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IMPACT OF INTERNAL FACTORS ON THE COMMERCIAL BANKS PERFORMANCE: AN EVIDENCE FROM LISTED BANKS IN PAKISTAN

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ABSTRACT:

This study investigates the impact of internal factors on commercial bank's performance listed on Pakistan Stock Exchange. Sample size of nine Pakistani commercial banks listed on Pakistan Stock Exchange i.e. National Bank of Pakistan (NBP), Habib Bank Limited (HBL), Muslim Commercial Bank (MCB), Allied Bank Limited (ABL), United Bank Limited (UBL), Meezan Bank Limited (MBL), Bank Alfalah Limited (BAL), The Bank of Punjab (BoP), Bank Al Habib Limited (BaHL) are selected. This sample represent more than 80% of total population of commercial banks listed on Pakistan Stock Exchange. Non-Performing Loan through NPL ratio, Deposit/Borrowing, Advances/Investments are taken as internal factors. Panel data of five years from 2013 to 2018 for internal factors is collected. Data for internal factors is selected from annual reports of these nine commercial banks. Balanced Panel data is used for empirical study. Panel least square regression method is used to estimate the impact of internal factors i.e. Advances/Investments, Deposit/Borrowing, NPL, GDP rate on bank performance which is measured through return on assets, return on equity and earning per share. The regression

equations are analyzed by checking fixed and random effect which is inhibited by applying the Haussmann test, Random effect is used in this study. By employing a panel data regression model with the random effect technique, empirical result of the study were obtained. The empirical results of the study indicates that Advances/Investment, Depositshas positive impact on bank performance while Borrowing, NPL has negative impact bank performance. This Research is helpful both for stakeholders of banks and students of Finance to further peruse this research in other industries as well.

INTRODUCTION:

Banking industry is the life blood of today's the trade and business. Banks provide them the main source of liquidity and loans. Globalization has changed the concept in which efficiency is more the most important for banks which are financial institutions and also for non-financial institutions. Banks majorly depend on how they are competitive in their marketing policy which defines their achievement and development.Banks are playing a vital role in the uplifting economy. Banks are the source of funds required to meet the financing needs of individuals and businessmen. Banks are also the custodian of surplus funds of individuals and businessmen. Banks have made easy to perform financing transaction i.e Funds Transfer, Bills Collections, Payments, etc.

Pakistani Banks have achieved marvelous progress in the last ten to fifteen years and have extended their operation from major cities to small cities and increased their asset and liabilities base. The researchers of the impact of internal found Saudi Arabia which has a major growing banking sector in the world and economic markets. Major banks that are working in acompetitive are may be extra competent in the nearby future in the area. The banks in Saudi Arabia are enjoying steady development and steadiness during the past decades. The results of stress tests conducted in recent times also demonstrated that banks in Saudia are well-equipped and sound to survive any tremor or recession.

Considering the contribution of banks in the economic development of a country and take the example of Kosovo which is a country that has an economy that is not developed. It concluded, this study would check the effect of internal-factors on the profit of the bank. Internal factors are those factors that affect the profit of a bank and can be controlled by the administration a bank. An example of internal-factorsis Return on Asset which checks how many assets are returning in terms of profit during a period. This study also covers a comparison of data from 2010 to 2014.

The study aimed to find out the impact of the internalon banks' performance in Pakistan. In previous studies, specific factors that influence the bank's performance and profitability have been identified, analyzed, and discussed. In the present research, internal factors that influence commercial bank's performance in Pakistan were analyzed. The banking sector plays an important role in the economy of the state. It is the back bone of the economy. The Financial and economic resources of the state are allocated through banks. Furthermore, the banking industry acts as the heart of the economy of a country through which money is injected into the financial market. Thus, continuous performance evaluation of the banks is needed to measure the profitability of the banking sector. The existing literature on the banks' performance considers CAMEL (capital adequacy, Asset quality, Management, Earnings, Liquidity) model a useful tool for evaluating the performance and profitability of the banks and examining the soundness of banks. In this research, the Performance of banks were evaluated by examined their effects on bank performance. Performance parameters were ROE, ROA, and EPS.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT:

Banks are important units of the economy of the state as they play a vital role in emerging, encouraging, and maintaining the development in financial and economic segments. They relocate the resources and funds from surplus to the deficit. Thus, performance is greatly desirable for the bank industry as well as any other enterprise that is why it is significant to discern the main factors that affect the bank performance. Banks speed-up the development process of the economy of a country through the services they perform. Therefore, banks need to flourish too to provide facilitation to the investors and vice versa. It is because prosperity will stimulate them not to leave the market by maintaining economic equilibrium and healthy competition. As described by Gutu (2015) it is highly significant to identify the factors that affect the performance of the bank because banks are the most significant financial arbitrators that play an important role in bridging investments and savings in many countries of the world.

In a study, Koivu (2002) found the efficacy of the banking industry speed up economic growth and development in the transition economies like Pakistan. Drakos (2002) also examined the relationships between economic development and the financial sector in 21 transition economies. The study showed that profitability in the banking sector can accelerate the economy while imperfect competition can lower the economic progression and deepen the business cycles.

Levine et al. (2000) and Beck et al. (2000) assessed the role of financial expansion in motivating economic development. The study found that greater banking industry development implies greater economic development and entire factor productivity development.

According to the study of Leahy et al. (2001), which was conducted on Organization for economic cooperation and development (OECD) countries, the data showed that financial institutions development and the stock market has a very robust relation in economic development and financial expansion. In a study on five developed economies, Arestis et al. (2001) applied a time series model to show that both the stock market development and banking sector could denote subsequent economic development. As examined by Spiegel (2001) the correlation of fiscal growth and financial development indicators showed that financial development indicators (FDIs) are associated with complete productivity growth and physical and human capital accretion.

In the view of Lipunga (2014) profitability or performance of banks is vital because the reliability of an enterprise is closely linked with the reliability of the economy of the state as a whole. The financial power of the bank industry is un-debatably linked to its performance and profitability. So, it is needed for the bank's leadership and management to gain profits and returns on a constant basis as this will ensure banks' profitability and existence. According to Adeusi, Kolapo& Aluko (2014) achieving the goal of profitability is most important for a bank as the performance and profitability and performance of the banking sector is central as the prosperity of an enterprise is closely associated with the soundness of the total economy f a country in general, as claimed by Alkhazaleh & Almsafir (2014).

INTERNAL FACTORS:

The factors affecting banks' performance and profitability are generally classified into internal (managerial) factors and external (environmental) factors or determinants. The existing literature is mostly based on the researches that are conducted in specific countries. Some of the instances of Panel countries are also illustrated. These studies were discussed to review the determinants of

bank performance and profitability. Generally, these research works propose that the factors or determinants of bank performance and profitability can be categorized into two broad categories,

In Pakistan, SBP (State Bank of Pakistan) controls the banking industry and supervises activities of local, foreign, public, and private banks that operate in Pakistan. State Bank of Pakistan has promulgated the CAMEL (capital adequacy, Asset quality, Management, Earnings, Liquidity) model as a policy structure and entails banks to report various phases of their operational and financial position. State Bank of Pakistan uses tenets of these indicators in making decisions and policy framework for the banking industry of Pakistan. In various studies i.e.Bodla and Verma (2006), Gupta (2008), Ishaq et al. (2016), and Sibal, Ongore, and Kusa (2013) applied the CAMEL framework to evaluate the performance of banks in Bahrain, India, Pakistan, and Venezuela. CAMEL indicators are;

CAR (CAPITAL ADEQUACY RATIO)

As explained by Bodla and Verma (2006) CAR (capital-adequacy-ratio) is connected to the capital side and the liability of the balance sheet of the bank. It is derived by dispensing the total investments of banks with entire assets of banks. The resulted ratio is helpful for the analysts in analyzing the level up-to which banks can engross a certain level of indemnities before going to bankrupt. Banks need to ensure a fixed-level of CAR (capital-adequacy-ratio). This least CAR level aids as a shield to creditors and customers of the banks. It is a sign of the efficiency and stability of an economic or financial system of banks. The higher the CAR level the better it would indicate the stability of banks.

In a study on CAR Aktas, et al. (2015) recommended that CAR averts banks from going bankrupt which increases depositors' and customers' confidence level. They emphasize further that least Basle-Capital-Accord required that central or state banks should make it obligatory for banks to certify the at-least minimum level of CAR. The minimum capital-adequacy-ratios requirement for tier-1 capital is 4 percent and more whereas for tier-2 capital it is 8 percent or more.

ASSET QUALITY:

A study was conducted by Ongore and Kusa (2013) on asset quality, in which they emphasized that the banks should assess the asset-quality (advances, currency, and investments level) as it designates the credit-risk of banks. An efficient administration of asset-quality helps the banking sector in directing and observing credit risks, which paves way for the higher credit ratings of banks.

Ahamed (2017) advocated that the total asset-quality of any bank is associated with the valuation of money level and the risks associated with the resources of banks i.e. investments and advances. The quality of assets held in reserve by the banks is the main concern for the policy-makers in decision making. An assessment of the asset quality of banks recommendsthesize and level of credit risk confronted by the banks concerning the levels of processes and procedures.

Akhtar (2016) and Ahmad (2017) emphasized that an assessment of asset-quality is associated with the assessment of the suitability of grants for loans or advances and lease the losses. Different kinds of risks are disburse by banks, which impact the value of the bank's assets or the assets of any other organization. These risks include reputation, market, operating, strategic and compliance risks but these are not limited to them only. Bodla and Verma (2006) also conducted

a study on asset quality and opined that asset-quality can be measured by allotting NPL (non-performing-loans) with total borrowing and advances of the banks.

MANAGEMENT EFFICIENCY:

On Management Efficiency, Gupta and Sibal (2008) piloted a study the findings of the study revealed that management efficacy is the degree to which banks produce revenues infraction to the total-assets of a bank. It is an uninterrupted parameter of administration or capacity of the directors. Management efficiency can be calculated by dividing the total earnings by the total assets of the banks. It is a fast and easy way of assessing banks' capacity to spend the assets of the banks for producing incomes.

If banks apply the strict policy of price-control then it would be capable of producing a higher level of efficacy ratio. Though, there are likelihoods that revenues in the analogous period are not higher. Due to the difference in the practices of banks' management, a comparative analysis of the bank's performance with identical situations is more evocative. Generally, from the perspective of efficacy ratio, in using organizational assets management's higher efficiency is required, the higher the return-on-assets, the higher will be total performance and profitability of the bank.

EARNING QUALITY:

Discussing the factors othe CAMEL model, Ongore and Kusa (2013) featured 'earning quality' which is another element of the CAMEL model. They advocated that earnings quality validates the competence of banks. The level of earning quality is an element that is obtained by banks regularly as it can increase and sustain the future earnings of a bank. It can be measured by dividing the total income of banks and any other organization bytheoverall equity of a bank or other organization.

Kapan and Minoiu (2016) recommended that the earning quality of a bank is a measure to test the performance and profitability of the bank, growth level, and sustainability of a bank's future earning capacity. Banks brand all possible efforts to ensure protected and secure retributions so that they may invest and finance their actions for their sustainability. It is the most important measure of the performance and profitability of a bank. It also helps banks and other organizations in achieving their ultimate goals and disburse revenues to the bank and profits to the investors of the banks.

Gupta and Sibal (2008) proposed that earning quality helps banks in better performing financial activities like disbursing dividends, making diversification,ensuring a suitable level of capital, and sustaining a competitive position in the marketplace.

Liquidity:

Suresh and Bardastani (2016) elucidated another element of CAMEL that is liquidity. They submitted that it is a degree to which banks can transform their assets into currency. The level of liquidity will be higher if the level of liquid resources of a bank will be higher. It is related to the short-term capacity of banks in reimbursing their obligations. Banks' liquidity is measured by apportioning its currency and other liquid assets with current liabilities and short-term borrowings.

Suresh and Bardastani (2016) further elaborated the element and advised that the risk of liquidity of banks are concerned with banks' ability to accomplish challenges or come across the surprising funds that depositors can claim at any time. A solvent, strong, and liquid bank leads to total affluence for the banking industry as well as for the stockholders of the banks. If the banks are not able to fulfill make shift liquidity they may face a predicament and can also damage the overall appearance of the banks. Hence, banks always try to ensure that they maintain a suitable liquidity position in the market.

Lukorito, Muturi & Nyangau (2014) suggested that liquidity should be more evaluated and its effects should more be studied. Yet Ongore & Kusa, (2013) had reverse discoveries, the findings of their study inferred that liquidity has an insignificant influence on the financial performance of the banks. Liquidity deals with the banks' capability to tailor short-term expenditures as well as present liabilities. The empirical literature suggested if it is found to be higher it means the banks have a chance cost to use its excessive funds for savings. Income-diversification was an internal determinant that was not employed or captured by Ongore & Kusa (2013). The findings of their study suggested that banks can use surplus funds to finance and consequently should not depend.

According to the previous literature we developed the following hypothesis,

H1: Advances have a significant impact on Bank Performance.

H2: Investment has significant has a significant impact on Bank Performance.

H3: Deposit has a significant impact on Bank Performance.

H4: Borrowing has a significant impact on Bank Performance.

RESEARCH METHODOLOGY:

Research Design:

CAMEL (capital adequacy, Asset quality, Management, Earnings, Liquidity) model a useful tool for evaluating the performance and profitability of the banks and examining the soundness of banks. This model is being used by Regulators. Regulators have engorged bank administration by utilizing the CAMEL model to assess and evaluate the performance of the banks and the financial wellness of the bank's activities. The Model CAMEL was first developed in 1979 and is recommended by UFIRS, the US Federal Reserve, and the Uniform Financial Institutions Rating System. State Bank of Pakistan is also using the CAMEL Model to assess and evaluate the performance of the banks operating in Pakistan.

Data collection and sample:

Commercial Banks Listed on Pakistan Stock Exchange is the population of this study. There are 34 commercial banks which include 9 public sector banks operating in Pakistan as per State Bank of Pakistan data for the year 2018. Out of 32 commercial banks, 20 commercial banks are listed at Pakistan Stock Exchange. (Florida University. 1991) There are several approaches to determining the sample size. These include using a census for smallpopulations, imitating a sample size of similar studies, using published tables, and applying formulas to calculate a sample size. The sample size is 9 major commercial banks date including five big banks are used for this research. These sample size represent more than 80% of the population (total

commercial banks of Pakistan listed at Pakistan Stock Exchange). Name of these banks are as follows:

1. National Bank of Pakistan Limited.
2. MCB Bank Limited
3. Habib Bank Limited
4. UBL Bank Limited
5. Allied Bank Limited
6. Meezan Bank Limited
7. Bank Alfalah Limited
8. Bank Al Habib Limited
9. The Bank of Punjab

Data of internal factors is extracted from the Annual Reports of the banks. Annual Reports from the year 2013 to the year 2018 of all these nine banks are available on their website. Frequency of data is annual.

Measurement of the Independent variables.

Table 3.3

Measurement of the independent variables

variable	Measurement	Source
Advances	Measured by the taking loans amount as proxy	Annual reports of respected Banks
Investment	Investment by firmtaken from the balance sheet.	Annual reports of respected Banks
Deposit	Deposit is the amount of money which customers of the banks deposited in the bank	Annual reports of respected Banks
Borrowing	Loans from the other institutions	Annual reports of respected Banks
ROA	Measured by Return of asset	Annual reports of respected Banks
ROE	Measured by Return on equity	Annual reports of respected Banks
EPS	Measured by Earning per share	Annual reports of respected Banks

3.4 CONCEPTUAL FRAMEWORK.

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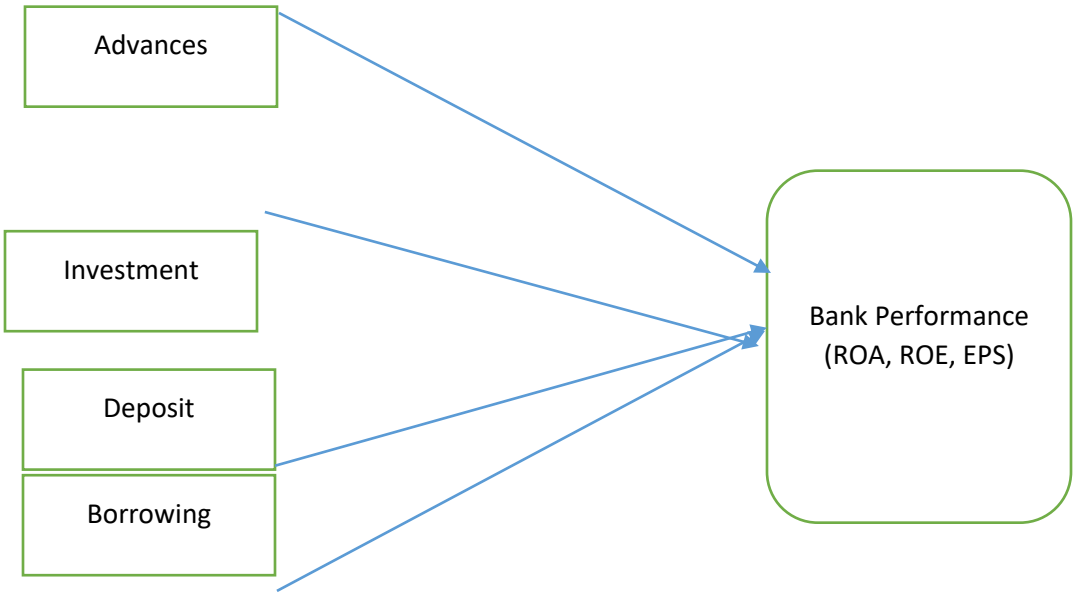

3.5 MODEL SPECIFICATION:

$\mathbf{Y} = \beta o + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ \mathbf{X3} + \beta 4\mathbf{X4} + \varepsilon$

Y = Bank Performance = EPS, ROE, ROA

X1 = Advances

X2 = Investment

X3 = Deposit

X4 = Borrowing

3.6 Equipment and Software.

Quantitative data against each variable is extracted from annual reports of the bank and is recorded in tabular format using Microsoft Excel. Analysis of data is executed on EViews software.

4.0 ANALYSIS AND THE FINDINGS

4.1 Description of the samples

Table No 4.1
DESCRIPTIVE STATISTICS

	ADV	INV	DPT	BRN	PR	ROE	ROA

Mean	38.13	43.92	78.61	9.83	6.88	18.13	1.25
Median	37.44	46.66	75.40	9.59	6.92	19.18	1.10
Maximum	54.43	57.21	168.86	25.22	9.92	29.96	2.78
Minimum	26.99	13.14	42.91	1.28	3.70	(12.37)	(0.51)
Std. Dev.	6.83	10.87	16.96	5.73	1.95	6.44	0.62
Skewness	0.89	0.89	1.00	1.50	0.29	0.37	0.37
Kurtosis	3.58	2.92	3.04	4.58	1.93	3.73	3.73

ADV = Advances, INV = Investment, DPT = Deposit, BRN = Borrowing

The mean of dependent variables are as follows. Mean of Advances is of 38.13, Investment is of 43.92, NPL is of 8.30, Deposit is of 78.61, Borrowing is of 9.83, Policy Rate is of 6.88, GDP is of 4.53, Inflation is of 5.24, The mean of dependent variables are as follows. Mean of ROE is of 18.13, ROA is of 1.25, EPS is of 10.41.

4.2 Normality:

A very important part of any research is Normality assumptions because normally distributed data is always free from errors. However, in research that consists of more than 100 quantitative observations, the parametric test is used (Ghasemi, 2012). According to(Prabhaker Mishra, Chandra M Pandey, Uttam Singh, Anshul Gupta ChinmoySahu, and Amit Keshri, 2019), Skewness and kurtosis are the tests to check the data normality.

Table 4.2

Normality Test

Variable	Skewness	Kurtosis
ROA	0.37	3.73
ROE	0.52	2.03
ADV	0.89	3.58
ADV	0.89	3.58
INVST	0.73	2.92
DPT	1.00	2.77
BR	0.80	3.04

In the light of the table data taken in the empirical research is showing the normality in the light of skewness and kurtosis test. Observing the results of the skewness all the variables are near to the normality as values are lying between 0 to +/- 0.5, but the values of variables are lying between the +/- 0.5 to +/- 1, showing moderate skewness. So, the data in the empirical test is moderately skewed showing the impact of normality.

In the light of test of kurtosis data taken in the empirical research is showing the normality as the kurtosis values for all variables are showing Meso kurtic effect which means that the data is approximately symmetric, in contrast only the kurtic value of ROA is >3 showing the leptokurtic notion but the data is fatter at tailed hence values of ROA are also near to normal.

Corelation Matrix:

Table 4.3

Corelation between the explanatory variables

	ADV	INV	DPT	BRN	PR
ADV	1				
INV	0.01124	1			
DPT	0.05119	0.05123	1		
BRN	0.05333	0.05027	0.05198	1	

In description of the results of Table 4.3 that is correlation matrix for the check of the multi collinearity in the variables. In the light of the matrix that there is no multi collinearity in the variables used in the empirical research.

4.3 Model 1 (Return On Assets)

Table 4.4

Result of model 1 where, return on assest uses as dependent variable

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	2.3021	0.8973	2.5656	0.0137
ADV	0.0034	0.0014	2.4515	0.0154
INV	0.0018	0.0008	2.2814	0.0274
DPT	0.0012	0.0007	1.6796	0.0501
BRN	(0.0025)	0.0012	(2.1005)	0.0362

Table 4.5

Correlated Random Effects - **Hausman** Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000	8	1.000

The value of the Coefficient of constant is 2.31 and its p-value is 0.0137 which is less than 0.05. It showssome other variablesthatare significant and explaining Return on assets.The value of R squared and Adjusted R Squared is near to 1 so this Model is perfect. The value of Durbin Watson Stat is near 2, P-value of F-statistics is less than 5%, so the model is good and its result should be accepted. P-value of Advances is 0.0154 which is less than 0.05 (in percentage less than 5%). It shows that this variable is significant and explaining the dependent variable Return on Assets. So we accept the Hypothesis that Advance has a significant impact on bank performance. A p-value of Investment is 0.0274 which is less than 0.05 (in percentage less than 5%). It shows that this variable is significant and explaining the dependent variable Return on Assets. So we accept the Hypothesis that Investment has a significant impact on bank performance.A p-value of Deposit is 0.0501 which is near to 5%. It shows that this variable is significant and explaining the dependent variable Return on Assets. So we accept the Hypothesis that Deposit has a significant impact on bank performance.TheP-value of Borrowing is 0.0362 which is less than 0.05 (in percentage less than 5%). It shows that this variable is significant and explaining the dependent variable Return on Assets. So we accept the Hypothesis that Borrowing has a significant impact on bank performance. But its value is negative which shows when borrowing will increase then return on an asset will decrease. P-value is exactly one therefore random effect test is being applied to this model.

4.4 Model No. 2 (Return on Equity)

Table 4.6

Result of the model 2 where, ROE uses a dependent variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	27.5068	13.6783	2.0110	0.0533
ADV	0.0687	0.0205	3.3479	0.0184
INV	0.0262	0.0106	2.4662	0.0503
DPT	0.0286	0.0107	2.6593	0.0413
BRN	(0.0497)	0.0168	(2.9513)	0.0310

Table 4.7

Correlated Random Effects - **Hausman** Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000	8	1.000

The value of the Coefficient of constant is 27.5068 and its p-value is 0. 0533 which is approximately near to 5%. It showssome other variablesthatare significant and explaining Return on Equity.The value of R squared and Adjusted R Squared is near to 1 so this Model is perfect.The value of Durbin Watson Stat is near 2, P-value of F-statistics is less than 5%, so the model is good and its result should be accepted. P-value of Advances is 0.0184 which less than 0.05 (in percentage less than 5%). It shows that this variable is significant and explaining the dependent variable Return on Equity. So we accept the Hypothesis that Advance has a significant impact on bank performance. P-value of Investment is 0. 0.0503 which is approximately near to 5%. It shows that this variable is significant and explaining the dependent variable Return on Equity. So we accept the Hypothesis that Investment has a significant impact on bank performance.P-value of Deposit is 0.0413 which shows that this variable is significant and explaining the dependent variable Return on Equity. So we accept the Hypothesis that Deposit has a significant impact on bank performance.TheP-value of Borrowing is 0.0310 which is less than 0.05 (in percentage less than 5%). It shows that this variable is significant and explaining the dependent variable Return on Assets. So we accept the Hypothesis that Borrowing has a significant impact on bank performance. But its value is negative which shows when borrowing will increase then return on an asset will decrease. P-value is exactly one therefore random effect test is being applied to this model.

MODEL NO. 3 (EARNING PER SHARE)

Table 4.8

Result of model 3 EPS taken as dependent variable

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	12.0521	8.1738	1.4745	0.0503
ADV	(0.0309)	0.0125	(2.4675)	0.0249
INV	0.0121	0.0074	1.6243	0.0489
DPT	0.0137	0.0065	2.1173	0.0278
BRN	(0.0305)	0.0110	(2.7693)	0.0236

Table 4.9

Correlated Random Effects - **Hausman** Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000	8	1.000

The value of the Coefficient of constant is 12.0521 and its p-value is 0.0503 which is approximately near to 5%. It showssome other variablesthatare significant and explaining Earning Per Share.The value of R squared and Adjusted R Squared is near to 1 so this Model is perfect. The value of Durbin Watson Stat is near 2, P-value of F-statistics is less than 5%, so the model is good and its result should be accepted.P-value of Advances is 0.0249 which is less than 0.05 (in percentage less than 5%). It shows that this variable is significant and explaining the dependent variable Earning Per Share. So we accept the Hypothesis that Advance has a significant impact on bank performance.TheP-value of Investment is 0.0489 which is less than 0.05 (in percentage less than 5%). It shows that this variable is significant and explaining the dependent variable Earning Per Share. So we accept the Hypothesis that Investment has a significant impact on bank performance.P-value of Deposit is 0.0278 which shows that this variable is significant and explaining the dependent variable Earning Per Share. So we accept the Hypothesis that Deposit has a significant impact on bank performance.TheP-value of Borrowing is 0.0236 which is less than 0.05 (in percentage less than 5%). It shows that this variable is significant and explaining the dependent variable Earning Per Share. So we accept the Hypothesis that Borrowing has a significant impact on bank performance. But its value is negative which shows when borrowing will increase then return on an asset will decrease.P-value is exactly one therefore random effect test is being applied to this model.

DISCUSSION:

(Juliana Bonomi Santos, Luiz Artur Ledur Brito, 2012) According to them the banks's performance is determined through number of factors but the internal factors which are having impact on the bank's performance are the profitability indicators. Profitability indicator is actually the measure of the bank' subjective performance which is very important and the profitability is measured by ROA, ROE and EPS. These three indicators are used in the empirical research so that firm's performance can be indicated. In the view point of regression analysis, the independent variables (ADV, INVST, DPT, BR,) are defining the RAO, ROE and EPS with significance and has impact on these indicators.After reviewing the empirical results, which were obtained after applying the random effect test of panel data. There are eight independent variables which include five internal i.e. Advances(Loans), Investment, Deposit, Borrowing,theState Bank of Pakistan Policy Rate. Panel date of all these eight variables is summarized for six years from 2013 to 2018 & for Bank Performance, three dependent variables are selected i.e. Return on Assets, Return on Equity, and Earning Per Share. Empirical results are obtained from three models using a random effect test which is executed on E-Views. In the first model, return on assets is taken as a dependent variable, in the 2nd model Return on Equity is taken as dependent variables. In the last model Earning per Share is taken dependent variables. Empirical Results of all three models show Advances is a significant variable because its p-value is less than 5% in all three models and its coefficient is positive. So we accept the hypothesis that

Advances haveasignificant impact on bank performance.Empirical Results of all three models show Investment is a significant variable because its p-value is less than 5% in all three models and its coefficient is positive. So we accept the hypothesis that Investment has a significant impact on bank performance. Empirical Results of all three models show deposit is a significant variable because its p-value is less than or equal to 5% in all three models and its coefficient is positive. So we accept the hypothesis that Deposit has a significant impact on bank performance.Empirical Results of all three models show borrowing is a significant variable because its p-value is less than or equal to 5% in all three models and but its coefficient is negative. So we accept the hypothesis that Borrowing has a significant impact on bank performance.So we accept the hypothesis that Deposit has a significant impact on bank performance.After conducting research on impact of internal on commercial banks of Pakistan listed on Pakistan Stock Exchange. We would like to make the following recommendations. Banks Should enhance volume of Advances (loans) are source of the income for banks and liquidity for individual or business who need. So Bank should enhance the volume of loans with a good spread/pricing over these loans. Bank should enhance the volume of Investment, investment in T bills, Bonds backed by government are secure so banks should maintain balance between investment and Advances. Because if banks make more investment in government securities than less amount will be available for loan disbursement to private sector and resultantly it will badly effect the economy of a country. Banks should avoid borrowing from other banks and preferably generate liquidity by raising their own deposit.

RECOMMENDATIONS/SUGGESTIONS:

Mostly for the analysis of the bank performance Panel least square regression method is used to estimate the impact of internal factors i.e. Advances/Investments, Deposit/Borrowing, NPL, GDP rate on bank performance which is measured through return on assets, return on equity and earning per share. In our analysis regression equations are analyzed by checking fixed and random effect which is inhibited by applying the Haussmann test, Random effect is used in this study. By employing a panel data regression model with the random effect technique, empirical result of the study were obtained. According to them the banks's performance is determined through number of factors but the internal factors which are having impact on the bank's performance are the profitability indicators. Profitability indicator is actually the measure of the bank' subjective performance which is very important and the profitability is measured by ROA, ROE and EPS. These three indicators are used in the empirical research so that firm's performance can be indicated. In the view point of regression analysis, the independent variables (ADV, INVST, DPT, BR,) are defining the RAO, ROE and EPS with significance and has impact on these indicators.

This study is helpful for the regulatory authority of the government for maintaining the code of the corporate governance and also helpful for the management of the bank to improve their performance. This study is also helpful for the financial users and the students to study its concepts for better understanding the organization espacilly the financial sector in Pakistan.

Some research should be conducted for analaysing the external factors that effect the banks performance by using different methodologies and also comparison of different aprroch should be the part of the next research. By kepting some points in mind of the internal factors like social pressure , exchange rate risk and other risk an idea of the banks performance should be enhance with the future research topic.

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