

## **DEPOSIT GUARANTEE FUND IN THE BANKING SYSTEM**

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# **A N N U A L R E P O R T**

**2005**

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## The Board

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Chairman

*Advisor to the Governor, National Bank of Romania*

**Eugen Rădulescu,**

Member (January – March 2005)

*Advisor to the Governor, National Bank of Romania*

**Cristian Păunescu,**

Member

*Director, National Bank of Romania*

**Radu Grațian Ghețea,**

Member

*President of the Romanian Banking Association*

**Radu Negrea,**

Member

*Secretary General of the Romanian Banking Association*

**Petrică Grama,**

Member

*General Director, Ministry of Public Finance*

**Liliana Sonia Sion,**

Member (January – February 2005)

*Advisor to the Minister of Justice*

**Doina Armean,**

Member (February – October 2005)

*Director, Ministry of Justice*

**Maria Cristina Manda,**

Member (November 2005)

*Secretary of State, Ministry of Justice*

## **The Executive Management**

**Alexandru Matei,**  
General Director

**Liviu Marica,**  
Deputy General Director

**Marin Predescu,**  
Economic Director (January 2005)

**Vasile Bleotu,**  
Economic Director (February – December 2005)

## **CHAPTER ONE**

### **GENERAL INFORMATION ON THE DEPOSIT GUARANTEE FUND IN THE BANKING SYSTEM**

The Deposit Guarantee Fund in the Banking System – hereinafter referred to as the Fund – was established in 1996 pursuant to Government Ordinance No. 39/1996 on the establishment and functioning of the Deposit Guarantee Fund in the Banking System.

The Fund's fundamental purpose is to guarantee the deposits\* with credit institutions and repay them as compensations to individuals and legal persons, under the terms and limits set forth by the functioning law, with subsequent supplements and amendments, the latest amendment being under Government Emergency Ordinance No. 23/2006.

Since its establishment until end-2005, the Fund paid compensations to depositors (individuals) having deposits with six member banks declared bankrupt during that period.

All credit institutions authorised by the National Bank of Romania to take deposits from the public participated in the guarantee scheme, subject to the mention that, in case of Casa de Economii și Consemnaiuni C.E.C. – S.A. (the Romanian Savings Bank) the Fund guaranteed only the deposits of legal persons, while during 2005 the deposits of individuals benefited from the State blanket cover.

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\* According to the Fund's operation law, the deposit represents "any credit balance, including related interest, in any type of bank account, including a joint account, or from transitory situations arising from bank operations and which a credit institution owes to an account holder in compliance with the applicable legal and contractual terms, as well as any debt evidenced by a certificate issued by a credit institution, except the bonds purchased by collective investment undertakings".

Since its establishment until nowadays, the Fund's tasks developed and became more complex, the Fund having acquired, under the law, new capacities: special administrator, interim administrator (for the period starting on the date of filing an application for opening the bankruptcy proceedings and ending on the date of liquidator's appointment, only in case the Fund has the capacity of special administrator at the moment of filing the application) and liquidator. As far as the capacity of liquidator is concerned, the Fund may be appointed as liquidator by the court in case of credit institutions declared bankrupt, namely it can be, according to the law, sole liquidator in case where the liquidation occurs at the initiative of the shareholders or when the National Bank of Romania orders the dissolution followed by liquidation.

In 2002, the Fund was appointed liquidator to two banks declared bankrupt, namely Banca Română de Scont and Banca Turco-Română.



## **CHAPTER TWO**

### **MAIN FEATURES OF THE FUND'S ACTIVITY IN 2005**

Year 2005 is characterised, on the one hand, by the improvement of the legislation governing the activity of the Deposit Guarantee Fund in the Banking System and, on the other hand, by analyses performed on the possibility of changing its financing policy.

1. Thus, Law No. 238/2005 on the amendment and supplement of the Government Ordinance No. 39/1996 on the establishment and functioning of the Deposit Guarantee Fund in the Banking System entered into force in July 2005. Its provisions refer, mainly, to the following:

- Simplifying the declaring procedures of the account holders regarding the classification of their deposits into the category of guaranteed or non-guaranteed ones, namely the elimination of the declaring obligation of individuals (over 11 million depositors) as well as the limitation of the declaring obligation of legal persons only to the case of small and medium-sized enterprises and of the other categories of legal persons which are not comprised in the list of those excluded from guarantee (annex to the ordinance);
- Adapting and diversifying the Fund's investment policy by eliminating the limitations on the Fund's exposure both towards the entire banking system and towards each bank, the investment of financial resources being made according to the strategy on the Fund's exposure, that is set forth annually by the Fund's Board, with the approval of the Board of the National Bank of Romania.

Following the amendment and supplement of the legislation, the Fund issued the Regulation No. 1/2005 for correlating the new provisions with those in the Fund's Statute, Norms No. 1/2004 on setting the increased annual contribution of credit institutions and Regulations Nos. 2 and 4/2004 on the contributions due to the Fund and the information to be provided to depositors by credit institutions.

2. Starting with May 2005, the Fund was included in the “Convergence” Program, conducted under the auspices of the World Bank with the support of a grant from Italy’s Ministry of Economy and Finance, program within which the Fund requested assistance with a view to determining the optimal level of the annual contribution rate of the credit institutions, as well as of the ratio between its financial resources and the amount of guaranteed deposits in the banking system.

3. Pursuant to Law No. 178/2004 on the amendment and supplement of Government Ordinance No. 39/1996, the calculation base for the annual contributions due to the Fund by credit institutions in 2005 was extended by including herein the guaranteed deposits of the legal persons, among which the largest weight is held by micro-enterprises, small and medium-sized enterprises, defined by Law No. 346/2004 on stimulating the establishment and development of small and medium-sized enterprises.

The calculation base for the due annual contributions was re-sized, this being established only at the level of deposits included in the category of guaranteed deposits.

4. According to the law, one of the main financial resources of the Fund is represented by the contributions paid by credit institutions participating in the guarantee scheme. In 2005, each credit institution paid to the Fund an annual contribution in a rate of 0.5% of the total balance of guaranteed deposits as of December 31 of the previous year. The contributions totalled RON\* 159,588.2 thousand.

5. In accordance with the legal provisions, in 2005 the Fund continued the repayment of deposits by paying compensations to individuals who placed deposits with bankrupt credit institutions, namely Banca Română de Scont, Banca Turco-Română and Banca “Columna”.

6. Another target pursued in the activity performed by the Fund in 2005 was the constant monitoring and support of the liquidators in implementing the bankruptcy proceedings both to banks where the Fund was a creditor (usually, major creditor) and to banks where the Fund has been appointed as liquidator, with a view to recovering as much amounts as possible out of the Fund’s claims against these bankrupt banks.

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\* NOTE: RON – the Romanian domestic currency – leu – following the denomination of the Romanian domestic currency, starting with July 1, 2005.

By December 31, 2005, the total amount collected by the Fund from bankrupt banks was RON 156.38 million, namely 30.5% of the total compensations payments made.

The total amount collected in 2005 from bankrupt banks was RON 10,352.66 thousand, of which RON 2,827.39 thousand from Bankcoop and RON 7,525.27 thousand from Banca Internațională a Religiilor.

In addition, for the liquidation activity to the two banks where the Fund is liquidator there were collected remuneration. It is to be mentioned that in case of Banca Turco-Română the first remuneration was collected during the second part of 2005.

7. In 2005, the Fund continued the liquidation activity related to Banca Română de Scont and Banca Turco-Română, both bankrupt banks where the Fund has been appointed liquidator, according to the law, when those banks went bankrupt.

8. In 2005, the Fund invested its financial resources arising from the initial contributions and annual contributions, the re-invested profit, as well as from the amounts recovered from claims against bankrupt banks, including the remuneration from the liquidation activity, in terms of minimising the risks and ensuring the efficiency and liquidity of investments. Starting with the second half of the year, the Fund's investments were made in keeping with the strategy set forth by the Fund and approved by the Board of the National Bank of Romania, having as main objectives the minimisation of risks and liquidity of investments, and as complementary objective the efficiency thereof. This contributed both to the increase of the Fund's financial resources and to the enhancement of its financial capacity.

9. The Fund promptly met its payment obligations in 2005, including those related to the credits received, according to the law, from the National Bank of Romania. Thus, the Fund paid at maturity the amount of RON 68,237.9 thousand, namely credit instalments (RON 63,333.3 thousand) and the related interest (RON 4,904.6 thousand).

10. In 2005, the reflection in the media of the Fund's activity both with respect to deposit guarantee and to the fulfilment of the legal tasks in its capacity of liquidator to Banca Română de Scont and to Banca Turco-Română, bankrupt banks, was also had in view.

## CHAPTER THREE

### DEPOSITS WITH CREDIT INSTITUTIONS

1. An overview of the deposits held by individuals and legal persons at December 31, 2005, as compared to December 31, 2004, is shown in the following table:

No.	Indicator	December 31, 2004	December 31, 2005	Differences	
				col. 3 – col. 2	col. 4 / col. 2 (%)
0	1	2	3	4	5
1.	Holders of guaranteed deposits – total of which:	9,949,984	12,030,837	2,080,853	20.91
	– individuals	9,441,138	11,177,311	1,736,173	18.39
	– legal persons	508,846	853,526	344,680	67.74
2.	Total guaranteed deposits (row 3 + row 4) (RON million)	31,320.7	44,326.1	13,005.4	41.52
	% of total deposits	53.45	51.55	–	–
	– in RON	17,961.7	27,466.6	9,504.9	52.92
	– in foreign currency (RON equivalent)	13,359.0	16,859.5	3,500.5	26.20
3.	Guaranteed deposits held by individuals Total (RON million)	23,516.5	30,550.9	7,034.4	29.91
	% of total guaranteed deposits	75.08	68.92	–	–
	– in RON	12,180.0	17,052.0	4,872.0	40.00
	– in foreign currency (RON equivalent)	11,336.5	13,498.9	2,162.4	19.07
4.	Guaranteed deposits held by legal persons Total (RON million)	7,804.2	13,775.2	5,971.0	76.51
	% of total guaranteed deposits	24.92	31.08	–	–
	– in RON	5,781.6	10,414.6	4,633.0	80.13
	– in foreign currency (RON equivalent)	2,022.6	3,360.6	1,338.0	66.15

0	1	2	3	4	5
5.	Total non-guaranteed deposits (RON million)	27,280.9	41,664.3	14,383.4	52.72
	% of total deposits	46.55	48.45	–	–
	– in RON	11,784.5	20,845.9	9,061.4	76.89
	– in foreign currency (RON equivalent)	15,496.4	20,818.4	5,322.0	34.34
6.	Total deposits (row 2 + row 5) (RON million)	58,601.6	85,990.4	27,388.8	46.74
	% of total deposits	100.00	100.00	–	–
	– in RON	29,746.2	48,312.5	18,566.3	62.42
	– in foreign currency (RON equivalent)	28,855.4	37,677.9	8,822.5	30.57

2. Analysis of deposit holders and guaranteed deposits at December 31, 2005, as compared to December 31, 2004 showed the following:

a) the number of guaranteed deposit holders, of which individuals held a weight of nearly 93%, grew by 20.91%, namely 2,080,853 depositors. The number of individuals increased by 18.39%, namely 1,736,173, while the number of legal persons raised by 67.74%, namely 344,680 depositors;

b) the volume of guaranteed deposits grew by 41.52%, namely RON 13,005.4 million. The highest growth, of 76.51%, was recorded by the guaranteed deposits of legal persons, while the guaranteed deposits of individuals raised by 29.91%;

c) a significant growth, by 52.92%, was recorded by the RON-denominated guaranteed deposits, while the foreign currency-denominated guaranteed deposits grew by 26.20%;

d) deposits held by individuals weighted 68.92% of total guaranteed deposits.

### Evolution of guaranteed deposits with credit institutions participating in the scheme

- RON mln. -

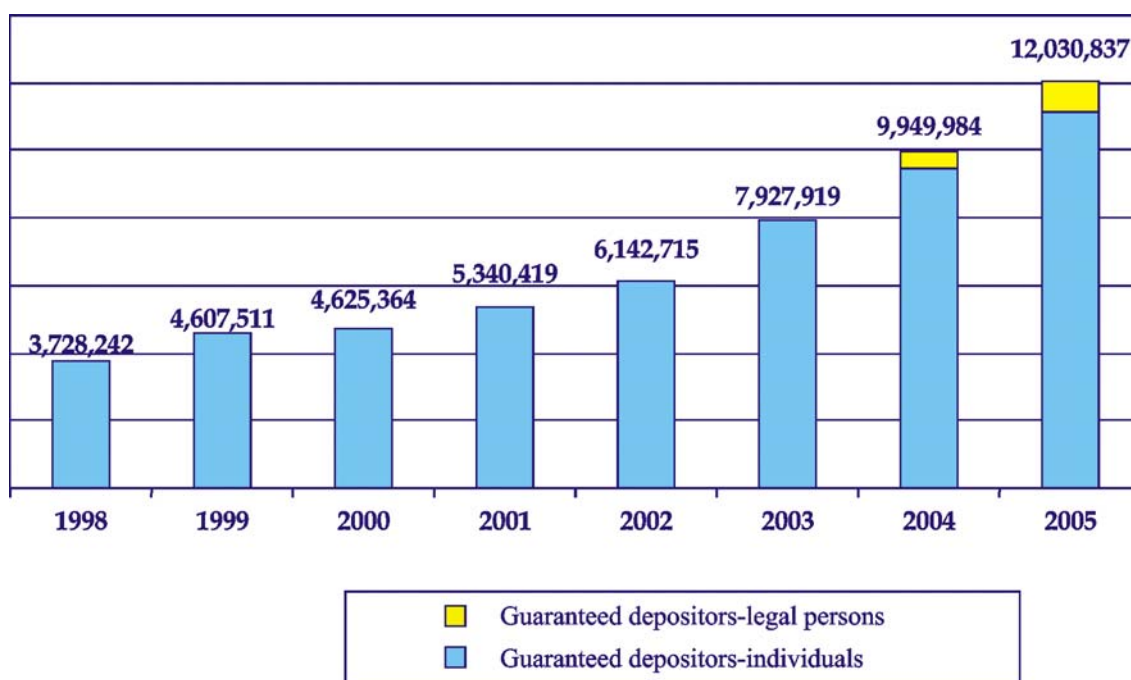


3. Number of guaranteed deposit holders and deposits at December 31, 2005, as compared to December 31, 2004, are presented below:

No.	Indicator	Total	of which:	
			within the guarantee ceiling	over the guarantee ceiling
0	1	2	3	4
1.	Holders of guaranteed deposits:			
	– as of 31.12.2004	9,949,984	9,790,636	159,348
	– as of 31.12.2005	12,030,837	11,765,632	265,205
	% of total			
	– as of 31.12.2004	100	98.4	1.6
2.	– as of 31.12.2005	100	97.8	2.2
	Total guaranteed deposits (RON million):			
	– as of 31.12.2004	31,320.7	12,970.5	18,350.2
	– as of 31.12.2005	44,326.1	20,651.9	23,674.2
	% din total			
	– as of 31.12.2004	100	41.4	58.6
	– as of 31.12.2005	100	46.6	53.4

Data above show that 97.8% of holders had fully guaranteed deposits at end-2005, firstly due to the relatively low level of deposits as compared to the guarantee ceiling and, secondly, due to the fact that the depositors acted prudently by opening accounts with more credit institutions.

### Evolution of the number of guaranteed depositors



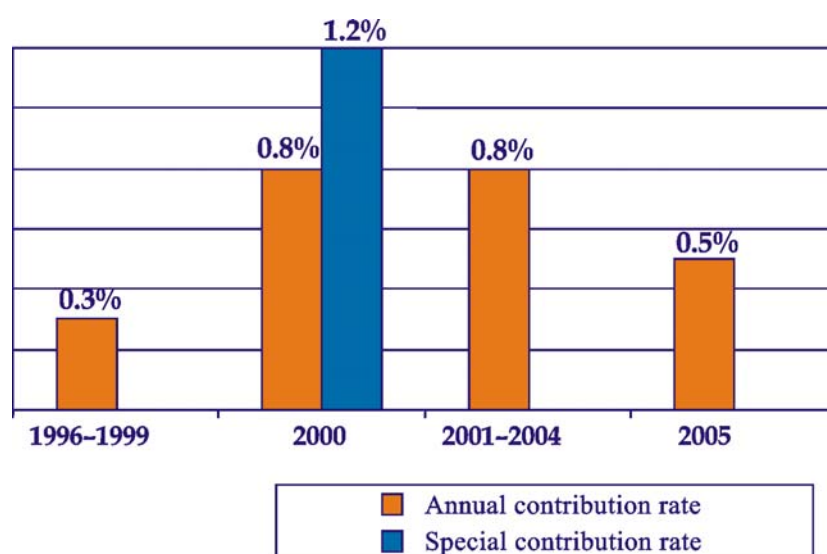
## CHAPTER FOUR

### FINANCIAL RESOURCES OF THE FUND

1. The contributions collected from credit institutions participating in the guarantee scheme as initial, annual, annual increased and special contributions represent one of the financial resources of the Fund.

As of the establishment date of the Fund, the annual contribution rate was 0.3% of total deposits held by individuals, subsequently modified in 1999 to 0.8%. In 2005, the annual contribution rate was 0.5%.

**Credit institutions' contribution rate**



The annual contribution in 2005, communicated to the Fund at the beginning of the year on the basis of the statements sent by credit institutions, was paid within the legal term, without any delay.



2. Contributions paid by credit institutions in 2005, as compared to 2004, are shown below:

- RON thousand -

Contribution type	2004	2005
– initial contributions	1,019.3	250.0*
– annual contributions	131,564.1	159,338.2
– special contributions	–	–
<b>TOTAL</b>	<b>132,583.4</b>	<b>159,588.2</b>

\* Initial contribution paid by HVB Banca pentru Locuințe S.A. in 2005.

In 2005, the Fund was also concerned for credit institutions to uniformly enforce the provisions of its legislation and the norms and regulations issued in the application thereof, clarifying all the issues brought by credit institutions participating in the deposit guarantee scheme.

However, the on-site inspections revealed the fact that the selection of deposits included in the calculation base of the annual contribution has not been made in accordance with the legal provisions. The great majority of credit institutions did not include in their calculation base all the deposits of micro-enterprises, small and medium-sized enterprises, as well as deposits of other categories of legal persons included in the category of guaranteed ones. Actually, following the verifications made by the Fund, a new contribution calculation base was established for each credit institution, entailed by the accurate classification of deposits in the two categories, namely guaranteed and non-guaranteed. This action, which required both a large amount of work and a long time, could not be finalised by end-2005 also due to the insufficient personnel involved, there remaining 11 credit institutions where verification was continued in 2006. Credit institutions where verification was completed until December 31, 2005, paid in addition to the Fund a contribution in amount of nearly RON 1.8 million.

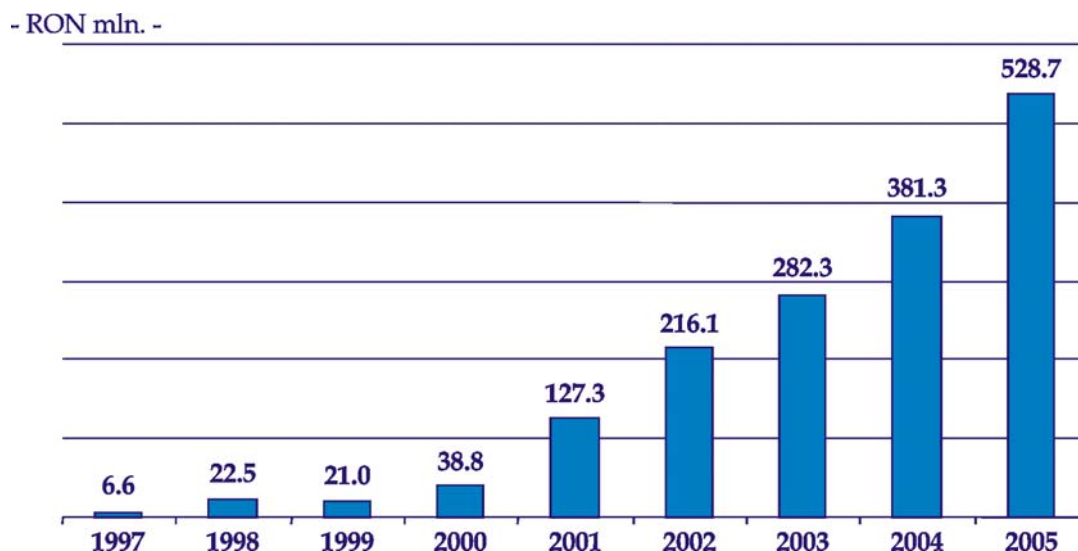
3. A summary of the financial resources and payments as from the date of the Fund's establishment until December 31, 2005, as compared to December 31, 2004, is shown below:

- RON thousand -

No.	INDICATOR	31.12.2004 Cumulative data	2005	31.12.2005 Cumulative data	%
0	1	2	3	4	5 = (col. 4 – col. 2) / col. 2
A.	RESOURCES – total, of which:	1,284,870.1	214,829.7	1,499,699.8	16.72
	1. Banks' contribution	522,815.3	159,588.2	682,403.5	30.52
	2. Fund's profit distributed during 1996 – 2005	266,199.9	44,587.1	310,787.0	16.75
	3. Borrowings	350,000.0	–	350,000.0	–
	4. Collections from recovered claims from bankrupt banks	145,632.4	10,352.7	155,985.1	7.11
	5. Collections from liquidator's remuneration	222.5	301.7	524.2	135.60
B.	PAYMENTS MADE – total, of which:	903,611.2	67,373.4	970,984.6	7.46
	1. Payments of compensations	512,119.6	90.1	512,209.7	0.02
	2. Payments on borrowings, of which:	391,491.6	67,283.3	458,774.9	17.19
	2.1. repayment of principal	286,666.7	63,333.3	350,000.0	22.09
	2.2. interest payment	104,824.9	3,950.0	108,774.9	3.77
C.	YEAR-END BALANCE	381,258.9	147,456.3	528,715.2	38.68

As shown above, the available resources of the Fund intended for deposit guarantee as of December 31, 2005, increased by RON 147,456.3 thousand as compared to December 31, 2004, that is by 38.68%, provided that the Fund paid over RON 68,000 thousand representing the last instalments and the related interest for the two credits granted by the National Bank of Romania in 2000.

### Financial resources of the Fund as of December 31



Taking into account that the destination of credit institutions' contributions and of the additional amounts (borrowings) is the repayment of guaranteed deposits to depositors of bankrupt credit institutions, by analysing the figures in the table above one may come to the conclusion that these amounts covered the compensations payments and payments related to borrowings made for such purpose, remaining a difference of about 11% of the available resources of the Fund as at December 31, 2005. The remainder of nearly 89% actually represents the result of the Fund's own activity, namely the profit from the investments made, the recoveries from the Fund's claims against bankrupt credit institutions, including the remuneration due to the Fund in its capacity of liquidator.

## **CHAPTER FIVE**

### **INVESTMENT OF FINANCIAL RESOURCES**

1. According to the legal provisions, in 2005 the Fund could invest its financial resources in government securities, government-backed securities, as well as in time deposits, certificates of deposit and other financial instruments of credit institutions in compliance with the requirements of risk minimisation.

2. In 2005, difficulties occurred in investing the financial resources as a result of the limitation of the government securities issues on the primary market, especially as regards those with a maturity less than 1 year, which led to a scarce secondary market, as well as of the significant reduction of the interest rate of such instruments. Moreover, during the first part of the year there were also difficulties related to the legal provisions imposing limitations on the Fund's placements with banks, but those provisions have been repealed starting with the second half of the year.

During the first half of 2005, the Fund's financial resources were invested both in government securities and in certificates of deposit and time deposits with the selected credit institutions for this purpose, with a view to obtaining the best possible return on investment at the lowest risk.

Starting with the second half of 2005, the Fund's financial resources were invested in the same financial instruments as in the previous half-year, based on an exposure strategy by type of financial instrument and by issuers, drawn up by the Fund, endorsed by the Board thereof and approved, according to the law, by the Board of the National Bank of Romania. The strategy has as main objectives the minimisation of risks and liquidity of investments, and, as complementary objective, the efficiency thereof.

3. Investment of Fund's financial resources in 2005 is shown below:

No.	Financial instruments	1st Half		2nd Half		Total	
		Average invested capital - RON thousand -	Average interest rate %	Average invested capital - RON thousand -	Average interest rate %	Average invested capital - RON thousand -	Average interest rate %
0	1	2	3	4	5	6	7
	TOTAL INVESTMENTS of which:	432,335.99	13.42	517,231.27	10.00	474,566.05	11.72
1.	Investments in government securities of which:	176,693.83	17.26	4,767.49	8.19	91,004.79	17.06
	1.1. government securities on the primary market	138,305.55	17.84	294.16	16.98	69,576.22	17.87
	1.2. government securities on the secondary market	38,388.28	15.14	4,473.33	7.61	21,428.57	14.45
2.	Investments in certificates of deposit	168,702.53	11.41	273,262.32	11.13	220,690.49	11.43
3.	Investments in time deposits	86,939.63	9.51	239,201.46	8.76	162,870.77	9.12

4. The share of the average capital invested by the Fund in financial instruments in 2005 is presented below:

No.	Financial instruments	Average invested capital (%)	
		1st Half	2nd Half
0	1	2	3
	TOTAL INVESTMENTS of which:	100.0	100.0
1.	Investments in government securities of which:	40.9	0.9
	1.1. government securities on the primary market	78.3	6.2
	1.2. government securities on the secondary market	21.7	93.8
2.	Investments in certificates of deposit	39.0	52.8
3.	Investments in time deposits	20.1	46.3

5. As shown in the tables above, due to absence from the market and of the lower yield on government securities, the weight thereof in the Fund's investment portfolio experienced a sharp decrease during the second half of 2005, from 41% to less than 1%, of which nearly all were government securities on the secondary market. The remainder of the investments, of nearly 99%, was made in time deposits and certificates of deposit with banks against the background of maintaining the drastic downward trend in the interest rate. Thus, the average interest rate on the Fund's investments in 2005, of 11.72%, was substantially diminished, by almost 6 percentage points as compared to that in 2004, provided that the average interest rate was significantly influenced in a positive way by the much higher interests on the Fund's investments made during the first half of 2004.

## **CHAPTER SIX**

### **THE BOARD'S ACTIVITY**

1. During 2005, the administration of the Fund's activity was ensured by the Board thereof, composed of seven members.

During its monthly meetings, the Board analysed and made decisions as to the main issues of the Fund's activity, such as:

- organisational and personnel chart as well as the Fund's salary policy;
- the Fund's forecasted income and expenditure budget;
- the classification of credit institutions participating in the Fund by due contribution rates thereto;
- monitoring the collection of the contributions due by credit institutions;
- the recovery of the Fund's claims from the bankrupt credit institutions where the Fund has the capacity of creditor, the monitoring of the progress of the bankruptcy proceedings, as well as the analysis and approval of solutions to various problems stemming from the implementation of the bankruptcy proceedings to those banks;
- investment of the Fund's financial resources in terms of safety and efficiency, and, starting with the second half of the year, in compliance with the limits and terms provided for in the strategy approved by the Board of the National Bank of Romania, having as main objectives the minimisation of risks and liquidity of investments, and, as complementary objective, the efficiency thereof;
- payment of compensations for the individuals' guaranteed deposits with bankrupt banks where the Fund was still owing compensations;
- the activity to the bankrupt banks where the Fund was appointed as liquidator, according to the law, on the basis of the monthly progress reports of the representatives thereof, subsequently submitted to the syndics for approval;
- on-site inspections with a view to checking the accuracy of the calculations made as to the contributions due to the Fund;

- amendment and supplement of the Government Ordinance No. 39/1996 on the establishment and functioning of the Deposit Guarantee Fund in the Banking System by Law No. 238/2005;
- amendment and supplement of the norms and regulations issued by the Fund in correlation with the amendment of the law on the functioning thereof;
- adequate enforcement of the laws and regulations related to the Fund's activity;
- implementation of the income and expenditure budget;
- selection of financial auditors;
- annual report and annual financial statements;
- distribution of the Fund's annual profit.

2. The Chairman of the Board was concerned with the proper conducting of the Board's activity and put into effect the decisions of the National Bank of Romania's Board and of the Fund's Board, constantly reported on the manner decisions were implemented as well as on other circumstantial issues influencing the Fund's activity and exercised control over the General Director's activity.

In 2005, the Chairman was directly involved in the main issues of the Fund's activity, such as the drawing up of the draft of Law No. 238/2005 on amending and supplementing the Government Ordinance No. 39/1996 on the establishment and functioning of the Deposit Guarantee Fund in the Banking System, of certain regulations issued by the Fund in order to correlate them with the new provisions of the Fund's functioning law, the recovery of the Fund's claims against the bankrupt credit institutions where the Fund is a creditor, monitoring the progress of the bankruptcy proceedings, the activity related to the bankrupt banks where the Fund was appointed as liquidator and the support of the Fund's representatives in the said capacity in settling certain special problems deriving from the exercise of the legal tasks thereof.

In accordance with the legal provisions, the Chairman of the Board, together with the Fund's General Director, submitted to the Board of the National Bank of Romania, for approval, the annual report and the financial statements of the Fund for 2004, the implementation of the 2004 income and expenditure budget and the 2005 forecasted budget, the Fund's investment strategy, credit institutions' categorisation by annual contributions and increased annual contributions due to the Fund, and the draft of regulations on amending and supplementing the Fund's Statute and other regulations issued with a view to aligning them with the mentioned legislative amendments.



## **CHAPTER SEVEN**

### **OTHER ASPECTS OF THE FUND'S ACTIVITY**

1. As of December 31, 2005, thirty-three credit institutions, Romanian legal persons, one credit co-operative network CREDITCOOP (central house and affiliated credit co-operatives) and six branches of foreign banks authorised to operate in Romania participated in the deposit guarantee scheme, as shown in Appendix 1.

Pursuant to the legal provisions, the Fund published in the Official Gazette of Romania the updated list of credit institutions participating in the deposit guarantee scheme in Romania.

2. Starting with 2004, in accordance with the provisions of the Government Ordinance No. 39/1996, republished, with subsequent amendments and supplements, the guarantee ceiling experienced a gradual growth, reaching EUR 10,000 in 2005, in RON equivalent, as compared to EUR 6,000 during the second half of 2004.

The evolution of the guarantee ceiling per guaranteed depositor during 1997–2005 is presented in Appendix 2.

3. The Fund informed the depositors, both through notifications published in the Official Gazette of Romania or in the media, as applicable, and through its Website, on the following:

- updated list of credit institutions whose depositors benefit from the guarantee of repayment of deposits therein;
- various issues on deposit guarantee and particularly on the types of deposits included in the category of the guaranteed ones;
- guarantee ceiling per depositor;
- terms, conditions and formalities to be fulfilled for the collection of compensations;
- deadlines for paying compensations to the depositors who had deposits with bankrupt banks.

4. The Fund's experts examined on-site both the accuracy of reports regarding the calculation of annual contributions due in 2005 and the observation of the provisions regarding the information provided to the public in respect of the guaranteed deposits and the guarantee ceiling in force and brought the findings to the executive management and the Board.

5. In order to meet the requests of some credit institutions participating in the guarantee scheme and with a view to Regulations Nos. 1, 2, 3 and 4/2004 issued in furtherance of law to being construed and uniformly applied by all credit institutions, the Fund clarified and explained, both by circulars and by individual letters addressed to credit institutions, the issues arisen from the implementation of the said regulations.

6. The Fund organised and kept its accounting records in accordance with the Accounting Law No. 82/1991 and with its own regulations in the field endorsed by the National Bank of Romania and the Ministry of Public Finance. The balance sheet for 2005 was transmitted to the authorised bodies of the Ministry of Public Finance in due course.

## CHAPTER EIGHT

### PAYMENT OF COMPENSATIONS TO DEPOSITORS OF BANKRUPT BANKS

1. The compensations paid for individuals' deposits with bankrupt banks and the amounts outstanding as of December 31, 2005, are shown in the table below:

No.	Bankrupt bank	Compensations as per the payment list		Payments made		Balance outstanding as of 31.12.2005	
		No. of depositors	Amount (RON thousand)	No. of depositors	Amount (RON thousand)	No. of depositors	Amount (RON thousand)
0	1	2	3	4	5	6	7
1.	Banca "Albina"	33,528	36,105.86	24,461	36,056.49	–	–
2.	Bankcoop	467,993	275,494.87	197,252	273,236.06	–	–
3.	Banca Internațională a Religiilor	284,121	187,738.81	102,787	186,149.27	–	–
4.	Banca Română de Scont	1,871	921.43	229	873.10	–	–
5.	Banca Turco-Română	10,026	18,043.27	2,724	15,877.97	–	–
6.	Banca "Columna"	171	146.29	2	16.76	169	129.53
<b>Total:</b>		<b>797,710</b>	<b>518,450.53</b>	<b>327,455</b>	<b>512,209.65</b>	<b>169</b>	<b>129.53</b>

As results from the above table, the Fund paid compensations in amount of RON 512.2 million to 327,455 individuals, representing 98.8% of the total initial amount. The remainder of 470,255 depositors did not claim their due amounts totalling nearly RON 6.2 million, that is 1.2% of the total amounts, which ought to have been paid. Despite the fact that the Fund has repeatedly notified on the payments deadlines through mass media and its Website, the over 470 thousand depositors did not collect the compensations they were entitled to due to their lack of interest in the respective amounts as almost 94% of the deposits thereof were of very low value, up to RON 10 respectively.

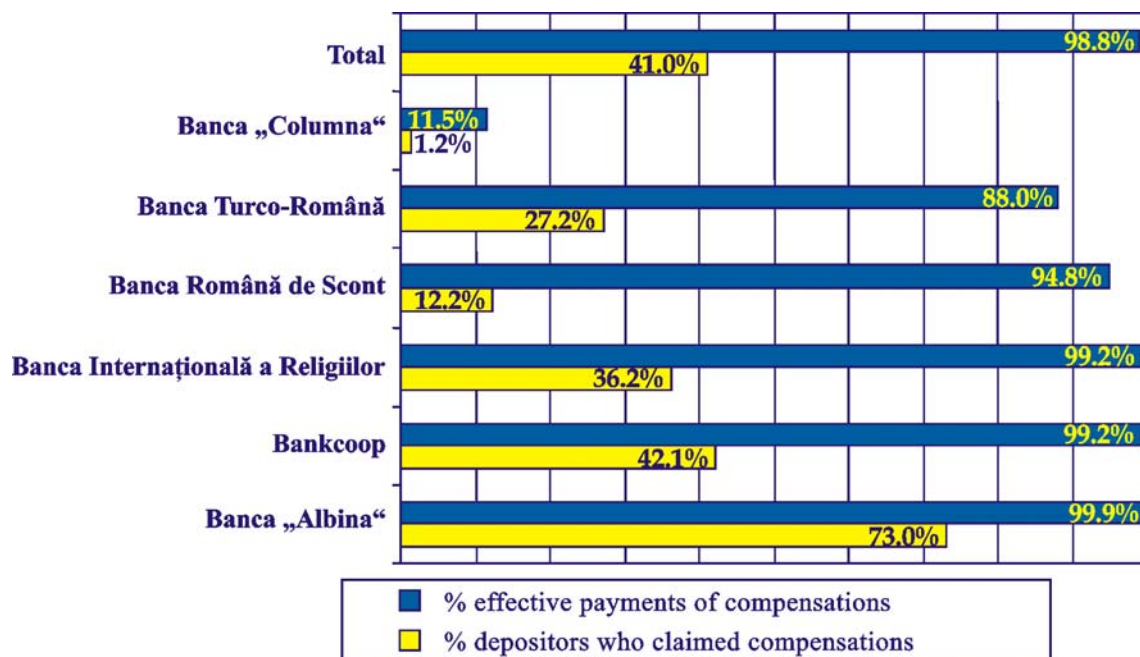
Payments made by the Fund during 2005 were in amount of RON 90.1 thousand; at the same time, the legal payments deadlines of 3 years as from the payments starting

date expired in 2005 in case of two bankrupt banks, namely on June 18, 2005, for Banca Română de Scont and on October 27, 2005, for Banca Turco-Română.

The last bankrupt bank where the payment deadline has expired is Banca "Columna", having May 26, 2006, as final payment deadline. The amount of outstanding compensations for this bank was RON 129.53 thousand for a number of 169 depositors.

No.	Bankrupt bank	Effective payments of compensations, as compared to Fund's obligation written down in the payment list (subrogation to the rights of guaranteed depositors) - % -	Share of depositors who claimed compensation, as compared to the total number of depositors in the payment list - % -
1.	Banca "Albina"	99.9	73.0
2.	Bankcoop	99.2	42.1
3.	Banca Internațională a Religiilor	99.2	36.2
4.	Banca Română de Scont	94.8	12.2
5.	Banca Turco-Română	88.0	27.2
6.	Banca "Columna"	11.5	1.2

### Payment of compensations to depositors of bankrupt banks



2. Payments of compensations effected by December 31, 2005, in USD equivalent, at the exchange rate from the date of payment, were the following:

- USD thousand-

– Banca “Albina”	22,510.4
– Bankcoop	136,020.0
– Banca Internațională a Religiilor	75,194.0
– Banca Română de Scont	262.2
– Banca Turco-Română	4,747.2
– Banca “Columna”	5.1
<b>TOTAL</b>	<b>238,738.9</b>

3. It should be underlined that compensations were paid without any problems and there were no conflict situations, litigation or other significant difficulties in the relations with the depositors entitled to compensation or with the credit institutions mandated by the Fund to effect the payment of compensations.

## **CHAPTER NINE**

### **RECOVERY OF CLAIMS FROM BANKRUPT BANKS**

1. Another main goal of the Fund in 2005 was to expedite the claims' recovery process, from the liquidators of bankrupt banks, as to the compensations paid to depositors (individuals) of those banks. Following the start of bankruptcy proceedings, the Fund subrogated to the rights of depositors for the compensations payable, being granted the capacity of unsecured creditor.

2. By December 31, 2005, the Fund collected RON 156.38 million from the distributions made by the liquidators of bankrupt banks.

The amount collected in 2005 from the bankrupt banks was of RON 10.35 million, out of which RON 2.83 million from Bankcoop and RON 7.52 million from Banca Internațională a Religiiilor.

By end-2005, the Fund did not recover any of the claims against Banca Turco-Română and Banca "Columna" due to the following reasons:

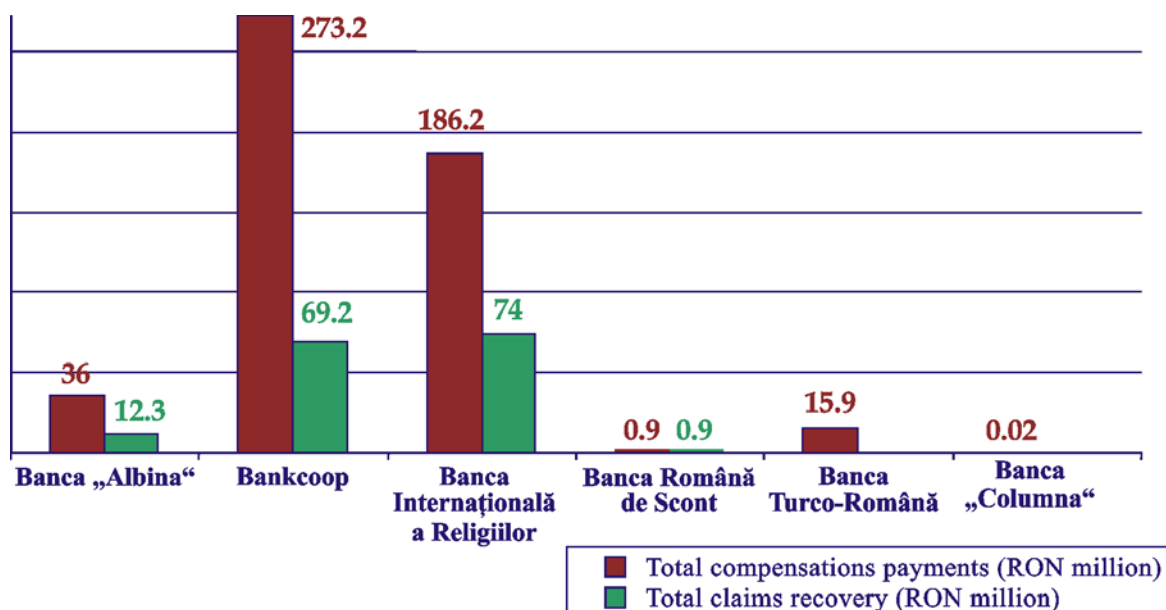
- in case of Banca Turco-Română, due to the late completion of the list of claims which has been submitted to the court in December 2005, the amounts were distributed only to the former employees of the bank, so that neither the Fund nor the other creditors have collected in the course of 2005 any amount of their claims;
- in case of Banca "Columna", although the final list of claims was approved prior to 2005, the Fund did not recover any amount out of its claim due to the fact that the liquidation of the bank was not performed according to the specific legal provisions of credit institutions' bankruptcy legislation, but in accordance with Law No. 64/1995 on judicial reorganisation and bankruptcy proceedings (general legislation on bankruptcy), where the Fund has the capacity of unsecured creditor, being a lower priority creditor.

3. The table below shows the recovered claims as against the compensations paid until December 31, 2005:

Bankrupt bank	Recovered claims		Compensations paid to depositors		Recovery ratio	
	RON million	(USD thousand equivalent) at the exchange rate on the date of each distribution *	RON million	(USD thousand equivalent) at the exchange rate on the date of each distribution *	RON (percent)	USD (percent)
0	1	2	3	4	5 = 1 / 3	6 = 2 / 4
Banca "Albina"	12.26	5,000.6	36.06	22,510.4	34.0	22.2
Bankcoop	69.20	22,351.8	273.23	136,020.0	25.3	16.4
Banca Internațională a Religiilor	74.05	23,585.7	186.15	75,194.0	39.8	31.4
Banca Română de Scont	0.87	280.3	0.87	262.2	100.0	106.9
Subtotal	156.38	51,218.4	496.31	233,986.6	31.5	21.9
Banca Turco-Română	–	–	15.88	4,747.2	–	–
Banca "Columna"	–	–	0.02	5.1	–	–
<b>TOTAL</b>	<b>156.38</b>	<b>51,218.4</b>	<b>512.21</b>	<b>238,738.9</b>	<b>30.5</b>	<b>21.5</b>

\* At the exchange rate communicated by the National Bank of Romania.

### Comparative summary of compensations payments and recoveries of claims as of December 31, 2005



By December 31, 2005, the Fund collected 30.5% of the claims in RON from the bankrupt banks; nevertheless, in foreign currency consolidated amounts, where both the payments of compensations and collections from claims are given in USD equivalent, at the exchange rate on the respective dates, the Fund collected claims in proportion of 21.5%. The 9% difference is a loss to the Fund, due to the depreciation of the domestic currency – leu – and to the non-consolidation of the banks' debt, by not calculating interest, as the legislation in force does not allow it.

In some cases, suspension of liquidation activity during several periods contributed to that situation, an example being the case of Banca Internaională a Religiilor, where the representatives thereof filed to the court actions for blocking the liquidation acts decided by the syndic.

Based on those petitions there were recourses, recourses in annulment, contestations, raising some exceptions of non-constitutionality, petitions for suspending the liquidation proceedings, petitions for ordinances issued by the president of the court on suspending the court's decision as to the opening of the bankruptcy proceedings, petitions for the replacement of liquidators and so on.



## **CHAPTER TEN**

### **FUND'S ACTIVITY AS LIQUIDATOR**

1. In 2002, the Fund has been appointed as judicial liquidator of two bankrupt banks, namely Banca Română de Scont as from April 16, 2002 and Banca Turco-Română as from July 3, 2002.

From the opening of the bankruptcy proceedings of the two banks until December 31, 2005, the Fund continued its activity specific to implementing the bankruptcy proceedings.

The Fund's performance in the capacity of liquidator focused on the fulfilment of the liquidator's tasks provided for in the applicable credit institutions' bankruptcy legislation – Law No. 83/1998 on the banks' bankruptcy proceedings, amended and supplemented by Government Ordinance No. 138/2001 – of which, assets inventory; drawing up reports on the causes and circumstances which led to insolvency, by specifying the persons who may be answerable for the outcome; drawing up monthly progress reports on the bankruptcy proceedings and fulfilment of the liquidator's tasks respectively; drawing up the lists of depositors entitled to the repayment of deposits; examination of claims against the bankrupt banks; implementation of the proceedings provided by the law in order to recover the banks' claims from debtors; sale of goods and other assets of the banks; distribution of amounts to creditors of bankrupt banks, including to the Fund; taking legal actions in court for the recovery of claims from the banks' debtors, including criminal actions for the recovery of prejudices caused by fraudulent banking operations, mainly by embezzlement of funds from RON- and foreign currency-denominated accounts; representation and defence of legitimate interests in court, in the civil and criminal cases.

2. The Fund's performance in the said capacity was difficult, having in view the aspects of criminal nature related to various operations carried out with the two banks prior to going bankrupt. In addition, the courts set long terms and in many cases ruled in favour of the debtors. Under said circumstances, both the Fund and its representatives to Banca Română de Scont and Banca Turco-Română asked for support to criminal investigation bodies, Courts of Appeal, the Ministry of Justice and the Superior Council of Magistracy with a view to ruling with celerity the pending lawsuits.

3. Issues related to Fund's activity as liquidator of:

**A. Banca Română de Scont (B.R.S.)**

In the course of 2005, the liquidator's activity in implementing the bankruptcy proceedings to B.R.S. consisted in:

a) Continuation of the legal actions regarding the completion of the list of creditors of the bank against the appeals lodged by some creditors for claims thereof in amount of RON 39.85 million.

Following the actions of the liquidator and ruling of all the creditors' lodged appeals, based on the decisions of the competent court, remained irrevocable, the final debt of B.R.S. to the creditors was established to RON 38.5 million, as against their lodgements of claims amounting to RON 112.7 million, that is 34% of the total lodgements of claims.

b) Continuation of the activity of recovery of claims arising from loans, interests and other claims, as well as from the realisation of other assets.

The most significant results in 2005 were recorded by the item "other assets" where the recovery ratio was 94% of the total recoveries in the year and 75.5% of the value of assets taken over on the date of opening the bank's bankruptcy proceedings.

Recoveries made during April 16, 2002 – December 31, 2005 are shown below:

- RON million -

Explanations	Claims and other assets as of 16.04.2002 (date of opening the bankruptcy proceedings)	Cash collections during 16.04.2002 – 31.12.2005	Set-offs	Total	of which, in 2005	%
0	1	2	3	4 = col. 2 + col. 3	5	6 = col. 4 / col. 1
Total claims and other assets, of which:	54.57	19.4	9.1	28.5	10.2	52.2
1. Claims	37.75	4.5	9.1	13.6	0.3	36.0
1.1. loans	27.09	3.1	9.1	12.2	0.2	45.0
1.2. interests	6.06	1.2	–	1.2	0.1	19.8
1.3. other claims	4.60	0.2	–	0.2	–	4.3
2. Other assets	16.82	12.7	–	12.7	9.6	75.5
3. Other collections (revenues from rents, dividends, interests on available funds)	–	2.2	–	2.2	0.3	–

The amount of recovered claims totalling RON 13.6 million represented 36.0% of their volume as of the date of opening the bankruptcy proceedings (RON 37.75 million) since most of the debtors failed to reimburse the loans granted by the bank due to their low payment capacity and to the lack of real guarantees as loans were granted in violation of legal and crediting norms; therefore, liquidator initiated 548 legal and extra-judicial actions for recovery of claims.

Out of RON 12.7 million representing total collections related to the item “other assets”, the main weight is held by the collections from the sale of eight bank premises (RON 7.9 million) and recovery of investment works made at rented buildings (RON 2.8 million), the rest resulting from the assignment of the participations in Transfond, sale of vehicles, sale of other assets, recovery of guarantees related to the EUROPAY card implementation contract.

In the course of 2005, the bank operated with 25 employees, less by 25% as compared to the previous year.

c) Distributions to creditors from the collected amounts

Further to the outcomes obtained in implementing the bankruptcy proceedings, in the course of 2005 the liquidator effected two distributions in amount of RON 4,285 thousand in favour of unsecured creditors.

Throughout the entire period as from the opening of the bankruptcy proceedings until December 31, 2005, there were made three distributions in amount of RON 5,504 thousand, representing 14.29% of the total amount in the list of creditors, that is RON 38,500 thousand.

It is worth mentioning that the Fund fully recovered, even from 2004, its claim representing the compensations effectively paid within the legal payment deadline, being thus the only bankrupt bank from which the Fund recovered 100% of its claims. The State's claims were also fully paid. Such an accomplishment was possible due to a different legal framework as compared to the legislation applicable to banks that went bankrupt prior to B.R.S., enabling the Fund to be among the first in the claims ranking. So far, unsecured creditors benefited from the collection of over 10% of the total claims thereof.

d) Drawing up of monthly progress reports on the bankruptcy proceedings and fulfilment of specific tasks as liquidator. Reports were analysed and approved by the Board of the Fund. Thereafter, according to the law, the monthly reports were submitted to the syndic for approval and to the National Bank of Romania for information.

e) During 2005, 101 legal actions were filed against the debtors with a view to recovering the claims and triggering the liability of the persons accountable for prejudices suffered by the bank, including the action for triggering the liability of the former chairman of the bank in his capacity of administrator thereof, according to the provisions of art. 22 in Law No. 83/1998 on the banks' bankruptcy proceedings.

There are clues that the prejudices caused to B.R.S. were determined by the introduction of a fraudulent operating mechanism by the former chairman of the bank in collaboration with certain managers of Bucharest branch and certain clients. The mechanism consisted in:

- use of bank's resources for the own interest of the former chairman and of certain clients of the bank further to the crediting of their current accounts without evidencing documents and to using such amounts for the personal interest thereof (cash withdrawals, payment as one's own contribution to the increase of the share capital of B.R.S.);
- embezzlement of a part of the bank's assets by fraudulently granting loans, contrary to the legal and banking norms, to certain clients in the sphere of interests of the main shareholder of the bank;
- change of the legal destination of the attracted sources of the bank, liquidities and certain clients' deposits with B.R.S., for the benefit of other clients close to the former chairman;
- embezzlement of the bank and covering of certain shortages in the inventory, due to the fact that the cash was released from the cashier's office without the related documents to have been signed by the receivers, while the records in the accounting books and in the branch accounting were made on the basis of documents not complying with the provisions of the Accounting Law No. 82/1991 etc.

In order to recover the prejudices suffered by the bank and its customers due to the above mentioned fraud mechanism, there were lodged civil and criminal actions with the court, so that as at December 31, 2005, the bank had 548 legal and extrajudicial files against debtors, out of which: 153 commercial matters, 83 civil matters, 38 bankruptcy matters, 159 execution matters, 110 criminal matters and 5 contentious matters. The above mentioned files, found in different procedural stages, had as an objective the collection of the bank's claims.

As for the procedural stage of the files lodged with civil courts, it is mentioned that by December 31, 2005, the ruling was suspended, based on art. 244 paragraph 1 section 2

in the Civil Procedure Code, in 67 cases pending with civil courts, having as object actions for damages and claims (for claims totalling RON 140.7 million and USD 2.08 million), taking into account that the disputed claims in the civil cases were closely connected to those subject to criminal investigations in the criminal file on the B.R.S. bankruptcy.

The criminal file that focuses on a series of issues of illegality identified at B.R.S. is pending with the Prosecutor's Office attached to the High Court of Cassation and Justice. A financial and accounting audit was ordered in June 2002, which was discontinued during the first half of the subsequent year due to the lack of financial support. At the beginning of the second half of 2005, the continuation of the financial and accounting audit was ordered, while the Prosecutor's Office updated the audit's objectives by taking also into account the proposals of objectives formulated by the liquidator of B.R.S. and decided that December 31, 2005, should be the deadline for some objectives, specifying that the full audit is to be completed during 2006. The most part of the audit's cost is to be borne by B.R.S.

f) Two meetings of the Committee of Creditors were organised in the course of 2005, as well as the Assembly of Creditors, which occurred in November 2005, with a view to informing on the measures taken by the liquidator and for obtaining the approval of certain concrete steps regarding the current issues of the activity of liquidation.

g) As regards the Fund's financial effort deriving from its capacity as liquidator of this bank, it is to be mentioned that as of December 31, 2005, the costs related to the Fund's personnel involved in the implementation of the bankruptcy proceedings were nearly four times higher than the recovered amounts representing the remuneration of 3% due to the liquidator according to the law. Taking into account the prospects on future collections, the Fund is expected not to cover the costs entailed by the Fund's personnel involved in the activity of liquidation.

## **B. Banca Turco-Română (B.T.R.)**

During 2005, the liquidator's activity in implementing the bankruptcy proceedings to B.T.R. consisted in:

a) Continuation of the legal actions regarding the completion of the list of creditors of the bank against the appeals lodged by some creditors for claims thereof in amount of RON 77.38 million.

Further to the actions of the liquidator, excluding the pending creditors' appeals, based on the resolutions of the competent court, the debt of B.T.R. to the creditors was established to RON 110.93 million, as compared to their lodgements of claims in amount of RON 232.63 million, namely 47.68% of the total. In December 2005, the schedule of claims thus established was submitted to the court.

b) Continuation of the activity of recovery of claims arising from loans, interests and other claims, as well as from the realisation of other assets.

In the course of 2005, no significant outcomes were recorded as for recovery of claims, this being actually a feature of the entire period of implementation of the bankruptcy proceedings, the recovery ratio of 2.26% being insignificant.

Recovery of claims arising from loans, interests and other claims, as well as from the realisation of other assets during July 3, 2002 – December 31, 2005, is shown below:

- RON million -

Explanations	Claims and other assets as of 03.07.2002 (date of opening the bankruptcy proceedings)	Cash collections during 03.07.2002 – 31.12.2005	of which, in 2005	%
0	1	2	3	4 = col. 2 / col. 1
Total claims and other assets, of which:	274.15	6.19	1.57	2.26
1. Claims	227.48	2.10	0.47	0.92
1.1. loans	98.19	1.06	0.01	1.08
1.2. interests	17.30	0.29	0.11	1.68
1.3. other claims	111.99	0.75	0.35	0.67
2. Other assets	46.67	2.89	0.37	6.19
3. Other collections	–	1.20	0.73	–

The amount of recovered claims represent nearly 1% of the total claims as of the date of opening the bankruptcy proceedings, while the 99% difference represent the claims against Bayindir Group in Turkey.

The item “other claims” in total collections, amounting to RON 0.75 million, comprises the amounts recovered from the debtors from miscellaneous operations, other than loans.

Out of the amount of RON 2.89 million at item “other assets”, the main weight is held by the collections from the sale of immovable goods (buildings and lands), the remainder arising from the sale of movables and participations in other entities.

The item “other collections” includes interests related to bank liquidities, fees to letters of guarantee and recoveries from sponsorships.

In case of some immovables, the liquidator met difficulties with respect to the entry into the land register or rectification of certain areas that were erroneously registered in the ownership deeds.

In the course of 2005, the bank operated with an average number of 22 employees.

c) Distributions to creditors from the collected amounts.

The liquidator also effected in July–August 2005 a first distribution in amount of RON 312.48 thousand only to the former employees of the bank. Therefore, none of the creditors, including the Fund, collected any amounts from distributions.

d) Drawing up of monthly progress reports on the bankruptcy proceedings and fulfilment of specific tasks as liquidator. Reports were analysed and approved by the Board of the Fund. Thereafter, according to the law, the monthly reports were submitted to the syndic for approval and to the National Bank of Romania for information.

e) During 2005, the liquidator’s activity focused mainly on documenting the cases pending with the courts, in order to recover the bank’s claims from its debtors.

The major legal action was filed in March 2003 for recovery of the bank’s prejudices from the main debtors, namely Bayindir Holding AS (major shareholder) and Bayindir Insaat Turizm Ticaret ve Sanayi AS. The two legal persons headquartered in Turkey were sued in court for jointly obliging them to pay USD 58 million and EUR 11 million, to which the related interests until the recovery of the prejudice caused to the bank would be accrued.

By end-2005, the merits of the case were not dealt with due to the acceptance by the court of the exception of general non-competence of the Romanian courts, while in the appeal stage, because of the lack of legal proceedings in respect of the defendants located in Turkey. Due to the failure to comply with the subpoena proceedings in the case of one of the non-resident defendants of Turkish nationality, at the hearing on March 8, 2006, another hearing was settled for September 12, 2006.

The petition of the liquidator on triggering the liability of the administrators nominated in the liquidator’s report as being liable for the bank’s bankruptcy, and of the major shareholders, up to the amount of the subscribed share capital, was severed from the bankruptcy file of B.T.R., the court deciding distraint measures to be levied

on the shares, movable and immovable goods held by the defendants in Romania, Turkey and the U.S.A.

Although this action was filed in April 2003, so far, namely after nearly three years, the merits of the case were not dealt with yet, the court settling hearings every six months due to the lack of proceedings with the Turkish defendants, individuals and legal persons.

There was continued the legal action on the establishment of the criminal liability of the administrators subject to investigation for abuse of authority, intellectual forgery and other offences, for which B.T.R., as plaintiff claiming damages, suffered a prejudice of USD 62.7 million and EUR 11.9 million (related interest calculated by end-March 2003).

The liquidator took steps for recovery of the bank's claims from other debtors as well, initiating, during July 3, 2002 – December 31, 2005, over 400 legal matters in court, of which 57 commercial matters, 140 civil matters, 46 criminal complaints and 166 contentious matters. In the course of 2005, 183 actions were filed with the court.

At end-2005, there were pending 266 files, of which 38 execution matters, 27 commercial matters, 38 criminal complaints and 163 contentious matters.

f) During 2005, the Committee of Creditors was convened for five times with a view to informing on the measures taken by the liquidator and to approving some concrete steps as to current issues related to bank's liquidation activity.

g) As regards the Fund's financial effort deriving from its capacity as liquidator of this bank, it is to be mentioned that as of December 31, 2005, the costs related to the Fund's personnel involved in the implementation of the bankruptcy proceedings were nearly nine times higher than the recovered amounts representing the remuneration of 3% due to the liquidator according to the law. Taking into account the prospects on future collections, the Fund is expected not to cover the costs entailed by the Fund's personnel involved in the activity of liquidation.

h) Starting with November 1, 2005, the Fund appointed a new representative to B.T.R.



## CHAPTER ELEVEN

### FINANCIAL STATEMENTS FOR 2005

Every month, the Board of the Fund analysed the Fund's financial activity, based on the reports submitted by the executive management as to the collection of contributions, recovery of claims from the bankrupt banks, payment of compensations, investment of available financial resources and current expenditures of the Fund.

#### 1. The balance sheet of the Fund

- RON -

ASSETS			LIABILITIES		
	31.12.2004	31.12.2005		31.12.2004	31.12.2005
1. Fixed assets – total, of which:	66,986	187,230	1. Own funds – total, of which:	381,284,872	536,043,186
– tangible assets	66,986	174,995	– deposit guarantee fund	381,258,910	528,715,224
– intangible assets	–	12,235	– other funds	25,962	7,327,962
2. Current assets – total, of which:	382,774,652	536,593,453	2. Payables – total, of which:	64,290,380	738,845
– investments in time deposits, certificates of deposit and government securities	337,789,873	501,476,160	– bank loans	63,333,333	–
– bank accounts	12,978	93,306	– accrued interest on bank loans	954,630	–
– accrued interest on government securities maturing after December 31	44,326,327	34,378,513	– other payables	2,417	738,845
– other claims (settlements with banks)	645,474	645,474			
3. Settlements of loans	63,333,333	–	3. Provisions for risk and expenditures	599,719	–
4. Advances to employees	–	1,348			
<b>TOTAL ASSETS</b>	<b>446,174,971</b>	<b>536,782,031</b>	<b>TOTAL LIABILITIES</b>	<b>446,174,971</b>	<b>536,782,031</b>

Analysis of the balance sheet for 2005 shows mainly that:

- a) the deposit guarantee fund increased from RON 381.3 million to RON 528.7 million;
- b) payment obligations related to reimbursement of loans and accrued interest to the National Bank of Romania were settled;
- c) the volume of investments in time deposits, certificates of deposit and government securities grew from RON 337.8 million to RON 501.5 million.

## 2. Profit and loss account

Profit and loss account of the Fund at end-2005, as compared to 2004, is shown below:

- RON thousand -

		31.12.2004	31.12.2005	Difference
1.	Income	62,911.41	56,282.27	- 6,629.14
2.	Expenditures	3,539.27	3,869.02	+ 329.75
3.	Profit	59,372.14	52,413.25	- 6,958.89

- **Fund's 2005 total income**, amounting to RON 56,282.27 thousand, results from:

- RON 55,610.88 thousand, interests on the Fund's investments made in 2005. Interests on investments represent 98.8% of the total income obtained in 2005. For the investments made in 2005, the Fund benefited from an annual average interest rate of 11.72%, higher than the end-2005 inflation rate of 8.6%;
- RON 71.67 thousand, interests collected on Fund's current accounts with banks;
- RON 599.72 thousand, including on the income side the provisions made in 2004 for the profit sharing fund.

- **Fund's 2005 total expenditures**, amounting to RON 3,869.02 thousand, represent 6.9% of the total income and are made up of:

- RON 2,975.52 thousand, **personnel expenditures**, out of which:

- RON 2,421.55 thousand, expenditures for remuneration of the Fund's personnel (62.6% of total expenditures);
- RON 553.97 thousand, payments to special budgets, namely social insurance, health, unemployment, accident risk fund and social fund (14.3% of total expenditures);
- RON 721.12 thousand, **expenditures for services performed by third parties** (18.6% of the total expenditures), representing the premises rent, expenditures entailed by the Fund's personnel delegated to Banca Română de Scont – bankrupt bank, headquartered in Braşov, where the Fund conducts activity of liquidation, collaborators' expenditures, commissions, fees and energy and water expenditures;
- RON 47.62 thousand, **expenditures for consumables and inventories** (1.23% of total expenditures);
- RON 35.12 thousand, **depreciation expenditures** for tangible and intangible assets (0.9% of total expenditures);
- RON 89.64 thousand, **other unforeseen expenditures**, representing, among other things, auditing of the annual financial statements and lawyers' fees (2.32% of total expenditures).

The profit made in 2005, as a difference between income and expenditures, amounting to RON 52,413.25 thousand, was allotted, according to the destinations set forth in the law, within the limit of a share below 1% for the establishment of the annual profit sharing fund, nearly 14% for financing tangible and intangible investments of the Fund, and the remainder of nearly 85%, that is RON 44,587.12 thousand for increasing the Fund's resources intended for payment of compensations related to guaranteed deposits.

By law, the Fund is exempted from the profit tax.

The Fund's financial statements as of December 31, 2005, were audited by KPMG Audit SRL. In their report, they showed that "the financial statements expressed in nominal terms as of 31 December 2005 present fairly, in all material respects, the financial position of the Deposit Guarantee Fund in the Banking System as of 31 December 2005, and the results of its operations for the year then ended" (Appendix 3).

### 3. Income and expenditure budget

In summary, the 2005 income and expenditure budget provisions were achieved as follows:

- RON -

		Forecasts	Achieved	Differences
1.	Income	54,236,720	56,282,277	+ 2,045,557
2.	Expenditures	5,349,320	3,869,023	- 1,480,297
3.	Total net result for the year	48,887,400	52,413,254	+ 3,525,854

In 2005, the income was exceeded by nearly RON 2,046 thousand. This fact was due to the increase of the invested average capital, while the average interest rate on investments was nearly identical to that forecasted. As compared to the forecasted invested average capital, of RON 451,330 thousand, there was invested an average capital of RON 474,566 thousand, that is an excess of RON 23,236 thousand. It is worth mentioning that the annual average interest rate forecasted for 2005 was 11.71%, while at end-2005 the achieved annual average interest rate was 11.72%.

Due to the executive management's concern to limit the expenditures to those strictly necessary for carrying out the Fund's current activity, savings of over RON 1,480 thousand were made as compared to the forecasted levels.

## **CHAPTER TWELVE**

### **FUND'S INTERNATIONAL RELATIONSHIPS IN 2005**

During 2005, the Fund also carried out an activity within the framework of international relationships, materialised through participations in events organised by the International Association of Deposit Insurers (IADI) and the European Forum of Deposit Insurers (EFDI), as well as through active relationships maintained with other deposit guarantee schemes.

Thus, Fund's representatives attended two international seminars organised by EFDI, whose member the Fund is since 2003. The former was focused on "Bilateral Agreements" and took place in April, in Berlin, while the latter addressed "Deposit Insurance in Transitioning Countries: Has it really strengthened the banking system?" and was held in December 2005, in Sarajevo.

During the first part of 2005, the Fund became a member of the International Association of Deposit Insurers.

As member of the two international organisations in the field, the Fund participated in the annual general meetings of IADI and EFDI, as well as in the conferences organised on those occasions. The events enjoyed a large participation on behalf of deposit guarantee schemes, various international bodies and organisations, central banks, government authorities, renowned experts and representatives of the academic environment.

The works of IADI's Annual General Meeting, together with IADI's fourth annual conference having as theme "Challenges for Deposit Insurers in Resolving Bank Failures", were held in September 2005 in Taipei. On that occasion, an international exhibition of deposit guarantee schemes was organised, where the Fund had its own stand.

In October 2005, in Warsaw, there were held both the Annual Meeting of EFDI, and a conference having as main topics the review of Directive 94/19/EC of the European Parliament and of the Council on deposit guarantee schemes, Basel II and its meaning for the banking system and deposit guarantee schemes, the future of the banking system and of the deposit guarantee – financial stability and the role of deposit guarantee schemes, EU investor protection schemes.

Another feature of the year was the Fund's inclusion in the "Convergence" Program, conducted under the auspices of the World Bank and financially supported by a grant from Italy's Ministry of Economy and Finance. The Fund requested the assistance of the "Convergence" Program with a view to determining the optimal level of credit institutions annual contribution rate, as well as the ratio between its financial resources and the total amount of guaranteed deposits in the banking system.

The study was undertaken by a team of experts involved in the "Convergence" Program, in collaboration with experts of the bank deposit guarantee scheme in Italy – Fondo Interbancario di Tutela dei Depositi (FITD), during a nine month-period. During this time, members of the team of experts involved in the study had a series of meetings with the Fund's executive management and members of the Board thereof, representatives of the Romanian Banking Association, as well as with the National Bank of Romania's executive management and representatives of the Supervision Department, Financial Stability Department and Regulation and Licensing Department. There were also workshops to which attended representatives of the Fund and of the above mentioned departments within the National Bank of Romania, as well as representatives of the Romanian Banking Association.

It is to be mentioned that throughout 2005 the Fund maintained active cooperation relationships with other deposit guarantee schemes, mainly from Europe, on the specific issues of the activity in this field. The Fund published also in the newsletters of EFDI and IADI.

## **CHAPTER THIRTEEN**

### **PROSPECTS FOR 2006**

In 2006 as well, having in view the scope stated under the law, the Fund shall endeavour to remain a stability and confidence factor for the individuals and legal persons having deposits with credit institutions.

For this purpose, the Fund shall pay an increased attention to the following fields:

#### **I. Carrying out activities entailed by the tasks prior to the recent amendment of the legal framework**

1) Expediting the recovery of the Fund's claims against bankrupt credit institutions arising from the payments of compensations to individuals.

To this end, monitoring of the activity of the liquidators of the bankrupt banks where the Fund is a creditor shall be continued as to the realisation of assets, recovery of claims and lowering of the operating expenses.

This activity is of utmost importance for the replenishment of the Fund's financial resources and for the enhancement of its financial capacity respectively, with a view to discharging the tasks conferred upon it by law.

2) As liquidator of Banca Română de Scont and Banca Turco-Română, the Fund will focus on the following leading objectives:

a) sale of real estate in B.T.R.'s patrimony, with the observance of the legal provisions in force and the conditions approved by the Committee of Creditors and the syndic;

b) further enforcement actions based on writs of execution with a view to recovering the claims against banks' debtors, as well as running the files pending with the courts in order to recover the banks' claims from their debtors;

c) taking legal actions against those involved in prejudicing the bankrupt banks;

d) representing to the court, carrying out legal proceedings for upholding the legal actions initiated by the liquidator in order to be admitted and to protect the banks' legitimate interests against third parties' actions;

e) making available to experts the documents and data requested with a view to carrying out, as the case may be, financial and accounting audits of the two bankrupt banks; such audits are in process in the case of BRS;

f) continuation of making distributions of proceeds to creditors of the two banks depending on the amounts that will be further collected;

g) administration and conservation of existing unsold goods, reduction of banks' operating expenses in parallel with obtaining revenues from banks' investments, banks' archives forming and handling over to the competent State bodies, according to the legal provisions, drawing up and presentation on a monthly basis of progress reports on bankruptcy proceedings and the fulfilment of tasks by the liquidator respectively.

3) Continuance of payments of compensations to individuals for deposits held with Banca "Columna", the Fund having ended this activity on May 26, 2006.

4) Extension of collaboration with credit institutions participating in the deposit guarantee scheme, by way of assistance for clarification and settlement of various cases arising from the implementation of the Fund's legislation.

5) The Fund's specialists will perform on-site inspections to credit institutions participating in the guarantee scheme in order to ascertain the correctness of the calculation base for annual contributions as declared by said institutions and the accurate classification of the deposits in the two categories of deposits – guaranteed and non-guaranteed ones, as well as the manner of informing the depositors on deposit guarantee.

## **II. New tasks**

6) In order to make good use of the recommendations of the study undertaken within the "Convergence" Program as to changing the Fund's financing policy – downsizing the annual contribution rate and supplementing the Fund's financing by



means of stand-by lines of credit –, the necessary steps were taken during the first quarter of 2006 with a view to promoting a draft of emergency ordinance for the amendment and supplement of the Fund's operation law. In this respect, the Government approved the Emergency Ordinance No. 23 of March 22, 2006, published in the Official Gazette of Romania, Part I, No. 278 of March 28, 2006.

For 2006, the Emergency Ordinance No. 23/2006 provides for the decrease of the credit institutions' contribution rate from 0.4% to 0.2% and conclusion with the credit institutions participating in the deposit guarantee scheme of agreements on stand-by lines of credit totalling EUR 150 million in RON equivalent, with an interest rate of 3 month-BUBOR + 1% p.a. so that to reach the targeted exposure coverage ratio (calculated as the ratio between the Fund's total financial resources and the total amount of guaranteed deposits) of 2.3%, set forth as adequate for this year.

For 2007, the annual contribution rate is to be reduced to 0.1%.

Starting with 2008, the Fund, with the approval of the Board of the National Bank of Romania, shall establish for each payment year the targeted exposure coverage ratio, the annual contribution rate and the total amount of the stand-by lines of credit; in addition, the terms and conditions of the stand-by lines of credit agreements shall be annually negotiated. The stand-by lines of credit agreements will be concluded with every credit institution participating in the Fund by end-February at the latest, this being also the deadline for communicating to credit institutions the annual contribution rate, which cannot exceed the maximum level of 0.5%. Within 30 days after credit lines expiry date, the Fund shall pay a fee for the amounts not drawn. The lines of credit could be drawn on only in the event of a credit institution bankruptcy for supplementing the Fund's own financial resources.

It must also be pointed out the fact that, at the beginning of the year which marks the 10<sup>th</sup> anniversary of the Deposit Guarantee Fund in the Banking System, the Fund, with the support of the National Bank of Romania, organised in March 2006 the Symposium "*Activity of the Deposit Guarantee Fund in the Banking System and updating of its financing policy*", which was attended by managers and representatives of the credit institutions participating in the deposit guarantee scheme, representatives of the media as well as interested public.

On that occasion, the banking community in Romania got acquainted with the upward evolution of the Fund, both financially and in respect of the complexity of

the activity thereof, the rationale of changing the Fund's financing policy, as well as the implications thereof upon the participants in the deposit guarantee scheme.

This event enjoyed the participation of the top management of the National Bank of Romania, the introductory speech delivered by Mr. Mugur Isărescu, Governor of the National Bank of Romania, revealing the necessity of developing in future new tasks in the Fund's activity.

Starting with the first part of 2006, the Fund's activity shall acquire new dimensions determined by:

a) putting into effect the December 2005 resolution of the Board of the National Bank of Romania whereby the Fund was requested to make periodical analyses and studies, at least on a quarterly basis, on the evolution, the determinants and the prospects of the population's savings and of the deposits in the banking system;

b) amendment of the Fund's financing policy, legislated by the abovementioned emergency ordinance.

Carrying out by the Fund of new tasks entails the support of the National Bank of Romania as in case of the tasks provided for in letter a) the Fund does not have, according to the legal provisions, all the required information as the credit institutions report to the Fund on a quarterly basis only information related to the volume of deposits taken, included in the category of guaranteed ones, and to the number of holders of guaranteed deposits, this necessitating a close cooperation with the departments in charge within the National Bank of Romania.

The implementation of the risk analysis methodology will entail the drawing up and/or the adequate amendment of some of the Fund's norms.

The risk analysis methodology will also entail long-term simulations of changes in the financial structure of credit institutions (underlining the evolution of non-insured liabilities and liquid assets), as well as stress testing both on a bank-by-bank basis and on an overall basis. The refining of the model shall be pursued in the subsequent stages, by taking into consideration more detailed structures of assets and liabilities so that to obtain highly accurate results.

As it was also shown at letter a), given the actual informational resources of the Fund, monitoring of credit institutions' risks and periodical static and dynamic

analyses can be conducted only in collaboration with the concerned departments within the National Bank of Romania.

In addition, in order to carry out analyses on the evolution, determinants and prospects of the population's savings and of the deposits in the banking system, as well as analyses entailed by the Fund's new financing policy and its investment strategy, the access to the National Bank of Romania's database, for that kind of information required by such analyses, should be considered.

At the same time, from the perspective of the Fund's new financing policy, other actions could be considered on long-term, such as exploring the need to amend the legal framework in order to ensure prompt collection of reserves and other liquid assets in case of credit institutions that go bankrupt, as well as fast distribution of amounts due to the Fund and, moreover, in order to ensure all necessary conditions for an efficient process of claims' recovery and distribution of proceeds to the Fund.



**List of credit institutions participating in the Deposit  
Guarantee Fund in the Banking System as of 31 December 2005**

**I. Credit institutions – Romanian legal entities**

1. Banca Comercială Română S.A.
2. Raiffeisen Bank S.A.
3. BRD – Groupe Société Générale S.A.
4. Banca pentru Mică Industrie and Liberă Inițiativă – MINDBANK S.A.
5. Banca Comercială “Ion Țiriac” S.A.
6. Bancpost S.A.
7. Banca de Export Import a României – Eximbank S.A.
8. Banca Românească S.A. Membră a Grupului National Bank of Greece
9. FINANSBANK (ROMÂNIA) S.A.
10. Banca Transilvania S.A.
11. ROMEXTERRA Bank S.A.
12. ALPHA BANK ROMANIA S.A.
13. PIRAEUS BANK ROMANIA S.A.
14. ABN AMRO Bank (România) S.A.
15. OTP BANK ROMÂNIA S.A.
16. Citibank România S.A.
17. BANCA COMERCIALĂ SANPAOLO IMI BANK ROMANIA S.A.
18. Emporiki Bank – România S.A.
19. NOVA BANK S.A.
20. LIBRA BANK S.A.
21. Banca Daewoo (România) S.A.
22. UniCredit România S.A.
23. HVB Bank România S.A.
24. ROMANIAN INTERNATIONAL BANK S.A.
25. EGNATIA BANK (ROMÂNIA) S.A.

26. Banca Comercială CARPATICA S.A.
27. EUROM BANK S.A.
28. VOLKSBANK ROMÂNIA S.A.
29. ProCredit Bank S.A.
30. Raiffeisen Banca pentru Locuințe S.A.
31. PORSCHE BANK ROMÂNIA S.A.
32. Casa de Economii și Consemnațiuni C.E.C. S.A. – only deposits of legal entities
33. HVB BANCA PENTRU LOCUIȚNE S.A.

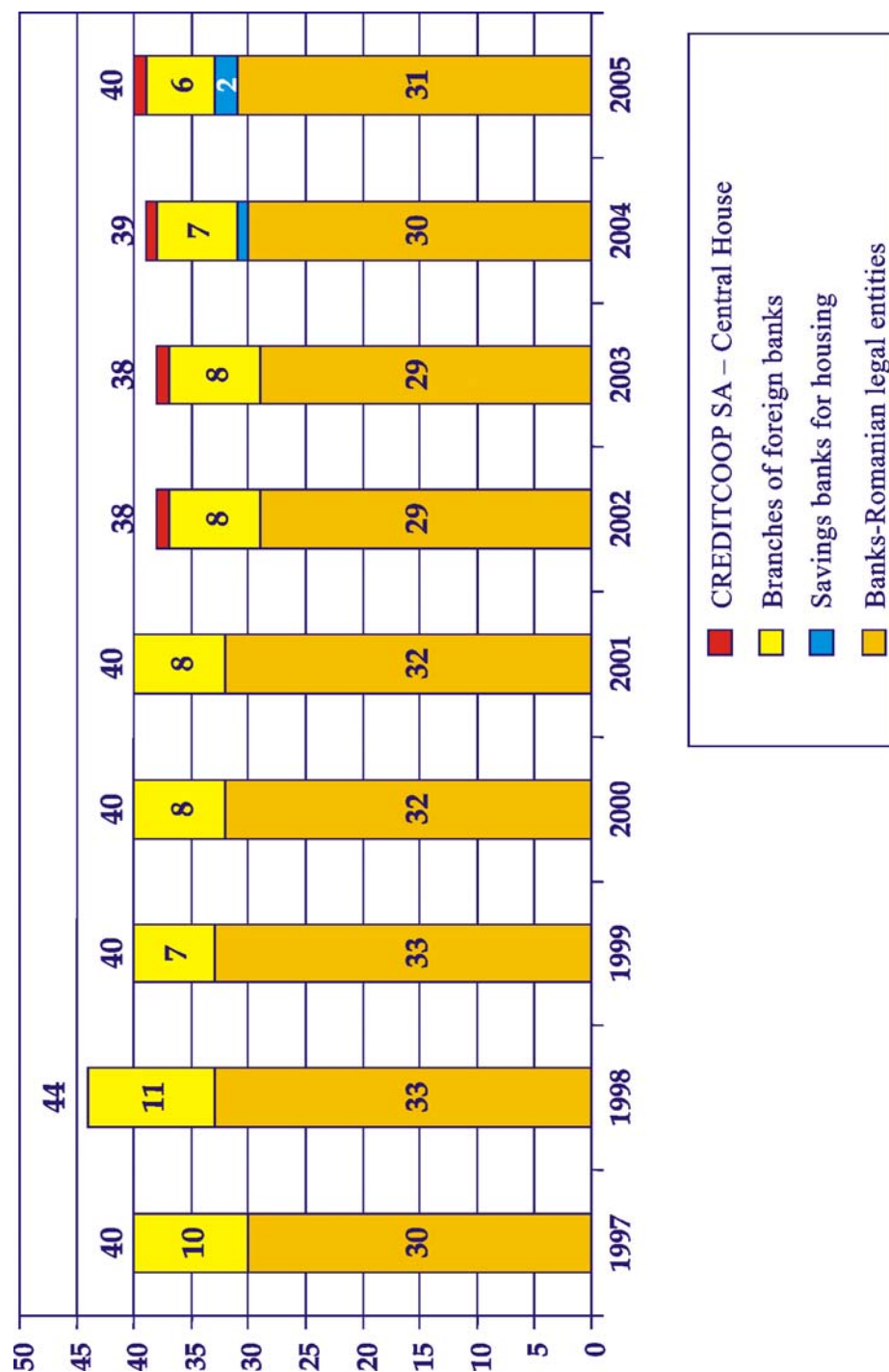
## **II. Branches of foreign credit institutions**

34. Anglo-Romanian Bank Limited, London – Bucharest Branch
35. MISR Romanian Bank, Cairo – Bucharest Branch
36. ING Bank N.V., Amsterdam – Bucharest Branch
37. Banca Italo-Romena SpA Italia Treviso – Bucharest Branch
38. GarantiBank International N.V. – ROMANIA Branch
39. Banca di Roma SpA Italia – Bucharest Branch

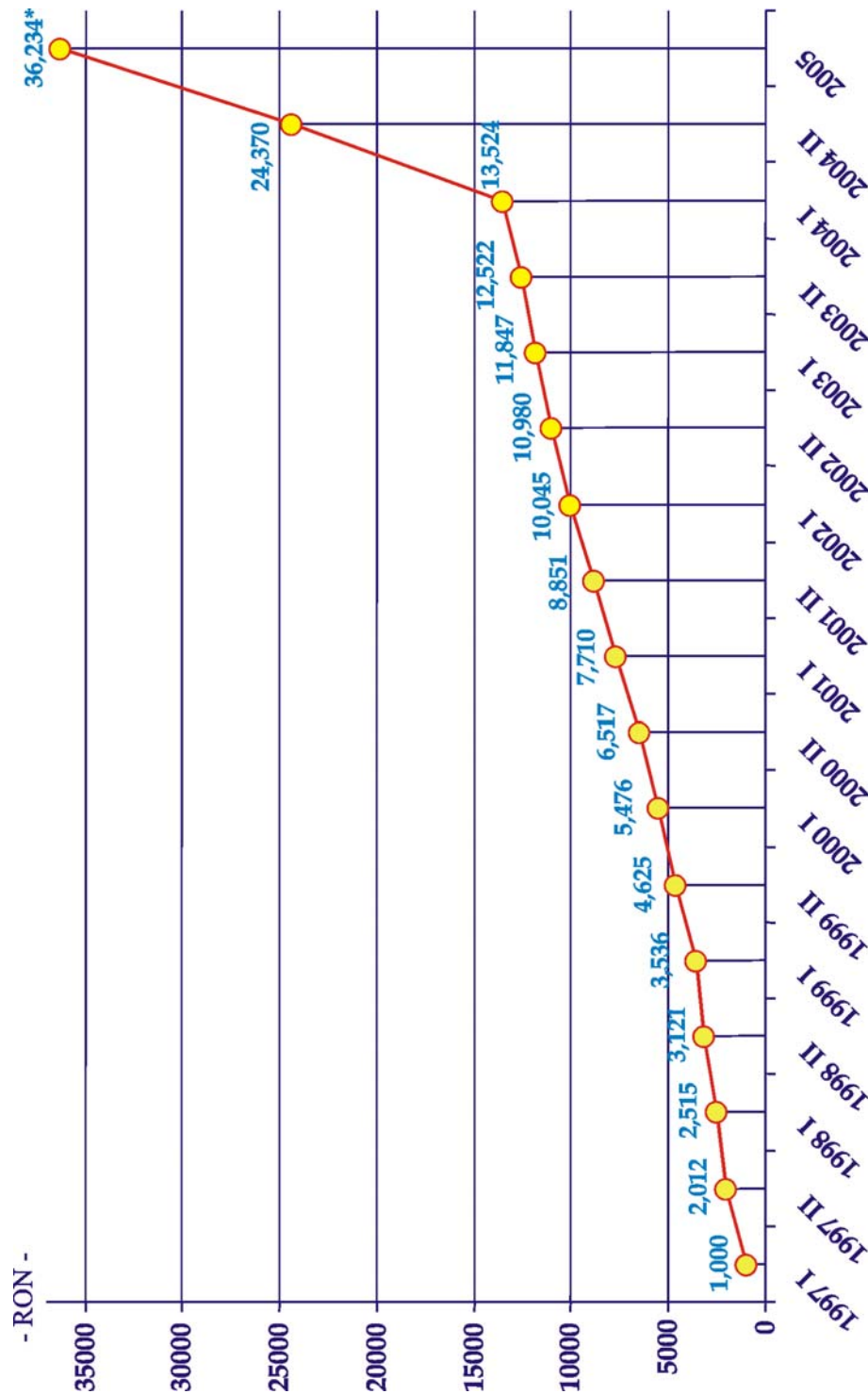
## **III. Credit co-operatives – Central houses**

40. CREDITCOOP SA – Central House

**Evolution of participants in the Deposit Guarantee Fund  
in the Banking System**



The guarantee ceiling per depositor during 1997 – 2005



\* RON equivalent of the guarantee ceiling of EUR 10,000 per depositor, at the average exchange rate of 3.6234 RON/EUR, communicated by the National Bank of Romania for 2005.



## Independent Auditors' Report



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### Independent Auditors' Report (free translation<sup>1</sup>)

To the Board of Directors of  
Fondul de Garantare a Depozitelor in Sistemul Bancar

We have audited the balance sheet of Fondul de Garantare a Depozitelor in Sistemul Bancar ("the Fund") as of 31 December 2005, and the related statement of income for the year then ended, presenting the following:

■ Net assets/Total equity and reserves (row 34):	536,043,186 RON
■ Total revenues (row 56):	55,682,558 RON
■ Net result for the year (row 62):	52,413,254 RON, profit

These financial statements are expressed in nominal terms and they are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements expressed in nominal terms as of 31 December 2005 present fairly, in all material respects, the financial position of Fondul de Garantare a Depozitelor in Sistemul Bancar as of 31 December 2005, and the results of its operations for the year then ended in accordance with the Accounting Law no. 82/1991, republished, modified and amended, and with the accounting regulations approved by the Order of the Minister of Public Finance no. 306/2002, no. 1775/2004, and in accordance with the Romanian accounting principles applicable to the Fund.

Without qualifying our opinion, we draw attention to the following:

- The Fund did not apply the requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" and IAS 21 "The Effects of Changes in Foreign Exchange Rates". The management of the Fund decided to present the financial statements based on the historical cost basis, expressed in nominal terms in accordance with the Order of the Minister of Public Finance no. 306/2002.

<sup>1</sup> TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditor's report is provided as a free translation from Romanian which is the official and binding version.



- In accordance with Order 1752/2005, starting with 1 January 2006 the Fund will apply accounting regulations compliant with the 4<sup>th</sup> and 7<sup>th</sup> European Directives mentioned in this Order and will cease applying the Order of the Minister of Public Finance no. 306/2002, with subsequent amendments. The impact of applying the Order 1752/2005 can not be estimated by the Fund at this time.
- The Fund prepared these publishable financial statements based on legal and accounting regulations required or allowed by the National Bank of Romania and by the Ministry of Public Finance, applicable to the Fund and in force as at 31 December 2005. These financial statements are intended for use only by those who are informed about Romanian legal and accounting regulations.

This report was issued only for the information and internal use of the Fund, the Ministry of Public Finance and the National Bank of Romania and can not be used by any other third party.

<p><b>Refer to the original signed Romanian version</b></p>
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KPMG Audit SRL  
Bucharest, Romania  
17 March 2006