

THE IMPACT OF BAD-DEBTS ON THE PROFITABILITY OF BANKS (HBL, ABL & UBL)

By

**HIRA AFSAR
32896**

A thesis presented to the Department of Management Sciences, Bahria University
Karachi Campus, in partial fulfillment of the requirements
of the MBA degree



SPRING, 2015

Bahria University Karachi Campus

ACKNOWLEDGEMENT

It has been our pleasure to work on this research paper (research report) as I have learnt so many interesting and valuable things , latest methods & format while writing a research paper that being used in today's contemporary working environment of Research.

I express my deep sense of gratitude to our HOD who has taught us numerous ways to develop a research paper, I am extremely grateful to my teachers and advisor Mr. Kaleem Ghaiz who gave us the opportunity to undertake this assignment and whose help and guidance has made me able to complete my task effectively and efficiently.

ABSTRACT

Purpose of Study: The main purpose of conducting this study is to determine the impact of bad debts on the profitability of banks specifically ABL, HBL & UBL. Banks play an integral role in running the economic affairs of the country. In the past few years the banking sector has shown a significant growth pattern. The recovery of these payments is the major earnings of the bank however; the other side of the picture is that they also had to bear some challenges like, default in recovery of instalment payments.

Methodology: the research is quantitative and descriptive in nature. Regression testing and correlation testing is used in order to determine the relationship between independent and dependent variables. The independent variable includes (bad debts – Independent variable) and profitability as dependent variable. The sample size includes financial records for last 10 years of ABL, HBL & UBL banks.

Findings: The findings from the study suggest that, there is an impact of bad debts on profitability the banks but the impact is low because, these banks have maintained the level of debts up to a certain extent and is increasing avenues of profitability. This means that, specifically in these three banks the impact of bad debts on profitability is there but its impact is low.

Conclusion: In conclusion, the research highlights that, there exists some relationship between bad debt and profitability and it can also hurt the bank's profitability if measures are not taken. The study provides some evident recommendations through which these banks can reduce the bad debts.

Key Words: *Bad Debts. Profitability, Banks*

TABLE OF CONTENTS

SUPERVISOR-STUDENT MEETING RECORD.....	ii
<u>DECLARATION OF AUTHENTICATION</u>	iii
Lists of Tables and Matrices.....	iv
List of Figures.....	v
List of Abbreviations.....	vi
Acknowledgement	vii
ABSTRACT.....	viii
TABLE OF CONTENTS.....	ix
CHAPTER 01 INTRODUCTION 1	
1.0. Introduction.....	1
2.0. Background.....	3
3.0. Thesis Statement	4
4.0. Research Questions.....	6
5.0. Chapter Summary.....	6
CHAPTER 02 LITERATURE REVIEW	8
2.0. Introduction.....	8
2.1. Review of Literature	8
2.2. Bad Debt & Political Influence.....	10
2.2. Bad Debt & Government Guarantees.....	10
2.3. Methods of Estimating the Allowance for Bad Debt.....	11
Aging of Accounts	12
2.3. Methods to Reduce Bad Debts.....	12
2.3.1. Credit Scoring Method.....	12
2.4. Main reasons of Bad Debts	13
2.5. Profitability & Bad Debts.....	13
2.6. Hypothesis Development	15
2.6. Chapter Summary.....	15
CHAPTER 03 RESEARCH METHODOLOGY.....	16

3.0. Introduction.....	16
3.1. Research Design.....	16
3.1. Nature of research	16
3.2. Data Collection.....	16
3.3. Research Process Inflow	17
3.5. Variables of Research	17
3.6. Population Sampling	18
3.6. Chapter Summary.....	18
CHAPTER 04 DATA ANALYSIS.....	19
4.0. Introduction.....	19
4.1. Regression Analysis.....	20
4.2. Findings & Results.....	22
CHAPTER 05 CRITICAL ANALYSIS	24
5.1. Critical Review of Findings and Results.....	25
5.2. Critical Review of Research Objectives.....	25
CHAPTER 06 CONCLUSION & RECOMMENDATION	28
6.1. Conclusion	28
6.2. Recommendations	29
REFERENCES.....	30
Bibliography.....	32