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10 years OF THE BANK GUARANTEE FUND



BFG

Bankowy Fundusz Gwarancyjny

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Władysław Baka, Prof. Ph.D.
Council Chairman

INTRODUCTION

Ladies and Gentlemen,

We are presenting to you the Annual Report of the Bank Guarantee Fund for the year 2004. This was the tenth year of BGF activity. It is, therefore, only reasonable to present in a synthetic way the results of BGF activity during the decade 1995–2004 before presenting information on functioning of the Fund in 2004.

During the years 1995–2004 guaranteed funds were paid to 318 thousand depositors – clients of 89 co-operative banks and 5 commercial banks. In total the payments made during this period, financed from the fund for protection of guaranteed deposits, amounted to 153.5 million Euro*, including: in 1995 – 21.1 million Euro; in 1996 – 11.6 million Euro, in 1997 – 1.2 million Euro; in 1998 – 1.0 million Euro; in 1999 – 0.0 Euro; in 2000 – 118.7 million Euro. It is worth emphasizing that with the passing of time the payment of guaranteed deposits was financed in an increasingly greater extent from liquid assets remaining in the assets of bankrupt banks and from means recovered by BGF from bankruptcy estates.

During the decade 1995–2004 the Fund granted financial assistance to 97 banks threatened by insolvency in the total amount of 800.3 million Euro, this includes – for the purpose of self-recovery – the sum of 506.5 million Euro to 11 commercial banks and the sum of 44.9 million Euro to 29 co-operative banks. With the development of assistance activity BGF started granting more and more loans in financial support for the takeover of banks threatened with insolvency by banks with good economic standing, rather than for self-recovery. Above all, this orientation resulted from the calculation of effective use of assistance fund and was also motivated by the necessity to promote consolidation processes in the Polish banking sector. In the decade under review the Fund granted loans amounting to 224.2 million Euro to 32 commercial banks for the takeover of 19 commercial banks (188.7 million Euro) and 13 loans (in the sum of 35.4 million Euro) for the takeover of co-operative banks. Whereas, in the case of co-operative banks, the Fund granted 25 loans in the sum of 24.7 million Euro for the takeover of co-operative banks threatened by insolvency.

As was pointed out earlier, co-operative banking is also the only beneficiary of loans granted by the BGF from the co-operative banks restructuring fund. During the years 2001–2004 the number of loans in support of consolidation in this banking sector amounted to 161 for the total amount of 52.4 million Euro, including: 50.8 million Euro for financing merger processes and 1.5 million Euro for the purchase of shares in the affiliating bank.

When assessing the effects of the Fund's assistance activity one has to mention several aspects of the matter. Beside the effects visible from the angle of improved financial results of the bank using assistance, one should also take into consideration its broader aspects, which are manifested in greater credibility and trust placed in banks by the customers and a smaller system risk as well as increased stability of the banking sector. In assessing the direct and indirect effects achieved with financial assistance received from the Fund, one can say that, if BGF had not granted assistance in the sum of 800.3 million Euro during the years 1995–2004, then it would have been necessary to pay guaranteed funds higher by approximately 637.4 million Euro than the financial assistance given by the Fund during that period; – customers of banks, which did not receive assistance, would have lost considerable sums that had not been covered by a deposit guarantee scheme (this applies both to natural persons as well as to non-financial and financial institutions); – operating continuity of numerous banks and their branches would not have been possible and between ten and twenty

* According to the EUR rate of exchange of 31st December, 2004, which amounted to 4.0790 PLN

thousand employees would have lost their jobs; – this would have resulted in deteriorated access to bank services both of the population and enterprises and the situation of companies serviced by banks, which were declared bankrupt, would have become much more complicated.

The year 2004 was a favourable year both for the banks and the whole economy. These circumstances projected on the activity of the Bank Guarantee Fund, since this was yet another year without any bankruptcy of a bank. Therefore, payments of guaranteed funds only referred to deposits, not collected earlier, which had been placed in banks that were declared bankrupt before the year 2002. Neither was there any greater danger of instability in the banking sector in 2004. In fulfilling its statutory mission, the Fund granted only one loan aimed at the financial support of self-recovery of a bank threatened with bankruptcy.

In 2004 a lot of attention was paid to improving the methodology of monitoring and assessing the financial standing of banks. At the end of the year 596 co-operative banks and 57 commercial banks were being monitored. At the same time 39 direct inspections were carried out in banks that received BGF assistance. Moreover, the Fund performed the function of curator, supervising the course of implementation of rehabilitation programs.

Good results of the bank sector and favourable forecasts for the nearest future allowed the BGF Council to pass resolutions determining the rates for establishing the fund for protection of guaranteed deposits, as well as the rate of annual contributions in 2005 on a relatively low level (0.25% and 0.075% respectively).

In 2004, BGF activity in the area of supporting merger process of co-operative banks was developing dynamically: 60 loans, aimed at the unification of computer software and hardware, unification of banking technology and financial and accounting procedures, as well as for the purchase of shares of affiliating banks, were granted from the co-operative banks restructuring fund.

Worth mentioning is the Fund's activity in the area of conceptual works on preparing new forms of assistance to banks and a new act regulating the functioning principles of BGF. Diverse experience accumulated during 10 years of activity, pertaining to both the financing principles of the Fund and to forms of assistance offered to threatened banks, which only require support in the field of capital and organization restructuring, should be reflected in the new legal regulations.

Invariably for years BGF has been active on the international forum. In 2004 the Fund participated in conferences and meetings organized by two international organizations associating deposit insurance institutions – European Forum of Deposit Insurers (EFDI) and the International Association of Deposit Insurers (IADI). Seminars were also held in the Fund headquarters with participation of the Ukrainian banking sector. We also had a delegation of representatives from the Vietnamese Guarantee Fund. Moreover, the Fund maintained contacts with guarantee institutions from such countries as: Italy, Hungary, Cyprus and Sweden.

In 2004 the Fund developed and deepened its co-operation with the National Bank of Poland, Ministry of Finance, Polish Bank Association and the National Association of Co-operative Banks.

Chairman of the Council
Władysław Baka



Ewa Kawecka-Włodarczak
President of the Management Board

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

The mission of the Bank Guarantee Fund is to protect deposits accumulated in banks and activity aimed at providing safety and stability of the banking system in Poland.

One of the best measures for assessing the activity of each firm is precisely the level of its mission performance. That is why I am pleased to say that the year 2004 was the third in a row, without any bankruptcy of a bank. This not only means a better financial condition of the Polish banking system, but first of all, the strengthening of the feeling of security among those that use bank services.

In 2004 the Bank Guarantee Fund concentrated most of its attention on financial assistance to banks that needed reforming and restructuring. Since strategic tasks of the Fund are performed in two basic forms:

- Guarantee of reimbursement of deposits to depositors in the amount specified in the Act on the Bank Guarantee Fund – in the event of bankruptcy of the bank;
- Financial support of reforming processes in banks threatened by insolvency. Repayable loans are granted directly to banks in need, or to those banks which have undertaken the reforming of threatened banks, by including them in their organizational structures or have become their strategic investors.

Furthermore, worth mentioning is BGF activity in the area of granting financial assistance to co-operative banks, with good financial standing, to help them in their restructuring activity and to finance the costs of their merger with other co-operative banks. In the year 2004 this was the most popular form of the Fund assistance offered.

The good condition of the entire banking system in Poland was reflected in the financial results obtained by banks. A record-breaking net profit of nearly 2 billion Euro confirms that the Polish economy has recovered its development capacities and that in fact the banking system fulfils its role of middleman, advisor and creditor of Polish companies.

This edition of the Annual BGF Report apart from information representing our activity and obtained financial results, additionally contains, in tabular form, basic information on bank deposit guarantees, assistance activity and loans from co-operative banks restructuring fund – during the entire period of BGF activity. Moreover, the Calendar depicts the most important changes that took place in the Fund during the years 1995–2004.

I hope that our activity presented in this way is not only a true reflection of Fund activity but also reflects the process of changes in the Polish banking system.

The activity of BGF would not have been possible without close co-operation with the Ministry of Finance, National Bank of Poland, Polish Bank Association, National Association of Co-operative Banks as well as with commercial and co-operative banks. And that is why on behalf of the Fund Management Board I wish to thank them for these excellent, friendly contacts.

President of the Management Board
Ewa Kawecka-Włodarczak

GUARANTEE ACTIVITY

FUNCTIONING PRINCIPLES OF DEPOSIT GUARANTEE SCHEME

The basic task of the Bank Guarantee Fund is to ensure depositors reimbursement of their deposits accumulated in the bank which went bankrupt. The deposit guarantee scheme forms one of the main elements of safe functioning of the entire banking system. It gives society a feeling of safety and builds trust towards the banking sector.

The currently binding solutions in this area in Poland fully comply with regulations of the European Union, and in particular with recommendations of Directive 94/19/EC of the European Parliament and European Council of 30th May, 1994, on deposit guarantee schemes.

The deposit guarantee scheme includes, according to uniform principles, all banks operating in Poland, both commercial banks in the form of joint stock companies as well as co-operative banks and state-owned banks, which have BGF guarantees. Since 1st May, 2004, obligatory membership in the scheme does not apply to branches of banks with registered offices in a member-state of the European Union and banks from EU countries operating in Poland on cross-border basis, as these banks belong to the deposit guarantee schemes in their home countries.

ACTIVITIES CONNECTED WITH BANKRUPTCY OF BANKS

In conformity with the currently operative Banking Act, in the event of bank insolvency, the Commission for Banking Supervision is authorized to issue a decision on suspension of its activity. This decision is publicly announced. During suspension of its activity the bank cannot settle its liabilities, also in relation to account holders. If the Commission for Banking Supervision does not issue a decision on takeover of the bank, whose activity has been suspended, by another bank, it is obliged to present a motion to the competent court for declaring bankruptcy. This motion should be considered by the court within a month from the date of its receipt. First, bankruptcy of the bank is declared with the possibility of concluding an arrangement with creditors and a receiver of the bankruptcy estate is appointed¹. This person takes over the administration of assets of the bankrupt bank. If no arrangement is concluded between the bankrupt bank and creditors, then the court changes the decision on bankruptcy with the possibility of concluding an arrangement, to a decision on bankruptcy that includes the liquidation of assets and appoints a trustee. The trustee administers and liquidates bank assets, from which the claims of creditors are to be satisfied. Bankruptcy proceedings are supervised by a judge-commissioner, who also controls the proceedings conducted by the receiver and trustee.

¹ The solution was introduced by provisions of the new Bankruptcy and Rehabilitation Law, which resulted in the amendment of the Banking Act in this range. No bankruptcy of any bank has yet been declared under the rule of the new Act.

PAYMENT OF GUARANTEED FUNDS

Pursuant to the Act on the BGF, the payment of guaranteed amounts to depositors should be effected at the latest within three months from the date of unavailability of the funds deposited in the bank. In Polish legal conditions this date should be understood as the date of suspension of bank operations by the Commission for Banking Supervision. This decision precedes presentation of a motion to the court for declaration of bankruptcy. With the court's consent the period for effecting payments can be extended from three to nine months maximum.

Within thirty days from the date that the court issues its decision on declaring bankruptcy of the bank, the receiver or trustee of the bankruptcy estate is obliged to prepare and present to the Fund a list of persons authorized to guarantee together with the amounts due to them. After checking the correctness of the list, the Fund transfers to the receiver or trustee funds for payment of guaranteed amounts to depositors. Payments are effected by the receiver or trustee of the bankruptcy estate in places and on dates publicly announced.

The depositors' receivables in relation to the bank that exceed the amount guaranteed by the Fund can be claimed by them from the bank's bankruptcy estate on general bankruptcy proceeding principles.

FINANCING OF THE PAYMENT OF GUARANTEED FUNDS

In order to conduct its guarantee activity the Fund disposes of financial means accumulated by banks in the form of funds for protection of guaranteed deposits (fpgd).

These funds are established by all banks participating in the guarantee scheme. Their amount is determined by multiplying the sum of deposits accumulated in the bank by rate per cent established each year by the BGF Council. The rate per cent value for establishing the fpgd, first of all takes into consideration the possibility of potential bank bankruptcies in a given year. The maximum rate, according to which the banks establish funds for protection of guaranteed deposits, amounts to 0.4% of accumulated deposits.

Financial means, which make up the funds for protection of guaranteed deposits, are invested by banks in treasury bonds, money bills of the National Bank of Poland, bonds issued by NBP or participation units of money market funds. These assets give the banks interest income until the time of their possible conversion into funds. This takes place only in the event of bank bankruptcy, when BGF turns to the banks to transfer suitable amounts for the payment of guaranteed deposits.

An additional source, from which payments of guaranteed funds are made, are means recovered by the Fund from the bankruptcy estates of banks.

If funds for protection of guaranteed deposits and other funds accumulated by BGF (assistance fund, own funds) prove to be insufficient for fulfilment of Fund obligations on account of paying out guaranteed funds, it is possible to obtain financial support by taking a credit in NBP. After that, there is a possibility of increasing the rate for establishing funds for protection of guaranteed deposits by banks up to 0.8%. To date, the Fund did not have to make use of any additional possibilities for obtaining funds for payments.

SCOPE AND LEVEL OF COVERAGE

In conformity with the Act on the Bank Guarantee Fund funds deposited on registered bank accounts and receivables resulting from other bank operations of the following entities (referred to as depositors in the Act) are subject to protection:

- natural persons,
- legal entities,
- organization units without legal personality, provided that they have legal capacity,
- school savings banks and workers' mutual assistance and loan funds.

In the event of joint accounts each holder of the joint account is entitled to the guaranteed amount. Subject to guarantee are also claims to the bank by virtue of a bank legacy in case of death and for funeral costs of the account holder provided these claims became due and payable before suspension of bank activity.

In the event when the court declares bankruptcy of the bank, the guaranteed amount is paid to the authorized persons. Its upper limit is determined as the PLN equivalent of the legally determined amount expressed in EUR. It also includes interest accrued until the day that bankruptcy of the bank is declared. All the depositor's receivables from the bank (irrespective of type and nominated currency) are summed up and then compensated against the depositor's liabilities towards the bank, thus giving the basis for calculating the depositor's guaranteed funds due.

The guaranteed funds are paid in zloty according to the average exchange rate announced by the National Bank of Poland on the day that the court declares bankruptcy of the bank, whereas:

- PLN equivalent up to 1 000 EUR is paid in 100%,
- PLN equivalent above 1 000 EUR up to 22 500 EUR is paid in 90%.

During the first two years of BGF functioning the upper coverage limit amounted to PLN equivalent of 3 000 ECU, whereupon – as mentioned earlier – it had been systematically increased. Since the year 2003 it is the PLN equivalent of 22 500 EUR, thus fulfilling minimum requirements laid down to the EU member states.

GUARANTEE ACTIVITY IN 2004

In the year 2004, like during two preceding years, no bank went bankrupt. Therefore, guarantee activity of the Fund concentrated on the effecting payment of guaranteed funds to clients of Bank Staropolski SA in Poznań (which had gone bankrupt in the year 2000) and Bank Spółdzielczy in Włodowice (which had gone bankrupt in the year 2001). Payments were made on the ground of supplementary lists presented by trustees. These lists mainly concerned heirs and contained the names of persons who had incurred funeral costs of the account holders who had died before the bank was declared bankrupt.

In 2004 the total assigned funds for payments of guaranteed deposits on the ground of foregoing supplementary lists amounted to 85.76 thousand Euro to 124 depositors of Bank Staropolski SA in Poznań. The funds for effecting these payments came from liquid assets of the bankrupt bank.

In conformity with the Act on the BGF payments of guaranteed funds to depositors are effected by the trustee, after declaration of the bank bankruptcy, at an appointed date. After this date, uncollected funds were returned to the Fund so that they could be collected by depositors within 5 years from the declaration of the bank bankruptcy. In 2004 the Fund Office made payments amounting to 137.95 thousand Euro to 502 depositors of Bank Staropolski SA, who failed to collect the amounts due to them during the period when payments were being effected by the trustee.

As at 31st December, 2004, the total amount of Fund liabilities on account of uncollected guaranteed amounts by 3 269 authorized depositors of two bankrupt banks (2 857 depositors of Bank Staropolski SA and 412 depositors of Bank Spółdzielczy in Włodowice) amounted to 518.58 thousand Euro. The highest uncollected amounts accounted for: 9 997.54 Euro in Bank Staropolski SA and 1 397.09 Euro in Bank Spółdzielczy in Włodowice.

MEANS RECOVERED FROM BANKRUPTCY ESTATES AND THEIR SETTLEMENT

In 2004 the Bank Guarantee Fund recovered the sum of 680.58 thousand Euro from 14 banks on account of claims made to bankruptcy estates of banks in connection with transfers of funds to trustees for payments to depositors during previous years.

In conformity with the Act on the BGF means recovered from bankruptcy estates of banks can be used only for financing consecutive payments of guarantee amounts.

LIMITATION OF DEPOSITORS' CLAIM BY LAPSE OF TIME

Pursuant to the Act on the BGF, claims of depositors in relation to the Fund are liable to limitation after the elapse of 5 years from the date of fulfilling guarantee conditions, i.e. from the date bankruptcy of the bank was declared.

In 2004 the claims of 84 depositors of Savim Bank Depozytowo-Kredytowy SA in Warsaw amounting in total to 4.31 thousand Euro became liable to limitation².

In 2004 the Fund carried out an action of notifying 2 504 depositors of Bank Staropolski SA in Poznań in bankruptcy, who had not yet collected guaranteed funds, about the time of limitation of claims towards the Fund elapsing on 11th February, 2005.

SYSTEM OF ASSISTANCE TO THREATENED BANKS

OBJECTIVES AND PRINCIPLES OF ASSISTANCE ACTIVITY

The basic objective of BGF's assistance activity is to support the restructuring of banks threatened by insolvency, and at the same time to protect depositors against the potential loss of deposits made in those banks. Pursuant to the Act on the BGF assistance may be granted in the form of loans, guarantees or endorsements, as well as in the form of acquiring debts of banks on more favourable conditions than those applied by banks.

The Bank Guarantee Fund conducts its activity in accordance with the following principles:

- observance of bank equality in their access to assistance funds by applying uniform and clear assistance granting criteria and procedures,
- supporting activities aimed at removing the threat of insolvency in banks with participation of strong capital investors,
- inspiring the applicants to look for additional sources of financial support for the fulfilment of rehabilitation programs, beyond the assistance offered from means of BGF,
- ensuring high effectiveness of assistance, among other things by determining in loan agreements specific conditions, the fulfilment of which by banks should contribute to the permanent recovery of solvency. These conditions referred to:
 - rationalization of operating expenses,
 - assigning the entire profit, worked out in result of financial assistance obtained from the Fund, for covering losses,
 - investing the means acquired in result of obtained assistance into safe and profitable financial instruments.

² Bankruptcy of the bank was declared on 13th January, 1999.

In conformity with Article 20 of the Act on the BGF granting financial assistance is only possible after the fulfilment of specific conditions, in particular:

- acceptance by the Fund Management Board of results of financial statement audit of the bank applying for assistance, and in the case of application for assistance for bank takeover, mergers of banks or purchase of shares of another bank – the financial statement audit results of both banks,
- submission by the bank of rehabilitation program together with the positive opinion of the Commission for Banking Supervision, and in the case of bank takeover, merger of banks or purchase of shares of another bank – the positive opinion of the Commission for Banking Supervision on the purposefulness of these activities,
- indication that the amount of the requested loan, guarantee or endorsement is not higher than the total amount of guaranteed funds in that bank, counted as the sum of total guaranteed funds on depositors' accounts, and in the event of an application for granting financial assistance designed for takeover of or merger with another bank – is not higher than the total guaranteed funds on the depositors' accounts in the bank being taken over,
- documentation that the bank's existing capital had been used to cover the losses of the bank applying for assistance or of the bank being taken over.

The Fund Council has determined the principles, forms, conditions and procedure of granting financial assistance to banks covered by the obligatory deposit guarantee scheme and it has specified criteria for solvency assessment.

CONDITIONS OF GRANTING FINANCIAL ASSISTANCE IN 2004

Conditions of granting financial assistance in the form of loans, binding in 2004, were as follows:

- the base for determining interest on loans was the rediscount rate for bills of exchange fixed by the Monetary Policy Council,
- annual interest rate was on the level of 0.1 of the rediscount rate for bills of exchange,
- commission amounted to:
 - 0.3% of the loan amount for commercial banks,
 - 0.1% of the loan for co-operative banks,
- loan period – up to 5 years, whereas in justified cases this period could be extended up to 10 years,
- payment of loan – one-off payment or in tranches,
- interest – accrued and collected at quarterly periods, whereas repayment of capital – at quarterly or half-year periods,
- in particularly justified cases the application of grace period in the repayment of capital was possible.

ASSISTANCE EXTENDED TO BANKS IN 2004

In 2004 the Bank Guarantee Fund granted financial assistance to one bank (Bank Polskiej Spółdzielczości SA), in the form of a returnable loan, in the amount of 110 321.16 thousand Euro. Applications submitted in 2004, as in the previous year, concerned the granting of assistance only in the form of loans. Furthermore, in the case of one bank, which had already received the loan from the Fund, financial assistance was restructured due to the fact that the bank was taking over another bank in danger of insolvency.

In the period at issue 7 co-operative banks and 6 commercial banks fully paid off the loans granted to them during previous years.

ASSISTANCE FUND IN 2004

Disposable funds [thousands Euro]		Payments [thousands Euro]	Use ratio [%]
Total	353 048.0		
this including:		Total	
– as at 01.01.2004	217 778.4	this including:	110 321.2
– contributions of banks and NBP in 2004	45 647.8	– granted	110 321.2
– repayments of loans	89 621.8		31.3

The assistance fund at the end of 2004 amounted to 242 726.8 thousand Euro.

LOANS FROM THE CO-OPERATIVE BANKS RESTRUCTURING FUND

OBJECTIVES AND PRINCIPLES OF GRANTING ASSISTANCE FROM THE CBRF

EBy virtue of the Act on Operation of Co-operative Banks, their Affiliation and Affiliating Banks dated 7th December, 2000, the Bank Guarantee Fund continued its activities consisting of offering financial assistance for merger processes of co-operative banks, that were financed from the co-operative banks restructuring fund established in 2001.

In conformity with this Act, BGF obtained funds amounting to 30 254.89 thousand Euro assigned for the support of merger processes in the sector of co-operative banks and investment undertakings involved with them, in particular for the unification of:

- computer software and hardware,
- banking technology,

- financial-accounting procedures,
- products and bank services offer, as well as for acquiring shares in affiliating bank.

Financial assistance from the co-operative banks restructuring fund is granted exclusively to those co-operative banks, which have merged with other banks, counting from the date specified as 3 years before the Act came into force (i.e. after 28th January, 1998) or have purchased shares in affiliating banks within 3 years from the date that the Act came into effect (i.e. before 28th January, 2004), fulfilling the criterion of solvency and possessing the capacity to pay off the received loans.

CONDITIONS OF GRANTING ASSISTANCE IN 2004

The conditions of granting assistance in support of merger processes and implementation of investments, as well as for purchasing shares in affiliating bank in 2004 have been presented below.

CONDITIONS OF GRANTING FINANCIAL ASSISTANCE FROM THE CO-OPERATIVE BANKS RESTRUCTURING FUND IN 2004

Loan granting conditions	Assistance objective	
	For supporting merger processes and implementation of investments	For purchasing shares in affiliating bank
— annual interest rate on loan	0.1 of rediscount rate on bills of exchange established by the Monetary Policy Council	0.05 of rediscount rate on bills of exchange established by the Monetary Policy Council
— commission	0.1% of loan amount, deducted from the loan amount	
— loan period	maximum 5 years	
— grace period in repayment of capital	maximum 2 years	
— loan payment	one-off payment	
— interest repayment	quarterly	
— capital repayment	in half-yearly instalments	

In 2004 there was a change in loan granting conditions for supporting merger processes, which consisted in extending the loan period from 3 to 5 years and introduction of a grace period in the repayment of capital. The introduced change fulfilled the postulates of the co-operative bank circles. This gave the banks already using assistance, the possibility of presenting applications for extension of the loan period and suspension in the payment of capital instalments.

Whereas assistance for purchasing shares in the affiliating bank was granted in 2004 on the same conditions as in 2003.

CO-OPERATIVE BANKS RESTRUCTURING FUND IN 2004

Disposable funds [thousands Euro]	Payments [thousands Euro]	Use ratio [%]
Total this includes: – as at 01.01.2004 – repayment of loans	Total this includes: – granted aid	82.4
20 888.0 10 932.4 9 955.6	17 207.8 17 207.8	

The co-operative banks restructuring fund at the end of 2004 amounted to 3 680.2 thousand Euro.

LOANS GRANTED IN 2004

In 2004 41 banks submitted applications for granting of financial assistance from the co-operative banks restructuring fund for the total sum of 19 606.3 thousand Euro. Taking into account the verification of costs and outlays as well as the fact that on the turn of 2003 a part of the applications were already in the consideration phase, by the end of 2004 the Fund Management Board passed resolutions on granting 60 loans in the total sum of 17 207.8 thousand Euro, this including:

- 27 loans for the support of merger processes and implementation of investments – the sum of 13 349.6 thousand Euro,
- 13 loans to banks already using financial assistance granted in previous years, in connection with additional outlays being incurred by them on investments not included in earlier applications – the sum of 2 976.5 thousand Euro,
- 20 loans for the purchase of shares of affiliating banks in the sum of 881.8 thousand Euro.

ALLOCATION OF LOANS FROM THE CO-OPERATIVE BANKS RESTRUCTURING FUND (IN %) IN 2004



The assistance funds granted for the support of merger processes were allocated to:

- unification of computer software and hardware 17 206.5 thousand Euro
- unification of banking technology 5 074.3 thousand Euro
- unification of financial and accounting procedures 1 244.0 thousand Euro
- unification of product and bank services offer 290.6 thousand Euro
- investments involved with consolidation processes³ 31 051.0 thousand Euro

Furthermore, in 2004 – in the presence of 23 applications from banks using BGF's assistance from the co-operative banks restructuring fund – the Fund extended the assistance period and applied a grace period in the repayment of capital. Introduction of the grace period caused a periodical decrease in principal repayment amounts that supplied the co-operative banks restructuring fund.

In 2004, 56 co-operative banks fully paid off the loans granted to them in previous years, in the total amount of 18 968.9 thousand Euro.

In conformity with the resolution of the BGF Council, banks applying for a loan in support of merger processes submitted a projection of their economic and financial situation during the assistance period and documents confirming incurred or planned costs/outlays involved with merger processes. In the case of applications for granting financial assistance for the purchase of shares of the affiliating bank, apart from financial forecasts, the applicants had to submit documents confirming the purchase of shares.

On the ground of established uniform criteria, the Fund assessed solvency of the banks' and their capacity to pay off the loan along with interest. Furthermore, with reference to applications for loans designed for merger processes a conformity analysis was made of incurred or planned costs and outlays with objectives specified in the Act on Operation of Co-operative Banks, their Affiliation and Affiliating Banks.

CONTROLLING USE OF BGF FINANCIAL ASSISTANCE

DIRECT BANK INSPECTIONS

In 2004 39 direct inspections were carried out in banks that had received financial assistance from BGF.

DIRECT INSPECTIONS IN 2004 IN BANKS THAT RECEIVED FINANCIAL ASSISTANCE FROM BGF

Number of inspections	Banks that received assistance		
	from assistance fund	from co-operative banks restructuring fund	from both funds
Commercial banks	4	—	—
Co-operative banks	2	31	2
Total	6	31	2

³ They included construction, reconstruction and modernization of bank branches.

SCOPE OF CARRIED OUT INSPECTIONS

The scope of direct inspections in banks that received loans from the assistance fund included assessment of:

- conformity of the use of assistance funds with statutory objectives and objectives specified in loan agreements,
- effectiveness of the use of assistance funds,
- implementation of rehabilitation program or restructuring program in taken over banks,
- economic and financial situation of banks, including the tendency of basic economic indices as compared with the co-operative or commercial banks sector averages,
- fulfilment of obligations resulting from loan agreements.

In banks that received loans from the co-operative banks restructuring fund inspections referred to the assessment of:

- conformity of the use of assistance funds with the Act on Operation of Co-operative Banks, their Affiliation and Affiliating Banks,
- bank solvency,
- capacity to repay loans,
- fulfilment of financial forecasts presented by banks during the loan application phase,
- fulfilment of obligations resulting from loan agreements.

Furthermore, the effectiveness of conducted consolidation processes was analysed in these banks.

In all inspected banks also carried out was the assessment of the:

- functioning of management information systems,
- organization and efficiency of internal control functioning,
- provisions contained in by-laws and basic internal regulations and their conformity with binding regulations of the law,
- fulfilment of the obligation resulting from Article 26 of the Act on the BGF in the scope of investing assets covering the fund for protection of guaranteed deposits,
- fulfilment of provisions contained in Article 111 of the Banking Act and Article 38b of the Act on the BGF, i.e.:
 - obligation to inform bank clients on its economic and financial situation,
 - obligation to inform clients on participation of the bank in the deposit guarantee scheme and principles of its functioning.

INSPECTION RESULTS

It was found that in all inspected banks that had received loans from the assistance fund, the granted funds were used and protected in conformity with provisions included in the loan agreements. In the majority of cases positive results of implementing rehabilitation programs were noted.

In the case of banks that had received loans from the co-operative banks restructuring fund no reservation was made as to the method of using the loans and no danger was noted in the repayment of liabilities to the Fund.

Conclusions from direct inspections allowed to state that the conducted consolidation processes enabled banks to:

- fulfil the criteria specified in Article 172 of the Banking Act in the area of capital requirements,
- increase their functioning safety, including modernization of applied IT systems,
- extend their business scale and product offer,
- improve working and customer service conditions.

Problems identified during the course of inspections were reflected in recommendations formulated after inspections. They mainly referred to the necessity of limiting credit risk, increase in discipline of incurred costs and improvement of operational effectiveness. Attention was also paid to the necessity of adjusting internal regulations to binding provisions of the law and to the real conditions existing after the consolidation process had been completed. Conclusions were also formulated as to the improvement of the quality of bank management and to the increase in the level of effectiveness in the functioning of internal control.

During conducted direct inspections it was also found that all the inspected banks:

- had been observing the provisions of Article 26 of the Act on the BGF in the scope of investing assets covering the fund for protection of guaranteed deposits,
- fulfil the obligations resulting from Article 38b of the Act on the BGF and Article 111 Banking Act in the area of customer information and availability of specified information concerning the bank to customers.

PERFORMING THE FUNCTION OF CURATOR

The Bank Guarantee Fund, by virtue of the decision taken by the Commission for Banking Supervision, performed in 2004 the function of curator supervising the implementation of rehabilitation programs in 4 co-operative banks and 1 commercial bank that had received financial assistance from BGF.

In 2004 co-operative banks, in which the Fund acted as curator, repaid the loans and on request of the Fund Management Board, the Commission for Banking Supervision recalled BGF from the function of curator supervising implementation of rehabilitation programs by those banks.

SYSTEM OF GATHERING AND ANALYSING INFORMATION ON BANKS

MONITORING THE SITUATION OF BANKS THAT RECEIVED FINANCIAL ASSISTANCE FROM BGF

At the end of 2004 the monitoring system covered 596 co-operative banks and 57 commercial banks.

Among all monitored banks 105 banks had received financial assistance from the Bank Guarantee Fund.

NUMBER OF MONITORED BANKS IN 2004 THAT RECEIVED FINANCIAL ASSISTANCE FROM BGF

Number of monitored banks	Receiving assistance		
	from assistance fund	from co-operative banks restructuring fund	from both funds
Commercial banks	17	—	—
Co-operative banks	4	82	2
Total	21	82	2

Monitoring of banks that had received loans from the assistance fund included assessment of:

- economic and financial situation,
- implementation of rehabilitation programs,
- risk involved with loans granted to banks.

Monitoring of banks using the co-operative banks restructuring fund referred to the assessment of:

- financial forecast fulfilment,
- solvency,
- capacity to repay the loan,
- expediency of using the loans – in those banks which received assistance for financing planned outlays,
- conformity of resolutions of meetings of representatives on the distribution of balance sheet surplus with the tenor of Article 36 Paragraph 2 of the Act on Operation of Co-operative Banks, their Affiliation and Affiliating Banks, as well as obligations resulting from loan agreements.

In the case of threats or irregularities identification in the fulfilment by banks of obligations resulting from loan agreements recommendations were made as to the corrective actions to be taken up by management boards. Also organized were meetings with bank representatives with the purpose of discussing their economic and financial situation.

Some banks had put forward proposals to update rehabilitation programs and restructuring or merger programs. In 2004 analysis and assessment were made of proposed program changes presented by 9 banks that had received loans granted from the assistance fund. When making the assessment, the Fund examined the practicability of basic objectives of the reform processes being achieved on the ground of assumptions adopted by the banks and participation of owners in their implementation. Analysis results and Fund opinions on the submitted proposals were passed to the banks and the General Inspectorate of Banking Supervision.

The Fund also carried out an analysis of financial forecast corrections presented by 31 banks that had received loans from the co-operative banks restructuring fund. The main reason for the forecast update was the necessity of verifying macroeconomic assumptions accepted in the application phase of the loan.

No solvency threat was found in any of banks using assistance from the co-operative banks restructuring fund.

SOURCES OF INFORMATION ON BANKS

The basic source of information on banks are their financial reports, which the Bank Guarantee Fund receives from the National Bank of Poland by virtue of the Act on the BGF and agreement with NBP, concluded on 27th May, 1997. The banks using financial assistance from BGF – in conformity with the loan agreements – send their financial statements directly to the Fund. In 2004 works were taken up to amend the agreement between BGF and NBP⁴.

Information provided to the Fund directly by banks on the ground of Order No. 19/2002 of the NBP President dated 11th December, 2002 on the scope on information supplied by banks to the Bank Guarantee Fund⁵ is yet another source of information. It is supplemented by qualitative information obtained by BGF.

ASSESSMENT OF THE SITUATION IN THE BANKING SECTOR

Bank quantitative and qualitative data are used by the Bank Guarantee Fund to monitor and analyse the situation in the banking sector, separately for the sector of commercial

⁴ On 31st January 2005 a new agreement was signed between BGF and NBP on exchange of information.

⁵ Amendment of the Act is anticipated in 2005.

banks and co-operative banks, as well as in particular banks. The basic objective of these works is to establish if there is any threat to solvency of specific banks, which would require the Fund and other institutions within the framework of financial safety net to take up special measures.

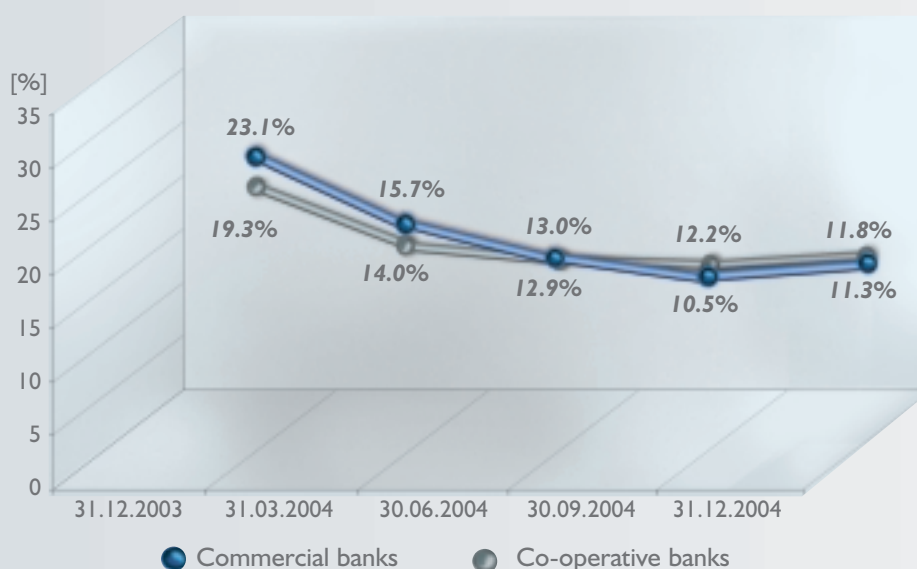
BGF has worked out its own methodology of assessing the situation of banks and generated risk to the safety of deposits accumulated in them. On the basis of analysis of indicators in all areas of bank activity and supplementing it with qualitative information, the banks receive individual appraisal (so called rating). Depending on the rating, banks are qualified to groups of high, average or low degree of risk to the safety of deposits. This is how the so called risk matrix (map) is formed, which supplies quick information on the situation of every bank and the level of risk generated in the banking sector. Banks, assessed as having a high risk of insolvency, are subject to profound assessment, aimed at identifying the source of generated risk.

Analysis of data contained in all bank reports allows to assess the safety of the whole banking sector. A synthetic result of this appraisal is presented in the form of the so called risk index⁶. Changes in index level reflect changes in appraisal of sector safety.

Changes of situation in the banking sector are also monitored by observing the positions of banks in the risk matrix during consecutive reporting periods (so called migration matrix).

During 2004 both the index and the direction of bank migration in the matrix have undergone improvement, i.e. the majority of banks moved from higher risk groups to groups with lower risk. Diagram presents index levels in the sector of commercial banks and co-operative banks in quarterly cycles from the end of 2003 till the end of 2004.

RISK INDEX IN COMMERCIAL AND CO-OPERATIVE BANK SECTORS DURING THE PERIOD DECEMBER 2003 – DECEMBER 2004



⁶ The risk index presents the total standardized appraisal of effectiveness, solvency, quality of assets and quality of furnished off-balance sheet liabilities, weighed by share of each bank in the banking sector deposits. The risk index is calculated separately for commercial and co-operative banks. It is presented in a scale from 0 (no risk) to 100% (maximum risk).

During the year 2004, the situation in the commercial banking sector definitely improved. In December 2003 the risk index exceeded 15%, being the upper limit of the low risk level. At the end of 2004 the index level dropped to slightly above 11%.

Similar tendencies could be observed in the sector of co-operative banks. At the end of 2003 and in the first quarter of 2004 the situation of co-operative banks was better than those of commercial banks. In the middle and at the end of the year the index levels in both sectors were almost equal, showing a low degree of risk.

Making use of conclusions obtained from analyses of the situation in the banking sector, the Fund prepared a forecast of the amount and structure of deposits, risk-weighted assets and off-balance sheet liabilities in the banking sector and the value of BGF guarantee obligations. On the basis of this forecast the Fund began working on a strategy of long-term accumulation of financial assets, assuming their relation to BGF guarantee obligations resulting from the amount of deposits in the banking sector, simultaneously taking into consideration the low level of bank encumbrance with the cost of financing the guarantee scheme. This is the type of policy followed by deposit guarantee schemes, among others, in some European countries and in the United States.

On the basis of presented analyses and appraisals the BGF Council set the rates for establishing by banks funds for protection of guaranteed deposits and the annual contribution in 2005.

CO-OPERATION WITH NATIONAL INSTITUTIONS

In the second half of 2004, as in previous years, a meeting of banking circles was organized with the participation of representatives from the Polish Bank Association and the National Association of Co-operative Banks on the matter of planned rates for establishing funds for protection of guaranteed deposits by banks and the rates of obligatory annual contributions in 2005.

Employees of the Bank Guarantee Fund prepared remarks and participated in many conferences of bills and administrative (executive) acts referring, among other things, to the EU Guarantee Fund, Act on Public Trading in Securities and Act on Investment Funds.

Moreover, the Ministry of Finance received the Fund's opinion on the range of preparations for the review of the European Parliament and Council Directive 94/19/EC of 30th May, 1994, on deposit guarantee schemes.

INTERNATIONAL CO-OPERATION

In 2004 Fund representatives actively participated in conferences and meetings organized by two international organizations associating deposit guarantee institutions – European Forum of Deposit Insurers (EFDI) and International Association of Deposit Insurers (IADI).

The subject matter of these meetings pertained to the following issues:

- guarantee of deposits as an element stabilizing the banking sector;
- role of the deposit guarantee institution in the financial safety net and aspects of cross-border bank activity;
- change in the organization form of European Forum of Deposit Insurers;
- potential influence of the New Capital Agreement, so called Basle II, on deposit insurers and the banking sector.

In 2004 a seminar was held in the Fund headquarters with participation of representatives from the Ukrainian banking sector (among others, central bank president, president of the Association of Ukrainian Banks and Chairman of the Deposit Guarantee Fund) dedicated to BGF experience in stabilizing the situation of the Polish banking sector.

The Fund headquarters were also visited by a delegation from Vietnam, consisting of representatives of the Vietnamese Guarantee Fund, Ministry of Finance and National Bank of Vietnam. The aim of the visit was to get acquainted with the Polish deposit guarantee scheme, and in particular with the methods of eliminating the threat of bank insolvency.

In the reporting period employees of the Bank Guarantee Fund also maintained contact with European deposit insurance institutions, among others, in Italy, Hungary, Cyprus, Sweden and Albania.

INFORMATION AND PROMOTION ACTIVITY

In 2004, as in previous years:

- information folders on the deposit guarantee scheme and activity of the Bank Guarantee Fund were printed and sent to all banks operating in Poland,
- *the Annual BGF Report for 2003*, sent to banks operating in Poland and to foreign deposit insurers (the Report was drawn up in two language versions – Polish and English), was prepared and published.

During the reporting period, preparations had been started to celebrate the 10th anniversary of BGF, within the framework of which:

- a special formal meeting of banking circles was organized (together with the Polish Bank Association) on that occasion;

- a book publication entitled *Deposit guarantee schemes in Poland and the world. Ten years of the Bank Guarantee Fund* was prepared;
- a special commemorative medal was made.

Clients of Bank Staropolski SA were notified of the time of limitation of claims towards the Fund elapsing in February 2005.

BANK GUARANTEE FUND AUTHORITIES

COMPOSITION OF FUND AUTHORITIES

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The statutory authorities of the Bank Guarantee Fund are: the Council (consisting of 11 persons) and the Management Board (5 persons).

In 2004 the Council consisted of the following persons:

Chairman of the Council:	WŁADYSŁAW BAKA
Council Members:	BARTOSZ DRABIKOWSKI (since 9th February 2004)
	JANUSZ CZARZASTY
	WOJCIECH KWAŚNIAK
	PRZEMYSŁAW MORYSIK (until 9th February 2004)
	JACEK OSIŃSKI
	STANISŁAW OWSIAK (until 18th February 2004)
	RYSZARD PAZURA
	KRZYSZTOF PIETRASZKIEWICZ
	JAN SZAMBELAŃCZYK
	EWA ŚLESZYŃSKA-CHAREWICZ
	ANDRZEJ WIŚNIEWSKI
	GRZEGORZ WÓJTOWICZ (since 18th February 2004)

Until 19th April, 2004, the Management Board of 3rd term of office consisted of the following members:

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

Since 20th April, 2004, the Management Board of 4th term of office, consists of the following persons:

President of the Management Board:	EWA KAWECKA-WŁODARCZAK
Vice-President of the Management Board:	HANNA KRAJEWSKA
Members of the Management Board:	MARIA PAWELSKA
	JERZY W. PIETREWICZ
	MAREK PYŁA

ORGANIZATION OF FUND OFFICE

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The Bank Guarantee Fund fulfils its statutory tasks through the Office, in the structure of which seven departments, internal auditing and Fund Council Secretariat have been singled out.

Particular organization units perform the following tasks:

- **Guarantee Department** performs tasks directly related with the guarantee of deposits in banks, making claims in connection with transfers of funds to trustees for the payment of deposits to customers of bankrupt banks and with international co-operation;
- **Assistance Department** performs tasks related with the granting of financial assistance to banks threatened by insolvency (from the assistance fund) and granting loans from the co-operative banks restructuring fund;
- **Analysis Department** gathers and analyses information on the current situation of banks, prepares assessments and development forecasts of their situation in future and performs tasks connected with monitoring the situation of banks that have been granted assistance by the Fund;
- **Control Department** performs tasks connected with controlling the standing of those banks, which received aid from the Fund, and with performing the function of curator;
- **Finance 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 in other adjudging organs;
- **Organization Department** provides organizational services to the Management Board and Fund Office, conducts affairs connected with the employment of workers, work organization, administrative services and is responsible for the technical, information and material infrastructure of the Office;
- **Internal Auditing** performs tasks connected with examining the operating correctness and conformability of Fund Office organization units with the law and internal regulations;
- **Council Secretariat** conducts substantial, organizational and technical services for the Fund Council in its performance of statutory tasks.

Furthermore, there are five permanent intra-departmental committees and groups:

- **Assets Management Committee** creates and supervises the investment policy of free financial resources of the Fund;
- **Committee for Assistance Applications Assessment** whose task is to issue opinions on applications prepared by the Assistance Department for granting financial assistance to banks from the assistance fund and loans from the co-operative banks restructuring fund;
- **Management Information System Group** – prepares, monitors and ensures efficient functioning of the system transmitting information between organization units, crucial to Fund activity;

- **International Co-operation Group** – co-ordinates co-operation with foreign deposit insurance institutions;
- **Website Editing Group** – which provides proper functioning of the Fund's website.

EMPLOYMENT

*I*n 1st quarter of 2004 the Bank Guarantee Fund employed 94 persons (including Management Board Members), whereas at the end of the year – 91 persons (2 of which were on child-care leave).

74 persons, i.e. 81.3% of the employed staff, had higher education. The average age of employees is 43 years.

10 YEARS OF BGF ACTIVITY – FIGURES SYNTHESIS AND CALENDAR

LEVEL OF COVERAGE IN THE YEARS 1995–2004

Level of coverage	In Euro
until 30.06.1997	3 000
until 31.12.1997	4 000
until 31.12.1998	5 000
until 31.12.1999	8 000
until 31.12.2000	11 000
until 31.12.2001	15 000
until 31.12.2002	18 000
since 01.01.2003	22 500

FUNDS FOR PROTECTION OF GUARANTEED DEPOSITS IN THE YEARS 1995–2004

Year	The rate of fpgd in %		fpgd in millions Euro **
	All banks (with the exclusion of PKO bp*, Pekao SA, BGŻ SA)	PKO bp, Pekao SA and BGŻ SA	
1995	0.40	0.20	55.3
1996	0.40	0.20	77.7
1997	0.18	0.12	48.7
1998	0.10	0.05	31.4
1999	0.16	0.08	66.6
2000	0.40		245.0
2001	0.30		214.7
2002	0.40		305.3
2003	0.40		310.0
2004	0.25		202.6

* Since 12th April 2000 as PKO BP SA.

** After update of funds.

BANKRUPTCIES OF BANKS IN THE YEARS 1995*–2004

Year	Commercial banks	Co-operative banks
1995	2	48
1996	1	30
1997	0	6
1998	0	4
1999	1	0
2000	1	0
2001	0	1
2002	0	0
2003	0	0
2004	0	0

* Since 17th February.

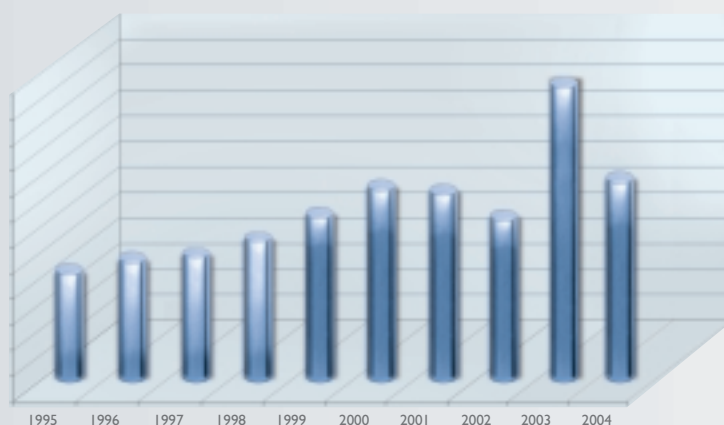
PAYMENT OF GUARANTEED FUNDS IN THE YEARS
1995–2004

Year	Payments of guaranteed funds in millions Euro		Degree of use of fpgd in %	Number of depositors in thousands
	total	including fpgd		
1995	25.7	21.1	38.0	89.90
1996	12.5	11.6	14.9	59.40
1997	1.6	1.2	2.4	10.40
1998	2.0	1.0	3.2	6.80
1999	1.2	0.0	0.0	1.60
2000	153.5	118.7	48.4	147.70
2001	3.1	0.0	0.0	2.70
2002	0.02	0.0	0.0	0.05
2003	0.02	0.0	0.0	0.03
2004	0.1	0.0	0.0	0.12
Total	199.7	153.6	0.0	318.70

ASSISTANCE FUND IN THE YEARS 1995–2004

Year	The rate of annual contributions in %		Bank contributions (1)	Contributions NBP (2)	Total contributions (1) + (2)	Repayment of loans
	All banks (with the exclusion of PKO bp, Pekao SA, BGZ SA)	PKO bp, Pekao SA, BGZ SA	in thousands Euro			
1995	0.40	0.20	42 598.87	0.00	42 598.87	0.00
1996	0.40	0.20	56 397.60	0.00	56 397.60	0.00
1997	0.40	0.20	64 046.88	0.00	64 046.88	0.00
1998	0.28	0.14	51 368.18	22 014.51	73 382.69	945.89
1999	0.24	0.12	49 862.13	33 240.76	83 102.89	11 317.61
2000	0.23	0.23	63 380.44	42 253.63	105 634.07	17 509.96
2001	0.14	0.14	38 875.87	38 875.87	77 751.74	40 820.20
2002	0.08	0.08	23 421.77	23 421.77	46 843.54	44 197.07
2003	0.10	0.10	30 056.49	30 056.49	60 112.98	158 627.54
2004	0.075	0.075	22 824.57	22 823.06	45 647.63	89 621.83

The supply level of the assistance fund in the years 1995–2004, consisting of: bank contributions, NBP contributions and paid off loans has been presented in the following diagram.



LOANS FROM THE ASSISTANCE FUND IN THE YEARS 1995–2004

Year	Number of loans granted by BGF	Amount of loans granted by BGF (in thousands Euro)	Amount of guaranteed funds in banks (in thousands Euro)	Difference between the amount of guaranteed funds and amount of granted assistance (in thousands Euro)	Amount of deposits not covered by BGF guarantees (in thousands Euro)
1996	9	31 674.43	39 789.16	8 114.73	69 208.14
1997	28	84 260.84	318 019.12	233 758.27	203 039.96
1998	17	53 714.15	2 017 357.20	1 963 643.05	682 397.65
1999	11	69 649.42	329 443.49	259 794.07	343 196.86
2000	6	50 330.96	74 797.74	24 466.78	65 040.45
2001	6	183 623.44	12 080 362.83	11 896 739.40	2 738 609.95
2002	5	32 557.00	40 867.86	8 310.86	15 248.84
2003	14	184 113.75	184 383.43	269.67	29 796.52
2004	1	110 321.16	137 067.90	26 746.75	1 037 121.84
Total	97	800 245.15	15 222 088.73	14 421 843.58	5 183 660.21

LOANS FROM THE CO-OPERATIVE BANKS RESTRUCTURING FUND

From 2001 until 31st December, 2004, the Fund has granted 161 loans in total amount of 52 362.22 thousand Euro, including:

- 50 808.04 thousand Euro for financing of merger processes,
- 1 554.18 thousand Euro for purchasing shares in the affiliating bank.

CALENDAR

YEAR 1994

1

- 14th December – the Sejm (Parliament) passes a bill on the Bank Guarantee Fund.

YEAR 1995

1

- 17th February – regulations of the Act on the BGF, defining the functioning principles of the bank deposit guarantee scheme in Poland, come into force. The participation of banks in this scheme has become obligatory, irrespective of the forms of their ownership. The guaranteed amount was: 100% of the PLN equivalent up to 1 000 ECU and 90% of the PLN equivalent of the deposit over 1 000 ECU up to 3 000 ECU. Till the end of 1999 the State Treasury was still kept responsible in relation to three banks (PKO bp, Pekao SA and BGŻ SA) for that part of the deposits, the value of which exceeded the sum guaranteed by BGF. Until the end of 1999 the foregoing banks had to apply a lower by half interest rate, according to which they established funds for protection of guaranteed deposits and paid contributions at half – rates established for other banks,
- 28th February – the Council of Ministers passes an order on granting a bylaws to BGF. Publication of this document on 6th March, 1995, made it possible to start practical organization activities of the new institution. The first headquarters of the Fund were located in premises hired in the “Universal” building next to the crossing of Marszałkowska Street and Aleje Jerozolimskie. Work was carried out on office equipment and computers lent for use by the Ministry of Finance, NBP, banks and the Polish Bank Association.
- 27th March – the Prime Minister, on the agreed request of the Minister of Finance and the President of the National Bank of Poland, appointed Władysław Baka, Prof. Ph.D. to the post of Chairman of the Fund Council,
- 7th April – the Minister of Finance issued an order on establishing a bylaws of the Bank Guarantee Fund Council,
- 7th April – opening meeting of the Fund Council (consisting of: Władysław Baka, Katarzyna Borowska, Krystyna Góral, Marek Grzybowski, Władysław Jaworski, Stanisław Kasiewicz, Barbara Kowalska, Marek Safjan, Jan Szambelańczyk, Tadeusz Żywczak),
- 19th April – the BGF Council consisting of all its members passes Resolution No.1 on appointing five members of the Management Board, selected in contest (Bożena Chełmińska, Andrzej Jankowski, Ewa Kawecka-Włodarczak, Hanna Krajewska, Maria Pawelska), appointing to the post of President of the Management Board – Ewa Kawecka-Włodarczak, and as Vice-President of the Management Board – Hanna Krajewska,
- within 14 days from the date of establishing the Management Board, NBP and the Minister of Finance provided the Fund with financial means by paying in its favour 12.26 million Euro each, thereby establishing its statutory fund,
- 27th April – resolution of the Fund Council on setting the rate per cent of the annual obligatory contributions to BGF,
- 27th April – resolution of the Fund Council on setting the rate per cent for establishing the fund for protection of guaranteed deposits,
- 15th May – the Fund Management Board accepts the first resolutions determining the procedures connected with payment of guaranteed funds,
- May – issue of the first number of the Bank Guarantee Fund Bulletin,

- 20th June – the first resolution of the Fund Management Board on transferring funds for the payment of guaranteed deposits to the trustee of the bankruptcy estate of Bank Spółdzielczy in Chęciny (voivodship of Kielce),
- 5th July – Order of the President of National Bank of Poland on specific accounting principles of BGF,
- 28th September – the Fund Council passes a resolution on determining the principles and forms of granting assistance to entities covered by the deposit guarantee scheme. This way a formal basis is formed for granting repayable financial assistance to banks threatened by insolvency,
- before the end of the year (counting from 17th February, 1995) courts have declared the bankruptcy of 48 co-operative banks and 2 commercial banks in the form of joint stock companies – the sum of 25.74 million Euro of guaranteed amounts was paid to 89.9 thousand depositors,
- 29th December – the first resolution of the Management Board on granting a loan from the assistance fund for the takeover of a bank threatened by bankruptcy.

YEAR 1996

- 1**
- December – the Council of Ministers conveyed to the Sejm of the Republic of Poland an amendment draft of the BGF bill and the Banking Act,
 - during the year:
 - repayable financial assistance was granted to 9 banks for the total sum of 31 674 thousand Euro,
 - courts declared bankruptcy of 30 co-operative banks and 1 commercial bank,
 - the sum of 12.45 million Euro for the guaranteed amounts was paid to 59.4 thousand depositors.

YEAR 1997

- 2**
- 20th February – amendment of the Act on the BGF – modification of some of the basic Fund tasks and a wider formulation of conditions for granting assistance, increasing the level of coverage, and also the more precise definition of such terms as: depositor, registered account and risk weighted assets,
 - 27th May – signing of agreement with the National Bank of Poland on receiving by the Fund reports drawn up by banks, through NBP,
 - from 1st July to 31st December – the level of coverage is up to 4 thousand Euro,
 - November – resolution of the Fund Council on the determination of principles, forms, conditions and procedure of granting repayable financial assistance to entities covered by the deposit guarantee scheme,
 - November – the first number of the periodical “Bezpieczny Bank” (“Safe Bank”) appears, issued by BGF and dedicated to the problems of deposit guarantee and financial safety of banks,
 - during the whole year:
 - repayable financial assistance was granted to 28 banks for the total sum of 84 260.84 thousand Euro,
 - courts declared bankruptcy of 6 co-operative banks – paying 1.56 million Euro of the guaranteed amounts to 10.4 thousand depositors.

YEAR 1998

- A** – as from 1st January – the level of coverage increases to 5 thousand Euro,
- 12th March – appointing the Management Board of 2nd term (composed of: Ewa Kawecka-Włodarczyk – President of the Management Board, Hanna Krajewska – Vice-President of the Management Board, Members: Andrzej Jankowski, Louis Montmory, Maria Pawelska),
 - 3rd June – amendment of the Minister's of Finance Order on regulations of the BGF Council,
 - in the course of the whole year:
 - repayable financial assistance was granted to 17 banks for the total sum of 53 714.15 thousand Euro,
 - courts declared bankruptcy of 4 co-operative banks – 2 million Euro of the guaranteed amounts was paid to 6.8 thousand depositors.

YEAR 1999

- A** – as from 1st January – the level of coverage is increased to 8 thousand Euro,
- 9th April – change of the Act on the BGF – correlating certain entries with the Banking Act in effect since 1st January, 1998, and further adjustment to the regulations and legal standards binding in the European Union,
 - April – appointing the Fund Council of 2nd term consisting of: Marek Grzybowski – Chairman, Tomasz Dybowski, Stanisław Kasiewicz, Barbara Kowalska, Przemysław Morysiak, Krzysztof Pietraszkiewicz, Jan Szambelańczyk, Ewa Śleszyńska-Charewicz, Andrzej Wiśniewski, Tadeusz Żywczak,
 - 22nd September – Order of the Council of Ministers on the trading by BGF in debts acquired from banks threatened by insolvency,
 - 25th October – Order of the Minister of Finance on detailed accounting principles of BGF,
 - during the course of the whole year:
 - repayable financial assistance was granted to 11 banks for the total sum of 69 649.42 thousand Euro,
 - the court declared bankruptcy of 1 commercial bank – the sum of 1.15 million Euro of guaranteed amounts was paid to 1.6 thousand depositors.

YEAR 2000

- A** – as from 1st January – the level of coverage is increased to 11 thousand Euro,
- 19th January – signing of agreement on the purchase of a building in 4, ks. Ignacego Jana Skorupki Street in Warsaw. This closes the several years' search for a suitable building for Fund headquarters, thus allowing to considerably cut down on the Office functioning costs and create a modern data base ensuring security of stored information,
 - February – the District Court of Poznań declares the bankruptcy of Bank Staropolski SA. Here starts the biggest organizational undertaking in the history of the Fund connected with the payment of guaranteed sums amounting to 153.47 million Euro to 147.7 thousand citizens,

- 7th December – pursuant to the Act on Operation of Co-operative Banks, their Affiliation and Affiliating Banks, new tasks were imposed on BGF – they were connected with granting to co-operative banks financial assistance designed for supporting merger processes – establishment of the co-operative banks restructuring fund in the sum of 30 248.29 thousand Euro,
- 15th December – further amendment of the BGF Act closing the adaptation process of the Polish deposit guarantee scheme to European Union requirements,
- during the course of the whole year repayable financial assistance was granted to 6 banks in the total sum of 50 330.96 thousand Euro.

YEAR 2001

- as from 1st January – the level of coverage increases to 15 thousand Euro,
- 22nd March – appointing of the Management Board of 3rd term, composed of: Ewa Kawecka-Włodarczak – President of the Management Board, Hanna Krajewska – Vice-President of the Management Board, Members: Andrzej Jankowski, Maria Pawelska, Marek Pyła (since 8th May),
- 8th May – resolution of the Fund Council on determining the forms, procedure and detailed conditions for granting financial assistance to co-operative banks from the co-operative banks restructuring fund,
- during the course of the whole year:
 - repayable financial assistance was granted to 6 banks in the total amount of 183 623.44 thousand Euro,
 - the court declared bankruptcy of 1 co-operative bank – 3.06 million Euro of the guaranteed amounts was paid to 2.7 thousand depositors,
 - 66 loans were granted from the co-operative banks restructuring fund for the sum of 18.21 million Euro.

YEAR 2002

- as from 1st January – the level of coverage is increased to 18 thousand Euro,
- June – the Fund Council accepts the bill amendment on the principles and forms of granting assistance to entities covered by the deposit guarantee scheme; the criteria for assessing the threat of bank insolvency was specified in greater detail,
- 11th December – order of the President of NBP on the scope of information conveyed to BGF by banks,
- during the course of the whole year:
 - repayable financial assistance was granted to 5 banks for the total sum of 32 557 thousand Euro,
 - 18 loans were granted from the co-operative banks' restructuring fund for the sum of 7.21 million Euro.

YEAR 2003

A

- as from 1st January the level of coverage complied with the regulations of the European Union comes into force; it equals 100% of the sums under 1000 Euro and 90% in excess of 1000 Euro up to 22.5 thousand Euro,
- June – appointing of the Fund Council of 3rd term composed of the following persons: Władysław Baka – Chairman, Janusz Czarzasty, Wojciech Kwaśniak, Przemysław Morysiak, Jacek Osiński, Stanisław Owsiak, Ryszard Pazura, Krzysztof Pietraszkiewicz, Jan Szambelańczyk, Ewa Śleszyńska-Charewicz, Andrzej Wiśniewski,
- 27th June – amendment of the bill on Operation of Co-operative Banks, their Affiliation and Affiliating Banks – liberalization of regulations on the management of balance sheet surplus by co-operative banks, which has had favourable impact on rousing interest in the use of this form of BGF assistance,
- 4th September – Order of the Minister of Justice on suspension of payment of guaranteed funds, when penal proceedings are being conducted against the depositor,
- December – amendment of regulations determining the conditions of assistance granted from the co-operative banks restructuring fund. This was the fulfilment of postulates of co-operative bank circles presented during the 13th General Meeting of Members of the National Association of Co-operative Banks,
- during the course of the whole year:
 - repayable financial assistance was granted to 14 banks for the total amount of 184 113.75 thousand Euro,
 - 30 loans were granted from the co-operative banks restructuring fund amounting to 9.71 million Euro.

YEAR 2004

2

- 20th April – the Fund Management Board of 4th term starts its activity. It consists of: Ewa Kawecka-Włodarczyk – President of the Management Board, Hanna Krajewska – Vice-President of the Management Board, Members: Maria Pawelska, Jerzy Witold Pietrewicz, Marek Pyła,
- financial assistance was granted to 1 bank in the sum of 110 321.16 thousand Euro,
- 47 loans were granted from the co-operative banks restructuring fund for the sum of 14.24 million Euro.

During the years 1995–2004:

- 97 loans were granted for the sum of 800 245.15 thousand Euro,
 - 199.7 million Euro was paid to 317.5 thousand clients of bankrupt banks, this includes 153.6 million Euro from the co-operative banks restructuring fund.
- From 1st January 2001 until 31st December, 2004, the Fund granted 161 loans from the co-operative banks restructuring fund for the sum of 52 362.22 thousand Euro.



Bankowy Fundusz Gwarancyjny

FINANCIAL STATEMENT



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Opinion of Independent Chartered Accountant on Abbreviated Financial Report for the Seym of the Republic of Poland, Council of Ministers, Fund Council and Management Board of the Bank Guarantee Fund

The enclosed abbreviated Financial Statement of the Bank Guarantee Fund with seat in Warszawa ul. ks. Ignacego Jana Skorupki 4 (hereinafter referred to as the "Fund") was drawn up by the Fund Management Board on the grounds of the audited full Annual Financial Statement of the Fund for the business years starting on 1st January and ending on 31st December, 2004 ("Financial Statement of the Fund"). The Financial Statement of the Fund was drawn up in conformity with the Accountancy Act of 29th September, 1994 (Official Laws Gazette from 2002, No. 76 with successive amendments).

The audit of Financial Statement of the Bank Guarantee Fund, which formed the grounds for preparing the abbreviated Financial Statement, was carried out in conformity with standards laid down for performing the profession of chartered accountant issued by the National Board of Chartered Accountants in Poland. On 3rd March, 2005, we issued an unreserved opinion on this Financial Statement.

In our opinion the following abbreviated Financial Statement in all its significant aspects in the presented range is conformable with the full Financial Statement of the Fund, which formed the grounds for its preparation.

In order to fully understand the financial situation of the Fund and its financial result for the business year 1st January to 31st December, 2004, it is necessary to read the full version of the Financial Statement together with the Opinion and Audit Report of Chartered Accountant referring to this Financial Statement.

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


Adam Celiński
Member of the Management Board
Chartered Accountant
Registration No. 90033/7039

PricewaterhouseCoopers Sp. z o.o.
Company incorporated in the list of
subjects authorized to audit financial
statements under number 144

Warsaw, 3rd March, 2005

BALANCE SHEET

AS ON 31ST DECEMBER, 2004

ASSETS

	in PLN	
	31.12.2004	31.12.2003
I. Pecuniary means	306 099 408.16	593 859.88
1. Cash in hand	3 983.61	3 954.19
2. Cash on current account	983 355.14	433 467.70
3. Cash on special guarantee settlement account	1 798.65	1 798.65
4. Cash on long-term deposit account	305 000 000.00	—
5. Cash on Company Social Benefits Fund	110 270.76	154 639.34
II. Receivables from financial institutions	1 793 375 819.06	1 679 542 932.92
1. Receivables from banks on account of:		
a) obligatory payments to special guarantee settlement account	—	—
b) annual contributions to assistance fund	—	—
c) loans granted from assistance fund	1 684 907 797.82	1 600 691 727.29
d) loans granted from co-operative banks restructuring fund	108 468 021.24	78 851 205.63
e) performed guarantees and endorsements	—	—
f) purchased receivables	—	—
2. Receivables from other financial institutions	—	—
III. Receivables from State budget	—	—
IV. Other receivables and claims	107.27	577.52
V. Securities	2 471 344 532.00	2 549 099 706.00
1. Debenture bonds:		
a) of state issuers	2 471 344 532.00	2 549 099 706.00
b) of other issuers	—	—
2. Stocks, shares		
a) in financial institutions	—	—
b) in other entities	—	—
VI. Intangible assets	5 199.30	16 363.54
VII. Tangible assets	70 605 793.27	72 692 585.98
VIII. Other assets	—	—
IX. Prepayments and accruals	—	74 650.60
TOTAL ASSETS	4 641 430 859.06	4 302 020 676.44
Conditional receivables	494 711 628.62	508 142 392.19
a) from debts claimed from the bankruptcy estate	494 711 628.62	505 787 373.39
b) other receivables	—	2 355 018.80

BALANCE SHEET

AS ON 31ST DECEMBER, 2004

LIABILITIES

	in PLN	
	31.12.2004	31.12.2003
I. Obligations	49 888 857.87	48 237 088.12
1. Obligations towards trustee of bankruptcy estate on account of payments within the framework of guaranteed means	—	—
2. Other obligations	49 888 857.87	48 237 088.12
II. Accruals and deferred income	1 574 730.06	1 756 346.92
III. Provisions	250 000.00	100 000.00
1. Provisions for risk involved with granted guarantees	—	—
2. Provisions for risk involved with granted endorsements	—	—
3. Other provisions for risk	250 000.00	100 000.00
IV. Statutory fund	1 171 074 526.39	1 062 895 243.45
V. Reserve fund	470 000 000.00	420 000 000.00
VI. Assistance fund	2 673 485 622.78	2 487 288 386.80
1. Assistance fund to be used	990 082 733.78	888 318 053.80
2. Used assistance fund	1 683 402 889.00	1 598 970 333.00
VII. Co-operative banks restructuring fund	123 409 688.87	123 409 688.87
1. Co-operative banks restructuring fund to be used	15 011 488.87	44 593 435.87
2. Co-operative banks restructuring fund used	108 398 200.00	78 816 253.00
VIII. Revaluation fund	—	—
IX. Special funds and other liabilities	110 270.76	154 639.34
X. Financial result	151 637 162.33	158 179 282.94
1. Profit (positive value)	151 637 162.33	158 179 282.94
2. Loss (negative value)	—	—
TOTAL LIABILITIES	4 641 430 859.06	4 302 020 676.44
Non-balance sheet obligations	—	—

P

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDING ON 31ST DECEMBER, 2004

	12 months ending on 31.12.2004	in PLN 12 months ending on 31.12.2003
I. Income from statutory activity	22 407 094.65	34 500 346.55
1. Income from interest	20 985 957.83	32 200 938.29
2. Income from commission	1 420 190.70	2 292 632.80
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	66.53	6 048.02
5. Income from interest for delayed payments by banks of loans and interest on loans	879.59	727.44
II. Cost of statutory task performance	—	—
1. Interest on credits received from the National Bank of Poland	—	—
2. Other	—	—
III. Result of statutory activity (I-II)	22 407 094.65	34 500 346.55
IV. Result of financial operations	148 216 512.75	142 643 121.66
1. Securities	146 893 523.03	140 985 289.26
2. Other	1 322 989.72	1 657 832.40
V. Fund activity costs	16 587 990.67	16 442 604.88
1. Foreign services	3 452 703.35	3 571 185.60
2. Remuneration	10 633 376.06	10 346 354.85
3. Remuneration margins	1 298 709.76	1 263 190.16
4. Other	1 203 201.50	1 261 874.27
VI. Depreciation of fixed and intangible assets	2 509 456.29	2 540 745.23
VII. Allocation to provisions and revaluation	150 000.00	—
VIII. Dissolving of provisions and valuation reductions	—	—
IX. Other income	425 987.57	216 493.39
X. Other costs	164 985.68	197 328.55
XI. Result from operating activity (III+IV-V-VI-VII+VIII+IX-X)	151 637 162.33	158 179 282.94
XII. Result from extraordinary transactions (loss)	—	—
1. Extraordinary profit	—	—
2. Extraordinary loss	—	—
XIII. Financial result of the Fund (XI+XII)	151 637 162.33	158 179 282.94
1. Profit (positive value)	151 637 162.33	158 179 282.94
2. Loss (negative value)	—	—

CASH FLOW STATEMENT

AS ON 31ST DECEMBER, 2004

	12 months ending on 31.12.2004	in PLN 12 months ending on 31.12.2003
A. Cash flow from operating activity		
I. Net financial result (profit/loss)	151 637 162.33	158 179 282.94
II. Adjusted by items:		
1. Depreciation	2 509 456.29	2 540 745.23
2. Provision for threatened receivables, established by debiting costs	—	—
3. Other reserves established by debiting the Fund activity costs	150 000.00	—
4. Change of receivables and claims	470.25	(318.52)
5. Change in short-term obligations (except loans and credits) and special funds	1 607 401.17	13 955 328.82
6. Change in prepayments and accruals	74 650.60	81 436.80
7. Change in deferred income	—	—
8. Other items	—	(24 307.45)
III. Net cash from operating activity (I±II)	155 979 140.64	174 732 167.82
B. Cash flow from investment activity		
I. Purchase/Sale of intangible assets	—	(20 797.23)
II. Purchase/Sale of tangible components	(411 499.34)	(634 410.85)
III. Purchase/Sale treasury bonds, money bills of the National Bank of Poland, bonds	86 614 429.64	(341 516 092.27)
IV. Granted/Repaid loans from the assistance fund	(84 432 556.00)	(103 958 275.32)
V. Granted/Repaid loans from the co-operative banks restructuring fund	(29 581 947.00)	(1 623 485.00)
VI. Purchase/Sold debts	—	—
VII. Received/Repaid interest	(8 859 255.64)	25 405 867.27
VIII. Other items	—	—
IX. Net cash from investment activity (I±II±III±IV±V±VI±VII±VIII)	(36 670 828.34)	(422 347 193.40)
C. Cash flow from financial activity		
I. Changes in statutory fund	—	—
II. Changes in aid fund (payment of annual contribution)	186 197 235.98	245 200 883.18
III. Change in co-operative banks restructuring fund	—	—
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)	186 197 235.98	245 200 883.18
D. Change in net cash (A+B+C)	305 505 548.28	(2 414 142.40)
E. Cash at beginning of the business	593 859.88	3 008 002.28
F. Cash at end of business year (D+E)	306 099 408.16	593 859.88

