ANALYSIS OF THE BANKING SYSTEM THAT QUOTES AT BUCHAREST STOCK EXCHANGE

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Abstract*: This study analyses three important banks quoted at Bucharest Stock Exchange: Banca Transilvania SA, BRD – Groupe Société Générale SA, Banca Comecială Carpatica SA. The scope is to identify which is the best to invest in. We follow the instruments give us by the fundamental analysis: Price/ Earning ratio, Capitalization, Return on Assets, Return on Equity, Debt to Assets, Dept to Equity. Fundamental analysis presumes the future prospects of a security are best analyzed through a proper assessment of the intrinsic value of the underlying company. The risk is within us. In the end, the financial risk does not lie in what types of investments have we done, but in what type of investor we are.*
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1. INTRODUCTION

In general terms, banks make profits by selling liabilities with one set of characteristics (a particular combination of liquidity, risk, size, and return) and using the proceeds to buy assets with a different set of characteristics. This process is often referred to as *asset transformation.* For example, a savings deposit held by one person can provide the funds that enable the bank to make a mortgage loan to another person. The bank has, in effect, transformed the savings deposit (an asset held by the depositor) into a mortgage loan (an asset held by the bank). Another way this process of asset transformation is described is to say that the bank “borrows short and lends long” because it makes long-term loans and funds them by issuing short-dated deposits.

The process of transforming assets and providing a set of services (check clearing, record keeping, credit analysis, and so forth) is like any other production process in a firm. If the bank produces desirable services at low cost and earns substantial income on its assets, it earns profits; if not, the bank suffers losses. (Miskin, 2004)

The Bank is a functional-institutional economic unit, whose main function is to collect, transfer and distribute the financial availabilities. (Milca, 2001)

The role of the banks is to relate on a commercial basis the economic units in search of funds to the ones in search of investments. They have the quality of principal intermediary in the relation economies-investments, which is a primordial relation for the economic growth. The main characteristic feature of banks is the transformation of the non-monetary assets into currency.

The major operations performed by banks are: to accept deposits, to contract credits, to discount commercial papers, to make payments and settlements of accounts, to issue warranties, to transfer funds, to perform transactions either in their own account or in the clients' account, to provide financial-banking consultancy, to intermediate and place securities. (Suciu & Nedelcu, 2003)

Deposit banks are commercial banks which get their financial resources from the monetary market, by their clients' deposits. Based on them and on their own capitals, the commercial bank offers either long- or short-term credits to the applicants who meet the general conditions of financial reliability.

Three commercial banks quote at the Stock Exchange of Bucharest: Banca Transilvania, Banca Română pentru Dezvoltare and Banca Comercială Carpatica. We want to figure out which of these three banks is more attractive to investors.

Banca Transilvania, (TLV) financial-banking institution established in 1994, is ranked third among the Romanian banks at the end of the first quarter of 2013, based on their assets. The purpose of the bank is to support the development of the business environment, by offering innovating products and services. Banca Transilvania is the first Romanian bank to have been listed at the Stock Exchange of Bucharest, in 1997.

The capital of Banca Transilvania is held by Romanian and foreign stock-holders, as follows: 23,34% of the shares are held by natural persons; 62,04% of the capital is held by juridical persons; and the remaining 14,61% of the shares are held by BERD.

Banca Română de Dezvoltare (BED) was established as a financial company with State-owned capital in 1990, after it had taken over the assets and liabilities of the former Banca de Investiţii, which had held the monopoly during the communist period. In 1998, BRD was privatized and the group Société Générale bought 51% of the shares. BRD - Groupe Société Générale was listed at the Stock Exchange of Bucharest in 2001 and is ranked second among the Romanian banks, based on its assets, in late 2012.

The capital of BRD – Groupe Société Générale is held by numerous stock-holders, as follows: Société Générale – 60,16%, SIF Transilvania – 4,55%, SIF Banat Crişana – 4,20%, SIF Muntenia – 3,99%, Fondul Proprietatea – 3,64%, SIF Oltenia – 3,36%, SIF Moldova – 2,30%, juridical persons – 14%; and natural persons – 3,80%.

Banca Comercială Carpatica (BCC) is an institution established in July 1999, headquartered in Sibiu. The share capital is of 314 629 049 lei and is wholly private-owned; Romanian and foreign companies are stock-holders of great financial force. The structure of the shareholdings is the following: 80,47% natural persons and 19,53% juridical persons. Two natural persons hold together 52% of the shares.

2. FUNDAMENTAL ANALYSIS

Fundamental analysis presumes security prices are based on the intrinsic value of the underlying company. The fundamentalist believes that with time, stocks will move up to minimize the disparity between their present value and their perceived intrinsic value.

Thus, fundamental analysis presumes the future prospects of a security are best analyzed through a proper assessment of the intrinsic value of the underlying company.

In pursuit of value, the fundamentalist collects, analyzes, and models company information, including earnings, assets, liabilities, sales, revenue, and other information required to evaluate the company. Assumptions of the fundamentalist include a belief that markets are not completely efficient and that all necessary information is available to the public, but the company may not always be efficiently priced. Overall, fundamentalists are concerned with what the price should be according to their valuation models.

While price can be observed with certainty, no one can ever be sure what constitutes true value. Although it may be difficult to determine current value, in the light of hindsight it is clear that price does tend to revolve around it. Several indicators have been developed which purport to measure value.

Price/Earnings ratio is cal calculated by dividing current price by the latest 12 months earnings per share. Dividend yields and P/E ratios are highly correlated since they both relate a measure of company performance to the same variable- the price of a stock. Dividends to have one notable advantage: stability. Earnings fluctuate seasonally. Company management seek to moderate these fluctuations by maintaining a dividend payout proportioned to the long run prospects of the company. Distributing cold cash to stockholders requires a hard economic decision- once paid out is irretrievable.

In the long run earnings mean nothing to stockholders unless they are ultimately paid out in dividends. A company can go on exclusively reinvesting earnings in future growth only so long. Price/Earnings ratios become distorted during severe economic contractions. Under normal conditions a persistent decline in prices relative to earnings results in a falling P/E. A low Price/Earnings ratio is generally bullish. (Fosback, 1992)

Table 1 PER

PER	Banca Comercială Carpatica	Banca Transilvania	BRD – Groupe Société Générale
2011	-2.79	18.27	11.64
2012	-3.86	18.33	12.15
2013	9.82	11.36	18.94

(Source: BSE, Monthly bulletin, December 2011-2013)

When PER is high, the share is over-evaluated and its sale is recommendable. One can see that in 2011 and 2012, TLV was over-evaluated as the financial market was optimistic and wagered on that company, and in 2013 it was the turn for BRD to be over-evaluated.

Table 2 Capitalization

Capitalization	BCC	TLV	BRD
2011	178394671	1567913730	7463815257
2012	123334587	2416863864	5651871310

2013	212689237	3640619934	6272113662

(Source: BSE, Monthly bulletin, December 2011-2013)

The stock market capitalization was on the increase for TLV; whereas for BRD and BCC, the year 2012 was a regression. This way, capitalization for TLV rose in 2012 as against 2011 by 64%, and in 2013 as against 2012, by 66%.

Debt to Assets describes the proportion of other peoples money to the total claims against the assets of the business. The higher the ratio, the greater the likely risk for the lender. The formula is: total debt/ total assets.

Table 3 Debt to Assets

Debt to Assets	BCC	TLV	BRD
2010	0.92	0.88	0.88
2011	0.91	0.92	0.87
2012	0.90	0.90	0.88

As regards the indicator Debt to assets, BCC is ranked last, and BRD is ranked first. This shows that BCC and TLV resort to a greater extent to loans.

Debt to Equity is the ratio of total debt, normally the sum of current liabilities and all types of long-term debt to total owners equity, or net worth. The debt to equity ratio is an attempt to show, in another form, the relative proportions of lenders claims and of ownership claims and is used as a measure of debt exposure. It is expressed as either a percentage or as a proportion. The formula is: total debt/ net worth (equity). (Helfert, 1987).

Table 4 Debt to Equity

Debt to Equity	BCC	TLV	BRD
2010	6.42	9.98	7.63
2011	11.36	10.12	10.12
2012	11.97	13.31	9.67

Because owners of a bank must know whether their bank is being managed well, they need good measures of bank profitability. A basic measure of bank profitability is the return on assets (ROA), the net profit after taxes per dollar of assets: The return on assets provides information on how efficiently a bank is being run, because it indicates how much profits are generated on average by each dollar of assets.(Miskin, 2004) *ROA is Net profit/Total assets*.

Table 5. ROA

ROA	BCC	TLV	BRD
2010	-5.26	0.45	1.05
2011	-0.82	0.88	0.96

2012	-0.45	1.08	-0.69

In terms of the indicator ROA, TLV has positive results and is above its competitors. Furthermore, one can see that the values of these indicators rise every year. This way, in 2011, economic profitability was on the rise as against 2010 by 43%; and, in 2012, it rose by 20% as against 2011. These increases are due to the rise of the net profit at a higher rate than the one of the total assets. Likewise, BCC marked yearly improvements with respect to this indicator. Conversely, for BRD, this indicator diminished every year during the analyzed period.

However, what the bank's owners (equity holders) care about most is how much the bank is earning on their equity investment. This information is provided by the other basic measure of bank profitability, the return on equity (ROE), the net profit after taxes per dollar of equity (bank) capital. ROE is Net profit / common equity.

Table 6 ROE

ROE	BCC	TLV	BRD
2010	-37.49	5.12	8.97
2011	-10.21	9.85	7.96
2012	5.94	11.89	-6.00

As regards ROE, in the case of TLV, it rose in 2011 as against 2010 by 51%, and in 2012 as against 2011, by 82%. BRD was in regression for each analyzed year, and BCC yearly improved its financial performance, from -37.49 to 5.94.

3. CONCLUSIONS

Following the analysis of the three banks, Banca Transilvania yields far better results.

Graham recommends the defensive investor to follow the rules below when selecting the stock: the adequate dimension, solid financial status, uninterrupted payment of dividends over the last 20 years, no loss during the last 10 years, the increase by at least one third of the profit per stock over the last 10 years, the price no higher than 15 times the average profit for the last 3 years. (Graham, 2010)

To make a decision for transacting, one must keep the financial information of the company in sight and use it as the basis for the intrinsic evaluation of the stocks to buy when the price is below that margin and there are perspectives for growth in the future. In the same time, one must take into account the evolution of the stock price in the past and to use elements of technical analysis to determine the best moment to enter or exit the market. The investors should be ready when, due to a major downfall, the market is under evaluated and to be cautious and limit their acquisitions through stop orders after a long period of growth.

The risk is within us. If we over estimate our ability to really understand an investment or to come out clean after a dramatic price period, it doesn't matter what our portfolio contains or what happens on the market. In the end, the financial risk does not lie in what types of investments have we done, but in what type of investor we are. For this, there are five types of investor profiles: very conservative, conservative or moderate, balanced, growth oriented and dynamic or aggressive. Practically, the last two are suitable for a stock market broker.

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