A COMPARATIVE STUDY ON OPERATIONAL AND FINANCIAL PERFORMANCE OF INTERNATIONAL FINANCE INVESTMENT AND COMMERCE BANK LTD AND AGRANI BANK LTD IN BANGLADESH

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ABSTRACT

Financial and operational managements are considered to be important ways to measure profitability and liquidity of a bank. There is a close relationship between financial performance and operational performance of banks. The study aimed to determine the financial and operational management of International Finance Investment and Commerce Bank Ltd. and Agrani Bank Ltd. The study was prepared on the basis of secondary data collected from published annual reports of the banks, journals and books and so on. The technique of ratio analysis was used in order to find out liquidity and profitability of banks with a view to measuring operational and financial performance of banks covering a five (5) year periods. During analysis of the collected data, a fluctuating result was found out as International Finance Investment and Commerce Bank Ltd. is a Private bank and Agrani Bank Ltd. is a public bank. The management policy to some extent different in case of both of the banks. The study pointed out many limitations considering private and public sectors banks and assess which of the banks is in advantageous position. Lastly, the study outlined some modest possible suggestions for the betterment of financial and operational performance of banks so that the banks can contribute to the nations considerably.

Keywords: Operational performance, financial performance, profitability, liquidity empirical study, banks in Bangladesh

INTRODUCTION

A bank is an institution that mainly acts in different ways as receiving deposits of money from savers and lending money to borrowers and investors and performing many monetary transactions for its clients. Collecting deposits from savers a bank pays interest and lending money it charges interest on borrowers and investors. If receiving interest amount is greater than the interest payment, the margin is said to be better performance of the bank. In the same way a bank performs many other activities relating to money in favor of its customers and charge service charge. If the service charge is more than the expense relating that service activities, the margin is also said as better performance of the bank.

The study includes two banks. One, Agrani Bank Limited, which is a public commercial bank and established in 1972 in Bangladesh. It has been working throughout Bangladesh and in some foreign countries. Two, International Finance Investment and Commerce Bank Limited is a private sector commercial bank, which is established in 1976 in Bangladesh as per private bank ordinance. The main purpose of both the banks is to provide better service to their clients through experienced and devoted workforce. So,

This has been supported by the studies of Medhat, T.(2006), Chien, T.,& Danw, S.Z.(2004) and Farrukh, Z. (2006). Analysis of operational and financial performance of an organization is one of the important parts of overall performance evaluation. Liquidity analysis includes the relationship between current assets and current liabilities. Profitability analysis includes the relationship between profit with sales and profit with assets. This study is necessary to show whether a firm will able to meet its current obligations and whether a firm operates in a profitable manner. The scope of the study is limited to the secondary sources of information only. This paper has been prepared from various secondary data of ABL and IFIC Bank Ltd. It is expected that the outcomes of this study will benefit this bank in formulating policy with the ultimate goal of improving operational and financial efficiency.

OBJECTIVES OF STUDY

The objectives of the study interalia are**:** 1) to understand the operational and financial performance of the banks; 2) to assess the profitability of the banks; 3) to show the analysis of the liquidity position of the banks; 4) to provide the modest possible suggestions for the better performance of both the banks under study.

METHODOLOGY

The study is based mainly on secondary sources of information collected from audited annual report an account of ABL and IFICBL. Primary data are not available for this study. Some information was collected from some journal and PHD Reports. Methodology of the study comprises the sample selection, selected period of the study, sources of data, sources of data, secondary data and data analysis technique.

Researchers selected Agrani Bank Limited and International Finance Investment and Commerce Bank (IFIC) Limited as a sample for the research study. The financial statements such as income statement and balance sheet are applied of Agrani Bank Limited and International Finance this paper intends to compare operational and financial performance of both the banks.
Investment and Commerce Bank Ltd to analyze ratio. Researcher has been selected five years for the present research study. The present study has conducted on the basis of secondary data such as Various annual audit reports, Books and papers, Statistical report and journals, Reports and documents, Internet and various study selected reports, Website of bank.

The most generally applied data analysis methods are: Content analysis. This is the most used methods to express qualitative data that is Narrative analysis. This method is applied to explain content from different sources, such as interviews of respondents or surveys. In this paper, researcher applied quantitative technique to analyze the operational and financial performance through ratio techniques.

RESULT AND DISCUSSION

The overall performance of the banks should be evaluated based on a set of situations that involves liquidity, solvency, profitability and financial efficiency. Each of these situation measures a different aspect of financial performance. Here, Liquidity describes the capacity of the business to meet financial obligations when they come due. When the obligations are paid timely, including principal and interest on debt indicates that it is liquid. Profitability is an exponent of the level of income made by the firm's business and is evaluated in case of rates of return. Financial efficiency monitors the degree of efficiency with which labor, management, and capital are utilized in the business. Efficiency expresses the relationship between inputs and outputs and can be assessed in physical or financial terms.

1. Profitability

Profitability assesses the operational performance of the bank over a period of time. The measures used to assess profitability are net income from operations, rate of return on firm assets (ROA) and rate of return on firm equity (ROE). Net income is the amount after deducting all expenses from sales revenue. The rate of return on banks' assets (ROA) measures the relative income generated by the assets of the business, and is often used as an overall index of profitability. The interest expense ratio focuses on the proportion of gross revenues required to cover the interest expenses. Net income from operations ratio measures net firm income from operations as a proportion of gross firm revenues.

Liquidity. Liquidity is the capacity to generate cash to mitigate cash demands when they occur during the year and to provide for undetermined events. Liquidity ratio determines ability to pay its short-term obligations.

Solvency. Solvency indicates to the capacity to meet long-term commitments as they come due. If the value of total assets exceeds total liabilities, the firm is said called solvent; if the sale of all assets would not generate sufficient cash to pay off all liabilities, the firm is insolvent. The difference between the value of total assets and total liabilities commonly referred to as net worth or owner's equity, is the most often used measure of solvency. The related ratios are: The equity-to-asset ratio indicates the proportion of total firm assets owned or financed by the owner's equity capital. Equity-to-asset ratio= Total equity ÷ Total assets = (Total assets - Total liabilities) ÷ Total firm assets. The debt-to-equity ratio indicates the relative proportion of funds invested by creditors versus the owners. The higher the value of the debt-to-equity ratio, the more total capital supplied by the creditors relative to the owner. Debt-to-equity ratio= Total firm liabilities ÷ Total firm equity =Total firm liabilities ÷ (Total firm assets - Total firm liabilities).

2. Ratio Analysis

2.1 Profitability Ratio

Return on Equity. It is the amount of net income returned as a percentage of shareholders equity. ROE measures profitability by describing how much profit a bank produces with the money shareholders have invested. ROE of Agrani Bank Ltd. is = (Net Profit After Tax/ Shareholders Equity)

Table1

Table showing Net Profit after Tax and Shareholder's Equity of ABL during the year from 2013 to 2017

Year	Net Profit after Tax	Shareholders' Equity
2017	676	4073
2016	(697)	3658
2015	65	4468
2014	199	3957
2013	905	3564

2017	2016	2015	2014	2013
16.59%	-19.05%	1.45%	5.02%	25.39%

Graphical Representation

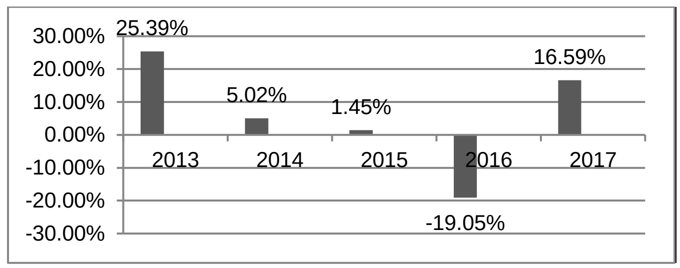

Figure 1. Return on equity of profitability ratio of Agrani Bank Limited

This ratio reveals how profitably the owners' funds have been utilized by the bank.

Table 2

Return on Equity of IFICBL during the year from 2014 to 2018

Particulars	Year				
	2014	2015	2016	2017	2018
Return on Equity	17.30%	11.60%	33.12%	11.36%	5.76%

Graphical Representation

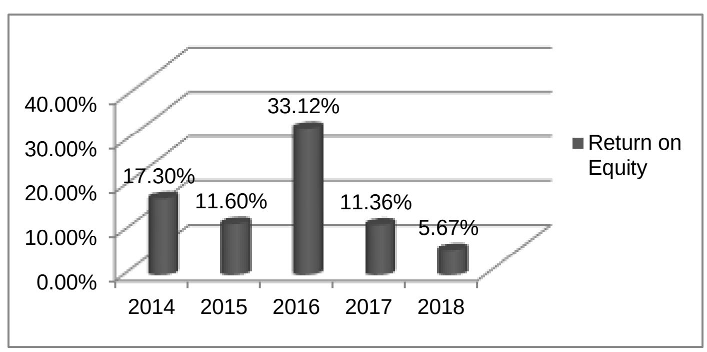

Figure 2. Return on Equity of IFICBL

Return on Assets (ROA). ROA is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. ROA is displayed as a percentage. Sometimes this is referred to as 'return on investments.

ROA= (Net Profit After Tax/Total assets)

Table 3
Table illustrates net profit after tax and total asset of ABL during the year from 2013 to 2017

Year	Net Profit After Tax	Total Assets
2017	676	67392
2016	(697)	62357
2015	65	56535
2014	199	49487
2013	905	44416

2013	2014	2015	2016	2017
2.04%	0.40%	0.11%	-1.12%	1%

Graphical Representation

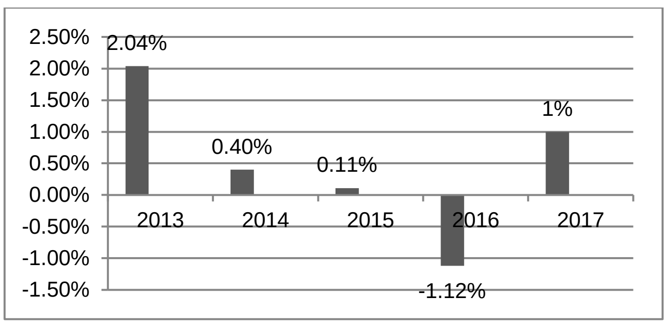

Figure 3. Return on assets of profitability ratio of Agrani Bank Limited

Return on assets ratio is the underestimate as the interest paid to the lenders.

Table 4
Table displays that Return on Assets of IFICBL during the year from 2014 to 2018

Particulars	Year				
	2014	2015	2016	2017	2018
Return on Assets (%)	1.31%	2.37%	0.89%	0.93%	0.38%

Graphical Representation

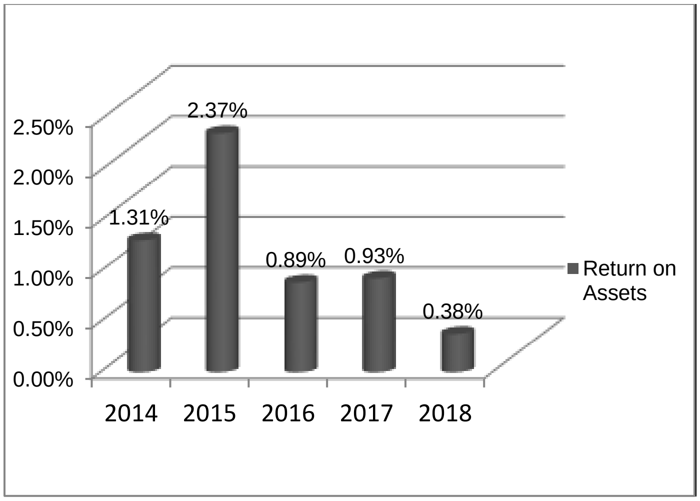

Figure 4. Return on Assets of IFICBL

Net Interest Margin (NIM). NIM is a performance indicator that explains how successful banks investment decisions are compared to its debt situations. A negative value describes that the firm did not make an optional decision because interest expense was greater than the amount of returns generated by investments.

Net Interest Margin= (Interest income – Interest Expense/Total assets)

Table 5
Table presents interest income, interest expense, and total assets of ABL during the year from 2013 to 2017

Year	Interest Income	Interest Expense	Total Assets
2017	2253	1818	67392
2016	2145	2062	62357
2015	2364	2294	56535
2014	2339	2221	49487
2013	2395	2268	44416

2013	2014	2015	2016	2017
.29%	.24%	.12%	.13%	.64%

Graphical Representation

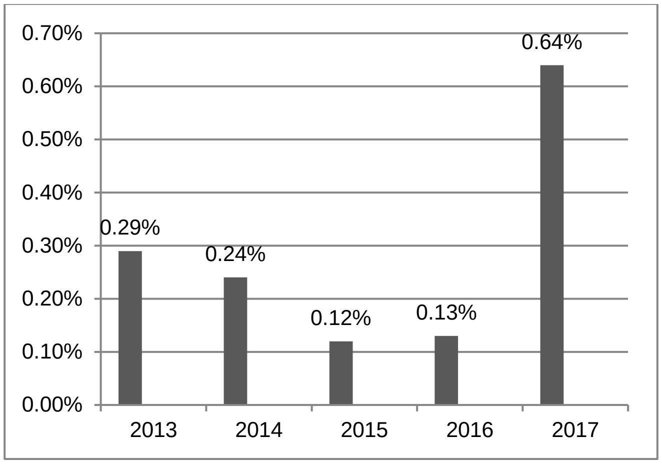

Figure 5. Net interest margin of profitability ratio of Agrani Bank Limited

Table 6
Table showing Net Interest Margin of IFICBL during the year from 2014 to 2018

Particular	Year				
	2014	2015	2016	2017	2018
Net Interest Margin (NIM)	2.14%	2.64%	2.76%	3.59%	3.63%

Graphical Representation

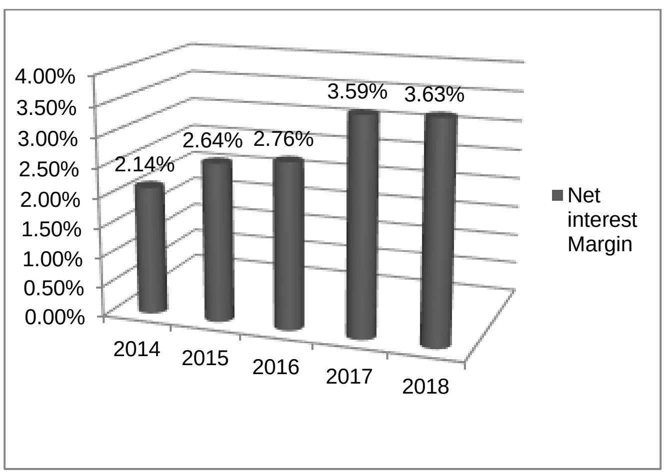

Figure 6. Net Interest Margin of IFIC Bank Limited

Return on Deposit (ROD) = (Net Profit after Tax/Total Deposit)

Table 7
Table showing net profit after tax and total deposit of ABL during the year from 2013 to 2017

Year	Net Profit After Tax	Total Deposit
2017	676	53035
2016	(697)	49405
2015	65	43998
2014	199	38392
2013	905	34868

2013	2014	2015	2016	2017
2.6%	0.52%	0.15%	-1.41%	1.27%

Graphical Representation

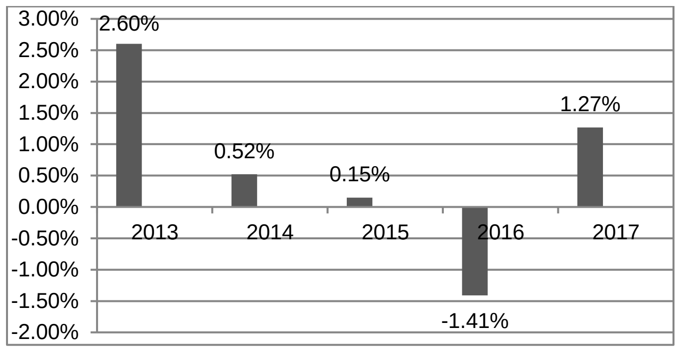

Figure 7. Return on deposit of profitability ratio of Agrani Bank Limited

This ratio reveals that how profitable net profit can be earned from the total deposit.

2.2 Liquidity Ratio

Loan to Deposit Ratio

Loan to Deposit Ratio = Loan / Deposit

Table 8
Table showing loan to deposit ratio of ABL during the year 2013 to 2017

Year	Loan	Deposit
2017	31912	53035
2016	26587	49405
2015	24480	43998
2014	23509	38392
2013	20297	34868

2013	2014	2015	2016	2017
58.21%	61.23%	55.64%	53.81%	60.17%

Graphical Representation

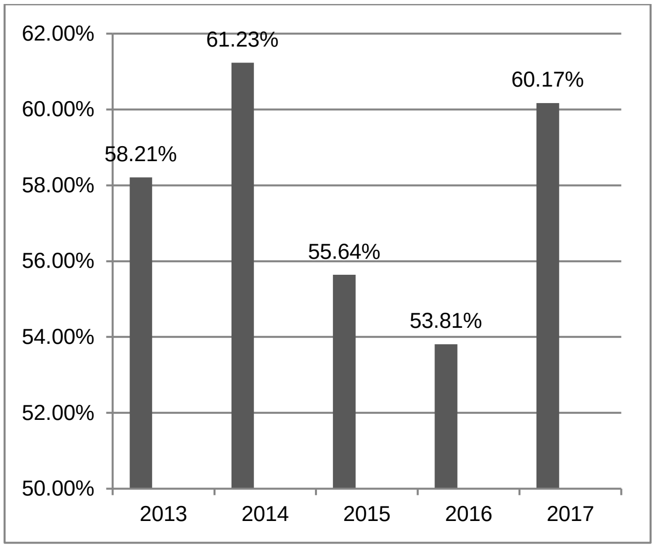

Figure 8. Loan to deposit ratio of liquidity ratio of Agrani Bank Limited

Table 9
Table showing Investment to Deposit Ratio of IFICBL during the year from 2014 to 2018

Particulars	**Year**				
	2014	2015	2016	2017	2018
Investment	5,230	9,083	8,835	12,199	15,671
Customer Deposits	36,092	50,018	54,660	73,106	92,433
Ratio	14.50%	18.16%	16.16%	16.70%	17.00%

Indication. The balance sheet shows that IFIC Bank have the gradual increase of the total Investment that are incurs due to increase the branches and also adopt new facilities for the clients increase their business. And increase the branches and facilities also increase the customer and that also increase the volume of customer deposit gradually.

Graphical Representation

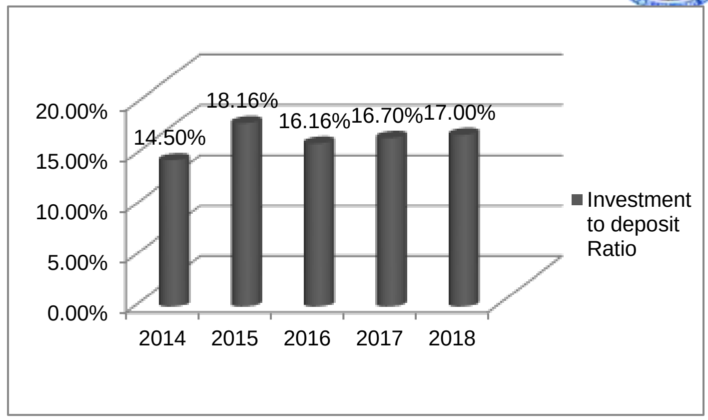

Figure 9. Investment to Deposit Ratio of IFIC Bank Limited

2.3 Loan to Asset Ratio

Loan to Asset Ratio = Loan / Asset

Table 10
Table showing Loan to Assets Ratio of ABL during the year from 2013 to 2017

Year	**Loan**	**Asset**
2017	31912	67392
2016	26587	62357
2015	24480	56535
2014	23509	49487
2013	20297	44416

2013	**2014**	**2015**	**2016**	**2017**
44.34%	47.51%	43.30%	42.64%	47.35%

Graphical Representation

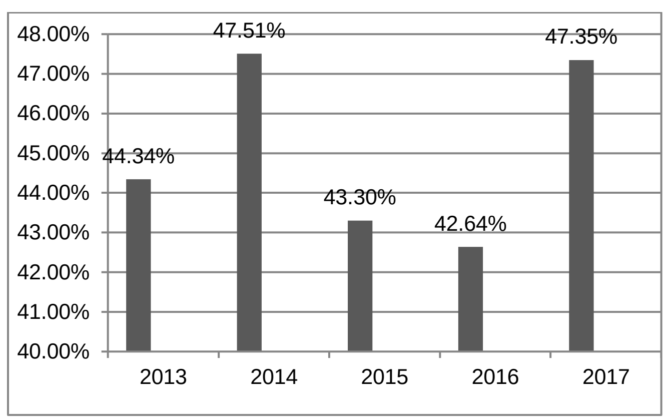

Figure 10. Loan to assets ratio of liquidity ratio of Agrani Bank Limited

Net Working Capital. Net working capital represents the excess of current assets over current liabilities. Although net working capital is really not a ratio, it is frequently employed as a measure of a bank's liquidity position.

Net Working Capital = Current Assets - Current Liabilities

Table 11
Table showing Net Working capital of ABL during the year from 2013 to 2017

Year	Current Assets	Current Liabilities
2017	65836	53035
2016	60779	49405
2015	54940	43998
2014	47942	38392
2013	42891	34868

Graphical Representation

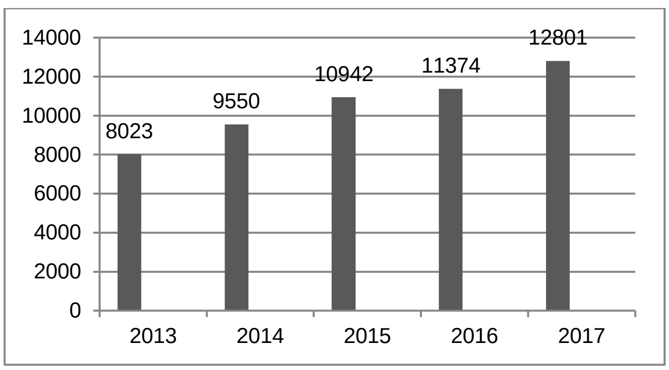

Figure 11. Net working capital of Agrani Bank Limited

The greater is the amount of net working capital, the greater is the liquidity of the bank.

Current Ratio. Current ratio is the ratio of total current assets to total current liabilities.

Table 12
Table showing current Ratio of ABL during the year of 2013 to 2017

Year	Current Assets	Current Liabilities
2017	65836	53035
2016	60779	49405
2015	54940	43998
2014	47942	38392
2013	42891	34868

Graphical Representation

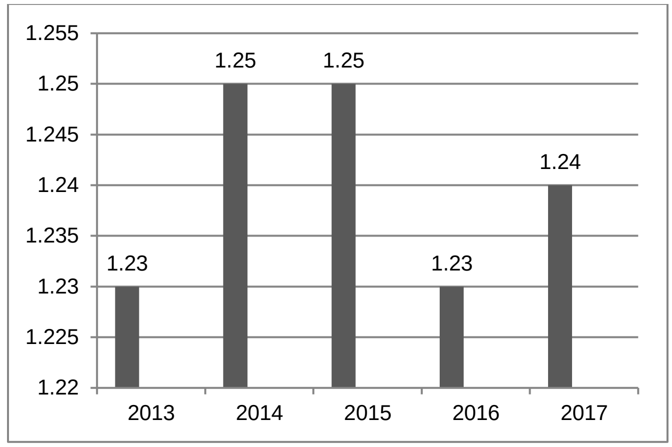

Figure 12. Current ratio of Agrani Bank Limited

The current ratio of a bank measures its short-term solvency that is its ability to meet short term obligations.

If the current ratio is 2:1, it is considered satisfactory. But the above years of Agrani Bank Limited current ratio is not 2:1, so it is not satisfactory.

FINDINGS

Return on Equity (ROE). ROE indicates that how profitably the owner's funds have been utilized by the bank.

Table 13
Comparison of ROE between ABL and IFIC Bank during the year from 2014 to 2018

Year	ABL	IFICBL
2014	5.02%	17.30%
2015	1.45%	11.60%
2016	-19.05%	33.12%
2017	16.59%	11.36%

Return on Equity of IFICBL is better than Agrani Bank Limited because the Return on Equity of Agrani Bank Limited fluctuates in some years. The owner's funds have been utilized by the IFIC Bank Limited more profitably. It reveals more efficiency at generating profits from every unit of shareholder's equity.

Return on Assets (ROA). Return on Asset is the presumption as the interest paid to the lenders.

Table 14
Comparison of ROA between ABL and IFIC Bank during the year from 2014 to 2018

Year	ABL	IFICBL
2014	0.40%	1.31%
2015	0.11%	2.37%
2016	-1.12%	0.89%
2017	1%	0.93%

Return on Assets of IFIC Bank Limited decrease in comparison with previous years. Return on Assets of Agrani Bank Limited also decreases in comparison with previous years, but the situation of interest paid to lenders is better of IFIC Bank Limited. IFICBL is more profitable relative to its total assets. It mainly presents the best use of total assets.

Loan and Investment to Deposit Ratio. The amount of deposit relative to loan increases in comparison with previous years to improve the liquidity of ABL. The amount of total investment of IFIC Bank Limited increases due to adopt new facilities for the clients.

Table 15
Comparison of Loan and Investment to Deposit Ratio between ABL and IFIC Bank during the year from 2014 to 2018

Year	ABL	IFICBL
2014	61.23%	14.50%
2015	55.81%	18.16%
2016	53.81%	16.16%
2017	60.17%	16.70%

The amount of deposit is larger than the loan amount of Agrani Bank Limited and IFIC Bank Limited. The amount of loan to deposit ratio in 2014, 61.23% is satisfactory in comparison with previous years of ABL and the investment to deposit ratio of IFIC Bank Limited is satisfactory in 2015, 18.16% in comparison with previous years.

Net Interest Income Ratio

Table 16
Comparison of Net Interest Income Ratio between ABL and IFICBL during the year from 2016 to 2017

Year	ABL	IFICBL
2017	19.30%	2.90%
2016	3.85%	2.70%

Net interest income ratio of ABL is better from IFCBL.

Cost to Income Ratio

Cost to Income Ratio = $\frac{Cost}{Income}$ *100

Table 17
Comparison of Cost to Income Ratio between ABL and IFICBL during the Year from 2016 to 2017

Year	ABL	IFICBL
2017	2.85%	5.48%
2016	3.20%	5.97%

Net interest ratio of IFICBL is better from ABL.

Gross Profit Margin

Gross Profit Margin = $\frac{Gross\ Profit}{Sales} * 100$

Table 18
Gross Profit Margin

Year	ABL	IFICBL
2014	45.92%	26.75%
2015	37.14%	28.82%
2016	25.89%	27.23%
2017	36.09%	24.57%

Gross profit margin of ABL is better from IFICBL.

Net Profit Margin

Net Profit Margin = $\frac{Net\ Profit}{Sales}$ *100

Table 19
Net Profit Margin

Year	ABL	IFICBL
2014	8.51%	13.02%
2015	2.75%	7.09%
2016	32.51%	9.67%
2017	30.00%	13.85%

Net profit margin of IFICBL gradually increases in comparison with previous year but net profit margin of ABL fluctuates over some years.

Operating Profit Ratio

Operating Profit = $\frac{EBIT}{Sales}$ *100

Table 20
Operating Profit Ratio

Year	ABL	IFICBL
2014	7.27%	22.57%
2015	2.54%	12.76%
2016	3.50%	16.54%
2017	42.97%	15.42%

Operating profit ratio of IFICBL is satisfactory than ABL.

CONCLUSIONS

In this paper, performance analysis was done through ratio analysis technique. Ratio analysis technique is a quantitative technique which is widely applied for evaluating or analyzing performance of the banking sector. A comparative study was conducted to analyze the performance of the selected banks clarifies that the performance of International Finance Investment and Commerce Bank Limited has been better than Agrani Bank Ltd.

RECOOMMEDATIONS

The present study covers two banks. The International Finance and Investment Bank Ltd is a private sector commercial bank and Agrani Bank Ltd is a public sector commercial bank. The operational and financial performance of the banks in terms various ratios of liquidity, profitability and solvency show the better performance of the International Finance and Commerce Bank Ltd which is privately controlled. So, planners and policy makers who are preparing policies and plans and implement them for the betterment of the Government controlled commercial banks, they should consider the policies and plans of the private commercial banks and find out the loopholes of the public sector commercial banks and take steps for its betterment.

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