

LECTURE No.4

LIABILITIES' OPERATIONS/TRANSACTIONS (ACCEPTANCE OF DEPOSITS AND OTHER REPAYABLE FUNDS)

During the 90', the banks in Romania carried out all types of banking operations so that they were called universal banks. Later, the main fields in which the banks specialized were:

- Retail banking;
- Corporate banking;
- Private banking;
- Investment banking.

Generally, the banking operations can be divided into two groups:

1. operations **of acceptance of deposits and other repayable funds** at sight or at term, in local currency (legal tender) or in foreign exchange currency or other operations connected to these ones, these operations are called liabilities operations;
2. Operations **of placement of the funds as credits/loans**, on the inter-bank market or in securities, in lei or in foreign exchange currency, at sight, on medium or long term, called assets' operations.

The main liabilities' operations of credit institutions are:

Acceptance of deposits on different maturities for individuals or legal entities;

Credits/loans received from banking and non-banking clients;

Establishment of the social capital/equity and own funds.

The bank accepts the available resources from the financial market and grants them as credits/loans.

The interest rates on the Romanian inter-bank market are: ROBID and ROBOR.

ROBID (*Romanian Interbank Bid Rate*) represents the interest rate for the deposits established by banks, respectively the average price at which the funds are bought on the inter-bank market.

ROBOR (*Romanian Interbank Offered Rate*) represents the interest rate for the deposits established at banks, respectively the average price at which the funds are sold on the inter-bank market.

ROBID is an **interest rate of the liabilities**, and ROBOR is an **interest rate of the assets**. Both rates are established as averages of the quotations of the banks at 11 a.m. (the hour of Bucharest) each working day and for different maturities.

The structure of the resources of the banks includes the following elements:

- own capitals;
- deposits and available funds received from clients - individuals or legal entities;
- resources received from the inter-bank market (internal and external);
- credits/loans received from banks or from the central bank;
- shares.

The banking deposits cover the following types: current accounts, sight and term/time deposits.

Current accounts which are opened with clients and are used for current operations (receivables and payments). For this type of account the bank pays an interest rate at sight.

Sight deposits have a small interest rate.

Term deposits represent an amount deposited by the holder, being at the bank disposal for a maturity established by the contract, at the moment of the establishment of the deposit. The bank pays an interest rate higher than the others. When the holder withdraws the amount before the maturity, the bank will calculate a penalty, and the clients lose the interest rate.

The minimum capital requirements of the credit institutions are regulated by the GEO No. 99/2006 and the Regulation NBR-NCS No. 18/23/2006 on the own funds of credit institutions and investment firms.

Under this regulation, the minimum initial capital of a bank or of a network of a credit cooperative will be at the moment of the authorisation of RON 37 million (about, Euro10 million at an exchange rate of RON/EUR of 1 EUR = 3.7RON). The minimum initial capital of a mortgage credit bank or of a building society will be at the moment of the authorisation of RON 25 million. The minimum capital of a credit cooperative will be at the moment of the authorisation of RON 300.000.

Electronic money institutions shall have, at the moment of authorization, a minimum initial capital of RON 12 million.

The **own funds of the credit institutions or of a cooperative credit network** consist of original own funds and additional own funds.

The own funds of the branches in Romania of credit institutions of third countries are represented by the original own funds.

The component items of own funds shall be able to be used at any time and, with priority, to absorb losses, shall not imply fixed costs for the credit institution and shall be effectively at its disposal, respectively, to be fully paid.

The component items of the original own funds

Original own funds represent an item of the own funds and consist of:

- a) Share capital subscribed and paid up, except the cumulative preferential shares, or by case, the endowment capital provided by the credit institution of the third country to its branch in Romania;
- b) Share premium accounts, fully paid up, related to the share capital;
- c) Legal, statutory and other reserves, as well as the profits brought forward of the previous financial years, after the distribution of the profit;
- d) Profit after tax of the last financial year, retained until its distribution as decided by the general meeting of the shareholders, but no more than the amount intended to be distributed.

In order to compute the amount of the original own funds, the following items shall be deducted:

- a) Own shares at book value (acquisition cost) held by the credit institution;
- b) Liabilities of the central body of credit cooperatives towards the affiliated cooperatives representing amounts left to compensate due to recalculation, at the end of the financial year of credit cooperatives participation value to the share capital of the central body.
- c) amounts representing the equivalent value of the social parts related to the contribution of the credit cooperatives at the share capital of the central body to which they are affiliated, in case these cooperatives participate to a merger or to a division of the cooperative credit networks, followed by the leaving from the network of those cooperatives, or in case the central body of the credit cooperatives has decided their dissolving, followed by liquidation. The amounts shall be deducted starting the date of the decision of the central body's board of directors regarding the ceasing of the quality of credit cooperative affiliated to that central body;
- d) Losses brought forward;
- e) Losses of the current financial year till the date of computing the own funds;
- f) Intangible assets at book value.

Additional own funds shall consist of:

- a) core additional own funds;
- b) supplementary additional own funds.

The core additional own funds shall consist of:

- a) revaluation reserves of tangible assets, as adjusted with inherent accrued taxes, foreseeable at the date of calculation the own funds;

- b) other items stipulated by regulations;
- c) securities of indeterminate duration and other instruments ;

The supplementary additional own funds shall consist of fixed-term cumulative preferential shares and subordinated loan capital.

Subject to the previous approval of the National Bank of Romania, other items may be included in the core additional own funds, provided that whatever their legal or accounting designations might be, they have the following characteristics:

- a) they are freely available to the credit institution to cover normal banking risks where revenue or capital losses have not yet been identified;
- b) their existence is disclosed in internal accounting records;
- c) their amount is determined by the management of the credit institution, verified by independent auditors, made known to the National Bank of Romania and placed under the supervision of the latter.

ACCEPTANCE OF DEPOSITS – it represents the main operation of the bank. It establishes the resources necessary in order to carry out the bank’s activity.

The deposit represents the amount of money given/offered to the bank in the following conditions:

- To be totally repaid, with or without the interest or other facilities, , at demand or at the maturity established by the depositor with the bank;
- It does not represent/mean the transmission of its property.

CURRENT ACCOUNT IN RON CURRENCY

- It is addressed: to bank clients’ individuals or legal entities or entities without legal personality residents/recorded in Romania.
- Main characteristics:
 - The client signs with the bank a contract/convention in order to carry out the operations through the account.
 - Operations carried out through this account: receive money in cash or transfer, payments (through the teller or through the ATM, in the case of individuals) at the demand and in favour of the depositor, internal and international transfers;
 - The bank will pay a fixed or variable interest for the deposit;
 - Opening a current account, the depositor has to have a minimum amount of money established together with the bank, and to pay a commission which is different from

one bank to another. When the client withdraws the money he has to pay a special commission for the withdrawal.

- The necessary documents for opening a current account are:
 - The opening current account application,
 - The specimen of the authorised persons,
 - The copy of the companies' establishment, respectively the copy of the identity card in case of the individuals.

CURRENT ACCOUNT IN FOREIGN EXCHANGE CURRENCY

- It is addressed: to bank clients' individuals or legal entities or entities without legal personality residents/non-residents recorded in Romania.
- Main characteristics:
 - The individuals and legal entities may open with banks accounts in foreign exchange, only for the currencies quoted by the National Bank of Romania (EURO, US dollar, sterling pound, Swiss franc, Canadian dollar, Australian dollar etc);
 - The client signs with the bank a convention/contract for a current account in foreign exchange.
- Operations carried out through this current account in foreign exchange:
 - Set up money in cash or by transfer,
 - Commercial or non-commercial payments in foreign exchange,
 - Withdrawals in cash of foreign currency at demand or for business travel expenditures etc.
- The necessary documents for opening a current account in foreign currency are:
 - The opening current account in foreign currency application,
 - The specimen of the authorised persons,
 - The copy of the companies' establishment, respectively the copy of the identity card in case of the individuals.
 - The statement on the real beneficiary of the funds and information on the source of the funds.

TERM DEPOSIT IN FOREIGN CURRENCY/LEI CURRENCY

- Utilized by banks' customers (individuals and legal entities);
- Conditions:

- Signing a convention/contract with the bank and establishing amount, interest rates, maturities, the persons authorised/empowered to carry out operations;
- Establishing the minimum amount of money in order to have a deposit in foreign exchange on the following categories: individuals, legal entities;
- The withdrawal of the amount shall be done at maturity, otherwise the holder of the account shall obtain only an interest at sight for the effective existence of the deposit;
- The usually terms to establish the deposits are: 3, 6, 12, 18 months, but banks can accept/negotiate other terms;
- The automated postponement of the deposit at the maturity for a similar period (3, 6, 12, 18 months), capitalised interest.

CERTIFICATES OF DEPOSIT

- Certificate of deposit = a security on term issued by a bank in order to prove that the amount of money was deposited and the holder may receive at the maturity both the amount deposited and the interest related to.
- Conditions:
 - Utilised by individuals and legal entities which may obtain certificates of deposits under some amounts of money represented their nominal value;
 - The form is different from a bank to another;
 - Maturities: 3 and 6 months, sometimes one year;
 - the interest rate is a fixed one and it is marked on the certificate at the buying moment;
 - the interest rate shall be paid at maturity.

PENSIONS DEPOSITS

- Offered exclusively to individuals; they make deposits for the period between the opening and maturity date of the deposit.
- Conditions:
 - The term of the deposit is one year, but it may be postponed automatically at the maturity for the same period;
 - Interest rate is that for the deposits at term (one year);
 - The interest rate is computed monthly, and the interest is given at the maturity of the deposit (one year);

- Advantage: the holder may deposits the amount of money anytime, previously the maturity.
- Deposits offered exclusively to individuals;
- Conditions:
 - The established term of the deposit is one year;
 - The interest rate is that for term deposits;
 - The interest rate is computed monthly, and the interest if given at the maturity of the deposit (one year);
 - Advantage: the holder may deposits the amount of money anytime, previously the maturity.

DEPOSITS FOR HOLLIDAYS

- Offered to individuals; they make deposits for the period between the opening and maturity date of the deposit.
 - Conditions:
 - terms 6, 12 months, but it may be postponed automatically at the maturity for the same period;
 - it shall have the interest corresponding to the deposit on term (meaning 6, 12 months), it is variable in accordance the evolution of the market, it is computed monthly and offered at maturity (6 or 12 months);
 - Withdrawals of the amounts before the maturity – the bank shall compute an interest rate at sight for the period of the deposit.

DEPOSITS FOR CHILDREN (JUNIORS)

- Offered to individuals with ages between 14-18 years old.
- Conditions:
 - Term of the deposit: 1, 3, 6, 9,12 or 18 months;
 - Foreign exchange: USD or EUR or local currency RON;
 - The minimum amount of the deposit is of 50 RON and respectively of 500 USD or EUR;
 - The children may deposit the money without the agreement of other person (parents tutor) if the amount of the deposit is covered by the Bank Deposit Guarantee Fund.

- Withdrawals of the amounts shall be done by the children only with the parents' agreement, given in writing before the public attorney;