Financial Comparison of Commercial Banks

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Abstract
Commercial banks are the major element of financial systems. The aim of this research study is to make comparisons of financial performance from the time period of 2011–2014 by using financial ratios and measures of commercial banks functioning in Pakistan. All commercial banks are selected for analysis for evaluation purposes. This study determines the ranking of commercial banks on the base of bank size, return on assets (ROA), return on equity (ROE), spread ratio, and earnings per share (EPS).All the findings of this study are totally matched with the results described by State Bank of Pakistan.
Keywords: Commercial banks, Pakistani Banks, Financial Performance

1.   Introduction:

The Financial sector plays an essential role in the development of economy. The financial sector of Pakistan is leaded by the commercial banks. The poor banking system of country cannot help the country in the economic development Bank and Das (2013). Banks collect funds by taking deposits from borrowers and provide collected fund to individual or organization for productive schemes to make profits.

The banking structure of Pakistan was weak at the time of freedom in 1947. All Indian banks closed their branches and head offices and moved to India. The central bank of Pakistan was established in 1948 which is identified as State Bank of Pakistan (SBP). In 1949, the National Bank of Pakistan was established and acted as an agent of the State Bank of Pakistan to support banking system of Pakistan. Commercial bank branch expansions had been noticed in the 1950s.

In 1970, the State Bank of Pakistan exposed that 88 account holders had access to nearly 25% of their entire credit and directors of banks were most of these account owners. The State Bank of Pakistan introduced banking reforms in 1972. In 1974, the government of Pakistan nationalized all 13 commercial banks of Pakistan and merged them into five banks. Nationalization plays an inefficient role on the banking sector of Pakistan due to in excess of branches, overstaffing, and political influence. These difficulties indicated negative effects for financial sector of Pakistan (Limi, 2004).

In 1991, the Government of Pakistan changed its policy to inspire foreign financiers through privatization of commercial banks and ten new commercial banks were allowed to start their operations in the country. Furthermore, two provincial banks, Bank of Punjab and Bank of Khyber, were also declared as listed banks in 1994.

Hardy and Patti (2001) conducted research on various parametric regression models on Pakistani banks from 1981 to 1997 and financial performance of privatized banks improved after banking reforms and public sector bank's profitability is low due to procedural inefficiencies.

2. Objective of study:

1. To analyze and compare the financial statements of commercial banks for the previous four financial years.
2. To know the Profitability of commercial banks of Pakistan.

3. Literature Review

The financial performance of the banks evaluated by financial ratio which was applied by many researchers, and the next topic is the summary of previous studies and their outcomes about the performance of the banks. Ratios help in detecting the success or otherwise of specific choice of action as comparison can be made of the pre and post-action outcomes (luckham, 1982). Firms can achieve profitability goal by efficient use of resources (Panwala, 2009). Profit is the vital goal of commercial banks (Ongore and Kusa, 2013). Many financial ratios are used to determine the profitability of commercial banks, such as return on equity and return on assets which are the major ones (Murthy and Sree, 2003). Usually accounting techniques, primarily based on the use of financial ratios, have been employed for evaluating bank performance (Ncube, 2009).Ratio examination contains methods of calculating and interpreting financial ratios to analyze and observe a firm's performance. A firm's balance sheet and income statement are input to ratio analysis. The basic inputs to ratio analysis are the firm's income statement and balance sheet (Gitman, 2009).

The factors of the bank's profitability were examined in an emerging economy (Sufain, 2009). Malaysian's banking sector financial statements were used from 2000-2004. The finding from the results show that profitability levels of Malaysian banks is low due to high credit risk and higher loan attention.

Al-Tamimi (2009) conducted research on Islamic and conventional national banks of UAE during the period 1996-2008.ROE and ROA were used ad dependent variable and regression model were used. The result of study shows that liquidity and concentration were the most important factors of conventional national banks' performance. On the contrary, cost and number of branches are most powerful factors of Islamic banks performance.

Tarawneh (2006) applied multiple regression analysis and correlation to investigation the Omani Commercial banks financial performance. ROA and the interest income were used as dependent variables. The bank's size, the asset management, and the operational efficiency

were used as independent variables. Results display a correlation between financial performance and operational efficiency.

Ali, Akhtar, & Ahmed (2011) conducted research on Pakistani banks and found significant relation between economic growth, capital, and asset management ratio with ROA. They also found that asset management, economic growth, and operating efficiency are significant with the ROE.

The financial performance of state owned and private banks was determined from period 2007 to 2012 in Sri Lanka (Velnampy.T and Anojan.V, 2014). Different financial ratios and descriptive statistics were used to calculate the financial performance of the banks.

4.   Theoretical Framework:
4.1   Banks Size:
Bank size means the total assets of the commercial banks.

4.2   Return on Assets:
The ROA ratio utilizes earning and assets to calculate return. It shows the efficiency of the management in utilizing its resources to generate earnings. ROA has been calculated as follows:
ROA Ratio =Profit after Tax / Total Assets x 100

4.3   Return on Equity:
Return on equity measures a ratio of primary interest for the shareholders of the company. This ratio is a measure of assessing the organization's ability to earn profit on the given equity. ROE is calculated as follows:
ROE Ratio =Profit after Tax / Shareholder Equity x 100

4.4   Spread Ratio:
Spread Ratio is measured the net income of the company divided by average outstanding common shares. This ratio is also a part of Profitability Ratio of the Company.
Spread Ratio= total interest earned / total interest paid.

4.5   EPS Ratio:
The *earnings per share ratio* (*EPS ratio*) measure the amount of a company's net income. This ratio is an indicator of a company's profitability.
EPS = net income / average outstanding common shares

5.   Analysis and Results
5.1   Banks Size:

TABLE 01						
		BANK SIZE				
Sr No.	**Bank Name**	**2014**	**2013**	**2012**	**2011**	**Average**
1	Allied Bank Limited	843,097	734,761	634,091	516,109	**682,015**
2	Askari Bank Limited	447,083	394,827	353,056	343,757	**384,681**
3	Bank Alfalah Limited	743,128	611,427	536,567	468,294	**589,854**
4	Bank Al Habib Limited	579,310	461,021	453,353	429,292	**480,744**
5	Faysal Bank Limited	388,127	355,280	313,123	292,583	**337,278**

| 6	Habib Bank Limited	1,867,003	1,715,271	1,610,474	1,139,554	**1,583,076**
7	Habib Metropolitan Bank Limited	397,674	311,395	304,310	291,916	**326,324**
8	JS Bank Limited	179,381	114,748	84,018	54,502	**108,162**
9	MCB Bank Limited	934,631	815,508	767,075	653,782	**792,749**
10	NIB Bank Limited	194,995	178,793	190,855	154,825	**179,867**
11	SAMBA Bank Limited	50,581	40,001	34,854	31,331	**39,192**
12	SILKBANK Limited	102,649	91,770	89,080	90,670	**93,542**
13	Soneri Bank Limited	213,175	169,234	158,629	129,756	**167,699**
14	Standard Chartered Bank Limited	419,723	405,329	399,055	364,187	**397,074**
15	Summit Bank Limited	148,444	125,499	134,289	119,267	**131,875**
16	United Bank Limited	1,182,453	1,009,739	896,535	779,207	**966,984**
17	National Bank of Pakistan	1,543,054	1,364,926	1,309,528	1,148,605	**1,341,528**
18	First Women Bank Limited	18,787	20,761	22,506	16,150	**19,551**
19	Sindh Bank Limited	124,871	75,032	92,291	47,730	**84,981**
20	The Bank of Khyber	126,106	108,170	82,177	68,424	**96,219**
21	The Bank of Punjab	420,400	352,674	332,110	280,889	**346,518**
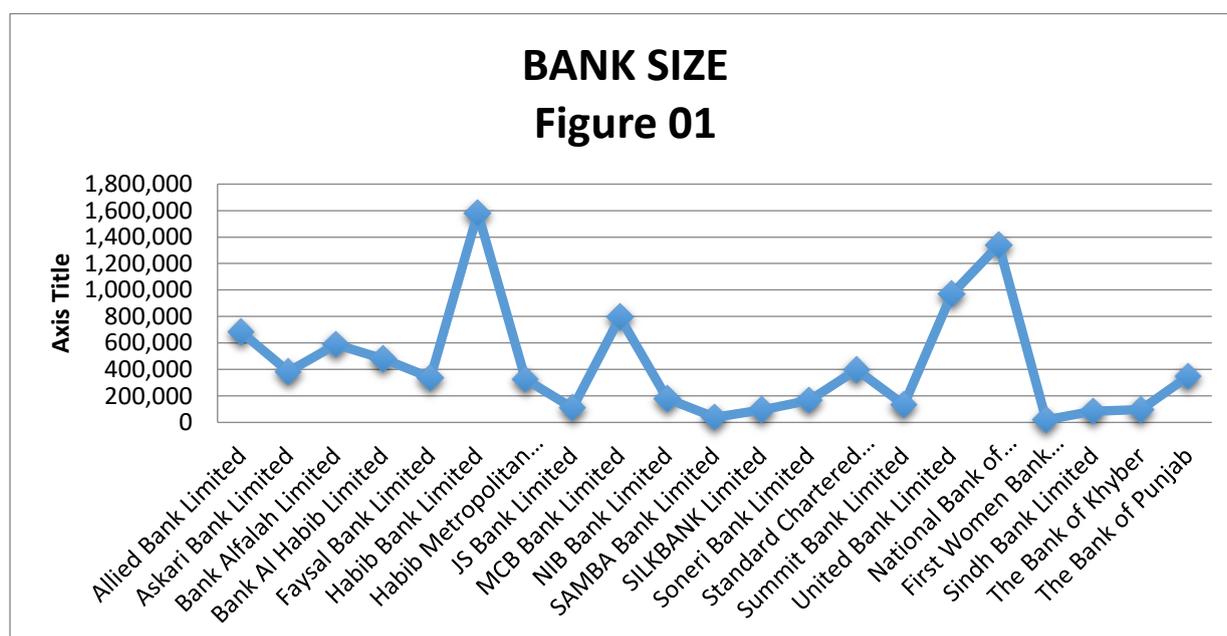
BANK SIZE
Figure 01

Table 01 and figure 01 are representing the bank size of commercial banks for the period of 2011-2014. The results of figure 01 clearly shows that Habib bank limited have larger total assets than other commercial banks working in Pakistan. First Women Bank Limited size of total assets is lower than all commercial banks.

5.2   Return on Assets

| Sr No.	Bank Name	ROA				
		2014	**2013**	**2012**	**2011**	**Average**
1	Allied Bank Limited	1.9000	2.1400	2.0300	2.1000	**2.0425**
2	Askari Bank Limited	0.9500	-1.4700	0.3600	0.4900	**0.0825**
3	Bank Alfalah Limited	0.8500	0.8300	0.9200	0.8100	**0.8525**
4	Bank Al Habib Limited	1.1110	1.1275	1.2154	1.0569	**1.1277**
5	Faysal Bank Limited	0.6700	0.5500	0.4700	0.4600	**0.5375**
6	Habib Bank Limited	1.7800	1.3800	2.0000	2.1600	**1.8300**
7	Habib Metropolitan Bank Limited	1.2427	1.1323	1.1160	1.1267	**1.1544**
8	JS Bank Limited	1.0581	0.7294	0.9748	0.6624	**0.8562**
9	MCB Bank Limited	2.7800	2.7200	2.9100	3.1800	**2.8975**
10	NIB Bank Limited	-0.3180	0.8837	0.1373	-1.3351	**-0.1580**
11	SAMBA Bank Limited	0.9000	0.2000	0.9000	0.8000	**0.7000**
12	SILKBANK Limited	0.0900	-1.2800	-0.3800	0.8500	**-0.1800**
13	Soneri Bank Limited	0.8300	0.6300	0.7700	0.6600	**0.7225**
14	Standard Chartered Bank Limited	2.3382	2.6396	1.5148	1.5248	**2.0043**
15	Summit Bank Limited	0.1624	-1.4446	-2.0232	-0.9911	**-1.0741**
16	United Bank Limited	2.0317	1.9540	2.1504	1.9105	**2.0117**
17	National Bank of Pakistan	0.9739	0.4030	1.2342	1.5326	**1.0359**
18	First Women Bank Limited	-2.6561	1.0300	0.5000	12.2000	**2.7685**
19	Sindh Bank Limited	1.2901	1.2701	0.9611	1.5692	**1.2726**
20	The Bank of Khyber	1.0380	1.0668	1.3082	1.2744	**1.1719**
21	The Bank of Punjab	0.6758	0.5427	0.5251	0.1047	**0.4621**

Table heading: **TABLE 02**
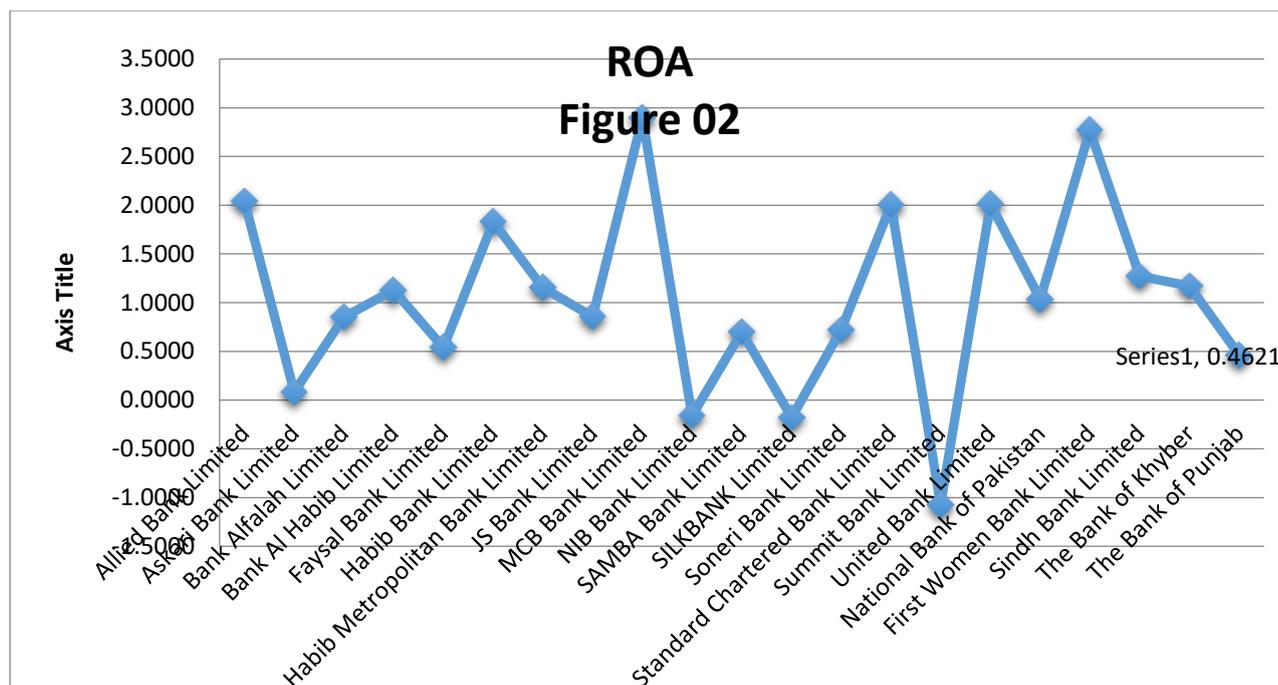
ROA Figure 02

Table 02 and figure 02 describe the data of Return on Assets (ROA) of commercial banks for the period of 2011-2014. ROA ratio exposes the earning capacity of profit by using total assets. The results shows that MCB bank has positive and high return on equity (2.8975 %) and Summit Bank has the highest negative average ratio (-1.0741%).

5.3   Return on Equity

TABLE 03						
		ROE				
Sr No.	**Bank Name**	**2014**	**2013**	**2012**	**2011**	**Average**
1	Allied Bank Limited	25.0900	30.0000	28.0400	29.4000	**28.1325**
2	Askari Bank Limited	18.9200	-28.5300	6.7000	9.6400	**1.6825**
3	Bank Alfalah Limited	18.8600	18.0400	19.4200	16.3600	**18.1700**
4	Bank Al Habib Limited	23.0673	22.1323	25.7597	25.2224	**24.0454**
5	Faysal Bank Limited	11.6800	9.4000	7.7600	7.4300	**9.0675**
6	Habib Bank Limited	20.0000	17.0000	21.0000	21.7000	**19.9250**
7	Habib Metropolitan Bank Limited	16.3556	12.8851	13.0605	13.5651	**13.9666**
8	JS Bank Limited	13.4106	7.5911	7.6894	4.0981	**8.1973**
9	MCB Bank Limited	23.8300	23.0900	24.5900	26.1700	**24.4200**
10	NIB Bank Limited	-4.0523	9.8651	1.8187	-14.6150	**-1.7459**
11	SAMBA Bank Limited	2.1000	0.9000	3.6000	2.9000	**2.3750**
12	SILKBANK Limited	1.1400	-19.2000	-6.2500	13.2700	**-2.7600**
13	Soneri Bank Limited	11.9100	8.7000	10.2400	8.4400	**9.8225**
14	Standard Chartered Bank Limited	17.6381	19.9981	11.7477	10.6105	**14.9986**
15	Summit Bank Limited	2.1935	-56.5502	-95.6690	-21.4831	**-42.8772**

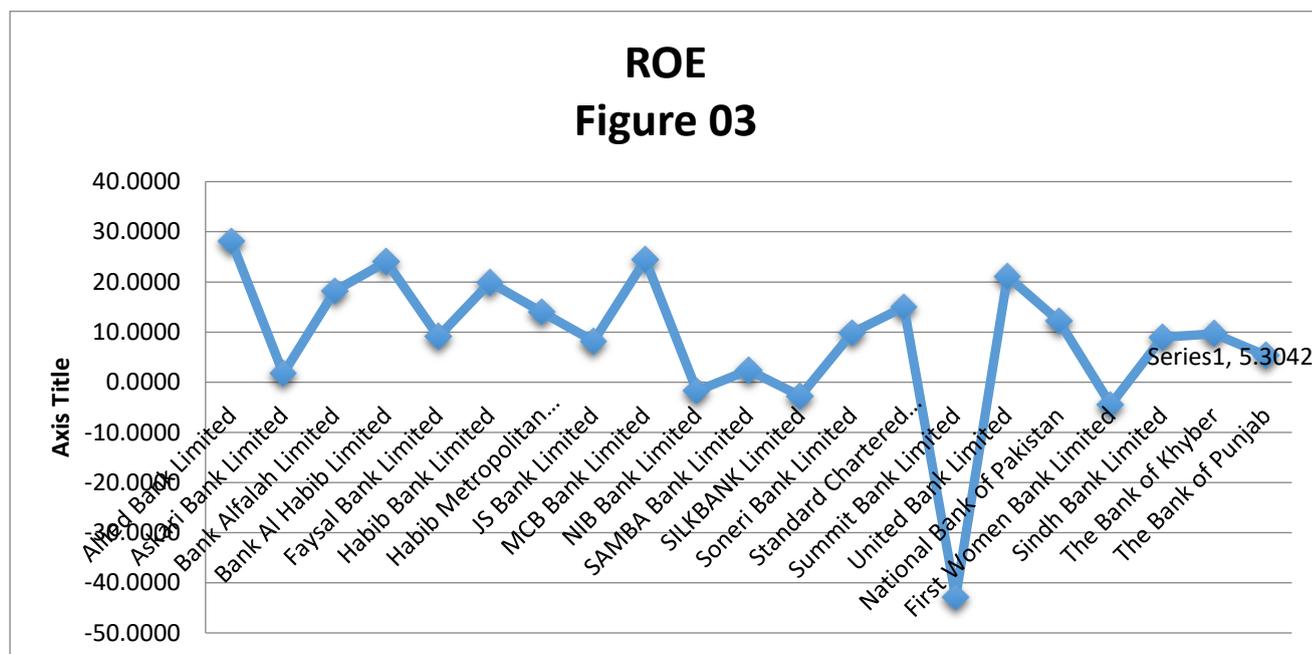| 16 | United Bank Limited | 22.5391 | 19.9319 | 22.5225 | 19.5191 | **21.1281** |
17	National Bank of Pakistan	13.6179	5.4532	13.9287	15.9283	**12.2320**
18	First Women Bank Limited	-22.3166	-12.6100	2.1000	15.0400	**-4.4467**
19	Sindh Bank Limited	12.6086	8.1439	8.0366	6.9681	**8.9393**
20	The Bank of Khyber	9.9092	9.6877	9.9768	8.9897	**9.6408**
21	The Bank of Punjab	18.5856	34.6739	-27.8283	-4.2144	**5.3042**

ROE
Figure 03

Table 03 & figure 03 are exhibiting the data about return on equity (ROE) of commercial banks which were working in Pakistan during the period of 2011-2014. This financial ratio is used to determine the efficiency of organization that how much profits are generated by using the owners' equity. It is more flawless in the figure 03 that Allied Bank Limited has the highest positive average ROE ratio (28.13%), whereas Summit Bank has the highest negative average ratio (-42.87).

5.4   Spread Ratio

| Sr No.	Bank Name	SPREAD RATIO				
		2014	2013	2012	2011	Average
1	Allied Bank Limited	1.7262	1.4440	1.4105	1.4436	1.5061
2	Askari Bank Limited	1.5243	1.6652	1.5205	1.9414	1.6629
3	Bank Alfalah Limited	1.6528	1.6242	1.7025	1.7245	1.6760
4	Bank Al Habib Limited	1.7650	1.6202	1.8038	1.6328	1.7055
5	Faysal Bank Limited	1.7485	1.6400	1.6997	1.4692	1.6394
6	Habib Bank Limited	2.0048	1.8496	1.7908	2.3370	1.9955
7	Habib Metropolitan Bank Limited	1.5318	1.5827	1.8348	1.3955	1.5862
8	JS Bank Limited	1.5664	1.5445	1.3670	1.6721	1.5375
9	MCB Bank Limited	2.2890	2.3924	2.5135	2.8851	2.5200
10	NIB Bank Limited	1.3401	1.3334	1.4162	1.1724	1.3155
11	SAMBA Bank Limited	1.6461	1.7592	1.6753	1.7243	1.7012
12	SILKBANK Limited	1.5797	1.3952	1.5713	1.2872	1.4583
13	Soneri Bank Limited	1.5877	1.5542	1.5744	1.4349	1.5378
14	Standard Chartered Bank Limited	2.5423	2.4823	2.5391	2.7618	2.5814
15	Summit Bank Limited	1.3295	1.1021	1.2330	1.0592	1.1810
16	United Bank Limited	2.2077	2.0915	2.0824	2.2800	2.1654
17	National Bank of Pakistan	1.6309	1.6281	1.7741	1.9649	1.7495
18	First Women Bank Limited	1.6097	1.5463	1.7338	1.6310	1.6302
19	Sindh Bank Limited	1.6252	1.5547	1.4971	1.6528	1.5824
20	The Bank of Khyber	1.5700	1.7084	1.5624	1.5263	1.5918
21	The Bank of Punjab	1.4381	1.1989	1.0951	0.9816	1.1784

SPREAD RATIO
Figure 04
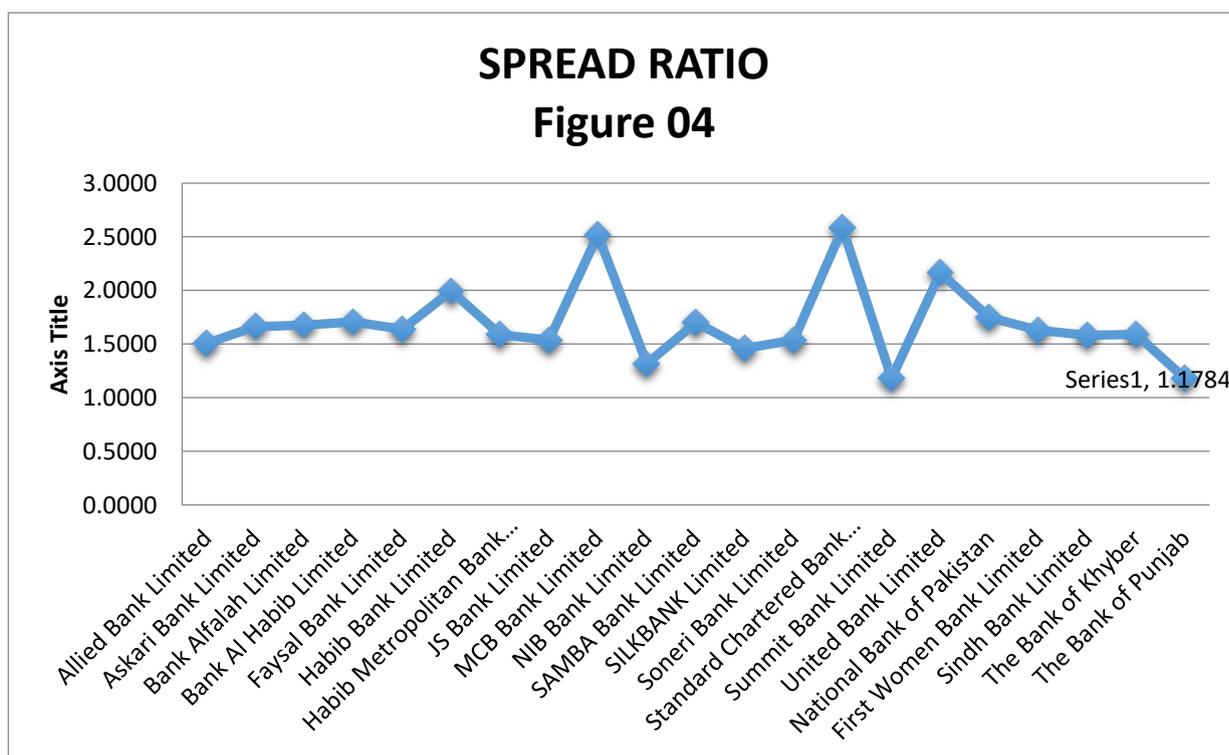
Table 04 & figure 04 are showing the statistics about spread ratio of commercial banks which are operating in Pakistan in the period of 2011-2014. Spread ratio is used to measure the relative efficiency of the commercial banks. It is clear in the figure 04 that Standard Chartered Bank Limited has the highest positive average Spread ratio (2.5814%), whereas The Bank of Punjab has the lowest average ratio (1.1784).

5.5   Earnings per share:

| Sr No.	Bank Name	EPS				
		2014	**2013**	**2012**	**2011**	**Average**
1	Allied Bank Limited	13.1100	12.7900	10.1800	9.7400	**11.4550**
2	Askari Bank Limited	3.1900	-5.9000	1.5400	2.3000	**0.2825**
3	Bank Alfalah Limited	4.0900	3.4700	3.3800	2.6000	**3.3850**
4	Bank Al Habib Limited	5.7900	5.1400	5.4700	4.4900	**5.2225**
5	Faysal Bank Limited	2.3700	1.7700	1.3600	1.2300	**1.6825**
6	Habib Bank Limited	21.6300	17.1500	18.3600	20.1300	**19.3175**
7	Habib Metropolitan Bank Limited	4.7200	3.3700	3.2400	3.1400	**3.6175**
8	JS Bank Limited	1.3500	0.4400	0.7100	0.4200	**0.7300**
9	MCB Bank Limited	21.8500	19.3100	24.5900	26.1700	**22.9800**
10	NIB Bank Limited	-0.0700	0.1500	0.0200	-0.3400	**-0.0600**
11	SAMBA Bank Limited	0.2400	0.1000	0.2100	0.1600	**0.1775**
12	SILKBANK Limited	0.0300	-0.4300	-0.1300	0.2600	**-0.0675**
13	Soneri Bank Limited	1.4400	0.9400	1.0000	0.7800	**1.0400**
14	Standard Chartered Bank Limited	2.4900	2.7300	1.5400	1.4100	**2.0425**
15	Summit Bank Limited	0.1600	-1.5100	-2.5200	-1.5000	**-1.3425**
16	United Bank Limited	19.3200	15.2100	14.6100	12.6600	**15.4500**
17	National Bank of Pakistan	7.0600	2.5900	8.7400	9.5200	**6.9775**
18	First Women Bank Limited	-2.7500	-1.3800	0.3700	3.1100	**-0.1625**
19	Sindh Bank Limited	1.6800	0.6700	0.8900	0.7500	**0.9975**
20	The Bank of Khyber	1.3100	1.1500	1.1900	1.2900	**1.2350**
21	The Bank of Punjab	6.7700	2.3300	2.8100	0.6600	**3.1425**

EPS
Figure 05
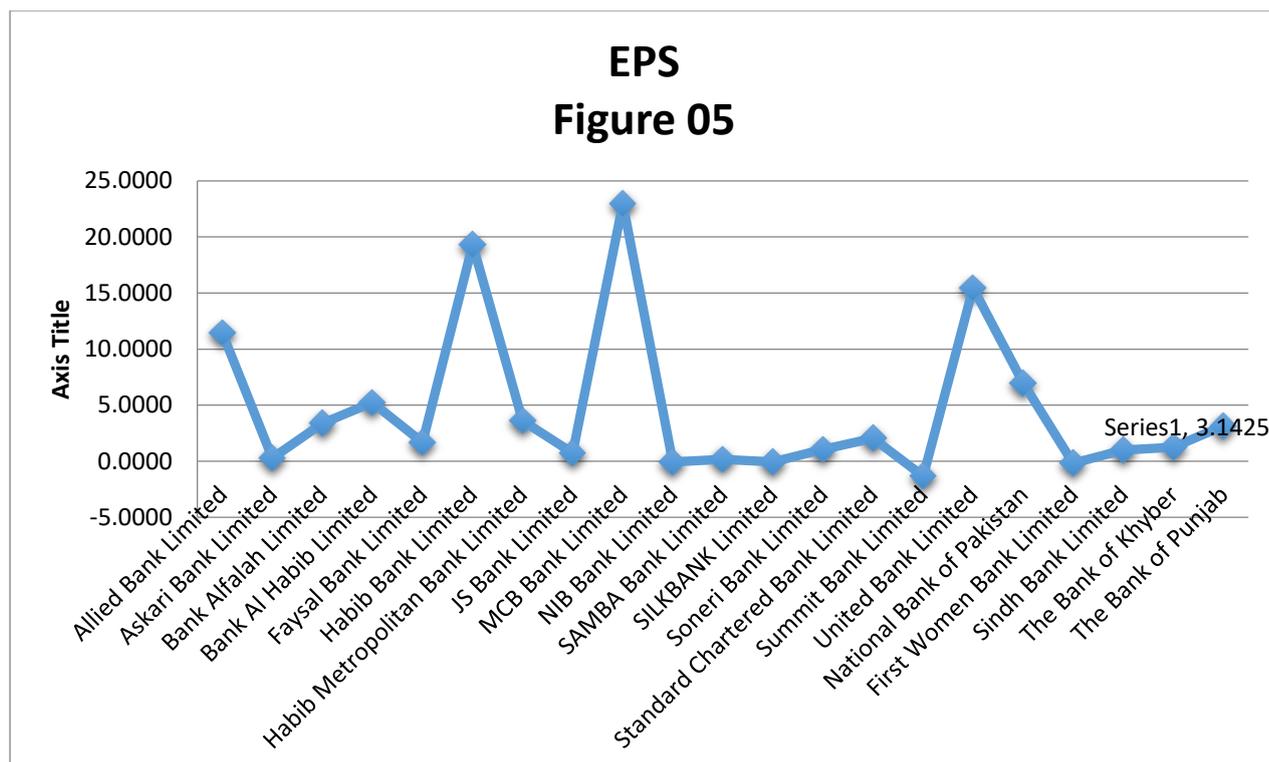
Table 05 and figure 05 are representing the Earnings per Share (EPS) of commercial banks for the period of 2011-2014. EPS is used calculate the earnings is on a shareholder basis. The results of figure 05 clearly shows that MCB Banks EPS ratio (22.98%) is higher & Summit Bank Limited EPS ratio (-1.34%) is lower than all commercial banks of Pakistan.

6. Results
6.1 Ranks of Commercial Banks based on Financial Ratios and Measures

TABLE 06						
		Financial Ratios & Measures				
Sr No.	**Banks**	**Bank Size**	**ROA**	**ROE**	**Spread Ratio**	**EPS**
1	Allied Bank Limited	5	3	1	17	4
2	Askari Bank Limited	9	18	17	9	10
3	Bank Alfalah Limited	6	13	6	8	8
4	Bank Al Habib Limited	7	10	3	6	6
5	Faysal Bank Limited	11	16	12	10	12
6	Habib Bank Limited	1	6	5	4	2
7	Habib Metropolitan Bank Limited	12	9	8	13	7
8	JS Bank Limited	16	12	13	16	16
9	MCB Bank Limited	4	1	2	2	1
10	NIB Bank Limited	13	19	18	19	18
11	SAMBA Bank Limited	20	15	16	7	17
12	SILKBANK Limited	18	20	19	18	19
13	Soneri Bank Limited	14	14	10	15	14

14	Standard Chartered Bank Limited	8	5	7	1	11
15	Summit Bank Limited	15	21	21	20	21
16	United Bank Limited	3	4	4	3	3
17	National Bank of Pakistan	2	11	9	5	5
18	First Women Bank Limited	21	2	20	11	20
19	Sindh Bank Limited	19	7	14	14	15
20	The Bank of Khyber	17	8	11	12	13
21	The Bank of Punjab	10	17	15	21	9

7.   Conclusions

The study concludes that each commercial bank has a different conclusions based on each financial ratio related to bank size, return on assets (ROA), return on equity (ROE), spread ratio, earnings per share (EPS).

a. Based on bank size, first Habib Bank Limited is at the top, National Bank of Pakistan is the second, United Bank Limited is the third and last one is First Women Bank Limited.

b. Based on ROA, first MCB Bank Limited is at the top, First Women Bank Limited is the second, Allied Bank Limited is the third and last one is Summit Bank Limited.

c. Based on ROE, Allied Bank Limited is at the top, MCB Bank Limited is the second, Bank Al Habib Limited is the third and last one is Summit Bank Limited.

d. Based on spread ratio, Standard Chartered Bank Limited is at the top, MCB Bank Limited is the second, United Bank Limited is the third and last one is The Bank of Punjab.

e. Based on EPS, first MCB Bank Limited is at the top, Habib Bank Limited is the second, United Bank Limited is the third and last one is Summit Bank Limited.

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