

# THE IMPACT OF STRUCTURE OF BANKS' REFERENCES AND CONSUMPTION ON FINANCIAL OPERATIONS OF COMMERCIAL BANKS LISTED ON TEHRAN STOCK EXCHANGE

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## ABSTRACT

The main objective of this study is to evaluate the impact of structure of Banks' references and consumption on financial operations of commercial banks listed on Tehran Stock Exchange. In this study, the ratio of deferred credit and loans, cash coefficient of bank resources and the ratio between long-term to short-term deposits have been considered as independent variables; while return on assets of bank is considered as the dependent variable. Its population consisted of all private and governmental banks of Iran from 2008 to 2014, which size of final sample contains 11 banks (77 year-banks). This study is applicable objectively; its research type it is a post-event research (using past data). The data was collected using library methods, the provided information on website of the Stock Exchange Organization and Rahavar Novin and Tadbirpardaz software. In this study, according to data type and methods of statistical analysis, there is used the method of mix data. In this study, there was used panel data with random effects. Results of data analysis using multivariate regression at confidence level of 95% shows a negative (reverse) impact between assets ratio of deferred credit and loans on rate of return of banks; while there is a positive (direct) impact between cash coefficient of bank resources and ratio of long and short-term bank deposits with return on assets of banks.

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### KEY WORDS

Bank resources, bank costs, financial operation, rate of return on assets

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## INTRODUCTION

In Iran, the role of financial markets (banks) in financing various economic sectors is far stronger than capital markets (Stock Exchange) [1]. With regard to the obvious role of banks in the country economy, evaluating their performance can have a paramount importance. Profitability is considered as one of factors affecting performance evaluation of banks [2, 3]. Therefore, any organization, company or institution follows achieving certain goals that profit banks and institutions are not excepted, so that they also seek to achieve profitability as their targets and ensure their survival [4]. To achieve the goals and ensure their survival, banks should maximize their profits. Banks' profits will be increased by increasing their revenues reducing costs. Therefore, they consider knowing possible variables affecting them. An important issue in banks is structure of their resources and assets including current and non-current assets as well as their combination [5]. It is certain that banks' sources and consumption, as components affecting profit and loss statements, are affected by internal factors (controllable by bank management) and external factors (outside control of bank management) that understanding them by banking network factors is very important. In recent decades, understanding variables affecting banks' profitability have been considered in economics literature by many economists and financial engineers; while it has not been appropriately considered in the country [6].

On the other hand, the delayed claim is another matter affecting performance of banks, as which it is expected the more amount of delayed claims of banks, the more reduce in revenue and profitability of banks. Over the past few years, one of the most important challenges facing the country banking system has been upward movement of the delayed claims that has become a national challenge due to bank-based monetary and financial market of the country [7]. Therefore, all banks must create the required matching between their maturities of their deposits and assets. If assets are not received at the expected maturity, this matching will be disturbed and as a result, banks will be faced

with problems of liquidity shortage [8, 9]. Banks should increase their interest rates or attempt to borrow from inside or outside market for providing sufficient liquidity to meet the needs of depositors. As a result of the state, banks' costs will be increased and they experience reducing profitability. The result is that declining profitability of banks reduces prices of their shares and their market value because of high level of the delayed claims. Reducing stock value of banks will increase their credit risk that increase risk and reduce bank ratings at the international level. If credit risk is high, it will be difficult to borrow from international sources that it causes reducing the ratio between capital adequacy, reducing access and use of international resources [10]. According to the above-mentioned issues, we will answer to the following main question: what are effects of structure of banks' sources and uses on financial performance of commercial banks listed on Tehran Stock Exchange?

**RESEARCH HYPOTHESES**

- Amount of the delayed claims will affect banks' return on assets.
- Liquidity ratio of banks will affect banks' return on assets.
- The ratio between short-term and long term deposits will affect banks' return on assets.

**RESEARCH CONCEPTUAL MODEL**

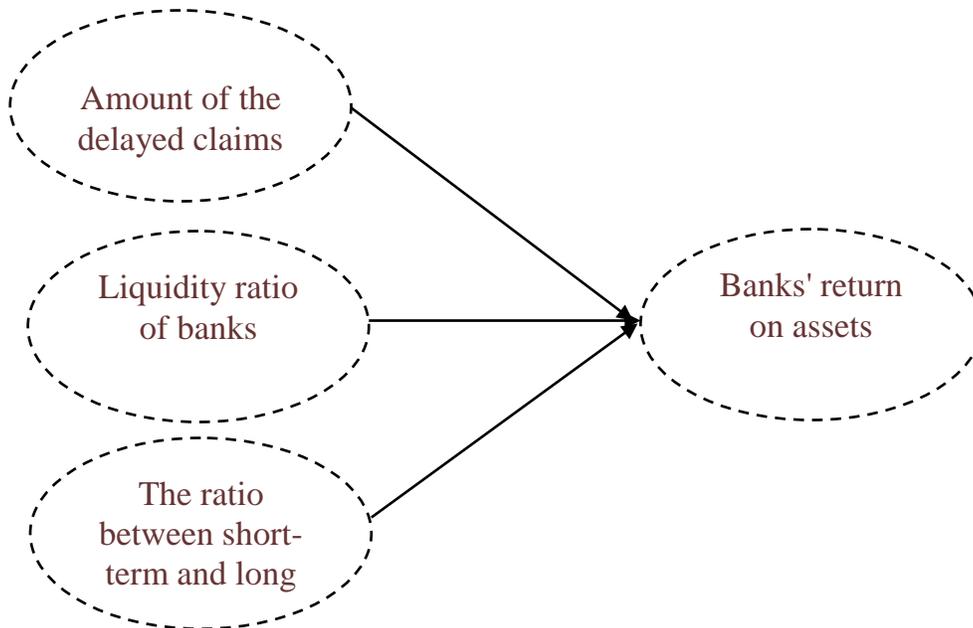


Fig:1. Research conceptual model

**METHODS**

This research is applicable in terms of classification based on objective. It is a correlation research in terms of methodology and nature. Its population consisted of all private and governmental banks of Iran from 2008 to 2014, which size of final sample contains 11 banks. The required real data for the research was collected using the published financial statements on Tehran Stock Exchange and website of the Central Bank of Islamic Republic of Iran. Until March 29, 2015, there were selected 11 banks as the research final sample size. Therefore, the research required data was collected using computer data banks, referring to library of the Stock Exchange Organization, Central Bank library, using Rahavar Novin software and referring [www.rdis.ir](http://www.rdis.ir), the website of the Stock Exchange Organization (research, development and Islamic studies' management). The banks' financial statements including balance sheet, cash flow statement and notes accompanying the financial statements at the end of each fiscal year (9 March) were used as the research tool. With regard to the existing research literature and its hypotheses nature, we used mix data. We also used descriptive and inferential statistical methods to analyze the research data and test its hypotheses. The classic regression hypotheses were investigated to assess parameters and evaluate the research hypotheses. There are also used EViews7 and SPSS20 to analyze the data, test hypotheses and extract regression model.

## RESULTS AND DISCUSSION

### Amount of the delayed claims will affect banks' return on assets (H1).

#### Test Result

According to **Table- 1**, the significance level (sig) for variable of bank delayed claims (0.006) is less than the considered significance level in this study (5%); the absolute value of t-statistic (3.091) for the variables is greater than the obtained t-statistic from the Table with the same degrees of freedom. Therefore,  $H_0$  is rejected at confidence level of 95% and  $H_1$  (amount of the delayed claims will affect banks' return on assets) is confirmed.

**Table: 1.** Results of regression equation goodness of fit

Sig.	t-statistic	Coefficient	Variable coefficient	Variable
0/192	1/442	0/255	$\beta_0$	constant number
0/006	-3/091	-0/961	$\beta_1$	The deferred and delayed credits ratio NLP
0/048	2/052	0/734	$\beta_2$	Liquidity ratio of banks LR
0/009	3/838	0/132	$\beta_3$	Ratio of long-term to short-term deposits LTSD
0/024	-2/897	-0/191	$\beta_4$	Saving loses of past loans and credits LLP
0/041	2/458	0/118	$\beta_5$	Ratio of total loans and credits to total assets of banks LA
0/043	2/347	0/511	$\beta_6$	Ratio of capital sufficiency CAR
8/553	F اماره		0/417	Coefficient of determination
0/004	(P-Value)		0/366	Adjusted coefficient of determination
2/005	Durbin-Watson statistic			

### Liquidity ratio of banks will affect banks' return on assets (H2).

#### Test Result

According to **Table-1**, the significance level (sig) for variable of liquidity ratio of banks (0.048) is less than the considered significance level in this study (5%); the absolute value of t-statistic (2.052) for the variables is greater than the obtained t-statistic from the Table with the same degrees of freedom. Therefore,  $H_0$  is rejected at confidence level of 95% and  $H_1$  (liquidity ratio of banks will affect banks' return on assets) is confirmed.

### The ratio between short-term and long term deposits will affect banks' return on assets (H3)

#### Test Result

According to **Table-1**, the significance level (sig) for variable of the ratio between short-term and long term deposits (0.009) is less than the considered significance level in this study (5%); the absolute value of t-statistic (3.838) for the variables is greater than the obtained t-statistic from the Table with the same degrees of freedom. Therefore,  $H_0$  is rejected at confidence level of 95% and  $H_1$  (the ratio between short-term and long term deposits will affect banks' return on assets) is confirmed.

According to **Table-1**, the significance level (sig) for variable of bank delayed claims (0.006) is less than the considered significance level in this study (5%); the absolute value of t-statistic (3.091) for the variables is greater than the obtained t-statistic from the Table with the same degrees of freedom. Therefore,  $H_0$  is rejected at confidence

level of 95% and  $H_1$  (amount of the delayed claims will affect banks' return on assets) is confirmed.

On the other hand, due to negative coefficient of deferred demands' variable (-0.961), it can be concluded that the delayed demands have a reverse (negative) impact on ROA rate of banks, so that the ROA rate will be reduced 0.961 by increasing one unit in the delayed claims. Lack of repaying debts by borrowers at maturity date will increase credit risk. Credit risk can be defined as the possibility of postponement, doubtful or no-collect some credit portfolio of financial institutions due to internal factors (such as poor credit management, internal control, follow-up and monitor) or external factors (such as economic recession, crisis and ...). How to allocate resources among different activities, assess credit level of customers and proper making-decision are effective to control this risk. Given the fact that facilities generally are considered as the most risky assets for banks, there is also provided ratio of loans to deposits, although this ratio can largely be influenced by observing legal requirements regarding asset allocation [11].

Table:2. Summarize the results of  $H_1$

Independent variable	Dependent variable	Effect	Direction	Result
Delayed claims	Banks ROA rate	Yes	Negative	Confirmed

According to Table-1, the significance level (sig) for variable of liquidity ratio of banks (0.048) is less than the considered significance level in this study (5%); the absolute value of t-statistic (2.052) for the variables is greater than the obtained t-statistic from the Table with the same degrees of freedom. Therefore,  $H_0$  is rejected at confidence level of 95% and  $H_1$  (liquidity ratio of banks will affect banks' return on assets) is confirmed.

On the other hand, due to positive variable of banks' resource liquidity coefficient (0.734), it can be concluded that banks' resource liquidity coefficient has a direct (positive) impact on ROA rate of banks, so that the ROA rate will be reduced 0.734 by increasing one unit in banks' resource liquidity coefficient. Liquidity is one of the most important characteristics of bank resources. Using short-term funds in long-term investments will risk banks that holders of investment accounts may request their funds that it will force banks to sell their assets. Bank must have sufficient liquidity to meet the demand of depositors and lenders to attract the public confidence. Banks require effective asset and liability management system to minimize non-compliance maturity in assets and liabilities and optimize their return [11]. These results are consistent with the obtained results by [12].

Table: 3. Summarize the results of  $H_2$

Independent variable	Dependent variable	Effect	Direction	Result
Liquidity coefficient	Banks ROA rate	Yes	Positive	Confirmed

According to Table-1, the significance level (sig) for variable of the ratio between short-term and long term deposits (0.009) is less than the considered significance level in this study (5%); the absolute value of t-statistic (3.838) for the variables is greater than the obtained t-statistic from the Table with the same degrees of freedom. Therefore,  $H_0$  is rejected at confidence level of 95% and  $H_1$  (the ratio between short-term and long term deposits will affect banks' return on assets) is confirmed.

The structure of banks' deposits has a significant effect on their ROA rate. Banks that attract more visual deposits than others will be more profitable. Banks want to collect the diffused funds in the society using their marketing and special policies. Accordingly, they allocate more shares of deposits to themselves, especially visual deposit. Compared with other competitors, bank deposit structure should be designed in a manner that can increase motivation and interest of clients to select them, which it is a type of marketing and advertisement [11].

On the other hand, due to positive variable of the ratio between long-term to short-term deposits (0.132), it can be concluded that the ratio between long-term to short-term deposits has a direct (positive) impact on ROA rate of banks, so that bank ROA ratio will be increased 0.132 by increasing one unit in the ratio between long-term to short-term deposits. These results are consistent with the obtained results by [12].

Table: 4. Summarize the results of H<sub>2</sub>

Independent variable	Dependent variable	Effect	Direction	Result
The ratio between long-term to short-term deposits	Banks ROA rate	Yes	Positive	Confirmed

### CONCLUSION

The impact of internal and external factors on financial performance of commercial banks in Iran by comparing both public and private sectors. The impact of bank's sources and uses structures on liquidity risk of commercial banks in Iran. Review strategies to increase financial performance in the Islamic banking system with emphasis on bank's sources and uses structures

### CONFLICT OF INTEREST

Authors declare no conflict of interest.

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None.

### FINANCIAL DISCLOSURE

None declared.

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