

# **IMPACT OF EXTERNAL FACTORS ON PROFITABILITY OF BANKING SECTOR OF PAKISTAN**

**By**

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



**FALL, 2016**

**Bahria University Karachi Campus**

## Acknowledgement

First of all I would like to bow my head before Allah the Almighty for his countless blessings who grant me such strengths to successfully accomplish this thesis in the given time frame. Secondly I am thankful to my mother without her presence and support I am nothing, she always stand by me in my all thick and thin and brought me up in a way that I can appear as a proud for them.

Furthermore, a warm thanks to my thesis advisor for his throughout support and counseling whenever it was required. He really deserved to be praised on this occasion when I am done with my thesis successfully.

## ***ABSTRACT***

**Purpose:** The purpose of this research was to identify the relationship between inflation, Imports, Exports and Foreign reserves held by country with the profitability of banks. Banking sector has an important role on financial stability of any economy. This research tests the trends of external environment inflation, Imports and exports and foreign reserves which are highly affecting the performance of the banking sector in Pakistan.

**Methodology:** This research was conducted on the top 3 banks financial data which includes HBL, MCB, and UBL as they hold more than 60% of the deposit of the country.

Linear regression was used to test the data keeping Inflation, Imports, exports and foreign reserves as Independent variable and Profitability, EPS, ROA, ROE as dependent variables

This paper used return on Assets, return on equity and earning per share using it as the bank's profitability measure to determine how these variables are affected by the current inflation, imports exports and reserves of the country, these dependent variables display the company's current standing in market and are being judged on the same indicators in market when it comes to the overall growth of the banks,

**Findings:** This research was concluded that inflation has a significant negative impact to the profitability of banks, and the exports had no significant impact on the profitability of banks, whereas the imports have significant positive relationship with the profitability measures keeping foreign reserves insignificant.

**Practical Implications:** This paper would help the banking sector decision makers to identify the external factors causes on the banks profitability.

**Keywords:** financial performance, Inflation, banking sector

## TABLE OF CONTENTS

### **The Preliminary Part**

TITLE PAGE.....	viii
2 <sup>nd</sup> HALF-SEMESTER PROGRESS REPORT & THESIS APPROVAL.....	viii
DECLARATION OF AUTHENTICATION.....	viii
LIST OF ABBREVIATIONS.....	viii
FIRST PAGE OF PLAGIARISM REPORT.....	viii
ACKNOWLEDGEMENT.....	viii
ABSTRACT.....	viii

### **(Chapter 1)..... 1**

#### **INTRODUCTION: ..... 1**

(1.1) Background of the study: .....	1
(1.2) Problem Statement: .....	1
(1.3) Aims/Objectives of the Study.....	1
(1.4) Research Model:.....	2
(1.5) Research paper Questions .....	2
(1.6) Research Objectives: .....	3
(1.7) Significance of the Study .....	3
(1.8) Outline of the Study .....	3
(1.9) Limitation of the Study .....	4

#### **INTRODUCTION OF BANKING SECTOR OF PAKISTAN..... 5**

(1.10) Banking Sector .....	5
(1.11) History and Background.....	8

### **(Chapter # 2) ..... 11**

#### **LITERATURE REVIEW and PREVIOUS STUDIES..... 11**

(2.1) Impact of Inflation On Profitability.....	11
(2.2) Impact of Imports & Exports: .....	13

### **(Chapter # 3) ..... 16**

## TABLE OF CONTENTS

### **The Preliminary Part**

TITLE PAGE.....	viii
2 <sup>nd</sup> HALF-SEMESTER PROGRESS REPORT & THESIS APPROVAL.....	viii
DECLARATION OF AUTHENTICATION.....	viii
LIST OF ABBREVIATIONS.....	viii
FIRST PAGE OF PLAGIARISM REPORT.....	viii
ACKNOWLEDGEMENT.....	viii
ABSTRACT.....	viii

### **(Chapter 1)..... 1**

#### **INTRODUCTION:..... 1**

(1.1) Background of the study: .....	1
(1.2) Problem Statement: .....	1
(1.3)Aims/Objectives of the Study.....	1
(1.4)Research Model:.....	2
(1.5) Research paper Questions .....	2
(1.6) Research Objectives: .....	3
(1.7) Significance of the Study .....	3
(1.8) Outline of the Study .....	3
(1.9) Limitation of the Study .....	4

#### **INTRODUCTION OF BANKING SECTOR OF PAKISTAN..... 5**

(1.10) Banking Sector .....	5
(1.11) History and Background.....	8

### **(Chapter # 2)..... 11**

#### **LITERATURE REVIEW and PREVIOUS STUDIES..... 11**

(2.1) Impact of Inflation On Profitability.....	11
(2.2) Impact of Imports & Exports: .....	13

### **(Chapter # 3)..... 16**

<b>Methodology</b> .....	<b>16</b>
(3.1) METHODOLOGY & DATA COLLECTION:.....	16
(3.1.1) Research Design:.....	16
(3.1.2) Sampling Method & Data collection:.....	16
(3.1.3) Research Equation:.....	17
(3.1.4) Variables: .....	17
(3.2)Hypothesis:.....	18
(3.3) Data Analysis Method.....	19
<b>(chapter # 4)</b> .....	<b>20</b>
<b>ANALYSIS</b> .....	<b>20</b>
(4.1)Analysis for Profitability.....	20
(4.2) Hypothesis acceptance .....	23
(4.3) Results .....	23
<b>(Chapter 5)</b> .....	<b>24</b>
<b>Critical DEBATE:</b> .....	<b>24</b>
<b>(chapter # 6 )</b> .....	<b>26</b>
<b>CONCLUSION &amp; Recommendations:</b> .....	<b>26</b>
(6.1) Conclusion:.....	26
(6.2) Recommendations: .....	27
(6.3) Future research:.....	27
<b>References:</b> .....	<b>28</b>