

# **DETERMINANTS OF LIQUIDITY RISK IN BANKING SECTOR OF PAKISTAN: A CASE OF ISLAMIC AND HYBRID BANKS**

**BY**

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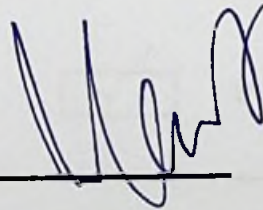
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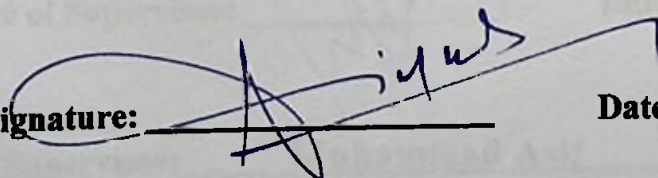
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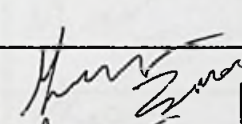
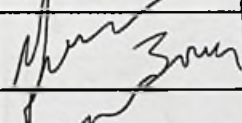
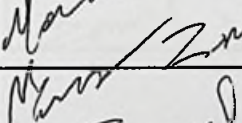
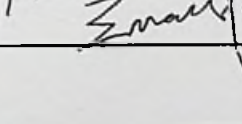
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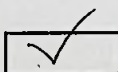
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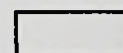
### Supervisor Student Meeting Record

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2	13-March-2023	Q-320	Introduction	
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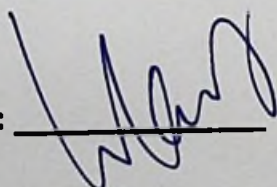
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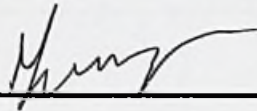
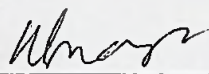
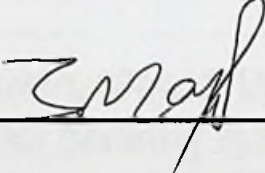
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I, hereby, declare that no portion of the work referred to in this project has been submitted in support of any application for another degree or qualification of this university or any other institution of learning.

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## TABLE OF CONTENT

<b>1-</b>	<b>CHAPTER 1: INTRODUCTION</b> .....	<b>1</b>
1.1	INTRODUCTION .....	1
1.1.1	<i>Bigger the Banks Bigger the Risks</i> .....	1
1.1.2	<i>Global Perspective</i> .....	1
1.1.3	<i>Islamic Banking and Risks</i> .....	2
1.2	BACKGROUND.....	4
1.3	PROBLEM STATEMENT .....	5
1.4	RESEARCH QUESTIONS.....	5
1.5	RESEARCH OBJECTIVES.....	5
1.6	SIGNIFICANCE OF THE STUDY .....	5
1.7	SCOPE OF THE STUDY .....	6
<b>2-</b>	<b>CHAPTER 2: LITERATURE REVIEW</b> .....	<b>7</b>
2.1	THEORETICAL BACKGROUND .....	7
2.1.1	<i>Sources of Liquidity</i> .....	7
2.2	EMPIRICAL LITERATURE .....	8
2.3	HYPOTHESIS DEVELOPMENT.....	10
2.3.1	<i>Dependent Variable</i> .....	10
2.3.2	<i>Independent Variables</i> .....	11
2.4	FRAMEWORK.....	16
2.4.1	<i>Hypothesis</i> .....	16
2.4.2	<i>Model</i> .....	16
<b>3-</b>	<b>CHAPTER 3: METHODOLOGY</b> .....	<b>17</b>
3.1	DESIGN AND APPROACH.....	17
3.2	POPULATION AND SAMPLE .....	17
3.3	VARIABLES .....	18
3.4	DATA ANALYSES METHOD .....	19
<b>4-</b>	<b>CHAPTER 4: FINDINGS AND ANALYSIS</b> .....	<b>20</b>
4.1	MULTIPLE REGRESSION ANALYSIS.....	20
4.2	AUTO CORRELATION IN THE MODEL: .....	25
4.3	CORRELATION MATRIX .....	25
<b>5-</b>	<b>CHAPTER 5: DISCUSSION OF THE RESULTS</b> .....	<b>27</b>
<b>6-</b>	<b>CHAPTER 6: CONCLUSION AND LIMITATIONS</b> .....	<b>30</b>
6.1	LIMITATIONS.....	30
6.2	RECOMMENDATIONS .....	31
<b>7-</b>	<b>REFERENCES</b> .....	<b>32</b>

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## ABSTRACT

This research paper focuses on studying the factors impacting liquidity risk in context of Islamic and Hybrid banks, a crucial component of bank stability. Due to limitations on interest-based transactions and a lack of investment possibilities, Islamic banks that operate in accordance with Sharia principles confront particular difficulties when it comes to managing liquidity. In order to better understand the determinants of liquidity risk, the study tries to pinpoint the bank-specific elements that affect it. This study fills a research gap in the context of Pakistan and contributes to the body of knowledge on liquidity risk in Islamic banking. The study improves awareness of the difficulties faced by Islamic banks by identifying the factors that determine liquidity risk and comparing them between Islamic and hybrid banks. Objectives of our study is to find the impact of Return on Assets, Capital Adequacy Ratio, Size and Cash Ratio on the liquidity risk which is measured as deposits to total assets ratio. To study this 5 Islamic Banks and 5 Hybrid Banks were selected with sample from years 2007-2022. Method used were Fixed Effects Model and Random Effects Model. Results showed that Capital Adequacy Ratio and Bank Size play a significant role in explaining Liquidity Risk for Islamic Banks, while for Hybrid Banks CAR and Cash were significant. It can be implied from our results, that Islamic Banks should focus on Holding Vast Assets and keeping Higher Adequate Capital to efficiently hedge Liquidity risk exposure. While Hybrid Banks should also manage adequate Capital, they should further balance the amount of Cash held, since Cash is not a profitable asset, it can increase the risk of facing liquidity, it would be more beneficial to banks to utilize such assets by investing in profitable investments and opportunities. It also provides helpful advice on how to deal with liquidity risk and maintain financial stability. For the banking industry and the economy as a whole to develop sustainably, Islamic financial institutions' risk management frameworks must be strengthened.

**Key Words:** Return on Assets, Capital Adequacy Ratio, Bank size and Cash