DETERMINANTS OF BANKS PROFITABILITY: EVIDENCE FROM BANKS OF PAKISTAN

Sajida Gul*[1], Dr. Faryal Raheem[2], Hina Gul[3], Taimoor Jan[4]

[1]Assistant Professor (Ph.D Scholar), Department of Management Science, Abasyn University Peshawar, KPK, Pakistan, [2]Assistant Professor, Department of Management Science, Abasyn University Peshawar, KPK, Pakistan, [3]Assistant Professor (Ph.D Scholar), Department of Management Science, Abasyn University Peshawar, KPK, Pakistan, [4]Officer (Treasury), State Bank of Pakistan Banking Services Corporation Peshawar, Pakistan

*[1]sajida.gul@abasyn.edu.pk, [2]faryal.raheem@abasyn.edu.pk, [3]hina.gul@abasyn.edu.pk, [4]taimoor.jan@sbp.org.pk

Article History: Received on 10th February, 2023, Revised on 7th March 2023, Published on 31th March 2023

Abstract

Banks as intermediaries' money resources besides the institutions like investment stock market and insurance markets are considered as the main pillars of financial markets. The banks contribute to economic growth of the country by making funds available for investors to borrow as well as financial deepening in the country. Commercial Banks profitability is important because the soundness of an industry is closely connected to soundness of the whole economy. Profitability of the banking sector is also central as the well-being of the industry is closely associated with the wellness of the whole economy in general. Thus, a proficient and productive banking sector is able and better placed to endure negative economic shocks the profitability of financial institution is affected by numerous factors. Hence the present research aim to investigate the determinateness that effect the profitability of commercial banks by selecting UBL & ABL commercial banks for the period of 2017-2021.The secondary data has been taken in order to find out the results of this study in which profitability has been taken as a dependent variable and capital adequacy, loan to deposit, bank size, GDP, inflation and interest rate taken as independent variables. The performance of the banks was measured through return on assets and the degree of association of internal and external factors with the profitability was determined through regression analysis. The results showed that there is a positive and significant effect of capital adequacy, bank size and loan to deposit on profitability and has a negative and significant effect of inflation, GDP and interest on profitability. The study recommended that managers of banks to develop effected policies to ensure they to reduce the level of nonperforming loans and that bank should effectively manage their operational expenses and costs to ensure that their banks are efficient and to maximize profits. The study also recommended that regulatory authorities like the central bank of Kenya should develop effective policies on capital adequacy, liquidity and credit risk management to ensure that banks are in a position where they can enhance their profitability.

Keywords: Profitability, Return on asset, Internal Factors, External factors, Banks

INTRODUCTION

Bank is a financial organization in which money is received from surplus unit and give to needy person. There are two types of bank commercial and investment (Akhtar, Ali & Sadaqat, 2011). A commercial bank is a business unit that deals in banking with a view to make profits (Akhtar, Ali &Sadaqat, 2011). Every commercial bank target is to make profits in such a way that it does not compromise on its objective of liquidity, which is vibrant for its own security and safety. Every commercial bank has to make profits in such a way that its liquidity remains integral; it divide its funds into various resources. All banks of Pakistan are regulated by government and Central bank State Bank of Pakistan (SBP). The bank make deposits and withdrawal and also perform other type of activities e.g. giving loan, leasing, traveler's cheque, locker facility, housing scheme etc. consumers use banks for savings, certificate of deposits and for home mortgage. Bank provides different account facility to their customer like saving accounts, current accounts, Profit N Loss account (PLS's) account etc. The banking industry is of the essence; to serve as a means, it is very important to the research. Economic growth is influenced by the performance of the banking sector. Secure in the environment, which is the responsibility of the institutions to be changed rapidly and increasing to the local developer is, that nations. Countries for making their monetary and fiscal policies valuable and successful in efficient and effective manner require managing the banking system for the best interest of its public (Akhtar, Ali & Sadaqat, 2011).Privatization of banks is done in 1992 to attract local banks to establish foreign investor in Pakistan. Firm is a mixture of public and private sector in Pakistan, proper, Islamic banks and foreign. At the end of year, 2011there were 38 listed banks which are divided in a group of 22 private banks, 5 public banks. The regulatory authority of the Stateis to adorn the banks of Pakistan from a free man (Gul, Irshad& Zaman, 2014).

The purpose of this research is to find out the factors which affecting banks profitability for the period of 2017-2021. In determining the profitability and liquidity of commercial bank various factors play an important role. These factors are taken into consideration while creating the asset portfolio of the banks (Gul, Irshad&Zaman, 2014).

There are different factors which affects Banks profitability. These factors may be internal, external or both. Internal factors deals with in the internal environment of banks while external are related with external environment (Ali, Akhtar and Ahmed 2011). There are internal causes and external ones that affect bank profitability. Internal factors are those that are under the control of bank supervision. External factors are those that are subject to conditions beyond management's control and a very hostile environment (Gul, Irshad & Zaman, 2014).

A robust banking industry ought to be able to withstand shocks and maintain the stability of the financial system. Many factors, both internal and external, have an impact on all financial organisations. which directly affect how well it performs (Husain and Bhatti, 2010).

This research aims to assess the factors which affect the profitability of banking sectors from the period 2017 to 2021. Profitability of banks can be affected by different variables that variables or factors maybe internal or external. The internal variables of banks include size of bank, deposit ratio, operational efficiency, and deposit over assets, loans. They are also called as microeconomics or bank specific variables. The external factors of banks are GDP, interest, inflation etc. they are also called as macroeconomics variables. In this study both the internal and external factors like inflation GDP, interest, capital adequacy, bank size, deposits are taken as independent determinants of banks that affect the profitability. ROA is used as dependent variable and as profitability measure. In this study we select two banks UBL & ABL among different Pakistani banks according to their profitability to check the effect of CA, LTD, BS, GDP, INF, and INT on ROA.

PROBLEM STATEMENT

Researchers have put a lot of effort into determining what factors affect commercial banks' profitability in the past. Some researchers have simply employed internal or bank characteristics in their research, while others have included internal and external (macroeconomic) aspects in their studies. According to Saira Javaid (2011), equity and deposits have a substantial impact on the profitability of commercial banks, although bank size or total assets have no bearing on that profitability.

In the literature review, factors affecting the profitability of commercial banks in Pakistan from 2013 to 2017 play a significant role. Previous research has been done on 10 commercial banks in Pakistan by Saira Javaid (2011), 15 commercial banks in Pakistan by Sehrish Gul, Faiza Irshad, and Khalid Zaman (2011), 11 commercial banks in Pakistan by Syeda Anum Bhukhari (2012), and 22 commercial banks in Pakistan by Khizar Ali (2011). The financial accounts of commercial banks are where the researcher got all of her data.

Hence, the current study intend to check the factors that affect bank's profitability, for this purpose two commercial banks UBL & ABL were selected in Pakistan from the period of 2017-2021. In which ROA has taken as a dependent variable and the bank specific variable and macro-economic variables have taken as an independent variables by reviewing literature of different authors to check the effect of determinants on bank's profitability. As we know that there are a lot of determinants that affect bank profitability but in this study only bank size, capital, loan to deposit, interest, GDP and inflation as an independent variables which is adopted by the conceptual farme work of (Gul,Irshad, & Zaman,2011).

OBJECTIVES OF THE STUDY

The main objectives of this study are as follow:

1. To identify internal and external factors affecting profitability of banks
2. To measure the factors effecting profitability of banks
3. To give suggestions for the improvement where necessary

RESEARCH QUESTIONS

1. How internal and external factors of banks affect their profitability?
2. How to measure the profitability?

LITERATURE REVIEW

Banks, credit unions, asset management companies, building societies, stock brokerages, and many more are examples of financial institutions. Financial institutions' role is to unintentionally disperse financial resources to potential users. Many organizations provide funding to the required person or industry .On the other hand, a number of institutions participate in the deficit and excess units as the dealer. Financial institutions also carry out the task of investing money on behalf of their clients (Horn, 1971).

Investments have many kinds each kind has its own level of risk and return. The more investment of your money gives you the higher risk of return. There for it is suitable to invest your money in diverse businesses to minimize your risk and get the desired results.

- Bank savings
- Term deposits
- Bonds
- Shares

Bank is a financial institution in which money is received in form of deposits and lends that money in form of loans. Financial organizations that take deposits are known as commercial banks, many authors of the books on economics and commerce defined banks in many ways. Due to multifarious functions of bank it is very difficult to define it properly in one term. Different kinds of bank performs in many ways according to their functions like Islamic banking, Modaraba Bank, commercial banks etc. According to Banking Ordinance (1962 Pakistan) bank is defined as Accepting the investment or deposits of money from public, and to repay them on demand and withdrawal by Cheque, draft (Horn, 1971).

Profitability is capability of a business to generate revenue. When a business pays all of its expenses then the remaining portion of money is called revenue of business. Profitability is the primary goal of all business entities. No business can continue to exist in the long run without profitability. So measuring past and present profitability and projecting future profitability is very important. Profitability is measured with an "Income statement. There are numerous theories, which explain the powers of privatization and few of the important ones are described below.

a) Rent Theory of Profit: in 1833 an American economist Walker defined The Rent Theory of Profit. In his book English economic theory he for the first time differentiates between a capitalist and an entrepreneur.

b) Dynamic Theory: Clark in 1865 advanced the dynamic theory which states that, in the stationary world where the variety of human tastes, size, composition of the population, desires of human, method of production, technological knowledge, profitable organization, etc. remain constant, there will be zero profit. Selling and cost prices are always equal there will be no risk, and no profit. In this dynamic world, some changes are frequently taking place. The smart entrepreneur is the one who foresees these changes. Somehow by invention he is a pioneer he lower down his cost of production to make profits.

c) Reward for Risk-bearing: Most of the people hesitate to invest because of the risk involved in the business The greater the risk, the higher must be the expected gain in order to induce them to start the business.According to The theory of profit "profit is the reward for risks and responsibilities" (Hawley's, 1983).

d) Innovations Theory: Schumpeter, an economist in 1934) defined the main function of the entrepreneur. The main function of entrepreneur is to make innovations. Successful innovations always give us profit. Schumpeter says that a capitalist function is to make innovations and to get profit as a return for performing this important function. The word 'innovation' has very broad meaning. Innovation can be defined as "Discovery of a new material or a new technique of production that results in low cost of production and improve the quality of the product" .when an entrepreneur initiate any new measure or new guidelines that is called innovation Profitability is very important for every bank and business. The main purpose of every business is to raise its earnings as much as possible, but there are some factors which affect the profitability of business either negatively or positively. These factors are internal factors and external factors (Schumpeter, 1934).

Banks performance can be measured by different factors these factors may be internal and external factors (Bikker, 2010).Internal factors include Return on Asset, Return on Equity, Capital, Deposits, and Loans. The external factors are Gross Domestic Product, Inflation, Bank Size and interest.

Dependent Variables

Return on Asset (ROA) of ABL & UBL Banks has been taken as a dependent variable.

Net income is divided by total assets to arrive at the ROA ratio. In the majority of research, ROA has been employed to gauge the profitability of banks. As a measure of how well bank management uses the bank's real investment resources to produce profits, ROA evaluates the profit made per dollar of assets.

Formula:

ROA = Net Income / Total Assets * 100

Independent Variables

Internal and external both factors have been taken in this study:

Internal factors

- Capital
- Bank size
- Loan to deposit

External factors

- Inflation
- GDP(Gross domestic product)
- Interest

Capital Adequacy

According to Aburime, bank equity capital can be thought of in two dimensions (2008). Total share holders' funds, also known as paid-up share capital, are the sum that a bank's owners contribute in exchange for the right to receive all future revenues. It also refers to the amount of owners' money that are available to support a bank's operations, including reserves. It is calculated using the equity capital to total assets ratio. Bank capital is usually considered as one of the elements impacting profitability because it demonstrates the strength of the bank's financial position (Athanasoglou, Brissimis and Delis, 2005).

Formula:

Capital Adequacy = Total Equity / Total Assets

Size: is used to convey the idea that larger banks are more likely than smaller banks to benefit from economies of scale in transactions, which obviously means that they will normally enjoy higher levels of profits.

Consequently, it is anticipated that size and profitability will have a positive relationship.

According to Molyneux and Thornton (1992), Bikker and Hu (2002) and Goddard et al. (2004) fi size has a positive relation with profitability. It can be expressed through:

Formula:

Size of bank = Natural logarithm of Total assets

The ratio of loans to deposits, which is the primary source of income, is anticipated to improve bank performance. With all else remaining constant, the interest margin and profits increase as more deposits are converted into loans. Profits could, however, drop if a bank needs to take on more risk to maintain a greater loan-to-asset ratio. Additionally, given that bank loans are the main source of income, we anticipate that non-interest bearing assets will have a negative influence on earnings (Shuremo, 2016).

Formula:

Loan to Deposit = Total Loan /Total Deposits

Inflation: The impact of inflation on the sources and users of banks' financial resources was a major topic of discussion in the literature, which contributed to the importance of inflation on bank performance. In particular, inflation has an impact on how prices are set by businesses. For instance, businesses may assume they can raise prices if they anticipate overall inflation to be higher in the future. This would prevent a decline in demand for their products (Shuremo, 2016)

Gross domestic product (GDP): One of the most popular macroeconomic statistics is GDP. The growth of the GDP per capita is projected to have a favorable impact on banks' performance, according to the well-established literature on the relationship between economic growth and the performance of the financial sector. A study revealed that bank earnings were significantly and favorably affected by economic advancement (Athanasoglou, 2005).

Banks are encouraged to lend more as a result of increased economic growth, which also enables them to charge larger margins and raise the quality of their assets. All studies concluded that there was a strong and positive association between bank profitability and economic growth.

GDP= C+I+G (EXPORT-IMPORT)

Interest:. The interest rate policy of a bank can be viewed from two angles: the policy of the bank regarding the interests it receives on credits it extends and the policy of the bank about the rates it pays on deposits it receives. A bank incurs costs from the interest it pays on its deposit liabilities, which has the effect of reducing its income. For this reason, Fries (2002) contends that a bank's interest on deposits is part of its profit function. The money a bank receives from interest on loans it issues, on the other hand, tends to increase the bank's revenues. Consequently, Bobakova (2003) contends that a bank's interest rate policy has an impact on its profitability.

This rule can be changed to increase profitability. Here, the bank's capacity to set an interest rate for asset deals that satisfies funding costs, operational costs, as well as the necessary rate of profitability, is crucial. According to the lend-long and borrow-short theory, the real interest rate is anticipated to be positively correlated with profitability (Vong and Chan, 2008). That indicates, banks may rise lending rates sooner by more percentage points, than their deposit rates. On the other side, a rise in real interest rates could result in borrowers taking on more real debt, which would reduce the quality of their assets and hurt profitability. Guru (2002) identifed the determinants of successful deposit banks in Malaysia. The results of this study showed that a high interest ratio among macro-indicators was correlated with a low bank profitability. Interest revenue and expenses have an impact on net interest income, which impacts bank profitability. In light of this, interest rates have been regarded as determining factors of bank profitability in the majority of banking-related studies.

Table 1: *Summary of Literature*

Years	*Determinants*	*Study Context*	*Reference*
1968-1969	Capital ratios, interest paid and received, salaries and wages	None	Haslem (1969)
1979	Inflation , Loans , Interest	None	Revell (1979)
1985	Loans, non-interest cost	None	Wall (1985)
1992	Capital & Bank Expenses	18European countries	Molyneux and Thornton in (1992)
1992	Inflation & Interest Rate	None	Perry (1992)
1992	Bank Size	USA	Sinkey (1992)
1994	Deposit, Loans, Capital	USA	Malawi (1994)
1996	Location of Bank , ROA	None	Zimmerman (1996)
1997	Bank Size	USA	Miller and Noulas (1997)
1997	Deposits & Bank Loans	USA	Guru et al. (2002)
1997	IT Capital, IT Labor Investment	None	Prasad and Harker (1997)
1997	Liquidity , ROA, Liquidity	None	Angbzo (1997)
1998	Inflation	None	Hoggarth (1998)
1999	Capital , Deposits	Tunisian bank	Huizingha (2004)
2000	Loans	None	Bashir &Nier (2000)
2001	trades of derivatives, credit, interest	None s	Gischer and Jüttner (2001)
2002	Capital , Deposits	None	Guru et. Al (2002)
2003	Loans	None	Bashir (2000)
2003	Loans	None	Staikouras and Wood (2004)
2003	Market Size , Bank Expenses, Inflation & Economic Growth	Hong Kong	Jiang *et al.* (2003)
2004	Bank Size	Europe	Goddard (2004)
2004	Efficiency of Banks	Pakistan	Ataullah (2004)
2004	Deposit ratio, gross advances, size of banks, gross income expenses, net interest margin, earning assets, branches networks and numbers of personnel's	None	Kapoor (2004)
2004	Bank Size	None	Bikker and Hu (2002)

2005	Interest & Bank Expenditure	None	Alkassim (2005)
2006	liquidity, total expenditures, funds, interest rates, market share and size	Pakistan	Haroon (2004)
2006	Capital , Market Size	None	Vong and chan(2006)
2006	Capital	None	Havrylchy k(2006)
2008	Bank Loan	None	Bennaceur (2008)
2008	Non- interest income,	Philippines	FadzlanSu fian (2010)
2008	Deposits	None	Baum, Caglayan, Schäfer, & Talavera (2008)
2010	ROA,ROE,Liquidity,Si ze and Loans	Japan	Lui, H., Wilson, J (2010)
2011	Debt to Equity Ratio	None	Allen, Shaik, Myles, &Yeboah (2011)
2011	ROA, ROE and Economic Growth,	Pakistan (private and public banks)	Khizarali
2012	Internal & External Factors of Bank	Pakistan	Bukhari (2012)
2012	Bank Equity, Cost to Income, ROE , GDP , Size	Gulf Cooperation Council (GCC) countries	Zeitun (2012)
2013	Cost, Bank Size, Liquidity, Macroeconomics variables	Pakistan	Abuzar (2013)
2013	ROA, ROE, Size , Cost	Sudan	Eljelly (2013)

Previous empirical results concluded that factors affecting profitability of banks concentrated in all over the world obtained from different results of various research findings which are based on time period data. ROA, ROE, capital, deposits, loans, bank size, and liquidity, inflation rate, are the main interdependent factors that affect the profitability of banking sectors

CONCEPTUAL FRAME WORK

The study's dependent and independent variables are depicted in the theoretical framework.

The right side of figure shows (ROA) of banks it used as dependent variable a profitability measure and right side shows the independent variables that are Capital adequacy, loan to deposit, inflation, interest, GDP, and bank size,.

INTERNAL FACTORS

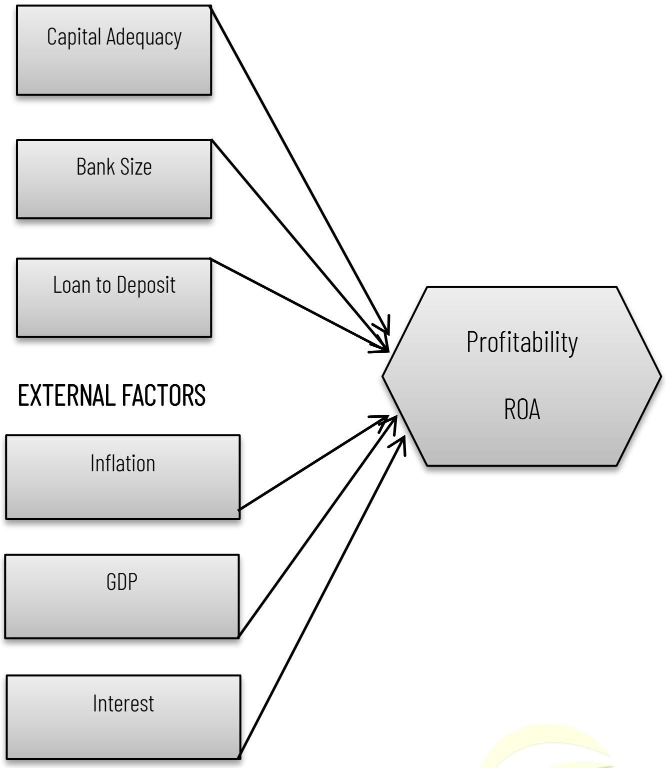

Figure 1: Conceptual Framework

HYPOTHESES

H_1: Capital adequacy has significant effect of on ROA
H_2: Bank size has significant effect on ROA
H_3: Loan to deposit has significant effect on ROA
H_4: Inflation has significant effect on ROA.
H_5: GDP has significant effect on ROA
H_6: Interest has significant effect on ROA

RESEARCH METHODOLOGY

Research methodology is a logical way to solve a problem. It is a science of studying how research is to be carried out. Essentially, the procedures by which researchers go about their work of describing, explaining and predicting phenomena are called research methodology. It is also defined as the study of methods by which knowledge is gained. Its aim is to give the work plan of research. Therefore, the main purpose of this research is to determine how internal and external factors can affect the profitability of two selected banks of Pakistan that are UBL and ABL. The data was based on quantitative in nature because the numerical data for this study is collected from ABL & UBL annual report for the period of 2017 to 2021.The type of data for this study is descriptive because all this study describes the characteristics of all independent and dependent variables. Data collected from secondary sources: Annual reports of ABL & UBL (2017 – 2021), State bank of Pakistan and World Bank. All commercial banks of Pakistan were taken as a population in which Allied Bank Limited (ABL) & United Bank Limited considered as a sample by applying purposive sampling technique from 2017 to 2021.

The multiple regression methods is used to check the impact of determinates on the banks profitability by applying regression model. Regression analysis shows about how much the dependent variable is explained by the independent variable. Profitability (ROA) is the dependent variable in this study, whereas internal factors (loan to deposit, bank size and capital adequacy) and external factors (interest, GDP and inflation) are the independent variables.

MODEL SPECIFICATION

$Yi\ (ROA) = \alpha + \beta 1\ (LTD)i + \beta 2\ (CA)i + \beta 3\ (BS)i + \beta 4\ (INF)\ I, + \beta 5\ (GDP)\ i + \beta 6\ (INT) + \varepsilon i$

Where:

ROA: Return on Assets
GDP: Gross Domestic Product
BS: Bank Size
INF: Inflation
INT: Interest
LTD: Loan – to – Deposit
CA: capital adequacy
: Intercept
: Regression coefficient

RESULTS OF THE STUDY

Table 2 shows descriptive statistics of all variables. The results showed that Return on Asset (ROA) has a minimum value of 32 and maximum value of 127 with a mean value of 97.5 and its standard deviation is 34.568. The minimum value of loan to deposits is 0.5, maximum value of 0.1 and mean value of 0.0800 with a standard deviation of 0.01414. Bank size (BS) and Capital adequacy (CA) have a minimum value 7.70 and 0.09 having maximum value of 9.00 and 0.09 while their mean values are 8.1000 and 0.49 having a standard deviation of .43461 and 0.40618 Similarly Interest (INT) and inflation variables have minimum value of 0.70 and 0.80 and maximum value of 0.90 and 1.14. Its mean values are 0.8400 and 0.9680 while their standard deviations are 0.08433 and 0.13702. Finally the minimum value of Gross domestic product (GDP) is 2.20 has a maximum value of 2.60. The result of its mean value is 2.4000 and standard deviation is 0.14907.

Table 2: *Descriptive Statistics*

	N	*Min*	*Max*	*Mean*	*SD*
ROA	10	32.00	127	97.50	34.568
LTD	10	.05	.10	.08	.01414
BS	10	7.70	9	8.1	.43461
CA	10	.09	.90	.49	. 40618
INT	10	.70	.90	.84	.08433
INF	10	.80	1.14	.968	.13702
GDP	10	2.20	2.60	2.4	.14907

The results of regression are shown below in the table 3. The results shows that ROA has a positive and significant relationship with LTD, bank size and CA having T statistics of .514, .718 and .882 while their P-values are 0.000 which is significant to 0.05 level. Conversely, the ROA has a negative and significant relationship with interest, inflation and GDP have a regression coefficient of -5.181, -5.187 and -6.682 having a P-value of 0.000, 0.014 and 0.007 which is less than 0.05 level of significance ($p<0.05$).

The value of R-square is 0.985 which shows that 98% variation in the dependent variable is due to profitability (ROA), whereas the 2% changes are due to other factors not considered in the model.

The value of F statistics is 32.631 having a P-value of 0.000 (p-value< 0.05) which means that the overall model is significant.

Table 3: *Results of variables used in the regression model*

Variables	*Beta*	*T test*	*Sig.*
LTD	.084	.514	0.000
BS	.075	.718	0.000
CA	.080	.882	0.000
INT	-.705	-5.181	0.000
INF	-.834	-5.187	0.014
GDP	-1.188	-6.682	0.007

R-Square= .985 (98.5%)

F-statistics= 32.631 (P-value= 0.000)

DISCUSSION AND CONCLUSION

The purpose of this research is to examine and analyze those factors, which affects the profitability of commercial banks by selecting top two banks of Pakistan UBL & ABL, according to their profitability. The study investigated that the macro and micro economic factors like Bank size, Capital adequacy; deposits Interest Rate, Inflation and Gross Domestic Product (GDP) have significant effect on the bank performance. The research findings are in opposing with the results of the past researchers (Ali, Akhtar and Ahmed in 2011, Safari in 2012 Demirguc-Kunt and Huizinga 2014 2012 reported in their study that operating efficiency, capital adequacy, asset management and GDP have significant effect on the profitability of banks they influence the profitability of commercial banks .The researcher choose a number of European countries from1986 to1989 while focusing on bank profitability factors whereas Safari (2012) used pooling data regression model. Another researcher Ani, in 2012 used pools ordinary least square method to examine the coefficient and the determinants of profitability of commercial banks in Nigeria, for the period of 2001 to 2010 focusing on 147 banks. It is concluded that bank size doesn't have any impact on banks profitability and concluded that CAR causes increment in the profitability of banks.

Finally the results found that BS (bank size), CA (Capital Adequacy) , LTD (Loan to Deposit), INF(Inflation) , INT (Interest) & GDP (Gross Domestic Product) have significant effect on bank profitability but with co-efficient results the LTD,BS & CS have positive insignificant effect on ROA that accepted the null hypothesis (H0)and rejected alternate hypothesis (H1). Hence like that inflation, interest and GDP have negative relation and significant effect on ROA so the alternate hypothesis (H1) is accepted while the null hypothesis is rejected (H0).

CONCLUSION

Recently, the financial and credit system of the market has demanded that banks perform better in order to increase profits. Profit is a crucial factor in determining how well banks are performing financially. This study examines how macroeconomic indicators and bank-specific traits affect the profitability of Pakistani banks over the course of (2017-2021). To achieve this, two banks were chosen. Firm-specific or controllable internal characteristics include size, loan-to-deposit ratio, and capital adequacy, whereas country-specific external determinants include GDP, inflation, and interest rates. In Pakistan, specific bank characteristics (internal and external factors) are thought to influence bank profitability. It is assumed that banks with greater capital, equity, total assets, loans, deposits, and external factors like economic growth, inflation, gross domestic product, and interest rates will be safer, which will ultimately lead to greater profitability. Regression analysis has been used to determine the study's result by applying the multiple regression method. The results showed that the hypothesis 1, 2 & 3 internal factors have significant and positive effect of loan to deposit (LTD), BS and CA on bank's profitability. Whereas, hypothesis 4& 6 states that external factors of the banks have significant impact on the profitability but interest has insignificant effect on bank's profitability. The result of this study shows that all hypotheses are accepted, and they have a significant impact on profitability of the Bank's in Pakistan, except interest rate.

LIMITATIONS, FUTURE DIRECTION AND IMPLICATIONS OF THE STUDY

The present study considered UBL & ABL bank of Pakistan in commercial banks from 2017 to 2021 by incorporating internal factors e.g. bank size, capital adequacy and loan to deposit and also selected external factors e.g inflation, interest and GDP to check the effect of bank's profitability. The future researchers can take other banks to get valuable results by considering recent years and take other factors (internal and external).

REFERENCES

Akhtar, M. F., Ali, K., &Sadaqat, S. (2011). Factor Influencing the Profitability of Conventional Banks of Pakistan.International Research Journal of Finance and Economics, (66), 117-124.

Angbazo, L. (1997). Commercial bank net interest margins, default risk, interest-rate risk, and off-balance sheet banking. Journal of Banking & Finance, 21(1), 55-87.

Abreu, M., & Mendes, V. (2001, May). Commercial bank interest margins and profitability: evidence for some EU countries. In Pan-European Conference Jointly Organised by the IEFS-UK & University of Macedonia Economic & Social Sciences, Thessaloniki, Greece, May (pp. 17-20).

Almumani, M. A. (2013). Impact of managerial factors on commercial bank profitability: Empirical evidence from Jordan. International Journal of Academic Research in Accounting, Finance and Management Sciences, 3(3),298-310.

Ataullah, A., T. Cockerill and H. Le (2004). Financial Liberalization and Bank Efficiency: A Comparative Analysis of India and Pakistan', Applied Economics, 36: 1915-24

Alam Choudhury, M., &SyafriHarahap, S. (2008). Interrelationship between Zakat, Islamic bank and the economy: A theoretical exploration. Managerial Finance, 34(9), 610-617.

Anbar, A., &Alper, D. (2011). Bank specific and macroeconomic determinants of commercial bank profitability: empirical evidence from Turkey. Business and Economics Research Journal, 2(2), 139-152.

Alkassim, F. A. (2005). The profitability of Islamic and conventional banking in the GCC countries: A comparative study: Dubai.

Abuzar M.A. (2013). Internal and external determinants of profitability of Islamic banks in Sudan: evidence from panel data, Afro-Asian J. of Finance and Accounting, 2013 Vol.3, No.3, pp.222 – 240

Allen, A. J., Shaik, S., Myles, A. E., &Yeboah, O. A. (2011). Determinants of Profitability Performance: An Analysis of Class I Railroads in the United States

Alexiou, C., & Sofoklis, V. (2009). Determinants of Bank Profitability: Evidence from the Greek Banking Sector. Economic Annals, LIV No. 182, 93-118.

Aburime, U. (2008). Determinants of Bank Profitability: Company-Level Evidence from Nigeria.

Ani, W. U., Ugwunta, D. O., Ezeudu, I. J.1 &Ugwuanyi, G. O. (2012). An empirical assessment of the determinants of bank profitability in Nigeria: Bank characteristics panel evidence, Journal of Accounting and Taxation Vol. 4(3), pp. 38-43.

Hassan, M. K., & Bashir, A. H. M. (2003, December). Determinants of Islamic banking profitability. In 10th ERF annual conference, Morocco (pp. 16-18).

Bikker, J. A., & Hu, H. (2012). Cyclical patterns in profits, provisioning and lending of banks and procyclicality of the new Basel capital requirements. PSL Quarterly Review, 55(221).

Bashir A. (2000). Assessing the Performance of Islamic Banks: Some Evidence from the Middle East, Paper presented at the ERF 8th meeting in Jordan.

Bukhari, S. A. J., &Qudous, R. A. (2012). Internal and external determinants of profitability of banks evidence from pakistan. Interdisciplinary journal of contemporary research in business, 3(9), 1037.

Baum, C. F., Caglayan, M., Schäfer, D., & Talavera, O. (2008). Political patronage in Ukrainian banking. Economics of Transition, 16(3), 537-557.

Berger, A. N. (1995). The relationship between capital and earnings. Journal of Money, Credit and Banking, 404-431.

Ben Naceur, S., & Goaied, M. (2008). The determinants of commercial bank interest margin and profitability: evidence from Tunisia.

Bobáková, V. (2003). Raising the Profitability of Commercial Banks

Bintawim, s. s. s. (2011). Performance analysis of Islamic banking some evidence from SaudiArabian banking sector.

Chirwa, E. W. (2003). Determinants of commercial banks' profitability in Malawi: a cointegration approach. Applied Financial Economics, 13(8), 565-571.

Demirgüç-Kunt, A., & Huizinga, H. (1999). Determinants of commercial bank interest margins and profitability: some international evidence. The World Bank Economic Review, 13(2), 379-408.

Eljelly, Abuzar MA. "Internal and external determinants of profitability of Islamic banks in Sudan: evidence from panel data." Afro-Asian Journal of Finance and Accounting 3.3 (2013): 222-240.

Goddard, J., Molyneux, P., & Wilson, J. O. (2004). The profitability of European banks: a cross-sectional and dynamic panel analysis. The Manchester School, 72(3), 363-381.

Guru, B. K., Staunton, J., &Balashanmugam, B. (2002).Determinants of commercial bank profitability in Malaysia. Journal of Money, Credit, and Banking, 17, 69-82.

Gischer, H., & Jüttner, D. J. (2001). Profitability and competition in banking markets: An aggregative cross country approach. Univ., FEMM.

Haslem, J. A. (1969). A statistical estimation of commercial bank profitability. The Journal of Business, 42(1), 22-35.

Hoggarth, G., A Milne and G. Wood 1998. Financial innovation and financial stability: Some lessons from Germany and the UK Financial Stability Review, Bank of England.

Huizinga, H. (2004). The taxation of banking in an integrating Europe. International Tax and Public Finance, 11(4), 551-568

Haron, S. (2004).Determinants of Islamic Bank Profitibility.Gloabal Journal of Finance and Economics, 1 (1), 1-22

Havrylchyk, Olena and Emilia Jurzyk (2006). Profitability of foreign banks in Central and

Eastern Europe: Does the entry mode matter?Bank of Finland,

Javaid, S (2011).Determinants of bank profitability in Pakistan: Internal factor analysis

Jiang, G., Tang, N., Law, E., &Sze, A. (2003a). Determinants of bank profitability in Hong Kong. HKMA Research Memorandums", HKMA Research Memorandums

Kapoor, G. P. (2004). Commercial BankingAP.H. Publishing Corporation, New Delhi

Kosmidou, K. (2008). The determinants of banks'profits in Greece during the period of EU

financial integration. Managerial Finance, 34 (3), 146-159.

Miller, S. M., &Noulas, A. G. (1997) Portfolio mix and large-bank profitability in the USA.Applied Economics, 29(4), 505-512.

Molyneux, P., & Thornton, J. (1992). Determinants of European bank profitability: A note. Journal of banking & Finance, 16(6), 1173-1178.

Madishetti, S., &Rwechungura, K. A. (2013). Determinants of Bank Profitability in a Developing Economy: Empirical Evidence from Tanzania. Asian Journal of Research in Banking and Finance, 3(11), 46-65.

Mamatzakis, E., Remoundos, P., 2003. Determinants of Greek Commercial Banks Profitability, 1989-2000. Spoudai 53 (1), 84-94

Naceur, S. B., &Goaied, M. (2001). The determinants of the Tunisian deposit banks' performance. Applied Financial Economics, 11(3), 317-319

Perry, P., 1992. Do banks gain or loss from inflation? Journal of Retail Banking, 14(2): 3

Prasad, B., and Harker, P. (1997), examining the contribution of information technology toward productivity and profitability in U.S. retail banking. The Wharton School, University of Pennsylvania, Financial Institutions Center 97-09.

P.P Athanasouglau, S.N Brissimis, and M.T Delis, "Bank-Specific, IndustrySpecific and Macroeconomic Determinants of Bank Profitability", Working Paper, Bank of Greece, (25) (2005), 1-37.

Revell, J. (1979). Inflation and financial institutions. (The Financial Times Ltd., London) R. Zeitun, "Determinants of Islamic and Conventional Banks Performance In GCC Countries Using Panel Data Analysis", Global Economy and Finance Journal, 5(1) (2012), 53 – 72.

Smith, R., Staikouras, C., & Wood, G. (2003). Non-interest income and total income stability.

Sinkey, J. Jr., Commercial Bank Financial Management in the Financial Services Industry, MacMillan Publishing Company, New York, 1992

Sufian, F.,(2010).Financial Depression and the profitability of the banking sector of the Republic of Korea: Panel Evidence on bank specific and macroeconomic determinants. Asia-Pacific Development Journal, 17, 65-92

Shuremo. A. G., (2016), Determinants of banks' profitability: evidence from banking industry in Ethiopia:

International Journal of Economics, Commerce and Management,2016 Vol 2

Gul, S., Irshad, F., & Zaman, K. (2011) Factors affecting bank profitability in Pakistan. *The Romanian Economic Journal,* 39 (14), 61-89

Ramadan, A.Q Kilani and T.A Kaddumi, Determinants of Bank Profitability: Evidence from Jordan. *International Journal of Academic Research*, 3(4) (2011), 180-19

Wall, L.D. (1985). Why are some banks more profitable than others? *Journal of Bank Research,* 15 (4): 240-256