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THE PERFORMANCE OF GLOBAL BANKS IN THEIR CROSS-BORDER ACTIVITY

Case studies

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Abstract

The crisis that affected the global financial stability and the economy in 2007-09 has reinforced the need to rethink some of the approaches adopted by the financial community in assessing banks' performance. The aim of this paper is to see if global banks improve their performance due to their cross-border activity, whether we speak about mergers or acquisitions of local banks or we speak about other ways a global bank begins the activity in a different country. As methodology, we will analyze the dynamic of ROAA and ROAE during 2006-2013 in the case of two global banks, Société Générale and Erste Group, and their branches in countries from Central and Eastern Europe. At the end of the paper, we will compare the results for each big bank and their branches.

Introduction

Measures of after-tax rates of return, such as the return on average total assets (ROAA) and the return on average equity (ROAE) are widely used to assess the performance of firms, including commercial banks. Bank regulators and analysts have used ROAA and ROAE to assess industry performance and forecast trends in market structure—as inputs in statistical models to predict bank failures and mergers—and for a variety of other purposes where a measure of profitability is desired.

Western European-owned CEE banks will probably continue to review their overall banking market and network approach in the region.

The concentration of nearly all major CEE banks on a few, but highly attractive growth markets may well subject them to increasing margin pressure and therefore cannot be a winning strategy throughout the cycle. Consequently, major CEE banks have to cautiously rethink their market position in every country and also consider a halt to certain business and product lines in selected markets, or even exiting from less attractive ones if necessary.

1. Literature review

Central banks have a major role regarding their power to maintain a healthy banking national system, which will further help national economy and avoid crisis by protecting the depositors (Heffernan, 1996; Shekhar and Shekhar, 2007.) This is why it is so important to understand the performance the banks have and the way it is achieved by every single one of them.

The performance of banks is measured by determining different ratios, such as ROAA (Return on average assets), ROAE (Return on average equity), ROA (Return on asset), ROE (Return on equity) or Net Interest Margin. (Murthy and Sree, 2003; Alexandru et al., 2008)

Although ROAA and ROA, ROAE and ROE explain the same thing in almost all the cases, we are working with ROAA and ROAE in this paper due to the fact that the analyzed banks were involved in a M&A (merger and acquisition) process lately.

2. Scope of the paper

In this paper we will analyze the evolution of the following 2 financial rates: Return on Average Assets (ROAA) and Return on Average Equity (ROAE), and the analyzed period is 2006-2013.

For this study, we are working with 2 global banks and their branches from several European countries:

✓ **Société Générale (France)** and: BRD-Groupe Société Générale SA (Romania), Société Générale - Splitska Banka dd (Croatia) Société Générale Expressbank (Bulgaria).

Société Générale has acquired in the recent years local banks from countries of Central and Eastern Europe. We could give some examples of such processes:

- First of all, in 1999, this global bank acquired 97.95% of the assets of Bulgaria's Express bank.
- Another important acquisition was in 2001, when Société Générale bought almost 96% of Slovenia's SKA Banka, d.d. SKA Banka was founded in 1978 as Stanovanjsko-Komunalna and in 2007 the new created bank was working through 57 branches in this country
- In 2001, 2003, 2004 and 2005 Société Générale acquired 60% of Komercni Banka from the Czech government, Banca Romana pentru Dezvoltare (BRD) from Romania, Bank of Greece (GBG) from the Greek Army Pension Fund and 64.4% of Montenegro's Podgoricka Banka.
- In the following years, Société Générale improved its presence in this part of Europe by acquiring banks like HVB Splitska Banka from Croatia, Moldova's BC Mobiasbanca from the Republic of Moldova and Ikar Bank of Ukraine in 2006, 2007 and 2008.
- Also Société Générale acquired assets of Western Europe banks such as securities services business from Italy’s UniCredit in 2008 and in 2009 Crédit Agricole and fellow French bank Société Générale merged their asset management operations.

✓ **Erste Group Bank AG (Austria)** and Erste Bank Hungary Nyrt (Hungary), Erste & Steiermärkische Bank dd (Croatia), Ceska Sporitelna a.s. (Czech Republic), Slovenska sporitel'na as-Slovak Savings Bank (Slovakia), Banca Comercială Română SA (Romania).

- In 1997 Erste Bank starts its expansion into an area where its predecessors, then independent savings banks, had already gone in the past. First Hungary, then the Czech Republic, later Croatia, Slovakia, Serbia and even Romania and Ukraine become markets for our group. In each country Erste acts as an international brand with strong local ties.
- In 2000, Erste Bank bought 52.07% of Ceská sporitelna, the biggest retail bank in the Czech Republic.
- In 2001, Erste Bank acquired 87.18% of the largest bank from the Slovak Republic. This was an important step for Erste Bank in its way to expanding in countries from Central and Eastern Europe.
- In 2005, another important step was the acquisition of a Romanian bank, namely Erste Banca Comerciala Romana, which at that moment was one of the most important banks from Romanian banking system and therefore a valuable

asset for Erste Bank. S.A. (BCR), the biggest bank in Romania. In the last years Erste Bank also built up and increased the presence in Hungary, Croatia and Serbia.

- In 2008, the separation of the Holding and Erste Bank Oesterreich took legal effect. The registered company name of the Holding is "Erste Group Bank AG".

3. Dynamic of ROAA

ROAA and ROAE, the ratios we are analyzing in this paper are used to evaluate the performance of the banks we considered important for our study.

Return on Average Assets (ROAA) doesn’t have large and small values, just average of a period of time, in our case the average of a calendar year.

The return on average assets is used to measure the profit obtained versus the assets used by the bank to obtain the profits. Wen (2010) states that a lower ROAA ratio shows that the bank was on a higher use of assets to obtain profit, which obviously means that the bank will need more assets to continue producing revenue.

In other words, ROAA shows us whether the money that the management of the bank has are used efficiently to generate the income and if the bank has a good management and is capable of generating net income from all the resources of the bank (Khrawish, 2011).

In our cases, ROAA had the evolution as it can be seen in the table number 1 for Erste Bank (Apendix A) and the graphic number 1 for Société Générale. (Apendix B)

As can be seen from the number 1, the commercial banks' performance has shown an irregular trend. In the case of Société Générale, ROAA increased from 1% in 2006 to 4% in 2008 and after that it decreased to 1% in 2009, and in the final year included in this paper it reached the level of 5.8%. During the entire period ROAA didn’t reached negative figures for Société Générale although the evolution of ROAA for the branches of this bank didn’t registered positive values all the time. The fact that in 2009 the performance declined may be because of the effect of the global economic crisis that affected all the banks.

Regarding the evolution of ROAA in the case of Erste Group and his branches was also as in the case of Société Générale, in an insecure trend. But as can be seen in the table number 1, ROAA had also negative values, for example in the case of Erste Bank Hungary Nyrt and BCR from Romania.

4. Dynamic of ROAE

In our study, ROAE shows the performance of the analyzed banks over a financial year period.

A higher value of ROAE shows that the bank is working well regarding the possibility of generating profit. Khrawish (2011) explains how ROAE is calculated; therefore we can obtain its value by dividing Net Income after Taxes with Average Equity Capital.

The return on average equity is a financial ratio that measures the profitability of a bank in our case in relation to the average equity.

In table number 2 (Appendix C) and graphic number 2 (Appendix D) we presented the evolution of this ratio during 2006-2013 in the case of Société Générale, Erste Bank and their branches.

The evolution of ROAE was in a discontinuous, trend, also like the evolution of the ROAA in the case of both global banks. However, it is clear-cut that the solid profitability of Société Générale was driven by the performance obtained by its branches. BRD was not able to increase its profit- ability (measured by ROAE) in 2013, which decreased from 34.03% in 2012 to 29.7% in 2013. Instead, Splitska Banka had an amazing evolution, which practically was able to maintain Société Générale’s profit at 17.6% in 2013.

Recent profitability trends in the CEE banking sectors also show that the very strong pre-crisis readings (with an average ROAE above 20% in some years) are unlikely to be repeated in the foreseeable future.

In the case of Erste Bank, the profit ability increased in 2013, because of the evolution registered for its branches, knowing the fact that ROAE increased in the case of Erste Bank Hungary Nyrt and Erste & Steiermärkische Bank dd and stood at the approximate level in 2012 and 2013 in the case of its other branches.

Conclusions

Growth opportunities on most markets are different than those in the years 2000-2007. Moreover, increasing regulation and higher operating costs are eating into the revenue generation capacity. This trend is unlikely to change and the pressure on the cost side will remain high.

The evolution of ROAE was in an irregular trend, also like the evolution of the ROAA in the case of both global banks during the 2006-2013.

This trend is unlikely to change and the pressure on the cost side will remain high. However, it is important to stress that the relative decrease in profitability within the branches of a global bank cannot be compared to the observed downfall of a global bank.

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APPENDICES

Appendix A

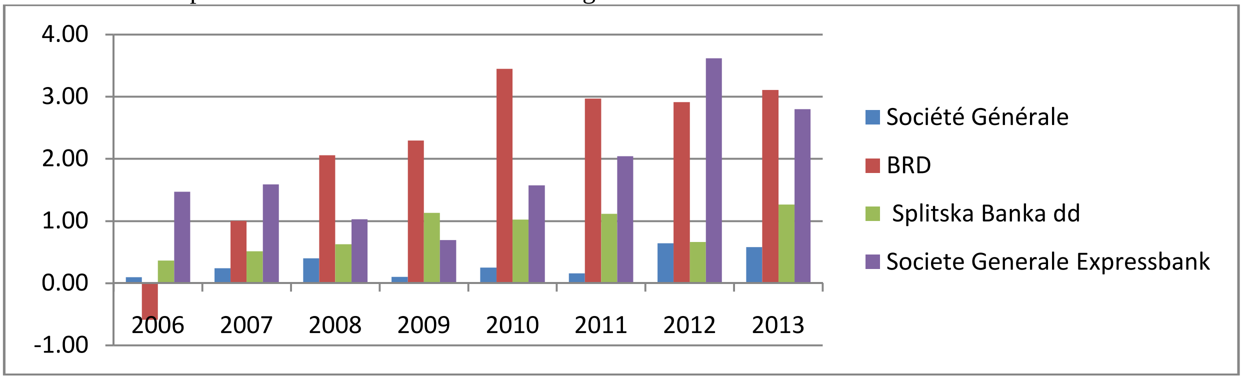
Table no.1: Evolution of ROAA during 2006-2013 in the case of Erste Group

	2006	2007	2008	2009	2010	2011	2012	2013
Erste Group Bank AG	0.30	-0.27	0.58	0.48	0.52	0.81	0.71	0.63
Erste Bank Hungary Nyrt	-0.20	-4.82	-0.07	0.85	1.37	1.28	1.44	1.44
Erste & Steiermärkische Bank dd	0.92	1.29	1.27	1.46	1.87	1.58	1.15	1.34
Ceska Sporitelna a.s.	1.81	1.52	1.39	1.45	1.88	1.61	1.53	1.50
Slovenska sporitel'na as	1.63	1.74	1.33	0.25	1.26	1.38	1.39	1.44
BCR	-1.64	0.09	0.65	1.25	3.07	1.69	1.88	1.63

Source: Financial statements of Erste Group Bank, available at http://www.erstegroup.com/en/#

Appendix B

Graphic no.1: Evolution of ROAA during 2006-2013 in the case of Société Générale



Source: Financial statements of Société Générale, available at http://www. http://www.societegenerale.com/en/

Appendix C

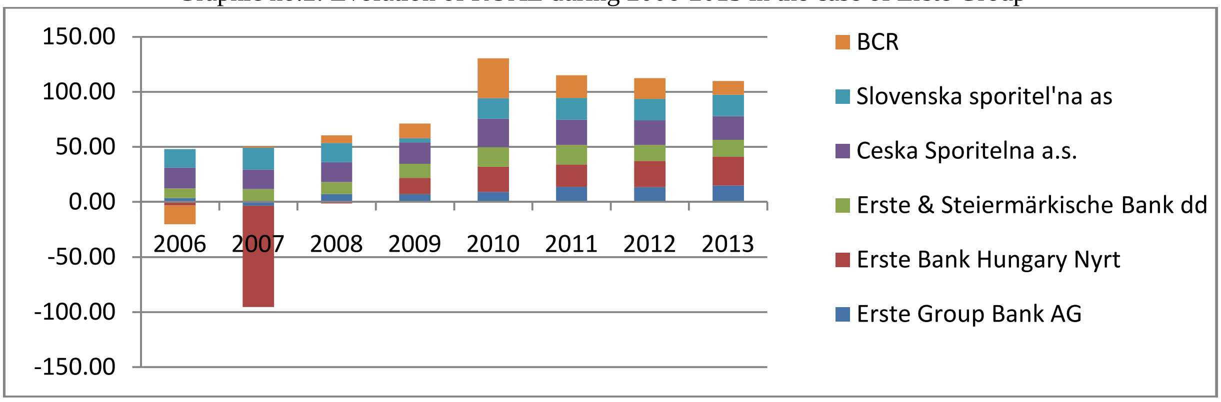
Table no.2: Evolution of ROAE during 2006-2013 in the case of Société Générale

	2006	2007	2008	2009	2010	2011	2012	2013
Société Générale	2.30	5.46	8.80	2.53	7.69	4.94	18.76	17.60
BRD	-4.90	8.42	18.87	24.74	42.57	37.70	34.03	29.57
Splitska Banka dd	2.73	4.07	5.23	10.37	10.08	11.88	8.20	18.31
Société Générale Expressbank	11.76	12.82	8.59	6.31	14.07	15.10	24.93	19.51

Source: Financial statements of Société Générale, available at http://www. http://www.societegenerale.com/en/

Appendix D

Graphic no.2: Evolution of ROAE during 2006-2013 in the case of Erste Group



Source: Financial statements of Erste Group Bank, available at http://www.erstegroup.com/en/#