

“THE DIFFERENCE OF LIQUIDITY RISK BETWEEN CONVENTIONAL BANKS AND ISLAMIC BANKS”

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A Project submitted to Department of Management Studies, Bahria Business School, Bahria University – Karachi Campus, in partial fulfillment of the requirement for BS A&F Degree



BS (ACCOUNTING & FINANCE)

FALL-2024

Bahria University Karachi Campus

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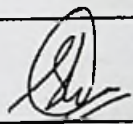
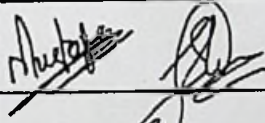
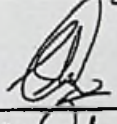

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ANNEXURE III: 1st Half Semester Progress Report

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Supervisor Student Meeting Record

No.	Date	Place of Meeting	Topic Discussed	Signature of Student
1	12 th Sept '24	Supervisor's cubical	Topic finalization & Introduction	
2	18 th Sept 24	"	Review of Introduction & changes regarding it	
3	3 rd Oct 24	"	Review of LR review & discussion about CF	
4	24 Oct 24	"	Discussion about Methodology and variables	

Progress Satisfactory

Progress Unsatisfactory

Remarks: Satisfactory

Signature of Supervisor: 

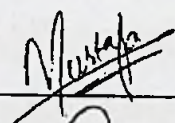
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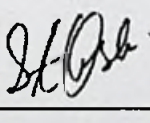
Note: Students must attach 1st & 2nd half progress report at the end of FYP spiral copies.

Declaration of Authentication

I, hereby, declare that no portion of the work referred to in this project has been submitted in support of any application of another degrees or qualification of this university or any other institution of learning.

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ACKNOWLEDGEMENT

Firstly, we are thankful to Allah, who is the holder of our breaths, without his orders nothing is possible, by His Grace and Support we completed this Project. We would like to express our gratitude to all the faculty and relevant staff of Accounts & Finance Department – Bahria University Karachi Campus. We would like to show our deepest gratitude to **Ma'am Javeria Nadeem** our Project Supervisor, Bahria University Karachi Campus for giving us helpful guidelines for this Project through numerous suggestions, Guidance and encouragement all the times during our Project Writing. We cannot Completed this project without her consistent advice. Without the immense help and support from her, we would not have managed it like we have. We would like to thank our project Coordinator **Dr. Fazeelat Masood** for assisting us in the right direction and for also keeping us updated with our project related queries.

At the end, we would like to thank to all the staff members of BUKC for their honest help, support, guidance and fellowship. We thank you for the memories and for always encouraging us to do the best.. And lastly, we would like to thank our parents who helped and supported us during these hard times and motivated us a lot in finalizing this project within the limited time frame. We are thankful to all those who have directly and indirectly provided us with guidance in completing this project.

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Abstract:

Liquidity risk is a critical concern for both conventional and Islamic banks, but the nature and management of this risk differ significantly between the two banking systems due to their distinct operational principles. Conventional banks primarily operate on a fractional reserve basis and are highly dependent on interest-based financial products, which can make liquidity management more vulnerable to market fluctuations and interest rate changes. They typically utilize a variety of instruments such as interbank borrowing, central bank facilities, and short-term securities to manage liquidity risk. However, during periods of financial instability or interest rate volatility, conventional banks may experience challenges in maintaining sufficient liquidity.

In contrast, Islamic banks operate under the principles of Shariah law, which prohibits interest (*riba*) and mandates that financial transactions must be backed by real assets or services. This prohibition restricts Islamic banks' ability to use traditional interest-bearing financial instruments for liquidity management. Instead, Islamic banks rely on Shariah-compliant instruments such as profit-sharing contracts (e.g., *Mudarabah*, *Musharakah*) and asset-backed securities (e.g., *Sukuk*) to maintain liquidity. While these instruments align with the ethical principles of Islamic finance, they may also limit the bank's ability to respond quickly to sudden liquidity shortfalls. Additionally, Islamic banks face unique liquidity risks due to the lack of a well-established market for Shariah-compliant liquidity instruments.

The difference in liquidity risk between conventional and Islamic banks also stems from the regulatory and market environments in which they operate. Conventional banks are typically subject to global liquidity requirements such as the Basel III framework, whereas Islamic banks may face additional challenges in creating and implementing a robust liquidity management framework that adheres to both regulatory standards and Islamic finance principles.

While both banking systems are exposed to liquidity risk, Islamic banks encounter unique challenges due to their asset-backed nature and the restrictions imposed by Shariah law, making their liquidity management strategies distinct from those of conventional banks.