

2013 / Annual Report
Bank Guarantee Fund



BFG BANKOWY
FUNDUSZ
GWARANCYJNY



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

It is our pleasure to provide you with the Annual Report, which presents the activity of the Bank Guarantee Fund in 2013. Looking back on another completed year, we are pleased to note our institution's greater significance within the domestic financial safety-net.

The year 2013 was a period of significant legislative change in national and EU law, which affected the operation and the course of action of the Bank Guarantee Fund. Amendments of two important acts entered into force in Poland: the Act on Cooperative Savings and Credit Unions and the Act on the Bank Guarantee Fund, resulting in BFG's commencement of preparations to cover cooperative savings and credit unions by the mandatory deposit guarantee scheme. BFG's multifaceted regulatory, organisational and technical actions included participation in the legislative process relating to executive orders to the Act on the Bank Guarantee Fund, as well as preparation of tools for the implementation of these orders; the development of IT solutions enabling the control of correctness of data from credit union calculating systems; as well as signing with selected banks an agreement concerning readiness to disburse guaranteed deposits to depositors of credit unions. Within the statutory period, i.e. before 29 November 2013, the Fund achieved full operational readiness to disburse guaranteed funds in the event of fulfilment of the guarantee condition with respect to credit unions.

The most important legislative changes in EU law, from BFG's point of view, relate to two regulations with key implications for the financial safety-net, i.e. the amended Deposit Guarantee Schemes Directive as well as the Bank Recovery and Resolution Directive. Throughout the year, the Bank Guarantee Fund was working intensively on proposals for implementing the above regulations into the national law.

In 2013, in addition to intensive preparation to undertake new tasks, the Fund continued its actions to underpin the stability and safety of the banking sector and the credit union sector, as well as to further increase confidence in the financial system in Poland. In terms of granting financial assistance, loans to banks were provided from the cooperative bank restructuring fund. Analyses of the banking sector were carried out with special attention paid to areas and problems generating the most serious threats to the overall condition of the banking sector and to individual banks. Statutory effectiveness tests were carried out towards the end of the year, with their results affirming that the systems of the Fund enable timely implementation of its obligations in terms of disbursement of guaranteed deposits to depositors of banks and credit unions.

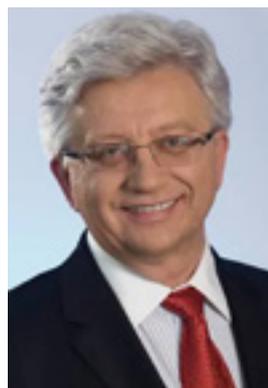
The year 2013 was also a period of intense involvement of the Fund in the international arena, especially in the management of the International Association of Deposit Insurers (IADI) and collaboration with the Association. In 2013, BFG was included in the Financial Sector Assessment Program (FSAP) carried out by the International Monetary Fund and the World Bank. The Polish deposit guarantee scheme was highly rated in terms of fulfilment of 18 Core Principles for Effective Deposit Insurance Systems. At the Annual General Meeting of IADI Members, the Fund was granted a Deposit Insurance Organization of the Year award for 2013 in the category of Core Principles and International Participation.

Summing up another year of the Fund's activity, we wish to express our gratitude to all individuals and institutions involved in collaboration with the Bank Guarantee Fund – and in particular the representatives of the Ministry of Finance, the National Bank of Poland, the Polish Financial Supervision Authority and the Polish Bank Association. Excellent cooperation undoubtedly facilitates the implementation of the statutory mandate of the Fund.

We hope that this Annual Report will help provide readers with information on the operation and role of BFG in the system of institutions working to further the stability of the financial sector in Poland.




Ludwik Kotecki
Chairman
Bank Guarantee Fund
Council




Jerzy Pruski
President
Bank Guarantee Fund
Management Board



BFG'S ROLE AND TASKS



1. BFG'S ROLE AND TASKS

WHO WE ARE:

The Bank Guarantee Fund (BFG, the Fund) is an institution acting in furtherance of the stability of the domestic financial system, in particular by managing and operating the deposit guarantee system in Poland, providing assistance and support, as well as granting and performing the recapitalisation guarantee.

BFG was established by the *Act of 14 December 1994 on the Bank Guarantee Fund* (consolidated text, Journal of Laws of 1009, No. 84, item 711, as amended), hereinafter referred to as the “Act on BFG”, which has been in force since 17 February 1995.

OUR MISSION:

The Bank Guarantee Fund's mission is to contribute to the safety and stability of banks and cooperative savings and credit unions (“credit unions”) and to increase confidence in the domestic financial system. **Thanks to the Bank Guarantee Fund, the savings of bank and cooperative savings and credit union clients deposited in the accounts of such institutions are safe.**

OUR TASKS:

- **ensuring** the effective **operation of the system of guaranteeing deposits** entrusted to banks, cooperative savings and credit unions;
- **guaranteeing** each **depositor a payout of bank or credit union deposits** up to the statutory limit (the equivalent in PLN of EUR 100 thousand) within 20 working days from the day of fulfilment of the guarantee condition.
- **providing financial assistance to banks** facing the threat of insolvency or for the acquisition of stock or shares of another bank;
- **extending a guarantee** to increase the own funds of a bank, to banks undergoing reorganisation, and in case of execution of said guarantee, to purchase or assume stock, bonds or bank-issued securities;
- **offering loans to cooperative banks** not threatened by insolvency, for the acquisition of stock of an affiliated bank, to cover expenditures associated with mergers, as well as investment expenditures;
- **providing financial assistance to cooperative savings and credit unions** facing the threat of insolvency and supporting restructuring processes with respect to these credit unions;
- **collecting and analysing information** about entities covered by the deposit guarantee system, **carrying out analyses and drafting forecasts** with the aim of sufficiently early identification of threats to the banking system and cooperative savings and credit union sector;
- **verification of data** contained in bank and credit union calculating systems



ORGANISATIONAL STRUCTURE OF THE BANK GUARANTEE FUND



2. ORGANISATIONAL STRUCTURE OF THE BANK GUARANTEE FUND

2.1. BFG AUTHORITIES

The legal basis for the Fund's operation is provided by the Act on BFG and *the Bank Guarantee Fund Statute*, which is annexed to a Regulation of the Minister of Finance of 13 August 2003 *on awarding the statutes to the Bank Guarantee Fund* (Journal of Laws item 967)¹, as well as other executive acts.

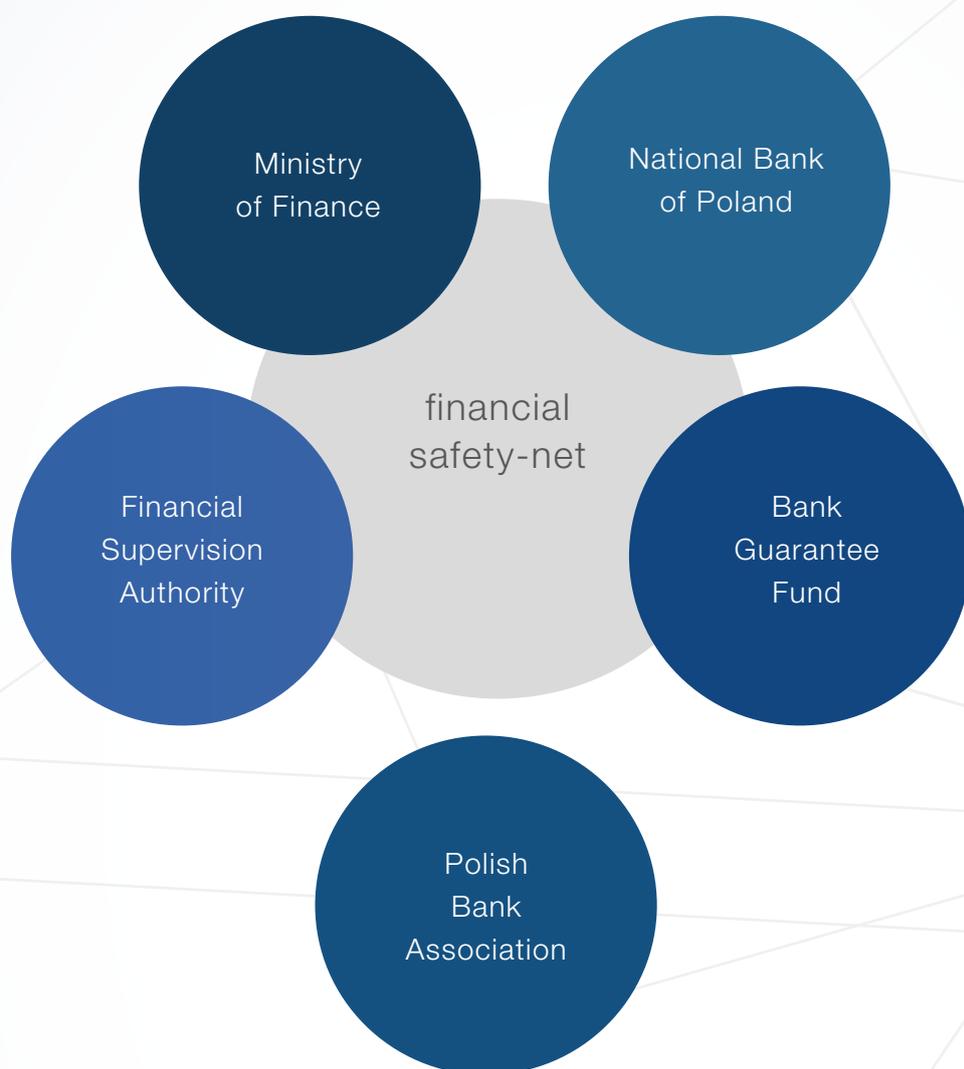
The statutory bodies of the Bank Guarantee Fund are the Council and the Management Board – the BFG Council controls and supervises the operations of the Fund, while the BFG Management Board conducts the Fund's operations and represents it externally. The Fund is overseen by the Minister of Finance, based on the criteria of accordance with the law and consistency with the statute. Annual reports of the Bank Guarantee Fund, both operational and financial, are approved by the Council of Ministers.

The composition of the Council of the Bank Guarantee Fund as at 31 December 2013.

The Council of the Bank Guarantee Fund consists of a Council Chairman and seven Council Members appointed by the institutions forming the financial safety-net and the Polish Bank Association. The organisational structure of the Council of the Bank Guarantee Fund ensures competent supervision over all areas of the Fund.

Council Chairman	Ludwik Kotecki (Ministry of Finance)
Council Members	Sławomir Cytrycki (National Bank of Poland)
	Ewa Kawecka-Włodarczak (Financial Supervision Authority)
	Szymon Milczanowski (Ministry of Finance)
	Krzysztof Pietraszkiewicz (Polish Bank Association)
	Piotr Piłat (Ministry of Finance)
	Jan Szambelańczyk (Polish Bank Association)
	Olga Szczepańska-Maciejuk (National Bank of Poland)

¹ Previously: The Bank Guarantee Fund Statute, which is annexed to a Regulation of the Minister of Finance of 14 September 2009 on awarding the statutes to the Bank Guarantee Fund (Journal of Laws No. 164, item 1308 and of 2011 No. 226, item 1360).



The composition of the Management Board of the Bank Guarantee Fund as at 31 December 2013.

President	Jerzy Pruski
Deputy President	Anna Trzecińska
Members of the Board	Andrzej Banasiak Marek Szefler

2.2. BFG OFFICE ORGANISATIONAL STRUCTURE

As at 31 December 2013, there were 11 business units within the Bank Guarantee Fund Office, with each being assigned the following sets of tasks:

Deposit Guarantee Department:

ensuring the payout of guaranteed deposits and auditing the correctness of data necessary to carry out a payout contained in bank and credit union calculating systems;

Financial Assistance Department:

extending financial assistance to banks facing the threat of insolvency, transacting assets acquired from these banks, providing support to entities involved in the restructuring of cooperative savings and credit unions, carrying out or coordinating work related to the Fund's discharge of tasks pursuant to fulfilling the role of a trustee overseeing the implementation of a reorganisation programme, extending assistance to banks from the Cooperative Bank Restructuring Fund and administration of this assistance, control and monitoring of banks receiving financial assistance from BFG and entities receiving support in the restructuring of cooperative savings and credit unions;

Treasury and Analysis Department:

carrying out banking sector and cooperative savings and credit union sector analyses and assessments of the economic and financial standing of banks and cooperative savings and credit unions, collecting and processing information pertaining to the prevailing macroeconomic conditions in Poland and abroad, as well as performing activities related to the investment operations of the Fund;

Strategic Projects Department:

carrying out projects related to the financial safety-net and financial stability, and in particular, preparing concepts and principles for restructuring entities of the banking sector, including using available instruments, as well as performing tasks related to preparation and carrying out purchase or acquisition of bank shares by the Fund and management of shares purchased or acquired by the Fund;

International Department:

collaboration with foreign deposit guarantee institutions and their associations, as well as international financial institutions and other foreign entities;

IT and Administration Department:

acquiring, compiling and granting access to information necessary to the functioning of the Fund, tasks related to the protection of data, persons and property, as well as the security and operability of technical and administrative systems;

Accounting and Financial Department:

carrying out finance and accounting related tasks within the Fund;

Office of the President:

extending administrative support to the authorities of the Fund (Management Board and Council), overall administration and HR, internal and external communications;

Legal Department:

extending legal support to the authorities of the Fund, the President of the Fund Management Board and the Fund Office as a whole;

Operational Risk Position:

coordination and support of the operational risk management process in the business units of the Fund;

Internal Audit Position:

monitoring the operations of the Fund for consistency with established aims, internal regulations and the law.

The Bank Guarantee Fund also hosts four permanent interdepartmental committees:

- Asset Management Committee: articulates investment policy and manages the Fund's cash flow,
- Assistance Application Assessment Committee: opines applications for financial assistance, including affirmative replies, refusals to extend financial assistance or changes to the terms and conditions of extending financial assistance and support to banks and credit unions, as well as the management of shares,
- Operational Risk Committee: initiates, coordinates and issues operational recommendations to the BFG Management Board related to the management of operational risk within BFG,
- Early Warning System Committee: assesses the economic and financial situation of the banking sector and credit union sector, individual banks, credit unions and the National Cooperative Savings and Credit Union ("Credit Union"), as well as its impact on financial system stability.

Figure 1.
BFG Organizational Structure (as at 31 December 2013)



Employment

As at 31 December 2013, there were 101 individuals employed at the Bank Guarantee Fund.



THE YEAR 2013 – KEY EVENTS AND ACCOMPLISHMENTS



3. THE YEAR 2013 – KEY EVENTS AND ACCOMPLISHMENTS

3.1. STATUTORY CHANGES IN 2013

In 2013, the Parliament adopted two acts of much relevance to the activities of the Bank Guarantee Fund:

- *The Act of 19 April 2013 Amending the Act on Cooperative Savings and Credit Unions and other Acts,*
- *The Act of 26 July 2013 Amending the Act on the Bank Guarantee Fund and other Acts.*

The Act of 19 April 2013 Amending the Act on Cooperative Savings and Credit Unions and other Acts (hereinafter referred to as “the Act of 19 April 2013”) introduces regulations significantly expanding the mandate of the Bank Guarantee Fund. These are regulations concerning the creation and functioning of the mandatory deposit guarantee scheme for deposits held in cooperative savings and credit unions, the Fund’s assistance and restructuring activities for credit unions, as well as the regulations for collection and use of information on credit unions by the Bank Guarantee Fund.

The Act entered into force on 12 June 2013, except for the provisions relating to, *inter alia*, covering the funds held in cooperative savings and credit unions by the statutory deposit guarantee scheme, which entered into force on 29 November 2013.

The Act of 26 July 2013 Amending the Act on the Bank Guarantee Fund and other Acts (hereinafter referred to as “the Act of 26 July 2013”) relates to the establishment of the stabilisation fund within BFG. It is an own fund within BFG and is financed from inflows from prudential levies paid by banks, earmarked for financing the Fund’s activities in the area of extending a guarantee to increase a domestic bank’s own funds, and in the case of implementation of that guarantee – acquisition of shares, bonds or banking securities issued by domestic banks. The Act also amends the Act of 7 November 2008 on the Financial Stability Committee (FSC) expanding the composition of the FSC to include the President of the Management Board of the Bank Guarantee Fund.

The Act entered into force on 4 October 2014.

3.2. EXPANSION OF BFG'S MANDATE – COVERING COOPERATIVE SAVINGS AND CREDIT UNIONS BY THE MANDATORY DEPOSIT GUARANTEE SCHEME

One of the challenges for BFG in 2013 was to cover cooperative savings and credit unions by the mandatory deposit guarantee scheme.

Cooperative savings and credit unions were launched in 1992. These are cooperative institutions operating with the purpose of collecting deposits from their members only, extending loans and credits to them, carrying out financial settlements at their request, as well as intermediating in concluding insurance agreements. The legal basis for the work of cooperative savings and credit unions is the Act of 5 November 2009 on Cooperative Savings and Credit Unions (Journal of Laws of 2013, item 1450, as amended). As of October 2012 the Polish Financial Supervision Authority covered credit unions with its supervision, and since 29 November 2013, they have been covered by the mandatory deposit guarantee scheme of the Bank Guarantee Fund.



During 2013, the Bank Guarantee Fund continued work with the aim of preparing the Fund to carry out tasks related to guaranteeing funds held in credit unions. The most important of these are:

Participation in the legislation process concerning executive orders to the Act on BFG:

- *Regulation of the Minister of Finance on the Requirements for Calculating Systems to be Maintained by Cooperative Savings and Credit Unions,*
- *Regulation of the Minister of Finance on the Suspension of Guarantee Disbursements to Depositors of the Cooperative Savings and Credit Unions If the Funds Deposited in the Account Have Been Blocked Pursuant to Legal Regulations on Counteracting Money Laundering and Financing Terrorism.*

Preparation of IT tools for processing of data from credit union calculating systems:

- development of a separate application for credit unions within an IT system called the Guarantee Execution System (SRG),
- extension of the existing communication module for receiving files containing the depositor data and for distribution of audit reports.

Conclusion of agreements with all credit unions on the use of the SRG Portal.

Signing new agreements concerning the readiness to disburse guaranteed funds (extending prior agreements by the possibility of disbursing funds to depositors of credit

unions) with two major banks in Poland:

- PKO Bank Polski SA,
- Bank Polska Kasa Opieki SA.

The potential of these banks, and in particular the large network of their branches, enables fast and effective disbursement of guaranteed funds throughout the country.

Adjustment of internal legal acts of the Fund, related to guaranteeing deposits, to amended statutory regulations.

Collaboration with credit unions, the National Association of Cooperative Savings and Credit Unions and the Credit Union Financial Society plc (Towarzystwo Finansowe SKOK SA - TF SKOK SA) in the process of preparing the credit union sector for being covered by the deposit guarantee scheme by, *inter alia*:

- holding consultations during the development of calculating systems for credit unions,
- preparing information materials to support the implementation of properly functioning calculating systems,
- organising seminars for the representatives of credit unions.

In the communication area:

- adjusting the Fund's website and helpline to new requirements,
- preparation and distribution to branches of credit unions of 700 thousand information leaflets entitled "*What you should know about the safety of your deposits held in cooperative savings and credit unions.*",
- preparation of 2 thousand placards informing about the BFG guarantee of credit union deposits. These placards were made available free of charge to credit union branches.

Deposits held in cooperative savings and credit unions were covered by guarantees on 29 November 2013.

The Fund completed its preparations for covering credit unions by the mandatory deposit guarantee scheme and achieved full operational readiness to implement this function before the statutory guarantee obligation entered into force.

In 2013, the Fund also achieved full operational readiness to implement its function relating to extending financial assistance and support in restructuring processes in credit unions. BFG undertook a number of actions enabling the launch of this process. BFG developed, *inter alia*, rules and instructions for extending financial assistance and support from the Credit Union Guarantee Fund to cooperative savings and credit unions facing the threat of insolvency and to acquiring entities. The Fund also prepared draft agreement templates for entities wishing to obtain the Fund's support credit union restructuring processes.

3.3. ASSESSMENT OF BFG UNDER THE FINANCIAL SECTOR ASSESSMENT PROGRAMME (FSAP)

Between 19 February and 4 March 2013, the International Monetary Fund and the World Bank assessed the Polish financial sector under the Financial Sector Assessment Program (FSAP).

Financial Sector Assessment Program (FSAP) – a comprehensive and in-depth analysis of a country's financial sector, constituting a key supervision instrument for the operation of the financial sector, including the deposit guarantee scheme. It focuses on assessing the stability of the financial sector and its potential impact on the functioning of the national economy.



The assessment of financial stability in Poland was coordinated by the Ministry of Finance from the Polish side the assessment of active contributions from the Bank Guarantee Fund, the National Bank of Poland and the Polish Financial Supervision Authority. The assessment was carried out in terms of fulfilment of criteria of the *Core Principles for Effective Deposit Insurance Systems*. The Bank Guarantee Fund was the third in the BFG was the first institution in Europe and the third in the World to undergo such an assessment.

Core Principles for Effective Deposit Insurance Systems – a set of 18 principles and guidelines established by IADI and the Basel Committee on Banking Supervision, intending to ensure optimal operation of deposit guarantee schemes.

International Association of Deposit Insurers (IADI) – an independent organisation bringing together deposit guarantee institutions from all over the world. It promotes international cooperation in the field of guaranteeing deposits and introduces international standards to enhance the effectiveness of guarantee deposit institutions.

Basel Committee on Banking Supervision (BCBS) – an independent organisation bringing together deposit guarantee institutions from all over the world. It promotes international cooperation in the field of guaranteeing deposits and introduces international standards to enhance the effectiveness of guarantee deposit institutions.



The work of the Fund in this area involved, *inter alia*, self-assessment against the criteria of the *Core Principles for Effective Deposit Insurance Systems*. Self-assessment is a mandatory component of the program. The results of the self-assessment subsequently proved to be fully consistent with those delivered by the FSAP mission. Ratings given by the FSAP mission are presented in Table 1.

Table 1. Ratings given by the FSAP in accordance with the Core Principles

Areas of assessment	max	FSAP rating		min
	C	LC	MNC	NC
1. Public policy objectives	C			
2. Mitigating moral hazard		LC		
3. Mandate	C			
4. Powers	C			
5. Governance		LC		
6. Relationships with other safety-net participants	C			
7. Cross-border issues				
8. Compulsory membership	C			
9. Coverage				
10. Transitioning from a blanket guarantee to a limited coverage deposit insurance system	NA			
11. Funding				
12. Public awareness	C			
13. Legal protection		LC		
14. Dealing with parties at fault in a bank failure	C			
15. Early detection and timely intervention and resolution		LC		
16. Effective resolution process			MNC	
17. Reimbursing depositors	C			
18. Recoveries	C			

Legend:

C – compliant

LC – largely compliant

MNC – materially non-compliant

NC – non-compliant

NA – not applicable

NR – not reviewed

As part of the FSAP program, there were numerous meetings held between the mission's representatives and institutions taking part in the program. The meetings held at the Bank Guarantee Fund focused, in particular, on the following areas:

- the funding model adopted by BFG,
- the Early Warning System,
- disbursement of guaranteed deposits (including the deposit guarantee principles, disbursement process, verification of depositor data),
- planned solutions for implementing the regulations on bank resolution into the Polish law,
- assistance activity,
- the investment policy of the Fund,
- information activities in the field of expanding public awareness of the deposit guarantee scheme.

The International Monetary Fund (IMF) and World Bank (WB) mission's report entitled "Financial Sector Assessment: Poland" contained a high rating of the Polish deposit guarantee scheme. Among the available 18 areas of analysis, one was not assessed, since its scope was not related to BFG. The remaining 16 areas were granted one of the two highest ratings (Compliant or Largely Compliant).

In particular, the assessment revealed that the deposit guarantee system – including guarantee execution arrangements – are well designed and enable efficient disbursement of guaranteed deposits within the statutory deadline of 20 working days. The Fund's powers to control depositor data were considered one of the factors enabling fast disbursement of deposits. Also the principles of information exchange and cooperation with other members of the financial safety-net were highly rated, as was the Early Warning System deployed by BFG as well as risk assessments and financial analyses. It was emphasized that BFG uses a variety of innovative tools for external communication (e.g. social media) in order to increase awareness about the deposit insurance system. The Fund's role in the structure of the financial system was considered significant, taking into account its function in extending financial assistance to banks.

The area of the resolution process was the only one to receive a lower rating (Materially Non-Compliant), since the Polish law is devoid of comprehensive regulations on bank resolution. The mission learnt about the ongoing Polish legislative work in this area, assessing that the planned regulations will supplement the deposit insurance system in that field.

The report including detailed assessment of the deposit insurance system in Poland can be found at: [http://inweb90.worldbank.org/FPS/fsapcountrydb.nsf/\(attachmentwebSC\)/Poland_Update_IADI.pdf/\\$FILE/Poland_Update_IADI.pdf](http://inweb90.worldbank.org/FPS/fsapcountrydb.nsf/(attachmentwebSC)/Poland_Update_IADI.pdf/$FILE/Poland_Update_IADI.pdf)



DEPOSIT GUARANTEE ACTIVITY



4. DEPOSIT GUARANTEE ACTIVITY

The Bank Guarantee Fund is an institution managing the deposit guarantee scheme in Poland. As at the end of 2013, the Fund's guarantee encompassed **deposits held in 41 commercial banks, 571 cooperative banks as well as 55 cooperative savings and credit unions.**



The Bank Guarantee Fund has been guaranteeing deposits held in banks since 17 February 1995, and since 29 November 2013 – also in cooperative savings and credit unions.

The Bank Guarantee Fund guarantees deposits from the date of their transfer to an account, but no later than one day prior to the fulfilment of the guarantee condition. Guaranteed deposits are disbursed up to **the equivalent of EUR 100 thousand in PLN**, together with interest accrued up to the day of fulfilment of the guarantee condition. The Fund satisfies guarantee-related claims **within 20 working days** from the day of fulfilment of the guarantee condition.



Fulfilment of the guarantee condition – the liability of the Bank Guarantee Fund with respect to a depositor due to the deposit guarantee arises on the day of fulfilment of the guarantee condition, i.e. (in the case of a domestic bank or credit union) on the day indicated in the decision of the Polish Financial Supervision Authority as the day of suspension of operations of a bank or credit union and appointing a receivership or, respectively, a receiver, unless one had already been appointed beforehand, as well as filing a bankruptcy petition at a relevant court.



Guaranteed funds:

- in the case of banks – funds in all types of registered bank accounts, whether denominated in PLN or in foreign currencies. Other monetary claims resulting from banking operations and confirmed by registered bank-issued documents are also covered by the guarantee.
- in the case of credit unions – funds in all types of credit union accounts, whether denominated in PLN or in foreign currencies. Other monetary claims resulting from financial settlements carried out by a credit union are also covered by guarantees.

The guarantee scheme also covers claims against a credit union due to in-the-event-of-death provisions and funeral costs provisions in respect of an account holder.

4.1. REIMBURSEMENT OF GUARANTEED DEPOSITS

The organisation of a deposit guarantee payout by the Bank Guarantee Fund is aimed to ensure efficient disbursement of deposits within the statutory deadline of 20 working days from the day of fulfilment of the guarantee condition. In the case of fulfilment of the guarantee condition, the receivership of a bank or receiver of a credit union determines the balance in the accounting books of an entity with respect to which the fulfilment of the guarantee condition has occurred and compiles a list of depositors, which is then submitted to the Fund no later than within 3 working days² (from the day of fulfilment of the guarantee condition). The Fund verifies data of depositors, with the use of the Guarantee Execution System, and prepares a reimbursement list and conveys it to the entity that will carry out the reimbursement of guaranteed deposits. Depositors of a bank or credit union are not obliged to report their claims to the Bank Guarantee Fund to receive guaranteed deposits.

Guarantee Execution System (SRG)

IT system of the Bank Guarantee Fund which provides effective control of the depositor lists and makes it possible to determine the reimbursement amounts and prepare depositor reimbursement lists.

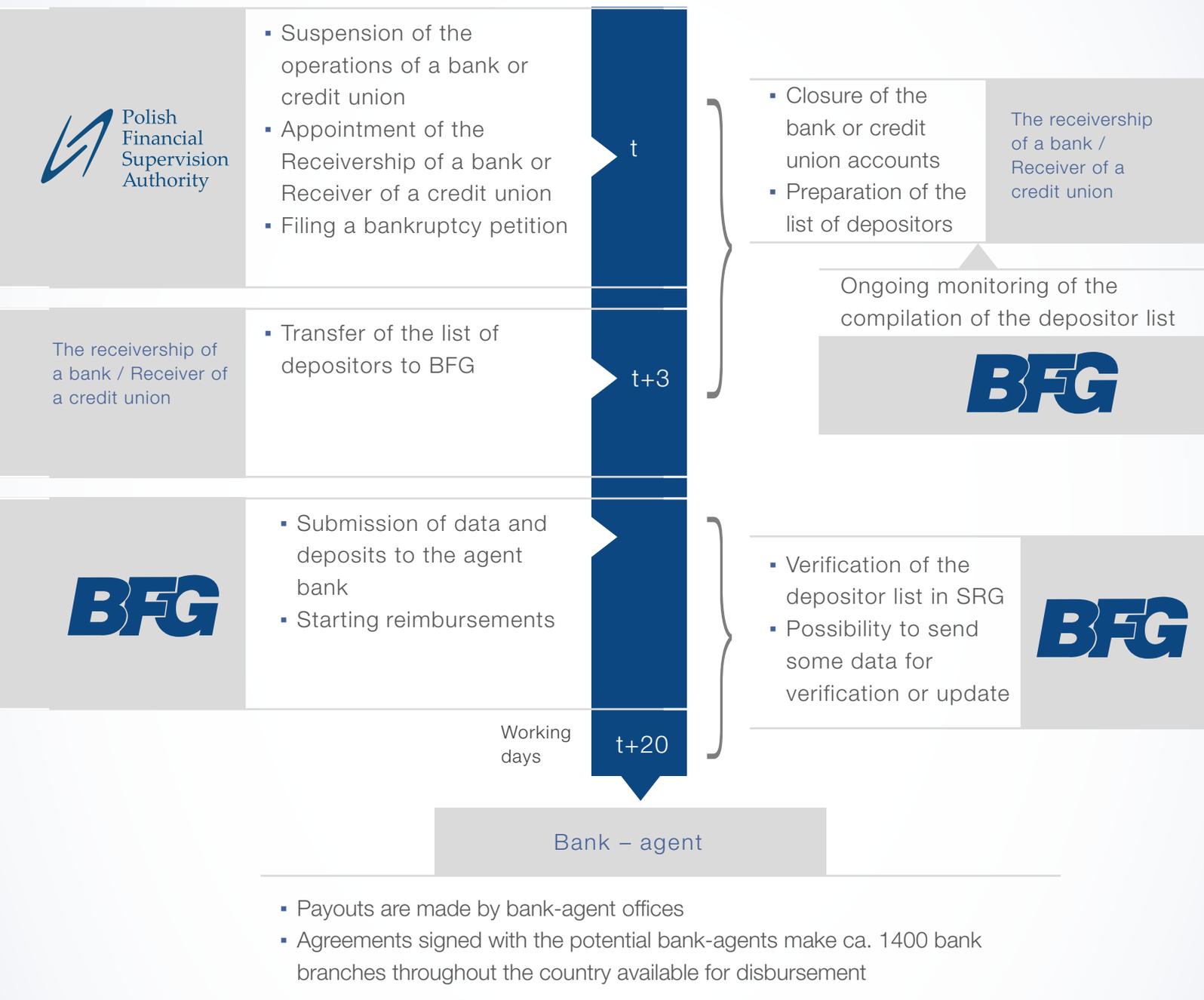


Pursuant to the Act on BFG, depending on the decision of the Fund, the reimbursement of guaranteed deposits can be carried out by the receivership or entity authorised to represent the Fund (in the case of a bank) or receiver (in the case of a credit union) or by another entity. The Fund has entered into agreements with three³ banks, enabling them to carry out the reimbursement of guaranteed deposits. Thereby, these banks became potential reimbursement agents. These are retail banks holding a significant branch network, which allows for carrying out reimbursements throughout the country, giving depositors easy access to guaranteed deposits. The reimbursement of guaranteed deposits is presented in figure 2.

² In the case of credit unions, during a transitional period of 6 months from 29 November 2013, a 10 working day deadline was applied.

³ Two of these banks signed agreements extending the possible range of disbursement to include depositors of credit unions.

Figure 2.
The reimbursement of guaranteed deposits



The maximum amount that can be disbursed to a single depositor at a given bank or credit union on account of the BFG guarantee is **the equivalent of EUR 100 thousand in PLN**. Individuals who for whatever reason fail to collect their due funds in the course of a payout carried out by an entity authorised by the Fund may approach BFG directly to collect their due disbursement within 5 years from day of fulfilment of the guarantee condition. After this period, depositor claims pursuant to the guarantee lose their validity.

4.2. BFG DEPOSIT GUARANTEE CAPACITY

Funds accumulated in the guarantee scheme

At the end of 2013, the amount of funds accumulated in the guarantee scheme allowed for the provision of a high level of security for deposits held in banks and cooperative savings and credit unions.

Funding of the Fund's guarantee activity can be carried out on an *ex post* and *ex ante* basis.

Ex post funding – funding involving premiums remitted by participants of the guarantee scheme after fulfilment of the deposit guarantee condition (e.g. the Guaranteed Deposit Protection Fund, the Stabilisation Fund of the National Cooperative Savings and Credit Union).

Ex ante funding – funds from the deposit guarantee scheme allocated from regular, e.g. annual premiums remitted by all participants of the deposit guarantee scheme (e.g. BFG own funds available for funding of the disbursement of guaranteed deposits).



The source of *ex post* funding, from which BFG can fund the disbursement of guaranteed deposits held in banks, is the Guaranteed Deposit Protection Fund (GDPF). If the guarantee condition is fulfilled, BFG asks all banks to transfer their funds proportionally to their share in the GDPF.

Guaranteed Deposit Protection Fund (GDPF) – created by all member banks of the deposit guarantee scheme. The size of the GDPF in a given bank is arrived at by multiplying the total sum of all deposits at this bank, which constitutes the basis for calculating the reserve requirement, and a percentage rate determined by the BFG Council on an annual basis.

The GDPF is established by all banks at the beginning of each year and then updated on 1 July in accordance with the change of the basis for its calculation.



For the establishment of the GDPF in 2013, the BFG Council set a percentage rate of 0.55% of the total sum of all funds at a given bank constituting the basis for calculating the reserve requirement. PLN 4,990,715.8 thousand is the total value of the Guaranteed Deposit Protection Fund (GDPF) established by all banks in 2013 (updated on 01.07.2013).

The source of ex post funding, from which BFG can fund the disbursement of guaranteed deposits held in cooperative savings and credit unions, are funds from the Stabilisation Fund of the National Cooperative Savings and Credit Union.

In addition, BFG possesses financial means in its own funds (ex ante funds), such as:

- bankruptcy estate recovery fund – designed to allocate assets recovered from failed bank estates,
- statutory fund and contingency fund,
- assistance fund.

Due to the expansion of the statutory mandate of BFG in 2013, two new own funds were established, which increased the guarantee potential of BFG:

- stabilisation fund,
- credit union guarantee fund.



Assistance fund – accumulated from obligatory annual contributions remitted by banks and from the distribution of the balance surplus of the Fund.

Stabilisation fund – accumulated from obligatory prudential levies remitted by banks and from the distribution of the balance surplus of the Fund.

Credit union guarantee fund – accumulated obligatory annual contributions remitted by cooperative savings and credit unions and from the distribution of the balance surplus of the Fund.

The assistance, stabilisation and credit union guarantee funds can be used for funding financial assets specified by the law. In such case, the value of funds less the value of these financial assets is available for the purpose of the disbursement of guaranteed deposits – it is the value of funds “available for use”. The amount of funds allocated to funded financial assets is designated as “funds used”.

For 2013, the BFG Council set the following rates of the annual contributions remitted to BFG by entities covered by the mandatory deposit guarantee scheme:

- allocated to the assistance fund – 0.1% of the product of 12.5 and the sum of the capital requirements weighted for different types of risk and capital requirements due to exceeding limits and violating other norms stipulated in the Act of 29 August 1997 on the Banking Law,
- allocated to the stabilisation fund – 0.009% of the product of 12.5 and the sum of the capital requirements weighted for different types of risk and capital requirements due to exceeding limits and violating other norms stipulated in the Act on Banking Law,
- allocated to the credit union guarantee fund – 0.02% of the value of assets and off-balance sheet liabilities.

The total *ex ante* funds accumulated by BFG at the end of 2013 (taking into account both new funds) amounted to PLN **10,537.4 million**. This amount was higher by PLN 1,443.9 million, i.e. 15.9%, than the amount accumulated at the end of 2012. The increase in the funds was caused by, *inter alia*, annual contributions remitted by banks (PLN 867,153.1 thousand) and prudential levies paid by banks (PLN 78,849.8 thousand), as well as annual contributions remitted by credit unions (PLN 3,717.0 thousand).

Deposit coverage ratio

The ratio of deposit coverage by *ex ante* funds accumulated in the guarantee scheme at the end of 2013 was 1.99%, and – taking into account the *ex post* funds – 2.94%.

The coverage ratio is expressed as a percentage and calculated as a fraction whose numerator consists of the available funds accumulated in the mandatory deposit guarantee scheme. The denominator is the total amount of funds guaranteed by the Fund held in all entities covered by the scheme.



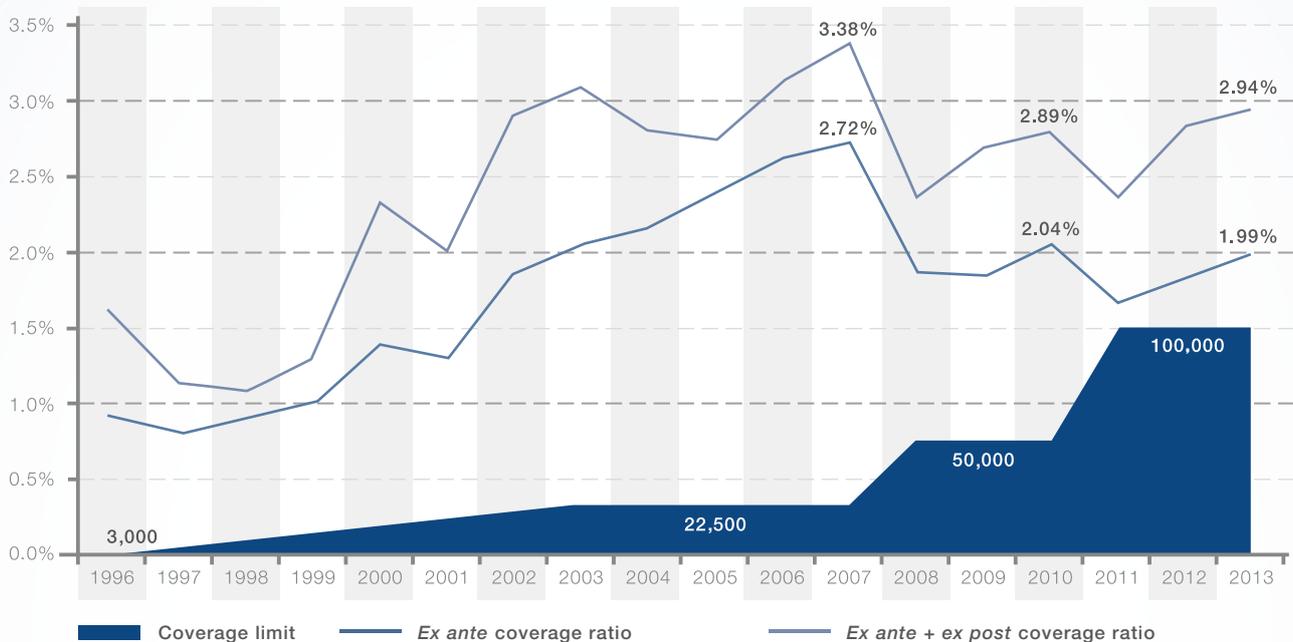
The accumulation of funds in the guarantee scheme, and thereby increasing of the Fund's guarantee potential, took place in context of the coverage limit increase. The current guarantee limit of EUR 100 thousand (equivalent in PLN) provides coverage for the majority of deposits held in banks and credit unions.

Coverage limit – at the very beginning of the Bank Guarantee Fund's activity, i.e. in 1995, it was the equivalent of ECU 3 thousand in PLN, and it was systematically increased in subsequent years. The greatest increase of coverage limit took place as a consequence of harmonization of deposit guarantee principles within the European Union – firstly to the equivalent of EUR 50 thousand in PLN, and then of EUR 100 thousand in PLN.

At the same time, except for a twofold increase of the coverage limit, the scope of coverage was also expanded, i.e. coverage was extended to all economic entities, irrespective of the scale of their operations. The changes in EU law came about as a result of the recent crisis in the global financial market, which undermined the stability of the financial system in many Member States and resulted in the necessity to afford greater protection to depositors and strengthen their confidence in the banking system.

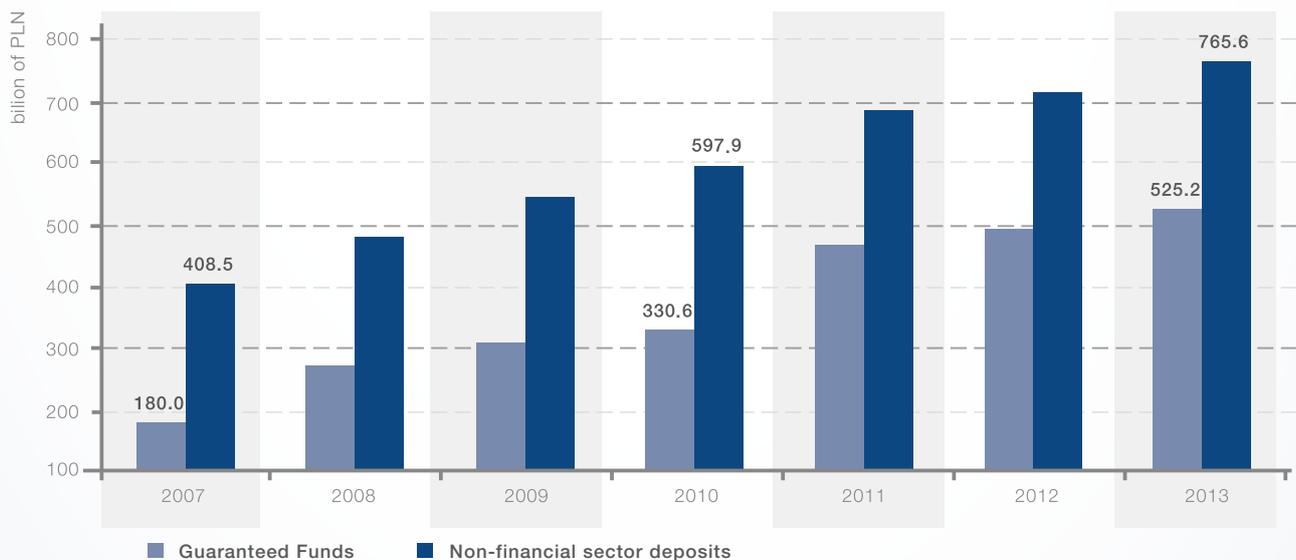


Figure 3.
Coverage limits and coverage ratios for banks*



* In order to ensure comparability with data from previous years, the amount of coverage ratios for 2013 are given without taking into account the amounts accumulated in the stabilisation fund (created from prudential levies remitted by banks) and in the credit union guarantee fund (created from annual contributions remitted by cooperative savings and credit unions).

Figure 4.
Guaranteed funds and non-financial sector deposits

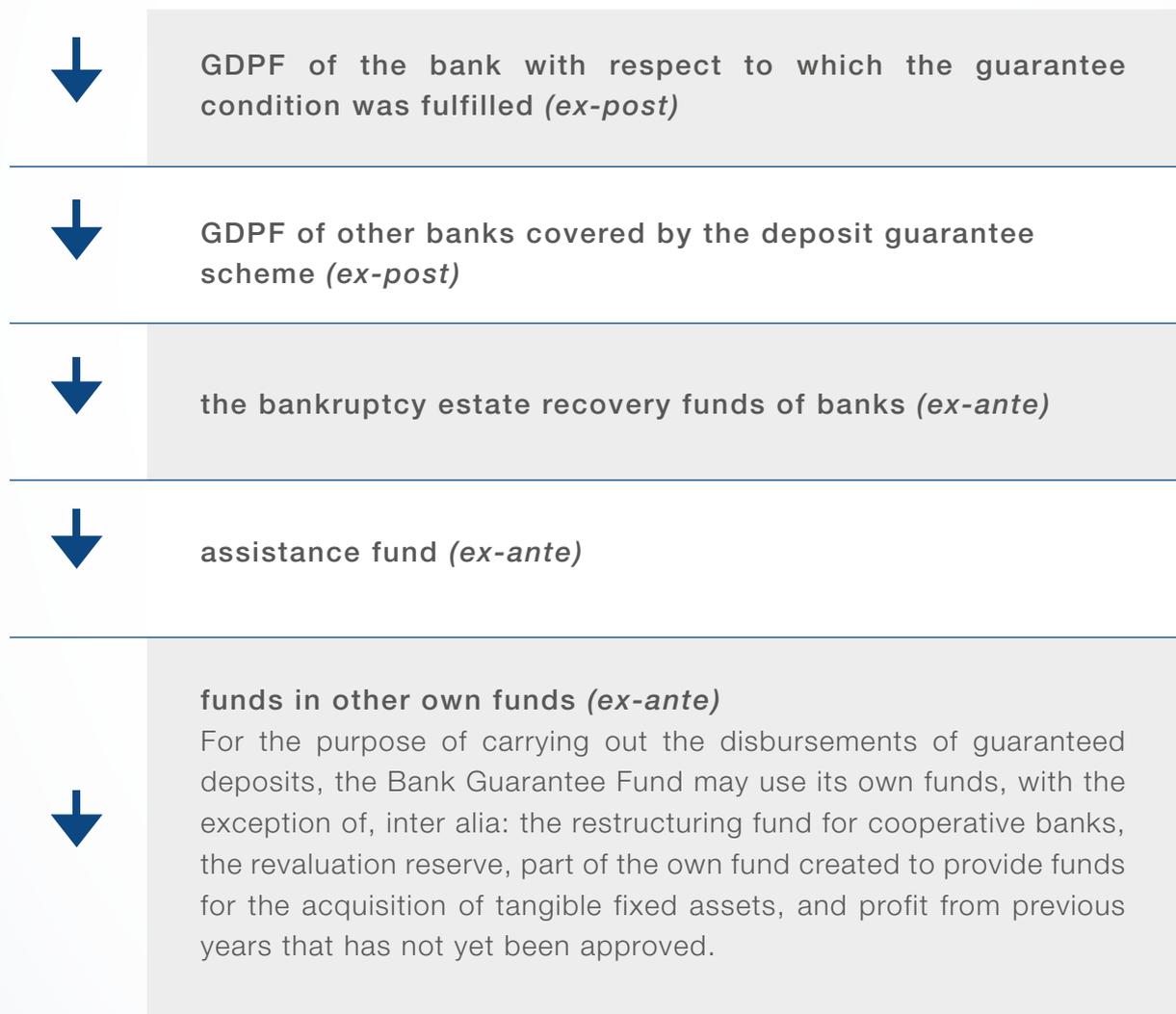


4.3. DEPOSIT GUARANTEE FUNDING

There may be a variety of sources of funding used for the disbursement of guaranteed deposits. The principles of deploying these sources differ between bank depositors and credit union depositors.

4.3.1. FUNDING FOR THE DISBURSEMENT OF GUARANTEED FUNDS HELD IN BANKS

The following diagram shows the sequence of using funds for the disbursements of guaranteed deposits held in banks.



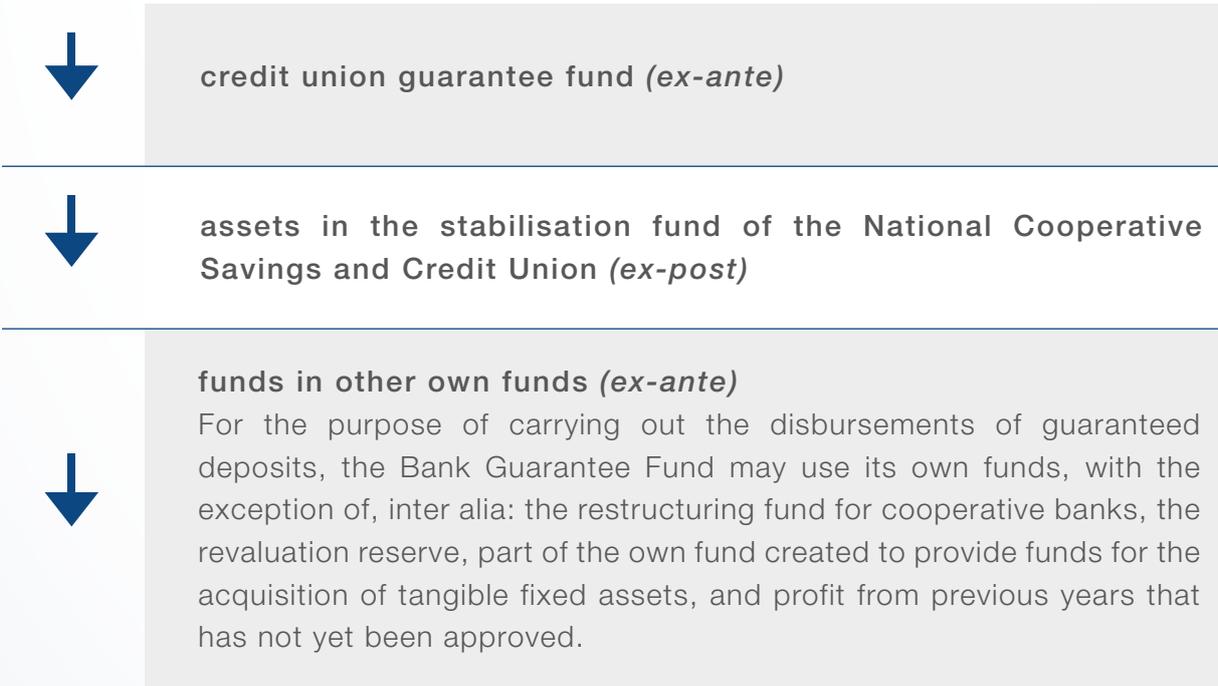
In addition to the above sources of funding, the following options of funding guaranteed deposit payouts are also available:

- after funds from the GDPF have been exhausted, it is possible (pursuant to the Regulation of the Minister of Finance) to raise the rate used in setting up the GDPF and/or the mandatory annual contribution,
- if the amount of guarantee-related liabilities is higher than the collective amount of funds in the GDPF, the bankruptcy estate recovery fund and the assistance fund, BFG can obtain grants and loans from the state budget,
- if the funds in its own funds (and sources already deployed) have been exhausted, in the case of threat to financial stability and to cover the most urgent needs, BFG can obtain a short-term loan from the NBP.

In 2013, the funds enumerated above were not drawn on because no fulfilment of the guarantee condition occurred with respect to any bank.

4.3.2. FUNDING FOR THE DISBURSEMENT OF GUARANTEED DEPOSITS HELD IN CREDIT UNIONS

The following diagram shows the sequence of using funds for the disbursements of guaranteed deposits held in credit unions.



Additionally, the following options of funding guaranteed deposits payouts are also available:

- after assets from the credit union guarantee fund have been exhausted, it is possible (pursuant to the Regulation of the Minister of Finance) to raise the rate used in setting up this fund,
- if the amount of guarantee liabilities is higher than the assets from the credit union guarantee fund and assets from the stabilisation fund of the National Cooperative Savings and Credit Union, BFG can obtain grants and loans from the state budget or from the National Cooperative Savings and Credit Union,
- if the assets from its own funds (and funds already deployed) have been exhausted, in the case of a threat to financial stability and to cover the most urgent needs, BFG can obtain a short-term loan from the NBP.

In 2013, the funds enumerated above were not drawn on because no fulfilment of the guarantee condition occurred with respect to any credit union.

4.4. DEPOSIT GUARANTEE PAYOUT HISTORY

The disbursements of guaranteed deposits made by the Bank Guarantee Fund in the years 1995-2013 amounted to PLN 814.4 million and were provided to 318.8 thousand eligible depositors. The disbursement of guaranteed funds was carried out with respect to 5 commercial banks and 89 cooperative banks. As at 31 December 2013, the Fund had no liabilities due to uncollected guaranteed deposits.

Table 2.
Funds allocated to guarantee disbursements in the years 1995-2013

Year	Funds allocated to guarantee disbursements (in PLN million)**				% draw-down of the GDPF (%)	Number of depositors
	Total	including:				
		from the GDPF	from the liquid assets of bankruptcy estates	from the bankruptcy estate recovery 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
2010-2013	0	0	0	0	0	0
Total	814.4	626.1		188.3	0	318,823

* The disbursements of guaranteed deposits pertaining to earlier bank insolvencies, conducted on the basis of complementary depositor lists.

** The principles of funding the disbursements of guaranteed deposits underwent a change pursuant to the Act of 16 December 2010 Amending the Act on the Bank Guarantee Fund and other Acts.

Table 3.
Bank insolvencies in the years 1995-2013

Year	Commercial banks	Cooperative banks
1995*	2	48
1996	1	30
1997	-	6
1998	-	4
1999	1	-
2000	1	-
2001	-	1
2002 – 2013	-	-
Total	5	89

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

At the end of 2013, the bankruptcy proceedings of two banks with respect to which the fulfilment of the guarantee condition occurred during the time of the Fund's operation, had not yet been completed.

In 2013, the Bank Guarantee Fund did not obtain any sums on account of claims against the bankruptcy estates of banks pursuant to the transfer, in previous years, of funds for the purpose of disbursement to depositors.

The sums transferred for the disbursement of guaranteed funds to depositors who held their deposits in banks with respect to which the guarantee condition was fulfilled, are subject to recovery from the bankruptcy estates of these banks. The recovered sums are, pursuant to adequate provisions, accumulated in the bankruptcy estate recovery fund and may be used only for funding of other disbursements of guaranteed deposits. The total amount of the funds recovered from the bankruptcy estates was, as at 31 December 2013, PLN **53,923.4 thousand**.

4.5. VERIFICATION OF DATA CONTAINED IN BANK AND CREDIT UNION CALCULATING SYSTEMS

For the past three years banks have been obliged to deploy calculating systems enabling the disbursement of guaranteed deposits to be executed within the statutory deadline.



Calculating system – an IT system in a bank or credit union allowing for the preparation of data, for BFG, relating to depositors together with the values of covered deposits for each depositor. The details of calculating systems utilised in banks are specified in the Regulation of the Minister of Finance of 27 January 2011 on the Requirements for Calculating Systems Maintained by Entities Covered by the Mandatory Guarantee System – and in case of calculating systems utilised in credit unions – in the Regulation of the Minister of Finance of 26 September 2013 on the Requirements for Calculating Systems Maintained by the Cooperative Savings and Credit Unions.

Calculating systems allow quick calculation of the value of covered deposits for each individual depositor through the computerised process of determining the value of such deposits and transferring them to BFG. The data is prepared in accordance with the Single Customer View standard, which attributes to each bank client all his or her claims against that bank.

In parallel with expanding the BFG guarantee to deposits held in credit unions, a requirement was introduced obligating credit unions to implement special calculating systems – on similar terms applicable to banks.

The Bank Guarantee Fund is equipped with the power to audit the data contained in calculating systems for accuracy. The purpose of these audits is to identify errors and, consequently, to improve the quality of data obtained from the calculating systems, as well as to ensure efficient reimbursement of covered deposits.

In case of credit unions, the Act of 19 April 2013 enabled depositor data to be audited for accuracy prior to the BFG guarantee's expansion to cover deposits held in credit unions. These audits, carried out in advance, were aimed at minimising the risk of any problems pertaining to the disbursement of guaranteed deposits.

The audits carried out by the Fund are held in accordance with the prepared audit schedule. One of the tools used in planning future audits is the Early Warning System. The quality of data obtained in previous audits carried out by the Fund is also considered.

Early Warning System (EWS) – a system of combined assessments, utilised in BFG, generated on the basis of a set of economic and financial indicators, allowing for the identification of risks in banks and in relevant areas of the banking sector.



Data accuracy audits can take place in house at the Fund or on location at bank or credit union headquarters. Audits carried out at the Fund use, among other things, automatic control algorithms included in the Deposit Guarantee Execution System, whose functionality is being systematically extended.

Audits carried out at banks or credit unions (preceded by audits at the Fund) are aimed, in particular, at comparing data with source documents.

Table 4.
Number of audits carried out in 2013

Type of audit	Commercial banks	Cooperative banks	Credit unions	Total
at the Fund	16	295	55	366
at bank/credit union	-	6	2	8
Total	16	301	57	374

In the years 2011-2012 all banks were audited at least once. Bank audits were continued in 2013. These audits verified changes in the quality of data contained in calculating systems. In 2013, the Bank Guarantee Fund carried out 317 audits of 281 banks.

As for banks, the results of the data quality analyses carried in 2013 showed a reduction of scale of individual errors when compared with the results of previous analyses.

As for credit unions, in 2013 all credit unions were audited at least once. The results of the audit showed that credit unions possess data on depositors and claims held by them. Both credit unions and banks were informed about the identified errors after the audit.

4.6. EFFECTIVENESS TESTS FOR BFG SYSTEMS

In Q4 2013, in accordance with the statutory requirements, BFG system effectiveness tests were carried out. The purpose of these tests was to check the Fund's readiness to disburse guaranteed deposits within 20 working days from the day of fulfilment of the guarantee condition.



System effectiveness tests – the statutory obligation of the Bank Guarantee Fund to perform annual tests controlling the effectiveness of systems responsible for the disbursement of guaranteed deposits.

The obligation to perform system effectiveness tests also arises from the Directive of the European Parliament and the Council on Deposit Guarantee Schemes.

Tests were carried out at a selected bank and credit union. The scope of tests pertained to tasks arising from the guarantee execution procedure, specified by internal regulations. These tests confirmed the correctness of the adopted internal guidelines for operational activities, which are taken in the process of disbursement of guaranteed funds to depositors of banks and credit unions, as well as the proper operation of the Deposit Guarantee Execution System.

The results of the tests showed that the Fund systems allow for the timely fulfilment of the statutory mandate of the Bank Guarantee Fund within the scope of disbursement of guaranteed funds.



FINANCIAL ASSISTANCE



5. FINANCIAL ASSISTANCE

5.1. BANK ASSISTANCE FUND

Aims

The fundamental aim of extending financial assistance is to assist in restructuring processes in banks facing the threat of insolvency, and indirectly to protect depositors against the loss of deposits entrusted to these banks. Pursuant to the Act on the Bank Guarantee Fund, assistance may take the form of loans, guarantees and sureties, as well as asset purchase. The financial assistance is covered by the Assistance Fund and as at 31 December 2013 it contained PLN **8,204,078.9 thousand**.

Financial assistance for banks facing the threat of insolvency

ASSISTANCE FUND		As at 31.12.2012	PLN 6,860,415.3 thousand
	Increases in 2013 >	Annual contributions levied on banks	PLN 867,153.1 thousand
		Portion of BFG financial result for 2012	PLN 476,510.5 thousand
		As at 31.12.2013	PLN 8,204,078.9 thousand

Preconditions for extending financial assistance

A precondition for the Fund's extension of financial assistance is the confirmed presence of insolvency threat in a given bank.

Financial assistance may be granted by BFG only after certain preconditions are met, in particular the following:

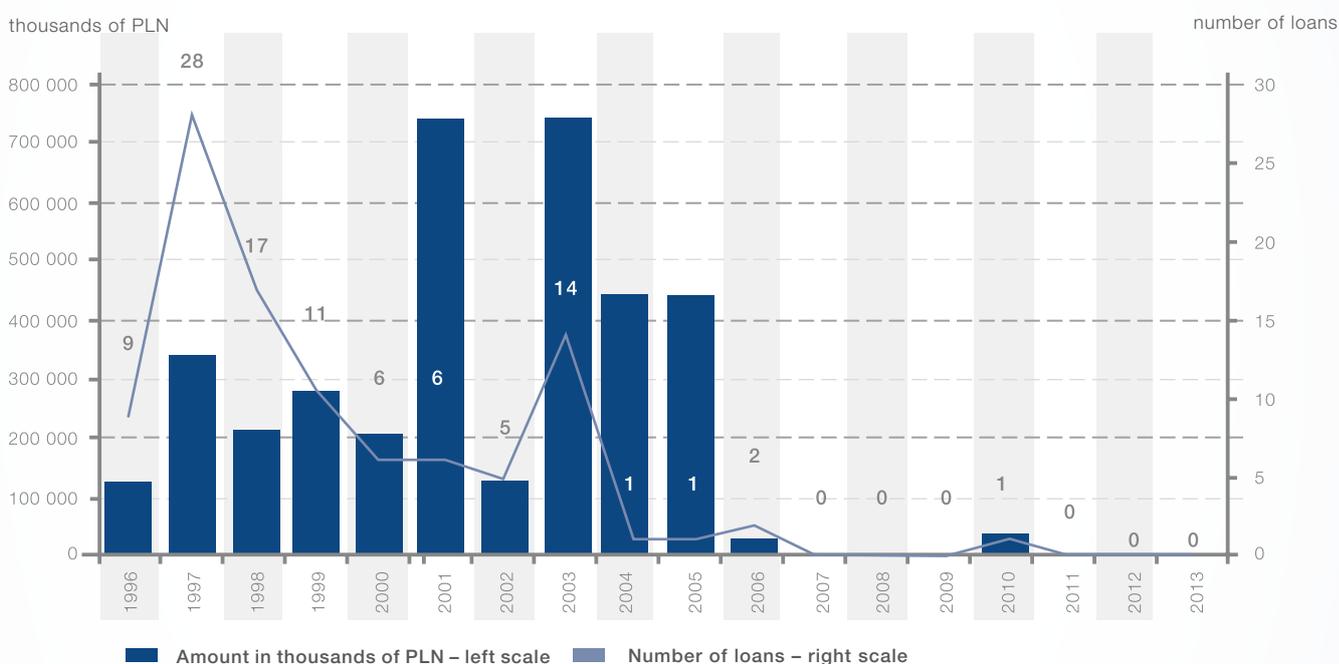
- acceptance by the BFG Management Board of the results of an assessment of a financial report of a bank applying for financial assistance, and in the event that assistance for a takeover of another bank is being applied for – also of a bank being taken over;
- submission of a positive opinion by the Polish Financial Supervision Authority about a reorganisation programme or about the viability of a takeover, merger or purchase of stock (shares) of another bank;
- limitation of the financial assistance to the amount of guaranteed deposits in the bank;
- covering losses of the bank with its own funds.

Financial assistance history

In 2013, no loans were extended from the Assistance Fund. BFG continued to administer one loan extended in 2010 from the Assistance Fund in the amount of PLN 43,500.0 thousand to support a merger with a bank facing the threat of insolvency.

From 1996 to the end of 2013, BFG extended a total of 101 loans from the Assistance Fund, of which 44 were directed at commercial banks and 57 at cooperative banks, for a total of PLN 3,790,342.4 thousand.

Figure 5.
Loans disbursed from the Assistance Fund in 1996*-2013



* A loan extended in December 1995 was disbursed in January 1996.

In the years 1996-2013 financial assistance extended by BFG was used for:	PLN 3,790,342.4 thousand
independent bank reorganisation programme proceedings	PLN 2,249,050.0 thousand
bank takeovers	PLN 1,306,292.4 thousand
purchase, by new shareholders, of shares of banks facing the threat of insolvency	PLN 235,000.0 thousand

The financial assistance extended thus far by the Fund has yielded measurable financial results, has raised confidence in the banking sector, has assured broad access to banking services and has contributed to increasing banking sector stability and to maintaining uninterrupted access to banking services.

5.2. CREDIT UNION ASSISTANCE FUND

Aims

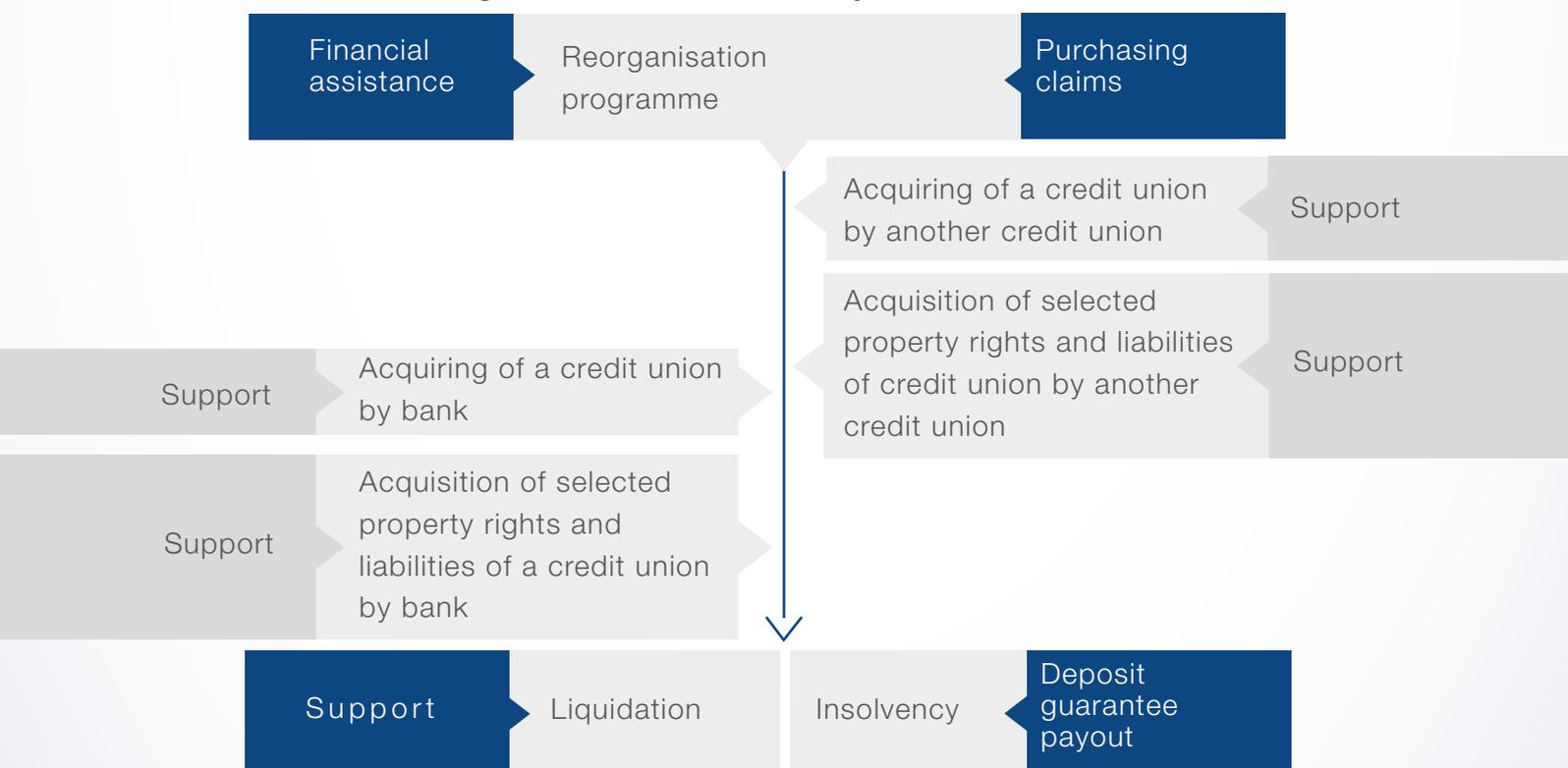
The Act on BFG, amended on 19 April 2013, imposed new tasks on the Fund in the scope of assisting in restructuring processes in cooperative savings and credit unions facing the threat of insolvency. The fundamental aim of these restructuring processes in credit unions, which are supported by BFG, is to ensure, to the extent possible, the continuation of services provided by a credit union facing the threat of insolvency and to reduce the negative effects of a possible suspension of its activities.

In restructuring processes in credit unions, the Fund may extend repayable financial assistance to credit unions facing the threat of insolvency, purchase claims of these credit unions as well as provide support to entities taking over or purchasing a credit union or part thereof.

Financial assistance extended by the Fund may take the form of subordinated loans, guarantees and sureties, while the support may, in particular, take the form of a loan, guarantee, loss-coverage guarantee or subsidy.

Figure 6.

The instruments of assistance and support of restructuring processes in credit unions facing the threat of insolvency.



In addition, the amendment to the *Act on the Bank Guarantee Fund* introduced the possibility for the Fund to purchase the stock of a bank in order to take over or acquire all or part of the enterprise of a credit union facing the threat of insolvency, its restructuring or sale to a third party. This solution is similar to a bridge bank instrument used in the process of bank resolution. If due to, for instance, time constraints it is impossible to find a buyer among

commercial entities, “sound” property rights and obligations of a credit union facing the threat of insolvency are transferred to a bridge bank which continues the credit union's business operations by providing, inter alia, access to the acquired deposits. The next step is to find a buyer from the private sector who will purchase the entire bank or selected components of its assets along with the assumption of its liabilities.

The financial assistance and support for credit unions is covered by the Assistance Fund and as at 31 December 2013 it contained PLN **3,817.0 thousand**.

Financial assistance for credit unions facing the threat of insolvency or support for entities acquiring them

ASSISTANCE FUND FOR CREDIT UNIONS	Increases in 2013 >	As at 30.06.2013	PLN 0.0 thousand
		Annual contributions of credit unions	PLN 3,717.0 thousand
		Portion of BFG financial result for 2012	PLN 100.0 thousand
		As at 31.12.2013	PLN 3,817.0 thousand

Preconditions for extending financial assistance

A precondition for the Fund's extension of financial assistance and support is the confirmed presence of insolvency threat in a given credit union.

Financial assistance and support may be granted by BFG only after certain pre-conditions are met, in particular the following:

- acceptance by the BFG Management Board of the results of an assessment of a financial report of a credit union applying for financial assistance, and in the event that support is being applied for – of a credit union being taken over or liquidated;
- submission of a positive opinion by the Polish Financial Supervision Authority (PFSA) about a reorganisation programme or a positive opinion by PFSA about the viability of a credit union's takeover or that there is no risk to the safety of deposits held both in the credit union being taken over and the entity taking over or acquiring that credit union;
- limitation of the financial assistance to the amount of guaranteed deposits in the credit union;
- covering losses of the credit union with its own funds;
- provision of collateral in respect of the financial assistance or support granted in the form of a loan or guarantee.

5.3. STABILISATION FUND

Aims

In February 2010, the Act of 12 February 2010 on Recapitalisation of Certain Financial Institutions came into force, extending the range of instruments available for crisis management and under which the State Treasury became eligible to provide recapitalisation guarantees to financial institutions facing the threat of insolvency and implementing reorganisation programmes.

Taking into account the need to minimize the deployment of public funds, and thus the costs for taxpayers which are associated with assistance to financial institutions facing the threat of insolvency, as well as to transfer these costs to the financial sector, pursuant to the Act on BFG amended on 26 July 2013, new tasks were conferred on the Fund, increasing its role in contributing to financial stability. These tasks may be financed from the Stabilisation Fund. Its balance as at 31 December 2013 amounted to PLN **78,849.8 thousand**⁴.

Preconditions for extending financial assistance

The Fund has become authorised to extend guarantees to increase the own funds of domestic banks implementing reorganisation programmes accepted by the Polish Financial Supervision Authority, which is called the recapitalisation guarantee and in the case of performance of that guarantee – to acquire shares, bonds or banking securities issued by domestic banks. The Fund may extend the recapitalisation guarantee at the request of a minister competent for financial institutions, to whom the domestic bank will apply for the granting of the guarantee.

In 2013, due to the good condition of banking sector entities, the Fund did not receive any request to grant the recapitalisation guarantee.

5.4. COOPERATIVE BANK RESTRUCTURING FUND

Aims

Pursuant to the Act of 7 December 2000 on the Operation of Cooperative Banks, their Affiliation and Affiliating Banks, the Bank Guarantee Fund extends financial assistance to those cooperative banks in which the threat of insolvency is absent. Funds for this assistance activity come from the Cooperative Bank Restructuring Fund (CBRF), which was established from funds originating from the liquidated cooperative bank development fund, managed by Bank Gospodarki Żywnościowej SA, and from the equivalent of amounts disbursed from the budget for servicing series D restructuring bonds, some of which were written off. The CBRF balance is PLN **123,409.7 thousand**.

CBRF financial assistance may be extended to cooperative banks for the following purposes:

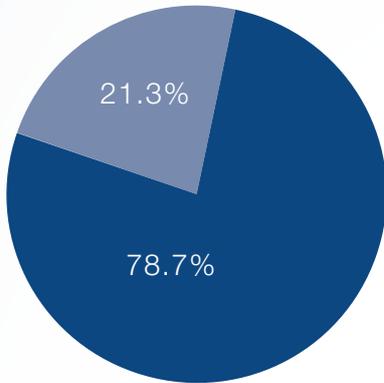
1. acquisition of an affiliating bank's shares,
2. planned or incurred expenses associated with the merger of cooperative banks, with the aim of increasing the safety of deposits held in these banks or improving or standardising the provision of customer service, in particular:
 - acquisition or upgrade of computer software or hardware;
 - the development or standardisation of banking technology;
 - the modification of financial and accounting procedures;
 - the development or consolidation of banking products and services;
3. planned expenses classified as investment.

Applications submitted by banks are evaluated in two application rounds, commencing on 15 March and 15 September each year.

CBRF financial assistance history

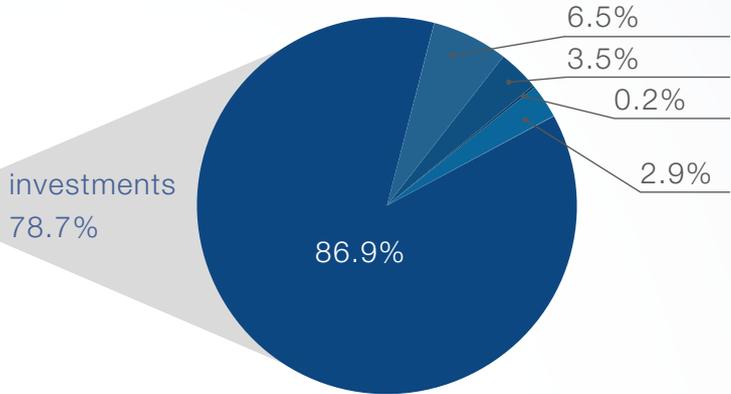
In 2013, 16 applications from cooperative banks were evaluated. They concerned the extension of loans for the purchase of shares of associating banks and for funding planned expenditures of nonmerger expenditures. Their total sum was PLN 29,650.1 thousand. There was no need for the funding of mergerrelated expenditures. The decision to extend financial assistance to all banks in the amount of PLN 29,587.0 thousand was taken. The total amount of funding available in two application rounds was PLN 37,510.2 thousand.

Figure 7.
Breakdown of loans extended from CBRF, as at 31.12.2013



- purchase of assets of affiliating banks
- planned investment expenditures

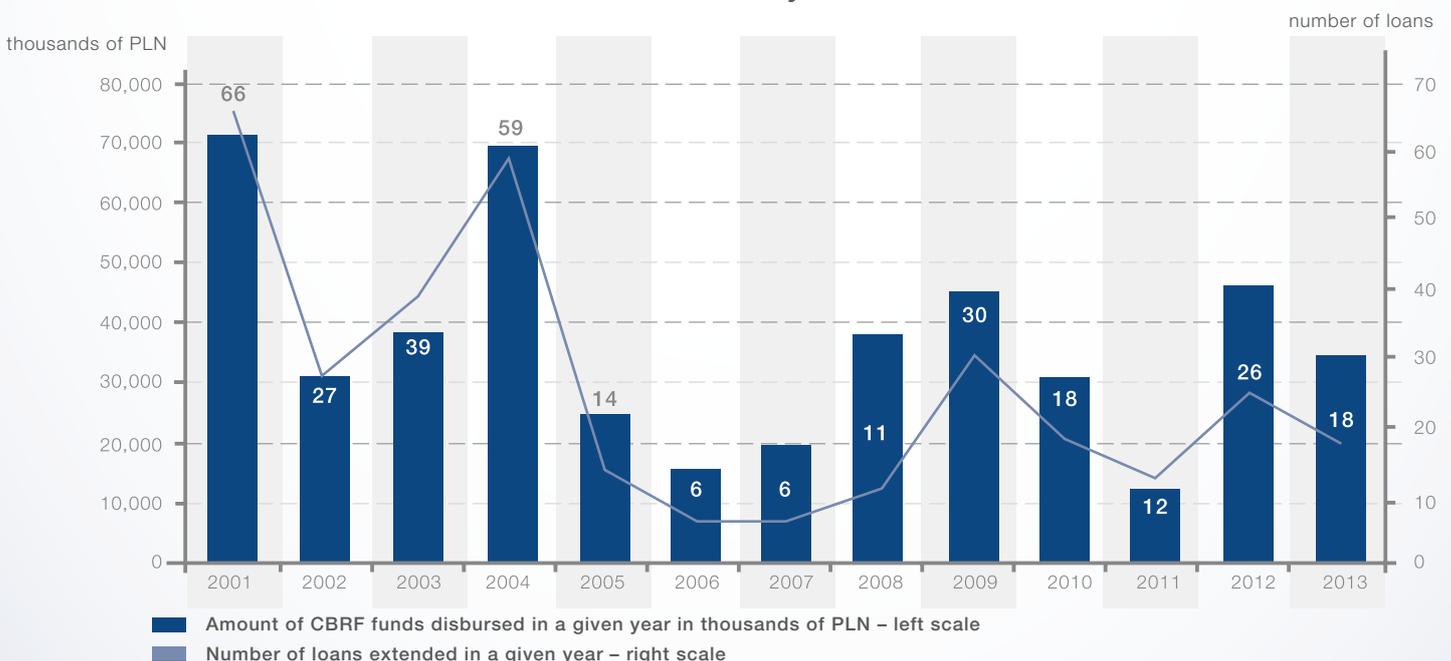
Figure 8.
Investment allocation breakdown of CBRF loans in 2013, as at 31.12.2013



- acquisition or upgrade of computer software or hardware
- development or standardisation of banking technology
- upgrade of financial and accounting procedures
- development or consolidation of banking products and services
- other investment expenditures

The vast majority of funds (86.9%) obtained in 2013 by banks in the form of CBRF loans were used for investments other than acquisition or upgrade of computer software and hardware, development or standardisation of banking technology, development or consolidation of banking products and services or upgrade of financial and accounting procedures, i.e. for other investments and expenses associated with building construction, refurbishment and renovation. In the years 2001-2013, the Bank Guarantee Fund granted 293* loans from the Cooperative Bank Restructuring Fund for a total of PLN 494,756.0 thousand. In no instance did any problems transpire in the repayment of the loans.

Figure 9.
Disbursement of funds from CBRF in the years 2001-2013



* In addition, in the years 2003-2009, the Fund granted, on the basis of 39 annexes to loan agreements, additional financial assistance in the form of increasing existing loans.

5.5. MONITORING AND CONTROL OF BANKS RECEIVING BFG ASSISTANCE

W In 2013, the economic and financial situation was monitored and assessments were carried out with respect to the repayment of liabilities pursuant to loan agreements entered into with 71 cooperative banks receiving BFG financial assistance, including:

- 1 bank which was granted a loan from the Assistance Fund;
- 70 banks which were granted loans from the Cooperative Bank Restructuring Fund.

Table 5.
The number of banks receiving BFG financial assistance in 2013

Banks receiving assistance:	Number of banks			
	31.12.2012		31.12.2013	
	from the Assistance Fund and CBRF	from CBRF	from the Assistance Fund and CBRF	from CBRF
Commercial banks	-	-	-	-
Cooperative banks	1	66	1	70
Total	1	66	1	70
	67		71	

In terms of monitoring and auditing banks receiving BFG financial assistance, the following tasks were carried out:

- the economic and financial situation of banks was analysed, drawing on bank operational risk assessments carried out in accordance with the BFG Early Warning System;
- verifying the degree of meeting contractual obligations and in the case of:
 - banks receiving loans from the Assistance Fund:
 - analysis of assistance funds allocation for appropriateness;
 - analysis of the degree of realization of the merger plan;
 - monitoring the management system;
 - banks receiving financial assistance from the Cooperative Bank Restructuring Fund:
 - financial forecast accuracy evaluation;
 - allocation viability assessment with respect to assistance funds earmarked for financing planned investments.

Within the scope of administering loans, the Fund in particular:

- monitored, on an ongoing basis, collateralization deadlines and collateral value;
- after repayment of loan principal instalments, it carried out appropriate reductions in collateral value;
- carried out periodic audits for appropriateness of allocation of assistance funds earmarked for financing planned investments, which constitute one of the conditions for disbursement of subsequent loan tranches.

Analysis of the economic and financial situation and operational risk (Early Warning System)

Evaluation of the degree of fulfillment of:

- the reorganisation programme or the merger plan (Assistance Fund)
- financial forecast (CBRF)

Monitoring and audit of banks

Assessment of the degree of fulfillment of contractual obligations with respect to BFG, including:

- assessment of the appropriateness of allocation of assistance funds (from the Assistance Fund)
- evaluating the viability of allocating assistance funds (from the CBRF)
- collateral audit

Monitoring the management system (Assistance Fund)

In 2013, monitoring and audit results showed that banks receiving financial assistance from the Fund were solvent and that the repayment of their financial obligations with respect to BFG was not prone to disruption. The fulfilment of the merger plan by the bank that had been awarded a loan from the Assistance Fund did not diverge significantly from its objectives. **Banks used the funds from the CBRF in accordance with statutory aims.**

ANALYTICAL ACTIVITY



6. ANALYTICAL ACTIVITY

6.1. ANALYSING THE SITUATION IN THE BANKING SECTOR, CREDIT UNION SECTOR AND MACROECONOMIC ENVIRONMENT

The statutory mandate of the Bank Guarantee Fund involves collecting and analysing information about banks and cooperative savings and credit unions (the credit union sector was added to the scope of analytical work in 2013). The Fund's analytical work is of a wide range and allows for the preparation of restructuring activities related to the banking sector and the credit union sector, as well as for the disbursement of guaranteed funds to depositors. Using data obtained from NBP, FSC, banks and the National Cooperative Savings and Credit Union, the Fund carried out analyses of the financial situation in the banking sector and individual banks, as well as in the credit union sector and individual credit unions.

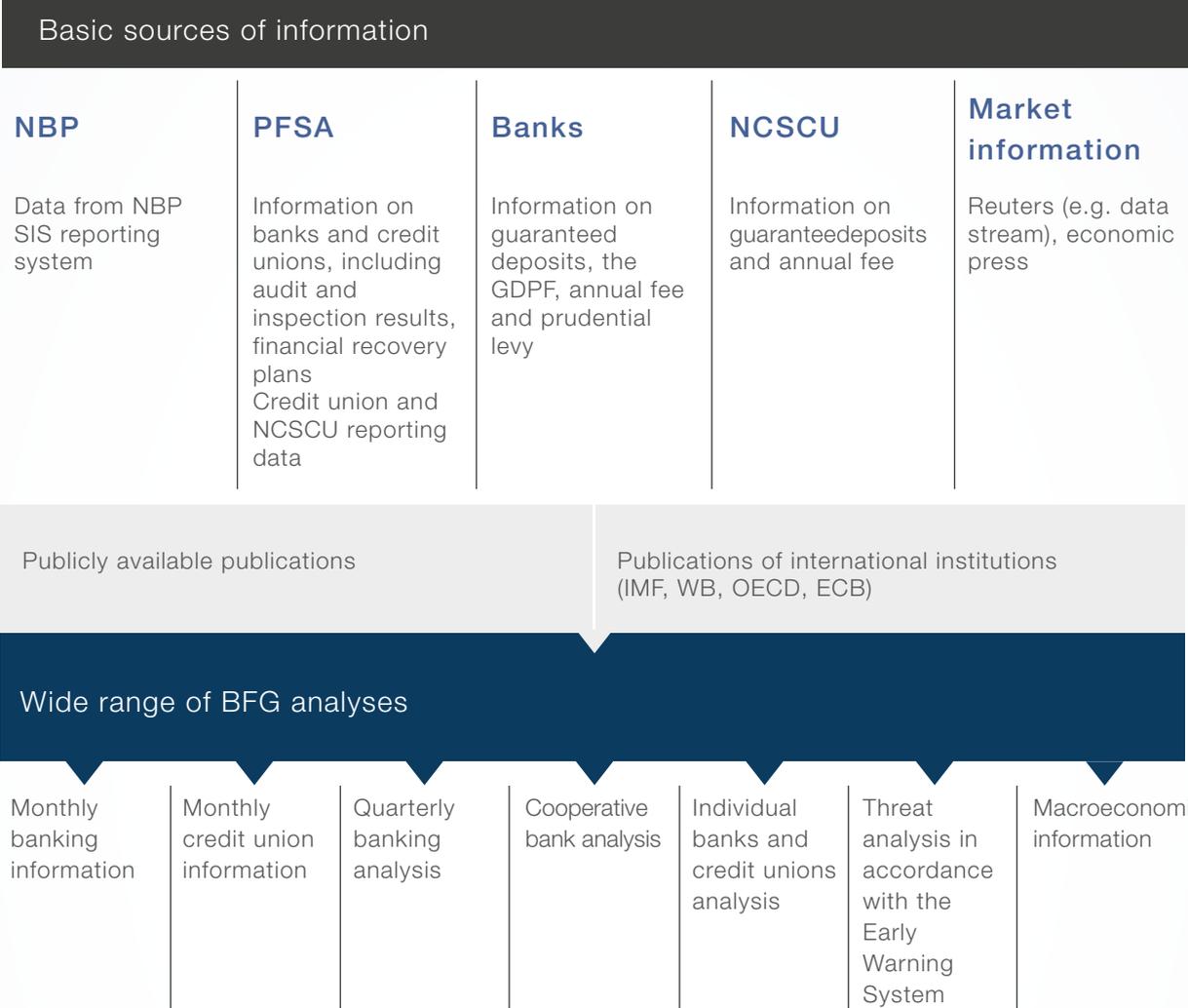
These analyses were prepared as follows:

- quarterly:
 - banking sector threat analysis, taking into account the respective specificity of commercial and cooperative banks,
 - bank threat analysis in accordance with the EWS (Early Warning System) model
- monthly – a synthesis of information presented in tabular-graphical format:
 - on the situation in the banking sector,
 - on the situation in the cooperative savings and credit union sector,
- semi-annually – cooperative bank sector threat analysis.

In 2013, the results of the Fund's analytical activity related to the threats to the banking sector and individual banks were forwarded to the FSC. The representatives of the BFG Management Board participated in the work of the FSC.

The analytical system of the Bank Guarantee Fund is subject to constant development and modification. Its design and the most important sources of information on banks and credit unions are shown in the Figure below.

BFG analysis flowchart



Selected in-house BFG compiled analyses and information are available on the Fund's website: (<https://www.bfg.pl/en/sytuacja-w-sektorze-bankowym>)

Bank analyses

In 2013, banking sector analyses related to the key aspects of bank operation, such as their development, selected risk areas (credit, liquidity, currency, and default risks), financial results and other factors affecting the condition of the banking sector and individual banks. Apart from periodic analyses, the Fund prepared thematic materials regarding, inter alia, the evaluation of liquidity in the banking sector and the impact of interest rate cuts on bank performance. In addition, the Fund performed detailed assessment of selected groups of banks, such as the cooperative bank sector, which, due to changes in the regulatory environment, requires particular attention. The analytical research on the cooperative bank sector was prepared, taking into account the efficiency of the business model of affiliations against the background of low interest rates.

Analytical research concerning credit unions

The year 2013 saw the development of analytical activities allowing for ongoing monitoring and analysis of the situation in cooperative savings and credit unions. The analyses highlighted the threats and risks pertaining to the credit union sector and the operation of individual credit unions. An in-depth analysis was performed mainly in those credit unions which were facing the greatest threats. In addition, a monthly analysis of the credit union sector was drafted, presenting changes related to credits, deposits, funds and, most of all the financial situation of credit unions.

Macroeconomic information

Part of the Fund's analytical activity entailed compiling monthly macroeconomic reports on domestic and international economic events. The reports covered the economic situation in Poland and in the most important regions around the world. Macroeconomic and market-related events that could have had an impact on banking sector stability were singled out in these reports. The situation in financial markets was also analysed (bond markets in particular), which enabled market assessments to be carried out for investment purposes in the area of the Fund's asset management operations, necessary for efficient securities portfolio management.

Work on the target fund level in BFG

2013 saw the continuation of work on a long-term strategy for accumulating funds, whose aim was to determine and achieve the target fund level in BFG, while reducing obligations for banks and credit unions. This work took into account the expansion of BFG's mandate and planned solutions pursuant to the EU Directives on DGS and BRR. Due to the new tasks facing BFG and the related introduction of new levies to be remitted to the Fund, i.e.:

- mandatory annual contribution remitted by credit unions;
- prudential levy remitted by banks,

the scope of the Fund's analytical work related to the preparation of a proposal for the annual contribution amount has increased.

The imposition of further tasks on BFG resulted in the necessity of revising the existing approach to the determination of both: the rates of the mandatory annual contributions remitted to BFG and the target fund level in BFG.

6.2. EARLY WARNING SYSTEM

The banking sector threat assessment is carried out based on the additive-multiplicative model of the Early Warning System (EWS). The model was developed in 2011 and has been employed in carrying out risk assessments in selected banks since Q3 2011. The following three areas are evaluated in context of this model:

- performance,
- credit risk,
- capital adequacy.

The final evaluation also takes into account the non-financial reporting information pertaining to ongoing reorganisation proceedings. The mechanisms used in the model allow for rapid and effective identification of banks facing the threat of insolvency.

In 2013, the Bank Guarantee Fund was carrying out assessments of all banks on a regular basis using its EWS model; the results were presented and discussed at meetings of the Early Warning System Committee, which is charged with carrying out assessments of the economic and financial situation of banks and credit unions, as well as its impact on financial system stability.

In 2013, work continued on a software application with the purpose of optimising the process of attributing ratings to banks and improving the preparation of a standardised set of information presenting the economic and financial situation of banks.

6.3. BFG INFORMATION SYSTEM ENHANCEMENT

In order for BFG to fulfil its statutory mandate, it is imperative that access to information on the entities covered by the mandatory guarantee scheme is ensured. This task is carried out by the Bank Guarantee Fund Information System, which gathers, processes and grants access to data and information on these entities and the operations of the Fund, statutory and otherwise, to authorised users. In 2013, a significant development of the System resources took place, mainly through covering cooperative savings and credit unions by the mandatory guarantee scheme.

The most important component of the BFG Information System is financial reporting data and non-financial reporting data of banks and credit unions. This information is processed by means of inhouse developed applications. The majority of non-financial reporting information has been standardised, which enables its use in the creation of databases used in the Early Warning System model, among other applications. Information and data on banks and credit unions is obtained primarily through exchange of information within the framework of the financial safety-net as well as directly from banks and credit unions.

2013 saw the completion of the refurbishment of the BFG Information System, which was launched in 2012. This expansion involved an update of the System's resources and its overall operability in light of the expansion of the scope of activity of the Fund.

The main changes included:

- the development of an information subsystem on cooperative savings and credit unions and the National Cooperative Savings and Credit Union (NCSCU),
- restructuring of the information subsystem on banks,
- modification of information on the statutory activity of the Fund.

The System has been based on a modernised platform, which enabled the creation of a more userfriendly interface, consistent and systematic presentation of information, and the capacity to expand the Information System to include new information in the coming years.



INVESTMENT ACTIVITY



7. INVESTMENT ACTIVITY

Investment opportunities

Inflows of funds from banks due to the mandatory annual contribution and prudential levy, as well as from coupon payments and redemption of bonds deposited, are invested by the Fund in treasury securities. As credit union deposits were covered by BFG guarantees in November 2013, the Fund for the very first time received inflows from credit unions due to the mandatory annual contribution (inflows due to the prudential levy for 2013 were received in January 2014).

Under the Act on Bank Guarantee Fund, the Fund may purchase securities issued or guaranteed by the State Treasury, the National Bank of Poland and the governments or central banks located in Member States of the European Union, countries being parties to the Agreement on the European Economic Area or members of the Organisation for Economic Cooperation and Development. Furthermore, the Fund may purchase participation units in money market funds and establish term deposits with the NBP.

Terms and conditions of BFG investment policy

The purchase of securities is conducted in accordance with “The Bank Guarantee Fund Investment Policy on Investing Funds in Securities” which is updated every year. It determines investment directions and approaches to portfolio management to ensure advantageous financial results. Additionally, the document includes terms and conditions of investing inflows of funds received by the Fund, based on monitoring the duration and profitability of the entire portfolio, which enables the creation of a sufficiently diversified securities portfolio providing security and liquidity in the event that it is necessary to liquidate securities for the purpose of a disbursement of guaranteed deposits. The System was highly rated by the International Monetary Fund and the World Bank under the Financial Sector Assessment Program (FSAP).

In order to enhance the operational capabilities of the Fund with respect to securities portfolio management, BFG has signed cooperation agreements with the banks that have the largest market share and an agreement with the National Bank of Poland on the possibility of obtaining additional funds for the disbursement of guaranteed deposits. Cooperation agreements with banks allow the Fund to conclude transactions on the interbank market in the field of treasury bonds, treasury and money bills trading, as well as *repo* and *buy-sell back* reverse transactions.

The situation in the treasury securities market

In 2013, the Polish treasury securities market was characterised by high volatility of returns, conditioned by the actions of central banks. Due to the scale of interest rate cuts by the National Bank of Poland, operations of the European Central Bank (ECB)

and the Federal Reserve (FED), the first half of the year saw a strong inflow of funds from foreign investors, and, consequently, the market of treasury bonds recorded a yield decline to historically low levels, not anticipated in earlier forecasts. This market trend was reversed in the second half of the year when the level of profitability increased. This was caused by the end of the cycle of interest rate cuts in Poland and the FED announcement that it would withdraw from its quantitative easing programme.

Structure of the BFG portfolio

In 2013, pursuant to its investment plan, the Fund purchased treasury bonds. In addition, in order to ensure a proper level of short-term liquidity and effective allocation of available funds kept in a current account at the NBP, funds were invested in NBP money bills and *buy-sell back* transactions were concluded. In 2013, an important role was played by actively responding to the changing situation of the Polish treasury bonds market, involving adjustment of investment decisions to the current situation. Despite the difficult market conditions, the Fund was able to achieve better than expected financial results.

As a result of investments made in 2013, there was a change in the balance and structure of the securities portfolio. In comparison to 2012, there was an increase from 4.19% to 14.08% in money bill share and decrease from 95.28% to 85.92% in treasury bonds share.

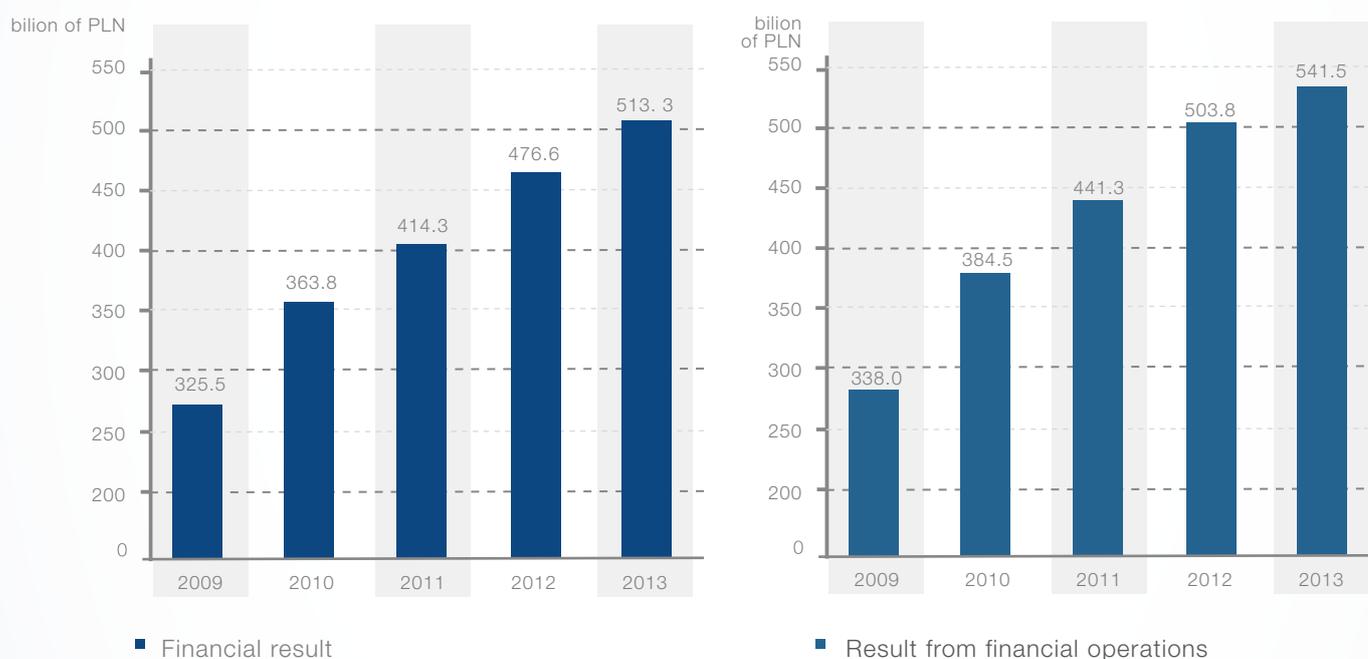
Table 6.
Structure of the BFG securities portfolio (nominal terms)

Type	Portfolio share	
	31.12.2012	31.12.2013
NBP money bills	4.19%	14.08%
Treasury bills	0.53%	0.00%
Treasury bonds	95.28%	85.92%
Total	100.00%	100.00%

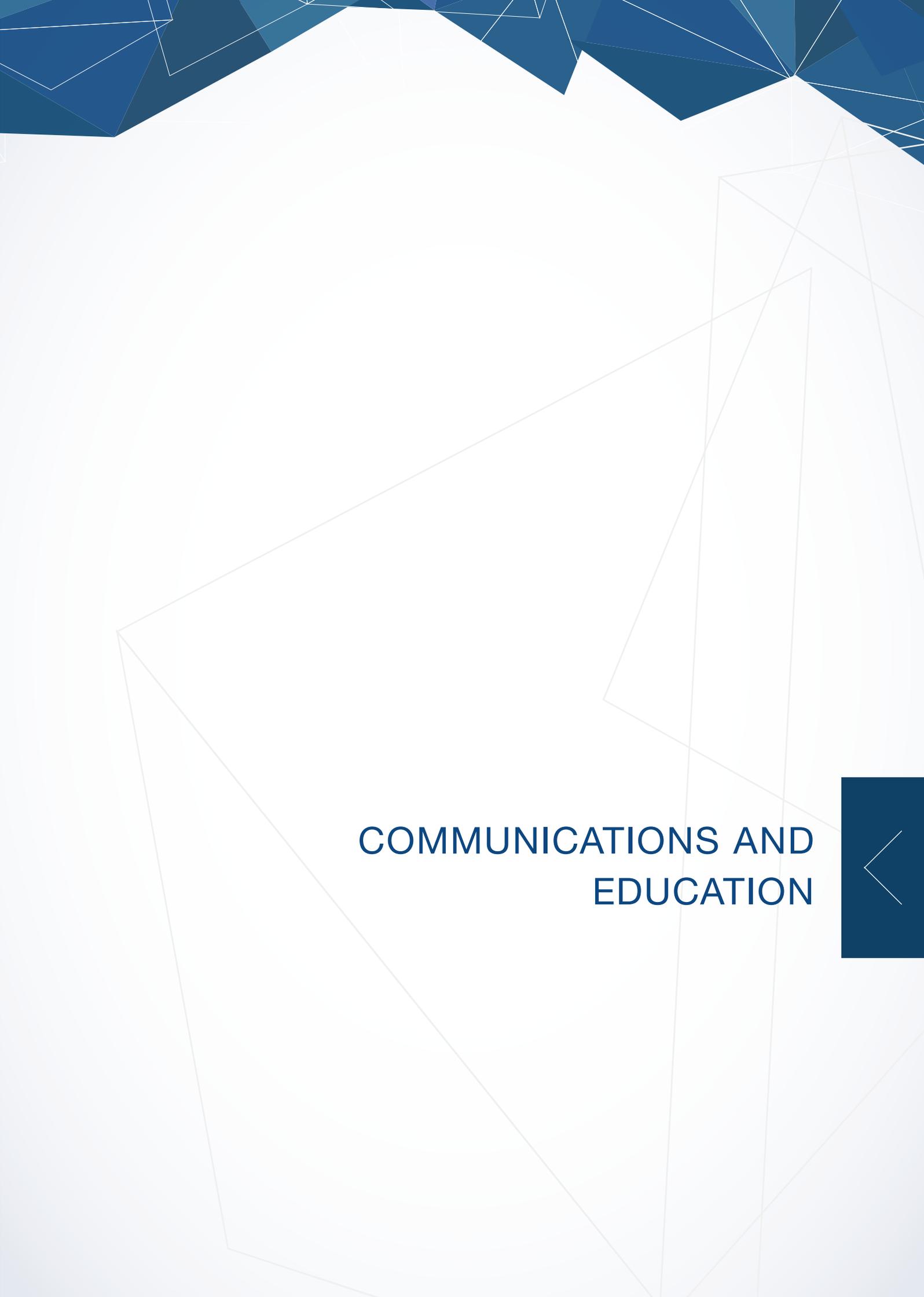
Financial result in 2013

In 2013, the Fund generated a better than anticipated financial result, which amounted to PLN 513,285.8 thousand, i.e. 104.3% of the budget forecast. Revenues constituted 102.2%, and costs of maintaining the bodies of the Bank Guarantee Fund and its Office were 75.2% of the amounts forecast for 2013. The main item among revenues in the profit and loss account for the year 2013 constituted the result on financial operations in the amount of PLN 541,539.4 thousand, i.e. 102.1% of the amount forecast for 2013. This item shows the result on securities in the amount of PLN 541,534.1 thousand as well as interest income due to funds accumulated in the current account and overnight deposit accounts in the amount of PLN 5.3 thousand.

Figure 10.
BFG financial results in the years 2009-2013



The financial results of the Bank Guarantee Fund are characterised by a high growth rate – during the period of 4 years, the financial result has increased by 57.8%, and the result on financial operations by 60.2%.



COMMUNICATIONS AND EDUCATION



8. COMMUNICATIONS AND EDUCATION

One of the tasks of the Bank Guarantee Fund is to inform the public about the functioning of the deposit guarantee scheme in Poland and BFG's role in the composition of the financial safety-net. This aim was implemented in 2013 using various tools and actions according to the "The BFG Promotion, Information and Education Policy", which had been adopted in December 2012.

8.1. PUBLIC AWARENESS INITIATIVES

BFG helpline

A toll-free helpline (**800 569 341**) is an important tool that gives members of the public interested in obtaining information about the deposit guarantee system in Poland direct access to employees of the Fund. Due to the planned expansion of coverage to deposits held in cooperative savings and credit unions, there was greater interest among members and potential customers of credit unions in information about the terms of guaranteeing deposits held in credit unions and about the timing of the introduction of this expanded coverage. The Fund informed all interested persons about the principles of functioning of the deposit guarantee scheme and the participation of individual financial entities in the guarantee system. The telephone queries and correspondence directed at the Fund's staff pertained to matters relating to deposits held in credit unions under the deposit guarantee scheme, the potential suspension of operations of banks, as well as the principles of reimbursement of guaranteed deposits and the possibility of recovery of bank and credit unions deposits in the case of suspension of their operations. In each instance depositors received detailed responses to their queries.



Materials made available to the public in bank branches

BFG leaflets, made available to clients in bank branches, are among the principal awareness-building materials on the functioning of the deposit guarantee system in Poland. In 2013, the Fund distributed approximately 1.5 million leaflets to commercial banks, affiliations of cooperative banks and credit unions. All credit union branches were also provided with placards used to identify membership of the credit union in which they are displayed in the mandatory deposit guarantee system (2000 placards were produced for credit unions). Banks were also, if necessary, provided with placards used to identify membership of the bank in which they are displayed in the mandatory deposit guarantee system. These placards are prominently displayed in nearly every bank and credit union branch in Poland.



Website

Information on the Polish deposit guarantee system and operations of the Fund is available at www.bfg.pl. The website provides constant and easy access to current information, as well as current and archival materials and documents. In July 2013, the website structure was modernized and it was updated with information on statutory changes, and in particular on the new competencies of the Fund, the date from which guarantees of deposits held in credit unions would apply as well as the principles of providing financial assistance and support of restructuring processes with respect to credit unions. The site registered nearly 174 thousand hits in 2013 (almost 480 hits per day).

Presence on social media sites

BFG also uses modern channels of communication to reach its various target groups. Starting in 2012, it has been present on popular social media sites such as **Facebook** (<https://www.facebook.com/BankowyFunduszGwarancyjny>) and **Youtube** (<http://www.youtube.com/user/tvBFGtv>), where the most important information, films, photographs and comments can be found. These sites are complementary tools in an integrated multi-channel communications strategy for target groups for whom the Internet is a fundamental source of information.

8.2. BFG PUBLICATIONS



In 2013, BFG published three issues of the Safe Bank journal, including the 50th jubilee issue of the journal. Another issue (No. 53/2013) was also prepared for printing, containing a publication of Prof Marek Belka, the President of the National Bank of Poland, prepared for the 11th Congress of Polish Economists, as well as several articles related to the subject of real estate in financial markets. In 2013, Safe Bank presented more than 20 articles and papers in total. The topics included, inter alia, effective bank governance, financial stability, bank supervision, as well as the consequences of the so-called parallel banking for risk management. Safe Bank is distributed at no cost to banks, colleges, and major public libraries nationwide. Both current and archival publications of Safe Bank are available on the website of BFG (<http://www.bfg.pl/czasopismo-bezpieczny-bank>)

An annual report on the Fund's 2012 operations was also prepared in Polish and English and distributed via the BFG website:

- (<http://www.bfg.pl/raporty-roczne>).

8.3. EDUCATIONAL INITIATIVES



Propagating knowledge about the deposit guarantee system among university students and graduates

June 2013 saw the conclusion of a subsequent round of a competition for the top bachelor's, master's and doctoral dissertation on the topic of deposit guarantee systems, the operation of the Bank Guarantee Fund and financial safety of banks. Out of 7 contesting papers, the jury decided to award one doctoral and one bachelor's dissertation. There was no award for a master's dissertation. The awards ceremony took place on 26 June 2013 at the BFG headquarters.



Accessible Finance Academy

The Bank Guarantee Fund joined an initiative led by the National Bank of Poland, called the Accessible Finance Academy. The campaign was conducted in regional branches of the NBP nationwide and its aims included reducing financial exclusion and propagating cashless transactions in Poland. In 2013, four Academy meetings took place. A BFG representative took part in all the meetings as a guest speaker, participated in panel discussions and gave interviews to local media. The participation of a BFG representative has been recognised by the NBP as important professional support of the project in the field of propagating knowledge about the deposit guarantee system in Poland.

Propagation of knowledge on the principles of deposit guarantee scheme within the Academy is aimed at eliminating barriers related to the use of banking services resulting from concerns about the safety of funds entrusted to banks. BFG was also represented at the conference entitled "Accessible Finances 2013" dedicated to the subject of financial exclusion in Polish society, at which the results of recent NBP research on the payment habits of Poles were presented. Additionally, as part of public awareness and education activities, the Fund's representative delivered a lecture for the students of the Third Age University in Warsaw from the series *Safe Senior's Finances* entitled *Be Careful who you Entrust your Money to!*

8.4. BFG IN THE MEDIA

A televised interview on TVN-CNBC on the topic of common banking supervision and EU harmonised bank deposit guarantees – July 2013.

TVN-CNBC

The President of the Management Board of the Bank Guarantee Fund was invited to the TVN-CNBC studio to take part in a televised discussion, with the subject matter including common banking supervision and EU harmonised principles of bank deposit guarantees, as well as the situation of Polish banks and their clients in context of the current financial crisis.

‘The Senate adopted an amendment to the Act on BFG, introducing a prudential levy for the stabilisation fund,’ reports “Dziennik Gazeta Prawna” in its article entitled “Financed Self-Assistance” – July 2013

DZIENNIK GAZETA PRAWNA

“Dziennik Gazeta Prawna” reports that the Senate unanimously adopted an amendment to the Act on the Bank Guarantee Fund, thereby creating a legal framework for the creation of a stabilisation fund at the Bank Guarantee Fund, whose aim is to provide assistance to institutions affected by the financial crisis.

“Everything indicates that the stabilisation fund will be operational this year. Experts emphasise that the essence of the regulation is that the fund is to be financed by the banks themselves, so the risk of providing them with assistance is transferred from the state budget to the financial sector. The fund will be financed from inflows from prudential levies paid by banks, and afterwards also by cooperative savings and credit unions. Determination of the final size of the levy is the task of the Council of the Bank Guarantee Fund. The Act states that the levy shall not be greater than 0.2% of the basis for calculation of the mandatory annual contribution remitted to BFG by banks”.

“Rzeczpospolita” refers to issues contained in the explanatory note on the draft Act on Macro-Prudential Oversight – July 2013

RZECZPOSPOLITA

“The explanatory note on the draft Act on Macro-Prudential Oversight states that the macro-prudential tool will consist of the establishment of coefficients for countercyclical and systemic buffers (additional capital that the banks will have to temporarily hold) and terms of their validity. The Council shall consist of seven members and its Chairman shall be the President of the National Bank of Poland, and his deputies shall be the Minister of Finance and member of the NBP Board. It shall also consist of a representative of the Minister of Finance, a representative of the Prime Minister, the Chairman of the Polish Financial Supervision Authority and the President of the Bank Guarantee Fund.”

“Dziennik Gazeta Prawna” announces that President Bronisław Komorowski has signed the amendment to the Act on the Bank Guarantee Fund, which provides for the creation of the stabilisation fund within BFG – August 2013

DZIENNIK

GAZETA

PRAWNA

“The Act provides for the possibility of granting a recapitalisation guarantee from the stabilisation fund, and should that guarantee be executed, also the possibility of acquiring or taking over shares, bonds or banking securities issued by domestic banks. The maximum amount of the levy for the fund shall be 0.2% of risk weighted assets in the whole banking system. The decision as to the amount of the levy will be made by the Council of the Bank Guarantee Fund.”

The article “The end of the Era of the Unsinkable” in “Rzeczpospolita” refers to the experiences of BFG that could be applied in developing solutions in furtherance of safety of the banking system in the EU – September 2013

RZECZPOSPOLITA

“The Polish experience, both of the PFSA and BFG, should be applied in developing solutions in furtherance of safety of the banking system in the European Union. Key in this respect are the solutions constituting the foundations for a secure banking business. They are related to capital and liquidity (Directive and Regulation on Credit Risk Management – CRD IV and CRR). The second part is a set of instruments for bank recovery and resolution (Directive on BRR).”

Referring to the various commercially available forms of saving, the article entitled “Be Careful Where You Keep Your Money” in “Newsweek” presents the basic principles of deposit guarantee coverage – September 2013

NEWSWEEK

“Is our money held in the form of a bank deposit safe? Yes. The Bank Guarantee Fund guarantees each customer the recovery of deposits up to EUR 100 thousand in the event that the bank becomes insolvent. Since 29 November 2013, such guarantees will also be granted to the customers of credit unions [...]. Loan companies will not have such guarantees.”

In its article “As of November Credit Unions Will Guarantee up to EUR 100 Thousand in the Event of a Credit Union Insolvency” interia.pl announces that BFG will extend guarantees to cooperative savings and credit unions – October 2013

INTERIA

“The extension of guarantees to credit unions will increase the confidence of Poles in the whole financial sector, says the President of the Polish Bank Association. Some of the credit unions will require reorganisation programmes, but – according to Krzysztof Pietraszkiewicz – they are necessary institutions in the Polish banking sector, which meet the needs of individual customers and small businesses.”

The article entitled “Saving under Special Supervision” in “Super Express” describes the institutional arrangements through which deposits held in banks and credit unions are safe – September 2013

**SUPER
EXPRESS**

“Millions of people bring their savings to banks and supervised institutions. The prosperity of many nations has been built on this trust for hundreds of years. However, an infrastructure for this trust is needed, and an efficient system of financial supervision is its important component. In building financial market security, the state is only the organiser of a system. The Polish Financial Supervision Authority is maintained by market participants and, let’s say, by customers. The Bank Guarantee Fund has been financed by customers – market participants. The wisdom of the whole system is to organise it on an ex ante basis.”

“Gazeta Wyborcza” carries an article entitled “The Vaults of Credit Unions Will be Protected” presenting the information on the new laws aimed at extending BFG guarantees to credit unions – November 2013

**GAZETA
WYBORCZA**

“Today is a big day for credit unions, and in particular, for all their 2.6 million members. Those who hold their savings in credit unions – and, all in all, there are quite a few of them (PLN 17 billion) – can feel safer. As of today all the money deposited in credit unions will be covered by the guarantee of the Bank Guarantee Fund, i.e. the same institution which extends its guarantees to banks. This is one of the consequences of the Polish Financial Supervision Authority’s oversight of credit unions.”





**DOMESTIC
COLLABORATION**



9. DOMESTIC COLLABORATION

9.1. COLLABORATION WITH FINANCIAL SAFETY- -NET MEMBER INSTITUTIONS

The Act of 26 July 2013 introduced amendments to the Act of 7 November 2008 on the Financial Stability Committee (FSC), by, *inter alia*, expanding its composition, which is now comprised of: the Minister of Finance, the President of the National Bank of Poland, the Chairman of the Polish Financial Supervision Authority, and the President of the Bank Guarantee Fund Management Board. The aim of the FSC is to ensure effective collaboration in maintaining stability in the domestic financial system by exchanging information, opinions and assessments with respect to the financial system, both domestically and internationally, and to coordinate actions in this regard.

In 2013, a representative of the Fund regularly took part in an advisory capacity in meetings of the FSC, and on 4 October 2013, the President of the Management Board of the Bank Guarantee Fund became its member.

The Fund also continued its collaboration with the Ministry of Finance, taking part in legislative work concerning bank recovery and resolution. After completion of work by an FSC Working Group for developing legal solutions in this regard, BFG participated in intra- and inter-ministerial consultations related to the work on the draft *Act on the Bank Guarantee Fund, Bank Resolution and on Amendments to other Acts*.

9.2. COLLABORATION WITH BANKING INSTITUTIONS IN POLAND

In 2013, the Fund continued to liaise with the domestic banking sector. Within the scope of collaboration with the Polish Bank Association, the President of the BFG Management Board took part in the 6th Forum of Leaders of Cooperative Banks, during which he gave a presentation “The Business Model of Cooperative Banks against the New Regulatory Requirements” and presented the results of the Fund’s analyses of cooperative banks and affiliating banks in the context of the efficiency of the associations’ business model. In October 2013, the President of the BFG Management Board took part in a meeting of the PBA’s Major Bank Division, during which he gave a presentation “BFG Target Fund Level” and pointed out the relationship between the level of annual contributions remitted to BFG and its target fund level.

Within the scope of its collaboration with the Polish Bank Association, BFG once again took part in an opinion poll measuring the public’s perception of the banking sector, called “Survey on the Reputation of the Banking Sector”. It entailed, inter alia, a discernment of the level of knowledge among members of the general public about the deposit guarantee system and the role of the Bank Guarantee Fund.

The Fund held a seminar with representatives of the cooperative savings and credit union sector, which addressed, inter alia, issues relating to the principles of guaranteeing deposits in credit unions, credit union calculating systems, technical aspects of transferring data to BFG and the principles of extending assistance and support in the process of restructuring of cooperative savings and credit unions.

9.3. CONFERENCES AND HONORARY SPONSORSHIPS

In 2013, BFG representatives took part in numerous conferences and seminars held domestically, like the 3rd European Economic Congress, the 4th Retail Bank Congress (organised by the Gdańsk Academy of Banking and PKO Bank Polski SA) and the 8th Banking Risk Congress (organised by the Credit Bureau). During all conferences, the Fund's representatives were guest speakers, debate participants or panel discussion moderators.

The Bank Guarantee Fund also collaborated with the Allerhand Institute in the organisation of the 2nd Polish Financial Regulations Summit 2013.

The Fund acted as honorary sponsor for the project "A Career to Bank On" of the PANEUROPA Student Organisation of the University of Economics in Katowice, as well as for the 6th Banking Forum Congress, which addressed various current problems of the financial market in Poland and Europe.

INTERNATIONAL COOPERATION



10. INTERNATIONAL COOPERATION

10.1. CHAIRMANSHIP IN THE WORK OF THE INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS, STRENGTHENING IADI'S COOPERATION WITH INTERNATIONAL ORGANISATIONS AND FINANCIAL INSTITUTIONS

The appointment of the President of the BFG Management Board to the post of the President and Chairman of the Executive Council of the International Association of Deposit Insurers (IADI) in October 2012, involved the Fund in the management of the Association. In 2013, the IADI President chaired three meetings of the Executive Council as well as the Annual General Meeting of the IADI Members.

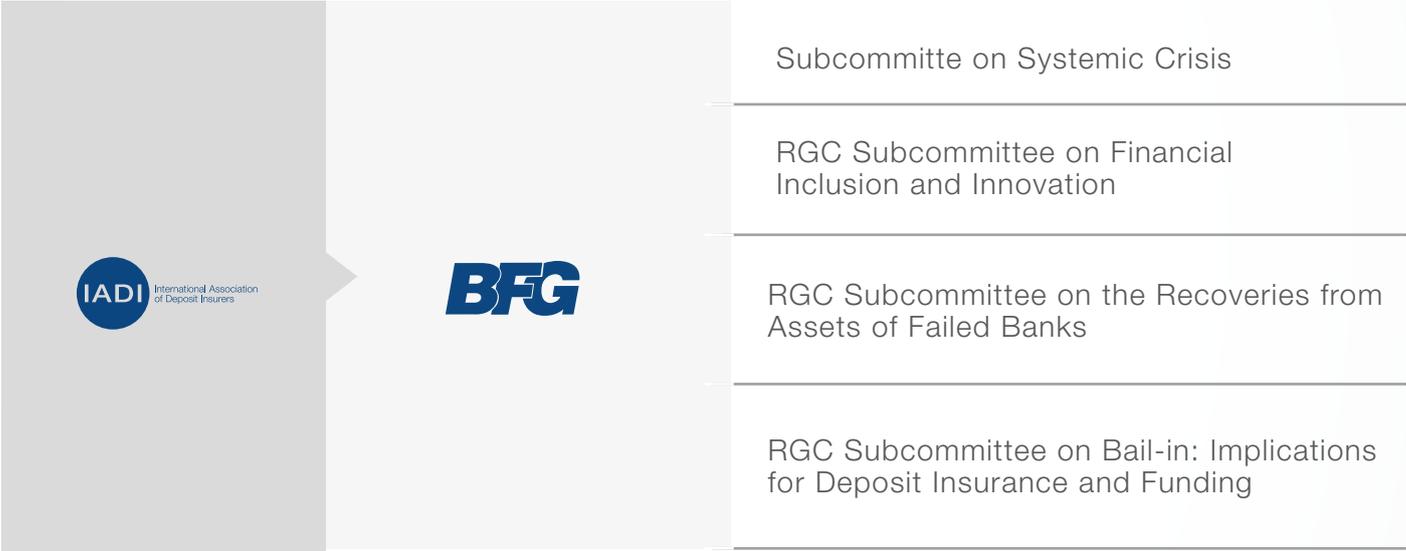
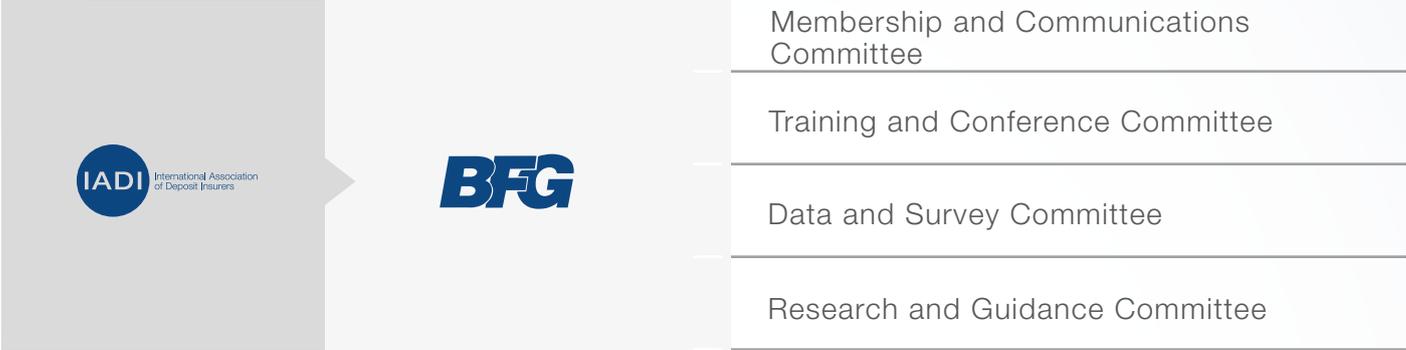
The IADI President held a series of meetings with heads of the Bank for International Settlements (BIS) and the Financial Stability Board (FSB), including the Governor of the Bank of England, who is also the Chairman of the FSB. The meetings aimed at discussing the role of IADI and deposit guarantee institutions in strengthening global financial stability, IADI's contribution to the work carried out by the Board, as well as the potential membership of the Association in the FSB.

The IADI President also represented the Association at the European Seminar held in London, dedicated to Recovery and Resolution strategies, during which he discussed changes in the financial stability net and the role of deposit guarantee institutions in the resolution proceedings. Additionally, the IADI President met with representatives of the European Banking Authority (EBA), the Bank of England, and the German Federal Financial Supervisory Authority to discuss the new proposed regulations on bank resolution.

At the seminar *Bank Resolution and Deposit Insurance Issues*, organised by the Financial Stability Institute (FSI) and IADI, the IADI President had the opportunity to present challenges facing deposit guarantee institutions responsible for resolution.

The aim of the meeting of the IADI expert group, held at the BFG headquarters, was to formulate comments on the *Key Attributes of Effective Resolution Regimes Assessment Methodology*, as well as to outline the role of deposit guarantee institutions in resolution proceedings.

BFG representatives took an active part in the work of four IADI standing committees, a regional committee and research subcommittees.



The Fund also took up chairmanship of a new research project called *Bail-in: implications for deposit insurance and funding*. This topic was identified by IADI members as the most important for guarantee institutions in a survey regarding their preferences for IADI analytical work. The bail-in tool is an attempt to respond to deficiencies in crisis management instruments, which were revealed during the recent financial crisis, and in particular, to the problems of large cross-border financial institutions. Bail-in, as mostly a theoretical tool, poses a number of challenges to the resolution authorities and deposit guarantee institutions, and these challenges can only be met, if the essence, effects and risks associated with the use of the bail-in tool are identified and fully understood. The initiated research project will focus on key issues, challenges and risks associated with the impact of the bail-in tool on deposit guarantee institutions, their tasks and liabilities, taking into account the diversified mandate of deposit guarantee institutions and their role in the financial safety-net.

The IADI President participated in the annual meeting of the European Regional Committee and the annual conferences of IADI Regional Committees – Asia-Pacific, Latin America and North America. The Fund was also involved in the development of an IT tool that enabled the carrying out of an annual survey among the deposit guarantee institutions in the autumn of 2013.

Under the terms of the agreement concluded between the International Monetary Fund (IMF), the World Bank (WB) and IADI in 2013, the IADI President provided these institutions with a list of seven IADI experts in the field of deposit guarantee schemes. These experts are to assess the compliance of guarantee schemes with the *Core Principles for Effective Deposit Insurance Systems (Core Principles)* as part of the Financial Sector Assessment Program (FSAP) carried out by the WB and the IMF in Member States. One of the experts appointed is the Deputy President of the BFG Management Board.

The *Core Principles* were developed in collaboration between IADI and the Basel Committee on Banking Supervision and adopted in 2009. In 2013, the Deputy President of the BFG Management Board became a member of the Steering Committee established to review and update the *Core Principles*. In 2013, she participated in a series of meetings of the Steering Committee, and one of them, similarly to the IADI workshops, was held at the Fund's headquarters. The IADI workshops were aimed to appoint other experts of the Association who could take part in the IMF and the WB missions as part of the Financial Sector Assessment Program (FSAP). The BFG experience arising from the assessment of compliance of the Polish deposit guarantee scheme against the *Core Principles* (carried out at the beginning of 2013 under the FSAP programme) was used for training purposes. In 2013, the Deputy President of the BFG Management Board also served as an expert in the assessment of compliance of the Turkish deposit guarantee scheme against the *Core Principles*.



At the Annual General Meeting of IADI Members, BFG was granted the Deposit Insurance Organization of the Year award in the category Core Principles and International Participation. This award was granted for the international activity of BFG as well as actions taken within the last three years in support and promotion of the *Core Principles*.

10.2. BFG INVOLVEMENT ON THE EUROPEAN STAGE

In 2013, the Fund was represented at the Annual Meeting of the European Forum of Deposit Insurers (EFDI) and took an active part in the meetings of an association committee of deposit guarantee institutions from the Member States of the European Union.

Moreover, Fund representatives contributed to many international conferences and seminars, including the World Bank conference on bank resolution, during which the President of the BFG Management Board took part in a panel discussion *EU Member States: Designing a Bank Resolution Framework: Implementation Challenges*.

The President of the BFG Management Board also participated in the EUROFI High Level Seminar 2013 and Financial Forum 2013, during which he contributed to the plenary discussion devoted to crisis management in the European Union in the context of a banking union.

After publication of the European Commission's proposal of the text of a directive establishing the framework for reorganisation as well as recovery and resolution proceedings for credit institutions and investment firms (...), in June 2012, the document was submitted to the European Union Council and the European Parliament for further legislative work. Since early 2013, both authorities carried out intensive work to prepare recommended solutions based on the European Commission's project. The EU Council approved its proposal (general approach) on 27 June 2013. The proposals prepared by all involved authorities were further subject of tripartite consultations (trialogues). The initial political compromise between the European Commission, the EU Council and the European Parliament was achieved on 12 December 2013⁵.

Following the adoption by the European Commission proposal to amend the Directive 94/19/EC on deposit Guarantee Schemes on 12 July 2010, the document was submitted to the EU Council and the European Parliament for further legislative work. After preparation of written positions by the EU Council and the European Parliament, the tripartite consultations (trialogues) were launched and continued in 2013. In December 2013, the authorities managed to achieve an initial political compromise regarding the regulation in question. The text of the Deposit Guarantee Schemes Directive (DGSD) should be further officially adopted by the EU Council and then put to a vote by the European Parliament⁶.

⁵ The text of Directive 2014/59/EU was adopted by the EP in April 2014 and published in the Official Journal of the European Union on 12 June 2014.

⁶ The text of Directive 2014/49/EU replacing the Directive 94/19/EC was adopted by the EP in April 2014 and published in the Official Journal of the European Union on 12 June 2014.





The Fund collaborated with the Ministry of Finance in legislative work concerning the BRRD's establishment of a framework reorganisation as well recovery and resolution proceedings with respect to credit institutions and investment firms, as well as legislative work concerning the Deposit Guarantee Scheme Directive. For this purpose, the Fund participated in meetings of the European Union Council's Working Group for Preparation of a Directive on Recovery and Resolution of Credit Institutions and Investment Firms and issued opinions on the proposals presented in the course of legislative work.

The President of the Fund Management Board met with Michel Barnier, the European Commissioner for Internal Market and Services. The discussions concerned the Polish solutions for the safety of the banking system, the creation of the EU banking union, as well as bank resolution.

The Fund also took part in the work of two groups for crisis management: *the Cross-Border Stability Group* and *the Nordea Crisis Management Group*.

10.3. BFG COLLABORATION WITH FOREIGN DEPOSIT GUARANTEE INSTITUTIONS

In 2013, BGF maintained regular bilateral cooperation with foreign deposit guarantee institutions. Representatives of the Nigerian Deposit Insurance Corporation (NDIC) attended two meetings organized at the premises of BFG. The meetings were dedicated to the exchange of experiences and information on the practical aspects of reimbursement of guaranteed deposits, analytical activity, bank resolution, as well as the functioning of the Early Warning System. The President of the BFG Management Board held a meeting with representatives of the World Bank, who offered to support the public debate on the introduction of bank resolution in Poland. The Fund also hosted a representative of the Deposit Protection Fund of the Association of German Public Sector Banks, as well as representatives of the Ministry of Treasury and the Ministry of Foreign Affairs of Great Britain. The Fund also signed a cooperation agreement with the Romanian Deposit Guarantee Deposit Fund.



**INTERNAL
AFFAIRS**



11. INTERNAL AFFAIRS

11.1. LEGISLATIVE WORK

11.1.1. WORK ON DRAFT LEGISLATION ON THE ORDERLY LIQUIDATION (RESOLUTION) OF BANKS

Since resolution is an alternative to bankruptcy proceedings and the disbursement of guaranteed deposits, the expansion of responsibilities of deposit guarantee institutions has been a visible global trend in the last few decades. These changes relate to the participation of deposit guarantee schemes in the funding of resolution and the related role of deposit guarantee institutions in the financial safety-net, as well as in the preparation and implementation of resolution proceedings. The most advanced approach involves the extension of the mandate of deposit guarantee institutions by entrusting them with tasks and competences related to the resolution – the role of a resolution institution. This approach gives rise to synergies resulting from the management of funds and other resources to accomplish the objectives of resolution and deposit guarantee, as well as to select cost-optimal scenarios for failing institutions, taking into account the requirement of safeguarding financial stability.

Since 2010, the Bank Guarantee Fund has been monitoring and analysing changes in the scope of activities performed by deposit guarantee institutions, as well as their growing importance in the preservation of financial stability. Initially, the work focused on the assessment of standards and recommendations of leading international institutions: the Financial Stability Board, the International Monetary Fund and the World Bank, global experiences in this field, as well as analysis of existing Polish regulations on bank resolution. Global experience arising, in particular, from the financial crisis, which started in 2007, indicated that the absence of a comprehensive set of crisis management methods and techniques, including resolution, leads to a crisis intervention (bail-out) that is costly for public finances (i.e. taxpayers) and poses a threat to financial stability.

Figure 11.

The Evolution of crisis management and the financial safety-net

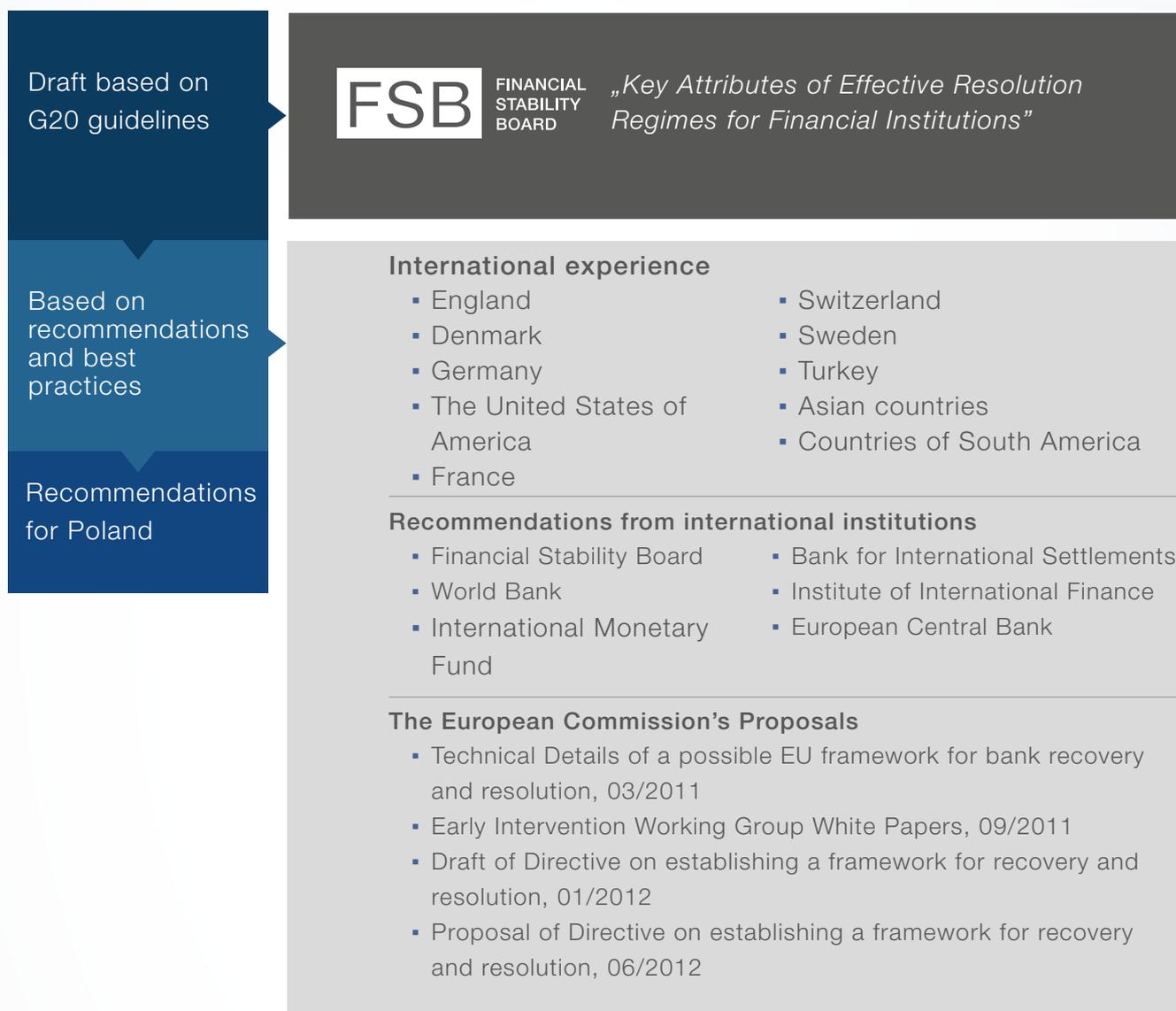
Financial safety-net	Basic model (without resolution)	Expanded model (with resolution)
Prevention ineffectiveness	<p>Market disruption No institutional arrangements in the field of crisis intervention</p>	<p>Limited market disruption Institutional arrangements in the field of crisis intervention</p>
Threat of insolvency	<ul style="list-style-type: none"> ▪ Disorderly liquidation ▪ Disbursement of guaranteed deposits ▪ Support from public funds (bail-out) 	<ul style="list-style-type: none"> ▪ Resolution ▪ Disorderly liquidation ▪ <i>Bail-out</i> ▪ Disbursement of guaranteed deposits as a last resort

Source: Compiled by BFG

The conclusions from the work performed indicated the need to develop and complement the domestic crisis management system, taking into account recommended and applied best practices.

Having recognised these challenges the Financial Stability Committee appointed, on 24 November 2011, at the initiative of the Bank Guarantee Fund, a Working Group for the Development of Legal Solutions for Bank Restructuring and Resolution. The Working Group was composed of representatives from the Ministry of Finance, the National Bank of Poland, the Polish Financial Supervision Authority and the Bank Guarantee Fund; in its work, the Group was chaired by the President of the Bank Guarantee Fund Management Board. The mandate of the Working Group included drafting of legislative solutions containing provisions on resolution proceedings. The prepared solutions included recommendations from the World Bank, presented in its report *Issues and Assumption Paper for the Design of Upgraded Bank Resolution Framework* and developed under the program *Technical Advisory Work for the Government of Poland*. The Bank Guarantee Fund acted as a coordinator of work in this area with the World Bank. The legislative proposal developed by the Working Group was adopted by the Financial Stability Committee at its meeting on 18 January 2013. The Committee decided to submit a draft law to the Ministry of Finance for further legislative work.

Figure 12.
Basic solutions developed by the FSC Working Group



Source: Compiled by BFG

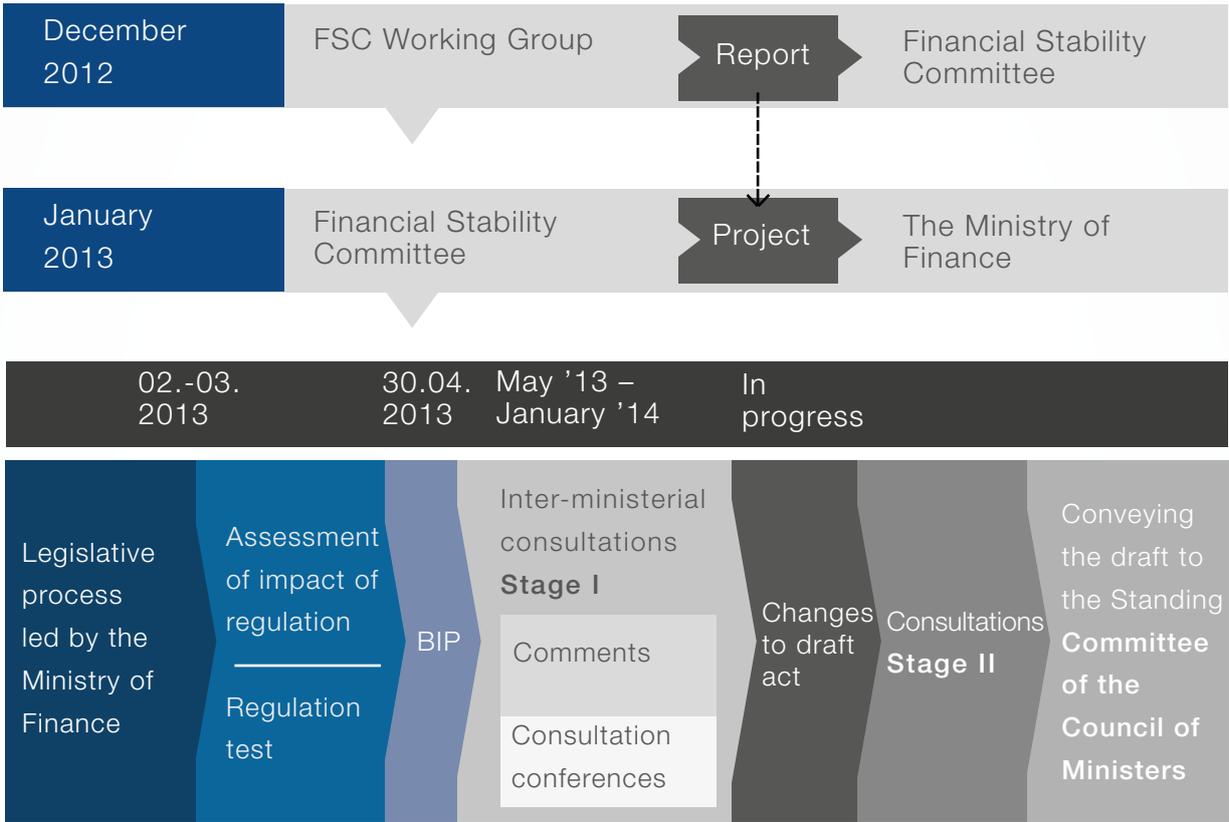
The prepared draft act stipulates that the compulsory restructuring and resolution of banks⁷ in Poland will be carried out with the use of administrative measures, and the Bank Guarantee Fund will be responsible for implementing this process. For this purpose, the Fund will be equipped with a wide range of instruments, such as:

- transfer of all or selected property rights of a non-viable entity to a buyer from the private sector or a bridge bank owned by BFG;
- write-down or conversion of debt or financial instruments;
- transfer of selected property rights to an asset management entity (as an instrument supporting previous solutions).

⁷ Term adopted in draft resolution legislation.

The costs of resolution proceedings will, in the first place, be incurred by the owners and creditors of the failing bank. Resolution proceedings can be supported with sums accumulated in a special fund created from levies remitted by banks.

Figure 13.
Legislative proceedings



Source: Compiled by BFG

In 2013, the Fund took an active part in legislative work on draft *Act on the Bank Guarantee Fund, Resolution and Amendments to other Acts* carried out by the Ministry of Finance. After intraministerial consultations, the draft act was published in the Bulletin of Public Information (BIP) of the Government Legislation Centre and directed for inter-ministerial consultations. Reported comments were discussed during consultation conferences.

11.1.2. OTHER LEGISLATIVE WORK

Due to the amendment to the Act of the Bank Guarantee Fund introduced on 19 April 2013 and the Act of 26 July 2013, the Fund carried out work in 2013 related to the following executive orders to the Act on BFG:

1. *Regulation of the Minister of Finance of 13 August 2013 on Awarding the Statutes to the Bank Guarantee Fund* – the regulation came into force on 27 August 2013, except provisions related to cooperative savings and credit unions, which came into force on 29 November 2013, i.e. on the date of extending the Fund's guarantees to deposits held in cooperative savings and credit unions,
2. *Regulation of the Minister of Finance of 2 September 2013 on the Scope, Means, Timing of Conveying Information by the National Association of Cooperative Savings and Credit Unions to the Bank Guarantee Fund on Behalf of Cooperative Savings and Credit Unions* – the regulation came into force on 12 September 2013, although some provisions on 29 November 2013,
3. *Regulation of the Minister of Finance of 26 September 2013 on the Requirements for the Calculation Systems to be Maintained by Cooperative Savings and Credit Unions* – the regulation came into force on 29 November 2013,
4. *Regulation of the Minister of Finance of 26 September 2013 on the Suspension of Guarantee Disbursements to Depositors of the Cooperative Savings and Credit Unions If the Funds Deposited in the Account Were Blocked Pursuant to Legal Regulations on Counteracting Money Laundering and Terrorist Financing* – the regulation came into force on 29 November 2013,
5. *Regulation of the Minister of Finance of 24 December 2013 on Specific Accounting Policies of the Bank Guarantee Fund* – the regulation came into force on 1 January 2013.

Apart from the draft *Act on the Bank Guarantee Fund, Resolution and Amendments to other Acts*, 2013 saw the legislative work related to another draft act of major importance to the Fund, i.e. *draft act to amend the Law on Notary Lists and the Act on the Bank Guarantee Fund*.

It includes, inter alia, proposals for amendments to the Act on the Bank Guarantee Fund, involving the expansion of the definition of depositor, under which a depositor would be any person entrusting money to an escrow trustee if the bank maintains an escrow account. The Bank Guarantee Fund presented its written position on this draft law, in the part concerning the planned amendments to the Act on BFG.

On 22 October 2013, the Justice and Human Rights Committee decided to apply to the Speaker of the Sejm to return the draft act to the applicant in order to develop it by taking into account comments presented in positions and opinions analysed during legislative work that has already been carried out.

11.2. BFG IT SYSTEM

The ongoing enhancement of the IT system is being carried out in the Fund in accordance with the specifications of a two-year corporate plan. The result of these systematic operations has been the creation of IT tools that support the statutory tasks carried out by the Bank Guarantee Fund, such as guaranteeing of deposits held in credit unions, credit unions sector analyses, extending financial assistance to banks and credit unions, as well as managing of the Fund's resources. The main goals specified in the *IT Development in the Bank Guarantee Fund in the years 2012-2013* were enhancing the security and effectiveness of the Fund's IT system.

The priority task in 2013 was to complete work on expanding and upgrading the Deposit Guarantee Execution System, entailing the development of functionality concerning data control for cooperative savings and credit unions sector. The System was expanded using in-house resources, based on models and experiences gained during previous functionality developments for the banking sector, including the creation of an Internet portal serving as a communication channel.

The functional development of IT applications demanded the creation of an advanced, scalable, robust and secure IT and telecommunications infrastructure. In 2013, the expansion of the Fund's IT infrastructure was completed. It involved the development of two mutually replaceable environments of servers and disk storage facilities (primary and secondary data processing centres), resulting in increased data reliability and security. The expanded resources – thanks to the complete redundancy of basic functional models – enable the Fund to fulfil its new statutory tasks reliably.

The expansion of the BFG IT system has necessitated amending of the following legal regulations by resolutions of the Management Board of the Bank Guarantee Fund:

- *Security Policy for Data Processed in the Bank Guarantee Fund,*
 - *Management Instruction of the Bank Guarantee Fund IT System,*
 - *Operation Instruction of the Bank Guarantee Fund IT System.*
-

In parallel with the above work, the Fund IT System, including IT infrastructure, tele transmission systems and internal computer network, were administered. Moreover, oversight of outsourced services in the field of operation and maintenance of software and hardware took place, as did purchase of new software and hardware.

11.3. DATA SECURITY AND OPERATIONAL RISK MANAGEMENT

Data security

Ongoing work in this area, including the protection of persons and property as well as data entrusted to the Fund, involved the management of systems present in the building, such as: access control system, security camera system, intruder alarm and fire protection system, as well as the management of the work of security staff in the building. The protection with respect to IT tools for data processing involved the management of access rights to information systems, management of user accounts within the internal network of the Fund, as well personal data security management, all in accordance with statutory requirements. The continuity of IT systems operation was also managed and it involved making backup copies for data and systems.

At the beginning of 2013, the BFG Management Board adopted the *Business Continuity Plan of the Bank Guarantee Fund Concerning the Disbursement of Guaranteed Deposits*, which subsequently was implemented by BFG.

Operational risk management

Operational risk in the Bank Guarantee Fund is defined as the probability of material and non-material harm caused by improper or erroneous internal processes, human actions, functioning of systems or external events affecting BFG activity. Risk management consists in minimising the risk affecting the Fund's activity through the use of organisational, procedural and technical solutions.

Risk management with respect to systemic solution is implemented by the BFG Management Board – and on an ongoing basis – by all Departments of the Fund. The Operational Risk Committee is an auxiliary institution of the Bank Guarantee Fund which allows the BFG Management Board to supervise and control risk within BFG.

The fundamental tools used to identify threats to the operations of the Fund are: a database in which information concerning incidents that disrupt the operations of BFG is collected, as well as key risk indicators, which record periodic variations in the levels of risks within selected areas of the Fund's activity. Additionally, a risk self-assessment survey is completed on an annual basis, where the staff assesses the level of operational risk they face in their respective posts.

The Fund's Risk Management Programme divides risk into technological, safety, legal and human resource risks. Tools used to manage risk include a business continuity plan, principles for allocation of rights and access to critical resources, a process approach



to risk assessment in the tasks carried out by the Fund, a list of key risk indicators with defined thresholds, internal regulations, as well as functional control.

The Fund collects data on risk events that occurred in the past and on their causes in order to reduce the possibility of its reoccurrence in the future and to introduce adequate control and preventive mechanisms.

The expansion of coverage to deposits held in cooperative savings and credit unions, as well as legislative work related to bank resolution and restructuring had a significant impact on operational risk in 2013.

The process of risk management also includes strategic risk management. In 2013, the BFG Management Board assessed the strategic risk and identified tools for its monitoring and reduction in the Fund's operations.

11.4. ADMINISTRATION

In 2013, besides administering property and delivering administrative services, work was carried out with the intention of maintaining BFG premises in a satisfactory state of repair, consisting in the renovation of systems to provide comfort, such as ventilation and air conditioning systems; work in this area has been divided into stages and will be continued in coming years.

In 2013, work was carried out in order to improve the safety of the building and property of the Fund. As part of this work, modernisation of the fire alarm system was performed and the security camera system was expanded.

**SELECTED
FINANCIAL DATA**



12. SELECTED FINANCIAL DATA

12.1. BASIS FOR PREPARATION OF THE FINANCIAL INFORMATION

The accompanying financial data, which comprises a balance sheet as at 31 December 2013 and profit and loss account for 2013 (hereinafter called 'the Financial Information') has been derived from the audited annual financial statements of the Bank Guarantee Fund prepared for 2013 in accordance with the Decree of the Minister of Finance dated 24 December 2013 on specific accounting policies of the Bank Guarantee Fund (Journal of Laws of 2013, item 1721) and the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330 with further amendments).

12.2. ADDITIONAL INFORMATION

The Financial Information is not a statutory report and does not contain sufficient information to allow a full understanding of the financial situation of the Bank Guarantee Fund, therefore it should be read together with the Financial Statements of the Bank Guarantee Fund for the year ended 31 December 2013.

12.3. ACCOUNTING AND FINANCIAL REPORTING STANDARDS

In accordance with the accounting standards applied by the Fund in 2013, the following methods of asset and liability measurement and determination of income and costs were used:

- Debt securities, i.e. treasury bonds, treasury bills and NBP bills and financial assets on buy-sell back operations are measured at their purchase price adjusted for the effective interest rate accrual. Sale of securities is realised according to the first-in first-out (FIFO) principle.
- Loans granted are measured at their purchase price adjusted for the effective interest rate accrual. Receivables due to loans granted were not subject to write-down due to a lack of impaired items. In assessing the necessity to carry out asset write-downs, the probability of repayment as well as collaterals accepted was taken into account. Loan interest accrued was classified as interest income.
- Claims against bankruptcy estates were fully covered by write-downs.
- Tangible fixed assets and intangible assets are measured according to their purchase price or the cost of their construction less write-down. There was no evidence of

impairment of these assets. The depreciation of tangible fixed assets and intangible assets is calculated according to a straight line method in order to distribute the initial value over the lifetime of the asset. In determining the size of the depreciation rate, the economic lifetime is taken into account.

- The other receivables and claims are measured according to the amount of due payment, taking into account any write-downs. As at 31 December 2013, there was no need for write-downs with respect to the value of remaining receivables.
- Advances and prepaid expenses are measured at an amount of costs that accrue in future reporting periods.
- Provisions of uncertain maturity or amount are due to employee benefits and are made for: jubilee awards, retirement severance pay, disability benefits and post-death benefits. The volume of these provisions as on 31 December 2013 was based on the calculations prepared by an actuary.
- The Bank Guarantee Fund updated its estimates concerning provisions for unused annual leaves as on 31 December 2013 based on the calculations prepared by an actuary. These reserves feature in accruals.
- Advances featuring in accruals cover accrued expenses for bonuses and annual bonuses and other accrued expenses. Accrued expenses for bonuses and annual bonuses are measured according to the amount of premiums and annual bonuses in 2013. Other accrued expenses are measured according to the amount of costs that accrue in the reporting period, which are not due and payable at the balance sheet date.
- Other liabilities are measured at amounts due.
- The profit on financial operations includes income from: treasury bonds, treasury bills, NBP bills, and profit on buy-sell back operations, as well as any remaining income from interest on cash in bank accounts and 1-day term deposits. The profit on financial operations from securities is determined in accordance with the use of purchase price adjusted for the effective interest rate accrual.

12.4. BFG BALANCE SHEET

as at 31 December 2013 and as at 31 December 2012, in PLN

ASSETS	31.12.2013	31.12.2012
Cash	25,742.93	554,822.94
Cash in hand	3,341.84	2,543.55
Cash in current accounts	17,266.28	4,816.20
Cash in special guarantee settlement account	1,798.65	1,798.65
Cash in term deposit accounts	-	530,000.00
Cash in Company Social Benefit Fund	3,336.16	15,664.54
Receivables from financial institutions	184,162,344.33	124,578,631.50
Receivables from banks due to:	184,162,344.33	124,578,631.50
▪ prudential levies	78,849,763.59	-
▪ loans granted from the Assistance Fund	8,703,422.88	26,115,037.10
▪ loans granted from the Cooperative Bank Restructuring Fund	96,609,157.86	98,463,594.40
Receivables from taxes, subsidies, social and health insurance and other benefits	-	11,221.00
Other receivables and claims	25,154.34	186.73
Securities and other financial assets	11,044,620,344.46	9,639,290,258.21
Debt securities	11,043,684,115.28	9,639,090,659.01
▪ of banks	1,535,086,776.05	398,668,788.05
▪ of the State Treasury	9,508,597,339.23	9,240,421,870.96
Other securities and other financial assets	936,229.18	199,599.20
Intangible assets	1,440,042.78	1,203,641.85
Tangible fixed assets	58,308,750.25	59,866,397.75
Advances and prepaid expenses	214,120.42	92,290.97
TOTAL ASSETS	11,288,796,499.51	9,825,597,450.95

LIABILITIES AND FUNDS	31.12.2013	31.12.2012
Liabilities	1,158,345.82	1,175,804.87
Other liabilities	1,158,345.82	1,175,804.87
Special funds	3,336.16	15,664.54
Accruals and deferred income	3,768,006.18	3,555,310.01
Provisions	2,872,336.82	2,861,895.86
Statutory Fund	1,637,025,547.68	1,637,025,547.68
Supplementary Fund	666,604,353.56	666,604,353.56
Assistance Fund	8,204,078,950.84	6,860,415,347.50
Assistance Fund available for use	8,195,378,950.84	6,834,315,347.50
Assistance Fund used	8,700,000.00	26,100,000.00
Cooperative Bank Restructuring Fund	123,409,688.87	123,409,688.87
Cooperative Bank Restructuring Fund available for use	26,763,772.80	24,915,636.66
Cooperative Bank Restructuring Fund used	96,645,916.07	98,494,052.21
Bankruptcy Estate Recovery Fund	53,923,353.62	53,923,353.62
Credit Unions Guarantee Fund	3,816,981.43	-
Credit Unions Guarantee Fund available for use	3,816,981.43	-
Stabilisation Fund	78,849,763.59	-
Stabilisation Fund available for use	78,849,763.59	-
Financial result	513,285,834.94	476,610,484.44
TOTAL LIABILITIES AND FUNDS	11,288,796,499.51	9,825,597,450.95

12.5. BFG PROFIT AND LOSS ACCOUNT

for the years ended 31 December 2013 and 31 December 2012, in PLN

	2013	2012
Income from statutory activity	406,484.56	638,343.39
Interest income	397,324.45	638,201.14
Interest income due to late payment of mandatory annual contributions and prudential levies by banks	8,892.00	-
Interest income on delayed repayments of loans and interest by banks	184.40	142.25
Interest income due to late payment of mandatory annual contributions by cooperative savings and credit unions	83.71	-
Profit on statutory activity	406,484.56	638,343.39
Profit on financial operations	541,539,414.50	503,752,803.83
with securities	541,534,053.54	503,742,093.16
other	5,360.96	10,710.67
The Fund's operating costs	(25,801,200.68)	(25,216,374.50)
General expenses	(3,731,973.32)	(3,729,000.92)
Salaries	(15,932,425.65)	(15,586,386.88)
Social security and employee benefits	(2,064,995.79)	(1,846,211.04)
Other	(4,071,805.92)	(4,054,775.66)
Depreciation of fixed assets and intangible assets	(3,451,223.31)	(2,792,924.99)
Other operating revenue	592,360.78	228,648.72
Other operating expenses	(0.91)	(12.01)
Financial result from operating activities	513,285,834.94	476,610,484.44
Financial result	513,285,834.94	476,610,484.44



**INDEPENDENT REGISTERED
AUDITOR'S OPINION**



13. INDEPENDENT REGISTERED AUDITOR'S OPINION



Independent registered auditor's opinion on the financial information

To the Council of Ministers, the Minister of Finance, the Council and the Management Board of the Bank Guarantee Fund

The accompanying financial information of the Bank Guarantee Fund (hereinafter called „the Fund”), with its registered office at Ks. Ignacego Skorupki 4 Street in Warsaw, which comprises:

- a) the balance sheet of the Fund as at 31 December 2013,
- b) the income statement of the Fund for the period from 1 January to 31 December 2013,
- c) the description of the basis for preparation of the financial information and accounting policies of the Fund,

hereinafter called „the financial information”, was prepared by the Management Board of the Fund based on the audited annual Financial Statements of the Fund for the financial year from 1 January to 31 December 2013 („the Financial Statements”). The Financial Statements of the Fund were prepared in accordance with the Decree of the Minister of Finance dated 24 December 2013 on specific accounting policies of the Bank Guarantee Fund (Journal of Laws of 2013, item 1721, hereinafter called „the Regulation”) and the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330 as amended).

We have audited the Financial Statements of the Fund, from which the financial information was derived, in accordance with the provisions of Chapter 7 of the Accounting Act of 29 September 1994 and the National Standards on Accounting issued by the National Chamber of Registered Auditors. On 10 March 2014 we issued an unqualified audit opinion on these Financial Statements. The Financial Statements of the Fund and the financial information do not reflect the effects of events that occurred subsequent to the date of issue of that opinion.

The financial information does not contain all the disclosures required by the Regulation. For a full understanding of the Fund's financial position as at 31 December 2013, the results of its operations for the period from 1 January to 31 December 2013 and the scope of our audit, the financial information should be read in conjunction with the Financial Statements of the Fund and our opinion and audit report thereon.



Independent registered auditor's opinion on the financial information

To the Council of Ministers, the Minister of Finance, the Council and the Management Board of the Bank Guarantee Fund (cont.)

The Management Board's responsibility for the financial information of the Fund
The Management Board is responsible for the preparation of the financial information of the Fund on the basis described in Note 12.1 'Basis for preparation of the financial information'.

Registered auditor's responsibility

Our responsibility was to express an opinion on the financial information of the Fund based on procedures which were conducted in accordance with International Standard on Auditing 810 'Engagements to report on summary financial statements'.

Opinion

In our opinion, the accompanying financial information prepared on the basis of the audited Financial Statements of the Fund for the period from 1 January to 31 December 2013, is consistent, in all material respects, with the Financial Statements of the Fund, on the basis described in Note 12.1 'Basis for preparation of the financial information'.

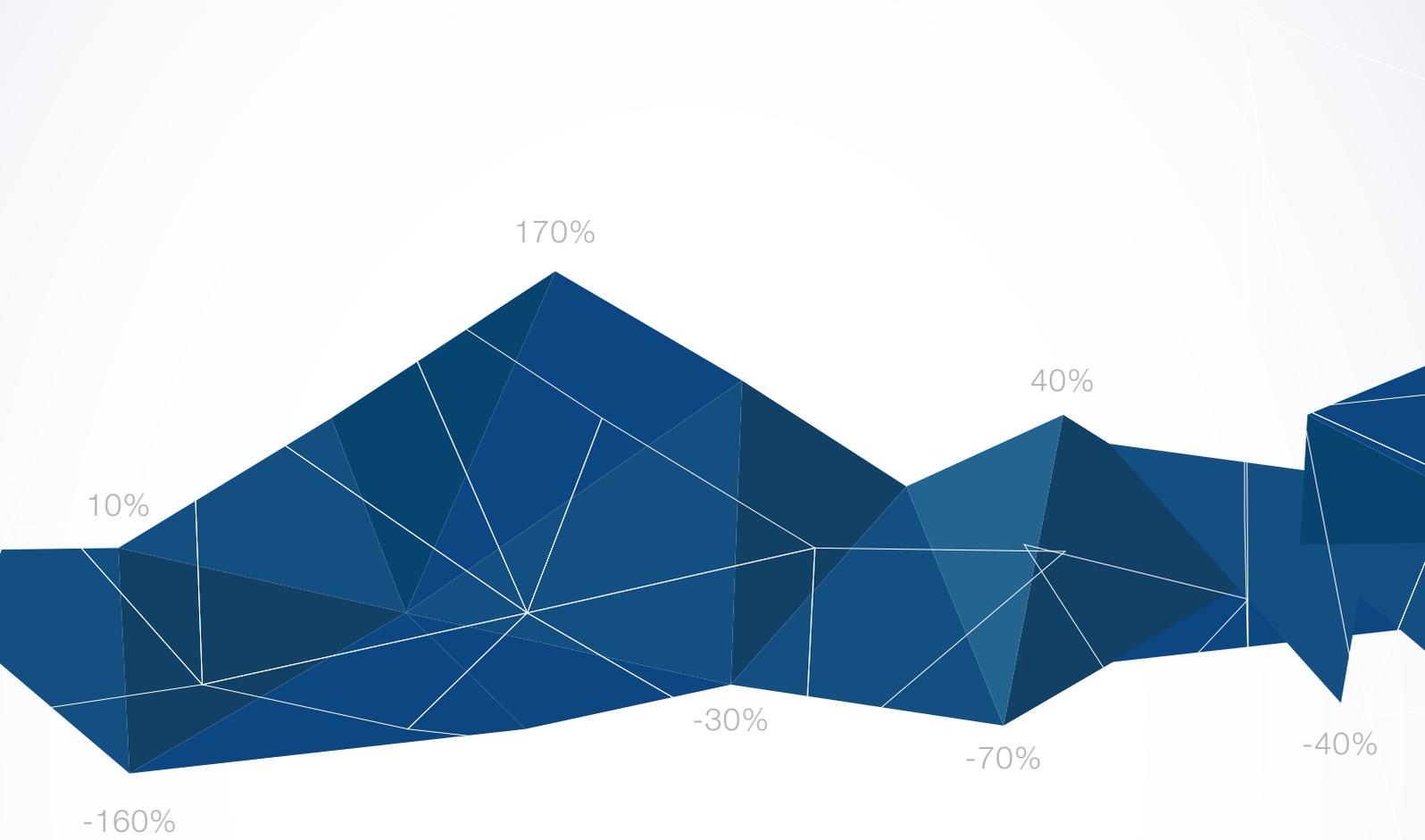
Preparing the opinion and conducting the audit of the Financial Statements of the Fund on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Adam Celiński

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

Principal Registered Auditor
No. 90033

Warsaw, 21 November 2014



-160%