Fondo Interbancario di Tutela dei Depositi

Deposit Guarantee Fund in the Banking System

Summary

DGF Board De-Briefing

Bucharest, January 19, 2006

Notice

- This collection of slides is meant to support an oral presentation made by the Convergence-FITD team
- Slides could be fully understood only with the accompanying comments
- Readers that have not benefited from the oral explanations are invited to contact Mr. Shkelqim Cani, the Convergence Country Senior Advisor, (shkelqimcani@yahoo.com) for assistance.

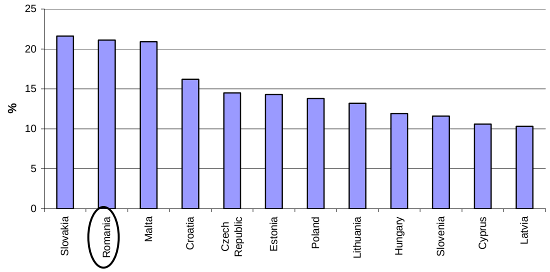
The Assignment

- Romanian authorities wish to make an updated assessment of the level of banks' contributions to the Deposit Guarantee Fund (DGF)

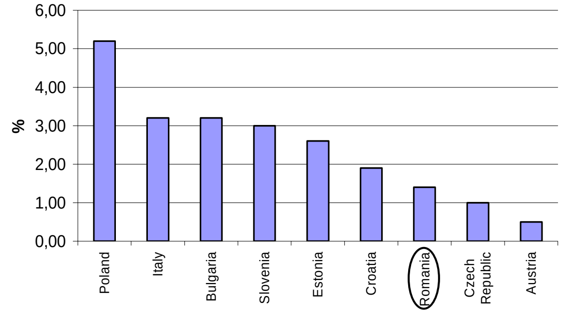
  - "*This assessment should take into consideration the latest developments in the Romanian banking sector, the international practice, as well as the need to maintain a well-funded guarantee scheme to preserve the confidence of depositors.*"
    - » DGF Letter to Convergence, May 2005

Romania: Sound Banking Indicators

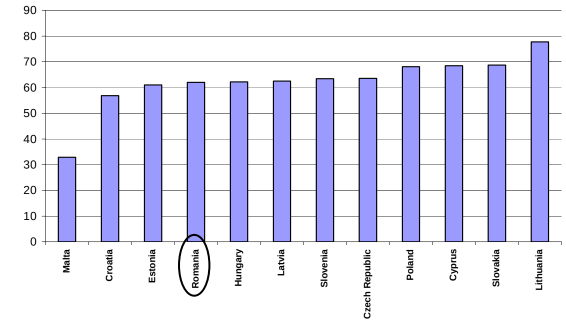
Capital Adequacy 2003



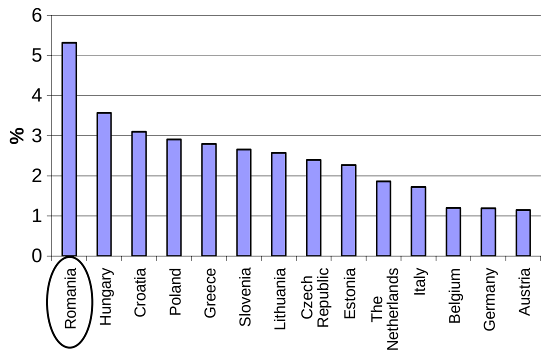
Bad (D&E) loans to total assets 2003



Cost/income ratio 2003



Net interest margin: comparison 2004



Returns and net interest margin 2000 - 2004

Banking system appears sound, with a good perspective to continue to attract capital and generate sufficient profits

Improvements since IMF's 2003 FSSA

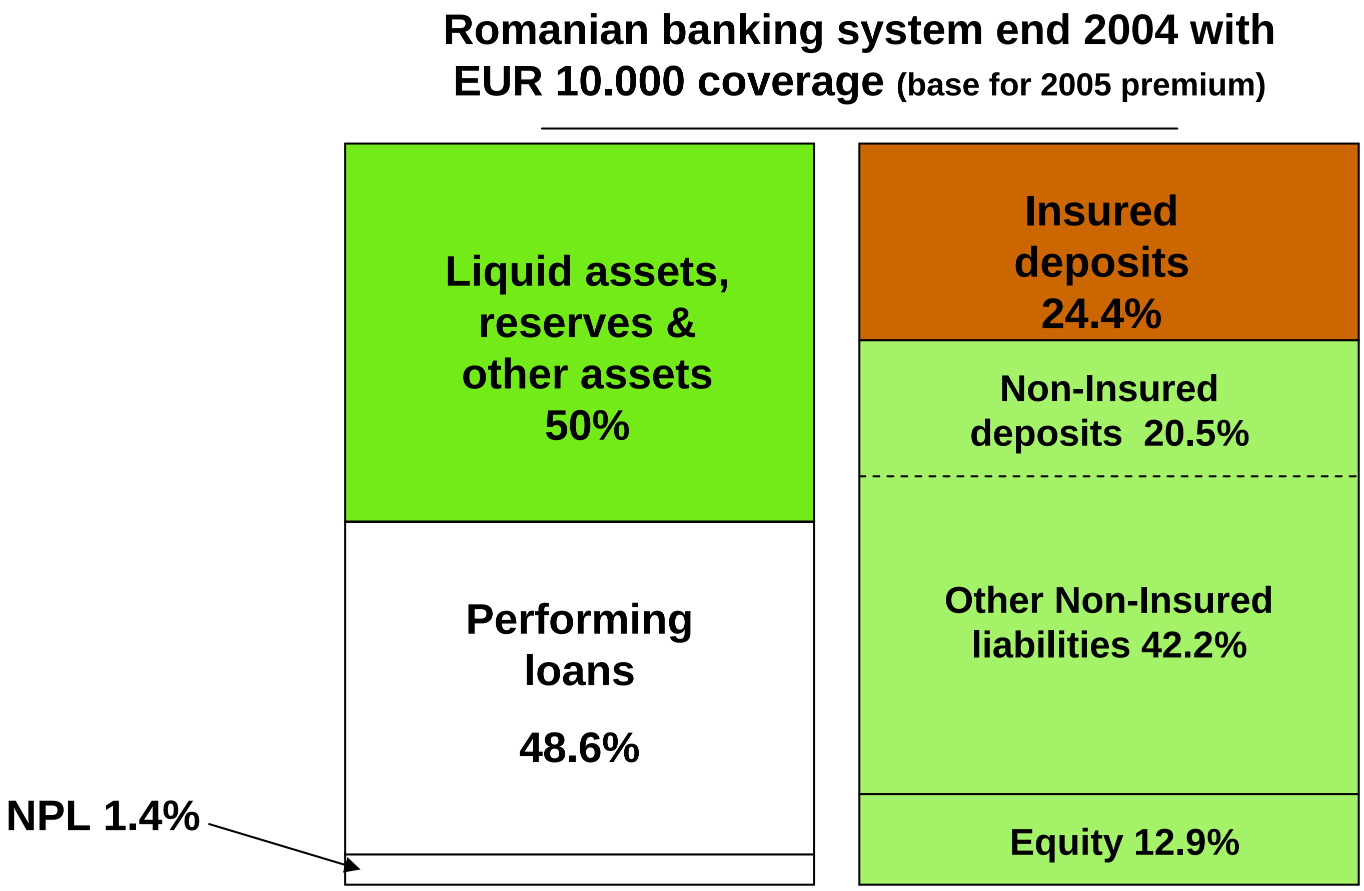
	Total FSSA March 2003	Total Convergence March 2005
Number of banks	39	39
Share of assets in %	100,0	100,0
Share of deposits in %	100,0	100,0
Share of loans in %	100,0	100,0
Capital adequacy		
CAR (%)	25,0	19,1
Tier 1 / RWA in %	22,9	
Capital / Total Assets in %	11,3	12,4
Asset quality		
NPLs/Loans in %	11,8	8,3
NPLs/Capital in %	42,0	29,5
Loan provisions and loan risk reserve / NPLs in %	29,6	15,0
Loan provisions and loan risk reserve / Capital in %	12,5	4,4
Earnings and Profitability*		
ROAA (%)	2,4	2,4
ROAE (%)	16,9	18,8
Net interest income less provisions /assets (%)	0,9	3,7
Net interest income less provisions / gross income (%)	7,2	13,9
Non interest expenses / gross income (%)	76,6	76,3
Liquidity		
Liquid Assets/Total Assets**	43,6	50,9

*** 2004 data; ** Total assets minus fixed assets and loans to customers. March 2003 data are not IMF's data, but our proxy at the basis of end 2003.**

"… the banking system currently appears well capitalized, liquid and generally well supervised. However, 40% average credit growth in real terms … raises concerns. To avoid potentially higher NPLs from their current level of 12% of loans (March 2003), NPLs should be managed and monitored carefully. Currently, high liquidity mitigates immediate banking risks."

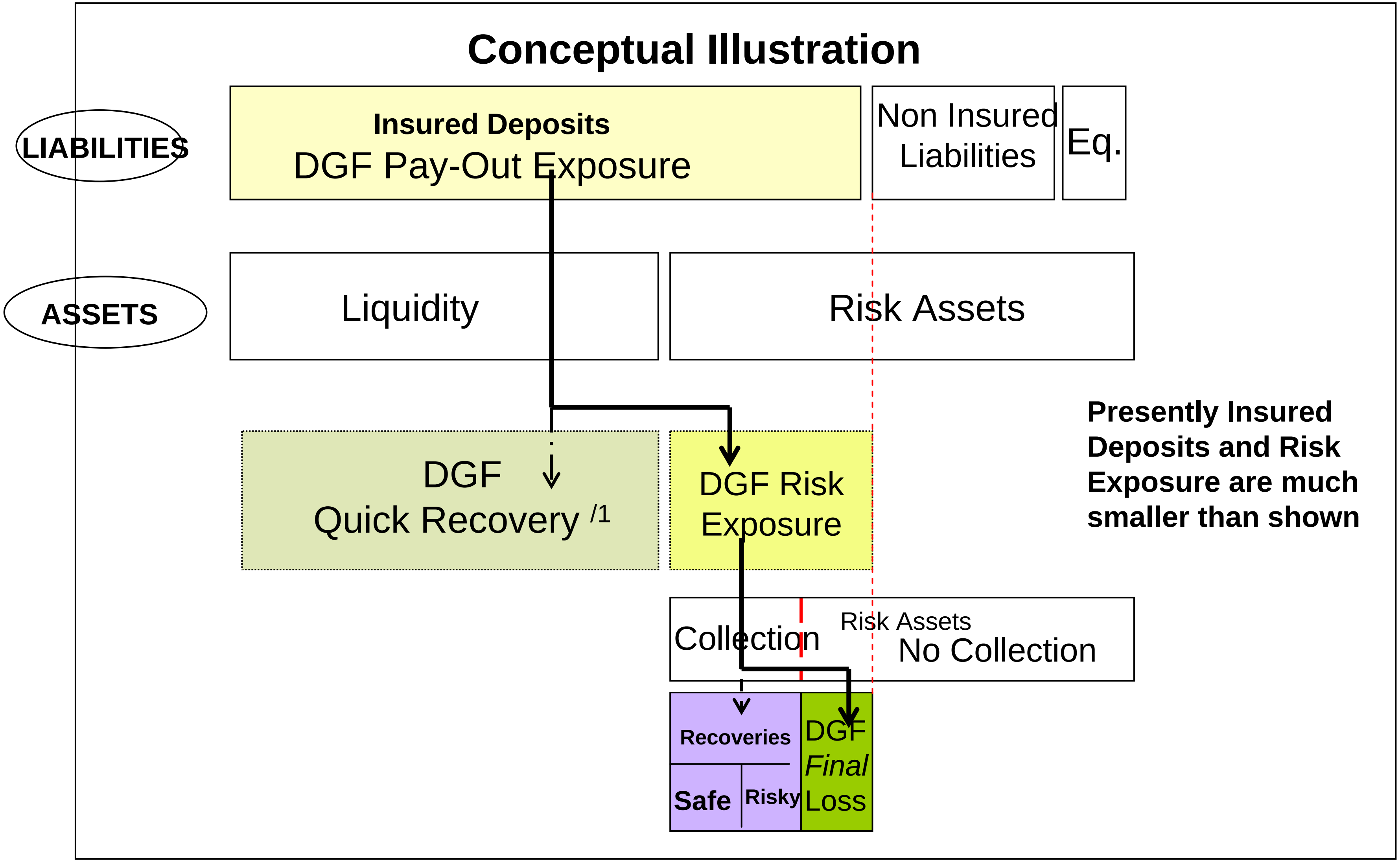
IMF (2003): "Romania: FSSA"

Large Liquidity and Market Self-Insurance Shield DGF From Systemic Risk Exposure



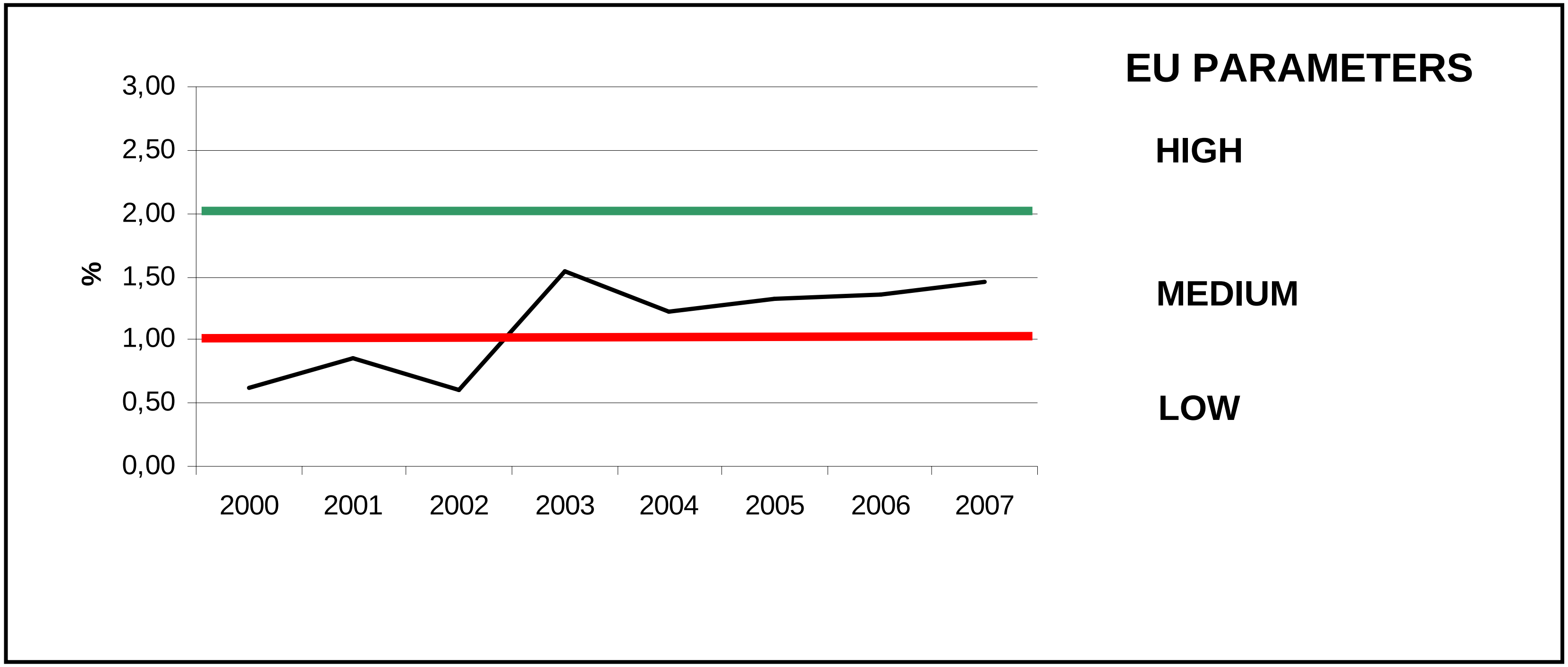
... but what really matters is robustness of individual banks, because market self-insurance of bank A has nothing to do with bank B

DGF Pay-Out Exposure Higher Than Risk Exposure and Final Loss



/1 See suggested legal changes at the end of the presentation

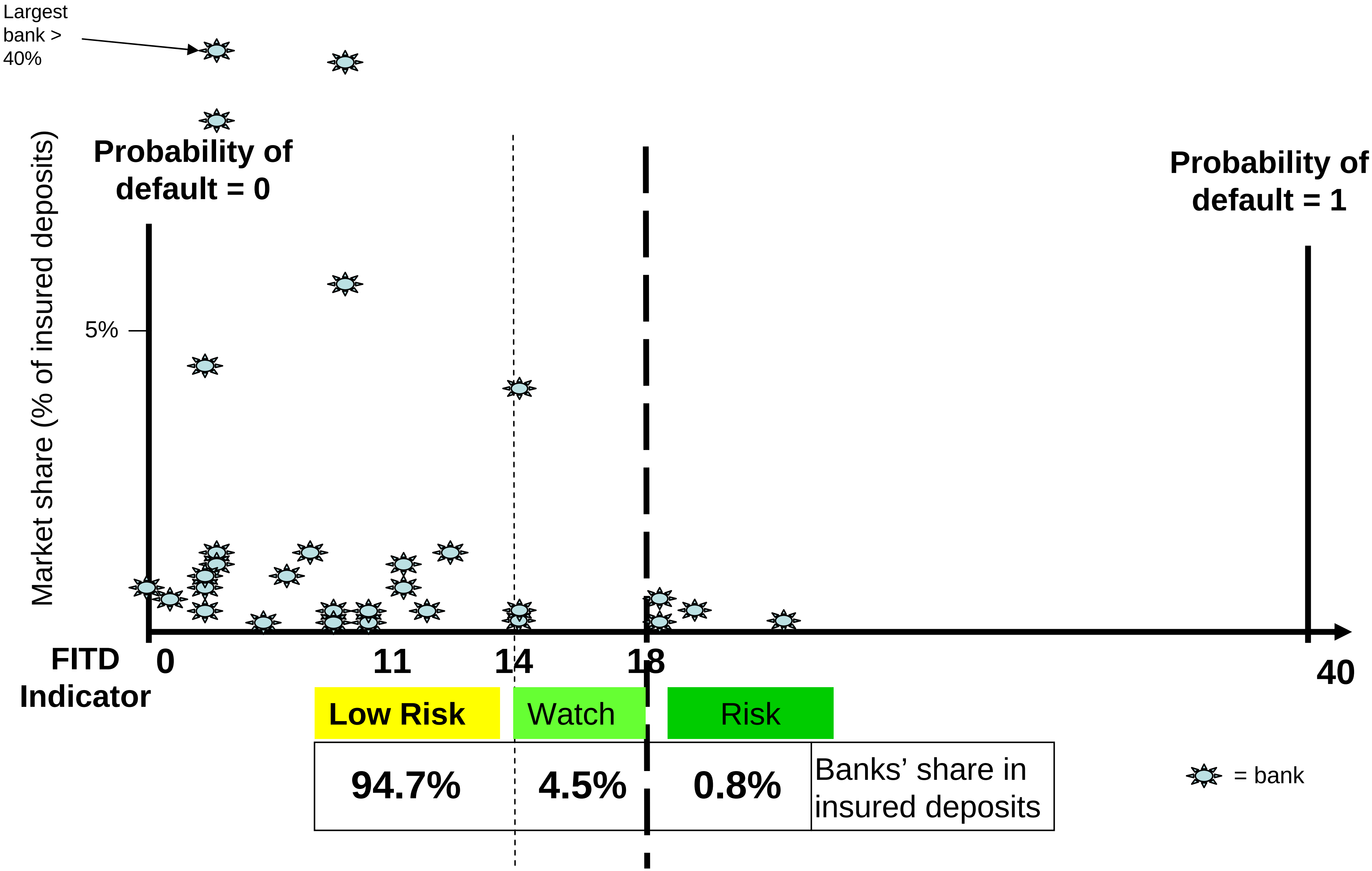
Romania's Exposure Coverage Ratio
(in % of Guaranteed Deposits)



* 2005 – 2007 expected values under assumption of unchanged premium under existing Law (0,4% 2006 and 0,3% 2007)

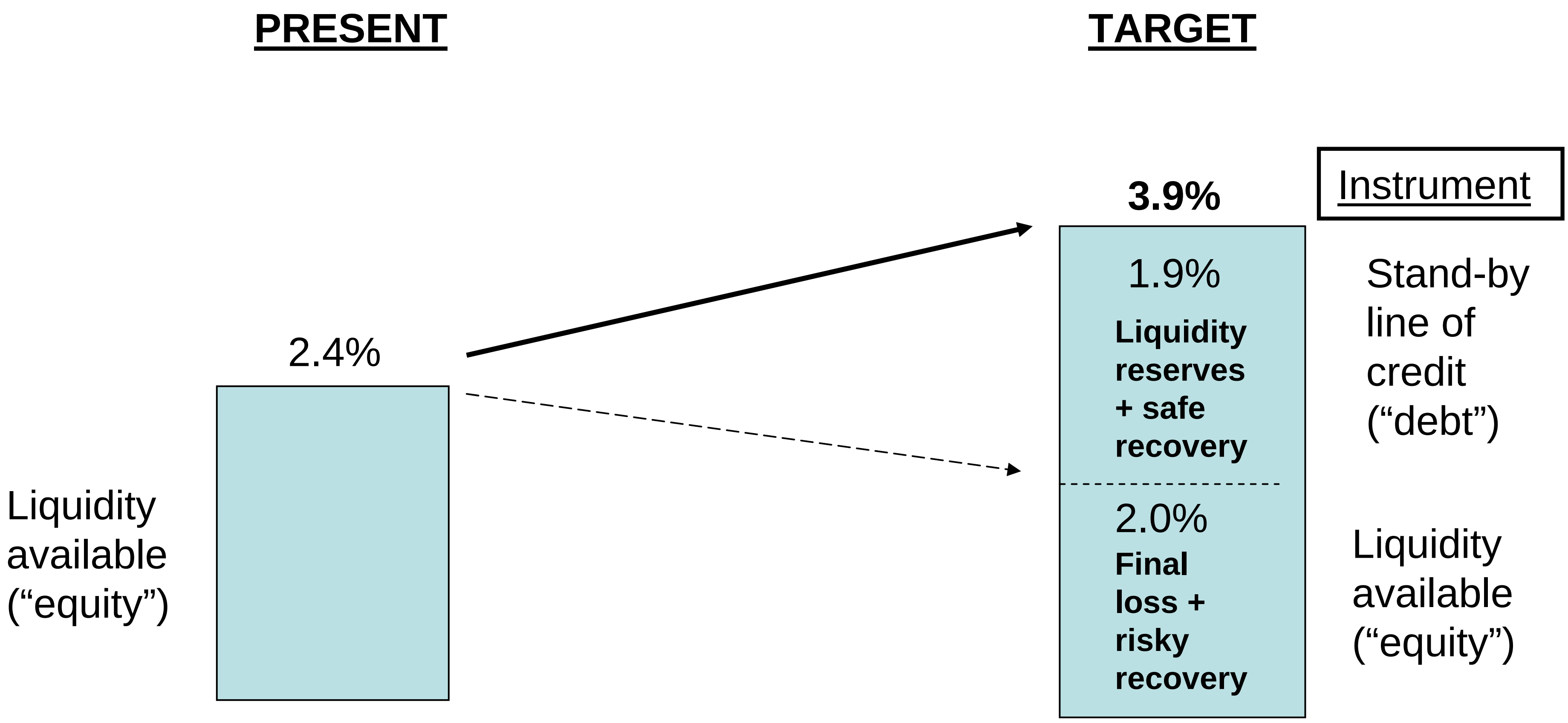
Note: For operational uses, we recommend Ratio as % of Insured Deposits

What Are DGF's Current Risks?



What Is DGF's Adequate Size?

(End-2006 projected level in % of insured deposits)



Target size supports DGF's possible interventions in weaker banks

Premium And Stand-By Calculations

EURm	2004	2005	2006	2007
DGF Liquid Assets (EoY)	**96**	**140**	**171**	**195**
ECR (EoY) [2006-2007 Target]	**2,02**	**2,45**	**2,01**	**1,81**
Premium applied	*0,60%*	*0,50%*	***0,20%***	***0,10%***
ECR (D+E) (EoY) [2006-2007 Target]	**2,02**	**2,45**	**3,91**	**3,71**
Stand-by line of credit			***+162***	***+42***
ECR on guaranteed deposits (EoY)	**1,22**	**1,32**	**1,19**	**1,12**
Total ECR (debt + equity) on guaranteed deposits (EoY)	**1,22**	**1,32**	**2,31**	**2,30**

Notes:

Guaranteed deposits growth in 2005: 35%, 2006: 20%, 2007: 20%

Insured deposits growth: 20%

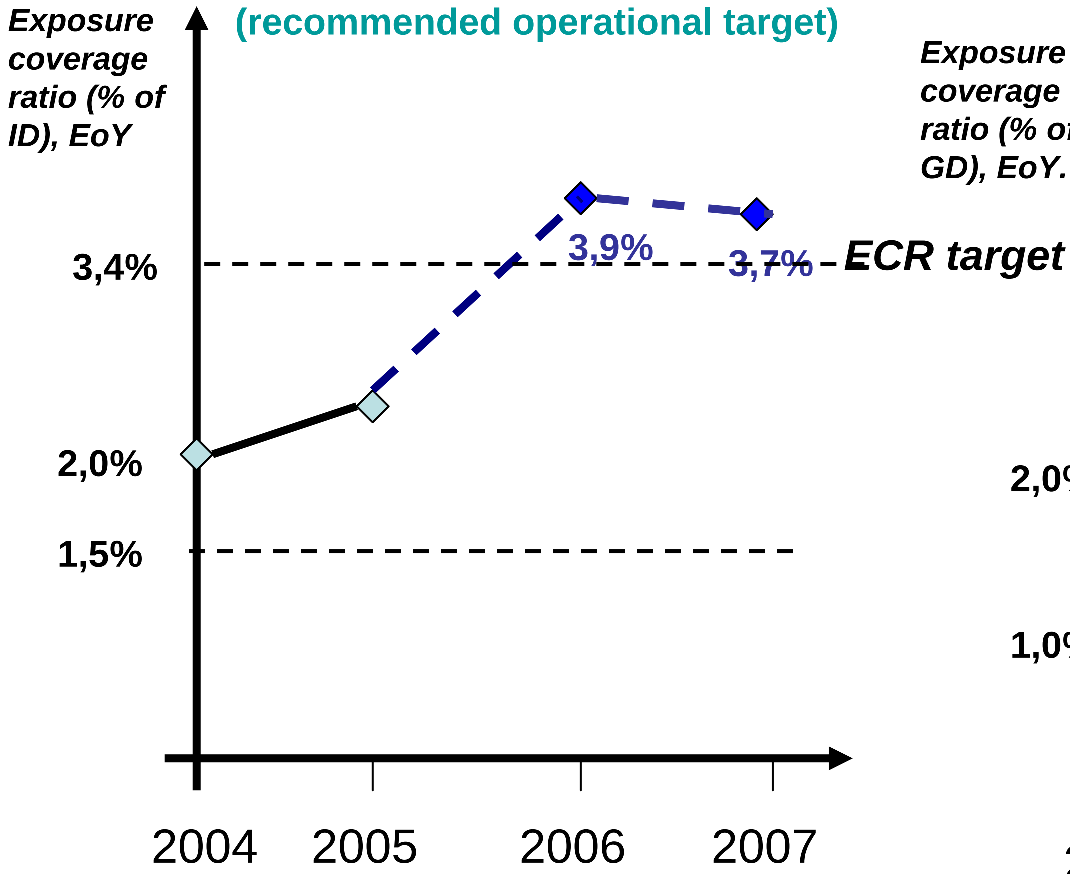
Investment in 2005: 85% (with 8,5%) and 15% (with 17%); from 2006 onwards 6%

Data on insured deposits end 2004 corresponds as insured beginning 2005 i.e. Coverage 10.000 not 6.000 Euro

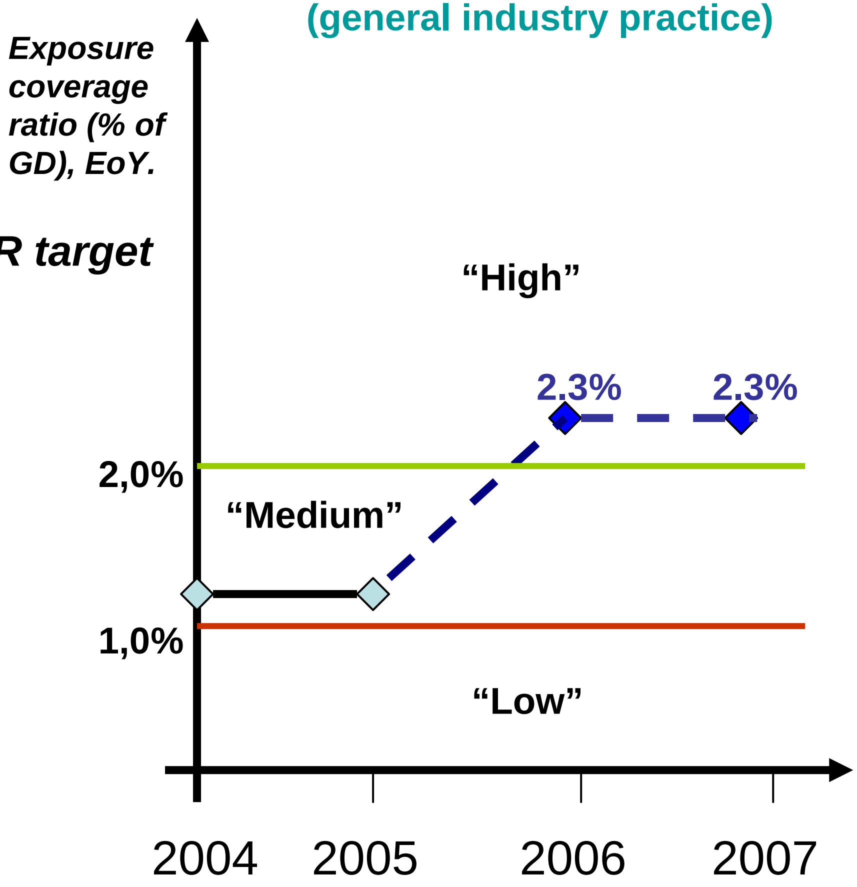
Exchange rate: 31st December 2004; i.e. 39663

Financial Policy Implications: From Actual to Target with Debt

In terms of insured deposits
(recommended operational target)



In terms of guaranteed deposits
(general industry practice)



Conclusions

Immediate Actions

- Negotiate EUR 150m stand-by loan facility from banks to bring total DGF size to 3.9% of insured deposits – art.14(1)
    - December 2005 RBA Resolution useful first *informal* step
- Lower base annual premium from 0.4% to 0.2% in 2006 and from 0.3% to 0.1% in 2007 – art. 9(1)
- Starting in 2008 set up the cap on base premium at 0.5%, [/1] transferring the responsibility for calculating premium to DGF with NBR endorsement – art.9(1)
- Make other related legislative amendments – art. 9(5) and 12(1).

/1 We recommend the post 2007 cap that is higher than the proposed 2007 premium in order to allow for premium flexibility upwards in case authorities would need to rebuild cash reserve after eventual later payout interventions.

Conclusions

Longer Term Actions

- Eliminate bank deposits from investment policy – article 15(2)
- Explore the need to amend legal framework in order to ensure prompt collection (by the bankruptcy administrator) of reserves and other liquid assets.

This Is A “Convergence” Review

“**Convergence**”/1 is a financial sector development program for South-East Europe focused on:

– Undertaking, as an “honest broker”, analytical tasks of micro-institutional issues as a basis for identifying solutions tailored to country circumstances

– Taking EU integration as a strategic perspective

– Building awareness of market participants, involving them in the search of market-building solutions, and fostering their dialogue with authorities

– Using the experience of regional former policy makers and local experts whenever possible

– Working in partnership with other institutions

1/ “Convergence” is sponsored by the World Bank with the support of a grant from Italy’s Ministry of Economy