

**IMPACT OF EFFICIENCY AND RISK ON PROFITABILITY OF
PAKISTANI BANKS**



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DEDICATION

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ABSTRACT

Profitability of banks is affected by various factors. Nowadays banks are involved in various activities and due to involvement in several activities they are exposed to numerous risks and many factors influence their profitability. This study is conducted with objective to determine how profitability of Pakistani banks is affected by operational efficiency and several risk types i.e. liquidity risk, credit risk and capital risk, and also to check whether Structure Conduct Performance Hypothesis holds in banking sector of Pakistan or not. Credit risk is measured using Capital Adequacy Ratio and Concentration Ratio is used to test structure conduct performance hypothesis. Three profitability indicators are used in this study. Asset based classification of banks is done and they are classified into 3 classes (Small, Medium and Large). Sample of study consisted of 6 large banks, 8 medium banks and 4 small banks operating in Pakistan. Simple regression analysis is used for analysis of data. Fixed and random effects model are estimated. We used Hausman test to select between random and fixed effects model. The results reveal that bank's profitability is negatively affected by operational efficiency, liquidity risk has a negative relation with profitability, credit risk positively impacts the profitability and concentration ratio also have positive impact on profitability.