

FACTORS DETERMINING COMMERCIAL BANK'S PROFITABILITY: AN EMPIRICAL RESEARCH USING ROA AND ROE

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Abstract

Purpose –Although there has been a lot of work done on the Determinants of profitability of banking sector but it is still researchable that what are the most prominent factors in case of Pakistan's one of the leading commercial banks. Therefore, this study investigated the factors of profitability which are more influential. The questions such as: What are the factors influencing banks' profitability? And which is most prominent factor among said factors in case of the bank's profitability? Hence, the purpose of this study is to identify factors affecting profitability of commercial banks and to identify the role of various factors determining banks profitability.

Design/methodology/approach – Multiple regression analysis has been used to explore the factors that determine bank's profitability. This study is quantitative and collected the data from the balance sheets of MCB Bank Ltd from the period of 1998 to 2012.

Findings – The results concluded that in both the models it is found that STAA (Short Term Advances over Assets) and the EA (Equity over Assets) have a positive impact on the dependent variable ROA (Return on Assets). Furthermore, a negative significant impact of DA (Deposits over Assets) on ROA (Return on Assets) is found. The other model showed that when STAA and EA increase, the profitability of the firm also increases while, the decrease in the ratio of Deposits over Assets plays a significant role in increasing the profitability. The regression analysis showed that there is negative significant impact of EA (Equity over Assets) and DA (Deposits over Assets) on ROE (Return on Equity). Other than these two variables the other variables are having no significant impact over the profitability of the bank.

Practical implications – This study suggested that Short Term Advances over Assets and Equity over Assets have a major impact on Return on Assets. Equity over Assets and Deposit over Assets have a negative impact on Return on Equity. It is helpful for banks to take into consideration these factors that will contribute in the profitability of banks.

Key words: Deposits over Assets, Equity over Assets, Profitability, ROA, ROI and Short Term Advances over Assets,

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