FGDB

FONDUL DE GARANTARE A DEPOZITELOR BANCARE

BANK DEPOSIT GUARANTEE FUND

2018 annual report

ANNUAL REPORT 2018

FGDB

annual report 2018

BANK DEPOSIT GUARANTEE FUND

3 Negru Vodă St., 2nd floor, 030774, Bucharest
Phone: +40 31 4232883
+40 31 4232805
Fax: +40 31 4232800
e-mail: office@fgdb.ro
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 fi nancial stability and encouraging savings.

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

CONTENTS

Composition of the Supervisory Board and of the Executive Board, the FGDB's organisational chart 4

1. The Bank Deposit Guarantee Fund (FGDB) and Its Administrative Framework 6

2. The 2018 Background and Regulatory Framework 20

3. Deposit Guarantee 36

4. FGDB-Managed Financial Resources 50

5. Liquidation of failed credit institutions 60

6. Public information 66

7. The FGDB's financial statements 72

Annexes 90

SUPERVISORY BOARD

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

Demetrian Octav Magheru
Strategy Consultant
The National Bank of Romania*

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

Anca Florina Iordache
General Director
The Ministry of Public Finance

Cătălin Bogdan
Expert
The National Bank of Romania**

Lucia Sanda Stoenescu
Senior Expert
The National Bank of Romania

* as of 1 February 2018. Starting from 27 November 2018 was appointed as member of the Audit Committee.
** as of 19 April 2019.
The Supervisory Board also included Adrian Gabriel Trandafir (14.06.2016-29.11.2018), as member, representative of the National Bank of Romania.

ORGANISATIONAL CHART

ORGANISATIONAL CHART

EXECUTIVE BOARD

Petre Tulin
General Director

- Legal and Supervisory Board's Secretariat Department
- Treasury Subdivision
- Organisation and Human Resources Subdivision
- Public Relations and Communication Subdivision
- Information Technology Subdivision

Adriana Sîvu
Deputy General Director

- Deposit Guarantee, Bank Resolution and Liquidation Department
  - Deposit Guarantee Subdivision
  - Bank Resolution and Liquidation Subdivision
- Risk Management and Financing Policies Department

Vasile Bleotu
Financial Director

- Finance and Accounting Department
- Administration and Logistics Subdivision

Internal Audit Subdivision

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

The FGDB, in its capacity as the only statutory bank deposit guarantee scheme in Romania[1], makes it its main goal to guarantee the deposits of households and legal entities at the credit institutions authorised by the National Bank of Romania.

Along the more than two decades of operation, further duties have been added to the FGDB's agenda, while its powers within the national system that guarantees financial stability have seen gradual consolidation.

In this respect, besides the specific duties to any bank deposit guarantee scheme, the FGDB has been assigned, by law, further responsibilities in relation to the management of the bank resolution fund and the application of measures for early intervention, bank resolution and the liquidation of credit institutions.

At present, by comparison with other deposit guarantee schemes, the FGDB performs an extended range of functions and responsibilities. As far as the application of early intervention and bank resolution measures is concerned, the FGDB may act as:

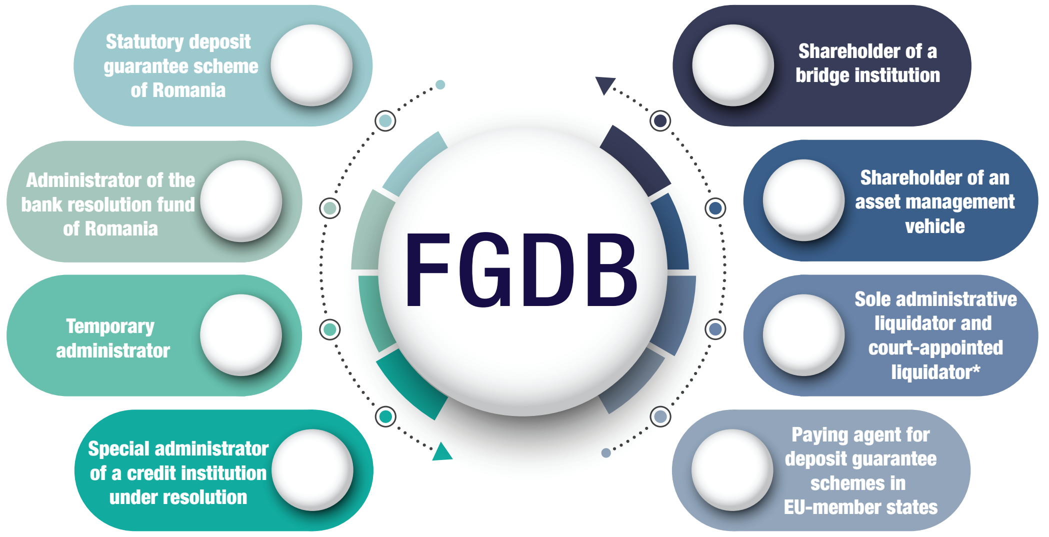
- temporary administrator;
- special administrator of a credit institution under resolution;
- shareholder of a bridge institution;
- shareholder of an asset management vehicle.

The FGDB's Aim

Apart from the aforesaid duties, the FGDB also acts as sole liquidator of a credit institution where the National Bank of Romania orders dissolution followed by liquidation or where liquidation is initiated by shareholders.

Worthy of note is also the FGDB's appointment, under previous legislation on failed credit institutions[2], as liquidator of two banks that went bankrupt in 2002, namely *Banca Română de Scont* (*BRS*) and

The FGDB's Main Target and Its Other Powers



* The FGDB will fulfil its duties as court-appointed liquidator just until ongoing liquidation proceedings close.

[1] A role acquired under *Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund*, which was the transposition into national legislation of *Directive 2014/49/EU on deposit guarantee schemes*. Simultaneously, *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* was adopted, which, in turn, impacted on the FGDB.

[2] *Law no. 83/1998 on bankruptcy proceedings for banks, with subsequent amendments and completions, which was repealed in 2004.*

Banca Turco-Română (*BTR*). Although, under current legislation, the FGDB no longer is a court-appointed liquidator, it will continue to play that role until bankruptcy proceedings for the two banks are finalised.

As part of its cooperative ties with the deposit guarantee schemes of the other states in the membership of the European Union, the FGDB acts as paying agent responsible for reimbursements on behalf of the schemes that guarantee the deposits held at the branches of foreign banks operating across Romania.

In this respect, the FGDB is a signatory to the *Multilateral Cooperation Agreement* between deposit guarantee schemes within the European Union[3]. Moreover, given the cooperation between deposit guarantee schemes within the European Union, the EDDIES[4] system was developed and implemented with a view to providing the necessary infrastructure for cross-border repayments and the exchange of information via a central secure mechanism. The FGDB adhered to EDDIES in 2018.

As the financial-banking sector in Romania remained stable and proved even more solid all through 2018, there was no instance to imply repayments or funds for resolution measures from the FGDB, nor was the FGDB required to exercise any of the capacities it may have to assume if early intervention or bank resolution measures were to be applied.

Under those circumstances, in 2018, the FGDB continued to focus on the consolidation of its regulatory framework and the attainment of new standards corresponding to three major lines of activity:
a) the protection of the deposits held at its member credit institutions;
b) the administration of the bank resolution fund;
c) the court-supervised liquidation of the two failed banks where it acts as liquidator.

a) The Protection of Deposits Held at FGDB-Member Credit Institutions

(i) Coverage level offered by the FGDB

In 2018, while both the deposit guarantee ceiling and the payout period – which are basic coordinates of the process of depositor protection – stayed unchanged at previous years' levels, the FGDB continued to provide all the conditions it deemed necessary to be able to efficiently fulfil its obligations to depositors, as specified in the law.

If a credit institution fails or if a situation arises making deposits unavailable, the FGDB compensates depositors with reimbursement limited to the guarantee ceiling of 100,000 euros converted into the national currency. Certain categories of deposits[5] benefit from a higher coverage limit "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". That limit is set and periodically revised by the National Bank of Romania in consideration of changes in relevant statistical indicators.

The 100,000-euro level of deposit protection is the same in all European Union member states. In Romania, it has been applied since the end of 2010. In 2018, the supplementary coverage threshold, introduced into legislation at end-2015 following the transposition into national legislation of new provisions under the applicable Directive, remained stable at the leu equivalent of 100,000 euros.

FGDB pays guaranteed depositors their due compensation within at most seven business days of the date of deposit unavailability.

[3] *The Multilateral Cooperation Agreement* was developed by the European Forum of Deposit Insurers (EFDI) in keeping with the European Banking *Authority's Guidelines on cooperation agreements between deposit guarantee schemes under Directive 2014/49EU*, which was concluded within the EFDI and validated by the European Banking Authority. The FGDB joined that accord from the very beginning, that is in the autumn of 2016.
[4] *EDDIES – The European DGS to DGS Information Exchange System.*
[5] The temporary increased coverage applies to deposits arising 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.

Relevant Data as at 31 December 2018

GUARANTEE CEILING
for natural persons and legal entities

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

REPAYMENT PERIOD

The FGDB is one of the European Union's deposit guarantee schemes boasting the shortest reimbursement period – namely, within seven working days.

ELIGIBLE DEPOSITS

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

HIGHER COVERAGE LEVEL
for natural persons

The FGDB guarantees this improved coverage level "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 protection 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.

GUARANTEED DEPOSITORS

15,105,034 natural and legal persons
14,107,271 guaranteed natural persons, *of which 98.9 percent residents*
997,763 guaranteed legal entities (all enterprises, no matter the size), *of which 99.7 percent residents*

FGDB-MEMBER CREDIT INSTITUTIONS

All the credit institutions authorised by the National Bank of Romania. Their number stood at 27 at the end of 2018.
(N.B. branches in Romania of credit institutions based in other European Union member states are covered by home country schemes)

TOTAL ELIGIBLE DEPOSITS 290.62 bln lei

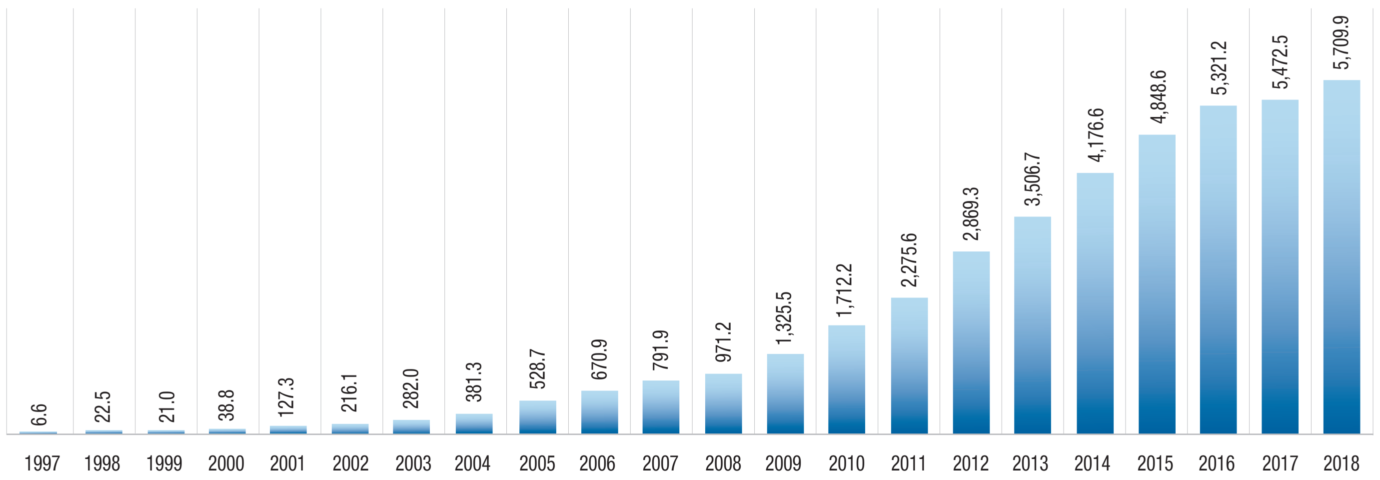
Leu-denominated deposits:	185.99 bln lei
Foreign exchange-denominated deposits:	the equivalent of 104.63 bln lei
Natural persons' deposits:	176.64 bln lei
Legal entities' deposits:	113.98 bln lei
Deposits of resident natural and legal persons:	281.40 bln lei
Deposits of non-resident natural and legal persons:	9.22 bln lei

FGDB-MANAGED RESOURCES

The deposit guarantee fund:	5.71 bln lei
The bank resolution fund:	1.16 bln lei

Evolution of the Deposit Guarantee Fund from Its Creation to 31 December 2018

million lei; end-period



This is the shortest repayment period which was set for the whole of the European Union under the applicable EU Directive and which is mandatory for all member states by 2024[6].

At the end of 2018, the FGDB guaranteed deposits held by 14,107,271 natural persons and 997,763 legal entities[7]. Most depositors (99.8 percent of depositors, natural persons, and, respectively, 97.4 percent of depositors, legal entities) benefit from full FGDB coverage as their deposits do not exceed the guarantee ceiling. In the case of deposits in excess of the coverage limit, the FGDB's compensation is confined to that threshold.

Total eligible deposits on 31 December 2018 amounted to 290.6 billion lei, of which 189.5 billion lei in covered deposits[8].

As to the end of 2017, eligible deposits increased by 8.5 percent, posting rises in all components – by categories of depositors and by currencies – while covered deposits moved up by 9.7 percent.

(ii) Recovery of the FGDB's claims arising from its payouts

Since its establishment, the FGDB has reimbursed depositors of seven banks which went bankrupt between 1999 and 2006. The repayments to the guaranteed depositors of the seven banks totalled 512.2 million lei. In conformity with the law, in order to recover that amount, the FGDB asserted its right of subrogation to the rights of guaranteed depositors and joined the body of creditors of each of the seven failed banks.

According to legislation applicable in each bankruptcy case, the FGDB's ranking differed on the creditor priority lists of the seven banks. The FGDB's claims were initially classified as unsecured claims. In 2001, they moved up into the fourth place as far as the order of payment of claims was concerned. In 2014, they advanced again, this time to the second position.

Such moves led to differences in claim recovery ratios. Consequently, the claim recovery ratio ranged from 25.9 percent to 40.3 percent in the case of the banks that had failed before 2001 and climbed to 100 percent after that year.

[6] In Romania, the payout deadline of seven working days at the most took effect at the end of 2015.

[7] 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. Accordingly, when calculating the total number of depositors, a holder of deposits at different banks is recorded several times. The FGDB guarantees the deposits of all natural persons and of enterprises, irrespective of size, as well as of other assimilated entities.

[8] 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*.

The overall claim recovery ratio for the seven bankrupt banks stands at de 34.3 percent[9].

(iii) The Deposit Guarantee Fund

Throughout 2018, the FGDB kept a sharp focus on the consolidation of the deposit guarantee fund, which has a direct impact on financial stability. The financial resources of the deposit guarantee fund stayed on the upward path, reaching 5,709.9 million lei on 31 December 2018 (an annual variation of +4.3 percent).

With the seal of approval of the Board of Directors of the National Bank of Romania, the FGDB sets the level of the contributions of credit institutions. The sums which the FGDB-affiliated credit institutions contribute to the deposit guarantee fund are calculated according to their individual risk profile[10].

The financial resources accumulated in the deposit guarantee fund are invested in conformity with an annual strategy, which is endorsed by the FGDB's Supervisory Board and approved by the Board of Directors of the National Bank of Romania. Under FGDB-related legislation, mitigated risk and adequate liquidity are the defining features of the investment process, which also targets yields as a subsidiary goal.

In line with legal provisions, at least 99 percent of the profit the FGDB makes by investing the financial resources of the deposit guarantee fund is channelled towards replenishing the deposit guarantee fund.

With a view to protecting guaranteed depositors, the financial resources of the deposit guarantee fund may be used, in line with legal provisions, either to compensate guaranteed depositors or to finance resolution measures allowing depositors' uninterrupted access to their own deposits.

b) Administration of the Bank Resolution Fund

The FGDB is the administrator of the bank resolution fund of Romania, which was set up based on *Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms and amending and complementing legal acts in the financial sector* by taking over the financial resources of the bank restructuring fund[11]. That fund, too, had been managed by the FGDB.

The financial resources of the bank resolution fund have increased with every passing year also thanks to the absence of instances demanding their use. The level of the fund's financial resources advanced by 16.8 percent throughout 2018 to stand at 1,164.4 million on 31 December 2018.

The National Bank of Romania, as the resolution authority, decides on the way the financial resources of this fund are to be used when a resolution measure is applied, taking account of the particularities of each resolution tool. At the same time, it is the responsibility of the National Bank of Romania to establish the methodologyand to set the level of credit institutions' contributions to the bank resolution fund based on their individual risk profile.

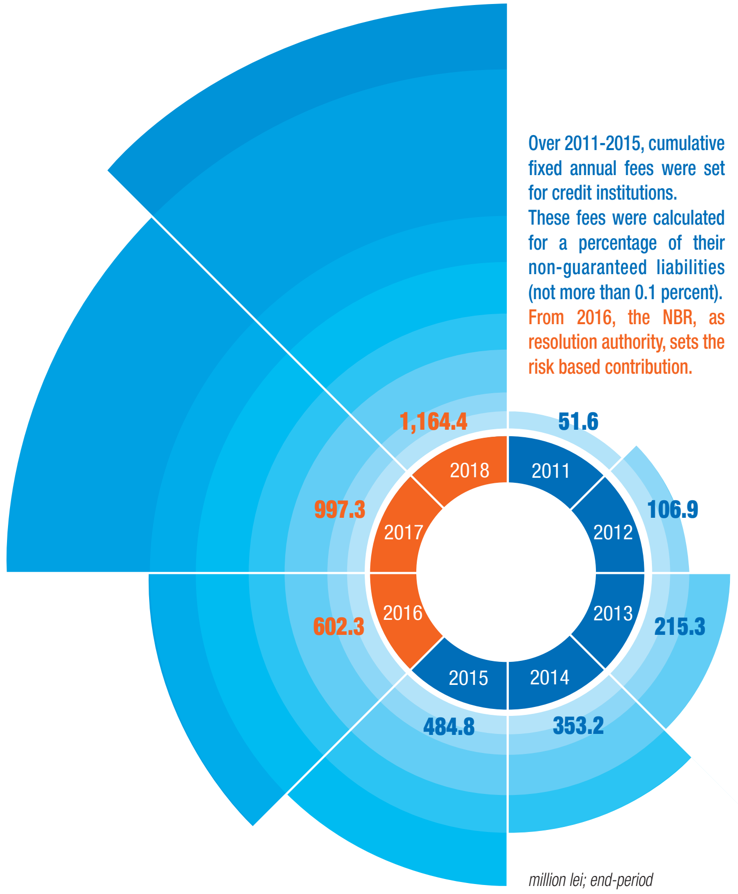
Just like in the case of the deposit guarantee fund, at least 99 percent of the profit made by administering the bank resolution fund adds to the financial resources of this fund.

[9] Chapter 5 – *Liquidation of Failed Credit Institutions* – offers more details.

[10] The method of calculating contributions is stated under the FGDB's *Regulation no. 2/2016 on the calculation and payment of risk-based contributions to the Bank Deposit Guarantee Fund*, with subsequent amendments and completions, which is based on The European Banking Authority's *Guidelines on methods for calculating contributions to deposit guarantee schemes*.

[11] In turn, the bank restructuring fund was created in 2012 by taking over the resources of the special compensation fund set up in 2010 to compensate persons affected by measures implemented during the special administration of credit institutions.

Evolution of the Bank Resolution Fund from Its Creation to 31 December 2018



The financial resources of the bank resolution fund were invested in compliance with a strategy for 2018 endorsed by the FGDB's Supervisory Board and approved by the Board of Directors of the National Bank of Romania. The key targets of these investments were low risks and adequate liquidity, as well as yields, considered a secondary goal, the same they were in the case of the deposit guarantee fund.

c) Court-supervised liquidation proceedings at the two failed banks where the FGDB acts as liquidator

In 2018, the FGDB continued its activity as court-appointed liquidator of *Banca Română de Scont* (*BRS*) and *Banca Turco-Română* (*BTR*). Both banks went bankrupt in 2002 and had the FGDB as liquidator from the start of the procedures.

As part of the liquidation process, legal proceedings against the two banks continued in 2018 in Romania and, in the case of *BTR*, also outside the country.

For the duration of the liquidation proceedings carried out at the two banks until 31 December 2018, 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*[12].

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

THE FGDB'S ADMINISTRATION AND MANAGEMENT

The FGDB is managed according to a two-tier structure, quite similar to the dual-board model. This system is composed of the Supervisory Board, comprised of seven members, and the Executive Board, consisting of three members who run current FGDB activities and take steps to ensure the implementation of Supervisory Board decisions.

The FGDB is a legal person of public interest and its administration is public. The members of the Supervisory Board are representatives of the National Bank of Romania (five members, including the Board's Chairperson) and of the Ministry of Public Finance (two members).

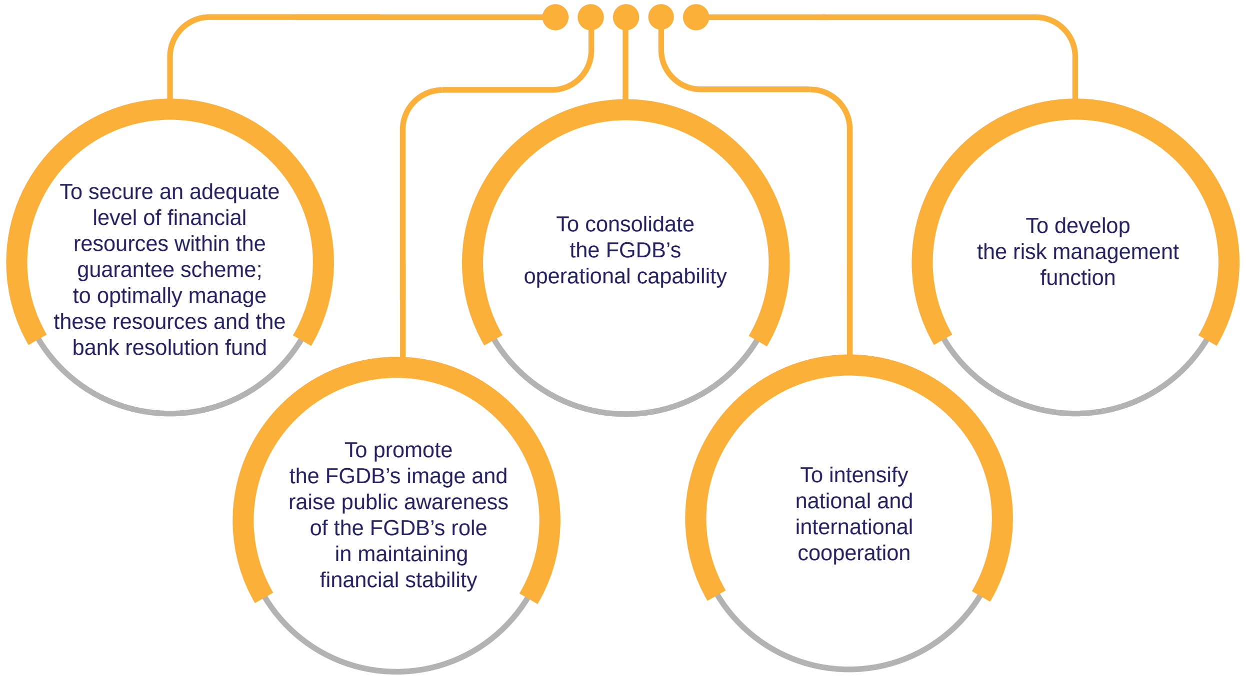
In compliance with the law, an Audit Committee operates within the Supervisory Board as a consultative body consisting of three of the Supervisory Board's members.

The duties and responsibilities of the Supervisory Board and of the Executive Board are clearly set under the law that rules FGDB activities and under the institution's Statute, a solid and transparent administration and management framework being thus put in place.

The constant aim of the activity carried out and the decisions made by the FGDB's Supervisory Board and Executive Board, according to their respective level of competence, is to apply the best practices in this sector to ensure the effective fulfilment of the FGDB's mandate and targets.

In 2018, the FGDB prioritised its work according to its five strategic goals for the period spanning 2018–2020.

THE FGDB'S 2018 - 2020 STRATEGIC GOALS



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

As pointed out earlier in this chapter, the financial resources of the two FGDB-administered funds, namely the deposit guarantee fund and the bank resolution fund, reached new highs in 2018, thus strengthening the FGDB's financial capability.

Furthermore, the strategy to identify new eligible counterparties and new tools paved the way to a well-diversified, increasingly granular investment portfolio.

At the same time, alternative funding mechanisms were formalised in 2018 to provide the FGDB with additional funds needed to disburse payouts or to implement bank resolution measures.

2. To consolidate the FGDB's operational capability

In line with the *Multiannual Programme for Stress Test Exercises,* in 2018 the FGDB tested its operational capability to reimburse depositors when deposits at one of its member credit institution become unavailable.

The results of the test exercise showed the FGDB was well-prepared to pay due compensation to guaranteed depositors within maximum seven business days of the date of deposit unavailability. Moreover, following an analysis of the results, new measures were identified to further consolidate the FGDB's operational capability to make compensation payments[13], with some of them already put into practice.

On the other hand, steps were taken towards upgrading the FGDB's *Business Continuity Plan* and procedures were resumed to purchase an integrated IT system to assist FGDB activities.

3. To develop the risk management function

Risk management in 2018 followed the guidelines of the strategy for the management of significant risks of the FGDB. That strategy primarily targeted the growth of a caution-oriented risk culture, the maintenance of a low-risk profile, the development of a balanced assets portfolio, the protection of depositors' interests and of the available financial resources of both the deposit guarantee fund and the bank resolution fund, as well as compliance with applicable legislation and regulations.

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

In 2018, action was taken to inform the public about deposit guarantee and the FGDB's role in depositor protection. To this end, a new slogan was adopted and a new information package was launched. The package contains information on deposit guarantee, a video describing the steps depositors must take to get their reimbursements, and a brochure containing detailed information.

Moreover, in 2018, an opinion poll was taken among banked natural persons and legal entities of the micro-enterprise type to sample their perception and attitude towards the banking system, their view on the banking products they hold, as well as their knowledge of the FGDB's role, of payout procedures, information sources and means of communicating information.

5. To intensify national and international cooperation

In 2018, the FGDB had further meetings with representatives of member credit institutions to discuss various practical aspects related to the application of deposit guarantee regulations. Internationally, the FGDB was increasingly involved in projects carried out by the European Forum of Deposit Insurers (EFDI), particularly in the area of cooperation between deposit guarantee schemes. It is worthy of note that the General Director of the FGDB is a member of the management executive structure of the EFDI EU Committee and coordinator of the forum's Cross-Border Cooperation Working Group. Furthermore, the FGDB is represented to task force on deposit guarantee schemes within the European Banking Authority.

The regulatory framework specific to FGDB activities was further consolidated and updated in 2018 in consonance with the measures and actions taken to attain strategic goals.

Along this line, the FGDB's Supervisory Board analysed and endorsed or approved, as appropriate, several regulations and procedures[14] covering aspects of FGDB activities, such as:

- calculation of member credit institutions' risk-based contributions;
- periodical reports on guaranteed deposits and the payout lists which credit institutions transmit to the FGDB;
- selection of credit institutions to be mandated to disburse payouts;
- standards and policies to secure personal data protection;
- performance by the FGDB of its job as sole liquidator;
- recovery of the FGDB's claims;
- preparation and running of stress simulation exercises;
- norms on the protection of information representing a professional secret within the FGDB;
- internal regulation;
- organisation and performance of archiving work.

In 2018, the FGDB's Supervisory Board also endorsed or approved, as appropriate, other significant materials, such as: guidelines of the FGDB's funding policy, strategy for investing financial resources, revenue and expenditure budget, annual financial statements, annual report, FGDB activities as creditor or liquidator of failed banks etc.

THE FGDB'S RISK MANAGEMENT FRAMEWORK

Risk management is one of the FGDB's key activities. It includes the processes and projects carried out within all its organisational structures, as well as the results of the interactions between them have on the organisation as a whole.

The implementation of a dynamic and efficient risk management system, adapted to the specific nature of ongoing activities, is a complex, long-term process which the FGDB has assumed as a prerequisite for consolidating its capability to fulfil its statutory duties. This system covers the whole range of risks to which the FGDB is exposed, the processes and procedures to manage these risks, as well as duties and responsibilities in the management of risks. This system will be implemented gradually, as the FGDB completes the necessary infrastructure, and will be finalised once the integrated IT system is put in place, allowing, *inter alia*, for the automation of risk-related reporting.

The main risk categories which the FGDB addresses using specific tools and processes are:

• credit risk

In its capacity as a statutory deposit guarantee scheme and administrator of the bank resolution fund, the FGDB assumes credit risk through exposures to the eligible counterparties set under its annual resource investment strategy. Depending on the nature of the counterparty/issuer, this kind of risk is controlled through a process of setting limits for: credit institutions, categories of credit institutions, other categories of issuers

[13] The respective measures are outlined in the following section – *The FGDB's Risk Management Framework*.

[14] In its *Domestic Regulatory Framework* section, Chapter 2 – *The 2017 Background and Regulatory Framework* - offers more information about the regulations the FGDB issued.

(including international financial institutions). Observance of exposure limits is monitored and reported to the FGDB's management on a regular basis, while the limits may be revised during the course of a year if market/counterparty developments so require.

• market risk
The FGDB is exposed to this type of risk when unfavourable shifts occur 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, by monitoring potential losses (Value at Risk) and by setting alert and intervention thresholds. The FGDB will supplement its market risk management tools as its investment portfolio gains in complexity and diversity.

• liquidity risk
The FGDB's liquidity risk management policy primarily aims to maintain a minimum monthly level of liquidity from available financial resources, hold an adequate volume of trading securities, preserve a balanced investment structure and implement/update alternative funding mechanisms for unexpected circumstances.

In May 2018, the FGDB opened a current account with the National Bank of Romania as a precondition for conducting repo operations, due for operationalisation after the necessary infrastructure, including the regulatory framework, has been created.

• operational risk
Operational risk – namely, the risk of incurring losses or of failing to make the estimated profit, triggered either by the use of inadequate or inappropriate processes, systems and human resources or by external events and actions – is inherent in any FGDB activity. In identifying risks and implementing measures to eliminate/mitigate them, the FGDB relies on self-assessments of incurred risks and on the controls implemented at the level of its organizational structures.

The actions taken in 2018 to outline strategic guidelines will be followed by the implementation of internal regulations providing for an adequate management of operational risk, according to the good practices developed within other deposit guarantee schemes. All this will lead to the utilisation of an adequate set of operational risk indicators and the implementation of a functional system to log and report loss-generating events.

The use of the aforesaid tools and their complexity will correlate with the volume and complexity of actual activities and the level of exposure to operational risk by applying the proportionality principle.

• reputational risk
The FGDB's policy of managing reputational risk is intended to avoid any action that might generate a negative perception on the part of depositors, the public at large and the other institutions within the financial stability network, as well as to improve the operational framework, update and test business continuity plans and carry on stress test exercises. Furthermore, in view is the promotion of systematic and open communication with affiliated credit institutions through the agency of the Romanian Banking Association.

• strategic risk
Appraising strategic risk is a component of the process of strategic planning. The main potential sources of strategic risk are to be found within the FGDB's strategic plans referring to the coverage target level, organisational development and the strategy for managing available financial resources. In order to maintain strategic risk within pledged limits, the FGDB periodically reassesses its strategic goals in relation to achievements, all while relying mainly on preventive action. An essential role is played by the functional and effective governance system provided by the management structure comprised of the Executive Board and the Supervisory Board, with the latter also including the Audit Committee.

The FGDB management 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 significant risks in order to maintain it within the pledged target levels. In turn, the target is also evaluated periodically to gauge its suitability for internal developments and for the external environment in which the FGDB works.

Stress Simulation Exercises

At the operational level, in 2018, the FGDB covered a new stage in the process of testing its capability to fulfil its statutory obligations in crisis situations by running the first full test exercise which simulated a payout scenario for one of its member credit institution. That was the second 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. The test was prepared and run over February-May 2018.

The exercise involved institutional participants including the Bank Deposit Guarantee Fund, the National Bank of Romania, Banca Furnica[15] and Banca Transilvania S.A. (the mandated credit institution), as well as observers representing the Ministry of Public Finance and the National Bank of Romania.

The overall target was to test the FGDB's operational capability to compensate guaranteed depositors within at most seven working days of the date deposits of the participating credit institution had been determined unavailable. The general goal was broken down into specific targets assigned to each institutional participant and regrouped by themes.

In line with the agreed scenario, the simulation exercise ran in two phases:
• Phase 1 – from the date the National Bank of Romania declared the unavailability of deposits to the day prior to the start of payouts; This preparation phase ran over 21-29 May 2018.
• Phase 2 – corresponding to the roleplaying session, on 30 May 2018, which was the date repayments started (considered as a representative date for the entire period of compensation payments made by the mandated credit institution).

Following the action taken during the two phases of the test exercise, in compliance with the FGDB's payout procedures, reports were issued documenting the respective simulation.

The assessment of the results of the test was based on the existence[16] and quality of the generated reports, as well as on the manner in which the exercise ran, on its duration and on the qualitative aspects of the actions taken.

The results of the simulation exercise that the FGDB ran show that the institutional participants understood and adequately fulfilled their roles, proving that they have the necessary training to deal with a real-life payout process.

The conclusion of the test was that the FGDB is capable to discharge its duties in the process of reimbursing guaranteed depositors within seven business days at the most of the date the National Bank of Romania declared the unavailability of deposits at a FGDB-member credit institution.

The analysis of test results was followed by the preparation of a plan of measures to

[15] This is the name of a fictional bank involved in the test whose deposits were declared unavailable by the National Bank of Romania, in keeping with the scenario of the test. The FGDB used fictional data, generated by special programmes, while observing the criteria laid down in the European Banking Authority's *Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU*. These requirements refer to: (i) the number of guaranteed depositors should be higher than the second quartile of affiliated credit institutions and (ii) the size/importance of the bank, which should not be one of the credit institutions which the bank resolution authority slated for the application of resolution measures.
[16] This proves that the respective test could be run and that it served its purpose.

further strengthen the FGDB's operational capability to make compensation payments. The major provisions of the plan refer to:

- A follow-up of the implementation of the changes the FGDB already discussed with affiliated credit institutions which are intended to allow for the integral adaptation of their IT systems so that the reports on payout lists which are to be used in simulation exercises should comply with the FGDB's requirements;
- Periodical random testing of the capability of member credit institutions to prepare and transmit to the FGDB payout lists according to an annual calendar;
- Tests involving mandated credit institutions, conducted at least once a year, to verify the performance of the inter-bank communication network and the ability to process the payout list which the FGDB sends and to generate daily reports on compensation payments, as requested by the FGDB;
- Framework agreements on *repo* transactions to be concluded with relevant banks;
- Implementation of the solutions identified by the relevant departments of the National Bank of Romania allowing *repo* transactions with the central bank so that the FGDB may have access to liquidity if need be;
- Identification and implementation by the FGDB of alternative funding mechanisms which, together with financing from the Ministry of Public Finance, will give it access to financial resources in times of crisis (including the instance when available financial resources are insufficient);
- Revision – according to legal provisions in force – and updating, as often as necessary, of the FDGDB's communication strategy for crisis situations;
- Harmonisation of this strategy with the annually selected mandated credit institutions and organisation of training sessions for the call-centre employees of mandated credit institutions;
- Revision of the FGDB's *Regulation no. 5/2016 on the selection of credit institutions the FGDB mandates to repay guaranteed depositors* by giving a more detailed presentation of the eligibility requirements which credit institutions wishing to become mandated credit institutions should meet;
- Updating of provisions under the contract/contracts to be concluded with the mandated credit institution/institutions on the disbursement of pay outs.

The report on the results of the exercise that tested the FGDB's operational capability to reimburse the depositors of a participating credit institution was approved by the FGDB's Supervisory Board and was sent to the National Bank of Romania for information.

In 2018, the FGDB started preparations for the third stress simulation exercise, scheduled for May 2019, which will test the FGDB's funding capability when it has to compensate guaranteed depositors but its available financial resources are insufficient. Along this line, a *Protocol on Financing* between the Ministry of Public Finance and the FGDB was prepared and is about to be finalised. It will provide an operational framework allowing the FGDB to access Government loans in situations specifically provided for by the law.

THE FGDB'S AUDIT COMMITTEE AND INTERNAL AUDIT

The Audit Committee, which operates within the FGDB, was created to consolidate the corporate governance system.

The Audit Committee is an independent, consultative body, comprised of three members of the FGDB's Supervisory Board, whose duties include:

- assisting the Supervisory Board in monitoring the internal control, internal audit and risk management systems within the FGDB, and
- verifying and monitoring the independence of external auditors and the statutory audit of the annual financial statements.

The Audit Committee plays a significant role in assessing the system that monitors compliance with legislation and regulations applicable to the activity of the FGDB. Furthermore, it assists the Supervisory Board in overseeing and supervising the process of preparing 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 holds meetings on a quarterly basis or as often as necessary. Its meetings, which are called either by its Chairperson or by the Chairperson of the Supervisory Board, 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 attend as invited guests in order to supply the necessary information.

In 2018, 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 and performance of the internal audit missions and periodical activity reports.

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

The internal audit body is intended to improve the management of the audited structures by objectively and independently examining risk management, internal control and governance processes within the FGDB and by making recommendations for their improvement.

The aim of the audit missions that were conducted was to identify causes and consequences by using all specific internal audit tools so as appropriate recommendations could be formulated.

The recommendations were formulated so as they could be implemented and applied with financial/human/logistic costs commensurate with their contribution to streamlining FGDB activities.

The goal of the 2018 internal audit assurance missions was to assess the processes carried out by the operational and support functions of the organisation. The implementation of the recommendations for the improvement of processes which were made at the end of the internal audit missions has been permanently monitored, contributing to optimising activities and increasing the effectiveness of the internal control system within the FGDB, as has been confirmed by the progress the audited structures have made.

The Internal Audit Department has constantly focused on the evolution of the good practices that supplement the regulatory and standardisation frameworks in areas of interest, so that the opinions expressed and recommendations made may bring about an improvement in the risk management, control and governance systems, allowing the FGDB to exemplarily fulfil its mandate of protecting depositors.

This activity as a whole provided for the optimisation and improvement of processes and allowed for a better use of material and human resources, all while making a significant contribution to assessing processes, the stage of implementation of the internal control system and employees' level of accountability.

2. The 2018 Background and Regulatory Framework

INTERNATIONAL FRAMEWORK REGULATING THE ACTIVITY OF DEPOSIT GUARANTEE SCHEMES

New deposit guarantee and bank resolution regulations and guidelines were issued in 2018 leading to the consolidation of the framework established in the European Union.

Deposit guarantee schemes continued to run stress test simulations in 2018 in a bid to strengthen their capability to efficiently protect depositors if banks were to face difficulties.

State of the Project on the Establishment of the European Deposit Insurance Scheme (EDIS)

In 2018, further talks were held within European Union institutions on technical aspects related to the establishment of the EDIS, which represents the third pillar of the banking union. The talks went hand in hand with endeavours to mitigate risks as a preliminary stage of the subsequent risk sharing phase.

Members of the *Ad Hoc Working Party on the Strengthening of the Banking Union*, created by the Council of the European Union in January 2016, met several times during 2018 to analyse different models for liquidity support to be provided to deposit guarantee schemes. The conclusion of the respective analyses was that a clear stand in favour of one model or another could emerge only after the setting of the parameters of the models, which is an issue for discussion at the political level.

Following the agreement, reached at the Euro Summit held at end-2018, on aspects in connection with the deepening of the Economic and Monetary Union, talks on the EDIS at the political level will start in 2019. To this end, early in 2019 a *High Level Working Group on EDIS* was set up. The group is expected to present a report by June 2019.

At the same time, the European Commission initiated a study on the transposition into national legislation of the EU Directive on deposit guarantee schemes, with emphasis on the implementation by member states of national options and discretions. The aim of the study is to assess to what extent these national specifics should be harmonised in the context of the EDIS.

Guidance Papers and Studies of the European Forum of Deposit Insurers (EFDI) and the International Association of Deposit Insurers (IADI)

In 2018, the EFDI and the IADI – the two international professional associations of deposit guarantee schemes – worked intensely to put out guidance papers and studies tackling key aspects related to the institutions that provide depositor protection.

EFDI Guidance Papers and Studies

As most EFDI members are schemes operating within the European Union, particular attention is given inside the association to the implementation of regulations in this region. Along this line, in 2018, the EFDI published four different guidance papers referring to the payout process, deposits covered by deposit guarantee schemes, investment of the financial resources of deposit guarantee funds and alternative funding mechanisms.

EFDI Non-Binding Guidance Papers

- *Pay-out in 7 Working Days*[17]

The EFDI guidance focuses on the optimisation of the reimbursement process taking account of the obligation of deposit guarantee schemes to compensate guaranteed depositors within at most seven business days[18] of the date deposits at a credit institution become unavailable. The paper also approaches repayment methods, as well as methods to verify the identity of the depositors entitled to the compensation payments.

- *Covered Deposits in the EU: Definition and Special Cases*[19]

In consideration of the diversity of banking products which credit institutions in various countries offer to their clients, as well as the vast client portfolio, the guidance paper outlines specific coverage features that should underlie of both deposits and depositors. It also points to certain categories of deposits which need a specific treatment, such as: structured deposits, public authorities' deposits, deposits with no record of transactions within the last 24 months,

[17] https://www.efdi.eu/efdi-eu-committee-non-binding-guidance-paper-pay-out-7-working-days
[18] All European Union member states must meet the payout deadline of at most seven business days by 2024. In Romania, this repayment period has been in force since the end of 2015.
[19] https://www.efdi.eu/efdi-non-binding-guidance-paper-accounts-special-cases-12-september-2018

deposits with other beneficiaries besides the named holder etc.

• *Deposit Guarantee Schemes' Investment Policy*[20]

According to provisions under the applicable Directive, deposit guarantee schemes should invest their available financial resources in a low-risk, sufficiently diversified manner. The guidance includes recommendations concerning various aspects of the investment policy of deposit guarantee schemes, such as: selection of asset classes and asset allocation, investment-related risk, analysis of the portfolio, investment monitoring, stress testing etc.

• *Deposit Guarantee Schemes' Alternative Funding Policy*[21]

In consideration of the fact that deposit guarantee schemes operating within the European Union must have adequate alternative funding arrangements in place to enable them to obtain short-term funding when necessary, the EFDI guidance focuses on certain particularities of these mechanisms, including: prerequisites, terms and requirements, amount of funding, stress testing etc.

EFDI Studies and Reports

• *Technical Considerations for the Design of EDIS*[22]

The report reflects the results of the EFDI analysis of EDIS characteristic features, arrangements within the European deposit guarantee system, as well as the interaction between EDIS and national deposit guarantee schemes both during and after an event of deposit unavailability.

• *Managing Call Centers in European Financial Compensation Schemes*[23]

The survey shows the way in which European deposit guarantee schemes use and manage call centres, which are seen as top channels of communication with depositors, especially during payout periods.

• *DGS (Deposit Guarantee Schemes) Stress Testing*

According to the European Banking Authority's *Guidelines on stress tests for deposit guarantee schemes* adopted in October 2016 in line with the EU Directive on Deposit Guarantee Schemes, deposit guarantee schemes within the European Union must test their ability to fulfil their tasks during interventions of all types as set out in the deposit guarantee scheme Directive and in the Directive on the recovery and resolution of credit institutions.

Consequently, by 3 July 2019, deposit guarantee schemes should perform and report the results of the following tests:
- of the files containing data on depositors which are needed in preparations for the reimbursement process;
- of the operational capability of deposit guarantee schemes to disburse payouts;
- of the operational cross-border cooperation when compensation is paid to depositors of branches of foreign banks;
- of the funding capability of deposit guarantee schemes.

In this context, an EFDI specialised working group prepared a report on the tests run by deposit guarantee schemes since the aforesaid guidelines came into force, as well as on the conclusions reached at the end of those simulations[24].

[20] https://www.efdi.eu/efdi-eu-committee-non-binding-guidance-paper-deposit-guarantee-schemes-investment-policy
[21] https://www.efdi.eu/efdi-non-binding-guidance-paper-alternative-funding-18-june-2018
[22] https://www.efdi.eu/efdi-report-technical-considerations-the-design-edis-19-november-2018
[23] https://www.efdi.eu/efdi-prc-committee-information-paper-study-managing-call-centers-european-financial-compensation
[24] This report is available at https://www.efdi.eu/efdi-stress-test-wg-analysis-september-2018

IADI Research Papers

• *Deposit Insurance Fund Target Ratio*[25]

The paper reviews the practices of deposit guarantee schemes with ex ante funding in determining fund targets.

• *Deposit guarantee schemes and national financial safety net frameworks*[26]

The paper is based on responses collected from 135 deposit guarantee schemes across the globe and mainly refers to aspects related to the mandates and governance of deposit guarantee schemes, participation of credit institutions in deposit guarantee schemes, coverage and coverage levels, financing of deposit guarantee funds and the role of deposit guarantee schemes in the resolution of credit institutions in difficulty.

In March 2019, the IADI launched a public consultation on its draft guidance paper on the role of deposit guarantee schemes in contingency planning and the management of financial crises.

Regulations on the Resolution of Credit Institutions

In 2018, further legal acts were added to the regulatory framework for the recovery and resolution of credit institutions across the European Union.

A European Commission delegated regulation on regulatory technical standards took effect in March 2018. It specifies the criteria underlying the methodology for conducting valuations of the assets and liabilities of institutions or entities[27].

With a view to preparing and implementing resolution plans, credit institutions must provide uniform information to resolution authorities to thus secure the coherence and accuracy of information across the European Union.

In consideration of the experience resolution authorities in European Union member states have gained in this field, in October 2018 the European Commission issued new regulations on the provision of information to be used in drawing up and implementing resolution plans[28].

The Euro Summit held in December 2018 agreed on the creation of a common backstop to the Single Resolution Fund, which will be provided by the European Stability Mechanism in the case of banks going through resolution procedures. Along this line, the summit endorsed the terms of reference of the common backstop, which set out how the backstop would be operationalised, as well as the term sheet on the European Stability Mechanism reform.

In June 2018, the Financial Stability Board published two guidance documents focusing on the funding strategy elements of resolution plans and the application of bail-in in the case of global systemically important banks.

Also in June 2018, the Financial Stability Board launched a peer review on the implementation by its member states of the standards set out in *Key Attributes of Effective Resolution Regimes for Financial Institutions*[29], as well as associated guidance to carry them into effect.

Since bank resolution tools cannot be used directly for credit cooperatives – whose number is rather large in some countries – the International Association of Deposit Insurers (IADI) prepared a research paper on the distinctive features of the application of resolution measures to credit cooperatives[30].

[25] https://www.iadi.org/en/assets/File/IADI_Research_Paper_Deposit_Insurance_Fund_Target_Ratio_July2018.pdf
[26] https://www.iadi.org/en/assets/File/Press%20Releases/Annual_Survey_Results_IADI_Press%20Release-Nov2018.pdf
[27] *Commission Delegated Regulation (EU) 2018/345 of 14 November 2017 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.*
[28] *Commission Implementing Regulation (EU) 2018/1624 of 23 October 2018 laying down implementing technical standards with regard to procedures and standard forms and templates for the provision of information for the purposes of resolution plans for credit institutions and investment firms pursuant to Directive 2014/59/EU of the European Parliament and of the Council, and repealing Commission Implementing Regulation (EU) 2016/1066.*
[29] *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.
[30] This paper was published on 6 February 2018 and can be read at http://www.iadi.org/en/core-principles-and-research/papers/

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

Early in 2018, the European Banking Authority published a report on the results of its assessment of the way in which deposit guarantee schemes had applied its guidelines referring to the calculation of the contributions paid by affiliated credit institutions[31].

The assessment focused on the need to adequately differentiate between credit institutions based on their risk profiles, the harmonisation of the calculation methods used by deposit guarantee schemes and the objectivity and transparency of the methodology employed. The analysis also aimed to identify practical issues arising from the application of the new system of calculating risk-adjusted contributions.

The assessment identified no significant issues that might imply immediate changes to the guidelines. It showed that further in-depth analyses and a longer time series[32] were needed before initiating a process to review them.

DOMESTIC REGULATORY FRAMEWORK

The FGDB has been constantly focused on updating and correlating its own regulations, aware that an adequate regulatory framework represents a prerequisite for the transparency and efficiency of its activities.

Accordingly, 2018 saw the updating and harmonisation of several operational, risk management and FGDB internal organisation regulations.

Operational Regulations

A new regulation was issued in 2018 on the periodical reports credit institutions send to the FGDB, namely *Regulation no. 2/2018 on the transmission to the Bank Deposit Guarantee Fund of the information needed to prepare the payout list and to calculate credit institutions' annual contributions*.

This regulation introduces provisions to change the system of reporting data on bank deposits and payout lists; at the same time, compliance is ensured with requirements for personal data protection under a new legislation adopted in the European Union.

Another new FGDB regulation underlies the annual selection of credit institutions in charge of reimbursing depositors if deposits become unavailable. This new document – *Regulation no. 3/2018 on the selection of credit institutions the Bank Deposit Guarantee Fund will mandate to repay guaranteed depositors* – is harmonised with developments in this sector in recent years and introduces additional elements referring to conditions to enter the selection process, selection criteria and assessment of bids.

As part of the process of reviewing and complementing the procedural framework applicable to the FGDB, two procedures were issued in 2018 covering the FGDB's capacity as sole liquidator in the administrative liquidation of credit institutions and, respectively, the recovery of the FGDB's claims – *the Procedure for the Bank Deposit Guarantee Fund's capacity as sole liquidator and the Procedure for the recovery of the claims of the Bank Deposit Guarantee Fund.*

[31] https://www.eba.europa.eu/documents/10180/2087449/Report+on+the+implementation+of+the+EBA+Guidelines+on+methods+for+calculating+contributions+to+DGS.pdf
[32] In line with regulations within the European Union, national deposit guarantee schemes implemented the risk-based contribution system in 2016.

Risk Management Regulations

The year 2018 was extremely significant in point of the application of the principles that must underlie personal data protection. Starting 25 May 2018, *Regulation (EU) no. 679/2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data* (known as *General Data Protection Regulation*) has been opposable to all European Union member states.

In this context, the FGDB prepared Internal *Regulation on personal data processing and protection within the FGDB*, taking every measure to guarantee the confidentiality and integrity of personal data.

At the same time, *the Norms on the protection of information representing a professional secret within the Bank Deposit Guarantee Fund* were updated.

As the regulatory framework for the method of determining the contributions credit institutions pay to the FGDB had been consolidated and harmonised, *Regulation no. 1/2018 to amend and complement Regulation no. 2/2016 on the calculation and payment of risk-based contributions to the Bank Deposit Guarantee Fund* was issued.

This regulation includes a calculation method which was revised by replacing the "*ratio of liquid assets to total assets*" with the "*liquidity coverage ratio (LCR)*" which credit institutions must report to the National Bank of Romania. The revised calculation method complies with requirements under the European Banking Authority's *Guidelines on methods for calculating contributions to deposit guarantee schemes.*

As far as investment of available financial resources is concerned, the FGDB issued *Procedure on the classification and reassessment of investment securities.*

Furthermore, *the Procedure for the preparation and unfolding of stress testing simulation exercises by the Deposit Guarantee Fund* was updated, particularly in relation to deadlines for certain actions.

Regulations on Governance and Internal Organisation

In a bid to boost transparency and comply with specific human resources standards, a new *Internal Regulation*, which also includes *the Procedure for employee performance evaluation within the FGDB*, was issued in 2018, when *the Procedure for staff recruitment, selection and hiring within the Bank Deposit Guarantee Fund* was updated.

As part of internal organisation, a new *Regulation on the organisation and performance of archiving work within the Bank Deposit Guarantee Fund* was adopted and the *Procedure for the handling of mail within the Bank Deposit Guarantee Fund* was brought up to date.

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

Developments in the European Union

"The analysis in 2018 highlighted that some developments supported financial stability, including a continued economic expansion and improved bank resilience. However, high risk-taking activities in some financial market segments contributed to compressed global risk premia. Rising protectionism and renewed stress in emerging market economies produced bouts of volatility. In the European Union, growing uncertainties related to the Brexit process and stress in the Italian bond markets contributed to higher political and policy uncertainty."

The European Central Bank's Annual Report 2018

In 2018, economic growth in all European Union member states moderated in comparison with the previous year. The annual variation of Gross Domestic Product was of 1.9 percent in the European Union as a whole and of 1.8 percent in the euro area[33], slipping by 0.5 and, respectively, 0.6 percentage points from 2017 levels.

Such developments in the economy coincided with the continuing recovery of the labour market, where the unemployment rate hit its lowest in two decades at 6.6 percent[34].

Annual inflation was relatively unchanged from the previous year's level, standing at 1.7 percent in the European Union and at 1.6 percent in the euro zone[35].

The stability of the European financial-banking sector continued to strengthen in 2018 following actions on the part of credit institutions, as well as the application of new regulations and measures taken by supervisory authorities in member states.

According to the European Banking Authority's *Risk Dashboard* data as of the fourth quarter of 2018[36], indicators of credit institutions across the European Union improved.

Solvency of banks in the European Union remained at comfortable levels. Tier 1 capital ratio for all banks in the European Union amounted to 14.7 percent in December 2018, marginally lower than the previous year's level (an annual variation of -0.2 percentage points).

In 2018, the quality of loan portfolios saw further significant improvement. The ratio of non-performing loans kept the downward trend, reaching 3.2 percent in December (shedding 0.9 percentage points as to end-2017). However, the dispersion of bad loans across EU member states remained high.

Profitability of banks in the European Union picked up from the previous year, although it was still under the negative impact of the high levels of non-performing loans and of existing business models requiring better adaptation to market conditions.

As both deposits and loans moved along an upward path, the loan-to-deposit ratio stayed relatively stable at 117.1 percent at the end of 2018.

In a bid to assess the resilience of credit institutions, the European Banking Authority ran a stress test in 2018. The test involved 48 banks[37] covering broadly 70 percent of total EU banking sector assets. Besides the banks participating in the European Banking Authority's stress test, another 54 banks were tested during an exercise performed by the European Central Bank as part of the supervisory and evaluation process

In comparison with the results of the tests run two years prior, the outcome of this exercise showed that the capital basis of banks had improved while they had become more resilient to financial shocks.

Further progress was made in 2018 towards completing the regulatory framework within the European Union, which will consolidate the resilience of the financial-banking sector.

In March 2018, The European Commission proposed a package of measures to further reduce the outstanding amount of non-performing loans and to prevent their future accumulation. These measures chiefly focus on: sufficient coverage by banks of losses from loans that will become non-performing, the accelerated extrajudicial collateral enforcement procedure, development of secondary markets for non-performing assets, guidelines for setting up asset management companies. At the end of 2018, the European Parliament and the Council of the European Union reached a political agreement on ways to tackle the issue of bad loans in the period ahead.

A package of risk-reduction measures within the European Union initiated in 2016 was further negotiated by the Council of the European Union and the European Parliament in 2018. By mid-February 2019, the two institutions had reached an agreement. The package includes such core measures as:

- a binding leverage ratio to constrain the build-up of excessive leverage;
- a binding net stable funding ratio to define the stable, long-term funding requirements of banks so that they may overcome stressed conditions;
- capital requirements which are more sensitive to risks;
- minimum requirements for own funds and eligible liabilities to be met by global systemically important institutions to boost their loss-absorption and recapitalisation capacity.

At the same time, the agreement also covers steps to improve cooperation between competent authorities on matters related to the supervision of anti-money laundering activities.

In 2018, there were no crisis situations to call for bank resolution measures from the Single Resolution Board.

There was only one significant bank in the euro area, namely Latvia's ABLV Bank AS, which the European Central Bank declared as failing or likely to fail. The same classification applied to the bank's Luxembourg subsidiary (ABLV Bank S.A). Following the assessment of the situation of the Latvian bank in line with the applicable regulation[38], the Single Resolution Board determined that resolution action was not necessary for that bank. Under those circumstances, the designated authorities that manage the bank deposit guarantee funds in Latvia and Luxembourg decided to declare the unavailability of deposits at the two banks, thus starting to process of payout disbursements to guaranteed depositors

According to information released by the European Banking Authority, based on the notifications received from national resolution and designated authorities[39], there were several cases of banks in European Union member states where resolution measures were applied or deposit guarantee schemes had to intervene in 2018.

[33] https://ec.europa.eu/eurostat/documents/2995521/9643458/2-07032019-AP-EN.pdf/dabf231d-dddd-4e9e-9812-12189a19871d
[34] https://ec.europa.eu/eurostat/documents/2995521/9539652/3-31012019-BP-EN.pdf/bd847e5d-0694-4f90-b21f-f87a57ac4277
[35] https://ec.europa.eu/eurostat/documents/2995521/9499950/2-17012019-AP-EN.pdf/4e-a467c3-8ff2-4723-bc6e-b0c85fb991e4
[36] https://eba.europa.eu/eurostat/documents/10180/2666948/EBA+Dashboard+-+Q4+2018.pdf/5836f313-b390-4f24-99bf-815fc036a7ce
[37] Of the 48 banks covered by the stress test, 33 are directly supervised by the European Central Bank.
[38] *Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010*
[39] *https://eba.europa.eu/regulation-and-policy/recovery-and-resolution/notifications-on-resolution-cases-and-use-of-dgs-funds*

An example along this line is the case of Danish cooperative bank Københavns Andelskasse in the case of which Denmark's national resolution authority decided to apply the bail-in tool and to set up a bridge institution.

Besides the previously mentioned cases of Latvia and Luxembourg where deposits became unavailable, there were similar cases in Croatia, Estonia, Lithuania and Great Britain involving small-sized banks with a relatively small number of depositors. The deposit guarantee schemes in the respective countries compensated the depositors of the banks where deposits were unavailable. The payout processes ran smoothly, in compliance with applicable national regulations.

Also, Bulgaria, Polonia and the Czech Republic continued repayments to depositors of banks that had gone into bankruptcy in previous years. These were the depositors who had failed to apply when payouts had started.

The bank deposit guarantee scheme of Italy funded the transfer of the assets and liabilities (including the deposit book) of a bank undergoing insolvency proceedings to another lender. The move assured depositors' access to their money and reimbursements were no longer needed.

It is noteworthy that all the aforesaid failed banks exited the market in an orderly fashion and their depositors incurred no losses.

Developments in Romania

"The financial system has gained in soundness. Over the past decade, the Romanian banking sector: (i) consolidated its solvency, and no bail-out was needed, (ii) maintained adequate levels of liquidity indicators, (iii) recorded one of the fastest declines in the non-performing loan ratio Europe-wide, (iv) saw a gradual improvement in profitability, after the recognition of heavy losses from credit risk (in 2010, 2011, 2012 and 2014), and (v) mitigated the vulnerability associated with currency risk by sizeably reducing the share of on-balance sheet forex loans."

"Banking sector profitability is well above the EU average (…). The key driver of profitability is the further cut in expected impairment loss, against the background of a favourable domestic macroeconomic environment and further robust lending."

Financial Stability Report of the National Bank of Romania, December 2018

With a steadily favourable macroeconomic environment in the background, Romania's banking sector further strengthened its stability and resilience to shocks in 2018.

Under such circumstances, none of the FGDB member credit institutions faced difficulties requiring the intervention – in the form of bank recovery or bank resolution measures, for instance – of the National Bank of Romania, as the supervisory authority and the resolution authority.

In 2018, there were two significant acquisition and merger deals in Romania's banking market: the completion of the merger between Banca Transilvania S.A. and Bancpost S.A. (the absorbed bank)[40] and the acquisition of Piraeus Bank România S.A. by an entity belonging to U.S. private equity investment firm J.C. Flowers & Co[41].

Moreover, on 1 June 2018, the Romania-based branch of Italian bank Intesa Sanpaolo S.P.A. Torino transferred its business to commercial bank Intesa Sanpaolo România S.A. Clients' deposits included in the transfer will no longer be covered by the bank deposit guarantee scheme of Italy, as the FGDB is now responsible for their protection[42].

[40] On 31 December 2018, Banca Transilvania S.A. merged by absorption with Bancpost S.A. (the absorbed bank).
[41] Starting 31 October 2018, the bank changed its name to First Bank S.A.
[42] According to applicable regulations and the provisions of the *Multilateral cooperation agreement between deposit guarantee schemes in the European Union*, the deposit guarantee scheme of Italy transferred to the FGDB the contributions linked to the deposits commercial bank Intesa Sanpaolo România S.A. took over from Intesa Sanpaolo S.P.A. Torino, the Bucharest branch.

Aggregate Indicators for Credit Institutions in Romania[43]

The total net assets of the credit institutions operating in Romania remained on an upward trajectory in 2018, gaining 23.3 billion lei from the previous year (an annual variation of +5.4 percent in nominal terms) to total 451.1 billion lei on 31 December 2018.

At end-2018, privately owned credit institutions held 91.9 percent of total assets, a slight increase year-on-year (an annual variation of +0.6 percentage points). The balance-sheet assets of foreign-owned or majority foreign-owned credit institutions (including branches of foreign banks) accounted for 75 percent of total assets as their stake had tumbled by two percentage points from 31 December 2017.

Banking system profitability improved further in 2018, with ROE[44] standing at 14.85 percent (an annual variation of +2.3 percentage points) and ROA[45] amounting to 1.59 percent (an annual variation of +0.3 percentage points) on 31 December 2018. Such percentages are comparable with the ones reported before the crisis.

In 2018, the liquidity indicator moved up hitting an end-year level of 2.35, significantly higher than the regulatory minimum requirement of 1.

The non-performing loan ratio saw further improvement in 2018, when it fell to 4.95 percent on 31 December 2018 – its lowest in recent years – shedding 1.46 percentage points from end-2017. The non-performing loan ratio dropped continuously as lending, particularly to households, accelerated.

Loans to households and non-financial corporations added 7.8 percent to the level on the same date the previous year rising to 243.7 billion lei on 31 December 2018.

In December 2018, loans to households totalled 133 billion lei, going up 9.2 percent from end-2017, while credits to non-financial corporations advanced by 6.3 percent to 110.7 billion lei.

By currency, total loans followed divergent paths. While credits in the national currency skyrocketed to 161.5 billion lei, posting an annual variation of +13.7 percent at the end of 2018, loans in foreign currencies saw a two-percent drop to the leu equivalent of 82.2 billion.

Those moves boosted the share of leu-denominated loans in total credits by 3.4 percentage points to 66.3 percent on 31 December 2018.

The evolution of credits in the national currency was mostly influenced by loans to households, especially housing loans, which registered an annual rise of 24.7 percent.

In the first half of 2018, the monetary policy rate increased gradually to 2.50 percent starting 8 May 2018[46] from 1.75 percent – a level that stayed unchanged for the whole of 2017. The 2.50-percent monetary policy rate was maintained throughout 2018.

The average interest rate on new household loans in the local currency added 1.2 percentage points to reach 8.09 percent at the end of 2018. In the case of new euro-denominated credits, the average interest rate crawled up by 0.9 percentage points to 4.84 percent on 31 December 2018.

Average interest rates on new loans going to non-financial corporations depended on the currency component, thrusting upward by 0.9 percent to 5.84 percent in December 2018 in the case of the leu denomination and inching down by 0.03 percentage points to an end-2018 level of 2.54 percent in the case of the denomination in euros.

Deposits held by households and non-financial corporations maintained the upward trend in 2018 when their volume spiralled upward by 9.2 percent to 311 billion lei at end-December 2018[47]. Consequently, they remained a substantial funding source for credit institutions in Romania. Leu-denominated overnight deposits made a significant contribution to the respective increase.

Household deposits climbed on the back of higher average interest – 0.97 percentage points up, reaching 1.76 percent on 31 December 2018. Meanwhile, rates on new euro-denominated deposits slipped marginally, losing 0.02 percentage points to stand at 0.28 percent.

The most significant rise occurred in the case of non-financial corporations' new leu-denominated deposits with an initial maturity of more than three months and less than six months where interest shot up by 1.02 percentage points to 2.55 percent at the end of 2018. On the other hand, average interest on household deposits in the national currency with an initial maturity between six months and 12 months included, headed higher hitting 2.54 percent in December 2018.

In the wake of the aforesaid moves, the loan-to-deposit ratio slumped to 73.56 percent (an annual variation of -1.18 percentage points) ending 2018 at a new all-time low.

On 31 December 2018, the deposits guaranteed natural and legal persons held at credit institutions – which are Romanian legal entities affiliated to the deposit guarantee scheme of Romania – totalled 290.6 billion lei, 8.5 percent more than at the end of the previous year[48].

The credit institutions in the membership of the FGDB maintained a strong capitalisation in 2018 keeping capital ratios substantially higher than the prudential thresholds. At the end of that year, the total capital ratio stood at 19.66 percent and the Tier 1 ratio amounted to 17.59 percent. In turn, the leverage ratio[49], at 8.81 percent at end-2018, continued to indicate a high capitalisation level in relation to bank assets.

[43] 34 credits institutions at end-2018, of which 27 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.

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

[45] ROA is calculated by dividing annualised net earnings by average total assets.

[46] Prior to the May 2018 rise, there were another two successive increases – from 1.75 percent to 2 percent starting 9 January 2018 and from 2 percent to 2.25 percent starting 8 February 2018.

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

[48] FGDB data based on reports from member credit institutions.

[49] The leverage ratio measures Tier 1 capital to average total assets.

COOPERATIVE RELATIONS AT THE NATIONAL LEVEL

By virtue of the responsibilities it has been assigned by law, as well as of its contribution to maintaining financial stability, the FGDB was granted observer status within the National Committee for Macroprudential Oversight (CNSM)[50] and the institution's General Director attends the meetings of the CNSM's General Board without the right to vote.

The CNSM's prime goal is to contribute to safeguarding financial stability, also by increasing the resilience to shocks of the financial system and by reducing the build-up of systemic risks, the sustainable contribution of the financial system to economic growth being thus ensured.

In 2018, the FGDB attended all CNSM meetings as an observer. The respective meetings approached aspects related to macroprudential policy and systemic risk, the CNSM's Overall Macroprudential Strategy Framework, periodical analysis to re-calibrate capital buffers, the health of non-financial corporations, the First Home Programme, the implementation of recommendations on macroprudential policy and systemic risk contained in the International Monetary Fund's document called *Romania: Financial Sector Assessment Program,* the impact of the funding plans of credit institutions on the loans flowing into the real economy, the strategy on the implementation of International Financial Reporting Standards (IFRS) by non-bank financial institutions, or the methodology for the identification of the critical functions of credit institutions.

Following talks within the CNSM in 2018, several macroprudential policy measures were adopted, including recommendations on the countercyclical capital buffer, the systemic risk buffer in Romania[51], the capital buffer for other systemically important institutions in Romania[52], implementation of macroprudential tools to fulfil the intermediate objectives included in the Overall Macroprudential Strategy Framework of the National Committee for Macroprudential Oversight, recalibration of the First Home Programme, the implementation of measures related to the financial health of corporations. At the same time, the CNSM approved a plan of action for the implementation of the recommendations included in the International Monetary Fund's document called Romania: Financial Sector Assessment Program, as well as the procedure for the joint assessment of systemic risks within the CNSM, and issued a favourable advisory opinion on the methodology of the National Bank of Romania for identifying the critical functions of credit institutions.

Early in February 2019, talks were held at the CNSM on *Government Emergency Ordinance no. 114/2018 introducing measures in the public investment and fiscal-budgetary sectors, amending and complementing legal acts and extending a number of deadlines (GEO 114/2018)* in an attempt to identify solutions of possible scenarios to adjust it.

Based on the cooperation between the FGDB and the National Bank of Romania in the application of bank resolution measures, as stipulated by law, in October 2018 the FGDB took part in a bank resolution simulation exercise. The exercise was conducted at the headquarters of the National Bank of Romania and was coordinated by the World Bank in cooperation with the European Commission. Joining National Bank of Romania and FGDB participants in the exercise were representatives of the Ministry of Public Finance and of the Financial Supervisory Authority.

The aim of the exercise was to test the capability of the relevant authorities to intervene, if need be, in order to initiate and run a resolution process for a bank designated as a systemically important institution.

[50] The CNSM is an inter-institutional cooperation structure set up under *Law no. 12/2017 on macroprudential supervision of the national financial system*. Its mission is to coordinate the macroprudential supervision of the national financial system by developing a macroprudential policy and the adequate tools to implement it. The CNSM consists of representatives of the National Bank of Romania, the Financial Supervisory Authority and the Government.
[51] With this recommendation as a basis, the National Bank of Romania issued Order No. 8/2018 on the systemic risk buffer.
[52] This recommendation made the basis of *Order No. 9/2018 on the buffer for credit institutions authorised in Romania and designated as other systemically important institutions (O-SII)* of the National Bank of Romania, published in Monitorul Oficial/Official Gazette of Romania, Part I no. 1110 of 28 December 2018. According to this order, identified as falling into the "other systemically important institutions" category were nine banks, Romanian legal entities. On 31 December 2018, the FGDB-covered deposits at these banks accounted for 88.3 percent of the total covered deposits at affiliated credit institutions.

INTERNATIONAL ACTIVITIES

The year 2018 saw the FGDB's greater contribution to international projects related to the activity of deposit guarantee schemes, as well as its active involvement in actions taken by professional associations – the European Forum of Deposit Insurers (EFDI)[53] and the International Association of Deposit Insurers (IADI)[54].

As the FGDB's General Director is a member of the management executive structure of the EFDI EU Committee and coordinator of the *EFDI Cross-Border Cooperation Working Group*, a significant part of the activities conducted in 2018 focused on various aspects of the cooperation between guarantee schemes in European Union member states – an extensive project managed by the FGDB.

On 22 February 2018, the FGDB, with support from the National Bank of Romania, organised in Bucharest a meeting of the *EFDI Cross-Border Cooperation Working Group*. The meeting approached topics referring to the application of the *Multilateral Cooperation Agreement* between deposit guarantee schemes within the European Union, bilateral arrangements on technical specifications of cooperation which were concluded under the multilateral agreement, repayments to depositors holding deposits in several branches of the same bank in different member states, the impact the entry into force of the European Union's *General Data Protection Regulation* had on the cross-border cooperation between schemes, data exchanges between deposit guarantee schemes during payout processes.

Meeting of the EFDI Working Group for cross-border cooperation between deposit guarantee schemes within the European Union, Bucharest, February 2018

[53] The EFDI's membership stands at 69 institutions, of which 56 are full members – deposit guarantee schemes – and 13 are associate members – investor compensation schemes and other entities..
[54] The IADI has 85 members, 10 associates and 14 partners.

The Bucharest meeting was followed throughout 2018 by several other gatherings of the *EFDI Cross-Border Cooperation Working Group* hosted by other member schemes. Detailed talks were held on those occasions on operational aspects of cross-border cooperation, treatment of special cases of deposits, the exchange of documents and information between schemes, dedicated accounts for cross-border payouts, reimbursement of costs following payouts etc.

Meeting of the EFDI Working Group for cross-border cooperation between deposit guarantee schemes within the European Union, Madrid, June 2018

Due to the great diversity of operational, legal, financial and communication aspects related to cross-border cooperation, four working sub-groups were created to deal with those aspects. FGDB representatives participate in all the four sub-groups as coordinators or as members.

In 2018, the FGDB joined the central secure system *EDDIES*[55], which was developed within the European Union to provide the necessary infrastructure for cross-border repayments and for information exchanges between deposit guarantee schemes.

In 2018, in its capacity as deposit guarantee scheme of both a home member state[56] and a host member state[57], the FGDB negotiated with the deposit guarantee schemes of two European Union member countries the conclusion of bilateral arrangements dealing with cross-border payouts and containing additional details or complementing certain technical aspects which are envisaged in the provisions of the *Multilateral Cooperation Agreement* between deposit guarantee schemes within the European Union.

The FGDB is also a member of other EFDI working groups. In 2018, FGDB representatives attended the meetings of the Stress Test Working Group, the Risk-Based Contributions Working Group, the Public Relations and Communication Working group, as well as the Banking Union Working Group. During a meeting of the latter working group, EFDI's view was prepared on the proposal to set up a European Deposit Insurance Scheme (EDIS).

[55] *EDDIES - European DGS to DGS Information Exchange System.*
[56] For one of the participating credit institutions which has branches in another European Union member state.
[57] In the case of the branches in Romania of banks headquartered in other European Union member countries.

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

An active presence within professional associations, the FGDB is also represented by its General Director to the task force on deposit guarantee schemes of the Standing Committee on Resolution of the European Banking Authority. One of the duties of this task force is to prepare the European Banking Authority's opinion on the implementation of the EU *Directive on Deposit Guarantee Schemes* in member states and, if necessary, formulate recommendations for a review of that Directive.

There are three sub-groups operating within the European Banking Authority's task force on deposit guarantee schemes dealing with: Payouts, Funding and the use of financial resources, Eligibility, guarantee and cooperation between authorities. The FGDB is represented to each of these sub-groups.

In 2018, as Romania took over the rotating presidency the Council of the European Union, the FGDB was co-opted in the team granting technical assistance to the EDIS file, with representatives of the institution attending several meetings that approached that topic.

As part of its relations with international financial bodies, the FGDB had further meetings in 2018 with representatives of the International Monetary Fund and of the World Bank as part of *Romania: Financial Sector Assessment Program*. The talks conducted on those occasions focused on several aspects related to the FGDB's work for depositor protection and its involvement in situations where the National Bank of Romania decides to apply early intervention or bank resolution measures.

3. Deposit Guarantee

EVOLUTION OF DEPOSITS IN 2018

Deposits at FGDB-member credit institutions totalled 345.9 billion lei on 31 December 2018, adding 4.6 percent to the end-2017 level on the strength of larger deposits held by residents[58].

Of the total deposits at affiliated credit institutions at the end of 2018, the FGDB guaranteed deposits worth 290.6 billion lei, that is 8.5 percent more than during the previous year.

84%

is the stake eligible deposits took of total deposits at credit institutions affiliated to the FGDB on 31 December 2018.

100%

Under the conditions and within the limits laid down in legislation, the FGDB covers the deposits[59] of all depositors, natural persons.

97.1%

is the percentage of legal entities within the FGDB's guarantee scope on 31 December 2018.

The FGDB guarantees the deposits of the vast majority of legal persons represented by small- and medium-sized enterprises, companies and other similar entities.

The higher volume of deposits held at credit institutions participating in the FGDB was a result of greater depositor confidence in the banking system in Romania, as shown in an opinion survey the FGDB conducted in cooperation with Mercury Research in the second half of 2018[60]. More than half the respondents (54 percent) said they had "quite a lot" or "a great deal" of confidence in the banks operating in Romania. The respective percentage was higher than the one recorded by the previous survey taken in 2013.

At the same time, the degree of concern with the stability of the banking system diminished, as 53 percent of the banked persons said the banking system was "stable" or "very stable", which compares with only 40 percent in the 2013 survey.

Eligible deposits in the national currency at FGDB-member credit institutions at the end of 2018 were 6.4 percent up year-on-year, standing at 186 billion lei.

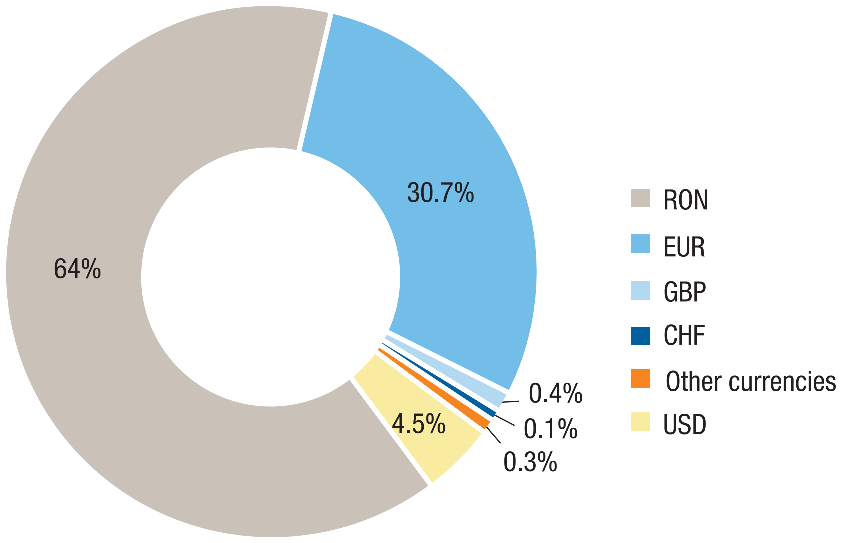
In 2018, an even greater variation could be noted in the case of deposits denominated in foreign currencies which soared by 12.4 percent to reach the leu equivalent of 104.6 billion at the end of the year. Once again, deposits denominated in the euro were the main trigger of the rise in eligible deposits (accounting for almost 90 percent of the upward move of foreign exchange-denominate eligible deposits).

The climb in eligible deposits in 2018 was an outcome of the positive evolution of all components – leu- and foreign currency-denominated eligible deposits held by both natural and legal persons. The climb in household deposits accounted for three quarters of the increase in eligible deposits.

64%

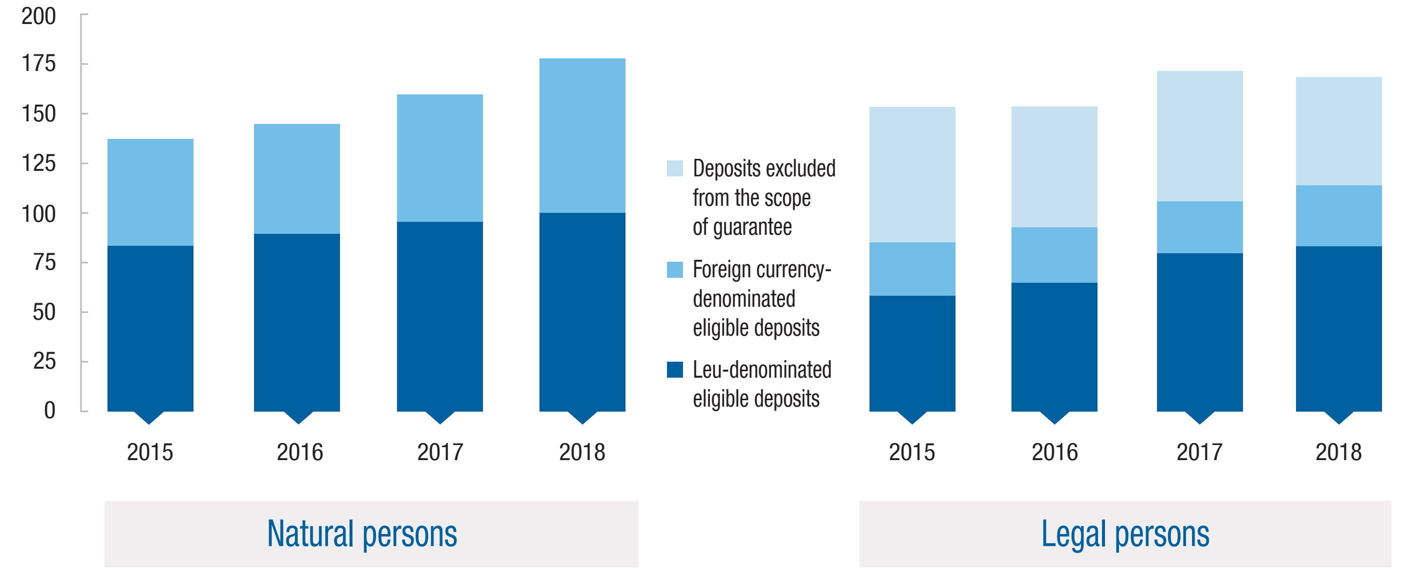
of the overall value of eligible deposits on 31 December 2018 was held by leu-denominated eligible deposits.

Structure of Eligible Deposits by Currency on 31 December 2018



[58] There were withdrawals of funds by non-residents; however, they fall in category of legal entities excluded from the scope of guarantee, a category which includes credit institutions, financial institutions, investment firms, insurance and/or reinsurance companies, collective investment undertakings, pension funds, central, local and regional public authorities.
[59] Bank deposits include current accounts, card accounts, time deposits, savings accounts and other similar products.
[60] The sample consisted of 1,305 banked natural persons, as well as legal entities represented by micro-enterprises and the survey was conducted in urban and rural areas.

Deposits at Credit Institutions Affiliated to the FGDB



15,105,034
is the number of guaranteed depositors, natural and legal persons[62] on 31 December 2018.

Covered deposits increased by
9.7%
to 189.5 billion lei on 31 December 2018 – their highest level in recent years.

98.9%
of the total number of guaranteed depositors were resident natural and legal persons and their deposits at FGDB-member credit institutions totalled 281.4 billion lei (96.8 percent of the overall value of eligible deposits at the end of 2018).

Natural persons' deposits of values below the guarantee ceiling accounted for roughly two thirds of the rise in covered deposits on 31 December 2018.

The upswing in the lending activity throughout 2018 had a major impact on current accounts and overnight deposits. In turn, overnight deposits represented a most significant contributing factor to the leap in bank deposits[61].

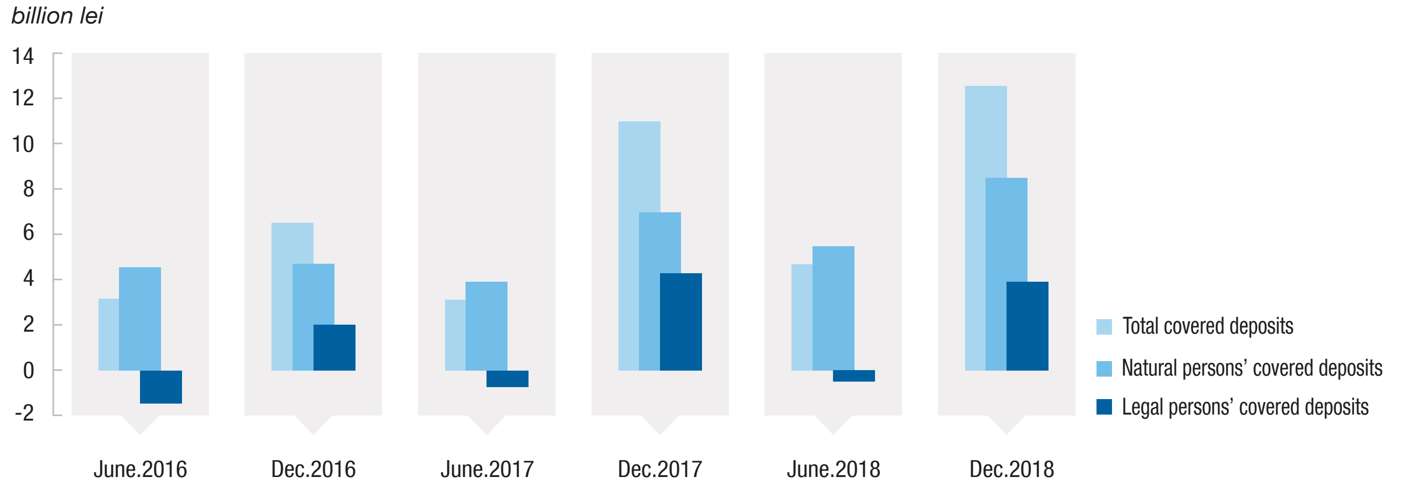
Guaranteed depositors may hold either deposits within the guarantee ceiling, as stipulated in legislation, in which case they are fully covered, or deposits larger than the guarantee threshold, in which case their coverage is limited to that threshold. The part of a deposit that does not exceed the guarantee ceiling is called a covered deposit.

Covered deposits surged in the second half of 2018, moving much faster than in the first six months of the year (72.7 percent of the year-on-year growth was registered in the second semester of 2018).

Eighty-five percent of the total amount covered by the FGDB is taken by deposits of values below or equal to the guarantee ceiling[63]. Just like in previous years, these deposits continue to contribute most substantially to the rise in the value of FGDB-covered deposits.

[61] Monthly bulletin of the National Bank of Romania, December 2018, Year XXVI, no. 302. National Bank of Romania data show that natural persons' overnight deposits were the reason behind more than half the advance of deposits.
[62] 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.
[63] On 31 December 2018, the leu equivalent of the 100,000-euro guarantee level amounted to 466,390 lei.

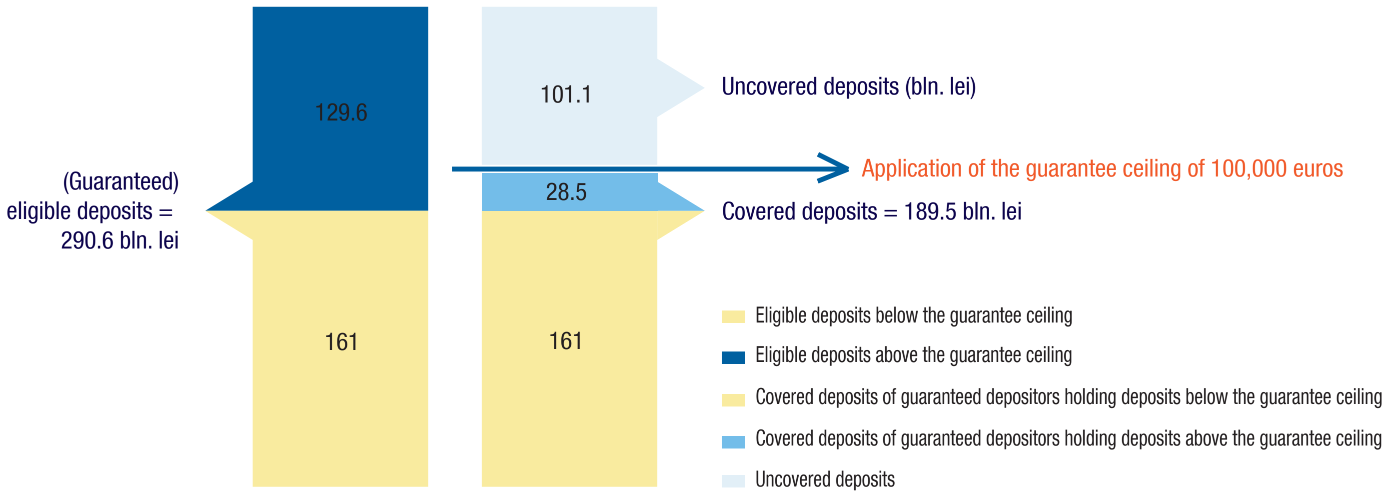
Half-yearly Variations of Total Covered Deposits by Categories of Depositors



At the end of 2018, depositors holding fully covered deposits accounted for 99.6 percent of the total number of guaranteed depositors. Their deposits totalled 161 billion lei on 31 December 2018, having increased by 8.3 percent year-on-year, mostly on the strength of household deposits.

On 31 December 2018, deposits larger than the leu equivalent of 100,000 euros stood at 129.6 billion lei (an annual variation of +8.8 percent).

Positioning of Eligible Deposits in Relation to the 100,000-euro Guarantee Ceiling on 31 December 2018



NATURAL PERSONS' ELIGIBLE DEPOSITS

Eligible household deposits held at credit institutions participating in the FGDB went further up in 2018, gaining 10.7 percent to stand at 176.6 billion lei on 31 December 2018.

On 31 December 2018, eligible household deposits denominated in the national currency accounted for 57 percent of total eligible deposits held by natural persons.

At the end of 2018, leu-denominated eligible household deposits amounted to 100.7 billion lei (an annual variation of +6.9 percent). Eligible deposits held in foreign currencies moved at a faster pace in 2018 thrusting upward by 16.2 percent to reach an end-period level of 76 billion in the leu equivalent. Euro-denominated deposits took more than one third of total eligible household deposits.

The significant increase in natural persons' deposits was mostly an outcome of higher household disposable incomes. On 31 December 2018, the average net nominal wage amounted to 2,957 lei, adding 12.5 percent to the level at the end of the previous year. The real wage index was 108.9 percent[64].

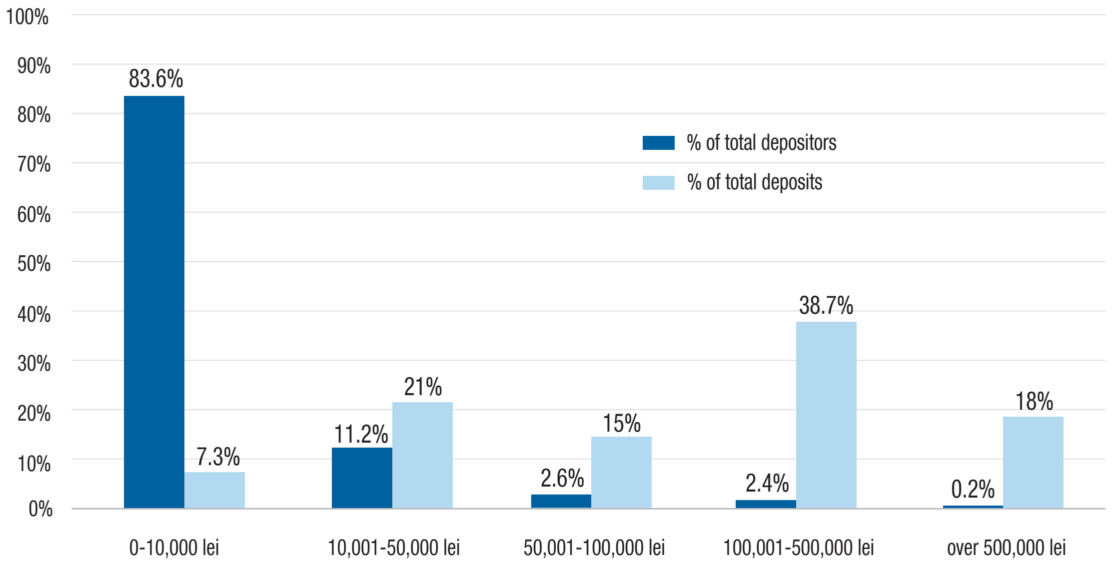
Household deposits stayed in positive territory all through 2018 on the back of favourable conditions on Romania's labour market. Unemployment dropped to 3.8 percent on 31 December 2018, touching its lowest level of the last few years.

Average monthly pension stood at 1,223 lei in the fourth quarter of 2018, adding eight percent to the level of the same period the previous year[65].

Remittances from Romanian workers abroad, which was 28 percent up from the end 2017, was another influencing factor[66].

With data reported by FGDB-member credit institutions as a basis, a number of features of the distribution of depositors and of their deposits could be identified.

Distribution of Deposits by Ranges of Values



[64] In its Press Release no. 30/11 February 2019, the National Institute of Statistics shows that in December 2018, the average net nominal wage headed higher by 5.9 percent from the previous month, mostly under the impact of the payment of annual and holidays bonuses, payments in kind 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).

[65] Press Release no. 68/15 March 2019 of the National Institute of Statistics.

[66] According to World Bank Migration and Remittances briefs https://www.knomad.org/sites/default/files/2018-12/Migration%20and%20Development%20Brief%2030.pdf

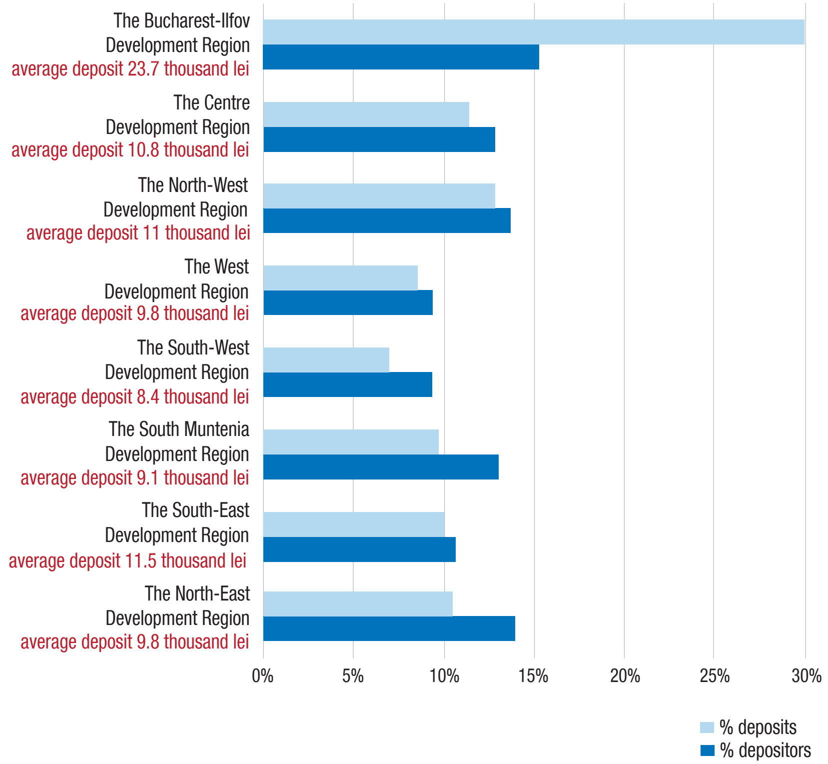
By ranges of values, the largest number of depositors is grouped in the first segment (83.6 percent of the total number of subjects). These depositors hold 7.3 percent of total deposits. The average value of a deposit in this segment is 1.1 thousand lei.

The next segment contains 11.2 percent of depositors holding 21 percent of total deposits. The average deposit stands at 22.9 thousand lei.

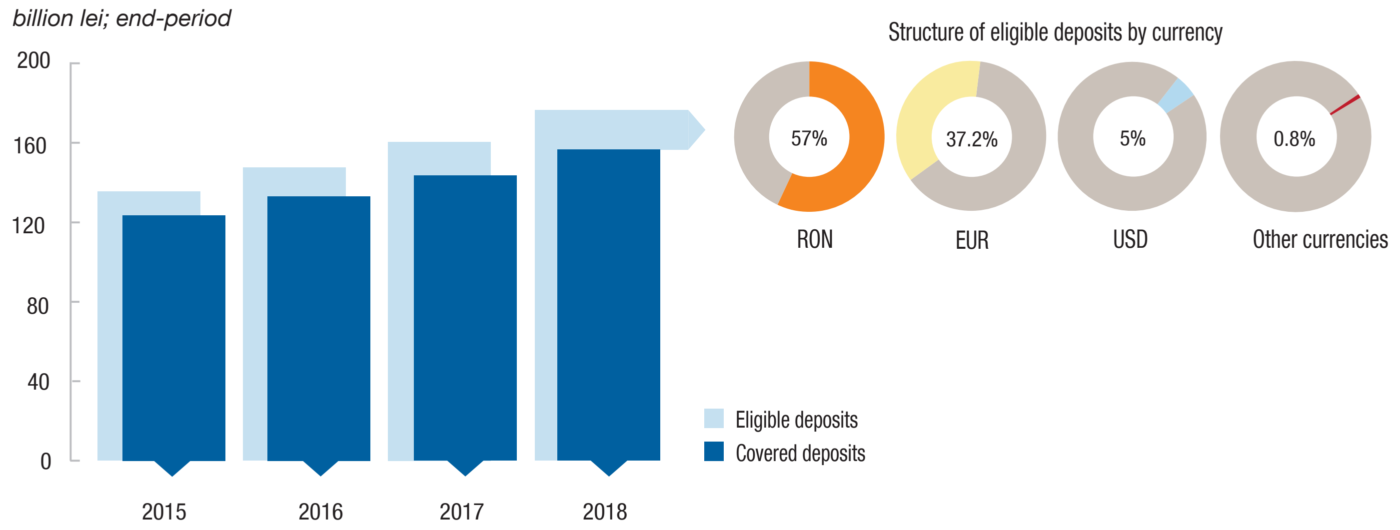
The last segment includes depositors holding deposits of more than 500 thousand lei. Which means that 0.2 percent of the total number of depositors hold 18 percent of the total worth of deposits, with an average deposit amounting to 1,220 thousand lei.

The Bucharest-Ilfov Development Region still concentrates almost one third of the value of the deposits held by the natural persons included in the analysis (the average deposit in this segment is worth 23.7 thousand lei). At the opposite end is the South-West Oltenia Development Region with the lowest value of an average deposit (8.4 thousand lei).

Distribution of Deposits and Depositors by Regions



Household Deposits at FGDB-Affiliated Credit Institutions



99.8%

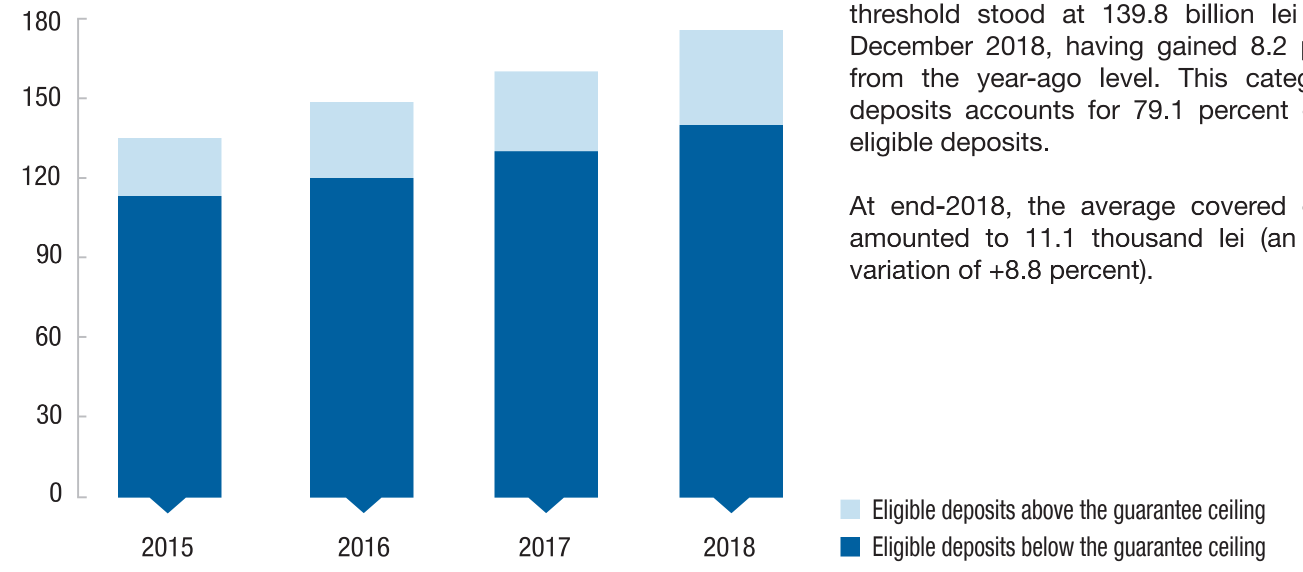
of the 14,107,271 guaranteed depositors held deposits at most equal to 100,000 euros, being thus granted full coverage.

88.4%

is the percentage FGDB-covered deposits represented in total eligible household deposits on 31 December 2018, as the majority of natural persons' deposits have values below the guarantee ceiling.

Positioning of Eligible Household Deposits in Relation to the Guarantee Ceiling

billion lei; end-period



At the end of 2018, the eligible deposits held by resident natural persons totalled 170.3 billion lei, 10.5 percent more that on 31 December 2017, and accounted for the bulk of eligible household deposits at FGDB-member credit institutions (96.4 percent).

On 31 December 2018, covered household deposits amounted to 156.2 billion lei, 9.5 percent up from the same date the previous year, taking the bulk (82.4 percent) of total FGDB-covered deposits.

Covered household deposits increased by 13.5 billion lei in 2018, with approximately 80 percent of that growth being a result of rises in household deposits of values within the guarantee threshold. Almost two thirds of the upswing in covered household deposits occurred in the second half of 2018, a situation similar to that of the previous year.

In relation to the 100,000-euro guarantee ceiling, natural persons' deposits of values smaller or equal to the leu equivalent of that threshold stood at 139.8 billion lei on 31 December 2018, having gained 8.2 percent from the year-ago level. This category of deposits accounts for 79.1 percent of total eligible deposits.

At end-2018, the average covered deposit amounted to 11.1 thousand lei (an annual variation of +8.8 percent).

LEGAL PERSONS' ELIGIBLE DEPOSITS

On 31 December 2018, the deposits held by guaranteed legal entities (all enterprises, irrespective of size) at credit institutions in the membership of the FGDB had advanced by 5.3 percent from end-2017 to total 114 billion lei.

Legal persons' deposits moved ahead as companies remained cautious about investing their money.

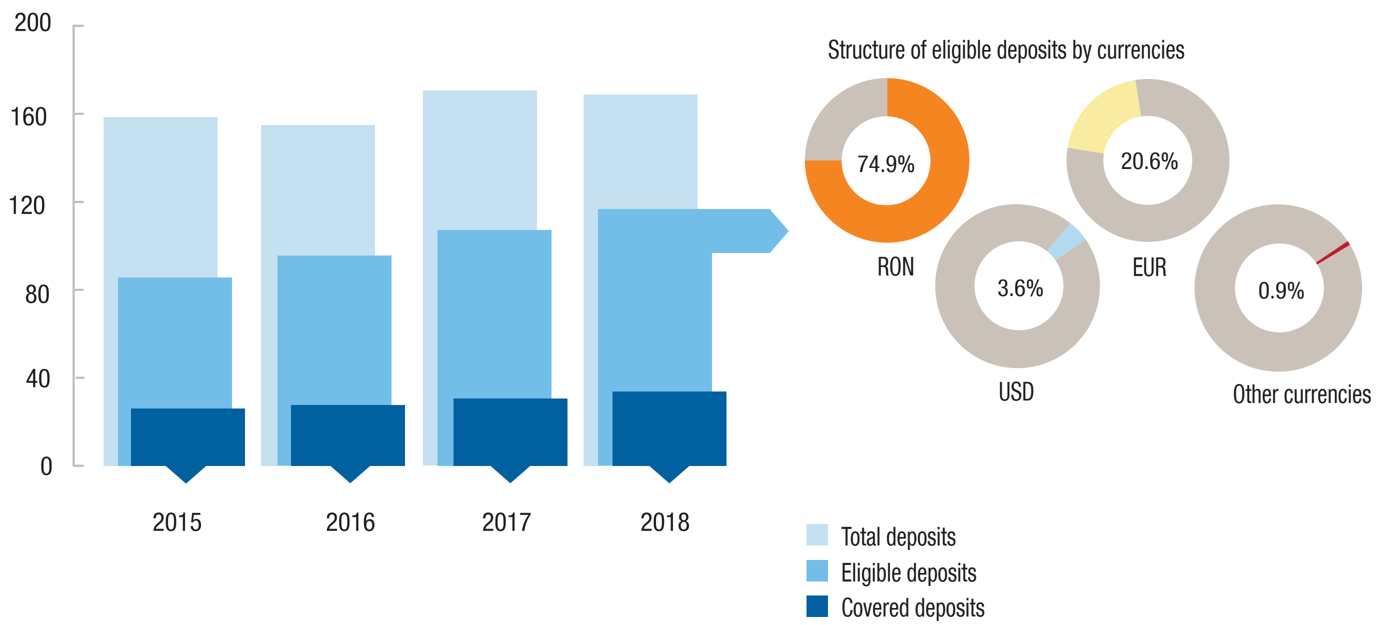
With the significant contribution of deposits above the guarantee ceiling, legal entities' leu-denominated eligible deposits rose by 5.9 percent from their level on 31 December 2017 to amount to 85.3 billion lei on 31 December 2018.

Guaranteed legal persons' deposits in foreign currencies went up by 3.5 percent in 2018 to the leu equivalent of 28.7 billion, mainly on the back of euro-denominated deposits. Deposits in euros accounted for 82.2 percent of legal persons' total foreign exchange-denominated eligible deposits.

Deposits in the national currency continued to account for almost three quarters of legal entities' eligible deposits. They were followed by euro-denominated deposits (20.6 percent) and deposits in U.S. dollars (3.6 percent).

Legal Persons' Deposits at FGDB-Member Credit Institutions

billion lei; end-period



Resident legal persons' deposits accounted for

97.5%

of total eligible deposits held by legal entities, that is, 111.1 billion lei on 31 December 2018, 5.9 percent above the level at the end of the previous year.

81.4%

is the percentage of legal persons' total eligible deposits – amounting to 92.7 billion lei on 31 December 2018 – which was accounted for by deposits above the leu equivalent of 100,000 euro.

97.4%

of the 997,763 guaranteed depositors, legal persons, held deposits at most equal to the coverage level at the end of 2018.

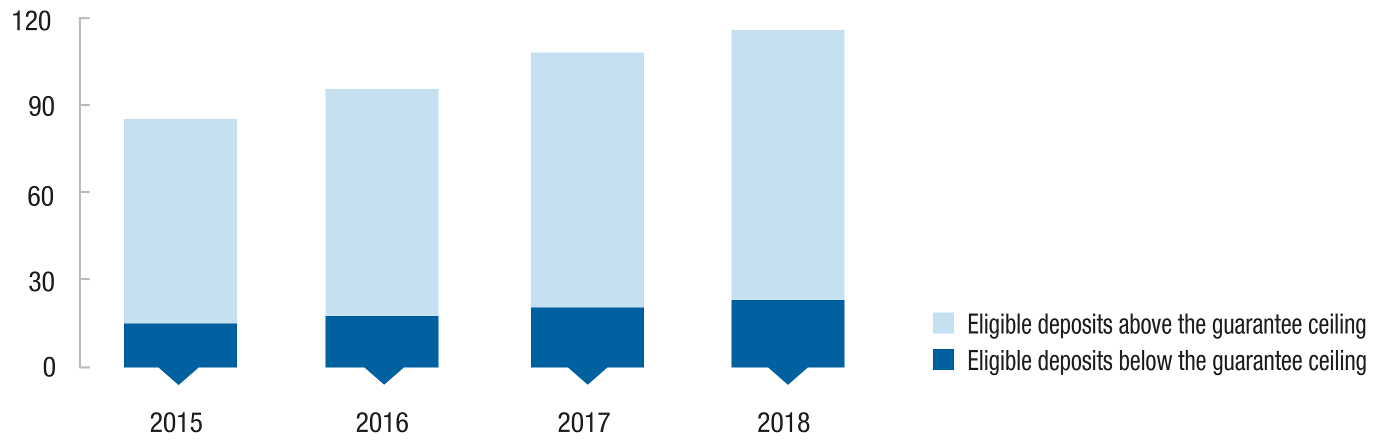
On 31 December 2018, legal persons' covered deposits amounted to 33.3 billion lei, 11 percent up from end-2017.

Covered deposits took 29.2 percent of legal entities' eligible deposits, with deposits above the guarantee threshold prevailing.

On 31 December 2018, the average value of eligible deposits was 21.8 thousand lei – when staying within the guarantee ceiling – and 3,595.3 thousand lei – when exceeding that ceiling. The end-2018 average value of a guaranteed legal person's covered deposit stood at 33.3 thousand lei (an annual variation of +7.8 percent).

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

billion lei; end-period



PAYOUT PROCESS

In line with legislation, the FGDB has the obligation to start disbursing payouts to the depositors of banks that fail or are in a situation that triggers the unavailability of deposits within maximum seven working days of the date deposits become unavailable.

This is the shortest repayment period stipulated under the EU *Directive on deposit guarantee schemes* to be applied in all member states by 2024[67].

Although there have been neither bank failures nor other instances of deposit unavailability in Romania over the last 12 years, the FGDB further concentrated in 2018 on putting all the necessary conditions in place for the efficient run of the depositor repayment process.

In consideration of the need for a permanently operational payout system, by end-February of each year the FGDB's Supervisory Board, with the approval of the Board of Directors of the National Bank of Romania, selects credit institutions to be mandated over the following 12 months to reimburse the guaranteed depositors of one or more FGDB-member credit institutions where deposits may become unavailable.

Credit institutions to be mandated are selected according to criteria set under FGDB regulations[68].

To enter the selection process, credit institutions must meet a plurality of conditions referring to their position within the financial-banking system in Romania (they should place among the first 10 FGDB-member credit institutions in terms of volume of eligible deposits, should have no disputes with the FGDB and should not be under early intervention or resolution procedures), as well as to their capability to fulfil the FGDB's specific requirements during the payout process (adequate IT system to serve the data structures used by the FGDB and a dedicated call-centre service).

Since its creation, the FGDB has funded payouts worth 512.2 million lei for the depositors of seven banks that went bankrupt over 1999–2006.

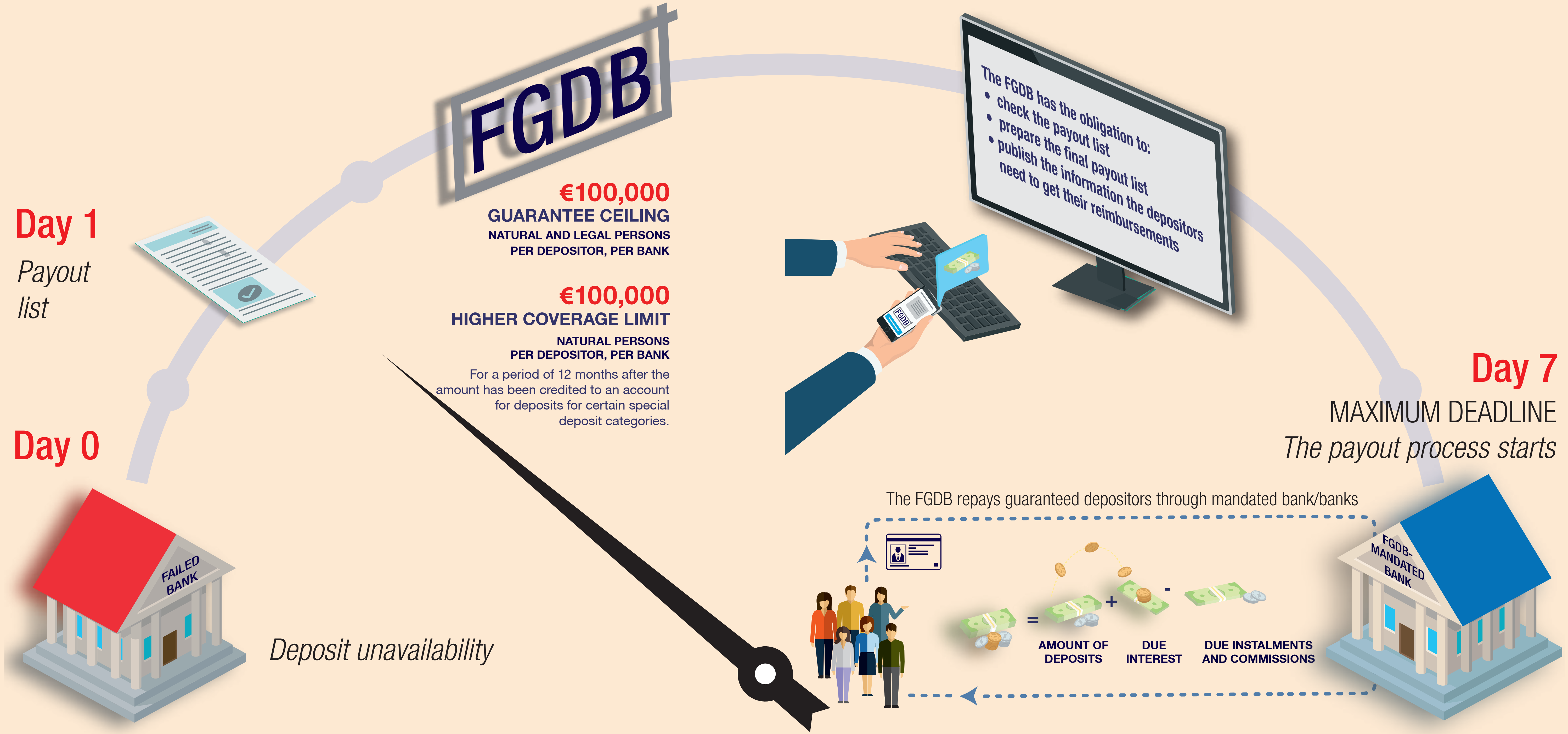
The FGDB reimbursed the guaranteed depositors of the seven failed banks within the deadline set by legislation and the payout process ran smoothly in all the seven instances.

As previous chapters showed, in 2018, the FGDB ran a new stress simulation exercise to test its operational capability to make compensation payments within maximum seven working days of the date of deposit unavailability. Talking part in the test was also the credit institution that had been mandated to disburse payouts[69]. Representatives of the National Bank of Romania and of the Ministry of Public Finance also participated in the test simulation exercise as observers.

The results of the exercise attested to the FGDB's ability to pay guaranteed depositors their due compensation within seven business days at the most of the date deposits become unavailable.

[67] By end-2015, authorities in Romania had already transposed into legislation the payout period of at most seven business days.
[68] *Regulation no. 3/2018 on the selection of credit institutions the FGDB mandates to repay guaranteed depositors*, which was mentioned in Chapter 2 – *The 2018 Background and Regulatory Framework, the Domestic Regulatory Framework* section.
[69] In 2018, Banca Transilvania S.A. was the credit institution which the FGDB selected to make compensation payments in the event of deposits becoming unavailable at one of the participating credit institutions.

Payout process



FGDB MEMBERSHIP

All institutions accepting deposits from the general public in European Union member states have the obligation to join an official deposit guarantee scheme.

All credit institutions with operations in Romania authorised by the National Bank of Romania participate in the FGDB, including for deposits taken by their branches abroad. The branches in Romania of credit institutions headquartered in other member states are affiliated to the home-country guarantee schemes.

On 31 December 2018, the FGDB had in its membership 27 credit institutions[70], Romanian legal persons, that is one bank less than at the end of the previous year following the merger by absorption between Banca Transilvania S.A. (the absorbing bank) and Bancpost S.A. (the absorbed bank), which was finalised at end-2018.

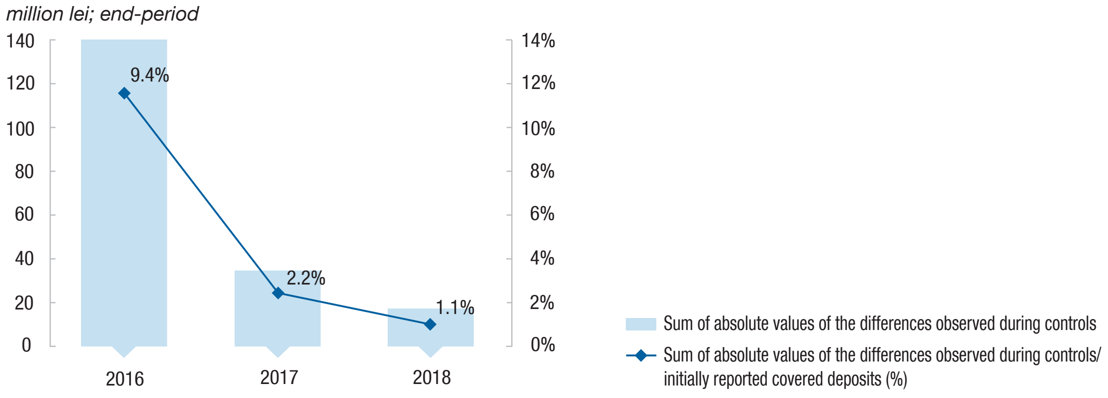
Compliant with legislation in force, the FGDB runs annual checks at the headquarters of all affiliated credit institutions to verify the deposit-related data they report as well as their ways of informing depositors of the deposit guaranteeing process.

These verifications are mainly intended to ensure that both credit institutions and the FGDB provide all the necessary conditions for an effective run of the payout process, the correct classification of deposits in terms of coverage and the appropriate supply of information on the FGDB's depositor protection.

The 2018 verifications involved all the credit institutions in the membership of the FGDB when the controls started[71] and focused on:

i. the accuracy of the data reported by member credit institutions for the calculation of annual contributions to the deposit guarantee fund in 2018;
ii. the accuracy of the data submitted by member credit institutions in the *Payout List on 30 June 2018*;
iii. compliance with legal provisions on the information credit institutions provide to depositors.

Evolution of Differences Observed in the Covered Deposits Balance during 2016, 2017 and 2018 Controls



[70] *Annex 3 – List of FGDB-member credit institutions as at 31 December 2018.* The 27 FGDB-member credit institutions include 24 banks, two savings and loans institutions and a cooperative credit organisation (central body and affiliated cooperatives).

[71] 28 credit institutions; Banca Transilvania S.A. and Bancpost S.A. were checked individually before the merger.

The results of these controls pointed to a substantial improvement in the quality of reported data, as well as a continuing concern for less errors in the classification of deposits in terms of guarantee[72] and for fewer deficiencies in terms of entries into the *Payout List.*

The annual controls over the way in which depositors are offered information related to deposit guarantee covered 47 units of member credit institutions in Bucharest and Cluj-Napoca and focused on:

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

Where appropriate, measures and deadlines were set to correct the deficiencies that had been identified, with the FGDB expected to carefully monitor the application of those measures, as well as compliance with legal provisions.

Besides its annual checks of credit institutions, in 2018, the FGDB took an additional step – which was a first for this institution – and conducted a control of the way in which the units in the territory of its member credit institutions provided information to their depositors. The move was consonant with the FGDB's 2018-2020 Action Plan intended to promote its public image and raise the level of public awareness of the FGDB's role in maintaining financial stability.

As part of these additional activities, the FGDB also examined the extent to which units of credit institutions provide to existing and potential depositors information on the deposit guarantee scheme and the categories of deposits excluded from coverage by making available the FGDB poster and the *List of deposits excluded from coverage*[73].

This action involved units of credit institutions in 12 counties[74] as 162 units (branches, agencies, second business locations) in 25 localities were checked. Out of the 28 credit institutions in the membership of the FGDB when the check was conducted, 22 credit institutions had their units verified. These units operate in areas where the FGDB conducted its control.

Deficiencies were found in less than one third of the total number of units checked and some of these deficiencies were immediately remedied. Most of them were linked to information that had not been updated or to the lack of information on deposit guarantee.

In 2019, the FGDB will conduct further checks in other regions of the country to assess the extent to which the obligation to provide information to depositors is observed.

[72] The classification of deposits of guaranteed legal persons (non-profit associations, tenants' associations, small and medium-sized enterprises) in the category of deposits excluded from the guarantee or classification of deposits of non-guaranteed legal persons (non-banking financial institutions, credit unions and investment firms) in category of eligible deposits.

[73] Annex no. 1 to *Law no. 311/2015 on Deposit Guarantee Schemes and the Bank Deposit Guarantee Fund*

[74] Prahova, Brașov, Mureș, Bistrița-Năsăud, Suceava, Botoșani, Iași, Vaslui, Neamț, Bacău, Vrancea, Buzău

4. FGDB-Managed Financial Resources

In 2018, the two FGDB-managed funds – the deposit guarantee fund[75] and the bank resolution fund[76] – stayed on the upward path and the FGDB's funding capability increased further.

On 31 December 2018, the financial resources of the deposit guarantee fund and of the bank resolution fund totalled 6,874.3 million lei, adding 404.5 million to the end-2017 level.

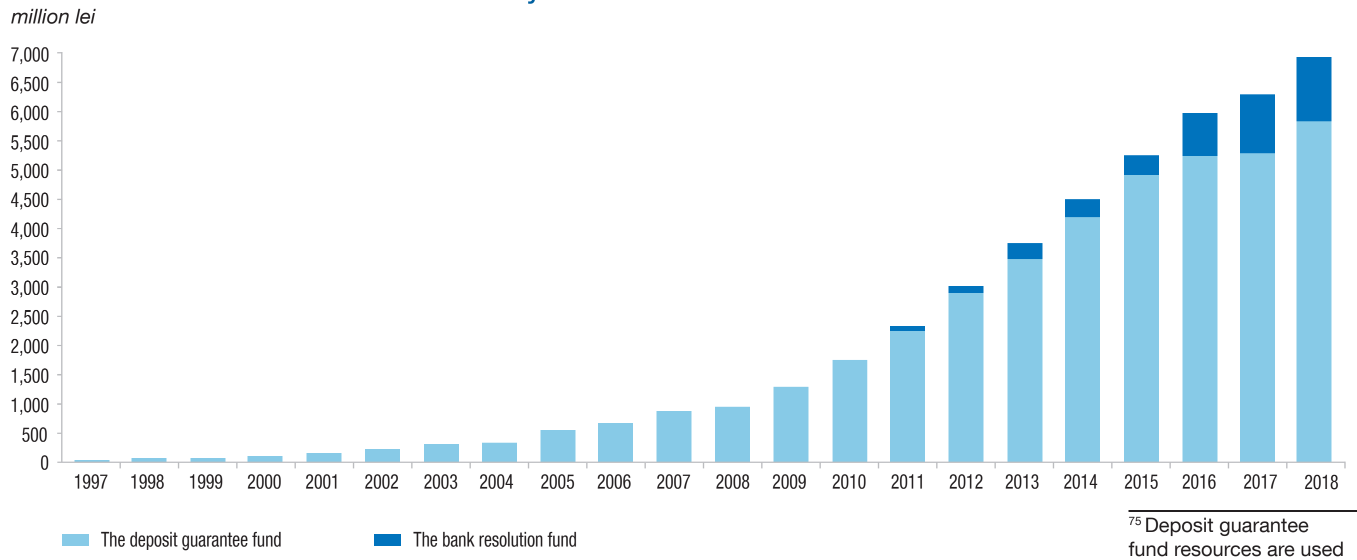
The financial resources of the two funds included the FGDB's 2018 profit, which, according to the law, was almost entirely (at least 99 percent) channelled towards the deposit guarantee fund and the bank resolution fund.

Both the deposit guarantee fund and the bank resolution fund have an *ex ante* funding mechanism, which has permitted a gradual accumulation of financial resources and the attainment of adequate target levels in line with European Union's requirements.

In relation to the value of covered deposits, the FGDB boasts one of the highest levels of adequacy of deposit guarantee fund resources within the European Union, having topped (by almost four times) the 0.8-percent target level set for the Union's deposit guarantee schemes with a deadline they have to meet by 2024.

Furthermore, the bank resolution fund, which has had a positive balance from the moment of its creation, has picked up with every passing year, attaining, in only three years,

Resources Administered by the FGDB since Its Creation to 31 December 2018



0.6 percent of the value of covered deposits (the target level of the bank resolution fund set for all EU member states with the year 2024 as deadline stands at one percent).

The FGDB registers operations related to building up, investing and using financial resources to guarantee deposits and to fund bank resolution measures as distinct entries in accounting records. Both the financing sources of the two funds and the use of their financial resources are firmly established by law. In its capacity as administrator of the two funds, the FGDB covers all its operating expenses exclusively from revenues arising from investments of the financial resources of the two funds, which makes this institution financially independent.

In order to secure the financial resources it needs to fulfil the responsibilities conferred on it by law, the FGDB may resort to internal resources, but then also 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

In exceptional circumstances when:

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

or

- the financial resources of the FGDB-administered bank resolution fund are not sufficient 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 at most five business days of the date of its request.

[75] Deposit guarantee fund resources are used to disburse payouts to guaranteed depositors and to finance the application of the resolution measures that grant depositors' continuous access to the money they keep in the banks undergoing resolution proceedings.
[76] 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.

Funds administered by the FGDB

- **annual contributions from credit institutions**
- **revenues from investments of financial resources**
- **extraordinary contributions from credit institutions**
- **recovered claims**

- 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.

The Deposit Guarantee Fund

- 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

- **annual contributions from credit institutions**
- **revenues from investments of accumulated financial resources**
- **extraordinary contributions from credit institutions**

- 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

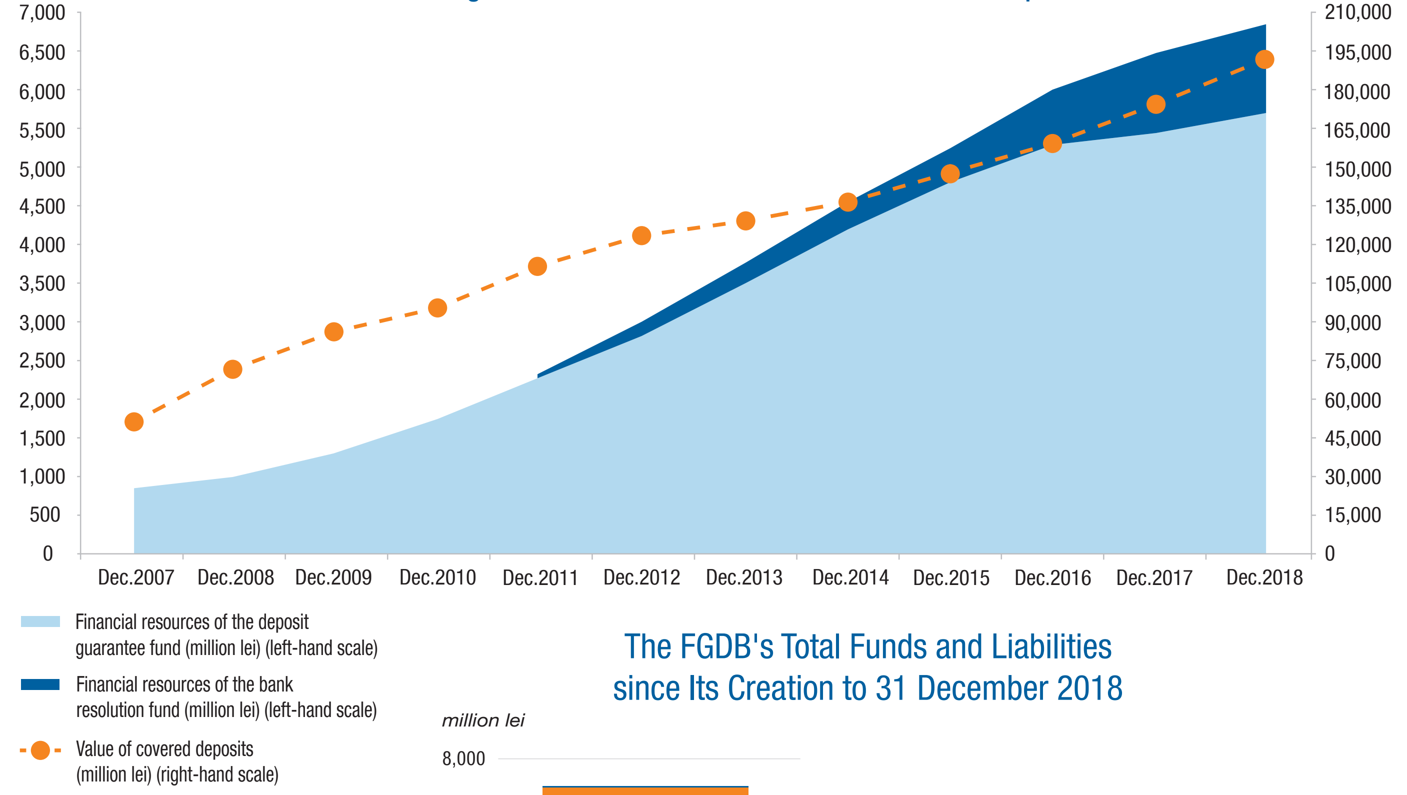
The Bank Resolution Fund

- 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 funding mechanisms within the European Union

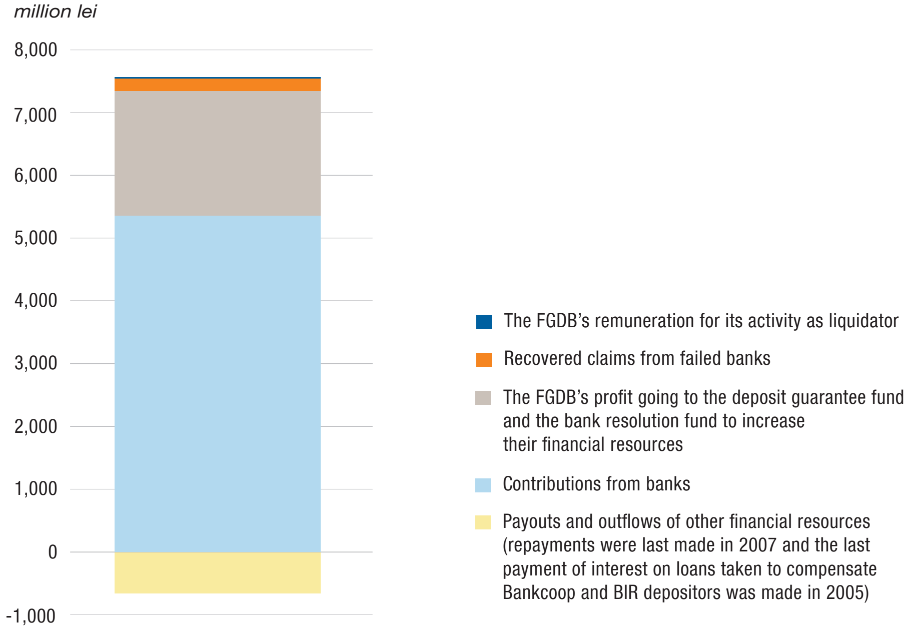
measures, from other resolution funding mechanisms within the European Union[77].

In 2018, the financial resources administered by the FGDB gained 6.3 percent, mainly on the back of the resources of the bank resolution fund, while the total value of covered deposits advanced by 9.7 percent.

FGDB-Managed Resources and the Value of Covered Deposits



The FGDB's Total Funds and Liabilities since Its Creation to 31 December 2018



[77] In the early years of activity, the FGDB found itself compelled to compensate guaranteed depositors and therefore had to resort to loans from the National Bank of Romania, in compliance with legislation in force at that time. The respective loans were meant 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 those loans.

The contributions to the two FGDB-managed funds which credit institutions affiliated to the FGDB paid in 2018 totalled 249.8 million lei.

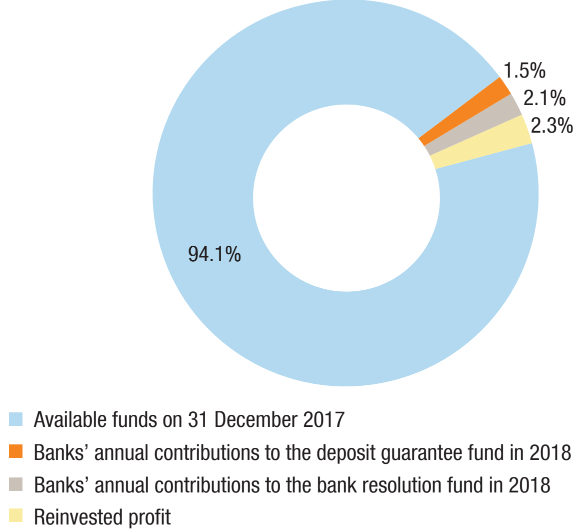
In addition to that amount, there was another substantial inflow of resources – 154.08 million lei – coming from the profit that had been distributed according to legislation. Investments of FGDB resources proved successful as interest rates resumed their upward trajectory in the second half of 2018.

In 2018, the FGDB maintained caution in administering available financial resources, along with a low-risk profile, which it ensured by observing the two basic features of the investment portfolios of the deposit guarantee scheme and the bank resolution fund, namely, adequate diversification and less risky investments.

In compliance with provisions under *Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund* and *Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms*, the 2018 investment strategy chiefly focused on the minimisation of risks and on the liquidity of investments, as well as on yields, regarded as an additional goal. At the same time, in administering financial resources, the FGDB was constantly preoccupied to keep its activity in line with the best practices in the area of investment policies developed by deposit guarantee schemes.

In order to secure an adequate liquidity level, 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. At a tactical level, the Executive Board adjusted the reserve threshold as often as necessary. Liquidity management was optimised following a diversification of the investment options of the FGDB which introduced trading securities into the structure of investments for the first time. For the time being, these

The FGDB's Financial Resources in 2018 (percentages by categories)



financial instruments have a relatively small share and investment decisions are also based on considerations that have to do with the impact of their marking to market. In terms of liquidity management and in conjunction with the maintenance of a monthly liquidity reserve, trading securities may prove a viable tool in achieving an adequate liquidity level as an alternative to exclusively holding these financial instruments until maturity.

In 2018, the FGDB further diversified its investments of the financial resources of the two funds in an attempt to achieve the highest possible granularity, all while pursuing a strategy aimed to identify new eligible counterparties and new instruments. Such moves paved the way for bonds issued by international financial institutions and foreign credit institutions meeting the eligibility criteria laid down in the annual investment strategy approved by the National Bank of Romania. This new investment structure resulted, first of all, in a relative minimisation of the FGDB's exposure to Romanian government securities and, secondly, in a reduction of the share of investments in credit institutions participating in the deposit guarantee scheme.

Moreover, the FGDB resorted to repeated adjustments of the exposure structure – by counterparties, types of investments and maturities – in consideration of tangible market conditions and of the results of internal risk assessments, all while keeping to the exposure limits set under its annual investment strategy.

In monitoring counterparty risk, the FGDB used an updated assessment methodology which included changes worked out by the National Bank of Romania as part of the *Supervisory Review and Evaluation Process* (SREP). This methodology has adopted quite a large number of indicators used when determining annual contributions to the deposit guarantee scheme. This risk assessment is prepared every three months based on the data that credit institutions report to the National Bank of Romania. The FGDB has access to these data under its cooperation agreement with the National Bank of Romania, which was revised in 2017.

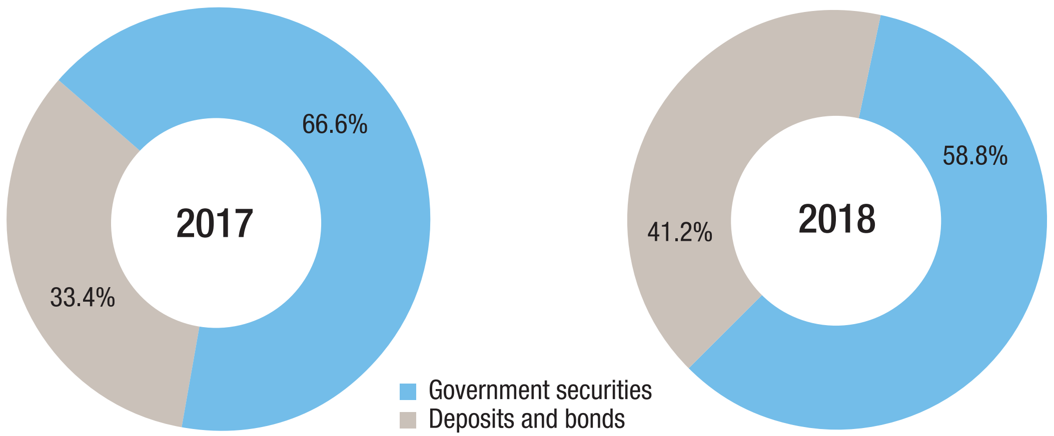
The use of this internal assessment tool allowed the FGDB to assume an active management of the two portfolios under its administration and to make adjustments to the structure of investments according to the evolution of the risk ratings which it had determined for credit institutions in Romania and which should fall within the maximum limits that had been approved.

The FGDB's annual investment strategy includes, for each of the two portfolios, a system of exposure limits set by types of issuers/counterparties, financial instruments, maturities and currencies. From a tactical point of view, the decisions the FGDB made when applying the provisions of the strategy for investing financial resources were intended to maintain a balanced structure of investment portfolios – in the case of both the deposit guarantee fund and the bank resolution fund – adjusted to the moves in the financial-banking market.

During 2018, the average invested capital was worth 6,773.5 million lei, ahead of the 2017 level by 6.9 percent.

As part of actions to mitigate concentration risk, in line with the goals laid down in its investment strategy, the FGDB reduced the weight of government securities in its investment portfolio from 66.6 percent to 58.8 percent on 31 December 2018.

Structure of the FGDB Total Investments



DEPOSIT GUARANTEE FUND

In consideration of the evolution of covered deposits in the first nine months of 2018, the coordinates of the FGDB's multi-annual funding policy over 2018-2020 were reviewed and a new target level was set for the financial resources of the deposit guarantee fund in relation to covered deposits [3.0 - 3.3 percent).

The financial resources accumulated in the deposit guarantee fund (which include the 2018 reinvested profit) totalled 5,709.9 million lei on 31 December 2018, having added 237.4 million lei to the year-ago amount.

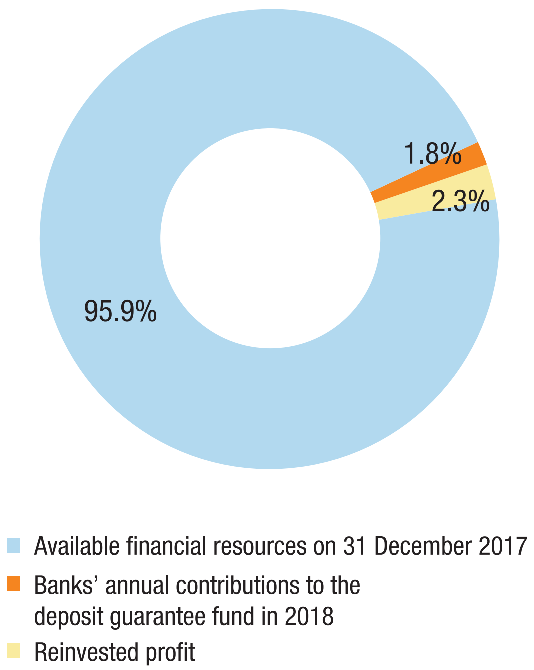
At the end of 2018, the financial means of the deposit guarantee fund accounted for three percent of the value of covered deposits, well above the 0.8 percent target level which all European Union member states must reach by 2024. The target level the FGDB reached could cover payouts for depositors of any affiliated credit institution as long as it has not been designated as falling into the category of "other systemically important institutions" according to *Order no. 9/2018 on the buffer for credit institutions authorised in Romania (O-SII).*

Over the 2018-2020 time horizon, the FGDB intends to collect total annual contributions to the deposit guarantee fund amounting to 569.9 million lei, of which 104.4 million lei in 2018, 348.9 million lei in 2019 and 116.6 million lei in 2020. The aim of this schedule is to ensure that the aggregate contributions of credit institutions to the two FGDB-managed funds over the three-year period are relatively constant.

The system of risk-adjusted contributions to the deposit guarantee scheme, implemented in 2016 by using the method of categorising credit institutions into risk classes, has been continuously improved in a bid to connect it to the best practices in this sector and to the evolution of specific indicators.

Consequently, in 2017, the FGDB made a transition to the sliding scale method which permits a more adequate differentiation according to the risk profile, each of the participating credit institutions having its own risk score calculated on the basis of its financial statements dispatched to the National Bank of Romania. The calculation method was revised in 2018[78], mainly by replacing the "*ratio of liquid assets to total assets*" with the "*liquidity coverage ratio (LCR)*", an indicator which credit institutions must report to the National Bank of Romania.

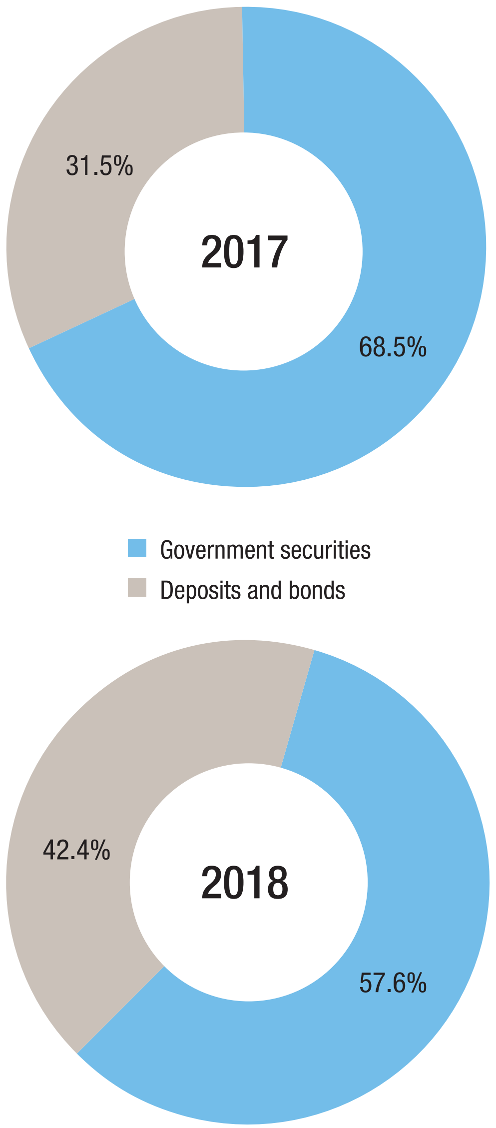
Financial Resources of the Bank Guarantee Fund in 2018 (percentages by categories)



[78] The FGDB's *Regulation no. 1/2018 to amend and complement 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 revised calculation method complies with requirements under the European Banking Authority's *Guidelines on methods for calculating of risk-based contributions to deposit guarantee schemes* and was approved by the National Bank of Romania, in line with provisions of legislation in force. The new calculation method was published in full on the FGDB's website, in the "Banks" section.

On 31 December 2018, government securities held a 57.6 percent stake of the portfolio of investments of deposit guarantee fund resources (an annual variation of -10.9 percentage points).

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



To complete the infrastructure which the FGDB needs to fulfil its statutory duties, alternative funding mechanisms were formalised in 2018, which describe the principles and the suquence of potential additional funding sources to secure the needed funds to make compensation payments or implement bank resolution measures.

The advantages and disadvantages of potential sources of funds within alternative funding mechanisms were looked into considering the extent to which they meet the FGDB's need to have rapid access to resources, as well as related costs.

These mechanisms are to be implemented in the period ahead based on a number of FGDB internal analyses intended to highlight the benefit-cost ratio and to consider legal constraints related to the urgency of interventions in the market and the FGDB's actual capability to access the necessary financial resources. Furthermore, the FGDB will intensify its cooperation with the National Bank of Romania toward operationalising repo transactions in the spirit of European regulations and the practice of other guarantee schemes within the European Union. The FGDB currently cooperates with the Ministry of Public Finance to finalise the *Protocol on Funding* between the Ministry of Public Finance and the FGDB establishing a framework for action for access to Government loans or guarantees, in compliance with legislation in force.

Internally, the FGDB will also develop the procedural framework for accessing alternative funding sources to cover all possible situations – from lack of liquidity in the market to resource shortages – in order to complete *de facto* the infrastructure needed to operationalise these funding mechanisms.

THE BANK RESOLUTION FUND

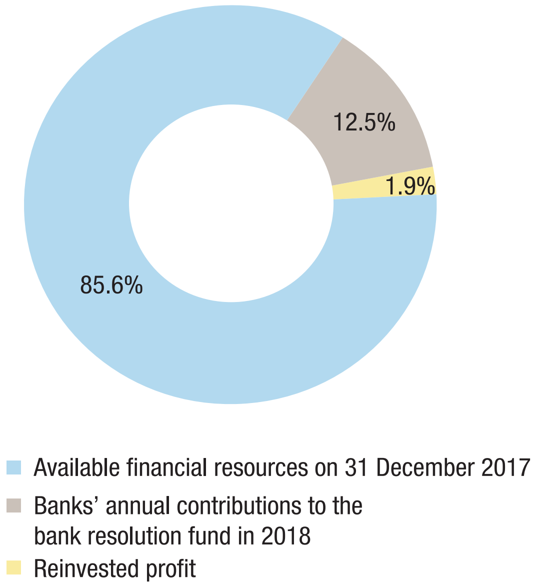
On 31 December 2018[79], the ratio between the financial resources of the bank resolution fund and the value of covered deposits stood at 0.61 percent.

The National Bank of Romania, as the resolution authority, set the level of annual contributions to the bank resolution fund for each credit institution according to its risk profile.

In 2018, contributions to the bank resolution fund totalled 145.4 million lei.

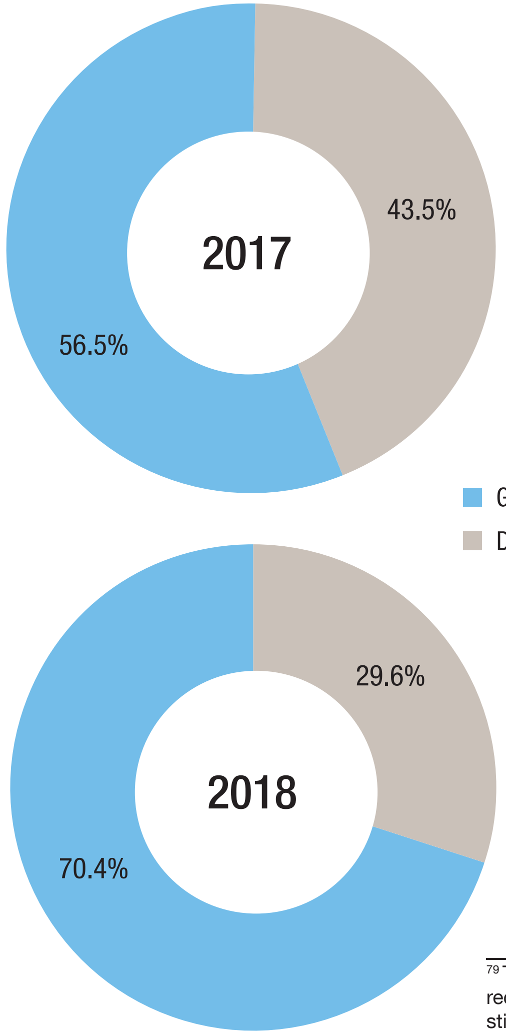
Throughout 2018, government securities increased their share in the portfolio of investments of bank resolution fund resources to climb to 70.4 percent on 31 December 2018 (an annual variation of +13.9 percentage points).

Financial Resources of the Bank Resolution Fund in 2018 (percentages by categories)



The available financial resources of the bank resolution fund, including the 2018 reinvested profit, totalled 1,164.4 million lei on 31 December 2018, posting a 16.8 percent rise from the end-2017 level.

Structure of the FGDB's Investments of Bank Resolution Fund Financial Resources



Government securities
Deposits and bonds

[79] The EU Directive on bank recovery and resolution stipulates that all member states reach a target level of one percent by 2024.

5. Liquidation of Failed Credit Institutions

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

Since its creation, the FGDB has had several active interventions to protect the depositors of several banks in Romania that went bankrupt over the last 20 years. The institution made compensation payments for deposits held at the respective banks, namely Banca Comercială "Albina" S.A., Bankcoop S.A., Banca Internațională a Religiilor S.A., *Banca Română de Scont S.A. (BRS)*, *Banca Turco-Română S.A. (BTR)*, Banca "Columna" and Nova Bank S.A.[80].

Following the payouts, the FGDB used its right of subrogation to the rights of guaranteed depositors and joined the body of creditors of the failed banks.

Furthermore, the FGDB was appointed liquidator of *BRS* and *BTR*, in line with the legislation in effect at that time. Although, according to recent amendments to legislation, a court may no longer appoint the FGDB as liquidator, the institution will continue to act in this capacity until the conclusion of bankruptcy proceedings in the case of *BRS* and of *BTR*.

At the end of 2018, of the seven failed banks six were still going through bankruptcy procedures[81]. The FGDB is a creditor of three of them and acts as liquidator of another two[82].

The FGDB acting as:

creditor

- Bankcoop S.A. – failed on 8 February 2000 – proceedings are expected to end during 2019
- Banca Internațională a Religiilor S.A. – since 10 July 2000 in a bankruptcy procedure which is estimated to close in about two years
- Banca "Columna" S.A. – filed for bankruptcy on 18 March 2003 – the FGDB has an unsecured claim of low value holding no assurance of payment given the existence of a high-value budgetary claim which has priority

liquidator

- *Banca Română de Scont S.A. (BRS)* – went bankrupt on 16 April 2002 – after almost 12 years of litigations, a court rendered a final judgement on 22 March 2018 ordering compensation for damage caused by the bankruptcy procedure. The judgement is to be enforced
- *Banca Turco-Română S.A. (BTR)* – failed on 3 July 2002 – facing a situation comparable to that of the BRS; after 10 years of litigations, a court's final decision was handed down on 25 May 2012 ordering five former administrators to pay civil damages for the bank's failure; claim recovery operations are ongoing abroad

Cumulative Data on Claims Against the Failed Banks as at 31 December 2018

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

More than 53 percent of the total 2018 receipts of the failed banks where the FGDB is either creditor or liquidator were earnings from other than recovered claims.

As for the expenses the five banks had in 2018, most of them (57 percent of the total) were accounted for by salaries for their employees.

[80] Besides the seven bankrupt banks, Banca de Investiții și Dezvoltare S.A. was dissolved on 11 March 2002 following a shareholders' decision. The voluntary liquidation of the bank has yet to be finalised. According to 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.

[81] Bankruptcy proceedings against Banca Comercială "Albina" S.A. were closed in 2012.

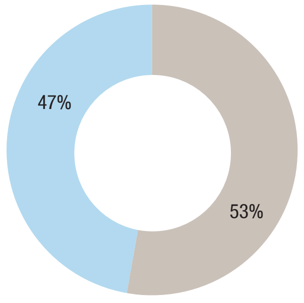
[82] Apart from the banks mentioned in the table below, there is also the special case of Nova Bank. On 22 August 2006, the National Bank of Romania ordered the dissolution followed by liquidation of Nova Bank SA and appointed the FGDB as sole (administrative) liquidator on 4 September 2006. The FGDB's sole 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. Neither is it a creditor of the banks where it had acted as liquidator because it had already recovered its claims in full (in 2004 from *Banca Română de Scont S.A.* and in 2011 from *Banca Turco-Română S.A.*).

Total Receipts and Expenses of the Failed Banks in 2018

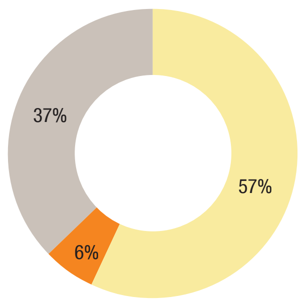
Failed bank	Total receipts (thou. lei)	Total expenses (thou. lei)
1. Bankcoop	6	42
2. BIR	71	314
3. *BRS*	19	615
4. *BTR*	86	421
5. Banca "Columna"	71	79
TOTAL	**253**	**1,471**

Structure of Failed Banks' Receipts and Expenses

Receipts



Expenses



Recovered claims
Other receipts (including interest on investments)

Personnel salaries, including social security costs
Spending on third party services
Other liquidation-related expenses (including liquidator's fee)

Throughout 2018, there was only one instance of distribution to creditors – 16 thousand lei[83] which went to the unsecured creditors of *BTR*. Therefore, at end-2018, payments out of the total allotted funds worth 6,818 thousand lei amounted to 5,731 thousand lei.

By 31 December 2018, the funds allotted for distribution to creditors as part of bankruptcy procedures in which the FGDB participated as creditor/ liquidator totalled 331 million lei.

The claim recovery ratio – in proportion to outstanding claims worth 1,001 million lei – stood at 33.07 percent.

Just like during previous years, the failed banks where the FGDB acts as creditor or liquidator continued their work to recover claims and to slim down their debtor portfolios.

On 31 December 2018, the number of debtors in the records of the failed banks diminished by nine percent from the end of the previous year to stand at 111.

Evolution of the Number of Failed Banks' Debtors

Failed bank	Total number of debtors on bankruptcy filing date	Total number of debtors removed from accounting records	Total number of debtors* on 31 December 2018
1	*2*	*3*	*4=2-3*
1. Bankcoop	14,716	14,704	12
2. BIR	22,416	22,340	76
3. BRS	232	213	19
4. BTR	1,286	1,282	4
TOTAL	**38,650**	**38,539**	**111**

* In the case of Banca "Columna", the only available debtor-related data are those referring to the number of debtors on 31 December 2018, namely seven.

[83] Within the distribution plan no. 7/2017.

Total receipts, expenses and funds for distribution to creditors as at 31 December 2018:

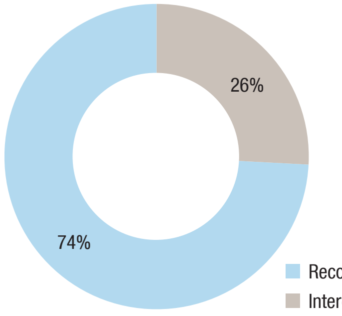
Failed bank[1)]	Total claims to recover on the date of bankruptcy (thou. lei)	Total liquidation-related receipts[2)] (thou. lei): on 31 December 2018	Total liquidation-related receipts: of which, in 2018	of which: recovered claims: value (thou. lei)	recovered claims: % of total claims to recover	recovered 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 2018	Total liquidation-related expenses: of which, in 2018	Total funds allotted for distribution (thou. lei)
1. Bankcoop	250,050	155,461	6	92,007	*36.80*	*59.18*	57,496	*36.99*	5,958	*3.83*	62,651	42	98,047
2. BIR	213,982	174,788	71	137,723	*64.36*	*78.79*	23,554	*13.48*	13,511	*7.73*	81,655	314	95,635
3. *BRS*	37,750	38,647	19	17,935	*47.51*	*46.41*	16,423	*42.49*	4,289	*11.10*	18,496	615	18,130
4. *BTR*	227,480	65,945	86	13,942	*6.13*	*21.14*	31,799	*48.22*	20,204	*30.64*	17,740	421	45,506
5. Banca "Columna"	..	..	71	..	..	..	..	..	..	..	..	79	50,298
TOTAL[3)]	**729,262**	**434,841**	**253**	**261,607**	*35.87*	*60.16*	**129,272**	*29.73*	**43,962**	*10.11*	**180,542**	**1,471**	**307,616**

[1)] Cumulative data on the receipts and expenses of Banca "Columna" are not available.
[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, amount to 470,155 thousand lei (recovered claims totalling 278,453 thousand lei, sales of assets worth 142,377 thousand lei and other receipts of 49,325 thousand lei), overall expenses total 191,492 thousand lei and the funds allotted for distribution stand at 331,024 thousand lei.

Banca Română de Scont (BRS)

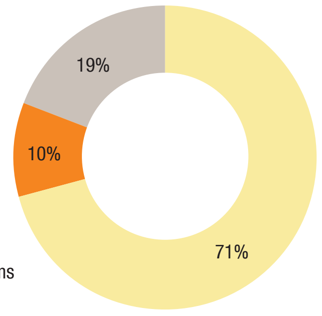
Structure of *BRS*' Receipts and Expenses in 2018

Receipts[84]



Recovered claims
Interest

Expenses



Personnel salaries, including social security costs
Spending on third party services
Other liquidation-related expenses

Considering *BRS*' total outstanding claims on bankruptcy date, the recovery ratio stood at 47 percent on 31 December 2018 when claims worth 17,935 thousand lei had been recovered.

Since the *BRS*' collecting account was still under seizure in 2018[85], no funds were distributed to creditors despite the 3,093 thousand lei in hand and at bank at the end of the year. By end-2018, *BRS*-initiated negotiations on the lifting of the seizure in an amiable manner were still underway.

[84] In 2018, *BRS*' receipts totalled 19 thousand lei, of which 14 thousand lei resulting from recovered claims and five thousand lei coming from interest on investments.
[85] The seizure was imposed in 2011 as part of a criminal case concerning damage caused to RAFO SA and was 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 end of the bankruptcy procedure against *BRS*.

By 31 December 2018, the funds distributed to *BRS*' creditors had amounted to 18,130 thousand lei, satisfying 47 percent of the body of creditors. That was the highest level of creditor satisfaction among failed banks.

The complex process of recovering *BRS*' claims in order to satisfy its creditors has given rise to numerous legal actions which continued in 2018.

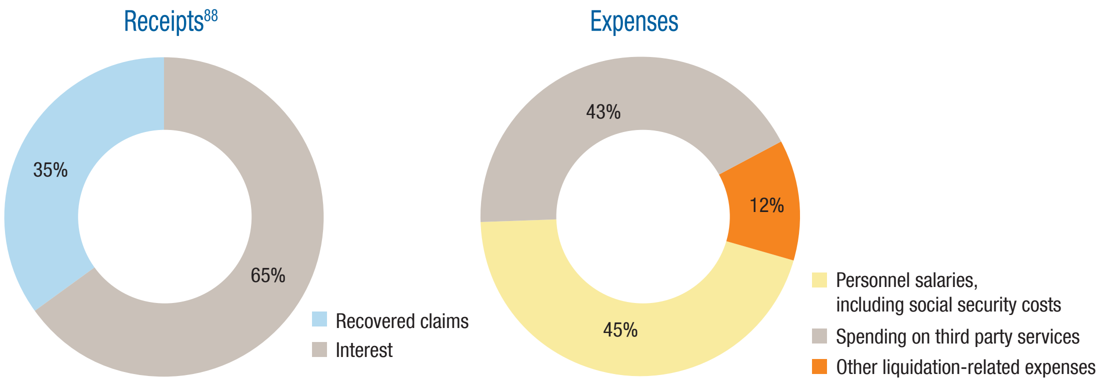
One of the significant achievements of the year 2018 was the final decision of the Bucharest Court of Appeal in the criminal case concerning the embezzlement of *BRS*[86]. Under the final judgement, *BRS* obtained the requested amount of civil damages for the bank's failure, that is 93,526 thousand lei (three times more than the amount awarded under a decision of the court of first instance). The application of the Bucharest Court of Appeal's decision will have a favourable impact on claim recovery operations.

Banca Turco-Română (BTR)

From bankruptcy date (3 July 2002) to 31 December 2018, claims worth 13,942 thousand lei – accounting for six percent of total claims – were recovered. In 2017, a first tranche of 8,724 thousand lei was recouped from the bank's main debtor[87] and actions to recover further claims continued in 2018.

Considering the claims in *BTR*'s records on bankruptcy date, other than the claims over the main debtor, the recovery ratio was of 29 percent at the end of 2018.

Structure of *BTR*'s Receipts and Expenses in 2018



The civil damages for the bank's failure represent *BTR*'s main claim. On 31 December 2018, this accrued debt amounted to 111 million USD and 22 million EUR, accounting for over 99 percent of the portfolio of outstanding claims.

Starting September 2012, the FGDB, as liquidator of *BTR*, initiated actions to recover that main claim both at home and, in consideration of the cross-border nature of the matter, abroad (given the Turkish citizenship of four of the five debtors).

[86] The case was resolved following the Bucharest Court of Appeal's final judgement no. 424/A of 22 March 2018 after the Bucharest Tribunal's Decision no. 764 of 11 May 2015 was partially cancelled and the case was remanded to the court of first instance.
[87] According to the accounting records of *Banca Turco-Româna 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 *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.
[88] *BTR*'s 2018 receipts amounted to 86 thousand lei, of which 56 thousand lei in interest on investments and in other earnings and 30 thousand lei in recovered claims.

The culmination of relentless work in Switzerland over October 2013-November 2016 was the recovery by *BTR* of 2,058,731CHF[89] in the first quarter of 2017.

Based on a litigation funding 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 2018, funds worth 45,506 thousand lei had been allotted for distribution to *BTR*'s creditors, which means that 41 percent of the body of creditors were satisfied.

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)[90]. The FGDB ceased to be a creditor of four bankrupt 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).

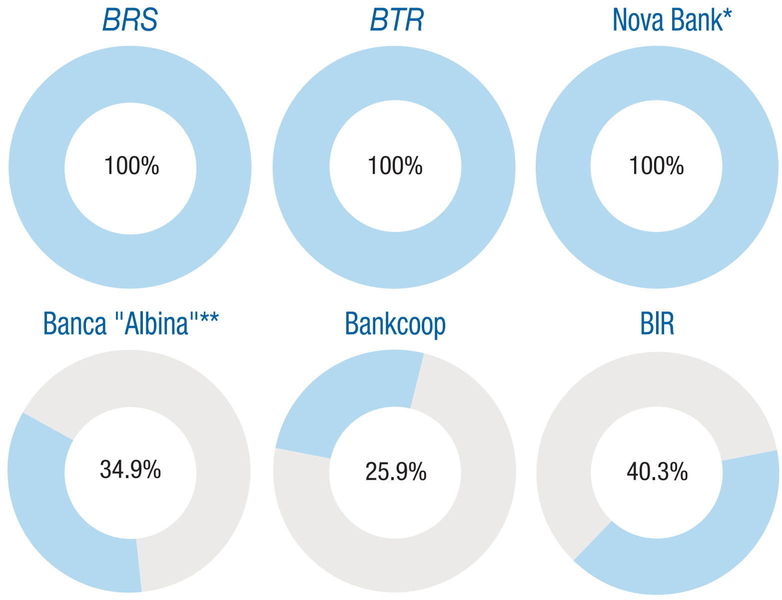
As claim recovery is less possible at the current stage of bankruptcy procedures[91], the FGDB recovered none of its creditor claims over the failed banks in 2018.

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

In line with legislation applicable in each bankruptcy case, the FGDB's ranking differed on the creditor priority lists of the failed banks, hence the dissimilarity of claim recovery ratios.

The FGDB's claims were initially classified as unsecured claims. In 2001, they moved into fourth place as far as the order of payment of claims was concerned, which allowed it to recover claims against *BRS, BTR* and Nova Bank in full. Since 2014, the FGDB has occupied the second position on the priority list.

Recovery of the FGDB's Claims as at 31 December 2018



* The FGDB ceased to be a creditor of Nova Bank in 2007 following an assignment of claims agreement with another creditor.
** The bankruptcy procedure against Banca Comercială "Albina" closed in 2012.

By 31 December 2018, the FGDB had recovered claims worth 175,959 thousand lei, of which 174,978 thousand lei for payouts to guaranteed depositors and 981 thousand lei for contributions owed to the FGDB and unpaid by Bankcoop, *BTR* and Nova Bank before going into bankruptcy.

[89] The equivalent of 2,033,917.33 USD, respectively 8,723,873.72 lei, accounting for roughly four percent of *BTR*'s claims on bankruptcy date.
[90] 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.
[91] Assets left behind at the failed banks are difficult to sell and claims are too old – or litigation-related – to be recovered.

6. Public Information

Up-to-the-minute, prompt, accurate, complete, unequivocal, comprehensible – these are the attributes the FGDB is mindful of when it prepares information materials for the public, be they banked or unbanked.

The FGDB's communication activity has depositors as its centrepiece.

Against this background, in 2018, the FGDB resorted to extremely diverse communication channels allowing to reach an equally diverse target audience. As part of its 2018 communication strategy, the FGDB adopted a new slogan intended to arouse people's interest in getting more information about the role of the deposit guarantee scheme in Romania. The new slogan is:

IT'S GOOD TO KNOW WE ARE HERE!

The change of slogan was concurrent with the adoption of new eye-catching visuals apt to gain the attention of the public at large and to assure them that their money in the bank is safe and well-protected.

Furthermore, advertorials were published in widely-circulated magazines in a bid to reach the FGDB's target groups.

The activity of public communication also included the launch of a new information package containing facts about deposit guarantee, a video illustrating the steps depositors must take to get their reimbursements, as well as a brochure incorporating detailed information.

As the information contained in the video is reiterated in the brochure, the channels involved in this communication endeavour become related, allowing this undertaking to preserve its visual unity.

Among other things, the brochure offers information on the method of determining the level of reimbursements for both deposits of values within the guarantee ceiling of 100,000 euros in the leu equivalent, where the general guarantee terms and limits apply, and for special categories of deposits which benefit from temporary higher coverage.

The FGDB video was posted on the institution's website and uploaded to *YouTube*. It was also shared with member banks for use in their own units. The brochure was distributed to participating banks to facilitate depositors' access to FGDB-related information.

Moreover, an opinion poll was taken in 2018 among banked natural persons and legal entities of the micro-enterprise type to sample their perception and attitude towards the banking industry, the banking products they hold, as well as their knowledge of the FGDB's role, of payout procedures, information sources and means of communicating information. With the results of the poll as a basis, action will be taken to adjust the FGDB's communication strategy in order to improve dissemination of information on the deposit guarantee scheme among depositors.

FGDB Roll-up

The FGDB video - Screenshots

Collage composed of images in the FGDB Brochure

FGDB advertorial

Atunci când depozitele depuse la o anumită bancă devin indisponibile, FGDB plătește compensații deponenților (persoane fizice și juridice).

Compensația = suma depozitelor garantate + dobânda cuvenită – ratele, comisioane, alte datorii către bancă, exigibile la data indisponibilizării depozitelor

compensația = suma depozitelor + dobânda cuvenită - rate restanțe și comisioane

Plafonul general de garantare/acoperire a depozitelor este de:

100 000 €
echivalent în lei

Compensația plătită de FGDB fiecărui deponent este de maximum 100.000 euro per deponent per bancă. Valoarea acestui plafon este aceeași în toate țările membre ale Uniunii Europene.

Compensațiile se plătesc în lei, indiferent de moneda în care au fost constituite depozitele, la cursul anunțat de Banca Națională a României în ziua în care depozitele au devenit indisponibile.

Exemple:

- Dacă un deponent deține un cont de economii în sumă de 90.000 euro și un cont curent în sumă de 20.000 euro, acesta va primi drept compensație doar echivalentul în lei al sumei de 100.000 de euro. Diferența de 10.000 euro nu este acoperită. Pentru a beneficia de garantare și pentru cei 10.000 de euro deponentul ar fi trebuit să îi plaseze la o altă bancă.
- Deținătorul unui depozit în sumă de 30.000 euro va primi echivalentul în lei al acestei sume plus dobânda aferentă.
- Pentru un depozit în sumă de 100.000 euro compensația va fi echivalentul în lei al acestei sume. În cazul acesta, deponentul nu mai primește și dobânda aferentă, deoarece depozitul în sumă de 100.000 euro + dobânda aferentă ar depăși plafonul de garantare de 100.000 euro.

6

Excerpt from the Financial Education Textbook for high schools

Promotion through Education

Thanks to the shift in the communication strategy, which was intended to boost the FGDB's reputation, the institution was introduced into the Financial Education Textbook for high schools.

Dealing with financial education was also an article published in the magazine of the Association for Performance Promotion in Education.

EDUCAŢIA FINANCIARĂ PE ÎNŢELESUL TUTUROR 5

Educaţie financiară

Există situaţii în care se aplică un plafon suplimentar de garantare, de încă 100.000 de Euro. Nivelul suplimentar de garantare se aplică pentru depozitelor constituite cu sume provenite din:

- Tranzacţii imobiliare referitoare la bunuri imobile cu destinaţie locativă (vânzări de locuinţe);
- Prime de pensionare, salarii compensatorii în cazul concedierii, situaţii de invaliditate sau deces al deponentului;
- Încasarea unor indemnizaţii de asigurare sau a unor compensaţii pentru daune rezultate din infracţiuni sau pentru condamnări pe nedrept.

Plafonul suplimentar se acordă numai dacă depozitele respective au fost constituite cu maximum 12 luni înainte de data la care banca nu mai poate returna banii deponentilor.

FGDB plăteşte compensaţiile prin intermediul unei Banci mandatate, pe care o alege în fiecare an.

Banii pentru plata compensaţiilor ajung de la FGDB la banca mandatată în maximum **şapte zile** lucrătoare de la data la care depozitele au devenit indisponibile.

Deponenţii garantaţi pot încasa compensaţiile timp de **cinci ani** de la data la care FGDB pune banii la dispoziţia băncii mandatate.

Excerpt from the Education Promotion Magazine no. 23/2018

The by now traditional *Costin Murgescu Contest for Economic Research* reached its seventh edition. This FGDB-initiated competition contributes to the assertion of young specialists and is also a fine channel to promote the institution among present and future professionals in the economic sector.

The award of the 2018 edition went to Olga Bodrug for her *An Analysis of Key Performance Indicators of Public Debt Management and the Likely Effect on Fiscal Insurance.*

Olga Bodrug is currently in her first year of a Master's degree programme at the International Economic Relations Department of the Bucharest Academy of Economic Studies.

In 2018, the FGDB was once again a supporter of the *"Cristian Popişteanu" Annual Symposium of Banking History and Civilisation*, organised by the National Bank of Romania and the Magazin Istoric Cultural Foundation.

The Costin Murgescu Contest for Economic Research – Awarding Ceremony, Bucharest, December 2018

The Magazin Istoric Cultural Foundation Prize Award Ceremony
The "Cristian Popişteanu" Symposium of Banking History and Civilisation, the 26th Edition
The National Bank of Romania, April 2018

Relationship with the Media

Communication with the media was reshaped in line with recent developments in this area: the supremacy of online communication. So, the institution's website, which was constantly updated, proved to be the best and most reliable source of information for the media. Thanks to media representatives, as well as to the website, the information contained in the FGDB's news releases and in its INFO bulletins reached interested parties in due time.

At the same time, the FGDB maintained direct communication with media representatives and promptly answered their queries.

7. The FGDB's Financial Statements

At the end of 2018, the FGDB's assets were 6.2 percent up from the level on 31 December 2017 standing at 6.9 billion lei.

Government securities maintained their majority stake in the 2018 structure of FGDB assets.

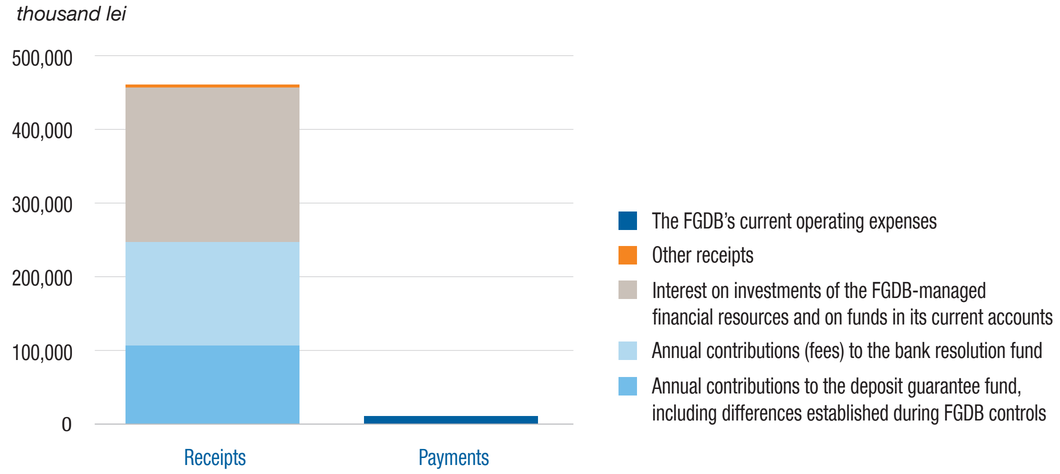
THE FGDB'S RECEIPTS AND PAYMENTS

The FGDB's receipts in 2018 totalled 459,480 thousand lei, of which:

104,418 thou. lei - as annual contributions to the deposit guarantee fund, including differences established during FGDB controls;
145,384 thou. lei - as annual contributions (fees) to the bank resolution fund;
209,593 thou. lei - as interest on investments of the FGDB's financial resources, of which 180,776 thousand lei corresponding to the deposit guarantee fund and 28,817 thousand lei corresponding to the bank resolution fund;
43 thou. lei - as interest on funds in the FGDB's current accounts;
42 thou. lei - as other receipts.

The payments the FGDB made in 2018 amounted to 14,155 thousand lei and they covered current operating expenses.

The FGDB's Receipts and Payments in 2018



THE FGDB'S BALANCE SHEET

- lei -

Assets	31.12.2017	31.12.2018	Liabilities	31.12.2017	31.12.2018
1. Total fixed assets, of which:	**4,525,592,492**	**4,563,815,041**	**1. Total own funds, of which:**	**6,471,568,791**	**6,875,931,215**
- intangible assets	231,881	172,182	- reserves	6,363,109,166	6,720,286,221
- tangible assets	404,145	526,442	- profit for the fiscal year	108,459,625	155,644,994
- financial assets	4,524,956,466	4,563,116,417			
2. Total current assets, of which:	**1,947,054,520**	**2,308,764,125**	**2. Total debts, of which:**	**1,092,684**	**1,043,487**
- short-term financial investments	1,944,712,810	1,023,252,867	- Debts payable within one year	1,092,684	1,043,487
- cash at bank and in hand	1,737,811	1,284,831,690			
- other claims (bank settlements)	603,899	679,568			
3. Prepaid Expenses	**14,463**	**4,395,536**			
TOTAL ASSETS	**6,472,661,475**	**6,876,974,702**	**TOTAL LIABILITIES**	**6,472,661,475**	**6,876,974,702**

THE PROFIT AND LOSS ACCOUNT

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

In 2018, the FGDB registered total revenues worth 170,557 thousand lei, of which:

170,498 thou. lei - as interest and coupons on investments of its financial resources all through 2018 (accounting for 99.96 percent of overall revenues);
43 thou. lei - as interest on its funds in bank current accounts;
16 thou. lei - as other revenues.

The FGDB's 2018 total expenses stood at 14,912 thousand lei, of which:

10,509 thou. lei - as personnel-related spending (accounting for 70.5 percent of total expenses);
3,272 thou. lei - as expenses on services provided by third parties (taking 21.9 percent of total expenses);
1,131 thou. lei - as other expenditures (or 7.6 percent of total expenses).

Given that the financial resources of the two FGDB-managed funds may be exclusively used for purposes laid down in legislation, namely to disburse payouts and to finance resolution measures, the FGDB covers its operating expenses solely from revenue arising from investments of its available financial resources.

The 2018 ratio between the FGDB's expenses and revenues resulting from investments of financial means remained very low, at 1:11.

In 2018, thanks to yields on the financial-banking market which were significantly higher than in 2017, the FGDB's revenues headed higher.

On the back of a substantial rise in overall revenues and a moderate variation of expenses, the FGDB's fiscal year result skyrocketed in 2018 (posting an annual variation of +43.5 percent).

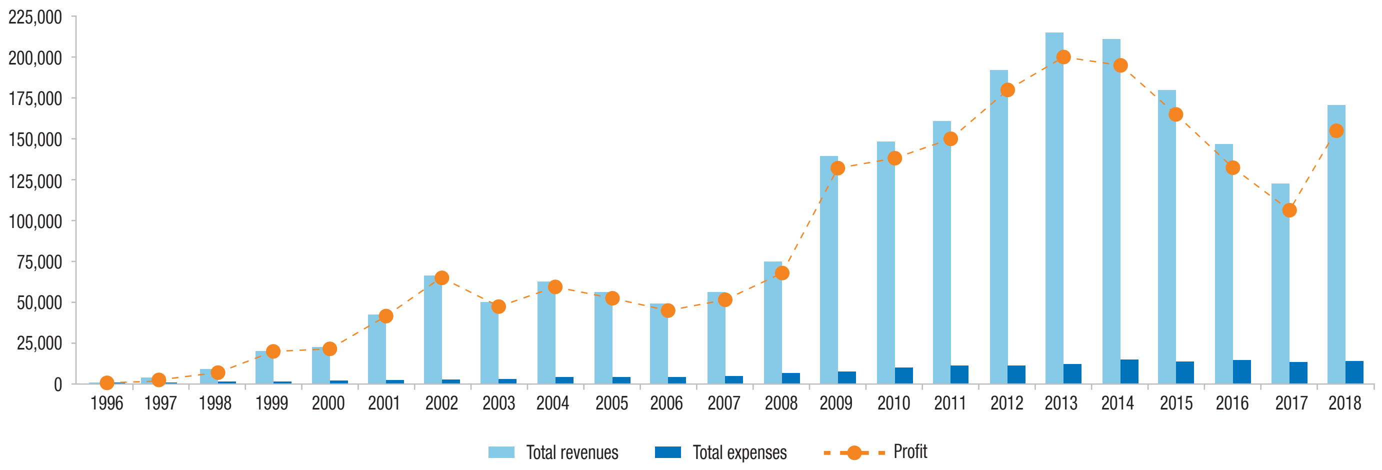
The Profit and Loss Account

-lei -

	31.12.2017	31.12.2018	Difference
1. Total revenues	122,562,890	170,557,113	47,994,223
2. Total expenses	14,103,265	14,912,119	808,854
3. Result for fiscal year	**108,459,625**	**155,644,994**	**47,185,369**

Evolution of the FGDB's Revenues, Expenses and Profit

thousand lei; end-period



The net accounting profit of the FGDB for the fiscal year ended 31 December 2018 – a result of its cautious investment policy – stood at 155,644 thousand lei.

In compliance with legal provisions, the FGDB's profit is almost entirely (at least 99 percent) channelled towards the two FGDB-administered funds to replenish their available financial resources.

The FGDB's financial statements as at 31 December 2018 were audited by Deloitte Audit S.R.L.

In the financial auditor's opinion, as expressed in the audit report, the financial statements "give, in all material respects, a faithful view of the Fund's financial position as at December 31, 2018 and of its financial performance for the fiscal year then ended, according to the National Bank of Romania's *Order no. 6/2015 on the approval of accounting rules in compliance with European Union Directives*, with subsequent amendments and completions".

Deloitte.

Deloitte Audit S.R.L.
4-8 Nicolae Titulescu Road,
America House, East Entrance,
2nd Floor - Deloitte premises and 3rd Floor
District 1, Bucharest, Romania

Phone: +40 21 222 16 61
Fax : +40 21 222 16 60
www.deloitte.ro

INDEPENDENT AUDITOR'S REPORT

To: The Supervisory Board
of the Bank Deposit Guarantee Fund

Report on the financial statements

Opinion

1. We 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, unique tax identification number RO8942496, which include the balance sheet as at 31 December 2018, the profit and loss account for the fiscal year then ended, and a summary of significant accounting policies and explanatory notes.

2. The individual financial statements as at 31 December 2018 are identified as follows:
• Total own funds: 6,720,286,622 lei
• Net profit of the fiscal year: 155,664,994 lei

3. In our opinion, the accompanying financial statements give, in all material respects, a faithful view of the Fund's financial position as at December 31, 2018 and of its financial performance for the fiscal year then ended, according to the National Bank of Romania's Order 6/2015 on the approval of accounting rules in compliance with European Union Directives, with subsequent amendments and completions ("Order 6/2015").

Basis for opinion

4. 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"), and Law no. 162/2017 ("Law"). Our responsibilities according to these standards are detailed 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" and "Law" 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 matters

5. Key audit matters are those matters that, in our professional judgement, were of the most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Recognition of revenues arising from interest

Nature of the matter of interest

According to the profit and loss account in the financial statements, the Fund had revenues amounting to 170,540 thousand lei arising from investments of available financial resources.

Revenues from interest are recognised in the profit and loss account under the accrual basis of accounting for all interest-bearing financial instruments over their entire lives. Revenues from interest also include income generated by the amortization, using the effective-interest method, of premiums or discounts on bonds until their maturity date.

In consideration of the specific conditions in which revenue is recognised and of the dependency on the accuracy and quality of data related to interest-bearing financial instruments, we identified revenue recognition as a key audit matter.

Procedures performed to support our discussion and conclusions

We performed the following procedures in connection with revenue resulting from interest:
• We assessed the preparation and implementation of key manual controls related to the recognition of revenue arising from interest;
• We appraised the FGBD's accounting treatment of interest-derived revenues to decide whether its accounting policies comply with accounting requirements under "Order 6/2015";
• We evaluated the extent to which data used to calculate revenue arising from interest on financial instruments are complete and accurate;
• We assessed the mathematical formula used in revenue recognition over the entire lives of financial instruments;
• We developed our own estimation of revenue generated by interest and compared it to the Fund's actual results.

Other information – The Management's Report

6. The management is responsible for the preparation and presentation of other information. This other information comprises the Management's Report, but does not include the financial statements and the audit report on the financial statements.

Our opinion on the financial statements does not cover this other information, nor the Management's Report.

In connection with our audit of the financial statements for the fiscal year ended 31 December 2018, our responsibility is to read that other information and, in doing so, analyse whether that 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.

As far as the Management's Report is concerned, we read and report if it was drafted for all significant aspects in accordance with "Order 6/2015", points 225-228.

Based solely on the activities that have to be performed during the audit of financial statements, in our opinion:

a) The information presented in the Management's Report for the fiscal year for which the financial statements were prepared are consistent, in all material respects, with the financial statements;
b) The Management's Report was prepared in all material respects in accordance with "Order 6/2015", points 225-228.

In addition, based on our knowledge and understanding of the Fund and its environment, acquired during the audit of the financial statements for the fiscal year ended 31 December 2018, we are required to report whether we have identified significant misrepresentations in the Management's Report. We have nothing to report on this issue.

Responsibilities of the management and of those charged with governance for the financial statements

7. The Fund's management is responsible for the preparation and fair presentation of the financial statements, in compliance with "Order 6/2015" 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.

8. 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.

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

Auditor's responsibilities for the audit of the financial statements

10. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements 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 International Standards on Auditing 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.

11. As part of an audit in accordance with International Standards on Auditing, 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 the respective 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.

12. 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.

13. 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.

14. 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. We describe these matters in the auditor's report, except for the case in which laws or regulations prohibit the public disclosure of the matter, or for the case when, in extremely rare circumstances, we determine that one aspect should not be communicated in our report because it is reasonably expected that the negative consequences of this communication will outweigh the benefits of the public interest.

Report on other legal and regulatory requirements

15. We were selected according to Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund, Article 37, paragraphs (2) and (3), by the Board of Directors of the National Bank of Romania in their meeting of 19 February 2019, to audit the financial statements of the Bank Deposit Guarantee Fund for the fiscal year ended 31 December 2018. The total uninterrupted duration of our commitment is of 1 year, covering the fiscal year ended 31 December 2018.

We confirm that:

- Our audit opinion is in line with the additional report submitted to the Fund's Audit Committee, which we issued on the same date we issued this report. Also, in conducting our audit, we kept the independent position towards the audited entity.
- We have not provided the prohibited non-audited services referred to in Article 5 paragraph (1) of the EU Regulation no. 537/2014.

The audit mission partner for whom this independent auditor's report was drawn up is Irina Dobre.

Irina Dobre

Registered at the Authority for the Public Oversight of the Statutory Audit Activity under number 3344

On behalf of:

DELOITTE AUDIT SRL
Registered at the Authority for the Public Oversight of the Statutory Audit Activity under number 25
4-8 Nicolae Titulescu Road,
America House, East Entrance,
2nd Floor - Deloitte premises and 3rd Floor,
District 1, Bucharest, Romania

25 March 2019

BALANCE SHEET

as at 31 December 2018

-RON-

Indicator	Position code	31 December 2017	31 December 2018
A	B	1	2
Cash	010	12,288	9,672
Claims over credit institutions	020	1,940,798,919	1,284,822,018
• sight claims	023	1,725,523	1,244,887
• other claims	026	1,939,073,396	1,283,577,131
Public instruments, bonds and other fixed income securities	040	4,524,956,466	5,586,369,284
• issued by public bodies	043	4,524,956,466	5,586,369,284
Intangible assets	050	231,881	172,182
Tangible assets	060	404,145	526,442
Other assets	070	603,899	679,568
Prepaid expenses and committed income	080	5,653,877	4,395,536
Total assets	**090**	**6,472,661,475**	**6,876,974,702**
Other liabilities	330	1,092,684	1,043,487
The bank deposit guarantee fund and the bank resolution fund	360	6,362,404,166	6,720,286,221
• The bank deposit guarantee fund	361	5,373,742,719	5,577,639,470
› The deposit guarantee fund consisting of credit institutions' contributions	362	3,576,219,108	3,680,637,015
› 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	1,728,326,841	1,827,805,685
› The deposit guarantee fund consisting of other revenues as set within the law	366	2,993,762	2,993,762
• The bank resolution fund	367	988,661,447	1,142,646,751
Reserves	370	705,000	-
Result of the fiscal year – Profit	**403**	**108,459,625**	**155,644,994**
Total liabilities and own funds	**420**	**6,472,661,475**	**6,876,974,702**

PROFIT AND LOSS ACCOUNT

for the fiscal year ended 31 December 2018

-RON-

Indicator	Position code	31 December 2017	31 December 2018
A	B	1	2
Interest receivables and similar income, of which:	010	122,563,209	170,540,513
• on public instruments, bonds and other fixed-income securities	015	106,037,678	128,047,615
Commissions	040	33,020	26,538
Net profit or loss from financial operations	050	(319)	(5,153)
Other operating income	060	-	15,727
General administrative expenses	070	13,482,321	13,781,580
• Personnel-related expenses, of which:	073	10,805,505	10,509,411
› Salaries	074	8,416,404	10,143,807
› Social security costs, of which:	075	2,389,101	365,604
- Pension-related expenses	076	1,635,462	-
• Other administrative expenses	077	2,676,816	3,272,169
Adjustments to the book value of tangible and intangible assets	080	216,631	277,767
Other operating expenses	090	371,293	341,691
Result of current activity - Profit	**143**	**108,459,625**	**155,644,994**
Total revenues	180	122,562,890	170,557,113
Total expenses	190	14,103,265	14,912,119
Pre-tax result - Profit	203	108,459,625	155,644,994
Net result for the fiscal year - Profit	**223**	**108,459,625**	**155,644,994**

EXPLANATORY NOTES TO THE FGDB'S FINANCIAL STATEMENTS - EXCERPTS[92]

1. Significant Accounting Methods and Policies

Some of the main accounting policies used while preparing these financial statements are disclosed here below.

a) Preparation and Presentation of the Financial Statements

These financial situations were prepared in compliance with:

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.

The present financial statements include the Fund's own individual financial statements.

These financial statements were prepared on the historical cost basis, with the exceptions detailed further within the accounting policies.

The 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. Accordingly, 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 17 April 2019.

i) Financial assets

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

Securities may qualify as investment securities depending on:

- terms and characteristics of the financial asset, and
- the Fund's ability and actual intent to hold these instruments to maturity date.

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 maturity date, since the intent is to hold the investment until it matures rather than to sell it, no matter the shifts in its market value.

A precondition for the designation as investment securities is the assessment of the Fund's intent and ability to hold these instruments to maturity, an assessment that must be made not only at the time of the initial purchase but also at the end of each fiscal year.

If, following a change in the Fund's intent or ability to hold investment securities until they mature, the designation of these instruments as investment securities is no longer adequate, they will be reclassified as trading securities and will be assessed in terms of the respective category.

If the institution sold or reclassified a significant amount of investment securities during a current fiscal year or during the two preceding financial 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 fluctuations in market interest rates could not have had any significant impact on the fair value of the respective financial asset;
- occurs after a substantial part of the principal of the financial asset was redeemed through periodical payments or early repayments, or
- is attributable to an isolated, non-recurring and 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, as well as other resources from the profits of previous years. When financial resources are scarce, the Fund may borrow from the Ministry of Public Finance, under lending contracts, in order to cover the 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 annually calculated and paid by credit institutions and it is recorded under the accrual basis of accounting.

(ii) Extraordinary contributions

These are other contributions collected from credit institutions, in line with legal provisions, when the Fund's financial resources are not enough to cover reimbursements. Government Ordinance no. 39/1996 calls these contributions "special contributions".

[92] The explanatory notes bear the same numbers as in the original material from which they are quoted.

(iii) Recovered claims

These are the receipts that flow in as the Fund recovers its claims over failed banks for its payouts to depositors.

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

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

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

These resources consist of the Fund's net profit. According 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. With the approval of the Board of Directors of the National Bank of Romania, up to one percent of the profit is channelled to an annual profit-sharing fund, while the remainder supplements the financial resources for each of the activities stipulated in Article 92, paragraphs (1) and (2).

The resources account is reduced by:

- the Fund's payouts to the legally guaranteed depositors of the banks where deposits have become unavailable;
- instalments and interest payments on loans taken to fund payouts;
- money transferred to the resolution authority;
- loans to other guarantee schemes, granted within the law.

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

q) Income tax

The Fund's profit is tax exempt in line with provisions in Article 13, paragraph (2), point e) of Law no. 227/2015 on the Fiscal Code, with subsequent amendments and completions.

t) Revenues arising from interest

Revenues arising 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 to the effective-interest method for assets purchased at prices lower than their maturity value, as well as of the premiums generated by debts made at costs higher than the value repayable at maturity date.

u) Revenues recognition

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

2. Cash

On 31 December 2018, the Fund's cash in hand stood at 9,672 in the RON equivalent (31 December 2017: RON 12,288).

3. Claims over credit institutions

(RON)	31 December 2017	31 December 2018
Current accounts	1,725,523	1,244,887
Term investments at banks	1,939,073,396	1,283,577,131
Total	**1,940,798,919**	**1,284,822,018**

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

(RON)	31 December 2017	31 December 2018
Long-term securities, of which:	**3,234,839,473**	**4,563,116,416**
• Government bonds	3,028,150,054	3,383,156,565
• Corporate bonds	206,689,419	1,179,959,851
Short-term securities, of which:	**1,290,116,993**	**1,023,252,868**
• Government bonds and treasury bills	1,249,930,122	621,840,584
• Corporate bonds	40,186,871	401,412,284
Total	**4,524,956,466**	**5,586,369,284**

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

(RON)	31 December 2017	31 December 2018
Initial contribution (1%)	6,472,230	6,472,230
Annual contribution, including increased contribution	4,035,038,306	4,139,456,213
Extraordinary contribution	61,777,997	61,777,997
Credit line fee	(14,825,698)	(14,825,698)
Deposit compensation	(512,243,727)	(512,243,727)
Total	**3,576,219,108**	**3,680,637,015**

The annual contribution of each credit institution is calculated based on the statements it sends to the Fund. In 2018, the Fund raised 104,417,907 lei in annual contributions, which were calculated based on the degree of risk incurred by each credit institution and the amount of covered deposits it held on 31.12.2017 (2017: 52,312,349 lei). The total volume of 2018 contributions was set according to the funding policy of the Fund and to the method of calculating risk-adjusted contributions – 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 commitments, it may decide that each credit institution should pay an extraordinary contribution equal to up to the level of the annual contribution for the respective fiscal year. Credit institutions paid no extraordinary contributions either in 2017 or in 2018.

Compensation is the amount of money, within the guarantee ceiling, which the Fund pays to each guaranteed depositor for unavailable deposits, no matter their number. There were no payouts either in 2017 or in 2018.

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
Balance as at 31 December 2017	**988,661,447**
2018 annual fee	145,384,118
2017 capitalised profit	8,601,186
Balance as at 31 December 2018	**1,142,646,751**

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

(RON)	31 December 2017	31 December 2018
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 annual contributions that were still outstanding on bankruptcy date and for its payouts to depositors.

In 2018, no claims were recovered from credit institutions undergoing bankruptcy proceedings.

The bank resolution fund is set up to provide the financial resources needed for the application of bank resolution measures.

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

In accordance with Article 539 of Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms and amending and complementing legal acts in the financial sector, the National Bank of Romania, as the resolution authority, sets the level of credit institution's annual contributions to the bank resolution fund spreading payments out as uniformly as possible over time and also taking 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 2018, the Fund collected 145,384,118 lei in contributions, which were calculated according to a decision of the National Bank of Romania. The Fund received annual contributions amounting to 386,323,871 lei in 2017 when a decision of the National Bank of Romania determined the level of annual contributions.

The 2017 profit worth 8,601,186 lei from investments of the financial resources of the bank resolution fund was capitalised following a decision of the Fund's Supervisory Board after the financial statements as at 31 December 2017 had been authorised.

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

(RON)	31 December 2017	31 December 2018
Fund consisting of revenues from investments of available financial resources – share of the profit	1,728,326,841	1,827,805,685

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

13. Fund consisting of other revenues, within the law

(RON)	31 December 2017	31 December 2018
The FGDB's remuneration from its activities as liquidator	2,993,762	2,993,762

14. Distribution of profit

(RON)	31 December 2017	31 December 2018
Result of current activity – profit, of which:	108,459,625	155,644,994
Profit from deposit guarantee fund resources	98,608,092	133,632,690
Profit from bank resolution fund resources	9,851,533	22,012,304
Undistributed profit	**108,459,625**	**155,644,994**

The Board of Directors of the National Bank of Romania will approve the distribution of the profit for the fiscal year ended 31 December 2018 after the financial statements have been authorised.

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

Following are the interest rates the Fund got on its invested assets in 2018:

(RON)	2017		2018	
	min	**max**	**min**	**max**
Claims over credit institutions	0.50%	2.60%	2.15%	3.45%
Public instruments, bonds and other fixed-income securities	0.51%	4.86%	1.25%	5.47%

(RON)

As at 31 December 2017	Up to 3 months	Between 3 months and 1 year	Over 1 year and up to 5 years	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 assets	603,899	-	-	603,899
Prepaid expenses and committed revenue	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 at 31 December 2018	Up to 3 months	Between 3 months and 1 year	Over 1 year and up to 5 years	Total
Cash	9,672	-	-	9,672
Current accounts	1,244,887	-	-	1,244,887
Claims over credit institutions	1,007,949,603	275,627,528	-	1,283,577,131
Public instruments, bonds and other fixed-income securities	821,392,659	2,594,801,557	2,170,175,068	5,586,369,284
Other assets	679,568	-	-	679,568
Prepaid expenses and committed revenue	3,657,260	738,276	-	4,395,536
Total assets	**1,834,933,649**	**2,871,167,361**	**2,170,175,068**	**6,876,276,078**
Other liabilities	1,043,487	-	-	1,043,487
The deposit guarantee fund	5,577,639,470	-	-	5,577,639,470
The bank resolution fund	1,142,646,751	-	-	1,142,646,751
Total liabilities	**6,721,329,708**	**-**	**-**	**6,721,329,708**
Liquidity surplus/(needs)	**(4,886,396,059)**	**2,871,167,361**	**2,170,175,068**	**154,946,370**

Long- and short-term securities

As at 31 December 2017	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 2018	Total
Titluri pe termen lung, din care:	**4,563,116,416**
Government bonds	3,383,156,565
Corporate bonds	1,179,959,851
Short-term securities, of which:	**1,023,252,868**
Government bonds and treasury bills	621,840,584
Corporate bonds	401,412,284
Total	**5,586,369,284**

Bank deposits

As at 31 December 2017	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 2018	Total
Total bank deposits	1,283,577,131
Current accounts	1,244,887
Total bank deposits and current accounts	**1,284,822,018**

b) Market risk

Romania is still a developing economy and there is considerable 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 may have on the Fund's financial position and on the results of its transactions.

c) 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 drop in the value of its RON-denominated net monetary assets is low.

On 31 December 2018, the Fund held cash in hand and in current accounts in EUR totalling the equivalent of RON 1,176 (31 December 2017: the equivalent of RON 2,045), in USD worth the RON equivalent of 2,668 (31 December 2017: the equivalent of RON 5,707) and in other foreign currencies standing at the RON equivalent of 0 (31 December 2017: the equivalent of RON 243). The remaining monetary assets and liabilities are denominated in RON

d) Liquidity risk

The main source of liquidity risk is the mismatch between the maturities of the Fund's assets and liabilities.

To the extent possible, the Fund's strategy seeks to keep liquidity sufficiently high so it may fulfil its obligations as they come due, without incurring losses.

e) Credit risk

Throughout 2018, the Fund gave special attention to the effectiveness of its investments of available financial resources in conditions of higher liquidity and lower risks and in compliance with its 2018 exposure strategy which was approved by the Board of Directors of the National Bank of Romania.

ANNEXES

ABBREVIATIONS

CNSM	The National Committee for Macroprudential Supervision
EBA	The European Banking Authority
EDDIES	The Central Exchange Mechanism between Deposit Guarantee Schemes in the European Union
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.

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.

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.

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.

guarantee ceiling – the maximum coverage level per guaranteed depositor per credit institution

LIST OF FGDB-MEMBER CREDIT INSTITUTIONS AS AT 31 DECEMBER 2018

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.[1]
10. Bank Leumi România S.A.
11. BCR Banca pentru Locuințe S.A.
12. BRD - Groupe Société Générale S.A.
13. CEC Bank S.A.
14. Crédit Agricole Bank România S.A.
15. Credit Europe Bank (România) S.A.
16. First Bank S.A.[2]
17. Garanti Bank S.A.
18. Idea Bank S.A.
19. Libra Internet Bank S.A.
20. OTP Bank România S.A.
21. Patria Bank S.A.
22. Porsche Bank România S.A.
23. ProCredit Bank S.A.
24. Raiffeisen Banca pentru Locuințe S.A.
25. Raiffeisen Bank S.A.
26. UniCredit Bank S.A.
27. Vista Bank (România) S.A.[3]

[1] As at 31 december 2018, the credit institution merged by absorption with Bancpost S.A. (absorbed entity).
[2] Up to 30 October 2018, the credit institution functioned under the name of Piraeus Bank România S.A.
[3] Up to 28 May 2019, the credit institution was registered under the name of Marfin Bank (România) S.A.

DEPOSITS WITH FGDB-MEMBER CREDIT INSTITUTIONS AS AT 31 DECEMBER 2018

Indicator	31 Dec. 2017*	31 Dec. 2018	Difference	
1	*2*	*3*	*4 = 3 - 2*	*5 = 4 / 2 (%)*
1. Number of deposit holders - total, of which:	**15,057,982**	**15,183,071**	**125,089**	**0.8**
• natural persons	14,065,406	14,155,095	89,689	0.6
• legal persons	992,576	1,027,976	35,400	3.6
2. Number of eligible deposit holders - total, of which:	**14,979,812**	**15,105,034**	**125,222**	**0.8**
• natural persons	14,008,512	14,107,271	98,759	0.7
• legal persons	971,300	997,763	26,463	2.7
3. Total deposits (million lei), of which:	**330,530.7**	**345,855.1**	**15,324.4**	**4.6**
• in lei	205,379.7	209,891.3	4,511.6	2.2
• in foreign currency (leu equivalent)	125,151.1	135,963.8	10,812.7	8.6
4. Total eligible deposits (million lei), of which:	**267,811.5**	**290,619.5**	**22,808.0**	**8.5**
% of total deposits	*81.0*	*84.0*	*3.0 p.p.*	
• in lei	174,726.3	185,986.4	11,260.1	6.4
• in foreign currency (leu equivalent)	93,085.2	104,633.3	11,548.1	12.4
5. Natural persons' eligible deposits (million lei), of which:	**159,562.4**	**176,635.8**	**17,073.4**	**10.7**
% of total eligible deposits	*59.6*	*60.8*	*1.2 p.p.*	
• in lei	94,170.3	100,657.5	6,487.2	6.9
• in foreign currency (leu equivalent)	65,392.2	75,978.3	10,586.1	16.2
6. Legal persons' eligible deposits (million lei), of which:	**108,249.1**	**113,983.7**	**5,734.6**	**5.3**
% of total eligible deposits	*40.4*	*39.2*	*-1.2 p.p.*	
• in lei	80,556.0	85,328.8	4,772.8	5.9
• in foreign currency (leu equivalent)	27,693.1	28,654.9	961.8	3.5
7. Total covered deposits (million lei), of which:	**172,670.7**	**189,472.5**	**16,801.8**	**9.7**
% of total eligible deposits	*64.5*	*65.2*	*0.7 p.p.*	
• natural persons' covered deposits	142,695.0	156,204.4	13,509.4	9.5
• legal persons' covered deposits	29,975.6	33,268.1	3,292.5	11.0

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

* Final data updated after a verification of the calculation base for the contributions owed by credit institutions in 2018.