



Annual Report 2002

INTERBANK DEPOSIT PROTECTION FUND

Annual Report 2002

Composition of the Statutory Organs

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Secretary General: Roberto Moretti

Counsellor by Right: President ABI Maurizio Sella

Representative from Banca d'Italia: Bruno Bianchi

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Antonio Patuelli
Bruno Picca
Giuseppe Vigorelli

Board of Auditors

Renato Mastrostefano
Nicola Mattoscio
Agostino Passadore

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Emilio Zanetti

This is a translation of the Italian original and has been prepared solely for the convenience of readers and in the event of any ambiguity, the Italian text will prevail.
The Italian version can be downloaded from the FITD web site (www.fitd.it) or can be requested to:

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The Consortium

In 2002 the Interbank Deposit Protection Fund (FITD) did not have to carry out any interventions.

As of December 31, 2002, participants to the Consortium were 301, compared to 308 member banks of the previous December. Of these, 12 are Italian branches of banks from countries outside the European Union. In line with Article 2, paragraph 3 of the Statutes, they were required to become members of the Fund because of the lack of an equivalent system of deposit insurance in their country of origin (as specified by the Bank of Italy, according to Article 96, paragraph 3, of the Italian Banking Law).

In 2002, 12 new banks joined the Fund; one of these is a foreign bank branch that decided to join the Fund in order to raise the level of coverage per depositor up to the limit fixed by the FITD. Over the same period there were 14 mergers and 5 withdrawals (Table 1).

***Table 1 – Variation in the composition of the consortium
(December 2001 – December 2002)***

	<i>Number of Banks</i>
<i>Member Banks on the 31 December 2001</i>	308
<i>New member banks</i>	12
<i>Mergers</i>	14
<i>Withdrawals</i>	5
<i>Member Banks on the 31 December 2002</i>	301

Source: FITD Statutory Reports

The Agreement with the Bank of Italy

As from the quarterly report of data at 31 March 2002, the Agreement subscribed with the Bank of Italy came into force. According to this, the FITD uses the data of the banking statistics dataset of the Central Bank (Matrice dei Conti) in order to build the financial indicators of its members. The Fund keeps on receiving data for the calculation of the Contribution Base directly from member banks through semi-annual reports.

Reimbursable Funds of Member Banks

At the end of June 2002, total Reimbursable Funds (RF) were 319,7 billion Euro, corresponding to 619.026 billion Lire (Table 2 and Graph 1).

RF below the ceiling of 20.000 Euro per deposit which - according to Article 27, paragraph 8, of the Statutes - must be reimbursed to depositors within three months from a bank's liquidation, grew by 0,8% comparing to June 2001. These funds represent 67,7% of total RF, to confirm that the majority of

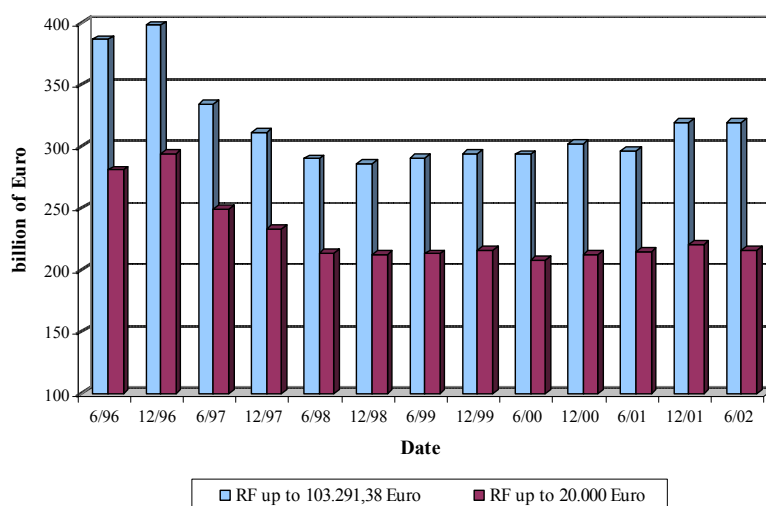
funds protected by the FITD are composed by deposits of small amount.

Table 2 – Progress of Reimbursable Funds by FITD

Date	RF up to 103.291,38 Euro		RF up to 20.000 Euro	
	Bln. Lire	Bln. Euro	Bln. Lire	Bln. Euro
Jun-96	748.734	386,7	544.159	281,0
Dec-96	771.252	398,3	569.056	293,9
Jun-97	647.401	334,4	482.271	249,1
Dec-97	603.718	311,8	452.185	233,5
Jun-98	561.893	290,2	413.927	213,8
Dec-98	553.798	286,0	412.198	212,9
Jun-99	562.448	290,5	413.038	213,3
Dec-99	570.362	294,6	419.155	216,5
Jun-00	568.874	293,8	403.439	208,4
Dec-00	585.827	302,6	412.509	213,0
Jun-01	573.804	296,3	415.748	214,7
Dec-01	618.638	319,5	426.948	220,5
Jun-02	619.026	319,7	419.202	216,5

Source: FITD statutory reports

Graph 1 – Time series of Reimbursable Funds (RF) of member banks



The Monitoring Activity

Member banks' financial indicators as of 30 June 2002 seem to evidence a slowdown of the improvement shown during the two previous semesters.

The number of member banks in the *Order* class (199) decreased by 8 with respect to December 2001 and by 3 comparing to June 2001. The corresponding percentage of RF (80,3%) appears slightly lower comparing to the two previous semesters: it was 83,2% in December 2001, 85,7% six months earlier. Banks included in the "Medium Risk" (Warning and Penalty) or "High Risk" (Severe Imbalance and Expulsion), categories – which are evaluated on a quarterly, rather than on a semi-annual basis - increased by 15 comparing to December 2001 and by 23 comparing to June 2001. In spite of this, the corresponding percentage on total RF is in step with the previous semester (table 3).

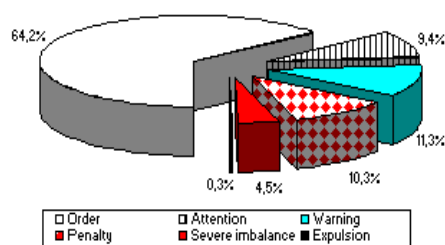
Table 3 – Distribution of Banks according to statutory class

<i>Statutory Position</i>	30/06/2001		31/12/2001		30/06/2002	
	<i>n° banks</i>	<i>% RF</i>	<i>n° banks</i>	<i>% RF</i>	<i>n° banks</i>	<i>% RF</i>
Order	202	85,7	207	83,2	199	80,3
Attention	33	7,0	27	2,3	29	5,5
Warning	20	2,0	26	12,8	35	10,7
Penalty	32	4,9	28	0,4	32	1,8
Severe Imbalance	6	0,5	12	1,3	14	1,1
Expulsion	1	0,0	1	0,0	1	0,6
<i>Total Banks</i>	294	100	301	100	310	100

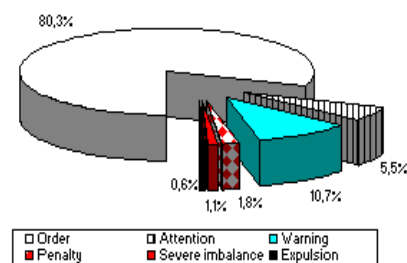
Source: FITD- Banca d'Italia statutory reports

Banks in the *Order* class, which constitute 64,2% of all FITD member banks, represent 80,3% of total RF. In all riskier statutory positions, the RF percentage is almost always inferior to the corresponding percentage of banks on the total. Banks in the *Attention* and *Warning* classes, respectively 9,4% and 11,3% of total member banks, represent 5,5% and 10,7% of RF. Banks in the *Penalty* class (10,3% of the total) represent 1,8% of RF, while those in the *Severe Imbalance* class (4,5% of the total) represent 1,1%.

Graph 2
Distribution of member Banks
according to Statutory Position



Graph 3
Distribution of RF
according to Statutory Position



Examining single financial indicators, the changing of the distribution according to statutory positions of member banks specially seem to be due to the deterioration of the A1 risk indicator and to the performance of the income statement variables (table 4).

Table 4 – Weighted average values of financial indicators

Indicator		Date		
		30/06/2001	31/12/2001	30/06/2002
A1	Net Doubtful Loans/ Shareholders' equity	10,84	10,22	11,51
B1	Capital for supervisory purposes/ Supervisory Capital Requirements	186,95	188,87	199,94
C	Maturity Transformation Rules	N.C.	N.C.	N.C.
D1	Overhead Costs/ Net Operating Income	56,01	53	59,6
D2	Loan Losses/ Net Operating Profit	17,14	20,3	24,18

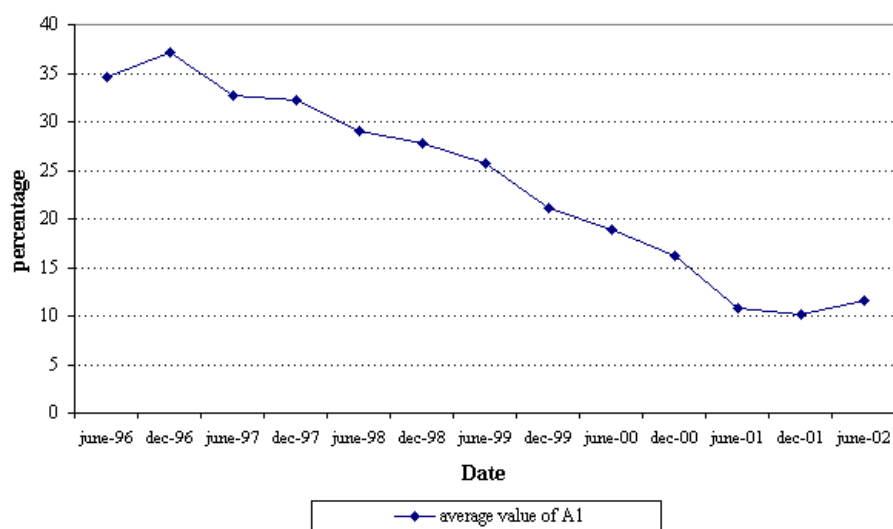
Source: FITD- Banca d'Italia statutory reports

Analysis of individual profiles

Risk profile

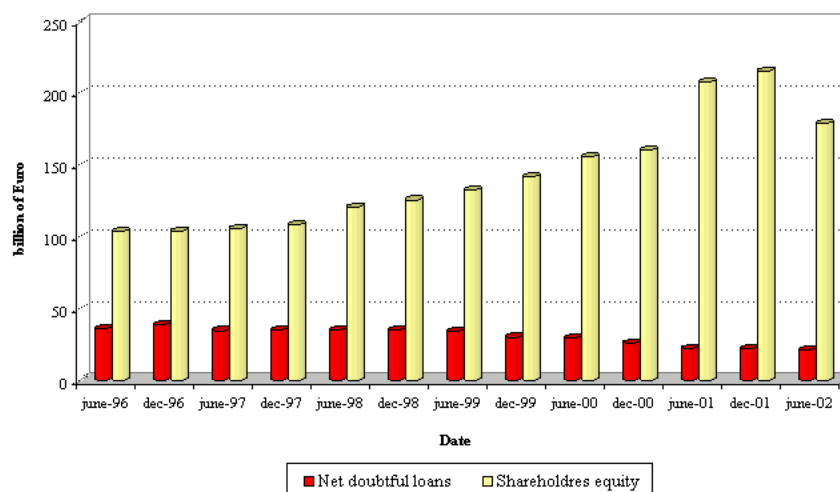
The A1 risk indicator (Total Net Doubtful Loans/ Shareholders' equity) slightly increased. Though, the said indicator keeps on maintaining itself far from the 40% limit, i.e. the borderline between the Normal and the Attention classes (Graph 4).

Graph 4 – A1 Performance from June 1996 to June 2002



Total Net Doubtful Loans (A1 numerator) remained stable, thus showing that loan quality did not deteriorate during the economic slowdown. Shareholders' equity (A1 denominator) experienced a reduction if compared to the previous survey (Graph 5).

Graph 5 –Net Doubtful Loans and Shareholders' equity from June 1996 to June 2002



Analysing the distribution of member banks according to classes, the least risky category (Normal) enhanced its weight, both in the number of member banks and in the amount of RF, whereas the most risky classes (Warning and Violation) declined or kept stable (Table 5).

Table 5 – A1 Indicator: Distribution of banks per classes

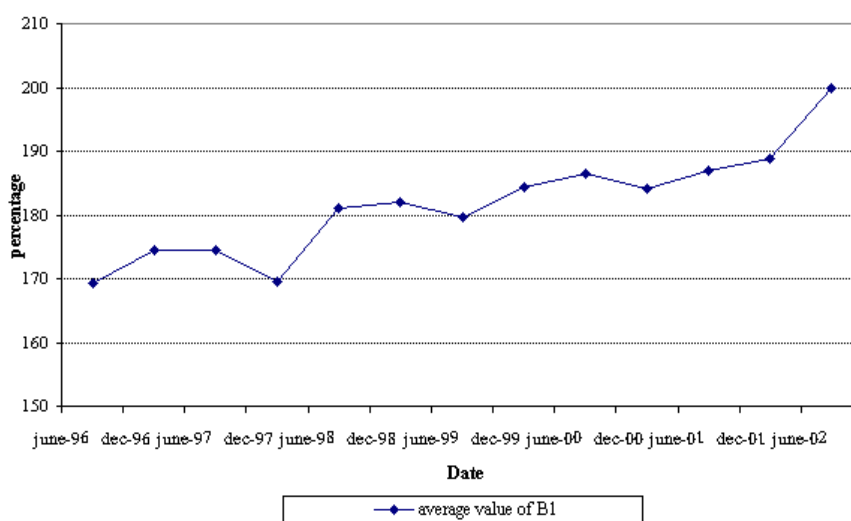
<i>Date of record</i>	Normal < 40%		Attention < 60%		Warning < 100%		Violation > 100%	
	<i>banks</i>	<i>% FR</i>	<i>banks</i>	<i>% FR</i>	<i>banks</i>	<i>% FR</i>	<i>banks</i>	<i>% FR</i>
30/06/2001	269	88,82	12	7,87	9	3,05	4	0,26
31/12/2001	279	89,92	11	9,25	7	0,57	4	0,26
30/06/2002	293	91,90	8	7,58	7	0,51	2	0,00

Source: FITD- Banca d'Italia statutory reports

Solvency Profile

The average weighted value of the B1 indicator (Capital for Supervisory Purposes / Supervisory Capital Requirements) as of June 30, 2002, was very close to the threshold of 200%, the highest value from June 1996, thus strengthening the hypothesis of an increasing soundness of the Italian banking system on the whole (graph 6).

Graph 6 – B1 Performance from June 1996 to June 2002



The distribution of member banks between the two less risky classes and the two more risky ones did not significantly change, both in terms of number and in terms of RF (Table 6).

Table 6 – B1 Indicator: Distribution of banks per classes

<i>Date of record</i>	Normal > 120%		Attention < 120%		Warning < 100%		Violation < 80%	
	<i>banks</i>	<i>% RF</i>	<i>banks</i>	<i>% RF</i>	<i>banks</i>	<i>% RF</i>	<i>banks</i>	<i>% RF</i>
30/06/2001	262	89,47	28	9,93	3	0,61	1	0,00
31/12/2001	265	87,03	32	12,69	2	0,26	2	0,01
30/06/2002	270	81,91	34	16,89	2	0,28	4	0,92

Source: FITD- Banca d'Italia statutory reports

Maturity transformation profile

The C indicator consists of three supervisory rules and cannot be synthesised in one single average value. The number of banks that respect the three rules together decreased by 26 units comparing to December 2001 and by 18 units comparing to June 2001 (table 7). The number of banks in the Attention and Warning classes increased, while no one single bank was classified in the Violation class. As far as concern the RF, the distribution among the three classes remained substantially unaltered.

The increase of risk recorded in June 2002 involved banks of small dimension and with moderate RF.

Table 7 – With respect to supervisory maturity transformation rules

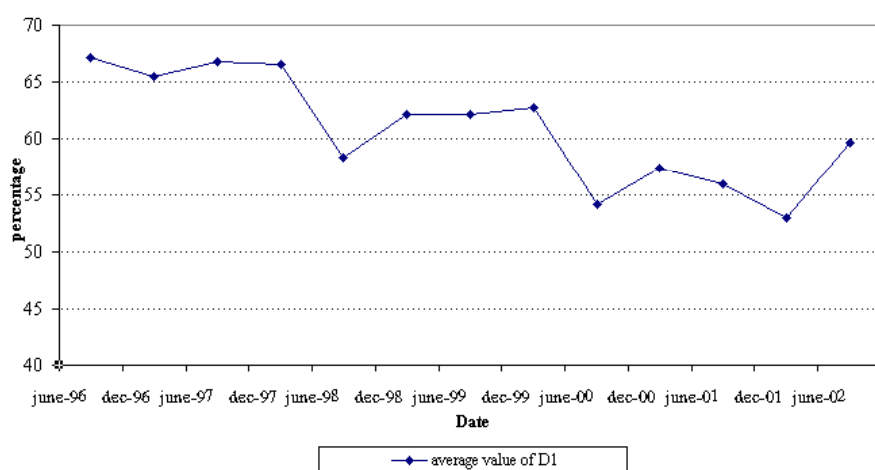
<i>Date of record</i>	Normal 3 rules respected		Attention 1 rule not respected		Warning 2 rules not respected		Violation 3 rules not respected	
	<i>banks</i>	<i>% RF</i>	<i>banks</i>	<i>% RF</i>	<i>banks</i>	<i>% RF</i>	<i>banks</i>	<i>% RF</i>
30/06/2001	281	96,90	11	3,10	2	0,01	0	0,00
31/12/2001	289	94,42	6	5,56	5	0,02	1	0,00
30/06/2002	263	94,13	23	4,97	24	0,90	0	0,00

Source: FITD- Banca d'Italia statutory reports

Profitability profile

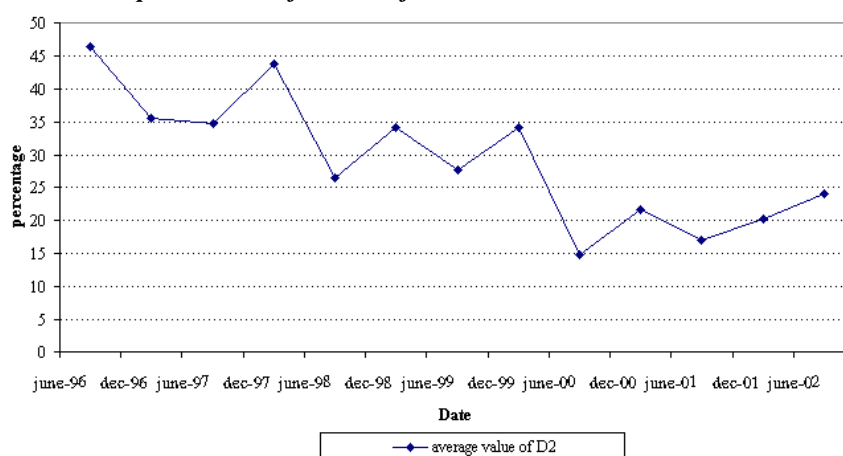
The decreasing trend of the D1 (Overhead costs/Net Operating Income) and D2 (Loan Losses, net of recovery/Net Operating Profit) indicators – a trend that, starting from June 1996, determined a progressive improvement in the profitability profile - seems to have stopped; as a matter of fact, both indicators increased with respect to December 2001 (graphs 7 and 8).

Graph 7 – D1 Performance from June 1996 to June 2002

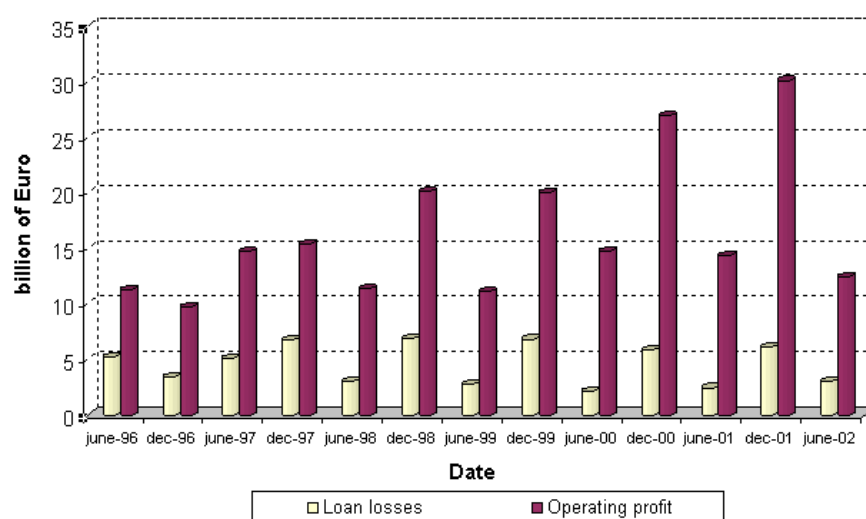


The D1 indicator (in the Normal class up to 70%) stemmed to 59,60%, while the D2 indicator (in the Normal class up to 50%) increased to 24,18%. The swinging performance shown in the graphs (even sharper for the D2 indicator) is due to the fact that income statement data in June and December refer to different time intervals (respectively the semester and the year).

Graph 8 – D2 Performance from June 1996 to June 2002



**Graph 9 –Loan losses, net of Recovery and Net Operating Profit
from June 1996 to June 2002**



The analysis of data related to the D1 indicator evidences that, between June 2001 and June 2002, there was a reduction in the number of banks classified as Normal or Attention (-6 in both cases) and, at the same time, an increase of those classified as Warning (+15) or Violation (+13) (Table 8). In terms of RF, the percentage of banks in the Normal class decreased by 7%, mainly in favour of banks in the Attention class (+7,4%). As for the two riskier classes, the RF percentage slightly increased in the Warning class (+0,76%) and decreased in the Violation class (-1,39%).

Table 8 – D1 Indicator: Distribution of banks per classes

Date of record	Normal < 70%		Attention < 75%		Warning < 85%		Violation >85%	
	banks	% RF	banks	% RF	banks	% RF	banks	% RF
30/06/2001	174	81,47	41	7,04	38	6,41	41	5,08
31/12/2001	170	82,08	50	7,13	30	6,06	51	4,73
30/06/2002	168	74,69	56	14,44	32	7,17	54	3,69

Source: FITD- Banca d'Italia statutory reports

By analogy with the D1 indicator, data related to the D2 indicator show a reduction in the number of banks in the Normal (-11) or Warning classes (-4), with an increase of banks classified in the Attention (+19) or Violation classes (+12) (Table 9). The RF distribution had the same tendency, with a reduction of 16,04% for the Normal class, an increase of a little more than 10% for the Attention class, a reduction of more than 3% for the Warning class and an increase of a little more than 10% for the Violation class.

Table 9 – D2 Indicator: Distribution of banks per classes

Date of record	Normal < 50%		Attention < 60%		Warning < 80%		Violation > 80%	
	banks	% RF	banks	% RF	banks	% RF	banks	% RF
30/06/2001	239	89,63	14	5,31	7	3,38	34	1,69
31/12/2001	235	75,46	21	17,22	5	4,78	40	2,55
30/06/2002	228	73,59	33	15,57	3	0,12	46	10,72

Source: FITD- Banca d'Italia statutory reports

Activity carried out by the Offices of the Fund

During the current year the activity carried out by the Fund focused on completing the process of organisational restructuring and on services provided to member banks. As a matter of fact, the Agreement signed with the Bank of Italy allowed to obtain the statutory financial indicators directly from the “Matrice dei Conti”. This determined a renewal of the information technology process of the report of each member bank, the encryption of each of those reports with a unique key, the setting of new rules for the communication of the data feedback to participants.

The above-mentioned new proceedings, realised by the Fund in an executive software, were issued to all member banks. The addition of the digital legal sign for each member bank is completing the innovative process of the reports.

Another important initiative was aimed to offer member banks some services through the “web site”. According to this, banks can operate directly from the site of the Fund (software updating, searching of aggregates of the “Matrice dei Conti”, etc.).

In order to complete the “services for the banks”, an advertisement area, which consists of a banner with a direct link to the sites of the banks, was freely activated on the “web”.

The activity of the information technology system was completed by issuing daily “news”, through the publishment of a bulletin “Economy and Finance” and “Piccola e Media Industria”, supplied by AdnKronos agency.

In the light of economic and financial research, the working group on Banking Risk published the volume “Capital Management and Creation of Value for Banks”. This very important contribution, edited by Andrea Sironi and Francesco Saita of NEWFIN-Bocconi, represents the logic continuation of the analysis on “Banking Risk” undertaken by the Fund since 1998.

Whereas the first two publications focused on the exam of credit risk modelling and management, the last one evidences how subordinated debts and other hybrid elements of capital (*securitization, contingent capital, etc.*) allow banks to optimise their own financial structure, thus triggering a virtuous process of value creation.

Projects in progress

The research project on the identification of newer and more significant financial indicators is in the late stages of development, taking into account financial and management innovations of the banking system, but also considering the new functional reality of single member banks belonging to more and more consolidated “Banking Groups”.

“Forum” on the Banking System

In order to allow a wider analysis activity of problems connected to the evolution of the banking system, the Fund started a “Forum” for discussion, in collaboration with NEWFIN-Bocconi and co-ordinated by A. Sironi, F. Sàita and the Fund itself. The first theme will be “ Internal Ratings and Credit Risk Control”.

Past interventions

During its last accounting year, the Fund continued managing interventions that were not completely defined.

This activity, developed together with the organs of the liquidation processes, had the purpose to examine all possible solutions allowing a complete definition of ongoing processes.

Here follows a descriptions of the “status” of current interventions and of the activity carried out by the Fund:

Banco di Tricesimo: The FITD was not asked to provide resources during 2002, therefore the principal amount of the guarantee given by the Fund remained unchanged, namely 2.719.016,28 Euro, whereas the interest amount rose to 2.206.561,45 Euro. To those amounts, 27.656,74 Euro were added as further reimbursable deposits. The liquidator communicated the liquidation gap, which will be totally refunded to the FITD during year 2003 and then given back to member banks, which participated to the intervention. After the conclusion of the liquidation proceedings, the “guarantee” given by the Fund will be considered no longer valid.

Banca di Girgenti: in November 2001, the Fund, the liquidators and the representatives of the bank itself made a precise acknowledgement of the position of the Banca di Girgenti, which allowed to evaluate the “status” of the ongoing judicial proceedings.

During 2002, there were no significant judicial developments regarding the disputes in progress. Therefore, the picture drawn remained unaltered.

Cassa di Risparmio di Prato: going further with the liquidation, the majority of the positions were closed, with no burden for the Fund itself. Year 2003 is supposed to bear the closing phase of the liquidation.

According to Article 21 of the Statutes, the General Meeting set participants’ commitment in case of interventions to 0,4% of

total Reimbursable Funds, as of June 30, 2001, for a total of 1.185.381.501,55 Euro.

As of December 31, 2002, the total commitment for interventions (quantified as the difference between the initial commitment and that related to interventions already resolved) was equal to 1.180.428.267,08 Euro.

APPENDIX

AVERAGE SYSTEM VALUES

Date	INDICATORS OF BANK BALANCE-SHEET PROFILES						Aggregate Indicator	Reimbursable Funds		
	A1	A2	B1	B2	D1	D2		in bill. Lire	in bill. Euro	
30/6/96	34,65	5,44	169,44	14,07	67,12	46,31	3,56	751.354	388,0	
31/12/96	37,17	5,73	174,48	13,44	65,45	35,52	3,57	770.637	398,0	
30/6/97	32,71	5,06	174,41	13,54	66,84	34,66	3,46	647.401	334,4	
31/12/97	32,17	4,83	169,57	13,83	66,53	43,86	3,46	603.718	311,8	
30/6/98	29,05	4,74	181,08	15,15	58,39	26,41	2,8	561.139	289,8	
31/12/98	27,79	4,54	182,05	16,08	62,18	34,12	3,17	553.798	286,0	
30/6/99	25,67	4,27	179,62	16,09	59,58	24,84	3,41	562.448	290,5	
31/12/99	21,17	3,53	184,49	17,18	62,77	34,1	3,61	570.362	294,6	
30/6/00	18,89	3,28	186,55	18,15	54,1	14,86	2,74	568.874	293,8	
	A1		B1		D1		D2			
31/12/00	16,23		184,16		57,39		21,73	2,27	585.827	302,6
30/6/01	10,84		186,95		56,01		17,14	1,85	573.804	296,3
31/12/01	10,22		188,87		53		20,3	2,01	618.660	319,5
30/6/02	11,51		199,94		59,6		24,18	2,25	619.026	319,7

INDICATOR THRESHOLDS

Legend	Normal	Attention	Warning	Violation
A1 Indicator: Net Doubtful Loans/ Shareholders'Equity	up to 40%	from 40% to 60%	from 60% to 100%	more than 100%
A2 Indicator: Net Doubtful Loans to Customers/Loans to Custom.	up to 6%	from 6% to 8%	from 8% to 12%	more than 12%
B1 Indicator: Capital for Superv.Proposal/Superv. Capital Requirem.	more than 120%	from 100% to 120%	from 80% to 100%	less than 80%
B2 Indicator: Shareholders'Equity / Deposits of Customers	more than 10%	from 8% to 10%	from 6% to 8%	less than 6%
C Indicator: Maturity Transformation Rules	3 rules respected	1 rule not respected	2 rules not respected	3 rules not respected
D1 Indicator: Overhead Costs/ Net Operating Income	up to 70%	from 70% to 75%	from 75% to 85%	more than 85%
D2 Indicator: Loan Losses / Net Operating Profit	up to 50%	from 50% to 60%	from 60% to 80%	more than 80% or Gross Oper. Surplus<0

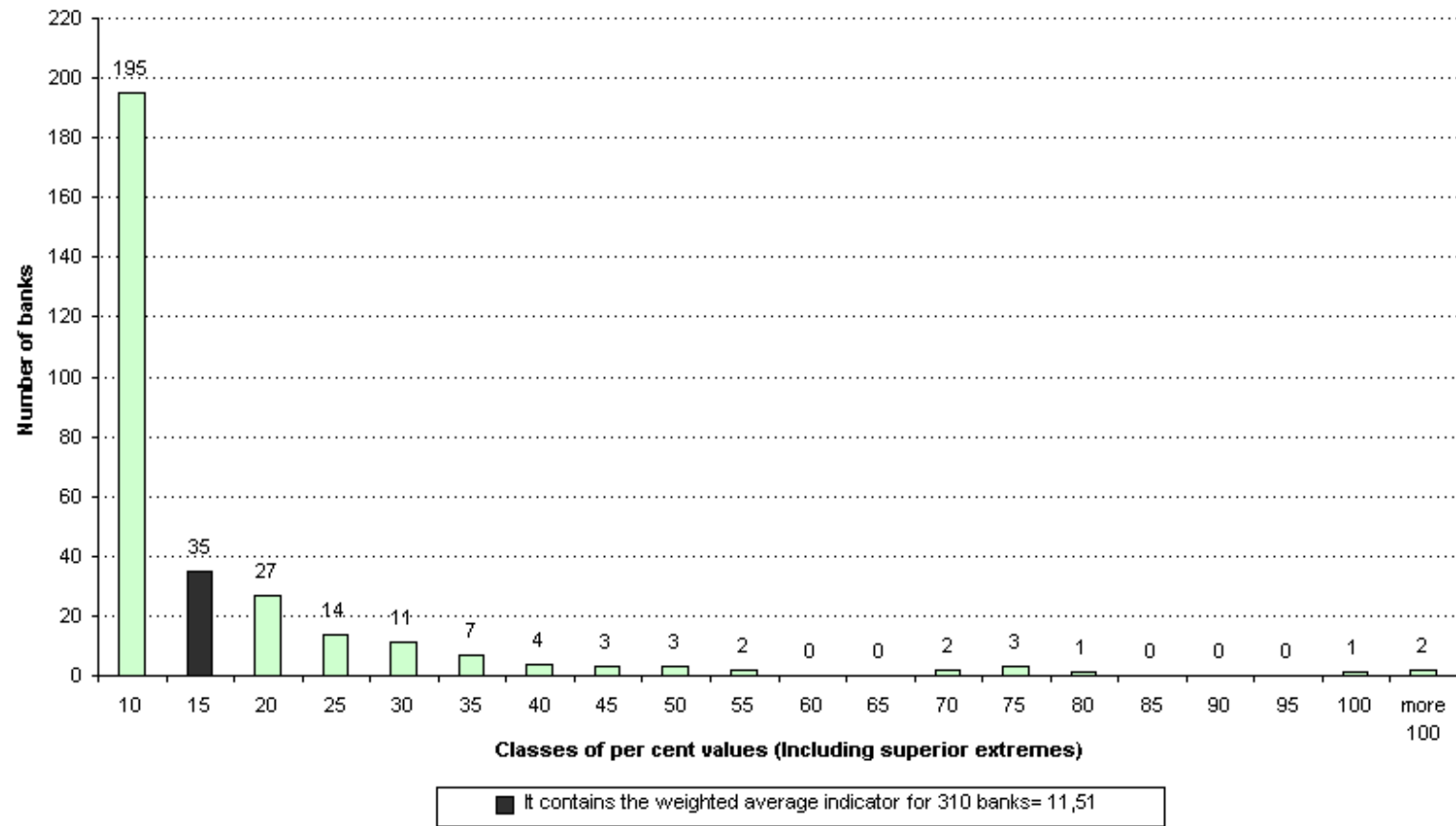
N.B: A2 and B2 Indicators have been abrogated since the reporting of 31-12-2000.

STATUTORY POSITIONS

STATUTORY POSITION	AGGREGATE INDICATOR	CONDITIONS
ORDER	0-2	without indicators in the Warning or Violation class
ATTENTION	0-2	with one indicator in the Warning class
	3-5	without indicators in the Warning or Violation class
WARNING	3-5	with one indicator in the Warning or Violation class
PENALTY	6-8	None
	>=9	with only one indicator in the Violation class
SEVERE IMBALANCE	>=9	with two or more indicators in Violation class (except B1)
EXPULSION	>=9	with two or more indicators in Violation class (B1 included)

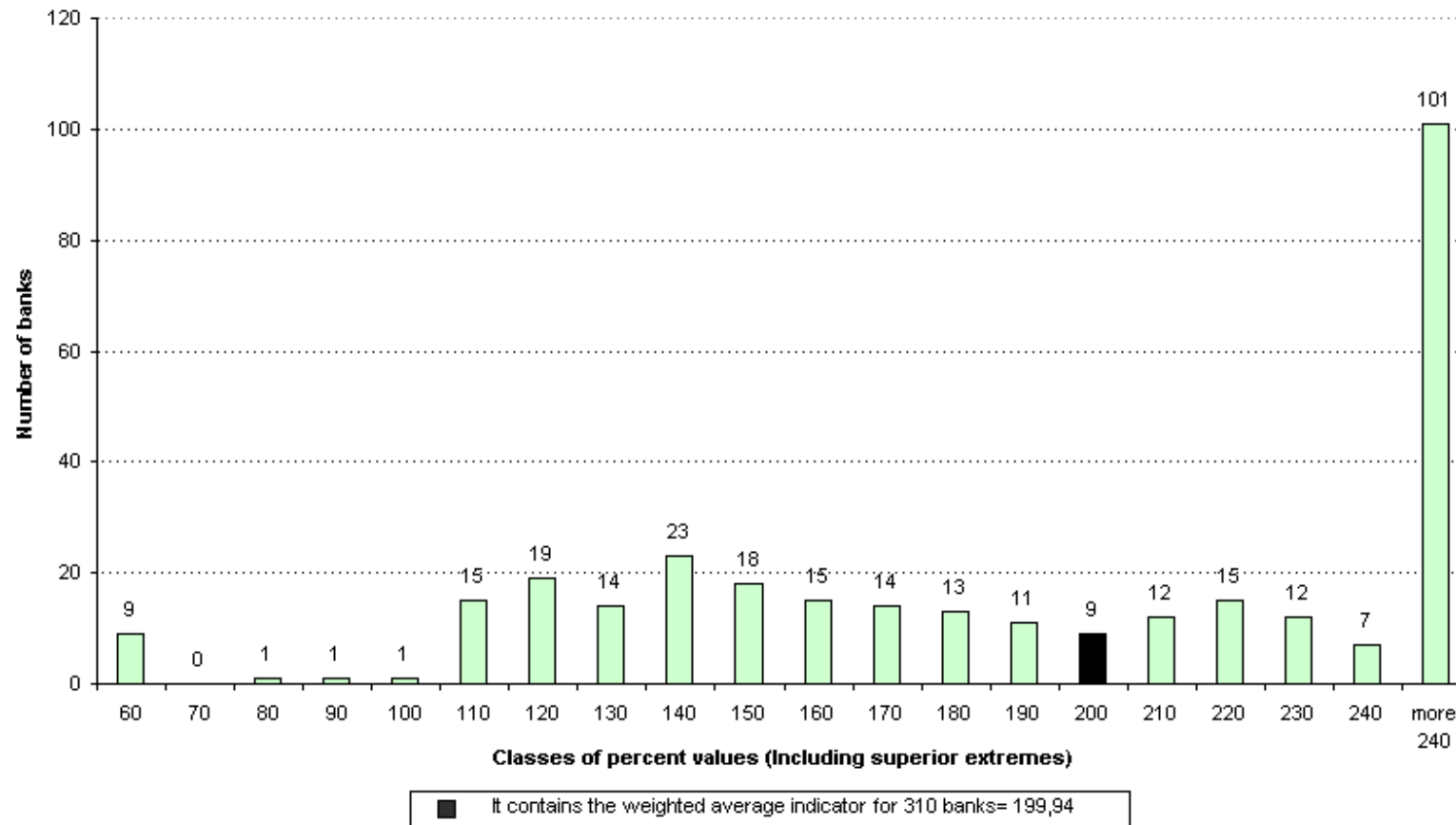
A1 Indicator: Net Doubtful Loans/Shareholders'Equity

Data of 30th June 2002

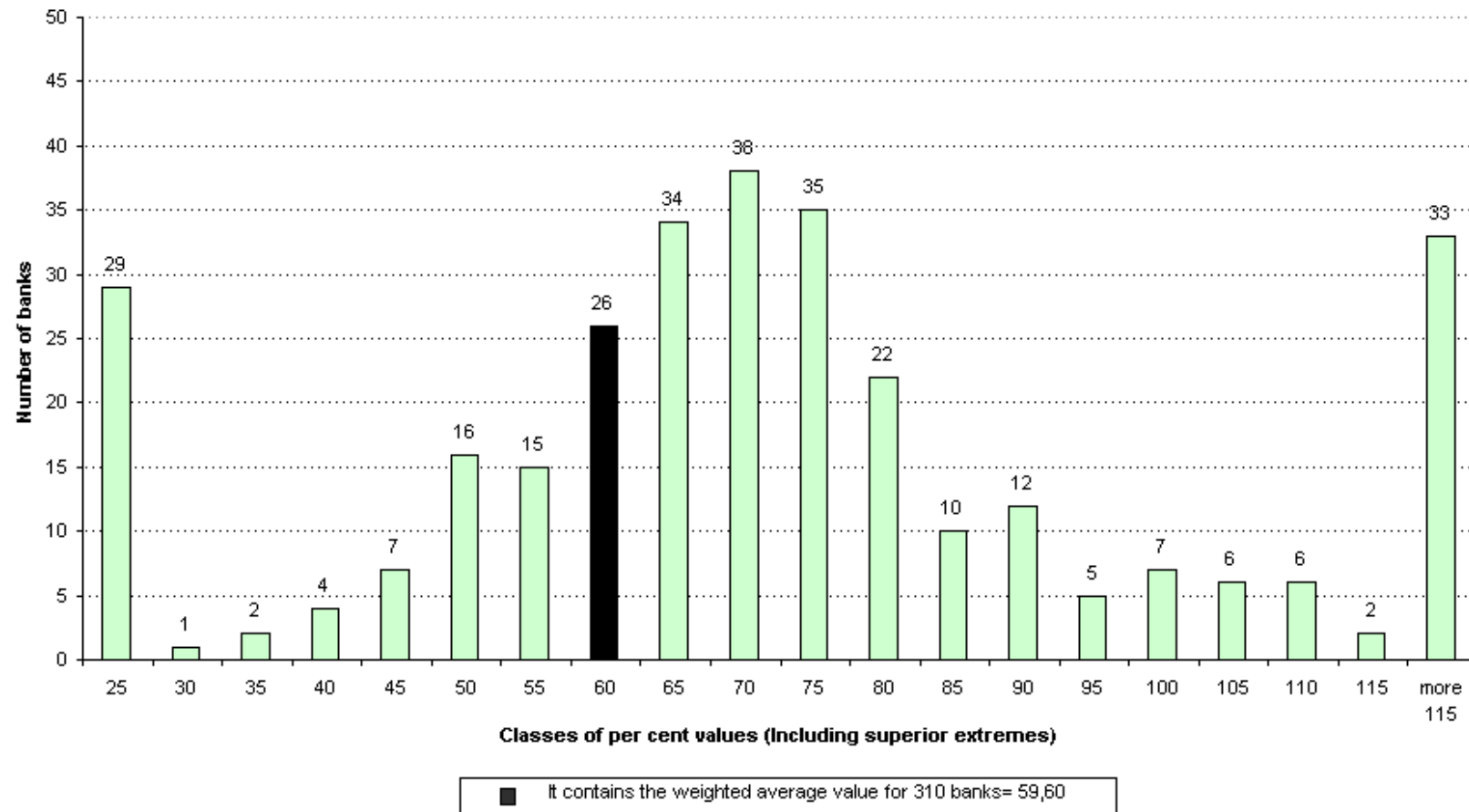


B1 Indicator: Capital for Supervisory Purposes/ Supervisory Capital Requirements

Data of 30th June 2002

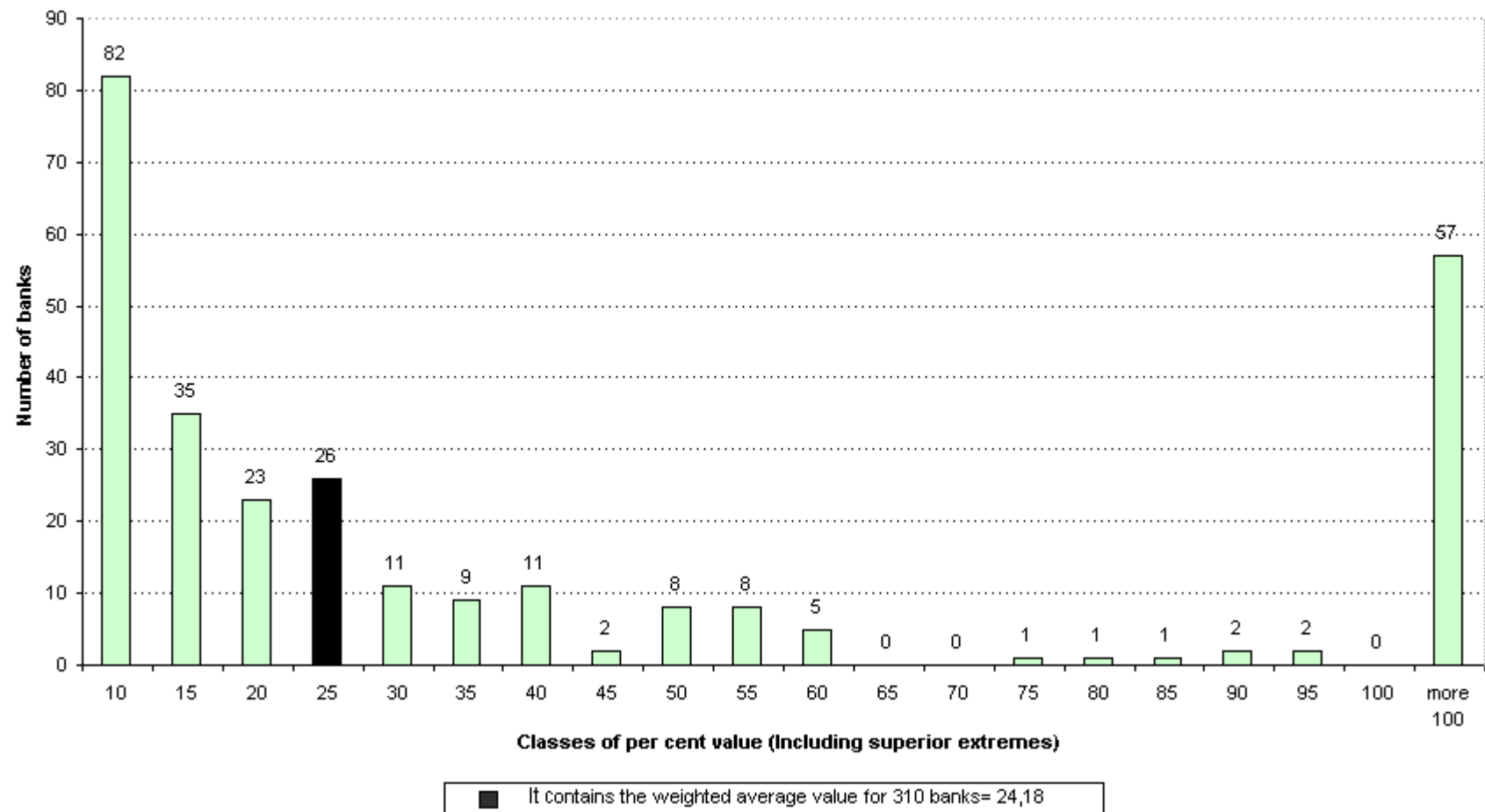


D1 Indicator: Overhead Costs/ Net Operating Income
Data of 30th June 2002



D2 Indicator: Loan Losses/ Net Operating Profit

Data of 30th June 2002



Aggregate Indicator

Data of 30th June 2002

