

ANNUAL REPORT

2018

SELECT LANGUAGE

PL

EN



Bankowy
Fundusz
Gwarancyjny

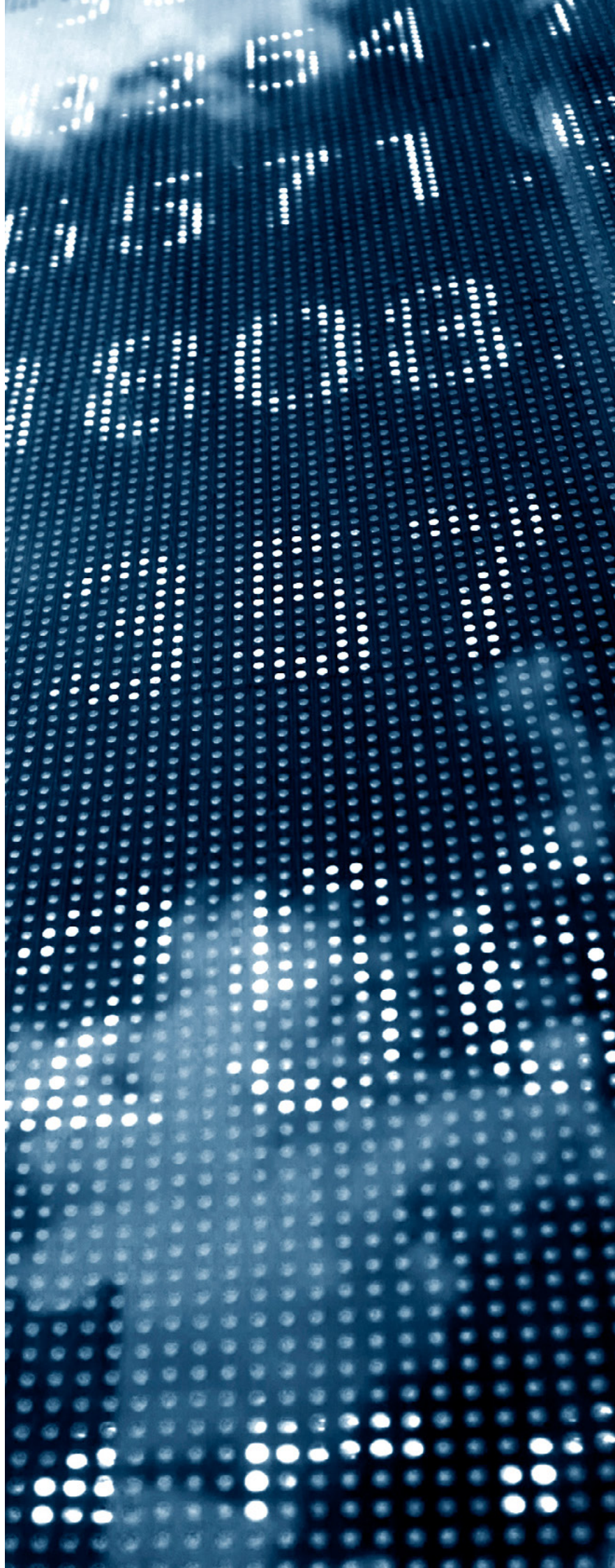


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MESSAGE FROM THE CHAIRPERSON OF THE COUNCIL AND THE PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK GUARANTEE FUND

Dear Sir/Madam,

On behalf of the Council and the Management Board of the Bank Guarantee Fund, we are pleased to provide you with the Annual Report summarising the third year of our activity under the new Act.

One of the two key areas of the Bank Guarantee Fund's operation is resolution of financial institutions. In 2018, we reviewed 13 resolution plans of commercial banks, 211 cooperative banks, 2 affiliating banks, 13 credit unions and 10 brokerage houses. Jointly with the resolution authorities from other EU Member States, we adopted group resolution plans covering the banks operating in Poland which form international groups: RBS, HSBC, Deutsche Bank AG, Societe Generale, Credit Agricole, Santander, Raiffeisen, Volkswagen and BCP.

In order to create uniform practices and increase transparency in the resolution planning process, in 2018 we developed the "Identification of Critical Functions Model". The material outlines the approach of the Bank Guarantee Fund to one of the premises upon which the Fund makes a decision on resolution. We also updated the rules for determining the MREL, i.e. liabilities and own funds that the bank should hold in the event that it has to be restructured. In order to broaden knowledge of resolution within the "Summer School of Economics" cycle, we organised meetings, e.g. for journalists, students and employees of state authorities.

The second main area of BFG's activity is to guarantee deposit schemes. In 2018, for the first time since 2014, there was not a single case of meeting the guarantee condition triggering the disbursement of guaranteed funds, however, there were disbursements of guaranteed funds for depositors of entities for which the guarantee condition was met in the years 2014-2017. In 2018, we granted support to entities which took over 3 credit unions: Lubuska SKOK, Bieszczadzka SKOK and SKOK Rafineria.

Implementing our investment policy, we have efficiently navigated through the market conditions in 2018. Subsequently, we achieved significant return on our assets under management. The total result of financial operations amounted

to PLN 524 million and exceeded the plan by PLN 77 million. An important step toward increasing the fund's operational capacity to acquire liquid funds for interventions has been signing an agreement with the Ministry of Finance, which allowed for entering into conditional transactions.

In 2018, we recovered over PLN 360 million as a consequence of the liquidation of the bankruptcy estate of seven credit unions and one bank with respect to which the guarantee condition was met in previous years. It is worth noting that the recovered funds mostly contributed to the guarantee fund of banks, the purposes of which include financing part of the reimbursements of guaranteed funds for customers of the bankrupt credit unions.

Since the Act¹ on increasing the supervision of the financial market and the protection of investors entered into force in December 2018, the Fund has delegated its representative with an advisory capacity to the Polish Financial Supervision Authority.

We invite you to read the Annual Report for 2018.



Leszek Skiba

A handwritten signature in black ink, reading 'Leszek Skiba' in a cursive script.

Chairperson of the Council
of the Bank Guarantee Fund



Mirosław Panek

A handwritten signature in black ink, reading 'Mirosław Panek' in a cursive script.

President of the Management Board
of the Bank Guarantee Fund

¹ As a consequence of the Act of 9 November 2018 on the amendment of certain acts in connection with increasing the supervision the supervision of the financial market and the protection of investors in that market (Journal of Laws item 2243) entering into force.



KEY ABBREVIATIONS



INTRODUCTION

FIGURE 1.
SECURITY NETWORK



1. LEGAL GROUNDS

BFG was established pursuant to the Act of 14 December 1994 on the Bank Guarantee Fund. Currently the legal grounds for the Fund's activities is the Act on the Bank Guarantee Fund, the deposit guarantee scheme and resolution (hereinafter: the Act on BFG) which has applied since 9 October 2016 and has provided the Fund with broad powers and intervention mechanisms in case of threat to the stability of the domestic financial system.

The Act on BFG introduced into the domestic legal order, the provisions of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes and Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.

2. MISSION AND TASKS OF THE BANK GUARANTEE FUND

THE FUND'S OBJECTIVE IS TO:



- | to act for the security and stability of the domestic financial system,
- | the Bank Guarantee Fund guarantees the protection of the savings of customers of banks and credit unions collected in accounts.

THE MOST IMPORTANT TASKS OF THE FUND INCLUDE:



- | guaranteeing deposits accumulated in a bank or a credit union up to the statutory limit (equivalent of EUR 100 000 in PLN) and making disbursements of the guaranteed funds - within 7 working days from the date of meeting the guarantee condition, in special cases and within a limited time, the depositor is entitled to the guarantee protection in the amount higher than the equivalent of EUR 100 000²,
- | verifying the correctness of data included in the calculation systems of the entities covered by the guarantee scheme,
- | carrying out resolution proceedings of domestic entities and other institutions if they are subject to consolidated supervision exercised by the Polish Financial Supervision Authority, by way of redemption or conversion of equity instruments,
- | preparing and updating resolution plans and assessing their feasibility,
- | carrying out resolution proceedings,
- | collecting and analysing information on banks, credit unions and investment firms,
- | developing analysis and forecasts for early identification of threats in the banking sector and the credit union sector,
- | undertaking other measures for the stability of the domestic financial system.

2 Since 9 October 2016.

3. ORGANISATION OF THE BANK GUARANTEE FUND

In accordance with the Act on BFG, the Fund's bodies are the Council and the Management Board, which manages the work of subordinate departments and other organisational units.

TABLE 1.

COMPOSITION OF THE BFG COUNCIL IN 2018

Piotr Nowak (MF)	Council Chairperson
Patryk Łoszewski (MF)	Member of the Council
Robert Zima (MF)	Member of the Council
Olga Szczepańska (NBP)	Member of the Council
Martyna Wojciechowska (NBP)	Member of the Council
Marek Chrzanowski (KNF)	Member of the Council (until 15 November 2018)
Marcin Mikołajczyk (KNF)	Member of the Council (since 20.11.2018)

TABLE 2.

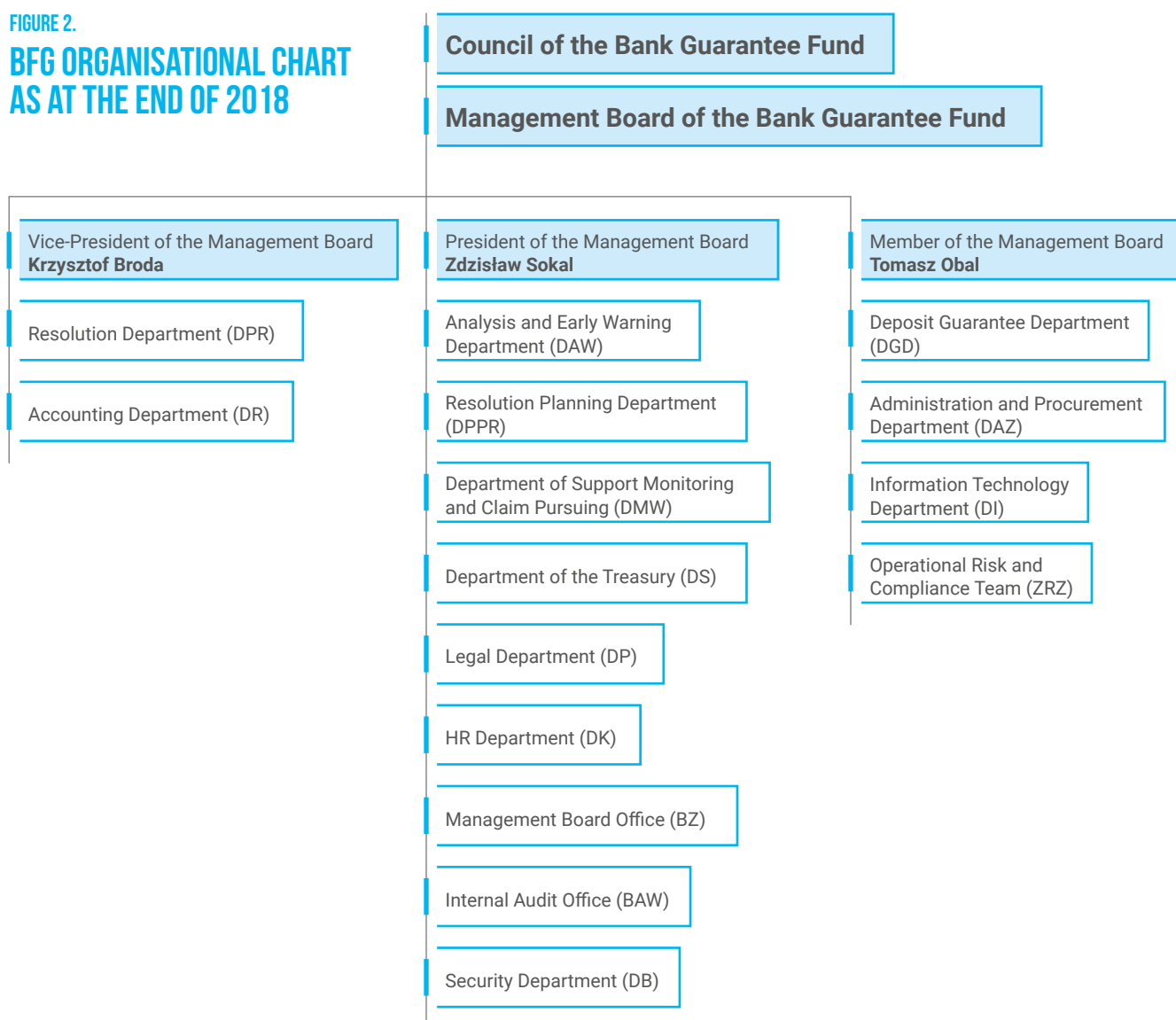
COMPOSITION OF THE BFG MANAGEMENT BOARD IN 2018

Zdzisław Sokal	President of the Management Board
Krzysztof Broda	Vice-President of the Management Board
Tomasz Obal	Member of the Management Board

The organisational structure of the Bank Guarantee Fund is composed of organisational units responsible for carrying out tasks which include:

FIGURE 2.

BFG ORGANISATIONAL CHART AS AT THE END OF 2018



In addition, the following committees and task teams worked in the Bank Guarantee Fund Office:

- | Asset Management Committee,
- | Resolution Committee,
- | Financial Assistance Assessment Committee,
- | Operational Risk Committee,
- | Early Warning System Committee,
- | The Committee for monitoring the bankruptcy proceedings with respect to banks and credit unions,
- | The Task Team for stress tests of the Bank Guarantee Fund's systems,
- | The Task Team for field inspection,
- | Task Force for the implementation of electronic documentation management in the Bank Guarantee Fund.



GUARANTEEING DEPOSITS

At the end of 2018, the guarantee cover included deposits accumulated in all domestic banks, excluding Bank Gospodarstwa Krajowego, i.e. in.:

- | 31 commercial banks,
- | 549 cooperative banks, and
- | in all cooperative savings and credit unions (i.e. 30 credit unions).

The guarantees of the Bank Guarantee Fund cover funds from the date of their transfer to account, but not later than on the day prior to the date of the fulfilment of the guarantee condition, **up to the PLN equivalent of EUR 100,000** (including the interest accrued until the date of the fulfilment of the guarantee condition). In the special cases specified in Article 24 (3) and (4) of the Act on BFG, depositors' funds are covered by guarantees in an amount exceeding the PLN equivalent of EUR 100,000 within 3 months of crediting the account or from the moment in which the entitlement arose. Higher guarantees apply, for example, to funds in the account obtained from the sale of certain types of real properties, the payment of the insurance amount, damages or compensation.



31

**COMMERCIAL
BANKS**

549

**COOPERATIVE
BANKS**

30

**CREDIT
UNIONS**

GUARANTEED FUNDS:



IN THE CASE OF A BANK

Cash collected by the depositor on bank accounts, in which it is a party to an agreement, both in PLN and in foreign currencies, as of the date of the fulfilment of the guarantee condition, plus the interest accrued until the date of the fulfilment of the guarantee condition based on the interest rate indicated in the agreement and:

- | other receivables of the depositor resulting from the maintenance of bank accounts by the bank,
- | receivables of the depositor resulting from the monetary settlements conducted by the bank,
- | receivables of the depositor resulting from the bank securities issued prior to 2 July 2014, if they are confirmed with registered documents issued by the issuer or with registered deposit certificates,
- | debts towards the bank on account of instruction in the case of death and on account of the costs of funeral of the account holder, as long as those debts had become due and payable before the date on which the guarantee condition with respect to the bank was fulfilled.



IN THE CASE OF A CREDIT UNION

cash collected by the depositor on accounts, in which it is a party to an agreement, both in PLN and in foreign currencies, as of the date of the fulfilment of the guarantee condition, plus the interest accrued until the date of the fulfilment of the guarantee condition based on the interest rate indicated in the agreement and:

- | other receivables of the depositor resulting from the maintenance of their accounts by the credit union,
- | receivables of the depositor resulting from the monetary settlements conducted by the credit union,
- | debts towards the credit union on account of instruction in the case of death and on account of the costs of funeral of the account holder, as long as those debts had become due and payable before the date on which the guarantee condition with respect to the credit union was fulfilled.

1. THE PROCESS OF MAKING DISBURSEMENTS OF GUARANTEED FUNDS

- | **The Fund is obliged to satisfy claims on account of the guarantee within 7 working days as of the fulfilment of the guarantee condition,**
- | In the case of the fulfilment of the guarantee condition, the receivership of a bank or the receiver of a credit union determines the balance in the accounting books of an entity, with respect to which the fulfilment of the guarantee condition has occurred, and compiles a list of depositors, which is then submitted to the Fund no later than within 3 working days (from the day of the fulfilment of the guarantee condition),
- | the Fund verifies the data of the depositors with the use of the Guarantee Execution System, then prepares a disbursement list and conveys it to the entity that will carry out the disbursements on behalf and for the benefit of the Fund,
- | Depositors are not obliged to report their claims to the Bank Guarantee Fund prior to receiving the guaranteed deposits.



Pursuant to the Act on BFG, depending on the decision of the Fund, the disbursement of the guaranteed funds may be carried out by the receivership (in the case of a bank) or the receiver (in the case of a credit union), or via a different entity, with which the Fund concludes an agreement for disbursement of guaranteed funds.



The Fund entered into such agreements with four³ banks (agent-banks). These are retail banks which have a significant branch network, which allows for carrying out disbursements throughout the country, providing depositors with an easy access to guaranteed funds. In 2018, annexes were added to the agreements on the readiness to make disbursements of guaranteed funds concluded with banks-agents: PKO BP SA, Pekao SA and BZ WBK SA⁴, taking into account the obligation of applying Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).



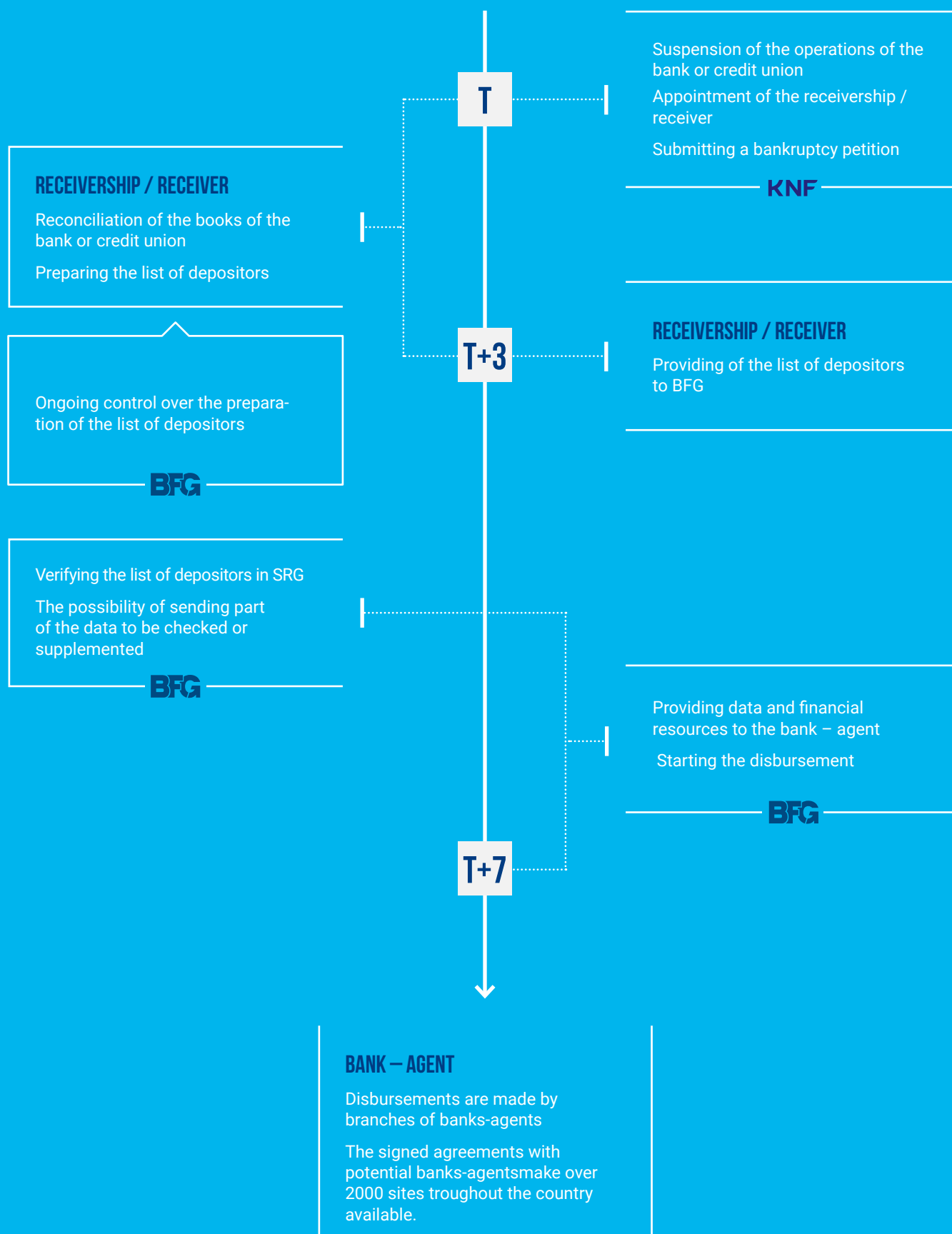
Individuals who for whatever reason fail to collect their due funds in the course of a payout carried out by an entity authorised by the Fund may approach the BFG directly to collect their due disbursement within 5 years from the day of the fulfilment of the guarantee condition. After this period the guarantee-related depositor claims are barred.

³ Three of those banks signed the agreements expanding the possible scope of disbursements with credit union depositors.

⁴ Since September 2018 operating under the name Santander Bank Polska SA.

FIGURE 3.

THE PROCESS OF PREPARING DISBURSEMENTS OF GUARANTEED FUNDS



2. DISBURSEMENTS OF GUARANTEED FUNDS IN 2018

In 2018, the Fund continued the disbursement of guaranteed funds for depositors of 2 cooperative banks and 11 credit unions, in respect of which the guarantee condition was met between 2014 and 2017. Disbursements were made only by the Fund's Office.

TABLE 3.

ACTIVE GUARANTEED FUND DISBURSEMENT PROCESSES IN 2018

Name of entity	Rok spełnienia warunku gwarancji	Wyплаты
SKOK „Wybrzeże”	2017	<p>In the disbursement of guaranteed funds, the Fund makes payments to depositors of banks and credit unions both within the period in which the agent-bank operates and after that period.</p> <p>During the period of operation of the agent-bank, the Fund pays out funds in accordance with the complaint procedure, while after the operation of the agent-bank – on the basis of applications for individual payments.</p> <p>Guarantee claims shall lapse after five years from the date of satisfying the guarantee condition.</p>
SKOK „Nike”		
Twoja SKOK		
SKOK Wielkopolska		
BS w Nadarzynie	2016	
SKOK „Skarbiec”		
SKOK „Arka”		
SKOK „Jowisz”		
SKOK „Polska”		
SKOK Kujawiak	2015	
SBRiR w Wotominie		
SKOK w Wotominie	2014	
SKOK Wspólnota		

TABLE 4.

DISBURSEMENTS OF GUARANTEED FUNDS IN 2014-2018

No.	Name of entity	Date on which the guarantee condition was met	Number of depositors	Liabilities due to depositors* PLN million	Total disbursements until the end of 2018 PLN million	Liabilities as of the end of 2018* PLN million	Degree of the execution of disbursements as of the
1	SKOK „Wybrzeże”	15.09.2017 r.	7 696	120,8	119,3	1,5	98,8%
2	SKOK „Nike”	02.06.2017 r.	10 443	114,4	111,9	2,5	97,8%
3	Twoja SKOK	12.05.2017 r.	14 019	165,8	162,9	2,9	98,3%
4	SKOK Wielkopolska	03.02.2017 r.	39 574	284,2	279,3	4,9	98,3%
5	BS w Nadarzynie	24.10.2016 r.	5 860	145,9	144,8	1,1	99,3%
6	SKOK „Skarbiec”	22.07.2016 r.	8 348	88,0	87,5	0,5	99,5%
7	SKOK „Arka”	11.05.2016 r.	13 947	93,1	92,2	1,0	99,0%
8	SKOK „Jowisz”	25.04.2016 r.	7 380	81,9	80,5	1,4	98,2%
9	SKOK „Polska”	25.02.2016 r.	8 343	170,2	169,0	1,2	99,3%
10	SKOK Kujawiak	08.01.2016 r.	17 200	183,9	183,0	0,9	99,5%
11	SBRiR w Wołominie	23.11.2015 r.	33 144	2 036,9	2 030,2	6,8	99,7%
12	SKOK w Wołominie	12.12.2014 r.	45 447	2 246,5	2 241,7	4,9	99,8%
13	SKOK Wspólnota	18.07.2014 r.	74 042	817,5	811,9	5,6	99,3%

* The values do not include the liabilities towards depositors whose data needs to be confirmed.

In accordance with the procedure, in 2018 the verification process for the documentation of disbursements of guaranteed funds to SKOK "Wybrzeże", received from PKO BP S.A. was completed and therefore a complete settlement of payments with the bank-agent was completed. In total, the bank-agent disbursed guaranteed funds to 2,327 depositors in the amount of PLN 110,951.3 thousand, which represented 92% of the amount transferred to the bank – agent for the execution of payments.

Payments to depositors who have not collected funds in branches of banks-agents will be made directly by the BFG Office until the expiry of the limitation period for claims.

As of the end of 2018, the value of the disbursements remaining to be paid out from the Fund to bank depositors amounted to PLN 7,849.6 thousand while to credit union depositors – PLN 27,325.7 thousand.

3. DISBURSEMENTS OF GUARANTEED FUNDS TO DEPOSITORS IN 1995-2018

Starting from the beginning of its operations, the BFG has disbursed guaranteed funds to depositors of 96 banks, including 5 commercial banks and 91 cooperative banks, and 11 credit unions.

TABLE 5.

GUARANTEE CONDITIONS FULFILMENT IN THE YEARS 1995-2018

Year	Cooperative banks	Cooperative banks	Cooperative savings and credit unions
1995*	2	48	
1996	1	30	
1997	-	6	
1998	-	4	
1999	1	-	
2000	1	-	
2001	-	1	
2002-2013	-	-	-
2014	-	-	2
2015	-	1	-
2016	-	1	5
2017	-	-	4
2018	-	-	-
RAZEM	5	91	11

Guarantees for credit unions became effective as of 29 November 2013

* From 17 February 1995, i.e. from the effective date of the Act of 14 December 1994 on the Bank Guarantee Fund.

TABLE 6.

FUNDS ALLOCATED TO GUARANTEE DISBURSEMENTS TO BANK DEPOSITORS IN 1995-2018

Funds allocated to guarantee disbursements (in PLN million)						
Year	Total	Including:				Number of depositors (in PLN thousand)
		from fośg ⁵	from liquid assets of bankruptcy estates ⁶	from the bankruptcy estate recovery fund	from the guarantee fund ⁷	
1995	105,0	85,9	19,1	0	-	89,9
1996	50,8	47,3	3,1	0,4	-	59,4
1997	6,4	4,7	0,6	1,1	-	10,4
1998	8,2	4,1	1,8	2,3	-	6,8
1999	4,7	0	2,0	2,7	-	1,6
2000	626,0	484,1	141,9	0	-	147,7
2001	12,5	0	4,5	8,0	-	2,7
2002	0,1	0	0,1	0	-	0,05
2003	0,1	0	0,1	0	-	0,03
2004	0,4	0	0,4	0	-	0,1
2005	0,1	0	0,1	0	-	0,1
2006	0,1	0	0,1	0	-	0,005
2007-2008	0	0	0	0	-	0
2009	0,004	0	0	0,004	-	0,001
2010-2014	0	0	0	0	-	0
2015	2 037,0*	2 036,9	-	-	-	33,1*
2016	145,7*	145,6	-	0,04	0,03	5,7*
TOTAL	2 997,1	2 808,6	173,8	14,5	0,03	357,6

Funds for guarantee disbursements under the Act on BFG applicable as of 9 October 2016 (in PLN million)				
Year	Total	including:		Number of depositors* (in PLN thousand)
		from the guarantee fund	fośg**	
2017	0,2	0,2	0,0	0,2
2018	0,002	0,002	0,0	0,003
TOTAL ALL YEARS	2 997,3	0,2	2 808,6	357,8

* The provided values take into account the liabilities included in the list of depositors, which require confirmation of the correctness of the data.

** Entities included in the guarantee system are obliged to create and hold Guaranteed Deposit Protection Fund to satisfy the claims of depositors to 31 December 2024.



IN 1995-2018, THE FUND EARMARKED PLN 2 997.3 MILLION FOR DISBURSEMENTS OF GUARANTEED FUNDS FOR 357.8 THOUSAND ENTITLED DEPOSITORS.

- 5 By the end of 2016, the Guaranteed Deposit Protection Fund constituted the basic source of financing the disbursement of guaranteed funds to depositors. Under the Act on BFG, from 1 January 2017 to 31 December 2024, banks are obliged to create and hold Guaranteed Deposit Protection Fund to satisfy the claims of depositors, but these funds may be used to disburse guaranteed funds only after the funds from the guarantee fund of banks, extraordinary contributions and funds from other own funds have been exhausted (excluding resolution funds).
- 6 By 30 December 2010, pursuant to the repealed Act of 14 December 1994 on the Bank Guarantee Fund, guaranteed funds were disbursed primarily from liquid assets of the bankruptcy estate of the bank with respect to which the guarantee condition was fulfilled.
- 7 The banks guarantee fund was established pursuant to the Act on BFG from funds of the liquidated aid fund and liquidated bankruptcy estate recovery fund. The disbursements of funds guaranteed from the guarantee fund of banks have been made from 9 October 2016 (and until the end of 2016 after the funds of the Guaranteed Deposit Protection Fund have been exhausted).

TABLE 7.

FUNDS ALLOCATED TO GUARANTEE DISBURSEMENTS TO CREDIT UNION DEPOSITORS IN 2014-2018

Funds allocated to guarantee disbursements (in PLN million)					
Year	Total*	W tym z:			Number of depositors* (in PLN thousand)
		from the credit unions guarantee fund	payments from the National Credit Union	aid fund	
2014	3 064,0**	20,7	32,8	3 010,5	119,5
2015	0,1	0,1	0,0	0,0	0
2016	617,2	44,5	0,007	572,7	55,2
TOTAL	3 681,3	65,3	32,8	3 583,21⁸	174,7

Funds for guarantee disbursements under the Act on BFG applicable as of 9 October 2016 (in PLN million)				
Year	Total*	including from the guarantee fund:		Number of depositors* (in PLN thousand)
		credit unions	banks	
2017	685,1	58,2	626,9	71,7
2018	(-)0,02	(-)0,02	0,0	0
TOTAL ALL YEARS	4 366,4	123,5	626,9	246,5

* The provided values take into account the liabilities included in the list of depositors, which require confirmation of the correctness of the data.

** Including the PLN 73 thousand liability resulting from the BFG Management Board resolution, adopted on 9 February 2015, on the disbursement of the guaranteed funds to SKOK Wotomin depositors after completion of the depositor list.



IN THE YEARS 2014-2018, THE FUND EARMARKED PLN 4,366.4 MILLION FOR THE DISBURSEMENT OF GUARANTEED FUNDS FOR PLN 246.5 THOUSAND OF ENTITLED BANK DEPOSITORS.

8 Because the amount of the Fund's liabilities due to guaranteed funds exceeded the funds of credit unions to be used and the value of the stabilisation fund assets provided by the National Credit Union, in accordance with the decision of the Fund Council, the remaining amount was covered from the funds transferred from the BGF aid fund.

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

Banks and credit unions are obliged to deploy calculation systems. The calculation systems, thanks to the computerised process of determining the value of guaranteed funds for each individual depositor and the possibility of providing data to the Fund, allow a quick calculation of the value of such funds. These systems organise the data based on the Single Customer View standard, allowing to display all the information on the given client.

The BFG is statutorily equipped with the power to perform validity audits of the data compiled in the calculating systems.

The purpose of the audit is to minimise the risk of preparing the list of depositors with incorrect or incomplete data and to enable the prompt execution of potential payments if the guarantee condition is fulfilled with respect to the entity covered by the guarantee scheme. For this purpose, the adaptation of calculation systems to the appropriate requirements regarding the scope of data, the manner of its presentation and proper data designations associated with the definitions of depositor and guaranteed funds included in the provisions of the Act on BFG, is verified.

Data correctness is audited on the basis of the provisions of Article 32 (1) of the Act on BFG both at the Fund, on the basis of data provided to the BFG by entities covered by the guarantee scheme, and at head offices of such entities on the basis of documentation made available. In the course of an audit at the Fund, one assesses the correctness and completeness of the data provided at the request of the BFG, which is necessary to identify the depositors and the guaranteed funds. In the entities covered by the guarantee scheme, an audit includes verification of the correctness of the data included in the calculation systems on the basis of source documents and of the correctness of application of the definition of depositor and guaranteed funds, specified in the Act on BFG.

The table below presents the validity inspections of the data included in the calculation systems of the entities covered by the guarantee scheme, conducted in 2018.

TABLE 8.

THE NUMBER OF DATA INSPECTIONS CONDUCTED IN 2018

Type of audit	Commercial banks	Cooperative banks	Credit unions	Total
w Funduszu	15	182	25	222
w banku/w kasie	1	11	2	14
TOTAL	16	193	27	236

**The scope of control of the accuracy of data:**

- | verification of correctness of the data in the calculation systems of the banks and credit unions, including assessment of the scale of change in quality of the data in comparison with the result from the previous audits performed at the Fund,
- | verification of adaptation by banks and credit unions of the calculation systems to the requirements in place regarding the scope of data, the manner of presenting it and proper data designations associated with the provisions of the Act on BFG amended in 2016⁹ and with the definitions of depositor and guaranteed funds.

Pursuant to Article 34 of the Act on BFG, once every three years, the Fund carries out tests of the effectiveness of its systems in terms of the possibility of the disbursement of guaranteed funds; in 2018 such a test was carried out in the Fund.

**The following areas were covered by tasks carried out as part of the tests of the effectiveness of the Fund's systems:**

- | drawing up lists of disbursements made by two banks,
- | obtaining external funds in order to finance the disbursement of guaranteed funds.

The results of drawing up the lists of disbursements have demonstrated that the procedures and systems of the Fund allow for the performance of statutory obligations regarding the possibility of the disbursement guaranteed funds, including the ability to inspect the list of depositors and to draw up a list of disbursements within three days.

The test in the scope of obtaining external funding for the financing of the disbursement of guaranteed funds confirmed the operational capacity of the Fund in this scope, including the possibility of quickly requesting for external funds in order to secure funds for the disbursement of guaranteed funds within the statutory deadline and in the event of a threat to financial stability.

⁹ Details in the scope of the structure and content of data in the calculation systems, arising from the provisions of the Act on BFG, were specified in the Regulation of the Minister of Finance on the requirements for the calculating systems maintained in the entities covered by the statutory guarantee scheme of 26 September 2016 (the "Regulation on requirements for the calculating systems").

5. INVESTIGATION OF CLAIMS ON ACCOUNT OF THE DISBURSEMENT OF GUARANTEED FUNDS

As of 31 December 2018 the GFG participated in fourteen bankruptcy proceedings as a creditor on account of the disbursement of guaranteed funds, with a total commitment of PLN 5,874,683.4 thousand. Three proceedings concern banks (35% of the total amount of debts with respect to entities in bankruptcy) while the other proceedings are carried out against credit unions (65% of the total amount of debts with respect to entities in bankruptcy).

TABLE 9.

LIST OF BANKRUPTCY PROCEEDINGS IN WHICH THE BFG PARTICIPATES

No.	Entity declared bankrupt	Bankruptcy declaration date
Before 2003		
1	Bank Spółdzielczy w Łanietach	08/11/1995
2014		
2	SKOK Wspólnota	26/09/2014
2015		
3	SKOK Wołomin	05/02/2015
4	SBRiR in Wołomin (SK Bank)	30/12/2015
2016		
5	SKOK „Polska”	13/04/2016
6	SKOK „Kujawiak”	31/05/2016
7	SKOK „Jowisz”	02/06/2016
8	SKOK „Arka”	12/07/2016
9	SKOK „Skarbiec”	29/09/2016
10	Bank Spółdzielczy in Nadarzyn	19/12/2016
2017		
11	Wielkopolska SKOK	28/02/2017
12	Twoja SKOK	19/06/2017
13	SKOK „Nike”	03/07/2017
14	SKOK „Wybrzeże”	21/11/2017

RECOVERING FUNDS FROM THE BANKRUPTCY ESTATE

In 2018, the Fund recovered the amount of PLN 361,243 million on the basis of partial division plans of the bankruptcy estate funds of the following entities:

Two partial division plans were submitted in two bankruptcy proceedings¹⁰:

- | **Wielkopolska SKOK** – anticipated satisfaction of the Fund in the amount of PLN 15 million, which will increase the total satisfaction of the Fund by the bankrupt credit union to 49%,
- | **SKOK Arka** – anticipated satisfaction of the Fund in the amount of PLN 5 million, which will increase the total satisfaction of the Fund by the bankrupt credit union to 55%.

10 Deadline for the satisfaction of the Fund – Quarter 1 of 2019



RESOLUTION

1. RESOLUTION

Resolution consists in restructuring an institution that is failing or likely to fail where liquidation of such institution within standard insolvency proceedings might have executed in the event where the bankruptcy of such an entity, due to its effects, might have a serious negative impact on its customers as well as the operation of financial markets or the economy.

The rules of resolution with respect to banks, credit unions and certain investment firms are specified in the Act on BFG.

The resolution rules adopted in the Act on BFG implement the provisions of the Directive of the European Parliament and of the Council 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.

Among other things the Act specifies a resolution toolkit and powers necessary to intervene quickly and effectively with respect to an institution that is failing or likely to fail to ensure continuous performance of functions of key importance for customers of that entity and for the economy (the so called critical functions), to protect financial stability, protect guaranteed funds and to limit the utilisation of public funds.

11 Measures are taken in the public interest when winding up of the institution under normal insolvency proceedings might have serious adverse effects on safety of its customers and their funds, financial stability (including the operation of financial markets or the economy), continuity of critical functions performed by such entity or its bankruptcy would entail the need to use (or increase the use) the public funds to meet the abovementioned objectives.

Shareholders of the failed institution shall cover its losses and bear cost of resolution in the first instance. For the purpose of providing supplementary financing for resolution, resolution funds were also created, of which one for banks and investment firms and another for credit unions, to which contributions are made by all the entities covered by the scope of the act. Thanks to that the risk of having to engage public funds, so taxpayers incurring costs, was mitigated.

When carrying out resolution tasks, from the resolution funds, the Fund may:

- | grant borrowings or guarantees to an institution under resolution or its business, its subsidiaries, a bridge institution, the asset management vehicle and the acquiring entity, provided that they are necessary to maintain liquidity or solvency of the institution under resolution, its subsidiaries, the bridge institution and the asset management vehicle, or that they relate to the use of resolution tool in particular to provide support in the process of acquiring the institution under resolution or its business; and
- | acquire assets of the institution under resolution.

The Fund may also provide support for the purpose of acquiring an institution under resolution or its business or for the purpose of transferring them to the bridge institution, in the form of:

- | loss sharing agreements on purchased assets or assumed liabilities,
- | subsidies to cover the gap between the liabilities and assets transferred to the purchaser.

Any use of resolution fund shall be consistent with the Union State aid framework.

2. RESOLUTION PLANNING

Pursuant to Article 89 of the Act on BFG, the Fund shall review resolution plans and group resolution plans as well as carry out resolvability assessments for domestic institutions at least once a year (less often for entities which are for less significant for the system).



IN 2018, AFTER CONSULTING THE POLISH FINANCIAL SUPERVISION AUTHORITY, THE FUND REVIEWED PLANS AND CARRIED OUT RESOLVABILITY ASSESSMENTS FOR:



IN ADDITION, AFTER CONSULTING THE POLISH FINANCIAL SUPERVISION AUTHORITY, THE FUND ADOPTED RESOLUTION PLANS FOR:

As part of the process of reviewing resolution plans, the Fund defined a minimum level of own funds and liabilities subject to write down or conversion (MREL) for all domestic institutions and presented expectations regarding the characteristics of debt instruments eligible for the purpose of this requirement.

In the case of financial groups comprising banks or investment firms from various EU Member States, resolution colleges are established. The resolution authority from the Member State in which the Union parent undertaking for the group is based is the authority responsible for establishing the college and supervising its activities.

A college consists of:

- | resolution authorities,
- | competent authorities,
- | ministers competent for financial institutions,
- | deposit insurers from the Member States in which the group carries out its activities,

in addition, at an invitation of a competent supervisory authority representatives of the central bank may be involved in the activities of the college. Members of each and every college also include the European Banking Authority, however, without a right to vote.

Resolution colleges draw up and maintain group resolution plans as well as determine MREL the group as a whole and for particular institutions comprising it. Moreover, in the event where a group or one institution is failing or likely to fail, when it is impossible to undertake effective alternative measures, the initiation of resolution proceedings, the subjective scope of the measures undertaken and the selection of the tool are subject to joint decisions made within the college by the resolution authorities participating in it.

Pursuant to Directive 2014/59/EU and in accordance with the recommendations of the Financial Stability Board (FSB, a global standard setter in the scope of financial stability), the Act on BFG imposed on domestic entities **the obligation to meet a minimum requirement for own funds and eligible liabilities (MREL) subject to write down or conversion**. The purpose of the new requirement is to ensure that the structure of an institution's liabilities provides appropriate loss absorption and recapitalization capacity when resolution powers, including write down or conversion of capital instruments and liabilities, are applied.

MREL is calculated for each and every domestic institution individually by the resolution authority on the basis of the rules specified by the European Commission in a delegated regulation, and it is expressed as a percentage of the total liabilities and own funds of the institution. The key factor influencing the MREL is the resolution tool specified as the preferred one in the plan.

Institutions are obliged to meet their requirement in the form of own funds or debt instruments meeting eligibility criteria specified in the act, i.e. long-term, non-secured and non-guaranteed liabilities with respect to entities other than natural persons and entities from the SME sector. The Fund may also indicate supplementary criteria which the Fund will expect to be satisfied, including the degree of subordination or exclusion of liabilities with respect to certain groups of creditors, e.g. local government units.

The BFG is involved in the activities of resolution colleges established for EU cross-border groups carrying out activities in the territory of the Republic of Poland through subsidiaries being banks or investment firms.

In 2018 the Fund was a member of:

and it presided over one college for a cross-border group carrying out banking activities in Poland and in Romania, the parent company of which is a domestic holding company.

The Fund was involved in making joint decisions on group resolution plans for 10 EU cross-border groups.

AS PART OF ACTIVITIES CARRIED OUT AT COLLEGES, BFG REPRESENTATIVES IN PARTICULAR:



participated in Extended Executive Sessions of the SRB, during which proposals of a resolution strategy for banking groups were discussed,



prepared contributions to draft group resolution plans, in which the MPE (Multiple Point of Entry) strategy was indicated as the preferred one,



issued opinions on draft group resolution plans, in which the SPE (Single Point of Entry) strategy was indicated as the preferred one,



agreed decisions on adopting group resolution plans.

In the case of financial groups comprising more than one bank or investment firm, it is possible to differently structure resolution proceedings, which is described as a resolution strategy.

There are two basic resolution strategies, i.e. the SPE and the MPE, and the determining factor is the level at which the resolution instrument is applied.

3. IMPLEMENTATION OF TASKS RELATED TO RESOLUTION

The Fund has developed tools in the scope of conducting resolution by using practical experience from resolution cases in other jurisdictions and international cooperation.

Diagrams and the scope of activities were prepared for the processes of applying the bail-in tool and the sale of business tool under resolution. In addition, the Fund supplemented the prepared schedules of activities for these processes and the resolution process with the use of a bridge institution facility. The schedules are used in the case of updates of resolution plans.

A diagram and schedule of the use of the bridge institution facility and templates of key documents related to the creation of such an entity have also been prepared.

In connection with the work on preparing resolution, a number of documents were developed regarding, among other things, the initiation of resolution, pre-notification of the public aid and the possibility of granting support in the form of guarantees covering losses and subsidies, as well as loans and guarantees in order to ensure liquidity, to create of a bridge institution, to estimate assets and liabilities referred to in Article 137 (3) of the Act on BFG and to fulfil information obligations.

Moreover, the subject of analyses was also a strategy towards entities related to the institution under resolution in a situation in which these entities are not subject to the resolution process themselves.

An analysis of the principles of resolution financing from the resolution fund and the guarantee fund of banks on the example of a selected entity was also prepared. In particular, the analysis focused on the possibility of using the resolution fund and the guarantee fund of banks as part of providing support in the resolution process, with particular emphasis on the requirements concerning, among other things, the mandatory participation in the coverage of the bank's losses by its shareholders and creditors, the maxi-

mum levels of support that the Fund may grant from the given fund and the order of use of the resolution fund and the guarantee fund when granting support.

The Fund exchanged correspondence with the European Commission aimed at specifying the application of the requirement of contribution to loss absorption and recapitalisation equal to an amount not less than 8% of the total liabilities including own funds of the institution under resolution.

The Fund continued its cooperation with the KDPW and KDPW_CCP on developing effective procedures in the process of write down or conversion of capital instruments referred to in Article 70 (1) (1) of the Act on BFG (without the initiation of resolution and in resolution), in relation to securities which are the subject of clearings or settlements made in the KDPW and KDPW_CCP systems, or may be the subject of clearings or settlements in these systems. The Fund also established the cooperation of GPW and BondSpot, in particular as regards the possibility and manner of suspending the listing of securities (stocks and bonds) issued by the institution under resolution by the Fund.

The Fund concluded framework agreements for preparing valuations for resolution purposes referred to in Article 137 (2) of the Act on BFG, with three entities¹².

The Fund requested selected banks, and credit unions submit selected information specified in Appendix 1 to the Ordinance of the Minister of Development and Finance of 9 August 2017 on the detailed scope, manner and deadline for providing the Bank Guarantee Fund with the information necessary to carry out its tasks and the manner of verifying the correctness of the information provided (Regulation) for the purpose of resolvability assessments and resolution preparedness carry out resolvability assessments and The Fund analysed the information provided by the entities in terms of its completeness, internal con-

¹² The Fund concluded a total of four framework agreements concerning estimates for resolution purposes.

sistency between particular tables, as well as compliance with the reporting information of banks and compliance with the Regulation. The Fund also analysed the data provided by these banks in accordance with the Regulation of the Minister of Development and Finance of 8 June 2017 on the register of financial instruments.

The Fund also conducted discussion with the Office of Competition and Consumer Protection and the European Commission on possible State aid notification and the possibility of exemptions from write down or conversion of liabilities.

The Fund continued to cooperate with the Office of Competition and Consumer Protection (UOKiK) and the Ministry of Finance with regard to aid schemes:

- | the extension of the aid scheme for the resolution of co-operative banks and small commercial banks,
- | the extension of the credit union liquidation scheme for the following period, while at the same time increasing the limit for assistance and support under this programme,
- | the reporting of state aid granted by the Fund in the restructuring of credit unions.

BFG, in connection with the adoption, though delegated regulation, of regulatory technical standards specifying the criteria concerning the methodology for assessing the value of assets and liabilities of institutions or entities and technical standards specifying the criteria concerning the method of valuation of the difference in treatment in resolution – updated the internal regulation on determining the rules for carrying out valuations for resolution purposes.

In connection with the European Commission inquiry submitted by the Ministry of Finance, the Fund assessed the correctness and completeness of implementation of the provisions of the BRR Directive in the Act on BFG. As a result of this assessment, the Fund has developed draft amendments to the provisions in cases where there was a need to supplement the implementation or change of an existing one. In particular, the amendments proposed concerned the regulations concerning the instrument for bail-in tool, the principles of operation of the bodies of the institution under resolution and removing impediments to resolvability.

The Fund continued the arrangements with the Ministry of Finance regarding the preparation of amendments to the BFG Act related to the identified obstacles to resolution, including with regard to providing information to employees and trade unions operating within institution under resolution about the acquisition of the company by another entity, ad hoc establishment of a bridge institution and the use of the bridge institution tool in the case of the resolution of an affiliating bank.

The Fund cooperated with the Ministry of Finance in order to draw up provisions concerning the restructurisation of banks in the scope of providing support in connection with the restructurisation of banks.

Actions undertaken in conjunction with the Ministry of Finance resulted in drawing up the amendment to the Act on BFG, which introduced changes concerning inter alia the resolution of an affiliating bank, the creation and operation of a bridge institution, the adjustment of the provisions concerning the restructuring of credit unions, the scope of information provided about the acquired entity, the sale of loan portfolio with the observance of banking secrecy and other related to the further implementation of the provisions of Directive 2014/59/UE¹³ in relation to the level of preference of unsecured debt instruments in the hierarchy of claims in bankruptcy proceedings.

The Fund also participated in a meeting organised by the National Bank of Poland on the creation of the National Credit Register. During the meeting, the justification for the construction of the Register, the benefits resulting from keeping it and the scope of works connected with the creation of design assumptions were presented.

Pursuant to the Act on BFG, domestic institutions are obligated to keep records of financial instruments providing the Fund with access to current information about all receivables and liabilities of those entities arising from financial instrument agreements concluded by them or REPO or sell-buy back transactions. At the same time the legislator provided the BFG Council with a power to waive from that obligation any entities whose potential liquidation in bankruptcy proceedings would have, in the Fund's opinion, a limited negative impact on the financial situation of other entities, the stability of the financial market and the economy. In the first round of the preparation of resolution plans

13 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU of the European Parliament and of the Council as well as Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council

completed in 2017, the Fund waived from the requirement all entities for which liquidation in standard bankruptcy proceeding was indicated as a preferred measure in the resolution plan. Waivers are in force until the BFG Council revokes them. In 2018, following a change in the plan update approach, the BFG Council changed the decision in relation to one entity.

4. FINANCIAL SUPPORT AND RESOLUTION ACTIVITIES



Pursuant to the Act on BFG, in the scope of the resolution of credit unions at risk of insolvency the Fund is responsible for:

- | granting repayable financial assistance,
- | purchasing debts of credit unions,
- | providing support to entities taking over credit unions, taking over certain property rights or selected liabilities of credit unions, or to buyers of the enterprise of a credit union in liquidation, the organised part thereof or certain property rights.

Financial assistance in the form of borrowings, guarantees and sureties may be granted to a credit union that implements a recovery program on which a positive opinion has been issued by the KNF. Financial assistance may be earmarked only for eradicating the threat of insolvency.



The Fund grants assistance provided that in particular:

- | the Fund's Management Board recognises the results of an audit of the financial statements presented by a credit union requesting assistance as regards its activities,
- | the credit union presents a positive opinion of the KNF on the recovery program,
- | the credit union demonstrates that the amount of the assistance requested by the credit union would be not higher than the total amount on account of guarantees in that credit union, calculated as the sum of guaranteed funds on the accounts of the credit union's depositors,
- | the credit union requesting assistance uses its current funds to cover losses,
- | in the case of repayable financial assistance, securing claims on account of the assistance granted to guarantee the repayment of the full assistance amount with interest thereon.

The Fund shall consult measures taken in the scope of restructuring as well as obligations imposed on a credit union with the KNF.

Financial assistance may be granted provided that it is consistent with the aid scheme in force or provided that the applicant, i.e. the credit union, obtains a positive decision from the European Commission on granting assistance within the individual aid notification process.

The Fund may also grant assistance in the form of purchasing monetary debts of credit unions at risk of insolvency. However, pursuant to the Regulation of the Minister of Development and Finance of 1 December 2016 on trading by the Bank Guarantee Fund in debts purchased from cooperative savings and credit unions at risk of insolvency (Journal of Laws of 2016 item 1969), these may include only unmaturing debts on account of borrowings and loans granted, classified by credit unions under the "regulator" category, with respect to which there is no delay in repayment, and the debtor's economic and financial situation does not pose any risk to further timely repayment of debt.



Support may be granted to entities taking over the activities or a part of activities of a credit union or to buyers of the enterprise or assets of a credit union in liquidation by:

- | acquiring shares of the acquiring bank,
- | granting a borrowing or a guarantee,
- | granting a guarantee of total or partial coverage of losses,
- | providing a grant.



The Fund grants support provided that in particular:

- | the Fund's Management Board recognises the results of an audit of the financial statements presented by the acquirer or the buyer regarding their activities,
- | the acquirer or the buyer presents the Fund's Management Board with a positive opinion of the KNF on the advisability of the acquisition and the absence of risk to the safety of depositors' funds collected at a credit union with respect to which the Polish Financial Supervision Authority has issued the decision on acquisition or liquidation, and at the assuming or acquiring bank or credit union,
- | the acquirer or the buyer demonstrates that the amount of funds committed by the Fund to supporting the acquirer or the buyer would not be higher than the total amount on account of the guarantees at the credit union with respect to which the KNF issued a decision on acquisition or liquidation, calculated as the sum of guaranteed funds in the credit union's depositors' accounts being acquired.
- | own funds of the credit union being acquired or liquidated have been used to cover losses,
- | debts have been secured, guaranteeing a repayment of the full amount of the support with interest thereon in the case of support in the form of a borrowing or a guarantee.

Similarly, as in the case of granting financial assistance, measures related to granting support for the restructuring of credit unions may be undertaken and implemented by the Fund after obtaining a decision from the European Commission on consistency with the rules of granting state aid.

5. THE RESTRUCTURING OF COOPERATIVE SAVINGS AND CREDIT UNIONS

For the purpose of preparing restructuring processes of credit unions, the Fund monitored the economic and financial situation of credit unions, in particular those at which the KNF appointed receivers or with respect to which the KNF instituted proceedings with a view to appointing receivers and those the situation of which had deteriorated.

Among other things analyses focused on the possibility of providing potential support in processes of acquiring cooperative savings and credit unions characterised with a worse financial situation



IN 2014-2018, BFG GRANTED SUPPORT IN THE FORM OF GRANTS FOR THE TOTAL AMOUNT OF PLN 513.4 MILLION AND A LOSS COVERAGE GUARANTEE AMOUNTING TO PLN 672.6 MILLION.

TABLE 10.

SUPPORT PROVIDED IN THE FORM OF GRANTS AND LOSS COVERAGE GUARANTEES IN 2014-2018

No.	Specification	Year of granting	Grant in PLN thousand	GPS* in PLN thousand
1	Alior Bank SA (SKOK im. św. Jana z Kęt)	2014	15 895,80	25 873,95
2	Pekao SA (SKOK im. Mikołaja Kopernika)	2015	101 926,30	221 696,40
3	PKO BP SA (SKOK "Wesoła")	2015	278 858,40	219 465,09
4	Alior Bank SA (SKOK im. Stefana Wyszyńskiego)	2016	52 533,74	110 002,86
5	Alior Bank SA (Powszechna SKOK)	2016	9 310,12	24 982,44
6	Śląski Bank Spółdzielczy "Silesia" w Katowicach	2017	115,84	1 909,15
7	ING Bank Śląski SA (Bieszczadzka SKOK)	2018	11 824,76	27 810,24
8	BS we Wschowie (Lubuska SKOK)	2018	1 877,63	6 527,00
9	BGŻBNP Paribas SA (SKOK Rafineria)	2018	41 082,26	34 405,80
TOTAL			513 424,85	672 672,92

* maximum amount of loss coverage guarantee

FIGURE 4.

SUPPORT IN THE FORM OF GRANTS / ACQUISITION PROCESS IN 2018



In 2018, the Fund also declared the possibility of participating in the **resolution of SKOK Piast** by granting support to **Bank Millennium S.A.** in the case of acquisition of the Credit union in the form of grants and loss coverage guarantees. The request for support was not submitted to the Fund before the end of 2018. The granting of aid was completed in 2019.

The Fund also continued work related to potential granting of repayable financial assistance to **one of the credit unions**. It participated in talks with the European Commission concerning the notification of individual aid, it participated in meetings with representatives of the credit union, UKNF and the Office of Competition and Consumer Protection.

Due to the initiation of administrative proceedings by the Polish Financial Supervision Authority on the acquisition of SKOK "Jaworzno" by a national bank, the Fund continued its work in the scope of financial analysis concerning the possibility of granting support in the resolution of that entity. It participated in meetings with representatives of banks interested in participating in the resolution of SKOK "Jaworzno" where the terms of potential support were discussed.

6. RESTRUCTURING OF BANKS

In connection with the announcement made on 30 November 2018 regarding the Act of 9 November 2018 on the amendment of certain acts in connection with increasing the supervision over the financial market and the protection of investors in that market introducing amendments

to the Banking Law Act and the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution, concerning inter alia the restructuring of banks, the Fund began preparing internal legal acts concerning the rules for granting support in bank resolution processes.

7. ASSISTANCE FROM THE COOPERATIVE BANKS RESTRUCTURING FUND

Pursuant to the Act of 7 December 2000 on the Operation of Cooperative Banks, their Affiliation, and Affiliating Banks (Journal of Laws of 2018, item 613) the BFG granted cooperative banks and affiliating banks that were not at risk of insolvency, financial assistance from the cooperative banks restructuring fund established in 2001. In accordance with Article 35 (3) of that act, such assistance could be granted to cooperative banks to finance:

| the acquisition of shares of an affiliating bank,

| expenditures, incurred or planned, related to the merger of cooperative banks, aimed at increasing the security of collected cash or improving or standardising customer service rules, in particular for:

- > acquiring or modifying IT programs or equipment,
- > developing or standardising banking technology,
- > modifying financial and accounting procedures,
- > developing or unifying offers of banking products and services,
- > planning expenditures of investment nature,

- > expenditures, incurred or planned, related to developing or joining a protection scheme or an integrated affiliation.

In addition, affiliating banks were only able to apply for assistance for financing expenditures, incurred or planned, related to developing or joining a protection scheme or an integrated affiliation.

The Fund examined the applications of 53 banks, taking decisions on:

- | granting 50 loans for the protection system amounting to a total of PLN 10.508,0 thousand,
- | granting 2 loans on account of expenses connected with mergers amounting to a total of PLN 1.051,0 thousand,
- | the refusal to grant 1 loan because of the lack of credibility of the financial forecast presented by the bank and the resulting probable risk of no repayment.

Financial assistance granted by the Fund may be remitted. Such a remission constitutes de minimis aid, which may not exceed the PLN equivalent of EUR 200 thousand in a three-year period. The remission may take place in cases justified by the public interest or cases of having an impact on increasing financial stability.

In 2018, the Fund Council extended the premises constituting the basis for applying for remission of all or some of the loans granted by the Fund from the funds of frbs to cooperative banks. It became possible to remit loans granted from frbs to finance the incurred or planned expenses related to the merger of cooperative banks, provided that the merger process was carried out following the actions undertaken by the Polish Financial Supervision Authority or by the managing body of the security system in relation to the acquired bank. The reason is that such mergers affect the financial stability of the sector, the maintenance of which is in the public interest.

In 2018, the Fund responded positively to 120 bank applications for the remittance of all or part of loans granted for expenditures on the protection system granted in 2016-2018. The borrowings written off totalled PLN 25.612,8 thousand.

In 2018, the Fund received 2 requests to change the terms and conditions of loan agreements from frbs, both concerning changes in the terms and conditions of loans, and the Fund responded positively.

8. OTHER ACTIVITIES

Due to the amendment of the provisions from 2016 of the Act of 29 August 1997 - Banking Law (Journal of Laws of 2017, item 1876, as amended), banks prepare recovery plans specifying measures in case the bank's financial situation deteriorates considerably in the event of a threat to financial stability, a difficult macroeconomic situation or other events having a negative impact on the financial market or the bank. The Polish Financial Supervision Authority approves the recovery plan by way of decision, prior to issuing

a decision the KNF requests the Fund to issue an opinion on the expected impact of the execution of the recovery plan on resolution.

At the KNF's request in 2018, pursuant to Article 141q (4) of the Banking Law Act, the Fund analysed and issued 69 opinions on recovery plans: of 20 commercial banks, capital groups and affiliating banks, of 34 cooperative banks and 15 repeated opinions on further versions of recovery plans.

9. MONITORING OF SUPPORT GRANTED

As at the end of 2018, the monitoring process covered 5 commercial banks (using the support in connection with the acquisition of seven credit unions) and 2 cooperative banks (using support in connection with the acquisition of

two credit unions) to which BFG provided support between 2014 and 2018 in connection with the resolution of credit unions.

SETTLEMENT OF LOSS COVERAGE GUARANTEE AGREEMENTS (GPS)



As part of monitoring banks taking advantage of support, the Fund received reports on settlements on account of loss coverage guarantees for subsequent settlement period. As a result of the settlements made, the Fund's receivables from the Beneficiaries in 2018 amounted to PLN 5,699.86 thousand and the Fund's liabilities towards Beneficiaries, in total, (-) PLN 11,169.40 thousand. The result was (-) PLN 5,469,54 thousand.

In 2018 the Fund conducted 2 inspections in banks, the subject of which was the correct implementation of the terms and conditions of support agreements, the quality of managing the acquired property rights as well as of the information provided in settlement reports compared to the banks' books. The audits did not identify any irregularities at any of the banks that would have had an impact on the performance of agreements and settlements thereof.



ANALYTICAL **ACTIVITY**

The basic objective of the analytical activities of the Fund is to assess the financial condition of the banking sector and of the individual banks, as well as the credit union sector and of the individual credit unions, to allow early identification of entities with a deteriorating economic and financial condition, and to get ready in advance for the potential resolution activities or for the payout of guaranteed funds to depositors. The Fund conducts a broad range of analytical works with the use of the information and data from the National Bank of Poland, the Polish Financial Supervision Authority, banks and the National Cooperative Savings And Credit Union.

On the basis of the available information on banks and credit unions, the Fund prepared, on a quarterly and monthly basis, analyses concerning the economic and financial situation of the banking sector and individual banks, as well as of the credit unions sector and individual credit unions, indicating the sources of risk in their activities.

Moreover, the method of presentation of the results of analyses of the economic and financial situation of the banking sector and individual banks was changed, by preparing synthetic information on financial situation in the banking sector and banks with increased risk, which is presented on a monthly basis.



In the reporting period, monthly meetings of the Early Warning System Committee were held, covering:

- | the results of the assessment of commercial and cooperative banks, with special attention paid to banks in bad and deteriorating financial situations,
- | scoring assessments of cooperative banks,
- | the economic and financial situation of banks with increased risk included in the watch list, with a particular emphasis on banks for which there was a need for a daily dunning procedure of their liquidity situation,
- | the economic and financial condition of selected entities on the basis of, among other things, the results of problematic inspections carried out by the UKNF in selected banks, BION assessment, and in particular, banks for which the final BION assessment was 4.00, as well as information provided separately by the UKNF or publicly available reports,
- | banks' compliance with supervisory and regulatory capital requirements for TCR and Tier 1 ratios,
- | membership of cooperative banks to security systems,
- | information on associated cooperative banks not belonging to the BPS and SGB protection systems and the rules of operation of both systems,
- | results of a review of the economic and financial situation of investment firms,
- | the current situation in the credit unions sector.

The Fund's analytical system is developed and modified on an ongoing basis. Due to changes in the FINREP reporting of 1 January 2018, the analytical tools used for such purposes as the EWS system and the scoring system of cooperative banks, were updated. The methodology used so far has been verified in terms of its compliance with the new regulations applicable to commercial banks and cooperative banks. As a result of the verification, the definitions and scoring of indicators were amended.

The Fund analysed domestic and international economic events on a monthly basis. Attention was paid to macroeconomic and market events that had or might have an impact on the stability of the banking sector. Analyses of the situation on financial markets, including in particular on the treasury bonds market, were a necessary part of the Fund's investment activity, supporting effective securities portfolio management.



FINANCING FUND ACTIVITIES

1. THE FUND'S FINANCIAL RESOURCES

The Fund collects financial resources earmarked for protecting deposits made at banks and cooperative savings and credit unions as well as for financing resolution.



Pursuant to the Act on BFG, the sources of financing the Fund's activities include:

- | contributions to the statutory deposit guarantee scheme made by banks, branches of foreign banks and cooperative savings and credit unions,
- | contributions to finance resolution made by banks, branches of foreign banks, investment firms and cooperative savings and credit unions,
- | extraordinary contributions made by banks, branches of foreign banks and cooperative savings and credit unions to the statutory guarantee scheme in the event where funds from the deposit guarantee scheme are insufficient to disburse guaranteed funds,
- | extraordinary contributions made by banks, branches of foreign banks, investment firms and cooperative savings and credit unions to finance resolution in the event where funds to finance resolution are insufficient to finance such proceedings,
- | proceeds from the Fund's financial assets, including borrowings and guarantees granted by the Fund,
- | funds obtained as part of non-repayable foreign aid,
- | funds from grants awarded at the request of the Fund from the state budget on the rules specified in the provisions on public finances,
- | funds from the short-term loan granted by the National Bank of Poland,
- | funds from borrowings granted from the state budget,
- | funds obtained from borrowings, loans and bond issues,
- | funds obtained from borrowings granted by the officially recognised deposit guarantee schemes and entities managing resolution funds from the Member States other than the Republic of Poland on the basis of effective agreements,
- | benefits obtained from the bridge institution and the asset management company, including dividends and interest, and also revenues from the disposal or liquidation of the bridge institution and the asset management company,
- | funds obtained as a result of satisfying the Fund's claims on account of the disbursement of guaranteed funds and support provided to the acquiring entity,
- | other proceeds obtained by the Fund.

Contributions to the statutory guarantee scheme and for financing resolution were collected for the Fund for the first time for 2017. At that time the banks guarantee fund was established from the funds of the liquidated aid fund and the liquidated bankruptcy estate recovery fund; moreover, the banks resolution fund was established from funds of the liquidated stability fund and the liquidated supplementary fund.



The Bank Guarantee Fund's own funds constitute:

- | the statutory fund,
- | the cooperative banks restructuring fund,
- | the banks guarantee fund,
- | the credit unions guarantee fund,
- | the banks resolution fund,
- | the credit unions resolution fund,
- | own funds reduction in the case of fulfilment of the guarantee condition or in the case of using the resolution mechanisms (negative value),
- | the revaluation fund.

2. THE DETERMINATION OF CONTRIBUTIONS

In 2018, the methods applied in the determination of the contributions to the banks guarantee fund and the credit unions guarantee fund were supplemented by the procedure and rules of applying adjustments to contributions already paid. The amended methods were approved by KNF resolutions at the request of the Management Board.

Based on the total amounts of contributions to banks and credit unions guarantee funds, the funds for banks' and credit unions' resolution for 2018 determined by the Fund Council, in the reporting period the following premiums were as follows:

- | due from banks and credit unions for individual quarters of 2018 to guarantee funds,
- | due from banks, investment firms and credit unions for 2018 to resolution funds.

The breakdown of the total amounts for individual entities was made in accordance with:

- | methods approved by the Polish Financial Supervision Authority in February 2018 – in the case of guarantee funds of banks and credit unions,

- | relevant regulations of the European Commission, the Minister of Development and Finance and resolutions of the Council – in the case of resolution funds of banks and credit unions.

Due to the Fund's statutory obligation to inform about the amount of premiums, letters were sent to all entities obliged to pay the premium to the relevant funds, informing about the amount of premiums due, the date of their payment and the maximum share of contributions in the form of liabilities to be paid.

During that year, the Fund reviewed and analysed the reporting data provided by entities in connection with the calculation of contributions to the resolution funds and the guarantee funds of banks and credit unions by the Fund in terms of correctness. The Fund has clarified with banks the doubts and reporting errors it has identified on an ongoing basis.

3. INVESTING ACTIVITIES



RULES AND CONDITIONS OF PERFORMING THE BFG'S INVESTMENT POLICY

The Fund invests in securities in accordance with the Policy of the Bank Guarantee Fund in the scope of investing financial resources in securities, with the main aim of ensuring financial resources for the purpose of potential interventions and securing the Fund's securities portfolio against the risk of unfavourable changes in profitability on the market, while maintaining an optimal rate of return on the investments made. The Investment Policy sets forth the investment directions and portfolio management methods as well as space for acquiring treasury bonds, taking into account the estimated demand for financial resources on account of intervention measures. The objective of the Investment Policy in 2018 was to build such a structure of the securities portfolio that, apart from ensuring funds for ongoing activities of the Fund, would make it possible to effectively raise and secure funds for resolution activities if any and for disbursements of guaranteed funds, while maintaining the risk parameters of the BFG's securities portfolio at an appropriate level, also after completing intervention measures.



STRUCTURE OF THE BFG'S PORTFOLIO

As a result of completed transactions involving securities, in comparison with 2017 the share of treasury bonds in the BFG's portfolio decreased slightly from 80.65% to 76.10% as of the end of 2018 in favour of money bills – an increase from 19.35% to 23.90%.

The profitability of the portfolio of the Fund's treasury bonds amounted to 2.81%. In 2018, the purchases of new securities were made with profitability lower than the profitability of the entire portfolio. At the same time, the portfolio liquidity was improved by increasing the share of the NBP money bills (which also contributed to the decrease in the duration of the entire debt portfolio from 1.13 years at the end of 2017 to 1.00 years at the end of 2018). The Fund recorded high profitability as a result of the appropriate investment policy pursued in previous years, providing for extending duration until 2015 and reducing it in subsequent years.

TABLE 11.

BFG'S SECURITIES PORTFOLIO AS AT 31.12.2017 AND 31.12.2018

Type	Share in the portfolio	
	31/12/2017	31/12/2018
NBP money bills	19,35%	23,90%
Treasury bonds	80,65%	76,10%
TOTAL	100,00%	100,00%



FINANCIAL RESULT IN 2018

The result of the Fund for 2018 was PLN 530,461.6 thousand. The main item in the income statement for 2018 was the result on financial transactions of PLN 524,681.3 thousand, of which the result on securities was PLN 523,794.1 thousand. Apart from the result on securities, the result on financial transactions included revenues on account of interest on accounts collected in the current account and term deposits of PLN 887.2 thousand.

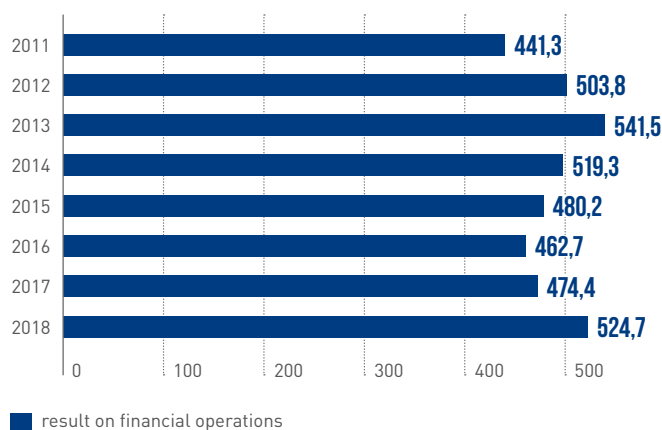
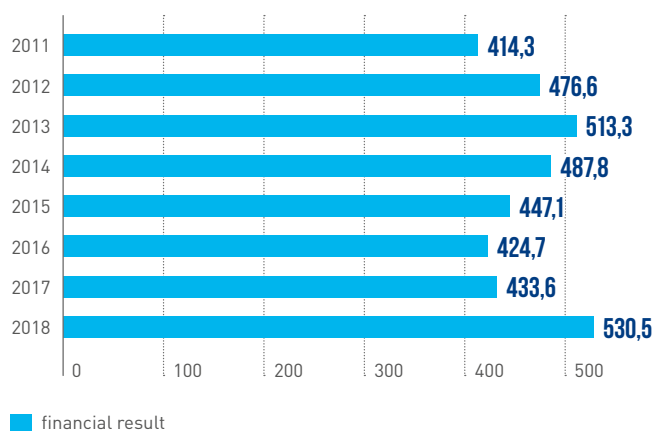
The result on statutory activity was PLN 174.1 thousand, of which interest revenues on repayable assistance granted to banks and other default interest in the total amount of PLN 163.0 thousand as well as interest on default in the payment of contributions for 2018 in the amount of PLN 11.1 thousand.

Other operating revenues of PLN 50,057.0 thousand included mainly revenues from penalties received.

Total costs reached PLN 44,450.8 thousand, the key item of which involved costs of remunerations with add-ons in the amount of PLN 30,789,6 thousand. Costs of outsourced services reached PLN 4,295.0 thousand, depreciation – PLN 3,451.0 thousand, other business costs – PLN 5,870.5 thousand and other operating costs – PLN 44.7 thousand.

DIAGRAM 1.

BFG'S RESULTS IN 2011-2018





EDUCATION AND INFORMATION ACTIVITIES

THE OBJECTIVE OF THE INFORMATION ACTIVITIES OF THE FUND IS TO PROMOTE TO THE PUBLIC THE KNOWLEDGE ABOUT THE RULES OF THE FUNCTIONING OF THE DEPOSIT GUARANTEE AND RESOLUTION SCHEMES IN POLAND AS WELL AS THE BFG'S ROLE IN THE FINANCIAL SECURITY NETWORK.



Materials available at bank and credit union branches

BFG leaflets, made available to clients at bank and credit union branches, are among the principal information materials about the deposit guarantee rules in Poland. In response to the ongoing demand in 2018, banks and credit unions were provided with copies of information leaflets about the deposit guarantee scheme, in addition, the Fund successively distributed boards with information about membership in the statutory deposit guarantee scheme.



Website

Information about the Polish deposit guarantee scheme and about the activities of the Fund is available on the website www.bfg.pl, which is the basic source of information about its activities, and which promotes the deposit guarantee rules and contributes to building public awareness in that scope. Immediate provision of information to the public, particularly in situations when the guarantee conditions are fulfilled, helps prevent disorientation of the customers of banks and credit unions. The website provides permanent access to up-to-date information, current and archived BFG materials and documents as well as the BFG Public Information Bulletin. In 2018, the Fund launched a Ukrainian version of the website.



BFG Helpline

BFG's free helpline at **800 569 341** is an important tool making it possible for anyone interested in the deposit guarantee scheme in Poland to communicate directly with the Fund's staff. In 2018 the Fund provided mainly information about the ongoing disbursements of guaranteed funds and also the principles of the functioning of the deposit guarantee scheme and the participation of particular financial entities in the guarantee scheme.

1. THE SUMMER SCHOOL OF ECONOMICS (LSE)

In 2018, the Fund organised the first edition of the Summer School of Economics in the form of an intensive, 2-day course presenting the Fund's activity. The initiative was aimed at improving knowledge about BFG's activities. The participants of the first edition of the LSE were students, postgraduate students and graduates (up to 35 years of age) of economic universities from the whole of Poland,

whereas the participants of the second edition included employees of the security network institutions. The Fund also organised a one-day workshop for employees of prosecutors offices, the police and CBA, aimed at providing practical knowledge of resolution, credit union restructuring and guaranteeing deposits, as well as strengthening cooperation between institutions.

2. FUND PUBLICATIONS

The “Safe Bank” scientific quarterly issued by BFG is issued only in an electronic version, which is the basic form of the dissemination of its content. The electronic version of the publication appears on the BFG’s website.

In 2018, four issues of the “Bezpieczny Bank” (Safe Bank) were published. In total more than 20 articles and studies were published in “Bezpieczny Bank”. They dealt with broadly defined issues of the impact of the market structure and bank size on the stability of the banking sectors in the EU countries, the systemic risk and the macroprudential policy, regulatory infrastructure as well as issues related to the risk of the activities of banks. It also featured the results of research and reviews of books in the field of economics.

“Bezpieczny Bank”, keeping 13 points in the scoring of scientific magazines provided of the Minister of Science and Higher Education, belonged to several of the best rated publications dedicated to the financial market and the stability of the banking system in Poland.

In 2018 the Fund drew up the Annual Report of the Bank Guarantee Fund for 2017 in Polish and English.



3. OTHER INFORMATION AND PROMOTION ACTIVITIES

In 2018 the Fund carried out another, i.e. 15th edition of the competition for the best BA, MA and PhD dissertation in the scope of the deposit guarantee scheme, issues related to the BFG’s activities as well as the financial security of banks. 19 dissertations were submitted, out of which the jury selected the winners and awarded

the 1st and 2nd prize in the category of PhD dissertations and the 1st and 2nd prize for an MA dissertation and 1st prize for a BA dissertation. The prizes were officially presented on 6 June 2018 at the BFG’s head office.

4. SURVEY OF THE PUBLIC KNOWLEDGE ABOUT THE ROLE OF THE BFG

In cooperation with the Polish Bank Association, the Fund conducted a survey of the image of the banking sector in Poland. The project included measuring the public knowledge about the deposit guarantee scheme and the role of the Bank Guarantee Fund. For the first time, the survey covered the public awareness of resolution.

According to 50% of the respondents, there is an institution which guarantees the recovery of individual customers' money in the event of a bank's bankruptcy (increase by 9 percentage points compared to 2017), and according to 22%, in the case of the bankruptcy of a credit union (decrease by 1 p.p.).





NATIONAL AND INTERNATIONAL COOPERATION

1. NATIONAL COOPERATION

Acting with a view to supporting and maintaining the stability of the domestic financial system, the Bank Guarantee Fund participated on a regular basis in meetings of the Financial Stability Committee. The President of the Fund's Management Board was involved in the activities of the Financial Stability Committee in the scope of crisis management of the financial system (KSF-K) and macroprudential management (KSF-M). The Fund was actively involved

in the assessment of systemic risk conducted within the framework of KSF-M.

The Fund actively co-operated with financial security network institutions, i.e. the Ministry of Finance, the National Bank of Poland and the Polish Financial Supervision Authority; Fund representatives also participated in the meetings of the Public Finance Commission.

Macroprudential supervision covers identification, assessment and monitoring of systemic risk and activities aimed at minimising that risk by applying macroprudential instruments.

The aim of macroprudential supervision is to mitigate systemic risk, in particular by boosting the resilience of the financial system and, as a consequence, supporting the country's long-term and sustainable economic growth.

Crisis management in the financial system includes actions aimed at maintaining or restoring the stability of the financial system in the event of a direct threat to this stability.

The aim of crisis management objective is, in particular, effective cooperation between the members of the Financial Stability Committee, including the coordination of the activities of the entities represented by those members, aimed at maintaining or restoring the stability of the financial system and at exchanging information, opinions and assessments. The Chairman of the KSF for crisis management is the Minister of Finance.

The representative of the Fund participated in the work of the Financial Education Team. In 2018, the Team's work focused on the preparation of teaching materials consistent with the new core curriculum and the creation of the Financial Education Fund.

As part of works related to statutory requirements, several meetings were held in the Fund with representatives of

commercial banks, cooperative banks and credit unions, as well as with the Polish Banks Association.

The Fund became an honorary patron of the 2018 Banking and Insurance Leaders Meeting and XI International Financial and Banking Forum organised by the Warsaw University of Life Sciences.

2. INTERNATIONAL ACTIVITIES

THE BANK GUARANTEE FUND ACTIVELY PARTICIPATES IN THE WORK OF INTERNATIONAL ORGANISATIONS IN THE EUROPEAN UNION AND WORLDWIDE.



The International Association of Deposit Insurers (IADI)

is an independent organisation representing deposit guarantee institutions from all over the world. The IADI was established in 2002 at the Bank for International Settlements in Basel. The basic objective of the IADI is to strengthen the stability of financial systems and promote international cooperation in the scope of deposit guarantees. The IADI develops international standards intended to improve the effectiveness of deposit guarantee schemes, taking into account the diversity of domestic deposit guarantee schemes.

The BFG became member of the IADI in 2008.

The basic objective of the **European Forum of Deposit Insurers – EFDI** is to strive to ensure the stability of financial systems through promoting European and international cooperation in the scope of deposit guarantees, conflict resolution, recompense for investors as well as by fostering discussions and exchanging experience and information in that scope. The EFDI is also involved in discussing legal regulations and other topics of interest to deposit guarantee institutions, and also analyses cross-border issues and ways to boost the efficiency of the cooperation among the Member States in that scope, as well as cooperation with deposit guarantee institutions based outside Europe. The EFDI also reviews and implements the directive of the European Parliament and of the Council on deposit guarantee schemes. The EFDI does not formulate any binding statements on behalf of its members. It may present opinions of its members or subgroup members only after their prior consent thereto. EFDI statements and activities do not infringe on the independence on its members.

As part of the cooperation with IADI, the Fund participated in such activities as the change of the association management model, discussions regarding the implementation of further changes in the new model of association management. The Deputy President of the Management Board of BFG was a representative of the Sub-committee on the Implications of Bail-in for Deposit Guarantee Systems and Financing, dealing with the study report on bail-in implications for deposit guarantee schemes and financing, which was adopted by the Executive Board to be used internally within the IADI, after prior verification of its consistency with the guidelines of FSB Bail-in Execution.

The BFG also continued to provide technical support to the IADI surveys using the iFost IT tool (IADI's First Online Survey Tool) developed by the Fund. In 2018, the following thematic questionnaires were launched::

- | Survey on Financial Inclusion,

- | Survey on Public Policy Objectives,
- | Survey on Coverage of Certain Financial Products by the Deposit Insurance System,
- | Survey on Risk Management and Internal Control System,
- | Survey on Servicing Banks.

The President of the Management Board of BFG is a member of the **EBA Standing Committee for Resolution (ResCo)**. Through its representatives, the Fund participates in the work of the newly appointed two teams within the working group for resolution: Bail-in & Securities Laws - Disclosure obligations in resolution relating to bail-in and Exit from resolution: Issuance of new shares and disclosure issues arising.

Representatives of the Fund participated in the work of the working group established by the EBA, responsible for standards on estimations for the purpose of resolution and obtaining relevant data for that purpose. The group's objective was, inter alia, to prepare the Handbook on valuation for purposes of resolution, published subsequently by EBA.

The Fund participated in the works on the document concerning the use of the acquisition instrument (Purchase and Consumption Technical Paper) and issued an opinion on the material concerning future work topics for the Subcommittee on Resolution Issues for Financial Cooperatives: Suggestion of Topics (future work); both documents were prepared within the working groups of the IADI Research and Guidelines Committee. The Fund also

prepared answers to the annual survey conducted by IADI (IADI Annual Survey) and submitted a contribution to the periodic reports of the European Regional Committee.

As part of the works of the European Banking Authority (EBA), Fund representatives participated in meetings of the newly created EBA Task Force on Deposit Guarantee Schemes and EBA Task Force on Deposit Guarantee Schemes (Workstream 1 “Payout”). The main tasks of the Task Force on Deposit Guarantee Schemes carried out in cooperation with EBA employees included the support for the European Commission in its commitment to prepare and submit to the European Parliament and the Council a report on the progress made in the implementation of the DGS Directive in the countries of the European Union, as set out in Article 19(6) of that Directive. Meetings were devoted to issues related to the functioning of deposit guarantee schemes in the light of management, organisational, technical, information, financial and political (Brexit) etc., conditions.



SUMMARISED FINANCIAL STATEMENTS

1. BALANCE SHEET OF THE FUND

TABELA 13.

AS OF 31 DECEMBER 2018 AND AS OF 31 DECEMBER 2017 (PLN)

ASSETS	31/12/2018	31/12/2017t
Cash	8.831.570,15	11.211.165,21
Cash in hand	27.213,48	15.474,24
Cash in current accounts	54.524,09	2.997,66
	8.668.000,00	11.074.000,00
Cash of the Company Social Security Fund	81.832,58	118.693,31
Receivables from financial institutions	996.752.143,60	518.688.946,43
Receivables from banks on account of:	994.952.868,60	516.889.671,43
- commitments to pay	986.826.634,80	495.407.348,48
- borrowings granted	8.126.233,80	21.482.322,95
Receivables from cooperative savings and credit unions on account of:	1.799.275,00	1.799.275,00
- commitments to pay	1.799.275,00	1.799.275,00
Other receivables and claims	687,94	260,59
Securities and other financial assets	18.499.574.255,60	15.941.721.027,40
Debt securities:	18.499.574.255,60	15.941.721.027,40
- of banks	4.425.446.050,02	3.070.287.571,59
- of the State Treasury	14.074.128.205,58	12.871.433.455,81
Property, plant and equipment	50.636.495,30	52.741.803,55
Intangible assets	1.340.836,23	1.495.794,54
Accruals	487.512,52	157.991,00
TOTAL ASSETS	19.557.623.501,34	16.526.016.988,72

TABELA 14.

PASYWA NA DZIEŃ 31 GRUDNIA 2018 R. I NA DZIEŃ 31 GRUDNIA 2017 R. (W ZŁ)

EQUITY & LIABILITIES	31/12/2018	31/12/2017
Liabilities	37.660.936,71	52.644.488,19
Liabilities due to depositors	35.272.294,44	49.026.386,85
Other liabilities	2.388.642,27	3.618.101,34
Special-purpose funds	81.832,58	53.398,51
Accruals	5.812.422,09	5.606.520,10
Provisions	81.357.583,68	27.174.133,53
Statutory fund	1.637.025.547,68	1.637.025.547,68
Banks guarantee fund	12.582.372.067,07	10.756.193.359,36
Banks guarantee fund available for utilisation	12.582.372.067,07	10.756.193.359,36
Banks resolution fund	4.641.801.358,74	3.573.688.425,15
Banks resolution fund available for utilisation	4.641.801.358,74	3.573.688.425,15
Credit unions guarantee fund	8.921.503,60	0,00
Credit unions guarantee fund available for utilisation	8.921.503,60	0,00
Credit unions resolution fund	2.467.168,89	1.336.728,00
Credit unions resolution fund available for utilisation	2.467.168,89	1.336.728,00
Cooperative Banks Restructuring Fund	29.750.688,87	48.202.688,87
Cooperative Banks Restructuring Fund available for utilisation	21.624.688,87	26.719.767,61
Cooperative Banks Restructuring Fund utilised	8.126.000,00	21.482.921,26
Own funds reduction in the case of fulfilment of the guarantee condition or in the case of using the resolution mechanisms	(89.194,28)	(9.479.912,13)
Financial result	530.461.585,71	433.571.611,46
TOTAL EQUITY & LIABILITIES	19.557.623.501,34	16.526.016.988,72

2. INCOME STATEMENT OF THE FUND

TABELA 15.

FOR THE YEARS ENDED, AS APPROPRIATE, 31 DECEMBER 2018 AND 31 DECEMBER 2017 (PLN)

	2018	2017
Revenues from statutory activities	174.128,24	461.869,25
Interest revenues	174.128,24	461.869,25
Result on statutory activities	174.128,24	461.869,25
Result on financing transactions	524.681.303,47	474.404.168,70
Securities	523.794.121,50	474.316.976,31
Other	887.181,97	87.192,39
Result on foreign exchange differences	[237,51]	[25,53]
Business costs	(40.955.052,80)	(38.188.734,33)
Outsourced services	(4.294.970,50)	(3.998.186,88)
Payroll	(26.804.993,04)	(24.689.930,47)
Social security and other payments	(3.984.600,58)	(3.944.966,92)
Other	(5.870.488,68)	(5.555.650,06)
Depreciation of fixed assets and intangible assets	(3.450.951,28)	(3.208.061,82)
Other operating revenues	50.057.033,82	106.539,70
Other operating costs	(44.638,23)	(4.144,51)
FINANCIAL RESULT	530.461.585,71	433.571.611,46

3. RULES OF PREPARING THE SUMMARISED FINANCIAL STATEMENTS

The attached summarised financial statements comprising the balance sheet as of 31 December 2018 and the income statement for 2018 were drawn up on the basis of the audited annual financial statements of the Bank Guarantee Fund drawn up for 2018 in accordance with the requirements of the Regulation of the Minister of Finance of 9 December 2016 on the specific accounting rules of the Bank Guarantee Fund (Journal of Laws item 2115) and the Accounting Act of 29 September 1994 (Journal of Laws of 2018 item. 395, as amended.) shall be admitted within the same limits.

The summarised financial statements have been prepared on the basis of the criteria developed by way of following the current practice applied by the Fund in the preparation of the summarised financial statements. These criteria include, in particular, the following:

- | consistency of data between the Fund's annual financial statements and the summarised financial statements,
- | an assessment of whether the summarised financial statements contain the necessary information and whether they are at an appropriate level of aggregation which does not mislead the recipient of the summarised financial statements.

4. ACCOUNTING PRINCIPLES

Pursuant to the accounting principles applicable to the Bank Guarantee Fund, the following methods of measuring assets and equity & liabilities as well as calculating revenues and costs were applied:



AUDITOR'S REPORT ON SUMMARY FINANCIAL STATEMENTS



KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
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 Tel. + 48 (22) 528 11 00
 Faks + 48 (22) 528 10 09
kpmg@kpmg.pl

TRANSLATION

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

INDEPENDENT AUDITORS' REPORT ON THE SUMMARY FINANCIAL STATEMENTS

To the Council of Ministers, the Minister competent for financial institutions and the Council of the Bankowy Fundusz Gwarancyjny ("Bank Guarantee Fund")

Opinion

The summary financial statements, which comprise the balance sheet as at 31 December 2018, the profit and loss account for the year then ended and the supplementary information, are derived from the audited financial statements of Bankowy Fundusz Gwarancyjny, with its registered office in Warsaw, ks. Ignacego Jana Skorupki 4 ("the Fund"), for the financial year ended 31 December 2018 ("the summary financial statements").

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, on the basis described in point "Rules for preparing the summary financial statements" in the summary financial statements.

Summary Financial Statements

The summary financial statements do not contain all the disclosures required by Resolution of the Minister for Development and Finance of 9 December 2016 on specific accounting policy of the Bankowy Fundusz Gwarancyjny (Journal of Laws from 2016, item 2115), the Accounting Act dated 29 September 1994 (Official Journal from 2018, item 395 with further amendments), related bylaws and other applicable laws used to prepare the audited annual financial statements of the Fund. Reading the summary financial statements and our report thereon, therefore, is not a substitute for reading the audited financial statements and our report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to that date of our report on the audited financial statements.

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 5 March 2019.

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. jest polską spółką komandytową i członkiem sieci KPMG składającej się z niezależnych spółek członkowskich stowarzyszonych z KPMG International Cooperative "KPMG International", podmiotem prawa szwajcarskiego. Wszelkie prawa zastrzeżone. Wydrukowano w Polsce

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spółka zarejestrowana w Sądzie Rejonowym dla m.st. Warszawy, II Wydział Gospodarczy Krajowego Rejestru Sądowego.

KRS 0000339379
 NIP 527-26-15-362
 REGON 142078130

TRANSLATION

Management's Responsibility for the Summary Financial Statements

Management of the Fund is responsible for the preparation of the summary financial statements on the basis described in point "Rules for the preparing the summary financial statements" in the summary financial statements.

Auditors' Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised) in a version adopted as National Auditing Standard 810 (Z) by the resolution 2997/49a/2019 of 9 January 2019 of the National Council of Certified Auditors "Engagements to Report on Summary Financial Statements".

On behalf of audit firm KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration no. 3546
ul. Inflancka 4A
00-189 Warszawa

Signed on the Polish original

.....
Justyna Zań
Key Certified Auditor
Registration no. 12750
Limited Partner, Proxy

Signed on the Polish original

.....
Stacy Ligas
Member of the Board of KPMG Audyt Sp. z o.o.
Limited Partner of KPMG Audyt Spółka z
ograniczoną odpowiedzialnością Sp. k.

12 September 2019