

# The Bank Guarantee Fund's operations (1995–2001)

## 1. DEPOSIT GUARANTEES

The basic task of the Bank Guarantee Fund is guaranteeing deposits. The deposit guarantee system is the basis for the safe functioning of the entire banking sector. Protection of money deposited with banks gives the public a sense of security and safety. There has been no bank panic caused by rumour of the insolvency of a specific bank since the creation of the Bank Guarantee Fund.

### 1.1. Scope of Guarantees

Pursuant to the Act on the Bank Guarantee Fund, the deposits of the following entities are subject to protection:

- Private individuals;
- Corporate entities; and
- Organizations that do not have corporate entity status if they are empowered to make legal transactions.

In the case of joint accounts, the rights to the guarantee amount rest with all the account co-owners.

Protection is not provided for the deposits of banks and other financial entities, the State Treasury, shareholders with a stake entitling them to execute over 5 percent of the votes at the general assembly of shareholders, and the bank management (members of the council, executive board, and department and branch directors and deputy directors).

In the event of the collapse of a bank, duly entitled depositors are refunded the guarantee amount. The upper limit of the guarantee amount is defined as the PLN equivalent of an EUR figure. This also encompasses interest due as of the date of the announcement by the court of the bankruptcy of the bank. Bank obligations with respect to one depositor are summed.

Initially, the guarantee amount was the equivalent of ECU 3,000, after which it was systematically increased. As of January 1, 2001, it increased to EUR 15,000 and will reach a level of EUR 22,500 in the year 2003 (Table No. 1). Since most of the countries belonging to the European Union have guarantee amounts in excess of EUR 20,000, which is treated as a minimum figure, it will become necessary to increase the guarantee amount in the future in Poland as well.

Table No. 1: Guarantee amount levels

Amount guaranteed up to:	Limit in EUR	PLN equivalent at the exchange rate for the end of the period	Maximum disbursement in PLN
06/30/1997	3,000	10,985	10,253
12/31/1997	4,000	15,707	14,529
12/31/1998	5,000	20,490	18,851
12/31/1999	8,000	33,760	30,806
12/31/2000	11,000	* 44,858	* 40,780
12/31/2001	15,000		
12/31/2002	18,000		
successive	22,500		

\* At the exchange rate for February 11, 2000, which is the date on which the court announced the bankruptcy of the Bank Staropolski SA.

Guarantee funds are disbursed in PLN in line with the average National Bank of Poland EUR rate for the date of the announcement by the court of the bankruptcy of the bank, where:

- Up to EUR 1,000 – 100%; and
- Over EUR 1,000 – 90%.

## 1.2. Financial Resources: The Guaranteed Deposit Protection Fund

In order to conduct its guarantee services, the Fund has at its disposal money accumulated in the form of a guaranteed deposit protection fund. That fund is created by every bank participating in the guarantee system. It is accumulated in the form of securities issued by the Treasury or the National Bank of Poland. The Council of the Bank Guarantee Fund sets an annual percentage rate for the creation of the guaranteed deposit protection fund. Funds for successive years are created on the basis of deposit levels in October of the previous year, then updated on the basis of the level of deposits in April of the pertinent year.

The maximum percentage rate according to which the banks create their guaranteed deposit protection funds amounts to 0.4% of accumulated deposits. During its activities to date, the Fund was forced to establish the rate at its maximum level three times (Table No. 2). Over the years 1997–1999, when the economic situation of the banking sector was better than in previous years, the percentage rate was significantly lower and therefore the guaranteed deposit protection fund created by banks was at a lower level.

Table No. 2. Guaranteed deposit protection funds (GDPF) over the years 1995–2001

Year	GDPF rate [%]		GDPF levels in PLN million
	Other banks	PKO BP, Pekao SA, and BGŻ SA	
1995	0.40	* 0.20	225.7
1996	0.40	0.20	317.1
1997	0.18	0.12	198.8
1998	0.10	0.05	128.3
1999	0.16	0.08	271.6
2000	0.40	0.40	999.5
2001	0.30	0.30	825.0

\* In 1995 the lowered rate also encompassed cooperative banks.

In the case of the collapse of a bank, the Bank Guarantee Fund approaches the banks to have them transfer the money in proportion to their levels of guaranteed deposit protection funds.

An additional source from which disbursement of guaranteed resources has been made is the resources acquired out of the estate in bankruptcy of the banks. Over the years 1995–2001, the Fund has received PLN 25.9 million, of which PLN 5.2 million were used for guarantee payments.

In the event that the guaranteed deposit protection funds and all money accumulated by the Bank Guarantee Fund prove to be insufficient with respect to obligations stemming from guaranteed deposit disbursements, financial support is possible by way of credit drawn on the National Bank of Poland. No such need has occurred to date.

Securities serving as the basis for the guaranteed deposit protection fund bring the banks interest income until the moment that they are converted into cash and transferred to the Bank Guarantee Fund in order to disburse the guaranteed deposits.

### 1.3. Guarantee Activities Over the Years 1995–2001

Over the years of Bank Guarantee Fund's operations, there were 93 bank failures, of which 5 concerning commercial banks and 88 cooperatives banks (Table No. 3).

Table No. 3. Bank bankruptcies over the years 1995–2001

Year	Bankruptcies of commercial banks	Bankruptcies of cooperative banks
1995	* 3	* 57
1996	1	30
1997	0	6
1998	0	4
1999	1	0
2000	1	0
2001	0	0
Total	6	97

\* Including 2 commercial banks and 48 cooperative banks during the period when the Act on the Bank Guarantee Fund was already in force.

Disbursements of guaranteed funds to duly entitled depositors of whom there was a total of 307.3 thousand over the years 1995–2001 and where the disbursements amounted to a total of PLN 798.9 million, of which the guaranteed deposit protection funds covered PLN 626.0 million, i.e. 78.4% of total disbursements (Table No. 4). The remaining 21.6%, i.e. PLN 172.9 million, came from the liquid assets of the bankrupt banks as well as resources reclaimed from the estates in bankruptcy.

Table No. 4. Disbursement of guaranteed resources over the years 1995–2000

Year	Disbursement of guaranteed funds in PLN million		Level of GDPF utilization in %	Number of depositors in thousands
	Total	Including the GDPF		
1995	103.7	85.8	38.0	88.7
1996	50.8	47.3	14.9	59.4
1997	6.4	4.7	2.4	10.4
1998	8.2	4.1	3.2	6.8
1999	4.7	0.0	0.0	1.6
2000	625.1	484.1	48.4	140.4
Total	798.9	626.0	29.2	307.3

Disbursements of most of the guarantee obligations of the Bank Guarantee Fund in 1998 and all obligations in the year 1999 were covered out of funds reclaimed by the Fund out of the estates in bankruptcy of the banks and did not encumber the banking sector.

## 2. ASSISTANCE OPERATIONS

Assistance activities are based on the granting of repayable financial assistance to banks if they are faced with the threat of insolvency and (recently) on buying the receivables of banks in danger of insolvency. Loans are granted in two cases:

- Directly to the threatened banks for independent restructuring; and
- To banks in good financial condition that intend to acquire a threatened bank and conduct its restructuring.

### 2.1. Principles of Granting Assistance to Banks

The Funds assistance operations are based on the following guidelines:

- Abiding by the principle of bank equality in access to assistance funds and in the transparency of criteria and procedures for granting aid;
- Quick placement of aid resources at the disposal of banks in order to minimize losses;
- Support for mergers through the granting of assistance in the acquisition by strong banks of banks threatened with insolvency;
- Mobilizing applicants to seek additional sources of financial support (outside the Bank Guarantee Fund) in order to implement restructuring programs;
- Involvement of bank owners to provide financial support for the restructuring process;
- Striving to guarantee high economic efficiency of financial assistance through the defining of conditions aimed at rapid recovery of solvency by banks in the loan agreements; and
- The synchronization of aid that may be provided by the Bank Guarantee Fund with simultaneous support on the part of the National Bank of Poland (e.g. in the form of decreased burdens in the realm of obligatory provisions), the Ministry of Finance (e.g. in the form of deferred income tax payments), and banks associating cooperative banks that may participate in providing financial assistance utilizing aid and solidarity funds or non-financial assistance (e.g. organizational or legal).

Pursuant to the Act on the Bank Guarantee Fund, prerequisite to the granting of financial assistance by the Fund are:

- Submission of the results of an audit of the financial report of the activities of the bank applying for assistance, while in the case of a request for assistance in an acquisition, the results of an audit of the financial reports of the bank making the acquisition and the one being taken over;
- A positive opinion issued by the Banking Supervisory Commission regarding the restructuring procedures program, while in the case of a merger, a positive opinion regarding the purposefulness of such action;

- Proof that the level of a requested loan, guarantee, or surety is not greater than the total maximum figure derived from guarantees on the sum of guaranteed funds on the accounts of bank depositors, while in the case of a request for financial assistance facilitating a merger with another bank that the figure is not greater than the sum of guaranteed funds on the accounts of depositors of the bank being taken over; and
- Utilization of the bank's own funds in order to cover the losses of the bank applying for assistance or being taken over.

Pursuant to the Act on the Bank Guarantee Fund, the loan amount cannot exceed the sum of guaranteed funds in the endangered bank.

Decisions to grant aid are preceded by all-encompassing analyses of the restructuring programs as well as an assessment of the feasibility of assumptions, the execution of which guarantees the restructuring of the bank.

Primarily, the Bank Guarantee Fund grants banks access to financial assistance in the form of loans provided on terms that are better than those on the market. Over the years 1998–1999, the interest rate on loans for commercial banks amounted from 0.4 to 0.8, while for cooperative banks from 0.2 to 0.4 of the bill of exchange rediscount rate as defined by the Monetary Policy Council.<sup>1</sup> The commission for commercial banks was equal of 0.3%, while for cooperative banks it was 0.1% of the loan amount. The maximum period of use of the loan amounted to 10 years with a grace period no greater than half of the period of loan utilization. The loan was disbursed at one time or in tranches.

## 2.2. Financial Resources: The Assistance Fund

The Bank Guarantee Fund grants banks financial assistance out of resources accumulated within the framework of an assistance fund. The assistance fund for the given calendar year is created annually out of obligatory payments made by banks calculated from a base that:

- Over the years 1995–1997, consisted of the risk-weighted assets, guarantees, and sureties in line with a uniform contribution rate (a maximum rate of 0.4%); and
- As of 1998, consisted of the risk-weighted assets, guarantees, and sureties in line with a uniform contribution rate (a maximum rate of 0.4%) and off-balance sheet liabilities decreased by guarantees, sureties, and other pledged credit at a rate 50% lower (i.e. a maximum rate of 0.2%).

The base consists of the above specified values as of December 31 of the previous year. As is the case in defining the guaranteed deposit protection fund level, the percentage rate for obligatory annual fees is determined by the Bank Guarantee Fund Council.

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<sup>1</sup> In practice, BFG applies the lowest interest rates.

The assistance fund is amassed in the Bank Guarantee Fund. Banks are obligated to transfer the obligatory annual fee at the beginning of the calendar year (pursuant to the Act on the Bank Guarantee Fund, the deadline is defined by the Fund Council, but may not be later than March 31). Starting with 1998, a part of the payments to the assistance fund have been made by the National Bank of Poland. In 1998 its share amounted to 30%, in 1999 and 2000 it increased to 40%, while in 2001 it reached 50%. The portion of the assistance fund not utilized in the given year stays with the Bank Guarantee Fund for use in succeeding years. The fund is additionally supplied by repaid bank loans. As the economic situation of the banking sector stabilizes and the scale of threat of bankruptcy of banks declines, it will become possible to finance assistance operations out of resources held by the Bank Guarantee Fund. This will have a significant impact on a reduction in encumbrances on banks in performance of the legislative tasks of the Fund.

Table No. 5. The assistance fund as created over the years 1995–2001

Year	Annual fee rates in %		Bank payments	National Bank of Poland payments	Total
	Other banks	PKO BP, Pekao SA, and BGŻ SA	(1)	(2)	(1) + (2)
in PLN million					
1995	0.40	* 0.20	173.8	0.0	173.8
1996	0.40	0.20	230.0	0.0	230.0
1997	0.40	0.20	261.2	0.0	261.2
1998	0.28	0.14	209.2	89.8	299.0
1999	0.24	0.12	203.2	135.5	338.7
2000	0.23	0.23	258,5	172.4	430,9
2001	0.14	0.14	159.1	159.0	318.1
Total			1,495.0	556.7	2,051.7

\* The lowered rate encompassed cooperative banks in 1995.

Over the years 1995–1997, banks made the obligatory annual payment in line with the maximum percentage rate. Over succeeding years, it was smaller (Table No. 5). All in all, over the 1995–2001 period, the Bank Guarantee Fund accumulated PLN 2,051.7 million in resources for its financial assistance operations.

### 2.3. Loans Granted to Banks Over the Years 1995–2001

The first loan out of the assistance fund was granted in 1995 (disbursement occurred at the start of 1996). As of then, a total of 73 loans were granted for a total of PLN 1,816.5 million, which is 88.5% of the sum accumulated till the year 2001 (Table No. 6).

Table No. 6. Utilization of the assistance fund over the years 1995–2001

Year	Created assistance fund	Loans for banks
	in PLN million	
1995	173.8	0.0
1996	230.0	129.2
1997	261.2	343.7
1998	299.0	219.1
1999	338.7	284.1
2000	430,9	205.4
2001	318.1	* 635.0
Total	2,051.7	1,816.5

\* Amount granted.

Beneficiaries of the loans may be subdivided in line with two criteria (Table No. 7):

- By entity type: 49 loans were received by cooperative banks, while the remaining 24 were granted to commercial banks; and
- By objective: 34 loans were granted for the independent restructuring of banks, while 39 were granted to economically strong banks for the acquisition of banks threatened with insolvency.

Table No. 7. Loans granted to banks over the years 1996–2000.

Debtor and loan objective	Number of loans	Amount in PLN million
Independent restructuring		
— cooperative banks	27	151.0
— commercial banks	7	985.0
subtotal	34	1.136.0
Bank acquisitions / mergers by:		
— cooperative banks	22	54.5
— commercial banks taking over:		
• cooperative banks	11	86.1
• commercial banks	6	539.9
subtotal	39	645.5
Total	73	1,816.5

## 2.4. The Effects of Assistance Activities

The assistance operations of the Bank Guarantee Fund are complementary with respect to the guaranteeing of deposits because their direct outcome is a restriction on the scale of bank

bankruptcies. It is thanks to such operation that total deposits of a value exceeding the loan amount by a factor of over 9.6 were saved (Table No. 8).

Table No. 8. Effects of assistance operations over the years 1996–2000

Year	Loan amount (1) in PLN million	Guaranteed deposits (2) in PLN million	Ratio of (2) to (1)	“Rescued” bank outlets	“Rescued” job positions in thousands
1996	129.2	162.3	1.3	70	1.4
1997	343.7	1,297.2	3.8	157	3.8
1998	219.1	8,228.8	37.6	186	10.1
1999	284.1	1,343.8	4.7	88	3.5
2000	205.4	305.1	1.4	22	0.4
Total	1,181.5	11,337.2	9.6	523	19.2

In addition to the above, many job positions were saved (19.2 thousand) and many banks and their branch offices — often sited in localities where the bank restructured thanks to the help of Bank Guarantee Fund funds is the only provider of banking services — did not go out of business (523 outlets).

## 2.5. Monitoring and Control Over Assistance Use

The Bank Guarantee Fund monitors the proper utilization of loans granted to banks as well as the implementation of their restructuring programs. Such monitoring is conducted on the basis of monthly reports submitted by the banks as well as quarterly reports on performance of the assistance utilization plan. The reported data are analyzed from the point of view of levels assumed in the restructuring procedure programs.

Quarterly direct inspection plans are developed pursuant to the results of analyses of bank situations, and ad hoc monitoring is conducted in the banks benefiting from the Fund’s assistance.

In all cases, the scope of direct control encompasses assessments of:

- The propriety of use and safety as well as the efficiency of involved resources procured within the framework of a loan;
- The level of loan utilization plan performance as well as of the restructuring procedure program;
- The economic and financial situation of the banks that received loans for the acquisition of other banks; and
- Performance of additional conditions as defined in the provisions of the loan agreement.

Inspections have not discovered the utilization of financial assistance in a manner of violation of the provisions of loan agreements nor any direct threat to the repayment of those loans or of interest payments in any bank.

### 3. ANALYTIC-RESEARCH AND INFORMATION ACTIVITIES

The establishing of the level of financial resources necessary for the Bank Guarantee Fund to fulfill its deposit guarantee functions as well as to grant assistance necessitates information regarding the state of the economy and its development tendencies, especially with respect to the banking sector and individual banks. The primary source of information consists of bank reports that are subjected to detailed analysis in order to properly define percentage rates for the creation by banks of guaranteed deposit protection funds and the annual obligatory fees. This analysis of information is served by an analytic-prognostication system, including the early warning system regarding any worsening in the situation of banks developed and implemented by the Fund.

The Fund receives the bank reports from the National Bank of Poland pursuant to the Act on the Bank Guarantee Fund as well as an agreement concluded with the National Bank of Poland on May 27, 1997. Banks that benefit from the financial assistance of the Fund submit their financial reports directly to the Bank Guarantee Fund (independently of information forwarded by the National Bank of Poland).

An additional source encompasses information provided by the banks directly to the Bank Guarantee Fund pursuant to the Enactment of the President of the National Bank of Poland of December 30, 1997 regarding the preparing by banks of information to meet the needs of the Bank Guarantee Fund. In addition to this, the Fund receives information from the National Bank of Poland regarding the situation of the banking sector (including the assessment of the situation of the commercial and cooperative banking sectors as prepared quarterly by the General Inspectorate for Banking Supervision) and data provided by banks associating cooperative banks.

It is within the framework of analytic work that the Fund undertakes monthly assessments of the situation of the banking sector, separately for the commercial and cooperative banks. Both the overall situation and tendencies for change are subject to appraisal; the same is true of the situation of individual banks. Banks whose solvency is or may be threatened in the future are subjected to detailed observation.

A comprehensive analysis serving as the basis for defining by the Bank Guarantee Fund Council of the rate to be applied in creating guaranteed deposit protection funds and obligatory annual payments for the following year by banks is prepared at the close of every year. The size and structure of deposits as well as the size and structure of risk-weighted

balance sheet assets and off-balance sheet liabilities are specifically examined. Moreover, in addition to the projected development situation of the banking sector, the impact of fees on the banks' financial results is taken into account in defining those fees.

#### 4. BANK GUARANTEE FUND BODIES

The legislatively established bodies of the Bank Guarantee Fund are the Council and the Executive Board. The Council is appointed for a 4-year term. Its chairman is appointed by the President of the Council of Ministers on the basis of a joint recommendation submitted by the Minister of Finance and the President of the National Bank of Poland. The Minister of Finance and the President of the National Bank of Poland, and the Association of Polish Banks appoint three members each.<sup>2</sup>

The first Bank Guarantee Fund Council was in office up to April 7, 1999 and was made up of:

	Appointing institution
Władysław Baka	(Chairman)
Katarzyna Borowski	Ministry of Finance
Tomasz Dybowski	National Bank of Poland
(Marek Safjan up to November 30, 1997)	
Krystyna Góral	Association of Polish Banks
Marek Grzybowski	National Bank of Poland
Władysław Jaworski	Ministry of Finance
Stanisław Kasiewicz	Ministry of Finance
Barbara Kowalska	National Bank of Poland
Jan Szambelańczyk	Association of Polish Banks
Tadeusz Żywczak	Association of Polish Banks

Currently, the Bank Guarantee Fund Council is made up of:

	Appointing institution
Marek Grzybowski	(Chairman)
Tomasz Dybowski	National Bank of Poland
Stanisław Kasiewicz	Ministry of Finance
Barbara Kowalska	National Bank of Poland
Wojciech Kwaśniak	National Bank of Poland
(since January 1, 2001)	
Przemysław Morysiak	Ministry of Finance
Krzysztof Pietraszkiewicz	Association of Polish Banks

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<sup>2</sup> Since January 1, 2001, the National Bank of Poland appoints four Council's members.

Jan Szambelańczyk	Association of Polish Banks
Ewa Śleszyńska–Charewicz	National Bank of Poland
Andrzej Wiśniewski	Ministry of Finance
Tadeusz Żywczak	Association of Polish Banks

The Council appoints the Executive Board, whose term in office is three years. The first Executive Board was appointed on April 19, 1995. The currently managing Executive Board was appointed in 2001.

Makeup of the Executive Board during the first term in office (1995–1998):

Ewa Kawecka–Włodarczak	President of the Executive Board responsible for information–analytical and organizational activities, as well as personnel, and in–house monitoring
Hanna Krajewska	Vice–President of the Executive Board responsible for the financial sphere
Maria Pawelska	Member of the Executive Board responsible for guarantee activities
Bożena Chełmińska	Member of the Executive Board responsible for assistance operations
Andrzej Jankowski	Member of the Executive Board responsible for the legal sphere

Makeup of the Executive Board during the second term in office (1998–2001):

Ewa Kawecka–Włodarczak	President of the Executive Board responsible for information–analytical activities, as well as personnel policy and in–house monitoring
Hanna Krajewska	Vice–President of the Executive Board responsible for the financial and organizational sphere
Louis Montmory	Member of the Executive Board responsible for guarantee activities and supervision
Maria Pawelska	Member of the Executive Board responsible for assistance operations
Andrzej Jankowski	Member of the Executive Board responsible for the legal sphere

Makeup of the Executive Board during the third term in office (2001–2004):

Ewa Kawecka–Włodarczak	President of the Executive Board responsible for information–analytical activities, as well as personnel policy and in–house monitoring
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Hanna Krajewska	Vice-President of the Executive Board responsible for the financial and organizational sphere
Maria Pawelska	Member of the Executive Board responsible for assistance operations
Andrzej Jankowski	Member of the Executive Board responsible for guarantee
Marek Pyła	Member of the Executive Board responsible for supervision

Warsaw, April 20, 2001