AN ASSESSMENTS OF THE BANKING SYSTEM PERFORMENCE OF ROMANIA & UNITED KINGDOM DURING THE LAST FINANCIAL CRISIS

Constantinescu L.M., Drăgoi V.E.*

Abstract: After the global crisis and the worst global economic downturn of recent times, banks in Europe were striving for success in a continually changing industry. Numerous initiatives have been launched in order to improve the efficiency of the capital. Banks have made significant efforts in the recent period in order to stabilize their balance sheets and still have to realize all of the bad loans in their portfolios.This paper aims the conduct and performance of the UK and Romanian banking sector in the years of the last financial crisis. It provides an insight in the recent global financial crisis caused by the sub-prime mortgage crisis initiated in the United States and underlines its effects on the banking industry of the United Kingdom and Romania.

Key words: banking system performance indicators, benchmarking assessment.

Introduction

After the global turmoil of the financial crisis and the worst global economic downturn of recent times, banks in Central Europe are striving for success in a continually changing industry. In fact, the global banking sector has faced a series of problems since 2008, problems that have decimated the overall net profit of the sector to just 10 percent of its previous level. Central banks dealt with the same difficulties of falling profitability, but the nature of the process was different from country to country. Many factors have pushed national banking system towards negative profitability. The new regulations and severe taxes introduced in some European countries were the key factors.

Before discussing the structure, conduct and recent performance of the Romania and United Kingdom (UK) banking sector, it’s useful to provide an insight in the recent global financial crisis caused by the sub-prime mortgage crisis initiated in the USA. It all started with the collapse of the housing bubble in the USA, as borrowers were no longer able to meet their financial obligations and as consequence, many of these subprime mortgages became default and the market became illiquid while banks were struggling to obtain funds which resulted into devastating losses for banks and mortgage lenders (Brzeziński, 2011; Horsch, 2012).

Before 2008, the interbank market was very active and banks were lending money with great confidence. The situation has changed since then, and many banks have serious problems in finding resources of liquidity other than deposits. Many

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countries have faced either a significant decline in their growth rate or even recession (in the case of Romania) (Kiseľáková and Kiseľák, 2013).

A Banking System Performance Benchmarking of Romania and UK

The banks' statutory results include a number of exceptional or unusual items that have had a significant impact on the reported profits but do not form part of the core results. In addition, each bank makes adjustments to arrive at its own underlying profit measure; and it can be challenging to achieve a consistent measure for purposes of comparisons (UK Banks Performance Benchmarking Report FY Results for 2009, 2010, 2011 years). The Tables 1and 2 show the adjustments of the statutory profit and loss for these items to derive a theoretical 'core' profit measure.

Table 1. The profit or loss of Top 5 banks of the UK (www.kpmg.com)

		By PBT	By total assets	By net assets	Statutory profit before tax (£ million)[1]	Net interest margin (basis points)[2]	Cost to income ratio[3]
Barclays	2009	1	3	3	11,642	-	58.00%
	2010	2	2	3	6,065	203	64.00%
	2011	2	2	3	5,879	204	64.00%
RBS	2009	5	1	1	-2,595	176	59.10%
	2010	5	3	2	-399	201	59.90%
	2011	4	3	2	-766	192	62.00%
Lloyds	2009	4	4	4	1,042	177	48.40%
	2010	4	4	4	281	221	46.60%
	2011	5	4	4	-3,542	207	50.30%
HSBC	2009	2	2	2	4,582	294	52.00%
	2010	1	1	1	12,324	268	52.20%
	2011	1	1	1	13,150	251	57.50%
Std. Chtd	2009	3	5	5	3,334	230	51.30%
	2010	3	3	5	3,963	220	55.90%
	2011	3	3	5	4,224	230	56.50%

The banks have shown improved core profitability driven by improved investment and wholesale banking performance. Statutory results have been held back by revaluation losses on own debt.

Barclays remained the most profitable bank on a statutory basis, but HSBC's revaluation losses on own debt were stripped out (http://group.barclays.com/home). It can be observed that of the public banks, RBS improved core performance (http://www.hsbc.com/investor-relations/investing-in-hsbc/latest-financial-results) and Lloyds confronted with some difficulties, bearing the burden of increased impairment. Bad debt charges have increased by 53.4 p.ercent to £65.4 billion, fact which was determined by corporate impairments (http://www.lloydstsb.com/).

Table 2. The profit or loss of Top 5 banks of the UK (www.kpmg.com)

		Impairment charge (£ million)	Return on equity[4]	Total assets (£ million)	Net assets (£ mil)	Core ratio (%)
Barclays	2009	8,071	23.80%	1,378,929	58,478	10.0%
	2010	5,672	7.20%	1,489,645	62,262	10.8%
	2011	5,602	5.80%	1,563,527	65,196	11.0%
RBS	2009	14,950	-	1,696,486	94,631	11.0%
	2010	9,256	13.30%	1,453,576	76,851	10.7%
	2011	8,709	10.50%	1,506,867	76,053	10.6%
Lloyds	2009	16,673	-	1,027,255	44,107	8.1%
	2010	10,952	-	991,574	46,902	10.2%
	2011	8,094	-	970,546	46,594	10.8%
HSBC	2009	17,146	5.10%	1,450,584	83,361	9.4%
	2010	9,089	9.50%	1,583,274	99,920	10.5%
	2011	7,561	10.90%	1,653,460	107,462	10.1%
Std. Chtd	2009	1,291	14.30%	298,457	17,129	8.9%
	2010	571	14.10%	333,181	25,068	11.8%
	2011	582	12.20%	387,598	26,770	11.8%

It is a certainty that the UK banks were significantly better than they were in 2008. This result was because of significant equity issues.

The post- crisis years have been tough for Romanian banks, mostly because of the rapid growth of bad loans. Severe austerity measures were taken by the banks, measures which have delivered some significant cost savings. However, this factor alone was not able to counterbalance the damage caused by deteriorating asset quality (www.deloitte.com).

In the years of 2009 and 2010, the Romanian economy endured a painful readjustment because of a sharp correction in domestic demand. The GDP decreased by 7.1 % in 2009 and in 2010 by 1.3 % (www.bnr.ro).

The performances of the Romanian banking system have known an evolution that has reflected in the increase of the net aggregate assets by only 3.5 % (in nominal terms), from 341 946.3 millions lei in 2010, to 353 910.9 millions lei in 2011 (Table 3).

Expressed in Euro, the aggregate net assets grew from 79.80 billion Euros to 81,92 billion Euro. Financial intermediation calculated as share of bank assets in GDP fell slightly, from 65.4 percent in 2010 from 61.0% in 2011.

Banking market has been marked in 2009 and 2010 by a change of direction from the banks' rapid expansion to a predominantly qualitative guidance in terms of strategy, the network of branches, product portfolio and cost control.

Table 3.Top 5 Romanian banks' financial results in 2010

		BCR	BRD	BT	CEC	Raiffeisen
Assets	EURbn	17.4	11.5	6.1	5.9	5.7
Loans	EURbn	11.1	7.4	3.3	2.4	3.5
Deposits	EURbn	9.2	7.2	4.8	4.2	4.0
Net Profit	EURbn	57.8	110.7	53.9	27.4	100.9
Market share	%	18.6	12.3	6.5	6.3	6.1
ROA	%	3.1	8.0	9.9	6.0	15.8
ROE	%	46.5	44.1	45.9	62.2	62.5
C/I	%	120.7	103.6	69.2	58.5	86.6
LTD	%	152	221	130	282	128
Assets/FTE	EURk	128	89	49	36	71
Number of branches	%	0.3	8.0	9.9	6.0	1.8
Income/FTE	EURk	2156	1395	897	894	879

Profitability

The banks were all profitable and have improved their core profitability in 2009. All of the banks, with the exception of RBS, made a statutory profit for 2009. With the exception of HSBC, the core results were lower than the statutory ones because of significant exceptional items and adjustments.

Although banks have been more profitable in 2010, income growth was not so strong. This is due to a fall in trading income in all the banks except Standard Chartered. In 2011, HSBC and Standard Chartered registered improved statutory results. In the case of Lloyds and RBS, the profit was reduced, slightly because margin reductions and performance slump in investment banking http://www.deloitte.com/view/en_PL/pl/insights/Center-for-Financial-Services/ focus-area/index.htm). The banks' statutory results in the UK included a number of exceptional or unusual items that had a significant impact on the reported profits but did not form part of the core results. In addition, each bank makes adjustments to arrive at its own underlying profit measure (Table 4).

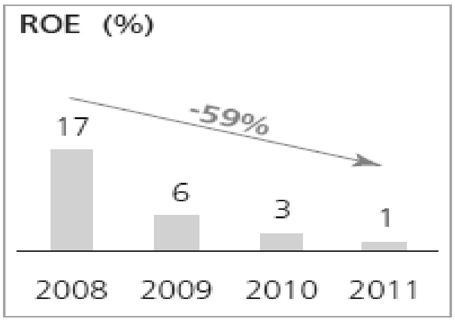

Figure 1.Profitability indicators of the Romanian banking system during 2008-2011
(www.bnr.ro)

Table 4. Adjustments of the statutory profit and loss (www.kpmg.com)

		Statutory profit/ loss before tax on continuing operations	(Gain) /loss on revaluation on own debt	Core profit / (loss) before tax and exceptional items
Barclays	2009	11.6	1.8	5.0
	2010	6.1	0.4	6.2
	2011	5.9	2.7	6.3
RBS	2009	-2.6	0.1	-6.6
	2010	-0.4	-0.2	1.6
	2011	-0.8	-0.2	0.4
Lloyds	2009	1.0	-1.8	-6.4
	2010	0.3	-	2.3
	2011	-3.5	-	1.5
HSBC	2009	4.6	4.3	8.6
	2010	12.3	-	11.8
	2011	13.6	-2.4	12.5
Std. Chtd	2009	3.3	-	3.1
	2010	4.0	-	4.0
	2011	4.2	-	4.3

In Romania, the 2009, 2010, 2011 years have emphasized the strain caused by deteriorating assets, which was the principal barrier to profitability. A main indicator of the profitability (Figure 1) is represented by the Return on Equity (ROE).

Over the last years, net profit has declined. Net profit was barely existent in 2011, and net income amounted to just EUR 4.5 billion. Consequently, profitability ratios were very weak and continued to deteriorate. Romania revealed a smaller overall scale of business comparing to other Central European countries (www.bnr.ro).

Investment banking

The 2009 year it was considered an exceptional year and it proved to be a bumper year for UK banks' investment banking operations. In 2010, revenues were down on the previous year. Nevertheless, performance remained robust, and the investment banking made large contributions to overall results.

As the figure 2 shows, the 2009 year saw a strong rebound in the fortunes of the Investment Banking arms of the main UK banks (www.kpmg.com), a number of which reported record levels of revenues (Figure 2).

Barclays Capital reported record top line performance for 2009 with revenues of £13.4 billion as compared to £3.6 billion in 2008. Barclays Capital also benefited in 2009 from lower credit market related write downs (http://group.barclays.com/home).

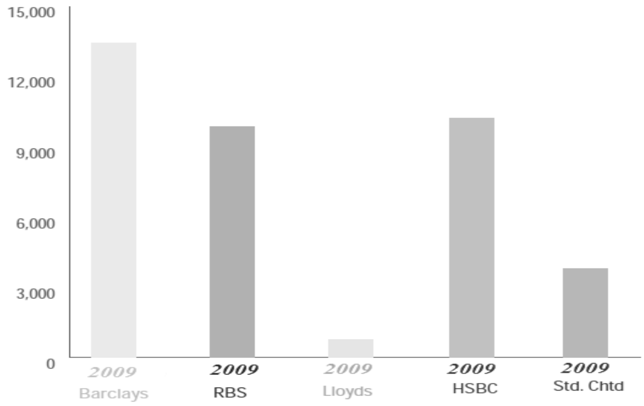

Figure 2. Revenue after writedowns (million GBP)
(www.kpmg.com)

HSBC likewise had a record year, with incomes increasing to £10.2 billion in 2009. RBS saw a similar leap in revenues to £9.9 billion for 2009, from £1.5 billion in 2008. The increase was driven primarily by strong performance from the rates and equities businesses. Standard Chartered's revenues increased to £3.8 billion during 2009. Revenues were boosted by an increase in Corporate Finance income together with strong flow revenues earned across the Financial Markets business (http://www.deloitte.com/view/en_PL/pl/insights/Center-for-Financial-Services/ focus-area/index.htm).
The 1st Q 2011 started well but, throughout the second half of the year, market activity levels and resulting trading revenues, saw a progressive slump. As the Figure 3 shows, investment banking revenue declined quite sharply in 2011 (www.kpmg.com).

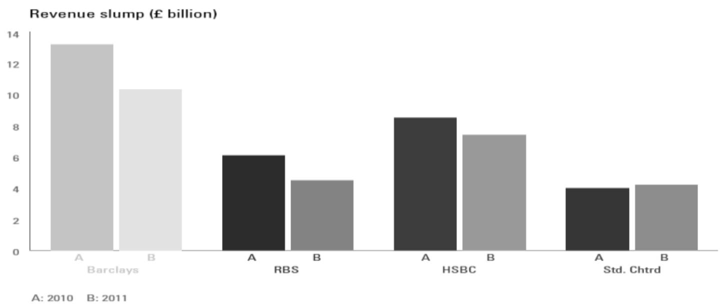

Figure 3. Investment banking revenue of the United Kingdom in 2011
(www.kpmg.com)
Total income at Barclays Capital fell 22 percent from £13.2 billion to £10.3 billion. Revenue was down £2.4 billion reflecting especially lower contributions from Rates, Credit and Commodities (www.kpmg.com).

Equities and Prime Services income was down 14 percent to £1.8 billion. Investment banking also fell 10 percent to £2 billion. Return on equity also deteriorated, from 13.5 percent to 10.4 percent. Total investment banking revenue in 2011 in the case of HSBC was £1.4 billion lower at £7.4 billion, a 16 percent drop. Credit and Rates income fell £1.4 billion (http://www.deloitte.com/view/en_PL/pl/insights/Center-for-Financial-Services/focus-area/index.htm). Rates money markets recorded negative revenue of £0.2 billion in the case of RBS. Market volatility was heightened, especially for sovereign bond valuations and the total income fell 16 percent to £1.7 billion. Credit reported a 36 percent decrease in income, reflecting heightened volatility and lower levels of client activity. In the case of Standard Chartered, Global Markets have performed well and the total operating income grew by £0.3 billion (7 percent).

The prospect for investment banks is different, with big questions over how they can consistently generate a ROE of more than 10 percent. In part, the problem facing investment banks was that approximately 40 percent of net profit.

Asset quality

In the UK, during the year of 2009, the combined impairment charges for five banks increased by 53.4 percent from £42.6 billion in 2008 to £65. Corporate impairments have continued to be the key driver of increased impairment charges in 2009 globally as the full impact of the recession filtered through the economy. This led to increased corporate insolvencies and asset impairments spreading beyond the property sector into more traditional businesses.

Lloyds and RBS believed that impairment charges peaked in the first half of 2009 and this was reflected in their results. Lloyds recorded a 21 percent reduction in impairment charges in the second half of the year compared with the first six months, while RBS recorded a reduction of 16 percent. Barclays' results showed a reduction in impairment charges from £4.2 billion in the first half to £3.2 billion in the latter half. As the economy began to stabilize during 2010, all banks reported a significant reduction in their impairment charges. Wholesale and commercial impairment was the principal reason for the reduction in the impairment charges during 2010 as significant provisions made against some single exposures in 2009 were not repeated and economic conditions improved (UK Banks Performance Benchmarking Report FY Results for the years 2009, 2010, 2011). Barclays reported a 29.7 percent lower impairment charge of £5.7 billion reflecting improving credit conditions in all businesses, except for Corporate lending. RBS' reduction in the impairment charge was of 33.4 percent to £9.3 billion. Loan impairment charges at Lloyds were 45.0 percent lower than 2009 at £13.2 billion. In Retail, the impairment charge reduced by £1.5 billion due to improved quality of new business, effective portfolio management and the continuing slow recovery of the UK economy. Loan impairment charges of $14.0 billion were 46.9 percent lower at HSBC for 2010 compared to 2009 with improvements across all regions and all customer groups. In percentage terms, Standard Chartered reported the highest

reduction in impairment charges amongst the five banks under review at 55.9 percent to $0.9 billion due to improved economic conditions.
Year 2011 has been a relatively quiet period for impairment losses, with most banks benefitting from customers continuing to deleverage their (personal and corporate) balance sheets.

Impaired assets

In most cases, impaired assets as a percentage of gross loans and advances to customers showed a small decline (Figure 4).

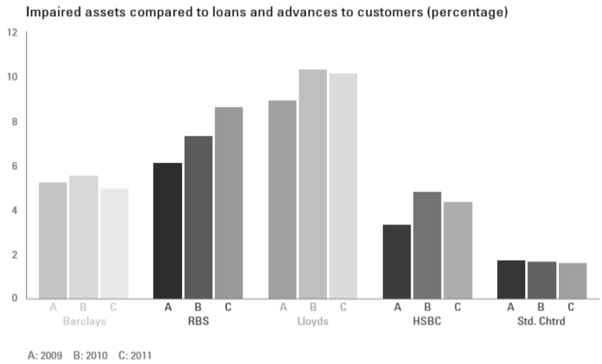

Figure 4. Impaired assets compared to loans and advances to customers (%)
(www.kpmg.com)

The exception is RBS, which increased by 130 basis points compared to 31.12.2010. Barclays' impaired assets decreased by 12.3 percent to £21.3 billion at 31 December 2011. At RBS, impaired assets increased by £2.2 billion (5.8 percent) to £40.8 billion. Lloyds reported impaired assets of £60.3 billion for the year ended 31.12.2011. This was a £4.3 billion decrease compared to 31.12.2010, mainly due to £3.9 billion lower impaired assets in Wholesale. Impaired assets declined at HSBC by 11.3 percent to $41.6 billion as at 31 December 2011. Standard Chartered impaired assets increased by 5.1 percent to $4.4 billion, primarily driven by increases in Consumer Banking. The increase in impaired assets was lower than the overall growth in loans and advances to customers of 8.8 percent or $21.2 billion as Standard Chartered continued to grow in selected markets.
In Romania, troubled assets were on the rise. The quality of loans showed a rapid deterioration from 2009 to 2011. The ratio of loans overdue for more than 90 days increased to 11.4% in 2011, a sharp rise on the 5.8% recorded only two years earlier. Although impairment charges have not changed significantly in recent years, they have nevertheless stabilised at a consistently high level.
In Romania, provisions for loans overdue for 90+ days constitute 59.9% of the stock. Compared to other Central European countries (The Banking Sector in Central

Europe - Performance Overview) such a level seems quite comfortable for Romanian banks - the ratio stands out as the second highest in the region (Figure 5).

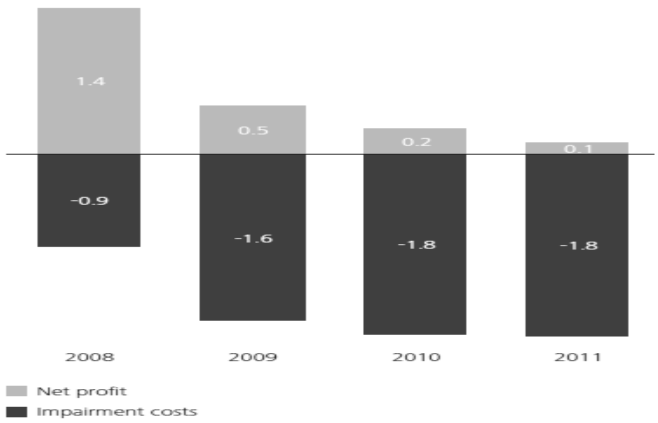

Figure 5. Net profit and impairment costs for Romanian banks
(www.kpmg.com)

Impairment charges were the main barrier to profitability. Its causes were represented by a deteriorating macroeconomic backdrop and a slower growth in the. The cost of risk in 2011 remained at 3.1%, the highest in the region. This is also confirmed by looking at the proportion of impairment charges to assets – at 1.9%, again the highest among UE countries. Loan-loss provisions totaled EUR -1.8 in 2011, more than two times the level of 2008.

Closing remark

Financial analysts want to compare the performance of a bank to that of others, in order to find financial trends on the markets. A tool commonly used by these parties is financial competitor benchmarking (Berheci, 2010).
The purpose of financial competitor benchmarking is to objectively compare the financial performance of a number of competing companies. This form of benchmarking involves using quantitative data, i.e. numerical data, usually in the form of a number of financial ratios calculated using publicly available financial information.
The banking system as the basic element of the financial system, allows an efficient allocation of resources in the economy and, in order to function properly, we need to know the risks they face: a slow economic growth may cause losses due to difficulties in repaying bank loans, due to lower sales or lower wages, changes in asset prices may cause financial losses to investors, decreasing a sector of the economy which has monopolized the banks' and investors' attention. As the instability has become the dominant feature of the environment in which they

operate, the banking institutions have been put in a position to face up to new challenges and to deal with major risks.
All these operating conditions have led to increased competition in the financial sector and increased banks ' vulnerability to adverse shocks. It is necessary to identify risks and vulnerabilities in the financial system as a whole and to analyze its components, because the monitored financial stability is preventive.
The emergence and development of malfunctions, incorrect assessment of risks and the inefficiency of capital allocation, can affect the stability of the financial system and economic stability. The efficiency of the banking system is directly linked to increased business volumes and cohesive, based mainly on the attractiveness of the products both in terms of cost and less based on the conquest of new segments of the market. The ongoing global crisis leads to reduced economic activity so that domestic macroeconomic developments have a major effect on the health of the financial system.
A financial system plays the key role to direct funds to individuals and firms that have investment opportunities. To do this correctly, financial market participants should be able to make correct opinions about the investment opportunities, which are more or less safe. This means that the financial system must deal with information asymmetry, a contracting party having less complete or accurate information. However, even, there are positive signs to post crisis recovery of the economic activity, until the threat of the major crisis of the Euro zone will disappear the investors, the companies and the consumers must continue to be cautious.

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OCENA DZIAŁANIA SYSTEMU BANKOWEGO RUMUNII I WIELKIEJ BRYTANII PODCZAS OSTATNIEGO KRYZYSU FINANSOWEGO

Streszczenie: Po światowym kryzysie i największym globalnym spowolnieniu gospodarczym ostatnich czasów, banki w Europie dążyły do sukcesu w stale zmieniającej się branży. W celu poprawy efektywności kapitału uruchomione zostały liczne inicjatywy. W ostatnim okresie banki dokonały znaczących wysiłków w celu stabilizacji swoich bilansów i nadal mają do zrealizowania wszystkie niespłacone w terminie pożyczki w swoich portfelach. Niniejsze opracowanie ma na celu przybliżenie działalności i wydajności sektora bankowego Wielkiej Brytanii i Rumunii w latach ostatniego kryzysu finansowego. Dostarcza wgląd w światowy kryzys finansowy ostatnich lat spowodowany przez kryzys hipoteczny typu subprime zainicjowany w Stanach Zjednoczonych i podkreśla jego wpływ na sektor bankowy w Wielkiej Brytanii i Rumunii.
Słowa kluczowe: wskaźniki skuteczności systemu bankowego, ocena porównawcza.

銀行系統性能自動羅馬尼亞和英國的會費末次金融危機期間

摘要：在全球金融危機和最近的全球最嚴重的經濟衰退後，歐洲銀行是在不斷變化的行業爭創佳績。許多舉措，以提高資金使用效率已經啟動。銀行為了穩定其資產負債表，仍然必須認識到其投資組合中的所有不良貸款取得了最近一段時期顯著的努力。
本文旨在對英國的行為和性能，羅馬尼亞銀行業在未來幾年上一個財政危機。它提供了在美國發起造成次貸危機的全球金融危機的洞察力和對強調英國和羅馬尼亞銀行業的影響
關鍵詞：銀行系統的性能指標，評估基準