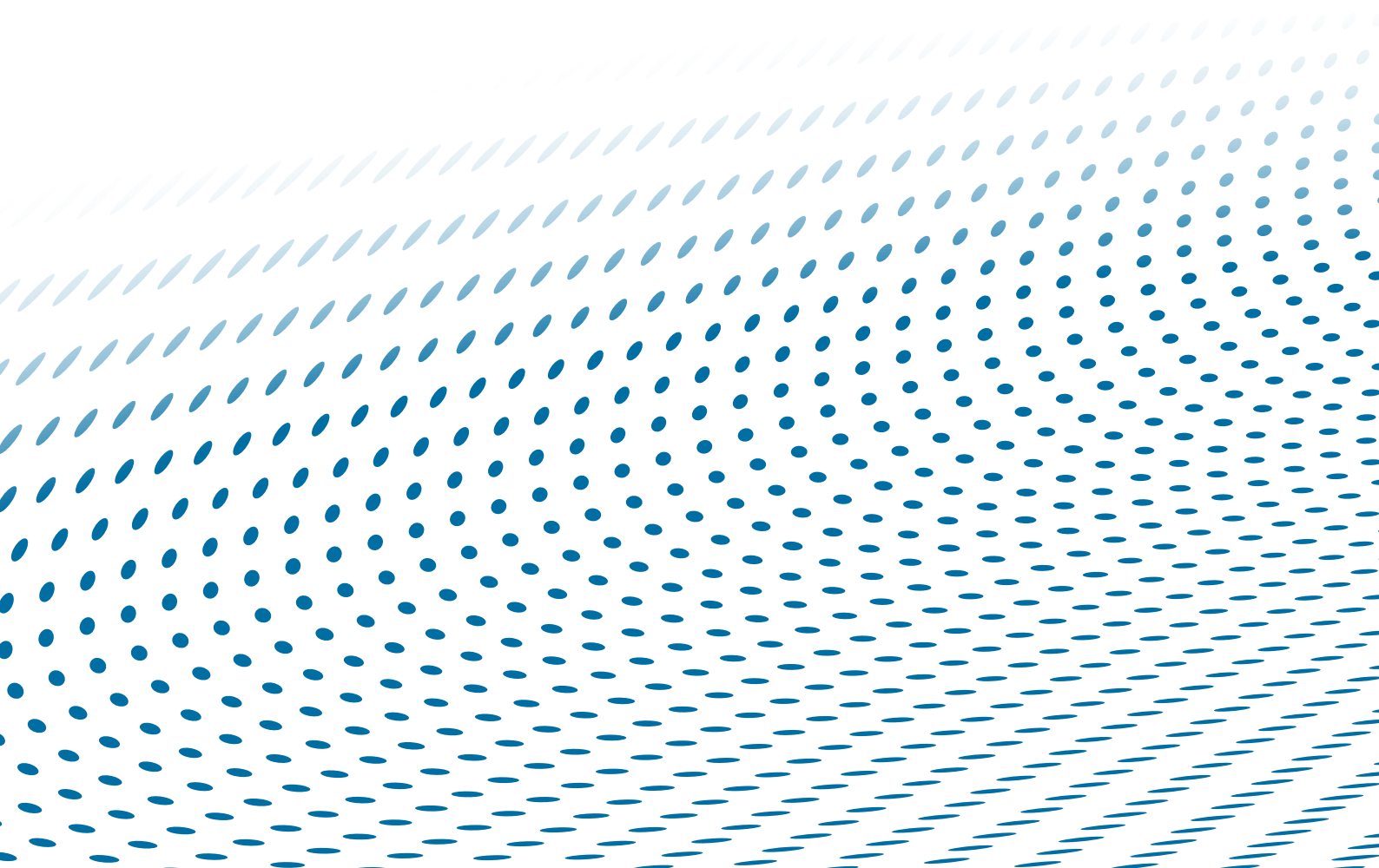


2017

**Annual Report
of the Bank
Guarantee Fund**



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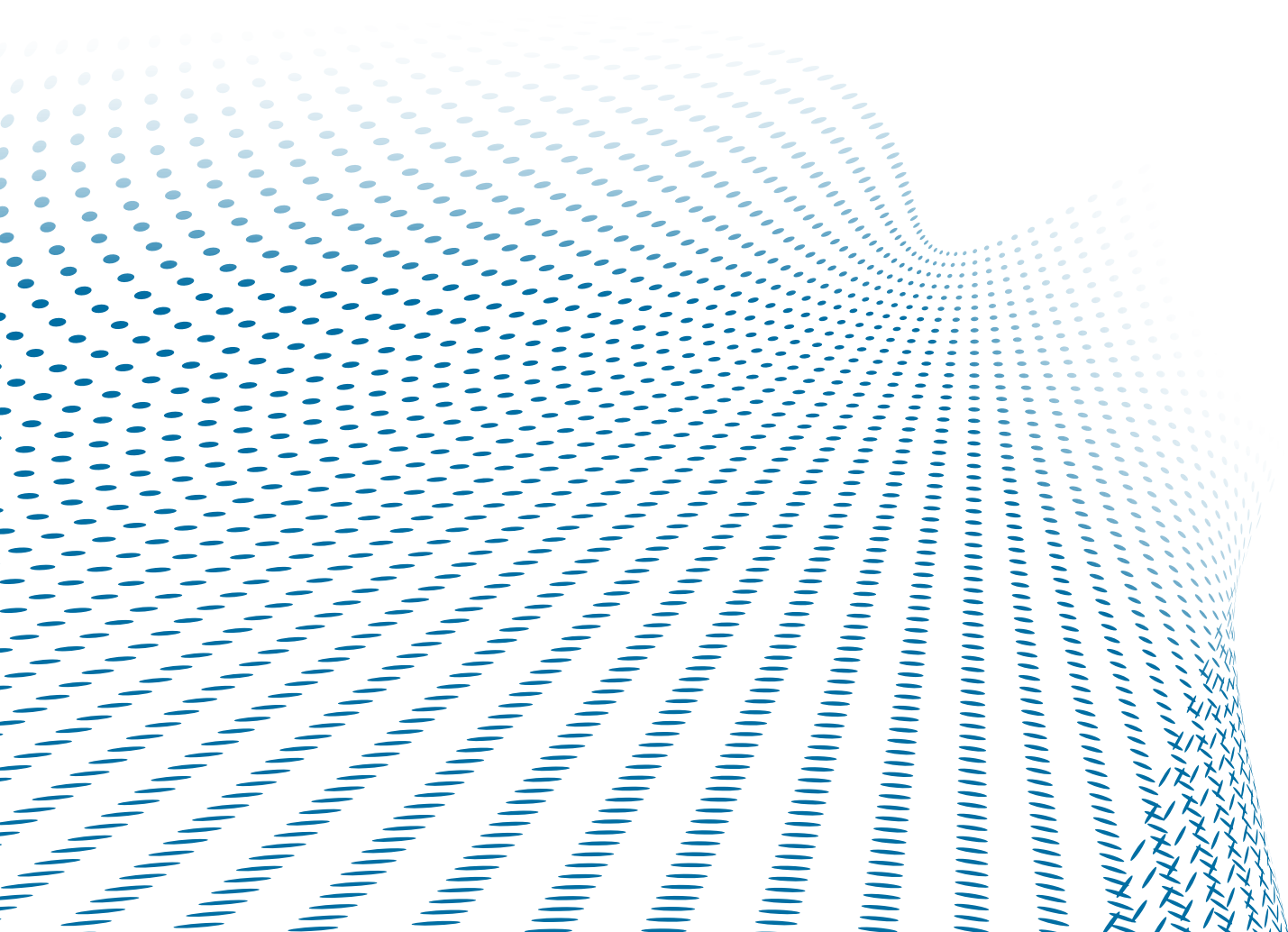
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Message from the Chairperson of the Council of the Bank Guarantee Fund and from the President of the Management Board of the Bank Guarantee Fund

Dear Sir or Madam,

The greatest challenge that the Bank Guarantee Fund (BFG) had to face in 2017 involved the preparation of resolution plans. It was the first time that we had carried out that task. On the basis of the regulations in force we developed a detailed methodology for drawing up resolution plans. We prepared plans for all financial institutions that are to be subject to the resolution regime: 19 commercial banks, 555 cooperative banks, 37 credit unions and 17 brokerage houses. This is probably the highest number of plans prepared by a resolution authority in the European Union. The Fund also participated in resolution colleges of international banking groups that have their banks in Poland.

Each of these entities received a summary of its resolution plan. We signed framework agreements with companies that may estimate the value of assets and equity and liabilities of an entity before, during and after resolution proceedings.

An important component of resolution plans significant for the entire financial market involves calculating the minimum level of own funds and eligible liabilities subject to redemption or conversion (MREL). MREL is a new requirement specifying the amount of own funds and eligible liabilities that may be used in resolution proceedings. We chose a five-year term for complying with the MREL so that banks and credit unions have time to issue an appropriate amount of subordinated debt. In the event where a resolution plan provides for liquidating an entity as part of a standard bankruptcy procedure, the MREL is specified at the level of applicable capital requirements.

We also described financial instruments that are MREL-eligible. The Fund expects that (1) the MREL will be met by own funds and subordinated liabilities, (2) debt financial instruments that are MREL-eligible will be acquired by professional customers (the offering will not be addressed to retail customers), (3) the nominal value of an instrument will not be less than EUR 100,000.

In 2017 the Polish Financial Supervision Authority (KNF) concluded that 4 credit unions were at risk of bankruptcy. In all these cases BFG estimated that the premise for the public interest had not been met and BFG did not issue a decision to institute resolution proceedings. In 2017 the guarantee condition was fulfilled with respect to 4 credit unions, and the Fund started disbursing guaranteed funds. In all these cases we started disbursing funds within 7 working days. During this period we also disbursed funds to depositors of 2 banks and 7 credit unions, in the case of which the guarantee condition had been fulfilled in previous years.

As part of credit unions restructuring, we provided support to Bank Spółdzielczy "Silesia" in the form of grants and loss coverage guarantees for the acquisition of the cooperative savings and credit union SKOK "Profit" in Rybnik. In 2017 we also declared that we might provide support to ING Bank Śląski SA in the process of restructuring Bieszczadzka SKOK and to the cooperative bank in Wschowa in the process of restructuring Lubuska SKOK.

We implemented new methods for calculating contributions to the guarantee fund of banks and credit unions. At present the Fund's Council determines the total amount of contributions that are then divided among individual entities, taking into account their business profiles. In addition, in 2017 banks and credit unions were for the first time able to make contributions in the form of commitments to pay. Commitments to pay are liquid assets maintained by a bank in a separate account at the National Bank of Poland (NBP) or the Central Securities Depository of Poland (KDPW) that may be sold and transferred to BFG at the latest within 2 days as of the day when the Fund calls them in.

We invite you to read the Annual Report, which presents the activities of the Bank Guarantee Fund at an important moment in its history.



Piotr Nowak

A stylized, handwritten signature of Piotr Nowak in blue ink.

Chairman of the Council
of the Bank Guarantee Fund



Zdzisław Sokal

A stylized, handwritten signature of Zdzisław Sokal in blue ink.

President of the Management Board
of the Bank Guarantee Fund

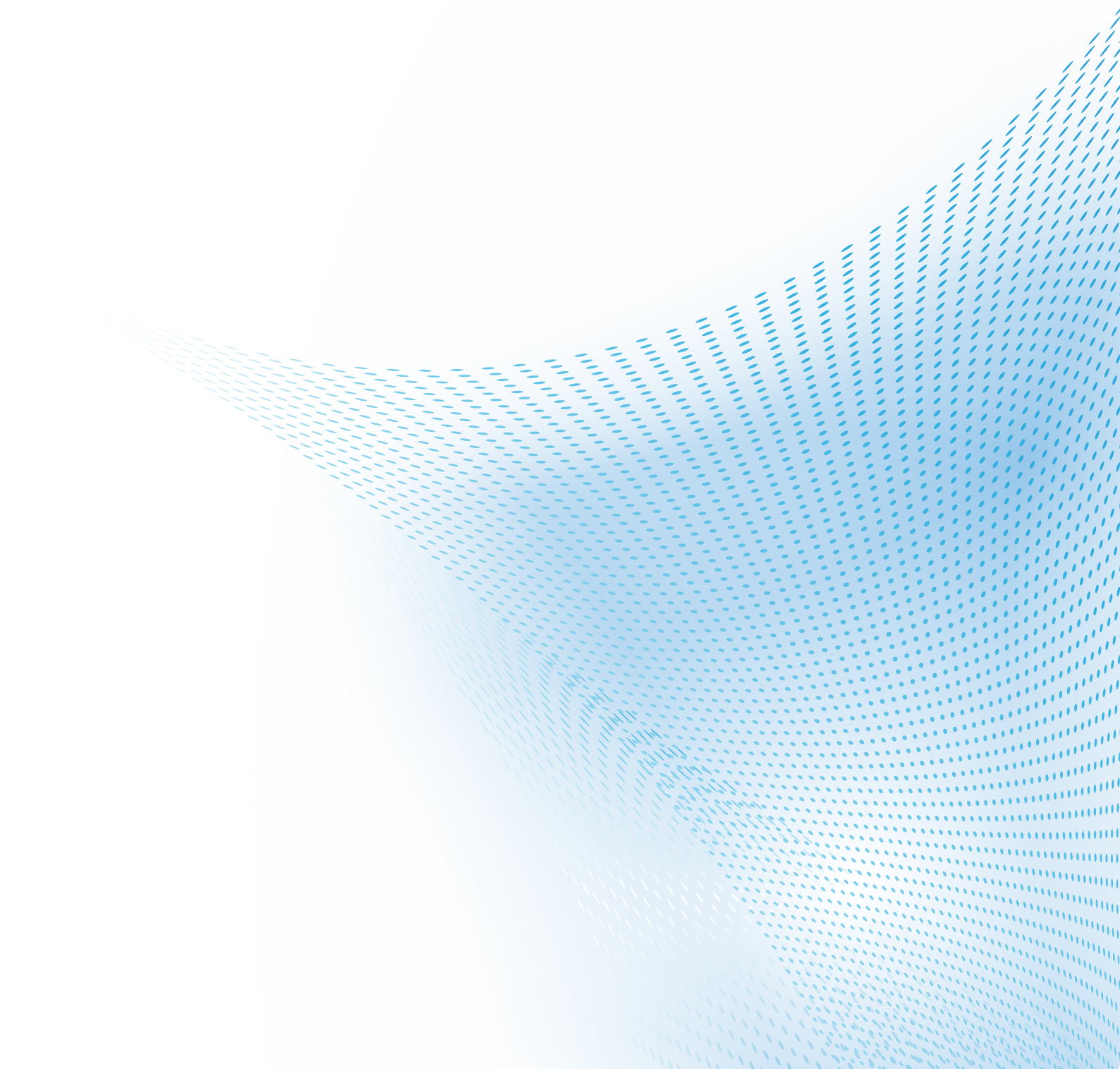
Most important abbreviations

BFG, the Fund	Bank Guarantee Fund
BRR Directive (BRRD)	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 (Official Journal of the European Union (L) of 12 June 2014)
CB	Cooperative bank
DGS Directive	Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes of 16 April 2014 (Official Journal of the European Union (L) of 12 June 2014)
EBA	European Banking Authority
EC	European Commission
EFDI	European Forum of Deposit Insurers
GDPF	Guaranteed Deposit Protection Fund
CBRF	Cooperative Banks Restructuring Fund
FSB	Financial Stability Board
IADI	International Association of Deposit Insurers
IPS	Institutional Protection Scheme
KDPW	Central Securities Depository of Poland
KNF	Polish Financial Supervision Authority
KSF	Financial Stability Committee
KSKOK, National Union	National Cooperative Savings and Credit Union

MF	Ministry of Finance
MREL	Minimum requirement for own funds and eligible liabilities
NBP	National Bank of Poland
PKO Bank Polski SA, PKO BP SA	Powszechna Kasa Oszczędności Bank Polski SA
Bank Pekao SA	Bank Polska Kasa Opieki SA
Council, BFG Council, Fund's Council	Council of the Bank Guarantee Fund
SKOK, credit union	Cooperative Savings and Credit Union
SRB	Single Resolution Board
EWS	Early Warning System applied at BFG
TLAC	Total Loss-Absorbing Capacity
UKNF	Office of the Polish Financial Supervision Authority
UOKiK	Office of Competition and Consumer Protection
ZBP	Polish Bank Association
Act on BFG	The Act of 10 June 2016 on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Resolution (Journal of Laws of 2017 item 1937, as amended)
Management Board, BFG Management Board, Fund's Management Board	Management Board of the Bank Guarantee Fund



ROLE AND TASKS OF BFG



1. Role and Tasks of BFG

The Bank Guarantee Fund is an institution taking measures in order to promote the stability of the domestic financial system, in particular by managing and operating the statutory deposit guarantee scheme and by carrying out resolution proceedings with respect to entities at risk of bankruptcy.

The Fund, along with the National Bank of Poland, the Ministry of Finance and the Polish Financial Supervision Authority, forms part of the financial security network. The President of the BFG Management Board is a member of the Financial Stability Committee.

BFG was established under the *Act of 14 December 1994 on the Bank Guarantee Fund (Journal of Laws 2014 item 1866, as amended)*. The legal basis for the activities of the Fund is included in 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.

The mission of the Bank Guarantee Fund

The mission of the Bank Guarantee Fund is to act for the sake of security and stability of the domestic financial system. Thanks to the guarantee protection of the Bank Guarantee Fund, savings of customers of banks and credit unions collected on accounts at those entities are secure.

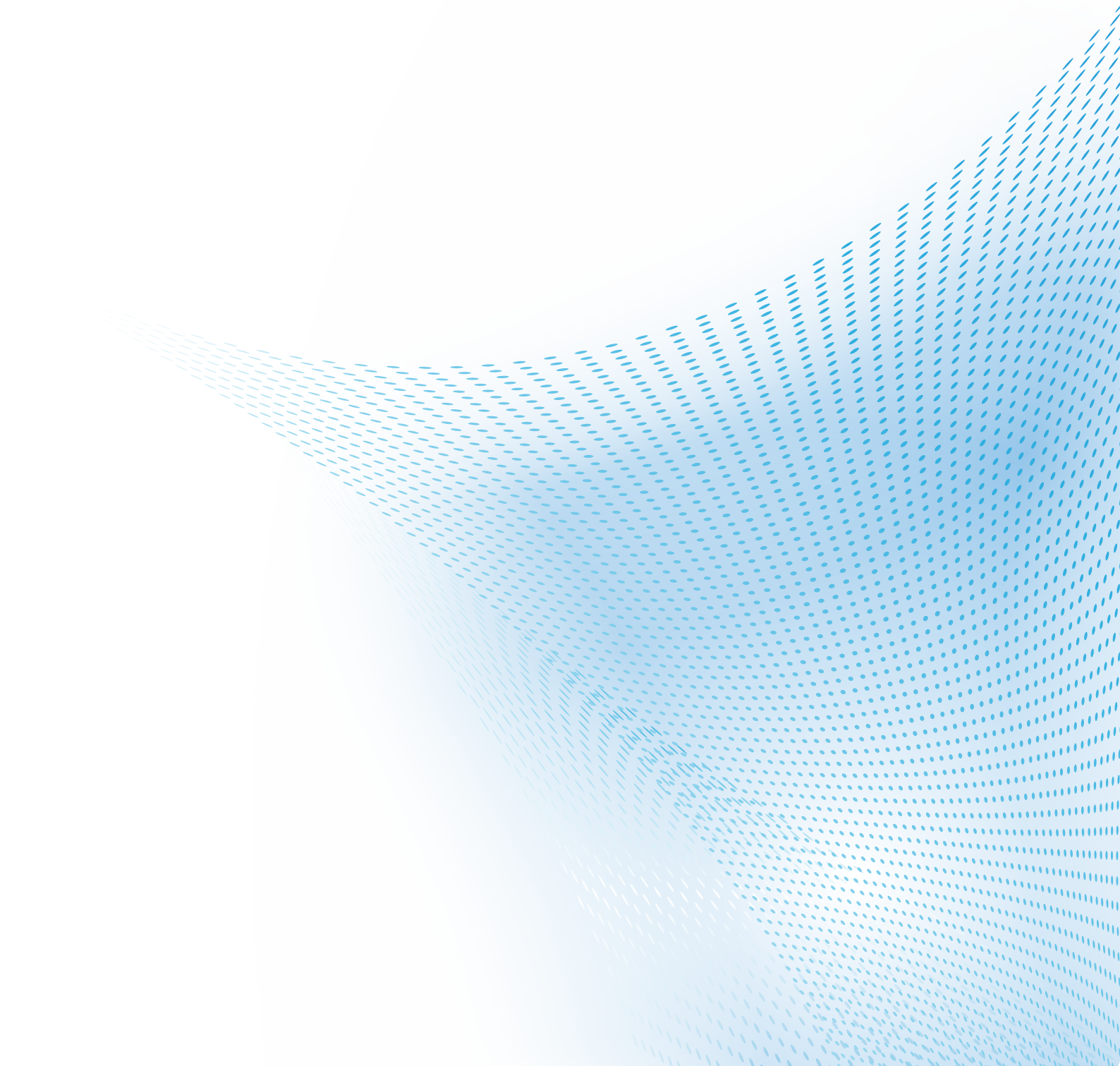
The most important tasks of the Fund include:

- **guaranteeing the disbursement of cash collected at a bank or a credit union to depositors** up to the statutory limit (equivalent of EUR 100,000 in PLN¹) – as a rule within 7 workdays of the date of fulfilling the guarantee condition,
- **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,**
- **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.**

¹ In special cases the depositor is entitled to guarantee protection in excess of the PLN equivalent of EUR 100,000.



ORGANISATION OF BFG



2. Organisation of BFG

2.1. BFG Bodies

The statutory bodies of the BFG include the Council and the Management Board. The role of the Management Board is to manage the Fund and represent it before third parties, while the Council supervises and controls the operations of the Management Board of the Fund. The term of the Council and of the Management Board of the Fund lasts 3 years.

The Fund is overseen by the Minister of Finance, based on the criteria of lawfulness and consistency with the BFG Statute. The BFG's management report and financial statements are approved by the Council of Ministers.

Composition of the Council of the Bank Guarantee Fund

The Council of the Bank Guarantee Fund consists of six members, all appointed by the institutions comprising the financial security network.

On 1 January 2017 the BFG Council consisted of the following persons:

Council Chairperson	Piotr Nowak (Ministry of Finance)
Council Members	Sławomir Dudek (Ministry of Finance) Ewa Kawecka-Włodarczak (Polish Financial Supervision Authority) Patryk Łoszewski (Ministry of Finance) Jacek Osiński (National Bank of Poland) Olga Szczepańska (National Bank of Poland)

On 27 March 2017 Ewa Kawecka-Włodarczak was replaced by Filip Świata in the position of the Fund's Council member.

On 22 June 2017 Filip Świata was replaced by the KNF Chairman Marek Chrzanowski in the position of the Fund's.

On 26 July 2017 Jacek Osiński, was replaced by the NBP representative Martyna Wojciechowska in the position of the Fund's Council member.

On 28 September 2017 Sławomir Dudek was replaced by the MF representative Robert Zima in the position of the Fund's Council member.

From 28 September 2017 until the end of 2017 the Fund's Council consisted of the following persons:

Council Chairperson	Piotr Nowak (Ministry of Finance)
Council Members	Marek Chrzanowski (Polish Financial Supervision Authority) Robert Zima (Ministry of Finance) Patryk Łoszewski (Ministry of Finance) Martyna Wojciechowska (National Bank of Poland) Olga Szczepańska (National Bank of Poland)

Composition of the Management Board of the Bank Guarantee Fund

In 2017 the BFG Management Board consisted of the following persons:

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

2.2. Organisation of the BFG Office

The organisational structure of the Bank Guarantee Fund included the following organisational units, responsible for the following tasks:

- **Deposit Guarantee Department (DGD)** – ensuring that the Fund disburses guaranteed funds to depositors and auditing the correctness of data in the calculation systems of the entities covered by the statutory guarantee scheme,
- **Resolution Department (DPR)** – carrying out resolution proceedings, providing support and administration of entities under resolution, executing the process of resolution of credit unions and providing financial assistance from the cooperative banks restructuring fund to banks,
- **Resolution Planning Department (DPPR)** – preparing studies and assessments of the feasibility of resolution plans and group resolution plans, as well as executing plans related to the financial security network and financial stability,
- **Analysis and Early Warning Department (DAW)** – analysing the banking sector and the credit union sector, early warnings, analyses and assessments of the economic and financial condition of respective banks, credit units and investment firms, developing and updating methods of calculating risk-based contributions made by entities to guarantee and resolution funds as well as drafting applications in the case of the overall amount of such contributions for a given year,
- **Department of Support Monitoring and Claim Pursuing (DMW)** – managing the Fund's liabilities, pursuing claims and monitoring the execution of the agreements associated with the granted financial assistance and support,
- **Treasury Department (DS)** – the investment activities of the Fund, managing the financial liquidity and analysing the macroeconomic situation in Poland and in the world,
- **Human Resources Department (DK)** – HR issues, employment and remuneration policies, training activities,
- **Information Technology Department (DI)** – obtaining, processing and providing information necessary for the operation of the Fund's Office, developing and maintaining the ICT and communications

systems and ensuring continued operation of the Fund in the scope of ICT,

- **Administration and Procurement Department (DAZ)** – support and administration aimed at ensuring effective functioning, proper conditions for operation and proper administrative and technical services for the Fund, and managing procedures related to procurement for the Fund,
- **Accounting Department (DR)** – providing accounting and financial economy services to the Fund,
- **Management Board Office (BZ)** – providing services to the bodies of the Fund, to the Management Board President, activities related to domestic and foreign collaboration, publications, promotional and educational activities,
- **Legal Department (DP)** – providing legal services to the bodies of the Fund, the Management Board President and the Fund's Office,
- **Security Department (DB)** – protecting and securing data, persons and property, providing ICT security and maintaining the business continuity plan of the Fund,
- **Operational Risk and Compliance Team (ZRZ)** – coordinating and supporting the process of managing the operational risk at the organisational units,
- **Internal Audit Office (BAW)** – auditing the activities of the Fund in terms of compliance with the specified objectives, the provisions of law and internal regulations.

The BFG Office includes five **permanent committees**:

- Asset Management Committee,
- Resolution Committee,
- Financial Assistance Assessment Committee,
- Operational Risk Committee,
- Early Warning System Committee.

In addition, in 2017 BFG included the following **committees and task teams**:

- The Committee for monitoring the bankruptcy proceedings with respect to banks and credit unions,
- The Task Team responsible for the IT applications used for calculating risk-based contributions,
- The Task Team for stress tests of the Bank Guarantee Fund's systems,
- The Task Team for field inspection.

The Management Board members **supervised the following organisational units** of the BFG Office:

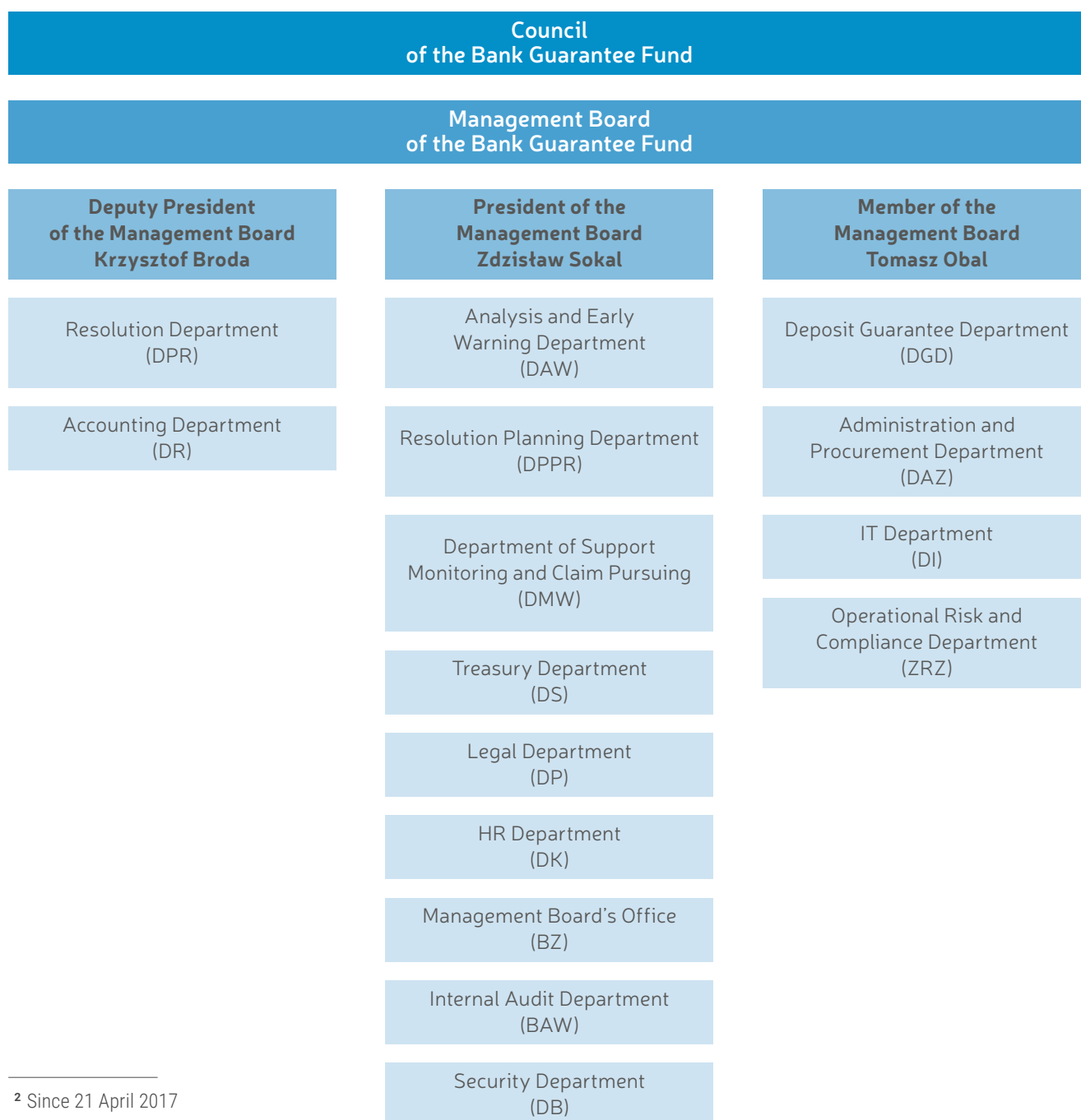
- President of Management Board Zdzisław Sokal: the Management Board's Office, the Legal Department, the Analysis and Early Warning Department, the Treasury Department, the Department of Support Monitoring and Claim Pursuing, the HR department, the Internal Audit Department as well as the Resolution Planning Department ²,

- Deputy President of the Management Board Krzysztof Broda: the Resolution Planning Department,³ the Resolution Department and the Accounting Department,

- Member of Management Board Tomasz Obal: the Deposit Guarantee Department, the IT Department, the Administration and Procurement Department and the Operational Risk and Competitiveness Team.

On 1 January 2017 BFG employed 164 people while on 31 December 2017 – 176 people.

Figure 1. BFG organisational chart as of 31 December 2017

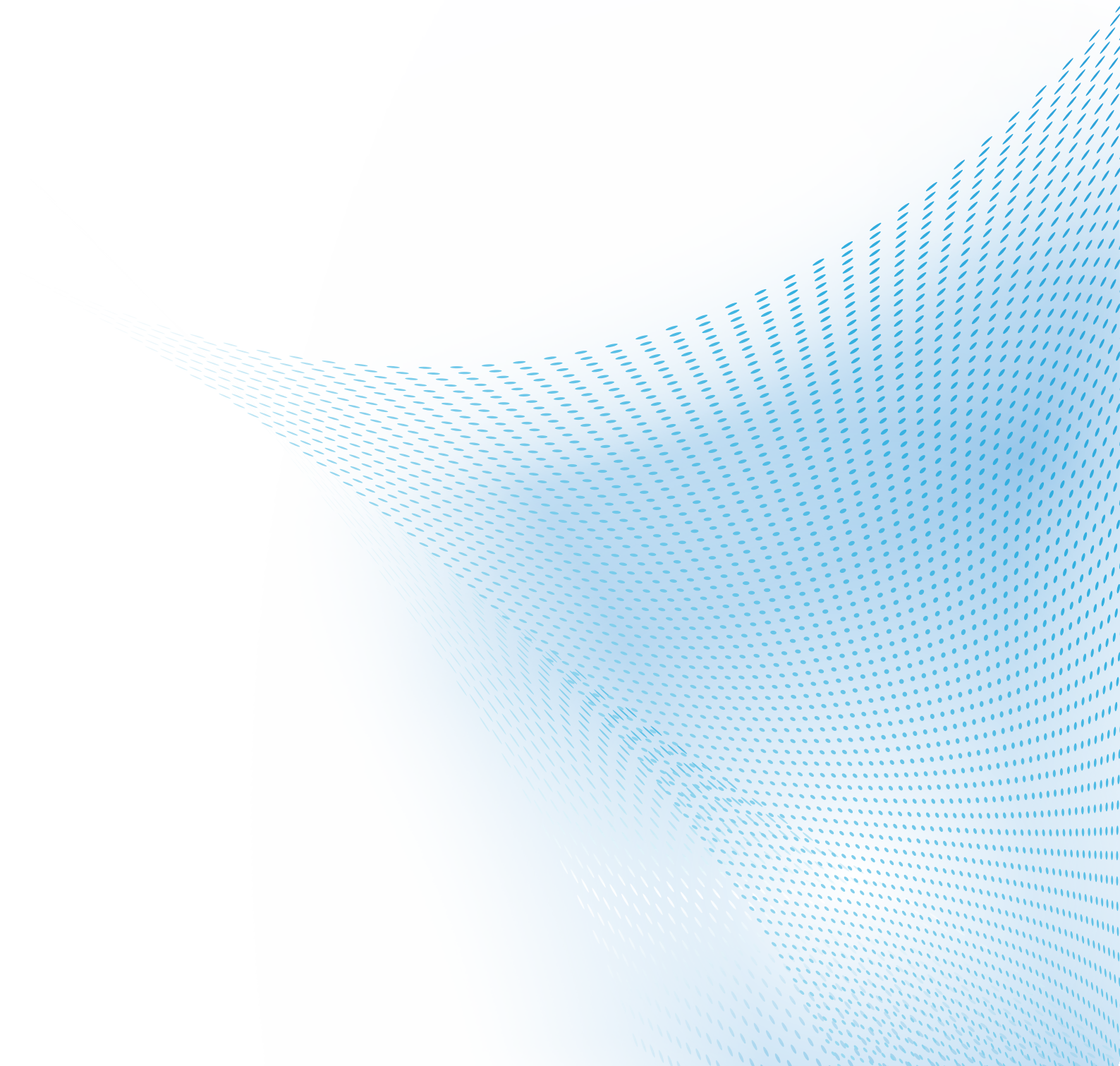


² Since 21 April 2017

³ Until 21 April 2017



DEPOSIT GUARANTEE ACTIVITIES



3. Deposit Guarantee Activities

The Bank Guarantee Fund is the institution that manages the system of guaranteeing cash collected at banks and at credit unions operating in Poland.

As at the end of 2017, guarantee protection covered deposits collected at all the domestic banks, except for Bank Gospodarstwa Krajowego, pursuant to Article 1 (2) of the *Act on BFG* (i.e. at 34 commercial banks and 553 cooperative banks) and at all credit unions (i.e. at 34 credit unions).



The **Bank Guarantee Fund** has been guaranteeing deposits collected at banks since 17 February 1995, and since 29 November 2013 – also at cooperative savings and credit unions.

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



Liabilities of the Bank Guarantee Fund against the depositors, due to the deposit guarantees, emerge on the date the guarantee condition is fulfilled, i.e. on the day indicated in the decision issued by the Polish Financial Supervision Authority (PFSa) as the day when the bank operations or the credit union's operations are suspended, and when a respective receivership (in a bank) or a receiver (in a credit union) is appointed, unless they have been appointed earlier, as well as filing a bankruptcy petition with the competent court.



Guaranteed funds:

- a) 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 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;



- b) 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.

3.1. Disbursement of Guaranteed Funds

The Fund is obliged to satisfy claims on account of the guarantee within 7 working days from the day of fulfilment of the guarantee condition. In the case of 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 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 fulfilment of the guarantee condition). The Fund verifies data of depositors with 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.

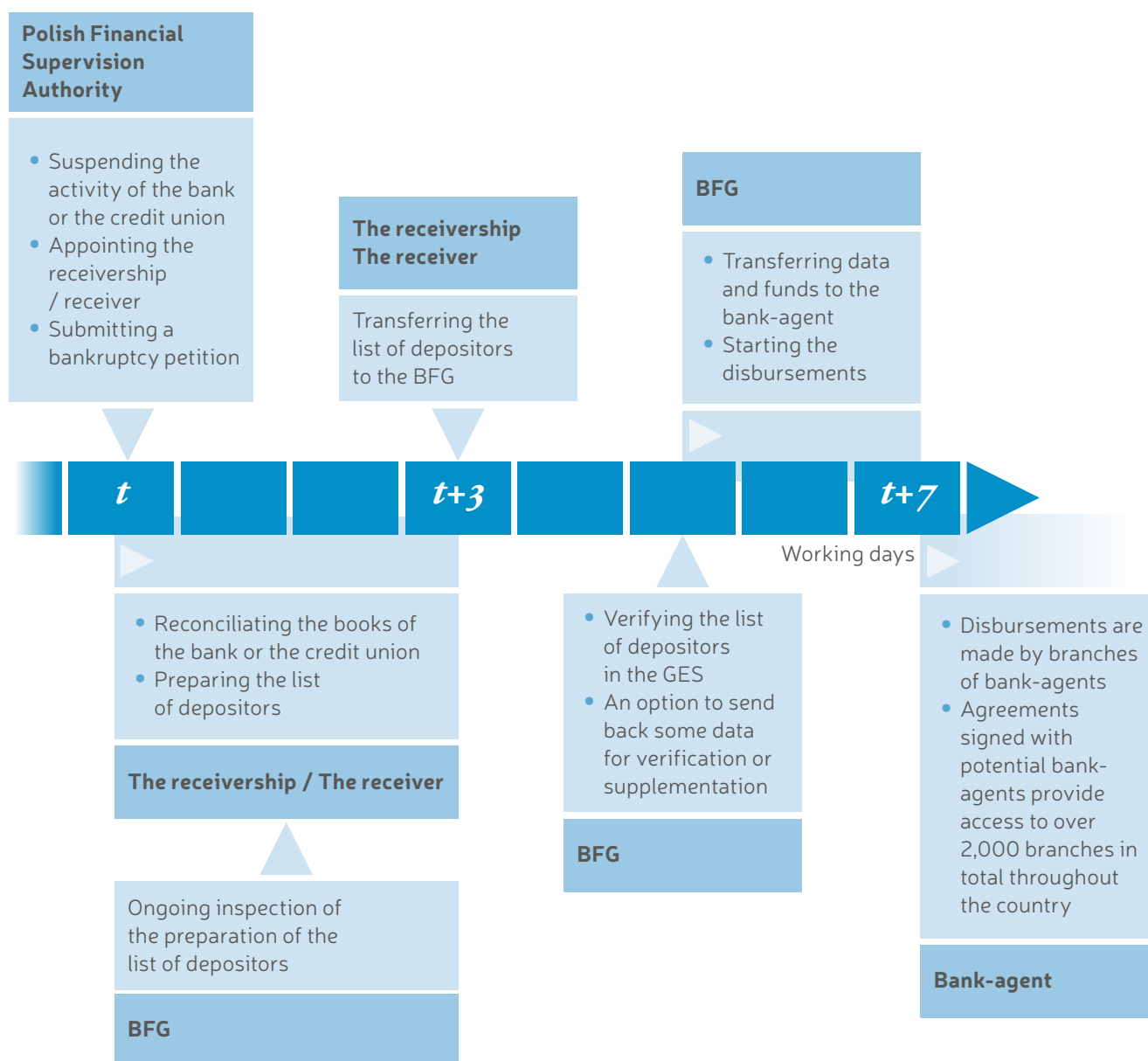


Guarantee Execution System (SRG) – IT system of the Bank Guarantee Fund, which makes it possible to control the depositor lists effectively, verify the disbursement amounts and prepare depositor disbursement lists.

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 four⁴ banks (agent-banks). These are retail banks which have a significant branch network that allows for carrying out disbursements throughout the country, providing depositors with an easy access to guaranteed funds. The process of disbursing guaranteed funds is presented in figure 2.

⁴ Three of those banks signed the agreements expanding the possible scope of disbursements with credit union depositors

Figure 2. The process of preparing disbursements of guaranteed funds



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 BFG directly to collect their due disbursement within 5 years from the day of fulfilment of the guarantee condition. After this period the guarantee-related depositor claims are barred.

3.2. Guarantee Disbursements to Depositors in 2017

In 2017 the guarantee condition was fulfilled by 4 credit unions. Moreover, in that period disbursements were carried out to depositors of 2 banks and 7 credit unions, for which the guarantee condition had been fulfilled in the previous years.

Table 1. Disbursements of guaranteed funds in 2017

Name of entity	Year of fulfilment of the guarantee condition	Disbursements
SKOK "Wybrzeże"	2017	<ul style="list-style-type: none">• The Fund made payments to depositors of banks and credit unions both during the period of operation of the agent-bank and after that period.• During the period of operation of the agent-bank, the Fund paid out the funds in accordance with the complaint procedure, while after the operation of the agent-bank – on the basis of applications for individual payments.
SKOK "Nike"		
Twoja SKOK		
Wielkopolska SKOK		
CB (Cooperative bank) in Nadarzyn	2016	
SKOK "Skarbiec"		
SKOK "Arka"		
SKOK "Jowisz"		
SKOK "Polska"		
SKOK Kujawiak	2015	
Spółdzielczy Bank Rzemiosła i Rolnictwa, Wołomin		
SKOK in Wołomin	2014	
SKOK Wspólnota		

Table 2. Procedures applied in connection with fulfilment of the guarantee condition with respect to credit unions

No.	Procedure	SKOK			
		Wielkopolska	Twoja	"Nike"	"Wybrzeże"
1	Start of the process of making guarantee payments on account of fulfilment of the guarantee condition	3.02.2017	12.05.2017	2.06.2017	15.09.2017
2	The entity making payments of guaranteed funds on behalf of and on the account of the Fund	PKO BP SA	Bank Zachodni WBK SA	Bank Pekao SA	PKO BP SA
3	Regular inspection of depositors list preparation by the receiver of the credit union of the – at the credit union's head office	3–7.02.2017	12–15.05.2017	2–6.06.2017	15–19.09.2017
4	Provision of the depositors list to the Fund, and its inspection at the head office of the Fund	7.02.2017 (second working day as of fulfilment of the guarantee condition)	15.05.2017 (first working day as of fulfilment of the guarantee condition)	6.06.2017 (second working day as of fulfilment of the guarantee condition)	19.09.2017 (second working day as of fulfilment of the guarantee condition)
5	Drawing up and verification of lists of disbursements		16.05.2017		20.09.2017
6	Signing an agreement with the entity intermediating in disbursements for disbursing the guaranteed funds	8.02.2017	16.05.2017	7.06.2017	20.09.2017

Table 2 – continuation.

No.	Procedure	SKOK			
		Wielkopolska	Twoja	“Nike”	“Wybrzeże”
7	Start of the payment of the guaranteed funds to the credit union's depositors by the organisational units of the entity intermediating in disbursements	13.02.2017 (sixth working day as of fulfilment of the guarantee condition)	22.05.2017 (sixth working day as of fulfilment of the guarantee condition)	12.06.2017 (sixth working day as of fulfilment of the guarantee condition)	25.09.2017 (sixth working day as of fulfilment of the guarantee condition)
		1,186 organisational units	558 organisational units	761 organisational units	1,147 organisational units
8	End of the payment of the guaranteed funds to the credit union's depositors by the entity intermediating in disbursements	14.04.2017	21.07.2017	11.08.2017	24.11.2017

Beforehand the credit units had undergone inspections of data included in the calculation systems and they were informed of the irregularities found, which made it possible to specify areas requiring measures of the receiver for the purpose of removing as many

errors as possible within 3 working days, specified in the *Act on BFG* for the preparation of the list of the depositors. Most irregularities identified during the inspection had been removed by the credit unions until the list of depositors was drawn up.

Table 3. Disbursements of guaranteed funds in 2014–2017

No.	Name of entity	Date of fulfilment of the guarantee condition	Number of depositors	Liabilities due to depositors* PLN million	Total disbursements until the end of 2017 PLN million	Liabilities as at the end of 2017* PLN million	Degree of the execution of disbursements as at the end of 2017
1	SKOK “Wybrzeże”	15.09.2017	7,696	120.8	112.8	8.0	93.3%
2	SKOK “Nike”	02.06.2017	10,440	114.4	111.5	2.9	97.5%
3	Twoja SKOK	12.05.2017	14,019	165.8	160.5	5.3	96.8%
4	SKOK Wielkopolska	03.02.2017	39,575	284.2	278.3	5.9	97.9%
5	CB (Cooperative bank) in Nadarzyn	24.10.2016	5,854	145.9	144.7	1.2	99.2%
6	SKOK “Skarbiec”	22.07.2016	8,348	88.0	87.0	1.0	98.9%
7	SKOK “Arka”	11.05.2016	13,947	93.1	92.1	1.0	98.9%
8	SKOK “Jowisz”	25.04.2016	7,380	81.9	80.3	1.6	98.0%
9	SKOK “Polska”	25.02.2016	8,343	170.2	168.5	1.7	99.0%
10	SKOK “Kujawiak”	08.01.2016	17,200	183.9	182.9	1.0	99.5%
11	Spółdzielczy Bank Rzemiosła i Rolnictwa, Wotomin	23.11.2015	33,144	2,036.9	2,029.6	7.3	99.6%
12	SKOK in Wotomin	12.12.2014	45,449	2,246.6	2,241.2	5.4	99.8%
13	SKOK Wspólnota	18.07.2014	74,042	817.5	810.9	6.6	99.2%

* The amounts do not include the depositors' liabilities, data of whom needs to be confirmed.

As at the end of 2017 the value of the disbursements remaining to be paid out from the Fund to credit union

depositors amounted to PLN 40,427.0 thousand while to bank depositors – PLN 8,599.4 thousand.

3.3. Guarantee Disbursements to Depositors in 1995–2017

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

Table 4. Guarantee conditions fulfilment in 1995–2017

Year	Commercial banks	Cooperative banks	Cooperative savings and credit unions
1995*	2	48	Guarantees for credit unions became effective as of 29 November 2013
1996	1	30	
1997	-	6	
1998	-	4	
1999	1	-	
2000	1	-	
2001	-	1	
2002–2013	-	-	-
2014	-	-	2
2015	-	1	-
2016	-	1	5
2017	-	-	4
TOTAL	5	91	11

* since 17 February 1995

Table 5. Funds allocated to guarantee disbursements to bank depositors in 1995–2017

Funds allocated to guarantee disbursements (in PLN million)					
Year	Total	including:			
		from GDPF ⁵	from liquid assets of bankruptcy estates ⁶	from the bankruptcy estate recovery fund	from the banks guarantee fund ⁷
1995	105,0	85,9	19,1	0	-
1996	50,8	47,3	3,1	0,4	-
1997	6,4	4,7	0,6	1,1	-
1998	8,2	4,1	1,8	2,3	-
1999	4,7	0	2,0	2,7	-
2000	626,0	484,1	141,9	0	-
2001	12,5	0	4,5	8,0	-
2002	0,1	0	0,1	0	-

⁵ Pursuant to the *Act on BFG*, by 31 December 2024 banks are obliged to create and maintain guaranteed deposit protection funds to satisfy depositors' claims. Pursuant to the provisions of the *Act on BFG*, GDPF may be used to disburse guaranteed funds after exhausting funds from the banks guarantee fund, extraordinary contributions and funds from other own funds, 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.

Table 5 – continuation.

Funds allocated to guarantee disbursements to bank depositors in 1995–2017

Funds allocated to guarantee disbursements (in PLN million)					
Year	Total	including:			
		from GDPF ⁵	from liquid assets of bankruptcy estates ⁶	from the bankruptcy estate recovery fund	from the banks guarantee fund ⁷
2003	0.1	0	0.1	0	-
2004	0.4	0	0.4	0	-
2005	0.1	0	0.1	0	-
2006	0.1	0	0.1	0	-
2007–2008	0	0	0	0	-
2009	0.004	0	0	0.004	-
2010–2014	0	0	0	0	-
2015	2,037.0 ⁸	2,036.9	-	-	-
2016	145.7 ⁹	145.6	-	0.04	0.03
2017	0.2	0	-	-	0.2
TOTAL	2,997.3	2,808.6	173.8	14.5	0.2

In 1995–2017 the disbursements of guaranteed funds amounted to PLN 2,997.3 million provided to 357.8 thousand eligible bank depositors.

In 2014–2017 the disbursements of guaranteed deposits amounted to PLN 4,366.4 million provided to 246.5 thousand eligible credit union depositors.

Table 6. Funds allocated to guarantee disbursements to credit union depositors in 2014–2017

Funds allocated to guarantee disbursements (in PLN million)					
Year	Total ¹⁰	including:			
		from the credit unions guarantee fund	from the banks guarantee fund	payments from the National Credit Union	aid fund
2014	3,064.0 ¹¹	20.7	-	32.8	3,010.5
2015	0.1	0.1	-	0.0	0.0
2016	617.2	44.5	-	0.007	572.7
2017	685.1	58.2	626.9	-	-
TOTAL	4,366.4	123.5	626.9	32.8	3,583.2¹²

⁸ The values provided also take into account guaranteed funds of persons whose details were included in the depositor list, the accuracy of which is justifiably doubtful. Details of these customers were sent to the receivership of the bank or the receiver of the credit union for the purpose of clarifying irregularities. In the case of these depositors guaranteed funds are disbursed, if at all, after irregularities have been corrected.

⁹ as above

¹⁰ as above

¹¹ 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 Wołomin depositors after completion of the depositor list.

¹² Due to the fact that the amount of the Fund's liabilities on account of guaranteed funds exceeded the funds of the credit unions fund allocated to utilisation and the value of funds of the stabilisation fund provided by the National Credit Union, pursuant to the decision of the Fund's Council, the remaining amount was covered from funds provided from BFG aid fund.

3.4. Verification of Data Contained in Bank and Credit Union Calculation 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 data based on the Single Customer View standard, allowing to display all the information on the given client.



Calculating system – the IT system in a bank or a credit union that allows to prepare, for BFG, detailed data of depositors of the bank or the credit union with the amounts of guaranteed funds calculated for them (Single Customer View). The details on the calculating systems are 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 (Journal of Laws of 2016 item 1642)*.

BFG is statutorily equipped with the power to perform validity audits of data compiled in the calculating systems. The purpose of these audits is to identify errors and correct the quality of data in the calculating systems, minimise the risk of preparing a depositor list including inaccurate or incomplete data and also to ensure efficient execution of potential disbursements.

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 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 data provided at the request of 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 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 lists the validity audits, executed in 2017, of data included in the calculation systems of the entities covered by the guarantee scheme.

Table 7. Number of data audits performed in 2017

Type of audit	Commercial banks	Cooperative banks	Credit unions	Total
at the Fund	7	103	48	158
at a bank/credit union	1	3	8	12
Total	8	106	56	170

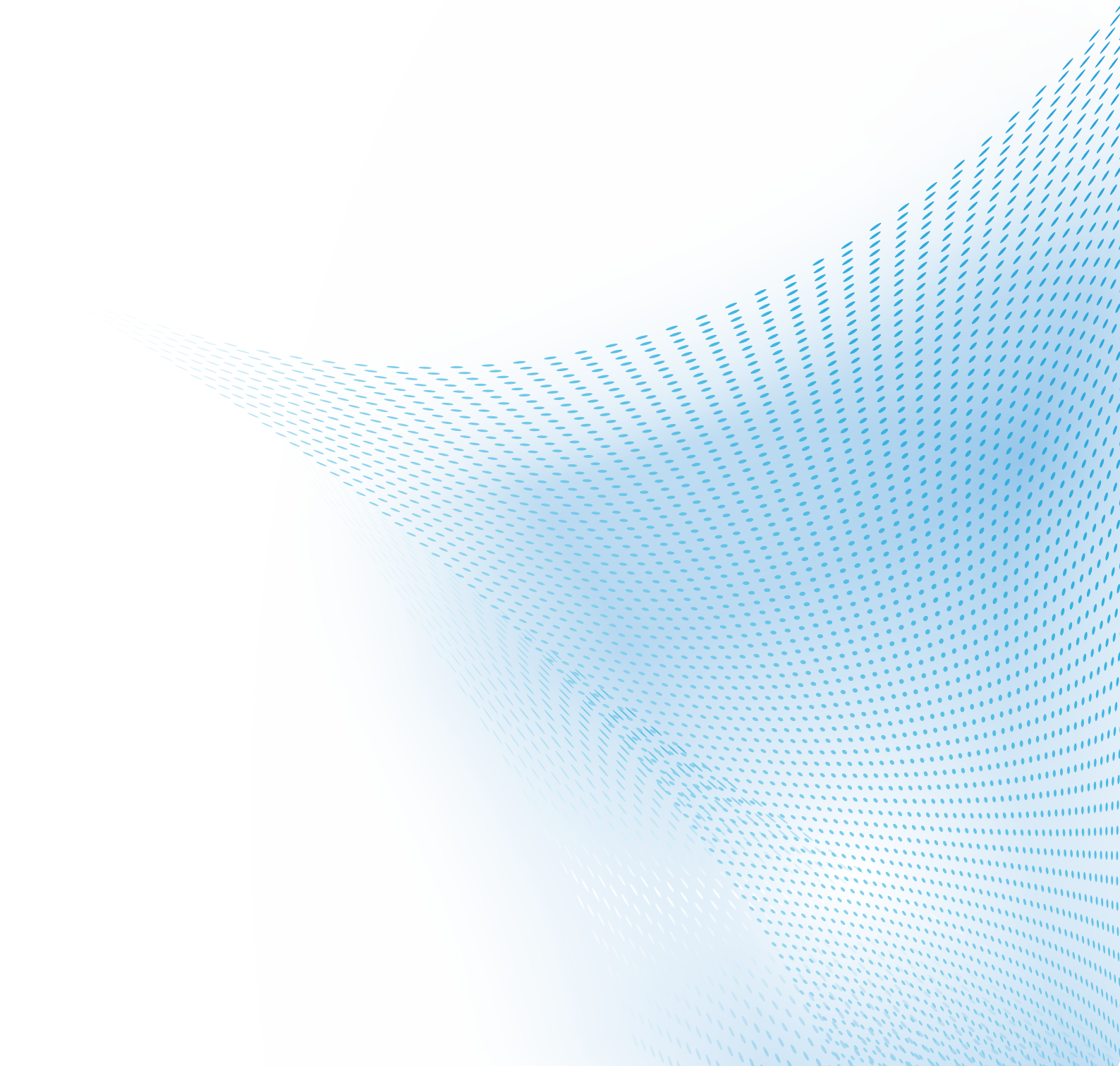
The scope of an audit covered:

- verification of correctness of data in the calculation systems of the banks and credit unions, including assessment of scale of change in quality of 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 2016¹³ and with the definitions of depositor and guaranteed funds.

¹³ 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")*.



RESOLUTION



4. Resolution

What is resolution?

Resolution consists in restructuring of an entity at risk that fails to meet the terms and conditions for carrying out an activity, 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.



Premises for resolution

The Bank Guarantee Fund undertakes measures in a situation where the following premises have been met cumulatively:

- an entity is at risk of bankruptcy,
- supervisory measures that are available or measures undertaken by the entity do not make it possible to eradicate such risk in due time,
- measures must be taken in public interest¹⁴.

The rules of executing 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 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 set of instruments and powers necessary to intervene quickly and effectively with respect to an entity at risk in order 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.



Resolution instruments

As part of resolution proceedings the Fund may apply one or several instruments described in detail in the *Act on BFG*:

- acquiring an undertaking,
- establishing a bridge institution,
- redeeming or converting liabilities of an entity under resolution,
- separating property rights (only jointly with other resolution instrument).

In the first place losses of the entity at risk and resolution costs will burden the owners of the entity under resolution. 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 performing resolution tasks, the Fund may use resolution funds, i.e.:

- grant borrowings or guarantees to an entity in resolution or its activities, 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 entity in resolution, its subsidiaries, the bridge institution and the asset management vehicle, or that they are connected with applying resolution instruments, in particular to provide support in the process of acquiring the entity in resolution or its activities; and
- acquire assets of the entity in resolution.

¹⁴ Measures must be taken in public interest when the bankruptcy of such an entity, due to its effects, might have a serious negative impact on: the security of customers of such an entity and the funds deposited by them, maintaining financial stability (including the operation of financial markets or the economy), continuity of critical functions of such an entity or necessitate (increase) the engagement of public funds with respect to the financial sector for the purpose of performing the objectives specified above.

The Fund may also provide support for the purpose of acquiring an entity in resolution or its activities, or for the purpose of transferring them to the bridge institution, by granting:

- guarantees of total or partial coverage of losses related to the assets and liabilities taken over,
- subsidies to cover the difference between the value of the liabilities taken over and the value of the assets taken over.

Support for resolution shall be consistent with the rules of granting state aid by the EU Member States.



BFG funds earmarked for support and financial assistance, granted by the Fund in resolution proceedings, may be treated as “state aid”. Support and financial assistance of the Fund may potentially contribute to distortion of competition and it may constitute prohibited state aid within the meaning of Article 107 of the Treaty on the Functioning of the European Union, pursuant to which all and any aid granted by the EU Member State or with the use of state resources in any form that distorts or threatens to distort competition through favouring certain undertakings or producing certain goods is incompatible with the EU internal market in the scope in which it influences trade between the Member States.

Therefore, any support or financial assistance granted by the Fund must meet the requirements specified by the EU legal framework regulating the admissibility of granting state aid. The admissibility of support granted by the Fund as part of resolution proceedings is assessed on a case-by-case basis in the individual notification procedure, provided that support or financial assistance cannot be granted by the Fund under previously approved aid schemes.



In 2017 there were 2 aid schemes in force, i.e. “*Aid scheme concerning resolution of cooperative banks and small commercial banks*” and “*Aid scheme concerning resolution of cooperative savings and credit unions*”. On 2 August 2017, by way of European Commission decision, both schemes were extended for further 12 months.

4.1. BFG Activities Related to the Performance of the Act on BFG in the Scope of Resolution

In 2017 the KNF informed the Fund of the fact that four credit unions were at risk of bankruptcy, at the same time stating that there were no premises for undertaking measures that would make it possible to eradicate that risk in an appropriately short period of time¹⁵. BFG assessed fulfilment of the conditions for issuing a decision to institute resolution proceedings with respect to those credit unions or a decision to redeem or convert equity instruments. Due to their size and business scale those credit unions were of no systemic importance and their situation did not represent a hazard to financial stability. Those credit unions did not perform critical functions and depositors’ funds were subject to guarantee protection and it was possible to disburse them in a timely manner. The application of the bankruptcy procedure with respect to the credit unions was assessed as reliable and feasible, and it was not necessary to undertake any other restructuring measures for the purpose of protecting public interests. As a consequence, in 2017 the Fund did not decide to institute resolution proceedings with respect to any entity due to the fact that the premises of the public interest had not been satisfied.

The Fund continued preparations for executing resolution proceedings should the premises for resolution be satisfied.

In 2017 the Fund developed operating procedures in the scope of preparing and executing resolution proceedings, taking into account, among other factors, information and practical experience gained in the course of the activities of the standing committee and the working groups of the European Banking Authority as

¹⁵ Wielkopolska SKOK, Twoja SKOK, SKOK “Nike” and SKOK “Wybrzeże”.

well as results of consultations with financial market infrastructure entities.

The Fund continued the implementation of the arrangements made with the Ministry of Finance in the scope of necessary amendments to the *Act on BFG* with a view to streamlining the resolution process.

The Fund also cooperated with the EC in the scope of applying resolution instruments, including the mechanism of financing resolution for the purpose of covering losses or providing supplementary capital to an entity in resolution, and the Fund also participated in the activities of the European Banking Authority in connection with preparing guidelines and technical standards for the BRR Directive.

The BFG Management Board President is a member of the EBA Standing Committee on Resolution (ResCo). In 2017, apart from performing its tasks in the regulatory scope, the Committee was engaged in monitoring the implementation of *the BRR and the DGS Directives*, among other things in the scope of the activities of resolution colleges, determining the MREL as well as instruments subject to redemption or conversion, calculating contributions to deposit guarantee funds and determining potential Brexit aftermath.



The EBA Resolution Committee (ResCo)

was established under Article 127 of the BRR Directive, obliging EBA to establish a standing committee consisting of representatives of the resolution authorities, responsible for developing the Guidelines as well as implementing and regulatory technical standards (ITS and RTS) issued under the delegated acts included in the BRR Directive. The works of ResCo also include providing technical advice to the European Commission in the scope of the delegated acts of the European Commission – other than RTS or ITS – issued under the delegated acts included in the BRR Directive. Additionally, ResCo allows the resolution authorities from the respective Member States to exchange experience.

Representatives of the Fund attended meetings of the working group established by the EBA in 2017 responsible for standards on estimations for the purpose of resolution and obtaining relevant data for that purpose.

In connection with the coming into force of the *Regulation of the Minister of Development and Finance of 9 August 2017 on the detailed scope, manner and dates for providing the Bank Guarantee Fund with information necessary for the execution of its tasks and the method of verifying the correctness of the information provided* (Journal of Laws of 2017 item 1710), the Fund has published on its website detailed diagrams and an instruction on providing data, opened a dedicated mailbox to make it possible for interested parties to ask questions related to the performance of the obligations specified by the Regulation and also provided answers to the received questions.

Pursuant to the *Act on BFG*, domestic entities were 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 from transactions with a pledge to buyback or resale. At the same time the legislator provided the BFG Council with a power to release 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. After drawing up first resolution plans in 2017, the Fund, acting upon the request of the interested parties and at its own initiative, released the banks, investment firms and credit unions meeting all the conditions specified in the *Act on BFG and in Resolution 2016/1712*¹⁶ from the obligation to keep a register of financial instruments.

¹⁶ COMMISSION DELEGATED REGULATION (EU) 2016/1712 of 7 June 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms with regard to regulatory technical standards specifying a minimum set of the information on financial contracts that should be contained in the detailed records and the circumstances in which the requirement should be imposed.



The **register of financial instruments** is a set of information concerning financial instruments, transactions with a pledge to buyback or resale (buy sell back, sell buy back, repo, reverse repo), borrowings on the inter-bank market maturing in up to three months' time, and also framework agreements specifying the terms and conditions for concluding such transactions to which a domestic entity is a party. Information concerning the counterparty and basic transaction parameters is subject to disclosure in the register, such as the maturity date, valuation, security established or the settlement method.

The obligation of domestic entities to keep the register is aimed at providing the Fund, as the authority executing resolution proceedings, with up-to-date information about the current value of financial instruments as well as potential receivables and liabilities related thereto.

4.2. Resolution Planning



The process of planning effective resolution proceedings is based on preparing resolution plans. In a resolution plan the Fund specifies the preferred resolution instrument, the application of which will make it possible to meet the resolution objectives to the greatest extent possible. In practice one cannot rule out the need to undertake supplementary measures, not envisaged by the resolution plan, as market conditions or the structure of a given entity can change to such a significant degree that any scenarios adopted ex ante during the process of developing or updating the resolution plan may prove less effective in a given situation.

The Fund has prepared resolution plans for:

- commercial banks and investment firms that are not subsidiaries in cross-border groups,
- cooperative banks,
- credit unions,
- commercial banks and investment firms that are units of cross-border groups in the case of which the Fund decided to draw up a separate resolution plan.



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

A college consists of:

- resolution authorities,
- supervisory authorities,
- ministers competent for financial institutions,
- deposit guarantors

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 develop and update group resolution plans as well as determine minimum levels of liabilities subject to redemption or conversion for the group as a whole and for particular institutions comprising it. Moreover, in the event where a group or one institution is at risk of bankruptcy, 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 instrument are subject to joint decisions made within the college by the resolution authorities participating in it.

4.3. Development of Resolution Plans

In 2017 the Fund prepared resolution plans for:

- 19 commercial banks,
- 555 cooperative banks,
- 37 credit unions,
- 17 investment firms.

As part of the process of developing resolution plans, the Fund also determined the minimum level of own funds and liabilities subject to write-off or conversion for all domestic entities. In addition, the Fund presented its expectations regarding the nature of debt instruments with the use of which that obligation would be met.

BFG remained 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 2017 the Fund was a member of:

- 11 colleges established by the SRB,
- 2 colleges established by the Bank of England,
- 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 entity.

In addition, BFG acted as an observer at one college established by the Swedish National Debt Office.

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



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* obligated domestic entities to maintain a minimum level of own funds and liabilities subject to redemption or conversion (*minimum requirement for own funds and eligible liabilities*, MREL). The purpose of the new requirement is to ensure that the structure of an entity's equity and liabilities will make it possible, thanks to the authority executing resolution proceedings with respect to powers to redeem or converse capital instruments and liabilities, to cover the entity's losses and the costs of its resolution, including rebuilding capitals to a level making it possible to continue activities in accordance with the supervisory requirements.

The MREL is determined for each and every domestic entity individually by the resolution authority on the basis of the guidelines specified by the European Commission, and it is expressed as the percentage of the sum of the entity's own funds and liabilities. The key factor influencing the MREL is the resolution instrument specified as the preferred one in the plan.

Entities may meet their requirement in the form of instruments classified under own funds and debt instruments meeting the terms and conditions 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.



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.

Multiple Point of Entry (MPE)

A strategy where each of the group's entities is treated individually. Resolution proceedings are initiated directly with respect to the entity that came under threat of insolvency and the proceedings are executed by the competent resolution authority of the host country (in the case of a subsidiary). MREL-eligible instruments are issued to external investors at the level of subsidiaries.



Single Point of Entry (SPE)

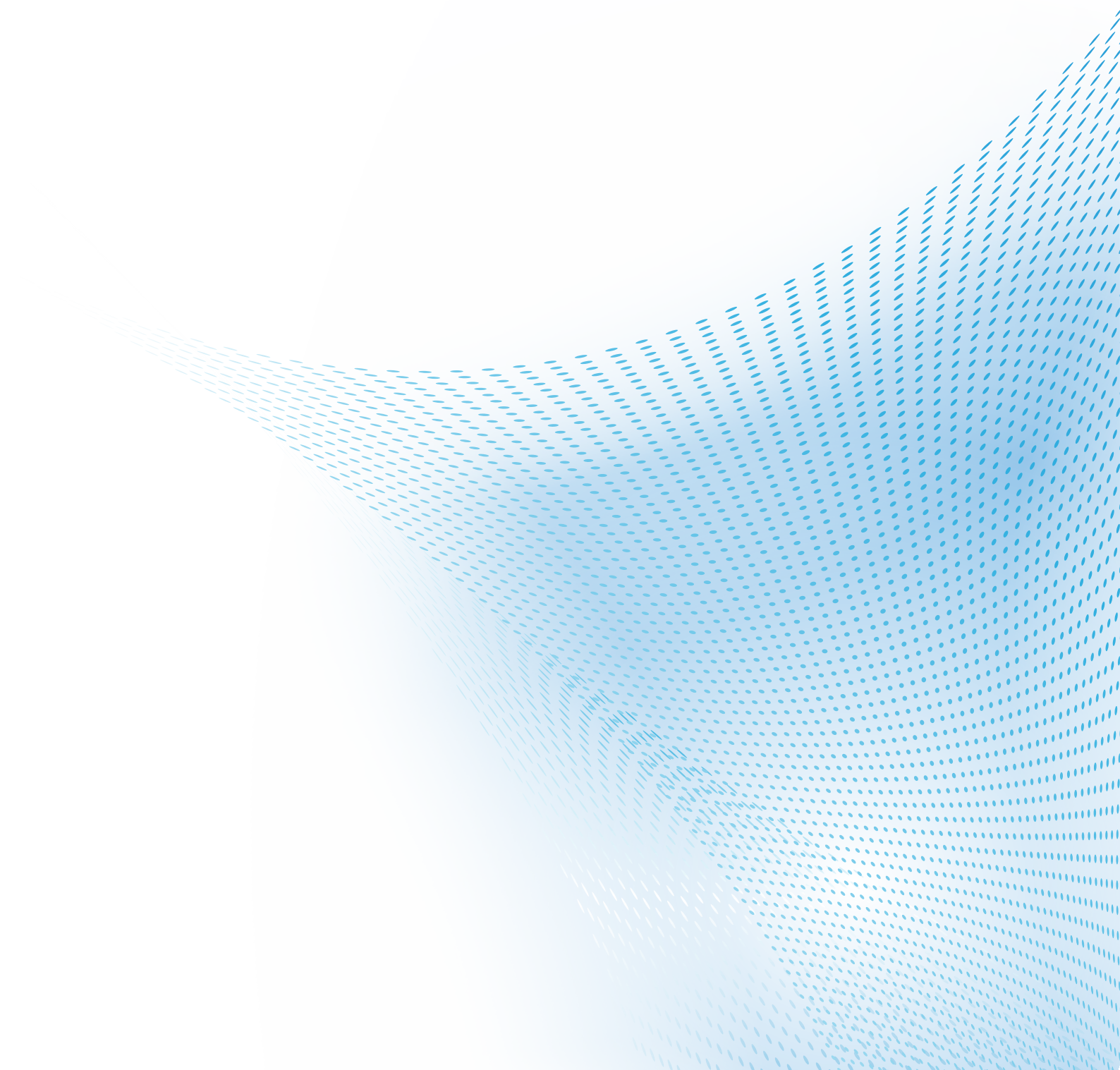
An approach where resolution powers are applied with respect to the parent company in a group by the resolution authority. In the SPE strategy it is necessary to develop an effective mechanism for the transfer of losses by subsidiaries to the parent company which will assure that these entities will be well capitalised irrespective of results from ongoing activities. In order to achieve this, the parent company acquires or takes up equity instruments or subordinated debt instruments issued by subsidiaries, or grants subordinated borrowings to them that, should losses occur at that entity, will be earmarked for covering them (automatically in the case of CET1 and AT1 instruments or through redemption or conversion of equity instruments). In the case of the SPE strategy the buffer for covering losses and providing supplementary capital in the form of MREL issued to third parties (from outside the group) is created at the level of the parent company.

The Fund was involved in making joint decisions on adopting group resolution plans for 10 EU cross-border groups covering 13 domestic banks and 4 investment firms¹⁷.

¹⁷ As a result of changes in the shareholding structure of one of domestic financial groups being a unit of a group based in other Member State, 2 domestic banks and 2 investment firms included in the above statistics ceased to be units of cross-border groups. For those entities BFG drew up individual resolution plans.



FINANCIAL SUPPORT AND RESTRUCTURING ACTIVITIES



5. Financial Support and Restructuring Activities

5.1. Restructuring of Cooperative Savings and Credit Unions

Pursuant to the *Act on BFG*, in the scope of restructuring 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 unmatured 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 credit unions restructuring 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. On 2 August 2017, by way of European Commission decision, the aid scheme providing support for the restructuring of credit unions was extended once again for a 12-month period.

5.2. Processes of Restructuring 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.

Table 8. Support provided in the form of grants in 2014–2017

No.	Details	Year of granting	Grant (PLN thousand)
1	Alior Bank SA (SKOK im. św. Jana z Kęt)	2014	15,895.8
2	Bank Pekao SA (SKOK im. Mikołaja Kopernika)	2015	101,926.3
3	PKO BP SA (SKOK "Wesoła")	2015	278,858.4
4	Alior Bank SA (SKOK im. Stefana Wyszyńskiego)	2016	52,533.74
5	Alior Bank SA (Powszechna SKOK)	2016	9,310.12
6	Śląski Bank Spółdzielczy "Silesia" in Katowice (SKOK "Profit")	2017	115.84
TOTAL			458,640.2

In 2014-2017 BFG granted support in the form of grants in the total amount of PLN 458.6 million.

In 2017 Śląski Bank Spółdzielczy "Silesia" in Katowice (CB (Cooperative bank) "Silesia") continued the process of restructuring SKOK "Profit" in Rybnik and it applied to the Fund for providing support in that restructuring process. The Fund provided support to CB (Cooperative bank) "Silesia" in the form of grants and loss coverage guarantees for the acquisition of SKOK "Profit" in Rybnik.

In 2017 the Fund also declared that it might provide support to ING Bank Śląski SA in the process of restructuring Bieszczadzka SKOK and to the cooperative bank in Wschowa in the process of restructuring Lubuska SKOK.

At the request of SKOK "Jaworzno", the Fund issued an opinion on the possibility of providing financial assistance in the form of a borrowing for the purpose of obtaining European Commission decision on the admissibility of granting state aid (through individual notification). The Fund monitored the ongoing notification proceedings, participated in talks with the European Commission and verified the satisfaction of the requirements for considering the application to provide assistance to the credit union.

5.3. 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 2016 item 1826, as amended) in 2017 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 pursuance of 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 on:
 - 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.

Applications submitted by banks in 2017 were only for granting assistance for covering expenditures related to developing or joining a protection scheme. In the course of 2017 the Fund analysed 283 applications of banks, deciding to:

- grant 272 borrowings totalling PLN 58,677 thousand,
- refuse to grant 11 borrowings – in 10 cases the Fund refused to grant borrowings as the financial projection presented by banks were not credible, which posed a probable threat to repayment, and in 1 case the bank failed to satisfy the insolvency criteria.

5.4. Applications for Writing Off Financial Assistance

Pursuant to the *Act on the Operation of Cooperative Banks, their Affiliation and Affiliating Banks*, receivables and debts due to the Fund on account of financial assistance granted are to be written off in full or in part¹⁸, **in cases justified by the public interest or increasing financial stability.**

As participating in the protection scheme, the objective of which is to ensure liquidity and solvency of all its participants, contributes to the increase of the financial stability of the sector and it is in the public interest to maintain financial stability, in 2017 the Fund acknowledged 291 applications of banks to write off, in full or in part, borrowings earmarked for expenditures on the protection scheme granted in 2016–2017. The borrowings written off totalled PLN 62,135.28 thousand.

5.5. Other Activities

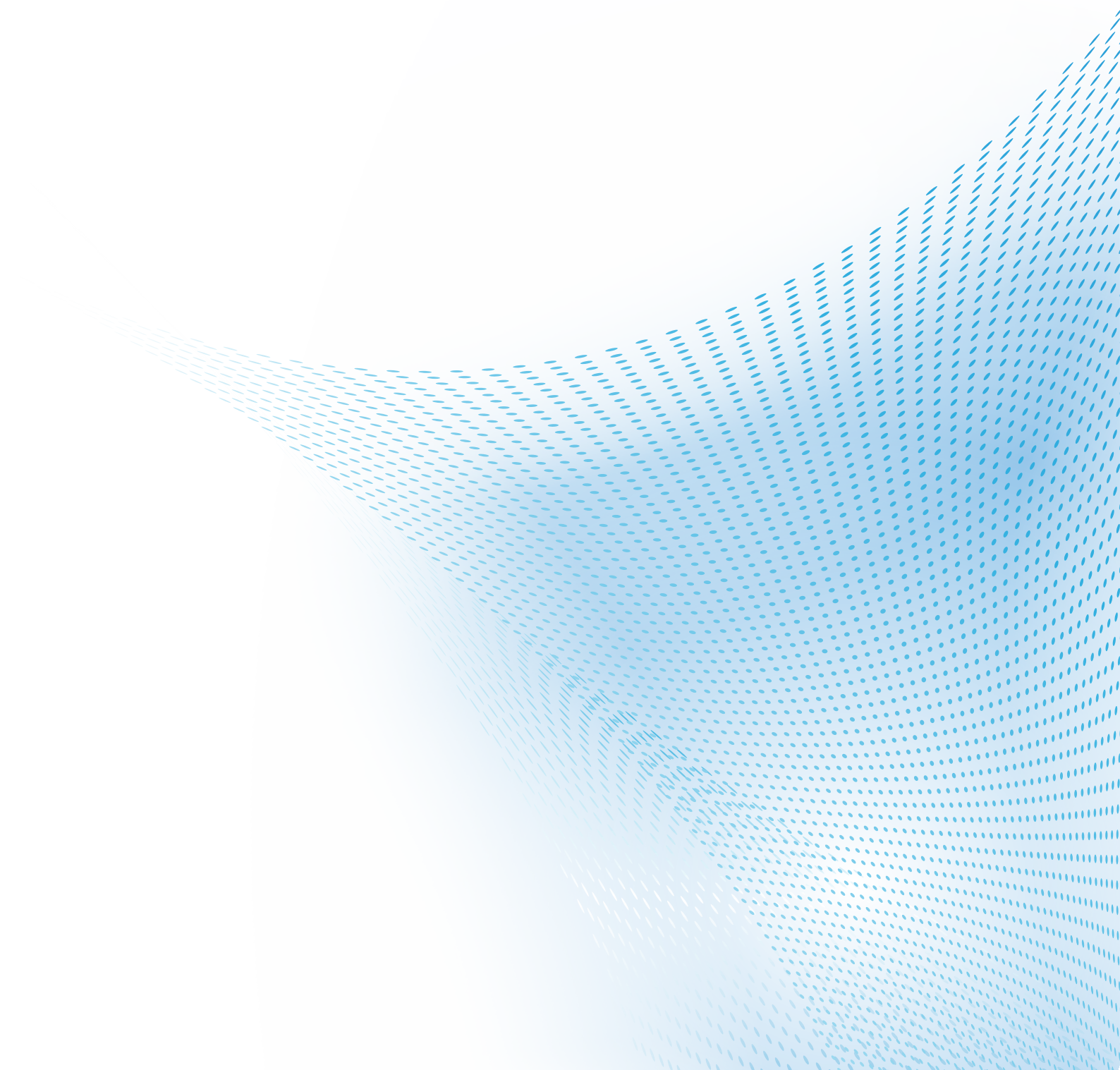
In connection with amending in 2016 of the provisions of the *Act of 29 August 1997 – the Banking Law* (Journal of Laws of 2017, item 1876, as amended), banks prepare recovery plans specifying measures in case the bank's financial situation deteriorates considerably in the event of a threat to financial 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.

In 2017, at the KNF's request, pursuant to Article 141q (4) of the *Banking Law Act*, the Fund analysed and issued 114 opinions on recovery plans: 15 recovery plans of commercial banks, 61 of cooperative banks and 38 repeated opinions on further versions of recovery plans of cooperative banks.

¹⁸ Such write-off is *de minimis* aid, which should not exceed the PLN equivalent of EUR 200 thousand in a three-year period.



MONITORING SUPPORT AND PURSUING OF CLAIMS



6. Monitoring Support and Pursuing of Claims

As at the end of 2017, the Fund monitored:

- 3 commercial banks (taking advantage of support in connection with the acquisition of 5 credit unions),
- 1 cooperative bank,

to which the Fund granted support in 2014-2017 in connection with the process of restructuring credit unions.

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. By the end of 2017 the Fund approved all reports, correctly submitted throughout the year, concerning agreements for loss coverage guarantees. In addition, the Fund carried out audits at 3 banks. The audits focused on correct performance of the terms and conditions of support agreements, the quality of managing acquired property rights as well as of the information provided

in settlement reports with 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.

As of 31 December 2017 the Fund participates in fourteen bankruptcy proceedings as a creditor on account of the disbursement of guaranteed funds, with total commitment of PLN 6,269,517.7 thousand. Three bankruptcy proceedings concern banks (35% of the total amount of debts with respect to entities in bankruptcy) while the other proceedings are carried out against bankrupted credit unions (65% of the total amount of debts with respect to entities in bankruptcy).

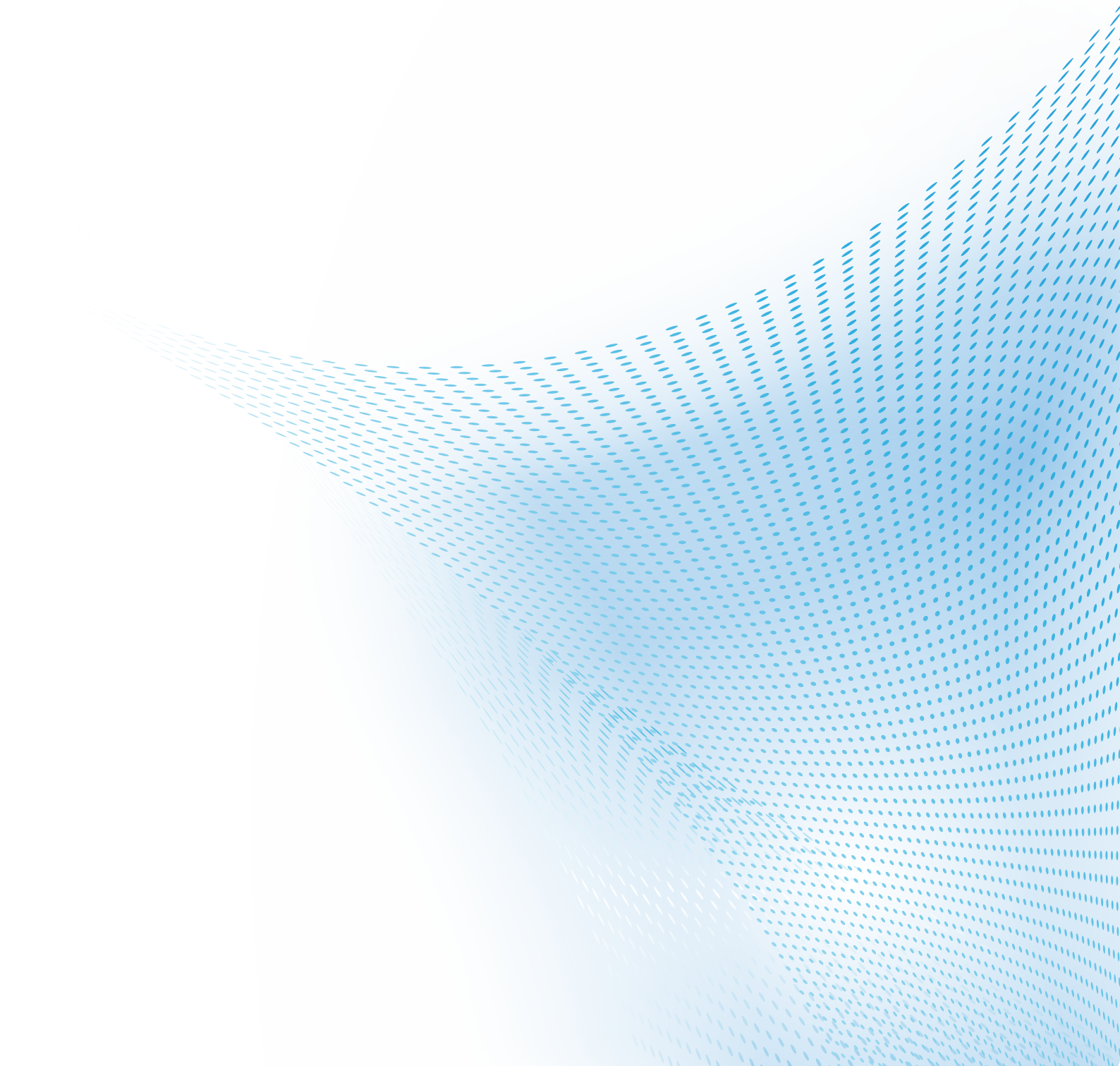
A list of bankruptcy proceedings in which BFG participates, taking into account the bankruptcy declaration dates, is presented in the table below.

Table 9. List of bankruptcy proceedings in which BFG participates

No.	Entity declared bankrupt	Bankruptcy declaration date
Prior to 2003		
1.	Bank Spółdzielczy w Łaniewach	8 November 1995
2014		
2.	SKOK Wspólnota	26 September 2014
2015		
3.	SKOK Wołomin	5 February 2015
4.	Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie (SK Bank)	30 December 2015
2016		
5.	SKOK "Polska"	13 April 2016
6.	SKOK "Kujawiak"	31 May 2016
7.	SKOK "Jowisz"	2 June 2016
8.	SKOK "Arka"	12 July 2016
9.	SKOK "Skarbiec"	29 September 2016
10.	Bank Spółdzielczy w Nadarzynie	19 December 2016
2017		
11.	Wielkopolska SKOK	28 February 2017
12.	Twoja SKOK	19 June 2017
13.	SKOK "Nike"	3 July 2017
14.	SKOK "Wybrzeże"	21 November 2017



ANALYTICAL ACTIVITY



7. Analytical Activity

7.1. Analyses of the Banking Sector Condition and the Credit Union Sector

The basic objective of the analytical activities of the Fund is to assess the financial condition of the banking sector and the individual banks, as well as the credit union sector and 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.

Analyses are prepared in the following cycle:

- quarterly:
 - banking sector threat analysis, taking into account the respective specificity of commercial and cooperative banks,
 - bank threat analysis in accordance with the EWS (Early Warning System) model,
 - scoring assessments of cooperative banks,
- monthly – synthetic information:
 - on the the banking sector situation,
 - on the the credit union sector situation,
- semiannually – cooperative bank sector threat analysis.

In 2017 the Fund modified quarterly analyses regarding threats at commercial and cooperative banks. In the new analysis approach the Fund presented, among other things, results of selecting banks characterised with a higher risk and a broader description of the economic and financial condition of banks selected from that group, using, in various analytical aspects, current reporting data and current information of qualitative nature.

Individual banks and threats related to their activities are assessed as part of the Early Warning System (EWS). The following issues, inter alia, were discussed at monthly meetings of the Early Warning System Committee:

- results of the assessment of commercial and co-operative banks in accordance with the EWS, with special attention paid to banks in a bad and deteriorating financial situation,
- scoring assessments of cooperative banks,
- the economic and financial condition of banks and credit unions assessed as higher-risk entities and included in watch lists,
- the economic and financial condition of selected entities on the basis of, among other things, results of problem inspections carried out by the UKNF at those banks, BION risk assessments as well as information provided in a separate manner by the UKNF or publicly available reports,
- banks' engagement in crediting wind farms in the context of amendments to the provisions regulating the market of renewable energy sources and the possible impact of those amendments on the financial situation of banks,
- assumptions for the review of the recovery proceedings scheme (APPN) of one of commercial banks concerning, among other things, the scale and profile of its activities, income, business costs, financial results, quality of assets and prospects for rebuilding the capital base, and also a report on the implementation of the APPN of that bank for October 2017,
- results of a review of the situation of investment firms,
- the current situation in the credit union sector.

The Fund's analytical system is developed and modified on an ongoing basis. The scope of financial institutions providing information to the Fund was broadened in 2017, mainly by investment firms. The scope of information provided to the Fund was changed too, in particular it was extended (new reporting). The above changes were related to the coming into force of new secondary legislation, issued on the basis of the Act on BFG. The Fund also initiated the process of amending the data-base of banks and credit unions, related to the modification of reporting (as of January 2018). In the case of banks the aim of measures was to amend the reporting of standalone financial information (FINREP)¹⁹. Works on implementing changes in reporting at the Fund included the following in Q4 of 2017:

- modifying already existing standard aggregates and developing new ones,
- modifying already existing standard reports and developing new ones.

Works related to the implementation of changes in the reporting of banks and credit unions will be continued in 2018.

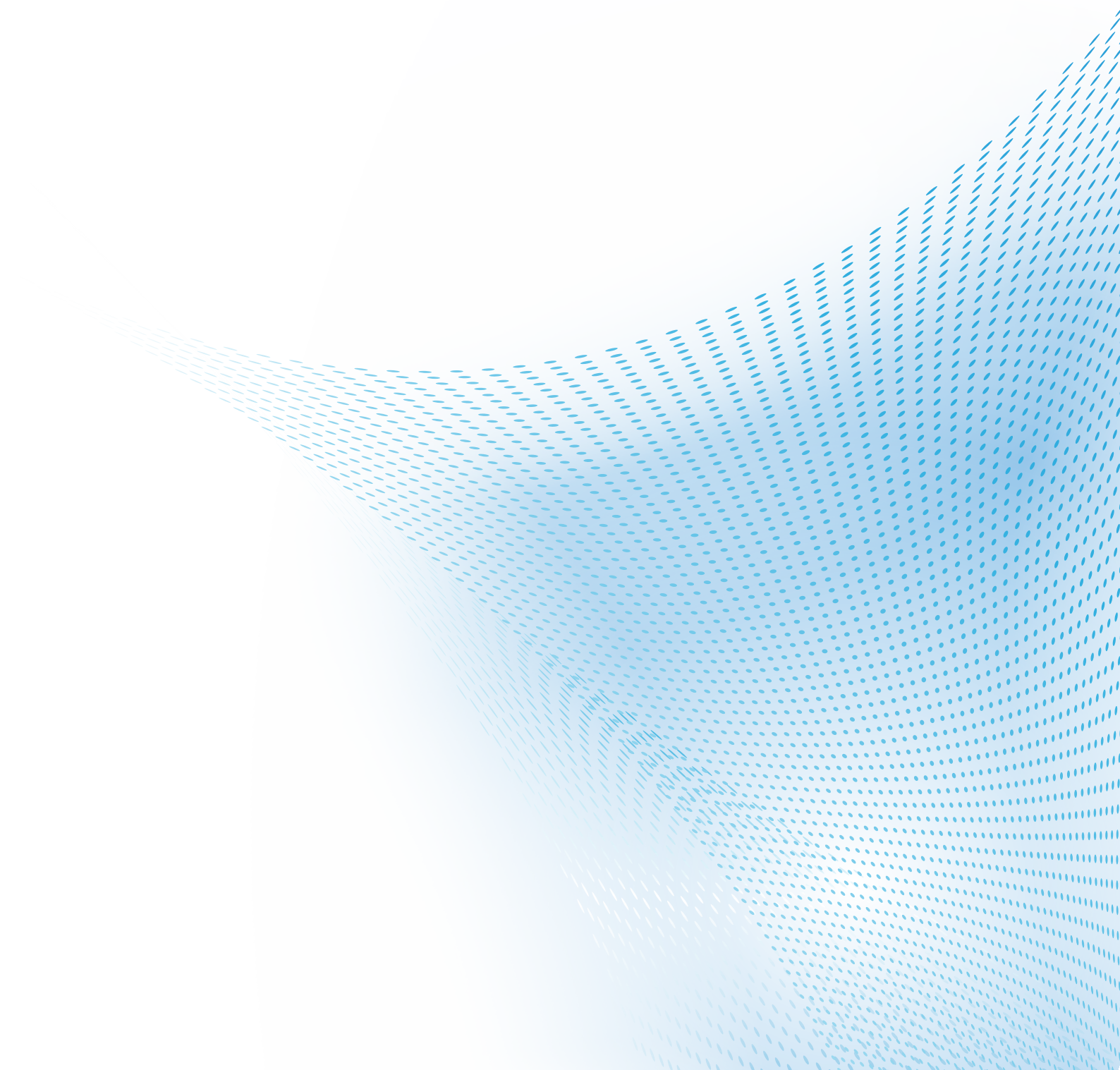
7.2. Macroeconomic Information

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.

¹⁹ The following reporting packages are due to change significantly in 2018, primarily due to the implementation of the new accounting standard IFRS 9: stand-alone FINREP (as of January 2018) and consolidated FINREP (as of March 2018).



FINANCING FUND'S ACTIVITIES



8. Financing Fund's Activities

8.1. Developing a New Method of Calculating Contributions

In connection with the coming into force of the *Regulations of the Minister of Development and Finance of 27 December 2016*:

- on the method of determining the risk profile of banks and branches of foreign banks and taking that profile into account when calculating contributions to the banks guarantee fund,
- on the method of determining the risk profile of credit unions and taking that profile into account when calculating contributions to the credit unions guarantee fund.

The Fund developed methods for calculating contributions to the guarantee fund of banks due from banks and for the guarantee fund of credit unions.

In accordance with the *Act on BFG*, the developed methods of calculating contributions to the system of guaranteeing deposits at banks and credit unions were subject to approval by the KNF²⁰.

The approved method for calculating contributions to the guarantee fund of banks due from banks takes into account risk related to foreign currency housing loans, which performs the recommendation

formulated in Resolution no. 14/2017 of the Financial Stability Committee of 13 January 2017 on a recommendation on restructuring the portfolio of foreign currency housing loans.

The new rules of financing the deposit guarantee and resolution scheme have applied since 2017. The banks guarantee fund is supplied with contributions provided by banks on a quarterly basis, and the credit unions guarantee fund – with contributions provided by cooperative savings and credit unions on a quarterly basis. In turn, the banks resolution fund is supplied with contributions provided by banks and investment firms once a year, while the credit unions resolution fund – by credit unions respectively.

When calculating contributions to the respective funds, BFG used IT applications that had been developed. Applications make it possible to modify contributions in the scope of indicators, recalculation methods, assessment calibration or reporting data sources used, and also to supplement them with additional functionalities, e.g. in the scope of taking into account branches of foreign branches.

The *Act on BFG* specified minimum and target levels of funds in the respective funds and the time limits for reaching them.

Table 10. Required level of funds for financing BFG tasks (as % of the guaranteed funds)

Purpose	Minimum level		Target level	
	%	time limit	%	time limit
Resolution of banks and investment firms	0.80%	31 December 2016	2.60%	3 July 2030
Guaranteeing deposits at credit unions	1.00%	31 December 2024	1.20%	31 December 2030
Resolution of credit unions	0.80%	31 December 2024*	1.00%	3 July 2034*
Przymusowa restrukturyzacja kas	0.10%	31 December 2024	0.14%	31 December 2034

* The time limits specified in Article 288 (3) of the *Act on BFG* were extended due to fulfilment of the premise of Article 288 (4–5) of the *Act on BFG*.

²⁰ On 31 January 2017 the KNF unilaterally approved the method for calculating contributions to the guarantee fund of banks due from banks and the method for calculating contributions to the guarantee fund of credit unions.

While performing BFG's statutory obligation of informing entities of the amount of contributions, on a case-by-case basis the Fund sends a letter to all entities obliged to make a contribution to the guarantee funds, i.e. banks and credit unions, and to the resolution funds, i.e. banks, investment firms and credit unions, with details of the amount of contributions due, the payment date thereof and the maximum share of contributions in the form of commitments to pay. In the case of cooperative banks participating in the institutional protection scheme and taking advantage of the relief on account of participation in the IPS, the Fund also provided the calculated amount which those banks should contribute to the protection scheme.

The Fund started obtaining certain data that were necessary to calculate contributions but that had not been at BFG's disposal until that point directly from entities. Such data are obtained on the basis of the *Regulation of the Minister of Development and Finance* issued under Article 330 (7) of the *Act on BFG*. Data provided by entities for the first time had to be verified in detail by the Fund. For this reason 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. Any errors identified were clarified on an ongoing basis with entities, and data verification results were sent to affiliating banks, with a request

to ensure that data would be reviewed by the cooperative banks affiliated with them. Letters drawing attention to the timeliness and correctness of data provided to the Fund by the obligated entities were also sent to the National Cooperative Savings and Credit Union and to commercial banks.

In 2017 the Fund drafted a proposal of the amount of the rate of the guaranteed deposit protection funds for 2018, which was the basis for the Fund's Council to determine that rate at 0.5% of the amount of cash collected in all accounts at a bank, forming the basis for calculating the statutory provisions for October 2017, and also carried out initial analyses concerning the calculation of total amounts of contributions to the guarantee funds of banks and credit unions and the resolution funds of banks and credit unions for 2018.

Given the fulfilment of the guarantee condition with respect to four credit unions in 2017 and in connection with the fact that in the case of each of those credit unions the disbursement of guaranteed funds to depositors exceeded the value of the funds of the guarantee funds of credit unions available for utilisation, the Fund analysed the possibility of collecting extraordinary contributions from the credit union sector. As a result of the analyses carried out, the Fund decided not to obligate credit unions to make extraordinary contributions to the guarantee fund of credit unions.

8.2. Financial Resources of the Fund

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.

As a result of these changes, at present the Bank Guarantee Fund's own funds include:

- 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.



ACTIVITY IN THE SCOPE INVESTING FINANCIAL RESOURCES



9. Activity In The Scope Investing Financial Resources

Statutory scope of BFG's investment activities

Pursuant to the *Act on BFG*, the Fund may acquire securities issued or guaranteed by the State Treasury, the National Bank of Poland and the governments or central banks of the countries being EU Member States, parties to the Agreement on the European Economic Area or members of the Organisation for Economic Cooperation and Development. Furthermore, the Fund may acquire share units in money market funds and open term deposits at the NBP.

Rules and conditions of performing BFG's investment policy

In 2017 the Fund invested 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. As a result, the objective of the Investment Policy in 2017 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 restructuring measures if any and for disbursements of guaranteed funds, while maintaining the risk parameters of 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 2016 the share of treasury bonds in BFG's portfolio decreased slightly from 87.03% to 80.65% as at the end of 2017 in favour of money bills – an increase from 12.97% to 19.35%.

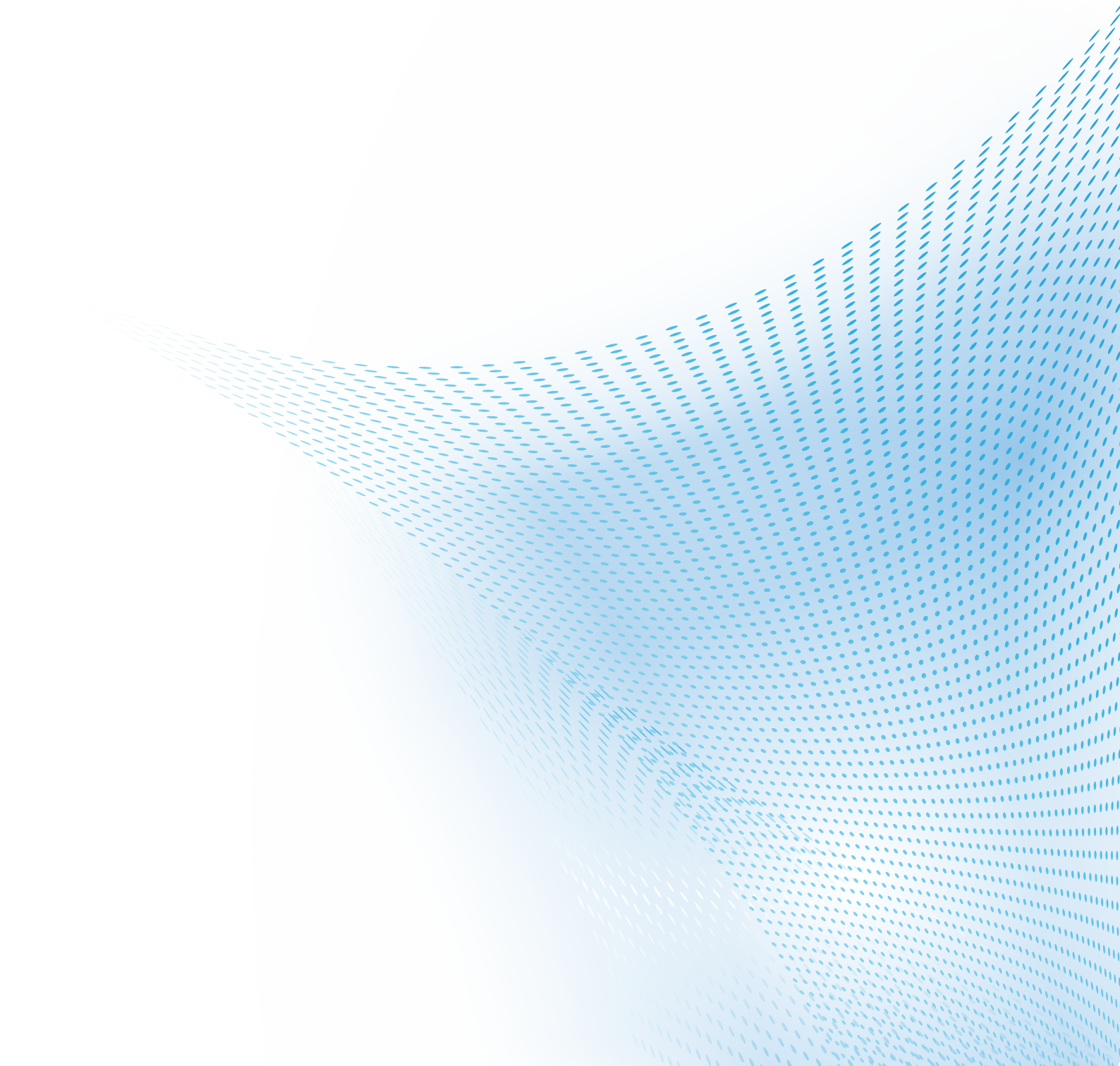
The profitability of the Fund's treasury bonds portfolio stood at 3.20% despite acquiring new securities with profitability rates lower than the profitability of the entire portfolio. The Fund recorded high profitability as a result of the investment policy pursued in previous years, providing for extending duration until 2015 and reducing it in subsequent years. The portfolio duration dropped to 1.13 years compared to the duration of 1.82 years as at the end of 2016.

Table 11. Structure of the BFG's securities portfolio (by nominal value)

Type	Share in the portfolio	
	31 December 2016	31 December 2017
NBP money bills	12.97%	19.35%
Treasury bonds	87.03%	80.65%
Total	100.00%	100.00%



FINANCIAL RESULT IN 2017



10. Financial Result in 2017

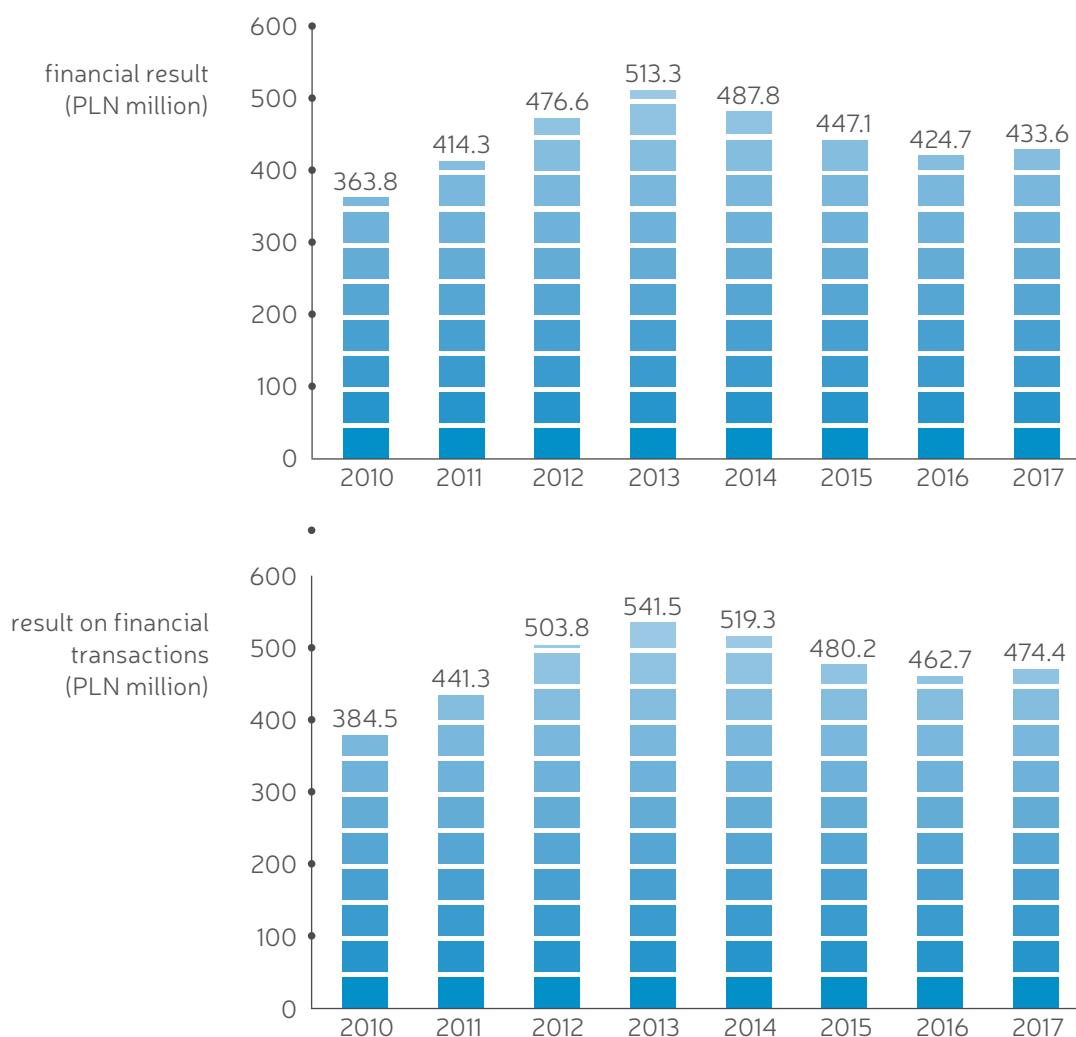
The result of the Fund for 2017 was PLN 433,571.6 thousand. The main item in the income statement for 2017 was the result on financial transactions of PLN 474,404.2 thousand, of which the result on securities was PLN 474,317.0 thousand. Apart from the result on securities, the result on financial transactions included revenues on account of interest on accounts collected in the current account and term deposits of PLN 87.2 thousand.

The result on statutory activity was PLN 461.9 thousand, of which revenues on account of interest on repayable assistance granted to banks and other default interest in the total amount of PLN 434.6 thousand as

well as interest on default in making statutory payments for 2017 in the amount of PLN 27.3 thousand. Other operating revenues of PLN 106.5 thousand included mainly revenues from the sale of fixed assets of PLN 63.5 thousand.

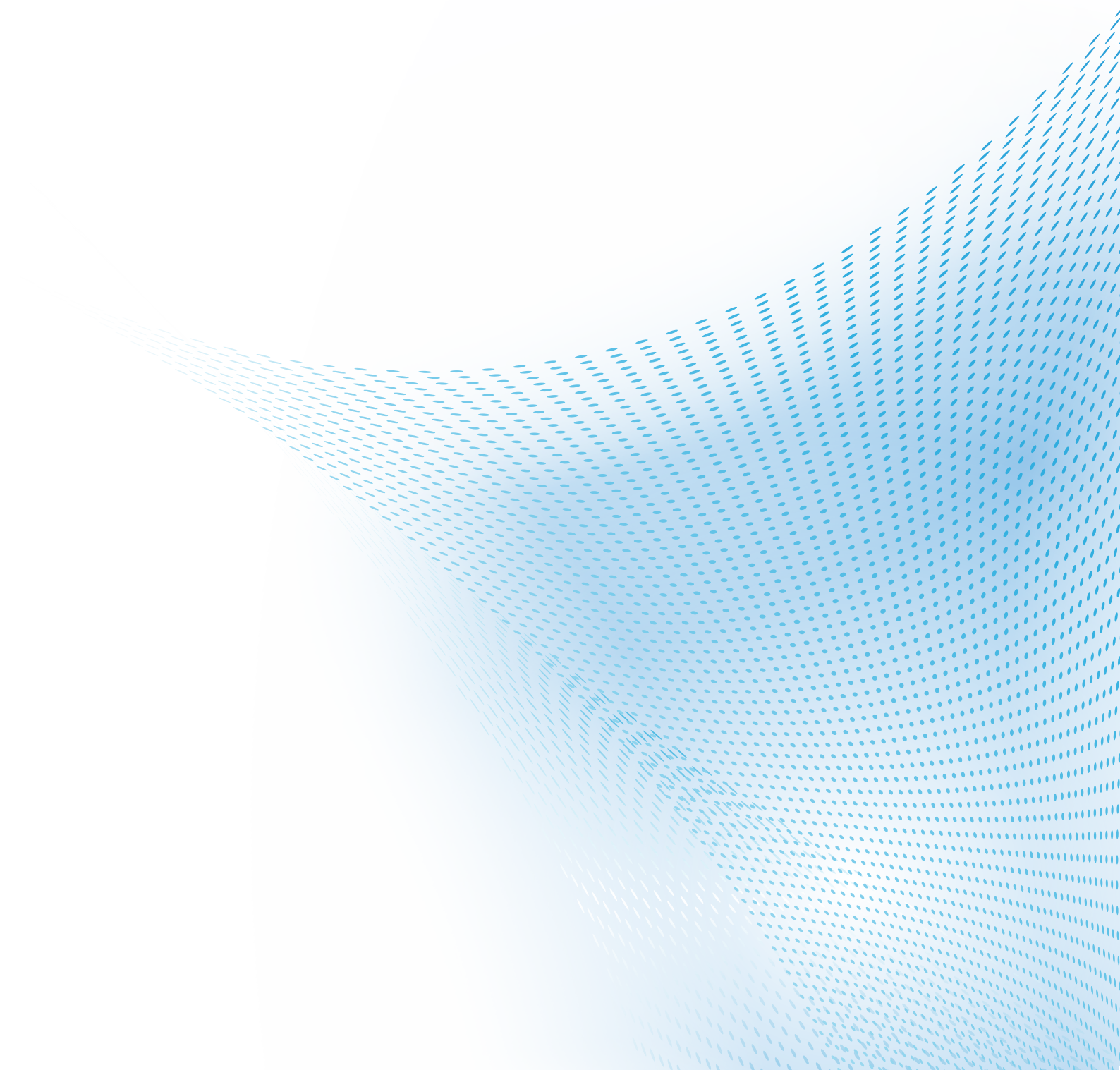
Total costs reached PLN 41,401.0 thousand, the key item of which involved costs of remunerations with add-ons (PLN 28,634.9 thousand). Costs of outsourced services reached PLN 3,998.2 thousand, depreciation – PLN 3,208.1 thousand, other business costs – PLN 5,555.7 thousand and other operating costs – PLN 4.1 thousand.

Chart 1. BFG's results in 2010–2017





INFORMATION AND EDUCATION ACTIVITIES



11. Information And Education 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 BFG's role in the financial security network. The Fund provided information about the amount of disbursements of guaranteed funds, the amount of contributions made to BFG by banks and cooperative savings and credit unions as well as MREL guidelines.

11.1. Information Activities

Materials available at bank and credit unions 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 current demand, 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, promoting the deposit guarantee rules and building public awareness in that scope. The fact that information is provided to the public immediately, particularly in situations when the guarantee conditions are fulfilled, helps prevent customers of banks and credit unions from getting disoriented. 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.

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. The Fund provided

information mainly 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.

11.2. BFG Publications

After publishing Safe Bank Journal in paper-based form for almost twenty years, a decision was made to discontinue that journal version and continue publishing the journal only in an electronic version, which, since issue 2 (67) 2017, has been the basic and only form of propagating the content published in the journal. The electronic version of the journal is published on the BFG's website²¹ (<http://www.bfg.pl/czasopismo-bezpieczny-bank>).



The success of Safe Bank Journal is reinforced by the fact that it kept a score of 13 points in the scientific magazines scoring system of the Minister of Science and Higher Education. The journal is positioned among several of the best rated journals dedicated to issues of the financial market and the stability of the banking system in Poland.

In 2017 three issues of Safe Bank Journal were published while the fourth issue (in English) was prepared for printing. In total, throughout 2017 more than 25 articles and studies were published in Safe Bank Journal. They dealt with such issues as 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. The journal also featured reviews of books in the field of economics.

Finally, the Fund drew up the *Annual Report of the Bank Guarantee Fund for 2016* in Polish and English.

²¹ Since issue 3/68 all articles published in Safe Bank have a Digital Object Identifier (DOI), which makes it possible to digitally identify articles in international data-bases.

11.3. Other Activities

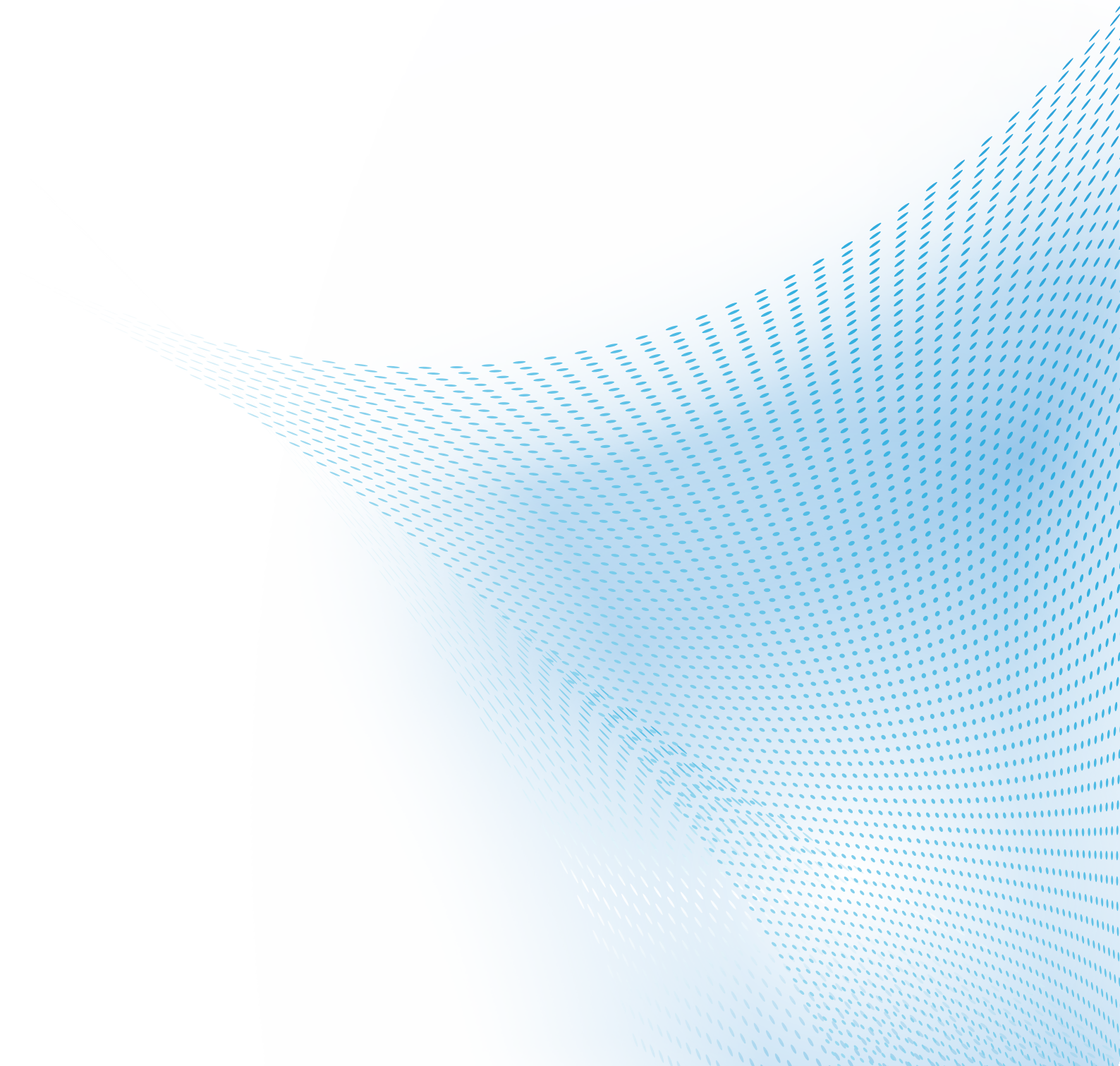
The Fund carried out another, i.e. 15th edition of the competition for the best BA, MA and PhD dissertation in the scope of the deposit guarantee scheme, issues related to the BFG's activities as well as the financial security of banks. 22 dissertations were submitted, out of which the jury selected the winners and awarded the 1st and 2nd prize in the category of PhD dissertations and the 2nd prize for an MA dissertation. The jury decided not to award the Prize of the President of the Management Board for the best MA dissertation. No prize was awarded in the category of BA dissertations either. The prizes were presented on 15 June 2017 at the BFG's head office.

11.4. Testing the knowledge of the role of BFG among the public

The Fund analysed the image of the banking sector in Poland on yet another occasion as part of the cooperation with the Polish Bank Association. The initiative included gauging the public's knowledge about the deposit guarantee scheme and the role of the Bank Guarantee Fund. The knowledge about the BFG's role increased compared to the analysis carried out in 2016. The analysis shows that 41% of respondents are of an opinion that there is an institution that guarantees that individual customers will recover their funds if a bank goes bankrupt, and 22% are of an opinion that this will happen if a cooperative savings and credit union goes bankrupt. In the group of respondents aware of the existence of an institution guaranteeing bank deposits, 55% mention BFG (an increase by 3 percentage points compared to 2016), while in the group aware of the existence of an institution guaranteeing SKOK deposits that figure is 57% (unchanged in comparison with 2016). Public trust in BFG rose by 5 percentage points from 43% in 2016 to 48% in 2017.



DOMESTIC COLLABORATION



12. Domestic Collaboration

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 (KSF-K) and macroprudential supervision (KSF-M). The Fund took an active part in assessing the systemic risk as part of KSF-M. During meetings representatives of the Fund presented, among other things, the impact of the Act on BFG on the domestic financial system, the approach to determining the MREL for Polish banks, initial estimates of the effects of implementing the MREL for the Polish economy and also information about the implementation of the obligation to draw up resolution plans by BFG.



The **Financial Stability Committee** is the body competent for macroprudential supervision in Poland. The Committee is a collegial body, which represents four main institutions of the financial security network, i.e. the National Bank of Poland, the Ministry of Finance, the Polish Financial Supervision Authority and the Bank Guarantee Fund. The Committee's works in the scope of macroprudential supervision are chaired by the Governor of the National Bank of Poland.

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

The **aim of macroprudential supervision** is to mitigate the 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.

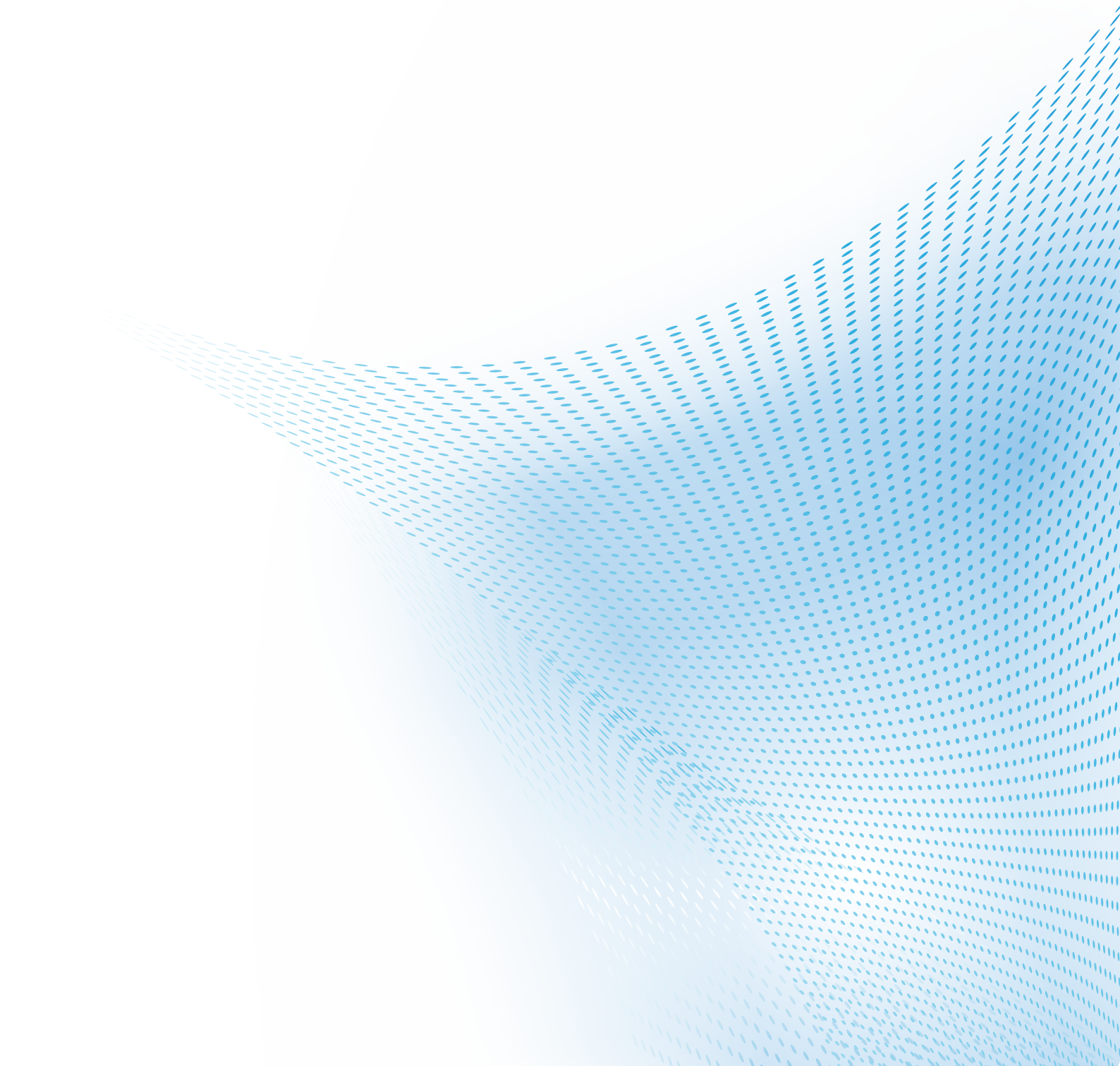
The Fund cooperated actively with the institutions comprising the financial security network, i.e. the Ministry of Finance, the National Bank of Poland and the Polish Financial Supervision Authority. Given the coming into force of the Act on BFG, which broadened the scope of tasks to a significant degree, a new agreement was signed with the NBP on the subject matter, scope, method and dates regarding the provision of information between the Fund and the NBP.

As part of works related to the Fund's statutory requirements, BFG representatives held numerous meetings with representatives of commercial banks, cooperative banks and cooperative savings and credit unions, including in the scope of the BFG's policy on determining the MREL. In addition, the Fund presented its expectations regarding the nature of debt instruments with the use of which that obligation would be met to all domestic entities.

BFG took honorary patronage of the 6th edition of the British-Polish Investment Alliance (BPIA), the aim of which is to establish long-term economic, business and educational relations between Great Britain and Poland.



INTERNATIONAL COLLABORATION



13. International Collaboration

Collaboration with IADI



The International Association of Deposit Insurers (IADI) is an independent organisation representing deposit guarantee institutions from all over the world. IADI was established in 2002 at the Bank for International Settlements in Basel.

The **basic objective of IADI** is to strengthen the stability of financial systems and promote international cooperation in the scope of deposit guarantees. IADI develops international standards intended to improve the effectiveness of deposit guarantee schemes, taking into account the diversity of domestic deposit guarantee schemes.

BFG became member of IADI in 2008.

At present the IADI comprises 83 deposit guarantee institutions from all over the world.

The Fund participated in meetings of the Executive Council (EXCO) of the International Association of Deposit Insurers and concomitant meetings of standing, regional and technical committees as well as sub-committees and working groups. The Fund was also represented at meetings of the European Regional Committee and the Subcommittee for Bail-in Implications for Deposit Guarantee Schemes and for Financing (the Bail-in Subcommittee), which was presided over by the Deputy of the President of the Management Board.

In 2017 the President of the BFG's Management Board was appointed to the position of a member of the Core Principles and Research Council Committee (CPRC).

As part of its activities the CPRC adopted a report on a study of bail-in implications for deposit guarantee schemes and for financing, carried out as part of the Bail-in Subcommittee, which was submitted to the EXCO. The report also underwent a public consultation. In addition, the Fund participated in the works of the Research and Guidance Committee as part of other projects, including the Subcommittee on Purchase and Assumption (P&A) and the Resolution Issues for Financial Cooperatives. BFG also provided technical support to IADI survey with use of the iFost IT tool developed by the Fund (IADI's First Online Survey Tool). The Fund provided support to supplementations and validations of the Annual Survey 2017 and carried out new thematic surveys, i.e. the Survey on Financial Inclusion and the Survey of Public Policy Objectives.

As part of the Fund's collaboration with IADI, the Deputy President of the BFG's Management Board participated, as IADI designated representative, in works and meetings of two working teams, i.e. for bail-in implementation (FSB ReSG CBCM Workstream on Bail-in Execution) and for the internal loss absorbing requirement (FSB ReSG CBCM Workstream on Internal TLAC) operating within FSB ResG CBCM.

In addition, as part of the Fund's activities in the Association:

- The President of the BFG's Management Board participated in the annual meeting of the European Regional Committee of IADI (ERC) and also attended the conference "Dealing with Banking Crisis: Where are we Today?",
- The Fund was represented at the annual meeting of IADI Eurasia Regional Committee (EARC) and in the technical seminar "Core Principles for the Effective Deposit Insurance Systems and Islamic Deposit Insurance",
- The President of the BFG's Management Board attended the conference "Early Supervisor Intervention, Resolution and Deposit Insurance" co-organised by IADI and the Financial Stability Institute (FSI).

Collaboration with EFDI

As part of its membership with the European Forum of Deposit Insurers (EFDI), representatives of the Fund participated in the EFDI Risk-Based Contributions Working Group. The workshops were dedicated to European guarantee funds exchanging experience in connection with the implementation of the EBA guidance on the method of calculating contributions for the deposit guarantee schemes. The Fund was also represented at meetings of the EFDI EU Committee and at the EFDI seminar dedicated to a draft analysis of the implementation of the DGS Directive in the Member States.



The **basic objective of 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.

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. EFDI also reviews and implements the directive of the European Parliament and of the Council on deposit guarantee schemes. 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.

Other activities on the international arena

The first visit of the mission of the International Monetary Fund (IMF) and the World Bank (WB) as part of the Financial Sector Assessment Program (FSAP) took place in Poland in 2017. The aim of the visit was to specify the thematic scope of the scheduled assessment missions. As part of preparations for the assessment, the Fund provided information for a survey sent by the IMF and the WB in the scope of experience in the implementation by BFG of the resolution regime at institution of the financial sector in Poland, and also completed a self-assessment on the basis of the "IADI Core Principles for Effective Deposit Insurance Systems" and the recommendations included in the FSB's document "Key Attributes of Effective Resolution Regimes for Financial Institutions".

In 2017 the Fund was represented at:

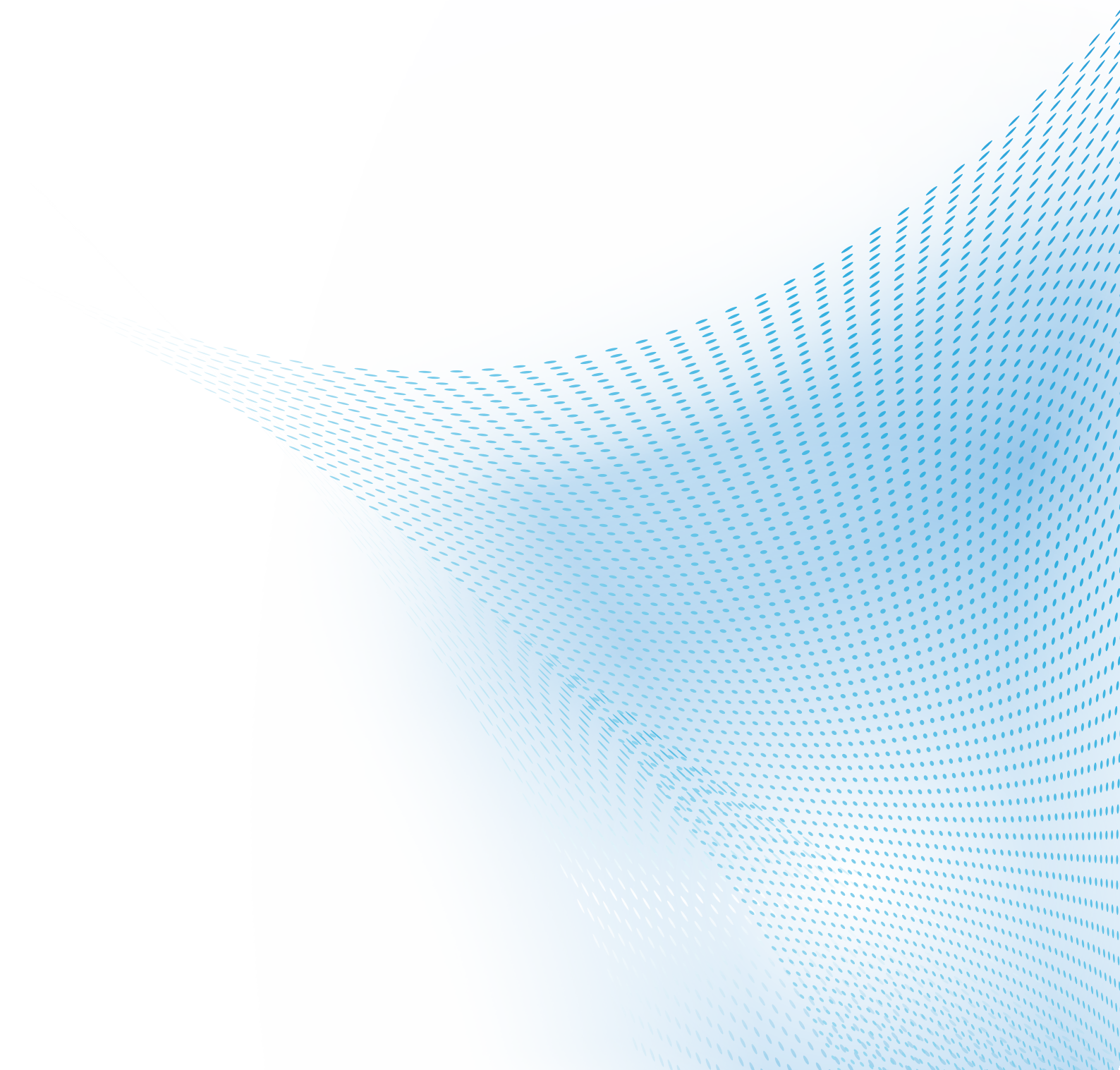
- the "World Bank Financial Advisory Centre Workshop on Deposit Insurance Systems: Addressing Emerging Challenges in Funding, Investment, Risk-based Contributions and Stress Testing",
- the workshop "Resolution Regimes in Europe: Implementation of Effective Resolution Regimes in the Region",
- the annual scientific conference of the National Bank of Ukraine "Role of Central Bank in Economic Development",
- the workshop dedicated to the SPE and MPE strategies as part of organised liquidation organised by the National Bank of Hungary,
- the conference "Building Resolvability Together" organised by the SRB.

The Fund was also engaged in bilateral cooperation and exchanging international experience, therefore, the following visits took place at the BFG's head office:

- by representatives of S&P Ratings Financial Institutions,
- the International Monetary Fund (IMF) and the World Bank (WB),
- by representatives of Capital Intelligence Ratings,
- by representatives of the Ukrainian financial stability network,
- by representatives of the national Bank of the Republic of Belarus.



CONDENSED FINANCIAL STATEMENTS



14. Condensed Financial Statements

14.1. Balance Sheet of the Fund

as at 31 December 2017 and as at 31 December 2016 (in PLN)

ASSETS	31 December 2017	31 December 2016
Cash	11,211,165.21	12,854,227.11
Cash in hand	15,474.24	32,822.33
Cash in current accounts	2,997.66	26,053.43
Investments	11,074,000.00	12,764,000.00
Cash of the Company Social Security Fund	118,693.31	31,351.35
Receivables from financial institutions	518,688,946.43	46,613,632.81
Receivables from banks on account of:	516,889,671.43	46,613,607.85
• commitments to pay	495,407,348.48	0.00
• borrowings granted	21,482,322.95	44,774,588.27
• other transactions	0.00	1,839,019.58
Receivables from cooperative savings and credit unions on account of:	1,799,275.00	24.96
• commitments to pay	1,799,275.00	0.00
• other transactions	0.00	24.96
Other receivables and claims	260.59	29,118.05
Securities and other financial assets	15,941,721,027.40	14,236,989,804.80
Debt securities:	15,941,721,027.40	14,236,989,804.80
• of banks	3,070,287,571.59	1,832,764,470.49
• of the State Treasury	12,871,433,455.81	12,404,225,334.31
Property, plant and equipment	52,741,803.55	54,465,882.25
Intangible assets	1,495,794.54	1,467,570.01
Prepayments	157,991.00	118,991.76
TOTAL ASSETS	16,526,016,988.72	14,352,539,226.79
EQUITY and LIABILITIES	31 December 2017	31 December 2016
Liabilities	52,644,488.19	39,168,804.97
Liabilities due to depositors	49,026,386.85	37,584,711.42
Other liabilities	3,618,101.34	1,584,093.55
Special-purpose funds	53,398.51	31,351.35
Accruals	5,606,520.10	5,053,389.79
Provisions	27,174,133.53	6,981,965.61
Statutory fund	1,637,025,547.68	1,637,025,547.68
Banks guarantee fund	10,756,193,359.36	9,785,267,401.59
Banks guarantee fund available for utilisation	10,756,193,359.36	9,785,267,401.59
Banks resolution fund	3,573,688,425.15	2,311,135,151.76
Banks resolution fund available for utilisation	3,573,688,425.15	2,311,135,151.76
Credit unions guarantee fund	0.00	31,785,860.39
Credit unions guarantee fund available for utilisation	0.00	31,785,860.39
Credit unions resolution fund	1,336,728.00	0.00
Credit unions resolution fund available for utilisation	1,336,728.00	0.00
Cooperative Banks Restructuring Fund	48,202,688.87	113,607,688.87
Cooperative Banks Restructuring Fund available for utilisation	26,719,767.61	68,828,618.62
Cooperative Banks Restructuring Fund utilised	21,482,921.26	44,779,070.25
Own funds reduction in the case of fulfilment of the guarantee condition or in the case of using the resolution mechanisms	(9,479,912.13)	(262,114.24)
Loss from previous years	0.00	(1,977,733.98)
Financial result	433,571,611.46	424,721,913.00
TOTAL EQUITY & LIABILITIES	16,526,016,988.72	14,352,539,226.79

14.2. Income Statement of the Fund

for the years ended, as appropriate, 31 December 2017 and 31 December 2016 (in PLN)

	2017	2016
Revenues from statutory activities	461,869.25	196,501.23
Interest revenues	461,869.25	196,501.23
Result on statutory activities	461,869.25	196,501.23
Result on financing transactions	474,404,168.70	462,659,162.42
Securities	474,316,976.31	462,471,490.25
Other	87,192.39	187,672.17
Result on foreign exchange differences	(25.53)	(17.41)
Business costs	(38,188,734.33)	(34,586,739.48)
Outsourced services	(3,998,186.88)	(4,215,899.51)
Payroll	(24,689,930.47)	(22,729,297.14)
Social security and other payments	(3,944,966.92)	(3,136,536.31)
Other	(5,555,650.06)	(4,505,006.52)
Depreciation of fixed assets and intangible assets	(3,208,061.82)	(3,597,536.45)
Other operating revenues	106,539.70	158,984.75
Other operating costs	(4,144.51)	(108,442.06)
Financial result	433,571,611.46	424,721,913.00

14.3. Rules of Preparing the Condensed Financial Statements

The attached condensed financial statements comprising the balance sheet as at 31 December 2017 and the income statement for 2017 were drawn up on the basis of the audited annual financial statements of the Bank Guarantee Fund drawn up for 2017 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 2017, item 2342, as amended).

The condensed financial statements of the Fund prepared by the Management Board of the Fund meet the following criteria:

- the information presented in the condensed financial statements is consistent with the corresponding information included in the full financial statements of the Fund; and
- the condensed financial statements include, in all material aspects, information that do not distort issues disclosed in the full financial statements of the Fund.

The condensed financial statements are not statutory statements and they do not include sufficient information to have a complete understanding of the financial situation of the Bank Guarantee Fund, therefore, they should be read in conjunction with the financial statements of the Bank Guarantee Fund.

14.4. Accounting Principles

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

- Debt securities, i.e. treasury bonds, treasury bills and money bills of the National Bank of Poland and also financial assets arising from buy-sell-back transactions are measured through the financial result at the adjusted acquisition price, taking into account the effective interest rate, and effects of such measurements are charged to, as appropriate, revenues from or costs of financial transactions. Debt securities are recognised and excluded from the books of account as of the transaction settlement day, without taking into account transaction costs. Disposals of securities are measured in turn at prices of assets acquired at the earliest.
- Borrowings granted are measured at the adjusted acquisition price, taking into account the effective interest rate and write-downs. In order to determine write-downs on receivables other than arising from borrowings granted from the cooperative banks resolution fund, the Fund applies, as appropriate, the provisions of the *Regulation of the Minister of Finance of 16 December 2008 on the rules of establishing provisions for risk related to the activity of banks* (Journal of Laws of 2015, item 2066, as amended). Receivables of the Fund arising from borrowings granted from the cooperative banks resolution fund are classified under: regular or lost. Write-downs on lost receivables are calculated as of the balance sheet date, in the amount of 100% of the value of such receivables. In the scope of the rules of classifying receivables on account of borrowings granted from the cooperative banks resolution fund under the category of lost receivables, determining the value of the security thereof and the basis for recognising write-downs on such receivables, the Fund applies, as appropriate, the provisions of the *Regulation of the Minister of Finance on the rules of establishing provisions for risk related to the activity of banks*. When determining write-downs on borrowings, the Fund takes into account the probability of them being written off by the Bank Guarantee Fund. Interest accrued on borrowings is classified under interest revenues.

- Receivables on account of the commitments to pay, referred to in Article 303 of the *Act on BFG*, are part of contributions made by entities. These receivables are secured with securities. The maturity of the above receivables is regulated by the provisions of law.
- Receivables on account of commitments to pay are recognised in the amount payable, subject to the prudence principle. Receivables on account of commitments to pay increase the value of the Fund's own funds.
- Receivables on account of the disbursement by the Bank Guarantee Fund of guaranteed funds from entities with respect to which the guarantee condition has been fulfilled, as referred to in Article 2 (57) of the *Act on BFG*, are subject to write-down of 100%.
- Other receivables are disclosed in the amount payable, taking into account write-downs thereon.
- Fixed assets and intangible assets are disclosed at the acquisition price or the cost of manufacturing, less accumulated depreciation. Fixed assets and intangible assets are depreciated using the straight-line method for the purpose of spreading over time their initial value throughout the use period thereof. Depreciation rates are determined taking into account the period of economic usefulness.
- Prepayments are disclosed in the amount of costs allocated to future reporting periods.
- Provisions result from support for entities acquiring cooperative savings and credit unions and from employee benefits. Provisions for employee benefits, i.e. for jubilee awards, retirement and disability severance pays as well as death benefits, are calculated on the basis of actuarial valuation. Provisions for support for entities acquiring cooperative savings and credit unions are calculated on the basis of financial data of entities that are acquired, available as of the balance sheet date.
- Accruals include accruals for unused leave, for bonuses and annual prizes as well as other accruals of costs. Accruals for bonuses and annual prizes are recognised in the amount of the bonuses and annual prizes due in the financial year. Other accruals were determined in the amount of costs due for a given reporting period, not being a matured liability as of the balance sheet date.
- Other liabilities are measured in the amount due.
- The result on financial transactions includes the result on: treasury bonds, treasury bills, NBP money bills and also the result on buy-sell back, sell-buy back transactions as well as other revenues on account of interest on funds collected on the bank account and on term deposits.

Zdzisław Sokal

President of the Fund's
Management Board

Krzysztof Broda

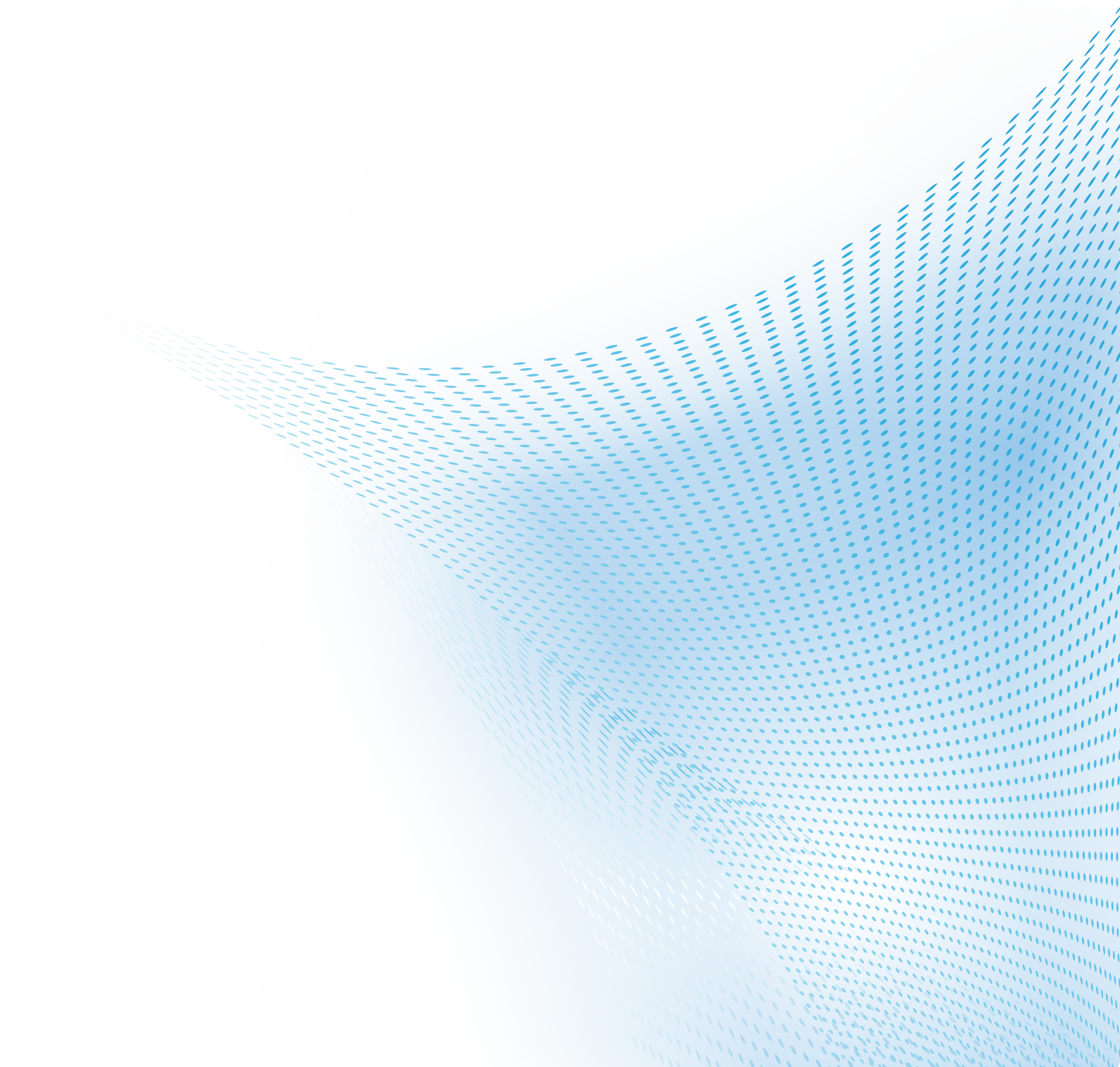
Vice-President
of the Management Board

Tomasz Obal

Member of the Fund's
Management Board



INDEPENDENT REGISTERED AUDITOR'S OPINION





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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 AUDITOR'S 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")

The accompanying summary financial statements, which comprise the balance sheet as at 31 December 2017, the profit and loss account for the year then ended and the supplementary information, are derived from the annual 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 2017 ("the summary financial statements"). On 5 March 2018, we expressed an unmodified audit opinion on those annual financial statements. The audited annual financial statements and summary financial statements described above do not reflect the effects of events that occurred subsequent to that date.

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

Responsibility of the Management of the Fund for the summary financial statements

Management of the Fund is responsible for the preparation of a summary financial statements on the basis described in notes 14.3 and 14.4 of the summary financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with the International Standards on Auditing 810, *Engagements to Report on Summary Financial Statements* as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance.

Opinion

In our opinion, the summary financial statements derived from the audited annual financial statements of the Fund for the year ended 31 December 2017 are consistent, in all material respects, with those financial statements, on the basis described in notes 14.3 and 14.4 of the summary financial statements.

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

Signed on the Polish original

.....
Justyna Zań
Key Certified Auditor
Registration No. 12750
Limited Liability Partner
with power of attorney

Signed on the Polish original

.....
Stacy Ligas
Member of the Management Board of KPMG
Audyt Sp. z o.o., entity which is the General
Partner of KPMG Audyt spółka z ograniczoną
odpowiedzialnością sp. k.

24 July 2018

