

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

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

**2007**

**FONDUL DE GARANTARE A DEPOZITELOR  
ÎN SISTEMUL BANCAR**

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## **The Board**

**Niculae Vulpescu,**

Chairman

*Advisor of 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

*General Secretary of the Romanian Banking Association*

**Petrică Grama,**

Member

*Advisor of the State Secretary, Ministry of Economy and Finance*

**Costel Todor,**

Member

*General Secretary, Ministry of Justice*

*(January – April 2007)*

**Gina Bâra,**

Member

*Deputy General Secretary, Ministry of Justice*

*(May-September 2007)*

**Dorel Fronea,**

Member

*General Secretary, Ministry of Justice*

*(October-December 2007)*

## **The Executive Management**

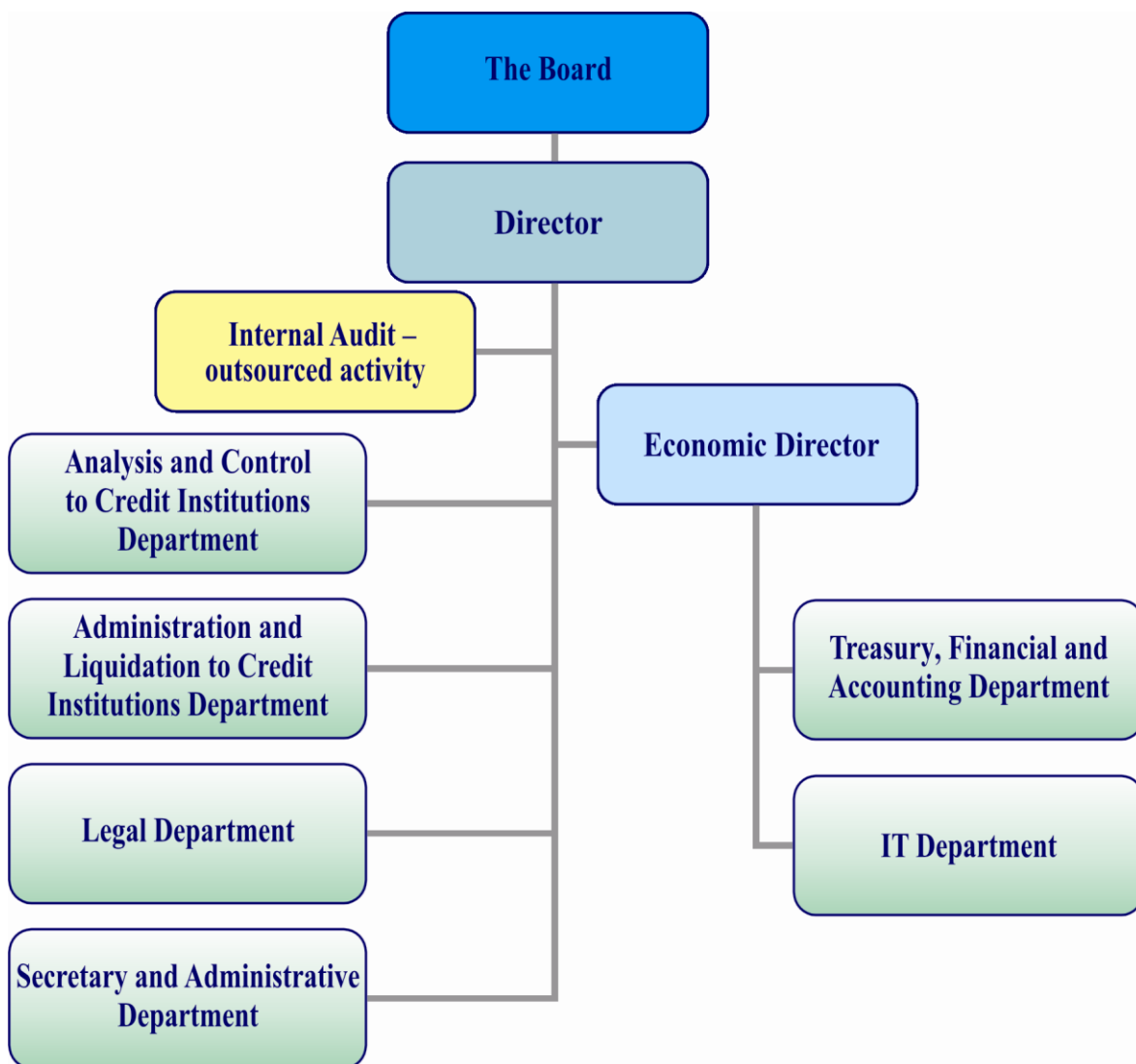
**Alexandru Matei,**

Director

**Vasile Bleotu,**

Economic Director

## ORGANIZATIONAL CHART OF THE DEPOSIT GUARANTEE FUND IN THE BANKING SYSTEM



## **CHAPTER I**

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

The Deposit Guarantee Fund in the Banking System (the Fund), the only institution to guarantee deposits in Romania, is constituted as a public law legal person and carries out its activity on the basis of Government Ordinance no. 39/1996 regarding the founding and functioning of the Deposit Guarantee Fund in the Banking System, republished with its subsequent amendments and supplements.

The Fund's main purpose is the protection of depositors – natural and legal persons – by guaranteeing the deposits held with credit institutions participant in the deposit guarantee scheme and making payments as compensations, in accordance with the conditions and limits set by the law, in case of bankruptcy of a credit institution. The fund guarantees the deposits of residents and non-residents, in lei or convertible currency, including the interest owed. Compensations are paid within the limit of the guarantee ceiling in lei, irrespective of the currency of the deposit or the number of deposits held by a person with the bankrupt credit institution.

In accordance with the law, the payment of compensations must be made within three months from the initiation of the bankruptcy procedure. In exceptional cases, this deadline may be postponed with the approval of the National Bank of Romania, at most twice, each postponement no longer than three months. The payment of compensations is made by means of one or several credit institutions authorized accordingly and/or directly by the Fund. The guaranteed depositors who for various reasons have not requested compensations within the specified deadline can still benefit from them after the deadline, within three years since the beginning of payments.

Since its establishment and up to the end of 2007, the Fund has paid compensations for the guaranteed depositors of seven banks which went bankrupt during this period.

In view of its mission, the Fund must have at its disposal adequate financial resources mainly ensured by the credit institutions participant in the deposit guarantee scheme, the amounts of money collected from claims recovered from bankrupt banks and income from investing the available resources. In addition, the Fund is also entitled, according to law, to contract loans and benefit from other resources.

All credit institutions authorized by the National Bank of Romania to receive deposits from the public participate in the deposit guarantee scheme according to law. After Romania's accession to the European Union, branches of credit institutions with their headquarters in

other member states are no longer required to participate in the Fund, since their deposits are guaranteed by deposit guarantee schemes in their countries of origin.

Another important side of the Fund's activity is the liquidation of credit institutions. According to law, the Fund may be appointed liquidator by the court in case of bankruptcy, while if the liquidation takes place upon the initiative of the shareholders or when the National Bank of Romania orders the dissolution followed by liquidation, the Fund is sole liquidator. At the same time, among the Fund's activities are also included special and interim administration activities, the latter corresponding to the period between the date the bankruptcy procedure is initiated and the date the liquidator is designated. Of the activities mentioned, the Fund currently fulfils that of legal liquidator of two banks that went bankrupt in 2002, namely Banca Română de Scont and Banca Turco-Română, and during 2006 it also acted as administrative liquidator for Nova Bank, until its bankruptcy.

As unsecured creditor for bankrupt credit institutions as a result of the subrogation to the rights of the guaranteed depositors of these institutions, the Fund closely monitors the progress of the bankruptcy procedure with these institutions, the goal being the maximum claim recovery from 5 bankrupt institutions the Fund is still creditor of.

Internationally, the Fund is a member of the two professional associations in the field of deposit guarantee, namely the European Forum of Deposit Insurers – EFDI and International Association of Deposit Insurers – IADI, collaborating at the same time with other deposit insurers and with various international entities. The international activity of the Fund is presented in Chapter XIII of the annual report.

## CHAPTER II

### MAIN FEATURES OF THE FUND'S ACTIVITY IN 2007

In its eleventh year of activity, the Deposit Guarantee Fund in the Banking System continued to represent a factor of stability and trust for depositors in the Romanian banking system.

1. Through Government Emergency Ordinance no. 23/2006, on the basis of the “Convergence” Program of the World Bank, a new financing policy has been set. The current financing mechanism is mixed, in the sense that aside from yearly contributions owed to the Fund by credit institutions participating in the deposit guarantee scheme, the latter also give the Fund annual stand-by credit lines that can only be drawn in case the Fund's own financial resources need completion in the event of a credit institution going bankrupt. The two types of resources must be dimensioned so as to ensure an adequate coverage of the Fund's exposure, calculated as a ratio between the Fund's resources (both its own and from stand-by credit lines) and the total amount of the guaranteed deposits.

In accordance with the new regulations, the Fund annually sets its target exposure coverage ratio, the annual contribution<sup>1</sup> rate for the credit institutions and the total amount of the stand-by credit lines, these three lines of its financing policy being subject to approval by the Administration Board of the National Bank of Romania. Considering that the change in the Fund's financing policy took place in the first half of 2006, the value of its lines for 2006 were set by law, while for 2007 only the annual contribution rate was planned.

Consequently, the Fund's activity in 2007 regarding its financing policy focused on two main directions, namely:

- carry out analyses and elaborate proposals concerning the lines of the Fund's financing policy for 2007 and 2008;
- initiate and carry out actions concerning the elaboration of specific regulations for setting out the lines of the Fund's financing policy.

In 2007, the lines of the Fund's financing policy were:

- the target exposure coverage: 1.5% (0.8% as regards the ratio between the Fund's resources and the total of the guaranteed deposits and 0.7% for the ratio between the resources corresponding to the stand-by credit lines and the total of the guaranteed deposits);
- the annual contribution rate: 0.1% (half of the rate for 2006);

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<sup>1</sup> According to its functioning law, the contribution share cannot exceed 0.5%.

- the total amount of the stand-by credit lines: 190 million euros, in lei equivalent (50 million euros higher than the total amount of the stand-by credit lines for 2006).

The data available on December 31, 2007 reveal a high degree of coverage for the 1.45% exposure, quite close to the set target. It is important to mention that the 0.8% target was reached for the ratio between the Fund's resources and the total of the guaranteed deposits, while in the case of the ratio between the resources coming from the stand-by credit lines and the total of the guaranteed deposits a slight difference was recorded (-5 basic points) compared to the target.

2. The Fund signed within the legal term, namely on February 28, 2007, agreements regarding the stand-by credit lines for a total of 190 million euros, in lei equivalent, with all the 33 credit institutions participating at the time in the deposit guarantee scheme. The credit lines were not accessed since in 2007 no credit institution went bankrupt. Thus the Fund is to pay a non-utilization fee for the credit lines of 0.5% per year.

3. As regards the credit institutions participating in the Fund, during the first eleven months of 2007 their number remained 33, 5 members less than at the end of the previous year as a result of the obligation of participation in the Fund of the Romanian branches of the credit institutions in the other member states of the European Union having ceased following Romania's accession to the European Union. Among the 33 institutions there were 31 banks, Romanian legal persons, a cooperative credit organization and a branch of a credit institution from a third country. The latter left the Romanian deposit guarantee scheme in December 2007 as a result of its absorption by a branch based in the European Union within the group it belongs to.

Considering that in 2007 Banca Transilvania opened a branch in one of the member states of the European Union, Cyprus, deposits for that branch entered the guarantee sphere of the Fund. Guaranteeing deposits for an institution carrying out its activity in another country than Romania was thus a first for the Fund in its 11 years of activity.

4. As of January 1, 2007, the guarantee ceiling for depositors became equal to the lei equivalent of 20,000 euros, which is the minimum set by the 94/19/EC Directive of the European Parliament and the Council of the European Union regarding the deposit guarantee scheme. Thus, its value increased by 33.3% compared to 2006, when the ceiling was of 15,000 euro.

5. Credit institutions participant in the Fund paid in 2007 a contribution of 0.1% of the total amount of the guaranteed deposits that existed on December 31 of the previous year. The total amount of the contributions received by the Fund in 2007 was 67.9 million lei, out of which 66.5 million lei annual contributions and 1.4 million lei the initial contribution of a credit institution established in the course of the year. In addition, in 2007 the amount of 3.3 million lei was also received, as difference of annual contribution resulting from the verification of the calculation base of the contribution owed to the Fund in 2006 and, partially, in 2007.

6. As of January 10, 2007, the Fund has made compensation payments to the guaranteed depositors of Nova Bank, which went bankrupt on November 9, 2006. In fact, these were the only compensation payments during 2007, since the payment period expired for the other banks that had gone bankrupt between 1999-2003, that is Banca “Albina”, Bankcoop, Banca Internațională a Religiilor, Banca Română de Scont, Banca Turco-Română and Banca “Columna”. On the basis of applications received from the guaranteed depositors of Nova Bank, the amount of compensations paid in 2007 was insignificant compared to the Fund’s resources, namely approximately 34 thousand lei for the benefit of 10 depositors.

7. In 2007 the Fund carried out the bankruptcy procedure for Banca Turco-Română and Banca Română de Scont, bankrupt banks for which it had been a liquidator since 2002.

For its activity as liquidator, in 2007 the Fund received 127.4 thousand lei from Banca Română de Scont, while nothing was received from Banca Turco-Română since for this bank no monies were distributed in 2007.

In addition, for its administrative liquidation activity carried out between September 4 – November 9, 2006 at Nova Bank, the Fund received 70.9 thousand lei as salary for the Fund’s employees directly involved in the administrative liquidation activity.

Considering the changes taking place in the general legal framework as regards bankruptcy, namely Law no. 85/2006 on insolvency procedures, the Fund issued at the beginning of 2007 Regulation no. 2/2007 on sale of the assets of the bankrupt institution, defining the general framework of sale for the assets held by Banca Română de Scont and Banca Turco-Română and which became effective upon approval by the creditors’ assemblies of the two bankrupt banks. In addition, the Fund also issued Regulation no. 3/2007 concerning the activity of the Deposit Guarantee Fund in the banking system as liquidator, special administrator and interim administrator.

8. In 2007, the Fund continued to monitor and support liquidators in applying the bankruptcy procedure with the banks it credited with a view to recovering the largest possible sums from the Fund’s claims with these bankrupt banks.

Up to December 31, 2007, the Fund had recovered from bankrupt banks 159.34 million lei, that is 31.03% of the total claims.

The sum received in 2007 from bankrupt banks was of 1.36 million lei, 240 thousand less than the previous year, due to the fact that these banks are near the final stage of liquidation, and their sources of debt recovery and assets for sale are nearly exhausted.

A special case was Nova Bank, where the Fund recovered its claim in full, namely 0.21 million lei, by assigning it to the bank’s main creditor in April 2007.

9. The Fund’s capital investments in 2007 were performed in accordance with an annual exposure strategy set by the Fund’s Board and approved by the Board of the National Bank of Romania, the main target objectives being minimizing risks and investment liquidity, with an additional objective, investment efficiency. As regards the structure of the investment portfolio, term deposits carried the most weight while the other part of the resources was placed in government securities purchased on the secondary market.

10. Part of the activities of the Fund's departments was the object of the internal audit missions that proceeded according to the plan for 2007. The few recommendations made by the internal auditor for some activities were analyzed within the Fund, and the necessary steps were taken with a view to improving the Fund's activity and ensuring its observing the legal norms.

11. During 2007, the Fund promoted an active policy of informing the public and specialists on the main aspects of its activity both by means of the mass-media, including through press conferences, and through its website and publications. Aside from the Annual Report for 2006, two issues of the half-yearly Bulletin of the Fund were compiled in order to present the evolution of the deposits reported to the Fund by the credit institutions, of the influence factors, and the tendencies of the saving process, and related to the two latter topics the results of an important market survey for the first semester of 2007 were also presented. The Fund's publications were distributed to the institutions of the financial and banking system, as well as to public authorities, academic institutions, research institutes, etc.

12. As a member of the two international deposit guarantee professional associations – IADI and EFDI –, the Fund participated in 2007 in the general assemblies in Kuala Lumpur and Istanbul, respectively, as well as in related events organized on these occasions, among which the annual international exhibition of deposit guarantee schemes, where it had its own presentation stand. In addition, the Fund was also represented in other manifestations of the two associations, for instance an IADI conference where the Fund's director gave a presentation on the topic of the Fund's experience in the liquidation process of credit institutions and debt recovery.

Following Romania's accession to the European Union, in 2007 the Fund became a member of the EFDI committee for the European Union (EUC), which includes at the moment five working groups created in agreement with the European Commission for Development, in collaboration with the Joint Research Centre of the European Commission, of projects on various topics related to reviewing the community directive on deposit guarantee schemes. The Fund is represented within the group that studies the introduction of risk elements in setting the contributions of credit institutions. In addition, the Fund is also part of a newly-founded working group of EFDI whose aim is to perform studies and research of interest both for the European deposit guarantee schemes and for the European Commission, with a view to increasing the efficacy of European deposit guarantee schemes and harmonizing them.

## CHAPTER III

### DEPOSITS WITH CREDIT INSTITUTIONS PARTICIPATING IN THE FUND

1. For all the credit institutions participating in the Fund, **the total amount of the deposits**<sup>2</sup> was, at the end of 2007, 208,891.3 million lei, an important increase compared to the same period of the previous year, by an annual rhythm of +80.5%.

The evolution of the two deposit categories defined from the point of view of their being guaranteed by the Fund, namely guaranteed and non-guaranteed deposits, shows ascending trajectories characterized by annual increase rhythms significantly different from one category to the other.

Thus, while the volume of guaranteed deposits increased by +49.4% in a year, non-guaranteed deposits evinced a much more remarkable dynamics, of +122.8% in a year.

These evolutions were caused, among other things, by the accurate reclassification performed by credit institutions as a result of the steps taken by the Fund to request the reverification of deposit classification on the basis of the accounting entries which must be considered to classify the deposits made with credit institutions and draw up reports submitted to the Fund.

The following table synthetically presents the situation of deposits held by natural and legal persons on December 31, 2007 compared to the same date of the previous year:

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<sup>2</sup> In accordance with the Fund's functioning law, a deposit is "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."

Deposit Guarantee Fund in the Banking System

No.	Indicators	December 31, 2006	December 31, 2007	Differences	
				column 3 - column 2	column 4/ column 2 (%)
0	1	2	3	4	5
1.	Number of guaranteed deposits holders – total, out of which:	15,583,779	17,390,774	1,806,995	11.6
	– natural persons	14,776,867	16,584,742	1,807,875	12.2
	– legal persons	806,912	806,032	-880	-0.1
2.	Number of holders – total, out of which:	18,077,077	17,489,878	-587,199	-3.2
	– natural persons	17,181,863	16,589,994	-591,869	-3.4
	– legal persons	895,214	899,884	4,670	0.5
3.	Total guaranteed deposits (row 4 + row 5) (million lei)	66,637.5	99,542.7	32,905.2	49.4
	% of total deposits out of which:	57.6	47.7		
	– in lei	37,110.9	54,008.4	16,897.5	45.5
	– in foreign currency (in lei equivalent)	29,526.6	45,534.3	16,007.7	54.2
4.	The amount of guaranteed deposits made by natural persons Total (million lei)	43,451.9	65,385.8	21,933.9	50.5
	% of total guaranteed deposits, out of which:	65.2	65.7		
	– in lei	23,416.5	34,606.2	11,189.7	47.8
	– in foreign currency (in lei equivalent )	20,035.4	30,779.6	10,744.2	53.6
5.	The amount of guaranteed deposits made by legal persons Total (million lei)	23,185.6	34,156.9	10,971.3	47.3
	% of total guaranteed deposits out of which:	34.8	34.3		
	– in lei	13,694.4	19,402.2	5,707.8	41.7
	– in foreign currency (in lei equivalent)	9,491.2	14,754.7	5,263.5	55.5

0	1	2	3	4	5
6.	Total non-guaranteed deposits (million lei)	49,075.6	109,348.6	60,273	122.8
	% of total deposits out of which:	42.4	52.3		
	– in lei	22,716.8	51,528.4	28,811.6	126.8
	– in foreign currency (in lei equivalent)	26,358.8	57,820.2	31,461.4	119.4
7.	Total deposits (row 3 + row 6) (million lei)	115,713.1	208,891.3	93,178.2	80.5
	% of total deposits out of which:	100	100		
	– in lei	59,827.7	105,536.8	45,709.1	76.4
	– in foreign currency (in lei equivalent)	55,885.4	103,354.5	47,469.1	84.9

2. The total number of deposit holders decreased by 3.2% compared to the end of 2006, dropping to 17,489,878 depositors on December 31, 2007. This dynamics can be explained by the decrease of the total number of natural person depositors by 3.4%, and an insignificant increase in the number of legal person depositors, merely 0.5%.

3. The number of guaranteed deposit holders, natural and legal persons, increased during 2007 with 1,806,995 depositors, reaching 17,390,774 depositors on December 31, 2007 (+11.6% compared to December 31, 2006).

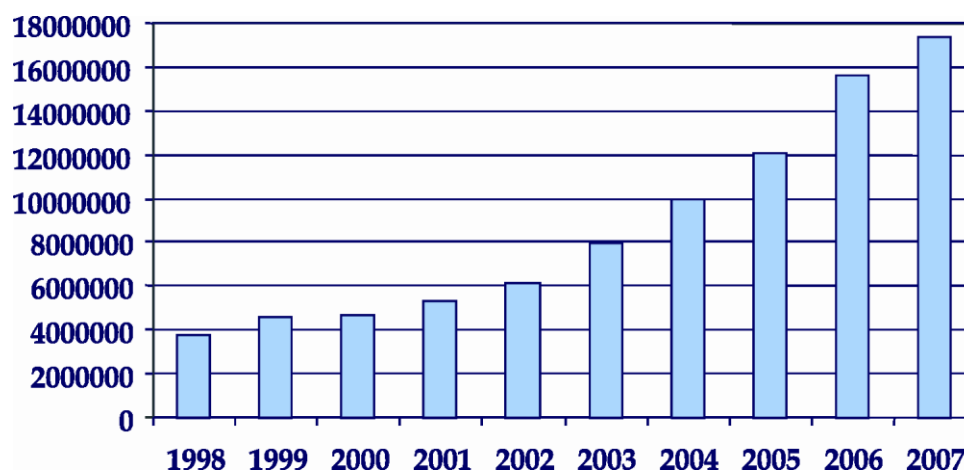
Compared to the total number of depositors, the guaranteed depositors represented 99.4% at the end of 2007, while, per depositor category, differences were recorded between the weight of the natural person guaranteed depositors and legal person guaranteed depositors in the total number of deposit holders. Thus, on December 31, 2007, the number of natural person guaranteed depositors was over 99.9% of the total number of natural person guaranteed depositors, while in the case of legal persons, 89.6% of the depositors were guaranteed. This situation can be explained if we consider that through the effect of the law all natural person depositors are guaranteed, while with legal persons there are a series of exemptions from guarantee.

In the structure of guaranteed deposit holders, natural person guaranteed depositors held a majority of 95.4%.

The number of natural person guaranteed depositors followed an ascending trend in 2007, with an annual rate of increase of 12.2%, while in the case of legal person guaranteed depositors, a stagnation in their number is noticeable, the annual variation being merely –0.1%.

The chart below illustrates the evolution in the number of guaranteed depositors, the data corresponding to the end of the year.

**The evolution in the number of guaranteed depositors**



4. As regards the evolution of the total deposits with credit institutions per currency, it can be found that the annual increase of foreign currency deposits surpasses that of the deposits in lei by 8.5 percent (+84.9% with foreign currency deposits compared to +76.4% for deposits in lei). This evolution led to an increase in foreign currency deposits to the disadvantage of lei deposits, so that the two deposit types have come to carry a nearly equal weight in the total deposits.

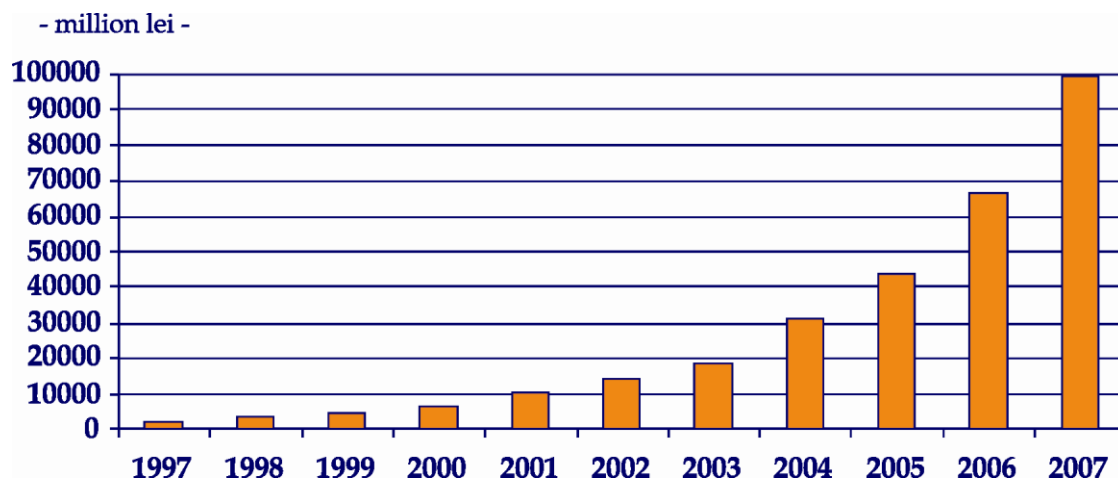
The total guaranteed deposits on December 31, 2007 represented 47.7% of the total deposits, namely 99,542.7 million lei. Compared to the end of 2006 a significant decrease is noticeable (almost by 10 percent) in the weight of guaranteed deposits in the total deposits as a consequence of the much more rapid increase in the volume of the total non-guaranteed deposits compared to the volume of guaranteed deposits.

Of the total guaranteed deposits on December 31, 2007, 65.7% were held by natural persons, percentage unchanged compared to the end of 2006. The volume of guaranteed deposits of natural persons increased by a greater rate than legal person guaranteed deposits (+50.5% compared to 47.3%).

As regards currency, guaranteed deposits in lei continued to represent the majority (54.3%) in the total guaranteed deposits. The volume of foreign currency guaranteed deposits increased faster than lei deposits, the difference being 8.7 percent (+54.2% in the case of foreign currency guaranteed deposits compared to +45.5% for guaranteed lei deposits).

The evolution of guaranteed deposits with credit institutions is presented in the chart below.

**The evolution of deposits guaranteed with credit institutions  
participant in the Fund**



5. The situation of deposit holders and guaranteed deposits on December 31, 2007, compared to December 31, 2006, function of the guarantee ceiling taken into account in the reports for these calendar dates, is the following:

No.	Indicators	Total	Out of which:	
			Within the guarantee ceiling	Above the guarantee ceiling
0	1	2	3	4
1.	Guaranteed deposit holders (no.):			
	– on December 31, 2006	15,583,779	15,464,788	118,991
	– on December 31, 2007	17,390,774	17,222,272	168,502
	% of total			
	– on December 31, 2006	100	99.2	0.7
	– on December 31, 2007	100	99.3	0.9
2.	Total guaranteed deposits (million lei):			
	– on December 31, 2006	66,637.4	31,351.2	35,286.1
	– on December 31, 2007	99,542.6	40,319.3	59,223.3
	% of total			
	– on December 31, 2006	100	47.05	52.95
	– on December 31, 2007	100	40.50	59.50

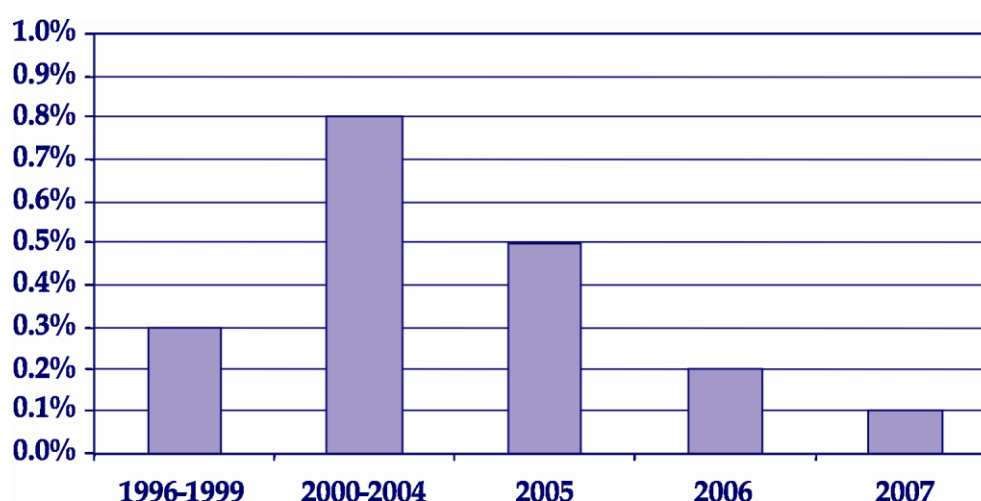
Compared to the 20,000 euro guarantee ceiling (in lei equivalent), on December 31, 2007 there was an overwhelming majority (99.3%) of depositors with deposits below or equal to the limit, therefore fully guaranteed. This situation can be explained through the relatively low level of an average deposit per depositor compared to the guarantee ceiling, another factor being the potential prudential attitude shown by depositors placing their savings with several credit institutions.

## CHAPTER IV

### THE FUND'S FINANCIAL RESOURCES

1. Contributions received from credit institutions participant in the guarantee scheme as initial, annual, increased annual and special contribution represent the most important category of financial resources for the Fund.

#### The evolution of the annual contribution share for credit institutions participant in the Fund



In the first years of its functioning, the annual contribution rate to be paid to the Fund was 0.3%, applicable to all natural person deposits with credit institutions participant in the Fund. This rate was increased to 0.8% in 2000, when credit institutions paid, aside from the annual contribution, a special contribution of 1.2%, destined to ensure the necessary amounts of money for the payment of compensations to the guaranteed depositors of the banks that had gone bankrupt in that year. The 0.8% rate was kept throughout the following four years.

Starting with 2005, the annual contribution rate was significantly decreased every year, and another important change that took place in that year was that in the base for the contribution from the total number of deposits to the deposits entering the guaranteed category. In addition, as a consequence of a change in the Fund's financing policy, in 2006 the annual contribution rate was 0.2%, 0.3 percent lower than in 2005, decreasing by half, namely 0.1%, in 2007.

2. Contributions paid by banks in 2007, compared to 2006:

– thousand lei –

Contribution type	2006	2007
- initial	-	1,355.0
- annual	104,863.6	69,838.8
- special	-	-
TOTAL	104,863.6	71,193.8

The annual contribution in 2007, communicated to the Fund at the beginning of the year based on the statements provided by credit institutions, was paid within the legal deadline, without any delays.

Annual contributions received by the Fund in 2007 include approximately 3,281 thousand lei, which is the difference in contribution resulting from the verification made by the Fund at the credit institutions regarding the setting of the base for the annual contribution due for 2006.

As shown in the table above, the reduction of the annual contribution resulted in the considerable decrease in the contributions paid to the Fund by the participant credit institutions, and a relaxation in the financial effort of these credit institutions.

3. In accordance with the financing policy adopted in the first part of 2006, the Fund contracted in 2007 with the credit institutions participant in the deposit guarantee scheme stand-by credit lines for a total of 190 million euros, in lei equivalent.

These credit lines, valid until February 29, 2008, were not accessed since in 2007 no credit institutions in the Fund's guarantee scheme went bankrupt, and compensation payments were only made for Nova Bank, for an insignificant amount compared to the Fund's own resources.

In accordance with the law, the Fund pays to credit institutions, within 30 bank working days from the expiry of the stand-by credit lines' validity, a non-utilization fee of 0.5%, that is 3,118.5 thousand lei.

4. The evolution of the financial resources and payments from these since establishment of the Fund and until December 31, 2007, compared to December 31, 2006, is as follows:

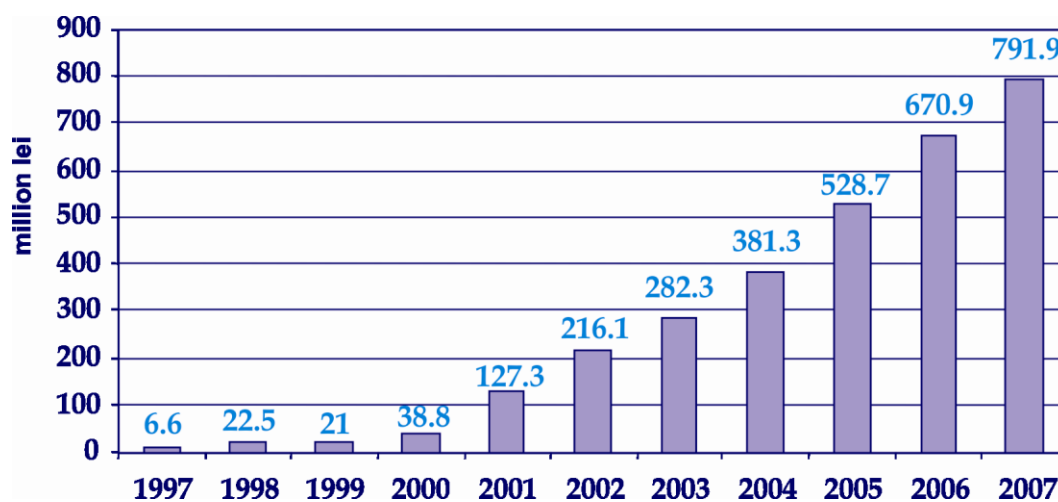
– thousand lei –

No.	INDICATORS	31.12.2006 Cumulated data	2007	31.12.2007 Cumulated data	%
0	1	2	3	4	5 = (col.4 – col.2)/col.2
A.	RESOURCES – total,	1,643,802.2	124,125.4	1,767,927.7	7.55
	out of which:				
	1. Contribution of banks	786,297.1	71,193.8	857,490.9	9.05
	2. Fund's profit distributed during the years 1996 – 2007	348,682.6	51,378.6	400,061.2	14.74
	3. Borrowings	350,000.0	-	350,000.0	-
	4. Collections from recovered claims from bankrupt banks *	157,980.4	1,354.7	159,335.1	0.86
	5. Collections from liquidator's remuneration	842.1	198.3	1,040.4	23.55
B.	PAYMENTS DUE – total,	972,904.0	3,152.6	976,056.6	0.32
	out of which:				
	1. Payment of compensations	512,209.7	34.0	512,243.7	0.01
	2. Payment on borrowings	458,774.9	-	458,774.9	-
	of which:				
	2.1. repayments of principal	350,000.0	-	350,000.0	-
	2.2. corresponding interest	108,774.9	-	108,774.9	-
	3. Payments for the non-utilization fee of the stand-by credit lines	1,919.4	3,118.5	5,038.0	162.48
C.	AVAILABILITIES OF FUND ON DECEMBER 31	670,898.2	120,972.8	791,871.0	18.03

\* The sums include the contributions owed to the Fund and received from Bankcoop and Banca Turco-Română (up to December 31, 2006), as well as from Nova Bank (in 2007).

As results from the data above, the Fund's available resources for the guarantee of deposits on December 31, 2007 increased compared to December 31, 2006 by 120,972.8 thousand lei (+18.03%), while the Fund owes for 2007 a non-utilization fee for the stand-by lines given by the credit institutions of 0.5% per year, amounting to 3,118.5 thousand lei.

**The evolution of the Fund's financial resources  
on December 31**



In 2007, the sums allotted from the Fund's profit represented 41.4% of the resources, while the annual contributions were 57.4% in the total of the financial resources for 2007.

## **CHAPTER V**

### **INVESTMENT OF FINANCIAL RESOURCES**

1. The financial resources of the Fund may be invested in government securities, government-guaranteed securities and securities issued by the National Bank of Romania, as well as in time deposits, certificates of deposit and other financial instruments of the credit institutions in Romania. Moreover, as of the date of our country's accession to the European Union, it also became possible to invest in securities issued by the member states of the European Union, securities issued by their central banks, as well as in securities issued by the United States Department of the Treasury.

In compliance with the legal provisions, the Fund's financial resources are invested based on an annual exposure strategy on each financial instrument and issuer, which establishes the modalities, the ceilings, the terms and conditions for investment. This strategy is developed by the Fund, endorsed by the Fund's Board and approved, according to law, by the Board of the National Bank of Romania.

The main objectives of this strategy are to minimize the risks and the liquidity of the investments, and also, as an additional objective, to ensure their efficiency.

2. In 2007, the Fund's resources were invested in government securities purchased on the secondary market and in time deposits with the credit institutions that had been selected through this strategy. Time deposits carried the greatest weight in the Fund's investment portfolio (89.14% of the average capital invested in 2007). The lower proportion of government securities in the Fund's investment portfolio was determined by the low frequency of bids for the issue of government securities and, on the other hand, by the fact that, in some situations, the maturities exceeded the deadlines provided by the Fund's strategy, whereas, in other cases, at the date of the bids, the Fund did not have liquidities that could have been invested.

3. The investment of the Fund's financial resources in 2007 is shown below:

No.	Financial instruments	1 <sup>st</sup> semester		2 <sup>nd</sup> semester		Total	
		Average invested capital -thousand lei-	Average interest rate %	Average invested capital -thousand lei-	Average interest rate %	Average invested capital -thousand lei-	Average interest rate %
0	1	2	3	4	5	6	7
1.	TOTAL INVESTMENTS, out of which:	697,620.75	7.77	752,397.04	7.63	724,916.66	7.81
	Investments in government securities, out of which:	78,767.92	7.68	78,714.77	7.19	78,751.56	7.53
	1.1. government securities on the primary market	-	-	-	-	-	-
2.	1.2. government securities on the secondary market	78,767.92	7.68	78,714.77	7.19	78,751.56	7.53
3.	Investments in certificates of deposit	-	-	-	-	-	-
	Investments in time deposits	618,852.83	7.78	673,682.27	7.68	646,165.10	7.84

4. The share of the different types of financial instruments in the Fund's total investments is presented below:

Nr. crt.	Financial instruments	Average invested capital (%)	
		1 <sup>st</sup> semester	2 <sup>nd</sup> semester
0	1	2	3
1.	TOTAL INVESTMENTS, out of which:	100.00	100.00
	Investments in government securities, out of which:	11.3	10.5
	1.1. government securities on the primary market	-	-
	1.2. government securities on the secondary market	11.3	10.5
2.	Investments in certificates of deposit	-	-
3.	Investments in time deposits	88.7	89.5

5. As shown in the tables above, the investments in time deposits carried the greatest weight, 88.7% in the 1<sup>st</sup> semester, and 89.5% in the 2<sup>nd</sup> semester, respectively.

The expected annual average interest rate for 2007 was of 7.78%, and at the end of the year the annual average interest rate was of 7.81%.

## **CHAPTER VI**

### **INFORMATION FOR THE PUBLIC**

During 2007, the Fund pursued an active policy for informing the public and the experts on the main aspects of its activity, by means of the mass-media, its own website and publications, as well as through the events organized on various occasions.

Thus, the Fund published two issues of its Half-Yearly Bulletin, referring to the 2<sup>nd</sup> semester of 2006 and the 1<sup>st</sup> semester of 2007, respectively, the last issue being released in a bilingual edition. The main topics were the Fund's financial position and exposure coverage ratio, the saving behavior, the structure and evolution of the deposits in the banking systems, especially of the guaranteed ones, the factors, conditions, effects and prospects of the deposit dynamics in the banking system and of saving. Also, in the Half-Yearly Bulletin issue 1/2007 were presented the results of an important market survey carried out in July 2007 on a sample of 2,023 people aged over 18, in urban and rural areas, focusing on the saving behavior, the perception of the main saving forms and deposit guarantee, their knowledge of the field.

The two issues of the half-yearly bulletin were publicly presented in press conferences on July 12, 2007 and November 13, 2007, respectively, at the Romanian Banking Institute headquarters. At these press conferences the available updated information were also made public. Representatives of the newspapers, TV and radio stations participated in these press conferences, and the topics discussed in the conferences enjoyed good coverage in the mass-media.

Along with the Fund's publications, other materials for presenting the deposit guarantee scheme in Romania were elaborated and published in specialized journals or made available on various occasions to the persons who were interested. Several interviews were also given to the mass-media on different topics, concerning deposit guarantee and the stage of the bankruptcy proceedings taken against the banks that went bankrupt and where the Fund acts in its capacity of liquidator and/or creditor.

Following some changes in the situation of some credit institutions involved in the deposit guarantee scheme, changes that were brought about by mergers, name changes, the emergence of new credit institutions, in 2007 two communications were published in the Official Gazette of Romania, concerning the list of the credit institutions that are part of the Fund and whose depositors have their deposits guaranteed; these communications were also posted on the Fund's website.

Also, given the fact that Nova Bank went bankrupt, in 2007 the Fund informed the depositors of this bank on compensation payments, the documents and the conditions that had to be met, as well as the steps to be taken in order to get the compensation, by means of communications published in the Official Gazette of Romania (January and February 2007), in some national newspapers and on the Fund's website.

Along the same lines, the Fund promptly answered to the inquiries made in writing or by phone by different persons from Romania and abroad concerning various aspects related to deposit guarantee (categories of deposits guaranteed by the Fund, guarantee ceiling, etc.), as well as compensation payments for the deposits with bankrupt banks.

## CHAPTER VII

### OTHER ASPECTS OF THE FUND'S ACTIVITY

1. One of the Fund's main preoccupations in 2007 was to set out the lines of the Fund's financing policy; as already presented in the second chapter, its activity focused on two main directions, namely:

- carry out analyses and elaborate proposals concerning the lines of the Fund's financing policy for 2007 and 2008;
- initiate and carry out actions concerning the elaboration of specific regulations for setting out the lines of the Fund's financing policy.

With regard to the first direction that was mentioned, a series of analyses were carried out within the Fund concerning the risk of credit institutions and the necessary resources for the deposit guarantee schemes (both the Fund's own resources and those coming from stand-by credit lines), also evaluating the validity of the recommendations in the study developed by the experts in the "Convergence" Program for 2007 with respect to the target exposure coverage ratio (recommended value of 2.3%), the ratio between the Fund's own resources and the volume of guaranteed deposits (1.1%) and the ratio between the resources related to stand-by credit lines and the volume of guaranteed deposits (1.2%).

With regard to the last aspect that was mentioned, if we take into account the values recorded at the end of 2007 concerning the volume of guaranteed deposits and the Fund's resources destined to guarantee the deposits, it entails that the adoption, in 2007, of the Convergence Program's recommendations on the target exposure coverage ratio would have imposed some increase of in annual contribution rate and the total amount of stand-by credit lines, as follows:

#### *a) annual contribution rate*

In order to reach the value recommended by the Convergence Program concerning the ratio between the Fund's own resources destined to guarantee the deposits and the volume of guaranteed deposits, namely 1.1%, the Fund's resources destined to guarantee the deposits would have had to reach 1,095 million lei on December 31, 2007, that is 303.1 million lei more than the actual balance, and this difference should have been covered by the contributions of the credit institutions.

The achieving of this objective would have meant to collect, in 2007, a supplementary amount from contributions of at least 281.2 million lei, that is 4.2 times more than the actual amount that was collected in 2007, namely 66.5 million lei. This difference in the amount would have corresponded to a supplementary annual contribution rate of approximately 0.42%, which would have added to the rate set out by law for the year 2007, namely 0.1%, thus reaching a rate of approximately 0.52%.

*b) total amount of stand-by credit lines*

Reaching the recommended value for the ratio between the total amount of stand-by credit lines and the volume of guaranteed deposits, namely 1.2%, would have supposed a total amount of stand-by credit lines of 1,194.5 million lei, that is 546.9 million lei more than the value of the stand-by credit lines taken out in 2007 (647.6 million lei). This increase in the total amount of stand-by credit lines would have involved an increase in the non-utilization fee for these credit lines of 2.7 million lei compared to the one provided for the stand-by credit lines concluded in 2007, which would have reached 5.9 million lei.

Given the recommendations of the Convergence Program for 2007 on the annual contribution rate and the amount of stand-by credit lines, as well as the analyses carried out within the Fund and the standpoints of the Financial Stability and Surveillance departments with respect to the risk of credit institutions and the stability of the Romanian banking system in 2007, the Board of the National Bank of Romania approved, in February 2007, the Fund's proposals concerning the corresponding adjustment of the target exposure coverage ratio, per total and for each component.

Thus, in 2007, the approved lines of the Fund's financing policy were the following:

- **target exposure coverage ratio: 1.5%**, with the following components:
  - ratio between the Fund's own resources destined to guarantee the deposits and the volume of guaranteed deposits: 0.8%;
  - ratio between the resources related to stand-by credit lines and the volume of guaranteed deposits: 0.7%;
- **annual contribution rate for credit institutions: 0.1%** (recommendation of the Convergence Program, assumed in the Government Emergency Ordinance no. 23/2006);
- **total amount of stand-by credit lines: 190 million euros**, lei equivalent.

As for the lines of the Fund's financing policy for the year 2008, new analyses were carried out, concerning both the reaching of the 2007 target for the exposure coverage ratio and the risk of the credit institutions involved in the deposit guarantee scheme; the Board of the National Bank of Romania approved in November 2007 the Fund's proposals concerning the maintaining of the annual contribution rate and of the total amount of stand-by credit lines at the same level as in 2007, the renewal of the agreements on stand-by credit lines under the same conditions as in the framework convention for the year 2007, as well as the continuation of the cooperation between the Fund and the line departments within the National Bank of Romania in the process of setting out the lines of the Fund's financing policy.

With regard to the second direction that was mentioned before, during 2007 a series of actions concerning the elaboration of the regulations for setting out the Fund's financing

policy were initiated and carried out. In this respect, upon the approval of the Board of the National Bank of Romania, in May-July 2007 took place a series of meetings between the representatives of the National Bank of Romania with specific duties in the field and the representatives of the Fund, during which they analyzed various aspects of the cooperation between the two institutions concerning the setting out of the lines of the Fund's financing policy, agreed on the analyses to be carried out based on the "Convergence" Program methodology, including some adaptations of this methodology, and discussed the obtained results, which pointed out the necessity of adjusting the "Convergence" Program methodology so that the model that is used be as accurate as possible and reflect the current situation of the credit institutions. It was also pointed out that it was necessary to take into account the modifications that were about to appear in the reports of the credit institutions as of 2008 (COREP and FINREP systems), including those relating to data availability and comparability, which also led to the necessity of adapting the methodology for setting out the lines of the Fund's financing policy.

In the July 2007 meeting of the Board of the Special Projects Initiative Committee<sup>3</sup> there were discussions on the initiation of a project concerning the elaboration of the regulations for setting out the lines of the Fund's financing policy and it was decided that this project should be included among the projects for 2008.

2. As in previous years, the Fund monitored the correct enforcement of its legislation, of the norms and regulations issued in its enforcement and to this end it cooperated with the credit institutions involved in the deposit guarantee scheme.

3. According to the legal provisions, in 2007 the Fund examined on-site both the accuracy of the data in the reports on the calculation and payment of the contributions due in 2006, and the compliance with the legal provisions on the obligation of the credit institutions to inform their depositors.

Following the verification of the annual contribution calculation base due in 2006 (in 39 credit institutions) and, partially, in 2007 (in 4 credit institutions) the annual contribution difference that the Fund had to reimburse or to collect, according to the circumstances, were specified in the minutes. Thus, in the year 2007, the Fund reimbursed a number of 12 credit institutions the amount of 145.4 thousand lei, whereas 21 credit institutions had to pay the Fund a contribution difference of 3,426.4 thousand lei. In the case of 10 credit institutions there were no differences with respect to the annual contributions due. Therefore, the net amount collected by the Fund in 2007 came up to 3,281 thousand lei. The 2007 verification also revealed that there had been deficiencies in deposit category – guaranteed and non-guaranteed deposits.

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<sup>3</sup> The Special Projects Initiative Committee is a public-private partnership for the modernization of the Romanian financial sector which was created, with the support of the Convergence Program of the World Bank, by the Romanian Banking Association, the National Bank of Romania, the Ministry of Economy and Finance and the National Authority for Consumer Protection.

It was also verified the existence of the depositors' declarations referring to deposit' classification from the point of view of guaranteeing them by the Fund, and it was found that out of the 881 requested declarations there existed only 486 declarations (55.2% of the requested number) – the rest had not been filed. Out of the declarations that had been filed, 28.8% were not correctly filled in, that is they did not observe the Fund's form and did not match the deposit category determined by the credit institution.

With respect to the compliance with the provisions of the Fund's Regulation no. 4/2004 on the information that have to be provided to depositors by the credit institutions on the deposit guarantee scheme in the banking system, following the verifications it was found that 14 credit institutions observed the provisions of this regulation, whereas 7 credit institutions had not posted either of the annexes to the regulation, namely "Information for depositors" and "List of guaranteed deposits", and 8 credit institutions had not posted the second annex.

The results of the verification carried out by the Fund in 2007 point out to the necessity of improving the way deposits are classified according to their being guaranteed or non-guaranteed, as well as the way of informing depositors on the deposit guarantee scheme.

## CHAPTER VIII

### PAYMENT OF COMPENSATION AT THE BANKRUPT CREDIT INSTITUTIONS

1. In 2007, the Fund made compensation payments only to the guaranteed depositors of Nova Bank, which went bankrupt on November 9, 2006; for the other banks which had gone bankrupt in 1993-2003, the deadline for compensation payments had expired.

Compensation payments to the guaranteed depositors of Nova Bank – bankrupt bank – were made as of January 10, 2007, and the deadline for entitled depositors to ask for compensations is 3 years as of this date.

Out of the total number of 108 depositors of Nova Bank that are entitled to compensations, in 2007 only 10 persons asked for compensations, that is under 10% of the total number of depositors on the payment list.

The situation of the compensation payments for the guaranteed deposits with bankrupt banks made prior to December 31, 2007 is shown below:

No.	Bankrupt bank	Compensations according to the payment list		Payments	
		Payments	Amount (thousand lei)	Payments	Amount (thousand lei)
0	1	2	3	4	5
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
7.	Nova Bank	108	197.50	10	34.07
Total:		797,818	518,648.03	327,465	512,243.72

As shown in the table above, throughout its activity, the Fund made compensation payments amounting to 512.2 million lei to a number of 327,465 depositors. These compensation payments went smoothly, in the absence of any conflict situations, disputes or any other significant difficulties in the relations with the guaranteed depositors or with the credit institutions empowered by the Fund to make compensation payments.

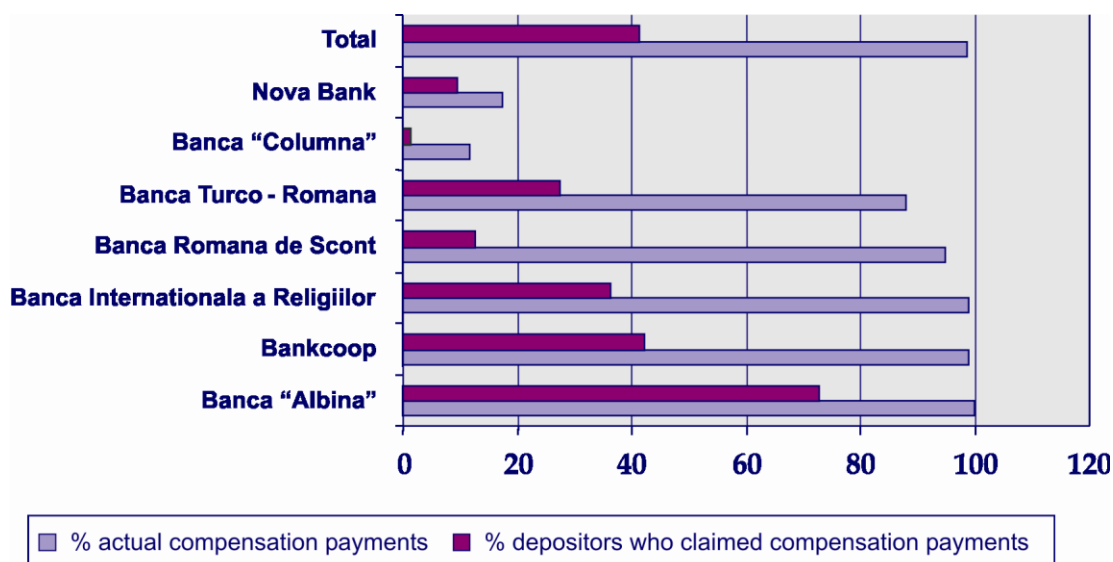
Out of the 797,818 depositors on the payment lists, approximately 59%, that is 470,353 depositors, did not claim the amounts of money they were entitled to, although the Fund sent communications and made several announcements in the mass-media and on its website on compensation payments and the deadlines related to them.

The total amount of the compensations that were not paid comes up to approximately 6.4 million lei, that is 1.2% of the total compensations on the payment lists. The main reason that led to the depositors' lack of interest was the low value of their deposits – approximately 94% were less than 10 lei worth.

2. Based on the data in the previous table, the situation of the actual payments compared to those owed by the Fund, as well as of the deposit holders who ask for compensation payments compared to those on the payment list is shown in the table and chart below:

No.	Bankrupt bank	Actual compensation payments compared to the Fund's obligation on the payment list (subrogation to the guaranteed depositors' rights) - % -	Deposit holders who claimed payment compared to the total number of depositors on 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
7.	Nova Bank	17.2	9.2

### Compensation payments at bankrupt banks



3. The compensation payments made prior to December 31, 2007, expressed in USD, at the exchange rate at the date of the payment are shown below:

– thousand USD –

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
Nova Bank	25.3
TOTAL	238,764.2

## **CHAPTER IX**

### **FUND'S ACTIVITY AS CREDITOR OF BANKRUPT BANKS AND THE STAGE OF CLAIM RECOVERY**

1. As of 1999, the Deposit Guarantee Fund in the Banking System (the Fund) was involved, in its capacity of creditor and/or liquidator, in the bankruptcy/liquidation procedure at the following banks:

- Banca Comercială “Albina” SA – went bankrupt on May 25, 1999;
- Bankcoop SA – went bankrupt on February 8, 2000;
- Banca Internațională a Religiilor SA (BIR) – went bankrupt on July 10, 2000;
- Banca Română de Scont SA (BRS) – went bankrupt on April 16, 2002;
- Banca Turco-Română SA (BTR) – went bankrupt on July 3, 2002;
- Banca “Columna” – went bankrupt on March 18, 2003;
- Nova Bank – went bankrupt on November 9, 2006, after being, as of August 22, 2006, in dissolution, followed by liquidation.

The Fund's activity in 2007 in its capacity of creditor mainly materialized in the monitoring and permanent support of the liquidators while initiating the bankruptcy proceedings at the banks where the Fund acted as a creditor, with a view to recovering the greatest possible amounts of money from the Fund's claims in these bankrupt banks.

2. The Fund's claims that were recovered from the bankrupt banks represent the monies related to the compensations paid to the guaranteed depositors of these banks, to which – in the case of Bankcoop, BTR and Nova Bank – are added the contributions owed to the Fund and which the banks did not pay prior to bankruptcy.

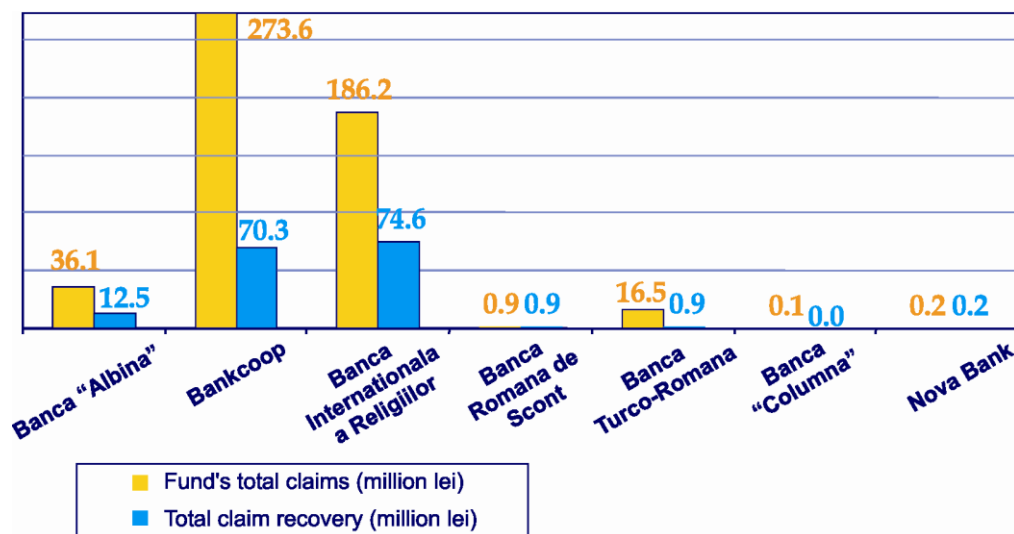
The total amount of money collected by the Fund from the bankrupt banks at the end of 2007 was of 1.36 million lei (under 1% of the recovered claims at the end of 2007), compared to 1.60 million lei in 2006. The amount collected in 2007 is made up of: 0.20 million lei from Banca “Albina”, 0.95 million lei from Bankcoop and 0.21 million lei from Nova Bank. In the case of Nova Bank, the Fund fully recovered the claims by assigning them to the main creditor of the bank on April 5, 2007, when the Fund stopped being the creditor of Nova Bank.

The comparative situation of the recovered claims compared to the Fund's total claims is shown below:

Bankrupt bank	Total claims		Recovered claims		Recovery ratio	
	million lei	thousand USD equivalent (at the exchange rate at the date of setting up the claim)	million lei	thousand USD equivalent (at the exchange rate at the date of each distribution)	lei (%)	USD (%)
0	1	2	3	4	5=3/1	6=4/2
Banca "Albina"	36.06	22,510.42	12.46	5,078.25	34.55	22.56
Bankcoop	273.64	136,236.27	70.34	22,828.54	25.71	16.76
Banca Internațională a Religiilor	186.15	75,194.03	74.57	23,772.81	40.06	31.62
Banca Română de Scont	0.87	262.17	0.87	280.31	100.00	106.92
Banca Turco-Română	16.45	4,918.15	0.89	321.49	5.41	6.54
Banca "Columna"	0.09	27.66	-	-	-	-
Nova Bank	0.21	75.81	0.21	83.34	100.00	109.93
TOTAL	513.47	239,224.51	159.34	52,364.74	31.03	21.89

Summing up, due to the significant decrease in the recovery of the Fund's claims, from 1.60 million lei in 2006 to 1.36 million lei in 2007, as a result of the exhaustion of most sources for recovering the claims or assets of the bankrupt banks, except for the recovery through the lawsuits that are currently under way, the respective banks are closer to the final stage of the liquidation activity.

The comparative situation of the total claims and the claim recovery on December 31, 2007 is shown in the chart below:



## **CHAPTER X**

### **FUND'S ACTIVITY AS LIQUIDATOR AND SPECIAL/INTERIM ADMINISTRATOR**

1. In compliance with the provisions of Government Ordinance no. 39/1996 on the establishment and functioning of the Deposit Guarantee Fund in the Banking System, republished, with its subsequent amendments and supplements, the Fund may carry out activities in one of the following capacities:

- special administrator;
- interim administrator (for the period between filing the petition for bankruptcy and appointing the liquidator);
- judicial liquidator of a bankrupt credit institution, in case it is appointed by court;
- administrative liquidator, in case the liquidation of a credit institution takes place upon the shareholders' initiative or when the National Bank of Romania orders the dissolution followed by liquidation; in this situation, the Fund is, according to law, sole liquidator.

With a view to establishing the general framework for the organization and carrying out of the Fund's activity in its capacity of liquidator, special administrator and interim administrator, in 2007 the Fund issued Regulation no. 3/2007 on the activity of the Deposit Guarantee Fund in the Banking System in its capacity of liquidator, special administrator and interim administrator, defining the responsibilities of the Fund's representative for each of the capacities mentioned above.

As of 2002, the Fund has been carrying out the specific activity related to the bankruptcy procedure at two bankrupt banks, namely Banca Română de Scont (went bankrupt on April 16, 2000) and Banca Turco-Română (went bankrupt on July 3, 2002).

In the period between the initiation of bankruptcy proceedings of the two banks and December 31, 2007, the Fund's activity in its capacity of judicial liquidator took place in compliance with the specific regulations provided by the applicable legislation on the bankruptcy of credit institutions, namely Law no. 83/1998 on the bankruptcy procedure, amended and supplemented by the Government Emergency Ordinance no. 138/2001, as well as in compliance with the applicable provisions of the general framework on bankruptcy, namely Law no. 85/2006 on the insolvency procedure.

In view of the full enforcement of Law no. 85/2006 on the insolvency procedure related to the sale of the bankrupt credit institution's assets, the Fund issued at the beginning of 2007 Regulation no. 2/2007 on selling the assets of the bankrupt credit institution, which replaces Regulation no. 2/2006 on selling the real estate assets of the bankrupt credit institutions by public auction or direct negotiation and which represents the general framework for the harnessing of Banca Română de Scont and Banca Turco-Română's assets.

This Regulation entered into force after being approved by the creditors' assemblies of the two bankrupt banks.

Another aspect of the Fund's activity in its capacity of judicial liquidator of the two bankrupt banks was the continuation of the activity of handling the cases pending before the courts of law, with a view to recovering its claims from the bank's debtors. This proved difficult, given both the criminal character of the various operations carried out by the two banks prior to bankruptcy and the fact that the courts of law usually set dates far apart and, in many cases, the verdicts were in favor of the debtors. Under these circumstances, during the initiation of the bankruptcy proceedings, both the Fund and its representatives in the two bankrupt banks addressed the criminal investigation authorities, the courts of appeal, the Ministry of Justice and the Higher Council of the Magistracy, asking for support with a view to a rapid ruling on the cases pending before the courts of law.

## 2. Aspects related to the Fund's activity as judicial liquidator of:

### A. Banca Română de Scont (BRS) – bank in bankruptcy

The Fund's activity as liquidator with respect to the bankruptcy procedure at BRS in 2007 consisted in:

a) Carrying out the recovery of the claims from credits, interests and other debts, as well as harnessing BRS's assets.

In 2007 it took in payment, together with ASTRA SA, from the debtor SC Romcuart SRL, the exploitation rights (undivided share of 15.21%) for the quartz resources and reserve in the Sigla-Uricani deposit, amounting to 3 million lei (USD 1,294,225) and from SC Cuart SA an unincorporated area pertaining to the quartz quarry and a built-up area where there are (partly demolished) constructions used for processing and storing the quartz that is extracted.

The evolution of the claim recovery during the bankruptcy procedure is shown below:

– million lei –

Explanations	Claims and other assets as at July 3, 2002 (bankruptcy date)	Cash collections between July 3, 2002 – December 31, 2007	Out of which, in 2007	%
0	1	2	3	4 = col.2/col.1
Total claims and other assets, out of which:	54.57	27.5	4.7	50.39
1. Claims	37.75	8.5	2.7	22.52
1.1. credits	27.09	4.8	0.4	17.72
1.2. interests	6.06	1.2	0.0	19.80
1.3. other claim	4.60	2.5	2.3	54.35
2. Other assets	16.82	16.4	1.8	97.50
3. Other collections	-	2.6	0.2	-

The total cash recoveries (collections), amounting to 27.5 million lei, represents approximately half of the total claims and other assets as at bankruptcy date (54.57 million lei), that is an average recovery rate compared to the other banks that went bankrupt.

In 2007, the claim recovery was approximately one third of the total claim collection from credits, interests and other claims, and much lower, namely 7.15% of the volume as at bankruptcy date, given that most debtors lacked the payment capacity necessary to settle the outstanding credits and also real guarantees, since the credits had been granted without observing the legal crediting norms.

But, if we take into account the amount of 12.8 million lei, out of which 9.0 million lei represent claim compensation for debts and 3.8 million lei represent asset takeovers, credits and interests (presented above), than the claim collection from credits, interests and other claims is 56.4% of the total claims from credits, interests and other claims as at bankruptcy date, the greatest recovery rate compared to the other bankrupt banks.

The 2007 collections in the “other assets” row, amounting to 1.8 million lei, coming from the sale by auction of the bank’s equity investments in the Rural Credit Guarantee Fund represent approximately 38% of the total cash collections in 2007.

Out of the amount of 16.4 million lei, representing total collections as at December 31, 2007 in the “other assets” row, the sale of 9 bank premises (8.5 million lei) and the recovery of investments made in rented buildings (2.8 million lei) carry the greatest weight, the rest coming from the assignment of equity investments in TransFond, Romanian Loan Guarantee Fund for Private Entrepreneurs and the Rural Credit Guarantee Fund (3.8 million lei), sale of vehicles and other assets, recovery of guarantees for the EUROPAY card implementation contract.

Therefore, in the case of the claims in the “other assets” category, the collection rate was very good, namely 97.5% of their volume as at bankruptcy date.

In 2007, the bank operated with 17 employees, 15% fewer than in the previous year.

#### b) Distributions to creditors from amounts collected

From bankruptcy until December 31, 2007 eight distributions were made, amounting to 16.01 million lei, that is 41.65% of the statement of assets and liabilities of 38.44 million lei.

Following the results obtained in the bankruptcy procedure, in 2007 the liquidator made three distributions, amounting to 2.87 million lei, in favor of the unsecured creditors.

The unsecured creditors have benefited so far from the collection of over 39% of their claims, since the Fund and the state institutions recovered their claims in full.

#### c) Elaborating monthly reports on the evolution of the bankruptcy procedure and on fulfillment of the liquidator’s tasks.

The monthly activity reports were analyzed by the Fund’s Board and the Creditors’ Committee and then submitted, according to law, to the syndic judge for approval and to the National Bank of Romania for information purposes.

#### d) In 2007 the court ruled on the liability of the former president of BRS, according to the provisions of Article 22 of Law no. 83/1998 on the bank bankruptcy procedure, to which the former president of BRS had appealed; the decision that was given in this case was final and irrevocable.

The Brasov Court of Appeal, through its decision no. 346/July 12, 2007 rejected the appeal as ungrounded, and the final decision of the syndic judge, which obligated the former president of BRS to cover a portion of the unrecovered liabilities of the bank (amounting to 47.6 million lei), also became irrevocable.

Based on the decision which was made enforceable, the bank executor started the enforcement of the judgment.

In order to recover the damage suffered by the bank and its clients, civil and criminal actions were taken, so that, on December 31, 2007, there were 541 judicial and extrajudicial files against the bank.

The legal actions taken by the bank in order to recover the outstanding claims materialized in a number of judicial and extrajudicial prosecution files against the debtors, so that, on December 31, 2007, compared to 202 files at the end of 2006, 183 files were still in progress, out of which: 2 commercial files, 1 civil file, 16 bankruptcy files, 64 court enforcement files and 100 criminal files.

Also, a number of 62 cases pending before the courts of law for damage and claim compensations, amounting to 116.1 million lei and USD 2.08 million were suspended until settlement of the criminal file on BRS's bankruptcy; under these circumstances, it is doubtful that the claims related to the damage and compensations would be recovered.

There are indications that the damage suffered by BRS was determined by a fraudulent work mechanism used by the former bank president in collaboration with some employees of the former Bucharest branch and with some clients; this mechanism mainly consisted in:

- use of the bank's resources by the former president and some clients in their own interest;
- embezzlement of a portion of the bank's assets by way of credits granted in a fraudulent manner, violating the legal and banking norms, to some clients who enjoyed a special relation with the major shareholder of the bank;
- embezzlement of funds by cash withdrawals from the bank's money office without any substantiating documents and entering data into the account books and the accountancy of the branch without any substantiating documents, violating the Accounting Law no. 82/1991.

The criminal file for a series of illegal aspects identified at BSR is pending at the Public Prosecutor's Office attached to the High Court of Cassation and Justice. Although a financial audit report started in June 2002, the expertise, which was to be completed in 2006, was not completed by the end of 2007, the last deadline being postponed until May 31, 2008. BRS covered most of the audit-related expenditures.

e) Altogether, since the initiation of the bankruptcy procedure and until December 31, 2007, following the measures taken to increase incomes and reduce losses, some positive financial results were obtained, amounting to 5.1 million lei; this profit was destined/distributed with a view to partially cover (up to 25%) the fiscal losses, amounting to 19.8 million lei, which had been taken over on April 16, 2002 (the bankruptcy date).

f) Five meetings of the Creditors' Committee took place in 2007, as well as a meeting of the Creditors' Assembly, which took place in October 2007, with a view to informing on

the measures taken by the liquidator, the plans for distributing monies to creditors, as well as for the approval of other concrete measures related to current issues of the liquidation activity.

g) In terms of the Fund's financial effort as judicial liquidator of BRS, we mention that the expenditures for the Fund's personnel involved in the bankruptcy procedures had not been covered by December 31, 2007 by the equivalent value of the services, namely the remuneration owed according to law to the Fund, in its capacity of liquidator, that is 3% of the monies collected during the bankruptcy procedure; the expenses were more than 2 times higher than the remuneration received. Taking into account the prospects of significantly lower future collections, it is estimated that the Fund, in its capacity of liquidator, will not cover its expenditures for the personnel involved in the liquidation activity.

### **B. Banca Turco – Română (BTR) – bank in bankruptcy**

The Fund's activity as liquidator with respect to the bankruptcy procedure at BTR in 2007 consisted in:

a) Carrying out the recovery of the claims from credits, interests and other credit instruments, as well as harnessing BTR's assets.

The total collections in 2007, amounting to 23.10 million lei, represent 60.61% of the total collections during the entire bankruptcy procedure at BTR.

The situation of the recovery of the claims from credits, interests and other assets, between July 3, 2002 and December 31, 2007 is shown below:

– million lei –

Explanations	Claims and other assets as at July 3, 2002 (bankruptcy date)	Cash collections between July 3, 2002 – December 31, 2007	Out of which, in 2007	%
0	1	2	3	4 = col.2/col.1
Total claims and other assets, out of which:	274.15	38.11	23.10	13.90
1. Claims	227.48	3.91	0.96	1.72
1.1. credits	98.19	1.23	0.16	1.25
1.2. interests	17.30	1.84	0.76	10.64
1.3. other debts	111.99	0.84	0.04	0.75
2. Other assets	46.67	31.23	20.66	66.92
3. Other collections	-	2.97	1.48	-

The total cash collections from claim recovery represent 1.72% of the total claims at bankruptcy date; 92.08% represent the claims over the two debtors from Turkey, and the difference of 6.2% are outstanding claims as a result of the closure of the bankruptcy procedure in the case of some debtors, of the prescription of BTR's material right to legal action in the case of other debtors, as well as due to other special circumstances.

In the total collections, in the "other debts" row, amounting to 0.04 million lei are included the monies recovered from debtors from various operations, other than credits.

In the "other assets" row, out of the 31.23 million lei, the collections from sale of immovable (four buildings and two plots of land) carry the greatest weight; the rest comes from the sale of movables and equity investments.

In the "other collections" row are included the interests pertaining to the bank's financial availability, fees for letters of guarantee and monies recovered from sponsorships granted by the bank prior to bankruptcy date and annulled by court.

In 2007 the bank operated with an average number of 16 employees, 15.79% fewer than in the previous year.

b) Distributions to creditors from amounts collected.

In 2007 there were no distributions of monies to creditors; these distributions are to be resumed after the definitive settlement of the ANAF claim.

c) Elaborating monthly reports on the evolution of the bankruptcy procedure and on fulfillment of the liquidator's tasks.

The monthly activity reports were analyzed by the Fund's Board and the Creditors' Committee and then submitted, according to law, to the syndic judge for approval and to the National Bank of Romania for information purposes.

d) The continuation of the activity of handling the cases pending before the courts of law, with a view to recovering its claims from the bank's debtors, among which Bayindir Holding AS and Bayindir Insaat Turizm Ticaret ve Sanayi AS.

In order to recover the damage suffered by the bank and its clients, civil and criminal actions were taken, so that, on December 31, 2007, there were 418 judicial and extrajudicial files against the bank.

At the end of 2007, 49 files were still pending, out of which: 19 court enforcement files, 18 commercial files, 11 criminal complaints and 1 criminal file.

In order to recover the claims pertaining to the two Turkish companies, Bayindir Holding AS and Bayindir Insaat Turizm Ticaret ve Sanayi AS and to hold accountable the former directors and shareholders who are responsible for the bank's bankrupt, two civil legal actions taken by BTR in 2003 and a criminal complaint filed by the National Bank of Romania in 2001 are still pending before the courts of law; on April 12, 2001 BTR became a civil party in the lawsuit; the stage of these legal actions is presented below:

1. Damage compensation action, brought in March 2003, against Bayindir Holding AS and Bayindir Insaat Turizm Ticaret ve Sanayi AS, in order to obligate them to jointly cover the damage incurred by the bank.

By the end of 2007 the court had not heard the case merits due to the fact that both the trial court and the appeal court admitted the non-competence exception of Romanian courts. On December 31, 2007 the file was at the High Court of Cassation and Justice, following the liquidator's appeal, the first date set by the court being February 27, 2008.

2. Civil action about the liability of the former administrators and major shareholders stated in the liquidator's report as being responsible for the bank's bankruptcy, most of whom are Turkish residents.

Although this action was brought in April 2003, the summons procedure for the non-resident defendants (Turkey and USA), natural and legal persons, was only finalized on August 21, 2007.

At the next three court dates set till the end of 2007, the court discussed a series of exceptions raised by the defendants. Thus, on October 9, 2007 the court admitted the standing exception that had been invoked by Bank of New York, on the grounds that the bank had not been a BTR shareholder, but only the depositary of the shares issued abroad by the bank. On November 27, 2007 the court discussed the inadmissibility exception, based on the fact that there is a criminal penal pending before the Bucharest Court of Law – Second Criminal Department, where BTR is a civil party for the same damage. This exception was rejected by the court, which set a date on the merits on February 12, 2008.

3. Legal action about the criminal liability of the former administrators, natural persons, who signed the guarantee and fiduciary contracts which enabled Bayindir Insaat Turizm Ticaret ve Sanayi AS to benefit from credits granted by foreign banks and who are under investigation for abuse of office, document forgery and other offences; BTR is a civil party for the damage it incurred.

By Criminal Sentence no. 1071/April 19, 2007, the former administrators were sentenced to 5 to 13 years of prison and obligated to reimburse, in lei, the amounts of USD 59,421,921.04 and EUR 11,326,199.99, set at enforcement date, and the legal interest since March 31, 2003 to the date of settlement by the civil party BTR.

All the accused appealed; the first court date was set for November 26, 2007, when, due to non-fulfillment of the summons procedure, two other dates were set, the last one on March 17, 2008.

It is doubtful that the claims of BTR's main debtors (the two Turkish companies which were also shareholders, whose debts represent 92.08% of the total claims of the bank at bankruptcy date) would be recovered, given, as shown above, the stage of the legal actions and the fact that it is highly unlikely that they are successful.

Taking into account the fact that in almost five years no final sentence was given by Romanian courts in the legal actions taken against the two Turkish companies, Bayindir Holding AS and Bayindir Insaat Turizm Ticaret ve Sanayi AS, namely the damage compensation action and the action about the liability of the former directors and major shareholders of the banks, we have to envisage the opportunity of taking legal actions in Turkey.

Given this situation, in 2007 the liquidator contacted a number of law firms in the Republic of Turkey, requesting information about the conditions for taking legal action against Bayindir Holding AS and Bayindir Insaat Turizm Ticaret ve Sanayi AS in Turkey.

Upon the request of the Creditors' Committee of BTR, the liquidator asked for two legal opinions on the opportunity and admissibility of a legal action in Turkey from the Turkish law firms Denton Wilde Sapte Guner Law Office and Ersoy Bilgehan Law Office.

The liquidator also had several meetings, in June 2007, with the representatives of the Turkish Deposit Guarantee Scheme (TMSF) – the most important Turkish creditor of the Bayindir Group – and also corresponded with them, requesting information on the recovery of BTR's debts.

The information obtained through the two legal opinions supplied by the Turkish law firms, the meeting with the TMSF representatives and TMSF's letter of September 4, 2007 will be presented in 2008 to the Creditors' Assembly so that it can make a decision regarding the opportunity of taking legal action in Turkey.

e) Eight meetings of the Creditors' Committee took place in 2007 with a view to informing on the measures taken by the liquidator, approving the new regulation on the sale of immovable, pursuant to the necessity to revise the regulation approved in 2006, prior to the publication of Law no. 85/2006 on the insolvency procedure, approving the method of selling the goods and the starting prices, requesting judicial assistance and representation services for the files presented under e) 2 and 3, as well as for the approval of other concrete measures related to current issues of the liquidation activity.

The Creditors' Assembly took place on March 7, 2007 and approved the new regulation for the sale of BTR's assets (Regulation no. 2/2007), the sale by outcry public auction of four immovable of BTR, as well as the cut from 17 to 9 of the number of members of the Creditors' Committee.

## **CHAPTER XI**

### **BOARD'S ACTIVITY**

1. In its monthly meetings held throughout 2007, the Board analyzed, endorsed or approved, as the case may be, materials regarding the main issues of the Fund's activity, such as:

- the Fund's organizational and staff structure, as well as its salary policy;
- the Fund's income and expenditure budget and its financial statements;
- setting out the lines of the Fund's financing policy and of the target exposure coverage ratio, respectively, the annual contribution rate and the amount of the stand-by credit lines;
- establishing the increased annual contribution rate owed to the Fund;
- monitoring the collection of the contributions owed by the credit institutions;
- concluding agreements on the stand-by credit lines with the credit institutions;
- drawing up regulations regarding the setting out of lines of the Fund's financing policy;
- monitoring the evolution of the implementation of the bankruptcy proceedings in the case of credit institutions declared bankrupt where the Fund has the capacity of creditor, in order to recover as much as possible of the outstanding claims, as well as analyzing and approving solutions to various issues resulting from the implementation of the bankruptcy proceedings in the case of these banks;
- the annual strategy regarding the Fund's exposure, whose main objectives are the minimization of risks and the liquidity of investments, and also, as an additional objective, to insure their efficiency;
- investing the Fund's financial resources in the limit and under the conditions of the strategy approved by the Board of the National Bank of Romania;
- making compensation payments to the entitled depositors of Nova Bank – bankrupt bank, as well as payments necessary to the Fund's current functioning;
- performing the activities within the bankrupt banks in the case of which the Fund was appointed liquidator, according to law, taking the necessary measures on the basis of the proposals of the monthly activity reports and of the other materials drawn up by the Fund's representatives in these banks;
- verifying the accuracy of the calculation of the contributions owed to the Fund in the case of the credit institutions participating in the Fund;
- planning the internal audit activity, carrying out the planned missions and, on the basis of the internal auditor's possible recommendations, taking the necessary measures;

- modifying and completing the Fund's internal regulations, namely the Regulation on the Fund's organization and functioning and the Internal Regulation;
- regulating the sale of assets belonging to the credit institutions declared bankrupt in the case of which the Fund has the capacity of liquidator;
- regulating the carrying out of the activity of the Fund as liquidator, special administrator and interim administrator;
- adequately implementing the laws and regulations related to the Fund's activity;
- reaching the indicators of the income and expenditure budget;
- selecting the external financial auditor;
- the modality to distribute the Fund's annual profit;
- the annual activity report;
- the Fund's biannual bulletin.

2. The Chairman of the Board closely monitored the Board's activity and carried out the decisions of the Board of the National Bank of Romania and of the Fund's Board, permanently informed on the way to achieve them, as well as on other issues having implications on the Fund's activity and controlled the Director's activity.

The Chairman directly got involved throughout 2007 in the main issues related to the Fund's activity, such as: the process of drawing up the regulations setting out the lines of the Fund's financing policy, the regulation regarding the sale of assets belonging to the credit institutions declared bankrupt where the Fund acts liquidator and the regulation regarding the activity of the Fund as liquidator, special administrator and interim administrator, modifying and completing some of the Fund's internal regulations, recovering the Fund's outstanding claims from credit institutions declared bankrupt where the Fund acts of creditor and monitoring the evolution of the implementation of the bankruptcy proceedings in the case of these institutions, the activity within the banks in the case of which the Fund was appointed liquidator, as well as supporting the representatives of the Fund as liquidator in solving certain special problems resulting from the exercise of their legal attributions, other materials requested by the Board of the National Bank of Romania.

According to legal provisions, the Board's President, together with the Fund's Director, submitted to the Board of the National Bank of Romania for approval the Fund's annual activity report and its financial situations for 2006, the execution of the income and expenditure budget for 2006, the proposal on the co-operation between the activity directions of the National Bank of Romania and the Fund in establishing the coordinates of the Fund's financing policy, the draft income and expenditure budget for 2008, the strategy for 2008 regarding the Fund's exposure related to its investments, the setting out of the lines of the Fund's financing policy for 2007 and 2008, the establishment of the increased annual contribution rates owed to the Fund in 2007 and 2008.

## CHAPTER XII

### FINANCIAL RESULTS FOR 2007

The Fund's financial activity was monthly analyzed by the Fund's Board on the basis of the informing reports submitted by the executive directors on the collection of the contributions, the recovery of the outstanding claims from the bankrupt banks, the payment of compensations, the investment of the available financial resources and the performance of the Fund's current expenditures.

#### 1. Fund's summarized financial situations

##### Fund's balance sheet

– lei –

Asset			Liability		
	31.12.2006	31.12.2007		31.12.2006	31.12.2007
1. Fixed assets – total, out of which:	171,057,928	649,765,755	1. Own funds – total, of which:	685,296,736	806,271,088
– intangible assets	7,786	3,951	– reserves	685,296,736	806,271,088
– tangible assets	140,572	88,041	– financial year profit	45,410,820	51,897,608
– financial assets	170,909,570	649,673,763	– profit distribution	45,410,820	51,897,608
2. Current assets – total, out of which:	516,857,097	160,048,946	2. Debts – total, of which:	2,618,289	3,551,604
– short-term financial investments	516,746,680	159,944,406	– debts to be paid within maximum one year	2,618,289	3,551,604
– bank accounts	34,902	29,025			
– other outstanding claims (bank transactions)	75,515	75,515			
3. Advance expenditures	-	7,991			
TOTAL ASSET	687,915,025	809,822,692	TOTAL LIABILITY	687,915,025	809,822,692

In 2007, the financial assets increased and the short-term financial investments decreased due to the investment of priority available assets on terms higher than 1 year.

The debts to be paid within maximum 1 year are mainly composed of the non-utilization fee of stand-by credit lines, owed for 10 months of the year 2007 and amounting to 2,707,162 lei.

### **Profit and loss account**

The situation of the Fund's profit and loss account at the end of the year 2007, comparatively to 2006, is described as follows:

– lei –

	31.12.2006	31.12.2007
Operating income	-	-
Operating expenditures	4,395,237	4,824,075
Financial income	49,807,124	56,722,949
Financial expenditures	1,067	1,266
Total income	49,807,124	56,722,949
Total expenditures	4,396,304	4,825,341
Gross profit	45,410,820	51,897,608
Income tax	-	-
Net profit	45,410,820	51,897,608

## **2. Auditor's report on the financial situations**

### **INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF FONDUL DE GARANTARE A DEPOZITELOR ÎN SISTEMUL BANCAR**

#### **Report on the Financial Statements**

1 We have audited the accompanying financial statements of Fondul de Garantare a Depozitelor în Sistemul Bancar ("the Fund") which comprise the balance sheet as at 31 December 2007, the statement of income for the year then ended, as well as a summary of significant accounting policies and other explanatory notes. The above-mentioned financial statements disclose the following:

- Total shareholders' equity: RON 806.271 thousand;
- Net result of the year: RON 51.897 thousand, profit.

#### *Management's Responsibility for the Financial Statements*

2 The Fund's management is responsible for the preparation and fair presentation of these financial statements in accordance with the Order of the Minister of Public Finance no. 1752/2005 and subsequent amendments and with specific Romanian accounting principles applicable to the Fund. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing as adopted by the Romanian Chamber of Financial Auditors. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Fund's financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
- 6 In our opinion, the financial statements have been prepared, in all material respects, in accordance with the Order of the Minister of Public Finance no. 1752/2005 and subsequent amendments and with specific Romanian accounting principles applicable to the Fund.

#### Other matters

- 7 This report is made solely to the Fund's Board of Directors, as a body. Our audit work has been undertaken so that we can state to the Fund's Board of Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's Board of Directors as a body, for our audit work, for this report, or for the opinion we have formed.
- 8 The accompanying financial statements are not intended to present the financial position, results of operations and a complete set of notes to the financial statements in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Romania. Accordingly, the accompanying financial statements are not designed for those who are not informed about Romanian legal and statutory requirements, including the Order of the Insurance Supervisory Commission no. 3129/2005 and subsequent amendments, as well as the accounting regulations specific to the Fund.

#### **Report on Conformity of the Administrators' Report with the Financial Statements**

In accordance with the Order of the Minister of Public Finance no 1752/2005, article no. 263 point 2) we have read the administrators' report attached to the financial statements. The administrators' report is not a part of the financial statements. In the administrators' report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying financial statements.

PricewaterhouseCoopers Audit SRL  
Registered with the Chamber of Financial Auditors of Romania  
under no 6/25 June 2001

Bucharest, 17 March 2008

### 3. Analysis of financial information reported for the financial year concluded on December 31<sup>st</sup>, 2007

- The Fund's **total income** registered in 2007, amounting to 56,722.9 thousand lei, comes from:
  - 56,611.6 thousand lei, interests from the investment of the Fund's financial resources throughout 2007. The placement interests represent 99.9% of the total income registered in 2007. For the placements performed in 2007, the Fund benefited from an annual average interest rate of 7.68%, superior to the annual inflation rate of 6.57% registered in 2007;
  - 111.3 thousand lei, interests collected in the case of available assets from the Fund's current accounts opened at banks.
- The Fund's **total expenditures** incurred in 2007, amounting to 4,825.3 thousand lei, represent 8.51% of the total income, consisting of:
  - 3,651.4 thousand lei, **personnel expenditures**, out of which:
    - 2,977.0 thousand lei, expenditures related to the remuneration of the Fund's personnel (61.7% of the total expenditures);
    - 674.4 thousand lei, payments to special budgets, respectively social insurance, health insurance, unemployment benefit, accident risk fund and social fund (14% of the total expenditures);
  - 1,054.9 thousand lei, **expenditures related to services executed by third parties** (21.86% of the total expenditures), representing expenditures related to energy and water, expenditures related to the renting of the premises, expenditures related to collaborators, expenditures related to internal and external official trips, expenditures related to commissions and fees, and expenditures related to internal and external audit;
  - 54.0 thousand lei, **expenditures related to consumables** and inventory items (1.1% of the total expenditures);
  - 60.8 thousand lei, **expenditures related to the depreciation** of the tangible and intangible assets (1.3% of the total expenditures).
- The profit registered in 2007, as difference between income and expenditures, amounting to 51,898 thousand lei, is destined to be distributed, according to the destinations provided by the law, in the limit of a quota of maximum 1% in order to create the annual profit participation fund, the difference of approximately 51,379 thousand lei being further allotted to the increase of the Fund's resources destined to the payment of the compensations related to the guaranteed deposits.

The Fund is exempted, according to the Law, from the payment of the income tax.

#### 4. Income and expenditure budget

In short, the provisions of the income and expenditure budget for 2007 were achieved as follows:

– thousand lei –

		Provisions 2007	Achieved 2007	Differences
1.	Income	55,326	56,723	+1,397
2.	Expenditures	5,770	4,825	-945
3.	Total net result of the financial year	49,556	51,898	+2,342

The year 2007 registered an exceeding income of 1,397 thousand lei. This is due to the increase of the invested average capital, the average interest rate obtained from investments being almost identical to the predicted one. Comparatively to a predicted invested average capital of 711,503 thousand lei, an average capital of 724,917 thousand lei was invested, resulting an exceeding amount of 13,414 thousand lei. We mention that the expected annual average interest rate for 2007 was 7.78% and an annual average interest rate of 7.81% was registered at the end of 2007.

Throughout the year, savings amounting to 945 thousand lei comparatively to the predicted levels were also registered, due to the concern of the executive management to limit the expenditures to those strictly necessary in order to carry out the Fund's current activity.

5. The Fund organized and kept accounting records according to Accounting Law No. 82/1991. The financial situations were drawn up according to Order No. 1752/2005 of the Minister of Public Finance, as well as in accordance with the accounting regulations specific of the Fund, approved by both the Directorate for Accounting Regulations of the Ministry of Public Finance and the Directorate for Regulation and Authorization of the National Bank of Romania. The balance sheet for 2007 is to be submitted to the appropriate bodies of the Ministry of Economy and Finance within the legal deadline.

## CHAPTER XIII

### FUND'S INTERNATIONAL RELATIONS IN 2007

An event of great importance for European deposit guarantee schemes was the Extraordinary Meeting for the setting up of the European Forum of Deposit Insurers (EFDI) as legal entity, which took place in June 2007, in Brussels, and at which the Fund was represented. Thus, from a *de facto* professional association, without legal personality, EFDI turned into a non-profit international association governed by Belgian Law.

Following Romania's accession to the European Union, the Fund became a member of the EFDI Committee for the European Union, within which five working groups operate, being jointly set up with the European Commission in order to develop projects on different issues related to the review of the Community Directive on deposit guarantee schemes, the Fund being part of the group responsible for the project related to the inclusion of risk elements in establishing the contributions of credit institutions.

Further concerning the review of the Community Directive on deposit guarantee schemes, throughout 2007, the Fund directly co-operated also with the Joint Research Centre (JRC) of the European Commission, repeatedly providing detailed data and information on a very wide range of aspects related to the Fund's activity and organization.

Throughout 2007, the Fund was also represented at other events organized under the aegis of EFDI, among which the Seminar on the "Stability of the banking system and protection of savings", which took place in Rome in October 2007, as well as the EFDI Annual Meeting and the Conference on the "Current problems with impact on the deposit guarantee schemes", the last two manifestations taking place in Istanbul at the end of November 2007. Among the issues discussed within the EFDI Annual Meeting, there was also the issue related to the setting up of a research workgroup in the field of deposit guarantee, the Fund expressing its intention to become a member of this group.

In addition to EFDI, the Fund is also a member of the International Association of Deposit Insurers (IADI), participating in this capacity to several events organized within this professional association. Thus, in May 2007, a delegation on the Fund's behalf participated at Basel to the celebration of the 5<sup>th</sup> anniversary since the setting up of IADI, as well as to the symposium dedicated to the cross-border issue in the field of deposit guarantee, which took place on this occasion and, in June 2007, two of the Fund's representatives participated in Istanbul in the IADI Conference on the "Role of deposit guarantee schemes in reinforcing the financial stability of different countries". Within this conference, the Fund's Director made a presentation on the Fund's experience in the process of liquidation of credit institutions and recovery of outstanding claims, making public the Fund's activity both as legal liquidator (at Banca Română de Scont și Banca Turco-Română) and administrative liquidator (at Nova Bank), and as creditor of the banks declared bankrupt.

At the beginning of November 2007, a Fund's delegation participated to IADI events which took place at Kuala Lumpur, respectively the Annual General Meeting, the Sixth IADI Annual Conference and the Third International Exhibition of Deposit Guarantee Schemes, at which the Fund had a stand of its own within which the following materials were exhibited: a general presentation of the Fund's activity and achievements, the 2006 Annual Report and the Fund's half-yearly Analysis Report No. 1/2007.

Within IADI, the Fund is part of the European Regional Committee (ERC), throughout 2007 being represented in three of its quarterly meetings which, except for the meeting of the first quarter (January 2007, in Prague), took place on the occasion of the last two previously mentioned IADI events. Within these meetings, there was a special focus on the involvement of ERC members in establishing and implementing the IADI strategic directions, as well as in developing the bilateral and multilateral co-operation relations both within IADI and EFDI.

In addition to the relations developed within EFDI and IADI with other deposit guarantee schemes, individual requests were received from certain deposit guarantee schemes on different specific issues, the Fund resorting in its turn to the support of several deposit guarantee schemes in obtaining information on:

- the obligations of the branches of the credit institutions established in the states of the European Union towards the deposit guarantee scheme of the host country from the point of view of the reporting requirements;
- the registration in the deposit guarantee schemes accounting of certain positions related to contributions, compensations, commissions and interests to credit lines etc.;
- the organization type of deposit guarantee schemes, the financing mechanism and the destination of resources, including of the profit;
- the classification of the deposits of the schemes from the point of view of their guarantee.

A special remark has to be made regarding the relation with the deposit guarantee scheme of Turkey, which responded to the request of the Fund as liquidator of the Banca Turco-Română – bankrupt bank (BTR), providing the requested information on the companies belonging to Bayindir Group, which are the main debtors of TRB, as well as the opinion on the possibility to recover the BTR outstanding debts from the Turkish debtors.

At the end of 2007, the Fund received the visit of a delegation of the deposit guarantee scheme of the Republic of Moldova, scheme which is not part yet of the international professional associations in the field – EFDI and IADI. On the occasion of this visit, there was an exchange of a series of information on different aspects related to the organization and the activity carried out by the two deposit guarantee schemes.

In conclusion, we can state that the extension of co-operation relations with other deposit guarantee schemes, especially European ones, as well as with other international entities, represented a constant feature of the Fund's international activity in 2007.

## CHAPTER XIV

### PERSPECTIVES FOR 2008

The Fund will seek to have in 2008 as well an important role in reinforcing and maintaining the stability of the Romanian banking system through the protection granted to the individuals and legal entities having deposits within the credit institutions of its deposit guarantee scheme.

To that end, the Fund will focus its activity on the following directions:

1) *Continuation of the actions regarding the development of the specific regulations setting up the coordinates of the Fund's financing policy, respectively the target exposure coverage ratio, the annual contribution rate of the credit institutions and the total amount of the stand-by credit lines.*

To this purpose, according to the decision of the National Bank of Romania's Board as of the 28<sup>th</sup> of November 2007, the Fund will further co-operate with the specialized departments of the National Bank of Romania – Financial Stability and Surveillance departments –, concerning both the elaboration of the regulations establishing the coordinates of its financing policy and the provision of the data and information necessary to establish the coordinates of the Fund's financing policy on an annual basis.

2) *Extension of the activity of information and awareness of the public on the deposit guarantee issue with a view to increasing depositors' confidence in the banking system, action that is included in the tendencies in this regard at the international level.*

This important concern of the deposit guarantee schemes is overridingly topical taking into account the crisis of the high risk mortgage credits in USA and the turbulences on the international financial markets.

In order to respond to the new requirements, a new department for analyses, regulations, communication and external relations, as well as the position of deputy director are to be further introduced within the Fund's organizational scheme.

Additionally in this field of activity, in 2008, an advertising campaign is to be further organized with a view to inform the public on the deposit guarantee.

3) *Conclusion with the credit institutions participating to the Fund, until the end of February 2008 at the latest, the stand-by credit lines agreements for the period March 2008 – February 2009, amounting to a total sum of 190 million Euros, in equivalent lei.*

4) *Investment of the Fund's financial resources while respecting the objectives and the requirements of the strategy on the Fund's exposure, strategy approved by the Board of the National Bank of Romania.*

5) *Continuation of the compensation payments due to the depositors – individuals and legal entities – of Nova Bank – bank declared bankrupt.*

6) *Verification by the Fund at the credit institutions participating to the deposit guarantee scheme, according to the provisions of Art. 41 from the Law on the Fund's functioning, of the method of establishing the calculation base for the annual contribution due and paid to the Fund in 2007 and 2008, of the accurateness of classification of deposits into the two categories – guaranteed and non-guaranteed –, as well as of the manner of informing the depositors on the deposit guarantee.*

7) *Further monitoring the activity carried out by the liquidators of the banks declared bankrupt where the Fund has the capacity of unsecured creditor, with a view to implementing a series of measures leading to the improvement of the effectiveness of the liquidation activity within these banks, such as: accelerating the process of recovery of outstanding debts, exploitation of the remaining assets in the heritage at prices higher than those estimated in the evaluation reports, finalizing the action of archiving and selecting the archived documents with a view of transferring a part of the archived papers, which are ready and fulfill the legal transfer conditions, to the National Archives, in order to free the occupied spaces and to better exploit them by selling, reducing the portfolio of debtors, as well as further implementing the measures meant to reduce the operating expenditures, especially the expenditures related to staff.*

8) *In the liquidation activity, the Fund, as legal liquidator at Banca Română de Scont and Banca Turco-Română – banks declared bankrupt, will focus on the following main directions:*

a) *exploiting the remaining assets of the two banks, a special importance being given, due to its specific character, to the exploitation of the assets taken under payment by the Banca Română de Scont, together with ASTRA SA, from the debtor SC Cuarț SA, respectively the operating rights for the quartz resources and reserves existing in the Siglău – Uricani deposit (amounting to 3 million lei), the immovable properties related to the quartz quarry and those used to treat and store the extracted quartz;*

b) *in the case of the Banca Turco-Română, depending on the decision that will be taken by the Creditors' Meeting on the basis of the information obtained by the Fund, following the proceedings initiated throughout 2007 within Turkish law firms and the deposit guarantee scheme of Turkey, in connection with the possibility to recover the outstanding debts of the bank from its main debtors – Bayindir Holding AS and Bayindir Insaat Turizm Ticaret ve Sanayi AS –, respectively 92.08% of the total outstanding debts of the bank at bankruptcy date, the liquidator may take legal actions in Turkey;*

c) *further carrying on the existent files pending before the courts with a view to recovering the outstanding debts of the banks from their debtors, representing to the court, carrying out legal proceedings for upholding the legal actions initiated by the liquidator, respectively for protecting the legitimate interests of the banks against third parties' actions;*

e) further carrying out the distributions of amounts towards the creditors of the two banks on the basis of the amounts to be further cashed;

f) taking actions to manage and preserve the existing unsold goods, actions to reduce the operating expenditures of the banks, as well as to obtain income from the placements of the banks, actions to archive and to transfer the archives to the specialized state bodies, according to the legal provisions, drawing up and presentation on a monthly basis of reports on the evolution of the bankruptcy proceeding, respectively the stage of the accomplishment by the liquidator of his attributions.

*9) Elaboration of the Fund's biannual publication having as main theme the presentation of the evolution, influence factors and perspectives of savings of the population, as well as report on deposits in the banking system.*

In 2008, the Fund will elaborate and publish two issues of its biannual bulletins, the first having as reference date the end of 2007 and the second the end of the first semester of 2008. In accordance with the main themes of the biannual bulletin approached in the previous issues, throughout the first semester of 2008, a market survey on the behavior, influence factors, evolution and perspectives of savings will be conducted.

*10) Enhancing the Fund's international activity within EFDI and IADI, as well as the relations with other deposit guarantee schemes and international entities in the field.*

The actions and studies conducted within EFDI and the bodies of the European Union concerning the review of the Community Directive on deposit guarantee schemes, with a view to performing analyses on the possible implementation in the Fund's legislation of the formulated recommendations, will be also closely monitored.

In the new international context, another objective that the Fund seeks to achieve in 2008 is the analysis of the possibility to conclude memorandum of understanding with other deposit guarantee schemes on the exchange of information and bilateral co-operation in the case of a cross-border crisis.

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The annual report of the Deposit Guarantee Fund in the Banking System was analyzed and approved by the National Bank of Romania's Board in its meeting of March 25, 2008.

**List of credit institutions included in the deposit guarantee scheme  
as of December 31, 2007**

No.                      Bank's name

**I. Banks – Romanian legal entities**

1. Banca Comercială Română – S.A.
2. RAIFFEISEN BANK – S.A.
3. BRD – Groupe Société Générale – S.A.
4. ATE BANK ROMANIA – S.A.
5. UniCredit Ţiriac Bank – 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. Credit Europe Bank (Romania) – S.A.
10. Banca Transilvania – S.A.
11. MKB ROMEXTERRA Bank – S.A.
12. ALPHA BANK ROMANIA – S.A.
13. PIRAEUS BANK ROMANIA – S.A.
14. ABN AMRO Bank (Romania) – S.A.
15. OTP BANK ROMÂNIA – S.A.
16. Citibank România – S.A.
17. BANCA COMERCIALĂ INTESA SANPAOLO ROMANIA – S.A.  
(fosta BANCA COMERCIALĂ SANPAOLO IMI BANK ROMANIA S.A.)
18. Emporiki Bank – România – S.A.
19. LIBRA BANK – S.A.
20. Banca C.R. Firenze România – S.A.
21. ROMANIAN INTERNATIONAL BANK – S.A.
22. EGNATIA BANK (ROMÂNIA) – S.A.
23. Banca Comercială CARPATICA – S.A.
24. BANK LEUMI ROMÂNIA – S.A.
25. VOLKSBANK ROMÂNIA – S.A.
26. ProCredit Bank – S.A.
27. Raiffeisen Banca pentru Locuinţe – S.A.
28. PORSCHE BANK ROMÂNIA – S.A.
29. Casa de Economii şi Consemnaţiuni C.E.C. – S.A.
30. HVB BANCA PENTRU LOCUINŢE – S.A.
31. Banca Millennium – S.A.

**II. Credit co-operatives – Central houses**

1. Banca Centrală Cooperatistă CREDITCOOP

Evolution of the number of participants in the deposit guarantee scheme

