



RESEARCH ARTICLE

Comparison of Financial Performance of State Owned Agriculture Banks: A Case of Pakistan, Bangladesh & Sri Lanka

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ABSTRACT

Pakistan, Sri Lanka & Bangladesh has a primarily agricultural economy. Most of People earn their living from farming. The performance of this sector has a major impact on the overall economic development of the Pakistan, Sri Lanka & Bangladesh. For effective performance of this segment proper credit facilities and satisfactory support is important. In this paper we have analyzed the performance of the specialized agricultural banks owned by the state in Pakistan, Sri Lanka & Bangladesh and. It is observed that Zarai Tarqiati Bank Pakistan and Lankaputra Bank Sri Lankais able to achieve a steady growth in terms of during the selected period (last five years). Different Ratio Analysis and Regression line Analysis is applied to achieve the target. Lastly, outcomes are interpreted in this context and proposals are given for improving the future performance of these banks.

Key words: Zarai Tarqiati Bank, Ratio Analysis, Regression

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INTRODUCTION

Agriculture sector is one of the pioneer sectors in any economy. This research is carried out with special reference Comparison of Financial Performance of State Owned Agriculture Banks - A Case of Pakistan, Bangladesh & Sri Lanka. The Agriculture Banks are considered to be the most important components in supporting the agriculture sector. Therefore, the findings of the research Comparison of Financial Performance of State Owned Agriculture Banks - A Case of Pakistan, Bangladesh & Sri Lanka.

Bangladesh Krishi Bank (BKB) is a 100% government owned specialized Bank in Bangladesh. KRISHI means Agriculture. Since its inception, BKB is financing in agricultural sector remarkably.

Bangladesh Krishi Bank (BKB) has been established under the Bangladesh Krishi Bank order 1973 (President's Order No 27 of 1973). BKB is a Banking Company under the Banking Company Act-1991. Its Head Office is located at Krishi Bank Bhaban,83-85 Motijheel Commercial Area, Dhaka-1000, Bangladesh. Zarai Taraqati Bank Limited (ZTBL) is the premier financial institution geared towards the development of agriculture sector through provision of financial services and technical know how. The Bank through a country-wide network of 416 branches is serving around half a million clients annually and over one million accumulated account holders with the average loan size of around Rs.162331.

Lankaputhra Development Bank Limited, are a Licensed Specialized Bank fully owned by the Government of Sri Lanka established under the Banking Act No 30 of 1988, incorporated in Sri Lanka under the provisions of the companies Act No 17 of 1982. The Bank cater to the development of agricultural and industrial sectors of the rural economy. The Bank efforts are, truly tied up with the grass root level needs of the rural sector. A vital factor in our effort is to help construction, agriculture and industrial sectors of the rural folk by channeling finances, providing advice and guidance.

Rajshahi Krishi Unnayan Bank (RAKUB) was established by the President's Ordinance No. 58 of 1986 (later replaced by 'Rajshahi Krishi Unnayan Bank Act, 2014'). It took over the operations of 253 branches of Bangladesh Krishi Bank of the then Rajshahi administrative division (presently Rajshahi and Rangpur divisions) and started functioning on March 15, 1987. As on 01-01-2016

there are 378 branches of the bank including LPO and Dhaka branch among which 192 are in Rajshahi and 184 in Rangpur division. Number of rural branches are 309 while urban 69. RAKUB is the only specialized nationalized bank having its head office outside Dhaka, i.e. at Rajshahi.

To steer the bank in accordance with the government policies there is a Board of Directors comprised of the chairman and ten other directors has appointed by the government. Besides, there is a three-member executive committee for deciding on emergency policy matters.

PROBLEM STATEMENT

Government of any country may be interested in maximization of their investment worth hence selection of best possible banking policy. On other hand, this very difficult to grade the performance of any single specialized bank. Although many studies have been conducted to analyze the performance of banks but for the banks operating in under developed countries like Pakistan that are facing serious economic issues, financing decisions of using debt and equity have become more vital for the Government for making best use of available resources. Furthermore, in context of Pakistan, performance of Zarai Tarqati Bank is more important as agriculture is major contribution in our economy.

OBJECTIVES

- To investigate the performance by conducting a comparative study on selected State owned Agriculture Banks

LITERATURE REVIEW

Role of banking sector is always very crucial for any industry. Pioneer theories upon the role of banking theories gained interest of financial scholars to further work in this area in order to evaluate the performance.

(Haider, Shoaib, & Kanwal, 2015) Studied empirically examines the impact of mergers on performance of the banks in Pakistan. The link between liquidity risk, leverage, capital adequacy, size and performance of merging banks, listed on Karachi Stock Exchange (KSE), which executed at least one merger during 2006-2010 has been discovered using Dougherty model. Moreover, paired t-test has been employed to

Compare three year pre and post-merger performance of each bank. Stata SE Version12, SPSS Version 16 and Microsoft Office Excel 2007 have been used to analyze the data. Regression results show an insignificant impact of mergers on performance of banks and test proves that performance of each bidder bank has not improved significantly after mergers.

This research finds a connection of profitability with liquidity, leverage, capital adequacy, and size that influence the profitability of bidder banks. This research also compares the performance of individual banks for the time period of 2003-2010. Hence, first hypothesis (H1) is developed as follows:

(Thilakaweera, Harvie, & Arjomandi, 2015), studied deviating from conventional methods in comparing the group performance of banks this study extends the established literature to compare efficiency between foreign and domestic banks, by employing comprehensive weighted aggregate efficiency measures derived through bootstrap simulations for the banking sector for the post-conflict era of Sri Lanka. The study also comparesthe banking sector performance between initial and later parts of the postconflict period, using weighted aggregate efficiency measures. At the end of the armed conflict between LTTE1 and Sri Lankan government forces the banking sector experienced considerable expansion in terms of banking density and services volume, concurrent with overall economic expansion. This study concludes that there was no significant difference in the efficiency levels between domestic and foreign banks operating in Sri Lanka in the post conflict era. Further, it reveals that banking sector efficiency during the period 2010-2013 outperformed efficiency during the period 2008-2009. The major findings from this study are of importance to policy makers, as they enable evaluation of banking efficiency dynamics when the banking sector records higher expansion during a period of rapid economic growth.

(Chowdhury & Ahmed, 2009) studied developing country like Bangladesh the banking system as a whole play a vital role in the progress of economic development. In this paper we have tried to analyze the development and growth of Selected Private Commercial Banks of Bangladesh. It is observed that all the selected private commercial banks are able to achieve a stable growth of branches, employees, deposits, loans and advances, net income, earnings per share during the period of 2002-2006. Seven trend equations have been tested for different activities of the private commercial banks. Along them the trend value of branches, employees, deposits and net income are positive incase of all the selected banks. Square of correlation coefficient (r^2) has also been tested for all trend equations. The r^2 of branches, deposits and net income is more than 0.5. It indicates the prospect of private commercial banks in Bangladesh is very bright Correlation Matrix of Net Profit of Selected Private Commercial Banks.

SOURCE OF DATA

As the research work is on the Comparison of Financial Performance of State Owned Agriculture Banks - A Case of Pakistan, Bangladesh & Sri Lanka research studies used annual audit / Financial Statements reports has been chosen for to gather the data. In this study said reports help out to perform the Comparison of Financial Performance of State Owned Agriculture Banks - A Case of Pakistan, Bangladesh & Sri Lanka.

POPULATION OF DATA

The data collected and focus only the State Owned Agriculture Banks - A Case of Pakistan, Bangladesh & Sri Lanka. In our research study we get Latest two year financials of each bank for the research.

SAMPLING

The sample for this research study was State Owned Agriculture Banks - A Case of Pakistan, Bangladesh & Sri Lanka. The sample size of this research study is Latest two year financials of each bank.

VARIABLE

The comparison of the foreign and domestic bank regarding the efficiency, the foreign bank is less efficient in the developed countries rather than domestic and the vice of versa. So the variable for the efficient of the bank is controlled by the management.

DEPENDENT VARIABLE

Return on Assets

INDEPENDENT VARIABLES

Bank Return on Assets:

The concept of economic efficiency comes to the economist. The economic objective and there information on relative prices, it also defined as on individual basis about the efficiency a profit maximizing objective given input and output prices, or cost minimization given factor inputs and input prices.

Capital Investment:

Capital is composed by the core which is measuring the bank strength on regulatory basis. It is found by the shareholders Equity divided by the total assets.

Expense:

It is defined as the summarized and charged in the income statement as deductions from the income before income tax.

Profitability:

ROA is the basically indicator of the profitability and it is formed by the total earning of the organization divided total assets of the company you get company profit.

Rationality behind the searching the variables:

In this research study approach technique used for efficiency of banks this technique have so many components to measure the any organization efficiency. In our research study we used these independent & dependent variables like capital, expense, profitability & Return on Assets and work force, these variables selected to check the any organization efficiency parameters.

HYPOTHESIS

Null Hypothesis H0: Expenditure of the Banks has significant effect on dependent variable

Alternate Hypothesis H1: Expenditure of the Banks has not significant effect dependent variable

Null Hypothesis H0: Profitability of the Banks has significant effect on dependent variable

Alternate Hypothesis H1: Profitability of the Banks has not significant effect on dependent variable

Null Hypothesis H0: Capital Investment has significant effect on dependent variable

Alternate Hypothesis H1: Capital Investment has not significant effect on dependent variable

Model

$$ROA = \beta (EOB) + \beta(POB) + \beta(CI) + u$$

ROA = Return on Assets

EOB = Expenditure of the Banks

POB = Profitability of the Banks

CI = Capital Investment

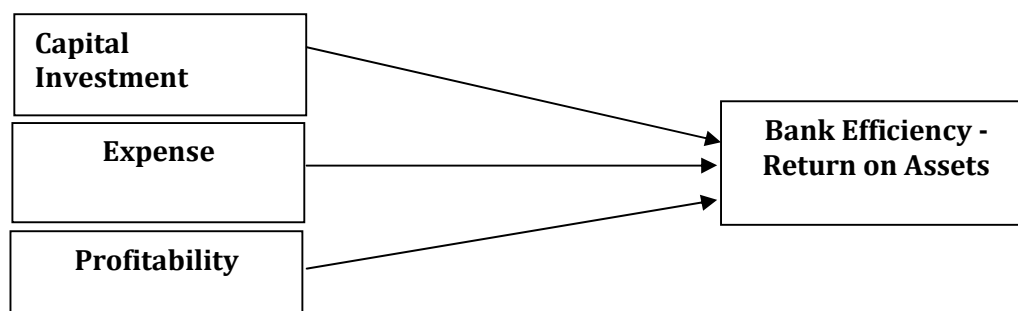
U = Error Term

THEORETICAL FRAMEWORK

Theoretical frame work is descriptive research which discuss about the purpose in defining certain phenomenon with the help of previous research. However, the dimension and assessment process is more important to help us to detect changes from one to another. For instance include the number of banks, rate of interest, populations, taxation revenues and company turnover and profits. In these examples, the measures are relatively well defined and comparisons are made on a reasonably equitable basis. In other examples, however, we encounter problems in determining an equitable basis for comparisons because some factors may involve a "human element", or factors may be difficult to quantify or because comparisons might reflect conflicting objectives.

CONCEPTUAL FRAME WORK

The conceptual frame-work with regard to the study was designed using the findings of the previous research conducted elsewhere. The Figure shows the framework used for the study:

**Descriptive Analysis:**

Dependent Variable: ROA

Method: Panel Least Squares

Date: 05/07/16 Time: 09:19

Sample: 2010 2014

Periods included: 5

Cross-sections included: 4

Total panel (balanced) observations: 20

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.732920	0.394536	-1.857674	0.0817
E	-0.001844	0.000468	-3.942319	0.0012
P	0.000972	0.000386	2.515456	0.0229
CAP	0.000971	0.000184	5.276204	0.0001
R-squared	0.764140	Mean dependent var		1.144000
Adjusted R-squared	0.719916	S.D. dependent var		2.438665
S.E. of regression	1.290614	Akaike info criterion		3.524969
Sum squared resid	26.65094	Schwarz criterion		3.724116
Log likelihood	-31.24969	Hannan-Quinn criter.		3.563845
F-statistic	17.27894	Durbin-Watson stat		1.929406
Prob(F-statistic)	0.000028			

Adjusted R- Square:

Adjusted R-square measures the proportion of the variance in the dependent variable i.e. Return on Assets which had explained that was explained by variations in the independent variables i.e. Expenses, Profitability and Capital Investment. In our above analysis adjusted R-Square shows that 71.99% of the variance was explained.

R-square:

Measures the proportion of Variation in the dependent variable i.e. Return on Assets that was explained by variations in the independent variables. In this example, "R-Square" tell us that 76.41% of the variation (and not the variance) was explained.

Std Error of Estimate:

Std Error of the estimate measures the dispersion of the dependent variables estimate (Return on Asset), the "Std. Error of the estimate" is _____. Compare this to the mean of the predicted values of the return on Assets. As the Std. Error is more than _____ of the mean, it is high.

RatioAnalysis:

Though Ratio analysis we can understand better the company's performance. However a ratio is meaningless by itself. Comparing the ratio to last year's ratio and understanding the reasons for the change is important. This understanding will gives us insight in to banks performance. The following ratios are calculated and possible interpretation for the change in the ratio will be explained.

BKB

Variables	ROA	ROE	TotalAssetsTurnover	Net Profit Margin
2009-10	-0.09	0.01	1.88	-4.98
2010-11	-0.88	0.10	0.90	-98.09
2011-12	-0.73	0.12	0.67	-109.38
2012-13	-1.20	0.21	0.11	-1127.27
2013-14	-1.46	0.29	0.29	-501.54

RAKB

Variables	ROA	ROE	TotalAssetsTurnover	Net Profit Margin
2009-10	-0.54	-0.11	2.65	-20.33
2010-11	-1.50	-0.45	1.85	-81.40
2011-12	-1.38	-0.78	2.11	-65.38
2012-13	-1.15	-2.11	2.37	-48.76
2013-14	-1.52	1.74	2.11	-72.07

Lankaputra Bank

Variables	ROA	ROE	TotalAssetsTurnover	Net Profit Margin
2010	2.40	0.01	8.90	3.57
2011	1.90	0.02	7.67	15.71
2012	4.20	0.06	8.49	36.76
2013	5.80	0.09	8.56	53.08
2014	2.40	0.05	6.86	32.78

ZTBL

Variables	ROA	ROE	TotalAssetsTurnover	Net Profit Margin
2010	2.45	0.23	4.41	55.53
2011	2.67	0.26	4.66	57.34
2012	2.94	0.31	5.78	50.88
2013	3.48	0.41	6.10	57.09
2014	5.09	0.66	8.01	63.59

RESULTS AND DISCUSSIONS**FINANCIAL STATEMENT RATIOS****Ratio Analysis**

Ratios are used to measure the comparative performance of any organization with the industry. Due to the nonavailability of financial information of other entities of the banking sector, the ratio based on the financial figure for five years.

Due to the low gross revenue receipt in last five selected year by the BKB & RAKUB total Assets Turnover ratio of BKB & RAKUB is showing poor results. Whereas Net profit margin ratios of Lankaputra Bank & ZTBL is showing Positive results. ZTBL ratios showing better results as compare to Lankaputra Bank. Further, Total Assets Turnover ratio of ZTBL continuously improving.

CONCLUSION

A conclusion can be only be made if necessary information is provided about the financial analysis of the selected state owned banks can be viewed. In the light of information provided in the reports the work performance, efficiency, quality of customer services, market value and financial position of the banks can be seen.

It's a sclearasaday that ZTBL is totally made a consistent growth. In spite of other state owned agriculture Banks of south Asia. It is a positive sign of growth of bank. On the other hand total return on total equity of the Lankaputra bank had increase because of the increases the investor confidence on the banks increased which in turn increase the intangible assets of the bank i.e., Good will in this competitive market. The return on equity (ROE) of the bank had shown fluctuation due to increase inflationary pressure and computerization of different branches and expansion of new branches.

The financial analysis of all the selected state owned agriculture banks for last five years had shown that ZTBL is as its various profitability ratios are better than the other selected banks.

RECOMMENDATIONS

After a thorough analysis of financial statements of the banks the recommendations which is to be given for the improvement of the banks. The weakness of the banks must be converted into opportunity and make its strengths in order to compete into the global competitive markets. Proper survey and research should be conducted before the introduction of any new schemes and branches in order to first make a cost and benefit analysis as the main ingredient for the successful operation of business.

The banks should take advantage from the prevailing new technology in the banking sector so as to earn profit from those niches which is ignored for many years and to provide best available services according to the needs and demands of the people in that niche. Loan procedure should not be cumbersome and should be made easy, so as to ease the customers. Both the banks should adopt a lenient policy regarding advances of loans to the needy people and other deficit economic units which is the main source of revenue generation for the banks. The banks have liquidation problems the management of the banks must invest more in liquid assets like marketable security and market treasury bills to boost the trust of the depositors on bank. The banks should also decrease their debt level in order to utilize the funds at the right time and at the right level to increase their net profits. The banks should make best use of electronic and print media before launching any new schemes which benefits the people and the banks should affectively utilize the technology and should computerization of different branches as well in short should invest more in information technology. There should be proper training (Up to date) for newly selected employees in order to make them more productive and to avoid overlapping of duties. The ZTBL bank should improve assets per employee ratio to increase the return of the assets per employee.

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