



CHAPTER 8

RISKS MANAGEMENT

✿ Objectives:

After studying this chapter you should be able to understand:

- 8.1 General issues: definition of banking risks, importance of managing the banking risks**
- 8.2 Managing risks**
- 8.3 The prudential measures of the National Bank of Romania**

8.1 General issues: definition of banking risks, importance of managing the banking risks

The financial market is extremely volatile due to the influence of various factors, objective or subjective; the credit institutions being aware of the fact that maximising profit implies a permanent incur of risk.

Most definitions of the risk and risk management are focused on the classical function of money, that of intermediary in the field of financial risks through their division. From this point of view it is usually regarded the problem of unexpected losses in bank assets, losses caused by market, credit or liquidity risks.

The risk may have a considerable impact over the bank or financial institution, both an impact consisting in the incurred direct losses, and an impact consisting in the effects over the customers, personnel, business partners and even over the bank authority.

In general, the risk represents the probability of occurrence of an event that will produce serious consequences for the subject. In the same context, it should be mentioned that for the risk exposure to be actual value of all losses or supplementary expenses the financial institution would or could cover. According to this definition, the risk exposure may be real or potential.

It is important to know that the risk is generated by a large number of operations and procedures. Therefore, in the financial field at least, the risk must be considered as a mistune or a complex of risks, usually independent through common targets or the fact that the occurrence of one risk may cause a chain occurrence of other risks. As a consequence, these operations and procedures permanently generate a risk exposure.

Banking risks are those risks the banks are confronted with in their current operations, and not only the risks specific to the classic banking activity.

It is obviously that a notable banking strategy must include both programs and procedures of managing banking risks, regarding the minimisation of the probability the risks would occur the potential exposure of the bank. The three objectives of the bank management are maximising profitability, minimising the risk exposure and observing the banking regulations. None

of them has a major influence, as a task of the bank management consists of in establishing the central objective for each period.

Banks are also subject to all the risks that their customers face, risks as diverse as crop failure, environmental damage claims or the failure of a new product developed at a high cost.

The most significant and persistent risk faced by banks is credit risk - the risk that counterparts will be unable to meet their obligations. Credit risk arises from lending to individuals, companies, banks and governments, from entering into market transactions which give rise to a receipt on maturity, from stock lending and from transactions with supplies.

The main types of risks¹ involved in the banking activity are: financial risks, delivery risks, and environmental risks.

Financial risk arises from any business transaction undertaken by a bank, which is exposed to potential loss. The main financial risks are the following:

- **Credit risk**
- **Interest rate risk**
- **Liquidity risk**
- **Foreign exchange risk**
- **Capital risk**

Credit risk may be defined as the risk that a counterparty of a financial transaction will fail to perform according to the term and conditions of the contract, thus causing the asset holder to suffer loss. This failure may be the result of bankruptcy, a temporary change in market conditions, or other factors adversely affecting the borrower's ability to pay.

The most obvious example of a credit risk is the risk that a customer will fail to repay a loan. However, it is important to appreciate that credit exposure extends to a large variety of bank's activities including the extensions of commitments and guarantees, acceptances, trade finance transactions, placements and the range of capital markets instruments activity such as foreign exchange, futures, swaps, bonds, options, equities and bullion.

¹ Hempel, G.H. Coleman A.B. – Bank Management, New York, 1990

Credit risk may also arise from off balance sheet transactions. A bank may guarantee a client's performance under a contract in return for a fee - giving rise to the risk that the bank may be called upon to fulfil its guarantee at some later date because its client has failed to meet its contractual obligations. This gives rise to a counterclaim against the guaranteed party for the money paid out under the guarantee.

Credit risk may take the form of delivery or settlement risk. Where a bank buys securities from a third party or transfers securities under a repurchase agreement, it faces a risk that the counterpart will be unable to deliver the securities on the due date leaving the bank exposed to the possibility that it will not be able to replace the securities at the same price.

Interest rate risk

A fundamental banking objective is to borrow funds at one rate and to lend them at higher rate. Interest rate risk, sometimes called funding risk, involves the effect in the bank profitability of changes on the market interest rates.

Interest rate risk refers to the financial risks caused by the interest rate fluctuations that affect both the profit obtained by the client and the indebtedness degree to the bank. A major increase of the interest rate may determine a financial pressure for the client's activity, which will not be able to repay the amounts due.

The main factors that increase the interest rate risk are: volatility of interest rates; and mismatches between the interest "reset" dates on assets and liabilities.

The main factors that mitigate interest rate risk are: established limits on mismatch position; hedging with financial futures or other instruments; management monitoring exposure.

Liquidity risk

It is the risk that occurs when the bank will not be able to meet its cash or payment obligations as they fall due. The risk arises because cash flows on assets and liabilities do not match. Due to the size and spread of the resources, the bank is often called to borrow "short" and lend "long". This gives rise to the risk that depositors may seek to withdraw their funds and the bank may not be able to effect repayment except by raising additional

deposits at a higher cost, or by a forced sale of assets, perhaps at a loss. Thus, an important aspect of the banking business is the fact that the depositors may withdraw their money whenever they want, for deposits at sight, and at the established term, for deposits at term. If a bank can not meet these obligations, the customers' trust in the bank will diminish, even in the whole banking system. The customers will not wish anymore to deposit their money in banks, and there may appear massive withdrawals of funds, with a negative effect over the national economy.

The main factors that increase the interest rate risk are: erosion of confidence in the bank, in the market place because of earnings difficulties or other reasons; dependence on one market or a few counterparties for deposits; unstable financial markets; extensive "short" borrowing or "long" lending.

This is why it is necessary to forecast exactly the changes that may occur in the level and structure of the interest rate, this being correlated with the evolution of macroeconomic indicators. For the current period and for the near future, mainly the banks' clients undertake the interest rate risk related to national currency activities. This is caused by the fact that the credit and deposit interest rate modifies continuously because of the fluctuations of the market; the exception is given by the deposit certificates that have a fixed interest. We must always take into consideration the analysis of the structure of the deposits and investments, as well as their evolution.

It is desired to minimise the interest rate risk according to the relationship between the interest caring assets and liabilities. The value of the ratio must be as close to 1 as possible.

The main factors that mitigate interest rate risk are: maintenance of a high level of liquid assets (e.g. cash, money at call, marketable securities); standby credit facilities with other institutions; availability of related party funding; a lender at last resort to reassure depositors (e.g. Government deposit insurance); maintenance of a closely matched maturity structure between assets and liabilities.

Foreign exchange risk is related to interest rate risk and liquidity risk. It arises from a mismatch: this time of currency and assets and liabilities. Thus, the currency may fluctuate in an unexpected direction or higher than it has been anticipated. This type of risk is determined by the exchange

operation, that affects the situation of the clients who obtain a credit in foreign currency and do not perform exports, or those revenues from exports do not cover the debt contracted. Transactions affected include both on-balance sheet (e.g. loans, deposits), and off-balance sheet (e.g. forward currency contracts) items. Foreign exchange risk is also called currency risk.

The main factors that increase currency risk is volatility of exchange rates; significant open currency position.

The main factors that mitigate currency risk are: position limits; management monitoring of exposure; use of hedging techniques.

In Romania, the supervision of the foreign exchange risk² is accomplished:

- a) by banks;
- b) by the National Bank of Romania, on the basis of the foreign exchange position indicators reported by banks.

With a view to limiting the foreign exchange risk the banks have the following obligations:

- a) to have a record system which permits permanently both the immediate registration of the operations in foreign exchange and the calculation of their results, as well as the determination of the adjusted individual foreign exchange positions and the total foreign exchange position;
- b) to have a supervision and administration system of the foreign exchange risk on the basis of norms and internal procedures approved of by the bank's board of directors;
- c) to have a permanent control system for checking the observation of the internal procedures, necessary with a view to accomplishing the precedent orders;
- d) to designate a manager who ensures the permanent co-ordination of the bank's foreign exchange activity.

Delivery risks³ include the following risks: operational, technological, new-product, and strategic risk.

² National Bank of Romania' Norm No. 4/2001 concerning the supervision of banks' foreign exchange positions, published in Monitorul Oficial al României, Part I, No. 631/2001

³ Hempel, G.H. Coleman A.B. – Bank Management, New York, 1990

Operational risk, sometimes called *burden risk*, is the ability of the bank to deliver its financial services in a profitable manner. Both the ability to deliver such services and to control the overhead associated with them are important elements.

Technological risk refers to the risk that a delivery system may become inefficient because of new delivery systems.

New-product risk is the danger associated with the introduction of new products and services. Lower than anticipated demand, higher than anticipated cost, the lack of management talents in new markets can lead to severe problems with new products.

Strategic risk refers to the ability of the bank to select geographic and product areas that will be profitable for the bank in a complex future environment⁴.

The environmental risks include the following risks: defalcation, economic, competitive, regulatory risk.

Defalcation risk is the risk of theft or fraud by bank officers or employees. It must be carefully guarded against to avoid substantial losses.

Economic risks are associated with national and regional economic factors that can affect the bank performance.

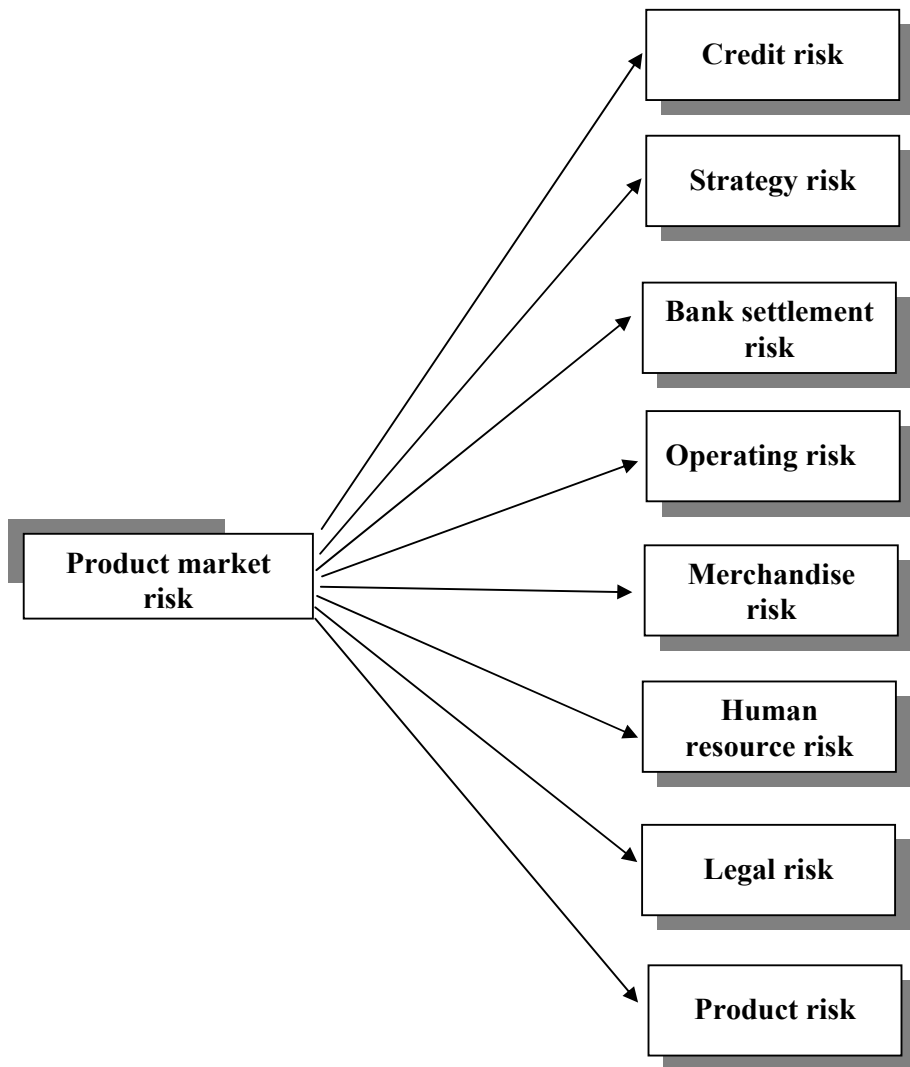
Competitive risk arises because more and more financial and non-financial firms can offer most bank products and services.

Regulatory risk involves living with some rules that place a bank at competitive disadvantage and ever-present danger that legislators and regulators will change the rules in an unfavourable manner to the bank.

Other British authors divide the main risks in two big categories of risks, such as: product market risks, and capital market risk (see Figure No.1, and Figure No.2).

⁴ Hempel, G. H. Coleman A.B. – Bank Management, New York, 1990

Figure No 1 – Product Market Risk



Source: Aspinwall, R.C., Eisenbeis, R.A – “Handbook for Banking Strategy”, John Wiley and Sons, Inc. 1995

Strategy Risk (business risk)

It is the risk that all the business line will succumb because of the competition or obsolescence. One such example may be represented by the relative disappearance of the traditional market with high credits with low risk for companies, these being replaced by commercial papers.

Another example of strategy risk is that in which a bank is not ready or not able to become competitive in a new activity. For example, in the activity of cards issuance, some banks postponed this process and they could not earn a competitive advantage in this field. This conservatory attitude of waiting for the market itself to develop represents a risk.

Bank Settlement Risk

The financial institutions, as profit centres, function in compliance with licenses that may be revoked and this may lead to the loss of important investments. Thus in USA in the past decades banks nationalisation have taken place. In Romania we can mention the license withdrawal from some banks that although were non-operational, engaged important investments for headquarters and equipment in the moment of withdrawal. Also, another settlement risk may be the withdrawal of dealer license from the Romanian banking market of some Romanian and foreign banks.

The settlement risk can be met when a bank specialised in one field becomes a universal bank, and thus it is going to compete with the other banks that act in the same domains.

In this category there can be found an additional risk that is the possibility of the regulatory authority to change the operating policies. One example here, is the Romanian Stock Exchange modification of the calculation of the mutual funds assets, regulation that led to the collapse of some institutions.

Regulatory authorities may decide who should stay and who should leave the financial market, through the capital adequacy requirements. Thus the National Bank of Romania, by increasing the level of the subscribed social capital from 100 million lei to 250 billion lei, makes many of them lack the possibility to attract supplementary capital and thus, under such circumstances, they may be withdrawn the functioning license.

Merchandise Risk

The merchandise prices may affect banks, as well as other creditors, unforeseen sometimes, having general impact over the savings and debtors. For example, the rising of the energy price may influence the inflation, contributing to the increase of the financial rates based on a fixed interest rate. Also the increase of the oil price may lead to different results in some companies.

Human Resources Risk

This represents the subtlest type of risk, very difficult to be measured, resulting from the personnel policy: recruitment, training, motivation and maintenance of specialists.

If one specialist leaves, the whole activity or only one working system is compromised. The protection against this risk implies the payment of more employees in order to insure the knowledge and experience of the leaving employee.

A similar risk is the wrong motivation of the employees. Under certain circumstances it may have significant results. It refers to the lack of stimulants or their wrong application.

Legal Risk

We encounter two sides of such risks:

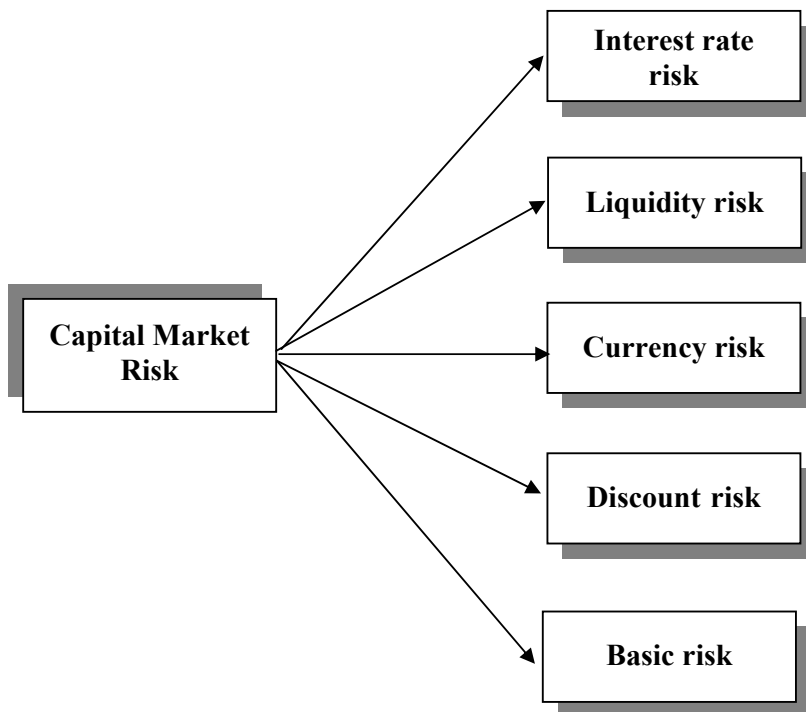
- a) the creditors' responsibility in case the debtors claim that the bankruptcy was caused by the fact that the bank had promised it would not withdraw the credit or that it would grant supplementary credits;
- b) Litigation related to toxic materials deposited on the dispossessed field. These are unforeseen measures difficult to be estimated, which must be taken into consideration by the financial institutions, as they can reach high values.

Generally speaking, the capital markets and their risks affect all the companies, especially the financial institutions, where it is hard to make a clear differentiation between the product market and the capital market.

For example, the interest rate risk for fixed rate credits is a capital market risk; at the same time the fixed rate credit risk may determine the bankruptcy of a poor debtor, and thus, the interest rate risk becomes a credit risk, that is actually a product market risk.

The banks supply financial products and services to industry and consumers. The financial services involve their own risks, specific to the capital market on which they function. From the capital market point of view there exist the following types of risk:

Figure No. 2 – Capital Market Risk



Source: Aspinwall, R.C., Eisenbeis, R.A – “Handbook for Banking Strategy”, John Wiley and Sons, Inc. 1985

Discount Risk

This is a particular type of error risk, which involves the bank's competitors. It refers to the money transfer between national and international banks. This risk is carefully handled by using sophisticated technology for payment pursuit. Thus, only one payment is performed at the end of the day, instead of numerous payments from individual transactions.

Basic Risk

It is a currency risk variation. In order to protect against the interest rate transactions with various basic assets can be used, being pursued mainly the existing and predictable relationship between them. The FUTURES contracts may be used as hedging instruments.

Obviously, the financial institutions, the commercial banks, in their financial service rendering activity, administrate their own risks, but they may also transfer the risk through the hedging transactions. If the bank can not avoid the risk, its burden, and respectively, its costs are both administrated and transferred.

A rapid growth of the risk is noticed both on the product market and on the capital market in the financial services, and at the same time the increase in the preoccupation for protection against the risk. The derivatives represent thus, ways to avoid the risks on the capital market. The swaps, options and futures contracts are instruments used for risk transfer.

Other types of risks are:

The fraud risk is defined as a deception or an act either by stating what is false or by suppression of the truth in order to deceive another, gain an advantage over another. The fraud does not represent a risk only for a bank, but also for its depositors that have entrusted their capital.

The country risk is defined as the non-reimbursement act generated by an insolvency determined by the debtor's financial position and not by the deterioration of his financial situation. It does not represent a credit risk because the debtor's insolvency does not appear.

The market risk refers to the unfavourable variations of the market value of the positions during the minimum period of time needed to the settlement of the positions.

The market risk appears due to the fact that the prices of these financial values are determined on the market, and they are modified.

8.2 Managing risks

At the present time, there is no generally accepted system for risk management. By their nature, commercial banks often obtain their profit by performing their activity in certain segments of the market. Bank's capacity to ensure against excessive risk depends on:

- capital size;
- its bank management quality;
- its technical expertise;
- Personnel experience in the corresponding market segment.

The banks must have their own system to monitor and control the risk. Generally, bank's prudential measures against risk may be the following:

- Bank management must be aware of the risks resulting from the bank's activity, and must be able to measure, monitor and control these types of risks;
- Bank must have clear policies, as well as risk measurement and control procedures;
- Bank management must establish the internal limits of risk;
- Periodical reports must be concluded, analysed and controlled by the bank's internal control and its censors.

After the uncertainties caused by the 1975 crisis, the necessity to elaborate some rules for the bank administration and the consolidation of the clients' security appeared. These rules are expressed through the "Cooke Ratios". They refer to the banks' liquidity and solvency. For example:

$$\text{Risk coverage index} = \frac{\text{Own funds}}{\text{Total commitments}} \times 100 = 8\%$$

$$\text{Risk sharing index} = \frac{\text{Risk for one client}}{\text{Net own funds}} \times 100 = 40\%$$

$$\text{Liquidity index} = \frac{\text{Own funds} + \text{Resources} > 5 \text{ years}}{\text{Uses} > 5 \text{ years}} \times 100 = 60\%$$

In many states worldwide, the minimum compulsory reserves represent an instrument of the monetary policy. The Central Bank supervises the liquidity indexes that establish the banks' general rating. These indexes are calculated based on the banks' financial reports presented periodically to the Central Bank or in this case of a control.

Solvency – represents the capacity of one natural or legal person, or bank to face the commitments taking into account the resources constituting the patrimony or assets.

Solvency is interesting when granting a credit, allowing the identification of possible non-repayment on the due date. For banks, solvency represents the capacity to cover losses for the credits granted without jeopardising the deposits' repayment.

The major role of the supervision authority is that to prevent the systemic risk by promoting efficient bank supervision which may ensure the accomplishment of the stability and viability of the banking system.

For this purpose, In Romania, it was necessary to implement the Banking Rating System and the Early Warning System. This system represents an efficient instrument for the evaluation of the banking institutions in order to identify those banks that are inefficient financially and operationally. The rating system is based on the evaluation of the following six components: capital adequacy; asset quality; management; earnings; liquidity. Each component was evaluated on a scale of values from 1 to 5, taking into consideration the bank performance. Thus, 1 represents the highest level, and 5 the lowest.

In Romania, in order to determine the necessary specific credit risk provisions related to one credit or investment, under the NBR Regulation, it is necessary to perform the following steps⁵:

- 1 – assign credits or investments in the corresponding credit risk categories;
- 2 – determine the basis of calculation for the specific credit risk provision;

⁵ Regulation 2/2000 concerning the classification of credits and placements, published in Monitorul Oficial al României, Part I, No.316/2000

- 3 – apply the provision co-efficient over the basis of the calculation obtained.

Banks shall proceed to remove to off-balance sheet all of the sums related to a credit or investment in the following cases:

- 1 – no less than those sums registering a debt service of more than 360 days;
- 2 – those in which the executor formula has been invested:
 - credit contract, as well as contracts of guarantee as the case may be;
 - a definitive legal decision which orders against the credit contract as well as against the contract of guarantee as the case may be, or against the contract of investment;
- 3 – where the procedure of executor style of patrimony in the case of individuals has been initiated;
- 4 – where the procedure of judicial reorganisation or the bankruptcy procedure against the debtor has been initiated.

8.3 The prudential measures of the National Bank of Romania

In Romania the loans are granted by banks under their own norms and regulations issued in accordance with the directives of the National Bank of Romania.

The main prudential measures issued by the National Bank of Romania are:

1. The classification of credits and investments, as well as the establishment, adjustment, and use of the specific credit risk provisions;
2. Large loans;
3. The minimum capital of the banks;
4. The solvency ratio;
5. Loans granted to the debtors in special relations with a bank;
6. Liquidity.

1. In order to establish the classification of credits and investments, and/or regularize specific credit risk provisions, banks have the obligation to have an adequate methodology of organizing information and procedures.

Banks are obliged to report to the National Bank of Romania – the Supervision Division:

- a) – the situation of classification of *credits*, as well as the necessary of specific credit risk provisions;
- b) – the situation of classification of *investments* with banks and of the necessary of the specific credit risk provisions;

Credits and investments are classified in the following categories⁶:

- standard;
- watch (only for credits granted to clients of the non-banking sector);
- substandard;
- doubtful;
- loss.

Classification of credits and investments is made through the simultaneous application of the following criteria:

- debt service;
- initiation of legal proceedings.

The relationship between classification categories and criteria is provided for in tables no. 1 and 2 of Annex No 1.

Credits granted to one debtor and/or investments established therein, are included in one single category of classification on the basis of the principle of lowering the position through contamination, respective of taking into consideration the weakest among the individual classification categories.

2. The level of a large exposure shall not exceed 20 % of the own funds of the bank, and the total amount of large exposures shall not exceed 8 times the level of the own funds of the bank.

⁶ Regulation 2/2000 concerning the classification of credits and placements, published in Monitorul Oficial al României, Part I, No.316/2000

Banks are obliged to report to the National Bank of Romania - Supervision Department the level of the large exposures via the form “The situation of large exposures”, whose model is provided in Annex No. 2) and the form “The situation of groups which represent a single debtor against the bank which registers large exposures”, whose model is provided in the Annex No 3).

The total amount of net loans granted by the bank to its own staff, including their families, may not exceed 5 % of the own funds of the bank.

Banks shall report to the National Bank of Romania – Supervision Department the level of the net loans granted to insiders and, respectively that of the net loans granted to their own staff, as well as their families, by the use of the form “Situation of the net loans granted to insiders, to their own personnel and as well as to their families”, whose model is provided in Annex No. 4 of the present norms.

3. The National Bank of Romania establishes *the minimum level of the capital* of the banks.⁷ Under the provisions of the stipulated norms, the minimum level of a bank is established at Lei 250 billion.

Banks authorised by the National Bank of Romania as of the date of the entry into force of the norm concerning the minimum level of the capital should attain the level in two steps, these being ordered, beginning with 31.05.2001, for social capital and own funds of no less than 150 billion lei and beginning with 31.05.2002 for a social capital and own funds of no less than 250 billion lei.

4. Considering the credit risk limitation, banks are compelled:

- a) to have adequate administrative procedures and internal control procedures which allow the supervision and management of the credit risk, as well as the permanent framing of the solvency indicators, of greater exposures and of loans granted to insiders, own personnel, as well as to their families;

⁷ National Bank of Romania - Norms no. 9/2000 concerning the minimum capital of the banks and branches of foreign banks, issued in Monitorul Oficial al României, Part I, No. 474/2000.

- b) To ensure an adequate reference to accounting evidence, which shall represent the foundation of prudential bank reports, thus:
1. for the asset accounts and rectifiable liabilities related to those in the balance sheet asset:
 - 1.1 the evidence shall be kept on risk entities, for which the related amounts shall be registered separately;
 - 1.2 the amounts from item 1.1 shall be recorded, at their turn, on credit risk ranks in the following distinctive columns:
 - "Credit risk rank 0%";
 - "Credit risk rank 20%";
 - "Credit risk rank 50%";
 - "Credit risk rank 100%".
 2. for the off-balance sheet asset accounts, presented in the Annex No.5):
 - 2.1 the evidence shall be kept on risk entities, for which the related amounts shall be recorded distinctively;
 - 2.2 the amounts from item 2.1 shall be recorded, at their turn, on risk rank of transformation in credit of the off-balance sheet elements, in the following columns:
 - "Credit equivalent 0%";
 - "Credit equivalent 50%";
 - "Credit equivalent 100%".
 - 2.3 the amounts from the item 2.2 shall be recorded based on credit risk rank, in the following distinctive columns:
 - "Credit risk rank 0%";
 - "Credit risk rank 20%";
 - "Credit risk rank 50%";
 - "Credit risk rank 100%";
- c) to codify, to name and to keep a record, not referring to accounting, for each group of physical persons and/or legal entities which represents a single debtor; the code shall be made of unique alpha numeric sequence and the registration date of the group in the bank evidence and shall keep as long as the modification in the group structure are not relevant;
- d) to codify and to keep evidence, not referring to the accounting, of each physical person or legal entities which represents a single debtor or which is part of a group of physical persons or legal entities which represents a single debtor and/or part of an insiders group and/or part of a group made of their own personnel and their families; the code shall be made of an

unique alpha numerical sequence and the date of registration of the physical person and legal entities as a debtor of the bank and shall be permanently kept. In the case of physical persons and legal entity, the unique alphanumerical sequence shall be represented by the personal numerical code and by the fiscal code;

- e) to conclude transactions which lead to larger exposures based only on a decision taken by the Board of Directors; the decision of the Board of Directors shall be based on a report of the risk committee, which shall include, at least, the analysis of the transaction, of the financial situation and of the reliabilities of the physical persons and the legal entities representing a single debtor, as well as the analysis of the structure of group of physical persons and/or legal entities, in the case in which there represents a single debtor;
- f) to grant credits to insiders only based on the decision adopted by the Board of Directors; the decision of the Board of Directors shall be based on a report of the speciality divisions which shall include the description of the nature of the special relation, the analysis of the transaction, of the financial situation and of the reliabilities of the insiders; employees of the bank shall be excepted from the application of provisions, and their families;
- g) to grant credits to their own personnel, including there families, only based on some internal norms approved by the Board of Directors.

In order to determine the solvency indicators, large exposures and net loans granted to insiders, own personnel, as well as to their families, banks should take into account the following:

- a) the bank assets shall be grouped on risk entity, as well as in categories of credit risk, in accordance with the framing criteria presented in Annex No 5;
- b) in the case of collateral with a risk higher than that of the counterpart, the risk rank (grade) shall be related to the counterpart;
- c) in the case of an asset element guaranteed with one of the collateral's type provided in Annex No 5, to whom it corresponds a specific rank of risk lower than that corresponding to the counterpart, the guaranteed part of the respective asset element shall be recorded in a category with a lower risk grade, and the not guaranteed part of the asset element shall be recorded in the category corresponding to risk grade related to counterpart;

- d) in the case of an asset element guaranteed with two or more of the types of guarantees provided in Annex No 5, this shall be taken into consideration starting with those which allow the framing of the respective asset in the lowest risk grade categories;
- e) in the case of securities granted as a loan, the risk entity, as well as the risk grade related to those shall be established taking into consideration the highest of the credit risk grade related to the issuer and the credit risk grade related to debtor, and, in the situation in which the securities granted as loan to be secured with one of the types of guarantees provided in Annex No 5;
- f) for the rectifiable liabilities elements the risk entity shall be the same as that of the asset elements which corrects, and the framing in credit risk categories shall be made in the credit risk categories corresponding to asset elements which they are correcting, starting with the highest category of risk;
- g) off-balance sheet elements shall be grouped on risk entities, as well as on credit risk categories for transformation in credit, in accordance with the criteria of framing presented in Annex No 6, after which shall be considered balance sheet elements, and shall be included in credit risk categories, in accordance with the criteria's presented in Annex No 5.

The minimum limit of the solvency indicator⁸, calculated as a ratio between the level of own funds and net exposure shall be 12 % and the minimum limit of the solvency indicator, calculated as a ratio between the level of own capital and the net exposure shall be 8%.

Banks shall report to the National Bank of Romania – the General Department for Licensing, Regulation and Prudential Supervision of the Banking Companies the level of the solvency indicators by the form “Solvency of banks”, whose model is provided in Annex No 2.

5. Under the norms⁹ issued by the National Bank of Romania the *bank can grant loans to the persons with whom it has special relations with*, only under conditions provided by the norms.

⁸ NBR Norm 8/1999 concerning the limit of the credit risk of the banks, published in Monitorul Oficial al României, Part I, No. 245/1999.

⁹ NBR Norm 8/1999 concerning the limit of the credit risk of the banks, published in Monitorul Oficial al României, Part I, No. 245/1999.

Persons in special relations with the bank are considered:

- a) the representatives of the State Ownership Fund in the general meeting of the shareholders of the bank;
- b) the bank's administrators and the censors, natural persons of the bank, the managers, the directors and the internal auditors of the bank;
- c) the censors, legal entities, of the bank and the independent audit of the bank;
- d) the executive directors of the bank;
- e) any legal entity which exerts effective control of the bank, the main shareholders and its managers;
- f) any commercial company that participated at the capital of the bank (at least 10%);
- g) the NBR's staff that makes control and supervises the bank;
- h) the NBR's members of the Board of Directors;
- i) the spouses or the relatives, up to the fourth degree of relation including, of the persons provided by the letters a) and b) and of the managers or main shareholders of the legal entities who have effective control of the bank;
- j) any main shareholder and any commercial company being under his effective control, directly or indirectly;
- k) The staff of the banking company, etc.

Effective control of a bank or of any other commercial company is taken into consideration when a physical or legal person:

- holds more than 50% of the voting rights or of the registered capital of the bank or of any other commercial company;
- has the right to appoint or to replace the majority of the members of the Board of Directors of the bank or of any other commercial company;
- is shareholder or partner and controls alone the majority of the voting rights, according to an agreement concluded with other shareholders or partners of the bank or of any other commercial company;
- has the power to exert a decisive influence over the management and the policy of the bank or of any other commercial company.

6. The own funds¹⁰ of a bank are made of the following categories of capital:

- own capital;
- additional capital.

The **own capital** is comprised of:

- a) the social capital paid;
- b) premiums related to capital, totally collected;
- c) legal reserves;
- d) general reserve for credit risk;
- e) reserves from the influences of the exchange rate related to the liquidity in hard currency representing the social capital in hard currency, in accordance with the Government Decision no. 252/1996 regarding the regime of the foreign exchange differences related to the social capital in hard currency and other applicable operations, starting with the balance sheet with the submission deadline of 15 April 1996, modified by Government Ordinance no. 23/1996 and by Government Decision no. 213/1999;
- f) reserves set-up from premiums related to capital and net profit distribution, indicating in the reporting form the symbol and the name of the account;
- g) reserves from the favourable differences from the patrimony revaluation indicating in the reporting form the name and symbol of the account, as well as of the legal provisions based on which it is constituted;
- h) the tangible assets fund;
- i) the fund for increasing their own financing resources;

¹⁰ NBR Norm No.7/1999 concerning own funds of banks, published in Monitorul Oficial al României, Part I, No. 206/1999.

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- j) the funds set up by banks, indicating in the reporting form of the symbol and the name of the account, as well as the legal provisions based on which it is constituted;
- k) statutory reserves;
- l) the reporting result representing undistributed profit;
- m) the net result of the current financial year representing profit;
- n) the funds with permanent features being at the disposal of their own units from abroad.

For the establishment of the own capital level the following elements shall be deducted:

- a) the amounts representing the value of their own redeemed shares having in view the reduction of the social capital in the conditions provided at Art. 53 letter b) of Law no. 58/1998;
- b) the not amortised value of the establishment expenses;
- c) the net value of the commercial fund;
- d) the amounts of the net profit of the current financial year representing dividends (in the case of banks which are not under the incidence of the Art. 47 of Law no. 58/1998), the personal participation at profit and the participation share of the manager at the profit. This amounts shall be calculated off balance sheet (outside of accountant), by using for the net profit recorded at the end of each month of the weighted elements in accordance with the distribution of the net profit of this destinations, performed based on the accountant balance sheet of the previous year;
- e) the amounts representing expenses to be distributed and expenses to be recorded in advance, which must be supported in a deferred manner on expenses during futures periods or financial years;
- f) the carried forward result representing unsupported loss;
- g) the net result of the present financial year representing loss;
- h) distribution of the profit;

i) the endowment for owns units abroad.

Additional capital is comprised of:

- a) other reserves;
- b) subordinated debt;
- c) subventions for investments;
- d) favourable differences from the revaluation of the patrimony, indicating in the reporting form the name and symbol of the account, as well as of the legal provisions on the basis in which they were constituted.

For the determination of the level of the own funds of a bank it shall take into account the following:

- a) the additional capital shall be taken into consideration at the calculation of the own funds only in the conditions of registration of a positive level of the own capital and in a proportion of not more than 100% of this;
- b) subordinated debt shall be included in the calculation of the own funds in a proportion of maximum 50% of the own capital and must fulfil the following conditions:
 - to be totally used;
 - in the case of subordinated debt on term, the initial maturity must be of at least 5 years; if the subordinated debt is for an indefinite period, it is not reimbursed only at the initiative of the debtor bank and only in the conditions in which the level of the own funds is not altered;
 - for the calculation of the level of own funds the volume of the subordinated debt shall be gradually decreased by 20% per year in the last 5 years prior to maturity;
 - the credit contract shall not include the clause of anticipated reimbursement of the subordinated debt in other circumstances than the liquidation of the bank;
- c) deduction from the level of the own funds of the following elements:
 - the amounts representing participation in commercial companies, participation securities, and securities of portfolio activities, held with banks and companies with financial activity, corrected by the amounts representing conversion differences, payments to be made for

participation in commercial companies, for participation securities and for securities for portfolio activities and provisions for depreciation of the participation held in commercial companies, participation securities and securities for portfolio activities;

- subordinated credits, granted to banks and companies with financial activities, corrected by the amounts representing provisions for past due and doubtful claims, related to those.

Banks have the obligation to determine, monthly, and the level of own funds, according to the methodology of the present norm, based on the dates from the accountant balance sheet of each month. Banks shall send to the NBR - The General Department for Supervision the monthly reporting form within not more than 10 days from the next month. The model of the calculation and reporting form of own funds is presented in the annex no.8.

For all prudential banking indicators, whose determination shall be done based on own funds, banks have the obligation to use the last level of own funds resulting from the application of Art. 5.

7. In Romania, the supervision of the liquidity risk shall be realised by:

- banks;
- the National Bank of Romania, under the liquidity indicator calculated by comparing the effective liquidity with the necessary liquidity on the basis of each maturity band.

The minimum limit of the liquidity indicator, calculated as a ratio between the effective liquidity and the necessary liquidity on the basis of each maturity band shall be 1.

The effective liquidity is determined by summing up the balance sheet assets and off-balance sheet received commitments, on each maturity band.

The necessary liquidity is determined by summing up the balance sheet obligations and off-balance sheet given commitments, on each maturity band.

If a surplus of liquidity has been registered in any of the maturity bands (except for the last one), this shall be added to the level of the effective liquidity afferent to the next maturity band.



Progress test

1. Define the banking risks.
2. What is the financial risk?
3. List at least three financial risks and explain them.
4. What is the interest rate risk?
5. What is the liquidity risk?
6. What is the foreign exchange risk?
7. List the delivery risks.
8. List the environmental risks.
9. How does a bank manage all the risks?
10. What is the solvency?
11. What are the main prudential measures used by the National Bank of Romania?
12. What is the minimum level of capital of a bank?
13. How is the solvency ratio calculated?
14. List the debtors in special relations with the bank.
15. How does a bank establish its own funds?

Table No 1 – Criteria of inclusion in the categories of classification of *credits*, for non-banking sector

INITIATION OF JUDICIAL PROCEDURES	JUDICIAL PROCEDURES HAVE BEEN INITIATED	JUDICIAL PROCEDURES HAVE NOT BEEN INITIATED
DEBT SERVICE		
Maximum of 15 days	loss	standard
16 – 30 days	loss	watch
31 – 60 days	loss	substandard
61 – 90 days	loss	doubtful
minimum of 91 days	loss	loss

Table No 2 – Criteria of inclusion in the classification categories of *credits and investments*, for the banking sector

INITIATION OF JUDICIAL PROCEDURES	HAVE INITIATED JUDICIAL PROCEDURES	HAVE NOT INITIATED JUDICIAL PROCEDURES
DEBT SERVICE		
Maximum of 3 days	loss	standard
4 – 15 days	loss	substandard
16 – 30 days	loss	doubtful
minimum of 31 days	loss	loss

Table No 3 – Provision co-efficient related to classification categories

CLASSIFICATION CATEGORY	CO-EFFICIENT
Standard	0
Watch	0.05
Substandard	0.2
Doubtful	0.5
Loss	1

**THE SITUATION
regarding big exposures**

Bank's denomination

Date of reference: [/ /]

- thousands lei -

Own funds (OF)	10% from own funds	20% from own funds	80% from own funds

No crt.	"One debtor"		Gross exposure			Net exposure			% from the own funds col. 7 = col. 6 * 100/OF
	Code	Denomination	from the balance sheet assets	from the praised off balance sheet elements	Total col. 3 = col.1 + col. 2	from the balance sheet assets	from the praised off balance sheet elements	Total col. 6 = col. 4 + col.5	
A	B	C	1	2	3	4	5	6	7
		TOTAL:							

Bank Manager,

.....
(name, surname and signature)

Manager of the financial-accounting department,

.....
(name, surname and signature)

Made by:

Name and surname:

Telephone number / line:.....

**THE STRUCTURE
of groups which represent “one debtor”, towards which the bank
registers big exposures**

Bank's denomination

Date of reference: [/ /]

Group of physical persons or legal entities			Physic persons or legal entities or legal entities from group's composition		
No crt.	Code	Denomination	No crt.	Code	Denomination
0	1	2	3	4	5

Bank Manager,

.....

(name, surname and signature)

Manager of the financial-accounting department,

.....

(name, surname and signature)

Made by:

Name and surname:

Telephone number / line:.....

THE SITUATION
regarding the net loans granted to the persons, which are in special
relations with the bank, own personnel, as well as to its families

Bank's denomination

Date of reference: [/ /]

- thousands lei -

Own funds (OP)	5% from own funds	20% from own funds
-----------------------	--------------------------	---------------------------

No. crt.	The group	Gross exposure			Net exposure			% from the own funds col. 7 = col. 6 * 100/OF
		from the balance sheet assets	from the praised off balance sheet elements	Total col. 3 = col.1 + col. 2	from the balance sheet assets	from the praised off balance sheet elements	Total col. 6 = col. 4 + col. 5	
A	B	1	2	3	4	5	6	7
1.	Persons which are in special relations, provided by article 1 paragraph 2 letter n) items 5-12							
2.	Own personnel and its families							

Bank Manager,

.....

(name, surname and signature)

Manager of the financial-accounting department,

.....

(name, surname and signature)

Made by:

Name and surname:

Telephone number / line:.....

CRITERION
of framing the assets in credit risk categories

Credit risk rate	Elements taken into account
0%	1. hard cash and values from gold, metals and jewels
0%	2. assets representing claims about or guaranteed in a deliberate way, irrevocably and unconditionally by or guaranteed with securities issued by the special central public administration of the Romanian state or by the National Bank of Romania
0%	3. assets representing claims about or guaranteed in a deliberate way, irrevocably and unconditionally by or guaranteed with securities issued by the central administrations, central banks of A category countries or European Communities
0%	4. assets representing claims about the central administrations or central banks of B category countries, expressed and financed in the national currency of the debtors
0%	5. assets representing claims guaranteed in a deliberate way, irrevocably and unconditionally by the central administrations or central banks of B category countries, expressed and financed in the national currency common to the guarantor and to the debtors
0%	6. assets guaranteed with collateral deposits sold to the bank itself or with deposit certificates or similar instruments issued by the bank itself and entrusted to this
0%	7. assets inferred from its own funds
20%	8. assets representing claims about or guaranteed in a deliberate way, irrevocably and unconditionally by or guaranteed with securities issued by banks with multilateral development or by the European Bank of Investments
20%	9. assets representing claims about or guaranteed in a deliberate way, irrevocably and unconditionally by the territorial administrations from Romania
20%	10. assets representing claims about or guaranteed in a deliberate

Business of Banking

	way, irrevocably and unconditionally by the banks from Romania
20%	11. assets representing claims about or guaranteed in a deliberate way, irrevocably and unconditionally by the local and regional administrations from the A category countries
20%	12. assets representing claims about or guaranteed in a deliberate way, irrevocably and unconditionally by the banks from the A category countries
20%	13. assets representing claims, with maturity of no more than 1 year, about or guaranteed in a deliberate way, irrevocably and unconditionally by the banks from the B category countries
20%	14. elements that are about to be cashed (checks and other values)
50%	15. credits granted for physical persons, guaranteed with mortgages in bank's advantage, of values superior to the mortgages set up in other creditors advantage, towards lodgings that are or will be taken into possession by the debtor or which are let out on hire by this
50%	16. receiving incomes
100%	17. assets representing claims about the central administrations or central banks of B category countries, expressed and financed in the national currency of the debtors
100%	18. asset representing claim towards local and regional administrations from the B category countries
100%	19. assets representing claim, with maturity of more than 1 year, towards the banks from the B category countries
100%	20. assets representing claims towards the non-banking sector from the A category countries or the B category countries from Romania
100%	21. intangible assets
100%	22. other assets

CRITERION

**of framing the off - balance sheet elements in risk categories
transformation into credit**

Credit risk transformation into credit	Off - balance sheet elements
100%	1. pledges in other banks advantage
100%	2. pledges in clientele advantage
100%	3. securities sold with the possibility to repurchase, for which the option of redemption was firmly expressed
100%	4. doubtful pledges
100%	5. other given pledges
50%	6. cautions, guarantees and other collateral given to other banks
50%	7. guarantees given for clientele
50%	8. securities sold with the possibility to repurchase, for which the option of redemption was not firmly expressed
0%	9. securities given in warranty

BANKS SOLVENCY
I. The structure of the assets from the balance sheet

Bank's denomination.....

Date of reference: [/ /]

- thousand lei -

ASSETS	Position code	Credit risk rate 0%			Credit risk rate 20%		
		Amounts due to the credit risk rate 0%, registered in the accounts balances assets	Amounts due to the credit risk rate 0%, registered in the accounts balances of the rectified liabilities accounts	Net amounts col.3= col.1- col. 2	Amounts due to the credit risk rate 20%, registered in the accounts balances assets	Amounts due to the credit risk rate 20%, registered in the accounts balances of the rectified liabilities accounts	Net amounts col. 6 = col.4- col. 5
A	B	1	2	3	4	5	6
TREASURY OPERATIONS AND INTERBANKING OPERATIONS	A01						
- Cash and other values	A10						
- Current account at the central banks	A20						
- Accounts of banks correspondent	A25						
- Deposits at banks	A101						
- Credits granted to the banks	A30						
- Values received	A40						
- Values to be recovered	A50						

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A	B	1	2	3	4	5	6
- Outstanding debts	A102						
- Doubtful debts	A70						
- Attached debts	A90						
CLIENTELE OPERATION'S	B01						
- Credits granted to the clientele	B03						
- Credits granted to the financial clientele	B80						
- Values received	B85						
- Debtor current accounts	B99						
- Values to be recovered	B9J						
- Outstanding debts	B102						
- Doubtful debts	B9K						
- Attached debts	B9V						
SECURITY OPERATIONS AND OTHER OPERATIONS	C0A						
- Securities received	C1A						
- Transaction securities	C2A						
- Investment securities	C3A						
- Investment securities	C4A						
- Discount accounts regarding security operations	E6A						
- Intra- banking discounts	E7A						
- Debtors	E123						
- Supply accounts	E70						
- Regulation accounts	E8A						
- Outstanding debts	E104						
- Doubtful debts	E90						
- Attached debts	E97						

Business of Banking

A	B	1	2	3	4	5	6
FIXED ASSETS VALUES	F01						
- Subordinated credits	F02						
- Interest within the legal banking companies, participation securities and securities of the portfolio activity	F10						
- Endowment for the own units from abroad	F50						
- Fixed assets under way, fixed assets of the operations activity, fixed assets besides operation activity	F6A						
- Leasing and assimilated operations	F7A						
- Simple tenancy	F80						
- Outstanding debts	F102						
- Doubtful debts	F9A						
- Attached debts	F97						
SHAREHOLDERS OR SOCIETIES	LOC						
TOTAL:	L98						

TABLE - SEQUEL

- thousands lei -

ASSETS	Position code	Credit risk rate 50%			Credit risk rate 100%		
		Amounts due to the credit risk rate 50%, registered in the accounts balances assets	Amounts due to the credit risk rate 50%, registered in the accounts balances of the rectified liabilities accounts	Net amounts col.9= col.8- col. 7	Amounts due to the credit risk rate 100%, registered in the accounts balances assets	Amounts due to the credit risk rate 100%, registered in the accounts balances of the rectified liabilities accounts	Net amounts col. 3 = col.1- col. 2
A	B	7	8	9	10	11	12
TREASURY OPERATIONS AND INTERBANKING OPERATIONS	A01						
- Cash and other values	A10						
- Current account at the central banks	A20						
- Accounts of banks correspondent	A25						
- Deposits at banks	A101						
- Credits granted to the banks	A30						
- Values received.....	A40						
- Values to be recovered	A50						
- Outstanding debts	A102						
- Doubtful debts	A70						
- Attached debts	A90						

Business of Banking

A	B	7	8	9	10	11	12
CLIENTELE OPERATION'S	B01						
- Credits granted to the clientele	B03						
- Credits granted to the financial clientele	B80						
- Values received	B85						
- Debtor current accounts	B99						
- Values to be recovered	B9J						
- Outstanding debts	B102						
- Doubtful debts	B9K						
- Attached debts	B9V						
SECURITY OPERATIONS AND OTHER OPERATIONS	C0A						
- Securities received	C1A						
- Transaction securities	C2A						
- Investment securities	C3A						
- Investment securities	C4A						
- Discount accounts regarding security operations	E6A						
- Intra- banking discounts	E7A						
- Debtors	E123						
- Supply accounts	E70						
- Regulation accounts	E8A						
- Outstanding debts	E104						
- Doubtful debts	E90						
- Attached debts	E97						

Business of Banking

A	B	7	8	9	10	11	12
FIXED ASSETS VALUES	F01						
- Subordinated credits	F02						
- Interest within the legal banking companies, participation securities and securities of the portfolio activity	F10						
- Endowment for the own units from abroad	F50						
- Fixed assets under way, fixed assets of the operations activity, fixed assets besides operation activity	F6A						
- Leasing and assimilated operations	F7A						
- Simple tenancy	F80						
- Outstanding debts	F102						
- Doubtful debts	F9A						
- Attached debts	F97						
SHAREHOLDERS OR SOCIETIES	LOC						
TOTAL:	L98						

Table sequel

- thousands lei -

ASSETS	Position code	Net presentation from the balance assets col.13¹
A	B	13
TREASURY OPERATIONS AND INTERBANKING OPERATIONS	A01	
- Cash and other values	A10	
- Current account at the central banks	A20	
- Accounts of banks correspondent	A25	
- Deposits at banks	A101	
- Credits granted to the banks	A30	
- Values received	A40	
- Values to be recovered	A50	
- Outstanding debts	A102	
- Doubtful debts	A70	
- Attached debts	A90	
CLIENTELE OPERATION'S	B01	
- Credits granted to the clientele	B03	
- Credits granted to the financial clientele	B80	
- Values received	B85	
- Debtor current accounts	B99	
- Values to be recovered	B9J	
- Outstanding debts	B102	
- Doubtful debts	B9K	
- Attached debts	B9V	
A	B	13

¹ col. 13 = col. 3 * 0% + col. 6 * 20% + col. 9 * 50% + col. 12 * 100%

SECURITY OPERATIONS AND OTHER OPERATIONS	C0A	
- Securities received	C1A	
- Transaction securities	C2A	
- Investment securities	C3A	
- Investment securities	C4A	
- Discount accounts regarding security operations	E6A	
- Intra- banking discounts	E7A	
- Debtors	E123	
- Supply accounts	E70	
- Regulation accounts	E8A	
- Outstanding debts	E104	
- Doubtful debts	E90	
- Attached debts	E97	
FIXED ASSETS VALUES	F01	
-Subordinated credits	F02	
- Interest within the legal banking companies, participation securities and securities of the portfolio activity	F10	
- Endowment for the own units from abroad	F50	
- Fixed assets under way, fixed assets of the operations activity, fixed assets besides operation activity	F6A	
- Leasing and assimilated operations	F7A	
- Simple tenancy	F80	
- Outstanding debts	F102	
- Doubtful debts	F9A	
- Attached debts	F97	
SHAREHOLDERS OR SOCIETIES	LOC	
TOTAL:	L98	

II. The structure of the off balance sheet elements:

Off balance sheet elements	Position code	Equivalent credit 0%			
		Amounts due to the credit risk rate 0%	Amounts due to the credit risk rate 20%	Amounts due to the credit risk rate 50%	Amounts due to the credit risk rate 100%
A	B	1	2	3	4
- Pledges in other banks advantage	N1B				
- Pledges in the clientele favour	N1R				
- Surety, guarantees and other gradations given to other banks	N3B				
- Gradations given to clientele	N5A				
- Receiving securities	N8B ²				
- Given pledges	P120				
- Doubtful pledges	Q80				
TOTAL	X				

² At this position the balance of the account 9219 “Other receivable securities” shall not be taken into consideration.

Business of Banking

Off balance sheet elements	Position code	Equivalent credit 50%			
		Amounts due to the credit risk rate 0%	Amounts due to the credit risk rate 20%	Amounts due to the credit risk rate 50%	Amounts due to the credit risk rate 100%
A	B	5	6	7	8
- Pledges in other banks advantage	N1B				
- Pledges in the clientele favour	N1R				
- Surety, guarantees and other gradations given to other banks	N3B				
- Gradations given to clientele	N5A				
- Receiving securities	N8B ²				
- Given pledges	P120				
- Doubtful pledges	Q80				
TOTAL	X				

Off balance sheet elements	Position code	Equivalent credit 100%				Net exposure from the off balance sheet elements col.13 ¹
		Amounts due to the credit risk rate 0%	Amounts due to the credit risk rate 20%	Amounts due to the credit risk rate 50%	Amounts due to the credit risk rate 100%	
A	B	9	10	11	12	13
- Pledges in other banks advantage	N1B					
- Pledges in the clientele favour	N1R					
- Surety, guarantees and other gradations given to other banks	N3B					
- Gradations given to clientele	N5A					
- Receiving securities	N8B ²					
- Given pledges	P120					
- Doubtful pledges	Q80					
TOTAL	X					

¹ col. 13 = 0% * (col. 1 * 0% + col. 2 * 20% + col. 3 * 50% + col. 4 * 100%) + 50% * (col.5 * 0% + col. 6 * 20% + col. 7 * 50% + col. 8 * 100%) + 100% * (col. 9 * 0% + col. 10 * 20% + col. 11 * 50% + col. 12 * 100%)

² At this position the balance of the account 9219 “Other receivable securities” shall not be taken into consideration.

III. Calculation of the solvency indicators

Own capital total (form “Calculation of own funds”, rd. 35, col. 3)	1
Own funds calculation (form “Calculation of own funds”, rd. 44, col. 3)	2
Total of net exposure from balance assets (form I, rd. “TOTAL”, col. 13)	3
Total from the net exposure from the off balance sheet elements (form II, rd. “TOTAL”, col. 13)	4
SOLVENCY INDICATORS (minimum 8%)	5
$rd. 5 = rd. 1 * 100 / (rd. 3 + rd. 4)$	
SOLVENCY INDICATORS (minimum 12%)	6
$rd. 6 = rd. 2 * 100 / (rd. 3 + rd. 4)$	

Bank Manager,

.....
(name, surname and signature)

Manager of the financial-accounting department,

.....
(name, surname and signature)

Made by:

Name and surname:

Telephone number / line:.....

THE CALCULATION OF THE OWN FUNDS

Name of the bank

Date of reporting: [/ /]

Elements taking into account	No.line value	Account number	Adjusted value	Adjusted
A	B	1	2	3
Paid-in social capital (account balance 5012)	1		x	
Premium related to capital (balance of the account 511)	2		x	
Legal reserves(acc.balance 512)	3		x	
General reserve for credit risk (account balance 514)	4		x	
Amounts recorded in the account "Other reserves", "Reserves from influences of foreign exchange related to the appreciation of availability's in hard currency representing the social capital in hard currency, in accordance with the Government Decision no. 252/1996" (account balance 519, analytical distinct)	5		x	
Amounts recorded in the account "Other reserves" representing premiums related with capital (balance account 519, analytical distinct)	6		x	
Amounts recorded in the account "Other reserves" distributed from the net profit (account balance 519, analytical distinct) of which: - - -	7		x	

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A	B	1	2	3
Amounts recorded in the account “Other reserves, analytical distinct “Reserves from favourable differences from the revaluation of the patrimony” (balance of the account 519, analytical distinct), of which: - - -	8		x	
Amounts recorded in the account “Tangible assets fund” (balance of account 5281)	9		x	
Amounts recorded in the account “Other funds”, analytical “Fund for increasing their own financing sources” (balance of account 528, analytical distinct)	10		x	
Amounts legally recorded in the account “Other funds”, others than those included at line 9 and 10 (balance of account 528, analytical distinct), of which: - - -	11		x	
Statutory reserves (balance of account 513)	12		x	
The reported result representing the undistributed profit (balance of account 581)	13		x	
Net result of the current financial exercise representing profit (current balance of account 591)	14		x	
Elements assimilated to the capital	15		x	
Total (line 1 to 15)	16		x	

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A	B	1	2	3
Amounts recorded in the account “Own shares” representing the value of the own shares redeemed in the view of social capital reduction, in the conditions provided under the Article 53 letter b) of the Law no. 58/1998 (balance of account 30214)	17		x	
Expenses for constitution (balance of account 4412)	18		x	
The amortisation of the expenses for constitution (balance of account 46112)	19		x	
Not amortised value of the established expenses (line 18 - line 19)	20		x	
Commercial fund (balance of the account 4411 + balance of account 451)	21		x	
Amortisation of the commercial fund (balance of the account 46111 + balance of the account 4621)	22		x	
Provisions for depreciation of the commercial fund (extract balance of the account: 49221, 49231)	23		x	
Net value of the commercial fund (line 21 - line 22 -line 23)	24		x	
Dividends *)	25		x	
The participation at the profit of the personnel	26		x	
The participation quota of the manager in profit	27		x	

* Shall be completed in accordance with the provisions of Art. 2 paragraph 2 letter d) of the presents norms, mentioning that for the date of 31 December shall not be recorded in the remake reporting form and resented by the banks in accordance with the Art. 7 of the present norms.

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A	B	1	2	3
Distribution from net profit to funds	28		x	
Expenses to be distributed and expenses recorded in advance (balance of account: 374,375)	29		x	
The reported result representing the unsupported loss (debtor balance of account 581)	30		x	
Net result of the current exercise representing loss (debtor balance of account 591)	31		x	
Distribution of the profit (balance of account 592)	32		x	
Endowment for the own units from abroad (balance of account 421)	33		x	
Total deductible elements (line 17+ line 20+line 24 to 33)	34		x	
Total own capital (line 16 - line 34)	35		x	
Amounts recorded in the account "Other reserve", others than those included at line 5, 6, 7 and 8 (balance of account 519)	36		x	
Amounts recorded in the accounts "Subordinated debts on term" and "Subordinated debts with unlimited term" (balance of accounts: 531, 532)	37		Maximum 50% of line 35	
Amounts recorded in the account "Subvention for investment" (balance of account 541)	38		x	
Amounts recorded in the account "Revaluation differences" (balance of account 516, analytical distinct), of which: -..... -..... -.....	39		x	

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A	B	1	2	3
Total additional capital col. 1 = col.1, line 36-39; col.3 = col.3, rd.36 to 39 (in the limit of max. 100% of col. 3, line 35)	40		Maximum 100% of line 35	
Amounts representing participation in legally commercial companies, participation securities and portfolio securities, hold with banks and companies with financial activities (balance of accounts: 4111, 4112, 4121, 4122, 413 +/- balance of the acc. 414 – balance of the acc: 418, 491	41		x	
Amounts recorded in the accounts “Subordinated credits on term” and “Subordinated credits on unlimited term”, granted to other banks and companies with financial activities (Balance of accounts 401, 401, 481, 482 - balance of acc.499)	42		x	
Total deductible elements (line 41 + line 42)	43		x	
Total own funds	44		x	