



Financial performance of investment banks: A comparison

Ihsan Ilahi¹, Raja Ahmed Jamil^{2*}, Sibtain Kazmi³

^{1,2} Department of Management Sciences, University of Haripur, Pakistan

³ Department of Management Sciences, Hazara University, Pakistan

* Corresponding author: raja.ahmed@uoh.edu.pk

Abstract

Investment banks are the most important contributors in the economic development of a country and they offer huge impact on capital and credit markets of the country. This study compared the financial performance of top ten investment banks on the basis of credit rating in 2014 for the period of 2009 to 2013. Financial ratios and financial measures were taken for the said purpose. Financial measures were based upon two indicators, total asset and total equity. Financial ratios included return on assets ratio (ROA), return on equity ratio (ROE), admin expenses to profit before tax ratio, cash and cash equivalent to total assets ratio and capital ratio. This study concluded that ranking of banks differs as the financial ratios change.

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Introduction

A financial system is of fundamental importance in the economic development of a country as it provides help in mobilization of funds. Financial system works as the back bone of a country and serves as a catalyst in the enhancement of the performance of financial institutions. Financial institutions are such components of a financial system that help investors realize an efficient capital market and money market in a country (Ahmad et al., 2011). Alam, Raza, & Akram, (2011) stated that the Securities and Exchange Commission of Pakistan (SECP) and state Bank of Pakistan are operating for the development of an excellent financial system in Pakistan. Therefore, investment banking sector is the most important constituent of financial system and it holds sufficient shares in the financial growth of a country. Investment banks offer a support to the capital market through trading in shares and commercial banking activities and they also provide credit market in an economy through short, medium, and long term loans. For the development of financial performance three main factors can be argued; institution size (IS), operating efficiency, and asset management (AM) (Tarawneh, 2006).

The objective of this study is to evaluate the financial data of investment banks (for the period 2009 to 2013) using their financial ratios and financial measures to appraise the investment banks that have an impact on the financial performance of Pakistan. This study also has the aim of ranking top ten investment banks of Pakistan excluding IGI Investment Bank. Hence, the major purpose of this study is to categories the top ten investment banks excluding IJI Investment Bank on the basis of financial characteristics and to give guidelines for future development. The financial ratios are divided into three main categories which are: profitability/efficiency ratios, leverage ratios and asset liquidity ratios.

This paper is divided as follows. Section 1 consists of the introduction to the topic and the variables used in it. Section 2 provides the literature review, section 3 discusses the research methodology, section 4 consists of data analysis, section 5 brings about the conclusions, and in the last section further recommendations are discussed.

The investment banking industry in Pakistan

Investment banks play a vital role in financial sector. First investment bank was established in 1987. In December 2002, Security and Exchange Commission of Pakistan announced NBFC Rules and divided the investment banks by using two approaches. One is the liquidation approach in which investment bank is in financial troubles, while the second approach provides lenience to the healthy investment banks. In 2005, there were thirteen investment banks in which four were liquidation and the remaining nine were licensed (Hassan, 2005).

In Pakistan, SECP is regulatory body of investment banks in Pakistan. SECP is taking a lot of steps for development of investment banks in Pakistan and new rules have been introduced regarding Non-Banking Financial Companies (NBFCs) in 2008.

In the earlier period, there was a difference between the services of investment banks and commercial banks but currently these differences are being removed slowly. Now many commercial banks offer services of Investment Banks in Pakistan.

In Pakistan, investment banks provide different kinds of services such as advisory services for mergers and acquisitions, debt financing, equity financing, corporate restructuring and leasing. They help corporation, individual investors, partners, government agencies and the government to raise and pick up funds by selling and issuing securities in primary markets. They also help private corporations and public corporations in raising funds by investing in capital market.

Literature review

This section is based on relevant research work previously done by different researchers. Here both theoretical and empirical framework is mentioned in order to provide the comparison of the financial performance of investment bank.

Raza et al. (2011) studied the comparison of financial performance of Investment Banks in Pakistan. In the research, they took data from 2006 to 2009 and compared the financial performance of the



investment banks. For the purpose of analysis they divided the ratios into three main categories which are; profitability ratios, liquidity ratios & capital ratios. In their study they used the nine different ratios which are; return on owners equity ratio, return on assets, admin expensio to profit before tax ratio, earning per share, return on capital employed, current ratio, capital ratio, institution size & total owners' equity. The work concluded that investment banks financial performance is defferent on the basis of efficiency ratio than on the basis of liquidity ratios.

Alam et al. (2011) examined the financial performance of the public banks vis-a-vis private banks. For the study they gathered data from 2006 to 2009. To evaluate the result they used different financial ratios like efficiency ratio, liquidity ratios & leverage ratios. The study concluded that change in financial ratios results in the changes in the performance of the banks.

Bharathi (2010) studied the performance of the intellectual capital in banking sector of Pakistan. The study concluded that public sector banks perform less than the private banks; which is an empirical justification of the better performance of the private banks as compared to the public banks.

Moin (2008) conducted a research by doing comparisons of financial performance of commercial banks with Islamic banks. Meezan bank limited (MBL), which is an Islamic bank, was compared with five commercial banks. Financial reports of these banks were gathered for the period 2003 to 2007. To evaluate the results, twelve different financial ratios were used. These included; return on Asset (ROA), Debt to Equity Ratio (DER), income to Expenses Ratio (IER), Assets utilization (AU), Return on Equity (ROE), Loan to Deposit Ratio (LDR), and Loan to Asset Ratio (LAR). The study also used F test and T test to find best comparison of financial performance between the banks. This study concluded that the Meezan bank limited (MBL) is less profitable, less risky and less efficient as compared the five average conventional banks.

Elizabeth & Elliot (2004) described all financial events of recital as interest margins (IM), capital adequacy (CA) and return on assets (ROA) are calculated certainly with scores of customer service value. Most of the researches have focused on liability and asset management in banking sector (Richard & James, 2003; Caddy, 2000; and Ruth, 2001).

Banker & Tahir (2009) in their study used multiple linear regression to find the performance of the banks. The dependent variable used was return on asset (ROA) and the seven independent variables were; Liquidity ratio, Credit Risk Ratio, Cost to Income Ratio, Bank Size and Concentration Ratio.

Literature identified that a lot of research has been conducted on the aforesaid topic in various countries of the world but there is no study conducted on comparison of financial performance in investment banking industry in Pakistan. In this study the ratios such as return on equity (ROE), return on asset (ROA), institution size (IS), liquidity ratio, average of equity ratio, Cash & cash equivalent to total assets, Capital ratio (CR) and Admin Expenses to Profit before Tax Ratio are used to find out the financial performance of investment banks in Pakistan.

Research methodology

All the data for the research has been gathered from websites of investment banks and state bank of Pakistan for the time period 2009 to 2013. The number of banks compared is nine. These banks include Meezan Bank Limited, Al Baraka Bank Pakistan Limited, KASB Bank Limited, Standard Chartered Bank (Pakistan) Limited, United Bank Limited, City Bank Limited, HSBC Bank Middle East Limited, JS Bank Limited and Dubai Islamic Bank Pakistan Limited. These banks have been compared using financial ratio techniques. Financial ratios are divided into three most important categories.

Profitability / Efficiency ratios

- Return on Assets ratio (ROA)
- Return on Equity Ratio (ROE)
- Admin Expenses to Profit Before Tax Ratio

Liquidity Ratios

- Cash and Cash Equivalent to Total Assets Ratio

Leverage Ratios

- Capital Ratio

Financial measures :

- Total Assets
- Total Owners' Equity

Among the top ten investment banks nine banks are selected which covered ninety percent sample of the total population of the top ten investment banks operating in Pakistan, (see Appendix).

Data Analysis and results

Table 1: Return on Assets (ROA)

Banks	Years					Average
	2009	2010	2011	2012	2013	
MBL	1.34%	1.23%	1.69%	1.28%	1.20%	1.348
ABBL	-2.85%	-1.71%	0.57%	-0.87%	-0.05%	-0.982
KASBBL	-7.08%	-4.64%	-3.45%	-0.89%	-2.30%	-3.672
SCBL	0.27%	1.14%	1.52%	1.52%	2.61%	1.412
UBL	1.48%	1.52%	1.84%	2.00%	1.82%	1.732
CBL	0.10%	0.43%	1.81%	1.73%	2.80%	1.374
HSBCBL	0.51%	0.86%	1.64%	-0.79%	-2.02%	0.04
JSBL	-1.81%	-1.03%	0.66%	0.98%	0.73%	-0.094
DIBL	0.64%	0.02%	0.40%	0.54%	0.17%	0.354

Source: Financial Statement Analysis of the Financial Sector by SBP, 2009-2013

Average of Return on Assets (ROA)

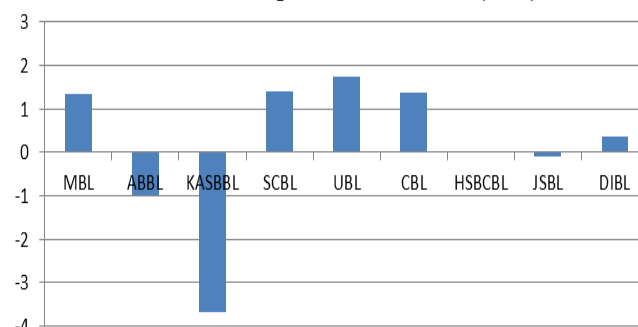


Fig. 1. Name of Investment Bank

Table 1 and Figure 1 have the data regarding return on asset for the time period 2009 to 2013 and also tell the average of the five years. Return on assets ratio is the sign that shows how much the banks generate profit on the assets of the banks. The greater the ROA the more it is favorable. It is calculated by dividing net income (earning after tax) by the total asset of the year. When compared, results showed that United Bank Limited has the highest average return on assets ratio (1.732 percent) among the other banks. In other words it shows that UBL efficiently utilizes its assets to generate the profit. While the KASB bank limited has the lowest return on asset ratio (-3.672) as compared to other investment banks.

Table 2: Return on Owner Equity (ROE) (in Percentage%)

Banks	Years					Average
	2009	2010	2011	2012	2013	
MBL	17.08	17.69	25.45	22.64	22.09	20.99
ABBL	-16.17	-17.00	5.63	-9.70	-0.62	-7.572
KASBBL	-98.98	-140.56	-26.82	-9.27	-23.02	-59.73
SCBL	1.95	7.74	10.78	11.94	20.33	10.548
UBL	16.97	17.24	19.79	22.96	20.66	19.524
CBL	1.03	4.63	16.19	16.46	19.42	11.546
HSBCBL	4.75	7.92	12.95	-5.18	-13.38	1.412
JSBL	-10.58	-5.63	4.11	7.70	7.60	0.64
DIBL	3.75	0.13	3.05	5.07	1.98	2.796

Source: Financial Statement Analysis of the Financial Sector by SBP, 2009-2013



Average of Return on Equity (ROE)

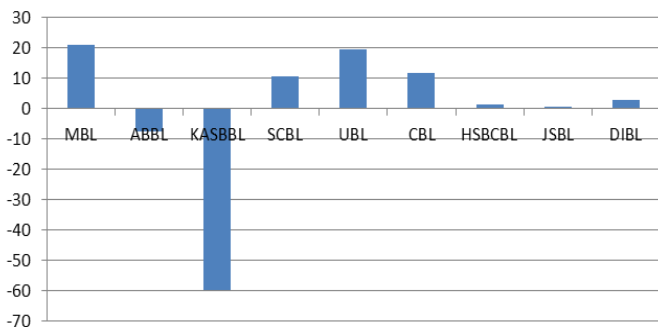


Fig. 2. Investment Banks

Table 2 and Figure 2 show the data of Return on Equity for the duration 2009 to 2013 along with the average of the five years. Return on Owner’s Equity ratio is an indicator of the banks’ generation of profit compared to the equity. The value of this ratio is favorable when it is high. From above figure and table it is concluded that Meezan Bank Limited has highest average Return on Equity ratio (20.99) which describe that Meezan Bank Limited generates more income on its equity as compared to other investments. While KASB Bank limited has the lowest return on Equity Ratio (-59.73 percent).

Table 3: Admin Expenses to Profit before Tax

Banks	Years					Average
	2009	2010	2011	2012	2013	
MBL	1.46	1.90	1.37	1.38	1.49	1.52
ABBL	-1.77	-0.96	3.97	-2.09	-63.05	-12.78
KASBBL	-0.48	-0.86	-0.89	-1.97	-2.02	-1.244
SCBL	8.02	2.26	1.56	1.51	0.55	2.78
UBL	1.24	1.08	0.90	0.90	0.99	1.022
CBL	13.18	3.24	1.59	1.83	0.93	4.154
HSBCBL	6.84	2.87	1.62	-6.38	-2.42	0.506
JSBL	-1.20	-2.97	3.93	2.49	3.38	1.126
DIBL	4.90	118.19	7.39	5.70	15.02	30.24

Source: Financial Statement Analysis of the Financial Sector by SBP, 2009-2013

Average Admin Expenses to Profit before Tax

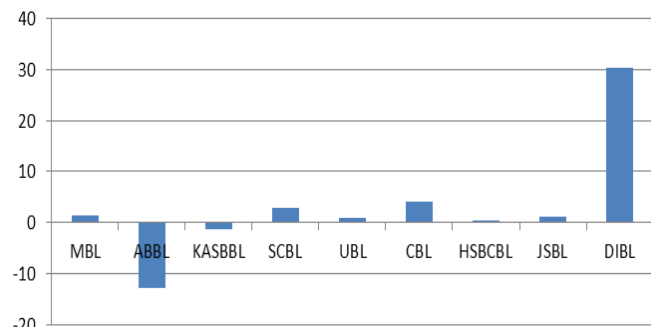


Fig. 3. Name of Investment Bank

Table 3 and Figure 3 illustrate the data about admin expenses to profit before tax ratio for the period 2009 to 2013 along with the average of the five years. Admin Expenses to Profit Before Tax Ratio compares the admin expense with earning before tax. Results show that Albaraka Bank Limited has lowest average ratio (-12.78) and highest admin Expenses to Profit before tax ratio (30.24) is of Dubai Islamic Bank.

Table 4 and Figure 4 have the data regarding Cash & cash equivalent to total assets for the time period of 2009 to 2013 and also tell the average of the five years. Cash & cash equivalent to total assets is an indicator showing how much cash & cash equivalent to total assets is the bank having. It is favorable for the banks to have greater value of this ratio. It is calculated when cash & cash Equivalent is divided by the total asset of that year. The above data tells that HSBC bank limited has the highest average Cash & Cash Equivalent to Total Assets (22.2 percent) compared to other banks. While the Standard

Chartered Bank limited has the lowest average Cash & cash equivalent to total assets ratio (8.016 percent).

Table 4: Cash & cash equivalent to total assets (in Percentage%)

Banks	Years					Average
	2009	2010	2011	2012	2013	
MBL	10.88	14.68	9.47	8.37	9.75	10.63
ABBL	11.62	19.53	15.88	14.80	25.40	17.446
KASBBL	5.06	6.17	21.52	7.54	7.87	9.632
SCBL	7.50	7.64	8.10	8.57	8.27	8.016
UBL	11.81	12.95	12.73	12.14	11.28	12.182
CBL	11.63	8.63	8.40	15.03	7.67	10.272
HSBCBL	24.06	18.01	18.98	24.05	25.90	22.2
JSBL	10.90	8.17	7.42	7.41	7.25	8.23
DIBL	15.16	16.68	9.43	15.52	8.89	13.136

Source: Financial Statement Analysis of the Financial Sector by SBP, 2009-2013

Average Cash & cash equivalent to total assets

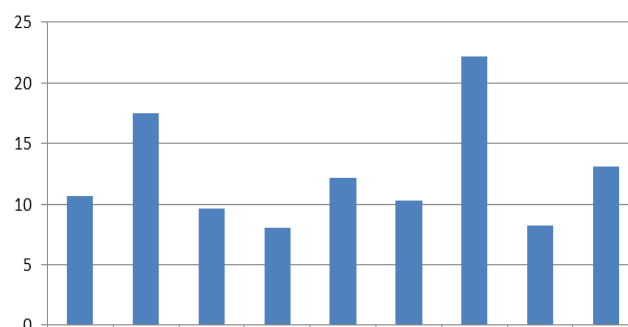


Fig. 4. Name of Investment Bank

Table 5: Capital ratio

Banks	Years					Average
	2009	2010	2011	2012	2013	
MBL	7.82	6.94	6.64	5.65	5.43	6.496
ABBL	17.65	10.07	10.05	9.00	7.52	10.858
KASBBL	7.15	3.30	12.86	9.57	10.01	8.578
SCBL	14.11	14.77	14.15	12.69	12.83	13.71
UBL	8.73	8.80	9.31	8.71	8.81	8.872
CBL	9.64	9.39	11.18	10.53	14.40	11.028
HSBCBL	10.65	10.90	12.64	15.19	15.11	12.898
JSBL	17.09	18.38	16.16	12.69	9.61	14.786
DIBL	17.08	15.16	12.96	10.70	8.63	12.906

Source: Financial Statement Analysis of the Financial Sector by SBP, 2009-2013

Average Capital ratio

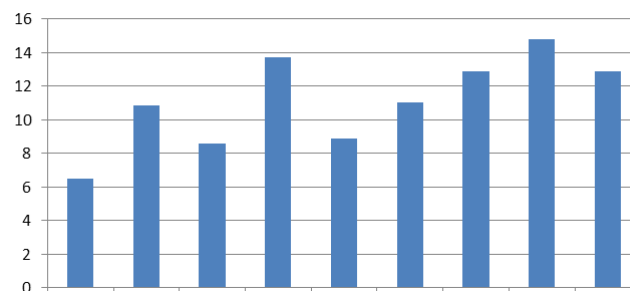


Fig. 5. Name of Investment Bank

Table 5 and Figure 5 are showing the data regarding Capital Ratio for the time period 2009 to 2013 and also the average of five years. Capital ratio describes how much capital a bank is having as compared to total assets. In other words CR tells the portion of money which owner invested in the bank as compared to total assets. A greater value of CR is favorable because it shows that the owner investment in the business is greater than the assets. This is for the reason that asset is financed by debt and equity; when equity portion is greater it means the liabilities of the bank are low. The above table and figure tell that the JS bank limited has average highest capital ratio of 14.786 percent while the Meezan Bank limited has the lowest average capital ratio of 6.496 Percent.



Average Total assets

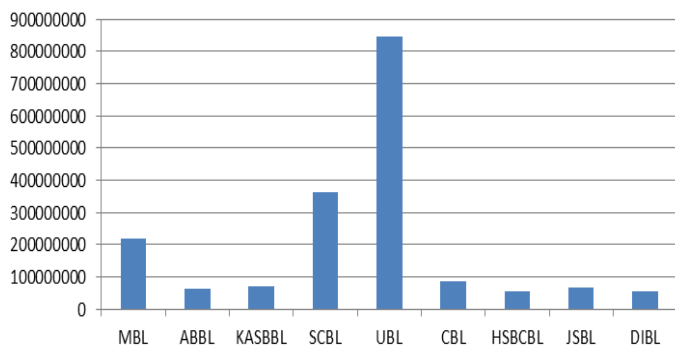


Fig. 6. Name of Investment Bank

Table 6 and Figure 6 have the data regarding Total asset and their growth rate for the selected investment banks from 2009 to 2013 along with the average of the five years. It is obvious from the above table that Citi bank limited (CIB) has highest negative growth rate (-33.2971%), whereas Meezan Bank (MBL) has the highest positive growth rate (162.7251%) which means that its assets in 2009 (Rs.125,

501,778) increased by 162.7251% in 2013 and reached the level of Rs. 329,724,631. Figure 6 depicts that united Bank Limited (UBL) is at the top with high average of total assets Rs. 844235305 whereas HSBC Bank limited has the lowest average total assets of Rs. 53275891 and holds the last position in grade of investment bank.

Average Total Equity

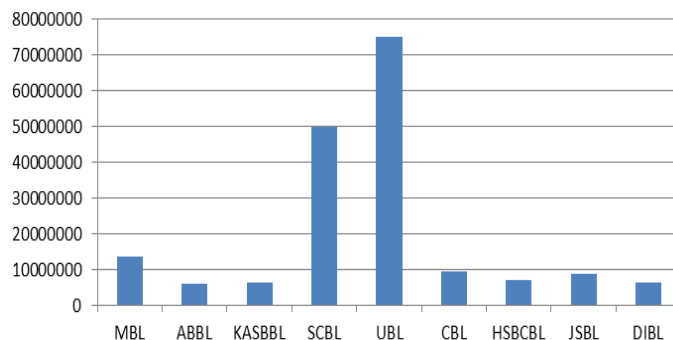


Fig. 7. Name of Investment Bank

Table 6: Total Assets

Banks	Years 2009	2010	2011	2012	2013	Growth %	Average
MBL	125,501,778	154,752,425	200,550,394	274,436,510	329,724,631	162.7251	216,993,148
ABBL	19,762,450	60,763,664	72,545,064	73,866,558	87,759,404	344.0715	62,939,428
KASBBL	60,999,587	58,841,536	73,190,758	90,277,626	70,544,290	15.64716	70,770,759
SCBL	317,580,124	327,297,400	364,187,812	399,055,450	410,260,184	29.18321	363,676,194
UBL	640,421,911	726,422,551	808,352,989	962,346,358	1,083,632,716	69.20607	844,235,305
CBL	89,780,800	97,353,912	96,943,902	85,196,217	59,886,389	-33.2971	85,832,244
HSBCBL	51,733,941	56,938,990	59,355,732	50,328,093	48,022,701	-7.1737	53,275,891
JSBL	32,894,920	39,383,647	54,502,625	84,018,777	114,748,759	248.8343	65,109,746
DIBL	35,368,894	39,888,736	48,199,768	63,509,562	80,256,612	126.913	53,444,714

Source: Financial Statement Analysis of the Financial Sector by SBP, 2009-2013

Table 7: Total Equity

Banks	Years (Rupees in thousands)					Growth %	Average
	2009	2010	2011	2012	2013		
MBL	9,814,412	10,740,123	13,323,888	15,493,638	17,908,150	82.46788	13456042
ABBL	3,487,571	6,115,886	7,293,731	6,648,336	6,598,050	89.18755	6028714.8
KASBBL	4,363,093	1,940,292	9,413,468	8,635,706	7,062,040	61.85857	6282919.8
SCBL	44,817,406	48,339,869	51,535,761	50,631,418	52,618,375	17.40611	49588566
UBL	55,914,736	63,919,969	75,219,724	83,845,615	95,499,445	70.79477	74879898
CBL	8,652,136	9,139,755	10,843,167	8,975,074	8,624,658	-0.31759	9246958
HSBCBL	5,511,880	6,206,372	7,501,898	7,644,275	7,257,536	31.67079	6824392.2
JSBL	5,622,453	7,237,084	8,809,116	10,663,502	11,026,877	96.12217	8671806.4
DIBL	6,040,247	6,048,321	6,244,902	6,793,362	6,929,614	14.72402	6411289.2

Source: Financial Statement Analysis of the Financial Sector by SBP, 2009-2013

Table 8: Investment Banking Raking on the Basis of Financial Ratio and Measures

Financial Ratio	Banks									
	MBL	ABBL	KASBBL	SCBL	UBL	CBL	HSBCBL	JSBL	DIBL	
Efficiency Ratio										
Return on Assets ratio (ROA)	4	8	9	2	1	3	6	7	5	
Return on Equity Ratio(ROE)	1	8	9	4	2	3	6	7	5	
Admin Expenses to Profit Before Tax	4	9	8	3	6	2	7	5	1	
Liquidity Ratio										
Cash and Cash Equivalent to Total Assets	4	2	7	9	5	6	8	1	3	
Leverage Ratio										
Capital Ratio	9	6	8	2	7	5	4	1	3	
Financial Measures										
Total Assets	3	7	5	2	1	4	8	6	9	
Total Equity	3	9	8	2	1	4	7	5	6	

Source: Financial Statement Analysis of the Financial Sector by SBP, 2009-2013

Table 7 and Figure 7 have the data regarding Total Equity and Growth rate of Total Equity of the selected investment banks from 2009 to 2013 along with the average of the five years. Above table shows that CBL has negative growth rate (-0.31759%) while the Al Baraka Bank Limited has highest positive growth rate (89.18755%) which means that Equity in 2009 (Rs. 3,487,571) has increased by 89.18755% in 2013 and reached the level of Rs. 6,598,050. Figure 7

depicts that United Bank Limited (UBL) is at the top with high average of total Equity Rs. 74879898 whereas Dubai Islamic Bank limited has the lowest average total assets of Rs. 6411289.2 and holds the last position in grade of investment bank.

Conclusion



The results of the study indicate that each investment bank has different conclusions based on the financial ratios and financial measures. Below are the main conclusions regarding the investment banks.

On the basis of Return on Assets ratio United Bank Limited is at peak, Standard Chartered Bank limited on the second number, Citi Bank Limited is on the third, Meezan Bank Limited on the fourth, Dubai Islamic Bank Limited on the fifth number, HSBC Bank Limit on sixth number, JS Bank Limited on Seven number, Al Baraka Bank Limited on the eighth number and on last number is KASB Bank Limited.

On the basis of Return on Equity ratio Meezan Bank Limited is at peak, United Bank Limited on the second number, Citi Bank Limited is on the third, Standard Chartered Bank limited on the fourth, Dubai Islamic Bank Limited on the fifth number, HSBC Bank Limit on the six number, JS Bank Limited on the Seven number, Al Baraka Bank Limited on the eight number and on last number is KASB Bank Limited.

On the foundation of Admin Expenses to Profit Before Tax Ratio Dubai Islamic Bank Limited is at peak, Citi Bank Limited on the second number, Standard Chartered Bank limited is on the third, Meezan Bank Limited on the fourth, JS Bank Limited on the fifth number, United Bank Limited on the six number, HSBC Bank Limit on the Seven number, KASB Bank Limited on the eight number and on last number is Al Baraka Bank Limited.

On the foundation of Cash and Cash Equivalent to Total Assets Ratio JS Bank Limited is at peak, Al Baraka Bank Limited on the second number, Dubai Islamic Bank Limited is on the third, Meezan Bank Limited on the fourth, United Bank Limited on the fifth number, Citi Bank Limited on the six number, KASB Bank Limited on the Seven number HSBC Bank Limit on the eight number and on last number is Standard Chartered Bank limited.

On the foundation of Capital Ratio JS Bank Limited is at peak, Standard Chartered Bank limited on the second number, Dubai Islamic Bank Limited is on the third, HSBC Bank Limit on the fourth, Citi Bank Limited on the fifth number, Al Baraka Bank Limited on the six number, United Bank Limited on the Seven number KASB Bank Limited on the eight number and on last number is, Meezan Bank Limited.

On the foundation of Total Assets Ratio United Bank Limited is at peak, Standard Chartered Bank limited on the second number, Meezan Bank Limited is on the third, Citi Bank Limited on the fourth, KASB Bank Limited on the fifth number, JS Bank Limited on the six number, Al Baraka Bank Limited on the Seven number HSBC Bank Limit on the eight number and on last number is Dubai Islamic Bank Limited.

On the foundation of Total Equity Ratio United Bank Limited is at peak, Standard Chartered Bank limited on the second number, Meezan Bank Limited is on the third, Citi Bank Limited on the fourth, JS Bank Limited on the fifth number, Dubai Islamic Bank Limited on the six number, HSBC Bank Limit on the Seven number, KASB Bank Limited on the eight number and on last number is Al Baraka Bank Limited.

Appendix

S.no	Name of the Investment Banks	Abbreviations	S.no	Name of the Investment Banks	Abbreviations
1	Meezan bank limit	MBL	6	Citi Bank limit	CBL
2	Al Baraka Bank limit	ABBL	7	HSBC Bank Limit	HSBCBL
3	KASB Bank Limit	KASBBL	8	JS Bank Limit	JSBL
4	Standard Charter Bank Limit	SCBL	9	Dubai Islamic Bank Limit	DIBL
5	United Bank limit	UBL	10	IJI Investment Banks	IJIIB

Source: Compiled from websites of investment banks

In last, above conclusions are useful for managers about the operating of activities that increase the financial performance of investment banks in Pakistan. Purpose of the study is to make ranking of top ten investment banks in Pakistan and compare these investment banks financial performance with each other.

Recommendation

Recommendation of the study is that this study is only limit to top ten Investments of Pakistan. Anyone can further research to rank all the investment banks which are listed with Security Exchange Commission of Pakistan in 2014. There is also possibility that anyone can further research on these banks but increasing years like taking data from 2006 to 2013.

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