Comparative Analysis of Financial Statement in Selected Banks: A Case Study in the Context of Nepal

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Abstract

The main objective of the study is to assess and compare the financial statement analysis of Machhapuchchhre Bank Limited (MBL) and Kumari Bank Limited (KBL). This research used a quantitative research technique. Secondary data were adopted over the latest 7 years from 2072/73 BC to 2078/79 BC. As of today, there are 20 commercial banks, among them MBL and KBL were taken as sample units applying the purposive sampling method. Ratio analysis, Mean (X) Standard Deviation (SD), and coefficient of variation (CV) were applied for the analysis of data. Both the banks have the current assets more than two times or 200% of the current liabilities. It is found that both banks can repay their short-term obligation. The standard measure of quick ratios was not met by both banks. It is found that both banks have no capacity to pay current obligations immediately. The average Return on Asset (ROA) of the selected banks appeared to be lower ratios. It can be found that the available assets are not managed efficiently. The financial statement analysis in terms of Return on Equity (ROE) of the sample banks was found efficient. It is found that management is efficient in maximization of shareholder's equity. It is concluded that sample banks have a strong liquidity position in terms of the current ratio, but a poor position in terms of quick ratio. ROAs of the banks appeared to be unsatisfactory whereas ROEs remained to be reasonable.

Keywords: *commercial banks, financial ratios, liquidity, performance, profitability*

Introduction

In Nepal, the activities of commercial banks help to enhance the economy in general (Economic Survey, 2008). 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). 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.

Evaluation of the financial performance of a bank is essential. A company's performance analysis commonly applies

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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 financial statement analysis in selected commercial banks of Nepal over the latest 7 years from F. Y. 2072/073 to 2078/079 by making the comparison between MBL and KBL?"

The specific questions of the study are given below:

What is the liquidity position of the MBL and KBL?

What is the profitability status of MBL and KBL?

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 the period of the latest 7 years from F. Y. 2072/073 BC to 2078/079 BC.

Specific objectives

The specific objectives of the study are:

To evaluate the liquidity position of the sample banks i. e., MBL and KBL.

To measure the profitability position of MBL and KBL.

To compare the financial performance between MBL and KBL?

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:

Only two banks were taken under study as a sample unit due to time constraints.

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 current ratio is computed as current assets divided by current liability and the quick ratio is computed as quick assets divided by current liabilities (Pandey, 1998 & Wagle et al., 2068 BC).

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 and ROE. 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. Likewise, ROE is computed as Net profit after taxes to total equity. Hence, the higher the ROE the better the organization.

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). The following commercial banks have been taken as sample units in this study:

Machhapuchchhre Bank Limited

Machhapuchchhre Bank Limited (MBL) began its banking operation in 2000 from Pokhara but registered in 1999 as the first regional bank in the commercial sector. This bank has a vision to be the bank of first choice of people and a mission to become the preferred bank that provides innovative and quality services and professionalism with good corporate governance and modern technology (Machhapuchchhre Bank Limited, 2079).

Kumari Bank Limited

Kumari Bank Limited (KBL) commenced its operation on 3rd April 2001 with the vision to become the preferred financial institution to its clients and the goal of granting competitive service of modern banking. This bank has played a pioneering role in providing modern banking services like internet banking and mobile banking. The bank has existed as the fifteenth commercial banking industry of Nepal. This bank has represented many rural, semi-urban, and urban places in the country. It has 303 branches, 61 branchless units, and 49 extension counters in the country (Kumar Bank Limited, 2079).

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 of 2:1, 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. Lumbini Finance & Leasing Company Limited (LF & LCL) was found to be maintaining the highest average Return on Equity before IPO whereas NMB was found to be the highest average ROE 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 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 seven years from 2072/73 BC to 2078/79 BC. 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 MBL and KBL.

Methodology

This research followed a quantitative research approach. As of mid-September 2023, there are 20 commercial banks (Nepal Rastra Bank, 2023) operating in Nepal, which is the population for this study. Machhapuchchhre Bank Limited (MBL) and Kumari Bank Limited (KBL) were selected as sample units. This study applied purposive sampling techniques based on the similar nature of the sample banks under study. Secondary data drawn from annual reports of financial statements of the respective banks through their websites over the period of the latest 7 years from 2072/73 BC to 2078/79 BC were used. For analysis of the data, financial ratios like Current Ratios (CR) and Quick Ratios (QR) for liquidity position were applied. For profitability status ROAs, and ROEs 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

Current Ratios, Means, Standard Deviation, and Coefficient of Variation on Sample Banks

Banks/ Years	072/73	073/74	074/75	075/76	076/77	077/78	078/79	X̄	SD	CV
MBL	1.55	2.22	2.32	2.00	2.05	1.89	2.07	2.01	0.25	12.43%
KBL	1.82	2.19	1.86	1.85	2.06	1.78	2.62	2.03	0.30	14.83%

Sources: Annual reports from 2074/75 BC to 2078/79 BC

Table 1 shows the Current Ratio (CRs), X̄, SD, and CV of sample banks under study from fiscal year 2072/73 to 2078/79. This table indicates that current ratios of MBL from Fiscal Year (FY) 2072/073 to 2078/079 remained at 1.55, 2.22, 2.32, 2.00, 2.05, 1.89, and 2.07 times respectively. X̄, SD, and CV appeared at 2.01, 0.25, and 12.43% respectively. Similarly, CRs of KBL from FY 2072/073 to 2078/079 remained 1.82, 2.19, 1.86, 1.85, 2.06, 1.78, and 2.62 times respectively. X̄, SD, and CV appeared at 2.03, 0.30, and 14.83% respectively.

Concerning Table 1, the standard measurement of the current ratio is 2:1. The standard measure is met by both banks. Both the banks have the current assets more than two times or 200% of the current liabilities. It is found that both the banks have capacity to repay their short-term obligation.

Table 2

Quick Ratios, Means, Standard Deviation, and Coefficient of Variation of Sample Banks

Banks/ Years	072/73	073/74	074/75	075/76	076/77	077/78	078/79	X̄	SD	CV
MBL	0.27	0.43	0.37	0.34	0.29	0.27	0.26	0.32	0.07	20.41%
KBL	0.35	0.48	0.33	0.39	0.36	0.25	0.40	0.37	0.07	18.56%

Sources: Annual reports from 2072/73 to 2078/79 BC

Table 2 indicates that Quick Ratios (QRs) of MBL from FY 2072/73 to 2078/79 remained at 0.27, 0.43, 0.37, 0.34, 0.29, 0.27 & 0.26 times respectively. X̄, SD, and CV of MBL are 0.32, 0.07, and 20.41%. Likewise, the ratios for KBL from FY 2072/073 to 2078/079 remained 0.35, 0.48, 0.33, 0.39, 0.36, 0.25 & 0.40 times respectively. X̄, SD, and CV of KBL are 0.37, 0.07, and 18.56%.

QR has the standard measure of 1:1 or an equal portion of a liquid asset. The standard value was not met by both banks. This means the banks do not have enough liquid assets to cover their current liabilities. It is found that both banks cannot pay current liabilities immediately.

Table 3

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

Banks/Years	072/73	073/74	074/75	075/76	076/77	077/78	078/79	X̄	SD	CV
MBL (%)	1.51	1.82	1.47	1.61	1.02	1.02	0.94	1.34	0.35	25.77
KBL (%)	1.69	1.29	1.26	1.17	0.76	1.04	1.22	1.21	0.27	22.39

Sources: Annual reports from 2072/73 to 2078/79 BC

Table 3 shows that the percentages of ROAs of MBL from FY 2072/73 to 2078/79 remained at 1.51, 1.82, 1.47, 1.61, 1.02. 1.02 & 0.94 times respectively. X̄, SD, and CV of MBL are 1.34, 0.35, and 25.77%. Likewise, percentages ROEs for KBL from FY 2072/073 to 2078/079 remained at 1.69, 1.29, 1.26, 1.17, 0.76, 1.04 & 1.22 times respectively. X̄, SD, and CV of KBL are 1.21, 0.27, and 22.39%.

Over the period of study, there was an almost fluctuating trend of ROA of MBL whereas it seemed to be an almost decreasing trend of KBL. However, the average ROAs of both banks have been regarded as unsatisfactory due to much lower ratios of ROA. It can be found that the available assets or capital or tools are not managed efficiently.

Table 4

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

Banks/Years	072/73	073/74	074/75	075/76	076/77	077/78	078/79	X̄	SD	CV
MBL (%)	16.82	13.65	12.07	15.10	10.92	12.50	11.64	13.24	2.09	15.81
KBL (%)	17.75	9.60	9.88	10.50	7.18	10.43	12.28	11.09	3.31	29.81

Sources: Annual reports from 2072/73 to 2078/79 BC

Table 4 shows that the percentages of ROEs of MBL from FY 2072/73 to 2078/79 remained at 16.82, 13.65, 12.07, 15.10, 10.92, 12.50, 11.64 & 13.24 times respectively. X̄, SD, and CV of MBL are 13.24, 2.09, and 15.81%. Likewise, percentages of ROE of KBL from FY2072/073 to 2078/079 remained 17.75, 9.60, 9.88, 10.50, 7.18, 10.43 & 12.28 times respectively. X̄, SD, and CV of KBL are 11.09, 3.31, and 29.81%.

Throughout the study, there was an almost decreasing trend of ROA of MBL whereas it seemed to be an almost fluctuating trend of KBL. ROEs of both banks seemed to be reasonable. The financial performance in terms of ROE (profitability) of the

sample banks was found efficient. It can be found that management is efficient in maximization and utilization of shareholder funds.

Discussion

According to Table 1, KBL (2.03) has a higher mean value of the current ratio than MBL (2.01). This means KBL has more capacity than MBL to pay current debt. On the other hand, MBL has a lower SD and CV than KBL, which indicates that MBL is more consistent (Bajracharya, 2067 BC) than KBL in meeting current ratios. Throughout the study, there was an almost fluctuating trend of current ratios of both MBL and KBL. The finding of the current

ratio is consistent with the study of Regmi, 2019 and similar to Jha & Hui (2012) and Hasanaj & Kuqi (2019). However, this finding is not similar to Ally (2013), and Haidary & Abbey (2018). Table 2 indicates that the mean value of quick ratios of KBL (0.37 times) is greater than that of MBL (0.32). This means KBL has more capacity for paying the debt immediately as compared to MBL. MBL & KBL have equal SD. KBL (18.56%) has a lower CV than that of MBL (20.41%) which shows that KBL is more uniform in maintaining the quick ratio. This finding is similar to the findings of Ally (2013) and Haidary & Abbey (2018). This finding contradicts the study of Regmi, 2019 and Acharya (2010).

Table 3 analyzes the profitability positions. These have been measured with indicators of ROAs. The average ROA of MBL (1.34%) was found higher than that of KBL (1.21%). Hence, MBL is more profitable in terms of ROA than that of KBL. Similarly, the SD and CV of KBL remained lesser than MBL. KBL, therefore, seems more consistent than that of MBL in maintaining its ROA. This finding is similar to the study of Acharya, 2010, Niroula, 2012, and Hasanaj & Kuqi (2019). However, this finding contradicts the finding of Regmi (2019). According to Table 4, the average ROE of MBL (13.24%) was found higher than that of KBL (11.09%). Hence, MBL is more profitable in terms of ROE than KBL. Similarly, the SD and CV of MBL remained lesser than KBL. MBL, therefore, seems more consistent than KBL in maintaining its ROE. This finding is similar to the study of Acharya, 2010, Regmi,2019, and Haidary & Abbey (2018). This finding contradicts the study of Acharya (2010).

Conclusion

The main objective of the study is to assess and compare the financial statement analysis of MBL and KBL. It can be concluded that both banks have strong liquidity positions in terms of the current ratio. They can pay their short-term obligation. Both of the banks cannot meet the ideal quick ratio i.e., 1:1. The liquidity position in terms of the quick ratio of the banks seemed to be poor. Therefore, it can be concluded that they cannot pay their immediate short-term debt. However, KBL has more capacity for paying debt as compared to MBL. 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. ROEs of both the banks remained to be appropriate. It can be concluded that management is efficient in maximization of shareholder's equity. Similarly, it is concluded that MBL has a better financial performance due to its higher profitability ratios compared to KBL.

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 and quick ratio.

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