

Financial performance analysis of a bank branch in Bangladesh

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Abstract

The objective of the study is to analyze the financial performance of the Gazipur intersection branch of BASIC Bank Limited in the Gazipur district of Bangladesh. The financial performance of the branch was analyzed by using the liquidity ratio, asset utilization ratio, debt utilization ratio and profitability ratio. The findings of the study revealed that the current ratio of the branch was increased over the years. The return on asset ratio was found inconsistent which was followed by cost income ratio. BASIC Bank can apply effective marketing policy for its products and services so that new clients can be interested to take deposits scheme and introduce reward system for good borrowers.

Keywords: Financial performance, ratio analyses, basic bank Ltd., Bangladesh

Introduction

Financial performance analyses is one of the main source to evaluate the performance of a bank. The performance of a bank gives direction to the debtors and investors to make decision that either they should invest money in bank or invest somewhere else. Similarly, it flashes direction to bank managers in order to improve its deposit and investment services^[1]. Different authors across the globe have ensured financial performance of banks based on different techniques. The study of^[2] has measured the monetary performance by using various indicators such as internal market and economic indicators. They^[3] undertook a study of financial performance of the banking system of Kosovo. It measured the quality of financial factors. It was^[4] analyzed the financial performance of the scheduled public commercial banks in Bangladesh. It observed a significant correlation between economic value added and profitability ratio among other outcomes. The study of^[5] compared the financial performance of IDBI Bank with the industry averages. The ratio analysis was followed during the period of 2011-2016. It was suggested that the bank should improve the deposits and pay attention to use the assets more efficiently. Another^[6] study was undertaken about some selected Islamic and conventional commercial banks of Bangladesh. The study considered profitability, liquidity and solvency for the analysis of financial performance.

The techniques such as regression analyses, ratio analyses and camel rating are the best indicators of a business firm's analysis of performance of the above researchers. Ratio analyses is a tool used by individuals to conduct a quantitative analyses of information in a country's financial statements^[1]. Additionally, ratio analysis helps to understand financial statements for identifying the trends over time and measuring the overall financial condition of a business^[1]. In addition, lenders and potential investors often rely on ratio analysis when making lending and investing decision. Indeed, the banking sector of Bangladesh is recently facing many financial crisis like many other countries^[7]. The financial crisis can be found due to the

provision deficit among many crisis of some banks in Bangladesh. It is disclosed that thirteen banks faced a combined provisioning shortfall during the second quarter of 2018^[7]. It is mentioned that this provision shortfall can expose the weak financial health and it can also raise the possibility of the lending rate hike. The shortfall can be temporary, however, it indicates the sign of poor financial management practice. BASIC Bank is one of the banks in Bangladesh which are facing such poor management^[7]. It is a state owned bank but it operates like a private bank. It has been established with a view to assist small and medium business peoples. Generally speaking, the financial performance of a bank is the outcome of its' branches' financial performance. So it is not possible to identify the actual situation of a bank unless the analysis of financial performance of branches of any bank. Therefore, the current study is conducted on the Gazipur intersection branch of the BASIC Bank Limited^[8] in Bangladesh. Such a branch based study of financial performance analysis of banks is assumed to be scant either in Bangladesh or elsewhere. Thus the study can differentiate itself with others. The objective of the study includes the analysis of the financial performance, suggestions and improvement of the selected branch of basic Bank Ltd., Bangladesh.

Materials and methods

The study bank is the branch of the BASIC Bank, Gazipur intersection. It has been selected for the convenient of the study. The study is descriptive in nature which is based on secondary data. The sources of secondary data are general ledger books of the branch, research/periodical reports and websites. The ratio analyses such as liquidity ratio, activity ratio, debt ratio and profitability ratio have been done to analyze the financial performance of the selected branch.

Confidentiality of data is the most important barrier of such a study. Every organization has their own secrecy that is not revealed to others. Personnel did not disclose enough information for the sake of confidentiality of the organization while collecting data on the selected branch. So observing and analyzing the broad performance of the bank

is not an easy task at all.

Results and discussion

One of the most general and frequently used of the liquidity ratio is the current ratio. The current ratio is one among different types of liquidity ratios. Organizations use current ratio to measure the ability of the firm to meet short term obligations. It shows the ability of bank to cover the current liabilities with its current assets. It is seen in Table 1 that the current ratio was increased from 17% in 2014 to 22% in 2015 and 31% in 2016. This indicates that liquidity position of the bank has been increased during the period of 2014 to 2016.

The debt ratio measures the preparation of total assets provided by the creditors of the firms. The Table 1 shows that the debt ratio of the bank was decreased from 101% in 2014 to 100% in 2016. A lower debt ratio indicates that a company relies less on borrowing for financing its assets. It is seemed (Table 1) that the branch has maintained the above assumption properly.

ROA of a bank gives an idea of how efficiently a bank is operating its assets to generate profit. It is indicated in Table 1 that ROA of the branch was increased from 0.4% in 2014 to 1.6% in 2015 but it was decreased in 2016. The higher ROA indicates a higher assets-intensity and profitability of the branch. But it is revealed in Table 1 that the efficiency of bank management in operating its assets to generate profit was decreased.

Table 1: Ratio analysis of different years

Ratios	2014	2015	2016
Current ratio	17%	22%	31%
Debt ratio	101%	100%	100%
ROA	0.4%	1.6%	-10.5%
Net profit margin ratio	23.8%	52.2%	-354.1%
Cost to income ratio	76.2%	47.3%	454.1%

Source: Compiled from ledgers of the branch in ^[1].

The net profit margin measures the percentage of each sales after all expenses including the deduction of taxes. The net profit margin ratio was increased from 23.8% in 2014 to 52.7% in 2015 and it was decreased unexpectedly in 2016 (Table 1). The higher such ratio indicates the efficiency and profitability of a bank. But it is thought (Table 1) that the profit of the branch was declined and the operations of the bank branch needs to improve. It is also seen in Table 1 that the cost to income ratio of the bank was decreased from 76.2% in 2014 to 47.3% in 2015 and after that it was increased unexpectedly to 454.1% in 2016 (Table 1). This indicates that the efficiency of bank management in reducing its cost in relation to its income was relatively inconsistent.

Conclusions

Once an outstanding BASIC Bank Ltd. is facing poor performance. There are many reasons behind this poor performance. However, there are some suggestions to recover this situation which are mentioned below:

The bank can apply effective marketing policy for its products and services.

Research and development activities should be taken into consideration.

The bank can design effective loan portfolio.

Effective strategies must be undertaken against defaulters.

The bank can introduce rewards system for good borrowers. Initiatives must be taken by the management board in order to increase the profit or values of shares.

It is expected that the bank can recover its previous forms if the above recommendations based on the branch level study are considered by consolidating it with the future plans of the bank.

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