

Financial Performance Assessment of Banks: A Case of Pakistani Public Sector Banks

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Abstract

Public sector banks are the part of financial sector that take part in the economic and financial progress of Pakistan. The main intention of the study is to compare the financial performance of Pakistan public sector banks and to rank them according to the selected financial indicators. The variables such as total assets, advance deposit, investment, profit before tax and return on assets has been selected for the accomplishment of the study. Four public sector banks are selected out of five banks currently working in Pakistan. The analysis and ranking of banks is done for the time period 2006-2010 by using secondary data. The present research paper concludes that the ranking of public sector differ as the financial measures or ratio differs. The core aim of this study is academic.

1. Introduction

The financial institution or banks are the crucial ways not only for financing activities but also provides all types of activities related to finance. The main thing in the mind of financial performance researcher and learner is that increasing financial performance is the way to improve financial activities. Financial performance of financial institutions is well advanced in its measurement within the field of finance and management.

The core aim of the study is to analyze the financial data of public sectors banks of Pakistan for the time ranging from 2006 to 2010. In order to evaluate and rank the banks the financial indicators or measures are taken from audited annual statement of the banks.

According to working of Raza, Amjad and Akram the financial institution are constituent of good financial system. And these financial institutions assist the investors to obtain capital and money market in a country.

State bank of Pakistan and Securities and Exchange Commission of Pakistan are two bodies which are working for development of sound financial system (Alam, Raza and Akram 2011). Section 1 describe introduction, section 2 contains literature review, section 3 describes the research methodology, and section 4 explain the analysis and results. The last section 5 is about conclusion.

2. Literature review

There are number of indicators for evaluating financial performance of banks on the basis of the financial measures. Usually the financial performance of the institutions has been measured by using a combination ratio analysis, benchmarking, and measure performance against budget or a mix of these methods (Avkiran 1995).

Deposits are key factor of banks that affects the return of banks. On the one hand deposits are the chief source of funds by which bank are able to operate there business, enable to lend more and get profit and on the other hand banks have to pay interest on deposits. Advances and investment are other major source for earning revenues.

The operating efficiency has an effect on the size of the bank. According to the Pilloff and Rahodes (2002) there exist a positive relation between profitability and bank size.

According to the sufian (2009), Molyneux and Seth (1998) Ramlall (2009) found an affirmative relation of bank size and examine small banks are less profitable than the larger bank. On the other hand Koasmidou (2008), Spathis and Doumpous (2002) found empirically a negative relation between bank size and profitability. Raza, Farhan and Akram (2011) classified the investment banks by using return on assets, return on owner's equity and total assets.

The empirical study of Tarawneh (2006) showed that a company having better efficiency does not mean it will show better effectiveness. Elizabeth and Elliot (2004) explained that all financial measure such as ROA, Capital Adequacy interest margin is calculated positively with score of customer service quality. Many researchers have been focusing on liability and assets management in banking sector Ruth 2001, Caddy 2000, and Richard & James 2003. Tektas and Gunay (2005) argued that maximizing bank profit, lowering and controlling various risks are obligatory for assets and liability management.

According to the Rangan N. and Grabowski (1988) use data envelopment analysis to analyze the efficiency of US banks into pure technical and scale efficiency. Aly H. and Rangan (1990) spread out the study to contain analysis of allocative efficiency.

Endris (1997) in his study conducted in Kuwait to determine the selection factor used by the Kuwait business consumers in choosing foreign and domestic banks. The study shows that important factor for bank selections are size of bank assets, banking experience, reputation and availability of branches.

Mazhar M. Islam (2003) discusses the performance of Arab Countries and showed that local and foreign banks performed well over the past several years.

Nigmonov (2010) aim to study the bank performance in Uzbekistan for the period of 2004-2006. The results show that inefficiency is due to the technical efficiency and overall bank average efficiency level reduced.

Basher (2000) examines the performance of Islamic banks of eight Middle East Countries. The important indicators are return on assets, return on equity, and profit before tax and non interest margin.

Munawar Iqbal (2001 and 2004) compares Islamic and conventional banking in the Nineties and included 12 banks into his study sample. He calculated the development of Islamic banking industry during 1990-98. and found that capital assets ratio, liquidity ratio, deployment ratio, cost/income ratio, profitability ratio, return on asset and return on equity ratio and concluded that both return on assets (ROA) and return on equity (ROE) for the Islamic banks are substantially higher than the conventional banks

Alkassim (2005) in his study of GCC countries banking find that higher capital ratios sustain Islamic banks profitability. Total Loans for both types of banking have a positive relationship with profitability. Deposits have a positive relation with profitability for Conventional and a negative relation for Islamic banking. This indicates that deposits impact Islamic banks profitability negatively whereas it contributes to Conventional banks profitability.

Cihak and Hesse (2008) analyze in their cross country empirical study that small Islamic banks are financially stronger than the small conventional banks. Also found that large conventional banks are financially stronger than the large Islamic banks.

3. Research Methodology

The secondary data has been used for this study that is collected from websites of the banks. There are five public sector banks that are working presently in Pakistan. The shortcoming of the study is that the four public sector banks are selected due to data availability. The name of the banks and year of incorporation is shown in appendix A.

The financial ratios used in the study are as follow.

1. Total assets
2. Advances
3. Deposits
4. Investment
5. Profit before tax
6. Return on assets
7. Advance to total asset
8. Investment to total assets

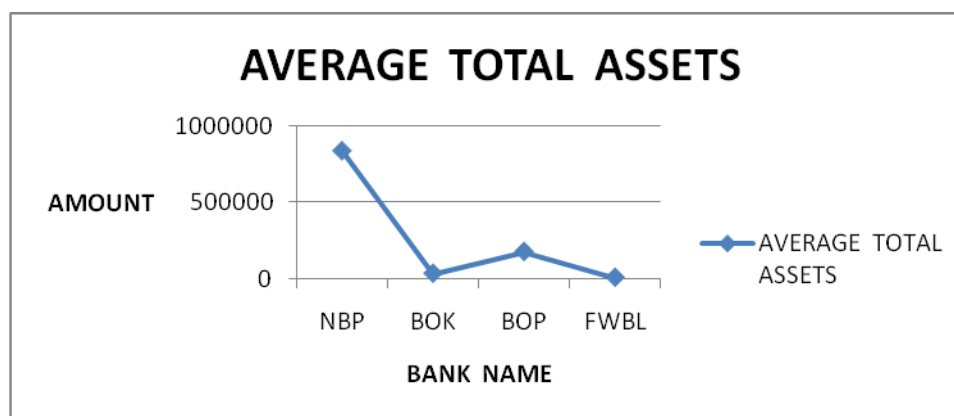
4. Analysis and Results

Table 1: Total assets of public sector banks of Pakistan (value in Million Rs.)

BANK NAME	2006	2007	2008	2009	2010	Average
NBP	635,133	762,194	817,758	944,583	1,035,025	838939
BOK	27,183	29,712	31,339	38,811	50794	35568
BOP	111155	164855	234974	185909	196050	178589
FWBL	10258	7304	8985	8989	10503	9208

Source: compiled from annual financial statements of banks (2006-2010)

Figure: 01



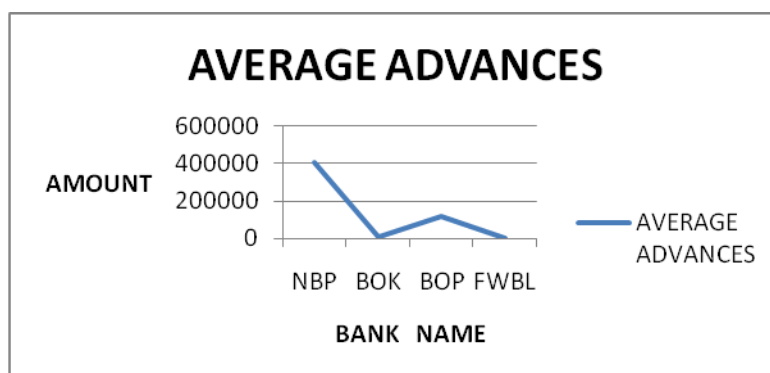
The above table indicates the bank size in term of total assets that are working in Pakistan during the time period 2006-2010. A lot of difference is there between the banks total assets average value ranging from 2006-2010. In term of total assets national banks is at top. Bank of Punjab is second. Same like bank of Khyber is third and first women bank limited at fourth position.

Table 2: Advances of public sector banks of Pakistan (value in Million Rs.)

BANK NAME	2006	2007	2008	2009	2010	AVERAGE
NBP	316,110	340,319	412,987	475,243	477,507	404433.2
BOK	9,189	10,086	12,644	11,836	18238	12398.6
BOP	101320	133894	131731	121315	120818	121815.6
FWBL	3115	3129	3410	3482	6535	3934.2

Source: compiled from annual financial statements of banks (2006-2010)

Figure: 02



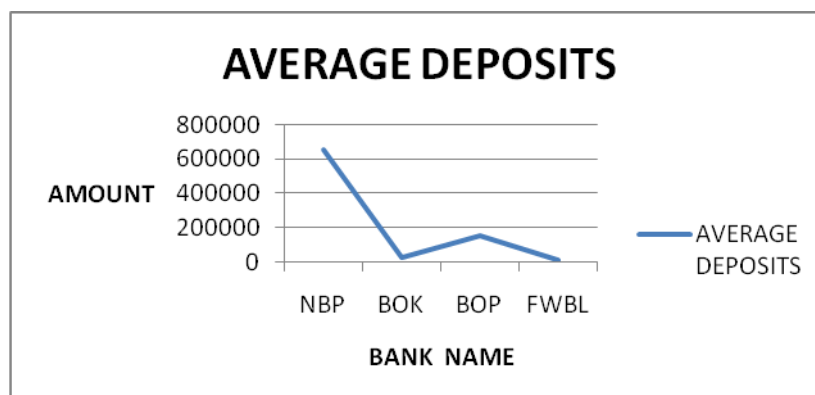
Advances are the major resources with the help of which banks are able to increase their earnings. The above table shows that national bank is at top in term of advances. Bank of Punjab is on second position. Bank of Khyber and first women bank limited are third and fourth position on the basis of advances.

Table 3: Deposits of public sector banks of Pakistan (value in Million Rs.)

BANK NAME	2006	2007	2008	2009	2010	AVERAGE
NBP	501,872	591,907	624,939	727,465	832,152	655667
BOK	19,077	21,411	24,732	26,286	36981	25697.4
BOP	101320	133894	131731	190858	208176	153195.8
FWBL	6965	7569	5939	8757	10195	7885

Source: compiled from annual financial statements of banks (2006-2010)

Figure: 03



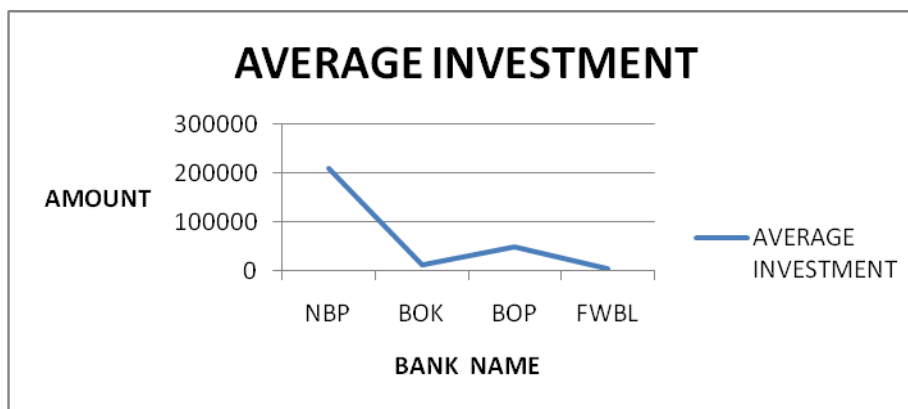
With the help of deposits banks are able to lend more and generate income and on the other hand pay interest on the deposits. The above table shows that bank of Punjab is at top level on the deposit basis. National bank of Pakistan is at second level where as bank of Khyber and first women bank limited are on the third and fourth position.

Table 4: Investment of public sector banks of Pakistan (value in Million Rs.)

BANK NAME	2006	2007	2008	2009	2010	AVERAGE
NBP	139,947	211,146	170,822	217,643	301,324	208176.4
BOK	8,565	8,903	8,985	17,926	19853	12846.4
BOP	28233	73462	22712	57960	56402	47753.8
FWBL	4569	4405	2615	5233	4356	4235.6

Source: compiled from annual financial statements of banks (2006-2010)

Figure: 04



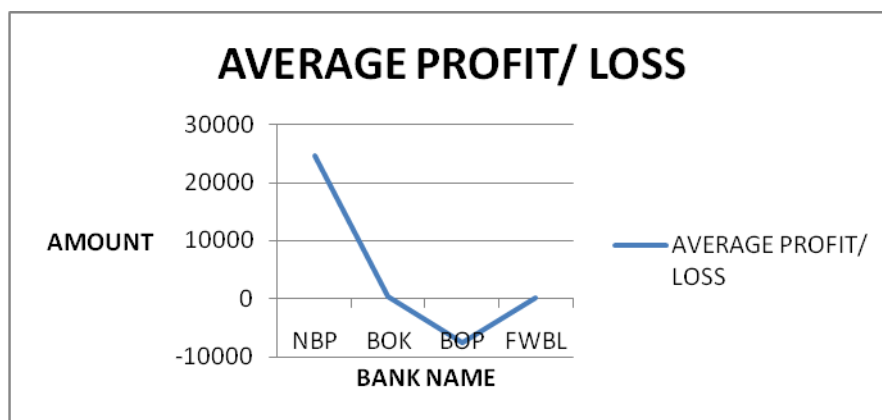
The above table shows the investment made by the selected banks by their management. National bank of Pakistan has made investment of Rs. 208176.4 millions. National is at top level for investment purposes. Bank of Punjab, bank of Khyber and first women bank limited are second, third and fourth position.

Table 5: Profit before taxes of public sector banks of Pakistan (value in Million Rs.)

BANK NAME	2006	2007	2008	2009	2010	AVERAGE
NBP	26,311	28,061	23,001	21,300	24,415	24617.6
BOK	203	77	206	-799	713	80
BOP	3804	4446	-10060	-14373	-21571	-7550.8
FWBL	256.5	238.4	190.4	-86.2	54.7	130.76

Source: compiled from annual financial statements of banks (2006-2010)

Figure: 05



The above table shows the earnings of banks before paying taxes. National bank is at top level as the above table indicating the average values. First women bank limited and bank of Khyber are placed on third and fourth rank for earning before paying taxes. The bank of Punjab is suffering from losses.

Table 6: Return on assets of public sector banks of Pakistan (value in %.)

BANK NAME	2006	2007	2008	2009	2010	AVERAGE
NBP	2.68	2.5	1.89	1.85	1.69	2.122
BOK	0.75	0.71	0.43	-1.64	1.11	0.272
BOP	2.76	2.22	-0.05	-4.64	-1.75	-0.292
FWBL	1.7	1.93	1.3	0.94	1.25	1.424

Source: calculated from annual financial statements of banks (2006-2010)

Figure: 06

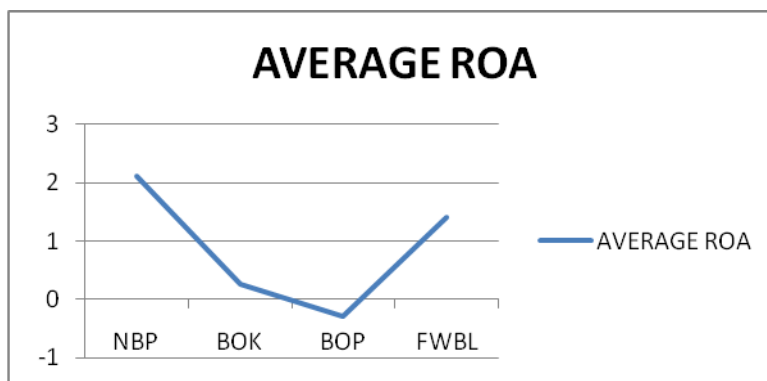


Table 06 and figure 06 shows data about return on assets of public sector banks working in Pakistan. Average value of ROA is high for national bank of Pakistan that is 2.122. First woman bank limited ranked second with ROA 1.424. The value for bank of Punjab is negative that is (0.292).

Table :7 Advance to total assets ratio of pulic sector banks of pakistan value in (%)

BANK NAME	2006	2007	2008	2009	2010	AVERAGE
NBP	49.77	44.65	50.50	50.31	46.13	48.27
BOK	33.80	33.95	40.35	30.50	35.91	34.90
BOP	91.15	81.22	56.06	65.26	61.63	71.06
FWBL	30.37	42.84	37.95	38.74	62.22	42.42

Source: calculated from annual financial statements of banks (2006-2010)

Figure:07

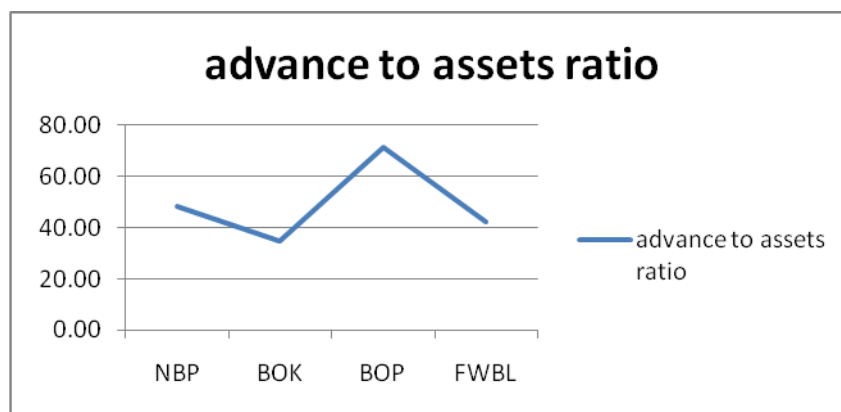


Table 7 and figure 7 represent data about advance to total assets ratio about public sector banks working in Pakistan for the time period 2006-2010. The ratio shows the relationship between advances of public sector banks and its total assets. Here BOP stood at first, NBP second, FWBL third and BOP at forth.

Table: 8 Investment to Assets ratio of public sector banks of Pakistan value in (%)

BANK NAME	2006	2007	2008	2009	2010	Average
NBP	22.03	27.70	20.89	23.04	29.11	24.56
BOK	31.51	29.96	28.67	46.19	39.09	35.08
BOP	25.40	44.56	9.67	31.18	28.77	27.91
FWBL	44.54	60.31	29.10	58.22	41.47	46.73

Source: calculated from annual financial statements of banks (2006-2010)

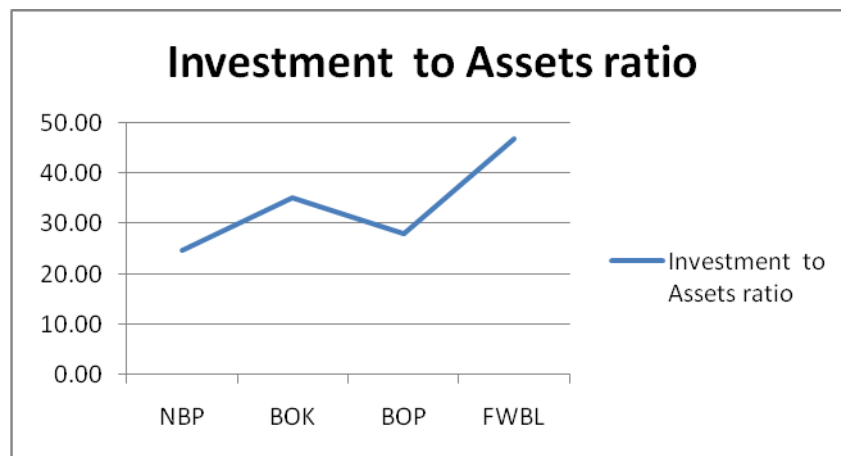
Figure: 08

Table 8 and figure 8 represent data about investment to total assets ratio about public sector banks working in Pakistan for the time period 2006-2010. The ratio is used to recognize the segment of total assets which is used for investment in various areas. FWBL is at top level.

Rank of Banks on the Basis of the Selected Financial Indicators or Ratios

FINANCIAL RATIO /INDICATOR	NBP	BOK	BOP	FWBL
TOTAL ASSETS	1	3	2	4
ADVANCE	1	3	2	4
DEPOSITS	1	3	2	4
INVESTMENT	1	3	2	4
PROFIT BEFORE TAX	1	3	4	2
RETURN ON ASSETS	1	3	4	2
ADVANCE TO TATAL ASSETS	2	4	1	3
INVESTMENT TO TOATAL ASSETS	4	2	3	1

Conclusion

The proposed research study concludes that each public sector bank has different conclusion and ranking based on the selected financial measures and ratios.

- The above table shows that national bank of Pakistan is ranked first in term of total assets, advances, deposits, investment, profit before tax and return on assets. In advance to total assets NBP at second rank whereas forth for investment to assets ratio

- b) Same like national bank, bank of Khyber is placed at third position in term of all selected measures except advance to assets ratio and investment to assets ratio.
- c) Bank of Punjab ranked second in term of total assets, advances, deposits and investment. The same bank placed at fourth position with respect to the profit before tax and return on assets. Rank first for advance to assets ratio and third for investment to assets ratio.
- d) First women bank limited placed at fourth position in term of total assets, advance, deposits and investment. And ranked at second on the basis of profit before tax and return on assets. Third for advance to assets ratio and first for investment to assets ratio.

At the end this effort highlighted the constructive information not only for managers as well as for policy makers so that they may be able to improve the financial measures. Only national bank of Pakistan leads in all respect i.e. total assets, advances, deposits, return on assets, profit before tax and investment. At the end this for policy maker, decision makers and management to improve the other public sector banks. The study has its limitation in term of selection of banks (only public sector banks). The present research work will serve as a guideline to the public sector banks to look up the financial performance and make superior allocation for improving efficiency for the coming time.

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Appendix" A" list of public sector bank of Pakistan

NAME OF BANK	ESTABLISHMENT DATE	ABBREVIATION
NATIONAL BANK OF PAKISTAN	1949	NBP
BANK OF KHYBER	1991	BOK
BANK OF PUNJAB	1989	BOP
FIRST WOMEN BANK LTD	1989	FWBL