A Comparison of Financial Performance in Investment Banking Sector in Pakistan

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Abstract

Investment banks are the major contributors in economic development of a country. They have wide impact on capital and credit markets of a country. This study presents comparison of financial performance for the period 2006–2009 by using financial ratios and measures of investment banks working in Pakistan. Financial ratios are divided into three main categories and measures including two indicators. Seven investment banks out of nine are selected for analysis for comparison purpose. This work concludes that the performance of investment banks on the basis of efficiency ratio is different than on the basis of liquidity ratio, capital or leverage ratio and financial measures. Due to the unavailability of data of other two banks, the results are compiled from the data of seven banks. The findings are consistent with the analysis reported by the central bank of Pakistan (State Bank of Pakistan, SBP) in its report for financial sector analysis 2006-09. This study also equips the managers with important information about different activities of banks which have a high impact on the financial performance of investment banks.

Key words: Investment Banks, Financial performance, banking industry, Pakistan, ROA, ROE, ACR.

1. Introduction

A financial system is of vital in nature for the economic development as it provides relieve in funds mobilization. Today's volatile economic environment requires efficient financial system for specialism in production, to retain investors' friendly relationship and competitive market to assist economic transaction. A stable and efficient financial system represents efficient allocation of resources and becomes the foundation of rising of financial performance of an organization which leads to enhance actions and functions of the organization. Investment banks, as a component of financial system, serve as stakeholder in the economy and work for development of the economy of a country. Investment banks provide a backup to all capital market in the economy through trading in shares, investment holdings, and merchant banking activities. They also support the credit market in the country through short term and medium term loans. For the enhancement of financial performance three principal factors can be argued; its asset management (AM), institution size (IS), and operating efficiency (OE) (Tarawneh, 2006).

The intention of this study is to analyze the investment banks' financial data for the period of 2006-2009 to evaluate the investment banks on the basis of their financial ratios and some financial measures which have the impact on the financial performance of investment banks. Therefore, the main objective of this study is to classify the investment banks in Pakistan on their financial characteristics basis to provide guidelines for future development. The financial indicators include financial ratios and financial measures such as return on owners' equity (ROE), return on assets (ROA), institution size or total assets, total owners' equity, earnings per share (EPS), current ratio, capital ratio, return on capital employed (ROCE), and admin expenses to profit before tax ratio, and these ratios are scattered in three main categories. These financial ratios and measures are derived from the annual audited financial statements of investment banks and financial statement analysis by the State bank of Pakistan for financial sector regarding 2006-2009.

The rest of the paper is organized as: the second section explains the investment banking in Pakistan, the third section relates to literature review, the fourth section contains the methodology of the study, fifth section provides the analysis of available data and details of results and the final section elaborate conclusions.

2. The investment banking industry in Pakistan

Investment banks play an essential role in domestic financial sector as a viable component. In Pakistan, they provide the various services like strategic type of advisory services for the acquisitions and mergers, equity and debt financing and leasing, and corporate restructuring etc. They facilitate corporate, government agencies and government to lift up funds by selling and issuing securities in primary market, support private and public corporations in raising money by investing in capital market. In past, there was a huge difference between the services of commercial banks and investment banks in Pakistan but in recent years these differences have begun to remove and now many commercial banks are providing major services of investment banking also in Pakistan. Due to the competition with banking sector, investment banks are unable to produce enough fee income from advisory services or interest income from financing (SBP, Financial Stability Review, 2008-2009). In FY-07, there were 10 investment banks, 12 in FY-08, 9 in FY-09 and 8 in FY-10 with the share of assets in the NBFCs aggregate assets of 11.6% in FY-06, 7.9% in FY-07, 7.4% in FY-08, and 6.6% in FY-09 (SBP, Financial Stability Review, 2009-2010). SECP, being the regulatory body of investment banks in Pakistan, is taking many steps for the growth of investment banks in Pakistan and new rules regarding NBFCs has introduced in 2008 for entire NBFC sector.

3. Review of Literature

Generally, the combination of financial ratios, measuring performance against budget, benchmarking or mix of pre-discussed methodologies have been used to measure the financial performance of investment banks and other financial institutions (Avkiran, 1995). Published financial statements contains many ratios which give the indication about the performance of investment banks. Financial ratios and measures like return on shareholders' equity (ROE), return on assets (ROA), institution size or total assets, total shareholders' equity, earnings per share (EPS), current ratio, capital ratio, return on capital employed (ROCE), and administration expenses to profit before tax ratio have been used to classify the investment banks which are working in Pakistan in the period of 2006-2009. Many previous studies related to evaluation of company's performance have been focusing the operational effectiveness and efficiency which might influence the company's survival directly. The empirically results of Tarawneh (2006) study showed that a company which have better efficiency, it does not mean that always it will show the better effectiveness.

Elizabeth & Elliot (2004) explained that all financial measures of performance as return on assets (ROA), capital adequacy (CA) and interest margins (IM) are calculated positively with scores of customer service quality. Many rsearches have been focusing on liability and asset management in banking sector Ruth, 2001; Caddy, 2000; and Richard & James, 2003). Whereas Tektas & gunay (2005) argued that miximizing bank's profit, lowering and controlling the various risks are necessarily required for asset-liability management efficiently and also showed that how the troubles are created during crisis by change in market perception. literature showed that many researches have been conducted covering various countries of the world but no study could on comparision of financial performance in investment banking industry in case of Pakistan. In this study the financial comparison is based on return on equity (ROE), return on asset (ROA), institution size (IS) and many other activities to determine the financial performance of investment banks in Pakistan.

4. Methodology

To accomplish the research objectives, data has been mined from the State Bank of Pakistan's Financial Statement Analysis of the Financial Sector (2006-2009) and audited financial statements of investment banks. Data regarding financial ratios and measures are used to classify the investment banks in Pakistan. Financial ratios are distributed in three main categories. The categories are:

I. Efficiency / Profitability ratios
1. Return on owners' equity (ROE)
2. Return on Assets (ROA)
3. Admin Expenses to Profit before Tax Ratio
4. Earnings per Share (EPS)
5. Return on Capital Employed (ROCE)
II. Liquidity Ratio
6. Current Ratio
III. Capital / Leverage ratio
7. Capital Ratio

Financial measures are:

8. Institution Size : Total Assets
9. Total Owners' Equity

For classification, the sample was consisted of 7 investment banks out of 9 and that is 77.78% representation of population (number of investment banks which are working in Pakistan 9 in 2009, see Appendix). Two investment banks are not taken as sample because the data of one investment bank is not available for the period of 2006, whereas the data of second investment bank is not available for the period of 2006 & 2007. Number of selected investment banks should not be considered as shortcoming of this study since its title just focused on Pakistani investment banks.

5. *Results and analysis*

Table 1: Return on Owners Equity (ROE)

Bank	Value in Percentage (%)				
	Years				
	2006	**2007**	**2008**	**2009**	**Average**
EIB	24.47%	16.23%	16.18%	-27.83%	7.26%
FCIB	9.50	10.05	16.18	0.95	9.17
FDIB	11.78	11.28	0.06	444.25	116.84
IGIIB	4.85	-3.67	-0.28	20.07	5.24
ICIB	22.89	13.17	-0.05	19.32	13.83
SIB	13.25	13.64	0.04	-39.49	-3.13
TIB	20.75	10.14	13.67	-187.86	-35.83

Source: Compiled from audited financial statements of investment banks and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009
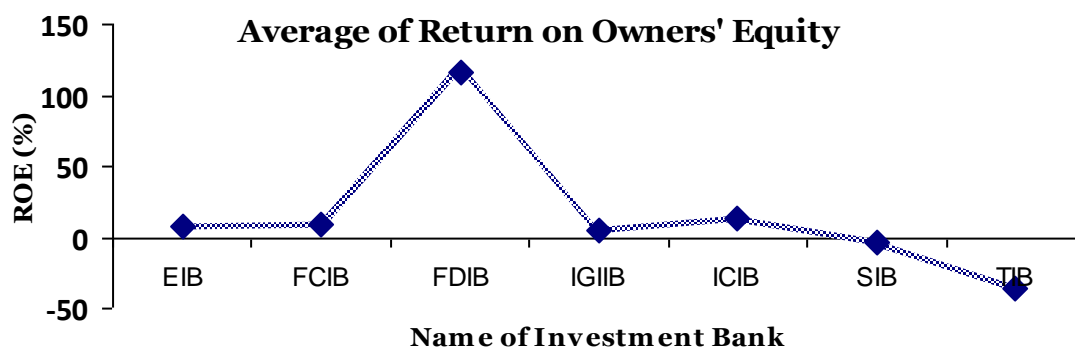
Figure 01

Table 01 & figure 01 contain the data regarding return on owners' equity for the period of 2006 to 2009 and average of four years. This ratio is used as a measure of returns to owners of the investment banks directly and can be calculated as a percentage of after tax profit to total owners' equity. It is more clear in the figure 01 that First Dawood Investment bank (FDIB) is at the top as it has the highest positive average ROE ratio (116.84%), whereas Trust Investment Bank (TIB) has the highest negative average ratio (-35.83%).

Table 2: Return on Assets (ROA)

Bank	Value in Percentage (%)				
	Years				
	2006	**2007**	**2008**	**2009**	**Average**
EIB	3.82%	2.19%	2.12%	-7.81%	0.08%
FCIB	2.68	2.71	2.12	0.43	1.99
FDIB	1.55	1.47	0.01	-34.83	-7.95
IGIIB	0.59	-0.59	-0.06	5.73	1.42
ICIB	-134.41	-160.36	-0.01	2.11	-73.17
SIB	3.69	3.19	0.03	-20.08	-3.29
TIB	3.28	1.60	1.69	-11.05	-1.12

Source: Compiled from audited financial statements of investment banks and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009
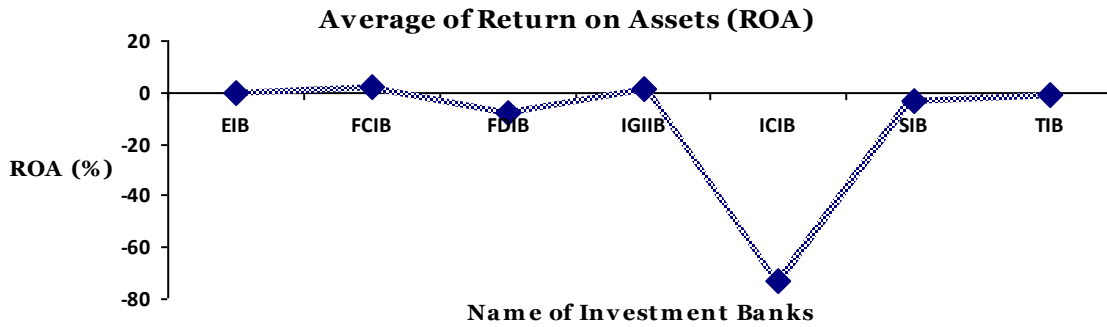
Figure 02

Table 02 & figure 02 describe the data regarding return on assets (ROA) of investment banks for the period of 2006 to 2009 and average of four years. This ratio reveals the earning capacity of profit by an investment bank on its total assets which are employed in the business. It can be calculated as percentage of after tax profit to total assets. In this study it is used as a measure to know the financial performance and it shows the management ability to generate net profits by using its assets. Figure 02 clearly depicts that First Credit Investment Bank (FCIB) is first one which has the positive and high average of return on assets from others. Whereas Invest Capital Investment Bank (ICIB) has the highest negative average ratio (-73.17).

Table 3: Institution Size or Total Assets

| Bank | (Value in Rs.'' 000) | | | | | |
| | Years | | | | | |
	2006	2007	2008	2009	Growth Rate %	Average
EIB	4875757	5934660	6496910	2107643	-56.77	4853742.50
FCIB	1763790	2058504	6496910	1800497	2.08	3029925.25
FDIB	8092540	12218137	11064195	5136416	-36.53	9127822.00
IGIIB	5298035	66449016	9831396	6548654	23.61	7081775.25
ICIB	38132	21216	2028240	7846983	20478.47	2483642.75
SIB	2335484	2802665	931546	959496	-58.92	1757297.75
TIB	6161580	6443678	7932081	9475331	5.09	6753167.50
TOTAL	28565318	95927876	44781278	33875020	18.59	

Source: Compiled from audited financial statements of investment banks and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009
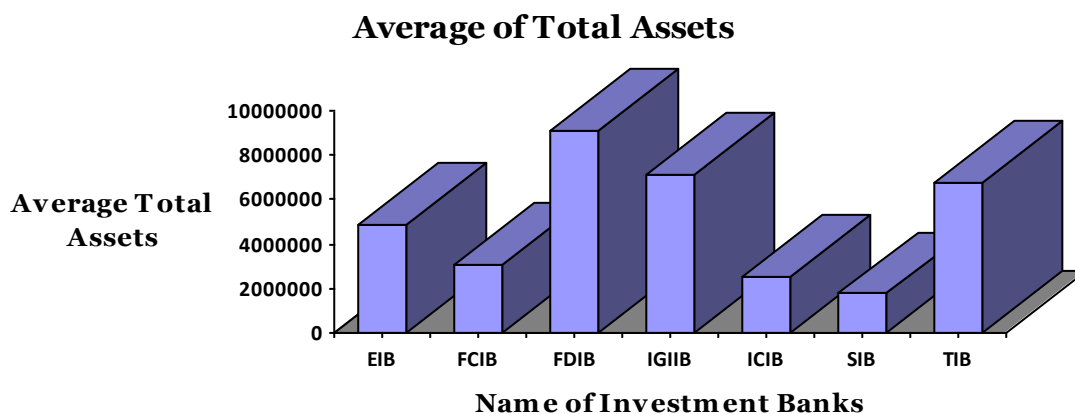
Figure 03

Table 03 & figure 03 show the total assets of selected investment banks for the period of 2006 to 2009, growth rate of assets and average of four years. It is clear from the table 03 that Security Investment Bank (SIB) has highest negative growth rate (-58.92%), whereas Invest Capital Investment Bank (ICIB) has the highest positive growth rate (20478.47%) which means that assets in 2006 (Rs. 38132) are increased by 20478.47% in 2009 to reach at the level of Rs. 7846983. According to figure 03, it can be easily judged that First Dawood Investment Bank (FDIB) at the top with high average of total assets Rs. 9127822.00 inspite of its negative growth rate (-36.53%), whereas Security Investment Bank as the lowest average total assets and at the last position in ranking.

Table 4: Total Owners' Equity

Bank	(Value in Rs. 000)					
	Years					
	2006	**2007**	**2008**	**2009**	**Growth Rate %**	**Average**
EIB	760269	802233	851850	597403	-21.42	752938.75
FCIB	498227	553901	851850	808568	62.29	678136.50
FDIB	1062270	1591618	1778996	-403246	-137.96	1007409.50
IGIIB	645600	1067535	2244315	1869229	189.53	1456669.75
ICIB	-223870	-257893	380238	853718	-481.35	188048.25
SIB	650564	654086	680706	488012	-24.99	618342.00
TIB	974115	1016064	1099609	380731	-60.92	866629.75
TOTAL	4367175	5427544	7887564	4594415	5.20	

Source: Compiled from audited financial statements of investment banks and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009
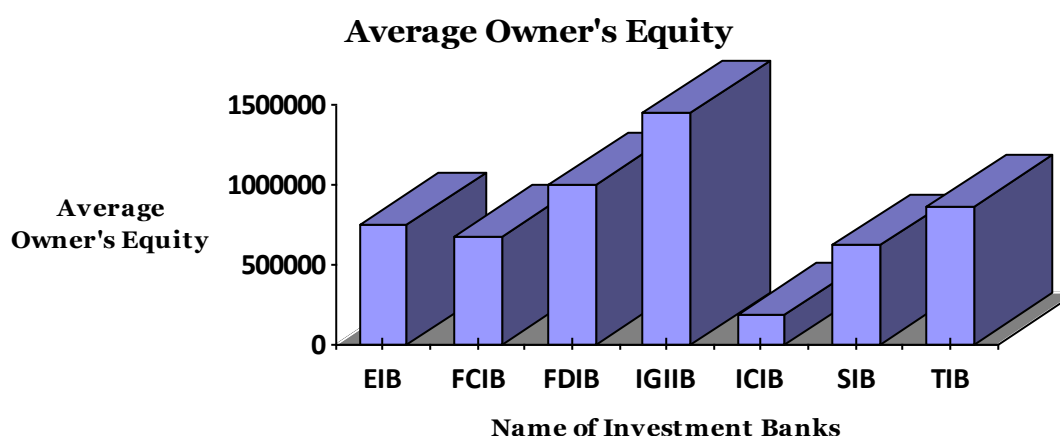
Figure 04

Average Owner's Equity

Table 04 & figure 04 contain the data regarding total owners' equity of investment banks for the period of 2006 to 2009, growth rate average of four years. According to table 04, IGI Investment Bank (IGIIB) has the highest positive growth rate (189.53%) in 2009 comparing with year 2006 and also has the first on the basis of highest average owners' equity (Rs. 1456669.75). Figure 04 clearly demonstrates that IGIIB has the highest average owners' equity, whereas Invest Capital Investment Bank (ICIB) has lowest average owners' equity (Rs. 188048.25) and it also has the highest negative growth rate in 2009 (-481.35%).

Table 5: Earnings per Share (EPS)

Bank	Earnings per Share (EPS) Rs.				
	Years				
	2006	**2007**	**2008**	**2009**	**Average**
EIB	4.22	2.95	3.13	-3.77	1.63
FCIB	4.56	4.66	3.13	0.12	3.12
FDIB	3.86	3.63	2.00	-28.59	-4.78
IGIIB	0.75	-0.43	-0.03	1.77	0.52
ICIB	-51.26	-3.40	-0.26	0.61	-13.58
SIB	2.01	2.08	0.52	-3.75	0.22
TIB	4.96	2.20	2.56	-12.22	-0.63

Source: Compiled from audited financial statements of investment banks and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009

Figure 05
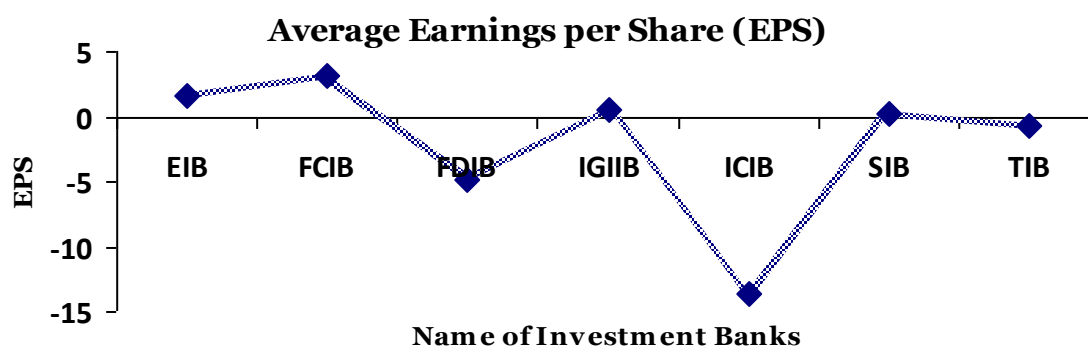
Average Earnings per Share (EPS)

Table 05 & figure 05 demonstrate the earnings per share (EPS) of investment banks for the period of 2006 to 2009 and average of four years. This ratio explains the relationship between number of outstanding shares and after tax net profit at the end of each year. It is clear from the figure that First Credit Investment Bank (FCIB) has the highest average positive EPS (3.12) from other investment banks, whereas Invest Capital Investment Bank (ICIB) has the highest negative EPS (-13.58).

Table 6: Current Ratio

Bank	(Value in Times)				
	Years				
	2006	**2007**	**2008**	**2009**	**Average**
EIB	1.15	1.20	1.14	1.14	1.16
FCIB	1.15	0.98	1.14	0.82	1.02
FDIB	13.13	13.03	0.16	-7.85	4.62
IGIIB	1.17	1.16	1.16	1.01	1.13
ICIB	0.37	0.25	1.13	1.06	0.70
SIB	1.24	1.18	1.13	1.47	1.26
TIB	1.02	1.15	0.74	1.01	0.98

Source: Compiled from audited financial statements of investment banks and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009

Figure 06
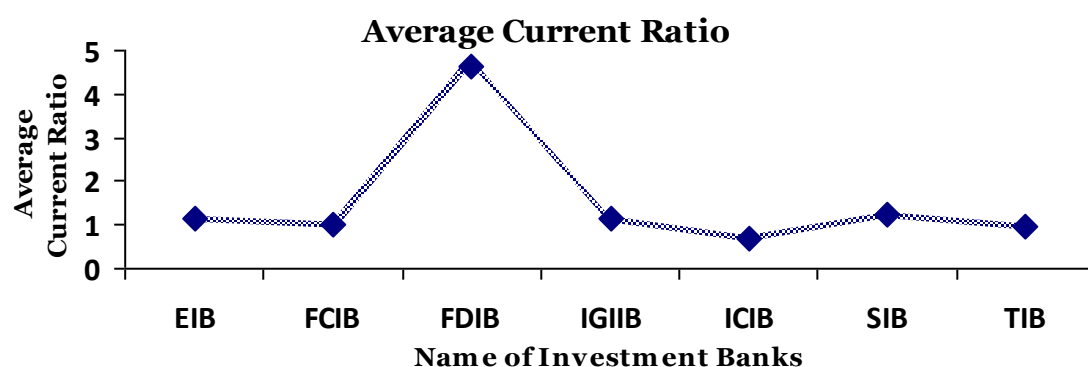
Average Current Ratio

Table 06 and figure 06 show the current ratio of investment banks in Pakistan for the period of 2006 to 2009 and average of four years. It explains that how many times the current assets of investment banks cover up the current liabilities and it also describes the strength of repayment its current liabilities. According to the table 06 and figure 06, First Dawood Investment Bank (FDIB) has highest average positive current ratio (4.62 times), whereas Invest Capital Investment Bank (ICIB) is at highest average negative current ratio (0.70 times) from other investment banks.

Table 7: Capital Ratio

Bank	Value in Percentage (%)				
	Years				
	2006	**2007**	**2008**	**2009**	**Average**
EIB	15.59	13.52	13.11	28.34	17.64
FCIB	28.25	26.91	13.11	44.91	28.30
FDIB	13.13	32.14	31.24	-6.44	17.52
IGIIB	12.19	16.06	22.83	28.54	19.91
ICIB	-587.09	-1215.56	6.19	10.88	-446.40
SIB	27.86	23.34	0.73	50.80	25.68
TIB	15.81	15.77	13.81	5.88	12.82

Source: Compiled from audited financial statements of investment banks and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009
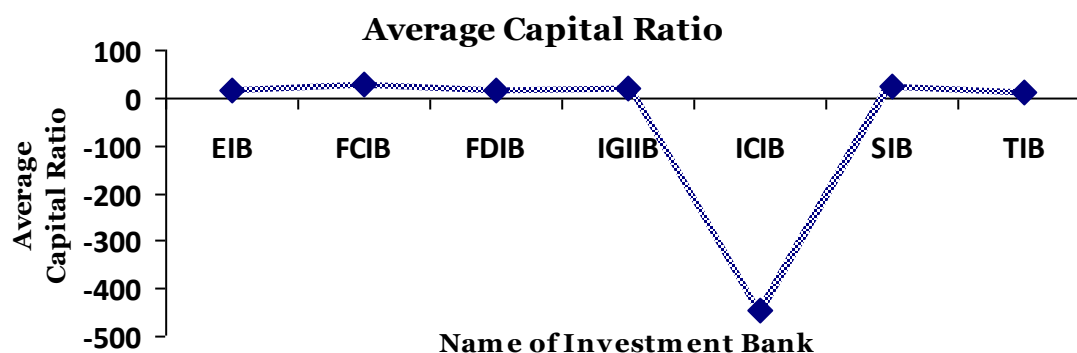
Figure 07

Table 07 and figure 07 show the capital ratio of investment banks for the period of 2006 to 2009 and average of four years. This ratio shows the percentage of total owners' equity in the total assets of investment banks. According to table 07 and figure 07, all the investment banks have the positive capital ratio except Invest Capital Investment Bank (ICIB). First Credit Investment Bank (FCIB) has the highest average capital ratio (28.30%) from other investment banks, whereas only ICIB has the negative capital ratio (-446.40%).

Table 8: Return on Capital Employed (ROCE)

Bank	Value in Percentage (%)				
	Years				
	2006	**2007**	**2008**	**2009**	**Average**
EIB	14.25	8.00	5.37	0.33	6.99
FCIB	6.36	7.58	5.37	1.62	5.23
FDIB	5.29	5.29	0.01	-226.84	-54.06
IGIIB	0.96	-2.46	-1.20	-17.62	-5.08
ICIB	140.11	78.26	-0.01	5.74	56.03
SIB	17.13	16.36	0.01	-44.20	-2.68
TIB	3.55	3.16	2.10	-43.76	-8.74

Source: Compiled from audited financial statements of investment banks and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009
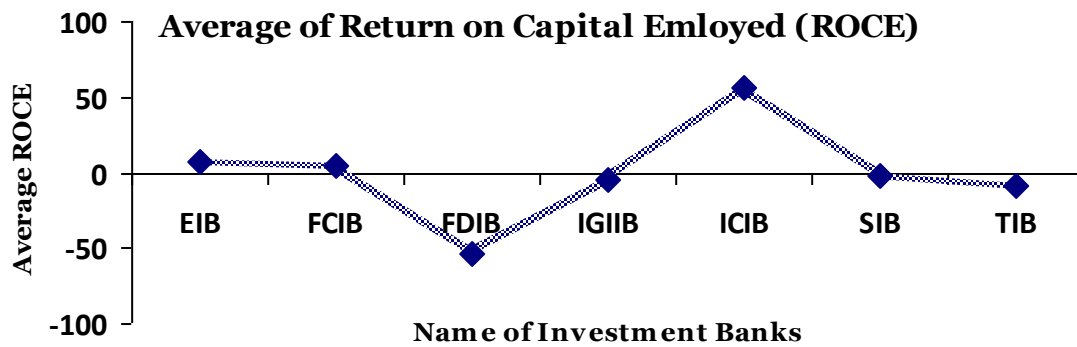
Figure 08

Table 08 and figure 08 contain the data related to return on capital employed (ROCE) of investment banks in Pakistan for the period of 2006 to 2009 and average of four years. This ratio indicates the profitability and efficiency of capital investments of a company and it is calculated by subtracting the all current liabilities of investment bank from total assets. It is clear from figure 08 that Invest Capital Investment Bank (ICIB) has the highest average positive ROCE (56.03%), whereas First Dawood Investment Bank is at highest average negative ROCE (-54.06%).

Table 9: Admin Expenses to Profit before Tax Ratio

Bank	Value in Percentage (%)				
	Years				
	2006	2007	2008	2009	Average
EIB	36.22	34.61	42.06	66.06	44.74
FCIB	17.11	18.61	42.06	27.51	26.32
FDIB	8.62	6.27	7.10	66.62	22.15
IGIIB	38.41	55.03	44.17	37.20	43.70
ICIB	-109.17	-149.82	243.72	-65.50	-20.19
SIB	11.95	11.82	19.57	74.45	29.45
TIB	15.50	29.17	25.64	33.19	25.88

Source: Compiled from audited financial statements of investment banks and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009
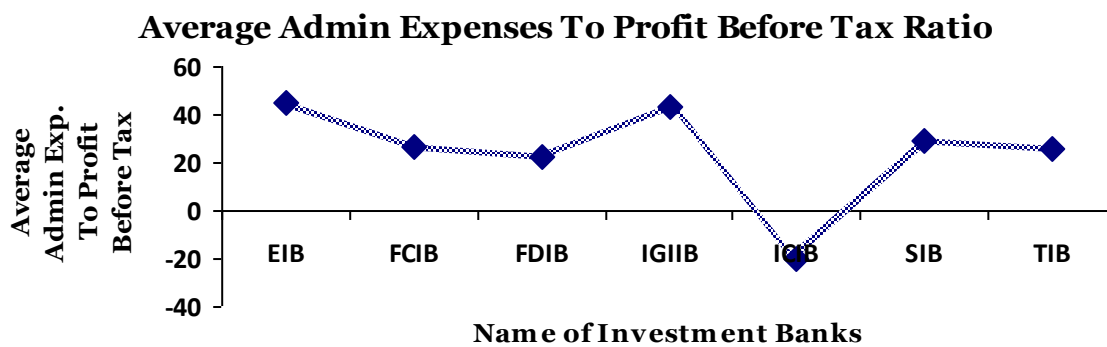
Figure 09

Table   09 and Figure 09 show the admin expenses to profit before tax ratio investment banks in Pakistan for the period of 2006 to 2009 and average of four years. This ratio shows the relationship between admin expenses and the before tax profit of investment banks with a purpose to assess overhead structure of an investment bank. According to table 09 and figure 09, only Invest Capital Investment Bank (ICIB) has the negative average ratio. Escort Investment Bank (EIB) has highest average positive ratio (44.74%), whereas, Invest Capital Investment Bank (ICIB) has the highest average negative ratio (-20.19%).

Table 10: Ranks of Investment Banks based on Financial Ratios and Measures

Financial Ratios & Measures	Bank						
	EIB	FCIB	FDIB	IGIIB	ICIB	SIB	TIB
Efficiency / Profitability Ratios							
1.Return on Owners' Equity (ROE)	4	3	1	5	2	6	7
2.Return on Assets (ROA)	3	1	6	2	7	5	4
3. Admin Exp. To Profit before Tax Ratio	1	4	6	2	7	3	5
4. Earnings per Share (EPS)	2	1	6	3	7	4	5
5. Return on Capital Employed (ROCE)	2	3	7	5	1	4	6
Liquidity Ratio							
6. Current Ratio	3	5	1	4	7	2	6
Capital / Leverage Ratio							
7. Capital Ratio	4	1	5	3	7	2	6
Financial Measures							
8. Institution Size / Total Assets	4	5	1	2	6	7	3
9. Total Owners' Equity	4	5	2	1	7	6	3

6. Conclusions

The study concludes that each investment bank has a different conclusions based on each financial ratio related to efficiency or profitability ratios, liquidity ratio, capital or leverage ratio, and financial measures.

a. Based on return on equity (ROE), First Dawood Investment Bank (FDIB) is at the top, Invest Capital Investment Bank (ICIB) is the second, First Credit Investment Bank (FCIB) is the third, Escort Investment Bank (EIB) is the fourth and IGI Investment Bank (IGIIB) is the fifth.

b. Based on return on assets (ROA), FCIB is at the, IGIIB is the second, EIB is the third, TIB is the fourth and SIB is the fifth.

c. Based on admin expenses to profit before tax ratio, EIB is the first, IGIIB is the second, SIB is the third, FCIB is the fourth and TIB is the fifth.

d. Based on earnings per share (EPS), FCIB is the first, EIB is the second, IGIIB is the third, SIB is the fourth and TIB is the fifth.

e. Based on return on capital employed (ROCE), ICIB is the first, EIB is the second, FCIB is the third, SIB is the fourth and IGIIB is the fifth.

f. Based on current ratio, FDIB is the first, SIB is the second, EIB is the third, IGIIB is the fourth and FCIB is the fifth.

g. Based on capital ratio, FCIB is the first in rank, SIB is the second, IGIIB is the third, EIB is the fourth and FDIB is the fifth.

h. Based on institution a size or total asset, FDIB is the first in, IGIIB is the second, TIB is the third, EIB is the fourth and FCIB is the fifth.

i. Based on total owners' equity, IGIIB is the first, FDIB is the second, TIB is the third, EIB is the fourth and FCIB is the fifth.

Finally, this effort highlighted important information useful for managers about the activities that may increase the financial performance of investment banks in Pakistan. On the other hand, it is also pertinent to mention that the objective of this study is purely for academic purposes and authors' intention is not to make any ranking of investment banks in Pakistan and nor to give any guidelines for investment purposes. Therefore, it is recommended that for financial decision making, financial analysis of all the investment banks with data over a reasonable period of time must be considered.

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Appendix

Name of Investment Banks	Date of Establishment	Abbreviations
Escort Investment Bank Limited	1996	EIB
First Credit and Investment Bank Limited	1989	FCIB
First Dawood Investment Bank Limited	1994	FDIB
IGI Investment Bank Limited	2006	IGIIB
Invest Capital Investment Bank Limited	1994	ICIB
Security Investment Bank Limited	1991	SIB
Trust Investment Bank Limited	1992	TIB
Innovative Investment Bank Limited	2007	IIBL
J.S. Investment Limited	1995	JSIB

Source: Compiled from websites of investment banks and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009