



BANK  
GUARANTEE  
FUND

Annual Report

2011

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

*Dear Sirs,*

*In 2011 the Bank Guarantee Fund was conducting its activities in conditions of a relatively high economic growth in Poland and a stable situation in the domestic banking sector. Due to the good position of banks there was no need for guarantee disbursements. However, outside of Poland, there has been a number of unfavourable phenomena: a great weakening of business activity, financial problems of banks and a growing debt crisis in some eurozone countries, as well as continuing instability in international financial markets.*

*These phenomena have not threatened the security of the Polish banking sector, but if they continue or deepen, they may become potential sources of threat for the future position of banks in Poland. Therefore in 2011, there was a special meaning to those activities of the BFG that aimed at strengthening the stability of the domestic banking sector. The Fund continued the works started in 2010 concerning the changes in the deposit guarantee schemes, resulting from the amendment of the Bank Guarantee Fund Act. As a result, the BFG was prepared to process the guarantee disbursements to depositors within twenty working days. The Fund created a model for Early Warning System, enabling a faster and more efficient identification of banks at risk of insolvency. 2011 was a year of works on development and improvement of the Guarantee Performance System, investment and organisational works were undertaken in order to ensure the required level of security of the Fund, the BFG systems effectiveness tests were conducted. The BFG implemented a new statutory obligation to control the correctness of data in banks' calculation systems. After the results of the control were disclosed to the banks, it enabled them to undertake actions improving the quality of the said data.*

*In 2011, works were started to introduce legal solutions concerning restructuring operations and bank resolution. In November 2011, the Fund took on the leadership of Working Group appointed by the Financial Stability Committee. The main task of the Group is preparing legal solutions concerning restructuring operations and bank resolution, as well as drawing up a project of foundations of an act.*

*In parallel to the works carried out by the Working Group, the Bank Guarantee Fund cooperated with the World Bank under advisory assistance for the Polish government in preparations of the approach to restructuring operations and bank resolution. Under a decision of the Minister of Finance, the Fund was appointed as the leading institution as regards this cooperation.*

*Last year, the Bank Guarantee Fund undertook a series of actions aimed at informing the society about the rules of functioning of deposit guarantee schemes and the role played by the BFG for the benefit of the domestic system of financial institutions stability.*

*The year 2011 was a time of the Fund's increased activity at the international forum. In cooperation with the International Association of Deposit Insurers (IADI) in October 2011 the Fund organized in Warsaw the 10th Annual Conference and General Meeting of International Association of Deposit Insurers. The high estimation of the event's organisation resulted in honouring the Bank Guarantee Fund with a special award, presented by the IADI President to the organizer of the event for the first time in the Association's history. The Fund actively participated in the works of the International Association of Deposit Insurers (IADI) as well as of the European Forum of Deposit Insurers (EFDI). The Bank Guarantee Fund took part in the works of many European structures, i.e. the Working Group for Early Warning System of the European Commission, which drafts regulatory proposals concerning bank resolution.*

*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.*

Ludwik Kotecki



Chairman of the Council  
of the Bank Guarantee Fund

Jerzy Pruski



President of the Management Board  
of the Bank Guarantee Fund

# 1. Objectives and Tasks

The Bank Guarantee Fund acting on the basis of *the Bank Guarantee Fund Act of 14 December 1994*, is part the country's financial security network and performs its statutory tasks, including guarantee, assistance and analytic activity. The Fund executes its tasks pursuant to *the Bank Guarantee Fund activity plan and financial plan*, adopted for a given year.

In 2011 the Bank Guarantee Fund fulfilled all the undertakings set forth in *The directions of development of the Bank Guarantee Fund until 2011* and *The Bank Guarantee Fund activity plan for the year 2011*. To a significant degree they were the continuation of action undertaken in 2010, concerning the modifications in the deposit guarantee schemes, which, in turn, resulted from the amendment of *the Bank Guarantee Fund Act*, which came into force on 30 December 2010. Their aim was to prepare the Fund for the modifications introduced by the act, including shortening the time of disbursements of the guaranteed sums to twenty working days.

Efficient functioning of the modified deposit guarantee system required alterations of development of the monitoring and analytic functions. Strengthening both those functions aims at adequately early risk identification in the banking sector as well as preparing the Fund to undertake proper actions.

In 2011, the existing banking sector analysis system was expanded with new studies on the cooperative banks sector, prepared in semi-annual cycle. The studies presented a detailed look on the economic and financial situation of the cooperative banks sector and it pointed out the structural barriers of their further development.

In 2011 a lot of attention was devoted to analysing methods of dealing with banks that are in a difficult situation, particularly to restructuring operations and bank resolution while using foreign experiences and their efficiency. The same year marked the beginning of the Fund's – as the leading institution – cooperation with the World Bank regarding issues connected with bank resolution. The starting point of the joint action was organising of a seminar on the subject in the headquarters of the Fund in October 2011.

At the end of 2011, the Financial Stability Committee appointed a Working Group chaired by the President of the Management Board of the Bank Guarantee Fund. It was composed of the representatives of four institutions: the Ministry of Finance, the National Bank of Poland, the Polish Financial Supervision Authority Office and the Bank Guarantee Fund. The main task of the Group is preparing legal solutions concerning restructuring operations and bank resolution, as well as drawing up a project of foundations of an act. As early as in December 2011, following the initiative of the Working Group, two seminars were organised regarding, among others, the rules and entity-based scope of bank resolution as well as institutional system models.

One of the statutory tasks of the BFG is providing financial assistance to banks from the assistance fund. The basic condition for granting a loan from the BFG assistance fund is declaring the danger of insolvency. In 2011 no bank applied for granting financial assistance.

The suspension of banks operations and, as a result, the guarantee disbursements to depositors by the deposit guarantee institution should be treated as a finality. Therefore, the Fund has been working on methods of improvement and expansion of financial assistance instruments.

Pursuant to the *Act of 7 December 2000 on the functioning of cooperative banks, their affiliation and affiliating banks*, the financial assistance from the cooperative bank restructuring fund (the CBRF) may be granted only to the banks with no risk of insolvency. In 2011 loans from this fund were extended to 12 banks. The Fund was also working on optimising the use of the CBRF funds, among others by modifying the system of granting returnable financial assistance from the fund's resources.

Similarly to previous years, the banks using the Fund's financial assistance were monitored and controlled. On the basis of the monitoring results it was established that the economic and financial situation of banks did not pose a risk to the repayment of loans.

In 2011 the representatives of the Fund maintained contacts with the institutions creating the national financial security network as well as with the banking sector. They participated in legislative works regarding projects of provisions of law concerning the functioning of the BFG and projects regarding the Polish financial market.

The year 2011 was a time of the Fund's increased activity at the international forum. On 17–21 October 2011 the 10<sup>th</sup> International Association of Deposit Insurers (IADI) Annual General Meeting and Annual Conference were co-organized by the Bank Guarantee Fund and the International Association of Deposit Insurers Secretariat. Poland was the first member country of the European Union to hold the Annual General Meeting of the IADI members.

In 2011 the representatives of the Fund actively participated in the current activities of IADI. The President of the Bank Guarantee Fund, performing the function of a member of the Executive Council of this organization, took part in its meetings, whereas the representatives of the BFG participated in the works of three IADI committees (Research and Guidance Committee, Training and Conference Committee and Audit Committee) as well as four sub-committees of this organisation.

As a result of efficient costs management, as well as the new investment policy and active financial resources management, in 2011 the Fund generated a better than planned financial result. It amounted to PLN 414.3 million, i.e. 3.4% (PLN 13.7 million) more than budgeted.

## 2. The Fund's Management and Organisation

### 2.1. 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 2011, the BFG Council was composed as follows:

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

During the reporting period the following changes took place in the composition the Council of the Bank Guarantee Fund:

- On April 28th, 2011, the Minister of Finance accepted the resignation handed in on April 20th, 2011, by the Chairman of the Council Dariusz Daniluk and appointed in his place Piotr Piłat, who was simultaneously recalled from the function of a Member of the Council,
- On May 23rd, 2011, the Minister of Finance appointed Szymon Milczanowski as a Member of the Council,
- On November 25<sup>th</sup>, 2011, Alina Gużyńska was recalled from the function of a Member of the Council.

As at the end of 2011, the BFG Council performed its duties in the following composition:

Chairman of the Council:	Piotr Piłat
Members of the Council:	Krysztof Broda Sławomir Cytrycki Szymon Milczanowski Krzysztof Pietraszkiewicz Jan Szambelańczyk Olga Szczepańska-Maciejuk

During the reporting period the BFG Council decided to limit the composition of the Management Board of the Bank Guarantee Fund from five to four members. The purpose of this change was optimization of the Management Board works and the BFG Office functioning as well as decreasing the costs of its activity.

As of 19 January 2011 the Management Board of the Bank Guarantee Fund continued to perform its duties in the following composition:

President of the Management Board:	Jerzy Pruski
Vice-President of the Management Board:	Anna Trzecińska
Members of the Management Board:	Krystyna Majerczyk-Żabówka Sławomir Niemierka

At the request of Sławomir Niemierka, as of 30 April 2011 he was recalled from the function of a Member of the Management Board by the Fund's Council. As of 1 May 2011 the Council of the Bank Guarantee Fund appointed Marek Szeffler as a Member of the Management Board. In connection with the above, as of 1 May 2011 the Management Board of the Bank Guarantee Fund performed its duties in the following composition:

President of the Management Board:	Jerzy Pruski
Vice-President of the Management Board:	Anna Trzecińska
Members of the Management Board:	Krystyna Majerczyk-Żabówka Marek Szeffler

## 2.2. Organisation of the BFG Office

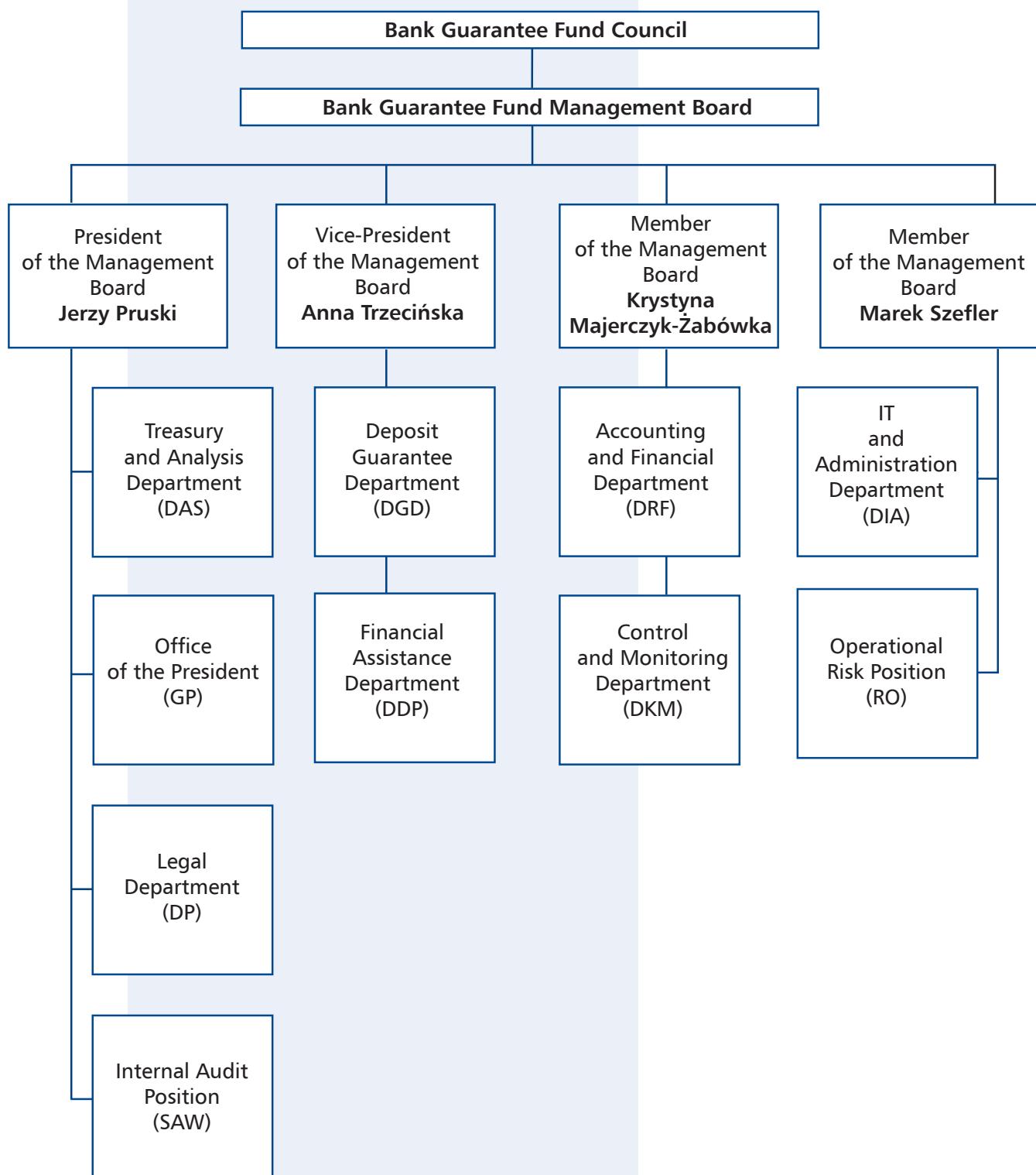
The organisational structure of the Bank Guarantee Fund include the following organisational units performing its statutory tasks:

- **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 aforementioned banks as well as granting assistance to banks from the Cooperative Banks Restructuring Fund and administration of the assistance,
- **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 banks that have received financial assistance from the Fund as well as control of the accuracy of data being the basis for the disbursement of the guaranteed sums, included in the calculating systems of banks benefiting from the Fund's assistance,
- **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, internal and external communication (including updating the Fund's website),
- **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 organizational structures of the Fund's 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 four permanent interdepartmental committees operating in the Bank Guarantee Fund:

- **The Assets 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 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,
- **The Committee for the Early Warning System**, responsible for assessment of the economic and financial situation in the banking sector and in individual banks as well as its influence on the financial system stability and granting ratings to banks covered by the guarantee system.

**Organisational structure of the Bank Guarantee Fund  
(as of 31.12.2011)**



## **2.3. Employment**

As of 1 January 2011, the Bank Guarantee Fund employed 80 people, as of 31 December 2011 – 89 people.

In connection with carrying out new tasks by the Fund, there were 15 people employed in 2011. Six contracts of employment were terminated in this year.

### **3. The most important undertakings of the BFG in 2011**

#### **3.1. Implementation of new systemic solutions within the scope of deposit guarantee**

##### **3.1.1. Works of the Steering Committee**

The Steering Committee, responsible for works covering the area of legislation, informatics, control as well as the logistic and procedural area, was also dealing with preparing the Bank Guarantee Fund to implement the *directive 94/19/EC* regarding the date of the disbursement of the guaranteed sums.

The area of legislation covered the works on implementing regulations to *the Bank Guarantee Fund Act* amended on 30 December 2010, i.e. the regulation on suspension of the disbursement of the guaranteed sums in case the resources deposited on the account were blocked on the basis of regulations on countering money laundering and terrorism financing, as well as regulations on requirements for the calculation systems kept in entities covered by the obligatory guarantee scheme. The Fund actively participated in those works, drafting proposals concerning the contents of those acts and issuing opinions on relevant projects, as well as conducting necessary consultations with banks.

In 2011 the IT area carried out works on development and improvement of effectiveness of the IT part of the Guarantee Performance System, which is a set of IT tools including the SRG Portal-serving as means of communication with banks – and the SRG Application-serving as a module for data processing. After consultations, the banks signed contracts for using the SRG Portal.

As part of preparations for realisation of the data correctness control, IT tools supporting the control process were tested. The testing included preparation, improvement and development of the control formulas.

In the logistic and procedural area, the works were focused on developing, in cooperation with potential partners of the Fund, the final version of an agreement with a bank-agent concerning the readiness to disburse the guaranteed sums. Such agreements were concluded with Bank Handlowy w Warszawie SA, Bank Polska Kasa Opieki SA and Powszechna Kasa Oszczędności Bank Polski SA, which provides the Bank Guarantee Fund with the possibility to disburse the guaranteed sums through a network of commercial establishments within the territory of Poland in case of the guarantee condition fulfilment. The agreements were concluded for a period of three years.

The Steering Committee also prepared an internal instruction regulating the tasks of individual organisational units of the BFG Office in the process of guarantee performance and the concept of functioning of the call-centre and the website of the Fund, which are the main information channels in case of disbursement of the guaranteed sums.

The Fund drew up *Explanations concerning the aggregated profile of the client*, available at the BFG website and a catalogue of categories of entities that could be banks' clients, declaring if a given entity is or is not a depositor in accordance with the Bank Guarantee Fund Act.

### **3.1.2. The BFG systems effectiveness test**

In accordance with Art. 38k of *the Bank Guarantee Fund Act* in 2011 the Fund carried out segmental tests controlling the effectiveness of the process of the guaranteed sums disbursements: procedural and formal area (preparing a set of draft resolution, notes and information), drawing up a list of payments (receipt of the list of depositors from a bank, processing of the data and generating a list of payments), transfer of the list of payments to the banks-agents (checking if the file with a text list of payments transfer red by the Fund is accepted by the IT system of a bank-agent and if the data in the prepared format can be used to fulfil potential disbursements of the guaranteed sums), and a call-centre (the Fund's free-phone service) as well as the website (efficiency tests).

The results of the individual elements of the process of guaranteed sums disbursements showed that the Fund's systems allow for a timely fulfilment of statutory tasks within the scope of the guaranteed sums disbursements. At the same time, it was stated that the source of the greatest threat concerning the timeliness of disbursements is the insufficient quality of data in the banks calculating systems. The aim of carrying out the control of the correctness of data in the banks calculating systems is the improvement of the data quality.

### **3.2. Security policy and operational risk management system**

In connection with preparations for implementation of the Guarantee Performance System, in 2011 a series of activities aimed at protecting the data processed in the System. After drawing up and implementing the *Security Policy* and the *Instruction for SRG System Management*, sets of personal data processed in the SRG System were registered in GODO.

In 2011, the Fund implemented a new regulation introducing rules and mode of data protection and performed a series of works connected with new requirements specified in the *classified information protection act*.

2011 was a time of continuation of works aimed at creating operational risk management system in the Bank Guarantee Fund. During the year, the Fund introduced rules of functioning of the Key Risk Factors, registered and analysed operational risk events and finished working on descriptions of strategic processes *Granting financial assistance to banks* and *the BFG financial resources management*. The level of operational risk in the Fund, monitored on the basis of Key Risk Factors, was deemed low.

### **3.3. Analytic activity development**

#### **3.3.1. Banking sector situation analysis**

New extended and comprehensive studies concerning the cooperative banks sector were drafted and presented in a semi-annual cycle, within the scope of analysis and risk identification in the economic and financial situation of the banking sector. The first study presented a detailed economic and financial situation of the cooperative banks sector as a whole and divided into groups created according to the value of the balance sheet total. Due to the progressing development of banking services market and interpenetration of the areas of cooperative and commercial banks activity, the two areas were compared. Special attention was paid to the analysis of credit risk and solvency. Due to progressing development of banking services market and interpenetration of areas of cooperative and commercial banks operations, the two sectors were compared. Special attention was paid to the analysis of credit risk and solvency. Simultaneously, the problem of structural barriers for further development of the sector of cooperative banks connected with their size was pointed out.

The following study related to risk analysis in the cooperative banks sector taking into account the specific nature of associations. It presented the functioning of the cooperative banks sector in view of the relation between affiliated banks and affiliating bank. The study presented an analysis of the balance sheet, in particular credit activity and an analysis of financial effectiveness of affiliated and affiliating banks. It was pointed out that there are disproportions between distribution potential of cooperative banks and its participation in basic balance sheet figures and financial result of the banking sector.

The analysis showed the most significant threats and areas of risk connected with functioning of affiliations. The presentation applied allowed for a more comprehensive identification of risk areas in the cooperative banks sector and of the main threats, i.e. connected with the possibility of losing sources of financing and limited possibilities of investment.

#### **3.3.2. Modifications in the bank assessment methodology – Early Warning System**

2011 brought a continuation of works on changing the previously applied bank assessment methodology, including the implementation of the Early Warning System, that enables an early identification of banks at risk. An additive-multiplicative model of the Early Warning System (SWO) was built from the ground. It enables a more efficient – than the previously applied additive model – selection of banks at risk. The model makes an assessment of the three most significant – from the point of view of bank solvency – areas, i.e. efficiency, credit risk and capital adequacy. It also takes into account the off-report information concerning ongoing rehabilitation proceedings.

Implementation of the model at the end of 2011 constituted a systemic change regarding the approach to assess the risk for banks. Applying an innovative solution enables faster and more efficient identification of threats in banks.

The second, next to the SWO model, significant element of the early warning system introduced in the Fund, is the Early Warning System Committee, functioning from the second half of 2011. The objective of the Committee's operations is the assessment of the economic and financial situation in the banking sector and individual banks as well as its influence on the stability of the financial system. The Committee monitors, on a current basis, the macroeconomic situation in Poland, Europe and in the world and the way it influences the situation of banks operating in Poland, especially in terms of transferring the threats identified in the European Union countries to the domestic market.

## **4. Analytic works concerning restructuring and bank resolution**

2011 was the time of analytic works concerning crisis management in the banking sector and the Fund's potential role in this process.

The Bank Guarantee Fund appointed Strategic Projects Team to deal with issues related to restructuring and bank resolution. The Team's work focused on analyzing the current legal status concerning the designed tools including acts currently in force, ratified international agreements and the European Union law.

Moreover, in order to disseminate the knowledge and exchange opinions regarding the creation of *resolution* solutions in Poland, internal and external seminars were organised to review the tools concerning early intervention and bank resolution available in Poland.

The Fund issued opinions on the European Commission working documents regarding a wide scope of new solutions in the European financial sector, in particular legislative proposals relating to restructuring and insolvent bank resolution.

At the end of 2011 the Fund initiated – as the leading institution – cooperation with the World Bank within the framework of *Technical Advisory Work for the Government of Poland*. The starting point of the joint action was organising of a seminar in the headquarters of the Fund in October 2011, during which the representatives of the World Bank presented a study taking into account the latest proposals of the European Commission concerning bank resolution, whereas foreign experts discussed bank resolution solutions functioning in other countries. In the course of following works the World Bank proposed *Terms of Reference*, defining the rules for cooperation and a schedule for further operations.

The President of the Management Board of the Bank Guarantee Fund chaired the Working Group appointed by the Financial Stability Committee in November 2011. The main task of the Group is preparing legal solutions concerning restructuring operations and bank resolution. The Group is composed of the representatives of four institutions: the Ministry of Finance, the National Bank of Poland, the Polish Financial Supervision Authority Office and the Bank Guarantee Fund. The Group's objective is drawing up a project of foundations of an act concerning restructuring operations and bank resolution in Poland.

## 5. The Annual Conference and Annual General Meeting of IADI Members

On 17–21 October 2011 the Bank Guarantee Fund and the International Association of Deposit Insurers Secretariat co-organized the 10<sup>th</sup> IADI Annual Conference and Annual General Meeting of Members of the International Association of Deposit Insurers. Poland was the first member country of the European Union to host the Annual General Meeting of the IADI members. The organisation of the event was carried out by the Bank Guarantee Fund with no help of any external specialized institution.

On 17–18 October there was a total of 18 meetings of IADI committees and sub-committees, as well as a meeting of the Executive Board and General Meeting of Members of the association. The meetings were attended by 170 participants representing the deposit guarantee institutions from 60 countries of all continents.

The Annual IADI Conference *Beyond the Crisis: the Need for Strengthened Financial Stability Framework*, that took place on 19–20 October, was attended by over 270 representatives of deposit insurance schemes from all over the world and participants representing central banks, including the National Bank of Poland, supervision authorities, ministries of finance and international financial institutions, such as the World Bank, International Monetary Fund, European Commission, Bank for International Settlements (BIS) and the Organization for Economic Co-operation and Development (OECD).

The high estimation of the organisation of the Annual Conference in Warsaw resulted in honouring the Bank Guarantee Fund with a special award, presented by the IADI President. Such an award was presented to the organizer of the event for the first time in the Association's history.

## 6. Guarantee Activity

### 6.1. 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 set the interest rate applicable to establishing of the FPGS for 2011 at 0,4%<sup>1</sup> of the cash placed on all the accounts in a bank, which serves as a basis for calculating the mandatory reserve level. In 2011, the Funds for the Protection of the Guaranteed Sums, established by all banks and maintained in their assets (updated on 1<sup>st</sup> July 2011 and increased by the value of FPGS created in September 2011 by Polbank EFG SA) amounted to PLN 3,216,992.1 thousand.

These funds were not utilized in 2011 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 sum-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 financed from ex ante sources, which are:

- the internal fund of the BFG raised from amounts recovered on banks' bankruptcy estates, the total sum of which amounted to PLN 53,623.0 thousand as of 31 December 2011,
- the internal fund of the BFG raised from the obligatory annual fees, reduced by the balance-sheet value of receivables financed from the fund – the assistance fund to be used as of 31 December 2011 amounted to PLN 5,573,552.4 thousand,

<sup>1</sup> Amendment to the Bank Guarantee Fund Act, effective from 30 December 2010, raised the maximum level of the FPGS rate from 0.4% to 0.55%.

- other sources, i.e. funds from subsidies and loans from the State Treasury and other BFG internal funds, except for: cooperative banks restructuring fund, this part of the statutory fund which is dedicated to finance the acquisition of tangible fixed assets, revaluation fund, retained earnings from previous years and financial profit for the current year – as of 31 December 2011 the supplementary fund amounted to PLN 666,604.4 thousand, statutory fund PLN 1,637,025.5 thousand, and the value of tangible fixed assets reducing the statutory fund available to guarantee disbursements amounted to PLN 61,603.2 thousand,
- short term loan from the National Bank of Poland.

Moreover, there is a possibility of increasing the rate of the fee for the fund for the protection of guaranteed sums and the rate of the annual fee (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 the fee for the fund for the protection of guaranteed sums may be raised to 0.8 percent and the rate of the obligatory annual fee to 0.6 percent).

## 6.2. Guarantee Disbursements

**Table 1. Funds allocated to guarantee disbursements in the years 1995–2011**

Year	Funds allocated to guarantee disbursements (in PLN million)				Percentage of utilisation of the FPGS (%)	Number of depositors		
	Total	including:						
		From the FPGS	Cash from bankruptcy estates	Amounts recovered from the bankruptcy estates				
1995	105.0	85.9	19.1	0	38.1	89,939		
1996	50.8	47.3	3.1	0.4	14.9	59,420		
1997	6.4	4.7	0.6	1.1	2.3	10,418		
1998	8.2	4.1	1.8	2.3	3.2	6,775		
1999	4.7	0	2.0	2.7	0	1,572		
2000	626.0	484.1	141.9	0	48.4	147,739		
2001	12.5	0	4.5	8.0	0	2,658		
2002	0.1	0	0.1	0	0	46		
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		
2011	0	0	0	0	0	0		
<b>TOTAL</b>	<b>814.4</b>	<b>626.1</b>	<b>173.8</b>	<b>14.5</b>	<b>–</b>	<b>318,823</b>		

Between the commencement of its operations and the end of 2011, the BFG disbursed guarantee funds to depositors of five commercial banks and eighty-nine cooperative banks.

**Table 2. Bank insolvencies in the years 1995–2011**

Year	Commercial bank	Cooperative banks
1995*	2	48
1996	1	30
1997	–	6
1998	–	4
1999	1	–
2000	1	–
2001	–	1
2002–2011	–	–
<b>TOTAL</b>	<b>5</b>	<b>89</b>

\* 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.

As of 31 December 2011, the Fund had no liabilities due to unused guaranteed sums.

In 2011 the Bank Guarantee Fund did not obtain any sums on account of receivables submitted to the bankruptcy estate of a bank in relation to transferring, in previous years, the financial resources to the trustee for disbursements for the depositors.

The total amount of the funds obtained from bankruptcy estates of the banks was, as of 31 December 2011, PLN 53.623 thousand.

As at the end of December 2011, the bankruptcy proceedings of two banks were not completed. In relation to those banks the fulfilment of the guarantee condition occurred in the time of the Fund's activities.

## 7. Assistance Activity and its modification

### 7.1. Financial assistance from the assistance fund

#### 7.1.1. Purpose 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 17 November 2010, the Council of the Bank Guarantee Fund set rates of the obligatory annual fee from banks in 2011 at 0.099% of 12.5 – fold of capital requirements for specific risks, large exposures and any other requirements set forth in the *Banking Law Act*.

In 2011, the assistance fund was supplied with the obligatory annual fee amounting to PLN 733,423.1 thousand paid by the banks as well as with the distribution of the balance surplus of the Fund amounting to PLN 363,842.2 thousand.

#### 7.1.2. Conditions of providing assistance

The condition of providing assistance by the Fund is declaring a bank is at risk of insolvency.

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 Art. 7 par. 2 p. 6 of 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. The condition of providing assistance is establishing legal security for the repayment of the loan.

### 7.1.3. Assistance Activity to date

In 2011, no loan was extended from the assistance fund. The Fund administered one loan from the assistance fund granted in 2010, for a total of PLN 43,500.0 thousand aimed at supporting the merger process with the bank at risk of insolvency. The loan was extended for a period of four years from 27 April 2010 to 26 April 2014. The security for a loan granted from the assistance fund is a financial pledge on rights from treasury bonds.

From its inception until the end of 2011, 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 3,790,342.4 thousand. The financial assistance granted by the BFG was allocated towards banks' self-recovery plans (PLN 2,249,050 thousand), acquisitions of banks at risk of insolvency (PLN 1,306,292.4 thousand) and purchase of shares in banks at risk of insolvency by new shareholders (PLN 235,000 thousand).

**Table 3. Loans granted from the assistance fund in the years 1996–2011**

Type of bank and allocation of assistance	Loan disbursements	
	Amount in PLN thousand	Share percentage
• commercial*	3,427,386.4	90.4
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
<b>TOTAL</b>	<b>3,790,342.4</b>	<b>100.0</b>

\* 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 strengthening the stability of the banking sector.

## **7.2. Assistance Activity – Cooperative Banks Restructuring Fund**

### **7.2.1. Purpose 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 manages PLN 123,409.7 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 costs.

The assistance may be granted only to the banks with no risk of insolvency, and their situation allows – in the opinion of the Fund – to acknowledge no threat to the repayment of the loan, on condition of setting a proper legal security interest of the Fund.

The banks' requests were examined in two application rounds, taking into account the scoring system of a request, modified in 2011 by the Fund's Council in relation to the scoring system introduced in 2009. Currently, the scoring depends on the type of investment expenditure and the given bank's history of using financial assistance from the CBRF. The criteria of co-financing investments and mutual investments were eliminated.

### **7.2.2. CBRF Activity to date**

In the years 2001–2011, the Bank Guarantee Fund extended 249 loans from the cooperative bank restructuring fund for a total of PLN 409,190.0 thousand. None of the cases processed reported any issues with repayment of borrowed funds.

As of January 1<sup>st</sup> 2011, fifty-three banks were utilising sixty-three loans from the cooperative banks restructuring fund, for a total indebtedness of PLN 109,411.3 thousand.

In 2011 the Fund processed requests of 10 banks to grant 12 loans from the CBRF for a total of PLN 15,401.8 thousand.

Upon review of the amounts requested by banks before the end of 2011, the Fund's Management Board resolved to grant loans for a total of PLN 15,085.0 thousand, of which:

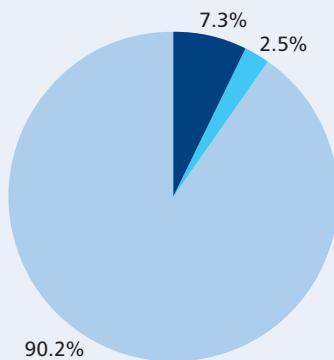
- 8 loans were allocated to support merger processes or non-merger investments – for a total of PLN 13,978.0 thousand,
- 4 loans were allocated to the purchase of shares in the affiliating bank – for a total of PLN 1,107.0 thousand.

In 2011, amounts for a total of PLN 12,914.0 thousand were disbursed from the cooperative banks restructuring fund.

Taking into account repayments and disbursements of the loans granted, as at the end of 2011, fifty-five banks were utilising a total of seventy-three loans from the cooperative bank restructuring fund for a total indebtedness thereunder of PLN 88,075.0 thousand.

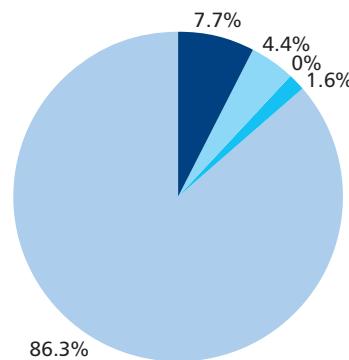
The allocation of loans from the cooperative banks restructuring fund in 2011 is presented on the diagrams below.

**Diagram 1. Structure of loans granted in 2011 from the CBRF as on 31 December 2011.**



■ Purchase of shares in affiliating banks  
■ Merger costs  
■ Non-merger costs

**Diagram 2. Structure of investments carried out under loans obtained in 2011 under the CBRF as on 31 December 2011.**

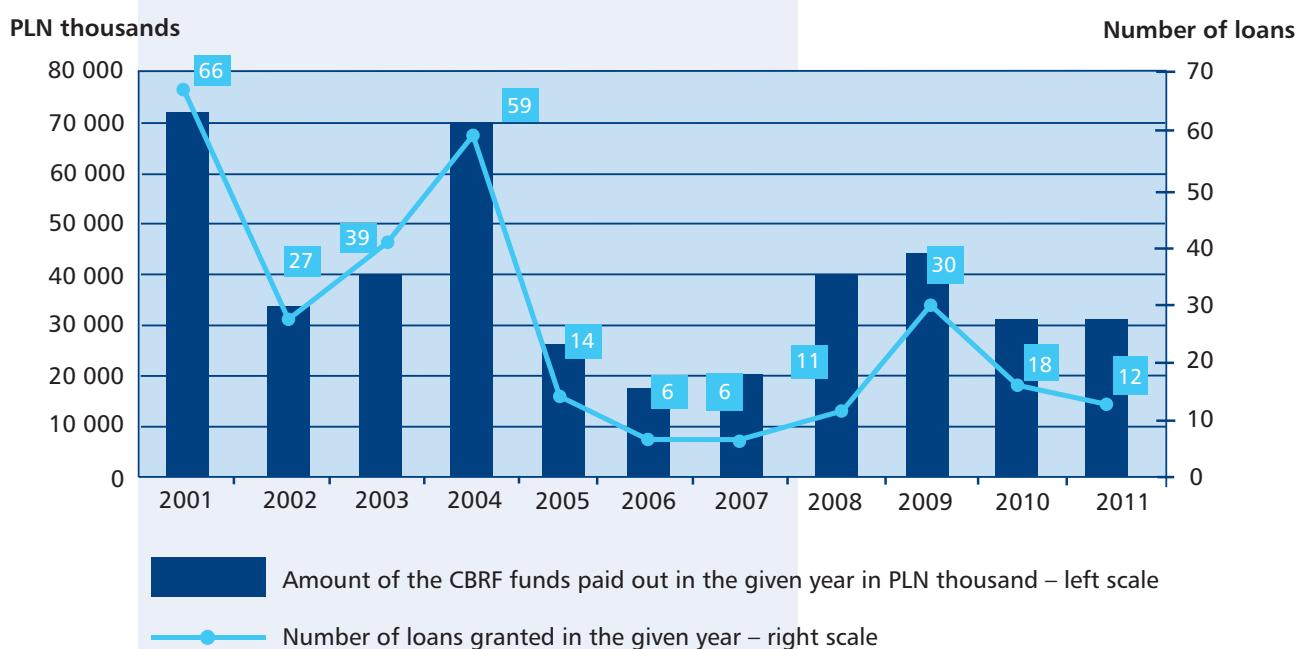


■ Purchase or modification of software and hardware  
■ Development or unification of banking technology  
■ Modification of finance and accounting procedures  
■ Development or unification of banking products and services  
■ Other investment and costs

A vast majority of the funds (86.3%) obtained by banks under the CBRF loans in 2011 was allocated to other investments and expenses (including construction, renovations and building updates).

In the years 2001–2011, the Bank Guarantee Fund extended 249 loans from the cooperative bank restructuring fund for a total of PLN 409,190.0 thousand. None of the cases processed reported any issues with repayment of borrowed funds.

**Diagram 3. Disbursements of assistance funds from the CBRF in the years 2001–2011**



### **7.3. Improvements in providing assistance**

In 2011, the BFG Council introduced modifications to the system of granting repayable financial assistance from the Cooperative Banks Restructuring Fund, which aimed to optimise the use of funds from the CBRF.

Systemic changes, adopted by the BFG Council in 2011 related to the simplification of the assistance-granting procedure by the means of limiting the amount of information disclosed by the banks, introduction of the possibility of granting a bank, with its consent, a part of the requested loan, modification of the request's scoring, changing the procedure of loan advancing if the bank is planning for merger and investment expenditure, and modification of request processing stages duration.

2011 saw the continuation of analytic research concerning the assistance tools at the disposal of the Fund, which resulted in new methods of securing the financial assistance.

## **8. Monitoring and control of use of the BFG financial assistance and data control of the banks' calculating systems**

### **8.1. Monitoring and control of use of financial assistance**

Monitoring and control of banks receiving financial assistance from the Fund are performed in accordance with the regulations of *the Bank Guarantee Fund Act, the act on the functioning of cooperative banks, their affiliation and affiliating banks*, and provisions of the agreements signed with banks on granting financial assistance.

The monitoring of banks using the financial assistance of the Fund involved performing analyses of economic and financial situation, as well as confirming compliance with obligations pursuant to the signed agreements.

The bank receiving assistance was investigated in the light of its compliance with the procedure of assistance utilisation; merger program realisation was assessed, and management system was monitored.

Banks using the financial assistance from the Cooperative Banks Restructuring Fund had their financial projections evaluated.

When monitoring banks receiving financial assistance from the Fund the data used came from their annual financial statements and information provided in accordance with the agreements, information reported to the Fund, information concerning action relating to the banks, undertaken within the framework of the Polish Financial Supervision Authority's supervisory power, and widely accessible sources.

In 2011 only cooperative banks receiving the CBRF assistance were subject to control in their headquarters. The control examined, in accordance with the provisions of the signed agreements, the use of assistance funds granted for specific purposes.

### 8.1.1. Bank monitoring

As of December 31, 2011 economic and financial situation was monitored and realisation of obligations pursuant to the loan was assessed in 55 banks receiving financial assistance from the BFG, including one bank receiving financial assistance from an assistance fund as well as the BFG and 54 banks receiving 72 loans from the CBRF.

In 2011 the monitoring covered 2 more banks; 10 banks received assistance (12 loans), including 8 banks which had received loans beforehand.

**Table 4. Number of banks audited in 2011**

Banks utilising assistance	Number of banks audited			
	01 January 2011		31 December 2011	
	From the assistance fund and the CBRF	From the CBRF	From the assistance fund and the CBRF	From the CBRF
Commercial banks	–	x	–	x
Cooperative banks	1	52	1	54
TOTAL	1	52	1	54
	53		55	

According to the monitoring conclusions banks receiving financial assistance from the Fund were deemed solvent and there was no risk of failing to repay the obligations to the BFG. The realisation of the merger program by the bank receiving assistance from the assistance fund did not fundamentally deviate from the accepted projections.

## **8.2. Controls carried out in banks**

In accordance with the 2011 control plan, the Fund audited six banks utilising financial assistance from the BFG. The control plan was carried out in full. As a result of the carried out controls, on the basis of analysing the documents confirming the incurred expenses and visitations of institutions, it was stated that the banks utilised the financial assistance in accordance with the objectives stipulated in the *Act of 7 December 2000 on the functioning of cooperative banks (...)* and in the loan agreements.

### 8.3. Validity control of banks' calculating systems data

In 2011 a Data Control Team was added to the organisational structure of the Fund's Office, and it was made responsible for validity control of data in banks' calculating systems, pursuant to the amended *Bank Guarantee Fund Act*. According to the Act's provisions in the second half-year the Fund began performing validity controls of banks' calculating systems data. In accordance with the *Bank Guarantee Fund Act* the controls were performed in the headquarters of the Fund as well in the main offices of the banks.

**Table 5. Number of banks, whose data included in the calculating systems, were inspected in 2011**

Banks	Number of inspected banks	
	Inspections performed from the headquarters of the Fund	Inspections performed in the main offices of banks
Commercial banks	7	1
Cooperative banks	76	10
TOTAL	83	11

The plans for data validity controls in 2011 were fully realised.

The controls performed in the headquarters of the Fund involved controlling the validity, completeness and coherence of data necessary to identify the depositors and their due amount of guaranteed sums. During the controls performed in the banks' main offices source documents presented by the banks were verified and definitions of depositors and guaranteed sums were examined.

Based on the performed controls main problems were identified, which included the following: banks not fulfilling the formal requirements related to preparation of data and its delivery to the Fund, calculating systems not taking into account all the clients with active debts owed to a bank and counting the same clients more than once, client data missing (Polish Citizen Identification Number, National Register of Business Entities, National Court Register, date of birth, place of residence, ID number), erroneously specified amount of guaranteed sums, wrong definition of depositors, data in calculating systems not matching data in source documents.

The Fund sent a letter to banks' chairmen, to the chairman of the Polish Financial Supervision Authority, the chairman of the Association of Polish Banks and the chairman of the National Cooperative Banks Association informing them of the identified problems related to data validity in calculating systems.

By virtue of the *Bank Guarantee Fund Act* banks are required to perform tests of calculating systems and provide the Fund and the Polish Supervision Authority with their results within 14 days from their completion. In accordance with the legislative requirements the banks were obliged to perform the first test of their calculating systems not later than 30 June 2011.

The fund received feedback from 623 banks i.e. all the banks operating in Poland. It suggested that the performed tests exposed missing identification data of depositors, especially their Polish Citizen Identification Number and valid ID documents, systems not including data from clients with inactive accounts and errors in establishing the amount of the contribution of entities who are clients of more than 1 bank.

## 9. Analytic Activity

### 9.1. 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 from the NBP, the PFSA and the banks themselves. The Bank Guarantee Fund obtains information about the situation of banks from the following sources:

- 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 Polish Financial Supervision Authority, pursuant to the *Agreement on Co-operation 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*; while in 2011 pursuant to:
  - *Regulation No 12/2009 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*, concluded on 7 July 2009,
  - *Regulation No 7/2011 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*, concluded on 27 April 2011.

On the basis of the above mentioned information, the Bank Guarantee Fund performs the assessment of the banking sector financial situation, taking into account the commercial and cooperative banks sector as well as individual subjects covered by the deposit guarantee scheme.

The results of the danger analysis in the banking sector, taking into account the specific nature of commercial and cooperative banks, are drafted in a quarterly cycle, whereas the danger analyses in the cooperative banks sector commenced in 2011 are drafted in a semi-annual cycle. The studies show the quantitative and qualitative modifications in the banking sector in entity-based section (in a combined approach, divided into commercial and cooperative banks, groups of banks and individual banks) and time-based section (as long-term trends and quarterly and monthly modifications). The changes regarding market concentration, customer and products segments, structures of generating income by banks and places of formation of insolvency threats were all analysed. The analytical sections applied allowed to identify the sources of risk and the place of formation of threats in the banking sector, whereas prolonging the time horizon allowed to describe and study the most significant trends.

The analysis of the banking sector situation is a point of reference for assessing the risk in individual banks operations. Its aim is to single out the banks that generate the biggest threat.

Apart from quarterly and semi-annual analyses, the Fund prepares monthly information regarding the banking sector situation. It is drawn up in a tabular and graphic form, it enables fast access to synthetic information concerning the current situation of the banking sector.

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 2012. Those analyses took into consideration the position of the Polish banking sector (including the level of risk), as well as the proposals of the European Commission, aiming at strengthening of the guarantee schemes standing and unifying the rules of their operations.

The proposal for the amount of the funds for protection of the guaranteed sums rate and the obligatory annual fee for 2012 was presented to the Council of the Bank Guarantee Fund, which established the amount of the aforementioned rates.

While analysing the macroeconomic environment, special pressure was put on the domestic macroeconomic and market environment, as well as on key external events influencing real processes and market changes occurring in Poland, which influence, or may influence, the stability of the banking sector and treasury bonds market. Drafted studies allowed for an assessment of market conditions for executed investment in the area of the Fund's treasury operations.

## 9.2. Updating and developing the information base

By virtue of an Agreement with the National Bank of Poland, the Fund acquires banks reporting data, mainly from the NBP SIS reporting system. 2011 was the year of works on the process of reporting package modification FINREP initiated by the NBP. Within the scope of works connected with the current need to update the method of reporting data usage, specifications were compiled and new standard and non-standard aggregates, as well as a standard report for the early warning system, were defined and programmed.

Apart from the SIS reporting system, in 2011 the second main source of information was the data conveyed to the Fund directly by the banks pursuant to the 12/2009 regulation and the 7/2011 regulation of the President of the NBP 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 and concerning the programs of restructurisation proceedings. In 2011 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.

## 10. 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 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 and funds were invested in the NBP money bills.

Unstable situation in the financial markets and the escalation of the debt crisis in Western Europe increased the risk of a mismatch in the investment policy framework to the macro-economic surroundings as well as appearance of significant external factors rendering impossible its execution. Despite those difficult conditions, the Fund was able to achieve better than expected financial results.

Accomplishing all objectives planned for 2011, the Fund generated a better than planned financial result. It amounted to PLN 414.3 million, i.e. 3.4% (PLN 13.7 million) more than budgeted. The major factors contributed to this growth were the new investment policy and active management of the financial resources implemented in 2010. The modification of the investment policy resulted in an additional income of PLN 34.2 million.

Another factor that influenced the good financial performance in 2011 was efficient costs management.

As a result of investments made in 2011, there was a change in the balance and structure of the securities portfolio. In comparison to 2010, there was an increase in treasury bonds share and a decrease in treasury bills share in the total.

**Table 6. Structure of the securities portfolio**

	Portfolio share	
	31.12.2010	31.12.2011
NBP money bills	0.03%	0.57%
Treasury bills	2.09%	1.31%
Treasury bonds	97.88%	98.12%
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>

# 11. Domestic and international cooperation

## 11.1. Domestic cooperation

In 2011 the Fund remained in contact with the national banking sector. BFG's representatives participated in i.e. the General Meeting of Polish Bank Association and the Forum of Cooperative Bank Leaders.

Within the framework of cooperation with the Polish Bank Association a study on the image of Polish banking sector entitled *A Study of the Banking Sector Reputation* was launched. The aim of this project was to measure the level of popular knowledge about the deposit guarantee scheme and the role of the Bank Guarantee Fund.

In 2011 the Fund participated in legislative work concerning drafting acts directly related to the functioning of the BFG: an act amending *the act on the Bank Guarantee Fund and other selected acts*, the regulation of the Finance Minister concerning granting of status to the Bank Guarantee Fund, the regulation of the Finance Minister concerning the requirements for calculating systems of entities subject to compulsory guarantee scheme, the regulation of the President of the National Bank of Poland concerning the extent, procedure and term of compulsory sharing of information with the BFG by banks.

The act of 8 December 2011 on *amending the act on the Bank Guarantee Fund and other selected acts* concerns the creation of a stabilisation fund within the BFG as an in-house fund, obtaining its financial means from a precautionary fee paid by entities subject to a compulsory financial means guarantee scheme, earmarked for financing of the State Treasury's assistance-related activities. The act also provides for amending *the act on the Committee of Financial Stability*, which would increase the number of the Committee members by including the Chairman of the Bank Guarantee Fund.

Moreover, the BFG would comment on the projects of amending acts relating the national financial market (the act on *amending the Banking Law* as far as transformation of a credit institution's department into a domestic bank is concerned, the act on *protection of rights of apartment and individual home buyers* where covering their financial means accumulated on a real estate trust fund with guarantee protection is concerned, the act on *amending the act on granting state financial assistance to financial institutions* and the act on *recapitalisation of selected financial institutions*).

As far as analysing documents related to the works of the European Commission is concerned special attention was given to the draft of a *directive amending the directive on the deposit guarantee scheme*.

In 2011 representatives of the BFG took part in many conferences and seminars, such as the Banking Forum 2011, the European Economic Congress in Katowice, the European Financial Congress in Sopot, the Eurofi Financial Forum in Wrocław and the Foundation of Cooperative Banking Development Seminar. During the course of many of the aforementioned events representatives of the Fund gave speeches, participated in debates and led panel discussions.

The BFG organised seminars for representatives of the national financial security network. Their subject matter concerned proposed changes to the EU directive on deposit guarantee schemes, coordination of works relating to guaranteeing deposits during the period of holding presidency in the Council of the European Union and rules of guaranteeing deposits in Switzerland. All of the said seminars were attended by invited foreign speakers. In attendance were also representatives of the Ministry of Finance, the National Bank of Poland and the head office of the Polish Financial Supervision Authority.

## 11.2. International cooperation

In 2011 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 three of its meetings. The representatives of the BFG took part in activities of three IADI committees (Research and Guidance Committee, Training and Conference Committee as well as Audit Committee) as well as four sub-committees of this organization (sub-committee on Handling a Systemic Crisis, Financial Inclusion and Innovation, Update of Guidance of Resolution of Bank Failures and Recoveries from Assets of Failed Banks).

In 2011, the Bank Guarantee Fund was represented at the annual meeting of the European Forum of Deposit Insurers (EFDI) as well as at the meetings of the EFDI European Union Committee. The representatives of the BFG actively participated in international conferences organised by the IADI and the EFDI and in seminars organised by foreign deposit guarantee institutions.

The representatives of the BFG also took part in the works of other European committees: Working Party on Financial Services in the European Council, Working Party on Early Warning in the European Council, European Commission working group, drawing up legislative proposals regarding bank resolution, as well as in triilogue of the European Commission, the European Parliament and the European Council concerning the *deposit guarantee schemes directive*.

The Fund was represented at the annual meeting of the World Bank, the International Monetary and the Institute of International Finance (IIF), as well as at international conferences, i.e. organized by Riksbank and the European Central Bank (*Bank Resolution*) and the Bucharest Financial Forum (DGS Joint Financial Safety Net).

The representatives of the BFG participated in trainings and seminars organized by the IADI, the American Federal Deposit Insurance Corporation (FDIC) and foreign deposit guarantee institutions.

In 2011 the Fund kept in contact with foreign deposit guarantee institutions and their affiliations. The Fund's representatives travelled to several foreign deposit guarantee funds and hosted a delegation from the Serbian Deposit Insurance Agency.

The BFG concluded an agreement on cooperation with the Ukrainian Deposit Guarantee Fund in Kiev. The agreement is in the form of a memorandum and foresees, among others, development of cooperation regarding economy and finance, exchange of opinions on financial services, deposit guarantee, dealing with banks at risk working cross-border and promoting banking systems.

The BFG also concluded an agreement in the form of memorandum with the FDIC. The memorandum is of general nature and foresees development of cooperation between the BFG and the FDIC regarding economy and finance, exchange of opinions on financial services, deposit guarantee, process of resolution of financial institutions at risk of insolvency, promoting verified banking practices and many other matters regarding financial stability. The agreement assumes exchange of experiences through sharing knowledge, organising trainings and exchanging employees.

## 12. Promotional and informational activities

In 2011 the interest in the subject of deposit guarantee schemes among banks' customers remained on a similar level to the previous year. 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, in particular Polbank EFG 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. In 2011, particularly in the IV quarter, there was a greater, than in the previous year, interest in the Bank Guarantee Fund's website. It was caused by the IADI Annual General Meeting and Annual Conference.

2011 marked the end of works on the new, both structurally and graphically, Bank Guarantee Fund website, that will enable easier access to information. It will be launched at the beginning of 2012.

In 2011, close to 2 million new leaflets informing about the modifications to the rules of the deposit guarantee schemes were sent out to commercial banks and affiliations of cooperative banks. In response to current needs reported by the banks during the year, the Fund distributed tables informing of the bank's belonging to the obligatory deposit guarantee scheme.

In 2011, three consecutive issues of the Safe Bank journal were published. Over 20 articles and 6 information studies were presented. The subject matter included, among others, the rules for effective deposit guarantee, changes in the European architecture of supervision over the banking system, as well as issues regarding the security of banks and the stability of the banking sector.

Within the framework of analysis of systemic solutions regarding deposit guarantee, analyses were prepared presenting: Belgian, Bulgarian, Finnish, Malaysian, Russian, Swiss and Hungarian deposit guarantee schemes. The information can be found on the BFG website.

Within the reporting period, *The BFG Bulletin* was published. It included texts of resolutions of the BFG Council regarding the interest rate for the year 2012, defining the amount of the funds for protection of the guaranteed sums created by entities covered by the deposit guarantee scheme as well as the rate of the obligatory annual fee for the year 2012, paid to the Bank Guarantee Fund. The Bulletin was sent out to commercial and cooperative banks. It was also posted on the BFG website.

The BFG published promotional and informational materials and articles on the modifications in deposit guarantee scheme in Poland in periodicals of nationwide circulation (*Wprost* and *Super Express*). Publication in *Super Express* allowed to reach close to one million readers, the majority of whom comes from small cities and rural areas and has limited access to other sources of information on the deposit guarantee schemes.

In February 2011, 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 two of them, one MA and one doctoral thesis. Presentation of the awards took place on June 16<sup>th</sup>, 2011, in the Fund's headquarters.

## 13. Selected financial data in PLN

### BALANCE SHEET OF THE BANK GUARANTEE FUND as of 31 December 2011 and 31 December 2010

ASSETS	31.12.2011 r.	31.12.2010 r.
Cash	287,920.25	91,035.25
Cash in hand	2,928.36	3,038.22
Cash on current accounts	272,908.31	79,349.80
Cash on special guarantee settlement account	1,798.65	1,798.65
Cash due to Company Social Benefits Fund	10,284.93	6,848.58
Receivables from financial institutions	131,584,409.20	152,876,968.19
Receivables from banks due to:	131,584,409.20	152,876,968.19
– loans granted from Assistance Fund	43,518,752.23	43,495,842.53
– loans granted from Cooperative Banks Restructuring Fund	88,065,656.97	109,381,125.66
Receivables from the State Treasury	28,563.00	–
Other receivables and claims	2,246.23	619.72
Securities and other financial assets	8,324,237,929.53	7,154,939,790.07
Debt securities	8,324,237,929.53	7,154,939,790.07
– of banks	47,236,400.45	2,348,630.22
– of the State Treasury	8,277,001,529.08	7,152,591,159.85
Intangible assets	1,123,889.61	818,786.30
Tangible fixed assets	61,603,258.16	61,500,261.10
Advances and prepaid expenses	122,949.68	81,906.50
<b>TOTAL ASSETS</b>	<b>8,518,991,165.66</b>	<b>7,370,309,367.13</b>

LIABILITIES	31.12.2011 r.	31.12.2010 r.
Liabilities	1,008,817.60	1,095,353.65
Other liabilities	1,008,817.60	1,095,353.65
Accruals and deferred income	3,106,175.43	2,658,023.90
Provisions	2,836,803.45	2,257,291.84
Statutory fund	1,637,025,547.68	1,637,025,547.68
Supplementary fund	666,604,353.56	666,604,353.56
Assistance fund	5,617,052,352.88	4,519,787,059.52
Assistance fund to be used	5,573,552,352.88	4,476,287,059.52
Assistance fund used	43,500,000.00	43,500,000.00
Cooperative Banks Restructuring Fund	123,409,688.87	123,409,688.87
Cooperative Banks Restructuring Fund to be used	35,334,636.66	13,998,372.50
Cooperative Banks Restructuring Fund used	88,075,052.21	109,411,316.37
Funds obtained from bankruptcy estate	53,623,031.52	53,623,031.52
Special funds and other liabilities	10,284.93	6,848.58
Financial result	414,314,109.74	363,842,168.01
<b>TOTAL LIABILITIES</b>	<b>8,518,991,165.66</b>	<b>7,370,309,367.13</b>

**OFF-BALANCE SHEET ITEMS**  
**As of 31 December 2011 and 31 December 2010**

	31.12.2011 r.	31.12.2010 r.
CONTINGENT LIABILITIES	4,570,000.00	2,399,000.00
other liabilities	4,570,000.00	2,399,000.00
CONTINGENT RECEIVABLES	460,389.67	460,389.67
receivables reported to the bankruptcy estates	460,389.67	460,389.67

**PROFIT AND LOSS ACCOUNT OF THE BANK GUARANTEE FUND**  
**For the years ending on 31 December 2011 and 31 December 2010**  
**respectively.**

	2011 r.	2010 r.
Income from the statutory activity	768,448.44	1,181,588.49
Interest income	768,335.43	1,181,474.23
Interest income on delayed payments of loans and interests by banks	113.01	114.26
Profit on the statutory activity	768,448.44	1,181,588.49
Profit on the financial operations	441,315,785.57	384,514,981.11
With securities	441,308,921.79	384,506,413.85
Other	6,863.78	8,567.26
The Fund's operational costs	(26,455,328.41)	(21,283,337.18)
General expenses	(5,139,948.33)	(3,424,468.54)
Salaries	(14,767,461.67)	(12,899,582.60)
Social security and pension charges	(1,623,023.65)	(1,456,097.28)
Other	(4,924,894.76)	(3,503,188.76)
Depreciation of fixed assets and intangible assets	(2,503,528.02)	(2,141,810.63)
Release of provisions and decrease in write-down	573,414.12	–
Other income	617,582.26	1,571,799.94
Other costs	(2,264.22)	(1,053.72)
Result on the operational activity	414,314,109.74	363,842,168.01
Financial result of the Fund	414,314,109.74	363,842,168.01



**INDEPENDENT REGISTERED AUDITOR'S OPINION  
ON THE CONDENSED FINANCIAL STATEMENTS  
TO THE COUNCIL OF MINISTERS, MINISTER OF FINANCE,  
THE COUNCIL AND THE MANAGEMENT BOARD  
OF THE BANK GUARANTEE FUND**

The attached condensed financial statements of the Bank Guarantee Fund (hereinafter called "the Fund"), with its registered office at Ks. Ignacego Jana Skorupki 4 Street, in Warsaw, were prepared by the Management Board of the Fund based on the audited financial statements of the Fund for the year ended 31 December 2011 ("the Financial Statements"). The Financial Statements were prepared in accordance with the Decree of the Minister of Finance dated 19 December 2008 on specific accounting policies of the Bank Guarantee Fund (Journal of Laws No. 236, item 1631) and the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223 with further amendments).

We have audited the Financial Statements of the Fund, from which the condensed financial statements were derived, in accordance with the provisions of Chapter 7 of the Accounting Act of 29 September 1994 and the National Standards on Auditing issued by the National Chamber of Registered Auditors. On 12 March 2012 we issued an unqualified audit opinion on these Financial Statements.

In our opinion, the accompanying condensed financial statements are consistent, in all material respects, with the Fund's Financial Statements from which they were derived.

For a full understanding of the Fund's financial position and the results of its operations for the year ended 31 December 2011, the condensed financial statements should be read in conjunction with the Financial Statement from which they were derived and our opinion and audit report thereon.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Adam Celiński  
Member of the Management Board  
PricewaterhouseCoopers Sp. z o.o.

Principal Registered Auditor  
No. 90033

Warsaw, 12 March 2012

PricewaterhouseCoopers Sp. z o.o.,  
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PricewaterhouseCoopers Sp. z o.o. is entered into the National Court Register maintained by the District Court for the Capital City of Warsaw, under KRS number 0000044655, NIP 526-021-02-28. The share capital is PLN 10,363,900. The seat of the Company is in Warsaw at Al. Armii Ludowej 14.