FGDB

FONDUL DE GARANTARE A DEPOZITELOR IN SISTEMUL BANCAR

BANK DEPOSIT GUARANTEE FUND

2013
ANNUAL REPORT

MISSION

The FGDB is an institution operating in Romania whose mission is to guarantee the deposits of the population and legal persons, particularly small and mediumsized enterprises, with its member credit institutions. The FGDB can intervene in the application of stabilisation measures to resolve issues that threaten financial stability when the National Bank of Romania so decides.

VALUES

Safety

The FGDB secures the safety of natural and legal persons' deposits with credit institutions in Romania, all while contributing to an increase in savings.

Integrity

The FGDB is an apolitical and independent institution. Its employees are individuals of integrity, showing a keen sense of responsibility in managing resources in line with legal provisions.

Good governance

The FGDB's conduct complies with the good governance principles adopted by the G20 Financial Stability Board, the International Association of Deposit Insurers (IADI) and the Basel Committee on Banking Supervision.

THE BANK DEPOSIT GUARANTEE FUND

3 Negru Vodă St., 2nd floor, 030774 Bucharest
Phone: +40 21 3266021
+40 314 232804
Fax: +40 314 232800
E-mail: office@fgdb.ro
www.fgdb.ro

REPORT FOR THE YEAR 2013

of the BANK DEPOSIT GUARANTEE FUND

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SUPERVISORY BOARD

Chairperson

Lucian Croitoru
Advisor to the Governor of The National Bank of Romania

Dumitru Laurențiu Andrei
Deputy Director at the Ministry of Finance

Constantin Barbu
Executive Director at the Romanian Banking Association

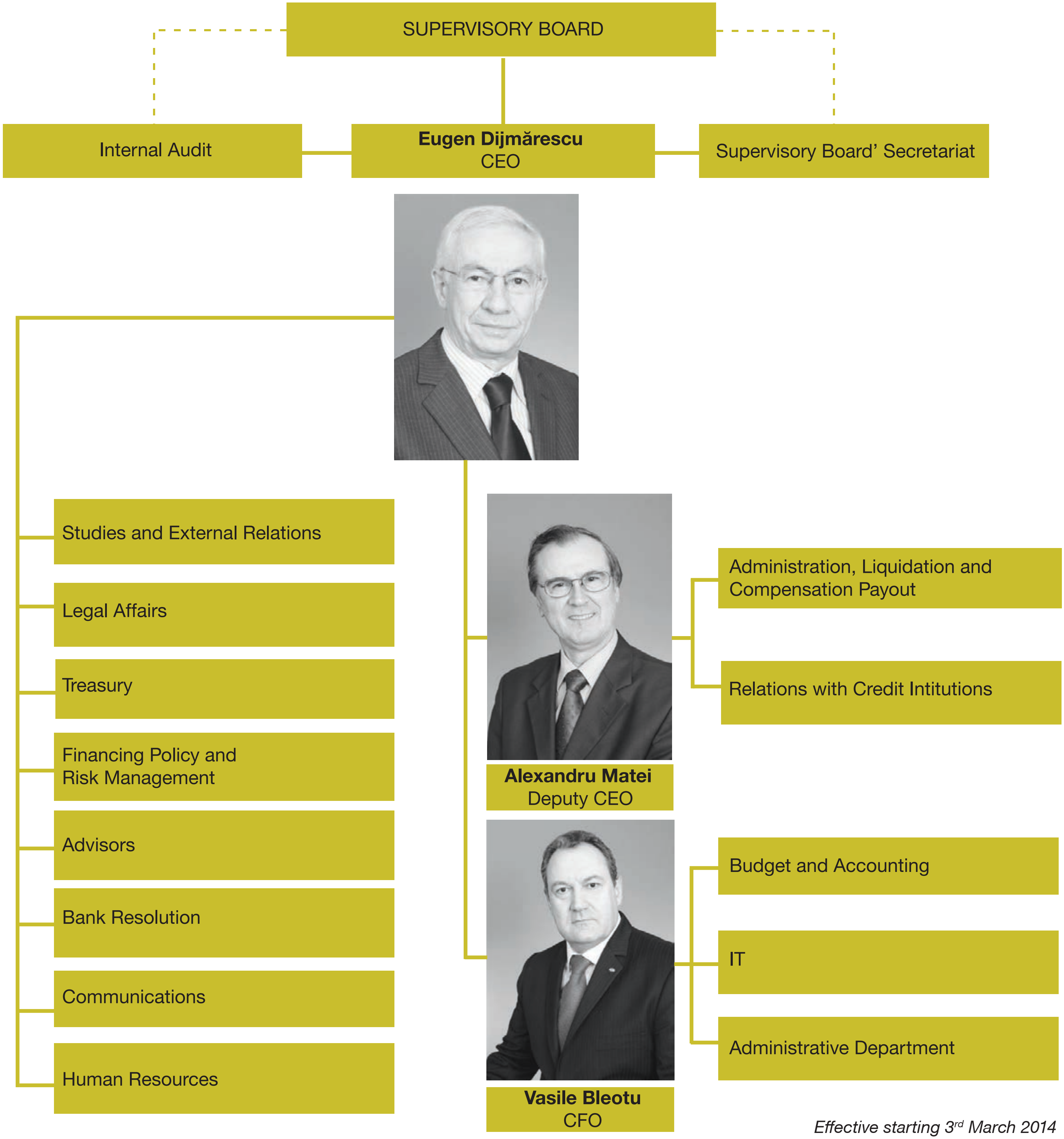
Gabriela Buculei
Advisor at the National Bank of Romania

Florin Dănescu
Executive President at the Romanian Banking Association

Liviu Stancu
Secretary of State at the Ministry of Justice

Lucia Sanda Stoenescu
Advisor at the National Bank of Romania

Mrs. Lia Tase, as chairperson (01.01.2013 - 08.09.2013) and Mr. Romulus Palade, as member (01.01.2013 - 08.09.2013), representatives of the National Bank of Romania, as well as Florin Aurel Moțiu, as member (01.01.2013 - 03.04.2014), representative of the Ministry of Justice, have also been members of the Supervisory Board.



Effective starting 3rd March 2014

MESSAGE OF THE CHAIRMAN OF THE BANK DEPOSIT GUARANTEE FUND'S BOARD

Thanks to the significant progress over the last year in the process of building a new joint regulatory framework within the European Union, bank deposit guarantee schemes in the member states are about to enter a reconfiguration stage. The model to which the bank deposit guarantee schemes converge targets a improved protection of the money depositors hold at credit institutions throughout the European Union.

Having reached a level that fully covers the amounts held in banks by most depositors in the European Union, the guarantee ceiling will be maintained at 100,000 euros, while the compensation payment period will be gradually reduced to 7 working days, which means one third of the present compensation payout deadline.

With a view to protecting depositors and maintaining financial stability bank deposit guarantee schemes will also finance resolution measures to be applied to credit institutions in distress, allowing depositors to have permanent access to the money in their bank accounts.

The crisis of the past years did not affect the banking sector in Romania as severely as it did in other countries and therefore its stability could be maintained throughout this period. Nevertheless, authorities took measures to strengthen the capacity to manage potential situations that might put credit institutions in difficulty.

Thanks to this preventive attitude, the Bank Deposit Guarantee Fund of Romania (FGDB) is prepared to meet the new requirements for depositor protection and resolution measures funding.

Depositors' confidence in the safety of their money at credit institutions is vital for the maintenance of financial stability, all the more so in times of uncertainty and tension. Over such periods, people's trust becomes more fragile and vulnerable and their aversion to risk increases. Under these circumstances, it is only natural that financial institutions should contribute to rebuilding confidence and maintaining stability.

That is why the new approach that will be implemented over the next few years involves a clear differentiation of banks' contributions to the bank deposit guarantee funds and the bank resolution funds according to the risk profile of each institution. This differentiation will mitigate the moral hazard generated by the application of a unique contribution rate, irrespective of the risks a credit institution takes. Consequently, banks will be stimulated to adopt a cautious risk management policy to avoid a rise in their contribution level.

It is the FGDB's duty to have an efficient response to the exigencies of the new regulatory framework and of the parties concerned. The present Annual Report is a reflection of these concerns.

Lucian Croitoru
Chairman of the FGDB's Board

1. FGDB PROFILE, DUTIES AND MANAGEMENT

PROFILE OF THE BANK DEPOSIT GUARANTEE SCHEME

The FGDB's main goal is to guarantee the deposits natural and legal persons hold at its member credit institutions[1], according to the law.

When deposits with a credit institution become unavailable, the FGDB has the legal obligation to compensate guaranteed depositors up to the guarantee ceiling of maximum 100,000 euros, in the leu equivalent. Due compensations should reach guaranteed depositors in 20 working days at the most.

On the other hand, if a credit institution runs into difficulties, the National Bank of Romania may take a number of steps to secure depositors' continuous access to the money in their bank accounts. In line with legal provisions and with a National Bank of Romania decision, the FGDB may either finance the transfer of guaranteed deposits to a healthy credit institution or apply stabilisation measures.

Stabilisation measures are taken when credit institutions in difficulty pose a threat to financial stability. These measures include:

a) total or partial transfer of a credit institution's assets and liabilities to one or several eligible institutions;

b) designation of the FGDB as delegated administrator of a credit institution in difficulty and, as the case may be, as shareholder after subscribing for newly issued shares following a rise in the respective institution's share capital;

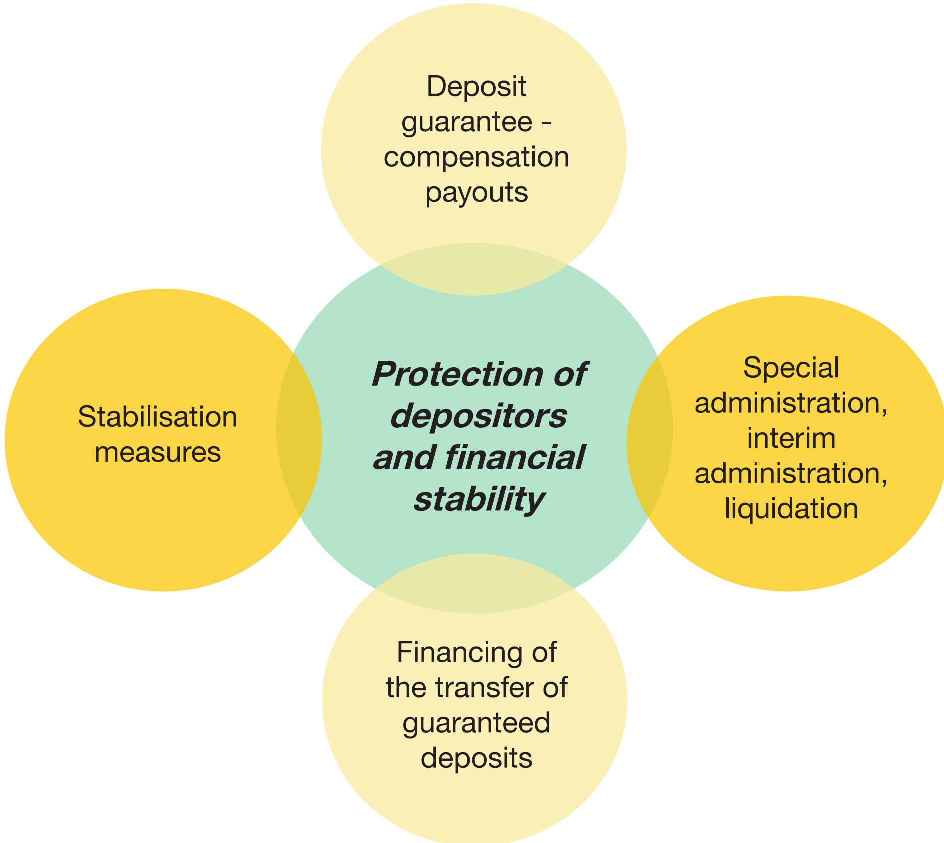
c) transfer of a credit institution's assets and liabilitites to a bridge bank created to serve this particular purpose.

In addition to the aforesaid activities, the FGDB may act as:

- special administrator, interim administrator or liquidator of credit institutions;
- delegated administrator and, as the case may be, shareholder of a credit institution undergoing the stabilisation measures decided by the National Bank of Romania;
- sole shareholder of a bridge bank and exercising the tasks of its supervisory board.

[1] A list of FGDB-member credit institutions is given in Annex 1.

FGDB's Mandate and Duties



Internationally, there are 18 Core Principles for Effective Deposit Insurance Systems worked out in 2009 by the Basel Committee on Banking Supervision (BCBS) and the International Association of Deposit Insurers (IADI). These principles are in extensive use and are also included in assessments on financial sectors in various countries made by the International Monetary Fund and the World Bank.

According to Core Principle 1, the first step in adopting a deposit insurance system or reforming an existing system is to formally establish and specify appropriate public policy objectives that it is expected to achieve. The principal objectives for deposit insurance systems are to contribute to the stability of the financial system and to protect depositors.

The FGDB fully meets this first core principle of effective deposit guarantee schemes and its mandate covers more than the basic task of guaranteeing deposits.

Concerns in Romania and internationally for preparing bank deposit guarantee schemes to be able to cope with events likely to disturb their normal activity, as well as the new requirements and trends related to the resolution of credit institutions facing difficulties were the themes of the "Contingency Planning Workshop", organised by the FGDB. The international seminar took place over September 24-26, 2013 under the aegis of the Europe Regional Committee of the International Association of Deposit Insurers and gathered participants from Europe, North America and Asia.

"Contingency Planning Workshop"
Bucharest, 24-26 September 2013

Progress was made in 2013 towards consolidating the FGDB's capacity to efficiently respond to any situation that might require its intervention.

As for the FGDB's financial capacity to intervene in to protect depositors and ensure financial stability, the year 2013 registered a further significant rise in the resources of the two FGDB-administered funds: the bank deposit guarantee fund and the bank resolution fund.

In comparison with the same period of 2012, the bank deposit guarantee fund went up by 22.2 percent to 3.5 billion lei on December 31, 2013, while the bank resolution fund doubled to 0.2 billion lei at the end of 2013[2].

[2] In the case of both funds, the 2013 profit was included.

The FGDB's Guarantee Ceiling and Scope

The FGDB covers the guaranteed deposits
up to the leu equivalent of
100,000 euros per depositor per credit institution

FGDB-member credit institutions

- All credit institutions licensed by the National Bank of Romania *(N.B. The branches in Romania of credit institutions headquartered in other EU member states take part in the deposit guarantee schemes in their home countries)*

Guaranteed depositors

- Natural persons and legal persons (mainly small and medium-sized enterprises)
- Residents and non-residents

Guaranteed deposits

- Denominated in lei and in foreign currency
- Time deposits, nominative certificates of deposit, current accounts, savings accounts, card accounts, joint accounts and similar products
- Interest included

On December 31, 2013, the FGDB was guaranteeing 14,065,202 natural persons and 931,469 legal persons[3], mainly small and medium-sized enterprises.

These persons' deposits at FGDB-member credit institutions are covered up to the leu equivalent of 100,000 euros, which is the uniform ceiling for all European Union member states.

At end-2013, deposits in the whole banking system in Romania totalled 315.2 billion lei. The FGDB's guarantee scope covered 50.8 percent of that amount, a percentage of 3.4 was insured by bank deposit guarantee schemes in the home countries of the foreign branches operating in Romania and the remaining 45.8 percent represented non-guaranteed deposits.

[3] The total number of depositors is determined by adding up the consolidated data reported by each credit institution, so that a person who has deposits with several credit institutions is recorded several times.

DUTIES

Core Principle 4 of the BCBS and the IADI –Powers: *A deposit insurer should have all powers necessary to fulfil its mandate and these should be formally specified. All deposit insurers require the power to finance reimbursements, enter into contracts, set internal operating budgets and procedures, and access timely and accurate information to ensure that they can meet their obligations to depositors promptly.*

To allow the FGDB to fulfil its obligations its powers are clearly defined under the law on its operation. The exercise of these powers relies on the FGDB's own provisions (regulations, norms, ordinances, circular letters) as well as communiqués.

The FGDB's organisation and operation are set under the Fund's own statute approved by the Board of Directors of the National Bank of Romania upon a proposal by the FGDB's Supervisory Board and with the advisory opinion of the Romanian Banking Association.

In its overall activity, the FGDB targets the responsible and efficient fulfilment of all its duties, according to the law, with a view to protecting depositors and contributing to the ensuring of financial stability.

A permanent concern on the part of the FGDB is to adapt its activities to changes in legislation and best practices.

The FGDB's activities focus on:

• *Deposit guarantee and compensation payments* – materialising in the protection of depositors by repaying the amounts in their accounts at credit institutions in full or partially (up to the guarantee ceiling) in case their deposits have become unavailable (for instance, when a credit institution goes bankrupt). To increase the efficiency and pace of the compensation payout process, the FGDB departments pursue multi-purpose action – from securing permanent and adequate financial resources and administering them in conditions of utmost safety to taking all the necessary measures in the relationships with the member credit institutions so as to efficiently manage data on depositors and maintain an optimal operation of the information systems that allow data flows between the FGDB and credit institutions – in particular, the list of outstanding compensation payments.

• *Funding of the transfer of guaranteed deposits* – as an alternative to compensation payouts, the FGDB resources can be used to implement resolution measures which imply the transfer of guaranteed deposits, including purchase and assumption (P&A) transactions, provided that the respective transfer proves less expensive than the direct payment of compensations.

• *Application of bank stabilisation measures* – focusing on measures to resolve credit institutions in difficulty which might pose a threat to financial stability. The FGDB may be involved as delegated administrator and, as the case might be, as shareholder of a credit institution going through a stabilisation measure decided by the National Bank of Romania. In case a bridge bank is created, the FGDB will be its sole shareholder and will also exercise the duties of its supervisory board. At the same time, the focus is also on the optimal management of crisis situations so that the smooth run of activities should be in no way affected.

• *Special administration, interim administration and liquidation of credit institutions* – the FGDB can act either as special or interim administrator of credit institutions in difficulty or as liquidator of bankrupt banks, a role that it has already played in the case of two banks so far. Furthermore, the FGDB is the sole liquidator of credit institutions coping with situations other than bankruptcy.

• *Management of resources* – the FGDB currently manages two funds:

- the bank deposit guarantee fund, earmarked for paying compensations and financing the transfer of guaranteed deposits;
- the bank resolution fund, earmarked for funding the bank stabilisation measures and compensating persons affected by measures taken during special administration procedures.

The investment policy mainly aims at the safety and liquidity of investments, with investment yields as a secondary target. The key goal is to continuously strengthen the FGDB's funding capacity so as to easily cover the costs of its potential interventions, be they compensation payouts or funding of stabilisation measures.

• *Verification of credit institutions* – it is one of the activities that provide the necessary conditions to accurately classify depositors and deposits in point of FGDB coverage. This aspect is essential for both fair compensation payouts and an adequate financing of the bank deposit guarantee fund and of the bank resolution fund. Moreover, in view is also the prompt, exact and complete information of depositors in connection with the coverage for their deposits at credit institutions. According to legal provisions, the FGDB annually verifies its member credit institutions for their deposit classifications according to guarantee coverage and for compliance with legislation on information supplied to depositors by credit institutions.

MANAGEMENT

Core Principle 5 of the BCBS and the IADI – Governance: The deposit guarantee system should be operationally independent, transparent, accountable and insulated from undue political and industry influence.

The FGDB's administration and management follow a two-tier model: (i) the Supervisory Board and (ii) the executive management.

The administration and management of the bank deposit guarantee scheme in Romania relies on good governance principles and standards so that, to depositors, the FGDB is a safe, solid, efficient and transparent institution.

Adding to the credibility and solidity of the FGDB is also the fact that it is administered by a Board consisting of representatives of the Government, of the authority regulating and supervising banks and of the banking community. The Supervisory Board answers to the competent authorities for the way in which the mandates and objectives set by these authorities are fulfilled.

The FGDB's Supervisory Board includes seven members, of which three are representatives of the National Bank of Romania, one represents the Ministry of Public Finance, one is a representative of the Ministry of Justice and two represent the Romanian Banking Association. The Chairman of the FGDB Board is a representative of the National Bank of Romania.

The Board members are individuals who boast high training in the economic or legal sectors, a good reputation and honorability, and vast experience in the financial-banking industry. In order to avoid a possible conflict of interests, the Board members must not be employees, directors, members of the administration board or of the supervisory board, or executives of a credit institution.

The FGDB is subject to both internal audit and an annual control by an independent auditor from among top internationally acknowledged companies, which offers a faithful image of all the significant aspects of the FGDB's real financial position.

To guarantee the transparency of FGDB activities, decisions, results and other relevant aspects they are all made known to interested parties through the FGDB's publications, website, communiqués and media articles and interviews.

Owing to its specific activity and powers stipulated by the law, the FGDB has close ties with the National Bank of Romania, a number of materials endorsed by the FGDB's Supervisory Board being submitted for approval to the Board of Directors of the National Bank of Romania. These materials include the statute and regulations worked out by the FGDB in the application of the law, the organisational and personnel structure, the wage policy, the revenue and expenditure budget, the coordinates of the FGDB's funding policy, the annual FGDB exposure strategy, the annual activity report, the annual financial statemens and others.

2. ACTIVITY FRAMEWORK IN 2013

INTERNATIONAL FRAMEWORK REGULATING THE ACTIVITY OF BANK DEPOSIT GUARANTEE SCHEMES

The most important European regulations on bank deposit guarantee schemes were finalised in the spring of 2014 following intense debates in European bodies throughout 2013.

The new provisions introduce changes to bank deposit guarantee schemes, requesting competent national authorities to transpose them into national legislation in 2015.

In this respect, one of the significant changes advanced by the EU Directive on Deposit Guarantee Schemes is the obligation of the schemes to compensate guaranteed depositors within 7 working days of the date when deposits have been declared unavailable instead of the current 20 working days. The guarantee schemes will have 10 years to gradually reduce the compensation payout dead line.

During the negotiations on draft regulations on deposit guarantee schemes and bank recovery and resolution conducted at the European level in 2013, the FGDB expressed a number of viewpoints on the issues under discussion during various stages.

Here below is a synthesis of the most important provisions under EU regulations which impact the deposit guarantee schemes:

- *The EU Directive on Deposit Guarantee Schemes;*
- *The EU Directive establishing a framework for the recovery and resolution of credit institutions and investment firms.*

The EU Directive on Deposit Guarantee Schemes

The new Directive aims at highly harmonising all the essential elements of the deposit guarantee schemes within the European Union as a whole, providing equal conditions as concerns the guarantee of depositors' money held at credit institutions in the member states, no matter their geographic location.

The guarantee ceiling remains unchanged at 100,000 euros in all European Union member states, while the compensation payout deadline will be gradually reduced from 20 to 7 working days by January 1, 2024 at the latest. The 20-working day period is stipulated to apply until December 31, 2018 at the latest; it will be cut to 15 working days for a period of 2 years and then to 10 working days for the next 3 years.

During the 10-year period of transition to the 7-working day repayment deadline, the deposit guarantee schemes must ensure depositors' access to an appropriate amount to cover the cost of living within 5 working days of their request.

To be able to comply with the new compensation payout, the deposit guarantee schemes will perform periodical tests of their systems. At the same time, the deposit guarantee schemes will be informed, as soon as possible, if competent authorities detect problems within a credit institution that are likely to trigger interventions by deposit guarantee schemes.

With a view to consolidating the financing capacity of deposit guarantee schemes, they will have to be ex-ante funded, a system that has been in operation in Romania ever since the creation of the FGDB. Participating credit institutions will pay periodical contributions[4] tailored to their risk profile. The guarantee schemes will develop their own risk-based contributions systems contributions which will be approved by competent authorities, with the European Banking Authority (EBA) being correspondingly informed. Within one year of the date the Directive comes into force, the EBA will issue guidelines for calculating contributions to bank deposit guarantee schemes (specific indicators, calculation formulas, risk classes, thresholds for risk weights etc.). The accumulated resources of a bank deposit guarantee scheme should reach, within a time span of 10 years after the Directive comes into force, a minimum target level of 0.8 percent of the value of covered deposits[5].

With the new Directive on deposit guarantee schemes, the guarantee scope will be extended to include the deposits of all non-financial companies, regardless of their size[6]. At the same time, the guarantee scope of these schemes may include deposits of private and occupational pension schemes in small and medium-sized enterprises, as well as deposits of local authorities whose annual budgets do not exceed 500,000 euros.

Certain types of deposits – such as deposits resulting from real estate transactions, deposits that serve social purposes and are linked to the private life of a depositor (marriage, divorce, retirement, dismissal, invalidity, death), as well as deposits that serve purposes laid down in national laws and refer to payments of compensation for criminal injuries or wrongful conviction – will be protected above 100,000 euros for a period of 3 to 12 months.

Specific provisions under the Directive refer to information on deposit guarantee offered to depositors which is seen as an important factor of maintaining their confidence in the safety of the funds held with credit institutions. To better inform depositors, banks should provide them with a standardised information sheet before entering into a contract on deposit-taking. This sheet should contain information on deposit guarantee and the scheme accountable in this respect. Depositors' bank statements will also include mentions about deposit guarantee.

Depositors of a branch of a credit institution on a member state will be compensated by the bank deposit guarantee scheme in the host state, which will act on behalf of the scheme in the home state, including communication with the depositors of the respective branch[7].

[4] At least once a year.
[5] A covered deposit means the part of the guaranteed deposit that does not exceed the guarantee ceiling.
[6] The Directive on bank deposit guarantee schemes in its previous version provided for the guarantee of the deposits of legal persons in the category of small and medium-sized enterprises and other similar entities.

In certain conditions, member states may allow their national bank deposit guarantee schemes to lend to deposit guarantee schemes in other member states that do not have sufficient resources to compensate depositors.

The resources of the bank deposit guarantee schemes may be used to finance resolution measures, in line with the Directive on the recovery and resolution of problem credit institutions. Under particular circumstances, the financial means of a guarantee scheme may be used to fund alternative measures to prevent the failure of a bank with a view to avoiding both the costs of reimbursing depositors and other adverse impacts.

Moreover, member states may decide that the deposit guarantee schemes' resources should be used to finance measures providing for depositors' access to covered deposits (including transfer of assets and liabilities and deposits transfer), in the context of national insolvency proceedings. In this case, the costs borne by the deposit guarantee scheme should not exceed the total amount of compensations to the guaranteed depositors of the respective credit institution.

The new duties of deposit guarantee schemes will lead to an extension of their mandate – from institutions paying compensations to guaranteed depositors to institutions involved in resolving problem credit institutions.

The draft of a single bank deposit guarantee scheme within a banking union, first discussed in 2012, stagnated throughout 2013 as efforts channelled towards finding consensus on the provisions of the Directive on deposit guarantee schemes.

The EU Directive Establishing a Framework for the Recovery and Resolution of Credit Institutions and Investment Firms

This Directive provides authorities in member states with a joint set of tools for banks and a clear mechanism to run when these banks face difficulties so as to avoid the recourse to public funds, maintain financial stability and protect taxpayers.

The framework the Directive establishes takes into account preparation and prevention measures, early intervention by competent authorities, as well as resolution tools and powers.

The resolution of credit institutions aims at ensuring the continuity of their critical functions, maintaining financial stability, limiting the recourse to public funds and protecting depositors.

The losses, costs and other spending which the use of resolution tools generates should be imposed primarily on the shareholders and creditors of the institution under resolution and secondly on the financial system, through contributions.

The set of resolution tools includes:

a) sale of part of an unviable bank to one or more entities;

b) bridge bank – it is a temporary structure that ensures the continuity of the essential banking functions of problem institutions;

c) separation of good assets from bad or toxic assets, with the latter being transferred to an asset management vehicle; this tool can only be applied in combination with another resolution tool;

[7] The bank deposit guarantee scheme in the home state will supply the scheme in the host state with the necessary resources for compensation payments before the start of the repayment process.

d) *bail-in* mechanism (of internal recapitalisation) – means a write-off/reduction of the liabilities of institutions under resolution or the conversion of their debts into equity.

The fact is noteworthy that if the *bail-in* tool is resorted to, depositors holding deposits that do not exceed the guarantee ceiling will not bear losses as their funds are protected by the bank deposit guarantee schemes in the European Union up to the coverage level of 100,000 euros.

The contributions of the institutions participating in national resolution funds will be set according to their risk profiles and will take as a calculation base the institutions' liabilities less their own funds and covered deposits. By December 31, 2024, national resolution funds should reach a target level of 1 percent of covered deposits.

In case certain resolution measures are applied to secure the continuity of depositors' access to their deposits, the bank deposit guarantee schemes must provide an amount equivalent to the losses they would have incurred if the institutions under resolution had been liquidated under normal insolvency proceedings, with the other financing needs being met from the resolution fund.

The amounts paid by bank deposit guarantee schemes while resolution measures are being applied become the schemes' claims on the respective credit institutions. These claims, in the order of priority of claim payments stipulated under the insolvency law, will have the same ranking as covered deposits.

Besides the aforesaid Directive, in December 2013 the EU member states also reached agreement on the creation of a single resolution mechanism for the banking union whose features are briefly described in the third section of the present chapter called *"Developments in the Banking Sector in the European Union and in Romania"*.

In parallel with the European Union bodies' activities, in July 2013 the Financial Stability Board (FSB) issued three guidance papers on recovery and resolution planning for systemically important financial institutions.

The guidance papers followed the publication in April 2013 of the results of a FSB peer analysis on resolution regimes in FSB-member countries. The analysis was based on FSB standards on *Key Attributes of Effective Resolution Regimes for Financial Institutions*.

Along with the steps taken inside the European Union, a number of other projects were internationally initiated in respect of the *Core Principles for Effective Deposit Insurance Systems* and guidelines were issued by the International Association of Deposit Insurers (IADI), which are outlined in what is to follow.

Core Principles for Effective Deposit Insurance Systems

Ever since the *Core Principles* were adopted in 2009 the regulatory framework has been amended and new elements emerged from assessments on bank deposit guarantee schemes[8] in countries on all continents. That is why the Financial Stability Board recommended an update of existing deposit guarantee guidelines and the development of additional guidance in connection with aspects of the *Core Principles* that require further details, such as:

- developing benchmarks to monitor the adequacy of coverage levels;
- identifying the best methods and practices to mitigate moral hazard;
- ensuring an effective coordination between deposit insurance schemes operating within the same jurisdiction;
- conducting regular scenario analyses and simulations to assess the capability of making prompt compensation payouts;
- analysing the feasibility and opportunity of a greater use of ex-ante funding;
- developing mechanisms to regularly monitor public awareness of the bank deposit guarantee schemes.

Early in 2013, a committee in charge of revising the *Core Principles for Effective Deposit Insurance Systems* was created within the IADI.The proposals set forth by that committee are being debated by a working group including representatives of the Basel Committee on Banking Supervision, the Financial Stability Board, the International Monetary Fund, the World Bank and the European Commission.

FGBD's INFO, available at www.fgdb.ro

The proposals agreed by the working group will be submitted for approval to the IADI Executive Council. Subsequently, they will be forwarded to the Financial Stability Board before July 2014.

In 2013, the IADI also issued three guidance papers for bank deposit guarantee schemes[9], which were submitted to the Financial Stability Board. These papers referred to:

- establishment of the bank deposit guarantee scope and ceiling;
- mitigation of moral hazard;
- early detection and timely intervention in case of problem banks.

[8] Self-assessments, assessments conducted under the Financial Sector Assessment Program (FSAP) of the International Monetary Fund and the World Bank, as well as assessments of the bank deposit guarantee schemes in FSB-member countries.

[9] The IADI guidance papers were detailed in the FGDB's Info bulletins, thus being made known to the public in Romania.

THE DOMESTIC REGULATORY FRAMEWORK

The amendments to the legislation on credit institutions made in 2013 also referred to aspects of the FGDB's activity to apply stabilisation measures and inform depositors.

The amendments in October 2013 to Government Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy included the completion of provisions on the stabilisation measures which the National Bank of Romania can adopt and which are funded by the FGDB.

In consideration of the fact that stabilisation measures are applied in cases in which financial stability is threatened, a mention was introduced to include among such cases the situations which adversely affect the protection of depositors and the population's confidence in the banking system. Consequently, if the situation calls for it, stabilisation measures can be applied to all banks, irrespective of their size. The early intervention prerogatives of the National Bank of Romania were extended to ensure a rapid implementation of stabilisation measures for credit institutions of smaller size.

Likewise, there were highlighted the objectives which the National Bank of Romania considers when implementing stabilisation measures, namely:

- ensuring the continuity of the activities the interruption of which may significantly impact the operation of the economy or of the financial market;
- maintaining financial stability and market discipline;
- protecting guaranteed depositors[10].

Furthermore, a new amendment in December 2013 to Government Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy[11] introduced provisions under which the National Bank of Romania is the competent authority as concerns the resolution[12] of credit institutions, with the powers deriving from this capacity being exercised distinctly and independently from its supervisory powers and other duties stipulated by the law.

Another novelty under the normative act amending Government Emergency Ordinance no. 99/2006 in December 2013 was the improvement of an existing regulation on various aspects, such as the better information of guaranteed depositors. As a result, credit institutions operating in Romania are obliged to state the name of the bank deposit guarantee schemes they are members of in all forms of advertising, in information and/or pre-contract documents, in contracts and correspondence on deposits.

On February 12, 2014, the Ministry of Public Finance advanced a draft Emergency Ordinance on the macro-prudential supervision of the national financial system which will be the basis for the creation of the National Committee for Macro-Prudential Supervision (CNSM) as a structure of inter-institutional cooperation, without legal personality.

The CNSM's primary objective is to contribute to safeguarding financial stability, also by consolidating the capacity of the financial system to withstand shocks and by reducing the build-up of systemic risks. At the same time, the CNSM will be responsible for coordination in the area of macro-prudential supervision of the national financial system by defining the macro-prudential policy and determining the adequate tools for its application. The Committee will also coordinate financial crisis management.

[10] The amendments were made under Law no. 272/2013 to amend and complete Government Emergency Ordinance no. 98/2006 on the supplementary supervision of credit institutions, insurance and/or reinsurance entities, investment firms and asset management companies in a financial conglomerate, Government Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy and Law no. 32/2000 on insurance undertakings and insurance supervision, published in the Official Gazette of Romania, Part I, no. 656 of October 25, 2013.

[11] Emergency Ordinance no. 113/2013 on budgetary measures and the amendment and completion of Government Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy, published in the Official Gazette of Romania, Part I, no. 830 of December 23, 2013.

[12] Resolution is defined as the reorganisation of a credit institution in difficulty which aims at ensuring the continuity of its essential functions for the economy, the maintenance of financial stability and, as the case might be, the restoration to viability of at least part of the credit institution as the National Bank of Romania implements special administration or stabilisation measures.

The CNSM's General Council will consist of representatives of the National Bank of Romania, the Financial Supervisory Authority and the Government of Romania. The FGDB can take part in General Council proceedings as observer.

In May 2014, Order no. 656/2014 of the Minister Delegate for Budget was adopted referring to the approval of the Procedure whereby the Bank Deposit Guarantee Fund can apply and receive Government loans[13].

It outlines the technical details whereby the FGDB is given a loan within 5 working days from the date of its application to cover compensation payments, to finance guarantee deposit transfer operations and to fund stabilisation measures. The necessary amounts come from privatisation proceeds in lei and in foreign currency, as well as from state loans.

DEVELOPMENTS IN THE BANKING SECTOR IN THE EUROPEAN UNION AND IN ROMANIA

Developments in the European Union

"Euro area financial sector stress remained moderate in 2013, despite some global financial market turbulence in the summer months mainly related to changes in expectations regarding the monetary policy stance in the United States. The developments in the euro area reflected continued adjustment in euro area countries, aimed at strengthening fiscal positions and addressing structural rigidities restraining economic growth. At the same time, advances made on the regulatory front contributed to building up higher capital and liquidity buffers in the banking sector, enhancing the banking system's shock-absorption capacity and establishing a more sustainable basis for bank profitability in the medium to long term."

Annual Report 2013 of the European Central Bank

After the economic and financial crisis of the previous years, 2013 saw clear signs of recovery, though a certain degree of fragility persisted as did the differences in growth levels between member states.

Financial markets in the European Union showed improvements throughout 2013, while the banking sector recovered gradually, with business models adapting to the new post-crisis framework.

According to estimations, the Gross Domestic Product in the 28 European Union member states as a whole increased by 0.1 percent in 2013, heading higher in the fourth quarter of the year when it added 1 percent from the same period of 2012.

[13] This Order abrogates Order no. 2531/2009 of the Minister of Public Finance on the Procedure whereby the Bank Deposit Guarantee Fund can apply for and be given a loan from revenues from selloffs in exceptional circumstances when the Fund's financial resources are insufficient to cover compensation payouts in case of guaranteed deposits.

This rise was a result of global economic revival, triggered by advances in developed economies in particular, as well as by the reinvigoration of some emerging markets.

A number of macro-economic indicators in the European Union as a whole improved in 2013, as the adjustments and the structural, fiscal and institutional reforms made by member states facing difficulties started to yield positive results. Such progress boosted confidence in the success of reforms and eased the sense of uncertainty over future developments.

Nevertheless, economic activity was still under the impact of the process of balance sheet adjustments in the public and private sectors, the high unemployment rate and the process of fiscal consolidation.

The countries in difficulty which benefited from financial assistance and adjustment programmes, namely Greece, Ireland, Portugal, Spain and Cyprus, managed to reduce macro-economic imbalances and to improve financial stability. Thanks to the programmes that have been applied, these countries could take steps towards their consolidation.

Cyprus is the only country in the aforesaid group where the economic adjustment programme was initiated in 2013, all the other countries resorting to financial assistance in previous periods.

The crisis in Cyprus, triggered by exposure to Greek government bonds and Greece's economy, defined the start of 2013. An abrupt disintermediation occurred during a single week following the sale of operations in Greece of Cypriot banks to Piraeus Bank, with the total value of assets decreasing by around 24 billion euros (147 percent of GDP). At the same time, deposits totalling 12.5 billion euros were transferred to avoid the risk of contagion to Greece. Non-resident depositors of Cyprus banks massively withdrew their deposits at banks in Cyprus. The first two banks in Cyprus – namely the Cyprus Popular Bank (Laiki Bank) and the Bank of Cyprus – were restructured making use of the internal recapitalisation tool, which was a first.

The fact is noteworthy that the crisis in Cyprus did not affect guaranteed depositors' deposits within the 100,000-euro coverage level.

The adverse economic framework in the years of the crisis, as well as the reforms in the financial area triggered radical changes in the banking sector of the European Union, which included revisions of the strategies, activities and operational structures of credit institutions.

In 2013, financial markets remained fragmented, though to a lesser extent.

Financing conditions improved, including for states and banks facing difficulties, but the lending dynamics stayed weak or even negative. The bad loan ratio picked up due to sluggish economic activities and high unemployment.

All in all, the solvency of credit institutions strengthened as a result of capital increases and a decrease in risk assets.

The banks took steps to optimise their balance sheets by diminishing their exposure to non-performing assets and restructuring their operations.

Profitability in the banking sector was relatively low under the significant impact of the high levels of provisions linked to credit risk and a slower rise in net revenues from interest triggered by the lending dynamics.

The diminution of the European banking sector was also an effect of the restructuring and liquidation of a number of credit institutions, including banks in Portugal, Austria, Greece, Slovenia, Spain and Italy.

Furthermore, a number of acquisition and merger transactions were concluded, with a high stake going to operations involving the state (for instance, Greece's Financial Stability Fund took majority control of four of the country's largest banks and the Government of the Netherlands nationalised a banking group).

On the other hand, a number of large multinational groups withdrew from countries in Central and Eastern Europe, limiting their activities and refocusing on local markets.

By mid-2013, the European Union saw the adoption of a new legal framework for banking activity regulation, supervision and prudential requirements for credit institutions and investment firms[14] which introduces capital and liquidity buffers to enhance the resilience to shocks of the financial system in the European Union.

In 2013, significant steps were taken towards the creation of the banking union, the pillars of which are the Single Supervisory Mechanism, the Single Resolution Mechanism and a new bank deposit guarantee framework[15]. The creation of the banking union is of essential importance in reducing market fragmentation and in breaking the vicious circle between sovereign and bank debts.

Exchange of experience at the Bulgarian Deposit Insurance Fund, Sofia, 21 November 2013

[14] Regulation no. 575/2013 of the European Parliament and of the European Union Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012, as well as Directive 2013/36/EU of the European Parliament and of the European Union Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC . This regulation package transposes the new international standards on the capital of credit institutions (The Basel III Accord) which impose firmer prudential requirements with a view to enhancing bank solidity and improving their capacity to manage risks and the loss absorption mechanism. The new framework on capital requirements entered into force on January 1, 2014.

[15] At the start of the present chapter the draft directives were outlined which have a direct impact on bank deposit guarantee schemes, namely the directives on bank deposit guarantee schemes and on the recovery and resolution of problem credit institutions.

In October 2013, the European Union Council adopted Regulation no. 1024/2013 conferring specific tasks on the European Central Bank (ECB) concerning policies relating to the prudential supervision of credit institutions. This regulation is the base of the Single Supervisory Mechanism (SSM) for credit institutions in the euro area in which credit institutions in other member states can participate[16].

The SSM will be fully operational starting November 2014 after the ECB and national banking supervision authorities have made a comprehensive assessment of credit institutions in the euro zone, including a risk analysis, an asset quality review and a stress test to assess banks' resilience to various crisis scenarios.

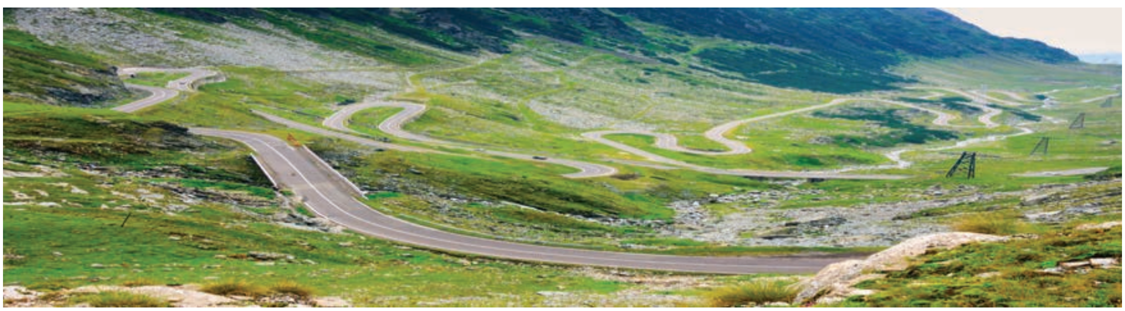
The Single Resolution Mechanism (SRM) completes the SSM providing for a centralised and coherent application of resolution measures to credit institutions that make the object of the SSM and which could face severe issues that might jeopardise financial stability[17].

The SRM will consist of a single resolution board, which is the central decision-making body, and a single resolution fund. The latter will pool contributions from banks and will eventually replace the national funds of the states participating in the banking union. The single resolution fund will reach a target level of 1 percent of covered deposits over an 8-year period.

Although the reforms in the financial sector aimed at consolidating credit institutions and at minimising the potential impact of their failure on financial stability and taxpayers, there still are banks whose size, interconnections and complex activities make them too big to go into insolvency.

In case such a credit institution experienced difficulties the necessary resolution measures would be highly complex and extremely expensive. Therefore, with a view to protecting financial stability, enhancing the resilience of the European Union's banking sector and ensuring the continuity of financing to economic activities by banks, the European Parliament asked the European Commission in the summer of 2013 to draft a proposal on the structural reform of the European Union's banking sector[18].

According to the proposal, supervisory authorities will have the power to require credit institutions to separate certain potentially risky trading activities from their deposit-taking function if the pursuit of such activities jeopardises financial stability. Consequently, a deposit-taking institution whose participation in a bank deposit guarantee scheme is mandatory will not be able to trade on own account in financial instruments and commodities with the sole purpose of making profit for the institution nor will it be able to engage in other highly risky trading activities.



[16] The ECB will directly supervise some 130 credit institutions totalling around 85 percent of the assets in the banking system in the euro area. Credit institutions are considered significant when they meet certain criteria, such as: total assets worth more than 30 billion euros or over 20 percent of the GDP of the member state of origin (except the case when the total value of assets does not exceed 5 billion euros), belonging to the category of the first three most significant banks in the participating member state.

[17] The SRM is based on two elements, namely the Single Resolution Mechanism Regulation and the Intergovernmental Agreement on the Single Resolution Fund. The latter refers to the transfer and mutualisation of contributions to the single resolution fund. The SRM Regulation was adopted in April 2014, while the Intergovernmental Agreement was signed in May 2014. Some of the provisions under the SRM Regulation will come into force on January 1, 2015 and others in 2016.

[18] The European Commission advanced the proposal on January 29, 2014.

Developments in Romania

"The banking system is solid and well capitalised. The solvency ratio in the case of most banks exceeds the 10 percent prudential limit recommended by the National Bank of Romania and so far public funds were not used to support the banking sector.

The profitability of the banking system moved back into positive territory and stayed there early in 2014 as well."

Excerpts from the speech the Governor of the National Bank of Romania made on April 30, 2014 during a working luncheon with the ambassadors of EU states

The banking system in Romania remained stable throughout 2013 and external tension, the crisis in Cyprus in particular, had no significant impact on banks.

Although local credit institutions did not have to cope with major difficulties calling for special resolution measures and/or FGDB intervention, further steps were taken in Romania to consolidate the banking sector and enhance its resilience to shocks.

Following the crisis in Cyprus and the decision to restructure the Bank of Cyprus and the Laiki Bank, Cyprus' central bank issued a decree whereby part of the assets and liabilities of the branch in Romania of the Bank of Cyprus was to be transferred to the Marfin Bank România S.A. As a result of this operation, deposits worth 77 million euros, which were transferred from the branch in Romania of the Bank of Cyprus, were covered under Romanian deposit guarantee legislation and were therefore not affected by the measures taken by Cypriot authorities.

In 2013, the banking system in Romania registered major client portfolio acquisition deals, as well as changes in shareholding structure and capital increases.

In the third quarter of 2013, Raiffeisen Bank S.A. bought the retail portfolio of the branch in Romania of Citibank Europe plc, Dublin, while a RBS Bank (Romania) S.A. transferred its retail portfolio to UniCredit Țiriac Bank S.A.

According to the reorganization plan of the ATE Bank România S.A., early in December 2013 Piraeus Bank România S.A. took over part of the ATE's client portfolio including around 11,000 natural and legal persons. Piraeus Bank România S.A. subsequently sold its 93.27 percent stake in ATE Bank România S.A. to a Romanian businessman[19].

By end-2013, a number of bank acquisition transactions were finalised. Hungarian bank MKB Bank Zrt. (sold its 96.3 percent stake in the Nextebank S.A.) to investment fund Emerging Europe Accession Fund, administered by Axxess Capital, while Polish financial group Getin Holding bought a majority 89.4 percent stake in the Romanian International Bank.

The 40 credit institutions operating in Romania at the end of 2013[20] held net assets amounting to 362.2 billion lei, 0.9 percent less than on December 31, 2012. The contraction was mainly a result of the adjustment of credit institutions' balance sheets.

At the same time, financial disintermediation continued in 2013, with the banks in Romania, just like the banks in the region, resorting to a greater extent to financing from deposits taken locally.

[19] Starting mid-March 2014, the bank operates under the name Banca Română de Credite şi Investiții.

[20] 31 credit institutions, Romanian legal persons (28 banks, 2 savings banks for housing and one credit cooperative organisation - central body and affiliated credit cooperatives - and 9 branches of foreign banks).

This move triggered competition between banks to attract deposits, which stimulated savings.

The savings ratio, calculated as difference between gross national disposable income and final consumption, as percentage of GDP, moved higher in 2013, from 21.5 percent in the last quarter of 2012 to 21.9 percent in the fourth quarter of 2013.

The changes made in the shareholding structure of credit institutions and the evolution of their assets in 2013 led to a rise in the stake foreign-owned credit institutions hold in total assets by 0.2 percentage points to 90.0 percent on December 31, 2013.

At the same time, the stake in total assets of privately-owned credit institutions was slightly lower than the end-2012 level, standing at 91.5 percent on December 31, 2013 (an annual variation of -0.1 percentage points).

Given more restrictive lending terms and low demand for new credits, the banking system as a whole registered a contraction of loans to households and to non-financial corporations (an annual variation of -1.2 percent for the household segment and of -5.4 percent for credits to non-financial corporations).

In both cases, the decline in loans was a result of the shrinkage of the foreign currency component.

At end-December 2013, loans to households totalled 103.2 billion lei, while credits to non-financial corporations stood at 112.3 billion lei.

Deposits in the whole banking system stagnated as compared to December 31, 2012 to amount to 315.2 billion lei at the end of 2013.

Whereas natural persons' deposits reached 130.8 billion lei on December 31, 2013 (an annual variation of +5.9 percent), the deposits of legal persons (non-financial and financial corporations) dropped by 3.8 percent from the end of 2012 to 184.4 billion lei on December 31, 2013.

The loan-to-deposit ratio was relatively balanced in 2013, its level falling from 117.37 percent on December 31, 2012 to 104.59 percent at end- 2013.

The positive evolution of deposits on the household and non-financial corporation segments and the contraction in lending were behind the improved loan-to-deposit ratio.

The share/endowment capital of credit institutions in Romania stood at 25.1 billion lei on December 31, 2013, going up by 0.3 billion lei from the same date the previous year.

The solvency ratio, which amounted to 15.46 percent on December 31, 2013, significantly higher than the 8 percent regulatory minimum, reflects the solid capitalisation of the banking system as a whole.

Compared to the same date the previous year, the solvency ratio added 0.52 percentage points against the background of capital increases in credit institutions.

The leverage ratio, computed as the ratio of Tier 1 capital to total average assets, stood at 7.96 percent on December 31, 2013, losing 0.06 percentage points from end-2012.

The liquidity indicator remained above the minimum requirement of 1, reaching 1.53 on December 31, 2013.

The non-performing loans ratio rose throughout 2013 to 21.87 percent on December 31 (+3.63 percentage points as compared to December 31, 2012), mainly because of the slow improvement of loan reimbursement capacity and the reassessment of the quality of previously restructured loans. Nevertheless, the bad loans ratio increased at a slower pace compared to previous periods.

In its turn, the credit risk ratio followed an upward path in 2013 to stand at 32.14 percent on December 31 (+2.23 percentage points from December 31, 2012).

The profitability of credit institutions moved back into positive territory in 2013 after posting losses for several quarters. On December 31, 2013 ROA amounted to 0.01 percent and ROE stood at 0.13 percent.

The rate of return on core activities also increased to reach 176.85 percent on December 31, 2013 (+6.54 percentage points as compared to December 31, 2012). This evolution took place while the operating expenses of credit institutions decreased, although the incomes of some of them, particularly incomes from interest rates, were impacted by the modest rise or negative dynamics of loans and by low interest rates.

In 2013, further units in the credit institutions' networks in the territory were shut down and more employees were laid off, which diminished the credit institutions' spending.

The monetary policy rate was gradually cut in 2013 from 5.25 percent to 4 percent. With a certain delay, the successive reduction of the monetary policy rate pushed interest rates on loans to their lowest in the past two decades.

As compared to the end of 2012, average interest rates on new leu-denominated loans followed a downward path sliding by December 2013 to 9.05 percent in the case of household loans (-3.36 percentage points compared to the same period of the previous year) and to 6.84% in the case of credits to non-financial corporations (-2.92 percentage points as to December 2012).

The same downward trend showed also in the case of average interest rates on the new time deposits denominated in lei and euros of households and non-financial corporations. The average interest rate on new household time deposits denominated in lei slipped by 1.72 percentage points from December 2012 to 3.92 percent in December 2013, while in the case of new time deposits denominated in euros the drop was of 1.26 percentage points to 2.13 percent. On the non-financial corporations segment, the average interest rate on new leu-denominated time deposits fell to 2.19 percent in December 2013 (-2.96 percentage points as to December 2012), while on deposits denominated in euros it reached 1.47 percent (-0.5 percentage points as to December 2012).

INTERNATIONAL ACTIVITY

Throughout 2013, the FGDB continued to support the activities of the two professional associations operating in the bank deposit guarantee sector – the European Forum of Deposit Insurers (EFDI)[21] and the International Association of Deposit Insurers (IADI)[22].

In January 2013, the CEO of FGDB was elected, for a period of two years, Chairperson of the IADI Europe Regional Committee (ERC) which includes the bank deposit guarantee schemes of 25 countries. In line with the ERC terms of reference, throughout the two-year period the FGDB serves as the Secretariat of the IADI Europe Regional Committee.

As part of the actions carried through under the aegis of the IADI Europe Regional Committee, in September 2013 the FGDB organised in Bucharest an international seminar on "Contingency Planning" which gathered more than 70 people from 21 countries.

In 2013, in its capacity as member of the EFDI and the IADI, the FGDB extended its participation in several committees, sub-committee and working groups of the two associations.

Through its representatives, the FGDB participated in 2013 in the annual general meetings of the EFDI and the IADI, the meetings of the ERC and of the EFDI European Union Committee, as well as in meetings of the IADI Executive Council. At the same time, FGDB representatives took active part in the international conferences and seminars organised by the IADI, EFDI and other bank deposit guarantee institutions abroad.

In their turn, the Fund's bilateral relations with other bank deposit guarantee schemes strengthened in 2013. In September, the FGDB and the Bank Guarantee Fund of Poland signed a Memorandum of Understanding providing for consolidated cooperative ties, exchange of information, viewpoints and experience on financial services, bank deposit guarantee, resolution of banks in difficulty, promotion of sound banking practices and discussions on issues related to financial stability. The term of the Memorandum of Understanding is 5 years, with an option of extension.

[21] EFDI has 56 members, 10 associates and 12 observers.
[22] IADI has 75 members, 7 associates and 12 partners.

Eugen Dijmărescu and Jerzy Pruski signing the Memorandum of Understanding between the Deposit Guarantee Schemes from Romania and Poland Roma, 19 September 2013

Furthermore, in November 2013, a FGDB delegation paid a working visit to the bank deposit guarantee institution of Bulgaria discussing practical issues of concern to both parties.

Throughout 2013, the FGDB answered requests from other bank deposit guarantee institutions and EFDI and IADI committees and working groups, supplying information on its own activity and practice, statistical data on the evolution of deposits and details on bank deposit guarantee legislation.

In 2013, the FGDB received the joint visits of the representatives of the International Monetary Fund, the World Bank and the European Commission, its relationship with these international bodies relying on their preventive assistance accords with Romania. The talks focused on such topics as the stage of implementing amendments to FGDB legislation, the evolution of the main FGDB indicators, the size of its resources and the exposure coverage, bank resolution methods correlated with the provisions of the draft European Directive on the recovery and resolution of credit institutions.

In the second half of 2013, the FGDB entered a World Bank assistance programme, whose primary targets are the modernisation of the legal framework of the bank deposit guarantee scheme of Romania, especially as concerns participation in credit institution resolution, as well as the increased preparedness for unexpected situations, including the implementation of stress tests. Preparatory action was taken along this line and the project is scheduled to continue in 2014.

According to a decision of the EFDI General Meeting of September 2013, the FGDB will be the main organiser of the EFDI Annual General Meeting and of the international conference on “Deposit Guarantee Schemes in a New Regulatory Environment” to be held in Romania in September 2014.

During the same General Meeting, the CEO of FGDB was co-opted in the EFDI working group on statutory reform.

3. BANK DEPOSIT GUARANTEE

EVOLUTION OF DEPOSITS IN 2013

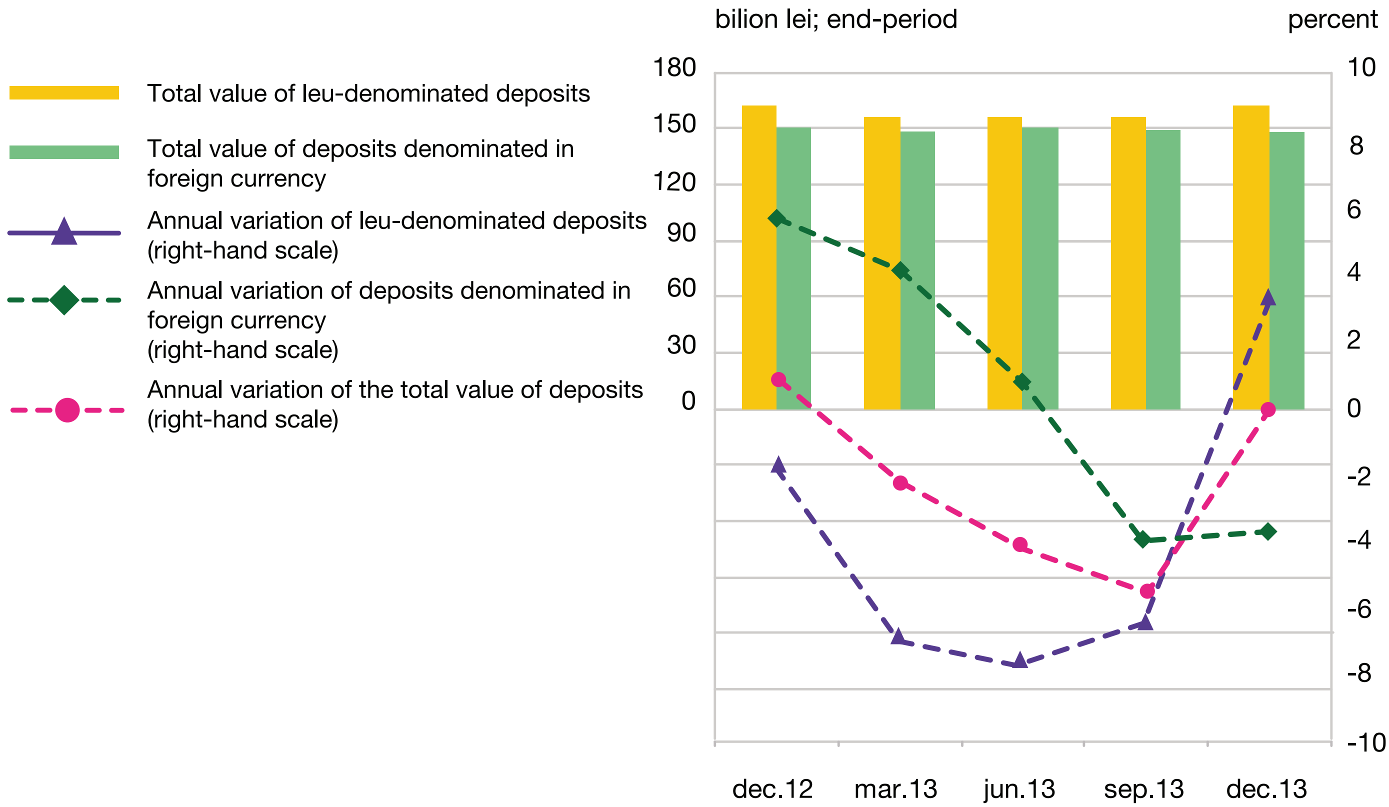
The value of deposits in the whole banking system in Romania totalled more than 315 billion lei at end-2013, stagnating on the previous year's level.

"According to the law on the FGDB's operation, a deposit is "any credit balance, including the due interest, which results from funds left in an account or from temporary situations deriving from normal banking transactions and which a credit institution must repay under the legal and contractual conditions applicable, and any debt evidenced by a certificate issued by a credit institution, except bonds mentioned in paragraph (6) of art. 159 of Regulation no. 15/2004 regarding the authorization and functioning of investment management firms,collective investment undertakings and depositories, approved by Romanian National Securities Commission's Order no. 67/2004, as subsequently amended".

In nominal terms, the value of natural persons' deposits at credit institutions in Romania moved up by 5.9 percent from December 31, 2012 to stand at 130.8 billion lei at the end of 2013. Legal persons' deposits contracted to 184.4 billion lei, a 3.8 percent drop in terms of value.

By currency denomination, deposits in the national currency registered an annual variation of +3.1 percent to 169.4 billion lei on December 31, 2013, while deposits in foreign currency posted an annual variation of -3.5 percent to 145.9 equivalent billion lei on the same date.

Deposits in the whole banking system, by currency denomination



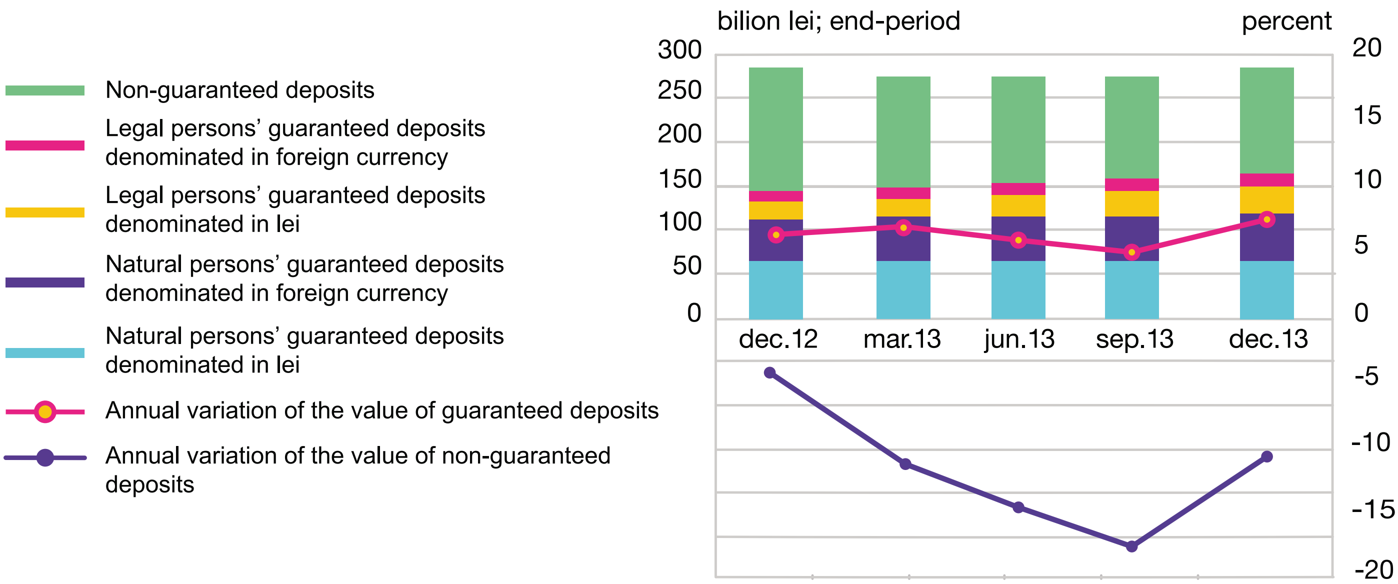
On December 31, 2013, FGDB-member credit institutions held deposits totalling 286.3 billion lei and accounting for 90.8 percent of the overall value of deposits in the entire banking system in Romania.

The total value of deposits at FGDB-member credit institutions fell by 1.2 percent in 2013. The decline in the value of deposits at credit institutions in the membership of the FGDB was mainly a result of the evolution of the deposits held by non-guaranteed non-resident legal persons[23] and reflected the deposit withdrawals by foreign banking groups from their subsidiaries in Romania.

As to December 31, 2012, the value of the deposits held by non-guaranteed non-resident legal persons at FGDB-member credit institutions diminished by the equivalent of 14 billion lei.

[23] The category of non-guaranteed depositors mainly includes entities having the necessary knowledge and experience to assess the risk of default of investements, such as credit institutions, financial institutions, insurance companies, collective investment undertakings, pension funds, central and local public authorities, large corporations etc.

Deposits at FGDB-member credit institutions



On December 31, 2013, non-resident legal persons accounted for 53.1 percent of the value of non-guaranteed legal persons’ deposits.

In 2013 as a whole, the value of legal persons’ deposits with credit institutions in Romania retreated by 6.2 percent to 163.7 billion lei at end-December under the impact of the non-guarantee depositor segment.

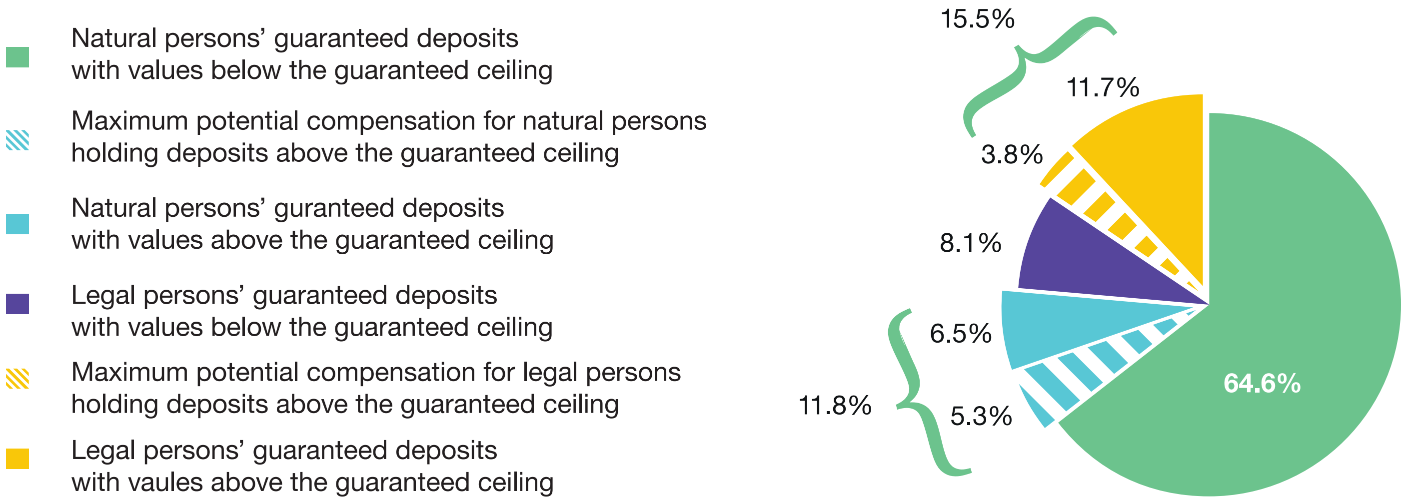
Natural persons’ deposits at credit institutions participating in the FGDB stayed on the upward course in 2013, recording an annual variation of +6.4 percent to 122.6 billion lei on December 31.

This upturn mirrored the population’s cautious behaviour in a still difficult and uncertain economic environment, as it did in previous periods.

In point of the currency denomination of deposits, depositors to the FGDB-member credit institutions opted mostly for deposits in the national currency to the detriment of those denominated in foreign currencies.

The total value of leu-denominated deposits with the credit institutions in the membership of the FGDB leaped by 2.2 percent in 2013 to stand at 153.8 billion at the end of the year. The foreign-currency component shrank by 4.9 percent to the equivalent of 132.4 billion lei at end-2013.

Structure of guaranteed deposits on December 31, 2013 in relation to 100,000-euro guarantee ceiling



At the end of 2013, the FGDB was guaranteeing natural and legal persons' deposits worth 160.2 billion lei, or some 56 percent of the total value of the deposits held at the FGDB-member credit institutions. This stake was 4.6 percentage points higher than at the end of the previous year.

This increase was an outcome of the positive evolution of guaranteed deposits which was concomitant with withdrawals by non-guaranteed depositors throughout 2013.

The value of non-guaranteed deposits at the credit institutions participating in the FGDB (of which a 99.8 percent stake goes to non-guaranteed legal persons' deposits) plunged rapidly from the levels of previous periods to 126.1 billion lei on December 31, 2013 (an annual variation of -10.4 percent).

The value of FGDB-guaranteed deposits raced ahead by 7.5 percent, adding 11.1 billion lei in 2013, under the combined effect of all components in terms of both depositor categories and currency denominations.

Natural persons' guaranteed deposits account for 76.4 percent of the total value of FGDB-guaranteed deposits providing the FGDB-member credit institutions with a source of local funding which is less volatile than in the case of the deposits of guaranteed legal persons.

On December 31, 2013, depositors to the FGDB-member credit insitutions numbered 15,046,164, of which 14,079,987 natural persons and 966,177 legal persons.

The FGDB's guarantee scope covered 99.7 percent of total depositors, a percentage unchaged from December 31, 2012.

Resident natural and legal persons held 74.8 percent of the total value of deposits at the credit institutions in the membership of the FGDB on December 31, 2013, a stake that was 4.3 percentage points higher than the level on the same date the previous year mainly due to a decline in non-resident legal persons' deposits.

The FGDB's guarantee scope covers 72.4 percent of the value of residents' deposits.

The total value of maximum potential compensations in the event of deposits becoming simultaneously unavailable at all FGDB-member credit institutions on December 31, 2013 would have amounted to 131.1 billion lei (an annual variation of +6.2 percent as to December 31, 2012).

On December 31, 2013, considering the 100,000-euro ceiling (the equivalent of 448.470 lei on the same date), the FGDB effectively covered 81.8 percent of the value of guaranteed deposits.

A percentage of 99.8 of the total number of FGDB-guaranteed depositors on December 31, 2013 – including natural and legal persons – was fully covered as these depositors held deposits that were below or equal to the guarantee ceiling.

The aggregate deposits of this category of depositors stood at 116.6 billion lei (72.8 percent of the total value of guaranteed deposits) on December 31, 2013. The average value of a below-ceiling deposit amounted to 7.8 thousand lei on the same date.

Natural Persons' Guaranteed Deposits

At the end of the fourth quarter of 2013, natural persons' guaranteed deposits at the credit institutions in the membership of the FGDB totalled 122.3 billion lei (holding a stake of 99.8 percent of the value of natural persons' deposits with the FGDB-member credit institutions).

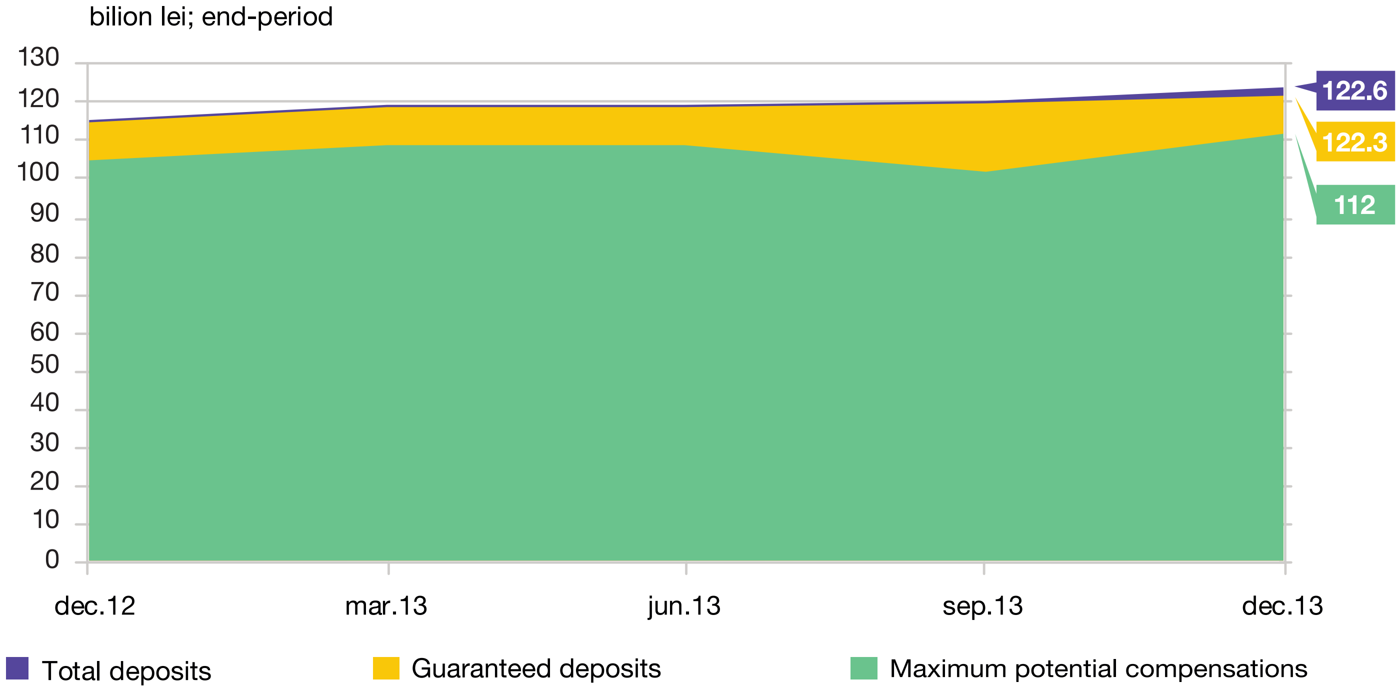
These deposits were held by 14,065,202 depositors, natural persons, accounting for 99.9 percent of the total number of natural persons with deposits at the credit institutions participating in the FGDB.

With a few exceptions[24], all depositors, natural persons, are covered by the FGDB.

As to the same period of the previous year, the value of natural persons' guaranteed deposits added 6.4 percent on the back of the evolution of both leu- and foreign currency-denominated deposits.

[24] The respective credit institution's administrators, managers, members of the supervisory board, auditors, significant shareholders, depositors with a similar status in other companies in the same group as the respective credit institution, as well as family members (spouses, first degree relatives and in-laws) and third parties acting on behalf of previously mentioned depositors are excluded from FGDB coverage. With the adoption of the new Directive on bank deposit guarantee schemes these persons, too, will enter the guarantee scope which will eventually include all depositors, natural persons.

Natural persons' deposits at FGDB-member credit institutions



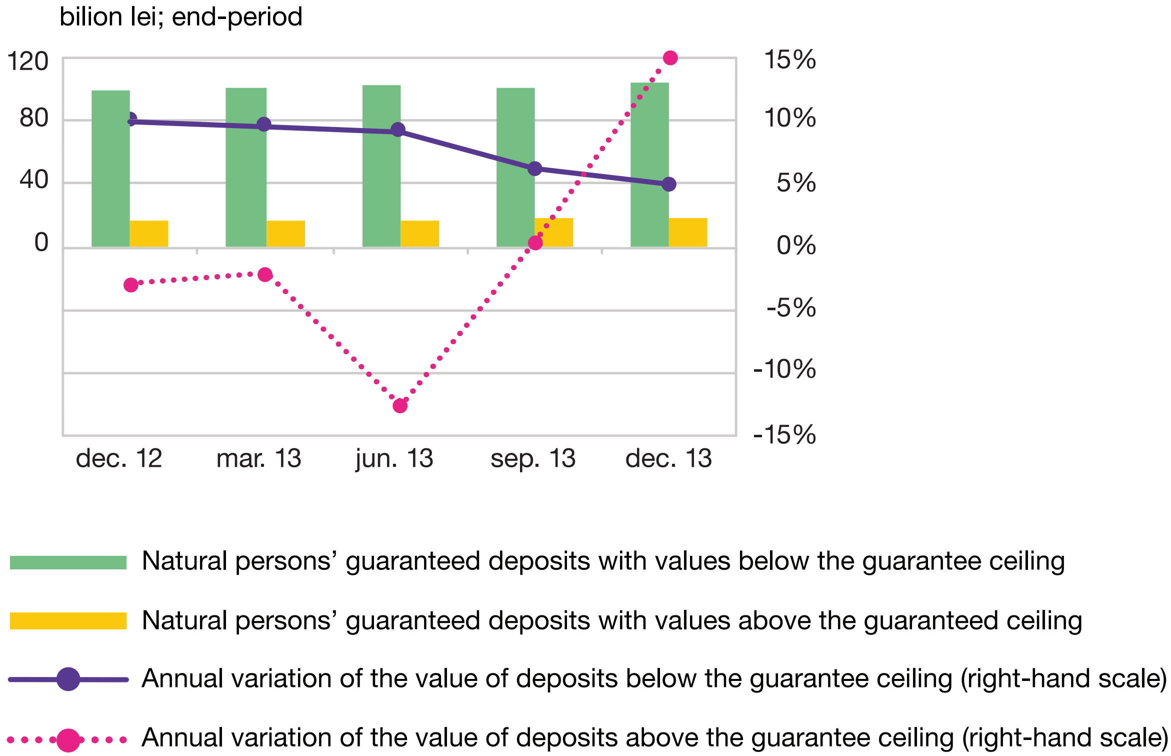
On December 31, 2013, the value of natural persons' leu-denominated guaranteed deposits was of 72.7 billion lei (an annual variation of +6.2 percent), with deposits with values below the guarantee ceiling contributing most to this rise.

Natural persons' guaranteed deposits denominated in foreign currency advanced by 6.6 percent to the equivalent of 49.6 billion lei on December 31, 2013.

Residents held 96.7 percent of the total value of natural persons' FGDB-guaranteed deposits at end-2013 and 60.8 percent of their deposits were denominated in the national currency.

In the case of non-residents, however, 80 percent of the value of guaranteed deposits was accounted for by deposits in foreign currencies.

Evolution of natural persons' deposits in relation to the guarantee ceiling



On December 31, 2013, deposits with values below or equal to the guarantee ceiling accounted for 84.7 percent of the total value of natural persons' guaranteed deposits (an annual variation of +4.9 percent). The average value of a deposit on this segment amounted to 7.4 thousand lei.

The value of maximum potential compensations for guaranteed depositors, natural persons, on December 31, 2013 stood at around 112 billion lei (representing 91.6 percent of the total value of natural persons' guaranteed deposits).

On the same date, 99.9 percent of the total number of guaranteed depositors, natural persons, enjoyed full coverage as their respective deposits did not exceed the guarantee ceiling.

Legal Persons' Guaranteed Deposits

At end-2013, the deposits held at the FGDB-member credit institutions by guaranteed depositors, legal persons[25], totalled 37.8 billion lei, 11.2 percent above the previous year's level.

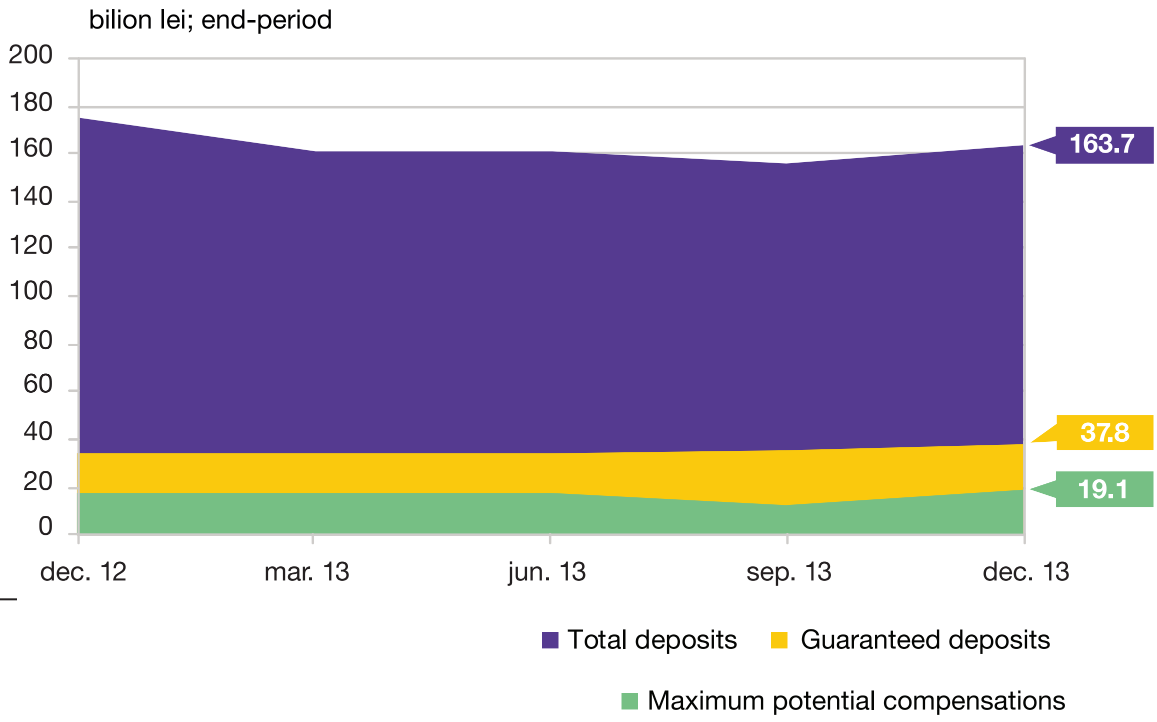
This significant increase in the value of legal persons' guaranteed deposits was triggered by the fast rise in deposits denominated in the national currency (an annual variation of +15.4 percent). Foreign currency-denominated deposits moved up by a scant 0.7 percent in 2013.

To a certain extent, the upturn in the value of legal persons' guaranteed deposits points to an accumulation of liquidity providing the necessary funding for current activities or investments and a less frequent recourse to loans from credit institutions.

At the same time, that rise went hand in hand with higher export earnings, VAT refunds and reimbursements under EU-funded projects.

The value of guaranteed deposits accounted for 23.1 percent of the total value of legal persons' deposits at the credit institutions in the membership of the FGDB, going up by 3.6 percentage points from December 31, 2012.

Legal persons' deposits at FGDB-member credit institutions

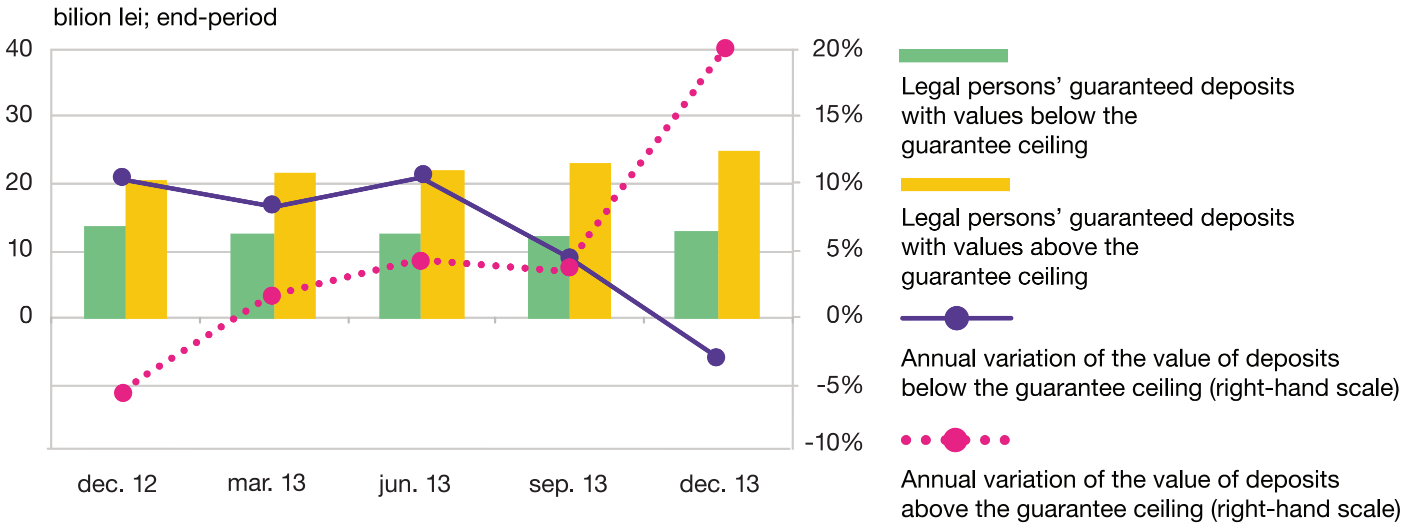


[25] This category mainly includes small and medium-sized enterprises, as well as other similar entities.

In comparison with previous periods, legal persons' guaranteed deposits denominated in the national currency hit a peak on December 31, 2013, climbing to 28.1 billion lei and accounting for 74.3 percent of the total value of legal persons' guaranteed deposits (+2.7 percentage points as to December 31, 2012). On the same date, legal persons' guaranteed deposits in foreign currencies amounted to the equivalent of 9.7 billion lei.

At the end of 2013, resident legal persons falling into the guarantee depositor category held deposits amounting to 36.8 billion lei (or 97.4 percent of the total value of legal persons' guaranteed deposits).

Evolution of legal persons' guaranteed deposits in relation to the guarantee ceiling



The number of guaranteed depositors, legal persons, to the FGDB-member credit institutions stood at 931,469 at end-2013, accounting for 96.4 percent of the total number of depositors, legal persons, to the credit institutions participating in the FGDB.

On December 31, 2013, the total number of guaranteed depositors, legal persons, with deposits below or equal to the guarantee ceiling accounted for 98.5 percent of the total number of depositors, legal persons, but took only 34.4 percent of the total value of legal persons' guaranteed deposits.

The average value of a guaranteed deposit for this category of depositors was of 14.2 thousand lei on December 31, 2013.

The value of maximum potential compensations for guaranteed depositors, legal persons, neared 19.1 billion lei on December 31, 2013, accounting for 50.5 percent of the total value of legal persons' guaranteed deposits.

COMPENSATION PAYOUTS

In case deposits at a FGDB-member credit institution become unavailable, the FGDB must pay guaranteed depositors their due compensations through mandated credit institutions within a maximum period of 20 working days of the date deposits are unavailable.

The whole compensation payout process is shown below.

To provide every condition for the payment of compensations as promptly as possible is a permanent concern on the part of the FGDB, which has taken a number of steps to this end to improve both its operational and financial capacity and the capability of credit institutions to generate, at any moment, a correct list of due compensations.

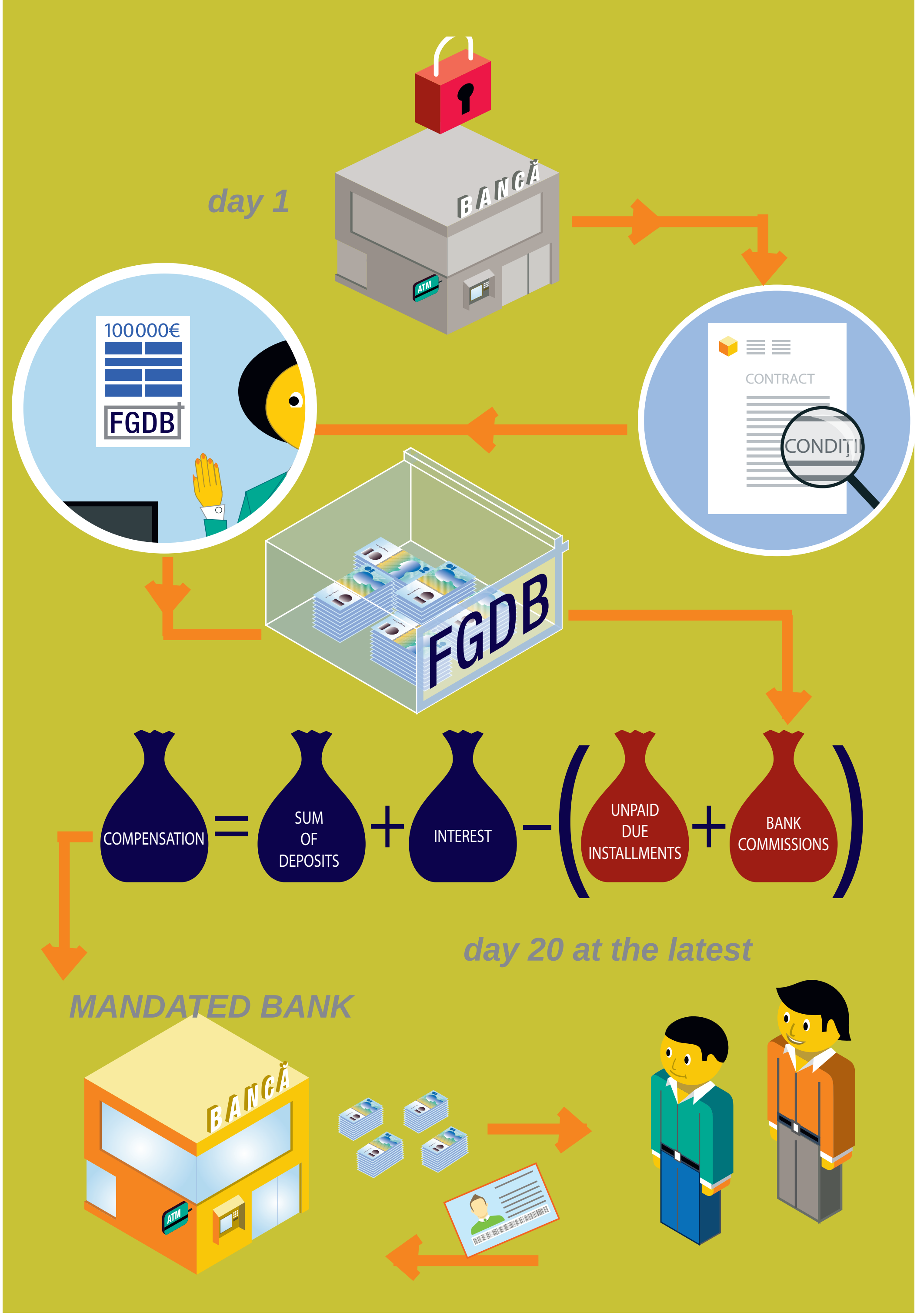
Throughout 2013, FGDB representatives verified all member credit institutions' compliance with legal provisions on the requirements for drawing up the list of due compensations in case deposits become unavailable on a certain date.

Following the verification process, a meeting with representatives of credit institutions was held in October 2013 to identify the best ways to solve issues of concern.

In 2013, the FGDB did not intervene with compensation payouts as no credit institution in the banking system in Romania encountered any problems.

The FGDB's last obligation to make such payments to depositors of failed banks expired in January 2010, according to the law.

Compensation payouts process



FGDB MEMBERSHIP OF CREDIT INSTITUTIONS

All deposit-taking institutions within the European Union are under an obligation to participate in a bank deposit guarantee scheme.

In Romania, all credit institutions licensed by the country's central bank are members of the FGDB. This also covers the deposits taken by their branches abroad. At the same time, the branches operating in Romania of banks headquartered in other EU member states[26] participate in the bank deposit guarantee schemes in their home countries.

On December 31, 2013, the FGDB had in its membership 31 credit institutions, of which 28 banks, 2 savings banks for housing and one credit cooperative organisation (central body and affiliated credit cooperatives), as listed in Annex 1.

The number of members of the bank deposit guarantee scheme of Romania decreased from the previous year as one credit institution withdrew following the takeover of its operations by the branch of a bank headquartered in another EU member state[27].

The changes occurred with FGDB-member credit institutions were made known to the public through communiques printed in the Official Gazette of Romania or posted on the FGDB website.

The FGDB-member credit institutions make annual contributions to the FGDB increasing its deposit guarantee resources which fund either compensation payments to guaranteed depositors in the event deposits at a credit institution become unavailable or guaranteed deposit transfer operations, including by issuing guarantees.

Likewise, the credit institutions participating in the FGDB pay annual fees to the bank resolution fund which finances the stabilisation measures decided by the National Bank of Romania[28] and provides resources to compensate persons prejudiced by measures taken and implemented during special administration proceedings at a credit institution.

As part of their cooperative ties with the FGDB, the member credit institutions supply it with information on deposits and the number of depositors in their records at the end of each quarter, the calculation base for the annual contribution to the deposit guarantee fund, the calculation base for the annual fee to the bank resolution fund, as well as other information on specific issues.

Furthermore, the FGDB maintains links with the branches in Romania of credit institutions headquartered in other European Union member states wherefrom it gets quarterly reports on deposits.

In line with legislation in force, in 2013 the FGDB continued its controls over the observance of legal provisions on the calculation and payment of contributions and fees, including a verification of the correct classification of deposits in terms of FGDB coverage, as well as on information supplied to depositors.

[26] On December 31, 2013, 9 branches of credit institutions headquartered in other EU member states operated in Romania.

[27] Starting September 1, 2013, operations of RBS Bank (România) S.A. were taken over by the branch in Romania of The Royal Bank of Scotland plc, Edinburgh, a credit institution licensed and supervised in the United Kingdom of Great Britain and Northern Ireland and a member of the bank deposit guarantee scheme in that country.

[28] Under special circumstances stipulated under the law deposit guarantee resources can contribute to financing the implementation of stabilisation measures.

The results of 2013 verifications point to a higher accuracy of credit institutions' classifications of deposits in terms of coverage, as well as to a better supply of information to depositors, according to legal obligations.

The deposit classification error rate (differences as to the reported total value of deposits) moved downwards from 8.7 percent in 2006 to 0.3 percent in 2012 and to 0.1 percent in 2013.

The main cause behind the differences in the level of annual contributions/fees was the erroneous classification by credit institutions when assigning the deposits of some legal persons (particularly small and medium-sized enterprises, insurance brokers, mutual aid associations) to one of the categories of guaranteed/non-guaranteed deposits.

The control over the calculation base for annual contributions/fees went hand in hand with a random verification of the statements on bank deposit classification of small and medium-sized enterprises and of other depositors expressly stipulated by the law.

Along this line, record keeping, as well as the existence and the completion of statements were checked, with focus on the accuracy of the classifications made by credit institutions.

Furthermore, the fulfilment of the credit institutions' obligation to expressly inform depositors holding non-guaranteed deposits was also verified.

The results of these controls showed a decrease in the number of deficiencies as to previous years.

At the end of these verifications of deposit classification, accurate statements on deposit classification and information of depositors, the FGDB sent a circular letter to the management boards of the credit institutions where deficiencies were found requesting them to take measures to correct those deficiencies, to regularise the situation of deposits and to ensure that the personnel involved is correspondingly acquainted with FGDB legislation.

During the controls it conducted, the FGDB paid special attention also to the way in which credit institutions comply with legislation on the information of depositors about deposit guarantee. The information should be placed in publicly accessible locations within all units in the territory and should be easy to understand.

The close cooperation between the FGDB and its member credit institutions aims at permanently improving the classification of deposits and the information on deposit guarantee supplied to depositors.

4. FINANCING POLICY AND RISK MANAGEMENT

In 2013, as debates were underway on the updating of European legislation on bank deposit guarantee schemes and bank resolution, the FGDB promoted a cautious policy of building up resources for the two funds it manages: the bank deposit guarantee fund and the bank resolution fund.

According to Article 9 Paragraph (2) of Government Ordinance no. 39/1996 on the setting up and operation of the Bank Deposit Guarantee Fund (FGDB), republished, with subsequent amendments and completions, the resources of the bank deposit guarantee fund can be used to finance bank resolution measures observing the terms stipulated by the law.

Consequently, the FGDB worked to systematically increase its resources.

The annual rate for credit institutions' contributions to the bank deposit guarantee fund stayed unchanged at 0.3 percent of the amount of guaranteed deposits at the end of the year preceding the payment.

This was a counterweight to the (still) low resources of the three-year-old bank resolution fund, where the credit institutions' aggregate fee was set so as to strike a balance between the necessity to build up resources and the need to spare credit institutions an excessive burden in this difficult period.

An analysis of the possible use of one or more resolution tools stipulated in national legislation in conjunction with the capacity to finance them proved that a new strategy to attract resources to the bank resolution fund was needed.

IADI 2013 Annual General Meeting, Buenos Aires, Argentina

This strategy should consider not only the FGDB's need for resources but also the endurance of the banking system in supplying the bank resolution fund and the bank deposit guarantee fund.

To this end, the FGDB advanced a proposal to change the way in which member credit institutions' contributions and fees are calculated. That proposal, which was submitted to and approved by the Board of Directors of the National Bank of Romania, will be the object of a legislative amendment.

With a guaranteed deposit coverage ratio of 2.2 percent on December 31, 2013, the FGDB boasts a volume of resources within the prudential parameters which are also shared by the bank deposit guarantee schemes in the membership of the EFDI and IADI.

As far as the management of its resources is concerned, the FGDB promoted a cautious exposure strategy in 2013.

In line with its duties to finance resolution and stabilisation measures for credit institutions in distress, the FGDB continued to focus its resource management strategy on the ensurance of an adequate liquidity of investments.

Turbulence on external financial markets, which culminated in the radical decisions imposed by the financiers of the bail-out programme for Cyprus, called for the maintenance of a monthly liquidity buffer of 10-20 percent of the FGDB's available resources.

The FGDB's Resources Management Committee (CARF) worked proactively, adjusting the structure of investments and exposure limits according to credit institutions and types of investment whenever market conditions called for such adjustments.

Thanks to its cooperation with the National Bank of Romania in data exchanges, the FGDB could analyse the risk indicators of credit institutions and reach fundamental decisions on investment structure adjustments.

The operative information reports prepared by the CARF made the basis of specific analyses of investments and of tactical decisions aimed at mitigating resource management-related risks.

In its capacity as member of the EFDI, the FGDB contributed to the drafting of stress test guidelines for bank deposit guarantee schemes, which will make the foundation of its own stress testing platform, in line with European regulations.

5. PUBLIC INFORMATION

In 2013, the FGDB improved its communication with the public, capitalising on the good practices applied internationally and on the experience of other bank deposit guarantee schemes.

The process of informing the public aimed at boosting depositors' confidence in the safety of their deposits at credit institutions in Romania.

COMMUNICATION WITH THE PUBLIC

In 2013, besides resorting to the means of public communication frequently employed in previous periods, the FGDB created LinkedIn, Twitter and Facebook accounts to approach the public also through on-line business-oriented/social networks.

Throughout 2013, the FGDB promptly answered all requests for information on deposit guarantee (categories of FGDB-guaranteed deposits, guarantee ceiling etc.) and its poster on deposit guarantee stayed on display in the member banks' units in the territory. The poster also contains the FGDB's website address and telephone number to allow depositors contact the institution.

All the sections of the FGDB website were visited 144,070 times in 2013, up from 125,125 times the previous year and the number of users increased from 19,530 in 2012 to 25,704 in 2013. The heaviest website traffic was registered over March 19-April 11, 2013, when the FGDB also received several telephone queries. This interval corresponded to the period in which the Bank of Cyprus imposed restrictions on client access to accounts, its branch in Romania stayed closed for a few days and within the EU the possibility was being discussed of resorting to the deposits worth more than 100,000 euros to recapitalise that bank. Although the Bank of Cyprus was a branch and the deposits it held were guaranteed by the scheme in Cyprus, which operates under the auspices of the Central Bank of Cyprus, the Romanian public felt they had to seek information from the bank deposit guarantee scheme in Romania. On March 19, 2013, the FGDB issued a communiqué specifying which schemes guarantee the Cypriot-owned banks in Romania and the Romanian-owned banks in Cyprus.

In 2013, the FGDB participated in the launch of a tutorial addressing deposit guarantee issues, a joint initiative of IADI and the Financial Stability Institute, which also tackled the need to organise an efficient campaign to inform the public in normal times and in times of crisis.

An assessment of the extent to which depositors in Romania are informed about deposit guarantee is part of a broader project to conduct a nationwide study on the savings behaviour of the users of financial-banking services and instruments. The study was initiated at the end of 2013 and its results are expected to be released by mid-2014.

The on-line INFO bulletins carried analyses of the evolution of natural and legal persons' deposits at credit institutions in Romania, news of developments in the deposit guarantee sector in Europe and in the world, articles on the experience of other bank deposit guarantee schemes and on other themes of interest in this field. Statistical data on deposits at credit institutions in Romania were published on the FGDB website on a quarterly basis.

Laws impacting FGDB activities were uploaded to the *Legislation* section of the FGDB website.

RELATIONSHIP WITH MASS-MEDIA

In 2013, the FGDB maintained constant links with the media, based on mutual respect and communication.

The news releases posted on its website were routed to journalists the day they were issued. At the same time, the FGDB promptly answered all requests from media representatives.

EDUCATIONAL ACTIVITIES

The FGDB launched the "Costin Murgescu" contest for economic research as an opportunity for Romanian young people interested in contemporary economic developments to assert themselves and become valuable specialists. The contest encourages new ideas in macroeconomics, the multidisciplinary approach to subjects, as well as analyses of phenomena in terms of economic and financial stability.

The prize of the second edition of the "Costin Murgescu" contest for economic research was awarded in June 2013 to a paper[29] selected by a jury comprised of Romanian and foreign academicians and researchers.

Each essay was graded according to the criteria set under the rules of the contest: originality (40 percent), logic of arguments (30 percent), conclusions (15 percent) and style (15 percent). All the papers that entered the contest underwent an international anti-plagiarism test.

In 2013, the FGDB continued its participation in the *Academica* project promoted by the National Bank of Romania to support financial education. The project unfolds as a debate forum addressing university professors, the academic community and representatives of the financial market in Romania. The 2013 edition was the venue of an extensive presentation of several aspects related to deposit guarantee in the new international framework.

Costin Murgescu Contest for Economic Research Awarding Ceremony, Bucharest

[29] The paper, titled *Towards Exoeconomics: Developing an Off-Planet Economy and Its Implications* was authored by Andrei Șapera.

6. LIQUIDATION OF BANKRUPT CREDIT INSTITUTIONS

RESULTS OF LIQUIDATION PROCEDURES FOR BANKS WHERE THE FGDB IS CREDITOR OR LIQUIDATOR

Starting 1999, in its capacity both as creditor and as liquidator, the FGDB was involved in bankruptcy/ liquidation procedures at the following banks[30]:

• Banca Comercială "Albina" SA – entered bankruptcy procedures on May 25, 1999; those procedures concluded on December 14, 2012[31];

• Bankcoop SA – entered bankruptcy procedures on February 8, 2000;

• Banca Internațională a Religiilor SA (BIR) – entered bankruptcy procedures on July 10, 2000;

• *Banca Română de Scont SA (BRS)* - entered bankruptcy procedures on April 16, 2002;

• *Banca Turco-Română SA (BTR)* – entered bankruptcy procedures on July 3, 2002;

• Banca "Columna" – entered bankruptcy procedures on March 18, 2003;

• Nova Bank – entered bankruptcy procedures on November 9, 2006 after going through dissolution followed by liquidation procedures conducted by the FGDB and started on August 22, 2006.

In 2013 as well, the liquidators' activities at the above mentioned banks proceeded according to legal provisions and the failed banks' internal regulations, focusing on further bankruptcy-specific proceedings, namely:

• handling the cases pending before courts of law in order to recover claims and protect the respective banks' patrimonial and non-patrimonial interests;

• recovering the failed banks' claims in order to provide funding for the continuation of bankruptcy procedures;

• taking adequate measures to capitalise on the remaining immovable property in the patrimony of some banks (Bankcoop and BIR);

• continuously reducing the bankrupt banks' debtor portfolio through further measures aimed at pursuing and recovering outstanding debts;

[30] To carry on liquidation procedures for these banks, the following institutions were appointed judicial liquidators, according to the law:
• RVA Insolvency Specialists SPRL (former SC Moore Stephens (RVA) SA) – for Banca "Albina", Bankcoop and BIR;
• PricewaterhouseCoopers Business Recovery Services IPURL (former SC PricewaterhouseCoopers Management Consultants SRL) – for Bankcoop and Banca "Columna";
• The Bank Deposit Guarantee Fund – for BRS and BTR;
• Tănasă and Asociații SPRL (former SC Refal Star TNB SRL) and Activ Lichidator IPURL (former SC Activ Lichidator SRL) – for Nova Bank.

[31] The syndic judge approved, during the hearing on Banca Albina's bankruptcy file on December 14, 2012, the final activity report drawn by the liquidator and ruled that bankruptcy procedures should be concluded and the bank should be deregistered from the Trade Registry.

• permanently identifying solutions to cut the cost of bankruptcy procedures, including by diminishing the number of personnel (from 36 to 27);

• preparing monthly reports on the course of bankruptcy procedures and, respectively, on the fulfilment of liquidator duties to be submitted for approval to the syndic judge, according to the law;

• fulfilling the decisions made by the syndic judge and by the committees/ assemblies of the failed banks' creditors.

Approximately 67 percent of the four banks' total receipts in 2013, which amounted to 3.9 million lei, represented recoveries from claims (including sales of assets taken over for debts) and sales of immovables, while around 33 percent resulted from interest on money investments (particularly in the case of *BTR*).

Receipts by banks in 2013 were the following:
BIR – 1.7 million lei,
BTR – 1.1 million lei,
Bankcoop – 0.9 million lei and
BRS – 0.2 million lei.

Receipts from recovered claims and sales of assets in the patrimony of the four banks increased by 1.1 million lei in 2013 compared with the previous year, mainly on the back of sales of the remaining immovable property in the patrimony of BIR and Bankcoop. The four bankrupt banks have in their portfolios fewer and lower valued assets and claims of lower value or which are difficult to realise, a situation that confirms that bankruptcy procedures are soon to conclude.

In 2013, the bankrupt banks distributed no funds to their creditors.

The cumulative funds allotted for distribution to the failed banks' creditors by December 31, 2013 amounted to 250.7 million lei, accounting for a recovery ratio of 35.01 percent of total claims to be recovered worth 716.1 million lei.

The four banks' receipts on December 31, 2013 totalled 425.3 million lei, gaining 3.9 million lei (around 0.9 percent) from December 31, 2012.

The total receipts, expenses and funds for distribution to creditors, as at December, 2013:

No.	Bankrupt bank[1]	Total liquidation-related receipts[2] (mln. lei)		of which:							Total liquidation-related expenses (mln. lei)		Total funds earmarked for distribution (mln. lei)
				recoveries from claims			sales of immovables		other receipts				
		on December 31, 2013	of which, in 2013	value (mln. lei)	% of total claims to recover	% of total receipts	value (mln. lei)	% of total receipts	value (mln. lei)	% of total receipts	on December 31, 2013	of which, in 2013	
0	1	2	3	4	5	6	7	8	9	10	11	12	13
1	Banca "Albina"	26.6	-	16.8	28.33	63.16	7.5	28.20	2.3	8.64	7.6	-	19.2
2	Bankcoop	158.8	0.9	91.9	36.76	57.87	48.6	30.60	18.3	11.53	62.5	0.5	98.0
3	BIR	172.8	1.7	135.9	63.51	78.65	19.6	11.34	17.3	10.01	79.5	0.9	95.0
4	*BRS*	37.8	0.2	17.3	45.77	45.77	8.5	22.49	12.0	31.74	15.4	0.6	18.1
5	*BTR*	55.9	1.1	5.0	2.20	8.94	30.3	54.20	20.6	36.86	12.7	1.1	39.6
	TOTAL	**451.9**	**3.9**	**266.9**	33.84	59.06	**114.5**	25.34	**70.5**	15.60	**177.7**	**3.1**	**269.9**

[1] In case of Banca „Albina", the bankruptcy procedure concluded on December 14, 2012, while in the case of Banca „Columna" and Nova Bank, where the FGDB paid compensations, there are no available aggregate data for the respective sources.
[2] Net value (free of VAT or other deductions, as the case might be).

As the table above on aggregate results on December 31, 2013 shows, the main sources of the receipts are also those coming from recoveries of claims (including sales of assets taken over for debts/ vânzări bunuri preluate în plată), as well as from sales of immovables.

Besides these two main sources, the failed banks also recorded smaller receipts from other sources as well, such as sale of movables and of other assets (stocks and other securities), dividends and rents.

In the case of *BRS*, receipts from the start of bankruptcy procedures (April 16, 2002) to December 31, 2013 totalled 37.8 million lei, of which 2.7 million lei came from interest from investment of the bank's available cash. The main sources of its receipts were recoveries from claims and sales of immovable property in its patrimony.

In 2013, total liquidation-related receipts amounted to 0.2 million lei, mainly from interest from investments.

From the date bankruptcy procedures started to December 31, 2013, the total receipts of recoveries from claims stand at 17.3 million lei, representing a recovery ratio of 45.77 percent of total claims on the date bankruptcy procedures opened.

The claim recovery ratio, if debt repayments from collateral/guarantee deposits and the takeover of assets from debtors SC Romcuarț SRL and SC Cuarț SA to recover the bank's debts are considered, is of around 84 percent of total claims on the date of bankruptcy filing, which is the highest recovery ratio among the four banks under discussion.

From the date bankruptcy procedures started (July 3, 2002) to December 31, 2013, *BTR* had receipts totalling 55.9 million lei, of which 18 million lei from interest from the bank's investments. Sales of immovable property in the bank's patrimony, interest from investments and recoveries from claims were the main sources of the bank's receipts.

In 2013, liquidation-related receipts totalled 1.1 million lei, mostly from interest from investments.

As for claim recovery, on December 31, 2013 the recovery ratio – determined by taking into account the claims over the debtors registered in the bank's accounting records on the bankruptcy filing date, other than the main debtor (the Turkish company Bayindir Insaat Turizm Ticaret ve Sanayi AS – shareholder of the bank and an affiliate of majority shareholder Bayindir Holding AS – replaced by substitution, under a court sentence, by five former *BTR* administrators who attracted civil and criminal liability in 2012/pentru care a fost atrasă în mod definitiv răspunderea civilă şi penală în cursul anului 2012) – was of 27.83 percent.

Total receipts from recoveries of claims over debtors in the bank's patrimony/portfolio from the bankruptcy filing date to December 31, 2013 amount to 5.0 million lei, accounting for 2.20 percent of the total debts recorded on the date bankruptcy procedures started. The remaining, approximately 98 percent of the total unrecovered claims on December 31, 2013 are, almost in their entirety, claims over the main collective debtor of the bank, namely the five former administrators legally obligated to pay civil indemnity.

Expenses by banks throughout 2013 were as follows: BTR – 1.1 million lei, BIR – 0.9 million lei, BRS – 0.6 million lei and Bankcoop – 0.5 million lei.

The four banks' total expenditures in 2013 amounted to 3.1 million lei, of which around 39 percent were expenses on staff wages, including contributions, some 32 percent was third party services expenses and about 29 percent was other liquidation-related expenditure (including the liquidator's fee).

Liquidation-related expenses, linked to bankruptcy procedures at the four banks totalled 170.1 million lei on December 31, 2013, up by 3.1 million lei (around 1.9 percent) from end-December 2012.

With a view to reducing the failed banks' debtor portfolio, further action was taken to recover debts from the main debtors and to remove from accounting records the debtors whose debts could no longer be recouped (conclusion of bankruptcy procedures, lack of realisable guarantees, insolvent debtors etc).

In 2013, the number of failed banks' debtors decreased by 635 (from 919 to 284 debtors).

The evolution of the number of bankrupt banks' debtors by December 31, 2013:

No.	Bankrupt bank	Total debtors on bankruptcy filing date	Total debtors removed from accounting records	Total debtors on December 31, 2013
0	1	2	3	4=2-3
1	Bankcoop	14,709	14,650	59
2	Banca Internațională a Religiilor	22,416	22,306	110
3	*Banca Română de Scont*	232	186	46
4	*Banca Turco - Română*	1,286	1,217	69
	TOTAL	**38,643**	**38,359**	**284**

The activity of the bankrupt banks' liquidators to follow up on the cases pending before courts of law was difficult considering both the criminal nature of various operations conducted at these banks prior to filing for bankruptcy and the fact that the courts usually set hearing dates 3 to 4 months apart on an average and issued their statements of reasons on their decisions with delay, their solutions proving unfavourable to the failed banks and their creditors.

The most conclusive case is that concerning the criminal file referring to the penal and civil liability of the former *BTR* administrators, which took 10 years to settle.

RECOVERY OF FGDB CLAIMS

The FGDB ceased to be a creditor for four bankrupt banks following either the full recovery of its claims (in 2004 for *BRS*, in 2007 for Nova Bank and in 2011 for *BTR*) or the conclusion of bankruptcy procedures (in 2012 for Banca „Albina").

2013 was the second consecutive year when the FGDB recovered none of its outstanding claims over the three failed banks where it is still a creditor for reasons detailed in the previous section.

By December 31, 2013, the FGDB had recouped 175.47 million lei of its total claims over bankrupt banks, which amount to 513.30 million lei, registering a recovery ratio of 34.18 percent.

Of the FGDB-recovered amount, 174.49 million represent part of the compensations paid out to the guaranteed depositors of the failed banks and 0.98 million lei correspond to the almost full recovery of the contributions owed to the FGDB by Bankcoop, *BTR* and Nova Bank and unpaid before the date of bankruptcy filing.

The possibility of recovering claims from the bankrupt banks and of capitalising on their assets became smaller as the sources of recouping claims or assets in their patrimony got fewer. Possible recoveries following underway lawsuits might make the exception, which shows that these banks approach the final stage of liquidation proceedings.

7. FGDB FINANCIAL RESOURCES AND FINANCIAL STATEMENTS

FGDB'S FINANCIAL RESOURCES

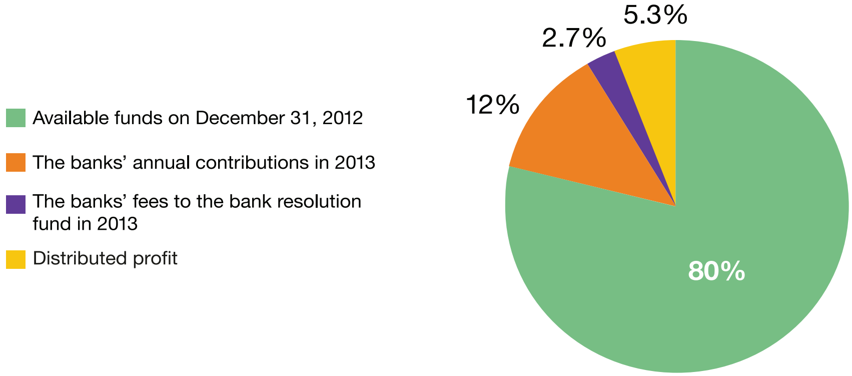
On December 31, 2013, the FGDB's financial resources amounted to 3,722.0 million lei, up by 745.8 million lei from end- 2012.

Through an efficient management of its resources, the FGDB constantly aims at consolidating its capability to react adequately in case of events requiring its intervention either to compensate guaranteed depositors or to fund stabilisation measures or the transfer of guaranteed deposits.

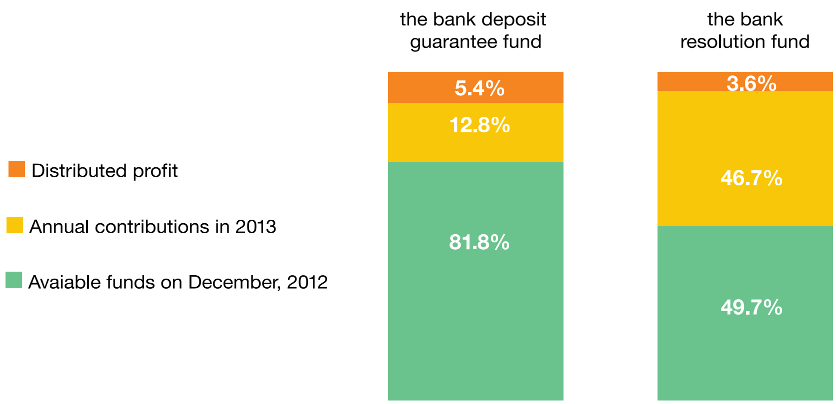
The FGDB's financial resources consist of the contributions and fees paid by its member credit institutions, the reinvested profit from its investments, the recovered claims from failed banks for compensation payouts, and earnings from its activity as liquidator.

In 2013, the contributions paid by the FGDB-member credit institutions totalled 447.23 million lei, adding 6.5 percent to the previous year's level, while annual fees to the bank resolution fund amounted to 100.6 million lei, twice the 2012 level.

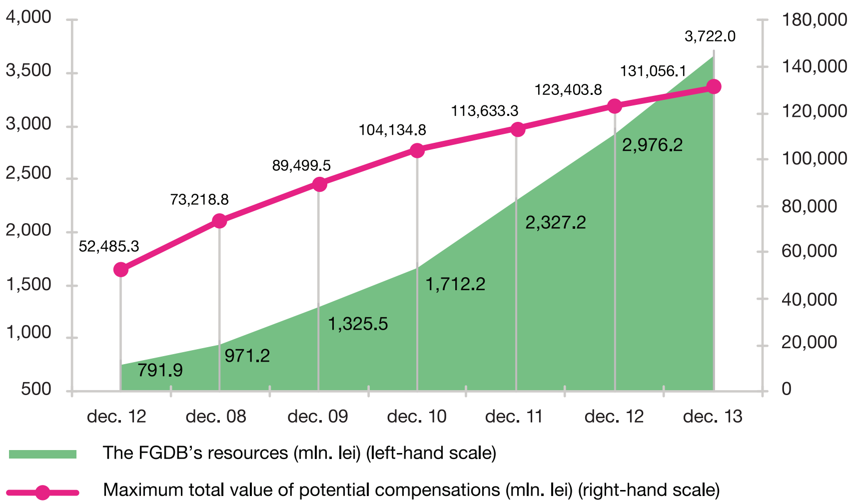
Origin of FGDB resources in 2013



Origin of resources of



The FGDB's resources and the value of potential compensations



The reinvested profit from investments according to the FGDB's resources investment strategy stood at 198.1 million lei.

In 2013, the FGDB's resources advanced a lot faster than the maximum total value of potential compensations (a nominal annual variation of +25.1 percent as to +6,2 percent). This rise resulted in an improved FGDB coverage of potential compensations to the guaranteed depositors of the member credit institutions, an indicator that was monitored throughout the year.

Investment of resources

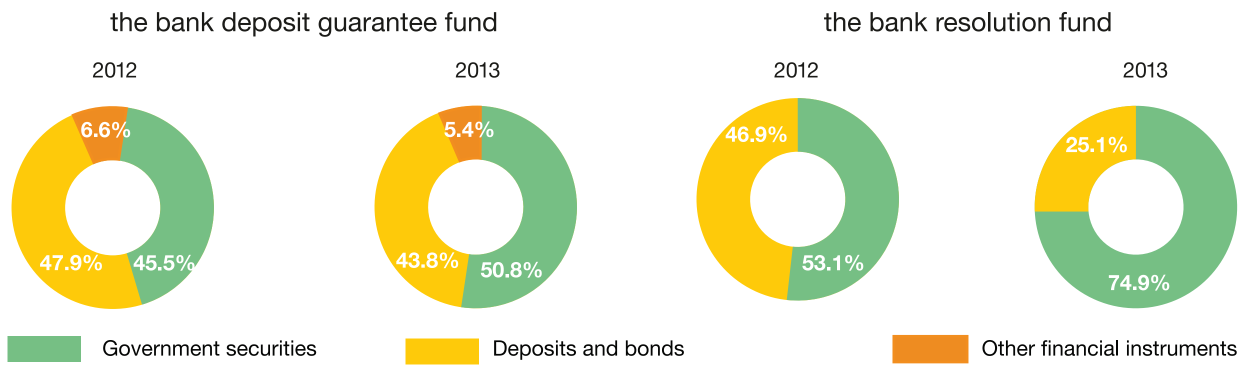
In 2013, the FGDB gave priority to the efficient, low-risk investment of its available financial resources, in compliance with its annual exposure strategy approved by the Board of Directors of the National Bank of Romania. The goals of that strategy are primarily risk minimisation and the liquidity of investments and secondarily the yield of these investments.

The FGDB's investment policy was implemented by the Resources Management Committee (CARF) through an adequate system of authorisation, endorsement, control and follow-up of the FGDB's financial transactions by the Treasury Department.

The average invested capital stood at 3,385,017,172 lei in 2013, moving up by 26 percent from 2012 when it amounted to 2,683,952,795 lei.

The weight of investment in government securities increased from 45.77 percent of the total invested resources at the start of the year to 52.19 percent on December 31, 2013. In absolute terms, this is a rise of 579.5 million lei. These investments carried short- medium- and long-term maturities.

Structure of investments



FGDB'S FINANCIAL STATEMENTS

The FGDB's Balance Sheet

- lei -

Assets			Liabilities		
	31.12.2012	31.12.2013		31.12.2012	31.12.2013
1. Total fixed assets, of which:	**1,869,661,973**	**2,439,424,093**	**1. Total own funds, of which:**	**2,978,656,307**	**3,724,726,214**
- intangible assets	45,115	51,794	- reserves	2,797,879,403	3,524,730,058
- tangible assets	276,069	227,093	- profit for the fiscal year	180,776,904	199,996,156
- financial assets	1,869,340,789	2,439,145,206			
2. Total current assets, of which:	**1,109,651,589**	**1,285,700,857**	**2. Total debts, of which:**	**692,449**	**431,134**
- short-term financial investments	1,108,237,353	1,284,302,861	- debts payable within one year	692,449	431,134
- cash at bank and in hand	1,275,638	1,219,411			
- other claims (bank settlements)	138,598	178,585			
3. Prepaid expenses	**35,194**	**32,398**			
TOTAL ASSETS	**2,979,348,756**	**3,725,157,348**	**TOTAL LIABILITIES**	**2,979,348,756**	**3,725,157,348**

The FGDB's receipts and payments in 2013 were as follows:

a) Total receipts: 760,414,751 lei, of which:

- 447,233,922 lei representing the annual contributions to the bank deposit guarantee fund, set according to the statements sent by the credit institutions, including differences recorded during controls at their headquarters;

- 100,596,040 lei representing the annual fees to the bank resolution fund;

- 203,322,360 lei representing revenues from investments of the financial resources of the bank deposit guarantee fund that will be subsequently used to supplement that fund's resources;

- 9,129,133 lei representing revenues from investments of the financial resources of the bank resolution fund that will be subsequently used to supplement that fund's resources;

- 133,296 lei representing interest on funds in the FGDB's current accounts.

b) Total payments: 14,377,057 lei, of which:

- 14,377,057 lei representing the FGDB's current operating expenses.

The FGDB's financial result is given by the difference between its revenues from investments of its financial resources and its current expenses, according to the law that underlies its operation.

Profit and Loss Account

- lei -

		31.12.2012	31.12.2013	Diferența
1	Total revenues	192,506,346	214,373,213	+21,866,867
2	Total expenses	11,729,442	14,377,057	+2,647,615
3	**Result for fiscal year**	**180,776,904**	**199,996,156**	**+19,219,252**

Here is a breakdown of the FGDB's 2013 total revenues worth 214,373,213 lei:

- 214,239,917 lei representing interest on time deposits and fixed coupons on government securities following investments of the FGDB's financial resources in 2013;

- 133,296 lei representing interest on the FGDB's funds in bank current accounts.

The FGDB's 2013 total expenditures, amounting to 14,377,057 lei and accounting for 6.71 percent of total revenues, mainly included:

- 8,852,354 lei representing spending on salaries and accounting for 61.57 percent of total expenditures. Salary-related expenses accounted for 4.13 percent of the FGDB's revenues from invested available funds;

- 2,159,775 lei representing spending on special budgets;

- 3,035,777 lei representing expenses to pay services provided by third parties (21.12 percent of total expenditures), of which:

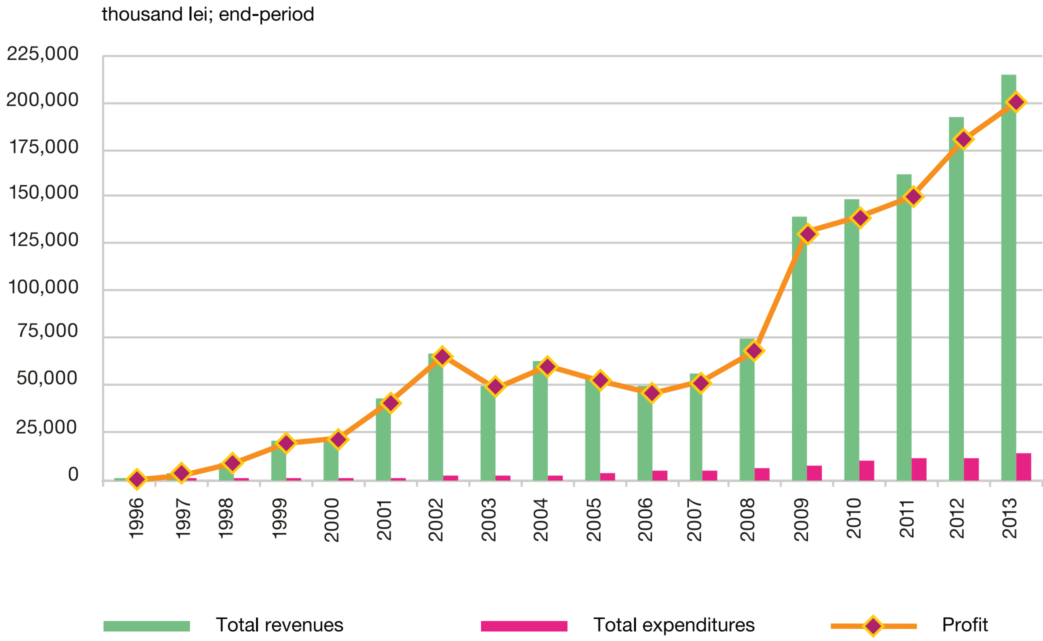
- 440,926 lei representing spending on rent;

- 2,594,851 lei representing other expenses to pay for services supplied by third parties;

- 152,977 lei representing spending on office supplies and inventory items;

- 176,174 lei representing expenses related to the depreciation of tangible and intangible assets.

The evolution of the FGDB's revenues, expenditures and profit



The FGDB ended fiscal year 2013 with a pre-tax profit of de 199,996,156 lei, adding 19,219,252 lei, or 10.63 percent, to the 2012 level.

According to legal provisions (Government Ordinance no. 39/1996 on the setting up and operation of the Bank Deposit Guarantee Fund, republished, with subsequent amendments and completions), the FGDB's profit before taxation is tax free and is distributed in line with the FGDB Board's approval.

As stipulated under Government Ordinance no. 39/1996 on the setting up and operation of the Bank Deposit Guarantee Fund, republished, with subsequent amendments and completions, 99 percent of the FGDB's profit is allocated to replenish the FGDB's financial resources and to make the tangible and intangible investments approved by the Board of Directors of the National Bank of Romania. The remaining 1 percent goes to the creation of an annual profit-sharing fund following the approval of the FGDB's Board.

The FGDB's financial statements as of December 31, 2013 were audited by financial audit firm KPMG Audit SRL whose report shows that "the financial statements for fiscal year ended December 31, 2013, faithfully present, in all significant aspects, the Fund's financial position on December 31, 2013, as well as the result of its operations for the fiscal year ended on that date, according to Order no. 27/2011 of the Chairman of the Board of Directors of the National Bank of Romania, with subsequent amendments and completions".

8. INTERNAL AUDIT

There were several audit missions in 2013 which assessed the activity of the FGDB's organisational structures aimed at ensuring the fulfilment of set targets efficiently and effectively.

At the same time, the year 2013 registered an amendment to internal audit regulations following the adoption of the Internal Audit Statute and the revision of the Internal Audit Manual.

The 2013 audit missions focused on:

(i) assessment of risk identification and management within the Fund;

(ii) assessment of internal control conformity within the Fund;

(iii) assessment of liquidation activities at credit institutions;

(iv) registering the Fund's property and non-property rights in accounting records;

(v) analysis of the substantiation, implementation and development of the Fund's IT strategy;

(vi) analysis of administrative activities;

(vii) analysis of the substantiation, implementation and development of the communication strategy.

The audit missions produced reports which were submitted to the executive management, while a synthesis of these reports was sent to the FGDB's Board every six months. The audit reports were accompanied by conclusions and recommendations as well as deadlines for the implementation of the set of recommendations.

Auditable activities are set within each of the following categories of functions:

a) core activity function;

b) analysis function;

c) organisation and management function;

d) human resources management function;

e) financial and accounting function.

Risks related to auditable activities are assessed according to the following criteria:

(i) assessment of internal control (35 percent);

(ii) quantitative assessment (of the financial impact in case of losses) (20 percent);

(iii) qualitative assessment (existence/adequacy of norms and procedures, human resources, time lapsed since the previous audit, complexity of operations, the quality of the IT system) (45 percent).

9. INDEPENDENT AUDITOR'S REPORT, BALANCE SHEET, PROFIT AND LOSS ACCOUNT AND NOTES OF THE FGDB FINANCIAL STATEMENTS

KPMG Audit SRL
Victoria Business Park
DN1, Soseaua Bucuresti-Ploiesti no. 69-71
Sector 1

P.O. Box 18-191
Bucharest 013685
Romania

Tel: +40(21) 201 22 22
+40(372) 377 800
Fax: +40(21) 201 22 11
+40(372) 377 700
www.kpmg.ro

INDEPENDENT AUDITOR'S REPORT

To: The Bank Deposit Guarantee Fund's Board

Report on Financial Statements

1. We have audited the accompanying financial statements of the Bank Deposit Guarantee Fund ("the Fund") which include the balance sheet as of December 31, 2013, the profit and loss account for the fiscal year then ended, as well as a summary of significant accounting policies and other explanatory notes numbered from page 1 to page 28. The financial statements refer to:

- Total assets: 3,725,157,348 lei
- Net result of the fiscal year – profit: 199,996,156 lei

Fund Management's Responsibility for the Financial Statements

2. The Fund's management is responsible for the reliable preparation and presentation of these financial statements, in accordance with Order no. 27/2011 of the Chairman of the Board of Directors of the National Bank of Romania, with subsequent amendments and completions, and for the internal audit the management considers necessary for the preparation of financial statements which should not contain significant alterations caused by fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements, based on our audits. We have conducted our audits according to the auditing standards endorsed by the Chamber of Financial Auditors of Romania. These standards require that we comply with ethical requirements and that we plan and perform our audits to obtain reasonable assurance that these financial statements are free of significant alterations.

4. An audit consists of procedures to obtain audit evidence on the amounts and information in the financial statements. These procedures are selected depending on the auditor's professional reasoning, including an assessment of the risks of significant alteration of the financial statements due to fraud or error. In evaluating these risks, the auditor considers the internal audit relevant for the reliable preparation and presentation of the Fund's financial statements to set the audit procedures relevant for the given circumstances, but not to express an opinion on the efficiency of the Fund's internal audit. An audit also includes an assessment of the adequacy of the accounting policies employed and the reasonableness of accounting estimates worked out by the management, as well as the evaluation of the overall financial statement presentation.

5. We consider that the audit samples we obtained are sufficient and adequate to provide the basis for our audit opinion.

Fiscal registration code RO12997279
Trade Registry no.J40/4439/2000
Share Capital 2,000 RON

Opinion

6. In our opinion, the financial statements for the fiscal year ended December 31, 2013 faithfully present, in all significant aspects, the Fund's financial position on December 31, 2013, as well as the result of its operations for the fiscal year ended on that date, according to Order no. 27/2011 of the Chairman of the Board of Directors of the National Bank of Romania, with subsequent amendments and completions".

Other Aspects

7. The accompanying financial statements are not intended to present financial position, results of operations and a full set of notes to the financial statements in conformity with accounting rules and principles accepted in countries and jurisdictions other than Romania. That is why the accompanying financial statements are not prepared to be used by entities that are not familiar with accounting and legal regulations in Romania, including Order no. 27/2011 of the Chairman of the Board of Directors of the National Bank of Romania, with subsequent amendments and completions.

Report on the Conformity of the Management's Report with the Financial Statements

In line with Order no. 27/2011, article 210, item (1) e of the Chairman of the Board of Directors of the National Bank of Romania, we have read the management's report attached to the financial statements and numbered from page 1 to page 4. The management's report is not an integral part of the financial statements. In the management's report we have not identified financial information significantly non-compliant with the information presented in the accompanying financial statements.

F**or and on behalf of KPMG Audit SRL:**

Grecu Tudor Alexandru

Camera Auditorilor Financiari din România
Grecu
Tudor
Alexandru
Nr.2368

KPMG Audit SRL

Registered with the Chamber of Financial Auditors of Romania

Certificate no. 2368/22.01.2008

Registered with the Chamber of Financial Auditors of Romania

Certificate no.9/2001

Bucharest, April 3, 2014

BALANCE SHEET

as of December 31, 2013

- RON -

Indicator	Position code	Note	December 31, 2012	December 31, 2013
A	B		1	2
Cash	010	2	7,004	13,956
Claims over credit institutions	020	3	1,270,642,432	1,442,923,877
• sight claims	023		1,268,634	1,205,455
• other claims	026		1,269,373,798	1,441,718,422
Public instruments, bonds and other fixed-income securities	040		1,672,798,927	2,242,513,881
• issued by public bodies	043	4	1,672,798,927	2,242,513,881
Intangible assets	050	5	45,115	51,794
Tangible assets	060	5	276,069	227,093
Other assets	070	6	138,598	178,585
Prepaid expenses and committed income	080	7	35,440,611	39,248,162
Total assets	**090**		**2,979,348,756**	**3,725,157,348**
Other liabilities	330	8	692,449	431,134
The bank deposit guarantee fund and the compensation fund for prejudiced creditors	360		2,797,174,403	3,524,025,058
The bank deposit guarantee fund	361		2,695,394,000	3,316,551,377
The deposit guarantee fund consisting of credit institutions' contributions	362	9	1,730,209,922	2,177,443,844
The deposit guarantee fund consisting of revenues from claim recovery	363	11	65,714,286	65,714,286
The deposit guarantee fund consisting of revenues from investments of available financial resources	365	12	896,878,949	1,070,802,404
The deposit guarantee fund consisting of other revenues as set within the law	366	13	2,590,843	2,590,843
The bank resolution fund	367	10	101,780,403	207,473,681
Reserves	370	14	705,000	705,000
Result of the fiscal year – Profit	**403**		**180,776,904**	**199,996,156**
Total liabilities	**420**		**2,979,348,756**	**3,725,157,348**

THE PROFIT AND LOSS ACCOUNT

for the fiscal year ended December 31, 2013

- RON -

Indicator	Position code	Note	December 31, 2012	December 31, 2013
A	B		1	2
Interest receivables and similar income, of which:	010	16a	192,505,253	214,371,919
• on public instruments, bonds and other fixed-income securities	015		96,360,827	119,058,019
Commissions	040	16b	57,056	61,942
Net profit or loss from financial operations	050	16c	-2,088	-1,698
Other operating income	060		-	-
General administrative expenses	070		11,090,902	13,649,649
• Employee-related expenses, of which:	073	16d	8,896,918	11,012,129
• Salaries	074		7,106,318	8,852,354
• Social security costs, of which:	075		1,790,600	2,159,775
• Pension-related expenses	076		1,149,276	1,340,686
• Other administrative expenses	077	16e	2,193,984	2,637,520
Adjustments to the book value of tangible and intangible assets	080	5	193,406	176,174
Other operating expenses	090		384,897	486,300
Result of current activity - Profit	**143**		**180,776,904**	**199,996,156**
Total income	180		192,503,165	214,370,221
Total expenses	190		11,726,261	14,374,065
Pre-tax result – Profit	203		180,776,904	199,996,156
Net result for the fiscal year - Profit	**223**		**180,776,904**	**199,996,156**

NOTES TO THE FGDB'S FINANCIAL STATEMENTS - EXCERPTS

1. Significant Accounting Methods and Policies

Here below are some of the main accounting policies employed in preparing these financial statements:

a) Preparation and Presentation of Financial Statements

These financial statements were prepared in accordance with:

i. Order no. 27/2011 of the Chairman of the Board of Directors of the National Bank of Romania on the approval of the accounting regulations complying with European Union directives applicable to non-banking financial institutions, payment institutions providing credits related to payment services/instituțiilor de plată care acordă credite legate de serviciile de plată, electronic money institutions and the Bank Deposit Guarantee Fund, with subsequent amendments and completions ("BNR Order no. 27/2011").

ii. The Accounting Law no. 82/1991, republished, with subsequent amendments and completions.

The present financial situations consist of the FGDB's own individual financial statements.

The present financial statements were prepared under the historical cost convention, with the exceptions outlined in accounting policies.

These financial statements were not prepared to reflect the FGDB's financial position and results according to accounting regulations and policies accepted in countries and jurisdictions other than Romania. That is why they are not intended for use by entities unfamiliar with accounting and legal regulations in Romania, including Order no. 27/2011 of the National Bank of Romania.

The FGDB prepared the present financial statements according to the principle of continuity of business.

The present financial statements were approved by the Board of Directors of the National Bank of Romania on April 17, 2014.

i) Financial assets

Investment securities are financial assets that provide fixed, determinable payments and have fixed maturities which the FGDB is firmly determined and has the possibility to hold until they mature.

Securities can be classified as investment securities depending on:
- conditions and characteristics of the financial asset and
- the FGDB's ability and actual intent to hold these instruments to maturity.

The decision on classifying securities as investment securities will ignore both future opportunities to make profit from the respective portfolio and bid prices from other investors before maturity, since the intent is to hold the respective investment to maturity rather than to sell it, irrespective of fluctuations in value in the market for such instruments.

A precondition for the classification as investment securities is the assessment of the FGDB's intent and ability to hold those instruments to maturity; this assessment should be made not only at the time of the initial acquisition but also at the end of each fiscal year.

If the institution's intent or ability to hold investment securities to maturity changes and these instruments' classification as investment securities is no longer suitable, they will be reclassified as trading securities and will be assessed in terms of this category.

In conditions in which the institution sold or reclassified investment securities of significant values during the fiscal year to date or during the previous two fiscal years it will not be able to classify any financial asset as investment securities ("the contamination rule").

This interdiction no longer applies if the respective sale or reclassification:

- is so close to the financial asset's maturity date (for instance: less than three months to maturity) that the shifts in interest on the market could not have had any significant impact on the fair value of the financial asset;
- is made after the bulk of the principal of the financial asset was redeemed through periodical payments or early repayments; or
- has to do with an isolated, unrepetitive and difficult-to-anticipate event.

p) The Bank Deposit Guarantee Fund's Specific Resources

The FGDB's resources include: initial contributions from credit institutions, annual contributions from credit institutions, special contributions and other reserves built from previous years' profits. For lack of resources, the FGDB can take loans, under lending contracts, from the Ministry of Public Finance to replenish its funds.

The functionality and accounting reporting of these accounts are stipulated under Government Ordinance no. 39/1996 on the setting up and operation of the Bank Deposit Guarantee Fund and the BNR Order no. 27/2011, with subsequent amendments and completions, as follows:

(i) Initial contribution

It is the contribution owed to the FGDB by each credit institution that joins the Fund's deposit guarantee scheme. It is recorded the moment the respective credit institution receives its licence.

(ii) Annual contribution

The annual contribution is calculated and paid annually by credit institutions and it is recorded on an accrual accounting basis.

(iii) Special contributions

They represent other contributions that credit institutions pay to the FGDB, according to the law, when its financial resources are insufficient to cover compensation payoffs.

(iv) Claim Recoveries

They represent revenues from the recovery of the FGDB's claims over failed commercial banks for the payouts made when these banks went into bankruptcy.

Credit institutions' contributions are non-refundable, including when a credit institution is judicially liquidated or dissolved.

(v) Funds consisting of other revenues

These are other revenues, according to Government Ordinance no. 39/1996 and Order no. 27/2011, representing donations, sponsorships, earnings for financial assistance services and the activities performed by the FGDB as liquidator of bankrupt banks, as well as other revenues within the law.

(vi) Fund consisting of revenues from investments of available financial resources

These resources consist of the FGDB's net profit. Under Government Ordinance no. 39/1996, the FGDB's profit, which is the difference between its revenues and its expenditures, is tax free. With the approval of the FGDB's Board, up to 1 percent of the profit goes to an annual profit-sharing fund, with the remainder being used to replenish FGDB resources intended to cover guarantee deposits and provide financial resources for tangible and intangible investments, according to the revenues and expenditures budget approved by the National Bank of Romania.

The resource account decreases by:

- the FGDB's effective payoffs to the guaranteed depositors of failed banks, according to the law;
- instalments and interest on loans taken to pay out guaranteed compensations;
- the commitment fee on stand-by loan agreements with credit institutions;
- in line with Government Ordinance no. 39/1996 provisions.

Consequently, the FGDB does not register provisions for guaranteed depositors' compensation claims pending resolution or for potential compensation claims that have not been notified.

q) Profit Tax

The FGDB's profit is tax exempt, according to Government Ordinance no. 39/1996 with subsequent amendments and completions.

t) Revenues from Interest

Revenues from interest are recognised in the profit and loss account on an accrual accounting basis/as incurred, for all interest-bearing financial instruments, when they are earned.

Interest revenues also include revenues generated by the amortisation of the discount on the acquisition of assets at a lower value and the amount payable at maturity, as well as the premiums generated by debts made at a value higher than that payable at maturity.

u) Revenue Recognition

The FDGB does not perform commercial activities. Its revenues derive from interest on financial investments. In the present financial statements, revenues and expenditures are presented at their gross value. Debts and claims from the same partners are presented in the balance sheet at their net value when a compensation right arises.

2. Cash

On December 31, 2013, the FGDB's cash in hand amounted to 13,956 lei (as against 7,004 lei on December 31, 2012).

3. Claims over Credit Institutions

	December 31, 2012 (RON)	December 31, 2013 (RON)
Current accounts	1,268,634	1,205,455
Term investments at banks	1,269,373,798	1,441,718,422
Total	**1,270,642,432**	**1,442,923,877**

4. Public Instruments, Bonds and Other Fixed-Income Securities

	December 31, 2012 (RON)	December 31, 2013 (RON)
Investment securities, of which:	1,647,469,351	2,122,536,979
• Investment securities	1,335,095,454	1,810,163,082
• Bonds	312,373,897	312,373,897
Attached claims – investment securities	25,329,576	14,919,912
Trading securities	–	104,430,092
Attached claims – trading securities	–	626,898
Total	**1,672,798,927**	**2,242,513,881**

9. Fund Consisting of Credit Institutions' Contributions (cumulative amounts)

	December 31, 2012 (RON)	December 31, 2013 (RON)
Initial contribution – 1%	6,472,230	6,472,230
Annual contribution (including increased contribution)	2,189,029,120	2,636,263,042
Special contribution	61,777,997	61,777,997
Credit line commission	(14,825,698)	(14,825,698)
Deposit compensations	(512,243,727)	(512,243,727)
Total	**1,730,209,922**	**2,177,443,844**

The initial contribution is paid within 30 calendar days of the date a licence was issued by the National Bank of Romania or – in the case of branches of credit institutions headquartered in other EU member states – of the date they joined the FGDB. In 2013, there were no initial contribution payments.

Each credit institution's annual contribution is calculated according to the statements it sends to the FGDB. In 2013, the FGDB collected 447,233,922 lei in annual contributions, which were calculated as 0.3 percent of the value of guaranteed deposits (2012: 0.3 percent, that is 419,845,342 lei). The annual contribution percentage is proposed by the FGDB and approved by the Board of the Directors of the National Bank of Romania.

If, upon the FGDB's request, the Board of Directors of the National Bank of Romania assesses that FGDB resources are insufficient to settle payment obligations, it can decide on a special contribution payable by each credit institution equal to up to the level of the annual contribution of the respective fiscal year. In 2013, just like in 2012, credit institutions paid no special contributions.

The compensation is the amount the FGDB pays to each guaranteed depositor for deposits which are unavailable, no matter the number of deposits and within the guarantee ceiling. In 2013, just like in 2012, there were no compensation payouts.

10. The Bank Resolution Fund

(RON)

Annual fee	100,166,605
2011 capitalised profit	1,613,798
December 31, 2012 balance	**101,780,403**
2013 annual fee	100,596,040
2012 capitalised profit	5,097,238
December 31, 2013 balance	**207,473,681**

The bank resolution fund is set up to provide the financial resources needed to compensate entities prejudiced by measures endorsed and implemented during special administration procedures.

The bank resolution fund is administered by the Bank Deposit Guarantee Fund.

The annual fee is calculated by applying a percentage to the value of the non-guaranteed liabilities of each credit institution, Romanian legal person. In setting the percentage to be used when calculating the annual fee, the optimum amount of financial resources in the bank resolution fund is considered and so is the targeted appropriate level for each year. That percentage cannot exceed 0.1.

In 2013, the annual fees going to the FGDB totalled 100,596,040 lei, for a percentage of 0.0678 of non-guaranteed liabilities. In 2012, the annual fees collected by the FGDB stood at 50,157,211 lei for a percentage of 0.0322 of non-guaranteed liabilities.

The 2013 profit worth 7,824,134 lei, which was a result of investments of bank resolution fund resources, will be capitalised following a decision of the FGDB's Board after the financial statements as of December 31, 2013 have been authorised.

11. Fund Consisting of Revenues from Claim Recovery (cumulative amounts)

	December 31, 2012 (RON)	December 31, 2013 (RON)
Claim recovery	174,489,241	174,489,241
Interest on bank loans – the National Bank of Romania	(108,774,955)	(108,774,955)
Total	**65,714,286**	**65,714,286**

The recovered claims are the amounts the FGDB collected from credit institutions as outstanding annual contributions on bankruptcy filing date and as compensations payouts to depositors.

In 2013, no claims were recovered from failed banks.

12. Fund Consisting of Revenues from Investments of Available Financial Resources

	December 31, 2012 (RON)	December 31, 2013 (RON)
Fund consisting of revenues from investments of available financial resources – share of the profit	896,878,949	1,070,802,404

The amounts represent the FGDB's cumulative profit resuting from the distribution of previous years' profits.

13. Fund Consisting of Other Revenues, within the Law

	December 31, 2012 (RON)	December 31, 2013 (RON)
The FGDB's earnings from its activities as liquidator	2,590,843	2,590,843

15. Distribution of Profit

	December 31, 2012 (RON)	December 31, 2013 (RON)
Result of current activity – profit, of which:	180,776,904	199,996,156
Profit from the guarantee fund resources	175,679,665	192,172,022
Profit from the bank resolution fund resources	5,097,239	7,824,134
Undistributed profit	**180,776,904**	**199,996,156**

The FGDB's Board will decide on the distribution of profit for the fiscal year ended December 31, 2013 after the financial statements have been authorised.

16. Information on Sub-Section of the Profit and Loss Account

a) Interest receivables and assimilated revenues

(RON)	2012	2013
Current accounts	219,997	133,296
Investments at banks	95,924,429	95,180,604
Fixed-income securities and other bonds	96,360,827	119,058,019
Total	**192,505,253**	**214,371,919**

d) Staff-related expenses

(RON)	2012	2013
Spending on salaries	7,106,318	8,852,354
Spending on social security and welfare , of which:	1,790,600	2,159,775
- spending on pensions	1,149,276	1,340,686
Total	**8,896,918**	**11,012,129**

e) Other administrative expenses

(RON)	2012	2013
Telecommunications and data processing	121,350	131,717
Advertising	146,824	157,427
Business trips	165,834	322,633
Inventory materials and items	220,413	152,977
Maintenance and utilities	124,050	240,300
Audit, consultancy and other services	545,226	614,707
Freelance workers	709,580	868,000
Other administrative spending	160,707	149,759
Total	**2,193,894**	**2,637,520**

Spending on audit fees in 2013 stood at 38,268 RON.

19. Risk Management

The main risks associated with FGDB activities are of a financial and operational nature.

The FGDB is exposed to the following risks:

- Interest-related risk
- Market risk
- Liquidity risk
- Foreign exchange risk

a) Interest-related risk

The FGDB is exposed to the effects of fluctuations in market interest rates in point of financial position and treasury flows. Interest can rise due to such shifts, but it may also diminish and trigger losses when unexpected moves occur. The FGDB management periodically monitors the Fund's exposure to interest rate fluctuations.

In 2013, the FGDB got the following rates on its investment assets:

	2012		2013	
	min	**max**	**min**	**max**
Claims over credit institutions	6.5%	8.08%	5%	8.08%
Public instruments, bonds and other fixed-income securities	5.75%	11%	3.13%	7.75%

b) Market risk

As Romania's economy is a developing economy, there is a significant amount of uncertainty over the possible direction of domestic economic policies. The FGDB management cannot anticipate either the changes to occur in Romania or their possible impact on the FGDB's financial position and on the results of its transactions.

c) Liquidity risk

The main source of liquidity risk is the lack of correlation between the maturity date of FGDB assets and that of its bonds/obligations.

The FGDB's strategy focuses on maintaining sufficiently liquid resources to be able to settle its bonds/obligations at maturity and in this way to avoid losses.

(RON)

As of December 31, 2013	Up to 3 months	Between 3 months and 1 year	Over 1 year and up to 5 years	Total
Cash	13,956	-	-	13,956
Current bank accounts	1,205,455	-	-	1,205,455
Claims over credit institutions	503,765,033	-	937,953,389	1,441,718,422
Public instruments, bonds and other fixed-income securities	-	105,056,990	2,137,456,891	2,242,513,881
Other financial instruments	-	-	186,557,000	186,557,000
Other assets	178,585	-	-	178,585
Prepaid expenses and committed revenues	32,398	29,141,439	10,074,325	39,248,162
Total assets	**505,195,427**	**134,198,429**	**3,272,041,605**	**3,911,435,461**
Other liabilities	431,134	-	-	431,134
The bank deposit guarantee fund	3,316,551,377	-	-	3,316,551,377
The bank resolution fund	207,473,681	-	-	207,473,681
Total liabilities	**3,524,456,192**	**-**	**-**	**3,524,456,192**
Liquidity surplus/ (needs)	**(3,019,260,765)**	**134,198,429**	**3,272,041,605**	**386,979,269**

(RON)

As of December 31, 2013	Up to 3 months	Between 3 months and 1 year	Over 1 year and up to 5 years	Total
Cash	7,004	-	-	7,004
Current bank accounts	1,268,634	-	-	1.268.634
Claims over credit institutions	-	587,879,601	681,494,197	1,269,373,798
Public instruments, bonds and other fixed-income securities	-	-	1,672,798,927	1,672,798,927
Other financial instruments	-	-	186,557,000	186,557,000
Other assets	138,598	-	-	138,598
Prepaid expenses and committed revenues	35,194	25,420,555	9,984,862	35,440,611
Total assets	**1,449,430**	**613,300,156**	**2,550,834,986**	**3,165,584,572**
Other liabilities	692,449	-	-	692,449
The bank deposit guarantee fund	2,695,394,000	-	-	2,695,394,000
The bank resolution fund	101,780,413	-	-	101,780,413
Total liabilities	**2,797,866,862**	**-**	**-**	**2,797,866,862**
Liquidity surplus/ (needs)	**(2,796,417,432)**	**613,300,156**	**2,550,834,986**	**367,717,710**

d) Foreign exchange risk

The FGDB operates in a developing economy where the exchange rates of the major currencies (the euro, the U.S. dollar, the Swiss franc) are unstable as shown by the fluctuations over the last few years of such currencies as the euro and the Swiss franc. Under these circumstances, there is the risk for the value of net monetary assets denominated in the national currency to slide.

On December 31, 2013, the FGDB held in its bank current accounts denominated in EUR the equivalent of 1,626 RON (December 31, 2012: 4,409 RON), in USD the equivalent of 3,113 RON (December 31, 2012: 6,022 RON) and in other foreign currencies the equivalent of 36,697 RON (December 31, 2012: 269 RON). The remaining monetary assets and liabilities are denominated in RON.

f) Credit risk

The FGDB's main goal in 2013 was to consolidate its operational and financial capacity to be able both to secure the necessary resources to cover possible compensation payouts and to fulfil its new financial stabilisation duties introduced under Government Ordinance no. 1/2012 to amend and complement normative acts in the credit institution sector.

In 2013, the FGDB continued to pay special attention to the efficient investment of its available financial resources, in conditions of higher liquidity and lower risk, according to its 2013 exposure strategy which was approved by the Board of Directors of the National Bank of Romania.

(i) **Investment securities**

Investment securities, of which:	December 31, 2013 (RON)
Investment securities	1,809,205,192
Bonds	328,251,699
Trading securities	105,056,990
Total	**2,242,513,881**

Investment securities, of which:	December 31, 2013 (RON)
Investment securities	1,344,539,678
Bonds	328,259,249
Total	**1,672,798,928**

(ii) **Bank deposits**

	December 31, 2013 (RON)
Total bank deposits (time deposits)	1,441,718,422
Current accounts	1,205,455
Total bank deposits and current accounts	**1,442,923,877**

	December 31, 2013 (RON)
Total bank deposits (time deposits)	1,269,373,798
Current accounts	1,268,634
Total bank deposits and current accounts	**1,270,642,432**

ANNEXES

LIST OF THE FGDB-MEMBER CREDIT INSTITUTIONS AS OF DECEMBER 31, 2013

1. Alpha Bank România - S.A.
2. ATE Bank România - S.A.*
3. Banca Centrală Cooperatistă CREDITCOOP
4. Banca Comercială Carpatica - S.A.
5. Banca Comercială Feroviara - S.A.
6. Banca Comercială Intesa Sanpaolo România - S.A.
7. Banca Comercială Română - S.A.
8. Banca de Export Import a României EXIMBANK - S.A.
9. Banca Millennium - S.A.
10. Banca Românească - S.A., member of the National Bank of Greece Group
11. Banca Transilvania - S.A.
12. Bancpost - S.A.
13. Bank Leumi România - S.A.
14. BCR Banca pentru Locuințe - S.A.
15. BRD - Groupe Société Générale - S.A.
16. CEC Bank - S.A.
17. Crédit Agricole Bank România – S.A.
18. Credit Europe Bank (România) - S.A.
19. Garanti Bank - S.A.
20. Libra Internet Bank - S.A.
21. Marfin Bank (România) - S.A.
22. Nextebank - S.A.
23. OTP Bank România - S.A.
24. Piraeus Bank România - S.A.
25. Porsche Bank România - S.A.
26. ProCredit Bank - S.A.
27. Raiffeisen Banca pentru Locuințe S.A.
28. Raiffeisen Bank – S.A.
29. Romanian International Bank - S.A.
30. UniCredit Țiriac Bank - S.A.
31. Volksbank România - S.A.

* Starting mid-March 2014, the bank has been operating under the name Banca Română de Credite şi Investiții.

DEPOSITS WITH FGDB-MEMBER CREDIT INSTITUTIONS AS OF DECEMBER 31, 2013

No.	Indicator	Dec. 31, 2012*	Dec. 31, 2013	Difference	
0	1	2	3	4 = 3 - 2	5 = 4 / 2 (%)
1.	Number of deposit holders - total, of which:	15,500,223	15,046,164	-454,059	-2.9
	• natural persons	14,540,302	14,079,987	-460,315	-3.2
	• legal persons	959,921	966,177	6,256	0.7
2.	Number of guaranteed deposit holders - total, of which:	15,449,171	14,996,671	-452,500	-2.9
	• natural persons	14,528,400	14,065,202	-463,198	-3.2
	• legal persons	920,771	931,469	10,698	1.2
3.	Total deposits (million lei), of which:	289,738.5	286,256.8	-3,481.7	-1.2
	• in lei	150,494.1	153,833.8	3,339.7	2.2
	• in foreign currency (leu equivalent)	139,244.4	132,423.0	-6,821.4	-4.9
4.	Total guaranteed deposits(million lei), of which	149,024.0	160,160.9	11,136.9	7.5
	% of total deposits	*51.4*	*56.0*	*4.6 p.p.*	
	• in lei	92,819.5	100,814.6	7,995.1	8.6
	• in foreign currency (leu equivalent)	56,204.6	59,346.3	3,141.7	5.6
5.	Value of natural persons' guaranteed deposits (million lei), of which:	114,998.9	122,317.2	7,318.3	6.4
	% of total guaranteed deposits	*77.2*	*76.4*	*-0.8 p.p.*	
	• in lei	68,453.1	72,696.2	4,243.1	6.2
	• in foreign currency (leu equivalent)	46,545.8	49,621.0	3,075.2	6.6
6.	Value of legal persons' guaranteed deposits (million lei), of which:	34,025.2	37,843.8	3,818.6	11.2
	% of total guaranteed deposits	*22.8*	*23.6*	*0.8 p.p.*	
	• in lei	24,366.4	28,118.4	3,752.0	15.4
	• in foreign currency (leu equivalent)	9,658.7	9,725.4	66.7	0.7
7.	Total non-guaranteed deposits (million lei), of which:	140,714.5	126,095.9	-14,618.5	-10.4
	% of total deposits	*48.6*	*44.0*	*-4.6 p.p.*	
	• in lei	57,674.6	53,019.2	-4,655.4	-8.1
	• in foreign currency (leu equivalent)	83,039.8	73,076.7	-9,963.0	-12.0

Note: Due to rounding, there may be slight differences between total/subtotal and the sum of the components.

* Final data updated after a verification of the calculation basis for contributions owed by credit institutions in 2013.

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ALPHA BANK

BRCI
Banca Română de Credite şi Investiţii

BANCA CENTRALĂ COOPERATISTĂ
CREDITCOOP

BANCA COMERCIALA
CARPATICA

BANCA COMERCIALĂ
FEROVIARA

INTESA SANPAOLO BANK

BCR

EximBank
România

Millennium
bank

BANCA ROMÂNEASCĂ
Membră a Grupului National Bank of Greece

BT BANCA TRANSILVANIA®

Bancpost

leumi
BANK LEUMI ROMÂNIA

BCR BANCA PENTRU LOCUINTE

BRD
GROUPE SOCIETE GENERALE

CEC Bank

CRÉDIT AGRICOLE

Credit EuropeBank

GarantiBank

LIBRA INTERNET BANK

MARFIN BANK

nextebank

otpbank

PIRAEUS BANK

PORSCHE
BANK
Porsche Finance Group Romania

ProCredit Bank

Raiffeisen
Banca pentru Locuințe

Raiffeisen
BANK

RIB

UniCredit Ţiriac Bank

VOLKSBANK