

ANNUAL REPORT

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BFG

Bankowy Fundusz Gwarancyjny

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Władysław Baka, Prof. Ph.D.
Chairman of the Council

INTRODUCTORY WORD

Ladies and Gentlemen,

We are presenting to you the Annual Report of the Bank Guarantee Fund for the year 2003. We hope that this presentation will allow you to get better acquainted with the Fund activity and will also illustrate the favourable evolution of the entire banking system during the last 9 years, that is during the period of Fund activity.

This was another year in which no bank bankruptcy had been noted. However, we continued lending financial assistance to banks threatened with insolvency. A characteristic feature of this assistance in 2003 was the fact that for the first time 12 major commercial banks signed a suitable agreement and upon obtaining financial support from the Bank Guarantee Fund (BGF), purchased the shares of the bank being saved. Total financial assistance, in the form of repayable loans, was granted to 14 banks in the aggregate sum of 159 million EURO. This saved deposits valued 185 million EURO, including 159.4 million EURO guaranteed deposits. One should emphasize here that financial assistance granted to banks, beside the economic aspect, also has its social dimension. Further functioning of reformed banks allows the operation of bank branches, thereby maintaining places of employment. In the situation of high unemployment this is particularly important, especially in small localities, where often a given bank branch is the only offerer of financial services. In 2003 assistance lent by the Fund saved 62 branches from being liquidated and over 1200 workplaces.

Since 2001 the Fund has been offering financial assistance to co-operative banks by virtue of regulations of the Act of 7th December, 2000, on the functioning of co-operative banks, their association and associating banks. This assistance, in the form of repayable loans from the co-operative bank restructuring fund, supports the financing of merger processes of these banks and purchasing of shares of associating banks. In 2003, 39 banks took advantage of such loans, receiving financial means in the sum of 8,402 thousand EURO. During 3 years, this type of aid with a total value of 30,399 thousand EURO was given to 108 co-operative banks.

This was also a period of continuation of conceptual works in the Fund preparing new forms of assistance to banks and modifying legal solutions that regulate the BGF operating principles.

As in previous years, we continued our co-operation with foreign deposit guarantee institutions. We had meetings and seminars with representatives of guarantee funds from Bulgaria and the Ukraine. In the European Forum of Deposit Insurers, which associates European guarantee institutions, a BGF representative performed the function of Vice-President.

In conformity with statutory obligations, we took up various actions aimed at improving the state of knowledge among bank customers on the deposit insurance system in Poland. Moreover, special surveys were conducted by "PENTOR" Public Opinion Poll Institute on the knowledge of deposit insurance principles among bank customers and workers. It turned out that progress in the process of knowledge improvement in this area is rather slow.

Success of Fund activity greatly depends on close and friendly co-operation with the National Polish Bank (Narodowy Bank Polski), Ministry of Finance, Association of Polish Banks (Związek Banków Polskich). Conditions of this co-operation have been determined by law, among other things, by the principle of direct participation of representatives of these institutions in works of the Fund Council. In practice, this means, that they have considerable influence on the everyday functioning of BGF and continuously monitor its activity.

We would like to address special words of thanks to all banks operating in Poland and numerous institutions, with which the Fund co-operates on a daily basis. This co-operation enables the effective fulfilment of the Fund mission, which consists in providing safety of deposits in all banks and strengthening public trust in the Polish banking system.

Chairman of the Council
Władysław Baka



Ewa Kawecka-Włodarczak
Chairman of the Management Board

REPORT OF THE MANAGEMENT BOARD

The mission of the Bank Guarantee Fund consists in activity aimed at providing security and stability to the banking system in Poland and protecting deposits accumulated in banks.

The Bank Guarantee Fund is fulfilling its mission, understood in the foregoing way, by virtue of the Act on the Bank Guarantee Fund dated 14th December, 1994, which follows the recommendations resulting from the directive of the European Parliament and European Community Council (94/19/EC of 30.05.1994), pertaining to the bank deposit insurance system. In the Polish banking system BGF plays the role of guarantor of bank deposits. The Fund also offers financial support to banks threatened by insolvency and provides assistance in the financing of merger processes of co-operative banks. Thus determined Fund tasks have important historical justification, resulting from the structure and needs of banks operating in Poland.

Therefore, the essence of Fund activity is first of all to secure the financial funds accumulated in banks by depositors and prevent the bankruptcy of banks by supporting their restructuring and reforming processes. These strategic tasks are fulfilled in two basic forms:

1. guaranteeing to depositors the return of a legally determined deposit amount – in case of bank bankruptcy;
2. financial support of reforming processes implemented by banks in need of assistance or those banks which have taken up the task of reforming threatened banks, by incorporating them in their organization structures or which have become strategic investors.

GUARANTEE ACTIVITY

Functioning principles of deposit insurance system

The deposit insurance system, which according to uniform principles covers all banks operating in Poland*, forms one of the main elements of safe functioning of the whole banking sector in Poland. Guarantee by the Fund of financial means deposited in banks gives the public a feeling safety and trust, not only with regard to the banking sector.

Guarantee range and amount

In conformity with the Act on the Bank Guarantee Fund, subject to protection are the deposits and receivables resulting from other bank transactions, of the following subjects:

- natural persons,
- legal persons,
- organization units without legal personality, provided they have legal capacity,
- school savings banks and workers' benefit and mutual loan societies.

In case of joint accounts, each of the owners of the account, is entitled to the guaranteed sum.

The following deposits are not secured:

- State Treasury,
- financial institutions such as banks, brokerage houses, pension funds, investment funds, subjects rendering insurance services,
- subjects, who are not authorized to draw up simplified balance sheets and profit and loss accounts,
- bank managerial staff and its major shareholders (holding at least 5% of the bank shares).

In case of bankruptcy of a bank being declared by a court, the entitled persons receive the guaranteed sum. Its upper limit is determined as the zloty equivalent of a given sum in EURO. This sum also includes the interest accrued until the day when bankruptcy of the bank was declared. All the depositor's claims towards the bank are summed up and then set-off against his obligations towards the bank.

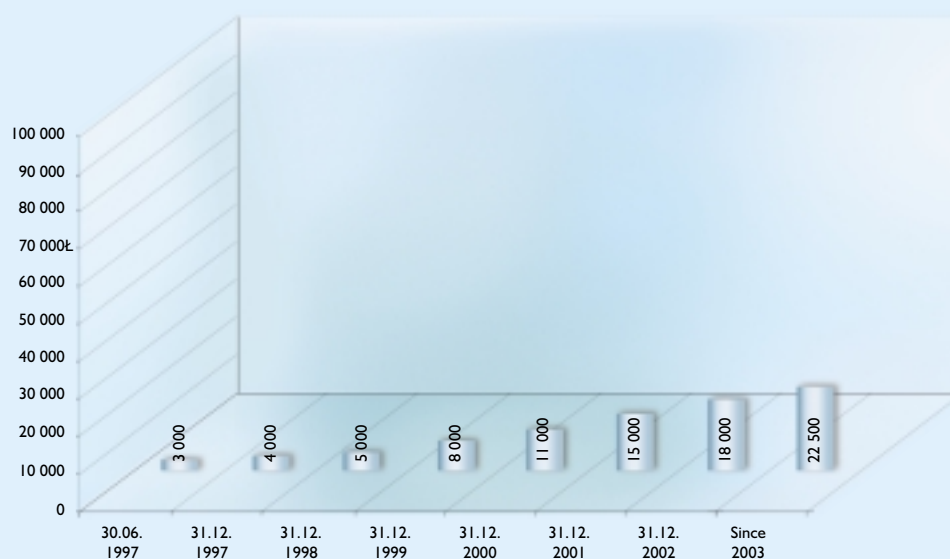
Guaranteed funds are paid in zlotys according to the average rate of exchange, published by the National Polish Bank (NBP) on the day the court declares bankruptcy of the bank, whereas:

- 100% is paid in zloty for the equivalent under 1000 EURO,
- 90% is paid in zloty for the equivalent of over 1000 EURO up to 22,500 EURO.

During the first two years of BGF functioning (from 1995 till June 1997) the insured sum amounted to the equivalent of 3000 ECU, whereupon it was systematically increased. Since 2003, pursuant to the Act on the Bank Guarantee Fund, in force is the equivalent in zloty of 22,500 EURO, that is the required amount operative in countries of the European Community.

* With the exception of Societe Generale S.A. Branch in Poland – since 2004.

Guaranteed amounts (in EURO)



Guaranteed means protection fund

BGF can conduct its guarantee activity owing to the fact that the Fund can dispose of financial means accumulated by banks in the form of guaranteed means protection funds (gmpf).

This fund is established by banks participating in the guarantee system. Its amount is determined by product of the total accumulated deposits and percentage rate established annually by the Fund Council (maximum 4%).

It is worth noting that financial means corresponding with the established fund, remain in the banks in the form of treasury bonds or NBP money bonds and give them income from interest until the moment of converting them to pecuniary means. This happens when the bank goes bankrupt and BGF turns to banks to transfer pecuniary means for the payment of guaranteed deposits.

Guaranteed means protection funds (gmpf) in the years 1995-2003

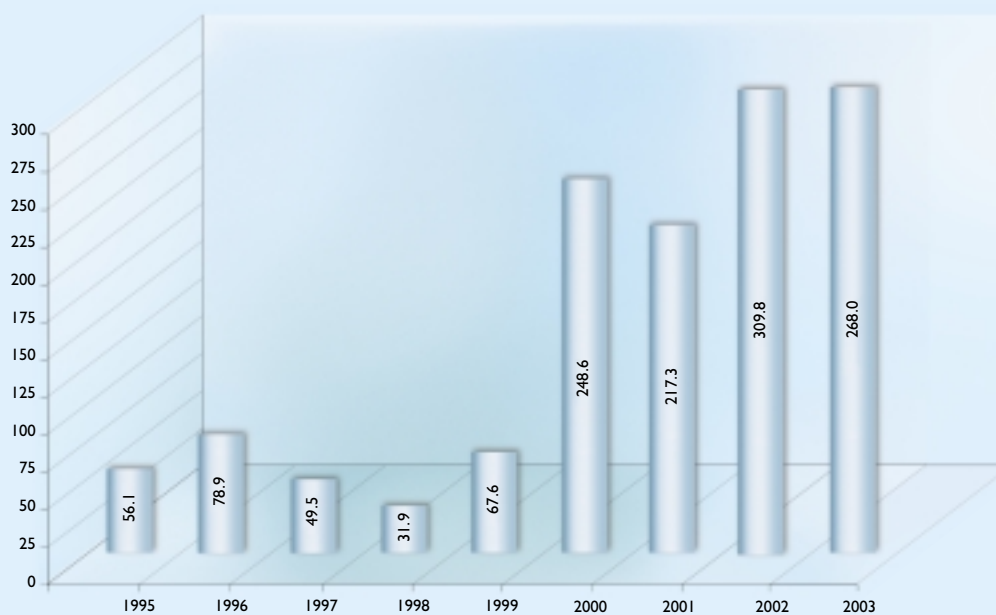
Year	Establishment rate of gmpf	
	All banks (with the exception of PKO bp, Pekao SA and BGŻ SA)	PKO bp ¹ , Pekao SA and BGŻ SA ²
	in %	
1995	0.40	0.20 *
1996	0.40	0.20
1997	0.18	0.09
1998	0.10	0.05
1999	0.16	0.08
2000	0.40	0.40
2001	0.30	0.30
2002	0.40	0.40
2003	0.40	0.40

¹ Since 12th April, 2000, as PKO BP SA.

² Pursuant to the Act of Bank Guarantee Fund the forenamed banks established till 31.12.1999 a gmpf according to half the rate.

* In 1995 the reduced rater also included co-operative banks.

Value of gmpf (in million EURO)



Means recovered from bankruptcy estates and their settlement

In 2003 the Bank Guarantee Fund recovered the sum of 3,064.8 thousand EURO from claims submitted to bankruptcy estates of banks. These receivables resulted from pecuniary means transferred to official receivers during previous years for payment to depositors. The recovered means are exclusively assigned to the financing of consecutive guaranteed sums payments. To date the sum of 2,797.3 thousand EURO was assigned to this purpose. In total, during the years 1995-2003 the Fund received the sum of 2,100.6 thousand EURO from bankruptcy estates of banks, which is 9.1% of payments made to depositors within the framework of deposit insurance system.

New regulations of the law involved with deposit guarantee

On 1st October, 2003, the Act on *Bankruptcy and Repair Law*, regulating among other things, bankruptcy proceedings in relation to banks and changing the Act on the Bank Guarantee Fund came into effect. It introduced the principle that bank bankruptcy would be declared first of all with the possibility of making an arrangement. Furthermore, a new organ – the receiver in bankruptcy, is to participate in bankruptcy proceedings.

Guarantee activity in 2003

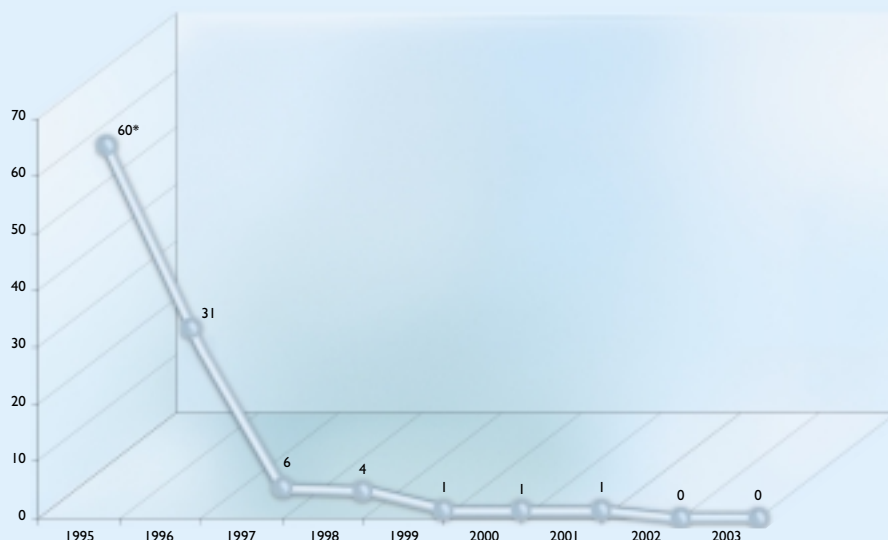
In 2003, as in the year 2002, no bankruptcy of any bank had been noted. Payment of guaranteed means were only effected to persons, who had acquired depositors' rights in result of inheritance proceedings or who failed to collect the means due to them during payment periods effected by general receivers of banks, bankruptcy of which had been declared during previous years.

As on 31st December, 2003, total liabilities of the Fund for uncollected by 3,887 depositors of guarantee sums due and payable to them, amounted to 594.6 thousand EURO. The average account payable amounted to 153.0 EURO.

Guarantee activity during the years 1995-2003

During the functioning of the Bank Guarantee Fund 94 banks were declared bankrupt, including 5 commercial banks and 89 co-operative banks.

Bankruptcies of banks during the years 1995-2003



* Including 2 commercial banks and 48 co-operative banks during validity of the Act on the BGF.

During the years 1995-2003 payments of guaranteed means to 317.4 thousand entitled depositors amounted to 172.1 million EURO, including the gmpf – 132.8 million EURO, i.e. 77.2% of the total payments. The remaining 22.8% i.e. 39.3 million EURO came from liquid assets of the bankrupt banks and means recovered from bankruptcy estates.

Payment of guaranteed means during the years 1995-2003

Year	Payment of guaranteed means in millions of EURO		Rate of usage of gmpf in %	Number of depositors in thousands
	Total	Including gmpf		
1995	25.8	21.3	38.0	88.7
1996	12.6	11.8	14.9	59.4
1997	1.6	1.2	2.4	10.4
1998	2.0	1.0	3.2	6.8
1999	1.2	0.0	0.0	1.6
2000	155.5	120.4	48.4	147.7
2001	3.0	0.0	0.0	2.5
2002	0.520	0.0	0.0	0.275
2003	0.014	0.0	0.0	0.027

Limitation of claims by lapse of time

After the elapse of 5 years from the date of fulfilling the guarantee condition, i.e. date of declaring bankruptcy of the bank, the depositors' claims are barred by the statute of limitations. In 2003 this referred to 1,461 customers of 4 bankrupt banks in the total sum of 2.6 thousand EURO. The average time-barred claim amounted to 1.8 EURO.

SYSTEM OF ASSISTANCE TO THREATENED BANKS

Aims and principles of assistance activity

The main objective of assistance activity of the Bank Guarantee Fund is to prevent banks threatened by insolvency from going bankrupt. However, this assistance also has more extensive, positive consequences. Preventing the bankruptcy of banks with the help of the Fund's financial assistance, also increases trust to the entire banking sector. This is caused by the fact that individual subjects come out of the critical situations and become economically stronger.

In its assistance activity the Fund applies the following principles:

- supporting consolidation and restructuring processes by offering help in taking over banks that have been threatened by insolvency by banks with strong capital or new shareholders;
- ensuring economically high effectiveness of assistance, among other things, by specifying in the loan agreements such conditions that will allow the banks to recover permanent solvency. This applies in particular to: rationalizing operating costs, reinvesting income derived in connection with receiving and using aid in safe and at the same time profitable financial instruments, assigning the whole of the balance surplus to increasing own funds;
- mobilizing applicants to search for additional sources of financial support, beside the assistance obtained from BGF, in order to implement the repair proceedings programmes, in particular support on the part of bank shareholders;
- equal treatment of banks in their access to assistance means;
- possibly quick placing of assistance means at the disposal of banks that fulfil the criteria of being granted assistance.

Decisions on granting assistance are preceded by an analysis of repair programmes and the assessment of feasibility of accepted assumptions, the putting in practice of which will guarantee to sanify the banks.

The Bank Guarantee Fund mainly gives access to assistance means in the form of repayable loans, offered on more favourable than market conditions. This basically refers to the commission rate and payment period.

Assistance fund

The Bank Guarantee Fund grants financial assistance to banks from means accumulated in the assistance fund. This fund is established for a given calendar year from annual obligatory bank charges, calculated on the base, which is formed by:

- during the years 1995-1997: risk weighed assets as well as guarantees and securities according to a uniform percentage rate (maximum 0.4%);
- since 1998: risk weighed assets as well as guarantees and securities according to a uniform percentage rate (maximum 0.4%) and non-balance sheet liabilities minus the guarantees, securities and credit facilities promised according to a 50% lower rate (i.e. a maximum of 0.2%).

The base for calculating the charges are the foregoing items of balance sheet and non-balance sheet assets as on 31st December of the preceding year. The percentage rate of the binding annual fee is determined by the BGF Council – as in the case of the guaranteed means protection fund.

The assistance fund is accumulated in the Bank Guarantee Fund. Banks are obliged to transfer an obligatory annual fee at the beginning of the calendar year (pursuant to the BGF Act the date is established by the Fund Council and cannot exceed 31st March). Starting from 1998, the National Polish Bank has had its share in establishing the assistance fund. In 1998 this share amounted to 30%, during the years 1999-2000 it was increased to 40%, and since 2001 it amounts to 50%. The unused part of the assistance fund remains in the Bank Guarantee Fund. Moreover, the Fund is supplied additionally with paid off loans received by banks in previous years.

Assistance fund during the years 1995-2003

Year	Rate of annual rate in %		Bank payments (1)	NBP payment (2)	Total (1)+(2)	Payment of loans
	All banks (with the exception of PKO bp, Pekao SA and BGŻ SA)	PKO bp ¹ , Pekao SA and BGŻ SA				
in million EURO						
1995	0.40	0.20 *	43.2	0.0	43.2	0.0
1996	0.40	0.20	57.2	0.0	57.2	0.0
1997	0.40	0.20	65.0	0.0	65.0	0.0
1998	0.28	0.14	52.0	22.3	74.3	0.9
1999	0.24	0.12	50.6	33.7	84.3	11.5
2000	0.23	0.23	64.3	42.9	107.2	17.8
2001	0.14	0.14	39.5	39.5	79.0	36.9
2002	0.08	0.08	23.8	23.8	47.6	69.7
2003	0.10	0.10	26.0	26.0	52.0	137.2

¹ Since 12th April, 2000, as PKO BP SA.

* In 1995 the reduced rate also included the co-operative banks.

In the years 1995-1997 banks paid an obligatory annual charge according to the maximum percentage rate. During the following years, in result of improved banking sector condition, this rate was systematically reduced, until in 2002 it reached 0.08%. The slightly increased burdening of banks with charges in 2003 resulted from the assessment of the banks' financial situation and the scale of estimated assistance intervention on the part of BGF.

Loans from the assistance fund in 2003

Assistance activity of the Fund in 2003 was characterized by differentiated solutions. In order to prevent bankruptcy of a commercial bank, a group of major banks jointly became its strategic investor. The BGF supported this initiative, by granting loans to the investor-banks for the purchase of shares. Furthermore, the bank threatened by bankruptcy received a loan in order to reform itself. The process of lending assistance to two banks, in which commissioner receivership was functioning, proceeded differently to existing experiences. First, the banks were consolidated, and then in the restructuring phase, a loan was granted to sanify one subject.

In 2003 the Bank Guarantee Fund took decision in matters of granting financial assistance to 14 commercial banks, in the form of returnable loans, amounting to 159.2 million EURO.

The loans were granted on the following terms:

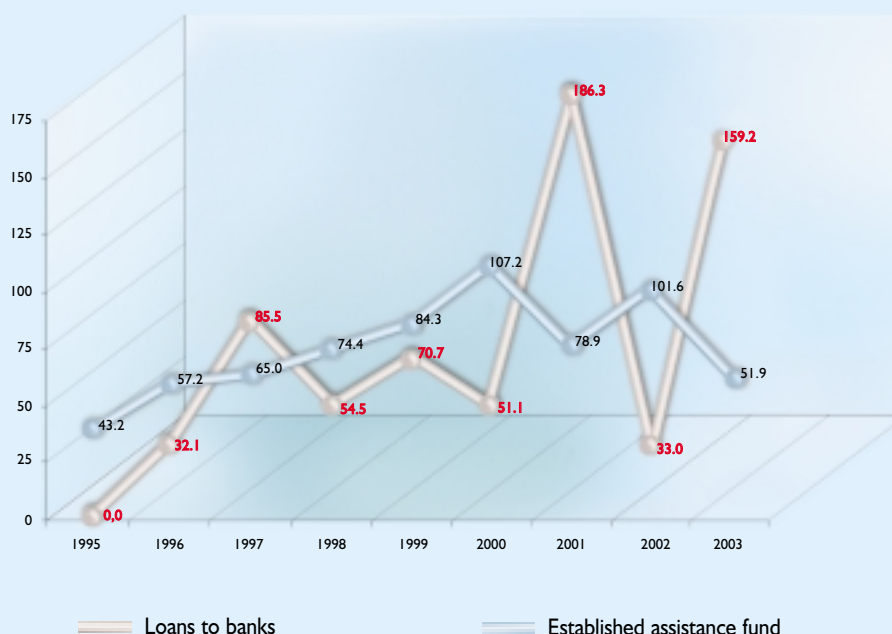
- the annual interest rate amounted to 0.1% of the rediscount rate for bills of exchange resolved by the Monetary Policy Council;
- commission:
 - for commercial banks 0.3% of the loan amount;
 - for co-operative banks 0.1% of the loan amount;
- period of enjoyment of the loan – up to 5 years (in exceptional cases it could be extended to 10 years);
- payment of loans – one-off payment or in tranches;
- payment of loans in quarterly or half-yearly instalments (in exceptional cases one-off payments);
- accrual and collection of interest – at quarterly periods;
- waiting period in paying off the capital instalments – possible in particularly justified cases.

Assistance offered to one of the Polish banks, which implemented the repair programme and paid off the loan (127,199.5 thousand EURO) ahead of time, fully regaining its high market level, also brought positive effects. Furthermore, 12 co-operative banks, as scheduled, paid off all the taken loans in the total amount of 10,012.7 thousand EURO. It is worth noting that assistance provided by the Fund supported the implementation of repair programmes in those banks. Their current economic and financial standing is satisfactory.

Loans granted to banks during the years 1995-2003

The first loan from the assistance fund was granted in 1995 (payment took place at the beginning of 1996). Since then a total of 96 loans was granted, including 42 to commercial banks and 54 to co-operative banks in the aggregate sum of 596.6 million EURO.

Usage of assistance fund during the years 1995-2003 (in million EURO)



Beneficiaries of the loans can be divided in the following groups:

- 39 loans were granted for independent reforming, whereas to 57 banks for the takeover of banks threatened by insolvency.

Loans to banks during the years 1996-2003

Borrowers and objective of the loan	Number of loans	Amount in millions EURO
Independent reforming:		
– co-operative banks	29	38.8
– commercial banks	10	342.3
Total	39	381.1
Takeover/merger of banks by:		
– co-operative banks	25	21.4
– commercial banks taking over:		
– co-operative banks	13	30.6
– commercial banks	19	163.2
Sub-total	57	215.2
Total	96	596.3

LOANS FROM CO-OPERATIVE BANKS' RESTRUCTURING FUND

For three years now, the co-operative banks restructuring fund has been an important source of financial aid. Loans from that fund are granted by virtue of provisions of the Act of 7th December, 2000, on the functioning of co-operative banks, their association and associating banks, for the support of merger processes. The fund was established from means left after liquidation of the Co-operative Banks Development Fund (managed by BGŻ SA) and from the sums paid to banks from the budget for servicing the D series restructuring bonds, which were redeemed on the day that the Act came into force. The means transferred to the BGF amounted to 30,690.7 thousand EURO.

Financial aid from this fund is only granted to banks, who meet solvency criteria and have the ability of paying off the taken loans. Banks, which have been merged with other banks not later than 3 years before the Act come into effect, i.e. after 28th January, 1998, and those merging currently, can avail of the aid.

Pursuant to the Act, the BGF grants loans from the co-operative banks restructuring fund for financing the costs of co-operative banks merger and investment undertakings involved with this. In particular for:

- the unification of computer programmes and hardware,
- unification of bank technology,
- unifications of financial and accounting procedures,
- unification of the products and banking services offer.

From the restructuring fund loans can also be granted for the purchase of shares in the associating bank.

In 2003 the BGF granted 39 loans in the aggregate sum of 8,402.1 thousand EURO, including:

- 16 loans for financing merger processes and implementation of investments, in the sum of 5,917.7 thousand EURO;
- 9 loans to banks availing already of financial assistance, granted during the years 2001-2002, in connection with having incurred additional investment outlays, in the sum of 1,902.9 thousand EURO;
- 14 loans for the purchase of share in associating banks, in the sum of 581.5 thousand EURO.

During three years of granting such loans, 108 banks taken advantage of such loans in the total amount of 30,399.6 thousand EURO.

In 2003 assistance from this fund was granted on the following conditions:

- annual interest rate on loans – 0.05% of the rediscount rate on bills of exchange determined by the Monetary Policy Fund,
- commission – 0.1% of the loan sum,
- period of usage – maximum 5 years (earlier up to 3 years),
- waiting period in repayment of capital – not longer than 2 years (previously without any waiting period),
- payment of loans were effected as one-off payments,
- repayment of loans – in half-yearly instalments, whereas interest was paid quarterly.

Pursuant to assumed procedure banks applying for the loans submitted information on their current economic and financial standing, projection of their situation during the period of enjoying assistance and documents indicating the incurred or planned costs/outlays involved with the merger processes. The Fund would then make an assessment of the banks' standing and their ability to pay the loans together with interest. Furthermore, it analysed the conformability of assigned outlays with the objectives specified in the Act.

BANK INSPECTIONS AND MONITORING OF THEIR FINANCIAL STANDING

Direct inspections in banks

By virtue of provisions of the Act on the BGF, the following direct bank inspections are conducted in banks availing of Fund assistance:

- checking the correctness of using the assistance provided,
- controlling the implementation of repair procedure programme.

The assessment made in result of inspections is made from the point of view of expediency and effectiveness of using the assistance means, and conformability with the law and provisions of agreements, on the grounds of which the Fund had granted assistance.

In 2003 46 direct inspections in banks availing of the BGF assistance had been conducted, this including:

- 10 inspections in banks availing of loans from the assistance fund (in 3 commercial banks and 6 co-operative banks);
- 34 inspections in banks availing of loans from the co-operative banks restructuring fund;
- 2 inspections in banks that took on loans from both these funds.

In the majority of cases positive results of repair procedure programmes were noted in banks that availed of loans from the assistance fund granted for independent reforming. In all banks availing of Fund assistance, the basic problem was profitableness from BGF loans, lower than that assumed in bank repair procedure programmes. This was mainly the consequence of considerable reductions in interest rates in relation to those anticipated in the repair programmes. Nevertheless, it was stated in all banks that the received funds were used and secured in conformity with the provisions contained in loan agreements.

The inspections conducted in banks availing of means from co-operative banks restructuring funds confirmed that merger processes gave the banks the possibility to:

- meet capital requirements,
- increase their operating scale and safety,
- extend their product offer,
- improve computer infrastructure and customer service quality.

Observations resulting from these inspections mainly referred to the necessity of reducing credit risk by the banks, increasing costs discipline and improving their operating effectiveness.

Bank monitoring

In 2003 the Bank Guarantee Fund monitored the economic and financial standing of 132 banks, which received financial assistance from the assistance fund or from the co-operative banks restructuring fund. This referred to:

- 19 commercial banks and 13 co-operative banks availing of means from the assistance fund,
- 100 co-operative banks, which had received means from the co-operative banks restructuring fund.

Among the mentioned co-operative banks, 5 banks availed both of the assistance fund and of the restructuring fund.

The bank information base was built up on the grounds of:

- monthly information in the area provided by obligatory reporting for the National Polish Bank;
- bank reports from the implementation of repair procedure restructuring or merger programmes;
- opinions and reports of financial statement audits made by chartered accountants,
- results of direct bank inspections;
- information conveyed by the General Inspectorate of Banking Supervision;
- issue brochures, analyses of the banking sector and other information pertaining to bank monitoring.

Conducted within the framework of bank monitoring was an analysis of their economic and financial standing and implementation of repair procedure programmes. Basing on these analyses and risk assessment resulting from the dependence of operating effectiveness and income obtained from external financial aid, an individual risk profile was prepared and then a risk map of all banks availing of Fund assistance. These maps and individual analyses allowed the formulation of recommendations concerning further steps to be taken in respect of chosen subjects.

Performing the function of trustee

The Banking Supervision Commission, on application of the Fund, appointed the Bank Guarantee Fund trustee supervising the implementation of repair programmes in 4 co-operative banks.

The trustee tasks were focused on continuous monitoring of progress in the implementation of repair programmes and the economic and financial standing of banks. Current supervision was exercised of the management processes and safety level of conducted activity, among other things, through participation of the trustee in management board and supervisory board meetings of banks. There was no need to review any resolutions passed by bank authorities.

COMPILATION AND ANALYSIS OF INFORMATION ON BANKS

Sources of information on banks

The basic source of information are bank reports, which the Fund receives from the National Polish Bank by virtue of the Act on BGF and the agreement concluded on 27th May, 1997. Banks which take advantage of financial aid from the Fund, additionally have to send – by virtue of loan agreements – financial statements directly to the BGF (irrespective of the information conveyed by NBP).

A separate source of information is that sent to the Fund directly by banks in conformity with the Order of the NBP President dated 19th December, 2002, on the scope of additional information for the needs of the Bank Guarantee Fund.

Moreover, the Fund uses the results of the National Polish Bank analyses on the standing of the banking sector and materials sent by banks associating co-operative banks.

Information compiling and analysis system

The system of compiling and analysing information on banks forms the grounds for formulating current and long-term policy of the Bank Guarantee Fund.

The system consists of the following elements:

- general analysis of the economic situation in the country,
- analysis of the banking sector situation with the purpose of identifying banks threatened by insolvency,
- anticipated demand for financial means enabling the possible payment of guaranteed deposits, in case of the bankruptcy of banks and assessment of the fund size necessary for taking up assistance intervention in banks threatened by insolvency.

In 2003 bank standing assessment tools had been perfected in order to allow forecasting with greater probability of the potential danger of insolvency appearing in particular banks. Complex assessment is conducted by using the *Bank Monitoring System* prepared by the BGF. On this basis, every bank which has been functioning at least 2 years, receives assessment that characterizes both its financial standing and the situation of the bank determined by means of non-financial factors. These assessments are the foundation for building a map of threats to the banking sector.

Apart from analysing the financial and economic standing of banks, the Fund conducts works on creating new solutions and modifying the functioning of the Polish deposit insurance system.

CO-OPERATION WITH THE MINISTRY OF FINANCE, NATIONAL POLISH BANK, BANK SUPERVISING COMMISSION, ASSOCIATION OF POLISH BANKS, NATIONAL ASSOCIATION OF CO-OPERATIVE BANKS AND BANKS

By virtue of the Act on the Bank Guarantee Fund representatives of the National Polish Bank President, Ministry of Finance and Polish Banks Association make up the Fund Council, determining the Fund activity trends and supervising its functioning.

In 2003 the additional area of co-operation concerned issues connected with the restructuring of banks threatened by bankruptcy, in which the Bank Supervision Commission appointed official receivership. The President of the Bank Guarantee Fund Management Board is member of the Bank Supervising Commission.

Fund employees participated in the amendment processes of numerous acts and preparing new bill drafts.

As in previous years, a consultation meeting was organized at the end of 2002 in the Fund residence with representatives of banking circles, on the rates for establishing the guaranteed means protection funds and obligatory fee in 2004.

INTERNATIONAL CO-OPERATION

The Bank Guarantee Fund functions actively on the forum of the European Forum of Deposit Insurers (EFDI), which groups European bank deposit insuring institutions. Active participation of the BGF representative has been honoured by granting it the function of Vice-Chairman of that organization.

In 2003 in Seoul 2nd Conference of IADI (International Association of Deposit Insurers) had taken place, dedicated to the so called safety network of the banking sector.

A Fund representative participated in this exchange of experiences concerning differentiation of fees for insuring deposits and those resulting from bankruptcy of banks in particular countries.

Moreover, the Fund delegation presented in Sofia Polish experiences in the area of deposit guarantee. Also held were seminars on the subject of BGF activity with participation of the Ukrainian banking supervision and Indian co-operative banking.

PROMOTION AND INFORMATION ACTIVITY

The Bank Guarantee Fund systematically analyses the level of knowledge of deposit guarantee system principles both among customers and bank workers. This knowledge is still insufficient, therefore different steps are being taken to improve the situation.

In 2003 an information campaign was continued on the subject of deposit insurance system and BGF activity. The following steps were taken:

- the BGF website was reconstructed and expanded (www.bfg.pl)
- 1 million information brochures on the functioning principles of the deposit insurance system were printed and sent to all banks,
- links to BGF websites were continued with information on amounts of guaranteed deposit, in the business pages of the ONET.pl portal and bank internet windows.

Co-operation was established with the "PENTOR" Public Opinion Poll Survey Institute concerning the study programme, among other things, on the degree of knowledge by bank workers having direct contact with customers of the deposit guarantee system. It turned out that this knowledge is insufficient. Therefore, the Fund acted on the initiative and proposed a wide training programme for all bank workers from the front office area. The first courses in this area, were held in 4th quarter.

BANK GUARANTEE FUND AUTHORITIES AND ORGANIZATION

Composition of Fund organs

The Fund Council and Fund Management Board are the statutory organs of the Bank Guarantee Fund.

Until 23rd June, 2003, the Fund Council of the 2nd term of office consisted of the following persons:

Council President:	MAREK GRZYBOWSKI
Council Members:	TOMASZ DYBOWSKI STANISŁAW KASIEWICZ BARBARA KOWALSKA WOJCIECH KWAŚNIAK PRZEMYSŁAW MORYSIAK JAN SZAMBELAŃCZYK EWA ŚLESZYŃSKA-CHAREWICZ ANDRZEJ TOPIŃSKI ANDRZEJ WIŚNIEWSKI TADEUSZ ŻYWCAK

On 24th June, 2003, the Fund Council started its 3rd term of office consisting of the following members:

Council President:	WŁADYSŁAW BAKA
Council Members:	JANUSZ CZARZASTY WOJCIECH KWAŚNIAK PRZEMYSŁAW MORYSIAK (BARTOSZ DRABIKOWSKI – since 9th February, 2004) JACEK OSIŃSKI STANISŁAW OWSIAK (GRZEGORZ WÓJTOWICZ – since 18th February, 2004) RYSZARD PAZURA KRZYSZTOF PIETRASZKIEWICZ JAN SZAMBELAŃCZYK EWA ŚLESZYŃSKA-CHAREWICZ ANDRZEJ WIŚNIEWSKI

In 2003 the Fund Management Board consisted of the following persons:

President of the Management Board:	EWA KAWECKA-WŁODARCZAK
Vice-President of the Management Board:	HANNA KRAJEWSKA
Management Board Members:	ANDRZEJ JANKOWSKI MARIA PAWELSKA MAREK PYŁA

Organization of Fund Office

The Bank Guarantee Fund fulfils its statutory tasks through the Office, in the structure of which seven departments, Internal Inspection Post and Fund Council Secretariat have been singled out.

Tasks of particular organization units:

- ❑ **Guarantee Performance Department** performs tasks directly related to the payment of guaranteed sums to customers of a bankrupt bank;
- ❑ **Aid Activity Department** performs tasks in the range of granting financial aid to banks threatened by insolvency (from the aid fund) and granting loans from the co-operative banks restructuring fund;
- ❑ **Department of Banking Sector Analysis** compiles and analyses information concerning current bank standing and prepares assessments and forecasts of their development;
- ❑ **Inspection and Monitoring Department** performs tasks connected with monitoring and control of the standing of those banks, which received aid from the Fund, as well as performs the function of official receiver;
- ❑ **Financial Department** performs tasks connected with financial management, book-keeping and Fund settlements;
- ❑ **Legal Department** provides legal services to the Fund and represents the Fund in court and administrative proceedings and before other adjudging organs;
- ❑ **Organization Department** ensures organization service of the Management Board and Fund Office, conducts affairs connected with worker employment, work organization, administrative services and is responsible for the technical, computer, premises and material infrastructure of the Office;
- ❑ **Internal Inspection Post** performs tasks connected with examining the operating correctness and conformability of Fund Office organization units with regulations of the law;
- ❑ **Council Secretariat** conducts substantial, organizational and technical services for the Fund Council in its performance of statutory tasks.

Furthermore, there are five permanent intra-departmental committees and groups:

- ❑ **Assets Management Committee** creates and supervises the policy of investing free financial means of the Fund;
- ❑ **Aid Applications Assessment Committee** issues opinions on the applications for granting financial aid to banks from the aid fund and loans from the co-operative banks restructuring fund prepared by the Aid Activity Department;
- ❑ **Management Informing System Group** prepares, monitors and ensures the efficient functioning of the transmission system of information crucial for Fund activity, between organization units;
- ❑ **Foreign Co-operation Group** co-ordinates co-operation with foreign deposit insurance institutions;
- ❑ **Website Editing Group** provides information update on the Fund's website.

Employment

At the end of 2003 the Bank Guarantee Fund employed 97 persons (including Management Board Members). 84 workers had university degrees, whereas 12 persons were improving their qualifications with higher studies, post-graduate and doctor's studies (in the field of economy, banking and management). The age average was 41 years.

The basic principle of employment policy implemented by the Fund is stability of the BGF personnel. This provides higher professional mobility of workers and the possibility of benefiting from their experience as well as unique knowledge in the range of specific Fund activity.

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Opinion of Independent Chartered Accountant for the Council of Ministers, Fund Council and Management Board of the Bank Guarantee Fund

We audited the enclosed Financial Statement of the Bank Guarantee Fund (hereinafter referred to as the "Fund") with seat in Warsaw, ul. ks. Ignacego Jana Skorupki 4, consisting of:

- (a) Balance Sheet drawn up on 31st December, 2003, which on the assets and liabilities side shows the sum of 4,302,020,676.44 PLN;
- (b) Profit and Loss Account for the business period from 1st January, 2003, till 31st December, 2003, showing a net profit of 158,179,282.94 PLN;
- (c) Cash Flow Statement for the business year from 1st January till 31st December, 2003, showing a reduction in by the sum of 2,414,142.40 PLN;
- (d) Additional Information.

The Fund Management Board is responsible for preparing the Financial Statement and Report of Activity in conformity with the binding regulations of the law. Our task was to express an opinion on the Financial Statement basing on the carried out audit.

We conducted the audit in conformity with binding in the Republic of Poland:

- (a) provisions contained in Chapter 7 of the Accountancy Act of 29th September, 1994 (the "Act" uniform text – Official Laws Gazette from 2002, No. 76, Item 694);
- (b) regulations contained in Art. 17 Section 2 of the Act on the Bank Guarantee Fund of 14th December, 1994 (uniform text – Official Laws Gazette from 2000, No. 9, Item 131 with successive modifications);
- (c) provisions contained in the Order of the Minister of Finance dated 25th October, 1999, on detailed accounting principles of the Bank Guarantee Fund (Official Laws Gazette No. 90, Item 1006 with successive modifications);
- (d) Statute of the Bank Guarantee Fund (Official Laws Gazette from 1995, No. 21, Item 113 with successive modifications);
- (e) norms of practicing the profession of chartered accountant, issued by the National Board of Chartered Accountants in Poland.

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The audit was planned and carried out in such a way as to obtain sufficient certainty that the Financial Statement does not contain any significant errors and omissions. The audit included, among other things, checking on the ground of a chosen example, evidence confirming the sums and information shown in the Financial Statement. The audit also contained an assessment of accounting principles applied by the Fund and important valuations made during preparation of the Financial Statement, as well as a general assessment of its presentation. We consider that the audit conducted by us gave sufficient grounds for expressing an opinion.

The financial information contained in the Report of Bank Guarantee Fund Activity for the business year from 1st January till 31st December, 2003, is conformable with information contained in the audited Financial Statement.

In our opinion the enclosed Financial Statement in all significant aspects:

- (a) was drawn up on the ground of correctly kept account-books and in conformity with accounting principles binding in the Republic of Poland, specified in the forenamed Accountancy Act, Act on Bank Guarantee Fund and the Order of the Minister of Finance dated 25th October, 1999, on specific accounting principles of the Bank Guarantee Fund (Official Laws Gazette No. 90, item 1006 with successive modifications);
- (b) conforms in form and contents with provisions of the law and the Fund Statute;
- (c) presents in a clear and reliable way the assets and financial standing of the Fund as on 31st December, 2003, and the financial result for the business year from 1st January till 31st December, 2003.

Acting on behalf of PricewaterhouseCoopers Sp. z o.o.:

Adam Celiński

Adam Celiński
Member of the Management Board
Chartered Accountant
Registration No. 90033/7039

PricewaterhouseCoopers Sp. z o.o.

Company incorporated in the list of
subjects authorized to audit financial
statements under number 144

Warsaw, 5th March, 2004.

BALANCE SHEET

AS ON 31ST DECEMBER, 2003

ASSETS

	in PLN	
	31.12.2003	31.12.2002
I. Pecuniary means	593,859.88	3,008,002.28
1. Cash in hand	3,954.19	855.43
2. Cash on current account	433,467.70	2,856,324.01
3. Cash on special guarantee settlement account	1,798.65	1,798.65
4. Cash on long-term deposit account	–	–
5. Cash on Company Social Fund	154,639.34	149,024.19
II. Receivables from financial institutions	1,679,542,932.92	1,577,415,632.30
1. Receivables from banks for:		
a) obligatory payments to special guarantee settlement account	–	–
b) annual contributions to aid fund	–	–
c) loans granted from aid fund	1,600,691,727.29	1,500,179,808.304
d) loans granted from co-operative banks restructuring fund	78,851,205.63	77,235,824.00
e) performed guarantees and sureties	–	–
f) purchased receivables	–	–
2. Receivables from other financial institutions	–	–
III. Receivables from State budget	–	–
IV. Other receivables and claims	577.52	259.00
V. Securities	2,549,099,706.00	2,232,989,481.00
1. Debenture bonds:		
a) of state issuers	2,549,099,706.00	2,232,989,481.00
b) of other issuers	–	–
2. Stocks, shares		
a) in financial institutions	–	–
b) in other units	–	–
VI. Intangible assets	16,363.54	17,005.44
VII. Tangible assets	72,692,585.98	74,553,173.78
VIII. Other assets	–	–
IX. Prepayments and accruals	74,650.60	156,087.40
TOTAL ASSETS	4,302,020,676.44	3,888,139,641.20
Conditional receivables	508,142,392.19	531,241,542.59
a) from debts declared to the bankruptcy estate	505,787,373.39	528,824,634.11
b) other receivables	2,355,018.80	2,416,908.48

BALANCE SHEET

AS ON 31ST DECEMBER, 2003

LIABILITIES

	in PLN	
	31.12.2003	31.12.2002
I. Obligations	48,237,088.12	34,287,374.45
1. Obligations towards trustee of bankruptcy estate on account of payments within the framework of means guarantee	-	-
2. Other obligations	48,237,088.12	34,287,374.45
II. Accruals and deferred income	1,756,346.92	5,210,806.62
III. Reserves	100,000.00	100,000.00
1. Reserves for risk involved with granted guarantees	-	-
2. Reserves for risk involved with granted sureties	-	-
3. Other risk reserves	100,000.00	100,000.00
IV. Statutory fund	1,062,895,243.45	883,583,995.98
V. Supplementary fund	420,000,000.00	350,000,000.00
VI. Aid fund	2,487,288,386.80	2,242,087,503.62
1. Aid fund to be used	888,318,053.80	747,075,445.94
2. Used aid fund	1,598,970,333.00	1,495,012,057.68
VII. Co-operative banks restructuring fund	123,409,688.87	123,409,688.87
1. Co-operative banks restructuring fund to be used	44,593,435.87	46,216,920.87
2. Used co-operative banks restructuring fund	78,816,253.00	77,192,768.00
VIII. Revaluation fund	-	-
IX. Special funds and other liabilities	154,639.34	149,024.19
X. Financial result	158,179,282.94	249,311,247.47
1. Profit (positive value)	158,179,282.94	249,311,247.47
2. Loss (negative value)	-	-
TOTAL LIABILITIES	4,302,020,676.44	3,888,139,641.20
Non-balance sheet obligations	-	-

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDING ON 31ST DECEMBER, 2003

	12 months ending on 31.12.2003	in PLN 12 months ending on 31.12.2002
I. Income from statutory activity	34,500,346.55	68,311,075.87
1. Income from interest	32,200,938.29	67,947,401.13
2. Income from commission	2,292,632.80	340,899.00
3. Income from interest for delayed payments by banks for effecting guarantee payment	-	-
4. Income from interest for delayed payment by banks of annual fees	6,048.02	18,897.14
5. Income from interest for delayed payments by banks of loans and interest on loans	727.44	3,878.60
II. Cost of statutory task performance	-	-
1. Interest on credits received from the National Polish Bank	-	-
2. Other	-	-
III. Result of statutory activity (I-II)	34,500,346.55	68,311,075.87
IV. Result of financial operations	142,643,121.66	200,443,666.29
1. Securities	140,985,289.26	200,302,221.33
2. Other	1,657,832.40	141,444.96
V. Fund activity costs	16,442,604.88	16,818,936.84
1. Foreign services	3,571,185.60	3,692,026.65
2. Remuneration	10,346,354.85	10,455,212.24
3. Remuneration margins	1,263,190.16	1,286,107.78
4. Other	1,261,874.27	1,385,590.17
VI. Depreciation of fixed assets and intangible assets	2,540,745.23	2,559,553.25
VII. Reserve allocation and revaluation	-	-
VIII. Dissolving of reserves and reduction of valuation	-	250,000.00
IX. Other income	216,493.39	334,177.62
X. Other costs	197,328.55	649,182.22
XI. Result from operating activity (III + IV - V - VI - VII + VIII + IX - X)	158,179,282.94	249,311,247.47
XII. Result from extraordinary transactions (loss)	-	-
1. Extraordinary profit	-	-
2. Extraordinary loss	-	-
XIII. Financial result of the Fund (XI + XII)	158,179,282.94	249,311,247.47
1. Profit (positive value)	158,179,282.94	249,311,247.47
2. Loss (negative value)	-	-

CASH FLOW STATEMENT

FOR THE PERIOD ENDING ON 31ST DECEMBER, 2003

	12 months ending on 31.12.2003	in PLN 12 months ending on 31.12.2002
A. Cash flow from operating activity		
I. Net financial result (profit/loss)	158,179,282.94	249,311,247.47
II. Adjustment by items:		
1. Depreciation	2,540,745.23	2,559,553.25
2. Reserves for threatened receivables, established by debiting costs	-	-
3. Other reserves established by debiting the Fund activity costs	-	(250,000.00)
4. Change of receivables and claims	(318.52)	36,583.89
5. Change in short-term obligations (except loans and credits) and special funds	13,955,328.82	11,775,019.19
6. Change in prepayments and accruals	81,436.80	81,436.80
7. Change in deferred income	-	-
8. Other items	(24,307.45)	342,782.54
III. Net cash from operating activity (I±II)	174,732,167.82	263,856,623.14
B. Cash flow from investment activity		
I. Purchase/Sale of intangible assets	(20,797.23)	(272,441.83)
II. Purchase/Sale of fixed assets components	(634,410.85)	(561,377.36)
III. Purchase/Sale treasury bonds, money bills of the National Polish Bank, bonds	(341,516,092.27)	(611,073,468.66)
IV. Granted/Repaid loans from the aid fund	(103,958,275.32)	147,442,835.66
V. Granted/Repaid loans from the co-operative banks restructuring fund	(1,623,485.00)	(5,492,768.00)
VI. Purchase/Sold debts	-	-
VII. Received/Repaid interest	25,405,867.27	15,412,016.66
VIII. Other items	-	-
IX. Net cash from investment activity (I±II±III±IV±V±VI±VII±VIII)	(422,347,193.40)	(454,545,203.53)
C. Cash flow from financial activity		
I. Changes in statutory fund	-	-
II. Changes in aid fund (payment of annual contribution)	245,200,883.18	191,080,636.37
III. Change in co-operative banks restructuring fund	-	26,918.32
IV. Contracting/Payment of short-term credits and bank loans	-	-
V. Interest paid/Returned	-	-
VI. Other items	-	-
VII. Net cash from financial activity (I±II±III±IV±V±VI)	245,200,883.18	191,107,554.69
D. Change in net cash (A+B+C)	(2,414,142.40)	418,974.30
E. Cash at beginning of the business	3,008,002.28	2,589,027.98
F. Cash at end of business year (D+E)	593,859.88	3,008,002.28