FINANCIAL SWOT OF ECUADORIAN PRIVATE BANKS AFTER FALL IN PETROLEUM PRICES, 2015-2016

Irene Buele, Universidad Politécnica Salesiana
Cecilia Guzmán, Universidad Politécnica Salesiana
Santiago Serrano, Universidad Politécnica Salesiana

ABSTRACT

The present research analyzes the financial situation of the private banks of Ecuador, following the fall of the oil price in 2015 and the first half of 2016, through a structured financial SWOT thanks to the application of the CAMEL methodology. The financial information of the 21 private banks of Ecuador presented by the Superintendency of Banks and Insurance in its web portal is analyzed. The periods studied evidenced as strengths the constant access to credits and the continuous obtaining of financial incomes; such as financial leverage opportunities and a banking segmentation; such as the strong concentration of banks, the periodic increase in delinquency rates in the consumer and housing credit portfolios at a rate of 148.10% and 283.45%, respectively, and as threats to a declining economy that leads to the loss of incomes reflected in profits and a sharp increase in banking regulations; so it is vitally important that banks in general have an adequate structure of assets, liabilities and equity in order to provide liquidity. The research shows the level of dependence of the Ecuadorian economy on oil exports and the areas need to be strengthened and improved in the banking sector.

Keywords: Economic Analysis, CAMEL, Liquidity, Profit, Investment, Economic Resources.

INTRODUCTION AND BACKGROUND

The banking system in a country "contributes to financial growth from its preponderant role in attracting public savings and its orientation towards different destinations, in accordance with the incentives derived from the financial market" (Seffino & Hoyos Maldonado, 2016, p.1), allowing the public to make use of banking entities in the medium and long term.

The Ecuadorian banking system in 1991 was formed by 28 national private banks and 4 foreign banks of which between branches and agencies added 517 and 36 correspondingly. According to Jiménez (2002) the increase of branches played an important role in attracting resources, but increased operating costs and the cost of holding assets immobilized. In order to achieve financial banking stability, during 1993, laws such as: Securities Market Law, Modernization Law and amendments to the Hydrocarbons Law and Tax Regime were approved. The strengthening of public finances helped to improve the activities of the private banking system and notably stimulated the expansion of domestic credit and the inflow of foreign capital.

The General Law on Financial Institutions approved in May 1994, which replaced the Banking Law, changed the structure of the National Financial System and promoted the merging and conversion of financial institutions. The number of banks increased from 35 to 39 between 1994 and 1995, the number of companies and/or financial companies from 33 to 46 and the number of intermediaries from 26 to 6. Crespo (2002) mentions that the economic management during 1996 allowed to maintain exchange stability with a moderate inflation to avoid greater social costs, but with difficulties in the banking system due to an increase in its past due portfolio, as well as the unemployment rate.

From mid-1999 until early 2001, the banking regulatory authority tightened the regulations; the accounting standards were adjusted through the issuance of a new single catalog of accounts, a complete regulation was generated to control liquidity and market risks. The rules on credit and consumer transactions were tightened. It was commanded that financial institutions must obtain and publish a quarterly risk rating. The Central Bank of Ecuador (2010) mentions that microfinance regulations were strengthened, credit information bureaus were established and the process to redefine credit risk and its form of calculation was initiated; the follow-up carried out to several banking institutions resulted in the liquidation of some of them, as shown in the Table 1 below:

Table 1
LIQUIDATED BANKS BETWEEN 2009-2010

Year of liquidation	Liquidated banks
2009	Previsión y Seguridad, Guayaquil, Ecuacorp, Finiber, Ecuacambio, 8 de septiembre, Unifem, Manabí, Mercantil Unido, Valorfinsa, Confianza, Intermil, Manabí, Finagro, Hemisferio, Serfin, Descuento, Amerca, Bancomex, Unión, Solbanco, Occidente, Financorp, Azuay, Crédito, Tungurahua, Préstamos y Popular.
Primer quarter 2010	Filanbanco, Progreso, Benalcázar, Los Andes y Tecfinsa

Source: Prepared by the author

Since the liquidation of these banks, the Monetary and Financial Organic Code that came into force in September 2014 generated a movement in the structure of financial institutions in which mergers and sales of institutions will be consolidated and the transformation of some Unions, Cooperatives and Financial Companies into banks will be seen.

By 2010, the Ecuadorian economy showed a substantial improvement due to the recovery of oil exports, which meant achieving an average price of 83 dollars per barrel in 2008. Thereupon, great offers for Ecuadorian crude oil grew so that in 2011 the average price was 96.93 dollars per barrel and by the fourth quarter, it reached a historical price of 105.32 dollars per barrel on average. In the following years (2013 and 2014) it reached an average price of $ 95.63 and $ 84.16 correspondingly as shown in Table 2.

In 2015, those historical highs in the international price of oil have started to decline, which motivated forecasts of adjustments in the country's economy. This in a model that has as protagonist the State and that arose along with a second oil boom in Ecuador. This formula pushed the economy through investment and high public spending which generated greater consumption and increased indebtedness of companies and individuals.

The 21 private banks currently are: Banco Solidario, Banco Produbanco, Banco Pichincha, Banco Internacional, Banco Amazonas, Banco Procredito, Banco de Guayaquil, Banco General Rumiñahui, Banco del Pacífico, Banco de Loja, Banco del Austro, Banco Bolivariano, Banco de Machala, Banco del Banco, Banco Capital, Banco Comercial de Manabí, Banco Coopnacional, Banco D-Miro, Banco Finca, Banco Litoral and Banco Desarrollo. In the years 2015 and 2016 oil revenues within the general budget of the state, represented 10.16% of total revenues in the first half of 2015 compared to the first half of 2014, which represented

22.17%. The Ministry of Finance carries out a budget cut of $ 800 million due to the lack of recovery of oil. Such numbers decrease in the first half of 2016 with an average price of $ 30.62. According to the Central Bank of Ecuador and the Ministry of Finance, public sector expenses grew by an annual average of 15.4% and revenues grew by an average of 11.9% between 2007 and 2014. Accoding to El Comercio (2015) the greater speed of growth of expenses over income implied the regular presence of deficits. In order to generate a broad fiscal space for reducing public spending, important changes such as the decrease in current and investment spending have been made.

Table 2
NATIONAL EXPORT OF CRUDE OIL 2014-2016

Month/ Year	2014			2015			2016		
	VOLUME Million	PRICE USD/BBL	AMOUNT Million USD	VOLUME Million	PRICE USD/BBL	AMOUNT Million USD	VOLUME Million	PRICE USD/BBL	AMOUNT Million USD
First quarter	35.8	95.34	3,413.4	39.8	41.76	1,662.0	35.0	23.93	837.1
Second quarter	37.2	97.41	3,622.4	35.4	54.90	1,946.3	36.0	37.30	1,343.3
Third quarter	39.8	86.82	3,453.6	41.4	39.42	1,633.1	37.0	36.84	1,364.9
Fourth quarter	41.9	60.31	2,526.6	35.1	31.74	1,113.8			
TOTAL	**154.7**	**84.16**	**13,016.6**	**151.8**	**41.88**	**6,355.20**	**108.0**	**32.81**	**3,545.2**

Source: Central Bank of Ecuador

In order to know the solidity, banking security and to measure the financial performance achieved in a given period, the Superintendency of Banks and Insurance, in the General Norms for Financial System institutions, establishes that:

> *"Within the first fifteen (15) days of each quarter, institutions of the financial system shall make available to their shareholders, customers and the public, through its website or brochures, a publication containing at least the following information, in comparison with those recorded by the system as a whole: Financial indicators according to the CAMEL method (capital, asset quality, administrative management, profitability and liquidity). (Superintendency of Banks and Insurance, 2013, p. 875)."*

Therefore, the purpose of this study is to identify the effects produced in bank financial management after the fall in the oil price reflected in a Financial SWOT obtained by means of the CAMEL methodology. In order to determine the level of dependence of the Ecuadorian economy on oil prices, to know if with the efforts of the last years of the Ecuadorian government, such as the change of the Productive Matrix, have contributed to this dependence decrease. The SWOT method is applied because it allows deepening this analysis, "is a tool that makes it possible to know and evaluate the actual operating conditions of an organization, based on the analysis of these four main variables, in order to propose actions and strategies for its benefit" (Rojas, 2009, p. 55).

THEORETICAL FRAMEWORK

For Gadea (2012), the price of a barrel of crude oil is a reference variable in the economic conjuncture. Therefore, great scientific efforts have been devoted to explaining the link between the evolution of the oil market and economic activity. Because of its economic and strategic utility, oil has always been considered a resource of high value for all countries that have it as a source of income, according to Solís (2013). For Aguirre (2003), oil is exposed to oscillating external shocks or changes, whose adjustment is difficult and costly in both, economic and social terms.

Banks "are mainly characterized for being intermediaries in the financial market, in which they act in a habitual way by attracting resources from the public to obtain funds through deposits or any other form of acquisition in order to use the resources thus obtained, totally or in part, in credit and investment operations" (Superintendency of Banks and Insurance, 2014, p. 3). For Montoya (2013) the banks help to achieve economic efficiency which is essential for economic development; they maintain monetary stability, thus supporting all national productivity.

CAMEL is known as a model for detecting financial vulnerability, which over the years, has proven to be an effective external monitoring tool to assess the strength of financial institutions by identifying those that require special attention or concern, according to Federal Deposit Insurance Corporation (2014). It is essentially based on information coming from financial statements of banking institutions. For the Central Bank of Ecuador (2015), this is one of the methodologies applied in many countries as a model for early warning in banking supervision. This method, for Ramirez & Ospina (2001) provides a methodology for the identification of microeconomic variables that characterize the condition of financial institutions at a given time. It evaluates five key aspects of the intrinsic financial quality of a banking entity, such as Capital, Assets, Management, Earnings and Liquidity. The grouping of these variables becomes an integral indicator to measure the vulnerability of a particular bank, for López & Pico (2010). According to Marketing Publishing Center (1990), a SWOT analysis consists of a four – square diagram, which will classify strengths, weaknesses, opportunities and threats that arise from a company – market relationship. For Robbins & Coulter (2005), to place each of these factors in their corresponding square provides the executive a more global and schematic view of the situation under analysis; managers can identify a strategic space for the organization to exploit and can fulfill the previously established objectives.The analysis is focused only on key factors for the success of the company; it has multiple applications and can be used by all hierarchies in all ranks of the organization, according to Días (2005). The SWOT analysis consists of two perspectives: the internal one that has to do with the strengths and weaknesses of the business, aspects on which the managers of the company have some degree of control; whereas the external perspective represents the opportunities offered by the market and the threats that the business must face in the selected market, according to Martinez & Milla (2012). For Bravo (1994), strengths or "strong points" are those characteristics of the company that facilitate or favor the achievement of the objectives; opportunities are those situations which arise in the environment of the company and that could favor the achievement of the objectives; weaknesses or "weak points" are those characteristics of the company that constitute internal obstacles to the achievement of objectives and threats such as those situations that arise in the environment of the company and that could negatively affect the chances of achieving the objectives.

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METHODS AND MATERIALS

This research is based on the analysis of the financial statements of the 21 private banks of Ecuador which represents 81% of the private financial system. In addition, information is taken from the financial indicators bulletins made available by the Superintendency of Banks and Insurance in its website. The data obtained from the bulletins are: balance sheets and profit and loss statements with different levels of disaggregation. The base years for observation are determined between 2015 and the first half of 2016:

- First period: January 2015, February 2015, March 2015, April 2015, May 2015, June 2015
- Second period: July 2015, August 2015, September 2015, October 2015, November 2015, December 2015
- Third period: January 2016, February 2016, March 2016, April 2016, May 2016, June 2016

The methodology for the calculation of the indicators is contained in Book I. - General Rules for the Application of the General Law on Financial System Institutions Title XIV. - Transparency and User Rights Code, Chapter II. - Information and Advertising , In Annex 1, which states: "The definition of the financial indicators of the institution and of the field as a whole shall include the elements, groups, accounts and sub-accounts" (Superintendency of Banks and Insurance, 2013, pages 885 -889). This methodology, by means of calculating the financial indexes, allows knowing the level of solvency, liquidity, profitability, indebtedness of each one of the banks in the economic periods that carried out their operations. For each private bank, the monthly financial indexes have been calculated in an Excel sheet. Subsequently, these ratings have been grouped into three periods, calculating an average for each semester. Once calculated the indexes for each period, they have been grouped in another Excel spreadsheet for each type of indicator, bank and period. Hence, Tables 3 and 4 are constructed for each of the indicators containing the three periods of the 21 banks analyzed which includes the graph of that indicator. An explanatory summary table has also been made per indicator. The SWOT Matrix was developed according to the concordance on each of the variables based on the indicators obtained. This matrix allows to find the company’s strengths and weaknesses along with the opportunities and threats of its environment (Dvoskin, 2004), aiming to reach an in-depth analysis of the factors that positively or negatively affect the organizational system (Salazar, 2005) and to evaluate banks' managerial and financial performance.

ANALYSIS AND RESULTS

For the analysis of bank effects presented by the fall in oil prices, a comparison among three factors is made: total assets of the private banking system, public spending and oil revenues.

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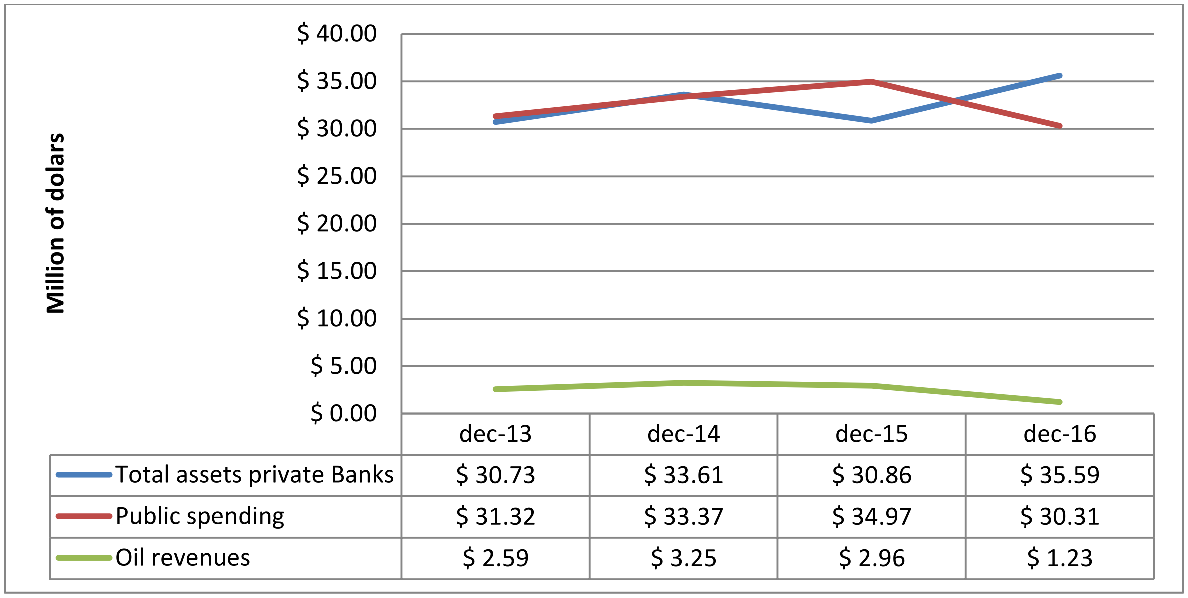

CHART 1
DETERMINING FACTORS OF THE PROPORTIONALITY OF INCIDENCE IN THE CALCULATION OF FINANCIAL INDICATORS

Source: Personal elaboration based on data obtained from the Association of private banks, Ekos Magazine and Macro data

Assets grew at a rate of 9.37% from December 2014, decreasing in December 2015 to a rate of 8.18%. The recovery of economic activity in the banking sector is evident in 2016, reaching a growth rate of 15.33%. Public spending has a growth rate of 4.79% as of December 2014, passing to a negative rate of 13.37%; the oil revenues have a decreasing negative trend reaching December 2016 to - 58.45%.

The graph establishes a relation of these three factors: a low income of petroleum resources directly affects the public expense when reducing this indicator because it is not sufficient to cover current expenses and investment; it also affects the total assets when decreasing the investment which is a strong asset within the financial structure of each bank(Chart 1).

Four banks with a percentage of more than 10% in the assets of the banking system are determined. The entity with the largest representation is the Pichincha Bank with $ 9’258,255.76 representing 28.56%, an index that in the three periods analyzed has decreased and does not lose participation.

Table 3
BANKS WITH GREATER REPRESENTATIVENESS IN ASSETS

INSTITUTION	PERIODS		
	jun-2015	dec-2015	jun-2016
	(in percentages)		
BP PICHINCHA	29,00	28,93	28,59
BP PACÍFICO	13,81	13,91	15,21
BP GUAYAQUIL	11,76	11,52	11,24
BP PRODUBANCO	11,53	11,52	11,26

Source: Personal elaboration based on data of the Financial Statements of each bank published on the Bank and Insurance Supervisory Agency website

Profits received by the banks during the years 2015-2016 are shown below; certain banks show a growth during the second analysis period (December 2017), with Banco Pichincha being the largest creditor in profits received with $52,074.51, secondly Banco Pacífico with $42,258.17 and thirdly Banco Guayaquil with $28,980.96.

Table 4
PROFITS PERCEIVED AND REPORTED BY BANKS

INSTITUTION	**PERIODS**		
	Jun-15	**Dec-15**	**Jun-15**
	(In thousands of dollars)		
BP FINCA	-582,22	-936,13	-207,98
BP LITORAL	9,14	-65,99	-37,09
BP DELBANK	15,31	-3,17	55,03
BP COMERCIAL DE MANABI	10,37	72,14	2,88
BP CAPITAL	153,60	437,27	75,96
BP AMAZONAS	318,13	725,31	226,05
BP D MIRO	475,34	1017,71	20,88
BP DESARROLLO	476,12	1090,30	138,78
BP COOPNACIONAL	651,44	1296,49	689,06
BP MACHALA	933,60	1883,64	276,00
BP PROCREDIT	1046,06	2321,44	196,57
BP DE LOJA	1538,16	3761,09	1122,66
BP GENERAL RUMIÑAHUI	2710,21	6512,68	2077,95
BP SOLIDARIO	2034,34	6536,91	1172,40
BP DEL AUSTRO	5189,33	10738,88	2271,96
BP PRODUBANCO	8030,82	22198,62	4801,42
BP BOLIVARIANO	7890,48	23556,83	5516,06
BP INTERNACIONAL	9149,87	26902,49	7371,56
BP GUAYAQUIL	12765,81	28980,96	7149,36
BP PACIFICO	15605,17	42258,17	10414,85
BP PICHINCHA	24089,72	52074,51	12419,95

Source: Personal elaboration based on data of the Financial Statements of each bank published on the Bank and Insurance Supervisory Agency website

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The three most profitable banks in relation to their patrimony are Banco Pichincha with 27.23% represented by $882,978.66 which despite decreasing its participation percentage in December 2015, its wealth grows as the development of its activities. Secondly, the Banco Pacífico with a patrimony of $570,111.97 and thirdly the Banco Guayaquil with a participation percentage of 12.26% ($401,241.78). The financing through own resources to obtain new income and later to remunerate to the shareholders by the funds invested has been increasing in each private banking institution (Table 5).

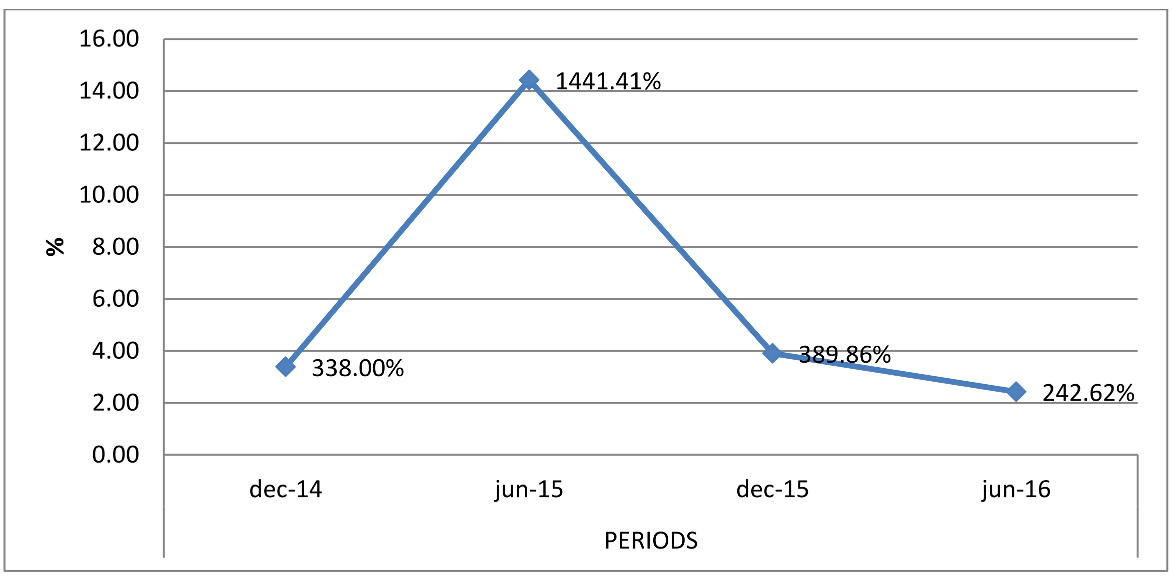
Table 5
PATRIMONY PERCENTAGES

INSTITUTION	PERIODS		
	Jun-15	Dec-15	Jun-16
	(In percentages)		
BP PICHINCHA	27,18	26,79	27,23
BP PACÍFICO	16,98	17,29	16,23
BP GUAYAQUIL	12,01	12,17	12,26

Source: Personal elaboration based on data of the Financial Statements of each bank published on the Bank and Insurance Supervisory Agency website

According to the CAMEL method, the main findings are described below:

Capital (Capital)



Source: Personal elaboration based on data of the Financial Statements of each bank published on the Bank and Insurance Supervisory Agency website

CHART 2
INDEX OF CAPITAL ADEQUACY

In the asset patrimony, which establishes the relation between effective assets (patrimony+results), compared to net fixed assets, there is an increasing trend for June, 2015 and December, 2015 periods. Taking the average percentage the one of December 31, 2014, there is a 326% increase in the index for June, 2015 as a result of the constant growth of the profits of three banks: Pichincha, Pacífico and Guayaquil, which have an average $24,089.72, $15,605.17, $12,765.81, respectively. Ranges fluctuated from June, 2015 to -73% to December, 2015 and to -37% to June, 2016 representing a drastic fall. The average of the accounts receivable of one of the most representative banks – Banco Pichincha – went to $138.208 of $118'719.655; all these values are expressed in thousands of dollars. The other credit portfolio accounts that have a direct impact maintain an average equal to or lower in their values in the three periods analysed (Chart 2).

Assets Quality

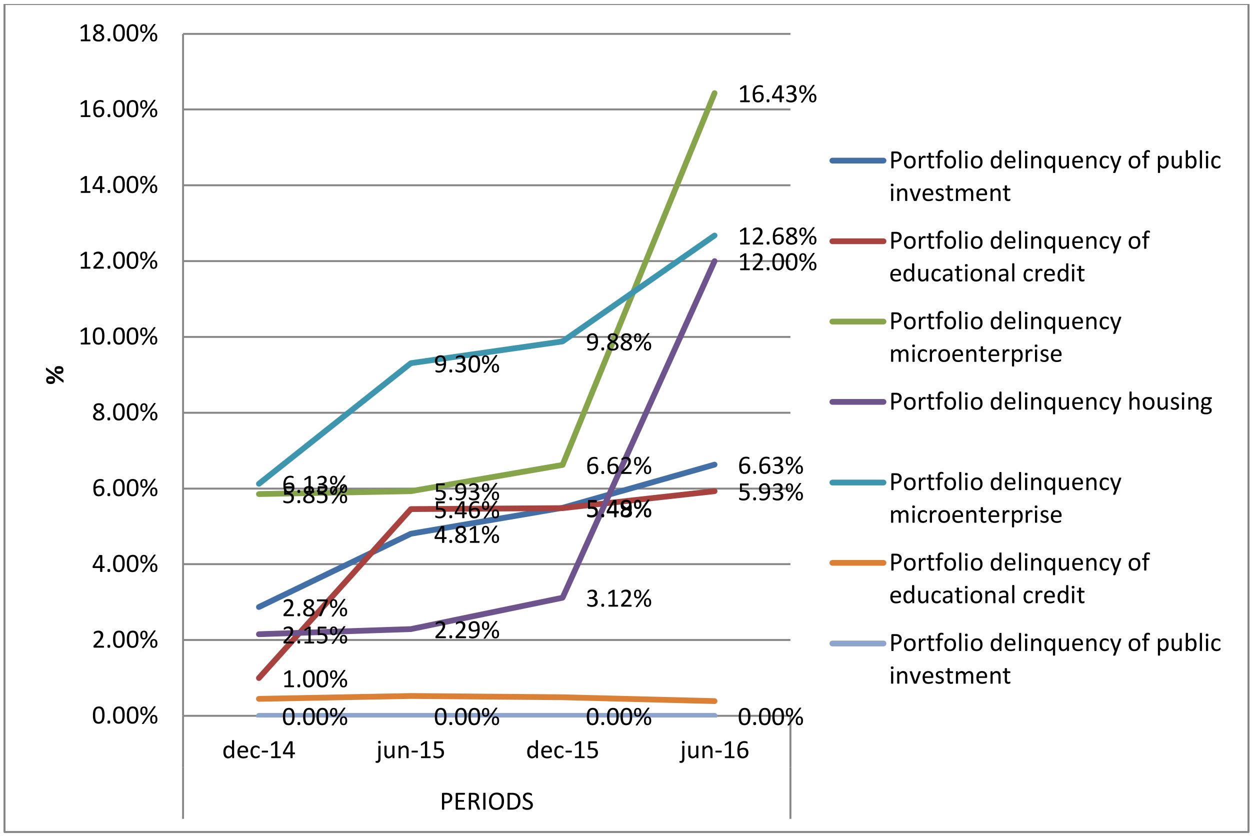
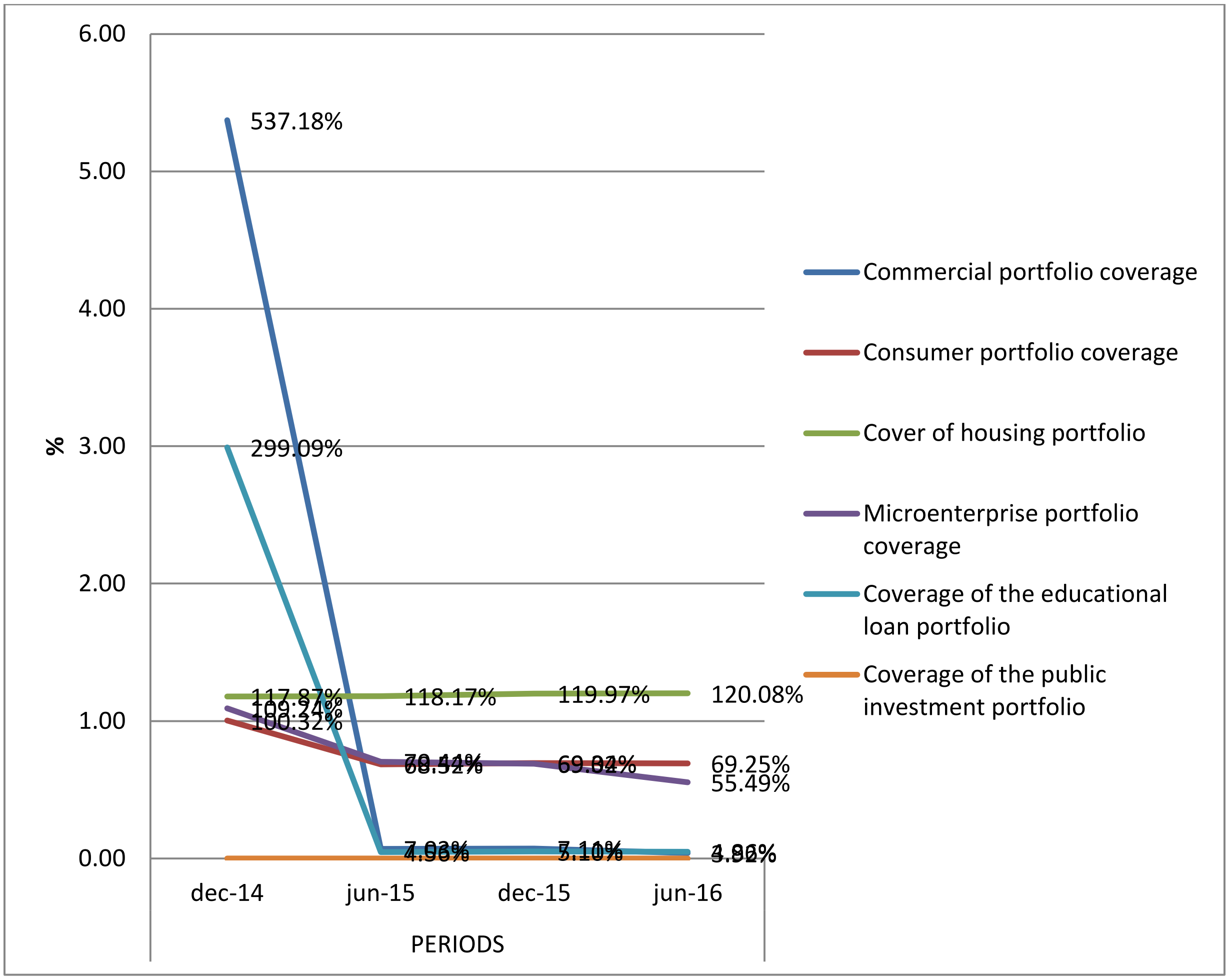


CHART 3
PORTFOLIO DELINQUENCY RATES

Source: Own elaboration based on data of the Financial Statements of each bank published on the Bank and Insurance Supervisory Agency website

Gross delinquency has a rising trend in three periods, from 1.31% from December, 2014 to June, 2016. This growth is determined by non-interest bearing loan portfolios, overdue refinancing and overdue restructuring, each specified by type of portfolio: commercial, consumer, housing, microenterprise, educational credit and public investment. The non-interest bearing consumer loan portfolio is more representative compared to the other portfolios with a value of $159,987.00 in June, 2016 by far exceeding the value obtained in June, 2015 of $108,159.17(Chart 3).

In relation to the percentage of delinquency in each of the portfolios, the percentage increases each time because there is no improvement in the management of each bank in order to reduce such unproductive portfolios, at the same time there are six banks with a higher credit volume to 1 billion dollars, such as: Pichincha, Pacífico, Guayaquil, Produbanco, Internacional and Bolivariano banks with an average of $4’908,899.00, $2’620,227.85, $1’567,080.71, $1’951,287.28, $1’907,901.58, $1’304,032.95, respectively, with a negative fluctuation between 0.36% and 11.65%. An additional factor, the increase in procrastination, was the earthquake that occurred in April, 2016. This situation affected many clients who could not cancel their bank loans.



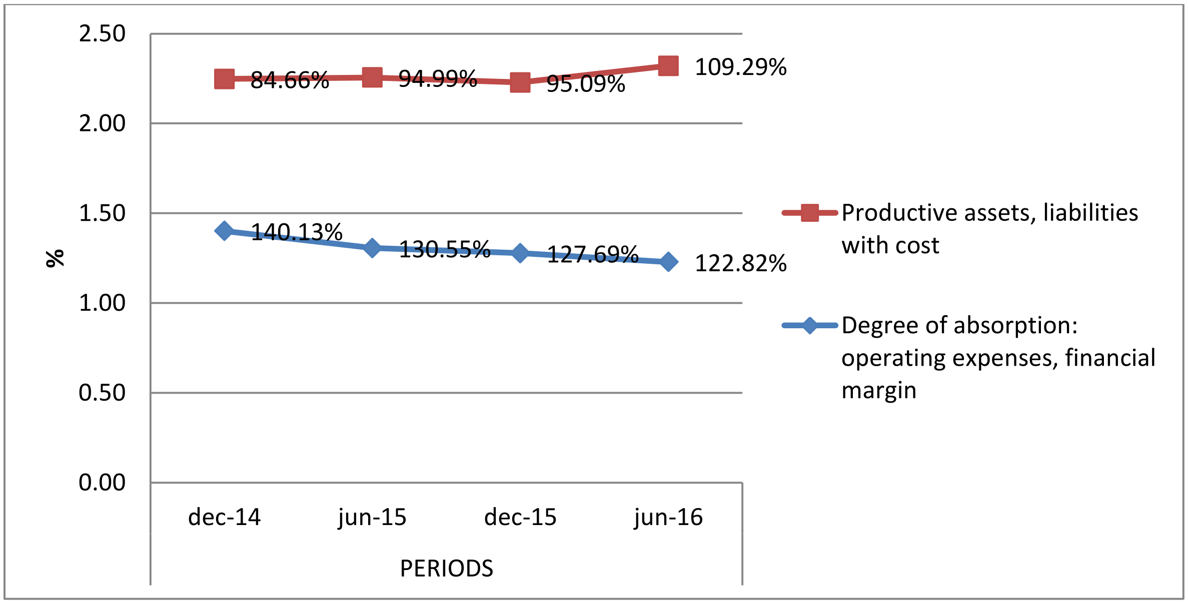
Source: Own elaboration based on data of the Financial Statements of each published on the Bank and Insurance Supervisory Agency website

CHART 4
PORTFOLIO COVERAGE INDICES

The reduction of unproductive portfolio values for each type of credit allows an efficient management of this index; such excessive coverage makes money remain idle and unproductive. Pichincha, General Rumiñahui and Internacional banks have excessive coverage in the consumption portfolio in June 2016, going from 600 to 400 percentage points, the banks that influence the decrease in this index are: Banco Capital, Litoral, DelBank, D miro, Comercial de Manabí, Desarrollo, Finca banks that maintain an index below 100 percentage points. The coverage rates of the public investment and educational loans portfolio remain at zero, due to the fact that access to this loan is nil in these financial institutions(Chart 4).

Administrative Management

The administration of the expenses in the generation of income by the use of the operational expenses is efficient; by June of 2016 it is obtained an index superior to 1 that is the net financial margin must grow according to the operational expenses given. Likewise, personnel expenses have an increasing tendency, this factor is vital for generating a fairly large margin. This margin is based on three sources: from interest generated by the commercial and consumer credit portfolio in Pichincha, Pacífico and Guayaquil banks, by the financial profits derived from gains in exchange and in the evaluation of investments, also the services obtained from reduced prices and differentiated prices(Chart 5).



Source: Own elaboration based on data of the Financial Statements of each bank published on the Bank and Insurance Supervisory Agency website

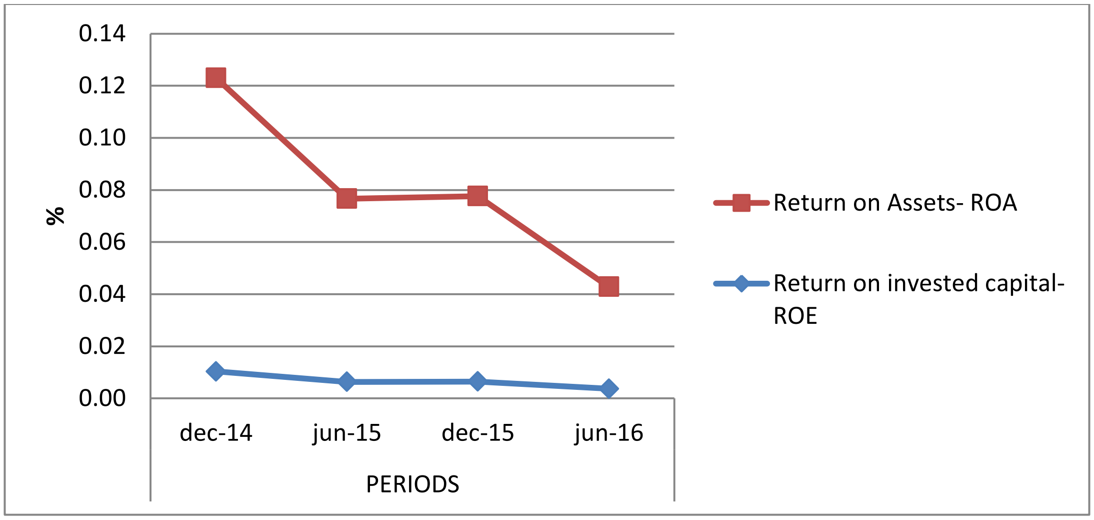
CHART 5
ADMINISTRATIVE MANAGEMENT INDICES

Although the index decreases, it maintains an index higher than 1, which shows the correct use of the assets against the liabilities of others; it is profitable because it produces more revenue than it costs to invest. One of the main accounts in the calculation of this indicator is the aggressive decrease of the investments in Pichincha, Pacific, Guayaquil, Bolivariano, Internacional and Produbanco banks in a percentage of 9.36%.

Profitability

The return on assets (ROA) shows a decreasing tendency, due to the low profits received and in other cases economic losses in each period analyzed that have not been sufficient to achieve a relationship that justifies the investment made in the assets nor in its activities.

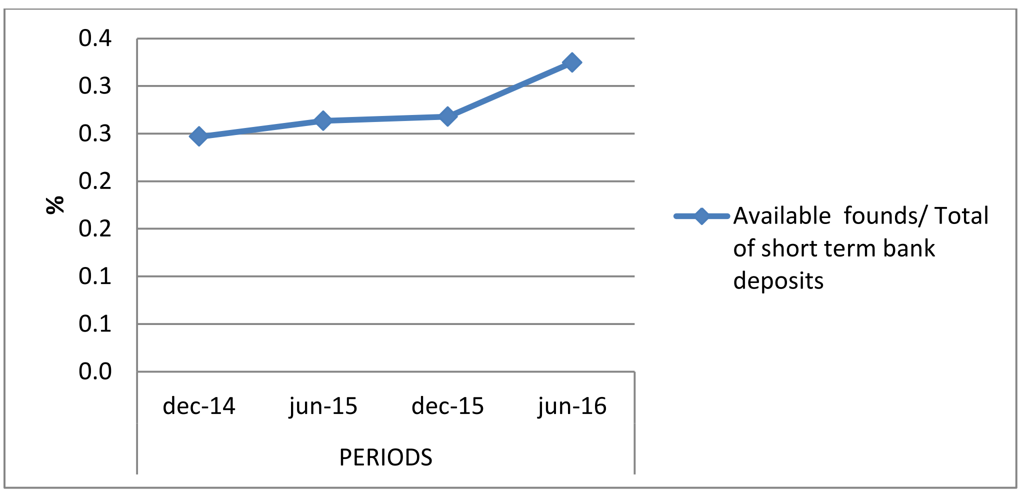
The return gotten by the shareholders from their own capital invested in each of the banking institutions to obtain income at a lower risk decreases to a percentage of 0.65%, an indicator affected by the economic result perceived (Chart 6).



Source: Compilation based on data of the Financial Statements of each bank published on the Bank and Insurance Supervisory Agency website

CHART 6
PROFITABILITY INDEXES

Liquidity



Source: Compilation based on data of the Financial Statements of each published on the Bank and Insurance Supervisory Agency website

CHART 7
LIQUIDITY INDEX

The ability to respond to any need for liquidity in a immediately way it could be to meet requirements, cash requirement of depositors immediately or with requests for credits is efficient, the banks that strengthen this indicator are: in first place Pichincha bank for having an average of $1’644,890.27 and secondly Pacific Bank with an average of $993,781.79(Chart 7).

SWOT Analysis

The SWOT matrix classifies the indicators described above, which correspond to the year 2015 and the first half of 2016; in addition of describing the trend of what happened prior to the oil prices drop (Table 6).

Table 6
SWOT MATRIX

VARIABLES	VARIATION BY REFERENCE TO 2014
1. Strenghts	
1.1. Constant access to credit: The channeling of resources from private savings to financing for the various economic sectors, with emphasis on wholesale and retail trade, production, manufacturing, textile industries and others for productive purposes, promoting economic growth and productive development.	△ Up
1.2. Continuous collection of financial revenues: the operation of banking agencies throughout the country and the availability of ATMs in strategic sectors are progressing as the requirements of the partner arrive, generating thousands of transactions per day through these means. Access to new technological services provided by the banking system such as interbank transactions, online services through the web portal of each institution, the speed in obtaining the credit and debit card; It provides comfort and agility in carrying out any procedure, motivating its partners to use the bank services at any time.	▽ Down
2. Opportunities	
2.1. Financial leverage: being ROE greater than ROA, the financing of part of the asset with debt enables the growth of financial profitability.	△ Up
2.2. Clearly defined bank segmentation: the differentiation of credits by segments allows direct and preferential access to the partner. The portfolio with the highest credit index is consumption, followed by commercial, microenterprise and housing.	▽ Down
3. Weaknesses	
3.1. Clearly defined bank segmentation: the differentiation of credits by segments allows direct and preferential access to the partner. The portfolio with the highest credit rating is consumption, followed by commercial, microenterprise and housing.	= Equal
3.2. Increased delinquency rates in the commercial, consumer, housing and microcredit portfolio.	△ Up
3.3. High coverage of the commercial portfolio: management systems in terms of portfolio coverage show that the indicator is not met that should be equal to or less than 1, these banking institutions allocate an excessive amount of resources (144.25%), resources that could be invested in more attractive lines of credit.	▽ Down
4. Threats	
4.1. Economy in decline: the capture of savings is affected by the economic situation in the country. The fall in oil prices affects various individuals savings in the bank and evidence in its decrease profits received exactly as they are shown in three banks: Finca Banck that in the three periods of analysis has maintained the losses of -582, 21, -936.13, -207.98 respectively; Litoral bank went from a profit of 9.14 to losses of -65.99 and 37.09 in the two following periods and DelBank went from a profit of 15.31 a loss of -3.17 in the second period, recovering satisfactorily a 55.03 in profit.	▽ Down
4.2. Increased Banking Regulations: The Monetary and Financial Policy and Regulation Board modify its items as new monetary developments emerge; for banks these changes are a bit hard to adapt immediately, concerning to the bank liquidity.	△ Up

Source: Self-compilation

DISCUSSION AND CONCLUSIONS

The private banking sector “has as a strength the knowledge and expertise in the development of activities by having as technical patrimony $7,886,820” (Superintendency of Banks and Insurance, 2013, p. 1) that enables them to invest in technology, infrastructure, Training of personnel and allocating resources to new attractive lines of credit; it is one of the sectors with greater participation in the market and is subject to comply with new regulations with a much more rigorous control since they are responsible for supervising the savings of millions of people who trust in those entities; So it must be prepared to face any need of its partners that require their short-term deposits, either out of necessity or little confidence in the stability of a bank.

In 2015, the private banking system presents a deterioration in its financial-economic situation, in asset quality levels, administrative management and profitability due to factors such as: increase in banking regulations, falling oil prices and the slowdown in the credit of the National Financial System led to the accumulation of overdue obligations in the different portfolios of loans in private banks, increasing the indebtedness of the partners. One of the measures taken by the government in this situation was the implementation of safeguards that helped protect domestic production and reduce the negative impact of falling oil prices. However, there is no further deterioration of the Ley Reformatoria para la Equidad Tributaria del Ecuador that was approved in May 2015.

An important component analyzed in the financial statements of private banks has been the profits, since it allows knowing the capacity of the institutions to allocate resources to investments that can help to improve the services that they provide to the partners and even to attract new clients through placements that mobilize cash. At the end of June 2016, total assets reached a cumulative balance of $32,387.00, contrasting the results obtained in June 2015, where the item reached $32,134.00. There is growth despite the situations it faces and there is evidence of efficient resource management. The degree of absorption explains the relationship between operating expenses and net financial margin; at the close of June 2016, this ratio indicated a continuous growth, going from 84.66% to 109.29%. As of December 2015, it is evident that the ratio of operating expenses to net financial margin increases.

The indicator that had most impact was the index of quality assets related to the evolution in the delinquency rate in the four portfolios that maintain movements in the fiscal year, which by June 2015 had already increased by more than 6%, Which commits the bank to a greater probability of unpaid loans. The result is that the levels of delinquency show an accelerated growth in the periods: January-June, 2015, June-December, 2015 and January-June, 2016, these indicators are reflections of the lack of dynamism of the Ecuadorian economy.

The ROE and ROA rates of return are very low in the analyzed periods; The purpose and goal would be to seek the increasing the returns of the activity so that they can be used for the benefit of shareholders seeking opportunities to generate new income and undertake other economic activities in the short term with a vision of future growth.

Although private banks have been affected by declining deposits, and because there have been notable delinquency rates in different portfolios, it is essential to adopt new and better measures that expand the development of the financial system. It is relevant that the general banking system has an adequate structure of assets and liabilities in order to provide liquidity to the sector whenever necessary and to establish strategies to recover the reliability of the banking partners, so that they can develop an adequate and solid financial culture. It is also important that

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regulatory and control institutions strengthen and monitor funding sources, in that way be better prepared in the face of crucial and potential events.

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