

# Financial positions of two various banks in uk finance essay

[Finance](#)



**ASSIGN  
BUSTER**

## Introduction

This report summarises and analyses about the financial positions of two various banks in UK. This report primarily analyses the annual report of NatWest and Barclays bank based in UK. NatWest bank was incorporated by the merger of two different banks such as National province bank and Westminster bank and NatWest bank commenced from 1 January 1970. In March 2000 Royal Bank of Scotland acquired NatWest bank into his group. NatWest is now a part of world's major group of financial services. ([www.natwest.com/global/about-us](http://www.natwest.com/global/about-us), 2013) NatWest bank is now considered for financially evaluating by analysing through various ratios by comparing to another similar nature of organisation. Barclays bank is considered for comparison in this report. Barclays bank ranges from 300 years of history and incorporated as Barclays bank by the year 1896 and has financed many UK and international countries project and reputed as a worldwide popularly known financial institution. ([group.barclays.com/about-barclays/about-us](http://group.barclays.com/about-barclays/about-us)) In this report both the performance of the organisation are analysed because it has been said that the efficiency of any organisation is the major factor considered for making any decisions in the organisation either for a profitable approach or for the sustainability of the organisation. Moreover, analysis is considered as important for overcoming the competitors of the organisation. It is also supported as for achieving greater effectiveness in the operation of the organisation a step has to be taken towards analysing the performance of the organisation in all kinds of ability such as profit motive, effectiveness of the organisation and also monitoring the performance and measuring the profit accurately gives all round results about the

organisation. The prime ratio of each and every ratios are assigned and made for decision making according to the differences (Cubbin J, 1998)As mentioned above in this report performance of banks are evaluated by analysing profitability, efficiency, liquidity of the banks and analysing the past performance to predict the future perspectives of an organisation.

## **Profitability ratio**

Profitability ratio is explained as a set of analysed to calculate the ability of the business and its earnings of that particular financial year. In order to calculate the effective profitability the costs of the organisation is compared with the earnings of the organisation. It is also supported as ratios are the tool to analyse the previous performances of the organisation, evaluating the financial capability to run the particular business and also to forecast the future earnings. The aspect ratio of profitability stands at 2 is to 1 where two portions of profit is enough to compensate sales of the organisation (Hussey J, 1997)Profitability ratio comprises of gross profit ratio, net profit ratio and also operating profit ratio which analyses gross profit, net profit and day by day operating expenses of the organisation with the sales of the organisation. In gross profit ratio the profit calculated before taxes are compared with sales and net income of the organisation where NatWest bank has a gross profit ratio of 5.8 percent which implies margin of income on the sales of the organisation. In this ratio income is higher because the components of income are more in the form of interest receivables of this bank. When it is compared with Barclays bank it has a ratio of 4.8 percent which is even though lower than the other banks but it is closely matching towards the performance and its profit. From this analysis we come to know

that both the banks manage expenses comparatively well by having good income in both the banks. The second part of profitability is analysing the net profit ratio of both the organisations. Net profit ratio is a similar kind of analysis but here the profit after taxes and interests are included for analysis. Net profit ratio analysis makes the firm to understand the impact of taxes on income of the organisation. Net profit analysis of Barclays came up as 18 percent whereas Natwest has about 13 percent to meet up with the income with the net amount of profit with the income. It is comparatively Barclays shows higher because the income is net income of Natwest has been decreased when compared to the year 2011 income of natwest. This is the reason found behind the lower percentage of net income of natwest bank. Liquidity ratio of a bank has various methods to calculate and analyse about the liquidity of the bank. This ratio is considered for analysis in order to analyse the liquid assets of the bank. The analysis is based on the following they are as follows which comprises of cash and deposit ratio, cash and total deposits in the bank, cash plus demanding securities is divided into demand and time deposits in the bank. Highly liquid assets are also taken into consideration for accessing the worth of assets in the organisation. Liquidity ratio is supported as the quick form of assessment of any business. It is also popularly known as acid test ratio which is supported as the test ratio is quicker and also varies time to time of the business period. Natwest bank has a liquidity of about 6 percent whereas Barclays has only 3.5 percent. Barclays has higher chances of sustaining in the banking sector because it has been supported that the banks with lower liquid banks are successful in overcoming the liquid problems of the banks. The aspect liquid

ratio 1.5 of liquid assets should be compensated for 1 percent of liabilities. (Panos M, 2001) In the decision making aspect the organisation depends on the higher percent of liquidity where to increase the profit and how to lower down the liabilities of the organisation.

## **Efficiency ratio**

Effective operation of an organisation and also to know about the credibility of effective performance this ratio has been calculated. It is commonly calculated for three important factors in banks. They are operational efficiency, effective costs and income calculation and also for overheads or expenses of banks. Operating efficiency of a bank is calculated as operating expenses with the total value of assets of the organisation. It is effective in operational factors because it has been supported as assets value for expenses of the organisation. Barclays has only 2 percent which is comparatively lesser than natwest which has about 3.5 percent. The aspect operational efficiency ratio is considered lower basis which is widely accepted as the lower the operational ration there is higher efficiency in the organisation which implies assets are overwhelming to meet the operational expenses of the bank (Padmalatha S, 2010) even though lesser efficiency ratio is comparatively good it has argued as the situation is always crucial because the lower efficiency will always will not be matches with the higher profitability ratio. Lower efficiency has two critical conditions which are banks does not consider bank's other businesses for calculation. It is also argued more as banks shareholders return is not related directly with the bank because despite the efficiency ratio investment will add the value to the share holders of the bank. Authors also argue that banks should

<https://assignbuster.com/financial-positions-of-two-various-banks-in-uk-finance-essay/>

concentrate on the growth of their returns at potentially a lower cost. (Koch T, 2010)

## **Comparison of past performance**

Primarily, for the past performance comparisons 2 financial years 2011 and 2012 are taken into account. Comparing the natwest bank performance according various sectors such as retail banking in UK, corporate banking in UK and also international banking the total revenue generation is lesser in retail and corporate banking whereas international banking has recorded a rise in revenue from 75 million pounds to 98 million pounds of revenue. The comparison also reveals a positive result for natwest in comparing with different years in other factors as well. The revenue factor given an increase and also on the other side the cash flow from the day to day operational expenses by the bank has been increased immensely. The cash flow from 1295 million pounds has been increased to a higher percentage of 5, 913 million pounds in a year. The improvement also showed a higher increase in both other cash flows namely cash flow from investment activities which have been increased from a deficit of 61 million pounds to a higher quotient of 143 million pounds. The only factor of cash flow which has shown a decrease is the net cash flow from financial activities of natwest bank. The financing activities had shown a decrease from 2166 million pounds to a sharp fall of 1464 million pounds. The convincing factor to natwest bank is that the overall cash flow has been shown an improvement from 133, 609 million pounds to an increase of 152, 510 million pounds. Secondly, to analyse the previous performance Barclays bank two consecutive years 2010 and 2011 are considered for analysis. The effective improvement in the bank

<https://assignbuster.com/financial-positions-of-two-various-banks-in-uk-finance-essay/>

is about the increase in the total income of the organisation. The total income of Barclays bank has improved to a major quotient of about 3, 504 million pounds from 2010. Moreover Barclays has also showed improvement in the credit gains in the financial year which includes a rise from 391 million pounds from 2010 to a massive improvement of about 2, 708 million pounds by 2011. Among all these factors, the major area in which there is an improvement is about the increase in total net operating income of Barclays bank. The net income has driven from a loss of 1808 million pounds to 211 million pounds of profit. This is considered as a remarkable achievement in the financial review by the year 2011. In this analysis there have been few downfalls in financial reviews which include net income from the interests it has been marginally reduced from 12523 million pounds to 12201 which is also a factor to be considered for enhancing the performance of the bank. As discussed earlier bank has to perform well in less expense in order to increase and generate the revenue of the organisation. In addition the net fee and commission income also has been reduced from 8871 million pounds to 8622 million pounds where the effective income is completely depended by the organisation. Despite of the downfall of the major income the total net income has been increased arguably from 32, 204 to 33, 033 million pounds in a year. Finally both the banks performances are compared together for analysed result and also ensure which bank has the higher improvement this report will now compare both the banks financial review for making the decision. After considering the various factors in both the banks there is a clear phenomenon that if the net income has to be considered for compared analysis. The net income of Barclays bank has shown tremendous growth

comparing to natwest bank. Even though the cash flow of natwest bank shows an increase the interest income should show increase annually. But the net interest income of natwest bank has shown a fall of 3 percent which is an unhealthy situation for a bank. This implies natwest bank has to ensure there is an increase in the income in order to fulfil the shareholders of the bank. (group. barclays. com/about-barclays/investor-relations/annual-reports, 2013)

## **Conclusion**

To conclude the banks has to fix a strategy and plans to ensure there is a flow in business plan where it has to fix certain business values to ensure the effective running of business. In the annual report Barclays bank has said the crucial aim of the bank is to ensure and deliver longer term of appreciating the value of the share holders. This strategy has been worked out through a process of a banking business model for communication. To build a strong and stable relationship with shareholders and bank account holders of the bank this business model of communication is adopted. Barclays also use delivering operational excellence, managing the amount of risks and also allocating the limited resources and worked out a policy of optimum utilisation of minimal resources. Barclays bank has its own style of operating the strategy whereas natwest bank since it has been grouped among the RBS group it has been following the strategy propounded by the group. Natwest has a similar kind of strategy which is ensure customer satisfaction and increase the revenue of the organisation with minimal operational resources of the organisation. Decision making and planning of bank depends on the profit and expenses aspect of an organisation. In

<https://assignbuster.com/financial-positions-of-two-various-banks-in-uk-finance-essay/>



organisation such as banks the ratio depends upon the net interest income and interest spend on customers. Thus, this report finally concludes saying that both natwest and Barclays bank has financially been analysed in this report which came to a conclusion that the monetary and the value of business is similar where the products to the customers are marketed the ensured the profit of the business. The financial review between both the banks proved that the revenue of the organisation is the most important factor for both the increase of shareholder value and the business operation of any organisation.