

„BABEȘ-BOLYAI” UNIVERSITY

CLUJ-NAPOCA

Faculty of Economic Sciences and Business Management

PhD THESIS

ANALYSIS OF FINANCIAL ACTIVITY IN THE CREDIT COOPERATION OF ROMANIA

-SUMMARY -

Scientific coordinator:

Prof.univ.dr. **Ioan BĂTRÂNCEA**

Ph D student,

Morar Adrian Ioan

CLUJ-NAPOCA

2009

„BABEȘ-BOLYAI” UNIVERSITY

CLUJ-NAPOCA

Faculty of Economic Sciences and

Business Management

Mr. (Mrs.) _____

We hereby inform that on _____, hour _____, in the hall of the Faculty of Economic Sciences and Business Management of Cluj-Napoca, 58 – 60 Teodor Mihali Street, **Mr. Morar Adrian Ioan** shall present his PhD thesis called “Analysis of the Financial Activity in the Credit Cooperation of Romania, in public session, in view to obtain the scientific title of “Doctor of Economic Sciences”.

The committee for the presentation of the PhD thesis consists of :

President _____

PhD Supervisor _____

Official referents _____

On this occasion, we hereby enclose the thesis summary and hereby invite you to participate in the public session of the presentation of the PhD Thesis.

RECTOR,

Contenst

INTRODUCTION	5
KNOWLEDGESTATUS	8
1 ST CAPTER. THE CO/OPERATIVE CREDIT SISTEM – TRADITION, EVOLUTION, PERSPECTIVES	11
1.1. Credit cooperation – short historical retrospective	11
1.2. The credit cooperation between the etatised economy and the functional market economy	17
1.2.1. Evolutions of the credit cooperation in the etatised economy	17
1.2.2. The credit cooperation in the market economy	28
1.3. The co-operative banks in the European Union	34
1.3.1. European evolutions of the credit cooperation	34
1.3.2. Importance and characteristics of the co-operative banks in Europe	40
1.3.3. Current proccupations of the European co-operative banks. Characteristics and prticulars	46
1.3.4.The European Association of the co-operative banks	49
2 nd CHAPTER. STRATEGIES AND POLICIES OF THE CENTRAL CO-OPERATIVE BANK IN THE CONDITIONS OF RISKS AMPLIFIED BY THE FINANCIAL CRISIS	57
2.1. General description of the risk concept	57
2.2. Definition and classification of banking risks	59
2.3. Risk in the lending process. Cenceptual presentation	70
2.4. Strategy of the implementation of the New Basel II Capital Accord within the CREDITCOOP network	74
2.5. Evalution of significant risks in crisis conditions. Presentation of the crisis scenatio	81
2.6. Crisis scenatios for the risks manifested in the region NORTH-WEST of Romania	84
2.6.1. Consequences of the manifestation of the credit risk	84
2.6.2. Consequences of the manifestation of the liquidity	90
2.6.3. Consequences of the manifestation of the risk of interest rate	102
2.6.4. Consequences of the manifestation of the operational and reputational risks	107
2.7. Crisis scenarios for the risks manifested in the NORTH-EAST and SOUTH-EAST regions of Romania	111
2.7.1. Consequences of the manifestation of the credit risk	111
2.7.2. Consequences of the manifestation of the liquidity	116
2.7.3. Consequences of the manifestation of the risk of interest rate	131
2.7.4. Consequences of the manifestation of the operational and reputational risks	135
2.8. Policy of the CREDITCOOP Central Co-operative Bank regarding the riskc management	139
2.9. The risk profile within the CREDITCOOP network	143
2.10. Short term risk management strategy. Necessity, purpose and principles	144
2.11. Risk profit relation within the CREDITCOOP network	149
2.12. Significant risk levels within the CREDITCOOP network	155
2.13. Strategy of the Central Co-operative Bank regarding the capital maintenance	156
2.13.1. Stress test within the CREDITCOOP network	160
2.13.2. Stress test within the Central Co-operative Bank	161
3 nd CHAPTER. MODALITIES OF ANALYSIS OF SIGNIFICANT RISKS AT CREDIT COOPERATIVE ORGANISATIONS	164
3.1. Identification, monitoring and management of significant risks the agencies of the Central Co-operative Bank	165
3.1.1. Analysis of the credit risk based on an indicators system	165
3.1.1.1. Analysis of provisions specific to the credit risk interest risk	165
3.1.1.2. Classification of the credits portfolio on the level of the agencies of the	

Central Co-operative Bank	186
3.1.1.3. Analysis of the credit risk based on certain specific indicators	192
3.1.2. Analysis and evaluation of the risk of interest rate	203
3.1.3. Analysis and evaluation of the liquidity risk	212
3.1.4. Conclusions resulted from the analysis and evaluation of the risk indicators with the agencies	216
3.2. Identification, monitoring and management of the significant risks at the co-operative banks wirhin the CREDITCOOP network	220
3.2.1. Analysis of the	
3.2.1.1. Analysis of the credits provisions of credit and interest risk	222
3.2.1.2. Analysis of the credits portfolio	222
3.2.2. Analysis of the market risk	228
3.2.3. Analysis of the liquidity risk	238
3.3. Large exposures within the credit co-operative organisations	241
3.4. Exposure classes for the determination of the minimal capital requirements	252
4 nd Chapter. ANALISIS OF THE ACTIVITY OF THE CREDIT CO-OPERATIVE ORGANISATIONS	261
4.1. Analysis of the lending activity at the co-operative banks	262
4.2. Analysis of the financial performance of the credit co-operative societies	265
4.3. The CAMPL system regarding the rating of the co-operative banks	269
4.3.1. Characterisation of the structure of the compound rating	271
4.3.2. Rating of the co-operative banks of Romania	274
4.4. Rating system and risk profile of the co-operative banks	283
4.5. Analysis of the activity of CREDITCOOP network based on a system of indicators ...	291
4.5.1. Analysis of the banking activity the help of the economic indicators	299
4.5.2. Analysis of the banking activity the help of the prudence indicators	306
4.6. Analysis of banking solvency	308
4.6.1. Analysis of the solvency of the credit co-operative organisations	309
4.6.2. Particulars of the personal funds and capital requirement at the credit co-operative organisations	317
4.7. Banking surveillance – method of improvement of the management of the credit co-operative organisations	325
4.7.1. Regulation of the banking activity in Romania	325
4.7.2. Surveillance process in the banking system	325
4.7.3. Surveillance mechanisms of the Central Co-operative Bank	331
4.8. Specific risks of the Central Co-operative Bank	335
4.8.1. Activity risks	335
4.8.2. Business risks	336
4.8.3. Control risks	339
4.9. Evolutions of the implementation of the information programs in the activity of the co-operative banks	346
4.9.1. Particulars of the SICOC software application	348
4.9.2. Implementation of the new SIBANC software application	351
CONCLUSIONS	360
BIBLIOGRAPHY	370
LIST OF FIGURES	376
LIST OF TABLES	378
LIST OF ENCLOSURES	383

The PhD thesis “Analysis of the financial activity in the credit cooperation of Romania” is the result of the theoretical preoccupations and experience achieved in the field of the credit cooperation.

This paper has as purpose to emphasize the particulars of the analysis of the financial activity in the credit co-operative organisations respectively at the personal agencies of the Central Co-operative Bank and at affiliated co-operative banks.

The purpose of this research theme is the one to make available to the interested persons a less mediatised field both in the specialty financial banking literature and for the research and didactic activity.

As it results from the thesis contents, a large part of it has been assigned for the analysis of the activity throughout the risks undertook by the co-operative banks and the Central Co-operative Bank in their activity.

We consider that the elected research theme shall represent a challenge both for the financial analysts and for the employees of the banking field and may be guide for the economical financial analysis, the management of the financial crisis and for the management of the significant risks in the banking field.

The theoretical and practical premise of the elected research theme is the fact that in the context of the application of the principles of the New Basel II Capital Accord, the economic-financial analysis and the activity of significant risks management and especially of the financial risk gets a special meaning for the credit co-operative organisations and by assimilation in any other related field.

This way, the economic analysis of the activity of the credit co-operative organisations achieved a major importance first for the ones directly involved in the system of the credit co-operative organisations but in the same time presents importance also for the ones generally interested in the knowledge of the banking system and for didactic interest or research and knowledge.

Starting from 2002 since they entered under the surveillance of the National Bank of Romania, the role, place, importance and mediatisation of the credit co-operative organisations witnessed new dimensions in the Romanian financial banking scenery and the recognition as business partners with credibility as banking partners and both for the non banking ones has been achieved with special material and human efforts.

The tradition of the co-operative banks of over 150 years, should have been confirmed also by the enhancement and consolidation from their organisational and financial point of view, that has been possible through many restructurations and re-organisations in the last years, mainly due to the repeated legislative modifications and requests of the norms and regulations of the National Bank of Romania.

The opinions and debates of different specialists, experts and practitioners in the field of co-operative banks have offered a huge documentary material, especially to get acquainted with the historical evolution and also from the point of view of operation and legislation that governed them.

But, it is noticeable the fact that for the last decades in the specialty literature, there is no express reference and no didactical paper that presents the evolution of the operational manner, of the activities developed and of the legislative system of the co-operative banks, and by the way in which I have structured and analysed the content of this paper, I have tried to emphasize the novelty and the particulars of this type of credit institution, represented by the credit co-operative organisations.

The new context of the application of the principles of the New Basel II Capital Accord implies the existence of a complex of factors influencing the activity of the co-operative banks in their operational areas, and the knowledge and efficient management of their influence represent an essential condition of the success in the activity, of the reduction of non performance and increase of the economic efficiency and avoidance of frauds in the activity.

The determinant factors of the Romanian economy related on transition and integration, offer important opportunities for the increase of the activity, of the performances, for the achievement of financial equilibriums and imply important risks in the activity also for the co-operative banks even if less than for the commercial banks.

And to accept the fact that at the credit co-operative organisations, the risks are easier to control than in other banks, in this thesis I have presented particular aspects of the activity of this type of credit institution by which I have tried to emphasize the characteristics of such credit institution.

Therefore, the co-operative banks can not operate in any way, they are obliged to affiliate to the Central Co-operative Bank because such banks have to be represented, supervised, controlled and financially and logistically supported by the Central Co-operative Bank.

Also, it is necessary to be provided banking services of electronic settlements, the internal norms and regulations based on which, they perform their activity and also the necessary software applications.

The co-operative banks together to the Central Co-operative Bank are part of a co-operative network whose operation is provided by the Law nr.99 of December 6, 2006.

A co-operative bank is a credit institution established as an autonomous association of individuals voluntarily united for the purpose of fulfilment of their common needs and aspirations. The bank is organised on a personal operation territorial area established by the articles of association, in which the bank can set up branches (secondary locations). It comprises determined areas in the county where the credit co-operative organisation has its headquarters and the limitrophe counties.

The share capital of a co-operative bank is variable and made of equal value shares, and the nominal value of a share is established by the articles of association, but, in compliance with the law, it can not be lower than lei 10.

A co-operative bank can be established with a minimum number of 1000 founders member who have subscribed and paid up at least a share or a number of at least 100 co-operative members, under the condition that such members subscribe and pay up minimum 1000 shares.

The operation territorial areas of the co-operative banks affiliated to the same co-operative bank can not be interdependent and the activities for which they have received operation license can be perform only in its operation territorial area.

The co-operative banks can not participate in the share capital of a trade company, can not make investments in securities issued by investments funds, can not issue bonds.

The Central Co-operative Bank has an operation area that includes at least the operation areas of the co-operative banks affiliated to it, can be established with a minimum level of the aggregated capital of the network established by regulations of the National Bank of Romania.

The share capital of a central bank is variable and made of equal values shares, and each of the affiliated co-operative banks has to subscribe and pay up shares with the value of minimum 20% of their share capital to the share capital of the Central Co-operative Bank.

The personal activities of a Central Co-operative Bank are similar to the one of a commercial bank, but the credits granted to the legal persons, other than the co-operative banks can not exceed 20% of its assets.

The credit co-operative organisations from the CREDITCOOP network participate in the Bank Deposit Guarantee Fund and further more the Central Co-operative Bank totally guarantees the bonds of the affiliated co-operative banks having in such purpose established the mutual guarantee reserve based on the contributions of the affiliated co-operative banks and on a quota from the gross profit of the Central Co-operative Bank.

Considering the above mentioned particulars and in order to better support the issue of the financial analysis in the system, the PhD thesis has been structured on 4 chapters starting from the necessity of getting acquainted with the historical retrospective on the evolution of the Romanian co-

operative credit system, continues with strategies and policies of the Central Co-operative Bank under the conditions amplified by the financial crisis and with the presentation of some modalities of analysis of the significant risks and finally, it is done a analysis of the activities of the credit co-operative organisations throughout a system of indicators.

The first chapter called “The Co-operative Credit System- Tradition, Evolution, Perspectives” approaches, basically the evolution of the credit co-operative organisations from the point of view of their organisation, legislation under they have operated, with different denominations, respective, credit co-operative companies, credit and economy co-operative companies, popular banks etc.

I have emphasised the way of organisation and operation of such units, their way of subordination toward the county organisations and the central ones, and also the way in which the state is involved in their activity. Also, I tried to mark the periods of evolution and involution of the co-operative organisations during their existence.

From the content of the first chapter, it is noticed that the co-operative organisations have been, along their history, a permanent support for their members and especially for cultivators, that for the most part of their existence, they developed throughout personal forces, with personal resources and only in certain periods they have been supported and sustained by the state.

During the time, the co-operative organisations have not been exempted from injustices and abuses from the state, fact for which, there were periods in which they did no longer operate, being put in liquidation and then re-established under any other denominations or as distinct activities in certain services or departments within banks with state capital existing along time.

The co-operative organisations had to bear including an unjust way of liquidation in 1948 as a measure of the state from that rime, when the patrimony of the banks in liquidation, passed abusively to the Central Organisation of Consume Co-operative Organisations in stead of be re-allocated to the members.

The life has demonstrated that the liquidation of the credit co-operative organisation of that time let a huge emptiness in the villages world letting the population without possibility of borrowing.

For these reasons in 1954 the credit and economy co-operative organisations have been re-established pursue to the Decree n. 455 of December 10, 1954 within the Agricultural Bank with the scope of financing the investments in agricultural field. The statutory fund of the Agricultural Bank has been formed by the participation of the state and of the credit and economy co-operative organisations.

In this chapter, I have granted a special attention to the issue of the credit co-operative organisations, after 1960, when in the specialty literature, there are less data and information reflecting aspects of the way of organisation and operation of this type of organisations.

Since their re-establishment, respectively since the year 1955, the credit co-operative organisations had an ascending evolution in the organisational and financial plan due to the utility they proved in the support of the associated members with loans and other different services done.

On June 30, 1968, it has been reached the number of 1013 credit co-operative organisations in operation, where, 1,762,200 members were registered, and at the beginning of 1971, the total number of the credit co-operative organisations was of 930 units out of which 761 in the rural area and 169 in the urban area, they reducing due to their merging.

In the years 1970 – 1980, the activities of mandate have been developed, activities performed by the credit co-operative organisations in the rural area, for the CEC (Savings Company) and namely, deposits and returns of amounts on CEC savings bank book, sales and purchases of CEC bonds etc. Also, the operations in mandate for ADAS and Loto-Pronosport increased.

On central plan, in 1973, a “Central Committee of the Credit Co-operative Organisations” has been established as representative national body, with legal personality made of representatives of the credit co-operative organisations and county committees and of representatives of Centrocoop, that has been a new start in the activity of representation, co-ordination, support, control and inspection to the credit co-operative organisations.

Furthermore, in the 1st chapter, I have approached the modern legislation of the credit cooperation after 1989 and the most important moments that have marked the evolution of the credit co-operative organisations, respectively: the Decree Law 67 of 1990; O.U.G. nr.97 of 2000; Law 200/2002 for the approval of O.U.G. 97/2000.

In 1990, after a long period in which the activity of the credit co-operative organisations had no personal legislation, it was felt the need of a regulation, reason for which in 1990, the Decree Law nr.67/1990 regarding the organisation and operation of the consume and credit cooperation has been promulgated. In the respective period, the credit co-operative organisations had performed their activity separately from the consume co-operative organisations.

The more accelerated development of the credit co-operative organisations imposed the elaboration of a new legislation of their operation, fact that has been achieved in 1996 by the apparition of the Law nr.109/1996 regarding the organisation and operation of the consume cooperation and the credit cooperation, organic law, by which the credit co-operative organisations got back the denomination of “popular banks” . Accordingly to this law, the system of the credit cooperation operated on three organisational levels, respective the credit co-operative organisations associated on the county level in territorial houses, and these on national level, in the House of Credit Co-operative Organisations - CREDITCOOP.

Although, this law has created a better and more clear institutional frame than the previous one, it still had certain shortcomings, among which, we consider that the biggest was the one of non obligation of the affiliation of the credit co-operative organisations to a central authority that ensures a proper control and surveillance.

Due to such inconvenience, during the period 1997 – 1998, several independent popular banks, self called also “credit co-operative organisations” appeared, that have took advantages from the imperfections of the legislative system, failing to comply with the co-operative principles and eluding the share capital margin provided for the commercial banks, started to develop unauthorised banking activities. Their number quickly increased and their estimated number exceeded a couple of hundreds, their exact number being unknown.

Although, with delay, a measure has been taken to stop the proliferation of such institutions, that were not operating within an authorised, regulated and controllable system, this occurred in September 1999, when, with a Governmental Decision, it has been forbidden the establishment of new credit co-operative organisations till a new legislation.

Subsequently, in 2000, an Emergency Governmental Ordinance has been adopted, that was regulating the activity of the credit co-operative organisations, and that, after a series of amendments, has been approved by the Parliament of Romania in 2002. By this law, it has been granted the possibility to the National Bank of Romania to authorise, regulate and supervise the banking activity performed by the credit co-operative organisations.

Essentially, the law was providing the operation of the credit co-operative organisations in networks, made of a central house, its branches, and also credit co-operative organisations affiliated to the central house. Each credit co-operative was able to chose a central house to which to affiliate, and for the establishment of a central house, minimum 50 credit co-operative organisations were needed.

It is noticeable the fact that in 2000, the authorisation process has been initiated, process that provided three steps extended on a 2 years period, 10 credit co-operative networks and at the end, respectively in the autumn of 2002, the sole authorised network by the National Bank of Romania was the co-operative network- CREDITCOOP. It consisted of the Central House, together with its 21 agencies and 547 affiliated credit co-operative organisations, with 375 working points – their secondary locations, where more than 750,000 members were associated.

During the period 2002 – 2004 took place an ample process of merging following which, from 565 credit co-operative organisations, 124 resulted, ensuring this way better conditions for their development, premises for the obtaining of certain banking prudence indicators situated between the

limits provided by the regulations en force have been created and the concentration of the act of decision to an absorbing unit with a proper management has been achieved.

The month of September of the year 2008 meant the finalisation of a new merging process following which, the number of co-operative banks diminished to 51 and most of the absorbed co-operative banks became agencies and branches of the absorbing co-operative banks. Most of the co-operative banks existing at the end of 2008 was operating at the level of a county being able to affirm that they are real regional banks and performs most of the banking operations that any credit institution is developing.

In 2006, the Romanian Government adopts the Emergency Ordinance regarding the credit institutions and the capital adequacy that distinctively contains also regulations specific to the credit co-operative organisations and by which the credit co-operative organisations receive also the denomination of co-operative banks following the recognition of the remarkable progresses of the last years.

Other part of the first chapter has been dedicated to the presentation of the co-operative legislation in the European Union, presenting both legislative aspects and legal characteristics of the statutes.

I have emphasised the fact that the European co-operative banks present three basic characteristics: they are governed by the principle one man, one vote; they follow objectives other than the profit maximization and have a capital base represented mostly by an endowment without final owners.

Meanwhile the basic characteristics of the co-operative banks remained unchanged, although the essence of the co-operative banks changed quite enough in the last years. The four associated changes are especially relevant: the co-operative banks grew up; have been organised much more in networks and became to engage themselves in a large variety of activities other than the traditional intermediation.

I have also presented some arguments and I shall further present others, suggesting that the cooperative banks are more stable than the commercial banks and generally they positively contribute to the stability of the financial systems.

Today, the co-operative banks represent more and more a structure of complex property imitating the organisational models of the commercial banks. The co-operative banks hold superior capital values and the gains on this capital are often inferior to the average from industry. This leads to critics that the co-operative bank holds capital that should be used somewhere else in economy and the

co-operative organisations hold an incorrect advantage on their competitors because they need to reach inferior levels of profitability.

This difference in performance can be explained due to the distinct structure of property undertook by co-operative organisations compared to the companies of stockholders. The co-operative banks accrue capital by project, because their original object was to defeat a capital crisis for their elected activities. In addition, the opportunities to manage capital inside and outside are often limited for a co-operative organisation that may be forced to operate under statutes and regulations ordering how the capital has to be managed. The capital property is also uncertain: the former, present and future members have all a request. Finally, the co-operative banks base on the internal capital for strategic investments, meanwhile the commercial banks have a large access to pick up additional funds, for example, by issuing stocks.

Following their origins from the rural zones, more co-operative banking networks enjoy a significant market quota in their local business and often the biggest regarding the number of branches or office locations in their local market. A critic of the co-operative banks is that they store an unjust advantage from their inheritance networks: as “sole branch in the city” in certain cases, the co-operative organisations enjoy a position close to the monopolies on the local markets that are too expensive to compete.

There is nothing to impede the new arrived commercial candidates to open branches if there over normal profits can be achieved. The last decade saw a rebirth in building branches in certain markets where new forms and technologies brought a large reduction in the investment of fixed costs to establish a branch. Some co-operative banks responded also to it throughout their additional extension – for example, Credit Mutuel in France has extended the branches networks since 2002.

If we consider as general consideration criteria, the general business model, respectively, the geographical coverage, the stocks listing, the attitude toward the member quality with reference to the strategy of the member quality, the profit redistribution, capital contributions, we can draw a conclusion on the characteristics and particulars of the co-operative banking activity subsequently using a clarifying table model.

Characteristics and particulars of the European co-operative banking activity

	From traditional....to untraditional
General business model		
Business mix	Some banks obtain however over 95% from their income from retail internal business	Others obtain over a third from their income from untraditional (namely, non-retail business)
Geographical coverage	Some banks operate only on	Other obtain a quarter from

	their internal market	their income abroad
Stocks listing	Some banks are strongly against the displacement toward a co-ownership model	Others expose a hybrid model, listing parts of their organisation
Attitudes toward the member quality		
Strategy of the member quality	Some banks are fighting for making each client a member	Others do not actively recruit the members
Profit redistribution	Some banks pay a standard dividend standard	Other distribute profits based on loyalty schemes or throughout promotional products and services
Capital contributions	Some banks give huge importance to the property right and to responsibilities	Other do not request their members to hold a business share
Adherence to co-operative values		
Local bank autonomy	Some primary banks have discretion in taking the personal decisions regarding the prices, risk undertaking etc.	Others have to follow the central directives on most of the issues
Investments in local communities	Some banks do not have a good general view of their activity, they are not very strategic regarding the costs and benefits etc.	Others are very transparent regarding their sponsorship, publish a report on the costs and annual activities etc.
Education and preparation	Some banks spent over the medium amounts for the preparation of their personnel, etc and accentuate their co-operative nature in all the communications	Other are not different from the commercial banks in this field

In the last part of the first chapter I have presented the European Association of the Co-operative Banks, that represents the interests of the associated co-operative banks and mediates the collaboration relationships between the member organisations and represents the interests of the co-operative banks of the 23 member states and makes a lobby with the bodies of the European Union for the legislation in the field accordingly to the specific and particulars of the co-operative banking system.

I have considered for a good comprehension of the evolution and tendencies of the European co-operative credit, that knowing the positions expressed by the officials of the European co-operative banks and also by officials of the European union that I have noticed in the annual meetings of the European Association of the Co-operative Banks at Brussels has a significant interest.

I have retained as very pertinent point of view the position of the president of the National Confederation of the Mutual Credit of France who has affirmed that “ there was a period in which the co-operative banks were ignored or attacked. Rarely, it happened that they have been treated as such, as a bank with special identity that is respected. But, we have to admit and accept that the co-operative banks can not be subject of the same regulations as the commercial banks regarding the way of organisation, profitability, etc.”.

The second chapter of the PhD thesis has been called “Strategies and policies of the Central Co-operative Bank in the conditions of the risks amplified by the financial crisis”.

In this chapter I have proceeded to the general description of the risk concept, to the definition and classification of the banking risks and I have insisted more on the lending risk as the main component of the risk of the credit institutions.

I have also presented the strategy of the implementation of the New Basel II Capital Accord at the level of the CREDITCOOP network. The most important modification brought by Basel II was the passing from the idea of norms to the one of principle. The principle is assimilated with the syntagm “reduction of the speed up to the limit of avoiding any danger”. There will appear in the regulations more and more expressions such as: you should have a proper management”, or “you should have a satisfying data system that identifies, measures and manages the risks”.

It means that in a developed bank with different activities, more complicated procedures shall be needed. Basel II representing a better application on the risk of each credit institution.

The major impact zones of the Basel II Accord and the difficulties of the implementation of the capital accord also at the level of the co-operative banks were related on:

- Recalculation of the capital reserves
- Increase of investment requirements
- Complexity and costs of implemented processes and systems
- Necessity of specialisation of the personnel managing it
- Increase of the distance between the financial leaders present on the market, increasing the competition and the distance between the big banks, sophisticated in portfolio and the small banks on the market.

Conditioned by the data integrated, the risk analysis, the correct estimation of the risk, compliance of the banking institutions with the Basel II recommendations depended mostly on the efficiency in the IT departments organisation.

“The first method of calculation of the capital requirements for the credit risk – standardised approach- has been elected to be implemented since 2008 by the Central Co-operative Bank. Thus, a capital level for this risk has been calculated by the application of a percent of 8% on the exposures risk weighted value.

In view of calculation of the capital requirements for the operational risk, Creditcoop has chosen to apply the method of the basic indicator, being to hold for the operational risk a capital equal to 15% from the gross average income from the last three years of activity, respectively 2005, 2006 and 2007”.

The mission of CREDITCOOP is to administrate the operational risk in such manner to equilibrate the avoidance of financial losses and the affection of the reputation of the Central Co-operative Bank and of the affiliated co-operative banks, under the costs control maintenance.

The calculus of the capital requirements for the market risk is not applicable on the network level due to the fact that the activities regulating within such risk are not momentary developed within Creditcoop.

In order to respond to the requirements of the implementation of the Basel II Capital Accord, the Central Co-operative Bank had to elaborate and submit to the approval of BNR the following regulations:

1.Norms regarding the determination of the minimal capital requirements for the credit co-operative organisations within the network;

2.Norms regarding the treatment of the credit risk for the credit co-operative organisations within the network

3.Norms regarding the large exposures inside the credit co-operative organisations within the network;

4.Norms regarding the techniques of diminishing the credit risk inside the credit co-operative organisations within the network;

5.Norms regarding the capital adequacy of the credit co-operative organisations within the network;

6.Norms regarding the technical criteria on the organisation and treatment of the risks within the credit co-operative organisations;

7.Norms regarding the determination of the minimal capital requirements of the credit co-operative organisations for the operational risk;

8.Norms regarding the minimal publishing requirements for the credit co-operative organisations.

As we have estimated since the fall of 2008, the economic crisis should have repercussions also on the CREDITCOOP network in the years 2009 and 2010, by an important diminishing of the profits, for one part due to the increased interests where resources are being attracted and for the other due to the increase of provisions for the credit risk, and the lending level was depending on the capacity of resources attraction.

In such conditions for the evaluation of the risks with which the CREDITCOOP network should have faced during the year 2009, crisis scenarios emphasising the significant risks and the way in which by their mutual influence the estimated profit can be significantly affected were had in view.

Also, it has been followed the emphasising of the influence of the crisis scenarios on the estimated personal funds.

Having in view that the different risks to which the CREDITCOOP network may be exposed in 2009, are not mutually excluding, on the contrary, due to the economic context, they can influence one to the other, the construction of the crisis scenarios for 2009 has been done by taking into consideration the possibility that once manifested a risk, it should determine the manifestation of other risks. This way, it has been followed the effect that the concomitant manifestation of multiple risks could have on the estimated results of the CREDITCOOP network.

In order to quantify the banking risk, the reference point report representing a reference level and that can be used as standard in the analysis was needed. The reference point we had in view was represented by the estimated profit throughout the income and costs budget for 2009. By reporting to the estimated profit, the risk signifies the possibility of modification toward it.

In the elaboration of the crisis scenarios on the level of the CREDITCOOP network, there have been used both the Incomes and Costs Budget for 2009 and different situations based on the achievements related on the November 2008.

In order to elaborate crisis scenarios to be considered as starting point and as base for the scenarios construction, the concrete activity of the credit co-operative organisations within the CREDITCOOP network, the volume of debentures and debts related on each country region has been submitted for analysis, as follows:

Volume of debentures and debts of co-operative banks on geographical regions

REGIONS	DEBENTURES – NOVEMBER 2008	DEBTS REGARDING THE NON FINANCIAL CONSUMERS
---------	----------------------------	---

	TOTAL DEBENTURES - NON FINANCIAL CONSUMERS – TO THE NET VALUE (% OF THE TOTAL)	TOTAL DEBENTURES - NON FINANCIAL CONSUMERS – TO THE NET VALUE	LIQUIDITY, DEPOSITS, DEPOSIT CERTIFICATES AND SAVINGS BANK BOOK (% OF THE TOTAL)	LIQUIDITY, DEPOSITS, DEPOSIT CERTIFICATES AND SAVINGS BANK BOOK
BUCHAREST	3.14%	16,356,611	6.57%	28,704,939
CENTRE	13.89%	72,280,763	14.28%	62,356,077
NORTH EAST	17.68%	92,025,989	15.58%	68,008,512
NORTH WEST	20.69%	107,676,478	19.59%	85,541,391
SOUTH	13.02%	67,762,776	11.62%	50,749,875
SOUTH EAST	12.48%	64,976,384	13.71%	59,852,044
SOUTH WEST	10.57%	55,007,073	9.62%	41,982,985
WEST	8.54%	44,461,763	9.03%	39,443,811
Total	100.00%	520,547,836	100.00%	436,639,633

Set of crisis scenarios for the risks manifested in the NORTH WEST region

As we can notice, the North West is the region in which most of the activities developed with the non financial consumers is concentrated, due to this reason, the first set of crisis scenarios we have suggested has in the view the following:

- determination of the consequences of the manifestation of a credit risk in the North West region;
- determination of the consequences of the manifestation of a liquidity risk in the North West region generated by the consequences of the manifestation of the credit risk in the same region;
- determination of the consequences of the manifestation of a risk of the interest rate in the North West region due to the acute need of attraction/purchase of liquidities following the manifestation of the liquidity risk;
- determination of the consequences of the manifestation of an operational risk in the same region under the conditions in which the other significant risks already manifested.

In the crisis scenario for the credit risk, the probability of entering in payment incapacity in 2009 for the category of clients with contracted credits and registration in an inferior classification category have been considered. The debentures related to the non financial consumers from the North

West represented at the end of November 2008, about 20% of the total of the debentures registered in the credit portfolio of the CREDITCOOP network.

In order to calculate the influence of this scenario on the profit and on the personal estimated funds has been achieved the integration of the provisioned balance for the year 2009 of the credits assigned to the clients in the 5 classification categories (standard, under observation, substandard observation, doubtful and loss). Because it was not exactly known how the credits in 2009 should be classified, the integration on classification categories has been done based on the credits classification at the end of the last concluded month, respectively at the end of November 2008.

The application of the crisis scenario that provides the situation in which 20% of the credits granted to the clients registered in each category of classification are entering in an inferior classification category:

CLASSIFICATION CATEGORIES	Estimation 2009	Declassification accordingly to the scenario		
		20% of the estimation for 2009	Declassification	
	1	2 = 1*20%	Calculus method	result
STANDARD	562,897,822	112,579,564	col. 1 rd 1 - col. 2 rd 1	450,318,258
UNDER OBSERVATION	11,024,610	2,204,922	col.1 rd 2 + col.2 rd 1 - col.2 rd 2	121,399,252
SUBSTANDARD	8,980,948	1,796,190	col.1 rd 3 + col.2 rd 2 - col.2 rd 3	9,389,681
DOUBTFUL	2,672,302	534,460	col.1 rd 4 + col.2 rd 3 - col.2 rd 4	3,934,031
LOSS	4,923,894	138,346	col.1 rd 5 + col.2 rd 4	5,458,354
TOTAL CLASSIFIED CREDITS	590,499,576	117,253,482		590,499,576

Following the declassification accordingly to the crisis scenario shall be continued with the calculation of the provisions requirement related on this situation:

CLASSIFICATION CATEGORIES	Classification of the credits balance at the end of 2009, after the application of the crisis scenario	Provision coefficients	The provisions requirements at the end of 2009, after the application of crisis scenario
STANDARD	450,318,258	0	0
UNDER OBSERVATION	121,399,252	0.05	6,069,963
SUBSTANDARD	9,389,681	0.2	1,877,936
DOUBTFUL	3,934,031	0.5	1,967,016

LOSS	5,458,354	1	5,458,354
TOTAL CLASSIFIED CREDITS	590,499,576		15,373,269

I have further calculated the effects of this crisis scenario on the provisioned assets and I have presented the modifications of B.V.C. on the estimated profit for 2009 on the level of personal funds for 2009 and on the solvability estimated on the network level.

The crisis scenario for the credit risk that provides the situation in which 20% of the credits granted to the clients (all the credits granted in the North West region) registered in each inferior classification category, implies not only the registration of the additional also a diminishing of the cash flow entries. In order to emphasize the way in which the manifestation of the credit risk determines also the manifestation of the liquidity risk, on the background of the economic situation of this region, the influence of a scenario shall be analysed.

For the simulation of a crisis situation we consider that in the first month of 2009, the co-operative organisations of the analysed region face a deep liquidity crisis due to the crisis in which the national economy is. Therefore, the crisis scenario implies the following:

- 19.59% of the clients with deposits (deposits, deposit certificates, savings bank books) at the co-operative organisations of the CREDITCOOP network live in the North West of the country (calamity zone) and due to the crisis situation shall request the withdrawal of deposits upon due time;
- Having in view the crisis situation, it has been considered for the activity with the depositor clients of the zones less affected by the crisis, respectively, the North-East, South-East, South Muntenia, Bucharest, West and Centre, a rate of prolongation of deposits of 60% (a normal prolongation rate for deposits is about 80%), 40% of them being to be withdrawn when they reach the due date;
- We also consider that 20% of the clients of the CREDITCOOP clients (the clients residing in the respective region- see the scenario for credit risk) have delays for the payment of the instalments agreed in the credit contracts, and, till the end of the year, the credits granted to the clients from the North West region, registered in each classification category shall be registered in an inferior classification category.

In the purpose of the simulation of the crisis situation, the activity carried out with the non financial consumers by the co-operative organisations from the North West region has been analysed and it has been determined the weight of this activity in total of the activities carried out in the year

2008 with the non financial consumers within the CREDITCOOP network. The next step was the application of the new weight on the network's BVC achieved for the year 2009.

The situation of the weight of the activity developed with the non financial consumers within the CREDITCOOP network

REGIONS	DEBENTURES		DEBTS REGARDING THE NON FINANCIAL CONSUMERS	
	TOTAL DEBENTURES - NON FINANCIAL CONSUMERS - TO THE NET VALUE (% OF THE TOTAL)	TOTAL DEBENTURES - NON FINANCIAL CONSUMERS - TO THE NET VALUE	LIQUIDITY, DEPOSITS, DEPOSIT CERTIFICATES AND SAVINGS BANK BOOK (% OF THE TOTAL)	LIQUIDITY, DEPOSITS, DEPOSIT CERTIFICATES AND SAVINGS BANK BOOK
North West Region (November 2008)	20.00%	107,676,478	19.59%	85,541,391
North West Region (estimated 2009)	20.00%	117,253,482	19.59%	92,797,799

A method used in the analysis and quantification of the liquidity risk is the GAP analysis.

For the analysis of the gaps of such type, the last balance equilibrium at the network level and shall be adjusted to the data provided in BVC to be achieved at December 31, 2009. Therefore, in the last balance equilibrium, done on each patrimonial elements, the weight of each due band in the total patrimonial element shall be established.

In order to establish the influence of this scenario on the profit, first, the costs that shall be supported by the co-operative organisations within the CREDITCOOP network had to be established, to have the minimal requested liquidity, the additional costs with provisions for the credits that have been registered in other classification criteria than the ones provided in the moment when the incomes and costs budget for the year 2009 has been elaborated and which are the positions of BVC that are being modified.

From the total of the equilibrium of the balance positions on due bands estimated for the year 2009 after the application of the crisis scenario, it is noticed that the CREDITCOOP network was able to respond to the requests of deposits withdrawals. Although, this should have not been possible without using a part of the minimal compulsory reserve that may be used in crisis situations but it is necessary to be totally re-established in the shortest time possible.

Following this crisis scenario, not only of the costs and profit estimated with the Incomes and Costs Budget shall be modified, but also the structure of the patrimonial elements.

This way, the debts toward the non financial customers got lower, the RMO diminished and also the balance of the credits granted to customers got lower.

In the continuation of the crisis scenario, I have considered the situation in which the passive interest rate shall increase on the market with 5% and the active interest rate shall remain the same under the conditions in which the credit and liquidity risks have already manifested.

The loss related to the manifestation of the interest rate risk in the conditions I which the ROBID reaches 26% is given by the difference between the net income from the interest anticipated by B.V.C. before the application of the crisis scenario and the net income from the interest resulted after the application of the crisis scenario.

I have also evaluated the impact of this scenario on the estimated level of personal funds, solvability and capital requirement.

And in order for the crisis scenario to represent the biggest damage possible to be born, I have analysed a crisis scenario determined by the manifestation of the operation and reputational risk under the conditions in which the credit, liquidity and interest rate risks have manifested.

The scenario that I have suggested to be analysed supposed the existence of an internal fraud inside a co-operative bank concretised in deposits of non banking consumers not registered in the records of the co-operative bank and false credits. In this case I have also put conclusions on the estimated modifications on the elements of B.V.C., personal funds, the level of solvability and capital requirement.

The second set of crisis scenarios presented in thesis for the risks manifested in the North East and South East regions, had in view the following:

- determination of the consequences of the manifestation of a credit risk in the North East and South East regions;
- determination of the consequences of the manifestation of a liquidity risk in the North East and South East regions generated by the consequences of the manifestation of the credit risk in the same regions;
- determination of the consequences of the manifestation of a risk of the interest rate in the North East and South East regions due to the need of attraction/purchase of liquidities following the manifestation of the liquidity risk and also due to the modification of the interest rate on the market;

- determination of the consequences of the manifestation of an operational risk in the same regions under the conditions in which the other significant risks already manifested

I had in view the possibility of entering in payment incapacity of the clients with contracted credits, the diminishing of the weight of the population employed in industry and services following the bankruptcy of trade companies. In these conditions, the credits from the North East and South East regions shall be retrieved more difficult and the clients with deposits shall attract a part of them. More, it is considered that the passive interest rate shall increase on the market with 6% and the active interest rate shall increase only with 1%.

For the year 2009 I have considered an increase of quota of the profit tax from 16% to 23% (and the increase of the salary obligations with 20%).

This way, the implications of the manifestation of the crisis scenario for the operational risk under the conditions in which the other risks manifested, is as follows:

	BVC 2009	BVC 2009 under the conditions in which the credit, liquidity and interest rate risks manifested	manifestation of the crisis scenario related to the operational risk in the situation in which the other risks never manifested	manifestation of the crisis scenario related to the operational risk in the situation in which the other risks manifested
Costs with the personnel, out of which:	84,223,374	85,079,368	87,615,133	88,474,647
- salaries	62,102,468	62,166,907	62,102,468	62,166,907
- CAS, CASS, unemployment contribution	16,958,796	16,976,393	20,350,555	20,371,671
- token and other salary costs	5,162,110	5,936,069	5,162,110	5,936,069
Costs with the profit tax	1,756,617	0	2,525,137	0
Total costs with obligations as taxes and fees	85,979,991	85,079,368	90,140,270	88,474,647
Unexpected losses			4,160,279	3,395,279

The policy of the CREDITCOOP Central Co-operative Bank regarding the risks management has been analysed in the 2nd chapter and shall be achieved by ensuring an optimal combination between the level of assets, liabilities and financial risks, namely:

a) compliance with an optimal structure of assets and liabilities, in view of insurance, stabilisation and maximization of the margin between the paid and received interests, for one hand and an acceptable liquidity and risk level, on the other hand;

b) taking business and portfolio decisions at the level of the co-operative organisations, based on certain strict quantitative and qualitative, within the limit of the risk parameters established by CREDITCOOP- Central Co-operative Bank;

c) maintenance of a sufficient volume of liquidity to achieve the norms of the compulsory reserves and compliance with the clients requests.

The policy of the credit co-operative organisations regarding the management of credit risk and associated risks is concretised in the risk management and limitation by the application of an efficient credit policy based on the following principles:

- limitation of the credit risk concentration by establishing a maxim limit of a debtor or a group of debtors jointly acting;
- diversification of the credits granted;
- establishment of maxim payment terms for each type of credit with the elaboration of real repayment schedules, considering the repayment sources, the credit scope, the guarantee life term but also the due date for the banks liabilities.
- application of interests rates sufficient to cover the cost of resources, monitoring the credits and potential losses with a reasonable profit margin;
- determination of the authorities approving the credits granting;
- establishment of standard formal procedures for the evaluation of the credited projects and guarantees accepted;
- determination of the maxim report of the credit amount to the pledge market value;
- definition of requests toward the potential credits beneficiaries regarding the financial reports that have to be presented for the credits approval. In basis of these, the credit officers elaborate prognosis regarding the evolution of the financial status of the client during the whole period of action of the credit contract.

In the same 2nd chapter, I made reference to the management strategy on short time of the risk, to the relation between risk and profit and the determination of the maximum accepted risk level and also the limit where the risks are considered significant at the level of the CREDITCOOP network.

Also, in the last part of the chapter I have approached the issue of the Strategy of the CREDITCOOP Central Co-operative Bank regarding the capital maintenance and I have proceeded to stress tests in this purpose at the Central Co-operative Bank and also at the network level.

The 3rd chapter has been dedicated to the analysis of the significant risks at the credit co-operative organisations.

In the first part, I have analysed the indicators base of the evaluation of the credit risk, interest rate and liquidity risk using a significant number of tables and graphics in order to emphasize the evolution of these indicators.

In the case of the indicators, base of the evaluation of the credit risk, the high level of this indicator at the agencies mentioned in the thesis has the following causes:

- improper analysis of the credit file before the moment when the credit is granted;
- degradation of the financial situation of the debtors during the development of the credit contract;
- inefficient practices for the monitorisation of the credit portfolio;
- improper practices to retrieve the debts.

The credit process inside the agencies is determined, first, by the viability of the borrower's business and his capacity to generate incomes in case of legal persons, the size of the certain and permanent incomes of individuals who apply for loans, and not last, the capacity of credit insurance with guarantees to which the value has to be established.

In the evaluation of the credit risk, the agency proceeds to the evaluation of all the activities affected by this risk, regardless the results of the respective activities are reflected in the balance or outside the balance.

“Thus, shall be considered elements as:

- current and estimated financial performance of counter trades;
- concentration of the exposures toward counter trades, the form of legal organisation, the field in which they act;
- capacity of enforcement of the contractual commitments, from the legal point of view;
- capacity and possibility of the creditor to execute the guarantees in the market conditions, when necessary;

The activity of economic-financial analysis preceding the credit grant has to be performed in basis of certain well defined criteria regarding:

- the credit destination and its repayment source;

- the current risk profile of counter trade and guarantees presented and also the sensitivity of the guarantees to the economic and market evolutions;
- history of the service of debt related to the counter trade and the current and future capacity of its repayment, based on the financial, historical evolutions and projections of the future cash flows (in case of legal persons);

The Creditcoop agency has the obligation to provide the information received are sufficient to take a correct lending decision.

The analysis elements that has to be the foundation of undertaking on behalf of the Central Co-operative Bank are the following:

- identification in the general strategy of the Central Co-operative Bank; this general banking strategy aims both the maintenance on the BNR currency policy line and the obtainment of a proper profit, avoidance of risks, the most efficient management of bank resources;
- concrete situation of each client; in this meaning, the liquidity, financial solvency, responsibility of the activity developed and also the market position of each economic agent in case of the legal persons;
- in all the cases, it shall be followed the direct, general correlation of the possibilities of re-financing existing in the respective moment;
- a special attention shall be granted to the categories of guarantees that shall be obtained in the coverage of the commitments on behalf of the clients among which, a special place has to be occupied by the real material guarantees offered by the client.
- The banking executors of the Central Co-operative Bank proceeds to the execution of the securities (mortgage, pledge etc.) or brining to justice in order to retrieve the debts held on the clients that have a debt service of over 90 days.

Irrespective of the level of the undertook risks, the losses of the credit portfolio can be minimised if the credit operations are organised and managed with professionalism.

From this point of view, the most important function of the management of an agency is to control the quality of the credits portfolio, it due to the bad quality of the credits is the main cause of the banking losses.

The main causes of the losses related to the credits portfolio are:

- the failure of compliance of the lending norms issued by the Creditcoop Central Co-operative Bank by the agencies personnel;

- the weak control on the personnel- both by the agencies managements and revisers;
- the damaged or inexistent systems for tracking the problematic credits.

Measures suggested:

- management of the bank exposure toward small and medium companies and individuals in the purpose of creation and maintenance of an optimal portfolio, able to comply with requirements of profitability and risk of the Central Co-operative Bank;
- imposing to personal agencies to monitor the credits registering a debt service since an early stage and to adopt a pro-active approach toward clients, to allow the intervention in case of vulnerable and uncertain credits in order to prevent their transformation in non-performing loans (loss);
- providing an independent and continuous control in view to adopt the best lending decision;
- providing the compliance with the BNR norms, with the lending policy of the Central Co-operative Bank and with the internal norms of loans granting.
- monitoring the credits portfolio has to be achieved by credits control, administration of loans and activities of evaluation of guarantees to ensue a good quality of the process before approval in the financing activity.

We consider that we have to improve the directions aiming the improvement of the management of the credit risk at the level of the agencies of the Central Co-operative Bank throughout:

- periodical analysis and revision of the credits portfolio to ensure that the following factors are considered in the lending activity:
 - the level and distribution of the assets held by agencies;
 - the capacity of agencies to administrate and retrieve the credits registering debt service;
 - avoidance of improper credit concentrations;
 - adequacy and efficiency of credits management practices;
 - efficiency and efficacy of the process of identification, quantification and monitoring of the levels of initial risk or risk associated to the exposure of the credits granted.
- continuous perfecting of the mechanisms of approaching of non-performing credits;
- collaboration with the debtor in order to evaluate the problems and identification of solutions that improve the capacity of credits repayment (consulting, elaboration of a re-scheduling the debts program);
- re-design of the activities performed with the agency and operations flows;

- knowledge in then territory of the methodological norms of evaluation of the goods representing the lending guarantee;
- re-analyse of all the non-performing files to find solution for the credit retrieve;
- periodic instruction of the personnel for the unitary application of the working norms knowing that the control and evaluation of risk can be achieved only in the conditions in which there is high qualified personnel and with experience in the field.

In continuation of the 3rd chapter I have presented aspects of identification, monitoring and management of significant risks at the co-operative banks within the CREDITCOOP network.

I had in view the same indicators analysed and at the level of the personal agencies using graphics and tables in this purpose.

Evolution of the liquidity indicator at December 31, 2008.

Indicators	2008											
	31.01	29.02	31.03	30.04	31.05	30.06	31.07	31.08	30.09	31.10	30.11	31.12
Liquidity at the Central Bank	105.5	122.77	133.17	137.84	137.77	138.31	128.34	124.99	113.05	113.27	110.6	105.85
Liquidity at co-operative banks	24.88	25.23	24.7	25.22	24.78	25.03	23.08	21.61	20.02	21.94	21.09	21.88
Liquidity on the network level	26.18	29.45	30.72	30.81	30.29	30.09	27.39	26.36	23.84	23.93	24.08	23.43

A highly important element had in view to approach the issue of the risks at the co-operative banks is the one of exposures.

From the procedural point of view, the exposures represent the assets and the off balance sheet elements provided in the B.N.R. – C.N.V.M. rules nr.14/19/2006 on the treatment of the credit risk accordingly to the standard approach without the application of the risks weights or risk degrees provided by the respective rules where the frequently used expressions appear also when the notion of exposures is used.

Within the exposures at the co-operative organisations, there are used terms as: groups of clients in connection, entities or members of a group, significant influence on the group of the credit institution, operations in favour conditions etc.

The exposures are permanently monitored at the level of the co-operative banks and the exposure of a credit co-operative organisation toward a client or toward a group of clients in connection is considered as being large exposure if its value is equal or exceeds 10 % of the personal funds of the respective credit institution.

Any operation leading to the registration of a large exposure or its increase, shall be done only with the prior approval of the administration board and shall be done only in the conditions in which the decision is taken by the majority of the members of the administration board and if necessary, the interests party shall abstain from voting.

For the identification of the concentration risk toward a sole issuer of security, a minimal limit of 1% or the personal funds of the credit institutions and a maximal limit of 2% are being established, the maximal limit of 2% of the personal funds of the credit institution is considered also significant margin and shall be reported to the CREDITCOOP Central Co-operative Bank.

A credit co-operative organisation can not register, toward a client or a group of clients in connection, exposures whose value exceeds 25% of its personal funds, and the accrued value of the large exposures of a credit co-operative organisation shall not exceed 800% of its personal funds.

If in an exceptional case, the exposures exceed the limits provided, the credit co-operative organisation should report immediately this situation to the National Bank of Romania, that may grant when circumstances justify it, a dead line when the credit co-operative organisation should comply with the limits imposed.

The 4th chapter of the thesis has been dedicated to the “Analysis of the activity of the credit co-operative organisations”.

In the first part of the chapter, the basic indicators of the co-operative banks between 2003-2008 have been dynamically and structurally analysed based on the information contained in the following table:

Indicator denominator	2003	2004	2005	2006	2007	2008
Solvency report	31.78	33.65	33.4	37	34	31.74
Equity capital rate	18.46	20.87	21.21	28.41	23.36	23.78
Equity capital/share capital	154.8	160.74	149.15	151.73	138.47	138.63
Credits granted to clients/ Total of attracted and borrowed sources	84.18	96.18	115.25	114.11	112.34	115.16
Remaining and doubtful credits / Total of credits portfolio	0.85	0.74	0.62	0.46	0.31	0.24
Remaining and doubtful debentures Total assets	0.91	0.84	0.68	0.5	0.33	0.24
Remaining and doubtful debentures	1.1	1.15	1.02	0.75	0.49	0.37

/ Total of attracted and borrowed sources						
Rate of the credit risk 1 (unadjusted exposure related to the credit and doubtful interest and loss/total of classified credits and interests)	3.67	2.89	2.25	1.59	1.19	1.29
Rate of economic profitability (annual gross profit / total net assets)	2.93	3.3	3.65	2.63	2.03	1.16
Rate of financial profitability (annual gross profit / personal funds)	12.65	12.42	12.28	8.41	7.06	3.77
Assets increase index	119.24	117.02	118.25	121.86	119.04	108.26
Profit rate (gross profit / total incomes)	7.16	7.12	9.39	7.98	7.56	4.58
Immediate liquidity (disp. and dep./attracted and borrowed sources.-fd.soc)	14.85	11.89	14.71	20.55	26.6	23.47
Credits granted to clients/ Attracted deposits	107.76	120.72	120.34	121.12	115.86	120.67
Credits rate / Total assets (on the gross value)	70	77	76	76	72.26	72.36

Also, for these years I have analysed the indicators of the financial performance of the co-operative banks considering the data of the following table:

Indicators of the financial and dynamics performance

dynamics of the reserve fund	100.00	152.35	108.26	107.45	107.84	104.80
risk profile	n/a	n/a	n/a	medium	medium	medium high
dynamics of the net assets	100.00	117.02	118.24	121.86	119.04	108.26
dynamics of the credits portfolio	100.00	128.74	130.75	120.79	118.21	107.78
net weight from interests	20.13	18.45	16.71	14.16	11.25	10.34
net weight of capitalised assets	27.66	23.36	18.79	16.64	14.92	14.80
ROA - rate of economic profitability	2.35	2.66	3.09	2.20	1.68	0.94
ROS – rate of sales profit	5.74	5.74	7.95	6.68	6.27	3.71
ROE –rate of financial profitability	12.72	12.76	14.56	9.10	7.19	3.94

RRG – rate of general profitability	7.94	7.06	8.78	7.27	6.79	3.88
-------------------------------------	------	------	------	------	------	------

A big part of this chapter has been dedicated to the system of indicators to establish the level of the banking rating for co-operative banks.

Essentially, I have concluded that following the analysis for the years 2006, 2007 and 2008, on the indicators, based on which is calculated the individual rating for co-operative banks:

From the data presented for analysis, it results on the level of the indicators for the capital adequacy that in 2007 the rating was 2, and in the years 2006 and 2008, it was 1.

The indicators reflecting the quality of assets entered in the rating 2 in all three analysed years. Only the general risk rate situated in the three years at the rating 3 and the indicator of credits granted to clients reported to attracted and borrowed sourced for which the calculated rating was 4, were not on proper levels.

The general risk rate registered high levels between 67 and 80% due to the fact that the co-operative banks grants credits in percent of 99% to individuals, with personal guarantees and very few mortgages, reason for which no deductions from the calculus base are being operated.

Related on the level of the indicator of credits granted to clients in total or attracted sources is situated between 107 and 110%. We specify that the most important financing source of the activity of the co-operative banks is represented by the shares, which a length of at least 7 years (5 years the repayment term of a credit to which 2 years from the payment of the last credit instalment are added) and that is not entering in the calculus of this indicator, but influences the activity financing sources in percent of 40%.

The liquidity indicator is situated at a rating level 3 and the profitability at a lower level, respective rating 4 in 2008 as for 3 in the years 2006 and 2007.

In order to be more self-evident, an analysis of the indicators of banking prudence has been done on each quarter of the year 2008 and it has been ascertained that on a values scale between 1 and 4, the general rating of the 22 indicators regarding the *capital adequacy, the quality of assets, the profitability and the liquidity of the co-operative banks from the network* (included in the analysis), was 2 and 3.

Dynamically analysing the evolution on *each of the 22 indicators, groups of indicators and per total*, the following conclusions result:

- the 3 indicators of the *group of indicators regarding the capital adequacy* are maintained on all 4 periods, at the same individual rating, respectively, 2 indicators with individual rating 1 and one indicator with individual rating 2;

- regarding the *group of indicators regarding the quality of assets* it is ascertained an improvement in the meaning that the number of indicators with individual rating 1 increased to 8 on June 30, 2008, as for the 7 indicators with individual rating 1 existing on March 31, 2008, situation maintained also on the dates of September 30 and December 31, 2008;

- regarding the *group of indicators regarding the profitability*, although it has been ascertained an improvement on June 30, 2008, comparatively to March 31, 2008, in the meaning that an indicator of the 4 with the individual rating 3 passed on June 30, 2008 in individual rating 2, on September 30, 2008 the indicators with individual rating 3 and individual rating 4 were 3 each and on December 31, 2008, the number of indicators with individual rating 3 diminished to 2 and the number of indicators with individual rating 4 increased to 4;

- regarding the *group of indicators on liquidity*, although it is ascertained that on September 30, 2008 the 2 indicators have registered the individual rating 4, they improved on December 31, 2008, in the way that both passed to the individual rating 3.

Regarding the entrance of the co-operative banks in the general rating (on a values scale between 1 and 4, 4 being the *most improper value*) on the periods analysed, the situation is as follows:

Situation of general rating on co-operative banks

<i>March 31, 2008</i>		<i>June 30, 2008</i>		<i>September 30, 2008</i>		<i>December 31, 2008</i>		<i>Dif 8-6</i>	<i>Dif 8-4</i>	<i>Dif 8-2</i>
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>
<i>Total co-operative banks</i> out of which:	<i>124</i>	<i>Total co-operative banks</i> out of which:	<i>124</i>	<i>Total co-operative banks</i> out of which:	<i>51</i>	<i>Total co-operative banks</i> out of which:	<i>51</i>	<i>-73</i>	<i>-73</i>	<i>-73</i>
<i>general rating 4</i>	<i>63</i>	<i>general rating 4</i>	<i>56</i>	<i>general rating 4</i>	<i>27</i>	<i>general rating 4</i>	<i>28</i>	<i>1</i>	<i>-28</i>	<i>-35</i>
<i>general rating 3</i>	<i>12</i>	<i>general rating 3</i>	<i>17</i>	<i>general rating 3</i>	<i>9</i>	<i>general rating 3</i>	<i>6</i>	<i>-3</i>	<i>-11</i>	<i>-6</i>
<i>general rating 2</i>	<i>42</i>	<i>general rating 2</i>	<i>46</i>	<i>general rating 2</i>	<i>15</i>	<i>general rating 2</i>	<i>17</i>	<i>2</i>	<i>-29</i>	<i>-25</i>
<i>general rating 1</i>	<i>7</i>	<i>general rating 1</i>	<i>5</i>	<i>general rating 1</i>	<i>0</i>	<i>general rating 1</i>	<i>0</i>	<i>0</i>	<i>-5</i>	<i>-7</i>

Also, in the chapter we can find also identified differences between the results of the application of the banking rating system and the results of the application of the methodology of establishment of the risk profit of co-operative banks.

The basic difference between the rating assigned to a co-operative bank and its profile derives from the categories of factors that are considered. This way, for the assignment of the rating of a co-operative bank, the following categories of financial risk are taking into consideration:

- ✓ Quality of assets;
- ✓ Liquidity;
- ✓ Capital adequacy;
- ✓ Profitability.

For the assignment of the risk profile, the following are taking into consideration:

- ✓ The financial risk with the components:
 - The credit risk and the associated risks;
 - The liquidity risk
- ✓ The market risk;
- ✓ The operational risk and the associated risks
- ✓ The reputational risk

In order to determine the risk profile, the financial risk has a weight of 60% (40% the credit risk and 20% the liquidity risk), the other three risk categories holding a weight of 40% in evaluation.

The risk categories that are considered for the determination of the risk profile and for the determination of the rating of a co-operative bank are underlined in the following table

The risk categories considered for the determination of the risk profile and rating of a co-operative bank

Participant risk categories	Risk profile	Rating
Financial risk	The credit risk and the associated risks	Quality of assets (corresponds to the credit risk and associated risks)
	Liquidity risk	Liquidity (corresponds to the liquidity risk)
		Capital adequacy Profitability
Market risk	Market risk	
Operational risk	Operational risk and associated risks	
Reputational risk	Reputation risk	

As it is noticed, the sole risk category that is considered by the both evaluation methods of a co-operative bank is the financial risk.

Although, the two evaluation methods treat differently the financial risk as, in the same risk category, there are significant differences, namely:

- To determine the risk profile the categories “capital adequacy” and “profitability” are not taken into consideration;
- In the category “quality of assets” from the 11 analysed indicators in assigning the rating, to determine the risk profile, only 5 of them are being analysed;
- In the category “liquidity” in assigning the rating, 2 indicators are being analysed and to determine the risk profile, 4 indicators are being analysed.

Considering these differences, even if, to determine the risk profile, the financial risk has a weight of 60% (40% the credit risk and 20% the liquidity risk) the differences from the risk categories and indicators lead to a rating weight of maxim 30% of the risk profile of the co-operative bank.

Therefore, there are 3 possibilities, namely:

- The rating obtained is in compliance with the assigned risk profile;
- The rating obtained has a lower classification than the assigned risk profile
- The rating obtained has a better classification than the assigned risk profile.

In the last two cases, the differences can have the following reasons:

- the indicators of capital adequacy are situated on levels that positively /negatively influence the rating level;
- the profitability indicators are situated on levels that positively /negatively influence the rating level;
- one or more of the 6 indicators of assets quality that are not taking into consideration for the calculus of the risk profile are situated at levels that positively /negatively influence the rating level;
- The indicators related to the market risk categories and operational risk are situated in levels that significantly influence the risk profile (positively or negatively).

As we have mentioned, the rating obtained can be in compliance with the assigned risk profile, under the conditions in which the indicators of capital adequacy and profitability do not influence the

financial risk, they situate on the same level with the other indicators of financial risk considered to determine the rating and the risk profile.

Also, the concordance between the rating and the risk profile depends also on the low influence of the market risk and operational risk.

For example, if the rating obtained for the financial risk is 2, the market risk has “Medium” qualitative, the operational risk has a “Medium-High” qualitative and the operational risk has a “Medium” qualitative, the risk profile shall be “Medium” and it shall correspond to the rating 2.

I have analysed, in evolution, the basic economic and financial indicators on the banking system and in the CREDITCOOP network, between the years 2005 – 2008, underlining the causes for which some indicators are situated on good levels, and others on lower levels than in the banking system.

I have proceeded in the same manner to the analysis of the banking prudence indicators on the CREDITCOOP network and in the banking system, including regarding the average achieved on the 3 groups of banks forming the banking system.

An important place in this chapter I have dedicated to the issue of banking solvency that I have analysed at the level of the co-operative network and also at the level of each co-operative bank

Closely related to this aspect, I have presented also the particulars presented by the personal funds and the calculus of the capital requirement for the credit co-operative organisations.

As a control modality of the risks management and as method of improvement of the quality of the activities of the credit co-operative organisations, I have presented the particular aspects of the banking surveillance at the credit co-operative organisations.

I have also presented the risks assigned by the surveillance authority within the surveillance process at the Central Co-operative Bank with regard to the deficiencies ascertained on the main activities that have generated the assignment of the respective risks.

At the end of the 4th chapter, I have presented the implications that the new software application implemented in 2009 has in the activity of the co-operative banks.

To underline the advantages that such application presents on the line of minimizing the risks and especially of avoiding the frauds, I have presented also the old software application insisting on the limits and deficiencies that had and that had to be eliminated in the new software solution.

We hereby present the manner in which the new software application can support the activities of identification, evaluation and monitoring of risks as the BNR norms and regulations are requesting.

On the line of the **credit risk and associated risks** throughout the monitoring and estimation of risks to the credits portfolio is ensured:

- the follow-up of the compliance with the contractual clauses;

- evaluation of the degree of guarantee coverage of the exposure in relation to the current situation of the credit beneficiaries;
- update of the credit file and obtaining current information;
- monitoring and control of remaining debentures;
- monitoring and control of the specific risk provisions established.

These activities are supported by the new software application, by providing in real time, any responsible factor of all the information contained in the data base regarding the situation of the progress of a certain credit or information on the whole credits portfolio (example: situation of provisions).

In the first stage, the vulnerable credits can be identified and evaluated, with debts smaller than 30 days, for their tracking and elaboration of the situations requested by the co-operative bank management.

In order to monitor and control these debentures and also to do certain actions to retrieve them, actions provided in the “Norms regarding granting credits to individuals and legal persons by the co-operative banks of the Creditcoop network” such as sending payment notifications (summons) and initiation salary withdrawals or pensions withdrawals for the credit beneficiary and for endorsers –the new software application allows the automatic editing of such documents.

In the second stage, there are emphasised the non-performing credits and the ones with forced execution, the guarantees that have to be executed in view of determination of the remaining risk when the software application makes available to the responsible factors the information necessary for the evaluation of the situation and actions that are being done, and also information to monitor and control the specific risk provisions established.

The new software application has the information necessary to automatic editing of other reports, at the level of the whole co-operative bank, such as:

- Exposure of the co-operative bank on products type.
- The credits granted to individuals grouped based on their address, respectively, urban and rural zone.
- The credits granted to the co-operative members/individuals grouped based on income schedules.

The new software application makes available to the responsible personnel, calculus reports of the **liquidity indicator on due date bands** and of the **immediate liquidity** and selections from the data base for the identification and evaluation of the liquidity risk for one person.

In order to monitor the components of the market risk, the currency risk and the interest rate risk, the new banking software application allows to edit specific reports, namely: indicators of evaluation of the interest rate risk; Situation regarding the medium interest rates; Indicators regarding the interest rate GAP both in absolute and relative value.

For the calculation of the operational risk, imposed by the Basel II Accord, the unexpected situations, possible to occur in a current exploitation of the banking software applications and also the measures had in view to solve such unexpected situations are taken into consideration. Therefore, to ensure the continuity of the development of the banking activity upon the operational desks of a co-operative bank, it has to be ensured the continuity:

- of power supply of calculus equipments;
- of the operation of the network central server or the back-up server;
- of the connection of computers at distance to the network central server;
- of the operation of the working stations by switching them to the back-up server when the central server is not available.