DETERMINENTS OF FINANCIAL PERFORMANCE OF BANKS: EVIDENCE FROM MICROFINANCE SECTOR OF PAKISTAN

Muhammad Sharjeel Ayaz

01-229192-008

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DEDICATION

To my beloved father and mother

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ABSTRACT

For economic segment, Microfinance banks are crucial, especially in emerging countries in which financial markets aren't very well evolved and powerful. Microfinance banking financial performance is critical meanwhile worthiness regarding sector stands strongly related with economy's worthiness, as a whole**.** Study has researched profitability factors regarding the Microfinance banks functioning in Pakistan, by specific emphasis on position towards the asset quality. That aspect became especially significant after the introduction of tighter banking regulatory standards. Study has involved micro level determinants of banks profitability. Over the duration 2015-2020, the research has used balanced panel data containing Six microfinance banks operating in Pakistan. Results of ROA indicates that Poor Asset Quality (PAQ), cost-to-income ratio (CIR), capital adequacy (CAR) and Liquidity ratio (LIQ) showed negative effects on financial performance. In ROE t-value and the significance value of the relevant variables indicates that Poor Asset Quality (PAQ), cost-to-income ratio (CIR), and capital adequacy (CAR) have a substantial negative effect on the financial performance. While, Liquidity ratio (LIQ), shows insignificant impact on net interest margin. In NIM Poor Asset Quality (PAQ), Liquidity ratio (LIQ), and capital adequacy (CAR) have a substantial negative effect on the financial performance. While, cost-to-income ratio (CIR), shows insignificant impact on net interest margin. Bank management, customers, investors as well as government can use the information for better decision.

Keywords: Poor asset quality, Capital adequacy, microfinance banks, profitability of Banks