



*Fondo Interbancario di Tutela dei Depositi*

*Interbank Deposit Protection Fund*

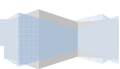
## **The FITD monitoring system of bank riskiness and risk-based contribution**

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The FITD monitoring system of bank riskiness  
and risk-based contribution



*Interbank Deposit Protection Fund*





## **Executive Summary**

*The **Interbank Deposit Protection Fund** (FITD or Fund), established in 1987 on a voluntary membership basis, is a private-law mandatory Consortium, recognised by the Bank of Italy. Its activities are regulated by the Statutes and By-Laws.*

*With the Legislative Decree 659/96 (published in the Official Journal of the Italian Republic on 27 December 1996 and entered into force on 11 January 1997) EU Directive 94/19/EC<sup>1</sup> on deposit insurance systems was implemented in the Italian legislative system.*

*Following the provisions of Article 96 of Legislative Decree 385 of 1 September 1993 (Italian Banking Law), the principle of mandatory membership in a deposit guarantee system was introduced in Italy. All member banks constitute the Consortium.*

*The mandate of the FITD is that of guaranteeing depositors of member banks; the financial resources for the pursuit of this aim are provided by the Consortium members. All Italian banks (276 as of December 2010) adhere to the Fund. Credit cooperative banks, however, join the “Deposit Guarantee Fund of Cooperative Banks”. This latter, along with the “Bond Holders Guarantee Fund of Cooperative Credit Banks” (a voluntary scheme for credit cooperative banks only) and the “National Guarantee Fund” (for investors) are the other guarantee schemes active in Italy.*

*Branches of European Union banks operating in Italy are not bound to adhere to the Fund, but they can choose to join to supplement the deposit protection provided by their home country scheme (Topping Up).*

*Non EU-banks authorized to operate in Italy are required to become members, unless the deposit protection schemes of their home countries are considered to be equivalent to the Italian one.*

*Pursuant to Articles 9-bis and 96-ter of Legislative Decree 385/1993, the Bank of Italy has full powers in supervising and coordinating the activities of deposit protection schemes active in the Italian system.*

*The aim of this document is to illustrate the FITD Statutory Report System, with reference to the collection of the Contribution Base (CB), the calculation of contribution quotas for both interventions and operating expenses, and the monitoring system of member banks’ riskiness.*

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<sup>1</sup> Directive 94/19/CE was amended by Directive 2009/14/EC of 11 March 2009 with regard to the coverage level and the payout delay. This new Directive was implemented in the Italian legislative system by the legislative decree n. 49 of 24 March 2011, which entered into force from 7 May 2011.

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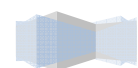
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*The first edition of this Manual (January 2006) and the following updates are edited by Manuela De Cesare and Alessio Veccia (FITD Research and Analysis Department)*



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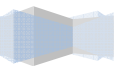
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## The Statutory Reports System

Along with supervisory activities and the lender-of-last-resort mechanism, deposit insurance is one of the basic components of the safety-net to ensure the stability of the banking system.

Deposit insurance recognizes and supports both the social function of savings and the monetary function of banking intermediation; it aims to avoid traumatic effects on depositors in case of bank failures.

EU Directive 94/19 provided for a minimum guarantee level of € 20,000 per depositor. Directive 2009/14/CE of 11 March 2009, which amended the former one, stipulated that this should be increased to 50,000 with immediate effect and to 100,000 euro by the end of 2010.

The Legislative Decree 659 of December 4, 1996 implementing EU Directive 94/19 in the Italian legislative system, fixed the maximum limit of reimbursement at 103,291.38 Euro per depositor<sup>2</sup>. More recently, the Legislative Decree n. 49 of 24 March 2011 implemented Directive 2009/14/EC and set the coverage level in Italy at the harmonised level of 100,000 euro per depositor.

The Fund shall compensate, up to the limits laid down in the its Statutes, depositors in Italian banks which are members of the Consortium, depositors of their foreign branches in European Union countries, and depositors of the Italian branches of European Union and non-EU banks which have joined the Fund.

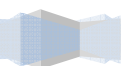
Besides specific exclusions, listed in Article 27 paragraph 2 of the Statutes of the Fund, claims eligible for reimbursement shall be those relating to *“repayable funds raised by the members, in Euros and in foreign currency, in the form of deposits or in other forms, as well as bankers’ drafts and equivalent instruments.”*

This relates to credits from member banks placed under compulsory administrative liquidation, in accordance with Italian Banking Law.

The main aim of deposit insurance is to offer protection to the so-called "unaware depositor" who, not having access to all essential information, may not be able to evaluate the soundness of the financial institution where his or her deposits are placed.

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<sup>2</sup> Equivalent in Euros of the original limit of 200.000.000 lira as fixed in 1996 by L.D. 659.





## 1. The Fund and its member banks

### *Interventions of the Fund*

With the authorisation of the Bank of Italy, the Fund shall intervene:

- a) in cases of compulsory administrative liquidation of member banks authorised to do business in Italy and for Italian branches of EU banks, when the home country deposit protection scheme has intervened;
- b) in cases of special administration of member banks licensed in Italy.

Possible types of interventions are: (i) reimbursement of depositors (Article 27 of the Statutes) of member bank in compulsory administrative liquidation; (ii) transfers of assets and liabilities (Article 28 of the Statutes), as an alternative to reimbursement of depositors; and, (iii) support interventions (Article 29 of the Statutes), in favour of member banks in special administration.

The choice between the different types of interventions is based on the least cost principle.

In the event of intervention, the Fund shall operate on behalf of its members and in their interest.

The Fund is based on an ex-post contribution system. Therefore, the resources for interventions are provided by member banks only after the Fund has made a request, and in the amounts determined by the Fund itself.

### *Statutory Reports*

When it was set up as a voluntary Consortium in 1987, the Interbank Deposit Protection Fund introduced a Statutory Reports System based on the submission of periodical data (Statutory Reports) by all member banks.

These Reports are used by the Fund to: (i) calculate contribution quotas for interventions and for operating expenses due from each member bank; (ii) determine each member bank's votes for the General Meetings; and (iii) provide rules for member banks to ensure a sound and prudent management. This constant monitoring is done to minimise the Fund's interventions.

As provided for by Article 26 of the Statutes, member banks shall send the following statistical reports to the Fund: Balance-Sheet Ratios, Contribution Base and any additional data required by the Executive Committee, with the approval of the Bank of Italy. Specific time limits are set for both Ratios and Contribution Base.



Member banks are also required to send other kinds of information to the Fund on the business they conduct. Specifically, according to Article 10 of the By-Laws, banks shall notify the Fund of any changes to their operating situation within five days from the decision to adopt changes. Such changes could be: a) placement under special administration or in compulsory administrative liquidation; b) merger with, or takeover of, other banks; purchase or sale of: assets and liabilities, a company, divisions of a company or the totality of goods and claims of the institution involved; c) significant changes in the member's supervisory capital; d) entry into or exit from a banking group; e) change in corporate form; f) changes in composition of either the Board of Directors, the General Management, or the Board of Auditors<sup>3</sup>.

### *Analysis of banking riskiness*

The Fund evaluates the riskiness of its member banks through a system of four ratios belonging to three profiles: Risk, Solvency, and Profitability.

Ratios are calculated half yearly or quarterly, depending on the level of risk of the single member bank.

Three thresholds are set for each ratio; the ratios are divided into four classes, "Normal", "Attention", "Warning" and "Violation", into which member banks are rated. To each class is assigned a different coefficient and the sum of these coefficients gives an Aggregate Indicator (AI); on the basis of the value of the AI, the bank is given a rating class named Statutory Position<sup>4</sup>.

The Fund informs member banks of their Statutory Position and also supplies statistical reports comparing the specific situation with other members.

Information on the indicators can be found in the FITD Statutes and By-Laws.

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<sup>3</sup> Art. 10 of the By Laws also provides for the members to communicate updates for the Statutory Reports (in case of modifications of their operating situation) to the Fund. In case of takeover or purchase with other banks, purchase or sale of assets and liabilities of a company, of divisions of a company or of the totality of goods (paragraph 1, letter b), the member effecting the takeover or purchase must communicate to the Fund, within one month from the date of the takeover or purchase, the updated data for the reports required. Failed or belated communication shall entail applicability of the pecuniary sanctions referred to in article 9, paragraph 2, letter c) of the Statutes.

<sup>4</sup>To be clarified later, with an AI between 0 and 3, the bank Statutory Position is defined "Normal"; AI between 4 and 5 classifies the bank in the "Attention" class; if the AI goes from 6 to 7 the member is rated in the "Warning" class; with an AI between 8 and 10 the bank is in "Penalty"; an AI from 11 to 12 the Statutory Position is that of "Severe Imbalance"; finally, an AI higher than 12 classifies the bank in the "Expulsion" class. In any case, when the AI has a value equal to or higher than 6, Balance-Sheet ratios are calculated on a quarterly basis instead of half yearly .



### *Technological services and research*

The Fund provides member banks with technological services through its web-site ([www.fitd.it](http://www.fitd.it)). Specific software tools for the Statutory Reports are made available to member banks. All these services and tools are made available in the reserved area of the Fund's web-site. The area is accessible only to members, using a personalised ID and password. The reserved area also provides access to documents, software updates and private communications with the Fund.

The Fund carries out research projects on institutional subjects, particularly on credit risk management and topics connected with IAS/IFRS and Basel 2 regulations. Currently, the Fund is conducting a comprehensive revision and research into the system of the balance sheet ratios it uses.

## **1.1 Statutory Reports**

According to Article 7 of the Appendix to the Statutes, all data required by FITD are based, where possible, on the periodic supervisory reports that banks send to the Bank of Italy.

For this purpose, the Fund uses a *Glossary* composed of items that banks report to the Central Bank through the so called "Automated Prudential Returns" system, which is based on the prudential regulations issued by the Supervisor. The FITD Glossary contains aggregates of the Data Dictionary of the Bank of Italy and other specific items the Fund uses for the calculation of the Balance-Sheet Ratios and the Contribution Base.

Not all the components needed for the calculation of the Contribution Base, which is communicated by the member banks on a semi annual basis, are codified in items of the Automated Prudential Returns contained in the FITD *Glossary*. Further necessary information is inserted manually by each member bank. The Fund provides its members with appropriate software for that specific purpose.

As agreed in the *Memorandum of Understanding (Protocol)* signed between the Bank of Italy and FITD in March 2001, the Supervisory Authority supplies the Fund with a dataset on a quarterly basis. This dataset is taken from the Supervisor's own official archives and includes the balance-sheet ratios for each adhering bank. The Fund uses this data to assess the statutory position of each Consortium member.

When the *Protocol* came into force, the FITD Glossary was aligned with the Data Dictionary of the Bank of Italy, for both aggregates and detailed component items. Furthermore, over the period 2007-2011 the composition of the aggregates was regularly revised according to the changes to Supervisory Regulations made for implementing the international accounting standards IAS-IRFS and Basel 2 rules.



### 1.2.1 Frequency of Statutory Reports

The *Protocol* makes a distinction among the sources of data used for the Statutory Reports System: the Fund receives data on the Contribution Base directly from member banks; the Supervisory Authority provides the data needed for calculating the Balance-Sheet Ratios.

The **Contribution Base** must be calculated by each member bank and sent to the Fund twice a year, by 31<sup>st</sup> December and by 30<sup>th</sup> June<sup>5</sup>.

**Balance-Sheet Ratios** should be communicated as follows: all member banks send reports on half yearly basis (31/12 and 30/06); member banks having an Aggregate Indicator superior or equal to 6 (Statutory Position from *Warning* to *Expulsion*) send reports on a quarterly basis (31/03 and 30/09 in addition to the above dates).

Currently, Statutory Reports are received indirectly, as member banks are not required to send anything to the FITD directly. In accordance with the Protocol, banks send prudential returns to the Bank of Italy, which afterwards creates the specific dataset needed by the Fund.

Once its calculations are done, FITD communicates Ratios and the Statutory Position to each member posting them in the reserved area of the Fund's website.

## 1.3 Reimbursable Funds

The Contribution Base is the key variable used for the calculation of the amount of member banks' commitments (paid only in case of intervention) and for the operating expenses of the Fund.

The contribution quota is based on the portion of each bank's deposits covered by the Fund.

To the purpose of quota calculation, Article 25, paragraph 2 of the FITD Statutes identifies the *Contribution Base* as the amount of Reimbursable Funds (RF) (as defined in Article 27) in force as of 30<sup>th</sup> June of the year in question.

Article 27 of the Statutes, taking into consideration the list in Legislative Decree 659/96, defines Reimbursable Funds and identifies both claims eligible for reimbursement and exclusions.

Paragraph 1 states that *"the claims eligible for reimbursement shall be those relating to repayable funds raised by the members, in Euros and in foreign currency,*

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<sup>5</sup> Deadlines for sending data are as follows: by 31<sup>st</sup> October for data referred to 30<sup>th</sup> June of the same year; by 30<sup>th</sup> April for data referred to 31<sup>st</sup> December of the preceding year.



*in the form of deposits or in other forms, as well as bankers' drafts and equivalent instruments".*

Paragraph 2 lists all the exclusions from FITD protection.

The following shall not be eligible for protection:

- a) bearer deposits and other funds reimbursable to bearer;*
- b) obligations and credits deriving from acceptances, promissory notes and security transactions;*
- c) the banks' equity capital, reserves and other capital elements;*
- c-bis) financial instruments defined in the Civil Code;*
- d) deposits deriving from transactions in whose regard a conviction for the crimes set forth in Articles 648-bis and 648-ter of the Penal Code has been handed down;*
- e) the deposits of government departments, regional, provincial, and municipal governments and other local public bodies;*
- f) deposits made by banks in their own name and for their own account, as well as the credits of banks;*
- g) the deposits of the financial companies, of insurance companies, of collective investment undertakings, of other companies belonging to the same banking group and of e-money institutes;*
- h) the deposits of members of the corporate organs and the top management of the bank or of the holding, even if such deposits are made through nominees;*
- i) the deposits, including those made through nominees, of shareholders holding at least 5 percent of the member's equity capital;*
- j) deposits in respect of which the depositor has obtained from the member bank, on a individual basis, rates or terms that have played a part in damaging the financial position of the bank, as determined by the commission of liquidators.*

Once admissions/exclusions to the protection are identified, the limit of guarantee is applied. This is fixed at 103,291.38 Euro per depositor<sup>6</sup> and gives the amount of Reimbursable Funds. This level has recently changed due to the Legislative Decree

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<sup>6</sup> Exceptions occur when a member bank has a branch in a non-EU country. In this case, if a DGS exists in the host country and the branch is allowed to join it, the limit to apply is the host country one, provided that it is not higher than the limit provided for by FITD Statutes. Otherwise FITD covers the branch, but the limit to apply is the lowest one (*Topping down*) between the host and home country ones.



n. 49 of 24 March 2011, which implemented Directive 2009/14/EC, shifting from 103,291.38 euro to 100,000 euro per depositor.

### 1.3.1 Calculation of Reimbursable Funds and conditions on data

As per Article 9, paragraph 1, of the Appendix to the Statutes, the steps for calculating Reimbursable Funds (RF) are:

- a) The total amount of repayable funds raised by each member bank is aggregated (BC2000)<sup>7</sup>;
- b) The amount of funds excluded from FITD protection is deducted (BC3000);
- c) The total amount of eligible deposits (BC4000) is taken as the difference between the amount of repayable funds sub a) and the amount of exclusions sub b);
- d) Reimbursable Funds (BC5000) are obtained through the distribution of BC4000 and the total number of depositors (BC4400) in the three classes<sup>8</sup> of amounts: “up to € 20,000”, “from € 20,000 to € 100,000” and “more than € 100,000”;

#### **Calculation of BC5000**

Given the distribution of BC4000 and of BC4400 in the three classes:

- A) up to 20,000 euro
- B) from 20,000 euro up to 100,000 euro
- C) more than 100,000 euro

BC5000 is obtained by all protected deposits up to 100,000 € plus the number of depositors over 100,000 € multiplied for 100,000 €:

$$\Rightarrow BC5000 = (BC4000\_A + BC4000\_B) + (BC4400\_C) * 103,291.38$$

The Total RF are obtained by summing the RF of cross border branches (BC6000) to this item:  $BC5000 + BC6000 = BC1000$ .

Collected data must respect the following two conditions:

**a) If  $BC2000 > BC3000$ , then  $BC4000 > 0 \Rightarrow BC1000 > 0$**

**with  $BC1000 \leq BC4000$**

**b) If  $BC2000 = BC3000$ , then  $BC4000 = 0 \Rightarrow BC1000 = 0$**

<sup>7</sup> This and the following codes are used internally by FITD for the calculations for the Contribution Base.

<sup>8</sup> Although the Legislative Decree n. 49/2011 sets the level of coverage at 100.000 euro, the previously used three-classes allocation is kept for statistical and operative reasons.



## 2. The monitoring system of member banks' riskiness

### 2.1 Balance-Sheet Indicators

A deposit insurance scheme performs its guarantee function towards depositors by measuring and controlling member banks' riskiness. To this extent, it would need to have in place a specific monitoring system. Such a system would enable interventions to remove verified anomalies and minimise the costs of possible banking crises.

Following this principle, the FITD constantly monitors the overall situation of all its member banks through a Balance-Sheet Indicators system, consisting of four ratios referenced to three risk profiles: *Asset Quality, Solvency and Profitability*.

#### *Asset Quality Profile (A1)*

The Balance-Sheet ratio A1 measures the capacity of a bank to absorb potential losses without risk of insolvency.

The risk of loss is given by the ratio of Bad Debts to Supervisory Capital.

Indicator A1 is calculated as follows:

$$A1 = \frac{\text{Bad Debts (net of adjustments)}}{\text{Supervisory Capital}}$$

The numerator is the amount of Bad Debts relating to ordinary clients, which is recorded in the supplement to the financial statement of the bank and sent to the Bank of Italy in the prudential returns on balance-sheet data. The amount is computed net of all related adjustments.

In the case of indicator A1, it is important to consider banks' time schedule for sending data to the Supervisory Authority. Banks must send data on the balance-sheet value of bad debts to the Bank of Italy on a half yearly basis (31<sup>st</sup> December and 30<sup>th</sup> June), while supervisory capital is sent on a quarterly basis (31<sup>st</sup> December, 31<sup>st</sup> March, 30<sup>th</sup> June and 30<sup>th</sup> September).

For banks subject to evaluation of their statutory position on a quarterly basis, the ratio is computed as follows: the numerator, amount of net bad debts, is that recorded for the previous quarter (31<sup>st</sup> December or 30<sup>th</sup> June), whereas the



denominator is the supervisory capital as on the specific date of the record (31<sup>st</sup> March or 30<sup>th</sup> September).

### *Solvency Profile (B1)*

The aim of indicator B1 is to provide a measure of the bank's capital: it is the minimum supervisory capital requirement the Supervisory Authority requires for the development of the banking activity.

Ratio B1 is calculated as follows:

$$\mathbf{B1} = \frac{\text{Supervisory Capital, including tier 3}}{\text{Capital Requirements}}$$

On compilation of the aggregates that constitute this indicator, please see the Instruction for data compilation on supervisory capital and prudential coefficients<sup>9</sup>. Note that the numerator is supervisory capital plus tier 3 elements.

### *Profitability Profile (D1) (D2)*

The third profile has two ratios based on the financial statements.

Indicator D1 underlines an aspect of the ordinary business of the bank; it evidences both the coverage, through the Gross Income, of costs of the typical banking activity and the ability to meet possible extraordinary expenses.

Indicator D2 measures Loan Losses on Profit before Tax.

These two indicators have the following composition:

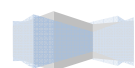
$$\mathbf{D1} = \frac{\text{Operating expenses}}{\text{Gross Income}}$$

$$\mathbf{D2} = \frac{\text{Loan Losses (net of recoveries)}}{\text{Profit before Tax}}$$

The calculation of Gross Income and Profit before Tax includes interest arising from Bad Loans.

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<sup>9</sup> Circular letter of Bank of Italy n. 155 of 18/12/1991 and following updates.





Indicator D2 is calculated only in case the numerator and the denominator are both positive. Otherwise, the following scheme shall be applied for the Aggregate Indicator calculation:

Numerator	Denominator	Coefficient
Positive	Positive	Depends on the value of the ratio
Negative	Positive	0
Negative	Negative	0
Positive	Negative	4
Zero	Pos/Neg	0

### *2.1.1 Specific aspects: non-EU branches belonging to the G-10 group*

Article 2, paragraph 2 of the FITD Statutes requires mandatory membership for non-EU banks' branches operating in Italy, unless they are members of an equivalent deposit guarantee system in their home country.

The Bank of Italy is the authority that decides whether the foreign deposit insurance system is to be considered equivalent or not. However, this principle of equivalence is not in evidence in any of the branches of non-EU Banks currently operating in Italy. Consequently, they are formally invited to adhere to the FITD.

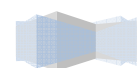
There are some specific aspects that should be taken into consideration when dealing with non-EU banks' branches.

Some of these branches, namely those belonging to the countries of the G-10 group, are not required to send to the Bank of Italy data relating to minimum capital requirements, since these banks are already required to respect minimum supervisory capital requirements set by their home country Supervisory Authority. As a result, FITD indicator *B1 "Supervisory Capital Purposes / Supervisory capital requirements"* can not be calculated.

However, these branches have to report data relating to the financial statements to the Bank of Italy annually, and not half yearly as in the case of Italian banks.

As branches of non-EU Banks are exempt from sending data on minimum capital requirements to the Bank of Italy, they are also exempt from the calculation of indicator B1. Accordingly, the Fund considers therefore that they are rated in the "*Normal*" class for this ratio.

With regard to the Profit and Loss account, only data referred to the whole financial year can be considered, as half yearly data is not provided. Thus, 31<sup>st</sup> December data is used for the following end 30<sup>th</sup> June calculations.





### 2.1.2 Specific aspects: newly established banks and CB equal to zero

Two exceptions have been introduced in the normal procedures of coefficients attribution for the calculation of the Aggregate Indicator.

The first concerns **newly established banks**. In their case, to calculate the Aggregate Indicator as provided for in Article 6, paragraph 5, Appendix to the Statutes<sup>10</sup>, a coefficient equal to 1 will be applied, during their first year of activity, or for no more than three normal reporting periods in case of *Warning* or *Violation* in the D1 (*Operating expenses / Gross Income*) and D2 (*Loan Losses (net of recoveries) / Profit before Tax*) ratios.

This exception is made because a newly established bank may present (in its first year of activity) a physiological imbalance as far as profitability ratios are concerned, linked to early costs of operating (or structural) expenses that are not yet covered on the profit side, because the bank is still not in full activity.

For a bank joining the Fund and starting to operate prior to a date of record (31<sup>st</sup> December or 30<sup>th</sup> June), the exception extends to three ordinary Statutory reports; however, for a bank joining the Fund before a date of record and starting its activity after that date of record, the exception is applied for a year beginning from the date the activity begins.

The second exception refers to banks with **Contribution Base equal to zero**. It consists of the application of the coefficient of the “*Normal*” class to the Asset Quality and Profitability ratios, independently of their value. In this way, for the purpose of determining the Statutory Position, only the Capital adequacy ratio (B1) is taken into consideration.

The derogation *ratio* comes from considering that member banks with CB equal to zero, from the Consortium point of view, have a null weight and, therefore, their riskiness can be considered to be insignificant; because Reimbursable Funds are equal to zero, also the variable quota is null and riskiness is irrelevant.

## 2.2 Thresholds and present classes

Three thresholds are set per each indicator. Four classes correspond to these thresholds in which the ratio may be located.

The following table shows the thresholds in force:

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<sup>10</sup> Art. 6, paragraph 5 of the Appendix to the Statutes: “*a coefficient equal to one will be applied to newly established banks during their first year of activity or for three normal reporting periods in case of Warning or Violation in the D1 and D2 indicators, to figure out the Aggregate Indicator.*”



Ratios and Thresholds				
	<b>Normal</b>	<b>Attention</b>	<b>Warning</b>	<b>Violation</b>
<b>Indicator A1:</b> <i>Bad Loans (net of adjustments) / Supervisory Capital</i>	Up to 20%	from 20% to 30%	from 30% to 50%	More than 50%
<b>Indicator B1:</b> <i>Supervisory Capital /Supervisory Capital Requirements</i>	More than 110%	between 100% and 110%	between 90% and 100%	inferior to 90%
<b>Indicator D1:</b> <i>Operating Expenses/ Gross income</i>	Up to 70 %	Up to 80 %	Up to 90 %	More than 90 %
<b>Indicator D2:</b> <i>Loan Losses /Profit before tax</i>	Up to 40% or Loan losses <=0	Up to 50 %	Up to 60 %	More than 60% or Profit before Tax < 0

Each class has a corresponding coefficient:

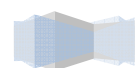
	<b>A1</b>	<b>B1</b>	<b>D1</b>	<b>D2</b>
<b>Normal</b>	0	0	0	0
<b>Attention</b>	2	1	1	1
<b>Warning</b>	4	2	2	2
<b>Violation</b>	8	4	4	4

### 2.3 The Aggregate Indicator and the statutory classes

The sum of the coefficients of each ratio defines the *Aggregate Indicator (AI)*.

Article 2 of the Appendix to the Statutes sets down that the Statutory Position is determined according to the following scheme, depending on the value of the Aggregate Indicator:

<b>Value of Aggregate Indicator</b>	<b>Statutory Position</b>
from 0 to 3	<i>Normal</i>
from 4 to 5	<i>Attention</i>
from 6 to 7	<i>Warning</i>
from 8 to 10	<i>Penalty</i>
from 11 to 12	<i>Severe Imbalance</i>
more than 12	<i>Expulsion</i>





## 3. Contribution quotas

### 3.1 Proportional quota of contribution

For each bank, the proportional quota of the contribution base, expressed in thousands, is given by the individual contribution base over the Total Reimbursable Funds.

$$\frac{\text{Contribution Base}}{\text{Total Reimbursable Funds}} \cdot 1000 = \text{Proportional quota (in thousands)}$$

Proportional quotas, expressed in thousands, are used to determine the voting rights at the Annual General Meeting.

Two correction methods are applied to adjust this proportional quota. The regressive mechanism, as provided for in Article 14 of the Appendix to the Statutes, and the Weighted Average Aggregate Indicator (WAAI) as per Articles 4 and 5 of the Appendix may increase or decrease the proportional quota in terms of a percentage.

### 3.2 The Regressive mechanism

The Regressive Correction Method modifies the proportional quota using an increasing/decreasing percentage inversely linked to the size of the bank, expressed by the amount of its contribution base.

Through this first correction mechanism, the bigger banks get a reduction of the proportional quota (whose amount shall be divided among those banks that have the lowest contribution base), while the smaller banks get an increase.

The percentage of increase and decrease of the proportional quotas shall vary from a maximum of +7.5 % to a minimum of -7.5 %; these two bands shall be applied to the bank with the lowest proportional quota and to that with the highest, respectively.

It is from the distribution of proportional quotas, expressed in thousands, that the equilibrium quota (or *equilibrium point*) is calculated. The sum of increases is equal to the sum of decreases (Article 14 paragraph 2 of the Appendix to the Statute) in correspondence to this contribution quota (in thousands).



Once the equilibrium point is determined through an iterative procedure<sup>11</sup>, the following formulas are used to calculate the percentage decrease/increase for the member banks with the proportional quotas included between the minimum and maximum recorded.

The formula for the calculation of the decreasing percentage is as follows:

$$-7.5\% : (d - f) = x : (c - f)$$

hence, for  $c > f$

$$x = -7.5\% * (c - f) / (d - f)$$

The formula for the calculation of the increasing percentage is:

$$+7.5\% : (f - e) = x : (f - c)$$

hence, for  $c < f$

$$x = + 7.5\% * (f - c) / (f - e)$$

where:

- c** = proportional quota, in thousands, of the bank's contribution base;
- d** = proportional quota, in thousands, of the highest contribution base recorded in the system on the date of record;
- e** = proportional quota, in thousands, of the lowest contribution base recorded in the system on the date of record;
- f** = equilibrium quota, that is the proportional quota of contribution base that does not suffer from any increase or decrease.

The *regressivity* function, derived from the distribution of the corrections referred to each proportional quota of contribution base, is composed of two straight lines, as shown in the following graph:

**the line of decrease** is defined by the continuous function:

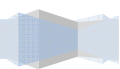
$$\% \text{ of Decreasing} = \alpha + \beta \text{ Proportional quota}$$

for which, according to the above formula:

$$\alpha = +7,5\% \cdot \frac{f}{d - f} \text{ and } \beta = -7,5\% \cdot \frac{1}{d - f} .$$

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<sup>11</sup> This procedure consists of a set of steps made for determining the point of equilibrium quota.





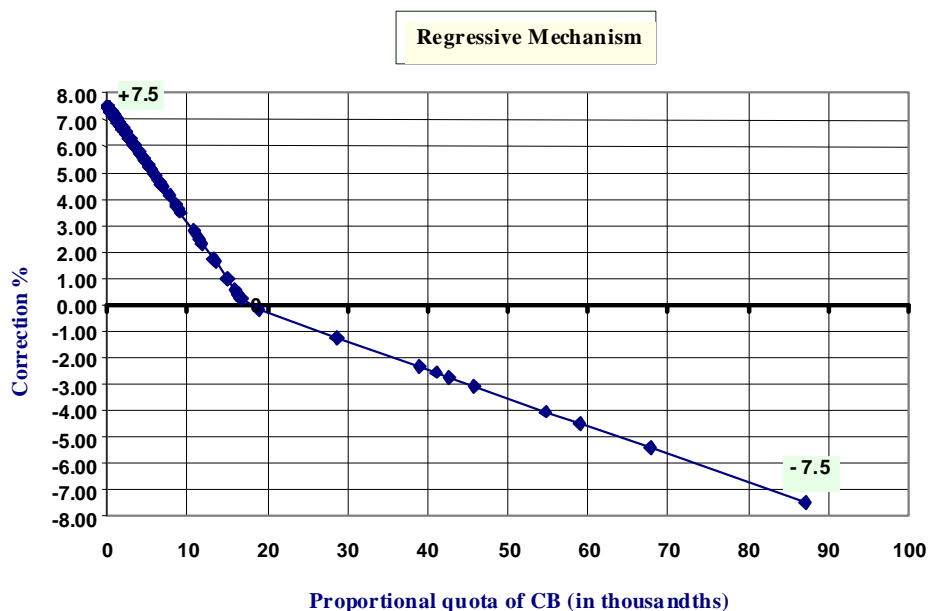
**the line of increase** is defined by the continuous function:

$$\% \text{ of Increasing} = \alpha' + \beta' \text{ Proportional quota}$$

for which, according to the formula

$$\alpha' = +7,5\% \cdot \frac{f}{f - e} \text{ and } \beta' = -7,5\% \cdot \frac{1}{f - e}.$$

The *Proportional Quota*, adjusted to the regressive mechanism, gives a *Regressive Quota*, expressed in thousands.



### 3.3 The Weighted Average Aggregate Indicator

The second correction method, which is applied to calculate quotas both for intervention and operating expenses, is linked to the bank riskiness in Balance-Sheet ratios, namely to the value of the *Aggregate Indicator*.

A **Weighted Average Aggregate Indicator (WAAI)** is calculated, based on the previous three six-monthly Balance-Sheet ratios reports that the bank submits to the Fund (Articles 4 and 5 of the Appendix to the Statutes); the system of weights used is based on the attribution of a bigger weight to the closest Report in terms of time.



**When the WAAI is:**

- ✓ **greater than 3**, the bank's contribution quota shall be increased, proportionally to the WAAI value;
- ✓ **greater than 0 and less than or equal to 3**, the bank shall retain its contribution quota unchanged;
- ✓ **equal to 0**, the bank shall benefit from a reduction in its contribution quota, commensurate with the total amount of increases.

### 3.3.1 Example of Weighted Average Aggregate Indicator calculation

The table below summarises the Statutory Position of *Bank Y* for 3 dates:

Date	Aggregate Indicator [a]	Weight [b]	[a] * [b]
30/06/2010	3	1	3
31/12/2010	5	2	10
30/06/2011	5	4	20
		<b>7</b>	<b>33</b>
<b>Average Aggregate Indicator</b>		<b>= 33 / 7 = 4.71</b>	

*Bank Y* shall be given an increase of 4.71 percent of its quota for interventions.

For example: if the member bank has a regressive quota equal to 8, after the application of the correction mechanism based on the WAAI, this quota would be increased by 4.71 percent, corresponding to a correction of 0.38 thousandths:

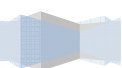
$$\text{Contribution Quota (in thousandths)} = \text{Regressive Quota (in thousandths)} * (1 + 0.0471)$$

$$\text{Contribution Quota (in thousandths)} = 8 * (1.0471) = 8.38 \text{ thousandths}$$

For the decrease in the contribution quota for banks having a WAAI equal to zero, the sum of all the increases should be considered and divided among banks in question, proportionally to their contribution base.

Presuming that the increase suffered by *Bank Y* has to be divided among banks with an Average Aggregate Indicator equal to zero, namely *Banks W* and *Z*, which have a BC quota as follows:

**BANK W** with a CB quota (in thousandths) equal to 100;





**BANK Z** with a CB quota (in thousandths) equal to 5.

The hypothesis is that the remaining banks have an AI higher than 0 and less than or equal to 3.

As a result:

*Bank W* shall benefit from a decrease of its quota for interventions (from 100 to 99.638):

*Contribution Quota Correction (in thousandths)* =  $-0.38 * (100/(100+5)) = -0.362$   
*thousandths*

Also *Bank Z* shall benefit from a decrease of its quota (from 5 to 4.982):

*Correction Contribution Quota (in thousandths)* =  $-0.38 * (5/(100+5)) = -0.0018$   
*thousandths*

### 3.4 Contribution quotas for operating expenses

The Interbank Deposit Protection Fund is a non profit private-law mandatory Consortium. The financial resources for the pursuit of its mandate are provided by the Consortium members (Article 1 of the Statutes), given the budget for operating expenses proposed by the Board (Article 11, Paragraph 2 of the Statutes) and approved at the Annual General Meeting.

The amount paid for operating expenses by each member bank is composed of a minimum amount (*fixed quota*), decided at the General Meeting<sup>12</sup> every year, and by a *variable quota* commensurate to the bank's contribution quota expressed in thousandths.

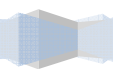
In order to calculate this variable amount, regressive quotas expressed in thousandths and adjusted on the basis of the WAAI are used.

The total amount to be divided among all member banks according to a variable and proportional measure of the contribution quota is equal to the difference between the estimated total budget, approved at the General Meeting, and the total of all fixed quotas (number of member banks by the amount of the minimum quota).

The Fund may require payment on account for operating expenses, even prior to the approval of the draft budget for the financial year, the amount of which shall be adjusted by the end of the same year. Any surplus shall be retained by the Fund

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<sup>12</sup> The 2011 General Meeting settled the amount of the fixed quota at 5.000 Euro.





as an advance on the operating expenses for the subsequent year (Article 22 of the Statutes).

Currently, member banks are required to pay a single account during January-February, including: the fixed quota, part of the variable quota and the settlements of the previous year calculated on the basis of the final balance.

The Fund requires from its member banks the payment of the operating expenses through the issuing of *debit notes* to which VAT shall not be applied<sup>13</sup>.

The collection of all debit notes issued by the Fund, or the payment of possible *credit notes*, are carried out through interbank channels by *Banca Nazionale del Lavoro*, which acts as the treasury with responsibility for transactions.

### 3.5 Contribution quotas for intervention commitments

As provided for by the Statutes (Article 21), the total amount of money that the members undertake to make available to the Fund for interventions shall be established by the General Meeting, at the Board's suggestion, is between 0.4 percent and 0.8 percent of the Reimbursable Funds of all the member banks as of 30<sup>th</sup> June of the previous year<sup>14</sup>.

These resources have a *virtual* nature. The Fund asks banks for resources only at the moment of the effective disbursement in favour of a member bank in crisis. As long as this condition does not occur, resources for interventions are just a commitment, carried in commitment accounts of the Balance Sheet of the member banks and the Fund's.

The Offices of the Fund calculate and communicate to the Consortium members the contribution quotas for intervention commitments on a yearly basis, referring to 31<sup>st</sup> December, or more frequently, if variations occur.

The Fund uses data referred to the previous 30<sup>th</sup> June in order to calculate quotas for intervention commitments.

The contribution quota of each member bank is calculated for each intervention, with the same methodology described for the calculation of the commitment quotas, using the most recent available data at the date of the intervention.

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<sup>13</sup> In 1998, the Ministry of Finance admitted a claim presented by the Fund, acknowledging the non-commercial nature of the depositors guarantee activity and, consequently, the insignificant value of VAT.

<sup>14</sup> Whenever, due to interventions, the amount of resources is less than 0,4% of the total Reimbursable Funds, the minimum percentage would be restored within four years.



These contribution quotas are used for any further disbursement or recovery related to the same intervention (Article 11 of the Appendix to the Statutes).

In the event of a merger between two or more members, their respective quotas shall be summed.

In the event of expulsion, recession or compulsory administrative liquidation, the bank shall not participate in disbursements after the date of expulsion, recession or liquidation, and its quota shall be shared proportionally among all the other members taking part in the intervention.



## Appendix - Terminology

### **A**

#### **Adverse selection**

The tendency of higher-risk banks to opt for deposit insurance and lower-risk banks to opt-out of deposit insurance when membership in a deposit insurance scheme is voluntary.

### **B**

#### **Bank run**

A rapid loss of deposits precipitated by fear on the part of the public that a bank may fail and depositors may suffer losses.

#### **Bilateral Agreement (BA)**

“Where a branch applies to join a host Member State scheme for supplementary cover, the host Member State scheme will bilaterally establish with the home Member State scheme appropriate rules and procedures for paying compensation to depositors at that branch”. The guiding principles in Annex II of the Directive “shall apply both to the drawing up of those procedures and in the framing of the membership conditions applicable to such a branch (as referred to in Article 4 (2))”;

#### **BC2000**

Aggregated figure used by Fitd, corresponding to all “claims eligible for reimbursement”, relating to “repayable funds raised by members, in Euro and foreign currency, in the form of deposits or in other forms, as well as bankers' drafts and equivalent instruments” (as defined in the Statutes, Article 27, paragraph 1);

#### **BC3000**

Aggregated figure used by Fitd, corresponding to all claims excluded from the protection of the Fund (Statutes, art. 27, par. 2);

#### **BC4000**

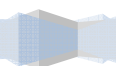
Aggregated figure used by Fitd, corresponding to all “claims eligible for reimbursement” not excluded from protection (i.e. the portion of claims resulting when BC3000 is deducted from BC2000);

#### **BC1000**

Aggregated figure used by Fitd, corresponding to total Reimbursable Funds (i.e. the amount of insured deposits resulting from the distribution of BC4000 and the total number of depositors for classes of amount. See formulas, page 12);

#### **Blanket coverage**

Unlimited coverage extended by governments in crisis times;





**Branch**

A place of business which forms a legally dependent part of a credit institution and which conducts directly all or some of the operations pertaining to the business of credit institutions; any number of branches set up in the same Member State by a credit institution which has its head office in another Member State shall be regarded as a single branch;

**C**

**Co-insurance**

(Directive 94/19/EEC, Art. 7, par. 4) “Member States may limit the guarantee provided for in paragraph 1 or that referred to in paragraph 3 to a specified percentage of deposits. The percentage guaranteed must, however, be equal to or exceed 90% of aggregate deposits until the amount to be paid under the guarantee reaches the amount referred to in paragraph 1”. This clause was deleted by Directive 2009/14/CE, which amends Directive 94/19/CE with regards to the level of coverage and the payout limit;

**Contagion**

The spread of an individual bank run to several other financial institutions;

**Contribution Base**

According to FITD Statutes, this is the amount of Reimbursable Funds as at 30<sup>th</sup> June and 31<sup>st</sup> December of every year;

**Contribution quota/s**

Criteria for sharing the cost of interventions and operating expenses between the individual members;

**Contribution system**

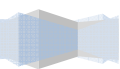
or funding mechanism, i.e. the way the DGS raises premiums, distinguishing between funding before or after the intervention (ex-ante, ex-post, mixed); see funding or financing;

**Covered deposits**

(or **guaranteed** or **reimbursable** or **repayable**) => amount of deposits obtained from eligible deposits (i.e. deposits net of all provided exclusions) when applying the level of coverage provided for in the national regulation;

**Cross-border**

The allocation of responsibility for deposit guarantee amongst EU member states follows the home country principle, in line with the division of responsibilities for prudential supervision. In this setting, host countries are exposed to the banking risk that may arise from foreign branches and subsidiaries due to a crisis of the parent bank, without any adequate line of defence. Currently there is very limited cross-border cooperation between DGS. The current setting of the Directive provides that, in case the host country has a higher level of coverage, the bank is allowed to join the host scheme for topping up. In practice, there are many obstacles to the functioning of such arrangements, including different legal systems and different ranks of DGS in insolvency procedures.





**D**

**Deposits eligible for coverage**

See eligible deposits;

**Directive**

Directive 94/19/EEC on deposit guarantee schemes (and following amendments: Directive 2009/14/EC of European Parliament and the Council of 11 March 2009 amending Directive 94/19/EC on deposit-guarantee schemes as regards to the coverage level and the payout delay);

**DGS**

Deposit Guarantee Scheme (also referred to as **DIS** => Deposit Insurance Scheme);

**E**

**EBA**

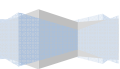
The European Banking Authority was established by Regulation (EC) No. 1093/2010 of the European Parliament and of the Council of 24 November 2010.

The EBA has officially come into being as of 1 January 2011 and has taken over all existing and ongoing tasks and responsibilities from the Committee of European Banking Supervisors (CEBS). The EBA has its offices in the City of London.

One of the responsibilities of the European Banking Authority (EBA), as set out in its Regulation, is to ensure the orderly functioning and integrity of financial markets and the stability of the financial system in the EU. To this end, the EBA is mandated to monitor and assess market developments as well as to identify trends, potential risks and vulnerabilities stemming from the micro-prudential level.

One of the primary supervisory tools used by the EBA to conduct such an analysis is the EU-wide stress test exercise.

Articles 21 and 32 of the EBA Regulation give the EBA powers to initiate and coordinate the EU-wide stress tests, in cooperation with the European Systemic Risk Board (ESRB). The aim of such tests is to assess the resilience of financial institutions to adverse market developments, as well as to contribute to the overall assessment of systemic risk in the EU financial system. The EU-wide stress tests are conducted by the EBA in a bottom-up fashion, using consistent methodologies, scenarios and key assumptions developed by the EBA in cooperation with the ESRB, the European Central Bank (ECB) and the EU Commission.





### **EBC**

The European Banking Committee (EBC) is the successor to the former Banking Advisory Committee (established by the First Banking Directive in 1978). The EBC was set up by the Commission Decision of 5 November 2003, published in the Official Journal of the EU in January 2004.

The EBC fulfils both advisory and comitology functions. It provides advice for the Commission on policy issues related to banking activities and assists the Commission in adopting the implementing measures for EU Directives.

The Committee is composed of high-level representatives from Member States (mostly from Ministries of Finance). Observers from the European Central Bank, the European Banking Authority (formerly, the Committee of European Banking Supervisors), as well as from EFTA countries and candidate countries, are also invited to attend. The Commission also invites, if appropriate, other experts to attend the meetings.

The EBC is run by the European Commission (its meetings are chaired by a high representative of the Commission and the secretariat is provided by the Commission as well). The Committee usually meets three or four times a year. It held its first formal meeting in July 2005.

### **EIOPA**

EIOPA is the European Insurance and Occupational Pensions Authority, one of three European Supervisory Authorities. It is part of the European System of Financial Supervision consisting of three European Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Parliament and the Council of the European Union. EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.

EIOPA is based in Frankfurt am Main, Germany

### **ESMA**

ESMA is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as enhancing investor protection. In particular, ESMA fosters supervisory convergence both amongst securities regulators, and across financial sectors by working closely with the other European Supervisory Authorities competent in the field of banking (EBA), and insurance and occupational pensions (EIOPA).



### **ESRB**

The European Systemic Risk Board (ESRB) is an independent EU body responsible for the macro-prudential oversight of the financial system within the Union. Its seat is in Frankfurt am Main. Its secretariat is provided by the ECB.

The ESRB contributes to the prevention or mitigation of systemic risks to financial stability in the Union that arise from developments within the financial system. It takes into account macroeconomic developments, so as to avoid periods of widespread financial distress.

The ESRB also contributes to the smooth functioning of the internal market and thereby ensures a sustainable contribution of the financial sector to economic growth.

In response to the global financial crisis, the European Commission tasked a High Level Group, chaired by Mr Jacques de Larosière, to consider how the European supervisory arrangements could be strengthened both to better protect its citizens and to rebuild trust in the financial system. Among its many conclusions, the Group highlighted that supervisory arrangements should not only concentrate on the supervision of individual firms but also place emphasis on the stability of the financial system as a whole. In 2009, the de Larosière report recommended, among other things, that a Union level body be established with a mandate to oversee risk in the financial system as a whole. On 16 December 2010 the legislation establishing the ESRB entered into force:

- a) Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24/11/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (the 'ESRB Regulation').
- b) Council Regulation (EU) No 1096/2010 of 17/11/2010 conferring specific tasks upon the European Central Bank concerning the functioning of the European Systemic Risk Board

The ESRB is part of the European System of Financial Supervision (ESFS), the purpose of which is to ensure supervision of the Union's financial system. Besides the ESRB, the ESFS comprises of: the European Banking Authority (EBA); the European Insurance and Occupational Pensions Authority (EIOPA); the European Securities and Markets Authority (ESMA); the Joint Committee of the European Supervisory Authorities (ESAs); the competent or supervisory authorities in the Member States as specified in the legislation establishing the three ESAs.

### **Eligible deposits (or eligible for coverage or insured or protected)**

Deposits repayable by the guarantee scheme under its national law, i.e. total amount of deposits held by protected depositors, net of all the exclusions provided for in the national legislation, before the level of coverage is applied;

#### **Ex-Ante**

Contribution system where premiums are paid in advance to create a fund that may be used quickly in case of intervention;

#### **Ex-Post**

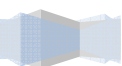
Contribution system where premiums are paid after the intervention decision. Thus, banks have only a commitment in case of intervention;

### **Excluded deposit/s**

Eligible claims excluded from the protection of the Fund (see Fitd Statutes, art. 27, par. 2);

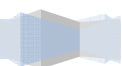


<p><b>Exit strategy</b></p> <p>In the current crisis, governments and other public authorities have expanded their roles when addressing the problems that markets were unable to solve, widening some elements of the safety-net. Exit strategies need to be planned and put in practice to exit from unusual government-provided guarantees;</p>
<p><b>F</b></p> <p><b>Foreign bank</b></p> <p>A foreign-bank subsidiary is incorporated as a separate entity in the host country. A foreign-bank branch is an extension of the foreign bank itself into a host country. Foreign-bank branches and subsidiaries may be subject to different rules and supervised differently by a host country;</p> <p><b>Funding (or financing)</b></p> <p>Methods used by a Scheme for raising funds. According to the Directive, DGS are principally funded by banks paying contributions to them. Currently, the level of funding and the funding mechanism is very different within the EU, given the fact that in 21 member states funding is ex-ante and contributions are paid in advance on a regular basis, while in other 6 ex-post systems are in place and banks only contribute after a failure. The proposal of a new Directive on DGS, presented by the European Commission on 12 July 2010, would introduce a harmonised funding system. At present this legislative proposal is under discussion at the European Parliament.</p>
<p><b>G</b></p> <p><b>Guaranteed deposits</b></p> <p>See covered deposits (or Reimbursable Funds or Contribution Base in FITD Statutes);</p>
<p><b>H</b></p> <p><b>Home Country Control</b></p> <p>Principle of regulation on the EU financial intermediaries, consisting in the power of the home country Supervisory Institution to control the home banks operating in European Countries. The host countries accept this power and recognise the Authority of the host Supervisory. From a DGS perspective, this principle implies that deposits of credit institutions headquartered in the member state are covered by the home country DGS, while deposits at foreign subsidiaries are covered by the DGS of the host country;</p>
<p><b>I</b></p> <p><b>Insured deposit/s</b></p> <p>See also eligible deposits;</p>



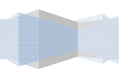


<p><b>J</b></p> <p><b>Joint Committee</b></p> <p>The Joint Committee is a forum for cooperation that was established on 1st January 2011, with the goal of strengthening cooperation between the European Banking Authority (EBA), European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA), collectively known as the three European Supervisory Authorities (ESAs).</p> <p>Through the Joint Committee, the three ESAs cooperate regularly and closely and ensure consistency in their practices. In particular, the Joint Committee works in the areas of supervision of financial conglomerates, accounting and auditing, micro-prudential analyses of cross-sectoral developments, risks and vulnerabilities for financial stability, retail investment products and measures combating money laundering.</p> <p>In addition to being a forum for cooperation, the Joint Committee also plays an important role in the exchange of information with the European Systemic Risk Board (ESRB) and in developing the relationship between the ESRB and the ESAs.</p>
<p><b>L</b></p> <p><b>Lender-of-last-resort function (LLR)</b></p> <p>The provision of liquidity to the financial system by a central bank;</p> <p><b>Level of coverage</b></p> <p>Limit applied by a DGS for protecting deposits;</p>
<p><b>M</b></p> <p><b>Mandate (of a DGS)</b></p> <p>Extent of powers and responsibilities of a DGS;</p> <p><b>Minimum harmonised coverage</b></p> <p>It used to be 20.000 euro per depositor, increased up to 50.000 euro by Directive 2009/14/CE (see) amending Directive 94/19/CE before setting a harmonised maximum level of coverage equal to 100.000 euro as of 31/12/2010;</p> <p><b>Monitoring system</b></p> <p>The system to evaluate Banking Riskiness of member banks, based on balance sheet indicators, even used to correct the contribution quotas;</p> <p><b>Moral Hazard</b></p> <p>The incentive for additional risk taking that is often present in insurance contracts and arises from the fact that parties to the contract are protected against loss;</p>
<p><b>N</b></p> <p><b>Netting/netting arrangements</b></p> <p>This refers to the reduction of an account holder's insured deposits by the amount of outstanding loans in a failed institution or the reduction of an account holder's outstanding loan by the amount of deposits above the coverage limit;</p>





<p><b>P</b></p> <p><b>Payout delay</b> Time limit provided for by the DGS Directive for reimbursing deposits. Directive 94/19/CE stated that deposits must be paid out within 3-9 months after a bank failure. Directive 2009/14/CE, amending Directive 94/19/CE, provides for a payout time limit equal to 20 days plus an additional 10 days in exceptional circumstances. This provision has been in force since the end of 2010;</p> <p><b>Pricing (of guarantees)</b> Levying fees on banks for the guarantees on deposits or other parts of their balance-sheet (also in the case of extra government-supported insurance);</p> <p><b>Protected deposit/s</b> See eligible deposits;</p>
<p><b>Q</b></p> <p><b>Quota</b> See contribution quota;</p>
<p><b>R</b></p> <p><b>Reimbursable Funds</b> As defined in Article 27 of the Fitd Statutes;</p> <p><b>Risk based contribution</b> The contribution correction method based on the monitoring system;</p> <p><b>Risk minimiser</b> A deposit insurer with the powers to reduce the risk it faces. These powers may include the ability to control entry and exit from the deposit insurance system, asses and manage its own risks and may conduct or request examinations of banks;</p>
<p><b>S</b></p> <p><b>Safety net</b> In a financial system it consist of the Central Bank, the Supervisory Institution, the Lender of Last Resort and the Deposit Insurance Scheme;</p> <p><b>Scope of coverage</b> What is covered by the DGS guarantee;</p> <p><b>Set-off</b> It refers to situations where the claim of a creditor in an insolvent bank (for example, a deposit) is deducted from a claim of the bank against the creditor (for example, a loan);</p> <p><b>Systemic risk</b> A risk that has implications for the general health of the financial system and can have serious adverse implications for financial stability and overall economic conditions;</p>





**Stress test**

In general terms, stress testing refers to a methodology used to determine the stability of a system, which is tested beyond its normal operational capacity, often to a breaking point, in order to observe the results. From a DGS perspective, a stress test would consist of a scenario exercise, which aims at showing whether a DGS is capable to comply with the legislative requirements.

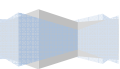
**Subsidiary**

A branch with the host country legal form which is consequently obliged to adhere to the local DIS;

**T**

**Target ratio**

It is expressed by the ratio between the amount of the fund and the total amount of the basis in terms of which contributions are calculated.



The FITD monitoring system of bank riskiness  
and risk-based contribution



*Interbank Deposit Protection Fund*

