

ROLE OF BANK-SPECIFIC RISK FACTORS TOWARDS PROFITABILITY: A CASE OF COMMERCIAL BANKS OF PAKISTAN

BY

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Dedication

I dedicate my dissertation work to my family and many friends. A special feeling of gratitude to my loving parents, and my teachers Sir Asif and Sir Mubashir whom words of encouragement and push for tenacity ring in my ears. I also dedicate this dissertation to my many friends who have supported me throughout the process. I will always appreciate all they have done.

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Abstract

Purpose: The current study aims to determine the impact of liquidity, credit risk, leverage risk, bank size, GDP and inflation on bank profitability of 15 commercial banks of Karachi, Pakistan.

Methodology: The study has adopted quantitative research approach, explanatory research type, and correlational research design. Data has been collected from the consolidated audited financial statements and annual reports of 15 private commercial banks of Pakistan. The study has employed descriptive statistics, correlation analysis, panel cointegration analysis for long-run relationship, Hausman test for misspecification estimation of random-effect analysis and panel OLS analysis for hypothesis-testing using EViews 9 software.

Findings: The present paper identified that liquidity has a significant and positive relationship with firm profitability, credit risk has a significant and negative relationship with firm profitability, leverage risk has a significant and negative relationship with firm profitability, bank size has a significant and positive relationship with firm profitability, GDP has a significant and negative relationship with firm profitability, and inflation has a significant and negative relationship with firm profitability.

Limitations: The data gathered for the study is from a developing nation and lacks any personal, political, or socio-economic variables in its conceptual framework. The research framework lacks any mediator, or a moderator and the theoretical background only includes a single theory. The sample size taken by the researcher is smaller as compared to the target population of the study.

Implications: For regulators, decision-makers, and bank management, our findings are pertinent. For instance, the possibilities for higher profitability are supported by the rising ownership concentration, particularly in nations with stricter laws. Management must be well informed of the bank's liquidity condition in various investment categories, and immediate remedial action should be implemented.

Keywords: *bank profitability, commercial banks, Pakistan, Hausman test, EViews 9 software, Modern portfolio theory.*

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