Comparison of Private and Public Banks Performance

Ahmad Waleed[1], Muhammad Bilal Shah[2], Muhammad Kashif Mughal[3]

[1]*(M.Phill Scholar (Business Administration) National College Business Administration & Economics, Multan)*

Abstract : *The banking system is major part of financial sector and it plays an important part in the growth of economy. The aim of this research study is to compare performance of private and public banks which are operating in Pakistan during the period of 2011-2014. All private and public banks are used in the research. Bank size and financial ratios are taken as variables such as liquidity ratios and portability ratios. As a result of the study, it stated that debit ratio, Debt to Equity Ratio, return on equities and earning per share of private banks is higher than public banks. On the other hand, public return on assets is higher than private bank.*
Keywords –*Bank performance, Private Banks, Public Bank, Pakistani Banks*

I.   Introduction

The banking sector is the backbone of economy in a country. Banking industry plays a vital role for the economic development. Poor banking system cannot help the country in economic development BishnuPadaBanik [1]. Banks are important financial intermediaries in the most of countries and it provide a package of different services DegerAlper[2]. All Banks of Pakistan are regulated by the ordinance which is known as banking company ordinance Of Pakistan (BCO). This ordinance was issued in 1962 by State Bank of Pakistan (SBP). The State Bank of Pakistan also authorized the application of code for all listed and non-listed banks and Development Finance Institutes (DFIs).

The performance of the banking industry is very important for the growth of country economiccondition. Before the partition in 1947, the banking system in Pakistan was controlled by branches of British-based banks. After the partition in 1948, the central bank was formed which is known as State Bank of Pakistan. In 1974, the government choose to nationalize all 13 commercial banks. All 13 of the commercial banks of Pakistan were merged to become five nationalized banks.

In the late 1980's, it was quite clear that national socio-economic objectives were not accomplished by nationalization. The public sector in banking was responsible for financial inefficiency. In 1992, government of Pakistan take step to encourage foreign investor through privatization of banks.

The purpose of this research study is to compare the financial performance state-owned commercial banks and private banks of Pakistan. The financial ratio analysis was used to examine the performance of banks. In this research study, financial data of public and private banks of Pakistan were used from time period 2011-2014 to classify the public and private banks on the basis of bank size and financial ratios, such as liquidity ratios and profitability ratios.

II.   Literature Review

SJ Pilloff[3] researched on Banking markets structure and profitability. They discourse the positive relationship of the bank size with bank's profitability. The size of the banks is also affected by the operating efficiency.P Molyneux[4]did research on banks of United States and use the data of banks from 1987-1991. Researchers stated that smaller banks are less profitable than larger banks.

Another researcher Sufian[5] found the positive relationship of banks size and profitability because larger size banks have lower production cost and they offer more reasonable loans.

 Ch. Spathis[6]has research on Greek banking systems and use the data from 1990 to 1999. They found negative relations between bank size and profitability.

Bharathi[7] researched the value added intellectual capital of the banks in Pakistan. Researchers use the data from 2004 to 2006. The result shows that private banks performance better than public banks.

Xiaochi Lin [8] researchedthe performance of Chinese banks. They use data from 1997 to 2004 as a sample. The results of study shows that state-owned commercial banks are less efficient and less profitable than private banks of China.

Alejandro Micco's [9] study focused on the ownership and performance of banking sector. They stated that state-owned banks are less profitable than private banks in developing countries.

Steven Fries [10] conducted research on 15 east European countries. Data from 289 banks were used as sample. Results shows that's stat owned banks are less efficient than private banks.

T [11] has stated that the financial ratios analysis can provide better investment options for investors. Financial ratio analysis also measures different characteristics of the performance and fundamentals of company.Alam [12] compared the performance of state-owned and domestic banks of Pakistan. They use the data from 2006 to 2009 and compare the performances of banks with financial ratios analysis. The results shows that domestic banks of Pakistan have more assets than state-owned banks of Pakistan, but state-owned banks performance is better in term of liquidity and profitability than domestic banks of Pakistan.

Elizabeth Duncan [13] explores the connection between customer service quality and financial performance. The result of research shows that financial performance measures have a positive relationship with customer service quality.

GiulianoIannotta [14] compares government banks with private banks of the European Banking Industry. They take 224 large European banks over the 1999-2004 period for research. They found that private bank risk of insolvency is less than government owned banks. Government-owned banks accounting ratios are better than private banks.

Ashfaq Habib [15] compares the banking sector of Pakistan. Researchers divide the entire banking system into four groups and use the financial statement of banks from period 2009-2013. The results of research show that private banks are better than all other types of banks.

SuvitaJha and XiaofengHui [16] conducted research on the banking industry of Nepal. They use data from 2005-2010 for research and apply financial ratio based on the CAMEL model. The results of the study indicate that performance of private banks is significantly efficient then public banks of Nepal.

Manjula Kumara Wanniarachchige [17] studies theperformance of Indian commercial banks. The performance of banks was measured by data envelopment analysis. They use the data during from 2002-2009 as a sample. The findings of the research suggest that domestic private banks are less efficient in the Indian banking market.

Dhanabhakyam&M.Kavithaperform research on financial sectors of the Indian banking sector and applied various techniques to measure financial performance such as ratio analysis, correlation and regression. They stated that public banks growth rate and financial efficiency is glowing, but private banks of India are working in getting deposits and advances schemes.

R Azhagaiah' analyses the financial performance of private and public banks which are operating in India. They take 17 private and 19 public banks as sample of research. They use simple regression model to measure the financial performance of banks. The result shows that public sector banks are performing better than private sector banks.

III.   Methodology

3.1 Sample:
Public and private banks are used as the sample in this research. There are 5 public bank and 16 private banks are listed in State bank of Pakistan.

3.2 Data collection method:
Secondary data is using in this research, financial statements of public and private banks are downloaded from state banks of Pakistan official website for the year 2011 to 2014.

These financial ratios are divided in two categories.
1. Bank Size or Total Assets
2. Leverage Ratios
a. Debt Ratio
b. Debts to equity ratio
3. Profitability Ratios
a. Spread ratio
b. Return on assets ratio
c. Return on equity ratio
d. Earnings per share ratio

IV.   Analysis and Results

4.1 Banks Size:

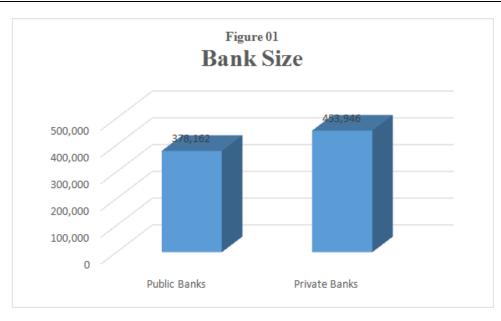| Table 01					
Bank Size	2014	2013	2012	2011	Average
Public Banks	447,046	384,715	368,125	312,762	378,162
Private Banks	543,342	471,039	435,086	366,315	453,946

Figure 01
Bank Size

Table 01 and Figure 01 are showing the data concerning bank size of public and private banks which were working in Pakistan during the period of 2006-2009. Bank size means the total assets of the banks. There is a gap between public and private banks.

4.2 Leverage Ratios
4.2.1 DEBT RATIO

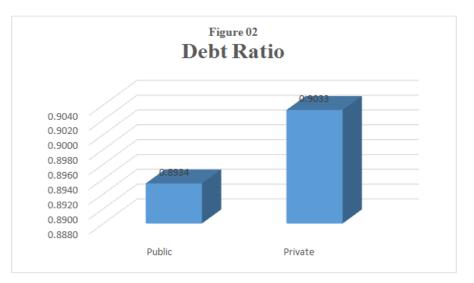| Table 02					
Debt Ratio	2014	2013	2012	2011	Average
Public	0.8979	0.9003	0.9008	0.8746	0.8934
Private	0.9006	0.9100	0.9079	0.8947	0.9033

Figure 02
Debt Ratio

Table 02 and figure 02 are indicating the Debt ratio of private and public banks for the period of 2011-2014. This ratio used to find out that what percent of total assets are financed via debt. Debit ratio is measured by total liabilities by total assets. There is minor difference between private and public banks debt ratio, but private bank debt ratio is higher than public banks.

4.2.2 Debt to Equity Ratio

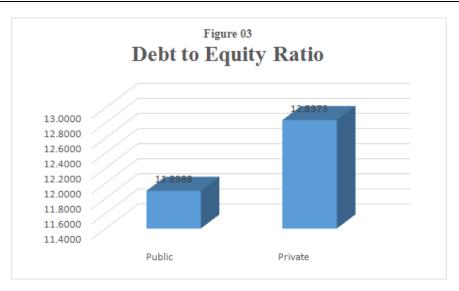| Table 03					
Debts to Equity Ratio	2014	2013	2012	2011	Average
Public	11.2353	12.5755	12.5591	11.2253	11.8988
Private	11.4756	13.9049	14.2540	11.7146	12.8373

Figure 03
Debt to Equity Ratio

Table 03 and figure 03 are express the Debt to Equity Ratio of private and public banks for the period of 2011-2014. This ratio is used to count the percentage of total assets are financed through debt. Debt to Equity Ratio is determined by dividing total assets by equity. Private Banks Debt to equity ratio is high then public banks. Its mean Private Banks of Pakistan financed through debts than public banks.

4.3 Profitability Ratios
4.3.1Spread Ratio

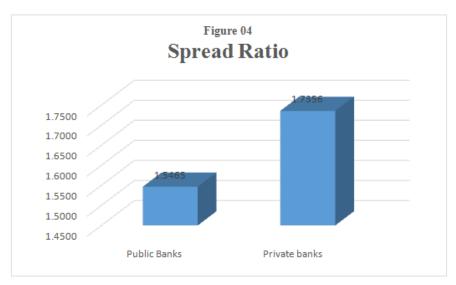| Table 04					
Spread Ratio	**2014**	**2013**	**2012**	**2011**	**Average**
Public Banks	1.5748	1.5273	1.5325	1.5513	1.5465
Private banks	1.7526	1.6926	1.7334	1.7638	1.7356

Figure 04
Spread Ratio

Table 04 and figure 04 are containing the data which is describing the spread ratio of private and public banks for the period of 2011-2014. Spread ratio can be calculated by dividing interest earned by interest paid. There is small difference between the spread ratios of public and private banks of Pakistan but spread ratios of private bank is higher than public banks of Pakistan.

4.2.2 Return on Assets

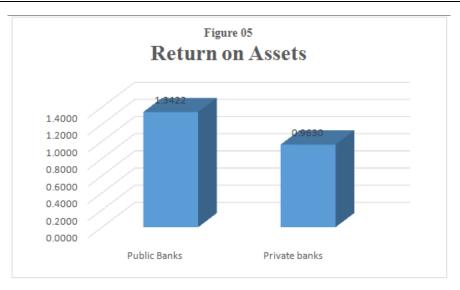| Table 05					
ROA	**2014**	**2013**	**2012**	**2011**	**Average**
Public Banks	0.2644	0.8625	0.9057	3.3362	1.3422
Private banks	1.1485	0.7951	0.9416	0.9666	0.9630

Figure 05
Return on Assets

Table 05 and figure 05 displays the Return on Assets (ROA) of private and public banks for the period of 2011-2014.ROA is used to determine the efficiency and profitability of bank by using its assets. ROA is calculated as the profit after tax percentage to total assets. A public bank's ROA is higher than private banks, its mean private banks are using their assets more efficiently.

4.2.3 Return on Equity

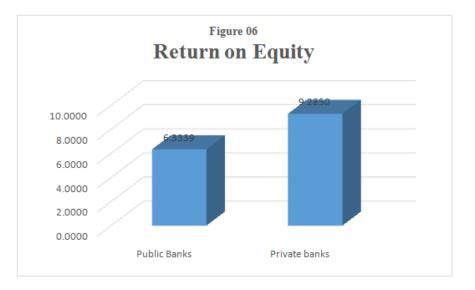| Table 06					
ROE	2014	2013	2012	2011	Average
Public Banks	6.4809	9.0697	1.2428	8.5423	6.3339
Private banks	14.0426	5.9533	6.3800	10.7642	9.2850

Figure 06
Return on Equity

Table 06 and figure 06 are representing the Return on Equity (ROE) of private and public banks for the period of 2011-2014. ROE is used to measure the return to owners. ROE is calculated by dividing net income by shareholder's equity. Private bank ROE is less than public banks of Pakistan, its mean private banks paying high returns to owners than public banks.

4.2.4 Earnings per Share

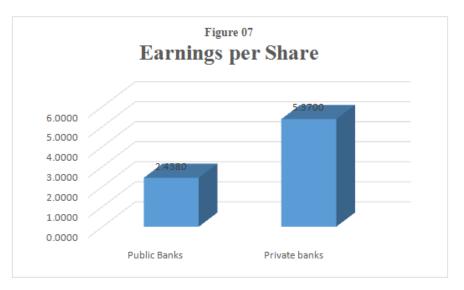| Table 07					
EPS	2014	2013	2012	2011	Average
Public Banks	2.8140	1.0720	2.8000	3.0660	2.4380
Private banks	6.3600	4.6700	5.2200	5.2300	5.3700

Figure 07
Earnings per Share

Table 07 and figure 07 are demonstrating the Earnings per Share (EPS) of private and public banks for the period of 2011-2014. EPS is used measure the profitability is on a shareholder basis.EPS is figured by subtracting preferred dividends from net income and dividing by the average common shares outstanding. Private bank's EPS is high than public banks of Pakistan which means private banks is giving better return on investment to investors.

Ranks of Public and Private Banks		
Financial Ratios	**Public Banks**	**Private Banks**
Bank Size	2	1
Liquidity Ratios:		
1. Debt Ratio	2	1
2. Debt to Equity Ratio	2	1
Profitability Ratios:		
1. Spread ratio	2	1
2. Return on Assets	1	2
3. Return on Equity	2	1
4. Earnings per share	2	1

V. Conclusion

The aim of this research study was to compare the performance of private and public banks which are operated in Pakistan from the year 2011 to 2014. The result of this research study is based on bank size, liquidity ratios, and profitability ratios.

The findings of the research study are given as below.
i.   Private Banks have higher total assets then public banks. In other words, private banks are larger in size.
ii. Based on liquidity ratio, private bank are at first on the base of debit ratio and debit to equity ratio.
iii. Based on profitability ratio, private banks are at first on the base of spread ratio, return on equity and earnings per share. Whereas public banks are at first on the base of return on assets ratio.

References

[1].   BishnuPadaBanik, P. C. (2013). Comparison of Financial Performance of State Owned Commercial Banks: A Case Study of Bangladesh. International Journal of Science and Research, 2(2), 423-428.
[2].   DegerAlper, A. A. (2011). Bank Specific and Macroeconomic Determinants of Commercial Bank Profitability: Empirical Evidence from Turkey. Business and Economics Research Journal, 2 (2), 139-152.
[3].   SJ Pilloff, S. R. (2002). Structure and profitability in banking markets. Review of Industrial Organization, 20, 81-98.
[4].   P Molyneux, R. S. (1998). Foreign banks, profits and commercial credit extension in the United States. Applied Financial Economics, 8, 533-539.
[5].   Sufian, F. (2009). Determinants of bank efficiency during unstable macroeconomic environment: Empirical evidence from Malaysia. Research in International Business and Finance,23, 54–77.
[6].   Ch. Spathis, K. K. (2002). Assessing profitability factors in the Greek banking system: A multicriteria methodology. International Transactions in Operational Research, 517-530.
[7].   Bharathi, K. G. (2010). The Intellectual Capital Performance of Banking Sector in Pakistan. Pakistan Journal of Commerce & Social Sciences, 4(1), 84-99.
[8].   Xiaochi Lin, Y. Z. (2009). Bank ownership reform and bank performance in China. Journal of Banking & Finance, 33, 20–29.
[9].   Alejandro Micco, U. P. (2007). Bank Ownership and Performance Does Politics Matter? Journal of Banking and Finance, 31, 219-241.

[10]. Steven Fries, A. T. (2005). Cost efficiency of banks in transition: Evidence from 289 banks in 15 post-communist countries. Journal of Banking and Finance, 29, 55–81.
[11]. T, G. (2009). Financial ratio analysis for performance check. Retrieved from https://suite.io/t-gopinathan/1mw62w2
[12]. Alam, H. M., Raza, A., &Akram, M. (2011). A financial performance comparison of public vs private banks: The case of commercial banking sector of Pakistan. International Journal of Business and Social Science, 2(11), 56-64.
[13]. Elizabeth Duncan, G. E. (2004). Efficiency customer service and financial performance among australian financial institutions. International Journal of Bank Marketing, Vol.22, No. 5, 319-342.
[14]. Giuliano Iannotta, G. N. (2009). The Impact of Government Ownership on Banks' Ratings: Evidence from the European Banking Industry. SSRN eLibrary, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1495868.
[15]. Habib, A. (2015). A Comparison of Financial Performance of Banking Industry in Pakistan. Journal of Poverty, Investment and Development, 13, 1-10.
[16]. Jha, S., &Hui, X. (2012). A comparison of financial performance of commercial banks: A case study of Nepal. African Journal of Business Management, 6(25), 7601-7611.
[17]. Wanniarachchige, M. K., & Suzuki, Y. (2011). How does ownership affect bank performance?-The case of Indian commercial banks. International Business & Economics Research Journal (IBER), 10(3), 71-82.
[18]. DHANABHAKYAM, D., &Kavitha, M. (2012). Financial Performance of selected Public sector banks in India. International Journal of Multidisciplinary Research, 2(1).
[19]. Azhagaiah, R. (2012). Financial Performance of Private Sector and public Sector Banks in India: An empirical Analysis. International Center for Business Research, 1(12), 19-29.

APPENDIX

Public Banks	Private Banks
1. National Bank of Pakistan	1. Allied Bank Limited
2. First Women Bank Limited	2. Askari Bank Limited
3. Sindh Bank Limited	3. Bank Alfalah Limited
4. The Bank of Khyber	4. Bank Al Habib Limited
5. The Bank of Punjab	5. Faysal Bank Limited
	6. Habib Bank Limited
	7. Habib Metropolitan Bank Limited
	8. JS Bank Limited
	9. MCB Bank Limited
	10. NIB Bank Limited
	11. SAMBA Bank Limited
	12. SILKBANK Limited
	13. Soneri Bank Limited
	14. Standard Chartered Bank (Pakistan) Limited
	15. Summit Bank Limited
	16. United Bank Limited