

# CHAPTER 1

## THE BANKING SYSTEM IN ROMANIA

### ✦ *Objectives:*

After studying this chapter you should understand:

- 1.1 The history of the Romanian banking system - brief presentation
- 1.2 The banking system in Romania after 1989
- 1.3 The National Bank of Romania and its role in the banking system
- 1.4 Banks – a main part of the Romania banking system
- 1.5 The supervision and control of the National Bank of Romania
- 1.6 The balance sheet of the National Bank of Romania and of a bank, Romanian legal entity
- 1.7 Recent developments and perspectives

### **1.1 The history of the Romanian banking system – brief presentation**

*The first modern commercial bank was established in the Romanian Principalities in 1865 under the name of The Bank of Romania. The bank was organized as a limited joint-stock company, with subscribed capital worth FF 25,000,000. The Bank of Romania was initially set up as an issuing and commercial bank by the English and French investors who governed the Banque Imperial Ottomane. Four years later, the Romanian Government revoked the Bank of Romania's monopoly of issue. Accordingly, this institution operated further as a private commercial bank until its liquidation in 1948 by the communist regime.*

The establishment of a modern-type banking system, designed to replace money lenders and trade houses that had developed healthily before the mid of the 19<sup>th</sup> century, was a slow process until the setting up of the *National Bank of Romania*, on the 17<sup>th</sup> of April 1880. During 1866-1880, there were established only three credit institutions: the Rural Credit Bank (1873), the Urban Credit Bank (1874), and the Commercial Bank Marmorosch Blank&Co (1874).

*The National Bank of Romania was established at the initiative of the Liberal Party in order to grant credits in high demand after the Independence War (1877), and providing financial stability for the country.*

The National Bank of Romania was designed not only to play the role of state financing and note issuing, but also to perform purely commercial banking functions. In compliance with the provisions of the law governing its establishment, the new banking institution was a joint-stock company, with the Romanian government holding 1/3 of the capital stock (shareholders holding the remainder). These provisions precluded foreign shareholders from sharing the National Bank of Romania's capital, closely following the principle of domestic control over the national economy required by the liberals. In 1901, The National Bank of Romania became a private institution. Under the Liberal Party's control, the National Bank of Romania played a significant part in the foundation of the Romanian modern type banking system and contributed to the strengthening of the Romanian bourgeoisie economic position.

The economic progress that accompanied the consolidation of the Romanian state and the support provided by the National Bank of Romania accelerated the establishment of private commercial banks, especially during the period that preceded the outbreak of World War I. The number of commercial

banks increased to 215 in 1914, from 3 banks existing in 1880. If the setting up of the National Bank of Romania and long-term credit institutions were done only with domestic capital, in turn, foreign capital would be involved substantially in the creation of the new private commercial banks. Accordingly, in 1914, German, Austrian, French, Belgian and English banking institutions held 40 percent of the Romanian commercial banks' capital.

On the eve of World War I, the Romanian banking industry was highly concentrated, being dominated by 9 leading commercial banks, called "the big Romanian banks". In 1913, these banks held 70 percent of the total commercial banks' resources, while 188 small and middle-sized banks held the remainder of the total resources. Taking into account the origin of the capital, the composition of the group of "the big Romanian banks" was the following: 4 banks with national capital (Banca Agricola, Banca Comertului from Craiova, Banca Romana de Scont, Banca Romaneasca), 4 banks with foreign capital (Banca Generala Romana, Banca de Credit Romanesc, Banca Comerciala Romana, Banca Romaniei), and one bank with foreign and domestic capital (Marmorosch Blank & Co. Bank).

After World War I, under national oriented policies promoted by the Liberal governments, the weight of the foreign capital in the banking system declined in relative terms. Despite this capital trend, the banks with foreign interests maintained significant positions in the banking system and were able to better identify profitable investments than their Romanian-controlled competitors.

During 1931-1932, the banking sector felt the repercussions of the economic crisis due to its close links with the industry. Banks' supervision was almost nonexistent. This state of affairs contributed to the collapse of some large banks, but generally the banks with foreign interests withstood the shocks.

In order to strengthen the banking system, the Romanian Parliament passed "the Law on the organization and regulation of the banking commerce", on May 8, 1934. Under this law, The National Bank of Romania was deeply involved in drafting measures for recovering the banking system by liquidating non-viable credit institutions and merging institutions weakened by the crisis. Consequently, the number of banks was diminished from 893 in 1933, to 523 in 1937 and 246 in 1944.

After 1934, the state intervention in regulating the banking sector forced the foreign-controlled banks to comply with imposed requirements and to apply a policy in line with Romania's general interests.

Soon, after the communists took the power in Romania according to the Decree Law no. 197/1948, all the Romanian and foreign-controlled banks were liquidated, except for the National Bank of Romania, the National Company of Industrial Credit and the Savings Bank.

The 1934 banking law being abrogated, the remaining banks continued their activity under the provisions of the Commercial Code and their specific laws. In the years that followed, the Romanian banking system was organized as a mono-bank system, typical to a centralised economy. It is noteworthy that in the 70s, during a period of economic liberalization two foreign banks were allowed to establish branches in Romania: Manufacturers Hanover Trust (the branch being now part of the Chase Manhattan Bank network), and Societe Generale.

## **1.2 The banking system in Romania after 1989**

**The issuing of the Law on banking activities (33/1991) and the Law concerning the Statute of the National Bank of Romania (34/1991) represented the beginning of the organization of the banking system in accordance with the market economy principles.**

*The banking system structures and functions were different during the former system.* So, the National Bank, the agent of the State, had the functions of a central bank and of a commercial bank at the same time. There were three banks that were specialized in different fields of activity: Banca de Investitii which granted credits for the investment projects, Banca pentru Agricultura si Industrie Alimentara which granted credits for the agricultural activities, and Banca Romana de Comert Exterior which was specialized in foreign trade operations.

The single institution to receive the savings of the population was Casa de Economii si Consemnatii. During that system, there were no financial markets and no competition between banking institutions, as the Romanian legal tender was not convertible and the interest rate had only a formal role.

**The new banking system started its activity on December 1<sup>st</sup> 1990. Its structure has been organized in two tier levels:** the National Bank of Romania as the Central Bank of the state on one side, and the commercial banks on the other side.

In accordance with the provisions of its Law, the National Bank of Romania has become a real central bank. It formulates and conducts monetary and credit policy within the framework of the country's economic and financial policies, with the goal of preserving the stability of the national currency.

The former commercial banks have changed themselves and have become real commercial banks for the market economy. In 1990, the former commercial banks have been established as follows: Banca Comerciala Romana SA, Banca Romana de Comert Exterior SA, Banca Agricola SA, Banca Romana pentru Dezvoltare SA and many other new commercial banks have also been established, such as:

- *State capital:* Banc Post SA;
- *Private capital:* Mind Bank SA.

*Until December 31<sup>st</sup> 2000<sup>1</sup>, the National Bank of Romania has authorized 33 banks, Romanian legal entities, to render banking services in the national currency (Lei), as well as in foreign currency, and 8 branches of the foreign banks (see Annex no. 1).*

The structure of the capital of banks operating in Romania at the end of the year 2000 was the following:

---

<sup>1</sup> Source: the National Bank of Romania – Annual Report per 2000

**Banks operating in Romania, by the type of the capital**

<b>Number</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
<b>I. Romanian banks, of which:</b>	<b>20</b>	<b>24</b>	<b>31</b>	<b>33</b>	<b>36</b>	<b>34</b>	<b>33</b>
a) fully or majority state-owned capital, out of which:	7	7	7	7	7	4	4
- fully state-owned capital	1	1	1	1	1	1	1
- majority state-owned capital	6	6	6	6	6	3	3
b) fully or majority private capital, out of which:	13	17	24	26	29	30	29
- fully or majority domestic capital	8	9	14	13	13	11	8
- fully or majority foreign capital	5	8	10	13	16	19	21
<b>II. Foreign bank branches</b>	<b>7</b>	<b>7</b>	<b>9</b>	<b>10</b>	<b>9</b>	<b>7</b>	<b>8</b>
<b>Total (I+II)</b>	<b>27</b>	<b>31</b>	<b>40</b>	<b>43</b>	<b>45</b>	<b>41</b>	<b>41</b>

Source: National Bank of Romania

**1.3 The National Bank of Romania and its Role in the Banking System**

Generally, a **central bank** acts as a state institution in order to establish and co-ordinate the monetary and credit policy of the economy. It has an important role in maintaining the stability of the national currency/legal tender.

**The main functions<sup>2</sup> of a central bank may be the following:**

- Establishing and implementing the monetary and credit policy;
- Issuing money;
- Monitoring of the foreign exchange rates;
- Managing the foreign exchange reserves;
- Supervising the financial and banking institutions;
- Bankers' bank;
- Lender of last resort;
- Acting as the state's agent and keeping the evidence of the State's Treasury account;
- Performing analyses of the economic and monetary conditions.

The Romanian transition to the market economy had a strong impact on the organization of The National Bank of Romania, its functions and role as a central bank.

**The National Bank of Romania is the only institution authorized to issue banknotes and coins throughout the country.**

**Under its new law<sup>3</sup>, it establishes, implements, and is responsible for the monetary, foreign exchange, credit, and payments policy, as well as the banking licensing and prudential supervision in the framework of the general policy of the State; for this it pursues the normal operation of the banking system and the participation in the promotion of the financial system to market economy. The National Bank of Romania uses procedures and instruments specific to the monetary market, lending to the banking companies, assures liquidity to the banking system, and at the same time, it is responsible for licensing and supervising all entities operating as bank entities in Romania.**

Under the provisions of the law concerning the Statute of the National Bank of Romania, it formulates and conducts the credit policy within the

---

<sup>2</sup> Sometimes these responsibilities are shared with other governmental bodies.

<sup>3</sup> Law no.101/1998 concerning the Statute of the National Bank of Romania, issued in Monitorul Oficial al Romaniei, Part I, no. 203//June 1998

framework of the country's economic and financial policy with the goal of preserving the stability of the national currency.

The main functions of the National Bank of Romania are in the monetary and credit field, banking supervision, foreign exchange operations, operations with the state treasury, foreign exchange control.

**The National Bank of Romania alone has the right to determine the nominal value, size, weight, design and other technical characteristics of banknotes and coins. It elaborates the banknote and coin issue program so that the country's requirements for cash are met strictly according to the real needs of money circulation.**

**The National Bank of Romania distributes the money issue and manages the banknotes and cash reserves.** It may decide to cancel or withdraw any banknotes or coins it issued, and to replace them with others of a different kind.

**The National Bank of Romania uses procedures and instruments specific to the monetary market, lending to banks and controlling their liquidity through minimum compulsory reserves operations.**

**The National Bank of Romania may discount, acquire, accept as collateral or sell bonds, securities or other claims to the state, banks, or other legal entities.**

**The National Bank of Romania establishes the minimum compulsory reserves** that banks must keep in accounts opened with the National Bank of Romania.

For the minimum compulsory reserves, the National Bank of Romania will grant interests at least as high as the level of the average interest rate granted for sight deposits by the banks.

As a part of its monetary, foreign exchange, lending and payments policies, the **National Bank of Romania may lend to banks on up to 90 days term against securities that include:**

- Government bonds which are part of public issues redeemable within no more than a year from the time of their acquisition by the National Bank of Romania;

- Bills of exchange or promissory notes drawn or endorsed for commercial, industrial or agricultural purposes by eligible legal entities in accordance with the rules of the National Bank of Romania;
- Warrants or warehouse receipts issued for fungible goods or other goods dully insured against loss, damage or destruction;
- Deposits with the National Bank of Romania or other legal entity acceptable to the National Bank of Romania consisting of any assets, which it may sell, buy or trade.

**The National Bank of Romania elaborates and implements the foreign exchange policy, establishes and monitors the enforcement of the foreign exchange regime on the Romanian territory.**

Managing the foreign exchange regime, **the National Bank of Romania is responsible for:**

- Issuing rules and regulations for gold and foreign exchange operations to protect the national currency;
- Setting up the balance of payments and foreign assets and liabilities position of the country;
- Setting up and publishing the exchange rates at which the National Bank of Romania and other legal persons are authorized to conduct gold and other foreign exchange operations;
- Licensing and working licenses as well as regulating and supervising the legal persons who are authorized to conduct foreign exchange transactions;
- Setting up the ceiling value of gold and foreign exchange assets which the authorized legal persons can hold in deposits;
- Maintaining and managing the state's international foreign reserves;
- Setting up limits on the net foreign position of the banking companies.

**The National Bank of Romania sets and holds international reserves.** These reserves are made up of the following elements:

- Gold holdings at the Treasury or in deposits abroad;
- Foreign assets under the form of banknote and coins or reserves in accounts opened with foreign banks and other foreign financial

institutions which are denominated in such currencies and held in such countries as the National Bank of Romania may decide;

- Any other internationally recognized reserve assets, including the right to buy from the International Monetary Fund within the reserve instalment, and special drawing rights holdings;
- Bills of exchange, cheques, promissory notes and other securities, negotiable or not, issued or guaranteed by non-resident legal persons classified in the first categories by internationally recognized rating agencies, denominated and payable in foreign exchange at such places accepted by The National Bank of Romania;
- Treasury notes, bonds and other government securities issued or guaranteed by foreign governments or intergovernmental financial institutions, which are negotiable or not, and denominated and payable in foreign exchange at places accepted by The National Bank of Romania.

The National Bank of Romania has exclusive competence for granting banks the license and it is responsible for the prudential supervision of the banks.

In order to ensure a viable and operational banking system, the National Bank of Romania has been empowered to:

- Issue regulations, take measures to enforce their observance and rule lawful penalties for non-compliance;
- Check and verify on the basis of reports and field inspections the books, accounts and any other documents.

**The National Bank of Romania takes part on behalf of the State in the external issue.** It may negotiate and conclude agreements concerning short-term loans and swap operations with central banks and international monetary institutions on the conditions those loans and operations are repaid within the period of one year and are reported in the annual report of National Bank of Romania.

**The National Bank of Romania is vested by the Parliament with the authority to participate in and become a member of international organizations concerned with financial, banking and monetary matters.**

Under the provisions of its law, the National Bank of Romania is entitled to request all financial and credit institutions documents and information that may be required in connection with conducting its functions.

The National Bank of Romania may undertake studies and analysis on currency, credit and transactions of the banking system for its own needs and those of public authorities. Once the studies and analyses are made, the National Bank of Romania can establish the monetary survey in accordance with the credits and monetary resources in the economy.

The National Bank of Romania together with the Ministry of Finance pursues to keep the stock of international reserves at a level assessed as appropriate for the foreign transactions of the State.

**The National Bank of Romania is authorized to perform the following operations:**

- Purchase, sell and otherwise trade in gold and other precious metals ingots and coins;
- Purchase, sell and perform other foreign exchange transactions;
- Purchase, sell and otherwise trade in Treasury notes, bonds and other securities issued or guaranteed by foreign governments or intergovernmental financial organizations;
- Purchase, sell and otherwise trade in securities issued or guaranteed by central banks, international financial institutions, banking and non-banking companies;
- Open and keep accounts with central banks and monetary authorities, banking companies and international financial institutions;
- Open and keep accounts and make counterpart operations for international financial institutions, foreign central banks and monetary authorities, financial and banking companies, international financial organizations abroad and for foreign governments and their agencies.

**Organization of the National Bank of Romania**

**A Board of Directors heads the National Bank of Romania.** The governor exercises the executive management of the National Bank of Romania, together with the prime-vice governor and two vice governors. The Board of Directors consists of nine members:

- The Governor of the National Bank of Romania as the president;

- The prime vice Governor as vice president;
- Seven members out of which two are also vice Governors of the National Bank of Romania and five are not employed by the National Bank of Romania.

**The Board of Directors of the National Bank of Romania decides, according to the law, on:**

- Monetary, foreign exchange, credit and payments policies and monitors their enforcement;
- Measures in the field of licensing and prudential supervision of the banks licensed by it;
- Internal organization, staff salaries and profits, etc.

The members of the Board of Directors are appointed by the Parliament on the recommendation of the permanent specialty commissions of the two Chambers of the Parliament.

**The auditing commission** comprises five auditors, out of which one is the chairman. The auditors' committee verifies the compliance with the legal provisions concerning valuation of the National Bank of Romania's assets, the elaboration of the balance sheet and the profit and loss account, according to the books, vault cash, and securities owned or received in bail, or in custody, as well as of the revenue and expenditure budget. Annually, the auditors' committee prepares a report on the balance sheet and profit and loss account of the National Bank of Romania.

**The National Bank of Romania's own capital** is ROL 100 billion and belongs entirely to the State. The bank's own capital may be increased using part of the annual net profit up to the equivalent of five per cent of the aggregate monetary liabilities in the balance sheet as at the end of every fiscal year.

The ROL 100 billion own capital is made up of the ROL 5 billion own capital as of December 31, 1996 plus ROL 95 billion allocated from the reserve fund of the National Bank of Romania.

The reserve fund of the National Bank of Romania is built up within the limit of a 20 per cent share of gross profit until it equals the own capital, when the share drops to 10 per cent until the reserve fund is twice the National Bank of Romania's own capital at which point the share is set at 5 per cent.

**The National Bank of Romania's internal organization** has been changed from one year to another according to the market economy conditions.

The National Bank of Romania internal organization on the 31<sup>st</sup> of December 2000 is presented in the chart (see Annex no.2).

#### **1.4 Banks - A Main Part of the Romanian Banking System**

Under the provisions of the Romanian Banking Law, with subsequent amendments, a **bank** represents a **credit institution**<sup>4</sup> **authorized to perform mainly the activity of collecting funds from both legal and natural persons through deposits or negotiable instruments payable on demand or on maturity as well as that of granting credits.**

*The European Union countries utilize the concept "credit institution" in order to define the above activity. The credit institution represents an undertaking whose business is "to receive deposits or other repayable funds from public and to grant credits for its own account"*<sup>5</sup>.

No entity is allowed to perform any banking business within the Romanian territory, without the National Bank of Romania's previous authorization.

**Banks**, Romanian legal entities, as well as branches of foreign banks **may perform**, within the limit of the authorization granted, **the following operations**<sup>6</sup>:

- Open accounts in ROL and in foreign currencies;

---

<sup>4</sup> Including: banks (Romanian legal entities), branches of foreign institutions and credit cooperatives.

<sup>5</sup> Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions, published in the Official Journal L 126, 26/05/2000;

<sup>6</sup> Law no.58/1998 - Banking Law issued in Monitorul Oficial al Romaniei, Part I, no. 121/1998.

- Receive demand, time and notice deposits;
- Loan agreements (grant short, medium and long term loans and credit lines in ROL and in foreign currency), factoring operations and discounting of trade bills, including forfeiting;
- Carry out banking operations in Romania and abroad;
- Issuance and management of the instruments of payment and credit;
- Payments and settlements;
- Financial leasing;
- Funds transfers;
- Issuing guarantees and assuming commitments;
- Issue and operate credit cards;
- Buy and sell government securities;
- Transactions on their behalf or in their clients' account with: negotiable money instruments (cheques, bills of exchange, certificates of deposit), foreign currencies, financial derivatives, precious metals, securities;
- Management of clients' portfolios;
- Securities custody and management;
- Renting of security safe boxes;
- Financial and banking consulting;
- Electronic banking.

Banks, as Romanian legal entities, are allowed to operate only based on the authorization issued by the National Bank of Romania, in compliance with the legal provisions in force.

The National Bank of Romania may withdraw the authorization granted to a Romanian bank or a subsidiary, to a subsidiary or branch of a foreign bank: upon the bank's request, as a sanction, etc.

**The organization and management of banks are established through their incorporation documents, according to the commercial legislation in force and in compliance with the banking law.** The minimum share capital of a bank is ROL 250 billion.<sup>7</sup>

In all its official documents, the bank must identify itself clearly through a minimum of data: the company under whose name the bank is registered in the Trade Register, its share capital, the address of its headquarters premises, number and date of incorporation in the Trade Register, number and date of incorporation in the Bank Registry.

**Every bank must have its own operating regulations, approved by the statutory bodies through which they have to establish at least:**

- The organizational structure of the bank;
- The tasks of every bank department and the relations among them;
- The tasks of the branches and other secondary offices of the bank;
- The tasks of the risk committee, of the credit committee;
- The competence and responsibility of the bank managers, executive managers, heads of branches other subsidiaries of the banks as well as other employees who are engaged in financial and banking operations on behalf and account of the bank;
- The internal audit of the bank.

The administrators of the bank may be only individuals, in a number of maximum 11. The term of their mandate cannot be more than 4 years, with the possibility of being re-elected.

*Each bank is a legal entity, organized as a joint stock company.*

**The network structure of a bank may consists of the following:**

- Headquarter;
- Branches;
- Subsidiaries;

---

<sup>7</sup> The National Bank of Romania's Norms No.9/2000 regarding the minimum capital of banks and of branches of foreign banks, published in Monitorul Oficial al României, Part I, No. 474/2000.

- Agencies.

The branches, subsidiaries and agencies are operational units of the bank, and there are in a direct connection with the customers (individuals or legal entities).

**The following bodies generally, manage the bank:**

- The *General Meeting of the Shareholders* – it decides the general tasks concerning the banking activity;
- The *Board of Directors* – it includes: the president, the vice-presidents, and the members elected by the General Meeting of the Shareholders;
- A *committee* nominated by the Board of Directors; it realizes the Operational Management of the bank. This committee accomplishes all the decisions of the Board. The committee is made of the president, the vice-president and members.
- The *headquarter president; vice-presidents and the directors of the directions/departments of the bank realize the Current Management* of the bank.
- The *independent auditors commission*.

The headquarters of a bank co-ordinates the activity of the branches, subsidiaries and agencies and supervises the compliance with the banking norms, rules and laws.

Some of the main departments of a bank (see Annex No.3a) may be the following:

- Synthesis (Co-ordination and strategy) department;
- Treasury department;
- Cash department;
- Methodological and control department;
- Foreign commercial transactions department;
- Foreign non-commercial department;
- Credit department;
- International department;

- Capital markets department;
- Own Investments department;
- General Secretariat;
- Consulting department;
- IT department;
- Human Resources department;
- Legal department;
- Accounting department;

The activity of a headquarters is organized in departments, divisions, and offices.

The headquarters' departments have some similar attributions resulting from their co-ordination activity. Thus, the main attributions are:

- Elaborating the methodological norms for each department;
- Guiding and controlling the activity of the territorial units;
- Making analysis concerning the banking activity.

*The Synthesis/Co-ordination department* issues the credit plans and obtains the approval of the Board of directors of the bank; it distributes the resources to the branches, etc.

*The Treasury department* ensures the resources to the banks and obtains credits from the inter-bank market, it participates in the auctions organized by the National Bank of Romania in order to obtain refinancing credits, and it elaborates drafts of issue for securities and co-ordinates their placements.

*The Cash department* ensures and co-ordinates all the operations with cash and other values. It analyses with other departments the main trends in the cash circulation, co-operates with the National Bank of Romania in order to establish the cash flow in the economy, etc.

*The Foreign commercial and non-commercial transactions department* ensures the processing of the documents concerning the export and the import of goods, and of rendered services to and from abroad by economic agents, institutions and other legal entities, as well as the settlement of the operations in the favour of the individual or legal entities (budgetary institutions, non-profit institutions, etc.).

*The Credits department.* Taking into consideration the destination, the term and the beneficiary of the loans, the loans department participates in:

- Establishing the size of the monetary survey and of the credit on short, medium and long term for the state and private field;
- Analysing the credits application that surpass the competencies of the units in the country;
- Establishing the loans documentation/file;
- Proposing the issue of the letter of guarantee;
- Analysing the evolution of the short, medium and long term loans;
- Analysing the banking indicators, etc.

*The International department* realizes, under the legal framework and the Board of Directors' decisions, the attributions in the external payments and credits field, such as:

- To negotiate the payments agreements drafts concluded with other countries;
- To contact the corresponding banks on the carrying out of the payments agreements;
- To administrate the foreign exchange portfolio of the bank;
- To negotiate the external banking credit lines;
- To analyse and, if the case, to modify the banking corresponding network.

The branch of a bank has the organizational structure as that presented in Annex No. 3b.

The operations of the banks are subject to the regulations and orders issued by the National Bank of Romania (see the list in the Annex No. 4), in order to implement the monetary, credit, foreign exchange, payment policies, banking prudence and the banking supervision policies.

Banks have to organize all their operations according to the rules of a prudent and healthy banking practice and the requirements of the law.

The whole share capital of a bank must be paid up in monetary form, when it is subscribed.

The National Bank of Romania establishes the minimum share capital. Banks should permanently maintain a minimum level of their share capital, in monetary form, according to the regulations of the National Bank of Romania.

**Banks may also increase their share capital**, besides subscriptions of new contributions in monetary form, according to the current laws in force, using the following sources:

- Share premiums and other capital premiums;
- Dividends from the net profit due to the shareholders after paying the tax on dividends, according to the laws in force;
- Foreign reserves left from the exchange rates influences related to the appreciation of the reserves, which represent the share capital in foreign currency, etc.

Banks will distribute 20% of their gross profit to set up a reserve fund until this fund equals the share capital, then maximum 10%, until the moment when the fund reaches twice the amount of the share capital. After reaching this goal, the distribution of amounts to the reserve fund shall be done from the net profit.

Banks have to distribute from their gross profit, the amounts designated to build up the general reserves for the credit risk, within the limit of 2% from the balance of granted loans.

Under the provisions of the Banking Law, **banks operating in Romania may not perform the following operations:**

- Engagement in transactions with chattel and real estate assets;
- The acquisition of the bank's own equity or their pledging, on the account of the bank's debts;
- Loan granting or other services rendered to clients, conditioned by the sale or purchase of the bank's shares;
- Granting loans secured with the shares issued by the bank;
- Receiving deposits, securities or other valuables, when the bank stops payments;

- Deposits receiving, if most of the deposits come from the bank's employees.

Banks have to keep their **accounting ledgers** according to the provisions of the accounting laws and the regulations specific for their implementation, and they must also draw up appropriate financial statements in order to show, truly and fairly, their operations and their financial position.

The National Bank of Romania establishes rules regarding bookkeeping and balance sheets, following approval by the Ministry of Finance.

Banks are obliged to present to the National Bank of Romania their financial statements made up by the elements of their balance sheet, as well as other data requested by the National Bank of Romania, in the terms and in the formats established through regulations.

**Banks are forbidden to provide insurance, brokerage and leasing services, but they are allowed to hold shares of such companies.**

\*

\* \*

Other institutions that co-operate with the Romanian banking system are the following:

**The Bank Deposit Guarantee Fund.** It ensures the reimbursement of the deposits held by individuals in the case that a bank becomes insolvent. Deposits are reimbursed within a ceiling, which is periodically modified in line with the inflation rate published by the National Institute of Statistics and Economic Studies.

**The Bank Asset Recovery Agency.** It was established in 1999, and is specialized in **taking over non-performing loans and off-balance sheet items from majority state-owned banks**, aiming at recouping them from the debtors.

In the last 2-3 years, **three state-owned banks were privatised (Banca Romana pentru Dezvoltare, Banca Postei and Banca Agricola), while Banca Comerciala Romana is now undergoing a privatisation process.**

**Some of the most prestigious European banks (Societe Generale, ABN AMRO, ING Bank, and HVB Bank) are already established and operate in Romania.**

### **1.5 The Supervision and Control of the National Bank of Romania**

When granting loans, banks must be careful that applicants are credible in repaying them at maturity. Therefore, banks have to ask the applicants to guarantee the loans under the conditions established by their lending norms.

**Banks must comply with the following prudential requirements** as stated in the regulations of the National Bank of Romania:

- ❖ The minimum level of solvency, determined as a ratio between the level of the bank's own capital and the total assets and off - balance sheet items, weighted according to their risk level;
  - ❖ Maximum exposure to a single debtor, expressed in percentage as a ratio between the total value of the maximum exposure and the level of the bank's own capital;
  - ❖ Maximum exposure aggregate, expressed in percentage as a ratio between the total value of large exposures and the level of the bank's own capital;
  - ❖ Minimum level of liquidity determined according to the deadlines of the amounts receivable and the bank's commitments;
  - ❖ The classification of granted loans and of uncased interests related to them and the setting up of specific risk provisions;
  - ❖ Currency position, expressed in percentage according to the level of the bank's own capital;
  - ❖ Resource management and investments of the bank;
  - ❖ Enlargement of the branch network and other subsidiaries of the bank.
- The total amount of the long-term investments of a bank in securities issued by a company that is not engaged in one or more financial businesses will not exceed:

- 20% of the share capital of the respective companies, and
- 10% of the banks own capital.

The total amount of the long term investments of the bank in the securities issued by such companies will not exceed 50% of the bank's own capital.

The total amount of a bank's investments in securities, performed in the bank's name and account, will not exceed 100% of the bank's own capital, except for investments in government securities.

Any entity that intends to purchase a participation of at least 5% of a bank's share capital must get the prior approval of the National Bank of Romania.

The National Bank of Romania supervises the operations performed by banks, Romanian legal entities and the branches of foreign banks, on the basis of the prudential reports drawn up according the law and implemented regulations of the National Bank of Romania, as well as through on-site and off-site inspections:

- At the headquarters of the banks, branches and other subsidiaries in the country and abroad;
- At the headquarters of the branches of foreign banks and their subsidiaries.

The National Bank of Romania launched a bank-restructuring program targeted at preventing systemic risk, with an immediate impact on the soundness of the banking sector. The program focused on the following issues:

- Solving the situation of problem banks;
- Improving the quality of the banks' prudential supervision, materialized mainly in:
  - The introduction of an early-warning and bank-rating system aimed at detecting the negative trends in the banking system;
  - Improving the legal framework for the regulation of prudential conduct in the banking sector;
  - Reorganizing the supervision activity;
  - Increasing the exigency in sanctioning banks, and
  - Maintaining a prudent licensing policy for the new banks;
- Improving the functioning of the deposit guarantee mechanism.

In 1999, the National Bank of Romania adopted a coherent program in order to reorganize and strengthen the prudential supervision by introducing an early warning and banking system (which ensures an efficient bank supervision, in line with the international standard and practices) and by **improving the legal framework concerning the prudential behaviour in the banking sector.**

One of the main objectives of the National Bank of Romania was the further transposition of the *acquis communautaire* in its regulations. In this context, the Law No. 58/1998 – the Banking Law is to a great extent harmonized with the provisions of the Directive No. 2000/12/EC on the establishment and operation of credit institutions.

### **1.6 The balance sheet of the National Bank of Romania and of a bank, Romanian legal entity**

*The annual balance sheet of the National Bank of Romania was prepared in accordance with the provisions of: Law no.101/1998 – the National Bank of Romania Act, the Accounting Law no.82/1991, with subsequent amendments and additions, the Chart of Accounts and the Methodological Norms specifying the use of the National Bank of Romania's accounts, and the guidelines of the Ministry of Finance on actions for closing the fiscal year.*

Since January 1<sup>st</sup>, 1999, the National Bank of Romania adopted a new Chart of Accounts and the Methodological Norms for its implementation, prepared in accordance with the provisions of the Law no. 101/1998, and with the national accounting standards.

The changes that the new Chart of Accounts brought about consisted mainly in the distinct classification of monetary assets and liabilities depending on their maturity. For taxation purposes, the deductibility of certain expenses (e.g. protocol-related and social expenses) is limited by law to the share in the profits.

The balance sheet of the National Bank of Romania was drawn up consistent with the accounting assumptions, such as: prudence, consistency, the going concern, the matching principle, periodicity, and non-set-off assets against liabilities.

**The majority part of the total assets of the central bank is represented by the foreign assets** (see Annex No. 5), such as: SDR holdings with the International Monetary Fund, monetary gold, foreign securities, foreign investments etc.

*The balance sheet of the National Bank of Romania shows the international reserves, which consist of foreign exchange reserves (of which: at sight, deposits, investments); gold reserves (of which: at sight, deposits), and total reserves (of which: at sight, deposits, investments).*

**The structure of the liabilities of the National Bank of Romania is** the following: currency in circulation, foreign liabilities (bonds issued and deposits taken by the National Bank of Romania), General Account of State Treasury, banks' current accounts, capital funds, reserves, etc.

**The profit and loss account of the National Bank of Romania** (see Annex No.6) consists of: *revenues* (operating revenues, other revenues) and *expenses* (operating revenues, overheads etc).

*The operating revenues* include the following items: interest on government securities, interest on loans granted and revenues from commissions and fees for inter-bank settlements, interest on foreign exchange deposits, dividends on foreign investments and revenues from foreign exchange securities operations, interest revenue in gold and silver and exchange rate differences arising from operations with precious metals.

*The main operating expenses* include: interest paid/due to banks and the Treasury, foreign exchange interest, commissions and fees for loans taken from the International Monetary Fund, interest for inter-bank loans and commissions in foreign exchange etc.

*Overheads* consist of the following: provisions, salaries and wages etc.

In comparison with the financial statements (the balance sheet and profit and loss account) of the National Bank of Romania, a bank, Romanian legal entity records differences in this field, as you can see in the Annexes No. 7 and 8.

### ***The balance sheet of a bank, Romanian legal entity***

A bank conducts its business in compliance with the regulations of the central bank regarding the classification of loans, constitution of provisions, solvency ratios, compulsory minimum reserves and foreign position.

**The bank's assets** mainly consist of: cash, current accounts and ROL and currency term deposits of individuals, and private or public enterprises, loans etc.

**The bank's liabilities** mainly consist of: deposits (demand and term deposits) of individuals, and private or public enterprises, other borrowed funds, share capital, reserves, etc.

**The profit and loss account** includes two big parts: incomes and expenses.

**Incomes** include: interest income on loans, interest on interest bearing deposits, interest on trading securities, dividends, etc.

**Expenses** include: interest for demand and term deposits, salaries, social insurance, operating expenses (amortization), advertising, etc.

### **1.7 Recent developments and perspectives**

During the previous years, **The National Bank of Romania had the following objectives**<sup>8</sup>:

- *Achievement of lasting macroeconomic stabilization* together with the revitalization of the financial market for an efficient allocation of the resources, transparency of information, and achievement of economic equilibrium. **The National Bank of Romania considers that the well functioning of a complete market system in Romania is a condition for a lasting economic growth.**
- **The foreign exchange market liberalization** by allowing all the authorized banks to be dealers in transactions and via exchange rate liberalization.

Large foreign exchange purchases by the National Bank of Romania made in order to avoid nominal appreciation of national currency led to the increase of the foreign exchange reserves:

- **The National Bank of Romania changes its position, from a net creditor into a net debtor of the banking system**, by drawing into the deposits from the banks in order to reduce the excessive liquidity, liquidity that results from the important entrance of the foreign capital on the monetary market.
- **The capital market** experienced a large increase in trading on both levels of The Stock Exchange, and of RASDAQ. The main reason for the development of the capital market was the increase of the shares

---

<sup>8</sup> The National Bank of Romania – Annual Report per 1998-2000

demanded from the non-resident corporate investors, bolstered also by the increasing number of listed companies.

- **The monetary policy** conducted by the National Bank of Romania aimed to ensure macroeconomic stabilization, specially the decrease of the inflationary effect of price liberalization, the restoring the central bank's credibility to regain the confidence in the national currency and, to achieve the remonetization of the economy.

The efficiency of the monetary policy was sustained by the following achievements:

- a) **Release of the monetary policy from the quasi-fiscal constraints** consisting of directed and preferential credits;
- b) **Integration of the monetary policy in the macroeconomic policies:**
- c) **Achieving of a healthy currency issue** based on improving of the National Bank of Romania portfolio by increasing the net foreign assets and the foreign reserves;
- d) **Improvement in the transmission of the monetary policy measures** by the liberalization and development of the financial markets, especially of the money market;
- e) **Achieving real-positive interest rates and maintaining those levels;**
- f) **Improvement and completion of the legal framework** for the regulation of the banking and central bank's activity by drafting of the Banking Act, the Bank Insolvency Act, Bank Privatisation Act, and the National Bank of Romania Act.

In the next years, the National Bank of Romania will focus its efforts on carrying out a stable policy and a macroeconomic stability, as well as on correlating the macroeconomic policies with measures taken in the privatisation and structural adjustment areas.

The orientation of the National Bank of Romania reflects also important performance concerning:

- a) Guiding the monetary policy towards price stability;

- b) Creation and development of financial markets;
- c) Carrying out the open account convertibility of the national currency;
- d) Increase the international reserves;
- e) Consolidating its formal and operational independence.

Concerning the monetary policies, the program of the National Bank of Romania is a part of the economic program of the Government. This program has as major objective to reduce the inflation rate and to achieve lasting macroeconomic stability. Other objectives of the program are:

- To improve the quality of the banking sector by supervision and regulation;
- To improve the banking information and payments system, by:
  - Modernization of the settlement and clearing system;
  - Harmonization of the payment system operational procedures with the new banking legislation;
  - Modernization and expansion of the services rendered by the banking information system.
- The National Bank of Romania will pay a special attention to the developments in the Euro-area and will monitor the consequences of starting stage III of the Economic Monetary Union. As a central bank of a country candidate for the European Union, the National Bank of Romania will strive both to carry on implementation of domestic reform and to ensure the legal, institutional and procedural harmonization with its correspondent entities in the European Union.

The National Bank of Romania supervision program for the future stipulates<sup>9</sup>:

1. *Dealing with problem banks:*

- Restructuring of the state-owned banks' balance-sheet assets;
- Insulation and exit of banks generating disruptions on the money market.

2. *Strengthening of the supervision:*

- Specific regulations in line with European standards on:

---

<sup>9</sup> Source: The National Bank of Romania

- Classification of loans and investments, and risk provisioning;
- Registration of executor loan agreements;
- Bank liquidity;
- Containment of credit risk;
- Bringing credit co-operatives under the supervisory authority of the NBR.
- Increased rigorousness in bank licensing and supervision by:
  - Minimum capital requirements updated periodically as follows:
    - ROL 150 billion as of 31 May 2001;
    - ROL 250 billion as of 31 May 2002.
  - Rigorousness in approving banks' management;
  - Reduction in frequency of inspections from "every two years" to "at least one a year".
- Enhancing prudential supervision through the introduction of early-warning indicator system;
- Improved co-operation between the National Bank of Romania and:
  - The Romanian Banker's Association;
  - Banks' executives; and
  - Independent auditors
- 3. *Smooth-functioning of the Bank Deposit Guarantee Fund.*

At the same time, the National Bank of Romania's Governor, Mr. Mugur Isarescu, mentioned<sup>10</sup> what are the main problems that the National Bank of Romania intends to solve in the next period of time, such as:

- to prepare the strategy concerning the privatisation of Banca Comerciala Romana SA;
- to integrate the credit co-operatives in the banking field and issue regulations in the appliance of the Emergency Ordinance No. 97/2000;
- to harmonize the accounting regulations with the EU legislation, as well as with the international accounting standards;
- To improve the early warning and banking system;

---

<sup>10</sup> During the Romanian Government Meeting of January 18, 2001 – source the NBR.

- To co-operate with the Justice Ministry, and with other governmental bodies in order to eliminate the frauds from the banking and financial system, the money laundering, and the corruption;
- To introduce to the Romanian Government draft of the law concerning the Guarantee Fund of the legal entities' deposits in banks etc.

\*  
\*      \*

As a conclusion, it should be mentioned the following:

1. In Romania, ***the financial system*** consists of: banks (Romanian legal entities and branches of foreign banks), credit co-operatives, mutual funds, credit unions, brokerage houses, insurance companies, financial investment companies, leasing companies and investment management companies.

2. The European Central Bank made a List of the Monetary Financial Institutions subject to minimum reserves in accordance with Article 3.2 of the amended Regulation of the European Central Bank of December 1<sup>st</sup>, 1998 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/1998/16)<sup>11</sup> and with Article 2.3 of the amended Regulation of the European Central Bank of December 1<sup>st</sup>, 1998 on the application of minimum reserves (ECB/1998/15)<sup>12</sup>.

The List of the Monetary Financial Institutions comprises institutions resident in the European Union, which comply fully with the Monetary Financial Institutions definition<sup>13</sup>. The objective of the List of the Monetary Financial Institutions includes facilitating the production of a comprehensive and consistent balance sheet of the money-creating sector in the euro area and ensuring that the statistical reporting population is as complete, accurate and homogeneous as possible. In addition to the *national central banks of the European Union and the European Central Bank*, the List of the Monetary Financial Institutions includes *credit institutions*,

---

<sup>11</sup> Official Journal L356, 30.12.1998.

<sup>12</sup> Official Journal L356, 30.12.1998.

<sup>13</sup> "Monetary Financial Institutions" comprises resident Credit institutions as defined in Community Law, and all other resident Financial Institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than Monetary Financial Institutions, and, for their own account (at least in economic terms), to grant credits and/or to make investments in securities.

*money market funds and other institutions fulfilling the Monetary Financial Institutions definition.*

3. The International Monetary Fund has a different classification<sup>14</sup> of the financial system. The main sectors and sub sectors are the following:

**Financial corporations**

- Central bank;
- Other depository corporations;
- Other financial corporations
  - Insurance corporations and pension fund;
  - Other financial intermediaries
  - Financial auxiliaries

**Non-financial corporations**

- Public non-financial corporations
- Other non-financial corporations

**General government**

- Central government
- State government
- Local government
- Social security funds

**Households**

**Non-profit institutions serving households**

*Central Bank*

In the International Monetary Fund's opinion the **central bank** represents the *national financial institution (or institutions) that exercises control over key aspects of the financial system and carries out such activities as issuing currency, managing international reserves, transacting with the International Monetary Fund, and providing credit to other depository corporations.*

Central banks in some countries also accept deposits from non-financial corporations or provide credit to non-financial corporations.

---

<sup>14</sup> IMF – Money and Financial Statistics Manual, Washington, 2000

The central bank sub-sector includes the following:

- **Central banks**, which in most countries are separately identifiable institutions that, across countries, are subject to varying degrees of government control, engage in differing sets of activities, and are designated by various names (e.g. central bank, reserve bank, national bank, or state bank);
- **Currency boards** or **independent currency authorities** that issue national currency that is fully backed by foreign exchange reserves;
- **Government-affiliated agencies** that are separate institutional units and primarily perform central bank activities.

If an institutional unit is mainly engaged in central banking activities, the entire unit is classified in the central bank sub-sector. Many central banks regulate or supervise other depository and other financial corporations, and central bank activities in these areas are also included in the central bank sub-sector.

However, units that are affiliated with the government or with other sectors and are mainly engaged in regulating or supervising financial units are classified as financial auxiliaries rather than as units in the central bank sub-sector.

Private units that perform activities such as check clearing operations are assigned to other financial corporations sub-sectors depending on their activities, rather than to the central bank sub-sector.

### **Other Depository Corporations**

*The other depository corporations sub-sector consists of all resident financial corporations (except the central bank) and quasi-corporations that are mainly engaged in financial intermediation and that issue liabilities included in the national definition of broad money.*

Examples of the designations given to institutional units in the other depository corporations' sub-sector are:

- ❑ Commercial banks;
- ❑ Merchant banks;
- ❑ Savings banks, savings and loan associations, building societies, and mortgage banks;
- ❑ Credit unions and credit co-operatives;

- ❑ Rural and agricultural banks, and
- ❑ Travelers'cheque companies that mainly engage in the financial corporation activities.

### **Other Financial Corporations**

*Insurance Corporations and Pension Funds* This sub-sector includes resident insurance corporations and quasi-corporations and autonomous pension funds. Insurance corporations consists of incorporated mutual and other entities whose principal function is to provide life, accident, health, fire, or other forms of insurance to individual institution institutional units or groups of units.

*The pension funds* included in this sub-sector are those that are constituted as separate from the units that have created them. They are established for purposes of providing retirement benefits for specific groups of employees. They have their own assets and liabilities, and they engage in financial transactions on their own account. These funds are organized, and directed, by individual private or government employers, or jointly by individual employers and their employees, and the employees and/or employers make regular contributions.

**Other Financial Intermediaries.** This sub-sector of other financial intermediaries covers a diverse group of units constituting all financial corporations other than depository corporations, insurance corporations, pension funds, and financial auxiliaries. Units in the other financial intermediaries sub-sector generally raise funds by accepting long-term or specialized types of deposits and by issuing securities and equity. These intermediaries often specialize in lending to particular types of borrowers and in using specialized financial arrangements such as financial leasing, securities lending, and financial derivative operations.

*Finance companies* are institutional units primarily engaged in the extension of credit to non-financial corporations and households.

*Financial leasing companies* engage in financing the purchase of tangible assets. The leasing company is the legal owner of the goods, but ownership is effectively conveyed to the lessee, who incurs all benefits, costs, and risks associated with ownership of the assets.

*Investment pools* are institutional units that are organized financial arrangements, excluding pension funds that consolidate investor funds for the purpose of acquiring financial assets. Examples are mutual funds, investment trusts, unit trusts, and other collective investment units.

*Securities underwriters and dealers* include individuals or firms that specialize in security market transactions by:

- assisting firms in issuing new securities through the underwriting and market placement of new security issues and;
- trading in new or outstanding securities on their own account.

*Vehicle companies* are financial entities created to be holders of secured assets or assets that have been removed from the balance sheets of corporations or government units as part of the restructuring of these units.

*Financial derivative intermediaries* consists of units that engage primarily in issuing or taking positions in financial derivatives recognized as financial assets.

*Specialized financial intermediaries* include holding corporations, companies that provide short-term financing for corporate mergers and takeovers, export/import finance firms, factors and factoring companies etc.

**Financial Intermediaries.** The most common designations for financial corporations classified as financial auxiliaries are:

*Public exchanges and securities markets* are organized exchanges and entities such as security depository companies, accounting and clearing offices, and other companies providing exchange-related services. Depositories and electronic clearing systems operated by financial corporations fall into this sector, too.

*Brokers and agents* are individuals or firms that arrange, execute, or otherwise facilitate client transactions in financial assets. Included are brokers and agents handling the purchase and sale of securities or other financial contracts for clients, and financial advisory services that provide specialized services to brokers and their customers.

*Foreign exchange companies* comprise units that buy and sell foreign exchange in retail or wholesale markets.

*Financial guarantee corporations* insure customers against losses to specified financial corporations or against financial loss on specific contracts.

*Insurance and pension auxiliaries* include agents, adjusters, and salvage administrators.

*Other financial auxiliaries* comprise all other auxiliaries not classified elsewhere.



## **Progress Test**

1. Present a brief description of the history of the Romanian banking system.
2. When did the new Romanian banking system start its activity?
3. Describe the structure and functions of the former banking system.
4. List five banks, Romanian legal entities authorized by the National Bank of Romania to render banking services.
5. List five branches of foreign banks authorized by the National Bank of Romania to render banking services.
6. What are the banking laws, which marked the beginning of the organization of the Romanian banking system in accordance with the market economy principles?
7. How was the new banking system organized after December 1990?

8. Enumerate the main functions of a central bank.
9. List the main functions of the National Bank of Romania.
10. What are the National Bank of Romania's responsibilities in the foreign exchange field?
11. List the elements of the international reserves.
12. What operations is the National Bank of Romania authorized to perform?
13. List the securities that the National Bank of Romania requires as guarantees for the loans granted to banks.
14. Describe the executive management of the National Bank of Romania, as well as its internal organization.
15. Define the concept "bank" under the provisions of the Law No. 58/1998 – the Banking Law.
16. What operations can a bank perform within the authorization granted by the National Bank of Romania?
17. In what ways can the banks increase their share capital?
18. What operations are banks not allowed to perform?
19. What prudential requirement banks must comply with?
20. List the bodies involved in the management of a bank.
21. Enumerate the main departments of a bank, and detail their attributions.
22. List the main foreign assets of the National Bank of Romania.
23. What are the main items included in the liabilities of the National Bank of Romania?

24. List the main assets and liabilities from the balance sheet of a bank.
25. List the main items from the profit and loss account of a bank.
26. List the operating revenues from the profit and loss account of the National Bank of Romania.
27. List the operating expenses from the profit and loss account of the National Bank of Romania.
28. What are the recent developments and perspectives of the National Bank of Romania?
29. What are the main directions of the supervision program?
30. List the main problems that the National Bank of Romania intends to solve in the future.

**31 What is the National Bank of Romania responsible for:**

- |   |   |
|---|---|
| a | setting up the balance of payment;                                      |
| b | maintaining and managing the State's international foreign reserves;    |
| c | can take sight and term deposits in cash and in the form of securities; |
| d | a + b;  |
| e | b + c;  |

**32 Which of the following forms represent the National Bank of Romania refinancing:**

- |   |  |
|---|--|
| a | credit granted with derogation from regulations; |
| b | small business loans;                            |
| c | fixed interest rate loans;                       |
| d | special credit;                                  |
| e | a + d;   |

**33 Under its law, the National Bank of Romania is responsible for:**

- |   |  |
|---|--|
| a | maintaining compulsory reserves in accordance with applicable regulations; |
|---|--|

- |   |   |
|---|---|
| b | taking sight and term deposits from both the physical and juridical persons;  |
| c | setting up the ceiling of gold and foreign exchange assets which the authorized legal persons can hold in deposits; |
| d | a + b;  |
| e | a + c;  |

**34 As a part of its monetary, foreign exchange, lending and payments policies the National Bank of Romania can:**

- |   |  |
|---|--|
| a | lend to banks on up to 90 days term against securities;                                      |
| b | verify, on the premises, records, accounts, and any other documents of the banking companies |
| c | buy, sell, and conduct other transactions with, coins, gold bars, and other precious metals; |
| d | a + b  |

**35 Besides deposits other sources of Romanian banks' funds are:**

- |   |   |
|---|---|
| a | borrowings from the National Bank of Romania; |
| b | borrowings from other banks;                  |
| c | notes and debentures;                         |
| d | a + b;  |
| e | b + c   |

**BANKS OPERATING IN ROMANIA\***

No	BANK	HEAD OFFICE	LEGAL STATUS	CAPITAL TYPE	LICENCING DATE
	BANCA NAȚIONALĂ A ROMÂNIEI	București, Str. Lipskani nr.25, sector 3	Central Bank of Romania	state-owned capital	
<b>I</b>	<b>BANKS - ROMANIAN LEGAL ENTITIES</b>				
1	Banca Comercială Română	București, Bd. Regina Elisabeta nr.5, sector 3	Joint stock company	majority state- owned and domestic private capital	1990
2	Banca Agricolă <sup>1</sup>	București, Bd. Mircea Vodă nr.44, bl. M17, tronson II, sector 3	Joint stock company	majority state- owned and domestic private capital	1990
3	Casa de Economii și Consemnațiuni (CEC) <sup>2</sup>	București, Calea Victoriei nr.13, sector 3	Joint stock company	state-owned capital	1949
4	Banca Română pentru Dezvoltare (BRD)	București, Str. Doamnei nr.4, sector 3	Joint stock company	majority foreign and domestic private and state- owned capital	1990
5	Banca Comercială "Ion Tiriac"	București, Calea Victoriei nr.15, sector 3	Joint stock company	foreign and domestic private capital	1991
6	BANC POST	București, Bd. Libertății nr.18, bl.104, sector 5	Joint stock company	state-owned and majority foreign private capital	1991
7	Banca Turco - Română <sup>3</sup>	București, Str. Ion Câmpineanu nr.16, sector 1	Joint stock company	state-owned and foreign private capital	1994
8	ABN AMRO Bank (România)	București, Bd. Expoziției nr.2, World Trade Center, unit.2.23, sector 1	Joint stock company	foreign private capital	1995
9	Banca de Export-Import a României (EXIMBANK)	București, Spl. Independenței nr.15, sector 5	Joint stock company	majority state- owned and domestic private capital	1992
10	Citibank România	București, Bd. Iancu de Hunedoara nr.8 sector 1	Joint stock company	foreign private capital	1996
11	Alpha Bank România	București, Piața Gh. Cantacuzino nr.6, sector 2	Joint stock company	foreign private capital	1994

\* 31 Decembrie 2000

<sup>1</sup> Subject to operational and financial restructuring, administration regime ahead of privatisation

<sup>2</sup> Reorganised as joint stock banking company pursuant to Law No. 66/1996

<sup>3</sup> Banned from participating in final settlement of securities operations

## *The Banking System in Romania*

(continued)

No	BANK	HEAD OFFICE	LEGAL STATUS	CAPITAL TYPE	LICENCING DATE
12	Banca Transilvania	Cluj-Napoca, Bd. Eroilor nr.36	Joint stock company	foreign and domestic private capital	1994
13	FINANSBANK (România)	București, Str. Doamnei nr.17-19, sector 3	Joint stock company	majority foreign private capital	1993
14	Banca Comercială "ROBANK"	București, Bd. Unirii nr.59, sector 3	Joint stock company	foreign and domestic private capital	1995
15	Banca Daewoo (România)	București, International Business Center, Bd. Carol I nr. 34-36, et.1, sector 2	Joint stock company	foreign and domestic private capital	1997
16	Banca pentru Mică Industrie și Liberă Inițiativă MINDBANK	București, Calea Grivitei nr.24, sector 1	Joint stock company	foreign and domestic private capital	1990
17	Banca Românească	București, Bd. Unirii nr.35, bl. A3, sector 3	Joint stock company	foreign and domestic private capital	1993
18	Banca de Credit și Dezvoltare ROMEXTERRA	Târgu Mureș, Piata Trandafirilor nr. 21	Joint stock company	majority domestic private and state-owned capital	1994
19	PIRAEUS BANK ROMÂNIA	București, Bd. Carol I nr.34-36, et.VI, sector 2	Joint stock company	foreign and domestic private capital	1995
20	Banca Comercială West Bank	Arad, Str. Revoluției nr.88	Joint stock company	foreign and domestic private capital	1996
21	Banca Română pentru Relansare Economică LIBRA BANK	București, Bd. Aviatorilor nr.46, sector 1	Joint stock company	domestic private capital	1996
22	Banca Română de Scont	Brasov, Str. Turnului nr.5	Joint stock company	domestic private capital	1996
23	Banca Comercială "UNIREA" <sup>4</sup>	București, Str. Johann Strauss nr.1, sector 2	Joint stock company	domestic private capital	1996
24	DEMIRBANK (România)	București, Splaiul Unirii nr.16, sector 4	Joint stock company	foreign and domestic private capital	1997
25	Commercial Bank of Greece (România)	București, Str. Berzei nr.19, sector 1	Joint stock company	foreign private capital	1996
26	Raiffeisenbank (România)	București, Bd. Unirii nr. 74, bl. J3B, aripa 2-3, sector 3	Joint stock company	foreign private capital	1997
27	Bank-Austria Creditanstalt România	București, Str. Grigore Mora nr.37, sector 1	Joint stock company	foreign private capital	1998

<sup>4</sup> Subject to special settlement regime of interbank operations

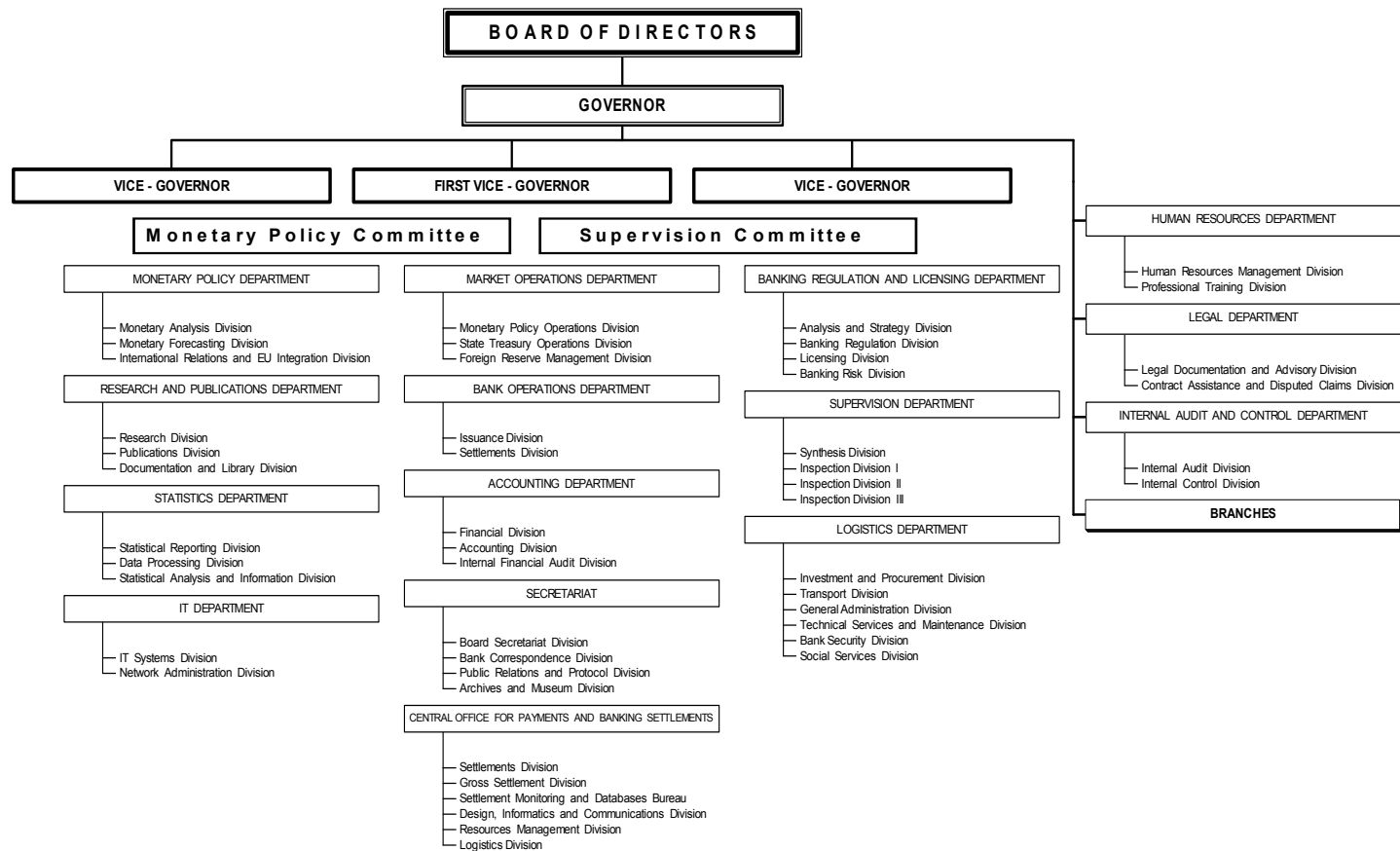
## The Banking System in Romania

(continued)

No	BANK	HEAD OFFICE	LEGAL STATUS	CAPITAL TYPE	LICENCING DATE
28	ROMANIAN INTERNATIONAL BANK	București, Str. Iuliu Teodori nr.1, sector 5	Joint stock company	foreign private capital	1998
29	BNP - Dresdner Bank (România)	București, Str. C.A. Rosetti nr.36, sector 2	Joint stock company	foreign private capital	1998
30	Banca Comercială "CARPATICA"	Sibiu, Bd. Mihai Viteazu, bl. 42	Joint stock company	domestic and foreign private capital	1999
31	BANCA DE INVESTITII ȘI DEZVOLTARE (BID)	București, Bd. Dimitrie Cantemir nr.2, bl. P3, tronson 2, sector 4	Joint stock company	domestic private capital	2000
32	VOLKSBANK (România)	București, Str. Coltei nr.8, sector 3	Joint stock company	foreign private capital	2000
33	Banca "Dacia Felix"	Cluj-Napoca, Str.Memorandumului nr.28	Joint stock company	foreign and domestic private capital	1991
<b>II</b>	<b>BANKS - FOREIGN LEGAL ENTITIES</b>				
1	ING Bank NV - Bucharest Branch -	București, Sos. Kiseleffnr.11-13, sector 1	Branch		1994
2	Banque Franco - Roumaine - Bucharest Branch -	București, P-ta Charles de Gaulle nr.3-5, sector 1	Branch		1990
3	MISR Romanian Bank - Bucharest Branch -	București, Bd. Unirii nr.66, bl.K3, sector 3	Branch		1987
4	Frankfurt Bukarest Bank AG - Bucharest Branch -	București, Bd. Carol I nr.34-36, sector 2	Branch		1979
5	National Bank of Greece - Bucharest Branch -	București, Splaiul Unirii nr.4 bl. B3, tronson 3, sector 4	Branch		1996
6	Banca Italo - Romena SpA - Bucharest Branch -	București, Bd. Carol I nr.34-36, sector 2	Branch		1996
7	United Garanti Bank International N.V., Amsterdam - Bucharest Branch -	București, Str. Paris nr.30, sector 1	Branch		1998
8	Banca di Roma SpA Italia - Bucharest Branch -	București, Str. Dr. Staicovici nr.75, sector 5	Branch		2000

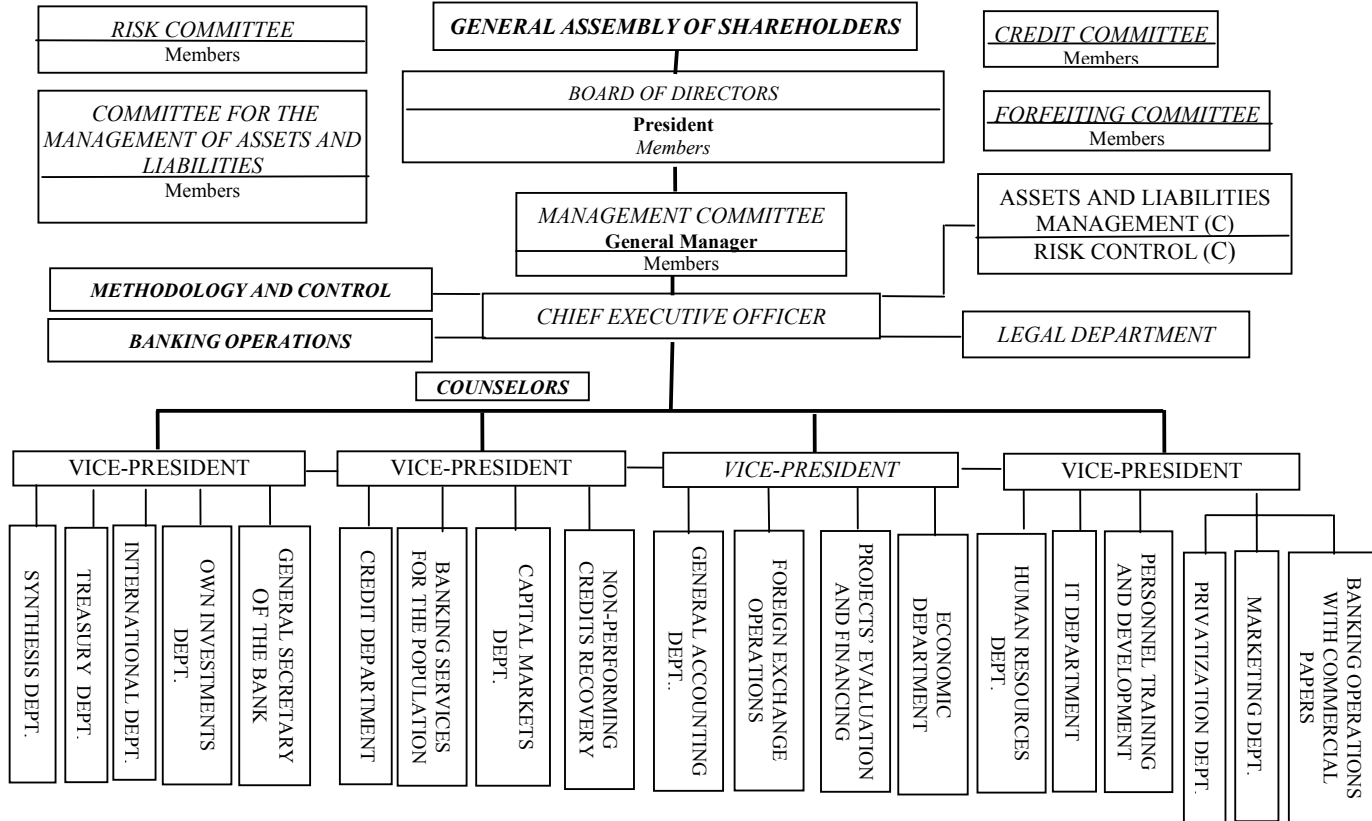
Source: National Bank of Romania – Annual Report 2000

# Organization Chart of the NATIONAL BANK OF ROMANIA as of 31 December 2000 ANNEX No 2



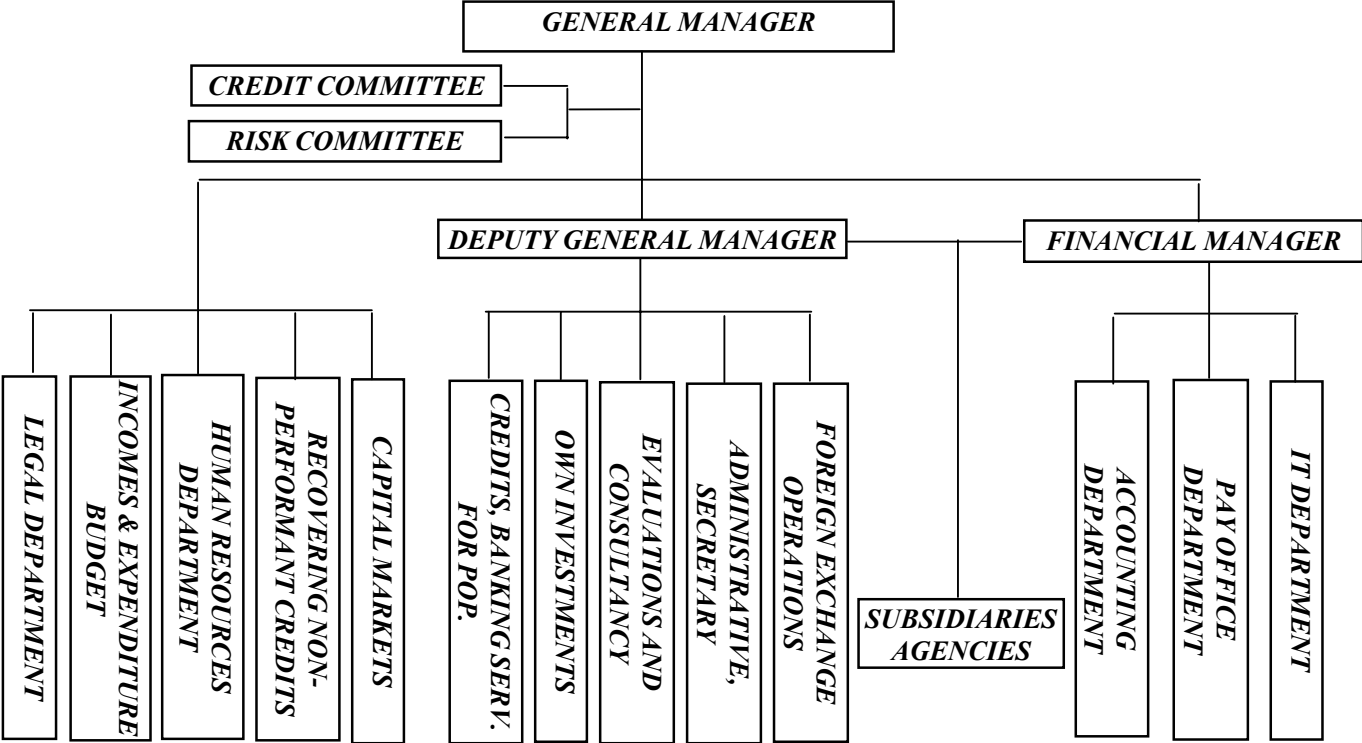
# Organizational Chart of a Bank

ANNEX No 3a



**ORGANIZATIONAL CHART OF A BRANCH OF A BANK**

ANNEX No 3b



## **BANKING REGULATIONS**

### **THE BANKING ACT**

Law No. 58/5 March 1998 (modified by Emergency Ordinance No.24/25 March 1999)

*(Published in Monitorul Oficial al României, part I, No. 121/23 March 1998)*

(modified by Emergency Ordinance No. 137 of 18 October 2001)

### **THE NATIONAL BANK OF ROMANIA ACT**

Law No. 101/26 May 1998 (modified by Law No.156/12 October 1999)

*(Published in Monitorul Oficial al României part I, No.203/1 June 1998)*

(modified by Emergency Ordinance No. 136 of 18 October 2001)

### **LAW ON BANKS' PRIVATISATION**

Law No. 83/21 May 1997 on privatisation of banks in which the state is shareholder

*(Published in Monitorul Oficial al României part I, No. 98/23 May 1997)*

### **BANK INSOLVENCY ACT**

Law No. 83/15 April 1998

*(Published in Monitorul Oficial al României part I, No.159/22 April 1998)*

(modified by Emergency Ordinance No. 138 of 18 October 2001)

### **CURRENCY REGULATION (including the norms NRV1-NRV9)**

Regulation No. 3/23 December 1997

*(Published in Monitorul Oficial al României part I, No.395/31 December 1997)*

(modified by Circular No. 26 of 20 November 2001)

**REGULATION ON OPEN MARKET OPERATIONS**

Regulation No. 1/30 March 2000 on open market operations performed by the NBR and on lending and deposit facilities granted to banks  
*(Published in Monitorul Oficial al României part I, No.142/5 April 2000)*

**REGULATION ON RESERVE REQUIREMENTS**

Regulation No. 4/16 July 1998 (republished)  
*(Published in Monitorul Oficial al României part I, No.121/24 March 1999)*

**REGULATION ON CREDIT INFORMATION BUREAU**

Regulation No. 1/21 May 1999 regards the organization and operation of the Credit Information Bureau. It sets the information system, organization and management of the Central Credit Register and the Overdue Credit Register, and disclosure of information to the users.  
*(Published in Monitorul Oficial al României part I, No.614/16 December 1999)*

**Balance Sheet of  
The National Bank of Romania  
as of December 31, 2000 and 1999**

	<i>(Amounts in billions of ROL)</i>		
	Dec 31, 1999	Dec 31, 2000	2000/1999
<b>ASSETS</b>			%
Cash & similar items	42.2	45.0	106.6
Precious metals and stones	1,066.7	1,371.3	128.6
<i>Interest Receivable</i>	16.1	4.0	24.8
Foreign Assets	71,330.1	115,994.1	162.6
<i>Interest Receivable on Time Deposits</i>	324.1	709.0	218.8
<i>Interest Receivable on Securities</i>	556.0	919.1	165.3
Securities	16,838.9	16,176.1	96.0
<i>Interest Receivable</i>	1,472.8	1,151.0	78.1
Government loans	-	-	x
Loans granted to banks	2,181.6	6,952.7	318.7
<i>Interest Receivable</i>	647.5	197.6	30.5
<i>Specific provisions for credit losses</i>	383.7	802.6	209.2
<i>Specific provisions for interest losses</i>	305.5	60.7	19.8
Other loans	32.1	25.5	79.4
<i>Accrued interest</i>	32.9	39.1	118.8
Interest Receivable - Total	2,743.9	2,959.1	107.8
Settlement from operations with the IMF	908.6	-	x
Other Assets	3,596.3	3,835.9	106.7
Provisions for other assets	-	152.2	X
<b>Total Assets</b>	<b>98,740.4</b>	<b>147,359.7</b>	<b>149.2</b>
<b>LIABILITIES</b>			
Notes and coins in circulation	18,676.4	28,108.8	150.5
Bonds issued by NBR	5,365.8	6,771.3	126.2
<i>Interest Payable</i>	68.3	76.8	112.5
Foreign Liabilities	34,731.6	44,236.6	127.4
<i>Interest Payable on Time Deposits</i>	28.2	90.4	320.6
<i>Interest Payable on Borrowings</i>	96.7	134.7	139.3
<i>Interest Payable on SDR allocations by the IMF</i>	-	20.1	X
Deposits of State Treasury	2,846.7	1,015.6	35.6
Banks' deposits with the NBR	30,963.4	48,921.6	158.0
<i>Interest Payable</i>	17.5	153.9	879.4
Other deposits with the NBR	11.7	22.7	194.0
Interest Payable - Total	210.7	475.9	225.9
Other Liabilities	337.5	380.6	112.8
Capital, funds and reserve accounts	5,596.6	17,426.6	311.4
<b>Total Liabilities</b>	<b>98,780.4</b>	<b>147,359.7</b>	<b>149.2</b>

Source: National Bank of Romania – Annual Report for year 2000

**Profit and Loss Statement of  
The National Bank of Romania  
as of December 31, 2000 and 1999**

*(Amounts in billions of ROL)*

	Dec 31, 1999	Dec 31, 2000	2000/1999
<b>REVENUS</b>			
<b>Operating revenues</b>	<b>10,915.6</b>	<b>14,804.4</b>	<b>35.6</b>
Interest on credit lines	1,308.9	709.4	-45.8
Revenues from commissions and fees	719.9	881.2	22.4
Revenues from ROL-denominated securities operations	6,427.4	9,176.1	42.8
Interests and revenues in foreign exchange	1,185.3	1,115.9	-5.9
Revenues from operations with forex-denominated securities	1,192.4	2,315.6	94.2
Revenues from operations with precious metals	81.7	49.1	-39.9
Revenues from provisions	-	557.1	X
<b>Other revenues</b>	<b>136.1</b>	<b>134.3</b>	<b>-1.3</b>
<b>I. TOTAL REVENUES (1+2)</b>	<b>11,051.7</b>	<b>14,938.7</b>	<b>35.2</b>
<b>EXPENSES</b>			
<b>Operating expenses</b>	<b>8,314.6</b>	<b>11,993.8</b>	<b>44.2</b>
Interests paid to the banks and State Treasury	4,599.6	7,203.2	56.6
Interests and commissions on IMF borrowing	439.8	658.7	49.8
Interests and commissions in foreign exchange for NBR borrowings from other sources and other expenses in foreign exchange	1,552.6	1,667.1	7.4
Expenses for operations with forex-denominated securities	1,057.1	373.9	-65.2
Expenses for operations with ROL-denominated securities	279.4	759.8	171.9
Note printing and coin mintage-related expenses	233.8	379.1	62.1
Expenses for operations with precious metals	124.2	84.9	-31.6
Losses from non-recoverable claims	-	808.7	X
Other	10.1	58.4	478.2
<b>Overheads</b>	<b>1,579.2</b>	<b>1,827.1</b>	<b>15.7</b>
Salaries and wages	521.3	667.8	28.1
Expenses for provisions	731.2	883.3	20.8
Other	326.7	276.0	-15.5
<b>TOTAL EXPENSES (1+2)</b>	<b>9,893.8</b>	<b>13,820.9</b>	<b>39.7</b>
<b>Profit/Loss (I-II), out of which:</b>	<b>1,157.9</b>	<b>1,117.8</b>	<b>-3.5</b>
Reserve fund	4.4	46.5	956.8
Profit Tax	956.0	892.9	-6.6
Net profit	197.5	178.4	-9.7

Source: National Bank of Romania – Annual Report for year 2000

**Balance Sheet for the years ended  
December 31, 2000 and 1999  
B.R.D.**

*(Amounts in millions of ROL in terms of purchasing power as of December 31, 2000 unless otherwise indicated)*

	Note	December 31, 2000	December 31, 1999
<b>ASSETS</b>			
Cash & cash equivalents	6	593,687	444,431
Current accounts and deposits at banks	7	7,329,295	4,852,889
Reserves at the National Bank of Romania	8	9,100,107	5,852,624
Treasury securities	9	1,104,371	2,147,496
Loans, net			
Loans		15,132,853	15,055,379
Club Loan to NBR		---	256,863
Government and public sector loans		297,669	60,800
Allowance for loan losses		(593,974)	(759,366)
Total loans, net	10	14,836,548	14,613,676
Interest receivable and other assets, net			
Accrued interest receivable, net	11	390,406	366,367
Other assets, net	12	456,093	290,801
Total interest receivable and other assets, net		846,499	657,168
Equity investments, net	13	519,074	480,572
Premises and equipment, net	14	5,676,130	5,871,207
Goodwill, net	15	430,859	407,989
Other intangible assets, net	16	227,038	81,268
<b>Total Assets</b>		<b>40,663,608</b>	<b>35,409,320</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits			
Demand deposits	17	10,053,218	7,730,868
Term deposits	18	20,152,048	17,073,140
Total deposits		30,205,266	24,804,008
Other borrowed funds	19	1,189,740	1,101,783
Accrued interest payable	20	381,361	447,098
Deferred tax liability, net	21	614,101	500,672
Other liabilities	22	983,494	1,150,648
<b>Total Liabilities</b>		<b>33,373,962</b>	<b>28,004,209</b>
Share capital - nominal	23	1,742,253	1,742,253
Share capital restatement reserve	24	9,483,352	9,843,352
Reserve for general banking risks	25	77,618	77,618
Revaluation surplus	26	917,523	1,092,382
Accumulated deficit		4,931,100	(4,990,494)
<b>Total Shareholders' Equity</b>		<b>7,289,646</b>	<b>7,405,111</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>40,663,608</b>	<b>35,409,320</b>

The accompanying notes are an integral part of these financial statements

Source: BRD – Annual Rep. 2000

The financial statement on this page was approved by the Board of Directors, and was signed on its behalf on April 9, 2001 by Bernard Caussignac, general manager.

**Profit and Loss Account for the Year Ended  
December 31, 2000 and 1999**

(Amounts in millions of ROL in terms of purchasing power as of December 31, 2000 unless otherwise indicated)

	Note	December 31, 2000	December 31, 1999
Interest income			
Interest income on loans		4,527,921	15,737,523
Interest on interest bearing deposits		1,714,368	1,046,210
Interest on trading securities		783,095	763,505
Total interest income	28	7,025,384	7,547,238
Interest expense			
Interest for deposits		(4,216,092)	(4,597,969)
Interest for funds borrowed		(144,540)	(105,648)
Total interest expense	29	(4,360,632)	(4,703,617)
Net interest income		2,664,752	2,843,621
Provisions for losses	30	(371,716)	(782,809)
Net results related to loans written-off	27		
Net interest income after provisions for losses		2,293,036	2,060,812
Non-interest income			
Foreign exchange income, net	32	937,318	937,870
Service charges and commissions, net	31	1,062,521	971,854
Income on investments	33	54,679	81,334
Other income	34	56,130	86,223
Total non-interest income		2,110,648	2,077,281
Income before non-interest expense		4,403,684	4,138,093
Non-interest expense			
Salaries and related expenses	35	(1,167,826)	(1,060,524)
Operating expenses	36	(734,092)	(401,116)
Other expenses	37	(761,028)	(649,264)
Provision expenses for impairment of assets	13	(20,653)	-
Total non-interest expense		(2,683,599)	(2,110,904)
Net operating profit		1,720,085	2,027,189
Hyperinflation adjustment	38	(415,711)	(935,441)
Profit before income taxes		1,304,374	1,091,748
Current income tax expense		(253,480)	(445,383)
Deferred income tax expense		(258,279)	(160,119)
Income taxes	21	(511,759)	(605,502)
<b>Net profit</b>		<b>792,615</b>	<b>486,246</b>
Earnings per share (348,450,670 equivalent shares as of December 31, 2000)	46	0.00227	0.00140
Earnings per share (60,929,768 equivalent shares as of December 31, 1999)	46	-	0.00798
<b>Net profit</b>		<b>792,615</b>	<b>486,246</b>
Distributed dividends *	39	(752,173)	(639,979)
<b>Net retained profit (deficit)</b>		<b>40,442</b>	<b>(153,733)</b>

\* Dividends are distributed from statutory net profits (1,354,824 and 766,596 nominal as of December 31, 2000 and 1999 respectively).

Source: Annual Report 2000