

Groups of companies and their particularities in the credit institutions

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Abstract : *Group of companies is a prerequisite and a result of globalization, which pronounced manifested at the beginning of this century. With liberalization and globalization of the markets, the group that fails to transcend the national borders, risks to stagnate and even to go bankrupt.*

Key words: *Subsidiaries, holdings, financial group, strategic group, credit institution*

We can say that the group of companies is a direct consequence of the entities concentration process, which are in turn a result of the desire for higher performance.

The authors Iacob C. and Goagă D. (2008)¹ consider the groups appearance based on the following:

- economic development of the industrialized countries, which led to the expansion of entities came to dominate the market and exceed the boundaries of the countries of origin;
- Existence and development of the financial markets that allowed the purchase of equity by entities, by enabling them to exercise control or significant influence over the issuing entities.

Following other authors, Malciu L. and Feleagă N. (2004)², groups of companies can be achieved through a process of concentration (horizontal or vertical) and economic growth (internal or external).

Studying the specialized literature, we notice that there is no a unique definition of the group of companies, like the economic concept, but there are several points of view expressed by the accounting regulatory bodies, international organizations and academics. In this context we emphasize the following point of views:

- The group is a parent entity with all its subsidiaries³;
- The group of the companies is a set established by two or more companies, each of them with its own legal personality, but they are subject to an economic direction taken by one or more of them⁴;
- A group is the set of enterprises formed by the parent one or enterprises over are exercised a control or significant influence⁵;
- The group of enterprises is a unit constituted by several enterprises which have their legal existence and are united by equity, by the existence of a parent undertaking, that exercise, under its dependence, a control over the assembly and take a uniform decision⁶.

Groups of companies are established by meeting the legally independent entities, but closely related to each other through participation and contractual relationships⁷.

We believe that the common denominator of these views is to bring together independent companies under a unitary management. The purpose of this unitary management of the entity is to establish and use the development strategy for all the entities that form the group.

¹ Iacob C. , Goagă D., *Contabilitate consolidată*, Craiova Universitaria Publishing House, 2008

² Malciu L., Feleagă N., *Reglementare și practici de consolidarea a conturilor*, CECAR Publishing House, Bucharest, 2004

³ IASB- International Accounting Standards, 2002

⁴ Săcărîn M., – *Contabilitatea grupurilor multinaționale*, Economic Publishing House, Bucharest, 2001

⁵ Ristea M. , Dumitru C.G.,- *Contabilitate aprofundată*, Universitaria Publishing House, Bucharest, 2003

⁶ Răileanu V.,- *Ingineria sistemului contabil*, Copertex Publishing House, Bucharest, 1998

⁷ Feleagă N., Ionașcu I., – *Tratat de contabilitate financiară*, vol.II, Economic Publishing House, Bucharest, 1998,

We can say that the group of entities is a meeting of entities; each having a legal personality and follows the same strategy to achieve the objectives.

The group may have different behaviours depending on the jurisdiction of the parent company and the analysis tools used. Thus, we encounter the following types of behaviour⁸ shown in Figure no. 1, which follows:

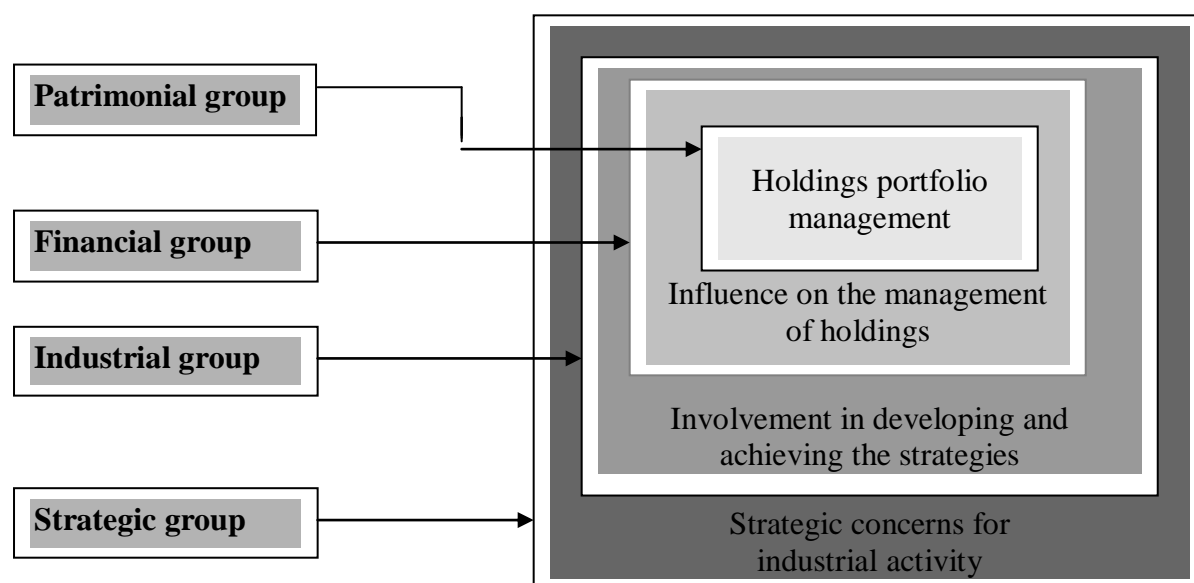


Figure no. 1. *The group behaviour depending on the jurisdiction of the parent company*

Heritage group is characterized by a negligible influence of the parent companies in the subsidiaries management. The role of the parent society is to manage the investment portfolio, because it acts only as an investor and is concerned about the investments.

Financial Group is characterized by a financial influence of the parent company on the subsidiaries. The control instruments are the financial indicators which are calculated and analyzed by the parent company for each subsidiary, as is the case of the credit institutions.

Industrial group characterized by the fact that the parent company is expanding its competence on the subsidiaries operating activities. The control instruments become more diversified, because along with the financial occur the strategic analysis.

Strategy Group - the group in which the parent company with the subsidiaries form a whole decision-making body of the work group.

Classification of the groups of companies can be based on several criteria as there are presented in Table no. 1.

CLASSIFICATION CRITERION	TYPES OF GROUPS
Dimension	Small
	Large
Nature of business	Industrial groups
	Service groups
	Trade groups
	Financial and banking groups
Type of links between the parent society and subsidiaries	Financial links
	Personal links
	Contractual links

Table no. 1 *Types of companies groups*

⁸ Pitulice C., –*Teorie și practică privind grupurile de societăți și situațiile financiare consolidate*, Contaplus Publishing House, Bucharest , 2007

The small groups can be like a family business, and the large ones can be:

- National groups, extended only on the territory of origin;
- International groups, characterized by a network of subsidiaries located abroad.

Groups of companies usually carry heterogeneous activities to minimize risk and optimize the profit. In another train of thoughts, the entities that form a group of companies may be dependent between them by the types of links: financial, personal and contractual.

*Financial links*⁹ are due to holding the equity instruments of the entity. After how are holding the participation these links can be of various types¹⁰, as are shown in Figure no. 2.

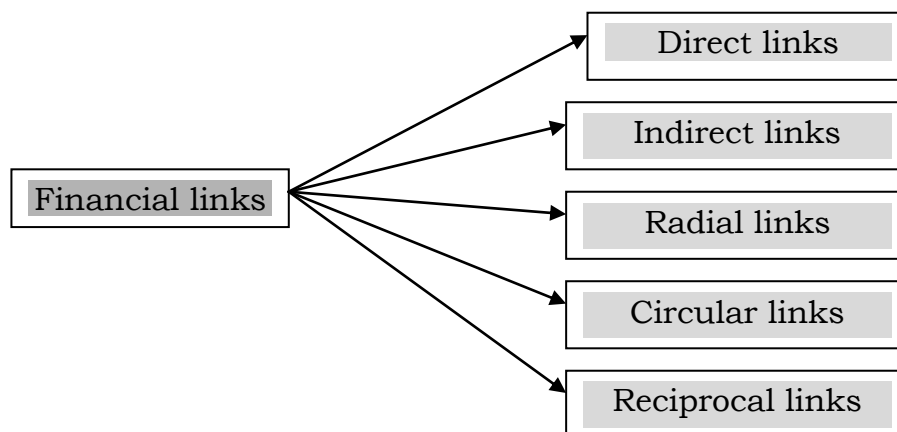


Figure no. 2 *Typology of financial links*

Personal links appear in the horizontal or personal groups, respectively those groups composed of the independent entities, between which there aren't financial links, but fulfilling the condition of submission of a unique leadership.

Contractual links are characterized by the existence of alliances and cooperation agreements between entities who wish to consolidate their position and fail by its own and use to such links. These alliances refer to an activities complementarity's policy or a political association to conduct joint activities.

As Savu E.M¹¹ says, under the competitive environment influence on the work done and on the achieved profitability, the credit institutions have updated the applied strategies. Therefore, the banking systems of the developed capitalist countries have undergone to a significant processes:

- First, a strong process of *internationalization* of the banking systems in the developed countries.
- The second trend is given by the concentration process of the banking activity¹².

Currently, the survival of the credit institutions, in the Manolescu Gh. opinion¹³, depends on their ability to find their niche for their own services in the market structure. The large credit institutions are engaged in extending their geographic lines, both in the national and international area, and, the small ones for to resist on the banking market, adopted the selection services in the less accessible positions of the large credit

⁹ *Direct links* are realized by the fact that a company called parent (M) participates to form the capital to another company called daughter (F). *Indirect links* is that a parent company called (M) involved in the capital formation from a company called daughter (F1), which in turn involved in the capital formation daughter of another company (F2). *Reciprocal links* are that parent companies (M) participate to form the capital to a daughter company (F), which participates to increase the capital of the parent company. *Circular links* are characterized by that a parent company (M) participates to form the daughter company capital (F1), which participates to form another daughter company capital (F2), and it participates to increase the capital of the parent company.

¹⁰ Munteanu V., Țurcan A.,- *Grupurile de societăți. Consolidarea contabilă*, Economic Publishing House, Bucharest, 1998

¹¹ Savu E. M., *Tendențe privind globalizarea sistemului bancar internațional*, Romanian Banking Institute, Bucharest, 2003

¹² Extent of operations performed, the increasing funds that are requested by customers, the risks of insolvency of the debtors, and the desire to increase the profits and the power of penetration in other markets and, therefore, occupy a dominant place in the currency and financial life led to increased international unification process of the banks in monopolies, consortia, trade unions and banking alliances. Large giant credit institutions and financial groups unite, merge and so dominate and control all activity in this area.

¹³ Manolescu Gh., *Bănci și credit*, România de Măine Publishing House, Bucharest, 2006

institutions. This is the considerate for which the credit institutions were established genuine financial groups, as is the case of Transylvania Bank Financial Group.

Banca Transilvania is a joint stock company registered in Romania. The Bank commenced business as a bank in 1993, is authorized by the National Bank of Romania to conduct banking activities in the field. The bank started its activity in 1994 and the services performed by it relates to banking activities for businesses and individuals.

The Bank operates through its head office located in Cluj Napoca has 60 branches, 455 agencies. 31 workstations, 9 divisions physicians and one regional center located in Bucharest. Compared to 2014 the number of agencies has increased from 438-455 (occurring 17 new agents) .Banca accept deposits from the public and grants loans, carries out funds transfers in Romania and abroad, currency exchange and provides banking services to customers its natural or legal persons.

In 2013 the Bank opened a branch in Italy, which became operational in 2014. The branch structure heritage in Italy on 31 December 2015 compared to 2014 is as follows:

Name patrimonial element	31 December 2014	31 December 2015
Total assets	3369	4646
Total liabilities	4384	10412
Equity	-5 766	-1 015

Source: Consolidated Report of the directors, in December 2015 and www.bancatransilvania.ro
Table no. 2 *Heritage branch structure in Italy, thousands lei*

In 2014 the Bank signed contract anul acquisition of 100% stake in Volksbank Romania. The group took control of it in 2015, and was completed on 30/12/2015 legal merger by absorption of Banca Transilvania SA (as absorbing company) and Volksbank Romania SA (as absorbing company).

Following the merger absorbing bank took over all rights and obligations acquired bank Volksbank Romania SA, which was dissolved without liquidation by transfer of assets and liabilities accounting of rights and obligations of the bank absorbing.

The shareholding structure of the Bank, compared to 31 December 2014 is as follows:

	31.12. 2014	31.12.2015
BERD	14.33%	11.46%
Romanian individuals	17.7%	16.77%
Romanian companies	31.3%	32.99%
Foreign individuals	2%	1.89%
Foreign companies	34.67%	36.89%
TOTAL	100%	100%

Source: Consolidated Report of the directors, in December 2015 and www.bancatransilvania.ro
Table no. 3 *The shareholding structure of the Bank*

The group includes bank Banca Transilvania - mother, Banca Transilvania SA and its subsidiaries based in Romania and Moldova.

As seen in the Table no. 5, at the end of 2015¹⁴, Transylvania Bank had the following direct or indirect participation:

SUBSIDIARY NAME	Field of activity	Level of holding at 31/12/2015
TB Securities Ltd	Investment	99,40%
TB Leasing IFN S.A.	Leasing	100,00%
TB Investments Ltd.	Investment	100.00%
TB Direct IFN S.A.	Leasing	100.00%
TB Building	Estate	100.00%
TB Asset Management S.A.I S.A.	Asset management	80.00%
TB Company of Factoring IFN S.A.	Factoring	100.00%
TB Operational leasing	Leasing	94.73%
TB Leasing MD SRL	Leasing	100.00%

Source: Consolidated Report of the directors, in December 2015 and www.bancatransilvania.ro

Table no. 4 *Composition of BT Financial Group*

Group has the following areas of several banking, which is held by Banca Transilvania SA, leasing and consumer loans, which are developed specifically for BT Leasing Transilvania IFN SA, BT Operational Leasing SA, BT Direct IFN SA and BT Leasing MD SRL asset management is carried out by BT asset Management SAI SA. Also included in the consolidation perimeter and three investment fund.

Here is some information on the main entities of the Transylvania Bank Group, where the bank has direct participation and entering in the consolidated group:

➤ Transylvania Bank Leasing IFN S.A. was founded in 1995 and currently works as a non-bank financial institution and has the main finance activity the leasing acquisition of the tangible assets.

➤ BT Asset Management SAI SA is a company member of Banca Transilvania Financial Group with activities in the field of administration of open investment funds established in Romania or in another EU Member State and in the administration of closed funds subject to prudential supervision. BT Asset Management SAI SA offers a full range of investment products, starting with fixed income funds, diversified funds, index funds type to equity funds. Opening the capital market is ensured customers by investing in both Romania and the EU Member States.

➤ BT Securitea SA was founded in 2003 as a result of changing the name and registered office of the Company Transilvania Capital Invest SA. The object of the company is brokering several financial transactions and fund management and activities auxiliary to financial intermediation. Activity BT Securites SA in 2015 was carried out given that the capital market in Romania was characterized by elevations shares the main listed companies as a result of macroeconomic stability but increases were not reflected in increased trading volumes.

In response to the financial and banking market and stagnation of the financing activities, the Extraordinary General Meeting of the Shareholders decided to transform the company from the non-bank financial institution in the limited liability company, and its main activities are activities of the collection agencies and of the credit reporting bureaus.

Analyzing the consolidation area¹⁵ of the companies group from the credit institutions system, we observe at least the following:

➤ there is a large diversity of the activities given by the consolidation both of the banking and financial activities and non-financial activities (insurance, leasing, pension fund investments, factoring, etc.) and raises issues related to preparing the consolidated financial statements for the purposes to mixing rules for submitting information;

➤ Existence of the different legal structures at the individual entities that have covered the accounts by various acts leading to an incompatibility of the Chart of Accounts;

➤ Existence of subsidiaries or branches implanted in another country than the country of origin of the parent company raises issues related preparing the consolidated financial statements for the purposes to conversion of the monetary and non-monetary items.

¹⁴ Note: Consolidated balance sheet for 2015 has not been developed until now

¹⁵ The consolidation area is "border that separates subassemblies that have very close links between them in a manner to consolidation of the financial statements to be meaningful"

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