



**BANK
GUARANTEE
FUND**

Annual Report

2010

Table of Contents

■	Foreword from the Chairman of the Council and the President of the Management Board of the Bank Guarantee Fund	3
■	I. Objectives and Tasks	5
■	II. The Fund's Management and Organisation	7
	1. Composition of the Fund's Corporate Bodies	7
	2. Organisation of the BFG Office	8
	3. Employment	11
■	III. The most important undertakings of the BFG in 2010	12
	1. Changes in the deposit guarantee schemes	12
	2. Analytic activity development	15
	3. Analytic works concerning the need to introduce an orderly bank liquidation	17
	4. New investment policy	18
	5. Operational risk management	18
■	IV. Guarantee Activity	19
	1. Financing the Guarantee Activity	19
	2. Guarantee Disbursements	21
■	V. Assistance Activity – Assistance Fund	23
	1. Purpose and principles of providing assistance	23
	2. Conditions of providing assistance	24
	3. Assistance activity to date	25
■	VI. Assistance Activity – Cooperative Banks Restructuring Fund	26
	1. Purpose and principles of providing assistance	26
	2. CBRF activity to date	27
■	VII. Control and monitoring of the financial assistance utilisation	29
	1. Scope of control and monitoring	29
	2. Control and monitoring of banks	30
■	VIII. Analytical Activity	32
	1. Sources of information	32
	2. Bank assessment methodology	33
	3. Analysing the situation in the banking sector and identifying risks	34
■	IX. Investment activity	35
■	X. International and domestic cooperation	36
	1. Domestic cooperation	36
	2. International cooperation	38
■	XI. Promotional and informational activities	39
■	XII. Selected financial data	40

A foreword from the Chairman of the Council and the President of the Management Board of the Bank Guarantee Fund

Dear Sirs,

The year 2010, despite the persisting instability on international financial markets, was the ninth consecutive year in which no bank in Poland became insolvent and there was no need for guarantee disbursements. However, it was a year of exceptionally hard work for the Bank Guarantee Fund. Preparing the Fund to implement the changes resulting from the amendment to the Bank Guarantee Fund Act required the greatest effort. The amended Act came into force on 30th December 2010. A twofold increase of the guarantee limit amounting to the PLN equivalent of one hundred thousand euros, a significant shortening of a period of unavailability of the means deposited in banks- down to twenty working days from the day of the suspension of the bank's operations- as well as a greater role of the Fund in the process of disbursements, were all connected with the necessity to implement legislative, procedural and organisational changes. The condition vital to a proper functioning of the changed deposit guarantee scheme was improving the Fund's operational efficiency, developing the monitoring and analytic functions and the international cooperation as well as increasing the effectiveness of the BFG financial resources management.

One of the most important achievements of the Bank Guarantee Fund in 2010 was preparation and implementation of the new investment policy, that ensured the optimisation of the Fund's portfolio profitability. At the same time, the BFG began the preparation of operational risk management system, the Continuity of Operations Plan for the process of guarantee disbursements to depositors within twenty working days, and the concept of crisis management.

*The year 2010 was a time of the Fund's increased activity at the international forum. The Fund's representatives actively participated in the works of the International Association of Deposit Insurers (IADI) as well as of the European Forum of Deposit Insurers. The proof of recognition for the growing role of BFG was awarding the Fund with the organisation in Poland of the tenth IADI Annual General Meeting and Annual Conference in 2011. In May 2010 in Warsaw the Bank Guarantee Fund organised the international conference entitled *Global financial crisis: Lessons for the stability of the financial sector*, as a part of the celebration of the 15th anniversary of its inception.*

Moreover, the Fund took part in the process of consulting the proposals of changes in the European deposit guarantee schemes, submitted by the European Committee. At the same time, particular attention was paid to analysing foreign experiences in implementing other methods of dealing with banks threatened by insolvency. One of such methods, the efficiency of which has been confirmed by many countries, is an orderly bank liquidation (resolution). This solution minimises the risk and costs for the taxpayer and may be more beneficial for both the depositors and the guarantee institution- than guarantee sums disbursements, not only regarding the costs, but also the financial stability.

A close cooperation with the Ministry of Finance, the National Bank of Poland, the Polish Financial Supervision Authority, the Polish Bank Association, the National Cooperative Banks Association and the banks participating in the deposit guarantee system, is a significant support for the Bank Guarantee Fund in performing tasks aiming at ensuring security and stability of the banking sector in Poland. We are very grateful for this support.



Piotr Piłat

A blue ink signature of Piotr Piłat, written in a cursive style.

Chairman of the Council
of the Bank Guarantee Fund



Jerzy Pruski

A blue ink signature of Jerzy Pruski, written in a cursive style.

President of the Management
of Board of the Bank Guarantee Fund

I. Objectives and Tasks

The Bank Guarantee Fund is one of the key institutions constituting a network for stability of the banking system in Poland, carrying out the tasks set out in the Bank Guarantee Fund Act of 14 December 1994.

2010 was a year of significant challenges for the Bank Guarantee Fund. They were closely connected with the changes to the deposit guarantee scheme. The changes mainly concerned the implementation of *directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay*, which applies to all countries of the European Union. The source of changes in the EU law was the course of the last crisis on the global financial market, which disturbed the stability of the financial system in many member countries and resulted in the necessity to strengthen the depositors security and their trust in the banking system. In order to adjust the national law to the changed EU law, the Bank Guarantee Fund Act was amended on 30 December 2010. The most important changes were: double increase of the limit for guarantee payments provided to the PLN equivalent of EUR 100,000 and shortening the time during which the funds are not available to depositors in the event of the bank's bankruptcy to twenty working days from the day of suspension of the bank's activities. What is more, the Fund's role in the guarantee disbursements was increased, which results in new obligations and tasks.

In 2010 the Fund was carrying out and coordinating works connected with preparing the institution to implement changes regarding shortening the time of disbursements of the guaranteed sums to twenty working days. At the same time, in order to be able to identify the risk early enough and prepare the Fund to take up actions in the crisis conditions, a special emphasis was put on strengthening the monitoring and analytic functions. In 2010, the Fund started to work on changing the previously applied bank assessment methodology and creating Early Warning System, which enables to identify the banks at risk early on.

Disbursements of the guaranteed sums to depositors by the guarantee institution should be a finality. For that reason the Fund paid a lot of attention to possibilities of upgrading and broadening the group of instruments of the assistance activity in such a way to strengthen the effectiveness of activities at the prevention stage and to prevent the bank from bankruptcy on time. Simultaneously, foreign experiences in using other methods of dealing with banks at risk were analysed very closely.

The representatives of the Fund participated in the works on a national financial security network and on legislative works regarding the implementation of the provisions of the *directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 to national legal acts, especially to the Bank Guarantee Fund Act*.

The year 2010 was a time of the Fund's increased activity at the international forum. The Fund took part in the process of consulting the proposals of changes in the European deposit guarantee schemes, submitted by the European Committee. Meetings on a European Union structure level provided a valuable

occasion to exchange experiences with representatives of other deposit guarantee schemes.

The Bank Guarantee Fund works closely with Polish financial security network institutions on a regular basis. These include the Ministry of Finance, the National Bank of Poland and the Polish Financial Supervision Authority. Good relations with these institutions enable the Fund to perform its statutory guarantee, assistance, and analytical roles, and assist in building confidence in the stability and efficiency of the Polish banking sector.

II. The Fund's Management and Organisation

1. Composition of the Fund's Corporate Bodies

The statutory corporate bodies of the Bank Guarantee Fund are the Council and the Management Board. As of January 1st 2010, the BFG Council was composed as follows:

Chairman of the Council:	Dariusz Daniluk
Members of the Council:	Agnieszka Alińska Krzysztof Broda Alina Gużyńska Jerzy Nowakowski Krzysztof Pietraszkiewicz Piotr Piłat Jan Szambelańczyk

In the fourth quarter of 2010 new members of the BFG Council were appointed by the President of the National Bank of Poland. As of November 4th 2010 Olga Szczepańska-Maciejuk and Sławomir Cytrycki were appointed in place of Agnieszka Alińska and Jerzy Nowakowski. In connection with the above the BFG Council continued to perform its duties in the following composition:

Chairman of the Council:	Dariusz Daniluk
Members of the Council:	Krzysztof Broda Sławomir Cytrycki Alina Gużyńska Krzysztof Pietraszkiewicz Piotr Piłat Jan Szambelańczyk Olga Szczepańska-Maciejuk

During the reporting period the Council of the Bank Guarantee Fund appointed the Fund's Management Board for a term of office from April 1st, 2010 to March 31st, 2013, in the current composition. In connection with the above, in 2010 the Management Board of the Bank Guarantee Fund performed its duties in the following composition:

President of the Management Board:	Jerzy Pruski
Deputy President of the Management Board:	Anna Trzecińska
Members of the Management Board	Krystyna Majerczyk-Żabówka Sławomir Niemierka ¹ Marek Pyła

¹ Commencing as of 15 January 2010.

2. Organisation of the BFG Office

After carrying out a change in the organisational structure of the Office on 23 March 2010, the Bank Guarantee Fund has been performing its statutory tasks through the following organisational units:

Deposit Guarantee Department – tasks resulting from the Fund's obligation to ensure the disbursements of the guaranteed funds to the depositors,

Financial Assistance Department – tasks in the area of granting assistance to banks facing a loss of solvency, trading receivables purchased from the afore mentioned banks as well as granting assistance to banks from the Cooperative Banks Restructuring Fund,

Treasury and Analysis Department – tasks connected with the banking sector analysis and assessment of the economic and financial situation of entities participating in the guarantee scheme, gathering and analysing information concerning the macroeconomic situation in Poland and the world, as well as conducting investment activity by investing the Fund's available financial resources,

Control and Monitoring Department – tasks connected with control and monitoring of the economic and financial situation as well as of the management system of banks that have received financial assistance from the Fund, in terms of proper and suitable use of that assistance as well as for monitoring the situation of banks benefiting from the Fund's assistance or realizing similar schemes, aiming at removing the threat of insolvency,

IT and Administration Department – tasks connected with obtaining, creating and providing information essential in the work of the BFG Office, protection of data and property, safety and efficiency of technical and administration systems as well as ensuring the continuity of the Fund's work,

Accounting and Financial Department – tasks connected with the Fund's accountancy and financial economy,

Office of the President – tasks connected with ensuring support for the Fund's corporate bodies, the President of the Management Board, organization of work and employee issues,

Legal Department – tasks connected with providing legal assistance for the benefit of the Fund's corporate bodies, the President of the Management Board and the BFG Office,

Operational Risk Position – tasks connected with coordinating and supporting the process of managing operational risk in the corporate bodies of the BFG Office,

Internal Audit Position – tasks connected with evaluating the activity of the Fund's Office in terms of accuracy and compliance with established objectives, applicable laws and the Fund's internal regulations.

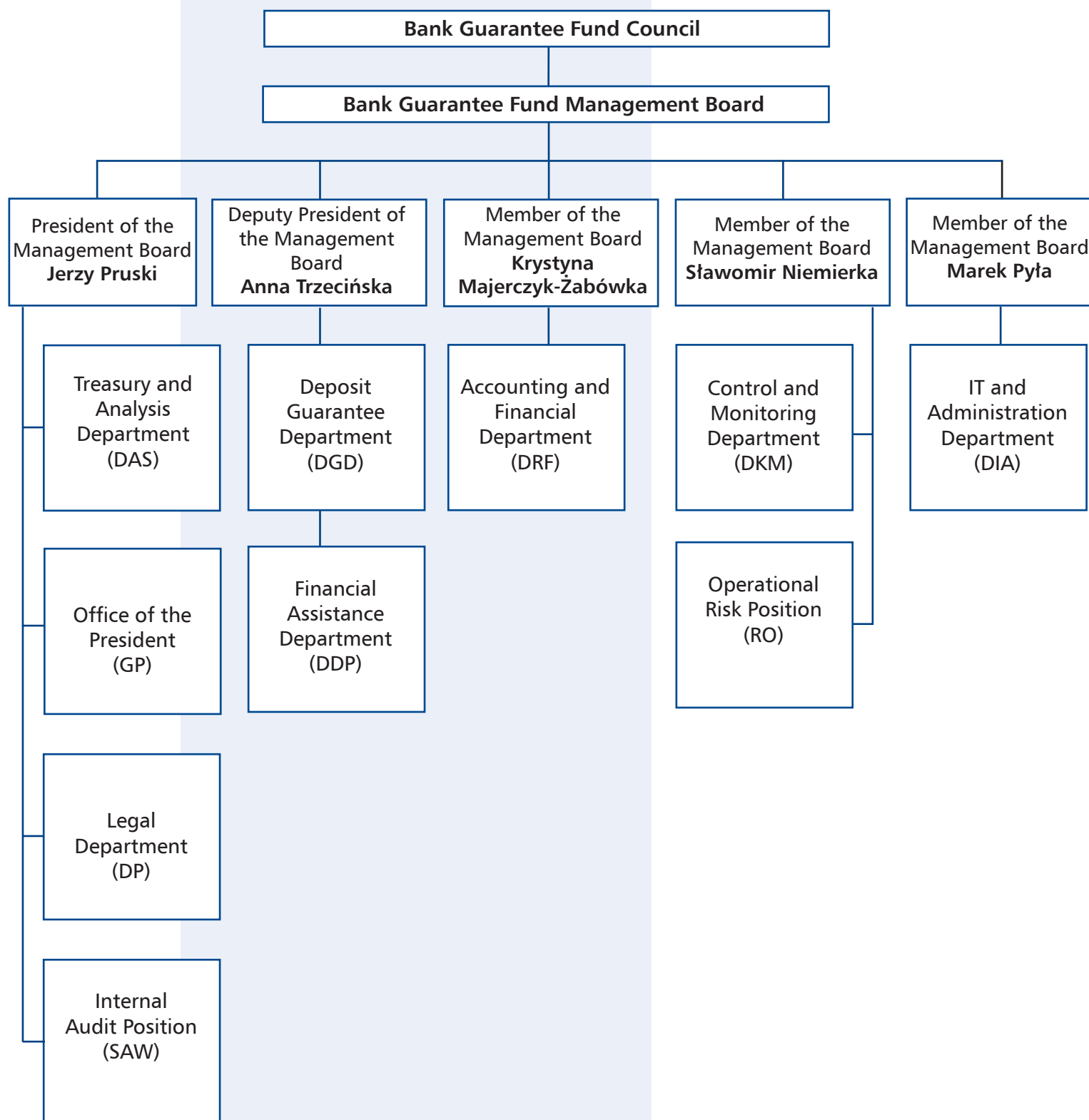
Moreover, there are three permanent interdepartmental committees operating in the Bank Guarantee Fund:

The Assets Management Committee, which, within the frames of the strategy accepted by the Management Board, 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 banks restructuring fund, prepared by the Assistance Activity and Deposit Insurance Department,

The Operational Risk Committee, responsible for initiating, coordinating and recommending activities connected with operational risk management to the Fund's Management Board.

**Organisational structure of the Bank Guarantee Fund
(as of 31.12.2010)**



3. Employment

As of 1 January 2010, the Bank Guarantee Fund, including the Management Board, employed 73 people (72,25 positions). As of 31 December 2010, the Bank Guarantee Fund employed 80 people (79,75 positions).

III. The most important undertakings of the BFG in 2010

1. Changes in the deposit guarantee schemes

The undertakings and tasks accomplished by the Fund in 2010 resulted from *The directions of development of the Bank Guarantee Fund until 2011 and The Bank Guarantee Fund activity plan for the year 2010*.

In 2010, the works connected with preparing the Fund to implement the *directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009* were performed. The directive obliged the member countries- by 31 December 2010- to shorten the time during which the funds are not available to depositors in the event of the bank's bankruptcy to twenty working days, with an option of extending the deadline by ten working days, as well as to increase of the limit for guarantee payments provided to the PLN equivalent of EUR 100,000.

Implementing the *directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009* required restructuring the previous guarantee scheme, including increasing the role of the BFG in the disbursement process. It became necessary to depart from the formula of disbursements made by the manager or the trustee of the bankruptcy estate for the benefit of carrying out the disbursements by the litigation trust of a bank (in relation to which the fulfilment of the guarantee condition occurred) or through an entity, with which the Fund signs an adequate agreement. Shortening the time of disbursements of the guaranteed sums to twenty working days meant a necessity to prepare and implement solutions connected with and obligation for banks to prepare correct data allowing to identify depositors and to establish the amounts of the guaranteed sums due to individual depositors. Limiting the risks connected with the correctness of banking data – serving the disbursements of the guaranteed sums- required granting control powers to the Fund.

In order to supervise and coordinate a wide scope of works connected with preparing the Fund to adept new solutions, the Management Board of the Bank Guarantee Fund appointed on 22 February 2010 Steering Committee under the management of the Deputy President of the Fund's Management Board. The works of the Committee covered the area of legislation, informatics, control as well as the logistic and procedural area.

The area of legislation covered the cooperation with outside institutions engaged in the process of implementation of the directive with, among others, the Ministry of Finance. The Fund took part in the works performed by the Ministry of Finance concerning:

- the act on the *amendment to the Bank Guarantee Fund Act and other acts, which is the implementation to the Polish law of the directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009*

as well as

- regulation of the Minister of Finance concerning requirements for the calculation systems kept in entities covered by the obligatory guarantee scheme.

The IT area carried out analytic and software works allowing to prepare the IT part of the Guarantee Performance System by the Fund itself. An Internet portal (SRG Portal) was created. It serves as means of communication with banks within the framework of the disbursement of the guaranteed sums process, equipping this channel of data exchange in measures of cryptographic protection.

As part of creating the IT part of the Guarantee Performance System, necessary computer equipment was purchased the internal tele-informatic structure of the Fund was changed, which resulted in upgrading its reliability and computer security

Within the framework of preparatory works to perform control of correctness of data included in the banks' calculating systems, a project of rules for control performance was prepared and organisational changes allowing the BFG to perform them were introduced.

Preparing the Fund to disburse the guaranteed sums within twenty working days entailed the necessity to carry out works connected with:

- internal organisation of the guaranteed sums disbursements process,
- choosing and signing an agreement with an entity (other bank), which would, on behalf of the Fund, perform the guaranteed sums disbursements,
- choosing rules for depositor identification during guarantee disbursements,
- organising telephone information centre (*call-centre*) for the depositors in case of a necessity to disburse the guaranteed sums.

While working on drawing up the internal organisation of the guaranteed sums disbursement process, it was decided that such a process shall focus on three main elements:

- Early Warning System²,
- Preparation of Disbursement Process,
- Guarantee Performance System.

Nine commercial banks declared the will to cooperate with the Fund as agents for disbursing the guaranteed sums on behalf of the Fund. The basis for such cooperation between the Fund and the banks shall be a framework agreement regarding the readiness to perform guaranteed sums disbursements.

2010 was also a year of works on specifying the depositor identification data. Placing the data on the depositors list shall be indispensable to establish the depositor's identity as well as types of documents confirming the identity, with which the disbursements performing entity shall identify the depositors.

On December 16th 2010, the Sejm of the Republic of Poland *adopted the act*

² System allowing for an early risk identification in the banking sector, based on internal analyses of the Fund as well as external information (i.e. from PFSA, NBP).

amending the Bank Guarantee Fund Act and other acts, taking into account the provisions of the *directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009*. The act was signed by the President of the Republic of Poland and came into force as of the publication of the act, i.e. 30 December 2010.

The most important changes in the deposit guarantee schemes introduced with the amendment of *the Bank Guarantee Fund Act* are:

- increasing the limit for guarantee payments provided to the PLN equivalent of EUR 100,000.0
- shortening the disbursement time from three months to twenty working days, with an option of extending the deadline by ten working days,
- changing the day of the guarantee condition fulfilment from the day of announcing a bank's insolvency to the day of suspension of activities of the said bank,
- increasing the role of the BFG in the disbursement process, departure from disbursements made by the manager or the trustee of the bankruptcy estate,
- departure from the compensation of receivables and liabilities of the depositors,
- covering economic entities with guarantees, regardless of the scale of their operations³,
- the rule to inform the BFG by the PFSA about the occurrence of circumstances that could result in the occurrence of obligations of the Fund to the depositors due on account of the guaranteed sums,
- obliging banks to run systems of calculating the guaranteed sums,
- authorising the Fund to control the quality of data accumulated in the calculation system,
- introducing an obligation to test the effectiveness of the Fund's systems, especially those regarding the possibility to pay out pecuniary performance in statutorily set deadline,
- authorising the Fund's Management Board to set forth rules and procedures of determining the depositor's identity.

Implementing *the directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009* did not finish the works on changing the guarantee schemes in the member states of the European Union. In 2010, within the framework of activities of the Council of the European Union, managed by the Working Group of the Financial Services, propositions of further changes of the directive concerning the deposit guarantee schemes, were formulated. The propositions aimed at strengthening the role and operations ability of the schemes.

The most important part of those works concerned strengthening the capital base of guarantee schemes, as well as establishing the role of guarantee funds in the performance of an orderly bank liquidation.

³ Prior to the amendment of the Bank Guarantee Fund Act, the guarantee did not cover organisational entities, which, according to art. 50. 2. of *the Accounting Act of 29 September, 1994* (Journal of Laws of 2002 No. 76, item 694, as amended), were not authorised to Draw up a simplified balance sheet and profit and loss account.

2. Analytic activity development

In 2010 the concept of the risk in the banking sector analysis was altered. A significant aim within the scope of quality changes was creating a new model of analysis for the Polish banking sector. The main works were focused on creating a multidimensional structure to enable the presentation of quantity and quality changes in the banking sector with the aid of:

- diversified entity sections – in joint terms, in division to commercial and cooperative banks, groups of banks and individual banks,
- diversified time sections – by presentation of long-term trends as well as quarterly and monthly changes,
- presentation of:
 - changes regarding market concentration,
 - changes within the scope of customer segments and product segments,
 - full structure for creating bank income,
 - places, where insolvency risk appears- in terms of the whole sector, groups of banks and individual banks.

The aim of introduced changes was to enable the analysis of economic and financial condition as well as the identification of risk in the banking activities not only in relation to the sector as a whole, but also to the individual groups of banks and individual entities, which significantly influence the changes in the sector. The analytic sections which were used, illustrated the sources of risk and pointed out the areas of the banking sector risks appearances. Extending the time horizon of the analyses allowed for a description and research of the most significant trends.

The analysis of the banking sector condition is a point of reference during risk assessment process in the individual banks activities, the aim of which is to point out banks generating the greatest risk.

Moreover, the Fund prepared and implemented analyses presenting:

- current information about the banking sector – which are a pocket compendium of statistical information on the banking sector for the Management Board and employees of the Fund,
- macroeconomic situation in Poland and on the world markets – ensuring data and information necessary to understand the trends and changes in the Polish banking sector as well as changes on the market of treasury securities.

The works on modification of the system assessing the risk of insolvency occurrence for individual banks have begun. The completion of those works is set to 2011. Their aim is to create:

- new- in terms of quality- rating system, allowing to better point out the possibilities of insolvency risk occurrence,
- Early Warning System – allowing to direct the Fund's activity to the most threatened banks,

- system for calculating an obligatory annual fee for banks, based on the risk of the activity conducted.

During the works, the main focus was put on ensuring the correctness of the full bank assessment, as well as of individual areas subject to audit (effectiveness, credit risk, capital adequacy).

3. Analytic works concerning the need to introduce an orderly bank liquidation

Carrying out the tasks set forth in *The directions of development of the Bank Guarantee Fund until 2011*, in 2010 a lot of attention was given to issues connected with ensuring financial system stability and BFG role in this process. The Fund was performing analytic works regarding the possibility to make the assistance tools more efficient. Particular attention was paid to analysing solutions in the area of orderly bank liquidation (*resolution*), which, due to their efficiency in other countries, gained significance as a way to resolve crisis situations.

As a result of necessity to raise the assistance function effectiveness and to introduce solutions allowing for an orderly bank liquidation, the Fund has undertaken the following actions:

- international experiences regarding the performance of assistance functions and orderly bank liquidation have been recognised,
- a group of employees were trained in the area of assistance functions and performance of an orderly bank liquidation- as a part of IADL trainings,
- preparation of a study systemising accumulated knowledge and obtained information regarding:
 - the scope of assistance tools and solutions used in case of an orderly bank liquidation,
 - conditions to use particular tools,
 - limitation of domestic legal solutions regarding efficient implementation of broadened assistance tools and orderly bank liquidation.

In reference to these topics, the Bank Guarantee Fund organised a seminar entitled *Resolution Regime a chance to strengthen the stability of the Polish banking sector* in September 2010.

4. New investment policy

In accordance with *The directions of development of the Bank Guarantee Fund until 2011*, the Fund prepared and implemented new investment policy, which was adopted by a resolution of the Fund's Management Board in March 2010. Pursuant to the assumptions of the **Investment Policy**, securities transactions carried out in 2010 ensured the optimisation of the portfolio profitability.

Moreover, active actions were taken up in the form of reinvesting the resources which were subject to maturity in 2010 on account of securities owned.

5. Operational risk management

In 2010, in accordance with *The directions of development of the Bank Guarantee Fund until 2011*, the creation of the operational risk management system was begun. The system is based on standards of operational risk management systems functioning in the finance sector.

The aim of creating operational risk management system is optimisation of the operational risk level in the Fund's activities, with the use of adequate organisational, procedural and technical solutions.

IV. Guarantee Activity

1. Financing the Guarantee Activity

The guarantee disbursements are paid out to the depositors from ex poste and ex ante sources.

The source of ex poste financing are the resources accumulated by banks as funds for the protection of guaranteed sums (FPGS). All banks participating in the Polish deposit guarantee scheme are obligated to establish such funds. The amount of funds is calculated as a product of the sum of financial resources accumulated in the bank, which provide the basis for calculating the amount of mandatory provisions and the interest rate established every year by the Council of the Fund. Taking into account the risks in the banking sector, the Council of the Fund established the interest rate applicable to establishing the FPGS for 2010 at 0,4%⁴ for the sum of money accumulated in the bank in all accounts, which serves as the basis for calculating the mandatory provision level. In 2010, the Funds for the Protection of the Guaranteed Sums, established by all banks and maintained in their assets (updated on 1st July 2010) amounted to PLN 2,801,507.600. These funds were not utilized in 2010 as no bank insolvency occurred. The method in which banks establish funds for the protection of the guaranteed sums does not affect their financial obligations. It only restricts their freedom in administering a small- compared to the balance sheet - portion of their financial resources. Resources used to cover these funds are kept in the form of treasury bills, NBP money bills, treasury bonds or participation units of the money market funds, which brings back income. The participants of the scheme submit appropriate sums for the disbursement of guaranteed sums to the BFG only after the court declares insolvency of a bank.

Potential guarantee disbursements may also be finance from ex ante sources, which are:

- sums obtained by the Fund from banks' bankruptcy estate, accumulated in the form of a fund of resources retrieved from banks' bankruptcy estate, the total sum of which amounted to PLN 53,623.000 as at the end of 2010,
- available resources from the assistance fund⁵, which amounted to PLN 4,476,287.100 as at the end of 2010,
- supplementary fund, which amounted to PLN 666,604.400 as at the end of 2010,
- statutory fund available to finance guarantee disbursements, which amounted to PLN 1,575,525.300 as at the end of 2010 (statutory fund reduced by the value of fixed assets, which amounted to PLN 61,500.300).

⁴ Until 30 December 2010 it was the maximum rate of creating FPGS established by the Fund's Council. Amendment to the Bank Guarantee Fund Act, which came into force on 30 December 2010, raised the maximum level of this rate from 0.4% to 0.55%.

⁵ The assistance fund is created from, among others, bank payments due to obligatory annual fees.

Moreover, there is a possibility of:

- obtaining subsidy or loan from the budget,
- incurring credit from the National Bank of Poland,

as well as:

- increasing the rate of the obligatory annual fee to 0.6 percent (to supplement the assistance fund) and the fee for the fund for the protection of guaranteed sums may be raised to 0.8 percent under a regulation of the Finance Minister, upon consultation with the President of the National Bank of Poland and the Chairman of the Financial Supervision Authority.

2. Guarantee Disbursements

Funds allocated to guarantee disbursements in the years 1995-2010

Year	Funds allocated to guarantee disbursements (in PLN million)				Percentage of utilisation of the FPGS (%)	Number of depositors
	Total	including:				
		From the FPGS	From liquidated bankruptcy estates	From the bankruptcy estate fund		
1995	105.0	85.9	19.1	0	38.1	89,939
1996	50.8	47.3	3.1	0.4	14.9	59,420
1997	6.4	4.7	0.6	1.1	2.3	10,418
1998	8.2	4.1	1.8	2.3	3.2	6,775
1999	4.7	0	2.0	2.7	0	1,572
2000	626.0	484.1	141.9	0	48.4	147,739
2001	12.5	0	4.5	8.0	0	2,658
2002	0.1	0	0.1	0	0	46
2003	0.1	0	0.1	0	0	27
2004	0.4	0	0.4	0	0	124
2005	0.1	0	0.1	0	0	99
2006	0.1	0	0.1	0	0	5
2007	0	0	0	0	0	0
2008	0	0	0	0	0	0
2009	0.004	0	0	0.004	0	1
2010	0	0	0	0	0	0
TOTAL	814.4	626.1	173.8	14.5	6.15	318,823

Between the commencement of its operations and the end of 2010, the BFG disbursed guarantee funds to depositors of five commercial banks and eighty-nine cooperative banks.

Bank insolvencies in the years 1995-2010:

Rok	Banki komercyjne	Banki spółdzielcze
1995*	2	48
1996	1	30
1997	-	6
1998	-	4
1999	1	-
2000	1	-
2001	-	1
2002-2010	-	-
TOTAL	5	89

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

The disbursements of guaranteed sums made by the Bank Guarantee Fund amounted to PLN 814,4 million and were provided to 318,800 eligible depositors.

In 2010 the Bank Guarantee Fund obtained PLN 199.400 due on account of receivables submitted to the bankruptcy estate of a bank, connected with conveying, in previous years, to the trustees the funds to be disbursed to the depositors. The funds came from bankruptcy estates of three banks.

The total amount of the fund recovered from bankruptcy estates of the banks was, as of 31st December 2010, PLN 53,623.000.

In 2010, bankruptcy proceedings of a bank, which the BFG was a creditor of, was completed. As at the end of December 2010, the bankruptcy proceedings of two banks were not completed. The bankruptcy of those banks was declared by courts of law in the time of the Fund's activities.

In 2010 the Fund did not perform guaranteed sums disbursements. From 1st January 2010 until 31st December 2010, the last depositors claims for the sum of PLN 17.400 expired.

As of 31 December 2010 the Fund had no obligations arising from non-withdrawal of the guaranteed sums.

V. Assistance Activity – Assistance Fund

1. Purpose and principles of providing assistance

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

The assistance fund out of which loans are extended is created from mandatory annual fees remitted by all participants of the guarantee scheme and the Fund's balance sheet surplus distributions. The fee payable by each bank is calculated as the product of the fee set by the Fund's Council and the base set out in the *Bank Guarantee Fund Act*. The resolution of 18 November 2009, the Council of the Bank Guarantee Fund established rates of the obligatory annual fee from banks in 2010 to 0.045% of 12.5 sums of capital requirements on account of exceeding the limits and breaching other standards set forth in the *Banking Law Act*.

In 2010, the assistance fund was supplied with bank payments due on account of the obligatory annual fee amounting to PLN 300,979.000 as well as on account of distribution of the balance surplus of the Fund in 2009 amounting to PLN 325,206.800.

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

2. Conditions of providing assistance

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

- the Fund's Management Board approves the results of the audit of the financial statements of the bank requesting assistance, and in case of a request for assistance for the acquisition of a bank, a bank merger or the purchase of shares in another bank – the results of the audit of both banks' financial statements,
- the bank provides the financial recovery proceedings plan favourably received by the Financial Supervision Authority, and in case of the acquisition of a bank, a bank merger or the purchase of shares in another bank – a favourable opinion issued by the Financial Supervision Authority regarding the advisability of the proposed actions,
- the bank evidences that the amount of requested assistance does not exceed the total maximum guarantee amount in this bank, calculated as the sum of guarantee funds in the depositors' accounts, and in case of a request for assistance for the acquisition of a bank, a bank merger or the purchase of shares in another bank – the bank evidences that the amount of requested assistance does not exceed the sum of guarantee funds in the depositors' accounts in the acquired bank,
- the bank evidences that it has used its own existing funds to cover the losses of the acquired bank.

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

3. Assistance activity to date

In 2010, one loan amounting to PLN 43,500.000 was extended from the assistance fund. The loan was aimed at supporting the merger process with a bank at risk of insolvency. The loan was extended for a period of four years from 27 April 2010 to 26 April 2014.

From its inception until the end of 2010, the BFG granted 101 loans from the assistance fund, of which 44 were extended to commercial banks and 57 to cooperative banks, for a total of PLN 3,790,342.400. The financial assistance granted by the BFG was allocated towards banks' self-recovery plans (PLN 2,249,050.00), acquisitions of banks at risk of insolvency (PLN 1,306,292.400) purchase by new shareholders of shares in banks at risk of insolvency (PLN 235,000.000).

During the reporting period one bank utilising financial assistance since 2005, made an early repayment of a loan at the amount of PLN 447,000, as a result of obtaining income from the assistance and the effects of restructuring activities specified in the loan agreement.

Loans granted from the assistance fund in the years 1996-2010

Type of bank and allocation of assistance	Loan disbursements	
	Amount in PLN thousand	Share percentage
• commercial*	3,427,386.4	91.4
self-recovery	2,066,000.0	54.5
commercial banks acquisitions	981,906.4	25.9
cooperative banks acquisitions	144,480.0	3.8
share purchase	235,000.0	6.2
• cooperative	362,956.0	9.6
self-recovery	183,050.0	4.8
merger processes	179,906.0	4.8
TOTAL	3,790 342.4	100.0

* Together with banks that acquired cooperative banks

The financial aid provided by the Fund to date had a tangible effect on the finances, reinforced confidence in the banking sector, helped maintain free access to banking services and assisted in enhancing the efficiency of banking operations.

VI. Assistance Activity – Cooperative Banks Restructuring Fund

1. Purpose and principles of providing assistance

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

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

- purchasing share of an affiliating bank,
- incurred or planned costs connected with merging of cooperative banks, aiming at increasing the security of accumulated funds or improving or unifying customer service standards, in particular for:
 - purchase or modification of computer software or hardware,
 - development or unification of banking technology,
 - modification of finance and accounting procedures,
 - development or unification of banking products and services offer,
 - planned investment costs⁶.

The assistance may be granted only to the banks with no risk of insolvency, which are capable of repaying the loans.

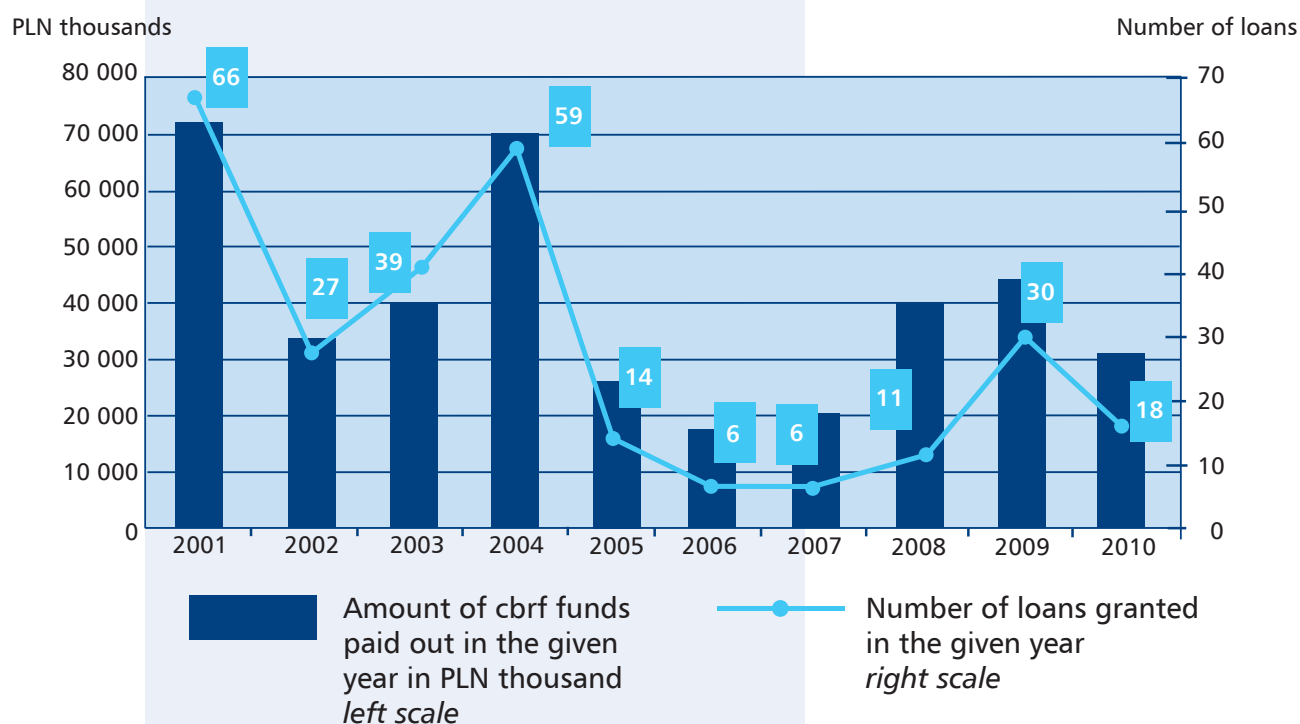
⁶ The possibility of cooperative banks to finance investment expenses was introduced on 13 December 2008 by the provisions of amended *Act of 7 December 2000 on the functioning of cooperative banks (...)*.

2. CBRF activity to date

In the years 2001-2010, the Bank Guarantee Fund extended 237 loans from the cooperative bank restructuring fund for a total of PLN 394,105,000. Funds obtained from repayments were allocated to new financial relief efforts. None of the cases processed reported any issues with repayment of borrowed funds.

As of January 1st 2010, forty-six banks were utilising fifty-six loans from the cooperative banks restructuring fund, for a total indebtedness of PLN 106,984.400.

Disbursements of assistance funds from cbrf in the years 2001-2010⁷



In 2010, the Fund processed 18 requests for financial assistance under the CBRF, for a total of PLN 31,543.500.

Upon review of the amounts requested by banks before the end of 2010, the Fund's Management Board resolved to:

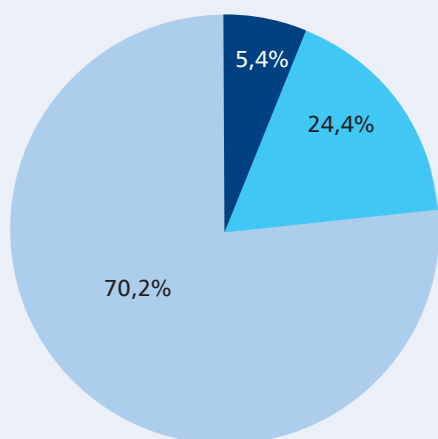
- grant 18 loans for a total of PLN 25,567.000 of which:
 - 15 loans were allocated to support merger processes or non-merger investments – for a total of PLN 24,177.000,
 - 3 loans were allocated to the purchase of shares in the affiliating bank – for a total of PLN 1,390.000,
- turn down requests for financial assistance submitted by three banks, due to insufficient amounts in the cooperative bank restructuring fund available at each application stage.

⁷ In the years 2003-2009, on the basis of thirty-nine annexes to the agreements, the Fund granted additional financial assistance in the form of increasing the loans.

In 2010, amounts for a total of PLN 30,974.000 were disbursed from the cooperative banks restructuring fund.

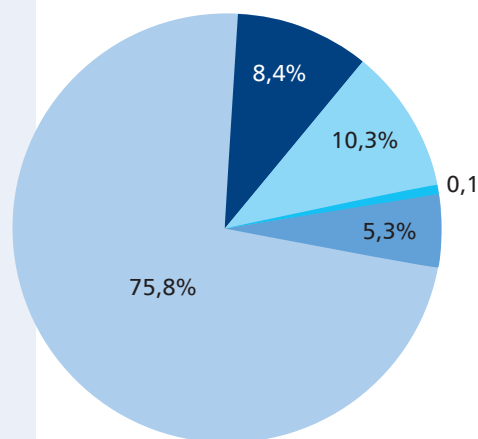
The allocation of loans from the cooperative banks restructuring fund in 2010 is presented on the diagrams below.

Structure of loans granted in 2010 from the CBRF as on 31 December 2010.



- purchase of shares in acquiring banks
- merger costs
- non-merger costs

Structure of investments carried out under loans obtained in 2010 under the CBRF as on 31 December 2010.



- purchase or modification of software and hardware
- development or unification of banking technology
- modification of finance and accounting procedures
- development or unification of banking products and services
- other investment and costs

A vast majority of the funds (75,8%) obtained by banks under CBRF loans in 2010 was allocated to other investments and expenses (including construction, renovations and building updates).

In 2010, banks repaid principal for a total of PLN 28,547.000. Nine banks repaid twelve loans in full.

Taking into account repayments and disbursements of the loans granted, as at the end of 2010, fifty-three banks were taking advantage of cooperative bank restructuring fund loans (utilising a total of sixty-three loans), for a total indebtedness thereunder of PLN 109,411,300.

VII. Control and monitoring of the financial assistance utilisation

1. Scope of control and monitoring

Control and monitoring of banks utilising financial assistance from the Bank Guarantee Fund was carried out with the consideration of the provisions of the Bank Guarantee Fund Act, the provisions of the *Act of 7 December 2000 on the functioning of cooperative banks*, their affiliation and affiliating banks, the provisions of the agreements on granting financial assistance concluded with banks.

The scope of the Fund's control includes:

In banks utilising financial assistance from the assistance fund	In banks utilising loans from the cooperative banks restructuring fund
control of correctness of the financial assistance use	control of purposefulness of the financial assistance use
control of performance of the restructurisation proceedings program	assessment of the economic, financial and organisational standing
monitoring of the financial and economic standing	control of fulfilment of the obligations arising from the loans agreements
monitoring the management system	assessment of financial forecasts performance

The performance of tasks related to monitoring banks utilising the Fund's financial assistance was based on:

- annual financial reports of banks and information conveyed pursuant to the agreements provisions,
- reporting of banks conveyed to the Fund on the basis of an agreement with the National Bank of Poland,
- information on activities towards banks undertaken by the Polish Financial Supervision Authority by way of supervision, received pursuant to the Bank Guarantee Act,
- generally accessible sources.

2. Control and monitoring of banks

In accordance with the 2010 control plan, the Fund audited ten banks utilising financial assistance from the BFG. The control plan was carried out in full.

Number of banks audited in 2010

Banks utilising assistance	Number of banks audited	
	From the assistance fund	From the cooperative banks restructuring fund
Commercial banks	-	-
Cooperative banks	-	10
TOTAL	-	10

Upon auditing cooperative banks utilising loans from the cooperative banks restructuring fund, it was established that the recovery plan is being implemented properly; the financial and economic standing of the banks was not a threat to the repayment of loans as of the day of the audit, and apart from two cases, there were no significant departures from the performance of the financial forecasts prepared by banks; in seven banks the internal regulations were not adjusted to the binding laws and the internal control system did not function properly.

The audit conclusions and the information on identified irregularities were included in post-control protocols were conveyed to the management boards of these banks and to the supervisory boards and affiliating banks. In case of one bank, due to the significance of discovered irregularities, the Polish Financial Supervision Authority was notified about the results of the audit.

In 2010 the Bank Guarantee Fund monitored the economic and financial standing as well as the performance of obligations under loan agreements for sixty-two banks.

Number of banks audited in 2010

Banks utilising assistance:	Number of banks			
	1 January 2010		31 December 2010	
	From the assistance fund	From the cbrf	From the assistance fund	From the cbrf
Commercial banks	1	-	1	-
Cooperative banks	-	47	-	52
TOTAL	2	47*	1	52
	48		53	

* A loan agreement with one bank was signed in December 2010, which resulted in covering the bank with monitoring of the Fund, the disbursement of funds was performed in January 2011.

In 2010, fourteen new banks were covered by monitoring, at the same time the monitoring of eight banks was concluded.

Upon auditing cooperative banks utilising loans from the cooperative banks restructuring fund, in some banks inaccuracies in the performance of obligations arising from the loan agreements were stated. In such cases, recommendations for the management boards of those banks were formed (i.e. regarding the improvement of selected economic and financial factors, financial forecasts verification, correcting the act in the area of distributing the balance surplus in a way to ensure its compliance with the provisions of law).

VIII. Analytical Activity

1. Sources of information

The Bank Guarantee Fund sources information about the banks from:

- the National Bank of Poland, pursuant to the *Agreement on the subject, scope, procedure and timelines applicable to notifications provided, by the National Bank of Poland to the Bank Guarantee Fund*, concluded on 27 December 2007,
- the Financial Supervision Authority, pursuant to the *Agreement on Cooperation and Exchange of Information between the Financial Supervision Authority and the Bank Guarantee Fund* of 12 June 2008,
- the banks, pursuant to the *Regulation of the President of the National Bank of Poland concerning the scope, procedure and timelines applicable to notifications provided by banks participating in the mandatory insurance deposit scheme to the Bank Guarantee Fund* of 2 May 2006, amended on 7 July 2009.

The most important task completed in 2010, regarding the amendments of provisions within the scope of bank reporting to the NBP⁸, was upgrading the reporting database of banks in the Fund. The changes in reporting concerned:

- modification of the WEBIS database, including lifting, from 1st March 2010, of reporting forms, the informative function of which was taken over by SIS reporting,
- modification of the SIS reporting and, as a result, of the XBRL taxonomy, including the change of frequency of conveying and changing some forms in the substantive area.

Apart from FINREP, COREP and WEBIS reporting, the important source of information was the data conveyed to the Fund directly by the banks, pursuant to *Regulation No. 12 of the President of the National Bank of Poland*. The banks were sending important systemic information on the amounts of receivables covered by the Fund's guarantees and on the amounts of sums guaranteed by the BFG, as well as information concerning the basis for calculation of the obligatory annual fee and the basis to create the fund for protection of the guaranteed sums.

In 2010 on the basis of the *Agreement on cooperation and exchange of information between the Polish Financial Supervision Authority and the Bank Guarantee Fund* the Fund was also obtaining supervisory information, essential for a proper identification of risks in the operations of individual banks, as well as information regarding the standing of the whole sector. The Agreement sets out the cooperation of both institutions for a proper performance of statutory tasks and exchange of information, in particular to ensure the stability of the banking sector and the security of the banks customers deposits.

⁸ Resolution no. 2/2010 of the Management Board of the National Bank of Poland of 18 February 2010 amending the regulation on the mode and detailed rules of conveying, by banks to the National Bank of Poland, the data essential to set out financial policy and temporary assessments of the financial standing of the country as well as financial assessment of banks and of the banking sector risk.

2. Bank assessment methodology

The Bank Guarantee Fund uses its own banking sector risk assessment system. The assessment of the financial position is made on the basis of analysis of four selected factors, characterizing four principal analytic areas: effectiveness, quality of receivables, quality of granted off-balance sheet liabilities and solvency. Based on an analysis of reporting and non-reporting factors, individual banks are given an individual risk assessment (called *rating*).

These *ratings* and *migration matrices* are the basic source of information concerning each bank's standing. Banks identified as carrying a higher risk under go 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.

In 2010 the banking sector risk assessment methodology was adjusted to the New reporting standards SIS.

3. Analysing the situation in the banking sector and identifying risks

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

The results of the risk analyses in the banking sector, including commercial and cooperative banks specificity, are prepared in a quarterly cycle.

In 2010 the Fund began the works on changing the previously applied bank assessment methodology and on creating an Early Warning System, that enables an early identification of banks at risk. During the works, the focus was put on ensuring the correctness of the full assessment of banks, as well as individual areas tested (effectiveness, credit risk, capital adequacy).

The analysis of the banking sector standing and of individual banks was one of the elements taken into account while establishing the rates of the obligatory annual fee and the fund for protection of the guaranteed sums for the year 2011. Those analyses took into consideration the proposals of the European Commission, included in the project of the amendment of the *directive 94/19/EC*, aiming at strengthening of the guarantee schemes standing and unifying the rules of their operations, including increasing the limit for guarantee payments provided to the PLN equivalent of EUR 100,000.

The proposal for the amount of the funds for protection of the guaranteed sums rate and the obligatory annual fee for 2011 was presented to the Council of the Bank Guarantee Fund, which established the amount of the aforementioned rates by way of resolution.

IX. Investment activity

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

In 2010 the performance of the investment policy of the Fund was continued. The policy aims at- with an acceptable level of risk and liquidity limits- increasing profitability. In accordance with the policy, the average maturity of the treasury bonds was extended and the value of funds invested on monetary bills of the NBP, treasury bills and funds kept in the account in the NBP was decreased.

Moreover, in order to ensure a proper level of short-term liquidity and effective allocation in short time of available funds kept on a current account in the NBP, *buy-sell* back transactions were concluded.

As a result of the new investment policy, there was a change of standing and structure of the portfolio on account of the size and participation of the individual bonds series in the whole portfolio. In comparison, until the end of 2009, in the structure of the whole BFG portfolio, according to the type of securities, there was an increase of the treasury bonds participation and a decrease of the treasury bills participation.

Structure of the securities portfolio

	Portfolio share	
	31.12.2009	31.12.2010
NBP money bills	0.04%	0.03%
Treasury bills	4.28%	2.12%
Treasury bonds	95.68%	97.85%
TOTAL	100.00%	100.00%

X. International and domestic cooperation

1. Domestic cooperation

In 2010 the representatives of the BFG actively participated in many legislative Works.

The Fund took part in the works carried out by the Ministry of Finance concerning the act on the *amendment to the Bank Guarantee Fund Act and other acts*, which is the implementation to the Polish law of the directive 2009/14/EC of the European Parliament and of the Council of 11 March. The representatives of the BFG took part in individual stages of the legislative proceedings, among others, the interdepartmental agreement conferences, meetings of the Council of Ministers Committee for Computerisation and Communications, the Cabinet Committee, Legal Commission of the Government Legislation Centre as well as meetings of subcommittees and sejm and senate commissions.

The works on the *amendment to the Bank Guarantee Fund Act* started in January 2010, when the first project presented by the Ministry of Finance was being opinionated. The works also included the preparation of executive acts stipulated in the amendment project, i.e. the resolution of the Minister of Finance:

- concerning the requirements for calculation systems⁹ kept in the entities covered by the obligatory guarantee scheme;

The scope and structure of data processed in the calculation systems were consulted in the working course with the banking environment.

- concerning the suspension of guaranteed sums disbursements in case, where the funds deposited on the account were blocked on the basis of provisions on counteracting money laundering or financial terrorism.

In 2010 the Fund consulted, with the domestic banks, the requirements connected to keeping the proper quality of databases, correctness of the conveyed information., as well as the means of Communications, which is necessary to create an efficient guarantee sums disbursements in the time of twenty working days.

Moreover, the representatives of the Bank Guarantee Act took part in the works of Justice and Human Rights Committee and Subcommittee regarding the senate's Project of *the act on the amendment of the Notary Public Act and the Bank Guarantee Fund Act*. The Bank Guarantee Fund also opinionated the projects of amendments of legal provisions concerning the financial market.

The BFG cooperated with the Ministry of Finance within the scope of analyses and opinionating documents prepared by the European Commission and the Council of the European Union. This cooperation concerned in particular the project of a new directive regarding the issue of the deposit guarantee schemes.

In May 2010, the Bank Guarantee Fund organised in Warsaw an international conference entitled *Global financial crisis: Lessons for the stability of the*

⁹ A bank's IT system is intended to ensure an option of immediate access to data allowing the depositors identification as well as establishing the amount of guaranteed sums due to individual depositors.

financial sector, as part of celebrations of the fifteenth anniversary of the Fund's activities. The conference was divided into four thematic sessions and gathered over one hundred and fifty distinguished economists, representatives of central offices, commercial banks, universities and foreign deposit guarantee institutions.

The Bank Guarantee Fund organised a seminar entitled *Resolution Regime a chance to strengthen the stability of the Polish banking sector* in September 2010.

In 2010 the representatives of the BFG took part in many conferences, seminars and debates organised by, among others, the Polish Bank Association, BRE/CASE, Biuro Informacji Kredytowej, the University of Poznań and the University of Technology in Łódź. The representatives of the BFG gave presentations and lectures during those meetings.

In the second quarter of 2010 the Bank Guarantee Fund co-participated in a sector testing conducted by the Polish Bank Association entitled *The image of the Polish banking sector 2010*. The results provided an up-to-date image of the attitude of the Polish society towards banking and presented how the financial crisis influenced the evaluation of the functioning of the banking system and of the financial security network institutions.

Due to the amendment of the Bank Guarantee Fund Act of 16 July 2009, which specified the informational duties of banks and broadened them as regards the good practice rules, under a decision of the Management Board of the Bank Guarantee Fund at the beginning of 2010 the activities connected with recommending the banks covered by the guarantee scheme to apply the Rules of good practice for banks regarding the information on belonging to an obligatory guarantee scheme and the *Rules of good practice for banks regarding informing the customers on the banks economic and financial standing* were concluded. The information on conclusion of the program was sent out to all commercial and cooperative banks.

2. International cooperation

In 2010 the President of the Management Board of the Bank Guarantee Fund – as member of the Executive Council, the decisive authority of the International Association of Deposit Insurers (IADI) – took part in its meetings. During the autumn General Annual Meeting of Members of the IADI, the President was elected an Executive Council member of IADI for a three-year term.

The representatives of the BFG took part in activities of two IADI committees (Research and Guidance Committee and Training and Conference Committee), as well as four sub-committees dealing with problems of, among others, differentiation of fees for the guarantee scheme depending on the bank risk and fighting the effects of systemic crisis in the banking sector.

In 2010, the Bank Guarantee Fund took part in annual meetings of IADI and European Forum of Deposit Insurers (EFDI), combined with international conferences on the subject of:

- the role of banks in ensuring the stability and economic growth,
- contribution of the deposit guarantee schemes to the process of strengthening the financial stability,
- changes in the organisation of the financial security network worldwide.

During both meetings the representatives of the BFG gave presentations.

In autumn of 2010, the Bank Guarantee Fund found itself in a group of guarantee institutions, which became the first signatories of a multilateral understanding on cooperation among European deposit guarantee schemes (*Memorandum of Understanding, MoU*), prepared by the EFDI.

The representatives of the BFG also took part in many meetings and conferences organised by international institutions, such as the European Commission, SEB and the Institute of International Finance in Stockholm. The Fund was also represented in the Working Group of the Financial Services, the meetings of which were organised and held on a regular basis by the European Union Council in Brussels.

The representatives of the BFG visited a few foreign deposit guarantee funds. The representatives of the Romanian Deposit Guarantee Fund in the Banking System were guests in the Fund's headquarters. Among other guests, there was a group of students of the Banking University operating by the National Bank of Ukraine. During these visits the guests had a chance to become familiar with the rules of functioning of the Polish deposit guarantee scheme as well as with the assistance and analytic activities of the Fund.

XI. Promotional and informational activities

In 2010, in connection with the plans to amend the Bank Guarantee Fund Act, there was a great interest in the subject of deposit guarantee schemes among banks' customers. The Fund was giving information to all the interested parties on the subject of rules of deposit guarantee schemes functioning and of participation of particular financial entities in the guarantee schemes. Telephone inquiries and correspondence (letters, e-mails) concerned issues connected with potential bankruptcies of banks, including the rules of guarantee performance and ways of recovering sums deposited in such banks in case of their insolvency. Moreover, the Fund received numerous questions regarding detailed rules of guarantee performance, including particularly the guarantee rules for joint accounts, guarantee issues for credit institutions branches operating in Poland as well as for Cooperative Credit/Savings Banks. In all cases, the depositors received detailed answers to their questions.

Information concerning the Polish deposit guarantee scheme can also be found on the Bank Guarantee Fund's website, which is regularly completed and updated. As at the end of 2010, the Fund started works to improve the website's functionality. On average, the BFG website was visited five hundred times a day.

A new graphic layout was prepared and the bonus promotional materials, which present the rules of deposit guarantee scheme to the Polish banks customers, were updated. During the whole reporting period, informational brochures were regularly sent out to commercial banks and cooperative banks affiliations.

Moreover, during the whole year of 2010, the Fund was distributing tables informing of the banks membership in the obligatory deposit guarantee scheme, in answer to current needs reported by banks.

In February 2010, the Council of the Bank Guarantee Fund appointed a new team of the Editorial Committee and the Programme and Scientific Council of the *Safe Bank* journal. Dariusz Daniluk was appointed as the new chairman of the Programme and Scientific Council and prof. Jan Szambelańczyk as the new editor-in-chief of the journal.

In 2010, three consecutive issues of the *Safe Bank* journal were published – two in Polish and one in English language version. The English language issue was dedicated to the BFG Conference on the occasion of the Fund's fifteenth anniversary, which was held in May 2010 in Warsaw.

Within the reporting period, *The BFG Bulletin* was published (no. 1/60/2010) and sent out to commercial and cooperative banks. It was also posted on the BFG website.

In February 2010, another edition of the Fund organised competition for the best BA, MA and doctoral thesis concerning deposit guarantee schemes, issues connected with the Bank Guarantee Fund activities and banks financial security, was concluded. There were seven theses competing. The jury of the competition awarded three of them, one in each category. At the same time the new edition of the competition was launched. It is scheduled to be resolved in the next calendar year.

Another element of the Fund's promotional and informational activities was releasing the *2009 Annual Report of the Bank Guarantee Fund* on a CD, in Polish and English language version. The CDs were later sent out to banks operating in Poland, as well as to many foreign deposit guarantee schemes and international organisations, of which the Fund is a member, i.e. EFDI and IADI.

XII. Selected financial data

Balance sheet as of 31 December 2010

ASSETS	31 December 2010	31 December 2009
I. Cash	91,035.25	222,681.67
1. Cash in hand	3,038.22	3,470.73
2. Cash in current account	79,349.80	191,276.05
3. Cash in special guarantee settlement account	1,798.65	1,798.65
4. Cash in Company Benefits Fund	6,848.58	26,136.24
II. Receivables from financial institutions	152,876,968.19	554,044,073.68
1. Receivables from banks on due account of:	152,876,968.19	554,044,073.68
a) loans granted from assistance fund	43,495,842.53	447,094,985.21
b) loans granted from Cooperative Banks Restructuring Fund	109,381,125.66	106,949,088.47
III. Other receivables and claims	619.72	6,673.02
IV. Securities and other financial assets	7,154,939,790.07	6,086,873,855.92
1. Debt securities	7,154,939,790.07	6,086,873,855.92
a) of banks	2,348,630.22	2,198,504.20
b) of State Treasury	7,152,591,159.85	6,084,675,351.72
V. Intangible and legal assets	818,786.30	883,525.88
VI. Tangible fixed assets	61,500,261.10	61,594,229.67
VII. Prepayments and accruals	81,906.50	88,565.29
TOTAL ASSETS	7,370,309,367.13	6,703,713,605.13

LIABILITIES	31 December 2010	31 December 2009
I. Liabilities	1,095,353.65	587,698.38
1. Other liabilities	1,095,353.65	587,698.38
II. Accruals and deferred income	2,658,023.90	1,874,424.72
III. Provisions	2,257,291.84	1,954,052.45
IV. Statutory fund	1,637,025,547.68	1,637,025,547.68
V. Reserve fund	666,604,353.56	669,882,674.05
VI. Assistance fund	4,519,787,059.52	3,893,601,270.01
1. Assistance fund to be used	4,476,287,059.52	3,446,601,270.01
2. Used assistance fund	43,500,000.00	447,000,000.00
VII. Cooperative Banks Restructuring Fund	123,409,688.87	123,409,688.87
1. Cooperative Banks Restructuring Fund to be used	13,998,372.50	16,425,326.93
2. Used Cooperative Banks Restructuring Fund	109,411,316.37	106 984 361,94
VIII. Funds obtained from bankruptcy estate	53,623,031.52	53,423,671.70
IX. Special funds and other liabilities	6,848.58	26,136.24
X. Financial results	363,842,168.01	325,206,761.52
XI. Profit (loss) from previous years	-	(3,278,320.49)
TOTAL LIABILITIES	7,370,309,367.13	6,703,713,605.13

OFF-BALANCE SHEET POSITIONS As of 31 December 2010

	31 December 2010	31 December 2009
Contingent liabilities	2,399,000.00	7,806,000.00
other liabilities	2,399,000.00	7,806,000.00
Contingent receivables	460,389.67	2,659,389.67
due on account of receivables reported to the bankruptcy estate	460,389.67	2,659,389.67

Profit and loss account of the Bank Guarantee Fund

For the years ending respectively on 31 December 2010 and 31 December 2009.

	2010	2009
I. Income from statutory activity	1,181,588.49	2,476,837.77
1. Interest income	1,181,474.23	2,473,069.49
2. Income from interest for delayed annual contributions paid by banks	-	3,136.48
3. Income from interest for delayed repayments of loans and interest on loans by banks	114.26	631.80
II. Profit (loss) on statutory activity	1,181,588.49	2,476,837.77
III. Profit (loss) on financial operations	384,514,981.11	337,977,989.14
1. With securities	384,506,413.85	337,968,211.28
2. Other	8,567.26	9,777.86
IV. The Fund's operational costs	(21,283,337.18)	(17,848,109.59)
1. Outsourced services	(3,424,468.54)	(3,681,453.55)
2. Salaries	(12,899,582.60)	(10,111,517.72)
3. Salary overheads	(1,456,097.28)	(1,127,113.16)
4. Other assets	(3,503,188.76)	(2,928,025.16)
V. Depreciation of fixed assets and intangible and legal assets	(2,141,810.63)	(1,654,091.11)
VI. Other income	1,571,799.94	4,258,197.05
VII. Other costs	(1,053.72)	(4,061.74)
VIII. Operational activity results	363,842,168.01	325,206,761.52
IX. Financial results of the Fund	363,842,168.01	325,206,761.52

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INDEPENDENT AUDITOR'S REPORT ON THE ABBREVIATED FINANCIAL STATEMENT FOR THE CABINET OF POLAND, THE MINISTER OF FINANCE, THE COUNCIL OF THE BANK GUARANTEE FUND AND THE MANAGEMENT BOARD OF THE BANK GUARANTEE FUND

The enclosed abbreviated financial statement of the Bank Guarantee Fund, with its registered office in Warsaw, at ks. Ignacego Jana Skorupki 4 street (hereinafter referred to as "the Fund") has been prepared by the Management Board of the Fund on the basis of the examination of the full financial statement of the Fund for the financial year from 1 January to 31 December 2010 (hereinafter referred to as "the financial statement of the Fund"). The financial statement of the Fund has been drawn up pursuant to the regulations of the Accounting Act of 29 September 1994 (uniform text – Journal of Laws of 2009 No. 152 item 1223 as amended) and detailed accounting principles of the Bank Guarantee Fund (The Regulation of the Minister of Finance of 19 December 2008, Journal of Laws of 2008 No. 236, item 1631).

We conducted our audit of the financial statement of the Fund, on the basis of which the abbreviated financial statement has been drawn up, in accordance with auditing standards issued by The National Council of Statutory Auditors in Poland. On 10 March 2010 we issued a favourable opinion on the financial statement of the Fund.

In our opinion, the abbreviated financial statement presented subsequently gives a true and fair view of all the significant aspects within the given scope in accordance with the full financial statement of the Fund. For a full understanding of the financial position of the Fund and its financial results for the financial year from 1 January to 31 December 2010, it is essential to read the full financial statement of the Fund, as well as the opinion and the report of an independent auditor, concerning the above mentioned financial statement.

Auditing on behalf of PricewaterhouseCoopers Sp. z o.o., the company entered under No. 144 on the list of entities authorised to audit financial statements:



Adam Celiński
Member of the Management Board
PricewaterhouseCoopers Sp. z o.o
Key Chartered Accountant
Registration number 90033

Warsaw, March 10, 2011