Impact of financial crisis on the financial performance of Commercial Banks- comparison of some Asian countries or North American countries.

Abstract: Banking as well as corporate sector of developing countries has been effected by the financial crisis of 2008. Performance of banks and other big organization was in great distress during this era. Objective of the study is to analyze the performance of commercial banks in some Asian or North American countries before and after the crisis by analyzing the financial reports of those banks. How the performance was deteriorated after the crisis. In this study financial reports of the major banks of above mentioned five developing countries will be analyzed and then regression analysis will be used to check the results.

Introduction:

Banking sector plays a vital role in the development of country. It is the banking sector on which most of the developed economies are standing. The banking sector consist of licensed institutions mainly commercial banks, finance companies, merchant banks, discount houses and money brokers. Banking sector of country has an important role as financial intermediary and primary source of financing for the domestic economy.

Banks are the backbone of the global economy and has an important role in providing help to different other sectors. Banks also play its role in innovation, infrastructure, job formation and success of the country. Banks play an essential role in culture and also affecting spending by individual consumers and the growth of entire industries.

Recent crisis of 2008 has adversely affected the performance of banks. Many important banks had closed their operations that were operating in the different developing countries. The effects and solutions to these problems are still under discussion. Why these types of problems happened? What are the strategies to be adopted to hedge the risk of these types of slumps in the stock market that adversely affect the banking as well as the other sectors of country.

Purpose of the study is to examine the factors that affect the performance of banking sector during the financial crisis 2008. How the performance of the banking sector was good before the crisis and what factors has deteriorated the growth of the banking sector in Asian or North American countries and then analyze how different countries adopted different policies to overcome this crisis.
Research Proposal by Jahanzaib Haider

Research Question:

Q. How the effect of financial crisis on the performance of commercial banks is different in different Asian or North American Countries?

Literature Review:

Narjees et al (2005) investigate the Banks privatization in developing countries. They suggested that banks are privatized because of their lacking efficiency. Profitability of the banks increases after privatization. Privatization played major role in economic efficiency. They concluded in this study that newly privatized banks which are restricted by local industrial groups are developed that are visible to the risks of credit and interest rate following the privatization.

Loannidou (2003) in his study examines how monetary policy affect the role of central banks. Results of the study propose that Fed’s monetary policy alter its supervisory behavior and it also explains how it affects the supervisory actions of the Fed’s monitory policy, but it has no affect on the actions of the other agencies.

Ghnther and Moore (2002) in their study indicates that banks underreport financial fatalities when financial performance of banks is imperfect. In their study they present confirmation that supervisory examination plays an important role in the judgment of financial problems and bank accounting statements. Findings of the study tells that the worth of hard work to maintain the supervisory system’s ability for increasing exam activity by rapidly and significantly. These finding highlights the risk of relying on reported financial statements in monitoring changes in the financial condition.

Yongil and Miller (2002) concluded that Asian financial crisis has affected many countries. The major impact of that crisis was on Korea. This research analysis the performance of Korea’s banking performance before and after the Asian financial crisis. Banking sector of Korea is more effected from the crisis. There are many other factors which correlates with bank performance. Equity to Asset positively correlates while Government recapitalization is negatively correlate with performance of Banks. The Korean Government play a major role to lessen the impact of crisis on Korean economy.
Model & Methodology:

Erkens, D., Hung, M., Matos, P., (2012) used the following model that is based on the different variables that has affected the most to the performance of financial institutions worldwide, so in view of that viewing the financial reports of some of the commercial banks from Asian or North American Countries will be analyzed before and after the financial crisis of 2008. Some of the variables that effects the most to the performance of banks that may be included in the study are explained here. This study will aim to analyze the correlations between balance sheet and income statement, and also measures the performance of bank. A regressions analysis will be used in the study on bank’s illustrative variables:

Bank’s performance = 

\[ \beta_0 + \beta_1(\text{Board independence}) + \beta_2(\text{Institutional ownership}) + \beta_3(\text{Large shareholder}) + \beta_4(\text{ADR}) + \beta_5(\text{Leverage}) + \beta_6(\text{Firm size}) + \beta_m(\text{DIndustry}) + \beta_n(\text{DCountry}) + \epsilon \]

Where:

Firm performance = Buy-and-hold stock returns measured from the first quarter until the end of last quarter.

Board independence = Percentage of nonexecutive directors.

Institutional ownership = Percentage of shares owned by institutional investors.

Large shareholders = A dummy variable equal to 1 if a firm has a large owner with voting rights greater than 10%.

ADR = A dummy variable indicating whether a firm is cross-listed on stock exchanges.

Leverage = Total liabilities divided by total assets.

Firm size = Natural log of total assets.

DIndustry = Dummy variables indicating a firm’s industry membership.
Data Sources:

The data of financial reports of commercial banks from different Asian or North American countries will be collected from websites of the banks and data of stock market will be collected from the stock exchange websites of respective countries.

Reference:


