

ANALYSIS OF THE DEVELOPMENT STRATEGY OF THE CENTRAL COOPERATIVE BANK “CREDITCOOP”

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***Abstract:** In the category of credit institutions are also included, in addition to banks, credit cooperative organizations. They have an important role in financial stability in the European monetary space and in Romanian economy. This research aims to analyze the development strategy of the Central Cooperative Bank CREDITCOOP. The analysis of the programmed strategic objectives starts from the achievement of the main financial indicators outlined in the balance sheet, profit and loss account, statement of equity changes and cash flow statement.*

***Keywords:** cooperative banks, development strategy, credit institutions, financial performances, capital requirements*

***JEL classification:** G21, G28*

INTRODUCTION

The modernization of the Romanian banking system after 1990 and its organization on two levels (two-tier banking system), enabled the exponential growth of the banking activity. The newly created legal system and the penetration of foreign banks in the Romanian banking market determined the entry of the Romanian banks on a new performance hall (Haranguş, 2012, pp.10).

According to the Government Emergency Ordinance no. 99/6.12.2006 regarding credit institutions and capital adequacy, approved with amendments by Law no.227/4.07.2007, in the category of credit institutions are also included, in addition to banks, credit cooperative organizations. Credit cooperative organizations are autonomous associations, non-political and nongovernmental whose main purpose is conducting banking activities in order to help their members.

Credit cooperative organizations also have an important role in the Romanian banking system. A cooperative bank is a legal entity registered in the Register of Credit Institutions of the National Bank of Romania. It activates in a certain territorial administrative area of the country.

The Central Cooperative Bank is constituted by the association of cooperative banks in order to manage common interests. For its establishment is required the participation of a minimum of 30 founding cooperative banks, that subscribe at least 20% of their share capital (Dardac & Barbu, 2012, pp. 104).

The Central Cooperative Banks CREDITCOOP operates in order to achieve its mission and objectives to support the activity of affiliated credit cooperative banks, as well as the Romanian business environment in the areas in which they operate. In accordance with the regulations issued by CREDITCOOP, it acts as supervisor of the work carried on by the cooperative credit organizations from the CREDITCOOP network.

In European Union, the cooperative banks have an important role in financial stability. Cooperative banks are a driving force for socially committed business at a

local level, accounting for around one fifth of the European Union bank deposits and loans. Specifically, in 2012, the European Union had 4000 cooperative banks with 72,000 branches, more than 850,000 employees, 56 million members, 217 million clients, 3932 billion Euros in deposits, 4034 billion Euros of loans, and 6951 billion Euros in total assets. Cooperative banks are significantly different from other types of credit institutions in three important aspects: ownership, control, and benefits. Specifically, owners of cooperative banks are often also their customers, usually referred to as “members”.

(Fiordelisi & Mare, 2014, pp.1-16).

Given the role and importance of cooperative banks in the European monetary space and Romanian economy, this research aims to analyze the development strategy of the Central Cooperative Bank "CREDITCOOP". The analysis considers the programmed strategic objectives starting from the financial indicators achieved.

MATERIAL AND METHODS

This research was achieved based on data contained in consolidated financial statements at 31 December 2012, drawn up in accordance with International Financial Reporting Standards (IFRS).

The research methods used are: analysis, synthesis, induction, and deduction.

The banking indicators used in the analysis of the Bank's development strategies are the ones outlined in the balance sheet, profit and loss account, statement of changes in equity and cash flow statement.

The development strategy of the Central Cooperative Bank CREDITCOOP aims the following:

- increase the crediting activity, with priority in the sector of individuals, and also the segments of individuals with free professions and legal entities, within the limits established by CREDITCOOP for the crediting activity;
- ensuring a permanent level of liquidity to allow the normal course of the agencies' activity;
- complement the bank resources, in case some cooperative banks register temporary a deficit of resources.

Granting credits to cooperative members represent the main activity of the cooperative bank, that must be conducted in accordance with the provisions comprised in the development strategy of CREDITCOOP network and with the banking prudential requirements set by the Government Emergency Ordinance no. 99/ 2006.

In order to achieve this strategy, the following objectives were established:

- increase the balance of the credit granted to non-banking customers;
- increase the balance of time deposits from banking and non-banking customers;
- achieve a net profit of at least 0.6 million lei;
- increase share capital with at least 2.2% over the previous year;
- keep all operating units (agencies);
- ensure staff stability;
- framing in the risk profile established by the risk assumed by the management.

In order to achieve the programmed strategic objectives, The Central Cooperative Bank CREDITCOOP has proposed to implement the following measures:

1. Develop marketing activity, in order to know exactly how the economic and financial environment evolves and to establish the development coordinates of existing products and services;
2. Designing and implementing new banking products and adapting the current ones to customer requirements;

3. Increasing and diversifying financing sources attracted on short and medium term, from non-banking customers, from cooperative organizations from inside the network and other institutions;
4. Increase own financing sources by raising the share capital and other statutory reserves from profit and usage of a part of these sources to finance crediting activities on medium and long term;
5. Achieve the volume of investments approved by the annual business plan;
6. Achieving adequate correlation between the main forms of placements, aiming to obtain good yields, particularly from placements in loans, as well as the possibility of converting some of them into cash, in a relatively short time;
7. Practicing some active and passive interests to banking products offered to customers, to provide interest and to be consistent with their evolution and market level on the banking market and to lead to the achievement of planned profitability;
8. Maintaining, by the Central Cooperative Bank CREDITCOOP in placements with highly liquidity degree, the amount representing the mutual guarantee reserve in the network, plus a cash reserve, in order to diminish the liquidity risk for contingencies;
9. Expanding the collaboration with partners from the banking system and business environment;
10. Achieving the provisions of the income and expenditure budget approved annually;
11. Developing a software application that enables the banking business to expand, both in volume of operations and regarding the range of products and services offered. The software application will have to ensure also the proper implementation in all agencies CREDITCOOP of BASEL III requirements;
12. Development and adaption of management strategies and policies of the main risks that may occur in the work carried of the bank;
13. Increasing the quality of activities in the internal control system of the Central Cooperative Bank CREDITCOOP;
14. Improving professional training programs for all staff and ensuring an appropriate staff for the ongoing of the planned activities;
15. Achieving a proper image of the Central Cooperative Bank CREDITCOOP, of affiliated cooperative banks and its network by initiating advertising and publicity actions at central and local level, by printing flyers, posters, customized maps and other advertising objects, improving visual media at the headquarters of cooperative banks and their working points;
16. Promoting the image of credit cooperative organizations from the CREDITCOOP network both internally and externally;
17. Respecting the principles stated by the International Cooperative Alliance, the development of collaborations and partnerships with other cooperative systems in Romania and participation to activities organized by the International Cooperative Alliance.

To achieve the scheduled strategic objective, should be considered the financial achievements obtained.

The main financial achievements obtained by the bank are included in the balance sheet concluded at 31.12.2012 and the profit and loss account.

The balance sheet of the Central Cooperative Bank CREDITCOOP, at 31.12.2012 is presented in the table below:

Table no. 1.
Balance sheet of the Central Cooperative Bank Creditcoop

- Lei-

Balance sheet	31.12.2011	31.12.2012
Cash and cash equivalents	100675188	138339534
Placements with banks	80688521	0
Loans granted to customers	533346659	550732717
Investment securities	50089021	71413316
Tangible assets	83480500	83993517
Intangible assets	2012295	2056698
Deferred income tax	0	171064
Other assets	6116997	3837477
Total assets	856409181	850544323
Bank deposits	12638	0
Deposits from customers	570609888	563506694
Subordinated debt	0	0
Deferred income tax	7129944	6744794
Other liabilities	10241910	6523427
Financial liabilities held for risk management	0	0
Total debt	587994380	576774915
Share capital	126035410	132623224
Reserves	129842565	135776080
Current result	12536826	5370104
Total equity	268414801	273796408
Total liabilities	856409181	850544323

(Source: Cooperative Bank Creditcoop – Annual report 2012, Consolidated financial statements at 31.12.2012, pp.2)

Analyzing the data entered in the balance sheet of the bank it is observed an increase in the volume of loans granted to customers with 3.26%, while the deposits from customers decrease by 1.24% over the same period. These deposits from customers represent the main source attracted by the bank to achieve placements. It is also registered an increase in cash and cash equivalents, from 100 million lei at 31.12.2011 to 138 million lei at 31.12.2012, so by 38%.

Based on the data recorded in the balance sheet and consolidated financial statements, we can be analyze the bank's ability to achieve its strategic goals.

RESULTS AND DISCUSSION

The financial performances registered by the Central Cooperative Bank Creditcoop are a guarantee of achieving its strategic objectives.

The increase registered in cash and cash equivalents' volume during the period 2011-2012 ensures permanently a level of liquidity that allows the normal course of the agencies' activity. Providing a permanent level of liquidity to enable the running of their activity is part of the development strategy of the Central Cooperative Bank Creditcoop.

Another strategic objective of the bank is to achieve a net profit of at least 0.6 million lei. If we analyze in dynamic the evolution of the profit and loss account of the bank, the situation is presented in the table below:

Table no. 2.
Profit and loss account of Central Cooperative Bank Creditcoop

- Lei-

Profit and loss account	31.12.2011	31.12.2012
Interest income	112530990	131019657
Interest expense	30542082	29304658
Net interest income	81988908	101714999
Income from fees and commissions	44879689	12294916
Expenses with fees and commissions	309638	365252
Net income from fees and commissions	44570051	11929664
Net income from exchange differences and derivatives held for risk management	10638	4544
Other operating income	3855357	3026618
Operating income	3865995	3031162
Income from operations	78307955	77974447
Personnel expenses	514687	506237
Expenses with rent	6636160	5912761
Depreciation	26648160	25887245
Other operating expenses	2911068	-911408
Operating expenses	115018020	109369282
Profit before tax	15406934	7306543
Profit tax expense	2870108	1936439
Net profit	12536826	5370104

(Source: Cooperative Bank Creditcoop – Annual report 2012, Consolidated financial statements at 31.12.2012, pp.3)

The net profit registered by the banks has declined dramatically, from 12.5 million lei at 31.12.2011 to only 5.3 million lei at 31.12.2012. This is mainly due to the decrease in the income from fees and commissions, from 44.9 million lei in 2011, to 12.3 million lei in 2012, so 72.6%. The decrease of the net profit of the bank, during the period 2011-2012, results in the failure to achieve some strategic objectives, envisaged by the bank.

From the analysis of the development strategy of the Central Cooperative Bank "Creditcoop" it can be observed that the strategic objective to increase the balance of deposits attracted from customers is negatively affected by the decrease of the deposits from customers, during the period 2011-2012, from 570.6 million lei in 2011, to 563.5 million lei in 2012. According to the balance sheet of the bank, deposits from customers have decreased by 7.1 million lei during the analyzed period.

Another strategic development objective of the bank is the increase of the share capital by at least 2.2% over the previous year. Analyzing the statement of changes in equity, for 2012 the share capital of the bank increased by 5.23%, respectively from 126 million lei at 1.01.2011 to 132.6 million lei at 31.12.2012. So the bank achieves this proposed development objective.

The statement of changes in equity and structure of the bank is presented in the following table:

Table no. 3.
Statement of changes in equity (for the year ended at 31.12.2012)

- Lei-

RON	Share capital	Excercise result	Reported result	Total equity
Balance 1 January 2012	126035410	12536826	129842565	268414801
Exercise result				
Current exercise result		5370104		5370104
Distribution of exercise result of the previous year		-12536826	12536826	0
Other movements				0
Increase of share capital by cash contribution	2160130			2160130
Increase of share capital following the application of IAS 29	4427684		-4427684	0
Adjustments related to deferred commissions				
Reevaluation reserves			138410	138410
Reported result from specific provisions			-3643528	-3643528
Deferred profit tax for the revaluation surplus			195502	195502
Deferred profit tax for adjustments for the transition to IFRS			730741	730741
Other movements (*)			403248	403248
Balance at 31.12.2012	132623224	5370104	135776080	273769408

(Source: Cooperative Bank Creditcoop – Annual report 2012, Consolidated financial statements at 31.12.2012, pp. 7)

Regarding the method of determining capital requirements, the Central Cooperative Bank Creditcoop and the affiliated cooperative banks use the standard approach for determining the capital requirements for credit risk and the basic approach for determining the capital requirements for operational risk, according to the NBR regulations issued for this purpose. In addition to capital requirements, the equity structure of the bank is also important.

As far as the capital structure decision is concerned, banks have to comply with capital requirements resulting from Basel I, II and more recently from Basel III. Therefore, it is important to study the determinants of banks' capital structure. In particular, is important to investigate whether banks' capital structure is fully determined by regulation (Teixeiraa, et al., 2014, pp.1-4).

CONCLUSIONS

According to the development strategy of credit cooperative, it is found the continuous strengthening of Creditcoop network, both organizationally and economically.

The Central Cooperative Bank Creditcoop aims to:

- increase the number of cooperative members and the paid subscribed share capital;
- increase the balance of investments and loan limits, aiming to better meet the requirements associated to cooperative members;
- ensure increased funding sources for businesses;
- practice an adequate policy of active and passive interests, according to their evolution in the banking market and interests of cooperative members;

- pursue permanent reduction of loans and interests overdue;
- introduce new banking products and services;
- implement through the cooperative organizations from the Creditcoop network some credits allocated from governmental sources or external fro microenterprises, agricultural companies, private entrepreneurs, and so on;
- comply with cooperative principles stated by the International Cooperative Alliance.

Analysis of the development strategy of the Central Cooperative Bank “CREDITCOOP” emphasizes that the financial indicators achieved by the bank mostly enable the fulfillment of strategic objectives already established.

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