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Introduction

In the beginning of 1970s the country's infrastructure and development programs affected by war of 1971 with India on the issue of Kashmir, first war with India battled by Field marshal General Ayoob khan in 1965 and second war was fought by General Yehya khan and east Pakistan separated from west Pakistan and score of army personnel imprisoned in India.

This research study is based on nationalization and de-nationalization of banking industry of Pakistan. The first program of nationalization that was taken into functioning in the new Pakistan, from the time of independence of Pakistan, the economic and institutional development was suspended due to continue autocratic and dictatorship ruling in the country. Continue military rule indulged country into war with neighbor country India, two wars were

Global Melt Down and Banking Sector Performance, A Comparative Analysis of MCB Compare with HBL

Abstract

This research investigates the performance of HBL with compare with MCB in Pakistan. Data were collected from various secondary sources annual reports, State Bank reports of HBL and MCB branches operated in Pakistan. The main reason of slow growth Pakistan was the low down of deposit rates of the customers. The financial ratios such as return on Assets (ROA), return on Equity (ROE), Loan to Deposit ratio (LDR) Loan to Asset Ratio (LAR) Debt to equity Ratio (DER), Assets Utilization (AU), and Income to Expense ratio (IER) are used to assess banking performance. It was revealed that the performance of MCB compare with HBL is steady growth and ROE, LDR all the ratios indicates that during last couple of years the performance of MCB is better than HBL.

Fighter and one part of the country separated from west and East Pakistan.

The ZA Bhutto was impressed by socialist economy which was in USSR and in their socialist blocks countries. The Peoples party government had created

a program of nationalization in the new country of Pakistan, which was a good decision at that time; because there was a need of strengthen Public sector banks and financial institutions.

No doubt nationalization was good sign for the development but due to mishandling mismanaging national resources and financial institutions specially baking industry of Pakistan.

The appearance of Banking industry counted as employment exchange rather than financial institution, more peoples were employed and at the

large level branches were opened in the whole country, result in trained personnel lost their devotion and shifted loyalties to the private sectors and established their own business in the out of the country. While the slogan was (Roti Kapra aur Makan) {Food Clothing and Shelter}, the above slogan was very nearest with socialist's economies instead of capitalist's economies, the program of nationalization initiated in 1974. In the beginning of the nationalization program activated with potency and developing modes of economic activities in the country. But after the nationalization of State owned commercial banks and development finance institutions The members of National Assemblies and members of Provincial Assemblies (MNAs/MPAs) and their relatives and friends were only benefited and involved in misusing the funds of financial institutions and banking industry of Pakistan, through the misappropriation of accounts (NPLs) non performing loans boosted and increased the doubtful debt which extended burden on the economy of the country.

In 1977 Bhutto government was toppled down and replaced by another Military ruler General Zia-ul Haq and imposed Martial law in the country. The General Zia-ul Haq had started denationalization and many institutions were returned to the Private owners but still good governances were ignored from the items of the managements. This behavior led to institutional fall downed at unaffordable and unavoidable losses, increased in financial institutions of the country, every year budget comes in deficit foreign debt burden extended pressures and increased trade deficit, and balance of payment always in disequilibrium and current account position showed alarming level on global economic development trends. The banking industry affected by over employment and over branching and (NPLs) Non-performances Loans, One of the main reasons of denationalization of banking industry. That was only way to meet the saving strategy of the Financial sector and (DFIs) Development Finance Institution of Pakistan. Through restructuring and downsizing was the only solutions for rehabilitations of banking sector of Pakistan and beginning 'Golden hand shake' program through the financial motivations, was a mistake for launching (GHS) 'Golden hand shake' program as yellow cab transport scheme, looted financial ability from stock holders. Many loss making branches were closed and created a system of financial apprehensions and generated a healthy competition between Financial institutions and banking sector of state owned and private with modified culture and behavior.

The banking Statistics of Pakistan "is the Fifty seconds of the series", and incorporated detailed information regarding State Bank, Scheduled banks and other financial institutions of Pakistan for the year July 2000 - June 2001, 2002.

At that time total 24 Banks were in operation from which seventeen foreign banks and seven domestic banks were operated in Pakistan in 1990. The Foreign banks were holding only 7.8 percent of total assets and 7.0 percent of the total deposit base. Their activities were generally related to foreign trade.

All the banks were nationalized in 1974, included all the banks financial institution and (DFIs) Development Finance Institutions of the Public sector. The performance of Public sector was not counted as an apple except few ones and banking law was amended. The Pakistan Banking Council was established and decreased or limited the role of State Bank of Pakistan (SBP). The Pakistan Banking Council (PBC) was established but not developed, It was, not a Institution, but was the servant of Government. The Financial rules became out of order, and not had been used in financial transactions. The history, first time government occupied whole banking sector for facilitating their personnel through public sector reform, MNAs and MPAs registered for loans for their personal Vehicles and House purchase loans to the Minister's and other privilege classes of the society. On the other hand, Government of India developed Public sector spread, infrastructure modernized; the system of sound management had been applied. By India.

Literature review

Interest-free banking seems to be of very recent origin. The earliest references to the reorganization of banking on the basis of profit sharing rather than interest are found in Anwar Qureshi (1946), Naiem Siddiqui (1948) and Mahmud Ahmad (1952) in the late forties, followed by a more elaborate exposition by Mawdudi in 1950 (1961). Muhammad Hamidullah's 1944, 1955, 1957 and 1962 writings too should be included in this category. They all have recognized the need for Islamic commercial banks and the evil of interest in that enterprise, and have proposed a banking system based on the concept of Mudaraba - profit and loss sharing. In the next two decades interest-free banking attracted more attention, partly because of the political interest it created in Pakistan and partly because of the emergence of young Muslim economists. Works specifically devoted to this subject began to appear in this period. The first such work is that of Muhammad Uzair (1955). Another set of works emerged in the

late sixties and early seventies. Abdullah al-Araby (1967), Nejatullah Siddiqui (1961, 1969), al-Najjar (1971) and Baqir al-Sadr (1961, 1974) were the main contributors.

The recent research regarding financial crisis was conducted by Dr. Umer Chapra, senior research advisor at Islamic Research and Training Institute of the Islamic Development Bank Jeddah. He argued that overall banking sector growth is pretty slow because of the Global Economic recession; It is the worst than the Great depression. He further revealed that Global economic crisis may have to exposed longer period.

Data collection methodology

Data was collected from various secondary sources like income statements and balance sheets of HBL compare with the MCB bank operated in Pakistan. In order to compare the financial performance of HBL compare with MCB bank in Pakistan the study were uses 12 financial ratios for the banks performance broadly categories in four groups: (a) Profitability ratio, (b) Liquidity ratio, (c) risk and solvency ratio, and (d) efficiency ratio.

Profitability

Year 2007

In above mentioned year MCB performed well by earning 3.71% return on assets. This shows better managerial performance and efficient utilization of the assets of the bank. In 2007 return on equity was also satisfying by achieving 36.46% for each rupee invested in bank. In the same year bank was also cost efficient by earning 250.96% profit to expense ratio. Generally in 2007 bank performed well and was satisfying for investors and share holders.

Year 2008

As compared to year 2007, in 2008 as financial crisis hit all over the world MCB also beard the same shock. And its return on assets, return on equity, profit to expense ratio decreased to 3.46%, 30.31%, 180.85% respectively. But yet bank made efficient utilization of resources and was cost effective.

Year 2009 (up to 3rd quarter)

This was the year of recovery for MCB Bank. Bank earned 3.71%, 30.06%, 221.60% were return on assets return on equity and profit to expense ratio respectively. In 2009 bank is recovering from last years shock.

Liquidity

Year 2007

In the mentioned year liquidity position of MCB Bank was average. With 75.32%, 52.30%, 53.60% loan to deposit ratio, cash to portfolio investment ratio and loan to asset ratio respectively. In 2007 bank has average liquidity and higher profits and hence bank is in stable condition and there is trust and confidence of depositors in Bank. Hence average liquidity and average risk for bank in 2007.

Year 2008

In year 2008 Bank loan to asset ratio and loan to asset ratio increased 80.72%, 61.34%. But at the same time cash to investment ratio decreased 41.14%. In 2008 Bank has taken more financial stress by making excessive loans. In 2008 Banks liquidity position was hit by financial crisis and decreased. However, Bank maintained its trust and confidence among depositors still.

Year 2009

Again this was year of recovery for MCB Bank. And its loan to asset deposit and loan to asset ratio decreased by 67.14%, 51.59% respectively. And its cash to investment ratio also decreased by 39.47%. Generally the liquidity position of bank was average and hence average margin of safety.

Risk and solvency position

Year 2007

In the mentioned year Debt to equity ratio, Debt to asset ratio, and equity multiplier was, 87.83%, 9.72% and 9.03% respectively. The risk level of bank was low and Bank was in normal operation How ever Debt to equity ratio was very high and was alarming for MCB Bank.

Year 2008

This was better year for MCB Bank regarding risk and solvency. It's DER, DTAR, and EM was 43.38%, 5.21%, and 8.49% respectively and hence solvent and less risky for bank. Despite financial crisis Bank maintained its solvency position.

Year 2009

This was the best year for MCB Bank regarding solvency and risk ratio because all of its three ratios decreased by 21.65%, 2.71%, 7.93%. And hence was satisfying for the Bank.

Profitability

Year 2007

Profitability position of HBL Bank in 2007 was average with Return on Assets, Return on Equity and Profit to Expense Ratios was 1.68%, 30.18% and 68.74% respectively. So it's quite clear that HBL Bank is earning average profits and share holders are also earning average return on its Equity however PER is in good percentage which means that the management of HBL Bank is cost efficient and utilizing assets and resources in right direction.

Year 2008

2008 was not a favorable year for HBL Bank it seems that profit is being affected by financial crisis that's the reason that it's Return on Assets, Return on Equity and Profit to Expense Ratios decreased by 1.36%, 22.16% and 52.40% respectively. In 2008 HBL Bank earned profits but it has incurred more expenses and investors did not get enough return on their investments. Management of HBL Bank in this year could not utilize its assets and resources in desired manner to earn profit.

Year 2009

This was even worst year as compared to previous two years in spite HBL Bank earned profit but HBL Bank could not controlled expenses which is quite clear from Profit to Expense Ratio which shows 18.62% this shows that management of HBL Bank is not cost efficient and not controlling its expenses. Overall this was alarming year for HBL Bank regarding its utilization of assets and resources. Efforts must be taken to bring conditions into normality by earning more profits and controlling its expenses.

Liquidity

Year 2007

Liquidity position of HBL Bank in 2007 is average though its Loan to Deposit Ratio is high with 78.77%. This shows that HBL Bank has less liquidity with average profits and average risk. Furthermore there is deficiency in trust and confidence of depositors on bank. But generally higher liquidity ratio indicates that HBL Bank has enough margin of safety and is able to cover its short term obligations.

Year 2008

Again this year is somewhat similar to 2007 regarding liquidity its Loan to Deposit Ratio increased by 80.03% which is not good news for HBL Bank regarding liquidity it looks that HBL

Bank has taken financial stress by making excessive loans and also indicates that to meet depositor's claims HBL Bank may have to sell some loans at loss. Furthermore trust and confidence of depositors on HBL Bank has decreased. Over all HBL Bank with average profits and less liquidity and risk in 2008.

Year 2009

2009 is year of improvement in the area of liquidity of bank. Because HBL Bank tried to maintain liquidity position and Loan to Deposit Ratio decreased at 78.26%. Furthermore HBL Bank succeeded in achieving trust of depositors. However HBL is capable to settle its all short term obligations. But still HBL need to maintain its liquidity position to meet unforeseen future to meet depositors claims.

Risk and solvency:

Year 2007

Risk and solvency position of HBL Bank in 2007 year is normal HBL Bank is out of danger. But its Debt to Equity Ratio is very high with 169% this is not good sign for HBL Bank regarding its risk and solvency. However it's Debt to Total Assets and Equity Multiplier Ratios are at lowest with 11.91% and 14.19%. This shows that HBL Bank has not financed its assets through debt.

Year 2008

This is better year as compared to 2007 because all its three ratios Debt to Equity, Debt to Total Assets and Equity Multiplier Ratios decreased by 119.25%, 9.06% and 13.16%. Surprisingly in financial crisis HBL Bank has controlled its risk and solvency position and its total assets are more than its liabilities. And further more HBL Bank has used less debt to convert into assets with share capital. Overall there is no risk for HBL Bank regarding its operations and solvency.

Year 2009

2009 is favorable year as compared to previous two years because it's Debt to Equity and Equity Multiplier Ratios decreased with 116.93% and 11.13% respectively. This is good sign for HBL Bank however HBL Bank must decrease its DER to further lowest percent. But in 2009 surprisingly Debt to Total Assets Ratio increased up to 10.50% this shows that HBL Bank has financed some of its assets through debt. But over all HBL Bank has no worry regarding its solvency and has less risk and HBL Bank will continue its business in foreseeable future.

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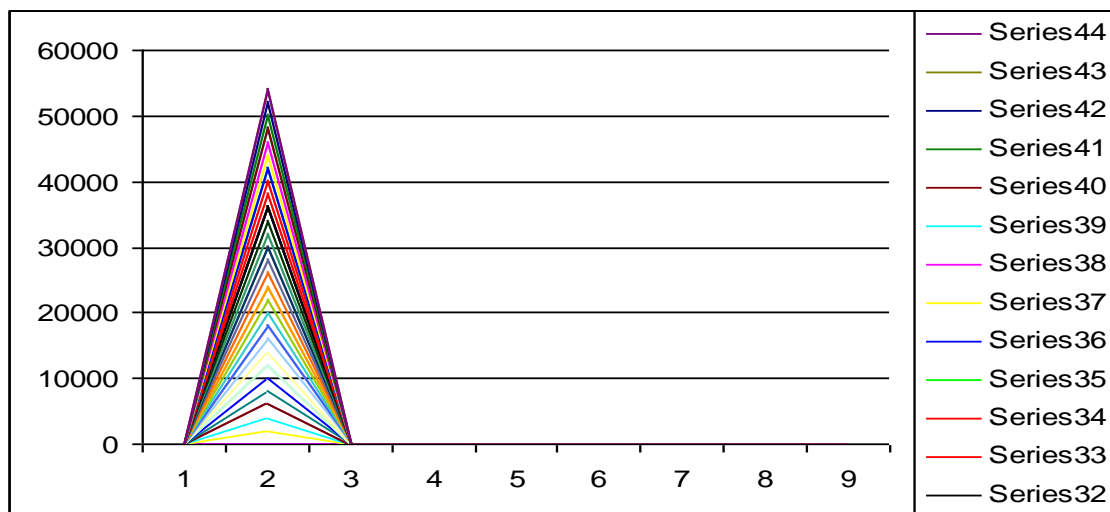
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Appendix

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Table-12: Ratio analysis of MCB bank

Profitability			Liquidity			Risk & Solvency		
ROA	2007	3.71%	LDR	2007	75.32%	DER	2007	87.83%
	2008	3.46%		2008	80.72%		2008	43.38%
	2009	3.71%		2009	67.14%		2009	21.65%
ROE	2007	36.46%	CPIDR	2007	52.30%	DTAR	2007	9.72%
	2008	30.31%		2008	41.14%		2008	5.21%
	2009	30.06%		2009	39.47%		2009	2.71%
PER	2007	250.96%	LAR	2007	53.60%	EM	2007	9.03%
	2008	180.85%		2008	61.34%		2008	8.49%
	2009	221.60%		2009	51.59%		2009	7.93%



Habib Bank Limited

Table 2: Ratio analysis of HBL

Profitability			Liquidity			Risk & Solvency		
ROA	2007	1.68%	LDR	2007	78.77%	DER	2007	169%
	2008	1.36%		2008	80.03%		2008	119.25%
	2009	0.38%		2009	78.26%		2009	116.93%
ROE	2007	30.18%	CPIDR	2007	27.71%	DTAR	2007	11.91%
	2008	22.16%		2008	23.37%		2008	9.06%
	2009	5.13%		2009	39.46%		2009	10.50%
PER	2007	68.74%	LAR	2007	59.28%	EM	2007	14.19%
	2008	52.40%		2008	64%		2008	13.16%
	2009	18.62%		2009	59.14%		2009	11.13%

