

ABSTRACT

This thesis addresses the under-discussed domain of capital buffer from the perspective of Pakistani banking industry. The behavior of capital which is over and above the minimum requirements, particularly, the factors which affect capital buffer (over and above the minimum requirements) is the main concern. Balanced panel data has been used for 25 Pakistani Islamic and commercial banks. The data starts from the year 2006 to 2012. There was no minimum capital requirement from State Bank of Pakistan prior to 2006 against the risk weighted assets. This is why the starting year is 2006. Applying the Generalized Method of Moments (GMM) as estimation technique, which is more appropriate and flexible than traditional panel estimation techniques, the results are similar to those found in the previous literature. Results show that Pakistani banks are forward-looking i.e. they are building up their capital in economic upturns as suggested by Basel accord and they are not sensitive to their risk level. The very reason for banks to be not risk sensitive might be the gradual increase in Capital adequacy ratio (CAR) by State Bank of Pakistan. Recommendations are made on the basis of empirical findings