



IFRS Provisioning

<http://www.spi-romania.eu/program-2007/ifrs-loan-loss-provisioning/>

SPI Committee Meeting November 13, 2007

Project Objective:

To write a set of principles commonly agreed by the relevant stakeholders (NBR-banks-MEF) on updated prudential requirements that would meet supervisory objectives and reflect the IFRS standards.

Project Working Group Activities

PWG Members: 14

PWG Meetings: 6

Public stakeholders

- National Bank of Romania;
- Ministry of Economy and Finance.

Private stakeholders

- Banking sector (5 banks).

Project Main Steps

Jan. 2007: Project Strategy Meeting defining the project objective

Feb. 2007: Project technical anchor (TAN) and peer reviewer (PR) are identified

Apr. 2007: Workshop on International Experience with Provisioning in View of IFRS and Basel II Implementation

Apr. 2007: With the support of the project TAN and PR the NBR outlines a possible approach for the new regulation

June 2007: The general principles for the new regulation are outlined by NBR and discussed with banks;

July 2007: The general principles are discussed with TAN. A full impact assessment is initiated to support MEF's decision regarding the fiscal treatment of the provisions according to the new regulations;

Aug.-Oct. 2007: Impact assessment carried out by public-private RIA working group.

Summary of Preliminary Findings Impact Assessment:

Banks: increase provisions of RON 1125 for the sample of 13 banks

State Budget: additional tax revenue of RON 180 million for the sample of 13 banks

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IFRS Provisioning Impact Assessment Study

Preliminary Findings

October 2007

Prepared by:

**The NBR-MEF-banks regulatory impact assessment project working group,
with support from the SPI Secretariat and Convergence.**

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I. Summary of main conclusions

- **The National Bank of Romania plan to authorize migration to IFRS provisioning after validation of banks internal models seems to be consistent with the minimization of tax revenue volatility – and plausibly with no material impact on planned tax revenues.**
- Even in absence of regulatory changes, the ongoing progressive convergence of RAS and IFRS loan loss provisions, determined by risk management considerations, is likely to have creeping tax implications. Banks most advanced in IFRS implementation do not show material differences between RAS and IFRS provisioning.
- Bringing this market-based convergence under a transparent and predictable regulatory framework seems desirable to minimize an adverse impact on tax revenues and to avoid market distortions.
- Proposed stricter prudential treatment of collateral under NBR Regulation no. 5/2002 will create larger RAS provisioning for Romanian banks (the estimated increase of provisions for the sample of reporting banks is 97 percent) and will generate a substantial tax revenue loss.
- Implementation of IFRS provisioning requirements would allow a substantial reduction in this tax impact (the estimated increase of provisions for the sample of reporting banks is 21 percent compared to the present NBR Regulation no. 5/2002) to achieve similar prudential objectives.
- Available evidence suggests that 40% of the respondent banks have already implemented full IFRS provisioning. An additional 30% of banks plan to complete this migration in 2008 and a further 25% in 2009. It is prudent to expect that the tax revenue impact will be spread over the three-year 2007-2009 period, with a substantial component already reflected in 2007.
- To minimize market disruptions, it is important that banks do not fall behind their stated plans to achieve timely convergence to IFRS provisioning. The planned modification of NBR Regulation no. 5/2002 should take this market trend into account. **Enforcement of IFRS prudential standards in 2010 would both ensure compatibility with market plans and avoid adverse tax implications.**

II. Background

A. The Proposed New NBR Regulatory Framework for Provisioning

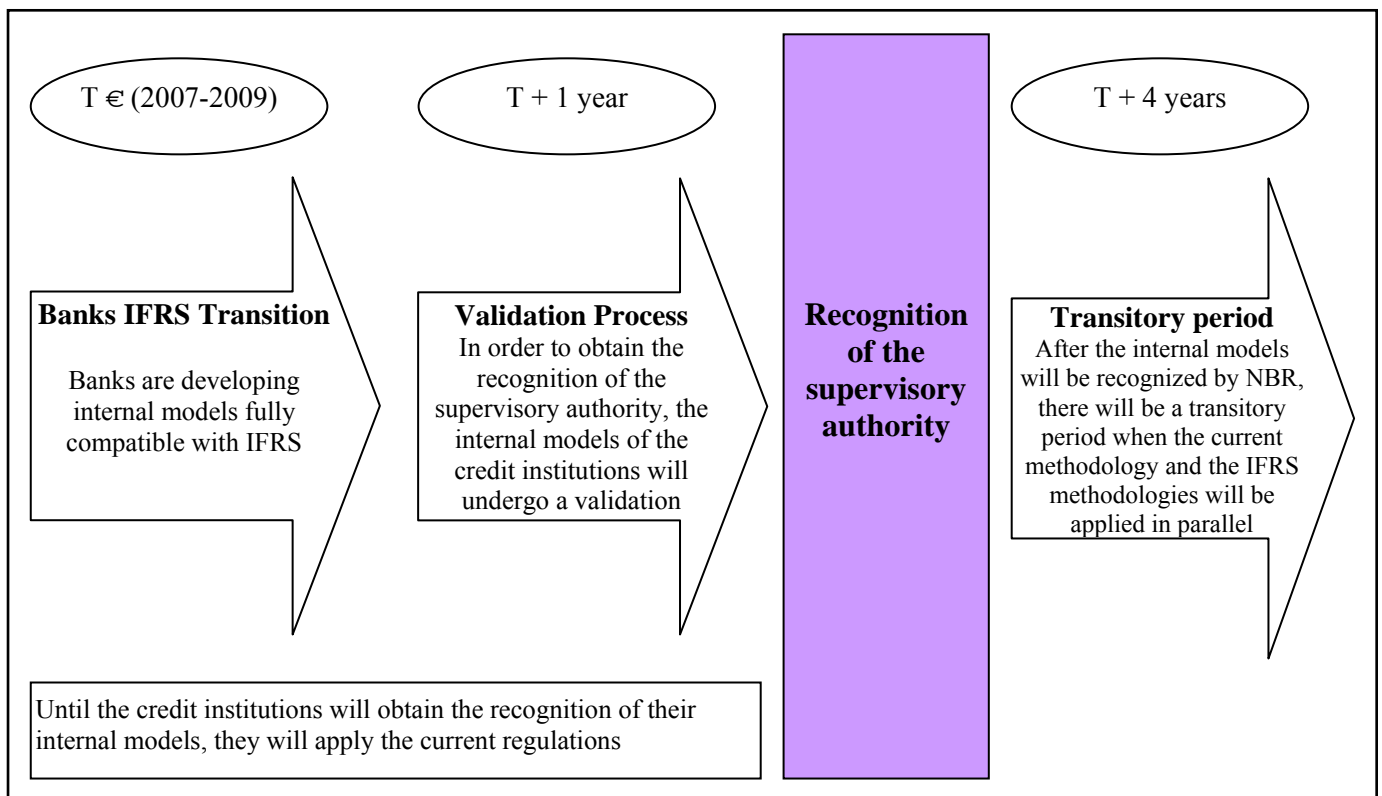
Under the SPI Project on IFRS Provisioning carried out under the auspices of the public-private partnership for Romania financial sector modernization, the working group composed of 14 experts from the NBR, banks and MEF prepared *a set of principles commonly agreed by the relevant stakeholders on a feasible update of the prudential requirements that would meet supervisory objectives and reflect the IFRS standards (see Annex 1)*.

The proposed new regulatory framework consists of a two-pronged package: a) IFRS provision guidelines and b) tightening of existing provision guidelines.

a) The new IFRS provisioning regulations

Based on the new IFRS regulations, to be prepared by the NBR by the end of 2007, the credit institutions could, in essence, develop and apply their own internal models for determining the needed provisions.

The process of transition towards the new IFRS regulatory framework will include some requirements, as follows:



b) The amendment of the current provisioning regulation

At the same time, NBR will amend the current provisioning regulation (Regulation no. 5/2002 as subsequently amended) to reflect the following changes:

- i) only liquid and marketable collateral will be taken into consideration when determining the necessary provisions;
- ii) operations that are fully collateralized with cash deposits will not longer included in the basis for calculating the provisions;
- iii) further classifications of the retail exposures will be only based on the debt service (no longer based on both creditworthiness and debt service).

The date of effectiveness of both regulations is still under discussion and will take into account considerations supported by evidence gathered in the context of this impact assessment.

B. The Impact Assessment Proposal

In order to enable MEF to take a decision regarding the fiscal treatment for loan loss provisions that is going to be applied with the introduction of the above mentioned regulations (new IFRS provisioning regulations and the amendments to the current regulation), the SPI Committee decided to launch a quantitative survey with banks.

The survey with banks aimed at **estimating the impact of the new regulatory framework on banks' financial statements and, correspondingly, on the state budget.**

The mixed RIA project working group (Box 1) composed of representatives of NBR, banks, and MEF prepared a questionnaire. The questionnaire has been sent to banks (through RBA) by the NBR Regulation Department on September 13, 2007. Banks have been asked to provide their responses to the NBR Regulation Department by September 21, 2007.

The NBR Regulation Department has sent depersonalized responses to the survey to the SPI Secretariat for compiling the data and drawing the preliminary findings. 19 questionnaire responses have been received by the SPI Secretariat in the period September 24 – October 8.

RIA Working Group Composition

Veronica Raducanescu, Director, NBR Regulation and Licensing Department, Project Owner
Oana Balanescu, Division Chief, NBR Regulation and Licensing Department, Project Manager

George Popescu, Expert, NBR Regulation and Licensing Department, PWG member
Cristian Stefan, Expert, NBR Regulation and Licensing Department, PWG member
Lucretia Paunescu, Division Chief, NBR Supervision Department, PWG member
Viorica Burchidau, Inspector, NBR Supervision Department, PWG member
Mihaela Nedelcu, Policy Unit, Ministry of Economy and Finance, PWG member
Emanuel Constantin, Policy Unit, Ministry of Economy and Finance, PWG member
Marilena Gughea, Regulation Department, Ministry of Economy and Finance, PWG member
Dan Matei, Fiscal Revenues Department, Ministry of Economy and Finance, PWG member
Mihai Stoica, BRD-GSG, PWG Member
Iulian Zaharia, Unicredit-Tiriac, PWG Member

Antonela Rozolimo, Alpha Bank, PWG Member
Ani Cirstea, Banc Post, PWG Member
Eugenia Stan, CEC, PWG Member
Daniela Carmen Petre, CEC, PWG Member
Oana Nedelescu, SPI Secretariat

Below are the preliminary findings of the bank survey on IFRS provisioning and its impact on the state budget and the banks' financial statements.

Given the number of responses received (19 banks), results should be interpreted with caution. Also, some of the findings may be based even on smaller responses sample as some of the responses receive were incomplete or presented inconsistencies.



III. Impact Assessment Methodology

Impact assessment has been carried out along the following methodology:

Options	Regulatory framework	Impact assessment (IA) methodological considerations
Baseline	Double RAS-IFRS provisioning reporting system (Regulation no. 5/2002 in place, applying RAS for prudential and tax purposes and IFRS standards for reporting to mother entities)	IA will outline the tendencies registered in the level of RAS and IFRS provisions so as to offer indications on the possible level of IFRS provisions, as RAS provisions may not keep the same patterns given the proposed changes in the current regulation). Also, IA will outline where the notable differences between RAS and IFRS come from, mainly using qualitative determinations. Banks have been required to provide both flow (P&L) and stock (balance sheet) data.
Scenario	Modified Regulation no. 5/2002 and new IFRS provisioning regulations	IA will outline the level of provisions at a single point in time (June 2006), where banks are requested to provide the following data: <ul style="list-style-type: none"> a) provisions calculated based on the current Regulation no. 5/2002; b) provisions calculated based on IFRS; c) provisions calculated based on modified Regulation no. 5/2002, taking into account the proposed amendments to be brought to the current provisioning framework. In regard to the last type of data to be provided, banks have been required to make a simulation of the impact brought by the proposed changes in Regulation no. 5/2002. The simulation will be based on some rough assumption, mainly related to the adjustment to the level of provisions with the collateral, which has to be

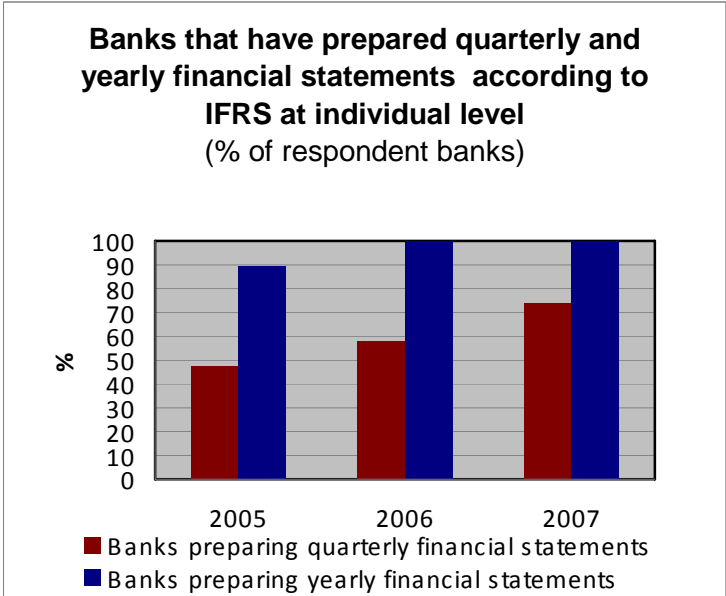
		<p>liquid and marketable. The main assumption is that for simplicity reasons, only mortgages will be deducted from the amount of provisions. This assumption implies that results have to be interpreted with caution as banks may in fact use other types of liquid and marketable collateral. The detailed analysis of the results is presented below.</p>
	<p>Another possible scenario that could be taken into consideration is that IFRS provisioning regulation will replace Regulation no. 5/2002 and there will be no parallel operating of the two regulations.</p>	

IV. Impact Assessment Preliminary Findings

A. Implementation analysis

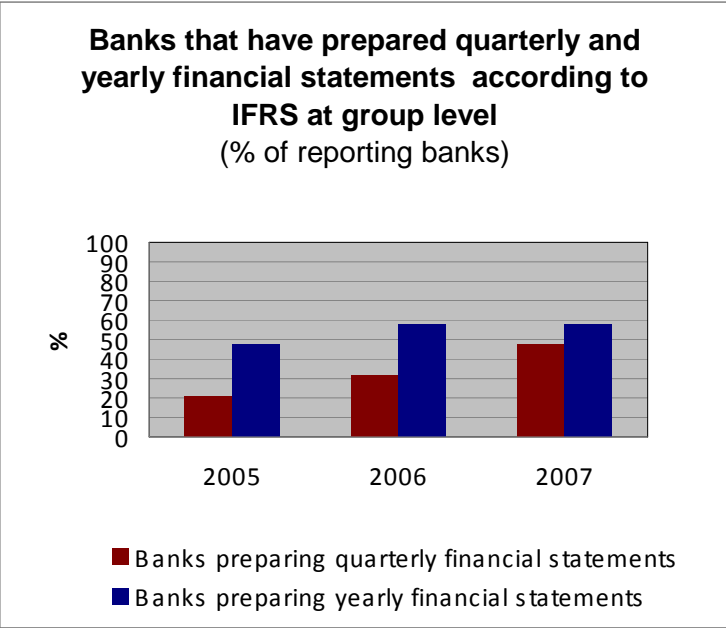
The number of banks that prepare financial statements according to IFRS at the individual level has increased over time. In this regard, all respondent banks prepared financial statements according to IFRS at individual level in 2006 and will do so in 2007. Also, an increasing number of banks started preparing quarterly IFRS financial statements at individual level (see Figure 1.a.).

Figure 1.a.



Also, at domestic group level (including non-bank subsidiaries), an increasing percentage of banks started preparing IFRS annual and quarterly financial statements (see figure 1.b.).

Figure 1.b.



Box 1. The main methodological changes operated by banks in applying the IFRS methodology

Eight of the reporting banks have changed the IFRS methodology during the period considered. The main changes in the methodology consisted of:

- the increase in the number of indications considered for impairment;
- the introduction of the effective interest rate for discounting future cash flows;
- the modification of the coefficients for provisioning for types of products, categories of risks, and delinquency intervals;
- the introduction of a different evaluation methodology for loans granted to companies, at both individual and collective level;
- the integration of PD and LGD indicators for a better calibration of provisions;
- the improvements of the IFRS methodology which evolved for a simple adjustment of the RAS provisions to developing a provisioning procedure based on loss rates for each type of credit, collaterals, as well as the probability of default using credit rating.

The survey outlined that there are differences between the level of RAS and IFRS provisions, which run in both directions (RAS provisions higher or lower than IFRS provisions). The respondent banks have explained the existing differences between the RAS and IFRS data based on the following factors:

Table 1. Possible causes for differences between RAS and current IFRS provisions

Possible causes for differences between RAS and IFRS	Yes (% of respondent banks)			No (% of respondent banks)
	High	Medium	Low	
Consideration of collateral (according to RAS collateral is considered at its market value; IFRS looks both at the estimated future cash flows from the collateral discounted at an effective interest rate, based on historical information on recoveries)	67%	27%	6%	0%
Definition of impairment	53%	27%	20%	0%
The approaches in the application of contagion effects in the collective assessments of impairment	25%	38%	31%	6%
Quality and structure (retail / corporate) of bank's credit portfolio	23%	29%	24%	24%
The proxies that the IFRS model uses in lack of available data on losses and recoveries	12%	38%	44%	6%

The most important factor which banks consider that trigger the differences between RAS and IFRS provisions is how collateral has been considered and the definition of impairment.

Other reasons that have been mentioned by banks are:

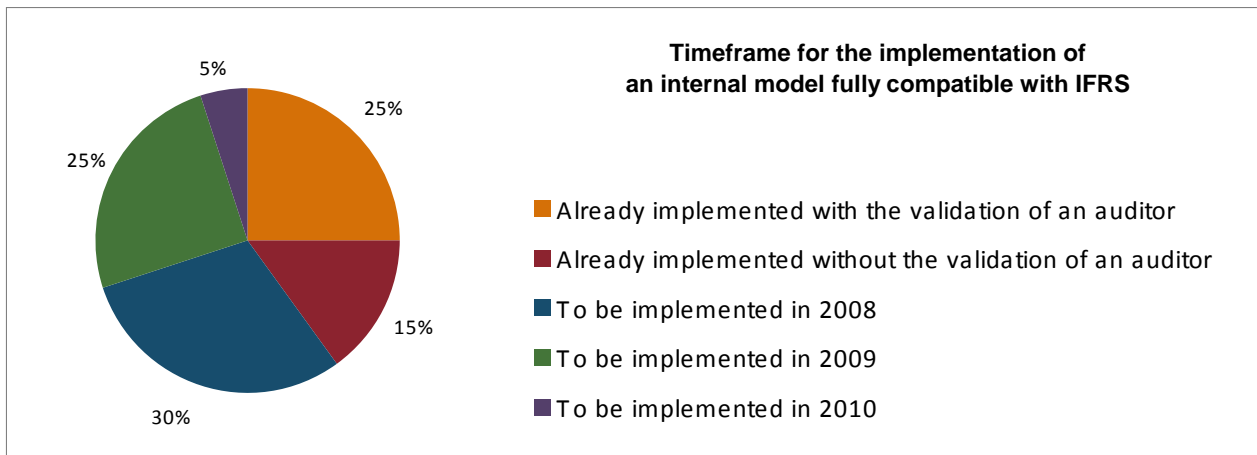
- The way in which individual and collective assessments are being done (collective provisions for not yet depreciated claims computed based on PD and LGD; provisions for retail clients based exclusively on the liability service and on the risk characteristics of credit products);
- Some of the IFRS methodologies applied do not diminish the degree of exposure with collaterals, do not take into consideration the financial performance of the client

(scoring), do not apply the contagion procedure, and do not take into consideration the criterion of initiating judicial procedures.

Other Implementation Considerations

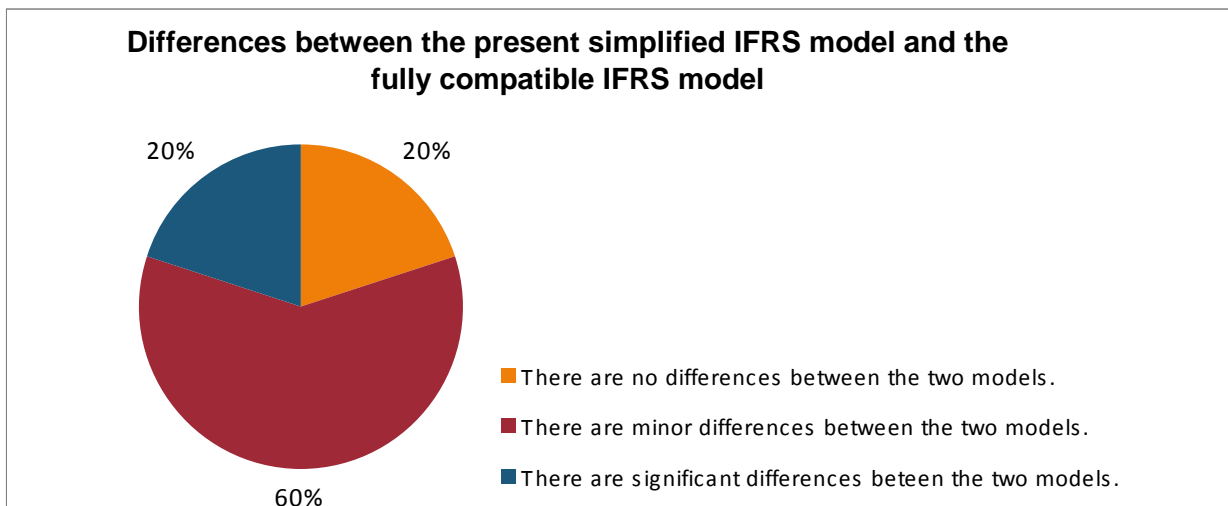
In terms of implementation of IFRS models, Figure 6 shows that 40 percent of the responding banks have already implemented internal models fully compatible with the IFRS with or without the validation of an internal auditor. By end of 2008 70 percent of the respondent banks would have implemented fully compatible IFRS provisioning models. Most of the remaining respondent banks will implement IFRS fully compatible models in the timeframe 2008-2009.

Figure 2



Only 20 percent of the responding banks consider that the fully IFRS compatible models will differ significantly from the currently applied IFRS methodologies (see Figure 3). 60 percent of the respondents consider that only minor differences between the two models will exist, while 20 percent believe that there will be no differences.

Figure 3



Conclusions: By end of 2009 most banks would have implemented fully compliant IFRS models.

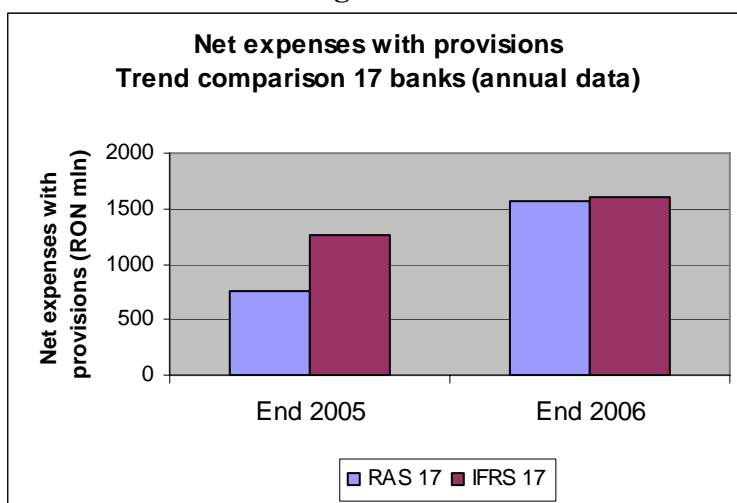
B. Preliminary Impact Discussion

B.1. Flow analysis

Objective: to outline the tendencies registered in the level of RAS and IFRS provisions. In order to determine where the difference between RAS and IFRS come from, banks have also been asked to make a qualitative determination. Both stock (balance sheet) and flow (P&L) have been requested from banks.

Figures 4.a. and 4.b. demonstrate that the **levels of provisions calculated by banks based on Romanian Accounting Standards (RAS) and IFRS were substantially similar in 2006.**

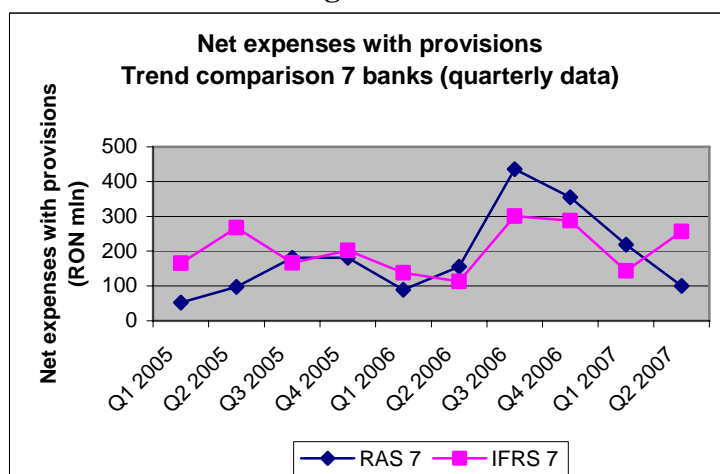
Figure 4.a.



The net expenses with provisions are calculated as a difference between the sum of expenses with provisions for loan losses and expenses with write offs and the sum of the revenues from reversal or cancellation of provisions and the recoveries from amortized claims.

Also, the quarterly data (based on information provided by 7 banks) indicates that while some deviations between the RAS-IFRS levels of provisions can be noticed in both ways – upward and downward, there is a high level of convergence.

Figure 4.b.



Conclusion: IFRS provisioning requirements do not appear to be structurally higher than RAS provisioning requirements, after a period of parallel implementation.

B.2. Stock analysis

Convergence of provisioning expenses has translated into comparable levels of loan loss reserves for banks reporting quarterly calculations (7 banks) and to a narrowing gap for banks reporting annual calculations (16 banks) (see Figures 5.a. and 5.b.).

Figure 5.a.

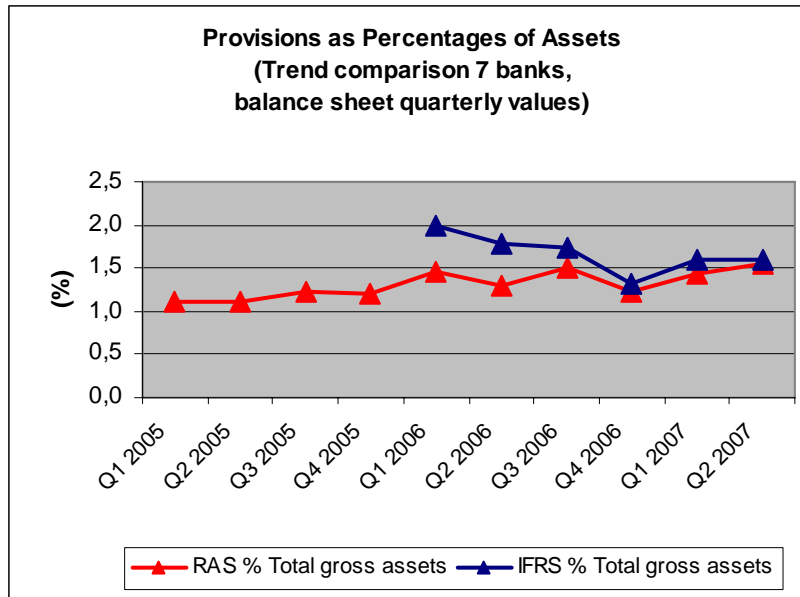
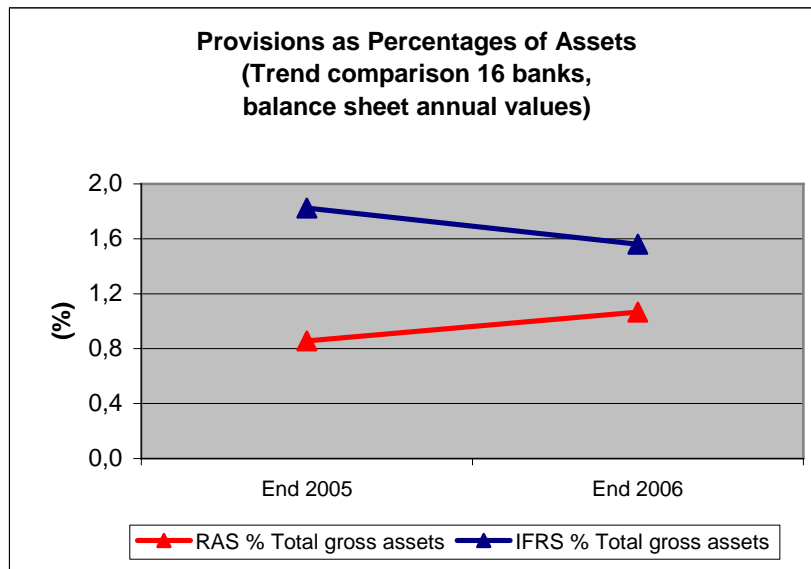


Figure 5.b.



Conclusion: Loan loss reserves are already substantially similar for banks well advanced in applying IFRS provisioning requirements, reflecting single management prudential standards.

B.3. Tighter prudential requirements under RAS

NBR is considering modifying Regulation no. 5 to tighten use of collateral for prudential purposes and also as a transition mechanism towards use of IFRS standards.

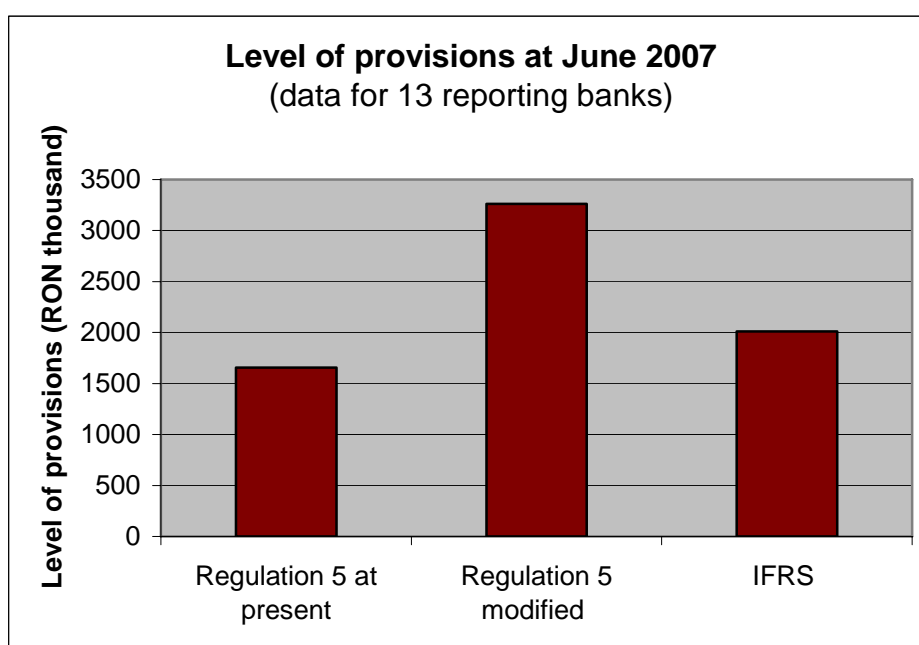
Objective: To analyze impact on loan loss reserves of proposed tightening of prudential requirements on collateral considerations under RAS, banks were asked to simulate levels of provisions determined according to:

- Regulation no. 5/2002 at present;
- Regulation no. 5/2002 modified by taking into consideration the proposed changes on the eligibility of collateral (only liquid and marketable); and
- the proposed IFRS provisioning regulation.

A simulation of the effects of the modification of the current regulation (Regulation no. 5/2002) shows that the level of provisions would increase substantially following the proposed regulation amendment (using RAS). Namely, the level of provisions calculated based on the amended Regulation no. 5/2002 will increase by almost 100 percent (97 percent)¹ on a respondent sample of 13 banks at 30 June 2007.

Compared with the RAS prudential definition of collateral, use of IFRS standards would determine instead a significantly lower provisioning requirement. In comparison, based on the data reported by the respondent sample of 13 banks, the level of IFRS provisions at the same data will increase by only about one fifth (21 percent). Comparative data among the three methodologies are presented in Figure 6.

Figure 6



¹ In order to simplify the simulation, the questionnaire proposed to banks to consider only the mortgages as liquid and marketable collateral. This might have led to an undervaluation of the level of provisions, given that a smaller share of the collateral has been considered eligible (for example, in addition to mortgages banks could have considered cash collateral, bank LGs, etc.).

Conclusion: IFRS accounting standards determine lower provisioning requirements than those available under RAS accounting standards for prudent consideration of collateral (Regulation 5 modified).

B.4. Conclusions

IFRS is spreading quickly. Most banks will have adopted it by 2009. Implementation data shows high level of convergence of provisioning requirements using both RAS and IFRS standards. IFRS principles reflect current sound banking risk management practices. IFRS allows more accurate treatment (e.g., at lesser cost to banks) of tighter prudential requirements than RAS.

C. Estimated Fiscal Impact

Present fiscal rule: At present, banks that are Romanian legal entities are bounded to set up provisions based on NBR Regulation no. 5/2002 (which is based on RAS). The provisions that are set up according to the NBR provisioning rules are considered fully deductible from a fiscal point of view.

New proposed fiscal rule: Banks that will be authorized by National Bank of Romania to calculate provisions based on new IFRS Provisioning Regulation will consider these expenses fully deductible from a fiscal point of view.

Everything else being equal, progressively stricter prudential treatment of collateral under current Regulation no 5 will create larger RAS provisioning for Romanian banks. The total additional provisioning requirement for a sample of 13 banks is estimated to total RON 1.6 billion. The tax revenue loss of this measure for this sample is RON 260 million.

Implementation of IFRS provisioning requirements would allow a substantial reduction in this tax impact. Assuming a parallel introduction of the new IFRS Provisioning Regulation with the modified Regulation No. 5, enforcement of the former would generate higher tax revenues of the order of RON 200 million.

Even in the absence of regulatory changes, based on available evidence it is prudent to assume that bank taxable income will continue to be affected by the ongoing progressive convergence of RAS and IFRS loan loss reserves, determined by risk management considerations. As each bank is deciding its individual pace of convergence, it is hard to estimate an overall tax revenue impact. However, the smaller sample of the seven banks most advanced in IFRS adoption indicates that the tax revenue impact from IFRS provisioning is already insignificant.

Bringing this market-based convergence under a transparent and predictable regulatory framework seems desirable to minimize an adverse impact on tax revenues and to avoid market distortions.

The National Bank of Romania plan to authorize migration to IFRS provisioning after validation of banks internal models seems to be consistent with the minimization of tax revenue volatility – and plausibly with no material impact on planned tax revenues.

Available evidence suggests that 40% of the respondent banks have already implemented full IFRS provisioning. Tax revenue impact will be the highest with banks that have not yet completed this migration to full IFRS-compliant provisioning. An additional 30% of banks plan to complete this migration in 2008 and a further 25% in 2009. It is prudent to expect that the tax revenue impact will be spread over the three-year 2007-2009 period, with a substantial component already reflected in 2007.

In addition, the progressive tightening of Regulation no.5 (three changes in 2007) will have also had a tax revenue impact, reducing the magnitude of the IFRS-related adjustment.

To minimize market disruptions, it is important that banks do not fall behind their stated plans to achieve timely convergence to IFRS provisioning. The planned modification of Regulation No. 5 should take this market trend into account. Enforcement in 2010 would ensure both compatibility with market plans and avoid adverse tax implications.

Conclusion: RAS accounting standards are determining higher provisioning requirements, with a substantial future expected increase. IFRS accounting standards would allow a more precise quantification of provisioning requirements reflecting tighter prudential standards, with a positive impact on taxable revenue. Bank migration to IFRS standards will occur over a three-year period. **A market-neutral tax policy does not seem to have a material impact on tax revenues, based on evidence collected.**

SPI Project on IFRS Provisioning Impact Assessment Questionnaire

Prepared by:

**The NBR-MEF-banks regulatory impact assessment project working group,
with the support of the SPI Secretariat and Convergence**

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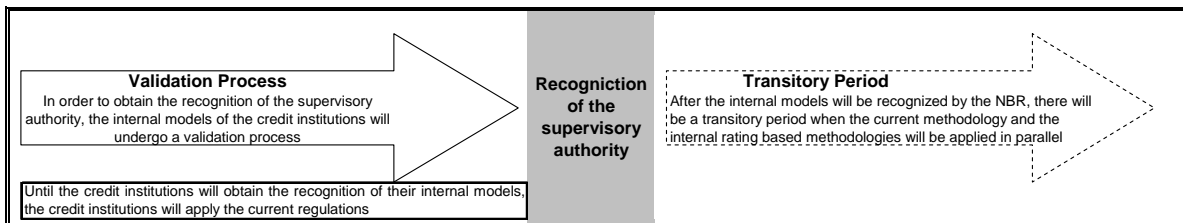
I. Background

The new NBR regulatory framework for provisioning

Under the SPI Project on IFRS Provisioning carried out under the auspices of the public-private partnership for Romania financial sector modernization the working group composed of 14 experts from the NBR, banks and MEF prepared *a set of principles commonly agreed by the relevant stakeholders on a feasible update of the prudential requirements that would meet supervisory objectives and reflect the IFRS standards (see Annex 1)*.

a) The new IFRS provisioning regulations

Based on the new IFRS regulations, to be prepared by the NBR by the end of 2007, the credit institutions could, in essence, develop and apply their own internal models for determining the needed provisions. The process of transition towards the new regulatory framework will include some requirements, as follows:



b) The amendment of the current provisioning regulation

At the same time, NBR will amend the current provisioning regulation (Regulation no. 5/2002 as subsequently amended) to reflect the following changes:

- i) only liquid and marketable collateral will be taken into consideration when determining the necessary provisions
- ii) operations that are fully collateralized with cash deposits will not longer included in the basis for calculating the provisions;
- iii) further classifications of the retail exposures will be only based on the debt service (no longer based on both creditworthiness and debt service).

In order to enable MEF to take a decision regarding the fiscal treatment for loan loss provisions that is going to be applied subsequently to the entering into force of the above mentioned regulations (new IFRS provisioning regulations and the amendments to the current regulation), the SPI Committee decided to launch a survey with banks.

Purpose of the survey

The survey is aimed at estimating the impact of the new regulatory framework on banks' financial statements and on the state budget, in order to enable MEF to decide on the fiscal treatment applicable to provisions under the new NBR provisioning regulatory framework.

II. Impact assessment methodology

Impact assessment is approached along the following table:

Options	Regulatory framework	IA approach per each option
Baseline	Double RAS-IFRS provisioning reporting system	To outline the tendencies registered in the level of RAS and IFRS provisions and to offer indications on the possible evolution of the level of provisions (in particular IFRS provisions, as the RAS provisions may not keep the same patters given the proposed changes in the current regulation). Also, to outline where the notable differences between RAS and IFRS come from, a qualitative determination will be made.
Scenario	Modified Regulation no. 5/2002 and new IFRS provisioning regulations	To outline the levels of the provisions determined according to the new provisioning framework, i.e. a comparison between the level of provisions according to Regulation no. 5/2002 taking into consideration the proposed amendment on the eligibility of collateral and the level of IFRS provisions.

III. Impact assessment procedures

The questionnaire is sent by the NBR on behalf of the regulatory impact assessment project working group.

Responses should be sent to the SPI Secretariat at secretariat@spi-romania.eu and at oana.nedelescu@convergence-see.eu no later than **September 14, 2007**.

Data received will be treated with the utmost confidentiality. Findings will be provided only on aggregate basis.

For any inquiries, please contact Oana Nedelescu at oana.nedelescu@convergence-see.eu, tel. 323-6610.

Please provide the following details for enabling a better communication during the data compilation:

Respondent bank:

Person filling up the questionnaire:

Name:

Title:

Email:

Tel:

III. Impact Assessment Questionnaire

A. Current situation (double RAS-IFRS provisioning reporting system)

A.1. RAS provisioning

A.1. Please provide the following data drawn from P&L and Balance Sheet used for RAS reporting purposes. 2005 figures will be provided based on data availability.

Quarter	Table 1. RAS Reporting (Mln. RON)			
	Table 1.1. Profit and Loss Statement (flows, i.e. items recorded throughout the previous month)			
	Item 1	Item 2	Item 3	Item 4
	Expenses with provisions for loan losses (sum of balances of accounts 661, 662, 6637, 6643)	Expenses with write offs ² (sum of accounts 667 and 668)	Revenues from reversal or cancellation of provisions (sum of accounts 761, 762, 7637, 7643)	Recoveries from amortized claims (account 767)
Q1 05				
Q2 05				
Q3 05				
Q4 05				
Q1 06				
Q2 06				
Q3 06				
Q4 06				
Q1 07				
Q2 07				

² This item is requested to influence the level of expenses with provisions since for write offs provisions are fully utilized and only the expenses with write offs are registered. This will ensure a greater comparability with IFRS figures as IFRS takes into account both on and off balance sheet items.

Quarter	Table 1. RAS Reporting B. (Mln. RON)			
	Table 1.2. Balance Sheet (stocks)			
	Gross value of financial assets considered as depreciated according to the prudential regulations and for which provisions have been set up (according to reporting forms requested by NBR Methodological Norms no. 12/2002)	Write offs according to prudential regulations, but which are continued to be monitored ³ and that will be considered fully provisioned claims (balance account 993)	Gross value of financial assets covered by the prudential regulations (including financial assets for which no provisions have been set up)	Total value of provisions set up according to the current prudential regulations
Q1 05				
Q2 05				
Q3 05				
Q4 05				
Q1 06				
Q2 06				
Q3 06				
Q4 06				
Q1 07				
Q2 07				

³ This item is requested in order to ensure proportionality with the level of expenses determined above (expenses with on and off balance sheet items).

A.2. IFRS Provisioning

A.2.1. With regard to the time span from first Quarter of 2005 up to the second Quarter of 2007, has your bank/group prepared financial statements according to IFRS principles? Please also state if some changes have occurred in sub-periods here considered.

Quarter	Table 2. IFRS Reporting			
	IFRS reporting (please make your choice with "x")		Has your bank modified the IFRS methodology in the stated period? If so, what were the main changes and how they could have affected the level of provisions? (Please explain your answer in the corresponding box below)	
	YES		NO	
	At individual level	At group level		
Q1 05				
Q2 05				
Q3 05				
Q4 05				
Q1 06				
Q2 06				
Q3 06				
Q4 06				
Q1 07				
Q2 07				

A.2.2. Please provide the following items according to IFRS. 2005 figures will be provided based on data availability.

Quarter	Table 3. IFRS Reporting Mln. RON (not audited data may be provided)		
	Table 3.1. Profit and Loss Statement (flows)		
	Expenses with provisions for the depreciation of financial assets	Expenses with write offs	Revenues from reversal or cancellation of provisions
Q1 05			
Q2 05			
Q3 05			
Q4 05			
Q1 06			
Q2 06			
Q3 06			
Q4 06			
Q1 07			
Q2 07			

Quarter	Table 3. IFRS Reporting Mln. RON (not audited data may be provided)		
	Table 3.1. Balance Sheet (stocks)		
	Value of provisions for financial assets' depreciation (balance)	Gross value of depreciated assets	Gross value of all assets that have been tested for depreciation
Q1 05			
Q2 05			
Q3 05			
Q4 05			
Q1 06			
Q2 06			
Q3 06			
Q4 06			
Q1 07			
Q2 07			

A.2.3. If substantial differences are noticed between RAS and IFRS provisions, in your past experience, please try to explain where these stem, by marking in the following table:

Possible causes for differences between RAS and IFRS	Yes			No
	High	Medium	Low	
Quality and structure (retail / corporate) of bank's credit portfolio				
The way in which the bank has defined the indications for impairment				
The way in which collateral has been considered (according to RAS collateral is considered at its market value, while IFRS looks both at the estimated future cash flows from the collateral discounted at an effective interest rate, based on historical information on recoveries)				
The approaches in the application of contagion effects in the collective assessments of impairment				
The proxies that the IFRS model uses in lack of available data on losses and recoveries				
Other reasons (please describe)				

**B. The new provisioning framework
(modified Regulation no. 5/2002 and new IFRS provisioning regulations)**

B.1. – With regard to June 2007, please provide the following data:

		Data by categories of loans				
		Mln. RON				
		June 2007				
	Items	Standard	Watch	Substandard	Dobtful	Loss
A		0	0.05	0.2	0.5	1
B	Outstanding amount of loans					
C	Provisions balance					
D	Collateral (current R5/2002)					
E	Estimated % of non-eligible collateral (amended R5/2002 ⁴)					

* Provisions balance new = Provisions balance old (C) + Total Collateral (D)* Estimated percentage of non-eligible collateral (E) * Corresponding coefficient (A)

⁴ A recommendation for a rough estimate of the liquid and marketable collateral would be the sum of residential and commercial mortgages. Thus, the non-eligible collateral would be all collateral considered according to current Regulation no. 5/2002 minus the sum of residential and commercial mortgages.

Alternatively, depending on the data availability, please provide the following data :

Data by categories of loans Mln. RON June 2007						
	Items	Corporate loans	Retail loans	? (please specify)	? (please specify)	? (remaining)
A	Average provisioning rates					
B	Outstanding amount of loans					
C	Provisions balance					
D	Collateral (current R5/2002)					
E	Estimated % of non-eligible collateral (amended R5/2002 ⁵)					

B.2. Please make an estimation of the time when your bank considers the implementation of fully-compliant IFRS internal models:

The bank estimates that fully-compliant IFRS internal models will be implemented in (please mark with an x):	Already implemented		In 2008	In 2009	In 2010	After 2010
	With auditor's validation	Without auditor's validation				

⁵ A recommendation for a rough estimate of the liquid and marketable collateral would be the sum of residential and commercial mortgages. Thus, the non-eligible collateral would be all collateral considered according to current Regulation no. 5/2002 minus the sum of residential and commercial mortgages.

B.3. – If you have answered questions A2, please rate how different new IFRS provisioning regulations will be as compared with the IFRS principles that your bank has referred to so far:

- a. No relevant difference
- b. Yes, minor difference
- c. Yes, relevant difference

d. if you have chose 'c', please describe through which main aspects the difference will impact on the balance sheet

Annex 1.A

The general principles for the new IFRS provisioning regulations

Principle 1. “The provisioning regulatory framework reform will be fully compliant with international accounting standards (IFRS), so only minor prudential adjustments or supplemental clarifications will be additionally considered”.

Principle 2. “The new provisioning regulatory framework will include two streams, namely:

2.1. the “accounting” stream, which will entail the transposition of the IFRS principles pertaining to loan loss provisioning;

2.2. the “supervisory and validation” stream, which will provide guidance for the development of banks’ IFRS internal models and will outline the principles for the validation of these models”.

Principle 3. “Banks will decide whether to develop their own IFRS internal models and submit them for NBR validation; in the meantime they will continue to apply the current provisioning framework, with some amendments. Nevertheless, NBR will require the application of the current provisioning regulations to banks until their internal models are recognised and during the transitional period of three years after the IFRS internal models are recognized.”

Principle 4. “During the transitional period of three years, when the current provisioning methodology and the IFRS internal models based methodologies will be applied in parallel, the provisions that banks will set up will not be lower than a level determined as a proportion from the needed provisions, calculated according to the current methodology. This proportion will be gradually reduced over the transitional period”.

Principle 5. “Ministry of Economy and Finance will consider the tax deductibility of the provisions resulting from the reform under the following considerations:

- a) technical adequacy and robustness of the projected regulatory framework;**
- b) budget considerations”.**