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Analysis of Financial Statement in Commercial Banks in Nepal

(With reference to Prabhu Bank Ltd. and Nepal Bank Ltd.)

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Abstract

The main objective of the study is to assess and compare the financial statement analysis of Prabhu Bank Limited (PBL) and Nepal Bank Limited (NBL). This research used a quantitative research technique. Secondary data were adopted over the last 10 years from 2011/12 to 2020/21. As of today, there are 20 commercial banks, among them PBL as a private-public sector bank and NBL as a government-owned bank were taken as sample units applying the purposive sampling method. For analysis of the data, financial ratios like Return on Assets Ratios, Price Earning Ratios, Cash Reserve Ratios, and Net Profit Ratios were applied. Descriptive statistics like Mean ($\bar{X}$), Standard Deviation (SD), and Coefficient of Variation (CV) have also been used for data analysis. It can be concluded that the available assets are not managed efficiently. It is concluded that NBL has a better financial performance due to its higher profitability ratios compared to PBL. It can be concluded that both banks have strong price-earning positions in terms of the P/E ratios. However, PBL has a better financial performance due to its higher P/E ratios as compared to NBL. This means PBL has more capacity for generating profit as compared to NBL. Considering NPM and P/E ratios, PBL is better than NBL. NBL, however, seems to be better than PBL in terms of ROA and CRR. it is suggested that selected commercial banks under study should manage their available assets efficiently and effectively.

Keywords: *cash reserve, net profit, price earning, ratios, return on assets*

Introduction

A country's economy to a great extent relies on the financial sector. Financial institutions help to promote investment by allocating scarce resources, mobilizing savings, and exchanging goods and services (Jha & Hui, 2012). In Nepal, the activities of commercial banks help to enhance the economy in general (Economic Survey, 2008). The efficiency of banks can be increased by a competitive environment, but market power of the banking service system is needed (Northcott, 2004). Nepal Bank Limited was established as the first financial institution sector in 1973. In Nepal, the commercial banks are presently considered as a major driver of financial sectors.

Judgment of the financial statement of a bank is very needed. A company's performance analysis commonly applies the financial ratio technique, because it simply explains about comparative financial performance of the company with previous times and also supports upgrading its management performance (as cited by Jha & Hui, 2012 adopted from Lin et al., 2005). Gopinathan (2009) states that the analysis of financial ratios can give knowledge about good investment alternatives for purchasing stock as the ratio analysis evaluates the performance and bases of a firm. Given this context, this study aims to assess a comparison of financial statement analysis in selected commercial banks in Nepal.

Statement of the problem

Performance evaluation is a crucial technique for business organizations to provide incentives for owners and operators of the business' stakeholders concerned to receive information on financial performance (Sun, 2011). The performance analysis of a commercial bank is concerned with how well the bank utilizes its resources available in the bank. Financial performance is a key element for financial companies to operate their institutions efficiently and effectively in a contemporary competitive and drastically changing environment (Ally, 2013). The author further states that financial ratios help to determine bank strengths and weaknesses. Despite its importance, there is a dearth of such types of articles with the latest data incorporated. Considering this problem, the researcher attempts to make this study. The main issue of the study is:

"What is the status of financial analysis in selected commercial banks of Nepal over the latest 10 years from Fiscal Year (FY) 2011/12 to 2020/21 by making the comparison between PBL and NBL?"

The specific questions of the study are given below:

1. What is the liquidity (CRR) position of the PBL and NBL?
2. What is the profitability (ROA) status of PBL and NBL?
3. Which bank is a better performer?

Objective of the study

The objective of the study is to assess and compare the financial statement analysis in selected commercial banks taken under study over 10 years from FY 2011/12 to 2020/21.

Specific objectives

The specific objectives of the study are:

1. To evaluate the cash reserve ratio of the sample banks.
2. To measure the profitability position of the banks.
3. To compare the financial performance between PBL and NBL?

Rationale of the study

This study's title "Influence of Talent Management on Employee Retention" is significant in itself. It might be useful for stakeholders to disclose the status of the financial performance of the banks. It helps to serve as fundamental for future researchers, scholars, and learners as well. This research is helpful to assist the management section by letting them know how they are financially performing. This study is useful for financial decision-makers to analyze past performance and problems and help to project assumed future results.

Limitations of the study

The limitations of the study are given below:

1. Only two banks were taken under study as a sample unit due to time constraints.
2. Due to limited data analysis techniques and sample size, the conclusion drawn from this study cannot be generalized.

Review of Literature

Review of kinds of literature includes conceptual, theoretical, and empirical reviews.

Conceptual review

A financial statement that includes an income statement and a profit and loss account is information about the financial position and performance of a company (Dangol, 2067 BC). The process of measuring the financial strength and weakness of the company with the help of the content of the financial statement is called financial analysis (Vanhorn & Wachowicz, 1997).

Key financial ratios/indicators

This study includes the following financial ratios, which measure the financial strength and weakness of the banks under study.

Liquidity: Liquidity is the life and blood of a commercial bank (Samd, 2004). Current liabilities of a business concern can be met by working capital management too (Godswill et al., 2018, Horrigan, 1968)). The ability of a company to pay its current liability is understood as liquidity which measures the short-term financial strength. For this study cash reserve ratio is computed as current assets divided by current liability and the quick ratio is computed.

Profitability: The profitability ratio is concerned with profit. Maximization of profit is the main goal of every business concern (Dangol, 2067 BC). The position of profitability in this study is measured by applying indicators like ROA. From an accounting point of view, ROA is a strong assessment of the performance of banks (Sinkey & Joseph, 1992). Higher Return on Assets takes place if the management of an organization is more efficient in earning and utilizing its resources (Khrawish, 2011). ROA is calculated as net profit to total assets.

Any financial institution that receives, transfers, and pays money for its clients is called the bank. Commercial banks also accept deposits and offer loans to commerce, and industry, giving banking services to the people. A commercial bank is a financial institution, which offers monetary products to its customers (Niraula, 2012).

Theoretical perspective

In this study following theory mentioned by Christianto (2014) can be linked:

Earnings management and agency theory: Earning management is concerned with the choice by a manager to identify an accounting policy to attain some specific goal. A conflict between the interest of the agent (management) and the owner (principal) influences the earning management.

Earning manipulation theory: This theory states that a company's management may attempt to mislead the true financial position of the company. These fraudulent activities may adversely affect the company's value.

Empirical Reviews

A study by (Jha & Hui, 2012) concluded that the ROA ratio of public sector banks is higher than that of joint venture and domestic public banks. Financial ratios, however, inferred that domestic public and joint venture banks are not so strong in Nepal.

A study by Regmi (2019) found that the current ratios of Everest Bank Limited (EBL) is enough to meet standard value. Thus, the liquidity position of the bank taken under study was strong. ROA and ROE are always higher.

A study by Acharya (2010) revealed that finance companies under study are looking to maintain an average current ratio below the standard value, except Standard Finance Limited (STDFL). Nepal Merchant Banking (NMB) has the highest Return on Assets before and after IPO. Cosmic Merchant Bank and Finance Company Ltd (CAMBFL) has the lowest average Return on Assets before and after IPO.

A study by Niroula (2012) found that all of the commercial banking industries under study viz., SCBL, Everest Bank Limited (EBL), Nepal Investment Bank Limited (NIBL), and NABIL Bank Limited maintained good current ratios. Since SCBL maintains a higher mean value of current ratios, it has a better liquidity position compared to the other three banks. Similarly, EBL has better liquidity status. On the contrary, NABIL is found to be maintaining a lesser liquidity position as compared to other banks taken under study.

A study by Ally (2013) inferred that the liquidity position of these banks has constantly decreased in Tanzania. In the performance indicators, small banks have higher average profitability compared to large banks.

A study by Haidary & Abbey (2018) concluded that ROA in the commercial banks of Afghanistan is found to be poor in 2012, however, has been enhancing over the years and is presently at 0.45 percent in 2016 with an average of 0.35% and indicates the increasing trend for the day to come.

A study by Hasanaj & Kuqi (2019) concluded that the position of the company in term of liquidity and profitability situation is better in 2016.

Research gap

To achieve the objectives of the study, it covered more recent data for the last ten years from 20211/12 to 2020/21. This study tried to become distinct from previous studies not only based on the latest period but also on the nature of the sample banks and the methodology applied in the context of Nepal. Additionally, to the best of the researcher's information, no research has been performed on the comparison of analysis of financial statements between the PBL and NBL.

Methodology

This research followed a quantitative research approach. There are 20 commercial banks to date (Nepal Rastra Bank, 2023) operating in Nepal, which is the population for this study. Prabhu Bank Limited (PBL) in favor of private-public sector and Nepal Bank Limited (NBL) in favor of government sector were selected as sample units. This study applied purposive sampling techniques. Secondary data drawn from annual reports of financial statements of the respective banks through their websites over the period of the latest 10 years from 2011/12 to 20120/21 were used. For analysis of the data, financial ratios like Return on Assets Ratios, Price Earning Ratios, Cash Reserve Ratios, and Net Profit Ratios were applied. For profitability status ROAs, and Net Profit Margin were applied. Descriptive statistics like Standard Deviation (SD) and Coefficient of Variation (CV) have also been used for data analysis.

Results

In this section, data were presented, analyzed, and interpreted using tables and concluded with findings.

Table 1

Return on Assets Ratios in Means, Standard Deviation, and Coefficient of Variation of Banks

Banks/Years	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	X̄	S.D.	C.V.
PBL	1.76	1.54	(1.44)	2.19	1.64	1.76	0.86	1.29	0.71	0.8	1.11	0.53	47%
NBL	0.30	1.07	0.92	0.55	2.79	2.78	2.41	1.51	1.22	1.33	1.49	0.85	57%

Table 1 shows the Return on Asset Ratios (ROAs), X̄, SD, and CV of sample banks under study from Fiscal Year (FY) 2011/12 to 2020/21. This table indicates the Return on Asset Ratios of Prabhu Bank Limited from Fiscal Year 2011/12 to 2020/21. remained at 1.76, 1.54, (1.44), 2.19, 1.64, 1.76, 0.86, 11.29, 0.71, and 0.8 respectively. X̄, SD, and CV appeared at 1.11, 0.53, and 47% respectively. Similarly, this table indicates that the Return on Asset Ratios of Nepal Bank Limited from Fiscal Year 2011/12 to 2020/21 remained at 0.30, 1.07, 0.92, 0.55, 2.79, 2.78, 2.41, 1.51, 1.22, and 1.33 respectively. X̄, SD, and CV appeared at 1.49. 0.85 and, 57% respectively.

Table 2

Price Earning Ratios, Means, Standard Deviation, and Coefficient of Variation of Banks

Bank/Years	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	X̄	S.D.	C.V.
PBL.	16.35	20.47	(0.07)	10.97	15.51	14.94	14.87	12.65	19.09	30.13	15.49	7.2	47%
NBL	-	0.86	25.39	40.78	10.54	9.39	7.03	12.45	12.04	18.9	15.26	10.54	69%

Table 2 shows the Price Earning Ratios (P/Es), X̄, SD, and CV of sample banks from Fiscal Year (FY) 2011/12 to 2020/21. This table indicates the P/Es of Prabhu Bank Limited from Fiscal Year 2011/12 to 2020/21. remained at 16.35, 20.47, (0.07), 10.97, 15.51, 14.94, 14.87, 12.65, 19.09, and 30.13 respectively. X̄, SD, and CV appeared at 15.49, 7.2, and 47% respectively. Similarly, this table indicates that the P/Es of Nepal Bank Limited from Fiscal

Year 2012/13 to 2020/21 remained at 0.86, 25.39, 40.78, 10.54, 9.39, 7.03, 12.45, 12.04, and 18.9 respectively. X̄, SD, and CV appeared at 15.26, 10.54, and, 69% respectively.

Table 3

Cash Reserve Ratios (CRRs), Means, Standard Deviation, and Coefficient of Variation of Banks

Bank/Years	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	X̄	S.D.	C.V.
PBL	8.72	6.08	19.27	15.69	12.13	12.13	6.83	4.39	11.2	4.26	10.07	4.6	36%
NBL	25.09	22.53	9.60	11.55	17.46	18.81	9.05	4.06	4.53	4.19	12.69	7.4	58%

Table 3 shows the Liquidity or Cash Reserve Ratios (CRRs), X̄, SD, and CV of sample banks from Fiscal Year (FY) 2011/12 to 2020/21. This table indicates the CCRs of Prabhu Bank Limited from Fiscal Year 2011/12 to 2020/21. remained at 8.72, 6.08, 19.27, 15.69, 12.13, 12.13, 6.83, 4.39, 11.2, and 4.26 respectively. X̄, SD, and CV appeared at 10.07 and 36% respectively. Similarly, this table indicates the CCRs of Nepal Bank Limited from Fiscal Year 2011/12 to 2020/21. remained at 25.09, 22.53, 9.60, 11.55, 17.46, 18.81, 9.05, 4.06, 4.53 and 4.19 respectively. X̄, SD, and CV appeared at 12.69, 7.4 and, 58% respectively.

Table 4

Net Profit Margins (NPMs) Means, Standard Deviation, and Coefficient of Variation of Banks

Bank/Years	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	X̄	S.D.	C.V.
PBL	24.65	25.19	(33.23)	53.79	44.26	47.78	25.69	31.77	20.11	11.7	25.17	10.35	41%
NBL.	3.58	13.0	10.91	7.33	30.54	30.81	30.57	21.51	17.34	21.23	18.68	9.45	50%

Table 4 shows the Net Profit Margins (NPMs), X̄, SD, and CV of sample banks from Fiscal Year (FY) 2011/12 to 2020/21. This table indicates the Net Profit Margins (NPMs) of Prabhu Bank Limited from Fiscal Year 2011/12 to 2020/21. remained at 24.65, 25.15, (33.23), 53.79, 44.26, 47.78, 25.69, 31.77, 20.11, and 11.7 respectively. X̄, SD, and CV appeared at 25.17, 10.35, and 41% respectively. Similarly, this table indicates the Net Profit Ratios (NPRs) of Nepal Bank Limited from Fiscal Year 2011/12 to 2020/21. remained at 3.58, 13.0, 10.91, 7.33, 30.54, 30.81, 30.57, 21.51, 17.34, and 21.23 respectively. X̄, SD, and CV appeared at 18.68, 9.45 and, 50% respectively.

Discussion

Table 1 analyzes the profitability positions. These have been measured with indicators of ROAs. The average ROA of NBL (1.49) was found higher than that of PBL (1.11%). Hence, NBL is more profitable in terms of ROA than that of PBL. Similarly, the SD and CV of PBL remained lesser than NBL. PBL, therefore, seems more consistent than that of PBL in maintaining its ROA (Bajracharya, 2067 BC). Throughout the study, there was an almost fluctuating trend of ROAs of both PBL and NBL. The finding of the ratio is consistent with the study of Regmi (2019) and similar to Jha & Hui (2012). Table 2 analyzes the Price Earning status. These have been measured with indicators of Price Earning Ratios (P/Es). The average P/Es of PBL (15.49) was found higher than that of NBL (15.26). Hence, PBL is better than NBL in terms of price-earning ratios. Similarly, the SD and CV of PBL remained lesser than NBL. PBL, therefore, seems more consistent than that of NBL in maintaining its price-earning position. According to Table 3, the average Cash Reserve Ratio of NBL (12.69%) was found higher than that of PBL (10.07%). Hence, NBL has a stronger liquidity position than that of PBL. Similarly, the SD and CV of PBL remained lesser than NBL. PBL, therefore, seems more consistent (Bajracharya, 2067 BC) than NBL in maintaining its liquidity. Throughout the study, there was an almost fluctuating trend of CRR of both PBL and NBL. The finding of this liquidity status is consistent with the study of (Regmi, 2019), Niraula (2012), and Hasanaj & Kuqi (2019). However, this finding is not similar to Ally (2013). Table 4 indicates that the mean value of the Net Profit Ratios of PBL (25.17) is greater than that of NBL (18.68). This means PBL has more capacity for generating profit as compared to NBL. Similarly, the SD of NBL remained lesser than PBL. NBL, therefore, seems more consistent than that of PBL in maintaining its net profit. However, the CV of PBL remained lesser than that of NBL. PBL, therefore, seems more consistent than NBL in maintaining its net profit. The findings of the current ratio are similar to Jha & Hui (2012) and Hasanaj & Kuqi (2019).

Conclusion

The main objective of the study is to assess and compare the financial statement analysis of PBL and NBL. The ratios of ROAs of both banks remained to be poor. It can be concluded that the available capital or assets are not managed efficiently. It is concluded that NBL has a better financial performance due to its higher profitability ratios compared to PBL. PBL, however, is more consistent in terms of ROA. It can be concluded that both banks have strong price-earning positions in terms of the P/E ratios. However, PBL has a better financial performance due to its higher P/E ratios as compared to NBL. PBL is more consistent in terms of S. D. and C. V. NBL has a higher mean value of the Cash Reserve Ratios (CRRs) than PBL. This means NBL has more capacity than PBL to pay the amount needed. PBL, however, has a lower SD and CV than NBL, which indicates that PBL is more consistent than NBL. The mean value of Net Profit Margins of PBL is greater than that of NBL. This means PBL has more capacity for generating profit as compared to NBL. Considering NPM and P/E ratios, PBL is better than NBL. NBL, however, seems to be better than PBL in terms of ROA and CRR.

Implication

Inferential statistics like correlation and regression may also be applied for data analysis in future research. Further research may include trading, service, manufacturing, and social sectors. The CAMEL model may be investigated in future studies. Additionally, it is suggested that selected commercial banks under study should manage their available assets efficiently and effectively to enhance ROA.

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