A Comparative Analysis of Bank Performance in Romania in the Period before the Global Financial Crisis and Post-Crisis

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Abstract. *This paper makes an analysis of bank performance, in terms of Return on Asset and Return on Equity indicators, the analysis that we believe is very useful to investors, in order to make decisions that lead to expected results. For this purpose a sample consists of 18 banks operating in the banking market in Romania is evaluated after their performance and it was achieved a ranking (top 5 top 5 ROA and top 5 ROE) of the best performing banks in the country during international financial crisis years and post-crisis period (2007-2013). The conclusions incite reflection on all those interested in issues of community banking.*

Keywords: banking results, Return on Assets, Return on Equity

JEL Classification: G21

1. Introduction

Any organization with an economic or financial profile is aiming to obtain profit through its own actions. In this category, we can include the banks, which presumes that they will be able to ensure the price of the resources gathered from the market, the own administrative costs and to obtain a good profit. The banks are interested in gathering as many deposits as they can, to have a high volume of assets and thus, at a certain share capital, to achieve a high dividend rate. The bank's performance represents an indicator of the depositors' stability and credibility, thus high performance is needed for an efficient and dynamic financial system. Performance can be defined, conforming to Nițu I. (2002, p. 57), the measurable level of stability of a bank's activity, characterised through low levels of any kind of risk and a regular ascending trend regarding profits. In case of a lack of performance, banking practice has defined certain components of a bank's balance sheet, regarding their direct link with profit and risk. Thus, certain assets can be performing or underperforming. Asset underperformance can be defined in a direct relationship with the risk of losing the placed resources and the realised, uncollected incomes. Reaching banking performance can be behind schedule, due to the several influence factors, which can appear both in the bank's internal (endogenous, controllable factors) and external (exogenous, uncontrollable factors) environment. Endogenous factors include: business mix; activity structure, operational incomes, credits quality, costs control. The exogenous factors that are influencing the banking performances are: interest rate level, general economic conditions and changes in the competitive environment in which the bank is activating. The banks cannot control these external factors, but they can set up plans in order to be able to react to the negative effects of these factors.

We consider that one of the major preoccupations of a bank's management should be the exact measuring of the contribution that each link is bringing to the whole system, while the profitability model should be specific to each bank, which needs to establish it (taking into account the characteristics of the activity and the organisational structure of the bank) and to continuously perfect it, according to the bank's strategy.

2. Research methodology

The research used a deductive-constructive and inductive method, through applying general rules regarding the determination of performance indicators at the correct level from the banks included in the sample, and based on the specific situations we tried to identify general rules regarding the prediction of the future performance of the banks active in the Romanian economy. We aimed to operationalize the concepts regarding the definition and the measurement of the financial performance of the Romanian banks. Practically, through the operationalisation of these concepts, we aimed to identify several indicators through which to connect the concept with the reality. The performance indicators are operationalised through economic variables (total assets, net profit, equity, etc)

The present papers endeavour was based on the numerical measurement of certain aspects specific to the banking performance. The research method used in the present paper is orientated towards explanation and prediction, being evaluated according to validity and fidelity. The validity of this research is related to the sample's representativeness. In the concrete case of our paper, we aimed for the quality of the operationalisation and of the way in which we have "translated" the concept in measurable variables through a sample formed by 16 banks. The fidelity is referring to the quality and the constancy of our measurements.

The strategy of this research is transversal (16 banks) and longitudinal (the years 2007-2013), while the data collection methods used for our research are: observation, the analysis of the financial reports of the studied banks and comparative approach (how do we select? What cases should be included in the comparison? What can we compare and what we cannot?). The selection was made related to the phenomenon that we are studying: banking performance, and the comparison allowed us to establish which are the top banks regarding financial performance.

The documents analysis aimed to analyse collected data regarding the elements which are taken into account when ROA and ROE are being calculated. The documentation is correct, being taken from the studied banks' websites and from the Ministry of Finance website. Through this data analysis, we can state that the research has utilised both exploratory methods which allowed us for the identification and the development of the research problem and descriptive methods, which offered us a complete picture regarding a certain situation. We are stating that through this empirical study, the qualitative research approach has not been ignore, but was used together with the quantitative research, thus, contributing to the accumulation of knowledge, the hypothesis establishment, the final purpose being that of reflecting the correct image of the financial position and performance of the banks.

3. Indicators used for appreciating the banking profitability

In the analysis of the banking performance, the results account offers information which allow for the appreciation of the economic situation of a bank. While the shareholders take into account this information when they are deciding on their placement decisions, the supervision authorities are interested in the main aspects that are determined by the profit obtaining model. On the other side, the balance sheet is the business card of a bank, the most frequent comparisons between banks being done regarding their balance sheets. Moreover, the supervision authorities appreciate the stability of the banking system through the volume of the banks' liabilities and assets. Other works from this domain consider that the objective of the banks is to obtain a certain level of profit while reducing their risks to the minimum. An efficient asset and liability management will lead to the maximisation of the bank's profit and, at the same time, will maintain the risks at an acceptable level. For the profitability analysis, a series of specific indicators were used, indicators which measure the performance, taking into account the bank's dimension: ROA and ROE.

Return on Assets (ROA), expressed as a ratio between the net profit and the total assets, shows, as presents Popescu, J. and others (2006, p.162) the management's capability to use the resources in order to obtain profit. It is appreciated that this indicator reflects best the banking efficiency, showing directly the result, related to the specific management of banking intermediation and optimization of the active operations. In the situation in which the indicator registers a descending trend, it means that the bank is having difficulties in realising its incomes, while an ascending evolution indicates positive results, but also an important risk undertook by the bank.

Return on Equity (ROE) is very important to the bank's shareholders, because it reflects the management's capacity to involve itself in the bank's activity, its fundamental objective being the maximisation of the shareholders investment, through performant placements and efficient use of the bank's resources. Conforming to Popescu, J. and others (2006, p.163), ROE is an element which influences the bank's stock's value, because it's value influences the supply and demand of issued stocks, thus being wanted that this indicator's value to be greater that the medium interest rate on the market in order to make the bank's stock appear more attractive than deposits.

The performance management evaluated through indicators has a limited informational content, thus needing comparison norms and standards. In this way, we have realised a comparison of the banks based on their profitability, identifying the factors which have influenced the profitability's evolution in 2007-2013 period. For the analysis of the bank's performance in this period, we created a sample which includes the following banks (which will be numbered from 1 to 18, due to operativity purposes): Alpha Bank România SA (bank no.1); Bancpost SA (bank no. 2); Banca Comercială Română - BCR (bank no. 3); BRD Groupe Societe Generale SA (bank no. 4); Banca Comercială Carpatica SA (bank no. 5); CEC Bank SA (bank no. 6); Credit Europe Bank SA (bank no. 7); ING Bank N.V. Amsterdam SA (bank no. 8); Libra Internet Bank SA (bank no. 9); OTP Bank România SA (bank no. 10); Piraeus Bank România SA (bank no. 11); Procredit Bank SA (bank no. 12); Raiffeisen Bank SA (bank no. 13); Banca Românească SA (bank no. 14); Banca Transilvania SA (bank no. 15); Unicredit Ţiriac Bank SA (bank no.16).

4. Case study regarding the analysis of the banking performance in 2007-2013, based on ROA and ROE

The examination of the relationships between the amount of capital, assets and profitability, expressed through the Return on Assets and Return on Equity, has allowed us to develop a list of the top 5 banks, taking into account the performance and the profitability (Top 5 ROA and, respectively, top 5 ROE).

Table no. 1.

Annual values of ROA and ROE in the period 2007 – 2013

Bank		2007	2008	2009	2010	2011	2012	2013	Average
Bank no. 1	ROA	0.14	0.74	0.16	0.33	-6.99	-0.03	0.16	-0.79
	ROE	1.98	10.63	2.84	4.68	-9.28	-0.32	0.17	1.53
Bank no. 2	ROA	0.03	-0.07	-2.18	-1.46	-0.09	-0.41	-1.13	-0.76
	ROE	0.46	-0.89	-20.58	-14.50	-0.98	-3.24	-9.25	-7.00
Bank no. 3	ROA	0.83	1.77	0.39	0.08	-0.74	-1.65	0.50	0.17
	ROE	10.00	15.54	3.61	0.43	-7.53	-16.44	4.39	1.49
Bank no. 4	ROA	2.37	2.77	1.70	1.07	0.98	-0.69	-0.85	1.05
	ROE	19.72	27.90	15.73	9.61	8.77	-6.01	-6.91	9.83
Bank no. 5	ROA	0.37	0.04	-0.60	-5.39	-0.87	0.46	0.95	-0.72
	ROE	3.51	0.30	-7.85	-70.20	-19.78	5.95	9.69	-11.19
Bank no. 6	ROA	0.69	1.83	0.23	0.25	0.27	0.14	0.16	0.51
	ROE	4.47	13.13	2.68	2.76	3.42	1.84	2.11	4.34
Bank no. 7	ROA	0.12	-0.94	-0.90	-1.67	-1.41	-1.96	0.17	-0.94
	ROE	1.30	-6.97	-8.97	-20.67	-22.79	-14.54	1.22	-10.23
Bank no. 8	ROA	0.63	0.89	0.53	0.85	0.92	3.34	3.81	1.57
	ROE	15.44	11.97	28.40	29.73	22.79	67.66	77.92	36.27
Bank no. 9	ROA	0.50	-0.09	-3.33	-1.57	1.76	0.77	0.72	-0.18
	ROE	5.55	-0.68	-21.81	-10.57	10.09	3.76	4.78	-1.27
Bank no. 10	ROA	-0.89	0.03	-0.61	-1.34	-0.57	-50.09	-44.65	-14.02
	ROE	-7.14	0.15	-3.18	-6.90	-2.78	-334.5	-307.1	-94.48
Bank no. 11	ROA	-0.56	0.50	0.77	0.06	0.52	-1.22	0.14	0.03
	ROE	-3.23	4.22	6.64	0.54	3.69	-7.18	1.52	0.89
Bank no. 12	ROA	0.48	-0.58	-3.78	-1.35	0.24	0.18	0.65	-0.60
	ROE	7.07	-6.94	-46.28	70.99	2.37	1.93	6.70	5.12
Bank no. 13	ROA	1.54	3.88	1.47	1.25	1.37	1.57	1.70	1.82
	ROE	16.11	30.23	12.88	10.80	12.41	13.21	14.92	15.79
Bank no. 14	ROA	0.08	0.16	0.24	-0.95	-1.69	2.41	-0.84	-0.08
	ROE	0.92	1.39	2.14	-7.76	-19.14	23.11	-8.93	-1.18
Bank no. 15	ROA	2.45	2.33	0.32	0.45	0.51	1.08	1.16	1.19
	ROE	28.10	23.16	3.49	4.89	6.19	11.38	11.68	12.70
Bank no. 16	ROA	1.64	1,24	1.18	0.28	0.47	0.69	0.27	0.82
	ROE	11.82	10.48	10.79	2.60	4.45	6.42	2.66	7.03

Based on the data offered by the annual financial reports for each bank, between 2007 and 2013, the individual values, as well as the mean value of ROA and ROE for some significant cases of banks (BRD Groupe Societe Generale – the second bank in Romania by the total assets and the first bank in syndicated credits on the Romanian market, Transilvania Bank – bank with a Romanian major ownership, and OTP Bank România - the bank with the lowest levels of bank performance) are shown below:

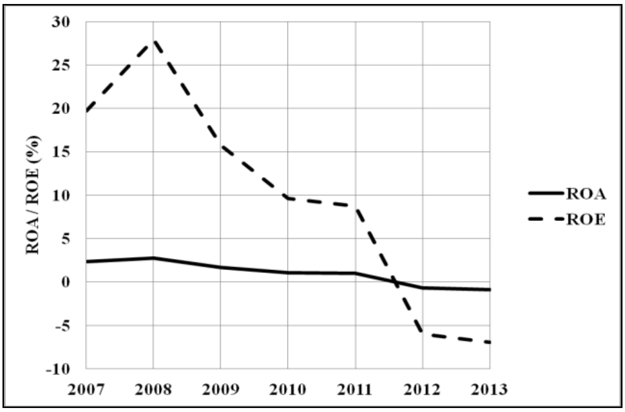

Figure 1: Graphical representation of ROA and ROE indicators for BRD Groupe Societe Generale in 2007-2013

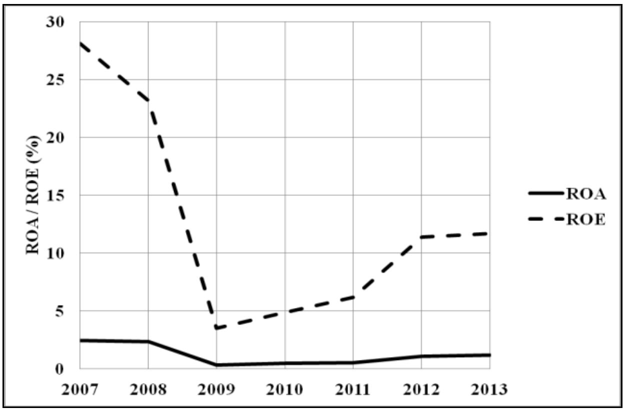

Figure 2: Graphical representation of ROA and ROE indicators for Transilvania Bank in 2007-2013

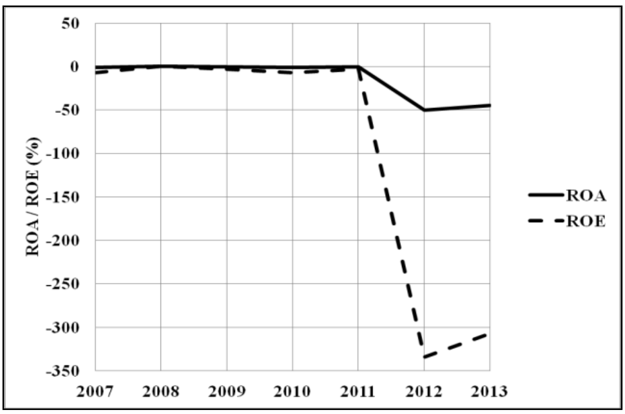

Figure 3: Graphical representation of ROA and ROE indicators for OTP Bank in 2007-2013

Taking into account the results registered by ROA and ROE, we can develop a list of the main performing Romanian banks, the studied period: 2007-2013.

Table no. 2.

The main banks in terms of ROA indicator (Top 5 ROA)

Bank	2007	2008	2009	2010	2011	2012	2013	Average
RAIFFEISEN BANK	1.54	3.88	1.47	1.25	1.37	1.57	1.70	1.82
ING BANK	0.63	0.89	0.53	0.85	0.92	3.34	3.81	1.57
BANCA TRANSILVANIA	2.45	2.33	0.32	0.45	0.51	1.08	1.16	1.19
BRD GROUPE SOCIETE GENERALE	2.37	2.77	1.70	1.07	0.98	-0.69	-0.85	1.05
UNICREDIT TIRIAC BANK	1.64	1,24	1.18	0.28	0.47	0.69	0.27	0.82

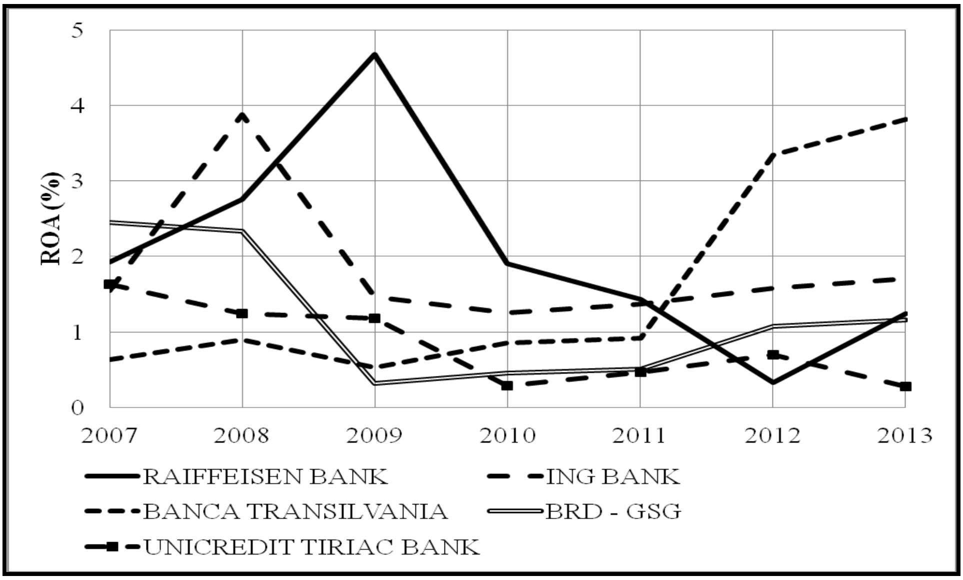

Figure no.4: Graphical representation for value of ROA indicator of first five banks

Table no. 3.

The main banks in terms of ROE indicator (Top 5 ROE)

Bank	2007	2008	2009	2010	2011	2012	2013	Average
ING BANK	15.44	11.97	28.40	29.73	22.79	67.66	77.92	36.27
RAIFFEISEN BANK	16.11	30.23	12.88	10.80	12.41	13.21	14.92	15.79
BANCA TRANSILVANIA	28.10	23.16	3.49	4.89	6.19	11.38	11.68	12.70
BRD GROUPE SOCIETE GENERALE	19.72	27.90	15.73	9.61	8.77	-6.01	-6.91	9.83
UNICREDIT TIRIAC BANK	11.82	10.48	10.79	2.60	4.45	6.42	2.66	7.03

Raiffeisen Bank has a lower capitalization level than other banks, it has one of the best rates of returns. The ROA indicator of Raiffeisen Bank increased in 2008 thanks to the increase of the net profit in a greater rhythm than the assets, while in the following years the value of ROA decreased significantly comparatively to 2008, this being negatively influenced by both the growth of the total assets and by the decrease of the net profit. Yet, the average of the seven years is 1.82, this value positioning it on the first place in Top 5 ROA between 2007-2013.

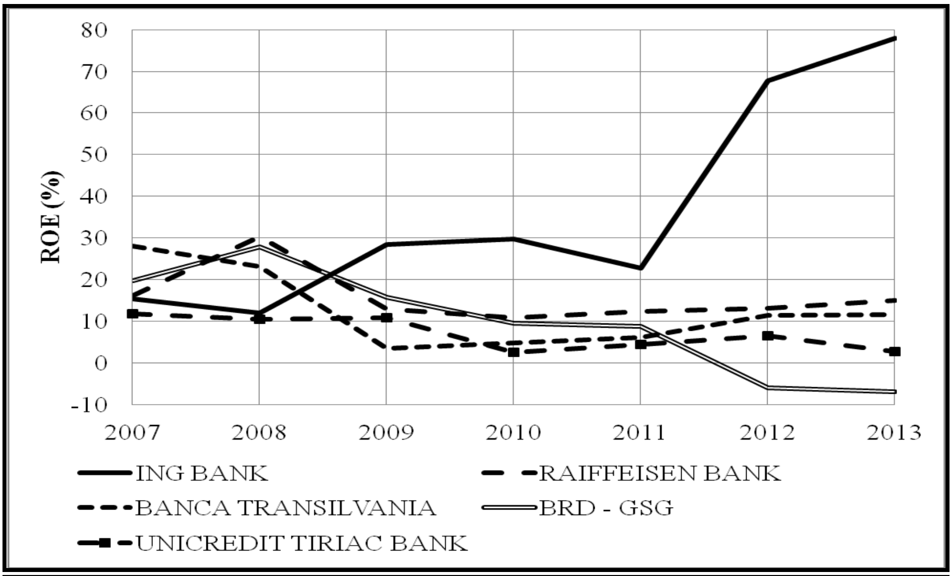

Figure no. 5: Graphical representation for value of ROE indicator of first five banks

Also the ROE indicator places it on the honorable 2nd place in Top 5 ROE with an average of 15.79 in the 2007-2013 intermission, mainly due to the value of the net profit of 2008, who had the biggest positive influence. The evolution of this indicator is similar to the one of the ROA: it increases in 2008, then it depreciates, and finally it starts to increase again starting with 2011 until the end of the analyzed period. Raiffeisen Bank is, certainly, the most stable bank in Romania during the analyzed 7 years period, having a moderate development policy, focusing permanently on employee training (well above the average of the competing banks in Romania), as well as keeping the youth with perspectives, being an example in constant cost cutting and in implementing effective software.

ING Bank registers good values as far as the analyzed indicators are concerned, to be more specific, an average of the ROA indicator of 1.57 as a consequence of the annual increase starting with 2010 in a superior rhythm of the net profit in comparison to the total assets, while the ROE shows an average of 36.27, placing it on the 1st place in Top 5 ROE; the evolution chart shows that the ratio between the net profit and equity enlisted significant fluctuations. The ROE has increased in 2013 (77.92) related to 2012 (67.66) after achieving smaller risk provisions than in the previous year and a safer and more efficient credit policy, undertaken by the bank with the support of a company specialized in audit and consulting. ING Bank Romania has obtained good performances due to the strong development of the network, to the increase of the number of products and services offered to each client, as well as to the constant employee training and coaching policy which allowed them to obtain financial results well over the market's average.. ING Bank Romania has had an increase of 6% in deposits and approximately 2% in credits, thus increasing significantly the bank's financial stability.

Transilvania Bank also presents a good evolution of these two indicators: a ROA of 1.19 and a ROE of 12.70, which place it on the 3rd place among the first five banks in Romania. Their evolution is similar: both indicators enlist a decrease in 2008; in 2009 their value depreciates even more, and in the next four years their value increases, the ROA growth being owed to the increase of the net profit in a greater rhythm than the total assets, while the ROE increased due to the bigger positive influence of the net profit in comparison to the reduced dynamics of the equity. Transilvania Bank based on a good solvability growth, closing a 10 agencies which were constantly registering losses, and on a promotion and branding campaign that attracted many young customers, having small commissions and rates, being a bank with a Romanian major ownership.

BRD – Groupe Societe Generale was present in Top 5, both at the ROA and the ROE indicator, being placed on the 4th position as far as the ROA is concerned, with an average of 1.05, while the ROE won the 4th place, enlisting an average of 9.83. The two indicators have similar evolutions, thus, after an acceptable level of both indicators in 2008 (2.77 and 27.90), their levels decreases between 2009-2013 as a consequence of the permanent decrease of the net profit and even registering loss in the last two years from the analyzed period. However, we can observe a permanent growth of the equity of the bank in the whole intermission 2007-2013. Good results obtained by BRD – Groupe Societe Generale, the second bank in Romania by the total assets and the first bank in syndicated credits on the Romanian market, are explained through the fact that BRD has continued to invest in the quality of its services, in the consolidation of the risk structure and in the improvement of the operational efficiency, maintaining the general expenses under a strict control and decreasing the rate of the underperforming credits, thus aligning to the general tendency of the banking system.

Unicredit Ţiriac Bank entered the Top 5 ROA (with an average of 0.82) and Top5 ROE (with an average of 7.03), after a high level of these indicators in 2007 (1.64, respectively 11.82), the subsequent evolution being defined by annual increases and decreases, more significant between 2010- 2013, due to the decrease of the net profit, while the value of the equity has increased during the whole analyzed period.

OTP Bank has registered the lowest levels for both the ROA and the ROE in the analysed period (2007-2013). Except for 2008, when they registered a low profit, all the other years from the studied period OTP Bank had registered losses. We consider that banks' performance have been strongly affected by the underperforming credits rate.

5. Conclusions

In our opinion, knowing the banking performances is a very useful tool for the depositors and the investors represented by the shareholders, debt-holders, suppliers or customers, and, at the same time, for the directors, managers, and the employees of the company and financial analysts, in order to make the decisions that would lead to the expected results. At the same time, analyzing the banks' performance represents a very exciting research field, a potential supplier of ideas as far as solving the problems which currently the banks are facing, is concerned. Starting from this premise, this analysis showcased the best and the least results of the studied banks.

We can observe that in the last years before the economic recession, crediting was representing the first option for the banks to increase their market-share, through an expansion of their operation and a broadening of their territorial networks. Starting with 2009, the banks were having difficulties regarding access to financing, due to the international financial crisis, decreasing their involvement on the credit market, due to a lower demand in this field, which have led to a significant moderation of the credit activity. In these conditions, the Romanian banks' objectives have travel from the quantitative zone (increase in the market share or short-term profit maximisation) towards several approaches which aim for qualitative and risk analyses regarding the credits.

Many of the analysed banks were characterized through a modest level of assets dynamics, especially once the international financial crisis's effects have started to appear. The consequences of the economic crisis upon the banking system in Romania were felt in terms of financial results, although their decreasing trajectory being slowed by the resizing the territorial networks and of adjusting the staff numbers. For banks whose results are within the top 5 ROA and ROE, we can highlight, as present Munteanu, A., Brezeanu, P., Badea, M. (2013), "the existence of a good financial management of liquidity, a well-founded report of income and costs, and as well, a suitable size of the staff costs in conjunction with the banking operations size".

We can affirm that the loss was not a generalized characteristic, being present especially in small and medium banks. Also, the necessary capital requirements for the maintenance of trust in the banking system determined changes in the structure and the stability of the bank's profit.

Having in mind the fact that the crisis diminished the trust of the clients in the banking institutions, we think that recovering the credibility is the main challenge that the banking system is facing, which has to take into account the new behaviour and the requirements of the customers, to develop and diversify their products and services, as well as their social responsibility campaigns. We subscribe to the statement of Dănilă, N. (2014) according to which "in the next period we could witness the transition from the current business model, transaction banking, towards the strong, sustainable model of relationship banking. The last one places the client on the first place (customer first), focusing constantly to satisfy the needs and expectations of the customers, bringing solutions tailored to the customer's need".

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