**RATIO ANALYSIS AND INTERPRETATIONS:**

1. **Profitability Ratios**

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| --- | --- | --- | --- | --- | --- |
| **Profitability Ratios** |  |  |  |  |  |
| Net Markup / Interest income | 45587 | 48421 | 41507 | 32115 | 31578 |
| Net Markup / Interest margin Ratio | 9.54 | 10.86 | 13.76 | 8.47 | 7.99 |
| Return on Equity | 13.61% | 13.70% | 12.23% | 12.00% | 11.93% |
| Return on Assets | 0.86% | 1.13% | 0.95% | 0.95% | 1.02% |
| Non Interest Income to Total Assets Ratio | 0.79 | 0.79 | 0.74 | 0.84 | 0.70 |
| Net Interest Income after Provision to Total Assets | 2.27% | 3.04% | 2.80% | 2.38% | 2.53% |
| Interest Ratio | 61.58 | 56.20 | 66.15 | 56.17 | 51.94 |
| Operating Expenses to Profit Before Tax | 1.19 | 1.03 | 1.14 | 1.11 | 1.05 |
| Non-Interest Expenses to Total Income | 0.26 | 0.21 | 0.21 | 0.26 | 0.22 |
| Earnings per Share | 15.12 | 15.75 | 12.33 | 11.25 | 11.12 |

* **Net Markup/Interest Income**

It is the amount of Net Markup/Interest Income earned by the bank. It increased drastically after the COVID-19 pandemic which caused high inflation due to which interest rates became higher through which banks gained high interest income.

* **Net Markup / Interest margin Ratio**

This ratio indicates the earning capacity through core banking business by utilizing all assets. Banks normally borrow from savers and lend to investors. It is the ratio between the difference of interest income and interest expense to total assets.

* **Return on Equity**

This ratio expresses the return on shareholders’ equity. ROE is a direct measure of returns to the shareholders.  It is calculated as a percentage of the net profit after tax to total Shareholders’ equity.  It is also useful for whole financial sector. ALLIED BANK’s ROE remained stable with some minor growths over the last five years.

* **Return on Assets**

This ratio expresses the capacity of earning profit by a bank on its total assets employed in the business. It is calculated as percentage of net profit after tax to total assets. It is useful for whole financial sector. It remained more or less same till FY2020 but dropped by 0.3% in FY2021 which is not a big deal.

* **Non-Interest Income to Total Assets Ratio**

Ratio on incomes earned other than mark-up e.g., capital gains, commission, fee to total assets etc. This ratio expresses how much income is earned other than mark-up through other functions of the bank by employing total assets. After FY2017, it has been increased from 0.7 to almost 0.8 due to the boom in digitalization which opened more revenue streams for the bank.

* **Net Interest Income after Provision to Total Assets**

This is the ratio between interests earned less provision to total assets. It peaked at 3.04% in FY2020 but decreased again in FY2021 because of the major increase in total assets of the bank.

* **Interest Ratio**

This ratio expresses the payment of interest mainly to depositors. The lower the ratio, the less the company is burdened by debt expenses. It increased from 52 to 66 during FY2017-19 and lying currently at 62 which is not a good indictor for the bank as it is the cost of fundings.

* **Operating Expenses to Profit Before Tax**

This ratio expresses the relationship between administrative expenses and profit before tax. It is useful for whole financial sector. It has not moved much and remained around 1. Increased in this ratio means less profit for the bank.

* **Non-Interest Expenses to Total Income**

The ratio expresses the percentage of non-interest expenses to total income which reflects efficiency of management in applying the banks’ resources. No drastic changes in this ratio as well which means the bank is efficient in applying the bank’s resources.

* **Earnings per Share**

EPS is the ratio between net profit after tax to number of shares outstanding at the end of the year as shown in balance sheet and its relevant notes to accounts. Eps has been increased from 11.12 in FY2017 to 15.12 in FY2021 because of the higher interest rates in the country and more investments in T-bills by the bank which gives them more profit with lesser risk.

1. **Liquidity Ratios**

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| --- | --- | --- | --- | --- | --- |
| **Liquidity Ratios** |  |  |  |  |  |
| cash and balances with banks to total assets | 6.23% | 8.53% | 8.14% | 7.53% | 6.88% |
| investment and total assets | 53% | 52% | 51% | 50% | 56% |
| advances and total assets | 0.33 | 0.32 | 0.34 | 0.34 | 0.31 |
| advances to deposits ratio | 0.47 | 0.42 | 0.48 | 0.46 | 0.44 |
| total deposit and other accounts to total assets | 70% | 76% | 71% | 73% | 71% |
| total liabilities to total assets | 6% | 8% | 8% | 8% | 9% |
| gross advances to borrowing and deposits | 0.36 | 0.36 | 0.38 | 0.37 | 0.35 |

* **cash and balances with banks to total assets**

This ratio expresses the percentage of total assets available in the form of highly liquid assets. This ratio was increasing at a good pace till FY2020 but got decreased by 2% in the FY2021 because the ALLIED BANK has decreased its liabilities by 2% in the FY2021.

* **investment and total assets**

This ratio indicates the portion of total assets used for investment in various avenues. They have been constantly keeping it above 50% which is a good indicator.

* **advances and total assets**

This ratio expresses the relationship of advances (net) to total assets. No considerable movement in this ratio means the advances are being made carefully with low risk.

* **advances to deposits ratio**

This ratio expresses the relationship of advances to total deposits. It increased from 0.44 to 0.48 in three years and then took a dip to 0.42 in FY2020 due to high interest rates but moved to 0.47 again in FY2021.

* **total deposit and other accounts to total assets**

The ratio shows what percentage of total assets comprises total deposits and other accounts. This ratio remained stable till FY2019 but increased by 5% due to the high interest rates in FY2020. ALLIED BANK managed to decrease this ratio by 6% by increasing their total assets in FY2021.

* **total liabilities to total assets**

The ratio shows the proportion of banks assets, which are financed through debt. It remained stable overall with a notable decrease of 2% in the current FY2021.

* **gross advances to borrowing and deposits**

This ratio shows activity of a banking business as it reflects that advances are being made more/less than deposits. On average 36% of borrowing and deposits are advances.

1. **Assets Quality**

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| --- | --- | --- | --- | --- | --- |
| **Assets Quality** | 2021 | 2020 | 2019 | 2018 | 2017 |
| NPLs to Gross Advances | 0.02 | 0.03 | 0.03 | 0.04 | 0.05 |
| Provisions against NPLs and Gross Advances | -0.02 | -0.03 | -0.03 | -0.03 | -0.04 |
| NPLs to Equity Ratio | 0.11 | 0.11 | 0.14 | 0.15 | 0.17 |
| Coverage Ratio | -0.94 | -0.97 | -0.96 | -0.97 | -0.93 |

* **NPLs to Gross Advances**

This ratio expresses the quality of loan portfolio of a bank. This ratio has been decreased from 5% to 2% over the years which is a good sign for a bank because they are giving advances with low risk.

* **Provisions against NPLs and Gross Advances**

The ratio between provisions against classified loans/advances to gross advances reflects the quality of advances of bank. This ratio has been decreased from 4% to 2% over the years which is also a good sign for a bank.

* **NPLs to Equity Ratio**

The ratio between NPLs to shareholders’ equity indicates the exposure of the common shareholders to NPLs. It has also been decreased over the years from 0.17 to 0.11 which is a good indicator.

* **Coverage Ratio**

This ratio reflects what percentage of provision has been made against NPLs. It was increased from 0.93 to 0.97 in the FY2018 and remained stable since then, with NPLs decreasing over the years is also a good indicator for a bank.

1. **Capital/Leverage Ratios**

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| --- | --- | --- | --- | --- | --- |
| **Capital/Leverage Ratios** | 2021 | 2020 | 2019 | 2018 | 2017 |
| Capital ratio | 0.06 | 0.08 | 0.08 | 0.08 | 0.09 |

* **Capital ratio**

This ratio shows shareholder’s equity against total assets of a bank. It remained stable till FY2020 but decreased a bit in FY2021 which is not a good indicator because high capital ratio indicates that a bank is in better position to deal with unexpected losses.

1. **Cash Flow Ratios**

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| --- | --- | --- | --- | --- | --- |
| **Cash Flow Ratios** | 2021 | 2020 | 2019 | 2018 | 2017 |
| Cash Flow to Profit after Tax | 14.97 | 6.84 | 7.01 | 2.61 | 9.41 |

* **Cash Flow to Profit after Tax**

The ratio expresses proportions of cash being spun off from ongoing operations. This ratio is useful for the whole financial sector. This ratio also shows how well your business can convert sales to cash. It decreased from 9.41 to 2.61 in 2018 as there was a sharp decline in the bank's cash flow from operating activities. From 2018 to 2021, it increased which indicates a positive sign that cash flow from operations improved.