Affin Bank Performance: Relationship Liquidity Ratio, Leverage Ratio and GDP to Profitability

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Abstract

The purpose of this study sought to examine the overall performance of Affin Bankwith Current ratio, Operating efficiency ratio and Gross domestic product on profitability performance. The data obtained from annual report Affin Bank starting from 2011 until 2015. The measurement of liquidity ratio and operating ratio used to see the overall performance ofAffin Bank in 5 years which allegedly beyond benchmark. The further depth is the asset size; this variable has a negative and no significant relationship with liquidity risk. To see the relationship of these three components to the gainfulness, this paper is using liquidity (current proportion), GDP and working productivity proportion. Data was evaluated by operating regression and correlation. The regression analysis and bicariate correlation shows only one factor of profitability is significant to return on asset which is current ratio with the highest impact to the profitability. However, the liquidity, GDP and operating efficient is not significant to profitability.

Keywords: Current Ratio, Liquidity ratio, Operating Efficiency Ratio, GDP

1.0 Introduction

1.1 Background of the Study

Affin BankBerhad or also known as AFFIN BANK is a totally claimed backup of Affin Holdings Berhad which is recorded on the Bursa Malaysia. It commenced operations in January 2001 after a merger between the previous PerwiraAffin BankBerhad and BSN Commercial (M) Berhad in August 2000. In June 2005, it united with the previous Affin-ACF Finance Berhad. AFFINBANK gives a suite of budgetary items and administrations that are taken into account both retail and corporate clients. The objective business portions are directed under key specialty units, for example, Business Banking, Consumer Banking and Treasury. Business Banking offers benefits in corporate managing an account, contract financing and exchange fund to partnerships, institutional customers and SMEs. Buyer Banking gives charge cards, individual advances, contracts, funds/current and store taking administrations and contract buy credits to people.

It has a slogan of "Keeping money Without Barriers" connotes the expulsion of limits inside the procedures of the Bank and in addition in its state of mind in adjusting its clients. The last means connecting with the clients, enhancing associations with them, making every one of them feel advantaged and improving administrations to them. Basically, AFFIN BANK is grasping another way to deal with keeping money and changing the substance of customary managing an account.

AFFIN BANK moreover give Islamic sparing cash things and organizations by methods for its Islamic dealing with a record assistant Affin Islamic Bank Berhad (AFFIN ISLAMIC). AFFIN ISLAMIC began operations on 1 April 2006 as an irrefutable Islamic bank, and offers an aggregate extent of Islamic Banking things and organizations for individuals and corporate which are in consistence with Shariah models and laws.

Affin Holdings Bhd (AHB) is revamping its gathering of organizations that will prompt to its posting status being exchanged to Affin BankBhd, which will end up being the bank holding organization. The Armed Forces Fund Board's (LTAT) money related administrations arm revealed to Bursa Malaysia that the corporate activities would incorporate a trade of AHB shares with the shares of its entirely claimed auxiliary, Affin Bank, on a 1-to-1 premise.

2.0 Literature review

Commercial bank has a similar function like blood supply routes to human body in creating economies as it represents more than 90 percent of their money related resources (ADB, 2013) because of less borrowers' entrance for capital market (Felix Ayadi et al., 2008). Along these lines, productive intermediation of business banks is essential for creating economies keeping in mind the end goal to accomplish high monetary development, while bankruptcy of them prompts to monetary emergency. Be that as it may, intermediation capacity of business banks offers ascends to various sorts of dangers with various risks. There have eight risks that may face by every bank and will give an impact to their profitability such as credit risk, market risk, operational risk, liquidity risk, reputational risk, business risk, systemic risk as well as moral hazard. However, liquidity ratio plays an important role to the success of the bank industry. A huge consideration from inquires about, controllers and monetary foundation given to the liquidity chance after emergencies happen over the globe in different financial and saving money portion. This chance happens because of lacking danger administration hones (Crowe, 2009). Thus, it is necessary for firms to maintain a balanced liquidity ratio in order to meet their short term liabilities. Due to its relationship with the day to day actions it is imperative for both internal and external analysts to study liquidity. (Bhunia, 2010).

Firstly, the purpose of liquidity management is maintainingtradeoffs between liquidity and profitability. (Rahemanet all, 2007). Velnampy (2013) in his investigation on corporate governance and firms performance taking twenty eight companies sample for four years from 2007–2011 stated that the determinants corporate governance have no relation with the firm's performance. After applying regression the result showed that ROE and ROA were not affected by corporate governance. Thus the findings revealed that corporate governance measures have no relation with performance measures. Walt (2009) through his research reveals due to convertibility into liquidity profitability is more important, he also adds that importance of profitability does not mean that company the company that more liquidity is profitable. Don (2009), while comparing relative importance of both states that liquidity is more important than profitability, because it determines the survival of the company. Eljelly, 2004) found that there is significant negative relationship between the firm's profitability and liquidity when it is measured by current ratio. The study also found that at industry level, however, cash gap is important to measure the liquidity than current ratio that affects profitability.

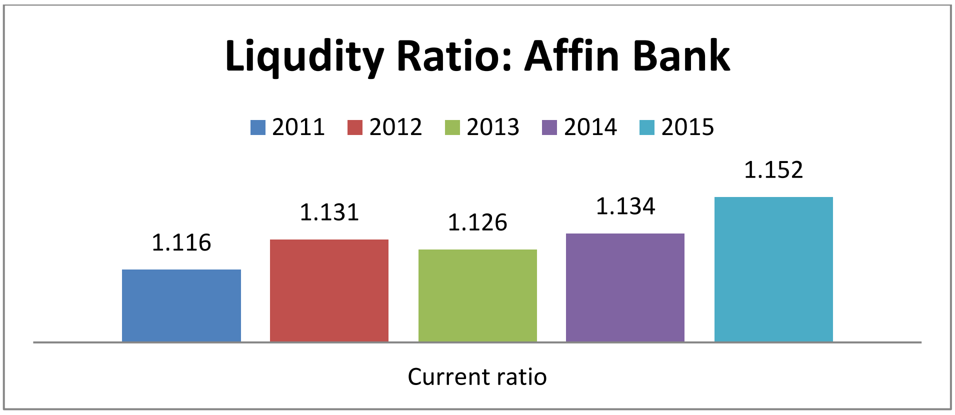
A research study do Bardia (2004) and city and Ganguly (2001) on steel giants SAIL and metallic element producing trade reveal that liquidity and profitableness ar completely connected with one another. QasimSaleem& Ramiz Ur Rehman (2011) by taking 5 years information of twenty six enterprises examined the link between liquidity of firm and profitableness, found that there's positive relationship between firm's liquidity and profitableness. a search conducted by Wang (2002) reveals that there's a positive relationship between liquidity and operational performance. Seventeen years information of sample companies was taken. They examined the association between profitableness and also the data system taking the sample. Mean whereas the analysis additionally reveals that there's positive relationship between liquidity and profitableness. a search undertaken by (Zhang, 2011) suggests that there's vital positive relationship between firm's liquidity and profitableness. The another study had been done to investigate impact of capital management on profit and market valuation of Pakistani firms and also the author found that there was a positive relationship total debt to total assets and profit but negative relation between cash conversion cycle and profitableness(ROA).(Alam, Ali, Akram,Rehman ,2011). Nosa&Ose (2010) examined the affiliation capital structure and performance .The sample quantity was fifteen years applied math analytical tools. Author concluded that there is negative relationship between capital structure and performance.

3.0 Descriptive Findings

3.1 Liquidity Performance

3.1.1 Current ratio

Bar graph 1



Before the summary analytic thinking for this ratio on the top begin examined, the formula for those ratios for 2011-2015 will be calculated as following

Current ratio (CR): Current Assets/ Current liabilities

Year	current asset	Current Liabilities	Current ratio
2011	39,749,485	35,626,779.00	1.115719302
2012	41,362,216	36,578,692.00	1.130773512
2013	45,085,566	40,042,783.00	1.125934878
2014	48,041,966	42,350,472.00	1.134390332
2015	48,176,875	41,824,328.00	1.151886409

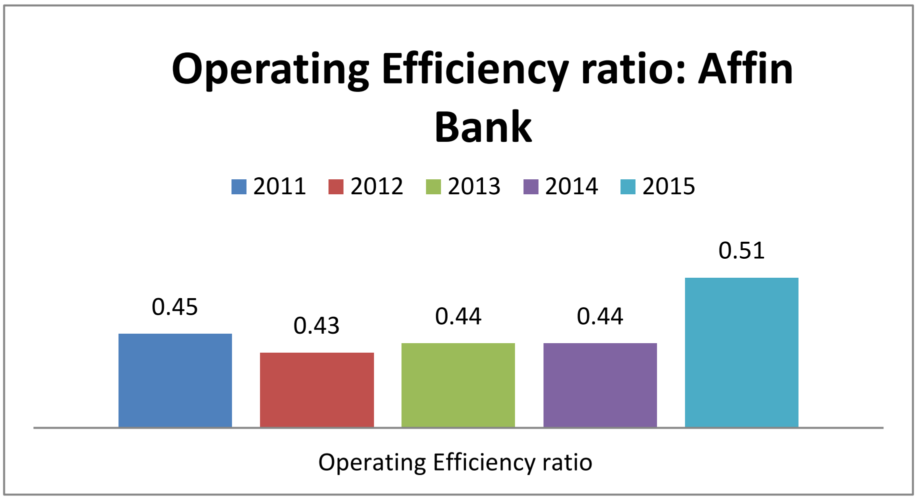
Table 1: Result 1 Descriptive Result

Overall, the Affin Bank performance are liquidity variable leap up beyond as benchmark of standard conventional respectively for current ratio. The performance is quite favourable during the consecutive years from 2011-2015. However, during the consecutive year of 2013 to 2014, the value of ratio has significantly dropped down but the value is maintaining above the benchmark. Another year, during 2014-2015, the value regained to the optimum performance with the increase slightly on both of ratios which indicates this company could settle the obligation without any issue. Therefore, to con conclude Affin BankTherefore the bank do not has problem in short term insolvency and liquidity. However, for the following year 2013, 2014 and 2015 the current ratio was constantly. If the company manages their debt efficiently, there will give positive signal to attract investor.

3.2 Operational Performance

3.2.1 Operating Efficiency ratio

Bar Graph 2: Descriptive results



Before the summary analytic thinking for this ratio on the top begin examined, the formula for those ratios for 2011-2015 will be calculated as following

:

Operating Ratio (OR): Operating expenses/ operating income

Year	Operating expenses	Operating income	Operating efficiency ratio

2011	442,001	981,253	0.450445502
2012	461,133	1,077,594	0.427928329
2013	473,673	1,072,539	0.441637087
2014	469,151	1,074,658	0.436558421
2015	514,054	1,014,721	0.506596394

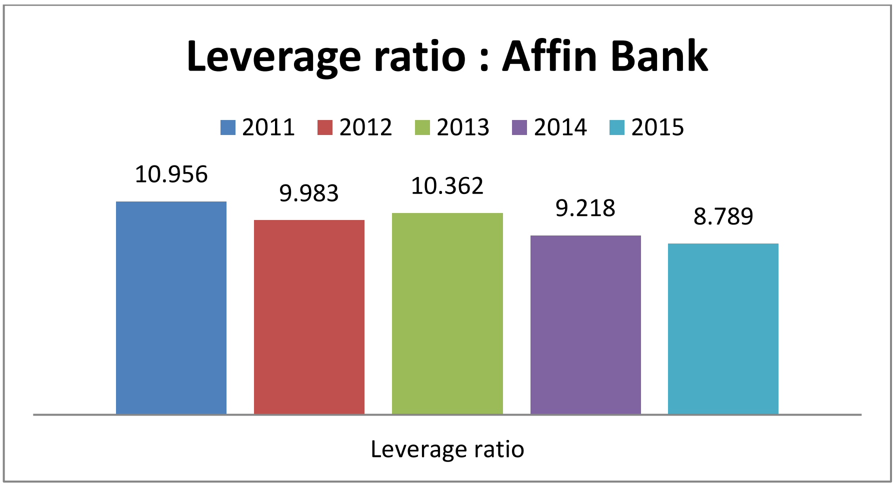
Table 2: Result 2 Descriptive Result

For overall performance of Affin Bank. The consideration of good performance viewed by its lower percentage ratio which argued that the company is efficient or inefficient in terms of its operating expenses whether the company incurred more expenses or not. Starting from 2011 the percentage of ratio has decreasing significantly which indicates the company is efficient in operation, the efficiency of company's operation regained back to normal condition which represented with the lower percentage in the consecutive year from 2012 to 2014. In 2015, this continuous percentage could give a signal that the company has insufficient income to give fair return to investor since the company is getting less profit when the ratio increases by 0.07.

3.3 Leverage performance

3.3.1 Debt equity ratio (Leverage ratio)

Bar Graph 3: Descriptive results



Before the summary analytic thinking for this ratio on the top begin examined, the formula for those ratios for 2011-2015 will be calculated as following

Leverage ratio: Total debt/Shareholder equity

Year	Total Liabilities	Shareholder Equity	Leverage

2011	36,718,892	3,351,398	10.9563
2012	37,881,600	3,794,454	9.9834
2013	41,395,494	3,995,107	10.3615
2014	43,603,565	4,730,122	9.2183
2015	43,754,637	4,978,755	8.7883

Table 3: Result 3 Descriptive Result

For overall performance of Affin Bank, this ratio considered favourable because which is efficient in terms of its leveragewhether how utilized an organization is. This ratio calculate by the lowest ratio is the better. In 2011 until 2014 the ratio for Affin Bank has been face fluctuation, but in 2015, the leverage ratio which is debt to share holder equity slightly fall down. It indicates that Affin Bank may able to generate cash to satisfy its debt obligation. However, it also shows that the if the ratio continue keep dropping, Affin Bank may not taking advantage of the increased profits that financial leverage may bring.

3.4 Relationship of Liquidity ratio, GDP and Operational efficiency ratio to the Profitability (ROA)

Correlations

		Current ratio	GDP	Operating efficiency ratio
Current ratio	Pearson Correlation	1	-.034	.704
	Sig. (2-tailed)		.956	.185
	N	5	5	5
GDP	Pearson Correlation	-.034	1	-.417
	Sig. (2-tailed)	.956		.485
	N	5	5	5
Operating efficiency ratio	Pearson Correlation	.704	-.417	1
	Sig. (2-tailed)	.185	.485	
	N	5	5	5

Table 4: Correlation Matrix Affin Bank to Determine the Profitability

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.

1	(Constant)	.064	.018		3.625	.171
	GDP	-.001	.000	-.273	-3.292	.188
	Operating efficiency ratio	-.077	.009	-1.027	-8.819	.072
	Current ratio	-.012	.019	-.066	-.624	.645

a. Dependent Variable: ROA

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3.4.1 Liquidity to Profitability

The impact of changes liquidity to profitability with the t value -0.624. This negative relationship understood that once liquidity described by current quantitative relation will increase, any profit ratios can react by decreasing in worth. This finding is in line with findings Bhunia, Khan &Mukhuti (2011) and Pandey & Jaiswal (2011) understood that there should be a trade-off between profit and liquidity. This negative relation may relate to the money conversion that this company is generally maintaining make the most reserve with a conservative strategy that consistent to the result found in Waemustafa and Sukri (2015). The money is maintained for the company’s development or debt obligation payment that it'd not have an effect on any profit generated in future. Another perspective of negative relation, the plus conversion is inefficaciously reborn to money since owed payment delayed. This lack conversion affects profit since the corporate has not nonetheless received or holds actual money worth from group action.

3.4.2 GDP to Profitability

As per statistics in table 2, the value variable tested with P worth > zero.10 indicates insignificant reference to profitableness. Variable operational potency ratios are debile or negatively related to with coefficients of correlation is -3.29. Inapplicable helpful outcome of value is bolstered by appearance into of (Alper and Anbar, 2011; Athanasoglou and Staikouras, 2006) and immaterial negative impact of value is supported by (Khrawish, 2011). Though, inapplicable negative relationship of value is divided to hypothesis that declares that money development improves advantages and downswing antagonistically influences the intrigue earnings. This inverse outcome could be attributable to totally different reasons that incorporate the customer's inclination or call of saving abundance supports and taking credits and instructive imbalance of client; absence of information with reference to money changes within the nation.

3.4.3 Operating Efficiency ratio to Profitability

After the test conducted and all of variables added. With the stepwise method shows that R value is 0.998 and shows a high degree of correlation between variables. R^2 is 0.995and indicates that 98.1% of variation in ROA is explained by independent variables. In terms of relationship to profitability, for operate variable which it measured by operating ratio with a P-value > 0.10 indicates negative insignificant relation to profitability in 4 out of 5.Profitability measurement tested. However, the operate variable to profitability (ROA) has a positive significant relation with a P value < 0.10. This positive relation indicates that the company's operation can increase the profitability of company. Affin Bank is generating more operating income while reducing the operating expenses where this company achieve positive amount of profitability with more production as an income factor without incurred more expenses during the operation process. Instead of having profit, the negative relation indicates the increases of expenses effect the income of this company that cannot maximize the profit. However, out of 5 variables tested only one (ROA) which has significant relationship to profitability. This model is also significant with the significant of anova regression P < 0.10. In addition, operate variable has the highest impact with the t value -5.735 to the profitability compared to the liquid and GDP.

Table Result 6. Enter Regression Analysis for Affin Bank Specific Risk Determinants to Profitability

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.998[a]	.995	.981	.000322192124000

a. Predictors: (Constant), Current ratio , GDP, Operating efficiency ratio

Table Result 7. Anova Regression Analysis for Affin Bank Specific Risk Determinants to Profitability

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.

1	Regression	.000	3	.000	69.783	.088[b]
	Residual	.000	1	.000		
	Total	.000	4			

a. Dependent Variable: ROA

b. Predictors: (Constant), Current ratio , GDP, Operating efficiency ratio

4.0 Discussions and Recommendation

It has been by trial and error established through analysis that liquidity has positive relationship with gain, and has hefty impact on the gain of business banks in Asian country. With the growing liquidity level to ascertain limit the gain additionally will increase. All of the variable shows negative relationship each magnitude relation of profitability. Hence, this analysis indicates that liquidity has negative relationship with gain. Therefore, it's prompt that banks ought to keep respectable quantity of their quick assets so as to induce higher rate of profit.

5.0 Conclusion

GDP and operating potency quantitative relation, the diversification of business, the market concentration/competition and also the economic process have influence on bank gain, a motivating and valuable result's that of the positive influence of competition on bank gain in Affin Bank. This certifies the target of Affin Bank to enhance struggle on markets for banks' call manufacturers we tend to additionally advocate to observe the credit and liquidity risk indicators, to diversify the sources of revenues and to optimize prices. As a future direction of analysis, we tend to shall deepen the analysis by extending the amount and by cacophonic the sample in teams of nations.

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