Project : Bank Branch Profitability Analysis
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EXECUTIVE SUMMARY: KEY FINDINGS & INSIGHTS

Overview of Financial Health Over the past three years, the bank has delivered strong financial results, generating a total Net Profit of **$5.36 billion** with a healthy profit margin of **33.10%**. While these top-line numbers are positive, a deeper analysis reveals that the bank's performance is structurally uneven. Our profitability is currently driven by high revenue volume rather than operational efficiency. The bank relies heavily on specific regions and carries a rigid cost structure, which creates significant risk if market conditions change.

Regional and Branch Performance Disparities There is a clear divide in performance quality across our network. The **South** Region demonstrates the most sustainable business model, achieving the highest profit margins by maintaining low operational costs. In contrast, the **East** Region generates the highest total revenue **$5.3 billion** simply due to its size, but it is the least efficient region to operate. This inefficiency is evident when comparing individual branches. Our top-performing branch in **Houston** achieves high returns (**RAR of 111%**) by keeping costs low (**Cost-to-Income ratio of 55.01%**) and lending actively (**82.17% LDR**). Conversely, underperforming branches, such as the branch in **Philadelphia**, spend nearly **85 cents to generate every single dollar of revenue**, resulting in a significantly lower profit margin of **13.16%**.

Structural Cost Challenges The primary driver of the bank's inconsistent performance is an inflexible cost structure. Currently, **over 90% of the bank's operating expenses are fixed costs**, specifically **salaries (60.16%)** and **rent (29.99%)**. These costs remain high even when revenue decreases, any slowdown in business immediately impacts our net profit. This was observed in early **2025**, where revenue growth stalled but costs continued to rise, causing a significant drop in profitability. The bank currently lacks the flexibility to reduce expenses quickly during economic downturns.

Interest Rate Sensitivity and Future Risk The bank is currently benefiting from a favorable interest rate environment, but this creates a hidden vulnerability. Our scenario analysis indicates that the bank is highly sensitive to interest rate fluctuations. If interest rates were to decrease by **1%**, our profit margins would shrink considerably. The branches that are already inefficient (those with high operating costs relative to their income) are the most exposed to this risk. A drop in rates could push these low-performing branches from barely profitable to operating at a loss.