ALPHA BANK
BANCA CENTRALĂ COOPERATISTĂ CREDITCOOP
BANCA COMERCIALĂ FEROVIARA
INTESA SANPAOLO BANK
BCR
EximBank România
BRCI Banca Română de Credite și Investiții
BANCA ROMÂNEASCĂ Membră a Grupului National Bank of Greece
BANCA TRANSILVANIA
Bancpost Banca ta. Și a ta. Și a ta.
leumi BANK LEUMI ROMÂNIA
BCR Banca pentru Locuinte
BRD GROUPE SOCIETE GENERALE
CEC Bank
CRÉDIT AGRICOLE Banca pentru tine
Credit EuropeBank
GarantiBank
IdeaBank
LIBRA INTERNET BANK
MARFIN BANK
otpbank
PATRIA BANK
PIRAEUS BANK
PORSCHE BANK PORSCHE FINANCE GROUP ROMANIA
ProCredit Bank
Raiffeisen Banca pentru Locuințe
Raiffeisen BANK
UniCredit Bank

ANNUAL REPORT 2017
FGDB

2017 annual report

FGDB
FONDUL DE GARANTARE A DEPOZITELOR BANCARE
BANK DEPOSIT GUARANTEE FUND

2017
annual report

BANK DEPOSIT GUARANTEE FUND

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www.fgdb.ro

MISSION

The FGDB pays due compensation to guaranteed depositors in the event of their bank's inability to repay their deposits when due.

The FGDB is the administrator of the bank resolution fund and may act as special administrator, temporary administrator, sole liquidator or shareholder of a bridge bank or of an asset management vehicle, in compliance with the law governing the recovery and resolution of credit institutions.

VALUES

shared and promoted by FGDB

The FGDB is an apolitical institution, which, according to the law, protects money in depositors' accounts at Romanian banks, thus contributing to financial stability and encouraging savings.

We treat all depositors with due respect, honesty and professionalism.

CONTENTS

SUPERVISORY BOARD

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

AUDIT COMMITTEE

Dumitru Laurențiu Andrei
Deputy General Director
The Ministry of Public Finance

Dan Costin Nițescu
Advisor to the Governor
The National Bank of Romania

Adrian Gabriel Trandafir
Expert
The National Bank of Romania

Anca Florina Iordache
Deputy General Director
The Ministry of Public Finance

Demetrian Octav Magheru
Strategy Consultant
The National Bank of Romania

Lucia Sanda Stoenescu
Senior Expert
The National Bank of Romania

The Supervisory Board also included Beatrice Popescu (14.06.2016-31.08.2017), as member, representative of the National Bank of Romania. As of 1 February 2018, in the Supervisory Board was appointed Demetrian Octav Magheru, as representative of the National Bank of Romania.

ORGANISATIONAL CHART

EXECUTIVE BOARD

Adriana Sîvu
Deputy General Director

Petre Tulin
General director

Vasile Bleotu
Financial director

- Internal Audit Subdivision
- Deposit Guarantee, Bank Resolution and Liquidation Department
  - Deposit Guarantee Subdivision
  - Bank Resolution and Liquidation Subdivision
- Risk Management and Financing Policies Subdivision
- Legal and Supervisory Board's Secretariat Department
- Treasury Subdivision
- Organisation, Human Resources and Communication Department
- Information Technology Subdivision
- Finance and Accounting Department
  - Finance Subdivision
  - Budget and Accounting Subdivision
- Administration and Logistics Subdivision

1. The Bank Deposit Guarantee Fund (FGDB) and Its Administrative Framework

The FGDB is the only statutory bank deposit guarantee scheme in Romania. Its primary duty under the law is to shield the money natural and legal persons keep at the credit institutions authorised by the National Bank of Romania.

Since 1996, the year the FGDB was set up, the scheme's role within the national system that ensures financial stability has gradually expanded and consolidated. Throughout this period, the FGDB has gone through several development stages[1] which have added further tasks to its original function of merely compensating depositors. These new, increased responsibilities are related to the management of the bank resolution fund, the application of early intervention and bank resolution measures and the liquidation of credit institutions.

The Aim of the FGDB

1996

Over 1996-2001, the FGDB's main responsibility was to guarantee deposits and pay compensation to depositors of failed banks.

2002

Over the 2002-2015 period, the FGDB was assigned further duties related to bank liquidation and stabilisation.

2015

Starting December 2015, the FGDB became Romania's statutory bank deposit guarantee scheme and the administrator of the bank resolution fund, being also empowered to act to apply early intervention and bank resolution measures.

Due to the wide range of powers and responsibilities, the FGDB falls into the category of deposit guarantee schemes whose mandates exceed the basic paybox function.

Besides fulfilling its duties as far as bank deposit guarantee and bank resolution fund administration are concerned, the law empowers the FGDB to apply early intervention and bank resolution measures, acting as:

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

Another role that has been assigned to the FGDB is that of sole liquidator of a credit institution under administrative liquidation. Furthermore, the FGDB will

[1] The most recent legislative change was the transposition of *Directive 2014/49/EU on deposit guarantee schemes* into *Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund*. At the same time, the EU Directive on bank recovery and resolution was transposed into national legislation 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*, which, in its turn, had an impact on the FGDB.

continue to act as liquidator of two bankrupt banks[2] based on a court appointment dating from 2002 compliant with legislation in force at that time.

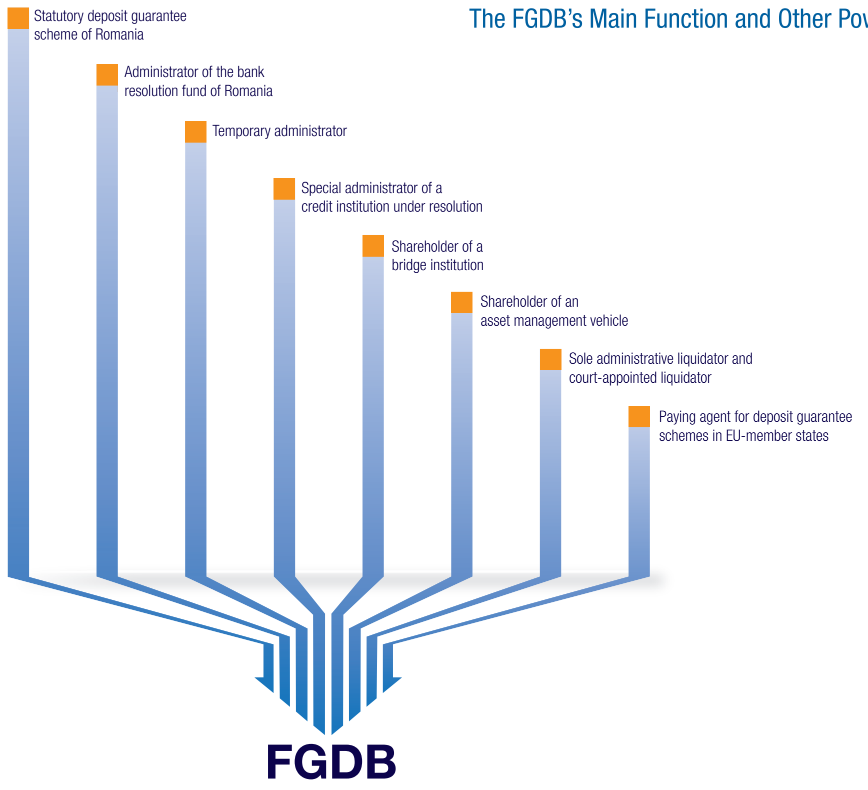
Within the new cooperation framework brought about by EU legislation on deposit guarantee schemes, when depositors of branches of credit institutions in the European Union are reimbursed, the deposit guarantee scheme in the host country acts on behalf of the scheme in the home member state.

To this end, over 2016-2017, the FGDB and another 27 deposit guarantee schemes within the European Union signed the European Forum of Deposit Insurers (EFDI) *Multilateral Cooperation Agreement*, in line with European Banking Authority guidelines. In consequence, the FGDB will act as paying agent and will make repayments on behalf of the deposit guarantee schemes in the European Union-member states where credit institutions with branches in Romania are authorised.

In order to establish secure data and information exchanges with other deposit guarantee schemes within the European Union during a payout process, the FGDB's Supervisory Board approved in 2017 the FGDB's participation in a central file exchange system. The respective system is based in Germany and has already undergone several cross-border file exchange tests.

Moreover, the FGDB initiated talks with other deposit guarantee schemes with a view to concluding bilateral accords on the technical specifications of cooperation during compensation payments.

The FGDB's Main Function and Other Powers and Prerogatives



[2] Banca Română de Scont and Banca Turco-Română

Relevant Data as of 31 December 2017

GUARANTEE CEILING for natural and legal persons
The FGDB guarantees the leu equivalent of 100,000 euros per eligible depositor per credit institution.

HIGHER COVERAGE LEVEL for natural persons
The FGDB offers a supplementary coverage "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 transferable to another credit institution".
The temporary higher coverage applies to 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.

REPAYMENT PERIOD
With payouts made within seven working days, the FGDB is one of the European Union's deposit guarantee schemes which boast the shortest reimbursement period.

GUARANTEED DEPOSITORS
14,968,637 natural and legal persons
14,008,512 guaranteed natural persons (of which 99 percent residents)
960,125 guaranteed legal persons (of which 99.7 percent residents)
(all enterprises, irrespective of size)

ELIGIBLE DEPOSITS
Time deposits, current accounts, savings accounts, card accounts, joint accounts and other similar leu- or foreign exchange-denominated products, including due interest.

TOTAL ELIGIBLE DEPOSITS 267.44 bln. lei

Leu-denominated deposits: 174.49 bln. lei
Foreign exchange-denominated deposits: the equivalent of 92.95 bln. lei

Natural persons' deposits: 159.56 bln. lei
Legal persons' deposits: 107.88 bln. lei

Deposits of resident natural and legal persons: 258.60 bln. lei
Deposits of non-resident natural and legal persons: 8.84 bln. lei

FGDB-MANAGED RESOURCES
The deposit guarantee fund: 5.47 bln. lei
The bank resolution fund: 1 bln. lei

FGDB-MEMBER CREDIT INSTITUTIONS
All the credit institutions authorised by the National Bank of Romania, which numbered 28 at the end of 2017.
(N.B. Branches in Romania of credit institutions based in other European Union-member states are covered by home country schemes)

As the financial-banking system in Romania remained solid throughout 2017, there were no instances requiring the application of recovery or resolution measures and the deposit guarantee scheme was not activated for intervention. In 2017, the FGDB focused on three lines of action:

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

a) Guaranteeing Deposits Held at FGDB-Member Credit Institutions

(i) The FGDB Coverage

By guaranteeing deposits, the FGDB protects the money deposited at the credit institutions authorised by the National Bank of Romania. When deposits held with a credit institution become unavailable (for instance, when the respective credit institution goes bankrupt), the FGDB makes compensation payments to guaranteed depositors. The guarantee ceiling is set at the leu equivalent of 100,000 euros and the due payouts are made within seven working days at the most of the date of deposit unavailability[3].

According to the legislation in force, certain categories of natural persons' deposits benefit from a higher coverage limit[4] "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 transferable to another credit institution".

This temporary increased coverage applies to 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.

At end-2017, the FGDB guaranteed the deposits of 14,008,512 natural persons and 960,125 legal persons[5]. Depositors in their overwhelming majority (that is, 99.8 percent of depositors, natural persons and, respectively, 97.7 percent of depositors, legal persons) hold deposits within the guarantee ceiling, which means that they are fully covered by the FGDB. Coverage for holders of deposits larger than the guarantee ceiling is limited to that ceiling.

The deposits within the FGDB's guarantee scope continued their upward move in 2017, with eligible and covered deposits hitting new all-time highs at the end of the year.

On 31 December 2017, eligible deposits posted a 10.6 percent rise from the same date the previous year, totalling 267.4 billion lei. Of that amount, covered deposits[6] accounted for 172.7 billion lei (an annual variation of +8.8 percent).

(ii) Recovery of the FGDB's Claims Resulting from Its Payouts

Since its creation, the FGDB has repaid depositors of seven banks which went bankrupt over 1999-2006. The FGDB's payouts amounted to an overall 512.2 million lei. To recover that amount, the FGDB used its right of

[3] Although the European Union Directive on bank deposit guarantee schemes stipulates that all European Union member states should implement the payout deadline of seven working days at the most by 2024, that deadline took effect in Romania at the end of 2015.

[4] The National Bank of Romania sets the higher coverage level and reconsiders it periodically based on the evolution of relevant statistical indicators. At present, the improved coverage is set at the leu equivalent of 100,000 euros.

[5] A natural or legal person may keep money at several banks. Each bank reports the number of depositors in its records to the FGDB which adds up the data reported by all member institutions. In consequence, when calculating the total number of depositors, a holder of deposits at different banks is recorded several times. Falling into the category of guaranteed depositors are virtually all natural and legal persons and all enterprises, no matter their sizes, as well as other assimilated entities.

[6] 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*.

subrogation to the rights of guaranteed depositors and it joined the body of creditors of each of the seven failed banks.

By the end of 2017, the FGDB recovered 34.3 percent of the amount it had paid as compensation.

(iii) The Deposit Guarantee Fund

The policy targeting the consolidation of the deposit guarantee fund remained one of the FGDB's priorities in 2017.

In 2017, the deposit guarantee fund increased further to 5,472.5 million lei on 31 December (an annual variation of +2.8 percent), thus continuing the upward trend of the previous years.

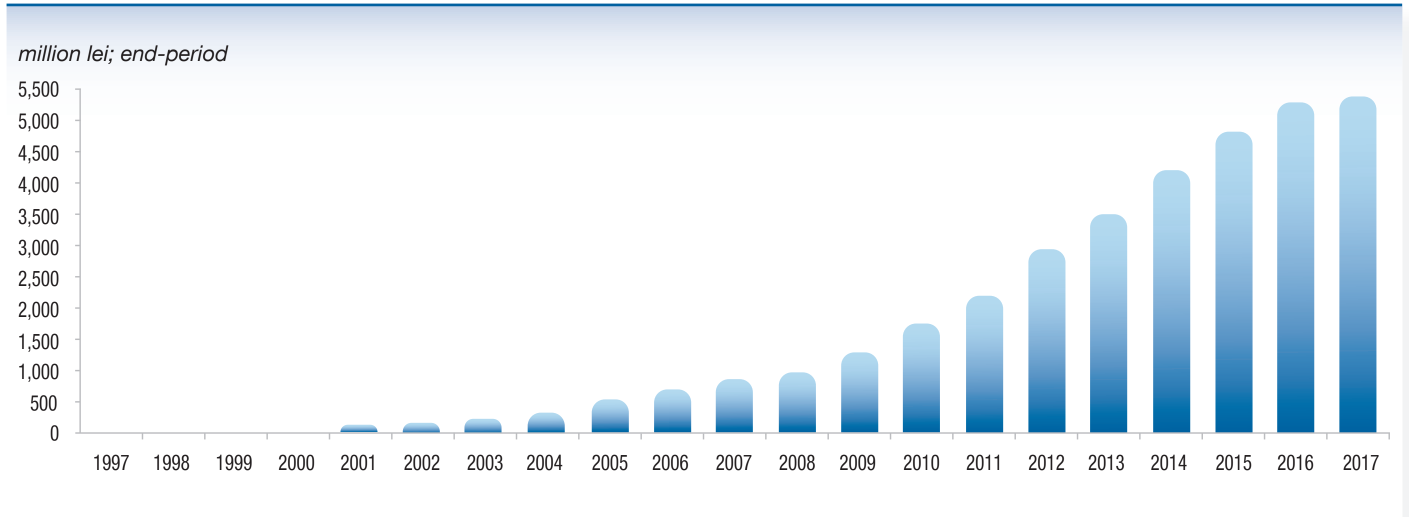
With the approval of the Board of Directors of the National Bank of Romania, the FGDB sets the level of the contributions its member credit institutions pay to the deposit guarantee fund. These contributions are calculated according to the risk profile of each affiliated credit institution and in line with *Regulation no. 2/2016 on the calculation and payment of risk-based contributions to the Bank Deposit Guarantee Fund*, with subsequent amendments and completions. The risk-based contributions are determined with the help of a methodology that complies with the *European Banking Authority's Guidelines on methods for calculating contributions to deposit guarantee schemes*.

The FGDB invested the financial resources of the deposit guarantee fund in agreement with its annual strategy, which was endorsed by its Supervisory Board and approved by the Board of Directors of the National Bank of Romania. Under the law, the FGDB's annual strategy for the investment of financial resources focuses on low risk and adequately liquid investments and pursues investment yields as a complementary target.

The FGDB channelled at least 99 percent of the profit earned from its investments towards replenishing the resources of the deposit guarantee fund, in line with legal provisions[7].

In keeping with legal provisions, the financial resources of the deposit guarantee fund may be used to both reimburse guaranteed depositors and finance resolution measures to provide for depositors' uninterrupted access to their own deposits.

Evolution of the Deposit Guarantee Fund from Its Creation to 31 December 2017



[7] According to Art. 112 of *Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund*, the share of profit going to each of the three categories of FGDB activities is to be set on the basis of the weight each category has in the generation of profit.

b) Administration of the Bank Resolution Fund

Following the transposition into national legislation of the European framework for the recovery and resolution of credit institutions[8], the FGDB was designated as the administrator of the bank resolution fund of Romania.

The bank resolution fund was set up by taking over the financial resources of the bank restructuring fund which had been created in 2012 to finance bank stabilisation measures and to compensate persons affected by measures proposed and implemented during the special administration of credit institutions[9].

The financial resources accumulated in these funds have increased with every passing year as the FGDB, which has managed these funds since their creation, has not been compelled to resort those resources.

The National Bank of Romania, as the resolution authority, sets the level of credit institutions' contributions to the bank resolution fund based on affiliated risk. It also decides on the way the financial resources of this fund are used to apply various resolution tools.

In 2017, bank resolution fund resources spiralled upwards hitting 997.3 million lei at the end of the year, thus posting a 65.6 percent rise from 31 December 2016.

Just like in the case of the deposit guarantee fund, the law stipulates that at least 99 percent of the profit made by administering the bank resolution fund should serve to replenish its financial resources.

The financial resources of the bank resolution fund were invested in compliance with a strategy endorsed by the FGDB's Supervisory Board and approved by the Board of Directors of the National Bank of Romania.

Just like with the financial resources of the deposit guarantee fund, in the case of the bank resolution fund the investment portfolio was kept low-risk and similar targets were pursued, namely mitigated risk and adequate liquidity, with yields as a related goal.

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

Court-supervised liquidation continued in 2017 for *Banca Română de Scont (BRS)* and *Banca Turco-Română (BTR)*, which both went out of business 2002 and had the FGDB as court-appointed liquidator from the start of the procedures.

Legal proceedings against the two banks are still under way in Romania, while in the case of *BTR* action has been taken outside the country to recover the bank's main claim.

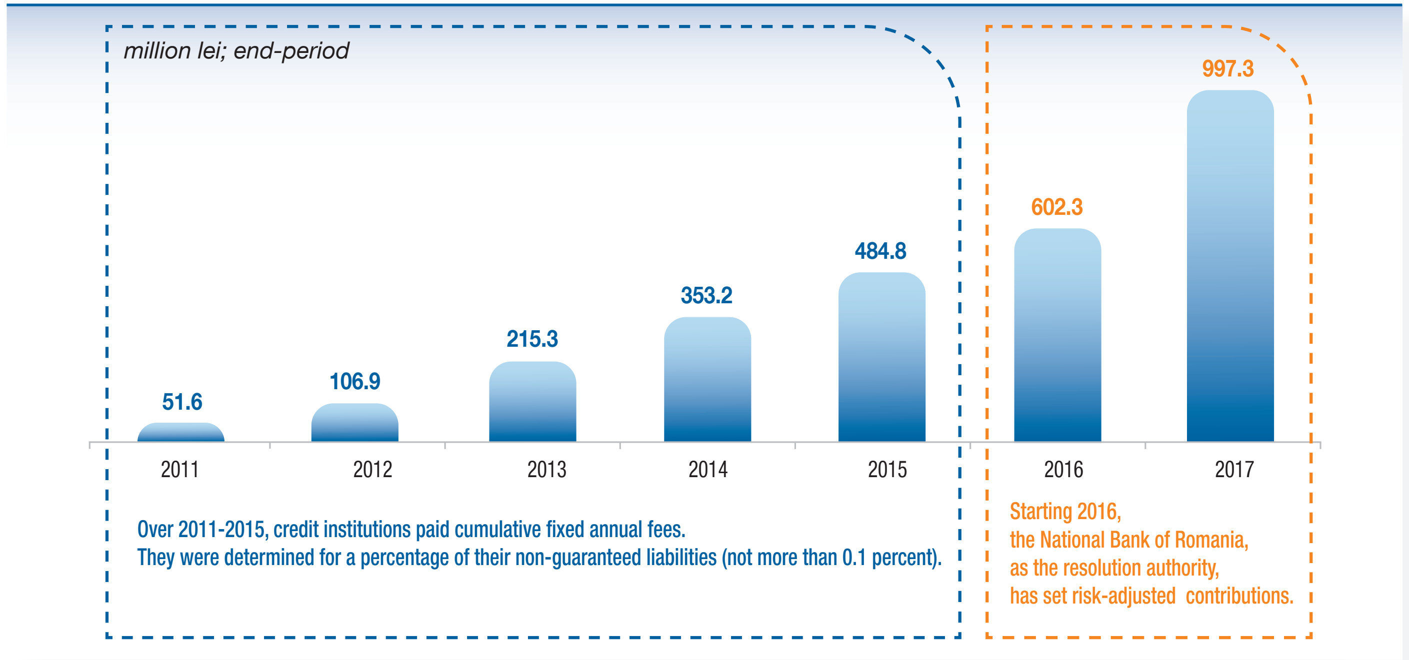
For the duration of liquidation procedures until the end of 2017 funds were distributed to 47 percent of the body of creditors of *BRS* (the highest percentage of satisfaction for creditors of failed banks), and, respectively, to 41 percent of the body of creditors of *BTR*[10].

[8] *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 transposed into national legislation 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.*

[9] Upon creation, the bank restructuring fund took over the resources of the special compensation fund, set up in 2010, under the law, to compensate persons affected by measures implemented during the special administration of credit institutions. At that time, the special compensation fund was an instrument intended to protect the interests of the creditors of a credit institution going through restructuring, granting them a treatment not less favourable than that accorded within bankruptcy proceedings.

[10] Chapter 5 – *Liquidation of Failed Credit Institutions* – offers more details about the court-supervised liquidation of BRS and BTR.

Evolution of the Financial Resources of the Bank Resolution Fund



FGDB'S ADMINISTRATION AND MANAGEMENT

Actions to reconfigure and consolidate both the organisational and the procedural framework – including risk management – intensified and expanded in 2017. To this end, an organisational structure was adopted in line with the new powers entrusted to the FGDB under the law, a new human resources policy was implemented, a consistent set of regulations and procedures was issued and the process started to acquire an intregrated IT system. Furthermore, the FGDB's strategic targets for the following three years and corresponding guidelines were established.

According to the legislation in force, the FGDB is managed according to a two-tier system consisting of: *(i)* The Supervisory Board *(ii)* The Executive Board.

The FGDB is a legal person of public interest and its administration is public. The FGDB's Supervisory Board is comprised of seven members, of which five represent the National Bank of Romania and two are representatives of the Ministry of Public Finance. The Chairperson of the Supervisory Board is a representative of the National Bank of Romania.

An Audit Committee operates within the Supervisory Board as a consultative body consisting of three of the members of the Supervisory Board.

Current FGDB activities are handled by the members of the Executive Board whose mandates contain their goals, duties and responsibilities. The FGDB's Executive Board consists of three members appointed by the FGDB's Supervisory Board and approved by the Board of Directors of the National Bank of Romania. The Executive Board members are accountable to the Supervisory Board of the FGDB for the way in which they fulfil their duties.

The administration and management of the FGDB are based on good governance and transparency principles and standards which impart solidity, efficiency and credibility on the institution in its capacity as the statutory deposit guarantee scheme of Romania responsible for the administration of the bank resolution fund and the application of early intervention or bank resolution measures.

Besides the aforesaid actions, the decisions reached within the Supervisory Board also covered the guidelines of the FGDB's funding policy, the investment strategy, the revenue and expenditure budget, the annual financial statements and the annual report, the FGDB's activity as creditor or liquidator of failed banks etc.

Following 2017 changes in the operational and procedural frameworks in line with the new legal requirements applicable to the FGDB, steps were taken towards reviewing the mechanism behind business continuity, so that in case of critical events (triggered by factors beyond control, such as natural disasters for instance) the FGDB's capability to fulfil its statutory duties concerning the protection of depositors and the implementation of bank resolution measures should not be affected.

To this end, the risks of business disruption were reanalysed and the impact of such potential risks was reassessed. The focus in this process was on optimal recovery arrangements in case of disasters, which implied the implementation of the best practices in this field. At the end of 2017, in keeping with the principles laid down in the *FGDB's Business Continuity Management Policy*, actions got under way to update the Business Continuity Plan.

(i) The FGDB's Organisation and Human Resources Policy

At the start of 2017, a new FGDB organisational structure was agreed upon based on three major lines of activity – operational, financial and support. Correspondingly, the *Regulation on the Organisation and Operation of the FGDB* was updated.

A 2017 novelty in the FGDB's managerial policy was the management and organisation of activities in the human resources sector, in step with the new requirements the FGDB has to meet in its activity.

The aim was to implement a new human resources policy intended to improve the competence of the FGDB's staff and to apply modern standards and use up-to-date tools in the management of human resources (recruitment, training, promotion, performance appraisal and pay).

With the assistance of a company specialising in human resources, these lines of action resulted in a human resources policy the implementation of which meets the requirements for compliance with the good governance practices of deposit guarantee schemes, the application of a pay policy and the supply of adequate performance promotion tools.

Following the decisions made by the FGDB's management and in consideration of existing good practices in this sector, the human resources policy was built on four pillars, as shown below.

In a nutshell, the FGDB's human resources policy was conceived as an integrated system whose functional components work in interdependence.

The novelty of this system is the concept of employees' goal-based activities, which, together with the evaluation of professional and specific competence, represents one of the benchmarks of the new personnel assessment system.

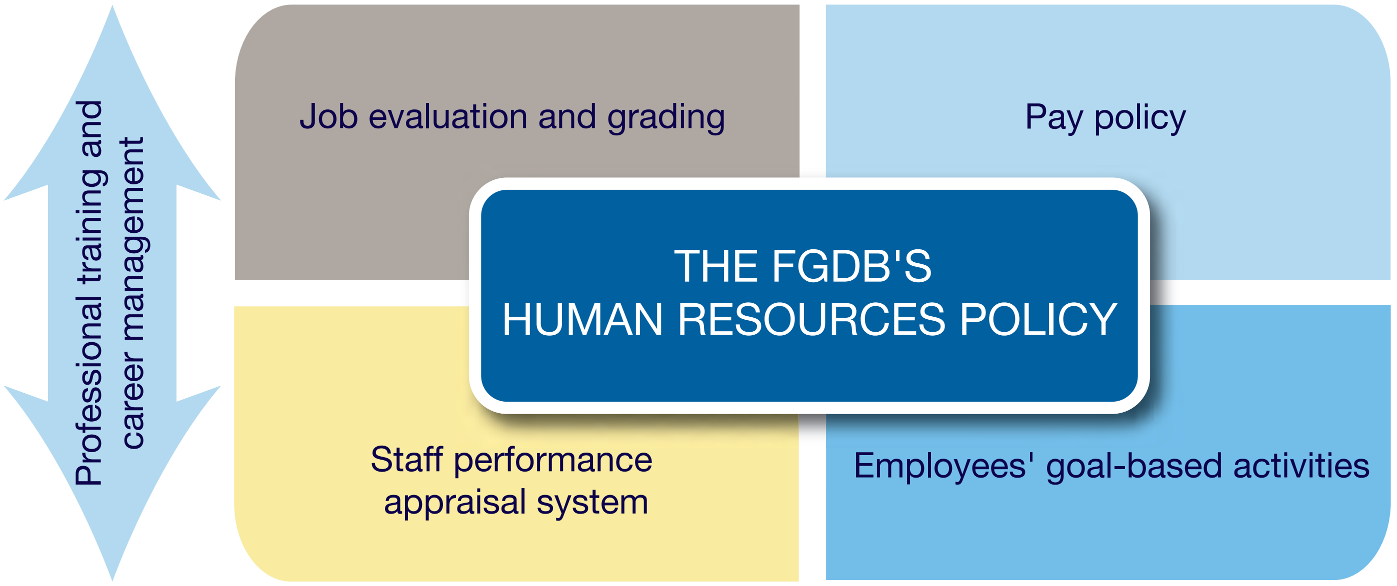
This concept is based on a pyramid structure with the overall goals of the institution at its top. These goals are then broken down into targets for each FGDB employee, all while highlighting each staff member's contribution to fulfilling these aims. At the same time, specific targets deriving from the overall goals are also set, being directly linked to the activities and duties assigned to each job.

The setting of general/specific goals as a tool to manage FGDB activities makes an active contribution to the process of appraising individual performance.

A pay policy was worked out compliant with corporate governance principles and aiming to promote performance while observing the following basic principles:

- remuneration is to be directly linked to individual performance, the complexity of the job and the skills required for that job;

The FGDB's Human Resources Policy



- market-based pay package;
- remuneration package structured according to two – fixed and variable - components;
- efficient use of financial resources.

The main goal of the new policies is to preserve and capitalise on employees showing potential for professional growth and to motivate them, which will have a direct positive impact on their trust and commitment to accomplishing set goals, which can be measured by individual and collective performance.

(ii) The Integrated IT System Project

At the end of 2017, the FGDB took the first steps towards the acquisition of an integrated IT system to assist its activities with a view to improving its operational framework.

The integrated IT system is intended to be a full IT solution including all the necessary software components and, respectively, an application with modules for deposit guarantee, risk management, calculation and receipt of contributions, recovery of claims, compensation payments, document management and board management .

The development and implementation of the integrated IT system are aimed to ensure the technical infrastructure and the software applications needed to improve:

- operational flows;
- data protection and integrity;
- allocation of resources and management of the risks to supply incomplete or inconsistent information.

(iii) The FGDB's Strategic Goals for the 2018-2020 Period

Following an assessment of the FGDB's activities of all types in light of the operational requirements included in applicable regulations and the best practices in the bank deposit guarantee sector, the institution set five strategic goals for the period spanning 2018–2020.

FGDB 2018 - 2020

To secure an adequate level of financial resources within the guarantee scheme; to optimally manage these resources and the bank resolution fund

To consolidate the FGDB's operational capability

To develop the risk management function

To promote the FGDB's image and raise public awareness of the FGDB's role in maintaining financial stability

To intensify national and international cooperation

1. To secure an adequate level of financial resources within the guarantee scheme; to optimally manage these resources and the bank resolution fund

In order to meet this target, action will be taken to identify new investment opportunities leading to a diversified investment portfolio in a bid to adequately disperse risks and continuously provide the necessary liquidity, according to the strategy for the investment of financial resources.

2. To consolidate the FGDB's operational capability

A major goal of the period in question is the strengthening of the FGDB's operational capability in point of both the IT and communication infrastructure and the training of its human resources.

At the same time, in the period to follow the FGDB will continue to test its operational capability in line with the legislation in Europe and the *Multiannual Programme for Stress Test Exercises for 2017 - 2019*.

3. To develop the risk management function

Steps will be taken in 2018 to mitigate operational risks, with particular focus on increased measures to protect personal data, according to the new provisions in force in Europe[11].

[11] *Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC*

Furthermore, in view is also the operationalisation of the framework wherein part of the member credit institutions' cash contributions to the FGDB may consist of payment commitments, in line with legal provisions.

4. To promote the FGDB's image and raise public awareness of the FGDB's role in maintaining financial stability

For the period ahead, the FGDB plans to significantly boost the process of disseminating information on its role and duties as far as depositors are concerned.

The lines of action to be followed to this end include financial education campaigns, public opinion information campaigns, opinion polls etc.

5. To intensify national and international cooperation

On a national scale, periodical meetings will be held with member credit institutions to debate and clarify various aspects related to the application of deposit guarantee regulations.

Internationally, given the new regulations, the further duties assigned to deposit guarantee schemes, as well as the intensified collaboration among them, the FGDB will look into the necessity to conclude bilateral cooperation agreements with other guarantee schemes in the EFDI membership. At the same time, the FGDB intends to develop closer cooperative ties with deposit guarantee schemes in various areas of mutual interest, including exchange of experience.

THE FGDB'S RISK MANAGEMENT FRAMEWORK

Risk management is one of the FGDB's key activities which involves all its organisational structures and calls for their cooperation.

The risk management framework improved in 2017 following the approval and subsequent application of the first strategy for the management of significant risks of the FGDB. This strategy primarily aims to develop a caution-oriented risk culture, to maintain a low-risk profile based on a balanced assets portfolio and to protect the available financial resources of the deposit guarantee fund and of the bank resolution fund, as well as depositors' interests.

The implementation of a dynamic and efficient risk management system, adapted to the nature of ongoing activities, is a prerequisite for securing the FGDB's capability to fulfil its statutory duties. This system covers the whole range of risks to which the FGDB is exposed, the processes and procedures carried out to manage these risks, as well as duties and responsibilities related to risk management. This system will be implemented gradually, as the FGDB completes the associated procedural framework, and will be finalised once the integrated IT system allowing for the operationalisation of reports on risks is put in place.

The main risk categories taken into consideration are:

- *Credit risk*

In its capacity as a statutory deposit guarantee scheme and administrator of the bank resolution fund, the FGDB is exposed to credit risk through investments of its available resources in deposits and other financial instruments of credit institutions, according to its annual strategy This type of risk is controlled through a process of setting limits for: credit institutions, categories of credit institutions, other categories of issuers (international financial institutions). Observance of the limits is monitored and periodically reported to the FGDB's management.

- *market risk*

The FGDB is exposed to this kind of risk, which is triggered by unfavourable shifts in the price of its financial instruments available for trading, in interest rates and currency exchange rates. At present, market risk is monitored by marking to market such tradable instruments as trading securities and by setting alert and intervention thresholds. The FGDB will supplement its market risk management tools as its investment portfolio diversifies and grows more complex.

- *Liquidity risk*

The FGDB's liquidity risk management policy primarily aims to maintain a minimum monthly level of liquidity from available financial resources and a balanced investment structure and to implement and update alternative funding mechanisms for unexpected circumstances.

- *Operational risk*

This type of risk is inherent in any FGDB activity. The steps taken in 2017 towards outlining strategic guidelines will be followed by the implementation of internal regulations to ensure an adequate management of this risk category, according to the good practices developed within other deposit guarantee schemes.

- *Reputational risk*

The FGDB's policy of managing reputational risk focuses on avoiding any action that might trigger a negative perception from depositors, the public at large and the other institutions within the financial stability network and, on the other hand, on improving the operational framework, developing business continuity plans, carrying on stress test exercises and initiating actions intended to promote systematic and open communication with affiliated credit institutions through the agency of the Romanian Banking Association.

- *Strategic risk*

Appraising strategic risk is part of the process of strategic planning. The FGDB may be exposed to this type of risk if it sets unrealistic goals within its strategic plans referring to the coverage target level and organisational development or within the policies related to the management of available financial resources. In order to maintain strategic risk within pledged limits, the FGDB periodically reassesses its strategic goals in relation to achievements, an essential role being played by the functional and effective governance system provided by the management structure comprised of the Executive Board and the Supervisory Board, which also includes the Audit Committee.

The management of the FGDB established a target risk profile (the level of which is based on the FGDB's statutory duties and risk appetite), which synthetically expresses the sum total of the risks to which the FGDB is or will be exposed. The risk profile is assessed periodically on the basis of the evolution of the scores of identified risks in order to maintain it in line with the pledged target.

Stress Tests Exercises

On an operational level, in 2017 the FGDB further tested its capability to fulfil its statutory obligations in crisis situations, its duty to make compensation payments in particular. The FGDB thus entered a qualitatively higher stage as it covered the first stress test of the programme for 2017-2019 in compliance with the *Guidelines on stress tests of deposit guarantee schemes of the European Banking Authority* (EBA).

The simulation exercise, which ran over May-June 2017, tested the FGDB's operational capability, more exactly its access to data needed in the payout process when deposits with FGDB-member credit institutions become unavailable, more particularly data on the identity of depositors, on covered deposits and on demandable claims. The test included all the 28 affiliated credit institutions and covered payout list in full. The results of the testing showed that credit institutions in the membership of the FGDB are capable to prepare and transmit payout lists observing the deadline, content and structure stipulated by regulations in force.

The general conclusion was that, given the small percentage of material errors recorded for member credit institutions collectively and individually, the payout lists they generated were qualitatively accurate, which would allow the FGDB, if need be, to reimburse guaranteed depositors within the legal time frame.

In 2017, the FGDB also started preparing the second stress simulation exercise, scheduled for May 2018, which tests the FGDB's operational capability to compensate guaranteed depositors within seven working days at the most of the date of deposits unavailability. This simulation is more complex than the previous one since, besides access to data and data quality, which were already assessed during the first exercise, it also tests all the other components of the payout process: personnel, the other necessary operational resources, communication with depositors and with the public, payment instruments, actual compensation payments and the payout period.

According to the requirements of the EBA *Guidelines*, the credit institution selected to undergo the test must have a number of depositors higher than the second quartile of FGDB-member credit institutions. Furthermore, it must not be among the institutions which the bank resolution authority slated for the application of resolution measures. The amount of covered deposits at the respective credit institution should be large enough to allow the FGDB to test its capability to monetise investments within the period mentioned above, but it should be smaller than the volume of available financial resources accumulated in the deposit guarantee fund.

In order to ensure a smooth run of the second stress test, the FGDB *mapped* the processes included in the operational areas to be tested and initiated several actions along two main lines:

- internal – evaluation and testing, staff resources and logistic preparation;
- external – joint actions with the National Bank of Romania and the Ministry of Public Finance to complement the operational framework offering the optimal tools for the completion of payouts within the legally stipulated timescale.

A number of projects got under way in 2017 which, once completed, will have a strong impact on FGDB operations, as well as bearing favourable effects that will go beyond this exercise that tests the institution's operational capability. These projects aim to create an infrastructure to access financial resources whenever the necessity arises, as stipulated by the law, and are carried through in cooperation with the National Bank of Romania and the Ministry of Public Finance.

THE FGDB'S AUDIT COMMITTEE AND INTERNAL AUDIT

The Audit Committee, which operates within the FGDB, was set up with a view to consolidating the corporate governance system. It is an independent body comprised of three members of the FGDB's Supervisory Board[12].

The Audit Committee has a consultative role and its duties include: assisting the Supervisory Board in monitoring the internal control, internal audit and risk management systems within the FGDB, verifying and monitoring the independence of external auditors and the statutory audit of the annual financial statements.

The Audit Committee also plays a significant part in assessing the system that monitors compliance with legislation and regulations applicable to the activity of the FGDB. At the same time, it aids the Supervisory Board in overseeing and supervising the process of working out and updating the FGDB's general development strategy. By exercising its duties, the Committee also guarantees the independence of the internal audit function within the FGDB.

The Audit Committee meets on a quarterly basis or as often as necessary and its meetings are convened either by its Chairperson or by the Chairperson of the Supervisory Board. Its meetings are regularly attended by a representative of the Internal Audit Department. Depending on the topics for discussion, members of the Executive Board, external auditors or representatives of the FGDB's organisational structures may also take part in these meetings in order to supply necessary information.

In 2017, the Audit Committee held four meetings which analysed and endorsed documents on the regulation and planning of internal audit, the results of the external auditor's activity, the results of the internal audit missions, along with their performance and periodical activity reports.

The Internal Audit Department, an independent structure subordinated to the Supervisory Board, performs the internal audit function within the FGDB, its activities being overseen by the Audit Committee.

[12] The Audit Committee operates according to the FGDB's Internal *Regulation on the organisation and operation of the Audit Committee within the Bank Deposit Guarantee Fund*, adopted on 24 November 2016.

Internal audit within the FGDB has the mission to provide independent and objective assurance and counselling on the effectiveness of risk management, control and governance systems in an attempt to improve and add value to them.

The aim of the internal audit assurance missions of 2017 was to assess the processes carried through by the operational functions of the organisation. The implementation of the recommendations for the improvement of processes made at the end of internal audit missions is continuously monitored, which contributes to optimising activities and increasing the effectiveness of the internal control system within the FGDB.

The evolution of internal audit standards and good practices, as well as changes in regulations in related fields are constant concerns for the FGDB's Internal Audit Department so that the implementation of new approaches should contribute to the most proper fulfilment of the FGDB's mandate to protect depositors and ensure financial stability.

2. The 2017 Background and Regulatory Framework

INTERNATIONAL FRAMEWORK REGULATING THE ACTIVITY OF DEPOSIT GUARANTEE SCHEMES

Further action was taken in 2017 to consolidate the Economic and Monetary Union and complete the Banking Union. At the same time, talks on the project to set up the European Deposit Insurance Scheme (EDIS), the third pillar of the Banking Union, were held, focusing on technical issues. Political negotiations were scheduled for 2018 and they are expected to result in the adoption of the proposal to establish the EDIS before the end of the year.

Stages of the Establishment of the EDIS

The proposal to set up the EDIS[13], which the European Commission advanced in 2015, was discussed within the European Parliament and the Council where emphasis was placed on the need for a more detailed analysis of all the implications of the EDIS, including a reconsideration of the project according to the progress made in reducing risks. Under those circumstances, in October 2017, the European Commission put forward[14] a proposal for the establishment of the EDIS in two stages – reinsurance and co-insurance.

In the reinsurance phase, if a national deposit guarantee scheme faces a liquidity shortfall and is unable to pay compensation, it may request funding from the EDIS. The share of EDIS funding for the shortfall encountered by a national deposit guarantee scheme will increase progressively over a three-year period – from 30 percent in the first year, to 60 percent in the second year and to 90 percent in the third year.

The Deposit Insurance Fund is to be set up within the EDIS from contributions by banks. The Single Resolution Board will be entrusted with the administration of that fund.

The transition from the reinsurance stage to the coinsurance phase would not be automatic but contingent upon the progress made in mitigating risks. In this respect, the move to the coinsurance stage implies an asset quality review to serve as a basis for the resolution of identified issues.

Unlike in the first stage, during the coinsurance phase the EDIS is to finance not only the liquidity shortfall but also the losses incurred by national deposit guarantee schemes. In the first year of this stage, the EDIS would cover 30 percent of the liquidity need, a share that is to increase progressively.

Since the EU Directive on deposit guarantee schemes leaves room for a variety of national options, the establishment of the EDIS will call for the further harmonisation of deposit guarantee schemes, which might imply amendments to the said Directive.

Following the establishment of the EDIS, deposit guarantee, just like bank supervision and resolution, would be elevated to the European level, allowing the pillar structure of the Banking Union to take shape.

[13] Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme.

[14] The European Commission's Communication COM (2017) 592 final on completing the Banking Union of 11 October 2017.

Assessment of the Implementation of the European Banking Authority's Guidelines on Methods for Calculating Contributions to Deposit Guarantee Schemes

With the provisions of the *EU Directive on deposit guarantee schemes* as a basis, the European Banking Authority initiated in 2017 an analysis of the way in which deposit guarantee schemes implemented its guidelines on the methods of determining the contributions of credit institutions[15].

Since, back in 2016, the deposit guarantee schemes operating within the European Union had implemented the system of calculating contributions according to risk-based methods, in line with the new regulations, the European Banking Authority's assessment focused on ways to adequately differentiate between credit institutions according to their risk profiles, on the degree of harmonisation of the methods used by deposit guarantee schemes and on the assurance of the objectivity and transparency of the methodology employed. The analysis also aimed to identify practical issues arising as an outcome of the application of the new system of determining risk-adjusted contributions.

The results of the assessment showed that there were no significant issues to call for immediate changes to the guidelines and that more detailed analyses and a longer time frame were needed before initiating a process to amend them.

Regulations on the Resolution of Credit Institutions

With a view to ensure the unitary application of the recovery and resolution framework across the European Union[16], an amending Directive was adopted[17] in December 2017 in an attempt to harmonise the insolvency ranking of unsecured debt instruments. This is in line with the requirements to be met by credit institutions that fall under the provisions referring to the need to ensure an adequate loss absorbing and recapitalisation capacity to avoid a possible impact on taxpayers.

At the same time, a Delegated Regulation of the European Commission on regulatory technical standards which specifies the methodological criteria needed to appraise the value of assets and liabilities of institutions or entities[18] took effect on 29 March 2018 to complement the recovery and resolution framework inside the European Union.

In April 2017, the European Banking Authority issued three sets of final guidelines on bail-in-related aspects, according to the recovery and resolution framework within the European Union, namely the sequence of write-down and conversion, debt-to-equity conversion rates and the treatment of shareholders[19].

[15] The European Banking Authority's report was released on 17 January 2018 and can be accessed at:https://www.eba.europa.eu/documents/10180/2087449/Report+on+the+implementation+of+the+EBA+Guidelines+on+methods+for+calculating+contributions+to+DGS.pdf

[16] *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.*

[17] *Directive (EU) 2017/2399 of the European Parliament and of the Council amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy.*

[18] *The European Commission's Delegated Regulation (EU) 2018/345 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for assessing the value of assets and liabilities of institutions or entities.*

[19] *Final Guidelines (EBA/GL/2017/02) concerning the interrelationship between the sequence of writedown and conversion under Directive 2014/59/UE and the provisions of Regulation (EU) no. 575/2013 and of Directive 2013/36/EU, Final Guidelines (EBA/GL/2017/03) on the rate of conversion of debt to equity in bail-in, Final Guidelines (EBA/GL/2017/04) on the treatment of shareholders in bail-in or the writedown and conversion of capital instruments.*

In mid-2017, the Financial Stability Board issued guidelines on both the total loss-absorbing capacity of global systemically important banks[20] and the continuity of access to financial market infrastructures for institutions in resolution.

At the end of November 2017, the Financial Stability Board released for consultation two proposals for guidance on the implementation of particular aspects of the *Key Attributes of Effective Resolution Regimes for Financial Institutions*[21] in the case of global systemically important banks. The first draft guidance includes a set of principles to underlie bail-in in the case of global systemically important banks, while the second proposed guidance refers to the elements of a strategy for financing resolution plans.

Since tools resorted to in the resolution of banks cannot always be used for credit cooperatives – which, in some countries, are to be found in large numbers – the International Association of Deposit Insurers (IADI) prepared a research paper on the distinctive features of the application of resolution measures to credit cooperatives[22].

DOMESTIC REGULATORY FRAMEWORK

In 2017, the process continued of issuing new regulations or updating existing rules on numerous aspects of the FGDB's activity in light of both operational requirements under applicable regulations and of the best practices in the field of bank deposit insurance. Intense efforts were channelled towards the relationship with credit institutions, risk management and a significant review of the domestic regulatory framework following the changes in the FGDB's duties and in the governance system (regulations, norms, procedures).

Operational Regulations

The year 2017 saw a continuation of the process of strengthening the FGDB's operational capability, which, among other things, triggered new regulations in step with applicable legal provisions and with international standards. As far as the relationship with FGDB-member credit institutions is concerned, the following regulations were updated:

- *Payout Procedure.* Following the transposition into national legislation of the provisions of *Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes of 16 April 2014,* existing provisions on payouts when deposits with a FGDB-member credit institution become unavailable were supplemented and brought in tune with European standards. The new framework aims to ensure an effective reimbursement process, as well as an adequate management of associated risks, of the compliance and reputational risks in particular. Guaranteed depositors will be paid due compensation within seven working days at the most of the date of unavailability of deposits;
- The FGDB constantly monitors the activity of affiliated credit institutions with a view to improving the quality of the data, which they report and which make the basis for the calculation of annual contributions and for the preparation of the payout list. The accurate information of depositors is also a target. Against this background, the *Procedure for the FGDB's verification of the data reported by member credit institutions and of the latter's compliance with legal provisions on the information of depositors* was revised. The controls conducted at the headquarters of all member credit institutions are intended to verify

[20] On the basis of end-2016 data and an assessment methodology designed by the Basel Committee on Banking Supervision, the Financial Stability Board, in consultation with the Basel Committee on Banking Supervision and with national authorities, identified 30 global systemically important banks for 2017 (http://www.fsb.org/2017/11/2017-list-of-global-systemically-important-banks-g-sibs/).

[21] *Key Attributes of Effective Resolution Regimes for Financial Institutions, just like Core Principles for Effective Deposit Insurance Systems, are used by the International Monetary Fund and the World Bank in their financial sector assessment programmes.*

[22] The research paper was released on 6 February 2018 and is available at http://www.iadi.org/en/core-principles-and-research/papers/.

the way in which relevant legal provisions are applied and observed and to identify, and subsequently correct, deficiencies.

Risk Management Regulations

In line with the provisions of *Law no. 311/2015* and of the regulations issued by the European Banking Authority and applicable to the FGDB's activity, the risk management function carried out within the FGDB includes the identification, assessment, monitoring and reporting of risks connected to its activities. One of the FGDB's goals is to develop a risk management system, with risk strategy and risk management policies as its essential components, alongside the organisation structure.

- With a view to attaining this target, a framework document was drawn up setting *Risk profile and risk management strategy and policies within the Deposit Guarantee Fund*. This document establishes the benchmarks of the risk management activity and lays the foundation of a general framework for identifying, appraising, monitoring, controlling and limiting risks;

- A *Procedure for the preparation and unfolding of stress testing simulation exercises by the Deposit Guarantee Fund* was worked out to complement the regulatory framework needed to implement the provisions of the *European Banking Authority's Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU*, and to apply *FGDB Regulation no. 4/2016 on the organisation of stress test exercises*. This procedure regulates the process of planning, preparing and carrying out such exercises and capitalising on their results with a view to ensuring the FGDB's operational and funding capabilities in crisis situations;

- The applicable legislation assigns specific duties to the FGDB, which must develop a method of calculating the contributions of member credit institutions and issue regulations accordingly. Starting 2017, this calculation method was improved following the issuance of *FGDB Regulation no. 1/2017 to amend and complement Regulation no. 2/2016 on the calculation and payment of risk-based contributions to the Bank Deposit Guarantee Fund* which stipulates that the FGDB calculates the contribution of each member credit institution using a risk score based on the linear sliding scale method. The main advantage of this method resides in the possibility to more clearly differentiate between member credit institutions, as each of them has its own risk score. In the previous variant, credit institutions were grouped into risk categories;

- Following changes in the legislative framework, decision-making as concerns investment of FGDB-managed financial resources is the responsibility of the Supervisory Board and of the Executive Board. From this perspective, the flow of operations and document routing were significantly amended, which resulted in a new version of the *Procedure for risk management in investments of FGDB resources*;

- The *Procedure for treasury operations* was updated in a bid to regulate the process of initiating, authorising and controlling treasury deals closed in the process of investing FGDB-managed financial resources;

- To be able to fulfil its obligation of ensuring the confidentiality and the protection of the data pertaining to depositors and affiliated credit institutions, the FGDB issued *Norms on the protection of information representing a professional secret within the FGDB*. These norms set the regime and character of the information managed within the FGDB, as well as rules and measures to preserve the confidentiality of the information to which the FGDB's employees, members of the Supervisory Board and of the Executive Board, as well as FGDB associates have access while fulfilling their professional duties.

Taking into account that *Law no. 311/2015* and *Law no. 312/2015* stipulate that part of the contributions of the credit institutions to the deposit guarantee fund and to the bank resolution fund may consist of payment commitments, a regulation started being drafted in 2017 on the payment commitments of participating credit institutions of up to 30 percent of their required contributions to the FGDB. Work on that regulation was still in progress by the end of the year.

Regulations on Governance and Internal Organisation

In carrying through its institutional modernisation policy, the FGDB further pursued compliance with the good practices in this area in 2017 and the outcome was an improved regulatory framework, as follows:

- In step with good governance trends, the FGDB's overall organisational, operational and management framework was restructured and, with reference to one of its key components, namely the general framework for the organisation and operation of the institution, the *Regulation on the organisation and operation of the FGDB* was issued;

- The substantial amendments to both labour legislation and occupational health and safety laws, in conjunction with recent provisions under FGDB-specific legislation, called for a revised version of the institution's internal regulations. The new *Internal Regulations of the FGDB* are in line with the best practices in this industry, having been worked out in compliance with legal provisions in force, and set the legal framework for the rights and duties of employer and employees in the labour process;

- According to *Law no. 311/2015* provisions, the FGDB is managed by a Supervisory Board and an Executive Board. A *Regulation on the FGDB's Executive Board* was issued to provide the framework for the operation of that Board. It sets guidelines for the organisation and unfolding of Board meetings and the communication of decisions made and it stipulates the Board's duty to periodically report to the Supervisory Board;

- As a component of the process of updating internal regulations on internal audit in a bid to provide for the effective attainment of the targets of the audit function, the FGDB prepared the *Internal Audit Charter* and the *Internal Audit Manual*. These documents aim to apply current professional standards to the organisation and operation of internal audit and also to homogenise audit activities by explicitly describing the stages and phases of an audit mission.

Throughout 2017, efforts were made to amend and complement the procedural framework for other FGDB-specific activities. These processes will be finalised in 2018.

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

Developments in the European Union

"Most euro area systemic stress indicators remained contained in 2017, indicating that the financial stability situation evolved positively over the year under review. Improved economic conditions in the euro area supported asset markets and contributed to low volatility across asset classes during 2017. Stress in the euro area banking sector remained low as investors expected bank profitability to improve on account of higher loan volumes and lending margins, should economic growth prospects continue to improve and interest rates rise".

The European Central Bank's Annual Report 2017

The year 2017 saw further positive developments in all European Union member states. Economic growth was stronger than in the previous year, with the gross domestic product rising by 2.4 percent in the European Union as a whole and by 2.3 percent in the euro area. The upswing in the economy went hand in hand with higher employment and an unemployment rate that dropped to the lowest level seen over the past few years.

Owing to the new regulatory framework and to the measures taken in recent years, risks in the European banking sector diminished considerably, end-2017 relevant data pointing to a significantly greater solidity of credit institutions.

According to data released by the European Banking Authority in its *Risk Dashboard* for the last quarter of 2017[23], Tier 1 capital ratio for all banks in the European Union[24] reached its highest of the past three years to stand at 14.8 percent.

The quality of loan portfolios also enhanced visibly. At the end of 2017, the ratio of bad loans slid to a three-year low of four percent. However, despite the recent downward trend across the European Union, the amount of non-performing loans in a number of member states remained high, bearing negatively on the profitability and viability of banks.

Against this background, on 14 March 2018, the European Commission presented a package of measures to accelerate the reduction of non-performing loans on the basis of an action plan to diminish the stock of bad loans, which the European Union Council had adopted July 2017. The steps suggested are part of the overall process of completing the Banking Union, in line with the proposals for risk reduction and risk sharing in the banking industry contained in the European Commission's package of measures.

The profitability of European credit institutions was negatively affected by the still high levels of non-performing loans, stubbornly low interest rates and business models requiring adaptation to market conditions.

Despite the persistently low interest rates, deposits with credit institutions across the European Union followed an upward path in 2017, pushing the loan-to-deposit ratio down to 116.7 percent at the end of the year.

In order to further consolidate the economic and monetary union and to strengthen resilience to shocks, further talks were conducted in 2017 on the completion of the Banking Union and the reform of the European Stability Mechanism[25].

[23] https://www.eba.europa.eu/documents/10180/2175405/EBA+Dashboard+-+Q4+2017.pdf

[24] The list of banks reporting to the European Banking Authority for the purpose of its analyses is available at https://www.eba.europa.eu/risk-analysis-and-data. The list includes three credit institutions operating in Romania.

[25] As the two projects represent priorities, the first decisions are expected for June 2018, during the euro area summit.

As far as progress made towards the completion of the Banking Union is concerned, actions taken in 2017 concentrated on steps to reduce and share risks in the banking sector.

In December 2017, the European Commission advanced[26] a number of proposals and initiatives concerning the completion of the economic and monetary union, including a proposal for the establishment of a European Monetary Fund to operate as a European Union body.

The European Monetary Fund would succeed the European Stability Mechanism, continuing to provide financial stability support to member states in need, and would acquire new features.

One of these new features refers to the European Monetary Fund being able to provide the common backstop to the Single Resolution Fund, a component of the Single Resolution Mechanism (SRM)[27]. This backstop might take the form of credit lines or guarantees for the Single Resolution Fund, which are to be deployed as quickly as possible if needed.

According to the roadmap on the completion of the economic and monetary union by 2025[28] and of the stages set under the European Commission's Communication for the finalisation of the Banking Union[29], an agreement should be reached in 2018 on a common backstop for the Single Resolution Fund, which should become operational by 2019.

Since the Single Resolution Mechanism became fully operational in 2016, the Single Resolution Board adopted only one resolution scheme, which, however, did not involve the use of Single Resolution Fund resources.

The decision taken by the Single Resolution Board came after serious consideration whether resolution action was necessary or not in the case of three banks which the European Central Bank Banking Supervision declared, in the first half of 2017, as failing or likely to fail. The respective banks were Banco Popular Español, Veneto Banca and Banca Popolare di Vicenza. All three had encountered difficulties in previous years as well.

Following the said analysis, the Single Resolution Fund decided on 7 June 2017 to adopt a resolution scheme only in respect to Spanish bank Banco Popular Español, considering that resolution action in the case of the two Italian banks (Veneto Banca and Banca Popolare di Vicenza) was not warranted.

The resolution tool used in the case of Banco Popular Español was the sale of business to another bank operating in Spain, namely Banco Santander. The Spanish resolution authority implemented the resolution scheme adopted by the Single Resolution Board.

The two distressed Italian banks, which did not undergo resolution procedures, were put into compulsory administrative liquidation, in line with Italian legislation on insolvency proceedings. Good assets as well as liabilities were transferred to Intesa Sanpaolo[30] and the Italian government provided financial support, in line with European Union norms on state aid.

The fact should not be overlooked that depositors at the three banks had continuous access to their money and were in no way affected by the respective developments.

In the second half of 2017 and at the beginning of 2018, the Single Resolution Board organised in Brussels meetings of the resolution colleges for systemically important banking groups in the eurozone. Besides the internal resolution teams within the Single Resolution Board, the attendance mainly included representatives of national resolution authorities, finance ministries, national

[26] The European Commission's Communication COM(2017) 821 final *"Further steps towards completing Europe's Economic and Monetary Union: A Roadmap"* of 6 December 2017.

[27] The backstop is seen as fiscally neutral so that any payout once it is activated would be recouped from the banking sector in the euro area.

[28] The roadmap was set out in the European Commission's *Reflection Paper on the Deepening of the Economic and Monetary Union* of 31 May 2017.

[29] The European Commission's Communication COM(2017) 592 final of 11 October 2017.

[30] Following this transfer, Intesa Sanpaolo S.p.A. Torino – Bucharest Branch took on assets, liabilities and legal relationships from Veneto Banca S.p.A. Italia Montebelluna – Bucharest Branch.

deposit guarantee schemes involved in resolution processes, as well as representatives of the European Banking Authority and of the European Central Bank.

As the FGDB is the administrator of the bank resolution fund and also applies resolution measures decided by the National Bank of Romania in its capacity as the Romanian resolution authority, its representatives participated, sometimes by phone, in the meetings of the resolution colleges organised by the Single Resolution Board for the groups operating in this country[31].

Besides the meetings held by the Single Resolution Board, FGDB representatives also attended the proceedings of resolution colleges created for several groups[32] with branches in Romania, which are not within the scope of the Single Resolution Mechanism.

According to the notifications the European Banking Authority received[33], Banco Popular Español was the only resolution case of 2017.

However, in 2017, several small-sized European credit institutions in Lithuania, Malta, Poland and the United Kingdom, mainly credit unions with a small number of depositors (running into the thousands in most cases) and not engaged in cross-border activities were declared insolvent[34].

The deposit guarantee schemes in the respective countries repaid the guaranteed depositors according to the deadlines under national regulations in force and the whole process ran smoothly.

At the same time, in 2017, the deposit guarantee schemes of Bulgaria and the Czech Republic made further compensation payments to depositors of banks previously gone bankrupt who did not apply for reimbursements when the payout process started.

Outside the European Union, interventions of deposit guarantee schemes triggered by the failure of local banks were registered in 2017 in the Russian Federation (30 such cases) and Turkey (one such case).

[31] Alpha Bank, Banco Bilbao Vizcaya Argentaria, Crédit Agricole, Erste, Eurobank, Intesa, National Bank of Greece, Piraeus Bank, RZB, Société Générale.

[32] Getin Holding and Porsche.

[33] The notofications are published on the European Banking Authority website at https://www.eba.europa.eu/regulation-and-policy/recovery-and-resolution/notifications-on-resolution-cases-and-use-of-dgs-funds.

[34] In the early months of 2018, further credit institutions – smaller in terms of size and not engaged in cross-border activities – in Croatia, Estonia, Lithuania and Luxembourg – were recognised as insolvent and the deposit guarantee schemes in the respective countries started the payout process within the legal time frame.

Developments in Romania

"The financial soundness of the banking sector continued to be robust. Solvency indicators continued to stand at adequate levels, around the European median. Substantial capital reserves relative to prudential requirements provide a good capacity to absorb unexpected losses and resources to ensure lending to the real sector".

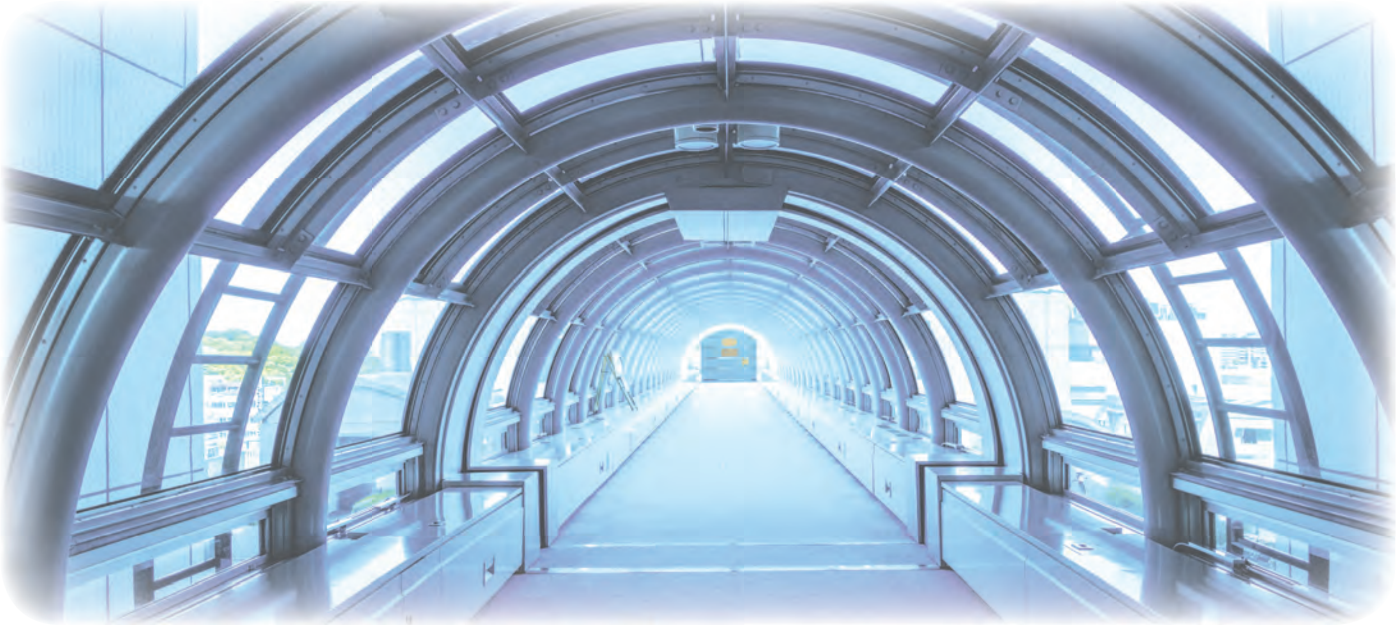
"Banking sector profitability has improved against the background of a favourable local macroeconomic environment, the significant reduction in net impairment loss, the protracted low level of funding costs, and of the recovery in leu-denominated lending".

Financial Stability Report of the National Bank of Romania, December 2017

The banking sector in Romania remained solid throughout 2017, with several key indicators evolving favourably. Just like in previous years, business followed its normal course in all credit institutions and no issues occurred to make it necessary for the National Bank of Romania, as the supervisory authority and as the resolution authority, to apply recovery or resolution measures.

The banking sector consolidated further in 2017. At the end of the year, the number of credit institutions in the membership of the FGDB stood at 28, down from 29 at end-December the previous year, following the merger by absorption between Banca Comercială Carpatica S.A. (absorbing bank) and Patria Bank S.A. (absorbed bank) in early May 2017.

Another example of the consolidation process was the agreement concluded in November 2017 on the acquisition by Banca Transilvania S.A. of shares in Bancpost S.A. from Greek banking group Eurobank[35].



[35] On 4 April 2018, Banca Transilvania S.A. announced it had completed the acquisition of a majority holding (99.15 percent) in Bancpost S.A. from Eurobank Group. It said it would start the post-acquisition integration of Bancpost S.A. into the Banca Transilvania Financial Group.

Aggregate Indicators for Credit Institutions in Romania[36]

The total net assets of the credit institutions in operation in Romania on 31 December 2017 amounted to 427.4 billion lei, thus posting an annual gain of 33.8 billion lei (an 8.6 percent rise in nominal terms from the end of 2016).

Privately-owned credit institutions held 91.3 percent of total assets, slightly less than they did at the end of the previous year (an annual variation of -0.5 percentage points). At the end of 2017, the assets of foreign-owned or majority foreign-owned credit institutions (including branches of foreign banks) accounted for 77 percent of total assets, their stake having taken a plunge of 14.3 percentage points from 31 December 2016.

Throughout 2017, credit institutions operating in Romania saw improvements in their performance, with the ROA[37] and ROE[38] indicators following an upward trend. By the end of the year, ROA stood at 1.32 percent (an annual variation of +0.24 percentage points), while ROE moved up to 12.68 percent (an annual variation of +2.26 percentage points).

The liquidity indicator clung to the previous year's high of 1,99, double the regulatory minimum requirement.

In 2017, credit institutions, Romanian legal persons, saw the quality of their loan portfolios improve significantly thanks to the steps the national competent authority had taken over the last few years and to the continuing process of cleaning up their balance sheets. The non-performing loans ratio dropped further in 2017, hitting its lowest level of recent years at 6.4 percent on 31 December 2017 (-3.2 percentage points as to end-2016).

Loans to households and non-financial corporations amounted to 226 billion lei on 31 December 2017, going up by 5.3 percent from the same date the previous year, as interest rates stayed low and household disposable income picked up. Loans to households climbed by 7.8 percent to 121.8 billion lei on 31 December 2017, outpacing credits to non-financial corporations which recorded an annual variation of +2.5 percent to reach 104.2 billion lei at the end of 2017[39].

The currency denomination segments followed divergent paths, very much like they had done in previous years. Leu-denominated loans spiralled upwards by 15.9 percent to 142.1 billion lei at the end of 2017, while credits in foreign currencies lost 8.9 percent to stand at the leu equivalent of 83.9 billion. Following these moves, the stake loans in the national currency held in total credits went up by 5.8 percentage points to 62.9 percent on 31 December 2017.

Leu-denominated loans to households thrust upward, posting an annual variation of +21.3 percent, mostly on the back of housing loans[40]. As to the same date the previous year, housing loans increased faster than consumer loans (an annual variation of +13.2 percent vs an annual variation of +3.1 percent).

In the case of loans to non-financial corporations, the leu-denominated component took a 9.6 percent leap to 61.9 billion lei at the end of 2017, pushed higher mainly by loans with maturities of more than five years. On the other hand, loans in foreign currencies shrank by 6.4 percent to the leu equivalent of 42.3 billion lei.

[36] 35 credits institutions at end-2017, of which 28 are credit institutions, Romanian legal persons, affiliated to the FGDB, and seven are branches of foreign banks and members of the deposit guarantee schemes in their home countries.
Data on aggregate indicators for credit institutions and on loans and deposits were obtained from the website of the National Bank of Romania when this report was prepared.

[37] ROA is calculated by dividing annualised earnings by average total assets.[38] ROE se determină ca raport între profitul net anualizat şi capitalurile proprii la valoare medie.

[38] ROE is determined as a ratio of annualised net income to average own capital.

[39] According to the *Survey on the access to finance of non-financial corporations in Romania*, December 2017, of the National Bank of Romania, the majority of polled corporations considered they did not need financing from either banks or other non-bank financial institutions. Furthermore, the number of companies saying they intended to lower their level of bank indebtedness was on the rise.

[40] The increase was an effect of the continuation of *First Home Programme*, where state guarantees are granted only for leu-denominated housing loans.

The monetary policy rate stayed unchanged at 1.75 percent throughout 2017[41]. The minimum reserve requirement ratio on leu-denominated liabilities, too, remained flat in 2017 (at 8 percent), while the minimum reserve requirement ratio on foreign currency liabilities dropped from 10 percent to 8 percent[42].

Throughout 2017, the width of the symmetric corridor[43] of interest rates on standing facilities around the policy rate was narrowed twice to +/-1.00 percentage points.

Overall, the average interest rate on new deposits and loans for households and, respectively, non-financial corporations headed higher in 2017, with the two components moving however in opposite directions.

The average interest on new loans in the national currency going to households reached 6.86 percent at the end of 2017, adding 0.29 percentage points to the level of 31 December 2016, while the average interest rate on new euro-denominated loans dropped by 0.22 percentage points to 3.89 percent at end-2017. The shifts in interest were more marked in the case of non-financial corporations, with the average rate of interest rising by 1.21 percentage points to 4.93 percent in December 2017 in the case of new leu-denominated loans and sliding by 0.5 percentage points to 2.55 percent at the end of 2017 in the case of new loans in euros.

Deposits held by households and non-financial corporations remained a significant funding source for credit institutions. In 2017, bank deposits climbed further, adding 10.3 percent to hit 285.2 billion lei at the end of the year[44], particularly on the strength of increases in leu-denominated overnight deposits.

These developments occurred in a context of rising average interest on new deposits in the national currency, which inched up by 0.47 percentage points to 1.08 percent on 31 December 2017 and falling interest rate on new euro-denominated deposits, which shed a marginal 0.04 percentage points.

The highest increase was recorded in the case of new leu-denominated time deposits with an initial maturity of one year or less held by non-financial corporations, where interest upped by 0.78 percentage points to 1.22 percent at the end of 2017. Average interest on household deposits in the national currency with an initial maturity of one to two years included went up to stand at 1.62 percent in December 2017.

Following all these moves, the loan-to-deposit ratio hit a new low at 74.74 percent (an annual variation of -4.31 percentage points) at the end of 2017.

At end-2017, credit institutions, Romanian legal persons, in the membership of the deposit guarantee scheme of Romania, had entered in their records deposits held by guaranteed natural and legal persons amounting to 267.4 billion lei, 10.6 percent more than at the end of the previous year[45].

FGDB-member credit institutions maintained a sound capitalisation in 2017. In December, the total own funds ratio stood at 18.86 percent, going beyond the regulatory minimum requirement.

The leverage ratio[46] stayed higher than the regulatory minimum requirement, amounting to 8.34 percent at the end of 2017, slightly down from December the previous year (an annual variation of -0.58 percentage points).

[41] In a meeting held on 7 May 2018, the Board of Directors of the National Bank of Romania decided to increase the monetary policy rate to 2.50 percent per annum starting 8 May 2018. Prior to this rise, the policy rate had been lifted twice in the first quarter of 2018 – from 1.75 percent to 2 percent starting 9 January 2018 and from 2 percent to 2.25 percent starting 8 February 2018.

[42] The Board of Directors of the National Bank of Romania decided in its meeting on 5 May 2017 to cut the minimum reserve requirement ratio on foreign currency liabilities of credit institutions to 8 percent starting with the 24 May - 23 June 2017 observance period.

[43] A meeting of the Board of Directors of the National Bank of Romania held on 3 October 2017 decided to narrow the symmetric standing facilities corridor around the policy rate to +/-1.25 percentage points. In another meeting, on 7 November 2017, the symmetric corridor was further narrowed to +/-1.00 percentage points.

[44] Data include deposits at the branches of foreign credit institutions which are members of the deposit guarantee schemes of their home countries.

[45] FGDB data based on reports from participating credit institutions.

[46] The leverage ratio is the ratio of Tier 1 capital to average total assets.

COOPERATIVE RELATIONS AT THE NATIONAL LEVEL

In the first half of 2017, the FGDB completed the revision of its cooperation agreement with the National Bank of Romania according to the provisions of the new legal framework for deposit guarantee and bank recovery and resolution.

Under the new cooperation accord between the FGDB and the National Bank of Romania, signed in May 2017, the FGDB will use indicators relevant for the credit institutions in its membership to calculate their risk-based contributions to the deposit guarantee scheme, which is a legal duty incumbent on the FGDB, as well as to conduct internal analyses concerning the application of the strategy for the investment of financial resources, as approved by the National Bank of Romania.

Given its contribution to maintaining financial stability in line with its responsibilities under the law, the FGDB was granted observer status within the National Committee for Macroprudential Supervision (CNSM), an inter-institutional cooperation structure set up under *Law no. 12/2017 on macroprudential supervision of the national financial system*[47].

The CNSM consists of representatives of the National Bank of Romania, the Financial Supervisory Authority and the Government and its mission is to coordinate macroprudential supervision of the national financial system by developing a macroprudential policy and adequate tools for its implementation.

The CNSM's fundamental aim is to contribute to safeguarding financial stability, also by strengthening the resilience to shocks of the financial system and by lessening the build-up of systemic risks, which ensures the sustainable contribution of the financial system to economic growth.

The CNSM took over the duties of the National Committee for Financial Stability (CNSF) in point of financial stability, macroprudential policies and the management of financial crises[48].

The FGDB attended as observer all the meetings the CNSM held in 2017. These meetings adopted recommendations on the countercyclical capital buffer in Romania, the capital buffer relating to other systemically important institutions[49] and the systemic risk buffer in Romania.

Further recommendations were endorsed on the need to assess the impact which the funding plans of credit institutions have on the supply of loans to the real economy, to appraise the third states of significance for the Romanian banking sector when recognising and setting countercyclical capital buffer rates and to expand the scope of the statistical data needed when analysing the real estate market.

As certain vulnerabilities to financial stability were identified concerning the financial soundness of corporations and the over-indebtedness of households, the creation was recommended of two working groups to deal with these issues.

[47] *Law no. 12/2017 on macroprudential supervision of the national financial system* was published in the Official Gazette of Romania, Part I no. 192 of 17 March 2017. The meeting to make the CNSM operational took place on 11 April 2017. The FGDB General Director attended without the right to vote, as stipulated by the law.

[48] Recommendations on the implementation of the macroprudential measures worked out by the CNSF are valid unless they fail to comply with recommendations subsequently issued by the CNSM.

[49] Based on this recommendation, the National Bank of Romania issued *Order No. 12/2017 on the buffer for credit institutions authorised in Romania and identified by the National Bank of Romania as other systemically important institutions (O-SII)*, published in the Official Gazette of Romania, Part I, No. 1009 of 20 December 2017. According to this order, identified as falling into the "other systemically important institutions" category were nine banks, Romanian legal persons. On 31 December 2017, the FGDB-covered deposits at these banks accounted for 86.6 percent of the total covered deposits at participating credit institutions.

INTERNATIONAL ACTIVITY

The FGDB's international activity was added a new dimension in 2017, as the scheme got increasingly involved in the activity of the two specialised associations – the European Forum of Deposit Insurers (EFDI) and the International Association of Deposit Insurers (IADI) .

With the adoption of the EFDI's amended statutes in May 2017[52], a new management structure of the EFDI EU Committee was created consisting of a five-member EU Management Executive (EUME). The FGDB General Director was elected member of the EUME for a three-year period.

On 22 June 2017, the FGDB, enjoying the support of the National Bank of Romania, organised in Bucharest a meeting of the EFDI EU Committee, which was attended by representatives of deposit guarantee schemes from most European Union-member states. The participants tackled such interesting topics as the latest developments within the European Banking Authority as concerns the assessment of the implementation of the methods for calculating contributions to deposit guarantee schemes, alternative sources of financing deposit guarantee schemes, recent payout experiences, technical aspects related to the files containing information needed when making reimbursements. On this latter topic, the FGDB General Director presented an extensive paper on the procedures and tools the FGDB uses to check the accuracy of the data reported by credit institutions when they hand in payout lists.

Meeting of the EFDI EU Committee, Bucharest, June 2017

[50] The EFDI's membership stands at 71 institutions, of which 60 are deposit guarantee schemes and 11 investor compensation schemes.

[51] The IADI has 82 members, 9 associates and 14 partners.

[52] The amendments to the EFDI's statutes were adopted during an Extraordinary General Meeting held in Brussels on 19 May 2017. The main changes to the EFDI's statutes have in view: to redefine what the EFDI's purpose and mission are, based on the experience acquired and the evolution of the European regulatory landscape, including bank resolution; to extend the EFDI's geographical outreach beyond the member states of the Council of Europe to the whole Europe; to redefine the associate-members category which will be open to other entities; to adjust the annual fees paid by EFDI members; to review the rules governing the decision-making process; to set up within the EFDI EU Committee an EU Management Executive (EUME) to replace the former EU coordinator.

The FGDB was one of the schemes that contributed to the process of amending the EFDI statutes, which started in 2015.

On the occasion of the EFDI EU Committee meeting, the EUME held its first gathering during which the FGDB's General Director was appointed coordinator of the Cross-Border Cooperation Working Group between the European Union's deposit guarantee schemes

After the Bucharest meeting of the EUME, its five members met again in Budapest on 25 July 2017 and agreed on a work plan for 2017-2019 and on the priorities of the immediately following period. The work plan represents a new approach within the EFDI reflecting its management's new vision and targeting the creation of a predictable and well-structured framework for the unfolding of EUME projects with clearly defined deadlines and responsibilities, as well as the application of a proactive approach as concerns developments that might have an impact on the activity of deposit guarantee schemes in European Union member states.

The respective projects cover aspects related to the analysis of the need to revise the *EU Directive on deposit guarantee schemes*, an action scheduled for 2019, the application of the provisions of that Directive as concerns the payout deadline of seven working days, which must be implemented in all member states by 2024, cross-border cooperation, stress tests, the application of methods of calculating risk-adjusted contributions, the need to ensure of a higher coverage level for certain categories of natural persons' deposits[53], and developments related to the creation of the European Deposit Insurance Scheme (EDIS).

Given the FGDB General Director's position as coordinator of the working group for cross-border cooperation between deposit guarantee schemes in the European Union, the EFDI EU Committee's project on this topic is managed by the FGDB. The project components, which are approached in a dynamic manner, will be reviewed periodically in keeping with the specific situations the deposit guarantee schemes in the European Union will encounter, such as repayments made

by a scheme operating in the home country, respectively by one in the host country, running of cross-border stress tests etc.

At the end of 2017, action was taken for the organisation by the FGDB of a meeting of the working group for cross-border cooperation between deposit guarantee schemes in the European Union in Bucharest on 22 February 2018. The event enjoyed the support of the National Bank of Romania and gathered representatives of 18 deposit guarantee schemes. The agenda included topics referring to the application of the *Multilateral cooperation agreement between deposit guarantee schemes in the European Union*[54], bilateral accords on technical aspects of cooperation, signed as part of the multilateral agreement, reimbursement of depositors holding money in several branches of the same banks in different member states, the impact of the entry into application of the European Union's *General Data Protection Regulation* on the cross-border cooperation between schemes, as well as ways for deposit guarantee schemes to exchange data between them during payout processes.

Based on the *Multilateral cooperation agreement between deposit guarantee schemes in the European Union*, the FGDB's Supervisory Board approved in 2017 the FGDB's participation in a centralised system that provides for a secure exchange of files between deposit guarantee schemes during payouts.

Furthermore, in order to establish, through bilateral accords, the specific technical issues of cooperation during the repayment process, the FGDB initiated talks with other deposit guarantee schemes which cover the deposits held at branches of foreign banks operating in Romania.

The FGDB is an active participant also in other EFDI working groups. In 2017, FGDB representatives attended the meetings of the Banking Union Working Group that discussed the proposal to establish the EDIS with a view to issuing an EFDI common view, of the PR Working Group, of the Risk-based Contributions Working Group and of the Stress-Test Working Group.

At the same time, the FGDB is represented to a working group set up in 2017 to adjust the fees paid by EFDI members. The proposals advanced within this group are to be submitted for validation during an EFDI general meeting.

In its capacity as an IADI member, the FGDB took part in the association's Annual General Meeting, in the meetings of the IADI Europe Regional Committee, as well as in several conferences organised by the association.

In the second half of 2017, the FGDB was included in an appraisal made the International Monetary Fund and the World Bank as part of the *Financial Sector Assessment Program (FSAP)* and had meetings with the representatives of the two international institutions. During those meetings, aspects of the FGDB's activity in light of the new deposit-guarantee legal framework and of the recovery and resolution of credit institutions were discussed.

[53] For instance, deposits resulting from residential real estate transactions, events in a depositor's life, such as retirement, dismissal, invalidity or death, as well as receipt of insurance benefits or compensation for criminal injuries or wrongful convictions.
[54] By the end of 2017, as many as 28 deposit guarantee schemes in the European Union had signed the agreement.

3. Deposit Guarantee

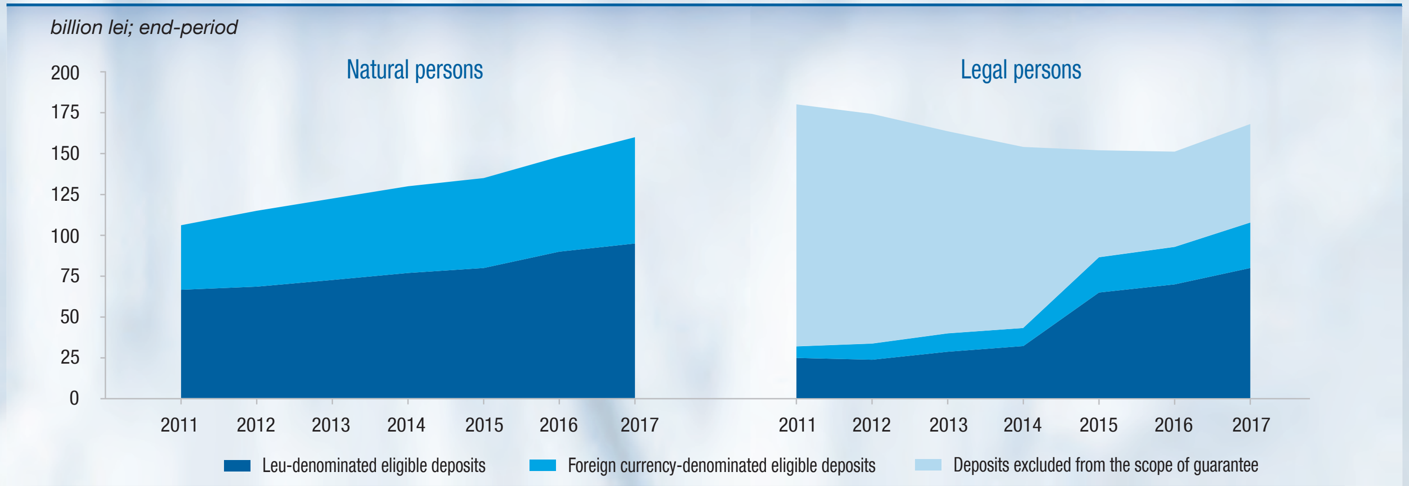
Evolution of Deposits in 2017

Under the conditions and within the limits laid down in legislation, the FGDB covers the deposits[55] of all depositors, natural persons, and of the vast majority of legal persons represented by small- and medium-sized enterprises, companies and other similar entities[56].

Eligible deposits at credit institutions in the membership of the FGDB hit an new all-time high on 31 December 2017, climbing to 267.4 billion lei (an annual variation of +10.6 percent). Guaranteed legal persons' deposits, especially high-value deposits in the national currency (above the leu equivalent of 100,000 euros), were the strongest driving force behind the increase in eligible deposits.

Natural persons' eligible deposits remained in the positive territory they had reached several years before and continued to rise mainly on the back of leu- and foreign currency-denominated deposits worth less than the leu equivalent of 100,000 euros.

Deposits with FGDB-Member Credit Institutions



[55] Deposits include current accounts, card accounts, time deposits, savings accounts and other similar products.

[56] On 31 December 2017, the FGDB's guarantee scope included 96.7 percent of the total number of depositors, legal persons. The category of legal entities excluded from the scope of guarantee consists mainly of credit institutions, financial institutions, investment firms, insurance and/or reinsurance companies, collective investment undertakings, pension funds, central, local and regional public authorities.

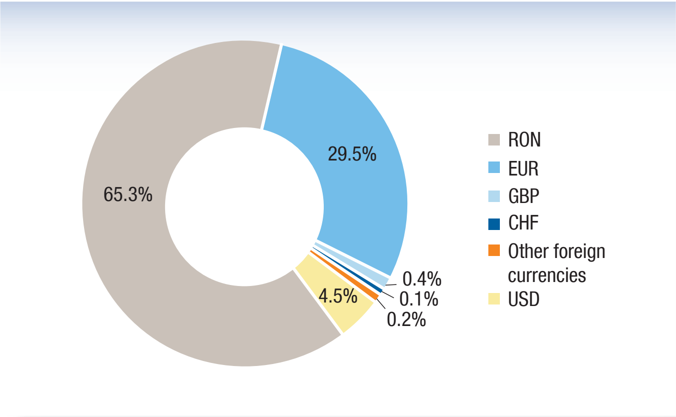
On 31 December 2017, eligible deposits accounted for 81.2 percent of the overall value of deposits at credit institutions participating in the FGDB. The value of eligible deposits in the national currency raced up to 174.5 billion lei at end-2017 from 160.3 billion lei on 31 December 2016 (an annual variation of +8.8 percent).

Foreign currency-denominated deposits advanced 14.2 percent throughout 2017 to stand at the leu equivalent of 92.9 billion at the end of the year. The upturn occurred on the strength of deposits held in euros.

Leu-denominated deposits were instrumental in the 2017 growth of the value of eligible deposits. In absolute terms, the rise in leu-denominated deposits (an absolute change of +14.2 billion lei) outpaced the increase in deposits in foreign currencies (an absolute change amounting to the leu equivalent of +11.5 billion).

Just like in previous years, eligible deposits in the national currency took the largest stake of total eligible deposits, namely 65.3 percent on 31 December 2017.

Structure of Eligible Deposits by Currency on 31 December 2017



In the second semester of 2017, eligible deposits recorded their fastest growth, showing a six-month variation of +9.4 percent, significantly higher than the +1.1-percent variation of the first semester of that year.

Contributing most significantly to the upswing in eligible deposits in the second half of 2017 were the deposits in the national currency which, after slipping by a scant 0.4 percent over the first six months of the year, moved on to positive territory, gaining 9.3 percent in the last semester.

The legal persons' eligible deposits offered the firmest support to the rise in eligible deposits thanks to their 16.5 percent advance in the second semester of 2017 after a downward move in the first half of the year (a six-month variation of -1.5 percent).

In the second semester of 2017, the lending activity followed on an upward path, influencing money deposited in current accounts/ overnight deposits. Data on trends in deposits reported by FGDB-member institutions, which the National Bank of Romania releases every month as estimates (with the necessary methodological caution) lead to the conclusion that the rise in both household deposits and deposits of non-financial corporations was mostly accounted for by the course of overnight deposits.

On 31 December 2017, the number of guaranteed depositors, natural and legal persons, stood at 14,968,637[57]. Resident natural and legal persons accounted for the bulk of depositors (99 percent of the total number of guaranteed depositors) and their deposits at credit institutions participating in the FGDB totalled 258.6 billion lei (or 96.7 percent of the overall value of eligible deposits at the end of 2017).

A guaranteed depositor may hold either deposits within the legally stipulated guarantee ceiling, in which case the respective depositor is fully reimbursed, or deposits above that level, in which case the due compensation is limited to the guarantee threshold. The part of a deposit that does not exceed the guarantee ceiling represents what is called "a covered deposit".

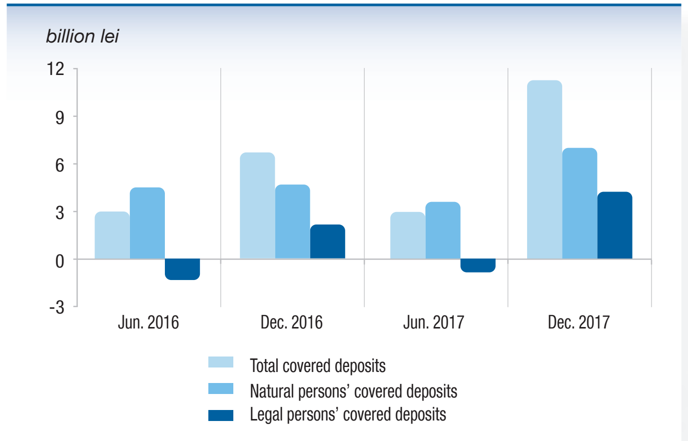
In the second quarter of 2017, covered deposits soared, posting a six-month variation of +6.8 percent, which corresponds to a six-moth rise by 11 billion lei, accounting for three quarters of the growth of covered deposits throughout 2017.

[57] A natural or legal person may hold money at several banks. Each bank reports the number of depositors in its records to the FGDB, which adds up the data collected from all participating institutions. Accordingly, when calculating the total number of depositors, depositors who are clients of different banks are recorded several times.

Covered deposits headed higher in 2017, recording a year-on-year growth of 8.8 percent and ending the year at 172.7 billion lei – a peak of recent years.

The natural-person segment made the most significant contribution to the increase in covered deposits (+6.7 percentage points).

Six-month Variations of Total Covered Deposits by Categories of Depositors



Given that the level of coverage is expressed in the euro, which is also the denomination of most deposits in foreign currencies, the evolution of the exchange rate of the national currency against the euro, from 4.5411 lei at end-December 2016 to 4.6597 lei at the end of 2017, was one of the factors that drove eligible deposits, as well as covered deposits on to positive territory.

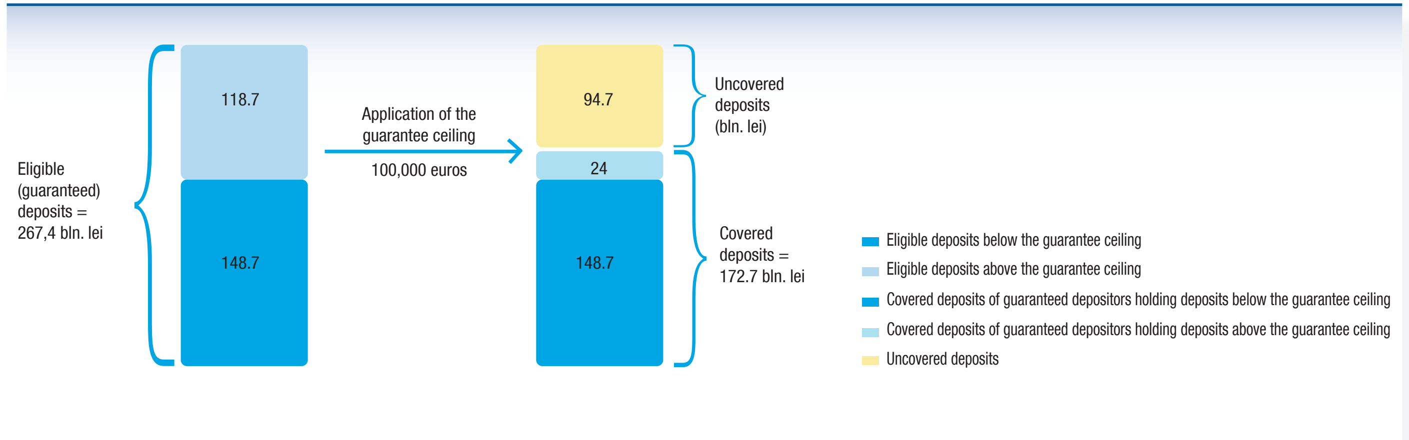
A percentage of 86.1 of the total FGDB-covered amount is taken by deposits of values below or equal to the guarantee ceiling. These deposits make the most significant contribution to the rise in the FGDB-covered amount.

The stake which depositors with deposits fully covered by the FGDB held in the total number of guaranteed depositors remained unchanged at a three-year-long level of 99.7 percent.

Deposits of values smaller or equal to the leu equivalent of the guarantee ceiling totalled 148.7 billion lei on 31 December 2017, adding 11.9 billion lei year-on-year, mainly on the strength of increasing household deposits. Deposits that do not exceed the level of coverage account for 55.6 percent of total eligible deposits.

Deposits exceeding the guarantee level at the end of 2017 amounted to 118.7 billion lei (an annual variation of +13.1 percent scored mostly as an outcome of the upturn in the deposits held by guaranteed legal persons).

The Positioning of Eligible Deposits in Relation to the Guarantee Ceiling of EUR 100,000 on 31 December 2017



[58] On 31 December 2017, the leu equivalent of the 100,000-euro guarantee threshold stood at 465,970 lei.

NATURAL PERSONS' ELIGIBLE DEPOSITS

In 2017, household deposits with FGDB-member credit institutions moved further up, gaining eight percent and thus climbing to a new all-time high of 159.6 billion lei at the end of the year.

All through 2017, natural persons' eligible deposits increased by 11.8 billion lei, almost two thirds of this amount having been added in the second half of the year.

All the components of the eligible household deposits posted growths in 2017. On 31 December 2017, natural persons held deposits in the national currency worth 94.2 billion lei, 5.3 percent up from the level recorded at the end of 2016. Deposits denominated in foreign currencies registered an even higher annual variation – of +12.1 percent – to reach the leu equivalent of 65.4 billion at end-2017.

On 31 December 2017, leu-denominated household deposits accounted for 59 percent of the total eligible deposits held by this category of deponents, thus maintaining their majority stake.

The upward move in household deposits was decisively influenced by the rise in average net wages and household disposable income. In December 2017, the average net nominal wage stood at 2,629 lei, 11.7 percent higher than in the same month of the previous year. The real wage index was 108.1 percent[59].

Besides the effect exerted by the increase in average net wages, the evolution of natural persons' deposits was also under the positive impact of other improved labour market indicators, such as lower unemployment – down at four percent in the last quarter of 2017, the lowest level of the last few years – and a larger number of employees in the economy (4,850.4 thousand people at the end of 2017, that is 91 thousand persons more than at the end of the previous year)[60].

Household Deposits at FGDB-Member Credit Institutions

[59] According to Press Release no. 32/9 February 2018 of the National Institute of Statistics, in December 2017, the average net nominal wage leapt by 6.7 percent from the previous month. The factors behind the increase included the payment of occasional bonuses (quarterly, semi-annual and annual bonuses, performance-based bonuses or the 13th salary) and of allowances, cash profit sharing or sharing of other funds, as well as bonuses for improvements in production or bigger receipts (depending on contracts/projects).

[60] Monthly Bulletin of the National Bank of Romania, January 2018, Year XXVI, no. 291

In the last quarter of 2017, average monthly pension also headed higher, going up 18 percent from the same period the previous year to stand at 1,132 lei[61].

Other possible elements with a favourable influence on the growth of the volume of household deposits are: payments to Romanian farmers under EU-funded support schemes, remittances from Romanian workers abroad[62], as well as the expansion of card and *electronic banking* transactions.

Resident natural persons held deposits worth 154.1 billion lei, accounting for 96.5 percent of the total value of deposits in this category of depositors. In 2017, residents' eligible deposits rose by 7.7 percent.

On 31 December 2017, natural persons' covered deposits totalled 142.7 billion lei, 8.1 percent up from the end-2016 level. Natural persons' covered deposits held the largest stake of the total value of covered deposits, that is 82.6 percent at the end of 2017.

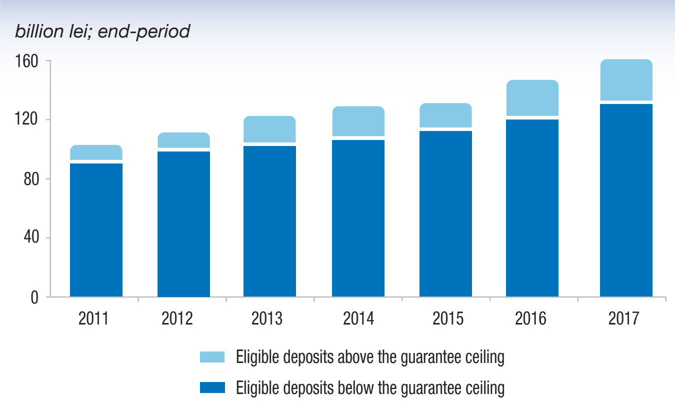
The average value of a covered deposit held by a depositor, natural person, was 10.2 thousand lei at end-2017 (an annual variation of +9.7 percent as to December 2016)

Two thirds of the 10.7-billion-lei rise in natural persons' covered deposits were gained in the second semester of 2017.

Owing to the fact that most of the deposits natural persons held at the end of 2017 did not exceed the guarantee ceiling, the FGDB-covered deposits took an overwhelming share – of 89.4 percent – of the total value of eligible household deposits.

On 31 December 2017, household deposits below or equal to the leu equivalent of the guarantee level of 100,000 euros accounted for 80.9 percent of the total value of eligible household deposits and stood at 129.1 billion lei (an annual variation of +8 percent).

Positioning of Eligible Household Deposits in Relation to the Guarantee Ceiling



A percentage of 99.8 of the number of guaranteed depositors (totalling 14,008,512 natural persons on 31 December 2017) held deposits at the most equal to 100,000 euros, thus being granted full coverage.

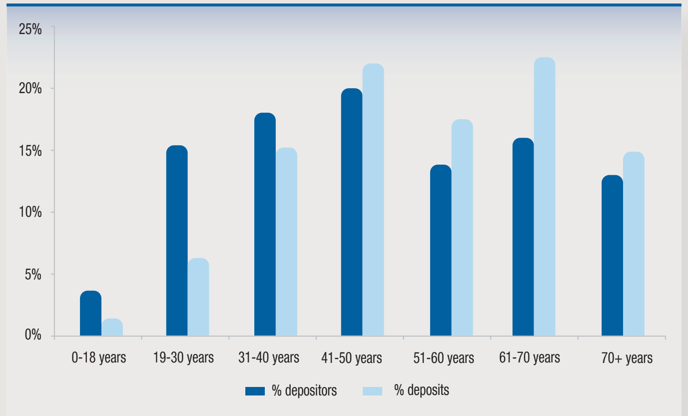
[61] Press Release no. 66/ 14 March 2018 of the National Institute of Statistics

[62] According to World Bank reports on migration and remittances, remittance inflows from Romanians working abroad improved by 40 percent in 2017. *http://pubdocs.worldbank.org/en/992371492706371662/MigrationandDevelopmentBrief27.pdf*
http://www.knomad.org/sites/default/files/2018-04/Migration%20and%20Development%20Brief%2029.pdf

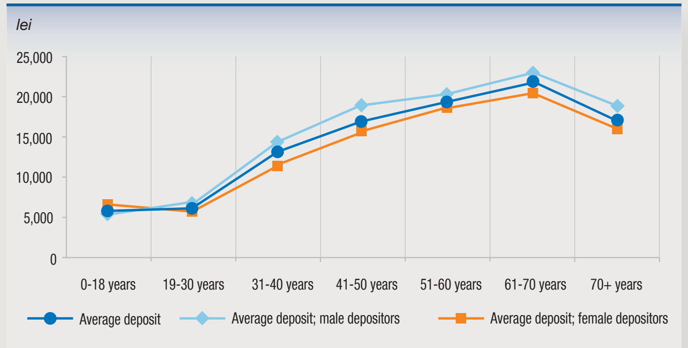
Features of the Distribution of Depositors, Natural Persons, and of Their Depositson 31 December 2017

An analysis of the data FGDB-member credit institutions reported[63] highlighted a number of features concerning the distribution of depositors and of their deposits.

- On 31 December 2017, 10,322,388 natural persons, single depositors, held eligible deposits totalling 157.2 billion lei.
- The great majority of depositors covered by the aforesaid analysis, namely 10,258,391 depositors, are resident natural persons. Their eligible deposits amounted to 153.9 billion lei on 31 December 2017.
- Single depositors, non-resident natural persons, numbered 63,997 at the end of 2017, when their deposits stood at 3.3 billion lei.
- At the end of 2017, a single depositor held deposits at 1.4 FGDB-member credit institutions on average.

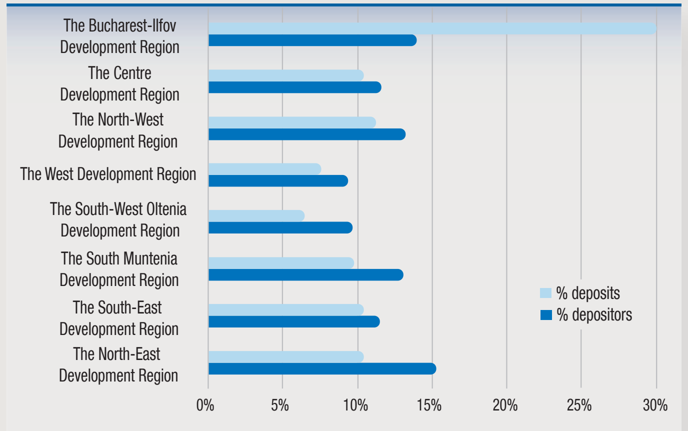


- Just like the previous year, the bulk of the total number of people holding bank deposits went to age group 41-50 years, accounting for 19.9 percent of the total depositors keeping their money in the bank. This group was followed by the 31-40-year age group (17.9 percent).
- In terms of the amount of eligible deposits, the largest stake of the total belonged to the 61-70-year age group – at 22.7 percent – followed by age group 41-50 years – with a share of 22.1 percent.

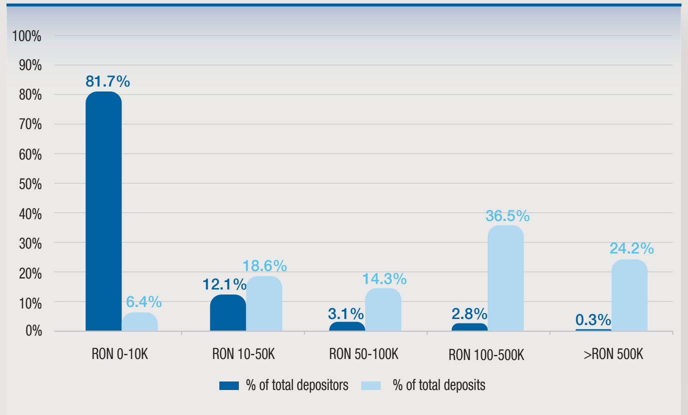


- The highest value of an average deposit held by a depositor, natural person, amounted to 21.5 thousand lei and was recorded in the 61-70-year age group (+7.8 percent as to the value registered at the end of 2016).
- In the case of depositors aged 30 or less than 30 years, the average deposit was worth six thousand lei on 31 December 2017.
- Average deposit in the male depositor segment stood at 16.3 thousand lei.
- The value of an average deposit in the female depositor segment amounted to 14.2 thousand lei.

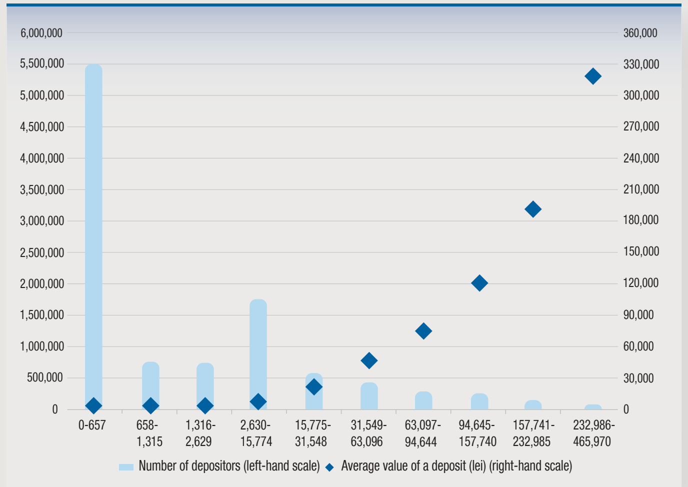
[63] The FGDB analysis is based on data reported by participating credit institutions in compliance with the provisions of FGDB *Regulation no.1/2016 on the transmission to the Bank Deposit Guarantee Scheme of the information needed to prepare the payout list and to calculate credit institutions' annual contributions*, with subsequent amendments and completions. In making this analysis, the FGDB applied the 1 depositor – ∑ deposits at different credit institutions algorithm.



- The Bucharest-Ilfov Development Region stayed well ahead of the other regions in terms of average deposit value (32.6 thousand lei). This region concentrates roughly one third of the value of the deposits held by the natural persons included in the analysis.
- Following suit were the South-East Development Region (with an average deposit worth 14 thousand lei), the North-West Development Region (with an average deposit of 13.4 thousand lei) and the Centre Development Region (with an average deposit worth 13.3 thousand lei).
- The lowest value of an average deposit was to be found in the South-West Oltenia Development Region. (10.2 thousand lei).



- The first segment groups the largest number of depositors (81.7 percent of the total number of depositors included in the analysis) who hold 6.4 percent of the total amount of deposits. The average deposit in this section is worth 1.2 thousand lei.
- The second segment includes 12.1 percent of the depositors with a 18.6 percent stake of the value of deposits and with an average deposit of 23 thousand lei.
- The last segment consists of depositors accounting for 0.3 percent of the total and holding roughly one quarter (24.2 percent) of the total value of the deposits of the residents included in the analysis. The average deposit in this segment is of around 1,200 thousand lei.



- A percentage of 99.6 of the overall number of resident depositors included in the analysis holds deposits below or equal to the leu equivalent of 100,000 euro.
- Resident natural persons with deposits smaller than 657 lei (which was the equivalent of a quarter of a monthly average net wage on 31 December 2017) are the most numerous (5.5 million).
- On 31 December 2017, 16.9 percent of the depositors considered in this analysis held deposits equivalent to one-to-six monthly average net wages.
- Depositors keeping between 50,000 euros and 100,000 euros in the bank number 71,754 and they hold deposits of 319.5 thousand lei on average.

LEGAL PERSONS' ELIGIBLE DEPOSITS

At the end of 2017, the legal persons guaranteed depositors (all enterprises, no matter the size) held at credit institutions in the membership of the FGDB totalled 107.9 billion lei, up 14.8 percent from 31 December 2016.

The rise for the whole year was of 13.9 billion lei, with more than half of that amount resulting from an increase in resident legal persons' leu-denominated deposits exceeding the guarantee ceiling.

Legal persons' eligible deposits moved in opposite directions in the two halves of 2017 with the drop by 1.4 billion lei of the first six months of the year being compensated by the great upsurge of the second semester (+15.3 billion lei).

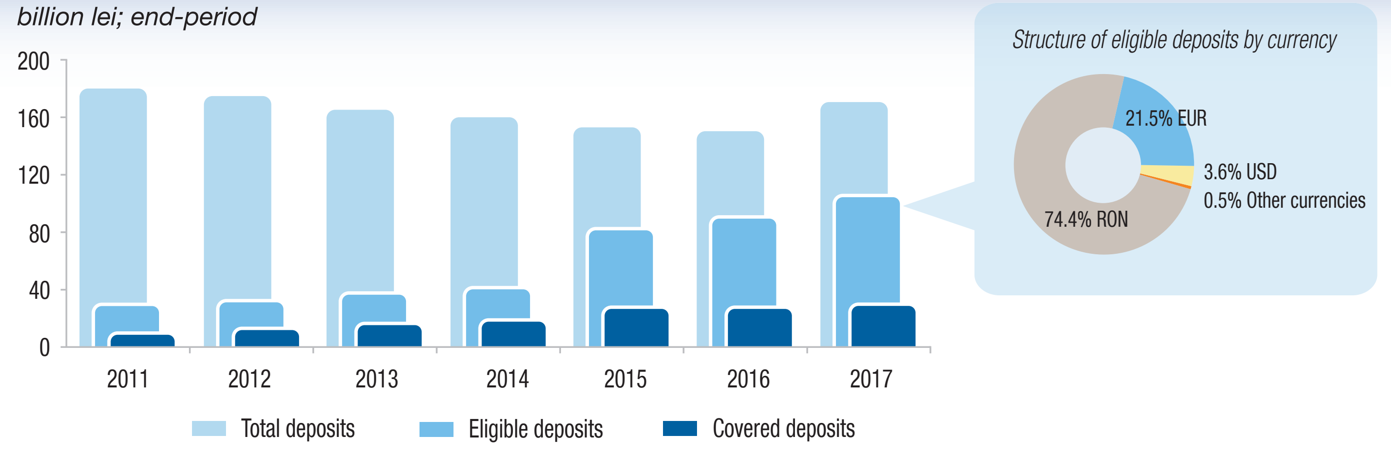
In 2017, the number of newly-formed legal entities grew by about 30 percent from the end of the previous year, while the number of deregistered legal entities diminished by almost a quarter.

Although in 2017 Romania registered one of the highest economic growth rates in the European Union and the financial health of businesses improved, companies still showed a high level of uncertainty, which triggered considerable caution when it came to making investments.

On the other hand, a number of companies ended the year with significant financial resources added to their bank accounts. On 31 December 2017, legal persons held mostly eligible deposits in the national currency standing at 80.3 billion lei (an annual variation of +13.3 percent). Both leu- and foreign currency-denominated deposits, especially the ones exceeding the leu-equivalent of 100,000 euros, posted year-on-year increases.

Deposits in foreign currencies amounted to the leu equivalent of 27.6 billion lei at end-2017 (an annual variation of +19.3 percent), adding the leu equivalent of 4.5 billion to the 31 December 2016 level. Euro-denominated deposits represented the main component of the deposits in foreign currencies and they were the propelling force behind the rise in legal persons' eligible deposits held in foreign currencies in 2017 (equivalent to +4.2 billion lei).

Legal Persons' Deposits at FGDB-Member Credit Institutions



With a 74.4 stake at the end of 2017, leu-denominated deposits continued to account for the bulk of legal persons' total eligible deposits, being followed by deposits in euros (21.5 percent) and in US dollars (3.6 percent).

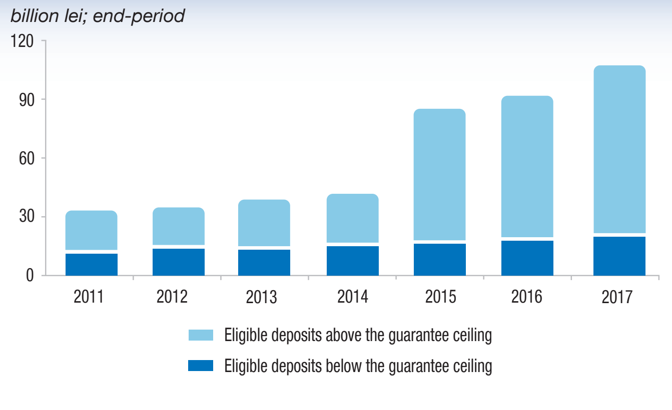
Resident persons with legal personality held 96.9 percent of the legal persons' eligible deposits in terms of value, a stake that reached 104.5 billion lei on 31 December 2017, going up 13.8 percent from the end of the previous year.

Legal persons' covered deposits registered the fastest growth in the second half of 2017, scoring a six-month variation of +15.9 percent. After losing around 750 million lei in the first semester of the year, legal persons' covered deposits gained 4.1 billion lei over the last six months, climbing to almost 30 billion lei on 31 December 2017.

Covered deposits accounted for 27.8 percent of the total eligible deposits held by legal persons on 31 December 2017.

Deposits topping the guarantee level took the bulk of the total value of legal persons' eligible deposits and also were the key factors behind the rise in eligible deposits. On 31 December 2017, deposits above the leu equivalent of 100,000 euros were worth 88.3 billion lei, accounting for 81.9 percent of legal persons' total deposits.

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



A percentage of 97.7 of the total number of guaranteed depositors (960,125 legal persons on 31 December 2017) held deposits at the most equal to 100,000 euros.

In the case of guaranteed legal persons, on 31 December 2017, the average value of an eligible deposit within the guarantee ceiling stood at 20.9 thousand lei, while a deposit worth more than 100,000 euros was worth 3,951.2 thousand lei on average. The average value of a covered deposit held by a guaranteed legal entity amounted to 31.2 thousand lei at end-2017 (an annual variation of +6.8 percent).

PAYOUT PROCESS

As pointed out in the first chapter of this report, throughout its existence, the FGDB has funded payouts worth 512.2 million lei after seven banks went bankrupt over 1999 – 2006.

In all its seven interventions, the FGDB reimbursed guaranteed depositors within the legal time frame and the compensation payment process ran smoothly. According to the law, the FGDB's last payment obligation to the respective banks' guaranteed depositors expired in January 2010.

In compliance with legislation on deposit guarantee, once deposits become unavailable, the FGDB has the obligation to reimburse guaranteed depositors within maximum seven working days, which is the shortest payout period stipulated under the European Union *Directive on deposit guarantee schemes*[64].

In this respect, the FGDB has been permanently concerned to provide all the necessary conditions for an effective intervention at all times and to contribute substantially to depositor protection.

In the first half of 2017, in line with legal provisions, the FGDB revised and supplemented its *Payout Procedure* including actions needed for payouts made by the deposit guarantee scheme in the host member state in the case of a FGDB-member credit institution with branches in another member country

Due compensation is paid through credit institutions mandated by the FGDB, endorsed by the FGDB Supervisory Board and approved by the Board of Directors of the National Bank of Romania. That is why, in order to have the necessary payout channels already put in place in the event of deposit unavailability, at the beginning of each year[65] the FGDB mandates one or several credit institutions with a vast network of units nationwide to make the repayments.

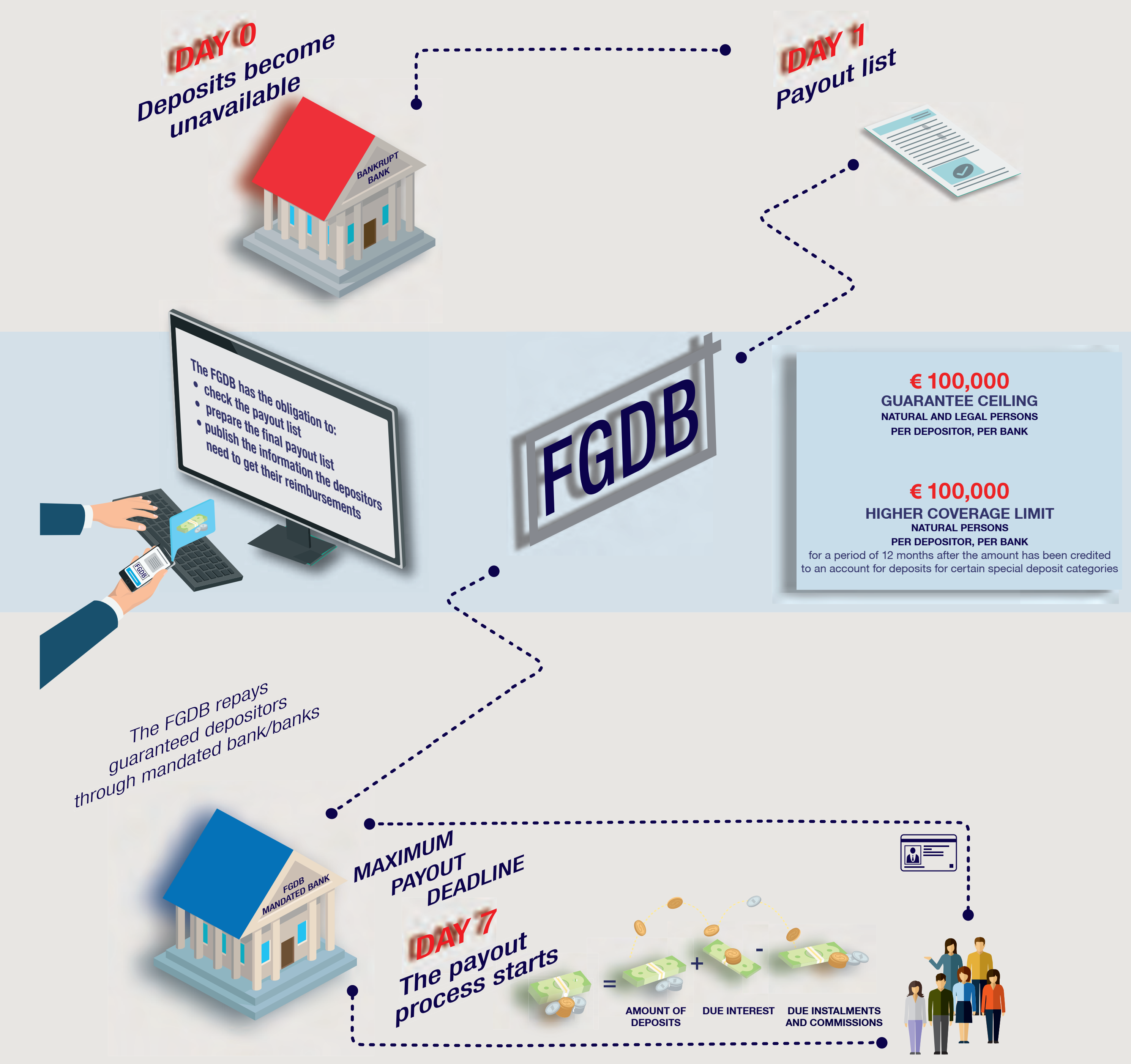
The FGDB has been continuously focused on securing the adequacy of its operational and financial capability so as to be ready at all times to meet the payout deadline stipulated by the law. To the same end, it has tested the capability of credit institutions to generate full and accurate payout lists.

According to the *Multiannual Programme for Stress Test Exercises*[66] which the FGDB adopted in the second quarter of 2017, all affiliated credit institutions' capability to prepare and transmit payout lists was tested. The results of the tests showed that member credit institutions are capable to prepare and dispatch payout lists by the deadline regulations in force stipulate.

Throughout 2017, there was no instance of deposit unavailability at any credit institution in Romania and, consequently, there was no need for the FGDB to intervene and make repayments.

[64] Within the European Union, the payout period is envisaged to get gradually shorter from 20 working days to 7 working days by the year 2024.
[65] For instance, if deposits with one of the member credit institution had become unavailable in 2017, the FGDB would have paid due compensation through Banca Transilvania and BRD – Groupe Société Générale, the two banks the FGDB had mandated for that year at the end of a selection procedure conducted according to FGDB *Regulation no. 5/2016 on the selection of credit institutions the FGDB mandates to repay guaranteed depositors*.
[66] The FGDB transposed requirements under EU legislation on the obligation of deposit guarantee schemes to periodically test their own systems into FGDB *Regulation no. 4/2016 on the organisation of stress test exercises by the Bank Deposit Guarantee Fund*, drawn up according to the European Banking *Authority's Guidelines on stress tests of deposit guarantee schemes pursuant to Directive 2014/49/EU*.

Payout Process



FGDB MEMBERSHIP

All institutions accepting deposits from the general public within the European Union have the obligation to join a deposit guarantee scheme.

The FGDB guarantees deposits held at all credit institutions authorised by the National Bank of Romania, including the deposits taken by their branches abroad. As for deposits at branches in Romania of credit institutions headquartered in other member states, these are covered by the home-country guarantee schemes.

As shown in the first chapter of this report, at the end of 2017, the FGDB had in its membership 28 credit institutions[67], of which 25 banks, two savings and loans institutions and a cooperative credit organisation (central body and affiliated cooperatives).

The number of banks participating in the FGDB in 2017 dropped to 28 from 29 at the end of 2016 as the Romanian banking sector consolidated following a merger by absorption between two local credit institutions[68].

Every year, the FGDB has undertaken extensive verifications of all the credit institutions in its membership, in compliance with legal provisions. The final goal of these controls has always been to strengthen depositor protection, with both credit institutions and the FGDB providing all the necessary conditions for an effective run of the payout process. In this respect, of tremendous importance is that credit institutions correct the deficiencies identified during the FGDB checks which were related to the registration and classification of deposits in terms of FGDB coverage and the supply of information to depositors

The controls[69] carried out in 2017 focused on:

i. the accuracy of the data submitted by member credit institutions for the calculation of annual contributions to the deposit guarantee fund in 2017;
ii. the accuracy of the data submitted by member credit institutions in the *Payout List* on 30 June 2017;
iii. compliance with legal provisions on the information credit institutions provide to depositors.

By comparison with previous years, the 2017 controls showed a clear improvement in the quality of reported data, as well as significantly less errors in the classification of deposits in terms of guarantee[70], and fewer deficiencies in terms of entries into the *Payout List*.

A verification of the way in which depositors were provided with information on deposit guarantee was conducted at the headquarters of 73 units[71] of the 28 credit institutions across the country concentrating on:

- supply of information to depositors on the deposit guarantee scheme and the categories of deposits excluded from coverage;
- records of the information provided to depositors in connection with deposit coverage and the method of calculating compensation before they sign a deposit contract;
- fulfilment by credit institutions of their obligation to include in their depositors' each statement of account a confirmation that their deposits are eligible and to refer them to the standardised information sheet, according to legal provisions.

The reports drawn up at the end of the respective controls set measures and deadlines for the correction of the deficiencies that had been found. During future such verifications, the FGDB will monitor the implementation of those measures and the observance of applicable legal provisions.

Besides the aforesaid controls, in 2017 the FGDB maintained its close cooperative ties with member credit institutions.

So, for instance, with the support of the Romanian Banking Association, several working meetings were organised with representatives with the banking community which focused on such topics as the preparation and unfolding of tests of the capability to work out and deliver payout lists, the results of the respective tests, the novel features of the funding policy of the deposit guarantee scheme, the evolution of the contributions of credit institutions to the deposit guarantee fund and to the bank resolution fund, and the preparation of the second FGDB-conducted stress test exercise, which is scheduled to run in May 2018.

[67] *Annex 3 – List of FGDB-member credit institutions as at 31 December 2017.*

[68] Early in May 2017, there was a merger by absorption between Banca Comercială Carpatica S.A. (absorbing bank) and Patria Bank S.A. (absorbed bank). The resulting entity is called Patria Bank S.A.

[69] From a procedural point of view, these controls were carried though in compliance with the provisions under *Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund, Regulation no. 1/2016 on the transmission to the Bank Deposit Guarantee Scheme of the information needed to prepare the Payout List and to calculate credit institutions' annual contributions,* with subsequent amendments and completions, and *Internal Procedure on the verification by the Bank Deposit Guarantee Fund of the data reported by member credit institutions and of their observance of legal provisions on the information provided to depositors*.

[70] The deposits of a number of guaranteed legal persons (non-profit associations, dwellers' associations, small and medium-sized enterprises) were placed in the category of deposits excluded from coverage, while deposits of unguaranteed legal persons (non-banking financial institutions, mutual aid societies and investment firms) were classified as eligible deposits.

[71] So far, the FGDB's controls have been limited to units credit institutions opened in Bucharest city. In 2018, the FGDB's annual verifications will go hand in hand with a first nationwide examination of the observance of the obligation of credit institutions to provide information to depositors. This control will take place on site, at credit institutions' units in the territory (branches, agencies, second business locations).

4. FGDB - Managed Financial Resources

The amount of financial resources accumulated in the two FGDB-managed funds – the deposit guarantee fund[72] and the bank resolution fund[73] – increased further in 2017, which favoured the strengthening of the FGDB capability to finance the aimed measures to protect depositors and maintain financial stability which are envisaged within the legal framework.On 31 December 2017, the two funds totalled 6,469.8 million lei, adding 546.3 million lei to the end-2016 level. The deposit guarantee fund and the bank resolution fund also include the FGDB's 2017 profit, which was almost entirely (at least 99 percent) allocated to replenish the available financial resources of the two funds, in compliance with the law.

Since their creation, the two funds have had an *ex-ante* funding mechanism which has made possible a gradual accumulation of financial resources[74], which, in the case of the deposit guarantee fund have already topped the target level of 0.8 percent of the value of covered deposits, which the European Union set for a 2024 deadline. That evolution gained the FGDB a place among schemes that currently boast a notable level of adequacy of financial means within the respective fund.

Similarly, the bank resolution fund, which had a positive balance from the very beginning thanks to the way in which it was set up, reached in only two years half the target level of one percent of the value of covered deposits which all EU member states must attain by 2024.

The FGDB registers operations related to building up, investing and using financial resources for deposit protection and bank resolution as distinct entries in accounting records. Both the sources of financing for the two funds and the use of financial resources are strictly established by law. As the administrator of the two funds, the FGDB covers all its operating expenses exclusively from revenues resulting from investments of the financial resources of the two funds, being, therefore, financially independent.

In order to secure the financial resources it needs to fulfil its responsibilities under the law, the FGDB may resort, besides internal resources, to external financing sources, such as loans from the Government, from credit institutions, financial institutions and other deposit guarantee schemes or, in the case of resolution measures, from other resolution funding mechanisms within the European Union[75].

[72] Deposit guarantee fund resources are used to reimburse guaranteed depositors and to finance the application of the resolution measures that grant depositors' continuous access to the money they keep in the banks that undergo resolution proceedings.

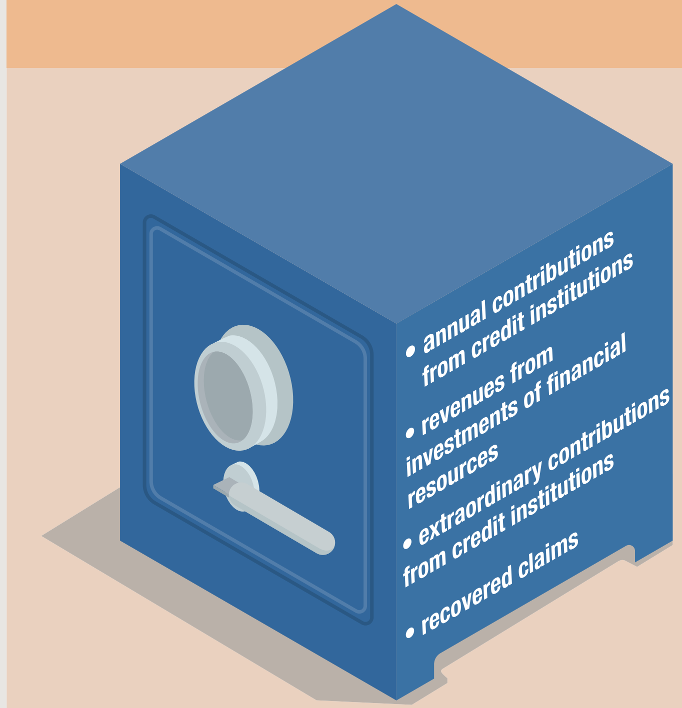
[73] As pointed out in the first chapter of this report, the bank resolution fund was set up on 14 December 2015 by taking over the financial resources of the bank restructuring fund (which was intended to compensate persons prejudiced by measures taken and implemented during special administration proceedings and to finance the stabilisation measures decided by the National Bank of Romania). The bank restructuring fund was administered by the FGDB over 2012-13 December 2015, its resources being taken over from the special compensation fund (2010-2011), which was created to supply the financial resources needed to compensate persons adversely affected by measures proposed and implemented during special administration procedures.

[74] The *ex-ante* funding mechanism was imposed on the European Union in recent years following the adoption in 2014 of a new legal framework for deposit guarantee schemes and the recovery and resolution of credit institutions.

[75] Since even in the early years of its activity the FGDB had to repay guaranteed depositors, it had to resort to loans from the National Bank of Romania, in compliance with legislation in force at that time. Those loans were intended to cover the shortage of internal resources needed to fund payouts to depositors of Banca Internațională a Religiilor (BIR) and Bankcoop, two banks that filed for bankruptcy in 2000. By 2005, the FGDB had paid back the loans.

Funds administered by the FGDB

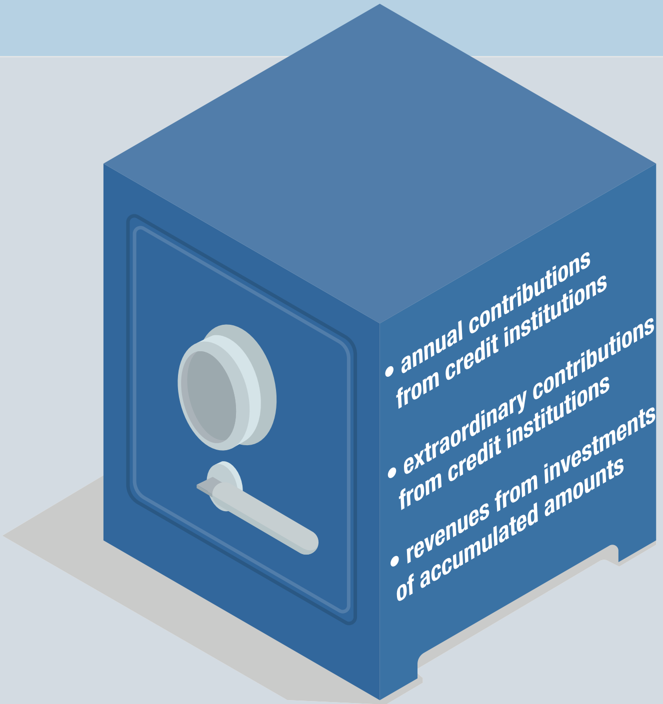
The Deposit Guarantee Fund



- loans from credit institutions, financial companies and other institutions
- loans from other deposit guarantee schemes
- Government loans
  In exceptional cases where the FGDB's financial resources might prove insufficient, the Government, through the Ministry of Public Finance, covers the shortage offering a loan within five working days at the most from the date of the FGDB request.

- payouts to guaranteed depositors
- funding of resolution measures applied to FGDB-member credit institutions, in line with decisions reached by the National Bank of Romania in its capacity as the resolution authority
- loans to other deposit guarantee schemes

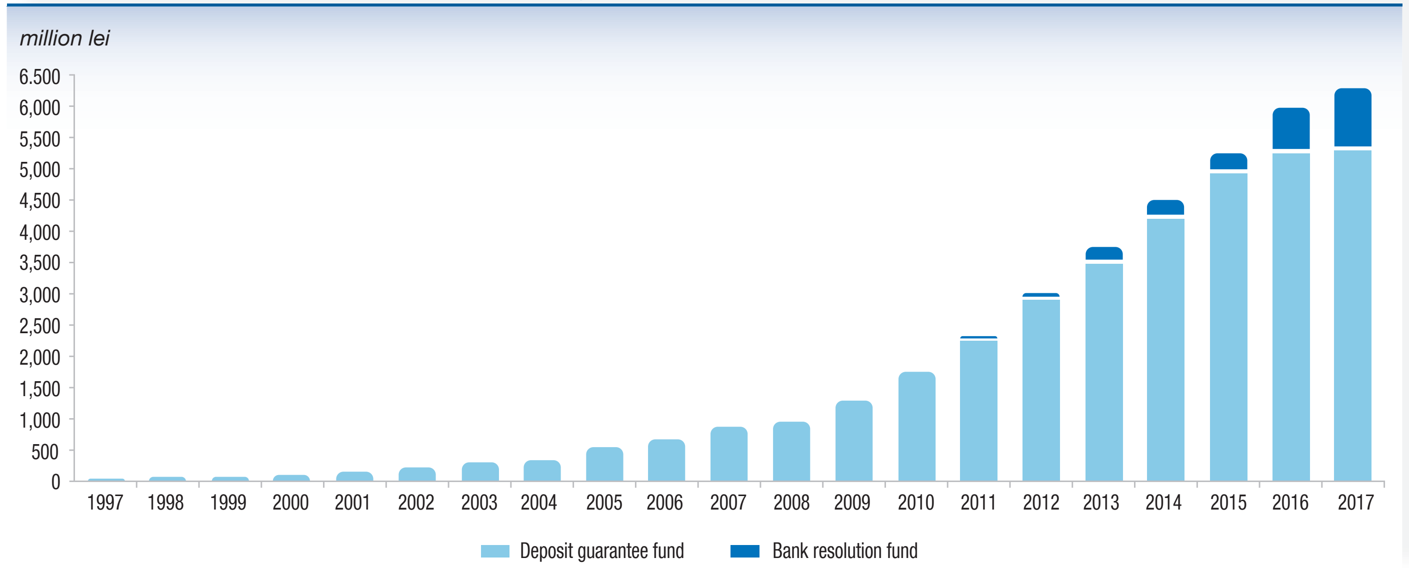
The Bank Resolution Fund



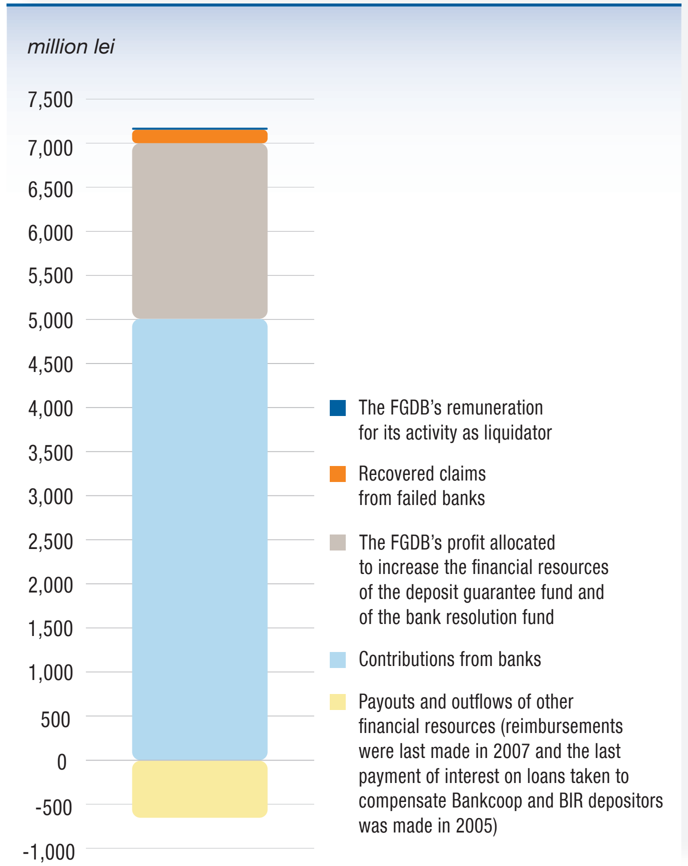
- loans and other forms of assistance from credit institutions, financial institutions or other third parties
- loans from resolution funding mechanisms within the European Union
- loans from the Government

- funding of law-stipulated resolution measures to be applied to credit institutions according to decisions made by the National Bank of Romania in its capacity as the resolution authority
- loans to other resolution financing mechanisms within the European Union

Resources Administered by the FGDB since Its Creation to 31 December 2017



The FGDB's Total Funds and Liabilities since Its Creation to 31 December 2017



In exceptional cases where:

- *the available financial resources of the FGDB, as a deposit guarantee scheme, are insufficient to fund either payouts or resolution measures*

or

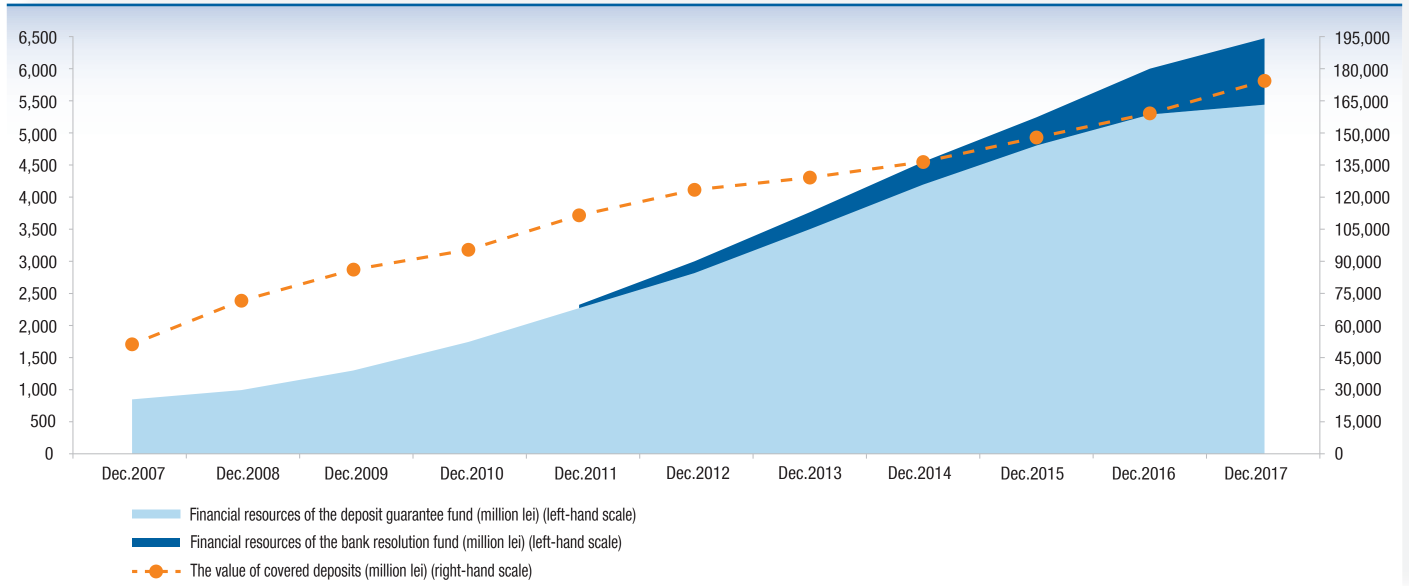
- *the financial resources of the FGDB-managed bank resolution fund are not enough to finance measures for the resolution of credit institutions in line with legislation on the recovery and resolution of credit institutions,*

The Government, through the Ministry of Public Finance, lends the FGDB the amount it needs within maximum five working days of the date of the FGDB's request.

In 2017, financial means administered by the FGDB advanced by 9.2 percent, particularly on the strength of the financial resources of the bank resolution fund, while the overall value of covered deposits jumped by 8.8 percent.

The contributions to the two FGDB-managed funds which FGDB-member credit institutions paid in 2017 totalled 438.6 million lei, 4.5 percent less than during the previous year.

The FGDB-Managed Resources and the Value of Covered Deposits



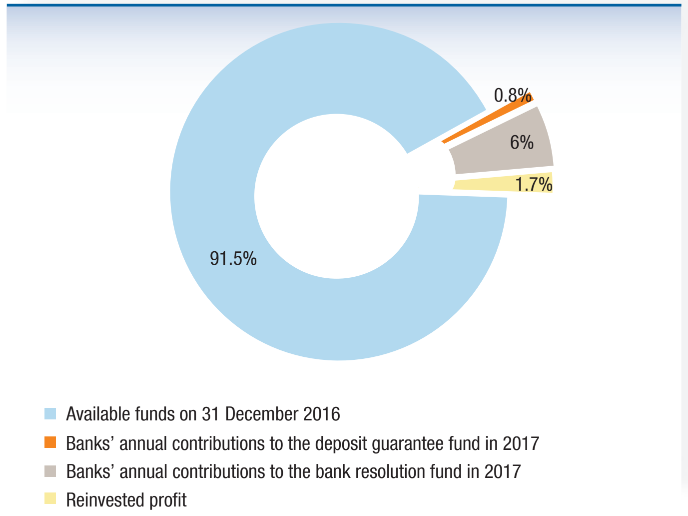
Besides the aforesaid amount, there was another significant inflow of financial means worth 107.4 million lei, which resulted from distributed profit according to the law. The performance of the FGDB's investment activities was adequate despite a marked drop in interest rates on the market in the first nine months of 2017.

The available financial resources of both the deposit guarantee fund and the bank resolution fund were managed with caution, a low-risk profile of investments having been maintained.

In line with provisions laid down in *Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund* and in *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* and with the best practices developed by deposit guarantee schemes as far as the management of available financial resources is concerned, the 2017 strategy for investing the financial means of the two funds concentrated on minimising risks and ensuring an adequate liquidity of investments, as well as on yields, as a complementary target.

The 2017 strategy was worked out based on an updated risk assessment methodology in harmony with adjustments made by the National Bank of Romania as

Financial Resources in 2017



part of the Supervisory Review and Evaluation Process (SREP). The updates provided for a more accurate indication of the amount of liquidity of credit institutions since the assessment methodology introduced the "liquidity coverage ratio", the reporting of which has been a binding requirement starting October 2016.

This internal assessment tool allowed the FGDB to make timely decisions on adjustments to the structure of investments according to the evolution of the risk rating which it had determined for credit institutions and for which it had set a minimum acceptable level.care trebuie să se situeze într-o limită maximă aprobată.

From a strategic viewpoint, in managing the two investment portfolios, the FGDB resorted to a system of exposure limits set by types of issuers/ counterparties, financial instruments, maturities and currencies. Furthermore, the operational decisions the FGDB made on the application of the provisions of the strategy for investing financial resources were intended to maintain a balanced investment structure – in the case of both the deposit guarantee fund and the bank resolution fund – tailored to the moves in the financial-banking market.

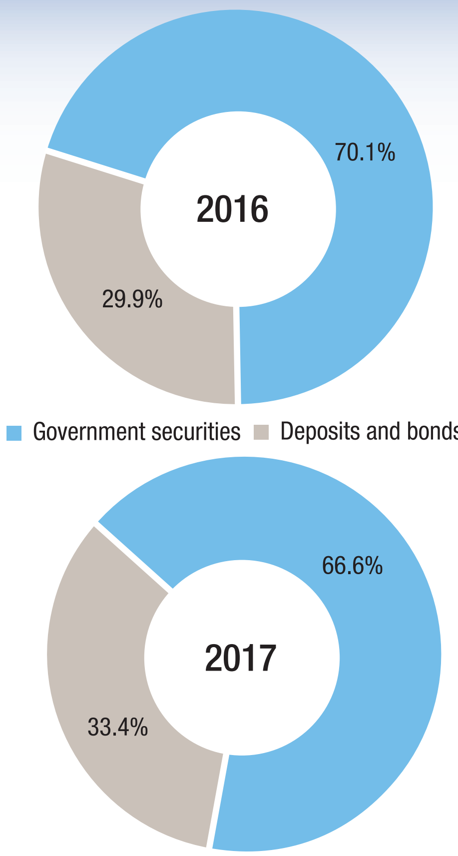
As an expression of its concerns to secure adequate liquidity, the FGDB maintained a monthly liquidity reserve of 10-20 percent of the available financial resources of both the deposit guarantee fund and the bank resolution fund. It also pursued an active management of its portfolios of investments adjusting the exposure structure (by credit institutions and types of investments and maturities) as required by tangible market conditions and the results of internal risk assessments, all while observing the limits set under its annual investment strategy.

One of the particular concerns of the FGDB was to provide the highest possible level of granularity of its investments by applying a diversification strategy conducive to an adequate dispersion by types of instruments and by categories of issuers and, within the category of credit institutions, by issuers assigned adequate risk ratings.

In order to provide higher liquidity levels and increased flexibility in choosing the timing of liquidating the investments, the FGDB decided in 2017 to invest its financial resources also in instruments classified as "available for sale".

In 2017, the average invested capital stood at 6,338.1 million lei, taking a 10.5 percent leap from 2016.

Structure of the FGDB's Overall Investments



In a bid to mitigate concentration risk, in line with the targets set under its investment strategy, the FGDB reduced the weight of government securities in its investment portfolio from 70.1 percent to 66.6 percent on 31 December 2017. Nevertheless, in terms of absolute value, FGDB investments in government securities increased by 151 million lei throughout 2017 to stand at 4,353 million lei on 31 December.

THE DEPOSIT GUARANTEE FUND

The financial resources of the deposit guarantee fund (including the 2017 reinvested profit) amounted to 5,472.5 million lei on 31 December 2017, posting a gain of 151.3 million lei over the end of the previous year.

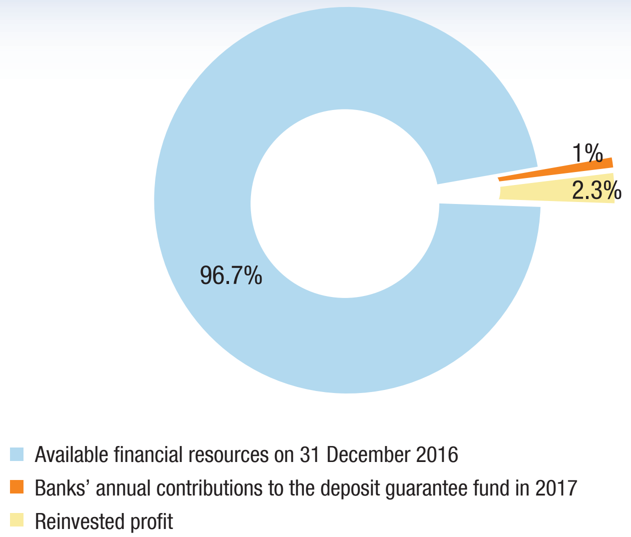
On 31 December 2017, the financial means of the deposit guarantee fund accounted for 3.17 percent of the value of covered deposits, a comfortable percentage by comparison with levels attained by other deposit guarantee schemes or with the minimum target level all European Union member states must reach by 2024.

The year 2017 concluded the first time horizon which the FGDB envisaged as part of its new multi-annual approach to the target level set for the available financial resources of the deposit guarantee fund[76]. The multi-annual target – based on existing requirements at the time of the projection, as well as future needs – was set for the 2016-2017 time horizon so as to ensure a high degree of predictability for both the FGDB and its member credit institutions and the harmonisation between the actions of the FGDB and of the National Bank of Romania, in its capacity as the bank resolution authority responsible for establishing the target level of the financial resources of the bank resolution fund.

In line with the actions agreed upon for the 2016-2017 time horizon, the FGDB collected total contributions to the deposit guarantee fund amounting to roughly 400 million lei, of which 52.3 million lei in 2017. The goal of this two-year spread was to make sure that over the respective period credit institutions would contribute relatively constant total amounts to the deposit guarantee fund and the bank resolution fund. According to the strategy agreed with the National Bank of Romania, the contributions to the deposit guarantee fund which the FGDB collected in 2017 accounted for some 15 percent of the 2016 amount of contributions, which consequently led to a faster build-up of the bank resolution fund, while maintaining a relatively constant financial effort for credit institutions[77].

The system of risk-adjusted contributions to the deposit guarantee fund was further improved in 2017 following the transition from the method of categorising credit institutions into risk classes, which was adopted in 2016, to the sliding scale method. The new method permits a proper differentiation of member credit institutions according to their risk profile, each institution having its own risk score calculated on the basis of its financial statements dispatched to the National Bank of Romania.

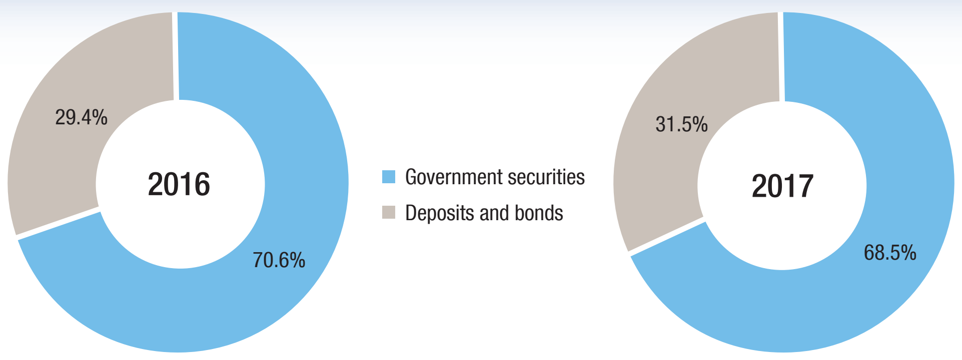
Financial Resources of the Deposit Guarantee Fund in 2017



[76] The multi-annual approach is characteristic of the contribution practices of deposit guarantee schemes in the European Union and is intended to ensure a predictable framework for the attainment of the assumed target level by rigorously spreading out the total contributions to be collected over time, within the established time horizon.

[77] Over those two years, an actual reversal occurred as far as contributions to the deposit guarantee fund and the bank resolution were concerned. The contributions of credit institutions (to the deposit guarantee fund and the bank resolution fund) were rather similar in terms of volume, totalling 459.2 million lei in 2016 and 438.6 million lei in 2017.

Structure of FGDB's Investments related to the Deposit Guarantee Fund



The revised calculation method complies with the requirements of the European Banking Authority's *Guidelines on methods for calculating contributions to deposit guarantee schemes* and was approved by the National Bank of Romania, in keeping with the provisions of legislation in force.

To ensure the implementation of the calculation system based on the sliding scale method, the FGDB issued *Regulation no. 1/2017 to amend and complement Regulation no. 2/2016 on the calculation and payment of risk-based contributions to the Bank Deposit Guarantee Fund*. The calculation method was published in full on the FGDB's website, in the "Banks" section.

On 31 December 2017, investments in government securities accounted for 68.5 percent of total investments of the financial resources of the deposit guarantee fund (an annual variation of -2.1 percentage points).

THE BANK RESOLUTION FUND

The available financial resources of the bank resolution fund, including the 2017 reinvested profit, stood at 997.3 million lei on 31 December 2017, climbing by 65.6 percent from end-2016.

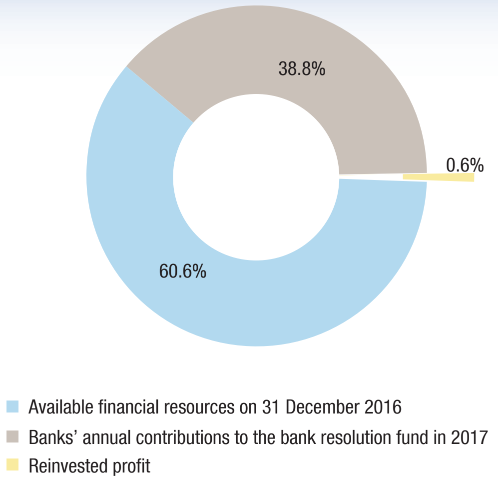
The substantial increase in the financial resources of the bank resolution fund triggered a rise by 0.20 percentage points of the ratio between financial means and the volume of covered deposits, which reached 0.58 percent on 31 December 2017[78].

The National Bank of Romania, as the resolution authority, set the level of individual contributions for each credit institution taking account of its risk profile.

In 2017, contributions to the bank resolution fund stood at 386.3 million lei, around 3.5 times more than during the previous year. As pointed out in the previous section of this chapter, in line with decisions agreed upon by the FGDB and the National Bank of Romania, the rise in contributions to the bank resolution fund was concomitant with a significant drop in contributions to the deposit guarantee fund and the cumulative contributions of the member credit institutions to the two funds were even smaller than in 2016.

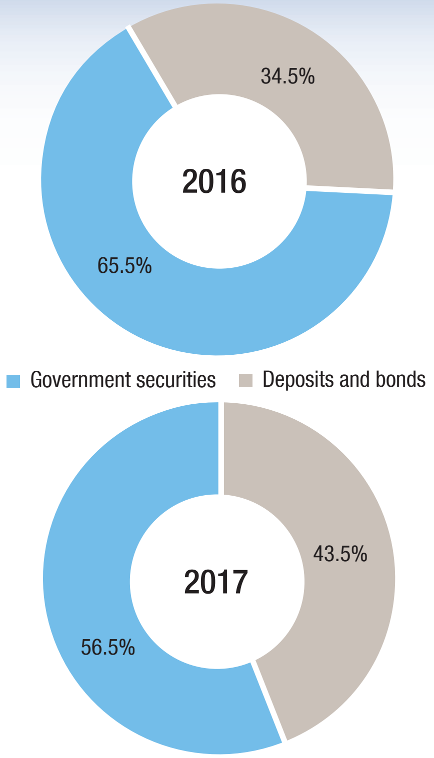
[78] The EU Directive on bank recovery and resolution envisages a target level of one percent which all member states must reach by 2024.

Financial Resources of the Bank Resolution Fund in 2017



Just like in the case of the deposit guarantee fund, the weight of government securities in investments made using the financial resources of the bank resolution fund continued to decrease all through 2017, reaching 56.5 percent on 31 December 2017 (an annual variation of -9 percentage points).

Structure of FGDB's Investments related to the Bank Resolution Fund



5. Liquidation of Failed Credit Institutions

RESULTS OF THE LIQUIDATION PROCESS AT BANKS WHERE THE FGDB IS CREDITOR OR LIQUIDATOR

Acting as creditor and liquidator for more than two decades since its creation in 1996, the FGDB has contributed actively to the recovery of the banking sector in Romania.

As many as seven banks went bankrupt over 1999–2006, triggering the activation of the deposit guarantee scheme[79]. Only one of the seven procedures was closed in 2012, after more than 13 years (i. e. Banca Comercială "Albina" SA, in bankruptcy proceedings over 25 Mai 1999-14 December 2012).

At the end of 2017, six banks were still going through bankruptcy procedures with the FGDB acting as creditor for three of them and as liquidator for another two[80].

The FGDB acting as:	
creditor	**liquidator**
• Bankcoop SA – in bankruptcy procedure since 8 February 2000; the procedure is expected to close in 2018 • Banca Internațională a Religiilor SA – failed on 10 July 2000; the bankruptcy procedure is estimated to end in two-to-three years • Banca "Columna" SA – went bankrupt on 18 March 2003; in this case, the FGDB has an unsecured claim of small value and holds no assurance of payment given the existing high-value budgetary claim which has priority	• *Banca Română de Scont SA (BRS)* – filed for bankruptcy on 16 April 2002; after almost 12 years of litigations, the court rendered a final judgement on 22 March 2018 ordering compensation for damage caused by bankruptcy proceedings, which is to be implemented by enforcement measures • *Banca Turco-Română SA (BTR)* – in bankruptcy procedure since 3 July 2002; in a situation comparable with the BRS case, a final judgement was handed down on 25 May 2012, after 10 years of litigations, ordering five former administrators to pay civil damages for the bank's failure; claim recovery operations are under way abroad

[79] Besides the seven banks that failed over 1999 – 2006, *Banca de Investiții şi Dezvoltare SA* was dissolved on 11 March 2002 following its shareholders' decision. The voluntary liquidation of the bank has not been finalised. In line with applicable legislation, the FGDB did not make compensation payments in this case, which was one of voluntary liquidation rather than bankruptcy triggering the unavailability of deposits.

[80] Along the banks mentioned in the table, there is also the special case of Nova Bank. On 22 August 2006, the National Bank of Romania ordered the dissolution followed by liquidation of Nova Bank SA and appointed the FGDB as liquidator on 4 September 2006. The FGDB's liquidator mandate was short-lived as the bank was placed in bankruptcy on 9 November 2006. The FGDB ceased to be a creditor of Nova Bank in 2007 following an assignment of claims agreement with another creditor, as well as of the banks where it had acted as liquidator since it had already recovered its claims in full (in 2004 from *Banca Română de Scont SA* and in 2011 from *Banca Turco-Română SA*).

Cumulative Data on Claims Against the Failed Banks as at 31 December 2017

Total claims (body of creditors) 1,001 million lei	FGDB claims = 513 million lei
	Other creditors' claims = 488 million lei
Total recovered claims 331 million lei	*Claims recovered by the FGDB = 176 million lei (claim recovery ratio 34.31% of total claims)*
	Claims recovered by other creditors = 155 million lei (claim recovery ratio 31.76% of total claims)

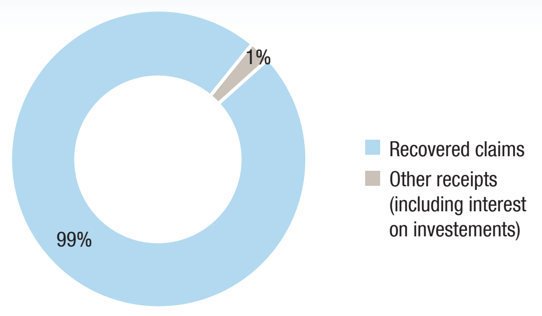
More than 95 percent of the total 2017 receipts of the failed banks where the FGDB is either creditor or liquidator resulted from an outstanding claim which the BTR had recovered partially following actions taken in Switzerland; as for the expenses the five banks had in 2017, third party services spending took the bulk of the total (46 percent).

Total Receipts and Expenses of the Failed Banks in 2017

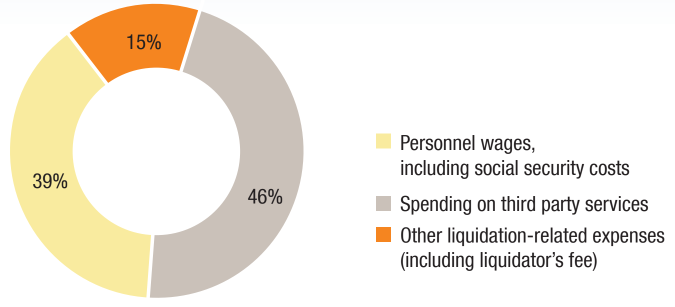
Failed bank	Total receipts (thou. lei)	Total expenses (thou. lei)
1. Bankcoop	13	44
2. BIR	327	359
3. *BRS*	7	630
4. *BTR*	8,791	1,302
5. Banca "Columna"	88	86
TOTAL	**9,226**	**2,421**

Structure of the receipts and expenses at failed banks

Receipts



Expenses



In 2017, there was only one case of distribution to creditors, with 5,714 thousand lei of total allotted funds of 6,818 thousand lei going to the unsecured creditors of *BTR* by the end of the year.

By 31 December 2017, the funds allotted for distribution to creditors within the bankruptcy procedures in which the FGDB was – and still is – involved as creditor/liquidator totalled 331 million lei.

Considering the outstanding claims totalling 1,001 million lei, the claim recovery ratio amounted to 33.07 percent.

Just like during previous years, the FGDB, in its capacity as both creditor and liquidator, showed concern for the recovery of claims and the decrease of the number of debtors of the failed banks either by recouping debts or by removing from accounting records debtors with no assurance of payment. On 31 December 2017, the number of debtors in the records of the failed banks stood at 122, seven debtors less than in 2016.

The Evolution of the Number of Bankrupt Banks' Debtors

Bankrupt bank	Total number of debtors on bankruptcy filing date	Total number of debtors removed from accounting records	Total number of debtors* on 31 December 2017
1	*2*	*3*	*4=2-3*
1. Bankcoop	14,716	14,704	12
2. BIR	22,416	22,340	76
3. BRS	232	202	30
4. BTR	1,286	1,282	4
TOTAL	**38,650**	**38,528**	**122**

* The only available data in the case of Banca "Columna" are those referring to the number of debtors on 31 December 2017, namely seven debtors

Total receipts, expenses and funds for distribution to creditors as at 31 December 2017:

Bankrupt bank[1)]	Total claims to recover on the date of bankruptcy (thou. lei)	Total liquidation-related receipts[2)] (thou. lei): on 31 December 2017	Total liquidation-related receipts: of which, in 2017	of which: recovered claims: value (thou. lei)	recovered claims: *% of total claims to recover*	recovered claims: *% of total receipts*	asset sales: value (thou. lei)	asset sales: *% of total receipts*	other receipts: value (thou. lei)	other receipts: *% of total receipts*	Total liquidation-related expenses (thou. lei): on 31 December 2017	Total liquidation-related expenses: of which, in 2017	Total funds allotted for distribution (thou. lei)
1. Bankcoop	250,050	155,456	13	92,002	*36.79*	*59.18*	57,496	*36.99*	5,958	*3.83*	62,609	44	98,047
2. BIR	213,982	174,717	327	137,652	*64.33*	*78.79*	23,554	*13.48*	13,511	*7.73*	81,341	359	95,635
3. *BRS*	37,750	38,629	7	17,922	*47.48*	*46.40*	16,423	*42.51*	4,284	*11.09*	17,881	630	18,130
4. *BTR*	227,480	65,858	8,791	13,912	*6.12*	*21.12*	31,799	*48.29*	20,147	*30.59*	17,318	1,302	45,490
5. Banca "Columna"	..	..	88	..	..	..	..	..	..	..	..	86	50,298
TOTAL[3)]	**729,262**	**434,660**	**9,226**	**261,488**	*35.86*	*60.16*	**129,272**	*29.74*	**43,900**	*10.10*	**179,149**	**2,421**	**307,600**

[1)] No cumulative data on receipts and expenses are available for Banca "Columna

[2)] Net value (free of VAT or other deductions, as the case may be).

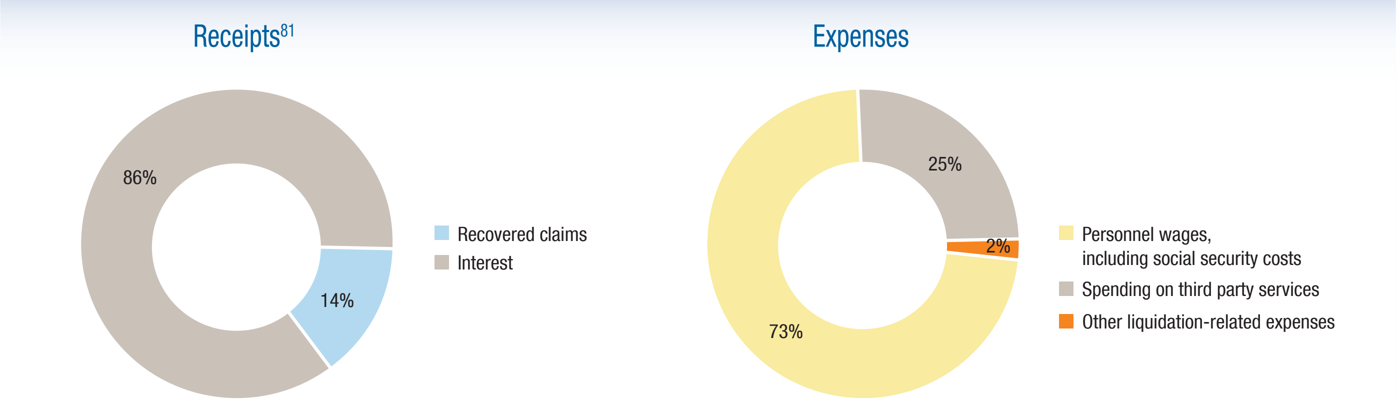
[3)] Total liquidation-related receipts, including Banca "Albina" and Nova Bank, stand at 469,974 thousand lei (recovered claims totalling 269,224 thousand lei, sales of assets worth 142,377 thousand lei and other receipts of 49,26335 thousand lei), overall expenses amount to 190,099 thousand lei and the funds allotted for distribution total 331,008 thousand lei.

Banca Română de Scont (BRS)

From the date BRS filed for bankruptcy (16 April 2002) to 31 December 2017, claims amounting to 17,922 thousand lei were recovered, which indicates a claim recovery ratio of 47 percent.

If debt repayments from collateral deposits/ guarantees and the takeover of bank debtors' assets to recover claims are taken into consideration, the claim recovery ratio (including fresh claims recorded in bank's estate after failure) is significantly higher, going up to 57 percent.

Structure of the receipts and expenses of *BRS* in 2017



As the collecting account of *BRS* remained under seizure in 2017[82], no funds were distributed to creditors despite the 3,696 thousand lei on hand and at bank at the end of the year. *BRS* currently negotiates the lifting of the seizure in an attempt to resolve this issue amiably.

By 31 December 2017, BRS had distributed to its creditors a total 18,130 thousand lei, satisfying 47 percent of the body of creditors. That was the highest level of creditor satisfaction registered by any of the failed banks.

The process of recovering claims to protect the interest of *BRS* creditors has been complex and difficult, resulting in a multitude of legal actions which continued also throughout 2017. Standing out among the numerous litigations is the criminal case concerning the embezzlement of *BRS*, with the Bucharest Tribunal rendering a judgment on the merits on 11 May 2015 and the Bucharest Court of Appeal reviewing appeals on 22 March 2018. As a culmination of the actions taken throughout 2017, *BRS* won on appeal and, under the final judgment of March 2018, obtained the requested amount of civil damages for the bank's failure, that is 93,526 thousand lei (as against one third of this amount awarded under a decision of the court of first instance). The Court of Appeal ordered six individuals[83] - who were convicted to imprisonment – to pay the civil damages.

The measures to execute the enforceable title obtained early in 2018 are intended to start enforcement procedures against the assets of the six debtors, by dividing joint assets included, and provide for the resumption of court proceedings on the civil cases that were adjourned until the criminal file concerning the embezzlement of *BRS* is resolved (58 civil cases).

[81] In 2017, *BRS*'s receipts amounted to seven thousand lei, of which six thousand lei coming from interest on investments and one thousand lei from recovered claims and other earnings.

[82] The seizure was imposed in 2011 as part of a criminal case concerning damage caused to RAFO SA and has been maintained pending a court ruling on RAFO's action for damages against *BRS*. On 4 November 2014, the Bucharest Tribunal adjourned the matter until the *BRS* bankruptcy procedure ends.

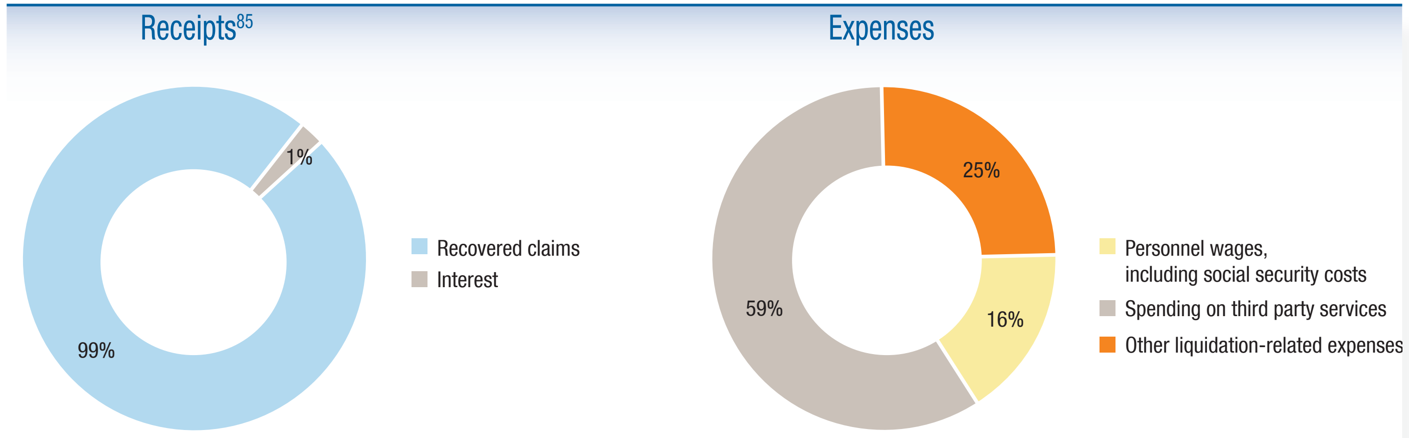
[83] The former bank president, the former manager of the bank's Bucharest branch, as well as the heads of the companies that caused damage to the bank.

Banca Turco-Română (BTR)

Considering the claims in BTR's records on bankruptcy date, other than the claims over the main debtor, the recovery ratio stood at 29 percent at the end of 2017.

Recovered claims over the period from bankruptcy date (3 July 2002) to 31 December 2017 amounted to 13,912 thousand lei, or six percent of total claims. In 2017, a first tranche of 8,724 thousand lei was recovered from the bank's main debtor[84].

Structure of the receipts and expenses of *BTR* in 2017



Civil damages for the bank's failure represent *BTR*'s main claim. On 31 December 2017, this accrued debt amounted to 110 million USD and 21 million EUR, accounting for more than 99 percent of the existing portfolio of claims.

Starting September 2012, the FGDB, as liquidator of *BTR*, initiated actions to recover that claim both at home and abroad (given the Turkish citizenship of four of the five debtors).

[84] According to the accounting records of Banca Turco-Romāna SA (*BTR*), taken over from the liquidator when bankruptcy proceedings opened, the main debtor was Bayindir Insaat Turizm Ticaret ve Sanayi AS, a company whose accrued debt stood at 52,873.67 thousand USD and, respectively, 10,164.60 thousand EUR, accounting for 92.08 percent of total claims. Following the criminal proceedings initiated against five former administrators of the bank, held liable for the fraudulent transfer of *BTR* funds to banks abroad to serve as collateral/guarantee for the benefit of the aforesaid company, an enforceable title was obtained to recover the losses incurred by *BTR*. This consequently showed in the *BTR*'s accounting records where the five former administrators were registered as collective debtor and by substitution with Bayindir Insaat Turizm Ticaret ve Sanayi AS became the bank's main debtor.

[85] *BTR*'s receipts in 2017 totalled 8,791 thousand lei, of which 8,768 thousand lei in recovered claims and 23 thousand lei in interest on investments and other earnings.

The intense work in Switzerland over October 2013-November 2016 allowed *BTR* to recover 2,058,731 CHF[86] in the first quarter of 2017.

Based on a litigation financing arrangement valid since October 2016, *BTR* benefits from a strategy for identifying and recouping assets held directly and indirectly by its debtors which implies a multijurisdictional approach, the matter having been referred to courts in the United Kingdom, Switzerland and the United States of America.

By 31 December 2017, 45,490 thousand lei had been distributed to BTR's creditors, satisfying 41 percent of the body of creditors.

RECOVERY OF THE FGDB'S CLAIMS

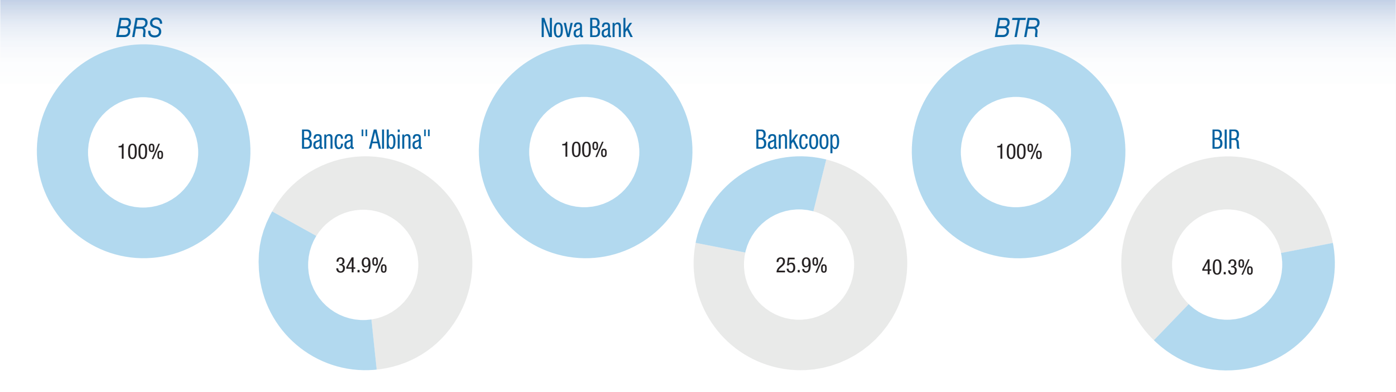
The FGDB is a major creditor of Bankcoop (83.45 percent of the body of creditors) and *BIR* (78.90 percent of the body of creditors) and holds an insignificant stake of the body of creditors of Banca "Columna" (0.04 percent)[87]. The FGDB ceased to be a creditor of four failed banks following either the recovery of its claims in full (from *BRS* in 2004, Nova Bank in 2007 and *BTR* in 2011) or the closing of bankruptcy procedures (in the case of Banca "Albina", in 2012).

Throughout 2017, the FGDB, as creditor, recovered none of its claims over the failed banks. Claim recovery and realisation of assets are less possible at this stage of procedures as assets left behind are difficult to sell and claims are too old – or litigation-related – to be covered.

By 31 December 2017, the FGDB had recovered claims worth 175,959 thousand lei, of which 174,978 thousand lei for reimbursements to guaranteed depositors and 981 thousand lei for contributions owed to the FGDB and unpaid by Bankcoop, *BTR* and Nova Bank before filing for bankruptcy.

The FGDB recouped 34.3 percent of the funds paid out to the guaranteed depositors of the failed banks.

Recovery of the FGDB's Claims as at 31 December 2017



[86] The equivalent of 2,033,917.33 USD, respectively 8,723,873.72 lei, accounting for some four percent of *BTR*'s claim on bankruptcy date.

[87] Banca "Columna" is an atypical case, as only two of the total 171 depositors requested due compensation during the payout period which ended on 26 May 2006.

6. Public Information

PUBLIC COMMUNICATION

2017 was the year to consolidate the application of the new legal provisions on the information of the public. Against this background, the FGDB's communication with depositors focused on aspects apt to boost their confidence in the safety of the money they keep in banks.

In its direct relationship with the general public, the FGDB provided prompt answers to queries and requests referring to a wide range of issues related to deposit guarantee.

In compliance with the new legislation, credit institutions in Romania and in the other European Union member states must send their depositors, at least once a year, a standardised template containing information on deposit coverage.

This information should reach depositors in either printed or electronic form. Furthermore, credit institutions must make this information available also at the headquarters of all their units. According to legal provisions, the information should be conveyed in a clear, fluent, comprehensible and unequivocal manner, in keeping with the norms worked out by deposit guarantee schemes.

The FGDB's Communication Department offered explanations to every query about the information contained in the standard information sheets which banks send to their depositors. The clarification offered on issues raised by depositors was inserted in the *Frequently Asked Questions* section of the FGDB's website to be available to other people interested in these topics.

Special concern was shown to clarifying the circumstances in which a temporary higher coverage level applies to deposits falling into the special categories stipulated by the law. A large number of depositors inquired about the types of and about compensation payments in case of unavailability of deposits at both FGDB-member banks and branches of foreign banks in the membership of deposit guarantee schemes in their home countries.

The interest depositors have shown in all the aspects mentioned above prompted the FGDB to intensify its communication with affiliated credit institutions. A first step in this direction was taken with a decision that the information on deposit guarantee offered by the FGDB should be displayed visibly in all the agencies of the member credit institutions. Furthermore, during direct meetings with representatives of the banks, the FGDB recommended participating credit institutions to detail the notions used in the information sheet they have the obligation to send to depositors every year. A sample to assist in wording that sheet was posted on the FGDB's website in the section dedicated exclusively to banks.

The FGDB, committed to the principle of transparency, continued to publish in its INFO bulletin analyses of the evolution of deposits at member credit institutions. The FGDB's publications are distributed to institutions in the financial-banking sector, to public authorities, academic institutions, research institutes and other entities and can also be read on the FGDB's website.

RELATIONSHIP WITH THE MEDIA

In 2017, the FGDB initiated a new partnership with the media, in line with the developments in this sector. In consideration of the expansion of the on-line information of the public, the FGDB had meetings with journalists and bloggers specialising in the banking industry to explain and ensure a most effective coverage of the deposit guarantee scheme in Romania.

News releases remained a basic instrument of communication between the FGDB and the public at large.

They were posted on the FGDB's website and were routed to journalists so as to reach all interested parties in due time. At the same time, the FGDB promptly answered all requests from media representatives.

EDUCATIONAL ACTIVITIES

The *Costin Murgescu Contest for Economic Research*, which the FGDB initiated to contribute to the assertion of young people showing an interest in contemporary socio-economic and political developments, reached it sixth edition in 2017.

The award of the sixth edition went to Ioan-Gabriel Stavre for his *Testing the Three Vicious Circles of the Romanian Economy – A Novel Approach*. The author is enrolled in the DOFIN (Doctoral School of Finance and Banking) Programme of the Bucharest Academy of Economic Studies.

A jury consisting of members of the academic community and researchers graded the papers in the competition according to criteria of originality, logic of arguments, conclusions and style.

Costin Murgescu Contest for Economic Research
Awarding Ceremony
Bucharest, December 2017

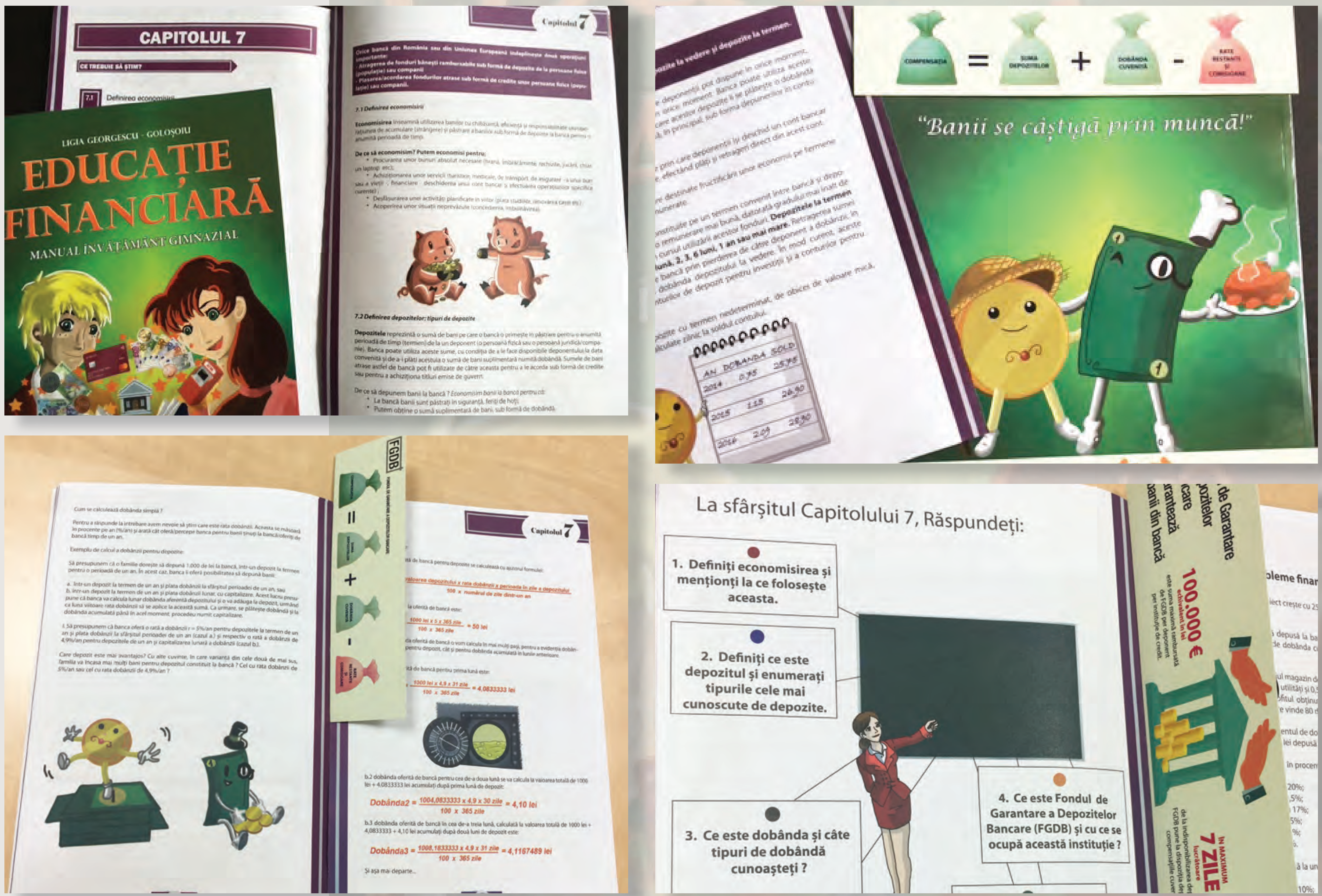
The FGDB once again proved a supporter of the "Cristian Popişteanu" Annual Symposium of Banking History and Civilisation, its involvement in the event organised by the National Bank of Romania and the Magazin Istoric Cultural Foundation having become a tradition.

The Magazin Istoric Cultural Foundation Prize Award Ceremony
The "Cristian Popişteanu" Symposium of Banking History and Civilisation, the 15th Edition
The National Bank of Romania, April 2017

In 2017, the FGDB attended two of the seminars organised by the National Bank of Romania under the aegis of *Academica BNR*. During these seminars, the FGDB approached aspects related to the role the statutory deposit guarantee scheme in Romania plays in the maintenance of financial stability. The FGDB also participated in various public events presenting different facets of its activity.

In 2017, for the first time, the FGDB and its activity were introduced into the high school Financial Education Textbook. Consequently, basic notions related to savings and savings guarantee will be discussed not only in the classroom, but also at home.

FGDB poster intended to inform the public



Collage composed of images in the high school Financial Education Textbook

7. The FGDB's Financial Statements

At the end of 2017, the FGDB's assets amounted to 6.5 billion lei, moving up by 10.2 percent against the 31 December 2016 level.

Government securities continued to account for most of the FGDB's assets in 2017.

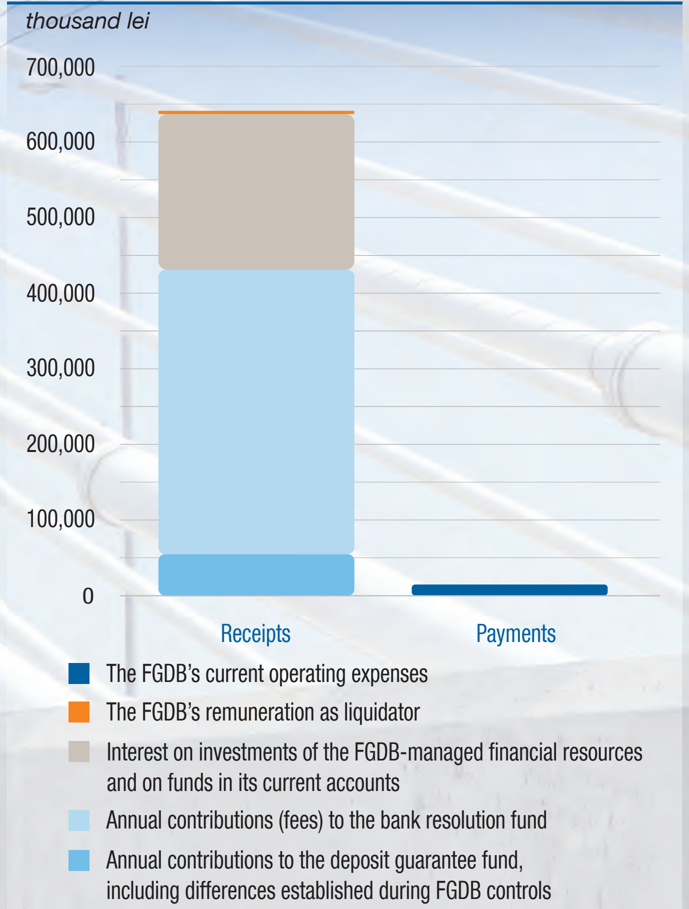
THE FGDB'S RECEIPTS AND PAYMENTS

The FGDB's 2017 receipts stood at 634,619 thousand lei, of which:

52,312 thou. lei - as annual contributions to the deposit guarantee fund, including differences established during FGDB controls;
386,324 thou. lei - as annual contributions (fees) to the bank resolution fund;
195,700 thou. lei - as interest on investments of the FGDB's financial resources, of which 180,481 thousand lei corresponding to the deposit guarantee fund and 15,219 thousand lei corresponding to the bank resolution fund;
10 thou. lei - as interest on funds in the FGDB's current accounts;
273 thou. lei - as the FGDB's remuneration as court-appointed liquidator for Banca Turco-Română.

The FGDB's payments in 2017 totalled 13,886 thousand lei, representing current operating expenses.

The FGDB's Receipts and Payments in 2017



THE FGDB'S BALANCE SHEET

- lei -

Assets	31.12.2016	31.12.2017	Liabilities	31.12.2016	31.12.2017
1. Total fixed assets, of which:	**4,229,146,360**	**4,525,592,492**	**1. Total own funds, of which:**	**5,925,522,657**	**6,471,568,791**
- intangible assets	48,374	231,881	- reserves	5,793,293,203	6,363,109,166
- tangible assets	301,118	404,145	- profit for the fiscal year	132,229,454	108,459,625
- financial assets	4,228,796,868	4,524,956,466			
2. Total current assets, of which:	**1,697,395,584**	**1,947,054,520**	**2. Total debts, of which:**	**1,021,929**	**1,092,684**
- short-term financial investments	1,696,011,892	1,944,712,810	- debts payable within one year	1,021,929	1,092,684
- cash at bank and in hand	1,078,605	1,737,811			
- other claims (bank settlements)	305,087	603,899			
3. Prepaid expenses	**2,642**	**14,463**			
TOTAL ACTIV	**5,926,544,586**	**6,472,661,475**	**TOTAL LIABILITIES**	**5,926,544,586**	**6,472,661,475**

THE PROFIT AND LOSS ACCOUNT

Since the financial resources of the two funds administered by the FGDB may be exclusively used for the purposes laid down in legislation, that is, to pay compensation and to fund resolution measures, the FGDB covers its operating expenses only from the revenue resulting from investments of its available financial resources.

In 2017, the ratio between the FGDB's expenses and revenues derived from investments of financial resources kept very low, at 1:9.

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

The FGDB's 2017 revenues totalled 122,563 thousand lei, of which:

- 122,553 thou. lei - as interest and coupons on investments of its financial resources throughout 2017 (99.99 percent of overall revenues);
- 10 thou. lei - as interest on its funds in bank current accounts.

In 2017, the FGDB's total expenses stood at 14,104 thousand lei and included:

- 10,806 thou. lei - personnel-related expenditures (76.62 percent of total expenses);
- 2,892 thou. lei - spending on services provided by third parties (20.50 percent of total expenses);
- 406 thou. lei - other expenditures (2.88 percent of total expenses).

The Profit and Loss Account

- lei -

	31.12.2016	31.12.2017	Difference
1. Total revenues	146,946,411	122,563,391	-24,383,020
2. Total expenses	14,716,957	14,103,766	-613,191
3. Result for fiscal year	**132,229,454**	**108,456,625**	**-23,769,829**

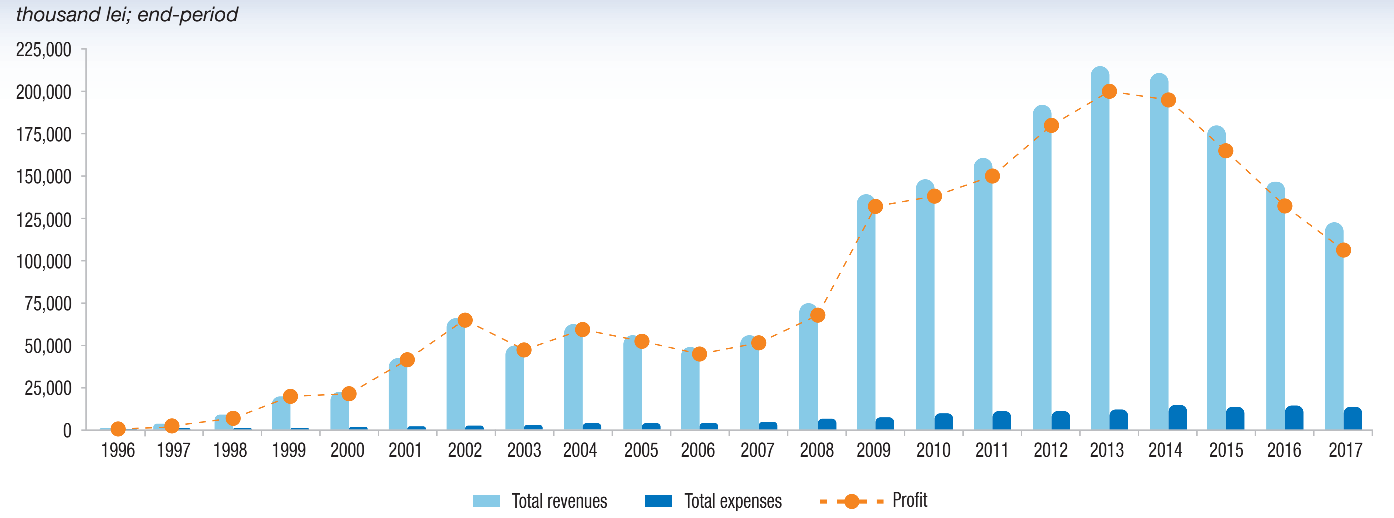
Yields on the financial-banking market remained low in 2017, impacting the FGDB's revenues. Nevertheless, the decrease in revenues was less sharp than during the previous year.

As the decline in revenues was less marked and total expenses continued to diminish, the FGDB's fiscal-year result posted a less significant contraction.

The FGDB's net accounting profit for the fiscal year ended 31 December 2017 amounted to 108,456.6 thousand lei – an outcome of cautious investments of financial resources.

In keeping with legal provisions, the FGDB's profit is almost integrally (at least 99 percent) 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 2017 were audited by Ernst & Young Assurance Services SRL. In the financial auditor's opinion, as expressed in the audit report, the financial statements "give a true and fair view of the Fund's financial position on December 31, 2017 and of its financial performance for the fiscal year then ended, according to *Order no. 6/2015 on the approval of accounting rules in compliance with European Union Directives of the National Bank of Romania*, with subsequent amendments and completions".

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ey.com

INDEPENDENT AUDITOR'S REPORT

To: The Supervisory Board of the Bank Deposit Guarantee Fund

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of the Bank Deposit Guarantee Fund ("the Fund"), headquartered in Bucharest, Str. Negru Voda nr. 3, corp A3, et. 2, sector 3, zip code 030774, unique tax identification number RO8942496, which include the balance sheet as at 31 December 2017, the profit and loss account for the fiscal year then ended, as well as an overview of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the Fund's financial position on December 31, 2017 and of its financial performance for the fiscal year then ended, according to Order 6/2015 of the National Bank of Romania on the approval of accounting rules in compliance with European Union Directives , with subsequent amendments and completions.

Basis for Opinion

We conducted our audit according to the International Standards on Auditing (ISA), Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 ("Regulation (EU) No 537/2014"), and Law no. 162/2017 ("Law no. 162/2017"). Our responsibilities according to these standards are presented in detail in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our Report. We are independent from the Fund according to the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and the ethical requirements that are relevant to the audit of financial statements in Romania, including Regulation (EU) No 537/2014 and Law no. 162/2017, and we fulfilled our ethical responsibilities in line with these requirements and with the IESBA Code. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Valuation of investments

The Fund's investment portfolio, worth RON 6,464 million lei, referred to in notes 3 and 4 to the financial statements, represents a significant portion of the Fund's total assets. These investments, which consist of bank deposits, certificates of deposit and bonds issued by the Romanian Government, as well as corporate bonds, are valued at cost

price, according to Order 6/2015 of the National Bank of Romania and tested for depreciation.

In consideration of the nature of these assets, their valuation presupposes directors' judgment, particularly in identifying depreciation indicators, if any, and, subsequently, in assessing the recoverability of investments. Given the importance of these assets, we identified this as a key audit matter.

How our audit addressed the key audit matter

As part of our audit procedures, we assessed the techniques used by the management to determine the value of financial instruments. We obtained an understanding and we evaluated the design and effectiveness of the Fund's internal controls related to the valuation of financial instruments.

Our audit procedures focused on:

- assessing the classification of investments and the valuation techniques employed in relation to the requirements of Order 6/2015 of the National Bank of Romania and the Fund's investment strategy;
- appraising the valuation parameters used in relation to the terms of contracts and the information provided in the confirmation letters received;
- checking the mathematical accuracy of the calculations the Fund prepared for the valuation of financial instruments, including the obtainment of supporting documentation for principal and interest repayments.

As part of depreciation testing, we assessed the process of identifying depreciation indicators and of determining the recoverable value of investments and we compared the key estimates used in depreciation testing with public information – where available – referring to:

- the issuer's rating history;
- potential information about the issuer's financial difficulties or about restructurings;
- appraisal of future cash flows and market prices.

We also assessed the appropriateness of the Fund's disclosures, taking account of the provisions of Order 6/2015 of the National Bank of Romania.

Other Information

Other information comprises the management's report but does not include the financial statements and our audit report on the financial statements. The management is responsible for other information.

Our opinion on the financial statements does not cover other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read this other information and, in doing so, analyse whether the other information is significantly inconsistent with the financial statements or with our knowledge obtained in the audit, or whether it appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and of Those Charged with Governance for the Financial Statements

The Fund's management is responsible for the preparation and fair presentation of these financial statements, in compliance with Order 6/2015 of the National Bank of Romania on the approval of accounting rules in compliance with European Union directives, 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.

In preparing the financial statements, the management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence users' economic decisions taken on the basis of these financial statements.

As part of an audit in accordance with ISA standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error,

design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of the internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

• Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

• Conclude on the appropriateness of the management's use of the going concern basis of accounting and also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Report on information other than the financial statements and our auditor's report

Besides our responsibilities to report according to ISA standards, described in the "Other Information" section, with reference to the management report, we read the management report and we report the following:

a) in the management's report, we did not identify, in all significant matters, any information that is inconsistent with the information presented in the accompanying financial statements as at 31 December 2017;

b) the management's report, identified above, includes, in all significant matters, the information required under Order no. 6/2015 of the National Bank of Romania on the approval of accounting rules in compliance with European Union directives, with subsequent amendments and completions, the Annex, points 225-228.

c) based on our knowledge and understanding obtained during the audit of the financial statements prepared on 31 December 2017 on the Fund and the environment related to it, we did not identify materially misstated information in the management's report.

Additional content requirements for the audit report, in compliance with Regulation (EU) no. 537/2014 of the European Parliament and of the Council

Auditors' appointment and approval

We were appointed auditors of the Fund by the Board of Directors of the National Bank of Romania on 31 March 2016 to audit the financial statements for the fiscal year ended 31 December 2017. The total uninterrupted period of the audit mission, including previous renewals (the extension of the period for which we were initially appointed) and reappointments as auditors was of 3 years, covering the period between the fiscal years ended 31 December 2015 and 31 December 2017.

Consistency with the additional report to the Audit Committee

Our opinion on the financial statements as expressed in this report is consistent with the additional report to the Fund's Audit Committee, which we issued on 2 April 2018.

Non-audit services

No prohibited non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council were provided by us and we remained independent from the Fund for the duration of the audit.

In addition to statutory audit services disclosed in the financial statements, no other services were provided by us to the Fund and its controlled undertakings.

On behalf of:

Ernst & Young Assurance Services SRL
Bd. Ion Mihalache nr. 15-17, etaj 21, București, România

Registered with the Chamber of Financial Auditors of Romania
No. 77/15 August 2001

Camera Auditorilor Financiari din România
Dimitriu Alina
Nr. 1272

Alina Dimitriu
Alina Dimitriu

Name of auditor/ Engagement Partner: Alina Dimitriu

Registered with the Chamber of Financial Auditors of Romania
No. 1272/17 December 2001

Bucharest, Romania
04 April 2018

BALANCE SHEET

as at 31 December 2017

-RON-

Indicator	Position code	31 December 2016	31 December 2017
A	B	1	2
Cash	010	5,480	12,288
Claims over credit institutions	020	1,692,051,173	1,940,798,919
• sight claims	023	1,073,125	1,725,523
• other claims	026	1,690,978,048	1,939,073,396
Public instruments, bonds and other fixed income securities	040	4,228,796,868	4,524,956,466
• issued by public bodies	043	4,228,796,868	4,524,956,466
Intangible assets	050	48,374	231,881
Tangible assets	060	301,118	404,145
Other assets	070	305,087	603,899
Prepaid expenses and committed income	080	5,036,486	5,653,877
Total assets	**090**	**5,926,544,586**	**6,472,661,475**
Other liabilities	330	1,021,929	1,092,684
The bank deposit guarantee fund and the bank resolution fund	360	5,792,588,203	6,362,404,166
• The bank deposit guarantee fund	361	5,196,564,169	5,373,742,719
› The deposit guarantee fund consisting of credit institutions' contributions	362	3,523,906,769	3,576,219,108
› The deposit guarantee fund consisting of revenues from claim recovery	363	66,203,008	66,203,008
› The deposit guarantee fund consisting of revenues from investments of available financial resources	365	1,603,733,167	1,728,326,841
› The deposit guarantee fund consisting of other revenues as set within the law	366	2,721,225	2,993,762
• The bank resolution fund	367	596,024,034	988,661,447
Reserves	370	705,000	705,000
Result of the fiscal year – Profit	**403**	**132,229,454**	**108,459,625**
Total liabilities and own funds	**420**	**5,926,544,586**	**6,472,661,475**

PROFIT AND LOSS ACCOUNT

for the fiscal year ended 31 December 2017

-RON-

Indicator	Position code	31 December 2016	31 December 2017
A	B	1	2
Interest receivables and similar income, of which:	010	146,945,852	122,563,209
• on public instruments, bonds and other fixed-income securities	015	133,864,176	106,037,678
Commissions	040	29,457	33,020
Net profit or loss from financial operations	050	(739)	(319)
Other operating income	060	-	-
General administrative expenses	070	14,037,094	13,482,321
• Personnel-related expenses, of which:	073	11,790,121	10,805,505
› Wages	074	9,688,789	8,416,404
› Social security costs, of which:	075	2,101,332	2,389,101
- Pension-related expenses	076	1,249,614	1,635,462
• Other administrative expenses	077	2,246,973	2,676,816
Adjustments to the book value of tangible and intangible assets	080	179,290	216,631
Other operating expenses	090	469,818	371,293
Result of current activity - Profit	**143**	**132,229,454**	**108,459,625**
Total revenues	180	146,945,113	122,562,892
Total expenses	190	14,715,659	14,103,265
Pre-tax result - Profit	203	132,229,454	108,459,625
Net result for the fiscal year - Profit	**223**	**132,229,454**	**108,459,625**

EXPLANATORY NOTES TO THE FGDB'S FINANCIAL STATEMENTS - EXCERPTS[88]

1. Significant Accounting Methods and Policies

Some of the main accounting policies used in preparing these financial statements are listed below.

a) Preparation and presentation of the financial statements

These financial statements were prepared according to:

i. Order no. 6/2015 of the Governor of the National Bank of Romania (NBR) on the approval of accounting rules in compliance with European Union directives applicable to non-banking financial institutions, payment institutions granting credits related to payment services, electronic money institutions and the Bank Deposit Guarantee Fund, with subsequent amendments and completions ("NRB Order no. 6/2015");

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

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

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

These financial statements were not prepared to reflect the Fund's financial position and the results of its operations according to accounting rules and policies accepted in countries and jurisdictions other than Romania. Therefore, the accompanying financial statements are not intended for use by entities who are unfamiliar with accounting and legal regulations in Romania, including Order no. 6/2015 of the National Bank of Romania.

The Fund prepared the present financial statements according to the going concern basis of accounting.

The present financial statements were approved by the Board of Directors of the National Bank of Romania on 23 April 2018.

i) Financial assets

Investment securities are financial assets with fixed or determinable payments and fixed maturity which the Fund has the firm intent and the ability to hold to maturity.

Securities may qualify as investment securities contingent on:

- terms and characteristics of the financial asset, and
- the Fund'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 based on the respective portfolio and bid prices from other investors before the maturity date, since the intent is to hold the investment until it matures rather than to sell it, no matter the fluctuations in its market value.

A prerequisite for the designation as investment securities is the assessment of the Fund'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 the Fund's intent or ability to hold investment securities until they mature, 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 the respective category.

[88] The explanatory notes are numbered in the same way as the original material from which they are quoted.

If the institution sold or reclassified a significant amount of investment securities in a current fiscal year or during the two preceding fiscal years, it will not be able to designate any further financial assets as investment securities ("the tainting rule").

This prohibition 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 variations in market interest rates could not have had any significant impact on the fair value of the financial asset;
- takes place after a substantial part of the principal amount of the financial asset was redeemed through periodical payments or early repayments, or
- is attributable to an isolated, non-recurring and reasonably hard-to-predict event.

p) The Bank Deposit Guarantee Fund's specific resources

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

The functionality of these accounts and the way they are reflected in accounting records are laid out in Government Ordinance no. 39/1996 on the setting up and operation of the Bank Deposit Guarantee Fund, Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund and the NBR Order no. 6/2015, with subsequent amendments and completions, as follows:

(i) Annual contribution

The annual contribution is determined and paid annually by credit institutions and it is recorded under the accrual basis of accounting.

(ii) Extraordinary contributions

They represent other contributions collected from credit institutions, according to legal provisions, when the Fund's financial resources are insufficient to fund payouts. Government Ordinance no. 39/1996 calls these contributions "special contributions".

(iii) Recovered claims

These are receipts coming in as the Fund recovers its claims over failed banks for its depositor payouts.

The contributions paid by credit institutions are non-refundable, including in situations when they are liquidated under court supervision or when they are dissolved.

(iv) Funds consisting of other revenues

According to Government Ordinance no. 39/1996, NRB Order no. 6/2015 and Law no. 311/2015, these other funds include donations, sponsorships, revenues from financial assistance and from the Fund's activities as liquidator of bankrupt banks, as well as other revenues set according to the law.

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

These resources consist of the Fund's net profit. Pursuant to Law no. 311/2015, Article 98 paragraph (2) letter s) and Article 112, the Fund's profit, which is the difference between its revenues and its expenses, 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 stipulated in Article 92, paragraphs (1) and (2).

The financial resources account decreases with the following:

- the Fund's payouts to the legally guaranteed depositors of the banks where deposits have become unavailable;
- instalment and interest payments on loans taken to fund payouts;

- money transferred to the resolution authority;
- loans to other guarantee schemes, granted within the law.

Thereby, the Fund does not record provisions for guaranteed depositors' pending compensation claims or for potential compensation claims that have not been notified.

q) Income tax

The Fund's profit is tax exempt pursuant 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 basis of accounting, for all interest-bearing financial instruments when they are earned. Interest income also includes revenues generated by the amortization of the discount according the effective-interest method for the assets purchased at a lower price and the amount to be paid at maturity as well as on the premiums generated by debts made at costs higher than the value repayable at maturity.

u) Recognition of revenues

The Fund is not involved in commercial activities. Its revenues result from interest on financial assets.

2. Cash

On 31 December 2017, the Fund's cash on hand stood at RON 12,288 (31 December 2016: RON 5,480).

3. Claims over credit institutions

(RON)	31 December 2016	31 December 2017
Current accounts	1,073,125	1,725,523
Term investments at banks	1,690,978,048	1,939,073,396
Total	**1,692,051,173**	**1,940,798,919**

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

(RON)	31 December 2016	31 December 2017
Long-term securities, of which:	**3,387,672,974**	**3,234,839,473**
• Government bonds	3,283,254,000	3,028,150,054
• Corporate bonds	104,418,974	206,689,419
Short-term securities, of which:	**841,123,894**	**1,290,116,993**
• Government bonds and treasury bills	841,123,894	1,249,930,122
• Corporate bonds	-	40,186,871
Total	**4,228,796,868**	**4,524,956,466**

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

(RON)	31 December 2016	31 December 2017
Initial contribution (1%)	6,472,230	6,472,230
Annual contribution (including increased contribution)	3,982,725,967	4,035,038,306
Extraordinary contribution	61,777,997	61,777,997
Comision pentru linie credit	(14,825,698)	(14,825,698)
Credit line fee	(512,243,727)	(512,243,727)
Total	**3,523,906,769**	**3,576,219,108**

The annual contribution of each credit institution is calculated based on the statements it sends to the Fund. In 2017, the Fund collected 52,312,349 lei in annual contributions, which were determined based on the risk profile of each credit institution and the amount of covered deposits it held on 31.12.2016 (2016: 348,004,803 lei). The total volume of 2017 contributions was set according to the funding policy of the Fund and to the method of calculating risk-adjusted contributions, which were both approved by the Board of Directors of the National Bank of Romania.

If, upon the Fund's request, the Board of Directors of the National Bank of Romania considers that the Fund's financial resources are insufficient to allow it to fulfil its repayment obligations, it may decide that each credit institution should pay an extraordinary contribution equal to up to the level of the annual contribution set for the respective fiscal year. In 2017, just like in 2016, credit institutions paid no extraordinary contributions.

Compensation is the amount the Fund pays to each guaranteed depositor for unavailable deposits, no matter their number, within the guarantee ceiling. In 2017, just as in 2016, there were no payouts.

10. The bank resolution fund

	(RON)
Balance as at 31 December 2013	**207,473,680**
2014 annual fee	131,178,657
2013 capitalised profit	7,824,134
Balance as at 31 December 2014	**346,476,471**
2015 annual fee	123,818,091
2014 capitalised profit	6,680,194
Balance as at 31 December 2015	**476,974,756**
2016 annual fee	111,405,684
Refunded difference in the level of contribution	197,573
2015 capitalised profit	7,841,167
Balance as at 31 December 2016	**596,024,034**
2017 annual fee	386,323,871
2016 capitalised profit	6,313,542
Sold 31 decembrie 2017	**988,661,447**

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

The bank resolution fund is managed 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 the contributions credit institutions pay to the bank resolution fund annually spreading them out as uniformly as possible over time, all while taking due account of the phase of the business cycle and of the impact procyclical contributions may have on the financial position of contributing credit institutions.

In 2017, the Fund collected 386,323,871 lei in contributions, which were calculated in line with a decision by the National Bank of Romania. In 2016, the Fund collected annual contributions totalling 111,405,684 lei. The level of contribution for 2016 was determined also under a decision by the National Bank of Romania.

The 2016 profit resulting from investments of the financial resources of the bank resolution fund amounted to RON 6,313,542 and was capitalised following a decision of the Fund's Supervisory Board after the financial statements as at 31 December 2016 had been authorised.

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

(RON)	31 December 2016	31 December 2017
Recovered claims	174,977,963	174,977,963
Interest on bank loans – NBR	(108,774,955)	(108,774,955)
Total	**66,203,008**	**66,203,008**

Recovered claims are the amounts the Fund collected from credit institutions as outstanding annual contributions on bankruptcy date and for the payouts to depositors.

In 2017, no claims were recovered from bankrupt credit institutions.

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

(RON)	31 December 2016	31 December 2017
Fund consisting of revenues from investment of available financial resources – share of the profit	1,603,733,167	1,728,326,841

These amounts represent the Fund's cumulative profit arising from the distribution of previous years' profits.

13. Fund consisting of other revenues, within the law

(RON)	31 December 2016	31 December 2017
The FGDB's remuneration from its activities as liquidator	2,721,225	2,993,762

15. Distribution of profit

(RON)	31 December 2016	31 December 2017
Result of current activity – profit, of which:	132,229,454	108,459,625
Profit from deposit guarantee fund resources	125,168,205	98,608,092
Profit from bank resolution fund resources	7,061,249	9,851,533
Undistributed profit	**132,229,454**	**108,459,625**

The Board of Directors of the National Bank of Romania will approve the distribution of the profit for the fiscal year ended 31 December 2017 after the financial statements have been authorised

19. Risk management

The main risks associated with the Fund's activities are the financial and operational risks. The Fund is exposed to the following risks:

- Interest rate risk
- Market risk
- Liquidity risk
- Foreign exchange risk.

a) Interest rate risk

The Fund is exposed to fluctuations in market interest rates, which may impact its financial position and cash flows. As a result of such shifts, interest may move either up or down or it may trigger losses if unexpected variations occur. The Fund's management periodically monitors exposure to changes in interest rates.

Throughout 2017, the Fund got the following interest rates on its invested assets:

(RON)	2016		2017	
	min	max	min	max
Claims over credit institutions	0.23%	2.20%	0.50%	2.60%
Public instruments, bonds and other fixed-income securities	0.30%	7.50%	0.51%	4.86%

b) Market risk

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

c) Liquidity risk

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

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

(RON)

As of 31 December 2017	Up to 3 months	Between 3 months and 1	Over 1 year and up to 5	Total
Cash	12,288	-	-	12,288
Current accounts	1,725,523	-	-	1,725,523
Claims over credit institutions	328,866,155	1,607,280,892	2,926,349	1,939,073,396
Public instruments, bonds and other fixed-income securities	-	1,276,715,583	3,248,240,883	4,524,956,466
Other financial instruments	-	-	-	-
Other assets	603,899	-	-	603,899
Prepaid expenses and committed revenues	427,234	5,204,289	22,354	5,653,877
Total assets	**331,635,099**	**2,889,200,764**	**3,251,189,586**	**6,472,025,449**
Other liabilities	1,092,684	-	-	1,092,684
The deposit guarantee fund	5,373,742,719	-	-	5,373,742,719
The bank resolution fund	988,661,447	-	-	988,661,447
Total liabilities	**6,363,496,850**	**-**	**-**	**6,363,496,850**
Liquidity surplus (needs)	**(6,031,861,751)**	**2,889,200,764**	**3,251,189,586**	**108,528,599**

(RON)

As of 31 December 2016	Up to 3 months	Between 3 months and 1	Over 1 year and up to 5	Total
Cash	5,480	-	-	5,480
Current accounts	1,073,125	-	-	1,073,125
Claims over credit institutions	698,075,518	992,902,530	-	1,690,978,048
Public instruments, bonds and other fixed-income securities	502,388,505	1,068,007,891	2,658,400,472	4,228,796,868
Other financial instruments	-	-	-	-
Other assets	305,087	-	-	305,087
Prepaid expenses and committed revenues	2,590,358	2,446,128	-	5,036,486
Total assets	**1,204,438,073**	**2,063,356,549**	**2,658,400,472**	**5,926,195,094**
Other liabilities	1,021,929	-	-	1,021,929
The deposit guarantee fund	5,196,564,169	-	-	5,196,564,169
The bank resolution fund	596,024,034	-	-	596,024,034
Total liabilities	**5,793,610,132**	**-**	**-**	**5,793,610,132**
Liquidity surplus (needs)	**(4,589,172,059)**	**2,063,356,549**	**2,658,400,472**	**132,584,962**

Long- and short-term securities

As at 31 December 2017 *(RON)*	Total
Long-term securities, of which:	**3,234,839,473**
Government bonds	3,028,150,054
Corporate bonds	206,689,419
Short-term securities, of which:	**1,290,116,993**
Government bonds and treasury bills	1,249,930,122
Corporate bonds	40,186,871
Total	**4,524,956,466**

As at 31 December 2016 *(RON)*	Total
Long-term securities, of which:	**3,387,672,974**
Government bonds	3,283,254,000
Corporate bonds	104,418,974
Short-term securities, of which:	**841,123,894**
Government bonds and treasury bills	841,123,894
Corporate bonds	-
Total	**4,228,796,868**

Bank deposits

As at 31 December 2017 *(RON)*	Total
Total bank deposits	1,939,073,396
Current accounts	1,725,523
Total bank deposits and current accounts	**1,940,798,919**

As at 31 December 2016 *(RON)*	Total
Total bank deposits	1,690,978,048
Current accounts	1,073,125
Total bank deposits and current accounts	**1,692,051,173**

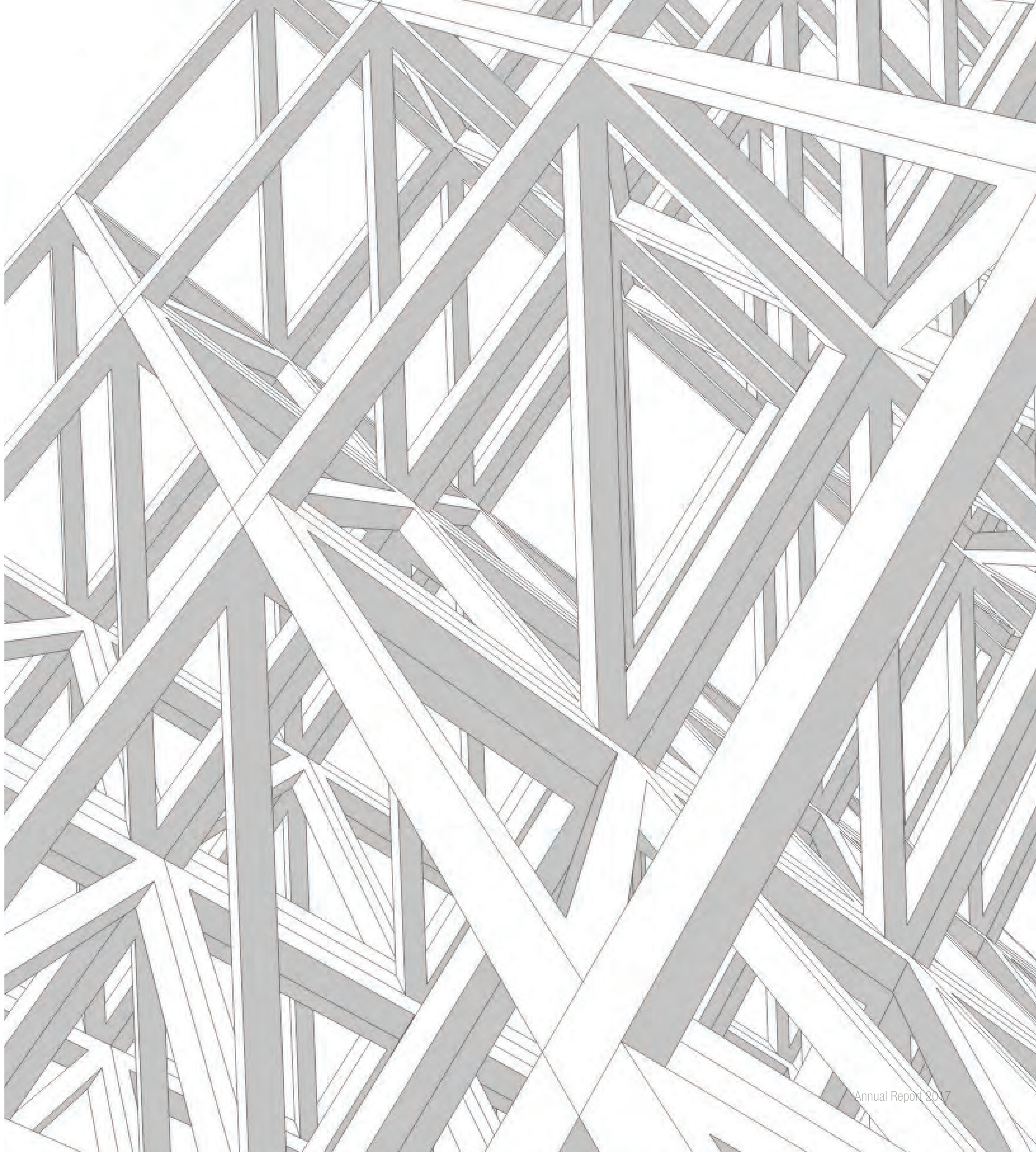
d) Foreign exchange risk

The Fund operates within an economic framework where the exchange rates of widely traded currencies (EUR, USD, CHF, GBP) fluctuate, the Swiss franc in particular. Under such circumstances, the risk of a decline in the value of its RON-denominated net monetary assets is low.

On 31 December 2017, the Fund held cash on hand and in current accounts in EUR amounting to the equivalent of RON 2,045 (31 December 2016: the equivalent of RON 2,119), in USD worth the RON equivalent of 5,707 (31 December 2016: the equivalent of RON 3,102) and in other foreign currency standing at the RON equivalent of 243 (31 December 2016: the equivalent of RON 139). The remaining monetary assets and liabilities are denominated in RON.

e) Credit risk

All through 2017, special attention was paid to the effectiveness of the Fund's investments of available financial resources in conditions of higher liquidity and lower risk and in compliance with the Fund's 2017 exposure strategy approved by the Board of Directors of the National Bank of Romania.



Annual Report 2017

ANNEXES

ABBREVIATIONS

EBA	The European Banking Authority
CNSF	The National Committee for Financial Stability
CNSM	The National Committee for Macroprudential Supervision
EDIS	The European Deposit Insurance Scheme
EFDI	The European Forum of Deposit Insurers
EU	The European Union
EUME	EU Management Executive
FGDB	The Bank Deposit Guarantee Fund
FSAP	Financial Sector Assessment Program
IADI	International Association of Deposit Insurers
NBR	The National Bank of Romania
ROA	Return on Assets
ROE	Return on Equity
SREP	Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism

DEFINITIONS

- deposit – any amount of money a person holds in a bank account, which may be a current account, a card account, a time deposit, a savings account or another similar product. 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 the capital market, with subsequent amendments and completions, other than where it is a savings product which is evidenced by a certificate of deposit made out to a named person and which existed on 2 July 2014;
  b) its principal is not repayable at par;
  c) its principal is only repayable at par under a particular guarantee or agreement provided by the credit institution or by a third party.
- eligible deposit – a deposit that is not excluded from the scope of guarantee, namely a deposit that complies with legal provisions on payouts within the coverage limits.
- covered deposit – the part of an eligible deposit that does not exceed the guarantee ceiling. A guaranteed depositor may hold deposits within the legally stipulated guarantee ceiling, in which case the depositor is fully covered, or deposits that exceed the guarantee ceiling, in which case the compensation is limited to the coverage level.
- compensation – an amount of money determined according to legal provisions, within the guarantee level, which a deposit guarantee scheme pays out to each guaranteed depositor when deposits, no matter their number, become unavailable.
- guaranteed depositor – the holder of an eligible deposit or, in the case of a joint account, the holders of an eligible deposit or, as the case may be, the person entitled to amounts from an eligible deposit. A natural or legal person may keep money in several banks. Each bank reports the number of depositors in its records to the FGDB, which adds up the data, reported by all member institutions. Consequently, when determining the total number of deposit holders, depositors who are clients of different banks are recorded several times.
- unavailable deposit – a deposit that is due and payable but has not been paid by a credit institution, under the legal and contractual conditions applicable thereto, where either:
  » the National Bank of Romania, as the administrative authority competent to classify deposits as unavailable, has determined that the respective credit institution, for reasons directly linked to its financial situation, is unable to repay the deposit and has no immediate prospects of being able to do so, or
  » a court decision on the opening of bankruptcy proceedings for the respective credit institution had been rendered before the National Bank of Romania could assess the situation described above.
- credit institution – according to *Regulation (EU) No 575/2013*[1], an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account
- credit institution authorised by the National Bank of Romania – a credit institution, Romanian legal person, and the branches in Romania of credit institutions headquartered in third countries
- guarantee ceiling – the maximum coverage level per guaranteed depositor per credit institution.
- host member state – according to *Regulation (EU) No 575/2013*, the member state in which an institution has a branch or in which it provides services
- home member state – according to *Regulation (EU) No 575/2013*, the member state in which a credit institution has been granted authorisation
- branch – according to *Regulation (EU) No 575/2013*, a place of business which forms a legally dependent part of an institution and which carries out directly all or some of the transactions inherent in the business of institutions

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[1] *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012*

LIST OF FGDB-MEMBER CREDIT INSTITUTIONS AS AT 31 DECEMBER 2017

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

[1] On 2 May 2017, a merger by absorption was completed between Banca Comercială Carpatica S.A. (absorbing entity) and Patria Bank S.A. (absorbed entity). The new bank was named Patria Bank S.A.

DEPOSITS WITH FGDB-MEMBER CREDIT INSTITUTIONS AS AT 31 DECEMBER 2017

Indicator	31 Dec. 2016*	31 Dec. 2017	Difference	
1	*2*	*3*	*4 = 3 - 2*	*5 = 4 / 2 (%)*
1. Number of deposit holders - total, of which:	**15,174,616**	**15,057,953**	**-116,663**	**-0.8**
• natural persons	14,237,660	14,065,406	-172,254	-1.2
• legal persons	936,956	992,547	55,591	5.9
2. Number of eligible deposit holders - total, of which:	**15,126,939**	**14,968,637**	**-158,302**	**-1.0**
• natural persons	14,214,817	14,008,512	-206,305	-1.5
• legal persons	912,122	960,125	48,003	5.3
3. Total deposits (million lei), of which:	**304,191.5**	**329,507.7**	**25,316.2**	**8.3**
• in lei	185,721.2	204,667.9	18,946.7	10.2
• in foreign currency (leu equivalent)	118,470.3	124,839.7	6,369.4	5.4
4. Total eligible deposits (million lei), of which:	**241,750.1**	**267,449.3**	**25,699.2**	**10.6**
% of total deposits	*79.5*	*81.2*	*1.7 p.p.*	
• in lei	160,326.9	174,493.2	14,166.3	8.8
• in foreign currency (leu equivalent)	81,423.2	92,956.1	11,532.9	14.2
5. Natural persons' eligible deposits (million lei), of which:	**147,762.8**	**159,566.9**	**11,804.1**	**8.0**
% of total eligible deposits	*61.1*	*59.7*	*-1.4 p.p.*	
• in lei	89,444.4	94,173.6	4,729.2	5.3
• in foreign currency (leu equivalent)	58,318.4	65,393.3	7,074.9	12.1
6. Legal persons' eligible deposits (million lei), of which:	**93,987.3**	**107,882.4**	**13,895.1**	**14.8**
% of total eligible deposits	*38.9*	*40.3*	*1.4 p.p.*	
• in lei	70,882.6	80,319.6	9,437.0	13.3
• in foreign currency (leu equivalent)	23,104.7	27,562.8	4,458.1	19.3
7. Total covered deposits (million lei), of which:	**158,648.0**	**172,671.7**	**14,023.7**	**8.8**
% of total eligible deposits	*65.6*	*64.6*	*-1.0 p.p.*	
• natural persons' covered deposits	132,029.6	142,698.1	10,668.5	8.1
• legal persons' covered deposits	26,618.3	29,973.6	3,355.3	12.6

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

* Final data updated after a verification of the calculation base for the contributions owed by credit institutions in 2017.