

DETERMINANTS AFFECTING THE PROFITABILITY OF ISLAMIC BANK: EVIDENCE FROM PAKISTAN

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Abstract

Purpose- The aim of this research is to access the determinants that affect the profitability of Islamic bank of Pakistan. The Financial sector plays a very vital role in the development and it is considered to be backbone for any country. The most important factor for the financial growth of a country is a stable banking system. Islamic banking industry of Pakistan has grown substantially over the past few years; however, many challenges have been faced with regard to its financial stability. This study would try to access the determinants that affect the profitability of Pakistan Islamic bank during the period of 2005 to 2015. The main objective of this research is to know that what in today's global market where competition is high, organizations have many choices to move forward at the current pace or to make some strategic decision to become the leader in their respective sector.

Methodology/sample- Research is cause & effect explanatory study. Return on Assets (ROA), Return on Equity (ROE) and Earnings per Share (EPS) are used as dependent variables, whereas the Bank Size (SIZE), Gearing Ratio (GR), Operational Efficiency (OE), Asset Composition (AC), Asset Management (AM), Deposit Ratio (DR), Gross Domestic Product (GDP) and Consumer Price Index (CPI) are used as independent variables. By reviewing the literature of previous researchers, a theoretical framework is designed and the data on internal variables are collected from financial statements of selected bank, whereas the data on external macroeconomic variables are collected from the website of State Bank and website of World Bank. A total of 6 internal variables and 2 external variables are used for the research study on annual basis. Data is collected from sample of 1 Bank.

Findings- The findings of the study indicate that bank specific factors like Bank Size (SIZE), Gearing Ratio (GR), Deposit Ratio (DR), Operating Efficiency (OE), Asset Management (AM) and environment specific factors like Gross Domestic Product (GDP) and Consumer Price Index (CPI) do not affect the Return on Assets (ROA) and Return on Equity (ROE), whereas, only Asset Management (AM) affect the Earnings per Share (EPS).

Practical Implications- The results of this research will eventually allow Islamic bank's management and regulatory bodies to control or steer these factors in their favor.

Keywords: Islamic Bank, Meezan Bank, Profitability, Return on Asset (ROA), Return on Equity (ROE), Earnings per Share (EPS), Pakistan.

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