IMPACT OF CREDIT & LIQUIDITY RISK ON BANK PROFITABILITY IN PAKISTAN

BY

MUHAMMAD SHOAIB
45781

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Candidate's Name: Mohammad Shoaib Registration No.: 45781

Thesis Title:

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HoD's Signature: Sameenah Riyazz Date: ______________

Abstract

Purpose: The purpose of this study is to assess the Impact of Credit Risk and Liquidity Risk on Firm Profitability along with control variables.

Methodology & Design: Quantitative research design has been used in this research. The sample size is made up of the top 12 banks operating in Pakistan with substantial market shares. The data for this study is collected during a twenty-year period, from 2001 to 2020.

Findings: The independent variable, the cost to time ratio, have a negative impact on the profitability of the firm, but the remaining others have an overall positive impact on the profitability of the firm. As the credit risk taken by the firm will provide them with cash in hand which will help in controlling the operational activity, the liquidity risk means that the marketability of the investment will be a huge source of income if the firm will use it rationally.

Limitations: The limitation of this research is that the data taken of the bank is of 20 years only and there are some previous records that were not able to extract as the banks might have had initial losses which might have affected the values. Another limitation of this research is that there are only 10 banks that are taken for the observation with different ages like Habib Bank Limited and Faysal Bank which have an age difference of almost 50 years. So these differences might have affected the data as the old banks have better stability as compared to new banks.

Recommendations: It is important for the banks that they should revamp their assets and deposits so that they can easily achieve the efficiencies of the balance sheet. There is also a way to increase the profitability if the bank will merge with any other small bank or take the step of acquisition of the smaller banks so that they can increase their operational activities which will definitely increase the profitability of the bank. The most important thing for any business entity is that either it is growing or not, therefore, the motive of the banks should be looking towards their growth which will increase the chances of more profitability.

Keywords: *credit risk, liquidity risk, profitability, return on assets, return on equity*

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