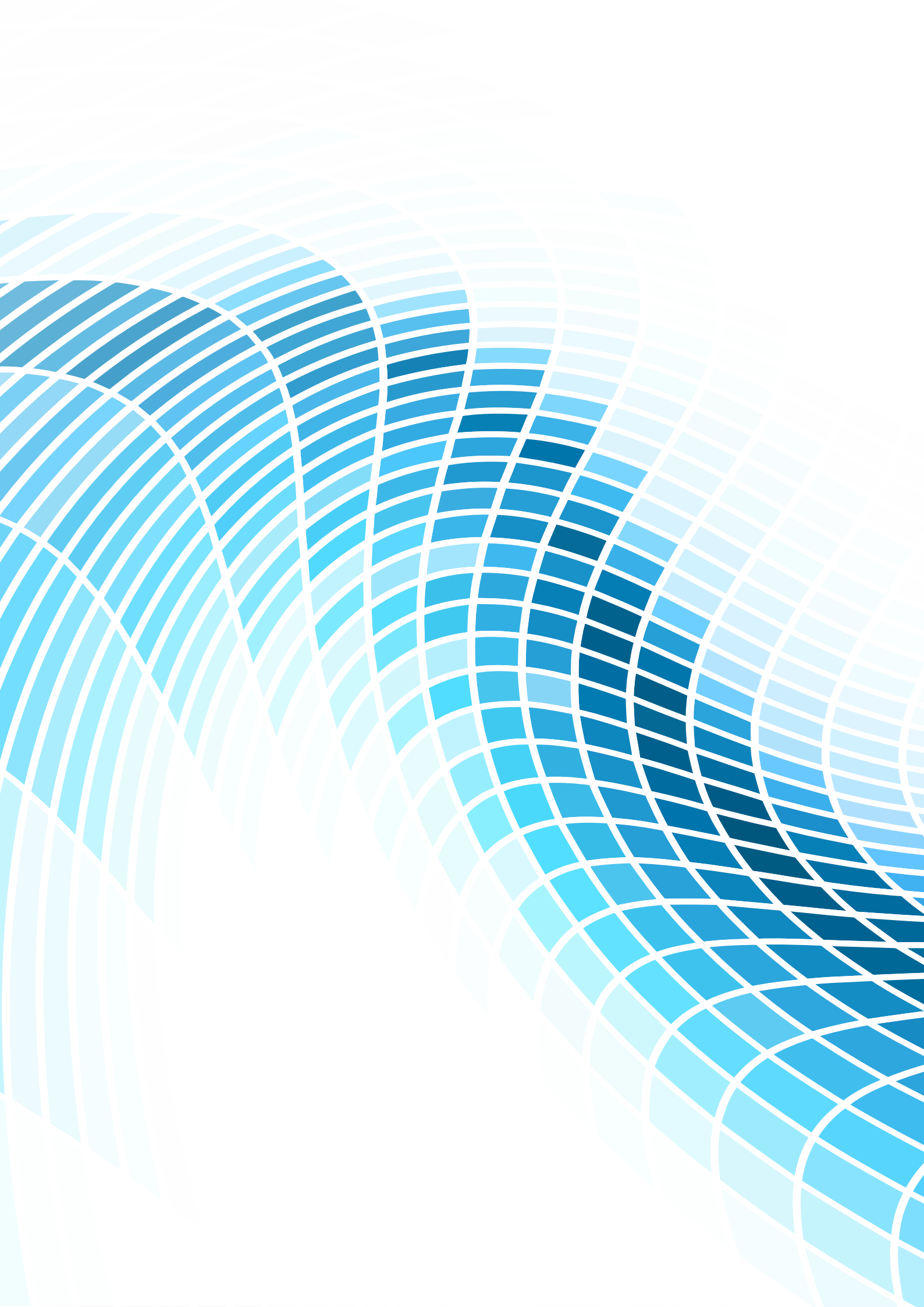


Annual Report
of the Bank Guarantee Fund
for the Year
2016



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

Dear Sir or Madam,

The year 2016 witnessed a breakthrough for the Bank Guarantee Fund. On 10 June 2016, the Sejm adopted the *Act on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Resolution* which fundamentally changes the tasks and position of the Bank Guarantee Fund within the financial safety net of our country. During the period of only three months of *vacatio legis*, the Fund finalized the adaptation to the requirements imposed with the new, extensive and complex legislative act. The act introduced changes in the rules of deposit guarantees, and consolidated the position of the Bank Guarantee Fund as the authority responsible for resolution, by granting the Fund with extensive authorizations and tools in that regard. The year 2016 saw intense works aimed at effectively transforming the institution.

Under the new act, the time limit for starting to pay out the guaranteed funds was reduced from 20 to 7 workdays and, although the Fund had earlier exercised every effort to start the payment of deposits as soon as possible, the statutory reduction in the time limit constitutes a qualitative change and an operational challenge. In 2016, we made payments of guaranteed funds to depositors of five credit unions and one cooperative bank, for which the guarantee condition was met in 2016. Moreover, the Fund continued to make payments to depositors of two credit unions and one bank, for which the guarantee condition had been met in the previous years. Additionally, the Fund provided financial support for restructuring two credit unions.

In 2016, it was a challenge for the Fund to practically prepare itself for the effective fulfillment of the function of domestic resolution authority. In that scope, the works were conducted on numerous levels. First, we introduced internal adaptation mechanisms, i.e. (1) we changed the internal structure, transforming the existing departments and establishing new ones, (2) we introduced the internal regulations for planning and conducting resolution, (3) we introduced an instruction for participation of BFG in resolution bodies in foreign financial groups, and for the establishment thereof by the Fund. Second, we continued the works on operationalization of the resolution process, i.e. (1) we introduced arrangements of the group plans of resolution for international financial groups which include the entities operating in Poland, (2) we expanded the scope of conducted analyses, in particular those associated with initiating the procedure of resolution, (3) we conducted initial analyses to estimate the new requirement regarding own funds and eligible liabilities (MREL) for banks.

The financing method and the structure of own funds of BFG changed significantly. The previous funds were transformed into the funds used for financing the disbursement of guaranteed funds and funding resolution. In certain cases, resolution may be financed from the resources of the guarantee funds. The Act specified the minimum and target levels of resources in the respective Funds and the time limits for reaching them. The manner of determining the levels of contributions made to the Fund also changed.

In 2016, on account of the changed act, the number of members in the Fund Council changed. Under the suggestion of the International Association of Deposit Insurers and the decision of the Polish parliament, in order to avoid potential conflicts of interests, the Polish Bank Association is no longer represented in the Fund Council.

In 2016, the financial result of the Fund amounted to PLN 424.7 million and was higher by 5% from the planned level – despite the need to invest resources in the conditions of low interest rates. It resulted from the higher than expected revenues from financial operations, with lower costs of activities of the Fund.

Please feel invited to read the Annual Report, hoping it will present the activities of the Fund and its role in the financial sector safety net in Poland.



Piotr Nowak

Chairman of the Council
the Bank Guarantee Fund



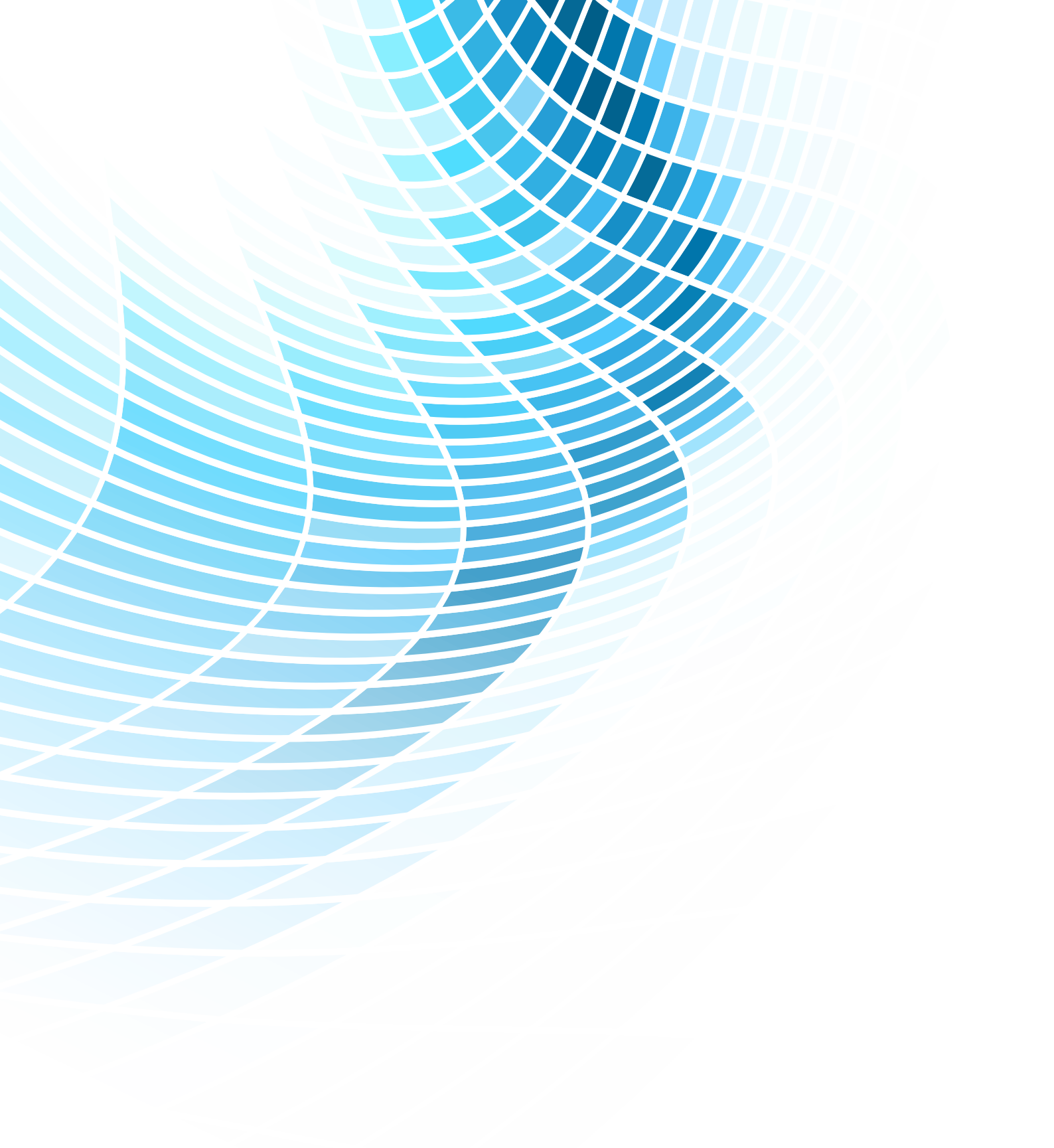
Zdzisław Sokal

President of the Management Board
the Bank Guarantee Fund

Most important abbreviations

BFG, the Fund	Bank Guarantee Fund
BFG Act	ACT of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution (Journal of Laws of 2016, items 996 and 1997, and of 2017, items 791, 1089)
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, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council No. 1093/2010 and (EU) No. 648/2012 (Official Journal of the European Union (L) of 12 June 2014)
CBRF	The Cooperative Banks Restructuring Funds
CCPs	Central counterparties
CRR	Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential Requirements for Credit Institutions and Investment Firms and Amending Regulation (EU) No 648/2012
CRD IV Directive	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC
Credit Union	The Cooperative Savings and Credit Union (Spółdzielcza Kasa Oszczędnościowo-Kredytowa (SKOK))
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	The European Commission
EFDI	European Forum of Deposit Insurers
EU	European Union
EWS	Early Warning System applied at BFG
FSB	Financial Stability Board
FSC	Financial Stability Committee
GDPF	The Guaranteed Deposit Protection Funds
GES	Guarantee Execution System applied at BFG
IADI	International Association of Deposit Insurers

NCSCU	The National Cooperative Savings and Credit Union (Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa)
MOF	Polish Ministry of Finance
MREL	Minimum requirement for own funds and eligible liabilities
NBP	National Bank of Poland
PBA	Polish Bank Association
PFSA	Polish Financial Supervision Authority
ResCo	Resolution Committee
RGC	IADI Research and Guidance Committee
TLAC	Total Loss Absorbency Capacity



ROLE AND TASKS OF BFG

1. Role and tasks of BFG

The Bank Guarantee Fund is an institution acting in furtherance of stability of the domestic financial system, in particular by managing and operating the obligatory deposit guarantee scheme and by conducting resolution of the 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 safety net. The President of the BFG Board is a member of the Financial Stability Committee.

BFG was established under the Bank Guarantee Fund Act of 14 December 1994 (Journal of Laws of 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 BFG Act) which has applied since 9 October 2016 and has granted the Fund with broad entitlements and intervention mechanisms.

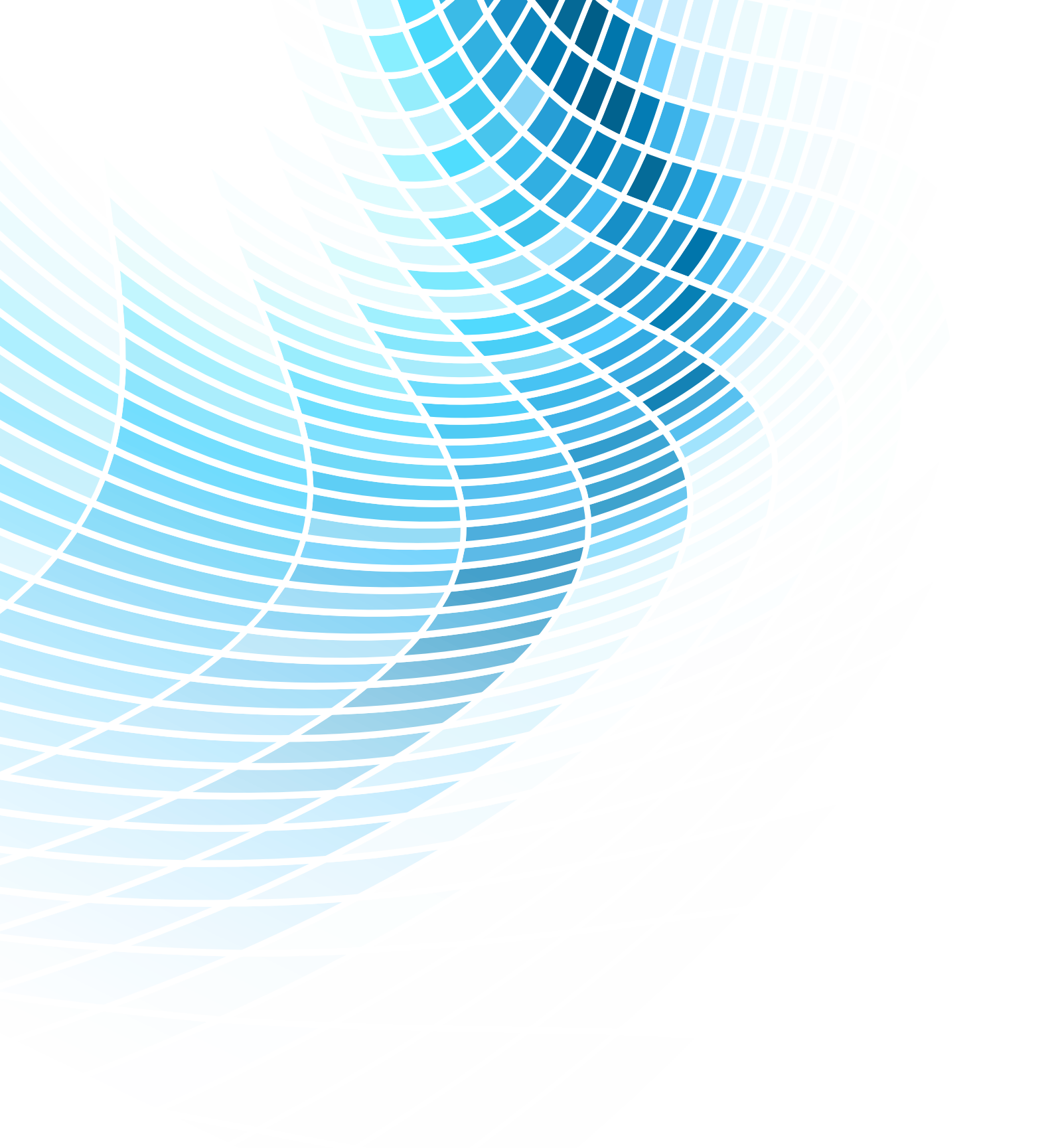
The BFG Act introduced, into the domestic legal order, the provisions of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes and Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for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

The mission of the Bank Guarantee Fund **is to act for the sake of safety and stability of banks and and cooperative savings and credit unions and to contribute to the increased level of confidence in the domestic financial system. The clients of banks and credit unions may consider their savings, collected on the accounts in those entities, as secure, because they are protected with the guarantees of the Bank Guarantee Fund.**

The most important tasks of the Fund include:

- guaranteeing each depositor a payout of its deposits held in bank or credit union up to the statutory limit (equivalent of EUR 100,000 in PLN) – as a rule – within 7 workdays of the date of meeting the guarantee condition; in special cases and within a limited period of time – the depositor is entitled to the guarantee protection in excess of the equivalent of EUR 100,000 in PLN¹,
- **verifying the correctness of the data** included in the calculation systems of the entities covered by the guarantee scheme,
- **preparing and updating resolution plans and assessing their feasibility,**
- **participating in resolution colleges,**
- **conducting resolution,**
- **writing down and converting capital instruments,**
- **executing the tasks in the scope of restructuring of credit unions,**
- **collecting and analyzing the information** on the banks, credit unions and investment firms,
- **developing analysis and forecasts** for early identification of the threats in the banking sector and credit union sector,
- **participating in the works of the Financial Stability Committee,**
- **participating in the works of the EBA permanent committee for resolution,**
- **providing financial assistance to banks from the cooperative banks restructuring fund,**
- **auditing the use of the financial assistance and support granted by BFG.**

¹ Since 9 October 2016.



ORGANIZATION OF BFG

2. Organization of BFG

2.1. BFG bodies

The statutory bodies of BFG include the Council and the Management Board of BFG. 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 accordance with the law and consistency with the BFG Statute. The BFG's activity report and its financial statement 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, including the chairperson, all appointed by the institutions comprising the financial safety net. Until 9 October 2016, the Council had consisted of a chairperson and seven members.

On 1 January 2016, the BFG Council consisted of the following persons:

Council Chairperson	Piotr Piąt (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) Krzysztof Pietraszkiewicz (Polish Bank Association) Jan Szambelańczyk (Polish Bank Association) Olga Szczepańska-Maciejuk (National Bank of Poland)

On 11 February 2016, Piotr Nowak was appointed for Chairperson of the BFG Council. Under art. 371 section 2 point 4 of the BFG Act, on 9 October 2016, there expired the membership in the Fund Council of the following representatives of the Polish Bank Association: Krzysztof Pietraszkiewicz and Jan Szambelańczyk. As a result, until the end of 2016, the composition of the Fund Council was as follows:

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)

Composition of the Management Board of the Bank Guarantee Fund

On 1 January 2016, the Management Board of BFG consisted of the following persons:

Management Board President	Jerzy Pruski
Deputy President of the Management Board	Krzysztof Broda
Management Board Members	Tomasz Obal Marek Szeffler

On 29 February 2016, the BFG Council decided to increase the number of Management Board members from four to five persons, and appointed Zdzisław Sokal to the BFG Management Board. As a result, from 29 February 2016, the Management Board of the Fund had the following composition:

Management Board President	Jerzy Pruski
Deputy President of the Management Board	Krzysztof Broda
Management Board Members	Tomasz Obal Zdzisław Sokal Marek Szeffler

On 23 March 2016, the Council appointed the Management Board for the three-year term starting on 2 April 2016, of the following composition:

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

2.2. Organization of the BFG office in 2016

On account of the new tasks of the Fund, its structure changed in 2016. As of 31 December 2016, the Office included the following organizational units responsible for the following tasks:

- **Deposit Guarantee Department (DGD)** – ensuring the Fund pays out the guarantee disbursements to depositors and auditing the correctness of the data in the systems of settlement for the entities covered by the obligatory guarantee scheme,
- **Resolution Department (CRD)** – conducting the process of resolution, providing support and administration of the entities under resolution, executing the process of resolution of credit unions and providing financial aid from the cooperative banks restructuring fund to banks,
- **Analysis and Early Warning Department (AED)** – analyzing the banking sector and the credit union sector, tasks in the scope of early warnings, analyses and assessments of the economic and financial condition of the respective banks, credit unions and investment firms,
- **Department of Support Monitoring and Claim Pursuing (DSM)** – managing the Fund's liabilities, pursuing the claims and monitoring the execution of the agreements associated with the granted financial aid and support,
- **Treasury Department (TD)** – the investment activities of the Fund, managing the financial liquidity and analyzing the macroeconomic situation in Poland and in the world,
- **Resolution Planning Department (RPD)** – preparing studies and assessments of feasibility of the resolution plans and group resolution plans, and of execution of the plans associated with the financial security network and financial stability,

- **Human Resources Department (HR)** – the HR issues, employment and remuneration policies, training activities,
- **Information technology Department (ITD)** – obtaining, processing and providing the information necessary for the works of the Fund 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 (APD)** – the tasks related to support and administration aimed at ensuring effective functioning, proper conditions for operation and proper administrative and technical services for the Fund, and at managing the procedures related to procurement for the Fund,
- **Accounting Department (AD)** – providing accounting services to the Fund,
- **Management Board Office (MBO)** – providing services to the bodies of the Fund, to the Management Board President, and activities related to domestic and foreign cooperation, publications, promotional and educational activities,
- **Legal Department (LD)** – providing legal services to the bodies of the Fund, the Management Board President and the Fund Office,
- **Security Department (SD)** – protecting and securing the data, persons and property, providing ICT security and maintaining the plan for continued operation of the Fund,
- **Operational Risk and Compliance Team (ORCT)** – coordinating and supporting the process of managing the operational risk in the organizational units,
- **Internal Audit Office (IAO)** – auditing the activities of the Fund in terms of compliance with the specified objectives, provisions of the law, internal regulations.

The BFG Office also included five permanent committees:

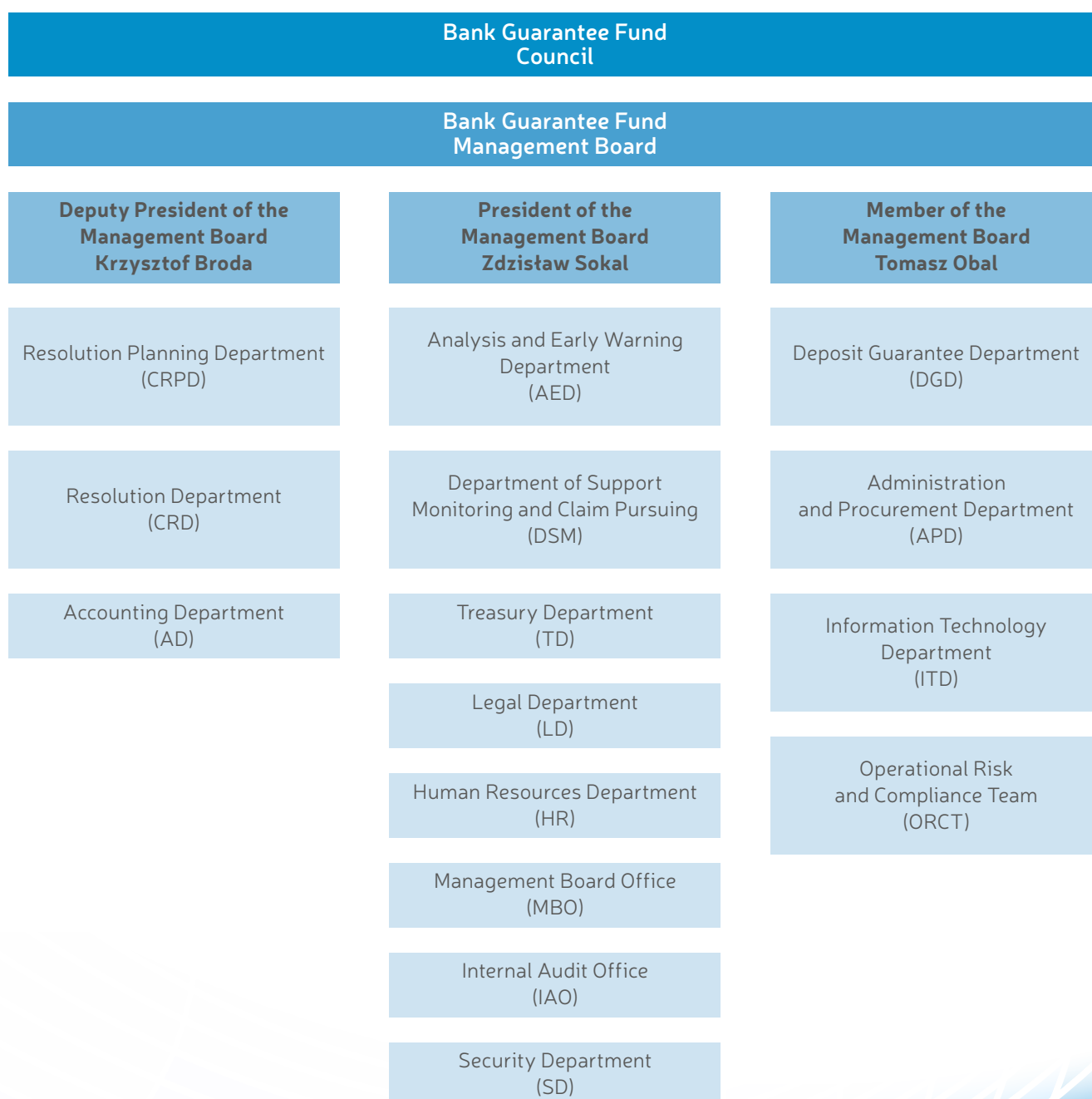
- Asset Management Committee,
- Resolution Committee,
- Financial Assistance Assessment Committee,
- Operational Risk Committee,
- Early Warning System Committee.

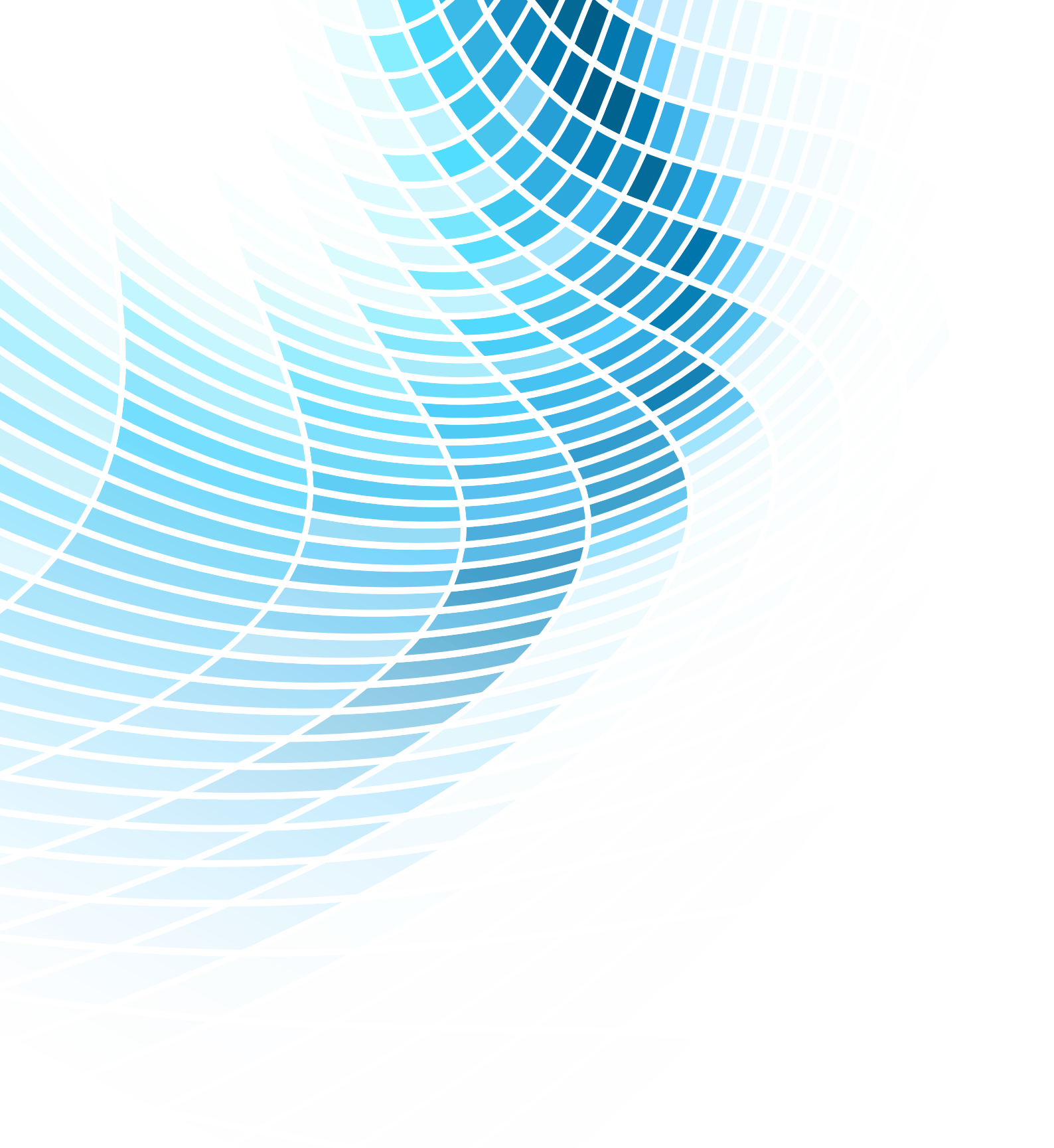
Moreover, in 2016 BFG included the following committees and task teams:

- The Steering Committee and Coordination Team, the objectives of which was to prepare the necessary organizational and legal solutions and to provide the resources so that BFG could perform the functions of a resolution authority,
- The Committee for monitoring the bankruptcy proceedings of banks and credit unions,
- The Task Team responsible for the IT applications used for calculating risk-based contributions.

On 1 January 2016, BFG employed 125 people (124.5 full-time equivalents), while on 31 December 2016 – 161 people (160.5 FTEs), including ca. 47% of women and ca. 53% – men.

Figure 1. BFG organizational chart as of 31 December 2016





DEPOSIT GUARANTEE ACTIVITIES

3. Deposit guarantee activities

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

As of the end of 2016, the guarantee protection covered **the deposits collected in all the domestic banks, except for Bank Gospodarstwa Krajowego (i.e. in 35 commercial banks and 558 cooperative banks) and in all the credit unions (i.e. in 40 credit unions).**



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

The guarantees of the Bank Guarantee Fund cover the funds from the date of their transfer to account, but not later than on the day prior to the date of fulfilment the guarantee condition, up to the **equivalent of EUR 100,000 expressed in PLN** (including the interest accrued until the date of fulfilment of the guarantee condition).

Since 9 October 2016, in the special cases, specified in art. 24 sections 3 and 4 of the BFG Act, the funds of the depositors, within 3 months of crediting the account, have been covered by guarantees also in the amount exceeding the equivalent of EUR 100,000 expressed in PLN. The above guarantees apply, for example, to the 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 or a receiver 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 – the 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 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,
 - the receivables of the depositor resulting from the monetary settlements conducted by the bank,
 - the 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,
 - the 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 condition of guarantee to the bank was met;



b) in the case of a credit union – the cash collected by the depositor on the 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 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 its accounts by the credit union,
- the receivables of the depositor resulting from the monetary settlements conducted by the credit union,
- the 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 condition of guarantee to the credit union was met.



Coverage limit was the PLN equivalent of ECU 3 thousand at the beginning of the Bank Guarantee Fund's activity, i.e. in 1995, and it was systematically increased in subsequent years. A rapid increase of the coverage limit took place as a consequence of harmonization of deposit guarantee principles within the European Union – first to the PLN equivalent of EUR 50 thousand, and then of EUR 100 thousand. At the same time, besides a twofold increase of the coverage limit, the scope of coverage was also expanded, i.e. it was extended to all economic entities, irrespective of the scale of their operations. The changes in the EU law came about as a result of the recent crisis in the global financial market, which undermined the stability of the financial systems in many Member States and resulted in the necessity to afford greater protection to depositors and strengthen their confidence in the banking system.

3.1. Process of payment of guaranteed funds

Until 8 October 2016, there applied a 20-day time limit for starting the payments to depositors, as specified in the BFG Act. It should be noted that BFG exercised every effort to make the payments as soon as possible. Since 9 October 2016, the Fund has been obliged to satisfy the guarantee claims within 7 workdays of fulfilment of the guarantee condition.

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

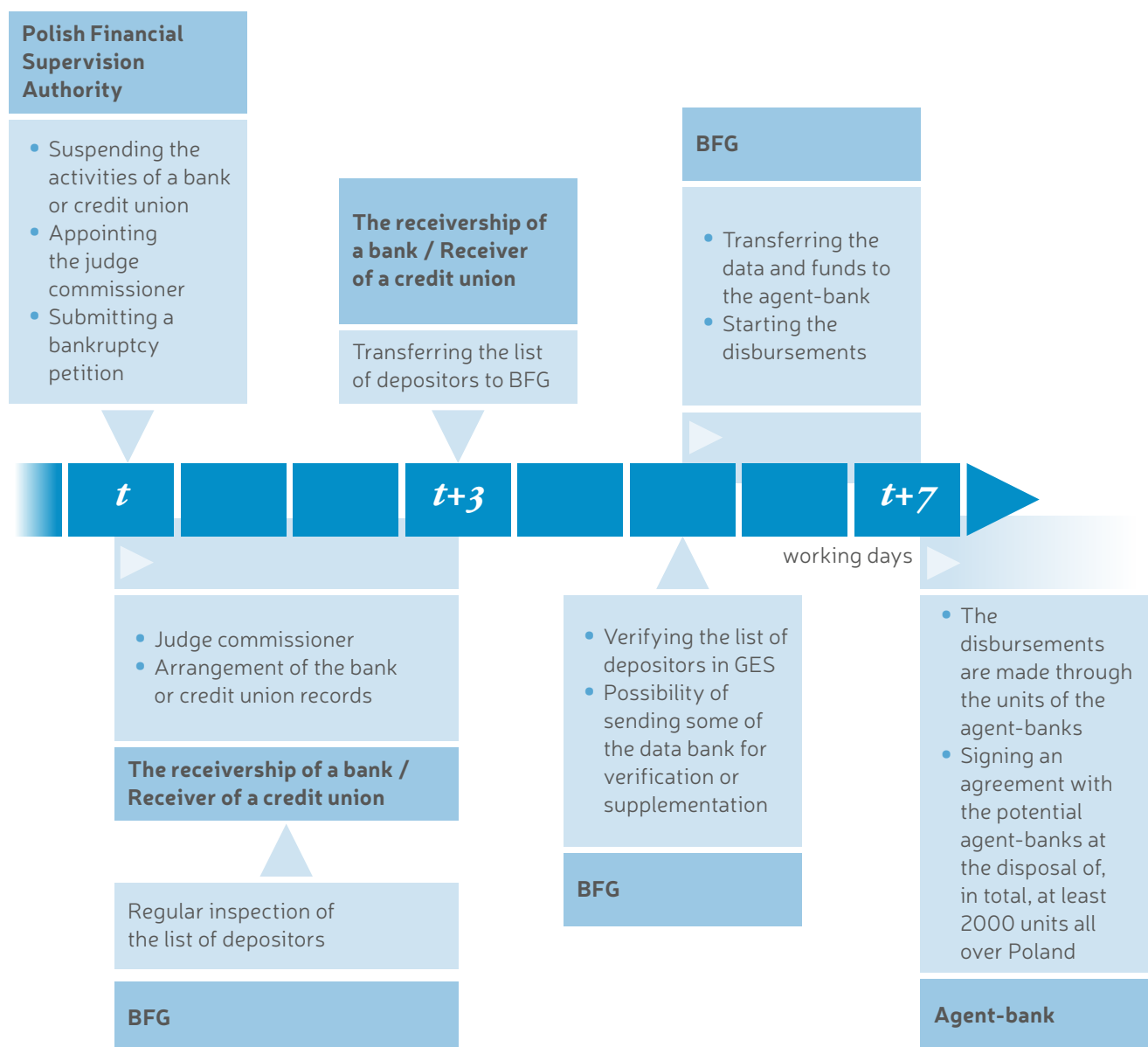


Guarantee Execution System (GES) – IT system of the Bank Guarantee Fund which makes it possible to control the depositor lists effectively, verify the disbursement amounts and prepare depositor disbursement lists.

Pursuant to the *Act on BFG*, depending on the decision of the Fund, the disbursement of the guaranteed deposits may be carried out by the receivership (in the case of a bank) or receiver (in the case of a credit union), or via a different entity, with which the BFG Management Board concludes an Agreement on the guaranteed deposits payment execution. The Fund has entered into such agreements with four² banks (agent-banks). These are retail banks which hold a significant branch network, which allows for carrying out disbursements throughout the country, providing depositors with an easy access to guaranteed deposits. The process of receiving the guaranteed deposits is presented in figure 2.

² Three of those banks signed the agreements expanding the possible scope of disbursements with credit union depositors.

Figure 2. The process of disbursement of the guaranteed deposits



Individuals who for whatever reason fail to collect their due funds in the course of a payout carried out by an entity authorized 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. Deposit guarantee payouts in 2016

In 2016, the guarantee condition was fulfilled by five credit unions and one cooperative bank. Moreover, in that period there were made payments to depositors of one bank and two credit unions, for which the guarantee condition had been met in the previous years.

Table 1. Disbursements of guaranteed funds in 2016

Name of entity	Year of fulfilment of the guarantee condition	Disbursements
BS w Nadarzynie	2016	<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 “Skarbiec”		
SKOK “Arka”		
SKOK “Jowisz”		
SKOK “Polska”		
SKOK Kujawiak		
SBRiR w Wołominie ³	2015	
SKOK w Wołominie	2014	
SKOK Wspólnota		

Table 2. Procedures applied on account of fulfilment of the guarantee condition for credit unions in 2016 (under the repealed BFG Act)

No.	Procedure	Credit Union				
		"Skarbiec"	"Arka"	"Jowisz"	"Polska"	Kujawiak
1	Start of the process of making guarantee payments on account of fulfilment of the guarantee condition	22.07.2016	11.05.2016	25.04.2016	25.02.2016	8.01.2016
2	The entity making the payments of guaranteed funds on behalf of and to the account of the Fund	PKO BP S.A.	Bank Pekao S.A.	BZ WBK S.A.	Bank Pekao S.A.	
3	Provision of the list of depositors to the Fund, and its inspection in the head office of the Fund	26.07.2016 (second workday of fulfilment of the guarantee condition)	13.05.2016 (second workday of fulfilment of the guarantee condition)	27.04.2016 (second workday of fulfilment of the guarantee condition)	29.02.2016 (second workday of fulfilment of the guarantee condition)	12.01.2016 (second workday of fulfilment of the guarantee condition)
4	Drawing up and verification of lists of disbursements					
5	Start of payment of the guaranteed funds to depositors of credit unions, and the organizational units of the agent-banks	01.08.2016 (sixth workday of the date of fulfilment of the guarantee condition)	20.05.2016 (seventh workday of the date of fulfilment of the guarantee condition)	4.05.2016 (seventh workday of the date of fulfilment of the guarantee condition)	7.03.2016 (seventh workday of the date of fulfilment of the guarantee condition)	18.01.2016 (sixth workday of the date of fulfilment of the guarantee condition)
		1,204 organizational units	771 organizational units	643 organizational units	774 organizational units	773 organizational units
6	End of the payments of guaranteed funds for depositors of the credit union, by the agent-banks	30.09.2016	15.07.2016	24.06.2016	29.04.2016	4.03.2016

³ Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie

Table 3. Procedures executed on account of fulfilment of the guarantee condition for banks in 2016 (under the BFG Act)

No.	Procedure	BS w Nadarzynie
1	Start of the process of making guarantee payments on account of fulfilment of the guarantee condition	24.10.2016
2	The entity making the payments of guaranteed funds on behalf of and to the account of the Fund	BZ WBK S.A.
3	Provision of the list of depositors to the Fund by the bank's judge commissioner, and its inspection in the head office of the Fund	27.10.2016 (third workday of the date of fulfilment of the guarantee condition)
4	Drawing up and verification of lists of disbursements	
5	Start of payment of the guaranteed funds to depositors of banks, and the organizational units of the agent-banks	2.11.2016 (sixth workday of the date of fulfilment of the guarantee condition)
		622 organizational units
6	End of the payments of guaranteed funds for depositors of the banks, by the agent-banks	30.12.2016

In those entities, there had been conducted audits of the data included in the calculation systems to allow early identification of errors and to indicate the areas that require urgent activities from the conservatorship

of the credit union or bank. Most irregularities identified during the audit had been removed by the credit unions and the bank until the list of depositors was drawn up.

Table 4. Disbursements of guaranteed funds in the years 2014–2016

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 2016 PLN million	Liabilities as of the end of 2016* PLN million	Degree of execution of disbursements as of the end of 2016
1	SKOK Wspólnota	18.07.2014	74,042	817.5	810.6	6.9	99.2%
2	SKOK w Wołominie	12.12.2014	45,449	2,246.6	2,240.3	6.3	99.7%
3	SBRiR w Wołominie	23.11.2015	33,144	2,037.0	2,028.3	8.7	99.6%
4	SKOK Kujawiak	08.01.2016	17,200	183.9	182.7	1.2	99.3%
5	SKOK Polska	25.02.2016	8,343	170.2	167.0	3.3	98.1%
6	SKOK Jowisz	25.04.2016	7,380	81.9	79.8	2.1	97.4%
7	SKOK Arka	11.05.2016	13,937	93.1	91.4	1.8	98.1%
8	SKOK Skarbiec	22.07.2016	8,348	88.0	85.0	3.0	96.6%
9	BS w Nadarzynie	24.10.2016	5,666	145.7**	141.6	4.1**	97.2%

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

** Amount exclusive of the replenishment of the list of depositors which was made pursuant to the BFG resolution 80/DGD/2017 for the amount of PLN 191.6 thousand and which was booked in 2017 as a 2016 correction.

As of the end of 2016, the value of the disbursements remaining to be paid out⁴ from the Fund to the credit union depositors, amounted to PLN 24.6 million, while to the bank depositors – PLN 12.8 million.

3.3. Deposit guarantee payout in 1995–2016

Starting from the very beginning of BFG operations, the disbursement of guaranteed deposits was carried out to depositors of 5 commercial banks, 91 cooperative banks and 7 credit unions.

Table 5. Guarantee conditions fulfillment in the years 1995–2016

Year	Commercial banks	Cooperative banks	Credit unions ⁵
1995*	2	48	-
1996	1	30	-
1997	-	6	-
1998	-	4	-
1999	1	-	-
2000	1	-	-
2001	-	1	-
2002–2013	-	-	-
2014	-	-	2
2015	-	1	-
2016	-	1	5
TOTAL	5	91	7

* From 17 February 1995

⁴ The amount exclusive of liabilities towards those depositors whose personal details require confirmation (the total amount of liabilities in this respect was PLN 0.1 million), and the amount resulting from supplementing the list of depositors adopted by the Management Board of the Fund in February 2017 (PLN 0.2 million). The value of the remaining liabilities towards the depositors of credit unions does not take into account the cases of doubts as to correctness of the data (PLN 0.007 million).

⁵ The entities have been covered by the obligatory guarantee scheme since 29 November 2013.

Table 6. Funds used to execute the guarantee disbursements for banks in 1995–2016

Year	Funds allocated to guarantee disbursements (in PLN million)					% drawdown of the GDPF	Number of depositors
	Total	including:					
		from the GDPF	From the liquid assets of bankruptcy estates**	From the bankruptcy estate recovery fund	From the guarantee fund		
1995	105.0	85.9	19.1	0	-	38.1	89,939
1996	50.8	47.3	3.1	0.4	-	14.9	59,420
1997	6.4	4.7	0.6	1.1	-	2.3	10,418
1998	8.2	4.1	1.8	2.3	-	3.2	6,775
1999	4.7	0	2.0	2.7	-	0	1,572
2000	626.0	484.1	141.9	0	-	48.4	147,739
2001	12.5	0	4.5	8.0	-	0	2,658
2002	0.1	0	0.1	0	-	0	46
2003	0.1	0	0.1	0	-	0	27
2004	0.4	0	0.4	0	-	0	124
2005	0.1	0	0.1	0	-	0	99
2006	0.1	0	0.1	0	-	0	5
2007–2008	0	0	0	0	-	0	0
2009	0.004	0	0	0.004	-	0	1
2010–2014	0	0	0	0	-	0	0
2015	2,037.0*	2,036.9	-	-	-	35.9	33,147*
2016	145.7*	145.6	-	0.04	0.03	99.8	5,670*
TOTAL	2,997.1	2,808.6	173.8	14.5	0.03	-	357,640

* The values provided also include the number of depositors and the total value of the guaranteed funds for persons who were placed in the depositor list, accuracy of which is justifiably doubtful.

** By December 30, 2010, pursuant to the Act on BFG the guaranteed deposits were disbursed primarily from the liquid assets of the bankruptcy estate of the bank with respect to which the guarantee condition was fulfilled.

In 1995–2015, the disbursements of guaranteed deposits amounted to PLN 2,997.1 million provided to 357,640 eligible bank depositors.

Table 7. Funds used to execute the guarantee disbursements for credit unions in 2014–2016

Year	Funds allocated to guarantee disbursements (in PLN million)				Degree of using the aid fund (in %)	Number of depositors
	Total*	including from:				
		aid fund	credit union guarantee fund	Payments from the national credit union		
2014	3,064.0**	3,010.5	20.7	32.8	98.3	119,509
2015	0.1	0.0	0.1	0.0	0.0	-
2016	617.2	572.7	44.5	0.007	92.8	55,226
TOTAL	3,681.3	3,583.2 ⁶	65.3	32.8	-	174,735

* The values provided also include the total value of the guaranteed funds for persons who were placed in the depositor list, accuracy of which is justifiably doubtful.

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

In 2014–2016, the disbursements of guaranteed deposits amounted to PLN 3,681.3 million, provided to 174,735 eligible credit union depositors.

3.4. Verification of data contained in bank and credit union calculation systems

Banks and credit unions are obliged to deploy calculation systems. The calculating systems allow a quick calculation of the value of covered deposits for each individual depositor through the computerized process of determining the value of such deposits. The systems organize the 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 credit union that allows to prepare, for BFG, the data of depositors with calculations of the amounts of guaranteed funds calculated for them. 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 obligatory guarantee scheme of 26 September 2016 (Journal of Laws, item 1642)⁷.

The Bank Guarantee Fund is statutorily equipped with the power to perform validity audits of the data compiled in the calculating systems. The purpose of these audits is to identify errors and improve the quality of the data obtained from the calculating systems, as well as to ensure efficient disbursement of covered deposits.

⁶ As the amount of liabilities of the Fund on account of the guaranteed funds exceeded the resources of the credit union fund to be used and the value of the resources of the stabilization fund provided by the National Cooperative Savings and Credit Union – under the decision of the Fund Council – the remaining amount was covered from the resources provided from the BFG aid fund.

⁷ The following had applied until 9 October 2016:

- The Regulation of the Minister of Finance on the requirements for the calculation systems maintained in the entities covered by the obligatory guarantee scheme of 26 September 2016,
- The Regulation of the Minister of Finance on the requirements for the calculation system maintained in the cooperative savings and credit unions of 26 September 2013.

The validity audits are performed both in the head office of the Fund and in the entities covered by the guarantee scheme. In the course of an audit in the Fund, it assesses the correctness and completeness of the 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 the data included in the calculation systems on the basis of source documents and of the correctness of application of the definition of depositor and guaranteed funds, specified in the BFG Act.

The table below lists the validity audits of the data included in the calculation systems of the entities covered by the guarantee scheme, executed in 2016.

The inspections covered:

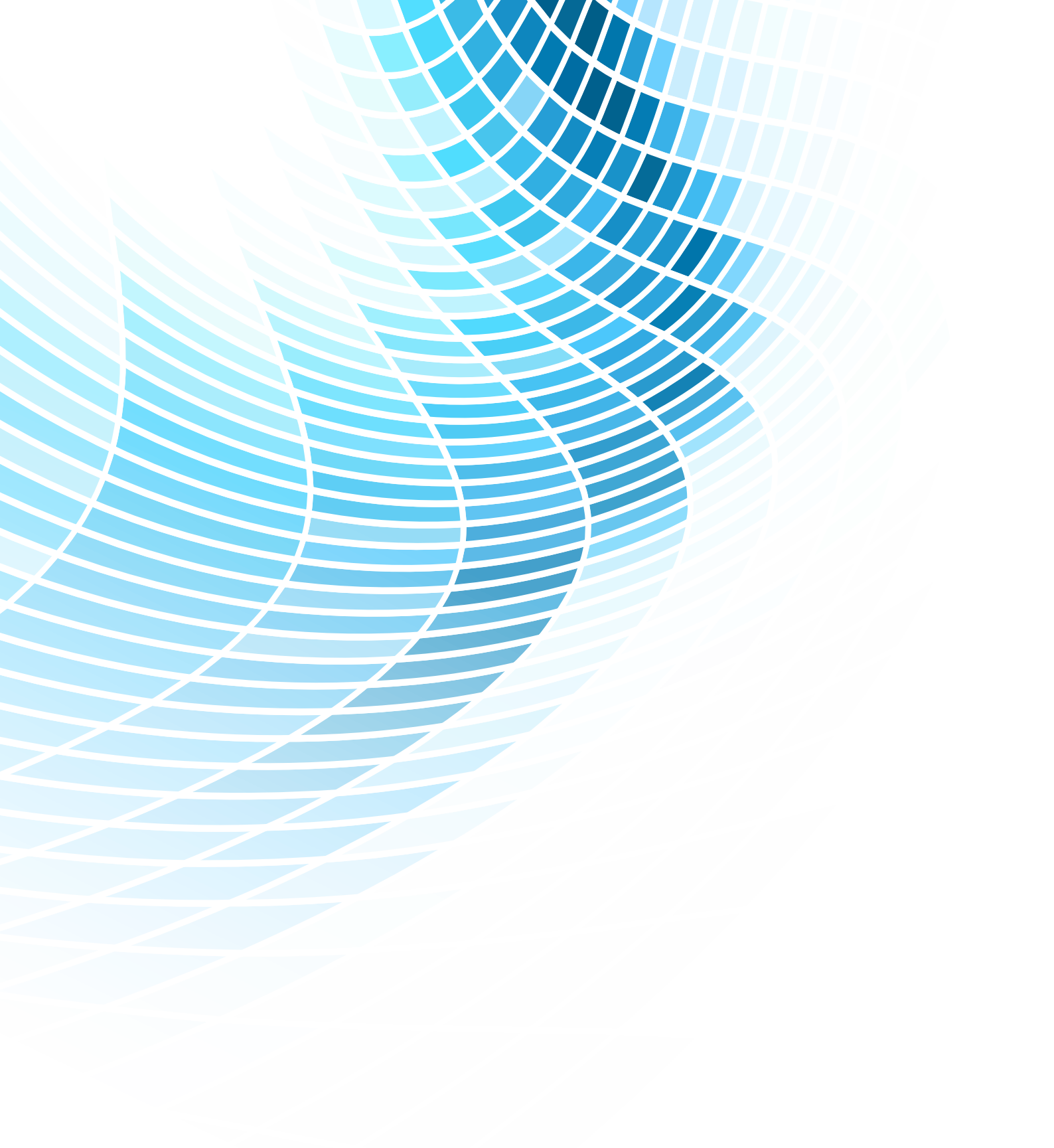
- verification of correctness of the data in the calculation systems of the banks and credit unions, including assessment of the scale of change in quality of the data in comparison with the result from the previous audits performed by the Fund,
- verification of adaptation by banks and credit unions of the calculation systems (in particular by the entities with higher risk of fulfilment of the guarantee condition), in terms of the new requirements associated with the scope of data, the manner of presenting it and the proper data designations associated with the amended provisions of the BFG Act, and with the definitions of depositor and guaranteed funds – from 9 October 2016.

Table 8. Number of data audits performed in 2016.

Type of audit	Commercial banks	Cooperative banks	Credit unions	Total
at the Fund*	1	44	36	81
at bank/credit union**	1	7	9	17
TOTAL	2	51	45	98

* An audit carried out by employing automatic control algorithms and an in-depth expert comparison of data,

** comparison of the data contained in the calculation systems with source documents.



RESOLUTION

4. Resolution

4.1. Preparation of the Fund to the new role of the resolution authority

In 2016, within the preparations to the execution of its new tasks in the scope of resolution, BFG introduced new Organizational Regulations of the BFG Office. The specification of the tasks within the new organizational structure allowed to execute the tasks in the scope of designing the process of resolution, in particular:

- the rules of executing the resolution procedure,
- the rules of preparing valuations for the purpose of resolution or for write down or conversion of capital instruments,
- the rules of granting financial support and securing and pursuing the return of the resources on account of the support granted in resolution,
- the rules of administrating entities in resolution.

Within the preparation of the execution of the new statutory tasks of the Fund, the following were prepared:

- templates of administrative decisions with justifications, draft guidelines in the scope of managing the documentation of the cases and qualification of documents, and collection of evidentiary materials,
- a sample resolution plan for the selected cooperative bank,
- an analysis of whether the measures undertaken towards an entity are required in view of the public interest and the criteria of fulfilment of the public interest premise.

After the BFG Act was introduced, legislative procedures associated with the executive acts issued under that Act, were conducted. BFG actively participated in those works, providing opinions on the draft regulations, and supported the Ministry of Finance by providing it with working comments to the remarks submitted by other institutions.



The BFG Act significantly expands the competences of the Fund, granting it with the powers of the resolution authority. The new provisions provide the Fund with the entitlements and resolution instruments necessary for:

- acquiring an undertaking (sale of business),
- establishing a bridge institution,
- writing down or converting the liabilities,
- separating the property rights.

In 2016, the Fund actively participated in the works associated with the application and issuance of guidelines as well as regulatory and implementing technical standards in the scope of resolution and deposit guarantees managed by the European Banking Authority.

In Q4 of 2016, BFG was involved in the works associated with expressing opinions on the draft changes, published by the European Commission, in the BRR and CRD IV directives and in the CRR regulation, associated with adaptation of the EU law standards to the regulations resulting from the TLAC Term Sheet published by the Financial Stability Board. The Fund also participated in the consultations on the concept of resolution for CCP. The Fund closely cooperated with the Ministry of Finance and with the other institutions within the financial safety net, in the scope of the new proposals of legislation.

The President of the Management Board of BFG is a member of the EBA Resolution Committee (ResCo). The members of ResCo met five times in 2016. The Fund continued its involvement in the works associated with the preparation of the guidelines and technical standards for the DGS and BRR directive, introduced within EBA.

Within the cooperation with EBA, the Fund also participated in the meetings of the EBA Subgroup on Crisis Management (SGCM).



The EBA Resolution Committee (ResCo)

was established under art. 127 of the BRR Directive, obliging EBA to establish a permanent 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 experiences.

The representatives of BFG participated in the seminars organized jointly by the Single Resolution Board (GES) and EBA aimed at representatives of the resolution authorities from the member states, which were devoted to the basic issues associated with development of plans and preparation of the execution of the resolution procedure, and the valuations within those procedures. In April 2016, the representatives of BFG participated in the conference, organized by SRB, entitled: *Charting the course: making bank resolution work*.

In Q4 of 2016, the President of the Management Board and the Deputy President of the Management Board met with the President of SRB in the head office of SRB in Brussels. At the meeting, they discussed the issues of the role of BFG within the safety net in Poland, the legal conditions and the relationships with other authorities, the attitude of BFG to resolution of significant entities in Poland, determination of MREL and to the cooperation within the resolution colleges, including the resolution planning for cross-border banking groups. In the head office of the Fund, there were held meetings, among others: a meeting with representatives of the Polish Bank Association and with banks. They were also attended by representatives of the Ministry of Finance. There were discussed three draft regulations related to the information requirements imposed on the entities with the provisions of the BFG Act. In December 2016, in the head office of BFG there was held a meeting with representatives of mortgage banks.

As a result of those conversations and public consultations, the Fund provided the Minister of Finance with remarks for the draft regulation of the Minister of Development and Finance regarding:

- the detailed scope, procedure and time limit of providing the Bank Guarantee Fund with the information necessary for executing its tasks,
- the register of financial instruments,
- the information necessary for drawing up, updating and assessing the feasibility of the resolution schemes and group resolution schemes.

4.2. Resolution activities

Resolution applies to domestic entities, i.e.: banks, credit unions and certain brokerage houses⁸. For credit unions, the provisions on resolution have applied since 1 January 2017.

In 2016, resolution was not conducted for any entity.

The **objectives of resolution** specified in the BFG Act include:

- maintain financial stability, in particular through the protection of confidence in the financial sector and ensure market discipline,
- limit the involvement of public funds or the likelihood of their exposure to the financial sector or its individual entities to achieve the objectives of resolution,
- ensure the ongoing performance of the critical functions carried out by an entity,
- protect depositors and investors covered by the compensation system,
- protect funds entrusted to the company by its customers.

The support from the resolution fund may be granted in the form of:

- loans or guarantees to an entity in resolution, its subsidiaries, bridge institution, asset management vehicle and the acquiring entity,
- acquisition of the property rights of an entity under restructuring,
- guarantees of total or partial coverage of losses resulting from the risk associated with the acquired property rights and liabilities granted to the acquiring entity, including to the bridge institution,
- the subsidies to cover the difference between the value of the acquired liabilities and the value of the property rights acquired by the entity, including the bridge institution.

Resolution plans

In 2016, BFG was working on the preparation of the resolution plans for domestic entities. A sample resolution plan for a bank was developed. In view of the significant number of the entities, for which the Fund is obliged to develop resolution plans, the BFG has developed template resolution plans for certain types of entities.



The resolution plans are prepared and updated at least once a year, in particular after significant organizational or legal changes in an entity, and they are activated when BFG makes the decision to launch the resolution process. The documents contain resolution strategies for entities, prepared for the cases of various possible scenarios. After launching the resolution process, the most adequate resolution strategy is selected. However, in practice, additional measures, not included in the plan, may be needed, because the market conditions or the entity structure may change to such a degree that the ex ante scenarios, may turn to be inadequate for the given situation.

A resolution plan was prepared for one brokerage house.

⁸ Covered by the requirement in the scope of the minimum amount of share capital at the level of at least the equivalent of EUR 730,000 in PLN.



BFG – as the resolution authority – is authorized to release entities of the obligation to provide information on acknowledging the effects of liabilities' write down or conversion. After the BFG Act took effect, the Fund received applications for the release, both with regard to the agreements and issues subject to the Polish law, and to the agreements and issues subject to the law of another EU member state. In response to the most important postulates of the banking sector, in 2016 the Management Board of the BFG adopted the resolution on releasing from that obligation the domestic entities, incurring liabilities on account of taking monetary contributions, maintaining accounts and managing monetary settlements, subject to the provisions of the Polish law.

BFG is also entitled to release entities from the obligation to maintain a register of financial interests.

Initiation of resolution

The decisions on the Fund's activities in the scope of resolution are made in accordance with the procedure of administrative proceedings and may be subject to subsequent court inspection in terms of their compliance with the law.

BFG issues the decision on initiating resolution or the decision on write down or conversion of capital instruments if all of the following conditions are met:

- the entity is at risk of bankruptcy,
- the available supervisory activities or the activities of the entity do not allow to remove that risk in due time,
- additional activities need to be undertaken in the public interests.

On 19 October 2016, the Financial Supervision Authority informed the Fund of the risk of bankruptcy of *Bank Spółdzielczy w Nadarzynie* and of lack of the premises to indicate that the possible supervisory activities or the activities of *Bank Spółdzielczy w Nadarzynie* might remove the risk in a foreseeable period of time.

BFG verified fulfilment of the conditions for issuance of the decision on initiating the resolution towards *Bank Spółdzielczy w Nadarzynie* and of the decision on writing down or converting the capital instruments of *Bank Spółdzielczy w Nadarzynie*. The Fund concluded that the conditions for issuance of the decision on initiating the resolution towards *Bank Spółdzielczy w Nadarzynie* were not met due to the lack of fulfilment of the condition of public interests. The Fund's decision was based on the following factors: the bank had no systemic significance, the financial stability was not threatened taking into account the size of the bank and the scale of its activities. The Fund also stated that the bank did not perform critical functions, depositors' funds were covered by guarantee protection, and it was possible to pay them out in a timely manner, and it was assessed that the bankruptcy procedure could be feasibly applied to *Bank Spółdzielczy w Nadarzynie*.

4.3. Development of the resolution plans for cross-border entities – cooperation in resolution colleges

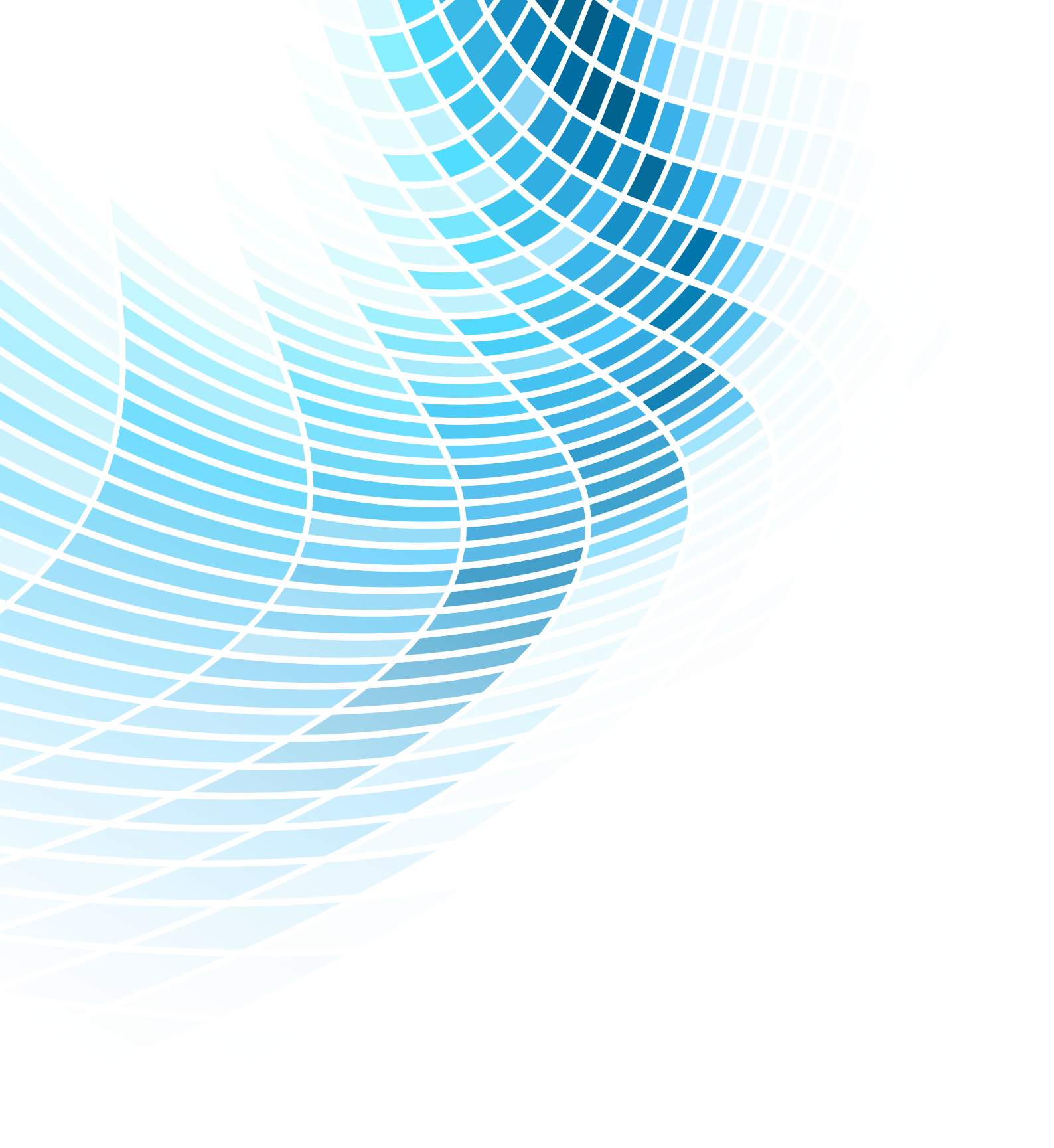
BFG was involved in the works on the resolution under the framework of resolution colleges established for the cross-border banking groups in the European Union with their subsidiaries' registered offices in the Republic of Poland or which are activities in Poland through the branch offices. The representatives of the Fund participated in the works of the resolution bodies for fourteen cross-border banking groups.

The resolution colleges are established, among others, for the purpose of developing and updating group resolution plans for cross-border groups or for setting the minimum level of own funds and eligible liabilities subject to write down or conversion for those groups.

The Fund participated in the meeting of those bodies (among others within the Extended Executive Sessions) conducted by the group authorities of resolution (including SRB), established for the following banking groups:

- Skandinaviska Enskilda Banken (SEB) (BFG only has the status of observer because the group conducts business activities in Poland through a branch office),
- ING Group (ING Bank Śląski),
- BNP Paribas (BGŻ BNP Paribas),
- Banco Santander (BZ WBK),
- Royal Bank of Scotland (RBS) (RBS Polska),
- Volkswagen Financial Services (Volkswagen Bank Polska),
- Deutsche Bank (Deutsche Bank Polska),
- Credit Agricole (Credit Agricole Polska),
- Banco Comercial Portugues (BCP) (Millenium Bank Polska),
- Commerzbank (mBank),
- Societe Generale (Eurobank),
- Unicredit (Pekao),
- Raiffeisen (Raiffeisen Polbank),
- HSBC (HSBC Polska).

The representatives of BFG actively participated in the works of the bodies for those banking groups, among others by contributing to the group plans regarding the domestic entities, and by submitting numerous remarks, both associated with the contents of the plans and with the plan development procedures applied by the group authorities.



FINANCIAL SUPPORT AND RESTRUCTURING ACTIVITIES

5. Financial support and restructuring activities

5.1. Restructuring of credit unions

Under the Act on the Bank Guarantee Fund of 14 December 1994 (Journal of Laws of 2014, item 1866, as amended), effective until 8 October 2016, BFG could have granted repayable financial assistance to the credit unions which were at risk of insolvency. It could have purchased the debts of those credit unions and provided financial support in the process of takeover or acquisition of credit unions business or parts thereof.

Repayable financial assistance from the Fund could have been provided in the form of loans, guarantees or sureties, while the non-repayable financial support could have been provided, in particular, in the form of loans, guarantees, loss coverage guarantees and subsidies. Additionally, until 8 October 2016, the Fund have been able to acquire the stocks of a bank for the purpose of taking over or acquiring the whole or a part of the enterprise of the credit union at risk, for restructuring it and selling it to a third party. Since the restructuring processes constitute an alternative for bankruptcy and pay-out of guaranteed funds, the financial assistance and financial support for the credit unions were financed from the credit union guarantee fund. Granting by the BFG financial assistance and financial support to a credit union was conditional upon recognizing/identifying the CU as being at risk of insolvency.

The Fund regularly monitored the economic and financial condition of the credit unions, in particular the ones, for which the Financial Supervision Authority had provided conservatorship or for which it had initiated the proceedings aimed at introducing

conservatorship or for which the ratio of own funds to assets was below 1%.

The Fund analyzed the financial condition of the selected entities from the CU sector and the possibilities to grant potential financial support in the takeover processes.

In 2016, under the restructuring processes, the NCSCU did not consent to the granting of financial support from the resources of the stabilization fund to *SKOK im. Stefana Kardynała Wyszyńskiego* and to *Powszechna SKOK*. No other credit union had the capacity to take over those credit unions so as to safeguard the deposits collected. The only entity that consented to a takeover of the credit unions and that reached an agreement with BFG regarding financial support, was *Alior Bank S.A.* As a result, on 26 January 2016 and 26 April 2016, the PFSA made the decisions allowing *Alior Bank S.A.* to take over *SKOK im. Stefana Kardynała Wyszyńskiego* and *Powszechna SKOK*.

In 2016, Alior Bank SA **on two occasions participated in resolution of credit unions** at risk of insolvency, **and applied to the Fund for financial support in that scope**. After verification of the application and the documents provided by the Bank in terms of compliance with the requirements resulting from the statutory provisions and internal regulations, and after obtaining a positive opinion of the BFG Council, the Fund granted financial support to *Alior Bank SA* in the form of subsidies and loss coverage guarantees with respect to the takeover of *SKOK im. Stefana Kardynała Wyszyńskiego* and *Powszechna SKOK*.

Table 9. Financial support granted in the form of subsidies in 2014–2016

No.	List	Year of granting	Subsidy in PLN thousand
1	Alior Bank SA (SKOK św. Jana z Kęt)	2014	15,895.8
2	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 Kardynała Wyszyńskiego)	2016	52,533.74
5	Alior Bank SA (Powszechna SKOK)	2016	9,310.12
TOTAL		-	458,524.36

In the years 2014–2016, BFG granted support in the form of subsidies for the total amount of PLN 458.5 million.

Effective from 9 October 2016, the Fund may undertake and perform restructuring activities towards a Credit Union if all of the following conditions have been satisfied:

- the Fund has undertaken no measures related to resolution towards a credit union; restructuring costs of a credit union do not exceed the cost of the tasks performed by the Fund under the law in the scope of the operation of the mandatory deposit guarantee scheme and the preparation and conduct of resolution,
- credit union taking recourse to the assistance referred to in Article 260 paragraph 1, provides depositors with access to the guaranteed funds,
- The Polish Financial Supervision Authority confirmed the ability of a credit union to pay extraordinary contributions referred to in Article 292 paragraph 1.

The resolution-related activities and the obligations imposed on the credit union, are consulted by the Fund with the Financial Supervision Authority.

Moreover, the conditions for the Fund to grant aid include, in particular:

- recognition by the Fund Management Board of the results of an audit of financial statements presented by a credit union covered by the guarantee scheme which requests assistance as regards its business,
- provision of the Fund Management Board by a credit union which requests assistance with a favourable opinion issued by the Polish Financial Supervision Authority as regards the programme of recovery proceedings,
- demonstration that the amount of loans, guarantees, sureties and funds spent by the Fund for redemption of receivables requested by a credit union covered by the guarantee scheme would not exceed the total maximum amount in respect of the guarantee in the said credit union calculated as the sum of guaranteed funds in the accounts of depositors of the credit union,
- the use of the existing own funds of the credit union requesting assistance for covering its losses in the case of the assistance referred to in Article 5 paragraph 2 point 1, collateralisation of the receivables in respect of the granted assistance in order to guarantee repayment of the full amount of the assistance plus interest.

The actions referred to in this Division may be taken and performed upon the European Commission's decision on the compatibility with the common market (Single EU Market). The tasks of the Fund related to credit union resolution include: providing repayable financial assistance, acquiring debts of credit unions, and granting support to the entities taking the credit unions over that also take over some of the property rights or some liabilities of the credit unions, or to the buyers of the enterprises of credit unions in liquidation, or an organized part thereof, or some of the property rights.

The financial assistance from the Fund may be granted to the unions covered by the guarantee scheme in the form of loans, guarantees or sureties. The resources obtained by the credit unions in the form of financial assistance from the Fund may only be spent on eliminating the risk of insolvency. The Fund may grant loans to a credit union only for the purpose of classifying such resources as own funds.

The support may be granted by: acquiring the stocks of the bank taking over, granting a loan or guarantee, granting a guarantee of total or partial coverage of losses, granting of subsidies.

The Fund may also grant assistance in the form of acquisition of the monetary debts of credit unions at risk of insolvency. However, under the regulation of the minister responsible for the issues related to financial institutions, on the trading, by the Bank Guarantee Fund, in the debts acquired from the credit unions at risk of insolvency, these may only include the unmatured debts under granted loans and credits, classified by the credit unions as "regular", for which there are no delays in repayment, if the economic and financial condition of the debtor does not pose a risk to further timely repayment of debts.

5.2. Assistance from the cooperative banks restructuring fund

Under the *Act of December 7, 2000 on the functioning of cooperative banks, their affiliation and affiliating banks*, in the reporting year BFG granted financial assistance to cooperative banks from the cooperative banks restructuring fund established in 2001

Under the Act on changing the act on functioning of cooperative banks, their association and associating banks of 25 June 2015, and certain other acts, the assistance of BFG from the CBRF may be used for financing of the following:

- cooperative banks:
 - acquisition of an affiliating bank's shares,
 - planned or incurred expenses associated with the merger of cooperative banks, with the aim of increasing the safety of deposits held in these banks or improving or standardising the standards of customer service, in particular:
 - acquisition or upgrade of the IT software or hardware,
 - development or standardisation of banking technology,
 - modification of financial and accounting procedures,
 - development or consolidation of banking products and services,
 - planned expenses classified as investment,
 - incurred or planned expenses connected with creating or joining a security system or an integrated association,
- affiliating banks
 - incurred or planned expenses connected with creating or joining a security system or an integrated association.

The assistance may only be granted to the banks not at the risk of insolvency, the condition of which allows – in the opinion of the Fund – the loan to be repaid.

The financial aid provided by the Fund may be written down. The write down constitutes de minimis assistance which, in the period of 3 years, may not exceed the PLN equivalent of EUR 200,000. Write down may occur in the cases justified with public interests or resulting in an increase in financial stability. Under the BFG Act, the CBRF will be liquidated no later than on 31 December 2021.

In 2016, the Fund examined the applications from 116 cooperative banks for loans from the CBRF, including 114 for expenditure for a protection system and 2 for investments not associated with the consolidation process.

After verification of those applications, the Management Board of the Fund adopted resolutions on granting the loans for the total amount of PLN 25,788 thousand, including:

- 112 loans for the protection system – for the amount of PLN 24,160.0 thousand,
- 2 loans for investments not associated with the consolidation process – for the amount of PLN 1,628.0 thousand.

Also, the Management Board adopted 1 resolution on refusal to grant assistance to a bank for expenditure related to the protection system, on account of lack of credibility of the financial projection presented by the bank and of the probability of lack of repayment.

In 2016, the resources in the amount of PLN 10,229.0 thousand were paid out from CBRF, including:

- PLN 9,802.0 thousand for expenditure on the protection system,
- PLN 427.0 thousand for investments not associated with the consolidation process (1 banks withdrew from signing a loan agreement).

5.3. Applications for writing off financial aid

Under the Act on the functioning of cooperative banks, their association and associating banks of 7 December 2000, the receivables and debts due to the Fund on account of the granted financial assistance to the cooperative banks may be written down in full or in part, in the cases justified by public interests or in the cases of increasing financial stability. The participation in the institutional protection schemes, the objective of the functioning of which is to ensure the liquidity and solvency of all of its participants, is aimed at increasing the financial stability of the sector, so the financing of the expenditure associated with the functioning of the protection systems meets the statutory condition of public interests.

As a result, the Fund positively examined the applications from 19 banks for writing down the loans used for the protection system, including 4 in the partial scope and the remaining ones – in the whole scope of the principal. The total amount of the loans written down amounted to PLN 3,718.7 thousand.

5.4. Other activities

In 2016, until 9 October 2016, i.e. the effective date of the BFG Act, the Fund could have provided banks with repayable financial assistance and support for conducting restructuring activities in the banks at risk of insolvency. The primary source of financing of these activities of the BFG was the assistance fund.

Repayable financial assistance could have been granted in the form of loans, guarantees or sureties, as well as by acquiring the debts of the banks at risk of insolvency. Within its previous activities, BFG only granted aid in the form of loans.

The Fund gained the ability to provide support to banks in the case of their takeover or liquidation, takeover or liquidation of their organized part or selected property rights. This support could be achieved by:

- acquisition of shares of the acquiring bank,
- granting a loan or a guarantee,
- granting a guarantee of total or partial coverage of losses resulting from the risks associated with the acquired or purchased property rights or the acquired liabilities,
- granting subsidies to cover the difference between the value of the acquired property rights and the acquired liabilities arising from the guaranteed deposit in the accounts of the bank depositors.

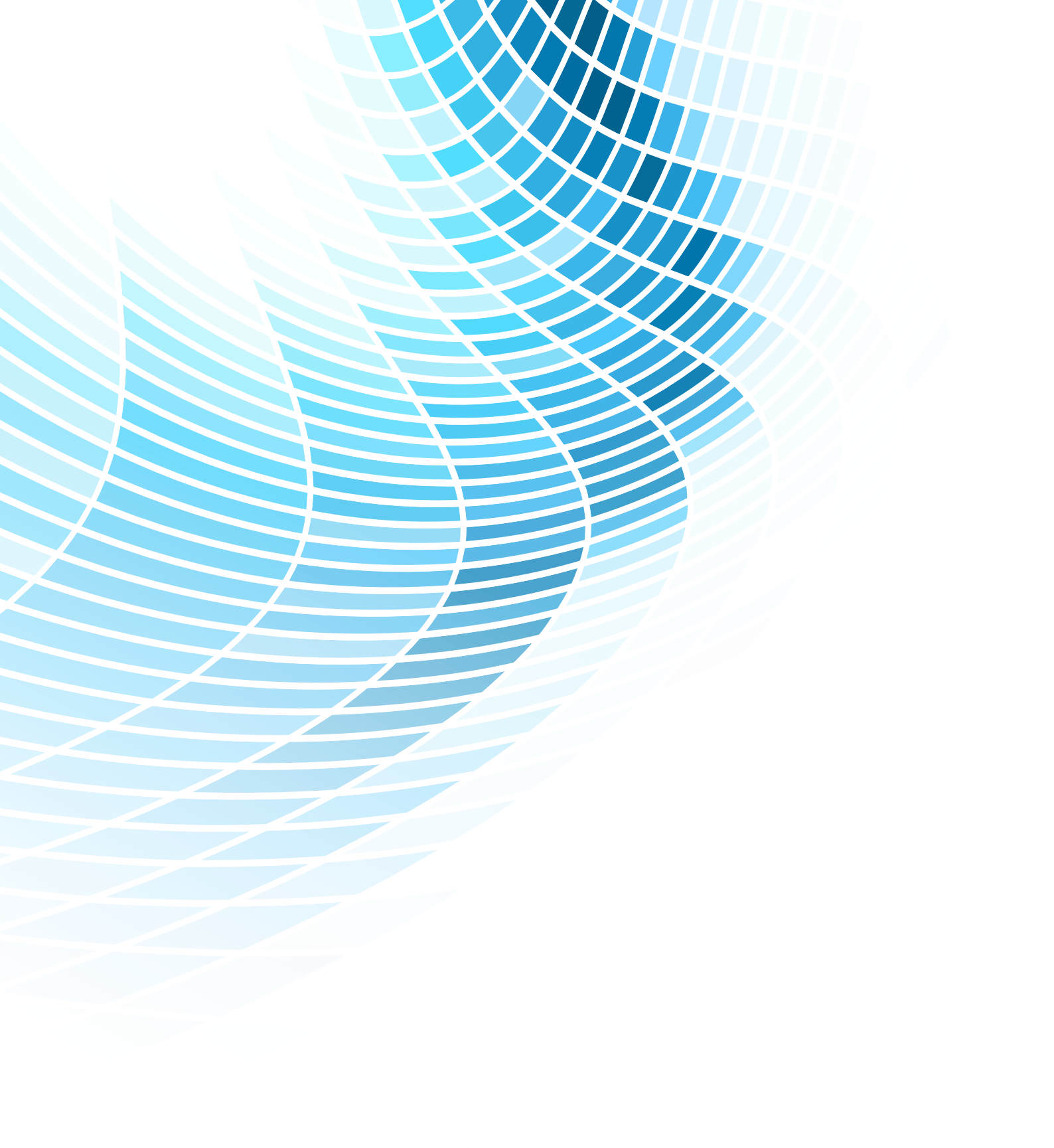
From the beginning of operations until the end of 2016, BFG granted 101 loans from the assistance fund, of which 44 to commercial banks and 57 to cooperative banks, for the total amount of PLN 3,790,342.4 thousand. All the loans were repaid.

The financial aid granted by BFG was used for:

- independent recovery of banks – PLN 2,249,050.0 thousand,
- takeovers of banks – PLN 1,306,292.4 thousand,
- purchases by new stockholders of stocks in the banks at risk of insolvency – PLN 235,000.0 thousand.

Until 8 October 2016, the Fund had also been able to grant aid to banks in the form of guarantees for increasing own funds, and in the case of fulfilment of the condition of that guarantee – in the form of acquisition of or subscription for the stocks, bonds or bank securities of those banks. That aid was financed from the resources collected by BFG in the stabilization fund.

During the period of functioning of the stabilization fund, none of the banks requested the Fund to provide aid from that fund. Also, in 2016 no applications were filled by banks for granting financial assistance or support.



MONITORING THE FINANCIAL SUPPORT AND PURSUING THE CLAIMS

6. Monitoring the financial support and pursuing the claims

As of 31 December 2016, the economic and financial condition of the following entities was monitored:

- 3 commercial banks which – on account of taking the credit unions over – benefit from the aid from the credit union fund in the form of guarantees or coverage of losses and subsidies,
- 74 cooperative banks benefiting from 94 loans from the CBRF.

Based on the results of monitoring the banks benefiting from the BFG financial assistance or financial support, it was concluded that there was no risk of lack of repayment of the liabilities to BFG.

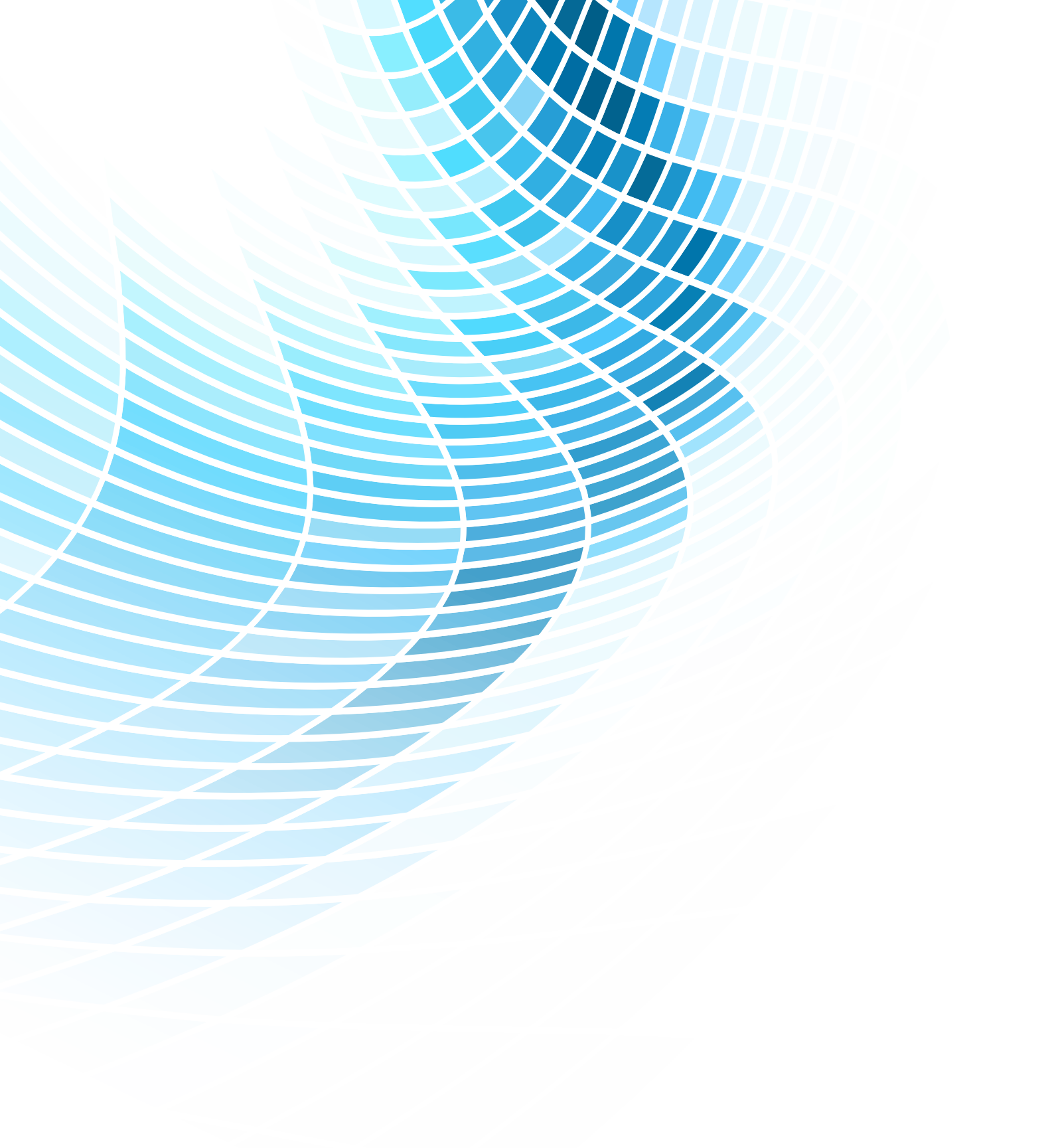
In terms of monitoring and auditing banks which received the support, the Fund received reports on settlements for loss coverage guarantees for the subsequent settlement periods. Until the end of 2016, the Fund approved all the reports correctly presented within the year and regarding contracts of loss coverage guarantee.

As of 31 December 2016, BFG was participating in ten bankruptcy proceedings as a creditor on account of payment of guaranteed deposits. Three bankruptcy proceedings were connected with banks, the others – with credit unions.

The list of bankruptcy proceedings in which BFG have participated, including the dates of bankruptcy, are presented in the table below.

Table 10. List of bankruptcy proceedings in which BFG participates

No.	Bankrupt entity	Date of bankruptcy
Before 2003 r.		
1.	Bank Spółdzielczy w Łaniewicach	08.11.1995
2014		
2.	SKOK Wspólnota	26.09.2014
2015		
3.	SKOK Wołomin	05.02.2015
4.	Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie (SK Bank)	30.12.2015
2016		
5.	SKOK "Polska"	13.04.2016
6.	SKOK Kujawiak	31.05.2016
7.	SKOK "Jowisz"	02.06.2016
8.	SKOK "Arka"	12.07.2016
9.	SKOK "Skarbiec"	29.09.2016
10.	Bank Spółdzielczy w Nadarzynie	19.12.2016



ANALYTICAL
ACTIVITY

7. Analytical activity

7.1. Analyses of the condition of the banking sector and of 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 of the individual banks, as well as the credit union sector and of the individual credit unions, to allow early identification of the entities with deteriorating economic and financial condition, and to get ready in advance for the potential resolution activities or for the pay-out of guaranteed deposits. The Fund conducts a broad range of analytical works with the use of the information and data from the National Bank of Poland, the Financial Supervision Authority and from the NCSU

The analyses are prepared in the following cycles:

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

In 2016, the analytical works regarding the banking sector focused on issues which posed the most significant risks to the condition of the banking sector and of the individual banks. In addition, the Fund performed detailed risk assessment of selected groups of banks.

The assessment of the respective banks and threats associated with their activities is prepared within the Early Warning System (EWS), with the use of an additive-multiplicative EWS model developed in the Fund in 2011. The model allows to assess the following three areas:

- effectiveness,
- credit risk,
- capital adequacy.

The total assessment also takes into account the non-reporting information on the conducted recovery proceedings. The objective of the model is to identify the banks at risk of insolvency quickly and effectively.

In 2016, using the EWS model, all the banks were assessed systematically, in particular the banks the economic and financial condition of which was poor or deteriorating; the results were presented and discussed at the meetings of the Early Warning System Committee, the tasks of which include assessment of the economic and financial condition of banks and credit unions and of its impact on the stability of the financial system. The in-depth analyses covered, in particular, the financial condition of the cooperative banks qualified as high-risk. Based on the developed assessment model and the data available, at one of the meetings of the EWS Committee, the economic and financial condition of investment firms was reviewed for the first time.

On the basis of the scoring assessment system which is supplementary to the EWS, there were prepared quarterly assessment of the condition of the individual cooperative banks. The selected banks with the worst scores were subject to in-depth analysis.

The financial and economic situation within the co-operative credit and savings union was also monitored and analyzed on an ongoing basis. The studies put an emphasis on problems and risks related to the credit union sector and on the issues related to individual credit unions. A more incisive analysis was carried out in respect of those credit unions that exhibited the highest threat levels.

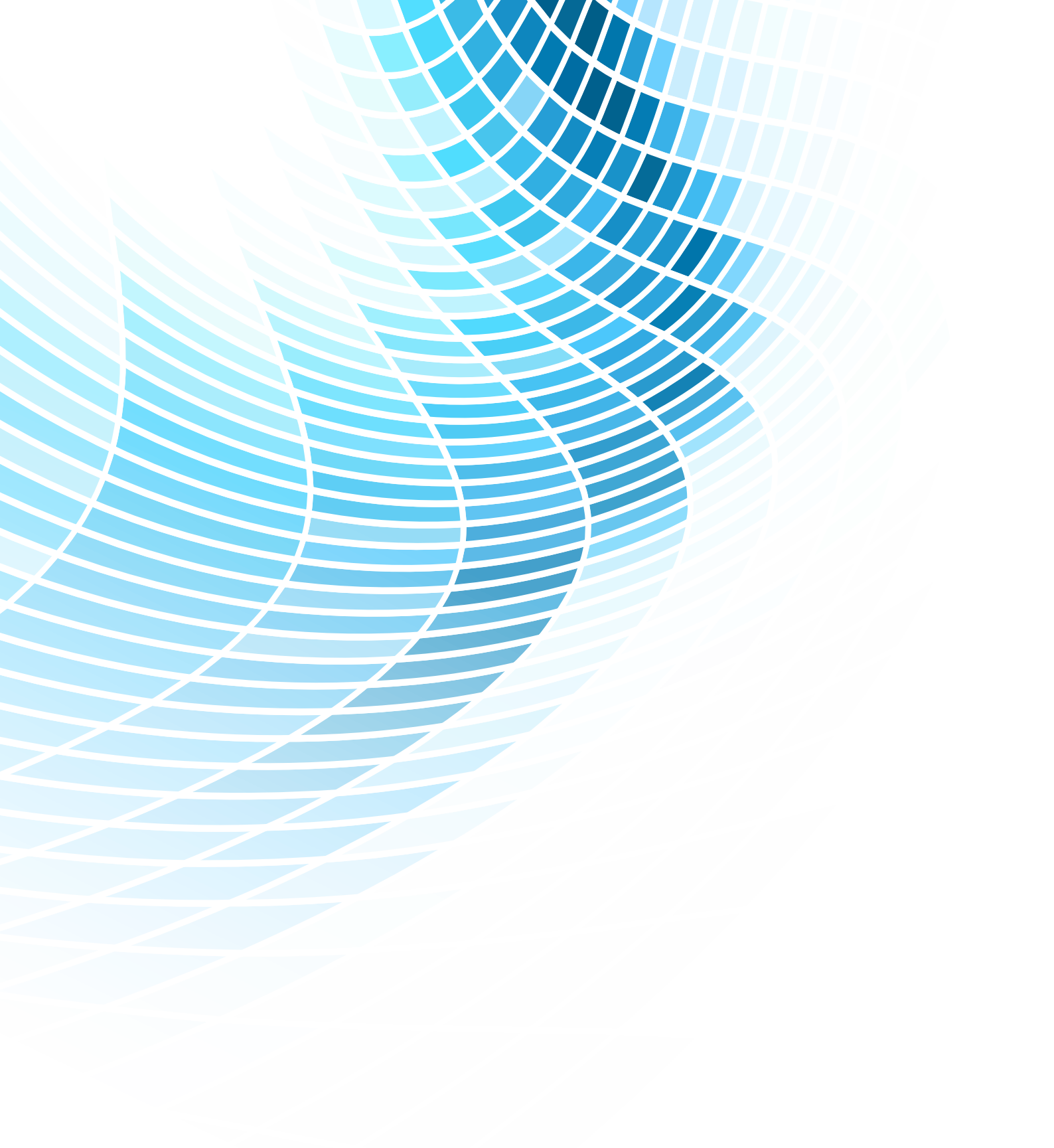
The situation in the banking and in the credit unions sector was also the main topic of the meetings of the Early Warning System Committee.

Within the works of the EWS, there was presented a method for selecting the entities that may be subject to resolution. Selection here is understood as a set of analytical activities executed on the basis of the available tools and methodologies, reporting information from banks, credit unions and investments companies, as well as the information from other sources for the purpose of developing the list of entities that may be at risk of bankruptcy, the so-called observation list. In 2016, there were presented the observation lists of banks and credit unions – as of 30 June and 30 September 2016. These lists included the entities with the weakest economic and financial condition, for which the initiation of resolution may be recommended.

The analytical system of the Bank Guarantee Fund is constantly developed and modified. The BFG Act expanded the subjective scope of the analyses conducted by the Fund: the catalog of entities subject to analyses now includes not only the banking sector and the sector of credit unions – but also investment firms. As a result, there was developed an analytical tool (assessment model) to allow to monitor the economic and financial condition of investment firms. The investment firm assessment model covers a comprehensive analysis in each individual areas of their activities, i.e. capital adequacy, liquidity risk, investment risk, asset quality, financing structure and profitability. The tool allows to select the entities, the economic and financial condition of which is adverse or that demonstrate increased risk of deterioration of that condition in the future.

7.2. Macroeconomic information

Domestic and international economic events were analyzed on a monthly basis. Macroeconomic and market-related events that could have had an impact on banking sector stability were singled out. The situation in financial markets was also analyzed (including, in particular, treasury bonds market), which constituted a necessary part of the Fund's investment activity, supporting effective securities portfolio management.



FINANCING FUND'S ACTIVITIES

8. Financing Fund's activities

8.1. Work on the new method of determination of premium models

On account of the 2017 change in the manner of financing the activities of the Fund, resulting from the BFG Act, the Fund continued the works on developing the models of calculation of risk-based contributions for deposit guarantee and resolution. There were developed separate models, taking into account the specific character of the entities obliged to provide contributions. There were prepared proposals of the methods for determining the contributions for the guarantee funds of banks and credit unions and for the resolution funds of banks and credit unions.

The proposals of the Fund in the scope of development of the models for determining the contributions due from banks were consulted with the PFSA and the banking sector. Under the BFG Act, the developed methods for determining the contributions for the deposit guarantee scheme in banks and credit unions need to be approved by the Financial Supervision Authority⁹.

The new rules of financing the deposit guarantee and resolution system have applied since 2017. The bank guarantee fund is supplied with the contributions provided on a quarterly basis by banks and divisions of foreign banks, and the credit union guarantee fund – with the contributions provided on a quarterly basis by the credit unions. In turn, the bank resolution fund is supplied with the contributions paid once a year by banks, divisions of foreign banks and investment firms, and the credit union resolution fund – by credit unions.

The BFG Act specified the minimum and target levels of resources in the respective Funds and the time limits for reaching them.

Table 11. Required level of resources for financing the BFG tasks (as % of the guaranteed resources)

Type	Purpose	Minimum level		Target level	
		%	Time limit	%	Time limit
Banks	Deposit guarantees	0.80	31 December 2016	2.60	3 July 2030
	Resolution	1.00	31 December 2024	1.20	31 December 2030
Credit unions	Deposit guarantees	0.80	31 December 2020	1.00	3 July 2030
	Resolution	0.10	31 December 2024	0.14	31 December 2034

⁹ On 31 January 2017, the Financial Supervision Authority unanimously approved the method of determining the contributions to the bank guarantee fund due from the banks, and the method for determining the contributions to the credit union guarantee fund.

8.2. Financial resources of the Fund

In the Fund, there are collected the financial resources for securing the deposits made in banks and credit unions, as well as for funding resolution.

Under the BFG Act, the **sources of BFG funding** are:

- the contributions to the obligatory deposit guarantee scheme made by banks, divisions of foreign banks and credit unions,
- the contributions for financing the resolution made by banks, divisions of foreign banks, investment firms and credit unions,
- extraordinary contributions made by banks, divisions of foreign banks and credit unions for the obligatory guarantee scheme in the case, when the resources from the deposit guarantee scheme are insufficient for making the guaranteed payments,
- the extraordinary contributions are made by banks, divisions of foreign banks, investment firms and credit unions for financing resolution in the case, when the resources for resolution are insufficient for financing it,
- the revenues from the financial assets of the Fund, including loans and guarantees granted by the Fund,
- the resources obtained within non-repayable foreign aid,
- the resources from the subsidies granted at the request of the Fund from the state treasury, upon the rules specified in the provisions on public finances,
- the resources from the short-term credit granted by the National Bank of Poland,
- the resources from the loans granted from the state treasury,
- the resources obtained from the granted loans, credits and bond issues,

- the resources obtained from the loans granted by the officially recognized deposit guarantee schemes and by the entities managing the resolution funds from the members states other than the Republic of Poland under the concluded agreements,
- the loans obtained from a bridge financing institution and an asset managing entity, including dividends and interest, as well as the revenues on account of disposing of or liquidating a bridge financing institution and an asset managing entity,
- the resources obtained as a result of settling the Fund's claims on account of payment of guaranteed resources and support granted to the entity taking over,
- other revenues generated by the Fund.

The contributions for the mandatory deposit guarantee scheme and for financing resolution were collected by the Fund for the first time for the year 2017, while in 2016 the following had been collected:

- obligatory fees for the year 2016, paid by banks and divisions of foreign banks on account of participation in the mandatory deposit guarantee scheme, contributed to the guarantee fund of banks¹⁰,
- obligatory fees for the year 2016, paid by credit unions on account of participation in the obligatory guarantee scheme, contributed to the guarantee fund of credit unions¹¹,
- prudential fees for 2016, paid by banks and divisions of foreign banks, to the bank resolution fund¹².

On account of the introduction of the BFG Act on 9 October 2016, the structure of BFG's own funds also changed.

The following were liquidated:

- assistance fund,
- stabilization fund,
- spare fund,
- bankruptcy estate recovery fund.

¹⁰ Until 8 October 2016, the obligatory fees credited the assistance fund.

¹¹ Until 8 October 2016, the obligatory fees credited the credit union guarantee fund established under the repealed act.

¹² Until 8 October 2016, the prudential fees credited the stabilization fund.

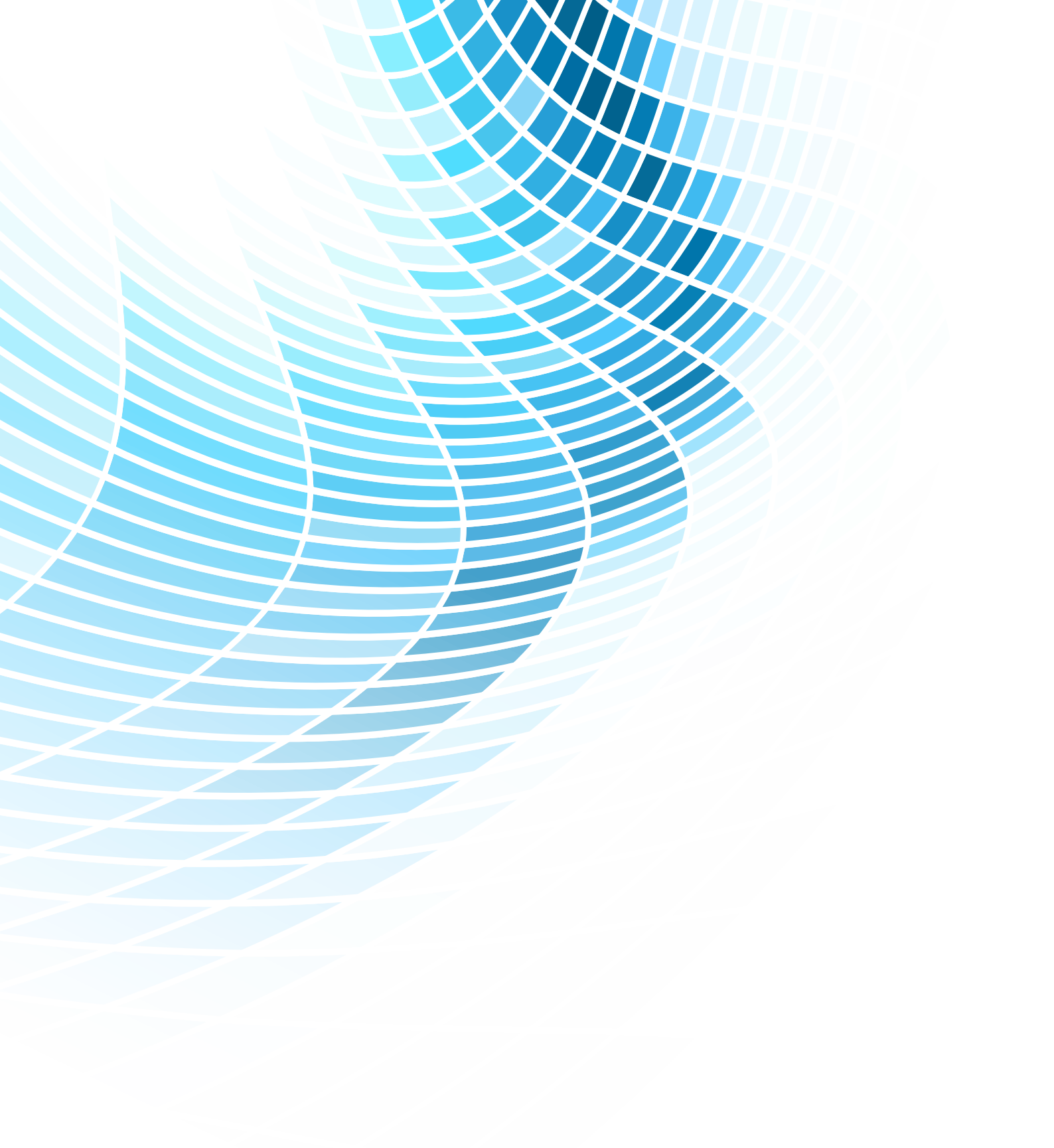
There was established a bank guarantee fund from the resources of the assistance fund and liquidated bankruptcy estate recovery fund, and a bank resolution fund from the resources of the liquidated stabilization fund and liquidated spare fund.

As a result of those changes, the own funds of the Bank Guarantee Fund include:

- statutory fund,
- cooperative banks restructuring fund,
- bank guarantee fund,
- credit union guarantee fund,
- bank resolution fund,
- credit union resolution fund,
- equity reduction in the case of fulfilment of the guarantee condition or in the case of using the resolution mechanisms (negative value),
- revaluation fund.

In the case of pay-out of guaranteed deposits to banks' depositors, the basic source of financing (until the end of 2016) of ex post character was the resources by banks in the form of the guaranteed deposit protection funds (GDPF). The value of the GDPF, updated by the banks on 1 July 2016 (with the basis of calculation of the amount of obligatory reserve for April 2016) amounted to PLN 6,103,395.5 thousand

The resources of the GDPF were used up as a result of the fact that the guarantee condition was fulfilled by *Bank Spółdzielczy w Nadarzynie* on 24 October 2016. As a result, the value of the GDPF established by banks for 2016 was reduced by the amount of PLN 145,639.9 thousand and amounted to PLN 5,957,755.6 thousand as of the end of 2016.



INVESTMENT OPERATIONS

9. Investment operations

Statutory scope of the investment activities of BFG

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

In 2016, the Fund invested the resources contributed on account of obligatory quarterly fees, as well as of capitals and bond interest.

Participation in the BondSpot platform and agreements with banks

The good cooperation with the banks being some of the largest domestic entities in the market of treasury bonds, and the participation of the Fund in the Treasury BondSpot Poland platform allowed to conduct the transactions effectively and to obtain the resources for intervention activities.

Rules and conditions of the investment policy of the BFG

The fund invested its resources in accordance with the Bank Guarantee Fund Investment Policy on Investing Funds in Securities, which determines investment directions and approaches to portfolio management. Additionally, the document includes terms and conditions of investing inflows of funds received by the Fund, based on the average bond maturity period (duration) and profitability of the entire portfolio, which enables the creation of a sufficiently diversified securities portfolio providing security and liquidity in the event that it is necessary to liquidate securities for the purpose of a disbursement of guaranteed deposits.

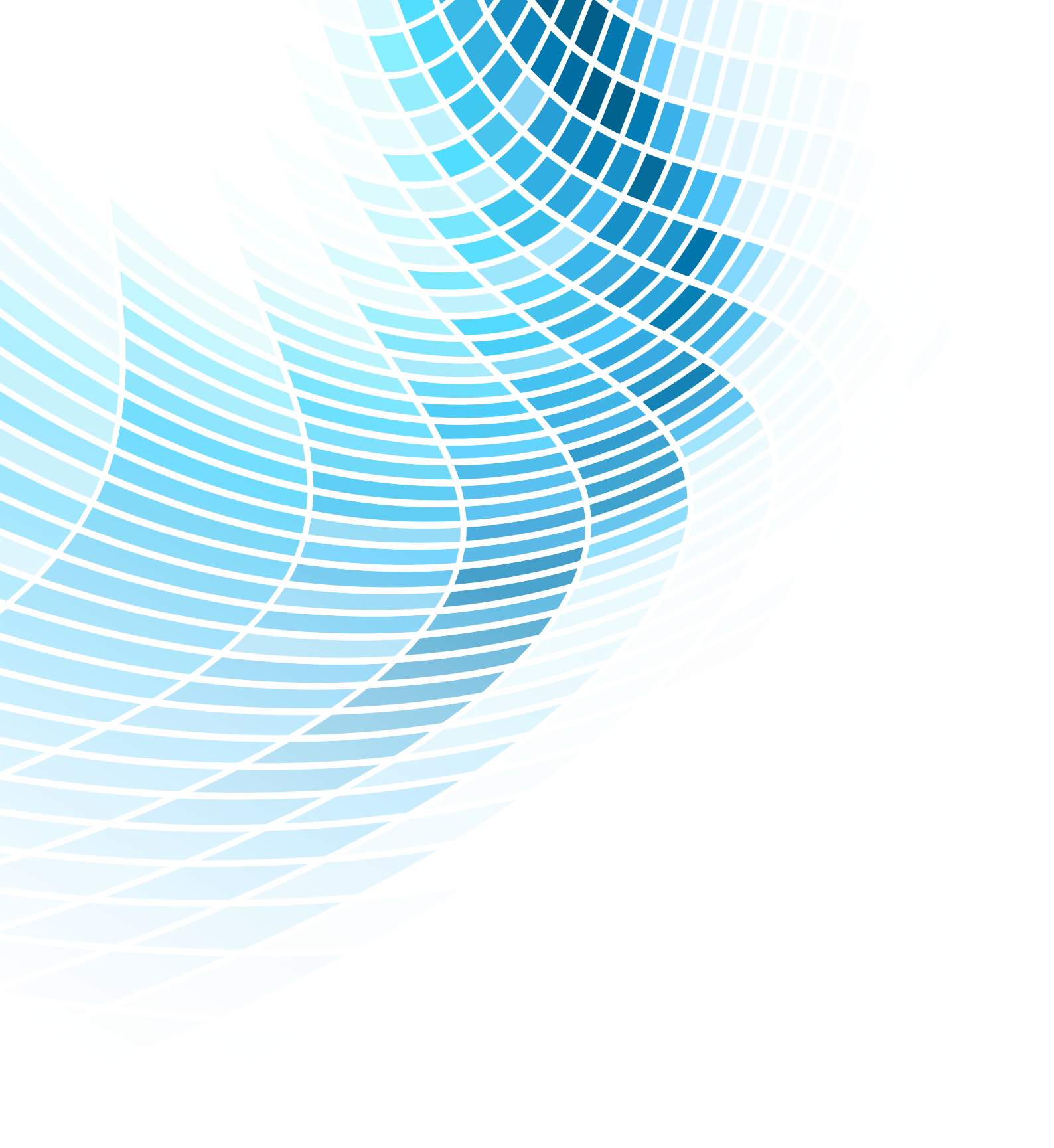
According to the assumptions of the Fund's investment policy, the decisions about investing spare funds in 2016 were taken based on information about the current market situation of the treasury bonds and predictions about their profitability, keeping in mind securing the funds for the potential disbursements. In 2016, within the above-mentioned activities in the CSCU sector, the Fund conducted the process of disbursement of the guaranteed resources to the depositors from 5 entities and in two cases paid subsidies to banks on account of taking over the credit unions.

Structure of the BFG portfolio

As a result of the operations conducted on securities, in comparison with 2015 the share of treasury bonds in the BFG portfolio decreased slightly from 88.17% to 87.03% as of the end of 2016, in favor of money bills – an increase from 11.83% to 12.97%. The portfolio duration dropped from 2.72 years to 1.82 years, while the BFG portfolio profitability was maintained at the high level of 3.28%.

Table 12. Structure of the BFG securities portfolio (by nominal value)

Type	Portfolio share	
	31.12.2015	31.12.2016
NBP bills	11.83%	12.97%
Treasury bonds	88.17%	87.03%
TOTAL	100.00%	100.00%



2016
FINANCIAL RESULT

10. 2016 financial result

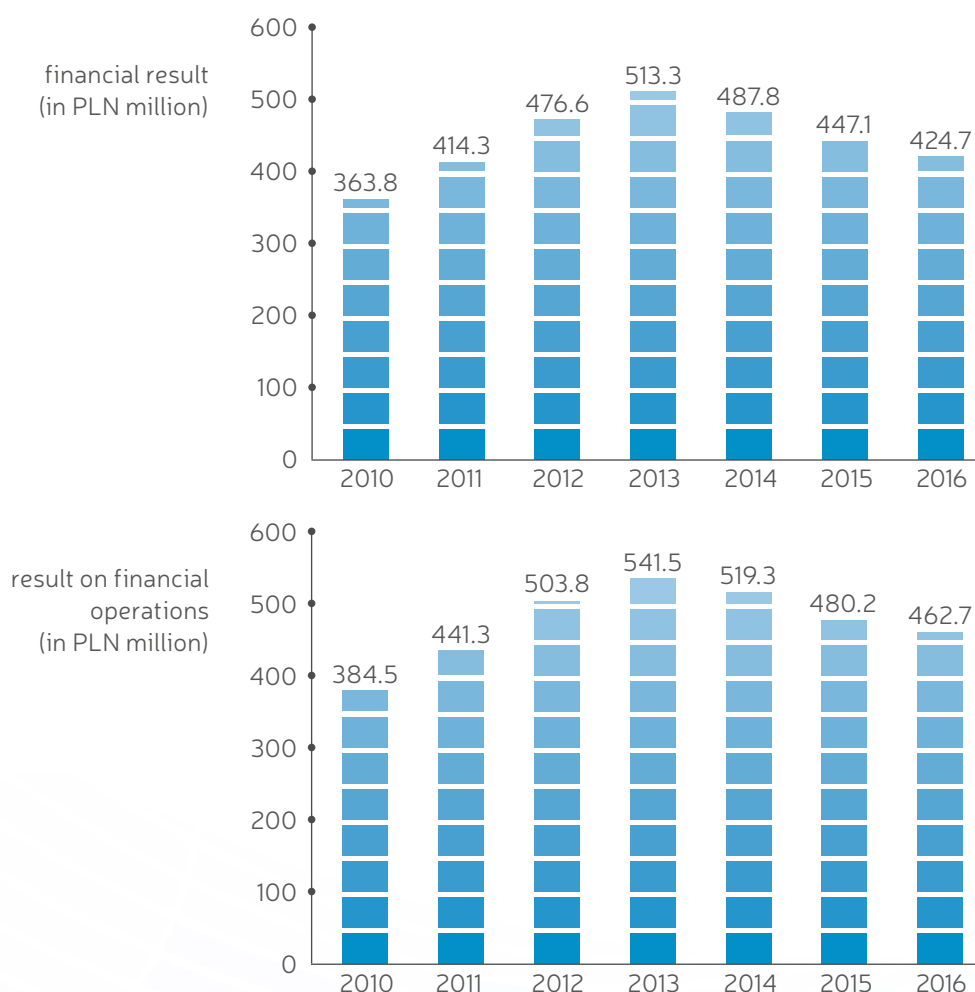
In 2016, the financial result of the Fund amounted to PLN 424,721.9 thousand and was higher by 5% from the planned level – despite the need to invest resources in the low interest rate environment. The main item in the 2016 income statement was the result on financial operations in the amount of PLN 462,659.2 thousand, including the result on securities in the amount of PLN 462,471.5 thousand. The result on operations in securities comprised: the result on treasury bonds in the amount of PLN 443,132.5 thousand, the result on NBP bills in the amount of PLN 17,710.0 thousand, the result on the buy-sell back and sell-buy back transactions in the amount of PLN 1,627.8 thousand and the result on treasury bills in the amount of PLN 1.2 thousand.

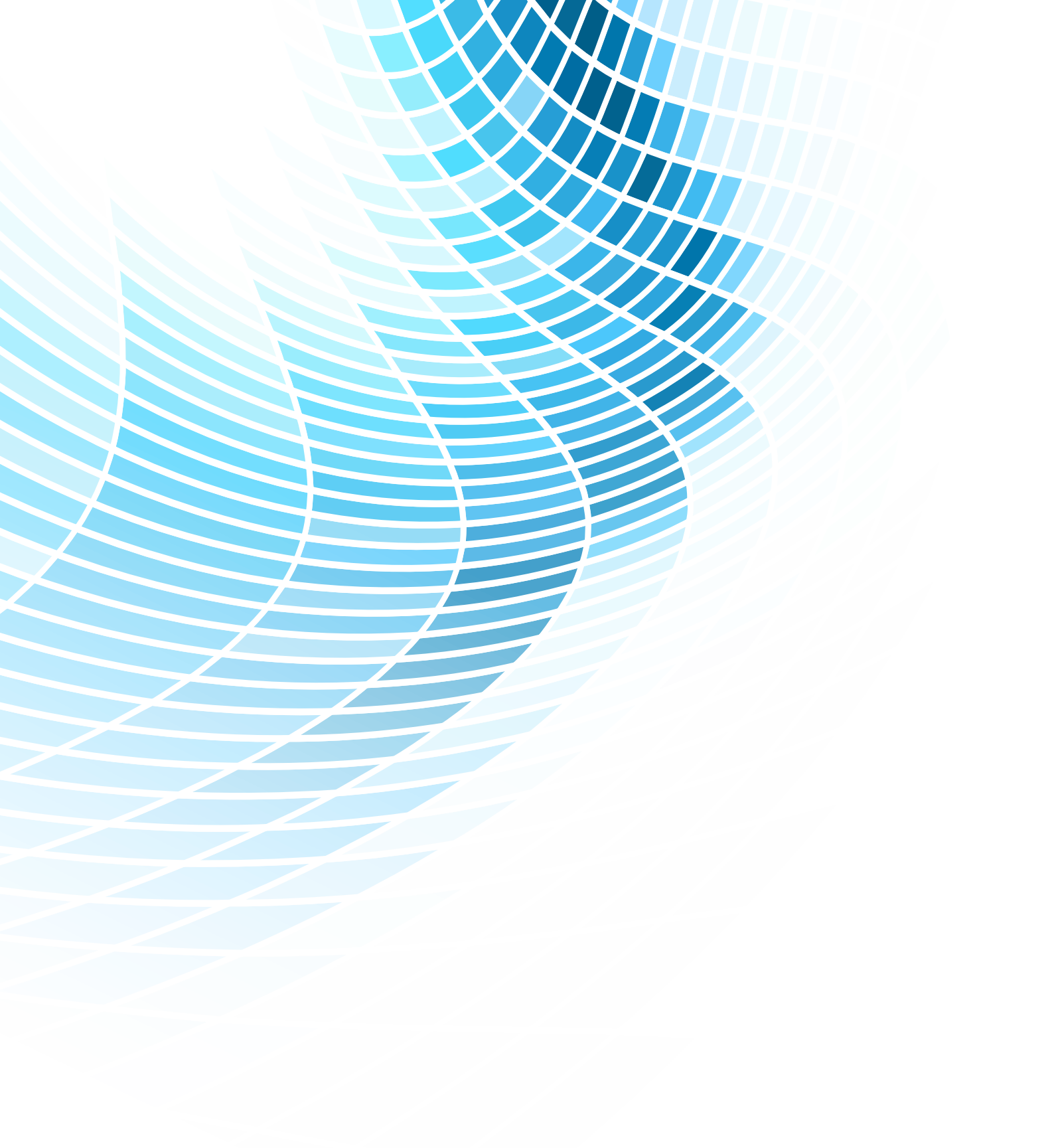
The result on financial operations included the result on securities as well as the revenues on account of interest on the resources collected in the current account and fixed-term deposits, in the amount of PLN 187.7 thousand.

The result on statutory activities amounted to PLN 196.5 thousand, including the revenues on account of interest on the repayable assistance granted to banks and other default interest for the total amount of PLN 194.2 thousand, the default interest on contributions to the special account of guarantee settlements in the amount of PLN 1.4 thousand and the default interest on the obligatory fees for 2016 in the amount of PLN 0.9 thousand. The remaining operating revenues in the amount of PLN 159.0 thousand mainly comprised the revenues from the imposed penalties for violation of the Banking Law Act – in the amount of PLN 125 thousand.

The total costs amounted to PLN 38,292.7 thousand, of which the most significant item was the costs of remunerations including overheads (PLN 25,865.8 thousand). The costs of outsourced services amounted to PLN 4,215.9 thousand, amortization – PLN 3,597.5 thousand and remaining costs – PLN 4,505.0 thousand.

Chart 1. BFG results in 2010–2016





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 on the rules of functioning of the deposit guarantee scheme and resolution in Poland, and the role of BFG in the financial safety net. In 2016, the priority was to inform the public on the changes in the rules of guarantees for deposits and basics of resolution. At the same time, the Fund conducted information activities addressed to financial entities, the aim of which was to facilitate the preparation the entities to the new regulatory framework.

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

In March 2016, within cooperation with the PBA, BFG conducted another study on the image of the banking sector in Poland. It entailed, among others, a discernment of the public awareness level on the deposit guarantee system and the role of the Bank Guarantee Fund. The public awareness of the role of BFG increased considerably in comparison with the study of 2015. In the group of depositors, the percentage rate of the persons indicating that it is BFG that guarantees the deposits rose by 6 percentage points: from 46% in 2015 to 52% in 2016. In the group of Credit Unions' depositors, the percentage rate of the persons indicating that it is BFG that guarantees the deposits rose by 16 percentage points: from 41% in 2015 to 57% in 2016.

11.2. Information activities

Materials available at banks and credit unions

BFG leaflets, made available to clients in banks and credit union branches, are among the principal awareness-building materials on the functioning of the deposit guarantee scheme in Poland. In response to the ongoing demand, banks and credit unions were receiving copies of information leaflets on the deposit guarantee scheme and placards used to identify membership of the entity in which they were displayed in the mandatory deposit guarantee scheme.



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BFG
BANKOWY FUNDUSZ GWARANCYJNY

Gwarantujemy bezpieczeństwo depozytów w bankach i SKOK-ach do 100 tys. euro w złotych

*Treść zawarte w niniejszej ulotce ma charakter edukacyjny i nie powinna stanowić podstawy podejmowania indywidualnych decyzji dotyczących gwarantowania środków pieniężnych ani korzystania z innych usług banków, oddziałów banków zagranicznych lub spółdzielczych kas oszczędnościowo-kredytowych. Źródłem praw i obowiązków wynikających z gwarantowaniem depozytów są przepisy ustawy z dnia 10 czerwca 2016 r. o Bankowym Funduszu Gwarancyjnym, systemie gwarantowania depozytów oraz przepisami restrukturyzacji (Dz. U. poz. 990) oraz innych powszechnie obowiązujących aktów prawnych. Bankowy Fundusz Gwarancyjny nie ponosi odpowiedzialności za skutki działań podjętych na podstawie informacji zawartych w niniejszej ulotce. Pełną informację na temat systemu gwarantowania depozytów można uzyskać u Monitora: 800 569 341 (zapytanie bezpłatne), 22 58 35 942, a także na stronie internetowej: www.bfg.pl

Website

The Fund conducted its information and education policy mainly through its website (www.bfg.pl) which constituted the basic source of information on its activities, promoting the rules of deposit guarantees and conducive to an increase in the public awareness in that regard. The fact that information was immediately provided to the public, particularly in the cases when the guarantee conditions were met, served to prevent disorientation of the clients of bank and credit unions. In 2016, a new BFG website was launched with different contents and graphical layout and more transparent structure. The website provides permanent access to current information, as well as to current and archived BFG materials and documents. Also, a BFG Public Information Bulletin website was launched.



DEPOZyty
W TYM BANKU GWARANTUJE

BFG

BANKOWY FUNDUSZ GWARANCYJNY

(w zakresie przewidzianym Ustawą o Bankowym Funduszu Gwarancyjnym)

Meetings with financial institutions

In the weeks prior to the new act taking effect, the Fund had organized a series of meetings for representatives of commercial banks, cooperative banks and brokerage houses. The presented information was to facilitate the preparation of those institutions to the new procedures associated with resolution and to the changes in the scope of deposit guarantees. The Management Board and the employees of the Fund also took part in industry events and conferences, during which they disseminated the knowledge on the changes resulting from the new act.

BFG Helpline

A toll-free helpline (**800 569 341**) is an important tool that gives members of the public, interested in obtaining information about the deposit guarantee scheme in Poland, direct access to the employees of the Fund. All interested persons could obtain information related to the principles of functioning of the deposit guarantee plan and the participation of individual financial entities in the guarantee scheme.

Presence in the media

Another important tool of informing the public about BFG was cooperation with the media (the press, TV, radio, the Internet). The Fund's representatives were providing updates about the most recent information concerning the current conditions of guaranteeing the deposits, Fund's tasks associated with the introduction of the BFG Act, as well as the process of preparing and processing the guarantee disbursements to the depositors.

11.3. BFG publications

In 2016, three subsequent issues of *Safe Bank* journal were published. The fourth issue was ready to be printed. In total, *Safe Bank* presented more than 20 articles and studies. The thematic scope of the articles included, among others, the issues of the market structure and size of banks on the stability of the banking sectors in the EU countries, the systemic risk and macro-prudential policy, regulatory infrastructure, issues concerning the risk of bank activities. The journal included book reviews and reports from conferences and seminars. Moreover, the special issue of *Safe Bank* No. 4 (65) 2016 was published in English and contained the publications aimed at promoting certain aspects of the scientific activity of Polish academics in the scope of the banking system, in particular in the scope of central banking.



The market position of the *Safe Bank* journal was reinforced thanks to, i.a., the decision of the Minister of Science and Higher Education to place it on the list of the scored journals, with 13 pts. parameter (an increase by 8 pts. In comparison to the previous rating). It places *Safe Bank* among a few of the best rated journals concerning problems of the financial market and stability of the banking system in Poland.

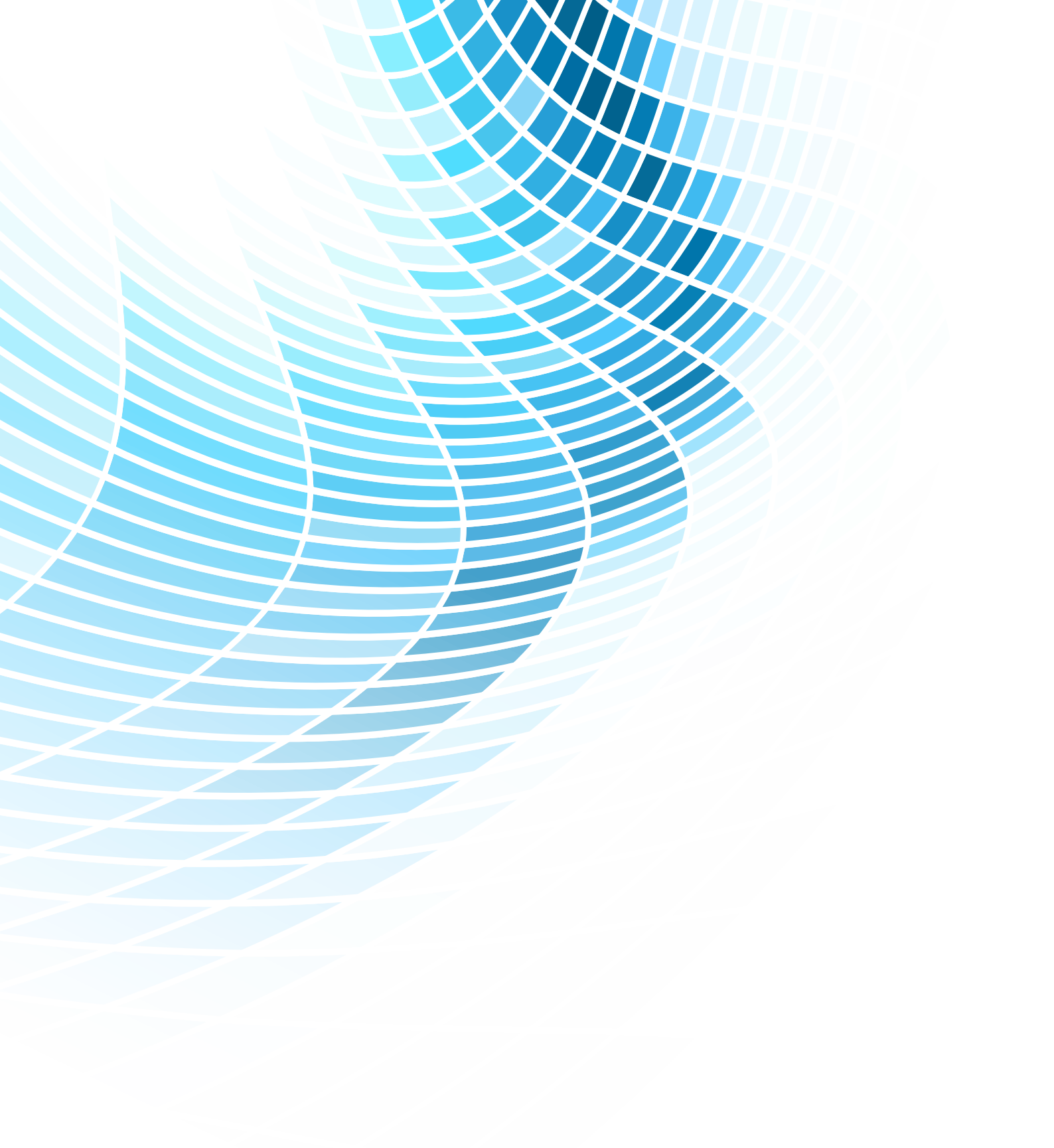
Both the current and archived issues of *Safe Bank* are available at the BFG website (www.bfg.pl/czasopismo-bezpieczny-bank).

In 2016, the 2015 Annual Report of the Bank Guarantee Fund was published on the BFG website in Polish and English (www.bfg.pl/raporty-roczne).

11.4. Other activities

In May 2016 there was completed the XV edition of the competition for the best BA, MA and PhD theses regarding the deposit guarantee schemes, the activities of the Bank Guarantee Fund and the financial security of banks. 20 theses were submitted, among which the jury selected the winners and granted the 1st and 2nd prize in all the categories: BA, MA and PhD theses. Furthermore, the next edition of the competition was announced.

Again, BFG co-organized – together with the Polish Financial Supervision Authority, the Ministry of Justice, and the National Bank of Poland, the Police and the Office for Competition and Consumer Protection – the *Nie daj się nabrać. Sprawdź zanim podpiszesz!* [*Don't get hustled! Check before you sign!*] initiative, the aim of which is to raise awareness of issues around taking loans.



DOMESTIC
COLLABORATION

12. Domestic collaboration

In 2016, the main directions of domestic cooperation resulted from the activities associated with the implementation of the BFG Act.

The Fund organized meetings for the main groups of stakeholders in the process of implementation of the BFG Act. Their objective was to assist financial institutions in preparation to the upcoming changes. Four such meetings were held: for commercial banks, co-operative banks, brokerage houses and credit unions.

The members of the Management Board of BFG participated in numerous sector-specific conferences, using them as opportunities for providing the information on the new rules of deposit guarantees and resolution. Among others, they participated in the Banking Forum, the European Financial Congress in Sopot, the WiseEuropa Capital Market Forum, the Forum of Leaders of Cooperative Banks and in the Polish Congress of Financial Market Regulation.

The Fund actively cooperated with the institutions from the financial safety net, i.e. the Minister of Finance, the National Bank of Poland and the Financial Supervision Authority. In 2016, the Fund concluded agreements on cooperation and exchange of information with:

- the Financial Supervision Authority,
- the Minister of Development and Finance,
- the Supreme Audit Office.

On account of the implementation of the BFG Act and the change in the legal basis for granting short-term credits to the Bank Guarantee Fund from the National Bank of Poland (Article 306 of the BFG Act), there was signed an annex to the Memorandum of Understanding on determining the framework conditions, under which the National Bank of Poland would grant short-term credits to the Bank Guarantee Fund for the payment of guaranteed deposits.

The President of the Management Board of the Fund participated in the works of the Financial Stability Committee based on the crisis management formula (KSF-K) and macro prudential supervision (KSF-M). Among others, they were devoted to the impact of the BFG Act on the domestic financial system. BFG actively participated in the assessment of the systemic risk of the KSF-M.



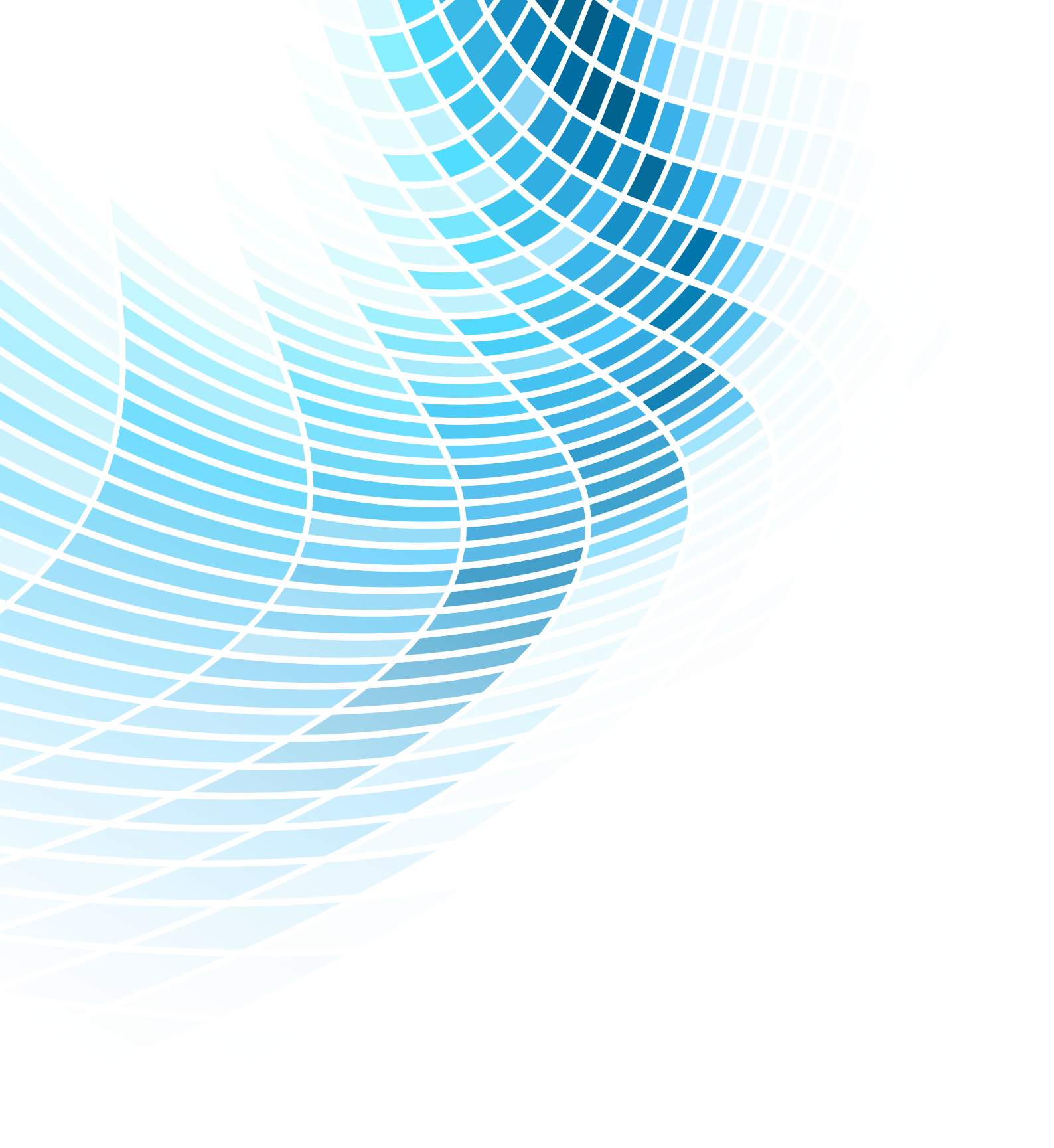
The Financial Stability Committee is the body competent for macro prudential supervision in Poland. The Committee is a collegial body, which represents four main institutions of the financial security networks, i.e. the National Bank of Poland, the Ministry of Finance, the Financial Supervision Authority and the Bank Guarantee Fund. The works of the Committee within the macro prudential supervision are chaired by the President of the National Bank of Poland.

Macro prudential supervision covers identification, assessment and monitoring of the systemic risk and the activities to minimize this risk by utilizing macro prudential instruments.

The aim of the macro prudential supervision is reduction of the systemic risk, especially by strengthening the resilience of the financial system and, as a consequence, supporting the long-term and balanced economic growth of the country.

The President of the Management Board of BFG also participated in the programming works of the European Financial Congress, Gazeta Bankowa.

In March 2016, in cooperation with NBP and MF, BFG organized workshops in resolution and orderly liquidation of credit institutions. The workshops were conducted by experts from the International Monetary Fund, and held in the head office of BFG and NBP. Almost 70 people attended, including representatives of the Fund and other institutions within the Polish financial security network, i.e. NBP, MF and PFSA. The objective of the workshops was to increase the operating capacities and competences of the Fund by familiarizing the participants with the experiences of other countries in conducting the processes of resolution and orderly liquidation of credit institutions.



FOREIGN
COLLABORATION

13. Foreign collaboration

13.1. Collaboration with IADI



The International Association of Deposit Insurers – IADI is an independent organization comprising the deposit guarantee institutions from all over the world. It 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 to promote international cooperation in the scope of deposit guarantees. IADI develops international standards used for improving the effectiveness of the deposit guarantee schemes taking into account the diversity of the domestic deposit guarantee schemes.

BFG became a member of IADI in 2008. Currently, IADI comprises 83 deposit guarantee institutions from all over the world.

In 2016, four meetings of the Executive Council (EXCO) of the IADI were held, as well as the accompanying meetings of the standing committees and of the IADI Europe Regional Committee (ERC), in which the Fund was represented. BFG participated in the EXCO discussions on the implementation of some of the provisions resulting from the recent strategic review of the Association. Currently, the IADI is implementing a new association management model which was adopted at the 48th meeting of the EXCO.

During the XV Annual General Meeting (AGM) of Members of the Association, held in October 2016, the President of the Management Board of BFG was elected for member of the IADI Executive Council for a three-year term.

The Fund continued the works on the IADI research project regarding the Bail-in Implications for the deposit guarantee schemes and for financing them, conducted within the RGC Subcommittee for Implications of Bail-in for the Deposit Guarantee schemes and Financing, headed by the Deputy President of the Management Board of the Fund.

In technical terms, BFG supported the survey activities of the IADI with the use of the iFost IT tool (*IADI's First Online Survey Tool*) developed by the Fund, and provided a module for data validation. BFG launched the 2015 IADI annual survey and provided the validation of its results.

The Deputy President of the Management Board of BFG, as the deputy of the designated representative in the IADI, participated in the works of the Cross-Border Crisis Management Group (CBCM) acting within the FSB Resolution Steering Group (ReSG). As the deputy of the designated representative in the IADI, the Deputy of the President of the Management Board of BFG participated in the works of two working teams: FSB ReSG CBCM Workstream on Bail-in Execution and TLAC (FSB ReSG CBCM Workstream on Internal TLAC), operating within FSB ResG CBCM.

13.2. BFG involvement in the international arena

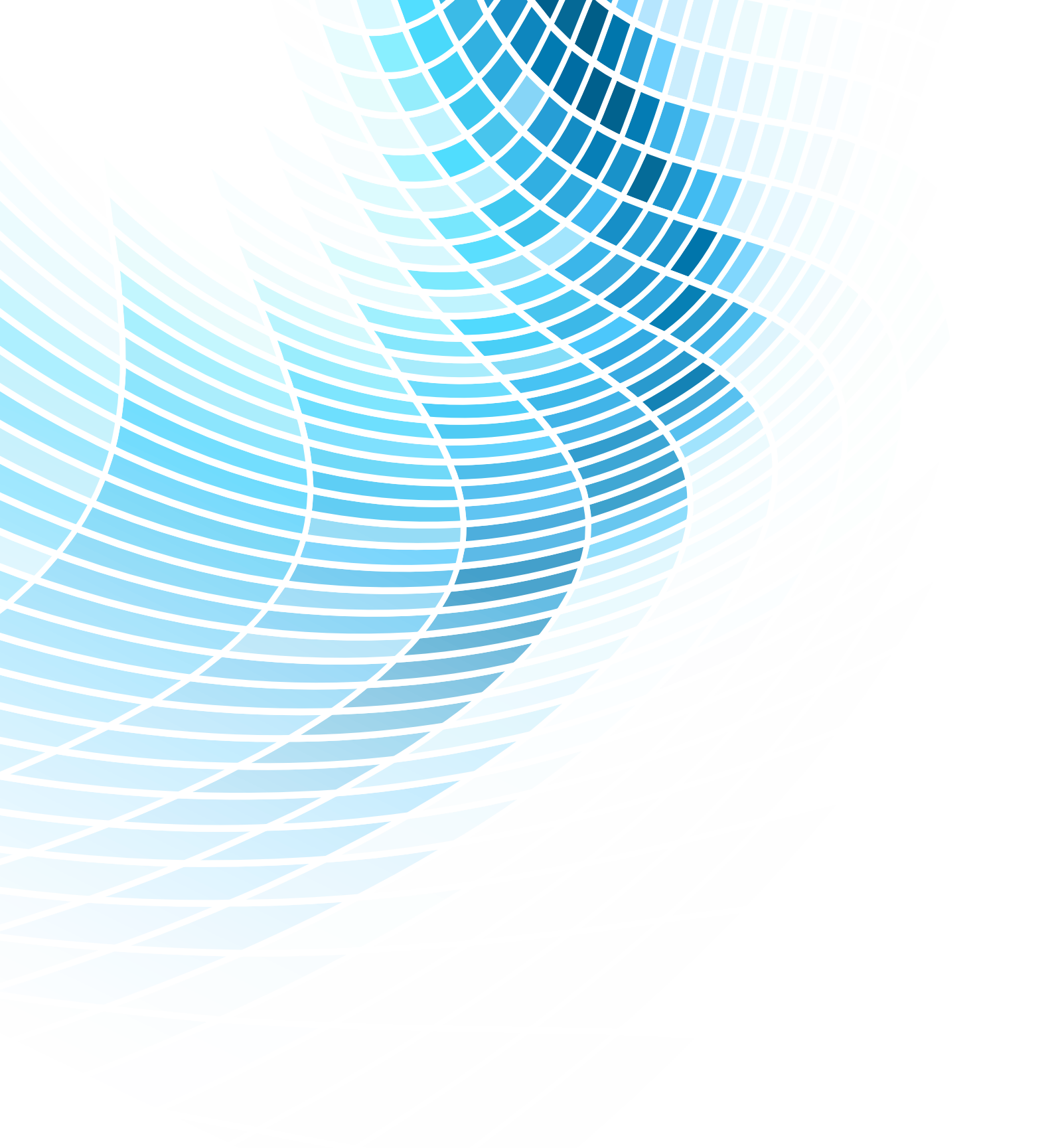
In 2016, representatives of BFG took part in international meetings focusing on the financial stability and operation of the deposit guarantee schemes.

Other activities in the scope of foreign collaboration

In September 2016, the President of the Management Board of the BGF participated in the annual meeting of the members of EFDI. The meeting was organized by EFDI and by the Lithuanian deposit guarantee institution. At the meeting, the new Board of Directors was appointed. Under the EBA interpretation regarding the provisions of the DGS directive, the deposit guarantee schemes of the member states should include agreements. To follow the EBA guidelines, the EFDI prepared a template of a multilateral agreement entitled *H2C Cooperation Agreement*. During the annual meeting, the EFDI officially signed the above-mentioned agreement on cross-border cooperation among the first interested European countries. Following the intention, signed on 8 August 2016, of applying the Guidelines for the agreements on cooperation between the deposit guarantee schemes under directive 2014/49/EU (EBA/GL/2016/02), after the BFG Act took effect, on 28 November 2016 the Fund signed the agreement on cooperation among the deposit guarantee schemes by signing the document entitled: *Letter of adherence to the agreement between Deposit Guarantee Schemes and designated authorities in the European Union*. By signing the agreement, BFG met the requirements imposed by the DGS directive (article 14(5)) and by the applicable provisions of the BFG Act on cross-border cooperation.

Within the bilateral cooperation with foreign deposit guarantee institutions, a delegate of the Czech deposit guarantee institution (Financial Markets Guarantee scheme) visited the head office of the Fund. During the meetings, there were presented, among others, the issues of activities of BFG, its function as an authority of resolution, the function of BFG in the PFSA, as well as the EWS used in the Fund. Moreover, BFG hosted a delegation from the Korean Deposit Insurance Company. Among others, the delegation was interested in the activities of BFG, its new function as a resolution authority, as well as the separation of commercial activities from the central bank which took place in Poland in the years 1988–1989.

In December 2016, the Deputy President of the Management Board of BFG participated in the seminar entitled *"Finsac Bank Resolution Conference"*, devoted, among others, to the impact of the BRR directive on the Central and Eastern European countries, the operationalization of bail-in through MREL/TLAC as well as the structural reform and possibility to conduct resolution towards the largest entities (the Too Big To Fail issue). The Deputy President of the Management Board of BFG participated in the panel discussion entitled *"Effects of the EU Resolution framework on Finsac client countries"*, and gave a presentation entitled *"Cooperation with supervision and input into Recovery and Resolution (Planning) from a host country perspective"*.



CONDENSED FINANCIAL STATEMENTS

14. Condensed Financial Statements

14.1. Principles of Condensed Financial Statements Preparation

The attached condensed financial statements comprising the balance sheet of the Fund as at 31 December 2016 and the income statement for 2016 were prepared on the basis of the audited annual financial statements of the Bank Guarantee Fund composed for 2016 as required by the Regulation of the Minister of Development and Finance of 9 December 2016 on the specific accounting rules of the Bank Guarantee Fund (Journal of Laws No. 2115) and the Accounting Act of 29 September 1994 (Journal of Laws of 2016 item 1047 as amended).

14.2. Supplementary information

The condensed financial statement is not a statutory report and does not contain sufficient information ensuring full understanding of the financial situation of the Bank Guarantee Fund, and should therefore be read in conjunction with the financial statements of the Bank Guarantee Fund.

14.3. Accounting principles

In accordance with the accounting standards applicable to BFG, the following methods of asset and liability appraisal and determination of revenues and costs were applied:

- Debt securities, i.e. treasury bonds, treasury bills, NBP bills and financial assets on buy-sell back operations are appraised at financial result, based on the adjusted purchase price taking into account the effective interest rate, and the results of that appraisal are classified correspondingly as the revenues from or costs of financial operations. Debt securities are recognized and removed from the accounting books on the date when the transaction is settled, without taking into account the transaction costs. Sale of securities is appraised according to the first-in first-out (FIFO) principle.
 - The loans granted are measured at adjusted purchase price using the effective interest rate and write-offs. To determine the write-offs of receivables other than resulting from the loans granted from the cooperative banks restructuring fund, there are applied, accordingly, the provisions of the regulation of the Minister of Finance on the rules of establishing reserves for the risks related to bank activities (Journal of Laws of 2015, item 2066). The receivables of the Fund resulting from the loans granted from the cooperative bank restructuring fund are classified as normal or lost. The amount of the write-offs of those receivables is determined as of the balance sheet date, at 100% of the value of those receivables. In the scope of the rules of classification of receivables on account of the loans granted from the cooperative banks restructuring fund to the category of lost receivables, of determination of the value of their securities and the basis for write-offs of those receivables, the Fund accordingly applies the provisions of the regulation of the Minister of Finance on the rules of establishing reserves for the risks related to bank activities. When determining the write-offs of loans, the probability of their redemption by the Bank Guarantee Fund is taken into account. The charged interest on the loans are classified as revenues on account of interest.
 - The receivables, referred to in art. 39 of the BFG Act, on account of payment by the Bank Guarantee Fund of the resources guaranteed from the entities, towards whom the guarantee condition, referred to in art. 2 point 57 of the BFG Act has been met, are covered by write-offs in 100%.
 - The remaining receivables are classified in the amount to be paid, taking into account the write-offs of their value.
 - Tangible fixed assets and intangible assets are measured at their purchase price or the cost of their construction less write down.
- The write down of tangible fixed assets and amortization of intangible assets is calculated according to a straight line method over the lifetime of the asset. In determining the write down rate, the economic lifetime is taken into account.
- Prepayments are measured at an amount of costs to be recognized in future reporting periods.

- Provisions, in case of which the amounts or the due date are uncertain, result from the support provided to an entity taking over a credit union or from the employee benefits. The employee-benefits provision i.e. the provision for jubilee awards, retirement provision, disability benefits and death benefits was determined on the basis of the actuary calculations.
- Accruals and deferred income presented within the liabilities include equivalent costs related to unused holidays, bonuses and annual awards, as well as the remaining cost accruals. Costs of accruals of annual awards are included in the bonus

and annual awards costs for the given fiscal year. The remaining accruals and deferred income presented within the liabilities were determined as an amount of costs related to the given reporting period, which do not constitute an outstanding liability on the balance date.

- Other liabilities are measured at amounts due.
- The result on financial operations includes income from: treasury bonds, treasury bills, NBP bills, result on buy-sell back, sell-buy back operations, as well as any remaining incomes from interest on the cash in bank accounts and fixed-term deposits.

14.4. Balance sheet of the Fund

as of 31 December 2016 and as of 31 December 2015 (in PLN)

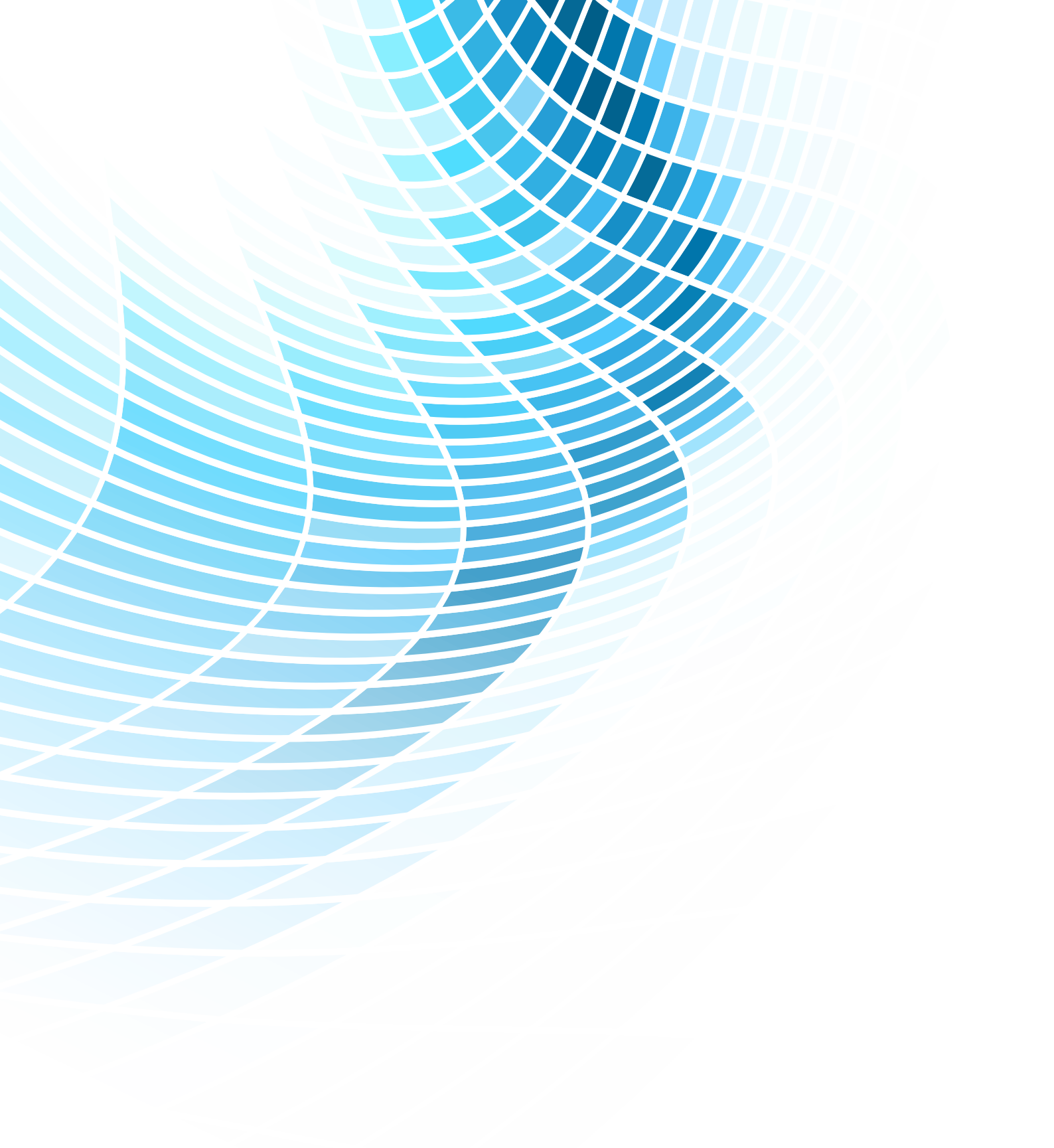
ASSETS	31.12.2016	31.12.2015
Cash	12,854,227.11	30,569,758.79
Cash in hand	32,822.33	39,200.29
Cash on bank accounts	26,053.43	43,600.15
Cash in time deposit account	12,764,000.00	30,480,000.00
Cash in Company Social Benefit Fund	31,351.35	6,958.35
Receivables from financial institutions	46,613,632.81	175,397,677.65
Receivables from banks on account of:	46,613,607.85	175,397,677.65
• granted loans	44,774,588.27	71,238,852.01
• other operations	1,839,019.58	104,158,825.64
Receivables from credit unions on account of:	24.96	0.00
• other operations	24.96	0.00
Other receivables and claims	29,118.05	4,165.59
Securities and other financial assets	14,236,989,804.80	12,204,694,325.75
Debt securities:	14,236,989,804.80	12,103,556,141.54
• of banks	1,832,764,470.49	1,410,588,859.48
• of the State Treasury	12,404,225,334.31	10,692,967,282.06
Other securities and other financial assets	0.00	101,138,184.21
Property, plant and equipment	54,465,882.25	54,989,179.17
Intangible and legal assets	1,467,570.01	1,562,912.96
Prepayments	118,991.76	117,000.50
TOTAL ASSETS	14,352,539,226.79	12,467,335,020.41

LIABILITIES	31.12.2016	31.12.2015
Liabilities	39,168,804.97	152,420,435.11
Liabilities due to depositors	37,584,711.42	151,230,825.44
Other liabilities	1,584,093.55	1,189,609.67
Special funds	31,351.35	6,958.35
Accruals	5,053,389.79	4,154,827.53
Provisions	6,981,965.61	6,464,546.70
Statutory fund	1,637,025,547.68	1,637,025,547.68
Bank Guarantee Fund	9,785,267,401.59	0.00
Bank guarantee fund for use	9,785,267,401.59	0.00
bank restructuring fund	2,311,135,151.76	0.00
bank restructuring fund for use	2,311,135,151.76	0.00
Credit Union Guarantee Fund	31,785,860.39	32,272,270.19
Credit union guarantee fund for use	31,785,860.39	32,272,270.19
Cooperative Banks Restructuring Fund	113,607,688.87	123,409,688.87
Cooperative Banks Restructuring Fund for use	68,828,618.62	52,148,301.81
Cooperative Banks Restructuring Fund used	44,779,070.25	71,261,387.06
Spare fund	0.00	666,604,353.56
Assistance fund	0.00	8,434,478,744.99
Assistance fund for use	0.00	8,434,478,744.99
Bankruptcy estate recovery fund	0.00	54,014,027.98
Stabilization fund	0.00	909,544,850.75
Stabilization fund for use	0.00	909,544,850.75
Equity reduction in case of guarantee conditions completion or in case of using the restructuring mechanisms	(262,114.24)	(175,366.77)
Losses from previous years	(1,977,733.98)	0.00
Financial result	424,721,913.00	447,114,135.47
TOTAL LIABILITIES	14,352,539,226.79	12,467,335,020.41

14.5. Income statement of the Fund

for the years ending on 31 December 2016 and 31 December 2015, respectively (in PLN)

	2016	2015
Revenues from statutory activities	196,501.23	164,042.87
Revenues on account of interest	196,501.23	164,042.87
Result on statutory activities	196,501.23	164,042.87
Result on financial operations	462,659,162.42	480,183,800.54
Securities	462,471,490.25	480,155,716.62
Others	187,672.17	28 083.92
Result on exchange rate differences	(17.41)	(59.68)
Costs of activities	(34,586,739.48)	(29,266,426.88)
Outsourced services	(4,215,899.51)	(4,063,517.09)
Remunerations	(22,729,297.14)	(18,494,610.24)
Insurance and other benefits	(3,136,536.31)	(2,421,056.56)
Others	(4,505,006.52)	(4,287,242.99)
Amortization of tangible, intangible and legal assets	(3,597,536.45)	(3,623,109.93)
Other operating revenues	158,984.75	122,823.61
Other operating costs	(108,442.06)	(466,935.06)
Financial result	424,721,913.00	447,114,135.47



INDEPENDENT
REGISTERED AUDITOR'S
OPINION



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

INDEPENDENT AUDITORS' REPORT ON THE SUMMARY SEPARATE FINANCIAL STATEMENTS

To the Council of Ministers, Minister with the responsibility for financial institutions, Board of Bankowy Fundusz Gwarancyjny

The accompanying summary financial statements, which comprise the summary balance sheet as at 31 December 2016, the summary statement of profit or loss and related notes, are derived from the audited financial statements of Bankowy Fundusz Gwarancyjny seated in Warsaw ks. Ignacego Jana Skorupki 4 ("the Fund") for the year ended 31 December 2016, prepared in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act") and related bylaws, resolution of Minister of Economic Development and Finance dated 9 December 2016 on specific accounting principles of Bank Guarantee Fund (Official Journal from 2016, item 2115) ("the resolution"), and other applicable regulations. We expressed an unmodified audit opinion on those financial statements dated 7 March 2017. Those financial statements, and the summary financial statements, 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 Accounting Act and the resolution and other applicable regulations. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the Fund.

Management's Board's Responsibility for the Summary Financial Statements

Management Board is responsible for the preparation of a summary of the audited separate financial statements on the basis described in Note 14.1, 14.2 and 14.3.

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 International Standard 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 the National Standard on Assurance 810.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of the Fund for the year ended 31 December 2016 are consistent, in all material respects, with those financial statements, on the basis described in Note 14.1, 14.2 and 14.3

On behalf of 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
Management Board Member of
KPMG Audyt Sp. z o.o., General
Partner of KPMG Audyt Spółka z
ograniczoną odpowiedzialnością
sp.k.

14 September 2017

