THE EVOLUTION AND THE PROFITABILITY OF THE BANKING SYSTEM IN ROMANIA

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Abstract. This paper aims to carry out an analysis of the evolution and profitability of the Romanian financial banking sector. In order to analyse the performance and the evolution of the best performing banks, a set of relevant financial ratios are computed, and the analysis is conducted over a period of three years: 2014, 2015, 2016.

Based on the analysis conducted, it was noted that the top 10 leading banks own around 83% out of the total assets, and they continue to flourish. The most impressive evolution in terms of market share was registered by Banca Transilvania, which managed to move on the second place in the hierarchy in 2015, determining the movement of BRD in the third place while in the first place, constantly during the analysed period is situated BCR.

In terms of profit, the most impressive financial result was registered in 2016 by Banca Transilvania, followed by BCR and Raiffeisen. BRD managed to register quite a stable growth over the years, and the values obtained by this bank are very similar to those registered by Raiffeisen. However, one significant difference between these two banks is that Raiffeisen has a slower growth rate, but it seems to have a sustained evolution. In contrast, BRD registered more financial fluctuations and implicitly higher growth rates.

Regarding the financial ratios analysis, in 2016, Banca Transilvania had the highest Return on Assets (ROA) of 2.37% and the highest Return on Equity (ROE) of 20.53%, having by far the most aggressive growth in terms of return ratios. The remaining three banks recorded for both ratios very similar results, on average a Return on Assets (ROA) of 1.4% and a Return on Equity (ROE) of 12%, which situate all the analysed financial institutions in the safety gap.

Overall, all four banks are considered to be stable and safe, having an interesting evolution over the years. However, some of them remained in the same position as in 2014, while others moved higher and lower in the hierarchy.

Keywords: banking system, financial ratios, capital, profitability, financial sector

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1. Introduction

The banking sector was always considered a vital sector for the economy, facilitating the way it functions, being metaphorically considered the "lifeblood" of economic activity, playing a significant role in collecting deposits from clients and providing credits to people, households, and businesses. The banks also conduct other secondary activities like money transfer, issuance of the traveller's check, providing modern account management tools.

The present paper sets itself to carry out an analysis on the evolution and profitability of the Romanian financial-banking sector. Alongside the evolution analysis, this research also provides background information about the currently considered the strongest banks in Romania. It shows how each of them entered the market, possible mergers or acquisition processes that occurred along the way, the impact of the economic crisis on the loan market, and this institution's recovery in the post-crisis period.

A significant focus in this study is also put on the pre-crisis period, under the consideration that the most symbolic and crucial events and implicitly the development were all influenced by what is known as the global economic-financial crisis. Thus the time frame covered starts after the collapse of the communist regime in 1989 and ends in a more prosperous and emerged era in 2018.

The study shows a precise classification of the banks according to their type of major capital, domestic or foreign. Out of 34 operating banks, ten were briefly analysed individually, based on the market share and the value of total assets, and then ranked accordingly. Then, an in-depth analysis of the four best performing and strongest banks, namely: "Banca Comercială Romnână" (BCR), "Banca Transilvania" (BT), "Banca Română pentru Dezvoltare" (BRD Groupe Société Générale) and Raiffeisen Bank was conducted over a period of three years, 2014, 2015 and 2016.

The general presumption of the study is that the market share of the analysed banks is directly connected with the institutions' performance, in terms of financial results, but also financial ratios.

This analysis offers a comparative perspective over the movement of the banking sector because around 50% of the total assets in this industry are owned by the first four banks from the hierarchy. Moreover, it can also be argued that due to their influence on the market, the leading banks also dictate the trend and strongly influence the economy's evolution.

The study intends to contribute to the development of knowledge as follows. Firstly, this paper provides an overview of Romania's economic, financial and banking system. Secondly, the results of the study could facilitate a better understanding of the evolution of the banking sector, by emphasising the results obtained by the big players and bringing into the readers' attention further threats that could impact the traditional retail banking in Romania.

2. Literature Review

In order to obtain a general overview of the evolution of the banking system, two significant periods are to be under the focus of this study, the critical determinant of this delamination being the Global Financial-Economic Crisis from

2008. Hence, both pre-crisis and post-crisis periods will be considered, as the causes of the crisis provide an understanding of the performance of the banking system during that period, and consequences of this economic event changed the methods and the regulations regarding the post-crisis operating framework.

The government policy, the financial market structure, and the development of the real estate market all combined lead eventually to a collapse of the financial sector. Moreover, the mix of failed regulations and the desire of earning more money by the Wall Street bankers and investment companies was severally felt by the economy[1].

This crisis started in the financial sector, and it marked the end of an extending loans era. So back in 1992, the US government decided started to introduce a new lending policy to increase "the homeownership rate of low and moderate Americans" [1]. Thus, a secondary market for subprime mortgages was created. Under President Bush, the National Bank of America – the Federal Reserve, lowered interest rates to 1% from 2001-2004 to facilitate the possibility of acquiring a house by middle-class citizens and also to encourage economic growth and development, that was thought back then, would create new jobs during the recession of 2001[1].

In 2006, US housing prices reached their peak, and "many buyers were buying not for shelter, but to resell at a quick profit "[1] and this is exactly how the housing "boom" was created. The sector was about to collapse soon because borrowers were unable to pay back the loan. Thus later in 2006, the Federal Reserve increased interest rates to 5,25%[1], a situation that put even more borrowers in difficult positions because of the variable interest rate, which severely increased the monthly payments, "the housing bubble busted and what happened next can be described as a domino-effect" [1]. As a result, "mortgage lending companies were sliding into bankruptcy, and the subprime mortgage crisis turned into a financial crisis" [1] which spread globally.

In the local context, particularly in Romania, as a reaction to the financial crisis, the National Bank of Romania decided to increase the money supply and implicitly the money in circulation by implementing an expansionary monetary policy[2]. Apart from the general causes that lead to the global financial crisis, there are some factors that triggered the economic-financial crisis in Romania, such as the liberalisation of capital account (an inflow of foreign capital and bank loans granted in foreign currencies), which led to a depreciation of the national currency which led to a reduction of the money supply, resulting in lack of liquidity[2]. Moreover, the accelerated growth of the real estate market, fraud and tax evasion, a higher increase of the wages in comparison to the productivity rate led eventually to an "overheated" economy[2]. Other factors are represented by the existence of unsustainable social programs from a financial point of view[2], but also the unstable political and economic environment[2].

Another study published by Carmen M. Reinhart and Kenneth S. Rogoff conducted a comparison analysis between developed and transitioning economies regarding the housing market and implicitly the prices, revealing that the majority of the countries, regardless of the type of economy encountered that most countries experienced an overall increase of the debts during the financial crisis. The government debt increased by around 86% on average during the entire timespan of the crisis[3].

As an attempt to further prevent such situations, Takatoshi Kato[4] suggests that prevention mechanisms should be considered more rigorously to incorporate the financial sector better and solve existing regulatory issues. Additionally, according to Ágnes Nagy and Annamária Benyovszki, the crisis has highlighted the need to manage financial stability, however, an open topic being the question of how to achieve this state in a banking system globalised in which the home-host relationship of parent banks and subsidiaries is regulated differently not only from country to country but also from continent to continent[5].

The aim of the economic policies and the structure of the financial institutions suffered significant changes both in the global context and Europe.

By analysing the monetary policy, it can be observed that policies that directly influence the banking system mainly targeted price stability during the pre-crisis period. However, after 2009 the focus in the Central Bank's communications targeted the price stability and the implementation of institutions that have a significant role in regulation and supervision of the banking system, knowing that only a robust enough system will have the capacity of resuming its specific activities, especially the money borrowing part, an economic operation that undoubtedly plays a crucial role in the economic recovery stage[v].

Moreover, according to Ágnes Nagy and Annamária Benyovszki, the banking crisis has become a matter of concern for organisations for at least three reasons: it affected the whole financial system, the crisis was a global event and almost without barriers due to the liberalisation of capital movements. Finally, the attempt of the restructuring of the financial sector has contributed to diminishing the prospects for further economic growth as the intervention was made using external funds, which generally led to a decrease in the population's income but also impacted investment behavior[5].

From a historical point of view, the literature distinguishes five significant stages of the Global Financial-Economic Crisis from 2008, namely: the first phase of the banking crisis (until March 2008)[5], the second phase (mid-March 2008 - mid-September 2008)[5], the third phase (September 15, 2008 - End of October 2008)[5], fourth phase (end of October 2008 - mid-March 2009)[5] and fifth phase (after mid-March 2009)[5].

The first phase was marked by the beginning of the crisis in the banking system, which officially started on August 9, 2007, when money market tensions were noted. This stage is characterised by an overall increase in volatility that reached record levels. Also, insurance indices against the risk of credit default swaps (CDS) were above long-term averages.

During the second stage, the situation became even worse, as the investors began to fear more than banks' solvency issues rather than their current liquidity problems. In the third phase, also known as the peak of the crisis due to the bankruptcy of Lehman Brothers, the position adopted by the banks was to keep at their disposal as many liquid assets as possible, which once again generated mistrust between business partners and blocked the credit operations.

In the fourth stage, the volatility began to decrease due to six major central banks' interventions that facilitated the decrease of the interest rates. It provided access to liquidity for the recapitalisation of the banks. In the last phase of the crisis, two main drivers facilitate the economic rehabilitation, the reinsurance of the trust between the banks and the partners, but also the decision made by G20 in London that approved the offering of additional funds for the financial institutions.

This study is focused on a more prosperous period, characterised by a higher stability level, gained after a lasting recovery period after the financial crisis; hence 2014, 2015, and 2016 are considered to provide a more stable picture of the financial-banking sector in Romania, but also to show an evolution trend of the market.

According to the study performed by Ionita Rodica-Oana, most of the key prudential indicators computed for the Romanian banks recorded significant decreases from the pre-crisis period to the post-crisis period, the solvability ratio decreasing by 64%, average ratio of adequate liquidity/required liquidity registered a decrease of 81%[6]. Moreover, "the average of general risk rate increased only with 3% from pre-crisis period to post-crisis period, the average of credit risk rate increased by 4.48 times during the two research periods, increase which should represent a warning signal"[6].

Comparing the granting loan tendency, it was observed that total amounts of loans granted in the prior-crisis period amount to RON 5,251,413 mld., out of which the split between short term loans, medium-term loans long term loans is quite fairly distributed, around 30% in each category. However, in the post-crisis period, the total amount of loans granted is significantly higher, RON 16,030,769 mld. Around 48% represents short-term and medium-term loans, while approximately 52% is represented by long term loans[6].

Moving on to the performance of the banking system in Romania, which is undeniable a critical aspect, as according to Vasile Cocriş and Maria-Ramona Sârbu, "the profit is a way of protection against unforeseen losses, capital consolidation, and last but not least, to increase profits by reinvesting it"[7]. After recording a loss of around 4,6 mld. RON, at the end of 2014, the Romanian banking system started a recovery phase, ending the financial year 2015 with a profit of approximately 4,4 mld. RON, however, the consistency side of the market was still unstable, as 22 credit institutions recorded a profit, while 14 credit institutions ended the financial year of 2015 on a loss[7]. The market share was concentrated on the top ten banks that held 71.6% of the assets, while the remaining percentage was distributed between the other 26 remaining banks operating on the Romanian market[7].

Another study, performed by Mihaela Onofrei, Bogdan-Narcis Firtescu and Paula-Andreea Terinte focusing also on the performance of the banking system in Romania, based however on other indicators than the once mentioned in the previous literature considered, demonstrated that the "CEO presence in the Board as a member and the CEO Duality, both have a negative impact on bank profitability"[8]. However, "good practices of corporate governance regarding the independence of directors, conduct to greater performance"[8].

Nora Chiriţă and Ionuţ Nica demonstated that also, as far as the perfomance of the credit institutions is concerned, "an incorrect credit risk assessment can lead to a decrease in the performance of banking units and can generate a systemic shock that can affect both financial networks and the national or global economy”[9]

Regarding the relevant financial evolution of the banking system and rationale behind the selected period to be study, Turkes M., Constantinescu L. and Topor D. argue that in the last 18 years Romania had positive profitability indicators, the only exception being in 2012 and 2013. After 2013, the profitability and liquidity indicators recovered significantly after the introduction of the requirements under Basel III package[10].

3. Methodology

This study aims to assess the structure of the banking sector in Romania, showing a precise classification of the banks according to their majority capital type, particularly domestic or foreign, and perform an in-depth analysis of the best performing credit institutions. For this purpose, the sample data of all banks operating in Romania was extracted from the National Bank of Romania’s website. In contrast, the financial data of the analysed banks were retrieved from the annual reports of these institutions.

In order to analyse the performance and the evolution of the best performing banks, a set of financial ratios will be considered, namely: Return on Asset (ROA), Return on Equity (ROE), Interest Income on Loans, Loans to Deposits, Equity Multiplier, the profit rate and the margin of assets utilisation. The analysis is conducted over a period of three years, covering the following years: 2014, 2015, 2016.

This analysis offers a comparative perspective over the movement of the banking sector because around 50% of the total assets in this industry are owned by the first four banks from the hierarchy. Moreover, it can also be argued that due to their influence on the market, the leading banks also dictate the trend and strongly influence the economy’s evolution.

4. Sample Data Description

The analysis is focused on Romania’s 34 operating banks, ten of them were briefly analysed individually, based on the market share and the value of total assets and then ranked accordingly, while the in-depth analysis was conducted of the four best performing and strongest banks, namely: BCR, BT BRD and Raiffeisen, highlighting the evolution trend of each one.

The structure of the banking system can be observed in Figure 4.1, and it is analysed according to the nature of the shareholding. Thus, there are two main categories: banks with a majority of state capital, while the second category is addressed to banks with a majority of private capital. The second category is afterwards divided into two other categories: foreign capital, which means that the bank has a headquarter in Romania, but more than 50% of the company is owned by foreign investors, whereas the subsidiaries do not have domestic capital at all and they only conduct the company’s activity in Romania[11].

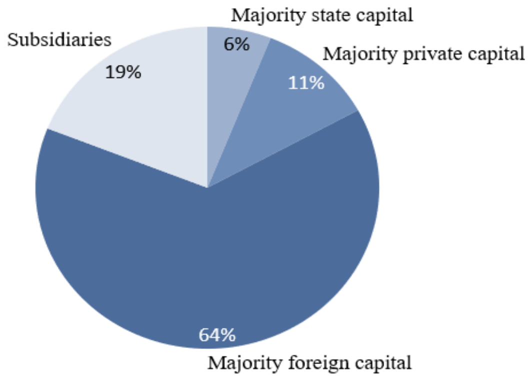


Figure 4.1 The division of the Romanian Banks based on the nature of the capital

Source: own calculations

Out of the above presented 34 banks, only two banks have a majority of government-owned capital, meaning that the state is the main shareholder of the entity. The remaining 32 banks rely on private capital, meaning that they are either domestically or foreign-owned.

In Romania, most of the banks, meaning 29 out of 32, are operating with foreign capital, whereas only three banks are considered to have a majority of domestic capital. Out of those 29 banks, seven are subsidiaries being fully controlled by their mother company from abroad.

As observed, the sample data is quite varied, the concentration of the sample being, however, on the banks that have a majority of foreign capital.

5. Results

The first part of the analysis is focused on the leading banks in the Romanian system, based on the market share, implicitly the total assets that the banks have.

The ten most powerful banks were relatively stable during 2015 and 2016; all the banks presented in Figure 5.1 managed to maintain their position in the top ten; however, some succeeded in moving higher in the hierarchy.

This is the case of Banca Transilvania, which in 2015 was situated in the third place with a market share of 12.6%. In 2016, Banca Transilvania moved in second place, managing to overtake BRD and register a value of 13.2%. The leading bank for many years is BCR, constantly increasing its market share, registering an increase from 2015 to 2016. It is almost the highest increase of the ten banks, which is only exceeded by Banca Transilvania and ING.

ING has a surprisingly good evolution, registering the highest increase of 12.7% in only one year. Even though it did not manage to move higher in the hierarchy, it has a stable and sustained growth, and it might increase its market share in several years. Garanti also has quite an interesting evolution; in 2013, it was situated in the 13th place. In 2015, it managed to get in the top 10, with a market share of 2.5%. This increase was not as stable and sustained as it seemed because, in 2016, it registered a decrease. Besides Garanti, two other banks decreased from 2015 to 2016, namely, CEC Bank and Alpha Bank. Raiffeisen and Uni Credit had a stable evolution over the years, maintaining their position in the 4th and 5th place, registering both an increase in the market share.

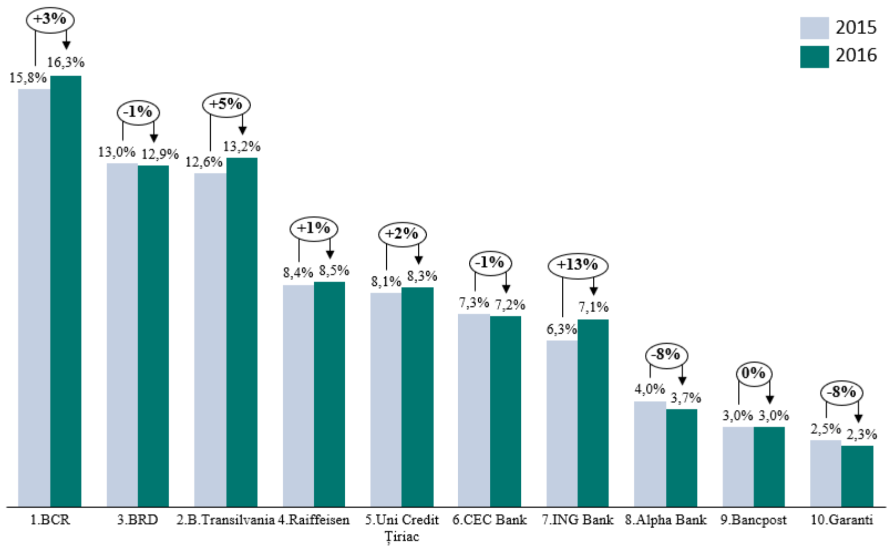


Figure 5.1 The structure and evolution of the top Romanian banks' market share in 2015 and 2016

Source: Ziarul Financiar, 2017[12]

The second part of the results section will analyse the fourth-strongest banks on the market according to the ranking previously presented. The analyzed banks are the following: "Banca Comercială Română" (BCR), "Banca Transilvania" (BT), "Banca Română pentru Dezvoltare" (BRD Groupe Société Générale) and Raiffeisen Bank.

5.1. The Financial Analysis of BCR

The first bank to be analysed is Banca Comercială Română, known as BCR. It was founded in 1990, and it was focused on undertaking the commercial activity of the National Bank of Romania (BNR). In 1999, BCR acquired Bancorex; then, in 2003, the bank became a private one by selling the shares to BERD and IFC. In 2006, BCR was bought by Erste Bank, which had around 61.8% out of the total shares, meaning that the bank was no longer functioning with majority domestic capital[13].

To analyse the bank's performance, financial strength, and profitability, various financial ratios were calculated. The value of these financial indicators is presented in Figure 5.2.

The first indicator to be considered is the Return of Assets (ROA), and it is an expression of return for the entire activity of a banking society. It measures the effect of management capacity to use the financial and genuine resources of bank society to generate profit”[14].

According to the literature, a typical value for a bank with a high market share is somewhere below 1%[11]. However, BCR registered values above the recommended threshold in all the years analysed. The high decrease in the profit causes a considerable high difference between 2014 and the other years. The values are outstanding, and it shows that the assets are used efficiently.

The second indicator computed is Return on Equity (ROE), and it is considered to be the “one of the most significant indicators for profit, which measures the banking management in all its dimensions, and offers an image over the way the capitals brought by shareholders was used and the effect of heir retainer in bank’s activity” [14]. According to the literature, the value of this indicator should be between 10% and 30%[14]. Once again, the value registered by BCR in 2014 is extremely high compared to the other two values from 2015 and 2016 due to the profit decrease. The values are perfectly normal for a properly functioning bank.

The third ratio, Interest Income on Loans, shows precisely how profitable the loans are. The results suggest that the bank earns about 6% from the granted loans.

The fourth ratio, Loans to Deposits, is used to calculate “a lending institution’s ability to cover withdrawals made by its customers. A lending institution that accepts deposits must have a certain measure of liquidity to maintain its normal daily operations”[15]. Generally, the ratio should be around 70% -80%[12]; however, BCR registered lower values, meaning that the value of the granted loans is perhaps higher than it would be safe for the bank compared to the deposits it has.

The fifth ratio, Equity Multiplier is “very important for a bank, and it is also known under the title of the leverage effect. It illustrates how many times a bank succeeded to multiply the invested capital by the attracted resources”[14]. There is no particular benchmark value of this ratio, but ideally, the equity value should be at least ten times higher than the total assets[14]. BCR does not seem to have any problems, registering good values showing that the bank managed to multiply the equity even more than expected.

The sixth ratio, namely the profit rate “represents the most important tool used to reduce the overall expenses of the bank”[14], and in the case of BCR, there is a significant variation between 2014 and 2016, fact caused by the significant decrease of the profit from 2.6 mld RON to 0.9 mil RON in 2015 and 2016.

The last computed ratio is the margin of assets utilisation which shows precisely how much out of everything the bank managed to produce, came out of the total assets[14]. The total assets generated between 3% and 5% of the total income, which is a correct and expected value if also analysing the ROA.

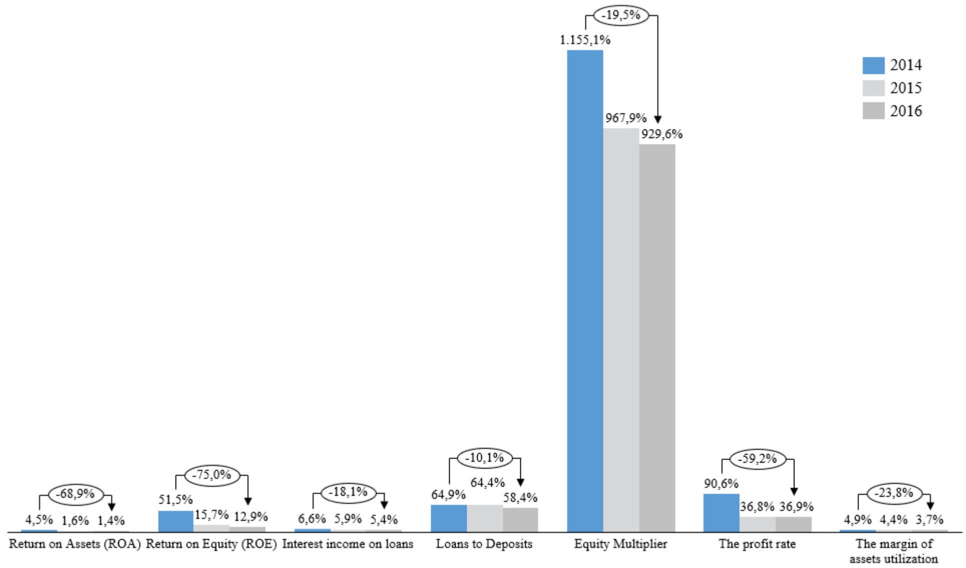


Figure 5.2 Financial Ratios calculated for BCR
Source: own calculations based on Annual Reports from 2014,2015 and 2016

5.2. The Financial Analysis of Banca Transilvania (BT)

The second bank considered for analysis is Banca Transilvania (BT), founded in 1994 in Cluj-Napoca, containing a majority domestic capital of 79% and 21% foreign capital. The bank's activity is organised into four categories known as corporate, IMM, retail, and doctors' division. In terms of market share, BT is situated in the second place in Romania since 2015[16].

As far as the financial ratios are concerned, which are computed in Figure 5.3, the bank's overall performance recorded an improvement during the analysed timespan. Regarding the Return on Assets (ROA), BT managed to register higher values than suggested by the literature. The remarkable increase of ROA in 2015 is a result of the considerable growth of the profit. The values indicate the fact that the assets owned by the bank are very profitable.

In terms of the Return on Equity (ROE), it can be observed that BT registered values of between the indicated gap, but also above it in 2015. The visible increase of ROE in 2015 is once again due to the considerable increase in profit. Moreover, it shows that in 2014 and 2016, only a tiny percentage of the profit came from internal financing sources, which is a good aspect.

The Interest Income on Loans registered by BT indicates that the bank earns around 7% out of the total loans, which is quite a good value.

As far as the Loan to Deposits ratio is concerned, generally, the ratio should be around 70% -80%[14], a lower value, as obtained by BT indicates that the value of the granted loans is higher than expected for the bank in comparison to the deposits it has.

Regarding the Equity Multiplier, the values registered by BT are outstanding, showing that the bank managed to use the internal financing resources appropriately and multiply the equity even more than expected.

As far as the profit rate ratio is concerned, it can be observed that the value registered in 2015 is exceptionally good, showing that almost half of the money earned by the bank turned into profit.

The margin of assets utilisation shows precisely how much out of everything the bank managed to produce was generated out of the total assets. The values registered by BT are pretty standard if comparing them to the value of ROA and the profit value.

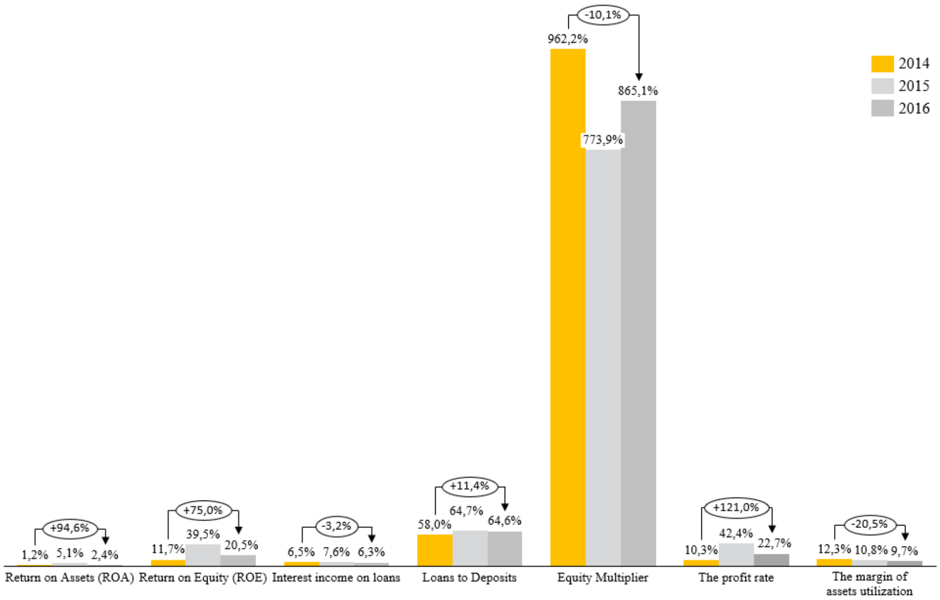


Figure 5.3 Financial Ratios calculated for Banca Transilvania

Source: own calculations based on Annual Reports from 2014,2015 and 2016

5.3. The Financial Analysis of BRD Groupe Société Générale

The third bank to be anlysed in thispapaer is BRD Groupe Société Générale. The original institution was opened in 1923 when the Romanian Government and the National Bank of Romania supported the idea of having a bank entitled "Societatea Națională de Credit Industrial". After the nationalization in 1948, the bank is renamed "Banca de Credit pentru Investiții". In 1958, the entity had the monopoly over the medium and long-term loans in Romania, becoming "Banca de Investiții' which, in 1990, managed to obtain a universal bank license and changed its name into "Banca Română pentru Dezvoltare". As a result of a privatisation process, in 1999, Société Générale becomes the major shareholder of BRD[17].

The financial ratios are computed in Figure 5.4, showing a significant improvement from the starting year of the analysis, 2014 to 2016. The Return on Assets (ROA) increased every year, meaning that the asset management considerably increased its quality, and the assets owned by the company are becoming more profitable.

The Return on Equity (ROE) also registered a noticeable increase mainly due to the remarkable increase of the profit from 43 mil RON to 445 mil RON. This indicator continued to increase in 2016, which is very good because a healthy value of this indicator is between 10% and 30%; therefore, the equity is considered quite profitable, especially in the last year.

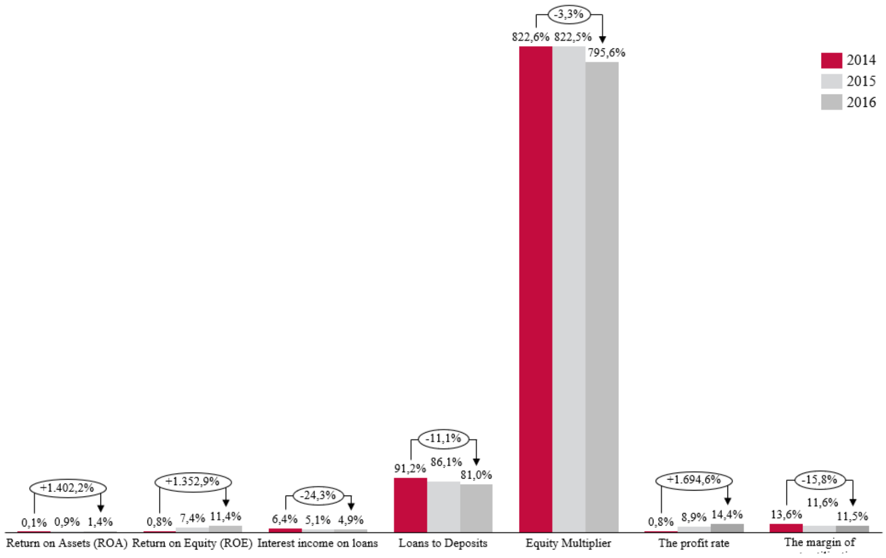


Figure 5.4 Financial Ratios calculated for BRD

Source: own calculations based on Annual Reports from 2014,2015 and 2016

The interest income on loans has a decreasing trend, but the values are still considered good, even if they are lower than those registered by BCR and BT. The loans to deposits ratio is also good and even better than the ones obtained by BT and BCR, and it shows that the bank has enough deposits to cover the loans.

The equity multiplier has typical values, showing that the company managed to multiply the equity and grow. The profit rate is increasing, but it shows that in 2014 only 1% of the total income remained in the company as profit, then 9% in 2015, and finally 14% in 2016, which is relatively low compared to the previously analysed two banks.

5.4. The Financial Analysis of Raiffeisen Bank

The last bank to be analysed is Raiffeisen Bank. The history of Raiffeisen Bank started in 1994 in Romania, when the Austrian banking group opened an office in Bucharest. In 1998, the office became a subsidiary offering services to companies. Raiffeisen Bank resulted from a fusion made in 2002 between Raiffeisenbank (Romania) and Banca Agricola Raiffeisen S.A[18].

The financial ratios computed for 2014-2016 are presented in Figure 5.5, showing that, in general, the bank had quite a stable evolution without registering outstanding variations from one reporting period to another.

The Return on Assets (ROA) value is undoubtedly good and stable, registering a slight decrease from 2014 to 2015. The values are situated in the "green" gap suggested by the literature, meaning that the assets are used efficiently and are profitable.

The Return on Equity (ROE) is also situated above 10% and below 30%[11] as it should be, meaning that the equity is used accurately. The interest income on loans is also satisfying, having similar values with the other analysed banks.

As the literature indicates, the loans to deposits ratio is also stable and situated between 70% and 80%. The equity multiplier has values varying from 879.58% in 2014 to 1036.61% in 2016, which means that the bank is constantly growing and extending.

The profit rate is quite low in comparison to BCR and BT but relatively close to BRD. This ratio indicates that in 2014, only 11.92% out of the total income return to the company as profit, then the values slightly decreased in 2015 and 2016. The margin of the assets utilisation is satisfying and stable, showing that about 14%-16% of the total income is generated from the assets.

5.5. A comparative perspective over the performance of BCR, BT, BRD, and Raiffeisen

The last part of the results section is focused on the comparative perspective of the most relevant ratios, and their value in 2016 for all the four banks is presented in Figure 5.6. As far as the return ratios are concerned, the highest values for both ROA and ROE are registered by Banca Transilvania. In the second place, as far as ROE is concerned, we have Raiffaisen, BCR, and BRD. The values of ROA are very similar from one entity to another. However, the values of both ratios are within the accepted parameters, and the fact that BT has a slightly ROA than the other three banks mainly highlights the increasing trend and the high growth rate it has registered lately.

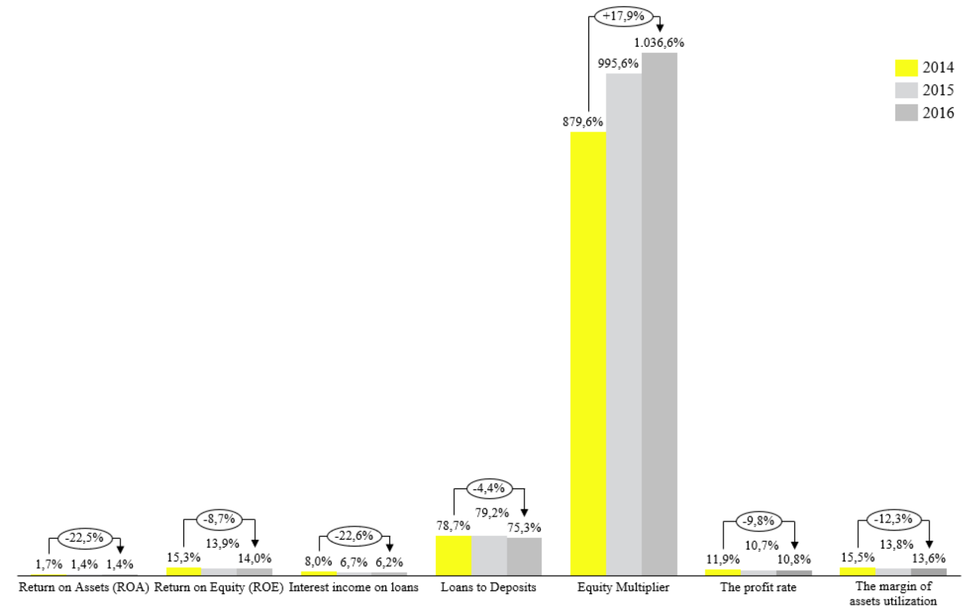


Figure 5.5 Financial Ratios calculated for Raiffeisen Bank
Source: own calculations based on Annual Reports from 2014,2015 and 2016

The loans to deposits ratio should be ideally, as previously mentioned, between 70%-80%[14] because banks need to have deposits to grant the loans; however, the number of deposits should not be higher than the loans because it would mean that the bank is not producing enough money. It can be observed that Raiffeisen and BRD registered the ideal values, followed by Banca Transilvania and then BCR. BCR is in the last place in this case because it has deposits from customers in value of around 45 billion lei.

The margin of asset utilisation indicates that the most profitable assets that produce the highest income, particularly loans and financial instruments, are owned by Raiffeisen and BRD, closely followed by BT and BCR in the last place because of the high spread between assets and registered income.

In terms of the equity "profitability", known in the literature as leverage multiplier, the most efficient bank is by far Raiffeisen, which has excellent further prospects for almost all the ratios, followed by BCR, BT, and BRD.

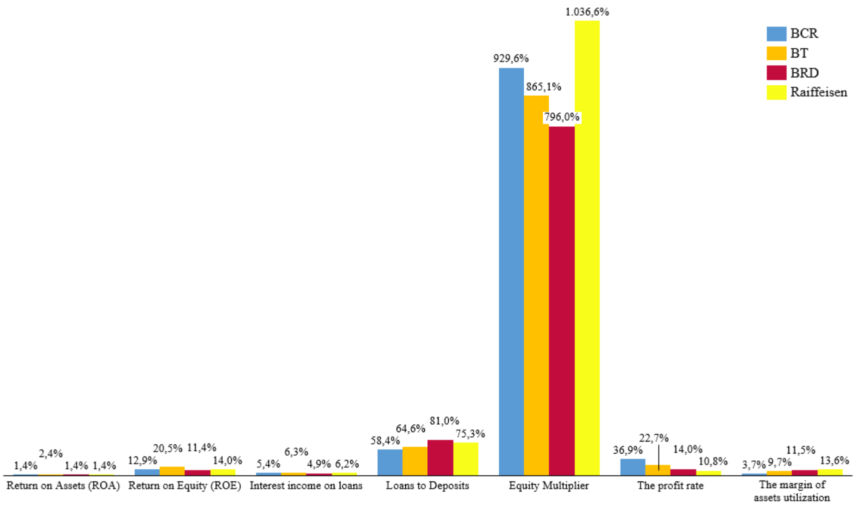


Figure 5.6 Various financial ratios calculated for BCR, BT, BRD, and Raiffeisen for 2016

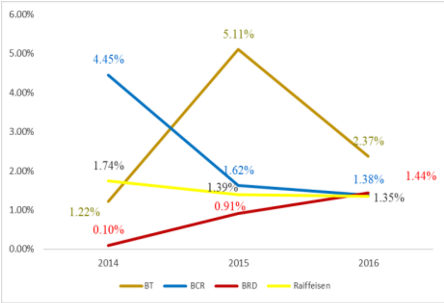
Source: own calculations based on Annual Reports from 2014,2015 and 2016

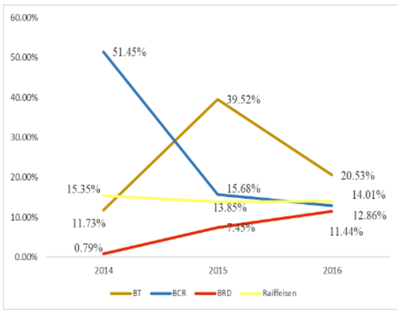
The last part of the financial analysis consists of a general comparison of the evolution of the following four ratios: Return on Assets (Figure 5.7), Return on Equity (Figure 5.8), Loans to Deposits (Figure 5.9), and Profit Rate (Figure 5.10).

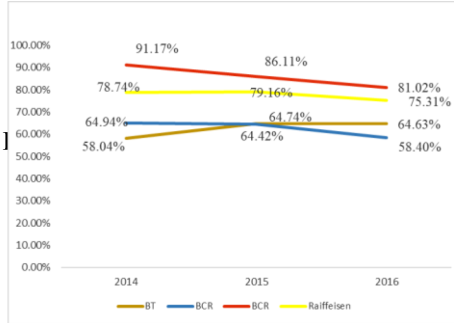
As already presented, in terms of "Return On" Ratios, BCR was the leading bank in 2014, however, the situation changed in 2015 when BT overtook BCR, scoring even higher values. In 2016, no bank managed to report a considerable enough increase in the profit, as it happened in the previous years with the two banks, therefore the results were very similar between all four banks, the leading one being, however, again BT which is increasing very fast and shows outstanding performance and assets and equity profitability.

As far as the Loans to Debt ratio is concerned, Raiffeisen seems to be to most "cautious" bank, being situated precisely in the gap indicated by the literature. BT and BCR registered values slightly below this gap, whereas BRD exceeded it. The last ratio to be discussed is the Profit Rate, and according to the data, BCR managed to register the highest profit rate in 2014, and 2016 is, in the end, the leading bank, followed by BT, BRD, and Raiffeisen.

All the presented banks are stable and safe, being situated in the highest places in the hierarchy. However, all of them had an interesting evolution over the years, some of them remaining in the same position as 2014, while some moved higher and respectively lower in the hierarchy.







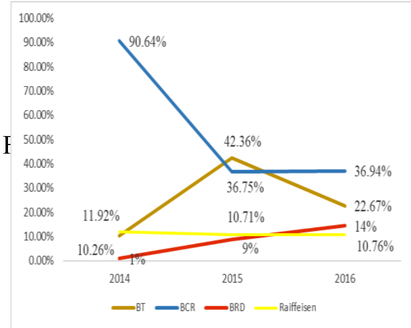


Figure 5.7 Return on Assets (ROA)

Figure 5.8 Return on Equity (ROE)

Figure 5.9 Loans to Debt Ratio

Figure 5.10 The Profit Rate Ratio

6. Discussion

The history of the Romanian banking system taught us that in several situations and especially under macroeconomic or microeconomic factors unfavourable evolution, a bank might register a substantial equity deterioration, and combined with the adoption of several improper strategies, this situation can eventually lead to bankruptcy.

The methods adopted to solve the bankruptcy issues offered the entities two options: the total liquidation of the bank or professional assistance for a financial restructuring plan. After 1999, the rehabilitation process of the Romanian banking system started by adopting one of the previously mentioned options, aiming to eliminate all the banks facing severe financial problems from the market. This process was implemented successfully; however, it involved substantially high costs covered by the state and saved banks and their shareholders.

This process allowed the continuity of the activities performed by the financial intermediaries by supporting the investment in profitable projects. These measures helped the overall system which became safer and more stable and helped people gain back trust in these entities.

Shortly after this recovery of the financial-banking sector, the global crisis started to unbalance the economic equilibrium. Thus the banks had to restrain their lending activity, the costs of the financing resources increased, and all the financial performance indicators suffered adverse modifications. Due to this unstable economic environment, the rate of non-performing loans in this period was exceptionally high in Romania and all over Europe, especially in the central and eastern areas.

Based on the analysis conducted, it was noted that the top 10 leading banks own around 83% out of the total assets, and they continue to flourish. The most impressive evolution in terms of market share was registered by Banca Trasilvania, which managed to move on the second place in the hierarchy in 2015, determining the movement of BRD in the third place while in the first place, constantly during the analysed period is situated BCR.

In 2014, the most impressive financial result in terms of recorded profit was registered in 2016 by Banca Transilvania, followed by BCR and Raiffeisen. BRD managed to register quite a stable growth over the years, and the values obtained by this bank are very similar to those registered by Raiffeisen. However, one significant difference between these two banks is that Raiffeisen has a slower growth rate, but it seems to have a sustained evolution. In contrast, BRD registered more financial fluctuations and implicitly higher growth rates.

Regarding the financial ratios analysis, in 2016, Banca Transilvania had the highest Return on Assets (ROA) of 2.37% and the highest Return on Equity (ROE) of 20.53%, having by far the most aggressive growth in terms of return ratios. The remaining three banks recorded for both ratios very similar results, on average a Return on Assets (ROA) of 1.4% and a Return on Equity (ROE) of 12%, which situate all the analysed financial institutions in the safety gap. As far as the profit rate is concerned, the first position in the rank is attributed to BCR; however, the margin of assets utilisation ratio shows that in 2016, Raiffeisen managed to own the most profitable assets.

However, there is one crucial factor that could threaten these increasing prospects of the banking system, namely digitalisation. Nowadays, all enterprises, regardless of their operating sector, experience the movement towards a digital working environment, and this trend is perceived as a challenge for all industries. "The banking industry is heavily affected by the digital transformation as customers' expectations drive the need for adapting strategies, processes and IT"[19].

In line with the previously mentioned threat, it is also the risk brought by the FinTech, which is indeed a threat for the banks, but definitely, an opportunity for the most representative players in the technology sector like Google, Apple, Amazon and Samsung, exposing our society to the integration of this sector to the financial one, which does undoubtedly lead to a competition between these companies and the banks[20].

It is expected, however, that in the next period, we will see major changes in the industry, banks adopting the "adapt or die" strategy, focusing on all the new aspects of digitalisation, and accepting the fact that nowadays there are new threats that have to be faced constantly.

Conclusion

The initial presumption of the study was that the market share of the analysed banks is directly connected with the institutions' performance, in terms of financial results, but also financial ratios. In terms of profitability, BCR, which is the leading institution in terms of market share, registered the highest profit in 2014. However, Banca Transilvania obtained better financial results for the second and third years of the analysis, contradicting the initial supposition.

The results of the return ratios are also in line; BCR managing to have an outstanding performance in 2014 compared to the rest of the analysed entities, however suffering a decline in 2015 and 2016 when Banca Transilvania managed to obtain the best results.

If focusing on average values obtained throughout the whole analysed period, the discrepancies between the two leading banks were not incredibly significant, BCR having an average ROA of 2.5% and a ROE of 26.6%, in comparison with BT, which had an average ROA of 2.9% and a ROE of 23.9%. BRD also had an overall increasing trend with an average ROA of 0.81% and ROE of 6.5% compared to Raiffeise, which is situated on the fourth place with an average ROA of 1.5% and ROE of 14.4%.

As far as an average value of the interest income on loans is concerned, no significant differentiation between institutions could be observed as all recorded similar values between 5.5% and 7%.

However, if focusing more on the trend, the bank with the highest prospects is undoubtedly BT, based on the aggressive growth that the bank has recorded during the years and based on courageous further development prospects that the company has announced.

As a further research development, the author will focus on analysing the impact of technology on the banking system and the risks and threats over the traditional European retail banking model.

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