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Assessment of the Performance of Algerian Commercial Banks Case of the National Bank of Algeria (BNA)

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Abstract

The question of performance evaluation is of great importance for any economic or financial institution. Evaluating the performance of commercial banks remains a necessary process because of the changes in the banking sector that have had an impact on the performance, efficiency and profitability of commercial banks. The objective of this paper is to study the concept of banking performance, firstly: following the theoretical approaches to performance evaluation, and secondly: according to the empirical study that we conducted on the evaluation of the performance of BNA bank, while basing ourselves on financial performance indicators. Which leads us to situate the state of play of the Algerian banks, in other words, to arrive at determining; where are these performance banks

Keywords: Commercial banking • Financial indicators • Financial situations • Bank profitability • Performance evaluation

Introduction

The banking sector is distinguished from other sectors by the considerable importance of regulation in the conduct and management of credit institutions and by its multilateral relations with all economic agents. The bank is a company like any other, applying the same principles. However, certain particularities are added through regulation in accordance with the orientations of the banking commission and the various laws relating to money and credit. From this, emerge the difficulties of evaluating the bank's performance in relation to other sectors of activity. Banks are obliged to strictly respect the different ratios to compensate for the different financial crises that may arise at any time [1]. Achievement of the targeted objectives remains restricted by the monitoring of certain risks that are even taken into account in the performance contracts of the banks' Chief Executive Officers of banks (CEOs). It is for this reason that the banking industry must be structured with strict rules to mitigate the occurrence of the risks it incurs, because the bank is the main core of financing for the economy, especially in countries with debt economies like ours.

Given these considerations, we pose the following question: how do financial indicators allow us to measure and evaluate banking performance?

This implies that a good evaluation of the bank based on the use of financial indicators will allow decision-makers to detect strengths and weaknesses and then provide adequate solutions to these. And finally, to measure performance and streamline the management of the banking institution. Our work is based on the descriptive and analytical methodology using the most used economic and financial indicators according to the structure which is composed of two parts; the first reserved for the theoretical approach and the second for the empirical study having as case study the National Bank of Algeria [2].

Banks have a very close cooperative relationship with companies based mainly on the allocation of capital. Sometimes they intervene directly in the creation and financing of these companies, while other times they accompany them in their day-to-day activities. It should be remembered, over the past years, that banks have always been able to adapt to economic policies and particular circumstances in order to offer companies the multifaceted support that is often needed in times of need. This is to say that the realities on the ground and in economic life have led banks to intervene and to take an interest in any economic operator, whatever its status or size, to which they provide high-performance products in terms of financing, investment and risk coverage. Banks, like any other economic entity, are called upon to ensure the continued existence of these companies under the most normal possible conditions of their activity. To do so, they are called upon to be profitable, to generate results that are profitable enough to their activity [3].

These banks are characterized by several specificities that can be understood at several levels. Throughout the world and even in countries with developed or emerging economies, it is financial intermediation that holds the largest share of the market, despite the fact that the powers of these economies promote the development of

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financial markets in order to protect themselves more and more from various crises on the one hand and to protect depositors' funds in the event of a problem on the other hand. Indirect finance (also known as intermediated finance or debt saving): with indirect finance, a financial intermediary (in our case the bank) is interposed between agents with the capacity and the need for financing. This financial intermediary borrows from agents with the capacity to finance their savings by offering them deposit-type contracts, in so doing the intermediary collects capital. The intermediary then lends the capital thus collected to the agents in need of financing by offering them credit contracts.

Classification and Role of Banks

The bank's activity was born as a logical consequence to the economic and social development of human societies and their demographic growth. But with the multiplication and diversity of sometimes very complex needs, requiring many banking services at the same time, a de-specialization has been adopted in the sector by promoting the creation of universal commercial banks to meet these needs. The objective is to know through the banks; how to respond to the concerns of different economic agents [4].

The commercial bank: It is still known as a deposit and/or credit bank, it represents the oldest type of bank since it was the first to exist historically. Its commercial name originates from the fact that it initially specialized in the financing of trade, which represented the greatest economic activity at the time.

Investment banking: Its main activity is focused on the financing of investment projects. It contributes to the creation of new companies, new business units as well as to the upgrading and renewal of their production equipment. To do so, it bases its activity on more or less stable resources of various kinds.

The savings bank: It is created for a social or political purpose, which is why we do not find the translation of this concept in the creation of banking establishments. Whether it is the savings bank in the USA or the "savings bank" in France, the savings bank is characterized by: A precise allocation of resources and a remuneration of deposits in accordance with the concept of "fair remuneration of popular savings".

Financial institutions: They correspond to an economic function that is integrated into a country's financial system by a collection of resources of a financial and non-commercial nature. An optimization of a credit portfolio that may come under different areas of activity. The Investment Bank: It is dedicated to the study of the financial problems of companies and individuals, excluding those relating to short-term loans, cash and savings investments.

The merchant bank: Part of both the investment bank and wholesale banking, it collects deposits and grants loans and is mainly dedicated to large non-financial companies.

Merchant bank: In its traditional conception, a bank assuming both the role of a merchant bank and the management on its own account of a portfolio of participations in the capital of non-financial companies.

Specialized organizations: Specialized bodies such as; agricultural credit, land credit, development banks for the financing of long-term deposits, international banks, African banks for long-term investments, have been created to take charge of the financing of long-term investments which, given their risk, can only be financed by private capital. Their credit policy is determined in accordance with criteria relating to the economic policy of the public authorities. Specialized banks intervene and finance specific sectors and/or operations [5].

Generalities on banking performance

The banking sector guarantees the good economic functioning in order to respond to the concerns of economic agents in terms of financing, investment and the provision of quality services. However, the study of the banking firm's performance is of particular interest for the evaluation of the bank's financial situation. A good performance enables the bank to pursue its activity on a sustainable basis, in other words, to ensure its durability. The important works that have raised the issue of performance and its evaluation who talks about the need to evaluate in order to steer, cites that the most effective organization requires management buy-in and the creation of a network so that each department manager can feed the database that the evaluator needs to measure performance.

Performance is associated with four fundamental principles namely: effectiveness (ratio of results to objectives), efficiency (ratio of a result indicator to an indicator measuring capital employed), coherence (ratio of objectives to means) and relevance (ratio of objectives to environmental constraints) for the evaluation of performance in the strategic area. For a good evaluation of their performance, banks are obliged to provide reliable data. In this regard, and for greater credibility in their accounting and financial data, banks are obliged to have one or two auditors to validate their balance sheets. The strengthening of the mechanisms for the implementation of organization and control systems continues to bring good results to enable banks to comply with the evolution of banking activity and prudential regulations at the national and international levels.

The problem of profitability remains at the level of institutions, whatever their type and activity, and this following their dependence on the performance problem of individuals who ensure their management by modern scientific methods, even if they have the financial means. Financial performance influences the productivity of the bank, which leads to the achievement of results according to the level of performance.

Concepts of performance evaluation

The problem of defining and measuring performance is acute. There are several performance measurement indicators. The indicator formulates information that helps an actor to lead the course of action towards the achievement of an objective or that allows him to determine the result. Other researchers see performance as "the relationship between resources allocated and results achieved. This definition attempts to link the institution's results to the resources used to achieve the objective. Performance is the ability to achieve the goals of the organization at the lowest cost. Cost-effectiveness is the value that expresses the relationship between the result obtained by the institution and the means used to achieve that result. All companies embrace the idea of improving their performance. The operation of a company focuses on setting objectives and trying to achieve them, starting with the implementation of action plans linked

to the different parts of its system. The methods used in this area set standards for measuring and evaluating performance, and the bank must choose indicators and criteria that enable it to assess and judge its financial performance over a given period.

Performance evaluation means monitoring the implementation of the quantity and quality targets set in the plan and over the period of time based on available performance information. Some researchers consider performance as "the level of achievement of objectives" and this level is measured using indicators. In this context, performance is limited to the rate of achievement of objectives, i.e. performance is equated with efficiency, which is not sufficient, because the institution cannot judge that it is performing well simply by achieving the objectives assigned to it, as the institution may be able to do so, but through excessive use of resources. The need to evaluate the performance of commercial banks, in order to monitor the activity of these banks and make correct and adequate decisions. Performance assessment is one of the tools that the bank uses in the process of formulating good decisions, as it allows it to identify gaps and causes and how to address them to improve the level of performance and profitability.

Indicators for evaluating banking performance

The performance evaluation process is based on criteria and indicators that indicate the bank's success in achieving its objectives, but it is not considered sufficient to judge the bank's effectiveness. When assessing performance, one may encounter situations that are either excellent, satisfactory, in need of improvement, or at risk[1], from which appropriate decisions must be made in each case. For the evaluation of the bank's performance, we have opted for the most commonly used financial indicators, while basing ourselves on the bank's financial statements. We will quote and explain the different ratios with the desirable rates[i] (Reference Rates).

ROE (Return On Equity): This indicator indicates the result obtained by the bank from the investment of one unit of equity capital. Also called the financial profitability ratio. It determines the return on equity (return on equity investment). It is calculated as follows: Results/Average equity. In order to return on equity, the bank must improve its results for the year.

ROA (Return On Asset): The overall rate of return on bank assets (Return 0n Asset)) measures the result obtained from the investment of assets. Also called the return ratio. It determines the return on assets (Return on Asset Investment). It is calculated as follows: Results /Average Total Assets >1

Financial liabilities: Total average assets / Average shareholders' equity. Based on this ratio, a comparison of assets to equity is made, so this ratio is considered as a measure of profit and risk. The result of this ratio is in number of times. This ratio is influenced by provisions for bad debts. It is calculated as follows: Average total assets / Average shareholders' equity. It should be noted that the decrease in this ratio justifies the solidity of the equity capital and gives more confidence to agents with financing capacity (depositors).

Financial surface area ratio: Shareholders' equity/Balance sheet total 2%. The financial surface ratio demonstrates the degree of strength of the bank's equity capital and determines the degree to which depositors' money is protected against various risks. This ratio is calculated as follows: Shareholders' equity / Balance sheet total 2

Solvency ratio: Equity/weighted liabilities >10. This ratio demonstrates the bank's ability to meet its various weighted commitments. The weighting ranges from 0% to 100% depending on the type of client. Thus, this rate is obligatorily applicable by all banks for the protection of the depositors' money. The calculation of this ratio is done as follows: Equity / Weighted liabilities > 10 %.

Bank margin: NBI/Average total assets. This indicator represents the rate of net banking income (NBI) for each unit of assets. Note that there is an intermediation margin and a no intermediation margin. The bank margin determines the revenues generated from the investment of the various assets. The growth in NBI means that there is a good performance. It is measured as follows: NBI/ Average total assets.

Profit margin: Net Income / Net Banking Income (NBI). The profit margin determines the portion of the bank margin retained by the banks after recognition of management expenses (overheads, provisions for credit risks, taxes and duties). This rate demonstrates the bank's ability to control and master expenses and reduce taxes. Its increase is favorable for the bank. The rate is calculated as follows: Net income / Net banking income (NBI).

The Operating Ratio: Operating Ratio=Overhead/GNP ≤ 65. The performance indicator of a bank is the cost-to-income ratio. This indicator is used to measure the efficiency of a bank's operations. It is a comparison of overhead expenses to net banking income. This ratio determines the ability of bank managers to control costs related to bank production. Most of the time bank managers are judged on this basis (this ratio). Shareholders determine whether these managers have performed or underperformed. The ratio is calculated as follows: Cost-to-income ratio=Overhead expenses/GNP ≤ 65.

Practical case study on the national bank of Algeria

In this empirical study, we try to study the performance at the level of the BEA Bank, using the most used financial indicators in the world and this based on the financial statements of the said bank for the period from 2014 to 2018 (Table 1).

Code	Assets	2014	2015	2016	2017	2018
1	Cash, central bank, postal check accounts	240 168	325 841	305 735	298 863	337 317
2	Financial assets held for trading	240 168	325 841	305 735	298 863	337 317
3	Financial assets available for sale.	230 570	234 935	788 082	265 053	379 543
4	Other assets	39 925	29 770	78 035	38 681	28 927
5	Regularization accounts.	77 807	44 652	49 986	75 010	51 161
6	Net intangible assets	262	229	171	141	96

Table 1. Balance sheet.

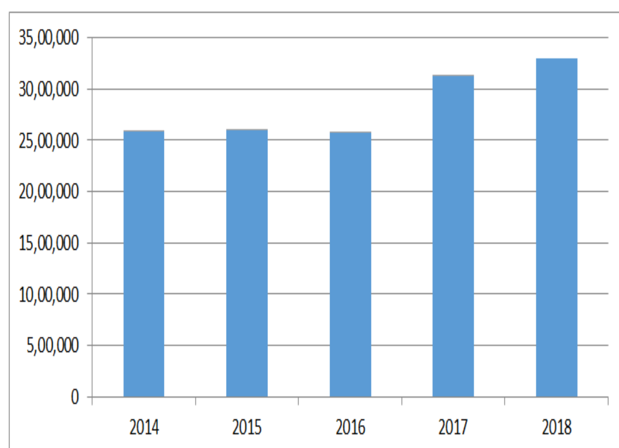

Figure 1. Change in total assets from 2014 to 2018.

Evolution of the different asset classes: The totals of the different balance sheets are very significant and are evolving from year to year except in 2017 and only saw significant improvements in 2018, thanks to the improvement in activity (see customer transaction accounts). This improvement was followed by very strong fiscal year results in Table 2.

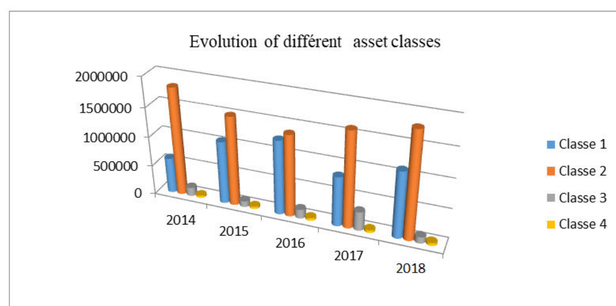

Figure 2. Evolution of the different asset classes.

Discussion

Commercial banks have found themselves faced with strong competition that forces them to impose themselves on the ground by improving their performance, increasing their returns, mitigating the risks they face, and diversifying the quality of the services they provide to meet the requirements of the new banking environment in which they operate. The bank's objective is to ensure its sustainability. It is for this reason that the bank must perform. Through this study, we have tried to study the subject of performance by relying, firstly, on the theoretical approaches of the bank and performance assessment and, secondly, on the bank's financial statements to test all the most commonly used financial indicators for the purpose of measuring and assessing banking performance, and we have taken the BNA as a practical case study. Our choice of this bank is not fortuitous, as it is a former bank (the first national commercial bank). Its customer portfolio is very large, since it has many customers in several sectors of activity. Based on our study, we have arrived at some important results, of which we cite the most crucial, namely. The performance evaluation process is based on criteria and indicators that clarify the extent to which the bank succeeds in achieving the objectives targeted in this activity. The use of modern methods of financial analysis in banks gives a clearer picture of the conditions of these banks, their strengths and weaknesses, and the follow-up of the actions undertaken, leading to more appropriate monitoring. All the financial aggregates we tested evolve favorably, which means that the bank has performed well, reaching its highest levels in 2018.

Conclusion

This entity, thanks to the dedication and experience of its staff, has been able to establish itself in the banking market. Thus, the quality of its customers, has prompted it to make enormous efforts to address their concerns, this presents an opportunity for the bank to significantly improve its turnover. Finally, within the framework of performance evaluation, bank managers are monitored by the supervisory authority at fixed intervals, based on the one hand on quantitative criteria of the evolution of the banking activity, its performance and results, and on the other hand on qualitative criteria of modernization and improvement of the bank's services.

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