EXAMINING THE FINANCIAL PERFORMANCE OF GULF COMMERCIAL BANK

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Abstract

A sound financial system is indispensable for the growth of a healthy and vibrant economy. The banking sector, being a crucial constituent of financial system is the lifeline of any economy. It is one of the important financial pillars of the financial system which plays a vital role in the success and failure on an economy. Banks play an important role in the mobilization of deposits and disbursement of credit to various sectors of the economy. The banking system is the fuel injection system which spurs economic efficiency by mobilizing savings and allocating them to high return investment. In this backdrop, this research hasbeen conducted to investigate the financial performance of Gulf Commercial Bank. Multiple regression has been used as the statistical tool for analysis. The study period has been ten years from 2008 to 2017. Data has been collected from the published annual reports. The findings highlighted that thereisinsignificantimpact of current ratio on ROA and ROE but debt equity ratio and inventory turnover ratio has a significant impact on ROA and ROE.

Keywords: ROA, ROE, liquidity, solvency, financial, performance, bank.

INTRODUCTION

Banks are very old form of financial institution that excess funds fromsurplus unit to deficit unit in consideration of a price called interest. Banking businessestablished on a relationship of debtor-creditor between the surplus unit calleddepositors and the bank and between the deficit units called borrowers and the bank. Bank furnishes a huge contribution and modern economy cannot be imagined without the services of bank. Economic development of a country requires a well organized, smooth, easy to reach and efficient saving-investment process. Banking business has been shaped as global business and the restother business greatly depends on the strength of banking business performance. It is inevitable for the government to evaluate the performance of all banks operated in the country. Consequently, this study has been conducted to examine the financial performance of Gulf Commercial Bank.

Financial performance examination is the evaluation and interpretation of the financial positions and operations of a firm. It involves a comparison and interpretation of accounting data. It means analysis of overall financial position, liquidity position, short term and long term solvency position, future prospects for earnings, ability to pay interest and debt of an organization. Furthermore, it is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of balance sheet and profit and loss account. Financial analysis is a scientific tool which has assumed an increasingly important role in terms of examining the real worth of an enterprise. It helps in drawing out the complications of what is contained in the financial statements. In the present research work, financial performance of Gulf Commercial Bank has been evaluated with the help of certain ratios.

STATEMENT OF THE PROBLEM

A single bank is highly connected with other banks the failure of a single bank not only affects other banks and other business. The failure of a single bankcreates an economic turmoil situation and is regarded as a disaster for the economy. So, the government in a

country has a high concern about theperformance of all commercial banks. Therefore, this study has been undertaken to examine the financial performance of Gulf Commercial Bank.

LITERATURE REVIEW

Sami & Khan (2015) examined the financial performance of two paper industries namely Ballarpur Industries Limited (BILT) and Tamil Nadu Newsprint and Papers Limited (TNPL). They applied independent sample t-test to examine differences in gross profit, net profit, current ratios, quick ratios and debt equity ratios of the companies. It was revealed that significant differences exist in all ratios used in the study. **Khan &Dalayeen (2016)**investigated the financial performance of Indian cement companies like UltraTech Cement, Shree Cement, Ambuja Cements Limited, Associate Cement Companies Limited (ACC), and Ramco Cements. Data was collected from the annual reports of the cement companies from 2005-06 to 2014-15. One way ANOVA was used as the statistical tool for analysis. The study revealed significant differences in gross profit ratios, net profit ratios, current ratios, quick ratios, and debt equity ratios of the cement companies under study. **Yameen& Pervez (2016)** investigated the financial performance of Steel Authority of India Limited (SAIL) for a period of ten years from 2005 to 2014. The analysis revealed that the profitability of SAIL was declined over the period of study. The liquidity position of SAIL was not good during the study period as current ratio and quick ratio were lower than standard norms. Besides, long term solvency position of SAIL was satisfactory during the study period. The overall debt equity ratio indicates that company has more debt capital than equity capital. It was also revealed that Return on capital employed, Economic Value Added and Market Value Added of SAIL were declined over the period of study. The overall financial performance of SAIL was satisfactory during initial years of the study but deteriorated in subsequent years. **Ahmad (2016)** analyzed the financial performance of Hindustan Petroleum Corporation Limited (HPCL). The study period was 15 years from 2000-01 to 2014-15. He used multiple regression for examining the impact of liquidity, solvency and efficiency on return on investment. Liquidity ratios have a significant impact on ROI and ROE but the liquidity position of HPCL was not recorded as satisfactory. The overall profitability position of the HPCL was positive during the study period but the company failed to manage the increasing trend of profitability ratios. The debt equity ratio and interest coverage ratio were found in a highly fluctuating condition. This study reveals that the overall HPCL management is efficient. All the activity ratios were satisfactory. Moreover, it was found that in all the years HPCL was able to create the value of shareholder's wealth except in one year only. **Khan (2017)** examined the financial performance of National Thermal Power Corporation Limited (NTPC). The studyperiod was ten years from 2006-07 to 2015-16 and data was collected from annual reports. The researcher calculated Liquidity, profitability, management efficiency, solvency and market valuation ratios and then applied multiple regression to evaluate their impact on profitability. ROCE, ROA, and ROE were used as the variables of profitability. The findings highlighted that there is no significant impact of current ratio and inventory turnover ratio on profitability but no significant impact was revealed of debt equity ratio. **Khan and Mittal (2018)** evaluated the financial performance of Laxmi Mills and Loyal Mills. Data was collected from various published annual reports from 2007-08 to 2016-17. Liquidity, profitability, management efficiency, solvency and market valuation ratios were calculated and analyzed. Furthermore, independentsample t-test was applied on the financial ratiosof Laxmi Mills and Loyal Mills to examine the difference in various ratios. The findings highlighted that there was no significant difference in net profit ratio, return on net worth, debt equity ratio, and EPS ratio. However, significant differences exist in current ratio, ROCE, and inventory turnover ratio in selected companies during the study period.

OBJECTIVES OF THE STUDY

1. To evaluate the impact of liquidity on profitability of Gulf Commercial Bank.
2. To investigate the impact of solvency on profitability of Gulf Commercial Bank.
3. To analyze the impact of management efficiency on profitability of Gulf Commercial Bank.

HYPOTHESES OF THE STUDY

H_{01}: There is no significant impact of liquidity on profitability of Gulf Commercial Bank.

$H_{01.1}$: There is no significant impact of current ratio on Return on Assets.

$H_{01.2}$: There is no significant impact of current ratio on Return on Equity.

H_{02}: There is no significant impact of solvency on profitability of Gulf Commercial Bank.

$H_{02.1}$: There is no significant impact of debt to equity ratio on Return on Assets.

$H_{02.2}$: There is no significant impact of debt to equity ratio on Return on Equity.

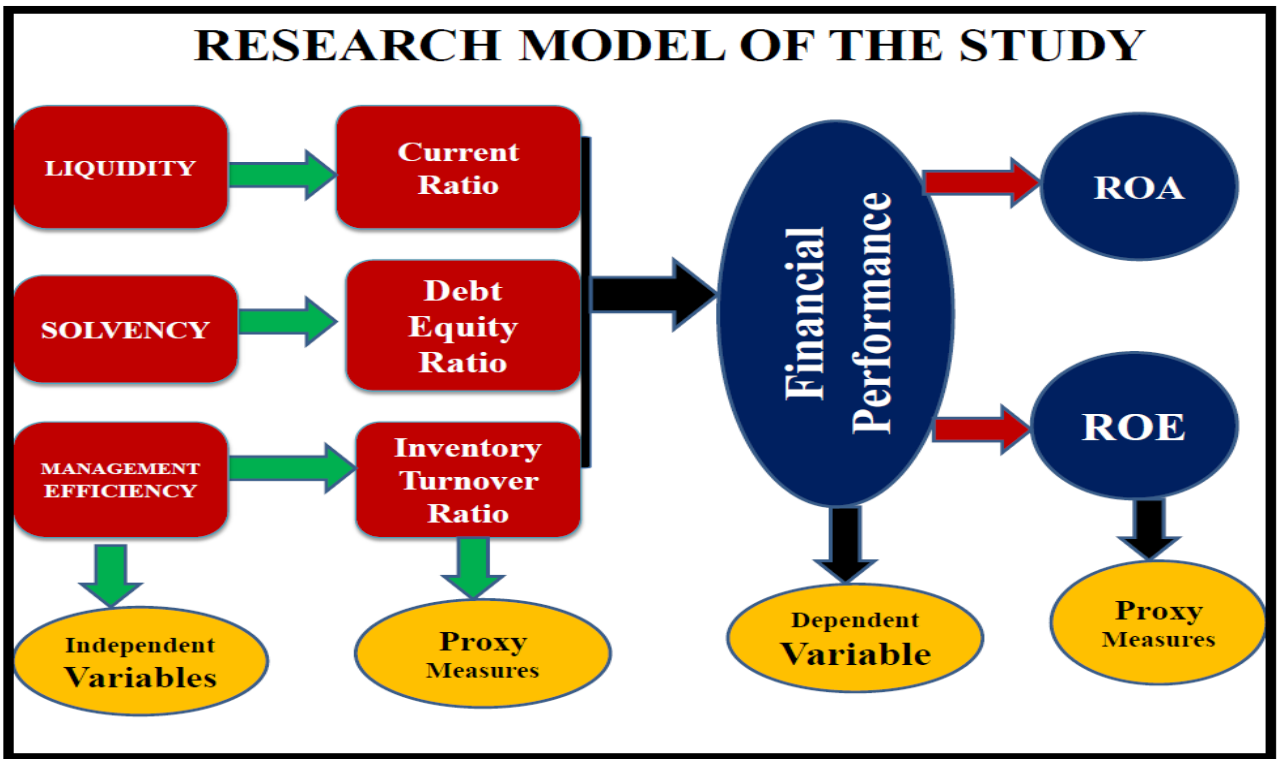
H_{03}: There is no significant impact of management efficiency on profitability of Gulf Commercial Bank.

$H_{03.1}$: There is no significant impact of inventory turnover ratio on Return on Assets.

$H_{03.2}$: There is no significant impact of inventory turnover ratio on Return on Equity.

RESEARCH METHODOLOGY

- **Period of Study:** Analytical research design has been used in the present study. The study covers a period of ten financial years from 2008 to 2017.
- **Sources of Data:** The study is exclusively based on secondary data.
- **Data Collection:**Data has been collected from published annual reports of Gulf Commercial Bank.
- **Sample Size:** The sample size of the study is one commercial bank of Iraq i.e. Gulf Commercial Bank.
- **Statistical Tools Used:** Multiple regression has been used to analyze the impact of liquidity, solvency, and management efficiency on the profitability of Gulf Commercial Bank.
- **Variables Used:** The study investigates the impact of liquidity, solvency, and management efficiency on the profitability of Gulf Commercial Bank. Consequently, current ratio, debt equity ratio, and debt turnover ratio have been taken as proxy measures of liquidity, solvency, and management efficiency respectively. However, ROA and ROE are used as the proxy variables of profitability. Figure 1 highlights the research model of the study.



REGRESSION MODELS

Multiple regression was used to estimate the regression line. Following models were estimated on data of Gulf Commercial Bank during the financial period 2008 to 2017.

$$ROA_t = \beta 0 + \beta_1 CRt + \beta_2 DER_t + \beta_3 ITR_t + e$$

$$ROE_t = \beta 0 + \beta_1 CRt + \beta_2 DER_t + \beta_3 ITR_t + e$$

Where,

ROA_t= Return on Assets at time t (Profitability)

ROE_t= Return on Equity at time t (Profitability)

CR_t= Current Ratio at time t (Liquidity)

DER_t= Debt to Equity Ratio at time t (Solvency)

ITR_t= Inventory turnover ratio at time t (Efficiency)

$\beta 0$ = Intercept.

$\beta 1 - \beta 3$ = Coefficients of the explanatory variables.

e = stochastic error term at time t.

DATA ANALYSIS AND INTERPRETATION

Table 1: Model Summary-ROA

Model	R	R Square	Adjusted R Square	Standard Error	Durbin Watson
1	0.922	0.850	0.837	1.3641	2.0074

Source: Output of SPSS_20

Table 1 exhibits the value of Pearson Correlation (R), R square, adjusted R square, and Durbin Watson. The value of adjusted R square is 0.837 which means 83.7 percent variation in ROA is explained by current ratio, debt equity ratio, inventory turnover ratio and rest of the variation ($1-R^2$) is an unexplained variation due to other variables.

Table 2: ANOVA(Model Fitness)

Model-1	Sum of Squares	df	Mean Square	F	Sig.
Regression	7239.779	2	3619.889	6.693	0.001[a]
Residual	3785.565	7	540.795		
Total	11025.344	9			

Dependent Variable: ROA

The above ANOVA table assesses the overall significance of the model. The overall model is significant because the significant value is 0.001 which is less than 0.05 at 95 percent confidence interval. It means that the overall regression model is accurate and validated. Hence, the model construct is validated.

Table 3: Multiple Regression Analysis [Dependent Variable-ROA]

Independent Variables	Regression Coefficients	Standard Error	t-statistics	P Value
(Constant)	0.857124	1.6742	-1.561	0.000
Current Ratio	0.098064	1.8424	4.874	0.785
Debt Equity Ratio	0.317638	1.5133	-13.340	0.008
Inventory Turnover Ratio	0.220868	1.4785	11.223	0.000

Source: Output of SPSS_20

Table 3 shows the results of multiple linear regression analysis. ROA is dependent variable whereas current ratio, debt equity ratio, inventory turnover ratio are used as independent variables. *Firstly,*current ratio has positive impact on ROA since the unstandardized beta coefficient is 0.098064. It indicates that for every one unit change in current ratio, there will be 0.098 unit change in ROA. However, its regression coefficient is statistically insignificant at 5% level of significance ($P>0.05$). Therefore, $H_{01.1}$ is accepted. *Secondly,* the unstandardized beta coefficient of debt equity ratio is 0.317638 which indicates that one unit change in debt equity ratio will bring 0.31 unit change in ROA. Further, its regression coefficient is statistically significant at 5% level of significance ($P<0.05$). Therefore, $H_{02.1}$ is rejected. *Thirdly,* inventory turnover ratio (ITR) has significant positive relationship with ROA at 5% level of significance. The unstandardized beta value of inventory turnover ratio is 0.220868 which highlights that for one unit change in ITR, there will be 0.22 units change in ROA. The regression coefficient of ITR is statistically significant at 5% level of

significance (P<0.05) meaning thereby $H_{03.1}$ is rejected. Hence, it can be said that there is no significant impact of current ratio on ROA. On the contrary, debt to equity ratio and inventory turnover ratio has significant impact on ROA.

The regression equation of this model is:

$$\mathbf{ROA_t = \beta 0 + \beta_1 CRt + \beta_2 DER_t + \beta_3 ITR_t + e}$$

$$\mathbf{ROA_t = 0.857 + 0.098\beta_1 + 0.317\beta_2 + 0.22\beta_3 + e}$$

Table 4: Model Summary-ROE

Model	R	R Square	Adjusted R Square	Standard Error	Durbin Watson
2	0.869	0.755	0.723	2.698	1.9854

Source: Output of SPSS_20

Table 4exhibits the value of R, R square, adjusted R square, and Durbin Watson. The value of adjusted R square is 0.723 which means 72.3 percent variation in ROE is explained by current ratio, debt equity ratio, inventory turnover ratio and rest of the variation ($1-R^2$) is an unexplained variation due to other variables.

Table 5: ANOVA(Model Fitness)

Model-2	Sum of Squares	df	Mean Square	F	Sig.
Regression	6985.667	2	3492.83	7.543	0.005
Residual	3241.227	7	463.03		
Total	10226.894	9			

Dependent Variable: ROE
Source: Output of SPSS_20

The above ANOVA table assesses the overall significance of the model. The overall model is significant because the significant value is 0.005 which is less than 0.05 at 95 percent confidence interval. It means that the overall regression model is accurate and validated. Hence, the model construct is validated.

Table 6: Multiple Regression Analysis [Dependent Variable-ROE]

Independent Variables	Regression Coefficients	Standard Error	t Value	P Value
(Constant)	0.743692	2.1489	-1.587	0.000
Current Ratio	0.081437	1.8976	19.505	0.309
Debt Equity Ratio	0.251081	1.9443	-3.555	0.000
Inventory Turnover Ratio	0.330148	1.7845	12.789	0.004

Source: Output of SPSS_20

Table 6 shows the results of multiple linear regression analysis. ROE is dependent variable whereas current ratio, debt equity ratio, inventory turnover ratio are independent variables. *Firstly,*current ratio has positive impact on ROE since the unstandardized beta coefficient is 0.081437. It indicates that for every one unit change in current ratio, there will be 0.081 unit change in ROE. However, its regression coefficient is statistically insignificant at 5% level of significance (P>0.05). Therefore, $H_{01.3}$ is accepted. *Secondly,* the unstandardized beta coefficient of debt equity ratio is 0.251081which indicates that one unit change in debt equity ratio will bring 0.251 unit change in ROE. Further, its regression coefficient is statistically significant at 5% level of significance (P<0.05). Therefore, $H_{02.3}$ is rejected. *Thirdly*, inventory turnover ratio (ITR) has significant positive relationship with return on equity at 5% level of significance. The unstandardized beta coefficient value of inventory turnover ratio is 0.330148 which highlights that for one unit change in ITR, there is 0.33 units change in ROE. The regression coefficient of ITR is statistically insignificant at 5% level of significance (P<0.05) meaning thereby $H_{03.3}$ is

accepted. Hence, it can be said that there is a significant impact of debt to equity ratio and inventory turnover ratio on Return on equity. On the contrary, current ratio has insignificant impact on Return on equity.

The regression equation of this model is:

$$ROA_t = \beta 0 + \beta_1 CRt + \beta_2 DER_t + \beta_3 ITR_t + e$$

$$ROA_t = \beta 0 + 0.08\beta_1 + 0.25\beta_2 + 0.33\beta_3 + e$$

CONCLUSION

This study examines the financial performance of Gulf Commercial Bank. The study covers a period of ten financial years from 2008 to 2017. The study is exclusively based on secondary data collected from published annual reports of Gulf Commercial Bank. The study investigates the impact of liquidity, solvency, and management efficiency on the profitability of Gulf Commercial Bank. Consequently, current ratio, debt equity ratio, and inventory turnover ratio have been taken as proxy measures of liquidity, solvency, and management efficiency respectively. However, ROA and ROE are used as the proxy variables of profitability. Multiple regression has been used to analyze the impact of liquidity, solvency, and management efficiency on the profitability of Gulf Commercial Bank. The findings revealed that there is insignificant impact of current ratio on ROA and ROE. On the contrary, debt to equity ratio and inventory turnover ratio has a significant impact on ROA and ROE.

The liquidity position of Gulf Commercial Bankwas not good as current ratio was lower than standard norms. Therefore, it can be concluded that liquidity position of Gulf Commercial Bank deteriorated during the study period. Nevertheless, long term solvency position of Gulf Commercial Bank has been satisfactory from 2007-16. The overall debt equity ratio indicates that company has more debt capital than equity capital. The management efficiency of Gulf Commercial Bank has declined over the study period. Decline in inventory turnover ratio indicates that increased stock could not be used to increase the sale. Findings of the study brought the conclusion that overall financial performance of Gulf Commercial Bank was satisfactory during initial years of the study but deteriorated in later years.

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