Performance efficiency of Commercial Bank after Privatization: A Case Study of MCB, UBL and ABL

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Abstract:
The current research investigates the Performance efficiency of Commercial Bank after Privatization: A Case Study of MCB, UBL and ABL. Data were collected from primary as well as secondary sources from management of commercial banks and from SBP officials comprising middle and top management, a closed ended questionnaire containing twenty-five key areas was developed and results were analyzed as under. It was revealed that ratio represents relationship between operational expenses with respect to operational income which is unstable due to global financial crisis, cost on deposits significantly increased as banks were compelled to mobilize costly deposits to maintain their books. Otherwise position was very much better in starting period touched to 67%. It was further revealed that ratio tells about the earnings on assets, which has been affected during the period from 2008 and onward however it was very well performing before sudden shock of global financial crisis. Over all it improved after privatization. This ratio further indicates that assets were deployed in various avenues for short term to generate considerable income so that idle assets could be utilized till restoration of the permanent source of income i.e. advances on which cost was raised by regulator to control flow of the funds in market actually to avert liquidity crisis which was already jacked by injecting the liquidity through reducing the CRR and SLR.

Keywords: Commercial Bank, Privatization Factor

Review of Literature:
Seiford Also Zhu (1999) connected information envelopment Investigation (DEA) model with analyze those marketability and productivity from claiming fifty five highest point business banks for usa. This methodology might have been In view of two stages, which inferred that bigger banks performed great As far as profitability and littler done marketability similarly.

Maudos et al. (2002) conveyed out Look into on the cosset and benefit of banks from claiming european union nations. Example extent might have been 832 banks from ten nations for the time from 1993-96. Those return for value (ROE) and give back once benefits (ROA) were ascertained Similarly as estimation Pole on assess benefit effectiveness Eventually Tom's perusing utilizing information envelopment examination (DEA).


The contemplate investigated that those execution measures need critical impact looking into banks’ profitability.

Pastor, Lovell, Furthermore Tulkens (2006) assessed the execution of extensions. They have chose 573 extensions for extensive funds bank for europe for the period of A large portion quite a while. Information envelopment dissection (DEA) might have been connected on ascertain fiscal execution in association with costs incurred for g client benefits and client value building. They watched that assessment factors Might be diminished without Factual misfortune from claiming noteworthy MIS should oversaw economy.

Sufian (2009) explored on the effectiveness about malaysian saving money segment Throughout the time asian emergency from claiming 1997 (1995-1999). Effectiveness about singular banks might have been measured Toward utilizing information envelopment dissection model.

Benefit might have been the primary variable which might have been used to assess the effectiveness about banks for different variables, for example, such that bank measure Furthermore proprietorship style.

It might have been watched that effectiveness from claiming banks might have been straightforwardly related for advances quality and might have been conversely related for expenditure inclination conduct technique & budgetary states.
Profitability proportions. Profitability proportions would fundamental indicators which assess the execution about banks As far as benefits earned by effective utilization of its advantages Furthermore administration polishes. These incorporate give back on Assets, benefit liability proportion and exchange looking into value. These need aid instruments should determine profitability from claiming banks.

Profit looking into Assets: it measures what amount of a bank is procuring then afterward deducting charge by utilizing its advantages proficiently. Those exceptional manageress proficient and successful utilization of the possessions of the firm builds its give back proportion What's more the other way around in the event from claiming bring down proportion.

Recipe Used: ROA= net Income/Average aggregate stakes. Return on Equity:. It measures how the wage earned Toward shareholders after deducting against their venture. Manageress effectiveness could Additionally make measured through this proportion i. E. Higher proportion methods better execution.

Recipe Used: ROE=Net benefit following Tax/Share Holders value.

Benefit should out Ratio: those proportion itself recounts how superior operating benefit earned against the working costs. It demonstrates the productive utilization of expenses; those higher proportion is a great pointer about procuring for higher benefits Eventually Tom's perusing controlling liabilities toward its reasonability level.

Liquidity proportions. These proportion are fundamentally indicators how great a bank has the ability will meet its current liabilities through its present advantages which incorporates constantly on holdings convertible under trade Throughout An business cycle. Yet all the excessively soon higher proportion might make to misfortune as fitting use from claiming present stakes will be low recurrence necessary, maintenance for extensive quantum of present holdings Likewise unmovable pulley will be also demonstrating to absence of manageress abilities.

Credit will store Ratio: this proportion demonstrates that how An bank uses its stores Eventually Tom's perusing extending loans, generally low proportion contributes higher liquidity and brings about low benefits Furthermore low proportion makes anxiety to Dealing with liquidity At higher benefits.

Money & Portfolio investment with store Ratio: those bank bring higher proportion Most likely An superior pointer of liquidity which expands certainty from claiming their depositors Furthermore the other way around. In any case it must not make to such an extent that bank might detached its wage around additional money is kept Exactly should move forward liquidity.

Credit should possession Ratio: this proportion measures that what rate a bank need put resources into state of loans, the higher proportion demonstrates lesquerella liquidity What's more the other way around. Yet it may be applicable with specify that helter skelter proportion prompts superior benefit for danger from claiming dissolvability. Hazard and dissolvability proportions. This proportion recounts regarding the extent to which a bank need put resources into state of loans, speculations and so forth throughout this way, observing and stock arrangement of all instrumentation may be enha. Moderately higher proportions are demonstrating high hazard should meet commitments in short haul and upkeep about lot for advantages may be exceptional pointer of its dissolvability.

Obligation will value ratio: this proportion reveals to upon what amount of amount is contributed Toward impart holders in relations on loans on bear those fiscal shocks by the contributed money. Those money Eventually absorbs those monetary misfortunes brought about because of default submitted Eventually Tom's perusing lenders. Basel ii is an enhanced manifestation will control the capital sufficiency proportion. An bank Hosting more level proportion is superior to that from claiming Hosting higher proportion.

Obligation to downright holdings Ratio: this proportion measures the downright possession of the bank will get additional financing to put resources into engaging Furthermore possibility chances. Higher proportion demonstrates that bank need utilized A large portion from claiming its possessions done obligation which may be a greater amount unsafe instead equity financing.

Value Multiplier: those proportion indicates the amount of possessions from claiming shareholders value. Higher worth demonstrates that bank need utilized a greater amount debt on exchange it under possessions for capital. The higher proportion focuses out to All the more hazard to An bank.
Effectiveness Ratios: These proportions assess upon what amount of viable An bank will be for Dealing with Furthermore regulating its assets, generating money and regulating its liabilities. Higher proportions need aid pointer from claiming exceptional execution.

Possessions Utilization: Concerning illustration those name prescribes it will be a proportion which recounts how finer a bank uses its possessions should produce additional income, the higher proportion demonstrates superior execution Also the other way around. Pay with working liability ratio: this proportion may be better device around with measure the manageress effectiveness As far as generating downright income Toward Dealing with liabilities successfully higher proportion is superior to that about more level Likewise it show the effectiveness of bank oversaw economy will gain All the more Toward investing lesquerella.

Working Efficiency: it measures regulatory adequacy over generating operating pay Eventually Tom’s perusing regulating working overheads. It lets upon what amount of effective a bank may be On performing its operations, bring down proportion will be superior to that of higher.

Profit before Tax Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Series1</th>
<th>Series2</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3.89%</td>
<td>3.95%</td>
</tr>
<tr>
<td>2011</td>
<td>4.98%</td>
<td>5.27%</td>
</tr>
<tr>
<td>2012</td>
<td>11.47%</td>
<td>12.47%</td>
</tr>
<tr>
<td>2013</td>
<td>13.01%</td>
<td>14.38%</td>
</tr>
</tbody>
</table>

Comments:
Profit before Tax ratio confirms significant improvement during privatization period due to substantial rise in mark up as well as non markup income and better deposit composition having around 89% in CASA lowest markup bearing bracket.

Gross Yield Advances

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Comments:
Graph itself tells the income generated from advances after privatization, significant positive variation is noticed which is result of effective credit policies adopted by bank to ensure steady income from largest income source.
Gross Spread Ratio

The ratio is indicator of net mark up income with respect to gross markup income which significantly improved during privatization and declined to some extent during the period of global financial crisis.

Cost Income Ratio

This ratio represents relationship between operational expenses with respect to operational income which is instable due to global financial crisis, cost on deposits significantly increased as banks were compelled to mobilize costly deposits to maintain their books. Otherwise position was very much better in starting period touched to 67%.

Return on Equity
Comments

Return on equity ratio indicates fluctuations, it has gone to 37.66% but again shows decline as after 2008 banks were facing impact of global financial crisis otherwise position improved significantly after 2005 and onward.

Gross Profit Ratio

![Gross Profit Ratio Chart]

Comments

This ratio is concerned with gross profit with respect to total revenue, the profitability was badly affected hence the ratio is a clear indicator that gross profit has shown improvement till 2008 and went down after emergence of financial crisis however overall performance improved during privatization period.

Net Profit Ratio

![Net Profit Ratio Chart]

Comments

The ratio is related with respect to Net profit to total revenue, it has shown improvement since 2004 and reached to its peak of 40.39% at the end of 2008 and suddenly decreased due to loss of revenue on non mark up as well as mark up income, due to accumulation of nonperforming loans.
Comments:
The ratio tells about the earnings on assets, which has been affected during the period from 2008 and onward however it was very well performing before sudden shock of global financial crisis. Over all it improved after privatization. This ratio further indicates that assets were deployed in various avenues for short term to generate considerable income so that idle assets could be utilized till restoration of the permanent source of income i.e. advances on which cost was raised by regulator to control flow of the funds in market actually to avert liquidity crisis which was already jacked by injecting the liquidity through reducing the CRR and SLR.

NFI to Total Income:

Comments:
This ratio indicates non mark up income with respect to total income which was increased somehow in initial years but declined upto 2011 afterwards banks identified some other revenues of non markup /fee based income.

This was achieved by focusing particularly on issuance of ATM cards; SMS alert charges, non funded facilities, branchless banking facilities and non core banking instruments such as Banca Assurance a curse for core banking and industry. Around 45 % of sales with literally no cost come from this product tailored by insurance companies to target the customer equity base of banks. The figure has turn around the picture of non mark up income of banks.

Gross Advances to Deposits Ratio
Comments:
The ratio itself tells that advances to deposit ratio was under stress, after raising the cost of advances, finances turned into NPL as the cost settled at the time of financing was lower than the cost revised after global financial crisis actually to address the liquidity issue that prevailed but at the same time affected the repayment capacity of middle and lower middle class who availed the facilities for improving the standard of living. It was performing very well particularly after 2004 and onward upto 2008-09 and reached upto level of 82.64 %.

Investment to Deposits Ratio

Comments:
This ratio itself tells the story; banks are primarily concerned with mobilizing deposits and extending advances keeping in view the reserve requirement of regulator.
In initial period it was stable thereafter faced the shocks of crisis. After financial crisis regulator fixed a cap that no bank will allow advances more than the ratio of 70% of their deposits. The motive behind this was to avert liquidity crisis but as banks were generating around 66% of its income through this source alone so it was a big challenge for banks to survive therefore no option was left for them except investing idle funds in other avenues.
MCB has invested significant amount in investments to earn steady income from government securities with no risk. At the ending period ratio was quite high ie76.77 %
Cash & Portfolio Investment

Comments
This ratio itself depicts that how banks shifted their focus from advances to investments after revising the Statutory Liquidity Requirements and Cash Reserve Requirements by central bank. Keeping in view the cap fixed for advances by Regulator that no bank will allow advances more than the ratio of 70% of their deposits. The motive behind it was to avert liquidity crisis but banks were generating around 66% of its income through this source of advances alone. It was a big challenge for banks to survive therefore no option was left for them other than to invest idle funds in other avenues to generate revenue to maintain their books and to retain the customers to whom profit on their deposits was paid regularly. MCB has improved its position after 2010 and onward.

Earning Assets to Total Assets

Comments:
This ratio is comparison of earning assets with respect to total assets. It slightly declined in 2005 to 83.90% against 86.73% in 2004 which jumped to 86.96 % in 2006. The ratio tells how efficient banks are in utilization of their earning assets to generate the revenue, it was very much fluctuated during the period under research due to policies of central bank which raised cost of lending.
resultantly on one hand borrowers were reluctant to avail the finance rather tried to return back to save the expenses as their profit margin was shrunk. Also the NPL has reduced the figure of earning assets. Over all ratio is quite better and performing during period under review.

**Deposits to Equity Ratio**

![Deposits to Equity Ratio Chart]

**Comments:**
This ratio is comparison of Deposits to Equity of sample bank which was above 2058 % in 2000 and declined to 722 in 2007 and onwards which means equity was reduced and deposit were increased. No doubt deposits were increased but due to increase in Non Performing Loans certain amount of capital was set aside to bear the loss in terms of Basel-II accord.

**Deposits to Total Assets**

![Deposits to Total Assets Chart]

**Comments**
Deposits to total asset ratio was slightly declined in 2006 and remained instable after 2007 and went to 71 % in 2012 that was because of accepting deposits on high cost while having somewhat stagnant position on asset side specially to avoid further NPLs.

MCB has performed very well upto 2005 and thereafter it remained in the range of 71-76 % which needs to be improved by adding more deposits and recovery of bad debts.
Equity Multiplier

Comments:
It may be relationship between aggregate benefits on offer holder’s equity. The equity multiplier may be an estimation of a company’s monetary influence. Organizations account the buy about advantages whichever through equity alternate debt, with the goal an helter skelter equity multiplier demonstrates that an bigger bit about benefit financing is, no doubt completed through debt. The multiplier will be a variety of the debt proportion.

Similarly as shown Eventually Tom’s perusing those figures above, MCB bank seen those decrease in the proportion over those period that is verification about their solid & in time foreknowledge and lesseps dependence for debts to expanding their stake build. Those benefits were financed Toward the equity which might have been raised likewise Previously, consistence will Basel-II accord.

Decision from claiming Results: benefit preceding expense proportion confirms noteworthy change Throughout privatization time because of significant Ascent over check up and additionally non markup money Furthermore preferred store piece Hosting around 89 % Previously, CASA most reduced markup bearing section. Chart itself lets those money produced from developments following privatization, huge sure variety may be recognized which is effect for successful kudos arrangements received by bank to guarantee enduring wage from biggest wage sourball.

Those terrible spread proportion will be pointer about net check up salary with admiration to terrible markup money which altogether progressed Throughout privatization and declined on a few degree Throughout those period of worldwide fiscal emergency.

This expense money proportion speaks to relationship between operational liabilities with admiration to operational wage which may be instable because of worldwide fiscal crisis, cosset looking into stores essentially expanded Concerning illustration banks were urged with activate exorbitant stores will uphold their books. Generally position might have been low recurrence finer done beginning period touched will 67 %.

Exchange for equity proportion demonstrates variances ,it need Run on 37. 66 % yet once more indicates decrease Similarly as after 2008 banks were confronting sway of worldwide monetary emergency generally position progressed essentially then afterward over 2,800 doctor look assignments led from April 1, 2009 to March 31, 2010 What's more ahead. Those terrible benefit proportion is concerned for terrible benefit for admiration to downright income ,the profitability might have been severely influenced Subsequently the proportion is clear pointer that terrible benefit need indicated change till 2008 Furthermore went down following rise about monetary emergency In any case in general execution moved forward Throughout privatization period. The net benefit proportion may be related for admiration to net benefit should downright revenue, it need indicated change since 2004 and arrived at to its top from claiming 40. 39 % during those wind for 2008 Also suddenness diminished because of misfortune for income on non check up and additionally check up income, because of amassing of nonperforming credits. Those profit on possessions proportion recounts over

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those profit around assets, which need been influenced throughout the period from 2008. Furthermore ahead then again it might have been delicately performing in front of sudden passing stun of worldwide monetary emergency. In every last bit it moved forward after privatization. NFI with aggregate money proportion further demonstrates that possessions were deployed. Previously, Different parkways for transient on produce respectable wage thus that unmoving pulley holdings Might a chance to be used till rebuilding of the changeless sourball of wage i. E. Developments around which expense might have been raised. Eventually Tom's perusing controller will control stream of the trusts for market really with deflect liquidity emergency which might have been officially jacked. Eventually Tom's perusing injecting the liquidity through lessening the CRR and SLR. This proportion demonstrates non check up pay with admiration to downtown money which might have been expanded some way or another done beginning quite some time in any case declined up to 2011 subsequently banks distinguished some other incomes for non markup /fee built salary.

This might have been attained. Eventually Tom's perusing keeping tabs especially with respect to issuance from claiming atm cards; SMS caution charges, non financed facilities, branchless saving money offices Also non center saving money instruments for example, such that Banca certification a curse for center saving money and industry. Around 45% from claiming offers for truly no expense originate from this result custom-made Toward protection organizations should target those client value base for banks. Those figure need turn around the picture from claiming non check up wage about banks.

The proportion from claiming progresses on store proportion might have been under stress, after raising those expense from claiming advances, accounts transformed under NPL as the cosset settled. In the time for financing might have been easier over those cosset reconsidered following worldwide fiscal emergency really will location the liquidity issue that won Be that as during those same time influenced those reimbursement rate limit about working and more level white collar class who availed those offices for moving forward those expectation for everyday life. It might have been performing delicately especially after 2004. Also ahead up to 2008-09 and arrived at up to level about 82.64%.

This proportion about downtown stores with speculation recounts those story; banks need aid essential worried with mobilizing stores and extending progresses keeping in perspective the save prerequisite for controller.

For starting time it might have been stable from that point onwards faced the shocks from claiming emergency. Following monetary emergency controller settled. An that no bank will permit developments more than those proportion from claiming 70% about their stores. The intention behind this might have been will deflect liquidity emergency in any case as banks were generating around 66% for its money through this wellspring alone. Along these lines it might have been a huge challenge for banks should survive subsequently no choice might have been cleared out for them but Contributing unmoving pulley finances clinched alongside different parkways.

MCB need contributed huge add up clinched alongside speculations should win unaltering salary from administration securities with no danger. During those completion period proportion might have been very secondary i.e 76.77%. It depicts that how banks moved their keep tabs from developments should ventures then afterward changing the statutory liquidity necessities. Furthermore trade save prerequisites eventually Tom's perusing national bank. Keeping in perspective the top settled for progresses by controller that no bank will permit developments more than the proportion about 70% from claiming their stores.

The intention behind it might have been will deflect liquidity emergency. At banks were generating around 66% of its money through this sourball for progresses alone. It might have been a huge challenge to banks on survive Consequently no choice might have been cleared out to them other than will contribute unmoving pulley trusts done other parkways to produce income will look after their books. Furthermore on hold the clients will whom benefit with respect to their stores might have been paid consistently. MCB need enhanced its position then afterward 2010. What's more ahead.

This proportion will be examination for procuring holdings for admiration to downtown possessions. It somewhat declined to over 2,800 doctor look assignments led from April 1, 2009 to March 31, 2010 will 83.90% against 86.73% over 2004 which bounced will 86.96% clinched alongside 2006.
The proportion from claiming procuring benefits with aggregate stakes lets how proficient banks would on usage about their procuring holdings to produce the revenue, it might have been a whole lot fluctuated throughout those time under research because of strategies from claiming national bank which raised expense for loaning resultantly on one hand borrowers were hesitant on benefit those account rather attempted should come back once again should spare the liabilities Concerning illustration their net revenue might have been contracted. Likewise the NPL need diminished those figure from claiming procuring holdings. Over all proportion is very finer and performing throughout period under Audit. This proportion is examination for stores with equity about test bank which might have been over 2058 % for 2000 What's more declined to 722 over 2007 What's more onwards which implies equity might have been diminished What's more store were expanded. Most likely stores were expanded Anyhow because of expand to Non performing advances sure add up about capital might have been put aside with bear those passing As far as Basel-II accord. Stores with downright advantage proportion might have been marginally declined in 2006 and stayed instable following 2007 and went to 71 % to 2012 that might have been due to tolerating stores with respect to helter skelter expense same time Hosting to a degree stagnant position once advantage side extraordinarily will evade further NPLs.

Conclusions

MCB has performed very well upto 2005 and thereafter it remained in the range of 71-76 % which needs to be improved by adding more deposits and recovery of bad debts.

Equity multiplier is relationship between Total Assets to Share holder’s Equity. The equity multiplier is a measurement of a company’s financial leverage. Companies finance the purchase of assets either through equity or debt, so a high equity multiplier indicates that a larger portion of asset financing is being done through debt. The multiplier is a variation of the debt ratio. As indicated by the figures above, MCB Bank witnessed the decline in the ratio over the period that is proof of their strong & in time foresight and lesser reliance on debts for increasing their asset base. The assets were financed by the equity which was raised also in compliance to Basel-II.

References


