FGDB

FONDUL DE GARANTARE A DEPOZITELOR BANCARE

BANK DEPOSIT GUARANTEE FUND

2020 ANNUAL REPORT

FGDB ANNUAL REPORT 2020

NOTE

The *Annual Report for 2020* received the endorsement of the Supervisory Board of the Bank Deposit Guarantee Fund (FGDB) in its meeting of 27 April 2021 and was subsequently approved by the Board of Directors of the National Bank of Romania during a meeting held on 18 May 2021, in compliance with Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund.

The statistical data used in this report are data which were available on 31 December 2020. As a result of rounding, totals may not fully correspond with the sum of the separate figures and, also, small differences as to percentage variations in the graphs and tables may occur.

Sources were specified only when the respective statistical data had been provided by other institutions.

BANK DEPOSIT GUARANTEE FUND

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2020 ANNUAL REPORT

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MISSION

The primary mission of the FGDB in its capacity as Romania's officially recognised statutory guarantee scheme, is to safeguard deposits. In the event of unavailability of deposits held with an affiliated credit institution, the FGDB pays out guaranteed depositors, in line with legal provisions.

The FGDB is the administrator of the bank resolution fund and may also fulfil a number of duties related to the measures the National Bank of Romania takes towards the recovery and resolution of credit institutions: temporary administrator of credit institutions undergoing recovery procedures (early intervention), special administrator of credit institutions under resolution, shareholder of a bridge bank or of an asset management vehicle, in compliance with legislation on the recovery and resolution of credit institutions.

The FGDB also acts as sole liquidator of credit institutions where liquidation is either initiated by shareholders or follows a decision by the National Bank of Romania.

VALUES
shared and promoted by FGDB

The FGDB, by offering assurance of the safety of natural and legal persons' deposits, contributes both to maintaining depositor confidence in the financial and banking system, which is a key element of financial stability, and to encouraging savings.

The FGDB treats all depositors and all member credit institutions with due respect, thoughtfulness, and professionalism.

The FGDB is an apolitically, financially autonomous institution whose running costs are paid exclusively with revenues resulting from investments of the available financial resources of the deposit guarantee fund and of the bank resolution fund, which are both composed of contributions from affiliated credit institutions.

The FGDB's staff are responsible individuals of great integrity who direct all their knowledge and skills towards fulfilling the FGDB's mission and managing its resources in keeping with legal provisions and the principles of professional ethics.

SUPERVISORY BOARD

Chairperson

Lucian Croitoru
Advisor to the Governor
The National Bank of Romania

AUDIT COMMITTEE

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

Dumitru Laurențiu Andrei
Secretary of State
The Ministry of Finance

Demetrian Octav Magheru
Strategy Consultant
The National Bank of Romania

Anca Florina Iordache
General Director
The Ministry of Finance

Cătălin Bogdan
Expert
The National Bank of Romania

Lucia Sanda Stoenescu
Senior Expert
The National Bank of Romania

ORGANISATIONAL CHART

EXECUTIVE BOARD

General Director

Petre Tulin

Deputy General Director

Adriana Sîvu

Financial Director

Vasile Bleotu

Project Management Advisors

Legal Department and Supervisory Board's Secretariat

Treasury Subdivision

Organisation and Human Resources Subdivision

Public Relations and Communication Subdivision

Information Technology Subdivision

Deposit Guarantee, Bank Resolution and Liquidation Department

Deposit Guarantee Subdivision

Bank Resolution and Liquidation Subdivision

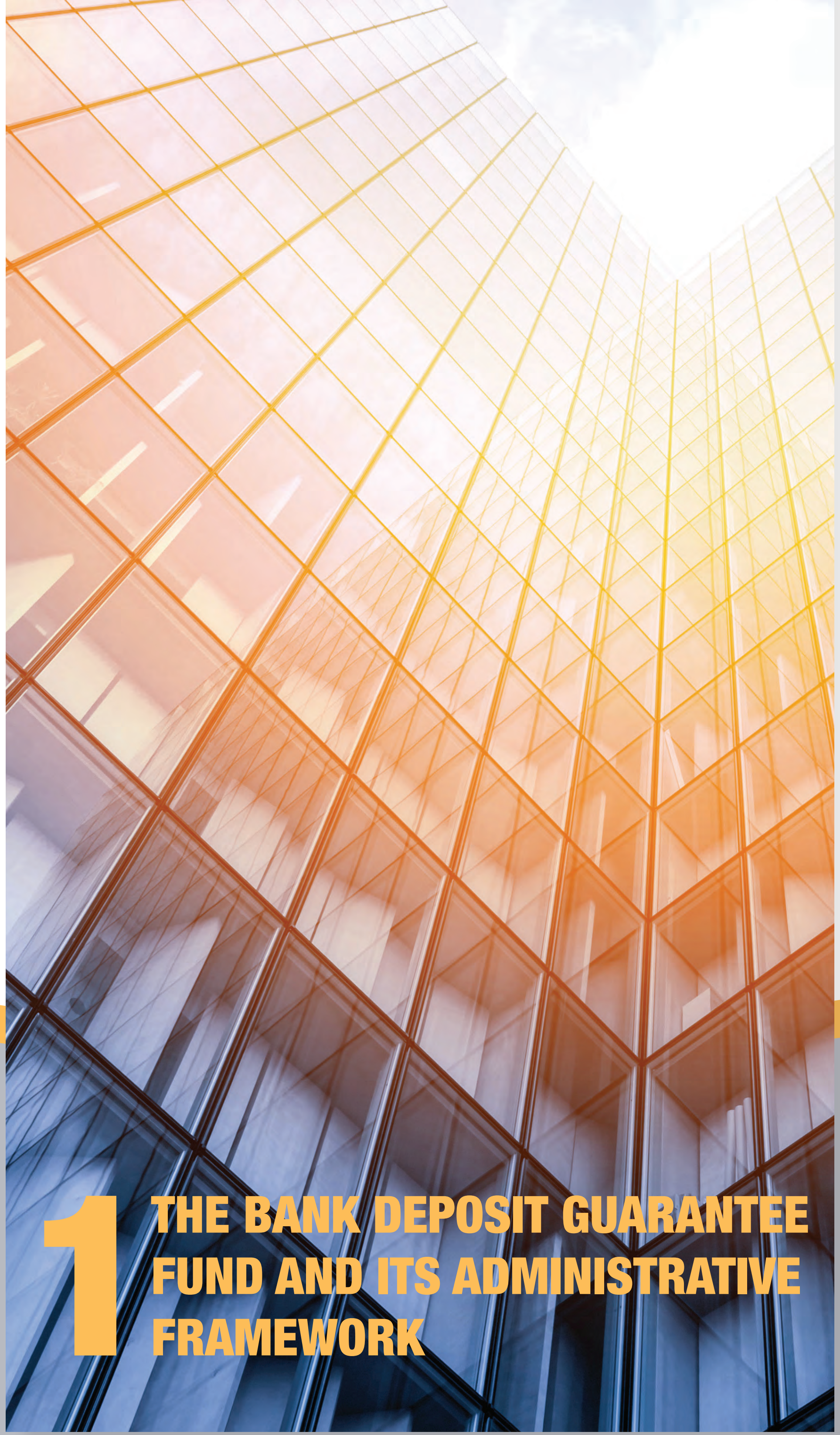
Risk Management and Financing Policies Department

Finance and Accounting Department

Administration and Logistics Subdivision

Internal Audit Subdivision

* The Executive Board members' mandates were renewed on December 15th, 2020.



1 THE BANK DEPOSIT GUARANTEE FUND AND ITS ADMINISTRATIVE FRAMEWORK

OVERVIEW

The FGDB is Romania's sole statutory deposit guarantee scheme[1] whose key responsibility under the law is to guarantee the deposits which individuals and legal persons hold at credit institutions authorised by the National Bank of Romania.

A classification of deposit guarantee schemes according to their mandates puts the FGDB into the category of schemes with a more comprehensive mandate of duties and responsibilities[3].

Throughout the FGDB's 25 years in operation, its role within the national system of safeguarding financial stability has expanded and consolidated gradually, allowing the institution to turn from a scheme in charge of merely reimbursing depositors into a scheme with increased responsibilities in managing the bank resolution fund, a task it assumed following the incorporation into national legislation of the European framework for the recovery and resolution of credit institutions[2] and the application of bank recovery (early intervention) and resolution measures.

Besides performing its functions related to deposit guarantee and management of the bank resolution fund, the FGDB may also engage in activities whereby the National Bank of Romania applies early intervention and bank resolution measures, in which case it acts as:

- temporary administrator of a credit institution where early intervention measures are applied;
- special administrator of a credit institution undergoing resolution procedures;
- shareholder of a bridge institution;
- shareholder of an asset management vehicle.

Owing to its contribution to maintaining financial stability, in conformity with the responsibilities assigned under current legislation, the FGDB also enjoys observer status in the National Committee for Macroprudential Supervision which consists of representatives of the National Bank of Romania, the Financial Supervisory Authority, and the Government[4].

The range of the FGDB's duties also includes its intervention as sole liquidator in the administrative liquidation of a credit institution where the National Bank of Romania orders dissolution followed by liquidation or where liquidation is initiated by shareholders. The FGDB will continue to act as liquidator of *Banca Română de Scont SA (BRS)* and *Banca Turco Română SA (BTR)*, in accordance with a court appointment made in 2002 in line with legislation in force at that time. The FGDB will act in its capacity as court-appointed liquidator only until liquidation proceedings for the two failed banks have been completed[5].

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[1] Under *Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund*, which came into effect on 14 December 2015 transposing into national legislation *Directive 2014/49/EU on deposit guarantee schemes.*

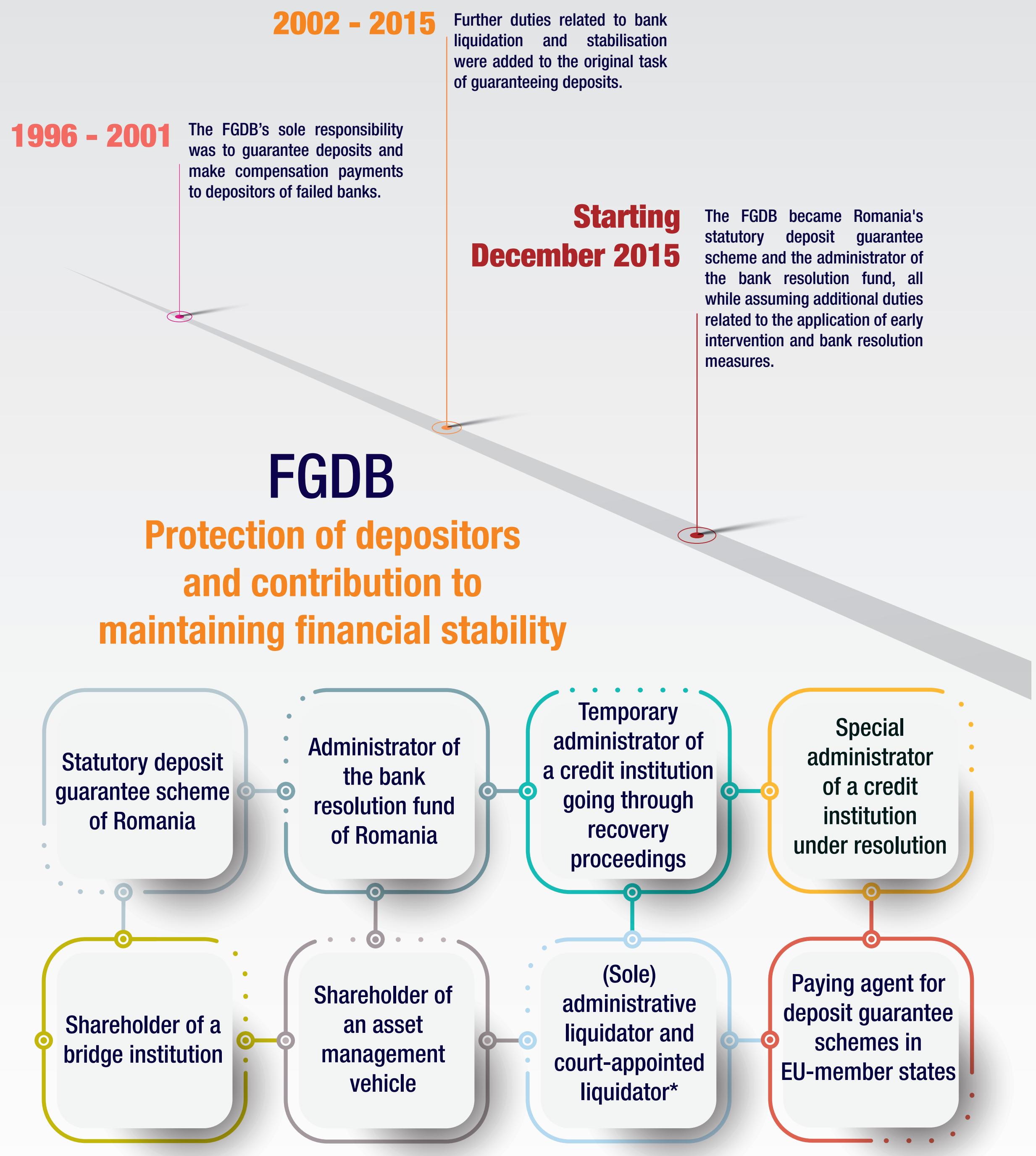
[2] *Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms and amending and complementing legal acts in the financial sector* which transposed into national legislation *Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU of the European Parliament and of the Council*, as well as *Regulations (EU) no. 1093/2010 and (EU) no. 648/2012 of the European Parliament and of the Council.*

[3] Depending on their mandates, deposit guarantee schemes may be of the paybox type, exercising only their basic function, namely disbursement of pay-outs, or of the paybox plus type, fulfilling additional functions besides the basic one as far as bank resolution is concerned.

[4] For further details, see Chapter 2, the section on *Cooperative Relations at the National Level.*

[5] Under legislation currently in effect, which has governed its activity starting 14 December 2015, the FGDB may no longer act as court-appointed liquidator of credit institutions.

The Aim and Functions of the FGDB



* until ongoing liquidation procedures are finalised.

As part of its cooperative ties with deposit guarantee schemes in the other European Union member states, the FGDB acts as compensation paying agent on behalf of the deposit guarantee schemes in the home member countries of the credit institutions that opened branches in Romania. Along this line, the FGDB is a signatory to the *Multilateral Cooperation Agreement* between deposit guarantee schemes within the European Union[6].

Within the framework of cooperation among deposit guarantee schemes operating in the European Union to provide the infrastructure required by cross-border repayments and secure information exchanges during the payout process, since 2018 the FGDB has been a participant in the *EDDIES*[7], a central secure mechanism for the exchange of files between member states, whose ability to perform cross-border file transmission has been tested multiple times.

Despite the challenges posed by the COVID-19 pandemic which also impacted the economic and financial sectors, Romania's financial and banking system remained free of disturbances in 2020, making both recovery and resolution measures, as well as payouts unnecessary. Consequently, all through 2020, the FGDB further concentrated its activities on consolidating its operational framework and completing its procedural framework to be able to establish new standards in the process of fulfilling its three main duties:

a) to guarantee deposits held at credit institutions under its remit;
b) to manage the bank resolution fund;
c) to complete procedures towards the court-supervised liquidation of the two failed banks where it still acts as liquidator.

a) Guaranteeing deposits held at affiliated credit institutions

(i) The coverage level provided by the FGDB

Deposit guarantee means the protection the FGDB offers to depositors' savings at credit institutions authorised by the National Bank of Romania. When a credit institution is unable to reimburse depositors and their deposits thus become unavailable, the FGDB will make compensation payments to guaranteed depositors. Depositor coverage is limited to 100,000 euros, converted into the leu national currency on the date of deposit unavailability[8], and reimbursements are to be paid within seven business days[9] at the most of the date deposits were determined unavailable, which represents the shortest repayment period agreed across the European Union.

According to current legislation, natural persons holding certain categories of deposits may benefit from a temporary higher coverage level[10], as distinct from the guaranteed compensation. This improved coverage amounts to the leu equivalent of 100,000 euros, as set by the National Bank of Romania in line with the evolution of relevant statistical indicators[11].

[6] The *Multilateral Cooperation Agreement* was developed by the European Forum of Deposit Insurers and confirmed by the European Banking Authority. The FGDB signed a letter of adherence to the Agreement as early as the autumn of 2016.

[7] EDDIES - European DGS to DGS Information Exchange System. For further details, see Chapter 2 – *The 2020 Background and Regulatory Framework.*

[8] The 100,000-euro deposit coverage per guaranteed depositor per credit institution applies in all European Union member states and Romania implemented it at end the end of 2010.

[9] European Union member states must implement the pay-out deadline of seven working days by 2024. Romania has been observing this repayment period since end-2015 following the transposition into national legislation of *Directive 2014/49/EU on deposit guarantee schemes.*

[10] The Temporary High Balances apply 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.

[11] *Circular no. 24 of 29 December 2016 on the guarantee level set forth at Article 62 (1) of Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund,* which came into force on 10 January 2017.

Relevant Data as at 31 December 2020

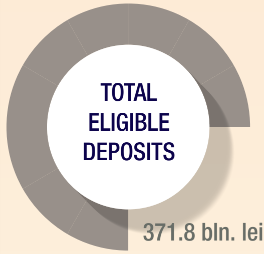
GUARANTEE CEILING *for natural persons and legal entities*

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

HIGHER COVERAGE LEVEL *for natural persons*

The leu equivalent of 100,000 euros

Pursuant to Article 62 of Law no. 311/2015 on deposit guarantee schemes and the Bank Deposit Guarantee Fund, the FGDB offers an improved coverage level.



371.8 bln. lei

ELIGIBLE DEPOSITS

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

Leu-denominated deposits: 233 bln. lei
Deposits in foreign currencies: the equivalent of 138.8 bln. lei

Natural persons' deposits: 222.5 bln. lei
Legal entities' deposits: 149.3 bln. lei

Deposits of resident natural and legal persons: 360.8 bln. lei
Deposits of non-resident natural and legal persons: 11 bln. lei

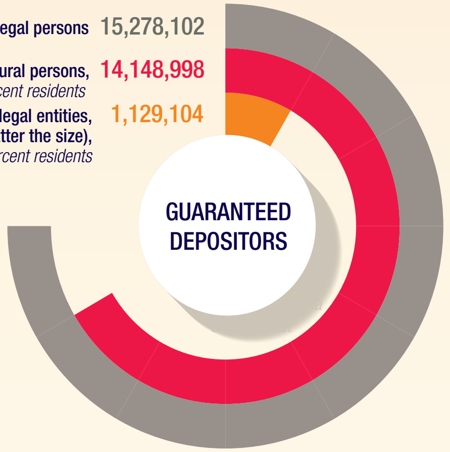
PAYOUT PERIOD

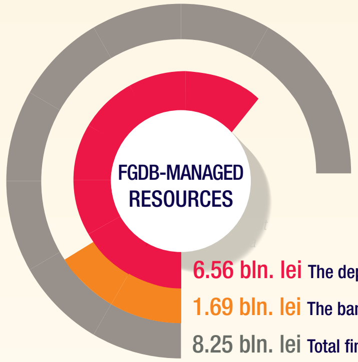
The FGDB is one of the European Union's deposit guarantee schemes to reimburse depositors over the shortest period, that is within seven working days.

Natural and legal persons 15,278,102

Guaranteed natural persons, *of which 98.9 percent residents* 14,148,998

Guaranteed legal entities, (all enterprises, no matter the size), *of which 98.8 percent residents* 1,129,104





6.56 bln. lei The deposit guarantee fund
1.69 bln. lei The bank resolution fund
8.25 bln. lei Total financial resources

FGDB-MEMBER CREDIT INSTITUTIONS

All the credit institutions authorised by the National Bank of Romania, which totalled 26 at the end of 2020. *(N.B. Branches in Romania of credit institutions based in other European Union member states are affiliated to the schemes operating in their home countries).*

At the end of 2020, as many as 14,148,998 natural persons and 1,129,104 legal entities[12] held deposits qualifying for the FGDB's guarantee. Most of the depositors benefit from full FGDB coverage as they hold deposits below the guarantee ceiling (99.7 percent in the case of natural persons and 96.8 percent in the case of legal entities). Where deposits exceed 100,000 euros, the FGDB's reimbursements are limited to the coverage level.

Eligible deposits at end-2020 stood at 371.8 billion lei, with 65 percent of that amount – that is, 241.6 billion lei – being accounted for by covered deposits[13]. Both eligible and covered deposits continued the upward trend of previous years posting year-on-year increases of 14.8 percent and, respectively, 14.7 percent.

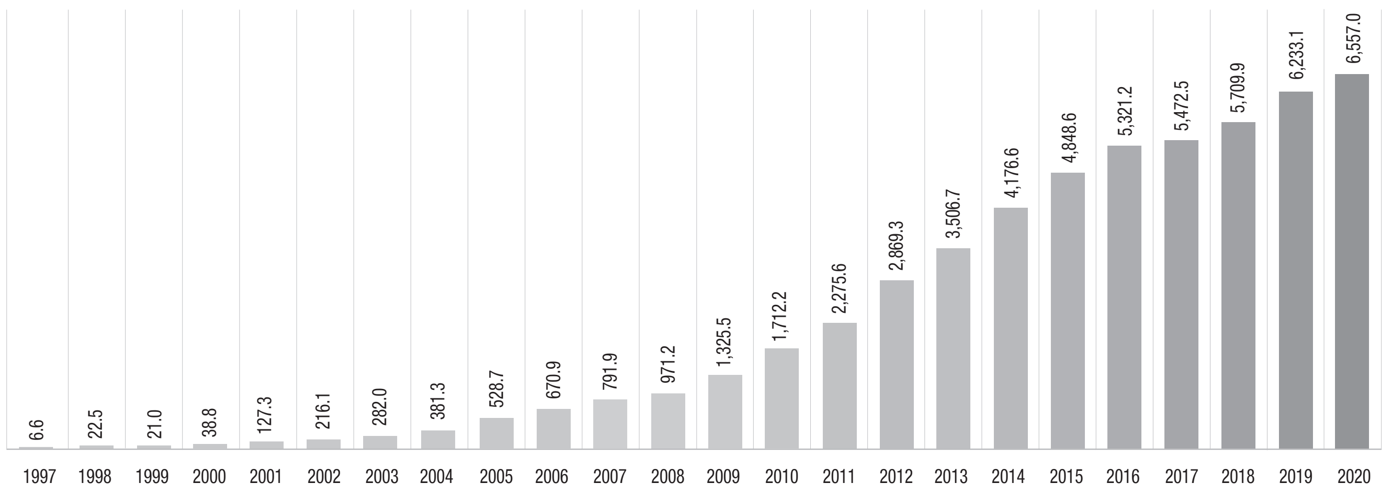
The 2020 upturn was a result of the positive evolution of all components – eligible deposits denominated in the leu and in foreign currencies, held by individuals and legal persons, which were up to or above the guarantee ceiling.

(ii) The deposit guarantee fund

The policy aimed at consolidating the deposit guarantee fund, which has a direct impact on the safeguarding of financial stability, remained one of the FGDB's priorities in 2020. The FGDB, with the approval of the Board of Directors of the National Bank of Romania, determines the amounts member credit institutions contribute to the deposit guarantee fund and these contributions may differ depending on associated risk[14].

Evolution of the Deposit Guarantee Fund from Its Creation to 31 December 2020

million lei; end-period



[12] The FGDB adds up data on the number of depositors as reported individually by each member credit institution, but it does not have the possibility to make adjustments where the same depositor holding deposits at different credit institutions is recorded several times.

[13] "Eligible deposit" and "covered deposit" are defined in Annex. 2 – *Definitions*

[14] The method for determining contributions was developed according to the European Banking Authority's *Guidelines on methods for calculating contributions to deposit guarantee schemes* and is included in *Regulation no. 2/2016 on the calculation and payment of risk-based contributions to the Bank Deposit Guarantee Fund*, with subsequent amendments and completions.

At end-2020, the deposit guarantee fund totalled 6,557 million lei[15], having gained 5.2 percent more resources which added to the level posted at the end of the previous year.

Available financial resources were invested in compliance with an annual strategy endorsed by the FGDB's Supervisory Board and approved by the Board of Directors of the National Bank of Romania, the aims of which are to mitigate risk and secure an adequate liquidity of investments, all while targeting yields as a subsidiary goal.

Under the law, the FGDB channels at least 99 percent of its profit from investments into the deposit guarantee fund to replenish its financial resources.

(iii) Recovery of the FGDB's claims resulting from its payouts

While in operation, the FGDB made compensation payments worth 512.2 million lei to the guaranteed depositors of seven banks which went bankrupt over 1999-2006 and asserted its right of subrogation to the depositors' rights, thus becoming a creditor of the failed banks.

The FGDB recovered 35.85 percent (183.61 million lei) of its total payouts to guaranteed depositors[16], a recovery ratio that illustrates the shifts in its place on the creditor priority ladder[17] along the years, depending on legislation in effect at the time bankruptcy procedures opened for each of the seven banks[18]. Starting 2001, when the FGDB's claims moved up to the fourth ranking in the order of payment (after having been previously classified as unsecured claims), the recovery ratio of claims arising from payouts has stood at 100 percent.

b) Managing the bank resolution fund

Following the incorporation into national legislation of the European framework for the recovery and resolution of credit institutions back in 2015, the FGDB was designated as the administrator of the bank resolution fund of Romania[19], which is designed to finance the resolution measures which the National Bank of Romania, as the resolution authority, decides.

Over 2011-2015, credit institutions paid fees to the two funds that preceded the current bank resolution fund, namely the special compensation fund and the bank restructuring fund, in the form of fixed annual global amounts calculated as a percentage (of no more than 0.1 percent) of their non-guaranteed liabilities. Starting 2016, the National Bank of Romania, as the resolution authority, has been determining the risk-adjusted contributions credit institutions pay to the bank resolution fund (which incorporated the resources of the two previously mentioned funds) and has also decided on the use of the financial resources of this fund in the application of various resolution tools.

[15] This amount also includes the portion of the 2020 profit capitalised once the financial statements were authorised.

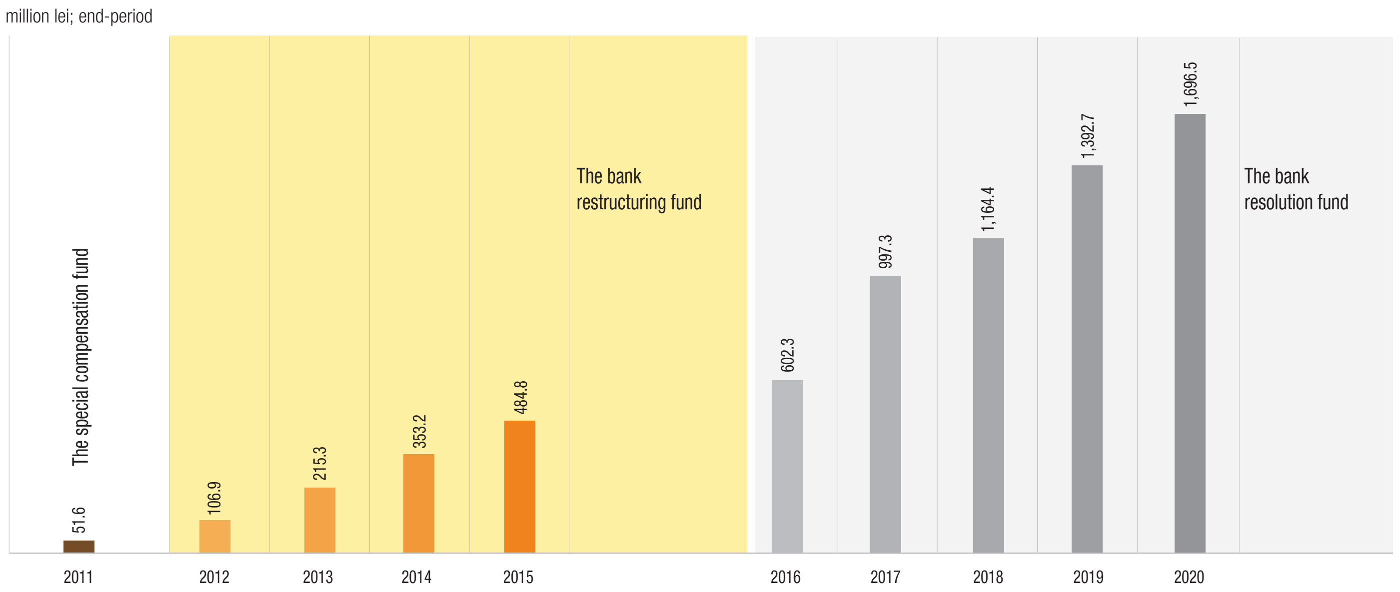
[16] See Chapter 5 – *Liquidation of Failed Banks.*

[17] The recovery ratio ranges from 25.9 percent to 40.3 percent in the case of the banks that failed before 2001 and of 100 percent in the case of two banks – *BRS* and *BTR* – that filed for bankruptcy in 2002.

[18] The FGDB's claims resulting from compensation payments were initially classified as unsecured claims according to the order of payment of claims stipulated by the general insolvency framework (*Law no.64/1995*). In October 2001, the bank failure framework *(Law no. 83/1998)* was amended and an order of payment of claims specific to banks was introduced, which allowed the FGDB's claims to move into fourth place, a ranking equal to that held by budgetary claims. At present, in compliance with the *Insolvency Code – Law no. 85/2014 on insolvency prevention procedures and on insolvency proceedings*, with subsequent amendments and completions, the FGDB's claims resulting from pay-outs (as well as from funds allotted to resolution measures) fall into the second class, ranking ahead of budgetary claims which stay on the fifth position on the priority list.

[19] The bank resolution fund was created based on *Law no. 312/2015* by taking over the financial resources of the bank restructuring fund which was set up in in 2012 by taking over the resources of the special compensation fund established in 2010 to compensate persons adversely affected by measures implemented during the special administration of credit institutions.

Evolution of the Bank Resolution Fund from Its Creation to 31 December 2020



On 31 December 2020, the financial resources of the bank resolution fund amounted to 1,696.5 million lei[20], showing a 21.8 percent rise year on year. The FGDB has managed the financial resources of this fund from the very beginning and, to date, there has been no need to resort to these resources which, consequently, have increased with every passing year.

As in past years, the financial resources of the bank resolution fund were invested in keeping with a strategy approved by the Board of Directors of the National Bank of Romania. The main goals were identical to the ones pursued in the case of the deposit guarantee fund, namely lower risk and appropriate liquidity, as well as yields as a related target.

At least 99 percent of the profit arising from the administration of the bank resolution fund is intended to top up the fund's financial resources, just as 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 2020, the FGDB continued its activity as court-appointed liquidator of *BRS* and *BTR*, a position it has held since 2002 when the two banks declared bankruptcy.

As part of liquidation procedures, further steps were taken in 2020 to recover the claims against the two banks and to capitalise *BRS*'s assets. Throughout the period of liquidation proceedings until 31 December 2020, funds were distributed to 47 percent of the body of creditors of *BRS* (the highest percentage of satisfaction of creditors of failed banks), and, respectively, to 41 percent of the body of creditors of *BTR*[21].

[20] Just as with the deposit guarantee fund, this amount also includes the portion of the 2020 profit capitalised once the financial statements were authorised.

[21] For further details on the court-supervised liquidation of *BRS* and *BTR* see Chapter 5 – *Liquidation of failed banks.*

THE FGDB'S ADMINISTRATION AND MANAGEMENT

Pursuant to current legislation, the FGDB's administration and management rely on a dual board structure, with the two tiers represented by the Supervisory Board and the Executive Board.

The exercise of prerogatives related to administration and management is based on principles, mechanisms and standards of good governance, responsibility, and transparency, according to the best practices in this sector, in order to provide for the fulfilment of the FDGB's strategic goals by implementing its strategies and policies.

The constant aim of the specific activities and decisions of both the Supervisory Board and the Executive Board, according to the level of competence of each structure, is to observe the principles of corporate governance with a view to effectively attaining the strategic targets arising from the mandate the FGDB entrusted to them.

In 2020, the FGDB adopted the corporate governance system based on the "Three Lines[22] (*3L*)" model , which makes a significant difference as it clearly defines the roles and responsibilities of management, executive management and internal audit within the internal control system and identifies and outlines a number of key principles.

The Supervisory Board

The Supervisory Board permanently oversees the executive activities which the Executive Board performs within the FGDB on a daily basis. The Supervisory Board is comprised of seven members, of which five (including the Chairperson of the Board) are representatives of the National Bank of Romania and two represent the Ministry of Finance.

All through 2020, following physical distancing recommendations to prevent the spread of the novel coronavirus SARS-CoV-2, the Supervisory Board resorted to video conferencing for its meetings, after correspondingly amending regulations on the organisation and progress of these virtual meetings.

Besides specific, precise actions rendered necessary by the COVID-19 pandemic, the decisions which the Supervisory Board reached in 2020 also covered the FGDB's funding policy, the strategy for investing financial resources, the revenue and expenditure budget, the annual financial statements and the annual activity report, as well as the FGDB's tasks in its capacity as creditor or liquidator of failed banks.

The Audit Committee

The Audit Committee is an independent consultative body consisting of three Supervisory Board members. It carries on its activities in compliance with a set of specific rules[23].

The Audit Committee's aims include improving FGDB's activities by consolidating the corporate governance system, monitoring the effectiveness of the internal control, internal audit and risk management systems, assessing the FGDB's compliance with laws and regulations in its activities, assisting the Supervisory Board in overseeing and supervising the process of preparing and updating the FGDB's general development strategy and appraising and monitoring the extent to which the independence of the statutory auditor or auditing firm is guaranteed.

[22] The "*Three Lines of Defence (3LoD)*" model was promoted in 2013 by the *Institute of Internal Auditors - IIA*, an international professional association which develops standards and guidance in this sector. In July 2020, that model was updated and renamed "The Three Lines (*3L*)" model. A graphic presentation of the updated model, as well as its principles are detailed in the section on the FGDB's internal audit activity.

[23] *Internal regulation on the organisation and operation of the Audit Committee within the Bank Deposit Guarantee Fund*, adopted on 24 November 2016, with subsequent amendments.

Moreover, by monitoring internal audit activities, the Audit Committee also plays a significant role in safeguarding the independence of the internal audit, which represents the third line of the 3L model within the FGDB.

In 2020, the Audit Committee held four virtual meetings which analysed and endorsed documents regulating and planning internal audit activities, the results of the internal audit missions and their performance, as well as regular activity reports.

In the circumstances of the COVID-19 pandemic, the Audit Committee showed growing interest in the impact the measures taken within the FGDB exerted on internal audit activities and on the internal control and risk management systems. Along this line, the Audit Committee requested the internal audit team to assess the steps taken to protect the staff, reduce the risk of virus transmission, and provide conditions for the continuation of activities and processes which are of the essence for reaching FGDB targets.

The Executive Board

The Executive Board runs the FGDB's current activities. The targets, duties and responsibilities of the three Board members, who are designated by the Supervisory Board and approved by the Board of Directors of the National Bank of Romania, are set under the mandates entrusted to them[24].

In 2020, the Executive Board provided for the implementation of the strategies and policies approved by the National Bank of Romania and the execution of the revenue and expenditure budget which, in fiscal year 2020, posted a net profit[25] higher than the year before. As a matter of fact, in recent years, the FGDB has constantly improved its financial performance with its profit going up on a year-on-year basis thanks to an appropriate management of financial resources on the one hand and to measures to keep operating costs below budgeted levels on the other hand.

Furthermore, the Executive Board worked for the consolidation of the operational and procedural frameworks of the FGDB to allow it to adequately fulfil its duties, as they are laid down in legislation and in accord with the highest international standards.

Due to the 2020 pandemic, the Executive Board held most of its meetings via video conferences.

THE FGDB'S MEASURES IN RESPONSE TO THE CHALLENGES OF THE COVID-19 PANDEMIC

The year 2020 brought challenges and uncertainties in the wake of the COVID-19 global pandemic, having a major negative impact on Romania as well. Such circumstances implicitly called for the adoption of measures to protect the FGDB's employees, prevent the transmission of the novel coronavirus and effectively manage associated harmful effects.

From the early signals internationally of an outbreak of the novel virus SARS-CoV-2[26] likely to grow into a pandemic, the FGDB management promptly took measures to prevent the negative health impact of the virus in the workplace: purchase of face masks and disinfectants as early as January-February 2020, an alternative working arrangement implying working in the FGDB's offices

[24] The mandates of the Executive Board members were renewed for a four-year term starting 15 December 2020.

[25] In line with provisions in Article 13, paragraph (2), point e) of *Law no. 227/2015 on the Fiscal Code*, the FGDB's profit is tax exempt. For further details on budget execution and the result for fiscal year 2020, see Chapter 7 – *The FGDB's Financial Statements.*

[26] The first cases of SARS-CoV-2 infection were reported in Wuhan, the capital of Hubei province in China, on 31 December 2019. Less than a month later, the first cases of COVID-19 were confirmed in Europe (in France, on 24 January 2020). The virus was confirmed to have reached Romania on 26 February 2020. The World Health Organization declared the coronavirus outbreak a global pandemic on 11 March 2020.

and at home (home-based teleworking), organising teleconferences and video conferences, cancellation of business trips abroad and, participation in professional training courses held only online, regular disinfection of the FGDB's office spaces.

As Romania started to feel the increasingly severe impact of the COVID-19 pandemic, the FGDB management expeditiously adopted adequate measures in response to the overall epidemiological context and to the palpable effects of the pandemic on the specific activities of the FGDB. As part of these measures, the provisions under the Business Continuity Plan (BCP) were reanalysed in point of scope and effectiveness, which led to an update of the BCP in March 2020 to include a section on epidemics/pandemics and the concomitant application of the envisaged measures to protect the staff and provide for operational continuity within the FGDB.

Listed below are the key actions the FGDB's Executive Board and Supervisory Board took to mitigate the adverse impact of the COVID–19 pandemic:

providing for business continuity by:

- purchasing equipment/licences to allow for the run of basic operations (treasury operations, possible payouts, management of specific risks, the annual control of the accuracy of the data participating credit institutions report, as well as compliance with legal provisions concerning the information of depositors) by remote access to the FGDB server and the use of digital signatures;
- introduction into the BCP of a section referring to the framework needed to provide for the smooth run of FGDB activities in case of extended epidemics;
- issuing and periodically updating guidance on the application of health measures to protect employees in order to reduce the risk of staffing shortages in the circumstances brought about by the COVID-19 pandemic;

adequately managing financial resources, with emphasis on:

- increasing monthly liquidity to a minimum level of 20 percent, as against a minimum 10 percent stipulated in the strategy for investing the FGDB's financial resources in 2020, and also raising the percentage of investments with remaining maturity of one year or less to a minimum 40 percent, as compared to a minimum 35 percent in the 2020 strategy;
- investing in fixed income securities (government securities and corporate bonds) with maturities of two years or less (especially financial instruments falling into the "available for trading" category) to mitigate the risk of significant valuation adjustments when the respective financial instruments were to be reassessed in the event of major market fluctuations leading to substantial rises in interest rates and bearing negatively on prices;
- identifying counterparties whose rating was at least two notches higher that the minimum level set out in the strategy for investing the FGDB's financial resources in 2020;
- further lowering the FGDB's exposure to credit institutions affiliated to its deposit guarantee scheme;
- concluding further repo agreements affording the FGDB more flexibility in managing liquidity[27]; by end-2020, the FGDB had five such agreements, as against just one in December 2019.

Thanks to the application of the aforesaid measures, throughout 2020 there was no disruption in the FGDB's activities and, with safety and performance requirements fully met, all responsibilities were fulfilled just as in normal circumstances.

[27] At the end of 2019, the FGDB had only one repo agreement. Another four such agreements were signed during 2020. The FGDB concluded the five repurchase agreements with Banca Transilvania (in 2019), Banca Comercială Română SA, BRD-Groupe Société Générale, Citibank Europe plc, Dublin – the Romania branch and UniCredit Bank SA (in 2020). At the same time, the FGDB approached the relevant institutions (the Ministry of Finance and the National Bank of Romania) in connection with amendments to Law no. 311/2015 so as to allow access the *repo* facilities of the central bank, according to the opinion of the European Central Bank of 26 October 2020 (CON/2020/24).

THE FGDB'S ACTIVITIES IN 2020

In 2020, activities within the FGDB focused on the institution's five strategic goals for the 2018-2020 period, which are synthetically outlined below and detailed in relevant sections.

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

Providing adequate financing to both the deposit guarantee fund and the bank resolution fund is a major preoccupation for the FGDB. To this end, the FGDB promotes a funding policy the constant aim of which is to secure the financial resources needed for the fulfilment of the responsibilities laid down in legislation, all while complying with an investment strategy based on an adequately diversified, low-risk portfolio. This funding policy has resulted in constant rises in the financial resources of both funds. Moreover, in 2020 further steps were taken to prepare and operationalise alternative funding mechanisms.

To consolidate the FGDB's operational capability

The attainment of an adequate operational capability to enable the fulfilment of the duties specified in legislation is a pivotal goal for the FGDB. Along this line, work in 2020 concentrated mainly on the staff's health and safety given the health crisis Romania had to cope with in the wake of the COVID-19 pandemic, the smooth implementation of an integrated IT system, the direct contribution to the preparation and promotion of a bill to amend Law no. 311/2015, and on faster steps towards the opening of a secondary location and of a data recovery centre complying with the requirements set down in the BCP in point of both the IT and communication infrastructure and the employees' health and safety.

Brought into sharp focus was also the integrated IT system project and steps were taken to carefully monitor each stage of project development and, where possible, to speed up specific activities and processes.

The updated specific provisions laid down in the BCP, along with the recently introduced stipulations proved their adequacy in the management of pandemic-related situations. Equally adequate were the business continuity measures the Executive Board and the Supervisory Board adopted, based on the respective provisions, which spared the FGDB's operational capability the adverse impact of the COVID-19 pandemic.

To develop the risk management function

Risk management followed the guidelines set under the *Strategy for Managing Significant Risks*, which was updated to cover the 2019–2020 period. The main target was to strengthen a caution-oriented risk culture, maintain a low-risk profile, develop a balanced assets portfolio, protect depositors' interests and the available financial resources of both the deposit guarantee scheme and the bank resolution fund and ensure compliance with applicable regulations and legislation.

In the second half of 2020, a new set of *Rules on the FGDB's Internal Control System*, intended to secure a high level of compliance with the provisions laid down in Law no. 311/2015, as well as the rise in the quality of the internal control system and the informative support of the internal control for the executive management, all while providing executive managers with an effective instrument to substantiate their decisions and consolidate the corporate governance system.

To intensify national and international cooperation

In 2020, the FGDB continued its cooperation with the other participants in the financial stability network (the National Bank of Romania and the Ministry of Finance) with the aim of operationalising alternative financing mechanisms, a project it had launched two years previously. Two major lines of action were in focus: (1) further efforts to amend the legislative framework in a bid to complement the infrastructure needed for the fulfilment of statutory duties, especially in terms of lending conditions for government loans or of the government-backed guarantees needed for the precautionary financing the FGDB may get from international financial institutions and (2) further steps towards and negotiations on a contingent financing instrument (*Contingency Financing Agreement*) from the World Bank to meet the FGDB's need for emergency access to funding resources for specific market interventions, in order to finalize the documentation immediately after the updated legislative framework has come into effect allowing the Ministry of Finance to fully guarantee this agreement.

With a view to diminishing the risk arising from a less liquid domestic secondary market for government securities and other fixed-income, low-risk instruments, activities continued for the creation of a regulatory framework allowing the FGDB's access to short-term funding by entering *repo* transactions with the National Bank of Romania based on central bank regulations concerning this type of operations and in compliance with the provisions of Article 123 of the Treaty on the Functioning of the European Union. On 26 October 2020, the European Central Bank delivered a favourable opinion on the FGDB's possible access to short-term *repo* facilities from the National Bank of Romania (CON/2020/24).

Internationally, in 2020, the FGDB attended the virtual meetings of the working groups within the professional associations of which it is a member, namely the European Forum of Deposit Insurers (*EFDI*) and the International Association of Deposit Insurers (*IADI*). Furthermore, the FGDB took part in all six online meetings of the Banking Union Working Group which conducted a detailed analysis of a bill on the European Deposit Insurance Scheme (*EDIS*) and related developments.

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

Under the impact of the COVID-19 pandemic, the year 2020 was altogether atypical in point of social and economic life. It was also a year like no other in point of communication in general and of the FGDB's communication with depositors in particular. In line with the overall trend, the FGDB migrated to online services to inform depositors, paralleled by phone communication, constant updates of its website and online campaigns to inform and educate the public, which resulted in a growing number of visitors to the FGDB's website – almost twice as many as in 2019 (12,000 versus 6,900).

Given the circumstances brought about by the COVID-19 pandemic, as well as the further challenges and uncertainties it will trigger worldwide and the significant impact it will have on Romania as well, the FGDB decided to temporarily suspend the preparation of multiannual plans, opting instead for short-term actions, to be pursued in 2021 alone. The return to multiannual activity plans will be possible when there will be more analysis elements, as well as greater predictability will be in place.

THE FGDB'S RISK MANAGEMENT FRAMEWORK

Risk management is one of the FGDB's strategic activities and it complies with the guidelines set under the risk management strategy and policies approved by the Supervisory Board.

The FGDB's development as an organisation and the ineluctable changes in internal and external factors which exert an influence on its activities call for continuous monitoring of the evolution of the risk profile and for an adequate adjustment of risk management policies and strategy. Seen from this angle, due to the crisis caused by the pandemic, the year 2020 generated additional challenges which tested the FGDB's resilience. The application of the BCP adapted to a pandemic proved its viability and also showed that the FGDB's risk management system was dynamic, effective and integrated into all processes and activities. The steady improvement of this system will continue to be one of the FGDB's fundamental goals, which it assumes as a prerequisite for the consolidation of its capability to fulfil its statutory duties.

The system covers the whole range of risks to which the FGDB is exposed, as well as the specific processes, applications and procedures in use and includes the duties and responsibilities assigned to each organisational structure and to the risk management function as far as risk management is concerned. This system will be remodelled as the FGDB progresses in the implementation of the integrated IT system which, among other things, will provide for the automation of risk reporting.

Against this background, in 2020, the FGDB revamped the regulatory framework for internal control to be able to optimise and streamline the identification, assessment and treatment of significant risks associated with various activities and offer genuine support to the executive management in their decision making. The implementation of the new regulatory framework for internal control will make a substantial contribution to the consolidation of the governance system within the FGDB.

The main risk categories the FGDB manages with the help of specific instruments and methods are:

credit risk

In its capacity as statutory deposit guarantee scheme and administrator of the bank resolution fund, the FGDB assumes credit risk due to exposures to the eligible counterparties set under its annual strategy for the investment of financial resources. Depending on the nature of the counterparty/issuer, this type of risk is managed by using a system of setting risk limits for credit institutions, categories of credit institutions and other categories of issuers (including international financial institutions). Observance of the 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/issuer/counterparty developments so require.

market risk

The FGDB is exposed to this type of risk when unfavourable movements occur in the price of its financial instruments available for trading, in interest rates and currency exchange rates. For the moment, market risk is monitored by marking to market such tradable instruments as trading securities, by tracking potential losses (*Value at Risk*) and by setting alert and intervention thresholds. The FGDB will expand its market risk management toolbox as its investment portfolio grows more complex and diversifies.

liquidity risk

The essential goals of the FGDB's liquidity risk management policy are: to maintain a minimum monthly level of liquidity from available financial resources, which is recalibrated according to market developments, as well as an adequate volume of trading securities, to preserve a balanced investment structure and to implement/update alternative funding mechanisms for possible contingencies.

In 2020, the FGDB concluded *repo* conventions with several primary dealers with a view to consolidating its capability to monetise its government securities portfolio should the need arise. Following the update of the applicable legislative framework, the FGDB will further work to create the infrastructure that will ease its access to repo transactions with the National Bank of Romania to obtain short-term liquidity, as laid down under the law and in line with relevant European regulations.

In 2020, the FGDB started looking at a new indicator – *Portfolio Duration* – to be applied to its portfolio of financial instruments listed on the stock market. Based on a set of relevant data leading to an adequate calibration, limits will be set on the criteria behind the decision that determines the significance of the indicator – low/medium/high risk – so that it may be included in the calculation of the risk profile.

operational risk

The risk of incurring losses or of failing to reach the estimated profit – which may be triggered by either the use of inadequate or inappropriate processes, systems, and human resources or by external events and actions – is inherent in any of the FGDB's activities. In identifying operational risks and implementing measures to eliminate/reduce them, the FGDB relies on self-assessments of risks incurred and of the controls conducted across its organizational structures.

In 2020, the overall risk profile enhanced as the operational-risk category was expanded to include and increase the visibility of cyber threats and personal data security risks. Measures for risk management and assessment through specific indicators were also prepared for both these risk sub-categories.

A stronger, most effective internal regulatory framework providing for an appropriate management of operational risk, consistent with the good practices developed by other deposit guarantee schemes, will continue to be in the FGDB's focus as a strategically important goal. All this will take a qualitative leap once the integrated IT system has been implemented as the set of operational risk indicators expands and an automated system for data collection and loss events reporting is implemented.

The use of the previously mentioned tools, as well as the degree of their sophistication will correlate with the volume and complexity of activities performed and with the level of exposure to operational risk by applying the proportionality principle.

reputational risk

The goal of the FGDB's reputational risk management policy is to avoid actions that may generate a negative perception on the part of depositors, the public at large and the other institutions within the financial stability network and, equally, to improve the operational framework, update and periodically test the BCP and to conduct stress simulation exercises. Furthermore, the FGDB will promote systematic and open communication with affiliated credit institutions, through the agency of the Romanian Banking Association included.

strategic risk

Strategic risk assessment is part of the strategic planning process. The main potential sources of strategic risk are to be found in the FGDB's strategic plans referring to the coverage target level, organisational development and the strategy for the management of available financial resources. In order to maintain strategic risk levels within pledged limits, the FGDB periodically reappraises its strategic goals in relation to achievements, all while relying mostly on active prevention. 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, plays a significant role in this respect.

The FGDB's management annually sets a target risk profile – the level of which is based on statutory duties and risk appetite – which synthetically expresses the sum total of the risks to which the institution is or will be exposed. The risk profile is assessed periodically based on the evolution of the scores for identified significant risks in order to maintain it in line with the agreed target. In turn, that target is also appraised periodically to determine the extent to which it stays in tune with internal developments and shifts in external factors.

Stress Simulation Exercises

In 2020, the FGDB started implementing the second multiannual programme for stress test exercises, which was prepared according to the *Guidelines on stress tests of deposit guarantee schemes of the European Banking Authority* for the 2020-2022 period.

The FGDB conducted the first exercise under the second multiannual programme over August-October 2020 to test its operational capability to make compensation payments within seven working days as stipulated under legislation in force. Besides the FGDB, the exercise involved institutional participants including the National Bank of Romania and Banca Transilvania SA (as the credit institution mandated to disburse payouts). Representatives of the Ministry of Finance and of the National Bank of Romania also participated as observers.

Compliance with the legal framework applicable to each area of activity was ensured throughout the test exercise which ran in conditions of a nationwide state of alert triggered by the COVID-19 pandemic and with the FGDB staff partially teleworking.

The overall aim of the exercise was to test the FGDB's operational capability during the exceptional times of a pandemic to disburse payouts to guaranteed depositors within seven business days at the most of the date the National Bank of Romania declares the unavailability of deposits at a participating credit institution. This comprehensive goal was broken down into targets specific to each of the institutional participants and regrouped according to theme.

The scenario was based on the determination by the National Bank of Romania of the unavailability of deposits held with a FGDB-affiliated credit institution where covered deposits amounted to around 1.5 billion lei and the number of guaranteed deposits stood at more than 250,000.

The results of the simulation exercise showed that the FGDB had the capability to fulfil its duties and reimburse guaranteed depositors within at most seven business days of the date deposits at a member credit institution had been determined unavailable by an administrative authority even if, due to the pandemic-created situation, some of its current activities were performed by teleworking employees. Based on an analysis of test results, a plan of measures was worked out intended to improve the FGDB's operational capability to fulfil its statutory objective – namely, compensation payments to guaranteed depositors. Provisions under this plan refer mainly to:

- to create an operational framework whereby the FGDB may enter into *repo* transactions with the National Bank of Romania after Law no. 311/2015 has been amended to provide a legal base for this type of operations;
- to implement alternative financing mechanisms (in this case the contingent financing instrument from the World Bank) to give the FGDB access to funding resources, as well as the possibility to optimise financing costs in times of crisis;
- to harmonise the news releases issued by the FGDB and the mandated credit institution, including in less common situations (state of alert/emergency) when credit institutions may take specific measures which are mandatory for all clients (including depositors entitled to receive compensation);
- to identify, together with the mandated credit institution, a solution allowing depositors to receive compensation other than over the counter, all while observing all transaction and personal data security rules, as well as know-your-customer (KYC) procedures.

The stress simulation exercise highlighted the essential need for the FGDB to develop and implement a digital solution for disbursements to depositors using a dedicated web platform. The FGDB has already started working on this project, but its completion depends on both amended legislation to allow of diverse payout methods, and the implementation of the integrated IT system. The report on the results of the simulation exercise was approved by the FGDB's Supervisory Board and was submitted to the Board of Directors of the National Bank of Romania for their information.

With a view to expanding its operational capability to make compensation payments, the FGDB continued to test the capacity of member credit institutions to prepare the *Payout List* on a date other than the last day of a calendar month and to meet the deadline for submission, as stipulated by operative regulations.

In 2020, an EDDIES connectivity simulation test was performed on the secure exchange of files between the FGDB and the other guarantee schemes in the European Union during a cross-border payout process. The test confirmed the FGDB's capability to take on any of the *Home/Host roles.*

Testing the Business Continuity Plan

Early in 2020, once reports emerged that the outbreak of coronavirus infection might spread across Romania, the FGDB started reviewing the mechanism that ensures the continuity of its operations, concentrating on pandemic (epidemic) risks and, implicitly, on procedures required in such situations to keep the staff safe and business going and maintain intact its capability to fulfil its statutory obligations towards depositors.

In response to the increasing number of confirmed COVID-19 cases nationwide and the changes required at the operational level (mainly, employees performing their jobs remotely) the BCP was activated, which provided an opportunity to assess the effectiveness and viability of pandemic/epidemic-related decision making. The very small number of confirmed cases among employees (all of them having been infected outside of work) and the fact that operations continued uninterrupted, while the quality standards of processes and results were maintained, proved that the BCP provisions had been reviewed and implemented in an adequate manner.

INTERNAL AUDIT WITHIN THE FGDB

The Internal Audit Department performs the internal audit function within the FGDB. With the Supervisory Board coordinating and the Audit Committee overseeing the activities of this department, its independence and objectivity, as laid down in the regulatory framework for internal audit, are guaranteed.

The aim of the internal audit function is to improve management within audited structures by independently and objectively examining risk management, internal control and governance processes within the FGDB.

For the duration of their missions, the internal audit team assesses identified risks, discerns causes, determines possible consequences, and makes appropriate recommendations for their correction. Their recommendations were economically feasible and, on that account, may be implemented and applied with financial/human/logistic costs commensurate with their contribution to streamlining FGDB activities.

The internal audit team's missions all through 2020 concentrated on assessing the management of the IT system and of human resources, the organisation and management of accounting processes and of financial reporting and on testing the FGDB's capability to raise funds in the event of a payout. During these missions, the internal audit team stayed focused on formulating opinions and recommendations likely to enhance the efficiency and effectiveness of processes in order to make better use of material and human resources, thus contributing significantly to improving processes and increasing employee accountability. The Internal Audit Department constantly monitors the progress made in implementing the recommendations formulated during the internal audit missions, thus helping to consolidate the internal control system within the FGDB.

The Internal Audit Department adapted to the new global situation generated by the COVID-19 pandemic, saw to it that specific processes continued uninterrupted and maintained permanent dialogue with Audit Committee members. Internal audit methodologies in use were adjusted in such a manner that the quality of the results remained undiminished.

Resorting to specific tools, the internal audit function helped to boost the efficiency and effectiveness of assessed processes. Progress was made in optimising the risk management, internal control and governance systems which are intended to support the fulfilment of the FGDB's main goals related to depositor protection and the guarantee of financial stability. The regulatory framework and the evolution of good practices in internal audit, along with the related legislation and standardisation frameworks/structures, represented a constant focus for the Internal Audit Department. Along this line, it took the necessary steps leading to adherence to the best practices in internal audit, which have always been a major preoccupation.

A concrete example in this respect is the "Three Lines of Defence (*3LoD*)" model, which was updated in July 2020 by the *Institute of Internal Auditors – IIA*, an international professional association which develops standards and guidance in this sector. The revised version, named "The Three Lines (*3L*)" model, aims to provide an integrated, updated approach to risk management, internal control, collaboration, communication and responsibilities across an organisation. The significant change resides in the clearly delineated roles and responsibilities of the governing body, management, and internal audit, with emphasis on the demarcation between internal audit and the other functions and on its specific contribution through assurance and consulting missions.

This delineation of roles and responsibilities does not imply isolation of the structures performing them; quite on the contrary, there needs to be a regular interaction between internal audit and management (both first- and second-line roles), as well as collaboration and communication between these two roles.

A graphical illustration of the 3L model is presented nearby.

An essential element of the 3L model is the identification and presentation of the six key principles which describe the importance and nature of internal audit independence:

Principle no. 1:

The governance of an organization requires appropriate structures and processes that enable accountability, action and assurance.

Principle no. 2:

The governing body's roles ensure that appropriate structures and processes are in place for an effective governance.

Principle no. 3:

The management's responsibility to fulfil organisational goals comprises both first- and second-line roles. First-line roles are aligned with the provision of products/services to clients and include the roles of the support functions. Second-line roles provide assistance in risk management.

Principle no. 4:

In its third-line role, internal audit offers independent and objective assurance, as well as opinions on the adequacy and effectiveness of governance and risk management. It achieves this through the competent application of systematic and disciplined processes, expertise and insight.

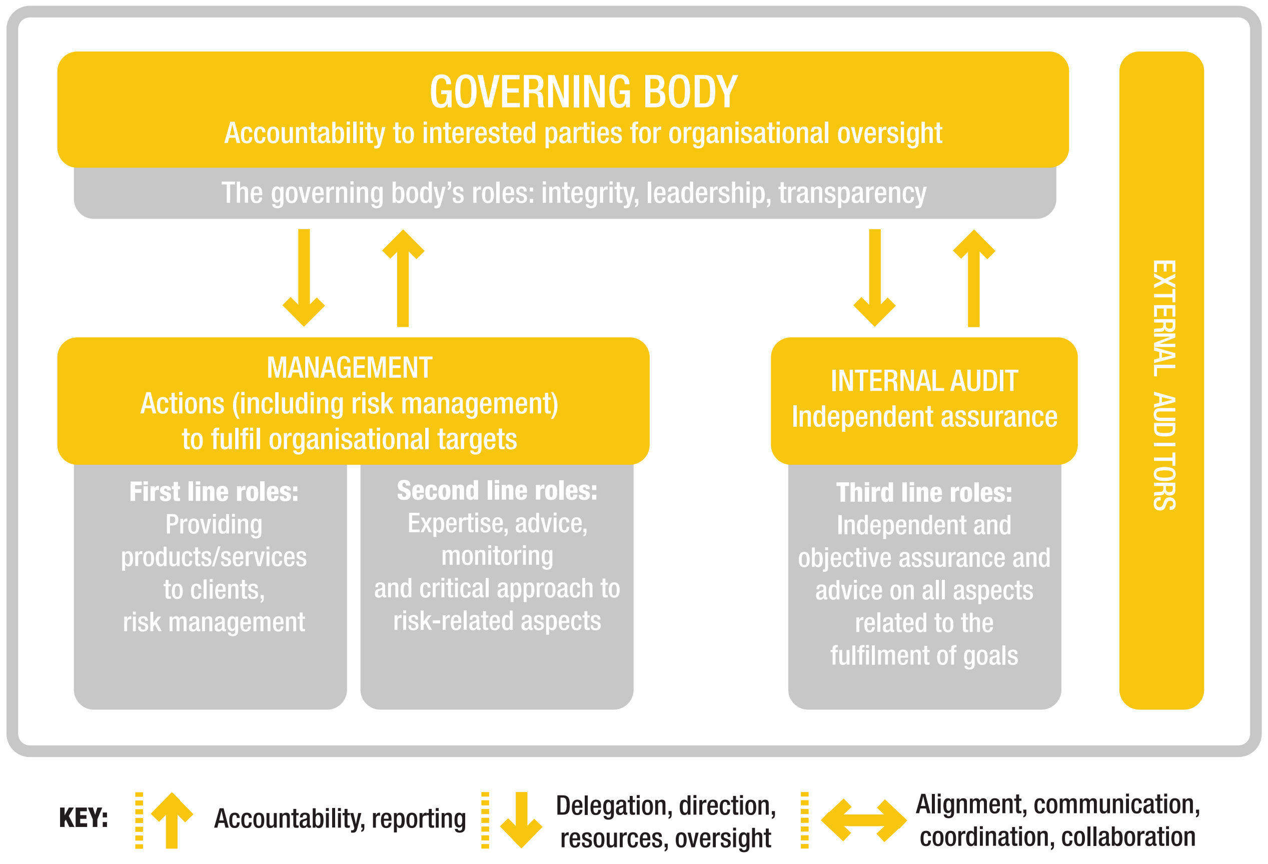
Principle no. 5:

The independence of internal audit from the responsibilities of management is critical to its objectivity, authority and credibility.

Principle no. 6:

All roles working collectively contribute to the creation and protection of value when they are aligned with each other and with the prioritised interests of interested parties.

IIA The Three Lines



The novel 3L version is intended to afford users greater flexibility since the line of demarcation between the governing body, management and internal audit is not rigid. This model clearly shows that *independence does not entail isolation* and highlights the need for *regular interaction between internal audit and management*, as well as for *collaboration and communication* between the two roles. The FGDB applies this model, which has been tailored to fit the organisation's specificity, dimensions, and activities.

INTERNATIONAL FRAMEWORK AND THE FRAMEWORK REGULATING THE ACTIVITY OF DEPOSIT GUARANTEE SCHEMES

Over the years, deposit guarantee activities have expanded and consolidated permanently as awareness of their role in safeguarding financial stability has enhanced.

There are 56 deposit guarantee schemes across the European Union, as some countries (like Germany, Italy, Luxembourg, or Portugal, for example) have in place both statutory/public schemes and private schemes that operate as contractual protection schemes.

The mandates entrusted to guarantee schemes may range from the simple paybox type, which means making repayments if deposits are declared unavailable, to a mandate of extended functions, such as direct involvement in financing and managing the application of resolution measures, in line with decisions made by resolution authorities, and/or in administering various categories of funds (deposit guarantee funds, resolution funds, investor compensation funds).

Furthermore, as financial institutions have increased their cross-border operations, collaboration among all guarantee schemes has become essential for their operation. Such cooperation enjoys the support of the European Forum of Deposit Insurers within the European Union and of the International Association of Deposit Insurers at the global level, the FGDB being a member of both professional bodies.

In order to establish a common regulatory framework for the expanding activities of deposit guarantee schemes, *Directive 2014/49/EU on deposit guarantee schemes* was introduced at the European level. Its provisions were transposed into the national Law no. 311/2015. This Directive repealed the former EU regulatory framework[28] and introduced key novel elements regarding the provision of harmonised, increased protection to depositors in all European Union member states, the strengthening of financial stability and of confidence in the banking system, as well as the safeguarding of funds stemming from contributors in case of bank distress.

The challenges generated by the COVID-19 pandemic in 2020 led to the further consolidation of the regulatory framework in place in the European Union and measures relative to the resilience of the financial and banking sector became a matter of priority. Guidelines on deposit guarantee and bank resolution in the European Union once again proved extremely useful providing for a rapid adaptation to pandemic-related circumstances and the management of the resulting impact, as well as for an exchange of experience between the guarantee schemes of the member states.

Opinions and reports published by the European Banking Authority

The European Banking Authority published three opinions on depositor protection and the activity of deposit guarantee schemes intended to support the EU Commission

[28] *Directive 94/19/EC on deposit-guarantee schemes,* amended by *Directive 2009/14/EC* on coverage level and pay-out delay, was repealed on 4 July 2015.

in its preparation of a *report* on the progress towards the implementation of Directive 2014/49/EU on deposit guarantee schemes in the EU, which is to be submitted to the European Parliament and the Council. The FGDB made a significant contribution to drafting these opinions through its representatives, including its General Director, who were co-opted to work in the groups assigned to prepare the respective documents.

The first two opinions, published in 2019, addressed the eligibility of deposits, coverage level and cooperation between deposit guarantee schemes[29], and, respectively, payouts by deposit guarantee schemes[30]. On 11 February 2020, the European Banking Authority published its third and final opinion on deposit guarantee scheme funding and the uses of those funds[31].

In its three opinions, the European Banking Authority assessed 115 different topics related to the activity of deposit guarantee schemes and proposed 81 improvements to the current EU legal framework. Essentially, its proposals referred to safeguarding financial stability and reinforcing depositor protection, improving depositor information in respect of deposit guarantee, further harmonising the activities of deposit guarantee schemes across EU member states and enhancing their operational effectiveness.

In the second half of June 2020, the European Banking Authority published the results of its first peer review[32] on the stress tests performed by deposit guarantee schemes until 31 July 2019 and on their resilience. The report assessed the results of 135 stress tests, conducted by 32 deposit guarantee schemes from the 27 European Union member states, covering such fields of interest as operational capability and the capacity to finance reimbursements, single customer view (SCV) files used when preparing for a payout situation and cooperation in case of cross-border repayments. The review concluded that in the event of an intervention, deposit guarantee schemes were adequately prepared.

Nevertheless, the European Banking Authority highlighted the divergence in the type of test exercises performed by the deposit guarantee schemes and in the way test results were reported, which made comparability difficult. Consequently, the European Banking Authority identified 45 areas for improvement which were grouped in three categories – designing and executing tests, reporting, and the own systems of the deposit guarantee schemes – and which will serve as input for any future revision of the 2016 Guidelines on stress tests of deposit guarantee schemes. The aim of the review undertaken by the European Banking Authority was to provide further clarifications to deposit guarantee schemes and, on that ground, consolidate the framework for stress testing of their systems.

Worthy of mention is the fact that of the 45 areas to be looked into by the European Banking Authority one was related to the COVID-19 pandemic and had to do with ways to incentivise deposit guarantee schemes to run “special” tests that allow them to assess scenarios that may result in severe business continuity issues, such as pandemics, power outages or other significant operational disruptions.

Concerning the aforesaid three large categories, the European Banking Authority identified 20 measures several guarantee schemes had resorted to which it recommended as good practices.

Essentially, they refer to: *(i)* taking into account the particular organisation and operation of a deposit guarantee scheme, as well as the need to comply with national provisions on professional secrecy and administration/oversight of the deposit guarantee scheme when a third party is involved in preparing, running and assessing stress tests; *(ii)* conducting multiple granular tests when a single comprehensive test is not sufficient to appraise all indicators; *(iii)* providing additional information to explain the reported qualitative scores and quantitative results; *(iv)* good practices concerning systems and processes related to SCV files, operational and funding capabilities, and contribution to other intervention scenarios.

EFDI Publications

Since most EFDI members are guarantee schemes operating across the European Union, the association increasingly focuses on the application of regulations within the Union. Moreover, thanks to the unabating activity of its working groups, guidance papers, studies, and reports on significant and topical aspects of the activity of deposit guarantee schemes in the European Union are published every year.

In 2020, the forum published *State of Play and EFDI Non-Binding Guidance Paper, Joint Accounts in the EEA*[33]. The paper deals with the practical experience of deposit guarantee schemes in dealing with joint accounts, in conjunction with a recent analysis contained in the first opinion the European Banking Authority published in August 2019 on the eligibility of deposits, coverage level and cooperation between deposit guarantee schemes.

Starting from the results of the European Banking Authority’s 2020 peer review of the stress tests of deposit guarantee schemes, agreement was reached within the EFDI on participation in designing a harmonised stress testing framework to include guiding principles and criteria to underlie the performance of stress tests.

The EFDI Annual General Meeting, held via a Zoom conference on 24 September 2020, adopted the *EFDI Sustainability Charter*[34] which lists principles and sound governance rules (ethics, sustainability, responsibility) which deposit guarantee schemes and investor compensation schemes pledge to observe in their work in order to fulfil, to the best of their abilities, their mandates of public interest and also to contribute to financial stability and the maintenance of depositors’ and investors’ confidence in the financial system. States acceding to the EFDI Sustainability Charter, which is legally and otherwise non-binding, will sign it voluntarily. At the end of 2020, the Charter had 11 signatories from France, Montenegro, Spain, Grecia, Guernsey, the Czech Republic, Hungary, Lithuania, Belgium, Germany (the Auditing Association of German Banks) and Latvia.

IADI Research Papers, Guidance Papers and Survey Briefs

In 2020, the FGDB further benefitted from the experience of guarantee schemes outside Europe thanks to the IADI’s research and guidance papers, including:

- *IADI Briefs No 4, Depositor Preference and Implications for Deposit Insurance which refers to preference for deposits in the order of priority of payments of claims in insolvency cases and to implications for deposit guarantee*[35]
  The IADI brief is of particular interest given the role deposit guarantee schemes play in depositor protection, as well as the need to cut back on net resolution costs, all the more so against the background of the planned reform of EU regulations on bank crisis management and depositor protection.

- *IADI Research Paper, Evaluation of Differential Premium Systems for Deposit Insurance*[36]
  The IADI research paper is intended to relate moral hazard to the effect of collecting contributions differentiated on the basis of risk profiles, which is seen as an otherwise obvious method to mitigate moral hazard. Readers are offered data from IADI annual surveys, as well as methodologies and case studies that can be used to evaluate the effectiveness of their premium systems.

- *IADI Research Paper, Deposit Insurance and Financial Inclusion: Current Trends in Insuring Digital Stored-Value Products*[37]
  The IADI paper is in line with the overall trend towards the digitalisation of financial and banking products

[29] Opinion of the European Banking Authority on the eligibility of deposits, coverage level and cooperation between deposit guarantee schemes (EBA-Op-2019-10), 8 August 2019.

[30] Opinion of the European Banking Authority on deposit guarantee scheme pay-outs (EBA-Op-2019-14), 30 October 2019.

[31] Opinion of the European Banking Authority on deposit guarantee scheme funding and uses of deposit guarantee scheme funds (EBA/Op/2020/02), 23 January 2020.

[32] Report on the peer review of deposit guarantee scheme (DGS) stress tests and the resilience of DGSs (EBA/REP/2020/18), 17 June 2020.

[33] State of Play and EFDI Non-Binding Guidance Paper, Joint Accounts in the EEA, 12 November 2020.

[34] EFDI Charter for Sustainable Deposit Guarantee and Investor Compensation Schemes, 24 September 2020.

[35] IADI Briefs No 4, Depositor Preference and Implications for Deposit Insurance, 28 October 2020.

[36] IADI Research Paper, Evaluation of Differential Premium Systems for Deposit Insurance, August 2020.

[37] IADI Research Paper, Deposit Insurance and Financial Inclusion: Current Trends in Insuring Digital Stored-Value Products, March 2020.

with a view to reaching the highest possible financial inclusion level globally, in correlation with both the treatment of digital products by deposit guarantee schemes and the alignment with the *Core Principles for Effective Deposit Insurance Systems*, which the IADI reviewed in November 2014.

- *IADI Annual Survey on Deposit Insurance and Financial Safety Net Frameworks*
The IADI published the results of an annual survey conducted among its members sharing information on the key characteristics of deposit guarantee schemes. The 2020 survey, based on responses collected from 110 guarantee schemes across the world and on data available at the end of 2019, pointed to the constant evolution of the mandates of deposit guarantee schemes and of coverage levels, improvements in reimbursement periods and increases in the use of risk-based contributions.

- *IADI Guidance Paper, Risk Management, and Internal Control System of Deposit Insurers*[38]
Starting from a survey among member institutions, the guidance paper shows that most deposit guarantee schemes have a risk management framework and an internal control system in place, irrespective of either a formal or an informal organisational structure or the level of maturity and development of the schemes. Moreover, the paper advances a set of recommendations, considered as „minimum requirements", for the smooth run of the risk management process and of the internal control system.

- *IADI Guidance Paper, Public Policy Objectives for Deposit Insurance Systems*[39]
This guidance paper was published in the second half of March 2020 based on the results of a survey on public policy objectives of deposit guarantee schemes which had been launched back in 2019. It provides an update on public policy objectives in different national jurisdictions in light of recent changes in objectives and also, where possible, illustrates the reasons behind those changes, all while making recommendations for the effective application of *Core Principle 1*[40] on the public policy objectives of deposit guarantee schemes.

- *Recent IADI COVID-19 Survey Results and Briefing Note on 'Ensuring Business Continuity and Effective Crisis Management Activities for Deposit Insurers'*[41]
These survey results, published on 27 April 2020 and based on responses from 42 guarantee schemes, showed, among other things, that the impact of the first wave of the COVID-19 pandemic on financial and banking systems was severe, but was mitigated thanks to interventions from central banks, governments, supervisory authorities, and deposit guarantee schemes. Essentially, guarantee schemes continued their operations, were quick to adapt their BCPs, and intensified their communication with depositors and with the other participants in the financial safety net.

[38] IADI Guidance Paper, Risk Management and Internal Control System of Deposit Insurers, November 2020.
[39] IADI Guidance Paper, Public Policy Objectives for Deposit Insurance Systems, March 2020.
[40] *Principle 1*: "The first step in adopting a deposit insurance system or reforming an existing system is to specify appropriate public policy objectives that it is expected to achieve. These objectives should be formally specified and well integrated into the design of the deposit insurance system. The principal objectives for deposit insurance systems are to contribute to the stability of the financial system and protect depositors".
[41] Recent IADI COVID-19 Survey Results and Briefing Note on 'Ensuring Business Continuity and Effective Crisis Management Activities for Deposit Insurers', 27 April 2020.

Regulations on the Resolution of Credit Institutions

Despite the impact of the pandemic, the year 2020 recorded no crisis situations requiring the application of bank resolution measures at the level of the Single Resolution Board (SRB). The Single Resolution Fund increased further to account for around 60 percent of the target level it is supposed to reach by end-2023, that is, at least one percent of the amount of covered deposits of all credit institutions within the Banking Union.

All information from national resolution authorities or designated authorities of some member states[42] referring to credit institutions going through resolution measures or where deposit guarantee schemes had to intervene is centralised by the European Banking Authority, which acts as a data gathering and dissemination hub.

Throughout 2020, the European Banking Authority received two notifications in relation to the use of the financial resources of national deposit guarantee schemes to prevent the failure of credit institutions in difficulty. One notification was sent by the Bank of Italy (Banca d'Italia) on the need to recapitalise Banca del Fucino, while the other came from the German Federal Financial Supervisory Authority in relation to Norddeutsche Landesbank.

Early in 2021, the European Banking Authority was notified by the deposit guarantee scheme of Poland on the initiation of a resolution procedure for Idea Bank S.A. (bail-in or conversion of capital instruments, sale of business and appointment of an administrator).

Review of the Crisis Management and Deposit Guarantee Framework

At the beginning of November 2020, the European Commission launched an initiative to review the Crisis Management and Deposit Insurance Framework (CMDI), as part of a broader debate on finalising the Banking Union and – in particular – on establishing its third pillar, namely the European Deposit Insurance System (EDIS).

The initiative aims to offer a more efficient, flexible, and coherent framework for the management of bank failures in the European Union through resolution or insolvency, to provide for an equal treatment for depositors and to give them more protection, including by possibly creating a common depositor protection mechanism. The fulfilment of these goals involved amendments to the three EU legislative texts covering the CMDI – *Directive 2014/59/EU on the recovery and resolution of credit institutions and investments firms (BRRD), Regulation (EU) No. 806/2014 on the Single Resolution Mechanism (SRM)* and *Directive 2014/49/EU on deposit guarantee schemes (DGSD).*

A roadmap for the initiative concerning the CMDI framework review was launched on 11 November 2020, with the deadline for feedback on the inception impact assessment set for 8 December 2020. The technical targeted consultation on CMDI framework review (to which the FGDB is a respondent according to its competence and responsibilities) was open over 26 January–20 April 2021[43]. In parallel, a general public consultation ran over 25 February–20 May 2021. The European Commission is expected to adopt the proposal for a directive to review the CMDI framework in the fourth trimester of 2021.

[42] Source: The website of the European Banking Authority, the 'Regulation and Policy' section, the 'Notifications on resolution cases and use of DGS funds' sub-section.
[43] Source: the website of the European Commission, the 'Consultations section', Targeted consultation on the review of the crisis management and deposit insurance framework, 26 January–20 April 2021.

The European Stability Mechanism

During a video conference of the Eurogroup on 30 November 2020, the finance ministers of euro area states reached a political agreement to proceed with the reform of the *European Stability Mechanism* (ESM), thus taking one more step forward towards completing the Banking Union. They also agreed on the early introduction of a common backstop to the Single Resolution Fund, which is intended to boost confidence in bank resolution measures, that is, by the beginning of 2022 instead of end-2023, as initially scheduled, depending on a significant reduction of risks in the banking sector having been made[44]. In conditions in which developments in the public health sector may continue to generate uncertainty and pose major risks to economic recovery and the operation of financial markets, all while impacting financial stability, the common backstop would strengthen the SRB's capacity to act and would enhance the participants' confidence in the financial system by securing the funding needed for resolution measures in the form of a revolving credit line granted by the ESM in the event that the Single Resolution Fund is depleted.

An Agreement Amending the ESM Treaty was signed on 27 January and 8 February 2021 by the 19 ESM member countries. The reformed Treaty will come into force when ratified by the parliaments of all ESM members.

The Single Resolution Board

Given the adverse effects of the COVID-19 pandemic, the SRB joined the European Commission, the European Central Bank, and national authorities in the implementation of an operational continuity framework for credit institutions, a framework that also provides for the continuity of other critical functions these institutions perform in financial and banking markets. The SRB came to the aid of credit institutions by using the flexibility in the European Union's resolution framework to grant temporary relief from data reporting deadlines so that these institutions could concentrate their efforts on providing banking services to their clients.

At the same time, the SRB continued to publish documents on topics of interest related to bank resolution procedures. In 2019, the SRB published its *Expectations for banks*[45] document which it updated a year later to include additional guidance and recommendations synthesising the best practices on key aspects of the bank resolution process. In July 2020, the SRB also published an operational Guidance[46] on operational continuity during resolution procedures which aims at offering banks the flexibility they need in implementing, on an individual basis, the guidance and recommendations laid down in the *Expectations for banks* document.

Later on, the SRB published an operational guidance on the preparation for the application of the bail-in tool[47] as part of resolution planning phase. The SRB policy concerning the minimum requirement for own funds and eligible liabilities (*MREL*)[48] for credit institutions was further updated[49] in response to the novel constraints in the financial and banking market. The SRB also issued guidance offering greater detail[50] on the resolution of banks involved in mergers and acquisitions, with emphasis on the fact that while such processes could enhance the performance of the respective institutions, they might also raise additional issues in point of the resolvability of the credit institutions engaged in the respective transactions and of the resulting entities if they were to fail.

[44] A comprehensive package of measures to reduce risks in the banking sector of the European Union was adopted in May 2019. The package contains amendments to regulations on capital requirements for banks and to the bank recovery and resolution framework as one of its components is Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC (BRRD2).

[45] Single Resolution Board, Expectations for Banks, March 2020. The guidance sets out the actions credit institutions must take in the resolution planning phase to demonstrate they are prepared to manage crises.

[46] Single Resolution Board, Operational Guidance on Operational Continuity in Resolution, 2020.

[47] Single Resolution Board, Operational Guidance on Bail-In Playbooks, 2020.

[48] Under BRRD1, MREL is calculated as the amount of own funds and eligible liabilities expressed as a percentage of total liabilities and own funds of the credit institution, while under BRRD2, MREL is determined as a ratio between the sum of own funds and eligible liabilities and the total risk exposure amount reported by the credit institution.

[49] Single Resolution Board, Minimum Requirement for Own Funds and Eligible Liabilities (MREL), SRB Policy under the Banking Package, 2020.

The Stage of the EDIS Project

All through 2020, European institutions took further steps to consolidate the Banking Union, the completion of which depends, among other factors, on the operationalisation of its third pillar, the EDIS, which, as a European deposit guarantee scheme, is intended to protect depositors. The EDIS project is still a subject of political debate. Once established, the EDIS, alongside bank supervision and bank resolution, would be part of an integrated financial structure to safeguard deposit guarantee and financial stability across Europe, contributing to minimising the cost of bank failures charged to European citizens.

The Ad Hoc Working Party on the Strengthening of the Banking Union, created by the Council of the European Union in 2016, formulated further proposals concerning the draft regulation on the establishment of the EDIS, as well as measures to mitigate risks in the banking sector. Discussions continued on technical aspects related to the EDIS, such as methods of determining risk-based contributions, further work on collection of data of adequate quality, and features of the EDIS design since the model to be selected depends on developments in the legal framework for crisis management in general and in the framework for the operation of deposit guarantee schemes in particular.

In June 2020, Eurogroup agreed to further consolidate the Banking Union, as a matter of priority and an interim report of the German presidency of the Council of the European Union on the strengthening of the Banking Union was published towards the end of the year[51]. Stress was laid on the significant contribution the Banking Union had to ensuring bank resilience to shocks and, given the pandemic situation, the need was brought to the fore to complete the Union, by operationalising EDIS included.

THE REGULATORY FRAMEWORK

The FGDB has been constantly focused on updating its regulations in the belief that an adequate, harmonised regulatory framework is a prerequisite for the transparency and effectiveness of its activities. In 2020, it updated and interrelated several regulations covering operational aspects – with emphasis on business continuity in critical situations – as well as governance, risk management and the FGDB's internal organisation.

Accordingly, *Regulation on the organisation of Supervisory Board meetings, Regulation on the FGDB's Executive Board* and *Regulation on the organisation and operation of the Audit Committee* were updated with a view to adapting activities to physical distancing in response to the COVID-19 pandemic.

Legal Regulations on the internal control system within the FGDB, planned to come into force starting 1 January 2021, were issued in September 2020 in a bid to improve decision support in the area of risk management. These new legal regulations secure greater compliance with the provisions of Law no. 311/2015 as far as internal control is concerned, offer the management an effective tool to substantiate their decisions and provide for the consolidation of the FGDB's governance system.

Along the same line, there were further updates in 2020 – including to Methods of analysis of the credit institutions authorised by the National Bank of Romania, *Risk management procedures while investing the FGDB's financial resources* and *Risk profile, risk management*

[50] Single Resolution Board expectations for ensuring the resolvability of banks engaging in mergers, acquisitions and other corporate transactions, 7 December 2020.

[51] The Council of the European Union, Interim Presidency Progress Report on the Strengthening of the Banking Union, 23 November 2020.

strategy and policies within the FGDB – in line with changes in the regulatory framework and with measures suggested by the National Bank of Romania, and, equally, as a result of the FGDB's own analyses. At the same time, *Treasury operations procedure* was updated so as to keep pace with changes in the operational process which the implementation of the integrated IT system within the FGDB will necessarily require.

As previously pointed out, 2020 updates at the operational level, in line with amendments to labour legislation, included the *Business Continuity Plan* envisaging measures to protect employees and keep business operations running during a pandemic/epidemic, as well as *Regulation on the organisation and operation of the FGDB* and *Internal Regulation of the FGDB.*

With the aim of improving communication with the public, the FGDB issued *Legal Regulations no. 1/2020 on the information of depositors by credit institutions*, intended to harmonise the methods of providing information on deposit guarantee schemes to depositors.

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

The crisis generated by the COVID-19 pandemic, which started and intensified in 2020, had an extremely unfavourable impact on the real sector and on the financial system, while the measures to prevent the spread of the virus strongly affected the labour market and, implicitly, the production of goods and services. In the fight against the pandemic, states, not only in the European Union but across the world, were obliged to take exceptional measures to reduce pressure on and risks to public health systems and to protect the world economic system and maintain its operational framework as well as financial sustainability.

The fiscal measures taken to mitigate the risk of a deep economic crisis included transfers and funds for the worst-hit sectors and vulnerable groups, loan guarantees and moratoria on loan obligations, deferral of tax payments or temporary reduction of taxes and the decision to charge no late-payment penalties and interest. On the other hand, in a monetary response to the pandemic, central banks took equally exceptional measures, such as asset purchase programmes, credit lines to maintain dollar and euro funding, and cuts in the monetary policy rate.

Indicators produced by Eurostat

According to data released by Eurostat in March 2021, the Gross Domestic Product (GDP) for the year 2020 as a whole experienced a year-on-year contraction of 6.2 percent in the European Union, and, respectively, of 6.6 percent in the euro zone[52]. A quarterly analysis of the GDP shows a V-shaped recovery after (i) a slump in the second quarter of 2020 – at the height of lockdown restrictions to limit the spread of the novel coronavirus – of 11.2 percent in the European Union and of 11.6 percent in the euro area, actually the sharpest declines since time series began in 1995 and (ii) a strong rebound of 11.6 percent in the European Union (+12.5 percent in the euro zone) in the quarter ending September, as an outcome of the European Commission's programmes to sustain the economy and to fight the fallout of the pandemic.

Romania, already among economic growth winners in 2019 with a rate of +4.1 percent – one of the highest in the European Union – took a leading position among EU states in the fourth quarter of 2020 with a 4.8 percent surge relative to the previous three-month period – the fastest economic growth within the European Union. Romania was followed by Malta (+3.8 percent), Croatia and Greece (+2.7 percent each). Eurostat statistics show a 1.8 percent contraction of the Romanian economy for the year 2020 as a whole, a relatively small decrease if compared with most of the EU member states and closer to percentages registered in the case of Estonia (-1.9 percent), Finland (-1.4 percent), Norway (-1.1 percent) and Lithuania (-1 percent). The sharpest falls in economic growth rates were recorded in Spain (-9.1 percent),

[52] Eurostat, News Release 30/2021, 9 March 2021.

Greece (-7.9 percent), Croatia (-7.1 percent) and Italy (-6.6 percent). Luxembourg was the only EU member state to have registered economic growth (+1.4 percent).

In 2020, the annual inflation rate inched down to 0.3 percent in the European Union and stood at -0.3 percent in the euro area[53]. In comparison with 31 December 2019, when Romania recorded the second highest rate of inflation in the European Union at four percent (being outpaced only by Hungary with a rate of 4.1 percent), at the end of 2020, inflation dropped to 1.8 percent, staying, however, still above the European average. The highest inflation rate on 31 December 2020 was recorded in Poland (3.4 percent), followed by Hungary (2.8 percent) and the Czech Republic (2.4 percent).

Despite labour market flexibility and diversity, by end-2020, unemployment rate had moved up, hitting 7.3 percent in the European Union and, respectively, 8.1 percent in the euro zone[54] as an unavoidable outcome of the application of numerous measures to reduce physical contact and shut down a number of economic sectors in the wake of the COVID-19 pandemic. For Romania, Eurostat reported a rate of unemployment of 5.2 percent at the end of 2020, higher than the end-2019 level (+1.3 percentage points) and below the European average. Comparable, though slightly higher levels were registered in Bulgaria (5.3 percent), Belgium, Ireland, and Austria (5.8 percent each). Spain recorded the highest unemployment (16.2 percent), being followed by Lithuania (9.2 percent) and Italy (9 percent). The lowest registered unemployment rates were in the Czech Republic (3.1 percent) and Poland (3.2 percent). As previously pointed out, in order to mitigate the socioeconomic shock generated by the COVID-19 pandemic, the European Commission launched several exceptional programmes to provide funding and grants to EU member states:

- on 2 April 2020 – the SURE (*Support to mitigate Unemployment Risks in an Emergency*) initiative is a temporary solidarity instrument worth 100 billion euros intended to preserve employment and support enterprises; financial assistance will be provided in the form of loans granted on favourable terms;
- on 27 May 2020 – the *Next Generation EU* economic recovery plan worth 750 billion euros, the key instrument of which is the Recovery and Resilience Facility making available 672.5 billion euros in loans and grants to support reforms and investments undertaken by European Union countries.

Additionally, on 17 December 2020, the Council of the European Union adopted the regulation laying down the new Multiannual Financial Framework (MFF) for 2021-2027 which provides for a long-term budget of 1,074.3 billion euros. Together with the Next Generation EU, it will allow the European Union to provide an unprecedented 1.8 trillion euros of funding over the coming years to support economic recovery and the Union's long-term priorities across different policy areas.

Under this recovery package, Romania is expected to receive 83.9 billion euros, namely: 4.1 billion euros from the SURE programme (of which three billion euros were allotted early in December 2020), 33.5 billion euros from the Next Generation EU (16.8 billion euros in grants and 16.7 billion euros in loans), as well as 46.3 billion euros in non-reimbursable funds from MFF 2021–2027.

Developments in the Banking Sector in the European Union

The regulatory and supervisory framework for the financial and banking system underwent major changes in Europe in response to the shockwaves produced by the COVID-19 pandemic. Initially labelled as a health crisis, it rapidly turned into an economic and social crisis under the indirect impact of the health measures taken to prevent the spread of the novel coronavirus (quarantine, prohibiting or limiting social interaction). Against such background, the European Banking Authority announced in early March 2020 its decision to postpone to 2021 the stress tests for European banks initially scheduled for 2020[55] in an attempt to allow banks to focus on the

[53] Eurostat, News Release 32/2021, 17 March 2021.

[54] Eurostat, News Release 28/2021, 4 March 2021.

[55] EBA statement on actions to mitigate the impact of COVID-19 on the EU banking sector, 12 March 2020 and EBA Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of COVID-19 measures, 25 March 2020.

continuity of their core operations, particularly on financing companies and households experiencing temporary difficulties. Furthermore, the European Banking Authority and the European Central Bank[56] recommended national competent authorities to make use of the flexibility embedded in the existing regulatory framework to support banking systems (to plan supervisory activities in a flexible way and postpone those deemed non-essential, to grant some leeway on reporting deadlines, to fulfil the requirements for public and private moratoria on loan repayments[57], to relax capital and liquidity buffers or reduce the requirements for such buffers).

With a view to strengthening the resilience of the financial system, in March 2021, the European Banking Authority[58] and the European Central Bank[59] recommended financial institutions to refrain from dividend distribution. In May 2020, the European Systemic Risk Board (ESRB) joined in by formulating *Recommendation (ESRB/2020/07) on restriction of distributions during the COVID-19 pandemic* urging institutions to refrain from distributions until the end of 2020, a deadline subsequently moved to 30 September 2021 under *Recommendation (ESRB/2020/15)*, which amended the initial recommendation.

The scope of the fiscal measures EU member states employed in order to fight the adverse effects of the COVID-19 pandemic in the short term (moratoria on loan obligations, direct funding to assist businesses, public guarantee schemes, postponement of tax payment deadlines, cuts in or exemption from taxes and duties, decision not to charge accessory obligations) called for careful monitoring on the part of European authorities considering that the estimates of medium- and long-run impacts were tentative at best. Given the need for competent and resolution authorities to have access to quality information to be able to assess the financial and prudential statements of the credit institutions, the European Banking Authority published throughout 2020 several strategic communications and materials on the management of the risks facing a financial and banking system impacted by the COVID-19 pandemic. Examples in this respect are *Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis*[60] and *Report on the Implementation of Selected COVID-19 Policies*[61].

Along the same line, on 25 May 2020, the European Banking Authority published a preliminary assessment[62] of the impact of the COVID-19 pandemic on the banking sector of the European Union. In December 2020, it released a *Report on Liquidity Measures*[63] showing that European credit institutions had comfortable liquidity positions, with figures well above the minimum threshold, irrespective of their business models, also on the back of the access to additional liquidity via the facilities provided by the Central European Bank and by central banks.

In December 2020, the European Banking Authority also published a report on risk assessment of the European banking system based on data as of the reporting date 30 June 2020. The report was accompanied by the results of the EU-wide transparency exercise, conducted in the autumn of 2020[64] which provides information, in a comparable format, for 129 banks across the European Union and six banks from the UK for the reference dates of 31 March and 30 June 2020. The conclusion of the risk assessment report was that banks had maintained solid

[56] ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus, 12 March 2020.

[57] EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis, 2 April 2020.

[58] EBA statement on dividends distribution, share buybacks and variable remuneration, 31 March 2020.

[59] Official Journal of the European Union nr.C 102 I of 30 March 2020, the Romanian language edition, pages.3 – 4, Recommendation of the European Central Bank of 27 March 2020 on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/1 (ECB/2020/19)

[60] Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07), 2 June 2020.

[61] EBA Report on the Implementation of Selected COVID-19 Policies (EBA/REP/2020/39), 21 December 2020, which was updated on 29 January 2021.

[62] The EU Banking Sector: First Insights Into the COVID-19 Impacts (Thematic Note EBA/REP/2020/17), 25 May 2020.

[63] EBA Report on Liquidity Measures under Article 509(1) of the CRR (EBA/Rep/2020/37), 17 December 2020.

[64] EBA Risk Assessment of the European Banking System and 2020 EU-wide transparency exercise, 11 December 2020.

capital and liquidity ratios and increased their lending to the real economy. However, the European Banking Authority gave warning that economic uncertainty persisted, profitability was at record lows, and there were early signs of a deterioration in asset quality in the remaining quarters of the year as government relief measures were phasing out.

On 28 April 2020, the European Commission adopted a banking package[65] intended to facilitate bank lending to households and enterprises across the European Union and containing specific short-term amendments to banking prudential rules (the Capital Requirements Regulation) and an Interpretative Communication encouraging banks and supervisory authorities more flexibly to apply the accounting and prudential rules of the European Union and to rally behind similar statements formulated by the European Banking Authority and the European Central Bank. The European Parliament approved the banking package on 9 June 2020 and the amendments to the Capital Requirements Regulation came into force on 27 June 2020. Here are some of the approved measures: deferral of the date of application of the leverage ratio buffer requirement to January 2023 to allow banks to enhance their ability to continue lending, extension by two years of transitional arrangements for IFRS 9, and additional measures related to the availability of credit to the real economy.

Indicators Released by the European Banking Authority

As the *European Banking Authority's Risk Dashboard Data as of Q4 2020*[66] show, the solvency of the credit institutions operating across the European Union had improved by the end of 2020, adding 50 basis points to the previous year's level to stand at 15.5 percent (an all-time high since the time series began in December 2014).

Despite banks' comfortable capital levels and liquidity profiles throughout 2020, the decline in the net interest income due to the contraction in interest-bearing assets had a negative impact on the profitability of the European banking system as a whole, pushing the return on equity (RoE) down to a modest level of two percent. Strong downward pressure on profitability is expected to persist as a result of deteriorating asset quality and growing competition, as well as of the need to streamline the operational structure of banks – by massively investing in information and communication technology and rationalising their networks of units nationwide – since their clients are increasingly using digital channels.

From an operational viewpoint, the number of phishing attempts and other types of cyber-attacks on the European banking system have increased and the technology-related disruptions they may trigger are likely to have a significant impact, all the more so against the background of teleworking and of the growing number of users of digital products. Moreover, the larger volume of virtual currency transactions, where the identities of the individuals involved are not fully transparent, may expose banks to additional money laundering and terrorist financing risks. Greater public awareness of the importance of the ESG (*Environmental, Social and Governance*) factors might generate growing reputational risks for the banks that fail to address them adequately.

The Risk Dashboard which the European Banking Authority published on 1 April 2021 also shows that the non-performing loan ratio at the European level shed 10 basis points from the end-2019 figure to stand at 2.6 percent. The downturn was due to a decline in non-performing loans, driven by non-performing loan sales, which exceeded the decrease in new credits. The non-performing loan ratio dropped in the case of most economic sectors, as well as households, but it moved up in the case of sectors worst hit by the COVID-19 pandemic, such as tourism and the hospitality industry (from 7.8 percent to 8.5 percent on a quarterly basis) or the arts, entertainment and recreation sector (from 6.7 percent to 7.3 percent).

In Romania, the non-performing loan ratio at the end of 2020 amounted to 3.7 percent, slightly above the European average (+1.1 percentage points), in contrast

[65] Similarly, on 24 July 2020, the European Commission adopted a capital markets recovery package, aimed to make it easier for these markets to support European businesses.

[66] EBA Risk Dashboard Data as of Q4 2020, 1 April 2021.

with states recording the highest rates, such as Greece (25.5 percent, which means a variation of +22.9 percentage points), Cyprus (11.5 percent; a variation of +8.9 percentage points) and Bulgaria (seven percent; a variation of +4.4 percentage points). The lowest non-performing loan ratios, well below the European average, were reported by Sweden (0.5 percent), Lithuania and Germany (1.3 percent in each case). As for the coverage for non-performing loans, Romania occupies the leading place in the European Union with a ratio of 65.9 percent, which compares with the European average of 44.9 percent. Following behind are Poland (63.1 percent), Croatia (62.9 percent) and Hungary (62.8 percent). Conversely, the lowest coverage ratios of non-performing loans were recorded in Estonia (29 percent), Denmark (29.3 percent), Finland (29.5 percent) and Lithuania (29.6 percent).

The deterioration of asset quality and the rise to 9.1 percent in the share of loans that experienced a significant increase in credit risk ("stage 2" loans) are a reason for concern. The 26.4-percent share of stage 2 loans still under the moratoria on loan repayments, which were instituted to provide support during the COVID-19 pandemic, is higher than that for loans under already expired moratoria (20.1 percent) and almost three times the overall ratio of 9.1 percent. Although, apparently, it is too early to draw conclusions, the upward trend in stage 2 loans still under moratoria may indicate that these are the loans which might pose higher risks in the future. On the other hand, the share of non-performing loans still under moratoria (3.3 percent) is smaller than that of loans under expired moratoria (3.9 percent), which were probably impacted by restructuring.

In order to prevent the build-up of non-performing loans across the European Union following the COVID-19 pandemic, on 16 December 2020, the European Commission presented a strategy intended to ensure that households and businesses in EU member states have access to funding[67], as a prerequisite for fast and sustainable economic recovery.

The Commission's strategy contains a series of actions intended to provide member states with the tools they need to address the growing volume of non-performing loans in the banking sector. In view are four major goals:

- to further develop secondary markets for distressed assets, allowing banks to clean up their balance sheets and to continue lending, all while offering increased protection to debtors. Of key importance in this respect is the European Commission's 2018 proposal on credit servicers, credit purchasers and the recovery of collateral, which is being discussed by the European Parliament and the Council;
- to reform the Union's legislation on corporate insolvency and debt recovery, which would help harmonise national insolvency laws, would increase legal certainty and would provide high standards of consumer protection. To this end, the Commission urged Parliament and Council rapidly to reach a political agreement on its 2018 proposal for minimum harmonisation rules on accelerated extrajudicial collateral enforcement;
- to support the creation of national asset management companies in EU member states, as well as their cooperation at the European level in order to help banks to concentrate on further lending by enabling them to resolve issues related to the management of non-performing loans;
- to ensure the unitary application by EU member states of precautionary public support measures, where needed, as envisaged under the BRRD and the Union's state aid framework to provide for the uninterrupted funding of the real economy.

The financial stability implications of the COVID-19 pandemic were also analysed by the *Financial Stability Board* (FSB), which delivered related reports to the G20 finance ministers and central bank governors. The FSB analysis pointed to the fact that the financial system, though facing the dual challenge of sustaining the flow of credits amid economic decline and managing growing risks, proved more resilient and more capable to fund the real economy thanks to the regulatory reforms which the G20 member states adopted following the global financial crisis of 2008.

[67] Source: The European Commission, Action Plan: Tackling non-performing loans (NPLs) in the aftermath of the COVID-19 pandemic,16 December 2020.

The FSB issued a set of five general principles[68] intended to guide and harmonise the member states' responses to the challenges posed by the COVID-19 pandemic, referring to:

- monitoring and sharing information on a regular basis to assess and address the pandemic-generated risks to financial stability,
- using the flexibility of financial standards to formulate the most effective solutions,
- seeking opportunities to temporarily ease operational burdens on businesses and authorities,
- maintaining compliance with international standards, and avoiding measures which might compromise the very objectives of these standards in the future,
- coordinating future actions to gradually eliminate the temporary measures taken.

Moreover, in the second half of 2020, the FSB published a report[69] dealing with solutions to cyber attacks – an extremely significant topic amid growing digitalisation and recent changes imposed by physical distancing, such as teleworking. Against the background of the recent swift changes and of novel risks and business models, cyber risk is seen as a real threat to financial stability, also likely to adversely impact the critical financial infrastructure.

Developments in the Banking Sector in Romania

The macro-financial environment in Romania remained adequate thanks to the measures which national authorities were quick to adopt. At the same time, the banking sector proved to be solid and resilient despite the economic, social, and financial fallout of the COVID-19 pandemic.

In an attempt to mitigate the adverse effects of the pandemic on households and businesses, the National Bank of Romania expeditiously adopted a package of measures[70] including:

- monetary policy measures: successive cuts in the monetary policy rate (from 2.5 percent to 1.5 percent) and narrowing of the symmetric corridor set by standing facilities around the monetary policy rate (from ±1 percentage point to ±0.5 percentage points), with lower interest on loans as the expected outcome; supply of liquidity to credit institutions, including through bilateral repo transactions on their request; purchase of leu-denominated government securities from the secondary market to fund the real economy and budget expenditures,
- measures to increase the flexibility of the regulatory framework, in line with European Union recommendations: deferral of payments based on legislative or non-legislative/private moratoria without the reclassification and provisioning of restructured loans; permission granted to credit institutions to temporarily use the capital buffers that have been previously built up (while complying with provisions under the legal framework for such flexibilities), as well as liquidity reserves (without having to comply with the minimum liquidity ratio, but conditional upon refraining from dividend distribution), in order to contribute to the smooth operation of the banking sector and ensure sufficient liquidity for businesses and households,
- operational measures: a smooth run of the national-currency payment and settlement systems allowing commercial and financial transactions to proceed under standard conditions; continuous cash flows to credit institutions for all their operations, including replenishment of ATMs (it is advisable, however, to use available modern payment methods, such as cards or digital payments, when performing banking operations),
- bank resolution measures: a three-month payment deferral (to 31 July 2020) of the 2020 annual contributions to the bank resolution fund; postponement of the reporting deadline for resolution planning information.

The measures adopted by the National Bank of Romania were carefully calibrated so they may be applied without

[68] Source: The FSB's website, Section: COVID-19: Policy responses, FSB principles.

[69] FSB Effective Practices for Cyber Incident Response and Recovery, 19 October 2020.

[70] Source: The National Bank of Romania, the COVID-19 Section on www.bnr.ro; Press release of the National Bank of Romania's Supervisory Committee of 24 March 2020

deterring domestic saving, which is the main source of funds for the real economy and the public sector. According to a World Bank study of December 2020 reviewing the actions authorities in 154 countries had taken by 1 September 2020 in response to the COVID-19 pandemic, Romania was among the countries with the largest number of measures taken (that is, 43, distributed as follows: 25 in the banking sector, 10 related to liquidity and funding, seven covering financial markets and non-bank financial institutions and one related to payment systems), alongside such states as the United States of America, Canada, Germany, or France[71].

Although the COVID-19 pandemic had a severe impact on all economic sectors in 2020, none of the FGDB member credit institutions faced difficulties requiring the intervention of the National Bank of Romania in its capacity as competent authority or resolution authority.

At the beginning of 2020, Eximbank SA completed the purchase from the National Bank of Greece[72] of a 99.28 percent stake in Banca Românească SA in a transaction that has started the year before. Apart from that, First Bank SA, owned U.S. by investment firm J.C. Flowers & Co., completed the legal and operational merger with Bank Leumi România SA, a subsidiary of Bank Leumi Israel, finalising on 30 April 2020 a transaction initiated during the summer of 2019.

At the end of 2020, Banca Feroviară SA changed its shareholding structure and initiated a revamping process which also included changing its name to Techventures Bank SA.

Aggregate Indicators Published by the National Bank of Romania[73]

On 31 December 2020, credit institutions operating across Romania had net assets worth a total 560.2 billion lei, having added 65 billion lei year on year (which means a 13.1 percent increase in nominal terms from the end of 2019).

Privately-owned credit institutions held 89.4 percent of total assets, 2.4 percentage points below the previous year's level. The assets of foreign-owned or majority foreign-owned credit institutions (including branches of foreign credit institutions) accounted for 70.5 percent of total assets at the end of 2020, down 3.2 percentage points from 31 December 2019.

The turmoil in the economy, triggered by unprecedented health issues, impacted the profitability of the banking system in Romania, which diminished all through 2020, with return on equity (RoE[74]) and return on assets (RoA[75]) ending the year on 31 December at their lowest in the past five years at 8.86 percent (an annual variation of -3.35 percentage points) and, respectively, 0.98 percent (an annual variation of -0.36 percentage points).

In 2020, the liquidity indicator remained at the previous year's high level of 2.32, more than double the regulatory minimum requirement.

The non-performing loan ratio declined further, hitting its lowest in recent years at 3.83 percent, despite a slight mid-year increase. At the end of 2020, loans to households and non-financial corporations amounted to 273.8 billion lei, a five percent increase from the previous year.

[71] Source: Cristian Bichi, The World Bank (a study): Romania among the countries with the largest number of financial measures taken in response to the COVID-19 pandemic, an article published on 18 January 2021 on the OpiniiBNR.ro web platform in reference to a World Bank study called ”Taking Stock of the Financial Sector Policy Response to COVID-19 around the World”, December 2020.

[72] Eximbank completed the acquisition of Banca Românească SA on 23 January 2020.

[73] There were 34 credit institutions at end-2020, of which 26 Romanian legal entities participating in the FGDB, and eight branches of foreign credit institutions which are affiliated to the deposit guarantee schemes in their home countries. Data on aggregate indicators for credit institutions and on loans and deposits are available on the website of the National Bank of Romania and in its monthly publications.

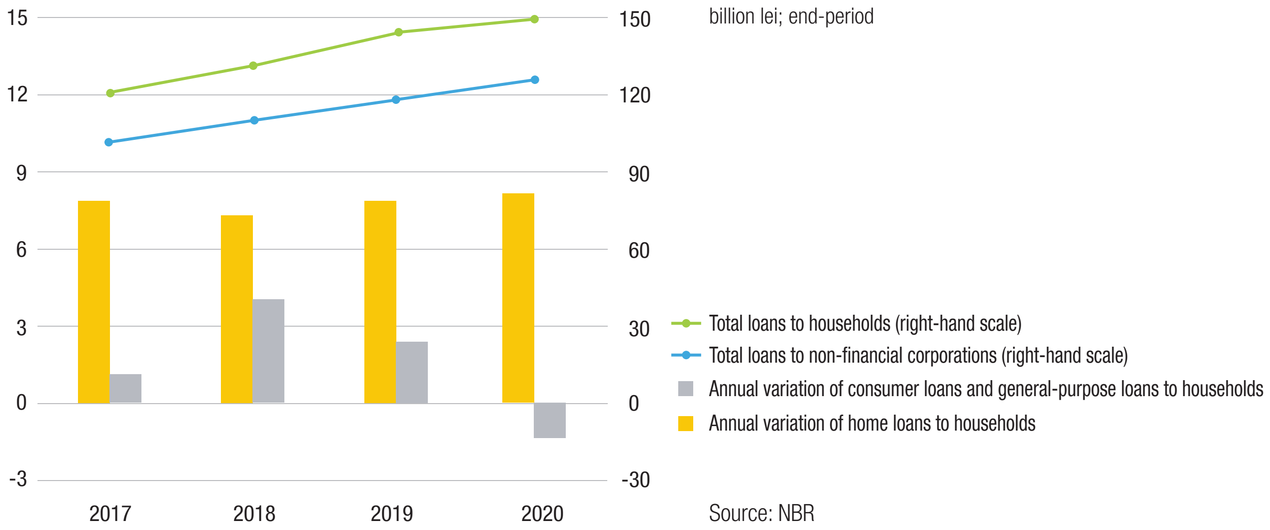
[74] RoE is calculated as ratio of annualised net income to average own capital.

[75] RoA is determined by dividing annualised net earnings by average total assets.

Loans to households moved up by 4.8 percent year on year to stand at 149.8 billion lei on 31 December 2020. Unlike increases of previous years, the 2020 rise was an exclusive outcome of developments in real estate. The Government's programme allowing people to buy their own homes (*The First Home Programme*) was significantly amended in 2020 offering borrowers government-backed loans of up to 140,000 euros, double the previous ceiling, to be able to buy housing of up to 120 square metres.

In its new form, the programme, renamed Noua Casă (*The New Home*), is intended to encourage the development of real estate and of the construction sector in the current COVID-19 pandemic context and to assist individuals who wish to buy a modern, more spacious home to fit realities in today's world. Credits to non-financial corporations also advanced, moving up to 124 billion lei on 31 December 2020 (an annual variation of +5.3 percent).

Evolution of loans to households and non-financial corporations



Source: NBR

By currency, leu-denominated loans and credits in foreign currencies moved divergently in 2020. While loans in the national currency pushed 8.6 percent higher to a year-end total of 192.6 billion lei, credits denominated in foreign currencies slumped by 2.7 percent to the leu equivalent of 81.2 billion on 31 December.

Contributing most to the upward trend in lending throughout 2020 were the leu-denominated loans whose share in the overall volume of credits reached 70.3 percent on 31 December.

In 2020, for the first time in two years, the monetary policy rate was successively lowered under a package of measures intended to mitigate the adverse effects on households and businesses in Romania of the pandemic-generated crisis. The monetary policy rate was gradually cut from 2.5 percent in May 2018 to 1.5 percent starting 6 August 2020[76]. That level stayed unchanged until the end of 2020 and was once again lowered on 18 January 2021 to 1.25 percent.

In December 2020, the average interest rate on new loans in the local currency stood at 6.67 percent for households, having lost 0.93 percentage points on a year-on-year basis, and, respectively, at 4.64 percent for non-financial corporations (-1.15 percentage points as against December 2019). The average interest on new euro-denominated loans going to households crawled up 0.2 percentage points from December 2019 to reach 4.07 percent at end-2020.The average interest rate on deposits in euros held by non-financial corporations

[76] The August 2020 cut followed another two successive drops: from 2.5 percent to 2 percent starting 23 March 2020 and from 2 percent to 1.75 percent starting 2 June 2020.

was 3.01 percent, adding 0.27 percentage points to the previous year's level.

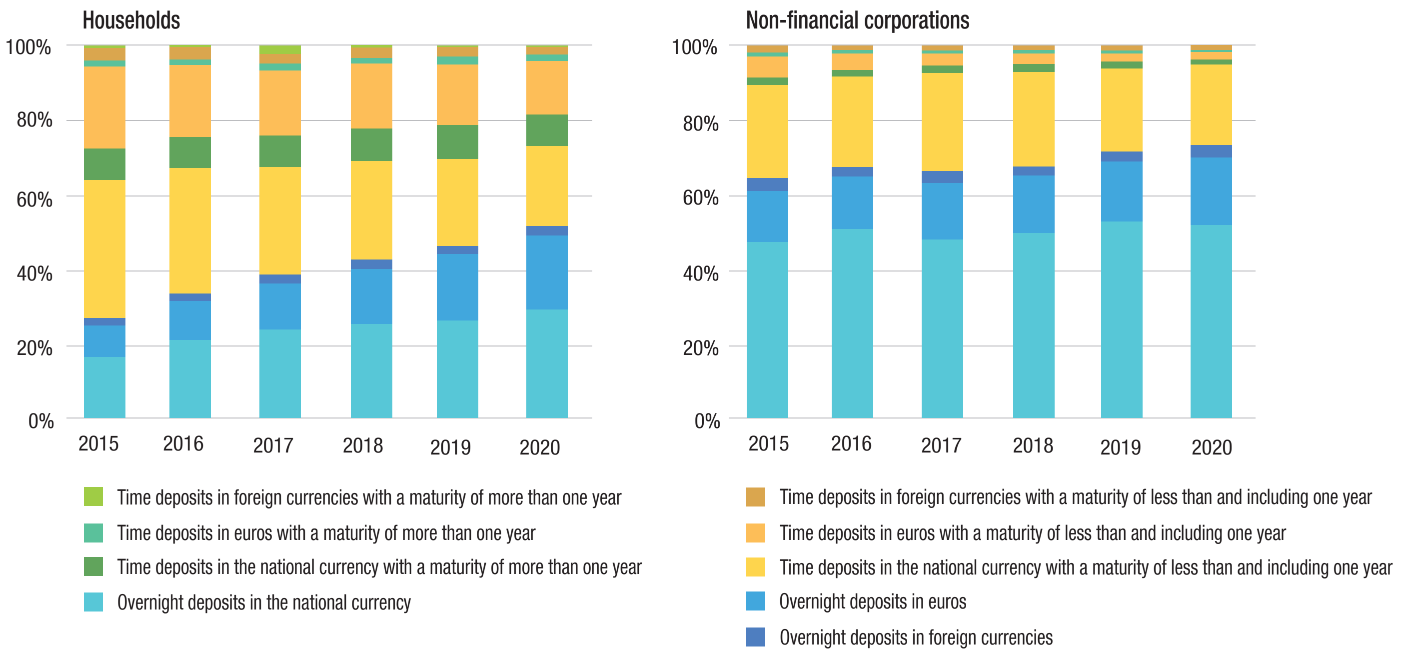
According to data provided by the National Bank of Romania, the volume of deposits held by households and non-financial corporations in 2020[77] increased sharply by 15.4 percent from the end-2019 level to amount to 404.2 billion lei on 31 December 2020, as saving "for a rainy day" in the time of the pandemic had been trending upwards. The upswing in overnight deposits was the main reason behind the increase in deposits in 2020 (accounting for more than 86 percent).

Average interest rates on new deposits, irrespective of denomination, held by either households or non-financial corporations, decreased all through 2020. At the end of the year, average interest rate on new leu-denominated time deposits held by households stood at 1.54 percent, having shed 0.44 percentage points, while the average interest on new time deposits in euros lost 0.1 percentage points to 0.06 percent. As for new time deposits held by non-financial corporations, the average interest rate on 31 December 2020 was of 1.51 percent (an annual variation of -0.85 percentage points) for the leu denomination and of 0.2 percent (showing a slight annual variation) for the foreign-currency denomination.

The sharpest decrease in interest rates was registered in the case of new leu-denominated deposits with an initial maturity of more than three months and less than and including six months, held by either non-financial corporations (sliding by 1.17 percentage points to 1.85 percent), or households (moving 0.64 percentage points downwards to 1.66 percent).

Although at the beginning of 2020 the tax on financial assets[78] was abolished (the declaration and payment of this tax applying only for 2019), the loan-to-deposit ratio

Structure of deposits by maturities (%; end-period)



Source: NBR

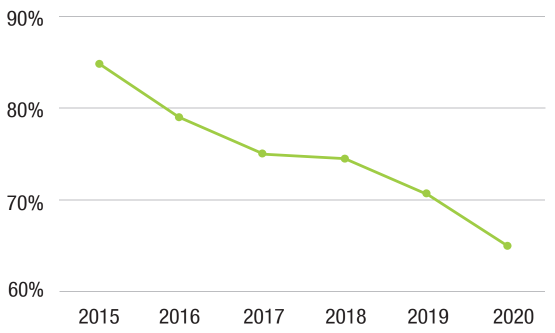
[77] Data include deposits held at branches of foreign credit institutions which are affiliated to the deposit guarantee schemes in their home countries.
[78] *Emergency Ordinance no .1/2020 of the Romanian Government on fiscal and budgetary measures and amending and complementing various legal regulations,* published in The Official Gazette of Romania, Part I, no. 11 of 9 January 2020 which took effect on the date of publication.

ended the year at a new all-time low of 65.89 percent (an annual variation of -5.1 percentage points), as customer deposits continued to exceed customer loans. This indicator reflects the level of financial intermediation that remains very low (around 27 percent) – despite the rise[79] as to the previous years – if compared with the European average of 83 percent or with levels in other countries in the region (Poland and the Czech Republic – 52 percent, Bulgaria – 51 percent).

The eligible deposits of households and businesses at credit institutions in the membership of the FGDB amounted to 371.8 billion lei on 31 December 2020, 14.8 percent above the end-2019 level[80].

Despite adverse market conditions in 2020, the year of the pandemic, credit institutions participating in the FGDB maintained their strong capitalisation, showing a total capital ratio of 23.18 percent (1.25 percentage points up from the previous year) and a Tier 1 capital ratio of 21.2 percent (a rise of 1.2 percentage points from the previous year). Similarly, the leverage ratio[81] stayed higher than the regulatory minimum requirement, ending 2020 at 9.46 percent.

Evolution of the loan-to deposit ratio (%; end-period)



Source: NBR

COOPERATIVE RELATIONS AT THE NATIONAL LEVEL

In line with its statutory mandate and the responsibilities it has been assigned by law and on account of its contribution to maintaining financial stability, the FGDB was granted observer status to the National Committee for Macroprudential Supervision (CNSM), an interinstitutional cooperation structure set up under *Law no. 12/2017 on macroprudential supervision of the national financial system*[82] which includes representatives of the National Bank of Romania, of the Financial Supervisory Authority, and of the Government. The FGDB General Director attends the meetings of the CNSM's General Board without the right to vote.

The CNSM's utmost target is to contribute to safeguarding financial stability, also by reducing the build-up of systemic risks and enhancing the resilience to shocks of the financial system to allow it to make a sustainable contribution to economic growth. Furthermore, 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.

Given the pandemic of 2020, the CNSM conducted its meetings by written procedure or via video conference or teleconference. The main themes approached during the meetings referred to aspects related to macroprudential policy and systemic risk, the regular analysis covering the recalibration of the countercyclical capital buffer, the implementation of the capital buffer for other systemically important institutions, the impact of the funding plans of credit institutions on loans to the real economy, systemic risks identified within the national financial system, the

[79] According to estimates, the rise was due to a decline in GDP under the impact of the COVID-19 pandemic rather than to an increase in real terms of the percentage of GDP held by loans to the private sector.
[80] FGDB data, which were determined based on reports from member credit institutions.
[81] The leverage ratio represents the extent to which credit institutions finance their operations from their own sources and measures Tier 1 capital to average total assets.
[82] The creation of the CNSM, which took over the duties of the National Committee for Financial Stability was in line with the *ESRB Recommendation on the macro-prudential mandate of national authorities*

results of the stress simulation exercise which tested the solvency of the banking system or the preliminary analysis looking into the capability of the banking sector to manage higher-impact adverse events. At the same time, the CNSM was informed of the characteristics, implementation, and implications for financial stability of the steps taken to protect the real economy from the impact of the COVID-19 pandemic, as well as of the measures the National Bank of Romania had undertaken along the same line.

A set of recommendations were adopted in 2020 referring, inter alia, to the countercyclical capital buffer and the capital buffer for other systemically important institutions in Romania[83], the implementation of the *ESRB Recommendation 2020/8 on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic,* as well as to amendments to the strategy for the implementation of International Financial Reporting Standards (IFRS) by non-bank financial institutions as a basis for accounting and for the preparation of separate financial statements.

As for interinstitutional cooperation, in 2020, the FGDB initiated actions to adapt and formalise the framework for cooperation with the National Bank of Romania and the Finance Ministry with a view to rendering more effective the communication between the institutional participants in the application of bank resolution measures, in line with a conclusion drawn during the stress simulation exercise conducted in May 2019. The need for a tripartite agreement between the institutions involved was discussed also in the CNSM as far back as 2019.

The completion of this action calls for cooperation between the three institutions that are part of the financial stability network so that their agreement may provide a harmonised and operational framework to govern existing bilateral accords/conventions and to work as an efficient tool for smoother communication and information exchanges.

INTERNATIONAL ACTIVITIES

As part of its international activities, in 2020, the FGDB attended the virtual meetings of working groups set up within EFDI[84] and the European Banking Authority.

Throughout 2020, FGDB representatives attended video conferences on cross-border cooperation between the deposit guarantee schemes operating across the European Union, both within the extended group coordinated by the FGDB's General Director[85], and within the subgroups dealing with operational, legal, financial and communication matters.

Representatives of the FGDB also attended the video conferences of the subgroup on stress tests of the European Banking Authority's Standing Committee on Resolution which focused on the preparation of the opinion of the European Banking Authority on the implementation of the deposit guarantee schemes Directive in the European Union and the need for a review of that directive.

[83] The requirement for the capital buffer for other systemically important institutions has applied since 1 January 2016 and is reassessed annually. With the CNSM recommendations as a basis, the National Bank of Romania issued *Order No. 5/2020 on the buffer for credit institutions authorised in Romania and designated as other systemically important institutions (O-SIIs)*, which was published in The Official Gazette of Romania, Part I no. 1222 of 14 December 2020. In 2021, by comparison with previous years, the number of credit institutions identified as falling into the "other systemically important institutions" category dropped from nine to eight. The eight OSIIs are affiliated to the FGDB and the covered deposits in their records account for 89.1 percent of the total covered deposits which member credit institutions held on 31 December 2020, according to data reported to the FGDB.

[84] The EFDI currently has 69 member institutions from 47 European countries, of which 56 are deposit guarantee schemes and 14 are investor compensation schemes.

[85] Until September 2020, the FGDB's General Director was a member of the management executive structure of the EFDI EU Committee and coordinator of the EFDI Cross-Border Cooperation Working Group. Consequently, the cross-border cooperation project of the EFDI EU Committee is managed by the FGDB.

Over April-May 2020, FGDB representatives organised and coordinated the process of updating the database covering cross-border cooperation between the guarantee schemes in the European Union that signed the Multilateral Cooperation Agreement under EFDI aegis. The cross-border cooperation database, implemented within the EFDI and administered by the FGDB, is a key tool to be used by the scheme in the home country when disbursing payouts to guarantee depositors in the host country.

Starting from the common set of standards and instruments established under the EFDI Multilateral Cooperation Agreement, the guarantee scheme of Hungary[86] initiated actions towards signing a bilateral agreement with the FGDB following the opening in Bucharest of a branch of Bank of China (Central and Eastern Europe) Limited, which has its headquarters in Budapest. Negotiations were held throughout 2020 and the bilateral agreement in its final form was signed at the beginning of 2021.

The FGDB's representatives to the working group on the EDIS project, set up within the National Bank of Romania, contributed to the preparation of the central bank's opinion on specific issues related to the EDIS file. Member states formulated their opinions in preparation of the virtual meetings of the Ad Hoc Working Party on the Strengthening of the Banking Union of the Council of the European Union which discussed different options for the introduction of EDIS and measures to mitigate risks in the banking sector.

In 2020, representatives of the FGDB had a virtual participation in the meetings of the Banking Union Working Group, which analysed in detail the legislative proposal for the establishment of EDIS and its course. The FGDB also attended the online meetings of other groups operating within the EFDI.

As an IADI member[87], the FGDB participated via teleconference in the Annual General Meeting, the meetings of the Europe Regional Committee, as well as in other debates organised by this international association. In 2020, the FGDB also formulated opinions and shared information about its practices and experience in deposit guarantee and bank liquidation in response to numerous queries from other guarantee schemes.

In December 2020, the FGDB launched a survey among deposit guarantee schemes in the European Union on their willingness to lend money to each other on a voluntary basis, as a means to augment their funding sources in a critical payout event. Answers to the FGDB survey showed that guarantee schemes were little interested in this potential financing mechanism, which is envisaged in the European deposit guarantee schemes Directive, because of impediments in its application which make it virtually unfeasible.

The FGDB, alongside representatives of the National Bank of Romania and of the Finance Ministry, also joined in the virtual meetings of the resolution colleges organised by the SRB[88] in 2020.

[86] Országos Betétbiztosítási Alap - OBA.

[87] The IADI currently has 85 members (deposit guarantee schemes from 87 countries), 8 associates (authorities and institutions operating in countries which intend to create a deposit protection system) and 16 partners (including the World Bank, the International Monetary Fund, the European Bank for Reconstruction and Development, the EFDI).

[88] The FGDB has observer status in 16 resolution colleges for credit institutions under the SRB's remit which operate subsidiaries or branches in Romania.

3 DEPOSIT GUARANTEE

EVOLUTION OF DEPOSITS IN 2020[89]

Under the conditions and within the limits laid down in legislation, the FGDB's guarantee scope includes the eligible deposits of natural persons and of small- and medium-sized enterprises, businesses, and other similar entities.

At the end of 2020, 99.8 percent of natural persons' deposits (held by 99.7 percent of the depositors in the natural-person category) and 76.2 percent of the deposits of legal entities (held by 97.2 percent of the depositors in the legal-person class) fell within the FGDB's guarantee scope.

According to data affiliated credit institutions submitted to the FGDB, deposits in their records totalled 418.8 billion lei on 31 December 2020, having soared by 12.4 percent against end-2019, a climb the trigger of which – just as the year before – was the increase in residents' deposits[90].

Eligible deposits, amounting to 371.8 billion lei on 31 December 2020, accounted for 88.8 percent of total deposits. They remained on the upward path trodden in previous years, posting a significant year-on-year rise of 14.8 percent. The increase in eligible deposits by around 48 billion lei was an outcome of the positive evolution of all components – leu- and foreign currency-denominated deposits within or above the guarantee ceiling held by both households and legal entities.

The most substantial contribution (of approximately 80 percent) to the upswing came from household deposits below or equal to the 100,000 euros threshold (in its leu equivalent) and from deposits above the coverage level, held by guaranteed legal persons. More than three quarters of the year-on-year climb in FGDB-guaranteed deposits were recorded in the second half of the year.

The health crisis triggered by the pandemic in the first half of 2020 and its major impact on economic activities significantly altered the behavioural pattern of individuals and economic agents. On the one hand, lockdowns led to revenue drops for companies and large groups of people, and on the other hand compelled banks to invest massively in digitalisation and in methods to make online payments and mobile banking more secure. Such circumstances had a strong impact on people's spending propensity and on companies' investment plans, which tended to be either postponed or delayed, and the outcome was a significant upsurge in both eligible and covered deposits.

The preference of both natural and legal persons for savings in the national currency rather than in foreign currencies remained unchanged in 2020. In nominal terms, leu-denominated eligible deposits moved faster and reached 233 billion lei at end-2020 (an annual variation of +13.8 percent), leaving eligible deposits in foreign currencies behind, at the leu equivalent of 138.8 billion (an annual variation of +16.5 percent). Deposits in the leu currency continued to hold the largest share of total eligible deposits, accounting for 62.7 percent on 31 December 2020.

The rise in eligible deposits in foreign currencies in the year 2020 was mainly due to the euro denomination (87.7 percent).

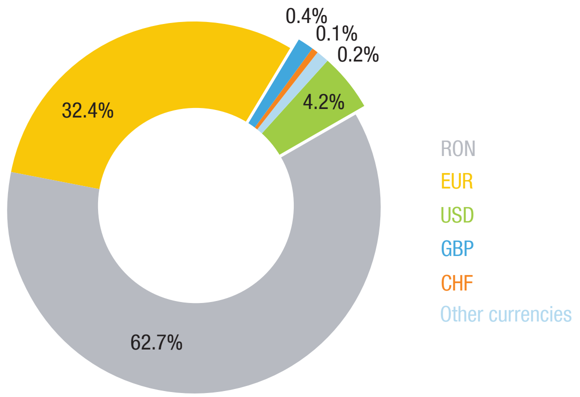
[89] A statement of deposits with member credit institutions as at 31 December 2020 is provided in Annex 3.

[90] There were withdrawals of funds by non-residents falling into the category of legal entities excluded from the scope of guarantee, namely credit institutions, financial institutions, investment firms, insurance and/or reinsurance companies, collective investment undertakings, pension funds, central, local and regional public authorities.

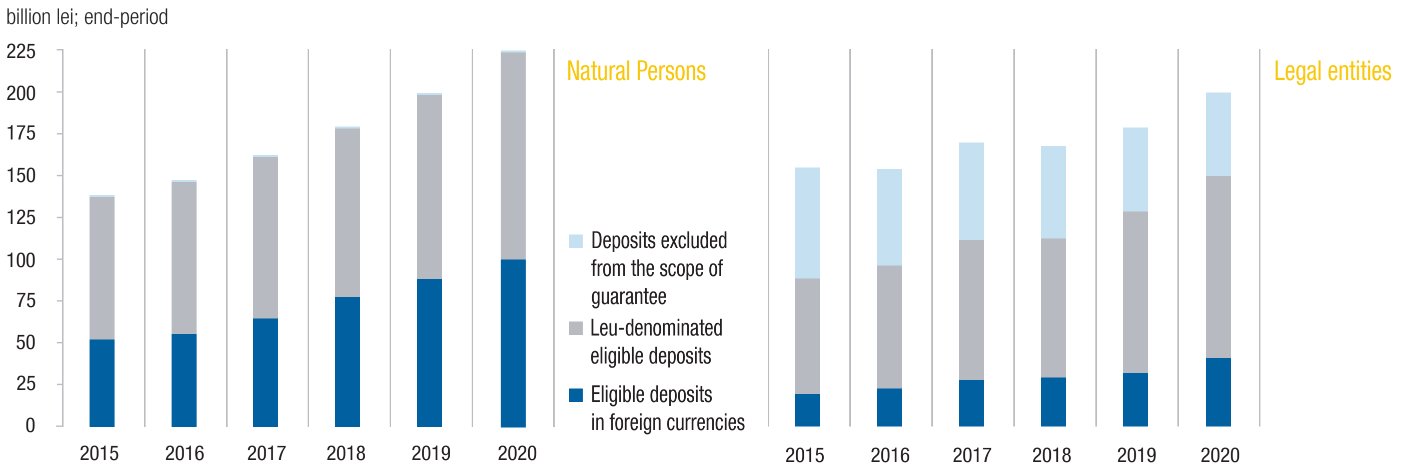
As pointed out in the previous chapter, in 2020, overnight deposits[91] remained the most significant factor behind the increase in natural persons' deposits accounting for more than half (52.1 percent) the total household deposits on 31 December.

The number of guaranteed depositors stood at 15,278,102 natural and legal persons on 31 December 2020, with 99 percent of the total being accounted for by residents with deposits worth 360.9 billion lei (or 97 percent of overall end-2020 eligible deposits) held with member credit institutions.

Structure of Eligible Deposits by Currency as at 31 December 2020



Deposits at Affiliated Credit Institutions*



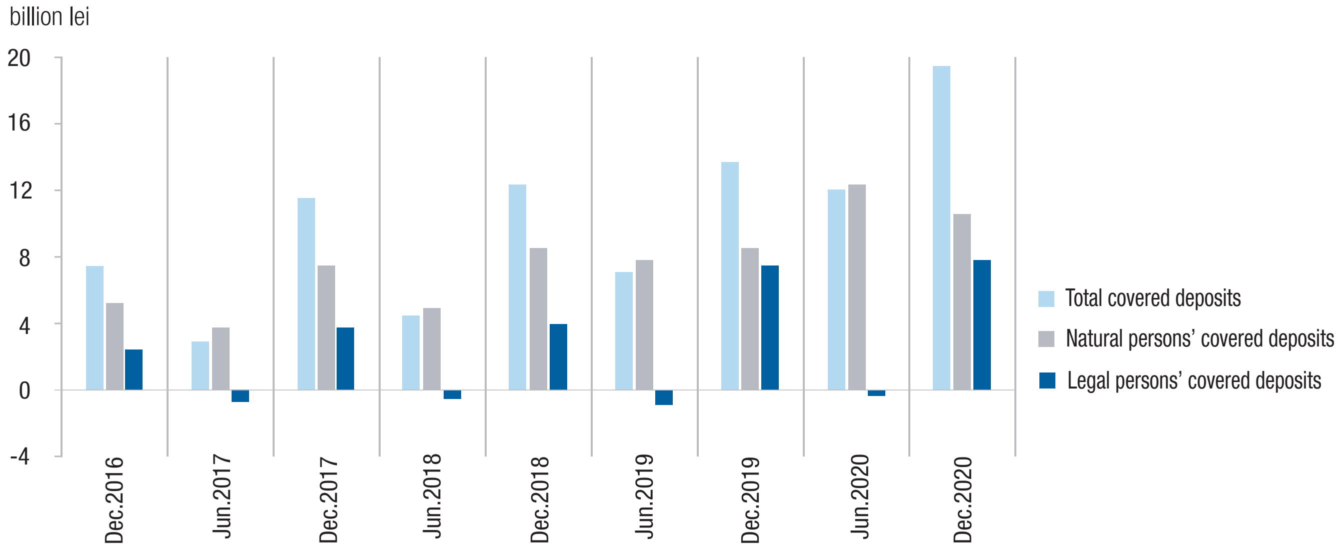
** Household deposits excluded from the scope of guarantee held a very small share (of 0.2 percent) of natural persons' total deposits*

FGDB-guaranteed deposits amounted to 241.6 billion lei on 31 December 2020, up 14.7 percent from the end-2019 level, continuing to hold a share of roughly two thirds of total eligible deposits.

Just as was the case the previous year, approximately 65 percent of the year-on-year hike in covered deposits was a result of household deposits, below the guarantee ceiling and denominated in the leu or in foreign currencies, which stayed in positive territory. Deposits the value of which is smaller than or equal to the guarantee threshold, which, year in year out, have been the main driver of the increase in the worth of covered deposits, accounted for 83.3 percent of total FDGB-covered deposits.

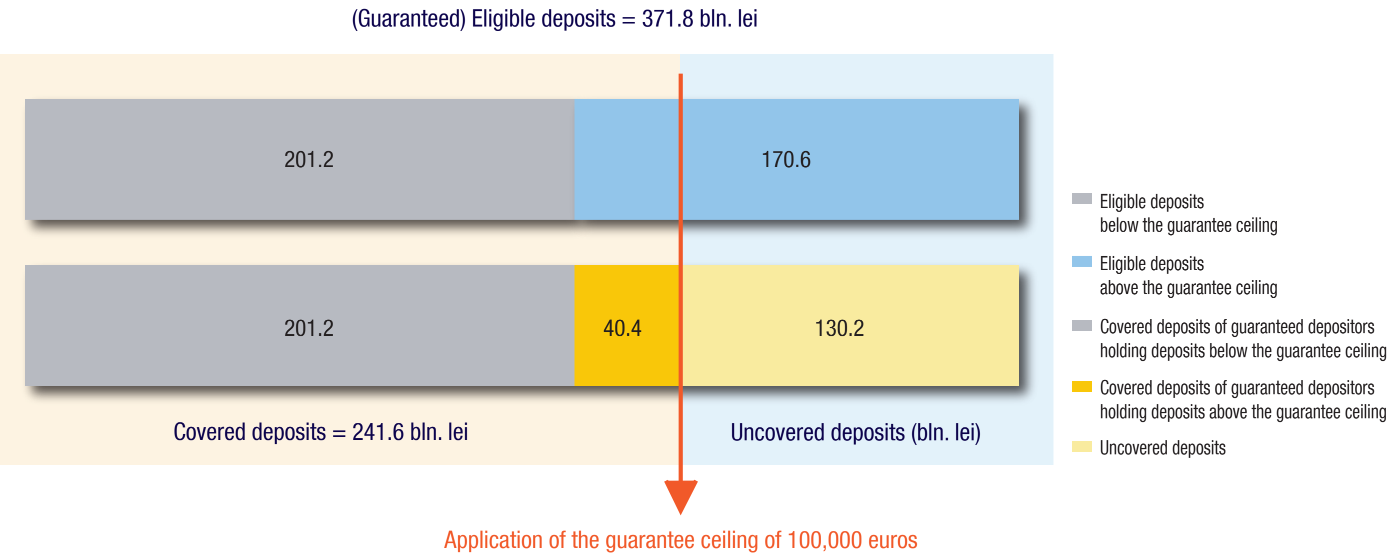
[91] Monthly bulletin of the National Bank of Romania, December 2020, Year XXVIII, no. 326. According to data provided by the National Bank of Romania, in 2020 overnight deposits increased their share of total household deposits and were the reason behind 87 percent of the advance of those deposits.

Variations of Total Covered Deposits by Categories of Depositors



Holders of deposits that benefit from full FGDB coverage – that is, 15,195,148 natural and legal persons – accounted for 99.5 percent of the total number of guaranteed depositors. Deposits of less than or up to the leu equivalent of the guarantee ceiling[92], were worth a total 201.2 billion lei on 31 December 2020, having increased by 23.6 billion lei from the previous year mainly thanks to the rise in household deposits. Deposits that did not exceed the coverage level accounted for 54.1 percent of total eligible deposits. At the end of 2020, deposits above the guarantee ceiling stood at 170.6 billion lei (an annual variation of +16.6 percent on the back of the advance in guaranteed legal entities' deposits).

Positioning of Eligible Deposits in Relation to the 100,000-Euro Guarantee Ceiling on 31 December 2020



[92] On 31 December 2020, the 100,000-euro coverage threshold was the equivalent of 486,940 lei.

NATURAL PERSONS' ELIGIBLE DEPOSITS

The year 2020 saw a significant rise in natural persons' eligible deposits at credit institutions participating in the FGDB which hit the highest level in the past few years at 222.5 billion lei (an annual nominal variation of +13.7 percent). On 31 December 2020, these deposits were held by 14,148,998 natural persons.

Natural persons' deposits, irrespective of the currency they were held in, moved up throughout 2020, with leu-denominated deposits below the guarantee threshold recording a sharper rise. At the end of 2020, eligible deposits in the national currency totalled 123.8 billion lei, up 14.1 percent from 31 December 2019, while deposits in foreign currencies gained 13.1 percent to stand at the leu equivalent of 98.7 billion. Leu-denominated deposits continued to account for the bulk of natural persons' total eligible deposits (55.6 percent), being followed by deposits in euros (38.9 percent) and in U.S. dollars (4.5 percent).

At the end of 2020, the eligible deposits held by resident natural persons amounted to 215.6 billion lei, having added 26.6 billion lei to the level as at 31 December 2019 and accounting for 96.9 percent of total eligible household deposits.

The significant upturn in household savings throughout 2020 was a result of the decline in household individual consumption due to the pandemic as numerous areas of economic activity recorded slower growth rates or even failed, consumers were in home isolation and demand for non-food products or non-essential services dropped.

The labour market was, in turn, badly affected by measures taken to control the spread of COVID-19. During 2020, unemployment rate headed higher ending the year at 4.9 percent[93] (a record high for the past three years) as an outcome of moves by some businesses to interrupt their activity partially or fully or to resort to partial unemployment (also called "technical unemployment") or short-time working arrangements, as well as of shortfalls in production and in revenues. All this notwithstanding, government employment support programmes limited the negative impact of the spreading COVID-19 pandemic, leading to an 8.4 percent year-on-year increase in the average net nominal wage to 3,620 lei at the end of 2020. As compared to the year-ago period, the real wage index stood at 106.2 percent[94].

Average monthly pension in 2020 amounted to 1,500 lei, up 16.1 percent from the end of the previous year[95]. The average number of pensioners dropped by 29,000 from the previous year to stand at 5,128 thousand, of which 4,675 thousand individuals on state pensions (a category that recorded a rise by 3,000 people from 2019). The ratio of average number of non-workers receiving the state pension to the average number of workers was of nine to 10; across Romania, that ratio showed wide variations – from four to 10 in Ilfov county, through 16 to 10 in Teleorman county and 15 to 10 in Giurgiu and Vaslui counties, to 14 to 10 in Botoșani county.

An analysis of data which FGDB-affiliated credit institutions reported on 31 December 2020 highlighted several salient features in terms of the distribution of depositors (natural persons) and of their deposits and showed an inversely proportional relationship between the two.

The largest number of depositors – that is 81.1 percent of the total number of subjects included in the analysis – is grouped in the segment of deposits of less than or up to 10,000 lei, which account for a mere 6.3 percent of total deposits. The average value of a deposit in this segment

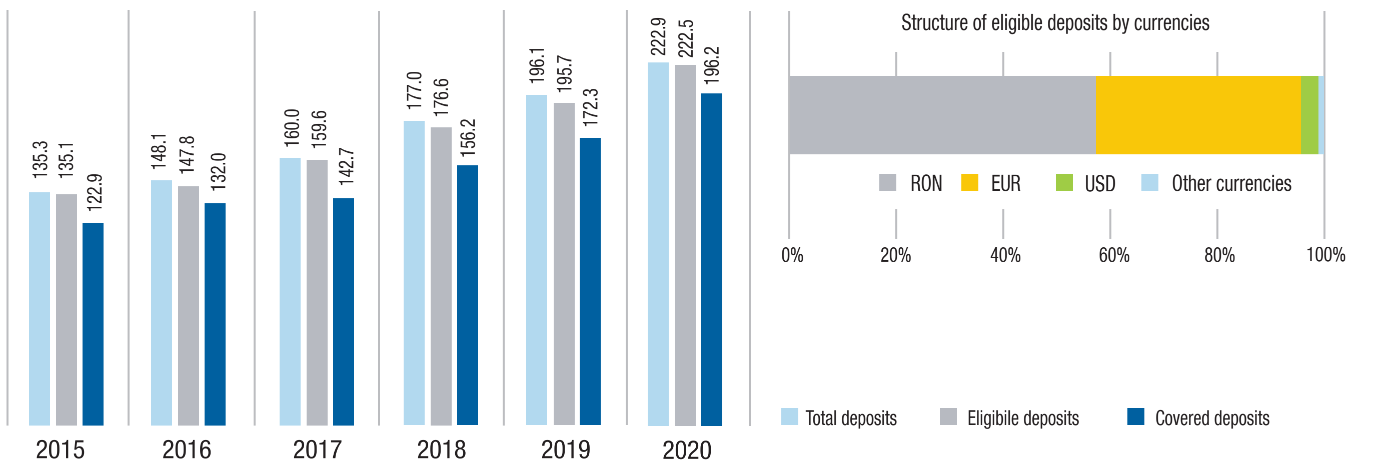
[93] Press release no. 26/1 February 2021 of the National Institute of Statistics.

[94] In its press release no. 34/11 February 2021, the National Institute of Statistics showed: in December 2020, as a year-end characteristic, wages in most economic sectors were generally higher than in previous months, mostly as a result of occasional rewards (such as, quarterly, annual, holidays and performance bonuses or the 13th-month pay), payments in kind and allowances, cash profit sharing or sharing of other funds (including vouchers). In 2020, that rise was also an outcome of business resumption by companies impacted by pandemic-related measures, improvements in production or bigger receipts (depending on contracts/projects), as well as of layoffs in a number of economic areas of employees earning wages below average.

[95] Press release no. 77/30 March 2021 of the National Institute of Statistics.

Household Deposits at Affiliated Credit Institutions

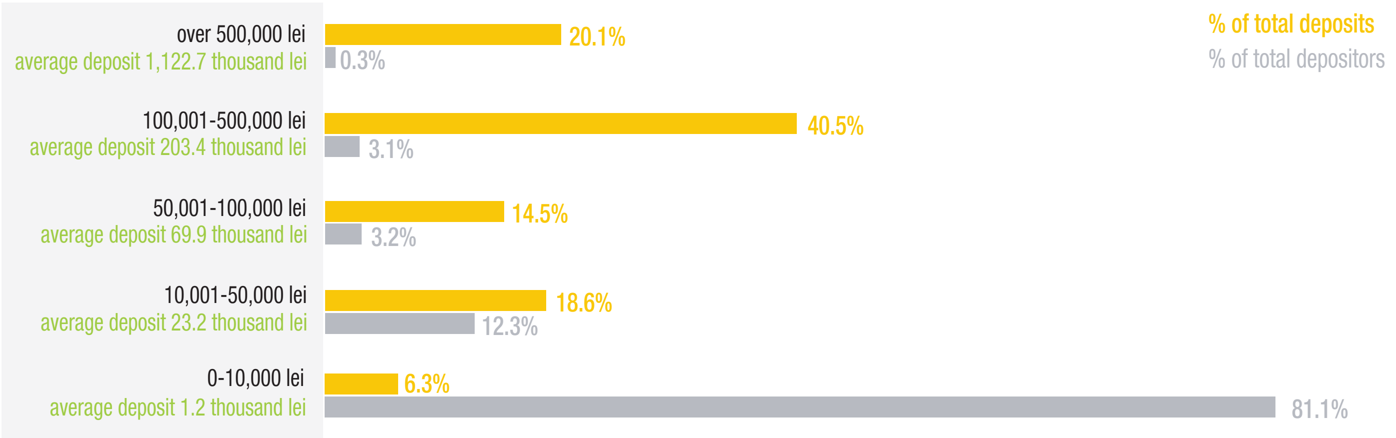
billion lei; end-period



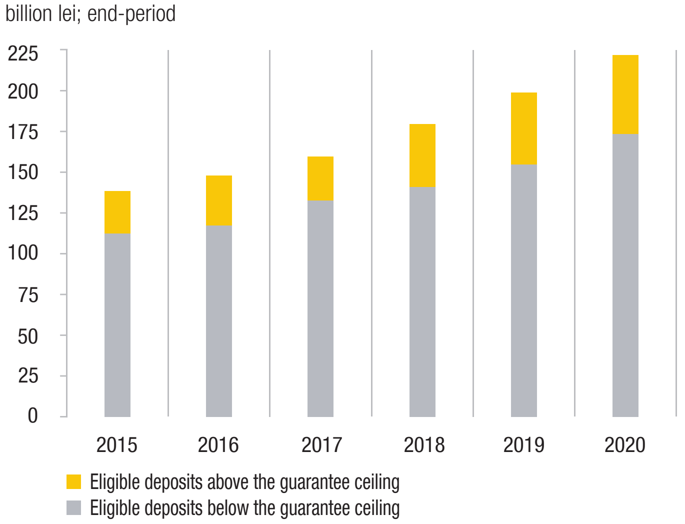
is 1.2 thousand lei. Grouped in the next two segments are 15.5 percent of depositors with amounts ranging from 10,000 lei to 100,000 le in their deposit accounts, who hold a 33.1 percent share of total deposits. The segment representing deposits of more than 100,000 lei and up to 500,000 lei includes 3.1 percent of all depositors. They account for 40.5 percent of deposits and the average deposit is worth 203.4 thousand lei. The last segment corresponds to depositors who have more than 500,000 lei in their accounts, that is 0.3 percent of the total number of depositors. They account for 20.1 percent of the value of deposits and the average deposit in this segment stands at 1,122.7 thousand lei.

Natural persons' deposits were instrumental in enhancing the total value of covered deposits, most of household deposits being at most equal to the leu equivalent of 100,000 euros. On 31 December 2020, covered household deposits totalled 196.2 billion lei (an annual variation of +13.9 percent) and accounted for more than 88 percent of total deposits held by natural persons and for 81.2 percent of total FGDB-covered deposits.

Distribution of Deposits by Ranges of Values



Positioning of Eligible Household Deposits in Relation to the Guarantee Ceiling



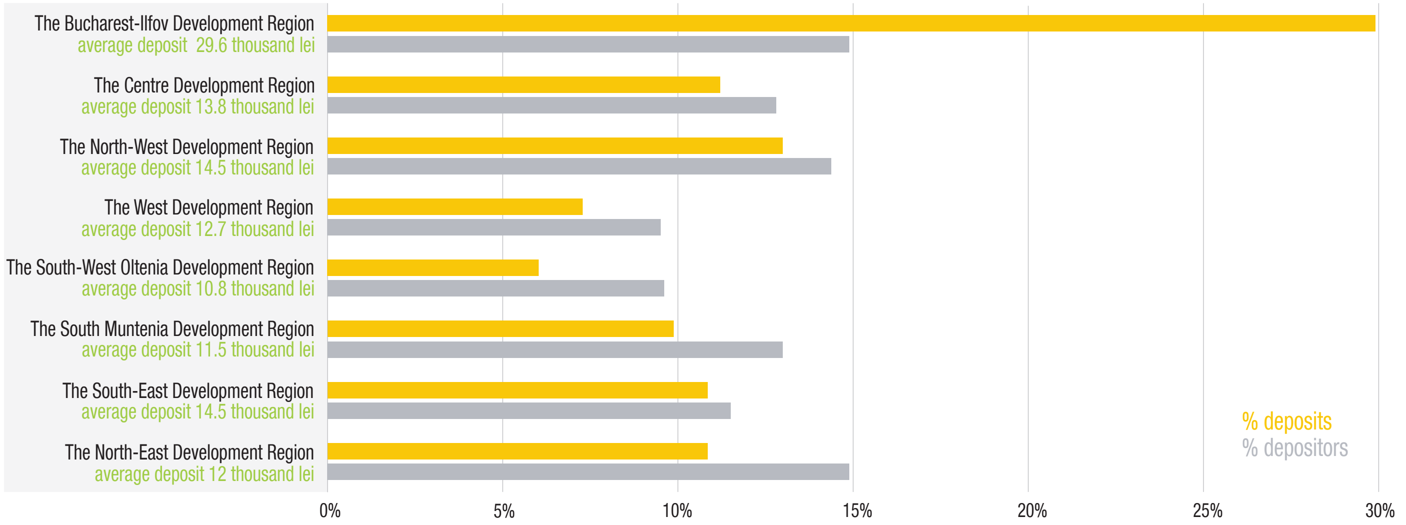
Guaranteed depositors with deposits below the guarantee ceiling who benefit from full FGDB coverage accounted for 99.7 percent of the total number of natural persons holding eligible deposits at the end of 2020.

As to their position in relation to the coverage threshold, natural persons' deposits below or up to that threshold stood at 173.2 billion lei (77.8 percent of total eligible deposits) on 31 December 2020, showing a 13 percent jump from the same date the previous year. Around 80 percent of the year-on-year increase worth 24 billion lei or so in the segment including FGDB-covered household deposits was accounted for by deposits below or equal to the coverage level of 100,000 euros in its leu equivalent. The average value of a covered deposit held by a natural person amounted to 13.9 thousand lei at the end of 2020 (an annual variation of +14.9 percent as to end-December 2019).

The Bucharest-Ilfov Development Region continues to concentrate almost one third of the value of natural persons' deposits (the average deposit in this segment is worth 29.6 thousand lei). In 2020, this region saw a surge in deposits whose value increased by 7.2 billion lei in absolute terms. Almost three quarters of the depositors of the Bucharest-Ilfov Development Region held 10,000 lei or less in their deposit accounts, which represented a scant 3.3 percent of the aggregate value of deposits. Deposits in the 100,000-500,000-lei segment accounted for 43 percent of the Region's total household deposits. The South-West Oltenia Development Region remains at the other end of the scale with the lowest value of an average deposit (10.8 thousand lei).

At the end of 2020, the North-West Development Region posted the highest percentage increase in the average deposit (17 percent).

Distribution of deposits and depositors by regions



LEGAL PERSONS' ELIGIBLE DEPOSITS

Legal persons' eligible deposits moved slightly faster than household deposits to total 149.3 billion lei on 31 December 2020 (an annual variation of +16.5 percent). Three quarters of the year-on-year gain of around 21 billion lei were recorded in the last three months of the year managing to offset the decline of the first half of 2020.

Just like in previous years, the increase in deposits held by guaranteed legal entities in 2020 was particularly due to the rise in deposits above the guarantee ceiling of 100,000 euros in the leu equivalent.

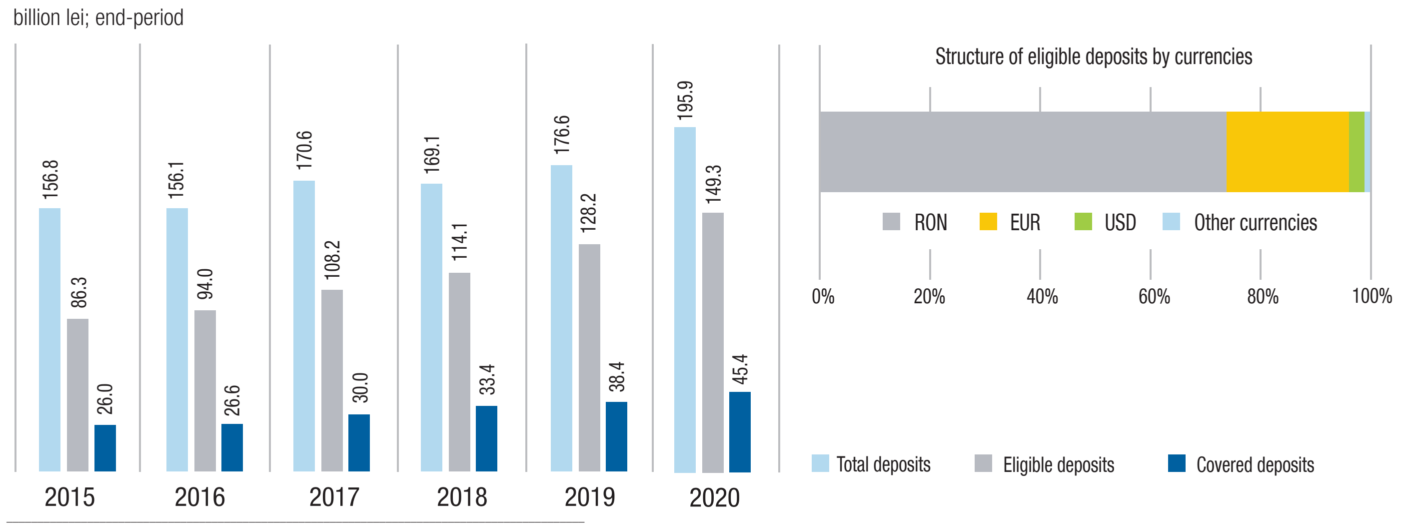
With the crisis triggered by the COVID-19 pandemic and ebbing business in the background, Romania's authorities put effort into mitigating the negative impact on the economic environment through concrete measures intended to assist companies in braving a difficult period. However, as was to be expected, economic agents showed an extremely cautious investment and operational behaviour, which resulted in more money into their bank accounts by the end of 2020. Nevertheless, the number of newly incorporated businesses dropped to its lowest in recent years[96] (an 18 percent decrease as compared to the number of new legal entities recorded all through 2019).

Legal persons' leu-denominated guaranteed deposits advanced by 13.4 percent amounting to 109.1 billion lei on 31 December 2020. Deposits in foreign currencies totalled the leu equivalent of 40.2 billion (an annual variation of +25.8 percent), adding the leu equivalent of 8.3 billion to the level on 31 December 2019. As was the case with household deposits, euro-denominated deposits were the main component of companies' deposits in foreign currencies and, equally, the reason behind the increase in legal entities' eligible deposits in foreign currencies in 2020 (+7 billion in leu equivalent).

Deposits denominated in the national currency continued to account for almost three quarters of total eligible deposits held by legal entities (73.1 percent), with deposits in euros (22.5 percent) and deposits in U.S. dollars (3.7 percent) coming next.

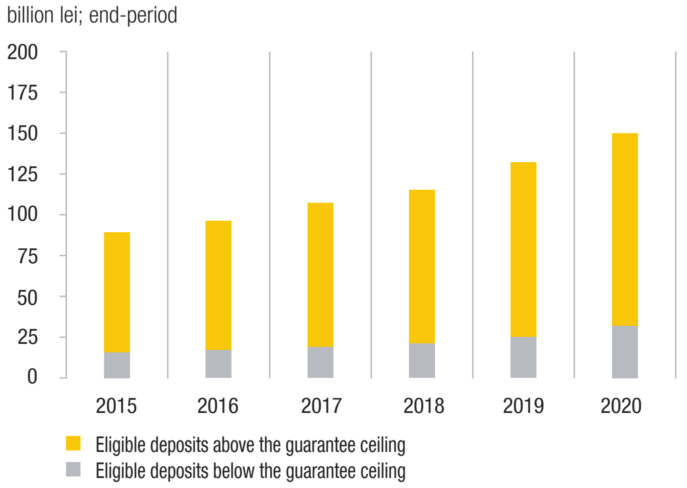
Deposits above the leu equivalent of the guarantee ceiling, totalling 121.3 billion lei on 31 December 2020, took 81.2 percent of legal persons' eligible deposits.

Legal Persons' Deposits at FGDB-Member Credit Institutions



[96] Source: The National Trade Register Office website, the Statistics section – Incorporations of private limited companies – debutant (SRL-D)

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



Resident legal persons' eligible deposits, which amounted to 145.3 billion lei at the end of 2020, recorded a year-on-year increase of 16.3 percent and accounted for 97.3 percent of legal entities' total eligible deposits.

On 31 December 2020, the number of guaranteed legal persons stood at 1,129,104, of which 99.8 percent were residents and 96.8 percent held deposits within the scope of guarantee. Legal entities' covered deposits ended the year 2020 moved in positive territory showing an annual variation of +18.2 percent to 45.4 billion on 31 December; they accounted for less than one third of legal persons' total eligible deposits, most of which exceed the guarantee ceiling, unlike covered household deposits.

At the end of 2020, in terms of average value, a legal person's eligible deposit within the coverage level amounted to 25.6 thousand lei, while a deposit exceeding 100,000 euros stood at 3,406.8 thousand lei. A covered deposit held by a legal entity was worth 40.2 thousand lei on average at end-2020 (an annual variation of +9.5 percent).

PAYOUT PROCESS

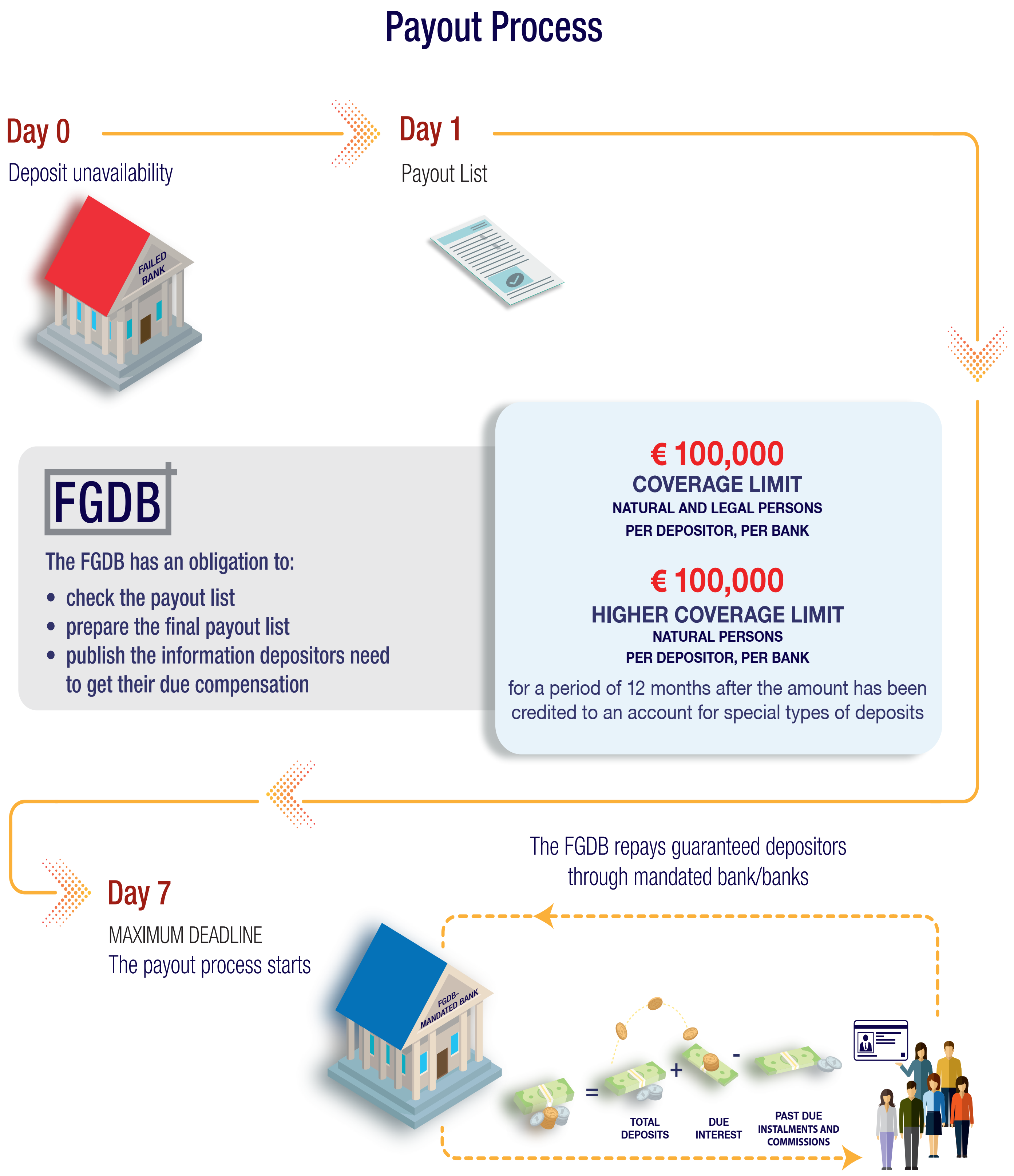
Despite the unusual challenges of the year 2020, first in the health system, and later at the economic, social, and financial levels, and thanks to the Romanian authorities' swift, vigorous measures, the uninterrupted period of 14 consecutive years without bank failures or instances of deposit unavailability demanding compensation payments to guaranteed depositor could go on. Since its creation, the FGDB disbursed payouts worth 512.2 million lei to holders of guaranteed deposits at seven banks that went bankrupt over 1999-2006. The FGDB's obligation to repay the depositors of the bank that was the last to fail in Romania ceased in January 2010 as all payout processes had run within the legal time frame and without incident.

According to legislation covering its activity, the FGDB has the obligation to make available due compensation to guaranteed depositors within at most seven business days of the date deposits become unavailable. This is the shortest repayment period as laid down in the *European Union's Directive on deposit guarantee schemes*[97]. In order to fulfil that mandate, the FGDB's constant concern has been to put in place the necessary conditions for a rapid, effective disbursement process, which represents a significant factor of strengthening depositors' confidence.

Current legislation stipulates that compensation should be paid through the agency of credit institutions mandated as agent banks. To this end, every year, the FGDB's Supervisory Board, with the approval of the Board of Directors of the National Bank of Romania, selects[98] the credit institutions which, over the following 12 months, will be mandated to make payouts in the event of unavailability of deposits at one/several participating credit institutions.

[97] Within the European Union, payout deadlines will be gradually reduced from 20 working days to seven working days by 2024.

[98] Selection is based on criteria laid down in the FGDB's Regulation no. 3/2018: qualification of credit institutions depends on their volume of eligible deposits, their placing among the first 10 affiliated credit institutions, the size of their network of units nationwide, their capability, in the event of cross-border payouts, to make repayments in the currency in which the home guarantee scheme provided the funding, the absence of disputes with the FGDB. Furthermore, they must not be under any bank recovery or resolution procedures; and they must operate an IT system adapted to specific FGDB requirements as well as a dedicated call-centre service.



Given the little interest credit institutions have shown in acting as mandated agent banks for the FGDB and in consideration of the risks associated with this trend since, under current legislation, this is the sole method of compensating depositors, the necessity became apparent for some flexibility in the payout process in consideration of new guidelines across Europe and of developments in information and communication technology. Against this background, the FGDB launched an extensive project to identify and implement modern repayment methods, as alternatives to the only instrument currently at its disposal (namely, the mandated bank), in consideration of present-day trends towards an effective digitalised payout process, the practice of other guarantee schemes in the European Union and the need to adapt to the requirements and level of financial education of various categories of depositors.

Specifically, the project explores options likely to work as alternative repayment methods[99] in Romania's market and surveys the requirements payment service providers (other than credit institutions), authorised in line with the *revised Directive (EU) 2015/2366 on payment services* (PSD2), must fulfil in order to be accepted as paying agents for the FGDB.

Moreover, in September 2020, the FGDB, benefitting from the support of the National Bank of Romania and of the Finance Ministry, took the final steps towards promoting a bill to amend Law no. 311/2015. The bill refers, inter alia, to the need for more flexible compensation payment methods. The draft legislation was made available for public comment, a stage that was completed at the beginning of February 2021, and, through the agency of the Finance Ministry (which has the power to initiate legislation) will be submitted to the Ministry of Justice for endorsement. Subsequently, the bill will reach the Cabinet which will approve it and introduce it in Parliament for adoption.

INSPECTION VISITS AT FGDB-AFFILIATED CREDIT INSTITUTIONS

All credit institutions accepting deposits from the general public in European Union member states have the obligation to join a deposit guarantee scheme officially recognised in legislation or by the designated authority. Credit institutions which are Romanian legal entities authorised by the National Bank of Romania participate in the FGDB, the statutory deposit guarantee scheme formally recognised in Romania, including for deposits taken by these institutions' branches abroad. The branches in Romania of credit institutions headquartered in other member states are affiliated to the guarantee schemes in their home countries.

On 31 December 2020, the FGDB had in its membership 26 institutions[100], including 23 credit institutions, two savings and loan institutions and one credit cooperative (central body and affiliated cooperatives)[101].

In compliance with legislation in effect, the FGDB conducts annual on-site inspections at all member credit institutions to verify their deposit-related reports, as well as the procedures they follow to inform depositors of the deposit guaranteeing process. The principal goal of these controls is that both the credit institutions and the FGDB provide all the necessary conditions for an effective run of the payout process, the appropriate classification of deposits in terms of coverage, and the supply to depositors of reliable information about the protection the FGDB offers.

In consideration of the health situation generated by the SARS-CoV-2 virus, with both credit institutions and the FGDB sparing no effort to adequately manage the events in order to protect the health of their own workers and of clients and to ensure operational continuity, the

[99] Bank transfer after obtaining information on the account held by the user through an online banking interface (the bank's own interface or an interface provided by an outsourcer) and postal services operators. The possible use of cards for repayments was discussed with the credit institution that was most often granted the payout mandate by the FGDB, but whether or not this is a viable solution has yet to be confirmed.

[100] As was shown in Chapter 2 - *The 2020 Background and Regulatory Framework,* on 30 April 2020 the merger by absorption was completed between two credit institutions affiliated to the FGDB, namely First Bank SA (the absorbing bank) and Bank Leumi România SA (the absorbed bank). Consequently, the number of credit institutions participating in the FGDB dropped from 27 in 2019 to 26 at the end of 2020.

[101] The List of FGDB-Member Credit Institutions as at 31 December 2020 can be found in Annex 4.

verifications of 2020 followed a different path, according to a different approach, in line with the exceptional circumstances at that time.

Accordingly, in 2020, there were no on-site inspection visits at credit institutions; instead, the FGDB's inspection team adapted to the situation and, thanks to an efficient coordination and fine cooperation with representatives of credit institutions, controls of the 26 affiliated credit institutions were carried out remotely.

Specifically, the remote work arrangement implied verifications based on the correspondence exchanged with credit institutions and the information they sent via secure/encrypted files over the interbank communication network (RCI) and by emails. The deadline for the respective controls was set for end-2020 so that the data resulting from the inspections could serve as a basis for the adjustment of the credit institutions' 2020 contributions to the deposit guarantee fund.

The respective inspections focused on:

i. the accuracy of the data participating credit institutions reported ahead of the calculation of annual contributions to the deposit guarantee fund in 2020;
ii. the accuracy of the data submitted by affiliated credit institutions in the *Payout List* on 31 December 2019 (by three institutions[102]) and, respectively, 30 June 2020 (by 23 institutions);
iii. compliance with legal provisions related to the information credit institutions provide to depositors.

The results of the inspections conducted at the 26 participating credit institutions in 2020 showed a significant improvement in the quality of reported data, as well as fewer inaccuracies in terms of entries into the *Payout List.*

Since, given the unprecedented circumstances brought by the COVID-19 pandemic it was no longer possible to check whether units in the territory complied with the legal provisions on depositor information, the focus shifted to verifying the information credit institutions provide to depositors on their official websites. The aspects under scrutiny included:

- the supply of information to depositors about the deposit guarantee scheme and about types of deposits excluded from coverage;
- the way in which depositors were informed about deposit guarantee and the method of calculating due compensation before signing a deposit contract via online banking;

In the case of six credit institutions where deficiencies had been identified, measures and deadlines were set for their correction, with the FGDB monitoring their fulfilment to ensure compliance with applicable legal provisions.

In line with the *Plan of measures to enhance the FGDB's operational capability to make compensation payments, over September-December 2020*, the FGDB continued to test the capacity of participating credit institutions to prepare the Payout List on a date other than the last day of a calendar month and transmit it within the time frame laid down in the regulations in force, namely three working days of the reference date.

The test exercise which ran at seven credit institutions showed that the percentage of critical errors (errors in relation to the identity of depositors) in the total number of depositors of each credit institution was very low, ranging from 0 percent to 0.8 percent. In terms of amounts involved, the percentage of critical errors in total disbursements was also very small, varying from 0 percent to 0.27 percent. The low percentages were a result of the focus credit institutions placed on correcting the errors linked to the identity of depositors in their records following the need to know their clients, as well as of the regular checks conducted by the FGDB.

With a view to performing an analysis of covered and eligible deposits in full consonance with the actual situation within the FGDB-affiliated member credit institutions, a reporting obligation was introduced whereby starting 30 September 2020 aggregate information on depositors and deposits would be dispatched to the FGDB on a quarterly basis (replacing the six-month reporting requirement of the previous years).

[102] In the case of the three institutions, the latest data reported to the FGDB in the period to the deadline of inspections referred to the end of the second half of 2019.

4 FGDB-MANAGED FINANCIAL RESOURCES

At the end of 2020, the financial resources of the deposit guarantee fund and of the bank resolution fund totalled 8,253.5 million lei, 627.7 million lei more than at end-2019.

At present, both funds are financed by the risk-adjusted contributions of credit institutions and, in recent years, their resources have not been used for the purposes for which they are intended[107].

The financial resources of the two FGDB-managed funds – the deposit guarantee fund[103] and the bank resolution fund[104] – increased further in 2020, allowing for an enhanced capability to finance the deposit guarantee and bank resolution measures laid down in legislation and reflecting positively on the maintenance of financial stability.

In 2020, FGDB-administered financial resources increased by 8.2 percent, an advance mostly accounted for by the rise in the resources of the deposit guarantee fund. The quoted amounts also include the at least 99 percent share of the profit for fiscal year 2020, which, in compliance with the law, are directed to the two funds to replenish their available financial resources after the annual financial statements have been approved by the National Bank of Romania[105].

Right from the start, the two funds have had an *ex ante* funding mechanism allowing them to gradually accumulate financial resources, all the more so as there have been no payouts since 2007. Consequently, as far as the deposit guarantee fund is concerned, the FGDB currently ranks among schemes that boast a high target level of funding. As previously highlighted, the COVID-19 pandemic, along with the lockdown it entailed, altered the savings attitude of individuals, who became more inclined to put money aside, and changed the investment behaviour of companies, which remained wary. Such shifts led to a significant increase in covered deposits at a rate of 14.7 percent in 2020, above the FGDB's estimates, which pushed down the target funding level to 2.71 percent[106] on 31 December 2020 sending it below the higher level (of three percent) which the FGDB had set.

Nevertheless, the FGDB continues to hold the leading standing among the guarantee schemes affiliated to the EFDI regarding the actual target level for funds which is more than three times higher than the target funding level of minimum 0.8 percent of covered deposits required by European Union standards, a level the deposit guarantee schemes of member states should reach by 2024.

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[103] Deposit guarantee fund resources are used to reimburse guaranteed depositors and to finance resolution measures which, once applied, grant depositors' continuous access to their deposit accounts with the credit institutions under resolution.

[104] The bank resolution fund was set up on 14 December 2015 by taking over the financial resources of the bank restructuring fund (the aims of which were to compensate persons adversely affected by restructuring measures proposed and applied during special administration procedures 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 negatively impacted by measures proposed and implemented during special administration procedures.

[105] The FGDB's financial statements for the year 2020 were approved by the Board of Directors of the National Bank of Romania on 5 April 2021.

[106] The target level for funds is calculated into percentages as the ratio of the FGDB's fund reserves to the covered deposits at participating credit institutions.

[107] Deposit guarantee fund resources have not been used for payouts since 2007, the year to record the last bank failure in Romania (Nova Bank SA went into bankruptcy in November 2006 and guaranteed depositors had until January 2010 to legally claim due compensation). As for the bank resolution fund, there were no resolution measures to necessitate its resources since its creation in 2015.

Furthermore, as upon creation, at end-2015, the bank resolution fund took over the financial resources of the special compensation fund (which became the bank restructuring fund in 2012), it benefitted from a positive balance from the very beginning. It subsequently increased with every passing year amounting to 0.7 percent of the covered deposits on 31 December 2020 (the target level for all EU member states is at least one percent and bound to be reached by 2024).

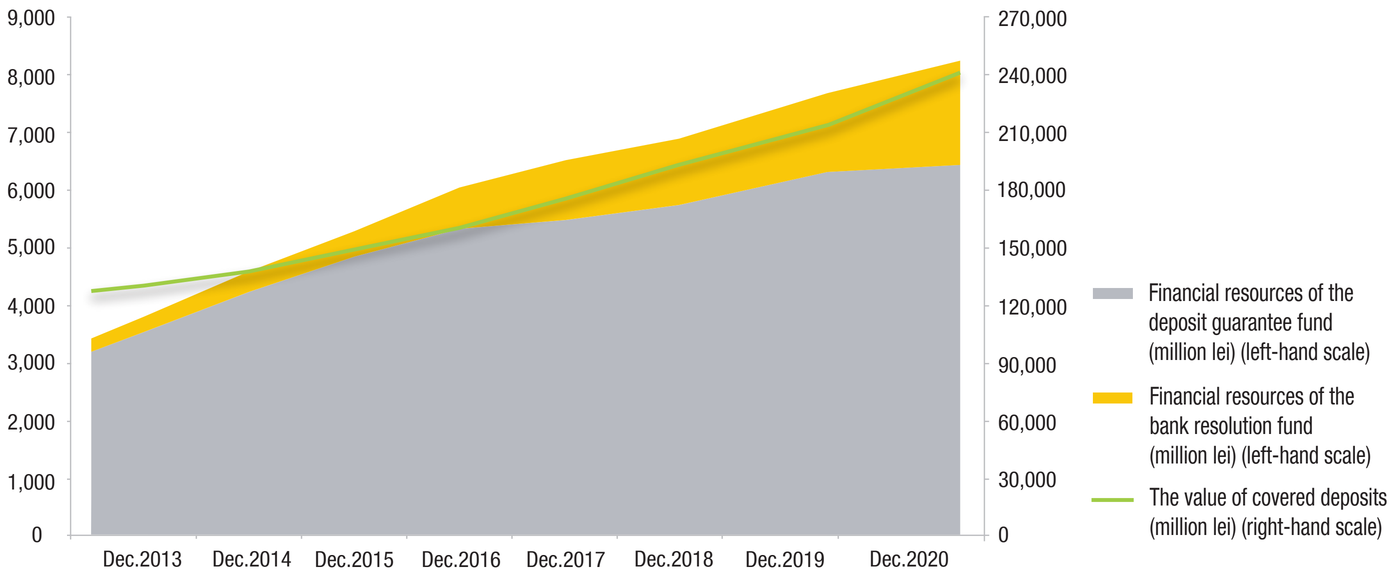
The FGDB registers operations related to building up, investing and using financial resources to guarantee deposits and to fund bank resolution measures as distinct entries in its accounting records. Both the financing sources of the two funds and the use of their financial resources are firmly stated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

To secure the financial resources it needs to fulfil the responsibilities conferred on it by law, the FGDB may resort to both internal resources and external/alternative funding sources, such as loans from credit institutions, from financial institutions, from other deposit guarantee schemes or from the Government[108], while in the case of resolution measures also from other resolution funding mechanisms within the European Union[109].

As the first chapter of this Report showed, the bill to amend and complement Law no. 311/2015 includes amendments linked to the FGDB's financial resources, as follows:

- broader access to financial resources, with the FGDB being able to get government-backed loans from international financial institutions/credit institutions

FGDB-Managed Financial Resources and the Value of Covered Deposits



[108] In exceptional circumstances when: *(i)* the available financial resources of the FGDB, as a deposit guarantee scheme, are insufficient to cover payouts or to fund resolution measures or *(ii)* the financial resources of the FGDB-managed bank resolution fund are not sufficient to finance measures for the resolution of credit institutions, in line with applicable legislation, the Government, through the Finance Ministry, lends the FGDB the amount it needs within at most five working days of the date of its request.

[109] In the very first years of activity, the FGDB had to compensate guaranteed depositors and found it necessary to resort to loans from the National Bank of Romania, in compliance with legislation in effect at that time. The loans were intended to cover the shortage of internal resources needed to reimburse depositors of Bankcoop and Banca Internațională a Religiilor which both filed for bankruptcy in the first quarter of 2000. By 2005, the FGDB had paid back those loans.

FGDB-managed financial resources

- **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 Finance Ministry, makes up the shortage offering a loan within five business days at the most of the date of the FGDB's request.

- **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
- Government loans

The Deposit Guarantee Fund

- payouts to guaranteed depositors
- funding of resolution measures applied to FGDB-member credit institutions*, according to NBR's decision, as resolution authority
- loans to other deposit guarantee schemes

** in compliance with provisions under Article 116 of Law no. 311/2015 and under Article 565 of Law no. 312/2015*

The Bank Resolution Fund

- funding of resolution measures according to decisions made by the NBR in its capacity as the resolution authority
- loans to other resolution funding mechanisms within the European Union

on a precautionary basis prior to an event that may imply the use of its funds. Such access will strengthen the FGDB's capability to maintain an adequate level of financial resources either to make repayments or to finance resolution measures applied to affiliated credit institutions. To this end, based on an endorsement from the Board of Directors of the National Bank of Romania, the FGDB continued its negotiations with the World Bank and took further steps towards finalising the paperwork needed to get a contingent investment loan as soon as the amended legal framework comes into effect granting full Finance Ministry guarantee for this type of loan;

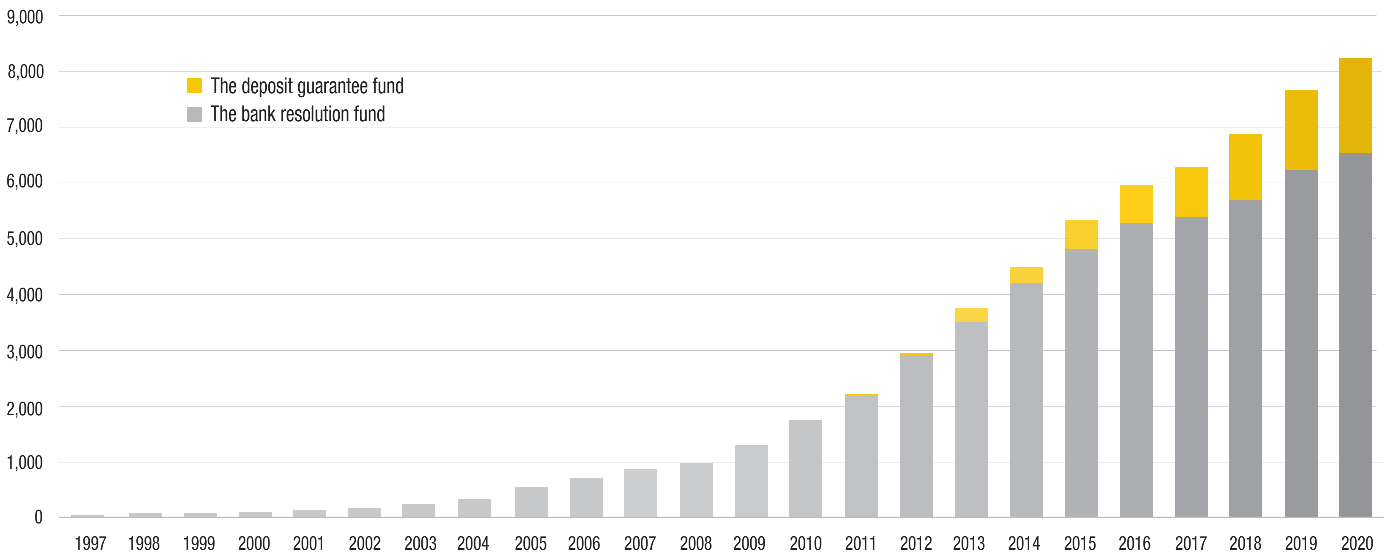
- expanded use of funds, with the FGDB being able to resort to these financial resources to meet its loan payment obligations (fees, interest);
- clearer conditions relating to the application of provisions on accessing Government loans and/or guarantees within at most five days of the date of request, which can be attained by way of derogations from legislation on public debt identified as necessary and by introducing the possibility for the FGDB to ask for an additional loan in foreign currency to be granted from privatisation proceeds in foreign currency if the size of the loan it plans to request exceeds the available privatisation proceeds in the leu currency as recorded in the general checking account of the State Treasury. In this case, foreign currency risk will be considered when deciding on the amount to be borrowed since the FGDB has payment obligations in the national currency;
- possible short-term loans to supply liquidity given to the FGDB by the National Bank of Romania via repo transactions, in compliance with central bank rules on this type of operations in situations where to monetise investments, namely government securities, should the need arise, may prove difficult given the lack of depth of the secondary market for such paper. Along this line, as already pointed out, on 26 October 2020, the European Central Bank delivered a favourable opinion on the FGDB's possible access to short-term repo facilities from the National Bank of Romania.

In 2020, the contributions credit institutions participating in the FGDB paid to the two funds totalled 372.2 million lei. Adding to this amount was another significant inflow standing at 247.9 million lei representing the share of the profit for 2020 which, in compliance with the law, is directed to the two funds to replenish their financial resources.

The 2020 strategy for investing financial resources mainly focused on the minimisation of risk, the diversification

Resources Administered by the FGDB Since Its Creation to 31 December 2020

million lei; end-period



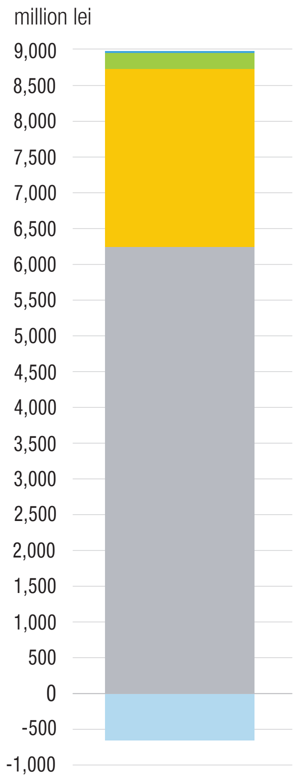
and liquidity of investments, as well as on yields, seen as a related goal. Accordingly, the FGDB maintained its cautious approach to the management of available resources, preserving a low-risk profile by keeping to the two basic features of the investment portfolios of the deposit guarantee scheme and the bank resolution fund: adequate diversity and mitigated risk.

Therefore, in 2020, available resources continued to be administered prudently by observing the two aforesaid basic characteristics. In consideration of the adverse effects of the COVID-19 pandemic which broke out in Romania at the beginning of 2020, the FGDB took preventive action resulting in the implementation of additional tactic measures which enhanced the liquidity of both investment portfolios under its management. Noteworthy are the rise in the monthly liquidity reserve to minimum 20 percent and the increase to 40 percent of total portfolio in the share of the minimum proportion of investments with residual maturity of up to one year.

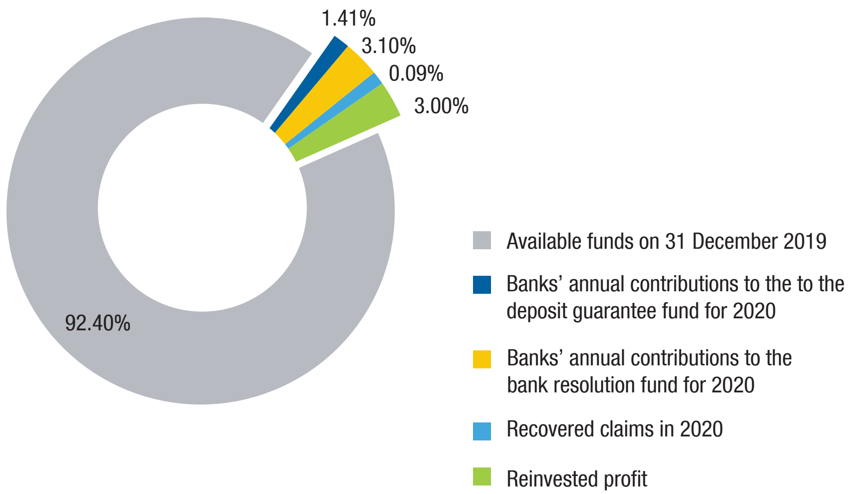
Liquidity management was optimised by increasing the share of financial instruments classified as trading securities, all while paying heed to aspects related to the impact of the marking to market of these instruments. Following measures to offset the negative impact of the pandemic taken by the National Bank of Romania, which supported interbank market liquidity by purchasing government securities from the secondary market and injecting liquidity through repo transactions with credit institutions, the FGDB enriched its portfolio of government securities. At the same time, repurchase agreements were concluded with credit institutions holding a significant share of the market for government securities and further steps were taken towards the establishment of a legislative framework to allow the FGDB to enter into *repo* operations with the central bank.

In 2020, diversification remained an important criterion behind decision-making in the management of available resources as a way to reduce concentration risk. The

The FGDB's Total Funds and Liabilities Since Its Creation to 31 December 2020



The FGDB's Financial Resources in 2020 (percentages by categories)



FGDB's aim was to achieve highly granular investment portfolios by identifying new eligible counterparties and instruments. However, given the unfavourable circumstances worldwide, Romanian government securities gained ground in the second and third quarters of 2020, a situation the outcome of which was the FGDB's lower exposure to credit institutions affiliated to the guarantee scheme, as well as to international financial institutions and other foreign financial institutions.

Furthermore, the FGDB resorted to adjustments of the exposure structure – by counterparties, types of investments, currencies, and maturities – depending on the tactical measures adopted to prevent the potential negative effects of the pandemic-generated crisis, as well as on market opportunities, all while complying with the guidelines under its annual strategy for the investment of financial resources.

In monitoring counterparty risk in the case of credit institutions authorised by the National Bank of Romania, the FGDB used an updated assessment methodology which incorporated the adjustments made by the central bank as part of the *Supervisory Review and Evaluation Process* (SREP). This methodology assumes many of the indicators that are being used when determining annual contributions to a deposit guarantee scheme. A risk assessment was prepared every three months based on data credit institutions reported to the central bank. The FGDB has access to those data under its cooperation agreement with the National Bank of Romania, an accord which was revised in 2017.

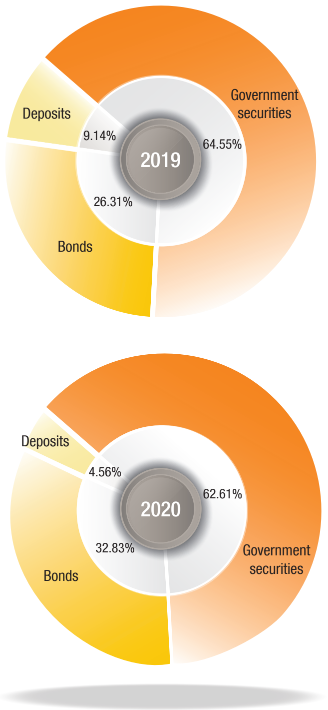
Additionally, the FGDB monitors the credit ratings assigned by international credit rating agencies (S&P, Moody's, Fitch) to the foreign credit institutions, international financial institutions, and other financial institutions to which it is exposed in order to ensure compliance with the provisions of its current investment strategy. Depending on the risk ratings the FGDB had determined for credit institutions in Romania and on the ratings assigned by international rating agencies to the other categories of counterparties – which should remain within maximum acceptable levels – adjustments were made to the structure of investments to permanently keep it in line with the guidelines of the investment strategy,

For each of the two portfolios, the annual investment strategy offers 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 its strategy for investing financial resources targeted a steadily optimal liquidity level and a balanced structure of each investment portfolio, both being constantly adjusted to developments in the financial and banking market and to the additional uncertainty induced by the pandemic.

In keeping with the goals laid down in its strategy for investing financial resources, the FGDB took further steps to lower the risk of exposure to credit institutions participating in its guarantee scheme by diminishing the level of exposure to those institutions from 9.14 percent on 31 December 2019 to 4.56 percent at the end of 2020.

The average invested capital throughout 2020 went up by 7.9 percent from end-2019 to stand at 7,937.1 million lei on 31 December 2020.

Structure of the FGDB's Overall Investments



THE DEPOSIT GUARANTEE FUND

The financial resources of the deposit guarantee fund (including the reinvested profit for 2020) amounted to 6,557 million lei on 31 December 2020, having added 323.9 million lei to the level of the previous year.

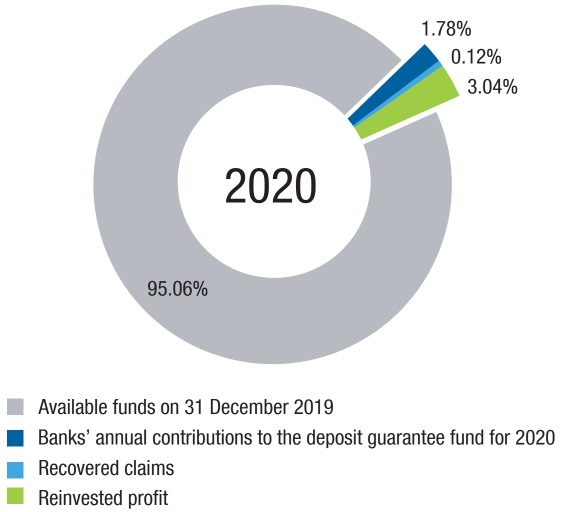
The coordinates of the FGDB's funding policy for 2020 remained cautious and underlain by the aim of reaching a target level for funds in the [3.0 percent-to-3.3 percent) range[110] and of striking a balance between maintaining an adequate amount of financial resources and keeping the total volume of contributions collected from member credit institutions within sustainable limits.

Consistent with its countercyclical approach, in 2020 the FGDB collected annual contributions to the deposit guarantee scheme worth 116.7 million lei, some 70 percent less than in 2019, as a slowdown in economic growth was expected.

With a view to ensuring concordance of the elements involved in determining the level of annual contributions to the deposit guarantee fund, the bill to amend Law no. 311/2015 includes several proposals along this line, such as:

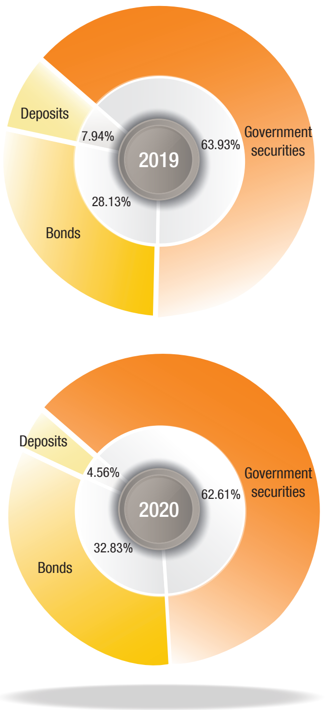
- to extend the FGDB's deadline to inform credit institutions of associated risk and of due annual contributions (from February to May of payment year) and, correspondingly,
- to move up the original date for credit institutions to pay their contributions (until 31 July of payment year at the latest from 30 April).

Financial Resources of the Deposit Guarantee Fund (percentages by categories)



On 31 December 2020, the financial resources of the guarantee scheme were substantial enough to allow the FGDB to repay depositors of any affiliated credit institution if it had not been designated by the National Bank of Romania as falling into the category of "other systemically important institutions (O-SII)"[111].

Structure of the FGDB's Investments of Deposit Guarantee Fund Resources



[110] As previously pointed out, the 14.7-percent growth rate of covered deposits in 2020, pushed down the target funding level to 2.71 percent on 31 December 2020, sending it below the target-level which the FGDB had set.

[111] According to *Order no. 5/2020 on the buffer for credit institutions authorised in Romania issued by the National Bank of Romania.*

The percentage of deposit guarantee fund resources placed into deposit accounts at participating credit institutions diminished, in relative terms, to 4.56 percent on 31 December 2020 from 7.94 percent at end-2019, continuing the downtrend of the year before.

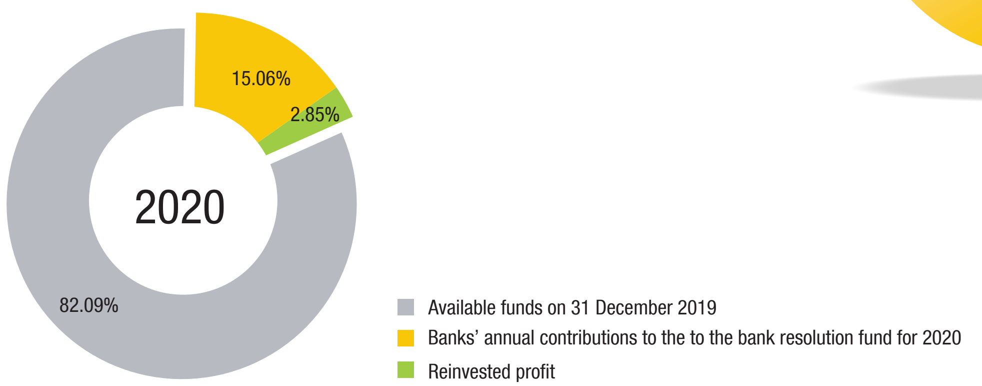
THE BANK RESOLUTION FUND

The available financial resources of the bank resolution fund, including the reinvested 2020 profit, amounted to 1,696.5 million lei on 31 December 2020, 21.8 percent higher than the end-2019 level. At the end of 2020, the ratio of available financial means to covered deposits stood at 0.7 percent, flat on the year-ago level[112].

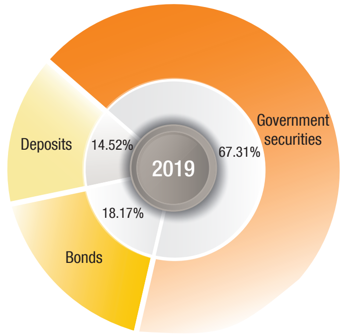
The National Bank of Romania, as the resolution authority, sets the level of annual contributions to the bank resolution fund for each credit institution according to its risk profile. In 2020, contributions to the bank resolution fund totalled 255.5 million lei.

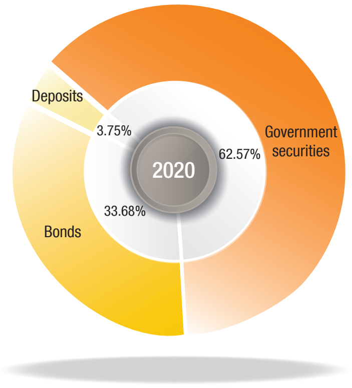
The percentage of bank resolution fund resources placed into deposit accounts at member credit institutions dropped from 14.52 percent at the end of 2019 to 3.75 percent on 31 December 2020.

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

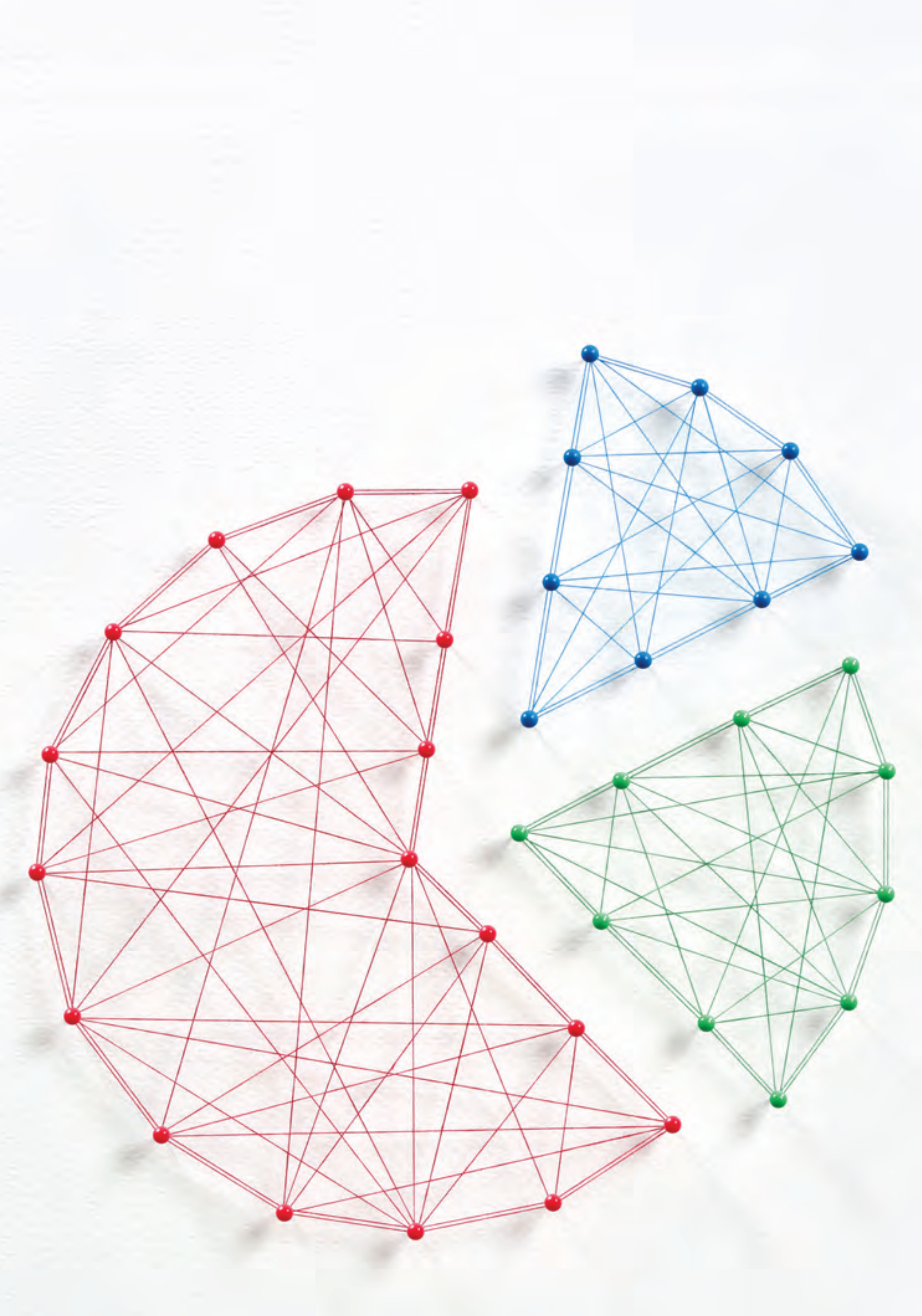


Financial Resources of the Bank Resolution Fund (percentages by categories)





[112] The EU bank recovery and resolution Directive stipulates a target level of at least one percent to be attained by all member states by 2024.



5 LIQUIDATION OF FAILED BANKS

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

While in operation, the FGDB had active interventions to protect depositors of banks that failed in Romania over 1999-2006, namely Banca Comercială "Albina" SA, Bankcoop SA, Banca Internațională a Religiilor SA (BIR), *Banca Română de Scont SA (BRS)*, *Banca Turco Română SA (BTR)*, Banca "Columna" SA and Nova Bank SA[113]. Following the completion of the payout process, the FGDB was subrogated to the rights of repaid depositors and joined the body of creditors of the failed banks.

Moreover, in 2002, while implementing an extended mandate in compliance with legislation in force at that time, the FGDB was appointed liquidator of *BRS* and *BTR.* However, after the amendment of related legislation on 14 December 2015, the FGDB may no longer act as court-appointed liquidator, but will continue to work in that capacity in the case of *BRS* and *BTR* until bankruptcy proceedings for the two banks are completed.

At the end of 2020, the FGDB was still monitoring four failed banks in its capacity as creditor[114] of two of them and as liquidator[115] of the other two.

Cumulative Data on Claims Against the Banks That Went Bankrupt over 1999-2006

Total claims (body of creditors) 1,001 million lei	**Total recovered claims 341 million lei**
The FGDB's claims = 513 million lei	Claims recovered by the FGDB = 184 million lei *(a claim recovery ratio of 35.87 percent of total claims)*
Other creditors' claims = 488 million lei	Claims recovered by other creditors = 157 million lei *(a claim recovery ratio of 32.17 percent of total claims)*

[113] Nova Bank SA was the only credit institutions to go into administrative liquidation. On 22 August 2006, the National Bank of Romania decided the dissolution of Nova Bank SA followed by its liquidation and on 4 September 2006 appointed the FGDB as sole liquidator. The FGDB's sole liquidator mandate was short-lived as the bank was forced into bankruptcy on 9 November 2006. Bankruptcy proceedings were closed under Decision no. 836 of 28 May 2020 of the Bucharest Tribunal – Civil Section VII. The decision was final as no appeal had been lodged.

[114] Bankruptcy proceedings were closed against Banca Comercială "Albina" SA in 2012 and against Bankcoop SA on 5 November 2019.

[115] The FGDB ceased to be a creditor of Nova Bank SA 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 SA* and in 2011 from *BTR*).

The FGDB acting as creditor

Banca Internațională a Religiilor SA - since 10 July 2000
in bankruptcy proceedings which are expected to close within one year or so

Banca "Columna" SA - failed 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

The FGDB acting as liquidator

Banca Română de Scont SA (BRS) - went bankrupt on 16 April 2002
further measures were taken to satisfy the claim set out in the enforceable title obtained early in 2018 following the resolution of the criminal case concerning the embezzlement of *BRS*[116] and the processing continued of the civil cases pending before the courts for claims against the final recipients of the embezzled *BRS* funds

Banca Turco Română SA (BTR) - filed for bankruptcy on 3 July 2002
Just as in the case of *BRS*, after 10 years of litigations, a final judgement was rendered on 25 May 2012 ordering the five former administrators to pay civil damages for the bank failure. At the end of 2020, actions to recover that claim were underway abroad.

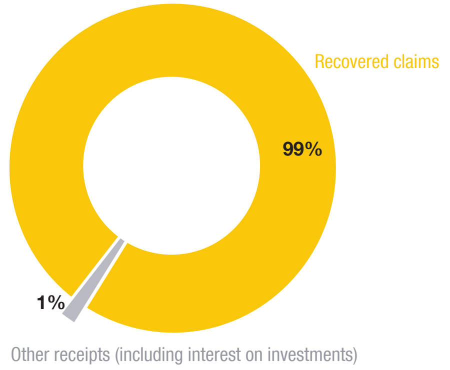
In 2020, most of the total receipts of the failed banks where the FGDB is either creditor or liquidator resulted from recovered claims (99 percent), while the bulk of spending went to "other expenses" (38 percent) which also include the liquidator's fee.

Throughout 2020, with funds amounting to 9,660 thousand lei being distributed only to BIR's unsecured creditors under Distribution Plan no. XIV prepared by the liquidator, the FGDB received 7,649 thousand lei.

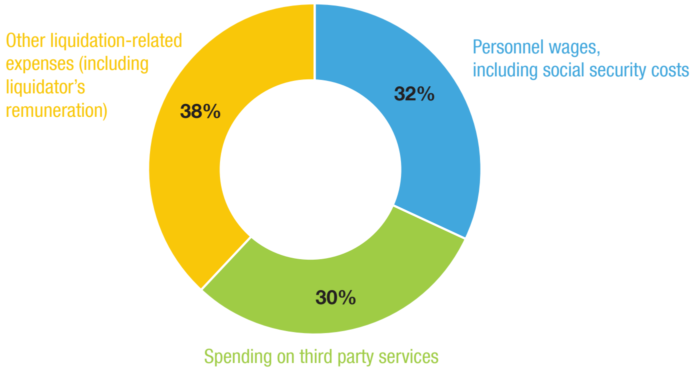
Total Receipts and Expenses of Failed Banks in 2020

Failed bank	Total receipts (thousand lei)	Total expenses (thousand lei)
1. BIR	14,484	1,348
2. *BRS*	375	635
3. *BTR*	69	461
4. Banca "Columna"	81	169
TOTAL	**15,009**	**2,613**

Structure of Failed Banks' Receipts



Structure of Failed Banks' Expenses



[116] The Bucharest Court of Appeal resolved the case on 22 March 2018 when it rendered Judgement no. 424/A, after partially reversing the Bucharest Tribunal's Judgement no. 764 of 11 May 2015 and remanding the case for reconsideration on the merits. 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 the decision of the court of first instance).

Distributions under bankruptcy proceedings in which the FGDB still participates as either creditor or liquidator totalled 219 million lei on 31 December 2020.

Although in 2020, the failed banks where the FGDB acts as creditor or liquidator took further action to recover claims, the number of debtors in their records remained unchanged at 93 all through the year.

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 2020
1	*2*	*3*	*4=2-3*
1. BIR	22,416	22,339	77
2. *BRS*	232	220	12
3. *BTR*	1,286	1,282	4
TOTAL	**23.934**	**23,841**	**93**

* In the case of Banca "Columna" there are no available data on the total number of debtors on bankruptcy date and at the end of 2020 there was no debtor recorded in its portfolio of claims.

Total receipts, expenses, and funds for distribution to creditors as at 31 December 2020:

Failed bank[1)]	Total claims to recover on the date of bankruptcy (thousand lei)	Total liquidation-related receipts[2)] (thousand lei)		of which: recovered claims			asset sales		other receipts		Total liquidation-related expenses (thousand lei)		Total funds allotted for distribution (thousand lei)
		on 31.12. 2020	of which, in 2020	value (thousand lei)	*% of total claims to recover*	*% of total receipts*	value (thousand lei)	*% of total receipts*	value (thousand lei)	*% of total receipts*	on 31.12. 2020	of which, in 2020	
1. BIR	213,982	189,670	14,484	152,598	*71.31*	*80.45*	23,559	*12.42*	13,513	*7.12*	83,291	1,348	105,295
2. *BRS*	37,750	39,049	375	18,330	*48.56*	*46.94*	16,423	*42.06*	4,296	*11.00*	19,750	635	18,130
3. *BTR*	227,480	66,216	69	14,017	*6.16*	*21.17*	31,899	*48.17*	20,300	*30.66*	18,626	461	45,506
4. Banca "Columna"	...	...	81	...	...	...	...	...	...	...	...	169	50,298
TOTAL[3)]	**479,212**	**294,935**	**15,009**	**184,945**	*38.59*	*62.71*	**71,881**	*24.37*	**38,109**	*12.92*	**121,667**	**2,613**	**219,229**

[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)] Overall liquidation-related receipts, which include Banca "Albina" SA, Bankcoop SA and Nova Bank SA, stand at 485,711 thousand lei (recovered claims worth 293,799 thousand lei, asset sales totalling 142,482 thousand lei and other receipts amounting to 49,430 thousand lei), total expenses are worth 195,303 thousand lei, and the funds allotted for distribution stand at 340,954 thousand lei.

Banca Română de Scont (BRS)

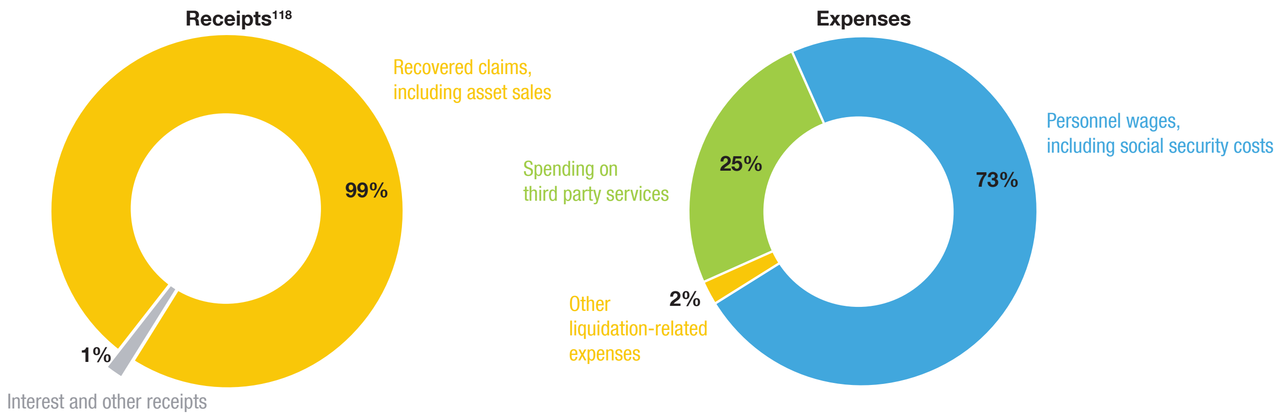
From bankruptcy date (16 April 2002) to the end of the year 2020, claims worth 18,330 thousand lei were recovered, which means a recovery ratio of 49 percent.

Despite the 2,272 thousand lei in hand and at bank on 31 December 2020, *BRS,* just as in previous years, was unable to distribute any funds to its creditors as its assets remained under precautionary seizure[117].

The funds distributed to *BRS*'s creditors before the application of the precautionary seizure in 2011 were worth a total 18,130 thousand lei, satisfying 47 percent of the body of creditors – the highest level of creditor satisfaction among failed banks.

All through 2020, further measures were taken to satisfy the claim set out in the enforceable title obtained in March 2018 following the final resolution of the criminal case concerning the embezzlement of *BRS.* The implementation of these measures is expected to have a favourable impact on claim recovery actions.

Structure of *BRS* Receipts and Expenses in 2020



Banca Turco Română (BTR)

The recovery ratio in the case of *BTR*, considering the claims in its records on the date of bankruptcy and leaving aside the claims over its main debtor, stood at 29 percent at the end of 2020.

Claims worth 14,017 thousand lei – accounting for six percent of total claims – were recouped over the period from bankruptcy date (3 July 2002) to 31 December 2020.

[117] The seizure of assets worth around eight million lei was imposed in 2011 as part of a criminal case concerning damage caused to RAFO SA and will be maintained pending a court ruling on RAFO's action for damages against *BRS.* On 4 November 2014, the Bucharest Tribunal adjourned the matter until the *BRS* bankruptcy proceedings close. In January 2020, the *BRS* petitioned the Bucharest Tribunal for an injunction lifting the precautionary seizure and allowing sales of seized assets, with the proceeds from the sales deposited into the BRS's account and available to the court (except for amounts covering expenses related to the bankruptcy proceeding). During the hearing on 14 May 2020, the Bucharest Tribunal rejected the petition for an injunction as unfounded; the *BRS* lodged an appeal against the Bucharest Tribunal decision which was definitively rejected as unfounded by the Bucharest Court of Appeal in its session on 10 July 2020.

[118] In 2020, *BRS*'s receipts totalled 375 thousand lei, of which 372 thousand lei arising from recovered claims and three thousand lei resulting from interest on investments and other receipts.

A first tranche of 8,724 thousand lei was recovered from the bank's main debtor[119] in 2017; further efforts were made in 2020 to recover outstanding claims, including actions outside the country which were underway at the end of the year covered by this Report. In the aggregate, financial revenue – a specific element of the bankruptcy procedure of *Banca Turco Română SA* due to its size – covered and continue to pay for liquidation costs[120].

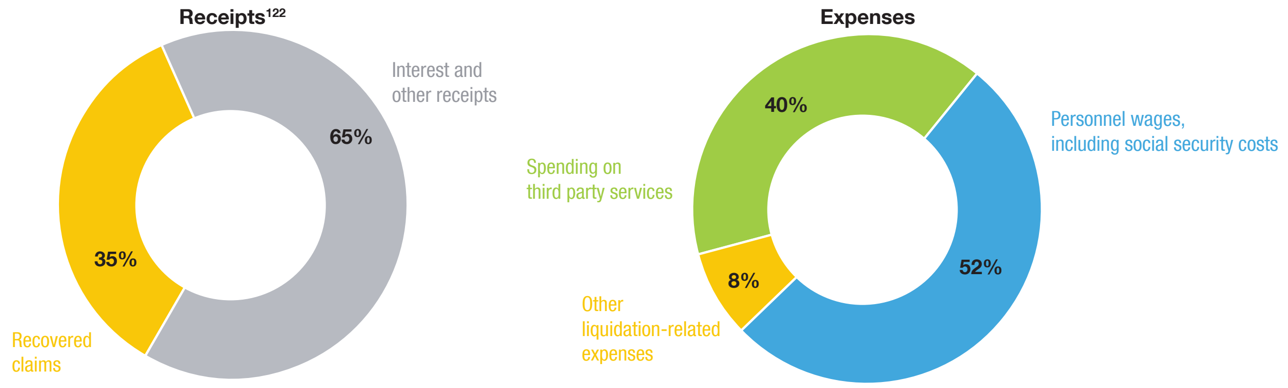
BTR's largest claim, namely the civil damages for its failure awarded under final Judgement no. 1083/R of 25 May 2012 of the Bucharest Court of Appeal, amounts to 59.4 million USD and 11.3 million EUR, plus legal interest. On 31 December 2020, this accrued debt, including interest and outstanding recoveries, stood at 112.9 million USD and 22 million EUR and accounted for more than 99 percent of the portfolio of outstanding claims.

Starting September 2012, the FGDB initiated actions to recover *BTR*'s main claim both in Romania and – in consideration of the cross-border nature of the matter – abroad (given the Turkish citizenship of four of the five codebtors).

The culmination of *BTR*'s relentless effort in Switzerland over October 2013-November 2016 was the recovery of 2.06 million CHF[121] in the first quarter of 2017, which led to a first partial distribution to seventh-rank creditors, legal persons. Thanks to a litigation funding arrangement valid since October 2016, *BTR* benefited from a strategy based on a multijurisdictional approach allowing for the identification of assets held directly and indirectly by the aforesaid codebtors (in Switzerland, Bermuda, the British Virgin Islands, Great Britain, Turkey). At the end of 2020, the matter was also referred to courts in the United States of America and Switzerland.

By 31 December 2020, 45,506 thousand lei had been distributed to *BTR*'s creditors, which represents a level of creditor satisfaction of 41 percent.

Structure of *BTR*'s Receipts and Expenses in 2020



[119] According to *BTR*'s accounting records, which the liquidator took over when the bankruptcy procedure opened, its main debtor was Bayindir Insaat Turizm Ticaret ve Sanayi AS of Turkey, a company whose accrued debt on 3 July 2002 amounted to 52.9 million USD and 10.2 million EUR, accounting for 92.08 percent of total claims on bankruptcy date. Following the criminal proceedings 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 in 2012 to recover the losses incurred by *BTR.* Consequently, the enforceable title 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.

[120] Cumulatively, from the date of bankruptcy (3 July 2002) to 31 December 2020, financial revenue totalled 19.1 million lei, while liquidation costs stood at 18.6 million lei.

[121] The equivalent of 2.03 million USD, or 8.7 million lei, accounting for around four percent of *BTR*'s claim against the main debtor on the date of bankruptcy.

[122] In 2020, *BTR*'s receipts totalled 69 thousand lei, of which 45 thousand lei arising from interest on investments and 24 thousand lei from recovered claims.

RECOVERY OF THE FGDB'S CLAIMS

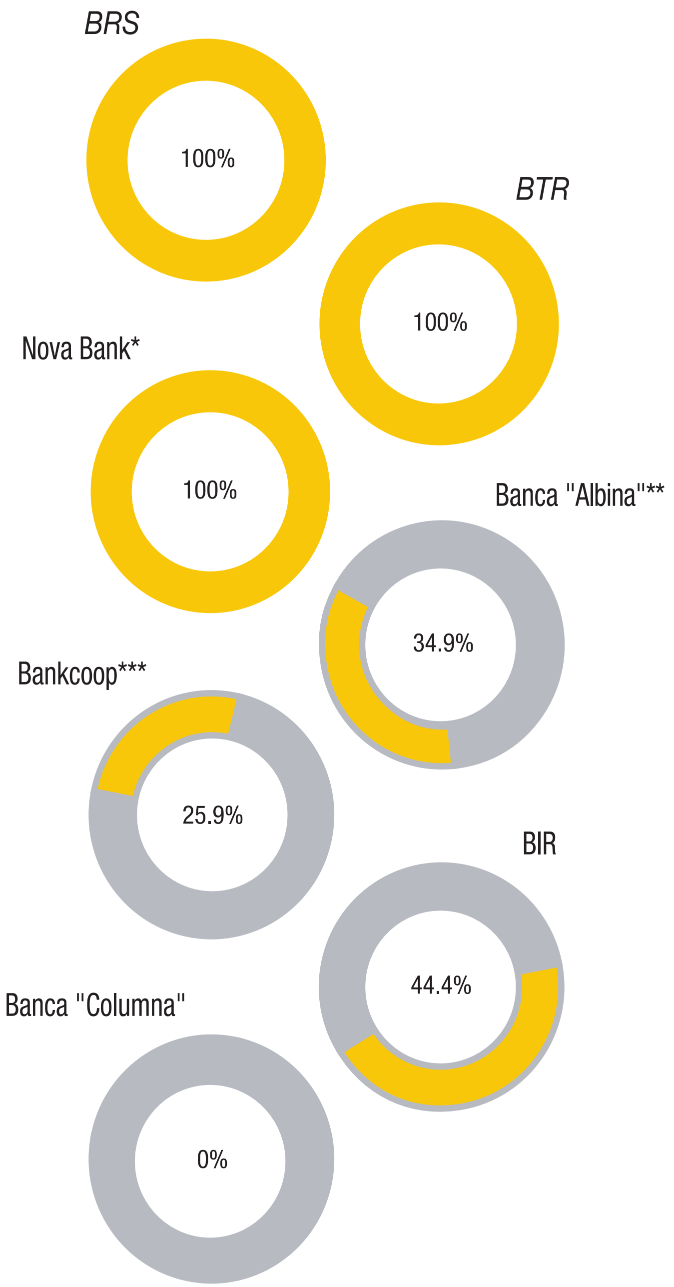
The FGDB is the major creditor of BIR (78.9 percent of the body of creditors) and one of the unsecured creditors of Banca "Columna" SA where it holds a scanty share of the body of creditors (0.04 percent)[123]. The FGDB ceased to be a creditor of five bankrupt banks following either the recovery of its claims in full through distributions or the assignment of its claim (from *BRS* in 2004 and 2011 and *BTR* in 2011, and, respectively, from Nova Bank SA in 2007) or the closing of the bankruptcy proceeding (in the case of Banca Comercială "Albina" SA in 2012, and Bankcoop SA in 2019).

Throughout 2020, the FGDB a recouped its claims from only one failed bank – 7,649 thousand lei from BIR. An amount which is significantly higher when compared with its last claim recovery from a distressed bank (which happened in 2015 when the FGDB got back 254 thousand lei representing outstanding claims, also from BIR.

On 31 December 2020, the FGDB's accounting records showed outstanding claims from BIR and Banca "Columna" SA amounting to 103,530 thousand lei. The claim recovery ratio, considering total stated claims worth 186,241 thousand mii lei, was 44.41 percent.

As for the 327,130 thousand lei worth of FGDB claims against the rest of the banks that failed in Romania over 1999-2006 (Banca Comercială "Albina" SA and Bankcoop SA, where bankruptcy proceedings were closed in December 2012 and, respectively, in November 2019, with the FGDB still having claims to recoup; *BRS, BTR* and Nova Bank SA, where the FGDB recovered its claims in full), which are all claims arisen before bankruptcy date, the FGDB recovered only 30.86 percent (that is, 100,968 thousand lei), which puts the average recovery ratio for all bankrupt banks at 38 percent.

Recovery Ratio of the FGDB's Claims on 31 December 2020



* The FGDB ceased to be a creditor of Nova Bank SA in 2007 following an assignment of claim agreement with another creditor. The Nova Bank SA bankruptcy process ended on 28 May 2020.

** Banca Comercială "Albina" SA bankruptcy proceedings closed on 14 December 2012.

*** The Bankcoop SA bankruptcy procedure concluded on 5 November 2019

[123] As an unsecured creditor with a claim of 92 thousand lei, the FGDB will not recover any amount from distributions until budgetary claims, which have priority, are covered in full. Hence, the FGDB's chance to recoup its claim is virtually nil.

In compliance with legislation applicable in each bankruptcy case, the FGDB's ranking on the creditor priority lists differed from one bank to another, which essentially explains the dissimilarity of claim recovery ratios. The most demonstrative example in this respect is the case of Banca "Columna" SA, which went bankrupt in 2003 through a procedure unlike any of the proceedings followed in the case of the other bank failures of the 1999-2002 period[124]. The respective bankruptcy process did not comply with bank-related legislation (Law no. 83/1998 on bankruptcy of credit institutions), but rather with insolvency legislation (Law no. 64/1995 on judicial reorganization and bankruptcy). So far, the FGDB has recovered none of its claims over Banca "Columna" SA and holds no assurance of future payments as its claim, arising from payouts (as well as from the bank's contribution owed and unpaid before filing for bankruptcy) has low priority according to the order of payment of claims laid down in Law no. 64/1995.

As an unsecured creditor with a low-priority claim against Banca "Columna" SA, the FGDB will find it virtually impossible to recoup any amount from distributions, all the more so as the body of creditors includes the Authority for State Assets Management with a high-value budgetary claim which has priority. It is unlikely that the distributions that might be made before the closure of the procedure will allow the liquidator to cover the budgetary claim in full and then proceed, according to legal provisions, to satisfy the lower-ranked creditors, including the FGDB and its claim worth 92 thousand lei.

After the operationalisation of the deposit guarantee scheme in Romania in 1996, the same low-priority status was assigned to the FGDB's claims against the first three banks to have failed in Romania – Banca Comercială "Albina" SA (with proceedings opening in May 1999), Bankcoop SA (in February 2000) and BIR (in July 2000), where, when initiated, bankruptcy procedures complied with Law no. 83/1998 which was in effect at that time and which did not stipulate a particular order of creditors, but rather referred to the order of payment of claims as laid down in Law no. 64/1995.

It was only in the year 2001 that the order of priority for the repayment of creditors of failed banks was introduced in Law no. 83/1998 which moved the FGDB's claims into fourth place as far as the order of payment of claims was concerned, allowing it to recover its claims against *BRS* and *BTR* in full from the amounts distributed as part of the liquidation process. Bankruptcy procedures for *BRS* and *BTR* opened in 2002, after legislation had been amended, being therefore the first proceedings where the specific creditor hierarchy set out under Law no. 83/1998 applied. In compliance with provisions of the Insolvency Code (Law No. 85/2014 on insolvency prevention procedures and insolvency proceedings), the FGDB's claims, arising from payouts and funding of resolution measures, were put on the second position on the list of priority for the payment of claims in case of failure of a credit institution.

By the end of 2020, the FGDB had recovered claims worth 183,608 thousand lei, of which 182,627 thousand lei for repayments to guaranteed depositors and 981 thousand lei for contributions owed to the FGDB and unpaid by Bankcoop SA, *BTR* and Nova Bank SA before going into bankruptcy.

[124] The bankruptcy process for Nova Bank SA opened in 2006 based also on the general insolvency framework provided by Law no. 85/2006 on insolvency proceedings (which repealed Law no. 64/1995). However, the case of this bank is irrelevant as the FGDB recovered its claims worth 278 thousand lei in full by following an assignment of claim agreement with another creditor. In the absence of such an agreement the case of Nova Bank may be presumed to have been similar to that of Banca "Columna" SA.

6 PUBLIC INFORMATION

Public relations and communication are key elements in the activity of any deposit guarantee scheme as far as depositor protection and compensation, as well as treasury and risk management are concerned.

According to national, European, as well as international regulations on deposit guarantee (*Core Principles*), depositor information represents a component of each country's financial stability network. Within this framework, in recent years, and particularly over the last four years, following the implementation of new European regulations, raising public opinion's awareness of the role and way of operating of guarantee schemes has been a major preoccupation for the FGDB.

In 2020, amid unusual economic and social circumstances triggered by the COVID-19 pandemic, the FGDB continued to work out public relations and communication strategies, as well as action plans well adapted to the major changes occurred in the media.

This essential function is not only a managerial feature but also, and especially, a strategic institutional activity which is expressed in specific undertakings.

The initial biannual strategy took into account the importance of clear messages sent to the FGDB's target groups through available channels and the need for a stronger supply of basic information about deposit guarantee. The sudden outbreak of the world health crisis imposed the use of telephone- and internet-based communication. Along this line, simultaneous action was taken on several fronts. Depositors' requests by phone and e-mails were processed and followed up on and topics arousing their interest were gathered and prioritised; at the same time, in response to the new type of information which depositors required, the website was revamped. More and more depositors could understand that the FGDB had none of the functions of a bank and they showed interest in deposit protection in particular situations, such as a state of emergency, in types of guaranteed deposits, temporary high balances, negotiated deposit rates etc.

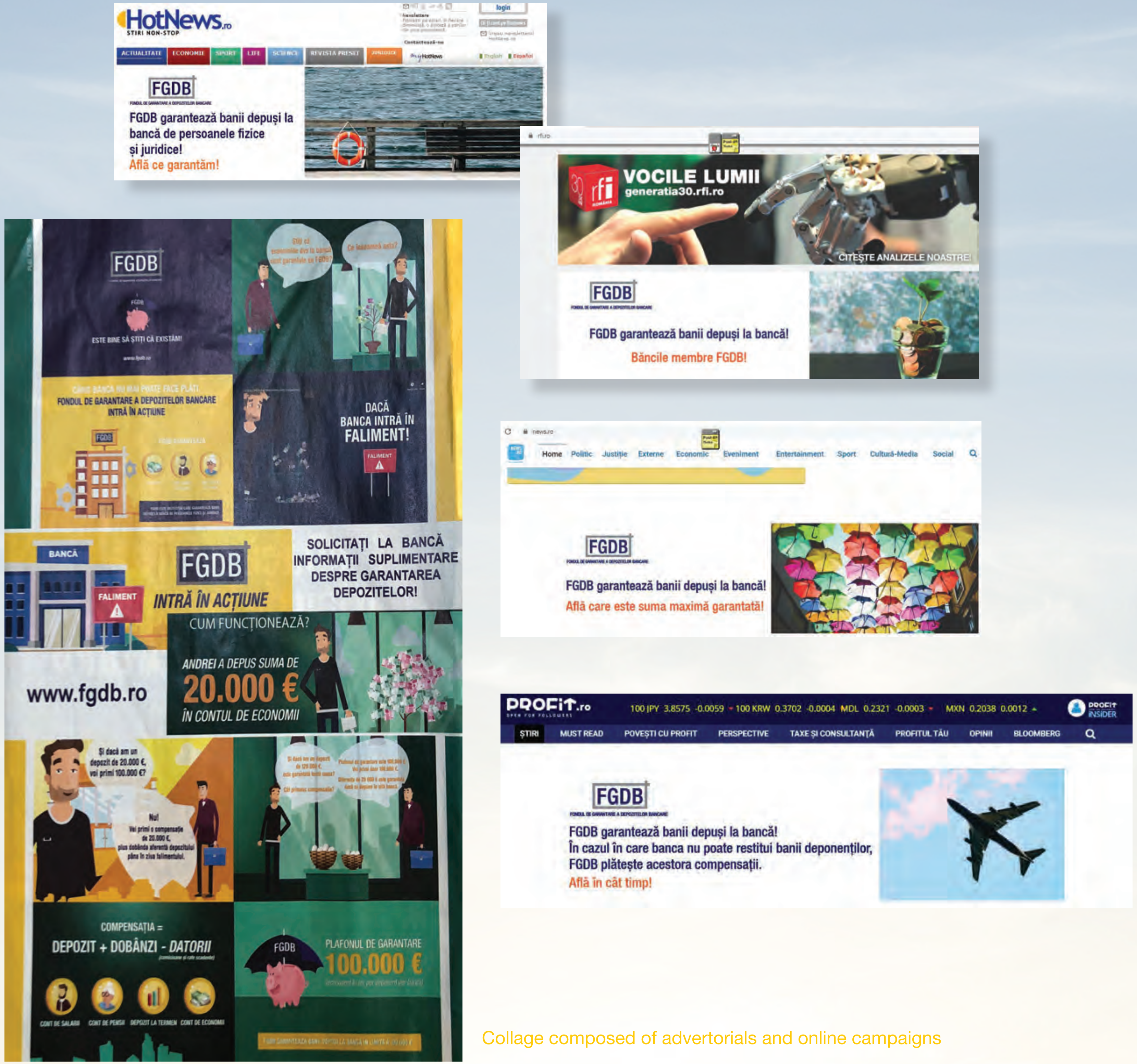
The constant updating of the website went hand in hand with online campaigns conducted on most popular news websites.

Advertorials, placed in widely circulated daily newspapers in Romania, were used as a means of communicating with depositors. As a matter of fact, the use of the formula of advertorials printed in newspapers that cater for a significant audience led to an unequalled increase in the number of visitors to the FGDB's website the year before.

Over the last four months of 2020, the FGDB carried out an information and education campaign for the public at large via the *Finzoom* online platform. Thanks to that cooperation, clients looking for a savings product to meet their needs were offered a product with the additional benefit of the FGDB's guarantee. Information about FGDB activities was provided either directly on the *Finzoom* platform or by referring the user to the institution's website. At the same time, in order to convey information related to the FGDB's activities, contextual advertising was resorted to via keywords, contextual banners ads, or scholarly articles written by experts of the platform.

Following these campaigns, Google Analytics showed there were 7,100 visitors to the FGDB's website in the third quarter of 2020 and more than 12,000 in the fourth quarter when online campaigns were underway on news websites (hotnews.ro, adevărul.ro, rfi.ro, profit.ro, news.ro) and the Finzoom.ro platform (it is worth noting there were 6,900 visitors in the same period of 2019).

The year 2020 recorded another first: the opening of online training sessions as a continuation of an initiative to train the call-centre operators of the credit institutions



Collage composed of advertorials and online campaigns

Campaign on Finzoom

with a FGDB mandate to make compensation payments. Whereas in normal circumstances these training sessions dealt with payouts exclusively, in 2020 additional measures were considered in the aftermath of the nationwide health crisis. Although indirectly, this activity concerns each depositor as call-centre operators go through regular training sessions which enable them to offer depositors answers related to deposit guarantee based on updated information.

Last but not least, in line with the good practices uniformly applied by credit institutions and with the implementation of legal requirements, the FGDB prepared *Legal Acts no. 1/2020 on depositors' information by credit institutions,* which were approved by the Board of Directors of the National Bank of Romania and published in The Official Gazette in January 2021. These acts, which took effect in the first half of April 2021 giving affiliated credit institutions the time they needed to adapt their IT systems, provide a common framework for the FGDB-member credit institutions to supply information to depositors, solidly meeting all legal requirements in this area.

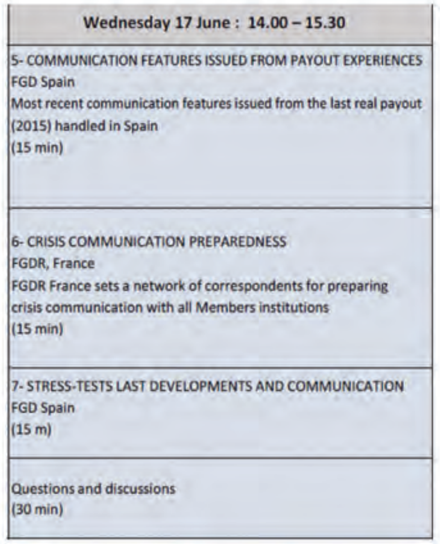
Excerpts from the agendas of the EFDI Public relations and Communications Committee meetings


1- Public Awareness first measurement in North Macedonia
DIF, North Macednia
Results of the first PA measurement and last developments in PR activities
(15 min)
Questions and discussions

2- Public Awareness measurement in Finland and planned steps ahead with authorities and banks
Financial Stability Authority, Finland
(15 min)
Questions and discussions

3 – Ongoing project to increase Public Awareness in Bosnia & Herzegovina
DIA, Bosnia & Herzegovina
(15 min)
Questions and discussions

4- Results of the second Public Awareness measurement in Norway
Sikringfondet, Norway
(15 min)
Questions and discussions



Wednesday 17 June : 14.00 – 15.30
5- COMMUNICATION FEATURES ISSUED FROM PAYOUT EXPERIENCES FGD Spain Most recent communication features issued from the last real payout (2015) handled in Spain (15 min)
6- CRISIS COMMUNICATION PREPAREDNESS FGDR, France FGDR France sets a network of correspondents for preparing crisis communication with all Members institutions (15 min)
7- STRESS-TESTS LAST DEVELOPMENTS AND COMMUNICATION FGD Spain (15 m)
Questions and discussions (30 min)

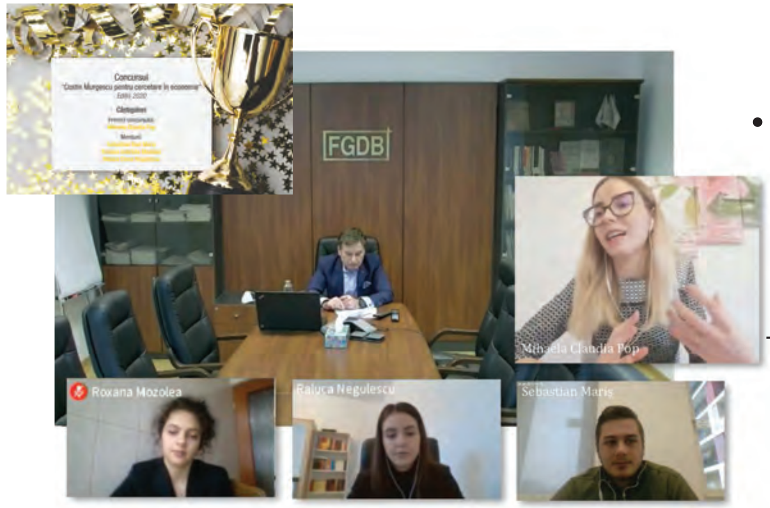
Although 2020 was a year that stopped business trips, the FGDB was a constant participant in the experience-exchange meetings of the EFDI Public Relations and Communications Committee. The online interaction with experts representing more than 30 guarantee schemes in European countries proved immensely beneficial thanks to the topics discussed and good practices shared.

PROMOTION THROUGH EDUCATION

In 2020, the by now traditional *Costin Murgescu Contest for Economic Research,* which is a FGDB initiative, reached its ninth edition. This competition addresses Romanian students, master's students, and doctoral students, contributing to both the assertion of young specialists and the promotion of the institution among professionals.

Students and professors alike took genuine interest in the 2020 edition as the contest was entered by a significant number of Romanian young people, all passionate about and interested in prefiguring the world they will live in, all having a deep, thorough understanding of current economic, social, and political phenomena.

The award of the 2020 edition went to Mihaela Claudia Pop, a doctoral student of the School of Geography and the Environment, a department of the University of Oxford, and a member of the *Economy and Society: Transformations and Justice research cluster*, who got the jury's highest grades for her work *DOES FINANCIAL DEVELOPMENT LIFT UP THE "SMALL BOATS"? A Comparative Analysis on the Financial Development – Income Inequality Nexus.*



Costin Murgescu Contest for Economic Research Awarding Ceremony, Bucharest, December 2020

In consideration of the quality of the papers that entered the contest in 2020, the jury awarded three mentions whose winners were:

- Sebastian Dan Mariș, a master's student in political sciences enrolled in a dual degree programme (University of Essex in partnership with Universität Mannheim) for his work titled *The Central Banks. An Analysis of Inflation and Independence.*
- Roxana-Gabriela Mozolea, a master's student of the Finance and Risk Management Department of the Faculty of Economics and Business Administration of Iași for her paper on *Forecasting CDS Volatility: A Comparison of GARCH-Class Models.*
- Raluca-Elena Negulescu, a master's student enrolled in the Corporate Finance programme of the Bucharest University of Economic Studies for *Examining the Relationship Between FDI and Economic Growth in Context of COVID-19 Pandemic: an Empirical Investigation of Romania's Economy.*

The awarding ceremony tool place via online platforms.

RELATIONSHIP WITH THE MEDIA

Communication with the media was refashioned to keep pace with recent developments in this area: the supremacy of online communication. Thanks to regular updates to its content, the FGDB's website turned into the finest and most reliable source of information for the media. The specialised media, and the local media in particular, picked up and reported most accurately basic information about the FGDB's role, an endeavour that was helpful to depositors. Furthermore, the FGDB continued its direct communication with media representatives and promptly answered the requests they submitted by phone or e-mail.

Equally important, the FGDB received unparalleled media exposure thanks to General Director Petre Tulin who had his ***Is Saving a Winning Bet?*** printed in Ziarul Financiar daily newspaper.

As part of promoting the FGDB, cooperation continued in 2020 with "Economistul" magazine which published an article called *The Bank Deposit Guarantee Fund – Creation, Growth and Outlook in the European Context,* signed by three co-authors from among the FGDB staff.

Ziarul Financiar Collage

7 THE FGDB'S FINANCIAL STATEMENTS

THE FGDB'S RECEIPTS AND PAYMENTS IN 2020[125]

The FGDB's assets at the end of 2020 totalled 8.3 billion lei, 8.24 percent up from the level recorded on 31 December 2019. Government securities continued to take up the largest portion of the FGDB's assets in 2020.

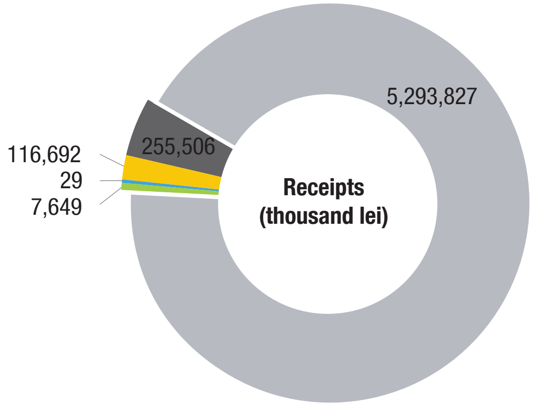
a) In 2020, the FGDB's receipts (cash inflows) amounted to 5,673,703 thousand lei, of which:

116,692 thousand lei	-	annual contributions to the deposit guarantee fund, including differences determined during the FGDB's inspections;
255,506 thousand lei	-	annual contributions to the bank resolution fund;
5,293,727 thousand lei	-	receipts from investments of the FGDB's financial resources plus interest;
100 thousand lei	-	interest on funds in the FGDB's current accounts at credit institutions;
7,649 thousand lei	-	recovered claim over BIR;
29 thousand lei	-	other receipts.

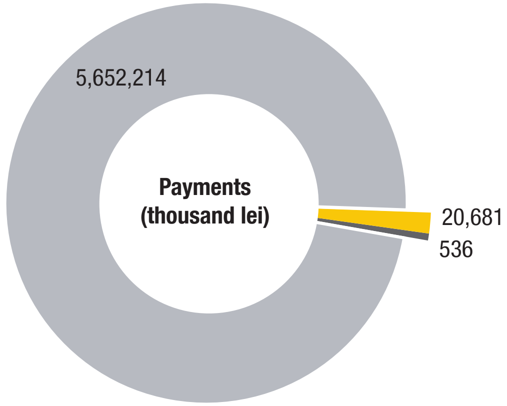
b) The FGDB's payments (cash outflows) in 2020 totalled 5,673,431 thousand lei, of which:

20,681 thousand lei	-	current operating expenses;
536 thousand lei	-	acquisitions of fixed assets and of intangible assets;
5,652,214 thousand lei	-	investments of the FGDB's financial resources.

The FGDB's Receipts and Payments in 2020



- Receipts from investments of financial resources plus interest
- Annual contributions to the deposit guarantee fund
- Annual contributions to the bank resolution fund
- Recovered claims
- Other receipts



- Investments of the FGDB's financial resources
- Current operating expenses
- Acquisitions of fixed assets and of intangible assets

[125] In correlation with the cash flow statement for fiscal year ended 31 December 2020.

THE FGDB'S BALANCE SHEET

- RON -

Assets			Liabilities		
	31.12.2019	31.12.2020		31.12.2019	31.12.2020
1. Total fixed assets, of which:	**3,071,321,175**	**4,222,259,623**	**1. Total own funds of which:**	**7,627,893,537**	**8,256,015,662**
• intangible assets	137,721	159,029	• reserves	7,410,788,225	8,005,581,343
• tangible assets	486,148	686,062	• profit for the fiscal year	217,105,312	250,434,319
• financial assets	3,070,697,306	4,221,414,532			
2. Total current assets, of which:	**4,544,558,529**	**4,027,856,521**	**2. Total debts, of which:**	**736,808**	**875,600**
• short-term financial investments	4,543,172,246	4,026,089,613	• debts payable within one year	736,808	875,600
• cash at bank and in hand	962,578	1,234,352			
• other claims (settlements with credit institutions)	423,705	532,556			
3. Prepaid expenses	**12,750,641**	**6,775,118**			
TOTAL ASSETS	**7,628,630,345**	**8,256,891,262**	**TOTAL LIABILITIES**	**7,628,630,345**	**8,256,891,262**

THE PROFIT AND LOSS ACCOUNT

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

In 2020, the FGDB earned revenues totalling 275,080 thousand lei, arising from:

267,653 thousand lei - interest and coupons on investments of the FGDB's financial resources throughout 2020 (accounting for 97.3 percent of overall revenues);
100 thousand lei - interest on funds in the FGDB's current accounts at credit institutions;
7,327 thousand lei - other revenues.

The FGDB's total expenses in 2020 stood at 24,646 thousand lei, of which:

13.800 thousand lei - personnel-related expenses;
3.748 thousand lei - expenses on services provided by third parties;
7.098 thousand lei - other expenses.

The FGDB may use the financial resources of the two funds it administers exclusively for purposes laid down in legislation, namely making repayments and funding resolution measures. In consequence, the FGDB covers its operating expenses solely from revenues arising from investments of available financial resources.

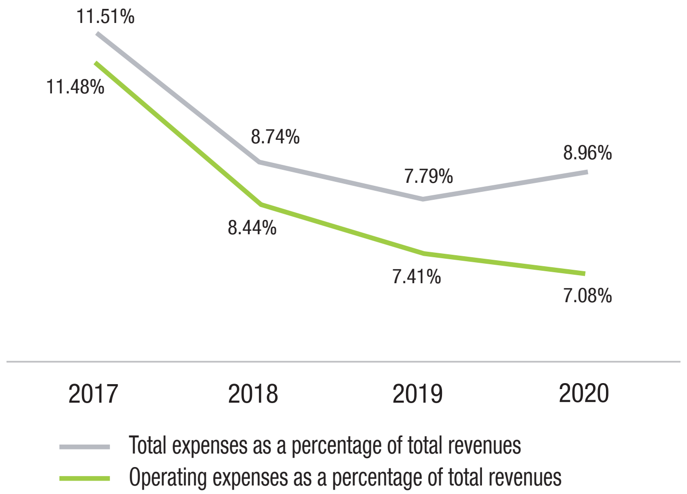
In 2020, the ratio between the FGDB's expenses and revenues sourced from investments of financial resources stayed very low, at 1:11.

Profit and Loss Account

- RON -

		31.12.2019	31.12.2020	Difference
1	Total revenues	235,459,166	275,079,830	39,620,664
2	Total expenses	18,353,854	24,645,511	6,291,657
3	**Result for fiscal year**	**217,105,312**	**250,434,319**	**33,329,007**

The FGDB's Expenses as Percentage of Total Revenues



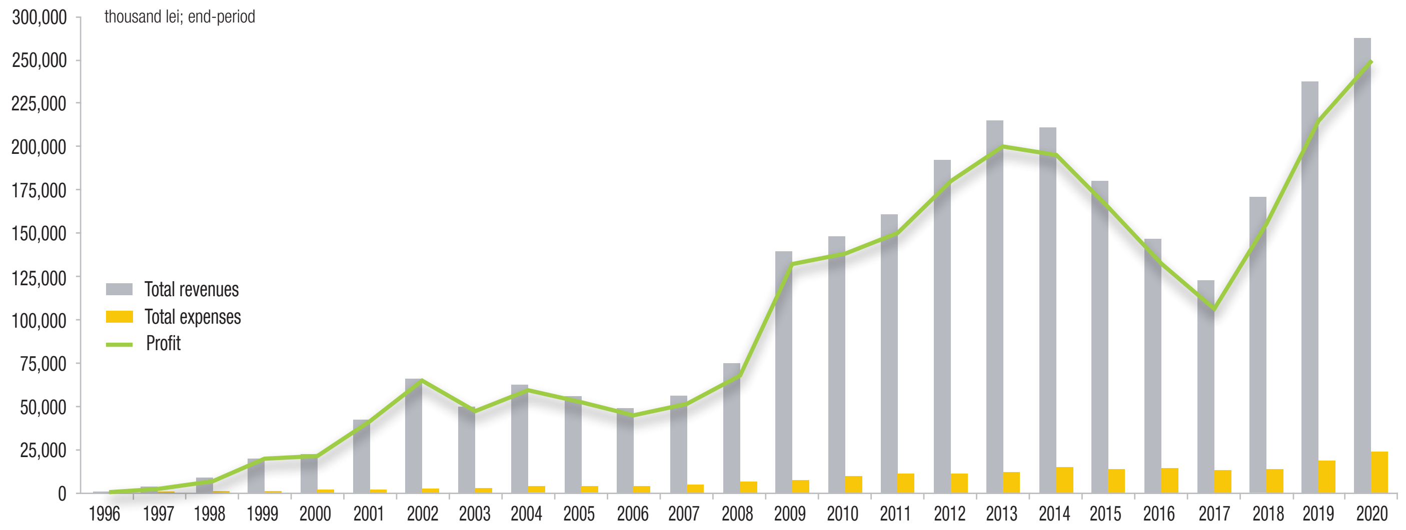
In recent years, the FGDB has permanently improved its financial performance thanks to an adequate management of financial resources, as well as to the steps the Executive Board and the Supervisory Board have taken to keep current operating costs below budgeted levels.

Yields on the financial and banking market in 2020 were higher than in 2019 contributing to an increase in the FGDB's revenues.

Accordingly, the FGDB's result for fiscal year 2020 shot up by 15.4 percent on the back of a significant rise in total revenues and a moderate variation of expenses. The FGDB's net accounting profit for the fiscal year ended 31 December 2020 – an outcome of a prudent policy of investing financial resources – amounted to 250,434 thousand lei.

In compliance with legal provisions, at least 99 percent of the FGDB's profit is channelled into the two funds it manages to top up their available financial resources.

Evolution of the FGDB's Revenues, Expenses and Profit



The FGDB's financial statements as at 31 December 2020 were audited by independent auditor Deloitte Audit S.R.L. In the auditor's opinion, as expressed in the auditor's report, the financial statements "give, in all material respects, a faithful view of the Fund's financial position as at 31 December 2020 and of its financial performance and cash flows for the fiscal year then ended, according to the National Bank of Romania's Order no. 6/2015 ("Order 6/2015") on the approval of accounting rules in compliance with European Union Directives, with subsequent amendments and completions".

Deloitte.

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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 2020, the profit and loss account and the cash flows for the fiscal year then ended, as well as a summary of significant accounting policies and explanatory notes.

2. The financial statements as at 31 December 2020 are identified as follows:
- Total own funds: 8,005,581,343 lei
- Net profit for the fiscal year: 250,434,319 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 31 December 2020 and of its financial performance and cash flows for the fiscal year then ended, according to the National Bank of Romania's Order no. 6/2015 ("Order 6/2015") on the approval of accounting rules in compliance with European Union Directives, with subsequent amendments and completions.

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 ("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 (the IESBA Code) 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 compliance 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.

Recognition of revenues arising from interest	
Nature of the matter of interest	**Procedures performed to support our discussion and conclusions**
According to the profit and loss account and Note 15a “Interest receivables and similar income” to the financial statements, the Fund had revenues arising from interest on investments of available financial resources worth 267,752 thousand RON. 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 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.	We performed the following procedures in connection with revenues resulting from interest: • We assessed the preparation and implementation of key manual controls related to the recognition of revenues sourced from interest; • We appraised the Fund’s accounting treatment of interest-derived revenues to decide whether its accounting policies were in accordance with requirements laid down in “Order 6/2015”; • We evaluated the extent to which data used to calculate revenues resulting 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 revenues 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 auditor’s report on the financial statements. Our opinion on the financial statements covers neither that other information nor the Management’s Report. In connection with our audit of the financial statements for the fiscal year ended 31 December 2020, 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 have read and we report whether it was prepared, in all material respects, in compliance with “Order 6/2015”, points 225-228. Based solely on the activities that must 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 is consistent, in all material respects, with the financial statements;
b) The Management’s Report was prepared, in all material respects, in compliance 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 2020, 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 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, if 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 has 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 it 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 based on 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.

Deloitte

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 have communicated to 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 public disclosure about the matter, or for the case when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of such communication would be reasonably expected to outweigh its public interest benefits.

Report on other legal and regulatory requirements

15. We were appointed, in compliance with 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 2020. The total uninterrupted duration of our commitment is of 3 years, covering the fiscal years ended 31 December 2018, 31 December 2019 and 31 December 2020.

We confirm that:

- Our audit opinion is consistent 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 remained independent of 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 engagement partner on the audit resulting in this independent auditor's report is Irina Dobre.

Irina Dobre, Audit Partner
Registered in the Electronic Public Registry of Financial Auditors and Audit Firms under No. AF 3344
On behalf of:
DELOITTE AUDIT SRL
Registered in the Electronic Public Registry of Financial Auditors and Audit Firms under No. FA 25
Clădirea The Mark Tower
Calea Griviței nr. 84-98 şi 100-102
Etajul 8 si etajul 9, Sector 1
Bucureşti, România
30 March 2021

Irina Dobre

Autoritatea Pentru Supravegherea Publică a Activității de Audit Statutar (ASPAAS)
Auditor financiar: Dobre Irina Elena
Registru Public Electronic: AF3344

Autoritatea Pentru Supravegherea Publică a Activității de Audit Statutar (ASPAAS)
Auditor financiar: Deloitte Audit S.R.L.
Registru Public Electronic: FA25

BALANCE SHEET
as at 31 December 2020

- RON -

Indicator	Item code	31 December 2019	31 December 2020
A	B	1	2
Cash	010	10,200	10,106
Claims against credit institutions	020	697,048,705	362,393,791
• on demand	023	952,378	1,224,246
• other claims	026	696,096,327	361,169,545
Public instruments, bonds and other fixed income securities	040	6,917,773,225	7,886,334,600
• issued by public bodies	043	6,917,773,225	7,886,334,600
Intangible assets	050	137,721	159,029
Tangible assets	060	486,148	686,062
Other assets	070	423,705	532,556
Pre-paid expenses and committed income	080	12,750,641	6,775,118
Total assets	**090**	**7,628,630,345**	**8,256,891,262**
Other liabilities	330	718,519	820,300
Prepaid revenues and deterred expenses	340	18,289	55,300
The bank deposit guarantee fund and the bank resolution fund	360	7,410,788,225	8,005,581,343
• The bank deposit guarantee fund	361	6,055,305,874	6,357,415,818
› The deposit guarantee fund consisting of credit institutions' contributions	362	4,030,246,909	4,146,950,796
› The deposit guarantee fund consisting of receipts from recovered claims	363	66,203,008	73,851,637
› The deposit guarantee fund consisting of earnings from investments of available financial resources	365	1,955,862,195	2,133,619,623
› 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	1,355,482,351	1,648,165,525
Reserves	370	-	-
Result of the fiscal year - Profit	**403**	**217,105,312**	**250,434,319**
Total liabilities and own funds	**420**	**7,628,630,345**	**8,256,891,262**

PROFIT AND LOSS ACCOUNT
for the fiscal year ended 31 December 2020

- RON -

Indicator	Item code	31 December 2019	31 December 2020
A	B	1	2
Interest receivables and similar income, of which:	010	233,963,273	267,752,541
• on public instruments, bonds and other fixed-income securities	015	212,665,712	251,595,925
Interest payable and similar expenses	020	3,040	171
Commissions	040	30,763	32,499
Net profit or loss from financial operations	050	633,857	2,166,391
Other operating income	060	76	28,800
General administrative expenses	070	15,886,653	17,547,932
• Personnel-related expenses, of which:	073	12,214,167	13,799,610
› Wages	074	11,880,033	13,337,476
› Social security costs, of which:	075	334,134	462,134
- pension-related expenses	076	-	-
• Other administrative expenses	077	3,672,486	3,748,322
Adjustments to the book value of tangible and intangible assets	080	311,028	363,187
Other operating expenses	090	1,260,410	1,569,624
Result of current activity - Profit	**143**	**217,105,312**	**250,434,319**
Total revenues	180	235,459,166	275,079,830
Total expenses	190	18,353,854	24,645,511
Pre-tax result - Profit	203	217,105,312	250,434,319
Net result for the fiscal year - Profit	**223**	**217,105,312**	**250,434,319**

EXPLANATORY NOTES TO THE FGDB'S FINANCIAL STATEMENTS –EXCERPTS[126]

1. Significant Accounting Methods and Policies

Some of the significant accounting policies used in preparing these financial statements are set out below.

a) Preparation and Presentation of the Financial Statements

These financial situations were prepared in compliance with:

i. Order no. 6/2015 ("NBR Order 6/2015") of the Governor of the National Bank of Romania on the approval of Accounting Rules in line 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;
ii. Accounting Law no. 82/1991, republished, with subsequent amendments and completions.

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

These financial statements were prepared on the historical cost convention basis, with the exceptions detailed in the accounting policies below.

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. Consequently, the accompanying financial statements are not intended for use by entities who are unfamiliar with accounting and legal regulations in Romania, with NRB Order no. 6/2015 included.

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

The financial statements herein were endorsed by the Fund's Supervisory Board on 29 March 2021 and approved by the Board of Directors of the National Bank of Romania on 5 April 2021.

i) Financial assets

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

Securities may qualify as investment securities depending on:

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

The decision to classify securities as investment securities shall disregard both future opportunities to make profit from the respective portfolio and bid prices offered by other investors before maturity date because the intent is to hold – rather than sell – this investment to maturity, irrespective of 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 until they mature; this assessment shall 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 their maturity, the designation of these instruments as investment securities is no longer adequate and they shall be reclassified as trading securities and 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 shall not be able to designate any further financial assets as investment securities ("the tainting rule").

[126] The explanatory notes bear the same numbers as in the original material from which they are quoted, as was the different name of the institution, that is "The Fund" instead of "the FGDB" as has been used in this Report.

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 swings in market interest rates could not have had any significant impact on its fair value;
- occurs after a substantial part of the principal of the financial asset was redeemed through periodic 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, special contributions, recovered claims, the Fund's fee as court-appointed liquidator, as well as other resources arising from the profits of previous years. If financial resources are drained, the Fund may borrow from the Finance Ministry, 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 down 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, as follows:

(i) *Annual contribution*
Each affiliated credit institution pays into the Fund an annual contribution calculated as a percentage of the leu equivalent of the amount of covered deposits in the respective credit institution's records as at 31 December of the year immediately preceding the year in which payment is due. The respective percentage is set by the Fund and approved by the National Bank of Romania.

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

(ii) *Extraordinary contributions*
These are other contributions collected from credit institutions, under the law, when the Fund's financial resources are insufficient to compensate depositors. Government Ordinance no. 39/1996 called these contributions "special contributions".

(iii) *Recovered claims*
They are earnings that flow into the Fund as it recovers its claims against distressed banks for its payouts to depositors following their failure.

The contributions already paid by credit institutions are non-refundable, including in cases where a credit institution is either liquidated under court supervision or dissolved.

(iv) *Funds consisting of other revenues*
Pursuant to 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 banks under bankruptcy proceedings, as well as other revenues set according to the law.

(v) *Fund consisting of revenues from investments of available financial resources*
These are financial resources resulting from the Fund's net profit. In compliance with 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 goes into an annual profit-sharing fund, while the remainder supplements the financial means intended for each of the activities stipulated in Article 92, paragraphs (1) and (2).

The account for financial resources is reduced by:

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

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

q) Income tax

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, the Fund's profit is tax exempt.

t) Revenues arising from interest

Under the accrual basis of accounting, revenues sourced from all interest-bearing financial instruments are recognised in the profit and loss account 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) Revenue recognition

Revenues are earned from interest on financial assets. The present financial statements show revenues and expenses as gross totals.

2. Cash

On 31 December 2020, the Fund's cash in hand stood at the RON equivalent of 10,106 (31 December 2019: 10,200 RON).

3. Claims over credit institutions

(RON)	31 December 2019	31 December 2020
Current accounts	952,378	1,224,246
Term investments in credit institutions	696,096,327	361,169,545
Total	**697,048,705**	**362,393,791**

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

(RON)	31 December 2019	31 December 2020
Long-term securities, of which:	**3,070,522,598**	**4,221,414,532**
• Government bonds	2,577,713,339	2,763,764,842
• Corporate bonds	492,809,259	1,457,649,690
Short-term securities, of which:	**3,847,250,627**	**3,664,920,068**
• Government bonds and treasury bills	2,301,135,581	2,360,529,200
• Corporate bonds	1,546,115,046	1,304,390,868
Total	**6,917,773,225**	**7,886,334,600**

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

(RON)	31 December 2019	31 December 2020
Initial contribution - 1%	6,472,230	6,472,230
Annual contribution, including increased contribution	4,489,066,107	4,605,769,994
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	**4,030,246,909**	**4,146,950,796**

The annual contribution of each credit institutions is determined according to the statements it sends to the Fund. In 2020, the Fund raised 116,692,200 lei in annual contributions the level of which was calculated based on the amount of covered deposits each participating credit institution held on 31.12.2019 (2019: 348,989,992 lei) and on its risk profile. Total 2020 contributions were set in line with the guidelines of the Fund's financing policy and according to the method of calculating risk-adjusted contributions, as 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 2019 or in 2020.

Compensation is the amount of money, within the guarantee ceiling, which the Fund pays out to each guaranteed depositor when deposits, no matter the number of depositor accounts, have become unavailable. Just as 2019, the year 2020 recorded no payouts.

10. The bank resolution fund

(RON)

Balance as at 31 December 2018	**1,142,646,750**
2019 annual contribution	186,803,567
2018 capitalised profit	21,792,181
2019 adjustments	4,239,852
Balance as at 31 December 2019	**1,355,482,350**
2020 annual contribution	255,506,345
2019 capitalised profit	37,176,830
Balance as at 31 December 2020	**1,648,165,525**

The bank resolution fund is set up to provide the financial resources needed to fund bank resolution measures. The bank resolution fund is administered by the Bank Deposit Guarantee Fund.

Pursuant to Article 539 of Law no. 312/2015 on the recovery and resolution of credit institutions and investment firms and amending and complementing legal acts in the financial sector, the National Bank of Romania, as the resolution authority, sets the level of credit institution's annual contributions to the bank resolution fund spreading payments out as uniformly as possible over time and also taking into consideration the phase of the business cycle and of the impact procyclical contributions may have on the financial position of contributing credit institutions.

In 2020, the Fund raised a total 255,506,345 lei in contributions, the level of which was set under a decision of the National Bank of Romania. The year before, the Fund collected 186,803,567 lei worth of annual contributions, which were determined in line with a central bank decision.

The 2019 profit amounting to 37,176,830 lei – a result of investments of the financial resources of the bank resolution fund – was capitalised after the financial statements as at 31 December 2019 were authorised.

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

(RON)	31 December 2019	31 December 2020
Recovered claims	174,977,963	182,626,592
Interest on loans – NBR	(108,774,955)	(108,774,955)
Total	**66,203,008**	**73,851,637**

Recovered claims are amounts the Fund collected from banks as annual contributions still outstanding on bankruptcy date and for the its payouts to depositors. In 2020, the Fund recovered claims worth 7,648,629 lei from banks going through the bankruptcy process.

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

(RON)	31 December 2019	31 December 2020
Fund consisting of revenues from investments of available financial resources – share of the profit	1,955,862,195	2,133,619,623

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

13. Fund consisting of other revenues, within the law

(RON)	31 December 2019	31 December 2020
The Fund's fees from its activities as liquidator	2,993,762	2,993,762

14. Distribution of profit

(RON)	31 December 2019	31 December 2020
Result of current activity – profit, of which:	217,105,312	250,434,319
Profit from the financial resources of the deposit guarantee fund	179,552,958	201,572,344
Profit from the financial resources of the bank resolution fund	37,552,354	48,861,975
Undistributed profit	**217,105,312**	**250,434,319**

The Board of Directors of the National Bank of Romania will approve the distribution of the profit for the fiscal year ended 31 December 2020 after the financial statements have been authorised.

17. Risk management

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

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

a) Interest rate risk

The Fund is exposed to the effect shifts in market interest rates exert on its financial position and cash flows. As a result of such moves, interest rates may climb or dive, or may generate losses if unexpected fluctuations occur. The Fund's management periodically monitors exposure to changes in interest rates.

Listed below are the interest rates the Fund had obtained on leu-denominated invested assets and money in its accounts as at 31 December 2020:

(RON)	2019		2020	
	min	max	min	max
Claims over credit institutions	2.90%	3.60%	2.30%	3.41%
Public instruments, bonds and other fixed-income securities	1.98%	4.66%	1.94%	4.82%

The fund got the following rates on its euro-denominated invested assets and money in its accounts as at 31 December 2020:

(RON)	2019		2020	
	min	max	min	max
Claims over credit institutions	-	-	-	-
Public instruments, bonds and other fixed-income securities	0.30%	0.30%	0.45%	2.48%

b) Market risk

Romania is still a developing economy and there is considerable uncertainty about the course domestic economic policies are likely to pursue. The Fund's management can predict neither the changes to take place in Romania nor the impact 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 of fluctuating exchange rates of widely traded currencies

(RON)

As at 31 December 2019	Up to 3 months	Between 3 months and 1 year	Over 1 year and up to 5 years	Maturity undefined	Total
Cash	10,200	-	-	-	10,200
Current accounts at credit institutions	952,378	-	-	-	952,378
Claims over credit institutions	30,875,700	665,220,627	-	-	696,096,327
Public instruments, bonds and other fixed-income securities	1,491,315,089	2,355,760,830	3,070,697,306	-	6,917,773,225
Other assets	423,705	-	-	-	423,705
Prepaid expenses and committed revenues	866,594	11,884,047	-	-	12,750,641
Liquidity risk-free assets	-	-	-	623,869	623,869
Total assets	**1,524,443,666**	**3,032,865,504**	**3,070,697,306**	**623,869**	**7,628,630,345**
Other liabilities	736,808	-	-	-	736,808
The deposit guarantee fund	6,055,305,875	-	-	-	6,055,305,875
The bank resolution fund	1,355,482,350	-	-	-	1,355,482,350
Total liabilities	**7,411,525,033**	**-**	**-**	**-**	**7,411,525,033**
Liquidity surplus (needs)	**(5,887,081,367)**	**3,032,865,504**	**3,070,697,306**	**623,869**	**217,105,312**

As at 31 December 2020	Up to 3 months	Between 3 months and 1 year	Over 1 year and up to 5 years	Over 5 years	Maturity undefined	Total
Cash	10,106	-	-	-	-	10,106
Current accounts at credit institutions	1,224,246	-	-	-	-	1,224,246
Claims over credit institutions	31,922,945	329,246,600	-	-	-	361,169,545
Public instruments, bonds and other fixed-income securities	701,565,708	2,963,354,360	3,776,880,956	444,533,576	-	7,886,334,600
Other assets	532,556	-	-	-	-	532,556
Prepaid expenses and committed revenues	905,174	5,866,752	3,192	-	-	6,775,118
Liquidity risk-free assets	-	-	-	-	845,091	845,091
Total assets	**736,160,735**	**3,298,467,712**	**3,776,884,148**	**444,533,576**	**845,091**	**8,256,891,262**
Other liabilities	875,600	-	-	-	-	875,600
The deposit guarantee fund	6,357,415,818	-	-	-	-	6,357,415,818
The bank resolution fund	1,648,165,525	-	-	-	-	1,648,165,525
Total liabilities	**8,006,456,943**	**-**	**-**	**-**	**-**	**8,006,456,943**
Liquidity surplus (needs)	**(7,270,296,208)**	**3,298,467,712**	**3,776,884,147**	**444,533,576**	**845,091**	**250,434,319**

(EUR, USD, CHF, GBP). Under such circumstances, the risk of a drop in the value of its RON-denominated net monetary assets is low.

On 31 December 2020, the Fund held cash in hand in EUR amounting to the equivalent of RON 1,124 (31 December 2019: the equivalent of RON 725), in USD standing at the equivalent of RON 2,578 (31 December 2019: the equivalent of RON 2,769). The remaining monetary assets and liabilities were denominated in RON.

On 31 December 2020, the Fund held current accounts in EUR at credit institutions totalling the equivalent of RON 334,217 (31 December 2019: the equivalent of RON 492,365), in USD amounting to the equivalent of RON 608 (31 December 2019: the equivalent of RON 314), in GBP worth the equivalent of RON 142 (31 December 2019: the equivalent of RON 147), in CHF standing at the equivalent of RON 457 (31 December 2019: the equivalent of RON 271).

On 31 December 2020, the Fund held investment securities – Government securities and similar paper – denominated in EUR amounting to the equivalent of RON 147,394,603 (31 December 2019: the equivalent of RON 0).

d) Liquidity risk

The primary source of liquidity risk is the mismatch between the maturities of the Fund's assets and liabilities. To the greatest extent possible, the Fund's strategy aims at keeping liquidity sufficiently high so that it may fulfil its obligations as they come due, without incurring losses.

e) Credit risk

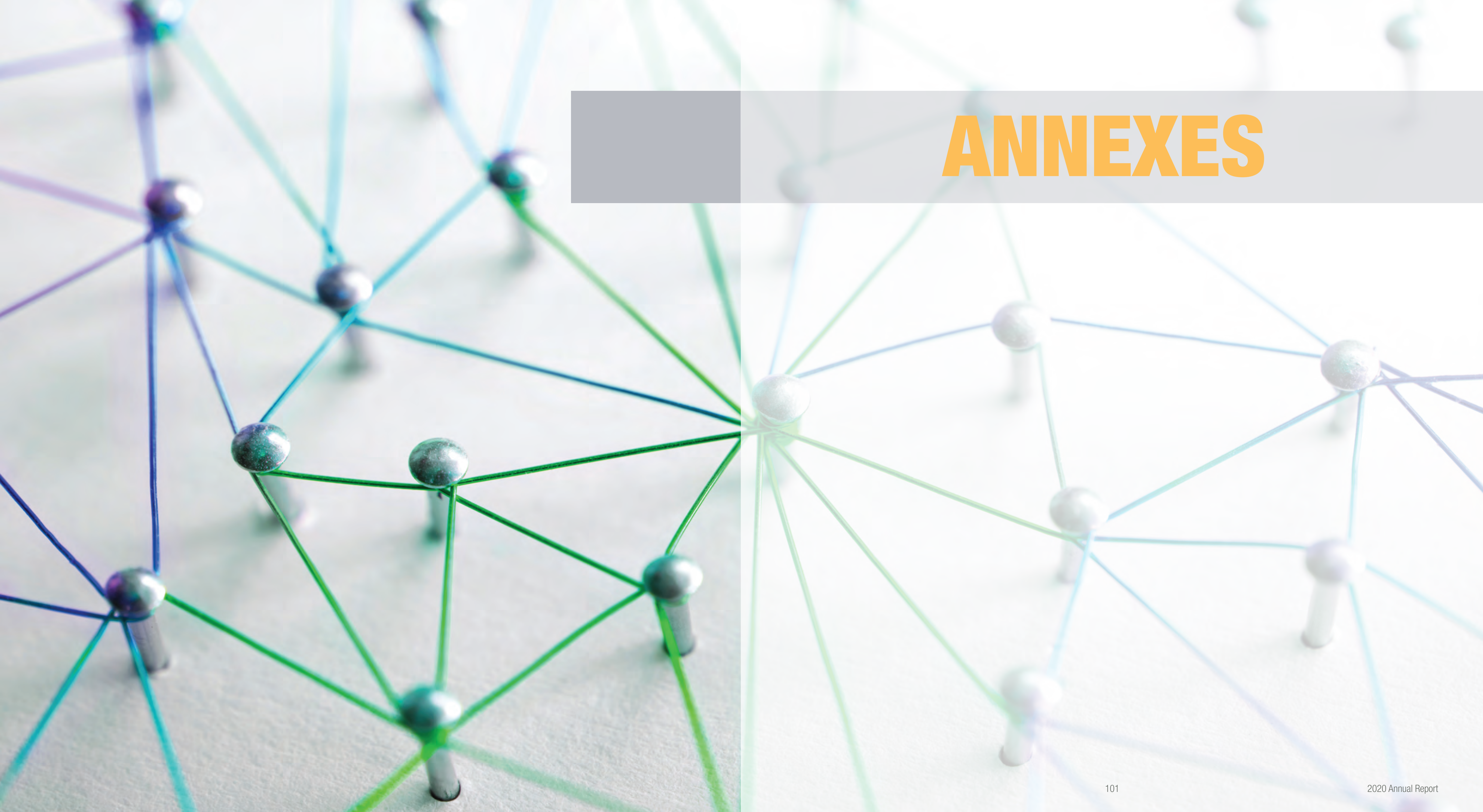
Throughout 2020, the Fund gave particular attention to the effectiveness of investments of its available financial resources in conditions of higher liquidity and lower risk and in compliance with its 2020 exposure strategy which was approved by the Board of Directors of the National Bank of Romania.

Long- and short-term securities

As at 31 December 2019	Total
Long-term securities, of which:	**3,070,697,306**
Government bonds	2,577,888,047
Corporate bonds	492,809,259
Short-term securities, of which:	**3,847,447,036**
Government securities and treasury bills	2,301,331,990
Corporate bonds	1,546,115,046
Total	**6,918,144,342**
Adjustments for the depreciation of public instruments	**371,117**
Total	**6,917,773,225**
As at 31 December 2020	**Total**
Long-term securities, of which:	**4,221,414,532**
Government bonds	2,763,764,842
Corporate bonds	1,457,649,690
Short-term securities, of which:	**3,664,920,068**
Government securities and treasury bills	2,360,529,200
Corporate bonds	1,304,390,868
Total	**7,886,331,600**

Bank deposits

As at 31 December 2019	Total
Total bank deposits	696,096,327
Current accounts	952,378
Total bank deposits and current accounts	**697,048,705**
As at 31 December 2020	**Total**
Total bank deposits	361,169,545
Current accounts	1,224,246
Total bank deposits and current accounts	**362,393,791**



ANNEXES

ABBREVIATIONS

BCP	Business Continuity Plan
BRRD1	Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms
BRRD2	Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC
CMDI	Crisis Management and Deposit Insurance Framework
CNSM	The National Committee for Macroprudential Supervision
EBA	The European Banking Authority
ECB	The European Central Bank
EDDIES	The Central Exchange Mechanism between Deposit Guarantee Schemes in the European Union
EFDI	The European Forum of Deposit Insurers
ESM	The European Stability Mechanism
ESRB	European Systemic Risk Board
EU	The European Union
FGDB	The Bank Deposit Guarantee Fund
FSB	Financial Stability Board
IADI	International Association of Deposit Insurers
IFRS	International Financial Reporting Standards
MF	Ministry of Finance
MREL	Minimum Requirement for own funds and Eligible Liabilities
NRB	National Bank of Romania
PSD2	Directive 2015/2366/EU on payment services in the internal market
RoA	Return on Assets
RoE	Return on Equity
SCV	Single Customer View
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism

DEFINITIONS

deposit

any amount of money a person holds in an account at a credit institution – be it a current account, a card account, a time deposit, a savings account or another similar product. As defined by Law no. 311/2015, a deposit refers to "*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 in the legal and contractual conditions applicable, including time deposits and savings accounts*" which is in none of the situations below:

- 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;
- its principal is not repayable at par;
- 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

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 level, in which case the depositor is fully covered, or deposits that go beyond the guarantee ceiling, in which case the compensation is limited to the coverage level.

guarantee ceiling

the maximum repayment per guaranteed depositor per credit institution

unavailable deposit

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 had rendered a decision opening bankruptcy proceedings at the credit institution 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, where appropriate, the person entitled to the funds in an eligible deposit. A natural or legal person may keep money in several credit institutions. Each credit institution reports the number of depositors in its records to the FGDB, which adds up the data reported by all member institutions, without the possibility of making adjustments for depositors who spread their deposits across several credit institutions.

compensation

an amount of money determined according to legal provisions, within the coverage level, which a deposit guarantee scheme pays out to each guaranteed depositor when deposits, no matter their number, become unavailable.

BANK DEPOSITS WITH FGDB-MEMBER CREDIT INSTITUTIONS AS AT 31 DECEMBER 2020

Indicator	31 Dec. 2019*	31 Dec. 2020	Differences	
1	2	3	4 = 3 - 2	5 = 4 / 2 (%)
1. Total number of deposit holders, of which:	15,304,226	15,358,039	53,813	0.4
• natural persons	14,226,886	14,196,888	-29,998	-0.2
• legal entities	1,077,340	1,161,151	83,811	7.8
2. Total number of eligible deposit holders, of which:	15,227,877	15,278,102	50,225	0.3
• natural persons	14,181,449	14,148,998	-32,451	-0.2
• legal entities	1,046,428	1,129,104	82,676	7.9
3. Total number holders of eligible deposits within the guarantee ceiling, of which:	15,158,686	15,195,148	36,462	0.2
• natural persons	14,141,569	14,101,660	-39,909	-0.3
• legal entities	1,017,117	1,093,488	76,371	7.5
4. Total deposits (million lei), of which:	372,687.7	418,794.6	46,106.9	12.4
• in lei	227,451.2	257,233.5	29,782.3	13.1
• in foreign currencies (in the leu equivalent)	145,236.5	161,561.1	16,324.6	11.2
• natural persons' deposits	196,128.1	222,865.5	26,737.4	13.6
• legal entities' deposits	176,559.6	195,929.1	19,369.5	11.0
5. Total eligible deposits (million lei), of which:	323,920.0	371,847.5	47,927.5	14.8
% of total deposits	*86.9*	*88.8*	*1.9 p.p.*	
• in lei	204,726.7	232,961.8	28,235.1	13.8
• in foreign currencies (in the leu equivalent)	119,193.3	138,885.7	19,692.4	16.5

Indicator	31 Dec. 2019*	31 Dec. 2020	Differences	
1	2	3	4 = 3 - 2	5 = 4 / 2 (%)
6. Natural persons' eligible deposits (million lei), of which:	195,748.6	222,504.0	26,755.4	13.7
% of total eligible deposits	*60.4*	*59.8*	*-0.6 p.p.*	
• in lei	108,528.1	123,848.4	15,320.3	14.1
• in foreign currencies (in the leu equivalent)	87,220.5	98,655.5	11,435	13.1
7. Legal entities' eligible deposits (million lei), of which:	128,171.4	149,343.6	21,172.2	16.5
% of total eligible deposits	*39.6*	*40.2*	*0.6 p.p.*	
• in lei	96,198.6	109,113.4	12,914.8	13.4
• in foreign currencies (in the leu equivalent)	31,972.8	40,230.2	8,257.4	25.8
8. Total covered deposits (million lei), of which:	210,671.0	241,595.8	30,924.8	14.7
% of total eligible deposits	*65.0*	*65.0*	*0 p.p.*	
9. Natural persons' covered deposits (million lei), of which:	172,298.7	196,246.0	23,947.3	13.9
% of total covered deposits	*81.8*	*81.2*	*-0.6 p.p.*	
10. Legal entities' covered deposits (million lei), of which	38,372.3	45,349.8	6,977.5	18.2
% of total covered deposits	*18.2*	*18.8*	*0.6 p.p.*	

* Final data which were updated after the basis for calculation of the 2020 contributions owed by credit institutions had been verified by the FGDB.

Note: Due to rounding, totals/subtotals may differ slightly from the sum of the separate figures.

ANNEX 4

LIST OF FGDB-MEMBER CREDIT INSTITUTIONS AS AT 31 DECEMBER 2020

I. Credit Institutions

- Alpha Bank România S.A.
- Banca Comercială Intesa Sanpaolo România S.A.
- Banca Comercială Română S.A.
- Banca de Export Import a României EXIMBANK S.A.
- Banca Română de Credite și Investiții S.A.
- Banca Românească S.A.[127]
- Banca Transilvania S.A.
- BRD - Groupe Société Générale S.A.
- CEC Bank S.A.
- Crédit Agricole Bank România S.A.
- Credit Europe Bank (România) S.A.
- First Bank S.A.[128]
- Garanti Bank S.A.
- Idea Bank S.A.
- Libra Internet Bank S.A.
- OTP Bank România S.A.
- Patria Bank S.A.
- Porsche Bank România S.A.
- ProCredit Bank S.A.
- Raiffeisen Bank S.A.
- Techventures Bank S.A.[129]
- UniCredit Bank S.A.
- Vista Bank (România) S.A.

II. Savings and Loan Institutions

- Aedificium Banca pentru Locuințe S.A.
- BCR Banca pentru Locuințe S.A.

III. Central Bodies of Credit Cooperatives

- Banca Centrală Cooperatistă CREDITCOOP

[127] Credit institution Banca Românească S.A., part of the National Bank of Greece Group, had this name until 28 February 2020.
[128] On 30 April 2020, this credit institution merged by absorption with Bank Leumi România S.A. (absorbed bank).
[129] Before 11 December 2020, this credit institution was known as Banca Comercială Feroviara S.A.