



convergence

Fondo Interbancario di Tutela dei Depositi



Deposit Guarantee Fund in the Banking System

Summary of Findings and Conclusions

Romanian Banking Institute Symposium

Bucharest, March 2, 2006

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

The Convergence Assignment

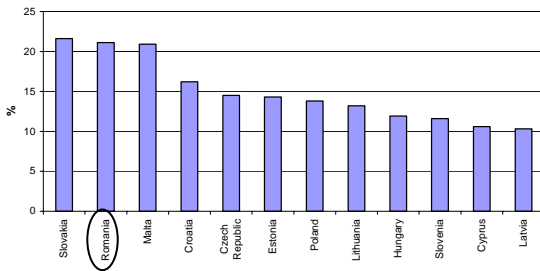
- Romanian authorities wished to make an updated assessment of the level of banks' contributions to the Deposit Guarantee Fund (DGF)

– *“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.”*

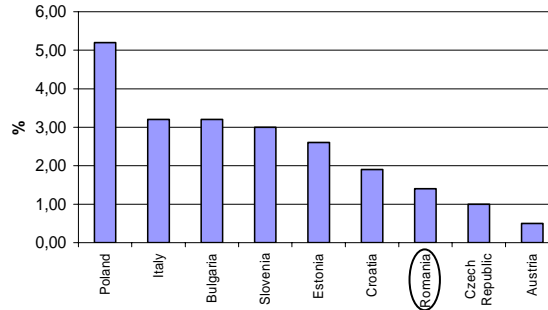
» DGF Letter to Convergence, May 2005

Romania: Sound Banking Indicators

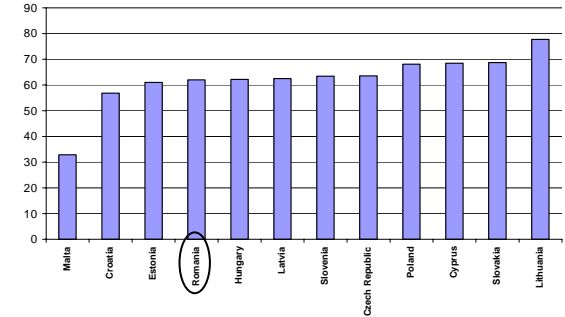
Capital Adequacy 2003



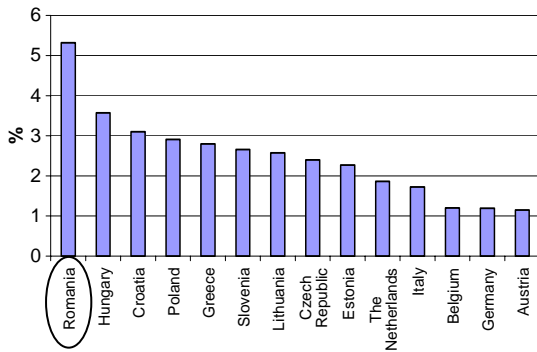
Bad (D&E) loans to total assets 2003



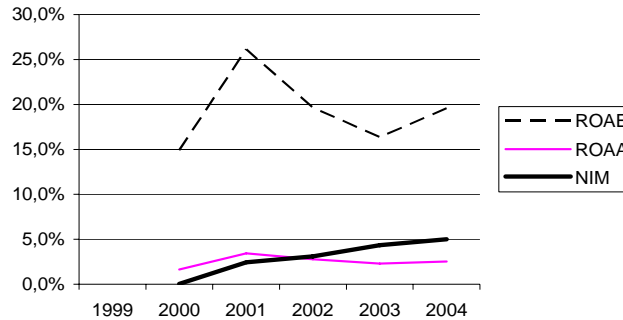
Cost/income ratio 2003



Net interest margin: comparison 2004



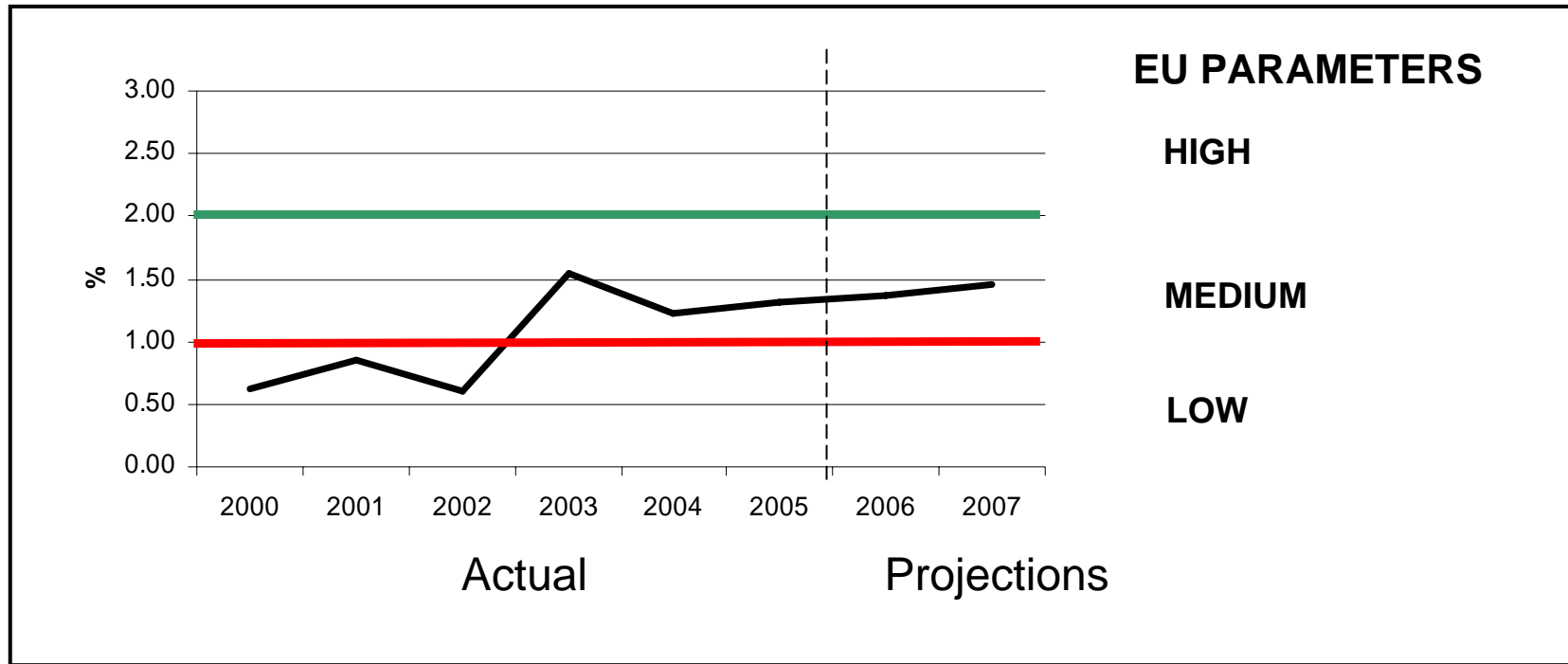
Returns and net interest margin 2000 - 2004



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

DGF Size: Medium- Strength in EU Context

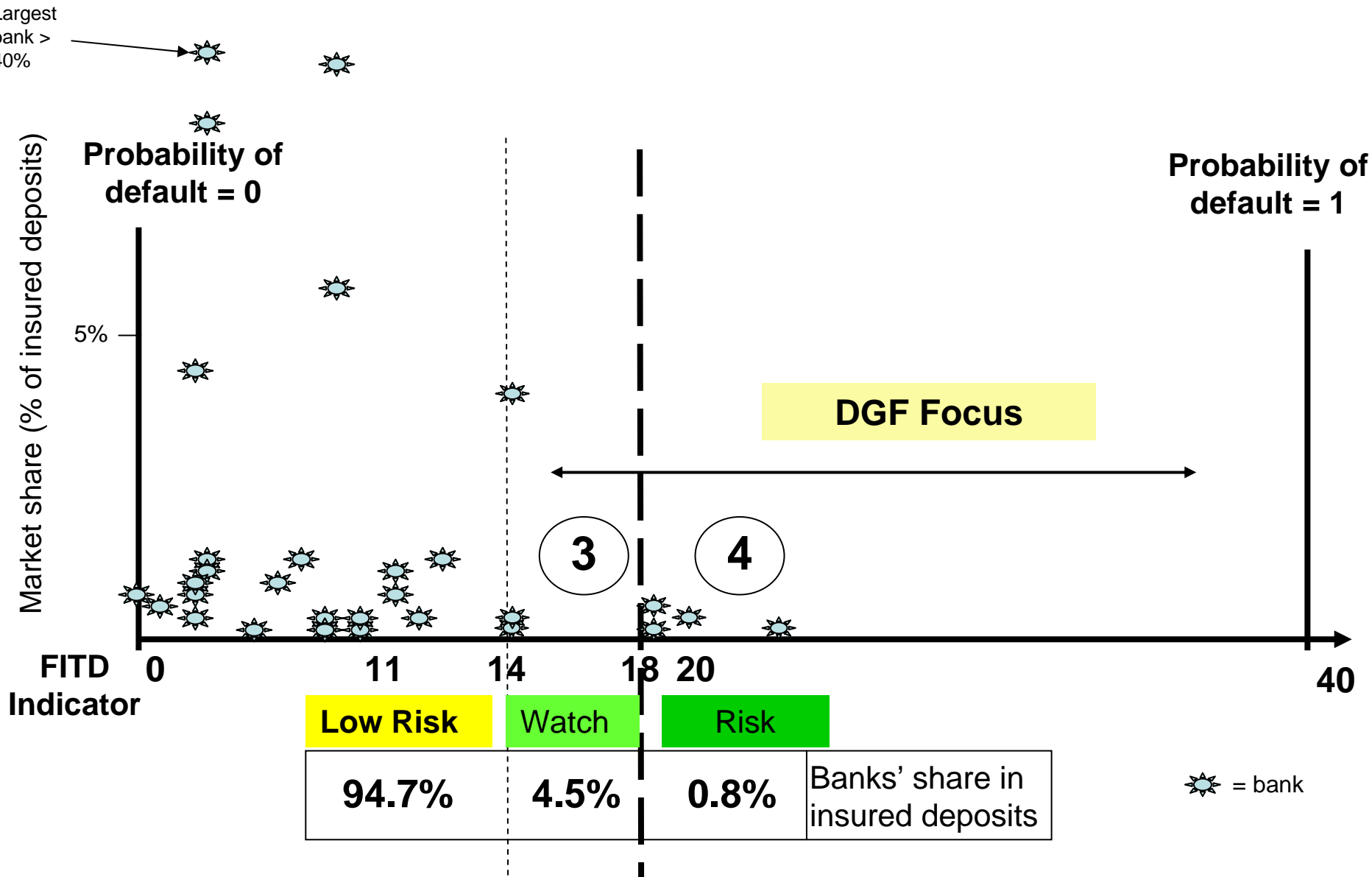
Exposure Coverage Ratio
(in % of Guaranteed Deposits)



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

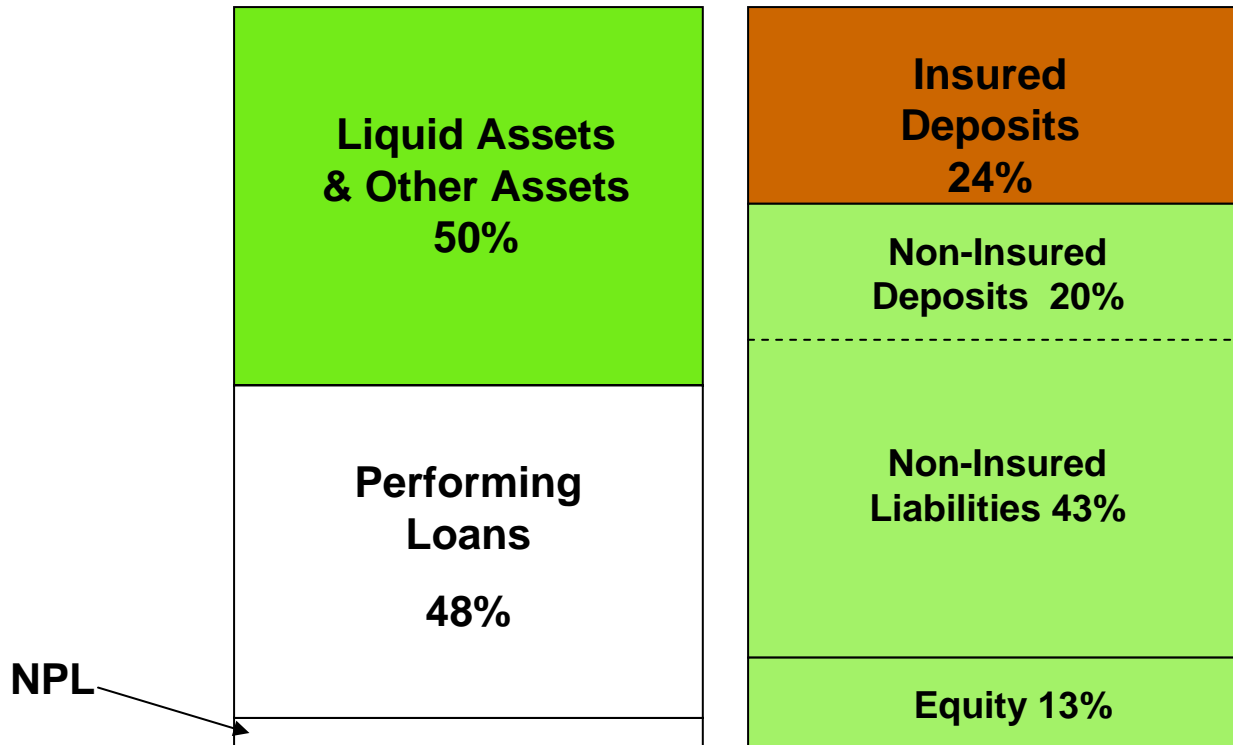
Note: For operational uses, we recommend Ratio as % of Insured Deposits

DGF Focus: 4+3 Small Banks



No DGF Systemic Risk Exposure: Liquidity Higher Than Insured Deposits

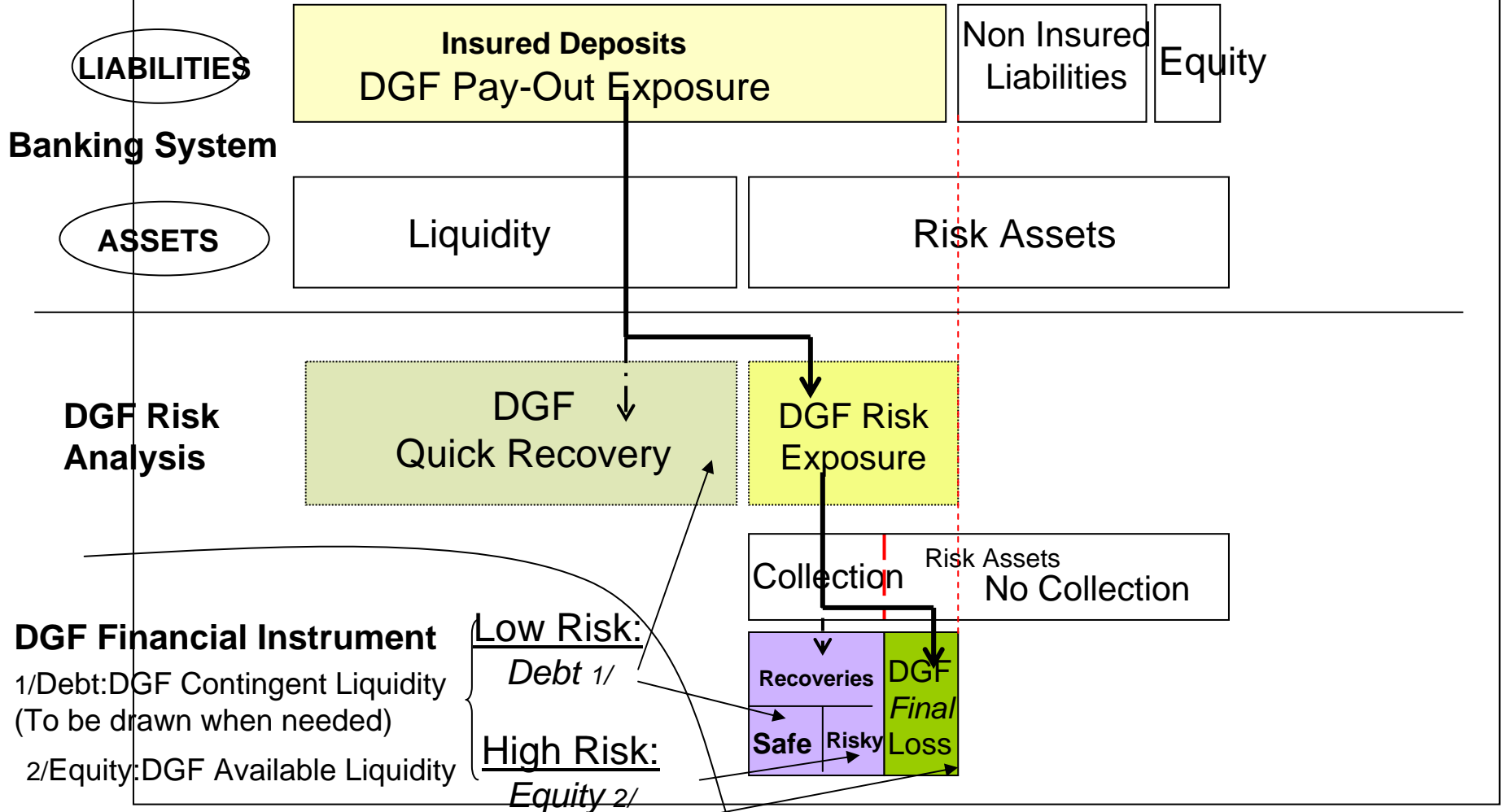
Romanian Banking System end 2004 with
EUR 10.000 coverage (base for 2005 premium)



& Non-Insured Creditors Take First Loss

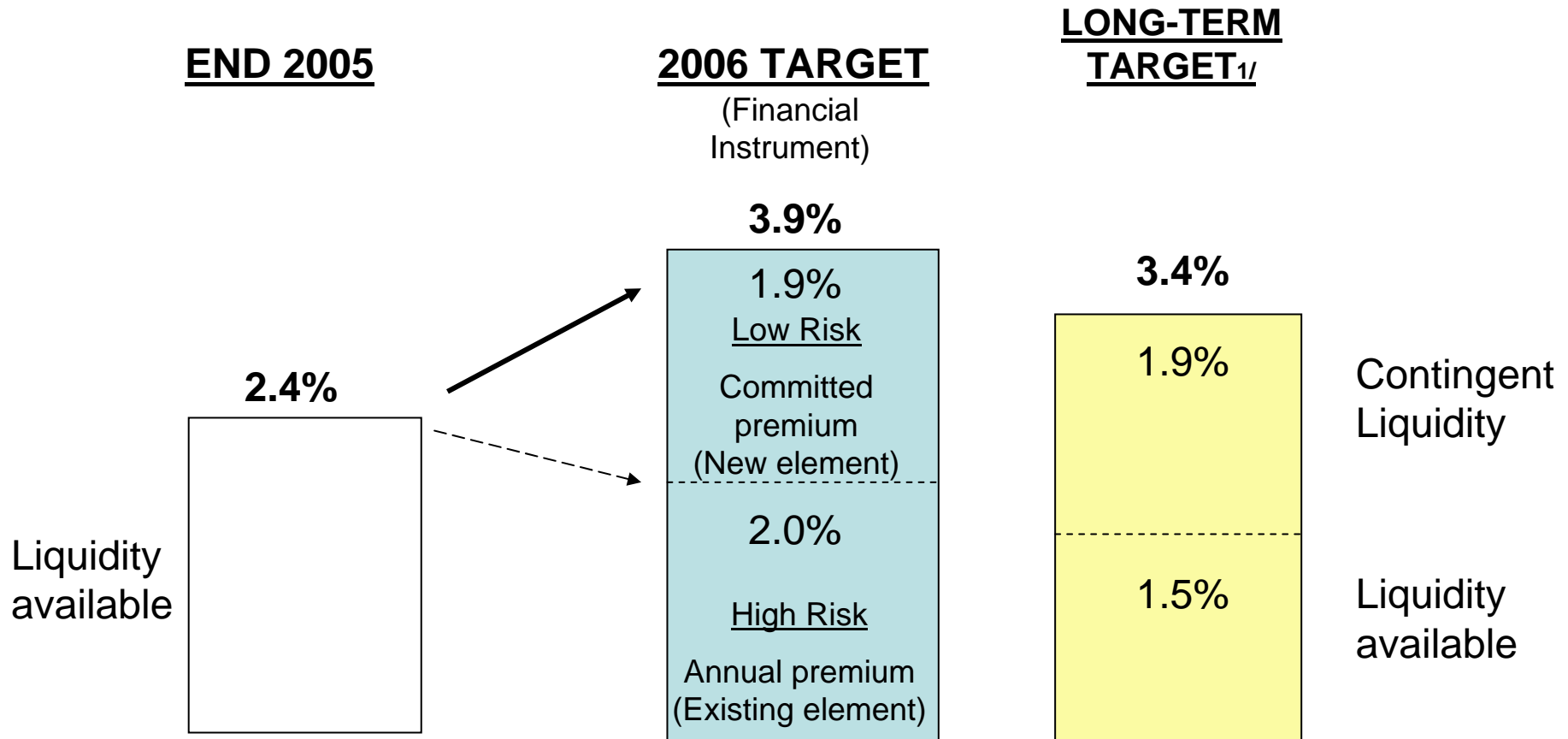
DGF Detailed Risk Analysis Essential To Choose Adequate DGF Financial Instruments

Conceptual Illustration



What Is DGF's Adequate Size?

(% of Insured Deposits)



2006 Target supports DGF's interventions in Risk and Watch 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
<i>Premium applied</i>	0,60%	0,50%	0,20%	0,10%
ECR (D+E) (EoY) [2006-2007 Target]	2,02	2,45	3,91	3,71
<i>Stand-by line of credit</i>			+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

The Convergence Conclusions

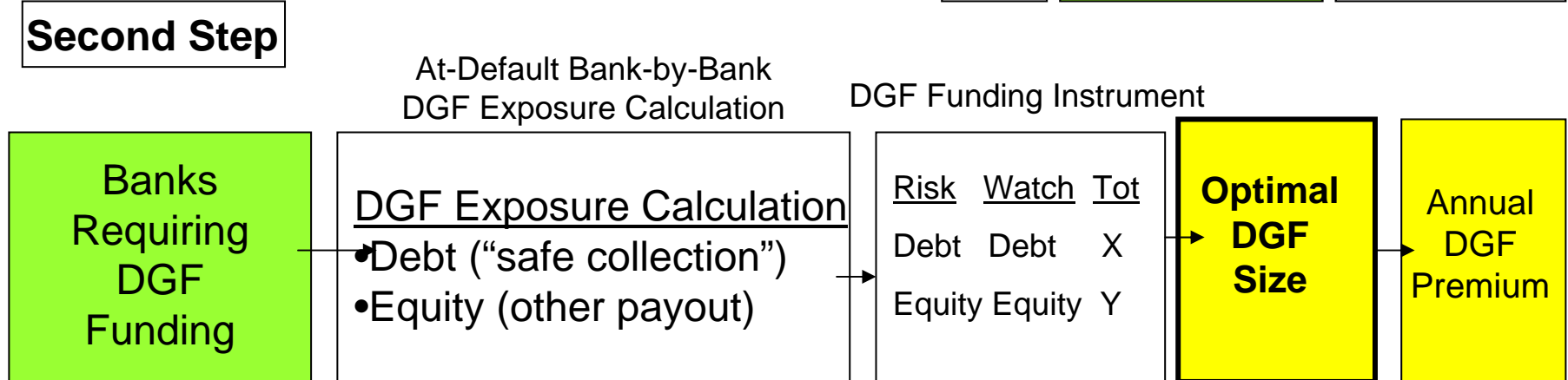
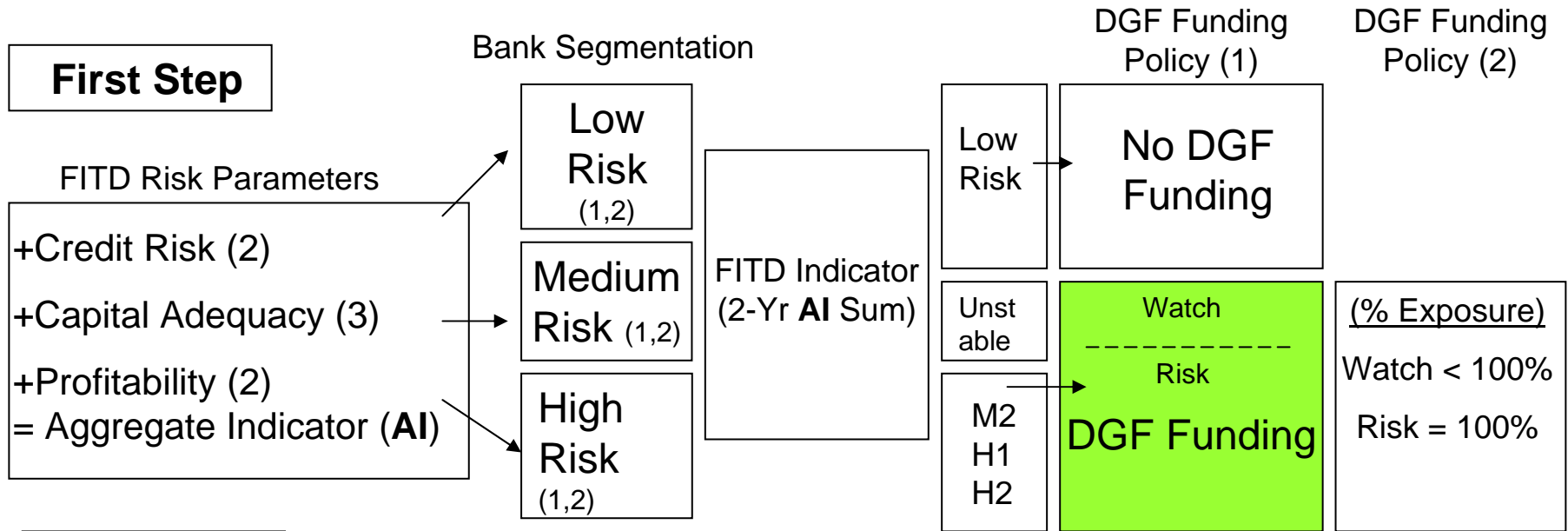
- To add a 1.9% unfunded component to bring total DGF size to 3.7% in 2007 (3.9% in 2006).
- To lower base annual premium from 0.4% to 0.2% in 2006 and from 0.3% to 0.1% in 2007 to optimize funded component to 1.8% by 2007 (LT target: 1.5%)
- To set up a premium cap for 2008 and beyond, transferring the responsibility for calculating it to DGF with NBR endorsement
- To eliminate bank deposits in DGF investment policy

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.

Appendix

Our Risk-Based Pricing Methodology



Financial Policy Implications: Target Coverage Ratio with Four New Watch Banks

% Of Insured Deposits

