THE EFFECT OF INTERNAL VARIABLES ON PROFITABILITY OF COMMERCIAL BANKS OF PAKISTAN

BY

MALIHA KANWAL

54673

A thesis submitted to the Business Studies Department, Bahria Business School, Bahria University Karachi Campus, in partial fulfillment of the requirements for MBA Degree

FALL, 2021

BUSINESS STUDIES DEPARTMENT

BAHRIA BUSINESS SCHOOL

Bahria University Karachi Campus

MBA Thesis 2nd Half Semester Progress Report and

Approval Statement

Supervisor – Student meeting Record

S#	Date	Place of Meeting	TopicDiscussed	Signature of Student
1.	9/1/2021	Campus Office	Chapter 1, 2, and 3	*(signature)*
2.	4/1/2022	Campus Office	Chapter 4	*(signature)*
3.	18/1/2022	Campus Office	Chapter 5 and 6	*(signature)*

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Acknowledgement

Alhumdulilallah, by the grace of Almighty Allah, the most beneficent and the most merciful, I have been able to complete my research studies.

I want to offer my sincerest gratitude to my supervisor Dr. Akhtiar Ali for his support, motivation, guidance and dedication.

I have great appreciation for all my honorable teachers for their support, encouragement and help throughout my MBA degree and research studies as well.

I also would like to express my sincere thanks to my beloved parents Malik Abdul Rasheed, Fauzia Tabassum. I am in debted to them for their unconditional love and support, help and cooperation.

I would also like to thank all the respondents, family members and friends who helped me in research studies and also guided me and pushed me to the right path of life.

Abstract

Purpose

The motive behind this study was to determine the relation of independent variables with the dependent variables. Moreover, to define the level of effectiveness of the independent variables on the dependent variables. The dependent variable in this research study is the profitability indicator of the commercial banks in Pakistan, ROA return on asset. The independent variables have been selected after reviewing several amounts of literature. The independent variables are equity to assets ETA, debt to assets DTA, deposits to assets DEPTA, and bank size BS and asset management AM.

Data Collection

Conventional banks in Pakistan are considered as a population. The findings will represent the bank-specific determinants that may have an impact on Pakistan's Commercial banks' Profitability. Data were collected for the years 2010 to 2020, based on the sample size of Commercial banks in Pakistan. The data in this study were compiled using secondary resources, that is, financial statement data from all selected Commercial banks in Pakistan. These fiscal statements/reports data have been collected from the annual financial statement analysis data of the financial sectors of the State Bank of Pakistan. The website of the State Bank of Pakistan has also been used to collect the data, ranging from 2010 to 2020. This is the panel data consisting of 10 years showing the trend of the financial statements of the selected Investment banks of Pakistan.

Findings

The results show that the Bank Size has a positive moderate level of correlation with the dependent variable return on assets ROA. Asset Management has a positive but weak level relation with the profitability indicator which is Return on Assets ROA. Whereas, the Equity to Assets, Debt to Assets, and Deposits to assets have a negative and weak correlation with the profitability indicator Return on Assets ROA. Moreover, deposits to assets and asset management have a significant and positive impact on the profitability indicator which is the return on assets ROA. Whereas, the size of the banks has no significant influence on the profitability indicator ROA of the commercial banks. The other remaining two independent variables equity to assets and debt to assets has a significant but negative impact on the profitability indicator return on assets ROA.

Keywords: Bank Specific Factors, Banking Sector, Profitability

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