness and income obtained from external financial aid, an individual risk profile was prepared and then a map of risk of all banks availing of assistance of the Fund. These maps and individual analyses made it possible to formulate recommendations concerning further steps to be taken in respect of chosen subjects.

Performing the function of trustee

The Banking Supervision Commission, on application of the Fund, appointed the Bank Guarantee Fund as trustee supervising the implementation of repair programmes in three co-operative banks.

Using the authority range of trustee stipulated by provisions of Art. 144 of the Banking Law and former experience in performing this function, the Fund Management Board modified in 2002 the principles of performing the function of trustee by the Bank Guarantee Fund. This mainly applied to specifying in detail and extending the duties of trustee attorneys.

Trustee duties were concentrated on constant monitoring of progress in implementing the repair programmes as well as economic and financial situation of banks. The management processes and safety level of conducted activity was also under current control, among other things, through participation of trustee attorneys in meetings of the bank management and supervision boards. No case was noted of appealing against resolutions passed by bank authorities.

COMPILING AND ANALYSING INFORMATION ON BANKS

Sources of information on banks

Bank reports are the basic source of information, which the Fund receives from the National Polish Bank by virtue of the Act on the BGF and agreement concluded on 27th May, 1997. Banks which use financial aid from the Fund, additionally send – in conformity with concluded loan agreements – financial statements directly to BGF (irrespective of information conveyed by the National Polish Bank).

Information sent to the Fund directly by banks, by virtue of the Order the Polish National Bank President dated 29th December, 1997, on drawing up additional information for the needs of the Bank Guarantee Fund form a separate source.

Furthermore, the Fund receives results of analyses of the National Polish Bank concerning the situation of the bank sector and materials conveyed by banks associating co-operative banks.

System assumptions and functioning

The system of compiling and analysing information about banks constitutes the foundation for formulating current and long-term policy of the Bank Guarantee Fund.

The system consists of the following elements:

- general analysis of the economic situation in the country;
- analysis of banking sector situation with the purpose of identifying banks threatened by insolvency;
- forecast requirements for financial means enabling possible payment of guaranteed deposits in the event of bank bankruptcy and assessment of the fund size necessary for intervention by offering assistance to banks threatened by insolvency.

Analytical activity

Within the framework of analytical works the Fund makes an assessment of the situation of the banking sector divided into commercial and co-operative banks. The main purpose of these analyses is to identify early enough the potential danger of insolvency of particular banks. This

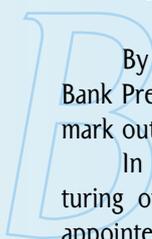
way the Fund organs receive information on the scale of bankruptcy danger and the possible necessity of making payments of guaranteed means. This also allows the planning of the banks' demand for means from the aid fund.

In 2002 works aimed at modifying the functioning principles of the deposit guarantee system were continued. An element of these works is the analysis of institutional solutions in foreign deposit guarantee systems, and in particular methods of financing guarantee activity. The survey included all European guarantee deposit systems and selected American and Asian systems. Availing of recommendations of the *Financial Stability Forum*, directives were elaborated for establishing an effective deposit guarantee system and conclusions for reconstruction of the Polish system. The final effect of these works will be the possible establishment of a new formula for the functioning and financing of Bank Guarantee Fund activity.

At the end of 2002 complex analyses of the banking sector situation were made; they form for the Fund Council a foundation for determining the rates of establishing guaranteed means protection funds by banks and the obligatory annual fee during the following year.



CO-OPERATION OF BGF WITH THE MINISTRY OF FINANCE, NATIONAL POLISH BANK, BANKING SUPERVISION COMMISSION, POLISH BANKS ASSOCIATION AND BANKS



By virtue of the Act on the Bank Guarantee Fund representatives of the National Polish Bank President, Ministry of Finance and Polish Banks Association sit on the Fund Council. They mark out the lines of activity and supervise functioning of the Fund.

In 2002 an additional area of co-operation concerned issues connected with the restructuring of banks threatened by bankruptcy, in which the Banking Supervision Commission appointed official receivership. The Management Board President of the Bank Guarantee Fund is a member of the Banking Supervision Council.

Fund employees participated in many agreement conferences, which prepared drafts of legal acts pertaining, among other things, to the act on mortgage bonds and mortgage banks, act on co-operative bank operation and Order of the Minister of Finance on principles of establishing reserves for the risk involved with bank activity.

As during previous years, a consultative meeting was organized at the end of 2002 in the Fund residence with representatives of banking circles, on the rate amounts for establishing the guaranteed means protection fund and obligatory fee in 2003.



INTERNATIONAL CO-OPERATION

Within the framework of co-operation of European institutions guaranteeing bank deposits, the European Forum of Deposit Insurers – EFDI was brought into existence. On 11th October, 2002, in Vienna representatives of 24 institutions of this type took part in the founders' meetings in Vienna. Also representatives of the International Monetary Fund, World Bank and European Commission participated in the meeting, as observers. A representative of the BGF was elected to the post of Vice-Chairman of the Forum.

Fund employees also participated in seminars organized by Hungarian banking sector institutions within the framework of an exchange of experiences. A seminar was held in the residence of the BGF with participation of the Bulgarian Deposit Guarantee Fund, dedicated to the presentation of bank deposit protection systems.

The Bank Guarantee Fund prepared and handed over to the Ministry of Finance its standpoint to the opinion of the European Commission Advisor on the conformability of the act on Bank Guarantee Fund with regulations of the directive 94/19/EC on the subject of deposit guarantee systems.



PROMOTION AND INFORMATION ACTIVITY

In 2002 an extensive information campaign was continued on the subject of deposit guarantee system and BGF activity:

- ❑ the BGF Internet page was expanded (www.bfg.pl);
- ❑ 1 million information brochures on principles of the deposit guarantee system were printed and sent to all banks;
- ❑ all banks and their branches and agencies received information boards advising that the BGF guarantees all deposits in a given bank;
- ❑ a link to the BGF Internet pages was placed informing about the guaranteed deposit sums, on the business pages of the ONET.pl portal;
- ❑ links were placed on bank Internet pages, to the BGF Internet pages, with information on Fund guarantees.

The Fund published five issues of the “BGF Bulletin”. Also a book entitled “Bank crises. Causes and solutions” written, among others, by the Fund employees was published at the expense of the BGF. The publication treats the subject of crises experience by bank systems in 22 countries of Europe, America and Asia during the last twenty years. Particular emphasis was placed on showing the dependence between bank crises and difficulties met by the entire economy in a given country. Copies of the book were sent to all banks, university libraries, research institutes and selected state institutions, scientists and journalists dealing with financial and banking problems.

Seminars with participation of banking sector representatives, scientists and journalists continued being organized in the Fund residence. In 2002 four such seminars dedicated to the following subjects were held:

- ❑ “Assessment systems of the economic and financial situation of banks”;
- ❑ “*Financial Stability Forum* guidelines on creating an effective deposit guarantee system – proposals for reconstructing the Polish system”;
- ❑ “Place and role of mortgage banks in the Polish banking system – opportunities and dangers”;
- ❑ “Causes of bank crises and methods of overcoming them – world experiences”.

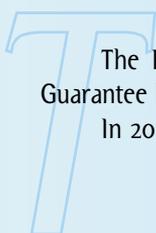
A cycle of lectures held by members of the Fund Management Board in several universities, on the subject of the essence of deposit guarantee system and activity of the BGF was a specific example of information and promotion activity.



BANK GUARANTEE FUND AUTHORITIES AND ORGANIZATION



Composition of Fund organs



The Fund Council and Fund Management Board are the statutory organs of the Bank Guarantee Fund.

In 2002 the Fund Council consisted of the following persons:

Council President:	MAREK GRZYBOWSKI
Council Members:	TOMASZ DYBOWSKI
	STANISŁAW KASIEWICZ
	BARBARA KOWALSKA
	WOJCIECH KWAŚNIAK
	PRZEMYSŁAW MORYSIAK
	KRZYSZTOF PIETRASZKIEWICZ (till 22nd April) ¹
	JAN SZAMBELAŃCZYK
	EWA ŚLESZYŃSKA-CHAREWICZ
	ANDRZEJ TOPIŃSKI (from 22nd April)
	ANDRZEJ WIŚNIEWSKI
	TADEUSZ ŻYWCZAK



In 2002 the Fund Management Board consisted of the following members:

President of Management Board:	EWA KAWECKA-WŁODARCZAK
Deputy-President of Management Board:	HANNA KRAJEWSKA
Management Board Members:	ANDRZEJ JANKOWSKI
	MARIA PAWELSKA
	MAREK PYŁA

¹ Krzysztof Pietraszkiewicz submitted his resignation in connection with being appointed to the post of President of Supervisory Board of PKO Bank Polski SA. Andrzej Topiński, President of the Polish Banks Association was elected to the post of new member of the Fund Council.

Organization of Fund Office

The Bank Guarantee Fund fulfils its statutory tasks through the Office, from the structures of which seven departments, internal supervision post, Fund Council Secretariat had been singled out.

Tasks of particular units:

- ❑ **Guarantee Performance Department** performs tasks directly related to the payment of guaranteed sums to customers of a bankrupt bank;
- ❑ **Aid Activity Department** performs tasks in the range of granting financial aid to banks threatened by insolvency (from the aid fund) and granting loans from the co-operative banks restructuring fund;
- ❑ **Department of Banking Sector Analysis** compiles and analyses information concerning current bank standing and prepares assessments and forecasts of their development;
- ❑ **Inspection and Monitoring Department** performs tasks connected with monitoring and control of the standing of those banks, which received aid from the Fund, as well as performs the function of official receiver;
- ❑ **Financial Department** performs tasks connected with financial management, book-keeping and Fund settlements;
- ❑ **Legal Department** provides legal services to the Fund and represents the Fund in court and administrative proceedings and before other adjudging organs;
- ❑ **Organization Department** ensures organization service of the Management Board and Fund Office, conducts affairs connected with worker employment, work organization, administrative services and is responsible for the technical, computer, premises and material infrastructure of the Office;
- ❑ **Internal Inspection Post** performs tasks connected with examining the operating correctness and conformability of Fund Office organization units with regulations of the law;
- ❑ **Council Secretariat** conducts substantial, organizational and technical services for the Fund Council in its performance of statutory tasks.

Furthermore, there are two permanent committees operating within the Fund:

- ❑ **Assets Management Committee** creates and supervises the policy of investing free financial means of the Fund;
- ❑ **Aid Applications Assessment Committee** issues opinions on the applications on granting financial aid to banks from the aid fund and loans from the co-operative banks restructuring fund prepared by the Aid Activity Department.

Employment

At the end of 2002 there were 99 people (including Management Board Members) employed by the Bank Guarantee Fund. 78 workers had university degrees, whereas 16 persons improved their qualifications during higher studies and post-graduate studies (in the range of economy, ranking and management). The age average of the workers was 40 years old.

The basic principle of employment policy in the Fund is the stability of BGF personnel. This ensures higher professional mobility of workers in the possibility of benefiting from their vast experience and unique knowledge in the range of specific Fund activity.

Adres do korespondencji:
PricewaterhouseCoopers Sp. z o.o.
Al. Armii Ludowej 14
00-638 Warszawa, Polska
Telefon +48 (22) 523 4000
Fax +48 (22) 523 4040
<http://www.pwcglobal.com/pl>



Opinion of Independent Chartered Accountant for the Council of Ministers, Fund Council and Management Board of the Bank Guarantee Fund

We audited the enclosed Financial Statement of the Bank Guarantee Fund (hereinafter referred to as the "Fund") with seat in Warsaw ul. ks. Ignacego Jana Skorupki 4, consisting of:

- (a) Balance Sheet drawn up on 31st December, 2002, which on the assets and liabilities side shows the sum of 3,888,139,641.20 PLN;
- (b) Profit and Loss Account for the business period from 1st January, 2002, till 31st December, 2002, showing a net profit of 249,311,247.47 PLN;
- (c) Cash Flow Statement for the business year from 1st January till 31st December, 2002, showing an increase in cash in the sum of 418,974.30 PLN;
- (d) Additional Information.

The Fund Management Board is responsible for preparing the Financial Statement and Report of Activity in conformity with the binding regulations of the law. Our task was to express an opinion on the Financial Statement basing on the carried out audit.

We conducted the audit in conformity with binding in the Republic of Poland:

- (a) provisions contained in Chapter 7 of the Accountancy Act of 29th September, 1994, (the "Act" uniform text – Official Laws Gazette from 2002, No. 76 Item 694);
- (b) regulations contained in Art. 17 Section 2 of the Act on the Bank Guarantee Fund of 14th December, 1994 (uniform text – Official Laws Gazette from 2000 No. 9 Item 131 with successive modifications);
- (c) norms of practicing the profession of chartered accountant, issued by the National Board of Chartered Accountants in Poland.

The audit was planned and carried out in such a way as to obtain sufficient certainty that the Financial Statement does not contain any significant errors and omissions. The audit included, among other things, checking on the ground of a chosen example, evidence confirming the sums and information shown in the Financial Statement. The audit also contained an assessment of accounting principles applied by the Fund and important valuations made during preparation of the Financial Statement, as well as a general assessment of its presentation. We consider that the audit conducted by us gave sufficient grounds for expressing an opinion.

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The financial information included in the Report of Bank Guarantee Fund Activity for the business year from 1st January till 31st December, 2002, is conformable with information contained in the audited Financial Statement.

In our opinion the enclosed Financial Statement in all significant aspects:

- (a) was drawn up on the ground of correctly kept account-books and in conformity with accounting principles binding in the Republic of Poland, specified in the forenamed Accountancy Act, Act on Bank Guarantee Fund and the Order of the Minister of Finance dated 25th October, 1999, on specific accounting principles of the Bank Guarantee Fund (Official Laws Gazette No. 90 item 1006 with successive modifications);
- (b) conforms in form and contents with provisions of the law and the Fund Statute;
- (c) presents in a clear and reliable way the assets and financial standing of the Fund as on 31st December, 2002, and the financial result for the business year from 1st January till 31st December, 2002.

Acting on behalf of PricewaterhouseCoopers Sp. z o.o.:

Adam Celiński

Adam Celiński
Member of the Management Board
Chartered Accountant
Registration No. 9033/7039

PricewaterhouseCoopers Sp. z o.o.

Company incorporated in the list of
subjects authorized to audit financial
statements under number 144

Warsaw, 28th February, 2003.

BALANCE SHEET

AS ON 31ST DECEMBER, 2002

ASSETS

	in PLN	
	31.12.2002	31.12.2001
I. Pecuniary means	3,008,002.28	2,589,027.98
1. Cash in hand	855.43	2,284.99
2. Cash on current account	2,856,324.01	2,387,374.02
3. Cash on special guarantee settlement account	1,798.65	101,798.65
4. Cash on long-term deposit account	-	-
5. Cash on Company Social Fund	149,024.19	97,570.32
II. Receivables from financial institutions	1,577,415,632.30	1,726,223,572.51
1. Receivables from banks for:		
a) obligatory payments to special guarantee settlement account	-	-
b) annual contributions to aid fund	-	-
c) loans granted from aid fund	1,500,179,808.30	1,654,454,874.84
d) loans granted from co-operative banks restructuring fund	77,235,824.00	71,768,697.67
e) performed guarantees and sureties	-	-
f) purchased receivables	-	-
2. Receivables from other financial institutions	-	-
III. Receivables from State budget	-	-
IV. Other receivables and claims	259.00	36,842.89
V. Securities	2,232,989,481.00	1,637,328,029.00
1. Debenture bonds:		
a) of state issuers	2,232,989,481.00	1,637,328,029.00
b) of other issuers	-	-
2. Stocks, shares		
a) in financial institutions	-	-
b) in other units	-	-
VI. Intangible assets	17,005.44	236,411.96
VII. Tangible assets	74,553,173.78	76,402,283.86
VIII. Other assets	-	-
IX. Prepayments and accruals	156,087.40	237,524.20
TOTAL ASSETS	3,888,139,641.20	3,443,053,692.40
Conditional receivables	531,241,542.59	580,326,252.18
a) from debts declared to the bankruptcy estate	528,824,634.11	577,816,477.70
b) other receivables	2,416,908.48	2,509,774.48

BALANCE SHEET

AS ON 31ST DECEMBER, 2002

LIABILITIES

	in PLN	
	31.12.2002	31.12.2001
I. Obligations	34,287,374.45	22,563,809.13
1. Obligations towards trustee of bankruptcy estate on account of payments within the framework of means guarantee	-	-
2. Other obligations	34,287,374.45	22,563,809.13
II. Accruals and deferred income	5,210,806.62	12,068,679.17
III. Reserves	100,000.00	350,000.00
1. Reserves for risk involved with granted guarantees	-	-
2. Reserves for risk involved with granted sureties	-	-
3. Other risk reserves	100,000.00	350,000.00
IV. Statutory fund	883,583,995.98	679,496,587.82
V. Supplementary fund	350,000,000.00	220,000,000.00
VI. Aid fund	2,242,087,503.62	2,051,006,867.25
1. Aid fund to be used	747,075,445.94	408,551,973.91
2. Used aid fund	1,495,012,057.68	1,642,454,893.34
VII. Co-operative banks restructuring fund	123,409,688.87	123,382,770.55
1. Co-operative banks restructuring fund to be used	46,216,920.87	51,682,770.55
2. Used co-operative banks restructuring fund	77,192,768.00	71,700,000.00
VIII. Revaluation fund	-	-
IX. Special funds and other liabilities	149,024.19	97,570.32
X. Financial result	249,311,247.47	334,087,408.16
1. Profit (positive value)	249,311,247.47	334,087,408.16
2. Loss (negative value)	-	-
TOTAL LIABILITIES	3,888,139,641.20	3,443,053,692.40
Non-balance sheet obligations	-	-

PROFIT AND LOSS ACCOUNT

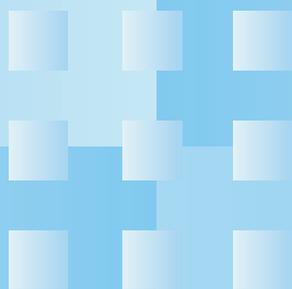
FOR THE PERIOD ENDING ON 31ST DECEMBER, 2002

		in PLN
	12 months ending on 31.12.2002	12 months ending on 31.12.2001
I. Income from statutory activity	68,311,075.87	89,304,957.16
1. Income from interest	67,947,401.13	86,978,531.21
2. Income from commission	340,899.00	2,250,700.00
3. Income from interest for delayed payments by banks for effecting guarantee payment	-	-
4. Income from interest for delayed payment by banks of annual fees	18,897.14	74,135.28
5. Income from interest for delayed payments by banks of loans and interest on loans	3,878.60	1,590.67
II. Cost of statutory task performance	-	-
1. Interest on credits received from the National Polish Bank	-	-
2. Other	-	-
III. Result of statutory activity (I-II)	68,311,075.87	89,304,957.16
IV. Result of financial operations	200,443,666.29	262,090,632.40
1. Securities	200,302,221.33	252,923,485.16
2. Other	141,444.96	9,167,147.24
V. Fund activity costs	16,818,936.84	15,782,094.93
1. Foreign services	3,692,026.65	3,067,538.96
2. Remuneration	10,455,212.24	10,279,867.89
3. Remuneration margins	1,286,107.78	1,179,376.25
4. Other	1,385,590.17	1,255,311.83
VI. Depreciation of fixed assets and intangible assets	2,559,553.25	3,092,431.91
VII. Reserve allocation and revaluation	-	-
VIII. Dissolving of reserves and reduction of valuation	250,000.00	751.44
IX. Other income	334,177.62	1,730,268.90
X. Other costs	649,182.22	164,674.90
XI. Result from operating activity (III+IV-V-VI-VII+VIII+IX-X)	249,311,247.47	334,087,408.16
XII. Result from extraordinary transactions (loss)	-	-
1. Extraordinary profit	-	-
2. Extraordinary loss	-	-
XIII. Financial result of the fund (XI+XII)	249,311,247.47	334,087,408.16
1. Profit (positive value)	249,311,247.47	334,087,408.16
2. Loss (negative value)	-	-

CASH FLOW STATEMENT

FOR THE PERIOD ENDING ON 31ST DECEMBER, 2002

	12 months ending on 31.12.2002	in PLN 12 months ending on 31.12.2001
A. Cash flow from operating activity		
I. Net financial result (profit/loss)	249,311,247.47	334,087,408.16
II. Adjustment by items:		
1. Depreciation	2,559,553.25	3,092,431.91
2. Reserves for threatened receivables, established by debiting costs	-	(751.44)
3. Other reserves established by debiting the Fund activity costs	(250,000.00)	-
4. Change of receivables and claims	36,583.89	11,046.83
5. Change in short-term obligations (except loans and credits) and special funds	11,775,019.19	34,906.77
6. Change in prepayments and accruals	81,436.80	81,436.80
7. Change in deferred income	-	-
8. Other items	342,782.54	-
III. Net cash from operating activity (I±II)	263,856,623.14	337,306,479.03
B. Cash flow from investment activity		
I. Purchase/Sale of intangible assets	(272,441.83)	(348,528.49)
II. Purchase/Sale of fixed assets components	(561,377.36)	(681,679.45)
III. Purchase/Sale treasury bonds, money bills of the National Polish Bank, bonds	(611,073,468.66)	(133,303,209.40)
IV. Granted/Repaid loans from the aid fund	147,442,835.66	(582,494,413.34)
V. Granted/Repaid loans from the co-operative banks restructuring fund	(5,492,768.00)	(71,700,000.00)
VI. Purchase/Sold debts	-	-
VII. Received/Repaid interest	15,412,016.66	11,203,739.10
VIII. Other items		-
IX. Net cash from investment activity (I±II±III±IV±V±VI±VII±VIII)	(454,545,203.53)	(777,324,091.58)
C. Cash flow from financial activity		
I. Changes in statutory fund	-	-
II. Changes in aid fund (payment of annual contribution)	191,080,636.37	317,149,371.66
III. Change in co-operative banks restructuring fund	26,918.32	123,382,770.55
IV. Contracting/Payment of short-term credits and bank loans	-	-
V. Interest paid/Returned	-	-
VI. Other items	-	-
VII. Net cash from financial activity (I±II±III±IV±V±VI)	191,107,554.69	440,532,142.21
D. Change in net cash (A+B+C)	418,974.30	514,529.66
E. Cash at beginning of the business	2,589,027.98	2,074,498.32
F. Cash at end of business year (D+E)	3,008,002.28	2,589,027.98



BFG

Bankowy Fundusz Gwarancyjny