

**"How foreign exchange risk can be managed for  
banks operating in Pakistan"**



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**A research project submitted in partial fulfillment of  
the requirement for the degree of MBA**

**Department of Management Sciences (GS)**

**Bahria Institute of Management and Computer Sciences**

**Bahria University Islamabad  
2012.**

How foreign exchange risk can be managed for banks operating in Pakistan

**FINAL Thesis APPROVAL SHEET**  
**Viva-Voice Examination**

Date      /      / 12

**Topic of Research:**

How foreign exchange risk can be managed for banks operating in  
Pakistan

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## ACKNOWLEDGEMENT

I would like to thank **Almighty Allah, Most Gracious and Most Merciful**, who gave me strength and direction at every stage of my life and without His help I could not have completed this research.

I would like to express special gratitude and prayers to my supervisor, **Mr. Ahmer Ather**. This study could not have been accomplished without his proficient guidance and supervision.

## DEDICATION

This dissertation is firstly dedicated to my **parents**, specially my mother, without her moral and physiological support it would have been be very hard for me to accomplish my journey to my post graduation or in other words all the way since the beginning of my life and in my educational career. Secondly and foremost to all the teachers who have taught me, guided me toward this academic progression with social awareness for the well being of the society.

## ABSTRACT

During the era from 2007 to 2011 the world economy has encountered a heavy financial melt down which contracted many economies. Businesses went bankrupt and loans became none performing for financial institutions. Pakistani financial sector had also been hit by this financial crisis. To rightly judge the impact of the world financial crises there is no better option then to study the capital structure of the financial institutions of Pakistan. It is being also observed that in Pakistan there is gap between financial sector and their risk management. The factor that indented the economy beside the non performing loans was foreign currency movement, as the Pakistani currency was at continuous devaluation; therefore the economy was more exposed to risk.

This descriptive study of the financial sector of Pakistan elaborates how the financial institutions and banks manage foreign exchange exposure. In this study, firstly the capital structure of the selected sample banks is being evaluated according to their performance through horizontal and ratio analysis from 2007 to 2011 to observe the impact of the world financial melt down of the world. The VAR is being established through historical stimulation of the foreign exchange assets of the banks translated in Pakistani currency to find the amount to be hedged as well as to decide what can be the most feasible hedging tool to the Pakistani financial sector.

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