

## The Effect of Foreign Bank Presence on Domestic Banks Performance: An Evidence from a Developing Economy

Usman Bashir<sup>1</sup>, Zaheer Abbas<sup>2</sup>, Muntazir Hussain<sup>3</sup>

**Abstract:** This study examines the effect of foreign bank presence on the behaviour of domestic banks by using the annual data of 37 commercial banks comprising of 7 foreign and 30 domestic banks for the time period of 2007 to 2011. We investigated how net interest margin, return on assets, overhead costs, cost to income and nonperforming loans are effected by the foreign bank presence. We have used panel regression analysis employing bank specific fixed effect model. As a developing country case, the results suggest that the increase in foreign bank share effects the interest margins and profitability of domestic banks in a decreasing manner. It wouldn't be erroneous to express that foreign banks have a positive effect on the competitive environment of domestic banks increasing overall banking standard in Pakistan, the licensing policies should be further liberalized to let new entrants further improve the domestic financial intermediation system.

**Keywords:** Foreign Bank; Domestic Banks Performance; Developing Economy

**JEL Classification:** G21; P52

### 1. Introduction

The financial intermediaries are an integral part in facilitating the economic activity of any country. The banking industry has phenomenally grown since 1960's domestically and especially internationally due to increased trade flows, foreign direct investments, multinational companies expanding businesses irrespective of geographical boundaries. The major reasons for increase in banking activities are due to globalization of markets and liberalization of banking industry in many countries all around the globe. These reasons have caused banks to extend their activities in shape of penetration in other countries. The foreign bank entry and presence has increased phenomenally, especially in the emerging economies which has attracted the attention of researchers to study the influence of foreign banks entry on the domestic banks performance, efficiency and competition. A lot

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<sup>1</sup> Faculty of Management Sciences, International Islamic University, Pakistan, Address: Sector H-10, Islamabad, Pakistan, Corresponding author: bbashir.usman@gmail.com.

<sup>2</sup> Assistant Professor, Faculty of Management Sciences, International Islamic University, Pakistan, Address: Sector H-10, Islamabad, Pakistan, E-mail: zaheerabbas@iiu.edu.pk.

<sup>3</sup> Faculty of Management Sciences, International Islamic University, Pakistan, Address: Sector H-10, Islamabad, Pakistan, E-mail: muntazirjan@gmail.com.

of cross country studies such as (Levine, 1996; Claessens, Demirguc-Kunt & Huizinga, 2001; Walter & Gray, 1983), have been conducted which indicates towards the possible pros of foreign bank penetration on the domestic economy as well as for the domestic banking industry.

Due to increase in the foreign bank entry in domestic banking industry has raised a lot of questions regarding what types of impact do these international banking activities can have on domestic banking sector. In the studies conducted by different researcher some broad influences have been identified. First of all the foreign bank entry will influence the competition in the domestic country. Due to this the efficiency of the domestic banks will be affected. At last it will have influence on the domestic banking infrastructure. The aim of our study is that how is the domestic banks profitability effected by foreign bank penetration, what are its consequences.

The foreign bank entry increases competition, effects the efficiency and stability of economic system, these influences can be linked with the theory of market contestability given by Baumol (1982) the theory assumes that there are a few number of contestants and the market is competitive due to fear of new firms entering the market. One of the major assumptions of this theory is that the commodities traded or sold in a particular market are similar and the market is stable. Due to these reasons it creates a fear of new entrants in the market which leads to better performance and enhanced efficiency of existing firms to produce quality commodities. In case if the old firms increase the prices it will attract new entrants to enter the market and sell their products at lower prices, which leads to capturing market share and share of existing firms. In order to survive this situation existing firm should produce quality products at competitive prices. This leads to increasing the efficiency and performance of the existing firms this type of foreign penetration leads to stability and production of valued financial services.

This study has an importance in accordance to find out the relationship of domestic banks profitability being affected by the foreign bank entry due to some reasons. The Pakistani banking sector has undergone financial liberalization and deregulation in the 90's era the major cause of doing this was to increase the efficiency and performance of the state owned banks, due to which the banking sector has expanded. In the recent years the banking industry have seen radical changes in services quality and branches outreach to capture deposit market. This study will give us fresh insight with empirical justification whether the foreign bank entry has improved the domestic banks performance or not.

Most of the studies conducted on the foreign bank entry influence on the domestic banks performance are cross sectional such as (Claessens et al., 2001; Hermes and Lensink, 2003; Detragiache et al., 2008) which do not accommodate country specific economic and regulatory factors which leads us to establish empirical

evidence for emerging economy such as Pakistan, studying a single country we can control for such economic and regulatory factors which can affect the authenticity of empirical evidence. This empirical study uses the Claessens et al., (2001) methodology as a base and extends it to accommodate any country specific effects associated with the economic and regulatory factors, this would be the first study in Pakistan to use this extended method to check the effect of foreign bank entry on the performance of domestic banks. This study is based on all the commercial banks and foreign banks in Pakistan. The study is planned in four sections immediately preceding section 1 which is introduction is section 2 which gives the review of literature of the past studies regarding the research theme. Section 3 explains the methodology used and data employed, section 4 gives the results and interpretation, section 5 concludes the paper.

## **2. Review of Literature**

In this section of the study we try to examine the literature regarding foreign bank entry and its influences on the domestic banks. First the arguments are given regarding the said issue and secondly studies giving empirical evidences regarding foreign bank presence and its consequences are discussed given by various researchers.

A lot of researchers (Cho, 1990; Levine, 1996; Buch, 1997; Berger and Hannan, 1998) have argued that the foreign bank entry portrays positive effects on the domestic banks which is discussed, firstly due to foreign bank entry the domestic banks feel pressure to reduce their costs and which leads to increase in efficiency. Due to new entrants in the market the domestic banks feel pressure to enhance the quality of services and the old fashioned banking practices come under pressure, in order to maintain the market share which leads to reduction or lowering of interest rates. Secondly the foreign bank presence may also have a spill over effect on the domestic banking industry in terms of introducing new techniques and financial services which are not known to domestic financial system which would lead them to imitate such services. This would lead to increase in efficiency and modernization of the banking techniques in the local banks. Furthermore the foreign banks may move to acquiring other banks which would contribute to more solid management and would enhance the bank supervision and regulation. These spill over's lead to the overall betterment of the local financial intermediation system.

The influence of foreign bank entry on the domestic banks has been empirically tested by researchers in different countries individually and in cross-country studies. Claessens et al., (2001) conducted a study comprising of 7900 transactions consisting of 80 countries for the period of 1988 to 1995, the variables considered for the purpose of checking the influence of the foreign banks on domestic banks

by using measure as NIM, overheads, taxes paid, and profitability. These results suggested that the foreign banks yielded higher profitability in developing countries as compared to developed countries. Due to higher foreign bank entry the profitability and interest rate are lower for domestic banks. The reason for the increase in efficiency is due to competition created by the foreign banks and this is subject to the entry of the foreign banks not the share captured by them. These results are also in accordance Denzier (2000) in which he empirically examined the foreign bank entry influence on the local banks. His results suggested that the foreign bank entry tends to reduce the interest rate and profitability of domestic banks due to high competitive pressure while also observing that the share of banks was only 5% from the period of 1980 till 1997.

Barajas, Salazar and Steiner (2000) examined the influence of foreign bank entry in the Columbian banking industry by employing data from 1985 to 1998. Due to foreign penetration the interest rate margin tend to decrease due to high competitive environment, which in due course increases the efficiency but at the cost of poor quality of loans. The overhead costs tend to increase due to increased competition because the domestic banks increase their costs to match or imitate the financial services of foreign banks. Overall it was concluded that foreign bank entry increases the costs of the domestic banks. Barth, Caprio and Levine (2004) discussed, the more strict the government regulations leading to restricting the foreign banks entry is a reason for the domestic banks lower efficiency which can be inferred as having higher overhead costs and higher interest margins. So it can be said that, due to foreign bank entry the efficiency of the local banks increases while decreasing the overhead costs and lowering interest margins these findings are aligned with the findings of (Denzier, 2000; Claessens et al., 2001). The foreign banks existence may have some spill over affect on the domestic banks for instance the foreign banks might launch innovative financial services or products which could motivate the local banks to adopt such innovative products or services which overall increase their efficiency. Furthermore foreign bank may introduce superior banking techniques which could enhance the supervision and regulations of overall banks. These measures can boost the efficiency and profitability of the financial intermediation system in the long run. The costs incurred on these areas reduce the profitability of the local banks upon the entry of foreign banks these issues are echoed in the results of (Claessens et al., 2001; Hermes and Lensink, 2003) which suggest the effect of foreign bank penetration have a negative influence on the domestic banks profitability.

As for the case of non-performing loans there are mixed empirical evidences found which suggest that the foreign bank entry can have a negative influence on the quality of advances. The foreign banks are considered to be in a superior position and are better equipped to attract the credit worthy clients to give advances, basically they "skim the cream" leaving the poor quality borrowers ( Kim, 2004;

Barajas et al., 2000). Due to enhanced credit evaluation strategy of foreign banks can also motivate the domestic banks to enhance or make their skills mature or modify them according to foreign banks, for another view point the increased competition due to foreign penetration the domestic banks tend to reduce their risk by lending less. This reason can lead to a negative impact on the nonperforming loans. The expected relationships of the variables are given in table 2.1.

### 2.1. Banking Sector in Pakistan: Growth

Pakistani banking sector has witnessed a lot of changes since the birth of this country prior to 1974 the private banks were allowed to be formed and continue business in the country but due to unethical business and competition all the banks were nationalized, this lead to nationalization, the banking industry faced poor services quality and degraded products which lead to inefficient banking environment in the region. This deteriorated situation of the banking sector led to the banking reforms and liberalization of banking sector in the 1990's which lead to increasing the quality of services and increased number of banks in private sector. Currently Pakistani banking sector consists of local banks having private and public banks, foreign banks and specialized banks there are 5 public banks, 22 private sector banks, 4 specialized banks and 7 foreign owned banks making it a total of 38 banks. The Pakistani banking sector has grown as compared to previous year, the total assets increased from 7.2 trillion to 8.3 trillion in the calendar year 2011 than the previous year which gives 15% growth, increasing the profit before taxes to 49.1 % as compared to calendar year 2010. Total deposits rose 0.9 trillion as compared to 2010 which is 15% growth, the total deposits have an 85% share of the total liabilities. The lending to the domestic banks increased by 6.4 % in year 2011 while for foreign banks it decreased by 49.7 percent.

**Table 2.1. Expected relationship between the dependent and independent variables**

D V	I V	Expected Signs (Coefficients)
<b>Net Interest Margin (NIM)</b>	Foreign Bank Share*	( - )
<b>Cost to Income Ratio (CIR)</b>	Foreign Bank Share*	( + )
<b>Overhead</b>	Foreign Bank Share*	( - )
<b>Return on Assets (ROA)</b>	Foreign Bank Share*	( - )
<b>Non-Performing Loans (NPL)</b>	Foreign Bank Share*	( - ) or ( + )

\* *Foreign Bank Share is measured in three variables (i) Foreign Bank Assets (ii) Foreign Bank Number (iii) Foreign Bank Deposit.*

### 3. Methodology and Data

#### 3.1. Data

The data is obtained for the financial statement analysis (FSA) files compiled by the State Bank of Pakistan (SBP) Statistics and DWH department, the data is of each year giving a comparison data for 4 previous years as well. The financial statement analysis files are compiled from the annual reports of all the banks which consist of commercial banks, investment banks, insurances companies, DFI's, exchange companies, mutual fund companies, modaraba companies, housing companies, leasing companies and venture capital companies. The data is regarding the income statements, balance sheets and profit and loss accounts in the form of ratios which are efficiency/ profitability ratios, liquidity ratios capital/leverage ratios, asset quality ratios and cash flow ratios. Our data constitutes of total of 30 banks out of 31 local banks, due to data inadequacy one bank was withdrawn from the sample. The data set contained total of 150 banking years. Data for 7 foreign banks was used to measure the foreign bank share variables.

#### 3.2. Methodology

As to the previous work of researcher have found that the foreign bank entry is correlated with the changes in the profitability of the bank's profits which consists of any changes in the determinants of such profits which are the net interest incomes, income generated by fee or commissions, the overhead costs and the loan loss provisions. To check the influence of foreign bank entry on the domestic banks profitability and efficiency due to increased competition the following regression equation (1) is used following the Claessens et al., (2001) methodology.

$$D_{it} = \alpha_0 + \delta_1 FBS_{it} + \delta_2 BSC_{it} + \delta_3 BIC_{it} + \delta_4 CE_{it} + \varepsilon_{it} \quad (1)$$

Where "i" and "t" are the bank and year respectively,  $\alpha_0$  is the constant and  $\delta_1 \delta_2 \delta_3 \delta_4$  are the coefficients of the explanatory variables.  $D_{it}$  is dependent variables for domestic bank i at time t,  $FBS_{it}$  is foreign bank share variable for i bank at time t. Where  $BSC_{it}$  are the bank specific controls from bank i at time t,  $BIC_{it}$  is the banking industry control at time t,  $CE_{it}$  are the macroeconomic factor at time t and  $\varepsilon_{it}$  is the error term for bank i at time t.

In this study accounting measures are used for profitability and income either using the rate of returns on stocks for the purpose of investigating any effect of foreign bank presence on the domestic banks performance, different researcher such as (Gorton & Rosen, 1995; Schranz, 1993) has used accounting measures for studying managerial entrenchments and bank acquisitions. The dependent variables employed in this study are in accordance with the studies of (Claessens et al., 2001; Hermes and Lensink, 2004) using net interest margin, return on assets, overhead, cost to income ratio and non performing loans, these variables have been discussed in literature for being the most appropriate measures to be affected by the foreign

bank presence. Three variables have been under taken for measuring the foreign bank presence which are the foreign bank number which particularly measure the physical presence of foreign banks in the country, where as the foreign bank assets measures the share of foreign banks in assets of overall banking assets in Pakistan and the foreign bank deposit measures the deposits captured by the of the foreign banks as compared to over all banking market of the country as a whole.

Three Banks specific controls are used in this study includes Size which hypothesizes that the local bank response to the foreign penetration is in relation to local banks size. In case of liquidity the domestic banks having more liquidity forgoes interest incomes in the short time span but are better equipped to compete via adopting new technology and products. Z-Score (Hesse and Cihak, 2008; Laeven and Levine, 2009) Altman Standard Model for Banks measures the risk at different levels which might affect domestic banks profitability due to foreign bank entry Z-Score is used instead of CAR ( Capital Adequacy Ratio) which is commonly used as a measure of bank insolvency and risk, one of the major reason for doing so is that CAR does not properly classifies less risky asset class form high risk assets, the researchers discuss it as a major flaw in the BASEL accord regulatory framework regarding the CAR ratio and the classification of the risky assets is so called a bit naive in case the banks want to increase their returns they can easily switch their investments or increase their investments to more risky assets without moving out of the less risk weighed asset class which could lead to increasing the risk but on the same time does not affects the CAR, (Parinduri & Riyanto, 2011).

The Herfindahl index is used to measure the bank market concentration which might affect the local banks performance. To accommodate any noise from the economic development variables two dummy variables for GDP and RIR are applied. The complete formulation of the variables is mentioned in the table 3.1.

#### **4. Results**

The foreign bank penetration is measured in the form of three different variables, the effect of these variables is checked in three panels individually in the results table 4.3 including all the bank specific controls, competition and macroeconomic controls, each panel regression equation is estimated with fixed effect model for banks for the period of 2007 to 2011. Before the panel regression analysis table 4.1 gives the correlation matrix between the major variables used in the study for the purpose of identifying the multi co-linearity issue in the variables the values are almost below 0.95 for the variables apart from two foreign bank share variables, which does not concerns us due the use of each foreign bank share variables is used in three separate panel regression estimates, table 4.2 gives the descriptive statistics for all the variables employed in this study. Table 4.4 gives descriptive statistics for

all the dependant variables for state owned, private owned and specialized banks, NIM private owned banks lead their other counter parts as for the specialized banks have higher overhead costs which might be due to agricultural and industrial loans which require more resources to determine the authenticity of loans, also the none performing loans are higher than the private and state owned banks through which it could be inferred that the management is not as efficient as private owned banks which have a lot less percentage of nonperforming loans.

#### **4.1. Foreign Bank Presence Effect on Domestic Banks Performance**

The results of foreign bank share in panel A of table 4.3 represent that the foreign bank share is negatively related to net interest margin and return on asset at 1% and 14 % level of significance which is in accordance to our expected relationship. From these it could be inferred that due to a higher level of competition creates pressure for the domestic banks to lower their costs to be competitive in the market to maintain their market share due to foreign presence these results are in accordance to (Barajas et al., 2000). This also leads to the reduction of profitability of the domestic banks due introduction of new financial services and innovative products by the foreign banks which leads the domestic banks to in return to imitate or improve their efficiency to reduce the competitive pressure . As to the results of panel B where the foreign bank share is measured in the form of number of foreign banks the coefficients of the foreign bank share variable are positive and almost all of the values are insignificant except one these results are contrary to the results of Claessens et al., (2001) in this case it could be inferred that the size of the foreign bank and market share are associated with the competitive condition of the domestic banking industry more as compared to the number of foreign bank. The same is echoed in the results of panel C results that foreign bank share is negatively related to net interest margin and return on asset at 1% and 14 % level of significance. These results point to the same aspect for the importance of the foreign bank presence in terms of assets and deposits rather than number these results are in accordance to (Ghosh, 2012).

#### **4.2. Bank Specific Controls**

As for the bank specific control variables the bigger the size of the bank the performance of the domestic bank in terms of nonperforming loans is better due to inverse relationship, one of the reason for this can be that it has bigger asset base to absorb the bad debts as compared to small banks. As for the well capitalized banks have to maintain higher capital to maintain their spreads due to foreign bank, well capitalized banks have lower NPLs as compared to less capitalized banks which may be one of the reason that the overhead costs are also greater for well capitalized banks is due to they may require to exercise and depute more manpower or put more effort to control their NPLs.



### 4.3. Banking Industry Controls and Macroeconomic Factors

The Herfindhal Index for loan market share shows that for highly concentrated loan market share the banks can earn good interest margins but the tendencies of nonperforming loans will be more if the market is highly concentrated. The macroeconomic indicators lead us to infer that higher the real interest rates higher would be the net interest margins yielded by the domestic banks.

## 5. Conclusion

This study investigated the impact of foreign bank presence on the domestic banks performance using annual data of 30 domestic and 7 foreign commercial banks from the period of 2007 to 2011 comprising of 150 banking years data. The methodology used was an extension of the model employed by Claessens et al., in 2001. Five regression equations are estimated for each foreign bank share variable making it a total of three panels a, b and c using five dependant variables using the bank specific fixed effect model. The empirical results of this study suggest that there is a moderate explanation of the foreign bank presence effects observable in Pakistan's banking industry mostly the foreign bank share effect is only present in the case of net interest margin and return on assets as to the rest of the variables are less significant. In this scenario it can be deduced that in the local industry banks do feel pressure in terms of foreign bank entry and try to compete via imitating the financial innovations and new financial products and services introduced by the foreign archrivals. This in term improves the local financial intermediation system and enhances the overall skills of the local banking industry in terms of service quality, stability and supervision. As in the past, before liberalization era, the performance of the banks and the services quality has improved, and it can easily be observed. Overall the results would be much more fruit full if it is empirically tested on the post, pre liberalization and privatization era in Pakistan which is one of the limitations of the study due to limited data available and it would be a future direction for the research heading this direction in Pakistani context.

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**Table 3.1 Construct of variables**

Variables	Formulation of variables
<b>Dependant Variables</b>	
<b>Net Interest Margin (NIM)</b>	(Interest Income - Interest exp) / Total Assets
<b>Return On Assets (ROA)</b>	Net profit / Total Assets
<b>Overhead Cost</b>	Admin exp / Total Assets
<b>Non Performing Loans (NPL)</b>	Advances Non-performing / Total Assets
<b>Cost-Income Ratio (CIR)</b>	Admin exp / (Total income - interest exp)
<b>Explanatory Variables</b>	
<b>Foreign Bank Assets</b>	Assets of foreign banks / Total banking assets
<b>Foreign Bank Number</b>	Number of FB / Number of total commercial banks
<b>Foreign Bank Deposit</b>	Total FB deposits / Total Deposits of all banks
<b>Bank Specific Control Variables</b>	
<b>Size</b>	Natural Logarithm of bank assets
<b>Liquidity</b>	(cash in hand + balance with SBP) / TA
<b>Z-Score(Altman Model)</b>	{(Total Equity/ Total Assets) + ROA} / SD(ROA)
<b>Banking variable</b>	Sum of squares of loan market share
<b>Herfindahl Index</b>	
<b>Macroeconomic variables</b>	<i>control</i>
<b>GDP</b>	Dummy = 1 if GDP growth in a year exceeds sample median else 0
<b>Real Interest Rate</b>	Dummy = 1 if RIR in a year exceeds sample median else 0

**Table 4.1 Correlation Matrix of Dependant and Foreign Bank Share Variables**

	FB Asset	FB Number	FB Deposit	ROA	NIM	Overhead	CIR	NPL
<b>FB-Asset</b>	1							
<b>FB-Number</b>	0.1407	1						
<b>FB-Deposit</b>	0.9564	0.0315	1					
<b>ROA</b>	-0.1426	0.0163	-0.1589	1				
<b>NIM</b>	-0.1599	0.0691	-0.1904	0.5224	1			
<b>OVERHEAD</b>	0.0717	0.0362	0.0663	-0.4074	0.1927	1		
<b>CIR</b>	0.0641	0.1008	0.0751	0.1224	0.0884	-0.055	1	
<b>NPL</b>	0.0765	-0.0276	0.0779	-0.2437	-0.4144	0.284	-0.066	1

**Table 4.2 Descriptive Statistics of variables**

Variables	Obs	Min	Max	Mean	S.D
<b>Dependant Variables</b>					
<b>Net Interest Margin (NIM)</b>	150	-0.108	0.096	0.0205	0.0299
<b>Return On Assets (ROA)</b>	150	-0.093	0.037	-0.0002	0.0237
<b>Overhead Cost</b>	150	0.005	0.164	0.0351	0.0198
<b>Non Performing Loans (NPL)</b>	150	0.000	0.989	-0.6759	23.5613
<b>Cost-Income Ratio (CIR)</b>	150	-282.625	47.541	0.1727	0.1965
<b>Explanatory Variables</b>					
<b>Foreign Bank Assets</b>	150	0.031	0.042	0.0350	0.0039

<b>Foreign Bank Number</b>	150	0.261	0.296	0.2765	0.0136
<b>Foreign Bank Deposit</b>	150	0.027	0.035	0.0308	0.0031
<b>Bank Specific Control Variables</b>					
<b>Size</b>	150	15.453	20.866	18.2899	1.4660
<b>Liquidity</b>	150	0.029	0.357	0.1022	0.0502
<b>Z-Score(Altman Model)</b>	150	-198.236	44.420	11.1482	35.4722
<b>Banking Industry Control variable</b>	150	0.067	0.072	0.0702	0.0017
<b>Herfindahl Index</b>					
<b>Macroeconomic variables</b>	150	0.000	1.000	0.4000	0.4915
<b>GDP</b>					
<b>Real Interest Rate</b>	150	0.000	1.000	0.4000	0.4915

Table 4.4 Descriptive Statistics Ownership Wise of Dependant Variables.

Variables	Minimum	Maximum	Mean	S.D
<b>Net Interest Margin (NIM)</b>				
<b>State Owned Banks</b>	-0.097	0.065	0.014	0.043
<b>Private Owned Banks</b>	-0.052	0.072	0.022	0.022
<b>Specialized Banks</b>	-0.108	0.096	0.018	0.047
<b>Return On Assets (ROA)</b>				
<b>State Owned Banks</b>	-0.054	0.025	0.004	0.022
<b>Private Owned Banks</b>	-0.071	0.037	-0.0004	0.022
<b>Specialized Banks</b>	-0.093	0.033	-0.003	0.035
<b>Overhead Cost</b>				
<b>State Owned Banks</b>	0.010	0.050	0.025	0.011
<b>Private Owned Banks</b>	0.005	0.089	0.033	0.014
<b>Specialized Banks</b>	0.022	0.164	0.058	0.034
<b>Non Performing Loans (NPL)</b>				
<b>State Owned Banks</b>	0.001	0.516	0.169	0.144
<b>Private Owned Banks</b>	0.000	0.781	0.115	0.108
<b>Specialized Banks</b>	0.000	0.989	0.492	0.298
<b>Cost-Income Ratio (CIR)</b>				
<b>State Owned Banks</b>	-10.120	2.458	-0.003	2.875
<b>Private Owned Banks</b>	-282.625	47.541	-0.968	27.492
<b>Specialized Banks</b>	-10.138	3.478	0.256	2.705

**Table 4.3 (Panel A) Effect on Domestic Banks Performance by Foreign Bank Share**

<b>Panel A</b>	<b>NIM</b>	<b>ROA</b>	<b>OVERHEAD</b>	<b>CIR</b>	<b>NPL</b>
<b>FB-ASSET</b>	-9.7371 (4.0147)***	-5.4104 (3.6452) *	-0.4802 (2.2784)	4575.2590 (4749.6460)	-5.6177 (21.3760)
<b>FB-NUMBER</b>	-	-	-	-	-
<b>FB-DEPOSIT</b>	-	-	-	-	-
<b>SIZE</b>	-0.0023 (0.0077)	-0.0035 (0.0070)	-0.0022 (0.0044)***	4.5926 (9.1434)	-0.0754 (0.0412)**
<b>LIQUIDITY</b>	-0.0215 (0.0605)	0.0105 (0.0549)	-0.0308 (0.0343)	65.8993 (71.5228)	0.1019 (0.3219)
<b>Z-SCORE</b>	0.0008 (0.0002)***	0.0000 (0.0002)	0.0006 (0.0001)**	-0.1306 (0.2885)	-0.0058 (0.0013)***
<b>H-Index</b>	35.2554 (18.2489)	15.8785 (16.5694)	5.6606 (10.3564)	-23086.6000 (21589.7900)	75.3892 (97.1658)
<b>GDP</b>	0.0757 (0.0365)**	0.0420 (0.0331)	0.0041 (0.0207)	-39.8588 (43.1476)	0.0650 (0.1942)
<b>RIR</b>	0.0608 (0.0359)*	0.0246 (0.0326)	0.0120 (0.0204)	-53.3107 (42.4392)	0.1906 (0.1910)
<b>Constant</b>	-2.1343 (1.1284)**	-0.8890 (1.0245)	-0.3151 (0.6404)	1408.6930 (1334.9690)	-3.5960 (6.0081)
<b>R2</b>	0.6604	0.5538	0.7496	0.2346	0.7771

*The data included is for the year 2007 to 2011 comprising of 30 banks with a total of 150 banking year. The Standard Errors (S.E) are in parentheses grouped with each bank variable individually. \*, \*\* and \*\*\* indicates values at 10%, 5% and 1% significance level.*

Table 4.3 (Panel B) Effect on Domestic Banks Performance by Foreign Bank Share

Panel B	NIM	ROA	OVERHEAD	CIR	NPL
<b>FB-ASSET</b>	-	-	-	-	-
	-	-	-	-	-
<b>FB-NUMBER</b>	2.0443	1.1359	0.1008	-960.5680	1.1794
	(0.8429)*	(0.7653)	(0.4783)	(997.1802)	(4.4879)
<b>FB-DEPOSIT</b>	-	-	-	-	-
	-	-	-	-	-
<b>SIZE</b>	-0.0023	-0.0035	-0.0022	4.5926	-0.0754
	(0.0077)	(0.0070)	(0.0044)	(9.1434)	(0.0412)***
<b>LIQUIDITY</b>	-0.0215	0.0105	-0.0308	65.8993	0.1019
	(0.0605)	(0.0549)	(0.0343)	(71.5228)	(0.3219)
<b>Z-SCORE</b>	0.0008	0.0000	0.0006	-0.1306	-0.0058
	(0.0002)*	(0.0002)	(0.0001)*	(0.2885)	(0.0013)*
<b>H-Index</b>	5.2326	-0.8034	4.1799	-8979.5510	58.0680
	(6.4047)	(5.8152)	(3.6347)	(7577.2300)	(34.1017)***
<b>GDP</b>	0.0059	0.0032	0.0007	-7.0695	0.0247
	(0.0093)	(0.0084)	(0.0053)	(10.9965)	(0.0495)
<b>RIR</b>	0.0680	0.0286	0.0124	-56.6547	0.1947
	(0.0387)***	(0.0351)	(0.0220)	(45.7925)	(0.2061)
<b>Constant</b>	-0.9067	-0.2068	-0.2546	831.8581	-2.8878
	(0.6506)	(0.5907)	(0.3692)	(769.6868)	(3.4640)
<b>R2</b>	0.6604	0.5538	0.7496	0.2346	0.7771

The data included is for the year 2007 to 2011 comprising of 30 banks with a total of 150 banking year. The Standard Errors (S.E) are in parentheses grouped with each bank variable individually. \*, \*\* and \*\*\* indicates values at 10%, 5% and 1% significance level.

Table 4.3 (Panel C) Effect on Domestic Banks Performance by Foreign Bank Share

Panel C	NIM	ROA	OVERHEA		
			D	CIR	NPL
<b>FB-ASSET</b>	-	-	-	-	-
<b>FB-NUMBER</b>	-	-	-	-	-
<b>FB-DEPOSIT</b>	-3.5839 (1.4777) *	-1.9914 (1.3417)** *	-0.1767 (0.8386)	1683.9860 (1748.1710)	-2.0677 (7.8677)
<b>SIZE</b>	-0.0023 (0.0077)	-0.0035 (0.0070)	-0.0022 (0.0044)	4.5926 (9.1434)	-0.0754 (0.0412)***
<b>LIQUIDITY</b>	-0.0215 (0.0605)	0.0105 (0.0549)	-0.0308 (0.0343)	65.8993 (71.5228)	0.1019 (0.3219)
<b>Z-SCORE</b>	0.0008 (0.0002) *	0.0000 (0.0002)	0.0006 (0.0001)*	-0.1306 (0.2885)	-0.0058 (0.0013)*
<b>H-Index</b>	3.7393 (5.8734)	-1.6332 (5.3328)	4.1063 (3.3332)	-8277.8910 (6948.6700)	57.2065 (31.2728)** *
<b>GDP</b>	0.0101 (0.0107)	0.0055 (0.0097)	0.0009 (0.0061)	-9.0341 (12.6476)	0.0271 (0.0569)
<b>RIR</b>	0.0013 (0.0139)	-0.0085 (0.0126)	0.0091 (0.0079)	-25.3275 (16.4310)	0.1562 (0.0739)***
<b>Constant</b>	-0.1012 (0.3794)	0.2407 (0.3445)	-0.2149 (0.2153)	453.3984 (448.8523)	-2.4231 (2.0201)
<b>R2</b>	0.6604	0.5538	0.7496	0.2346	0.7771

The data included is for the year 2007 to 2011 comprising of 30 banks with a total of 150 banking year. The Standard Errors (S.E) are in parentheses grouped with each bank variable individually. \*,\*\* and\*\*\* indicates values at 10%, 5% and 1% significance level.