



ANNUAL REPORT 2007

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*Ladies and Gentlemen,*

It is my pleasure to present to you the subsequent Annual Report of the Bank Guarantee Fund. It contains a description of the most important tasks implemented by the Fund in 2007 along with the financial report, and the critical information on BGF.

2007 was another year of stable development. This fact is validated by data contained in the report and by good financial results. We are pleased to announce that in 2007 no bank was declared bankrupt. Thanks to the good standing of the majority of banks operating in Poland the demand for assistance funds of the Bank Guarantee Fund, made generally available in the form of high loans granted at low interest, has significantly decreased.

The fact that no symptoms of a system crisis have been recorded does not mean, nonetheless, that no sources of potential hazards do exist. In a period of a good economic situation particular importance is acquired by analytic operation, which is executed by the Fund in cooperation with other entities responsible for assuring market stability and security of resources compiled in the banking sector. Its objective is to monitor the situation in particular entities and appropriate implementation of advance preventive measures. We are focused on watching for the new products and technologies in the banking sector with respect to their potential consequences for financial stability.

The Bank Guarantee Fund has been active on the international forum, and participated in numerous conferences, seminars and meetings, both within

international and bilateral organisations. We find that participation of the Fund's representatives in works of the *European Forum of Deposit Insurers* – EFDI was of particular importance. In 2007 endeavours were undertaken to obtain formal membership in the *International Association of Deposit Insurers*.

Cooperation of BGF with other institutions within the so-called financial security network has progressed successfully. We have managed to undertake permanent contacts among others with the Polish Financial Supervision Authority.

I also wish to take this occasion to address words of our gratitude to all persons and institutions involved in cooperation with the Bank Guarantee Fund, and in particular representatives of the National Bank of Poland, the Ministry of Finance, employees of the bank supervision authorities and members of the supervisory bodies, as well as representatives of the banking community and bank managements. Effective implementation of statutory tasks of the Fund would not have been feasible without good mutual cooperation.

I do hope that the presented Annual Report would help you to become acquainted with problems of the deposit guarantee system and the BGF role in the banking system in Poland.

**Robert Jagiełło**

*Chairman of the Council  
Bank Guarantee Fund*



## *Ladies and Gentlemen,*

The subsequent, thirteenth year of operation of the Bank Guarantee Fund has just ended. The objective of the Fund's activity, which acts as a security network base of the banking system and indirectly also of the financial system, is striving to assure stability of the banking system.

2007 was a specific period because of unrest on international financial markets, which were caused by the subprime crisis. Throughout that period the Polish banking system remained stable, and financial results of banks were very good. No bank was declared insolvent, and no necessity arose to grant assistance to any banks, as none of them was faced by the threat of insolvency. Instead assistance was addressed by the Fund at the cooperative banks sector to cover merger costs of banks. Means for such assistance came from the cooperative banks restructuring fund.

In the past year we have focused also on analytic operation, identification of potential threats and insolvency risks of banks. The Fund had devised several new reviews, also with respect to causes and consequences of the subprime crisis. 2007 was also a time of changes introduced to the internal structure of the Fund, which were aimed at modernisation and rationalisation of activity. This arises from the fact that the environment in which the Bank Guarantee Fund is functioning keeps changing dynamically, and the Fund exercises all due diligence to cope with new challenges.

An event of particular importance in the past year was the Fund's participation in establishment of an international society. In June 2007 the Bank Guarantee Fund, as one of 24 founders, signed in Brussels a document that registered *European Forum of Deposit Insurers – EFDI*, and has consequently become a member of that organisation. The Fund focuses a large part of its attention on international cooperation, because stability of the Polish banking sector should be perceived through a broader perspective not only of Europe, but also the entire world.

Activities of the Bank Guarantee Fund in 2007 have been described in more detail in further sections of our report. It is with great pleasure that I invite you to become acquainted with information presented there.

I also wish to address words of gratitude to all persons and institutions that contribute to security of the Polish banking sector and first-rate functioning of the Fund. Thanking you very much for your efforts, I hope that we will be able to continue our mutually beneficial cooperation focused at assuring security and development of the Polish banking sector in an integrated Europe and on a global scale.

**Małgorzata Zaleska**  
*President of the Bank Guarantee Fund  
Management Board*

## OBJECTIVES AND TASKS

The Bank Guarantee Fund, which was established in 1995, was entrusted by the Legislator with the task of guaranteeing to depositors repayment of funds in the event of bank insolvency, as well as competencies in preventing the occurrence of such situations. It should be borne in mind that the Polish legal and system related solutions were not limited to fulfilling minimum harmonisation requirements, which arise from regulations of the European Union.

Apart from assuring execution of payments according to principles defined in Directive No. 94/19/CE of the European Parliament and Council of the European Union in the event of insolvency of an entity covered by the guarantee system, the Bank Guarantee Fund actively participates in eliminating insolvency threats of banks. Statutory tasks of the Fund comprise consequently granting financial assistance to banks as support to allow execution of rehabilitation or restructuring programmes by entities which face the insolvency threat. Such activity focuses on an indirect protection of deposits collected in banks and limiting the extent of adverse phenomena which are taking place in the banking sector, involving fewer funds than those which would have to be designated for financing guarantee payments.

The third function of the Bank Guarantee Fund, strictly interrelated with the two above specified ones, is activity that comprises compilation and execution of independent analyses of information pertaining to all banks under the guarantee system, with particular focus on identification of potential risk related to possible deterioration in the economic and financial situation of banks.

With view to the type and complementary nature of tasks performed by the Bank Guarantee Fund, as well as to formal and factual interrelations with other

entities, we may presume that according to the Legislator's wish the Fund has been classified to the group of institutions responsible for the stability of the Polish banking sector and security of assets collected by those banks. With its autonomy in the decision taking process and its autonomous organisational and legal form, the Fund cooperates closely with other entities that form the so-called financial security system. Cooperation with the bank supervision authority is not limited to exchange of information, evaluations or analyses, but also comprises agreeing, implementation, and subsequently control over execution of rehabilitation programmes in banks which use assistance funds of the Fund.

Relations of the Fund with the National Bank of Poland are first of all executed with respect to exchange of report information and by co-financing assistance activity. An important decision of the Legislator was also to assure the possibility of having needs of the Fund with respect to guarantee payments credited by the central bank, in the event if funds turned over for this purpose by the banks and own means of the Fund should prove to be insufficient.

Furthermore, relations with the Finance Minister are manifested in the first place in the aspect of supervision over legitimacy of the Fund's activities – exercised by the Minister, and also as regards planning and agreeing regulations related to BGF or the banking sector.

Formal interrelations between participants of the so-called financial security network are additionally enhanced by participation in the Fund Council of representatives of the Finance Minister, the National Bank of Poland and representatives of the banking sector. By the end of 2007 Management Board President of the Bank Guarantee Fund was a member of the Commission for Banking Supervision.

It should be emphasised that execution of statutory tasks of the Bank Guarantee Fund requires permanent good cooperation under the financial security network. On the other hand, the effectiveness of activities of other entities obliged to assure security and stability of the Polish financial system depends to a large extent on cooperation with the Bank Guarantee Fund to allow effective use of the financial resources, analytic and forecasting data and legal instruments used in rehabilitation measures, which are at its disposal.

# GUARANTEE ACTIVITY

## Financing Guarantee Activity

Pursuant to the act of 14 December 1994 on the Bank Guarantee Fund, guarantee activity is financed with funds accumulated by banks in the form of the so-called funds for protection of guaranteed deposits. The obligation of setting up such funds – in the form of treasury securities or money bills of the NBP – comprises all banks which participate in the mandatory deposit guarantee system. The value of funds is determined as product of the sum of deposits collected in the bank, used as basis for calculating the obligatory reserve and the percentage rate, determined annually by the BGF Supervisory Board. The maximum interest rate level, according to which the banks are obliged to set up funds for protection of guaranteed deposits, stands at 0.40%.

Taking into consideration potential threats in the banking sector, the BGF Supervisory Board defined the interest rate level for setting up funds for protection of guaranteed deposits for 2007 at 0.25% – for total funds collected in the bank on all accounts, as basis for calculation of the obligatory reserve. In 2007 funds for protection of guaranteed deposits set up by the banks and maintained as assets equalled to PLN 1 179 147 300. These funds have not been used, because in 2007 no bank was declared insolvent.

Guarantee activity of the Fund is also financed from means recovered by the Fund from bankruptcy assets of insolvent banks.

## Guarantee Payments and Recovery of Means

In 2007 no payments were made from the guaranteed funds, and no new claims were reported on the part of depositors. In this period gradual claim limitation was taking place on account of guaranteed funds uncollected to date.

In 2007 the Bank Guarantee Fund recovered PLN 117 300 from due receivables with respect to bank bankruptcy estates, arising from funds turned over to trustees in the past years for payments to be made to the depositors. Those funds came from a division of bankruptcy estates 3 cooperative banks.

As on 31 December 2007, there were 10 bankruptcy proceedings under way, in which the Fund still claims receivables of a total value of PLN 477 153 000.

The total value of funds recovered by BGF from bank bankruptcy estates from the beginning of its activity, i. e. from 1995 until 31 December 2007, totalled to PLN 62 896 500.

## LOANS FROM THE ASSISTANCE FUND

The core objective of assistance activity of the Bank Guarantee Fund is preventing insolvency of banks by granting financing support for execution of restructuring measures for banks threatened by the risk of insolvency.

Assistance activity is financed from own funds of BGF, collected in the assistance fund. This fund receives mandatory annual charges paid by banks which are covered by the guarantee system and money from the National Bank of Poland, as well as repayments of loans extended earlier. The value of mandatory annual charges is calculated on the basis of the sum of assets and off-balance sheet risk weighted liabilities according to the state as on 31 December of the preceding year. Interest rates of the mandatory annual charges, similarly as the rate of funds for protection of guaranteed deposits, are defined by the Fund Council.

In 2007 the following interest rates were applicable: 0.05% for the sum of balance sheet assets, guarantees and risk weighted securities and 0.025% for the remaining off-balance sheet risk weighted liabilities – reduced by guarantees, endorsements and promised credit lines. The banks have paid 50% of the calculated charge, and the remaining part was contributed by the National Bank of Poland.

The Bank Guarantee Fund may grant financial assistance in the form of loans, guarantees or endorsements, as well as by acquisition of non-threatened debts of banks. In its hitherto activity, the Fund has only granted support in the form of loans, advanced on conditions better than the ones generally offered on the market.

## Usage of the assistance fund in 2007 (in thousand PLN)

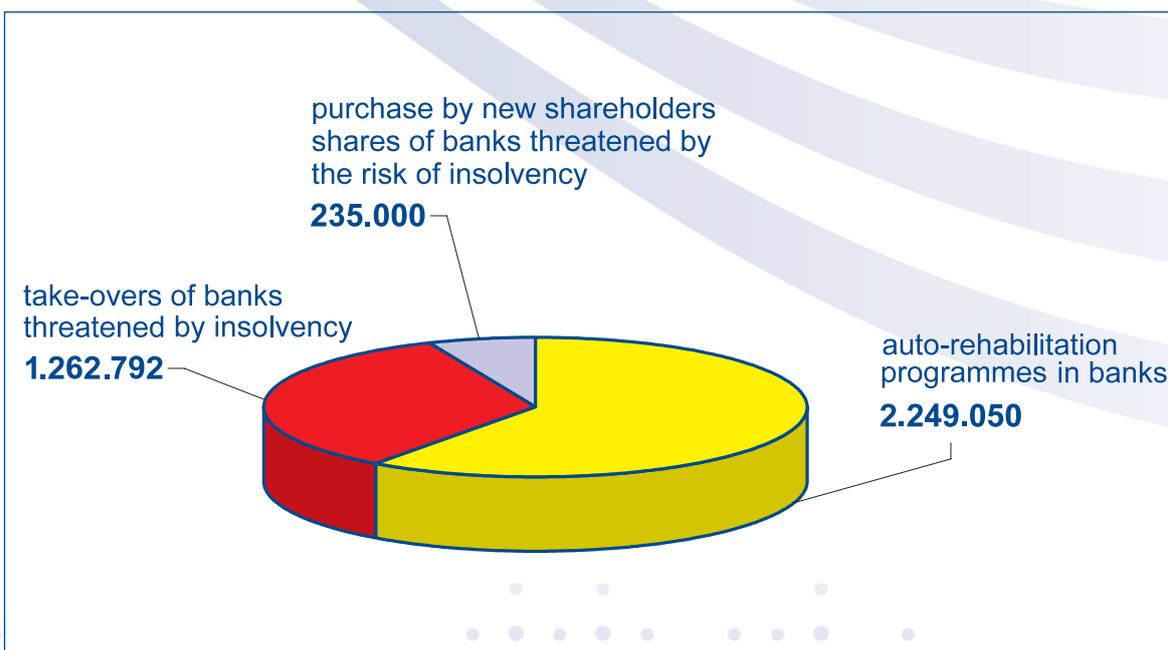
	Available funds	Used funds	Total assistance fund
State as on 1.01.2007	2,029,109.1	908,973.3	2,938,082.4
Payments made by banks	172,651.9	0.0	172,651.9
Repayments of loans	425,992.8	-425,992.8	0.0
State as on 31.12.2007	<b>2,627,753.8</b>	<b>482,980.5</b>	<b>3,110,734.3</b>

## Payments and Repayment of Loans

At the beginning of 2007 six banks received 8 loans from the assistance fund. Indebtedness of banks under those loans as on 1 January 2007 equalled to the total of PLN 908 973 300. Having taken into consideration the effected payments, at the end of 2007 indebtedness under the granted financial assistance amounted to PLN 482 980 500.

Since the beginning of its operation until the end of 2007 BGF has advanced 100 loans from the assistance fund, of which 44 were for commercial banks and 56 to cooperative banks, for the total sum of PLN 3 746 842 400.

## Designation of financial assistance granted by BGF



Financial assistance of the Fund allowed the achievement of measurable results, both of a financial and non-financial nature. Measures of financial effects are as follows:

- ▣ the sum of guaranteed funds which would have to be paid out by the Fund in the event of insolvency of the banks involved (estimated value is PLN 62 575.0m, as compared to PLN 58 828.2m of the total value of advanced support),
- ▣ the value of deposits not covered by guarantees of BGF, which could be lost in the event of insolvency (ca. PLN 20 791.0m).

Apart from financial consequences, assistance granted by the Fund contributed to:

- ▣ maintaining a considerable number of bank units and work places,
- ▣ keeping up access to banking services, especially in smaller localities,
- ▣ enhancing the efficiency and effectiveness of bank operation,
- ▣ improvement of trust vested by the society to the Polish banking services sector.

## LOANS FROM THE COOPERATIVE BANK RESTRUCTURING FUND

An additional source of assistance granted by the Fund are resources collected in the so-called cooperative banks restructuring fund, submitted by Bank Gospodarki Żywnościowej S.A. and by banks that affiliate cooperative banks, by virtue of the act of 7 December 2000 on Operation of Cooperative Banks, their Affiliation and Affiliating Banks.

Under the said act, BGF received funds equalling to PLN 123 409 700, earmarked for financing merger processes in the sector of cooperative banks and the associated investment projects, and especially for the needs of unification of:

- ▣ software and hardware,
- ▣ banking technology,
- ▣ financial and accounting procedures,
- ▣ offer of banking products and services,
- ▣ as well as for acquiring shares in the affiliating banks.

Financial assistance from the cooperative banks restructuring fund may only be granted to cooperative banks which have merged with other banks not earlier than within a period starting from the day specified as 3 years before the effective date of the Act, i.e. after 28 January 1998, or in the period until 28 January 2004 have acquired shares of affiliating banks. Assistance can be

granted to a bank which fulfils the solvency criterion and has the necessary assured capacity to repay the received loans.

### Usage of the cooperative banks restructuring fund in 2007 (in thousand PLN)

	Available funds	Used funds	Total cooperative banks restructuring fund
State as on 1.01.2007	27,732.9	95,676.8	123,409.7
Payments made by banks	-20,294.0	20,294.0	0.0
Repayments of loans	35,337.1	-35,337.1	0.0
State as on 31.12.2007	<b>42,776.0</b>	<b>80,633.7</b>	<b>123,409.7</b>

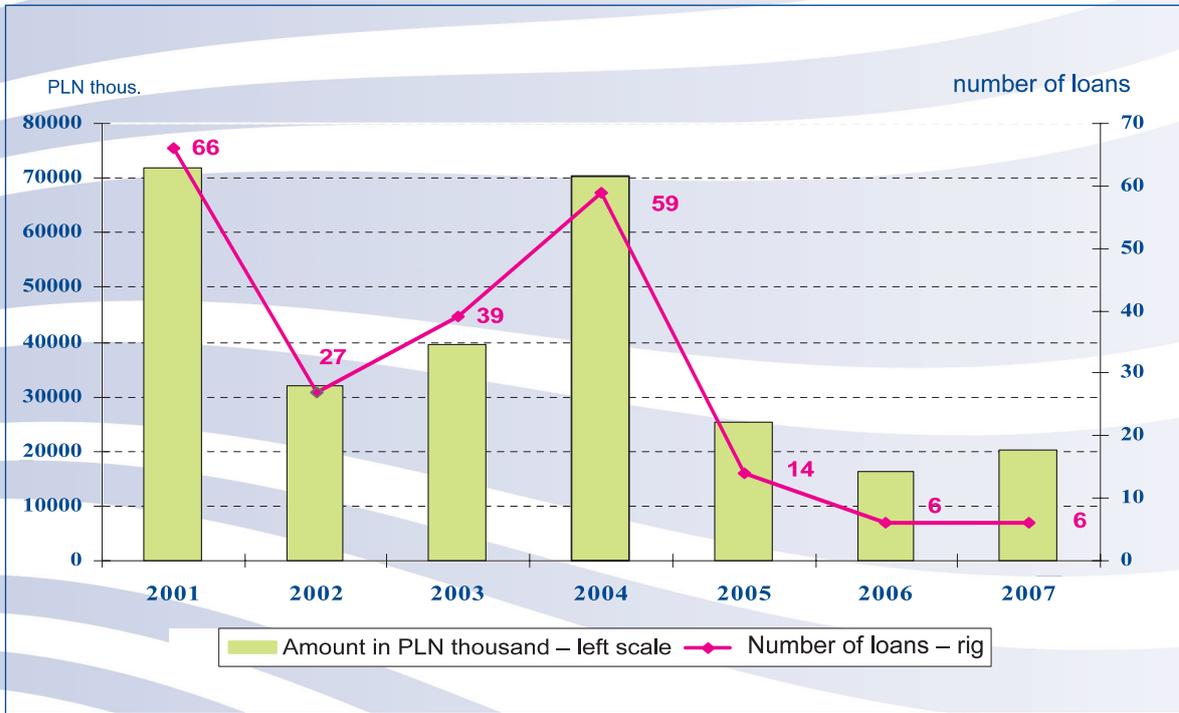
### Payment and Repayment of Loans

In 2007 the Fund received 11 applications for loans for the total sum of PLN 67 366 000 to support merger processes and for execution of the associated investment projects, of which approved were 7 for the total sum of PLN 24 294 000, including 1 additional loan to a bank benefiting from financial assistance granted in the preceding years for the total sum of PLN 1 280 000. By the end of 2007 six loans were paid out of the total value of PLN 20 249 000.

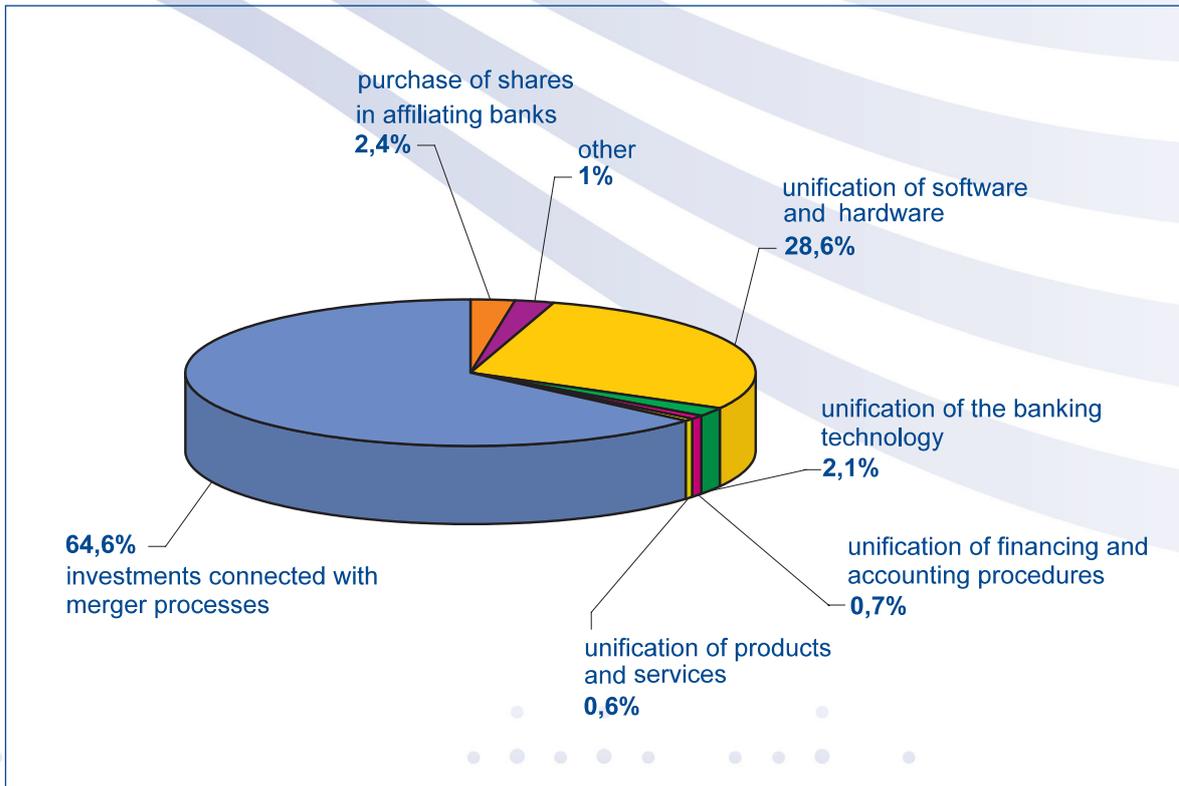
At the beginning of 2007, 63 banks obtained 82 loans extended from the cooperative banks restructuring fund. Indebtedness of those banks under the said loans amounted to PLN 95 676 800.

After the effected repayments and payment of extended loans, at the end of 2007, a total of 74 loans were advanced to 57 banks. As on 31 December 2007 indebtedness under the granted financial assistance from the cooperative banks restructuring fund stood at PLN 80 633 700.

*Loans paid out from the cooperative banks restructuring fund in the years 2001-2007*



*Allocation of loans from the cooperative banks restructuring fund (in %) in the years 2001-2007*



# INSPECTIONS AND MONITORING OF BANKS USING FINANCIAL ASSISTANCE OF THE FUND

## Audits and Monitoring

Pursuant to regulations of the act on BGF, inspections are being carried out in banks that use assistance of the Fund to verify the correctness of assistance funds use and of execution of rehabilitation programmes.

23 inspections were carried out in 2007 in banks that use assistance of BGF. Results of those inspections have confirmed that assistance granted by BGF was used in the correct way and that it has fulfilled its obligations by providing support to take-overs of banks threatened by the risk of insolvency. Financial support of the Fund allowed the banks to implement primary objectives adopted in the rehabilitation programmes, and restructuring of the credit portfolio in the overtaken banks progressed correctly. Thanks to the undertaken measures and assistance granted by the Bank Guarantee Fund, bankruptcy of overtaken banks and the necessity of paying out guaranteed funds were prevented.

Moreover, the Fund constantly monitored the economic and financial situation of banks which benefit from the assistance – both from the assistance fund means and the cooperative bank restructuring fund, including:

- 2 commercial banks which were using loans from the assistance fund,

- 2 cooperative banks which were using loans from the assistance fund,
- 57 cooperative banks which were using loans from the cooperative bank restructuring fund.

## Execution of Curator Function

Pursuant to a decision issued by the Commission for Banking Supervision of 14 July 2004, in 2007 at its request the Bank Guarantee Fund acted as curator that supervised the rehabilitation programme execution by a bank to which in 2004 it had granted assistance aimed at elimination of the insolvency threat.

Detailed results of the curator's work were presented by the Fund in quarterly operating reports submitted to the Commission for Banking Supervision.

# COMPILING AND REVIEWING INFORMATION ABOUT BANKS

## Information Data Base and Review of Situation on the Banking Sector

Analytic tasks may be implemented by the Fund thanks to the statutory providing of BGF with access to information about banks; this allows devising autonomous analyses of the economic and financial reviews for particular banks and appraisal of the existing and potential threats to their operation.

The primary source of information about the banks were financial reports, received by the Bank Guarantee Fund in 2007 from the National Bank of Poland pursuant to the act on BGF and to the agreement concluded between the Fund and NBP, which regulated the scope and conditions for turning over of information.

Another important source of information are also data submitted to the Fund directly by banks by virtue of regulation of the NBP President of 29 May 2006 on the scope, method and deadline for submission of information by banks covered by the mandatory guarantee system to the Bank Guarantee Fund.

The core functions of BGF analytic operation comprise evaluation of threats in the banking sector to allow determination of demand for financial means in the deposit guarantee system, collected in banks as funds for protection of guaranteed deposits to cover potential guarantee liabilities, as well as early identification of the insolvency threat in banks necessary for undertaking appropriate measures by the Fund in cooperation with the Commission for Banking Supervision and with other institutions in the financial security network.

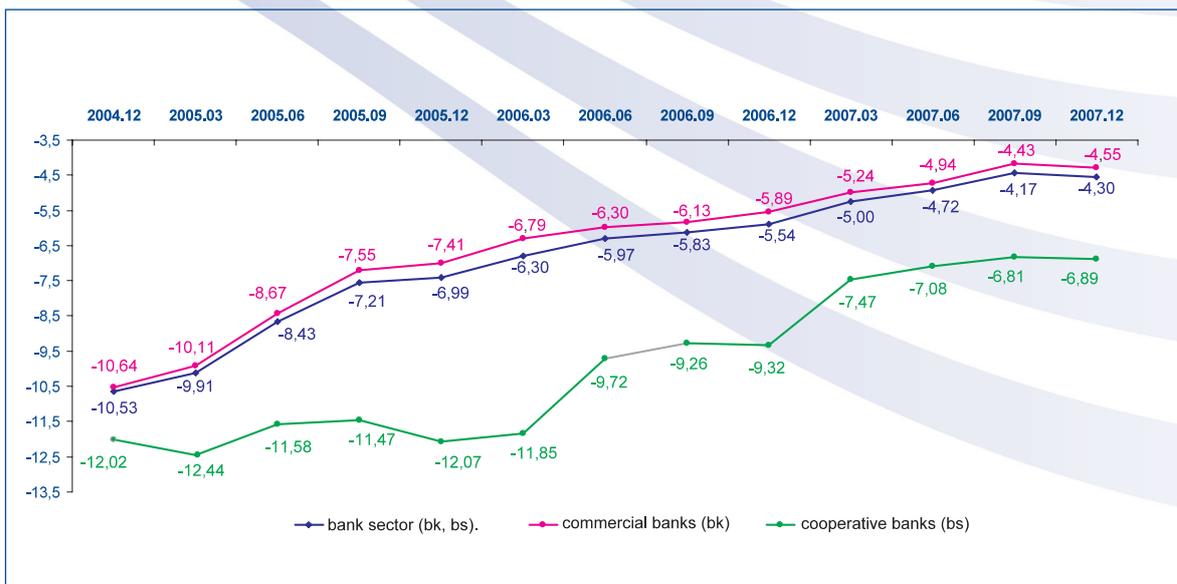
Furthermore, in 2007 developments in the situation of international financial markets were also monitored as regards appraisal of potential risk for the stability of the Polish banking sector. In the first place attention was drawn to the economic and financial situation of foreign crediting institutions and banks, which are investors of strategic entities from the domestic banking sector.

## Methodology for Bank Assessments

The Bank Guarantee Fund also makes use of its own methodology to evaluate possible hazards in the banking sector. Based on a review of quantitative and qualitative data obtained from reports and other sources, the particular banks receive their individual rating. Depending on the rating the banks are classified to a specific group within the so-called risk matrix.

The risk index presents the total standardised appraisal of effectiveness, solvency, assets quality and the quality of granted off-balance sheet liabilities weighted by share of each bank in the banking sector deposits. The risk index is calculated separately for commercial banks and cooperative banks. The values for this index range from 0 (no risk) to 100 points (maximum risk). Changes in the index level reflect changes in the assessments of threats that exist for the sector.

### Risk index in the banking sector



Thanks to good results achieved in the banking sector in 2007, the risk index has gradually been improved and remained on a low level.

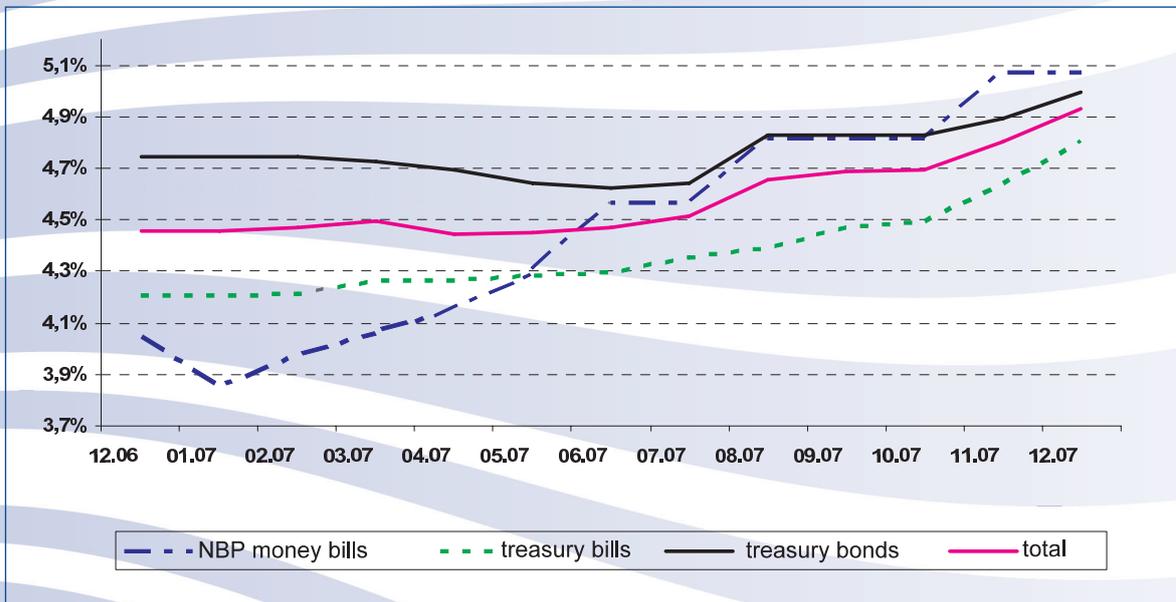
## DEPOSIT ACTIVITY

Under provisions of the act, BGF invests available assets into securities issued, secured or guaranteed by the State Treasury or the National Bank of Poland. The Fund may also acquire participation units in the money market funds and establish term deposits in NBP.

In 2007 a total of 149 transactions were executed, of which: 38 transactions were related to treasury bonds, 50 – treasury bills and 61 – NBP money bills.

The value of trade according to nominal transactions amounted to PLN 5 552 674 000, including: for treasury bonds PLN 2 429 224 000, treasury bills PLN 2 248 280 000 and NBP money bills PLN 875 170 000. The average profitability of securities acquired in 2007 amounted to 4.75% (5.05% for treasury bonds, 4.65% for treasury bills and 4.16% for NBP money bills respectively). No operations were executed with respect to participation units in the money market funds or investment of assets in the form of term deposits in NBP owing to the low profitability of those instruments.

## Profitability (on the basis of 365) of securities in the BGF portfolio at the state at the end of particular months



Revenues from securities for the entire 2007 totalled to PLN 206.1m, including:

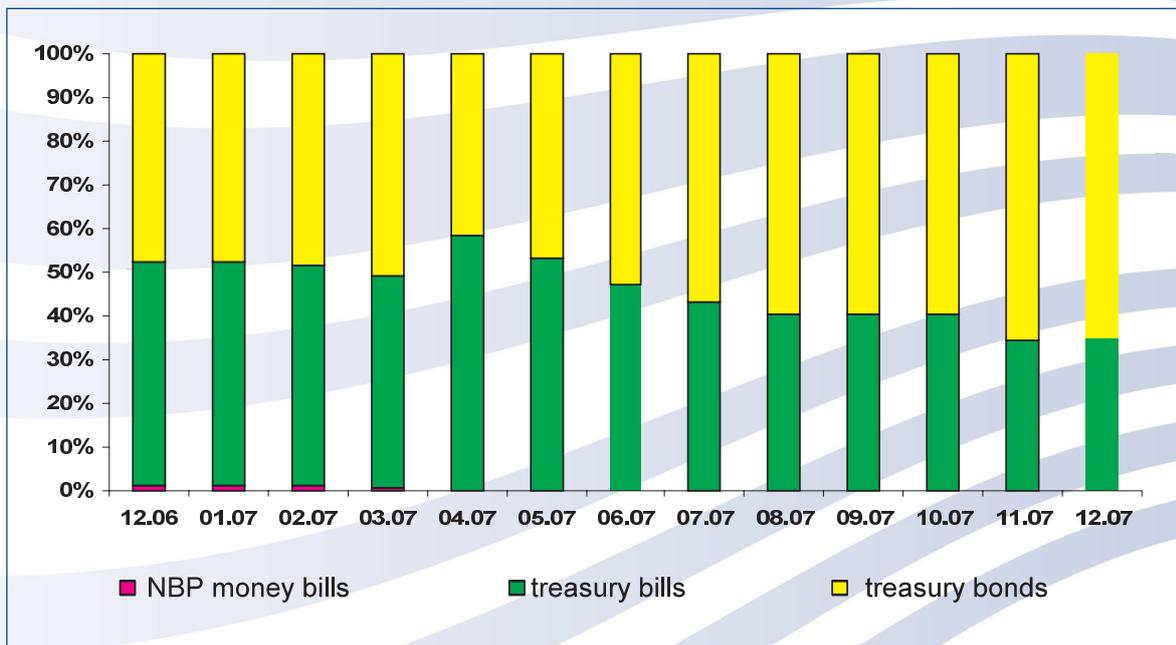
- ▣ treasury bonds: PLN 114.5m,
- ▣ treasury bills: PLN 90.9m,
- ▣ NBP money bills: PLN 0.7m.

In 2007 total revenues worked out by BGF from securities were higher than in 2006 by 19.4%, including revenues from treasury bonds - higher by 26.1% and from treasury bills - higher by 12.2%.

The gradual increase in profitability of indebted securities which was taking place since the beginning of 2007 (caused among others by the increase series in interest rates started in 2007 by the Monetary Policy Council - by a total of 100 points) and the recorded downtrend in liquidity of the treasury bills market (as an effect of limitations introduced by the Finance Ministry in the supply of those securities in tenders organised by that ministry) resulted in a structural change to the BGF security portfolio. In 2007 a total increase was noted of treasury bonds in the security portfolio to 65.4% from 47.7%. At the end of 2007 treasury bills stood at 34.4% of the security portfolio, as compared to 51.0% at the end of 2006.

The growth in profitability of the purchased securities allowed increasing the profitability of the entire security portfolio of BGF from 4.5% (according to the state at the end of 2006) to 4.9% (according to the state at the end of 2007). A slight increase was reported for the portfolio duration – from 0.9 year to 1.1 year.

Share of particular types of securities in the BGF portfolio - total



# NATIONAL AND INTERNATIONAL COOPERATION

## National Cooperation

The Bank Guarantee Fund endeavoured to continue cooperation with institutions responsible for assuring security and stability of the Polish banking system. Under this regular cooperation, the Fund and the General Inspectorate of Banking Supervision, which is an executive body of the Commission for Banking Supervision, exchange information and evaluations pertaining to the situation of entities included by the guarantee system, with particular focus on potential threats in the banking sector. In addition works were also executed which were oriented at formal determination of relations with the Polish Financial Supervision Authority and the National Bank of Poland.

The Fund remained in contact with representatives of the banking milieu, first of all as regards the policy for determination of rates in funds for protection of guaranteed deposits and mandatory annual charge.

## International Cooperation

The Fund was actively involved in works of the European Forum of Deposit Insurers (EFDI). In 2007 this Forum was transformed into an international *non-profit* society, which concentrates 44 deposit guarantee institutions. On 22 June 2007 the Fund became a member of EFDI, as one of the society's founders. EFDI is to contribute to the stability of financial systems by promoting European cooperation with respect to deposit guarantees. The society focuses on developing cooperation with the European Commission, carries out reviews of

transborder banking problems with respect to guaranteeing deposits, and establishes committees and working groups which devise standards for protection of depositors and financial stability on a domestic and international scale.

Under EFDI, the Fund participated in works connected with the review process regarding the Directive 94/19/CE on deposit guarantee schemes. A representative of the Bank Guarantee Fund chairs a working group responsible for working out a report concerning better information for consumers on deposit guarantee systems, identification of weaknesses and development of good practice rules. Concurrently the Fund has become a participant in the subgroup responsible for a report pertaining to reviews of periods of input unavailability and delays in guarantee payments and good practice rules in this extent.

In 2007 the Fund concluded two cooperation agreements – with the Russian and Danish guarantee institutions. The agreement with the Danish Guarantee Fund for Depositors and Investors defines general rules for cooperation between the Polish and Danish deposit guarantee systems, while the agreement concluded with the Russian Deposit Insurance Agency regulates in the first place the exchange of information and experience between the systems and organisation of joint training projects.

# INFORMATION AND PROMOTION ACTIVITY

The information and promotion activity of the Fund played an important role in the process of establishing social trust in the banking system and education, in the first place of the younger part of the society, with respect to functioning of the financial security system.

One of the elements of a cohesive information and promotion system related to dissemination of knowledge about the deposit guarantee scheme was the BGF webpage, which is subject to constant updating and development. It comprises among others information concerning the deposit guarantee system in Poland and in other European Union member states.

BGF organised training courses for bank employees, which covered rules of Fund operations, the deposit guarantee system and providing assistance with the use of cooperative bank restructuring fund.

Medial contacts have been made with publishers of journals and magazines with a financial profile, as an effect of which numerous articles were published concerning the banking system and rules for functioning of the deposit guarantee system. Publishing of the magazine *Bezpieczny Bank* (Safe Bank) was continued to allow further development of relations with the bank and university communities.

The subsequent edition was organised in the competition for the best master, bachelor or doctoral dissertations related to deposit guarantee system, issues of BGF operation and financial security of banks.

# MANAGEMENT AND ORGANISATION OF THE BANK GUARANTEE FUND

## Fund Management Bodies

The statutory authorities of the Bank Guarantee Fund comprise the Fund Council and the Fund Management Board.

In its fourth term of office, the Council comprised (state as on 31 December 2007) the following persons:

<b>Chairman of the Council:</b>	Robert Jagiełło
<b>Members of the Council:</b>	Agnieszka Alińska
	Wioletta Barwicka
	Janusz Czarzasty
	Jacek Dominik
	Alfred Janc
	Andrzej Parafianowicz
	Krzysztof Pietraszkiewicz
	Jan Szambelańczyk
	Katarzyna Zajdel-Kurowska
	Sławomir Zawadzki

On 20 April 2007 the 5th term of office of the Management Board commenced. The Board comprises the following persons:

<b>Chairman of the Board:</b>	Małgorzata Zaleska
<b>Deputy Chairman of the Board:</b>	Joanna Wielgórska-Leszczyńska <sup>1</sup> , entrusted with the function of Head Accountant
<b>Members of the Board:</b>	Krystyna Majerczyk-Żabówka
	Adrian Markiewicz
	Marek Pyła

<sup>1</sup> Suspended in her functions as of 23 November 2007.

## Fund Office Organisation

In 2007 organisational changes were introduced to the Fund Office, which reduced the total number of organisational units. The changes allowed achieving several benefits, in particular rationalised the performance of current and future tasks of the Fund, and in addition enabled the achievement of significant savings in operating costs of the Fund.

As a consequence of the executed changes, as of 1 September 2007 particular organisational units of the Fund Office implement the following assigned tasks:

- **Department of Analyses and Treasury** – performs tasks connected with compilation and reviews on economic information, and especially the banking sector; development of analyses and macroeconomic forecasts on their basis, and evaluation of the economic and financial standing of entities under the guarantee system, including appraisals of risks in the banking sector, as well as investment operation which comprises investing available assets of the Fund,
- **Department of Controlling, IT Systems and Administration** – performs tasks connected with development and transmission of information and reports necessary for operation of the Office, IT and administrative services and maintaining the working order of technical equipment and security systems in the Fund seat,
- **Department of Assistance Activity and Deposit Guarantees** – performs tasks related to providing financial assistance to banks endangered with insolvency, trade in receivables acquired from those banks and granting assistance to banks from the cooperative banks restructuring fund to support merger processes of those banks, as well as tasks arising from the obligation of assuring payments of guaranteed funds to depositors by the Fund,
- **Department of Finance** – performs tasks connected with finance and accounting in the Fund,
- **Department of Control and Monitoring** – performs tasks connected with control and monitoring of the economic and financial standing of banks, which have received assistance of the Fund, as well as controlling the correctness and legitimacy in the use of advanced financial assistance and implementation of rehabilitation programmes or other similar projects,

- ▣ **Cabinet of the Chairman** – performs tasks connected with assuring appropriate services to the Fund authorities, legal counselling, work organisation and personnel issues, as well as tasks related to cooperation with foreign deposit guarantee institutions and financial institutions, and in addition tasks related to information and promotion of the Fund,
- ▣ **Internal Audit Post** – performs tasks related to assessing the operating correctness and conformity of the Fund Office organisational units with the provisions of law and internal regulations of the Fund.

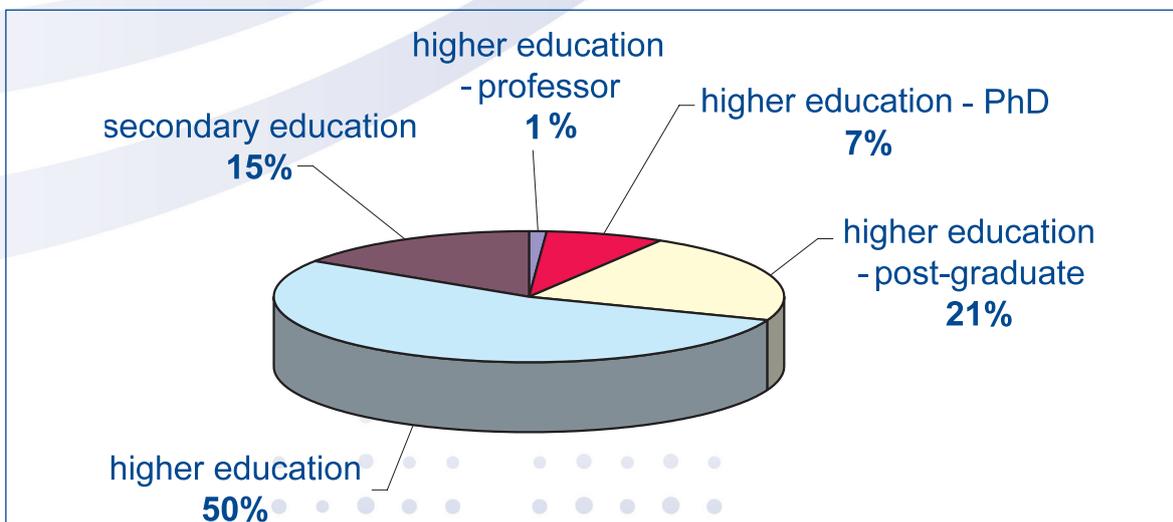
Furthermore, the Fund has two permanent interdepartmental committees:

- ▣ Assets Management Committee, which defines the investment policy for the available Fund assets,
- ▣ Committee for Assistance Applications Assessment, whose tasks comprise issuing opinions on applications prepared by the Department for Assistance and Deposit Guarantee for granting financial assistance to banks from the assistance fund and loans from the co-operative banks restructuring fund.

## Fund Office Employment

On 1 January 2007 the Bank Guarantee Fund employed 84 persons (including board members), while on 31 December 2007 employment totalled to 70 persons. The average annual employment (expressed in full-time jobs) was on the level of 78.91. Sixty employees of the Fund had higher education certificates, which constituted 85.0% of all employed persons.

### Education of persons employed in the Bank Guarantee Fund





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## CHARTERED AUDITOR'S OPINION

For the National Bank of Poland, the Fund Council, Council of Ministers and the Sejm of the Republic of Poland

1. We have studied the attached financial report for the financial year ending 31 December 2007 of the Bank Guarantee Fund, Warsaw, ul. ks. Ignacego Jana Skorupki 4 (hereafter referred as „the Fund”) which comprised:
  - balance sheet prepared as on 31 December 2007, which on the side of assets and liabilities has the amount of PLN 5 594 574 955.61;
  - profit and loss account for the financial year from 1 January until 31 December 2007 indicating a net profit in the amount of PLN 191 850 357.77;
  - cash flow account for the financial year from 1 January until 31 December 2007 indicating a reduction in the state of net cash by the sum of PLN 96 138.24;
  - additional information („attached financial report”)

The format of the attached financial report arises from the regulation of the Finance Ministry of 25 October 1999 on detailed accounting principles for the Bank Guarantee Fund (Journal of Laws No. 90, item 1006 of 1999 as later amended – „regulation on detailed accounting principles for the Bank Guarantee Fund”).

2. Responsibility for the reliability, correctness and clarity of the attached financial report, as well as correctness of the accounting ledgers, is borne by the Fund Council. Our task was to examine the attached financial report and to express our opinion whether this report is in all its crucial aspects reliable, correct and clear and whether accounting ledgers on the basis of which the said report has been prepared have been carried in all their aspects in the appropriate way.
3. We have audited the annual financial statements of the Fund pursuant to the following regulations which are binding on the territory of the Republic of Poland:
  - ▣ regulations of section 7 of the Act dated 29 September 1994 on accounting („The Act on Accounting”);
  - ▣ standards for the profession of a statutory auditor issue by the National Chamber of Statutory Auditors in Poland

in such a way as to become reasonably assured that the report contains no major irregularities. This comprised verification based on random inspecting method of the documentation, on which the figures and information contained in the attached financial report have been based. In addition the verification also covered appraising the correctness of accounting principles adopted by the Fund Council and of the major estimations executed by the Fund Council, and also of the general presentation of the attached financial report. We are convinced that that our audit constituted sufficient grounds to express an opinion about the attached financial report as a whole.

4. The financial report for the preceding financial year ending on 31 December 2006 was subject of examination by a chartered auditor acting on behalf of another eligible entity, which on 1 March 2007 issued an opinion containing no reservations of any kind about the said financial report.
5. We claim that in all its crucial aspects the attached financial report:
  - ▣ presents in a reliable and clear way all information vital for evaluation of the financial result of the performed economic activity for the period from 1 January until 31 December 2007, as well as the material and financial standing of the Fund as on 31 December 2007;

- has been prepared in conformity to accounting principles specified in the regulation on detailed accounting principles for the Bank Guarantee Fund, act on accounting and regulations issued on its basis, pursuant to correctly carried accounting ledgers;
- conforms to the regulation on detailed accounting principles for the Bank Guarantee Fund, act on accounting and regulations issued on its basis, as well as legal regulations binding for the Fund and the Fund Statute.

On behalf of  
Ernst & Young Audit sp. z o.o.  
Rondo ONZ 1, 00-124 Warsaw  
Registered Audit Company 130



Domnik Januszewski  
Chartered auditor No. 9707/7255

Warsaw, 14 March 2008



Jacek Hryniuk  
Chartered auditor No. 9262/6958

**THE BANK GUARANTEE FUND BALANCE SHEET,  
WITH A SEAT IN WARSAW, 4, KS. IGNACEGO JANA SKORUPKI STREET  
AS ON 31 DECEMBER 2007**

ASSETS	Additional information	31.12.2007	31.12.2006 (transformed data)	31.12.2006 (approved balance sheet)
<b>I. Cash</b>		<b>354 324.69</b>	<b>450 462.93</b>	<b>450 462.93</b>
1. Cash in hand		2 415.70	2 319.82	2 319.82
2. Cash in current account		237 793.91	308 418.23	308 418.23
3. Cash in special guarantee settlement account		1 798.65	1 798.65	1 798.65
4. Cash in term deposit account		0.00	0.00	0.00
5. Cash on Company Social Benefits Fund		112 316.43	137 926.23	137 926.23
<b>II. Receivables from financial institutions</b>		<b>564 125 903.27</b>	<b>1 005 250 205.07</b>	<b>1 005 250 205.07</b>
1. Receivables from banks, due to:	4	564 125 903.27	1 005 250 205.07	1 005 250 205.07
a) obligatory contributions to special guarantee settlement account		0.00	0.00	0.00
b) annual contributions to assistance fund		0.00	0.00	0.00
c) loans granted from assistance fund		483 455 398.54	909 536 733.51	909 536 733.51
d) loans granted from cooperative banks restructuring fund		80 670 504.73	95 713 471.56	95 713 471.56
e) realised guarantees and endorsements		0.00	0.00	0.00
f) purchased receivables		0.00	0.00	0.00
2. Receivables from other financial institutions	5	0.00	0.00	0.00
<b>III. Receivables from state budget</b>	<b>5</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>IV. Other receivables and claims</b>	<b>5</b>	<b>0.00</b>	<b>374.52</b>	<b>374.52</b>
<b>V. Securities</b>	<b>6</b>	<b>4 965 572 775.18</b>	<b>4 157 927 974.07</b>	<b>4 157 927 974.07</b>
1. Debt securities		4 965 572 775.18	4 157 927 974.07	4 157 927 974.07
a) of state issuers		4 965 572 775.18	4 157 927 974.07	4 157 927 974.07
b) of other issuers		0.00	0.00	0.00
2. Stocks and shares		0.00	0.00	0.00
a) in financial institutions		0.00	0.00	0.00
b) in other entities		0.00	0.00	0.00
<b>VI. Intangible and legal assets</b>	<b>7</b>	<b>14 878.33</b>	<b>0.00</b>	<b>0.00</b>
<b>VII. Tangible fixed assets</b>	<b>7</b>	<b>64 467 785.20</b>	<b>66 529 577.11</b>	<b>66 768 993.53</b>
<b>VIII. Other assets</b>	<b>5</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>IX. Prepayments and accruals</b>		<b>39 288.94</b>	<b>0.00</b>	<b>0.00</b>
<b>TOTAL ASSETS</b>		<b>5 594 574 955.61</b>	<b>5 230 158 593.70</b>	<b>5 230 398 010.12</b>
Contingent receivables	13	31.12.2007	31.12.2006 (transformed data)	31.12.2006 (approved balance sheet)
a) debts claimed from bankruptcy estate		477 153 005.89	479 323 225.63	479 323 225.63
b) other receivables		3 800 000.00	0.00	0.00

**THE BANK GUARANTEE FUND BALANCE SHEET,  
WITH A SEAT IN WARSAW, 4, KS. IGNACEGO JANA SKORUPKI STREET  
AS ON 31 DECEMBER 2007**

LIABILITIES	Additional information	31.12.2007	31.12.2006 (transformed data)	31.12.2006 (approved balance sheet)
<b>I. LIABILITIES</b>		<b>335 556.10</b>	<b>556 301.94</b>	<b>51 069 318.26</b>
1. Liabilities towards trustee of bankruptcy estate due to payments arising from the guaranteed funds system		0.00	0.00	0.00
2. Other liabilities	9	335 556.10	556 301.94	51 069 318.26
<b>II. ACCRUALS AND DEFERRED INCOME</b>	<b>10</b>	<b>1 777 905.01</b>	<b>1 678 458.30</b>	<b>600 108.07</b>
<b>III. PROVISIONS</b>	<b>11</b>	<b>1 595 559.44</b>	<b>1 534 478.00</b>	<b>5 500.00</b>
1. Provisions for risk related to granted guarantees		0.00	0.00	0.00
2. Provisions for risk related to granted endorsements		0.00	0.00	0.00
3. Other provisions for risk		1 595 559.44	1 534 478.00	5 500.00
<b>IV. STATUTORY FUND</b>	<b>8</b>	<b>1 507 093 007.33</b>	<b>1 394 046 227.08</b>	<b>1 394 046 227.08</b>
<b>V. RESERVE FUND</b>	<b>8</b>	<b>610 000 000.00</b>	<b>560 000 000.00</b>	<b>560 000 000.00</b>
<b>VI. ASSISTANCE FUND</b>	<b>8</b>	<b>3 110 734 292.99</b>	<b>2 938 082 461.36</b>	<b>2 938 082 461.36</b>
1. Assistance fund to be used		2 627 753 792.99	2 029 109 142.36	2 029 109 142.36
2. Used assistance fund		482 980 500.00	908 973 319.00	908 973 319.00
<b>VII. CO-OPERATIVE BANKS RESTRUCTURING FUND</b>	<b>8</b>	<b>123 409 688.87</b>	<b>123 409 688.87</b>	<b>123 409 688.87</b>
1. Co-operative banks restructuring fund to be used		42 775 982.87	27 732 910.87	27 732 910.87
2. Used co-operative banks restructuring fund		80 633 706.00	95 676 778.00	95 676 778.00
<b>VIII. REVALUATION FUND</b>	<b>8</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>IX. SPECIAL FUNDS AND OTHER LIABILITIES</b>	<b>12</b>	<b>112 316.43</b>	<b>137 926.23</b>	<b>137 926.23</b>
<b>X. FINANCIAL PROFIT (LOSS)</b>		<b>191 850 357.77</b>	<b>164 334 923.17</b>	<b>163 046 780.25</b>
1. Profit (positive value)		191 850 357.77	164 334 923.17	163 046 780.25
2. Loss (negative value)				
<b>XI. RESULT FROM PRECEDING YEARS</b>		<b>47 666 271.67</b>	<b>46 378 128.75</b>	<b>0.00</b>
1. Profit (positive value)		47 666 271.67	46 378 128.75	0.00
2. Loss (negative value)		-	-	-
<b>TOTAL LIABILITIES</b>		<b>5 594 574 955.61</b>	<b>5 230 158 593.70</b>	<b>5 230 398 010.12</b>

**THE BANK GUARANTEE FUND PROFIT AND LOSS ACCOUNT  
WITH A SEAT IN WARSAW, 4, KS. IGNACEGO JANA SKORUPKI STREET  
PREPARED FOR THE FINANCIAL YEAR FROM 1 JANUARY UNTIL 31 DECEMBER 2007**

	Additional information	31.12.2007	31.12.2006 (transformed data)	31.12.2006 (approved balance sheet)
<b>I. Income from statutory activity</b>	<b>15</b>	<b>3 606 446.93</b>	<b>7 976 740.45</b>	<b>8 535 343.20</b>
1. Interest income		3 583 745.46	7 923 839.94	8 482 442.69
2. Commission income		20 294.00	52 036.00	52 036.00
3. Income from interest for delayed contributions by banks for effecting guarantee payment		0.00	0.00	0.00
4. Income from interest for delayed annual contributions paid by banks		1 554.00	232.86	232.86
5. Income from interest for delayed repayments of loans and interest on loans by banks		853.47	631.65	631.65
<b>II. Cost of statutory activity</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
1. Interest on credits received from the National Bank of Poland		0.00	0.00	0.00
2. Remaining costs		0.00	0.00	0.00
<b>III. Result on statutory activity</b>		<b>3 606 446.93</b>	<b>7 976 740.45</b>	<b>8 535 343.20</b>
<b>IV. Result on financial operations</b>		<b>206 146 604.53</b>	<b>172 716 805.74</b>	<b>172 716 805.74</b>
1. Securities	15	206 127 480.75	172 688 343.60	172 688 343.60
2. Others		19 123.78	28 462.14	28 462.14
<b>V. Operational costs of the Fund</b>	<b>16</b>	<b>15 754 579.96</b>	<b>16 421 499.74</b>	<b>16 421 499.74</b>
1. Third-party services		2513 066.12	3 199 575.22	3 199 575.22
2. Payroll		11 002 111.20	10 661 113.50	10 661 113.50
3. Payroll margins		1 238 528.55	1 334 096.53	1 334 096.53
4. Other		1 000 874.09	1 226 714.49	1 226 714.49
<b>VI. Depreciation of fixed and intangible and legal assets</b>		<b>2 219 360.50</b>	<b>2 232 991.07</b>	<b>2 139 420.78</b>
<b>VII. Write-offs for provisions and revaluation</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>VIII. Liquidation of provisions and revaluation decreases</b>		<b>5 500.00</b>	<b>237 555.09</b>	<b>237 555.09</b>
<b>IX. Other income</b>		<b>219 646.30</b>	<b>2 200 140.09</b>	<b>259 824.13</b>
<b>X. Other costs</b>		<b>153 899.53</b>	<b>141 827.39</b>	<b>141 827.39</b>
<b>XI. Profit (loss) on operational activity</b>		<b>191 850 357.77</b>	<b>164 334 923.17</b>	<b>163 046 780.25</b>
<b>XII. Profit (loss) on extraordinary operations</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
1. Extraordinary profit		0.00	0.00	0.00
2. Extraordinary loss		0.00	0.00	0.00
<b>XIII. Financial Result of the Fund</b>		<b>191 850 357.77</b>	<b>164 334 923.17</b>	<b>163 046 780.25</b>
1. Profit		191 850 357.77	164 334 923.17	163 046 780.25
2. Loss		-	-	-

**THE BANK GUARANTEE FUND CASH FLOW REPORT**  
**WITH A SEAT IN WARSAW, 4, KS. IGNACEGO JANA SKORUPKI STREET**  
**PREPARED FOR THE FINANCIAL YEAR FROM 1 JANUARY UNTIL 31 DECEMBER 2007**

	2007	31.12.2006 (transformed data)	31.12.2006 (approved cash flow account)
<b>A. Cash flow from operating activity</b>	-	-	-
I. Net financial profit/loss	191 850 357.77	164 334 923.17	163 046 780.25
II. Adjusted by items:	-207 616 607.62	-178 697 184.26	3 761 744.95
1. Depreciation	2 219 360.50	2 232 991.07	2 139 420.78
2. Provisions for endangered receivables created as costs	0.00	0.00	0.00
3. Other provisions created as costs of the Fund's activity	61 081.44	-99 140.00	-244 500.00
4. Change in receivables and claims	374.52	-374.52	-374.52
5. Change in short-term liabilities (except loans and credits) and special funds	-246 355.64	-437 517.42	1 931 835.77
6. Change in prepayments and accruals	60 157.77	283 677.23	0.00
7. Change in deferred income	0.00	0.00	0.00
8. Other items	-209 711 226.21	-180 676 820.62	-64 637.08
III. Net cash from operating activity	-15 766 249.85	-14 362 261.09	166 808 525.20
<b>B. Cash flow from investment activity</b>	-	0.00	0.00
I. Purchase/ sale of intangible assets	-39 645.00	-5 635.03	-5 635.03
II. Purchase/ sale of tangible fixed assets	-132 801.92	-238 553.67	-238 553.67
III. Purchase/ sale of treasury bonds, NBP money bills, bonds	-641 035 007.55	-663 134 219.47	-832 288 715.40
IV. Granted/repaid loans from the assistance fund	425 992 819.00	505 029 826.00	505 029 826.00
V. Granted/ repaid loans from the co-operative banks restructuring fund	15 043 072.00	23 841 972.00	23 841 972.00
VI. Purchased/ sold receivables	0.00	0.00	0.00
VII. Interest received/ repaid	43 189 843.45	8 482 442.69	-3 533 847.67
VIII. Other items	0.00	0.00	0.00
IX. Net cash from investment activity	-156 981 720.02	-126 024 167.48	-307 194 953.77
<b>C. Cash flow from financial activity</b>	-	0.00	0.00
I. Change in statutory fund	0.00	0.00	0.00
II. Change in assistance fund	172 651 831.63	140 349 826.81	140 349 826.81
III. Change in cooperative banks restructuring fund	0.00	0.00	0.00
IV. Receiving/ repayment of short-term bank credits and loans	0.00	0.00	0.00
V. Interest repaid/ returned	0.00	0.00	0.00
VI. Other items	0.00	0.00	0.00
VII. Net cash from financial activity	172 651 831.63	140 349 826.81	140 349 826.81
<b>D. Change in net cash</b>	<b>-96 138.24</b>	<b>-36 601.76</b>	<b>-36 601.76</b>
<b>E. Cash at the beginning of the accounting year</b>	<b>450 462.93</b>	<b>487 064.69</b>	<b>487 064.69</b>
<b>F. Cash at the end of the accounting year</b>	<b>354 324.69</b>	<b>450 462.93</b>	<b>450 462.93</b>

The logo for Bank Guarantee Fund (BFG) is displayed in a large, bold, white, italicized sans-serif font. The letters are thick and closely spaced, with a slight slant to the right. The background is a deep blue gradient with a faint, lighter blue cloud pattern.

**BANK GUARANTEE FUND**

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