



*annual report*  
**2008**

# Table of Contents



<i>A Message from the Chairman of the Fund's Supervisory Board</i>	4
<i>A Message from the President of the Fund's Management Board</i>	6
<b>OBJECTIVES AND TASKS</b>	<b>8</b>
<b>THE FUND'S MANAGEMENT AND ORGANISATION</b>	<b>10</b>
<i>Composition of the Fund's Corporate Bodies</i>	10
<i>Structure of the Fund's Bureau</i>	11
<i>Employment</i>	14
<b>GUARANTEE ACTIVITY</b>	<b>15</b>
<i>Financing Guarantee Activity</i>	15
<i>Disbursement of Guaranteed Sums</i>	17
<b>LOANS FROM THE ASSISTANCE FUND</b>	<b>19</b>
<i>The Purpose and Sources of Financial Assistance</i>	19
<i>Terms and Conditions of Granting Assistance</i>	20
<i>Loan Disbursement and Repayment</i>	22
<b>LOANS FROM THE COOPERATIVE BANK RESTRUCTURING FUND</b>	<b>24</b>
<i>Purpose and Terms of Providing Assistance</i>	24
<i>Terms and Conditions of Providing Assistance</i>	26
<i>Loan-Granting Activity</i>	27
<b>SUPERVISING AND MONITORING BANKS BENEFITING FROM THE FUND'S ASSISTANCE</b>	<b>29</b>
<i>Supervision and Monitoring</i>	29
<i>The Trustee Function</i>	30



<b><u>COLLECTING AND ANALYSING INFORMATION CONCERNING BANKS</u></b>	<b>31</b>
<i>Sources of Information</i>	31
<i>Analysing the Situation in the Banking Sector and Identifying Potential Risks</i>	32
<i>Bank Assessment Methodology</i>	33
<b><u>DEPOSIT ACTIVITY</u></b>	<b>35</b>
<b><u>WORKING WITH POLISH AND INTERNATIONAL INSTITUTIONS</u></b>	<b>38</b>
<i>Working with Polish Authorities on Banking Industry Matters</i>	38
<i>Working with Polish Institutions on Legislative Matters</i>	39
<i>International Initiatives</i>	40
<i>Amendment of Directive 94/19/EC on Deposit-Guarantee Schemes</i>	42
<i>The BGF's International Conference</i>	42
<b><u>PROMOTIONAL AND INFORMATIONAL EFFORTS</u></b>	<b>44</b>
<b><u>FINANCIAL STATEMENTS</u></b>	<b>47</b>



## *A Message from the Chairman of the Fund's Supervisory Board*



It is my pleasure to provide you with the latest Annual Report of the Bank Guarantee Fund, in which we have presented crucial information concerning the Fund's activity in 2008 as well as the status of the Polish deposit guarantee system. The Report also contains data illustrating the Fund's financial standing as at the end of 2008.

Looking back on another completed year in the Fund's operations, I am happy to report on our institution's greater significance within the system for ensuring financial market stability. In this respect, we cannot disregard the Fund's successful cooperation with the National Bank of Poland, the Finance Ministry and the Financial Supervision Authority. The Fund's performance in 2008 and its financial standing allow us to state that the Bank Guarantee Fund deserves to be referred to as the guarantor of deposits in the Polish banking sector for reasons other than mere formal legislative provisions. I would like to emphasise that the Fund is a well-established institution of growing renown and public trust, highly regarded by banking and finance experts. Another factor that contributed to building trust in the Bank Guarantee Fund as well as the entire banking sector was the legislative decision to increase the limit of guaranteed funds disbursed to the PLN equivalent of EUR 50,000, which aligned the guarantees under Polish law to the guarantees offered under similar systems in most European Union Member States.

The period of unrest on global financial markets that occurred in late 2008 once again placed the focus on the importance of institutions working to ensure the stability of the banking sector, or, in the event of a bank's insolvency, providing disbursements to compensate for the losses incurred by depositors. Having noticed the symptoms of deteriorating economic climate, the Bank Guarantee Fund intensified its analytic efforts by preparing numerous studies and projections of the development of the situation in the banking sector. Moreover, the Fund kept a close eye on macroeconomic indices and the developments on international markets. However, we must bear in mind the stability of the foundations for banking operations in Poland, in particular regulatory standards preventing insolvency. A clear sign of the relatively good standing of banks in 2008 was the fact that no financial assistance from the Bank Guarantee Fund was requested.



2008 was also another year in which disbursement of guaranteed sums was not necessary.

The effect of the global economic downturn on the Polish economy, and especially on its financial sector, observed in 2008, clearly indicated the need for the Bank Guarantee Fund's continued involvement in international efforts, primarily as part of organisations comprising deposit guarantee institutions. Due to intensified cross-border relations, there is a greater need to coordinate the efforts undertaken and positions expressed by deposit insurers within the European Union and from other parts of the world. For quite some time now, the Fund has been a member of the European Forum of Deposit Insurers, an organisation that brings together deposit insurers from almost all European countries. It is an important partner for international authorities and institutions, such as the European Commission or the European Central Bank. Moreover, it must be noted that in 2008, the Fund joined 52 other institutions from various countries across the globe as a member of the International Association of Deposit Insurers (the IADI), which works towards building the stability of financial systems and manages the relations between deposit insurers all over the world. We hope to continue gaining new foreign experience and increasing the Fund's influence on global decisions in this area. I would like to emphasise that the Management Board President of the Bank Guarantee Fund is active in the managerial bodies of both of the above associations.

On behalf of the Fund's Supervisory Board, I would like to take the opportunity of the publication of this Report to express my utmost gratitude to all those who worked together with the Bank Guarantee Fund in 2008, in particular to the management and staff of the Finance Ministry, the Financial Supervision Authority, the National Bank of Poland and the Polish Bank Association. Our successful relationship enabled us to fulfil our statutory responsibilities and, of which I am convinced, meet the expectations of public authorities, scheme participants and customers of banks with respect to our function as a deposit insurance institution.

Mindful of the challenges ahead, I am convinced that the Fund is fully prepared to perform tasks entrusted to it, and that its activity will contribute to maintaining the stability of the Polish banking sector.

**Robert Jagiello**  
*Chairman of the Supervisory Board  
of the Bank Guarantee Fund*



## *A Message from the President of the Fund's Management Board*



2008 was an extraordinary year in the history of modern banking. The unrest on the global and many local financial markets translated to changes in the banking climate and in the customers' perception of banks.

For the BGF, this meant a period of intensified analytic and educational activity, aimed primarily at reassuring bank customers, especially the depositors.

In view of the above, the Fund conducted a thorough analysis of the situation on global markets and in the Polish banking system. Despite uncertainty on the global market, the Polish banking sector remained calm in 2008. Therefore, there was no need to disburse guaranteed funds to the bank depositors or to extend loans from the assistance fund.

One of the most important areas of the Fund's activity is extending loans from the cooperative bank restructuring fund (the CBRF). It must be noted that in 2008, more loans were granted from the CBRF than in the previous year, and the Fund undertook efforts to broaden the availability of this fund to cooperative banks. These efforts resulted in regulatory changes and an increase in the availability of CBRF funds for investments that are not related to merger processes but increase the security of funds accumulated in the banks.

In 2008, the BGF was active in the legislative process aimed at amending the terms of deposit guarantees. One of the crucial aspects in reassuring banking clients was raising the deposit guarantee threshold to EUR 50,000.

The Fund's educational and informational efforts contributed to increasing the depositors' knowledge of the terms and conditions of deposit guarantees. This was certainly a result of bank employee training as well as BGF's informational efforts addressed directly to banking customers. As part of its promotional initiative, in 2008, the BGF released new informational materials targeting both banking employees and customers.



An important initiative in 2008 was the development and subsequent implementation in banks of a code of best practices in notifying the customers of their bank's participation in the mandatory guarantee system and practices with respect to notifying the clients of the bank's economic and financial standing.

As part of its tasks aimed at broadening the knowledge of banking among students, the BGF prepared educational materials which, upon being approved by the Minister of Education, were entered on the list of educational resources recommended for use in schools for teaching Business Basics.

The effectiveness of the BGF's informational and promotional efforts was reflected in the results of the survey conducted by Pentor RI Institute in November 2008. The BGF was the highest ranking fund according to the respondents, who gave a favourable rating to the Fund's activity to date. It is both an honour and a motivating factor for the BGF to continue making effective and innovative decisions.

Another one of the Fund's crucial achievements in 2008 was the successful development of international cooperation. The BGF joined the International Association of Deposit Insurers and now has direct influence on the decisions made by the organisation. Moreover, the BGF began chairing the European research group of the research group of the European Forum of Deposit Insurers. International cooperation is immensely important due to the exchange of experience and the ability to arrive at deposit insurance solutions it offers. One of such platforms facilitating the exchange of views and experiences was the international conference organised by the Fund in September 2008 in Warsaw.

It must be emphasised that such a multitude of complex and varied tasks, related to insurance deposits, granting assistance to banks and monitoring the application of the assistance granted, analysing the situation on global markets and assessing the risks in the Polish banking sector, investing funds on the financial market, promoting the principles of banking sector security and educating society on managing their finances, is handled by a small group of people employed by the Fund or cooperating with the BGF. I would also like to take this opportunity to thank all those who have supported the Fund's activity and request their continued effort towards building the stability of the Polish banking sector.

**Prof. dr hab. Małgorzata Zaleska**  
*President of the Management Board*

## *Objectives and Tasks*



The Bank Guarantee Fund works towards maintaining the stability of the banking system in Poland by performing the tasks set out in the Bank Guarantee Fund Act of 14 December 1994. The provisions concerning the disbursement of guaranteed funds are consistent with the currently applicable requirements of the Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes, in particular with respect to the maximum amounts to be paid out to individual depositors. The amendment of this act, passed in October 2008, set the guarantee limit at the PLN equivalent of EUR 50,000.

The Fund's tasks are not limited to ensuring that the depositors regain their funds if their banks become insolvent. The Fund's efforts are also aimed at preventing the unavailability of funds accumulated in banks by providing financial support in order to enable the banking sector to implement recovery and restructuring schemes. The Fund's statutory tasks include remedying the risk of bank insolvency by providing financial assistance in the form of loans, guarantees and sureties and by acquiring debts. These measures indirectly protect the deposits accumulated in banks by investing much less of the Fund's resources compared to the amounts that would otherwise have to be allocated to finance potential disbursements of guaranteed sums. By supporting the recovery and restructuring processes, the Fund helps stabilise the operations of the banking sector and works to build greater public trust in banks.

The Fund's analytic efforts are undertaken primarily to ensure early detection of threats to the stability of banks. By working together with the National Bank of Poland, the Financial Supervision Authority and with banks, the Fund collects information concerning the financial standing of all the entities participating in the guarantee scheme. This provides solid grounds for conducting a detailed analysis of the standing of the industry as a whole and of individual banks, as well as for preparing macroeconomic projections for the industry. The Fund keeps a close eye on the developments on international financial markets as these can potentially affect the banking sector in Poland. By applying advanced analytic methods, in addition to predicting risks, the Fund is able to effectively manage the potential of assistance activity by acting in conjunction with banking supervision authorities to prevent bank insolvencies and mitigate any occurrences of crisis in the industry.



Due to the range and interrelatedness of its responsibilities as well as its formal and actual relationships with other entities of the Polish banking sector, the Bank Guarantee Fund constitutes an important element in the financial security network. The Fund is greatly committed to maintaining a close relationship with other institutions responsible for the stability of the Polish banking sector, such as the Finance Ministry, the National Bank of Poland and the Financial Supervision Authority, while remaining autonomous in its decisions.

The Finance Ministry supervises the legality of the Bank Guarantee Fund's operations. The Fund also works closely with the Finance Ministry in terms of designing and drafting banking sector security regulations, including legal documents directly governing the Fund's operations.

The Fund's relationship with the National Bank of Poland involves primarily the exchange of reporting information and co-financing by the NBP of the Fund's assistance activity (until the end of 2008). In the event of a threat to the stability of the banking system, the National Bank of Poland may extend a short-term loan to the Fund, acting upon its statutory authorisation.

The Fund's cooperation with the Financial Supervision Authority is of a systemic nature and involves an exchange of information required to successfully evaluate the risks diminishing the security of banking services in Poland, both on an individual level and throughout the sector.

In order for the Fund to fulfil its statutory responsibilities, it needs to work closely with other institutions of Poland's financial security network on a regular basis. However, by performing its guarantee, assistance and analytic responsibilities, the Fund has a tangible influence on the effectiveness of other institutions guarding the security and stability of the Polish financial system. The benefits of this cooperation will be felt not only by the parties involved and by the banking sector, but above all, by the large numbers of banking customers who entrust their savings to Polish banks.

## The Fund's Management and Organisation



### Composition of the Fund's Corporate Bodies

The statutory corporate bodies of the Bank Guarantee Fund are the Supervisory Board (comprising eleven members) and the Management Board (comprising five members).

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

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

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

The Fund's fifth-term Management Board was composed as follows<sup>1</sup>:

- Management Board President – Małgorzata Zaleska,
- Acting Management Board Member – Jan Koleśnik<sup>2</sup>,
- Management Board Member – Krystyna Majerczyk-Żabówka,
- Management Board Member – Adrian Markiewicz,
- Management Board Member – Marek Pyła.

<sup>1</sup> On 6 May 2008, the Vice-President of the Management Board Joanna Wielgórska-Leszczyńska was recalled from the position by the Supervisory Board of the BGF.

<sup>2</sup> Joined the Management Board on 26 November 2008.

## *Structure of the Fund's Bureau*

The Bank Guarantee Fund performed its statutory tasks through the following organisational units responsible for the tasks assigned to them:

### **// Treasury and Analysis Department**

– responsible for collecting and analysing information concerning the economy and especially the banking sector, preparing macroeconomic studies and projections as well as assessing the economic and financial standing of entities participating in the guarantee scheme, and conducting investment activity by investing the Fund's available financial resources,

### **// Controlling, IT and Administration Department**

– responsible for creating databases and disclosing information, as well as preparing reports essential for the Bureau's operations, providing IT and administrative assistance and maintaining the reliability of the technical infrastructure and the Fund's office security system,

### **// Assistance Activity and Deposit Guarantee Department**

– responsible for assisting banks at risk of insolvency, trading in debts acquired from these banks and providing support to banks from the cooperative bank restructuring fund, as well as performing tasks related to the Fund's duty to ensure disbursement of guaranteed funds to depositors,

### **// Financial Department**

– responsible for managing the Fund's finances and accounting,

### **// Supervision and Monitoring Department**

– responsible for supervising and monitoring the financial and economic standing of banks that have received assistance from the Fund, in terms of proper and suitable use of the financial assistance received and the implementation of corporate recovery or similar schemes as well as for monitoring the standing of the banks taking advantage of the Fund's assistance and serving as the trustee in these banks,



### **// The President's Office**

– responsible for ensuring support for the Fund's corporate bodies, legal assistance, workflow management and employee matters, as well as cultivating relationships with foreign deposit insurers and financial institutions, and providing public information and promotion of the Fund,

### **// Internal Audit Position**

– responsible for evaluating the activity of the Fund's organisational units in terms of accuracy and compliance with applicable laws and the Fund's internal regulations.

Moreover, there are two permanent interdepartmental committees in the Fund:

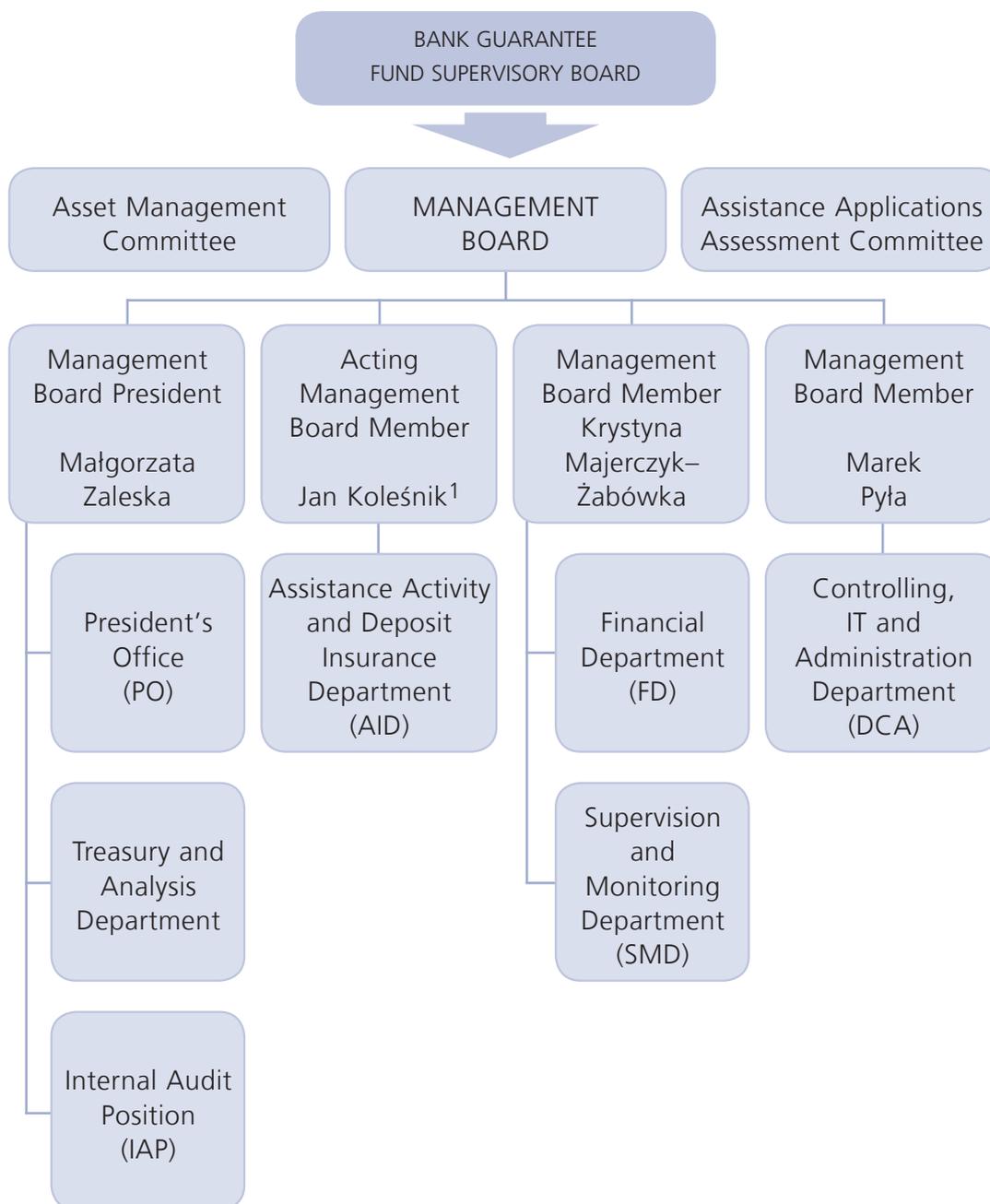
- //** the Asset Management Committee, which determines the policy for investing the Fund's available financial resources;
- //** the Committee for the Assessment of Requests for Assistance, responsible for approving or rejecting the banks' requests for financial assistance from the assistance fund and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

In 2008, the Fund also comprised a number of interdepartmental taskforces appointed to perform strictly defined tasks, such as:

- //** gauging the level of knowledge of deposit insurance methods in Poland among the customers and employees of banks;
- //** establishing the terms of disclosing information on the deposit insurance system and banks' economic and financial standing;
- //** preparing a functional analysis of the "Depositor" software.



**ORGANISATIONAL STRUCTURE OF THE BANK GUARANTEE FUND (AS AT 31 DECEMBER 2008)**



<sup>1</sup> Supervised by Adrian Markiewicz until 26 November 2008.

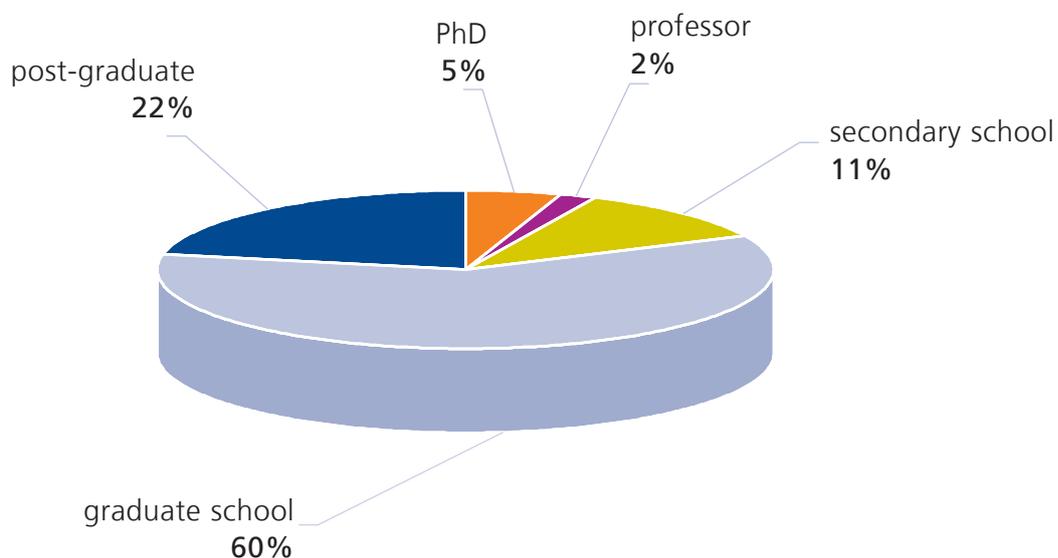


## Employment

As at 1 January 2008, the Bank Guarantee Fund employed seventy people, while as at 31 December 2008 the employment level decreased by seven (7) percent to sixty-five (65) people.

Fifty-eight (58), i.e. eighty-nine (89) percent of the Fund employees are university graduates or higher.

### STRUCTURE AND LEVEL OF EDUCATION AMONG THE BGF EMPLOYEES



## *Guarantee Activity*



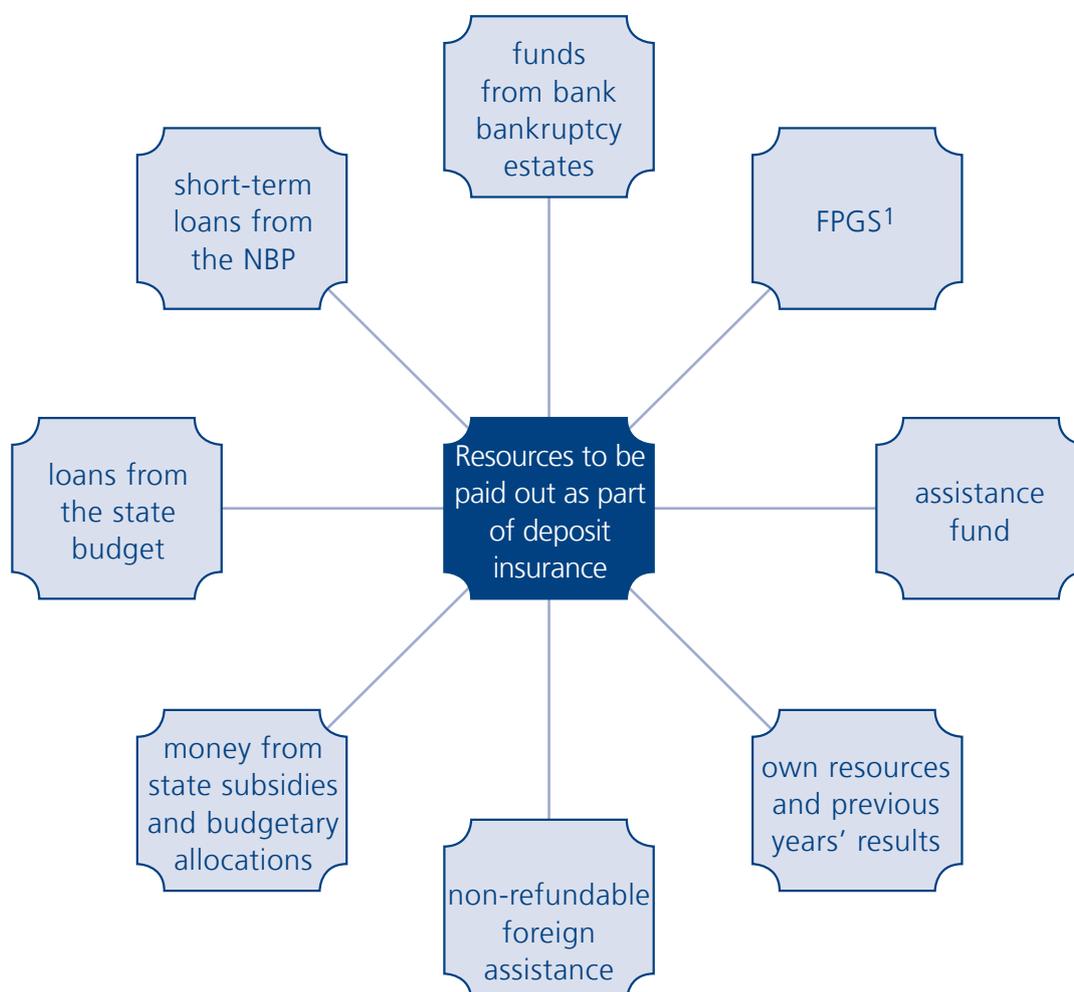
### *Financing Guarantee Activity*

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

Taking into account the risks in the banking sector, the Supervisory Board of the BGF determined the interest rate applicable to establishing the FPGS for 2008 at 0.26 percent for the sum of money collected in the bank in all accounts, which serves as the basis for calculating the mandatory provision level. In 2008, the Funds for the Protection of Guaranteed Sums established by all banks and maintained in their assets amounted to PLN 1,416,682,700. These funds were not utilised in 2008 as the situation in the banking industry did not warrant the disbursement of guaranteed sums.

It must be noted that the method in which banks establish funds for the protection of guaranteed sums does not affect their financial obligations. It only restricts their freedom in administering a small – compared to the balance sheet sum – portion of their financial resources (as at the end of December 2008, it was 0.23 percent of the net balance sheet sum of the banking sector). Resources used to cover these funds are kept in the form of safe investments, such as treasury bills, the NBP money bills, treasury bonds or participation units of the money market funds, which brings banks income from interest rates. The participants of the scheme submit to the BGF appropriate amounts for the disbursement of guaranteed sums only after the court declares the insolvency of a bank.

SOURCES FOR THE DISBURSEMENT OF GUARANTEED FUNDS



<sup>1</sup> the Fund for the Protection of Guaranteed Sums

The Bank Guarantee Fund regularly monitors the status of financial resources accumulated in the mandatory deposit insurance system in relation to the sum of funds guaranteed by the Fund in all the banks participating in this system, while also analysing the level of resources accumulated in the Fund and available for immediate utilisation. Whenever necessary, the Fund may also take advantage of other systemic sources for guaranteeing the financing for Poland's deposit insurance system, as presented by the above diagram. In extraordinary circumstances, the Finance Minister may increase the level of burdens imposed on banking industry institutions by raising the fees for the fund for the protection of guaranteed sums and the assistance fund.

**FUNDS ALLOCATED TO GUARANTEED DISBURSEMENTS  
IN THE YEARS 1995-2008**

Year	Funds allocated to guaranteed disbursements (in PLN million)				Percentage of utilisation of the FPGS	Number of depositors
	Total	including:				
		from the FPGS	from liquidated bankruptcy estates	from the bankruptcy estate fund		
1995	105.0	85.9	19.1	0	38.1	89,939
1998	8.2	4.1	1.8	2.3	3.2	6,775
1999	4.7	0	2.0	2.7	0	1,572
2000	626.0	484.1	141.9	0	48.4	147,739
2001	12.5	0	4.5	8.0	0	2,658
2002	0.1	0	0.1	0	0	46
2003	0.1	0	0.1	0	0	27
2004	0.4	0	0.4	0	0	124
2005	0.1	0	0.1	0	0	99
2006	0.1	0	0.1	0	0	5
2007	0	0	0	0	0	0
2008	0	0	0	0	0	0
TOTAL	814.4	626.1	173.8	14.5	6.15	318,822



### *Disbursement of Guaranteed Sums*

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

In 2008, no eligible parties requested the payout of guaranteed sums. Different validity periods of the claims of the depositors of Bank Staropolski SA result in varying limitations periods.

From the commencement of its operations until the end of 2008, the Fund disbursed guaranteed sums to the depositors of five commercial banks and eighty-nine cooperative banks.

**BANK INSOLVENCIES IN THE YEARS 1995-2008**

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

\* Since 17 February, i.e. from the date on which the BGF commenced its operations.



The disbursements of guaranteed sums made by the Bank Guarantee Fund amounted to PLN 814.4 million and were provided to 318,800 of eligible depositors.

## *Loans From the Assistance Fund*



### *The Purpose and Sources of Financial Assistance*

The fundamental purpose of the Fund's assistance activity is to grant direct financial assistance to banks at risk of insolvency in order to enable them to undertake restructuring operations. The Fund's assistance activity also involves the option of providing financial support to consolidation processes related to acquisitions and recovery of banks threatened with insolvency.

The Fund's assistance activity performs a preventive function in the Polish financial security system by preventing the realisation of the scenario of entities in the Polish banking sector being plagued with insolvency and triggering the process of disbursement of guaranteed funds, thus serving to prevent the customers from losing funds they have entrusted to banks.

Pursuant to the Bank Guarantee Fund Act, the Fund may grant assistance in the form of loans, guarantees or sureties, as well as by acquiring banks' safe debts on more favourable terms than commonly accepted. The extent of the Fund's assistance activity is closely related to the current standing of the banking sector. Due to the fact that in 2008, the banks in Poland were in good financial and economic standing and the Polish banking sector was stable, there were no legal grounds for the Fund to release any resources from the assistance fund.

Assistance activity is financed from the Fund's own resources, accumulated in the assistance fund. In 2008, this purpose was funded by the annual fees remitted by banks participating in the mandatory guarantee system, the payment made by the National Bank of Poland and the repayments of previously extended loans. The fee level is calculated as the product of rates determined by the Fund's Supervisory Board and the base set out in the Bank Guarantee Fund Act.

In 2008, the obligatory annual fee rates payable by banks amounted to:

- // 0.045 percent for risk-weighted sum of balance sheet assets, guarantees and sureties, and

- 0.0225 percent for the sum of risk-weighted other off-balance sheet liabilities, with the exception of promised credit lines.

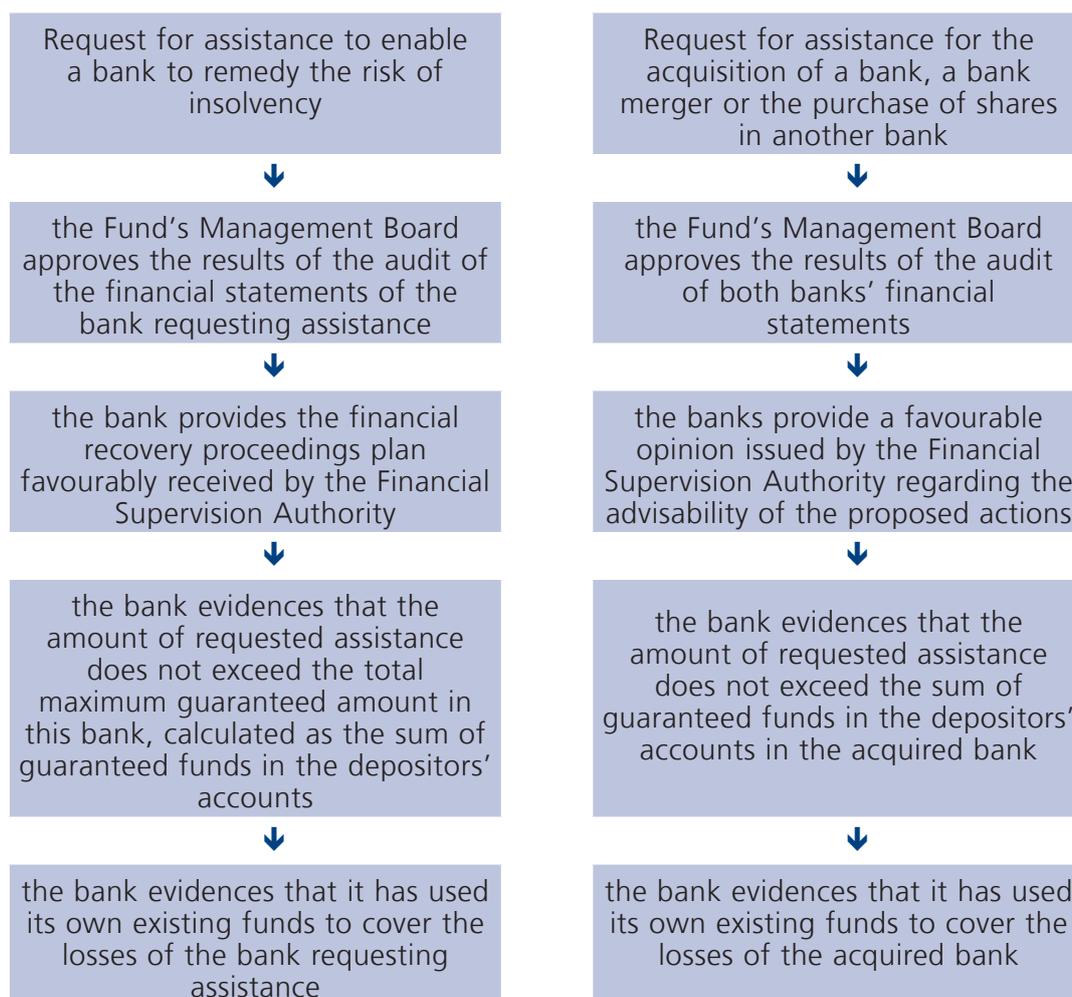


In 2008, the banks remitted 50 percent of the required mandatory fee, with the remaining portion being paid by the National Bank of Poland.

### *Terms and Conditions of Granting Assistance*

Pursuant to Article 20 of the Bank Guarantee Fund Act, an entity is eligible for financial assistance upon meeting the requirements listed in the diagram below.

#### TERMS AND CONDITIONS OF OBTAINING ASSISTANCE FROM THE FUND





On the basis of the authorisation stipulated in the Bank Guarantee Fund Act, the Fund's Supervisory Board set out the principles, terms, conditions and manner of granting financial assistance to entities participating in the mandatory guaranteed funds system as well as the insolvency risk evaluation criteria.

In 2008, financial support was extended on the terms and conditions presented in the table below.

**TERMS AND CONDITIONS OF PROVIDING FINANCIAL SUPPORT IN 2008**

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

\* in reasonably justified cases this period could be extended to ten years,

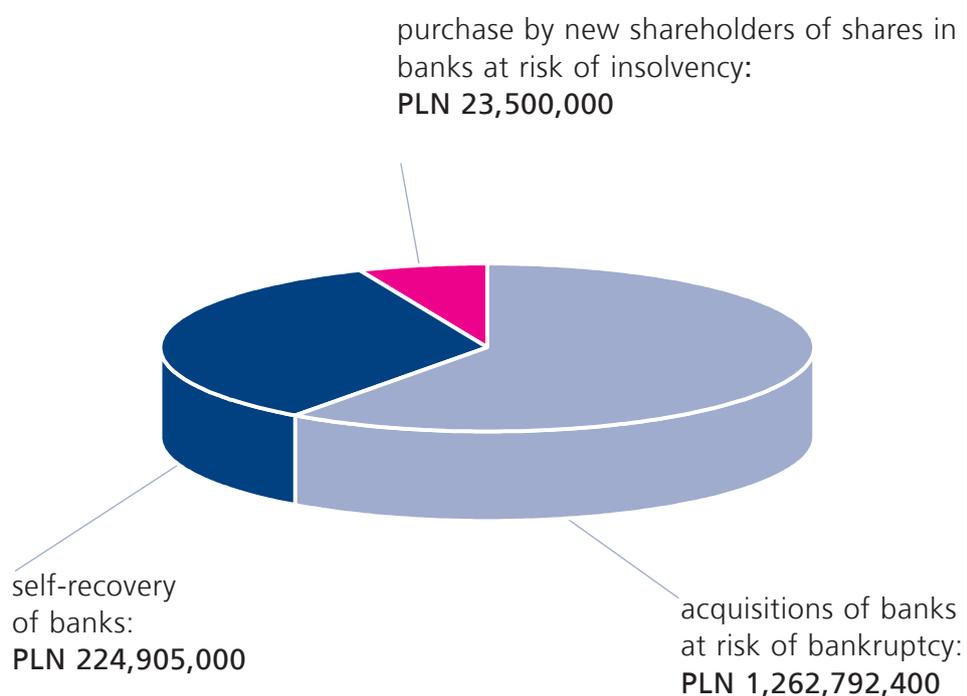
\*\* in particularly justified cases it was possible to apply a grace period in the repayment of principal.



## *Loan Disbursement and Repayment*

In 2008, none of the banks participating in the guarantee system requested financial assistance from the Fund's assistance fund. Therefore, the Fund managed the loans extended in the previous years.

### ALLOCATION OF FINANCIAL SUPPORT PROVIDED BY THE FUND IN THE YEARS 1995-2008



In early 2008, four banks had taken out loans from the assistance fund for a total debt of PLN 482,980,500. By the end of 2008, two of these banks repaid their loans in full. Thus, as at 31 December 2008, the debt outstanding from the other two banks amounted to PLN 452,590,000.



From the commencement of the Fund's operations until the end of 2008, 100 loans were granted from the assistance fund, of which 44 were disbursed to commercial banks and 56 to cooperative banks, for a total of PLN 3,746,842,400.

#### FINANCIAL ASSISTANCE GRANTED BY THE BGF IN THE YEARS 1995-2008

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

\* Together with banks that acquired the cooperative banks.

By preventing bank insolvencies, the financial aid provided by the Fund had a tangible effect on the finances. It can be measured by the amount of guaranteed funds that the Fund would have had to pay if these banks went bankrupt (the total sum of deposits guaranteed at banks to which the Fund provided financial support in the years 1996-2008 was PLN 62,575 million, exceeding the amount of financial aid by PLN 58,828.2 million).

Other results of the aid provided by the Fund so far include:

- ▄▄ greater public trust in Poland's banking sector,
- ▄▄ maintaining public access to banking services, especially in smaller towns,
- ▄▄ maintaining jobs in the banking sector,
- ▄▄ improved effectiveness of banking operations.

# Loans From the Cooperative Bank Restructuring Fund



## *Purpose and Terms of Providing Assistance*

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

In accordance with the above act, the Fund received PLN 123,409,700 to be allocated to financing cooperative bank merger processes and related investments, as well as to purchasing the shares in the acquiring bank.

### DESIGNATION OF FINANCIAL AID REQUESTED FOR THE FINANCING OF MERGER-RELATED INVESTMENTS

#### Scope of financing investments

Unification of  
IT software  
and  
hardware

Unification of  
banking  
technology

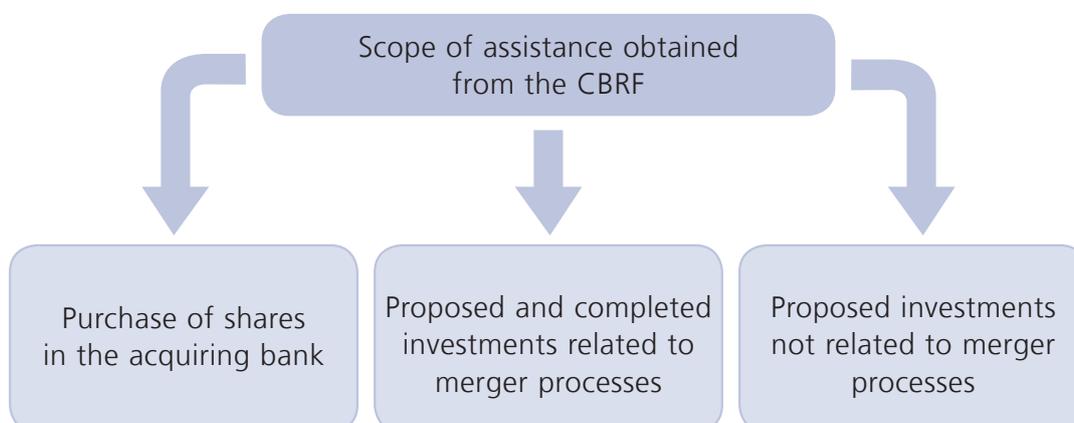
Unification of  
financial and  
accounting  
procedures

Unification of  
banking products  
and services  
offered

Until 13 December 2008, financial support from the CBRF was available only to those cooperative banks that merged with other banks after 28 January 1998 (i.e. three years before the above act became effective or that purchase shares in acquiring banks before 28 January 2004 (i.e. within three years from the date on which the above act became effective) and that were at no risk of insolvency and fully capable of repaying their outstanding loans.

On 13 December 2008, the amended Cooperative Bank Act became effective. The provisions of this act broadened the scope of financial assistance provided under the CBRF.

### MAJOR PURPOSES OF OBTAINING FINANCIAL SUPPORT FROM THE CBRF UNDER THE AMENDED ACT



Under the provisions of the amended act, financial aid from the CBRF may be granted to a cooperative bank for the purpose of covering:

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



## *Terms and Conditions of Providing Assistance*

The terms and conditions of providing financial assistance, in effect until 13 December 2008, are presented in the table below.

### TERMS OF PROVIDING FINANCIAL ASSISTANCE FROM THE CBRF FOR APPLICATIONS RECEIVED BEFORE 13 DECEMBER 2008

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

In December 2008, as a result of amending the provisions of the Cooperative Bank Act, the Fund's Supervisory Board determined the new methods, manner and detailed requirements for granting financial aid from the Cooperative Bank Restructuring Fund. A number of changes were implemented in comparison with the previously effective methods. Some of the most important changes are listed below:

- ▄▄ adjusting the manner and conditions for granting assistance from the CBRF to the broader scope of granting assistance;
- ▄▄ accelerating application processing and assistance granting by introducing the following measures:
  - two application periods for banks requesting financial aid;
  - a grading system for evaluating applications received by the Fund;
- ▄▄ introducing the option of loan disbursement in tranches for support provided to merger processes and non-merger-related investments;
- ▄▄ shortening the grace period in the repayment of principal from two years to one year.



## Loan-Granting Activity

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

In late 2007, five applications were being processed, and six more were submitted in early 2008 for loans for a total amount of PLN 51,458,000 to finance merger processes and one application for a PLN 30,000 loan for the purchase of shares in an acquiring bank.

By the end of 2008, the Fund's Management Board approved eleven loans for a total on PLN 39,063,4001, of which:

- // ten loans were requested for the support of merger processes and related investments for a total of PLN 39,033,400,
- // one loan was requested for the purchase of shares in the acquiring bank for a total of PLN 30,000.

In 2009, the Fund processed two applications filed in 2008. As at 1 January 2008, 57 banks had taken advantage of loans from the Cooperative Bank Restructuring Fund (74 loans), for a total debt of PLN 80,633,700.

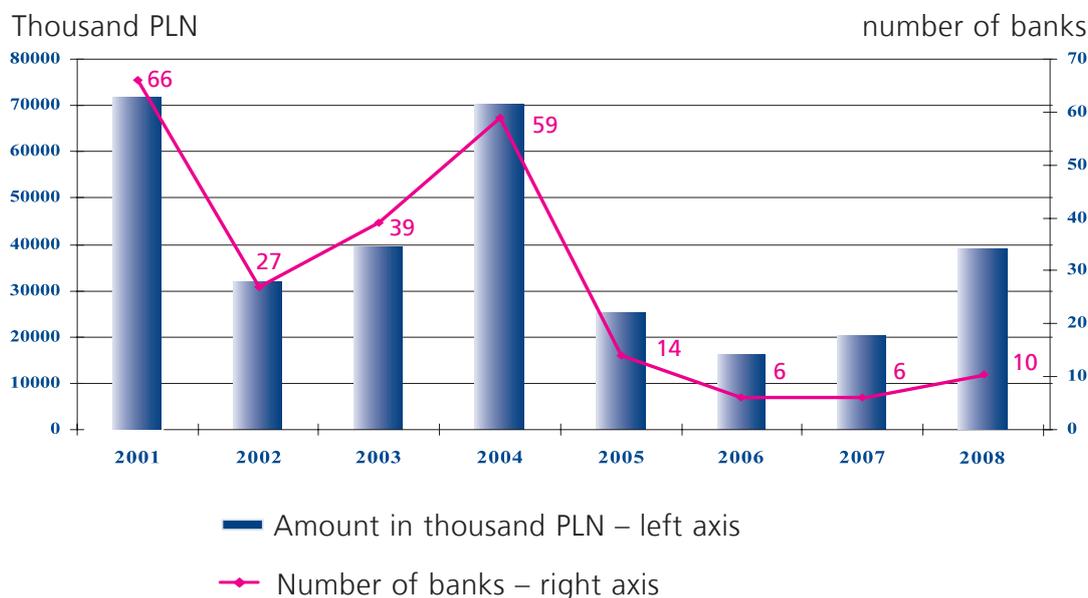
In 2008, 22 banks fully paid off 27 loans, and three of them are still taking advantage of financial assistance. Thus, as at the end of 2008, 44 banks were taking advantage of the Cooperative Bank Restructuring Fund loans (58 loans) for a total debt of PLN 85,469,400.

In the years 2001-2008, the Fund extended a total of 189 loans from the Cooperative Bank Restructuring Fund for a total of PLN 314,777,900, of which:

- // PLN 308,096,400 for the support of merger processes (i.e. 97.9 percent of the total value of loans extended),
- // PLN 6,681,500 for the purchase of shares in acquiring banks (i.e. 2.1 percent of the total value of loans extended).

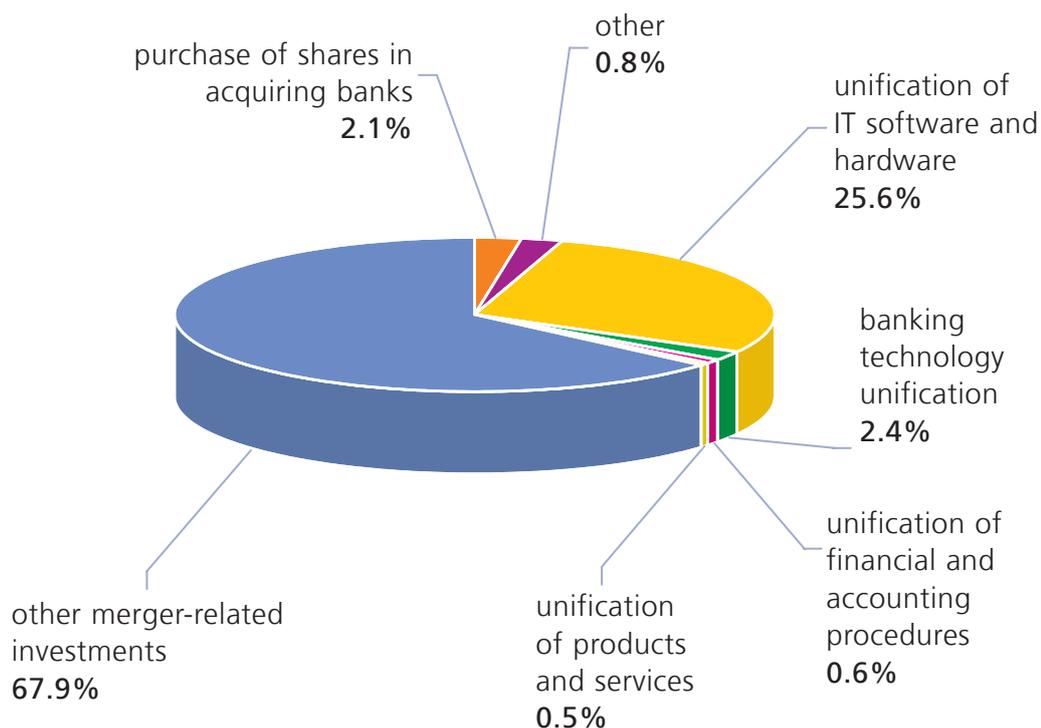
<sup>1</sup> Of which one loan (PLN 4,000,000) was extended pursuant to a resolution adopted in 2007.

**DISBURSEMENT OF LOANS FROM THE CBRF IN THE YEARS 2001-2008**



A vast majority of the loans extended from the Cooperative Bank Restructuring Fund by the end of 2008 were allocated to investments related to merger processes. The diagram below presents details of the allocation of these loans.

**ALLOCATION OF LOANS FROM THE CBRF IN THE YEARS 2001-2008**



# *Supervising and Monitoring Banks Benefiting From the Fund's Assistance*



## *Supervision and Monitoring*

In performing its statutory tasks set out in Article 4.2 of the Bank Guarantee Fund and in Article 36.3 of the Cooperative Banks Act, the Fund carried out direct inspections in 18 banks utilising financial aid.

### THE NUMBER OF BANKS SUPERVISED IN 2008

Banks taking advantage of the Fund's assistance:	Number of banks supervised	
	from the assistance fund	from the Cooperative Bank Restructuring Fund
Commercial banks	1	–
Cooperative banks	1	16
<b>TOTAL</b>	<b>2</b>	<b>16</b>

The results of direct inspections confirmed that the financial support provided by the Fund, both from the Cooperative Bank Restructuring Fund and from the assistance fund, had served its purpose. The Fund's financial assistance enabled the cooperative banks to carry out merger-related investments and to implement the fundamental assumptions of the corporate recovery schemes in both cooperative and commercial bank sectors.

Moreover, the Bank Guarantee Fund monitored the economic and financial standing and the performance of obligations under loan agreements in banks that utilised financial aid, disbursed both from the assistance fund and from the Cooperative Bank Restructuring Fund. The table below presents the number of banks participating in the monitoring scheme as at the beginning and end of 2008.

## THE NUMBER OF BANKS MONITORED IN 2008

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



Monitoring banks involved, in particular, supervising the performance of obligations stipulated in loan agreements. In the case of banks utilising loans from the assistance fund, the Fund evaluated the performance of recovery proceedings plans and the effectiveness of the financial aid obtained. In the case of banks utilising loans from the Cooperative Bank Restructuring Fund, the Fund also evaluated the implementation of financial projections and the banks' solvency.

### *The Trustee Function*

In April 2008, the Bank Guarantee Fund completed its term as a trustee. The Fund performed this function pursuant to the decision of the Banking Supervision Commission No. 178/KNB/04 of 14 July 2004.

In view of the fact that on 5 November 2007, the Bank paid off the loan in full and thus, there were no grounds for the Fund to serve as the trustee supervising the performance of the recovery proceedings plan by the Bank, pursuant to the decision of Financial Supervision Commission of 17 April 2008, the Bank Guarantee Fund was recalled from the position of trustee supervising the performance of the recovery proceedings plan.

Detailed results of the trustee's work were presented in quarterly reports from its activity, submitted to the Fund's Supervisory Board, the Banking Supervision Commission, and the last two reports, i.e. for the fourth quarter of 2007 and the first quarter of 2008 were submitted to the Financial Supervision Authority.

The final report from the Bank Guarantee Fund's trustee activity in terms of supervising the performance of the recovery proceedings plan by the Bank of 14 May 2008 was approved by the Supervisory Board of the Bank Guarantee Fund.

# *Collecting and Analysing Information Concerning Banks*



## *Sources of Information*

The Fund is autonomous and independent in analysing banks' economic and financial standing and evaluating existing and potential risks to their operations due to their statutory authorisation to access information concerning banks.

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

On 25 April 2008, the Fund and the National Bank of Poland signed the Agreement for the Use of the National Bank of Poland's Reporting Information System Website. The features of the Reporting Information System website enable the user to download banks' financial statements using their individual taxonomies within the new reporting mechanisms, FINREP and COREP. In subsequent months of 2008, the Fund continued to implement the new reporting system and build the banks' new analytic database.

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

In addition to the reporting mechanisms FINREP, COREP and WEBIS, another significant source of information is the data provided to the Fund directly by banks,



pursuant to Regulation No. 11/2006 of the President of the National Bank of Poland of 29 May 2006 concerning the scope, manner and timelines for the banks participating in the mandatory guarantee scheme to submit information to the Bank Guarantee Fund. Pursuant to this regulation, banks submit information pertaining to the basis for calculating mandatory annual fees and for establishing the fund for the protection of guaranteed sums, as well as information concerning debt guaranteed by the Fund and the amount of funds guaranteed by the Fund.

## *Analysing the Situation in the Banking Sector and Identifying*

### *Potential Risks*

Some of the key aspects of the Fund's analytic activity are:

- // the assessment of risks in the banking sector, intended to identify the demand for financial resources from the deposit guarantee scheme, collected in banks in the form of a fund for the protection of guaranteed sums in order to cover potential guarantee obligations,
- // identifying the risk of bank insolvency at an early stage, which is a prerequisite to the Fund's actions undertaken in association with the Financial Supervision Authority and other institutions of the financial security network.

The monthly and quarterly studies analysed the economic and financial standing of institutions of the commercial and cooperative banking sector, taking into account existing and potential risks. The Fund also regularly analysed the key macroeconomic data as well as structural and legal changes in the banking industry. In order to accurately assess the effects of the crisis on global financial markets, the Fund published a monthly analysis of the extent and scale of the losses disclosed by foreign financial institutions and the deductions made by each of them in this respect. Special attention was devoted to financial institutions investing in banks operating in Poland.

In this reporting period, a number of reports were prepared. Among other things, they included:

- // projections concerning the level and structure of deposits, total capital requirements in the banking sector;
- // an analysis of the structure of debts guaranteed by the Fund;

- \\ projections concerning the value of the Fund's guarantee obligations and the demand for assistance;
- \\ projections of the annual fee rates and the fees of the fund for the protection of guaranteed sums for 2009, taking into account two crucial factors, i.e.:
  1. an increase in the guarantee limit to the PLN equivalent of EUR 50,000;
  2. a number of potential risks that may affect the stability of the Polish banking sector in connection with the global financial crisis.



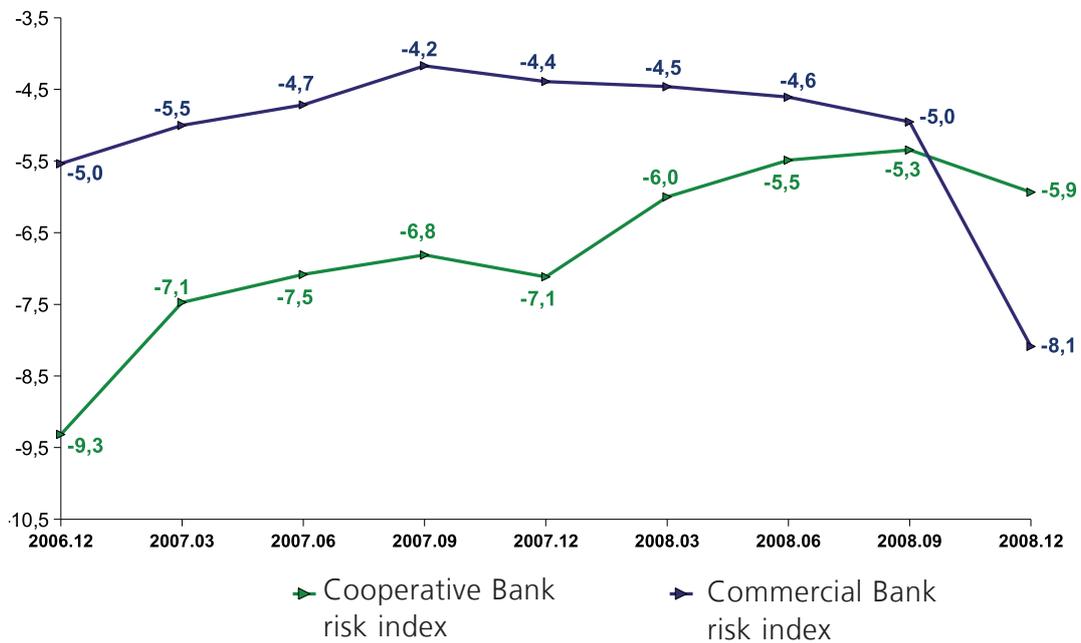
### *Bank Assessment Methodology*

The Bank Guarantee Fund has its own methodology for the assessment of risks in the banking sector. By analysing the reporting and non-reporting factors, it assigns an individual risk rating to each bank. Depending on their ratings, banks are assigned to groups within the risk matrix. These ratings and risk matrices are the basic source of information concerning each bank's standing. Banks identified to carry a higher risk undergo more thorough evaluation, aimed at identifying the source of the risk.

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

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

## INDEX OF RISK IN THE BANKING SECTOR



Risk index for the commercial bank sector deteriorated in 2008, while the index for the cooperative bank sector improved, remaining at a stable and relatively low level throughout the reference period.

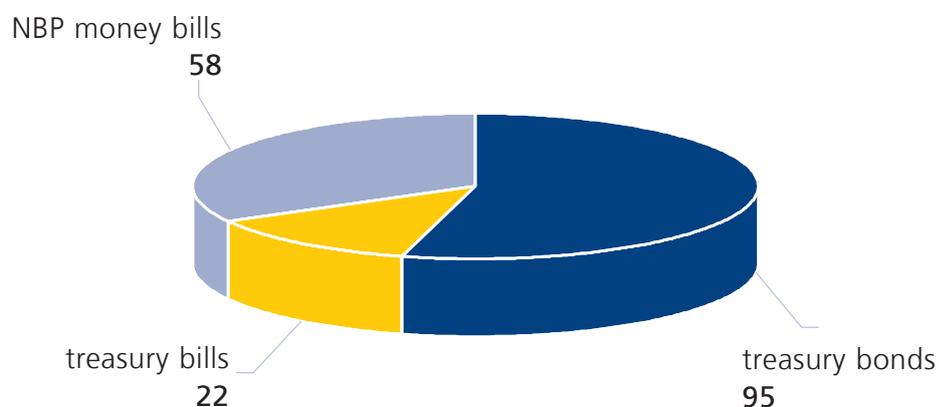
## *Deposit Activity*



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

In 2008, the Fund carried out a total of 175 transactions as part of its deposit activity.

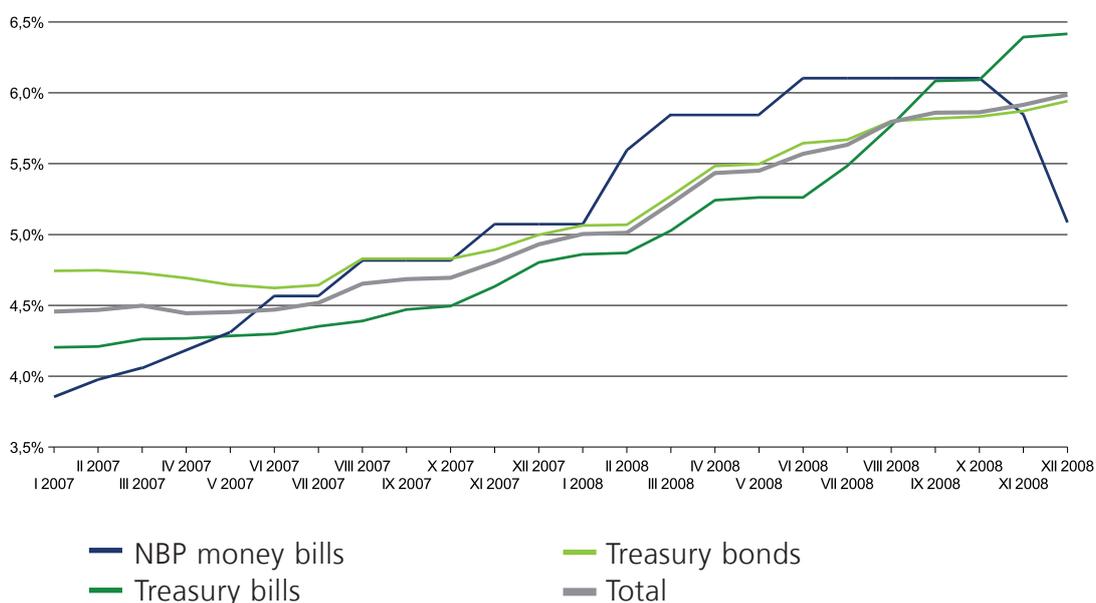
### NUMBER OF TRANSACTIONS CARRIED OUT AS PART OF THE FUND'S DEPOSIT ACTIVITY IN 2008



The average profitability of the securities purchased in the analysed period was 6.23 percent (6.24 percent for treasury bonds, 6.36 percent for treasury bills and 5.84 percent for NBP money bills)<sup>1</sup>. No transactions were conducted in the area of investment fund participation units of the money market or the allocation of assets in the form of NBP term deposits due to low profitability of these instruments.



**PROFITABILITY OF SECURITIES IN THE FUND'S PORTFOLIO  
(ON THE BASIS OF A 365-DAY PERIOD) AS AT THE END OF EACH MONTH**



<sup>1</sup> Average profitability of securities is provided on the basis of and 365-day period in order to facilitate the comparison.



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

#### THE STRUCTURE OF THE FUND'S SECURITIES PORTFOLIO AS AT 31 DECEMBER 2007 AND 31 DECEMBER 2008

Items	Structure		
	31 Dec 2007	31 Dec 2008	Change
	%		percentage points
NBP money bills	0.2	0.2	0.0
Treasury bills	34.4	7.2	- 27.2
Treasury bonds	65.4	92.6	+27.2
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>

The increased profitability of the acquired securities contributed to increased profitability of the entire portfolio of the BGF's securities from 4.94 percent (as at the end of 2007) to 5.99 percent (as at the end of 2008).

As part of regular meetings throughout 2008, the Asset Management Committee consistently reviewed the principles of the Fund's investment policy, taking into account the effect of the developments on the financial markets on the implementation of the Fund's deposit activity plans.

In 2008, the Fund prepared an investment policy study in the context of the effect of the crisis on global financial markets on the Fund's liquidity and ability to fully perform its statutory (guarantee and assistance) obligations.

## *Working with Polish and International Institutions*



### *Working with Polish Authorities on Banking Industry Matters*

In 2008, the Fund continued to work towards cultivating its relationships with institutions responsible for ensuring the security and stability of the Polish banking sector, in particular, with the representatives of the banking sector and public authorities.

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

In 2008, the Fund continued to participate in the initiatives of the Financial Market Development Council operating within the Finance Ministry. The representatives of the BGF participated in the Council's meetings during which the parties discussed the crucial issues concerning the Polish financial market. The BGF worked with the Finance Ministry primarily on regulatory matters or approving or rejecting draft legislation pertaining to the Bank Guarantee Fund or other financial market institutions.

2008 saw the conclusion of the discussions, commenced the year before, between the Bank Guarantee Fund and the Financial Supervision Authority with regard to regulating the terms and conditions of their cooperation. Moreover, the Fund continued to work together with the National Bank of Poland, primarily towards obtaining information on the banking sector, required by the Fund for the performance of its statutory tasks.

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



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

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

### *Working with Polish Institutions on Legislative Matters*

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

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

- ▄▄ amendment of the Bank Guarantee Fund Act,
- ▄▄ amendment of the Bank Guarantee Fund Act and other acts (the Banking Law, the Cooperative Bank Act, the National Bank of Poland Act),
- ▄▄ the Act concerning the Establishment of the Financial Stability Committee,
- ▄▄ amendment of the National Bank of Poland Act,
- ▄▄ the Act concerning the Support for Financial Institutions provided by the State Treasury,
- ▄▄ the Regulation of the Council of Ministers amending the BGF's Statute
- ▄▄ the Regulation of the Finance Minister concerning detailed accounting terms to be followed by the BGF.

As a result of completing legislative procedures in 2008, the following legal documents concerning the Fund were issued:

1. Amendment of the Bank Guarantee Fund Act of 3 October 2008 – amending the basis for calculating the annual fee and the maximum rate (amendment entered into effect on 3 November 2008);
2. Amendment of the Bank Guarantee Fund Act and of other acts of 23 October 2008, implementing or amending provisions concerning:
  - ▄▄ increasing the limit of guaranteed funds to the PLN equivalent of EUR 50,000 – in full, together with authorising the Council of Ministers to temporarily increase the amount and percentage of guaranteed funds,
  - ▄▄ the definition of the depositor,
  - ▄▄ the Fund’s corporate bodies,
  - ▄▄ the option of financing the BGF from the State budget (via subsidies and loans),
  - ▄▄ the option for the Fund to take out a short-term loan from the NBP.



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

### *International Initiatives*

On 14 February 2008, the Fund joined the International Association of Deposit Insurers, whose primary objective is to work towards the stability of financial systems by promoting international cooperation with respect to deposit insurance and by cultivating relations with foreign deposit insurers and other institutions.



In 2008, the Fund cooperated with deposit insuring institutions, for instance within the European Forum of Deposit Insurers and the International Association of Deposit Insurers, by presenting its experiences in the field and learning about the accomplishments of other institutions, for example at conferences and seminars devoted to the following topics:

- ▄▄ results of the review of Directive 94/19/EC and draft reports prepared for the European Commission by working groups appointed by the EFDI,
- ▄▄ analysis of the risk involved in the operations of deposit-guarantee schemes and methods of evaluating the ability to satisfy claims and methods of determining fee levels,
- ▄▄ terms and best practices of managing credit institutions' bankruptcy processes;
- ▄▄ economic integration, financial stability and the financial security network.

In 2008, the Fund's Management Board President was appointed to perform two important functions within the structures of international organisations in which the Fund participates.

During the General Meeting of the EFDI Members held in Dublin on 22 September 2008, the Fund's Management Board President was unanimously appointed the chairperson of the EFDI's permanent Research Working Group, responsible for preparing analyses of the effectiveness of the banking sector security network in European Union Member States, for the purpose of cooperating with the European Commission and the IADI, among other things.

During the General Meeting of IADI Members, held in Arlington, USA, on 31 October 2008, the Fund's Management Board President was unanimously appointed the Association's Management Board Member by the deposit insurer representatives from more than forty-five countries.

As a result of a Poland-based bank's decision to open a branch office in the Czech Republic, the Czech Deposit Guarantee Fund offered to work together and sign an agreement with the Polish Bank Guarantee Fund. Moreover, the parties commenced drafting an agreement that would regulate insurance increases for the customers of a Poland-based bank's branch office, operating in Slovakia, up to the amount offered by the Slovak system.

In 2008, as part of its international initiatives, the Bank Guarantee Fund prepared studies devoted to the following topics:

- ▄▄ the changes in the deposit-guarantee schemes of European Union Member States in the fourth quarter of 2008, introduced as a result of the financial crisis,
- ▄▄ the effect of introducing the Euro in Poland on the guarantee, assistance and investment operations of the Bank Guarantee Fund,
- ▄▄ the terms and conditions of insuring deposits in the UK and Luxembourg schemes.



### *Amendment of Directive 94/19/EC on Deposit-Guarantee Schemes*

The Fund participated in discussions concerning the amendments to Directive 94/19/EC of the European Parliament and of the Council on deposit-guarantee schemes, proposed by the European Commission as a result of the developments on international financial markets that occurred in 2008.

In connection with determining and approving amendments to the Directive, on 27 October 2008, a meeting was held in Brussels for members of the Deposit-Guarantee Schemes Working Group within the European Commission, in which the Fund's representative also participated. The amendments proposed by the Commission were designed to restore trust in the banking sector and to ensure a high level of convergence of the mechanisms of deposit-guarantee schemes, in particular with respect to increasing the minimum guarantee level, eliminating co-insurance, and shortening the deadline for the disbursement of guaranteed sums. The results of the Working Group's efforts were used in preparing the final draft of amended Directive 94/19/EC.

### *The BGF's International Conference*

On 15 and 16 September 2008, in Warsaw, the Bank Guarantee Fund held and hosted in Warsaw a conference entitled "Deposit Guarantee Schemes on Integrating Financial Markets". The purpose of the conference was to facilitate the exchange of experiences regarding the conditions for the development of deposit insurance schemes in the light of current challenges on global financial markets.



The conference brought together more than 120 representatives of financial institutions from seventeen countries, including the President of the European Forum of Deposit Insurers (EFDI) and members of the governing bodies of the International Association of Deposit Insurers (IADI). Also present at the conference were representatives of the Finance Ministry, the National Bank of Poland, the Financial Supervision Authority and the governing bodies of Polish banks.

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

- ▄▄ The effect of the global financial downturn on deposit security and the operation of deposit insurance schemes,
- ▄▄ Mechanisms of deposit insurance schemes in credit unions,
- ▄▄ Integrated financial instrument insurance scheme: integrating deposit insurance schemes and investor compensation schemes.

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

## *Promotional and Informational Efforts*



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

One of the Fund's main efforts focused on developing Best Practices for Notifying Customers of their Bank's Participation in the Mandatory Guarantee System and Best Banking Practices for Informing the Customers of their Bank's Economic and Financial Standing. The main objective in drafting Best Practices was to unify the standards for banks participating in the mandatory guarantee system to ensure they provide reliable and accurate information to their customers. This document facilitates the performance of banks' obligations stipulated in Article 38 b of the Bank Guarantee Fund Act. Drafting these Best Practices is part of global efforts in this respect as deposit insurers participating in the IADI and EFDI consistently strive to devise a set of best practices for the banking sector.

By the end of 2008, the principles stipulated in the Fund's Best Practices were officially approved by six financial market institutions such as the National Bank of Poland, National Depository for Securities and the Insurance Guarantee Fund. In the 4th quarter of 2008, banks commenced the implementation of the Fund's recommendations and by the end of 2008, sixteen of them declared their willingness to accept Best Practices as their official customer service procedure model.

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



In order to evaluate the effectiveness of the completed and proposed promotional efforts in 2008, a survey was conducted to assess the customers' and bank employees' knowledge of the mechanisms of the deposit guarantee system. In June and July 2008, Pentor Research International completed the following modules of its quantitative survey:

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

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

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

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

Subsequent issues of the Bezpieczny Bank (Bank Security) magazine and the BGF Newsletter were published and distributed to all commercial and cooperative banks in Poland, to selected Polish universities and to libraries across Poland. The Minister of Science and Institutions of Higher Learning awarded the Fund two points for getting published in the Bezpieczny Bank (Bank Security) magazine, which enhanced this periodical's respectability on the market and among students and professors.

Moreover, the Fund once again selected a bachelor's, master's and doctoral dissertation that best covered the issues of the Fund's operations, deposit guarantee system and the financial security of the banking industry.

In 2008, the BGF worked on developing its relationships with the media, including newspaper publishers, television and radio stations, as well as student websites. As a result of its cooperation with the press, the BGF was featured in numerous articles discussing the banking system and the principles of the deposit insurance scheme, as well as the role of the Bank Guarantee Fund itself. Moreover, due to a number of queries received by the Fund in the context of the developments on international financial markets and the amendment of the provisions of the Bank Guarantee Fund Act, the Fund's representative made more than thirty official statements aimed at being published in the media. In addition, the Fund's Management Board President was featured in a number of press, television and radio interviews.

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



# Financial Statements



## BALANCE SHEET AS AT 31 DECEMBER 2008

ASSETS	31 Dec 2008	31 Dec 2007
<b>I. Cash</b>	<b>299,365.37</b>	<b>354,324.69</b>
1. Cash in hand	869.67	2,415.70
2. Cash in current account	245,631.01	237,793.91
3. Cash in special guarantee settlement account	1,798.65	1,798.65
4. Cash in term deposit account	0.00	0.00
5. Cash in Company Benefits Fund	51,066.04	112,316.43
<b>II. Receivables from financial institutions</b>	<b>538,660,919.63</b>	<b>564,125,903.27</b>
1. Receivables from banks due to:	538,660,919.63	564,125,903.27
a) obligatory contributions to special guarantee settlement account	0.00	0.00
b) annual contributions to assistance fund	0.00	0.00
c) loans granted from assistance fund	453,131,272.96	483,455,398.54
d) loans granted from Cooperative Bank Restructuring Fund	85,529,646.67	80,670,504.73
e) realised guarantees and endorsements	0.00	0.00
f) receivables purchased	0.00	0.00
2. Receivables from other financial institutions	0.00	0.00
<b>III. Receivables from the State budget</b>	<b>0.00</b>	<b>0.00</b>
<b>IV. Other receivables and claims</b>	<b>5,236.32</b>	<b>0.00</b>

<b>V. Securities and other financial assets</b>	<b>5,470,714,792.20</b>	<b>4,965,572,775.18</b>
1. Debt securities	5,470,714,792.20	4,965,572,775.18
a) of banks	13,296,308.51	0.00
b) of state issuers	5,457,418,483.69	4,965,572,775.18
c) of other issuers	0.00	0.00
2. Shares	0.00	0.00
a) in financial institutions	0.00	0.00
b) in other entities	0.00	0.00
3. Other securities and other financial assets	0.00	0.00
<b>VI. Intangible assets</b>	<b>89,809.87</b>	<b>14,878.33</b>
<b>VII. Tangible fixed assets</b>	<b>62,769,130.70</b>	<b>64,467,785.20</b>
<b>VIII. Other assets</b>	<b>0.00</b>	<b>0.00</b>
<b>IX. Prepayments and accruals</b>	<b>53,894.04</b>	<b>39,288.94</b>
<b>TOTAL ASSETS</b>	<b>6,072,593,148.13</b>	<b>5,594,574,955.61</b>

	31 Dec 2008	31 Dec 2007
<b>CONTINGENT RECEIVABLES</b>	<b>611,103,799.74</b>	<b>480,953,005.89</b>
1. debts claimed from bankruptcy estate	5,066,363.24	477,153,005.89
2. other receivables	606,037,436.50	3,800,000.00

<b>LIABILITIES</b>	<b>31 Dec 2008</b>	<b>31 Dec 2007</b>
<b>I. Liabilities</b>	<b>626 436,88</b>	<b>335 556,10</b>
1. Liabilities towards the receiver or trustee of the bankruptcy estate due to payments under the guaranteed funds system	0.00	0.00
2. Other liabilities	626,436.88	335,556.10
<b>II. Accruals and deferred income</b>	<b>1,732,490.28</b>	<b>1,777,905.01</b>
<b>III. Provisions</b>	<b>1,569,453.81</b>	<b>1,595,559.44</b>
<b>IV. Statutory fund</b>	<b>1,637,025,547.68</b>	<b>1,507,093,007.33</b>
<b>V. Reserve fund</b>	<b>669,882,674.05</b>	<b>610,000,000.00</b>
<b>VI. Assistance fund</b>	<b>3,314,038,000.52</b>	<b>3,110,734,292.99</b>
1. Assistance fund to be used	2,861,448,000.52	2,627,753,792.99



2. Used assistance fund	452,590,000.00	482,980,500.00
<b>VII. Cooperative Bank Restructuring Fund</b>	<b>123,409,688.87</b>	<b>123,409,688.87</b>
1. Cooperative Bank Restructuring Fund to be used	37,940,290.11	42,775,982.87
2. Used Cooperative Bank Restructuring Fund	85,469,398.76	80,633,706.00
<b>VIII. Funds obtained from bankruptcy estates</b>	<b>52,854,397.02</b>	
<b>IX. Revaluation fund</b>	<b>0.00</b>	<b>0.00</b>
<b>X. Special funds and other liabilities</b>	<b>51,066.04</b>	<b>112,316.43</b>
<b>XI. Financial profit (loss)</b>	<b>271,403,392.98</b>	<b>191,850,357.77</b>
1. Profit (positive value)	271,403,392.98	191,850,357.77
2. Loss (negative value)	0.00	0.00
<b>XII. Profit (loss) from previous years</b>	<b>0.00</b>	<b>47,666,271.67</b>
<b>TOTAL LIABILITIES</b>	<b>6,072,593,148.13</b>	<b>5,594,574,955.61</b>

	31 Dec 2008	31.12.2007
<b>CONTINGENT LIABILITIES</b>	<b>3,587,624.34</b>	<b>0.00</b>
1. guarantees and endorsements granted	0.00	0.00
2. other liabilities	3,587,624.34	0.00



## 2008 PROFIT AND LOSS ACCOUNT



	2008	2007
<b>I. Income from statutory activity</b>	<b>3,420,412.00</b>	<b>3,606,446.93</b>
1. Interest income	3,374,923.97	3,583,745.46
2. Commission income	42,650.98	20,294.00
3. Income from interest for delayed contributions by banks for effecting guarantee payments	0.00	0.00
4. Income from interest for delayed annual contributions paid by banks	2,011.32	1,554.00
5. Income from interest for delayed repayments of loans and interest on loans by banks	825.73	853.47
<b>II. Cost of statutory activity</b>	<b>0.00</b>	<b>0.00</b>
1. Interest on credits received from the National Bank of Poland	0.00	0.00
2. Interest on loans received from the State budget	0.00	0.00
3. Other costs	0.00	0.00
<b>III. Profit (loss) on statutory activity (I-II)</b>	<b>3,420,412.00</b>	<b>3,606,446.93</b>
<b>IV. Profit (loss) on financial operations</b>	<b>284,101,593.49</b>	<b>206,146,604.53</b>
1. With securities	284,080,248.09	206,127,480.75
2. Other	21,345.40	19,123.78
<b>V. The Fund's operational costs</b>	<b>15,435,166.75</b>	<b>15,754,579.96</b>
1. Outsourced services	3,164,247.86	2,513,066.12
2. Salaries	10,059,421.68	11,002,111.20
3. Salary overheads	1,079,368.38	1,238,528.55
4. Other	1,132,128.83	1,000,874.09
<b>VI. Depreciation of fixed and intangible assets</b>	<b>2,140,257.30</b>	<b>2,219,360.50</b>
<b>VII. Write-offs for provisions and revaluation</b>	<b>0.00</b>	<b>0.00</b>
<b>VIII. Liquidation of provisions and revaluation decreases</b>	<b>0.00</b>	<b>5,500.00</b>
<b>IX. Other income</b>	<b>1,694,066.31</b>	<b>219,646.30</b>

X. Other costs	237,254.77	153,899.53
XI. Profit (loss) on operational activity (III+IV-V-VI-VII+VIII+IX-X)	271,403,392.98	191,850,357.77
XII. Profit (loss) on extraordinary operations	0.00	0.00
1. Extraordinary profits	0.00	0.00
2. Extraordinary loss	0.00	0.00
XIII. Financial result of the Fund (XI+/-XII)	271,403,392.98	191,850,357.77
1. Profit (positive value)	271,403,392.98	191,850,357.77
2. Loss (negative value)	0.00	0.00



# *Independent Auditors' Report*



Deloitte Audyt Sp. z o.o.  
with its registered office in Warsaw  
ul. Piękna 18  
00-549 Warsaw  
Poland

Tel.: +48 22 511 08 11, 511 08 12  
Fax: +48 22 511 08 13  
[www.deloitte.com/pl](http://www.deloitte.com/pl)

## *To the National Bank of Poland, the Fund's Supervisory Board and the Council of Ministers:*

We have audited the accompanying financial statements of the Bank Guarantee Fund (the "Fund") with its registered office in Warsaw, at ul. Ignacego Jana Skorupki 4, which consisted of:

- ▄▄ an introduction to the Fund's annual financial statements,
- ▄▄ the Fund's balance sheet as at 31 December 2008, with total assets and liabilities of PLN 6,072,593,148.13,
- ▄▄ the Fund's income statement for the period from 1 January 2008 to 31 December 2008 with a net profit of PLN 271,403,392.98.
- ▄▄ additional information and notes to the Fund's annual financial statements.

These financial statements are the responsibility of the Fund's Management Board. Our responsibility was to express an opinion on the accuracy, reliability and



clarity of these financial statements as well as the accuracy of the books of account that provided the basis for our audits.

The Fund's financial statements for the financial year ended 31 December 2007 were audited by another auditor, who, as at 14 March 2008, expressed no reservations with regard to those statements. Our report pertains solely to the financial statements for the financial year ended 31 December 2008.

We planned and conducted our audit in accordance with the provisions of:

- ▄▄ Chapter 7 of the Accounting Act of 29 September 1994 (Journal of Laws of 2002 No. 76, item 694, as amended),
- ▄▄ the auditing standards issued by the National Council of Auditors in Poland

in order to obtain reasonable assurance about whether these financial statements are free of material misstatement. The audit included examining – largely on a test basis – accounting evidence and records supporting the amounts and disclosures contained in these financial statements, assessing the accounting principles (policies) used and significant estimates made by the Fund's Management Board, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the audited financial statements of the Bank Guarantee Fund for the 2008 financial year were prepared, in all material respects:

- ▄▄ in accordance, in terms of both form and contents, with the requirements of the Regulation of the Finance Minister concerning detailed accounting policies of the Bank Guarantee Fund of 19 December 2008 (Journal of Laws of 2008 No. 236, item 1631), with the Accounting Act of 29 September 1994 and with the Fund's statute,
- ▄▄ in accordance with the accounting principles set out in the Regulation of the Finance Minister of 25 October 1999 concerning detailed accounting policies of the Bank Guarantee Fund (Journal of Laws of 1999 No. 90, item 1006 and Journal of Laws of 2001 No. 16 item 177) and the accounting policy adopted by the Fund,
- ▄▄ on the basis of proper books of account



and it reliably and clearly reflects all the information required to assess the Fund's material and financial position as at 31 December 2008, as well as its financial result for the period from 1 January to 31 December 2008.

Izabella  
Jędrzejewska-Gołąb  
*Auditor*  
*Management Board Member*  
*Registered under number 10563/7977*

Wacław Nitka  
*Management Board Member*  
*Auditor*  
*Registered under number 2749*

Piotr Sokołowski  
*Management Board Member*  
*Auditor*  
*Registered under number 9752*

*/persons representing the entity/*

DELOITTE AUDYT Sp. z o.o.  
ul. Piękna 18, 00-549 Warszawa  
Tel. 511-08-11, Fax: 511-08-13  
NIP (Tax Identification Number) 527-020-070-86  
REGON (Tax Statistical Number) 010076870

*entity authorised to audit financial statements,  
entered on the list of authorised entities  
kept by the National Council of Auditors under number 73*



**BANK GUARANTEE FUND**

ul. ks. Ignacego Jana Skorupki 4

00-546 Warsaw, Poland

**[www.bfg.pl](http://www.bfg.pl)**