

SHORT ANALYSIS OF ROMANIAN BANKING SECTOR AFTER BCR PRIVATIZATION

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ABSTRACT

„The greatest problem of Romanian companies' privatisation appeared in the moment the Govern decided to privatize Romanian Commercial Bank – the largest one in Romania. In this paper we devate the privatisation strategy, and analyze the benefits of all involved parts at this transaction. It is described the privatisation process, and the criteria token into account. After this very successfull privatisation major changes appeared on the Romanian Banking market.also we analyze others bank strategy towards this privatisation, and the BCR' employees benefits.

Also in this transaction were involved some financial Romanian institution S.I.F.(explained in the paper) and we analyze their strategy in selling theirs BCR shares to Erste Bank – the winner of the privatisation. Because these S.I.F. are listed on Bucharest Stock Exchange – a short analysis of their stock evolution is presented.

After this privatisation, some commercial private banks of Romania trying to expand very quickly, in order to find in the next years a strong international bank to buy them. We compared also some banks, taking into account their evolution on Bucharest Stock Exchange – as a consequence of Romanian Commercial Bank privatisation. ”

Keywords: ”banking, privatisation, competition, strategy”

The privatisation of Romanian Commercial Bank (B.C.R.) – the biggest commercial bank of Romania started in 2002, as a condition in stand-by agreement with IMF. The privatisation strategy was modified after two failures of APAPS (Authority for Privatisation). APAPS and SIFs was the 2 great entities that had BCR shares.

All SIF companies (SIF1, SIF2, SIF3, SIF4 and SIF5) were established in November 1996 and represent entirely private and self managed companies. Successors of the Private Ownership Funds I, II, III, IV and V (Law nr.133/1996 regarding the transformation of Private Ownership Funds into SIF – Financial Intermediation Companies) manage theirs own portfolio, made up of stocks in about 500 Romanian companies (listed or not listed on BSE – Bucharest Stock Exchange or RASDAQ). The shareholders of the each fund, in number of about 7 million natural and legal persons, are either

- Founders-owners, that is natural persons who received shares of SIF when the mass privatization process took place (PPM) or

- New-investors, that is legal and natural persons who have invested in SIF shares when they started being traded on Bucharest Stock Exchange.

Starting with 1st of November 1999 every SIF are quoted at the first category of BVB.

The new strategy mentioned that from the shares held by APAPS, 25% of shares plus 2 shares will be sold to BERD and IFC (investment division of World Bank). The price for this transaction was established at \$222 millions. This was the first step from the 3 steps strategy of privatization.

In the next step 8% of the shares were sold to the BCR employees at a price of 1.035 Ron/share (0.3 Euro) – very close to the nominal value 1 Ron.

The last step was about selling the majority of shares to an important international financial institution – until 2006. The minimum price per share must be less than the price paid per share for getting back the shares sold to BERD and IFC (mentioned in OG 28/2003).

In the autumn of 2005, 7 international banks made their offer to acquire 61.88% of BCR - Dexia, Erste Bank, BNP Paribas, Banco Comercial Portugues, Deutsche Bank, National Bank of Greece and Intesa Bank. The specialists of Ziarul Financiar (Romanian version of Financial Times) expected that the final winner of the privatization will be Erste Bank. The members of privatization commission open the offers in 18 of October 2005 and the name of the two finalists was to be announced after technical and financial aspects. The most important criteria in deciding the finalists are the price (90% importance) and the technical offer (10% importance).

The two finalists – Erste Bank and Banco Comercial Portugues had to present in the final phase a better price for 61.88%, than the price offered in the previous step. At that time the specialists expected a price for this privatization between 2 and 3 billions euro.

BCR will be listed on Bucharest Stock Exchange (BSE) in three years time from the privatization – based on a mentioned from the privatization contract. By listing the shares the winner of the privatization will pay dividends from minimum 40% of the net profit.

The new owner of the larger Romanian Commercial Bank (BCR) is the Austrian bank Erste Bank. They paid 3.75 billions euro for 61,88% of the shares, 5.8 times more than the accounting value of BCR, and 20 times more than the net profit of BCR. In the business plan of Erste Bank they desire a serious restructuration in order to generate a 10% profitability of this investment starting with 2009. Erste Bank negotiated some advantageous clauses - guaranties to assure protection up to 60% form the price paid for

61,88% of BCR shares, immediate access to the decisional factor in BCR. Erste Bank set up a Transitional Consulting Committee (TCC) formed by 10 persons named by Erste Group. These members have full access to the internal and international information of BCR, and have the right to participate to the Executive Committee and Supervising Board meetings – but they don't have the voting right.

Following a similar strategy as in the former acquisitions in Central and Eastern Europe, Erste Bank will launch an integration and restructuration program inside BCR, with the main purpose to increase the revenues, optimisation of the subsidiaries network and human resources performance increasing.

Erste Bank was set up in 1819 in Austria, and in present is the third important bank concern in the region (taking into account the assets). The assets at the end of 2005 were of 39.4 billions Euro, after UniCredito & BA-CA with assets of 73.4 billions euro and Raiffeisen International assets of 40.7 billions euro.

The Austrian bank with an aggressive acquisition strategy became a very important player on the East European banking map. In the year 2000 Erste acquired 52% of the shares of Ceska Sporitelna, the largest retail bank in Czech Republic (with market share of 33%). Between the years 2002-2003 Erste grew its participation up to 98%. Now there are 646 subsidiaries and 5.3 millions clients.

In the year 2001 Erste bought 87% of the Slovenska Sporitelna – the largest bank in Slovakia, with an actual market share of 34%. This bank transformation followed 11 critical points: banking retail, business centers, credit risk management, corporate identity, property administration and so on. Until the year 2005 Erste completed the participation to 100%. They have now 302 subsidiaries and 2.5 millions clients.

In 1997 Erste Bank entered in the Hungarian banking market by acquiring 83.66% of Mezőbank – that became in 1998 Erste Bank Hungary Rt. In December 2003 Erste bought 99.97% of Postabank és Takarékpénztár Rt. and then merged with Erste Bank Hungary. The new bank is situated on the second place on the retail market with 10% market share. At this time they have 160 subsidiaries and 0.9 millions clients.

In 2002 Erste Bank had bought 85% of Riječka Banka shares, and merged with Erste Bank Croatia and the result was the third largest bank in Croatia. The fusion had three phases: - the first step was about credit operations, the second – legally fusion, and the third was about retail division alignment. The present market share is around 10%, and Erste Austria has 62% of Erste Bank Croatia shares. The numbers of subsidiaries are 120 and the clients 600,000.

In Romania, in the early phase, Erste brought another 2.4 millions euro early in 2006, the amount is used to increase the credit volume in foreign currency. In the next two years,

Erste desire to reduce the cost-income rate from 52% to 48% and to double the capital profitability from 17% to more than 35%. They will set up an investment program of 100 millions euro through the next 3 years, to improve the retailing and IT infrastructure.

The costs of BCR integration in Erste Banking Group are estimated at 90 millions euro. By acquisition of BCR, Erste modified their financial objectives – the yearly profit rate increasing of 15% was modified to 20% for 2006 – 2009, and the cost-income rate will decrease below 55%. As target, Erste declared that they intend to increase the market share in corporate segment.

The biggest transaction of Erste by now, will consolidate the second place of the Austrian Bank in the former communism block. The privatisation of BCR reflects the Romanian Government's determination to implement the economical reform needed for desired EU integration in 1st of January 2007. The sum obtained by Romania represents more than the greatest optimistical expectation – mentioned Business Week. Also, we can notice the Bloomberg specialists' affirmation – the privatisation contract of BCR, that enhances 325 subsidiaries, properties and liquidities of 9 billions euro, 4.9 million clients at the end of September 2005 perfectly represent the interest of all implicated parts (Erste Group, international financial institutions and shareholders).

Details of transactions:

- Romanian State will get from this transaction 2.25 billions euro, and the difference of 1.5 billion euro will be equally divided between BERD and IFC (if we analyze the initial price of \$222 millions paid by BERD and IFC, they obtained a 675% growth in only 3 years)

- 45.9% of Erste Bank are institutional investors (investment funds) and 32.2% represent the shares of Die Erste Österreichische Spar-Casse Foundation. The rest of the shares are distributed: 7% private investors, 7.1% saving banks, 1.8% to the employees and 6% Austria Versicherungsverein.

- The total assets of Erste at the end of 2005 represent 5 times the entire banking assets of Romanian banking system.

- after the acquisition of BCR the number of Erste clients grew almost with 22%, the subsidiaries number grew with 14% from 2.369 to 2.708, and the potential clients grew from 46 to 68 millions

- Erste Group has a 20% market share in the entire European banking system

If we analyze the price paid by Erste, there will follow obviously a need for a quick efficiency. They will bring new and successfully products already implemented in other countries, and we can notice the Romanian side of Erste easy access to enough and low costs financial resources.

This privatisation is a very good option for Romanian state just because there is no need for the state to be the greater shareholder of the larger commercial bank. Anyway, the entrance of Erste in Romania will be a guaranty that after adhesion to EU, the Romanian

banking market is ready for the competition against the larger and middle banks in Europe.

BCR privatization, rearrange the market strategies of all Romanian commercial banks. Small and medium commercial banks in Romania are trying to find new market opportunities, if we also take into account the fusion between Unicredito-HVB-Banca Tiriac. These 2 great operations modified the value system in the banking industry.

For these type of banks the niche financial service may represents theirs future. But, there are some banks with sufficient financial strength that want to compete with great Romanian banks.

The Lebanon commercial bank – BLOM, the major shareholder of MISR Romanian Bank, guide its policy towards the Arabian community clients and transactions with subsidiaries from Europe and Middle East offering retail and corporate transactions. Bloom Bank get in 2005 96.77% of MISR Romanian Bank shares, paying 97.8 mil.USD.

MISR Romanian Bank was founded 1977 as mixed Egyptian-Romanian company, and now has subsidiaries in Egypt and four agencies in Romania – Bucharest, Brasov, Cluj-Napoca and Constanta. At the beginning of this year, Bloom Bank announced that will increase the Romanian subsidiary capital, but there is no mention regarding to this amount.

Bloom Bank is analyzing the possibility to extend in other countries in Eastern Europe, and now administrate worldwide 9 billion USD in deposits with total assets of 11 billion USD.

Another international bank in Romania - OTP doesn't seem to be attracted from the Romanian bank market. OTP made an offer to acquire Ukrasotsbank (forth larger Ukrainian commercial bank), and the experts of banking system appreciate that the Hungarian bank has more chances to succeed in the Ukrainian market that the Romanian one. There, OTP must compete against Commerzbank, Société Générale, Erste Bank and Intesa Bank. Against this strategy, OTP still seems to be interested in CEC (from the Romanian market) and in Serbia they made an offer to Vojvodjanska Banka, in Croatia for Splitska Banka. OTP is active in Romania since April 2004, when acquired RoBank for 47.5 mil.USD. The last important acquisition of OTP was in 2003, when they bought Bulgarian bank DSK. Theirs plan in Serbia and Ukraine failed because strong European financial institutions were attracted of the exponential development of the banking market in Balkans.

Finansbank Romania (member of FIBA Group) adopted an aggressive strategy. The banks' shareholders desire to increase the social capital with 11.1 millions euro. They will issue 18.6 millions new shares with a nominal value of 2.15 lei. By this increase the bank

desires to sustain the development program in 2006-2007. The main allocation of these funds is crediting and territorial expansion of the bank (50 new agencies, from which 20 in Bucharest). At the beginning of 2006 there were 42 agencies operating in Romania, and the financial results in 2005 reflects a 80% growth of the assets comparing to the end of 2004 (in 2004 the net profit of the bank was 13.2 millions lei – 3.7 millions euro, and the assets were 789,9 millions lei – almost 220 millions euro). This percentage of 80% is similar to the growth of credit allocation in 2005.

We must analyze if the commercial listed banks have some growth potential in Bucharest Stock Exchange - BVB.

Banking equities are a very dealt in BVB and are recommended as middle and long term investment, for the middle risk appetite investors. In 2005 these equities had a very good increasing period; the profitability of Transilvania Bank (B.T.) was 123%, including the effects of social capital rising.

Normally, great banks follow a constant increasing of theirs financial results, but in Romania BT and BRD-GSG confirm this mention. Surprisingly, the quotations for these 2 equities grown accelerated in the last years. So the evaluation indicators got worse.

We can compare these two banks with other banks from the East Europe:

Bank	VUAN (euro)	EPS (euro)	P/Bv*	PER*	ROA	ROE	Banking assets multiplier **
TRANSILVANIA Bank	0.05	0.01	9	35	2.2%	25.5%	89%
BRD – GSG	0.73	0.25	7.1	21	3.6%	34.3%	71%
CARPATICA Bank	0.04	0.005	4.5	38	2.1%	13%	96%
OTP Bank Hungary	7.4	2.15	3.9	14	3.7%	29%	59%
KOMERCNI BANKA CEHIA	46.6	8.47	2.4	14	2.4%	18.2%	27%
Bank PEKAO PO- LAND	20.7	2.2	3.7	21	2.8%	17.6%	49%
ERSTE BANK AUSTRIA	21	10.9	2.2	16	0.8%	14.2%	-

* Indicators calculated in March 21st of 2006

** banking assets from a country calculated by market share of each bank and its capitalization, divided by real banking asset (a small value may indicate a sub evaluation of the bank in Stock Exchange)

Without a special analysis, BRD-GSG equities seems to be more interesting than the others two, because of the profit from the former year 2005, the assets and market share. Taking into account evaluating indicators, BRD-GSG are closer to Hungarian, Czech, Polish great banks, but if we pay attention to financial profitability the Romanian bank is better than the other. The market share of BRD-GSG is 15% much more than the other two Romanian listed banks, and the banking assets calculated with market share represents 71% from the real banking assets in Romania – that's why the equities seems to be sub evaluated. In other words, if BRD-GSG is the only bank in Romania its capitalization is 71% (less than the others Romanian commercial banks). Just for comparing, Transilvania Bank has a 3.5% market share quota, but is more appreciated in the market, and if we calculate the banking assets taking into account bank capitalization and market share, we obtain a 90% from the real banking assets.

Transilvania Bank has an important advantage – rising social capital policy – that generate in the Romanian market a psychological effect; the growth of its quotations every ending and starting year. This year this bank propose the increase of social capital with 65,93%, from which 50,9% represents the reserves capitalization and share premiums (free shares) and 15% cash contribution from the existing shareholders (at a preferential price of 0,35 RON/share). Surprisingly, this year after convocation announcement the investors stood calmly and the BT quotations stagnated.

The export of loans to the balance sheets of the parent banks, as well competitive pressure have caused visible changes in the market share ranking of the banking system in the first three months of the year. Out of the top 15 banks in terms of assets, five saw their market shares decline compared with the end of 2005: Raiffeisen, HVB, Bancpost, ABN Amro and Țiriac Bank.

On the other side, “the winner” is ING Bank, that increased it's active with more than half a billion Euro, and generated a market share of 6,3%.

The market leaders - BCR (Erste Bank) and BRD GSG – continuously grew with 0.2% each, based on retail business. BCR reached a market share of 25.9% with total assets of 9,7 billins Euro, and BRD-GSG has 15,2% in the market.

Overall, the market achieved a solid 8.3% growth, with the assets of the banking system amounting to 37.7 billion euros at the end of March. In order to avoid BNR (National Romanian Bank – the supervising authority) restrictions related to foreign currencies credits, some banks prefer to transfer a part of the credits to the parent bank.

The third bank on the market, Raiffeisen Bank, maintained its position even though it witnessed one of the sharpest declines in market share, 0.7%, to 8% of the market. Also the same decline of 0.7% had HVB Bank down to 4.2% in the market, in situation that their own assets decreased with 230 mil. Euro.

The chairman of HVB Bank, mentioned that the bank transferred some of operations in Vienna and the trend will continue. As the market share of Banca Țiriac, HVB's merger partner, shrank from 2.5% to 2.3% in the first quarter, the future HVB Țiriac Bank would have been fifth on the market on March 31, with 6.5%,

The first three months of 2006 witnessed a spectacular rebound of CEC, whose sales of credits reach significant volumes: the former savings bank climbed from seventh to the fifth position, with a 4.5% market share, given that assets went up by 180 million euros. CEC thus outpaced HVB and Bancpost at the end of March.

Bancpost is one of those credit exporters, so that its assets shrank by some 30 million euros compared with December, which translated into a 0.5% market share decline to 4%. The bank recuperated in April 2006, on retail credit sector, and real estate credits the wrong steps from the previous year.

A significant increase, 0.3% was that of Alpha Bank, which climbed from ninth to seventh, with assets worth 1.53 billion euros, leaving Bancpost behind and making the clash of the two Greek-held bank fiercer in the process. At the same time, Banca Transilvania, Banca Românească, UniCredit and Volksbank achieved minimal growth of the market shares, by 0.1%. Still, Transilvania dropped from eighth to ninth place.

The market share of the Dutch at ABN Amro continued to close after last year's fall, to 3.5% from the 3.7% in December. This bank's assets amounted to 1.314 billion euros. So the bank remained on the 10th place. Also Citibank remained on the 12th place with assets of 729 mil. Euro.

Most of the middle size banks with market share of 1% succeeded in maintaining their position in the first three months of this year. In these cases, with just millions of Euro of assets, the differences in market shares are quite insignificant.

The 24 banks situated under the 15th place hold total assets of 4.1 billion Euro, just a half from BCR assets. For these banks is very difficult to increase their market share even with 0.1%. Only 4 banks from the 24 succeeded in increasing the market share with 0.1%. Finansbank, Romexterra, Carpatica and OTP. Finansbank has 1% from the market share with 1.1% assets – a 19% increase from December 2005. A similar assets increase had Romexterra almost 14%, which assets of 327 million Euro and a market share of 0.9%.

Another influence of BCR privatization was the evolution of all SIF quotations. Some international financial institutions are interested in the 30.12% of BCR shares held by the five SIF.

The real boom of SIF shares (SIF1, SIF2, SIF3, SIF4 and SIF5) was registered during the last year, four of them tripled the traded price, and the last one just doubled it (SIF3). The increase of the maximum holding basis from 0.1% to 1% and the privatization of BCR

were the principal factors that generate these share increases.

Company	VUAN (euro)	P/Bv*	P/Bvr*	PER*	
SIF BANAT CRISANA	2.4049	4.4362	1.03	0.56	27
SIF MOLDOVA	2.2721	4.4851	1.06	0.54	25.8
SIF TRANSILVANIA	2.5184.	4.5456	0.9	0.5	33.1
SIF MUNTENIA	1.4379	2.8263	1.11	0.56	22.6
SIF OLTENIA	3.0186	5.0674	0.9	0.53	27.2

* Indicators are calculated for the prices at 24th of March 2006 and PER using the results at the end of 2005

For SIF titles the net unitary asset recalculated (VUANr) were used 3 elements; the price paid by Erste Bank for the shares of BCR, the quotation of the first 5 held companies listed on primary stock exchange BVB and the quotations of the first 5 held companies listed on the Secondary Romanian Market RASDAQ – all the prices at the end of the trading day 22nd of March 2006 (the criteria for the first five companies was the percentage of participation).

The main part in the positive differences is reflected by BCR, the most valuable asset of every SIF portfolio. A lot of things that were said about all SIF, but if we judge only about the portfolio assets of them these stocks seems to be under evaluated (without recalculate the assets at the presents prices and using the price of 7.6 euro one BCR share)

The politic factors in a great manner and the macro economical ones had proved to be many times the most important factors that influenced the quotations. This is also the main risk factors taking into account by the investors. The practice demonstrated that middle and long time investments in SIF must analyze theirs assets, and not the factors mentioned before, and the legislative modifications that were just temporary.

We can conclude that SIF still can offer good profitability to the investors because there is a real evaluation of them (Erste Bank prices paid for BCR shares). Also, the imminent EU integration must be sustained and followed by economic and politic stability – that will be alike foreign investors requirements.

The employees of BCR that initially bought BCR shares expect now to sell their investments in very good terms. Erste Bank mentioned that the price they will pay for one share of employees will be less than the price per share paid to APAPS. The difference is

a premium per share paid in order to get the majority of the shares.

Another option for Erste is to convert the employees' shares in shares of Erste quoted in Austria. The price of Erste share in April 2006 was almost 50.21 euro/share, so the employees could have 1 Erste share for 6.5 BCR shares.

Anyway if we take into account the initial investment of employees at an estimated negotiated price of 7 euro/one BCR share, the profit will be of 2.233% in a period of 2-3 years.

The conclusions of the BCR privatization is that almost every part involved in this transaction got some important profits – BERD and IFC, APAPS (implicit Romanian State), the five SIF and the BCR employees. For the rest of the banks in the Romanian Banking market the competition will be very strong, and all of them must compete against a very important financial European institution. Also, the success of this privatization can be an example for another Romanian bank (the private one – Transilvania Bank) about the specialists of the market expects to be sold in 2-3 years, because it's continuously development.

Also, the Romanian companies and individual persons can have now more banking products, more advantageous credit terms – perhaps at a low cost, as a direct influence of the competition of all the banks.

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