

Analyzing the Financial Performance of Selected Banks in Bangladesh: A Comparative Study

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ABSTRACT

This study conducts a comprehensive comparative analysis of the financial performance of selected seven commercial banks in Bangladesh. It aims to assess and evaluate key financial indicators, such as profitability ratios, asset quality, and liquidity positions. Through in-depth examination of financial statements and relevant data, the research seeks to identify patterns, trends, and differences among these banks. The findings of this study will provide valuable insights for stakeholders, including bank management, investors, and policymakers. It will contribute to a better understanding of the banking sector's dynamics and assist in formulating effective strategies for enhancing financial stability and performance in the Bangladeshi banking industry. For example, it might reveal that some banks have excelled in cost management, leading to higher profit margins, while others struggle with non-performing loans. Such detailed analyses will offer targeted recommendations for improvement and strategic decision-making.

Keywords: - Financial Performance, Commercial Banks, Ratios Analysis, Financial Analysis, Bangladesh

1. Introduction

Banking is an ancient financial sector crucial for a nation's economic growth. Its primary role is managing deposits and lending. Over time, its functions have expanded and diversified. It's not just about money trading but also credit creation [1]. In the past few years, the Bangladeshi banking system has achieved much. It has reached rural areas, is a major player in the financial system, and offers various services to improve people's lives. Banks are the major and crucial players in the financial system of the country. The banking industry offers various amenities and services to clients, improving the quality of life for the people [2].

Like other sectors or industries of the country, the banking sector in Bangladesh is one of the ancient merchants and moneylending institutions. Bangladesh's banking sector is comparatively larger. According to Bd news (2020), the total size of the banking sector of Bangladesh is 55.5% of the GDP in 2020, which is a significant percentage for a country with a per capita income of US\$ 2068 roughly [3]. Thus, financial performance analysis is a process of systematically making a proper, critical, and comparative evaluation of the profitability and financial health of the organization through the applications of financial statement analysis and other relevant.

However, in the current situation, deteriorated economic and social conditions have a significant impact on how well banks operate across all operational, efficiency, and profitability areas of the country, which has led to a sharp decrease in the profits of all types of banking institutions. Despite several studies on the banking industry of Bangladesh whether overall financial performance in terms of commercial banks' situation aggregately seldom explored. Thus, the present research tries to assess the financial performance of selected banks in Bangladesh using different financial and statistical applications and tools. Therefore, it is aimed to evaluate the key financial

performance of some selected commercial banks in Bangladesh using various key ratio analyses and other supplementary portfolios. Besides, the present study also intended to analyze banks' financial capabilities based on various indicators.

It is crucial to keep a view of the banking system's performance in light of the different changes that the Bangladeshi banking sector is undergoing. Studies on bank efficiency are important for policymakers, business titans, and many others who depend on the banking system. The performance of banks has drawn significant interest from a range of parties, including regulators, consumers, investors, and the general public. The study by Malhotra & Aspal [4] stated that an important tool for understanding a bank's financial situation and for taking the necessary action to improve the standard of a financially troubled bank is a performance review of the bank. The effectiveness and performance of the Bangladesh banking industry in relation to the regulatory framework must also be determined.

2. Literature Review

An enormous amount of literature looks at the factors that affect bank performance. However, after making any effort, it becomes clear that practically all articles that have been published regress a measure of bank performance on a variety of variables [5]. The methods that involved rearranging all of the financial data as specified in the financial statements. First, there needs to be a clear relationship between the various parts of the balance sheet and the profit and loss account. The significance of the results acquired using financial techniques is then assessed [6]. Kabir [7] revealed as financial analysis is the assessment of a firm's previous financial performance as well as its outlook for the future. So, calculating multiple ratios is a necessary part of the financial statement analysis process. A ratio in mathematics is the correlation between two numerical values.

The primary goal of financial analysis is to identify a business undertaking's strengths and weaknesses by combining and analyzing the data found in financial statements, contrasting different elements, and reviewing their content. In order to assess the financial performance and position and, ultimately, make economic decisions regarding the bank, users of the financial statements of a bank need pertinent, trustworthy, and comparative information. In the past, banks have acted as middlemen to transfer money from surplus units to deficit units. Commercial banks do not manufacture any tangible items, in contrast to other non-banking financial institutions. To make trade transactions easier, they provide loans and financial innovations [8].

Empirical study by Ray & Mohan [9] made the combination a comparison of the performance of banks in the public and private sectors. In their study, they compare the performance of three banks—public, private, and foreign—using actual input and output quantities and the efficiency of the banks' revenue maximization. The research reveals that while overseas banks performed similarly to private sector banks, public sector banks did noticeably better. In order to evaluate the financial condition and performance of the bank and to help them make economic decisions, users of the financial statements of banks require pertinent, trustworthy comparable information. While banks evaluate financial statements from the perspective of shareholders, bank regulators aim to do so from a safety and stability point of view, defending the economic interests of depositors and the general public [9].

The current state of financial institutions is demonstrated by the relatively high interest rates that are offered and accepted by financial institutions when compared to commercial banks. The financial firms shouldn't be restricted to the valley alone. Hossain & Kalince [10] argued that making green banking practices commonplace would increase profits and, in turn, foster long-term sustainable growth and profitability. Numerous studies on the financial performance of banks have been carried out. However, very few studies have been done to compare the financial performance of various bank institutions at the national level. The key theme should be to conduct financial analysis in order to assess financial performance in terms of financial and statistical measurements.

3. Research Methods

This research study's goal is to analyze and assess the financial performance of Bangladeshi commercial banks in various areas: including liquidity, leverage, efficiency (activity), and profitability ratios with which the banks employ their operational assets and liabilities. Descriptive research methodologies were used. In order to determine the financial positions of the banks, annual reports and financial statements released by associated banks, various information and relevant data were obtained from the seven selected commercial banks (out of 33) of the country.

Data are gathered from the 2015 through 2020 fiscal years. Such banks are AB Bank, Bank Asia Ltd., BRAC Bank Ltd (BBL), Uttara Bank, EXIM Bank Ltd (EXIMBL), Dutch-Bangla Bank Ltd (DBBL), and Islami Bank Bangladesh Ltd (IBBL).

These were selected in terms of their large operations in the banking industry including money deposition, credit disbursements, assets accumulation, client satisfaction, manpower volume, branches, etc [11]. Most of the data and information used in this study were first gathered from secondary sources, scanned, and categorized under several headings. Following that, the calculated findings were contrasted and interpreted. Data are effective when analyzed properly and with the right tools. A common tool for analyzing and interpreting the performance of the data-selected sample is the financial ratio.

In addition, to attain the specific knowledge of an organization regarding the strengths and weaknesses of financial policies and strategies relevant financial tools are used effectively, present study used the statistical method of the Karl Person's coefficient of correlation (r). Correlation values can be anywhere from 1 and t. The correlation coefficient between two variables X and y is typically represented by the letter "r," and can be calculated as follows:

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

Where,

N=No of observations in groups X and Y

$\sum X$ = Sum of observations in a group of X

$\sum Y$ = Sum of observations in a group of Y

$\sum X^2$ = Sum of squared observation in the group of X

$\sum Y^2$ = Sum of squared observation in the group of X

$\sum XY$ = Sum of the item of observations in a group of X and Y value of r lies between -1 to +1

R= 1 Implies that there is a perfect negative correlation between the variables

R= 0 Implies that the variables are non-associated with each other

R= -1 Implies that there is a perfect positive correlation between the variables

It demonstrates the reliability of the correlation coefficient to the extent that it is dependent on the assumption of random sampling (Pant 2012).

The probable error of the correlation coefficient can be calculated as P.E. (r):

$$P. E(r) = 0.6745 * \frac{1 - r^2}{\sqrt{n}}$$

4. Results

In this section of the study data from selected banks are provided and analyzed to meet the research objectives. Different financial ratios and statistical analyses are used to make data more realistic and comprehensive. However, only a few ratios have been used to analyze the strengths and weaknesses of the sample banks due to significant limitations and shortfalls.

Table 1: A Five-year Financial Performance of Selected Banks

(BDT in million)

Banks	Particulars	Financial Year (FY)				
		2019-20	2018-19	2017-18	2016-17	2015-16
	Total income	18,825	16,376	14,927	12,877	14,221

AB Bank	Gross Profit	11295	7,592	6894	6127	5841
	Net profit after tax and expenses	5,710	5012	4908	4633	4032
Bank Asia	Total income	29694	27,596	25660	27,842	22039
	Gross Profit	18962	20142	17984	15067	13692
	Net profit after tax and expenses	8542	8244	7986	8155	7689
BRAC Bank	Total income	38025	40,852	36464	35166	33905
	Gross Profit	23815	25146	23049	21397	20350
	Net profit after tax and expenses	12798	12482	11872	12356	10535
Uttara Bank	Total income	39804	36187	37512	34299	35436
	Gross Profit	23884	25077	22635	20942	21278
	Net profit after tax and expenses	13244	12965	11389	10864	11584
Exim Bank	Total income	34182	32346	30612	31562	29874
	Gross Profit	19510	17988	15732	16845	15375
	Net profit after tax and expenses	14532	13966	13506	14088	13698
Dutch-Bangla Bank	Total income	37346	34477	32066	33506	30882
	Gross Profit	22415	19874	20122	18336	20233
	Net profit after tax and expenses	11235	12639	13022	11865	12268
Islami bank	Total income	43460	41982	38544	39055	37855
	Gross Profit	25768	24133	22077	24388	21066
	Net profit after tax and expenses	15312	15944	13988	12450	13578

From Table-1 we have seen that AB Bank gained slow total income from FY 21015/16 to 2019/20. Even the bank's net profit found almost one-fourth of the total income throughout the study period. In the end, FY this bank earned gross profit almost doubled than initial FY of 2015/16.

The total income of Bank Asia was BDT 22,039 million in FY 2015/16 which gradually increased throughout the whole study period. The gross profit rate was reduced by BDT 1180 million in FY than previous FY 2018/19 due to high operating and other expenses. In addition, in FY 2017/18 the bank's net profit followed decreasing rate although the next consecutive two years increased.

Like other banks BRAC bank's total income got increasing mood year by year. But in FY 2019/20 income and gross profit declined more than the previous FY. On the other hand, in FY 2017/18 net profit of the bank declined due to high taxes and other expenses. Uttara Bank secured the highest gross profit of BDT 25077 million in FY 2018/19 but the net profit was BDT 13244 million in FY 2019/20 which is lower than FY 2018/19. Because this FY bank faced high operating costs and taxes despite of highest total income among all study periods.

The highest total income level was reached in FY 2019/20 during the five years by EXIM bank but in FY 2017/18, income was reduced than earlier year. While the bank obtained the highest net profit in FY 2016/17 which was BDT 14688 million. Whether the gross profit fluctuated every financial year.

The profit & loss statement tells us that Dutch Bangla Bank faced a great fluctuation in its net profit while the total income increased for four years gradually except in FY 2017/18. Similarly, gross profit varied throughout the study period, such as in FY 2016/17 and 2018/19 this amount has fallen more than their recent previous FY.

Table 2 also shows that IBBL's total income position exceeded other commercial banks. This bank earned a total income of BDT 37,855 million in FY 2015/16 which reached BDT 43460 million in the ending FY 2019/20. Even

the banks obtained gross profit with a good rate that is almost forty percent above of total income in each financial year.

Table 2: Calculation of current ratios for the selected banks

(BDT in million)

FY	AB Bank	Bank Asia	BRAC Bank	Uttara Bank	EXIM Bank	Dutch-Bangla Bank	Islami Bank
2015/16	1.224	1.379	1.203	1.412	1.451	1.437	1.566
2016/17	1.216	1.325	1.426	1.396	1.398	1.482	1.584
2017/18	1.264	1.416	1.487	1.448	1.523	1.593	1.538
2018/19	1.359	1.447	1.398	1.527	1.569	1.688	1.721
2019/20	1.468	1.517	1.520	1.675	1.664	1.72	1.833
Mean	1.306	1.416	1.40	1.492	1.521	1.584	1.648
S.D.	0.095	0.064	0.110	0.102	0.092	0.110	0.111
CV in %	7.31	4.5	7.86	6.85	6.08	7.00	6.78

The aforementioned table compares the numerical values of selected seven commercial banks in terms of current ratio, average, SD, and coefficient of variation. In comparison to other banks, AB Bank has the lowest mean value current ratio (1.306), whereas IBBL has the highest average current ratio (1.648). That shows that IBBL is well-positioned to fulfill the stakeholders' immediate obligations. Nonetheless, Bank Asia has a smaller SD and C.V. than the competition, demonstrating that it is more reliable than other banks in maintaining the current ratio. Although having stronger liquidity, AB Bank and Bank Asia struggle to keep the current ratio constant because of their larger standard deviation and CV.

Table 3: Ratio of cash and bank balance to all deposits

(BDT in million)

FY	AB Bank	Bank Asia	BRAC Bank	Uttara Bank	EXIM Bank	Dutch-Bangla Bank	Islami Bank
2015/16	0.813	0.451	0.612	0.702	0.531	0.571	0.741
2016/17	0.596	0.369	0.422	0.655	0.498	0.644	0.564
2017/18	0.584	0.571	0.603	0.645	0.649	0.804	0.824
2018/19	0.374	0.435	0.573	0.321	0.640	0.631	0.866
2019/20	0.715	0.402	0.476	0.504	0.748	0.744	0.936
Mean	0.616	0.445	0.537	0.565	0.613	0.679	0.786
S.D.	0.147	0.038	0.075	0.138	0.089	0.083	0.127
CV in %	23.90	15.42	13.98	24.57	14.62	12.33	16.25

Table 3 shows the change in the balance for cash and bank to total deposition ratio of the selected commercial banks of Bangladesh. The mean value for the ratio of the cash & bank balance to total deposit IBBL is the highest (0.19) among all other banks whereas EXIM bank has the lowest (0.69). In addition, AB Bank has the lowest S.D. and C.V. values (0.011 and 13.09) respectively than others which implies this bank is more static to maintain cash and bank balance requirements. While EXIM bank contained a higher C.V (39.07) value among all banks which indicates that this bank is more inconsistent.

Table 4: Calculation of current assets ratio against cash and bank balance

(BDT in million)

FY	AB Bank	Bank Asia	BRAC Bank	Uttara Bank	EXIM Bank	Dutch-Bangla Bank	Islami Bank
2015/16	0.281	0.130	0.812	0.771	0.625	0.387	0.132
2016/17	0.659	0.112	0.724	0.455	0.374	0.278	0.234
2017/18	0.084	0.109	0.115	0.145	0.649	0.563	0.613
2018/19	0.287	0.143	0.906	0.621	0.740	0.534	0.408
2019/20	0.252	0.098	0.857	0.404	0.248	0.222	0.342
Mean	0.312	0.118	0.682	0.479	0.527	0.396	0.345
S.D.	0.188	0.016	0.290	0.211	0.184	0.135	0.163
CV in %	60.28	13.54	42.49	44.08	35.08	34.03	47.25

Above table-4 exhibit the average values for the ratio of cash and bank to current assets for the selected seven commercial banks are respectively 0.312, 0.118, 0.682, 0.479, 0.527, 0.396, and 0.345. While Bank Asia has the lowest and EXIM bank obtained the highest average (mean) among other banks. Besides, Bank Asia has the lowest standard deviation (SD) and C.V is 0.016 and 13.54 which implies most consistency of the bank than others for addressing cash balance in comparison to current assets.

Table 5: Assessing of correlation value between loan advances and total deposits

(BDT in million)

Evaluation criteria	AB Bank	Bank Asia	BRAC Bank	Uttara Bank	EXIM Bank	Dutch-Bangla Bank	Islami Bank
r	0.82135	0.9744	0.7356	0.9954	0.9678	0.9731	0.9214
r ²	0.674041	0.948676	0.5329	0.9801	0.9216	0.9409	0.8464
P.E (r)	0.06254	0.0056	0.0634	0.0892	0.0924	0.0913	0.0804
6* P.E (r)	0.3721	0.0336	0.3808	0.5352	0.5544	0.5478	0.4824
Level of Significance	Significant	Significant	Significant	Significant	Significant	Significant	Significant

The table-5 implies that the correlation coefficient for the banks of AB, Bank Asia, BRAC, Uttara, EXIM, Dutch-Bangla, and IBBL is 0.82135, 0.9744, 0.7356, 0.9954, 0.9678, 0.9731, and 0.9214 respectively. The coefficient for Bank Asia, Uttara, Exim, and DBBL is almost +1 which implies there is a positive correlation perfectly between loans& advances and total deposits for these mentioned banks. During the testing of 6* P.E. (r) for seven selected commercial banks, it was discovered to be significant because there was a perfect correlation between the total deposits, loans, and advances because the value of 'r' was greater than the value of 6*P.E. (r). It demonstrates that all sample banks are capable of efficiently mobilizing their entire deposits for loans and advances.

5. Discussion and Conclusions

5.1 Key Findings

From the comparative balance sheet analyses of the seven banks, it is found that IBBL has increased current assets while EXIM bank is increased the fixed assets gradually in each financial year. They established a static situation to accumulate their assets so which implies banks are able to preserve their liabilities in a reasonable area. On the other hand, BRAC bank consecutively maintained its long-term debt amount at a low rate than other banks but Bank Asia's current liabilities always followed an unstable situation to other banks comparatively. The study found that selected banks gained total income gross and net profit slowly rated year by year. Even, some four banks out of seven gained net profit at one-fourth of the total income. Although, IBBAL, DBBL, and BRAC banks have

increased net profit significantly. But other banks gross profit obtained less margin due to strong deposit mobilization and supervision over the profit margin of the respective bank.

The findings about liquidity position of the seven selected commercial banks demonstrates that they have kept up a healthy current ratio. With a greater mean ratio in comparison to other companies, IBBL is in a better liquidity position, although Dutch-Bangla Bank appears to be more consistent due to its continued maintenance of a lower C.V. and Standard Deviation than other financial institutions.

In comparison to other banks, IBBL has a typical ratio of short-term investments to current assets of 0.472, which is greater. According to the statement, IBBL has a greater proportion of short-term investments than other banks, and Uttara Bank has demonstrated larger consistency than other banks despite having a lower C.V. of 17.90%. This shows that these three banks have retained a higher proportion of fixed deposits in their overall deposit mix, giving these banks a greater opportunity to invest their deposits than SCBNL in the long-term investment sector.

All seven banks show a positive association between deposits and loans and advances. As there is a connection between them, the correlation between the deposit and the loans and advances is ideal. It indicates that all of the sample banks have made loans and advances using their deposits. The deposit is successfully mobilized by banks for loans and advances.

5.2 Implications and Recommendations

It is discovered through a study of liquidity ratios that the sample commercial banks do not have a typical current ratio. However, from the perspective of working capital, it is not regarded as being all that awful. Commercial banks must keep enough cash on hand to cover current needs while investing the ideal deposit in short-term assets to preserve perfect liquidity.

Profit is a crucial component of every business' success. Without making money, the bank cannot survive either. Therefore, they should have profit maximization in mind, but in the long run, commercial banks should also be concerned with maximizing shareholder value. Despite paying lesser interest, income has increased profits by investing more money. To reduce risk and increase profit, banks are advised to implement an effective portfolio diversification strategy. To reduce potential losses, banks are advised to manage their assets well. The techniques for reducing and controlling credit risk include effective project assessment, credit administration, credit monitoring & evaluation, and credit recovery systems. By maintaining a lower ratio of loan loss provision throughout the research period, all banks are in a comfortable position by comparison.

5.3 Conclusions

It can be considered that commercial banks have a significant role in the nation's economic development. Collecting the dispersed idle funds from the tiny savers is a particularly difficult task for commercial banks. In reality, commercial banks pool a sizeable amount of money to meet the funding needs of the nation's productive sectors, which in turn increases employment opportunities and income for the people who supply these businesses and merchants with labor and supplies. Obviously, commercial banks play a significant role in the growth of the nation's economy. Banks must maintain their own sustainable existence and expansion in order to continue being a major contributor to the economy. A bank's sustainability and expansion depend on its capacity to generate a profit.

This study shows that IBBL has a superior relative liquidity position than other banks. The ratios of this bank's cash and bank balances to total deposits, current assets, and current ratio have all remained higher. With the lowest investment in loans and advances and the biggest short-term investment, Bank Asia and EXIM banks have also maintained a strong liquidity position. Since AB bank maintains the lowest cash and bank balance and the lowest level of short-term investments, its liquidity situation is not as strong as other banks'. In comparison to other banks, Uttara Bank collects more deposits and uses less money for short-term investments.

In order to retain more profitability despite receiving the lowest interest income, EXIM bank has mostly concentrated on investment profit rather than the loan and advance profit. With a larger ratio of interest gained to interest paid than other banks, Uttara Bank has amassed more deposits and disbursed more loans and advances. On the basis of statistics from the previous five years, projections for the future five years reveal an upward trend in all banks' total deposits, loans, and investments. Comparatively speaking, BRAC bank, EXIM bank, and IBBL have a

larger increasing tendency of total deposits and total loans than other banks, and DBBL has a higher increasing trend of total investments than the other banks.

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