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Political Stability and Performance of Financial Institutions in Pakistan

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Abstract

The purpose of the present study is to analyze the impact of political stability on the performance of financial Institutions in Pakistan. This is the first study in the context of Pakistan that analyzes the performance of financial institutions during the period of political stability. The study's sample period was from 2008 to 2017 because, for the first time in Pakistan, two pure political governments completed their electoral term since the country's independence in 1947. The data is collected from the balance sheet analysis provided by the State Bank of Pakistan on its official website. For the data analysis, the study used the CAMEL analysis technique. The CAMEL analysis technique was also used by the IMF in 2020 to analyze the performance of underdeveloped and developing countries of the world. The results show that the performance of locally owned financial institutions (MCB Bank, United Bank Limited, and Allied Bank) in Pakistan increased during this period. Still, foreign-owned bank's performance is not good even if they cannot fulfill the minimum requirement established by the State Bank of Pakistan. The results contribute to the efficiency theory of financial institutions. Further, the study suggests that the researchers can test the significance of the results by changing sectors to confirm, modify, accept, or reject the results.

Keywords: Political Stability, Financial Institutions, CAMEL Analysis, Performance, Pakistan.

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INTRODUCTION

Financial institutions play a vital role in the economic growth and development of the economy. The financial institutions are considered the backbone of the economy because they act as a lender of last resort to all monetary units of the country (Aftab et al., 2015). They also provide funds to the government in time of need to pay off its circular debt and keep the economic indicators on track. That is why building a solid financial system is the prime interest of every government. To develop a robust financial system, the government enforces legislation to integrate their monetary system with international standards because the financial institutions support the business in import and export and correct the country's trade balance. The world's largest economic crisis of financial institutions faced in 2008 (Dincer et al., 2011). The US banking sector faced enormous losses in this crisis, significantly when conventional banks were severely affected instead of Islamic banks. That is why Islamic banking is widely accepted in Islamic countries and the US and EU countries (Lebbe & Rauf, 2016; Ledhem & Mekidiche, 2020a). After the 2008 economic crisis, the government, academicians, and researchers have been

keenly interested in evaluating the soundness of financial institutions from time to time. In this regard, the researcher used different methodologies to analyze the performance of financial institutions. The researchers used ratios analysis, regression analysis, T, state, and Z scores, and CAMEL Capital Adequacy Ratios (CAR), Assets Quality Ratios (AQR), Management Quality Ratios (MQR), and Leverage Ratios (LR), analysis techniques to measure the performance (Afroj, 2022; Danlami et al., 2022; Dzeawuni & Tanko, 2011; Kouser & Saba, 2012; Ledhem & Mekidiche, 2020b, 2020a). They also analyzed the implementation performance of the corporate governance code, corporate social responsibilities, and BASEL I, II, and III codes. They significantly contributed to developing and implementing legislative changes in financial institutions. The researchers analyzed the impact of different legislative changes, economic uncertainty, economic shocks, world economic crisis, and competitor strategical moves, which impact the banks' performance. Political risk is also a dilemma for underdeveloped and developing countries. Sudden changes in political government create fairness for the businessman about what is going on next with the country's internal security conditions and external relations with other countries.

A political government makes laws, regulations, and policies to develop a robust economic system. A stable political government creates trust and removes the fairness of losses from the minds of business communities. Other countries also have trust in making long-term business commitments with politically stable countries. Banks are the direct beneficiaries of political risk and all economic shocks. However, no single study was found in the available literature that analyzed the impact of political stability on financial institutions' performance, especially in Pakistan. Pakistan was politically unstable, and no single government completed its five-year constitutional electoral period fifty years after the independence. From 2002 to 2007, partial electoral and partial technocrat governments completed their five-year electoral period. From 2008 to 2013, the first independent pure political government completed its electoral term, and from 2014 to 2018, the second political government completed its electoral term. After that, the country became politically unstable, and the next government could not meet its electoral period from 2018 to 2022. The government will end after three and half years at the end of March 2021 (Aftab et al., 2015; Bashir & Sajid, 2011; Journal et al., 2010; Salma & Hussain, 2020).

This study aims to analyze the impact of political stability on the performance of financial institutions (banks) in Pakistan. The study's objective is to evaluate the performance of financial institutions in Pakistan during the period of political stability and suggest to politicians and policymakers the importance of political stability. Political stability contributes to developing a robust financial sector. If a country has a strong financial sector, it contributes to developing a solid economic system. This study significantly contributes to the literature on financial institutions' performance evaluation. Also, it opens a new arena of research for the researchers of corporate finance, especially in the financial sector of the economy. The study provides guidelines for policymakers to justify the impact of political stability on the performance of financial institutions in Pakistan. Pakistan's financial sector comprises Government-owned banks, commercial banks (conventional and Islamic Banks), development finance institutions, exchange banks, Agricultural banks, and foreign banks. From 2002 to 2018, the country was politically stable, and for the first time in Pakistan's political history, three electoral

governments completed their constitutional electoral term. That is why the number of legislative changes within a short period was evident. In 2002, the Securities and Exchange Commission of Pakistan (SECP) implemented the corporate governance code for all public and private limited companies, whether listed on the Pakistan Stock Exchange (PSX) or not. In 2008, the State Bank of Pakistan (SBP) implemented the BASEL II codes for Pakistan's financial institutions. In 2009, SECP implemented corporate social responsibility codes. From 2013 to 2019, the BASE III code was executed by SBP for the financial institutions in Pakistan. These frequent legislative changes and implementation challenged financial institutions because they required too much cost. Those financial institutions that can meet the cost of implementing codes of legislative changes survived, and other financial institutions merged with another financial institution or existed from the sector (Chen et al., 2023; Gul et al., 2012; Jabeen, 2012).

LITERATURE REVIEW

The CAMEL theory analyzes the soundness of financial institutions of any country, especially banks. The CAMEL model, which has been extended and applied to evaluate the health of banks in the USA since 1979, is known as CAMELS. Subsequently, CAMEL was expanded and employed to assess banks' strength and financial performance to benefit regulatory bodies abroad. The International Monetary Fund (IMF) shorted the acronym CAMEL (capital adequacy, asset quality, management quality, earnings size, and liquidity) and used it to measure the financial system's soundness and weakness(Danlami et al., 2022; Kaur, 2010; Ledhem & Mekidiche, 2020a).

In CAMEL analysis, five ratios were used to analyze the financial institutions. Capital Adequacy Ratios (CAR) predict the efficient capital utilization of financial institutions. Secondly, asset quality ratios (AQR) measure the utilization of assets in providing services and producing revenue. Third, management quality Ratios (MQR) measure the impact of management decisions on profit earnings. Fourth, earnings quality ratios have been used to determine the increase and decrease of the profit earned by financial institutions. The last leverage ratios analyze how assets and capital have been used efficiently to generate value for the financial institution (Afroj, 2022; Danlami et al., 2022; Ledhem & Mekidiche, 2020a; Saeed et al., 2020).

In terms of financial liberalization through Islamic banks, a study examined the impact of Islamic banks' financial performance on economic growth in Abu Dhabi, Saudi Arabia, Bahrain, Great Britain, and Tunisia between 2001 and 2012. With variables including GDP, return on equity (ROE), return on assets (ROA), ratio of Zakat performance, ratio of Islamic profits vs non-Islamic earnings, industrial production index (IPI), consumer price index (CPI), and money market rate, they employed panel fixed effect and GLS regression. They concluded that the performance of Islamic banks significantly impacted economic expansion (Ledhem & Mekidiche, 2020a).

A similar conclusion was reached by another study, which used pooled ordinary least square with variables of GDP, ROA, ROE, and the net revenue margin (NRM) on a sample of all full-sized active Islamic banks in the UAE covering a period from 2000 to 2014 and found a positive and significant relationship between the financial performance of Islamic banks and economic growth in the UAE (Gebba & Aboelmaged, 2016). Similarly, it was shown that economic growth and the financial performance of Jordan's

commercial banks are correlated. GDP was the dependent variable, whereas (ROA), deposits, and credit facilities were the independent factors. He used a pooled regression analysis to investigate the relationships between the variables. He concluded that Jordan's economy grew due to the performance of commercial banks (Samhan et al., 2015).

There is a clear correlation between bank profitability and economic growth in Nigeria, according to another empirical study assessing how profitability—the primary indicator of the financial performance of the banking sector—influences the country's economic expansion. For all banks operating in Nigeria between 2005 and 2014, he applied a pooled regression technique utilizing the GDP, ROE, and return on capital employed (ROCE) (Orebiyi & Otolorin, n.d.). Ebrahimi et al., 2021 Investigated in a related study how the financial performance of private banks impacted Iran's economic growth. He used cash, investments, ROA, GDP, and money. His findings demonstrated that Iran's economic growth was positively affected by bank performance.

Regarding research on how Islamic finance factors affect its financial performance as indicated by profitability, the profitability of Islamic banks, which was chosen as a gauge of Pakistan's economic success, has been studied by Shah Khan et al., 2014. Between 2007 and 2014, they worked with a sample of five Pakistani Islamic banks. They used the following endogenous variables: ROE, ROA, and earnings per share (EPS), and the exogenous variables: capital adequacy ratio, bank size, nonperforming loans (NPL) ratio, gearing ratio, asset composition, operational efficiency, asset management, deposit ratio, and GDP and CPI. Their findings demonstrated that external factors like CPI and bank-specific criteria like asset management, NPL ratio, and deposit ratio affected the profitability of Islamic banking (Kouser & Saba, 2012).

The literature further investigated bank financial performance and profitability determinants in the early Central and Eastern European transition countries. Using the GMM system and random-effects regression, 275 banks from 16 transition economies—eight of which are from the former Soviet Union, the remaining countries are from the CEE and the States of Baltic—were sampled, and the study period was from 2000 to 2013. They selected ROA as the dependent variable, and capital, credit risk, cost, bank size, bank market share, GDP growth, inflation, government spending, and fiscal and monetary flexibility were the independent factors. They observed that government expenditures and well-capitalized banks were more competitive in the early transition countries and that credit risk positively impacted bank profitability in these nations (Petria et al., 2015).

A study in the Tunisian banking sector examined how a bank's traits, financial setup, and macroeconomic variables affected its net interest margins and profitability. He concluded that banks with significant overhead and relatively high capital holding typically had high NIM and profitability. While the size had primarily been a negative and considerable factor on NIMs, the bank's interest margins on bank loans had a positive and substantial impact (Hamdi et al., 2017). Another study used dynamic panel models, cross-sectional time series, and pooled cross-sectional time series to examine the profitability of European banks in the 1990s. In addition to emotional impacts, models accounting for size, diversification, risk, and ownership type were used to determine profitability. Despite the growing competition, there was a notable determination of

abnormal profit from year to year. There was not much evidence to support a systematic size-profitability relationship, and there was a positive correlation between CAR and profitability. Profitability and the proportion of off-balance sheet activity in a bank's portfolio were positively correlated in the UK but neutral or negatively correlated elsewhere (Goddard et al., 2004).

Additionally, utilizing unbalanced panel data of South-Eastern European (SEE) credit institutions spanning 1998–2002, a study looked at the profitability behavior of bank-specific, industry-related, and macroeconomic variables. Except for liquidity, all bank-specific factors have a considerable estimated impact on bank profitability, according to the calculated results(Fang et al., 2011). In contrast, despite the conflicting evidence on the macroeconomic factors, no positive correlation was found between banking reform and profitability. The literature offered proof of a study that looked at the relationship between bank characteristics and financial development, as well as the operational performance of commercial banks in the Chinese transitional economy. They used aggregated data from 1996 to 2004 from 14 Chinese banks (Zhang et al., 2012). The models with fixed and random effects were both estimated. Higher monetization levels were seen in the empirical results, which may have improved return on assets (ROA). A bank's ROA performance was found to be poorer the longer it had been in business. Chinese banks' initiatives to expand non-traditional banking businesses harmed ROA rather than improving profitability. The smaller commercial banks with shareholdings outperformed the larger Chinese banks regarding return on assets (ROA).

Chantapong, 2005 Using quarterly time-series data from domestic and foreign banks from 1997 to 2003, a study conducted in Thailand evaluated the effectiveness of domestic and foreign banks since the Asian financial crisis. According to his research, the efficiency ratio and loan loss provisions hurt domestic banks' performance, but only the loan loss provisions hurt international banks' poor performance. The literature examines the "CAMEL(S) and Banks' Performance Evaluation" and offers more supporting data. They discovered that the CAMEL accurately represented a bank's overall performance. The study's foundation was secondary data gathered between 1997 and 2005 from the annual reports of 11 Nigerian commercial banks. The Efficiency Measurement System (EMS) and an independent T-test equation were used to analyze the data. The results demonstrated that none of the CAMEL factors adequately describe a bank's overall performance. They also revealed the relative importance of the various components of CAMEL, which led to a proposal to rename the acronym CLEAM instead of CAMEL(Dzeawuni & Tanko, 2011)

A comparable method based on the CAMEL framework was used in research to examine the banking industry's performance in Northern Cyprus. The findings indicated that the analyzed banks' profitability and management quality (MQ) had improved during the period, while their capital adequacy and liquidity level had declined. The "Efficiency Ratios and Community Bank Performance" was studied by Heys et al. A multivariate discriminant model was created between 2006 and 2008 to distinguish between community banks with low and high efficiency levels. Proxies for CAMELS rating characteristics related to banking regulations were incorporated into the model. These were the equity capital to total assets ratio, net charge-offs to loans, wages to average assets, return on average assets (ROAA), liquidity ratio (LR), and the GAP ratio for the first year. There is a connection between the current financial crisis and the included periods

of solid performance and deteriorating industry circumstances. The model's classification accuracy on the original and cross-validation datasets roughly falls between 88% and 96% (Arasli et al., 2005). Additional support was offered by research that assessed the financial performance of the two largest banks operating in northern India from 2001 to 2005: the largest private sector bank (JKB) and the largest nationalized bank (PNB). The banks that were the subject of the study had sound and adequate positions in terms of their liquidity, AQ, management capacity, and capital sufficiency (Journal et al., 2010).

Hussain Shar et al., 2011 Investigated Pakistan's banking sector's nationalization and denationalization. Using CAMEL characteristics, an attempt has been made to assess and analyze the effectiveness and performance of the banking industry. Research has shown that the banks in question were in a sound and adequate condition regarding profitability, liquidity, asset quality, management skills, and capital adequacy.

A performance evaluation of the Turkish banking sector after the global crisis using CAMELS ratios was examined by Dincer et al. (2011) for 2002–2009. Following the problems of 2008 and 2001, he discovered improvements in the performance of foreign, private, and state-owned banks. Following the crisis, the equity ratio—allocated based on banks' risks—changed in tandem with macroeconomic trends, subject to the banking regulation requiring it to remain over the 8% threshold (Dincer et al., 2011). (Jabeen, 2012)used quantitative analysis along with qualitative interpretations to investigate the effectiveness of Pakistan's banking industry. In Pakistan's financial sector, she evaluated the effectiveness of 14 chosen banks and discussed how efficiency was interpreted between 2006 and 2010. It used the parametric OLS technique, defining efficiency and selecting a set of factors from the financial regulators' CAMEL rating system. She discussed the findings in light of the assessment's historical context and connection to banks' operational effectiveness.

(Tumin et al., 2013) examined the effects of characteristics unique to individual banks, such as capital, credit, liquidity, operational costs, and size, on the performance of commercial banks as determined by ROAA and return on average equity (ROAE). The study's findings demonstrated that, except for capital and credit ratios, the ratios used had varying effects on the performance of banks in both nations. Regardless of the performance metric, operating ratios impacted Chinese banks' performance; however, this was not the case for Malaysian banks.

(Rashid et al., 2020)examined the performance of the banking industry in Bangladesh by contrasting the results of four different bank types using particular CAMELS indexes. The research aimed to determine how various ratios related to one another and how financial intermediaries contributed to GDP. They were additionally more vulnerable than the other three categories out of the four. FCBs, PCBs, and SCBs displayed positive signals of proper operation, while the latter also tended to increase performance. Some ratios had a mixed effect on banks' interest income; while there was a significant association in some circumstances, it was not as strong in others. Specific CAMELS ratios and the GDP growth rate also showed a similar association. Using the CAMEL framework, (Gebba & Ahmed, 2013)assessed the pre- and post-privatization financial performance of Alexandria Bank over ten years (five years before and five years following privatization). After privatizing, Alexandria Bank performed noticeably better overall regarding earnings and capital adequacy. Liquidity and AQ averages decreased following privatization.

Using CAMEL parameters, (Aftab et al., 2015)examined a historical dataset to examine the performance of the banking industry. Their key conclusions were that, while banks were privately owned, their profitability was negatively correlated with capital sufficiency and liquidity and positively correlated with the quality of their assets and management. However, when banks were owned by the government, capital adequacy and MQ continued to impact bank profitability, while liquidity lost significance.

(Lebbe & Rauf, 2016) assessed the comparative analysis of Sri Lankan banks' financial results. Starting in 2005, data from public and commercial banks were collected for ten years. The financial performance was assessed and contrasted using the widely recognized CAMEL model. According to the survey, private banks performed the best overall in CAMEL and financial performance. In contrast to private banks, governmental banks did not do as well. The results showed that the financial performance of banks was not significantly connected with managerial effectiveness or liquidity, but it was highly correlated with capital adequacy, assets, and earning quality.

The literature evidence provided the performance of evaluation of financial institutions in the context of developed economies, i.e., USA, EU, Turkey, Indonesia, and also in the context of developing economies, India, Pakistan, Bangladesh, Malaysia, and Sri Lanka. They analyzed the impact of the global economic crisis, legislative changes, corporate governance, and mergers and acquisitions on the performance of financial institutions. However, no single study from the available literature analyzed the impact of political stability on the performance of financial institutions. The present research fills this gap by analyzing the impact of political stability on the performance of financial institutions in Pakistan.

METHODOLOGY

In this study, researchers take a sample period of 2008 to 2017 (Two electoral governments completed constitutional terms). The population frame consists of all commercial banks working in Pakistan. The private commercial banks were included in the final sample for analysis, whether they were private or foreign ownership as a foreign direct investment (FDI). The government-owned and Islamic commercial banks were excluded because the role of government-owned banks is to facilitate the government's payments regarding development projects and daily expenses like salaries and utility bills. In case of loss, the government directly provides finance to secure them from dissolution or liquidation. Pakistan is an Islamic country, and Islamic banking emerged in a few decades. Due to religious affiliations, everyone likes to invest in these institutions. Islamic banks are in a developing phase in Pakistan. Financial data was collected from the financial statement analysis provided by the State Bank of Pakistan and the financial statement provided by the banks on their websites.

The CAMEL data analysis technique was used to analyze the data. The CAMEL analysis technique is only used to analyze the performance of financial institutions. Using this technique, the overall performance of financial institutions is measured, and which financial institution maintains the minimum standard established by the state bank, national bank, or any state-owned controlling banks of the country is identified. This technique is based on five ratios: capital adequacy ratios, Assets Quality Ratios, Management quality Ratios, Earnings Quality Ratios, and Liquidity Ratios. All these ratios

were analyzed separately and as a whole by calculating the composite index to analyze which financial institution performs excellently and which is the worst. The estimating of each ratio individually and as a group is mentioned in the table given below,

Table 1.

Variable	Ratios
Capital Adequacy	Equity to Assets Ratio (EA) = Equity /Total Assets Equity = Total Equity – Total Debt (Short-Term Debt + Long-Term Debt) Total Assets = Current assets + Fixed Assets + Other Assets Debt-Equity Ratio (DE)= Total Debt / Equity Total Debt = Short-Term Debt + Long-Term Debt
Assets Quality	Non-Performing Advances to Total Assets Ratio (NPATA) = NPA/ Total Assets Non-performing Advances to Net Advances Ratio (NPANA) = NPA/ Net Advances Net Advances = Total Advances – Reserves for Non-Performing Advances
Management Quality	Return on Net worth Ratio (RONW) = EAT / Net worth EAT = Earnings After Tax Net Worth = Total Assets – Fixed Assets Total Deposit to Total Assets Ratio (TDTA) = Total Deposit / Total Assets
Earning Quality	Earning After Tax to Total Assets Ratio (EATTA) = EAT / Total Assets EAT = Earnings After Tax Increase in Net Profit (INP) = Current Year Profit – Last Year Profit. Profit = Earnings After Tax
Liquidity	Liquid Assets to Total Assets Ratio (LATA) = Liquid Assets / Total Assets Liquid Assets = Total Assets – Fixed Assets – Other Assets Liquid assets to Total Deposit Ratio (LATD) = Liquid Assets / Total Assets
(Afroj, 2022; Aftab et al., n.d.; Derviz & Podpiera, 2008; Dincer et al., 2011; Hussain Shar et al., 2011; Journal et al., 2010; Lebbe & Rauf, 2016; Ledhem & Mekidiche, 2020a; Saeed et al., 2020)	

RESULTS AND DISCUSSION

Capital Adequacy Ratios (CAR)

The capital adequacy ratio (CAR) shows the banks' financial position and reflects the need for additional investment as the capital the banks require.

Table 2.

Capital Adequacy Ratios					
COMMERCIAL BANKS	**Equity / Total Assets Ratio**	**Rank**	**Total Debt / Equity Ratio**	**Rank**	**Average**
Allied Bank Limited	0.0684	10	13.5028	10	10
Askari Bank Limited	0.0591	13	17.6598	12	12.5
Bank Alfalah Limited	0.0495	14	19.4165	14	14
Bank Al-habib Limited	0.0488	15	19.1896	13	14
Faysal Bank Limited	0.0628	11	14.8870	11	11
Habib Bank Limited	0.0781	7	11.8867	7	7
Habib Metropolitan Bank Limited	0.0783	6	11.9079	8	7
Js Bank	0.1252	2	9.6041	5	3.5
MCB Bank Limited	0.1166	4	7.4391	2	3
Samba Bank Limited	0.2090	1	4.3418	1	1
Silk Bank Limited	0.0398	9	2.8951	4	6.5
Soneri Bank Limited	0.0726	8	13.0812	9	8.5

Standard Chartered Bank (Pakistan) Limited	0.1238	3	7.9621	3	3
Summit Bank	0.0594	12	47.2213	15	13.5
United Bank Limited	0.0816	5	11.1649	6	5.5

Table 4.1 calculates the equity-to-assets ratio and debt-to-equity ratio to CAR for the commercial banks in Pakistan. The results show that Samba Bank Limited attained the first rank with an average of (01). MCB Bank Limited attained second rank with an average ratio of 03. JS Bank maintained the equity-to-assets ratios well and also reached the second rank. Standard Chartered Bank (Pakistan) Limited is at 03 with an average of 03. Summit Bank achieved 15 positions in maintaining the debt-equity ratio, and Bank Al-Habib Limited performed well in retaining the equity-to-assets balance. Bank Alfalah Limited is the 2nd verse performer in maintaining CAR and gets 14 ranks with an average of 14.

Assets Quality Ratios (AQR)

Asset quality ratios refer to analyzing the financial strength and risks of the financial institution's assets, especially with advances and investments. To estimate the AQR Non-Performing Assets (NPA) to total assets ratio, the Non-Performing Assets to Advances Ratio is calculated. In Table 02, the results show that Bank Alfalah Limited performed well in maintaining AQR and got first rank with an average grade of 01. Bank Al-Habib Limited gets the second rank with an intermediate level of 02. Allied Bank Limited ranks third in maintaining the NPA to Advances ratio, and MCB Bank gets 3rd in maintaining the NPA to Total Assets Ratio. Summit Bank Limited is the least productive performer in maintaining AQR and gets 15th rank with an average of 15. Faysal Bank Limited is the second lowest performer in maintaining NPA to Total Assets Raio and gets ranked 14th. Standard Chartered Bank (Pakistan) Limited is the second lowest performer in maintaining the NPA to Advances Ratio.

Table 3.

Assets Quality Ratios					
COMMERCIAL BANKS	NPA / Total Assets	Ranks	NPA / Net Advances	Ranks	Average
Allied Bank Limited	0.0299	5	0.0693	3	4
Askari Bank Limited	0.0614	11	0.1445	11	11
Bank Alfalah Limited	0.0079	1	0.0220	1	1
Bank Al-habib Limited	0.0241	2	0.0564	2	2
Faysal Bank Limited	0.0730	14	0.1470	12	13
Habib Bank Limited	0.0407	8	0.1067	8	8
Habib Metropolitan Bank Limited	0.0384	7	0.1092	9	8
Js Bank	0.0256	4	0.0782	5	4.5
MCB Bank Limited	0.0244	3	0.0708	4	3.5
Samba Bank Limited	0.0645	12	0.1595	13	12.5
Silk Bank Limited	0.0202	6	0.0512	6	6
Soneri Bank Limited	0.0517	10	0.1017	7	8.5
Standard Chartered Bank (Pakistan) Limited	0.0653	13	0.1712	14	13.5
Summit Bank Limited	0.1050	15	0.2469	15	15
United Bank Limited	0.0464	9	0.1101	10	9.5

Management Quality Ratios (MQR)

The management Quality Ratios refers to the analysis of the performance of the management decision-making in attaining the organization's goals (Increase No. of Customers and Profit Maximization). For estimating the MQR, researchers calculate the Total Deposits to Total assets Ratio. And Net profit After Tax (NPAT) to worth ratio.

Table 4.

Management Quality Ratios					
COMMERCIAL BANKS					
	Total Deposit / Total Assets	Ranks	Net profit After Tax / Net-worth	Ranks	Average
Allied Bank Limited	0.7829	5	0.2369	1	3
Askari Bank Limited	0.8240	1	0.0956	10	5.5
Bank Alfalah Limited	0.7880	3	0.2358	2	2.5
Bank Al-habib Limited	0.8005	2	0.1423	8	5
Faysal Bank Limited	0.7363	8	0.1082	9	8.5
Habib Bank Limited	0.7849	4	0.1806	5	4.5
Habib Metropolitan Bank Limited	0.7324	10	0.1585	6	8
Js Bank	0.7003	12	0.0565	13	12.5
MCB Bank Limited	0.7341	9	0.2269	3	6
Samba Bank Limited	0.5520	15	-0.0019	14	14.5
Silk Bank Limited	0.2952	14	0.0873	7	10.5
Soneri Bank Limited	0.7605	7	0.0830	12	9.5
Standard Chartered Bank (Pakistan) Limited	0.6943	13	0.0876	11	12
Summit Bank Limited	0.7291	11	-0.3651	15	13
United Bank Limited	0.7713	6	0.2068	4	5

Table 03 shows the results of the MQR ratios, which show that Allied Bank Limited gets first rank in attaining the NPAT to Net Worth Ratio, and Askari Bank Limited gets first rank in maintaining the Total Deposits to Total Assets Ratio. Bank Alfalah Limited ranks second in maintaining the NPAT to Net worth ratio, and Bank Al-Habib Limited gets second in maintaining the Total Deposit to Total Assets Ratio. MCB Bank Limited gets 3rd Rank in maintaining the NPAT to Net Worth Ratio, and Bank Alfalah Limited gets third rank in maintaining the Total Deposit to Total Assets ratio.

Summit Bank is the most diminutive performer in maintaining the NPAT to Net Worth Ratio. Samba Bank Limited is the lowest in keeping the Total Deposit to Total Assets ratio; both banks get 15th rank. Samba Bank Limited is the lowest performer in maintaining NPAT to Net Worth Ratio, and Silk Bank is the weakest in Total Deposits to Total Assets ratio. Both the banks get 14th rank simultaneously.

Earrings Quality Ratios (EQR)

Earnings Quality ratios estimate the performance of banks in terms of profit earned from providing services to the clients. For estimation of EQR, Earnings after tax to Total Assets Ratio (EAT/TA) and change in profit ratio are calculated. In Table 04, the results show that MCB Bank Limited gets first rank in maintaining the EAT to TA Ratio, and United Bank Limited gets first rank in supporting the change in profit ratio. United Bank Limited is the

second performer in maintaining the EAT to TA ratio and ranked 02. Allied Bank Limited also gets second rank in maintaining change in profit ratio. Allied Bank Limited gets third rank in maintaining the EAT to TA ratio, and MCB Bank Limited also gets third rank in supporting the change in profit Ratio.

Table 5.

Earnings Quality Ratios					
COMMERCIAL BANKS	EAT / Total Assets	Ranks	Increase / Decrease in Net Profit	Ranks	Average
Allied Bank Limited	0.0163	3	884961	2	2.5
Askari Bank Limited	0.0040	12	244067	9	10.5
Bank Alfalah Limited	0.0115	6	644246	4	5
Bank Al-habib Limited	0.0071	9	548358	5	7
Faysal Bank Limited	0.0068	10	224268	10	10
Habib Bank Limited	0.0143	4	14071	14	9
Habib Metropolitan Bank Limited	0.0123	5	306791	7	6
Js Bank	0.0031	13	103146	12	12.5
MCB Bank Limited	0.0266	1	678220	3	2
Samba Bank Limited	-0.0031	14	206175	11	12.5
Silk Bank Limited	0.0070	7	132650	6	6.5
Soneri Bank Limited	0.0058	11	64299	13	12
Standard Chartered Bank (Pakistan) Limited	0.0101	8	253571	8	8
Summit Bank Limited	-0.0125	15	-135752	15	15
United Bank Limited	0.0169	2	1376674	1	1.5

Summit Bank Limited is the most diminutive performer in maintaining EQR and gets the 15th rank. Samba Bank Limited is the 2nd least performing bank in maintaining EAT to TA Ratio and gets the 14th Rank. The Habib Bank Limited is also the 2nd least performing bank in supporting a change in profit Ratio.

Liquidity Ratios

Liquidity ratios analyze the ability of banks to pay their short-term liabilities and customers' demands for deposits. For this purpose, Liquid Assets to Total Assets Ratio (LA / TA) and Liquid Assets to Total Deposit (LA / TD) Ratios are calculated.

Table 6.

Liquidity Ratios					
COMMERCIAL BANKS	Liquid Assets / Total Assets	Ranks	Liquid Assets / Total Deposit	Ranks	Average
Allied Bank Limited	0.9671	11	1.2383	11	11
Askari Bank Limited	0.9714	8	1.1807	14	11
Bank Alfalah Limited	0.9699	10	1.2327	12	11
Bank Al-habib Limited	0.9732	5	1.2284	13	9

Faysal Bank Limited	0.9722	6	1.3231	5	5.5
Habib Bank Limited	0.9773	3	1.2473	10	6.5
Habib Metropolitan Bank Limited	0.9912	1	1.3706	3	2
Js Bank	0.9504	14	1.3679	4	9
MCB Bank Limited	0.9658	12	1.3170	7	9.5
Samba Bank Limited	0.9718	7	1.7853	1	4
Silk Bank Limited	0.8739	15	1.1506	15	15
Soneri Bank Limited	0.9754	4	1.2849	8	6
Standard Chartered Bank (Pakistan) Limited	0.9841	2	1.4250	2	2
Summit Bank Limited	0.9532	13	1.3224	6	9.5
United Bank Limited	0.9713	9	1.2643	9	9

In Table 05, the results of Liquidity ratios show that Habib Metropolitan Bank Limited gets first rank in maintaining the LA / TA ratio, and Samba Bank Limited also gets first Rank in maintaining the LA to Total Deposits Ratio. Standard Chartered Bank (Pakistan) Limited is the 2nd best-performing bank in liquidity ratio and second rank. Habib Bank Limited is the third best-performing bank in terms of LA / TA ratio, and Habib Metropolitan Bank Limited is the best-performing in terms of Liquid Assets to Total Deposit Ratio. Silk Bank Limited is the verse performing bank regarding liquidity ratios and gets the 15th rank. Askari Bank Limited and Js Bank are the 2nd most minor performing banks. Both banks get 14th rank in terms of LA/TA Ratio and LA/TD ratio, respectively.

Table 7.

Composite Index							
COMMERCIAL BANKS	Capital Adequacy	Assets Quality	Management Quality	Earnings Quality	Leverage	Composite Index	Ranks
Allied Bank Limited	10.00	4.00	3.00	2.50	11.00	6.10	02
Askari Bank Limited	12.50	11.00	5.50	10.50	11.00	10.10	14
Bank Alfalah Limited	14.00	1.00	2.50	5.00	11.00	6.70	05
Bank Al-habib Limited	14.00	2.00	5.00	7.00	9.00	7.40	07
Faysal Bank Limited	11.00	13.00	8.50	10.00	5.50	9.60	13
Habib Bank Limited	7.00	8.00	4.50	9.00	6.50	7.00	06
Habib Metropolitan Bank Limited	7.00	8.00	8.00	6.00	2.00	6.20	04
Js Bank	3.50	4.50	12.50	12.50	9.00	8.40	09
MCB Bank Limited	3.00	3.50	6.00	2.00	9.50	4.80	01
Samba Bank Limited	1.00	12.50	14.50	12.50	4.00	8.90	10
Silk Bank Limited	6.50	6.00	10.50	6.50	15.00	8.90	11
Soneri Bank Limited	8.50	8.50	9.50	12.00	6.00	8.90	12
Standard Chartered Bank (Pakistan) Limited	3.00	13.50	12.00	8.00	2.00	7.70	08
Summit Bank	13.50	15.00	13.00	15.00	9.50	13.20	15
United Bank Limited	5.50	9.50	5.00	1.50	9.00	6.10	03

In Table 6, the composite index was calculated to analyze which bank performs best in managing CAMEL. The results show that MCB Bank performs well in managing CAMEL ratios and gets first rank. The Allied Bank Limited is the second best performer bank and gets second rank. Allied Bank Limited is the third-best performer bank and can secure third rank. In contrast, Summit Bank Limited is the least performing bank and gets overall 15th. Askari Bank Limited is the 2nd least performing bank and secured 14th rank in overall composite index calculations. 3rd least performer bank is Faysal Bank Limited, which attained 13th rank.

CONCLUSION

This study measures overall bank performance using the CAMEL analysis technique from 2008 to 2017. This period was considered politically stable, and two electoral governments completed their term. When researchers analyzed individual ratios (Capital et al. and Liquidity). The banks put efforts into managing the CAMEL ratio to meet the requirements of the State Bank of Pakistan. However, overall management shows that MCB Bank Limited, Allied Bank Limited, and United Bank Limited performed well in controlling the overall ratio. MCB Bank is a privately owned bank by the Mian Mansha group in Pakistan. Allied Bank Limited and United Bank Limited are partially government-owned and privately owned banks. These two are considered autonomous bodies. All three banks are the largest in terms of customers and deposits in Pakistan. The results showed that the foreign-owned banks feel insured and are working to secure them from default, ensuring growth and managing the minimum standard established by the State Bank of Pakistan. The significance of the study is that if Pakistan's political system is stable and completes the electoral period, then Pakistani-owned private banks perform better than foreign-owned banks. The researchers can test the significance of the results by changing sectors to confirm, modify, accept, or reject the results.

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