



FONDUL DE GARANTARE A DEPOZITELOR BANCARE  
BANK DEPOSIT GUARANTEE FUND

2015

**ANNUAL**  
**REPORT**

## **VALUES shared and promoted by FGDB**

We secure the safety of natural and legal persons' deposits with credit institutions in Romania, all while contributing to an increase in savings. Our employees use all the knowledge and skills to fulfil our mission.

We treat each situation, each member bank and each depositor with due respect, seriousness and professionalism.

FGDB is an apolitical institution.

## **MISSION**

FGDB guarantees deposits with member credit institutions. Where a bank can no longer repay the deposits to its customers, FGDB shall compensate the depositors.

FGDB administers the bank resolution fund and may operate as special administrator, temporary administrator, sole liquidator or shareholder of a bridge institution or of an asset management vehicle, according to the legislation on the recovery and resolution of credit institutions and investment firms.

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# SUPERVISORY BOARD



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Advisor to the Governor  
National Bank of Romania



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Deputy Director  
Ministry of  
Public Finance



**Constantin Barbu**

Executive Director  
Romanian Banking  
Association



**Gabriela Buculei**

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Bank of Romania



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Banking Association



**Liviu Stancu**

Secretary of  
State  
Ministry of Justice



**Lucia Sanda Stoenescu**

Advisor  
National  
Bank of Romania

# ORGANISATIONAL CHART

# ORGANISATIONAL CHART



**Petre Tulin**  
Deputy CEO



**Eugen Dijmărescu**  
CEO



**Vasile Bleotu**  
CFO

Administration,  
Liquidation and  
Compensation Payout

Relations  
with Credit Institutions  
and Risk Management

Bank Resolution

Audit

Advisors

Legal Affairs  
and Supervisory Board'  
Secretariat

Analysis,  
Communications and  
External Relations

Treasury

Budget, Accounting  
and Human Resources

IT

Administration,  
Acquisition, Secretariat

# 1. Profile of the Bank Deposit Guarantee Fund (FGDB) and Relevant Data for 2015

*In 2015, on the eve of its 20th anniversary as the only bank deposit guarantee institution in Romania, the FGDB entered a new phase of the process of consolidating the role it plays in maintaining financial stability.*

In December 2015, Romania adopted new bank deposit guarantee legislation, namely *Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund*<sup>1</sup>, transposing *Directive 2014/49/EU on deposit guarantee schemes* into national legislation.

The aforesaid law was supplemented by another legal act impacting the FGDB, namely *Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms and for amending and complementing legal acts in the financial sector*<sup>2</sup>.

The new regulations reconfirm the main objective the FGDB has had under the law ever since the creation of this institution in 1996, namely to protect bank deposits, all while strengthening its powers within the national system that ensures financial stability.

According to the new legislation, the FGDB is a statutory deposit guarantee scheme officially recognised within Romania's territory, a legal person of public interest. The FGDB's membership includes all credit institutions authorised by the National Bank of Romania<sup>3</sup>.

Very much like companies governed according to a dual-board system, the FGDB is managed on the basis of a two-tier model. Pursuant to the new legislation,

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<sup>1</sup> Law no. 311/2015 was published in the Official Gazette of Romania, Part I no. 918 of 11 December 2015 and took effect on 14 December 2015. One of the outstanding amendments under the new law was to change the name of the institution from *Fondul de garantare a depozitelor în sistemul bancar* to *Fondul de garantare a depozitelor bancare*.

<sup>2</sup> Law no. 312/2015 transposes into national law the provisions of Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU of the European Parliament and of the Council and Regulations (EU) no. 1093/2010 and (EU) no. 648/2012 of the European Parliament and of the Council.

The law was published in the Official Gazette of Romania, Part I no. 920 of 11 December 2015 and came into force on 14 December 2015.

<sup>3</sup> A list of FGDB-member credit institutions is given in Annex 1.

within the FGDB an Executive Board will be created to fulfil executive duties and a Supervisory Board will be set up to establish FGDB strategies and policies and to supervise the Executive Board

The Supervisory Board shall consist of representatives of significant public institutions, namely of the National Bank of Romania and of the Ministry of Public Finance<sup>4</sup>.

In line with its new status under the law, the FGDB was also assigned responsibilities in resolving troubled credit institutions, the targets pursued including the protection of both depositors and clients' funds and assets.

Along this line, under the new law that regulates the recovery and resolution of credit institutions in Romania, the FGDB is recognised as the administrator of the bank resolution fund and the National Bank of Romania is designated as the resolution authority entitled to apply resolution tools and to exercise resolution powers.

*The FGDB thus became the administrator in Romania both of the deposit guarantee system and of bank resolution fund resources.*

Besides exercising the two aforementioned powers, the FGDB may act to apply early intervention and resolution measures for credit institutions. Therefore, the FGDB may operate as:

- temporary administrator;
- special administrator of a credit institution under resolution;
- shareholder of the bridge institution;
- shareholder of an asset management vehicle.

It is to be noted that if one of its member credit institutions undergoes resolution measures the FGDB is legally bound to support those measures contributing an amount from the financial resources it administers as a deposit guarantee scheme. The respective amount will be decided by the National Bank of Romania, as the resolution authority.

*Through its implication, the FGDB protects depositors both by guaranteeing deposits and by funding resolution actions that secure depositors' access to their own deposits.*

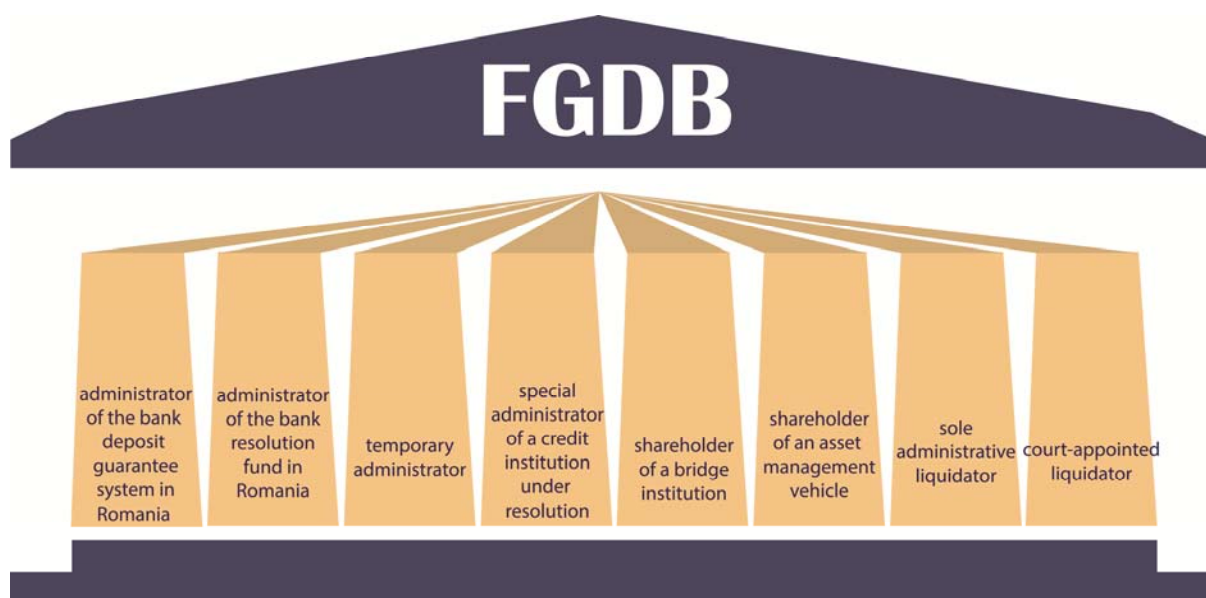
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<sup>4</sup> Supervisory Board members will be appointed by the authorities they represent within six months of the date the law takes effect.

The activities of the FGDB also include its intervention when a credit institution is liquidated. The FGDB is a sole liquidator when the National Bank of Romania decides on a credit institution's dissolution followed by liquidation or when liquidation procedures are initiated by shareholders.

At the same time, the FGDB will further fulfil its duties as court-appointed liquidator, a role it was called upon to play as early as the year 2002 in the case of two bankrupt banks<sup>5</sup>, according to the legislation in force at that time. The FGDB will continue to act as court-appointed liquidator until liquidation proceedings for the two banks are completed.

### **The FGDB's Main Objective and Its Other Powers**



Compared to other bank deposit insurers, the FGDB boasts a wide range of powers and responsibilities, thus falling into the category of deposit guarantee schemes with mandates cover more than the basic compensation payouts.

In 2015, as the financial and banking system was spared from a significant impact of perturbing factors that might have called for recovery and resolution measures, the FGDB focused on the previously mentioned three lines of action, namely:

- a) guaranteeing deposits held at member credit institutions;
- b) administering the bank resolution fund;
- c) furthering procedures for the court-supervised liquidation of the two bankrupt banks where it operates as liquidator.

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<sup>5</sup> Banca Română de Scont and Banca Turco-Română.



Following is a synthesis of the main elements of the three lines of action the FGDB pursued in 2015.

**a) *Guaranteeing Deposits Held at FGDB-Member Credit Institutions***

*In comparison with the period before the change in legislation, depositors now enjoy increased protection of their deposits at credit institutions that are members of the FGDB.*

This is a result of the extension of the coverage the FGDB offers depositors and, equally, of the significantly shorter compensation payment time frame.

*(i) Extension of FGDB Coverage*

Firstly, although the guarantee ceiling per guaranteed depositor per credit institution was maintained at the leu equivalent of 100,000 euros, a temporarily higher coverage limit was set for several categories of natural persons' deposits<sup>6</sup>. These categories include deposits resulting from:

- residential real estate transactions;
- events in a depositor's life, such as retirement, dismissal, invalidity or death;
- receipt of insurance benefits or compensation for criminal injuries or wrongful convictions.

Another notable change was the expansion of the scope of eligible (guaranteed) deposits to include the deposits of all natural persons and of enterprises, no matter their size.

Moreover, the guarantee scope was extended to also include natural persons who are administrators, managers, members of supervisory boards, auditors, significant shareholders of credit institutions, as well as members of their families. At the same time, deposits of large enterprises, previously excluded from coverage, became eligible for protection.

On 31 December 2015, the number of FGDB-guaranteed depositors stood at 14,223,602 natural persons and 937,092 legal persons<sup>7</sup>.

<sup>6</sup> The National Bank of Romania sets the higher coverage limit and reconsiders it periodically based on the evolution of relevant statistical indicators. The increased coverage applies for a period of 12 months after the amount has been credited to an account with the respective credit institution or from the date such deposits have become legally transferrable to another credit institution.

<sup>7</sup> 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.

Guaranteed depositors' deposits at FGDB-member credit institutions at the end of 2015 amounted to 219 billion lei, which is the equivalent of 30.7 percent of Romania's estimated Gross Domestic Product for 2015<sup>8</sup>.

The total value of eligible (guaranteed) deposits went up by 27.7 percent from 31 December 2014, mainly on the back of the FGDB's extended guarantee scope.

Covered deposits<sup>9</sup>, worth 148.8 billion lei on 31 December 2015 accounted for 67.9 percent of the total value of eligible deposits.

#### *(ii) Shorter Compensation Payout Period*

The considerably shorter deposit reimbursement time frame makes an outstanding contribution to the consolidation of depositor protection. Although within the European Union the repayment period will diminish gradually from the current 20 working days to seven working days by 2024, authorities in Romania opted to meet the seven-day deadline immediately.

Consequently, when a credit institution proves unable to compensate depositors, the FGDB will make the due payouts within seven working days at the most of the date of deposit unavailability.

In order to better inform depositors about the protection they enjoy, the new legislation introduced stronger requirements along this line. So, for instance, before entering a deposit-taking contract, credit institutions must provide depositors with basic information on deposit coverage as contained in a depositor information template to be relayed to depositors at least once a year. Furthermore, a confirmation that deposits are eligible deposits will be given with each statement of account.

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<sup>8</sup> According to the Press release no. 88 of 8 April 2016 of National Institute of Statistics, the Gross Domestic Product estimated for 2015 was 712.8 billion lei in current prices (provisional data).

<sup>9</sup> A covered deposit is the part of an eligible deposit that does not exceed the guarantee ceiling laid down in *Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund*.

# Landmarks of Improved Depositor Protection

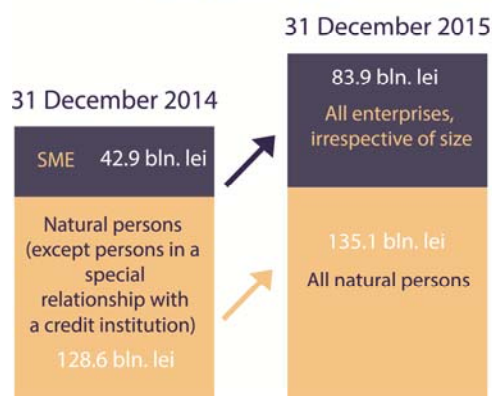
## GUARANTEE CEILING PER DEPOSITOR PER CREDIT INSTITUTION

- it applies to all types of bank deposits, such as time deposits, current accounts, savings accounts, card accounts, joint accounts.
- it is to be supplemented with an amount decided by the National Bank of Romania for several categories of deposits that benefit from a temporarily higher coverage limit.

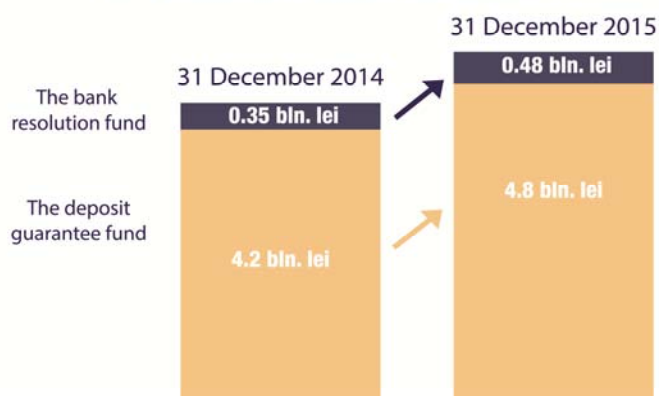
**The leu equivalent of  
100,000 euros**

The more than 100,000-euro coverage (valid for a period of 12 months after the amount has been credited to an account) applies to deposits stemming from residential real estate deals, life events such as retirement, dismissal, invalidity or death, receipt of insurance benefits or compensation for criminal injuries or wrongful convictions.

## GUARANTEE SCOPE



## FGDB-MANAGED FINANCIAL RESOURCES



## COMPENSATION PAYMENT TIME FRAME



## INFORMATION OF DEPOSITORS



- ✓ introduction of a depositor information template
- ✓ information on categories of eligible deposits provided in all bank statements.

With a view to strengthening the FGDB's funding capacity to intervene in situations set out under the law, the deposit guarantee fund increased by approximately 16 percent in 2015 – from 4,176.6 million lei on 31 December 2014 to 4,848.6 million lei on 31 December 2015.

Deposit guarantee fund resources were invested in compliance with the investment strategy approved by the Board of Directors of the National Bank of Romania, with the safety and liquidity of investments as primary targets.

In terms of deposit coverage, note should be made of the FGDB's actions in its capacity as creditor of banks going bankrupt over 1999-2006 where it paid 512.2 million lei in compensation to guaranteed depositors. By end-2015, the FGDB, assisted by court-appointed liquidators and liquidators designated by the National Bank of Romania, recovered 34.2 percent of the amounts it had paid as compensation.

#### ***b) Administration of the Bank Resolution Fund***

The bank resolution fund was created under Law no. 312/2015 *on the recovery and resolution of credit institutions and investment firms and amending and complementing legal acts in the financial sector* by taking over the financial resources of the bank restructuring fund, previously administered also by the FGDB.

On 31 December 2015, the financial resources of the bank resolution fund totalled 484.8 million lei, some 37 percent up from the end-2014 level.

Throughout 2015, the financial resources of this fund were invested in compliance with a strategy approved by the Board of Directors of the National Bank of Romania, with safe and liquid investments as a main goal, just like in the case of the deposit guarantee fund.

Following a decision by the National Bank of Romania, as the resolution authority, bank resolution fund resources may be used to effectively apply resolution tools.

#### ***c) Continuation of Court-Supervised Liquidation Proceedings at the Two Failed Banks Where the FGDB Acts as Liquidator***

In the case of the two bankrupt banks where the FGDB acts as court-appointed liquidator, receipts in 2015 resulting from liquidation-related activities, mostly from recovered claims and interest on investments, amounted to 178 thousand lei for Banca Română de Scont (BRS) and to 304 thousand lei for Banca Turco-Română (BTR).

In both cases, the resolution of ongoing lawsuits at end-2015 might lead to further receipts from recovered claims.

Throughout the liquidation period until 31 December 2015, proceeds were distributed to 47 percent of the body of creditors of BRS and to 36 percent of the body of creditors of BTR.

## **Administration and Management of the FGDB**

There were no changes in the FGDB's administration and management in 2015 as the dual-board system was maintained, with the two tiers represented by: (i) the Supervisory Board and (ii) the executive management.

In compliance with the law, in 2015 the Supervisory Board consisted of seven members, of which three representatives of the National Bank of Romania, one representing the Ministry of Public Finance, one representative of the Ministry of Justice and two representing the Romanian Banking Association. The Chairperson of the Board is a representative of the National Bank of Romania.

The administration and management of the FGDB rely on good governance and transparency principles and standards to secure the institution's solidity, efficiency and credibility.

*One of the priorities of the year 2015 was the consolidation of the FGDB's capability to intervene in situations laid down under regulations in force, all while preparing for the application of the legal provisions that took effect in mid-December 2015.*

Prior to the adoption of the new legislation, a project to optimise the organisational and procedural framework was launched within the FGDB to improve its operational flows and procedures and correlate them with the new legal requirements.

In 2015, compensation payment procedures were revised and several projects were initiated to issue new regulations or change the existing ones.

In December 2015, regulations<sup>10</sup> were validated which set the procedural framework to be used by member credit institutions when preparing, transmitting and administering the reporting forms and documents the FGDB requires to comply with legal provisions.

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<sup>10</sup> Regulation no. 1/2016 on transmission to the Bank Deposit Guarantee Fund of information needed to draw up the compensation payment list and of the necessary documents to calculate credit institutions' annual contributions was published in the Official Gazette of Romania, Part I no. 47 of 21 January 2016.

Furthermore, as the new legislation highlights the obligation to take due account of the risk profile of member credit institutions when calculating their contributions to the FGDB, early in February 2016 a method was validated to calculate credit institutions' risk-based annual contributions for 2016 and rules were endorsed referring to the calculation and payment of contributions to the Bank Deposit Guarantee Fund depending on affiliated risk<sup>11</sup>.

As special attention was paid to assessing risks associated with FGDB activities, the Supervisory Board decided measures to strengthen control over risks with a relatively high likelihood of occurrence.

At the same time, Supervisory Board decisions also referred to the necessary measures to ensure the compliance of the FGDB's IT infrastructure with the best IT security practices and standards.

The FGDB Board meetings in 2015 analysed and endorsed/approved a number of relevant documents referring to the coordinates of the FGDB's funding policy, strategies to invest financial resources, the revenue and expenditure budget, organisation and operational regulations, control over treasury transactions, proposals for credit institutions to be mandated to make compensation payments, claim recovery, liquidation of failed banks, receipts of financial resources and their utilisation, preventive financial control etc.

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<sup>11</sup> *Regulation no. 2/2016 on the calculation and payment of risk-based contributions to the Bank Deposit Guarantee Fund* was published in the Official Gazette of Romania, Part I no. 120 of 16 February 2016.

## 2. Activity Framework in 2015

### ***International Framework Regulating the Activity of Deposit Guarantee Schemes***

*In 2015, one year after the adoption of the directives of the European Parliament and of the Council on deposit guarantee schemes and on the recovery and resolution of credit institutions, most member states, Romania included, finalised the process of transposing them into national legislation.*

Full transposition of the provisions of the two directives by all member states is an essential requirement for the completion of the Banking Union<sup>12</sup>.

### **Unified Regulatory Framework**

The two aforesaid directives, along with the framework of capital requirements<sup>13</sup>, represent basic elements of the unified regulatory framework applicable to all financial institutions across the European Union.

The unified regulatory framework is also the foundation of the Banking Union whose already operational pillars are the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM).

Adding to these two pillars is the European Deposit Insurance Scheme (EDIS), launched in the summer of 2015 when the Five Presidents' Report<sup>14</sup> on *Completing Europe's Economic and Monetary Union* was presented.

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<sup>12</sup> The members of the Banking Union are the euro area countries, as well as non-eurozone states that join it by establishing a close cooperation agreement.

<sup>13</sup> It took effect on January 1, 2014 and it transposes new global capital standards for credit institutions (the Basel III Accord) imposing tougher prudential requirements to improve banks' solidity, their capacity to manage risks, as well as the loss-absorption mechanism. The framework consists of *Regulation no. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012* and of *Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV), amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC*.

<sup>14</sup> The Presidents of the European Parliament, the European Council, the European Commission, the Eurogroup and the European Central Bank.

On 24 November 2015, the European Commission presented a draft *Regulation amending Regulation (EU) no. 806/2014*<sup>15</sup> in order to establish a *European Deposit Insurance Scheme*.

The EDIS will protect all depositors in Banking Union-member states who will continue to enjoy the 100,000-euro coverage level which now applies across the European Union.

According to the European Commission draft regulation, the EDIS will develop in three sequential stages, as follows:

- *Stage 1 (3 years) – reinsurance.* At this stage, the EDIS provides funding for up to 20 percent of the liquidity shortfall of a deposit guarantee scheme in the event of a payout or a resolution procedure and absorbs 20 percent of the excess loss of the participating scheme.
- *Stage 2 (4 years) – co-insurance.* At this stage, the EDIS finances compensation payments or contributions to resolution proceedings considering the liquidity need rather than the liquidity shortfall, as it does in Stage 1. Moreover, the loss cover is no longer limited to the excess loss. The EDIS-provided funding shall increase progressively over the four-year period from 20 percent to 80 percent (+20 percentage points per year) of the liquidity need/loss of the participating deposit guarantee scheme.
- *Stage 3 (starting the year 2024) – full insurance.* This stage provides full funding of the liquidity need and covers all losses arising from a payout event or contribution to a resolution procedure.

The EDIS, in all its three stages, will help to mitigate the vulnerability of national deposit guarantee schemes to possible large local shocks. Moreover, it will further weaken the interdependence between banks and the central administration.

The EDIS will be managed by the Single Resolution Board whose powers will cover decision-making, monitoring and enforcement of the application of corresponding provisions. At the same time, a Deposit Insurance Fund will be created filled by contributions from banks and administered by the Single Resolution Board. Provisions are made for the achievement of cost-neutrality for banks, as the contributions paid to the Deposit Insurance Fund may be compensated at the level of the participating deposit guarantee schemes.

The target level of the Deposit Insurance Fund is equal to that set under the EU deposit guarantee scheme Directive, namely 0.8 percent of total covered deposits, and

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<sup>15</sup> *Regulation no. 806/2014 of the European Parliament and of the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) no. 1093/2010.*



is to be reached by 2024.

After a full European deposit insurance system has been instituted, national deposit guarantee schemes are to manage repayments and act as point of contact for depositors and banks. Likewise, national deposit guarantee schemes might still collect contributions from banks, which would remain in the national scheme.

Besides this draft regulation, the European Commission also released a communication called *Towards the completion of the Banking Union* advancing a number of measures intended to further diminish risks in the banking sector.

In consideration of the European Commission's proposals concerning the EDIS and of the measures to more sharply reduce risks in the banking sector, an *ad hoc working group* was created inside the European Council on *The Strengthening of the Banking Union* in which participating for Romania are representatives of the Ministry of Public Finance and of the National Bank of Romania.

### **European Banking Authority Guidelines**

To ensure a coherent and uniform application in all member states of some of the provisions of *Directive 2014/49/UE on deposit guarantee schemes*, in 2015 the European Banking Authority (EBA) issued guidelines on:

*i. methods for calculating contributions to deposit guarantee schemes*

The FGDB has already applied some of the EBA recommendations in connection with the calculation of risk-based contributions and worked out its own system to determine risk-adjusted contributions, which was approved by the National Bank of Romania in February 2016<sup>16</sup>.

*ii. payment commitments<sup>17</sup>*

The guidelines set payment commitments terms, as well as criteria for the eligibility and management of the collaterals securing payment commitments.

*iii. cooperation agreements between deposit guarantee schemes<sup>18</sup>*

The guidelines outline the essentials of the agreements between deposit guarantee schemes as concerns three major cooperation sectors, namely compensation payments to depositors of cross-border banks, the transfer of the contributions of a credit institution that ceases to be a member of a

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<sup>16</sup> The new method of calculating the contributions of FGDB-member credit institutions is detailed in *Chapter 4 – Financial Resources Administered by FGDB*.

<sup>17</sup> The available financial resources of deposit guarantee schemes may include credit institutions' payment commitments provided that they should not exceed 30 percent of the total.

<sup>18</sup> When the present annual report was completed, the guidelines were being translated. Competent authorities should apply the guidelines within six months at the most from the publication of the translation of the guidelines in all EU official languages on the EBA's website.

deposit guarantee scheme and joins another and mutual lending between guarantee schemes.

Furthermore, in November 2015, the EBA launched a public consultation on its draft *Guidelines on stress tests of deposit guarantee schemes*.

The draft guidelines include:

- methodological principles underlying stress tests;
- events/scenarios to be simulated – compensation payments, resolution and, where appropriate, early intervention;
- areas of the systems of deposit guarantee schemes to be tested and indicators to be measured;
- basic/priority tests for the EBA peer reviews – testing single customer views, the operational aspects of repayments, the funding capability and the cooperation between deposit guarantee schemes<sup>19</sup>.

### **Core Principles for Effective Deposit Insurance Systems and Other International Guidelines in the Field**

At the start of 2015, the Financial Stability Board<sup>20</sup> included the revised version of the *Core Principles for Effective Deposit Insurance Systems*<sup>21</sup> in the *Compendium of Key International Standards of Financial Stability*.

Following the approval of the revised version of the *Core Principles*, in 2015 the International Association of Deposit Insurers (IADI) initiated a revision of the Handbook for the *Assessment of Compliance with the Core Principles*, which will be submitted to the IADI Executive Council for approval in the first half of 2016.

In 2015, the IADI issued three guidance papers applicable to deposit guarantee schemes on:

- relationship with parties at fault in a bank failure;

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<sup>19</sup> Deposit guarantee schemes should run the four types of priority tests by July 3, 2019, ahead of the EBA peer review due on July 3, 2020.

<sup>20</sup> In April 2009, G20 leaders agreed to set up the Financial Stability Board, as the successor to the Financial Stability Forum.

<sup>21</sup> The revised version of the *Core Principles for Effective Deposit Insurance Systems*, which includes the compliance assessment methodology, was developed by a working group including representatives of the IADI, the Basel Committee on Banking Supervision, the European Forum of Deposit Insurers, the European Commission, the Financial Stability Board, the International Monetary Fund and the World Bank.

The World Bank and the International Monetary Fund apply the *Core Principles* in the implementation of financial Sector Assessment Programmes.

- *ex ante* funding<sup>22</sup>;
- multiple deposit guarantee schemes operating within the same jurisdiction<sup>23</sup>.

The last two papers add additional guidance to previous similar IADI papers following a request from the Financial Stability Board.

## ***The Domestic Regulatory Framework***

### **Regulations on Deposit Guarantee**

The first chapter of the present annual report detailed the main provisions of Romania's new deposit guarantee legislation, namely *Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund*, which transposes *Directive 2014/49/EU on deposit guarantee schemes*.

The presentation in the first chapter focuses on the FGDB's new responsibilities within the law and on the elements that secure enhanced protection for depositors, such as the significant shortening of the payout time frame, the extension of the scope of guarantee, the introduction of a higher degree of protection for certain categories of deposits and better depositor information.

To complement the outline in the first chapter, this section highlights a number of other important amendments impacting the FGDB in its capacity as statutory deposit guarantee scheme, officially recognised in Romania, such as:

- ***The FGDB's Financial Resources***

Deposit guarantee schemes throughout the European Union must reach a target level of financial resources of at least 0.8 percent of the amount of the guaranteed deposits of the member credit institutions by 2024.

Thanks to the cautious financing policy the FGDB has pursued so far, it already has accumulated resources that are significantly above the target level set by the

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<sup>22</sup> The legal provisions regulating the activity of the FGDB are consonant with IADI guidance on funding deposit guarantee schemes, namely the existence of an *ex ante* funding mechanism and of an alternative funding mechanism (in the case of Romania, the FGDB has a certain source of alternative funding in the loans from the Ministry of Public Finance and may also resort to loans from other entities), the setting of a target level of available financial resources, the application of a system of risk-based contributions and investments of available financial resources in low-risk, adequately liquid instruments.

<sup>23</sup> At present, the FGDB is the only statutory deposit guarantee scheme operating in Romania under the law. The new legislation on deposit guarantee in Romania stipulates that private guarantee schemes may also be set up to parallel the FGDB, such as contractual guarantee schemes and institutional protection systems.

European Union. At the end of 2015, the FGDB's financial resources accounted for 3.3 percent of the amount of covered deposits, outrunning the set target threshold by 2.5 percentage points.

Each credit institution participating in the FGDB must pay an annual contribution to the deposit guarantee fund and the contribution amount is determined according to the respective institution's risk profile. The new contribution system applies starting 2016.

To this end, the FGDB issued *Regulation no. 2/2016 on the calculation and payment of risk-based contributions to the Bank Deposit Guarantee Fund*<sup>24</sup>. The methodology employed was based on the European Banking Authority's *Guidelines on methods for calculating contributions to deposit guarantee schemes* and the indicators used fall into the categories that cover capital adequacy, liquidity and funding, asset quality, business model and management, the potential loss to the deposit guarantee scheme.

With the approval of the National Bank of Romania, part of a credit institution's annual contribution may consist of payment commitments<sup>25</sup> which, however, may not exceed 30 percent of the FGDB's total available financial resources.

If additional resources are needed to make compensation payments, credit institutions pay extraordinary contributions that may not exceed 0.5 percent of the amount of covered deposits.

Besides annual and extraordinary contributions from member credit institutions, the FGDB's resources also result from recovered claims, receipts from investments of available financial resources, loans and other resources.

Where the FGDB's available financial resources are insufficient to repay depositors or to fund resolution measures, the Government, through the Ministry of Public Finance, lends the necessary amounts to the FGDB within 5 working days at the most from its request.

Furthermore, deposit guarantee schemes may borrow from each other, within certain limits and with the loan being repaid within five years.

The FGDB must invest its available financial resources in a sufficiently diversified, low-risk manner. To this end, the law stipulates that the FGDB's annual resource investment strategy, which must be approved by the National Bank of Romania, should focus on the minimisation of risk, on the liquidity of investments and on their yields as a complementary target. The result of a responsible management of

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<sup>24</sup> The FGDB's *Regulation no. 2/2016* was approved by the National Bank of Romania and published in the Official Gazette of Romania, Part I no. 120 of 16 February 2016. The regulation took effect on the date of publication in the Official Gazette.

<sup>25</sup> Credit institutions' payment commitments towards the FGDB must be fully collateralised and the collaterals must consist of low-risk assets, must be unencumbered by any third-party rights and must be at the disposal of the FGDB.

FGDB financial resources over 2006-2015 accounts for more than 27 percent of the total resources accumulated over this period<sup>26</sup>.

If a credit institution is subject to resolution actions to ensure depositors' continuous access to their own deposits, the amount needed to finance the respective actions, which is set by the National Bank of Romania, will be provided from the deposit guarantee fund in compliance with legislation on the recovery and resolution of credit institutions.

- *Cooperation with Other Deposit Guarantee Schemes*

The FGDB will repay depositors at the branches in Romania of credit institutions headquartered in another member state on behalf of the deposit guarantee scheme in the home member state.

Reciprocally, depositors of the branches opened in other member states by FGDB- member credit institutions will be repaid through the agency of a deposit guarantee scheme in the host country.

Moreover, the FGDB may conclude loan agreements with other deposit guarantee schemes.

The cooperation accords the FGDB will sign with other deposit guarantee schemes in the European Union will be based on the guidelines issued by the European Banking Authority.

- *Verification of Member Credit Institutions and the Running of Stress Tests*

Member credit institutions periodically transmit to the FGDB information on covered deposits, eligible deposits and payout lists.

Along this line, early in 2016 the FGDB issued *Regulation no. 1/2016 on the transmission to the Bank Deposit Guarantee Scheme of the information needed to prepare payout lists and to calculate credit institutions' annual contributions*<sup>27</sup>.

In compliance with the law, the FGDB conducts verifications of member credit institutions to check the accuracy of reported data, as well as compliance with legal

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<sup>26</sup> The period running 2006-2015 was taken as a reference period as 2005 was the last year when the FGDB had to fulfil its payment obligations related to loans taken from the National Bank of Romania in the year 2000, in line with legislation in force at that time, to be able to reimburse depositors of Bankcoop and Banca Internațională a Religiiilor, two banks that went bankrupt in 2000.

<sup>27</sup> Regulation no. 1/2016 was published in the Official Gazette of Romania, Part I no. 47 of 21 January 2016 and took effect on 26 January 2016. This Regulation was subsequently completed by Regulation no. 3/2016, published in the Official Gazette of Romania, Part I no. 300 of 20 April 2016.

provisions on the information of depositors.

The FGDB will periodically perform stress simulation exercises to test the capability of its systems to collect the information needed to calculate compensation levels and to check and use them to fulfil its duties to depositors.

- *Internal Control System and the Statutory Audit of the FGDB's Financial Statements*

The FGDB should have solid and transparent good governance practices, which imply processes of identifying, managing, monitoring and reporting risks, as well appropriate internal control mechanisms for all the activities it performs under the law. These mechanisms should be assessed and, if needed, reviewed annually.

Pursuant to legal provisions, an Audit Committee will be set up within the FGDB, comprised of three members of the FGDB's Supervisory Board.

The FGDB's financial statements are subject to statutory audit conducted by one of the four global audit firms which also checks compliance with legal provisions relating to the investment and use of the financial resources of both the deposit guarantee scheme and of the FGDB-managed bank resolution fund.

### **Framework for the Recovery and Resolution of Credit Institutions**

As has been shown in Chapter 1, *Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms and amending and complementing legal acts in the financial sector* is the transposition into national legislation of the EU Directive on bank recovery and resolution.

This law has created a legal, three-staged framework for managing bank crises, as follows:

- *Preparation*

At this stage, credit institutions have the responsibility to draw up and review their recovery plans that spell out measures to restore their financial position if it has been badly deteriorated.

At the same time, the National Bank of Romania, as the resolution authority, works out resolution plans containing the actions it may take if a credit institution is put into resolution.

- *Early intervention*

Where a credit institution infringes or is likely to infringe the minimum own funds

requirement applicable to credit institutions because of the rapid deterioration of its financial condition, the National Bank of Romania may take a number of early intervention measures to remedy the situation.

At this stage, the FGDB may participate as temporary administrator of a credit institution if the National Bank of Romania decides to make such an appointment to temporarily replace or work with the management body of the respective credit institution.

- *Resolution*

A resolution action will be taken if a credit institution fails or is likely to fail and alternative private sector measures or supervisory actions<sup>28</sup> prove unable to prevent that failure within a reasonable time frame and the resolution action is in the public interest.

The targets of bank resolution actions include:

- i. assurance of the continuity of the critical functions of the credit institutions undergoing resolution proceedings;
- ii. avoidance of significant adverse effects on financial stability, particularly by preventing contagion, including on market infrastructure, and by maintaining market discipline;
- iii. protection of public funds by minimising the reliance on extraordinary public financial support;
- iv. protection of depositors covered by deposit guarantee legislation;
- v. protection of clients' funds and assets.

It should be emphasised that according to the general principles governing resolution, covered deposits are fully protected no matter the resolution measure applied.

Shareholders and creditors of the credit institution under resolution are the first in line to bear losses, but no creditor should incur bigger losses than would have been incurred if the credit institution had been wound up under normal insolvency proceedings.

The resolution tools the National Bank of Romania, as the resolution authority, may apply, individually or in combination, are the following:

- a) the *sale of business* tool – the resolution authority transfers to another entity, on commercial terms, shares or other instruments of ownership, assets, rights or

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<sup>28</sup> Including early intervention measures or measures to write down or convert relevant capital instruments.

liabilities of the credit institution under resolution, without requiring the consent of the shareholders;

- b) the *bridge institution* tool – the resolution authority transfers shares or other instruments of ownership, assets, rights and liabilities of the credit institution under resolution to a bridge institution which was created to serve this purpose and is controlled by the National Bank of Romania. The bridge institution is wholly or partially owned by one or more public authorities. The FGDB may be a shareholder of such an institution;
- c) the *asset separation* tool<sup>29</sup> – the resolution authority transfers assets, rights and liabilities of the credit institution under resolution or of a bridge institution to one or more asset management vehicles wholly or partially owned by one or more public authorities. The FGDB may be a shareholder of an asset management vehicle;
- d) the *bail-in* tool – the resolution authority exercises its powers to write down or convert the liabilities of an institution under resolution.

Covered deposits are expressly excluded from the scope of the bail-in tool.

Consequently, each depositor is fully covered up to 100,000 euros, while holders of deposits larger than the guarantee ceiling will only be repaid 100,000 euros. The funds that exceed the 100,000-euro limit (so, for instance, in the case of a 150,000-euro deposit, the amount above the coverage level is 50,000 euros) may be bailed in only if all the other claims were not enough to absorb losses and to ensure adequate capitalization of the institution under resolution.

The FGDB is the administrator of the bank resolution fund which, in line with a decision of the National Bank of Romania, as the resolution authority, is used to support the effective application of resolution tools.

The FGDB collects member credit institutions' contributions to the bank resolution fund, their level being set by the National Bank of Romania.

The FGDB invests the financial resources of the bank resolution fund in a low-risk, diversified manner, according to its strategy, which has the approval of the National Bank of Romania. The main targets of the strategy behind the investment of the financial resources of the bank resolution fund are the minimisation of risk and the liquidity of investments, as well as yields as a related goal.

The target level of the available financial resources of the bank resolution fund is one percent of the amount of covered deposits at credit institutions authorised within Romania's territory. This level, as well as the deadline by which it should be reached, that is 31 December 2024, are the same across the European Union.

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<sup>29</sup> The asset separation tool may be applied only in combination with another resolution tool.



As Chapter 1 showed, Romania's bank resolution fund was set up by taking over the financial resources of the bank restructuring fund which the FGDB previously managed. By 31 December 2015, the bank resolution fund had reached 0.3 percent of the total amount of covered deposits standing at 484.8 million lei.

Where a credit institution is put into resolution proceedings, the National Bank of Romania, as the resolution authority, may designate a special administrator to replace the management body of the respective institution. According to the law, the FGDB may be appointed special administrator exercising in that capacity all the powers of the shareholders and of the management body of the respective institution under the control of the resolution authority.

### **Other Regulations**

In July 2015, Romania's Government approved a draft law on the macroprudential supervision of the national financial system<sup>30</sup>, which provides for the creation of the National Committee for Macroprudential Supervision (CNSM) including representatives of the National Bank of Romania, the Financial Supervisory Authority and the Government. The mandate of the CNSM is to coordinate macroprudential supervision of the national financial system by devising a macroprudential policy and developing the appropriate instruments for its implementation.

According to the draft law, the CNSM's prime objective is to contribute to safeguarding financial stability by strengthening the resilience to shocks of the financial system and by decreasing the build-up of systemic risks, all while ensuring a sustainable contribution of the financial system to economic growth.

The FGDB, given its responsibilities in the resolution of credit institutions in difficulty, will attend the meetings of the CNSM's General Board as observer.

Also in July 2015, the National Bank of Romania issued *Order no. 6/2015 approving the accounting regulations according to the European directive*<sup>31</sup>, the provisions of which apply to the FGDB as well.

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<sup>30</sup> When the present annual report was prepared the draft law was going through the legislative procedure.

<sup>31</sup> The Order took effect on 1 January 2016.

## ***Developments in the Banking Sector in the European Union and in Romania***

### ***Developments in the European Union***

*“The overall contained level of financial system stress in the euro area during 2015 reflected an improving real economic outlook supported by ECB action allaying deflation fears that threatened to be harmful to both price and financial stability. Nevertheless, global financial markets experienced intermittent bouts of market tension, spanning foreign exchange, commodity, bond and equity markets, which highlighted that vulnerabilities remained. Most notably, higher political risks surfaced early in the summer in relation to negotiations on a new Greek financial assistance programme. Asset markets experienced periods of high volatility. In particular, sovereign bond yields in the euro area increased sharply in late April and early May, while global equity markets suffered a spillover from a correction in Chinese share prices in late August. The impact of these developments on the euro area financial system was relatively contained, with standard indicators of bank, fiscal and financial stress remaining at low levels.”*

*Annual Report 2015 of the European Central Bank*

In 2015, economic recovery continued across the European Union. The economies of member states posted moderate growth rates with the Gross Domestic Product in the E28 rising by 1.9 percent<sup>32</sup> (+0.5 percentage points as to 2014). However, there were still significant disparities between member states<sup>33</sup>. In the euro area, the 2015 advance was of 1.6 percent (+0.7 percentage points as to 2014).

The key factor behind that growth was domestic consumption relying on higher real disposable income, better conditions in the labour market, modest interest rates, low oil prices and increased confidence. According to Eurostat, the economic sentiment indicator was on an upward trend throughout 2015, except for June, when tension in Greece reached its peak.

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<sup>32</sup> Estimate published by Eurostat in its news release of 8 March 2016 (<http://ec.europa.eu/eurostat/documents/2995521/7205531/2-08032016-AP-EN.pdf/58203ef6-f87a-4638-b84d-f177a8bbf12c>).

<sup>33</sup> With the exception of Greece, whose GDP contracted by 0.8 percent, all the other member states recorded positive annual variations, between 0.6% (in the case of Denmark) and 4.5 percent (in the case of Sweden). Romania's economy posted a year-on-year growth rate of 3.8 percent.

As a result of the establishment of new regulatory and supervisory frameworks in the banking sector and of the measures taken by credit institutions to comply with the new requirements the resilience of the banking sector within the European Union strengthened in 2015. Contributing significantly along this line was also the quantitative and qualitative improvement of banks' capital which allowed them to better cope with perturbing factors.

Persistently low interest rates over an extended period and the relatively large proportion of impaired receivables created difficulties for banks, adversely impacting their business models and profitability.

Nevertheless, 2015 was a year when the net results of several significant banks improved. That favourable course was mainly a result of a stable macroeconomic situation.

In 2015, Greece was the venue of the worst turbulence in the financial sector within the European Union. Local political uncertainty and issues related to a possible default by Greece had a strong impact on Greek banks<sup>34</sup>, whose liquidity position deteriorated substantially.

In order to cope with the unfavourable circumstances, Greek banks had to resort to emergency liquidity assistance. Furthermore, authorities decided to extend bank holidays and capital control was reinforced.

The fact is noteworthy that, thanks to the steps taken, deposits did not become unavailable and, implicitly, there was no need for an intervention by the Greek guarantee scheme although Greek banks had to cope with massive deposit withdrawals.

The European Central Bank made a comprehensive assessment of significant credit institutions in Greece consisting of an asset quality review and a stress test. With the results of the comprehensive assessment as a basis, the significant Greek credit institutions performed a recapitalisation process which was finalised by end-2015, the identified capital shortfalls being thus covered<sup>35</sup>.

The shortfalls were covered by capital raised from private investors in the case of

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<sup>34</sup> Turbulence in Greece did not affect credit institutions in Romania as the banks with majority Greek capital are Romanian legal persons under the direct supervision of the National Bank of Romania.

<sup>35</sup> The maximum capital shortfalls identified under the adverse scenario of the stress test amounted to 4.93 billion euros for Piraeus Bank, 4.60 billion euros for the National Bank of Greece, 2.74 billion euros for Alpha Bank and 2.12 billion euros for Eurobank.

Alpha Bank and Eurobank, while Piraeus Bank and the National Bank of Greece benefited from state aid granted as precautionary recapitalisation within the meaning of the Directive on the recovery and resolution of credit institutions<sup>36</sup>.

Authorities in other European member states also applied resolution measures or extended, with the approval of the European Commission, the schemes instituted during the financial crisis for the purpose of granting state aid to failing banks<sup>37</sup>.

So, for instance, in 2015, as some credit institutions faced difficulties or uncertainty over their access to funding, especially medium- and long-term financing, a number of countries (including Greece, Poland and Portugal) decided to extend the schemes providing guarantees on liabilities and liquidity support to banks which have no capital shortfall.

In the second half of 2015, some member states took measures specific to the new framework for the recovery and resolution of credit institutions, notable in this respect being Croatia, Italy, Denmark, Portugal and Hungary.

Four bridge banks were created in Italy to take over part of the assets and liabilities of four banks placed under special administration. The four banks had a combined market share of one percent.

The banks' impaired assets were transferred to an asset management vehicle for sale or orderly liquidation. Italy's resolution fund provided 3.6 billion euros<sup>38</sup> to the bridge banks and issued a 400-million-euro guarantee on the assets transferred to the asset management vehicle.

Also in Italy, some of the assets and liabilities of a cooperative bank under special administration were sold and the remaining assets liquidated. The deposit guarantee scheme for credit cooperatives covered the negative difference<sup>39</sup> between the transferred assets and liabilities.

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<sup>36</sup> The European Stability Mechanism provided financial assistance to the Greek state earmarking, through the Hellenic Financial Stability Fund, 10 billion euros for the recapitalisation of the Greek banking sector.

<sup>37</sup> According to European Commission data, from the beginning of the crisis to end-2014 as many as 112 banks within the European Union, representing around 30 percent of the EU banking system by assets, benefited from state aid consisting of capital injections (671 billion euros) and guarantees and other liquidity measures (1,288 billion euros).

<sup>38</sup> The amount was used for the capitalisation of the bridge banks and to cover the negative difference between the transferred assets and liabilities.

<sup>39</sup> Estimated to 261 million euros at most.

It is worth pointing out that in all the cases where resolution measures were applied, bank deposits were in no way affected and depositors' access to their funds was continuous.

However, there were situations when deposits with some banks or credit cooperatives were declared unavailable, triggering the intervention of the deposit guarantee schemes in the respective countries which proceeded to payouts to guaranteed depositors. So, for instance, four banks affiliated to a banking group in Hungary went bankrupt and the Hungarian guarantee scheme paid around 340 million euros in compensation to 73,000 depositors. The deposit guarantee schemes of Poland and Great Britain repaid depositors of failed credit cooperatives, while the guarantee schemes of Bulgaria and the Czech Republic continued with the payouts started in previous years.

The respective bank failures generated absolutely no problems for the deposit guarantee schemes which appropriately fulfilled their obligations to depositors.

### **Actions Related to Credit Institutions within the Banking Union**

In 2015, the significant banks in the member states participating in the Single Supervisory Mechanism (SSM)<sup>40</sup> were subject to a supervisory review and evaluation process based on a common methodology. During this process, business models, governance, risk management and risks to capital, liquidity and funding were assessed.

The common methodology for the supervisory and evaluation process<sup>41</sup> was worked out in 2015 by the European Central Bank (ECB) in cooperation with the competent authorities in the member states in the euro zone.

Furthermore, in 2015 the ECB conducted a comprehensive assessment for nine banks that became or were likely to become subject to its direct supervision within the SSM<sup>42</sup>.

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<sup>40</sup> SSM became operational on 4 November 2014, once the European Central Bank assumed the responsibility to directly oversee all the significant banks of the euro area.

<sup>41</sup> The methodology is resonant with the EBA *Guidelines for common procedures and methodologies for the supervisory review and evaluation process*, which are applied also in the supervision of banks in Romania.

<sup>42</sup> According to the ECB press release, the assessment involved nine banks from Austria, Belgium, Finland, France, Luxembourg, Malta, Portugal and Slovenia and their assets ranged from 2.6 billion euros to 57.4 billion euros. The assessment comprised an asset quality review and a stress test. The results of the assessment triggered measures to cover an aggregate capital shortfall worth 1.74 billion euros, as

Starting 1 January 2016, all credit institutions within the SSM became the direct responsibility of the Single Resolution Mechanism (SRM)<sup>43</sup>.

The SSM contributes to significantly diminishing the probability that a credit institution fails; if, however, such a failure occurs the SRM ensures an orderly resolution of the respective bank with minimal costs to taxpayers and to the real economy.

As shown earlier in the present chapter, the European Commission's communication of 24 November 2015 called *Towards the completion of the Banking Union*, in parallel with the proposed creation of EDIS, advanced a number of measures intended to further diminish risks within the Banking Union.

These measures refer to the need to issue new legal acts or amend the existing ones, as well as to the more appropriate application of regulations in force. The lines of action include:

- the reduction of member states' options in the application of prudential rules;
- the introduction of additional prudential requirements for credit institutions, primarily related to bank leverage, ensuring stable bank funding and reviewing the calculation method for risk-weighted assets;
- the further harmonisation of national deposit guarantee schemes, especially in terms of funding;
- the uniform application of the Directive on the recovery and resolution of credit institutions, especially as concerns bail-in so that costs may be borne first by shareholders and creditors and the use of public funds may be reduced to a minimum;
- ensuring the convergence of insolvency regulations and restructuring proceedings;
- the proper implementation of the minimum requirement for own funds and eligible liabilities requirements (MREL)<sup>44</sup>, stipulated under the legislation on the recovery and resolution of credit institutions, and the introduction of the total loss absorbing capacity (TLAC)<sup>45</sup> requirement;
- reconsideration of the prudential treatment of banks' exposures to sovereign risk.

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well as aggregate adjustments to asset carrying values of 453 million euros.

<sup>43</sup> The SRM became fully operational on 1 January 2016. Following the ratification of the *Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund*, by end-January 2016 4.3 billion euros in *ex ante* contributions for 2015 had been transferred.

<sup>44</sup> The minimum requirement is calculated as the amount of own funds and eligible liabilities expressed as percentage of the total liabilities and own funds of a credit institution. In Romania, the National Bank of Romania, as the resolution authority, sets the minimum requirement for own funds and eligible liabilities for each credit institution, ensuring the effectiveness of the bail-in tool.

<sup>45</sup> TLAC was issued by the Financial Stability Board in November 2015 as a standard for global systemically important banks so that they should have sufficient loss-absorbing and recapitalisation capacity in the resolution process.

## *Developments in Romania*

*“The banking sector in Romania has continued to strengthen. In 2015, banks’ profitability reverted to positive territory, high solvency and liquidity ratios were reported, and the non-performing loan ratio was stuck to a downward path. Contagion risk also kept declining, as the reliance of banks in Romania on parent bank funding was on the wane.”*

*Financial Stability Report, April 2016 of the National Bank of Romania*

Under favourable macroeconomic circumstances<sup>46</sup>, relevant indicators in Romania’s banking system as a whole moved on to positive territory, while the resilience of the system enhanced.

Throughout 2015, no credit institution in Romania faced issues likely to push it into failure and, consequently, there was no need for recovery or resolution measures or for the FGDB’s intervention.

At end-2015, the number of credit institutions in operation in Romania stood at 36, four less than at the end of the previous year. Of the aforesaid total number of credit institutions, 29 were Romanian legal persons, members of the FGDB, and seven were branches of foreign banks in Romania participating in deposit guarantee schemes in the home member states.

The decrease in the number of credit institutions operating in Romania was a result of the consolidation of the FGDB-member credit institutions and the close-down of two branches of foreign banks.

Two mergers by absorption were completed in 2015 involving four of the credit institutions participating in the FGDB. OTP Bank România S.A. took over Millennium Bank S.A. and the Banca Transilvania group acquired a 100-percent stake in Volksbank România S.A.<sup>47</sup> In both cases, the integration processes were finalised in the last quarter of 2015<sup>48</sup>.

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<sup>46</sup> According to provisional data released by the National Institute of Statistics on 8 April 2016 ([http://www.insse.ro/cms/files/statistici/comunicate/pib/a15/pib\\_tr4r2015\\_2.pdf](http://www.insse.ro/cms/files/statistici/comunicate/pib/a15/pib_tr4r2015_2.pdf)), the Gross Domestic Product increased by 3.8 percent in 2015 on the back of rises in individual household consumption and gross fixed capital formation.

<sup>47</sup> The transactions were finalised on 8 January 2015 and, respectively, on 7 April 2015.

<sup>48</sup> OTP Bank România S.A. merged by absorption with Millennium Bank S.A. (absorbed entity) on 31

Another significant deal on the Romanian financial-banking market in 2015 was the change in the shareholder structure of one of the largest banks in the system. In June 2015, UniCredit Bank Austria AG bought the stake Țiriac Holdings Ltd. held in UniCredit Țiriac Bank S.A., increasing its interest in that bank from 50.6 percent to 95.6 percent. Following this transaction, the bank changed its name to UniCredit Bank S.A.

Also in the first half of 2015, Nextebank S.A., a FGDB-member bank, took over the client portfolio of Patria Credit IFN<sup>49</sup>, a non-bank financial institution.

On 31 December 2015, the 36 credit institutions in Romania held net assets totalling 377.3 billion lei<sup>50</sup>, adding 13.2 billion lei to the level recorded on 31 December 2014 (an annual variation of +3.6 percent in nominal terms).

Privately-owned credit institutions held 91.7 percent of total assets, while foreign-owned had a 90.3 percent stake. Both indicators headed 0.4 percentage points higher from the end of 2014.

The year 2015 meant a reinvigoration of the lending activity on the back of lower interest rates, higher households' disposable incomes and greater confidence in the economy.

In the first semester of 2015, the monetary policy rate diminished gradually to 1.75 percent on 7 May 2015, while the reserve requirement ratio on leu-denominated liabilities of credit institutions declined to 8 percent<sup>51</sup>.

The monetary policy steps taken reflected in the continuing downward trend of interest rates, which reached an all-time low.

At the end of 2015, the average interest rate on new leu-denominated loans to households stood at 6.61 percent (-0.66 percentage point as to December 2014), sliding even lower – by 1.55 percentage points to 4.32 percent – in the case of non-financial corporations.

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October 2015, and Banca Transilvania S.A. merged by absorption with Volksbank Romania S.A. (absorbed entity) on 31 December 2015.

<sup>49</sup> The bank changed its name to Patria Bank S.A. on 11 March 2016.

<sup>50</sup> Data on aggregate indicators concerning credit institutions, credits and deposits were taken from the website of the National Bank of Romania.

<sup>51</sup> During its meeting on 7 January 2016, the Board of Directors of the National Bank of Romania decided to also cut the reserve requirement ratio on foreign currency liabilities of credit institution to 12 percent from 14 percent starting with the 24 January – 23 February 2016 observance period.



The average interest on new loans denominated in euros shrank to 4.01 percent in the household segment (-0.41 percentage points as against December 2014) and to 3.14 percent in the non-financial corporation section (-0.79 percentage points year on year).

The overall amount of loans to households and non-financial corporations in 2015 surged by 2.7 percent to 213.3 billion lei at the end of the year thanks to the progress of the household component.

Loans in the national currency in both segments raced into positive territory, registering a cumulative annual growth of around 17 billion lei (an annual variation in relative terms of +18.8% percent). Foreign currency-denominated loans, however, ran against that uptrend posting a 9.6 percent fall.

With loans in the national currency and in foreign currencies moving as they did, the leu-denominated loans outdistanced credits in foreign currencies to take a 50.3 percent stake of the total loans to households and non-financial corporations.

Household loans expanded by 5.7 percent to some 108 billion lei on 31 December 2015. In the meantime, the non-financial corporation component stagnated to a certain extent showing an annual variation of -0.1 percent to 105.3 billion lei at end-2015<sup>52</sup>.

Household loans in the national currency posted a marked rise (an annual variation of +31.1 percent). The increase in the amount of leu-denominated loans was mainly an effect of the upswing in housing loans and the positive, though less significant, evolution of consumer loans. Leu-denominated housing loans<sup>53</sup> amounted to around 18.7 billion lei on 31 December 2015, that is almost twice the end-2014 level, while consumer loans in the national currency leapt by 11.5 percent to 31.4 billion lei on 31 December 2015.

By currency denominations, loans to non-financial corporations moved along opposite paths, compensating each other. On 31 December 2015, leu-denominated loans aggregated 54.6 billion, that is 4.5 billion lei more than at the end of 2014, while loans in foreign currency totalled the leu equivalent of 50.8 billion, that is 4.6 billion lei

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<sup>52</sup> A Survey on the Access to Finance of Non-Financial Corporations in Romania and Their Capacity to Withstand Adverse Financial Condition of the National Bank of Romania of December 2015 shows that corporations follow a hierarchy of financing sources where bank funding is preceded by retained earnings or the sale of assets, shareholder loans or capital increases, as well as commercial loans.

<sup>53</sup> In case of clients benefiting from the First Home Programme, state guarantees are granted only for leu-denominated housing loans.

less than on the same date the previous year.

On 31 December 2015, deposits of households and of non-financial corporations in Romania's banking system as a whole reached their highest since the outburst of the financial crisis standing at 238.4 billion lei (+9.1 percent up from the end of 2014)<sup>54</sup>. This positive evolution points to a behaviour that remains cautious and that prevails despite the decline in the remuneration of deposits.

In December 2015, the average interest on new deposits in the national currency was 1.48 percent on the household segment, falling by 1.31 percentage points from the same month the previous year and 0.62 percent on the non-financial corporation segment (-0.49 percentage points as to December 2014).

Average interest on new household deposits denominated in euros sank to 0.61 percent in December 2015, losing 0.96 percentage points from December 2014. The average interest rate on euro-denominated deposits of non-financial corporations stood at 0.27 percent, 0.44 percentage points less than at the end of the previous year.

Deposits in the national currency had the most significant contribution to the rise on both depositor segments, with overnight deposits posting a substantial increase.

The eligible (guaranteed) deposits of households and of legal persons at FGDB-member credit institutions on 31 December 2015 amounted to 219 billion lei<sup>55</sup> (accounting for 91.9 percent of the deposits of households and non-financial corporations in the banking system in Romania).

The course of loans given and deposits taken by credit institutions in Romania triggered a slump in the loan-to-deposit ratio which hit its lowest of the past few years at 85.7 percent at the end of 2015 (-5.6 percentage points as against end-December 2014).

Local bank deposits continued to be a substitute for banks' external financing sources which stayed on the downward path they had been treading in recent years. The disintermediation process, which is a salient feature of the countries in this area, continued in an orderly fashion in 2015.

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<sup>54</sup> Data published on the website of the National Bank of Romania. Included are also data on deposits at the branches of foreign credit institutions which are members of the guarantee schemes of their home countries.

<sup>55</sup> *Chapter 3 – Bank Deposit Guarantee* offers more data on the evolution of deposits with FGDB-member credit institutions.

Liquidity across the credit institutions in Romania mounted further in 2015 with the liquidity indicator reaching 1.94 on 31 December, a record high for the past few years and almost double the minimum requirement of 1.

In 2015, FGDB-member credit institutions continued to clean up their balance sheets by selling non-performing assets and removing impaired receivables. At the same time, the loan portfolio was restructured. Consequently, the non-performing loans ratio was on the downslide throughout 2015 decreasing by 7.1 percentage points as against December 2014 to reach 13.6 percent on 31 December 2015<sup>56</sup>.

Profitability in the banking industry in 2015 moved on to positive ground after its 2014 contraction posting a sharp rise in the last quarter of the year. The higher profitability of credit institutions was an outcome of the lower cost of credit risk hedging and the improved quality of their loan portfolios.

The ROA and ROE levels on 31 December 2015 show a rebound from the previous year's decrease and a significant advance into positive territory as to the levels recorded over the past few years. The ROA amounted to 1.35 percent and the ROE stood at 12.82 percent at the end of 2015.

The rate of return on core activities retreated by 6.5 percentage points from 31 December 2014 to 173.73 percent due to the downturn in incomes from interest rates under the impact of lower rates of interest and a narrower net interest margin. Although banks took further measures to cut operating expenses, especially by resizing their nationwide networks and reducing personnel, their staff-related expenses went up.

The share/endowment capital in Romania's banking system as a whole at the end of 2015 amounted to 25.1 billion lei, a drop by 2.4 billion lei as to the previous year, particularly as a result of the two mergers by absorption registered in 2015.

Credit institutions contributing to the FGDB maintained a sound capitalisation in 2015, which allowed the solvency ratio to stay at more than twice the regulatory minimum (17.5 percent at end-2015).

The ratio of Tier 1 capital to average total assets (the leverage ratio) did not show

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<sup>56</sup> According to the National Bank of Romania, the methodology of preparing financial statements and of calculating some of the credit institutions' indicators changed to a certain extent in 2015. The non-performing loan ratio is determined according to the definition given by the European Banking Association which was implemented nationally by the BNR Order no. 6/2014 for the approval of methodological rules on the preparation of FINREP individual financial statements in compliance with International Financial Reporting Standards applicable to credit institutions for prudential supervision purposes, with subsequent amendments and completions.

a significant change from the previous year either as it stood at 7.34 percent at end-2015, a scant 0.04 percentage points down from 31 December 2014.

Starting 1 January 2016, FGDB-member banks must comply with additional capital requirements resulting from the implementation of capital buffers in an attempt to strengthen their resilience to shocks.<sup>57</sup>

### ***Cooperative Relations at National Level***

As the FGDB is a member of the National Committee for Financial Stability (CNSF)<sup>58</sup>, the Chairperson of its Supervisory Board and its CEO attended the 2015 meetings of the Committee.

The main topics approached during the Committee's meetings included macroprudential objectives and instruments, with focus on the capital buffers that may be imposed on credit institutions and financial investment firms, along with the minimum own funds requirements, in order to enhance the resilience of the financial sector.

Based on a CNSF recommendation, the National Bank of Romania decided to implement, starting 1 January 2016, a capital buffer for all banks, Romanian legal persons, which were identified as other systemically important institutions. The level of that buffer will be of one percent of the total risk exposure amount for all credit institutions identified as systemically important in 2015<sup>59</sup>. Starting with the same date, the capital conservation buffer and the countercyclical capital buffer were also activated.

Within the CNSF, the FGDB paid special attention to issues related to consumer protection, in light of the impact of the new legislation in the sector and to the use of bank resolution fund resources to assist resolution measures.

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<sup>57</sup> More details are offered in the next section, the part dealing with the National Committee for Financial Stability.

<sup>58</sup> The Ministry of Public Finance, the National Bank of Romania and the Financial Supervisory Authority are among CNSF members. The CNSF's key duties include:

- ensuring the stability of the financial system;
- cooperation and the promotion of a permanent and effective information exchange;
- assessment, prevention and, where applicable, management of financial crises within individual financial institutions, financial groups or the financial market as a whole.

<sup>59</sup> Towards the end of 2015, the National Bank of Romania issued a list of credit institutions in Romania which were identified as systemically important based on the methodology recommended by the European Banking Authority. Of the 10 systemically important credit institutions, nine are Romanian legal entities in the membership of the FGDB. The tenth institution is a branch of a foreign bank and a member of the deposit guarantee scheme in the home country.

On 31 December 2015, the nine FGDB-member systemically important credit institutions concentrated about 85 percent of FGDB-covered deposits.

In 2015, the FGDB continued its close cooperative ties with the National Bank of Romania, particularly as concerns the implementation of proposals related to the new regulations in the deposit guarantee sector and the FGDB's role in the new framework for bank recovery and resolution in Romania.

Furthermore, the first steps were made towards cooperation in working out a method to calculate the contributions of FGDB-member credit institutions according to their risk profile. Along this line, the cooperation agreement on data exchanges with the National Bank of Romania was revised to allow the FGDB's access to reports relevant for the calculation of the indicators needed for the development of a method to determine risk-based contributions.

The FGDB also cooperated with the National Bank of Romania and with the Competition Council during consultations on state aid since resolution measures are closely linked to the state aid tool and may have a significant impact on the competitive environment.

Depending on the tools resorted to and on the impact on the market, the resolution authority's intervention may qualify as state aid, which calls for compliance with both domestic and EU state aid rules. Special attention was given to process and decisions on authorisation issued by the European Commission or the Competition Council.

### ***International Activity***

The impact of the new regulations and of the reforms in the global financial system on deposit guarantee schemes, as well as the role of the latter in the new structure that secures financial stability were the primary topics for debate throughout 2015 within the two relevant associations – the European Forum of Deposit Insurers (EFDI)<sup>60</sup> and the International Association of Deposit Insurers (IADI)<sup>61</sup>.

Within the two relevant bodies, the deposit guarantee schemes operating in the European Union also focused on the development of projects triggered by the 2015 process of harmonising the legislation in the member states with the new provisions of the EU directives on deposit guarantee schemes and the recovery and resolution of credit institutions.

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<sup>60</sup> The EFDI groups deposit guarantee schemes from 44 countries and it has 56 members, 10 associates and 12 observers.

<sup>61</sup> The IADI's membership includes deposit guarantee schemes from 77 countries. It has 80 members, 10 associates and 13 partners.

As a member both of the EFDI and the IADI, the FGDB was an active presence in the working groups that discussed themes related to the new framework for the guarantee of deposits and for bank recovery and resolution.

In 2015, the FGDB made further contributions to the projects of the working sub-groups of the EFDI EU Committee concerning various aspects of the cooperation between deposit guarantee schemes in the member states in the process of compensation payments to depositors of cross-border banks<sup>62</sup>. Legal, financial and risk-related aspects were approached, as were aspects concerning communication with depositors and the relay of information they need in the payout process.

The FGDB is also represented to the Banking Union Working Group, as well as to the sub-groups dealing with the role of deposit guarantee schemes in managing crises and with issues related to state aid in relation to deposit guarantee schemes.

In 2015, the FGDB continued its active presence in the EFDI Statutes Steering Group. The project to review the EFDI statutes was finalised in the first half of 2016 and sent for consultation to all EFDI members.

In consideration of the actions taken within the European Union for the creation of a European deposit insurance scheme, the FGDB, together with representatives of the National Bank of Romania and of the Ministry of Public Finance, participated in meetings on this topic organised by the European Commission and the Council of the European Union.

The FGDB, as a statutory deposit guarantee scheme with responsibilities in bank resolution, and the National Bank of Romania, were part of the delegation that attended the 2015 meetings of the Resolution College for the OTP Bank Group<sup>63</sup>.

Furthermore, in 2015 an International Monetary Fund (IMF) delegation<sup>64</sup> had talks with FGDB representatives on topics related to the role of the deposit guarantee scheme in Romania in the new regulatory framework for deposit guarantee and bank recovery and resolution, as well as the latest dynamics of FGDB indicators.

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<sup>62</sup> According to the new legal provisions, when compensation is paid to depositors of cross-border banks within the European Union the guarantee scheme in the host member state will act on behalf of the guarantee scheme in the home member country.

<sup>63</sup> Romania is a member with voting rights of the Resolution College for the OTP Bank Group and participates in meetings that approach themes underlying consultations and/or the adoption of joint decisions or referring to the entity operating in Romania of the bank group (OTP Bank România).

<sup>64</sup> The IMF delegation's visit to the FGDB headquarters took place during the IMF mission assessing the stand-by loan agreement Romania had with the IMF and holding consultations with Romania under Article IV of the IMF's Articles of Agreement.

### 3. Bank Deposit Guarantee

#### *Evolution of Deposits in 2015*

The end of 2015 brought a significant extension of the FGDB's scope of protection following the application of the new legal provisions for this sector<sup>65</sup>.

The broader guarantee offered to depositors of credit institutions in the membership of the FGDB primarily showed in the expansion of coverage to include those categories of depositors – individuals and companies – whose deposits were previously excluded from protection.

Starting 14 December 2015, when the new legislation took effect, the FGDB has virtually guaranteed the deposits<sup>66</sup> of all natural persons and of enterprises, including large companies.

*On 31 December 2015, eligible (guaranteed) deposits of natural and legal persons with FGDB-member credit institutions totalled 219.0 billion lei, 27.7 percent more than the previous year's level.*

*Eligible deposits account for three quarters of the value of all deposits held with credit institutions participating in the FGDB, that is 292.1 billion lei at the end of 2015.*

*Eligible deposits include current accounts, card accounts, time deposits, savings accounts, joint accounts and other similar products.*

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<sup>65</sup> Chapter 1 – Profile of the Bank Deposit Guarantee Fund (FGDB) and Relevant Data for 2015 and Chapter 2 – Activity Framework in 2015 detail the changes in the deposit guarantee sector in compliance with the new legislation.

<sup>66</sup> According to the law, 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, including time deposits and savings accounts” which is in none of the situations below:

- a) its existence can only be proved by a financial instrument, as defined in Article 2 paragraph (1) point 11 of Law no. 297/2004 on capital markets, with subsequent amendments and completions, unless it is a savings product evidenced by a certificate of deposit made out to a named person which exists on 2 July 2014;
- b) its principal is not repayable at par;
- c) its principal may be repaid at par only under a particular guarantee or agreement provided by the credit institution or by a third party;

The rise in the value of eligible deposits was mainly a result of the broader scope of deposit protection, but then also of the positive course of household and corporate deposits.

The total value of eligible deposits held by natural persons on 31 December 2015 stood at 135.1 billion lei, accounting for 61.7 percent of the value of eligible deposits at FGDB-member credit institutions.

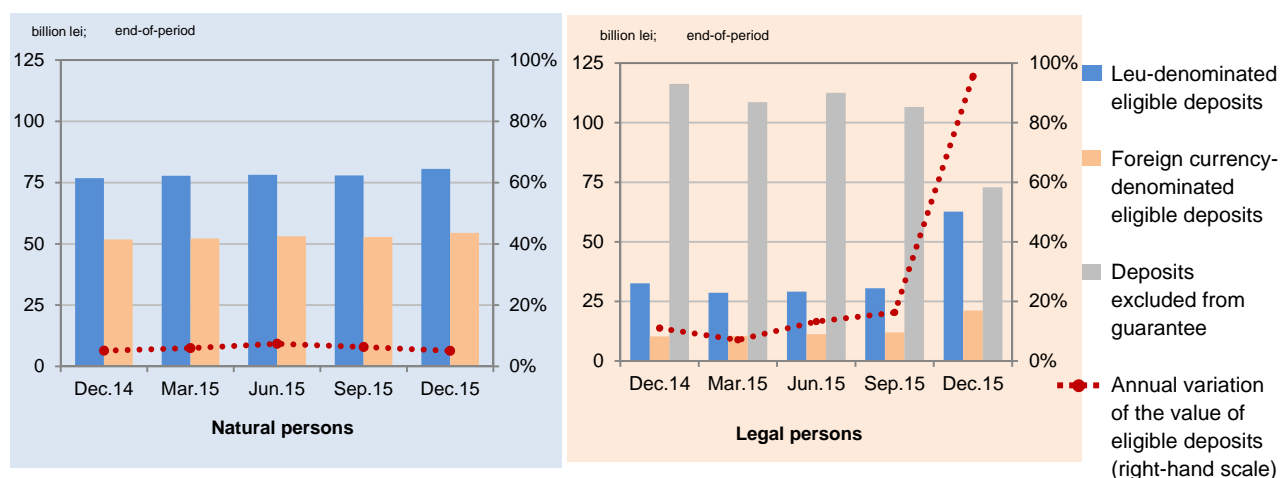
*As compared to the end of 1997, the first full year of operation of a deposit guarantee scheme in Romania, the value of FGDB-guaranteed natural persons' deposits soared by almost 70 times in nominal terms.*

At end-2015, guaranteed depositors, legal persons, held 83.9 billion lei in deposits, almost double the 31 December 2014 level, an upturn mainly due to the expansion of the scope of protection to include the deposits of large enterprises starting mid-December 2015.

Deposits held by legal persons were included in the FGDB's guarantee scope starting 2004. Before the new deposit guarantee legislation came into force, guaranteed depositors, legal persons, were mainly small and medium-sized enterprises and other similar entities. Following the application of the new legal provisions small and medium-sized enterprises and large companies make the bulk of guaranteed legal persons.

Guaranteed legal persons' eligible deposits aggregated 8 billion lei at the end of 2004, less than a tenth of the value of the deposits which guaranteed legal persons held on 31 December 2015.

### Deposits with FGDB-Member Credit Institutions



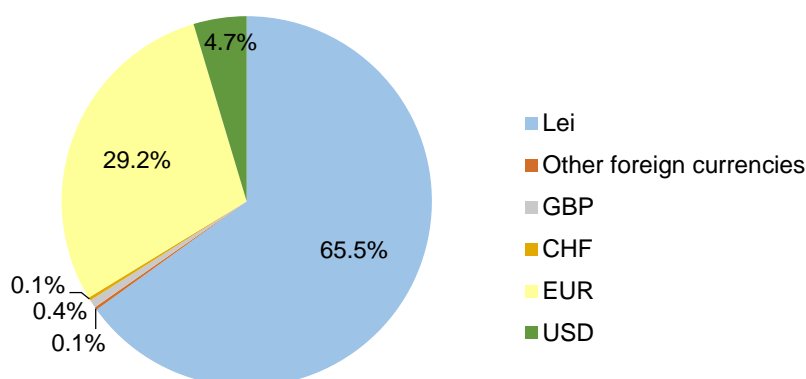


On 31 December 2015, the total value of deposits excluded from the scope of guarantee had shrunk by 37.3 percent as to the same date the previous year to 73.1 billion lei<sup>67</sup>. The decline in this indicator reflects both the impact of the diminution of the number of non-guaranteed deposit categories and the deposit withdrawals by parent banks abroad from their subsidiaries in Romania.

As far as currency denomination is concerned, both leu-denominated deposits and deposits denominated in foreign currencies contributed to the increase of eligible deposits. Deposits in the national currency advanced faster than deposits in foreign currencies (an annual variation of +31 percent versus an annual variation of +21.8 percent).

On 31 December 2015, leu-denominated deposits, amounting to 143.4 billion lei, represented around two thirds of the total value of eligible deposits.

### Structure of Eligible Deposits by Currency on 31 December 2015



On 31 December 2015, deposits in euros accounted for 84.7 percent of the value of eligible deposits denominated in foreign currencies, which stood at the leu equivalent of 75.6 billion.

At end-2015, the FGDB's guarantee scope covered 15,160,694 natural and legal persons<sup>68</sup>, accounting for 99.7 percent of the total number of depositors of member credit institutions.

<sup>67</sup> Deposits of credit institutions, financial institutions, investment firms, insurance companies, collective investment undertakings, pension funds, central, local and regional public authorities etc are still on the exclusions list. The overall value of non-guaranteed legal persons' deposits represented less than half (46.5 percent) of the total value of the deposits held by this category of depositors on 31 December 2015.

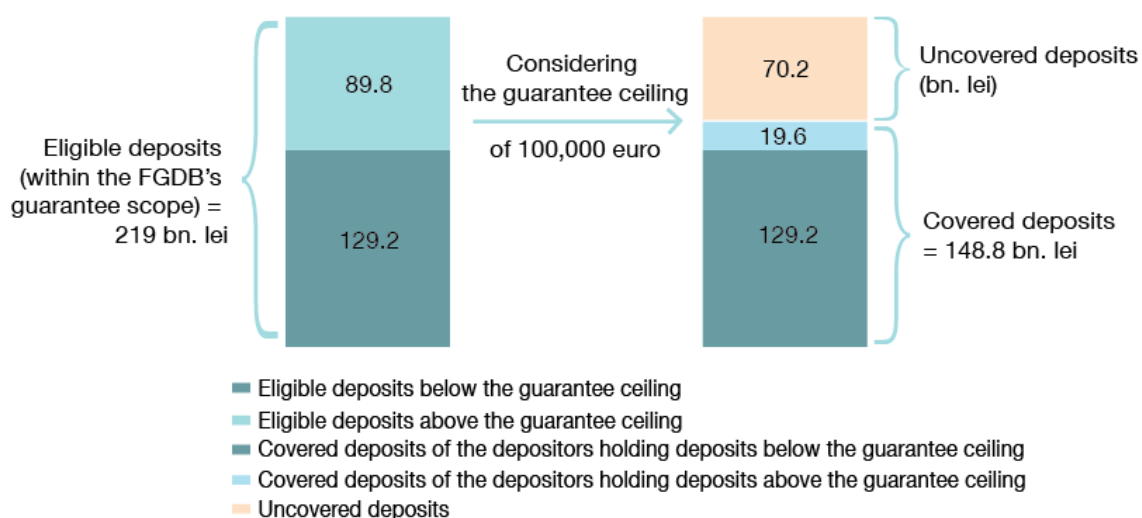
<sup>68</sup> The total number of depositors is determined by adding up the consolidated data reported by each credit institution, so that a person who has deposits with several credit institutions is recorded several times.

Resident natural and legal persons held 99.1 percent of the total number of guaranteed depositors. Residents' deposits accounted for 97 percent of the overall value of eligible deposits.

*In relation to the guarantee ceiling, covered deposits accounted for 67.9 percent of the total value of eligible deposits on 31 December 2015. A covered deposit is the part of an eligible deposit which does not exceed the guarantee ceiling stipulated by Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund.*

*At end- 2015, covered deposits totalled 148.8 billion lei, 7.1 percent up from 31 December 2014.*

### Structure of Eligible Deposits on 31 December 2015 in Relation to the 100,000-euro Guarantee Ceiling<sup>69</sup>



On 31 December 2015, the value of below-ceiling deposits was 129.2 billion lei (59 percent of the total value of eligible deposits, with the remainder accounted for by eligible deposits above 100,000 euros). Deposits above the guarantee ceiling rocketed towards the end of the year under the impact of the extension of the FGDB's guarantee scope to include the deposits of large companies.

<sup>69</sup> The national-currency equivalent of the 100,000-euro guarantee ceiling was 452,450 lei on 31 December 2015.

*Depositors holding deposits within the guarantee ceiling benefit from full coverage of their deposits, according to the law.*

*On 31 December 2015, 99.7 percent of the total number of FGDB-guaranteed depositors were fully covered.*

*Where depositors hold deposits of higher value (more than 100,000 euros) coverage is limited to the guarantee level.*

### ***Natural Persons' Eligible Deposits***

At the end of 2015, the FGDB guaranteed 14,223,602 depositors, natural persons, whose deposits with member credit institutions were worth a total 135.1 billion lei, 5.1 percent up from December 2014.

The upswing in natural persons' deposits at FGDB-member credit institutions was an effect of the rise in the population's real disposable incomes and of improved conditions in the labour market.

The average net nominal wage amounted to 2,114 lei in December 2015, adding 13.3 percent to the level of the same month the previous year. With inflation in negative territory, the real wage index (December 2015/December 2014) was of 114.4 percent<sup>70</sup>.

According to the National Institute of Statistics, the month of December 2015 also recorded increases in the average net wage in both the economic and the budgetary sector.

The population continued to show a cautious savings behaviour opting for bank deposits, despite the downward trend in interest, as they are seen as safer savings instruments.

*Throughout the almost two decades of activity of the FGDB, the number of guaranteed depositors, natural persons, increased more than four times from 3.3 million on 31 December 1997 to 14.2 million at the end of 2015.*

*All natural persons are covered by the FGDB as, in line with the new legislation, there are no exclusions in this category of depositors.*

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<sup>70</sup> Data from the National Institute of Statistics.

In terms of structure, all the components of the natural persons' deposits had a positive annual evolution. The annual upward move in natural persons' eligible deposits was mostly a result of the dynamics of leu-denominated deposits below the guarantee ceiling.

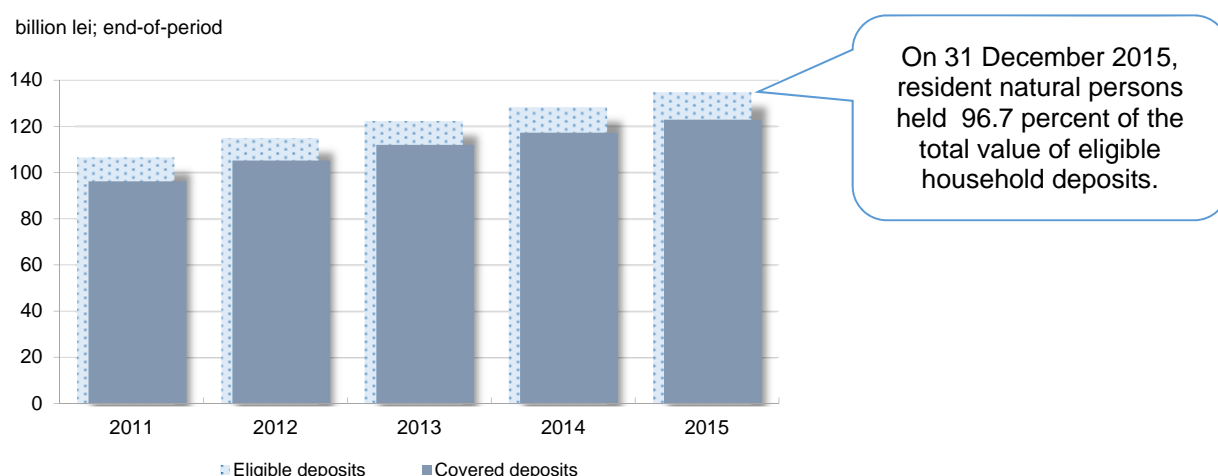
On 31 December 2015, eligible deposits denominated in the national currency aggregated 80.6 billion lei, heading higher by five percent from the same date the previous year.

Household deposits in foreign currencies climbed by 5.2 percent in 2015 to the leu equivalent of 54.5 billion at the end of the year.

Deposits in the national currency held the largest share of household eligible deposits, namely 59.7 percent. They were followed by euro-denominated deposits, with a 34.3-percent stake, and deposits denominated in U.S. dollars, with a stake of 5.3 percent.

Resident natural persons held eligible deposits amounting to 130.6 billion lei on 31 December 2015 and posting a rise by some 6.3 billion lei from end-2014.

### Household Deposits with FGDB-Member Credit Institutions

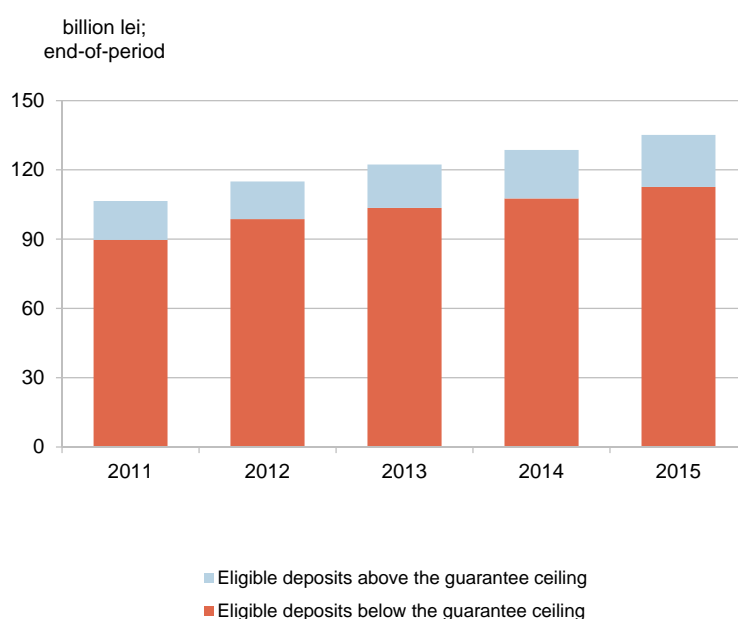


The total value of covered household deposits jumped by 4.9 percent in 2015 to 122.9 billion lei at the end of the year.

*Covered deposits account for 91 percent of the total value of eligible household deposits.*

*The average value of a covered deposit held by a depositor, natural person, stood at 8.6 thousand lei on 31 December 2015 (+2 percent as to end-2014).*

## Evolution of Eligible Household Deposits in Relation to the Guarantee Ceiling



At the end of 2015, deposits below or equal to the 100,000-euro ceiling took 83.3 percent of the total value of eligible household deposits (an annual variation of +4.7 percent). The average value of a deposit in this category was of 7.9 thousand lei, 1.3 percent more than on 31 December 2014.

As many as 14,200,672 natural persons, representing 99.8 percent of the total number of guaranteed depositors, natural persons, had deposits below or at the most equal to the 100,000-euro ceiling, thus benefiting from full coverage.

### ***Legal Persons' Eligible Deposits***

On 31 December 2015, 937,092 guaranteed depositors, legal persons held deposits with FGDB-member credit institutions worth 83.9 billion lei, a rise by 41 billion lei from the end of 2014 following the extension of the FGDB's scope of protection to include deposits of large companies.

Improved macroeconomic conditions had a positive impact on the financial situation of companies. At the same time, the number of companies going into insolvency throughout 2015 was half that of the previous year<sup>71</sup>.

Companies stayed cautious when making their investment decisions and, where funding of current activities and of investments were needed, they further resorted mainly to internal financing sources, especially retained earnings or sale of assets.

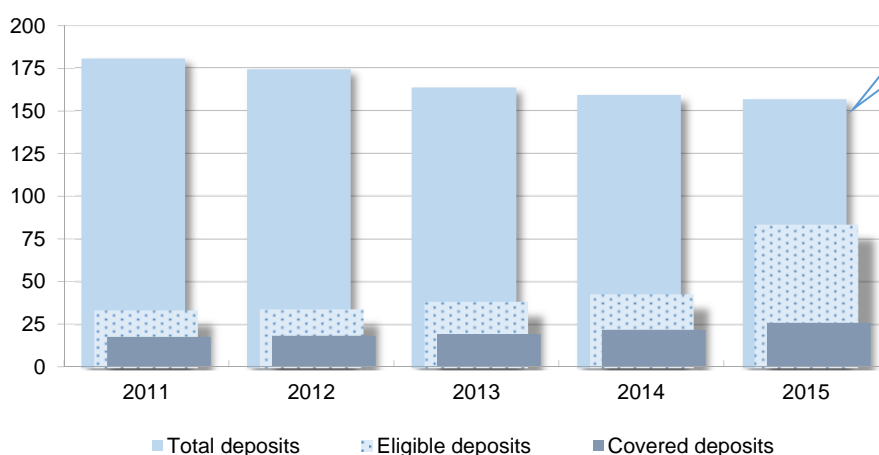
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<sup>71</sup> Data from the National Trade Register Office.

*Eligible deposits have a stake of 53.5 percent of the total value of legal persons' deposits at FGDB-member credit institutions, showing a rise by 26.5 percentage points from the end of 2014.*

### Legal Persons' Deposits with FGDB-Member Credit Institutions

billion lei; end-of-period



On 31 December 2015, resident legal persons held 97.7 percent of the total value of legal persons' eligible deposits.

Eligible deposits denominated in the national currency took about three quarters of the total value of legal persons' eligible deposits. They were followed by deposits denominated in euros (21.1 percent), U.S. dollars (3.6 percent) and other currencies (0.5 percent).

At the end of 2015, legal persons' leu-denominated deposits totalled 62.7 billion, while their deposits in foreign currencies stood at the leu-equivalent of 21.2 billion.

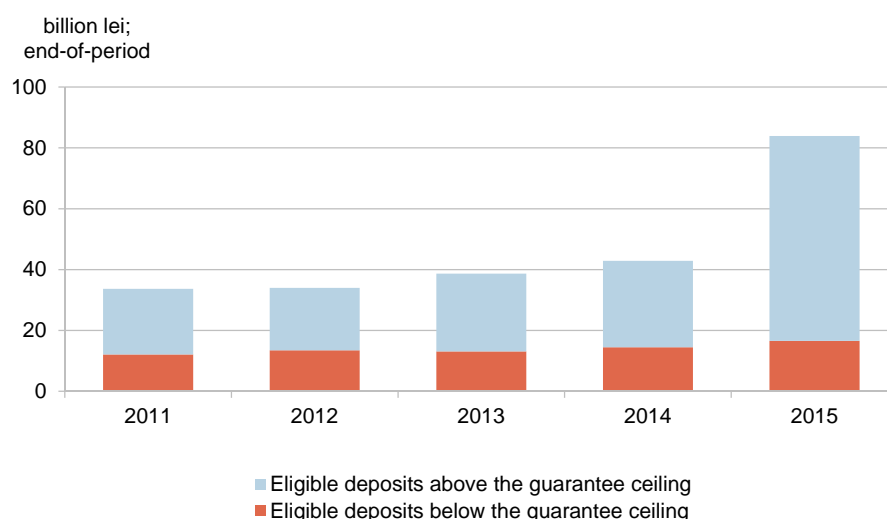
On 31 December 2015, resident legal persons held eligible deposits worth 81.9 billion lei, a 94.1-percent increase from the end-2014 level.

The deposits held by guaranteed resident legal persons were mainly denominated in the national currency (75.8 percent of the overall value of legal persons' eligible deposits).

The value of legal persons' covered deposits amounted to 25.8 billion lei on 31 December 2015, up 19.6 percent from the same date the previous year.

Covered deposits accounted for 30.8 percent of the total value of legal persons' eligible deposits.

### Evolution of Legal Persons' Eligible Deposits in Relation to the Guarantee Ceiling



The inclusion of large companies' deposits into the category of eligible deposits triggered a hike in the value of large deposits which posted an annual variation of +136.9 percent to reach 67.3 billion lei on 31 December 2015.

Deposits of values greater than the guarantee ceiling consolidated their major share of eligible deposits held by legal persons accounting for 80.2 percent at the end of 2015.

The average value in the category of eligible deposits below the guarantee ceiling was 18.1 thousand lei at end-2015 (an annual variation of +11 percent).

In the case of eligible deposits larger than the leu equivalent of 100,000 euros, the average value stood at 3,315.3 thousand lei on 31 December 2015, or 83.7 percent up from the end of 2014.

*The average value of a covered deposit held by a guaranteed legal person amounted to 27.5 thousand lei on 31 December 2015, moving higher by 15.5 percent as to the same date the previous year.*

## **Compensation Payouts**

In compliance with the new legal provisions, the FGDB has the obligation to pay due compensation to guaranteed depositors within maximum seven working days of the date deposits became unavailable<sup>72</sup>.

As the process of reimbursing guaranteed depositors is now faster, the FGDB shows constant concern to strengthening the adequacy of its operational and financial capability so that it may intervene effectively at any moment. Furthermore, the FGDB also tests the capability of credit institutions to generate in due time full and accurate payout lists.

When deposits with a member credit institution become unavailable, the FGDB repays guaranteed depositors through one or more mandated credit institutions with a vast unit network nationwide.

At the start of each year, the FGDB mandates the credit institutions that will act as paying agents, thus preparing in advance the compensation payment channels needed in the event deposits become unavailable.

One of the criteria the FGDB considered when selecting the credit institutions mandated to repay guaranteed depositors was that these banks should not charge commissions and fees from either the compensation recipient or the FGDB.

To get their due compensation, payable in cash or into a bank account, depositors should show some form of identification at the counter of the mandated bank/banks.

Throughout 2015, there was no instance of deposit unavailability in any credit institution in Romania and, implicitly, the FGDB did not have to intervene through payoffs.

*In the years of its operation, the FGDB made compensation payments worth 512.2 million lei over 1999 – 2006 to seven failed banks, becoming their creditor by subrogating to the rights of their depositors. At present, the FGDB no longer has any payment obligation to the respective banks' guaranteed depositors. The last such obligation expired in January 2010.*

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<sup>72</sup> The new deadline represents one third of the time frame applied before the amendment of deposit guarantee legislation.



# Compensation Payout Process

**DAY 0**  
Deposits become unavailable



**DAY 1**

- Payout list is checked
- Final payout list is prepared
- Information on how depositors can get compensation is published



Payout list



- Payout amount
- Final payout list

The FGDB repays depositors through mandated bank/banks



Paying agent

**DAY 7**  
**(at the latest)**  
The payout process starts



Guaranteed depositors

## ***FGDB-Membership***

The number of credit institutions, legal persons<sup>73</sup>, in the membership of the FGDB amounted to 29 on 31 December 2015, two members less than at the end of 2014 following two mergers by absorption in the banking industry in Romania in the last quarter of the year<sup>74</sup>.

Besides the two mergers, the year 2015 also registered name changes for two participating credit institutions, as shown in *Annex 1 - List of FGDB-member credit institutions as of 31 December 2015*.

The public was informed of the changes to the FGDB-member credit institutions through the communiques published in the Official Gazette of Romania and posted on the FGDB website.

The credit institutions in the membership of the FGDB include 26 banks, two savings and loan banks for housing and a cooperative credit organisation (central body and affiliated).

In 2015, in line with legal provisions, the FGDB continued its controls over its member credit institutions, verifying their compliance with legal stipulations including:

- (i) the calculation and payment of contributions to the deposit guarantee fund and of fees to the bank resolution fund (the former bank restructuring fund), including a verification of the correct classification of deposits in terms of FGDB guarantee;
- (ii) information supplied to depositors.

The control over the calculation base of annual contributions/fees owed to the FGDB in 2015 (based on the credit institutions' accounting records as of 31 December 2014), showed the following:

- 989,979.78 lei – differences in the level of annual contributions owed to the FGDB by 20 credit institutions;
- 329,993.26 lei - differences in the level of annual fees to be paid back by the FGDB to 20 credit institutions;
- 142,490.40 lei - differences in the level of annual fees owed to the FGDB by credit institutions.

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<sup>73</sup> *Annex 1 – List of FGDB-member credit institutions as at 31 December 2015.*

<sup>74</sup> Changes in the banking sector in Romania in 2015 are detailed in *Chapter 2 – Activity Framework in 2015*, section *Developments in the Banking Sector in the European Union and in Romania*.

*In comparison with the results of the previous years' verification, the control of 2015 showed an improvement in the way credit institutions calculated annual contributions and fees, which pushed the value of the differences identified significantly lower.*

The main cause behind the differences in the level of annual contributions/fees was the erroneous assignment by some credit institutions of the deposits of a number of legal persons (particularly small and medium-sized enterprises, non-profit associations and private universities) to the category of eligible deposits or to the category of deposits excluded from guarantee.

The verification of the contribution calculation base went hand in hand with a random control over:

- (i) the statements on the classification of the deposits held by small and medium-sized enterprises and by the other categories of depositors required by the law.
- (ii) the credit institutions' supply of express information to depositors whose deposits are excluded from coverage.

As many as 54 units of FGDB-member credit institutions operating in the capital city Bucharest were verified. The respective control showed that:

- all the requested statements, 864 in all, had been correctly prepared;
- 23 units of 12 credit institutions nationwide failed to inform their depositors that their deposits were not guaranteed.

Measures were set within the reports on the respective verifications to remedy the identified deficiencies, make the necessary regularisations and prevent non-compliance with legal provisions.

The FGDB's controls also checked the observance of legal provisions on the supply of information to depositors by credit institutions.

These controls showed that all the verified units fulfilled their duties pertaining both to the process of informing depositors according to the FGDB's *Regulation no. 1/2011 on deposit guarantee information to be provided to depositors by credit institutions* and to the display of information and the observance of the other provisions of the said Regulation, including the display of the FGDB poster on deposit guarantee arrangements.

Following the transposition to national legislation of *Directive 2014/49/EU on deposit guarantee schemes*, in September 2015 the FGDB organised a working meeting with its member credit institutions.

That meeting approached the key amendments to deposit guarantee under the new legislation, as well as operational and methodological aspects related to the parametrisation of the new provisions within IT systems and workflows.

In 2015, the FGDB answered several requests by credit institutions to clarify aspects related to the methodology, legislation and FGDB regulations on deposit protection and the calculation of contributions and fees.

In this respect, the FGDB cooperated with the Romanian Banking Association which assisted it in relaying to credit institutions communiques as well as the clarifications they needed in order to implement the new legal provisions.

## 4. Financial Resources Administered by FGDB

From the very start of its operation, the FGDB, as a statutory deposit guarantee scheme, has managed the financial resources of the deposit guarantee fund<sup>75</sup> which are resorted to when reimbursing depositors.

Legislation in 2010 stipulated that under legal acts carrying the force of law the FGDB might be appointed as administrator of funds created to serve purposes related to ensuring financial stability. The same year, the FGDB was designated administrator of the special compensation fund<sup>76</sup> which, in 2012, turned into the restructuring fund for credit institutions<sup>77</sup>. As detailed in the first two chapters of the present Annual Report, on 14 December 2015 the bank resolution fund was set up taking over the financial resources of the bank restructuring fund.

An adequate funding for both deposit guarantee funds and bank resolution funds is a major concern internationally, with financing mechanisms converging to the *ex-ante model*<sup>78</sup>.

Within the European Union, the new directives on deposit guarantee schemes and bank recovery and resolution call for harmonised methods of financing each type of fund and for a new system to differentiate the contributions of participating credit institutions according to their risk profile. Furthermore, these directives set minimum target levels of *ex-ante* available financial resources for the two funds.

In Romania, both the deposit guarantee fund and the bank resolution fund have had an *ex-ante* funding mechanism since their creation and in the first half of 2016 the systems of risk-based contributions to the two funds became operational.

The FGDB, as administrator of the deposit guarantee fund and of the bank resolution fund, promotes a financing policy permanently aimed at securing the financial resources needed to adequately fulfil its responsibilities under the law.

Although, from the very first years of operation the FGDB had to make compensation payments to guaranteed depositors, to which end it even resorted to loans, in time it managed to pay back the borrowed amounts and to increase, with

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<sup>75</sup> Credit institutions in the membership of the deposit guarantee fund paid their first annual contributions, totalling 0.9 million lei, in the last quarter of 1996.

<sup>76</sup> The special compensation fund was set up to provide the necessary financial resources to compensate persons affected by measures implemented during special administration procedures.

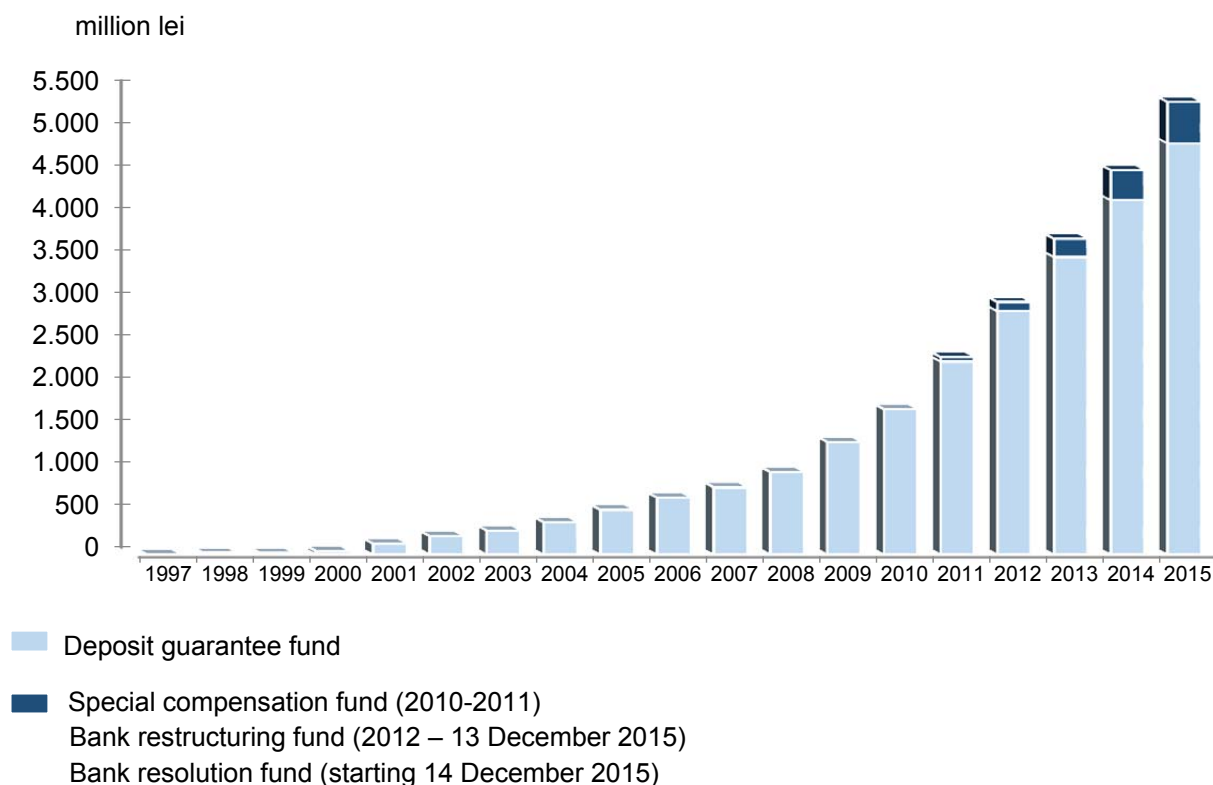
<sup>77</sup> The bank restructuring fund was intended both to compensate persons affected by measures implemented during special administration procedures and to finance stabilisation measures decided by the National Bank of Romania.

<sup>78</sup> An *ex-ante* financing mechanism implies a gradual accumulation of resources before the unavailability of deposits occurs and prior to the start of a resolution procedure.

every passing year, the internal financial resources intended to secure the protection of deposits.

The FGDB's constant concern for the consolidation of the resources it administers grew as, under the law, it was designated to manage a newly-created fund.

### Resources Administered by the FGDB since Its Creation to 31 December 2015



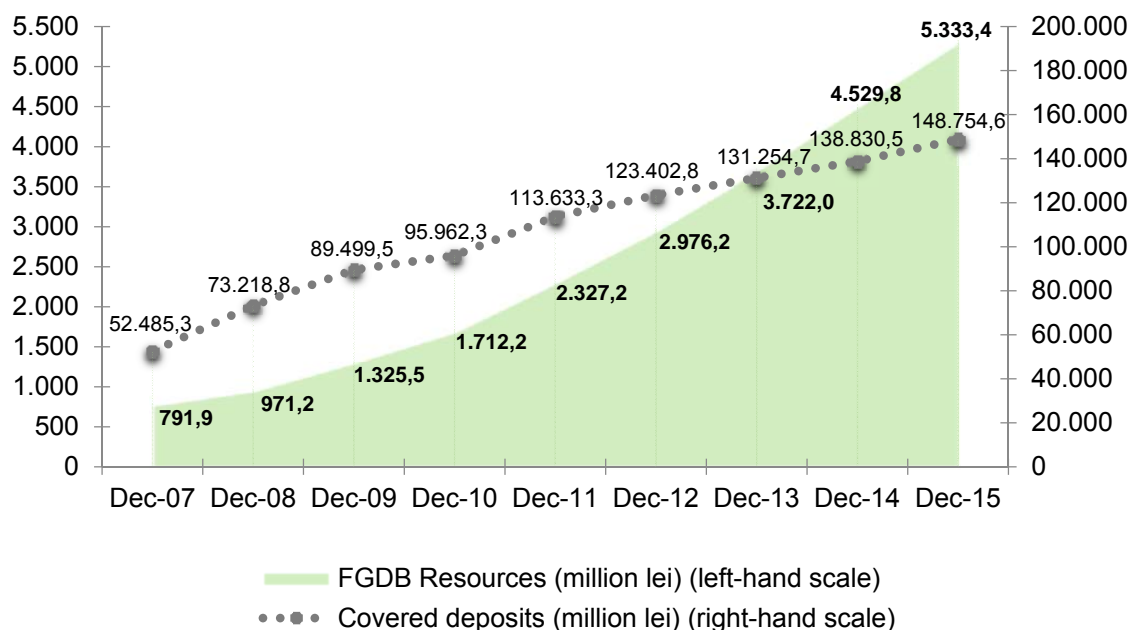
The fact is noteworthy that, in line with legislation on the recovery and resolution of credit institutions, the financial resources of the deposit guarantee fund are to be used to fund the resolution measures that, when applied, ensure depositors' continued access to their deposits at banks undergoing resolution.

The FGDB sees to it that operations related to building, investing and using financial resources for deposit guarantee and bank resolution are registered as distinct entries in accounting records.

The financial resources in the two funds increased further in 2015.

*At the end of 2015, the resources of the deposit guarantee fund and of the bank resolution fund aggregated 5,333.4 million lei, adding 803.6 million lei to the 31 December 2014 level.*

## The FGDB's Resources and the Covered Deposits



Throughout 2015, the relative variation of the FGDB's financial resources in nominal terms was more than twice that of the total value of covered deposits (+17.7 percent versus +7.1 percent).

Financial resources mainly result from:

- contributions paid by FGDB-member credit institutions;
- reinvested profit (at least 99 percent of the earned profit) from the FGDB's investments;
- receipts from recovered claims;
- FGDB's remuneration as liquidator of failed banks.

Besides internal financial resources, the FGDB may resort to external funding sources, such as loans from the Government or from credit institutions, financial institutions and other deposit guarantee schemes and, when resolution measures are implemented, from other resolution financing mechanisms within the European Union.

*In exceptional cases where:*

*- the available financial resources of the FGDB, as deposit guarantee scheme, are insufficient to cover compensation payments or to finance resolution measures*

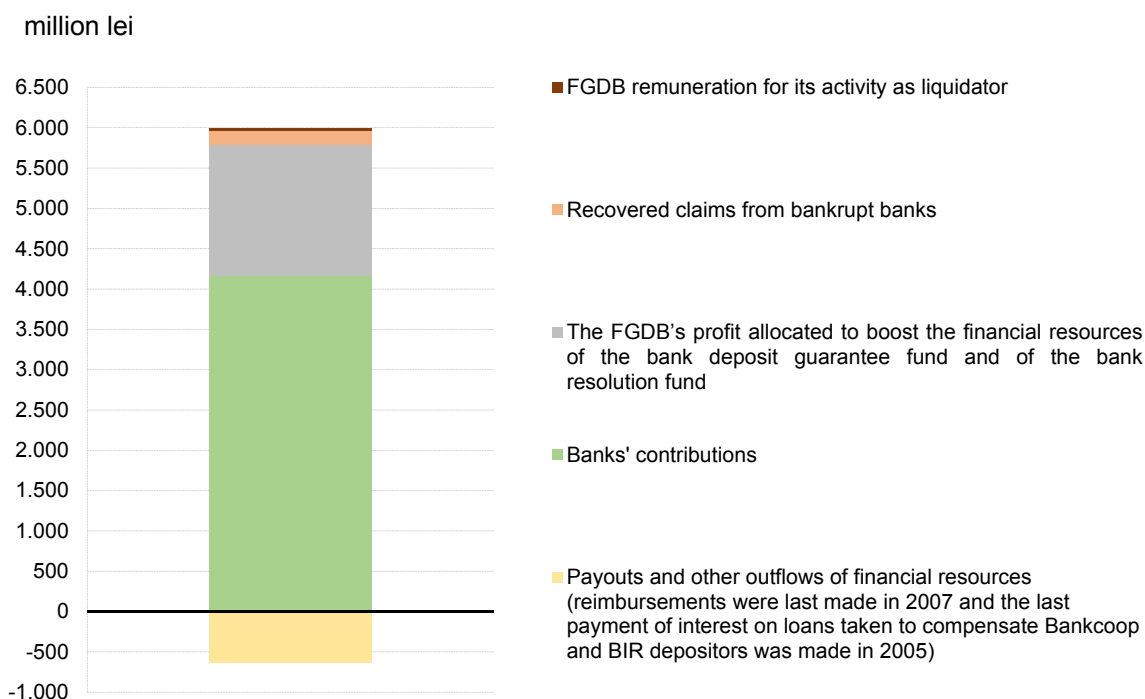
*or*

*- the financial resources of the FGDB-administered bank resolution fund are insufficient to finance measures for the resolution of credit institutions according to the legislation on the recovery and resolution of credit institutions,*

*the Government, through the Ministry of Public Finance, lends the FGDB the necessary amounts within maximum five working days from the FGDB's request.*

Government loans, as a certain funding source, provides the FGDB with a solid financing mechanism that offers the needed resources in the shortest possible time, allowing the FGDB to meet the legal deadlines on all its payment obligations.

### **The FGDB's Total Funds and Liabilities since Its Creation to 31 December 2015**





# Funds Administered by the FGDB

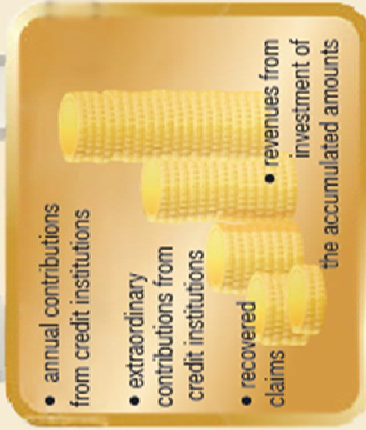
## The Deposit Guarantee Fund



- Government loans  
In exceptional cases where the FGDB's financial resources may prove insufficient, the Government, through the Ministry of Public Finance, offers the necessary amounts, as a loan, within 5 working days at the most from the FGDB's request.
- loans from credit institutions, financial companies and other institutions
- loans from other deposit guarantee schemes

- compensation payouts to guaranteed depositors
- financing resolution measures for FGDB-member credit institutions, according to decisions reached by the National Bank of Romania in its capacity as the resolution authority
- granting loans to other deposit guarantee schemes

## The Bank Resolution Fund



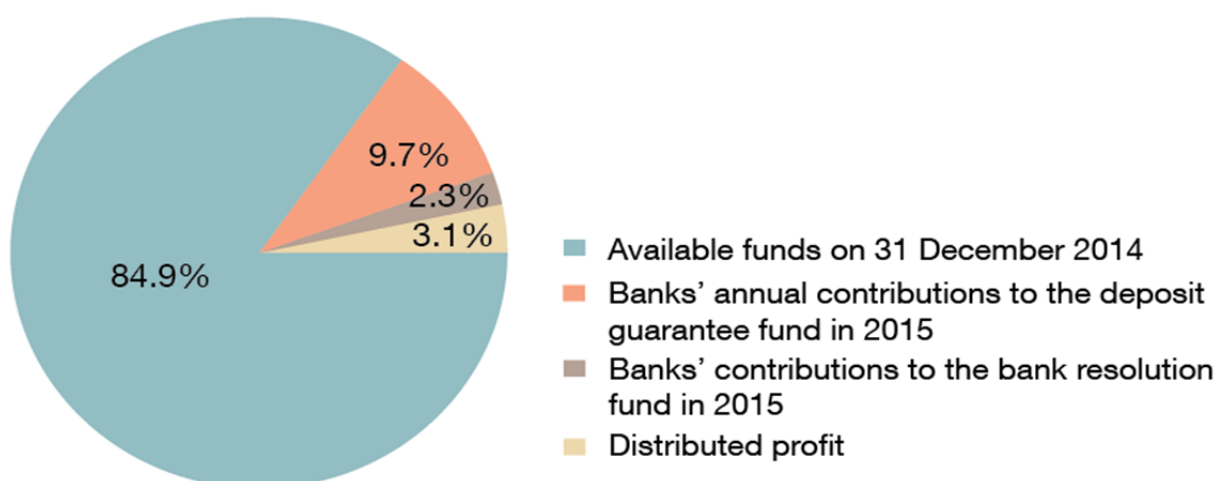
- loans and other forms of assistance from credit institutions, financial companies or other third parties
- loans from resolution financing mechanisms within the European Union
- loans from the Government

- financing resolution measures for credit institutions according to the law and in line with decisions reached by the National Bank of Romania in its capacity as the resolution authority
- granting loans to other resolution financing mechanisms within the European Union

Contributions from FGDB-member credit institutions in 2015 totalled 639.3 million lei showing a 4.1 percent rise from the end of the previous year.

The overall reinvested profit stood at 163.9 million lei in 2015 following the investments made throughout the year.

Origin of FGDB's Resources in 2015



The financial resources of the deposit guarantee fund and of the bank resolution fund were invested in compliance with the FGDB's annual strategies for the two funds approved by the Board of Directors of the National Bank of Romania. Minimised risk and liquid investments were the primary goals of the respective strategies, while yields were a complementary target.

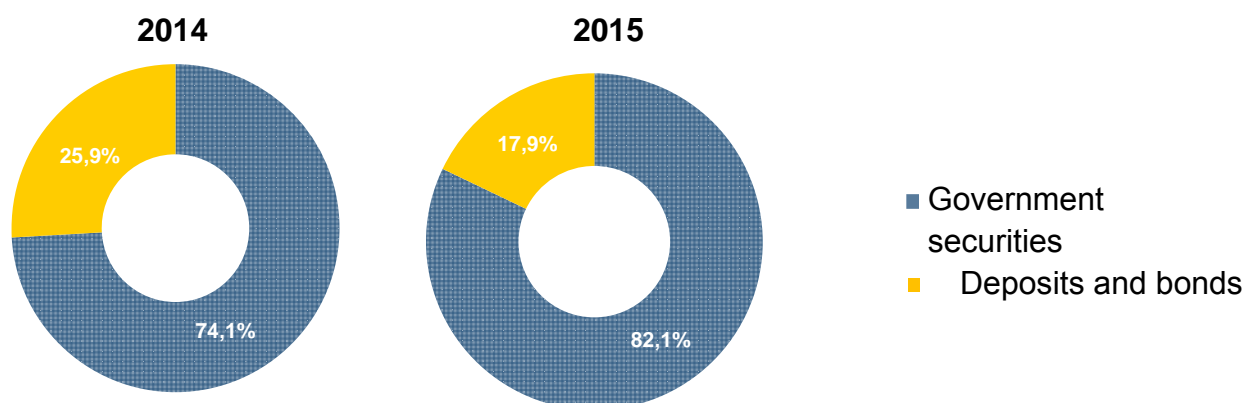
The FGDB showed permanent concern for the adequate liquidity of its investments, keeping the liquidity reserve between 10 and 20 percent of its available financial resources.

The average invested capital amounted to 5,025.6 million lei in 2015, moving up by 20.3 percent from 2014.

Government securities gained further ground in the investment portfolio with their weight jumping from 74.1 percent in early 2015 to 82.1 percent on 31 December 2015. Investments in government securities increased by 1,064.7 million lei throughout 2015 to reach 4,406.9 million lei on 31 December 2015.

Investment performance was good despite a marked downward trend in interest rates on the market.

## Structure of Overall FGDB Investments



At an operational level, whenever necessary and depending on specific market conditions, the Resources Management Committee (CARF) adjusted the structure of investments and exposure limits by credit institutions, types of investments and maturities.

The FGDB's exposure strategy for 2015 was implemented by updating the structure of the indicators used in risk analysis so that the methodology employed should be appropriate and in agreement with the adjustments made by the National Bank of Romania as the supervisory authority.

Thanks to this internal analysis tool, the FGDB could reach well-timed decisions on investment structure adjustments in keeping with the evolution of the performance of partner banks.

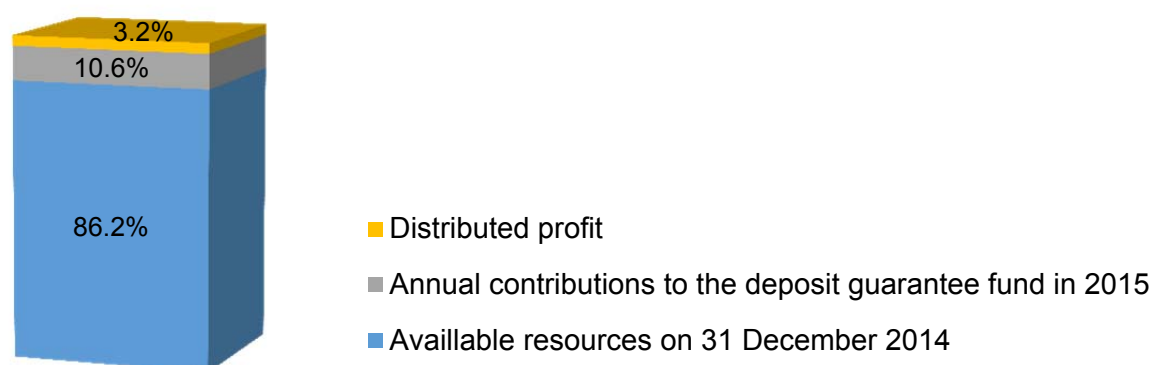
In addition to monitoring the market value of its government securities portfolio, in 2015 the FGDB gauged the level of risk exposure within that set of investments through the VaR (Value-at-Risk) technique, which it also used to adjust the portfolio structure.

### The Deposit Guarantee Fund

*At the end of 2015, the financial resources of the deposit guarantee fund, including the 2015 profit before distribution, stood at 4,848.6 million lei, gaining 672 million lei as to 31 December 2014.*

*The available financial resources of the deposit guarantee fund accounted for 3.3 percent of covered deposits, that is 2.5 percentage points more than the minimum target level all European Union member states must reach by 2024.*

## Origin of Resources of the Deposit Guarantee Fund in 2015

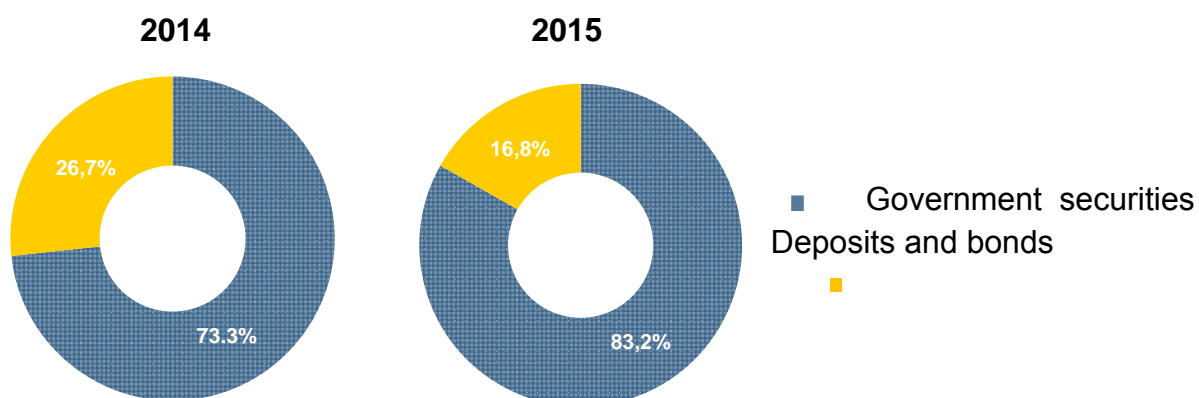


In 2015, the annual contributions of credit institutions in the membership of the Bank Deposit Guarantee Fund totalled 515.5 million lei. The annual contribution rate was 0.3 percent of the total value of guaranteed deposits, unchanged from the previous period.

The 2015 re-investible profit for the deposit guarantee fund stood at 156 million lei.

In 2015, the weight of government securities in investments of deposit guarantee fund resources climbed by around 10 percentage points to 83.2 percent on 31 December 2015.

## Structure of FGDB's Investments from Deposit Guarantee Fund Resources



As previously shown in the present Annual Report, starting 2016 contributions will be calculated by risk-based methods on the basis of the size of guaranteed deposits at the end of each year<sup>79</sup>.

<sup>79</sup> In 2016, risk-based contributions to the deposit guarantee fund were collected before the end of April.

According to the FGDB's *Regulation no. 2/2016 on the calculation and payment of risk-based contributions to the Bank Deposit Guarantee Fund*, there are five categories of risk indicators:

1. Capital
  - 1.1. Leverage ratio
  - 1.2. Total own funds ratio
2. Liquidity and funding
  - 2.1. Loans/deposits ratio
  - 2.2. Liquid assets/total assets ratio
3. Asset quality
  - 3.1. Non-performing loans ratio
4. Business model and management
  - 4.1. Risk-weighted assets/total assets ratio
  - 4.2. Return on assets (RoA)
5. Potential losses for the deposit guarantee scheme
  - 5.1. Unencumbered assets/covered deposits

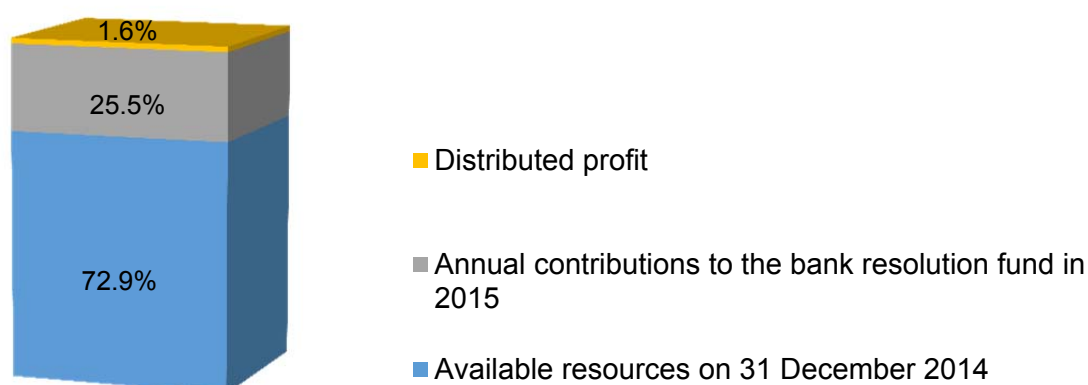
In 2015, the FGDB already prepared the infrastructure needed to calculate risk-based contributions and took unremitting action to inform member credit institutions about the impact the new rules might have on their activity.

### **The Bank Resolution Fund**

*At the end of 2015, the bank resolution fund had 484.8 million lei worth of available financial resources (+131.6 million lei as against 31 December 2014), including the 2015 profit before distribution. Unlike other member states, which will start accumulating resources for the bank resolution fund in 2016, Romania enjoys a more favourable situation thanks to the authorities' preoccupation to set up, as early as 2012, a fund serving similar purposes as the bank resolution fund.*

*On 31 December 2015, the available financial resources of the bank resolution fund accounted for 0.3 percent of the amount of guaranteed deposits. By end-2024, the bank resolution fund will have to account for one percent of the amount of covered deposits of all credit institutions authorised to operate within Romania's territory.*

## Origin of Resources of the Bank Resolution Fund in 2015

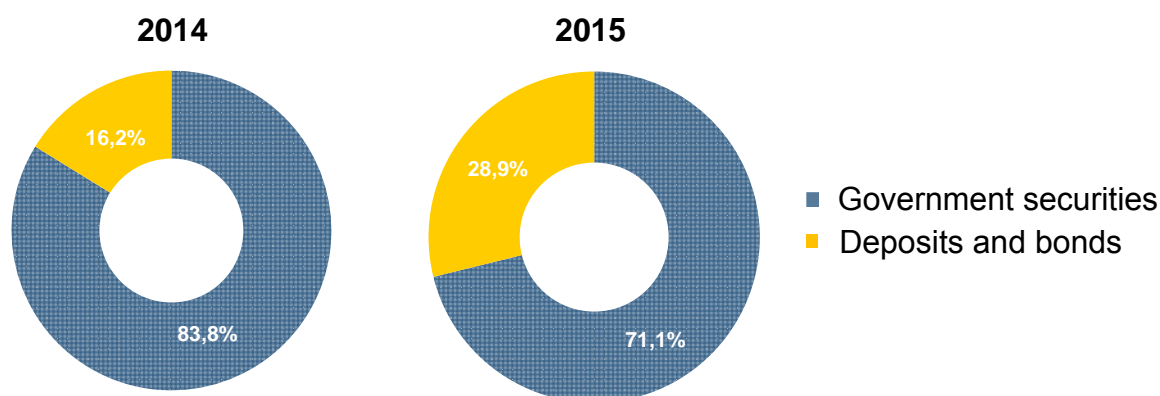


Annual contributions (fees) to the bank resolution fund in 2015 aggregated 123.8 million lei. For 2015, the cumulative contribution of FGDB-member credit institutions was set at the maximum level the law allowed at that time, namely 0.1 percent of non-guaranteed liabilities.

The re-investible profit for the bank resolution fund amounted to 7.8 million lei in 2015.

On 31 December 2015, government securities held a 71.1 percent weight in the portfolio of investments of bank resolution fund resources.

## Structure of FGDB's Investments of Bank Resolution Fund Resources



Starting 2016, the National Bank of Romania, as the resolution authority, sets the level of credit institutions' annual contributions to the bank resolution fund so that they should be distributed as uniformly as possible over time, all while taking due account of the phase of the business cycle, as well as of the impact of pro-cyclical contributions.

The National Bank of Romania adjusts contributions according to the risk profile of each credit institution.

## 5. Liquidation of Failed Credit Institutions

### ***Results of the Liquidation Procedures for Banks Where the FGDB Is Creditor or Liquidator***

As part of its activity as creditor or, where appropriate, liquidator, the FGDB was involved in bankruptcy/liquidation proceedings for the following banks<sup>80</sup>:

- Banca Comercială “Albina” – went through bankruptcy procedures over 25 May 1999 – 14 December 2012;
- Bankcoop – went bankrupt on 8 February 2000;
- Banca Internațională a Religiilor (BIR) – failed on 10 July 2000;
- *Banca Română de Scont (BRS)* – declared bankrupt on 16 April 2002;
- *Banca Turco-Română SA (BTR)* – filed for bankruptcy on 3 July 2002;
- Banca “Columna” SA – failed on 18 March 2003;
- Nova Bank – went bankrupt on 9 November 2006, after going through dissolution followed by liquidation proceedings opened on 22 August 2006<sup>81</sup>.

#### **Cumulative Data as of 31 December 2015<sup>82</sup>**

Total claims 992,232 thousand lei	The FGDB's claims = 513,300 thousand lei
	Other creditors' claims = 478,932 thousand lei
Total recovered claims 320,719 thousand lei	Claims recovered by the FGDB = 175,959 thousand lei (claim recovery ratio – 34.28% of total claims)
	Claims recovered by other creditors = 144,760 thousand lei (claim recovery ratio – 30.23% of total claims)

Throughout 2015, the FGDB was involved in bankruptcy procedures for five banks, acting as creditor of Bankcoop, BIR and the Banca “Columna”, and as liquidator for *BRS* and *BTR*.

<sup>80</sup> To conduct liquidation proceedings for these banks, the courts appointed liquidators – namely the FGDB for BRS and BTR and professional liquidators for the other banks.

<sup>81</sup> The FGDB was appointed liquidator of Nova Bank on 4 September 2006 to be replaced by SC Refal Star TNB SRL and SC Activ Lichidator SRL when bankruptcy procedures started. The FGDB ceased to be a creditor of Nova Bank on 5 April 2007 following an assignment of claims agreement with creditor Ronaturstein SRL.

<sup>82</sup> There are no cumulative data for Nova Bank.

Receipts by banks throughout 2015 were as follows:

- BTR – 304 thousand lei;
- BIR – 184 thousand lei;
- BRS – 178 thousand lei;
- Banca “Columna” – 120 thousand lei;
- Bankcoop – 13 thousand lei.

The five banks’ 2015 receipts, totalling 799 thousand lei, resulted from recovered claims, including sales of assets taken over for debts (45 percent), interest on investments of funds (38 percent) and other sources (17 percent).

Expenses by banks during 2015 were the following:

- BTR – 1,147 thousand lei;
- BRS – 637 thousand lei;
- BIR – 429 thousand lei;
- Banca “Columna” – 110 thousand lei;
- Bankcoop – 24 thousand lei.

*In 2015, the overall amount distributed to creditors stood at 18,582 thousand lei, of which 18,261 thousand lei to BTR’s creditors and 321 thousand lei to BIR’s creditors. The amounts going to the creditors of the failed banks were significantly larger in 2015 than in 2014 (when they totalled 304 thousand lei), mainly as a result of the distribution by BTR of 18,157 thousand lei to the National Agency for Fiscal Administration.*

The amount allotted for distribution to creditors within the bankruptcy procedures for the five banks aggregated 301,478 thousand lei by 31 December 2015, accounting for a recovery ratio of 32.11 percent of the creditors’ total claims worth 938,883 thousand lei.



Total receipts, expenses and funds for distribution to creditors as of 31 December 2015:

No. crt.	Bankrupt bank <sup>1)</sup>	Total claims to recover on the date of bankruptcy (thou. lei)	Total liquidation-related receipts <sup>2)</sup> (thou. lei)		of which:							Total liquidation-related expenses (thou. lei)		Total sums allotted for distribution (thou. lei)
			on 31.12.2015	of which, in 2015	recovered claims			asset sales		other receipts		on 31.12.2015	of which in 2015	
					value (thou. lei)	% of total claims to recover	% of total receipts	value (thou. lei)	% of total receipts	value (thou. lei)	% of total receipts			
0		1	2	3	4	5	6	7	8	9	10	11	12	13
1	Bankcoop	250,050	155,429	13	91,976	36.78	59.18	57,496	36.99	5,957	3.83	62,485	24	98.047
2	BIR	213,982	174,067	184	137,004	64.02	78.71	23,554	13.53	13,509	7.76	80,476	429	95.635
3	BRS	37,750	38,471	178	17,782	47.10	46.22	16,423	42.69	4,266	11.09	16,607	637	18.130
4	BTR	227,480	56,982	304	5,067	2.22	8.89	31,799	55.81	20,116	35.30	14,541	1,147	39.776
5	Banca “Columna”	„	..	120	„	..	..	„	..	„	..	„	110	49.890
TOTAL <sup>3)</sup>		729,262	424,949	799	251,829	34.53	59.26	129,272	30.42	43,848	10.32	174,109	2,347	301,478

<sup>1)</sup> No cumulative data on receipts and expenses are available for Banca "Columna", while for Nova Bank there are no available data by the respective categories.

<sup>2)</sup> Net value (free of VAT or other deductions, as the case may be).

<sup>3)</sup> Including Banca "Albina", where bankruptcy procedures were closed on 14 December 2012, total liquidation-related receipts stand at 451,587 thousand lei (recovered claims – 268,675 thousand lei, sales of assets – 137,251 thousand lei and other receipts – 45,661 thousand lei), while expenses total 181,711 thousand lei and the overall funds allotted for distribution amount to 320,719 thousand lei.

According to the aggregate result as of 31 December 2015, most receipts stemmed from recovered claims (including sales of assets taken over for debts) and from sales of assets.

Besides these two main receipts categories, the bankrupt banks had receipts from other sources as well, but they were less significant. These other sources included sales of movables and of other assets (stocks and other securities), interest on investments of funds, dividends and rents. The exception was BTR, where the main source of “other receipts” was the interest on funds in bank accounts.

In an attempt to trim the bankrupt banks’ debtor portfolio, further action was taken to recoup debts from the main debtors and to remove from accounting records the debtors whose debts could no longer be recovered (closed bankruptcy procedures, lack of realisable guarantees, insolvent debtors etc).

The failed banks’ debtor portfolio diminished by 65 (from 225 to 160 debtors).

The evolution of the number of bankrupt banks’ debtors by 31 December 2015:

No.	Bankrupt bank	Total debtors on bankruptcy filing date	Total debtors removed from accounting records	Total debtors* on 31.12.2015
0	1	2	3	4=2-3
1	Bankcoop	14,716	14,693	23
2	BIR	22,416	22,324	92
3	<i>BRS</i>	232	193	39
4	<i>BTR</i>	1,286	1,280	6
	<b>TOTAL</b>	<b>38,650</b>	<b>38,490</b>	<b>160</b>

\*The only available data in the case of Banca “Columna” are those referring to the number of debtors on 31.12.2015, namely 9 debtors.

**In the case of *BRS***, 2015 liquidation-related earnings, worth 178 thousand lei, arose from: recovered claims (62 percent), interest on investments of funds (31 percent) and other sources (7 percent).

Receipts from recovered claims from the start of bankruptcy proceedings (16 April 2002) to 31 December 2015 accounted for 47 percent of total claims, or 17,782 thousand lei.

If debt repayments from collateral deposits/guarantees and the takeover of

assets from bank debtors to recover claims are taken into account, the recovery ratio (considering also the claims added to the bank's patrimony after the start of the procedures) was of about 63 percent.

Liquidation-related expenses in 2015, amounting to 637 thousand lei, included personnel wages (73 percent), third party services spending (25 percent) and other expenditures (two percent).

*BRS* distributed no funds to its creditors in 2015 although on 31 December it had 4,812 thousand lei on hand and at bank following the seizure<sup>83</sup> of its collecting account. By 31 December 2015, *BRS* had distributed to creditors a total 18,130 thousand lei (47 percent of the body of creditors). The FGDB fully recouped its claim worth 873 thousand lei in 2004.

The Bucharest Tribunal decided the criminal case of the embezzlement of *BRS* on the merits under Sentence no. 764 of 11 May 2015. The court convicted the defendants to imprisonment and, in the civil case, ordered them to pay, jointly and severally, to the plaintiffs 86,835 thousand lei, of which to the *BRS* 26,358 thousand lei (as against the claimed 125,707 thousand lei). *BRS* filed an appeal and will formulate the arguments after the drafting of Sentence no.764/2015.

**As far as *BTR* is concerned**, liquidation-related receipts in 2015 stood at 304 thousand lei and derived from interest on investments of funds (82 percent) and recovered claims (18 percent).

Recovered claims from bankruptcy date (3 July 2002) to 31 December 2015, worth 5,067 thousand lei, account for two percent of total claims. The remaining 98 percent represents unrecovered claims over the bank's main debtor<sup>84</sup>.

The recovery ratio as a percentage of the claims in the bank's records on bankruptcy date – other than the claims over the main debtor – was of 28.14 percent.

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<sup>83</sup> The seizure was imposed in 2011 as part of a criminal case concerning the losses incurred by RAFO SA and was maintained until the court action to recover claims against *BRS* was resolved. On 4 November 2014, the Bucharest Tribunal ordered a stay of proceedings until the *BRS* bankruptcy procedures close. The attachment can only be lifted by conventional or legal methods.

<sup>84</sup> According to *BTR*'s accounting records which were taken over by the liquidator when the bankruptcy procedure opened, on 3 July 2002 the bank's main debtor (some 92.08 percent of total claims) had an accrued debt of 52,873.67 thousand U.S. dollars and 10,164.60 thousand euros resulting from the fraudulent transfer of *BTR* funds to banks abroad to serve as collateral/guarantee. After five former *BTR* administrators had attracted civil and criminal liability for the bank's failure and had been ordered to pay civil damages on 25 May 2012, they were registered in the accounting records as collective debtor and by substitution became the bank's main debtor.

Liquidation-related expenses in 2015 stood at 1,147 thousand lei and included third party services spending (55 percent), personnel wages (31 percent) and other expenditures (14 percent).

In 2015, *BTR* distributed 18,261 thousand lei to its creditors. By 31 December 2015, *BTR* had distributed to its creditors funds worth 39,776 thousand lei (36 percent of the body of creditors). The FGDB recovered in full its 16,448 thousand lei claim in 2011.

In order to recoup the civil damages to which *BTR* is entitled, the liquidator took the necessary measures abroad and recovery operations were underway by end-2015.

In this phase of the proceedings, the assets/claims in the bankrupt banks' portfolios are fewer and they are more difficult to sell/recover. Consequently, the possibilities of recouping claims and selling assets are significantly thinner. However, there may be recoveries following ongoing court actions, especially in the case of *BRS* and *BTR*.

### ***Recovery of the FGDB's Claims***

The FGDB is the major creditor of Bankcoop (83.45 percent of the body of creditors) and BIR (78.90 percent of the body of creditors) and holds an insignificant stake of Banca "Columna"'s body of creditors (0.04 percent).

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

Throughout 2015, the FGDB recovered claims from only one bankrupt bank, namely BIR (254 thousand lei). Which shows a degree of similarity with 2014 when again BIR was the sole bank from which the FGDB recovered claims (which amounted to 235 thousand lei).

By 31 December 2015, the FGDB had recouped claims standing at 175,959 thousand lei, of which 174,978 thousand lei for the payoffs to guaranteed depositors (34.16 percent of compensation payments) and 981 thousand lei representing contributions owed to the FGDB and unpaid by Bankcoop, *BTR* and *Nova Bank* before they filed for bankruptcy.

*The FGDB recovered 100 percent of its claims over BRS, BTR and Nova Bank, 40.3 percent of its claims over BIR, 34.9 percent of its claims over Banca "Albina" and 25.9 percent of the claims over Bankcoop.*

## 6. Public Information

*In 2015, the growing importance of public awareness of deposit protection reflected in the steps taken within the European Union towards the harmonised provision of information to all EU depositors.*

*New depositor information requirements were laid down for the member states, Romania included, and the FGDB launched actions to improve the deposit guarantee-related information offered to the public.*

According to Romania's new deposit guarantee legislation, before entering a deposit-taking contract credit institutions should provide depositors with basic information about deposit protection.

To this end, all member states must use a depositor information template, which includes the name of the scheme safeguarding the deposit, the guarantee ceiling, the compensation payment period and the method of calculating repayments.

All depositors at credit institutions within the European Union must get the standard information sheet at least once every year. Where depositors use Internet banking, credit institutions may supply the deposit guarantee-related information via electronic means.

Besides supplying the aforesaid information sheet to their depositors, credit institutions must also confirm that deposits are eligible (guaranteed) deposits on their depositors' statements of account.

Credit institutions which go through such operations as mergers or conversion of subsidiaries to branches must inform their depositors in advance. In this way, depositors whose cumulative eligible deposits are likely to exceed the guarantee ceiling will have time to withdraw or transfer to another credit institution the amounts that go beyond the guarantee ceiling without incurring penalties.

## ***Communication with the Public***

In 2015, the FGDB initiated a project to improve its website in a bid to make it more attractive and more user friendly and to enrich its content. The new site was launched early in 2016 and has already had a large number of visitors.

The launch of the new site meant both the increase in the amount of public information on deposit guarantee and, equally, the growing transparency of FGDB activities.

Consequently, the range of public-oriented information about FGDB activities and the fulfilment of FGDB responsibilities within the law has diversified.

Following the adoption of new deposit guarantee legislation, the number of depositors' queries about various aspects related to the application of the new legal provisions increased towards the end of 2015.

The FGDB promptly answered all questions from depositors and constantly updated the *Frequently Asked Questions section* of its website.

At the same time, in its on-line INFO bulletin the FGDB provided quarterly analyses of deposits at member credit institutions, as well as details of the latest developments in the deposit protection sector at home and abroad.

Furthermore, the launch of the new website went hand in hand with another project, namely the creation of a new poster containing updated information on deposit guarantee. Copies of the new poster were distributed to the member credit institutions to be on display in all their units in the territory.

## ***Relationship with the Media***

In 2015, the FGDB continued its cooperation with the press, supplying through this channel a multitude of information of public interest about the guarantee of bank deposits in Romania.

Since the press is one of the main sources of information for the public, the FGDB tried to answer all requests for data on its activity as soon as possible so that those data may subsequently reach interested parties.

Media representatives received the news releases and INFO bulletins the FGDB issued the moment they were posted on the website.

## The Bank Deposit Guarantee Fund safeguards your money in the bank



**100.000 €**  
is the maximum FGDB coverage  
per depositor per credit  
institution

**IN MAXIMUM  
7 DAYS**  
working  
at the most of the unavailability date  
of deposits the FGDB makes available  
the due compensations  
to depositors

### You are at a FGDB-member bank



021 326 6020  
(flat-rate number)

[www.fgdb.ro](http://www.fgdb.ro)

**FGDB**

FONDUL DE GARANTARE A DEPOZITELOR BANCARE  
BANK DEPOSIT GUARANTEE FUND

*New FGDB poster intended to inform the public*

## ***Educational Activities***

The FGDB, initiator of the “*Costin Murgescu*” *Contest for Economic Research*, organised the fourth edition of the event in 2015 in a bid to further support young people showing an interest in contemporary socio-economic and political developments to assert themselves.

The jury of the contest, including Romanian and foreign researchers and members of the academic community, awarded the contest's prize to “*Emigration Impact on the Romanian Economy in the Context of the Most Recent Economic and Financial Crisis*”, an essay authored by Costin-Alexandru Ciupureanu, PhD, Faculty of Cybernetics, Statistics and Economic Informatics, The Doctoral School of the Bucharest University of Economic Studies.

The essays presented during the contest were graded according to criteria of originality, logic of arguments, conclusions and style.

As part of its educational-oriented activities, the FGDB, as partner, attended the *Annual Scientific Conference of Romanian Academic Economists from Abroad – ERMAS*<sup>85</sup>, which gathered Romanian economists affiliated to prestigious universities and research institutes abroad, as well as representatives of economic and academic institutions in Romania. The FGDB CEO was among the speakers at the conference<sup>86</sup>.

In 2015, the FGDB continued to be a supporter of the “*Cristian Popișteanu*” *Annual Symposium of Banking History and Civilisation* organised by the National Bank of Romania and the Magazin Istoric Cultural Foundation.<sup>87</sup>

The FGDB's acquired experience in communication with depositors through social networks was shared with other deposit guarantee schemes during a seminar of the IADI Europe Regional Committee on *Communication in Crisis and the Social Media*. FGDB representatives had a presentation on *Psychological Elements in the Use of Social Networks*.

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<sup>85</sup> The conference, at its second edition in 2015, was organised by the Faculty of Economics and Business Administration under the Babeş-Bolyai University, Cluj-Napoca, over 29-31 July 2015.

<sup>86</sup> The exposition on *The Business Cycle and Monetary Policy in Romania* was allocated to a distinct session during the conference.

<sup>87</sup> The theme of the symposium was *The 135<sup>th</sup> Anniversary of the National Bank of Romania*.



## 7. Internal Audit

In compliance with legal provisions and international professional standards, internal audit within the FGDB is a function exercised separately from the other activities and its mission is to boost and protect organisational value. Furthermore, the internal auditor's professional practice focuses on the organisation's strategies, targets and risks, designing proactive measures to constantly optimise undergoing activities and processes.

While observing specific internal audit-related standards and regulations, the FGDB also abides by international principles and guidelines concerning bank deposit guarantee. According to the *IADI Core Principles for Effective Deposit Insurance Systems and Guidance on the Governance of Deposit Guarantee Systems*, the activities of a bank deposit guarantee scheme should be subject to both independent external and internal auditing.

In this way, all activities are periodically and independently assessed, account being taken of the specific and related normative requirements of a deposit guarantee scheme.

The aim is to assure the FGDB's Supervisory Board and the executive management that the processes to fulfil the targets set within the law, mainly bank deposit guarantee and bank resolution actions, are being or can be appropriately implemented.

*In 2015, the internal audit activity concentrated on evaluating the adequacy of the internal control system so as to assess if risks were correspondingly managed and if implemented control procedures contributed to curbing the impact of risks and the likelihood of risk occurrence.*

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

- assessment of internal control;
- quantitative assessment (of the financial impact in case of losses);
- qualitative assessment (existence/adequacy of norms and procedures, human resources, time elapsed since the previous audit, complexity of operations, the quality of the IT system).

Internal audit in 2015 also evaluated the FGDB's IT system, a major component of the organisation, to offer an objective and independent opinion on its compliance with the norms and procedures applicable both in the IT sector and within the FGDB. The assessment also covered the quality of the system and its continuous optimisation in line with technological developments in the respective sector.

The internal auditor's findings, conclusions and recommendations, grouped in a report of the respective audit mission, were submitted to the executive management. An *Annual Audit Report* informed the Supervisory Board of the fulfilment of the audit plan for 2015 and of the results of the audit engagements conducted throughout 2015.

In order to maintain high internal audit performance within the FGDB, there was permanent concern to improve competence in this area, along with the effectiveness and quality of work done. Another concern was to ensure that the newly developed best practices contribute substantially to the fulfilment of the FGDB's mandate of protecting depositors and securing financial stability.

## 8. The FGDB's Financial Statements

*On 31 December 2015, the FGDB's assets amounted to 5.3 billion lei, posting a 17.7 percent rise from end-2014.*

*Government securities and bank deposits with over-one-year or short maturities hold the largest stake in the FGDB asset structure.*

### ***The FGDB's Receipts and Payments***

a) In 2015, the FGDB's receipts totalled 868,650 thousand lei, of which:

- |                        |  |
|------------------------|--|
| - 515,508 thousand lei | - in annual contributions to the deposit guarantee fund, including differences established during FGDB controls;   |
| - 123,818 thousand lei | - from annual contributions (fees) to the bank resolution fund;  |
| - 228,891 thousand lei | - from interest on investments of the FGDB's financial resources, of which 218,640 thousand lei corresponding to the deposit guarantee fund and 10,251 thousand lei corresponding to the bank resolution fund; |
| - 49 thousand lei      | - from interest on funds in the FGDB's current accounts;   |
| - 254 thousand lei     | - from a claim recovered from Banca Internațională a Religiiilor;  |
| - 130 thousand lei     | - from the FGDB's remuneration as court-appointed liquidator for Banca Turco-Română.   |

b) The 2015 payments of the FGDB stood at a total 14,488 thousand lei, representing its current operating expenses.

In 2015, the FGDB's receipts and payments moved in opposite directions. As compared to the previous year, receipts gained 43,690 thousand lei and payments diminished by 899 thousand lei.

## ***The FGDB's Balance Sheet***

- lei -

Assets			Liabilities		
	31.12.2014	31.12.2015		31.12.2014	31.12.2015
<b>1. Total fixed assets, of which:</b>	<b>3,547,078,282</b>	<b>4,474,889,287</b>	<b>1. Total own funds, of which:</b>	<b>4,532,377,633</b>	<b>5,335,735,491</b>
– intangible assets	66,407	49,142	– reserves	4,337,167,978	5,170,202,898
– tangible assets	287,218	272,280	– profit for the fiscal year	195,209,655	165,532,593
– financial assets	3,546,724,657	4,474,567,865			
<b>2. Total current assets, of which:</b>	<b>985,759,862</b>	<b>861,273,326</b>	<b>2. Total debts, of which:</b>	<b>460,511</b>	<b>435,982</b>
– short-term financial investments	983,911,149	859,959,622	– debts payable within one year		
– cash at bank and in hand	1,628,779	1,082,810		460,511	435,982
– other claims (bank settlements)	188,920	230,894			
<b>3. Prepaid expenses</b>	<b>31,014</b>	<b>8,860</b>			
<b>TOTAL ASSETS</b>	<b>4,532,838,144</b>	<b>5,336,171,473</b>	<b>TOTAL LIABILITIES</b>	<b>4,532,838,144</b>	<b>5,336,171,473</b>

## ***The Profit and Loss Account***

The FGDB's fiscal year-end result is given by the difference between revenues from investments of financial resources and current expenses.

In 2015, the FGDB had total revenues worth 180,220 thousand lei resulting from:

- 180,171 thousand lei      - interest and fixed coupons following investments of its financial resources throughout 2015 (99.97 percent of total revenues);
- 49 thousand lei      - interest on the FGDB's funds in bank current accounts.

Total FGDB expenses in 2015 amounted to 14,687 thousand lei and included:

- 11,759 thousand lei - personnel-related expenditures (80.06 percent of total expenses);
- 2,555 thousand lei - spending on services provided by third parties (17.40 percent of total expenses);
- 373 thousand lei - other expenditures (2.54 percent of total expenses).

The FGDB's expenses are funded only by revenues from the investment of available financial resources. According to the law, the financial resources of the two funds administered by FGDB may be used exclusively to make compensation payments and, respectively, finance resolution measures and not to cover the FGDB's operating expenses.

*Compared to the FGDB's revenues in 2015, operating expenses account for 8.15 percent.*

### The Profit and Loss Account

- lei -

		31.12.2014	31.12.2015	Difference
1	Total revenues	210,596,994	180,219,604	-30,377,390
2	Total expenses	15,387,339	14,687,011	-700,328
3	<b>Result for fiscal year</b>	<b>195,209,655</b>	<b>165,532,593</b>	<b>-29,677,062</b>

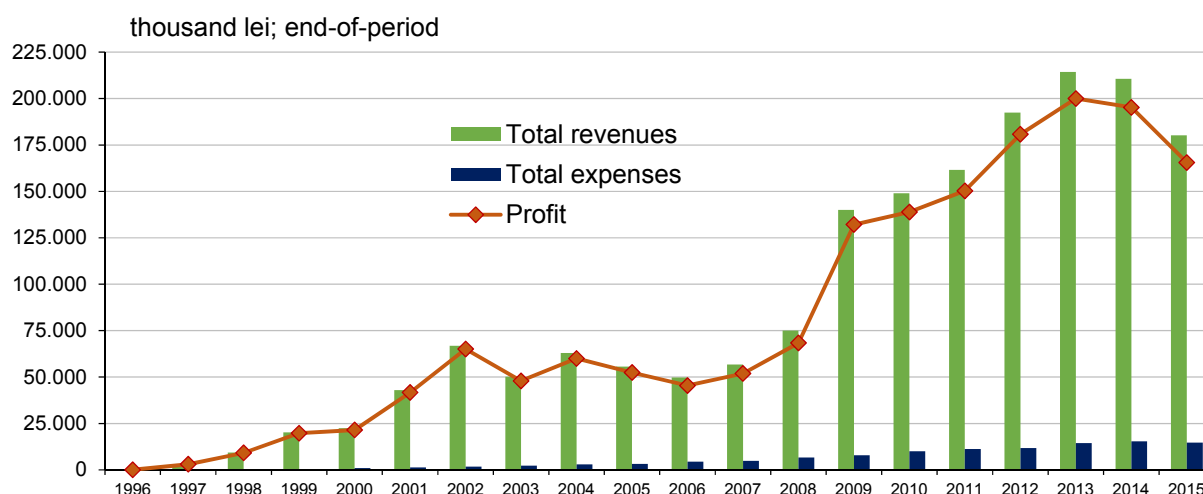
The decisive factor behind the decline in revenues in 2015 was the continuing downward trend of recent years in yields on the financial-banking market.

The lower FGDB spending in 2015 was no compensation for the decline in revenues and, consequently, the FGDB's result for the fiscal year lost 29,677 thousand lei from the previous year.

*The FGDB's net accounting profit for the fiscal year ended 31 December 2015 stood at 165,533 thousand lei as, in line with legal provisions, a cautious financial resource investment policy was further promoted targeting lower risk and adequately liquid investments and pursuing yields on investment as a secondary goal.*

*In compliance with the law, at least 99 percent of the profit is allocated to replenish the available financial resources of the FGDB-managed funds.*

### Evolution of the FGDB's Revenues, Expenses and Profit



The FGDB's financial statements as of 31 December 2015 were audited by Ernst & Young Assurance Services SRL. According to the financial auditor's opinion expressed in the audit report<sup>88</sup> "the financial statements give a true and fair view of the Fund's financial position on December 31, 2015 and the result of its operations for the fiscal year then ended, according to Order no. 27/2011 of the National Bank of Romania, with subsequent amendments and completions."

<sup>88</sup> The audit report and the FGDB's balance sheet, profit and loss account and the notes to the financial statements are given in *Chapter 9* of the present Annual Report.

## **9. Independent Auditor's Report, Balance Sheet, Profit and Loss Account and Notes to FGDB's Financial Statements**

Ernst & Young Assurance Services SRL  
Clădirea Bucharest Tower Center, et. 21  
Bd. Ion Mihalache nr. 16-17, Sector 1  
011171 București, Romania

Tel: +40 21 402 4000  
Fax: +40 21 310 7219  
[office@ro.ey.com](mailto:office@ro.ey.com)  
ey.com

## **FINANCIAL AUDIT REPORT**

To: The Board of the Bank Deposit Guarantee Fund

### **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 31 December 2015, the profit and loss account for the fiscal year then ended, along with an overview of significant accounting policies and other explanatory notes. The financial statements refer to:
  - Total assets: 5,336,171,473 lei
  - Net result of the fiscal year: 165,532,593 lei (profit)

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

2. The Fund's management is responsible for the preparation and fair presentation of these financial statements, in accordance with Order no. 27/2011 of the National Bank of Romania, with subsequent amendments and completions, and for the internal control it deems necessary in preparation of financial statements that are free of material misstatements, whether caused by fraud or error.

### **Auditor's Responsibility**

3. Our responsibility is to express an opinion on these financial statements, based on our audit. We have conducted our audit according to the auditing standards adopted by the Chamber of Financial Auditors of Romania. These standards require that we comply with the Chamber's ethical requirements and that we plan and perform our audits to obtain reasonable assurance that these financial statements are free of material misstatements.
4. An audit involves procedures to obtain audit evidence about the amounts and information in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. When assessing these risks, the auditor considers the internal audit relevant to the preparation and fair presentation of the Fund's financial statements to set the audit procedures that are relevant in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes an assessment of the adequacy of the accounting policies employed and the reasonableness of the accounting estimates worked



out by the management, as well as the evaluation of the presentation of the financial statements as a whole.

5. We consider that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our audit opinion.

### **Opinion**

6. In our opinion, the financial statements give a true and fair view of the Fund's financial position on December 31, 2015 and the result of its operations for the fiscal year then ended, according to Order no. 27/2011 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 National Bank of Romania, we have read the management's report attached to the financial statements. The management's report is not a 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 as of 31 December 2015.

On behalf of:

Ernst & Young Assurance Services SRL

Registered with the Chamber of Financial Auditors of Romania

No. 77/15 August 2001

Alina Dimitriu

Registered with the Chamber of Financial Auditors of Romania

No. 1272/17 December 2001

Bucharest, Romania

26 April 2016

**BALANCE SHEET**  
as of December 31, 2015

- RON -

Indicator	Position code	Note	31 December 2014	31 December 2015
A	B		1	2
Cash	010	2	14,786	7,037
Claims over credit institutions	020	3	977,191,174	860,025,541
- sight claims	023		1,613,993	1,075,773
- other claims	026		975,577,181	858,949,768
Public instruments, bonds and other fixed-income securities	040		3,546,724,657	4,474,567,865
- issued by public bodies	043	4	3,546,724,657	4,474,567,865
Intangible assets	050	5	66,407	49,142
Tangible assets	060	5	287,218	272,280
Other assets	070	6	188,920	230,894
Prepaid expenses and committed income	080	7	8,364,982	1,108,714
<b>Total assets</b>	<b>090</b>		<b>4,532,838,144</b>	<b>5,336,171,473</b>
Other liabilities	330	8	460,511	435,982
The bank deposit guarantee fund and the bank resolution fund	360		4,336,462,978	5,169,497,898
- The bank deposit guarantee fund	361		3,989,986,507	4,692,523,142
- The deposit guarantee fund consisting of credit institutions' contributions	362	9	2,660,393,707	3,175,901,965
- The deposit guarantee fund consisting of revenues from claim recovery	363	11	65,949,209	66,203,008
- The deposit guarantee fund consisting of revenues from investments of available financial resources	365	12	1,261,052,749	1,447,696,944
- The deposit guarantee fund consisting of other revenues as set within the law	366	13	2,590,843	2,721,225
- The bank resolution fund	367	10	346,476,471	476,974,756
Reserves	370	14	705,000	705,000
<b>Result of the fiscal year – Profit</b>	<b>403</b>		<b>195,209,655</b>	<b>165,532,593</b>
<b>Total liabilities</b>	<b>420</b>		<b>4,532,838,144</b>	<b>5,336,171,473</b>

**THE PROFIT AND LOSS ACCOUNT**  
for the fiscal year ended 31 December 2015

- RON-

Indicator	Position code	Note	31 December 2014	31 December 2015
A	B		1	2
Interest receivables and similar income, of which:	010	16a	210,568,203	180,218,906
- on public instruments, bonds and other fixed-income securities	015		155,244,336	159,271,037
Commissions	040	16b	34,463	34,609
Net profit or loss from financial operations	050	16c	376	881
Other operating income	060	16c	26,810	-
General administrative expenses	070		14,645,263	14,015,188
- Employee-related expenses, of which:	073	16d	12,234,760	11,759,028
- Salaries	074		9,995,624	9,761,811
- Social security costs, of which:	075		2,239,136	1,997,217
- Pension-related expenses	076		1,391,216	1,159,973
- Other administrative expenses	077	16e	2,410,503	2,256,160
Adjustments to the book value of tangible and intangible assets	080	5	154,415	199,186
Other operating expenses	090		551,593	438,211
<b>Result of current activity - Profit</b>	<b>143</b>		<b>195,209,655</b>	<b>165,532,593</b>
Total income	180		210,595,389	180,219,787
Total expenses	190		15,385,734	14,687,194
Pre-tax result - Profit	203		195,209,655	165,532,593
<b>Net result for the fiscal year - Profit</b>	<b>223</b>		<b>195,209,655</b>	<b>165,532,593</b>

## **EXPLANATORY NOTES TO THE FGDB'S FINANCIAL STATEMENTS - EXCERPTS**

### **1. Significant Accounting Methods and Policies**

Hereunder are some of the main accounting policies used in preparing these financial statements:

#### **a) Preparation and Presentation of the Financial Statements**

These financial statements were prepared in compliance with:

- i. Order no. 27/2011 of the Governor of the National Bank of Romania (BNR) for the approval of the accounting regulations in line with European Union directives applicable to non-banking financial institutions, payment institutions providing credits related to payment services, 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.

These financial statements include the FGDB's own individual financial statements.

The present financial statements were prepared on the historical cost basis, with the exceptions detailed in the accounting policies.

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

The FGDB prepared the present financial statements in compliance with the business continuity principle.

The present financial statements were approved by the Board of Directors of the National Bank of Romania on April 26, 2016.

#### **i) Financial Assets**

Investment securities are the financial assets with fixed or determinable payments and fixed maturity which the FGDB firmly intends and is able to hold to maturity.

Securities can be classified as investment securities contingent on:

- conditions and characteristics of the financial asset, and
- the FGDB's ability and actual intent to hold these instruments to maturity.

The decision to classify securities as investment securities shall ignore both future profit-making opportunities arising from the respective portfolio and bid prices from other investors before the maturity date, since the intent is to hold the investment to maturity rather than to sell it, no matter the fluctuations in value in the market for such instruments.

A prerequisite for the designation as investment securities is the assessment of the FGDB's intent and ability to hold these 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, as a result of a change in an institution's intent or ability to hold investment securities to maturity, the classification of these instruments as investment securities is no longer appropriate they will be reclassified as trading securities and will be assessed in terms of that category.

If an institution sold or reclassified more than an insignificant amount of investment securities in a fiscal year or during the two preceding fiscal years it will not be able to classify any further financial asset as investment securities ("the tainting rule").

This interdiction does not apply if the respective sale or reclassification:

- is so close to the maturity date of the financial asset (for instance, less than three months to maturity) that shifts in market interest rates could not have had any notable effect on the fair value of the financial asset;
- occurs after a substantial part of the principal of the financial asset was redeemed through periodical payments or early repayments, or
- is attributable to an isolated, non-recurring and hard-to-predict event.

#### **p) The Bank Deposit Guarantee Fund's Specific Resources**

The FGDB's financial resources consist of: initial contributions from credit institutions, annual contributions from credit institutions, extraordinary contributions, recovered claims, the FGDB's remuneration as court-appointed liquidator and other resources resulting from previous years' profits. For lack of financial resources, the FGDB may take loans from the Ministry of Public Finance, under lending contracts, in order to cover its necessity of funds.

The functionality of these accounts and the way they are reflected in accounting records are set out in Government Ordinance no. 39/1996 on the setting up and operation of the Bank Deposit Guarantee Fund and BNR Order no. 27/2011, with subsequent amendments and completions, as follows:

(i) Initial contribution

It is the contribution credit institutions owe to the FGDB upon joining its guarantee scheme. It is recorded when a credit institution receives its authorisation according to Government Ordinance no. 39/1996 on the setting up and operation of the Bank Deposit Guarantee Fund.

(ii) Annual contribution

The annual contribution is calculated and paid yearly by credit institutions and it is recorded under the accrual accounting basis.

(iii) Extraordinary contributions

They represent other contributions credit institutions pay to the FGDB, according to legal provisions, when its financial resources are insufficient to cover compensation payments. Government Ordinance no. 39/1996 called these contributions “special contributions”.

(iv) Recovered claims

These are receipts resulting from the recovery of the FGDB’s claims over banks for the repayments it made following their failure.

Credit institutions’ contributions are non-refundable, including when they are liquidated under court supervision or when they are dissolved.

(v) Funds consisting of other revenues

According to Government Ordinance no. 39/1996, BNR Order no. 27/2011 and Law no. 311/2015, these other funds represent donations, sponsorships, financial assistance and revenues from its activities as liquidator of bankrupt banks, as well as other revenues provided for in the law.

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

These resources consist of the FGDB’s net profit. In line with Law no. 311/2015, Article 98 paragraph (2) letter s) and Article 112, the FGDB’s profit, which is the difference between its revenues and its expenditures, is tax free. Following the approval of the Board of Directors of the National Bank of Romania, up to one percent of the profit goes to an annual profit-sharing fund, while the remainder is used to supplement the financial resources for each of the activities pursuant to Article 92, paragraphs (1) and (2) of Law no. 311/2015.

The financial resources account diminishes following:

- the FGDB's payouts made to the guaranteed depositors of banks where deposits have become unavailable;
- instalments and interest on loans taken to make compensation payments;
- amounts transferred to the resolution authority;
- loans granted to other guarantee schemes within the law.

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

#### **q) Income tax**

The FGDB's profit is tax exempt, according to provisions in Article 13, paragraph (2), point e) of Law no. 227/2015 on the fiscal code.

#### **t) Revenues from interest**

Revenues from interest are recognised in the profit and loss account under the accrual accounting basis for all interest-bearing financial instruments when they are earned. Interest income also includes 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) Recognition of revenues**

The FDGB is not involved in commercial activities. Its revenues derive from interest on financial assets.

### **2. Cash**

On 31 December 2015, the FGDB's cash on hand totalled 7,037 RON (31 December 2014: 14,786 RON).

### **3. Claims over credit institutions**

	31 December 2014 (RON)	31 December 2015 (RON)
Current accounts	1,613,993	1,075,773
Term investments at banks	975,577,181	858,949,768
<b>Total</b>	<b>977,191,174</b>	<b>860,025,541</b>

#### 4. Public instruments, bonds and other fixed-income securities

	31 December 2014 (RON)	31 December 2015 (RON)
Investment securities, of which:	3,217,199,507	3,657,828,877
- Investment securities	3,012,682,900	3,554,319,804
- Bonds	204,516,607	103,509,073
Trading securities	329,525,150	816,738,988
<b>Total</b>	<b>3,546,724,657</b>	<b>4,474,567,865</b>

#### 9. Fund consisting of credit institutions' contributions (cumulative amounts)

	31 December 2014 (RON)	31 December 2015 (RON)
Initial contribution – 1%	6,472,230	6,472,230
Annual contribution (including increased contribution)	3,119,212,905	3,634,721,163
Extraordinary contribution	61,777,997	61,777,997
Credit line fee	(14,825,698)	(14,825,698)
Deposit compensations	(512,243,727)	(512,243,727)
<b>Total</b>	<b>2,660,393,707</b>	<b>3,175,901,965</b>

Each credit institution's annual contribution is calculated based on the statements it sends to the FGDB. In 2015, the FGDB collected 515,508,259 lei in annual contributions, which were calculated as 0.3 percent of the value of eligible deposits (2014: 0.3 percent, namely 482,949,863 lei). The annual contribution rate is proposed by the FGDB and approved by the Board of Directors of the National Bank of Romania.

If, following a FGDB request, the National Bank of Romania Board considers that the FGDB's financial resources are insufficient to settle its payment obligations, it may decide that each credit institution should pay an extraordinary contribution equal to up to the level of the annual contribution of the respective fiscal year. In 2015, just like in 2014, credit institutions paid no extraordinary contributions.

Compensation is the amount the FGDB pays to each guaranteed depositor for the unavailable deposits, no matter their number, within the guarantee ceiling. In 2015, just as in 2014, there were no compensation payouts.



## 10. The Bank Resolution Fund

	(RON)
Balance as of 31 December 2013	<b>207,473,680</b>
2014 annual contribution (fee)	131,178,657
2013 capitalised profit	7,824,134
Balance as of 31 December 2014	<b>346,476,471</b>
2015 annual contribution (fee)	123,818,091
2014 capitalised profit	6,680,194
<b>Balance as of 31 December 2015</b>	<b>476,974,756</b>

The bank resolution fund is set up to provide the financial resources needed to finance bank resolution measures.

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

Pursuant to Article 539 of Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms and amending and complementing legal acts in the financial sector, the National Bank of Romania, as the resolution authority, sets the level of credit institutions' annual contributions to the bank resolution fund so that they should be distributed as uniformly as possible over time, all while taking due account of the phase of the business cycle, as well as of the impact procyclical contributions may have on the financial position of contributing credit institutions.

In 2015, the annual contributions going to the FGDB totalled 123,818,091 lei, being calculated as 0.1 percent of non-guaranteed liabilities. In 2014, the FGDB collected 131,178,657 lei in annual contributions determined for a percentage of 0.1 of non-guaranteed liabilities.

The 2014 profit, amounting to 6,680,194 lei and resulting from investments of bank resolution fund resources, was capitalised following a decision of the FGDB's Board after the financial statements as of 31 December 2014 had been authorised.

## 11. Fund consisting of revenues from recovered claims (cumulative amounts)

	31 December 2014 (RON)	31 December 2015 (RON)
Recovered claims	174,724,164	174,977,963
Interest on bank loans – BNR	(108,774,955)	(108,774,955)
<b>Total</b>	<b>65,949,209</b>	<b>66,203,008</b>

Recovered claims are the amounts the FGDB collected from credit institutions as outstanding annual contributions on bankruptcy filing date, as well as compensation

payouts to depositors. In 2015, claims worth 253,800 lei were recovered from failed credit institution Banca Internațională a Religiiilor.

## **12. Fund consisting of revenues from investment of available financial resources**

	31 December 2014 (RON)	31 December 2015 (RON)
Fund consisting of revenues from investment of available financial resources – share of the profit	1,261,052,749	1,447,696,944

These amounts correspond to the FGDB's cumulative profit arising from the distribution of previous years' profits.

## **13. Fund consisting of other revenues, within the law**

	31 December 2014 (RON)	31 December 2015 (RON)
The FGDB's remuneration from its activities as liquidator	2,590,843	2,721,225

## **15. Distribution of profit**

	31 December 2014 (RON)	31 December 2015 (RON)
Result of current activity – profit, of which:	195,209,655	165,532,593
Profit from the deposit guarantee fund resources	188,529,461	157,612,228
Profit from the bank resolution fund resources	6,680,194	7,920,365
<b>Undistributed profit</b>	<b>195,209,655</b>	<b>165,532,593</b>

The Board of Directors of the National Bank of Romania will approve the distribution of profit for the fiscal year ended 31 December 2015 after the financial statements have been authorised.

## **16. Information on sub-sections of the profit and loss account**

### **a) Interest receivables and assimilated revenues**

(RON)	2014	2015
Current accounts	146,605	47,783
Investments at banks	55,177,262	30,235,379
Fixed-income securities and other bonds	155,244,336	149,935,744
<b>Total</b>	<b>210,568,203</b>	<b>180,218,906</b>

#### **d) Personnel-related expenses**

(RON)	2014	2015
Spending on salaries	9,995,624	9,761,811
Spending on social security and welfare, of which:	2,239,136	1,997,217
- spending on pensions	1,391,216	1,159,973
<b>Total</b>	<b>12,234,760</b>	<b>11,759,028</b>

#### **e) Other administrative expenses**

(RON)	2014	2015
Telecommunications and data processing	132,368	151,802
Advertising	54,174	55,324
Business trips	189,245	185,872
Inventory materials and items	207,733	135,407
Maintenance and utilities	146,210	130,929
Audit, consultancy and other services	806,200	706,638
Externally contracted manpower	751,833	766,080
Other administrative spending	122,740	124,108
<b>Total</b>	<b>2,410,503</b>	<b>2,256,160</b>

In 2015, spending to cover audit fees stood at 37,929 RON.

### **19. Risk Management**

Risks associated with FGDB activities are mainly financial and operational risks. The FGDB is exposed to such risks as:

- interest rate risk
- market risk
- liquidity risk
- foreign exchange risk

#### **a) Interest rate risk**

The FGDB is exposed to market interest rates fluctuations that may impact its financial position and cash flows. Given such variations interest may go up, but it may also plunge and it may trigger losses if unexpected changes occur. The FGDB management periodically monitors the Fund's exposure to interest rate changes.

In 2015, the FGDB got the following interest rates on its invested assets:

	2014		2015	
	min	max	min	max
Claims over credit institutions	3.00%	4.30%	0.50%	2.20%
Public instruments, bonds and other fixed-income securities	1.72%	5.47%	0.46%	7.50%

## b) Market risk

Romania is still a developing economy and there is a significant amount of uncertainty over the possible direction of domestic economic policies. The FGDB's management cannot predict either the changes to occur in Romania or the effect they may have on the FGDB's financial position and on the results of its transactions.

## c) Liquidity risk

Liquidity risk mainly arises from the maturity mismatch between FGDB's assets and liabilities.

As far as possible, the FGDB's strategy seeks to keep liquidity levels sufficiently high to be able to fulfil its obligations as they come due without incurring losses.

- RON -

As of 31 December 2015	Up to 3 months	Between 3 months and 1 year	Over 1 year and up to 5 years	Total
Cash	7,037	-	-	7,037
Current bank accounts	1,075,773	-	-	1,075,773
Claims over credit institutions	305,651,907	553,297,861	-	858,949,768
Public instruments, bonds and other fixed-income securities	88,323,529	728,415,459	3,657,828,877	4,474,567,865
Other financial instruments	-	-	-	-
Other assets	230,894	-	-	230,894
Prepaid expenses and committed revenues	127,478	891,236	-	1,018,714
<b>Total assets</b>	<b>395,416,618</b>	<b>1,282,604,556</b>	<b>3,657,828,877</b>	<b>5,335,850,051</b>
Other liabilities	435,982	-	-	435,982
The bank deposit guarantee fund	4,692,523,142	-	-	4,692,523,142
The bank resolution fund	476,974,756	-	-	476,974,756
<b>Total liabilities</b>	<b>5,169,933,880</b>	<b>-</b>	<b>-</b>	<b>5,169,933,880</b>
<b>Liquidity surplus/ (needs)</b>	<b>(4,774,517,262)</b>	<b>1,282,604,556</b>	<b>3,657,828,877</b>	<b>165,916,171</b>

- RON -

As of 31 December 2014	Up to 3 months	Between 3 months and 1 year	Over 1 year and up to 5 years	Total
Cash	14,786	-	-	14,786
Current bank accounts	1,613,993	-	-	1,613,993
Claims over credit institutions	657,754,577	317,822,604	-	975,577,181
Public instruments, bonds and other fixed-income securities	101,149,884	951,236,787	2,494,337,986	3,546,724,657
Other financial instruments	-	-	-	-
Other assets	188,920	-	-	188,920
Prepaid expenses and committed revenues	1,057,182	7,307,800	-	8,364,982
<b>Total assets</b>	<b>761,779,342</b>	<b>1,276,367,191</b>	<b>2,494,337,986</b>	<b>4,532,484,519</b>
Other liabilities	460,511	-	-	460,511
The bank deposit guarantee fund	3,989,986,507	-	-	3,989,986,507
The bank resolution fund	346,476,471	-	-	346,476,471
<b>Total liabilities</b>	<b>4,336,923,489</b>	<b>-</b>	<b>-</b>	<b>4,336,923,489</b>
<b>Liquidity surplus/ (needs)</b>	<b>(3,680,320,199)</b>	<b>658,681,722</b>	<b>3,217,199,507</b>	<b>195,561,030</b>

#### d) Foreign exchange risk<sup>\*</sup>

The FGDB operates within an economic framework where the exchange rates of widely traded currencies (the euro, the U.S. dollar, the Swiss franc) fluctuate, the Swiss franc in particular. Under such circumstances, the risk of a slide in the value of its RON-denominated net monetary assets is low.

On 31 December 2015, the FGDB's records showed cash on hand and current accounts in euros, totalling the equivalent of 756 RON (31 December 2014: the equivalent of 18,765 RON), in U.S. dollars, worth the equivalent of 2,444 RON (31 December 2014: the equivalent of 1,297 RON), and in other foreign currencies, amounting to the equivalent of 161 RON (31 December 2014: the equivalent of 240 RON). The remaining monetary assets and liabilities are denominated in the national currency.

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<sup>\*</sup> FGDB-managed assets are exclusively denominated in RON.

### e) Credit risk

In 2015, the FGDB kept an attentive eye on the effectiveness of the investment of its available financial resources, in conditions of higher liquidity and risk minimization, complying with its 2015 exposure strategy approved by the Board of Directors of the National Bank of Romania.

<i>(i) Investment securities</i>	31 December 2015 (RON)
Investment securities, of which:	
Investment securities	3,554,319,804
Bonds	103,509,073
Trading securities	816,738,988
<b>Total</b>	<b>4,474,567,865</b>
	31 December 2014 (RON)
Investment securities, of which:	
Investment securities	3,012,682,900
Bonds	204,516,607
Trading securities	329,525,150
<b>Total</b>	<b>3,546,724,657</b>

<i>(ii) Bank deposits</i>	31 December 2015 (RON)
Total bank deposits	858,949,768
Current accounts	1,075,773
<b>Total bank deposits and current accounts</b>	<b>860,025,541</b>
	31 December 2014 (RON)
Total bank deposits	975,577,181
Current accounts	1,613,993
<b>Total bank deposits and current accounts</b>	<b>977,191,174</b>

# **Annexes**

### List of FGDB-member credit institutions as at 31 December 2015

1. Alpha Bank România - S.A.
2. Banca Centrală Cooperatistă CREDITCOOP
3. Banca Comercială Carpatica - S.A.
4. Banca Comercială Feroviara - S.A.
5. Banca Comercială Intesa Sanpaolo România - S.A.
6. Banca Comercială Română - S.A.
7. Banca de Export - Import a României EXIMBANK - S.A.
8. Banca Română de Credite și Investiții - S.A.
9. Banca Românească - S.A., membră a Grupului National Bank of Greece
10. Banca Transilvania - S.A.<sup>1</sup>
11. Bancpost - S.A.
12. Bank Leumi România - S.A.
13. BCR Banca pentru Locuințe - S.A.
14. BRD - Groupe Société Générale - S.A.
15. CEC Bank - S.A.
16. Crédit Agricole Bank România – S.A.
17. Credit Europe Bank (România) - S.A.
18. Garanti Bank - S.A.
19. Idea Bank - S.A.<sup>2</sup>
20. Libra Internet Bank - S.A.
21. Marfin Bank (România) - S.A.
22. Nextebank - S.A.<sup>3</sup>
23. OTP Bank România - S.A.<sup>4</sup>
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. UniCredit Bank - S.A.<sup>5</sup>

<sup>1</sup> On 31 December 2015 the bank merged through absorption with Volksbank România S.A. (absorbed bank).

<sup>2</sup> It operated under the name Romanian International Bank S.A. until 24 April 2015.

<sup>3</sup> Starting with 11 March 2016 it operates under the name Patria Bank S.A.

<sup>4</sup> On 31 October 2015 the bank merged through absorption with Banca Millennium S.A. (absorbed bank).

<sup>5</sup> It operated under the name UniCredit Țiriac Bank S.A. until 18 August 2015.



**Deposits with FGDB-member credit institutions  
as at 31 December 2015**

No.	Indicator	31 Dec. 2014*	31 Dec. 2015	Difference	
				4 = 3 - 2	5 = 4 / 2 (%)
0	1	2	3	4 = 3 - 2	5 = 4 / 2 (%)
1.	Number of deposit holders - total, of which:	14,799,227	15,204,979	405,752	2.7
	• natural persons	13,860,873	14,242,463	381,590	2.8
	• legal persons	938,354	962,516	24,162	2.6
2.	Number of eligible deposit holders - total, of which:	14,749,200	15,160,694	411,494	2.8
	• natural persons	13,843,863	14,223,602	379,739	2.7
	• legal persons	905,337	937,092	31,755	3.5
3.	Total deposits (million lei), of which:	288,133.8	292,126.3	3,992.5	1.4
	• in lei	160,480.7	167,093.9	6,613.2	4.1
	• in foreign currency (lei equivalent)	127,653.2	125,032.4	-2,620.8	-2.1
4.	Total eligible deposits (million lei), of which:	171,507.2	219,016.1	47,508.9	27.7
	<i>% of total deposits</i>	<i>59.5</i>	<i>75.0</i>	<i>15.5 p.p.</i>	
	• in lei	109,422.1	143,369.1	33,947.0	31.0
	• in foreign currency (lei equivalent)	62,085.1	75,647.0	13,561.9	21.8
5.	Natural persons' eligible deposits (million lei), of which:	128,589.2	135,106.3	6,517.1	5.1
	<i>% of total eligible deposits</i>	<i>75.0</i>	<i>61.7</i>	<i>-13.3 p.p.</i>	
	• in lei	76,819.7	80,636.7	3,817.0	5.0
	• in foreign currency (lei equivalent)	51,769.5	54,469.6	2,700.1	5.2
6.	Legal persons' eligible deposits (million lei), of which:	42,918.0	83,909.8	40,991.8	95.5
	<i>% of total eligible deposits</i>	<i>25.0</i>	<i>38.3</i>	<i>13.3 p.p.</i>	
	• in lei	32,602.4	62,732.4	30,130.0	92.4
	• in foreign currency (lei equivalent)	10,315.6	21,177.4	10,861.8	105.3
7.	Total covered deposits (million lei), of which:	138,830.5	148,754.6	9,924.1	7.1
	<i>% of total eligible deposits</i>	<i>80.9</i>	<i>67.9</i>	<i>-13.0 p.p.</i>	
	• natural persons' covered deposits	117,254.3	122,945.6	5,691.3	4.9
	• legal persons' covered deposits	21,576.2	25,809.0	4,232.8	19.6

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

\* Final updated data following the verification of the calculation basis for the contributions owed by member credit institutions in 2015.