

A Comparison of Financial Performance of Banking Industry in Pakistan

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Abstract

The basic idea of this study is to evaluate the financial performance of banking industry in Pakistan from 2009 to 2013. The reason for choosing this period is to evaluate the finance performance of banking industry after the end of military regime in Pakistan and revolutionary change in banking. For this purpose entire banking industry is divided into four sectors, public commercial banks, private commercial banks, specialized banks and foreign banks. The average growth and return on total assets, total fixed assets, total operational assets and total shareholders' equity were used to assess the performance of each banking sector which indicates that how banks used their assets and equity to increase their performance. The study guide that banks having more total assets, total fixed assets, total operational assets and total equity have better financial performance or not, It does not mean that banking sector having large fixed asset, operational assets and large equity have better financial performance than others.

Keywords: Assets, Equity, Returns, Growth, Performance, Assessment

INTRODUCION

In Pakistan banking companies are registered and operate under the banking companies' ordinance 1962. The State Bank of Pakistan has overall responsibility to monitor the entire banking system in Pakistan to perform the role of central bank in Pakistan. All the banks are legally bound to follow the instructions and guidelines issue by the state bank of Pakistan. Banks in Pakistan have implemented the minatory policy introduce by the SBP to control the inflation and deflation in the country. The SBP also implemented a policy for the developments and promotions of banking industry in the country. These policies have included denationalization and privatization of banks, interest rate deregulation, and development of a system of self-disciplined bank management.

State Bank of Pakistan categorized all the banks on the base of registration, ownership, function and nationality. Currently the SBP specified the banks in four sectors, Public Commercial Banks, Private Commercial Banks, Specialized Banks and Foreign Banks which include both specialized and commercial banks. Central Bank deals issues relates to all the banks.

Banking industries contribute in the economy development of a country by providing a major source of financial intermediation and their checkable deposit liabilities represent the bulk of the nation's money stock. Banks basically perform the function of borrowing and lending on a define markup to make the return. Banking industry in Pakistan grow rapidly in the last decade and number of foreign banks also carried business in Pakistan in different sectors to earn the profit. Local banks expand their business and foreign banks also enter in market to avail the opportunity of the under developing financial market. Specialized banks expand their operations to provide the finance for the development and progress in some growing sectors. This development in banking sectors opens the doors of competition in financial market and resource mobilization.

All the banks in Pakistan increase their services and now offer the variety of product to the customers such as Cash Credit, Bank Overdraft facility, ATM Card facility, Running finance facility, fixed deposit facility, Profit and loss saving account facility, funds transferring facility, Car loans facility and housing finance agricultural loan facility, industrial development loan etc.

It is important to evaluate the overall performance and monitor their financial position for depositors, owners, potential investors, managers and, of course, regulators. Researchers used number of criteria and model to evaluate the performance of banks such as profitability, liquidity, assets quality, return on equity, debt stability, attribute towards risk and management strategies. The development of banking industry in Pakistan and entrance of public, private and foreign banks in local market not only increase the total number but also make it more important to evaluate the performance of banks on the basis of ownership, operation and nationality.

In this paper efficiency of bank is measure on the basis of assets management and equity investment returns by using the financial ratios. The research try to determine that banks have higher total assets, large fixed assets and large equity earn higher return and large growth or not. For this purpose overall banks are divided in four categories on the define line of State Bank of Pakistan. This division includes Private commercial Banks, Public Commercial banks, Specialized Banks and Foreign Banks.

STUDY OBJECTIVES

The basis objective of this study is to evaluate the performance of entire banking industry by employing the

financial ratio after the military regime by using the data from 2009 to 2013 a period of five years. Given this, the study focused on the following sub objective.

- I. Evaluate that how the banks are using total assets and operational assets for growth and returns.
- II. The growth in shareholder equity and rate of return earn by each sector of bank on the equity.
- III. The overall growth in fixed assets and equity in entire banking industry during the last five years.

LITERATURE REVIEW

The financial performance of private and state banks was measured during and post war period from the 2007 to 2012 in Sri Lanka. The financial ratio and descriptive statistics were used to measure the performance of banks. The study found that private banks had high financial performance as compared to the state banks during and post war period. The state banks try to improve the financial performance to survive in market and private banks try to achieve the target financial performance for long term survival (Velnamy.T and Anojan.V, 2014).

The financial performance was measure to analysis the rapid economic growth in the banking sector in Pakistan for the period of 2007 to 2011. The top five commercial banks were selected on the basis of their network of branches and operation in Pakistan. The return on operating fixed assets, return on total assets and return on equity were used to compare the performance of top five commercial banks. The result shown the banks have more total assets, total equity and total operating fixed assets have better financial performance or not. It does not means that the banks having higher total assets, higher total operating fixed assets and higher equity have better performance (Faisal Abbas, M.Tahir, 2014).

Financial ratios based on the CAMEL model were used to analysis the ownership structures and financial performance of banks in Nepal for the period 2005-10. The public sectors banks are less efficient as compare the domestic private banks and domestic private banks are equal efficient to the foreign banks. The capital adequacy ratio, interest expenses to total loan and interest margin ratio significant effected the return on assets, while the return on equity effect the capital adequacy ratio(Suvita Jha and Xiaofeng Hui,2012).

Banks play a major role in the economics development of a country. Financial ratios used to measure the financial performance of banks. Efficiency ratios and liquidity ratio, leverage ratio and financial measures were used to analysis the financial performance of investment banks in Pakistan during the period of 2006-09. The result concluded that performance of banks on the based of efficiency ratio is differ than on the base of liquidity ratio, leverage ratio and financial measures (Ali Raza, Muhammad Farhan, 2011).

Financial ratios were employed to measure the profitability, liquidity and credit quality performance of five largest South Afrian based commercial banks for the period of 2005 to 2009. The research found that overall banking performance of bank increase considerably in the first two years of analysis. The significant change were noticed during the financial crisis started in 2007 and reached its peak 2008-2009 which result in decreasing the profitability, liquidity and worse the credit quality in South Afrian commercial banks (Mabwe Kumbirai and Robert Webb,2010). the overall literature give the idea of measuring the financial performance of banks by using the different financial ratios and highlight the different events that effect the financial performance of banks all over the world including the Pakistan.

DATA COLLECTION

The sample include in this study consist of entire banking sectors for a period of five years from 2009 to 2013 after the revived of the democratic government in Pakistan. The data was execrated from the official website of the state bank of Pakistan; publish the financial statement analysis of financial sectors during the period of 2009 to 2013. In addition data was collected from publish financial reports and concerning banks official website. The data was collect from the annual report about the total assets, total fixed assets, total operational assets and total equity. The sample consist the entire banking sectors which include the Public Commercial Banks, Private Commercial Banks, Specialized Banks and Foreign Banks. The detail of banking industry operate in Pakistan is as under.

TABLE: 1 TOTAL BANKS INCLUDE IN SAMPLE

S.NO	Name of Banks
1	Public Sector Banks
	1- FIRST WOMEN BANK LTD 2- NATIONAL BANK OF PAKISTAN 3- SINDH BANK LTD 4- THE BANK OF KHYBER 5- THE BANK OF PUNJAB
2	Private Sector Banks
	1- ALBARAKA BANK (PAKISTAN) LTD 2- ALLIED BANK LTD 3- ASKARI BANK LTD 4- BANK AL-HABIB LTD 5- BANK ALFALAH LTD 6- BANKISLAMI PAKISTAN LTD 7- BURJ BANK LTD 8- DUBAI ISLAMIC BANK PAKISTAN LTD 9- FAYSAL BANK LTD 10- HABIB BANK LTD 11- HABIB METROPOLITAN BANK LTD 12- JS BANK LTD 13- KASB BANK LTD 14- MCB BANK LTD 15- MEEZAN BANK LTD 16- NIB BANK LTD 17- SAMBA BANK LTD 18- SILKBANK LIMITED 19- SONERI BANK LTD 20- STANDARD CHARTERED BANK (PAKISTAN) LTD 21- SUMMIT BANK LTD 22- UNITED BANK LTD
3	Specialized Banks
	1- INDUSTRIAL DEVELOPMENT BANK LTD 2- SME BANK LTD 3- THE PUNJAB PROVINCIAL COOPERATIVE BANK LT 4- ZARAI TARAQIATI BANK LTD
4	Foreign Banks
	1- BARCLAYS BANK PLC 2- CITI BANK N. A 3- DEUTSCHE BANK AG 4- HSBC BANK MIDDLE EAST LTD 5- HSBC BANK OMAN S.A.O.G 6- INDUSTRIAL AND COMMERCIAL BANK OF CHINA LTD 7- THE BANK OF TOKYO-MITSUBISHI UFJ, LTD

METHODOLOGY

This study is based on the comparison of banking sectors within the sectors by categorized the banks on the basis of operation, ownership and nationality. For this purpose banking industry is categorized in Private commercial banks, public commercial banks, specialized banks and foreign banks. The financial ratios were used to analysis and compare the performance of each category during the sample period from 2009 to 2013. The growth in total assets, total fixed assets, total operational assets and total equity for each category was calculated by taking the base year from 2009 to relative change since 2013. The return on total assets and return on fixed assets was calculated by dividing the net profit after tax by the total assets and total fixed assets. The return on operational assets was calculated by dividing the operational income to the operational assets. The total shareholder equity

is the sum of total share capital, reserves and un appropriated profit. The return on equity was derived by dividing the net profit after tax by the total equity.

HYPOTHESIS

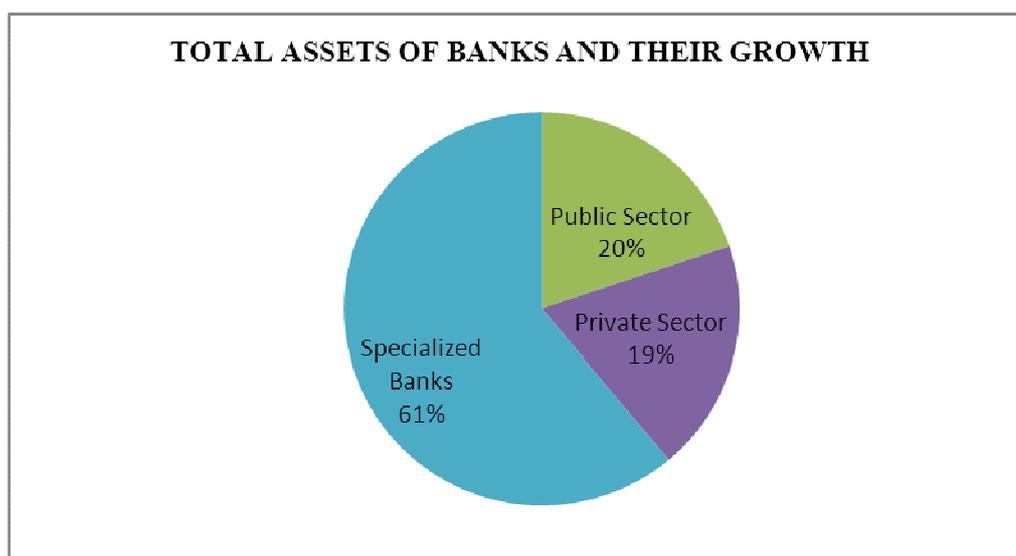
H₁- The bank category having large total assets, large fixed assets, large operational assets and large equity has higher growth rate and higher return.

H₀- The bank category having large total assets, large fixed assets, large operational assets and large equity has lower growth rate and lower return.

RESULTS AND DISCUSSION

TABLE 2: TOTAL ASSETS OF BANKS AND THEIR GROWTH (Values in millions)

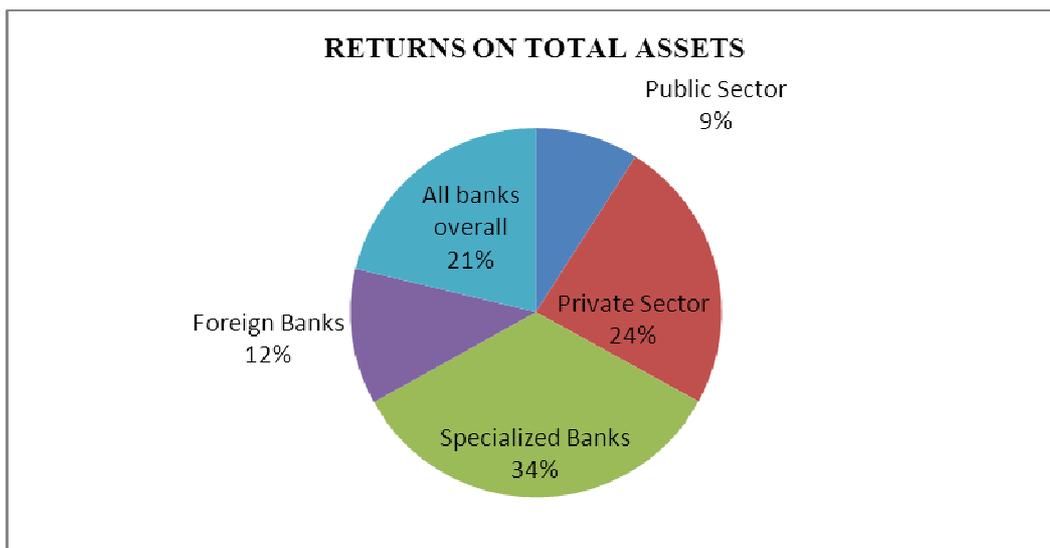
Years/ Banks	2009	2010	2011	2012	2013	Growth	Average
Public Banks	1,181,231,019	1,330,647,704	1,567,189,175	1,845,434,812	1,928,356,202	63.24970907	1,570,571,782
Private Banks	4,978,942,588	5,476,362,635	6,327,540,381	7,653,111,964	8,326,665,801	67.23763437	6,552,524,674
Specialized Banks	129,440,479	144,622,244	149,169,367	159,926,844	159,289,760	23.06023682	148,489,739
Foreign Banks	241,036,607	233,253,369	255,316,089	246,715,361	263,786,520	9.438364273	248,021,589
All banks overall	6,530,650,693	7,184,885,952	8,299,215,012	9,905,188,981	10,678,098,283	63.50741733	8,519,607,784



The growth of each category of bank was calculated by taking 2009 as a base year. The ranks are assigned to the banks on the basis of average total assets as under. The Private commercial banks are at number one to acquire the average total assets of Rs 6,552,524,674 Million. The number two are at public commercial bank, number three are at foreign banks and in last specialized banks have total value of assets Rs. 148,489,739 million. The average total worth of all banking assets is Rs 8,519,607,784 million. All categories of banks have positive growth rate. The Alternative Hypothesis is true in case of private commercial banks, public commercial banks that the higher positive growth. Foreign banks have lower growth rate as compare to the specialized banks and other banks. So in case of foreign banks alternative hypothesis is false and null hypothesis is true.

TABLE 3: RETURN ON TOTAL ASSETS (Values in millions)

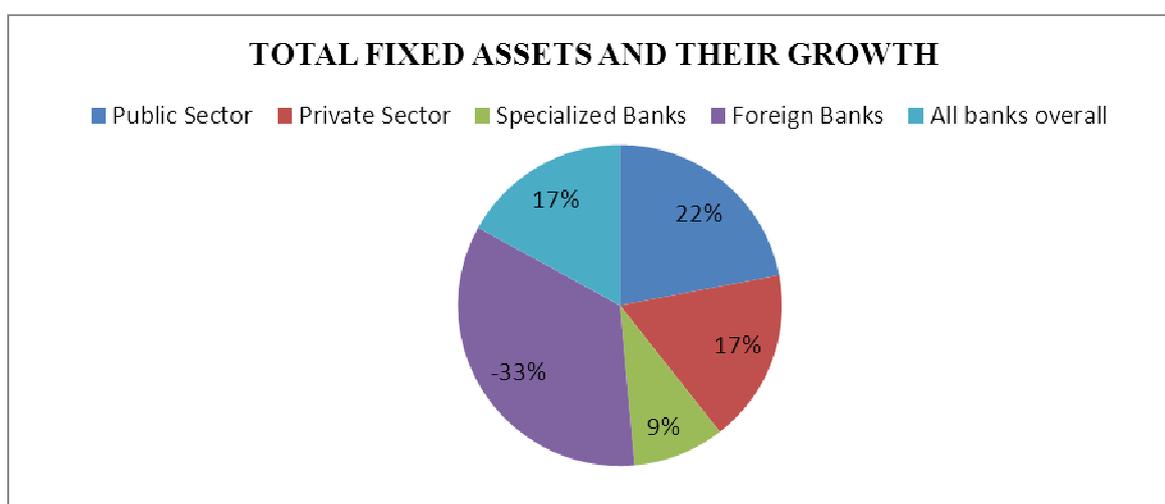
Years/ Banks	2009	2010	2011	2012	2013	Average
Public Banks	0.5648558	1.6812982	1.2698011	1.05224930	0.4581810	1.0052772
Private Banks	0.8155122	0.8462531	1.4160964	1.3012438	1.226372	1.121096
Specialized Banks	1.3379021	1.025066	1.6327206	1.43071353	1.7198544	1.429252
Foreign Banks	-0.3357904	0.4114457	1.4337749	-0.0702509	0.6085773	0.409552
All banks overall	0.7380359	0.9903877	1.3929080	1.2227832	1.079745	1.084772



All the banks categories earned the positive return during the sample period. The private commercial have highest positive return as compare to the other categories of banks. The number two are the public commercial banks, number three specialized banks and number four foreign banks. The overall banking industry earned 1.0845 returns on total assets. By testing the hypothesis private commercial banks have higher average total assets earned the higher return on the total assets. Similarly the public commercial banks have second largest average total assets earned the positive return as compared to the foreign banks and specialized banks. But the specialized banks have lower average total assets as compare to the foreign banks but earned the higher positive returns as compare the foreign banks. So alternative hypothesis is true in case of private and public commercial banks and null hypothesis is false. But null hypothesis is true in case of specialized banks and alternative hypothesis is false. The foreign banks earned the lower positive return as compare its total assets and other banks categories. So in this case null hypothesis is true and alternative hypothesis is false.

TABLE 4: TOTAL FIXED ASSETS AND THEIR GROWTH (Values in millions)

Years/ Banks	2009	2010	2011	2012	2013	Growth	Average
Public Banks	29,890,350	32,465,159	34,777,267	36,342,749	41,742,023	39.65049924	35,043,510
Private Banks	153,471,610	163,849,689	176,163,854	187,903,137	201,747,354	31.45581388	176,627,129
Specialized Banks	5,092,505	5,088,581	5,075,281	4,805,267	5,930,917	16.46364608	5,198,510
Foreign Banks	3,589,490	2,223,119	2,176,487	1,741,337	1,358,996	(62.13958)	2,217,886
All banks overall	192,043,955	203,626,548	218,192,889	230,792,490	250,779,290	30.58431857	219,087,034

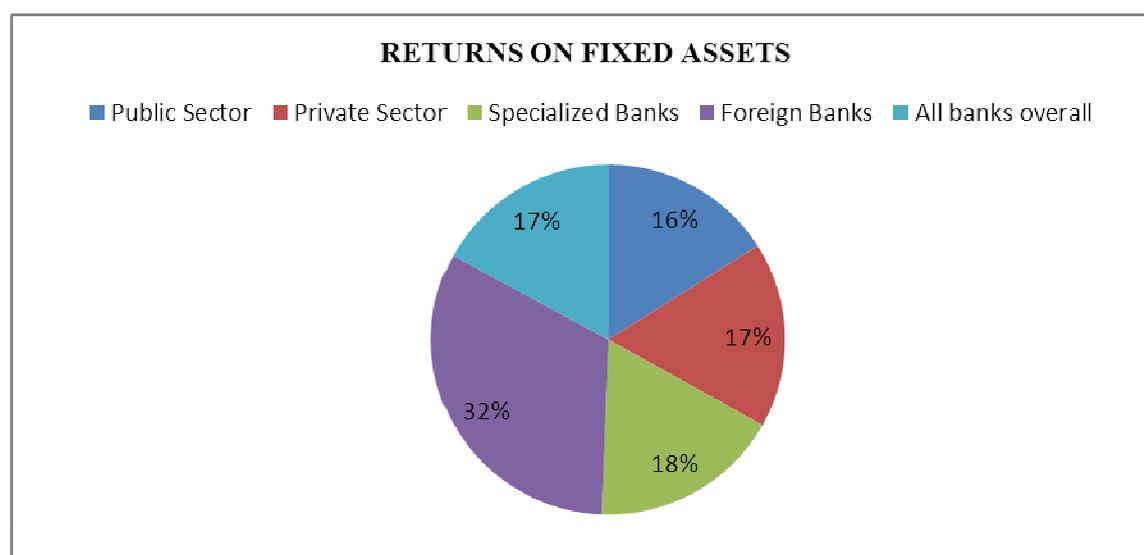


The average total fixed assets of commercial banks are number one, public commercial banks are number two, specialized banks are number three and foreign banks are at number four. The overall banking

industry has positive growth in fixed assets except of foreign banks. Public commercial banks have higher growth rate as compare the private commercial banks. The Null hypothesis is accepted and alternative hypothesis is rejected that banks have large fixed assets have higher growth rate. Foreign commercial banks have negative growth rate which also verify the acceptance of null hypothesis and rejection of alternative hypothesis.

TABLE 5: RETURN ON FIXED ASSETS (Values in millions)

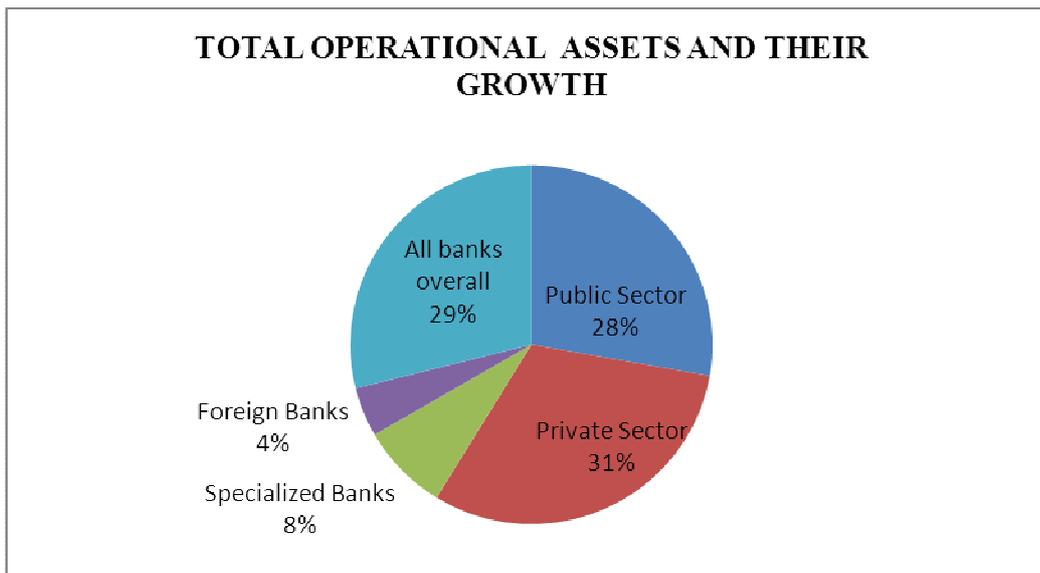
Years/ Banks	2009	2010	2011	2012	2013	Average
Public Banks	11.6456047	97.311451	84.6153610	73.3155794	29.8520343	59.348006
Private Banks	41.4036824	47.417246	75.6095129	79.77100244	73.0903033	63.458349
Specialized Banks	61.4952366	48.410038	70.3803592	75.26110412	68.1178138	64.732910
Foreign Banks	(23.696179)	92.062008	257.314746	57.3865369	216.713809	119.95618
All banks overall	36.0880331	55.884344	78.7358222	78.49168012	66.5540361	63.150783



All the banks have positive return on the fixed assets. The overall banking industry earned the positive return on the fixed assets. The specialized banks earned the highest return as compare the other banks categories even though the specialized banks are at number three in average total fixed assets. The null hypothesis is accepted and alternative hypothesis is rejected. The private sector banks are at number two to earn the positive return on fixed asset even though private commercial banks are at number one to hold the average total fixed assets which lead the acceptance of null hypothesis and rejection of alternative hypothesis.

TABLE: 6 TOTAL OPERATIONAL ASSETS AND THEIR GROWTH

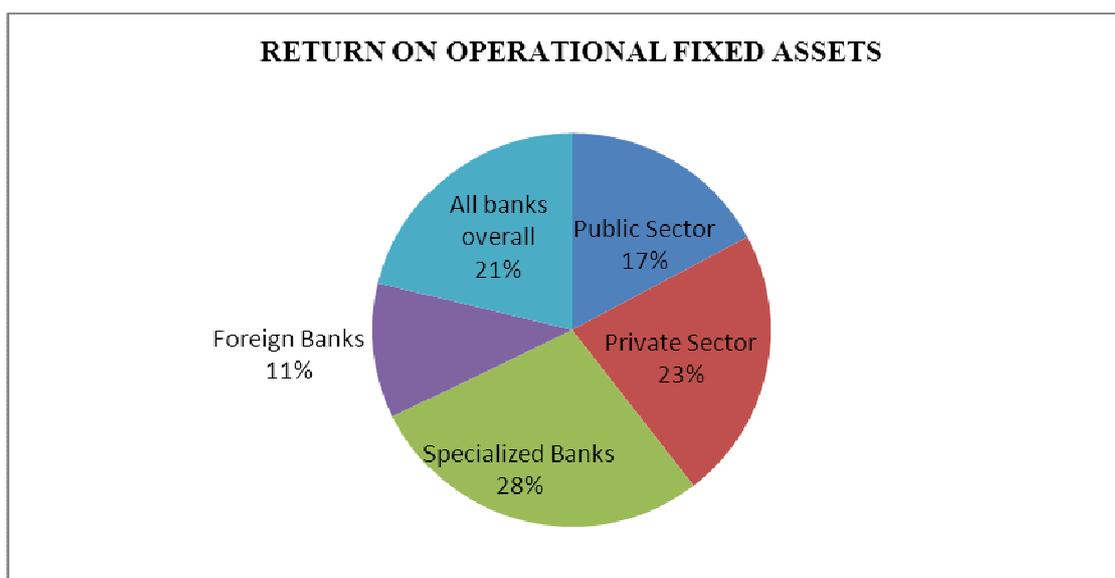
Years/ Banks	2009	2010	2011	2012	2013	Growth	Average
Public Banks	1151791651	1304390492	1522566742	1795578919	1882224115	63.41706535	1531310384
Private Banks	4727879932	5280905821	6097560525	7411814126	8071763002	70.72690335	6317984681
Specialized Banks	134290608	145960029	152272319	159841508	158403358	17.95564884	150153564.4
Foreign Banks	230667506	224651136	247855920	239229884	254099028	10.15813731	239300694.8
All banks overall	6244629697	6955907478	8020255506	9606464437	10366489503	66.00647286	8238749324



According to the table above, private sector commercial banks have the largest operational fixed assets and also earned the highest growth rate as compared to the other banking sectors. Public commercial banks have the second largest operational fixed assets and also earned the second largest growth in the operational fixed assets. The growth in private commercial banks and public commercial banks leads to the acceptance of alternative hypotheses and rejection of the null hypothesis. The specialized banks perform well as compared to the commercial banks and have a greater growth rate as compared to the foreign commercial bank. This growth in specialized banks rejects the alternative hypothesis and accepts the null hypothesis.

TABLE: 7 RETURN ON AVERAGE TOTAL ASSETS AND THEIR GROWTH

Years/ Banks	2009	2010	2011	2012	2013	Average
Public Banks	0.0030222	0.0242199	0.0193272	0.01483917	0.0066203	0.0136057
Private Banks	0.0134401	0.0147121	0.0218443	0.02022342	0.0182684	0.0176976
Specialized Banks	0.0233199	0.0168772	0.0234579	0.02262552	0.0255046	0.0223571
Foreign Banks	(0.003687)	0.0091104	0.0225955	0.00417713	0.0115905	0.0087572
All banks overall	0.0110984	0.0163595	0.0214203	0.01885739	0.0161004	0.0167672

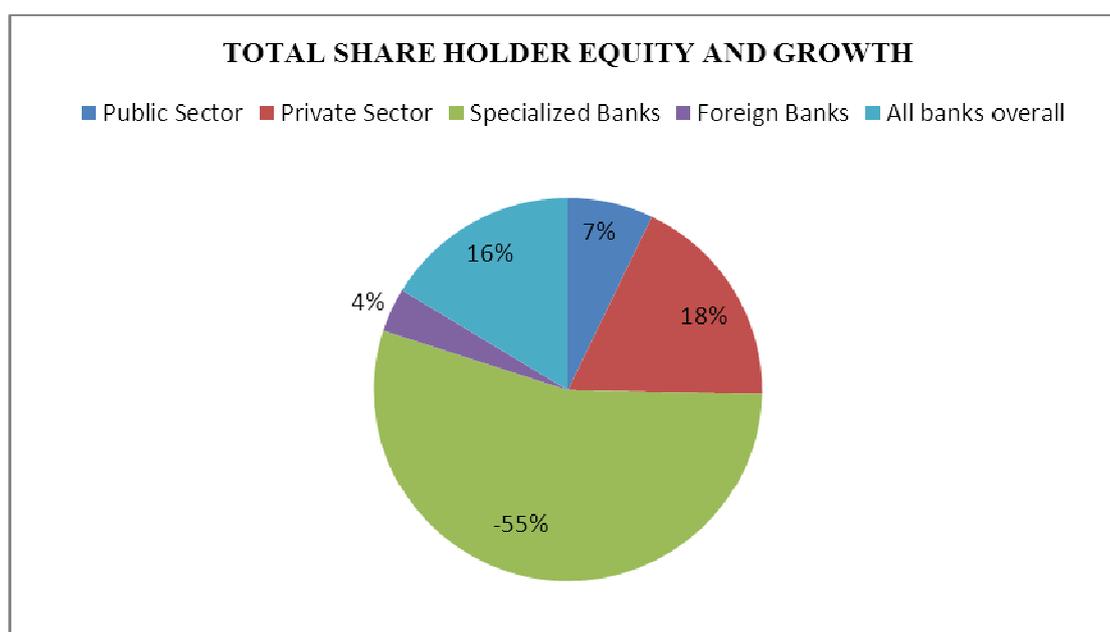


By testing the hypothesis, private commercial banks earned the highest return on the operational fixed assets as mentioned in the above table, having also the largest operational fixed assets, which leads to the acceptance of alternative hypothesis and rejection of the null hypothesis. Public commercial banks are at number two to earn the second highest return on operational fixed assets that verify the rejection of the null hypothesis. The specialized banks earned the highest return than the foreign banks, which guides the acceptance of the null hypothesis and rejection of

alternative hypothesis.

TABLE 8: TOTAL SHAHREHOLDERS EQUITY AND THEIR GROWTH

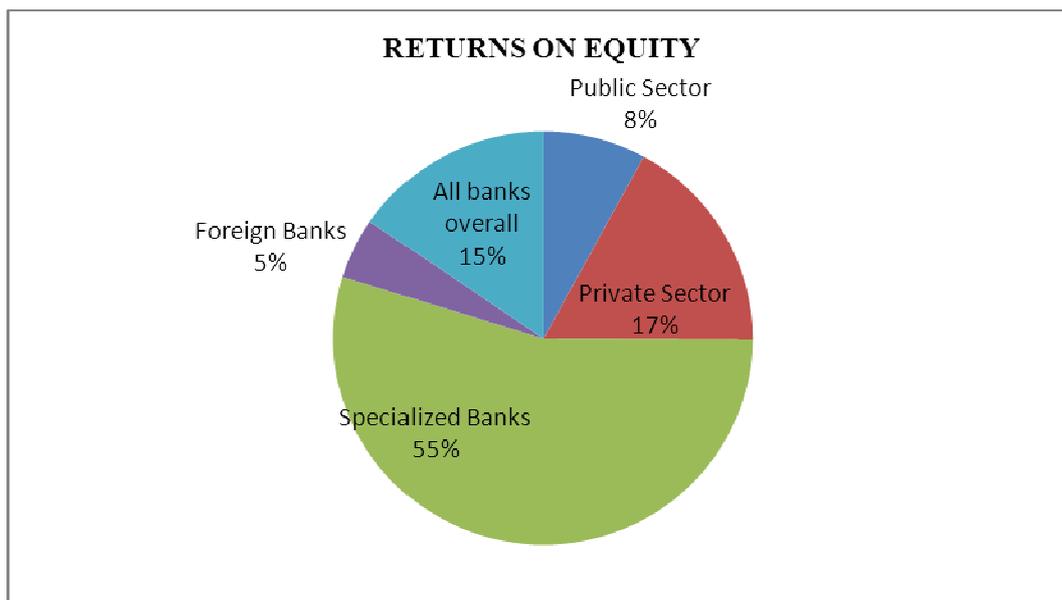
Years/ Banks	2009	2010	2011	2012	2013	Growth	Average
Public Banks	107,010,826	105,265,258	122,026,502	125,594,649	130,688,522	22.12644915	118,117,151
Private Banks	448,140,588	471,171,613	604,809,329	660,038,428	701,425,731	56.51912587	577,117,138
Specialized Banks	(8,401,902)	(2,357,651)	1,222,466	5,606,785	5,888,332	(170.0833216)	391,606
Foreign Banks	35,848,774	34,798,653	42,610,496	40,719,620	39,950,285	11.44114719	38,785,566
All banks overall	582,598,286	608,877,873	770,668,793	831,959,482	877,952,870	50.69609559	734,411,461



The average equity of overall banking sector is positive Rs. 734,411,461 million. The private commercial banks are at number one hold the average equity Rs. 577,117138 million. Public sectors banks are at number two, foreign banks are at number three and specialized banks are at number four. By testing the hypothesis private sector banks highest positive growth as compare the other banks. Public sector banks are at number two and foreign banks are at number three having positive growth to total equity. These growths in banking sectors lead the acceptance of alternative hypothesis and rejection of null hypothesis.

Table 9: RETURN ON EQUITY (Values in millions)

Years/ Banks	2009	2010	2011	2012	2013	Average
Public Banks	6.235119	21.25313	16.30808	15.461307	6.760626	13.20365
Private Banks	9.060525	9.835885	14.81525	15.087856	14.55834	12.671574
Specialized Banks	(20.61185)	(62.8793)	199.2299	40.80939	46.52509	40.61468
Foreign Banks	(2.257756)	2.75789	8.590977	(0.4256425)	4.018356	2.536766
All banks overall	8.273033	11.68678	15.00001	14.558281	13.13239	12.53011



The return on specialized bank is higher as compare the other sector of banks but not having higher average equity. This rejects the alternative null hypothesis and accepts the null hypothesis. Public commercial banks also earned the higher equity return even though the average equity of public commercial banks is lower than the private commercial banks. This verifies the rejection of alternative hypothesis and acceptance of null hypothesis.

In all the above result foreign banks reject the alternative hypothesis and accept the null hypothesis. The basis reason that foreign banks are run their operations in some specified areas and very small branches of network over the country. Foreign banks are also required large amount of cash deposit for opening of banks accounts. So some target customers are only visit in foreign banks. All the government deposit also in the local public banks and government employees also required to open the accounts in local banks for the payment of salaries. So the confidence of small customers also not develops on the foreign banks. Foreign banks are newly established and also not providing the small operational facilities to local customers such as payments of utilities bill, students fee deposit facility, payment of demand draft for the enrolment in different institutions in the country.

TABLE 9: RANKS OF BANKS ON THE BASE OF FINANCIAL PERFORMANCE

Banks Indicators	Public Banks	Private banks	Specialized Banks	Foreign Banks
Average Total Assets	2	1	3	4
Return on Assets	4	2	1	3
Average Fixed Assets	2	1	3	4
Return on Fixed Assets	4	3	2	1
Average Total Operational Assets	2	1	4	3
Return on Average Operational Assets	3	2	1	4
Average Total Equity	2	1	4	3
Return on Equity	2	3	1	4

CONCLUSION

The basic idea of this study is to evaluate whether the banks are using their assets and equity according to their investment or not. The result of this research shows that the ranking of banks based on total average assets, total operating fixed assets, total average equity and returns on the respective variables. According to ranking, private sector banks are at number one, specialized banks are at number second, public sectors banks are at number three and foreign banks are at number four. The private sectors banks are top performer on the base of this research. Specialized banks earned the second position and public and foreign banks are the number four and fifth on the base of financial performance. These result are present the current market position and match with the entire banking industry in Pakistan. It also provide a guideline and insight scrutiny for the efficient utilization of banks assets in Pakistan. These result highlight the underutilize areas of business which can be improve to increase the returns of business. This research also streamlines the decision makers to focus those areas that can really

contribute the financial performance of banks. The finding of present study can be used for further study for financial performance.

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