Virtual University of Pakistan

Evaluation Sheet for Project
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Student's ID:

Supervisor: ____________________

Evaluation Criteria	Result
Proposal	Valid
Final Project	
Written Work Status	
Presentation & Viva Voce	
Final Result	

FINANCIAL STATEMENTS ANALYSIS

Of

HABIB BANK LIMITED

&

UNITED BANK LIMITED

Submitted By:

VIRTUAL UNIVERSITY OF PAKISTAN

Submission Date: 23 March, 2011

LETTER OF UNDERTAKING

I .Madeeha Gulraiz....... Student VU ID.......bc060400716... hereby confirm that the **Project** I have provided is solely my own effort. I did not copy my report partially or completely from any other student or from any other source either against payment or free and I did not provide any plagiarized material in any section of my report. I further confirm that the documents (Job Confirmation Letter, etc.) that I have provided are genuine (i.e. not forge/fake) and have been issued by the authorized person in the organization. If I am found guilty of misstating, misleading or concealing the facts about my activities (either academic or non-academic but relevant to this course) at any stage, the university is authorized to take disciplinary action against me according to university policies and regulations.

I hereby also confirm that I have carefully read and understood all the guidelines, rules and regulations provided by the course instructor on VULMS. I assure that I will follow the instructions regarding presentation & viva voce and will appear on the scheduled date for presentation & viva voce which will be intimated to me at my VU-email ID by the Course Instructor. In case of any negligence, I shall be held responsible.

Name..Madeecha Gulraiz....

Signature....M. Gulraiz.........

Date.....01 - 03 - 2011.........

DEDICATION

I dedicate this project to my parents and grand mother;

without their prayers, I would be nowhere.

May Allah bless them with health and Happiness!

(Ameen)

ACKNOWLEDGEMENT

First of all, thanks to Allah Subhana ta'ala, who gave me strength to complete this project. I would also like to convey my thankfulness to my beloved family and my friends who bear with me during all those days when I was stuck to my computer and for their encouragement, patience, support, financial support and sacrifice they have given me during the implementation of report.

EXECUTIVE SUMMARY

This project is aimed at the comparitive financial statement analysis of Habib Bank Limited and United Pakistan Limited (two largest banks of Pakistan excluding state owned National Bank Ltd of Pakistan) through evaluating their financials for the last three years. Both organizations are almost of the same age, and are there almost as long as the country itself. Both the organizations have witnessed the same ups and downs which our economy has gone through have emerged as the two strong banking giants. Hence, the comparative analysis of these two banks' financials will not only provide us valuable insight of their financial position but may also provide an idea of the industry performance.

The main goal of the project is to apply the knowledge of financial statement analysis learnt through the course of MBA. The study will help me to understand the concepts and various techniques used in the field of financial statement analysis. Financial statement analysis is valuable tool for developing understanding about the financial health and performance of an organization. The potential users that make use of financial statement analysis include investors and shareholders, Bankers and creditors, tax collecting agencies, owners and managers, employees of the organisation. Various techniques including ratio analysis, horizontal and vertical analysis, trend analysis and industry analysis have been used in the project to analyze the financial performance and health of Habib Bank Limited (HBL) and United Bank Limited (UBL) over the period of three years.

The detailed financial comparative analysis conducted on the two banks reveals that the two banks, although being affected by the adverse macro-economic developments in the last two years, are sound and stable. Some problematic areas in both banks have been highlighted. A general conclusion that can be drawn from the results of comparative analysis is that while HBL has performed better during the period under review in terms of profitability and operational efficiency, UBL was better in terms of liquidity and capital adequacy. UBL's performance in 2008 was better than HBL bracing with the economic downturn, but UBL could not continue the same performance in year 2009. On the other side, HBL recovered well in 2009 after a tough year of 2008, and is back on recovery track.

Industry analysis conducted in the last section of the project revealed that the two banks were mostly near to or at par with the industry averages. HBL's performance in terms of profitability ratios was better or at par with industry averages. However, in terms of NPLs, coverage of bad loans and operation efficiency, HBL lagged behind the industry average. UBL's performance on the other hand was better than industry average in terms of coverage, capital adequacy and asset composition. However, the profitability of the bank was much lower than that earned by other banks in the group.

Recommendations made to Habib Bank include better management of non-performing loans and problematic accounts, improvement of non-interest income by refocusing on the commercial businesses market, improvement in terms of capital adequacy and coverage of non-performing assets. United bank is suggested to focus on improving yield on advances, changing deposit mix to low cost deposits and aggressive check on increasing trend of non-performing assets to perform better in terms of profitability.

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Section I

1 INTRODUCTION

1.1 Background of the Project

This project comprises of conducting comparative financial statements analysis of two large banking companies of Pakistan Habib Bank Limited and United Bank Limited. Both banks are leading banks of Pakistan and playing an important role in the development the economy of Pakistan.

Baking sector of pakistan have vital role in the economy of pakistan as other country's economy also depends on the performance of their baking sectors. Pakistan's Banking sector showd very development in last some years but with a large incease in the income recently in the year 2010 bak show only 3% increase in the net income against last year net income. This is all may be effect of the current situation of pakistan.

However, HBL and UBL overall are workign very well have made their market position in pakistan and also oversease branches are doing good. UBL's performance in 2008 was better than HBL bracing with the economic downturn, but UBL could not continue the same performance in year 2009. On the other side, HBL recovered well in 2009 after a tough year of 2008, and is back on recovery track.
On the occasion of the annual World Bank and IMF Meetings 2010 currently underway in Washington, D.C., Global Finance presented banking awards to the top global banks at a ceremony attended by senior bank officials. HBL was presented with 2 awards: Best Bank Pakistan and Best Trade Finance Provider Pakistan. UBL also a leading bank of pakistan having more than 1,000 branches inside and 15 branches outside the country. And it grows very fast sisce its foundation.

Both banks have same Long Term Credit Rating: 'AA + ' and Short Term Rating 'A-1+' and have good image in banking sectors, investors and stakeholders have good rating about these banks. I also like both of these banks that's why I have selected these two banks for making their financial analysis and comparing both bank results.

1.2 Introduction of Banking Sector

Banking sector plays a vital and integral role in the economy of any country. Pakistani banking sector is one among the most durable and promising sectors in the emerging economies. The State Bank of Pakistan (central bank of Pakistan) performs both the traditional and developmental functions to achieve macroeconomic goals.
In last 10 years the banking sector has shown extraordinary growth. Specially, Banking sector was turned profitable in 2002 and profits continued to rise for the next five years and peaked to Rs 84.1 ($1.1 billion) billion in 2006. Also, banking sector has remained remarkably strong and resilient during the world financial crisis in 2008–09; the Bank

earned 73 percent higher than the income of Rs101, 134 million during the corresponding year 2007-08.

This feature has served to attract a substantial amount of FDI in the sector. Stress tests conducted on June 2008 data indicate that the large banks are relatively robust, with the medium and small-sized banks positioning themselves in niche markets.

In the financial year 2010 the State Bank of Pakistan earned the net income under the head showed a modest increase of 0.3 percent to reach Rs 175,584 million as against an income during the previous year 2008-09. Net profit of the Bank stood at Rs 186,736 million resulting in a decrease of 7%compared to the profit of Rs 201,698 million during the previous financial year 2008-09. The decrease is mainly attributable to decrease in net exchange gains on Bank's foreign currency assets and liabilities coupled with a marginal decline in discount income on Market Treasury Bills (MTBs). The above decrease was partly offset by gain on remeasurement of securities classified as held for trading. Further, the Bank witnessed a marginal decline in commission income and dividend income during the year.

1.3 Companies' Introduction

1.3.1 Habib Bank

Habib Bank Limited (HBL) established operations in Pakistan in 1947 and moved its head office to Karachi. Its first international branch was established in Colombo, Sri Lanka in 1951 and Habib Bank Plaza was built in 1972 to commemorate the bank's 25th Anniversary. It is the second largest (largest in private sector) bank in Pakistan. The bank has a network of over 1450 branches in Pakistan and 55 branches worldwide. It has a domestic market share of over 40%. It continues to dominate the commercial banking sector with a major market share in inward foreign remittances (55%) and loans to small industries, traders and farmers.
Habib Bank offers the basic range of banking services to its customers, to include Commercial, Corporate, Investment, and Retail Banking, Treasury, and Islamic Banking.
On the occasion of the annual World Bank and IMF Meetings 2010 currently underway in Washington, D.C., Global Finance presented banking awards to the top global banks at a ceremony attended by senior bank officials. HBL was presented with 2 awards: Best Bank Pakistan and Best Trade Finance Provider Pakistan.

On December 29, 2003 Pakistan's Privatization Commission announced that the Government of Pakistan had formally granted the Aga Khan Fund for Economic Development (AKFED) rights to 51% of the shareholding in HBL, against an investment of PKR 22.409 billion (USD 389 million). On February 26, 2004, management control was handed over to AKFED. The Board of Directors was reconstituted to have four AKFED nominees, including the Chairman and the President/CEO and three Government of Pakistan nominees.

Credit rating [5]
Credit Rating by JCR - VIS Credit Rating Company Limited - June, 2009

Long Term Rating: 'AA + '
The Bank's long term rating is AA +, which denotes good credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

Short Term Rating 'A-1+'
The short-term rating is A-1+, which denotes the highest certainty of timely payment. Short-term liquidity, including internal operating factors and / or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

1.3.2 United Bank Limited

United Bank Limited (UBL) is also one of the largest commercial banks in Pakistan having more than 1,000 branches inside the country. Its 15 branches outside the country are in the United States of America, Qatar, UAE, Bahrain, and Republic of Yemen. It also has representative offices in Almaty, Khazakstan, Iran and Tehran,. It owns subsidiaries in the UK (United National Bank Limited), and in Zurich, Switzerland. [6]

Agha Hasan Abedi founded the bank in 1959. Government of Pakistan nationalized it in 1971. In 2002, the Government of Pakistan sold it in an open auction to a consortium of Abu Dhabi Group and Bestway Group. Since its privatization the bank has been successfully turned around and remains a healthy and strong performer in all major division of its operations.
In 2002 it merged its operations in the UK with those belonging to National Bank of Pakistan to form United National Bank Limited, of which it owns 55%, with National Bank of Pakistan owning the remainder.

Credit Rating [5]
Credit Rating by JCR - VIS Credit Rating Company Limited - June, 2009.

Long Term Rating: 'AA + '
United Bank Limited is one of the largest Commercial Bank in Pakistan. The Bank's long term rating is AA +, which denotes good credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

Short Term Rating 'A-1+'
The short-term rating is A-1+, which denotes the highest certainty of timely payment. Short-term liquidity, including internal operating factors and / or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

1.4 List of competitors

There are 32 banks working in the Pakistani banking sector. List of banks operating in Pakistan is as under:

Sr. No.	Bank Name
1	Habib Bank Limited
2	United Bank Limited
3	MCB Bank Limited
4	Allied Bank Limited
5	SILK Bank Limited
6	Bank Alfalah Limited
7	Habib Metropolitan Bank
8	Askari Bank Limited
9	Bank AL Habib Limited
10	Standard Chartered Bank (Pak) Ltd
11	NIB Bank Limited
12	Faysal Bank Limited
13	Meezan Bank
14	Soneri Bank Limited
15	National Bank Limited
16	Arif Habib Bank Limited
17	Barclays Bank Plc
18	The Bank of Khyber
19	Atlas Bank
20	Mybank Limited
21	Dubai Islamic Bank Pakistan Ltd
22	BankIslami Pakistan Ltd
23	JS Bank Limited
24	Citibank NA
25	Samba Bank Limited
26	Emirates Global Islamic Bank
27	Deutsche Bank AG
28	First Women Bank Limited
29	Oman International Bank SAOG
30	The Royal Bank of Scotland
31	Bank of Punja
32	Pak Oman - Microfinance Bank Ltd

The following banks have been chosen as competitors, keeping in view the size of banks:

Sr. No.	Bank Name	Total Assets (FY09) (In PKR Millions)
1	Habib Bank Limited	863,778
2	United Bank Limited	640,449
3	MCB Bank Limited	509,224
4	Allied Bank Limited	418,374
5	SILK Bank Limited	68,664

1.5 Objectives of the Project

The project is all about to compare the financial analysis of HBL and UBL.
These are the objectives which we have to achieve by doing this comparative study.

- HBL and UBL are strongest and oldest banks of Pakistan so by the financial analysis of these banks we can help to find out that in which position the Pakistani banking system is.
- To find out the current position of HBL and UBL and find out the answer of the question that is there worthwhile to invest in these organizations.
- What is future prospective of the organization?
- To find out the improved area and deficient area of these organizations.

1.6 Significance of the Project

This project has importance for me as a student of finance. This project help me to understand the financial aspects of banking sector and gave a lot of knowledge about banking sectors which i never knew before. I was only known by the banks and money's common matters but financial analysis and other financial aspects give new knowledge that how mush they are important for the banking business. By conducting Comparative Financial Analysis, I will be benefited not only by having an insight into the industry performance and improve industry knowledge but the study may also help me understanding the interior theory of financial statement analysis on advanced level.

2 PROCESSINGANDANALYSIS

2.1 Data Collection & Processing

2.1.1 Data Collection Sources

For this proect data has been collected through published financial data of both companies. Financial statements of both companies are taken from the banks' websites.

Habib Bank Limited

Source: http://www.hbl.com

Annual reports of Habib Bank Limited for last three years (2007,2008,2009) are taken from this website. Both consolidated and unconsolidated, quarterly, half yearly and annual financial statements were available. However, consolidated financial statements have been used in this project.

United Bank Limited

Source: www.ubl.com.pk

Annual reports of United Bank Limited for last three years (2007,2008,2009) are taken from this website. Both consolidated and unconsolidated, quarterly, half yearly and annual financial statements were available. However, consolidated financial statements have been used in this project.

State Bank of Pakistan

Source: http://www.sbp.org.pk/publications/ [Online]

Various reports and statistics on the banking sector of Pakistan are taken from this website.

2.1.2 Data Collection Tools

Data has been gathered by using existing statistics i.e. annual reports and company profiles downloaded from the above mentioned websites.

2.2 Data Processing Analysis & Interpertations

2.2.1 Ratio Analysis

2.2.1.1Liquidity Ratios

Current Ratios

The ratio indicates the capacity of a business to meet its short term obligations as they fall due [8].

Formula: Current Ratio = Current Assets / Current Liabilities

Year	2009	2008	2007
Habib Bank Limited	697,147,881/561,541,207 = 1.24	622,523,344/487,579,435 = 1.28	556,274,440/475,558,955 = 1.17
United Bank Limited	412,358,941/399,976,210 = 1.03	371,996,624/282,277,373 = 1.32	323,185,151/250,922,433 = 1.29

<u>Habib Bank Limited</u>

Current Assets = Cash & Balances with treasury Banks
+ Balances with other Banks
+ Landings to financial Institutions
+ Investment held for trading securities (Note 8.1)
+ Investment in Associate & joint Venture (Note 8.1(8.4))
+ (Advances – Long-term Advances (Note 9.1.2))
+ Other Assets

Current Liabilities = Bill Payable
+ (Borrowing from Financial Institutions – LTF in Export oriented Project (Note 14.3))
+ (Deposits and other Accounts – Fixed Deposits (Note 15))
+ Other Liabilities

<u>United Bank Limited</u>

Current Assets = Cash & Balances with treasury Banks
+ Balances with other Banks
+ Landings to financial Institutions
+ Investment held for trading securities (Note 9.1)
+ Investment in Associate & joint Venture (Note 9.1(9.7))
+ (Advances – Long-term Advances (Note 10.1.2))
+ Other Assets

Current Liabilities = Bill Payable
+ (Borrowing from Financial Institutions – LTF in Export oriented Project (Note 16.2(16.5)))
+ (Deposits and other Accounts – Fixed Deposits (Note 17))
+ Other Liabilities

Working Capital

Working capital is capital needed for a company's operations. Working capital is the excess of current assets over current liabilities [8].

Formula: Working Capital = Current Assets – Current Liabilities

Year	2009	2008	2007
Habib Bank Limited	697,147,881 - 561,541,207 = 135,606,674	622,523,344 - 487,579,435 = 134,943,909	556,274,440 - 475,558,955 = 80,715,485
United Bank Limited	412,358,941 - 399,976,210 =12,382,731	371,996,624 - 282,277,373 = 89,719,251	323,185,151 - 250,922,433 = 72,262,718

Loans – Deposits Ratio

Loans/ deposits ratio gives us an idea of how much of the deposits mobilized have been utilized as loans. A loan/deposits ratio of 70-75% is considered most favorable.

Formula:

Loans (gross) / Total Deposits

Year	2009	2008	2007
Habib Bank Limited	454,662,499/682,750,079 = 0.6659 = 66.59%	456,355,507/597,090,545 = 0.7643 = 76.43%	382,172,734/531,298,127 = 0.7193 = 71.93%
United Bank Limited	377,945,366/492,267,898 = 0.7678 =76.78%	308,271,290/411,475,128 = 0.7492 =74.78%	254,670,492/343,804,830 = 0.7407 = 74.07%

Liquid Assets to Total Deposits

This ratio Measures deposits matched to investments and whether they could be converted quickly to cover redemptions.

Formula:

Liquid Assets / Total Deposits

Year	2009	2008	2007
Habib	125,559,396/682,750,079	102,091,218/597,090,545	84,136,498/531,298,127

Bank Limited	= 0.1839 = 18.39%	= 0.1710 = 17.10%	= 0.1584 = 15.84%
United Bank Limited	87,489,217/492,267,898 =0.1777 =17.77%	93,368,259/411,475,128 = 0.2270 = 22.70%	98,013,888/343,804,830 = 0.2851 = 28.51%

Liquid Assets = Cash and balance with treasury banks
+ Balances with other banks
+ Lending to Financial institutions

Acid Test Ratio

A strict test that indicates if a firm has enough short-term assets to cover its immediate liabilities.

Formula:

Liquid Assets / Liabilities

Year	2009	2008	2007
Habib Bank Limited	125,559,396/779,408,823 = 0.16 16%	102,091,218/683,498,128 = 0.15 15%	84,136,498/628,754,092 = 0.13 13%
United Bank Limited	98,464,892/407,130,760 = 0.1718 17.18%	87,489,217/442,011,123 = 0.1531 15.31%	93,386,259/373,899,720 = 0.1872 18.72%

2.2.1.2Leverage Ratios / Capital Adequacy Ratios

Times Interest Earned

Times interest earned is an important leverage ratio as it calculates how many times a company's profits can pay its interest cost. The better interest coverage ratio a company has, the more it will be attractive for lenders to lend money. At the same time investors will also expect better profits available to receive as dividends.

Formula:

Times Interest Earned = Earnings before Interest and Taxes (EBIT) / Interest Charges

Year	2009	2008	2007
Habib Bank	54,787,449/33,405,813 = 1.64	43,457,488/26,525,556 = 1.64	34,298,574/19,153,957 = 1.79

Limited			
United Bank Limited	38,042,739/28,323,272 = 1.34	34,724,942/24,247,281 = 1.43	28,451,145/17,162,817 = 1.66

EBIT = Operating Revenue – Operating Expenses + Non-operating Incom

Fixed Charge Coverage Ratio

Fixed charge ratio indicates a firm's ability to satisfy fixed financing expenses, such as interest and leases.

Fixed Charge Coverage = EBIT + Fixed Charge (Before Tax) / Fixed Charge (Before Tax) + Interest Charges

Where, Fixed Charge =
Markup on Long Term Financing +
Finance Charges on Lease Liabilities

And EBIT = Operating Revenue – Operating Expenses + Non-operating Income

Year	2009	2008	2007
Habib Bank Limited	(54,787,449+453,509)/ (453,509+33,405,813) = 1.63	(43,457,488+49,054)/ (49,054+26,525,556) = 1.64	(34,298,574+207,899)/ (207,899+19,153,957) = 1.78
United Bank Limited	(34,724,942+1,515,015)/ (1,515,015+)	(28,451,145+1,348,449)/ (1,348,449+)	(26,760,022+596,625)/ (596,625+)

Debt Ratio

Debt ratio indicates the value of total liabilities to its total assets. A debt ratio of greater than 1 indicates that a company has more debt than assets, meanwhile, a debt ratio of less than 1 indicates that a company has more assets than debt. It states that with what proportion of the assets are financed through debt.

Debt Ratio = Total Debt / Total Assets

Year	2009	2008	2007
Habib Bank Limited	779,408,823/863,778,621 = 0.90	683,498,128/749,806,715 = 0.91	628,754,092/691,991,521 = 0.91
United Bank Limited	573,131,166/640,449,529 = 0.89	571,311,725/620,707,389 = 0.92	498,745,567/546,636,506 = 0.91

Debt/ Equity Ratio

Debt/ Equity ratio ia a measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets. A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense.

Debt / Equity Ratio = Total Debt / Total Equity

Year	2009	2008	2007
Habib Bank Limited	779,753,133/84,369,798 = 9.24	683,498,128/66,308,587 = 10.31	628,754,092/63,237,429 = 9.94
United Bank Limited	573,131,166/67,318,363 = 8.51	571,311,725/49,395,664 = 11.57	498,745,567/47,890,938 = 10.41

Debt to Tangible Net worth Ratio

A measure of the physical worth of a company, which does not include any value derived from intangible assets such as copyrights, patents and intellectual property. Tangible net worth is calculated by taking a firm's total assets and subtracting the value of all liabilities and intangible assets. As intangible assets are tough to value and it is difficult to realize their value in several circumstances. Hence, it is prudent to calculate the ratio of debt and equity after excluding intangible assets from equity.

Debt to Tangible Net worth Ratio = Debt / Tangible Net worth

Tangible Net Worth = Total Assets – Total Liabilities – Intangible Assets

Or Tangible Net Worth = Total Tangible Assets – Total Liabilities

Year	**2009**	**2008**	**2007**
Habib Bank Limited	779,408,823/(83,383,859) = -9.35	683,498,128/(62,826,473) = -10.88	628,754,092/(73,751,326) = -8.53
United Bank Limited	573,131,166/66,826,852 = 8.58	571,311,725/48,990,417 = 11.66	498,745,567/47,560,592 = 10.49

Current Worth/ Net Worth Ratio

The ratio indicated the proportion of current worth and net worth.

Current Worth / Net Worth Ratio = Current Worth / Net Worth

Current Worth: Total Current Assets (minus) Total Current Liabilities. It is just like working capital.

Current Worth = Total Current Assets – Total Current Liabilities

Net worth: Net worth of a firm is the total assets minus total outside liabilities of an individual or a firm.

Net Worth = Total Assets – Total Liabilities

Year	**2009**	**2008**	**2007**
Habib Bank	135,606,674/84,369,798 = 1.61	134,943,909/66,308,587 = 2.04	80,715,485/63,237,429 = 1.28

Limited			
United Bank Limited	5,329,694/67,318,363 = 0.08	94,558,939/49,395,664 = 1.91	32,981,713/47,890,939 = 0.69

Total Capitalization Ratio

The capitalization ratio measures the debt component of a company's capital structure to support a company's operations and growth. This ratio is very important as it delivers the key insight into a company's use of leverage.

Long-term debt is divided by the sum of long-term debt and shareholders' equity.

Total Capitalization Ratio = Long Term Debt / (Long Term Debt + Total Equity)

Year	**2009**	**2008**	**2007**
Habib Bank Limited	217,867,616/ (217,867,616+84,369,798) = 0.72	195,918,693/ (195,918,693+66,308,587) = 0.75	153,195,137/ (153,195,137+63,237,429) = 0.71
United Bank Limited	171,330,100/ (171,330,100+67,318,363) = 0.72	223,859,541/ (223,859,541+49,395,664) = 0.82	157,827,560/ (157,827,560+47,890,939) = 0.77

Fixed Asset Ratio/ Equity Ratio

Fixed assets ratio to equity ratio indicates the percentage of fixed assets financed with equity. The more assets being financed with equity, lesser will be the financing cost. However, a reasonable balance should be maintained between both to achieve the economies of leverage.

Fixed Assets Ratio = Long Term Funds / Net Fixed Assets
Long Term Funds = Total Equity + Long Term Loans – Fictitious Assets (NIL for both banks)
Equity Ratio = Total Equity / Total Assets

Year	**2009**	**2008**	**2007**
Habib Bank Limited	18.026/0.098 = 184.55	17.777/0.088 = 201.02	15.706/0.091 = 171.86

United Bank Limited	10.055/0.105 = 95.66	13.716/0.080 = 172.32	10.790/0.088 = 123.16

Long term Assets versus Long term Debt

Long term assets versus long term debt indicate proportion of long term assets as compared to long term debt. Ratio indicates that how much of the long term assets have been financed with long term debt.

Long Term Assets versus Long Term Debt = Long Term Assets / Long Term Debt

Year	**2009**	**2008**	**2007**
Habib Bank Limited	166,630,740/217,867,616 = 0.76	127,283,371/195,918,693 = 0.65	135,717,081/153,195,137 = 0.89
United Bank Limited	233,318,769/171,330,100 = 1.36	178,696,266/223,859,541 = 0.80	172,736,786/157,827,560 = 1.09

Equity Capital

This is a primary measurement for judging capital strength. Equity capital is defined as the total of common stock, surplus, perpetual preferred stock, undivided profits and capital reserves.

Intangibles and net unrealized holding gains (losses) on available-for-sale securities are excluded from Capital.

Formula: Equity Capital / Average Assets

Year	**2009**	**2008**	**2007**
Habib Bank Limited	84,369,798/806,792,668 = 0.1046 = 10.46%	66,308,587/720,899,118 = 0.092 = 9.20%	63,237,429/643,026,585 = 0.0983 = 9.83%
United Bank Limited	67,318,363/630,578,459 = 0.1068 = 10.68%	49,395,664/583,671,948 = 0.0846 = 8.46%	47,890,938/491,235,935 = 0.0975 = 9.75%

Long Term Debt to Total Liability and Equity

The higher this figure, the more difficult it would be for a bank to borrow more funds. This figure is determined as follows:

Formula: Long Term Debt / Total Liabilities plus Equity

Year	2009	2008	2007
Habib Bank Limited	217,867,616/ (779,408,823+84,369,798) = 0.2522 = 25.22%	195,918,693/ (683,498,128+66,308,587) = 0.2613 = 26.13%	153,195,137/ (628,754,092+63,237,429) = 0.2214 = 22.14%
United Bank Limited	171,330,100/ (573,131,166+67,318,363) = 0.2675 = 26.75%	223,859,541/ (571,311,725+49,395,664) = 0.3607 = 36.07%	157,827,560/ (498,745,567+47,890,939) = 0.2887 = 28.87%

Loans to Assets

The loan to assets ratio measures the total loans outstanding as a percentage of total assets.

The higher this ratio indicates a bank is loaned up and its liquidity is low. The higher the ratio, the more risky a bank may be to higher defaults.

This figure is determined as follows:

Formula: Loans / Total Assets

Year	2009	2008	2007
Habib Bank Limited	454,662,499/863,778,621 = 0.5264 = 52.64%	456,355,507/749,806,715 = 0.60.86 = 60.86%	382,172,734/691,991,521 = 0.5523 = 55.23%
United Bank Limited	362,079,596/640,449,529 = 0.5654 = 56.54%	377,945,366/620,707,389 = 0.6089 = 60.89%	308,271,290/546,636,506 = 0.5639 = 56.39%

Investments to total assets Ratio

Investments to total assets Ratio= Investments/ Total Assets

Year	2009	2008	2007
Habib Bank Limited	216,467,532/863,778,621 = 0.2506 = 25.06%	129,833,446/749,806,715 = 0.1732 = 17.32%	177,942,251/691,991,521 = 0.2571 = 25.71%
United Bank Limited	137,734,578/640,449,529 = 0.2151 = 21.51%	115,057,090/620,707,389 = 0.1854 = 18.54%	114,026,273/546,636,506 = 0.2086 = 20.86%

Equity to Loans

Equity to Loans ratio reflects the degree of equity coverage to outstanding loans. This figure is determined as follows:

Formula: Average Common Equity / Average Total Loans

Year	2009	2008	2007
Habib Bank Limited	75,339,193/455,509,003 =0.1654 = 16.54%	64,773,008/419,264,121 = 0.1545 = 15.45%	58,340,398/365,802,710 = 0.1595 = 15.95%
United Bank Limited	58,357,014/370,012,481 = 0.1577 = 15.77%	48,643,301/343,108,328 = 0.1418 = 14.18%	40,534,211/281,470,891 = 0.1440 = 14.40%

Equity to Asset

Equity to total assets is a common measure used to analyze capital sufficiency of a bank.
Equity to Assets =

Formula:

Stockholders Equity / Average Total Assets

Year	2009	2008	2007
Habib Bank Limited	84,369,798/455,509,003 = 0.1852 18.52%	66,308,587/419,264,121 = 0.1582 15.82%	63,237,429/365,802,710 = 0.1729 17.29%
United Bank	67,318,363/370,012,481 = 0.1819	49,395,664/343/108,328 = 0.1440	47,890,939/281,470,891 = 0.1701

Limited	18.19%	14.40%	17.01%

2.2.1.3Profitability Ratios

Net Profit Margin

Net Profit Margin reflects how much of a company's sales is converting into profit and how much of sales is left after paying all of expenses except tax.

Net Profit Margin = Net Profit/ (Loss) After Taxation / Mark up/ interest earned x 100

When calculating the ratio for a bank, the net income from interests and dividends shall be used (instead of sales).

Year	2009	2008	2007
Habib Bank Limited	13,400,749/76,076,347 = 0.1761 17.61%	10,864,112/63,376,047 = 0.1714 17.14%	10,084,037/50,481,021 = 0.1998 19.98%
United Bank Limited	4,815,238/61,495,472 = 0.0738 7.38%	4,870,861/52,763,249 = 0.0923 9.23%	6,729,074/41,962,131 = 0.1604 16.04%

Return on Assets

Return on assets measures that how much a company is earning by utilizing its assets. This ratio is also known as ROA and is one of the most common ratios used to get a reflection of an organization's profitability.

Return on Assets (ROA) = Net Profit/ (Loss) After Taxation / Total Assets x 100

Year	2009	2008	2007
Habib Bank Limited	13,400,749/863,778,621 = 0.0155 1.55%	10,864,112/749,806,715 = 0.0145 1.45%	10,084,037/691,991,521 = 0.0146 1.46%
United Bank Limited	4,815,238/640,449,529 = 0.0075 0.75%	4,870,861/620,707,389 = 0.0078 0.78%	6,729,074/546,636,506 = 0.0128 1.28%

Return on Equity

<u>Formula:</u>
Net Income/ Equity

Year	2009	2008	2007
Habib Bank Limited	13,400,749/84,369,798 = 0.1588 15.88%	10,864,112/66,308,587 = 0.1638 16.38%	10,084,037/63,237,429 = 0.1595 15.95%
United Bank Limited	4,815,238/67,318,363 = 0.0715 7.15%	4,870,861/49,395,664 = 0.0986 9.86%	6,729,074/47,890,939 = 0.1405 14.05%

DuPont Return on Equity

The DuPont identity breaks down Return on Equity into three separate elements. This analysis enables to understand the source of higher (or lower) return by comparison with companies in similar industries (or between industries).

ROE = (Profit margin)x(Asset turnover)x(Equity multiplier)
ROE = (Net profit/Sales)x(Sales/Assets)x(Assets/Equity)
ROE = (Net Profit/Equity)
Formula: **ROE = (Net Profit/Equity)**

Year	2009	2008	2007
Habib Bank Limited	13,400,749/84,369,798 = 0.1588 15.88%	10,864,112/66,308,587 = 0.1638 16.38%	10,084,037/63,237,429 = 0.1595 15.95%
United Bank Limited	4,815,238/67,318,363 = 0.0715 7.15%	4,870,861/49,395,664 = 0.0986 9.86%	6,729,074/47,890,939 = 0.1405 14.05%

Operating Income Margin

Operating income margin indicates that how much of a company's incomes is contributed by its operations.

Operating Income Margin = Operating Income / Net Sales x 100

Year	2009	2008	2007

Habib Bank Limited	54,787,449/76,076,347 = 0.7202 72.02%	43,457,488/63,376,047 = 0.6857 68.57%	34,298,574/50,481,021 = 0.6794 67.94%
United Bank Limited	38,042,739/69,143,248 = 0.5502 55.02%	34,724,942/60,388,011 = 0.5750 57.50%	28,451,145/49,061,857 = 0.5799 57.99%

Operating Assets Turnover

This ratio indicates how much of the revenues the company is generating against each rupee investment in operating asset.

Operating Assets Turnover = Net Sales / Operating Assets

Year	**2009**	**2008**	**2007**
Habib Bank Limited	76,076,347/751,103,042 = 0.10	63,376,047/651,001,722 = 0.10	50,481,021/618,429,339 = 0.08
United Bank Limited	69,143,248/581,947,911 = 0.12	60,388,011/571,865,866 = 0.11	49,061,857/512,397,593 = 0.10

Return on Operating Assets

This ratio indicates the percentage of net profits earned against investment in operating asset.

Return on Operating Assets = Net Profit/ (Loss) After Taxation / Operating Assets x 100

Year	**2009**	**2008**	**2007**
Habib Bank Limited	13,400,749/751,103,042 = 0.0178 1.78%	10,864,112/651,001,722 = 0.0167 1.67%	10,084,037/618,429,339 = 0.0163 1.63%
United	4,815,238/581,947,911	4,870,861/571,865,866	6,729,074/512,397,593

Bank Limited	= 0.0083 0.83%	= 0.0085 0.85%	= 0.0131 1.31%

Sales to Fixed Assets

Sales to fixed assets ratio indicate that how well the bank is using its fixed assets to generate revenues.

Sales to Fixed Assets = Net Sales / Fixed Assets

Year	**2009**	**2008**	**2007**
Habib Bank Limited	76,076,347/16,766,668 = 4.54	63,376,047/14,751,252 = 4.30	50,481,021/13,780,555 = 3.66
United Bank Limited	69,143,248/23,734,082 = 2.91	60,388,011/19,926,915 = 3.03	49,061,857/19,065,496 = 2.57

Return on Investment (ROI)

Return on investment indicates that how much a company is earning through its investments. The investment may be financed either by debt or equity.

Return on Investment = ROI = Net Profit /(Loss) After Taxation / Total Assets x 100

Year	**2009**	**2008**	**2007**
Habib Bank Limited	13,400,749/863,778,621 = 0.0155 1.55%	10,864,112/749,806,715 = 0.0145 1.45%	10,084,037/691,991,521 = 0.0146 1.46%
United Bank Limited	4,815,238/640,449,529 = 0.0075 0.75%	4,870,861/620,707,389 = 0.0078 0.78%	6,729,074/546,636,506 = 0.0128 1.28%

Gross Profit Margin

Gross profit margin is an important and basic ratio. It shows how much gross profit company is earning out of total revenues.

Gross Profit Margin = Gross Profit / Net Sales x 100

Year	**2009**	**2008**	**2007**
Habib Bank Limited	42,670,534/76,076,347 = 0.5609 56.09%	36,850,491/63,376,047 = 0.5815 58.15%	31,327,064/50,481,021 = 0.6206 62.06%
United Bank Limited	33,172,200/69,143,248 = 0.4798 47.98%	28,515,968/60,388,011 = 0.4722 47.22%	24,799,314/49,061,857 = 0.5055 50.55%

Return on Average Equity (ROAE)

Return on Average Equity ratio (ROAE) is the ratio of net profit to average owner's equity during a year or a specific period, where net profit is defined as profit after taxes.

This ratio is affected by the level of capitalization of the financial institution. In the long run, a return of around 15% to 17% is regarded as necessary to provide a proper dividend to shareholders and maintain necessary capital strengths.

Formula: Net operating income after taxes / Average equity for a given fiscal year

Year	**2009**	**2008**	**2007**
Habib Bank Limited	13,400,749/75,339,193 = 0.1779 = 17.79%	10,864,112/64,773,008 = 0.1677 = 16.77%	10,084,037/58,340,398 = 0.17.28 = 17.28%
United Bank Limited	4,815,238/58,357,014 = 0.0825 = 8.25%	4,870,861/48,643,301 = 0.1001 = 10.01%	6,729,074/40,534,211 = 0.1660 = 16.60%

Return on Deposits

Return on deposits is a calculated as net income as percentage of total deposits held by the bank.

Formula: Net Income/Total Deposits

Year	2009	2008	2007
Habib Bank Limited	13,400,749/682,750,079 =0.02 2%	10,864,112/597,090,545 =0.02 2%	10,084,037/531,298,127 =0.02 2%
United Bank Limited	4,815,238/503,831,672 = 0.0096 0.96%	4,870,861/492,267,898 = 0.0099 0.99%	6,729,074/411,475,128 = 0.0164 1.64%

Operating Profit Margin

This ratio allows us to focus on how well the institution is controlling its operating costs, which is the key to profitability.

<u>Formula:</u>

EBIT/ Sales

Year	2009	2008	2007
Habib Bank Limited	54,787,449/76,076,347 = 0.7202 72.02%	43,457,488/63,376,047 = 0.6857 68.57%	34,298,574/50,481,021 = 0.6794 67.94%
United Bank Limited	38,042,739/61,495,472 = 0.6186 61.86%	34,724,942/52,763,249 = 0.6581 65.81%	28,451,145/41,962,131 = 0.6780 67.80%

Net Interest/ Profit Margin

Formula: Net Profit after Tax/ Interest Earned

Year	2009	2008	2007
Habib	13,400,749/76,076,347	10,864,112/63,376,047	10,084,037/50,481,021

Bank Limited	= 0.1761 = 17.61%	= 0.1714 = 17.14%	= 0.1998 = 19.98%
United Bank Limited	4,815,238/61,495,472 = 0.0783 = 7.83%	4,870,861/52,763,249 = 0.0923 = 9.23%	6,729,074/41,962,131 = 0.1604 = 16.04%

2.2.1.4Activity Ratios/ Asset Quality Ratio

Current Assets to Total Assets

Formula: Current Assets / Total Assets

Year	2009	2008	2007
Habib Bank Limited	697,147,881/863,778,621 = 0.8071 = 80.71%	622,523,344/749,806,715 = 0.8302 = 83.02%	556,274,440/691,991,521 = 0.8039 = 80.39%
United Bank Limited	407,130,760/640,449,529 = 0.6357 = 63.57%	442,011,123/620,707,389 = 0.7121 = 71.21%	373,899,720/546,636,506 = 0.6840 = 68.40%

2.2.1.5Market Ratios

Dividend per Share

Dividend per share indicates that how much a company was profitable for its shareholders in terms of dividends. The more the company will pay dividends to its shareholders the more attractive it will be for investors.

Formula: Dividend per Share = Dividends Paid / Number of Shares Issued

Year	2009	2008	2007

Habib Bank Limited	4,174,604/910,800 = 4.58	2,730,251/759,000 = 3.60	1,381,000/690,000 = 2.00
United Bank Limited	1,094,748/ 1,112,890,625 = 0.001	3,945,703/ 1,011,718,750 = 0.004	1,942,500/ 809,375,000 = 0.002

Earnings per Share

Earnings per share (EPS) reflect how much investors are earning per share. The difference between DPS and EPS is the DPS considers Dividends Company actually paid. Whereas, in case of EPS, earnings available for distribution to shareholders are taken into consideration apart from it that whether company is paying any actual dividends to its shareholders or not.

Formula: Earnings per Share = Net Profit/ (Loss) after Taxation / Number of Shares

Year	**2009**	**2008**	**2007**
Habib Bank Limited	13,400,749/910,800 = 14.71	10,864,112/759,000 = 14.31	10,084,037/690,000 = 14.61
United Bank Limited	4,815,238/ 1,112,890,625 = 0.004	4,870,861/ 1,011,718,750 = 0.005	6,729,074/ 809,375,000 = 0.008

Book Value Per Share

Book value per share is perceived to indicate whether shares of a company are over or undervalued in the market. However, practically book value per share and market value per share do not relate.

Book Value per Share = Shareholder's Equity / Number of Shares

Year	**2009**	**2008**	**2007**
Habib Bank Limited	84,369,798/910,800 = 92.63	66,308,587/759,000 = 87.36	63,237,429/690,000 = 91.65
United Bank Limited	67,318,363/ 1,112,890,6625	49,395,664/ 1,011,718,750	47,890,939/ 809,375,000

	= 0.06	= 0.05	= 0.06

2.2.1.6Cash Flow Ratios

Operating Cash Flow / Total Debt

This ratio indicates company's ability to meet its all obligations through its cash flows gerated from operating activities.

Formula: Operating Cash Flow / Total Debt

Year	2009	2008	2007
Habib Bank Limited	107,753,133/779,408,823 = 0.1382 = 13.82%	(22,326,599)/683,498,128 = -0.0327 = 3.27%	56,224,065/628,754,092 = 0.0894 = 8.94%
United Bank Limited	26,774,872/573,131,166 = 0.0467 = 4.67%	1,025,033/571,311,725 = 0.0018 = 0.18%	51,571,445/498,745,567 = 0.1034 = 1.034%

Operating Cash Flow Per Share

This important indicator reflects on the operating cash flow generated as percentage of total shares issued.

Many financial experts consider operating cash flow per share as a better indicator than earnings per share because earnings can be manipulated by financial redressing and other techniques whereas cash flows are always real. It is almost impossible to show off fake cash to prove a company financially strong.

Formula: Operating cash flow/ Number of shares issued

Year	2009	2008	2007
Habib Bank Limited	107,753,133/910,800 = 118.31	(22,326,599)/759,000 = -29.42	56,224,065/690,000 = 81.48
United Bank	26,774,872/1,112,890,625 = 0.02	1,025,033/1,011,718,750 = 0.00	51,571,445/809,375,000 = 0.06

Limited			

Cash dividends Coverage Ratio

This ratio reflects the company's ability to meet dividends from operating cash flow. Ratio less than 1:1 (100 %) indicates that dividends are demanding more cash from the business than it is generating.

Formula:

Operating Cash Flow / Cash Dividends

Year	2009	2008	2007
Habib Bank Limited	107,753,133/4,174,604 = 25.81	(22,326,599)/2,730,251 = -8.18	56,224,065/1,381,000 = 40.71
United Bank Limited	26,774,872/1,094,748 = 24.46	1,025,033/3,945,703 = 0.26	51,571,445/1,942,500 = 26.55

2.2.2 Common Size Anaylsis

2.2.2.1Horizontal Analysis

Horizontal analysis of a company elaborates the trend of various financial statement items over a certain period of time. Horizontal analysis is done by computing the increase or decrease in percentage terms of each item from the prior year. It uses one year's entries as a baseline while every other year represents differences in terms of changes to that base year value.

HABIB BANK LIMITED

Horizontal Analysis of Balance Sheet	2009	2008	2007 (base year)
ASSETS			
Cash and balances with treasury banks	143.89%	101.88%	100.00%
Balances with other banks	149.39%	145.68%	100.00%
Lendings to financial institutions	328.77%	380.42%	100.00%
Investments	121.65%	72.96%	100.00%

Advances	118.97%	119.41%	100.00%
Other Assets	150.36%	126.48%	100.00%
Operating Fixed Assets	121.67%	107.04%	100.00%
Deferred Tax asset	139.20%	184.28%	100.00%
	124.83%	108.35%	100.00%
LIABILITIES			
Bills payable	65.13%	63.74%	100.00%
Borrowings from financial institutions	89.06%	79.60%	100.00%
Deposits and other accounts	128.51%	112.38%	100.00%
Sub-ordinated loans	135.87%	127.58%	100.00%
Liabilities against assets subject to finance lease	0.00%	0.00%	100.00%
Other liabilities	149.74%	128.68%	100.00%
Deferred tax liability	0.00%	0.00%	100.00%
	123.96%	108.71%	100.00%
NET ASSETS	133.42%	104.86%	100.00%
REPRESENTED BY:			
Share Holder's Equity			
Share Capital	132.00%	110.00%	100.00%
Reserves	138.88%	119.35%	100.00%
Unappropriated Profit	135.84%	112.67%	100.00%
Total Equity attributable to equity holders of the bank	136.45%	114.74%	100.00%
Minority Interest	118.39%	92.18%	100.00%
Surplus on revaluation of assets-net of tax	112.27%	31.06%	100.00%
	133.42%	104.86%	100.00%

Summarized Balance Sheet

Particulars	**2009**	**2008**	**2007**
Total Equity	**133.42%**	**104.86%**	**100.00%**
Non Current Liabilities	142.22%	127.89%	100.00%
Current Liabilities	118.08%	102.53%	100.00%
Total Liabilities	**123.96%**	**108.71%**	**100.00%**
Total Equity & Liabilities	**124.83%**	**108.35%**	**100.00%**
Non Current Assets	122.78%	93.79%	100.00%
Current Assets	125.32%	111.91%	100.00%

Total Assets	**124.83%**	**108.35%**	**100.00%**

Interpretations:

The significant features of this analysis disclose that:

Equity and Liabilities Side:

On the equity side, HBL's growth rate has increased considerably. For the year 2008, assets grew by only 4.8% over 2007, as compared with a growth of 29% in 2009 over 2008. Overall, the bank's equity has shown growth of 33%. This clearly shows that the shareholders' value is increasing and the rate of increase has also increased. This could also be due to strict policies of State Bank requiring banks to increase their capital keeping in view the adverse economic environment.

Non-Current Liabilities:

Non current liabilities of HBL are showing increasing rate from 2007. Inititally, the liabilities grew by 27.9% from 2007 to 2008 and in year 2009, the long term liabilities have shown again an increase of 15%. Increasing rate decreased last year for non-current liabilities.

Current Liabilities:
HBL's current liabilities, which remained almost stagnant in year 2008, have shown considerable growth in year 2009 showing an increase of 16% over 2008. The three year growth in liabilities is 23.9%. Customer deposits, the most important portion, have shown 12% growth in 2008 and 16% growth in 2009.

Total Equity and Liabilities:
Overall trend of equity and liabilities side of balance sheet is stable and moving smoothly. The growth hampered a little during 2008. However, the trend did not linger on in the next year and most important improvement in growth has been made in 2009.

Assets Side:

Non Current Assets:
Non current assets, mainly consisting of long-term loans are showing mixed trends over the last two years. In 2008, the long term loans dropped by 6%. This could be mainly due to drop in credit apatite of the bank and also lower long-term credit off-take by exporters due to bleak global environment and negative outlook. However the figure has regained momentum in 2009, depicting growth of 28% as the investors' fear ease out a little and new export oriented projects have restarted. Overall growth of non-current assets during the three year period remained 22%.

Current Assets: Current assets of HBL are consistently increasing at a reasonable pace since 2007. It first increased by approximatly 12% in 2008 and further increased by 13% in 2009. Since 2007, current assets of HBL have increased by 25.3%.

Total Assets: Since 2007, total assets of HBL have been increased by 24.8%. Here aagain we see a hampered growth of 9% in 2008, which regained momentum in 2009, with a comparatively better figure of 16%.

Horizontal Analasis of Profit and Loss Account		2009	2008	2007 (base year)
Markup/ Return/ Interest Earned	35	150.70%	125.54%	100.00%
Markup/ Return/ Interest Expensed	36	174.41%	138.49%	100.00%
Net Mup Income/ Interest Income		136.21%	117.63%	100.00%
Provision against non performing Loans and Advances- net	37	106.75%	83.82%	100.00%
Provision against off-balance sheet obligations	38	94.09%	427224.00%	100.00%
Provision against diminution in the value of investments		430805.00%	1994197.00%	100.00%
Bad debts written-off directly	39	0.00%	0.00%	100.00%
	40	112.23%	113.43%	100.00%
Net mark-up/ interest income after provisions		144.57%	119.09%	100.00%

Non-Markup/ Interest Income						
	Fee, commission and brokerage income			155.45%	132.12%	100.00%
	Income/ gain on investments		41	24.14%	52.61%	100.00%
	Income from dealing in foreign currencies		42	128.62%	159.63%	100.00%
	Other Income			126.10%	116.87%	100.00%
		Total non-markup/ return/ interest income		111.34%	112.57%	100.00%
				134.55%	117.13%	100.00%
Non-markup/ interest Expense						
	Administrative expenses			124.31%	117.10%	100.00%
	Other provisions/ write offs-net			486301.00%	476274.00%	100.00%
	Other charges			4.16%	76.04%	100.00%
	Workers welfare fund		43	399166.00%	323575.00%	100.00%
		Total non-markup/ interest expenses		129.01%	121.58%	100.00%
Profit Before taxation				141.18%	111.80%	100.00%
			44			
Taxation						
-	current			112.12%	115.07%	100.00%
-	prior years			-65.65%	13.97%	100.00%
-	deferred		45	4809299.00%	64.61%	100.00%
				157.71%	119.90%	100.00%
Profit After taxation				132.89%	107.74%	100.00%
Attributable to:						
	Equity share holders of the bank			133.89%	107.74%	100.00%
	Minority interest			107.67%	94.28%	100.00%
	Minority intvestor of HBL funds			-78933.00%	10519.00%	100.00%
				132.89%	107.74%	100.00%
Basic and diluted earnings per share				111.53%	89.76%	100.00%

Interpretations:

Net interest income:

HBL's net interest income depicts a consistent growth over last two years. The net interest income grew by 17% in year 2008 and again 17% in year 2009. The net income has shown overall growth of 34% since 2007. However, the alarming fact is that if we compare the rate of growth of interest expense with that of interest income, the interest expense is growing at a higher rate than that of interest income. The major factor behind this rapid increase may be due to two reasons: First, the State bank increased the minimum deposit rate to 5% during 2008, hence rising bank's cost of deposit. Secondly, due to liquidity crunch the banks had to fetch high cost deposits at exorbitant rates, thus increasing the overall cost of deposits. However, the management has been unable to translate this hike in cost to an equally higher yield in advances due to deteriorating interest servicing capacity of borrowers owing to deteriorating business conditions in the country.

Net Interest Income After Provisions
Net interest income despite a surge in provisions, show a better growth rate. Main contributor to this improved figure is reversals in general provisions on advances (reduced by 17% in 2008 and only increased by 6% in two years).

Non-interest Income
Growth in non-interest income does not show a promising picture as it has only grown by 11% in the last two years, even showing a negative groth of 1% during 2009. A major reason behind drop in non-interest income is lower business handled by the bank due to drop in import/export business.

In 2008, the growth in non-interest income was mainly due to income generated by foreign currency deals out of transaction of one-time nature. Thus the income from this particular sector which has shown 59.63% increase during 2008 have declined by 31.3% during 2009. The stream of income from investments has also dropped due to poor results shown by corporate sector in the middle of global recession and hence resulted in less non-interest income.

Non-Interest Expense
Compared with a skimpy growth of 11% in non-interest income, the non-interest expenses have grown by 30%, adversely defeating the profitability of the bank. Here, the alarming fact is rapid growth in provisions/write-offs.

Profit Before Taxation
Against a marginal growth of 12% in year 2008, the bank's profit before tax, has shown considerable growth of 41%.from the base year 2007. The bank has shown a tremendous growth of 29% for the year 2009.

Profit After Tax:
The overall growth of 32% in two years is good keeping n view the fact that these were tough years for the economy and the banking sector. Profit after tax of HBL has shown 7.7% growth in 2008 and 25% growth in 2009. The Profit after tax has grown at a relatively lower rate as compared to Profit before tax mainly due to higher tax provisions during 2008 and 2009.

UNITED BANK LIMITED

Horizontal Analysis of Balance Sheet		2009	2008	2007 (base year)
ASSETS				
	Cash and balances with treasury banks	106.30%	87.02%	100.00%
	Balances with other banks	127.93%	132.40%	100.00%
	Lendings to financial institutions	93.46%	92.02%	100.00%
	Investments	120.79%	100.90%	100.00%
	Advances	117.45%	122.60%	100.00%
	Other Assets	149.63%	152.47%	100.00%
	Operating Fixed Assets	124.49%	104.52%	100.00%
	Deferred Tax asset	649814.00%	2164148.00%	100.00%
		117.16%	113.55%	100.00%
LIABILITIES				
	Bills payable	84.87%	85.60%	100.00%
	Borrowings from financial institutions	62.48%	75.22%	100.00%
	Deposits and other accounts	122.45%	119.63%	100.00%
	Sub-ordinated loans	199.94%	200.01%	100.00%
	Liabilities against assets subject to finance lease	18.74%	60.66%	100.00%
	Other liabilities	110.25%	125.81%	100.00%
	Deferred tax liability	0.00%	0.00%	100.00%
		114.91%	114.55%	100.00%
NET ASSETS		140.57%	103.14%	100.00%
REPRESENTED BY:				
	Share Holder's Equity			
	Share Capital	137.50%	125.00%	100.00%
	Reserves	182.84%	149.05%	100.00%
	Unappropriated Profit	141.18%	105.83%	100.00%
	Total Equity attributable to equity holders of the bank	153.61%	123.84%	100.00%
	Minority Interest	107.75%	96.64%	100.00%
	Surplus on revaluation of assets-net of tax	97.31%	24.26%	100.00%

Summarized Balance Sheet

Particulars	**2009**	**2008**	**2007**
Total Equity	**140.57%**	**103.14%**	**100.00%**
Non Current Liabilities	108.56%	141.84%	100.00%

Current Liabilities	117.86%	101.92%	100.00%
Total Liabilities	**114.91%**	**114.55%**	**100.00%**
Total Equity & Liabilities	**117.16%**	**113.55%**	**100.00%**
Non Current Assets	135.07%	103.45%	100.00%
Current Assets	108.89%	118.22%	100.00%
Total Assets	**117.16%**	**113.55%**	**100.00%**

Interpretations:

The salient features of this analysis reveal that:

Equity and Liabilities Side:

On the equity side, as compared with a growth of 37% in 2009 over 2008, UBL's growth rate has increased. For the year 2008, assets grew by only 3% over 2007. Overall, the bank's equity has shown growth of 40%. This clearly shows that the shareholders' value is increasing and the rate of increase has also increased. This could also be due to strict policies of State Bank requiring banks to increase their capital keeping in view the adverse economic environment.

Non-Current Liabilities:

Non current liabilities of UBL are showing unlike trend in the last two years. Initially, the liabilities grew by 33% from 2007 to 2008. However, in year 2009, the long term liabilities have shown a drop of 14%. This could be intentional on the part of management as the Bank decided to shred high cost deposits booked during 2008 (due to liquitiy crunch) in an effort to reduce the cost of deposits and put cap on the swelling interest expense.

Current Liabilities:

UBL's current liabilities, which have marginal increase of 2% during 2008, have shown slight improvement in year 2009 depicting increase of 17.8% on year to year basis. The average growth in liabilities in the last 3 years was only 17.9%.

Total Equity and Liabilities:

The bank showed a better growth 13.5% in 2008. However in 2009 the bank had to consolidate with overall 3% growth in equity. Overall trend of equity and liabilities side of balance sheet, though not very promising, is stable and moving smoothly.

Assets Side:

Non Current Assets:

Non-current assets have marginal increase of 3% in 2008 and then tremendous increase of 32% in 2009, thus exhibiting a growth of 35% from 2007 to 2009. Major contribution in this increase is increase in fixed assets (24%).

Current Assets:
Current assets of UBL which increase by 11% in 2008, have remained stagnant in 2009. The overall growth of 11% in current assets is not very comforting. However, compared to an overall growth of 9% in current liabilities have provided the bank with an improved, though little, cushion in terms of liquidity.

Total Assets:
Since 2007, total assets of UBL have been increased by 17%. Here we see that major impact of recession reflecting in 2009 instead of 2008. A growth of 13.5% in 2008 was further slowed down to 3% in 2009.

Horizontal Analasis of Profit and Loss Account		2009	2008	2007 (base year)
Markup/ Return/ Interest Earned	35	146.55%	125.74%	100.00%
Markup/ Return/ Interest Expensed	36	165.03%	141.28%	100.00%
Net Mup Income/ Interest Income		133.76%	114.99%	100.00%
Provision against non performing Loans and Advances- net	37	175.56%	82.17%	100.00%
Provision against off-balance sheet obligations	38	560852.00%	0.00%	100.00%
Provision against diminution in the value of investments		1193693.00%	1877820.00%	100.00%
Bad debts written-off directly	39	158.90%	146.24%	100.00%
	40	200.52%	120.72%	100.00%
Net mark-up/ interest income after provisions		110.43%	112.98%	100.00%
Non-Markup/ Interest Income				
Fee, commission and brokerage income		114.18%	122.77%	100.00%
Income/ gain on investments	41	75.95%	31.82%	100.00%
Income from dealing in foreign currencies	42	0.00%	0.00%	100.00%
Other Income		0.00%	0.00%	100.00%
Total non-markup/ return/ interest income		107.72%	107.40%	100.00%
		109.67%	111.43%	100.00%
Non-markup/ interest Expense				
Administrative expenses		124.87%	116.99%	100.00%
Other provisions/ write offs-net		271.83%	198.09%	100.00%
Other charges		204.67%	726389.00%	100.00%
Workers welfare fund	43	401073.00%	340548.00%	100.00%
Total non-markup/ interest expenses		128.43%	126.23%	100.00%
Profit Before taxation		86.10%	92.82%	100.00%
	44			
Taxation				
- current		135.76%	119.37%	100.00%

-	prior years		17.78%	98.28%	100.00%
-	deferred	45	209.38%	94.51%	100.00%
			107.57%	122.98%	100.00%
Profit After taxation			71.56%	72.39%	100.00%
Attributable to:					
	Equity share holders of the bank		106.09%	93.10%	100.00%
	Minority interest		-12.84%	34.19%	100.00%
			102.72%	91.43%	100.00%
Basic and diluted earnings per share			96.51%	84.67%	100.00%

Interpretations:

Net interest income:

UBL's net interest income depicts a steady growth over last two years. The net interest income grew by 15% in year 2008 and 19% in year 2009. The net income has shown overall growth of 34% since 2007. However, if we compare the rate of growth of interest expense with that of interest income, an alarming fact reveals that the interest expense is growing at a much higher rate than that of interest income. The major factor behind this rapid increase may be due to two reasons: First, the State bank increased the minimum deposit rate to 5% during 2008, hence rising bank's cost of deposit. Secondly, due to liquidity crunch the banks had to bring high cost deposits at excessive rates, thus increasing the overall cost of deposits. However, the management has been unable to translate this hike in cost to an equally higher yield in advances due to weakening interest servicing capacity of borrowers owing to deteriorating business conditions in the country.

Net Interest Income after Provisions

UBL's net interest income after provisions has shown a decline of 2% from last year and 2 years' growth is 10%. The alarming fact here is rapid growth in provisions in 2009 which has eroded the profitability of the bank, owing to growth in non-performing loans. Thanks to a worsening economic situation, energy crises, deteriorating security situation and global recession, the business have become less and less capable of retiring their obligations to banks. This has resulted in higher provision rates, thus hitting hard on bank in terms of profitability. Another reason of higher provisions was change in prudential regulations whereby the FSV benefit taken by banks against collateral of industrial nature, was introverted by State Bank, thus forcing banks to take higher provisions.

Non-interest Income

Growth in non-interest income has grown by only 7% in the last two years with very marginal increase in 2009. Main reason behind less growth in non-interest income in 2009 was drop in business growth. Gain on investments were drop largly in 2008 and again grew to 45% but remain low than base year. Brokage Income was also reduced last year. So, this also cause the Non-Interest Income to be on the same point during last two years.

Non-Interest Expense
The non-interest expenses have grown as rapidly as the non-interest income. In 2008, they grew at even greater pace of 26%. Hence they have literally consumed almost all the growth in already thinned income of the bank.

Profit Before Taxation
The bank's profit before tax, hit by higher interest expenses and provisions, has shown 14% decrease from the base year. In 2008, drop was 7% and again a drop of 7% in 2009. This shows that the bank is still under the unfavourable effects of global recession and local crises. The liquidity crunch, inflation, energy crisis and worsening law and order situation have taken its toll on the bank and have refused to budge even by the end of 2009.

Profit After Tax:
As, the Profit Before Tax, Profit after tax of UBL has also shown a large decrease in last three years. In 2009 the drop was vary low but previous year drop was about 28%. The reason for the marginal drop in 2009 was the big drop of prior year taxes.
The Profit after tax has grown at a relatively high rate as compared to Profit before tax mainly due to lower tax provisions.

2.2.2.2Vertical Analysis

Vertical analysis is a technique used for identifying relationship between items in the same financial statement by expressing all amounts as the percentage of the total amount taken as 100. For the purpose of balance sheet analysts use the amount of total assets as base and each entry for each of the three major categories of accounts (assets, liabilities and equities) in a balance sheet is represented as a proportion of the total account, whereas for the purpose of analyzing profit and loss account analysts use sales as the base. For the purpose of analysing a bank's P&L statement however, we shall use the interest income as base figure.

The main advantage of vertical analysis is that the balance sheets of businesses of all sizes can easily be compared. It also makes it easy to see relative annual changes within one business.

HABIB BANK LIMITED

Vertical Analysis of Balance Sheet	2009	2008	2007 (base year)

ASSETS			
Cash and balances with treasury banks	9.24%	7.54%	8.02%
Balances with other banks	4.67%	5.25%	3.90%
Lendings to financial institutions	0.62%	0.83%	0.24%
Investments	25.06%	17.32%	25.71%
Advances	52.64%	60.86%	55.23%
Other Assets	4.76%	4.61%	3.95%
Operating Fixed Assets	1.94%	1.97%	1.99%
Deferred Tax asset	1.07%	1.63%	0.96%
	100.00%	100.00%	100.00%
LIABILITIES			
Bills payable	1.16%	1.31%	2.23%
Borrowings from financial institutions	6.08%	6.26%	8.53%
Deposits and other accounts	79.04%	79.63%	76.78%
Sub-ordinated loans	0.49%	0.53%	0.45%
Liabilities against assets subject to finance lease			
Other liabilities	3.46%	3.42%	2.88%
Deferred tax liability			
Total Debt Equity	90.23%	91.16%	90.86%
NET ASSETS	9.77%	8.84%	9.14%
REPRESENTED BY:			
Share Holder's Equity			
Share Capital	1.05%	1.01%	1.00%
Reserves	3.19%	3.15%	2.86%
Unappropriated Profit	4.46%	4.26%	4.10%
Total Equity attributable to equity holders of the bank	8.70%	8.43%	7.96%
Minority Interest	0.13%	0.12%	0.14%
Surplus on revaluation of assets-net of tax	0.94%	0.30%	1.04%
Total Share Holder's Equity	9.77%	8.84%	9.14%

Summarized Balance Sheet

Particulars	2009	2008	2007
Total Equity	9.77%	8.84%	9.14%

Non Current Liabilities	25.22%	26.13%	22.14%
Current Liabilities	65.01%	65.03%	68.72%
Total Liabilities	**90.23%**	**91.16%**	**90.86%**
Total Equity & Liabilities	**100.00%**	**100.00%**	**100.00%**
Non Current Assets	19.29%	16.98%	19.61%
Current Assets	80.71%	83.02%	80.39%
Total Assets	**100.00%**	**100.00%**	**100.00%**

Interpretations:

Following observations have been made after analyzing the balance sheet of Habib Bank Limited:

Equity and Liabilities Side:

Total Equity:

. The equity to asset ratio is very low as compared to other industries. Total equity stood at 9.77% for HBL by end of 2009. This is because of the reason that bank's are highly leveraged businesses and due to the same reason are highly regulated institutions. The equity in proportion to assets have shown slight improvement of 1%, mainly due to retained earnings and reserves.

Non current Liabilities:

Non-current liabilities have shown a surge in 2008 increasing from a share of 22% to reach 26%. In 2009, the share has 1% drop back to 25%. This is due to the low or no increase of liabilities in 2009.

Current Liabilities:

Current liabilities were dropped 3% from the 2007 in 2008 and remain almost on the same level in 2009. These current liabilities represent low cost deposits and hence good for a bank as long as the current assets on the other side of balance sheet exceed these liabilities.

Assets Side:

Non Current Assets:

Non-current assets of HBL are almost at the same level since 2008. The ratio slightly dropped in 2008 due to lower off-take of long term loans by the private sector and less investments in long term debt securities by the bank. However, this drop of 2% has been reserved in 2009.

Current Assets:

Current assets, like current liabilities, make a major portion of a bank's balance sheet. The HBL's current assets consisted of 81% of the total footing. The asset composition of assets is almost the same as that in 2007. There was little increase of 2% in current asset's portion () in 2008. However, it has come back to its 2007 position in 2009.

		17.61%	17.14%	19.98%
Vertical Analysis of Profit and Loss Account		2009	2008	2007 (base year)
Markup/ Return/ Interest Earned	35	100.00%	100.00%	100.00%
Markup/ Return/ Interest Expensed	36	43.91%	41.85%	37.94%
Net Mup Income/ Interest Income		56.09%	58.15%	62.06%
Provision against non performing Loans and Advances- net	37	11.56%	10.90%	16.32%
Provision against off-balance sheet obligations	38	-0.07%	0.59%	-0.11%
Provision against diminution in the value of investments		0.46%	3.01%	-0.17%
Bad debts written-off directly	39			
	40	11.95%	14.50%	16.04%
Net mark-up/ interest income after provisions		44.14%	43.65%	46.01%
Non-Markup/ Interest Income				
Fee, commission and brokerage income		6.99%	7.13%	6.77%
Income/ gain on investments	41	0.78%	2.05%	4.90%
Income from dealing in foreign currencies	42	2.51%	3.75%	2.95%
Other Income		4.38%	4.87%	5.24%
Total non-markup/ return/ interest income		14.67%	17.80%	19.86%
		58.81%	61.45%	65.87%
Non-markup/ interest Expense				
Administrative expenses		29.90%	33.81%	36.25%
Other provisions/ write offs-net		0.28%	0.32%	-0.55%
Other charges		0.00%	0.10%	0.17%
Workers welfare fund	43	0.52%	0.51%	0.00%
Total non-markup/ interest expenses		30.70%	34.74%	35.87%
Profit Before taxation		28.11%	26.72%	30.00%
	44			
Taxation				
- current		10.64%	13.11%	14.30%
- prior years		-1.44%	0.37%	3.31%
- deferred	45	1.29%	-3.90%	-7.58%
		10.49%	9.57%	10.02%
Profit After taxation		17.61%	17.14%	19.98%
Attributable to:				
Equity share holders of the bank		17.60%	17.00%	19.81%
Minority interest		0.12%	0.12%	0.17%
Minority investor of HBL funds		-0.10%	0.02%	0.00%

Interpretations:

The salient points deduced from the vertical analysis of Profit and Loss statement of HBL are as under:

Net Interest Expense:

Net interest expense has shown hike during last 2 years, in 2007 the net interest expensed stood at 37.9% of total interest income which has increased to 43.9%. Main reasons for higher interest expense are increased interest rates and relatively inflexible yield on advances as compared to cost of funds.

Net Interest income:

Net interest income both before provision and after provision are on a decline for the last 2 years, only NII after provision in 2009 has shown slight improvement of 1%. Main reason, as stated earlier, is increased cost of funds and higher provisions.

Non-interest Income

Non-interest income, which used to be a handsome 19.8% as compared to interest income, has now dropped to 14.67%. Non-interest income, though non-interest income is a very vital portion of bank's income. Main reason behind proportionate drop is drop in import and export business.

Non-Interest Expense

The non-interest expenses were equivalent to 35.8% of interest income in 2007. The non-interest expenses proportionate to interest income have dropped about 5% over two years. This is mainly due to climb in interest rates resulting in higher interest income. The percentage has dropped to 30.7% in 2009.

Profit before Taxation

The bank's profit before tax stood at 28% of total interest income in 2009. The ratio was better than that of 26% in 2008 but worse than that of 30% in 2007. The profitability remained consistently poor for last two years due to higher interest rates, stringent State Bank policies and worsening economic conditions.

Profit after Tax:

Like PBT, profit after tax of HBL as compared to interest income has shown a drop of 2% over last two years. The figure of 2009 (17.61%) is a little better than that of 2008 (17.14%) but still lower than 2007 (19.98%).

UNITED BANK LIMITED

Vertical Analysis of Balance Sheet	2009	2008	2007 (base year)

ASSETS				
	Cash and balances with treasury banks	9.56%	8.08%	10.54%
	Balances with other banks	2.19%	2.34%	2.01%
	Lendings to financial institutions	3.62%	3.67%	4.53%
	Investments	21.51%	18.54%	20.86%
	Advances	56.54%	60.89%	56.39%
	Other Assets	2.78%	2.92%	2.17%
	Operating Fixed Assets	3.71%	3.21%	3.49%
	Deferred Tax asset	0.10%	0.35%	0.00%
		100.00%	100.00%	100.00%
LIABILITIES				
	Bills payable	0.81%	0.84%	1.11%
	Borrowings from financial institutions	5.80%	7.21%	10.88%
	Deposits and other accounts	78.67%	79.31%	75.27%
	Sub-ordinated loans	1.87%	1.93%	1.10%
	Liabilities against assets subject to finance lease			
	Other liabilities	2.34%	2.75%	2.48%
	Deferred tax liability			
	Total Debt Equity	89.49%	92.04%	91.24%
NET ASSETS		10.51%	7.96%	8.76%
REPRESENTED BY:				
	Share Holder's Equity			
	Share Capital	1.74%	1.63%	1.48%
	Reserves	3.31%	2.78%	2.12%
	Unappropriated Profit	3.69%	2.85%	3.06%
	Total Equity attributable to equity holders of the bank	8.73%	7.26%	6.66%
	Minority Interest	0.36%	0.33%	0.39%
	Surplus on revaluation of assets-net of tax	1.42%	0.37%	1.72%
	Total Share Holder's Equity	10.51%	7.96%	8.76%

Summrized Balance Sheet

Particulars	**2009**	**2008**	**2007**
Total Equity	**10.51%**	**7.96%**	**8.76%**
Non Current Liabilities	26.75%	36.07%	28.87%
Current Liabilities	62.74%	55.98%	62.37%

Total Liabilities	**89.49%**	**92.04%**	**91.24%**
Total Equity & Liabilities	**100.00%**	**100.00%**	**100.00%**
Non Current Assets	36.43%	28.79%	31.60%
Current Assets	63.57%	71.21%	68.40%
Total Assets	**100.00%**	**100.00%**	**100.00%**

Interpretations:

Following observations have been made after conducting vertical analysis on the balance sheet of United Bank Limited:

Equity and Liabilities Side:

Total Equity:
Total equity stood at 10.51% for UBL by end of 2009. The equity to asset ratio is very low as compared to other industries. This is because the banks are highly leveraged businesses and due to the same reason are highly regulated institutions. The equity in proportion to assets has shown increase of 2% in two years, mainly due to major portion of earnings being retained.

Non-current Liabilities:
Non-current liabilities have shown a surge in 2008 increasing from a share of 28% to reach 36%. In 2009, the share has returned back to 26%.

Current Liabilities:
Current liabilities comprise of a high 62.74% of total assets. These current liabilities represent low cost deposits and hence good for a bank as long as the current assets on the other side of balance sheet exceed these liabilities. The dip of 7% in current liabilities in 2008 has almost being recovered during 2009 thought the percentage is still less in comparison to 62.3% in 2007.

Assets Side:

Non Current Assets:
Non-current assets of UBL have shown increase of 3% in percentage to total assets since 2007. The non-current assets of UBL stood at 36.43% of total assets on December 31, 2009. The ratio has been increase at a steady pace of 6% in the last two years.

Current Assets:
Current assets, like current liabilities, make a major portion of a bank's balance sheet. The UBL's current assets consisted of 63% of the balance sheet footing. The current assets have dropped in proportion to total assets by 4% since 2007. But, there was an improvement of 3% in 2008.

Vertical Analysis of Profit and Loss Account	Note	2009	2008	2007

				(base year)
Markup/ Return/ Interest Earned	35	100.00%	100.00%	100.00%
Markup/ Return/ Interest Expensed	36	46.06%	45.95%	40.90%
Net Markup Income/ Interest Income		53.94%	54.05%	59.10%
Provision against non performing Loans and Advances- net	37	15.68%	8.56%	13.09%
Provision against off-balance sheet obligations	38	0.91%	0.00%	0.00%
Provision against diminution in the value of investments		1.93%	3.55%	-0.01%
Bad debts written-off directly	39			
	40	20.94%	14.70%	15.31%
Net mark-up/ interest income after provisions		33.00%	39.35%	43.79%
Non-Markup/ Interest Income				
Fee, commission and brokerage income		10.95%	13.73%	14.06%
Income/ gain on investments	41	1.48%	0.72%	2.86%
Income from dealing in foreign currencies	42	0.00%	0.00%	0.00%
Other Income		0.00%	0.00%	0.00%
Total non-markup/ return/ interest income		12.44%	14.45%	16.92%
		45.44%	53.80%	60.71%
Non-markup/ interest Expense				
Administrative expenses		28.95%	31.61%	33.98%
Other provisions/ write offs-net		1.04%	0.89%	0.56%
Other charges		-1.02%	0.80%	-0.73%
Workers welfare fund	43	0.65%	0.65%	0.00%
Total non-markup/ interest expenses		29.63%	33.94%	33.81%
Profit Before taxation		15.81%	19.86%	26.90%
	44			
Taxation				
- current		11.38%	11.66%	12.28%
- Prior years		0.13%	0.82%	1.05%
- deferred	45	-3.53%	-1.86%	-2.47%
		7.97%	10.63%	10.87%
Profit After taxation		7.83%	9.23%	16.04%
Attributable to:				
Equity share holders of the bank		15.48%	15.84%	21.39%
Minority interest		-0.05%	0.17%	0.62%
Minority intvestor of HBL funds		0.00%	0.00%	0.00%
		15.43%	16.01%	22.01%

Interpretations:

Major observations deduced from the vertical analysis of Profit and Loss statement of UBL are as under:

Net Interest Expense:

Net interest expense has shown tramp during last 2 years. In 2007 the net interest expensed stood at 40.9% of total interest income which has increased to 46% in 2009. Main reasons for higher interest expense are increased interest rates and relatively in-elastic yield on advances as compared to cost of funds.

Net Interest income:

Net interest income both before provision and after provision are on a slide for the last 2 years. The provisions which comprised of 15% as compared to interest income in 2007 have swelled to almost 21% of the total interest income in 2009. This huge increase has eroded the profits of the bank.

Non-interest Income

Non-interest income, which used to be 16.9% in 2007 proportionate to interest income, has now dropped to 12.44%. Non-interest income, though non-core income is a very vital portion of bank's income. Main reason behind proportionate drop is drop in import and export business. However, a 12.44% share of non-interest income as compared to interest income is still good.

Non-Interest Expense

The non-interest expenses proportionate to interest income have dropped by 4% over two years. This is mainly due to cut of 5% in administrative expenses which is a great achievement. The percentage has dropped to 29.63% in 2009.

Profit before Taxation

The bank's profit before tax stood at 15.81% of total interest income. The ratio has consistently declined over last two years (2008: 19.86% and 2007: 26.90%). The profitability remained consistently poor for last two years due to higher interest rates, stringent State Bank policies and worsening economic conditions.

Profit after Tax:

Like PBT, profit after tax of UBL as compared to interest income has also shown a constant drop over last two years. The figure of 2009 (7.83%) is slightly lower than that of 2008 (9.23%) and still lower than 2007 (16.04%).

2.2.3 Comparisons

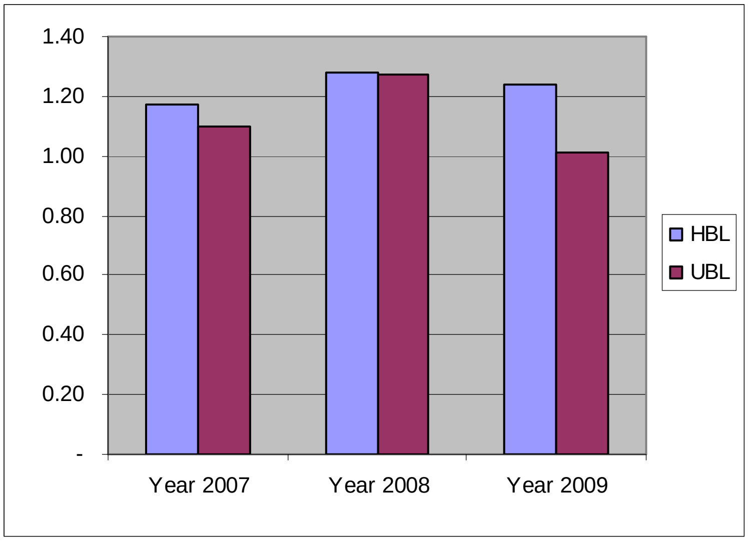
2.2.3.1Trend Analysis

Trend Analysis- HBL & UBL

Liquidity Ratios

Current Ratio

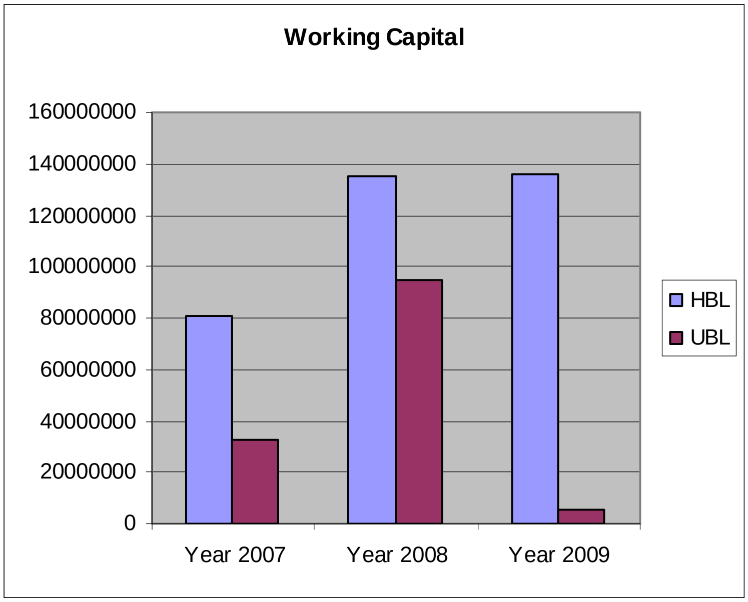
Bank	2007	2008	2009
HBL	1.17	1.28	1.24
UBL	1.10	1.27	1.01



Current ratio of both banks show unstable trend. The ratios in 2007 were improved to in 2008, but again slidded back in 2009. The main reason for this change was increase in Current and Low Cost Saving Accounts, while keeping advances at the same position. Hence the drop in current ratio, though making bank less liquid, is actually an improvement in terms of profitability.

Working Capital

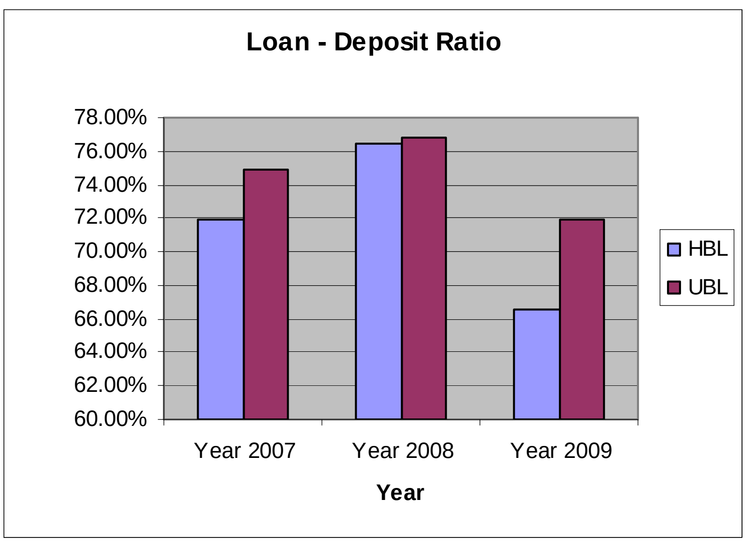
Bank	2007	2008	2009
HBL	80715485	134943909	135606674
UBL	32981713	94558939	5329694



The increase in working capital of HBL and UBL from 2007 to 2008 was due to decrease in checking deposits in the deposit composition and a surge in advances. Same happen in 2009 only for HBL but UBL's WC decreased greatly as compared to year 2007

Loan – Deposit Ratio

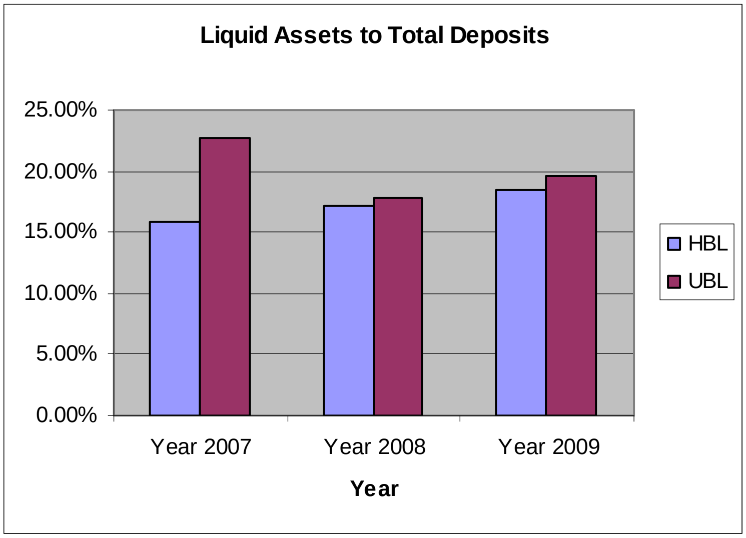
Bank	2007	2008	2009
HBL	71.93%	76.43%	66.59%
UBL	74.92%	76.78%	71.87%



During 2007 and 2008 this ratio was favourable due to higher advences. However in 2009, the HBL's Loan Deposit ratio dropped to 67% (almost 10%) and UBL's ratio dropped to 71% due to Strict lending policies and lower credit apetite resulting in lower credit off-take and Increase in deposits base.

Liquid Asset to Total Deposit Ratio

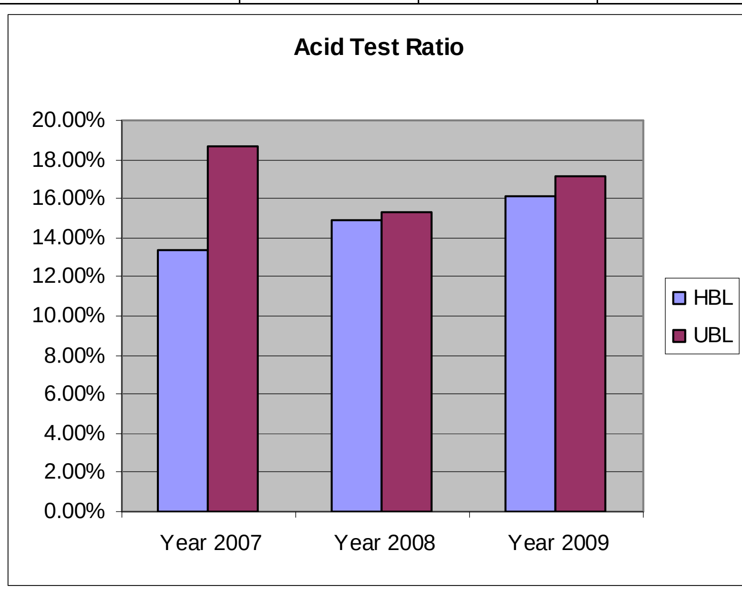
Bank	2007	2008	2009
HBL	15.84%	17.10%	18.39%
UBL	22.70%	17.77%	19.54%



The Ratio of three years shows that the HBL is more careful in lending and thus is diverting funds to more liquid and less risky investments. The funds in this way, though lower efficient, are more secure. While UBL's trend has decreasing state in 2008 and a slight 50% increase in 2009 as compared to the drop in 2008.

Acid Test Ratio

Bank	2007	2008	2009
HBL	13.38%	14.94%	16.11%
UBL	18.72%	15.31%	17.18%

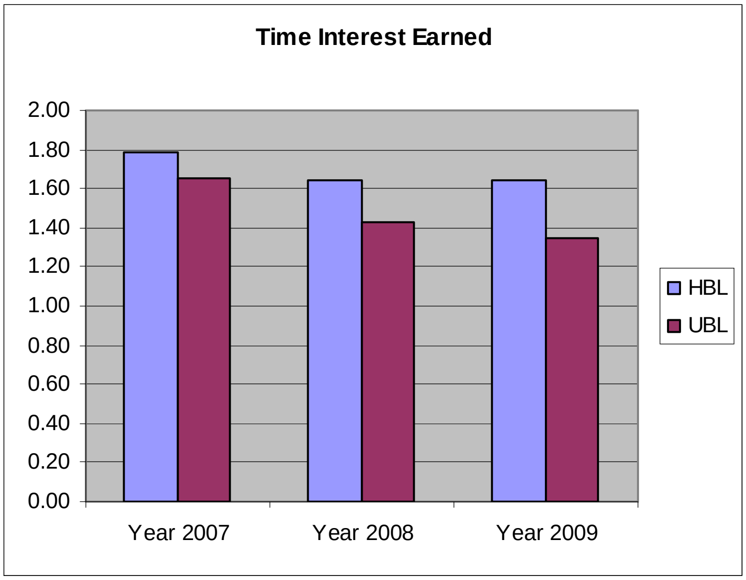


The graph shows that HBL has an increase trend in this Ratio during last three years this show that firm has increasing capacity to meet its short-term obligations. And UBL's capacity was good to meet its shotterm obligation as compared to HBL in three years but its own trend is decreased in three years.

Leverage Ratios / Capital Adequacy Ratios

Time Interest Earned

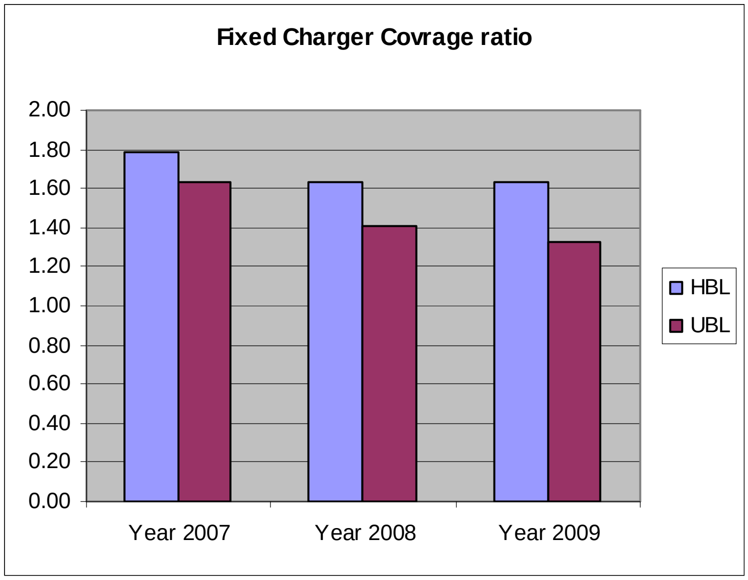
Bank	2007	2008	2009
HBL	1.79	1.64	1.64
UBL	1.66	1.43	1.34



HBL's ratio dropped sharply in 2008. However the Bank managed to control decline and for year 2009 the ratio has remained at the same level. And UBL's also dropped in last three years.

Fixed Charge Coverage

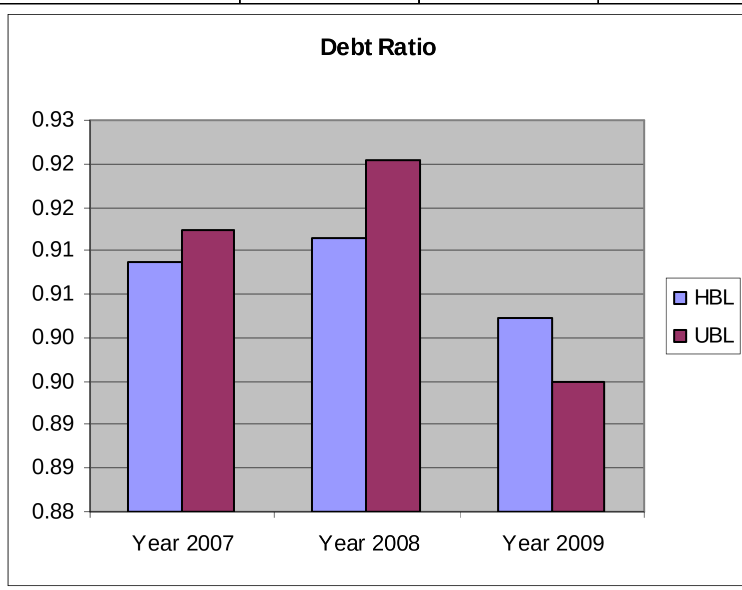
Bank	2007	2008	2009
HBL	1.78	1.64	1.63
UBL	1.64	1.41	1.33



The banks' fixed charge coverage shows failing trend over the period. The ratio dropped in 2008 sharply. However, in 2009 HBL was able to control the declining trend and the drop has been marginal. But, UBL's drop was at the same intensity.

Debt Ratio

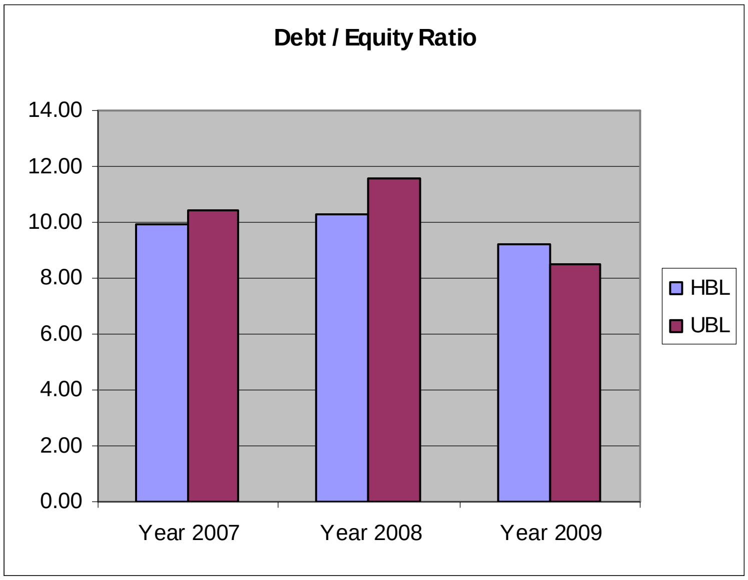
Bank	2007	2008	2009
HBL	0.91	0.91	0.90
UBL	0.91	0.92	0.89



Habib bank's debt ratio has remained almost on the same level during the three years. Only in 2009, the ratio dropped due to increase in Equity capital. However, the decrease is very minimal. UBL's debt ratio has increased slightly and then again falls from the level of 2007. In 2009, the ratio dropped due to increase in Equity capital. However, the decrease is very minimal.

Debt / Equity Ratio

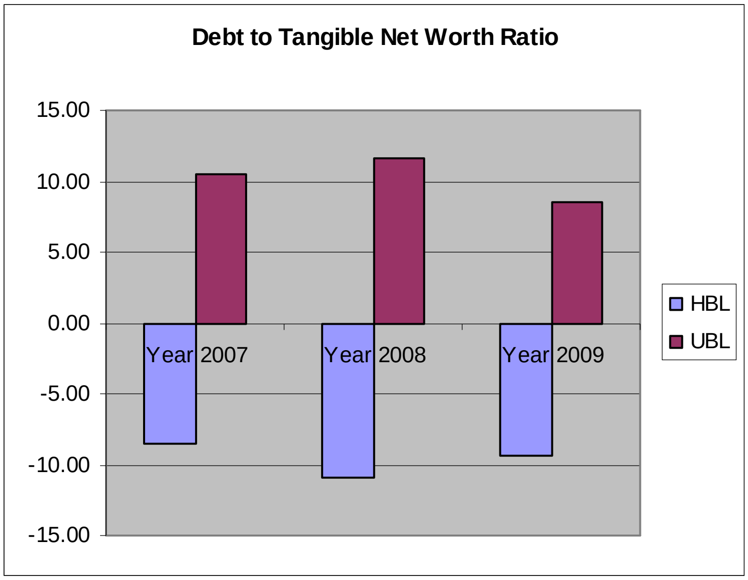
Bank	2007	2008	2009
HBL	9.94	10.31	9.24
UBL	10.41	11.57	8.51



After slight increase in 2008 the banks' Debt/ Equity ratio has sharply declined in 2009. This was mainly due to increase in Equity of the bank during 2009.

Debt to Tangible Net worth Ratio

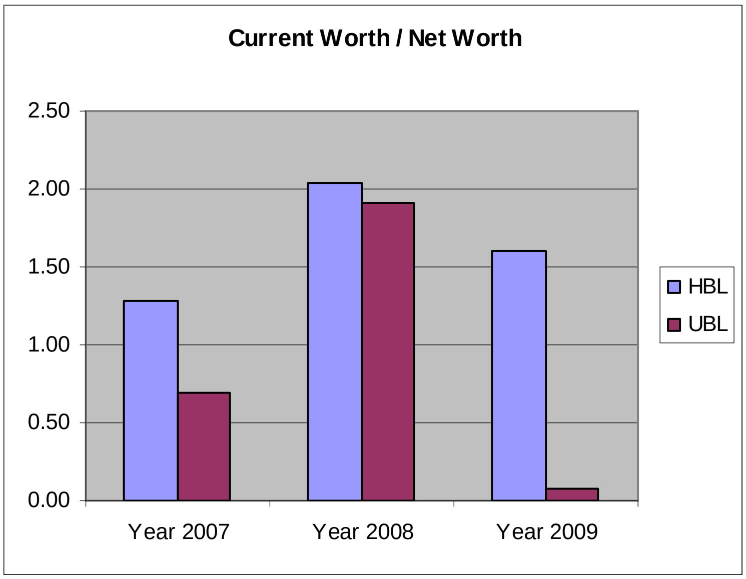
Bank	2007	2008	2009
HBL	-8.53	-10.88	-9.35
UBL	10.49	11.66	8.58



UBL's Debt to TNW ratio has shown slight increase in 2008. However, in 2009 it again falls below the ratio of 2007. While HBL has negative ratio that has shown slight decrease in 2008. However in 2009 percentage of debt has increased as compared to total net worth of the bank.

Current Worth / Net worth Ratio

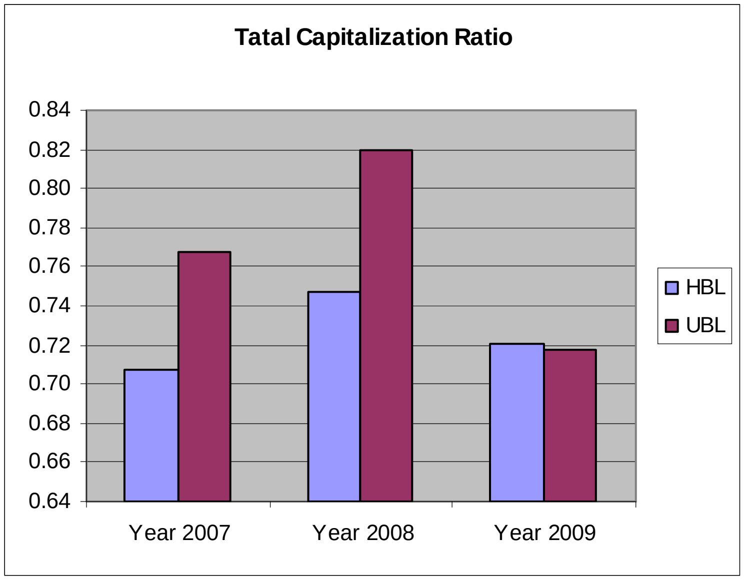
BANK	2007	2008	2009
HBL	1.28	2.04	1.61
UBL	0.69	1.91	0.08



HBL's ratio in 2008 increased but has fallen back in 2009. Both current worth and net worth declined in 2009. However, decline in current worth was more as compared to net worth. Same in the case of UBL. In comparison to HBL , UBL's ratio is stumpy.

Total Capitalization Ratio

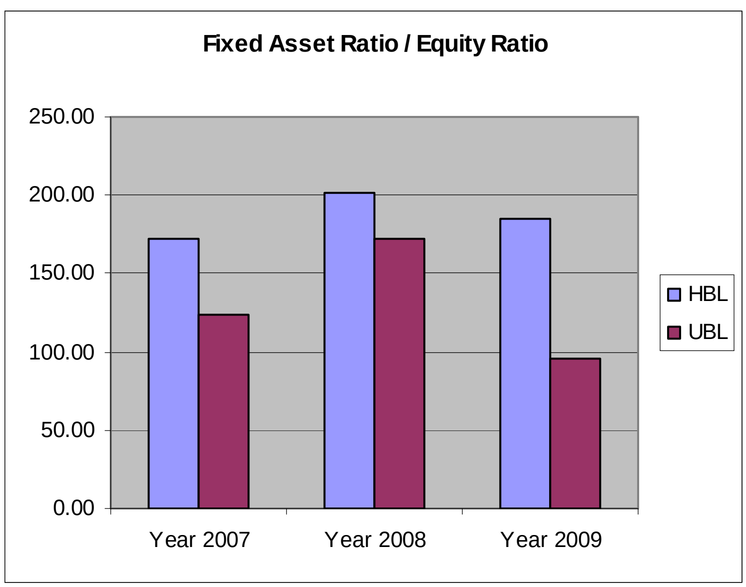
Bank	2007	2008	2009
HBL	0.71	0.75	0.72
UBL	0.77	0.82	0.72



In case of both banks, after 2007, the capitalization ratio was sharply increased in 2008. However, HBL's ratio has dropped back to neared position of 2007 and UBL's ratio dropped back lower than the position of 2007, by the end of year 2009. The decline in 2009 was contributed by handsome increase in shareholder's equity.

Fixed Asset Ratio / Equity Ratio

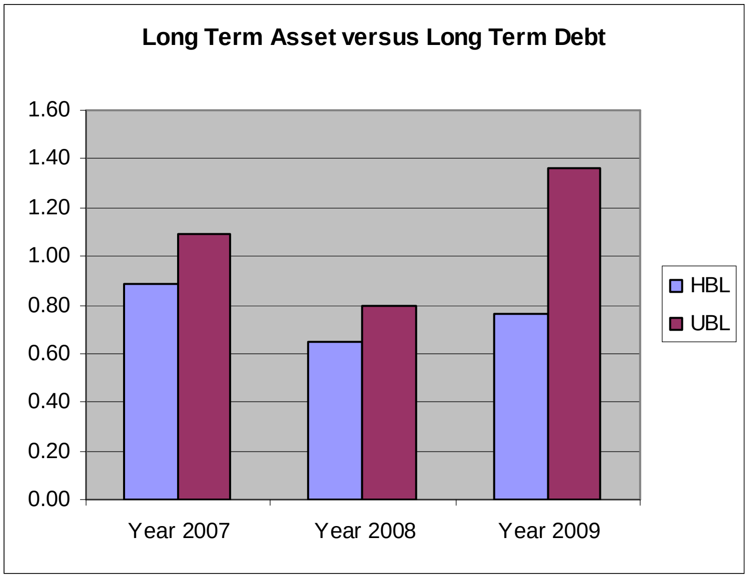
Bank	2007	2008	2009
HBL	171.86	201.02	184.55
UBL	123.16	172.32	95.66



For both banks the ratio which increased in 2008 has been managed to come on lower position at the end of 2009. This was possible due to addition of Equity.

Long term Assets versus Long term Debt

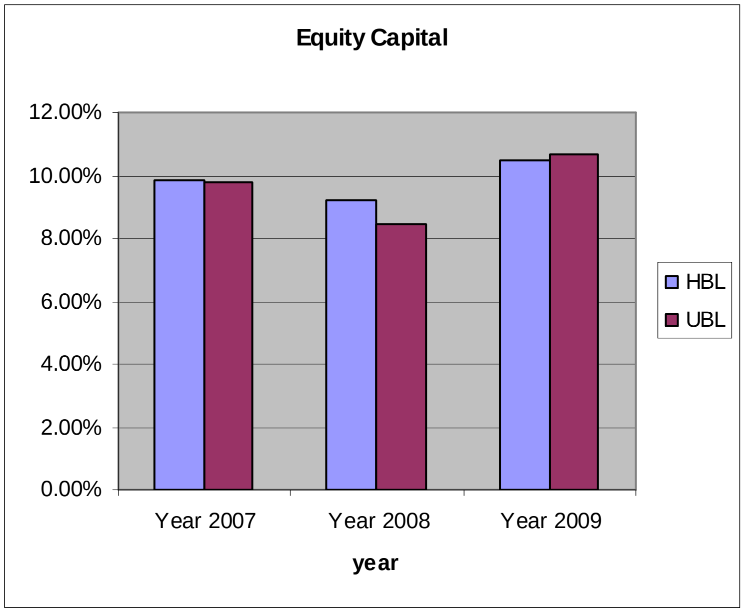
Bank	2007	2008	2009
HBL	0.89	0.65	0.76
UBL	1.09	0.80	1.36



For both banks, In 2008 Long Term Finance declined which cause the low LTA v/s LTD ratio. In 2009, long term finances declined that resulted increase in this ratio by the end of 2009.

Equity Capital Ratio

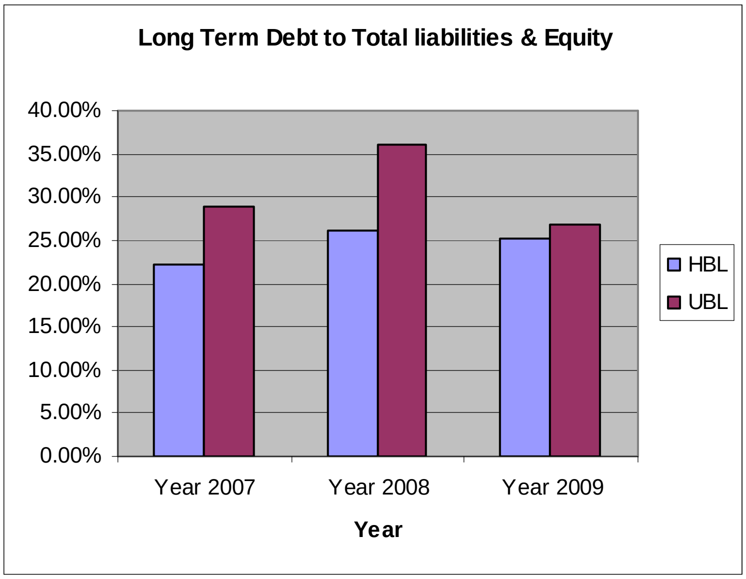
Bank	2007	2008	2009
HBL	9.83%	9.20%	10.46%
UBL	9.75%	8.46%	10.68%



The banks have grown stronger over last two years in terms of Equity Capital. The ratio dropped a little in 2008, but has spring back strongly in 2009. The main reason for increasing in the ratio is large increase in Equity Capital in 2009.

Long Term Debt to Total Liabilities and Equity

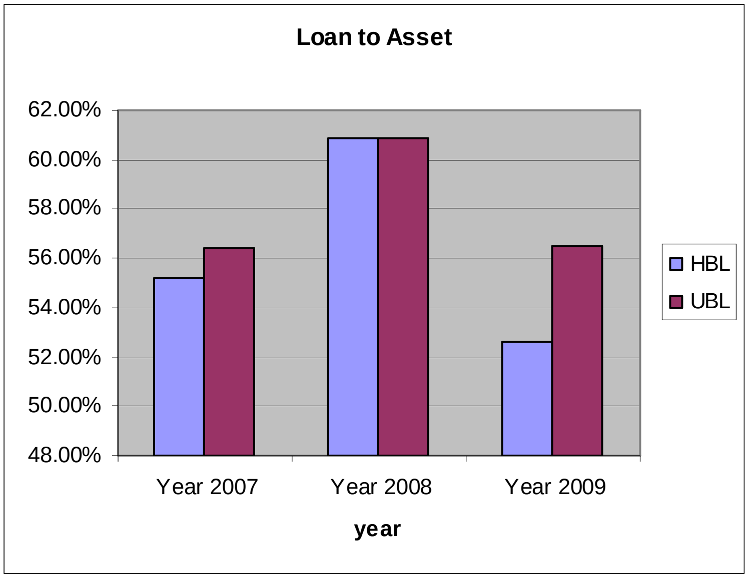
Bank	2007	2008	2009
HBL	25.02%	29.55%	25.41%
UBL	28.87%	36.07%	26.75%



In case of both banks, the ratio which increased in 2008 has shown improvement over the last two years, drop by the end of 2009 due to the increase in Equity and Liabilities.

Loans to Assets Ratio

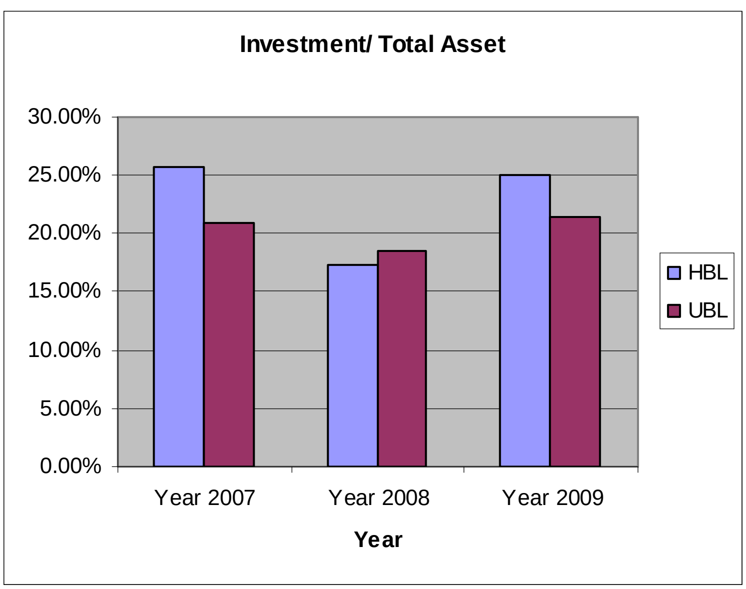
Bank	2007	2008	2009
HBL	55.23%	60.86%	52.64%
UBL	56.39%	60.89%	56.54%



The loans to assets ratio which increase to above 60% in 2008. Now HBL's ratio dropped to 52% in 2009 which is lower than ratio of 2007 and UBL's ratio has short decline which is the same position as 2007. The main reason for this drop are less loans due to strict lending policies and increase in deposits and equity base.

Investments to Assets Ratio

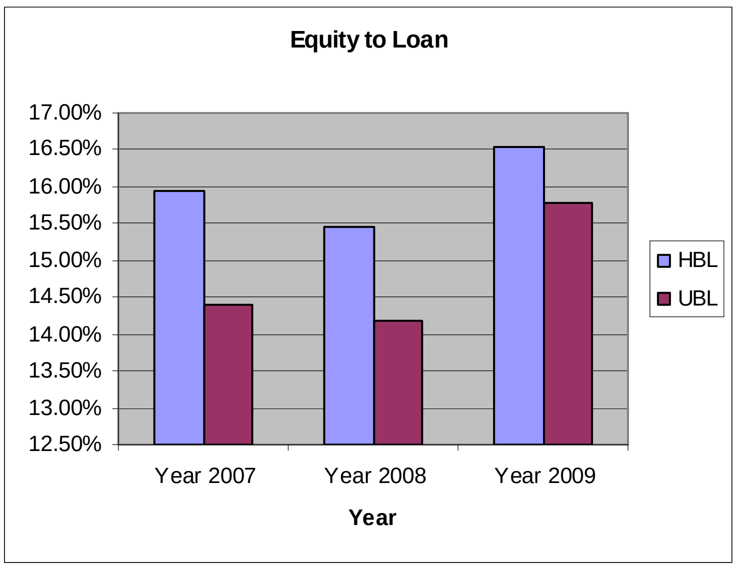
Bank	2007	2008	2009
HBL	25.71%	17.32%	25.06%
UBL	20.86%	18.54%	21.51%



HBL's The investments to total assets ratio which dropped from 25% to 17% has gone back to 25%. UBL's investments to total assets ratio which dropped from 20.8% to 18.5% has gone back to 21.5%. If we keep in view that the asset base grew from 2008 to 2009, an increase in this ratio shows that funds have been abstracted to investments rapidity. This reflects credit aversive policy of the bank as bank is content with investing in low risk low return investments at present

Equity to Loans Ratio

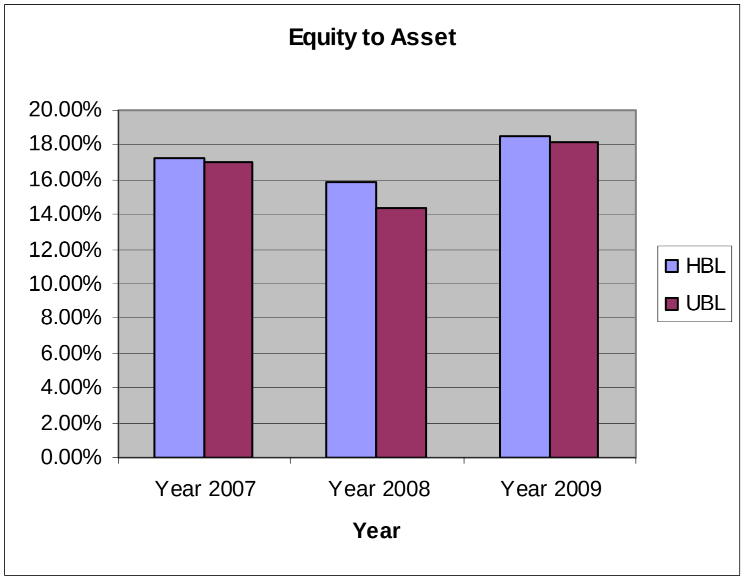
Bank	2007	2008	2009
HBL	15.95%	15.45%	16.54%
UBL	14.40%	14.18%	15.77%



Equity to loans ratio which dropped a little in 2008 have spring back on top of new equity injection and drop in laons base.

Equity to Asset Ratio

Bank	2007	2008	2009
HBL	17.29%	15.82%	18.52%
UBL	17.01%	14.40%	18.19%

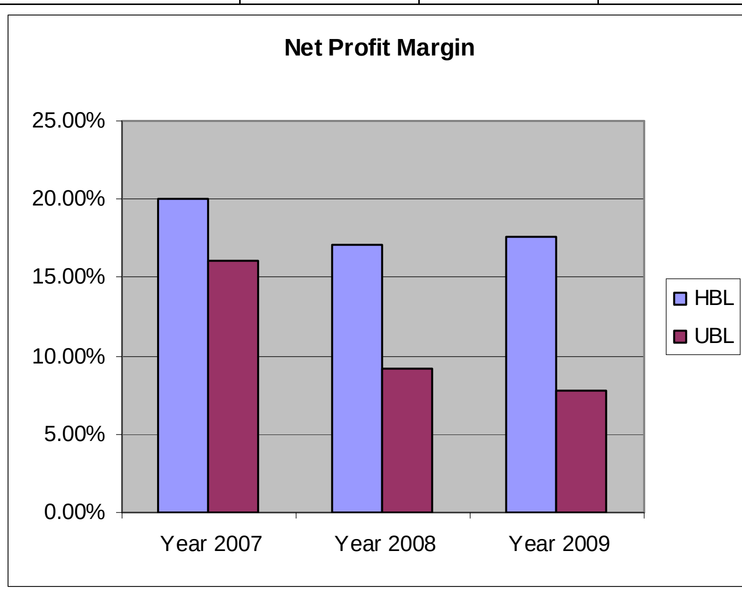


HBL's Equity to Asset ratio also dropped in 2008 about 2%. But increased in 2009 about 3%. And UBL's Equity to Asset ratio also dropped in 2008 about 3%. But increased in 2009 about 4%.

Profitability Ratio

Net Profit Margin

Bank	2007	2008	2009
HBL	19.98%	17.14%	17.61%
UBL	16.04%	9.23%	7.83%

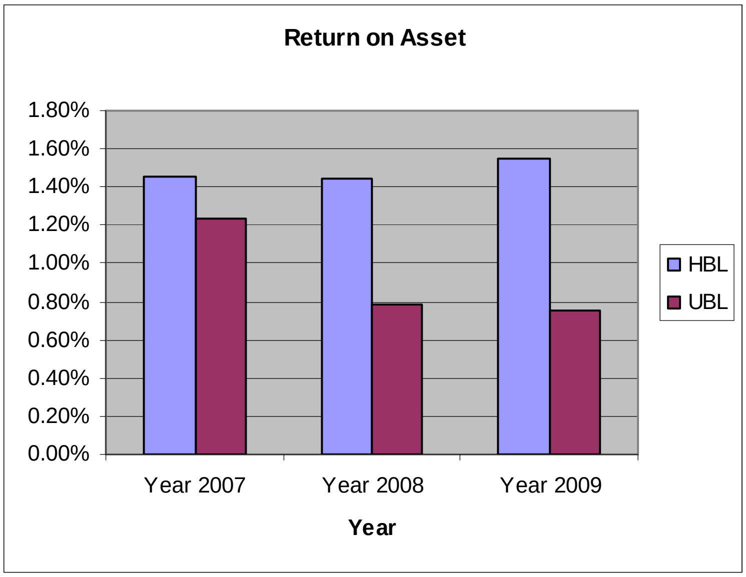


Net profit margin of UBL declines during the last three years. That indicates low net profit is earned during last three years against that markup. While, Net profit margin of

HBL declines in 2008 but the bank has slight increase it in 2009, though it is still less than that was achieved in 2007.

Return on Assets

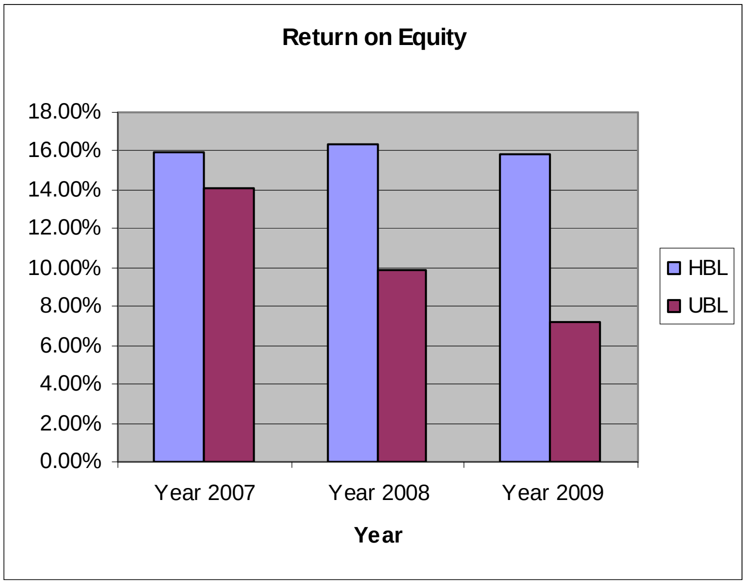
Bank	2007	2008	2009
HBL	1.46%	1.45%	1.55%
UBL	1.23%	0.78%	0.75%



Return on Assets of HBL has mix trend which dropped slightly in 2008 have shown increase in 2009. The reason for this is higher increase in income as compared to increase in assets. UBL's Return on Assets has a decreasing trend, which dropped sharply in 2008 have shown a slight decrease again in 2009. The reason for this is increase in total asset.

Return on Equity

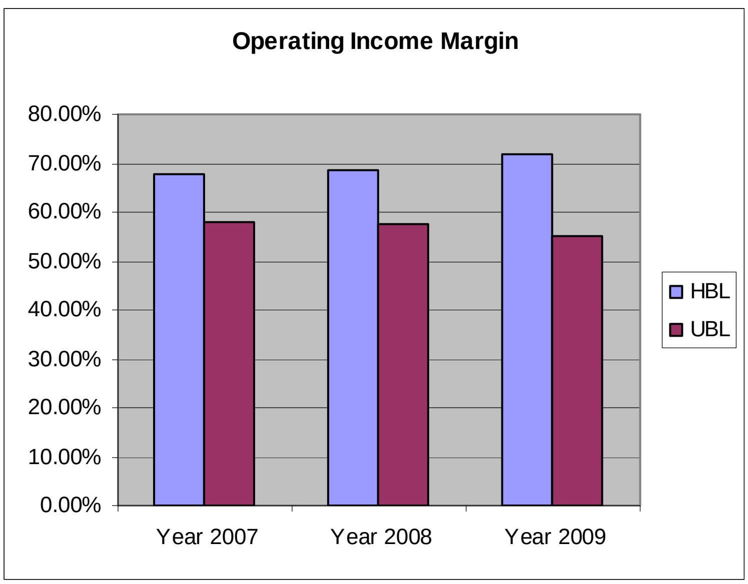
Bank	2007	2008	2009
HBL	15.95%	16.38%	15.88%
UBL	14.05%	9.86%	7.15%



HBL's ROE increased in 2008 but next year decreased to the same position of 2007 due to increase in Equity.UBL has decreasing trend of ROE in the last three year's period. It may be due to the increase in total equity of the bank during last three years.

Operating Income Margin

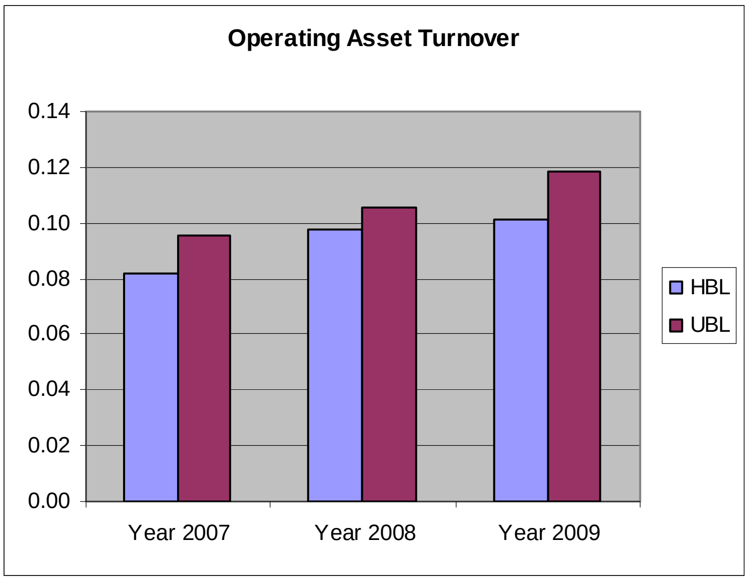
Bank	2007	2008	2009
HBL	67.94%	68.57%	72.02%
UBL	57.99%	57.50%	55.02%



In the year 2007 HBL was earning 67.94%from operations out of its sales. This ratio slightly increased to 68.57% in the year 2008. The company further improved its operating income margin to 72.02%. Major reason for this increase was control on NPLs and higher interest income. In the year 2007 UBL was earning 57.99%from operations out of its sales. This ratio decreased a little to 57.5% in the year 2008. But, in the year 2009 the ratio again goes 2% low. This was due to yearly decrease both in operating income and net sales.

Operating Assets Turnover

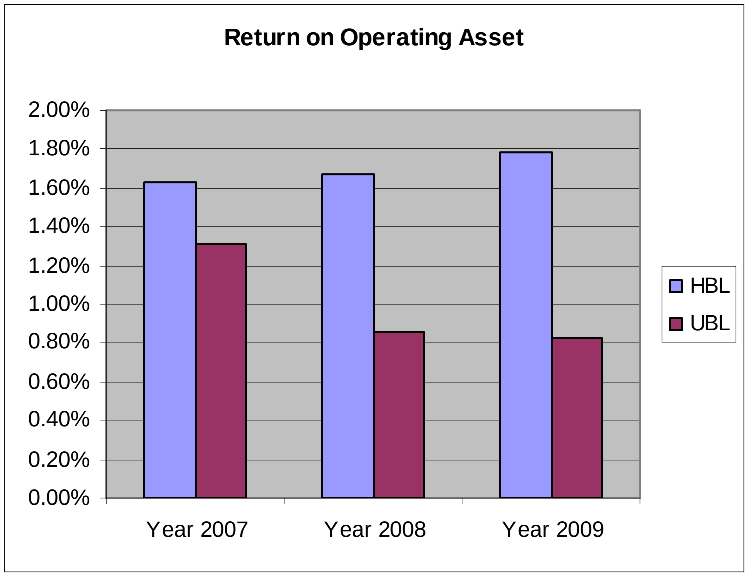
Bank	2007	2008	2009
HBL	0.08	0.10	0.10
UBL	0.10	0.11	0.12



The operating assets ratio of both banks is showing slow and steady increase in the last two years. The ratio marginally increased in 2008 and remain nearly and exact on the same position 2009.

Return on Operating Assets

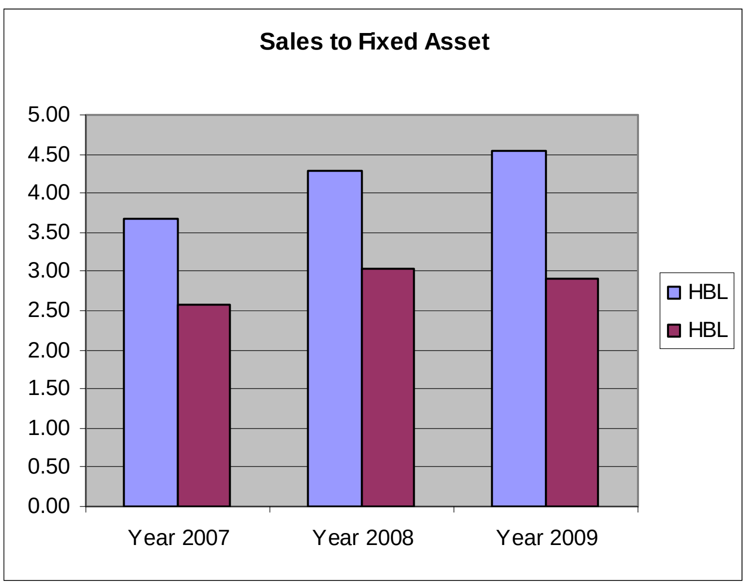
Bank	2007	2008	2009
HBL	1.63%	1.67%	1.78%
UBL	1.31%	0.85%	0.83%



The HBL's return on operating assets shows steady increase over the last three years. While UBL has a decreasing trend over the last three years.

Sales to Fixed Assets

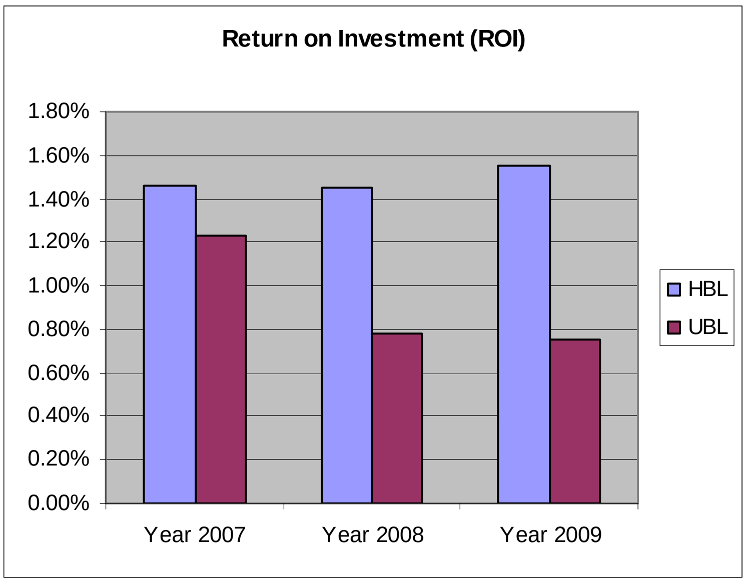
Bank	2007	2008	2009
HBL	3.66	4.30	4.54
UBL	2.57	3.03	2.91



Increase in revenues over last three years has helped HBL to improve sales to fixed ratio in 2008 as well as 2009. While, Increase in revenues of UBL made an increase in ratio in 2008 but again big decrease in 2009 due to decrease in revenue.

Return on Investment (ROI)

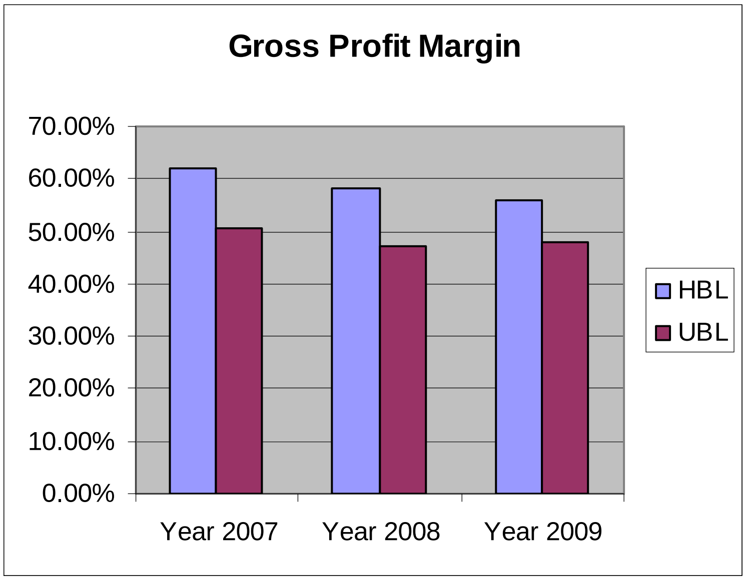
Bank	2007	2008	2009
HBL	1.46%	1.45%	1.55%
UBL	1.23%	0.78%	0.75%



The profitability of the HBL in terms of ROI has shown increase over the last year three years. Increase in 2009 is about 0.10% more than 2008. While, the profitability of UBL in terms of ROI also has shown decrease over the last year three years.

Gross Profit Margin

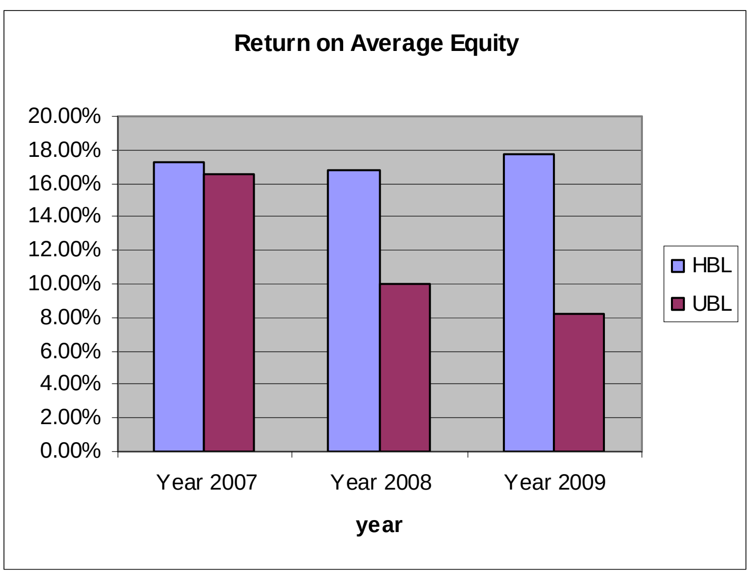
Bank	2007	2008	2009
HBL	62.06%	58.15%	56.09%
UBL	50.55%	47.22%	47.98%



Gross profit margin of HBL has shown decline during the last three years. The declining trend was less sharp in 2009. While, UBL's GPM has shown decline from 2007 to 2008. However, is increased slightly in 2009 but low than the %age in 2007. Declining was because of increased interest expense. The interest expense of the banks has increased due to higher profit rates on deposits.

Return on Average Equity

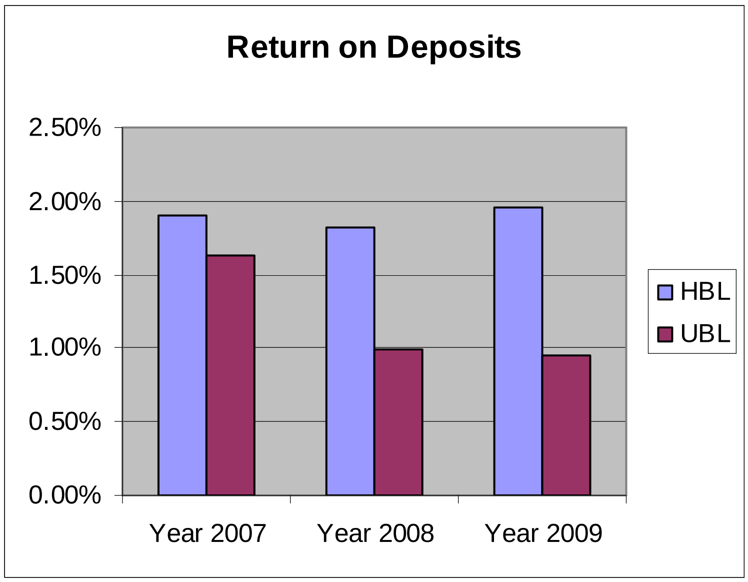
Bank	2007	2008	2009
HBL	17.28%	16.77%	17.79%
UBL	16.60%	10.01%	8.25%



HBL's ROAE show a slight decrease from 2007 to 2008 but again gain an increase in 2009. While, UBL's ROAE show a Sharpe decrease from 2007 to 2008 and approximately 2% decrease again in 2009 which is due to the increase in equity level of the bank.

Return on Deposits

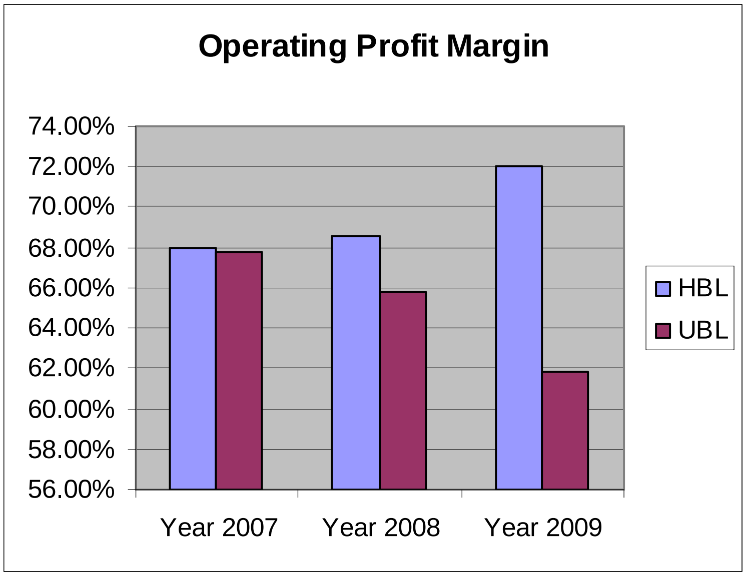
Bank	2007	2008	2009
HBL	1.90%	1.82%	1.96%
UBL	1.64%	0.99%	0.96%



The ratio, dropped in 2008 have shown signifcant improvement in 2009. This was made possible by replacement of low cost deposits and proportionate reduction in high cost deposits during 2009. While UBL's ROD has a decreasing trend over the last three years.

Operating Profit Margin

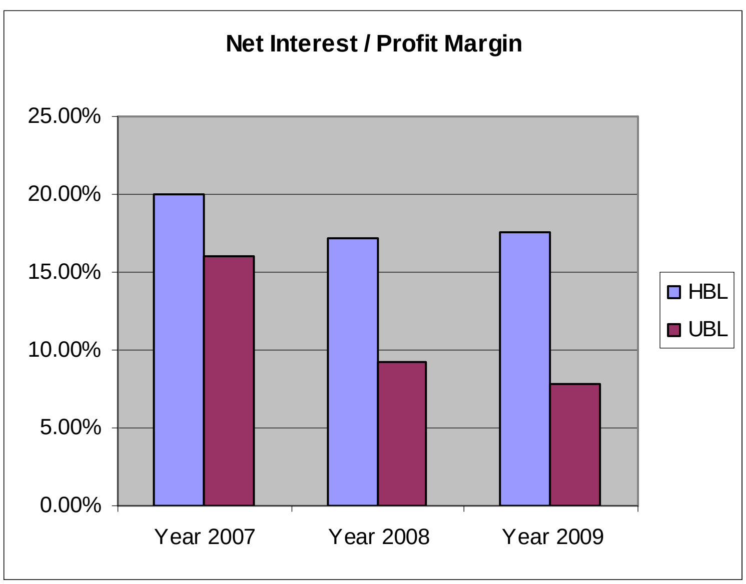
Bank	2007	2008	2009
HBL	67.94%	68.57%	72.02%
UBL	67.80%	65.81%	61.86%



HBL's Operating profit margin, shows steady increase over the last three years. UBL's OPM shows decrease over the last three years. Because of decrease in EBIT and also decrease in Sales in last three years.

Net Interest / Profit Margin

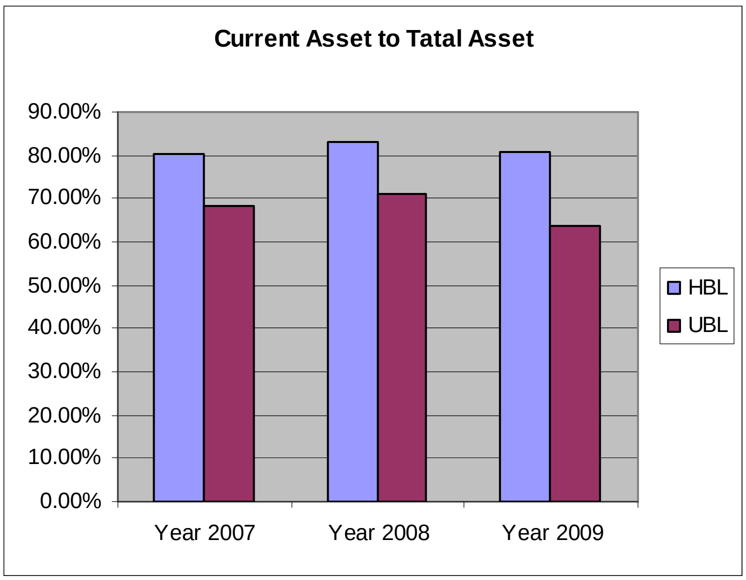
Bank	2007	2008	2009
HBL	19.98%	17.14%	17.61%
UBL	16.04%	9.23%	7.83%



In 2008, drop in ratio means that the bank's earning through interest bearing assets are being erroded by the increased expenses on acount of provisions and other over heads. The figure has shown HBL has slight improvement in 2009 but is still lower than that of 2007. And UBL has dcreasing trend over the last three years.

Current Assets to Total Assets

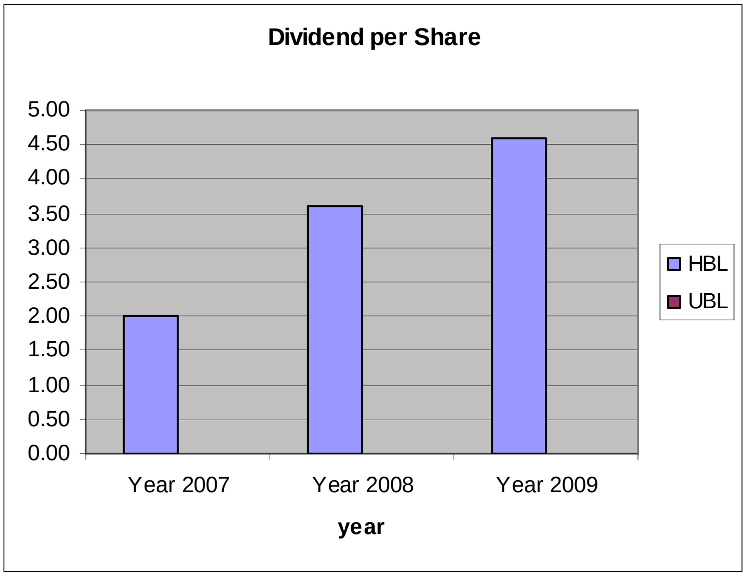
Bank	2007	2008	2009
HBL	80.39%	83.02%	80.71%
UBL	68.40%	71.21%	63.57%



For both banks, the ratio of current assets to total assets increased in 2008 as the bank reduced its exposure in long term lending. In 2009, the composition is almost regaining it position of 2007.

Dividend per Share

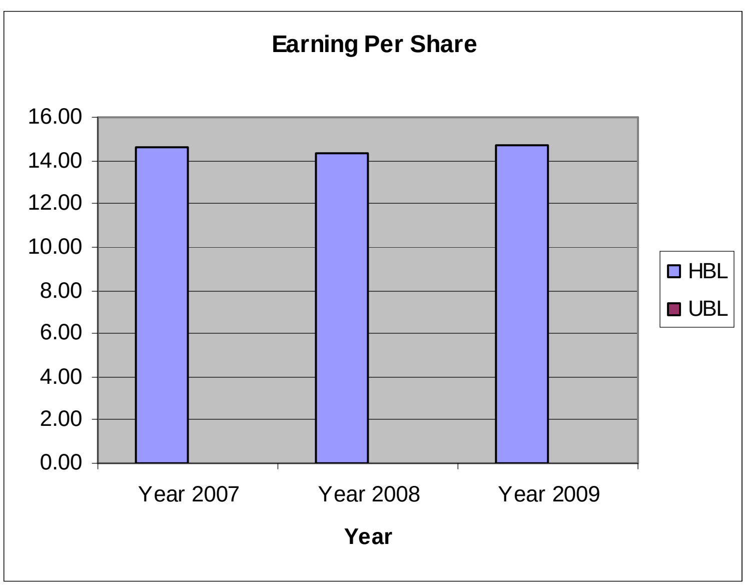
Bank	2007	2008	2009
HBL	2.00	3.60	4.58
UBL	0.0024	0.0039	0.0010



Despite the hard times on banking sector, HBL has still remained profitable for the investors with increased DPS in every consecutive year through the period. The DPS ratio which was on 2.00 in 2007 has become more than double (4.58) by end of 2009. While, DPS of UBL remain very low during last three years that is approximatly zero..

Earnings per Share

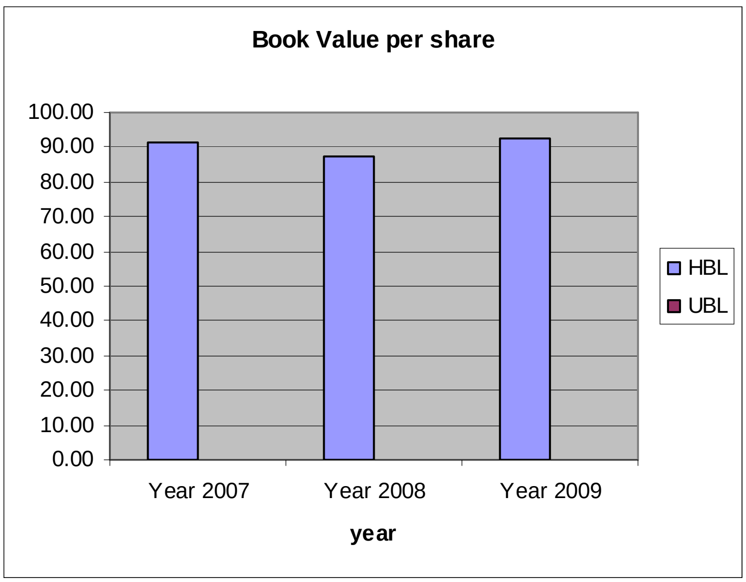
Bank	2007	2008	2009
HBL	14.61	14.31	14.71
UBL	0.0083	0.0048	0.0043



In comparison of DPS the value of UBL's EPS was additional during last three years. The eanring per share of HBL does not show a picture of the bank as attractive as DPS. The EPS was dropped in 2008 as the bank had to be content with lower earnings in the tough year of 2008. However, the EPS has rebounded in 2009 due to better performance of the bank in terms of profitability.

Book Value per Share

Ratio Name	2007	2008	2009
HBL	91.65	87.36	92.63
UBL	0.06	0.05	0.06

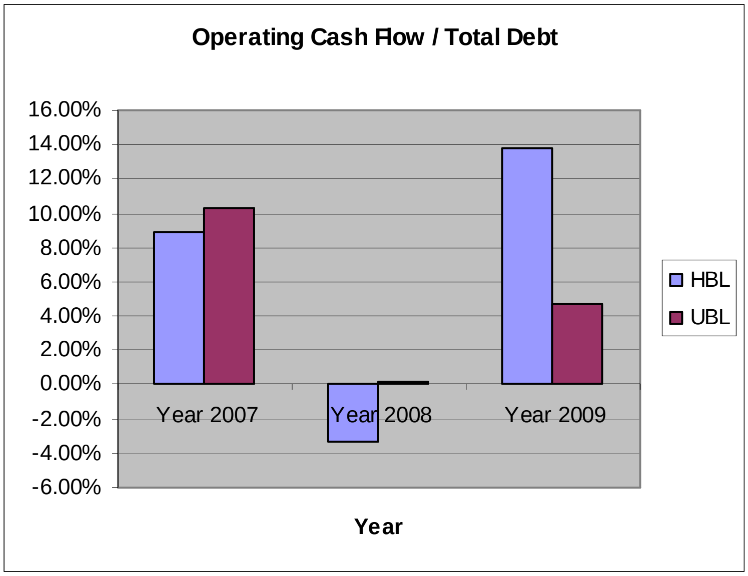


HBL's Book value per share which dropped in 2008 has shown improvement due to rise in equity in 2009.

Cash Flow Ratios

Operating Cash Flow / Total Debt

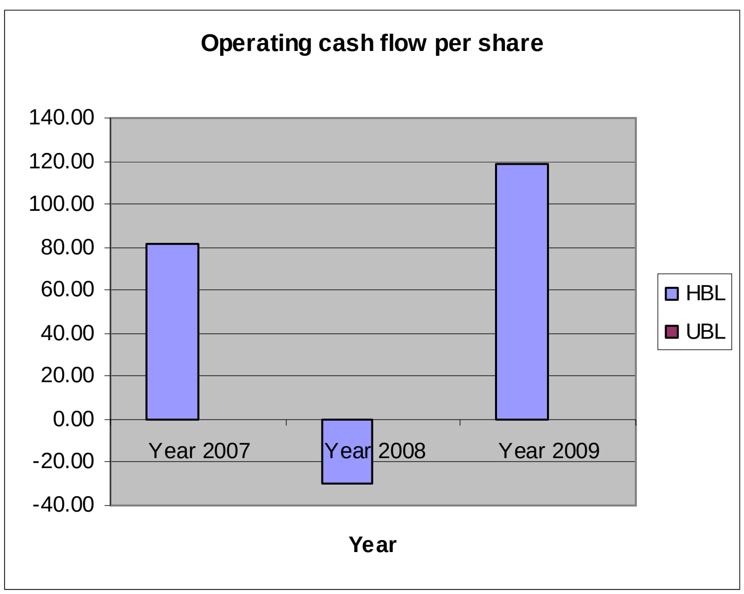
Bank	2007	2008	2009
HBL	8.94%	-3.27%	13.82%
UBL	10.34%	0.18%	4.67%



Banks' Operating cash flow over debt ratio dropped sharply in year 2008. The drop was mainly due to increased advances and interest receivables. As the banks were able to mobilize more deposits in 2009 and less advances were allowed, position of operating cash flow has significantly improved. UBL's improvement was lower than HBL.

Operating Cash Flow Per Share

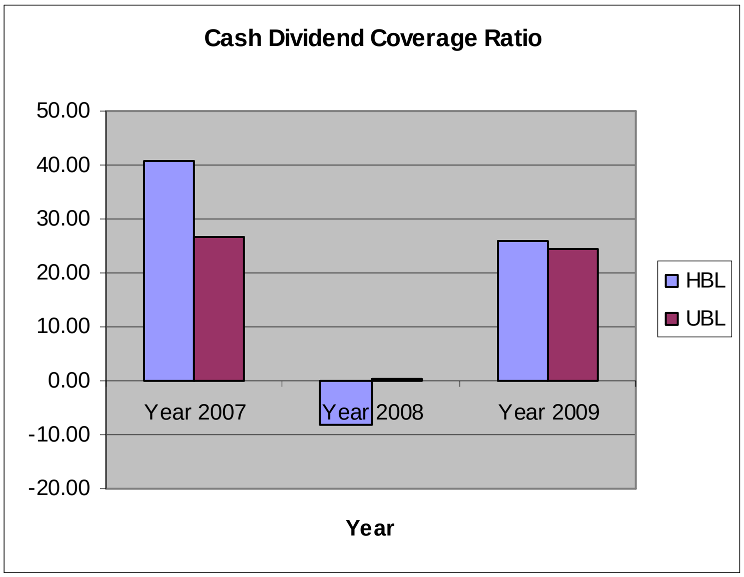
Bank	2007	2008	2009
HBL	81.48	-29.42	118.31
UBL	0.06	0.00	0.02



HBL's this ratio shows a more clear picture of the company's affairs as compared to DPS. As it is clearly seen that in 2008, the operating cash flow generated per share was in negative. Still the bank paid high dividends to keep investor's trust from shaking. UBL's ratio was near to zero so it cannot be seen on graph. However, it is a drop in UBL's ratio.

Cash Dividend Coverage Ratio

Bank	2007	2008	2009
HBL	40.71	-8.18	25.81
UBL	26.55	0.26	24.46



As, above ratio this ratio also has negative value in 2008 but shows a large increase in 2009. The increase is still low from the position of 2007.

2.2.3.2Comparison with Industry Average and Competitors

The industry averages have been computed by selecting Three banks in addition to HBL and UBL and ratios have been computed for each bank individually to calculate industry average. The selection of these banks was made in order of the balance sheet as per annual report of 2009 were selected. The banks in order of their size are listed as under:

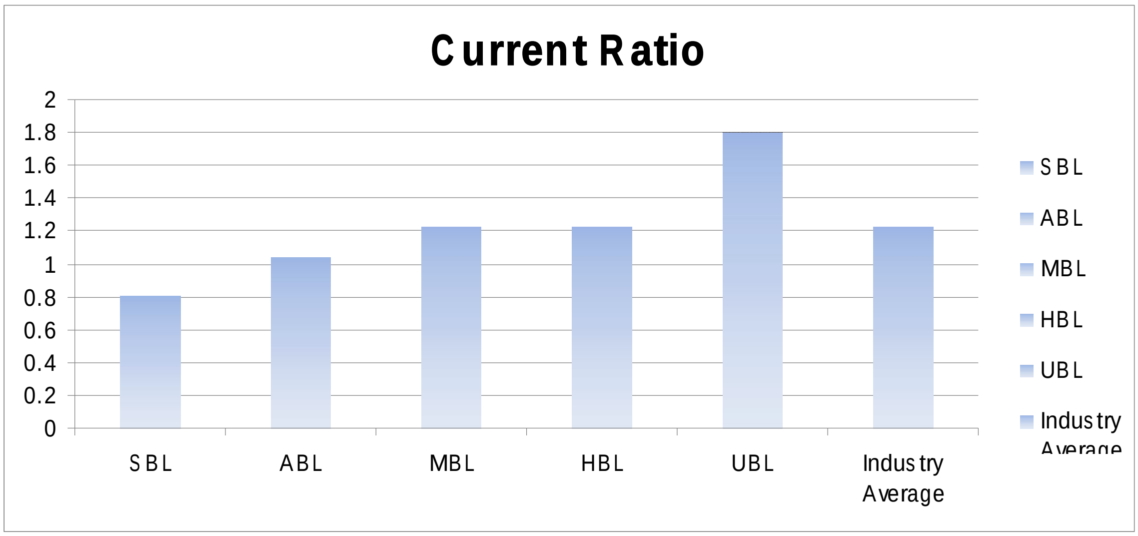
Sr. No.	Bank Name	Total Assets (FY09) (In PKR Millions)
1	Habib Bank Limited	863,778
2	United Bank Limited	640,449
3	MCB Bank Limited	509,224

4	Allied Bank Limited	418,374
5	SILK Bank Limited	68,664

The results of industry analysis and comparison with competitors are presented as under:

Current ratio

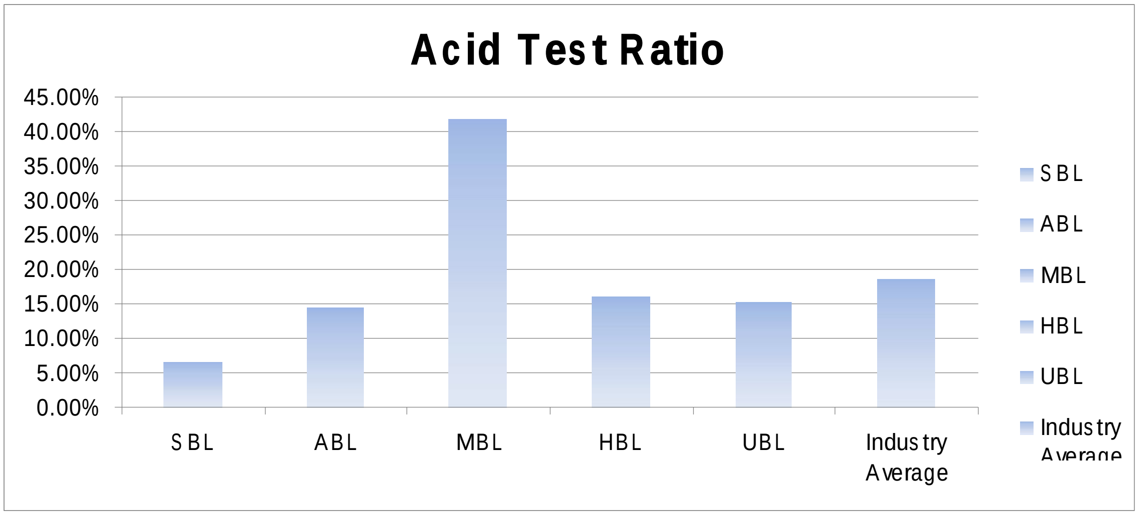
Industry Average: Ratios	SBL	ABL	MBL	HBL	UBL	Ind. Avg
Current Ratio	0.81	1.04	1.23	1.23	1.80	**1.22**



Current ratio shows company's ability to payback its short term obligations with short term assets. Above mention table shows UBL has the highest ratio with HBL & MBL at the second position and this position is also same as the Industry average. 4th is the ABL and SBL has lowest current ratio as compare to These four banks. This is very bad sign for the SBL. HBL and UBL are at good position but HBL has to inprove more to get better results.

Acid Test Ratio

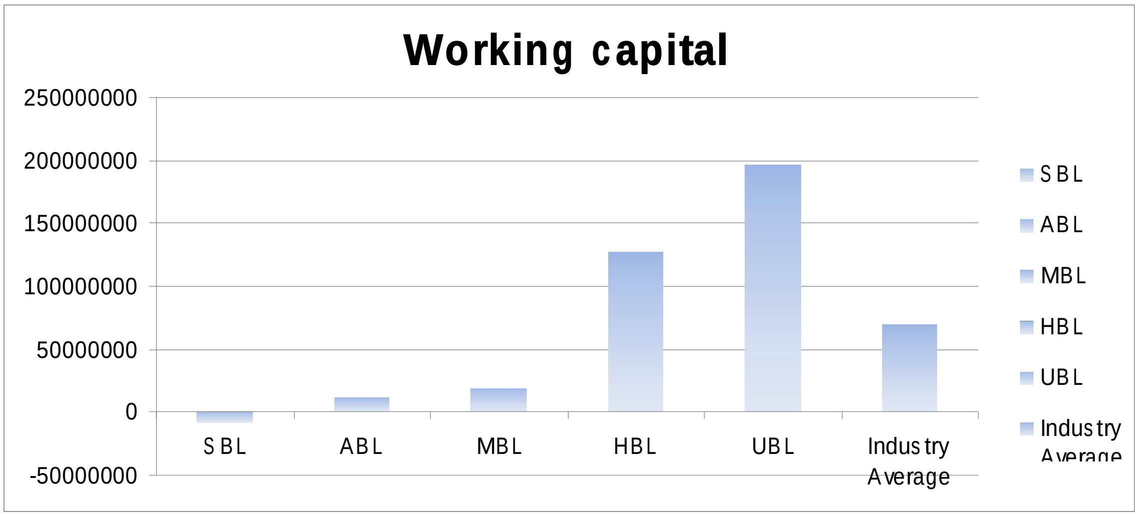
Industry Average: Ratios	SBL	ABL	MBL	HBL	UBL	Ind. Avg
Acid Test Ratio	6.49%	14.38%	41.87%	16%	15.31%	**18.81%**



The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets. Higher the percentage of Acid test ratio higher the company’s ability to meet its short term obligations with most liquid assets. Mostly If the company has less Current ratio then ultimately it has less Acid test ratio and as we see in above that current ratio of UBL was high but here its ratio is low than the average, HBL was almost on the same level. This show that both banks are mot much able to meet their ST obligations as compare to MBL. MBL have highest ratio and ABL and SBL also low than the industry average.

Working capital

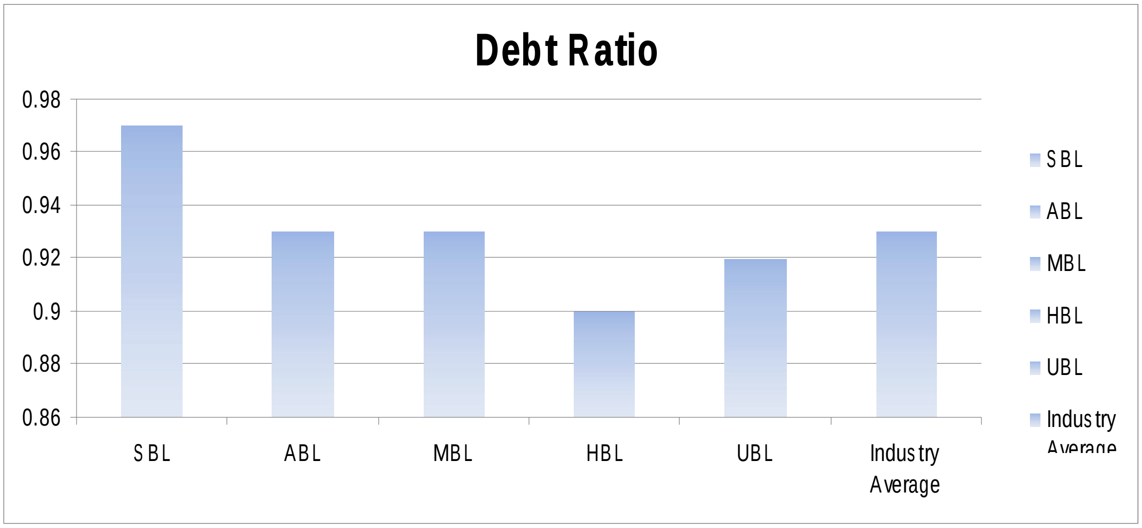
Industry Average: Ratios	SBL	ABL	MBL	HBL	UBL	Ind. Avg
Working Capital	-8135146	12384723	19144896	127983963	197098696	**69695426.4**



Working capital is difference of current assets and current liabilities. From the above figure and table we can see that UBL has highest WC than HBL on 2nd position in the above given banks. Both have good WC ratio but other banks have very low WC ratio that is very danger specially for SBL which have negative WC.

Debt Ratio

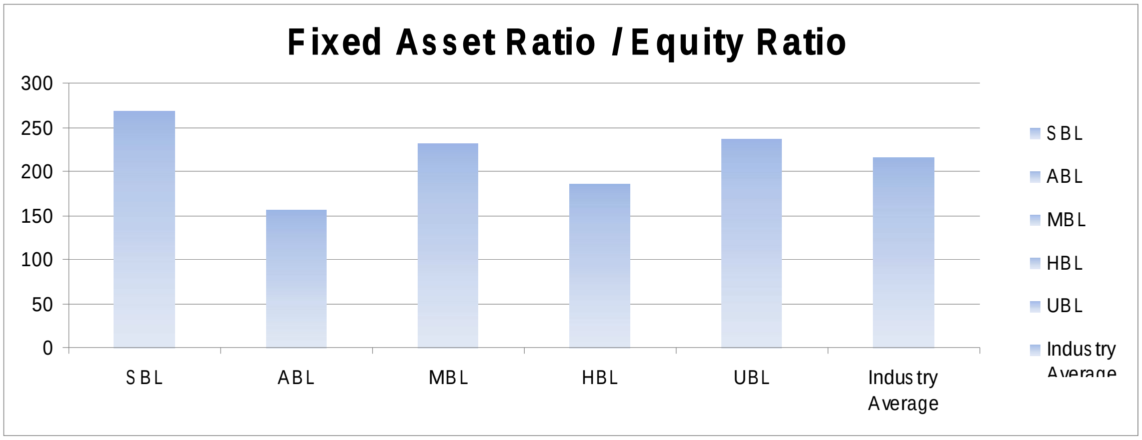
Industry Average: Ratios	SBL	ABL	MBL	HBL	UBL	Ind. Avg
Debt Ratio	0.97	0.93	0.93	0.9	0.92	**0.93**



From the above table it is clear that HBL has lower ratio which is good for the bank and UBL on 2nd position that shpws both baks have low chances of bankruptcy in comparison of other banks mentioned abpve. On obove figure we see that SBL has higher Debt ratio than HBL, UBL, ABL and MBL and industry average which shows that other banks are strong than SBL If an organization has much higher debt ratio then there will be more chance of bankruptcy. SBL has competitive Debt ratio not so bad.

Fixed Asset Ratio/Equity Ratio

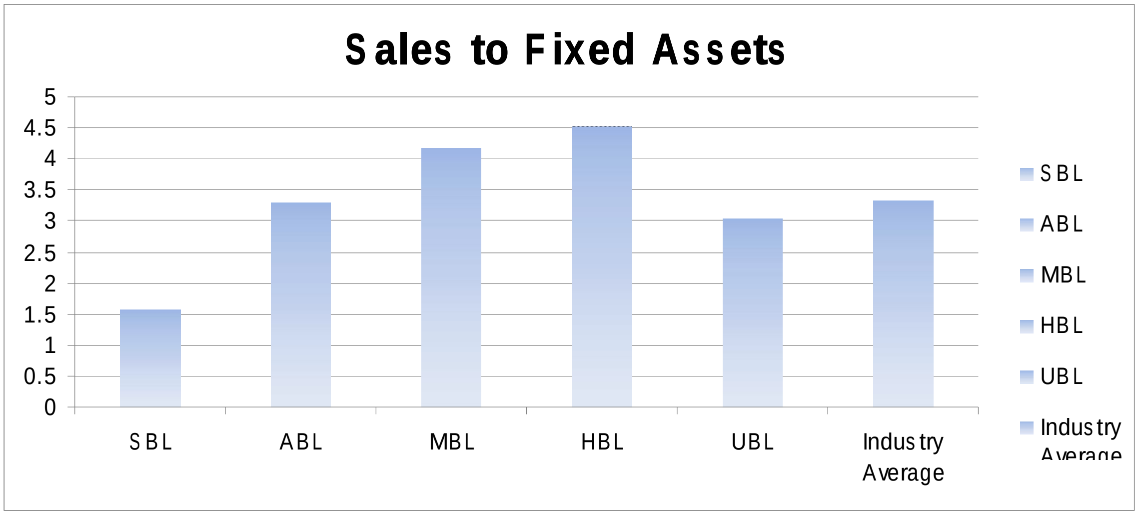
Industry Average: Ratios	SBL	ABL	MBL	HBL	UBL	Ind. Avg
Fixed Asset Ratio/Equity Ratio	268.03	156.96	232.42	185.51	236.55	**215.894**



HBL and UBL are nearly low and above the average ratio respectively. They have on saitisfactory position. This ratio much varies year to year

Sales to Fixed Assets Ratio

Industry Average: Ratios	SBL	ABL	MBL	HBL	UBL	Ind. Avg
Sales to Fixed Assets Ratio	1.59	3.3	4.18	4.54	3.03	**3.328**



Sales to fixed assets ratio indicate that how well the bank is using its fixed assets to generate revenues. HBL has highest ratio in all above mentioned banks. While, UBL almost on the industry average.

3 SUMMARY

The purpose of this study was to conduct comparative financial statement analysis of Habib Bank Limited (HBL) and United Bank Limited (UBL) for the last three years. HBL and UBL are among the largest and oldest banks of Pakistan. Data related to the two banks has been gathered through online material available on their relevant websites. Consolidated annual reports for the year 2007, 2008 and 2009 were obtained from Habib Bank Limited and United Bank Limited websites. The financial statement for the year 2010 was not available so, previous years' Financial Statements are analysed. Financials of HBL and UBL has been analyzed by applying various analytical tests and techniques. The data obtained from financial statements was processed using Microsoft Excel spreadsheets. These techniques included ratio analysis, horizontal analysis, vertical analysis, trend analysis and comparison of key financial ratios with industry averages.

This comprehensive analysis of financial ratios resulted that although these two banks are similar in terms of many financial ratios and trends; many changings have been identified in the financial performance of the two banks. Extensive analysis overwhelmingly paints a picture of both banks as financial performance has been negatively affected by increasing bad loans, higher interest rates and higher NPL ratios. However, the banks have been flexible enough to face the downturn so far and have been able to keep their accounts in black.

Cash flow management of both companies was harmfully affected. UBL performed better in terms of cash flow management. Ratio analysis revealed that Habib Bank Limited has carried out better in terms of profitability, leverage and operational efficiency, whereas United Bank Limited was better of the two in terms of liquidity, capital sufficiency and asset worth.

By conducting trend analysis of the two companies, it has been observed that UBL performed better in year 2008, while HBL's performance during 2009 was higher than that of UBL. In 2008, UBL performed better in asset growth, portfolio quality, expense control and profitability. However, the bank could not transform the same drive in next year. Although, HBL is low performer in 2009, have improved rapidly and has shown improvement in most of the important areas including profitability, capital sufficiency, portfolio quality and asset growth.

By comparing the key financial ratios of both HBL and UBL with peer banks, the following observations have been deduced:

HBL has performed better than with industry average in terms of profitability. However, in sales to fixed Asset ratio, Debt Ratio.

UBL on other hand has performed better than industry average in terms of current Asset, working capital.

4 CONCLUSIONS/FINDINGS

From all above analysis of both banks it has been concluded that last three years were very tough for baking sector of Pakistan. The reasons were behind this are: crashing of US sub-prime mortgage market and an alarming situation of country. As, we know that, Pakistan is facing high inflation, poor law and order situations. These factors also affect all types of business sectors.

In the face of numerous challenges faced by the banking sector, there is a dread that global banking giants are wrapping up their operations in Pakistan, since they are increasingly become less competitive due to various factors. This analysis is supported by the fact that market confidence in global giants like Citibank, RBS, HSBC and Barclays' is at an all time low at the moment. However, the national banking companies, having stakes in their own endurance, are more dependable while making investment decisions and have shown high level of flexibility against the economic condense.

If we compare HBL and UBL in a very simplistic form the following findings may be deduced from the above conducted financial analysis:

Habib Bank Limited:

- Sales to Fixed Asset
- Debt Ratio

United Bank Limited:

- Better Asset quality
- Better Working Capital

Hence, where HBL is more profitable and offers higher returns, investment in United Bank limited will be more secure and less risky.

R E C O M M E N D A T I O N

Following measures are suggested for management to be taken from all above analysis:

Habib Bank Limited

During 2009, Habib Bank has performed a good deal in terms of getting better growth and salvage its financial position. With a positive outlook, HBL has been able to absorb the shock of a troubling 2008. On the other hand the variation pointed out as under may cause problems for the bank in smooth running of the business:

The profitability of the bank has been decreased over the last two years, which has to be improved now. Bank has to make more deposits and use these in money-making projects to increase its profitability. Focussing on commercial market and taking hold of businesses with requirement of transactional banking will not only help in generating low cost liabilities and improving operation cash flows, but will also help the bank to regain the share of non-funded income that it is losing.

Capital sufficiency and coverage to be further improved by internal capital generation. Dividends payout may be reduced to fund equity and provide more cushion against delinquent assets.

United Bank Limited

During the year 2009, UBL's financial health has weakend due to Increased interest expense and lower non-interest income has also eroded bank's profitability. Provision costs and write-offs appears flexible and strong in terms of capital sufficiency and asset worth. The following measures may be taken for a better performance in the coming years:

A selective interest rate amendment exercise may be conducted to increase interest income. Yield on advances need to be improved. Additionally business from existing borrower may be captured to further improve non-funded income and create a float of current deposits.

A strong recovery and collection team should focus on recovery of bad loans and reduction in the average collection time period. Currently, the proportion of high cost fixed deposits is very high. The deposit mix must be shifted to low cost deposits The long term advances on the other hand are mostly subsidised being export oriented projects under SBP export refinance scheme. This has reflected adversely on the net interest income of the bank. Long term loans may be capped and more focus must be towards working capital loans. This will not only improve profitability of the bank but also further enhance liquidity.

Section II

5 Introduction of the student

- **Last Degree Obtained:** ICS
- **Organization's Name:** Sir Syed Girls High School, Farooq Abad
- **Designation:** Mathematics Teacher
- **Experience :** 5 months

6 Appendix/Appendices

- Appendix A – Scanned Copies of Financial Statements (available on websites mentioned in Bibliography section)
- Appendix B- Working Spread Sheet for Financial Statement Analysis

7 Limitations

This project was related to the financial analysis of two banks, HBL & UBL. All the study was done through the internet resaerch and the financial subjects which were coverd during BBA course. During internet search many times I face difficulities to get the required data or file. Required & right information was searched from different websites of banks and some other financial sites. Financial statemants for the FS2010 were not available whan I started my search on this project so, I have to start study of financial statements from 2007 to 2009. Preperation of working on excel sheet, Ratio calculation, Trend analysis, then Vertical and horozontal analysis were done, which take a lot time. Othet portions were also coverd according to my understandings.

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