



Bank Guarantee Fund 2012 annual report

Contact

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Table of contents

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	<u>5</u>
1. ROLE, TASKS AND CHALLENGES	<u>7</u>
2. ORGANISATIONAL STRUCTURE OF THE BANK GUARANTEE FUND	<u>9</u>
2.1. BFG AUTHORITIES	<u>9</u>
2.2. BFG OFFICE ORGANISATIONAL STRUCTURE	<u>10</u>
3. THE YEAR 2012 – KEY ACCOMPLISHMENTS	<u>13</u>
3.1. COMPLETION OF DRAFT LEGISLATION ON RESOLUTION	<u>13</u>
3.2. EARLY WARNING SYSTEM	<u>16</u>
3.3. INTERNATIONAL COOPERATION	<u>17</u>
3.4. FINANCIAL RESULT	<u>17</u>
4. DEPOSIT GUARANTEE ACTIVITY	<u>19</u>
4.1. DEPOSIT GUARANTEE PAYOUT	<u>19</u>
4.2. DEPOSIT GUARANTEE FUNDING	<u>21</u>
4.3. BFG DEPOSIT GUARANTEE CAPACITY	<u>22</u>
4.4. DEPOSIT GUARANTEE PAYOUT HISTORY	<u>25</u>
4.5. VERIFICATION OF DATA CONTAINED IN BANK CALCULATING SYSTEMS	<u>27</u>
5. FINANCIAL ASSISTANCE	<u>28</u>
5.1. ASSISTANCE FUND	<u>28</u>
5.2. COOPERATIVE BANK RESTRUCTURING FUND	<u>31</u>
5.3. MONITORING AND CONTROL OF BANKS RECEIVING BFG ASSISTANCE	<u>33</u>
6. ANALITICAL ACTIVITY	<u>36</u>

7. COMMUNICATIONS AND EDUCATION	<u>38</u>
7.1. PUBLIC AWARENESS INITIATIVES	<u>38</u>
7.2. BFG PUBLICATIONS	<u>39</u>
7.3. EDUCATIONAL INITIATIVES	<u>40</u>
7.4. BFG IN THE MEDIA	<u>41</u>
8. DOMESTIC COLLABORATION	<u>43</u>
8.1. COLLABORATION WITH FINANCIAL SAFETY NET MEMBER INSTITUTIONS	<u>43</u>
8.2. COLLABORATION WITH BANKING INSTITUTIONS IN POLAND	<u>44</u>
8.3. CONFERENCES AND HONORARY SPONSORSHIPS	<u>44</u>
9. INTERNATIONAL COLLABORATION	<u>45</u>
9.1. STRENGTHENING IADI'S COLLABORATION WITH INTERNATIONAL ORGANIZATIONS AND INTERNATIONAL FINANCIAL INSTITUTIONS	<u>45</u>
9.2. BFG INVOLVEMENT IN IADI COMMITTEES, SEMINARS AND CONFERENCES	<u>46</u>
9.3. PARTICIPATION OF BFG REPRESENTATIVES IN EU COUNCIL AND EC WORKING GROUPS	<u>46</u>
9.4. COOPERATION WITH FOREIGN DEPOSIT GUARANTEE INSTITUTIONS	<u>47</u>
10. INTERNAL AFFAIRS	<u>48</u>
10.1. LEGISLATIVE WORK	<u>48</u>
10.2. BFG INFORMATION SYSTEM ENHANCEMENT	<u>49</u>
10.3. BFG IT SYSTEM	<u>51</u>
10.4. DATA SECURITY AND OPERATIONAL RISK MANAGEMENT	<u>52</u>
10.5. ADMINISTRATION	<u>53</u>
11. SELECTED FINANCIAL DATA	<u>54</u>
11.1. ACCOUNTING AND FINANCIAL REPORTING STANDARDS	<u>54</u>
11.2. BFG BALANCE SHEET	<u>55</u>
11.3. BFG PROFIT AND LOSS STATEMENT	<u>57</u>
12. REGISTERED EXTERNAL AUDITOR'S OPINION	<u>58</u>

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

In 2012, the Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny, BFG) operated within an environment of economic slowdown in Poland, a stable situation in the domestic banking sector and persistent crisis-related manifestations abroad. Despite the pervasiveness of unfavourable economic circumstances, no situations arose that would have demanded an extension of financial assistance to banks or a payout of guaranteed deposits. BFG actions to further underpin the stability and safety of the domestic banking system and to raise the operational effectiveness of the Fund took on ever greater momentum.

In 2012, the Fund continued its efforts to augment mechanisms that would ensure, should the need arise, an efficient payout of guaranteed deposits within 20 working days. Contributing to this process were data audits carried out in banks, signing an agreement with the National Bank of Poland on extending short-term liquidity support in the event of a guaranteed deposit payout, continuous enhancement of the Bank Guarantee Fund's operations and logistics, functional improvements of the IT component of the Deposit Guarantee Execution System, as well as further development of monitoring and analytical capacities within the Fund. A stress test carried out towards the end of the previous year evaluating the capacity of BFG systems to ensure a guaranteed deposit payout within the timeframe of statutory disbursement limitations demonstrated that the Fund is adequately prepared for a potential payout of guaranteed deposits.

Last year, the Bank Guarantee Fund undertook numerous initiatives aimed at informing the public as broadly as possible about the principles of the deposit guarantee system and about the role BFG plays in the domestic financial system.

Moreover, it should be noted that in 2012, work continued on the adoption of mechanisms from the domain of resolution into the Polish legal system. Operating under the auspices of a Working Group appointed by the Financial Stability Committee, a number of recommendations were articulated with respect to Poland, on the basis of which a draft Act on the Bank Guarantee Fund, incorporating a number of resolution mechanisms, was developed. In its articulation of bank resolution solutions, the Bank Guarantee Fund worked in tandem with the World Bank. The effect of this collaboration was the development of recommendations contained in a World Bank report on resolution in Poland, which was presented during a seminar hosted by the Fund in July 2012.

The year 2012 was also a period of particularly intense involvement of the Fund in the international arena, including ongoing collaboration within the International Association of Deposit Insurers (IADI). The election of the President of the Management Board of the Bank Guarantee Fund to the position of President of IADI and Chair of the IADI Executive Council at the IADI Annual General Meeting on 25 October 2012 was proof of the acknowledgment of the growing role of BFG. We consider this appointment to be both a great honour and, at the same time, a responsibility of significant proportions.

Of substantial support for the Bank Guarantee Fund in the discharge of its duties - ensuring the safety and stability of the banking sector in Poland - is excellent collaboration with the Ministry of Finance, the National Bank of Poland, the Financial Supervision Authority, the Polish Bank Association, as well as with banks themselves. We hereby take the opportunity to express our gratitude for this collaboration.



Ludwik Kotecki
Chairman
Bank Guarantee Fund Council



Jerzy Pruski
President
Bank Guarantee Fund Management Board

1. Role, tasks and challenges

WHO WE ARE: The Bank Guarantee Fund is an institution which manages and operates the deposit guarantee system in Poland, established on the basis of the Act of 14 December 1994 on the Bank Guarantee Fund (consolidated text, Journal of Laws of 2009, No 84, item 711, as amended), subsequently referred to as the „Act on BFG”, which has been in force since 17 February 1995.

WHAT WE DO: The mission of the Bank Guarantee Fund is to ensure the safety and stability of banks and to increase confidence in the domestic financial system. BFG is a member of the domestic financial safety net. Thanks to the Bank Guarantee Fund, the savings of bank clients deposited in bank accounts or in the form of term deposits are safe.

THE BANK GUARANTEE FUND’S MAIN TASKS:

- ensuring the effective operation of the system of guaranteeing deposits entrusted to banks by their clients. The Polish deposit guarantee system is obligatory for all domestic banks (including state-owned banks, those operating as joint stock companies and cooperative banks). BFG commits to a payout of guaranteed deposits up to the statutory limit, which is the equivalent in PLN of EUR 100,000, within 20 working days of the day of suspension of a bank’s operations;
- extending financial assistance to banks facing insolvency, or for the acquisition of these banks’ stock or shares by other banks; extending loans to cooperative banks not threatened by insolvency, for the acquisition of stock of an affiliating bank, to cover expenditures associated with mergers, as well as investment expenditures that serve to increase the safety of deposits held in these banks and to improve customer service infrastructure;
- collecting and analysing information about entities covered by the deposit guarantee system (domestic commercial banks and cooperative banks) as well as drafting forecasts pertaining to the banking sector with the aim of sufficiently early identification of threats to the banking system.

CHALLENGES GOING FORWARD:

- preparation for expansion of operations and responsibilities of BFG associated with the planned adoption into law in 2013 of the following two acts: Act on the amendment of the act on cooperative savings and credit unions and several other acts, introducing, amongst others, BFG guarantees for deposits held in cooperative savings and credit unions and extending financial assistance and support for restructuring processes pertaining to credit unions, as well as the Act on the amendment of the act on the Bank Guarantee Fund and several other acts, which introduces a prudential levy and a stabilisation fund in the form of a BFG own fund;
- continuation of work relating to the adoption of resolution mechanisms into the domestic legal system;
- raising the level of public awareness of the deposit guarantee system, which leads to an increase in confidence in the Polish banking sector and contributes to its stability.

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 of 14 December 1994 on the Bank Guarantee Fund and the Bank Guarantee Fund Statute, which is annexed to a Regulation of the Minister of Finance of 14 December 2009 pertaining to the attribution of a Statute to the Bank Guarantee Fund (Journal of Laws No. 164, item 1308, as amended), as well as other executive acts.

The statutory authorities 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.

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 affirmed by the Council of Ministers.

The composition of the Council of the Bank Guarantee Fund as at 31 December 2012

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)

Composition of the Management Board of the Bank Guarantee Fund as at 31 December 2012

President	Jerzy Pruski
Deputy President	Anna Trzecińska
Member of the Board	Marek Szefler

2.2. BFG Office organisational structure

At 31 December 2012, there were 9 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;
- **Financial Assistance Department:** extending financial assistance to banks facing insolvency, transacting assets acquired from these banks, 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;
- **Treasury and Analysis Department:** carrying out banking sector analyses and assessments of the economic and financial standing of entities covered by the deposit guarantee system, collecting and processing information pertaining to the prevailing macroeconomic conditions in Poland and abroad, as well as free cash investment operations;
- **IT and Administration Department:** ensuring business continuity of the Fund, 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), assisting the President of the Fund Management and Board, overall administration and HR, internal and external communications, international cooperation and drafting policy pertaining to the establishment of a resolution regime in Poland;

- **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.

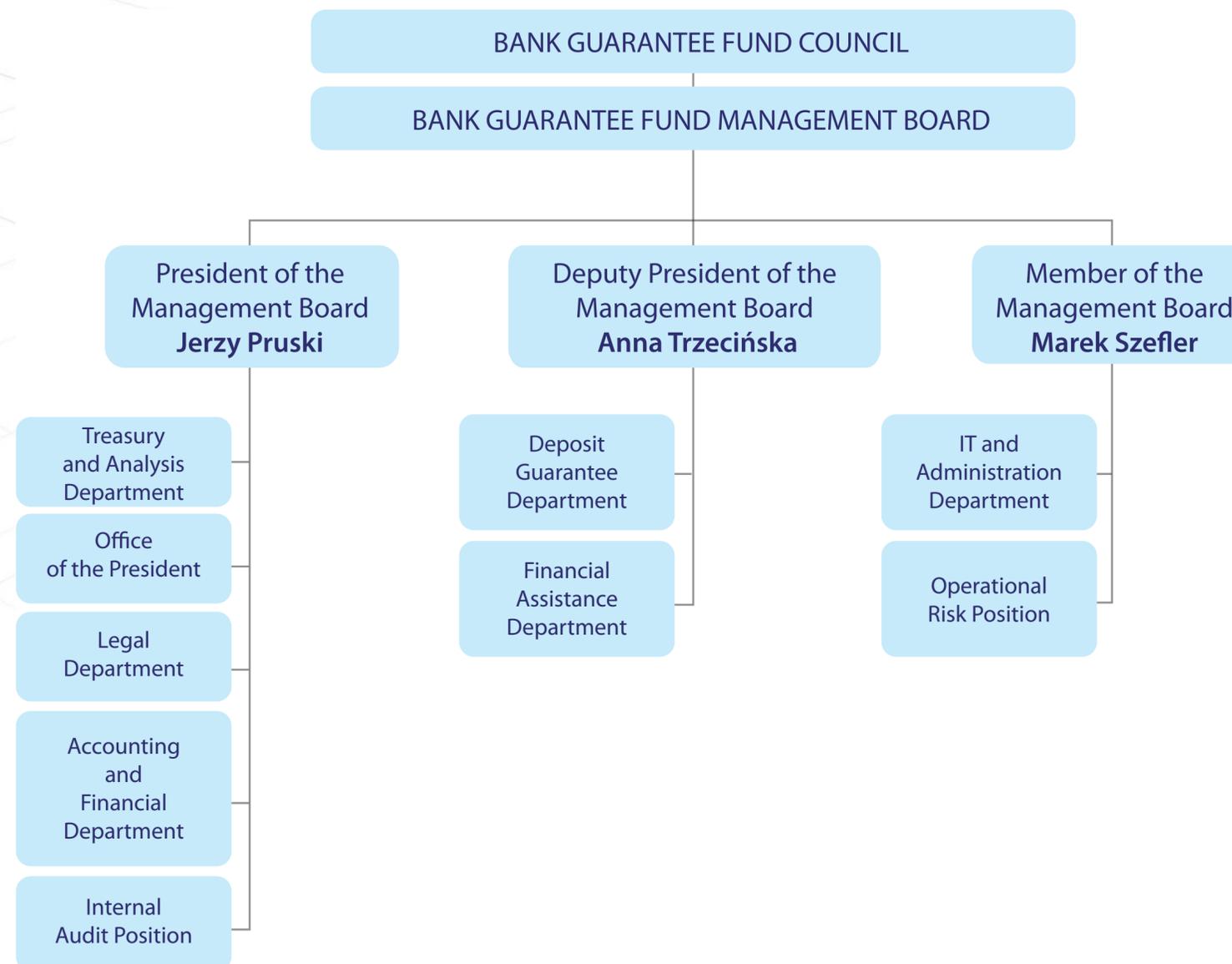
The Bank Guarantee Fund also hosts four permanent inter-departmental committees:

- Asset Management Committee: articulates investment policy and manages the Fund's cash flow,
- Assistance Application Assessment Committee: opines replies prepared by the Financial Assistance Department to applications for financial assistance, including affirmative replies, refusals to extend financial assistance or changes to the terms and conditions of extending financial assistance from the Assistance Fund or of granting loans from the Cooperative Bank Restructuring Fund,
- Early Warning System Committee: assesses the economic and financial situation of the banking sector and of individual banks, as well as its impact on financial system stability and the likelihood of a payout of guaranteed deposits,
- Operational Risk Committee: initiates, coordinates and issues operational recommendations to the BFG Management Board related to the management of operational risk within BFG.

The BFG Management Board appointed a Steering Committee on 22 February 2010 in order to oversee and coordinate preparatory work in the Fund related to the implementation of changes in the area of reducing the payout deadline to 20 working days¹. On account of the fact that the Committee realised its aims, the BFG Management Board passed a resolution on 13 February 2012 disbanding the Steering Committee.

¹ Reducing the time of disbursement was introduced by the adoption of Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending Directive 94/19/EC on deposit guarantee schemes as regards the coverage level and the payout delay

FIGURE 1. BFG organisational structure (at 31 December 2012)



Employment

At 31 December 2012, there were 92 individuals employed at the Bank Guarantee Fund.

3. The year 2012 – key accomplishments

3.1. Completion of draft resolution legislation

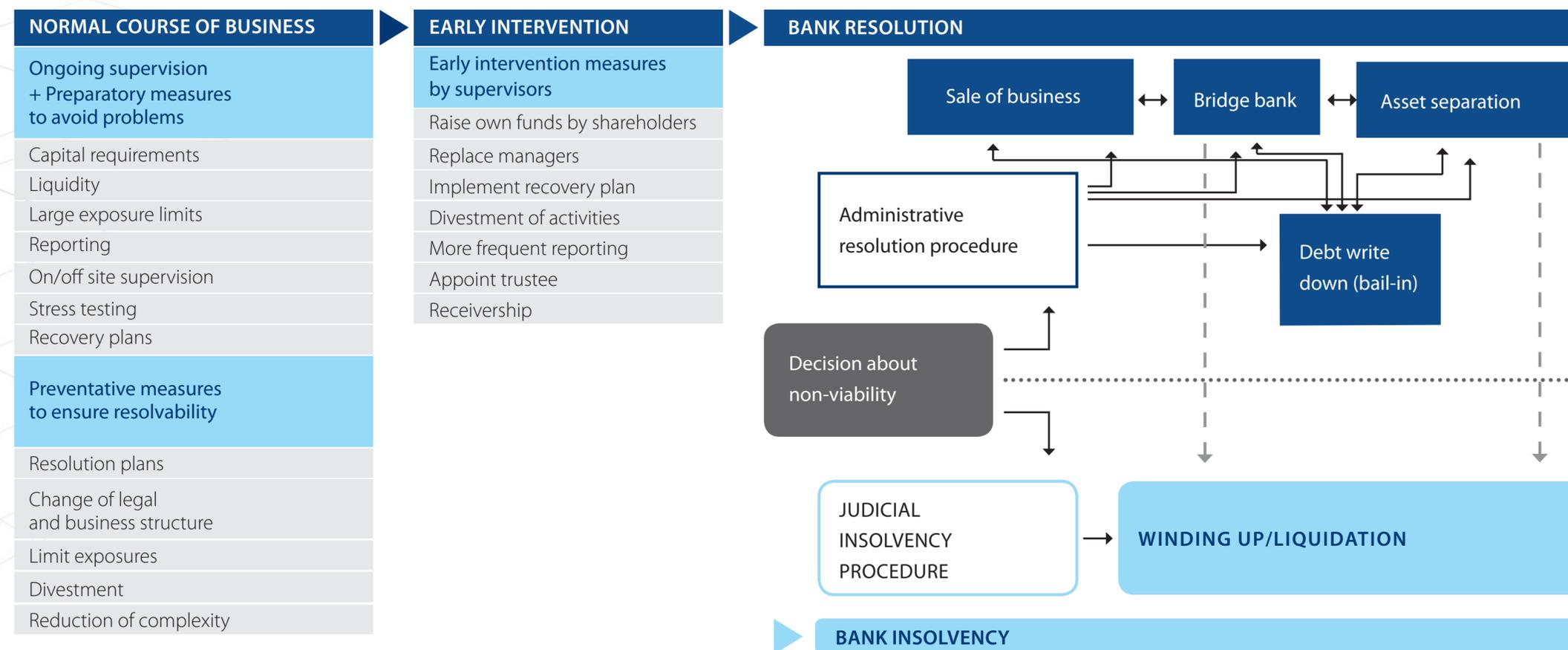
What is resolution?

Resolution, as distinct from standard bankruptcy proceedings, leads to the economic elimination of an entity failing to meet the minimum requirements for conducting banking activity in such a way as to mitigate bankruptcy-related threats to the economy, to financial stability and to depositors, and limiting the use of taxpayer funds.

Resolution entails not just the management of the bankruptcy estate of a failed bank, but also a series of preparatory steps taken prior to insolvency. Each bank should have in place a resolution plan in anticipation of such a threat. Should the financial standing of a bank deteriorate, there is intense preparation for the implementation of such a plan in case reorganisation programme proceedings, including those undertaken by the supervision authority, turn out to be ineffective. At this stage, amongst others, identification of entities interested in the purchase and continued operation of the bank's business takes place.

The resolution toolkit is part of a range of possible measures that can be taken with respect to a failing bank, depending on the degree of deterioration of its financial standing, and as such, it complements the set of solutions that jointly comprise the financial safety net.

FIGURE 2. Resolution proceedings



Source: Adapted by BFG on the basis of Impact Assessment, SWD (2012) 166/3, p. 13

What are the benefits of resolution?

A fundamental premise of resolution is to ensure that services provided by the failing bank continue uninterrupted within the broadest possible scope and to prevent the suspension of the failing bank’s operations from having a negative impact. Depositors enjoy uninterrupted access to their savings and accounts, loan agreements are honoured as subsequent tranches continue to be paid out, payment orders are executed (the entity acquiring the business operations of a failing bank will continue to complete the requirements of existing client agreements).

How does resolution work?

After a decision confirming the initiation of resolution triggers, the resolution authority assumes control of a failing bank. The resolution authority is equipped with relevant powers permitting transfer of property rights and liabilities of the failing bank to another entity, write-down or conversion of selected liabilities into stock, all without the necessity to obtain approval from either the owners or creditors of the bank.

Development of a resolution framework in Poland

Resolution-related work at BFG commenced in 2011. Initially it was of an analytical nature and focused on the legal aspects of crisis management in the banking sector. Seminars were also organised, both internal as well as external, on the topic of resolution of failing banks.

A critical moment in work on the resolution framework was the appointment of the Working Group for the Development of Legal Solutions for Bank Restructuring and Resolution by the Financial Stability Committee (FSC) in November 2011, the aim of which was to draft new legislation that would enable the implementation of a resolution framework in Poland. The Working Group was composed of representatives from four institutions: the Ministry of Finance, the National Bank of Poland, the Polish Financial Supervision Authority (PFSA) and the Bank Guarantee Fund; in its work, the Group was chaired by the President of the Bank Guarantee Fund Management Board. Certain premises of the resolution framework in Poland were articulated in due course of the Group's deliberations, and these were presented to the FSC, and duly approved, on 26 April 2012. Concurrently, the FSC accepted a proposal to confer the resolution authority mandate on the Bank Guarantee Fund and recommended that the Working Group prepare a draft act on the Bank Guarantee Fund that would contain provisions pertaining to resolution proceedings.

The final version of the draft Act on the Bank Guarantee Fund was approved on 7 December 2012 during a Working Group assembly, after first having undergone a consultative process by all Working Group members and after having been subjected to external legal analyses² and supplemented by verified provisions pertaining to the competencies of BFG authorities and to the remaining aspects of BFG's mandate. On 21 December 2012, the President of the Bank Guarantee Fund Management Board and Chair of the Working Group submitted a progress report to the Minister of Finance and Chair of the Financial Stability Committee for further legislative proceedings.

² The legal analyses pertained to the accordance of provisions relating to resolution, contained in the draft legislation, with EU and domestic law, in the latter case in particular with respect to the constitutionality of the proposed mechanisms.

Concurrently with its work within the Financial Stability Committee Working Group, the Bank Guarantee Fund continued, alongside other institutions comprising the financial safety net in Poland, its collaboration with the World Bank, commenced in 2011, in terms of the *Technical Advisory Work for the Government of Poland*, playing the role of coordinator. The result of this collaboration was the *Issues and Assumption Paper for the Design of Upgraded Bank Resolution Framework* report, which was officially launched on 26 July 2012 during a seminar jointly organised by the World Bank and the Bank Guarantee Fund, held at the BFG headquarters. The recommendations contained in the report were used by the Financial Stability Committee Working Group in its work on draft resolution legislation.

3.2. Early Warning System

The Bank Guarantee Fund carried out banking sector threat assessments based on the Early Warning System (EWS) model. The EWS model, thanks to its capacity for appropriately early identification of banking sector risk, allows the Fund to be prepared to take adequate measures. The additive-multiplicative EWS model was developed internally at BFG and has been employed in carrying out risk assessments in selected banks since Q3 2011. The three most important areas in terms of solvency are evaluated in context of this model: performance, credit risk and capital adequacy. Also taken into account is non-financial reporting information pertaining to ongoing reorganisation proceedings. The mechanisms used in the model allow for rapid and effective identification of banks facing insolvency.

In 2012, work continued on automating the process of compiling information on banks. The purpose was to obtain the greatest possible functionality in attributing ratings to banks, including developing tools to flexibly create and modify reports containing information pertaining to bank ratings and in terms of preparing tabular and graphic information about the economic and financial standing of banks. The standardised set of information for each bank encompassed:

- information about the rating attributed to a given bank,
- information about the profile of the given bank's operations, its balance sheet structure, profitability, risk parameters and capital adequacy.

The results of the EWS model were presented at meetings of the Early Warning System Committee, which is charged with carrying out assessments of the economic and financial situation in the banking sector and in individual banks, as well as its impact on financial system stability.

In 2012, during monthly meetings of the Committee, information about the current situation of the Polish banking sector was evaluated, taking into account the various categories of risk in banks, including currency risk, credit risk and solvency risk. The macroeconomic situation in Poland, Europe and the world was also monitored on an ongoing basis, as was its impact on the standing of banks operating in Poland, particularly with respect to the carryover into the domestic market of threats identified in other EU states.

3.3. International cooperation

The year 2012 was a time of exceptionally intense involvement of the Fund in the international arena, including close collaboration with the International Association of Deposit Insurers.

The International Association of Deposit Insurers is an organization with a global reach, which articulates international standards on the effective functioning of deposit guarantee systems and which contributes to domestic and global financial stability.

On 25 October 2012, during the Annual General Meeting of Members of the International Association of Deposit Insurers, the President of the Bank Guarantee Fund was unanimously elected as President of the International Association of Deposit Insurers and Chair of its Executive Council, for a three-year term. Pursuant to the aforesaid appointment of the President of the Bank Guarantee Fund Management Board, the Fund's expanded range of tasks included a portion of the work of coordinating IADI.

3.4. Financial result

Financial result for 2012

In carrying out its planned tasks for 2012, the Fund generated a greater than expected level of financial result. The financial result for 2012 was PLN 476.6 million, which is PLN 62.3 million (15.0%) higher than in 2011 and PLN 7.1 million (1.5%) higher than anticipated in the budget for 2012. This was the consequence of higher than expected revenues from financial operations (by PLN 3.1 million) and lower operating costs (by PLN 3.7 million).

The high revenues generated by the Fund were in large measure due to a change in investment policy in Q4 2009, with the decision to extend the duration of the portfolio of held securities. According to estimates, the amount of revenue generated over the course of the subsequent three years by extending the duration has resulted in covering the operating costs of the Bank Guarantee Fund for nearly 2.5 years.

Investing cash assets

The main source of investment securities financing are inflows from banks due to the mandatory annual premium, as well as from coupon payments and redemption of bonds. Pursuant to the Act on the Bank Guarantee Fund, the Fund may, as part of its investment policy, acquire securities issued, subjected to surety or otherwise guaranteed by the State Treasury or the National Bank of Poland (NBP). Moreover, the Fund may acquire money market fund units and make term deposits at the NBP.

In 2012 bonds and treasury bills were purchased. Moreover, in order to ensure a sufficient level of short-term liquidity and effective use of free cash held in the Fund's current account at the NBP, NBP bills were acquired and buy-sell back transactions were carried out.

Changes in the treasury securities market in 2012 resulted in conditions unfavourable to the accomplishment of revenue targets set for 2012. The Polish market remained strongly influenced by international events associated with the debt crisis in Europe. A marked change occurred in regards to the assessment of credibility of the investment rating of Polish securities, and the depth of these changes exceeded earlier market predictions significantly.

Under such circumstances, it turned out to be of considerable importance to actively respond to the changes taking place in the Polish treasury securities market by adapting investment decisions to prevailing market conditions. As a result of investments made in 2012, a change took place with respect to the volume and structure of the portfolio. Compared to 2011, the proportion of money market bills in the portfolio increased from 0.57% to 4.19% and the proportion of treasury bonds dropped from 98.10% to 95.28%.

TABLE 1. BFG securities portfolio structure

Type	Share in portfolio*	
	31.12.2011	31.12.2012
NBP bills	0.57%	4.19%
Treasury bills	1.33%	0.53%
Treasury bonds	98.10%	95.28%
TOTAL	100.00%	100.00%

*according to nominal value

4. Deposit guarantee activity

One of the fundamental tasks of the Fund is to ensure the reimbursement of deposits held in banks in the event of the “fulfilment of the guarantee condition”, i.e. the issuing of a decision by the Polish Financial Supervision Authority to suspend the operations of a given bank and appoint a receivership, provided that one had not been appointed earlier, and to file an application with a relevant court for the declaration of bankruptcy. The coverage limit amounts to the equivalent in PLN of EUR 100,000 per depositor.

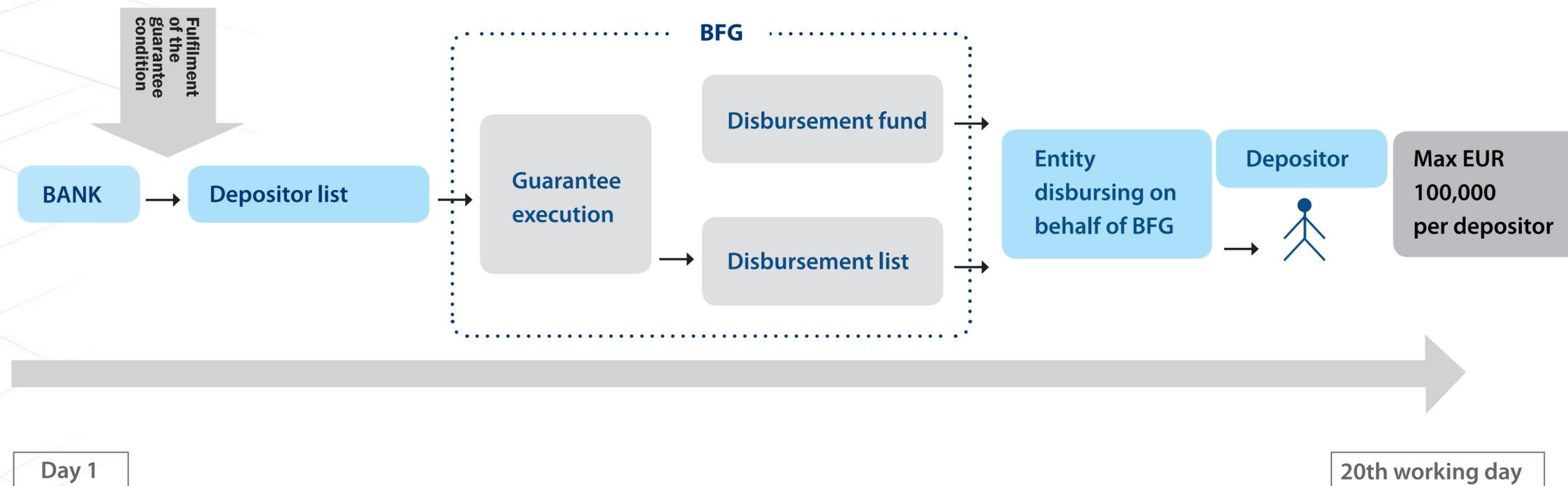
4.1. Deposit guarantee payout

After fulfilment of the guarantee condition by a given bank, depositors with funds in that bank need not submit their claims to the Bank Guarantee Fund. The receivership of the bank whose operations have been suspended compiles a depositor list on the basis of bank records, within 3 working days, which is then conveyed to the Fund.

The payout of guaranteed deposits may be carried out by the bank whose operations have been suspended, or by means of another entity (e.g. another bank).

Guaranteed deposits are disbursed by the Bank Guarantee Fund within 20 working days of the day of fulfilment of the guarantee condition. Individuals who for whatever reason fail to collect their due funds in the course of a payout carried out by an entity authorized by the Fund may approach BFG directly to collect their due disbursement within 5 years of the fulfilment of the guarantee condition. After this period, depositor claims arising from guaranteed deposits lose their validity.

FIGURE 3. Guaranteed deposit payout



In Q4 2012, in accordance with statutory requirements, a test of the effectiveness of BFG systems was carried out, the aim of which was to assess the level of preparedness of the Fund to execute a disbursement of guaranteed funds within 20 working days. The test affirmed the effectiveness of the operational and logistical systems in place at the Fund and demonstrated that BFG is prepared to meet its statutory obligations in terms of disbursement of guaranteed deposits.

4.2. Deposit guarantee funding

The Act on the Bank Guarantee Fund stipulates a variety of sources of funding for the disbursement of guaranteed deposits, including those of the *ex post* and *ex ante* variety.

EX POST FUNDING	EX ANTE FUNDING
<p>Cash held in reserve by banks in the form of Guaranteed Deposit Protection Funds (GDPF). The size of this fund is arrived at by multiplying:</p> <ul style="list-style-type: none"> - the sum total of all deposits at a given bank, which constitutes the basis for calculating the reserve requirement, and - a percentage rate determined by the BFG Council on an annual basis. 	<p>A BFG own fund, to which assets recovered from failed bank estates are allocated, amounting to PLN 53,923.4 thousand as at 31.12.2012</p>
<p>The BFG Council set the percentage rate for establishing the GDPF for 2012 at the level of 0.55% for the sum total of all deposits at a given bank in all accounts, which constitutes the basis for calculating the reserve requirement.</p>	<p>The assets in the Assistance Fund* available for reallocation amounted to PLN 6,834,315.3 thousand, as at 31.12.2012.</p> <p><small>*A BFG own fund, where cash obtained from annual premiums is allocated, minus the balance sheet value of claims financed from this fund.</small></p>
<p>PLN 4,708,516.2 thousand is the total value of all Guaranteed Deposit Protection Funds established by all banks in 2012 (updated on 01.07.2012)</p>	<p>Assets in other own funds:</p> <ul style="list-style-type: none"> - statutory fund (PLN 1,637,025.5 thousand at 31.12.2012), not including the portion earmarked for the purchase of tangible fixed assets (PLN 59,866.4 thousand at 31.12.2012), - contingency fund (PLN 666,604.4 thousand at 31.12.2012).

Assets allocated to these funds are invested in treasury securities, NBP bills, bonds issued by NBP or money market fund units, all of which generate returns for the banks, and only in the event of the fulfilment of the guarantee condition do covered banks transfer the requisite funds to BFG for disbursement in a payout scenario.

In 2012, the funds enumerated above were not drawn on because no fulfilment of the guarantee condition occurred.

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

- BFG obtaining grants and loans from the state budget,
- BFG obtaining a short-term loan from NBP,
- raising the rate used by banks to set up Guaranteed Deposit Protection Funds (GDPF) and the annual premium (pursuant to a regulation of the Minister of Finance, opined by the NBP President and PFSA Chairman, the rate used in establishing GDPFs has a cap of 0.8% and the rate of the annual premium – a cap of 0.6%).

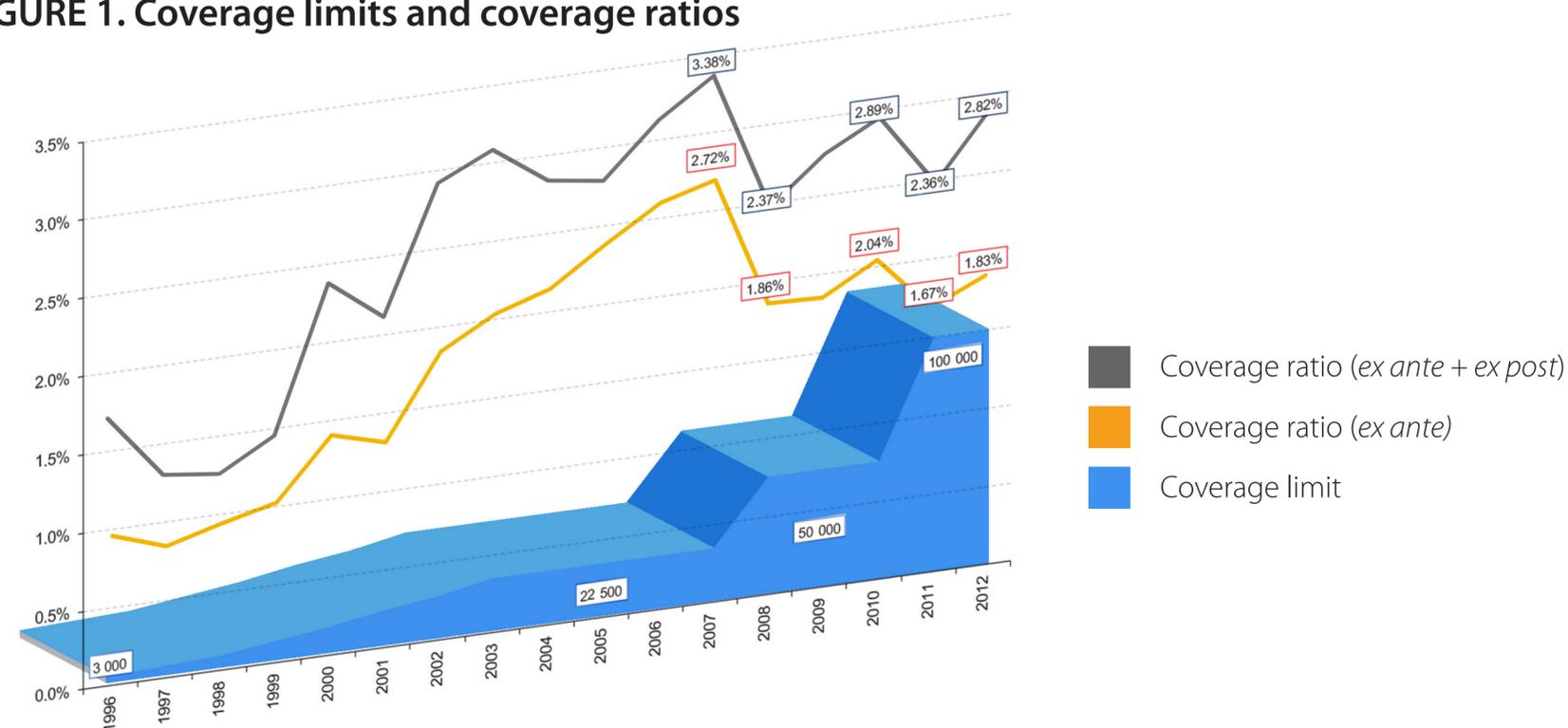
4.3. BFG Deposit Guarantee Capacity

Since the inception of the Bank Guarantee Fund, the coverage limit for bank deposits has increased significantly. In 1996, this limit was the equivalent in PLN of EUR 3,000, and in subsequent years it was systematically increased.

The greatest increase of coverage limits took place in 2008-2010 – first to the equivalent in PLN of EUR 50,000 and then, at the end of 2010, to 100,000 euros, which was a consequence of harmonization of deposit guarantee principles within the European Union.

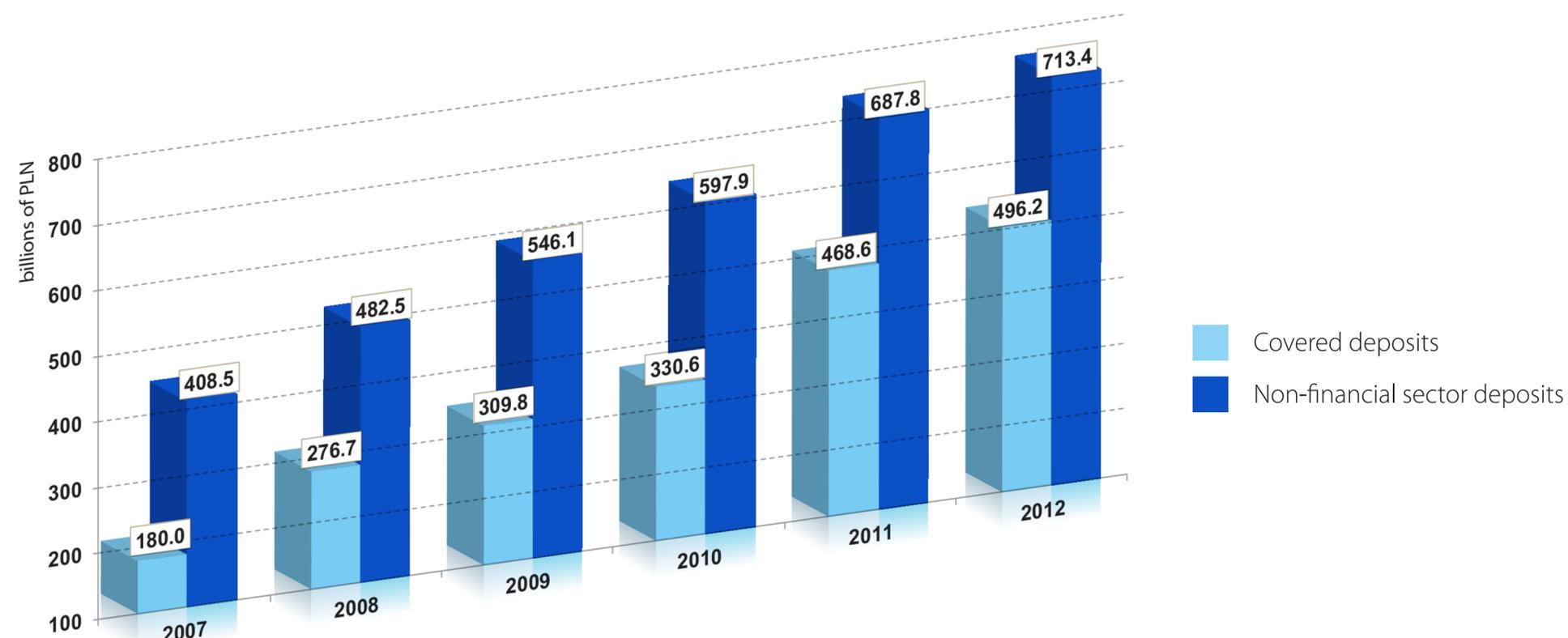
The regulatory changes that took place in 2010 were both qualitative and quantitative, since they entailed not just a twofold increase of the coverage limit, but also an expansion of the scope of coverage, i.e. extending coverage to all banks, irrespective of their scale of operations.

FIGURE 1. Coverage limits and coverage ratios



The aforementioned changes in coverage principles contributed to the dynamic growth of covered deposits, which was greater than the growth of non-financial sector bank deposits. In the years 2007-2012, covered deposits grew more than threefold, while deposits grew less than twofold.

FIGURE 2. Covered deposits and non-financial sector deposits



A consequence of the dynamic growth of covered deposits was a drop in the so-called coverage ratio. The coverage ratio is the ratio of all assets available to BFG, i.e. the sum total of assets held in BFG funds (*ex ante* funds) and assets held in banks in the form of Guaranteed Deposit Protection Funds (*ex post* funds), to all covered deposits in banks. The *ex ante* coverage ratio, on the other hand, pertains only to *ex ante* funds. In the years 2007-2012, the *ex ante* coverage ratio dropped from 2.72% to 1.83%. It should be noted, however, that this drop was the consequence of an increase in the coverage limit to the equivalent in PLN of EUR 100,000. At the same time, steps taken to increase the amount of assets available to BFG (including active securities portfolio management) contributed to minimizing the coverage ratio decrease. In the years 2007-2012, the amount of *ex ante* funds available to BFG increased by over 85%.

FIGURE 3. Funds available to BFG



In order to strengthen the coverage capacity of the Fund, as measured by the *ex ante* coverage ratio, the following long-term BFG fund size reference targets have been adopted for the year 2020:

- 1.5% with respect to (covered) non-financial sector deposits – this amount accorded with European Commission proposals, presented in due course of discussions held by European Union authorities,
- 2.72% with respect to covered deposits, which amounts to a reversion to a coverage ratio that was in place in 2007, i.e. the level prior to the financial crisis.

4.4. Deposit guarantee payout history

In the years 1995-2012 BFG executed payouts to depositors of the following:	
5 commercial banks	89 co-operative banks
Covered deposit payouts in the years 1995-2012	PLN 814.4 million
	encompassing 318.8 thousand depositors

TABLE 2. Funds allocated for payout in the years 1995-2012

Year	Funds allocated for payout (in millions of PLN)				% draw-down of GDPF funds	Number of depositors
	Overall	of which:				
		from GDPF	from the liquid assets of bankruptcy estates	from the bankruptcy estate recoveries 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

Year	Funds allocated for payout of covered deposits (in millions of PLN)**			% draw-down of GDPF funds	number of depositors
	Overall	of which:			
		from GDPF	from other sources		
2010	0	0	0	0	0
2011	0	0	0	0	0
2012	0	0	0	0	0
TOTAL	814.4	626.1	188.3	-	318 823

* Payouts of covered deposits pertaining to earlier bank failures, conducted on the basis of complementary depositor lists.

** Pursuant to the Act of 16 December 2010 amending the act on the Bank Guarantee Fund and several other acts, the principles of funding covered deposit payouts underwent a change.

TABLE 3. Bank failures in the years 1995-2012

Year	Commercial banks	Co-operative banks
1995	2	48
1996	1	30
1997	-	6
1998	-	4
1999	1	-
2000	1	-
2001	-	1
2002-2012	-	-
TOTAL	5	89

* As of 17 February 1995, i.e. from the day the Act on the Bank Guarantee Fund entered into force.

As at 31 December 2012, the Fund did not carry any liabilities due to outstanding covered deposit payout claims.

In 2012, the Bank Guarantee Fund recovered PLN 300.3 thousand from claims against failed bank estates that had arisen as a result of covered deposit payouts in previous years.

The total amount of assets in the failed bank estate recovery fund was PLN 53,923.4 thousand, as at 31 December 2012.

At the end of 2012, still pending completion were bankruptcy proceedings regarding two banks with respect to which the fulfilment of the guarantee condition transpired within the period of operation of the Fund.

4.5. Verification of data in bank calculating systems

In order to ensure efficient reimbursement of covered deposits, a statutory requirement was introduced in December 2010, obligating banks to implement special IT systems (calculating systems). Such systems allow rapid calculation of the value of covered deposits for each individual depositor. The data is prepared in accordance with the Single Customer View standard, which attributes to each creditor of a given bank all his or her claims against that bank.

The Act on the Bank Guarantee Fund has equipped the Fund with the power to audit the data contained in bank calculating systems for accuracy. The year 2012 was the second in which the Fund carried out such an audit. It was also the second year of expansion of the Deposit Guarantee Execution System, which is a set of IT tools that includes audit functionality.

Data accuracy audits take place in house at the Fund or on location at bank headquarters.

In 2012, over 600 banks were the subject of such audits. As a consequence (and in conjunction with audits carried out in 2011), the data in all banks in the banking sector have been audited at least once. Some banks have undergone a repeated audit. In the majority of cases, an increase in data quality was observed.

Examples of inaccuracies identified in due course of the audit:

Entry of coincidental data in place of lacking requisite depositor identification details.

Calculating system data classification errors.

Errors in calculating coverage for joint account holders.

Multiple registry of the same client in the calculating system.

Failure to account for all clients with claims against the bank in the calculating system and failure to include comprehensive identification data in source documents of the bank.

Errors in attributing right to coverage.

Identifying organizational units of an entity with legal person status as discrete depositors.

Banks not meeting formal requirements regarding preparing and conveying data to BFG due to:

- loss of validity of the right to transfer data to BFG,
- unauthorized personnel signing off on data transfer,
- improper data encryption.

Incomplete client identification data – PESEL number, REGON, KRS, date of birth, address details, numbers of valid identity documents.

5. Financial assistance

Besides guaranteeing deposits, the Bank Guarantee Fund also extends financial assistance to banks.

5.1. 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 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.

Inflows to the Assistance Fund, from which loans are extended, come from mandatory annual premiums levied on entities covered by obligatory deposit guarantee system and a portion of the Fund's retained earnings. As at 31 December 2012, **the Assistance Fund contained PLN 6,860,415.3 thousand.**

Financial assistance for banks facing the threat of insolvency or for banks acquiring them		
ASSISTANCE FUND	as at 31.12.2011	PLN 5,617,052.3 thousand
	Loan payments	PLN 17,400.0 thousand
	Annual premiums levied on banks*	PLN 829,048.9 thousand
	Portion of BFG financial result for 2011	PLN 414,314.1 thousand
	as at 31.12.2012 r.	PLN 6,860,415.3 thousand

Increases in 2012 ▶▶▶▶

*In 2012, the rate of the mandatory annual premium levied on banks was 0.099% of the product of 12.5 and the sum of the capital requirement weighted for different types of risk and the capital requirement due to exceeding limits and violating other norms stipulated in the Banking Law Act.

Pre-conditions for extending financial assistance

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

Pursuant to Article 20 of the Act on the Bank Guarantee Fund, financial assistance may be granted only after certain pre-conditions are met, in particular the following:

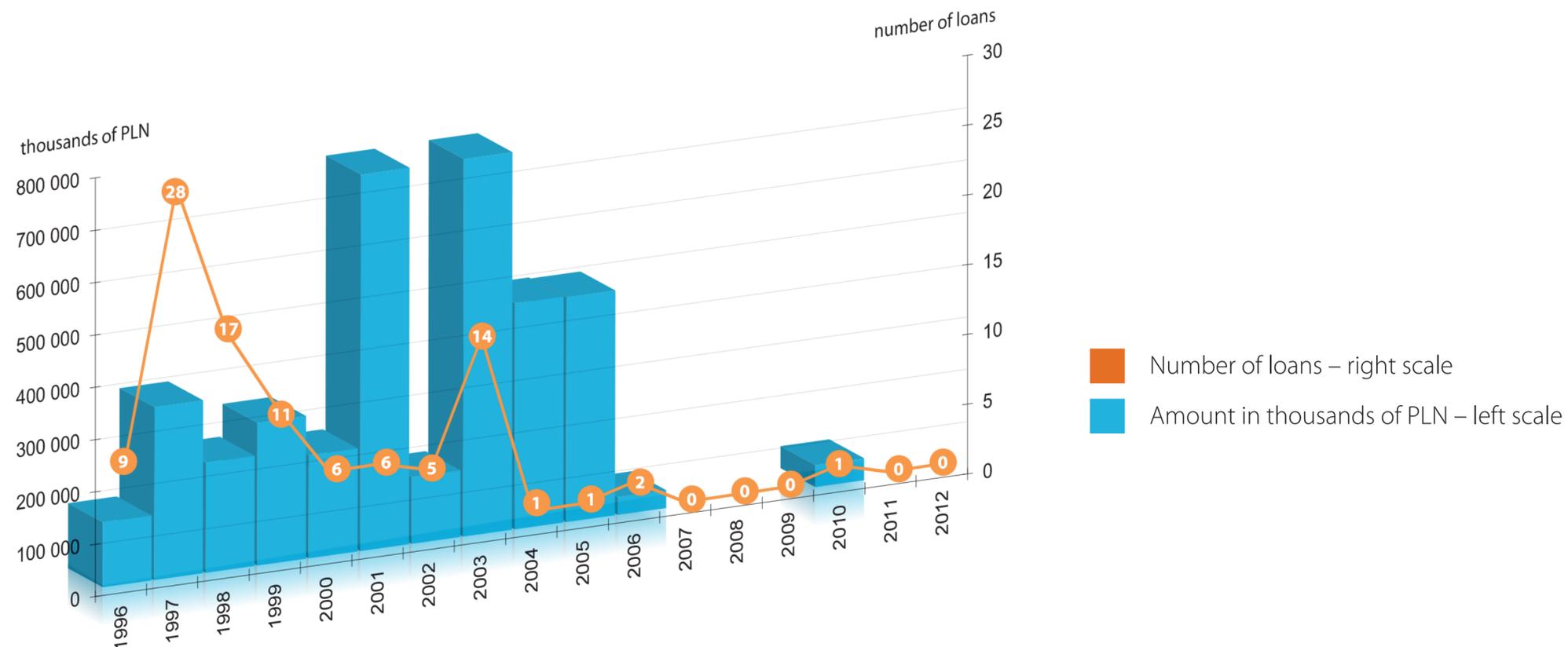
- acceptance by the BFG Management Board of the results of an assessment of a financial report on the operations of a bank applying for financial assistance, and in the event that assistance for a takeover, merger or purchase of stock (shares) of another bank is being applied for, then assessments of the financial reports of both banks,
- an applicant bank's submission of a reorganisation programme that has been positively opined by the Polish Financial Supervision Authority, and in the event that assistance for a takeover, merger or purchase of stock (shares) of another bank is being applied for, the PFSA's positive opinion on the viability of said actions,
- proof that the loan, guarantee, surety or funds otherwise expended by BFG for asset purchase are not greater than the amount of guaranteed deposits in the bank, and in case of application for assistance for a takeover of or merger with another bank, that the figure is not greater than the amount of guaranteed deposits in the bank being taken over,
- documentation confirming that all of the own funds of the applicant bank or the bank being taken over have been used to cover losses.

Financial assistance history

In 2012, no loans were extended from the Assistance Fund. BFG continued to administer one loan extended from the Assistance Fund in 2010 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 2012, BFG extended a total of 101 loans from the Assistance Fund, of which 44 were directed at commercial banks and 57 at cooperative banks, at a total of **PLN 3,790,342.4 thousand**.

FIGURE 4. Loans disbursed from the Assistance Fund in 1996*-2012



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

In the years 1996-2012 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 of shares of banks facing the threat of insolvency by new shareholders	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.

5.2. 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 level is constant at **PLN 123,409.7 thousand**.

In accordance with Article 35(3) of the aforementioned act, 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 2012, 28 applications from cooperative banks for a sum total of PLN 68,462.2 thousand were evaluated. Assistance was approved for 23 cooperative banks, for a total disbursement of PLN 55,979.0 thousand, whereas 5 applications were not approved due to depletion of the fund (in both rounds, the Fund had at its disposal a total amount of PLN 56,400.2 thousand).

FIGURE 5. Breakdown of loans extended from CBRF as at 31.12.2012

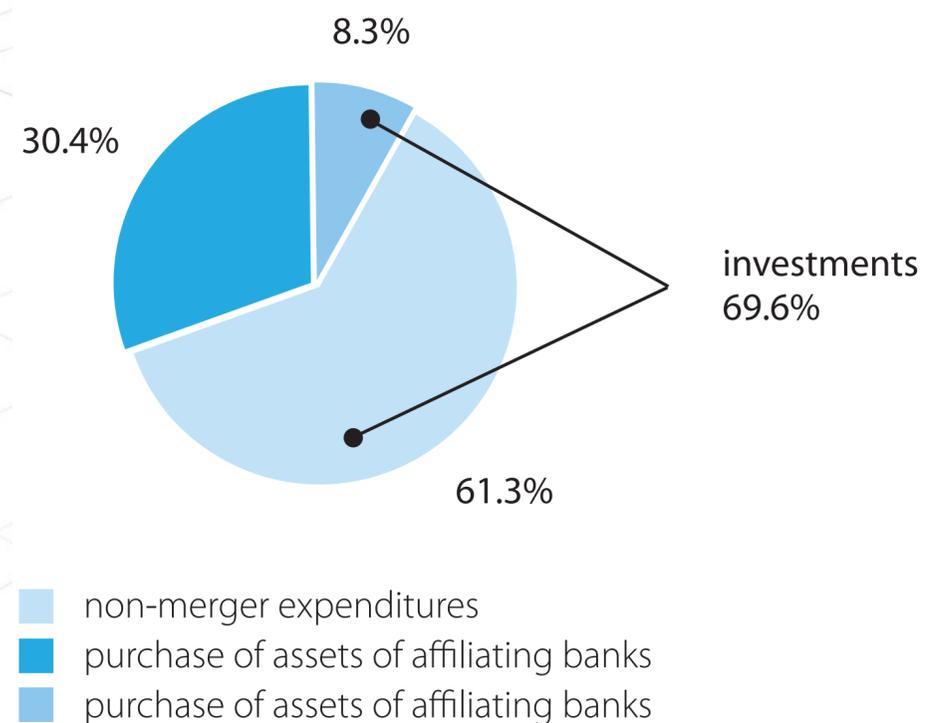
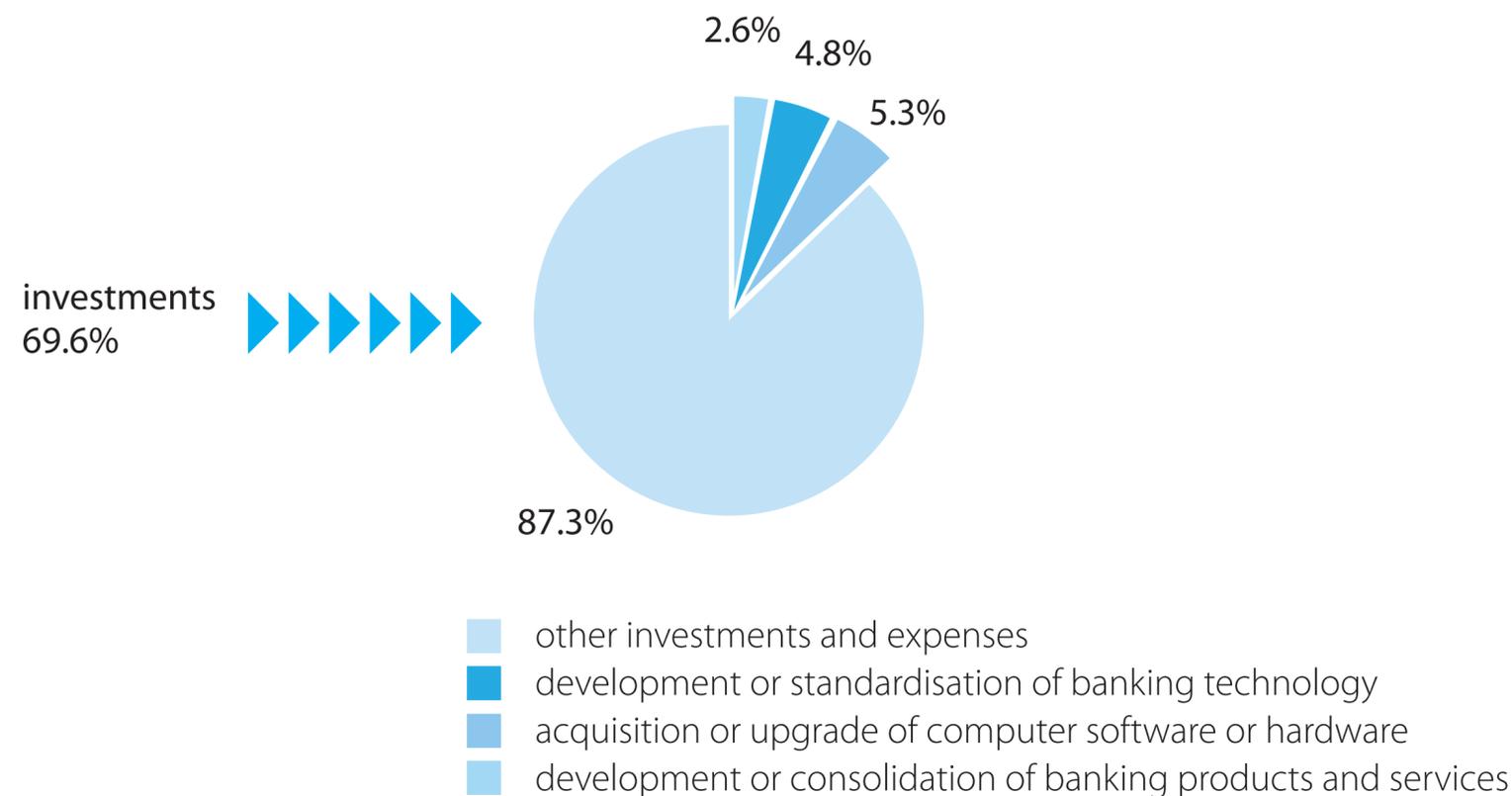
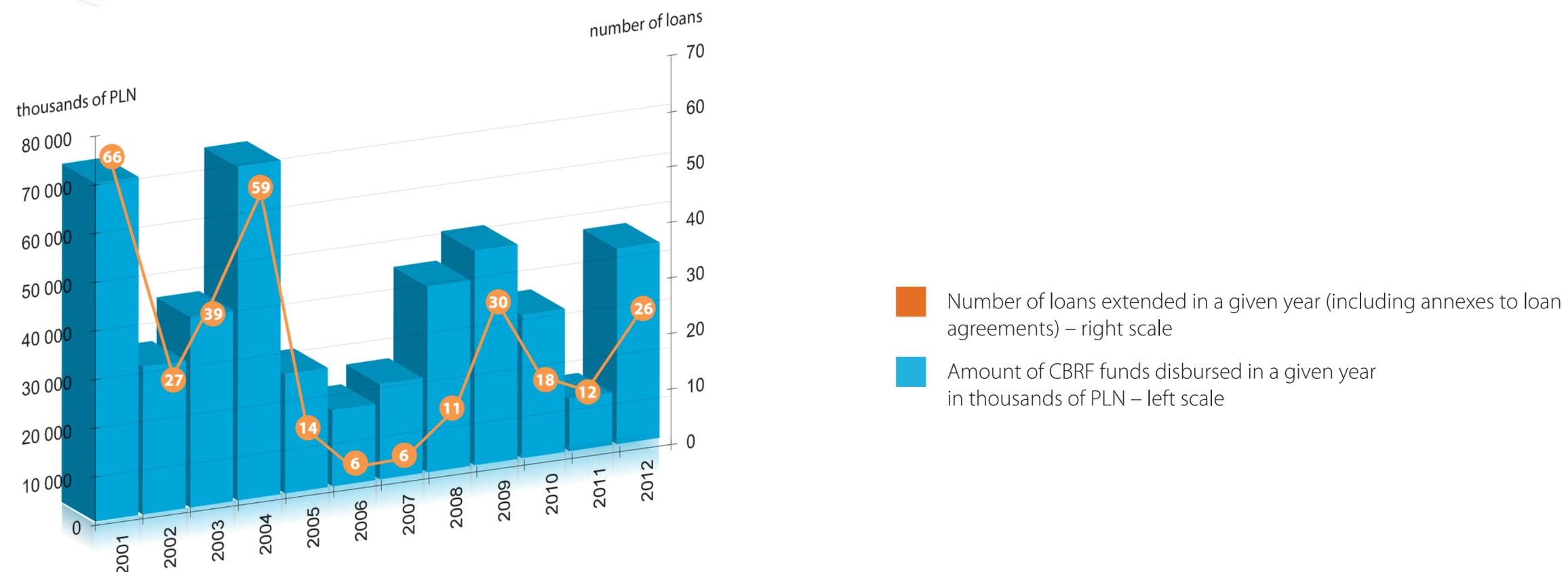


FIGURE 6. Investment allocation breakdown of CBRF loans in 2012, as at 31.12.2012



The vast majority of funds obtained in 2012 by banks in the form of CBRF loans were used for other investments and expenses associated with building construction, refurbishment and renovation (87.3% of investments made). The investment allocation breakdown did not undergo a significant change (in 2011 other investments and expenses accounted for 86.3% respectively). In the years 2001-2012, the Bank Guarantee Fund granted 276 loans from the CBRF for a total of PLN 465,169.0 thousand. In no instance did any problems transpire in the repayment of the loans.

FIGURE 7. Disbursement of funds from CBRF in the years 2001-2012



5.3. Monitoring and auditing of banks receiving BFG assistance

As at 31 December 2012, the economic and financial situation was being monitored and assessment was being carried out with respect to the repayment of liabilities pursuant to loan agreements entered into with 67 cooperative banks receiving BFG financial assistance, including:

- one bank which was granted a loan from the Assistance Fund and a loan from the CBRF,
- 66 banks which were granted CBRF loans.

FIGURE 4. The number of banks receiving BFG financial assistance in 2012

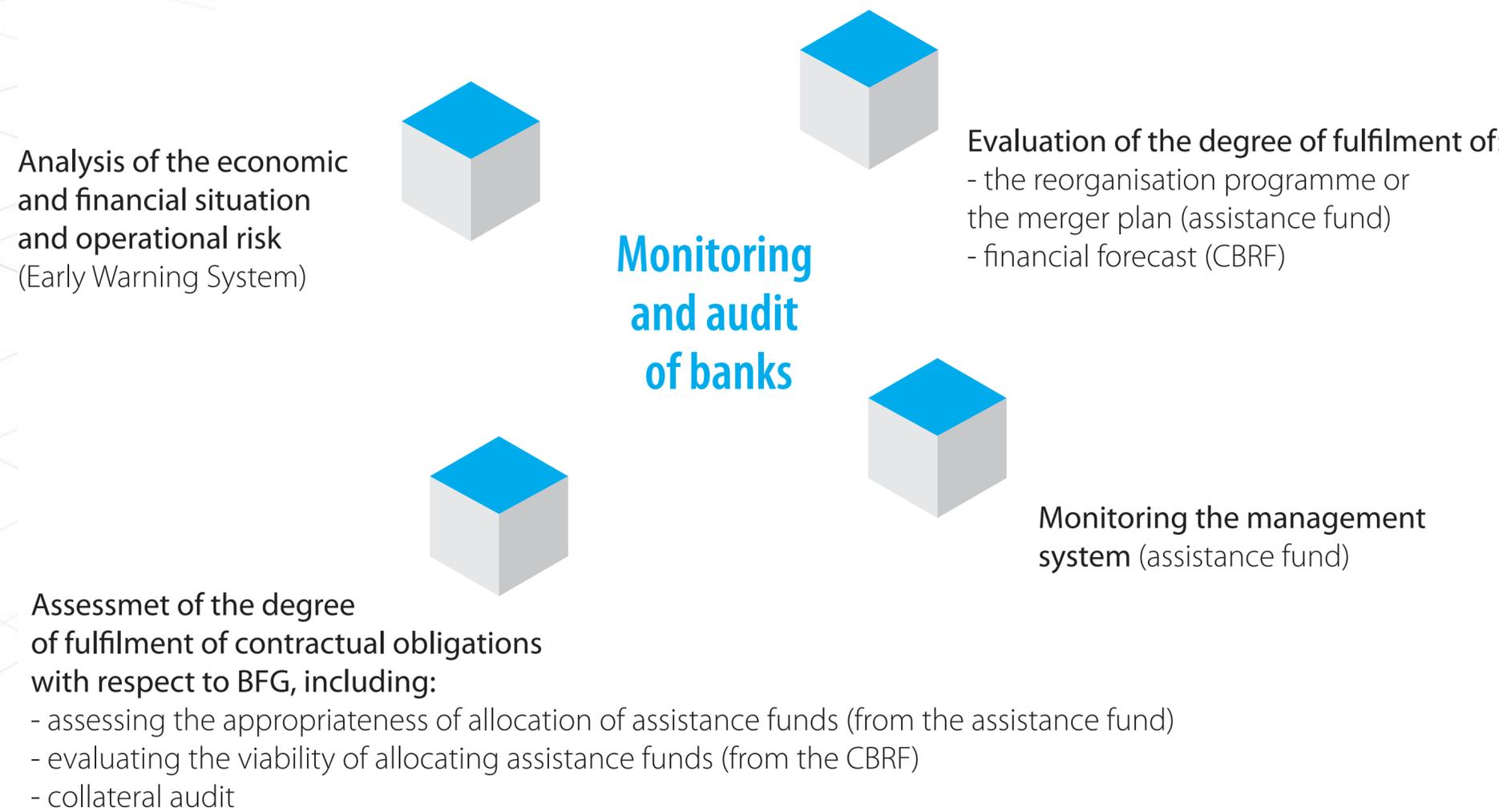
Banks receiving assistance	Number of banks			
	31.12.2011		31.12.2012	
	From the Assistance Fund and CBRF	From CBRF	From the Assistance Fund and CBRF	From CBRF
Commercial banks	-	-	-	-
Cooperative banks	1	54	1	66
TOTAL	1	54	1	66
	55		67	

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 case of:
 - banks receiving loans from the Assistance Fund:
 - analysis of assistance funds allocation for appropriateness and effectiveness,
 - 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.

In terms of administering loans, BFG in particular:

- ongoingly monitored collateralization deadlines and collateral value;
- after repayment of loan principal instalments, 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)

Monitoring and audit of banks

Evaluation of the degree of fulfilment of:

- the reorganisation programme or the merger plan (assistance fund)
- financial forecast (CBRF)

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

- assessing 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 2012, 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.

6. Analytical activity

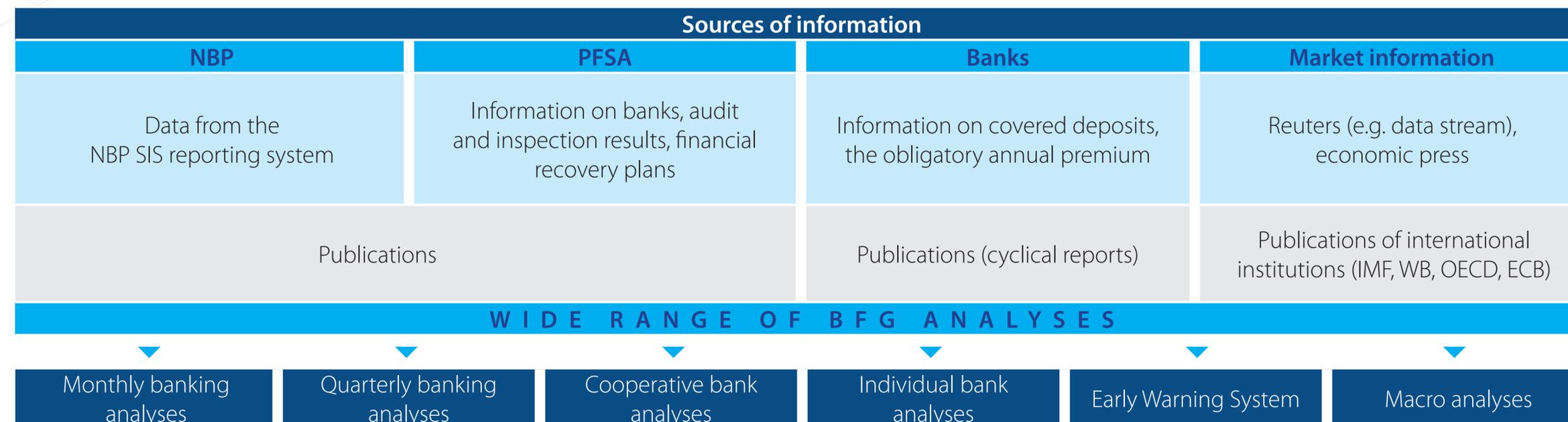
In 2012, the analytical activity carried out by the Fund, in which data obtained from NBP, PFSA and banks themselves was used, focused on areas and issues which generated the biggest threats for individual banks and for the condition of the banking sector as a whole. An analysis of the condition of the banking sector constituted a point of reference in operational risk evaluations in individual banks. Banks facing the threat of insolvency were identified by means of the Early Warning System in due course of the work of the Early Warning System Committee.

Banking sector analyses were prepared as follows:

- quarterly – banking sector threat analysis, taking into account the respective specificity of commercial and cooperative banks,
- monthly – a synthesis of information presented in tabular-graphical format, which ensures rapid access to current information on the situation in the banking sector,
- semi-annually – cooperative bank sector threat analysis.

Regular banking sector analyses and macroeconomic situation reviews make up the system of analyses, which provides data and information necessary to evaluate the state of the banking sector.

FIGURE 3. BFG analysis flowchart



In quarterly reviews in 2012, the potential for increased lending by banks under the circumstance of limited sources of financing was analysed. Besides regular analyses on this topic, a special, dedicated analysis on this subject was carried out. It indicated a low degree of diversification of sources of financing in the Polish banking sector, which in the event of a decrease in foreign financing, a falling rate of growth of deposits and an underdeveloped market for bank-issued securities, constitutes a barrier to lending expansion. A comparison of the banking sector in Poland with corresponding sectors in other European Union states, in particular in terms of the structure of financing banking activity, indicates a need for the development of a market for bank-issued securities. In cooperative banking sector analyses, the problem of limitations arising from the current operating model of affiliations of cooperative banks was raised.

An analysis of the banking sector, that of individual banks, as well as that of the risk impacting the level of threat facing the banking sector were the basis in determining the proposed size of the rate used to calculate the mandatory annual premium and the size of the Guaranteed Deposit Protection Fund for 2013.

In determining the aforementioned rates, a macroeconomic situation assessment was also taken into account. Further, in-house BFG-compiled analyses pointed at a persistence of threats resulting from the difficult macroeconomic situation in Eurozone states and in specific financial institutions, which may carry over into the Polish banking sector through the real economy and the financial sector, and could contribute to a deterioration of the financial situation of banks operating in Poland. An additional risk growth factor was the predicted drop in GDP growth in Poland.

The rate used to calculate the mandatory annual premium for 2013 was set at the level of 0.1% of the base used in the calculation, whereas that of the Guaranteed Deposit Protection Fund was set at 0.55%.

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.

Selected in-house BFG-compiled analyses are available on the BFG website: [Situation of banking sector](#).

7. Communications and education

The Bank Guarantee Fund undertook a variety of actions intending to raise the level of public awareness with respect to the principles of operation of the deposit guarantee system in Poland and the role of BFG in the financial safety net architecture. In 2012, these objectives were furthered by means of the tools and actions listed below.

7.1. Public awareness initiatives

BFG infoline

A toll-free infoline (**800 569 341**) is an important tool that gives members of the public eager to obtain information about the deposit guarantee system in Poland direct access to employees of the Fund. In 2012, the queries directed at BFG staff pertained primarily to the question of whether certain financial entities were covered under the deposit guarantee scheme, matters relating to the potential suspension of operations of a bank, among these the principles of reimbursement of guaranteed deposits and the possibility of recovery of bank deposits. 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 2012, the Fund distributed approximately 1 million leaflets to commercial banks and affiliations of cooperative banks.

Banks were also provided with placards used to identify membership of the bank in which they are displayed in the obligatory deposit guarantee system. These placards are prominently displayed in nearly every bank branch in Poland.



Website

The [BFG website](#) is another fundamental source of information on the Polish deposit guarantee system and on the operation of the Fund. In 2012, the Fund launched an updated version of the BFG website – revamped in terms of both structure and visuals – in two language versions: Polish and English. The website provides constant and easy access to current information, as well as current and archival materials and documents. The site registered nearly 204 thousand hits in 2012, which is almost 560 per day.



Presence on social media sites

BFG also utilizes modern channels of communication to reach out to its various target groups. Starting in 2012, it has had a presence on popular social media sites such as [Facebook](#) and [Youtube](#), where the most important information, films, photographs and comments are placed. 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.

Promotion in the press

In 2012, information on the Polish deposit guarantee system, the operation of the Bank Guarantee Fund and on the role it plays in contributing to financial system stability was published on three occasions in popular press titles with a broad distribution. These publications included BFG leaflets as inserts – over 1 million copies were sent out, reaching approximately 3 million individuals, including residents of small towns and villages.

7.2. BFG publications

In 2012, BFG published four issues of the [Safe Bank](#) journal, containing a total of more than 30 articles and papers. The topics included effective bank governance, financial stability and bank supervision. One of the issues, published in English, contained articles and conference materials from the IADI conference Beyond the Crisis: the Need for a Strengthened Financial Stability Framework, which took place on 19-20 October 2011 in Warsaw. Each issue is printed in the amount of 800 copies and is distributed at no cost to college libraries, banks, government agencies and major public libraries nationwide. An electronic version of the publication has been made available on the website of the Fund.

In 2012, the [BFG Bulletin \(No 1/62/2012\)](#) was published, containing BFG Council Resolutions pertaining to the rate, for 2013, used to calculate the size of the Guaranteed Deposit Protection Funds established by entities covered by the deposit guarantee system and the rate, for 2013, used to calculate the mandatory annual premium levied by BFG. The Bulletin was distributed to commercial and cooperative banks and made available on the BFG website. [An annual report on the Fund's 2011](#) operations was also prepared and distributed via the BFG website and published on CD, copies of which were subsequently circulated to domestic commercial and cooperative banks, institutions comprising the financial safety net and to IADI member-institutions.



7.3. Educational initiatives



Pic. 1. Awards ceremony for the top dissertation in 2012



Pic. 2. Student conference "Financial Stability Regulations 2012"

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

March 2012 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. The jury (consisting of prof. Dariusz Filar as its Chairman, Ewa Kawecka-Włodarczak and Andrzej Rzońca) decided to award one doctoral and three master's dissertations. The awards ceremony took place on 19 June 2012 at the BFG headquarters.

Moreover, BFG hosted a student conference titled Financial Stability Regulations 2012, co-organized by the Warsaw School of Economics. During the conference, WSE students delivered presentations on the functioning of financial markets and financial regulation, and awards were given for the top three academic papers for the given semester.

Participation in “Don’t get hustled. Check before you sign!” campaign

BFG is one of the co-organizers of a social campaign (launched towards the end of 2012), called [“Don’t get hustled. Check before you sign!”](#), the aim of which is to draw the attention of the public to the risk inherent in entering into financial contracts, first and foremost in taking out high-interest, so-called “ultra short-term” loans, and in dealing with financial service providers not subject to state supervision. This campaign is co-organized by seven public institutions: the Bank Guarantee Fund, the Polish Financial Supervision Authority, the Ministry of Finance, the Ministry of Justice, the National Bank of Poland and the Office of Competition and Consumer Protection.

Accessible Finance Academy

Aiming to further raise public awareness of the deposit guarantee system in Poland, the Fund joined a National Bank of Poland led initiative in 2012 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 2012, three Academy meetings took place – in Szczecin, Poznan and Opole. A BFG representative took part as a guest speaker, participated in panel discussions and gave interviews to local media.

7.4. BFG in the media

In 2012, information about BFG reached a wide audience through various mass media outlets, including popular television channels, radio stations and newspapers with a countrywide distribution. Below are some BFG media coverage highlights in 2012.

January 2012

A televised interview on TVN-CNBC with the President of the BFG Management Board Jerzy Pruski on the topic of the stabilisation fund. The context for the discussion was government approval of the draft legislation amending the Act on the Bank Guarantee Fund, which would introduce a new stabilisation fund, from which BFG could extend guarantees to banks undergoing reorganisation proceedings to increase their own funds levels (a so-called “recapitalization guarantee”).

June 2012

"Gazeta Wyborcza", "Dziennik Gazeta Prawna" and other publications carry articles inspired by the compilation and publication of "The Polish Bank Insolvency Regime" report, which contains proposals for the introduction of an orderly bank liquidation (resolution) regime in Poland. Prior to that, the Polish Financial Stability Committee had appointed a working group to develop draft legislation on bank restructuring and resolution, headed by the President of the Bank Guarantee Fund Management Board, with the participation of World Bank representatives.

July 2012

"Wprost" magazine reports on a memorandum of understanding signed between the National Bank of Poland and the Bank Guarantee Fund on stipulating the framework conditions under which NBP could, if need be, provide short-term liquidity support to BFG to cover guaranteed deposit disbursements: "This MOU is part of a strategy to underpin domestic financial stability and is a component that strengthens the financial safety net in Poland."

August 2012

Numerous publications carry a Polish Press Agency report that as of October, the Polish Financial Supervision Authority will expand the scope of its supervision to encompass cooperative savings and credit unions, adding that legislative changes are expected in the credit union sector, which will ultimately also mean expansion of Bank Guarantee Fund deposit guarantee coverage to include deposits in credit unions.

October 2012

The election of BFG Management Board President Jerzy Pruski to the post of Chair of the Executive Council of the International Association of Deposit Insurers makes front-page news in "Rzeczpospolita", a major Polish daily, marking the first time ever that a European has headed IADI: "This distinction demonstrates that the world thinks highly of our deposit guarantee system."

8. Domestic collaboration

8.1. Collaboration with financial safety net member institutions

In 2012, the President of the Bank Guarantee Fund Management Board regularly took part in (in an advisory capacity) meetings of the Financial Stability Committee (FSC), the membership of which is comprised of: the Minister of Finance, the President of the National Bank of Poland and the Chairman of the Polish Financial Supervision Authority. The aim of the FSC is to contribute to 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. Also, representatives of the Fund took part in working groups established by the FSC. In 2012, legislative work continued on formally expanding the composition of the FSC to include the President of the BFG Management Board.

The collaboration BFG undertook with other financial safety net institutions was not confined merely to participation in FSC meetings. In 2012, BFG signed a memorandum of understanding with the National Bank of Poland, stipulating the framework conditions under which NBP could provide short-term liquidity support to BFG to cover guaranteed deposit disbursements, in accordance with the Act on BFG and the Act of 29 August 1997 on the National Bank of Poland (Journal of Laws of 2005, No.1, item 2, as amended).

In 2012, the Bank Guarantee Fund also collaborated with the Ministry of Finance, taking part in legislative work concerning the Polish financial markets and the functioning of BFG (compare pt. 10.1). In the second half of 2012, BFG representatives took part in analytical work pertaining to a concept paper on the European banking union, published by the European Commission, and related draft legislation. Work in this regard entailed preparation of opinions on subsequent draft EC regulations on establishing a single bank supervisory mechanism and conferring responsibility for related tasks on the European Central Bank (ECB), as well as changes to the structure and responsibilities of the European Banking Authority (EBA), and submitting these opinions to the Ministry of Finance.

In the second half of 2012, the Fund actively participated in preparing opinions on the draft memorandum of understanding Crisis Management Group (CMG) – Nordea, which will be the basis for further work within the CMG, in compiling progress reports on the reorganisation programme as well as the recovery and resolution plan, and in drafting opinions with respect to the Nordea Group resolution strategy.

8.2. Collaboration with banking institutions in Poland

In 2012, the Fund continued to liaise with the domestic banking sector. BFG representatives took part in the XXIV Annual General Meeting of the Polish Bank Association and in the Forum of Leaders of Cooperative Banks. 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*, which entailed 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.

8.3. Conferences and honorary sponsorships



Pic. 3. BFG President at the European Economic Congress in Katowice

In 2012, BFG representatives were guest speakers, debate participants or panel discussion moderators in numerous conferences and seminars held domestically, like the Banking Forum 2012, the European Economic Congress in Katowice, the IV European Economic Congress in Krynica and the VII Bank Risk Congress. BFG acted as honorary sponsor for the Polish Financial Market Congress 2012, organized by the Allerhand Institute, and was honorary sponsor for and partner of a seminar on capital asset management in times of crisis, organized by the Institute for Research on the Market Economy.

9. International collaboration



Pic. 4. Jerzy Pruski with former Presidents of IADI: Jean-Pierre Sabourin (right), and Martin Gruenberg (left)

The growing importance of BFG in IADI – the election of the President of the Management Board of BFG as the President of IADI

The election of the President of the Management Board of the BGF as the Vice Chair of the Executive Council of the International Association of Deposit Insurers in February 2012, and further as the President and Chair of the Executive Council of IADI in October 2012, has formally included BFG in the governance of the Association. This process was an excellent opportunity for BFG staff to enhance their capacities in the realm of deposit insurance systems and the financial safety net as well as international cooperation. BFG leadership in IADI contributes substantially to the increase of BFG's importance within the deposit insurance community.

9.1. Strengthening IADI's cooperation with international organizations and international financial institutions

As part of the governance process, the IADI President held numerous working-meetings with high officials of leading financial institutions and international organizations, including the Bank for International Settlements, the Financial Stability Board, the Basel Committee on Banking Supervision and the Financial Stability Institute. The meetings aimed at deepening collaboration between IADI and these institutions and explored the role of these entities in strengthening global financial stability and their importance in tackling the recent economic crisis. Moreover, the IADI President met with representatives of the International Monetary Fund (IMF) and the World Bank (WB). The meetings focused on the collaboration agreement between IADI and the IMF and WB as well as potential participation of IADI experts in the assessment reviews conducted under the IMF/WB Financial Sector Assessment Program (FSAP). In 2012, the IMF and WB approved the terms and conditions for participation of IADI experts in the assessments of deposit insurance systems undertaken under FSAP reviews.

9.2. BFG involvement in IADI committees, seminars and conferences

Representatives of BFG were engaged in work being carried out within five IADI Standing Committees (the Governance Committee, the Research and Guidance Committee, the Training and Conference Committee, the Data and Survey Committee and the Audit Committee). BFG also accentuated its presence in IADI Subcommittees, including the Subcommittee on Handling Systemic Crises, the Subcommittee on Financial Inclusion and Innovation, the Subcommittee on Dealing with Parties at Fault in a Bank Failure and Frauds in Deposit Insurance, the Subcommittee on the Recoveries from Assets of Failed Banks. In addition, BFG representatives took part in the Annual Meeting of the Europe Regional Committee and in the international conference on *Resolution and Public Awareness in Deposit Insurance* organized on the occasion on the Asia Pacific Regional Committee annual meeting.

In addition in 2012, BFG was represented at the Annual Meeting of European Forum of Deposit Insurers (EFDI) and at the EFDI EU Committee meeting as well as at the EFDI seminar on public relations.

Moreover, BFG representatives contributed to many international conferences and seminars, including the World Bank conference on *3rd Generation Reforms in Bank Resolution, High-Level Symposium on Supervision* organized by the Institute of International Finance, and the EUROFI High Level Seminar. They also actively participated in IADI workshops and seminars, including the FSI-IADI seminar *Bank Resolution Current Developments, Challenges and Opportunities*.

9.3. Participation of BFG representatives in EU Council and EC working groups

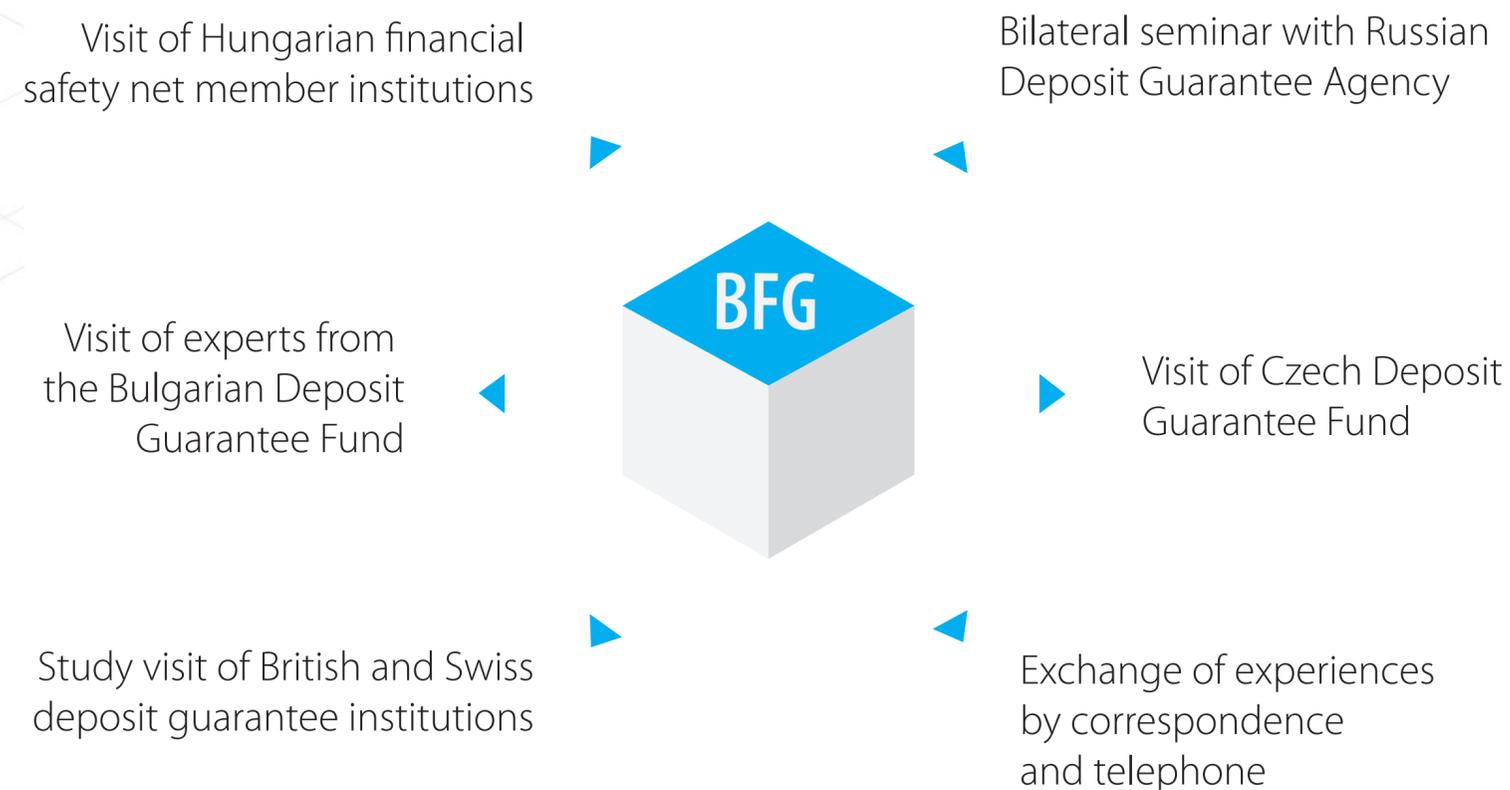
BFG was involved in work carried out within various European forums. BFG representatives performed the role of national experts on behalf of Poland at the Working Group on Financial Services, operating under the advisory framework of the European Union Council. The Working Group was called in order to negotiate the draft Directive of the European Parliament and of the Council, establishing a framework for the recovery and resolution of credit institutions and investment firms. They also actively took part in the European Commission Early Intervention Working Group.

Furthermore, BFG experts prepared opinions on the concept of the establishment of the banking union and other resulting draft legislation prepared by the European Commission.

9.4. Cooperation with foreign deposit insurance agencies

In 2012, BFG maintained regular bilateral cooperation with foreign deposit insurance institutions. Representatives of these institutions attended meetings, workshops and training sessions organized at the premises of BFG. They were dedicated to the exchange of information and experiences on practical aspects of reimbursement of guaranteed deposits, analytical activities, the functioning of the Early Warning System, providing assistance to entities covered by the deposit guarantee system as well as bank resolution. In addition, BFG shared its experience on organizing the IADI Annual General Meeting and the International Conference in 2011.

FIGURE 4. Development of bilateral cooperation with foreign deposit insurance agencies



10. Internal affairs

10.1. Legislative work

In addition to work on the government draft Act on the Bank Guarantee Fund, bank resolution and amendments to certain other acts, BFG participated in work on drafting legislation concerning the principles of its operation, as well as on draft Polish financial market legislation, in particular:

- the government draft Act on amending the act on the Bank Guarantee Fund and certain other acts (introducing the prudential levy),
- the parliamentary draft Act on amending the act on cooperative savings and credit unions and certain other acts (extending deposit guarantee coverage to cooperative savings and credit unions),
- the parliamentary draft Act on amending the Notary Public Law and the act on the Bank Guarantee Fund (changing the definition of a depositor in context of escrow accounts).

The draft Act on amending the act on the Bank Guarantee Fund and certain other acts concerns the establishment of a stabilisation fund at the Bank Guarantee Fund, as an own fund with inflows from the prudential levy paid by banks, intended to finance operations consisting of the Fund extending a guarantee to increase the own funds level in a domestic bank, and in case of executing this guarantee, purchasing or otherwise acquiring shares, bonds or bank-issued securities of a domestic bank. The amendment also encompassed the Act of 7 November 2008 on the Financial Stability Committee, entailing the expansion of the composition of the FSC to include the President of the Bank Guarantee Fund Management Board.

The draft Act on amending the act on cooperative savings and credit unions and certain other acts, which includes a proposal to update the Act on the Bank Guarantee Fund, contains legislation aiming to increase stability in cooperative savings and credit unions, in particular through the introduction of provisions concerning the establishment and operation of an obligatory system of guaranteeing deposits in credit unions, provisions concerning financial assistance for credit unions and the principles of gathering and using data about credit unions.

The draft Act on amending the Notary Public Law and the act on the Bank Guarantee Fund contains proposals to amend the Act on the Bank Guarantee Fund in such a way as to change the definition of a depositor in context of an escrow account.

10.2. BFG information system enhancement

In order for BFG to fulfil its statutory mandate, it is imperative that access to information 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 banks and the operations of the Fund, statutory and otherwise, to authorized users.

TABLE 5: Types of information in the BFG Information System

Types of information	Content
Financial reporting information on banks	SIS database (FINREP and COREP) WEBIS database (Archive) Databases obtained pursuant to Regulations of the President of NBP
Non-financial reporting information on banks (from external sources)	Standardised information on banks, including: <ul style="list-style-type: none"> ■ bank operating history, ■ ratings of banks and strategic investors, ■ information on reorganisation programmes, ■ information on trustees and receiverships
Information on the statutory activity of the Fund	Information on deposit guarantee activity information on financial assistance activity in-house BFG analyses: analyses of the economic and financial situation of banks, banking sector analyses, macroeconomic analyses
Information on the internal activity of the Fund	Information on the internal activity, including: <ul style="list-style-type: none"> ■ collection of internal legal acts ■ information concerning the administration of the Fund.

The most important component of the BFG Information System is financial reporting data and non-financial reporting data of banks. This information is processed by means of in-house 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 is obtained primarily through exchange of information within the confines of the financial safety net as well as directly from banks.

TABLE 6: The basis and scope of information on banks obtained by the Fund in 2012

Legal basis for obtaining information	Scope of obtained information
<p>Memorandum of understanding concerning the object, scope, means and timing of conveying information to the Bank Guarantee Fund by the National Bank of Poland</p> <p><i>(stipulates the scope and means of conveying bank financial reporting information to the Fund by NBP)</i></p>	<p>Financial reporting data, primarily SIS financial reporting (FINREP and COREP)</p>
<p>Agreement on cooperation and exchange of information between the Polish Financial Supervision Authority and the Bank Guarantee Fund</p> <p><i>(stipulates the principles of collaboration within the scope of statutory task fulfilment and exchange of information)</i></p>	<p>Information:</p> <ul style="list-style-type: none"> ■ that is critical to the proper identification of threats to the operations of individual banks ■ on the situation in the banking sector
<p>Regulation No 7/2011 of the President of NBP pertaining to the scope, means and timing of conveying information to the Bank Guarantee Fund on banks covered by the obligatory deposit guarantee system</p> <p><i>(stipulates the scope, means and timing of conveying bank financial reporting information directly to the Fund)</i></p>	<p>Information:</p> <ul style="list-style-type: none"> ■ on the base used to calculate the Guaranteed Deposit Protection Funds and on GDPF size ■ on the base used to calculate the mandatory annual premium and its size ■ on the value of deposits and the value of BFG covered deposits ■ on the amount of cash in hand and information on bank capital requirements (for forecasting purposes) ■ on the intent to prepare, ongoing preparation or the implementation of a reorganisation programme

The technological platform of the BFG Information System underwent a change in 2012, in context of a database update and development. Adopting a modernised platform has enabled the creation of a more user-friendly information access experience. At the same time the capacity to expand the Information System to include new information was enhanced, which became essential in light of the new tasks facing the Fund.

10.3. BFG IT system

The ongoing enhancement of the IT system is being carried out in the Fund in accordance with the specifications of the 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. 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 accomplishment of these goals would enable the fulfilment of tasks associated with the preparedness of BFG and the banking sector to execute a guaranteed deposit disbursement within 20 working days. This requires constant confirmation of the operational readiness of bank calculating systems by checking the quality of data generated by them, sent in the form of "depositor lists" to the BFG Deposit Guarantee Execution System. The BFG Deposit Guarantee Execution System is a set of IT tools that comprises a communication module used to communicate with banks, the so-called SRG Portal, as well as a module used to process received data. In 2012, work was carried out on expanding and upgrading the Deposit Guarantee Execution System, which entailed the development of functionality concerning data control, reporting and communication with banks, in particular. Further development of this tool will allow its use to be extended to cooperative savings and credit unions within the scope of deposit guarantee coverage. The remaining operations were associated with the development of the accounting and finance system and the BFG Information System.

The functional development of IT applications demanded the creation of a developed, scalable, robust and secure IT and telecommunications infrastructure. Thanks to the related investments carried out in 2012 with the aim of expanding key aspects of the IT infrastructure, a complete replaceability of basic functional models (redundancy) was achieved, along with a desired level of technical safeguards in case of emergency. The expanded resources enable the Fund to fulfil its new statutory tasks reliably.

In 2012, in order to raise operational effectiveness and the effectiveness of circulating information, an electronic correspondence registry system was implemented and the e-mail system was modernised. Moreover, the office software used in BFG was upgraded and consolidated, and a centralised printing model was implemented, resulting in a reduction of printing and maintenance costs, while increasing document quality.

In parallel with the development of the BFG IT system, the legal framework for the institution's operations underwent adaptation in such areas as security policy and the principles of managing the IT system.

10.4. Data security and operational risk management

Data security

The level of security with respect to data collected and processed at the Fund depends on both the security of the IT environment in which it is processed and on the physical security of IT resources. In implementing the objectives set out in the *IT Development in the Bank Guarantee Fund in the years 2012-2013*, specialised solutions in the Fund's IT system, raising the level of data security, were adopted. In 2012, the level of physical security was enhanced, adding modern electronic monitoring solutions to the traditional toolkit. Additionally, an ICT system used to generate and process restricted information was also developed at BFG.

Operational risk management

The Bank Guarantee Fund possesses an operational risk management system, the objective of which is to optimise the level of operational risk in BFG by using appropriate organisational, procedural and technical solutions. In particular, it consists in minimising the probability of material and non-material harm caused by improper or erroneous internal processes, human factors, the functioning of systems or due to external occurrences.

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 variations in risk levels over time in selected areas of activity of the Fund. Additionally, a risk self-assessment survey is completed by staff on an annual basis, in which staff assess the level of operational risk they face in their respective posts.

In 2012, a number of incidents were registered in the database of operational risk occurrences and information about these was conveyed to the Operational Risk Committee and to the BFG Management Board in the due course of periodic reporting. None of the registered incidents had a negative impact on core BFG operations.

Key operational risk indicators were measured in BFG on the basis of periodic reports compiled by managerial staff nominated to do so, within the categories of risk to which they are assigned. On the basis of an analysis of these indicators, the level of operational risk in 2012 was determined to be low.

A description of the various processes that occur within BFG was compiled with the aim of improving them, thanks to which the BFG Management Board is able to optimise the procedures that are used at the Fund and better identify potential threats that might hinder them. In 2012, the Operational Risk Committee dealt with systematic assessment of current operational risk levels at BFG, changes in key risk indicators, describing strategic processes and introducing an operational risk self-assessment questionnaire.

Risk management is based not only on the involvement of BFG staff but also on implementation of the aforementioned tools, which limit the risk that could manifest at BFG and have an impact on raising the level of operational security at the Fund. In 2012, the Fund concluded work on the business continuity plan, within which off-site contingency workstations were prepared, which would ensure uninterrupted disbursement of guaranteed deposits in the event that the headquarters of the Fund were inaccessible in a crisis scenario.

10.5. Administration

In 2012, besides administering the property and delivering administrative services, work was carried out with the intention of maintaining the BFG premises in a satisfactory state of repair, consisting in renovating the exterior of the building, the heating substation and floors in rooms used to house technical equipment.

In order to improve the operational efficiency of the office, a teleconference system was purchased and installed. Other work included checking the efficiency of the building ventilation and heating systems in order to plan the necessary renovations in this regard in coming years.

11. Selected financial data

11.1. Accounting and financial reporting standards

In accordance with the accounting standards applied by the Fund in 2012, the following methods of asset and liability measurement and determination of income and costs were used:

- Debt securities, remaining securities and other financial assets, i.e. purchased treasury bonds, treasury bills and NBP bills 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 were taken into account. Loan interest accrued was classified as interest income.
- Tangible fixed assets and intangible assets are measured according to their purchase price or the cost of their construction less write-down. 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.
- 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.

11.2. BFG balance sheet

Balance sheet of the Fund as at 31 December 2012 and as at 31 December 2011

ASSETS	31.12.2012	31.12.2011
Cash	554,822.94	287,920.25
Cash in hand	2,543.55	2,928.36
Cash in current accounts	4,816.20	272,908.31
Cash in special guarantee settlement account	1,798.65	1,798.65
Cash in term deposit accounts	530,000.00	0.00
Cash in Company Social Benefits Fund	15,664.54	10,284.93
Receivables from financial institutions	124,578,631.50	131,584,409.20
Receivables from banks due to:	124,578,631.50	131,584,409.20
- loans granted from the Assistance Fund	26,115,037.10	43,518,752.23
- loans granted from the Cooperative Bank Restructuring Fund	98,463,594.40	88,065,656.97
Receivables from the State Treasury	11,221.00	28,563.00
Other receivables and claims	186.73	2,246.23
Securities and other financial assets	9,639,290,258.21	8,324,237,929.53
Debt securities	9,639,090,659.01	8,324,237,929.53
- of banks	398,668,788.05	47,236,400.45
- of the State Treasury	9,240,421,870.96	8,277,001,529.08
Other securities and other financial assets	199,599.20	0.00
Intangible assets	1,203,641.85	1,123,889.61
Tangible fixed assets	59,866,397.75	61,603,258.16
Advances and prepaid expenses	92,290.97	122,949.68
TOTAL ASSETS	9,825,597,450.95	8,518,991,165.66

LIABILITIES	31.12.2012	31.12.2011
Liabilities	1,175,804.87	1,008,817.60
Other liabilities	1,175,804.87	1,008,817.60
Accruals and deferred income	3,555,310.01	3,106,175.43
Provisions	2,861,895.86	2,836,803.45
Assistance Fund	1,637,025,547.68	1,637,025,547.68
Supplementary fund	666,604,353.56	666,604,353.56
Contingency Fund	6,860,415,347.50	5,617,052,352.88
Assistance Fund to be used	6,834,315,347.50	5,573,552,352.88
Assistance Fund used	26,100,000.00	43,500,000.00
Cooperative Bank Restructuring Fund	123,409,688.87	123,409,688.87
Cooperative Bank Restructuring Fund to be used	24,915,636.66	35,334,636.66
Cooperative Bank Restructuring Fund used	98,494,052.21	88,075,052.21
Bankruptcy Estate Recovery Fund	53,923,353.62	53,623,031.52
Special funds and other liabilities	15,664.54	10,284.93
Financial result	476,610,484.44	414,314,109.74
Profit (loss) from previous years	-	-
TOTAL LIABILITIES	9,825,597,450.95	8,518,991,165.66

11.3. The Fund's profit and loss account

The profit and loss account of the Fund for the years ending on 31 December 2012 and 31 December 2011 respectively.

	2012	2011
Income from statutory activity	638,343.39	768,448.44
Interest income	638,201.14	768,335.43
Interest income due to late payment of mandatory annual premium by banks	-	-
Interest income on delayed repayments of loans and interest by banks	142.25	113.01
Profit on statutory activity	638,343.39	768,448.44
Profit on financial operations	503,752,803.83	441,315,785.57
With securities	503,742,093.16	441,308,921.79
Other	10,710.67	6,863.78
The Fund's operating costs	(25,216,374.50)	(26,455,328.41)
General expenses	(3,729,000.92)	(5,139,948.33)
Salaries	(15,586,386.88)	(14,767,461.67)
Social security and pension charges	(1,846,211.04)	(1,623,023.65)
Other	(4,054,775.66)	(4,924,894.76)
Depreciation of fixed assets and intangible assets	(2,792,924.99)	(2,503,528.02)
Release of provisions and decrease in write-down	0.00	573,414.12
Other income	228,648.72	617,582.26
Other costs	(12.01)	(2,264.22)
Financial result from operating activities	476,610,484.44	414,314,109.74
Financial result of the Fund	476,610,484.44	414,314,109.74

12. 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 attached financial information of the Bank Guarantee Fund (hereinafter called "the Fund"), with its registered office at Ks. Ignacego Jana Skorupki 4 Street in Warsaw, which comprise of:

- (a) the balance sheet of the Fund as at 31 December 2012,
- (b) the Fund's profit and loss account for the period from 1 January to 31 December 2012,
- (c) the description of the accounting policies and principles applied in the preparation of the financial statements 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 2012 (the "Financial Statements"). The Financial Statements were prepared in accordance with the Decree of the Minister of Finance dated 19 December 2008 on specific accounting policies of the Bank Guarantee Fund (Journal of Laws of 2008 No. 236, item 1631, hereinafter called "the Regulation") and the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223 with further amendments).

We have audited the Financial Statements of the Fund, from which the 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 Auditing issued by the National Chamber of Registered Auditors. On 13 March 2013 we issued an unqualified audit opinion on these Financial Statements. The Financial Statements of the Fund, as well as the financial information do not reflect the effects of events that occurred after the date of issue of the above 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 2012, the results of its operations for the period from 1 January to 31 December 2012 and the scope of our audit, the financial information should be read in conjunction with the Financial Statements from which it was derived and our opinion and audit report thereon.

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The Management Board's responsibility for the financial information of the Fund

The Management Board is responsible for preparing the financial information of the Fund.

Registered auditor's responsibility

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

Opinion

In our opinion, the accompanying financial information of the Fund is consistent, in all material respects, with the Financial Statements of the Fund for the period from 1 January to 31 December 2012, which were the basis of its preparation.

Preparing the opinion and conducting the audit of the Financial Statement 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, 29 November 2013