

ANALYSIS OF CASH FLOWS REGISTERED BY THE ROMANIAN COMMERCIAL BANK IN THE CONTEXT OF THE COVID-19 PANDEMIC

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Abstract: *This research is aimed at analyzing the cash flows, in structure and dynamics, registered by the Romanian Commercial Bank, in the period 2019-2020. Cash flows from operating activities, investment and financing activities are analyzed in evolution at the beginning and end of the reporting period. The macroeconomic impact and the estimated economic contraction, due to the Covid-19 crisis, influenced the bank's activity and financial indicators. The paper also highlights the impact that Romanian Commercial Bank has on the economy, as well as the cost of risk and the quality of the bank's assets. The Covid-19 pandemic put the Romanian banking system in front of unprecedented challenges.*

Key words: *cash flows, commercial banks, banking system, financial indicators, Covid-19 pandemic*

INTRODUCTION

In the context of the Covid-19 Pandemic, the Romanian Government has taken a series of measures aimed at mitigating the economic impact of the pandemic on the business environment and the population. These measures also included the deferral of bank credits for customers whose income had decreased. The terms provided for the deferral of payments are within the interval of 3-9 months, but further extensions of these terms were provided, in 2021 [9].

During the period of deferral of credit payments, the interest due by the customer continues to accumulate on the credit balance. However, the delays in the payment of credits changed the initial contractual flows of those credits, with an impact on the bank's cash flows. As a result of these delays in the payment of credits, in 2020, the Romanian Commercial Bank registered losses from contractual changes related to credits in the amount of 24.530 thousand lei [8]. The financial difficulties associated with the COVID-19 crisis, of the bank's customers, also had an impact on the banking activity. To mitigate the economic effects of COVID-19, public guarantees have been provided for banks' exposures [3].

The COVID-19 pandemic significantly increased the level of uncertainty.

An important impact on banks' cash flows is also the classification and subsequent valuation of financial assets [1].

According to the regulations contained in the International Financial Reporting Standards 9 (IFRS 9), the classification and subsequent valuation of banking financial assets depends on two criteria [14]:

- the characteristics of the contractual cash flows of the financial asset;
- the business model for managing financial assets.

Both criteria specified above aim essentially at collecting contractual cash flows. For banks, the efficient analysis and management of cash flows is extremely important.

In this context, it should be noted that the Romanian Commercial Bank is a well-capitalized bank, a solid bank, which occupies an important place in the Romanian banking system. This commercial bank is representative for the Romanian economy and offers significant financing sources for the business environment and individuals.

The shareholding structure of the Romanian Commercial Bank is as follows:

- Erste Group Bank AG Wien - 99,8831%

- Shareholders of Romanian legal entities (including SIF Muntenia and SIF Banat-Crisana which also hold one share each) - 0,0015%
- Other shareholders (individuals) - 0,1154%

The Bank operates through a network of territorial units segmented as follows:

- Retail banking, grouped into 12 geographical areas comprising 429 territorial units;
- Corporate banking, grouped into 10 geographic regions comprising 19 corporate business center units, 16 mobile teams and an international customer department that supports small and medium-sized customers.

As part of its credit policy, the Romanian Commercial Bank has sought effective solutions to overcome the difficulties generated by this global health crisis. After identifying the deteriorations observed in the credit portfolios, largely influenced by the COVID-19 pandemic, the Romanian Commercial Bank proceeded to establish specific risk provisions.

This research aims at an analysis of the cash flows, in structure and dynamics, registered by the Romanian Commercial Bank, in the period 2019-2020. The macroeconomic impact and the estimated economic contraction due to the Covid-19 crisis influenced the bank's activity and financial indicators [7]. The paper also highlights the impact that the Romanian Commercial Bank has on the economy, as well as the cost of risk and the quality of the bank's assets. The Covid-19 pandemic put the Romanian banking system in front of unprecedented challenges.

MATERIALS AND METHODS

In the analysis of the evolution of cash flows, cash, and cash equivalents, as well as financial assets managed by the Romanian Commercial Bank, the indicators reported by this bank and by the National Bank of Romania were used. The indicators subject to analysis are those identified in the individual and consolidated interim and final financial statements of the Romanian Commercial Bank.

The preparation of the bank's individual and consolidated interim financial statements requires the use of professional judgment, estimates and assumptions. For the preparation of the interim and consolidated financial statements, the significant value judgments made in the implementation of the bank's accounting policies and the sources for estimating the uncertainty were the same as for the individual and consolidated financial statements at the end of the year [6].

The following methods of scientific research have been used for this analysis: data collection and selection, classification, systematization, comparison, analysis and synthesis, induction and deduction, generalization, scientific abstraction, professional reasoning, and the development and testing of hypothesis.

In this research were identified and analyzed the evolutions in structure and dynamics of cash flows managed by the bank, as well as the impact of financial assets on them, in the context of the Covid-19 pandemic.

RESEARCH RESULTS

Efficient analysis and management of cash flows is a priority for all commercial banks within the Romanian banking system.

The cash flows, in structure and dynamics, registered by the Romanian Commercial Bank, in the period 2019-2020 are presented as in Table 1.

Cash flows from operating, investment and financing activities are analyzed in evolution at the beginning and the end of the reporting period. An analysis in dynamics is also performed on the evolution of cash flows related to interest received or paid by the bank. The table presented above shows a significant reduction in cash flows from the

operating activity, from 1,779,726 thousand lei at the end of 2019, to 872,697 thousand lei at the end of 2020, meaning a 51% reduction. However, cash flows from the investment activity register an increase, from 112,478 thousand lei at the end of 2019, to 971,741 thousand lei at the end of 2020, so an increase of approximately 8.6 times.

Table 1.

Evolution of cash flows at Romanian Commercial Bank

- thousand lei -

Period/ Cash Flows	31.12.2019	31.12.2020
Cash flows from operating activity	1,779,726	872,697
Cash flows from investment activity	112,478	971,741
Cash flows used in financing activities	245,678	375,673
Cash and cash equivalents at the beginning of the period	10,862,852	8,724,971
Cash and cash equivalents at the end of the period	8,724,971	10,193,736
Cash flows related to interest received	2,576,352	2,600,680
Cash flows related to interest paid	459,257	384,000

Source: Romanian Commercial Bank [8,9]

The cash flows related to the interests received by the bank register a much higher value than the cash flows related to the interests paid by the bank to the attracted sources [12]. At 31.12.2020, the cash flows related to the interests collected by the bank are of 2,601 million lei, while the cash flows related to the interests paid by the bank are of only 384 million lei.

During the pandemic period, another interesting development is presented by cash and cash equivalents managed by the bank.

The evolution in structure and dynamics of cash and cash equivalents registered by the Romanian Commercial Bank is presented in the Table 2.

Table 2.

Cash and cash equivalents registered by the Romanian Commercial Bank

- thousand lei -

Cash and cash equivalents	31.12.2019	30.06.2020
Cash	4,330,409	3,673,667
Cash at the Central Bank	3,998,156	5,427,379
Other demand deposits at credit institutions	396,406	986,152
Cash and cash equivalents	8,724,971	10,087,198

Source: Romanian Commercial Bank [8,9]

The minimum reserve rate on June 30, 2020 was 8% for Lei and 6% for foreign currency, and on December 31, 2019 was 8%, both for Lei and foreign currency [10]. The Romanian Commercial Bank registers a significant increase, during the analyzed period (31.12.2019 - 30.06.2020), of the cash at the Central Bank and of the cash in other demand deposits with credit institutions. This can be seen as a prudent approach of the bank in times of crisis, generated by the Covid-19 pandemic.

Information on how cash flows are realized may indicate if the bank's business model carries significant risks or not [2]. As the allocation of assets for business models is based on the initial valuation, it may happen that in subsequent periods, cash flows are realized differently than originally anticipated.

The financial assets of the Romanian Commercial Bank are presented in Table 3.

Table 3.

Financial assets of the Romanian Commercial Bank on 30.06.2020

- thousand lei -

Financial assets	Balance at 30.06.2020
Debt securities	18,151
Credits and advances granted to banks	1,720
Credits and advances granted to customers	2,153,349
Total	2,173,220

Source: Romanian Commercial Bank [8,9]

Credits and advances granted to customers represent 99% of the total financial assets as evidenced by the bank in 30.06.2020 in the reported and published financial statements. It is obvious in these circumstances that financial assets, respectively credits and advances granted to customers, have a major impact on the bank's cash flows [11]. In addition, these credits and advances granted to customers carry specific risks, for which the bank must establish specific risk provisions, which affect the financial situation of the commercial bank [5].

CONCLUSIONS

The COVID-19 pandemic significantly increased the level of uncertainty and created financial difficulties for commercial banks through the degradation of their credit portfolio [4].

The deferral of bank credits for customers whose revenues decreased changed the initial contractual flows of those credits, with an impact on the cash flows of the bank.

Information on how cash flows are realized may indicate whether the bank's business model carries significant risks [13]. The quality of banking financial assets and the risks associated with them can delimit the business model of a commercial bank and its financial performance [15].

The Romanian Commercial Bank (BCR) has a significant role in crediting the Romanian economy and occupies an important place in the Romanian banking system.

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