Interbank Deposit Protection Fund
(FITD)

Annual Report 1998

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Current Scenario

During the course of the year a number of events took place, significantly influencing our operations.

As of January 11, 1997 the Legislative Decree No. 659/96, implementing the European Union Directive No. 94/19/EC, introduced a compulsory Deposit Insurance Scheme for banks operating in Italy. As a result, the number of member banks rose from 219 to 295, from December 31, 1996 to December 31, 1997.

In the 1997 first semester, the Fund intervened in three cases: **Banca di Credito di Trieste S.p.A.-Kreditna Banka**, **Credito Commerciale Tirreno**, and **Sicilcassa S.p.A.**. Their impact has raised questions about the purpose of the *Interbank Deposit Protection Fund* (FITD), which will be discussed in a detailed section later in the report.

Two member banks have been placed under *Special Administration* (SA) this year. The **Banca Agricola Etnea S.p.A.** (placed under S.A. on October 10, 1997) with Reimbursable Funds equal to 706 billion lira and 66 branches, and the **Banca Popolare Andriese** (placed under S.A. on October 23, 1997) with Reimbursable Funds equal to 666 billion lira and 9 branches.

Reimbursable Funds of Member Banks

The Legislative Decree No. 659/96, implemented by the FITD Statutes (approved on December 12, 1996), established a limit of 200 million lira for each depositor. This amount, , is less than the amount established in the previous Statutes, which expected total reimbursement of up to 200 million lira and 75% of the portion exceeding 200 million up to one billion lira. However, it is greater than the amount established by the Directive 94/19/EC, which defines a minimum limit to ECU 20,000 (approximately 40 million lira), adopted by most European Union member countries.

Based on the statutory reports provided by member banks, the volume of funds protected by FITD amounted to about 647,000 billion lira as of June 30, 1997 (whereas 482,000 billion lira if the protection were equal to the EU minimum).

This amount indicates a significant decline with respect to the two previous reports (June 30 and December 31, 1996), due in part to the fact that *bearer deposits* (which will be subject to temporary deposit protection), will no longer be protected by the Fund.

Reimbursable Funds of member banks
(billion lira)

	Protection limit	
	Up to 200 million lira	**Up to ECU 20,000**
June 30, 1996	748,734	544,159
December 31, 1996	771,252	569,056
June 30, 1997	647,401	482,271

Source: FITD statutory reports.

Bank Balance-sheet Profiles

The Statutes and By-laws, implemented on December 12, 1996, introduced a new set of supervisory rules, made up of seven balance-sheet indicators divided into four profiles:

- *Risk Profile*
  - **A1** Total Net Doubtful Loans / Shareholders'equity;
  - **A2** Net Doubtful Loans vis-à-vis customers / Net outstanding Loans vis-à-vis customers.
- *Solvency Profile*
  - **B1** Capital for supervisory purposes / Supervisory capital requirements;
  - **B2** Shareholders'equity / Funds due to customers.
- *Maturity Transformation Profile*: In respect to supervisory maturity transformation rules.
- *Profitability Profile*
  - **D1** Overhead Costs / Net Operating Income;
  - **D2** Loan losses, net of recoveries / Net Operating Profit.

According to the statutory reports of June 30, 1997, 146 banks, representing 42% of Reimbursable Funds, are not in "*order*". Sixteen of these banks have been classified in the **High Risk** band with Reimbursable Funds equal to 38,000 billion lira (representing 5.9% of total R.F.); thirteen are in the "*severe imbalance*" class (with Reimbursable Funds equal to 38 billion lira), and three banks are in the "*expulsion*" class (with Reimbursable Funds equal to 4,400 billion lira). On December 31, 1996 the number of banks not in "order" was equal to 144, representing 36% of total Reimbursable Funds, of which thirteen are in the **High Risk** band (representing 6.1% of R.F.).

Most of these previously mentioned banks belong to a Banking Group, where the holding bank provides a specific guarantee in order to avoid an intervention.

Distribution of Banks according to statutory classes

	June 30, 1996		December 31, 1996		June 30, 1997	
	Number of Banks	% RF	Number of Banks	% RF	Number of Banks	% RF
Order	145	57.52	142	63.94	148	58.21
Attention	41	20.17	49	10.22	55	18.16
Watch	45	9.58	45	13.00	43	11.24
Penalty	38	6.53	37	6.76	33	6.49
Severe Imbalance	9	0.99	11	1.76	13	5.23
Expulsion	4	5.21	2	4.32	3	0.67
Total Banks	*282*	*100*	*286*	*100*	*295*	*100*

Source: FITD statutory reports.

The statutory indicators reveal a significant improvement with respect to the weighted average values of Risk Profile indicators, **A1** and **A2**, and solvency indicator, **B1**. Even though **B2** (Shareholders'equity / Funds due to customers) reveals a decrease of almost half a percentage point with respect to the level of previous year, this is not alarming due to the high capital adequacy of Italian banks. On the contrary, this could indicate an improvement in the allocation of bank resources.

The profitability indicators D1 (Overhead Costs / Net Operating Income) and D2 (Loan losses, net of recoveries / Net Operating Profit) are still at high levels, even if the latter shows a significant improvement, probably due to an increase in the bank's asset quality.

We can conclude that the banking system is undergoing a period of structural reorganization, which is beginning to show signs of recovery due to the improvement in bank profitability and to the progress derived from non-banking firms.

Weighted average values of Balance-sheet indicators

	June 30, 1996	Dec. 31, 1996	June 30, 1997
A1 Tot. Net Doubtful Loans / Shareholders'equity	34.65	37.17	32.71
A2 Net Doubtful Loans vs customers / Net outstanding Loans vs customers	5.44	5.73	5.06
B1 Capital for supervisory Purposes / Supervisory capital requirements	171.10	174.48	174.40
B2 Shareholders'equity / Funds due to customers	14.08	13.44	13.54
C Maturity transfornation rules	n.c.	n.c.	n.c.
D1 Overhead Costs / Net Operating Income	67.12	65.45	66.84
D2 Loan losses, net of recoveries/ Net Operating Profit	46.31	35.52	34.66

Source: FITD statutory reports.

Analysis of Individual Profiles

Risk Profile

The average weighted values for **A1** and **A2**, on June 30, 1997, show a significant increase with respect to the values of the preceding year.

The value for **A1** (Total Net Doubtful Loans / Shareholders'equity) decreased to 32.71% in respect to 34.65% of the previous year. This result was influenced by both the reduction of Total Doubtful Loans, which decreased 3.4% over June 1996's figure, and by an increase in the capital adequacy level of the banks (+2.3% in respect to June 1996). The number of banks below the "Normal level" decreased to 66 banks, representing 21% of RF compared to 29% of June 1996, showing a clear sign of improvement.

"A1" Indicator

Total Net Doubtful Loans / Shareholders'equity

	Normal ≤ 40 %		Attention ≤ 60 %		Warning ≤ 100%		Violation > 100%	
	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF
06-30-1996	211	71.00	34	18.82	21	2.38	16	7.80
12-31-1996	215	73.59	27	6.05	26	12.65	18	7.72
06-30-1997	228	79.41	24	3.42	26	14.08	17	3.10

Source: FITD statutory reports.

The value for **A2** (Net Doubtful Loans vis-à-vis customers/Net outstanding Loans vis-à-vis customers) showed a positive trend in the risk profile, decreasing from

5.44% in June 1996, to 5.06% in June 1997. Despite all this, a large number of banks are below the "Normal level" for the **A2** and **D1** indicators; an explicit indication that asset quality continues to be one of the major problems for Italian banks.

In fact, on June 30, 1997, this indicator showed that 193 banks were in the "Normal level" (185 in June 1996), 28 were in the "Attention level", 32 in the "Warning level", and 41 in the "Violation level". Banks which have more than 6% of Doubtful Loans in their loan portfolio represent 25% of Total Reimbursable Funds.

"A2" Indicator

Net Doubtful Loans vs customers / Net outstanding Loans vs customers

	Normal ≤ 6 %		**Attention ≤ 8 %**		**Warning ≤ 12%**		**Violation > 12%**	
	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF
06-30-1996	185	73.39	26	7.61	32	13.33	39	5.66
12-31-1996	181	70.05	30	6.55	35	13.87	40	9.53
06-30-1997	194	75.10	28	6.38	32	13.08	41	5.44

Source: FITD statutory reports

Solvency Profile

The average weighted values for the solvency indicators **B1** (Capital for supervisory purposes / Supervisory capital requirements) and **B2** (Shareholders'equity / Funds due to customers), show an inverse relationship with the other. That is, while **B1** shows a positive increasing trend, **B2** reveals a decrease from June 1996 to June 1997. This phenomenon can be explained in part, by the fact that the Bank of Italy has set a minimum limit on **B1**, whereas no restrictions were placed on **B2**. Furthermore, **B1** relates the bank's capital and reserves to an aggregate representing the riskiness of the assets, while **B2** indicates the financial structure (Debt/Capital) of the bank. The inverse relationship between these two indicators could be considered normal. In fact, the increase in **B1** could be interpreted as an improvement in the allocative efficiency of the banks. This means that by better allocating their resources, less capital would be needed to confront specific banking risks. With equal assets and liabilities, the improvement in the asset quality would require a lower level of capital as a guarantee for the bank's creditors, therefore increasing the bank's leverage.

On June 30, 1997 the distribution of **B1**'s statutory classes showed that 22 banks, equivalent to 14% of Reimbursable

Funds, were below the “Normal level”. Three of these banks, equivalent to 0.67% of Reimbursable Funds, were in the “Violation level”. An improvement was found with respect to the situation noted on June 30, 1996, where 24 banks were below the “Normal level”.

“B1” Indicator

Capital for supevisory purposes / Supervisory capital requirements

	Normal > 120 %		Attention ≤ 120 %		Warning ≤ 100%		Violation ≤ 80%	
	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF
06-30-1996	258	90.20	14	2.80	6	1.80	4	5.20
12-31-1996	267	91.40	11	3.36	6	0.94	2	4.31
06-30-1997	273	86.15	11	7.61	8	5.57	3	0.67

Source: FITD statutory reports.

The distribution for **B2**’s classes, as of June 30, 1996, showed that 85 banks were below the “Normal level”.

The particular nature of this indicator stems from the high percentage of Reimbursable Funds below the “Normal level” (equal to 42% of R.F.), compared to other indicators. This means there are a large number of medium-large sized banks which are below the “Normal level”: they might need a greater provision of funds, for an equal amount of capital, to finance their activities.

As a result, the positive level in the **B1** indicator, for the above mentioned banks, could be a sign that the thresholds established for **B2** are too strict.

“B2” Indicator

Shareholders’s equity / Funds due to customers

	Normal > 12%		Attention ≤ 12 %		Warning ≤ 10%		Violation ≤ 6%	
	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF
06-30-1996	197	57.41	46	17.72	33	19.70	6	5.18
12-31-1996	188	53.62	46	28.02	47	13.87	5	4.49
06-30-1997	210	58.30	42	17.94	38	18.97	5	4.79

Source: FITD statutory reports.

Maturity Transformation Profile

The Statutes and By-laws, approved on December 12, 1996, substituted the liquidity profile with one which highlights the matching of maturity dates for assets and liabilities. In this way the Fund has conformed to bank supervisory rules in Italy and abroad.

The Maturity Transformation Profile is made up of three rules by which the various maturities of the assets are compared to those of corresponding liabilities.

Since there are specific supervisory rules governing this profile, the statistical distribution, on June 30, 1997, for the Maturity Transformation statutory classes, highlights a very large number of banks in the "Normal level" (banks below the normal level represent only 6.5% of R.F.).

"C" Indicator

In respect to supervisory maturity transformation rules

	Normal *3 rules respected*		**Attention** *1 rule not respected*		**Warning** *2 rules not respected*		**Violation** *3 rules not respected*	
	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF
06-30-1996	267	91.30	13	5.20	2	3.50	0	0.00
12-31-1996	274	92.26	11	4.29	1	3.45	0	0.00
06-30-1997	281	93.45	10	6.51	4	0.04	0	0.00

Source: FITD statutory reports.

Profitability Profile
(1996 values)

During 1996, the value of the indicator **D1** (Overhead Costs / Net Operating Income) was close to that of the previous year, showing only a minimal decline.

Due to problems related to the high and steady level of General and Administrative Expenses and the tightening of Net Operating Income, the **D2** indicator shows the largest number of banks below the "Normal level" (109 banks representing approximately 38% of R.F.).

"D1" Indicator

Overhead costs / Net Operating Income

	Normal **≤ 70 %**		**Attention** **≤ 75 %**		**Warning** **≤ 85%**		**Violation** **> 85%**	
	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF
06-30-1996	185	63.73	31	12.88	34	13.71	32	9.68
12-31-1996	189	64.76	26	15.52	38	9.82	33	9.89
06-30-1997	182	61.68	31	18.64	46	11.15	32	8.49

Source: FITD statutory reports.

The average weighted value for the **D2** indicator (Loan losses, net of recovery / Net Operating Profit) decreased significantly with respect to last year (34.66% vs. 43.61%); this may be related to an improvement of the banks'asset quality.

A tendency confirmed both by the decreasing number of banks which were in the "Violation level", on June 30, 1997, and by the increasing percentage of Reimbursable Funds of banks in the "Normal level", in respect to the previous year's results.

"D2" Indicator

Loan losses, net of recovery / Net Operating Profit

	Normal ≤ 50 %		**Attention ≤ 60 %**		**Warning ≤ 80%**		**Violation > 80%**	
	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF	No. of banks	% RF
06-30-1996	218	76.43	10	4.55	15	9.95	39	9.07
12-31-1996	225	78.83	13	8.23	17	4.24	31	8.71
06-30-1997	228	79.73	16	9.55	14	2.54	33	8.14

Source: FITD statutory reports.

The Fund's Interventions

A description of the three interventions, which took place during the course of 1997, will be discussed in the following section of the report.

Banca di Credito di Trieste – Kreditna Banka

Banca di Credito di Trieste S.p.A.–Kreditna Banka (BCT) was placed under *Special Administration* (S.A.) on October 8, 1996, due to negative profit margins in 1994 and 1995, and also due to the failed attempt to save the bank, with an injection of capital, by **Banca Popolare di Brescia**.

The Special Administrators'assessment showed a large amount of outstanding loans to five local Financial Groups in economic and financial trouble. After further investigations, it was evident that reorganization attempts would have not been successful. On November 21, 1996, the Ministry of Treasury signed a Decree, ordering the revocation of the bank's license to operate, and placing BCT under *Administrative Compulsory Liquidation*.

On November 27th and December 6th of 1996, BCT's Liquidators estimated that the intervention would cost 397 billion lira, based on the amount of protected deposits with the limits in force with the previous Statutes (total reimbursement of up to 200 million lira and 75% of the portion exceeding 200 million up to one billion lira).

Also, on December 6th, the Liquidators proposed the following solution for BCT:

- A commitment to disburse 397 billion lira to the "Liquidation", on behalf of the Fund, in order to reimburse depositors;
- The transfer of assets (excluding *doubtful* and *watchlist* loans for an amount of about 407 billion lira), and Total Reimbursable Funds, by the "Liquidation" to the receiving bank;
- The implementation of the first disbursement, in favor of the Liquidation's creditors (including the Fund).

Subsequently, the Fund would disburse an initial amount of 200 billion lira which would allow for the expeditious allocation of funds (deriving from the immediate sale of "healthy" assets), the estimation of goodwill, a more efficient management of *impaired credits* on behalf of the "Liquidation", and the maintenance of the employment level.

Based on these hypotheses, the Fund's final burden was estimated at 150 billion lira.

On December 18th, 1996, the FITD Board, based on all these evaluations, deliberated the total cost of the intervention for an amount equal to 150 billion lira, in favor of **Banca di Credito di Trieste-Kreditna Banca**.

This amount will be disbursed after the value assessment of the bank's assets and liabilities.

During the course of 1997 new elements came to light.

Specifically, the amount of Reimbursable Funds grew from an initial amount of 397 billion to 424 billion lira, and a part of the "healthy" assets transferred to the receiving bank were deemed unsatisfactory. Therefore, the receiving bank requested either the restitution or the acquisition at a value lower than the initial one.

Due to these facts, negotiations took place between the Fund and the Board of Liquidators, in order to reach a settlement for a total amount of 168 billion lira for the liquidation of BCT, and the release of any further responsibility on behalf of the Fund.

The disbursement will take place when the agreement is signed between the Fund and the "Liquidation".

Credito Commerciale Tirreno

Credito Commerciale Tirreno S.p.A. (CCT) was placed under *Special Administration* on June 6, 1996, as a result of considerable anomalies assessed by the Bank of Italy.

Further investigations, by the Special Administration Commission, revealed *contingent losses* equal to 63 billion lira, and a total amount of *doubtful* and *watchlist* loans equal to 200 billion lira (representing 45% of the total loan portfolio). These losses plus a high incidence of operating costs, determined a total capital deficit of 106 billion lira.

The total amount of FITD Reimbursable Funds, based on the current statutory limit (200 million lira), was equal to 542 billion lira, determining an estimated cost of 117 billion lira for an intervention on behalf of the Fund (Statutes, ex art. 27).

Alternative intervention solutions were sought in order to limit FITD's costs, to preserve the bank's value, and to maintain the same employment level.

In February 1997, four banks submitted offers for the acquisition of CCT's assets and liabilities.

The offer from **Banca Popolare dell'Emilia Romagna** was the most economical since it entailed a *lower cost* on behalf of the Fund.

On February 20, 1997, the FITD board deliberated over an intervention for an amount of 99.469 billion lira, in order to cover any losses incurred during the transfer of assets and liabilities, to be disbursed three months after the stipulation of the transfer deed.

On March 6, 1997, CCT was placed under *Administrative Compulsory Liquidation*, and on March 8, 1997, the act, stipulating the transfer of CCT's assets and liabilities, was drawn up in favor of **Banca Popolare dell'Emilia Romagna**.

On June 30, 1997, the Fund disbursed an amount of 99.469 billion lira in favor of the receiving bank.

Sicilcassa S.p.A.

On March 7, 1996, **Sicilcassa S.p.A.**, was placed under *Special Administration* (S.A), with the Ministry of Treasury's Decree, at the request of the Bank of Italy after results of an on-site examination.

The S.A. was postponed until March 6, 1997.

On May 31, 1997, a pessimistic framework emerged, resulting from the S.A. Commission's audit and assessment of the bank's accounting situation. Results showed that a considerable amount of *non performing* credits existed in the loan portfolio. *Doubtful* and *watchlist* loans, net of the Special Administrators' writedowns, totaled 3,411 billion lira *(equal to 45 % of Doubtful loans and 27 % of watchlist loans, for a total amount of 2.8 trillion lira).*

The *non performing* nature of *Doubtful* loans, not to mention the high incidence of operating costs, determined a negative economic performance, highlighting accumulated operating losses of 1,973 billion lira from May 1997 and a total capital deficit of 762 billion lira.

Considering the severity of this situation, and the critical condition of the Sicilian economy, it was evident that any attempt to save the bank through support interventions would have not been successful (Statutes, ex art. 29).

The two remaining alternatives were to pay off depositors (Statutes, ex art. 27) and to facilitate the transfer of assets and liabilities (Statutes, ex art. 28).

The reimbursement of depositors would have entailed:

- an initial disbursement of 5,074 billion lira (in fact, this amount equaled the EU minimum deposit protection of ECU 20,000, to be reimbursed within three months, extendable up to nine months, from the liquidation date);
- A further disbursement of 1,435 billion lira based on the timing and terms established by the FITD Board;
- A cost ranging from 1,200 billion up to 2,000 billion lira based on hypotheses regarding the percentage of the assets' recovery.

Within a broader project intended to restructure the Sicilian Banking System, a possibility arose to transfer **Sicilcassa**'s assets and liabilities to **Banco di Sicilia**.

In order to be economically feasible, an intervention on behalf of the Fund would have had to be equal to 1,000 billion lira.

Since this amount was lower than that of reimbursing depositors, the FITD Board, in view of the "lowest cost" criterium, deliberated on August 13, 1997, to intervene in favor of the transfer of assets and liabilities to **Banco di Sicilia**.

The amount of 1.000 billion lira will be disbursed in two equal installments: the first on the declaration date of *Administrative Compulsory Liquidation*, and the other six months later.

On September 5, 1997, **Sicilcassa** was placed under *Administrative Compulsory Liquidation* with the Decree of the Ministry of Treasury and on September 6, 1997, the Fund disbursed the first quota of 500 billion lira in favor of the receiving bank.

Interventions still affecting Fund operations

Cassa di Risparmio di Prato

During the course of 1997, the Fund continued to follow the judicial controversy, for which, according to the agreement with **Monte dei Paschi di Siena**, a final settlement was not reached. This controversy entails a constant risk for the Fund with respect to the intervention already carried out, at an estimated cost of 30 billion lira, for the ongoing court case.

Banca di Girgenti

The **Banca di Girgenti** intervention had no effect on the Fund during 1997. However, the Fund has continued to follow the judicial controversy still pending in court.

Banco di Tricesimo

During the course of 1997, the "Liquidation" of **Banco di Tricesimo S.p.A.** requested the restitution of 16,501,284 lira, representing the total amount of credit belonging to two ex internal auditors of the bank. This amount was placed on the liability side by the Court of Udine.

On April 29, 1997, Bank of Italy approved the release of a guarantee due to the "Liquidation" by the Fund granting partial shares of the bank's assets.

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Subsequently, the Fund deposited the amount requested, which was deducted from the capital of the "Liquidation", which as of 12/31/97 was equal to 6,064,749,660 lira.

At the moment, the Bank of Italy and the Liquidation bodies are discussing over the conclusion of the entire procedure.

Issues deriving from the implementation of Directive 94/19/EC and International Deposit Insurance Schemes

Interventions implemented during the year revealed signs of weakness within the Deposit Protection System, due to considerable burdens on member banks.

At the moment the FITD offices and the Italian Banking Association (ABI) are analyzing a proposal of deposit insurance system reform.

In this regard, the following paragraphs of this report are dedicated to International Deposit Insurance Schemes.

The two aspects distinguishing the different Deposit Insurance Schemes are the level of protection (Reimbursable Funds) and the funding arrangements.

In Europe, Directive 94/19/EC set the minimum amount of protection to ECU 20,000, allowing member countries to maintain or adopt rules for higher protection levels.

At the moment, five European countries (Belgium, Ireland, Luxembourg, Portugal and Spain) limit the guarantee to ECU 15,000 until December 31, 1999, in view of the temporary regime for low-insurance countries.

In the United Kingdom, Netherlands, Greece and Austria, the maximum amount of protection is set at ECU 20,000 as the level contained in the Directive.

The protection limit exceeds ECU 20,000 in Finland (ECU 25,000), Sweden (ECU 27,800), Denmark (ECU 40,045), France (ECU 61,120), Italy (ECU 100,000) and Norway (ECU 246,000), whereas in Germany the protection of customer deposits is almost unlimited.

Among non-EU member countries, Switzerland insures depositors for an amount approximately equal to ECU 19,000, Iceland for ECU 20,000, Canada for ECU 34,860, while in Japan (ECU 81,700) and USA (81,500) the protection limit is almost the same.

National Deposit Insurance Schemes also differ in regard to the nature of the funding system which can be “real” or “virtual”.

At the moment, resources for interventions in cases of depositor protection can take the form of periodical contributions by banks ("real" Fund) or contributions in the event of call ("virtual Fund"), that is, disbursements only when an intervention occurs.

Among the 21 Deposit Insurance Schemes analyzed, a "real" Fund with periodical contributions by banks exists in Belgium, Denmark, Germany, Greece, Spain, Ireland, Island, Norway, Portugal, Finland, Sweden, the United Kingdom and, in non-EU countries, Canada, Japan and the USA.

A "virtual" Deposit Insurance Scheme, based on contributions in the event of call exists in France, Italy, Luxembourg, Netherlands, Austria and Switzerland.

The contributions by banks are, in both cases, proportional to the amount of Reimbursable Funds and only rarely to bank capital level (Portugal, Norway, the USA and indirectly Italy) or to total assets (Finland).

In the "real" contribution systems above analyzed, the annual contribution ranges from a minimun level equal to 0,02% of deposits (Belgium) to a maximum one of 0,6% (Sweden), with an average value of 0,173%.

Activities conducted by the FITD offices

During this year, the FITD offices were engaged in the implementation of the Statutes and By-laws, adopted by the extraordinary General meeting on December 12, 1996.

In that regard, continuing the project undertaken on February 1996, meetings with member banks were organized, in order to explain the FITD operating mechanism (statutory reports, contribution systems for operating expenses and interventions).

As mentioned above, the Fund has been called to intervene in three cases during the course of the year.
The offices, with the collaboration of supervisory offices of Bank of Italy, have been constantly involved in pursuing the "lowest cost" for the Fund.

Because of the high charges connected with the FITD interventions, meetings were held with all member banks to inform, in view of transparency and thoroughness objectives, on the valuation criteria adopted for the interventions.

In the execution of the General meeting's mandate to carry out a "monitoring" of balance-sheet indicator system, a report which highlights the principal issues and the related solution proposals has been drawn up.

In this regard, it has been considered the opportunity to modify the two following statutory rules:

- art. 8, paragraph 1, of the Appendix to the Statutes (Frequency of statutory reports). In order to align the reference time of profit & loss and balance sheet indicators (currently there is a mismatch of six months), it has been proposed to postpone the deadlines of december and march statutory reports from march 31 to april 30, and from may 15 to may 31, respectively;
- art. 5, paragraph 2, of the Appendix to the Statutes (Balance-Sheet indicators and thresholds). Reduction of two percentage points for *Attention* and *Warning* thresholds of B2 Indicator (Shareholders' equity / Funds due to costumers).

During the year, The Fund has established contact with International Deposit Insurance Schemes in order to compare different experiences and to benefit from them.

A report has been realized from these relationships, whose summary has been referred to previously.
At the Fund a considerable endeavour has been made to up-date the FITD Information Technology System. The project,

which will be completed in 1998, will allow member banks to directly communicate with the Fund through SIA, a cable channel.

Other activities which have involved the FITD offices are:

- Improvement and widening of statistical feed-back flows for statutory reports;
- Interest in a correct accounting policy for the costs of interventions, at the supervisory institutions (Bank of Italy, first of all);
- Organization of a research group with some member bank representatives to elaborate a detailed statutory report. The aim is to improve the monitoring of bank activities and prevent states of insolvency and crises.

Current year will involve the FITD offices in the following projects, along with the prosecution of the 1997 activities:

- Definition and implementation of a detailed statutory report and a related software release which will allow the direct extraction of data from the Bank of Italy's supervisory statistical reports (Accounting Matrix-*Matrice dei Conti*); the detailed statutory report will be sent through SIA network;
- Drafting of a semi-annual Report about the FITD consortium;
- Implementation of *risk monitoring* and *bank failures prediction* models.

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In the end of our presentation on the FITD activities, we shall invite the member bank representatives to endorse the financial statement as of December 31, 1997 drawn up in observance of the articles 2424 and 2425 c.c. (civil code), equipped with the Note to the financial statement, as provided for by the article 2427 c.c.

APPENDIX

This appendix contains a set of statistical tables and graphs.

In particular:

- Time series of weighted average values for balance-sheet indicators. They visualize the dynamics of the banking system behaviour from June 1996 to June 1997 (starting from the adoption of the current Statutes);
- Frequency distributions, as of June 30, 1997, of **A1**, **A2**, **B1**, **B2**, **D1**, **D2** balance-sheet indicators and **Aggregate Indicator**;
- A synoptic table comparing the main features of National Deposit Insurance Schemes.

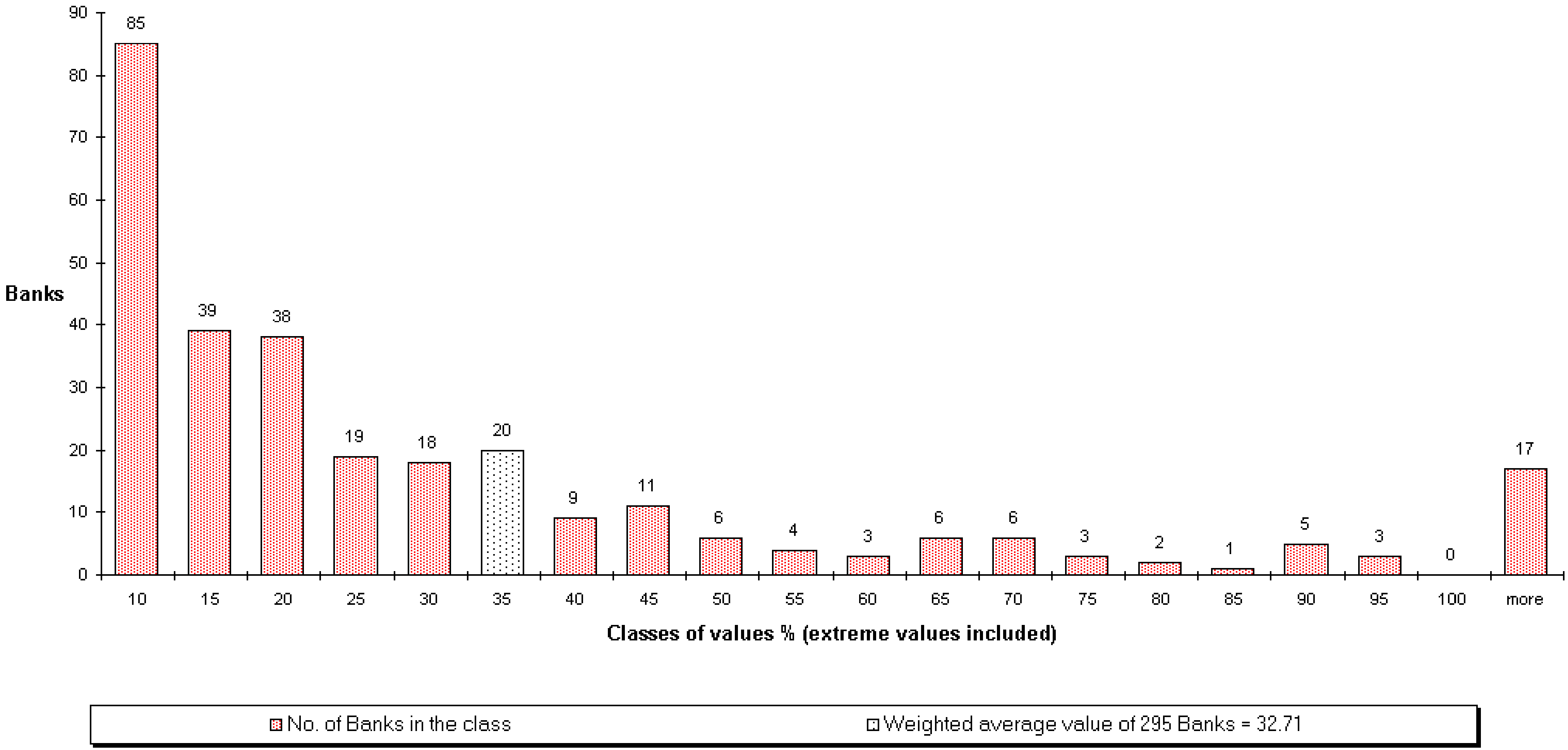
Time Series of Balance-sheet indicators

295 MEMBER BANKS

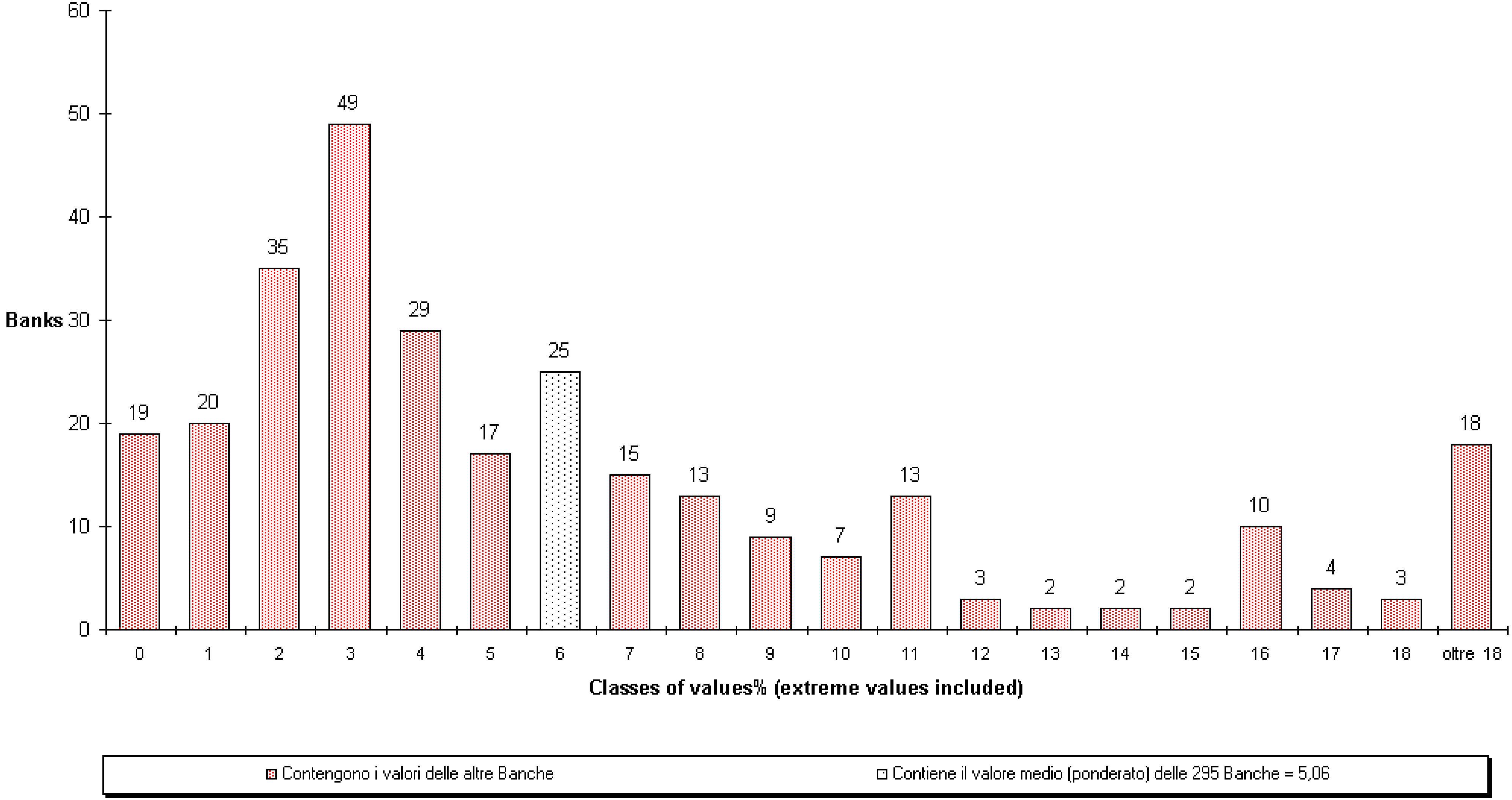
	Weighted Average Values							
Date	**A1**	**A2**	**B1**	**B2**	**C**	**D1**	**D2**	**Reimbursable Funds (billion lira)**
06/30/1996	34,65 Normal	5,44 Normal	171,10 Normal	14,08 Normal	N.C. Normal	67,12 Normal	46,31 Normal	748.734
12/31/1996	37,17 Normal	5,73 Normal	174,48 Normal	13,44 Normal	N.C. Normal	65,45 Normal	35,52 Normal	771.252
06/30/1997	32,71 Normal	5,06 Normal	174,40 Normal	13,54 Normal	N.C. Normal	66,84 Normal	34,66 Normal	647.401

Legend: indicators and thresholds					
		Normal	**Attention**	**Warning**	**Violation**
A1	**Total Net Doubtful Loans / Shareholders'equity**	≤ 40 %	≤ 60 %	≤ 100 %	> 100 %
A2	**Net Doubtful Loans cust / Net outstanding Loans cust**	≤ 6 %	≤ 8 %	≤ 12 %	> 12 %
B1	**Capital for sup. purposes / Sup. Capital requirement**	>120%	≥ 100 %	≥ 80 %	< 80 %
B2	**Shareholders'equity / Funds due to customers**	≥ 12 %	≥ 10 %	≥ 6 %	< 6 %
C	**In respect to sup. maturity transf. Rules**	3 rules resp.	1 rule not resp.	2rules. not resp.	3 reg. not resp.
D1	**Overhead costs / Net Operating Income**	≤ 70 %	≤ 75 %	≤ 85 %	> 85 %
D2	**Loan losses, net of recovery / Net Operating Profit**	≤ 50 %	≤ 60 %	≤ 80 %	> 80 %

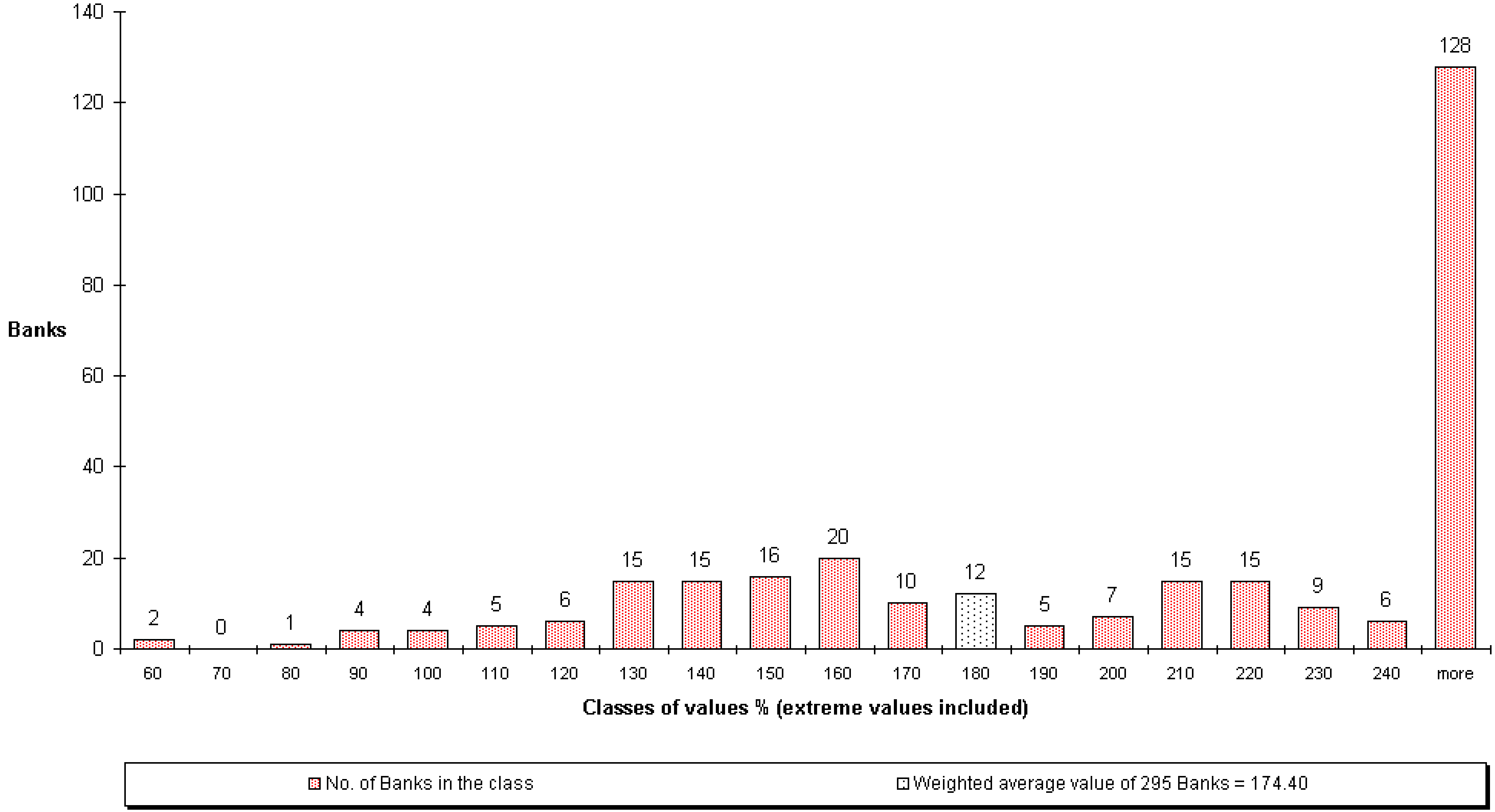
A1" INDICATOR : TOTAL NET DOUBTFUL LOANS / SHAREHOLDERS' EQUITY
Data as of 06.30.1997



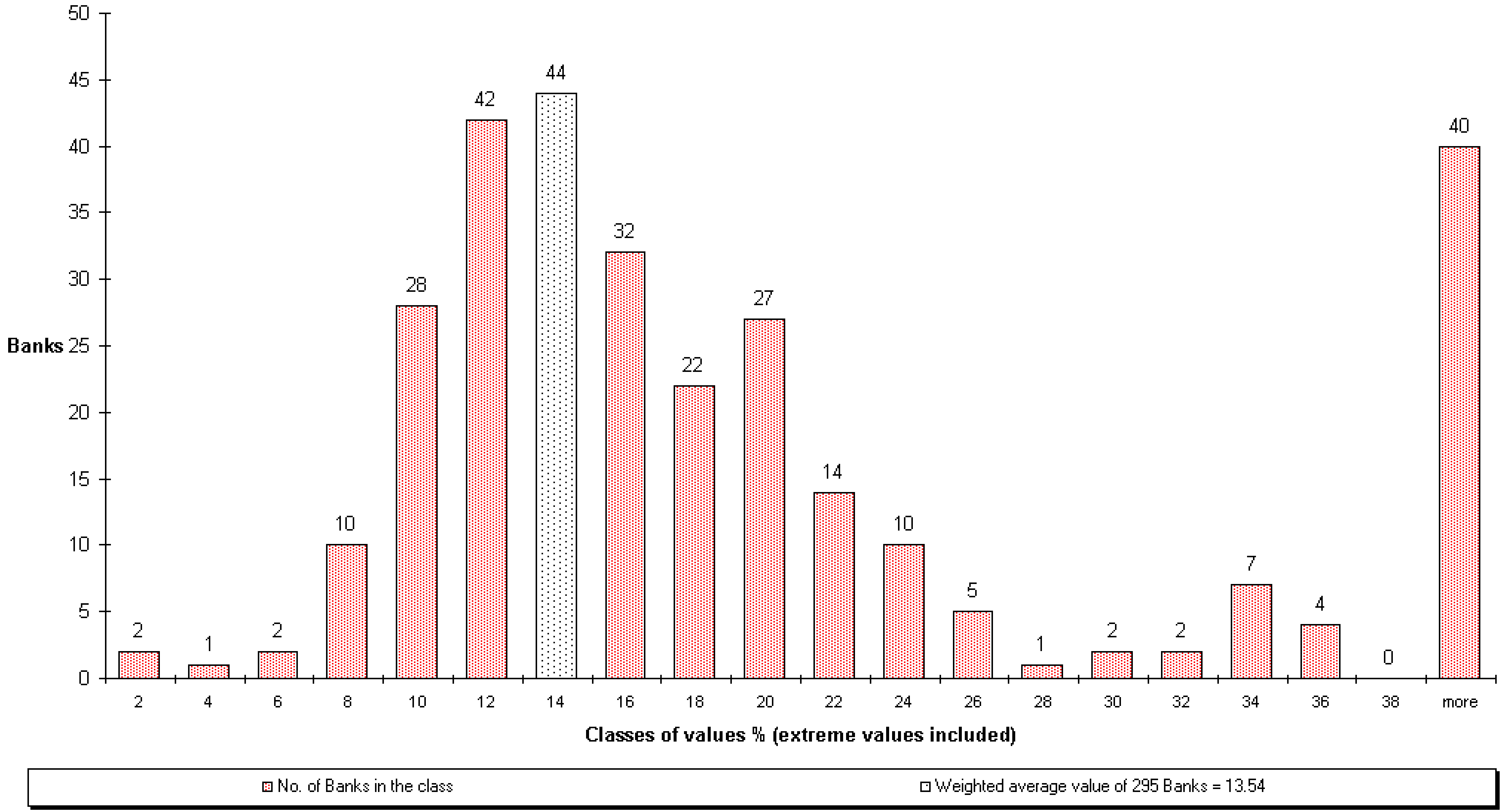
"A2" INDICATOR : NET DOUBTFUL LOANS vs CUSTOMERS / NET OUTSTANDING LOANS vs CUSTOMERS
Data as of 06.30.1997



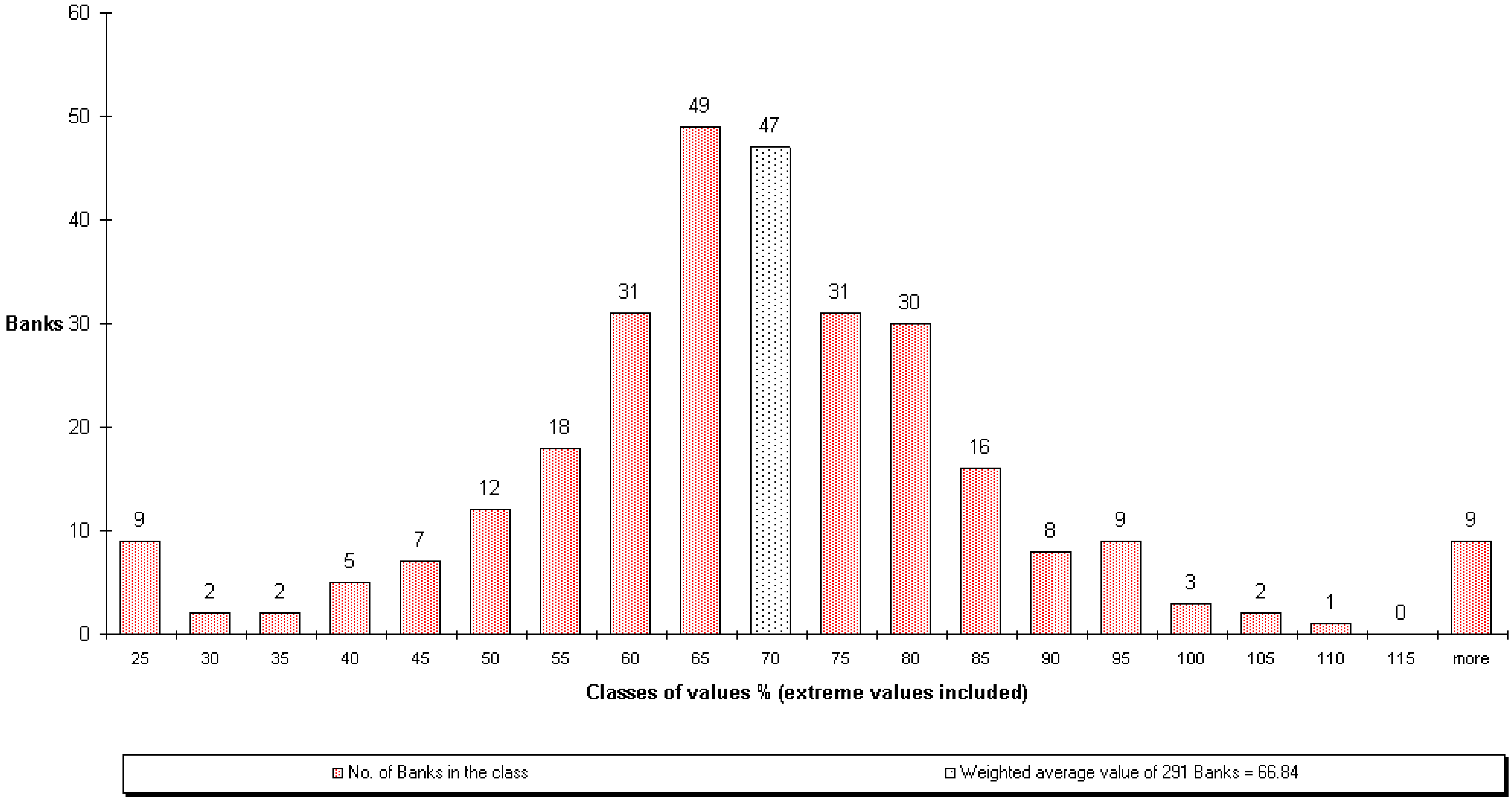
"B1" INDICATOR : CAPITAL FOR SUPERVISORY PURPOSES / SUPERVISORY CAPITAL REQUIREMENTS
Data as of 06.30.1997



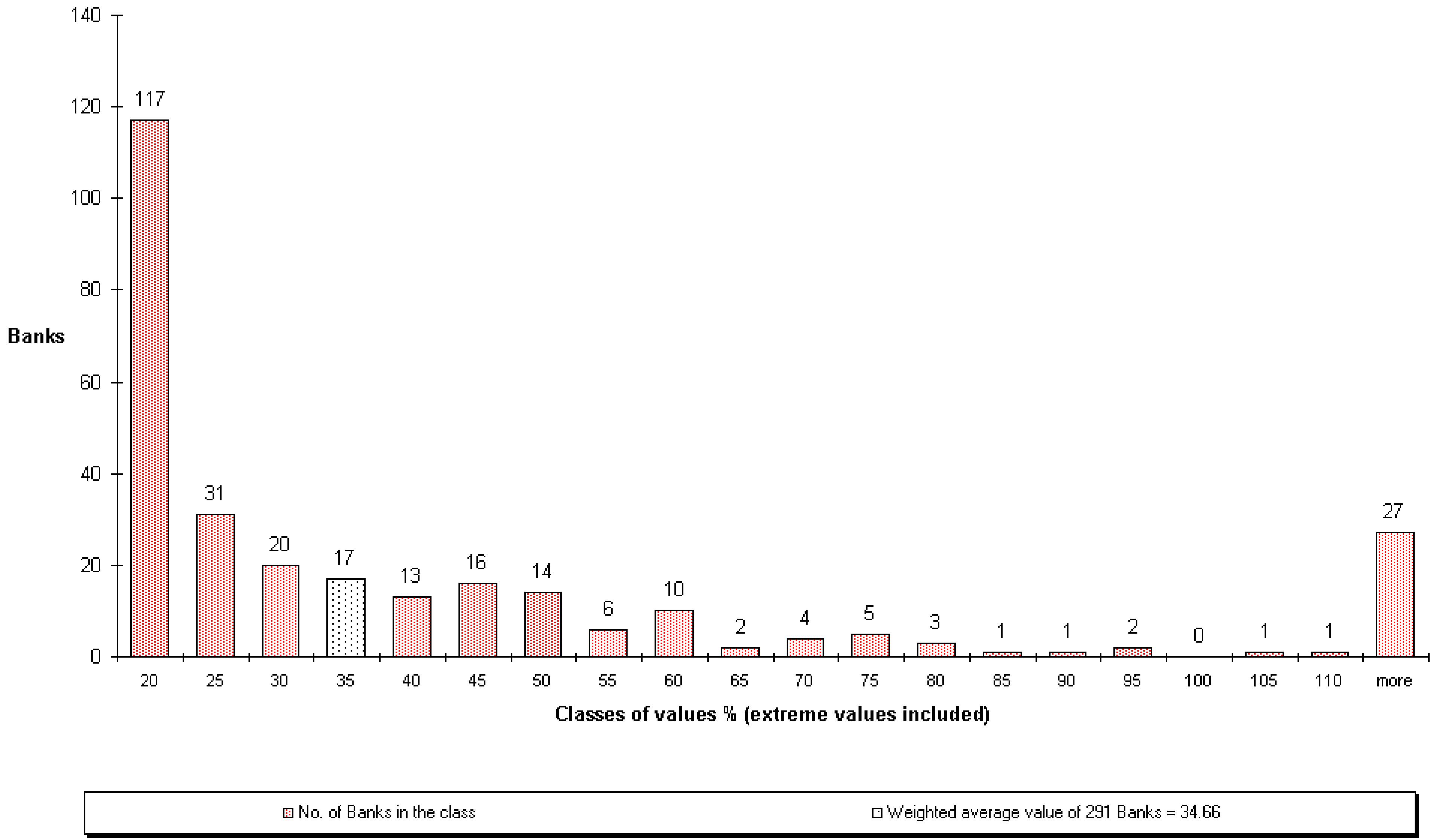
"B2"INDICATOR : **SHAREHOLDERS' EQUITY / FUNDS DUE TO CUSTOMERS**
Data as of 06.30.1997



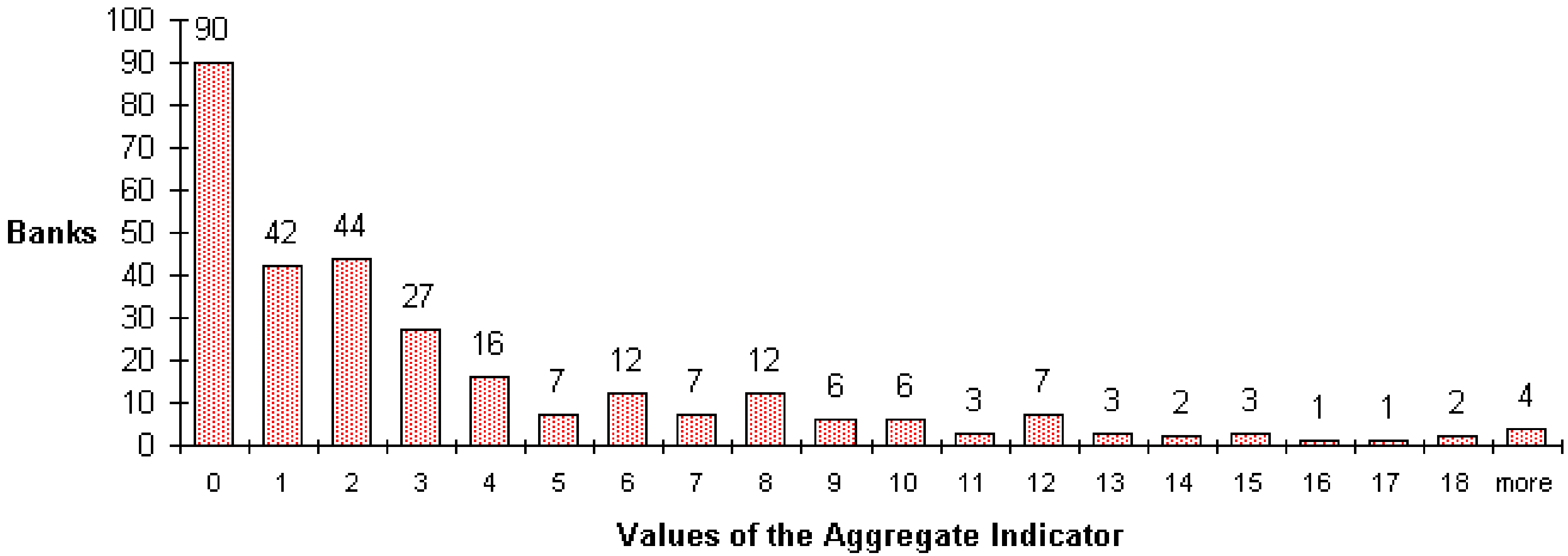
"*D1*" *INDICATOR* : OVERHEAD COSTS / NET OPERATING INCOME
Data as of 06.30.1997



"D2" INDICATOR : LOAN LOSSES (NET OF RECOVERIES) / NET OPERATING PROFIT
Data as of 06.30.1997



AGGREGATE INDICATOR
Data as of 06.30.1997



National Deposit Insurance Schemes			
Country	**Funding Arrangements**	**Annual Contributions to Deposit Insurance Schemes**	**Maximum Protection Limit per Depositor**
Austria	Contribution in event of call	The amount payable is allocated according to the proportion each bank's deposits falling within the scheme bears to the total of such deposits	ATS 260.000 = ECU 20.155
Belgium	Annual contribution	0,02% of banks deposits falling within the scheme (Maximum of 0,06% in the event of a claim exceeding the financial capacity of the Fund)	BEF 567.000 = ECU 15.000
Canada	Annual contribution	One-sixth of one per cent of insured deposits	CA$ 60.000 = ECU 34.860
Denmark	Annual contribution	0,2 % of total bank deposits	DKK 300.000 = ECU 40.045
Finland	Annual contribution	Between 0.05% and 1% of total assets	FIM 150.000 = ECU 25.000
France	Contribution in event of call	The contribution falls into two parts: a) a fixed part equal to 0,1% of any claim settled and with a FRF 200.000 ceiling b) a proportional part, varying according to a regressive scale, relative to a size of the bank contributing	FRF 400.000 = ECU 61.120
Germany	Annual contribution	0,03% of the bank's liabilities to private customers	30% of bank's own funds per depositor
Japan	Annual contribution	0,132% of deposits	YEN 10.000.000 = ECU 81.700
Greece	Annual contribution	The contribution varies according to a regressive scale, relative to the size of the bank	GRD 6.000.000 = ECU 20.000
Ireland	Annual contribution	0,2% of deposits (initial deposits) + Pluri-annual mixed system	80 % < IR£ 5.000 = ECU 5.040 70 % between IR£ 5.000 & IR£ 10.000 = ECU 4.410 50 % between IR£ 10.000 & IR£ 15.000 = ECU 3.150
Iceland	Annual contribution	0,15% of deposits until accumulated contribution reaches 1% of total bank deposits	ISK 1.700.000 = 20.000 ECU
Italy	Contribution in event of call	The fund uses balance sheet indicators to monitor the risk presented by member banks The contribution of each bank depends on the risk it presents.	ITL 200.000.000 = ECU 100.000
Luxembourg	Contribution in event of call	The amount payable is allocated according to the proportion of each bank's deposits falling within the scheme as compared with the total of all bank deposits covered by the fund	ECU 15.000
Norway	Annual contribution	The average total contribution for all bank is 0,15% of total deposits until the accumulated contributions reach 1,5% of the deposits covered. The contributions depend on the level of capitalisation of each banks.	NOK 2.000.000 = ECU 246.000
Netherlands	Contribution in event of call	The amount payable is allocated according to the proportion of each bank's deposits falling within the scheme as compared with the total of all bank deposits covered by the fund	NLG 41.300 = ECU 20.000
Portugal	Annual contribution	The contribution falls into two parts: a) an initial contributions, fixed by the Banco de Portugal; b) annual contributions according to the level of capitalisation of each bank.	100 % <= PTE 3.000.000 = ECU 15.000 75 % between PTE 3.000.000 & PTE 6.000.000 = ECU 11.250 50 % between PTE 6.000.000 & 9.000.000 = ECU 7.500
United Kingdom	Annual contribution	Three levels of contributions: a) an initial contribution when a bank joins the scheme; b) a further contribution to restore the Fund to between £ 5.000.000 and £ 6.000.000 at the end of any year; c) a special contribution in the case of need	a) 90% of GBP 20.000 or 90% of ECU 22.222, which ever is the greater b) Maximum reimbursed amount: GBP 18.000 or ECU 20.000, which ever is the greater
Spain	Annual contribution	0,2 % of total bank deposits	ESP 2.325.000 = ECU 15.000
Sweden	Annual contribution	The contribution varies between 0,40% and 0,60% of deposits covered by the scheme. The contributions depend on the level of capitalisation of each bank.	SEK 250.000 = ECU 27.800
Switzerland	Contribution in event of call	The amount payable is allocated according to the proportion each bank's deposits falling within the scheme bears to the total of such deposits	CHF 30.000 = ECU 18.690
USA	Annual contribution	The contribution depends on the level of capitalisation and varies between 0 and 0,27% of total bak deposits	US$ 100.000 = ECU 81.500

Source: Federation Bancaire de l'Union Européenne, International Monetary Fund, Foreign funds' Statutes and By-laws.