

THE LENDING INDICATORS ANALYSIS IN THE ROMANIAN BANKS IN THE PERIOD OF RESTRUCTURING INTERNATIONAL REGULATIONS

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Abstract

Based on the large topic of the research project, namely the Impact Study of Basel III Accord on the Romanian commercial banks, through this paper I intend to analyze the lending indicators at four Romanian trade banks: BCR, BRD, Transilvania Bank (BT) and the “Carpatica” Commercial Bank (BCC). The indicators which were used concern mainly the share of loans granted to the customers in total assets, the share of loans granted to the credit institutions in total assets, the share of overdue loans in total assets and also the structure of loans by activity sectors of the clients. I have made the analysis both for individual banks and in comparison to each other, in order to reflect the differences in the approach and exposure to the credit risk. The conclusions of this paper highlight how banks fall into optimal levels considered internationally and the features of each bank regarding the potential manifestation of the credit risk.

Key words : *lending, analysis, overdue loans*

Clasificarea JEL: G21, F33, F65

1. INTRODUCTION

The risk is found today in the center of banking businesses. The risk management is the key feature of the modern banks focused on the market activity. Bank failures are presently no longer confined only to spectacular cases, but may put in question the stability of the entire banking system, even in countries where the supervisory process is well developed (Costică, I., Lăzărescu S.).

Regarding the definition of the banking risk, in the literature there can be found several approaches. Thus, Predescu - 2010 believes that the banking risk relates to the uncertainty of achieving a level of profit or even the likelihood of loss, while Iosof and Gavric - 2013 associate the banking risks with the losses due to some developments contrary to results.

From my perspective, when you analyze bank risk we must take into account two components:

- the uncertainty regarding an event in the future;
- exposure to loss.

If both components don't manifest themselves, we cannot talk about risk. For example, a bank that grants a loan is faced with the uncertainty of repayment, even if there is a warranty, due to the possibility of reducing its value over time and / or the size of its execution costs. The bank assumes the risk as it is exposed to uncertainty.

It can be said that the risk describes the situations where external or internal bank factors act in an unpredictable manner on its market value. In this context, the objective of the risk management is to maximize the market value while maintaining the risks at an acceptable level.

When defining risk and risk management, most authors focus on the classical function of banks, the function of intermediation in the financial risks sphere through their division;

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from this point of view we deal with the problem of some unexpected losses in banking assets, losses due to market, credit or liquidity risk. Other authors focus on some losses - potential or effective - caused by completely random and uncontrollable risks, such as fraud, fire or natural disasters. Most practitioners usually address one group or class of risks, most often in terms of management techniques and only rarely the mechanisms for transmission / amplification of risk borne by the financial institution are analyzed.

2. ANALYSIS OF THE LENDING INDICATORS IN THE ROMANIAN BANKS

Given the topic of the research project that I realize through which I wanted to study the impact of the Basel III Agreement on the Romanian commercial banks listed on BSE: BCR (in the case of BCR the listing is only performed for the Erste Group Bank AG actions), BRD, Transilvania Bank and the „Carpatica” Commercial Bank. I will begin this analysis by calculating and interpreting the financial and banking indicators that highlighting the lending activity and the exposure to the credit risk for the 4 banks, based on the balance sheet data for 2011-2013, in evolution and in comparison, following that in the future works to also highlight the other financial risks to which they are exposed, risks that can be measured. I will calculate the indicators that reflect the exposure degree to customers (total loans granted to customers / total assets) and towards other credit institutions (total placements with other banks / total assets).

Summarizing, for the 4 banks analyzed, the situation of the three indicators that reflect the evolution of credit risk exposure data is presented in Table no 1.

		2011	2012	2013
BCR	Total loans granted to clients / Total Assets	63,60	63,19	59,39
	Total placements to other banks / Total Assets	1,36	0,40	0,99
BRD	Total loans granted to clients / Total Assets	67,67	65,68	58,97
	Total placements to other banks / Total Assets	2,04	0,77	1,46
TB	Total loans granted to clients / Total Assets	54,36	51,27	51,98
	Total placements to other banks / Total Assets	2,98	4,77	5,48
CCB	Total loans granted to clients / Total Assets	27,41	25,02	30,18
	Total placements to other banks / Total Assets	0,18	0,95	1,60

Table no 1 – The evolution of indicators regarding exposure to credit risk for BCR, BRD, Transilvania Bank and the „Carpatica” Commercial Bank (%)

Source: own calculations according to the individual financial statements at 31.12.2013 and 31.12.2012

Making a comparative analysis of the credit exposure reported to total assets, we must take into account the significant differences that exist between the four banks, both in terms of market positioning (BCR, BRD and TB being on top 3 by the value of the assets and CCB is only ranked 24, (according to the ranking made on www.economica.net) and in terms of the origin of the capital (BCR, BRD, Transilvania Bank (only from 2013) are banks with majority foreign private capital, while CCB is a bank with majority Romanian private capital). These differences may be the cause for the different situation that the CCB records compared to the other three banks, having the lowest level of customer loans relative to assets, and is also the only bank which has recorded a slightly upward trend for this indicator between 2011 and 2013 (figure no 1). In the case of BCR, BRD, we can notice a more cautious policy regarding increasing the exposure to credit risk, both recording declines of both loans granted to customers and assets. In the case of the Transilvania Bank, the level of loans recorded a shy

increase, but which was surpassed by the asset growth, which justifies the diminishing of the analyzed indicator. Knowing that exposure is greater to the credit risk as the credit/ assets report is higher, we can say that, from this perspective, of the 4 banks BCR and BRD have the highest exposure.

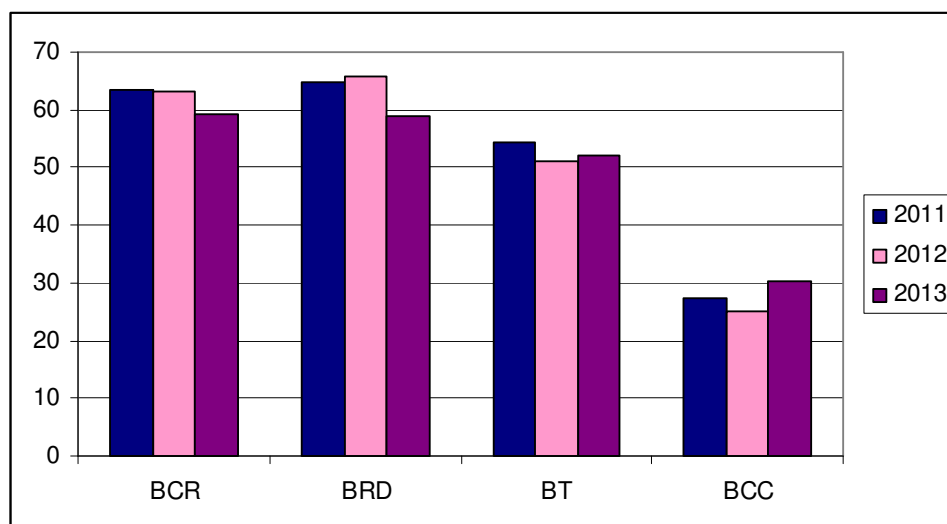


Figure no 1 – The evolution of the indicator customer loans / total assets in the period 2011-2013 for BCR, BRD, Transilvania Bank and the Carpathian Bank (%)

Source: My own processing after the data from Table 1

We still have a different situation between the four banks if we take into account the report placements with other banks / total assets where we see that BCR, BRD still practice a prudent policy, marked by mistrust in the other banks, which is manifested from 2008, the year of the onset of the international financial crisis, and which is likely to follow the conduct that the parent banks have at European level from this perspective. The Transilvania Bank (which a year ago had majority Romanian capital) and the Carpathian Bank reported an increase in placements with other banks, which of course reflects a greater exposure to the credit risk, but also a greater confidence in the other credit institutions.

The next indicator analyzed is the level of the overdue loans reported to total loans granted to customers, which we analyzed on development in 2013 compared to 2012 (Table no 2)

	Debt service	2012		2013	
		Under 30 days	31-90 days	Under 30 days	31-90 days
BCR	Overdue loans (thousands lei /% of overdue loans)	2.256.119 (61,73%)	1.398.987 (38,27)	3.626.666 (75,64%)	1.168.229 (24,36%)
	Overdue loans / total loans= 8,20%			Overdue loans / total loans = 12,71%	
BRD	Overdue loans (thousands lei /% of overdue	3.583.712 (71,24%)	1.446.576 (28,76%)	3.116.892 (79,39%)	809.317 (20,61%)

	loans)				
	Overdue loans / total loans = 15,98%			Overdue loans / total loans = 14,14%	
BT	Overdue loans (thousands lei /% of overdue loans)	1.314.053 (68,72%)	598.258 (31,28%)	935.942 (64,18%)	522.260 (35,82%)
	Overdue loans / total loans = 12,37%			Overdue loans / total loans = 8,75%	
CCB	Overdue loans (thousands lei /% of overdue loans)	56.822 (46,11%)	66.406 (53,89%)	231.958 (81,18%)	53.781 (18,82%)
	Overdue loans / total loans = 10,42%			Overdue loans / total loans = 23,3%	

Table no 2 – The value of the overdue loans and their share in total loans in 2012 and 2013
Source: my own calculation after the Notes to the individual financial statements for each bank at 31.12.2013

Analyzing comparatively and in its development the situation of overdue loans reported to total loans granted to customers at the level of the 4 banks, we can see an increase of this ratio only in the case of BCR and CCB in 2013 compared to 2012, which means an increase in exposure to the credit risk. But analyzing the structure of the overdue loans we can notice that the level of loans with low debt service of up to 30 days have the highest share of over 75% in the case of both banks, which means that there is the possibility to find some solutions for the recovery or restructuring of these loans before they become bad loans. The other two banks, BRD and TB, show a more favorable situation, as the ratio of the overdue loans / total loans granted to customers has recorded a decline in 2013 compared to 2012, but for BRD the decrease is not significant, the level of this indicator being quite high (14.14%). However, given the fact that in this case the share of overdue loans with a debt service up to 30 days in total overdue loans is high (79.39%), I believe that the credit risk can be controlled through a close monitoring of the overdue loans.

Another indicator that reveals exposure to the credit risk is structuring loans granted by the 4 commercial banks analyzed on the sectors of activity of the borrowers, its evolution is shown in figure no 2.

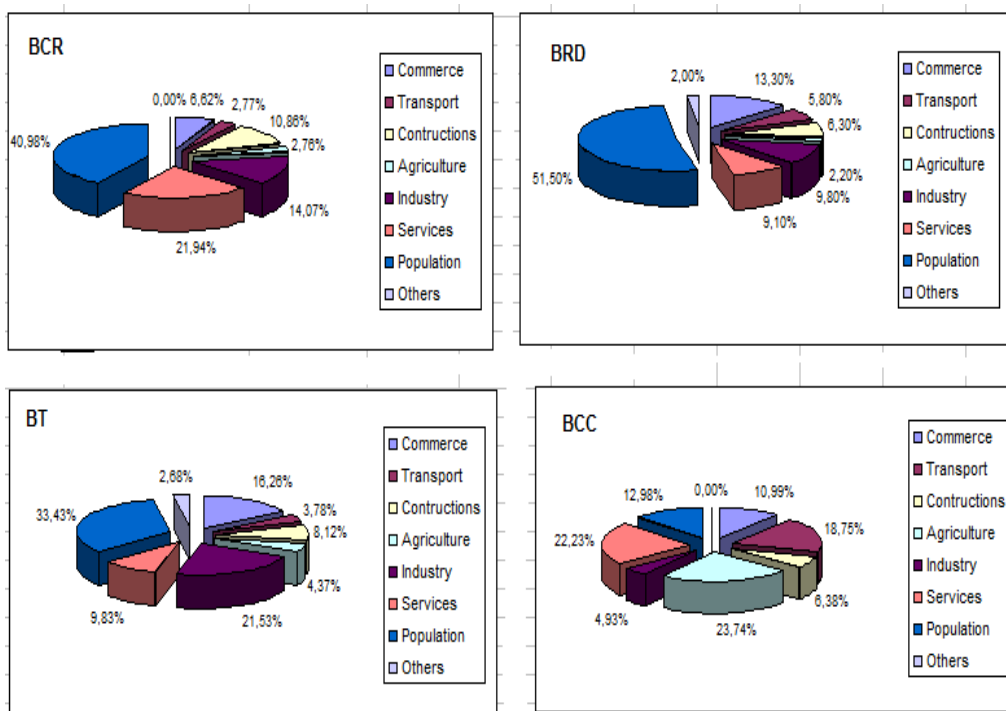


Figure no. 2 - Structuring loans granted by BCR, BRD, Transilvania Bank (BT) and „Carpatica” Commercial Bank (CCB) on the activity sectors of the debtors
 Source: processing after the individual banks' financial statements at 31.12.2013

When we analyze the structure of the loans on activity sectors, we basically analyze the concentration of the granted credits on specific sectors of activity, because this concentration, especially if performed on sectors known as being risky such as the population or constructions, can generate additional exposure to the credit risk. Thus analyzing comparatively the situation of the 4 banks we notice that a large share of loans granted to the population is recorded by BRD (over 50%), followed by BCR (over 40%) and thus, I consider that the exposure to the credit risk is higher for these banks given the economic context in which we find ourselves. Regarding the situation recorded in the Transilvania Bank and in the „Carpatica” Commercial Bank, here we can see a better dispersal of the loans on sectors of activity, which I can say that exposes them to a lesser degree of credit risk. However analyzing in greater detail we observe an atypical situation in the case of the „Carpatica” Commercial Bank, which has a share of loans granted to borrowers from transports of 18.75%, much higher than the share recorded by the other banks (the highest level for transport is registered by BRD - 5.8%), and a share of loans granted to borrowers in agriculture of 23.74%, much higher than the share recorded by the other banks (the highest level for agriculture is registered by Transilvania Bank - 4.37%). The first situation we can explain through the fact that an international transport company is shareholder of CCB and hence the greater exposure on this company, this is something that I consider risk generator, and the second, through the fact that CCB runs more funding lines received by IFAD, BIRD, the Ministry of Agriculture and Rural Development, especially for agriculture, which I do not consider that generates additional risk, other than the particular risks posed by loans offered in agriculture.

3. CONCLUSIONS

Analyzing the lending indicators and the credit risk exposure at the level of four banks in the Romanian banking system (BCR, BRD, TB and CCB) in terms of indicators that reflect

exposure to credit risk (loans and advances granted to customers / total assets) I consider that there is no exposure very risky to the credit risk given the conditions in which according to the World Council of credit Unions an optimal level of this ratio is 70-80%, a level which is above the level recorded at the banks analyzed. In terms of exposure to other banks, the calculations showed a decreasing level of this exposure, which reflects the mistrust that remains in the Romanian banking system, especially at the level of the two largest banks in Romania, BCR and BRD. The analyzed indicator which I consider that reflects a potentially hazardous situation at the level of the four banks is the ratio between the overdue loans and total loans granted. An optimal also considered by the World Council of Credit Unions shall not exceed 5%, which is exceeded at the level of the 4 banks, even if the loans that records a debt service of maximum 30 days prevail (the lowest level is registered by Transilvania Bank of 8.75%). The analysis of structuring on activity sectors of the loans granted by the analyzed banks also reflect a potential credit risk manifestation by concentrating in the case of BRD and BCR of borrowers from the population, and in the case of CCB through the relatively high exposure towards persons in special relation.

In conclusion, I can say that of the four banks, the Transilvania Bank can be characterized by a lower exposure to credit risk due to a lower level of overdue loans and a better dispersion of loans by sectors of activity, while for the other three banks I recommend a monitoring of the overdue loans and of those that are focused on specific sectors of activity.

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