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# Impact of Privatization of Banks on Profitability of Banking Sector in Pakistan

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**Abstract**
This study has been done to investigate the impact of privatization of banks on their profitability. For this purpose researchers selected the three banks for their analysis which are Allied Bank Limited (ABL), Habib Bank Limited (HBL), & Muslim Commercial Bank (MCB). Researchers have selected the ROE, ROA, Capital (Investment), Size (Total Assets), & Deposits as their Research Variables. In order to analyze the impact of Privatization on banks profitability researchers selected the dual Methodology in which they first analyze the profitability ratios of selected banks after and before the Privatization takes place, and secondly employed a t-test model to drive desired results. The results suggested that there is a significant positive impact of Privatization of particular banks on their profitability and overall profitability of banking sector of Pakistan.
**Keywords:** Pre-Privatization, Post-Privatization, ROA, ROE, Deposits, Capital

## 1. Introduction

Privatization is the exchange of responsibility for possessed foundations to the private part. It may be impart issue privatization, holding deal privatization, voucher privatization. Privatization deliberations in Pakistan started in Pakistan in 1988, when the banks were dealt with as the business trades. Bosses were employed on the political builds rather than in light of the legitimacy bases. More extensions were opened bringing on over occupation. There were no prepared experts, less client eminence, plan shortage, remote obligation load, exchange deficiency, disequilibrium to be determined of installments, expanding non-performing advances. The execution of Government claimed banks were at disturbing level, there was absence of the fiscal orders. Privatization has been an imperative perspective everywhere throughout the world particularly the creating nations of the world like Pakistan. Two banks ABL and MCB were privatized in the decade of 1990 to 2002. A privatization commission was built in 1991. The fundamental motivation behind privatization is to enhance the execution of saving money division like holding quality, capital sufficiency, acquiring gainfulness and liquidity.

In 1991 Allied bank and MCB bank were privatized and the responsibility for was exchanged to consortium containing Ibrahim Leasing Limited and Ibrahim bunch. Responsibility for was exchanged to Nishat Group lead consortium in 1991. HBL was privatized in 2003 when legislature of Pakistan immovably handover the administration control to Agha Khan Fund for Economic Development (AKFED). In 2002 UBL was privatized with the proprietorship exchanged to Best Way Abu Dhabi bunch. The fundamental motivation behind our study is to check the effect of privatization on profitability of banks in Pakistan. Non-performing credit is either default or shut to being in default. In the event that debt holder begins making installment again on a non- performing advance, it turns into a re-performing credit regardless of the fact that the indebted person has not made up for lost time with all the missed installments. At the point when advance goes default most extreme three months then that credit is think about to be a non-performing credit.

Profitability is characterized by State bank of Pakistan into distinctive classifications as per their recuperation. On the off chance that the sum gained is short of what 75% of receivable and past due by more than 180 days, it treated under the head of "Different Assets uniquely specified". On the off chance that the sum recouped is short of what 60% and over due by more than 1 year is dealt with as "substandard". In the event that the sum recouped is short of what 10% and past due by more than 2 years is dealt with as "dubious". Additionally if the sum recuperated is short of what 2% and late by more than 3 years, treated as "misfortune". The principle purposes for the event of non-performing advances are because of the moneylenders need plan to manage danger, lessened proposition to borrowers, moving alongside the danger bend, feeble credit operations; expanded advance size expanded the danger. In 1980 Italian business confronted an expansion in the non- performing advances because of high theory in land market.

The speculators were more intrigued to put their cash in land advertises as the budgetary state of Italian markets around then was so great. Speculators were taking more credits from banks to acquire from guessed costs in land advertises however as the rise of theory rush in land, the financial gurus confronted a tremendous misfortune and get unable to pay back the advance to banks. The rate of non-performing credits in Italy was helped by land. An alternate reason of increment in non-performing advances in Italian markets was the poor strategies of credits recuperation. The administration laws disaffirmed the keeping money strategies for advances recuperation. The financier borrower connections additionally helped build in non-performing credits. This relationship debilitated the credit control strategies, as there was no nitty gritty examination transform before the authorization of credits. The same issue was seen in Swedish fiscal markets where the non-performing credits created the monetary emergencies. They were centering just on expanding the advance volumes and did not give careful consideration to money stream forms. Our study is focused around the four banks which were privatized in Pakistan and expected to watch whether the privatization has diminished the measure of non-performing credits or not.

## 2. Literature Review

Privatization is acknowledged to be an apparatus to enhance the profitability of banks. Caribbean advancement and collaboration advisory group (2001) directed a study to watch the effect of privatization on the managing an account part in Caribbean. A huge change in the execution of banks was watched. Developments, benefits and expanded development in the wide cash to GDP was seen however it likewise expanded the working cost and premium rate spread. Megginson,w.l (2003) thought about the execution of state possessed saves money with the private banks and discovered a noteworthy distinction in the execution of private claimed banks. The exact confirmations indicated that the state claimed banks are less productive than the private possessed banks. Hussain,i (2004) watched that change might be attained by privatizing the banks to some private mogul rather than representatives of that bank, as on account of Allied Bank Limited who's possession was exchanged to its workers yet it was an awful encounter as the post-privatization execution was short of what pre-privatization execution. Rather than this present MCB's proprietorship was exchanged to a gathering of private vital mogul that brings about an effective way.

One study directed by Jessica and Isac (2004) available of Italy and Sweden and portrayed the two routes for securing non-performing advances in little markets like Sweden, it is better to handle by banks himself, while in unfathomable markets like Italy, the closeout openly to possession administration organizations (Amc's) is better. After further examination it was seen that notable movements of government, credit society and administration choices significantly brought about the spread of non-performing advances. Both strategies for taking care of non-performing credits are paramount and they are to be utilized as indicated by particular national conditions. Bonin, J.p, Hassan, I & Wachtel, P (2005) concentrated on the examination of remote possessed banks and government-claimed banks in six generally progressive nations, Bulgaria, the Czech Republic, Croatia, Hungary, Poland and Romania. It was discovered the outside possessed banks more effective than government-claimed banks. Two critical variables that influence the proficiency of banks are the timing of privatization and the strategies for privatization. Beck, T, Cull, R & Jerome, A (2005) the Nigerian banks execution for the time of 1990-2001 was seen to know the impact of privatization.

The banks that were privatized indicated enhanced execution while the administration claimed banks were in awful condition. Islam, S, M (2005) directed a study to discover the reasons and outcomes of non-performing credits and depicted that non-performing credit can't be stayed away from yet can deal with in a savvy capable manner. Advances are defaulted because of poor arrangements to manage danger, diminish considerations to borrowers, moving along the danger bend and absence of great models. The profitability advances might be recouped opportune by promptly hazard appraisals, inspiration, and lawfulness circumstance, helped from recuperation organization, diminishing unwinding, creating circumstance particular models, ongoing preparing, customary checking and exchange off. Khalid, U (2006) the effect of privatization and liberalization was watched which indicated a change in the saving money pointers of Pakistan. Khan, B (2006) Pre and Post privatization effect was seen on banks in Pakistan. It was reasoned that there was a critical change in liquidity degrees, productivity, stores and profitability advances after privatization. Umer (2006) utilized CAMELS structure of monetary pointers to depict the impact of privatization and liberalization on the execution of keeping money segment of Pakistan. Privatization brought about enhanced the greater part of money related markers specifically the execution of privatized banks has been short of what agreeable principally because of poor indicating of ABL whose proprietorship was exchanged to its representative's bunch. Imran and Tariq (2009) did an optional information based result to see whether the privatization lessened the extent of profitability advances and expanded the execution of banks or not.

They contemplated the time of 1990 to 2004 throughout which MCB and ABL were privatized under the nature, exploratory too distinct examination was carried out by the utilization of SPSS programming and discovered a positive effect of privatization on profitability advances and enhanced execution. Takashi watched the Japan's knowledge of non-performing advances, that how they influence the genuine economy. A relationship between the expansion in privatization advances and impacts on economy was acknowledged. Bakhtiar examined the two banks MCB and ABL to comprehend the effect of privatization on the saving money part Pakistan.
The privatization effected on the proficiency, economy, business, and new item administrations and additionally effected nature's turf. Change in liquidity proportions, stores, gainfulness, new items and administrations indicated the enhanced proficiency of managing an account part, preparation of investment funds expanded credits, developments and speculation demonstrated enhanced economy. The effect was likewise seen on workers as pay and compensation expanded number of representatives diminished yet not at the disturbing level. In the wake of contemplating the effect of privatization on economy, managing an account area and impact on non-performing credits by utilizing diverse models and strategies i.e CAMELS or CLSA, an exertion is made to watch the effect of privatization on the non-performing advances of banks in Pakistan. The research variables discussed in this paper are ROA, ROE, Capital (Investments), Deposits, Size (Total Assets). Through these variables we can clearly identify how privatization affect profitability of banking sector in Pakistan.

## 3. Privatization of Banks

In 1977 it was observed that the monetary circumstance of numerous commercial enterprises particularly banks is not acceptable and they are enduring misfortune. There was absence of choice making, productivity and venture was likewise restricted. So as to defeat this circumstance the legislature of Pakistan has chosen to privatize the banks. The study is focused around the privatization of four banks i.e. Partnered bank Limited, United bank Limited, MCB, and Habib bank Limited previously, then after the fact privatization.

*3.1 Allied Bank Limited (ABL)*

Allied Bank was the first Muslim bank which secured in Pakistan as the Australian bank in Lahore with a paid up offer capital of Rs.0.12 Million under the executive boat of Khuwaja Bashir Bux. ABL has a history of more than sixty years of saving money operation and having 750 limbs. Allied bank is coming out on top with the biggest system of ATM's countrywide.

3.1.1 Pre-Privatization

As ABL was the main Muslim bank and structured on Aug 14, 1947, it confronted numerous mobs in East Punjab. A large number of its extensions in India were shut down and new limbs in Karachi, Rawalpindi, Peshawar, Sialkot, Sargodha, Jhang, Gujranwala and Kasur. In 1974 the bank was renamed Allied Bank Limited because of the determination of Board of chiefs of Australasia Bank. The benefit in the first year surpasses Rs.10 Million. Stores expanded by half and arrived at Rs.1460 Million. Speculation expanded by 72% and developments surpasses Rs.1080 million and it was without precedent for the historical backdrop of bank. The seventeen years of the Bank saw a fast development. Extensions expanded from 353 in 1974 to 748 in 1991. Stores rose from Rs.1.46 billion, and Advances and ventures from Rs.1.34 billion to Rs.22 billion throughout this period. It likewise opened three limbs in the UK.

3.1.2 Privatization

After MCB, Allied Bank was the second bank in general society segment to be privatized. In September 1991 ABL was privatized through an Employee Stock Ownership Plan (ESOP). On September 9, 1991, 26% shares were sold to the Allied Management Group, which spoke to the representatives of ABL at a cost of Rs.70 for every offer. On August 23, 1993, an alternate 25% shares were sold to AMG at a cost of Rs.70 for every offer.

3.1.2 Post-Privatization

After privatization, Allied Bank enrolled a remarkable development to turn into one of the head monetary organizations of Pakistan. Associated Bank's capital and stores were Rs.1.525 Billion and possessions added up to Rs.87.536 Billion and stores were Rs.76.038 Billion. Associated Bank appreciated a fortunate position in the budgetary area of Pakistan and was perceived as one of the best amongst the real banks of the nation. In 1999, it transpired that one of ABL's significant defaulters had acquired about 35-40% of ABL shares from representatives yet in July 1999, the State Bank forced confinements on the exchange of shares from workers to non-representatives. On August 3, 2001, the SBP evacuated the Chairman and three Directors from the Board of ABL, who was likewise workers of ABL, as they were discovered to be working against the premiums of ABL and its contributors and selected another Board to care for the issues of the bank. In April 2003 the State Bank started the methodology of remaking of the bank and exchange of its proprietorship to one of the current money related foundations in the private part that will gain key shareholding. In August 2004 as an aftereffect of capital remaking, the Bank's possession was exchanged to a consortium containing Ibrahim Leasing Limited and Ibrahim Group.

*3.2 United Bank Limited (UBL)*

UBL formed in 1959 and after this among the important banks in Pakistan with regards to build up and improvements that has a large home-based and intercontinental multilevel. UBL is usually a Banking Firm, which is involved in Professional & List Banking and related services domestically and abroad. A professional team has been designated within the middle regarding 1997 when it comes to restructure the financial institution and start rightsizing. UBL management is usually along the way regarding rationalizing it part multilevel and identifying and recouping to unsure and labeled account. It's thought to initiate important changes in client services and central techniques to further improve performance regarding standard bank. Additionally, it expects to introduction impressive products. The lending company is growing resource mobilization by means of regular down payment campaigns and augmenting the process regarding restoration regarding excellent improvements and non-performing resources.

3.2.1 Pre-Privatization

Following the history retrogressive, after it was suggested that UBL privatized has recorded the heaviest fall in gainfulness in 1994. The pretax benefit diminished from Rs.275 million in 1993 to Rs.59 million in 1994 - a disturbing decrease of 79%. Since nationalization, around two decades back, progressive governments named administration had doled out around Rs.17 billion (25% of all developments) worth of non-recoverable credits as politically affected developments. This is basically Rs.17 billion of contributor's trusts offered out to top choices who are currently either unwilling or not able to pay them back. The bank, subsequently, is currently being run with an expected negative total assets of more than Rs.12 billion The Bank's 28 outside extensions were beneficial yet a substantial number of its neighborhood limbs keep on bringing about overwhelming misfortunes. On top of it the impact of Union and political weights, to the level of rendering the administration powerless, has brought about 40% of its credits being termed "non- performing". The bank was additionally enduring a surplus staff of about eight thousand in its aggregate quality of 22,500, whose future hangs in instability. Furthermore over-staffing the bank likewise experiences non- professionalism, planned violation of guidelines, inefficient consumptions and absence of responsibility.

3.2.2 Privatization

In 2002, the Government of Pakistan sold it in an open closeout to a consortium of Abu Dhabi Group and Best way Group. Abu Dhabi Group has given Rs.12.3 billion each one getting 25.5% shares and administration control in the bank. In 2002 the bank combined its operations in the UK with those fitting in with National Bank of Pakistan to structure United National Bank Limited. United Bank claims 55% of the joint-wander and National Bank of Pakistan owning the rest of. After its privatization there was a significant increase in the profitability and other performance of the united bank limited.

3.2.3 Post-Privatization

The performance of bank after the privatization enhanced as numerous saving money makers are demonstrating. The Paid-up capital of United Bank Limited was expanded by method for reward throughout 2006, store base expanded by 16% and that was Rs.335.1 billion. Because of the universal development of bank just about 19% of aggregate stores base is assembled from the abroad limbs and it helped very nearly 52% of aggregate development in 2006. Net developments expanded from Rs.204.b billion to Rs.247.3 billion throughout 2006 both the corporate and customer loaning helped the development accomplished throughout 2006. In spite of the fact that there has been development in bank's profitability, general portfolio quality pointers have enhanced with net disease lessening to 1.1%. UBL has additionally developed to the worldwide markets as 15 extensions are made in different outside nations. Benefit before expense from these worldwide operations expanded by 31% to Rs.2.48 billion throughout 2006. All out holdings of UBL additionally expanded by 22% that is Rs.423.3 billion in 2006 from Rs.347.1 billion at the end of previous year and their profitability is also increase as compare to the past years.

*3.3 Habib bank limited (HBL)*

Habib bank restricted is the first business bank that was shaped in 1947. It remained an effective bank in Pakistan and it was positioned as a biggest private bank in Pakistan with 1450 extensions the country over. HBL is appreciate a great positioning for long haul and for transient i.e. AA for long haul and A1+ for short term. Habib bank Limited was nationalized in Zulfiqar Ali Bhutto administration and after that the execution demonstrated a positive marker. The business keeping money piece of the overall industry arrived at to 55% by internal settlements and likewise the advance plan for ranchers and little organizations. It that times the benefit of HBL was multiplied from all other business banks like MCB, ABL, NBP and UBL.

3.3.1 Pre-Privatization

Habib bank was getting a charge out of a great execution after its nationalization. In the administration of Ayub Khan another plan for advances was acquainted whose intention was with support the agribusiness part. That plan was named "Green revolution". In the administration of Junejo another procedure was formed keeping in mind the end goal to chop down the costs and for the benefit amplification and that system gave productive results. In the legislature of Shoukat Aziz, an alternate procedure was defined which intended to resign old workers by brilliant shake hand bundles and to contract adolescent, and vigorous representatives to addition the productivity in workings. It supports the bank execution as bank was appreciating immense benefits, enormous

compensation increase, rewards and other compensative motivators.
3.3.2 Privatization
Privatization of HBL was done by Dr. Abdul Hafiz on 29th Dec 2003 and as a result of that biding the management was given to Agha Khan Funds for Economic Development by 51% shares for Rs.22.409 billion.
3.3.3 Post-Privatization
A noteworthy change in the execution of bank was seen. The administration of the bank was given over to administrator of the bank. HBL first time presented the idea of corporate influence according to SBP's prerequisite because of which just the CEO was the official assemblage of the bank. It was chosen to have gathering of board after like clockwork. On the off chance that we watch the money related marker of the bank after privatization, the effect of privatization could be seen. The aggregate stores of the bank expanded by 12% throughout the years of 2003-2004. The aggregate holdings likewise expanded which decreases the danger of liquidity. Advance and developments developed by 41% and fluid possessions were diminished which were because of the speculations in distinctive portfolios and it was come about by the reduction in the non-performing advances. The net pay likewise expanded by 10%. All out consumption of the bank was expanded by 42 % which was the aftereffect of increment in stores. The non-performing credits were diminished by 56%. Very nearly 46 limbs were shut that were non-productive.

**4. Research Methodology**
The main purpose of this study is to evaluate the performance of the banking system of Pakistan since banking reforms. In this research three banks were taken into consideration and their performances are measured. The three banks include Habib Bank Limited, Allied bank Limited and United Bank Limited. For evaluation selected variables to measure performance were ROA, ROE, Investments, Deposits and Size (Total Assets) of these banks.
In order to analyze the performance a statistical tool "t-distribution" was selected and data was analyzed and from that test these hypothesis were formed which shows significant relationships. Through statistical "t" distribution as the same method was used by Paul Asquith & E. Han Kim (1981). (Taking $\alpha = 0.05$).
*4.1 Research Variables*
4.1.1 ROA (Return on Assets)
ROA is a ratio calculated by dividing the net income over total assets. ROA have been used in most of the studies for the measurement the profitability of the banks. ROA measures the profit earned per dollar of assets and reflect how well bank management uses the bank's real investments resources to generate profits [(see, Naceur (2003) and Alkassim (2005)].
4.1.2 ROE (Return on Equity)
ROE measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate earnings growth. ROEs between 15% and 20% are considered desirable. Return on equity (ROE) is the ratio of net income to total equity (see, Fraker, 2006).
4.1.3 Size (Total Assets)
Size is used to capture the fact that larger banks are better placed than smaller banks in harnessing economies of scale in transactions to the plain effect that they will tend to enjoy a higher level of profits. Similarly the size of the banks can also be measured through its total assets. Consequently, a positive relationship is expected between size and profits. Molyneux and Thornton (1992), Bikker and Hu (2002) and Goddard et al. (2004) find size has a positively related to profitability. Overall, the growth equations produce no consistent evidence of mean-reversion in bank sizes. Either growth is independent of size; or in some cases (commercial banks especially) the size-growth relationship is positive. The size-growth relationship is negative and significant in only two cases (both involving savings banks). These findings are consistent with other recent European banking studies (Wilson and Williams, 2000; Scholtens, 2000). They are at odds, however, with much of the recent evidence for manufacturing or other industries reviewed in section 2, in which an inverse size-growth relationship typically prevails. The size of the bank is also included as an independent variable to account for size related economies and diseconomies of scale. In most of the finance literature, the total assets of the banks are used as a proxy for bank size.
4.1.4 Capital (Investments)
Capital is taken as the ratio of equity capital to total assets. It's interesting to note that higher the capital level breeds higher profitability level since by having more capital, a bank can easily adhere to regulatory capital standards so that excess capital can be provided as loans (see, Berger, 1995).
4.1.5 Deposits
Deposits are the ratio of total deposits to total assets which is another liquidity indicator but is considered as a liability. Deposits are the main source of bank funding and hence it has an impact on the profitability of the

 

banks. Deposits to total assets ratio is included as an independent variable in this study.

## 5. Hypothesis

H1: There is a significant difference between ROA of pre-privatization and post-privatization.
H2: There is a significant difference between ROE of pre-privatization and post-privatization.
H3: There is a significant difference between Investments of pre-privatization and post-privatization.
H4: There is a significant difference between Deposits of pre-privatization and post-privatization.
H5: There is a significant difference between Total Assets of pre-privatization and post- privatization.

## 6. Results and Discussion

The data used in this study is based on secondary data.

*6.1 Ratio Analysis*

First of all we have measured the profitability ratios of the banks and their pre & post effect of privatization.

6.1.1 Profitability Ratios of Habib Bank Limited (HBL)

| Year | ROA NIAT+IE/Average total assets during the year | ROE =PAT/Total Assets | Investments | Deposits | Total Assets |
|---|---|---|---|---|---|
| **1999** | 2.90 | (209.73) | 64615000 | 186500653 | 304967487 |
| **2000** | 0.18 | 4.86 | 72525000 | 225503020 | 320926758 |
| **2001** | 0.33 | 8.68 | 57792000 | 283445000 | 333751000 |
| **2002** | 0.50 | 10.32 | 142878000 | 328182000 | 403037000 |
| **2003** | 0.92 | 16.94 | 158871000 | 360648000 | 434932000 |
| **2004** | 1.16 | 18.05 | 134523000 | 404629000 | 487765000 |
| **2005** | 1.76 | 22.83 | 107384000 | 432545000 | 528894000 |
| **2006** | 2.13 | 23.76 | 119587000 | 459140000 | 594062000 |
| **2007** | 1.45 | 15.94 | 175197000 | 531298000 | 689001000 |
| **2008** | 1.44 | 16.38 | 129833000 | 597091000 | 749807000 |

6.1.2 Discussion

The pre-privatization proportion of ROE is negative in 1999 as (209.73%) and afterward begins change consistently in the progressing period as 4.86%, 8.68%, 10.32% and 16.94% in 2000, 2001, and 2002 and in 2003. In post-privatization the initial three years degrees build from 18.04, 22.83 and 23.76% in 2004 to 2006, and after that decrease to 15.94% in 2007 and enhance to 16.38% in 2008. The general bring about the initial three years in post-privatization are enhance and the most recent two years are not tasteful as hope to measure up to the initial three years and standout year of pre-privatization is high starting 2003.

In the first year ROA degree is low as (2.90%), and afterward expand constantly up to 0.18, 0.33, 0.50 and 0.92% in the pre-privatization. In initial three years of privatization its proportions enhances to 1.16%, 1.76% and 2.13% in 2004, 2005 and 2006 separately, and afterward decrease to 1.45% and 1.44% in 2007 and 2008 individually.

6.1.3 Profitability Ratios of United Bank Limited (UBL)

| Year | ROA NIAT+IE/Average total assets during the year | ROE =PAT/Total Assets | Investments | Deposits | Total Assets |
|---|---|---|---|---|---|
| **1998** | 1.58 | 37.69 | 47955000 | 117718000 | 139992000 |
| **1999** | 2.23 | 6.3 | 44954000 | 127133000 | 154450000 |
| **2000** | 1.72 | 7.57 | 33102000 | 128679000 | 155211000 |
| **2001** | 1.35 | -604.74 | 46556900 | 145369000 | 167076920 |
| **2002** | 1.25 | 11.76 | 69244328 | 158263495 | 183003466 |
| **2003** | 0.76 | 18.09 | 56516760 | 185071502 | 216924418 |
| **2004** | -4.64 | 19.71 | 54953728 | 230256627 | 272612663 |
| **2005** | 0.42 | 25.41 | 63026944 | 289226299 | 347048951 |
| **2006** | 0.32 | 31.7 | 67260338 | 335077873 | 423265873 |
| **2007** | 2.17 | 19.8 | 115585646 | 4013637816 | 530283956 |

6.1.4 Discussion

In 1998 the ROE is 37.69% and decay it in 1999 to 6.30%. Again build to 7.57% in 2000 and in the time of 2001 gives negative quality. In 2002 ascent to 11.76% show the all the more fluctuating positions in pre-privatization. In post-privatization the ROE constantly enhance from 18.09% in 2003, 19.71% in 2004, 25.41% in 2005 and 31.70% in 2006 and decrease in 2007 to 19.08%. After the privatization prepare the ROE of United Bank Limited are exceptionally well aside from the most recent year of operation 2007.

Pre-privatization proportion in 1998 of ROA is 2.17% decrease in 1999 to 0.32%, in 2000 expand to 0.42%. In 2001 it has exceptionally poor execution with (4.64%), in 2002 it expand to 0.76%. In the circumstances of post-privatization the execution enhance constantly up to 2006 as in 2003 1.25%, in 2004 1.35%, in 2005 1.72% and in 2006 is 2.23% and low in 2007 as 1.58%. The last come about shows the general exhibitions are certain in post-privatization as contrast with the pre-privatization.

6.1.5 Profitability Ratios of Muslim Commercial Bank (MCB)

| Year | ROA NIAT+IE/Average total assets during the year | ROE =PAT/Total Assets | Investments | Deposits | Total Assets |
|---|---|---|---|---|---|
| **1986** | 0.273 | 8.076 | 2680000 | 1005800000 | 369597069 |
| **1987** | 0.264 | 6.295 | 3102000 | 1233700000 | 443939394 |
| **1988** | 0.234 | 6.269 | 5191000 | 1457100000 | 543750000 |
| **1989** | 0.194 | 4.862 | 7238000 | 1663700000 | 813402062 |
| **1990** | 0.179 | 3.738 | 6425000 | 2331900000 | 1141899441 |
| **1997** | 1.832 | 0.477 | 2646000 | 2834200000 | 2209736842 |
| **1998** | 8.753 | 1.834 | 3129000 | 3793700000 | 4728421053 |
| **1999** | 3.445 | 0.7 | 5149000 | 4175900000 | 1655303030 |
| **2000** | 2.96 | 0.78 | 7214000 | 4739000000 | 860606996 |
| **2001** | 3.5 | 1.66 | 8672000 | 5848000000 | 819637384 |

6.1.6 Discussion

The ROA of ABL before privatization in 1986 was 0.273 and similarly 0.264, 0.234, 0.194, 0.179 for the years of 1987, 1988, 1989 and 1990. It shows that there is no certain trend in the increasing or decreasing of the ROA. And as we have noticed that there is an increase in the years after privatization i-e 1997 and 1998 and then there is a different trend in different years.

Similarly the ROE shows a decrease and there is an uncertain trend in the in particular years.

*6.2 t-tests Analysis*

In this study the performance of banks before and after privatization are analyzed and there performance is evaluated on the basis of research results. The following test is used in this research

The t-test below clearly depicts the significances of the values with results owing to 3 decimal digits places with far lowest than standard 0.500. Further confirming the correctness of the data as well as the most professional outcome.

6.2.1 Results

Group Statistics

| | Financial Year | N | Mean | Std. Deviation | Std. Error Mean |
|---|---|---|---|---|---|
| Return on Assets | Pre-Priv | 15 | 3.9169 | 10.26619 | 2.65072 |
| | Post-Priv | 15 | 9.5553 | 10.40408 | 2.68632 |
| Return on Equity | Pre-Priv | 15 | -45.4073 | 164.98913 | 42.60001 |
| | Post-Priv | 15 | 14.4747 | 10.54563 | 2.72247 |
| Investment | Pre-Priv | 15 | 5.0977 | 4.79037 | 1.23717 |
| | Post-Priv | 15 | 6.9157 | 5.84847 | 1.51077 |
| Deposits | Pre-Priv | 15 | 4.5028 | 7.08078 | 1.82898 |
| | Post-Priv | 15 | 5.6839 | 1.99499 | 5.14728 |
| Total Assets | Pre-Priv | 15 | 2.9488 | 2.74418 | 7.08657 |
| | Post-Priv | 15 | 3.0179 | 1.1589 | 2.99018 |

 

**Independent Samples Test**

| | | Levine's Test for Equality of Variances | | t-test for Equality of Means | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | F | Sig. | t | Df | Sig. (2-tailed) | Mean Difference | Std. Error Difference | 95% Confidence Interval of the Difference Lower | Upper |
| Return on Assets | Equal variances assumed | 1.166 | .020 | 1.494 | 28 | .036 | 5.63840 | 3.77394 | 13.36897 | 2.09217 |
| | Equal variances not assumed | | | 1.494 | 27.995 | .049 | 5.63840 | 3.77394 | 13.36903 | 2.09223 |
| Return on Equity | Equal variances assumed | 6.659 | .035 | 1.403 | 28 | .012 | 59.88207 | 42.68694 | 147.32230 | 27.55817 |
| | Equal variances not assumed | | | 1.403 | 14.114 | .032 | 59.88207 | 42.68694 | 151.36688 | 31.60275 |
| Investment | Equal variances assumed | 1.637 | .041 | .936 | 28 | .027 | 1.82607 | 1.95227 | 5.82567 | 2.17248 |
| | Equal variances not assumed | | | .936 | 26.954 | .041 | 1.82607 | 1.95227 | 5.83267 | 2.17947 |
| Deposits | Equal variances assumed | 21.695 | .000 | 1.892 | 28 | .019 | 1.03439 | 5.46218 | 2.15239 | 8.53487 |
| | Equal variances not assumed | | | 1.892 | 17.476 | .030 | 1.03439 | 5.46218 | 2.18439 | 1.16598 |
| Total Assets | Equal variances assumed | 5.846 | .042 | 1.997 | 28 | .033 | 6.13678 | 3.073E98 | 1.24359 | 1.58947 |
| | Equal variances not assumed | | | 1.997 | 15.567 | .045 | 6.13678 | 3.07398 | 1.26659 | 3.93447 |

6.2.2 Discussion

- Return on Assets (ROA)

The return on total assets (ROA) often called the return on investment (ROI), measures the overall effectiveness of management in generating the profits with its available assets. The higher the firm's return on assets, the better its performance. The mean score before privatization is 3.9169 and after privatization are 9.5553. We also find the T-score for equality of mean is 1.494 and P-value is 0.036. These results show that there is a significant difference between the two means and our results support our above hypothesis that there is a significant difference between ROA of pre & post privatization.

- Return on Equity (ROE)

The return on equity (ROE) measures the return earned on the common stockholder's investment in the firm. Generally the higher these returns, the better off are the owners. The mean score shows that before privatization it was -45.4073 and after privatization it was 14.4747. The t-score indicates that equality of mean is 1.403 and P-value is 0.012, which supports above hypothesis that there is significant difference between ROE of pre & post privatization of banks.

- Investments

In the language of finance, investments are putting money in a business or in assets for the sake of getting profit or dividends or raising capital. The mean score indicates that before privatization it was 5.0977 and after privatization it was 6.9157. The t-score shows that equality of mean is 0.936 and P-value is 0.027. These results support the above hypothesis that there is a significant difference between the Investments of pre & post privatization of banks.

- Deposits

Deposits are the ratio of total deposits to total assets which is another liquidity indicator but is considered as a liability. The mean score of deposits show that before privatization it was 4.5028 and after privatization it was 5.6839. The t-score indicates that equality of mean is 1.892 and the P-value 0.019 which supports that there is a significant difference between the deposits of pre & post privatization of banks.

- Size (Total Assets)

The size of the banks can be measured through its total assets. The mean score of the total assets before privatization was 2.9448 and after privatization it was 3.0179. The t-score shows that equality of mean is 1.997 and the P-value is 0.033. And this result shows that there is a significant difference between the total assets of pre & post privatization.

## 7. Conclusion

The above study leads to the conclusion that there is a significant and positive increase in the profitability of banking sector in Pakistan. In this study 3 banks were selected and their profitability is measured after the privatization and before the privatization. After banking reforms act there is a positive change in the performance of the banks. Our research clearly reveals that there is a positive impact of privatization on the profitability of banking sector in Pakistan. The variables we have selected and their impact has clearly reveals our study and proves that there is a significant difference between the post and pre privatization. Although the data we have gathered was not sufficient but still we managed to conclude accurate results through the balance sheets and other sources of the data.

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