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LIQUIDITY RISK MANAGEMENT IN THE PERSPECTIVE OF ASSET QUALITY, LOAN QUALITY & GOVERNANCE: A CASE STUDY OF PAKISTAN BANKING INDUSTRY

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Abstract
The research investigates how banks manage liquidity risk through their loan quality assessment and asset quality evaluation, which they regulate using board member characteristics. The research employed panel data from 2011 to 2023 to examine variable relationships through fixed effects and random effects regression models. The results show that nonperforming loans create adverse effects on banks' liquidity risk management abilities because their loan quality decreases, which harms their liquidity management capabilities. The relationship between asset quality and liquidity risk management shows a positive correlation because banking institutions with better asset structures achieve superior financial stability and more effective liquidity management systems. The research outcomes show that board governance characteristics interact with financial risk indicators to create effects that determine the results of liquidity risk management. The study demonstrates that governance mechanisms function as vital elements that determine banks' credit risk management strategies and their approaches to handling liquidity challenges. Board members who exercise proper oversight will enhance monitoring systems, which will promote responsible financial choices that protect institutional resilience. The research findings demonstrate that banks must develop stronger governance structures while they need to implement effective credit risk management methods. The financial system will achieve greater stability through better board supervision, which will lead to improved loan portfolio monitoring and safer lending practices. Banking institutions need these measures to build their resilience, along with maintaining their operational capacity during economic downturns.
Keywords: *Liquidity Risk Management, Loan Quality, Asset Quality, Governance*

INTRODUCTION

The banks operate their financial services by handling cash movement operations and loan issuance capabilities, together with their complete range of banking operations. The main goal of the organization is to create financial gain for its owners, which serves as its basic operational purpose. Banks make their profits from charging borrowers higher interest rates on loans and credit products than they provide to account holders who deposit money with the bank (Khan, 2018; Marc & Ali, 2023; Yolifiandri et al., 2024; Khalid et al., 2025). The economic environment of Pakistan presents banks with multiple risk challenges because of its persistent economic decline that occurs during periods of structural obstacles and financial instability (Ismail & Saeed, 2019; Marc et al., 2022; Quader, 2024; Ali et al., 2025). Liquidity represents a bank's ability to transform its assets into cash while fulfilling all its scheduled and emergency cash needs and collateral obligations without producing costly financial losses (Audi et al., 2021; Marc & Al Masri, 2024; Ali et al., 2025; Aziz et al., 2025). The process of liquidity risk happens when a bank loses its ability to meet its payment responsibilities at its scheduled times (Iqbal & Abbas, 2024; Audi, 2024; Siddique et al., 2025). The emergence of liquidity risk occurs because rising interest rates increase funding expenses while affecting how customers decide to use their money. The main role of banks functions as financial intermediaries that help connect businesses and people to borrow money and lend their funds (Wadud, 2022; Marc & Yu, 2024; Kumar et al., 2025). The risk level increases during monetary contraction periods because banks need to decrease their lending activities as their financial conditions become more restrictive (Marc, 2016; Kabir & Rashid, 2019; Shahid et al., 2025; Shahi et al., 2025). The economy experiences a drop in investment, which leads to a decrease in total economic output (Igan et al., 2013; Marc et al., 2021; Raza & Khan, 2023; Arshad et al., 2025). The ability of banks to maintain stability depends on loan quality, which measures the percentage of loans that meet their underwriting standards and operational guidelines (Hasan & Sadat, 2023; Kanwal et al., 2025). The process of assessing loan quality

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uses total loan data that banks reveal in their quarterly and annual financial reports (Alagarsamy and Ganapathy, 2017; Omri, 2022; Ammar et al., 2025).

Bank loan quality evaluation depends on macroeconomic elements, which include inflation and lending rate changes. Loan quality declines when inflation rises and lending rates increase, which results in more nonperforming loans (Wali, 2018; Batool et al., 2025; Iqbal & Hayat, 2025). Banks incur extra indirect expenses to monitor and recover nonperforming loans while also creating provisions for potential loan losses (Hussain, 2018; Khalid & Noor, 2019; Singh et al., 2024; Khan et al., 2025; Bozic & Bozic, 2025; Nasir et al., 2025). Banks face decreased asset quality and limited investment profit opportunities, according to research conducted by Alam et al. (2015). Through asset quality assessment, banks determine their ability to generate profits and maintain financial stability. Financial markets depend on this element because it enables banking operations and the entire financial system to operate smoothly. Banks use asset quality assessment to manage their institutional assets, which helps them identify the credit risk level resulting from their banking operations. Banks use this concept to evaluate their balance sheet assets, which include loans and all other financial assets (Cheruiyot 2016; Shahbaz, 2018; Mitra, 2022; Hun et al., 2024; Zahid et al., 2025; Holton & Holton, 2025; Ashraf et al., 2025). Banks can protect their financial stability by using asset quality monitoring to find credit risk threats.

Governance describes the established framework of rules, which includes procedures and organizational practices that banks use to achieve greater profitability and operational stability. Banking sector reforms have focused on four major areas, which include recapitalization efforts, nonperforming loan reduction, regulatory framework enhancement, and corporate governance practice establishment (Nam, 2006; Rafique et al., 2025). Governance systems, according to the research, develop banks' capacity to handle liquidity risk while enhancing their asset and loan quality. The size of the board, the structure of executive leadership roles, the distribution of ownership, and the representation of different genders among board members constitute essential governance metrics (Athar et al. 2023; Sulehri & Ali, 2024; Umair et al., 2025). The board of directors performs its duties by monitoring bank operational results while controlling top executives and making strategic choices for their banking organizations. Through independent director roles, companies can achieve better performance outcomes and protect their asset quality because directors ensure compliance with regulations while their business decisions match shareholder needs (Liang et al., 2013; Naeem et al., 2025). The study results demonstrate that banks with independent board structures achieve better financial results and governance standards, which shows that independent director positions hold essential value for the banking industry (Muniandy and Hillier, 2015; Ali et al., 2025).

LITERATURE REVIEW

The study conducted by Hacini et al. (2021) evaluated how banking institutions manage their liquidity risk, which affects their financial performance. The research examined the financial performance of traditional banks in Saudi Arabia from 2002 to 2019. The research findings revealed that banks' financial performance depends significantly on their liquidity management methods. Ahamed (2021) studied the internal bank factors and the external environmental factors that determine the liquidity risk levels in the commercial banks of Bangladesh. The research examined twenty-three banks over the period from 2005 to 2018 and concluded that banking institutions must carefully evaluate the factors influencing liquidity conditions to prevent future liquidity crises. Amira et al. (2023) conducted a research study to investigate how commercial banks handle their liquidity risk management operations. The researchers assessed thirty-two commercial banks in Kenya through their panel data, which included time series and cross-sectional data from 2010 to 2019. The research findings demonstrated that liquidity risk management resulted in financial losses for the business, which were shown through their return on assets and their return on equity. The authors recommended that commercial banks maintain liquidity risk indicators at lower levels in order to sustain stable financial performance based on these results. Harb et al. (2023) investigated how liquidity risk affected the banking operations of the Middle East and North Africa region. The study utilized panel data from 51 commercial banks that were publicly traded from 2010 to 2018. The research found that organizations that implement combined risk management procedures experience different outcomes for their accounting-based performance metrics compared to their market-based performance metrics. Mikou et al. (2024) studied Islamic banking institutions to evaluate their liquidity risk situation while identifying various obstacles that these institutions encounter. The study established that effective liquidity management strategies can decrease Shariah compliance risks, which Shariah principles require. The research

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study created analytic tools that researchers and practitioners, regulators, and stakeholders can use to enhance their Islamic banking liquidity management knowledge base.

Tahir et al. (2020) investigated how corporate governance affects bank lending outcomes, yet their study found evidence of only limited empirical research on this topic. The study investigated whether governance mechanisms have an impact on bank loan quality. The results showed that governance attributes, which exist with moderate block holder ownership, low debt levels, restricted board meeting attendance, and high audit committee membership from affiliated members, lead to better loan quality for banks. The study by Ertan et al. (2017) demonstrated how bank transparency relates to their securitization practices, which help enhance their loan quality. The study explained that banks engaging in securitization often operate under standardized financial structures. The research demonstrated that securitized loans achieve higher quality outcomes because they experience fewer defaults and less default activity.

Bharath et al. (2011) studied how loan contract conditions may change when borrowers repeat financing requests from the same lender. The study showed that when people borrow money repeatedly, this behavior leads to changes in the terms of their future loans. The results maintained their stability across various research methods while researchers managed to control for possible lending relationship endogeneity issues. The study found that companies with multiple external funding sources and continuous partnerships with established banks achieved better loan terms. Asset quality stands as a vital aspect of bank management because it requires assessment of institutional assets to identify credit risks linked to banking operations.

Faizah and Burhany (2020) studied the banking industry and discovered that asset quality and capital strength have developed positively throughout the years. The company experienced business growth, but this expansion failed to boost its profitability. The research discovered that some factors affecting profitability cannot be accurately assessed through direct measurement. Conventional banks and Islamic banks use asset quality and capital as main operational elements, which help them manage credit risk and enhance their financial results. The study examined 115 banks through purposive sampling methods, which resulted in 30 selected banks that included 29 conventional banks and 10 Islamic banks. The study discovered that both conventional banks and Islamic banks experienced credit risk increases due to deteriorating asset quality. The study found that both asset quality and capital showed positive and statistically significant relationships with profitability in conventional banks, while the connection remained weaker in Islamic banks.

Sumantri et al. (2021) studied the effects of asset quality, capital structure, and liquidity on bank profits. The study used annual financial reports covering the period from 2011 to 2020 and applied multiple regression analysis. The study found that the capital adequacy ratio did not impact profitability, but nonperforming loans and loan to deposit ratio hurt profitability. Anggraeni and Berniz (2022) investigated how asset quality indicators affect business performance. Ranawaka et al. (2023) analyzed the role of corporate governance in maintaining financial system stability. The study examined Sri Lanka's banking sector, which consists of listed commercial banks and listed specialized banks. The research provided an overview of the historical development of corporate governance practices in Sri Lanka and examined the regulatory framework governing banks. The study established that corporate governance functions as an essential element that enhances both banking sector stability and its governance framework. Donnir and Tornyeva (2024) studied how corporate sustainability works as a mediator between corporate governance and bank performance. The study used purposive sampling to gather primary data through structured questionnaires from senior management personnel who represented twenty-three banks. The research showed that corporate governance positively impacts bank performance, yet this relationship lacks statistical significance. The research established that corporate sustainability functions as a mediator between corporate governance and bank performance because it strengthens the impact of sustainability practices on governance mechanisms, which in turn improves banking performance.

METHODOLOGY AND DATA SOURCE

The study uses a quantitative explanatory research design, which applies panel data analysis to study how loan quality and asset quality impact liquidity risk management while corporate governance functions as a moderating variable. The research design employs a quantitative approach to study financial variables while explaining their impact on banking sector liquidity risk. The basic characteristics of the data used in the analysis are summarized and explained through the application of descriptive statistical techniques. Annual financial data are collected from the financial statements of banks from 2010 to 2023. The data enables empirical analysis by enabling the research to examine both cross-sectional and time-based changes occurring within the banking industry. The

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correlation analysis examines how strong and in which direction the linear relationships exist between the dependent variable and independent variables, and the moderating variable. The Pearson correlation coefficient is used because it is suitable for analyzing continuous financial data. The correlation coefficient values range from negative one to positive one, with positive values showing direct relationships between variables and negative values showing inverse relationships, and values near zero indicating no significant relationship between the two variables. The analysis of correlation enables the measurement of variable relationships, which scientists need to perform their regression analysis. The tool helps researchers discover multicollinearity between independent variables, which results in distorted regression output. The research examines liquidity risk indicators together with loan quality indicators, asset quality indicators, and corporate governance variables through correlation analysis to determine their relationship connections and interaction patterns.

The Variance Inflation Factor serves as a tool for evaluating the presence of multicollinearity between variables. The explanatory variables show no multicollinearity when the Variance Inflation Factor value reaches one. The value above one shows that independent variables share some degree of connection. The presence of strong correlations between variables becomes evident when their Variance Inflation Factor value falls between five and ten, which leads to challenges in making accurate estimations. According to the established guideline, all variables must maintain their Variance Inflation Factor values below ten to protect the accuracy of regression results (Brien and Sharkey, 2012; Pallant, 2010). Regression analysis enables researchers to study variable relationships through two modeling techniques, which include fixed effects and random effects methods. The Hausman specification test determines the optimal model for panel data analysis after all model parameters have been estimated. The study uses data from bank financial statements, which public sources make available. The research framework enables a comprehensive study of how the banking sector in Pakistan manages liquidity risk through asset quality evaluation and loan quality assessment, and through the assessment of corporate governance system impacts. The analysis outcomes will deliver important insights to policymakers, bank management, and all other stakeholders who work to enhance financial stability while developing better risk management approaches for the banking sector.

RESULTS AND DISCUSSION

The analysis uses Table 1 to show descriptive statistics of the analyzed variables. The results show that banks keep their net loans to deposits and borrowings ratio at a moderate level, which demonstrates their equal use of deposits for lending. The data shows a small spread around the average value, which means that banks generally use the same lending methods, while some banks use loan financing more than their peers. The banking sector shows this difference because each institution follows its own lending rules, which make up its particular lending strategy. Banks hold loans on average as a major portion, which shows through their loan-to-total assets statistics. The variable shows small dispersion, which means its values cluster around a specific range because banks share almost identical patterns for asset distribution. The lower and upper bounds reveal that some banks follow strict lending standards while other banks choose to dedicate more of their resources to lending.

Table 1: Descriptive Statistics

Variables	Obs.	Mean	Std. Dev.	Min	Max
NLTDB	129	.413	.257	0	2.116
NLTA	130	.334	.129	0	.552
SIZE	130	8.869	1.672	5	13
AC	130	3.662	.665	3	5
BI	130	2.962	.984	1	7
GTA	130	.146	.092	-.128	.466
GGL	130	-.343	3.981	-44.354	.98
NCAGL	130	.007	.104	-.893	.632
LLPNIR	130	4.667	16.106	-69.653	140.345
NCNIBLLP	130	.127	.887	-5.844	7.719
NPLNL	130	1.269	5.813	0	52.852

The descriptive findings plus their governance characteristics make up the study's results. Banks operate with average board sizes that fall between moderate and limited board size variations, according to their average

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board size statistics. The composition of audit committees shows only minor differences among banks, reflecting a generally stable governance structure. The board independence results show that bank boards have moderate independent members, but different levels of independence exist between banks. The financial growth statistics show that banks experienced different asset growth patterns, with some banks showing total asset declines during the study period. The sample demonstrates gross loan growth showing different patterns, which suggests that banks experienced various financial conditions and lending circumstances during the studied time frame.

The study analyzed the correlation between all variables that were measured in the research, as shown in Table 2. The results demonstrate a significant positive correlation between net loans to deposits and borrowings and net loans to total assets. The relationship shows that banks that use more of their deposits for lending purposes tend to have a higher percentage of their total assets allocated to loans. Institutions that practice more aggressive lending based on their deposit levels also show equivalent lending activity when their total asset value is evaluated. The net loans to deposits and borrowings relationship with audit committee composition shows a negative relationship, which reaches moderate strength. The findings indicate that banks that lend more compared to their deposit base tend to keep their audit committees at a smaller size. The pattern demonstrates how institutions that engage in more active lending activities maintain their audit processes with less extensive oversight systems. The observation indicates that there exists a balance that governs both institutional frameworks and lending operations in banking establishments. The relationship between net loans to total assets and audit committee structure shows a moderate negative connection. The pattern shows that banks that hold more loans as part of their total assets tend to have smaller audit committees. The finding shows that banks that implement more aggressive lending approaches tend to operate with less comprehensive audit systems, which can affect the governance operations of those banks. The correlation between net loans to deposits and borrowings and board independence shows a weak positive association. Banks that maintain high lending levels compared to their deposits also tend to increase their board membership of independent directors. The relationship maintains its weak strength, but the evidence shows that banks with high lending levels attempt to improve their oversight by adding more independent directors to their governance framework.

Table 2: Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1)NLTPB	1.000										
(2 NLTA	0.677*	1.000									
(3)SIZE	0.090	0.135	1.000								
(4)AC	-0.235*	-0.291*	-0.061	1.000							
(5)BI	0.186*	-0.021	-0.121	-0.316*	1.000						
(6)GTA	-0.176*	-0.221*	-0.056	0.092	0.011	1.000					
(7)GGL	0.038	0.048	0.010	0.044	-0.158	0.057	1.000				
(8)NCAGL	-0.133	-0.204*	-0.161	0.071	0.145	0.096	-0.015	1.000			
(9)LLPNIR	0.029	0.109	-0.020	-0.108	0.037	-0.236*	0.012	0.013	1.000		
(10)NCNIBLLP	-0.048	-0.026	-0.130	-0.069	0.094	0.094	-0.011	0.447*	0.272*	1.000	
(11)NPLNL	-0.317*	-0.510*	0.016	0.151	0.109	0.091	0.029	0.394*	0.067	0.022	1.000

** shows significance at p<.05*

The Variance Inflation Factor is commonly used to detect the presence of multicollinearity among independent variables in regression analysis. The Variance Inflation Factor value, which equals one, demonstrates that the explanatory variables exist without any multicollinearity problems. The independent variables show moderate correlation when their Variance Inflation Factor value exceeds one. A Variance Inflation Factor value that falls between five and ten demonstrates a strong correlation, which creates problems for estimating outcomes in the regression model. The accepted guideline requires that all variable Variance Inflation Factor values must stay under ten to prevent multicollinearity from affecting regression outcomes, according to Brien and Sharkey (2012) and Pallant (2010). The threshold of the Variance Inflation Factor value defines the point at which multicollinearity starts to influence regression coefficient results. Tolerance value serves as an additional method for evaluating multicollinearity. The tolerance value shows how much variance exists in an independent variable that other independent variables in the model cannot explain. The general guideline suggests that tolerance

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values should not exceed ten and should not fall below zero point ten (Hair et al., 2010). The tolerance value drops below zero point ten, which indicates a strong multicollinearity problem. The regression analysis becomes more reliable when independent variables with tolerance values below this threshold get removed from the model, according to Brien and Sharkey (2012).

Table 3: Variance inflation factor

Variables	VIF	1/VIF
NCAGL	1.622	.617
NCNIBLLP	1.487	.673
NPLNL	1.318	.759
LLPNIR	1.223	.818
BI	1.205	.83
AC	1.186	.844
GTA	1.114	.898
SIZE	1.062	.941
GGL	1.033	.968
Mean VIF	1.25	.

The study uses liquidity risk management measurement by net loans to total deposits and borrowings ratio, while governance variables are examined without the moderating framework in Table 4. The fixed effects model, together with the random effects model, serves to analyze variable relationships according to the analysis. The researcher uses the Hausman specification test to select the best estimation method after conducting model estimations. The Hausman test results show statistical significance, which leads to null hypothesis rejection and establishes the fixed effects model as the suitable method for analyzing regression results. The results show that board size positively impacts the liquidity risk indicator used in the study. The board structure modifications will lead to changes in bank lending practices, together with liquidity management operations. The presence of a larger board will enhance strategic oversight together with decision-making processes, which will influence how banks distribute their deposits for lending purposes. The statistical data show that board size impacts liquidity risk management activities. The governance structures have a direct effect on financial decision-making processes and risk management activities through their board composition representation in banking institutions. The findings about the audit committee show that its members have a negative effect on the liquidity risk indicator. The relationship indicates that banks with stronger audit committee structures will experience decreased liquidity risk because of their superior monitoring abilities. The audit committees have the responsibility to track all aspects of financial reporting, together with internal controls and risk management procedures. The presence of audit committees in organizations requires these groups to establish financial operations control procedures and protect against lending decision risks. The results indicate that audit committee structures have a minor positive effect on liquidity risk management, even though their impact is less powerful than other governance factors. The research demonstrates how governance mechanisms, especially board size and audit committee structures, affect how banks manage their liquidity risk.

The results of panel regression analysis, which uses moderating variables in its model testing, are displayed in Table 5. The estimation procedure evaluates the variable relationships through two model approaches, which include the fixed effects model and the random effects model. The estimation methods assessment begins after both models have been estimated through the execution of the Hausman specification test. The Hausman test results show statistical significance, which leads to null hypothesis rejection while confirming the fixed effects model as the appropriate model for result interpretation. The study results demonstrate that board size creates a positive relationship with the analysis's liquidity risk measurement. The size of the board affects the lending behavior that banks display according to their deposit and borrowing activities. Boards with larger sizes will produce more strategic decision-making operations, which will determine the banks' lending practices and their liquidity control methods. The statistical evidence shows that board size affects banks' liquidity risk management through their governance structures, which operationalize board composition. The audit committee results show a positive relationship with the analysis's liquidity risk measurement. The relationship shows that changes to the audit committee structure will change liquidity management operations that banks use.

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Table 4: Regression Results for Liquidity Risk Management (NLTDB): FEM

NLTPB	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
SIZE	.061	.023	2.67	.009	.016	.106	***
AC	-.08	.048	-1.66	.1	-.174	.015	*
BI	-.039	.049	-0.79	.433	-.137	.059	
GTA	-.335	.26	-1.29	.201	-.851	.181	
GGL	.008	.005	1.59	.116	-.002	.018	
NCAGL	.074	.248	0.30	.767	-.417	.564	
LLPNIR	0.001	.001	-0.33	.744	-.003	.002	
NCNIBLLP	-.02	.029	-0.69	.492	-.076	.037	
NPLNL	-.01	.005	-2.10	.038	-.019	-.001	**
Constant	.347	.321	1.08	.282	-.289	.983	

Mean dependent var	0.413	SD dependent var	0.257
R-squared	0.156	Number of obs	129
F-test	2.267	Prob > F	0.005
Akaike crit. (AIC)	-20.172	Bayesian crit. (BIC)	8.426

*** $p<.01$, ** $p<.05$, * $p<.1$

The statistical evidence shows that the relationship between the two variables fails to achieve any significant degree of importance. The audit committee does not have a significant impact on liquidity risk management, according to the results of this study. Board independence results show a positive relationship with the liquidity risk indicator, which achieves statistical significance. The finding shows that independent directors who serve on boards will directly shape how banks develop their financial and lending strategies. Independent directors provide organizations with better governance because their oversight abilities help organizations develop their risk management systems. The results show that board independence, together with governance mechanisms, has a major impact on how banks manage their liquidity risk.

The panel regression results show that liquidity risk management was assessed through the net loans to total assets ratio, while governance factors were studied without using the moderating framework. The estimation procedure uses both fixed effects and random effects models to study how variables interact with each other. The Hausman specification test needs to be conducted after both models are estimated because it establishes which model needs to be interpreted. The Hausman test results show that the null hypothesis remains valid because random effects modeling is the best method for handling this specific panel data analysis. The findings demonstrate that board size establishes a positive connection with the liquidity risk metric, which banks measure through their net loans to total assets ratio. The relationship shows that board size changes will impact how banks allocate their funds for both lending activities and credit-based operations. Larger boards increase the extent of oversight they provide while enabling better strategic decisions, which affect how banks handle their lending activities based on their total asset value. The statistical evidence shows that board size affects liquidity risk management through governance structures, which represent the composition of board members at an average level of significance. The audit committee results demonstrate a negative correlation with the liquidity risk measurement. The pattern shows that banks with stronger audit committee structures will experience less liquidity risk. Audit committees monitor all aspects of internal controls and financial reporting, as well as risk management processes, which leads to better financial control of banks. The statistical results show that, according to the audit committee assessment, there exists a substantial effect that leads to better liquidity risk management results in banking organizations. The board independence relationship with liquidity risk measurement shows an inverse relationship, which means that higher board independence leads to lower liquidity risk levels. Independent directors reinforce governance structures by their monitoring role, which ensures that management actions stay within stakeholder interests. The statistical evidence shows that board independence has a weak effect on the liquidity risk indicator, which lacks important statistical relevance. Board independence works as an essential governance mechanism, yet it does not have strong connections to liquidity risk management according to this model.

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Table 5: Regression Results for Liquidity Risk Management (NLTDB**): FEM**

NLTPB	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
SIZE	.06	.034	1.74	.084	-.008	.128	*
AC	.039	.075	0.52	.601	-.109	.188	
BI	.136	.053	2.54	.013	.03	.242	**
GTA	3.161	2.142	1.48	.143	-1.093	7.414	
GGL	-.474	.522	-0.91	.366	-1.511	.562	
NCAGL	85.905	24.34	3.53	.001	37.564	134.245	***
LLPNIR	.083	.071	1.17	.245	-.058	.225	
NCNIBLLP	1.597	2.212	0.72	.472	-2.795	5.99	
NPLNL	-1.41	.38	-3.71	0	-2.164	-.655	***
Sizegta	.134	.162	0.83	.41	-.187	.455	
ACGTA	-.771	.298	-2.59	.011	-1.363	-.179	**
BIGTA	-.779	.25	-3.11	.002	-1.276	-.282	***
SizeGGL	.091	.057	1.61	.11	-.021	.204	
ACGGL	-.028	.043	-0.65	.52	-.114	.058	
BIGGL	-.052	.028	-1.88	.064	-.108	.003	*
SizeNCAGL	-4.504	1.353	-3.33	.001	-7.191	-1.817	***
ACNCAGL	-4.079	3.004	-1.36	.178	-10.045	1.887	
BINCAGLL	-11.196	1.897	-5.90	0	-14.964	-7.428	***
SizeLLPNIR	-.004	.006	-0.67	.506	-.016	.008	
ACLLPNIR	-.012	.006	-1.88	.064	-.025	.001	*
BILLPNIR	-.004	.004	-0.98	.33	-.011	.004	
SizeNCNIBLLP	.125	.179	0.70	.486	-.231	.482	
ACNCNIBLLP	-.115	.197	-0.58	.561	-.506	.276	
BINCNIBLLP	-.797	.137	-5.83	0	-1.069	-.526	***
SizeNPLNL	-.033	.02	-1.67	.099	-.072	.006	*
ACNPLNL	.285	.087	3.27	.002	.112	.458	***
BINPLNL	.173	.065	2.68	.009	.045	.301	***
Constant	-.447	.496	-0.90	.37	-1.431	.538	

Mean dependent var	0.413	SD dependent var	0.257
R-squared	0.656	Number of obs	129
F-test	6.505	Prob > F	0.000
Akaike crit. (AIC)	-99.973	Bayesian crit. (BIC)	-19.899

*** *p<.01*, ** *p<.05*, * *p<.1*,

Table 7 showcases the panel regression analysis outcomes, which include moderating variables in the model and use the net loans to total assets ratio to measure liquidity risk. The study uses both the fixed effects model and the random effects model to assess how different variables interact with one another. The researchers first estimated both models before using the Hausman specification test to select the proper estimation technique. The Hausman test results show a probability value that demonstrates statistical significance and proves that the random effects model serves as the proper model to analyze the study findings. The study discovered that board size has a negative relationship with the indicator of liquidity risk, which the model uses to measure this financial risk. The size of the board has a direct effect on how banks decide which assets to allocate and which loans to approve. A larger board allows more effective supervision, which leads to banks adopting safer lending practices that decrease their liquidity risk.

The statistical evidence shows that board size has no significant impact, which means that changes in board size do not affect liquidity risk management according to the results of this study. The findings about the audit committee show that its presence creates a positive relationship that has statistical significance with the liquidity risk measure.

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Table 6: Regression Results For Liquidity Risk Management (NLTA): REM

NLTA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
SIZE	.01	.006	1.70	.09	-.002	.021	*
AC	-.038	.015	-2.49	.013	-.068	-.008	**
BI	-.001	.01	-0.11	.912	-.022	.019	
GTA	-.18	.107	-1.69	.091	-.39	.029	*
GGL	.002	.002	1.02	.307	-.002	.007	
NCAGL	.086	.115	0.75	.453	-.139	.311	
LLPNIR	.001	.001	1.34	.179	0	.002	
NCNIBLLP	-.009	.013	-0.66	.508	-.034	.017	
NPLNL	-.011	.002	-6.04	0	-.015	-.008	***
Constant	.429	.096	4.45	0	.24	.618	***
Mean dependent var	0.334		SD dependent var		0.129		
Overall r-squared	0.364		Number of obs		130		
Chi-square	68.573		Prob > chi2		0.000		
R-squared within	0.205		R-squared between		0.645		
*** p<.01, ** p<.05, * p<.1,							

Table 7: Regression Results For Liquidity Risk Management (NLTA): REM

NLTA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
SIZE	-.017	.011	-1.51	.131	-.038	.005	
AC	.074	.031	2.38	.017	.013	.135	**
BI	.03	.022	1.33	.185	-.014	.074	
GTA	.484	.967	0.50	.617	-1.411	2.379	
GGL	-.345	.257	-1.34	.179	-.848	.158	
NCAGL	41.17	10.214	4.03	0	21.151	61.19	***
LLPNIR	-.034	.03	-1.12	.262	-.094	.026	
NCNIBLLP	-1.896	.914	-2.07	.038	-3.687	-.104	**
NPLNL	-.482	.17	-2.84	.005	-.815	-.149	***
Sizegta	.103	.068	1.52	.128	-.03	.236	
ACGTA	-.387	.136	-2.84	.005	-.654	-.119	***
BIGTA	-.088	.114	-0.77	.438	-.311	.135	
SizeGGL	.031	.028	1.09	.275	-.025	.086	
ACGGL	.03	.021	1.46	.145	-.01	.07	
BIGGL	-.005	.014	-0.34	.737	-.032	.023	
SizeNCAGL	-2.189	.56	-3.91	0	-3.286	-1.093	***
ACNCAGL	-4.155	1.3	-3.20	.001	-6.704	-1.606	***
BINCAGLL	-2.34	.883	-2.65	.008	-4.071	-.61	***
SizeLLPNIR	.004	.003	1.40	.16	-.001	.009	
ACLLPNIR	-.003	.003	-1.09	.274	-.009	.003	
BILLPNIR	.004	.002	2.32	.02	.001	.008	**
SizeNCNIBLLP	.242	.074	3.27	.001	.097	.388	***
ACNCNIBLLP	.08	.079	1.02	.306	-.074	.235	
BINCNIBLLP	-.174	.068	-2.57	.01	-.307	-.042	**
SizeNPLNL	-.022	.009	-2.50	.012	-.04	-.005	**
ACNPLNL	.09	.04	2.27	.023	.012	.168	**
BINPLNL	.096	.029	3.29	.001	.039	.153	***
Constant	.202	.183	1.11	.268	-.156	.56	
*** p<.01, ** p<.05, * p<.1,							

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The structure and operations of audit committees determine how banks make their lending decisions, while they also assist financial monitoring processes. Audit committees function as essential financial reporting supervisors who monitor internal control systems, and their existence influences how financial institutions execute their liquidity and lending operations. The study demonstrates that audit committee structures directly affect liquidity risk management processes, which makes them essential to the governance functions of banking institutions.

The positive link between board independence and liquidity risk measurement shows that independent directors on the board actually affect financial decisions and banking institutions' lending practices. Independent board members help organizations achieve better governance standards because they create systems which enablebetter monitoring and assessment functions. The evidence from research shows that board independence does not have a significant effect on liquidity risk management because its moderating effect operates at a minimal level within the tested model. The results also examine the role of growth in total assets as an explanatory factor. The analysis shows that asset growth creates a positive relationship, which increases liquidity risk because institutions develop their asset base through increased lending activities. The banks that expand their operations will face greater liquidity challenges because they increase their spending on credit operations. The evidence from statistical analysis shows that asset growth does not have a major effect on how organizations manage their liquidity risk. The results show that total asset growth does not lead to significant changes in liquidity risk management practices, which banks in this research study implemented.

CONCLUSION AND POLICY RECOMMENDATIONS

Banks need to develop full early warning systems that enable banks to detect early signs of declining loan performance. The management team can use these systems to identify their lending portfolio weaknesses before those issues lead to critical liquidity difficulties. Banks need to improve their risk-based loan pricing methods, which should establish lending rates at levels that reflect the particular credit and liquidity risks tied to each borrower. The bank must implement governance practices that meet all international standards. Board governance structures must adhere to Basel Three principles, which dictate the management of liquidity risks and financial stability. Regulatory authorities should establish stricter rules that require banks to maintain specific loan loss reserves and capital reserves to protect their financial stability during economic downturns. The process of governance enhancement needs equal emphasis between banks and all other organizations. Institutions should promote independent director participation while they operate competent audit committees, which can execute their duties of financial reporting and risk management supervision. Banks can assess their financial strength through regular stress testing, which evaluates their loan quality, asset quality, and liquidity conditions. The introduction of regulatory policies should enhance credit risk transparency because banks that show good governance and strong risk management will receive benefits. Prudential policies at the macro level need to establish monitoring systems that assess credit expansion against liquidity risk levels to safeguard the banking sector from major financial vulnerabilities. Regulators and stakeholders need to examine governance frameworks, which include an assessment of board member independence and audit committee operational success to determine risk exposure. The monitoring of nonperforming loan ratios together with provisioning practices enables organizations to detect liquidity problems that start to develop.

The descriptive results indicate that the average board size is moderately large. This shows that banks maintain governance structures that enable them to perform collective decision-making and oversight functions. Audit committees demonstrate consistent institutional structures that result from banks adopting standardized monitoring systems. However, the study contains multiple deficiencies that researchers must recognize. The analysis uses 130 observations, which include a small number of banks and years. The findings do not accurately reflect the entire banking industry. The findings do not show the differences between banking practices in various geographic areas. The research investigates banks that function exclusively within the borders of Pakistan. The research results show different outcomes when the research findings apply to different financial systems because all financial systems operate under their own unique system of regulations, economic conditions, and governance framework. The evaluation of liquidity risk, loan quality, and asset quality depends on the use of specific accounting metrics. The indicators provide valuable information, but they fail to address all the complicated elements that relate to how organizations handle their liquidity risk management. The study examines governance framework elements through board size, audit committee structure, and board independence, while it omits assessment of ownership concentration, leadership structure, and specialized risk management committees. The study encounters two major restrictions, which include the possibility that

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liquidity risk and governance and loan quality may influence each other. The governance system of banks that face financial difficulties through increased liquidity needs leads to governance system changes, which create endogeneity problems that the study fails to resolve completely. The panel data analysis extends from 2011 to 2023, but this period fails to demonstrate all economic cycle differences that occur during financial crises and recovery periods and economic growth phases. Future research could extend the scope of the analysis by employing larger datasets that include banks from multiple countries. The research permits scholars to determine whether governance systems produce identical effects on loan quality, asset quality, and liquidity risk across various regulatory and institutional settings. Future studies may also incorporate market-based indicators, including liquidity coverage ratios, net stable funding ratios, and other Basel Three measures, rather than relying exclusively on traditional accounting ratios such as the ratios used in this study. Researchers can use advanced econometric techniques through dynamic panel models, which estimate models with the generalized method of moments and structural equation modeling to analyze the causal connections between governance and liquidity risk. The methods permit researchers to handle endogeneity issues while they study how governance systems impact liquidity risk and how financial risk conditions impact governance operations. Researchers will investigate how leadership traits, board gender diversity, ownership patterns, and risk management committees affect how banks manage their liquidity resources in future studies.

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