1.1 Introduction

Banking is the business of providing financial services to consumers and businesses. The basic services a bank provides are checking accounts, which can be used like money to make payments and purchase goods and services; savings accounts and time deposits that can be used to save money for future loans that consumers and businesses can use to purchase goods and services; and basic cash management services such as check cashing and foreign currency exchange. Four types of banks specialize in offering these basic banking services: commercial banks, savings and loan associations, savings banks, and credit unions.

Ratio Analysis is the basic tool of Financial Analysis. Financial analysis itself is an important part of any business planning process as SWOT (Strengths, Weaknesses, Opportunities and Threats. It is the basic tool of the strategic analysis plays a vital role in a business planning process. No SWOT analysis would be complete without an analysis of companies' financial position.

In this way Ratio Analysis is very important part of whole business strategic planning. Financial analysis refers to an assessment of the viability, stability and profitability of a business, sub-business or project. The Balance Sheet and the Statement of Income are essential, but they are only the starting point for successful financial management. Application of Ratio Analysis to Financial

Statements should lead to analyze the success, failure, and progress of a business. Short-term liquidity and the components of current assets are measured by five ratios: current ratio, quick ratio, cash plus short- term investments to current assets, inventory to current assets, and current asset decomposition. Different types of ratios include liquidity ratio, leverage ratio, activity ratio and profitability ratio.

Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. To do this compare ratio with the average of similar businesses and compare these ratios for several successive years, watching especially for any unfavorable trends that may be starting. Ratio analysis may provide the all-important early warning indications that allow researcher to solve business problems before a business is destroyed by them.

The ratio analysis and industry analysis tools are very useful for individuals to instantly assess a company or industry by making two basic types of comparisons. First, the analyst can compare a present ratio with past (or expected) ratios for the organization to determine if there has been an improvement or deterioration or no change over time. Second, the ratios of one organization may be compared with similar organizations or with industry averages at the same point in time. This is a type of "benchmarking" so that one may determine whether the organization is "average" in performance or doing better or worse than others. For the professional, conducting such in-depth analyses is critical, allowing an analyst to make an informed business or investment decision.

However, the tool also has its downsides one of which is that the findings of the analysis will only provide answers to the “what” questions or it only provides quantitative data. This means the analysis goes only to the extent of determining what is wrong and does not provide any possible solutions. In order to minimize weakness, the users of the analysis have to pair it with other tools that will provide qualitative data. By doing this it will provide a better picture of the company’s position in the market.

In today’s dynamic and fast growing environment, the banks are important players in financial markets and offer financial services such as investment funds, corporate finance and commercial lending. The changing economic environment has a significant impact on banks and thrifts as they struggle to effectively manage their interest rate spread in the face of low rates on loans, rate of competition for deposits and the general market changes, industry trends and economic fluctuations.

It has been a challenge for banks to effectively set their growth strategies with the recent economic markets. A rising interest rate environment may seem to help financial institutions, but the effect of the changes on consumers and businesses is not predictable and the challenge remains for banks to grow and effectively manage the spread to generate a return to their shareholders. For being the owners of these financial institutions the managers, suppliers, customers, regulatory agencies, each one require financial information for effective decision making. The basic source for getting financial information is financial statements. Financial statement analysis is an essential skill in a variety of occupations like investment management, corporate finance, commercial lending and extension of credits.

1.2 Rational of the Project

The rationale behind this research study is to determine which tool can be applied to a bank’s financial statements so that management and the public can identify the most critical problems inside each bank and develop ways to deal with those problems.

Financial analysis is an evaluation of both a firm's past financial performance and its prospects for the future. Typically it involves an analysis of the firm's financial statements and its flow of funds. Financial statement analysis involves the calculation of various ratios. It is used by such interested particles as creditors, investors, and managers to determine the firm's financial position relatives to that of others.

Future flow analysis is an evaluation of the firm's charges in financial position in order to determine the impact that its sources and uses of funds have on the firm's operations and financial condition. It is used in decisions that involve corporate investments, operations, and financial. The study will examine the banks’ performance in the recent crisis period 2008.

1.3 Problem Area

To analyze, evaluate and compare the performance of United Bank Limited and Allied Bank Limited over the past five years using financial analysis.

1.4 Project Objectives

Role of commercial banks is considerable important in relation with the improvement of economic conditions of our country. Domestic savings, causes of its low rate, effect of socio economic conditions on savings, our banking system and activities of commercial banks in mobilizing savings rate.

The study aims to find out how useful and efficient are ratios in judging the overall performance/progress of banks over a specific period of time, in order to check the profitability, liquidity and debt mix to the banks.

This study has been carried out in order to find the financial performance of Allied Bank and United Bank over the past five years. These ratios will allow bankers and other concerned parties like investors and businessmen to make knowledge based comparison with the past financial statements of Allied Bank and United Bank and to assess trends in fluctuation both positive and negative.

The main objectives of current study are:

- To use the Financial Analysis tools and to see how these tools determine the banks’ performance.
- To understand the Financial Policies and Practices of ABL and UBL.
- To make inferences the results derived from the ratios.
- To examine and assess the crisis effect on banks performance in the 2008 period.

Literature Review

A growing and dynamic banking sector is essential for economic growth in Pakistan, as growth in the banking sector and the real economy mutually reinforce each other. The banking sector constitutes the core of the financial sector in Pakistan. Private sector investment and consumption should be seen as the key drivers of the economy and must be supported by growing financial intermediation and services, including not only banks but also non-bank financial institutions, and debt securities and the stock market.

The study given by the (Fotios, 2006) reveals that less cost efficient banks, with higher than average levels of provisions relatively to their income and lower liquidity tend to have lower ratings. Larger and more profitable banks tend to obtain higher ratings. Higher equity to assets ratio results in higher ratings only when we do not control for bank supervision and regulations. Banks in markets with higher concentration and share of assets in government owned banks are assigned lower ratings.

(Harry Zvi Davis and Yoram C. Peles, 1993) in their study they suggested that firm’s liquidity ratios have equilibrium values. They evaluated the performance measures as capital structure and the gross margin ratio for determining the equilibrating forces. For effective decision making of an organization short-term liquidity is an important concern of management. If the firm has insufficient current assets to satisfy current liabilities, the firm may be bankrupt. If the ratio of current assets to current liabilities decreases dramatically, managers must take measures to ensure that future cash flows are available to pay current liabilities.

(Stephen H. Penman,1992), shows Stock price changes associated with reported earnings innovations (typically assessed by estimating earnings response coefficients) have been characterized as related to the persistence of earnings, which is defined as the revision in expected future earnings that is implied by a current earnings innovation. Permanent earnings innovations are associated with higher multipliers than transitory ones. In contrast to previous research, this study shows that the earnings persistence indicated by financial statements is not a fixed attribute, but changes over time and tends to revert to the mean of all firms. Correspondingly, pricing multipliers follow a similar pattern, which requires their periodic updating through financial statement analysis.

(Lino Sau,2003),he generate a behavior as "over lending" and "over borrowing," the simultaneous deterioration in the financial structure of the banks and of the companies will lead to an increase in the fragility of the system and thus to the possibility of a crisis triggered by debt deflation. This in turn causes an increase in the amount of debt and may drive many companies to bankruptcy. This process may provide an explanation for the phenomenon of the persistence in the drop in income and unemployment. If the bankruptcies also occur in the banking sector, they cause the destruction of information and therefore negative and opposite effects to those described above. The latter generate and magnify financial instability and can trigger the collapse of the entire economic system. He believe that it is precisely the destruction of information that occurs in the aftermath of a banking crisis and the consequent coordination failure, which accounts for the contagion and propagation that produce chain reactions in the financial system within and outside the individual countries. Therefore, in order to gain a more thorough understanding of what happened in emerging countries, it is necessary to re-elaborate a new approach.

Commercial banks have become a field of rising interest of industrial economists who endeavor in an important branch of industrial economics viz., theory of incomplete information and principal-agent framework. Asymmetry of information in the principal- agent problem provides reasons for banks to play a special role to minimize the agency costs between borrowers and lenders (Diamond, 1984).

Although capital market also establishes relationships among borrowers and lenders but commercial banks have comparative advantage due to their superior capability to provide debt with inside information, as explained by (Fama,1985).

There are number of indicators used to evaluate the performance of the banking industry; the best and widely used indicators are Return on Assets (ROA), Return on Equity (ROE) and Net Interest Margin. Performance of a bank in terms of earnings and profitability reflects its ability to support present and future operations. More specifically, this determines the capacity to absorb losses by building an adequate capital base, finance its expansion and pay adequate dividends to its shareholders (Arby, M. Farooq, 2003).

Common reason for performing financial statement analysis include making investment in a firm in setting such as initial public offering of its common stock, as an acquisition candidate, in court-directed bankruptcy hearing, or in liquidity action. Financial health of a business firm for periods such as quarterly reports and annual reports (Clyde, 1990).

Financial ratios can also give mixed signals about a company’s financial health, and can vary significantly among companies, industries and over time. Other factors should also be considered such as company’s products, management, competitors, and vision for the future (Fieldsend, Langford and McLeay, 1987).

Financial ratios are widely used to develop insights into the financial performance of companies by both the evaluators and researchers. The firm involves many interested parties, like owners, management, personnel, customers, competitors, regulatory agencies, and academics each having their views in applying financial statement analysis in their evaluations. Evaluators use financial ratios, for instance, to forecast the future success of companies, while the researcher’s main interest has been to develop models exploiting these ratios can be differentiated (barne, 1986).

When a firm borrows money, it promises to make a series of interest payments and then to repay the amount that it has borrowed. If profit rise, the debt holders continue to receive a fixed interest payment, so that all the gain go to the shareholders. Of course the reverse happens if the profits fall. In this case shareholders bear all the pain. If times are sufficiently hard, a firm that has borrowed heavily may not be able to pay its debts. The firm is then bankrupt and shareholders lose their entire investment. Because debt increase returns to shareholders in good times and reduces them in bad times, it is said to create financial leverage the firm has taken on (Brealey, Myers, and Marcus, 2001).

Once you have selected and calculated the important ratios, you still need some way of judging whether they are high or low. A good starting point is to compare them with the equivalent figures for the same company in earlier years. It is also known as benchmarking or cross-sectional analysis in which the firm’s ratio values are compared to those of a key competitors or a group of competitors, primarily to isolate areas of opportunity for improvement (Lawrence, 1997).

Comparison of current to past performances, using ratios analysis, allows the firm to determine whether it is progressing as planned. Using multiyear comparisons can see developing trends, and knowledge of these trends should assist the firm in planning future operations. As in cross-sectional analysis, any significant year-to-year changes can be evaluated to access whether they are symptomatic of a major problem. Time series analysis is often helpful in checking the reasonableness of a firm’s projected financial statements (Lawrence, 1997).

Financial statements analysis applies analytical tools and techniques to general purpose financial statements and relates data to drive estimates and inferences useful in business decisions. It’s a searching tool in selecting investment or merger candidates and is a forecasting tool of future financial conditions and consequences. It’s a diagnostic tool in assessing financing, investing, and operating activities, and is an evaluation tool for managerial and other business decisions. Financial statement analysis reduces our reliance on hunches, guesses, and intuition, and in turn it dimities our uncertainty in decision making. It does not understand the need for expert’s judgments but rather establishes an effective and systematic basis for making business decisions (Bernstien and Wild, 1990).

Income statement measures a company’s financial performance between balance sheet dates and hence, reflects a period of time. Net income shows the increase (or decrease) in net worth of company before considering distributions to and contributions by shareholders (Brigham and Ehrhardt, 2001).

A balance sheet summarizes the financial position of a company at a given point in time. Most companies are required under accepted accounting practices to present a classified balance sheet in which assets and liabilities are separated into current and non current accounts. Current assets are expected to be converted to cash and used in operations within one year or the operating cycle, whichever is longer. Current liabilities are obligations that the company must settle in the same time period. The difference between current assets and current liabilities is working capital (Lawrence, 1997).

Methodology/Tools

3.1 Population

Population used in the study is based on two banking companies selected for the purpose of comparison:

1. **United Bank Limited**
2. **Allied Bank Limited**

3.2 Nature and source of Data

The research data is secondary in nature as for this particular project. The data has been gathered from the balance sheets and financial reports of each of the two banks mentioned above and the annual reports of the said companies. The data utilized for analysis based on five years period i.e. 2004 to 2008. The sample size is therefore comprised on two banks.

3.3 Type of study

This study is based on financial analysis of UBL and ABL Pakistan. The study is therefore both descriptive and analytical in nature. The researchers have utilized the descriptive method in acquiring information for evaluating the financial performance of UBL and ABL and subsequently analyzed the data using ratio techniques.

3.4 Analytical Tools

There are diverse ways of measuring efficiency of banks. The traditional method of approaching the efficiency measurement issue is the financial analysis. This study includes the different ratios and common size analysis with industry averages to analyze the financial performance of the selected banks.

Ratios

1. **Asset Utilization** = Total Revenue/Total assets
2. **Capital Adequacy** = Total Advances/Capital
3. **Deposit to Capital** = Average deposits/Average equity
4. **Earning per share** = Net Income/Number of share outstanding
5. **Efficiency ratio** = Non interest expense/net interest income + non interest income
6. **Equity Capital to total assets** = Equity/total assets
7. **Equity Multiplier** = Total assets/equity
8. **Interest Expense** = interest expense/total operating income
9. **Interest Income** = Interest income/Total operating income
10. **Loan to deposit** = Total loans/Deposits

11. **Overhead Efficiency** = Non interest income/ Non interest expenses

12. **Profit Margin** = Net income/Total operating income

13. **ROA** = Net income/Total assets

14. **ROE** = Net income/Total equity capital

15. **Tax Ratio** = Income tax/Total operating income

3.5 Presentation of Results

The data analyzed has been presenting in the form of tables and charts.

3.6 Limitations of the study

The study period is based upon five years data i.e. 2004 to 2008. Non availability of data on all industry average ratios could not be secured which showed as a major limitation.

Results and Analysis

Ratio Analysis is the basic tool of Financial Analysis. Financial analysis itself is an important part of any business planning process. Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. Ratio analysis may provide the all-important early warning indications that allow researcher to solve business problems before a business is destroyed by them.

Ratios:

Asset utilization

Asset utilization is a tool focused on uncovering a hidden plant by measuring the difference between what the asset is capable of producing and what it actually produces.

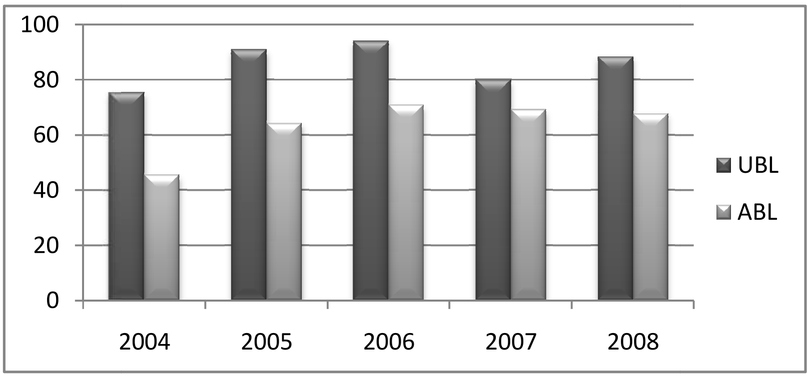
Asset utilization

Table 4.1

Years	**2004**	**2005**	**2006**	**2007**	**2008**
UBL	75.45	90.96	94.08	80.03	88.44
ABL	45.51	64.27	70.92	69.19	67.80

Fig. 4.1

Asset utilization



In the financial year 2008 UBL has earned more interest and non-interest income which is about 88.44% from its total assets. So, UBL is fluctuating from 2004-2006 and also in 2008 as compared with the previous year. While ABL’s asset utilization ratio in 2008 is 20.64% lower than UBL. The above values from the given table show a declining closer trend in both the banks but in 2008 UBL has better asset utilization ratio. On the basis of this ratio one cannot find out which bank has better performance because it is the breakdown of ROA and ROE. ABL had faced administrative problems in 2004 and this bank had acquired by Ibrahim Group. So, due to this the bank has fewer earnings as compared to its assets. In 2007 ABL has this ratio 69.91% which is 10.84% lower than UBL.

Capital adequacy

Capital adequacy ratio is a measure of the amount of a bank’s capital expressed as a percentage of its risk weighted credit exposure. It is calculated by dividing total advances by capital. The risk weighting process takes into account the relative riskiness of various types of credit exposure that banks have. The higher the capital adequacy ratio a bank has, the greater the level of unexpected losses it can absorb before becoming insolvent. The capital adequacy ratios are concerned with credit risk.

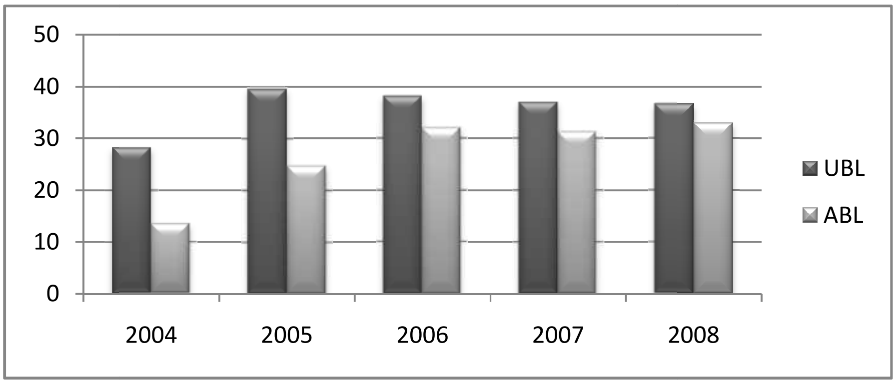
Capital adequacy

Table 4.2

Years	2004	2005	2006	2007	2008
UBL	28.23	39.54	38.19	36.99	36.68
ABL	13.51	24.78	32.09	31.27	32.95

Fig. 4.2

Capital adequacy



Capital adequacy of the bank is concerned with the credit risk of the bank. Higher this ratio means greater the ability of bank to absorb the unexpected losses. In FY08, UBL had greater capital adequacy ratio of 36.68% which shows that the bank has more funds to absorb the unexpected losses which may occur in the future. From the given table, it is evident that the UBL shows almost average capital adequacy ratio from 2005 to 2008. ABL had lower capital adequacy ratio from 2004 to 2008 than UBL because the bank gives more advances due to change in management.

Deposit to capital

This ratio measures the equity position of the bank whether the bank has increased its equity against its deposits. This ratio also reveals the less or more than proportionate change in the equity and deposits of the bank. It also describes whether a bank increases its equity or deposits to meet its short fall obligations.

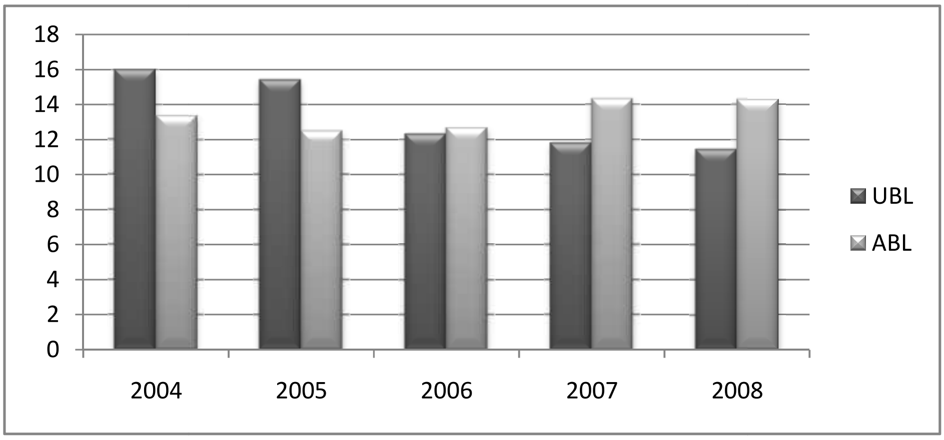
Deposit to capital

Table 4.3

Years	2004	2005	2006	2007	2008
UBL	16.02	15.42	12.32	11.81	11.45
ABL	13.38	12.5	12.69	14.34	14.3

Fig. 4.3

Deposit to capital



The equity of UBL increased by 3% as more ordinary shares were issued in FY08 and the share capital of the bank increased from Rs.8.093 billion in 2007 to Rs.10.11 billion in 2008. As the profit earned during 2008 was 0.36% lower as compared to previous year because the deposit and equity of the bank decreased from 11.81 in 2007 to 11.45 in 2008. From 2006 to 2008 ABL has more deposit to capital which is mainly due to increase in deposits and equity of the bank while from 2004 to 2006 UBL had more equity to capital ratio.

Earning per share

Earning per share measures the profit earned per share. The higher EPS will attract more investors to acquire shares in the company as it indicates that the business is more profitable enough to pay the dividends, the company also retains some profits for the business.

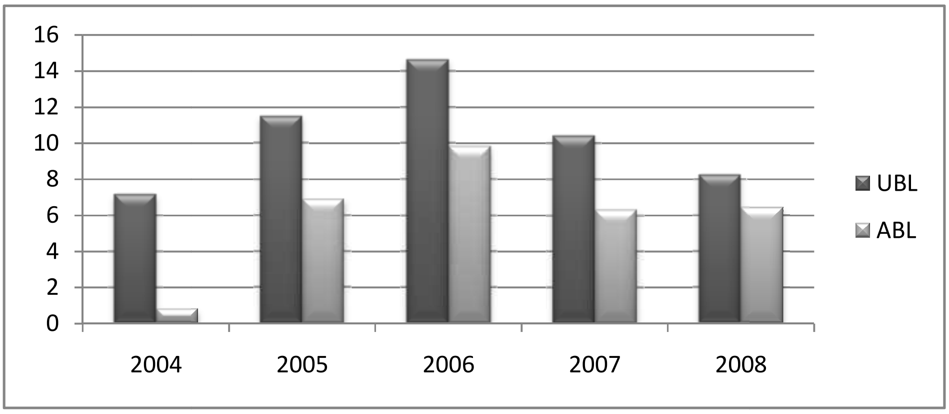
Earning per share

Table 4.4

Years	**2004**	**2005**	**2006**	**2007**	**2008**
UBL	7.15	11.48	14.62	10.38	8.24
ABL	0.81	6.88	9.8	6.31	6.43

Fig. 4.4

Earning per share



Earning per share measures the bank’s performance in terms of shares which are outstanding. In the financial year 2008, UBL has more earning per share than ABL. It shows that more investors are willing to purchase the shares of UBL because of the high value of shares and the bank can give dividends to its shareholders at time. One thing keeping in view that all dividend is not given to shareholders but some portion of profit is retained as retained earnings. From 2004 to 2006, UBL shows increasing trends in earning per share but in 2007 and 2008 the earning per share is decreased because the bank had opened new branches in theses years due to the requirement of SBP. While ABL Bank also shows increasing trend from 2004 to 2006 but in 2007 earning per share was declined and in 2008 there has been slight increase in EPS of ABL.

Efficiency ratio

It measures a bank's ability to control noninterest expenses relative to net operating income. It is calculated by dividing non-interest expenses with operating income. It indicates how much a bank pays in noninterest expense for one currency unit of operating income. Banks use this ratio to measure the success of recent efforts to control noninterest expense while supplementing earning from fees. The smaller is the efficiency ratio, the more profitable is the bank, all other factors being equal.

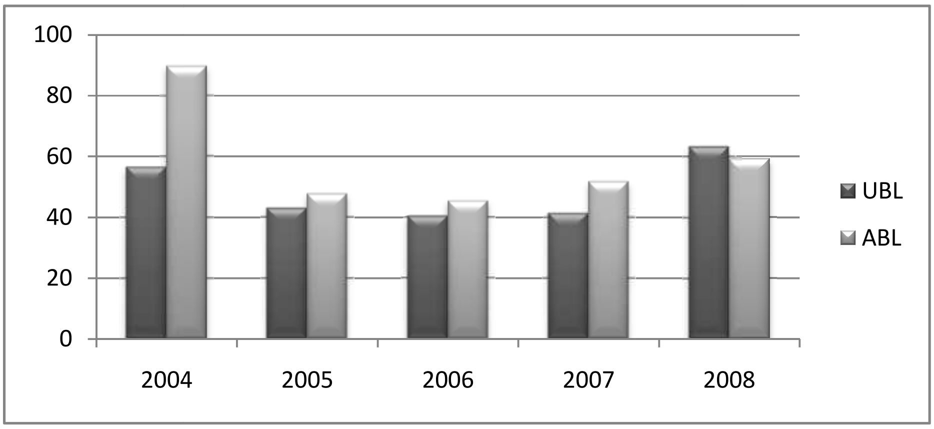
Efficiency ratio

Table 4.5

Years	**2004**	**2005**	**2006**	**2007**	**2008**
UBL	56.42	42.96	40.29	41.31	63.19
ABL	89.65	47.61	45.25	51.65	59.21

Fig. 4.5

Efficiency ratio



From the analysis of this ratio it is evident that in 2008 UBL bears huge interest expenses as compared with ABL. From FY04 to FY06, UBL had less efficiency ratio which means the increase in profitability of the bank in these years. In December 31, 2004, efficiency ratio of ABL was 33.23% higher than UBL because the non-interest expenses (Administrative expenses and worker welfare fund) exceeded as compared with interest and non-interest income.

Equity capital to total assets

Computation of equity capital to total assets indicates the company's ability to satisfy long-term debt. It is calculated by dividing equity capital to total assets. A ratio greater than 100% means that some of the fixed assets are financed by debt.

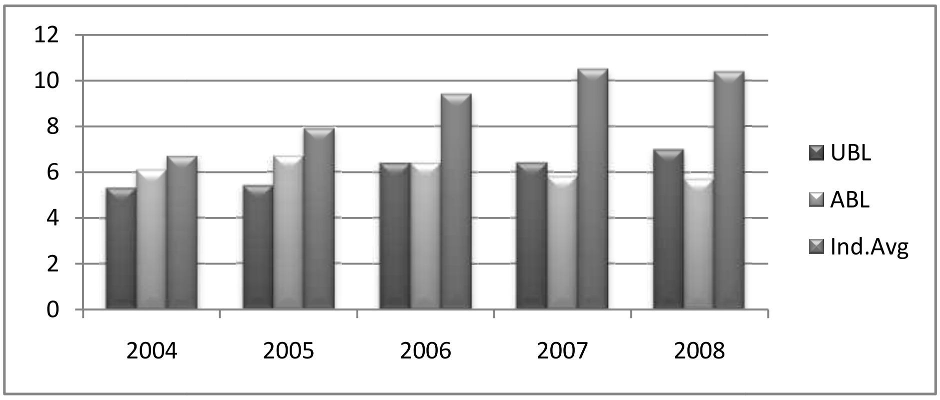
Equity capital to total assets

Table 4.6

Years	2004	2005	2006	2007	2008
UBL	5.3	5.4	6.4	6.4	7
ABL	6.1	6.7	6.4	5.8	5.7
Ind.Avg	6.7	7.9	9.4	10.5	10.4

Fig. 4.6

Equity capital to total assets



From 2004-2008, equity to total assets ratio of UBL has persistently increased. And industry average also increased in these years by 3.7%. UBL has higher this ratio of 7% in 2008 as compared to ABL; which is more attractive as compared with industry average. It shows UBL performed better in the industry. In case of ABL some fluctuations have been seen from 2005-2008 where this ratio has a decreasing trend. This means that both the banks have decreased debt burden against its assets. Hence ABL has performed better from 2004-08 as its ratio is less than UBL and industry average.

Equity multiplier

It measures the performance of bank by improving and enhancing confidence of the investor on the bank as the equity builds up against assets of the company. It is calculated by total assets dividing by total equity. It also means that company has some other forms of investments or loans for improving its performance.

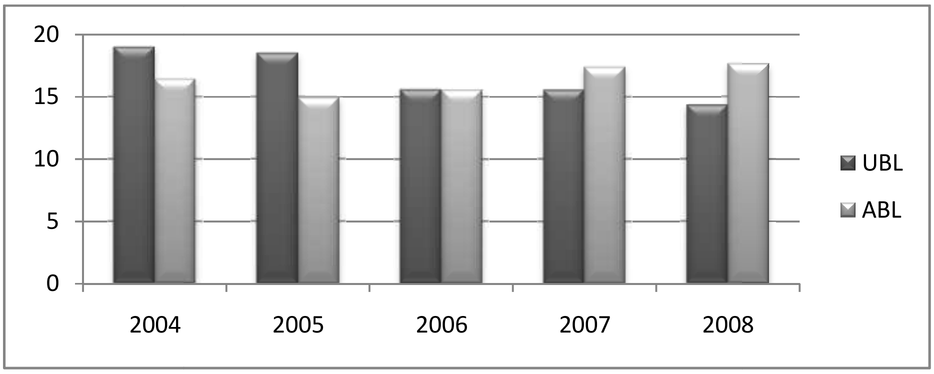
Equity multiplier

Table 4.7

Years	2004	2005	2006	2007	2008
UBL	18.97	18.5	15.56	15.59	14.33
ABL	16.4	14.91	15.53	17.39	17.62

Fig. 4.7

Equity multiplier



In years 2007 and 2008, ABL has more risk due to higher Equity Multiplier which is 1.8 and 3.29 times respectively while UBL is less risky than ABL from the previous two years. During financial year 2008, UBL net interest earned grew by 17% as compared to 2007 i.e. Rs. 23 billion due to growing volume of advances and strong yield on the portfolio. So, ABL equity multiplier is 17.62 times and UBL which is 14.33 times in 2008. ABL has lent more advances to corporate sector so; it has higher equity multiplier than UBL. From the year 2004-2006 UBL had higher equity multiplier which means the bank had more liquidity risk as compared with ABL.

Interest expense ratio

All the factors being equal, the lower interest expense ratio which means more profitable is the bank. The value of this measure compared with similar ratios of peer banks reveals whether specific types of expenses contribute to significant differences in performance.

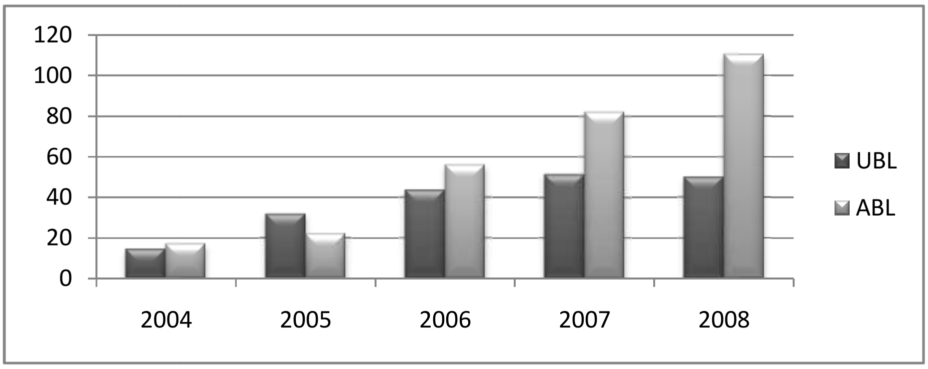
Interest expense

Table 4.8

Years	2004	2005	2006	2007	2008
UBL	14.44	31.61	43.6	51.16	50.06
ABL	17.06	21.94	55.83	81.97	110.35

Fig. 4.8

Interest expense



Interest expense ratio of UBL is 60.29% lower than ABL in FY08. ABL has higher this ratio in 2008 because its administrative expenses (hired professional staff) are too high which affects the overall profitability of the bank. In the FY06 and FY07 UBL has lower this ratio than ABL. But in 2005, UBL shows higher ratio than ABL which indicates the higher operating expenses (opened new branches).

Interest income

This ratio indicates how much of a bank’s gross yield on assets results from interest income, noninterest income and realized securities gains/losses. Higher this ratio means the higher profitability for the bank.

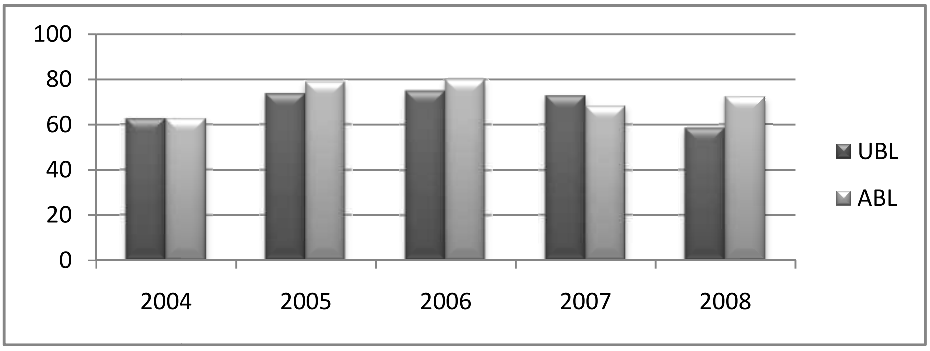
Interest income

Table 4.9

Years	2004	2005	2006	2007	2008
UBL	62.51	73.79	75.02	72.83	58.4
ABL	62.61	78.98	79.87	68.16	72.33

Fig. 4.9

Interest income



In FY08, UBL had 13.33% lower interest income ratio than ABL. which shows that the bank utilizes its expenses but generate less interest income from its loans. UBL had higher ratio in 2007 and was lower in 2006 and 2005.This is because ABL takes benefit from the liquidity of the market and gets low cost deposits and earned interest income which shows the better performance of the bank. While from 2004 to 2006, ABL controlled its expenses and has boosted its interest income. However, ABL has higher ratio from 2004 to

2008, because it borrowed low cost deposits at lower interest rate and offer them at higher interest rate which shows more profitability.

Advances to deposit Ratio

This ratio shows how much advances or loans the bank is making with respect to its deposits. This ratio is calculated by total advances dividing it by total deposits. The higher the ratio, the more loans the bank is giving and the more earnings it is generating.

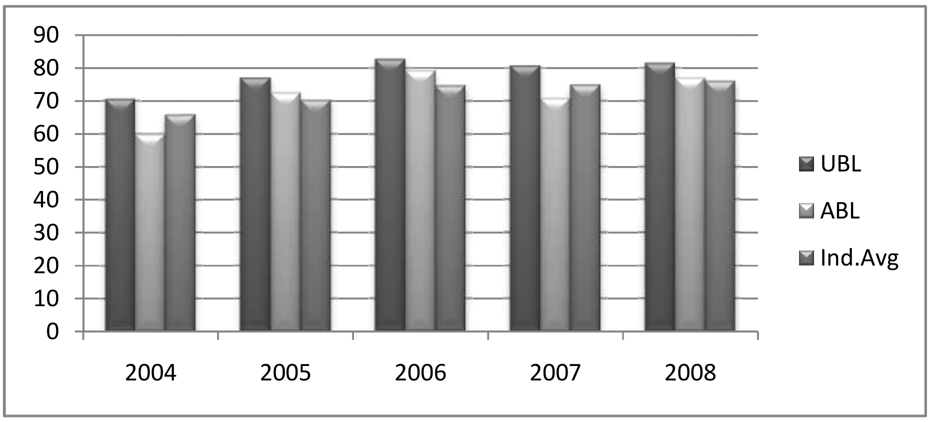
Loan to deposit

Table 4.10

Years	**2004**	**2005**	**2006**	**2007**	**2008**
UBL	70.58	76.99	82.63	80.7	81.47
ABL	59.86	72.48	79.15	70.78	76.9
Ind.avg	65.8	70.3	74.6	74.8	75.94

Fig.10

Loan to deposit



Over the past five Years UBL’s yield on earning assets are increasing due to higher interest earned during the period owing to higher advances and lending rate of the bank. However the cost of funding earning assets of UBL increased due to 42% higher interest expense during FY08 as the deposits increased. So, UBL shows increasing loan to deposit ratio due to increase in deposit. ABL has persistently decreased this ratio than UBL due to huge expenses from FY04 to FY08. UBL from the FY04-08 performed better as compared with the industry average. ABL showed variations from 2004-2008. In the years 2004 and in 2007, this ratio was 5.94% and 4% lower than industry average but in 2005, 2006 and in 2008, this ratio of ABL was 2.18%, 4.55% and 0.96% higher than industry average.

Overhead efficiency

It measures the ability of the bank to control its expenses against its income. When this ratio is higher it is better because when expenses increase the income of the bank will decline. And when the expenses decrease the income will rise. From this ratio the management can decide to minimize the expenses.

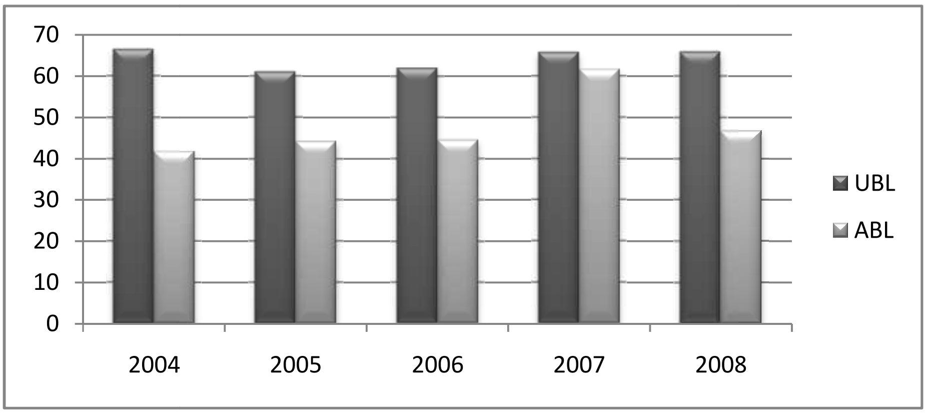
Overhead efficiency

Table 4.11

Years	**2004**	**2005**	**2006**	**2007**	**2008**
UBL	66.43	61.01	62.01	65.76	65.83
ABL	41.71	44.15	44.48	61.63	46.73

Fig. 4.11

Overhead efficiency



In the FY08 UBL's overhead efficiency ratio is higher than ABL. Higher overhead efficiency ratio means the bank has less non-interest expenses which generate more non-interest income. Low non-interest expenses shows the risk but higher this ratio means greater the non-interest income of the bank. From FY04 to FY08 ABL was unable to control its non-interest expenses. So ABL had lower overhead efficiency ratio.

Profit Margin

A high level of profit looks very impressive but how can one determine if the level of profit the company is making is good or not? To do this, another ratio is used. The ratio used to assess this is called the profit margin. The profit margin is the level of profit, divided by the level of sales revenue as a percentage. In other words the percentage profit the firm is making on its sales.

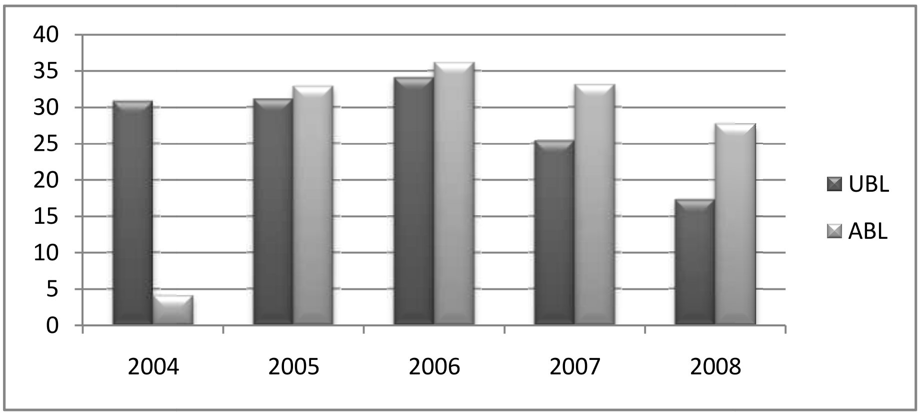
Profit margin

Table 4.12

Years	2004	2005	2006	2007	2008
UBL	30.85	31.1	34.04	25.38	17.3
ABL	4.12	32.88	36.14	33.1	27.7

Fig. 4.12

Profit margin



UBL in the FY08 has lower profit margin than ABL because the bank had to bear more interest and non-interest expenses in this year. So, UBL’s expenses increased from the year 2004, as the proportion of low cost deposits declined while that of fixed accounts increased. From the FY05 to FY08 ABL’s interest and non-interest expenses decreased so its profit margin also increased than UBL. ABL controls its expenses and its profitability increases due to increase in fixed accounts.

Return on Assets

This ratio shows how efficiently bank utilizes its assets. It is calculated by dividing profit after tax by total assets. ROA is primarily an indicator of managerial efficiency. It indicates how capably the management of the bank has been converting the institution's assets into earnings. It indicates the efficiency with which management employed the total capital resources available to it. It is a better measure of operating performance than ROE because ROE is affected by degree of financial leverage.

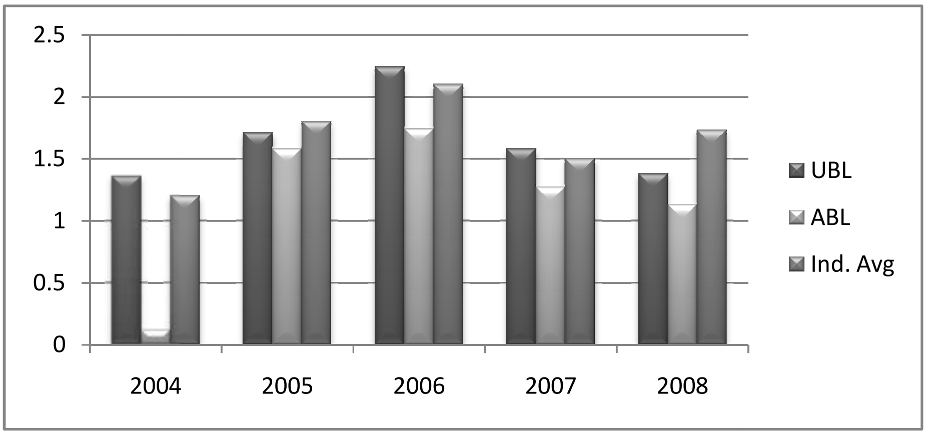
ROA

Table 4.13

Years	2004	2005	2006	2007	2008
UBL	1.36	1.71	2.24	1.58	1.38
ABL	0.12	1.58	1.74	1.27	1.13
Ind.Avg	1.2	1.8	2.1	1.5	1.73

Fig. 4.13

ROA



A look at the above situation can be analyzed that from financial year 2004 to 2008, UBL has higher return on assets. In 2008 UBL's ROA stands at 1.38 which shows that the bank generates more income from its assets. While ABL had less ROA because the bank opened new branches in the country to increase its network. In 2004, ABL had lower ROA due to change in the management of the bank. Looking at the overall trend in this ratio from 2004 to 2008, ABL has lower ROA which is due to less earning from its assets. From the FY04-08, ABL had lower ROA than industry average while UBL has better ROA in these years. But in 2008 UBL Bank has 0.38% lower ROA than industry average.

Return on equity

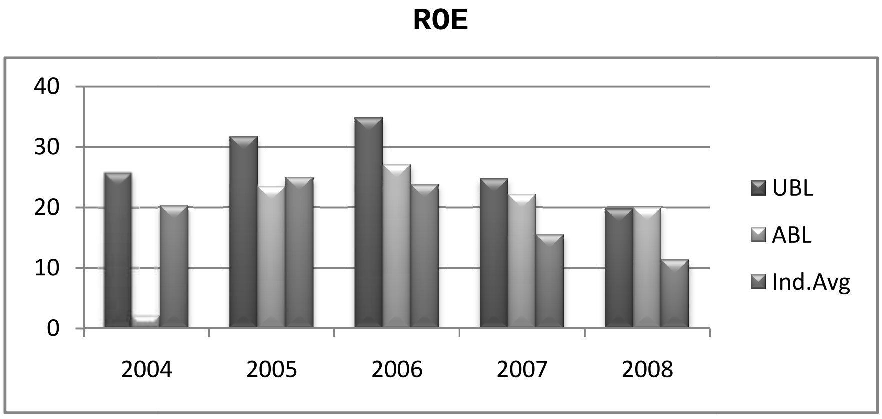
Return on equity is the rate of return flowing to the bank's shareholders. It approximates the net benefit that the stockholders have received from investing their capital in the bank (i.e. placing their funds at risk in the hope of earning a suitable profit). ROE ratio is important for the investor in security market.

ROE

Table 4.14

Years	**2004**	**2005**	**2006**	**2007**	**2008**
UBL	25.76	31.72	34.8	24.71	19.74
ABL	2.03	23.49	27.09	22.14	19.98
Ind.Avg	20.3	25.0	23.8	15.5	11.3

Fig. 4.14



Increase in return on equity is not a better sign for the bank’s performance because when bank has more ROE, then there are more chances of insolvency of the bank. In 2008, ABL has more ROE which is due to the decrease in equity capital relative to net income. While from 2004 to 2007 UBL has more ROE which is an indicator of high risk for the insolvency of the bank. So, the performance of both the banks from ROE ratio cannot be determined. From the FY04-08, the ROE of UBL was more than industry average while in 2004 and 2005 ABL had lower ROE than industry average.

Tax Ratio

This ratio measures the ability of the bank to maintain its operating income against the income tax. When this ratio is lower it means that the bank has paid less income tax on its profit before tax.

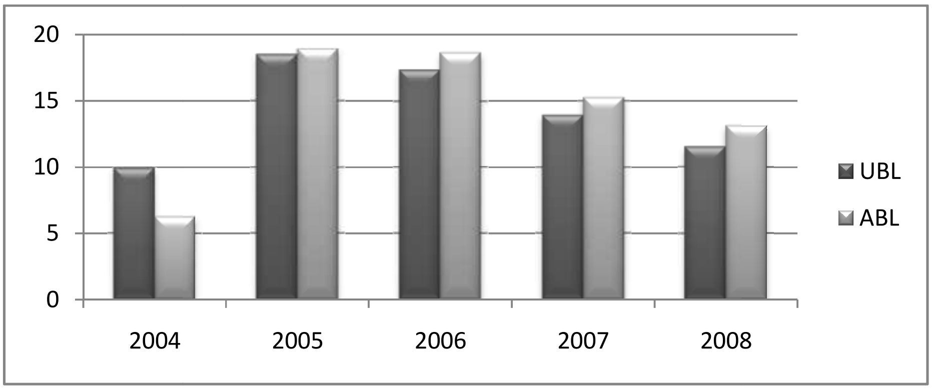
Tax Ratio

Table 4.15

Years	2004	2005	2006	2007	2008
UBL	9.9	18.47	17.34	13.9	11.5
ABL	6.23	18.9	18.61	15.24	13.09

Fig. 4.15

Tax Ratio



In FY08, UBL's tax ratio is 1.59% lower than ABL. When this ratio is lower it shows that the bank's performance is better. From the FY05 to FY08 UBL had shown gradual decrease in this ratio than ABL. It means that UBL has lower total operating income which shows that the bank generates more profit after tax. In FY04 the ABL has 3.67% less tax ratio than UBL which shows more profit after tax.

Common Size Analysis:

Common Size analysis of Financial Statements

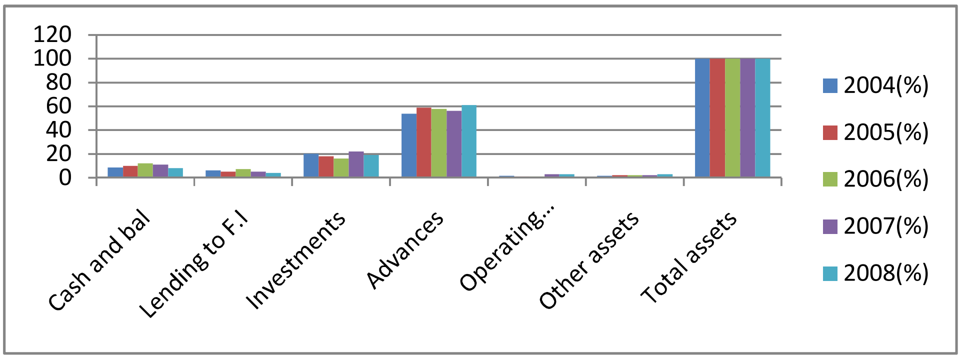
Common size financial statement analysis performed on yearly basis explains changes in assets/liability mix and cost structure. The common size financial statement expresses each items of the balance sheet or profit and loss statement as a percentage of total assets and net revenue earned respectively. An analysis of common size profit and loss account over the years for each bank and between the banks provides certain important insights. It is natural that banks spend large amount towards interest expenditure and a declining trend is witnessed on account of general reduction in interest rates in the market.

Vertical Analysis of UBL Assets

Table 4.16

	2004	2005	2006	2007	2008
Cash and balances with treasury banks	8.75	10	12	11	8
Lendings to F.institutions	5.97	5	7	5	4
Investments	20.16	18	16	22	19
Advances	53.65	59	58	56	61
Operating fixed assets	1.61	1	1	3	3
Other assets	1.46	2	2	2	3
Total assets	**100**	**100**	**100**	**100**	**100**

Fig.4.16



In the vertical common size analysis researchers have been comparing the percentage increase or decrease in the individual item from the preceding year. If one can look at the given table in FY08, the cash and balances with treasury banks are decreased by 3%. There are two factors which account for the decrease of Cash and balances with treasury banks which includes local currency current account and foreign currency cash reserve. The local currency current account is maintained by SBP while foreign currency cash reserve is maintained to at least 5% of the bank's foreign currency deposits which is kept in a non-remunerative account as prescribed by SBP. And in December 31, 2008, it carries mark-up at the rate of 0.90% and in the same period of last year the mark-up at the rate was 4.24%.

In the year 2005, the Cash and balances with treasury banks had increased by 1.25% from the same year as compare to preceding year because the local currency account was on an increase by 8.78 Million and foreign currency cash reserve by 9.31 Million. So, the bank had to maintain cash reserves against the foreign currency and local currency accounts.

And in the financial year 2007 the cash and balances with treasury banks are decreased by 1%.

In FY08, the lending to the financial institutions was decreased by 1% from the previous year 2007. The unsecured lendings carrying mark-up at rates ranging from 9.50% to 15.65% per annum and in 2007, the mark-up was 9.50% to 11.00% per annum. The markup was higher in 2008 because the securities were premature. In 2006, the lending to financial institutions was increased by 2% due to higher mark-up rates ranging from 7.99% to 9.40% per annum and in 2005, the interest rate was 3.5% to 8.75% per annum. The total investment of the bank was decreased in FY08 by 3% as compared with the previous year.

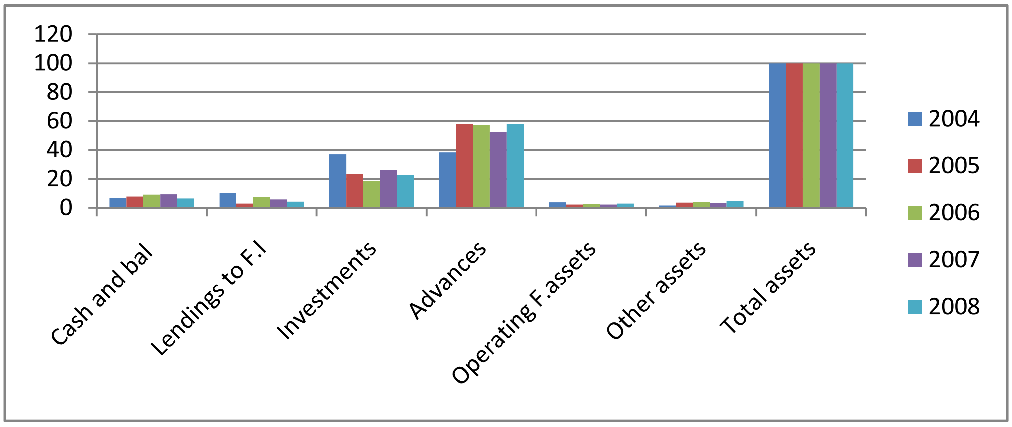
Total advances were increased by 5% in 2008 as compared with the previous year because performing advances given under various Islamic financing modes amounting increases by Rs.469.910 million in 2008 to Rs.339.477 million in 2007. The average trend shows the increase in advances from the FY04 to FY08. Other fixed assets and operating assets show almost the same trend in 2007 and 2008. And also from 2004 to 2006 the operating and fixed assets were almost same.

Vertical Analysis of ABL Assets

Table 4.17

Years	**2004**	**2005**	**2006**	**2007**	**2008**
Cash and balances with treasury banks	7	7.66	9.14	9.29	6.45
Lendings to financial institutions	10.44	3	7.56	5.75	4.31
Investments	37	23.33	18.63	26.23	22.53
Advances	38.4	57.75	57.15	52.61	58.08
Operating fixed assets	3.84	2.45	2.56	2.36	3.04
Other assets	1.65	3.75	4.03	3.34	4.74
Total assets	**100**	**100**	**100**	**100**	**100**

Fig.4.17



In FY 08, the Cash and balances with treasury banks were reduced by 2.84% due to the decrease in local currency account. And from December 31, 2004 to the same period of 2007, the cash and balances of the bank shows increasing trend. From 2004 to 2007, it was increased by 2.29%. There have been minimum changes in the lendings to financial institutions in 2007 and 2008 but as compared with the 2006, it was decreased by 3.25%. Investment on securities had decreased in 2008 due to the “Floor Mechanism”, the individual security price of equity securities could vary within normal circuit breaker limit, but not below the floor price level.

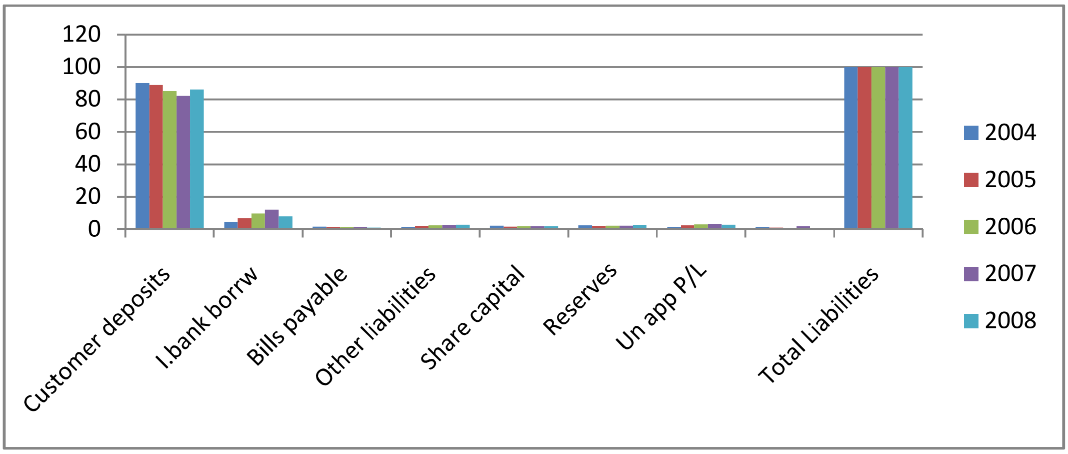
Advances portfolio of ABL grew by 5.47 % to Rs.223.6 billion represented by 72% corporate loan book and 19% SME loan book. The bank has managed to increase its market share by 40 basis points to 7.1% by end of the year 2008. In 2005, the advances grew by 19.35%. The operating fixed assets and other fixed assets of the bank shows average trend from the FY04 to FY08. There were no significant changes in the operating fixed assets and other fixed assets of the bank.

Vertical Analysis of UBL Liabilities

Table 4.18

	2004	2005	2006	2007	2008
Customer deposits	90.21	88.89	85.16	82.33	86.16
Inter bank borrowings	4.69	6.70	9.80	12.11	7.88
Bills payable	1.49	1.28	1.16	1.25	0.93
Other liabilities	1.38	1.91	2.36	2.63	2.90
Share capital	2.03	1.59	1.65	1.66	1.80
Reserves	2.32	1.91	2.11	2.10	2.76
Un - appropriated profit /loss	1.28	2.26	3.16	3.21	2.96
Surplus on revaluation of assets	1.17	0.89	0.68	1.72	0.29
Total Liabilities	**100**	**100**	**100**	**100**	**100**

Fig. 4.18



From the given table there is a 3.83% increase in customer deposits in 2008 as from previous year. In local currency the customer deposits were increased from Rs. 3.09 Million in 2007 to Rs.3.53 Million in FY08. And foreign currency account was increase from Rs.0.91 Million in December 31, 2007 to Rs.1.32 Million in the same period of 2008. In 2004 the customer deposits were decreased by 1.32% due to the increase in non-remunerative deposits of the bank which were increased in 2005.

Inter bank borrowings continuously increased from 2004 to 2007 due to the increasing trend of the markup as prescribed by the state bank of Pakistan. While inter bank borrowings has been decreased by 4.23% in 2008 as compared with the previous year because the markup on repurchase agreement had been increased in 2007 from 8.90% to 10.00% per annum to 9.00% to 15.00% per annum in 2008. And also higher interest rate on the call borrowings in December 31, 2008 as compared with the previous year.

Bills payable were decreased by 0.32% in 2008 from the previous year. This shows that the bank has paid off its liabilities in 2008. The overall trend shows the decrease in the bills payable of the bank 2004 to 2006.

Other liabilities of the bank were increased by 0.27% which includes an accrual of Rs.338.551 million for the year ended December 31, 2008 and Rs.263.181 million for 2007 in respect of employee bonus scheme. The objective of the scheme is to reward, motivate and retain high performing executives and officers of the bank by way of bonus in the form of shares of UBL. The liability of the bank in respect of this scheme is fixed. These liabilities were increased from 2004 to 2008 because of the above mentioned factors.

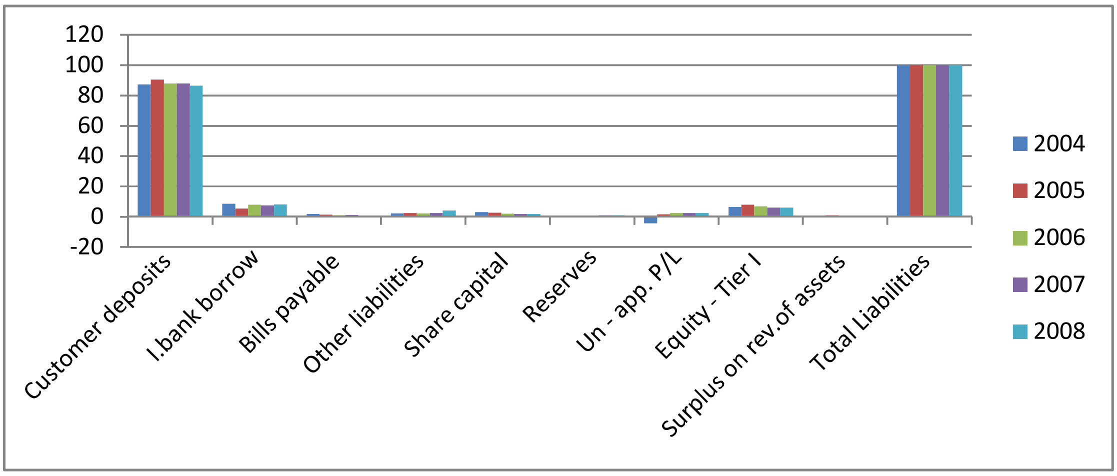
The bank decided to increase its share capital from Rs.10.3 billion to Rs.20 billion in 2008. So, the share capital was increased by 0.14% in 2008 from the previous year. The reserve of the bank was increasing continuously from December 31, 2007 to December 31, 2008 because the bank had to payoff the dividend from certain portion of the reserve to meet the shareholder’s obligations. Another reason for the increase in reserve is the increase in reserve requirement of the bank as prescribed by the SBP regulations. Surplus on revaluation of assets was decreased by 1.43% due to the increase in tax liability of the bank.

Vertical Analysis of ABL Liabilities

Table 4.19

Years	**2004**	**2005**	**2006**	**2007**	**2008**
Customer deposits	87.37	90.67	87.92	87.92	86.39
Inter bank borrowings	8.67	5.45	7.86	7.64	8.07
Bills payable	1.75	1.38	0.97	1.16	0.86
Other liabilities	2.22	2.51	2.18	2.44	3.96
Share capital	3.04	2.52	1.92	1.79	1.88
Reserves	0.5	0.77	0.78	0.88	1.01
Un-app p/L	-4.36	1.53	2.39	2.32	2.48
Equity - Tier I	6.53	7.95	6.93	6.13	6.04
Surplus on rev.of assets	0.58	0.92	0.62	0.49	0.45
Total Liabilities	**100**	**100**	**100**	**100**	**100**

Fig.4.19



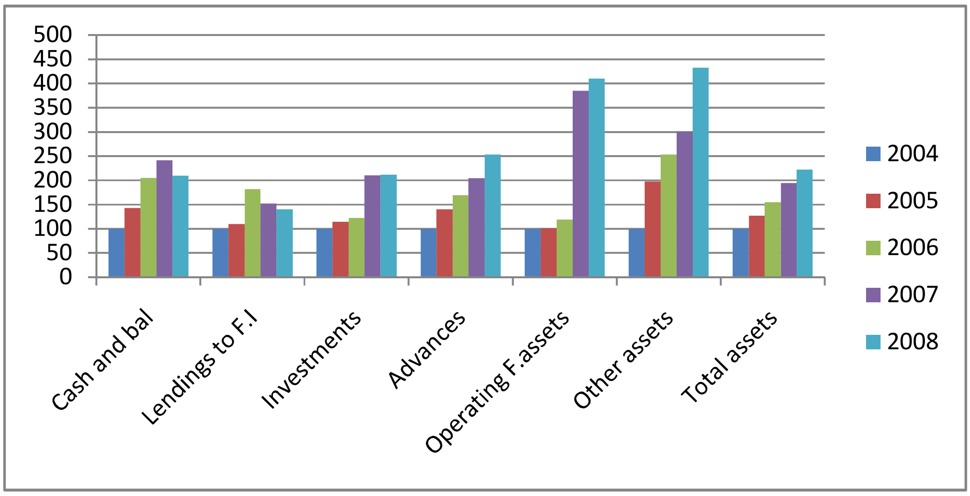
In the FY08, FY07 and FY06, the customer deposits have not shown significant changes because the liquidity position of the market was not good in these years. Inter bank borrowings of the bank were decreased by 3.27% in the December 31, 2005 as compared with the same period of the preceding year. The reason for the decrease in the interbank borrowing is that the higher borrowing rates.

Horizontal Analysis of UBL Assets

Table 4.20

	2004	2005	2006	2007	2008
Cash and balances with treasury banks	**100%**	142.9	205.3	241.3	210
Lendings to F.I	**100%**	109.9	181.8	152.4	140.2
Investments	**100%**	114.7	122.4	210.3	211.7
Advances	**100%**	140	169.1	204.7	253.8
Operating fixed assets	**100%**	101.3	119.1	385.1	410.2
Other assets	**100%**	197.3	253.5	300.5	432.2
Total assets	**100%**	127.3	155.3	194.5	222

Fig. 4.20



If one can look on the table the cash and balances with treasury banks with respect from the December 31, 2004 which is considered as base year, the cash and balance has been increased by 42.9% in 2005, increased by 105.3% in 2006, also increased by 141.3% in 2007 and in 2008 it is increased by 110%. The cash and balances with treasury banks have decreased by 31.3% as compared with the preceding year due to foreign currency account and the local currency accounts.

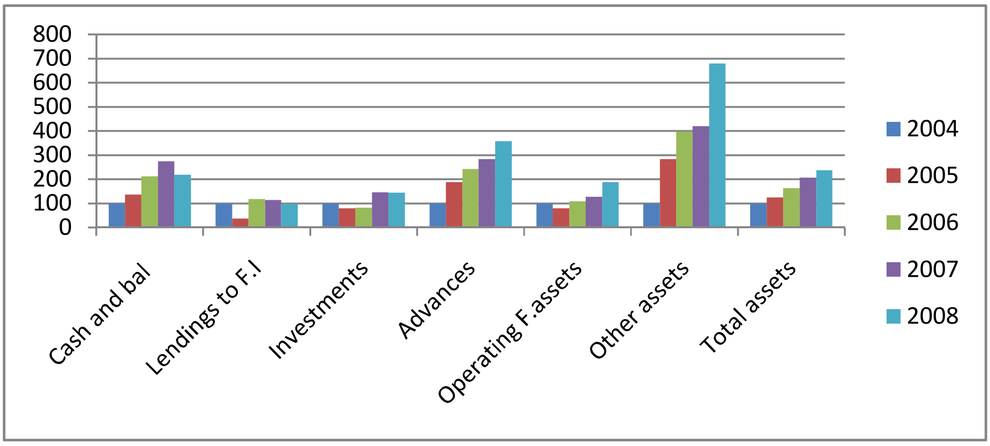
If researchers look at the table it is concluded that the total assets of UBL was increased by 122% in 2008 as compared with the FY04. This increase is due to the increase in the investment activities of the bank. The investment of the bank was increased by the 111.7% as compared with the FY04. Total advances of the bank also increased by 153.8% in 2008 as compared with the FY04. UBL is a market leader in the consumer business segment with a 13% overall market share. The bank's consumer business stands at Rs. 42.7 billion and forms 17% of its total loan portfolio. There was a 9% decline in the consumer segment of the bank during HY08.

Horizontal Analysis of ABL Assets

Table 4.21

Years	**2004**	**2005**	**2006**	**2007**	**2008**
Cash and bal.	**100%**	136	212	274	218.16
Lendings F.I	**100%**	35.72	118	114	97.64
Investments	**100%**	78.38	81.9	146	144.16
Advances	**100%**	187	242	283	358.03
Operating fixed assets	**100%**	79.33	108	127	187.1
Other assets	**100%**	283.2	398	419	680.58
Total assets	**100%**	124.3	163	207	236.68

Fig.4.21



From the given table it is mentioned that the Cash and balances with treasury banks of ABL bank were increased by 118.6% in December 31, 2008 as compared with the same period of 2004. But in 2008, the cash and balances with treasury banks of the bank have decreased in 2008 by 55.84% because of the financial crises faced by the banks in 2008.

Lendings to financial institutions in FY08 were decreased by 2.36% as compared with the FY04 due to the higher rates on the lending in 2008.

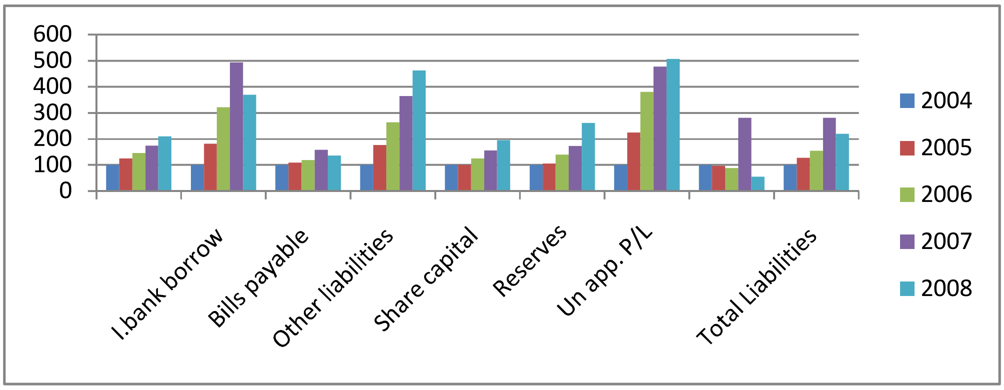
ABL lends advances mainly to the corporate sector of the economy which were increased by 258.03% in December 31, 2008 as compared with the same period of the base year. The total assets of the bank were increased by 136.38% in the year December 31, 2008 as compared with the same period of the base year because the total investment of the bank in different securities, bonds or in fixed assets were increased in 2008 by 44.16%.

Horizontal Analysis of UBL Liabilities

Table 4.22

	2004	2005	2006	2007	2008
Customer.dep	**100**	125.1	145.52	174.43	210.01
Inter bank borrowings	**100**	181.6	321.86	493.53	369.05
Bills payable	**100**	109.5	119.66	159.51	136.29
Other liabilities	**100**	176.9	263.98	364.67	462.93
T.Liabilities	**100**	127.8	154.15	191.13	219.87
Share capital	**100**	100.0	125.00	156.25	195.31
Reserves	**100**	105.3	140.28	173.46	262.03
Un-app P/L	**100**	224.9	379.60	478.06	507.08
Surplus on rev.of assets	**100**	97.27	88.84	280.99	54.78

Fig.4.22



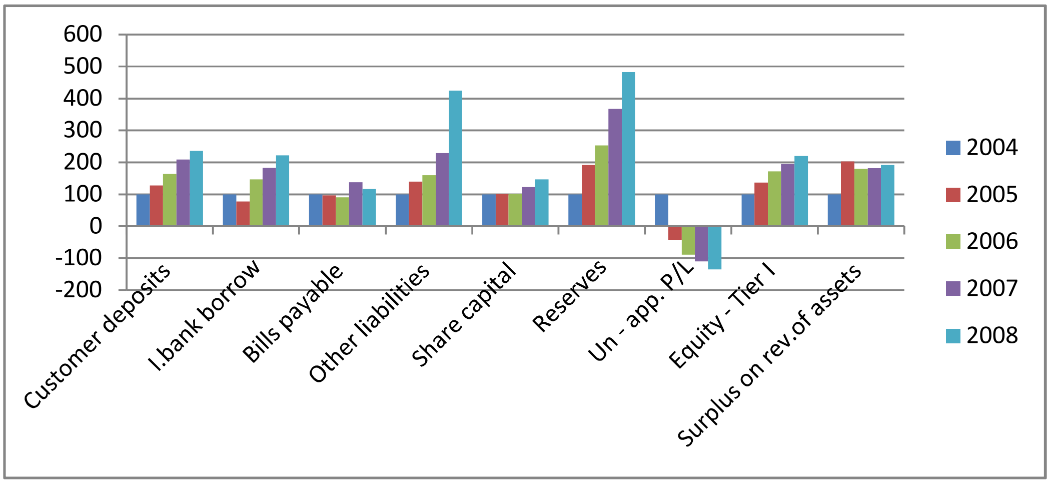
The Customer deposits of UBL were increased by 110.01% in December 31, 2008 as compared with the same period of the base year. The deposits of the bank increased gradually from 2004 to 2008. The growth in the deposits indicates the increase in the market share of the bank. The total liabilities of the bank increased due to the increase in the inter-bank borrowings to meet the short term obligations of the bank and also due to the increase in customer deposits. The bank increased its reserve requirement by 162.03% to pay the dividend of the shareholders. The Surplus on revaluation of assets had decreased by the 45.22% in 2008 as compared with the base year.

Horizontal Analysis of ABL Liabilities

Table 4.23

	2004	2005	2006	2007	2008
Customer deposits	**100**	127.71	163.01	208.85	235.36
Inter bank borrowings	**100**	77.32	146.83	182.92	221.55
Bills payable	**100**	96.65	89.9	137.88	116.5
Other liabilities	**100**	139.49	159.67	228.7	424.86
Share capital	**100**	101.91	101.91	122.27	146.74
Reserves	**100**	192.05	253.42	367.09	482.98
Un - appropriated profit / (loss	**100**	(43.27)	(88.82)	110.41	135.21
Equity - Tier I	**100**	136.69	171.78	194.83	220.21
Surplus on revaluation of assets	**100**	202.48	180.45	181.93	191.83

Fig. 4.23



In 2008, the deposits of ABL were increased by 26.51% to reach at Rs.297.5 billion mark that was demonstrated by almost 15% growth in non-remunerative Current Accounts which resulted in 8% growth in Current & Saving Accounts (CASA). This deposit growth has enabled the bank to increase its market share by 40 basis points, in only one year’s time, to reach 7.8% by end of the year 2008. The reserve requirement of the bank was increased from 2006 to 2008. In 2008 the bank bears un-appropriated loss due to higher interest on borrowings.

- **Findings of common size analysis of the both banks balance sheets:**

From the common size analysis of the balance sheet of UBL and ABL it is concluded that the deposit to capital ratio of ABL is higher than UBL by 2.85% in 2008 because the deposits of ABL was increased by 135.36% and UBL’s deposits increased by 210.01% as compared with the base year. While ABL’s deposits increased by 86.39% and UBL’s deposits increased by 86.16% as compared with the previous year. However, equity of ABL increased by 1.88% and UBL’s equity increased by 1.80% as compare with the previous year. The deposit to capital ratio of UBL was better in 2004 and 2005 because of decrease in the equity of the UBL.

Capital to total assets ratio of UBL was better in 2008, which was 2.7% higher than ABL because the equity of UBL was decreased as compare with assets. Although the increase in assets of ABL is higher than the UBL but the earning on assets of UBL is better due to decrease in expenses.

The loan to deposit ratio of UBL was better than the ABL from the FY04 to FY08 because the total advances of the bank grew and UBL took benefit from the liquidity of the market to lend more loans to the customers. The loan to deposit ratio of UBL was 5.48% greater than the ABL in 2008 the reason behind the more loan to deposit ratio of UBL is higher than ABL due to the less cost of borrowing funds.

The equity multiplier of ABL is higher than UBL in 2008 because the equity of ABL is less than UBL. The ABL generates more loans on its equity. This shows that the ABL cannot raise its assets as compared with UBL. It means that ABL in 2008 has more risky as compared with UBL.

The assets quality of UBL is better than ABL because the return on Asset ratio of UBL is higher than ABL from the FY04 to FY08. In 2008, the total assets of UBL were increased due to which the assets of UBL generate more income than the ABL.

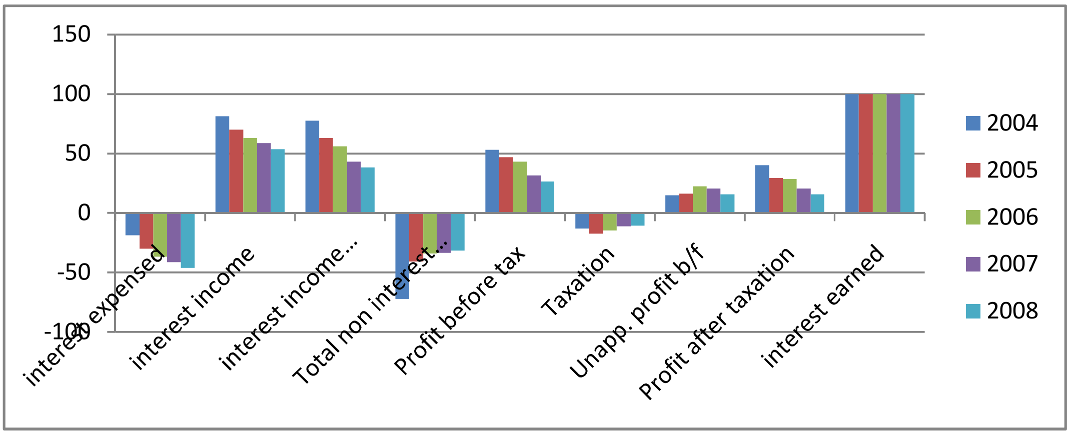
The return on equity ratio of ABL was higher than UBL in 2008, but in 2007 return on equity ratio of UBL is more than the ABL. The return on equity of both the banks shows Variations from 2004 to 2008.

Vertical Analysis of UBL income statement

Table 4.24

Year	2004	2005	2006	2007	2008
Interest expensed	(18.77)	(29.99)	(36.76)	(41.26)	(46.16)
Interest income	81.23	70.01	63.24	58.74	53.84
Interest income after provisions	77.56	62.93	56.22	43.09	38.35
Non.Int.expenses	(72.33)	(40.76)	(33.96)	(33.32)	(31.7)
PBT	52.95	47.03	43.32	31.68	26.55
Taxation	(12.87)	(17.52)	(14.62)	(11.21)	(10.6)
Un app. profit b/f	14.99	16.24	22.28	20.47	15.95
PAT	40.09	29.51	28.7	20.47	15.95
Interest earned	**100**	**100**	**100**	**100**	**100**

Fig. 4.24



As research team analyzed from the table that UBL has experienced strong growth in profits over the past years. However, the bank could not maintain this rising trend of profitability in 2007 when it posted a profit after tax of Rs. 8.4 billion, which was 11.25% lower than that of 2006. The profits decreased despite a substantial growth in the interest and non-interest income of the bank because of 40% increase in interest expense (cost of funds). The bank's interest expense has been increasing since 2004 because the proportion of low cost deposits declined while that of fixed accounts increased.

During FY08, the net interest earned grew by 5% as compared to same period of last year was Rs.23 billion due to growing volume of advances and strong yields on the portfolio. However due to increased provisioning against advances and consumer loans and bad debts written off, the net interest income decreased by 4.9% from FY07. The non-interest income of the bank grew by 8.7% was Rs.16.7 billion mainly due to increased fee income, income from dealing in foreign currencies and derivatives gains.

For the period Apr-Jun 2008 (2Q08) UBL posted a PBT of Rs.4.5 billion. The PBT for HY08 was limited by the combined impact (Rs.0.8 billion) of Workers' Welfare Fund (WWF), increased provisioning of NPLs under SBP's regulations and Early Retirement Scheme (ERS). Administrative expenses have increased with premises costs have increasing due to addition of 5 new branches, ongoing branch renovations and investments in call centre and core banking facilities. PAT for 2Q08 is lower than that posted in the previous quarter.

Increased provisioning under the SBP Regulations for the year, also limited the positive impact of increase in interest income. Thus increased provisioning and high administration expenses due to higher personnel cost in the consumer business and the introduction of Early Retirement

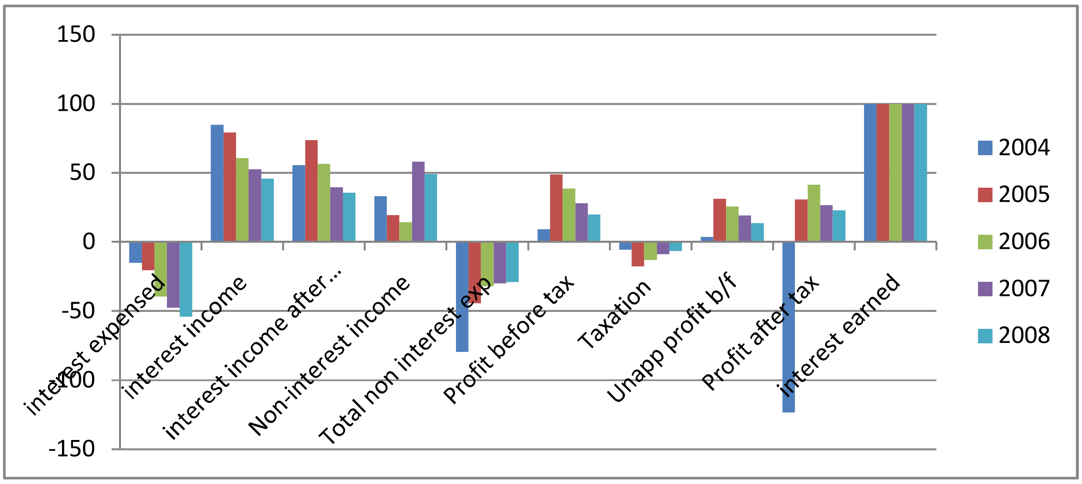
Scheme (ERS caused an impact of Rs.345 million) had a negative impact on profits in 2007. UBL has been incurring increasing expenses in order to upgrade and expand its branch network over the years.

Vertical Analysis of ABL Income statement

Table 4.25

Years	**2004**	**2005**	**2006**	**2007**	**2008**
Interest expense	(15.14)	(20.47)	(39.46)	(47.61)	(54.17)
Interest income	84.86	79.43	60.54	52.39	45.83
Int.income after pro	55.55	73.67	56.45	39.59	35.51
Non-Int.income	33.18	19.61	14.23	58.08	49.09
Non.Int.expenses	(79.55)	(44.41)	(31.98)	(30.00)	(29.07)
PBT	9.18	48.87	38.69	28.08	20.02
Taxation	(5.53)	(17.63)	(13.09)	(8.85)	(6.43)
Unapp.profit b/f	3.66	31.24	25.54	19.23	13.60
PAT	(123.38)	30.79	41.52	26.45	22.80
Interest earned	**100**	**100**	**100**	**100**	**100**

Fig. 4.25



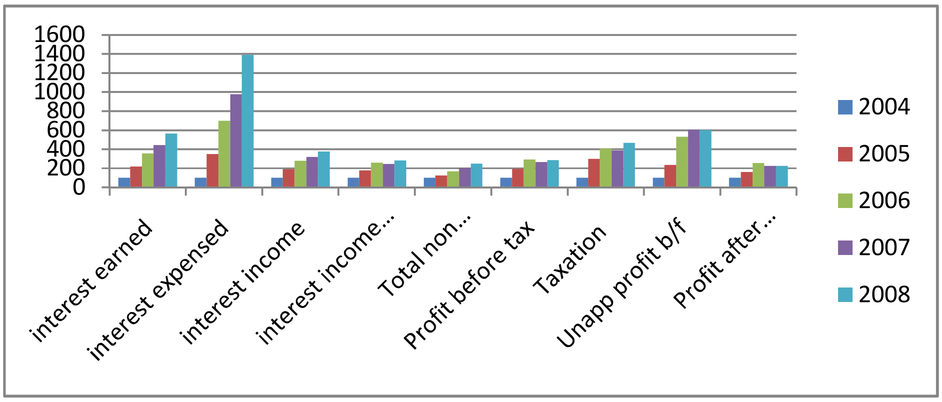
In the FY08, the profit after tax of the bank was decreased by 3.65% as compared with the previous year because the bank opened new branches due to the regulations of the SBP. The interest expenses were increased which shows the less profitability of the bank. The profit before tax of the bank was decrease by approximately 8% in 2008 as compare with the previous year due to increase in the expenses of the bank. ABL beard loss in 2004 but the bank improves its performance and bank brought itself from loss to profit in 2005 due to decrease in interest and non-interest expenses. In 2005 the interest income of the bank was increased by 18.12% as compared with the previous year. In 2007, the profit before of the bank was again decreased by 10.61% due to the decrease in the interest income and increase in the interest and non-interest expenses of the bank.

Horizontal Analysis of UBL income statement

Table 4.26

Years	**2004**	**2005**	**2006**	**2007**	**2008**
Interest earned	**100**	218.31	357.29	444.51	565.89
Interest expensed	**100**	348.92	699.86	977.41	391.87
Interest income	**100**	188.14	278.16	321.41	375.09
Interest income after provisions	**100**	177.11	258.97	246.95	279.78
Interest expenses	**100**	123.02	167.76	204.75	248.03
Profit before taxation	**100**	193.91	292.28	265.97	283.75
Taxation	**100**	297.31	405.96	387.35	466.37
Unappropriated profit	**100**	236.51	530.94	606.91	601.89
Profit after taxation	**100**	160.72	255.79	227.00	225.13

Fig. 4.26



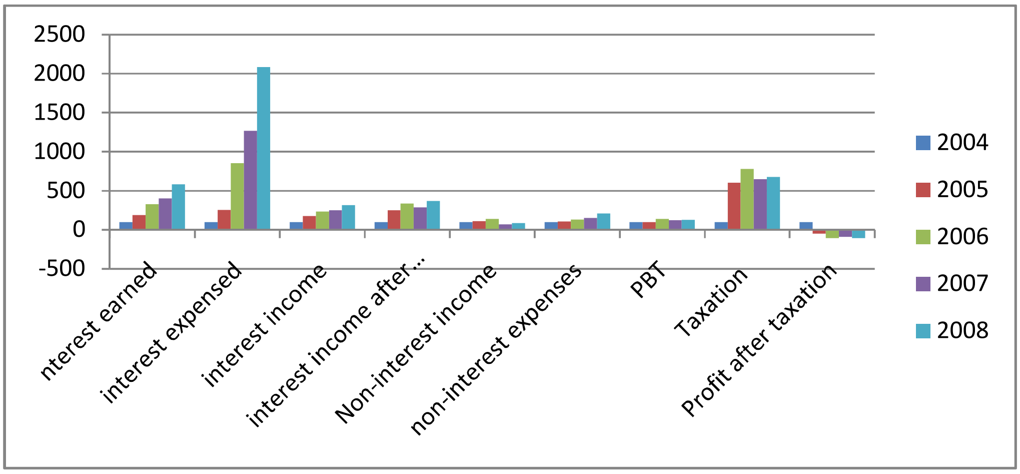
The net interest earned by the bank was increased by the 465.89% in December 31, 2008 as compared with the same period of 2004; this was mainly due to the increase in the loans to customers by Rs.5.9 billion in FY04 to Rs.40 billion in FY08. The interest expense of the bank was increased by 148.03% in 2008 as compared with the FY04. The Profit before taxation was increased by 183.75% in December 31, 2008 as with the same period of the base year. But the net income of the bank was decreased in 2008 due to increase in taxes by 366.37% as compared with the same period of the base year. In 2007, the profit before taxation of the bank was decreased due to decrease in the interest income and increase in interest expenses and non-interest expenses of the bank and bank improve its efficiency and increase its profitability in 2008.

Horizontal Analysis of ABL Income statement

Table 4.27

Years	2004	2005	2006	2007	2008
Interest earned	**100**	188.61	328.25	404.24	582.88
Interest expensed	**100**	254.96	855.44	270.99	2085.34
Interest income	**100**	176.55	234.18	249.59	314.81
Interest income after provisions	**100**	250.13	333.54	288.10	372.57
Non-interest income	**100**	111.46	140.74	70.76	86.24
Interest expenses	**100**	105.29	131.97	152.46	212.99
Profit before taxation	**100**	100.36	138.28	123.58	127.07
Taxation	**100**	602	777	647	677
Profit after taxation	**100**	(47.07)	110.47	86.66	107.73

Fig. 27



Net mark-up / interest income, as a result, rose by over 7% to Rs.14.0 billion primarily due to higher interest rate spread which rose to 5.7% compared with last year’s 5.1%. Non mark-up income rose to Rs.4.2 billion or up by almost 6%. This works out to be 23% of gross income for 2008. The core fee, commission and brokerage income grew by over 19% to Rs.1.98 billion. In the financial year 2004 to 2007, ABL Bank cannot maintain its profitability. But in 2008, the bank increases its profit due to decrease in the interest and non-interest expenses of the bank.

- **Findings from income statement Analysis:**

From the common size analysis of income statement of both the banks we concluded that the net profit margin ratio of ABL was better from FY05 to FY08. This increase in profit margin ratio of ABL is due to the increase in the interest income by 214.8% from the base year. When interest income of the bank increases it ultimately shows the increase in the net income of the bank. The profit margin ratio of UBL and ABL in 2008 has declined due to gradual decrease in their interest income in this year.

Conclusions

- Financial analysis focuses on one or more elements of a bank’s financial conditions or operating results. After the financial analysis, we come to the conclusion that the performance of UBL of Pakistan is much better than the ABL.
- ABL showed a high increase in its equity multiplier from 2004-2008; it shows the higher risk for ABL.
- The return on assets (ROA) and return on equity (ROE) of UBL is much better from 2004-2008 than the ABL. Increase in ROA and ROE shows that the UBL utilized its assets more efficiently and increases its profitability.
- Earning per share (EPS) of UBL is also higher than ABL from the past five years. Increase in EPS indicates the confidence for the investor and shareholders on the bank. From the financial analysis of both the banks it is concluded that the interest expenses of ABL are higher than UBL from 2004-2008.
- A gradual increase in assets utilization ratio has seen in UBL, UBL has utilized its assets more effectively than ABL. UBL is increasing its earning on assets as compare to ABL; in the past five years. As the financial analysis showed that the results of ABL are not effective as compared to UBL.
- The profit after tax of the UBL in 2008 was less than the previous year because of the 44% increase in the non-interest expenses of UBL. These expenses increased because UBL had launched the early retirement scheme for its employees in 2008. The profit after tax of ABL

also decreased in the FY08 because of increase in the non-interest expenses in 2008 of ABL.

- From the common size analysis of the balance sheet of UBL and ABL it is concluded that deposit to capital ratio of UBL was better in 2004 and 2005 because of decrease in the equity of UBL.
- From the common size analysis of income statement of both the banks we concluded that the net profit margin ratio of ABL was better from FY05 to FY08.

Recommendations

- By increasing advances to deposit ratio ABL can significantly enhance its income and profitability in coming years.
- Reduction in non-performing loans to enhance markup income by improving loan procedure and plus the utilization of the loan usage should be monitored.
- There are great opportunities for both the banks in the country to grab the markets of micro financing especially in rural areas because majority of the population of Pakistan is living in villages. Microfinance can easily used for the development of agricultural and agro based small industries.
- Both the Banks should focus on the consumer loans but the consumers loans are decreased in FY08 due to the financial crises faced by the economy. Another reason for decreasing the consumer loans is the high inflation and increasing interest rates. So, the bank should focus on improving the consumer loans by enhancing its market share in consumer business to telecom and defense sectors.

- UBL can enhance the consumer business in international market. However, the bank will increase its profits but also diversified the risks for the bank. UBL's growing international business will make it less vulnerable to the impact of the present downturn in the economy, rising profit and low domestic credit demand.

- The net profit of the UBL has been decreased in the FY08, as compared with the previous year because of the liquidity crunch this year. So, the bank will enhance its profitability by launching new innovative products.
- Majority loans of ABL are unsecured so ABL should focus on consumer loans i.e. short term lending.

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