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**Approaches of the Bank Loan Portfolio
within the Framework of the Financial Crisis**

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Abstract: In this paper, the author proposes himself, first, to define, in his view, and to outline the content of "bank loan portfolio", starting from the requirements of its efficient management, considering that the proper use of the concept favours the treatment of related issues, both in theoretical and, especially, in banking practice, for which, there are invoked approaches of this expression cited in other works in the foreign and Romanian scientific literature. Furthermore, it is argued the need and the possibility of the applicative approaches to banks' loan portfolios, in terms of quantitative dimensions, but especially from qualitative perspective, through their structuring on types of loans currently in progress. In this respect, there are processed and interpreted data that characterize the formation and administration of loan portfolios of commercial banks in Romania and in other European countries, resulting findings, assessments and conclusions, having resonances in the theory and practice of banking.

Keywords: lending activity; financial resources; domestic credit; governmental loans; nonperforming loans

JEL classification: G01; G21; H63

1 Introduction

Lending activities performed, in principle, by commercial banks imply manifesting of credit relationships, between banks, in the position of creditors, which are granting money amounts as loans, on one hand, and customers of them (legal entities or individuals), as beneficiaries of the borrowed money, on the other hand, based on some specific contracts, assumed by both parties. Naturally, this requires the presence and concurrent conduct of a multitude of credit reports based on contracts, between the lending banks and the debtor clients, including a great variety of specific elements, conditions, impact factors and multiple effects.

Therefore, each of the loans granted by a bank has significant distinctive elements in carrying out the lending processes, banks accumulating claims, which are reflected within loan portfolios of different sizes, with complex structures, involving, at the same time, a differentiated "exposure" of each one to the credit risk.

2 Theoretical Approaches

Like other concepts, bank loan portfolio is less approached on theoretical plan, but is used in practice, with various meanings, aiming the its constitutive elements, as a whole or only some of them, starting, most times, from context in which this expression is invoked, both in the scientific literature and in the normative documents. So, for example, in foreign literature, the loan portfolio is conceived as expression of "loans that have been made or bought and are being held for repayment[...] as major asset of banks and other lending institutions" (Scott, 2003). Likewise, in other sources it is considered that, on a general level, the loan portfolio consists in "the loans (in the sense of debt – our comment) that a lender or a buyer of loans is owed,[...] listed as an asset on the lender's or investor's balance

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sheet (Farlex, 2011), but also by “the total of all loans (claims receivable) held by a bank or finance company on any given day (Business Dictionary, 2012).

The same concept is approached in our scientific literature, most time, without explicitly outlining its meanings. Thus, the expression of loan portfolio is invoked, for example, in the context of its reporting on some elements specific for the banking management, such as calculating of some credit risk indicators or analyzing banks’ activity etc. It is stated thus, that “a special problem for banks is the loan portfolio analysis, taking into account the life of each loan, since its request until its effective reimbursement” (Trenca, 2003, p. 169) and that “in the moment of granting the loans, the loan portfolio is founded” (Ungurean, 2001, p.75). Such assessments print, implicitly, on this concept, also the meaning of ensemble of the ongoing loans granted by a bank to its clients.

In another work, there are made references on the usefulness of some indicators which are characterizing the bank lending activity, including in their name expressions such as “the degree of covering losses from loan portfolio out of the net profit” (Hoanță, 2001, p. 127) as well as on the “theory of anticipated revenue”, which “considers the loan portfolios as liquidity source [...] because the loan portfolio provides the bank a continuous flow of funds” (Hoanță, 2001, p. 225).

Similarly, regulations regarding this area state that “the banks should categorize their loan portfolio, according to the methodology [...] twice a year [...]” (BNR, 1994, Norma 3), including only the loans granted in the private sector, for companies, individuals, other credit institutions etc.

Also, it must be noted the use, within the same framework, of the notion of banks’ exposure from granted loans, given a classification of it, similar to that on their loan portfolios. In this regard, subsequent amendments to this regulations, no longer use the portfolio term, but they concern the exposure, not only for the loans effectively granted, but also by considering the engagements assumed by the banks, likely to be materialized later, generating similar risks as the ongoing loans. We appreciate that, the two concepts have, however, distinct meanings, although they aim, at a large extent, aspects of whose content interferes in the bank lending activity. Thus, it may be recognized that, in principle, the loan portfolio of a bank means, at a given moment, all loans granted by that bank to its customers and ongoing, according to some documents such as credit contracts. In comparison, the exposure of the creditor banks aims, directly, the measurement of the risks assumed by each bank, by granting loans to various clients, under distinctive conditions of obtaining, use and reimbursement of them, for which there are taken also measures regarding the bank prudence area.

It is clear, however, that the proportions of the exposure to the credit risk, for a bank or another, are determined by the quantitative and, especially, qualitative dimensions of the loans composing the loan portfolio of each bank. Though, from this perspective, the loan portfolio must be approached, not only as global amount of loans, but also, in particular, as structure based on the purposes of the granted loans, taking into account impact factors, specific both on the loan’s purpose and on the client who becomes debtor of the bank.

At the same time, it can be seen that the quantitative dimensions of the bank loan portfolio evolves under the incidence of the manifestation of the demand and the supply of loan capital, in interaction with changes occurring in the real and monetary market, but also under the influence of the promoted monetary and credit policies, in time and space. In this context, is included also the presence of a specific correlation within the running of bank lending process, that between the formation or accumulation at banks disposal of financial resources, on one hand, and their redeployment within the bank lending relationships, on the other hand. Accordingly, it occurs between the total usable credit resources and the total volume of loans granted to all customers, at a time (or within a specified time period).

At the macroeconomic level, considering the two terms on global dimensions, such a correlation can be summarized as follows:

Equation 1 The correlation between banks' credit resources and banks' granted loans

$$\sum R_{cb} = \sum L_{gb}$$

where: $\sum R_{cb}$ - banks' credit resources; $\sum L_{gb}$ - banks' granted loans

In turn, however, the total amount of usable resources for lending, at the level of the creditor banks, is constituted, in principle, from their own liquidities and, especially, from those attracted to their disposal from their rightful owners (individuals and legal entities). These resources correspond to cash availabilities, representing a part of the money supply put into circulation, at some time. But, to them there can be added also resources resulted from new monetary issues that are intertwined with bank lending within the context of refinancing commercial banks by the central bank, giving expression also to the fulfilment of a specific function of the bank lending. However, the amount of credit resources created by new monetary issues, primarily conditioned by the increase of the volume of goods and services transactions and implicitly of GDP, may be amplified under the impact of implementing some expansionary monetary policies. Such policies are promoted often within the framework of economic and financial crises, to support the growth or revival of the real economy, confronted with the lack of liquidities necessary for the production and trade of goods and services.

It is also of interest the fact that a significant part of the lending resources can be used for lending also by non-banking entities, including by direct credit relationships between persons which offer available money amounts and others requiring loans, being distinguished, in this regard, other forms of loans, such is the bond loan performed on stock exchanges. Consequently, the size of bank loan portfolios are influenced also by the extent to which lending resources are used by non-bank lenders, with the effect of reducing the part usable on commercial banks level for issuing new loans, situation that can be expressed synthetically by the following formula:

Equation 2 The banks' credit resources formula

$$\sum R_{cb} = \sum R_{cm} - \sum R_{cn}$$

in which: $\sum R_{cb}$ - banks' credit resources; $\sum R_{cm}$ - macro level credit resources; $\sum R_{cn}$ - non-banking entities' credit resources

The approach from the qualitative perspective of the bank loan portfolios, aims primarily their structural components, starting with their creation and following the evolutions registered by them, because they are marking deeply the quality of the each bank activity and directly the lending one. In principle, the structure of the loan portfolio highlights many aspects that characterize the bank lending relationships with the borrowers, reported to the fulfilment of the contractual obligations. In this respect, a particular importance is given to the destinations of the borrowed amounts, reported to the final result of the actions or objectives financed and the way of foundation of lending decisions, starting from customer creditworthiness analysis, etc.

In the same context, it is to be noted that, in the case of the bank loans for the real economy, credit processes are intertwined and interrelated with the ones of production of added value, respectively of production, distribution, circulation and consumption of GDP. They are reflected in new goods and services whose value size interact with those regarding the increase of money supply, including with the size of credit resources and of bank loan portfolios.

On the other hand, it appears that, although bank lending emerged in direct connection with the development of material activities (characteristic for the real economy), it included, further, more and more intangible activities. Among the latter, an increasingly important place was gained, along the way, by the financing through bank loans of public, unproductive, activities, in which, most time, bank loans cover expenses reflected in the state budget deficit. Or, in this case, bank lending interacts, usually, with the processes of final consumption, which does not ensure any recovery of the financial resources that were spent. This makes the completion of the bank lending processes, itself, by

reimbursements of the loans and related interest payments, to depend on the redistributions of financial resources, corresponding to value created in material activities.

From the perspective of bank loan portfolio significance, it is interesting to note also the fact that, both on the theoretical and applicative level, loans granted to entities engaged in such activities, especially in the public sector, are considered risk-free and banks confirmed in recent years, a trend for increasing these investments, they becoming more attractive, particularly in times of recession or economic and financial crisis. Moreover, starting from the considerations regarding the credit risk existence, it appears that such loans, granted mostly to governments, named also "governmental", are not treated like those granted to the private sector, within bank loan portfolios. Therefore, by the way of approach, the content of the loan portfolio does not include these "governmental" loans, which are presented separately as "portfolio of state bonds and other negotiable bonds" (Hoanță, 2001). However, the realities faced by bank lending, especially in the current sovereign debt crisis conditions, highlight the presence of a real risk also in the case of loans for public entities, respectively to state, they implying also potential losses for the creditor banks and justifying their treatment within bank loan portfolios, among those put in the private sector. The most eloquent case is that of Greece, for which the commercial banks, as private creditors, are put in the position to give up claims related to the loans granted by them to the Greek state, bearing themselves, thus, losses of tens of billions of Euros, which affect very much their financial status .

Furthermore, it is worth mentioning that by the bank lending to public activities it appears also a transfer of (available) financial resources from the private sector towards the public one, to finance, usually, unproductive expenditures, a phenomenon known in the scientific literature as "crowding out" (Dornbusch & Fischer & Startz, 2008), whose mode of expression may be questionable.

Therefore, we consider that the bank loan portfolio must be defined and approached as a whole of the loans granted by banks and not yet reimbursed by the customers, at a time, admitting that its structure includes all ongoing loans, contracted with customers belonging both to the private sector, and the public one (government).

According to the above approach, it can be accepted that a global dimension (considered on macro level) of the bank loan portfolios corresponds to the totality of the loans granted by all commercial banks operating in countries (e.g. Romania). This dimension has correspondence in an indicator of banking activity, called "domestic credit" (National Bank of Romania, 2012), which is structured, in its turn, on two components, representing the sum of the bank loans granted to private entities, respectively the sum of the bank loans granted to public entities (governmental).

3 Data Analysis and Interpretation

In relation to the considerations set out and the practice in Romania, it appears revealing for us a first approach to bank loan portfolio, targeting the totality of the portfolios held by commercial banks, having correspondent with the global and structural dimensions of the "domestic credit", respectively with the loans granted to private entities, on one hand, and the public (non-governmental type), on the other hand, in the period 2006 - 2011, according to data presented in Table 1.

Table 1 Dimensions of bank loan portfolios, expressed by domestic credit and its components, in Romania

- in millions Lei -

Crt. No.	Period	Total domestic bank loans *	out of which:			
			Loans granted to private entities (non -governmental)		Loans granted to public entities (governmental)	
			Amounts	(%)	Amounts	(%)
1	2006	95.924	92.378	96,30	3.546	3,70
2	2007	157.751	148.180	93,93	9.571	6,07
3	2008	215.261	198.056	92,01	17.205	7,99
4	2009	246.698	199.887	81,02	46.811	18,98
5	2010	270.668	209.293	77,32	61.375	22,68
6	2011	292.849	223.034	76,16	69.815	23,84

* does not include loans for non-resident customers; data represent outstanding balances at the end of the year

Source: National Bank of Romania, Monthly Bulletin December 2011, p.34-35. Web page. Retrieved from <http://www.bnro.ro/Publicatii-periodice -204.aspx>

Although the data in Table 1 are outstanding balances at the end of those years for the granted and ongoing loans, assuming relatively different levels during each year, they highlight a trend of strong growth, with large jumps in 2007 and 2008, in which there has been registered also significant economic growth. But, taking into account also the structuring on the two components, we remark major differentiations of the size of loans granted to private entities, generically named “non-governmental credit”, to those granted to public entities, called "governmental credit".

Likewise, it results that there has been registered continuous and consistent growth of the loans granted by banks to private persons, especially in the years of economic growth, but the increases are much higher for the debtors that are government type entities and especially in the years with crisis. Likewise, it requires observation also the finding that, over the period considered, the shares in the overall portfolio of the first component decreased (from 96.30% to 76.16%), but those for the second component have amplified much (from 3.70% to 23.84%).

The mutations occurred, especially in the structure of bank loan portfolios highlight, strongly, the impact of the manifestation of the financial crisis, this generating reductions in the activities specific to the real economy, and implicitly, of the loans contracted by the private economical entities, simultaneously with the increase of financing of government entities by banks, primarily, of the increased public deficits. In this respect, it is significant the massive growth of the volume of bank loans granted, especially to the government, whose share increased from less than 4% to almost 24% of total bank loans volume, which is, basically, an undesirable phenomenon. In particular, it appears irrational for us, the situation in 2007 and 2008, when there were granted and used huge loans to finance larger unnatural deficits under conditions of maximum economic growth in Romania.

In the context of current financial crisis, the bank loan portfolio analysis, in terms of quality, based on their structure are intertwined (up to a possible substitution) with the one of the exposure from banks' loans (with interest), granted and not yet reimbursed by the debtor customers. In this respect, we consider that some overall assessments can be obtained by reference to the structuring of bank loans, first of all, in current and past due loans, and loans in lei and in foreign currency. Under these aspects, can be enlightening the analysis of data on loans granted by the banks from Romania, to resident and non-resident customers from the private sector (non-governmental), in the period 2007 - 2011, presented in Table 2.

Table 2 The general dynamics and structure of bank loans (final balance) granted to non-governmental customers

- in millions Lei and as percentage -

Crt. No.	Period Indicators	2006		2007		2008		2009		2010		2011	
		amount	%	amount	%	amount	%	amount	%	amount	%	amount	%
1	Loans in Lei**	49.083	100	67.800	100	83.746	100	79.788	100	77.456	100	81.822	100
2	current loans in Lei	48.805	99,43	67.038	98,88	81.934	97,84	75.323	94,40	69.853	90,18	72.525	88,64
3	overdue loans in Lei*	278	0,57	762	1,12	1.812	2,16	4.465	5,60	7.602	9,82	9.297	11,36
4	Loans in foreign currency**	43.797	100	81.461	100	115.361	100	121.405	100	133.391	100	143.340	100
5	current loans in foreign currency	43.690	99,76	81.131	99,59	114.372	99,14	117.713	96,96	124.839	93,59	131.307	91,61
6	overdue loans in foreign currency*	107	0,24	330	0,41	988	0,86	3.692	3,04	8.552	6,41	12.033	8,39

* overdue loans refer only to loans* outstanding and do not include off-balance sheet positions.

** includes loans granted to resident and non-resident customers

Source: National Bank of Romania, Loans and deposits in territorial profile. Web page. Retrieved from <http://www.bnro.ro/Credite-si-depozite-in-profil-teritorial-3171.aspx>

According to data of Table 2, it results that , regarding the overdue loans in lei, their share increased, year after year, starting with 2009, reaching to over 11% in 2011, meaning an increase of over 10 times compared to 2007 and nearly 20 times compared to 2006. By comparison, out of the loans in foreign currency, the overdue ones have registered lower proportions, with smaller weights, but have still been rising, from 0.24% in 2006 to 8.39% in 2011, meaning about 35 times to 2007.

Such mutations lead to the appreciation that the orientation towards foreign currency loans is a significantly more risky choice, both for the customers, by affecting their reimbursement capacity (under the impact of "currency risk" factor), and for banks, by the stronger degradation of the bank loan portfolio quality, involving also higher costs.

Also, from the perspective of loan portfolio quality, and under the incidence of financial crisis, there are relevant also, the data in Table 3, regarding the gross exposure of banks in Romania.

Table 3 Gross Exposure (final balance) of banks* by category of loans (with interest) for non-bank customers

- in billion Lei and as percentage -

Crt. No.	Indicator	2006		2007		2008		2009		2010		2011	
		amount	%	amount	%	amount	%	amount	%	amount	%	amount	%
1	Total granted loans (out of which:)	89.335	100	145.092	100	192.479	100	192.790	100	205.658	100	219.450	100
2	Standard Loans	46.378	51,92	67.360	46,43	118.629	61,63	103.268	53,57	96.456	46,90	101.609	46,30
3	Under surveillance Loans	35.861	40,14	63.607	43,84	47.370	24,61	43.156	22,38	44.216	21,50	42.821	19,51
4	Substandard loans	4.585	5,13	8.315	5,73	13.906	7,22	16.890	8,76	22.183	10,79	23.936	10,91

5	Doubtful loans	938	1,05	2.075	1,43	3.993	2,07	6.637	3,44	9.091	4,42	10.209	4,65
6	Loss loans	1.573	1,76	3.735	2,57	8.581	4,46	22.839	11,85	33.712	16,39	40.875	18,63

* Romanian legal entities

Source: National Bank of Romania, Monthly Bulletins, December 2006-2011. Web page. Retrieved from <http://www.bnro.ro/Publicatii-periodice-204.aspx>

According to data from Table 3, in the boom years (2007-2008), it has substantially increased the volume of loans granted by the banks in Romania, especially to companies and population (over 62% in 2007 compared to 2006 and over 32% in 2008 compared to 2007), but in subsequent years, growth was much lower. At the same time, it is obvious a tendency of deterioration of the quality of bank loan portfolios, which has worsened starting from 2009, reflected in significant increases in weights of the categories "loss", "doubtful" and "substandard". These, together, have increased from 7.94% in 2006 and 9.73% in 2007 to over 34%, of the total exposure of banks, in 2011, and only the weight of the loans considered "loss" by the banks in Romania, represented, in 2011, about 19% of the total.

The mitigation of private sector (companies and population) credit growth and the degradation of the loan portfolio quality during the period 2008 - 2011, expressed by the large proportions of nonperforming bank loans, occurred under the impact of the financial crisis manifestation, on international level. Those phenomena have multiple negative implications on the activity of commercial banks, through the additional costs with the provisions, increased uncertainty to the applicants for new loans, etc.

There become, thus, of great interest the evolutions registered by the nonperforming loans (including the loans upon which the debtor has not made its scheduled payments for at least 90 days, or according the regulations are in default or close to default), in European countries, and for this purpose are useful the data in the table below:

Table 4. The volume of non-performing loans, in some European countries, and their dynamics*
- billion EURO -

Country \ Period	2008	2009	2010*	Increase 2008-2009	Increase 2009-2010
Germany	142	210	225	48%	7%
United Kingdom	107	155	175	45%	13%
Spain	75	93	103	24%	11%
Italy	42	59	76	40%	29%
Ireland	15	88	109	487%	24%
<i>Subtotal</i>	<i>381</i>	<i>605</i>	<i>688</i>	<i>59%</i>	<i>14%</i>
Greece	12	20	24	67%	20%
Russia	1	17	19	1600%	12%
Poland	6	12	16	100%	33%
Ukraine	2	6	8	200%	33%
Czech Republic	3	4	5	33%	25%
Romania	1	3	5	200%	67%
Hungary	2	3	5	50%	67%
Turkey	8	11	11	38%	0%
<i>Subtotal</i>	<i>35</i>	<i>76</i>	<i>112</i>	<i>126%</i>	<i>47%</i>
<i>Total</i>	<i>416</i>	<i>681</i>	<i>781</i>	<i>64%</i>	<i>15%</i>

* values relate in most cases, to the existing nonperforming loans at the end of second and third quarters of 2010

Source: PriceWaterhouseCoopers, European outlook for non core and non performing loan portfolios. Debating Deleverage, Issue 3, April 2011. Web page. Retrieved from <http://www.pwc.com/cy/en/press-releases/2011/assets/Debating-Deleverage.pdf>

The non-performing loans (NPL) category reflected in Table 4 is the expression of the deeper deterioration of bank loan portfolios quality, in terms of time delay regarding the scheduled payment obligations of debtors, blocking also part of banks' lending resources. In relation to those data, the volume of these loans appears to be higher in developed countries, which is explained primarily by the large size of bank loan portfolios, compared to the situation of other countries. Even more revealing is, however, the dynamics of these loans, expressed both in absolute amount and as percentage of growth in the years considered. Thus, it appears that 2009 year has marked substantial increases in the volume of NPL in all countries under considerations, occurring on the background of the deepening of the financial crisis, the largest ones being recorded in Russia, Ireland, Ukraine and Romania. Later, however, under the effect of some emergency measures, taken by banks to preserve the quality of loan portfolios, and of the involvement of the states, to protect national economies, the trend of growth slowed. Thus, although the data in the table, related to 2010, do not regard the whole year, it shall be admitted that these increases in NPL are significantly lower than the previous year.

On the other hand, it can be noticed that in developed countries, growth rates were significantly lower than those of Central and European countries, due to greater weakness of the latter ones, but also because of some vulnerabilities of the banking systems.

It resulted, therefore, the need to put more emphasis on the measures for recovery of the economies, but also of the banks' loan portfolios, and also on much exigent selection of bank customers, in relation to their ability to obtain stable and sufficient income for accessing and reimbursing of the bank loans.

4 Final Conclusions

Complementary to the findings, assessments, conclusions and suggestions presented more detailed throughout the paper, our research permits also outlining of some ideas aiming implications of the constitution and management manner of the loan portfolios of banks, in particular, respectively of that bank lending, in general. From this perspective, we consider that the options on structuring and managing portfolios of loans should be based on the realities which characterize the running of the targeted economic and financial processes, both within the real economy and in the sphere of non-added value activities, respectively of the public unproductive ones. Thereby, it should be admitted also the possibility of manifestation of the credit risk also in the case of granting of bank loans to the government (state), banks following to treat them as elements of credit portfolios, including in terms of assessing exposures to risk.

On the other hand, there are justified the approach and the differentiated treatment in granting loans composing the banks' portfolios, depending to the particularities regarding the lending activities' finality, the ability of the customers to guarantee the fulfilment of their payment obligations for their loans etc., to prevent their entry into categories with high risk of default, respectively that of non-performing loans.

Of real interest to us is the concern for creation, through appropriate banking regulations, of the necessary premises for balancing the conditions for customers to access loans in domestic currency or in foreign currencies, given the comparable advantages and disadvantages offered, but also the negative impact of major growth of the non-performing loans category, outlined in the current economic and financial crisis.

Also, we consider necessary to continue and further research on the implications of the way of formation and structuring of bank loan portfolio, through the destinations given by banks to their lending resources, and, especially, to those resulting from the refinancing of commercial banks to the central bank.

In this respect, we consider at least questionable the present application of banking techniques of reverse repo or repo type, respectively those based on the purchase of government securities by the banks, which could lead to a money issue unsupported by a corresponding increase in GDP, or signify

quite a diversionary pathway of financing public through monetization of public deficits, which would conflict with the existing regulations and scientific approaches in the area of reference.

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