Liquidity Management in Foreign Commercial Bank of Bangladesh

Project Report

On

Liquidity Management in Foreign Commercial Banks of Bangladesh

Submitted to

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Letter of Transmittal

Dr. James Bakul Sarkar

Professor

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Subject: Submission of project report.

Dear Sir,

With due respect I would like to submit you the project report of Liquidity Management in Foreign Commercial Banks of Bangladesh for your kind review.

In order to prepare the project report as thoroughly and informatively as feasible. I made an honest effort to read necessary materials, documents, and the annual report. I did my very best to produce the report in accordance with the requirements of the courses and to adhere to all other instructions.

I would be glad if you accepted the report and complied with my request to take constraints into consideration with a soft view.

Best regards,

Noor E Jannat Rima

ID: 111 111 149

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I want to thank Dr. James Bakul Sarkar Sir Professor at United International University who helped me when I was Preparing this BBA Project Report.

I really appreciate his helpful suggestions and aspirational leadership during the process of project work.

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Contents

Letter of Transmittal....... **Error! Bookmark not defined.**
Acknowledgements .... **Error! Bookmark not defined.**
Abstract....... **Error! Bookmark not defined.**
Chapter One : Organization Overview .... **Error! Bookmark not defined.**
1.1 Vision....... 8
1.2 Mission....... **Error! Bookmark not defined.**
1.3 Functions....... 9
1.4 : Organization Structure : 9
1.5 : Core Policies of Central Bank 11
1.6 : Services For General People .... **Error! Bookmark not defined.**
Chapter Two : Introduction....... **Error! Bookmark not defined.**
2.1 Background of the Study....... **Error! Bookmark not defined.**
2.2 Problem Statement....... **Error! Bookmark not defined.**
2.3 Limitations of the Report .... **Error! Bookmark not defined.**
Chapter Three : Objectives Of the Study....... **Error! Bookmark not defined.**
3.1 Objective of the Report .... **Error! Bookmark not defined.**
Chapter Four : Guidelines For Liquidity Management in Bangladesh Bank....... 17
4.1 Liquidity Regulations For Bank 17
4.1.1 Basel 3 Liquidity Ratios....... 17
4.1.2 Liquidity Coverage Ration 17
4.1.3 Definition for the LCR....... 17
4.1.4 Net Stable Funding Ratio 17
4.1.5 Definition of the NSFR....... 18
4.1.6 The Equation....... 18
Advance to Deposit Ratio 18
Contingency Funding Plan....... 18
Liquidity Risk....... 19
Liquidity Risk Indicators 19
Liquidity Policies 21
Chapter Five : Methodology of the Study....... 24
Chapter Six : Literature Review....... 24

Chapter Seven : Liquidity Management Practices & Challenges and Risks 25
7.1 : Liquidity Management Practices 25
7.2 Challenges & Risks 26
Chapter Eight : Performance and Impact 27
8.1 Performance and Impact 27
Chapter Nine : Data analysis & Findings of the Study 28
9.1 Selected Banks 28
9.2 Analysis & Interpretation 28
9.3 Findings 34
Chapter Ten : Conclusion and Recommendation 35
10.1 Conclusion 35
10.2 Recommendation 35
10.3 References 36
Appendix – 1 37
Appendix – 2 37

Abstract

This project report mainly focuses on the methods of liquidity management used by foreign commercial banks in Bangladesh.

Every foreign commercial bank in Bangladesh that operates efficiently abides by the liquidity ratio regulations.

At first, it introduces theories and principles for managing liquidity in foreign commercial banks of Bangladesh. Additionally, it contains the key prerequisites for the mechanism of the liquidity management process. When granting loans, foreign commercial banks need to exercise extreme caution.

This report's main goal is to determine whether foreign commercial banks are adhering to the exact liquidity standards.

Using financial ratios and liquidity indicators, secondary sources of data are gathered and assessed. The parameters are used to analyze the liquidity condition. According to the analysis, the banking industry has been maintaining more liquidity since 2014 than is required by law. As for that reason, banks are not under any liquidity pressure. Every bank should have a current contingency financing technique to fulfill the economic necessity in a liquidity crisis condition.

In this report, an effort has been taken to assess the proficiency in liquidity management of foreign commercial banks of Bangladesh.

❖ Chapter One: Organization Overview

In Bangladesh, Bangladesh bank serves as the central bank. It is mainly responsible for overseeing and regulating the country's financial and monetary system. The Bangladesh bank order 1972 president's Decree, which was passed on December 16,1971, established it in Dhaka, the bank's headquarters. The branches are located at:

1. Motijheel
2. Sadarghat
3. Chittagong
4. Khulna
5. Bogra
6. Rajshahi
7. Sylhet
8. Barisal
9. Rangpur
10. Mymensingh

Vision

To develop continually as a forward looking central bank with competent and committed professionals of high ethical standards, conducting monetary management and financial sector supervision to maintain price stability and financial system robustness, supporting rapid broad based inclusive economic growth, employment generation and poverty eradication in Bangladesh.

1.2 Mission

The main duties of Bangladesh bank, the central bank are as follows:

1. Creating monetary and credit policy
2. Managing the issuance of money and the payment system
3. Keeping an eye on the foreign exchange mark and reserve.

4. Providing guidance to the government on the interactions and effects of monetary, fiscal and other economic measures as well as regulating and monitoring banks and financial institutions.

1.3 Functions

The primary functions of the bank are :

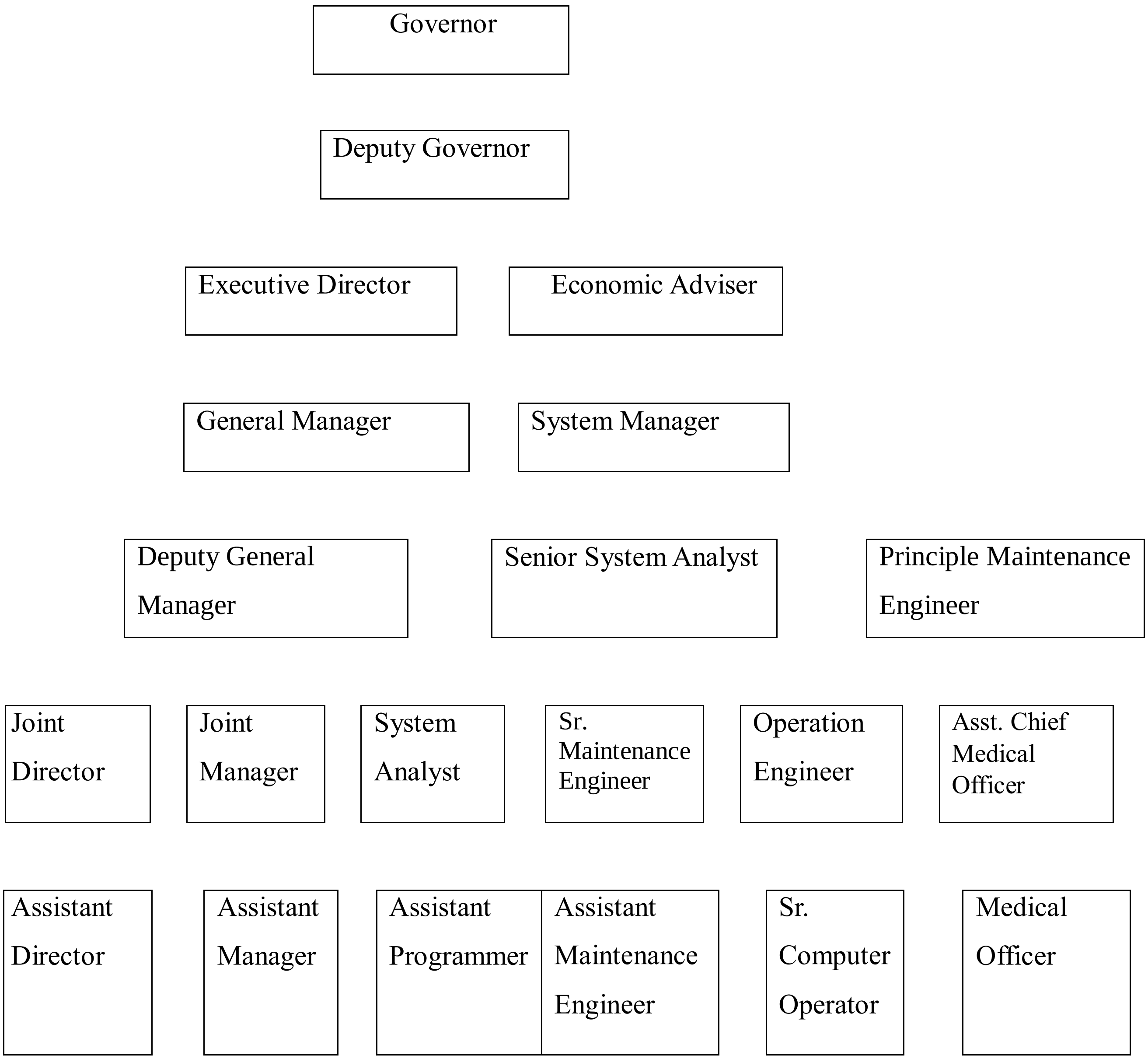
1. Formulation and implementation of monetary and credit policy
2. Promotion and growth of domestic financial markets
3. Serving as the government's banker
4. To create and carry out foreign exchange market intervention measures
5. Providing guidance to the government regarding the interplay between monetary ,fiscal and exchange rate policies
6. Regarding how different policy initiatives affect the economy
7. To implement the foreign exchange Regulation act
8. To collect and furnish credit information
9. To manage the deposit insurance scheme
10. To prevent money laundering
11. To gather information and carry out market intervention measures in the foreign exchange market

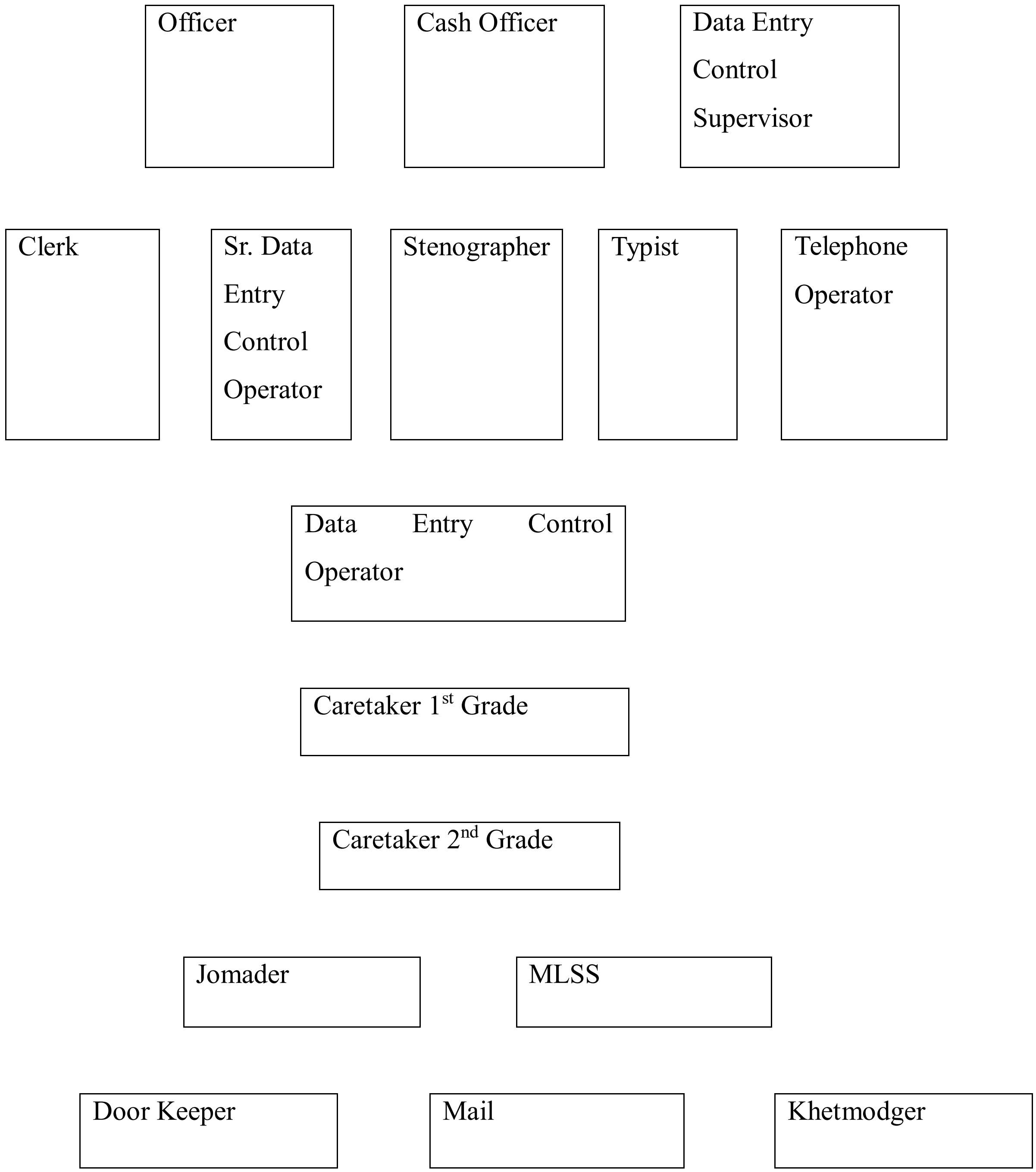
1.4 : Organization Structure :

A nine-member board of directors, led by the Governor, who also serves as this institution's chief executive officer. He has been also given general supervision and direction of Bangladesh Bank's affairs and business.

Figure

Bangladesh Bank Hierarchy





Source: Bangladesh Bank Website

Core Policies of Central Bank

a) Monetary Policy:

The main objectives of monetary policy of Bangladesh Bank are:

Price stability both internal & external

Sustainable growth & development

High employment

Economic and efficient use of resources

Stability of financial & payment system

Bangladesh Bank declares the monetary policy by issuing Monetary Policy Statement (MPS) twice (January and July) in a year. The tools and instruments for implementation of monetary policy in Bangladesh are Bank Rate, Open Market Operations (OMO), Repurchase agreements (Repo) & Reverse Repo, Statutory Reserve Requirements (SLR & CRR).

b) Reserve Management Strategy:

Bangladesh Bank maintains the foreign exchange reserve of the country in different currencies to minimize the risk emerging from widespread fluctuation in exchange rate of major currencies and very irregular movement in interest rates in the global money market. BB has established Nostro account arrangements with different Central Banks. Funds accumulated in these accounts are invested in Treasury bills, repos and other government papers in the respective currencies. It also makes investment in the form of short term deposits with different high rated and reputed commercial banks and purchase of high rated sovereign/supranational/corporate bonds. A separate department of BB performs the operational functions regarding investment which is guided by investment policy set by the BB's Investment Committee headed by a Deputy Governor. The underlying principle of the investment policy is to ensure the optimum return on investment with minimum market risk.

c) Interest Rate Policy:

Under the Financial sector reform program, a flexible interest policy was formulated. According to that, banks are free to charge/fix their deposit (Bank /Financial Institutes) and Lending (Bank /Financial Institutes) rates other than Export Credit. At present, except Pre-shipment export credit and agricultural lending, there is no interest rate cap on lending for banks. Yet, banks can differentiate interest rate up to 3% considering comparative risk elements involved among borrowers in same lending category. With progressive deregulation of interest rates, banks have been advised to announce the mid-rate of the limit (if any) for different sectors and the banks may change interest 1.5% more or less than the announced mid-rate on the basis of the comparative credit risk. Banks upload their deposit and lending interest rate in their respective website.

d) Deposit Insurance

The deposit insurance scheme (DIS) was introduced in Bangladesh in August 1984 to act as a safety net for the depositors. All the scheduled banks Bangladesh are the member of this scheme Bank Deposit Insurance Act 2000. The purpose of DIS is to help to increase market discipline, reduce moral hazard in the financial sector and provide safety nets at the minimum cost to the public in the event of bank failure. A Deposit Insurance Trust Fund (DITF) has also been created for providing limited protection (not exceeding Taka 0.01 million) to a small depositor in case of winding up of any bank. The Board of Directors of BB is the Trustee Board for the DITF. BB has adopted a system of risk based deposit insurance premium rates applicable for all scheduled banks effective from January - June 2007. According to new instruction regarding premium rates, problem banks are required to pay 0.09 percent and private banks other than the problem banks and state owned commercial banks are required to pay 0.07 percent where the percent coverage of the deposits is taka one hundred thousand per depositor per bank. With this end in view, BB has already advised the banks for bringing DIS into the notice of the public through displaying the same in their display board.

Services For General People

Bangladesh Bank provides numerous services to the public:

a) Banknote Security: The bank issues note with unique security measures so that the owner may verify the currency's legitimacy.

b)

b)Claim Your Money: The scheduled banks in Bangladesh transfer the funds to Bangladesh bank under section 35 of the banking law for account holders who have not made any transactions in their accounts for at least ten years, 1991 banking companies act.

If no request is made for a return of any amount from these deposits, the money are transferred, in accordance with the terms of the same section of the Bangladesh Bank's regulations and policy department, to the government account following a year has passed through the relevant banks.

c)Financial integrity and Customer Services: The interests of the depositors and customers of the nation's banks and financial institutions are constantly protected by the central bank of Bangladesh. Being both the supervisor and the regulating body for the to address this issue. Bangladesh bank created the Financial integrity and customer services department as a full-fledged department with the following goals :

To uphold customer's rights with relation to banks and financial institutions within the bounds of the law and regulatory frameworks. To address concerns and resolve client problems against banks . To enhance banker customer relationship.

Chapter Two : Introduction

2.1 Background of the Study

Banks reduce market liquidity when they require more liquidity. This is the fundamental connection between a bank and liquidity. The risk of bank liquidity is reduced by having more liquid assets. Being in possession of surplus liquid assets is thought to act as a liquidity cushion or buffet that when there is a shortage of liquidity, banks must fill the gap. When a bank maintains a liquidity buffet, it is unable to generate as much market liquidity as it could in normal circumstances without doing so.

Banks primary goal is to maximize earnings, but they are also concerned about their liquidity and safety. Banks generate profits for their shareholders while also meeting regulatory requirements (maintaining CRR) and customers withdrawal demands. Within their framework of demand and supply, banks can determine the daily liquidity they need. Banks perform a second role in the management of liquidity in addition to producing liquidity in the market.

In order to meet the demand for cash when needed, banks must retain sufficient liquidity at a cost that is affordable. When a bank's need for liquidity exceeds its ability to provide it, it can borrow money or sell liquid assets or borrow money to close the gap, which has an impact on the profitability of the bank. However, when a bank liquidity supply outpaces its demand, it suffers financial losses that also have an effect on its profitability. Excess liquidity is defined as idle money that do not generate a return.

In some cases, liquidity problems can create a panic to the depositor and banks can fall under trouble of repayment of deposited money.

CRR and SLR: The central bank, Bangladesh Bank requires every bank on the list is required to maintain a minimum cash reserve known as the Cash Reserve Requirement, as well as a reserve held in the form of government assets like treasury bills and treasury bonds which is the SLR or Statutory Liquidity Reserve. Every scheduled bank in our country is required to maintain CRR and SLR on the total amount of deposits that the bank has with the central bank.

2.2 Problem Statement

Regarding liquidity, banks are faced with two major problems. Both the risk and the generation of liquidity are under the control of banks. Depositors and others can remain liquid thanks to the establishment of liquidity. In order for the bank to effectively manage its liquidity risk, it must maintain its own liquidity continue to fulfill its purposes.

The commercial banks, in their capacity as financial intermediates, invest the money that has been borrowed from lenders and put by depositors back into the economy. Since everybody are always welcome to retrieve the deposited and borrowed money that banks have invested in order to maximize profits. So it is evident that these investments are not risk and problem free. Therefore, the banks should always be prepared to accommodate these needs. The issue arises when the bank is unable to satisfy these requirements which cause the clients to lose faith in the bank.Every commercial bank should make sure that it works profitably and satisfies the financial needs of the depositors by retaining sufficient capital due to the growing number of local banks in the local banking industry.

2.3 Limitations of the Report

All of the foreign commercial banks in Bangladesh are the subject of this study. As a result, this study is unable to provide a detailed image of the Bangladeshi banking industry as a whole.

Chapter Three : Objectives Of the Study

3.1 Objective of the Report

The main focus of this report is liquidity management, that permits the bank to assess its liquidity needs, ensuring that it can satisfy depositor demand or financial commitments and hence maximize its value. This research will identify the variables that are helpful in maintaining an effective liquidity position for foreign commercial banks and will evaluate the foreign commercial banks implemented approach to managing liquidity. Finding the impact of variations in liquidity levels on profitability is another goal. Whether or whether increased liquidity guarantees higher profitability will be determined. It will try to pinpoint the root causes of the liquidity issues facing Bangladesh's Foreign Commercial Banks and suggest the best course of action for addressing them. Finding the most crucial indicators of liquidity management is the main goal of this study. It will investigate the advances, deposits and earnings of the foreign commercial banks in our country and assess the bank's numerical data using some ratios.

Chapter Four : Guidelines For Liquidity Management in Bangladesh Bank

4.1 Liquidity Regulations For Bank

Liquidity regulations are financial regulations planned to secure that banks must have the essential assets on hand in order to restrain liquidity breakdown due to changing market situation.

4.1.1 Basel 3 Liquidity Ratios

On LCR and NSFR under Basel 3, Bangladesh Bank has published different guidelines. These ratios are used to measure and manage liquidity. These measures, together with the liquidity gap, should be at the heart of managing and measuring liquidity.

4.1.2 Liquidity Coverage Ration

Based on the updated road map that was released vide BRPD circular No. 18/2014, as of January 2015, banks must maintain the minimum required net stable funding ratio and liquidity coverage ratio. The liquidity coverage ratio standard must be higher than or equal to 100.

4.1.3 Definition for the LCR

Three significant quantities must be defined before the LCR can be calculated.
A. Total market value of liquid, high quality assets
B. Upcoming 30 day total financial outflows(under a stressful circumstances).
C. Total cash inflows over the following 30 days(under stress)

If A is larger than B-C, or if net cash outflows in the stressed scenario are more than good uality liquid assets then the LCR criterion has been met.

4.1.4 Net Stable Funding Ratio

The Basel Committee on Banking Supervision has also developed a new criteria known as Net Stable Funding Ratio. The NSFR seeks to reduce excessive reliance on short term wholesale borrowing during periods of high market liquidity and promote improved evaluation of liquidity risk across all on and off balance sheet items. This ratio must be 100% to be considered acceptable, which shows that required stable financing sources ought to be at least equal.

4.1.5 Definition of the NSFR

Two quantities must be defined in order to calculate the NSFR.

A. Available Standing Funding
B. Required Stable Funding

NSFR is met if ASF exceeds RSF.

4.1.6 The Equation

NSFR = Available amount of stable funding / Required amount of stable funding

Advance to Deposit Ratio

Loans advances are expressed as a percentage of deposits using the advances to Deposits ratio. When the ratio is at or below 100%, the bank is using wholesale funding-money from the capital markets or other banks, instead of funding all of its loans with deposits. Loans to deposit is another name for this ratio.

4.2.1 The Equation

Divide a bank's total loans by its total deposits for the same time period to determine the loan to deposit ratio.

Contingency Funding Plan

A current contingency funding strategy should be maintained by every bank. The BODs(ALCO in the case of overseas banks) must approve a contingency finance strategy. It is necessary to create a contingency finance strategy while considering the amount of available cash to meet the financial needs in the event of a liquidity crisis or other particular issue on the local market. The backup finance strategy specifies the catalyst moments that can result in an issue with liquidity as well as the steps to be taken to weak with it.

4.3 Loans and Deposits Projections

It is crucial that the relevant firms furnish ALCO with monthly predictions of loans and deposits for the year/for the following three to six months. ALCO uses the data to understand its future liquidity needs and adjust its strategy as necessary.

Liquidity Risk

Liquidity risk arises from the bank's incapacity to meet its obligations on time or to provide asset growth without incurring unacceptably high costs or losses. The treasury Department is required to let the board know (ALCO in the case of international banks) about every board/ ALCO meeting of the bank discusses numerous liquidity concerns such as CRR, SLR, NSFR,ADR etc.
Liquidity risk is the possibility that a particular security or asset won't be able to be sold quickly enough on the market to avoid a loss or that a bank won't capable of meet its obligations in a prompt way when a payment in due.

Liquidity risk can be two types :
a)Funding Liquidity Risk : The possibility that a company won't be able to satisfy its future cash flow and collateral requirements without impairing its day to day operations or financial situation.
b)Market Liquidity Risk : The danger that due to insufficient market depth, a firm may be unable to easily offset or sell a position without suffering a loss. In ICAAP of banks, risk plays a crucial part. From Bangladesh vantage point, the following considerations are considered while identifying and monitoring the elements that drive liquidity risk :
Regulatory Liquidity Indicators :

- Cash Reserve Requirement (CRR)
- Statutory Liquidity Ratio (SLR)
- Medium Term Funding Ratio
- Maximum Cumulative Outflow
- Advance Deposit Ratio
- Liquidity Coverage Ratio
- Net Stable Funding Ratio

Bank's own liquidity monitoring tools :

- Guidelines for Wholesale Borrowing and Funding
- Liquidity Contingency Plan

Liquidity Risk Indicators

The following list includes several early warning signs that could spark a bank's liquidity issue. Such indicators need to be closely monitored by bank management, who should also apply critical examination as needed. Example of internal indicators are :

a) A detrimental pattern or noticeably higher risk associated with any industry or product category
b) Assets or liabilities that are concentrated
c) A fall in earnings or predicted performance
d) A significant off balance sheet exposure
e) Unjustified competitive pricing that may put the banks under stress

4.4 Liquidity Risk Strategy

For the daily management of liquidity, each bank should have a liquidity plan that has been agreed. This plan should take into account that bank's objectives of maintaining its financial stability and capacity to resist challenging market conditions.

a) Composition of Assets and Liabilities :

To ensure liquidity, the plan should specify the ratio of assets to liabilities. To reduce the significant costs associated with needing to quickly reconfigure the financial system, liquidity risk management and asset/liability management has to be included, from the highest level of profitability to greater liquidity, the asset liability profile.

b) Diversification and Stability of Liabilities :

Funding concentration occurs when a single choice or factor has the potential to cause a unexpected withdrawal of cash. The board and senior management are concerned that this could result in an elevated risk. To a bank should have a variety of finance sources for its daily liquidity needs, management should provide guidelines regarding funding sources. A bank's resistance to the constrained market liquidity would be greater if its obligations originated from more accountable sources conditions that now exist. A bank must identify the obligations financing sources in order to thoroughly analyse their stability. A bank has to determine the stability of its obligations and financing sources in order to conduct a through analysis.

i. Liabilities that the bank would always be responsible for
ii. Liabilities that would gradually reduce in value if issue arise
iii. Liabilities that suddenly disappear when there are issues

Each bank must have clear, reasonable rules in place to make sure that money isn't being concentrated too much in the following areas :

i. Individual depositor
ii. Deposit instrument type
iii. Term to maturity
iv. If the bank has foreign currency liabilities(both on and off balance sheet), the currency of deposit

c) Managing liquidity in various currencies :

The bank should have a plan for handling foreign currency liquidity.

Liquidity Policies

To guarantee that there is adequate funding to support ongoing operations and to satisfy all relevant controlling obligations, sounds and sensible liquidity policies specify the necessary sources and quantity of liquidity. Effective measure to measure and achieve these policies objectives must be used to and keep the money flowing. The Operational liquidity is the quantity of liquidity needed to meet a bank's daily obligations for cash outflow.

The bank as a whole needs to be aware of the liquidity policy for it to be effective. The board and senior management must make sure that policies are reviewed frequently and if there are any significant changes to the bank's operations. Such changes may result from either internal reasons or external circumstances. The bank's experience with managing liquidity and the growth of its company, reviews offer the chance to adjust the bank's liquidity policy. A key indicator of the success of the policy and any potential effects on the bank's liquidity risk profile is any significant or frequent deviations to it.

4.5 Liquidity Management Structure

There should be a designated, identified group within the bank with the authority to manage the bank's entire liquidity. It's critical that accountable officers have the necessary knowledge and experience because managing liquidity is a technical job that calls for specialized training and knowledge. They also need to have a solid awareness of the type and degree of assumed liquidity risk.

4.6 Liquidity Risk Management Process

Systems for determining, quantifying, observing and managing its liquidity exposures should be part of a successful liquidity risk management strategy. The key causes of a bank's liquidity risk should be swiftly and precisely identified by management. Management needs to be aware of all the risks that the bank may face, in order to appropriately identify the causes. Management must to constantly search for fresh sources of liquidity risk both in terms of transactions and portfolios.

4.7 Measurement of Liquidity Risk

An efficient approach for measuring liquidity risk not only aids when it comes to liquidity management during moments of crisis, but moreover maximizes profit through effective use of existing resources. So that the necessary corrective actions may be prompted to prevent any severe losses, banks should set up systems that allow them to capture liquidity risk in advance.

A bank's liquidity risk varies according to the size and complexity of its operations, hence several liquidity risk measuring approaches are needed. For instance, banks with extensive networks may have access to inexpensive stable deposits but tiny banks are limited to considerable reliance on huge corporate deposits. A mechanism to quantify and monitor a bank's liquidity profile is nevertheless necessary even in the presence of sufficient liquidity.

Liquidity measurement is the process of comparing all of a bank's incoming funds and outflows in order to determine whether there will be likely be any future net deficits. For example, financing needs for obligations made outside the balance sheet. There are several methods can be used to measure liquidity risk, ranging from straightforward computations and static stimulations according to present relating to extremely complex modeling methods.

Assumptions about future financial requirements are crucial when gauging liquidity. While certain financial inflows and outflows are simple to forecast, bank must assume future liquidity requirements, both in the very immediate term and across longer time frames. One crucial aspect to take into account is how crucial a bank's reputations is to its capacity to obtain financing quickly and on affordable terms.

The following are a few examples of common liquidity measuring and monitoring approaches that banks may use :

a)Contingency Funding Plan

Banks should have preparations in place to handle stress situation to establish a comprehensive framework for managing liquidity risk. A contingency financial strategy is the common name for such a strategy. Integrity liquidity is necessary for managing liquidity risk on a daily basis. Creating a scenario will guarantee that the bank is ready to handle any challenges that may arise.

b)Liquidity ratios and limits

To measure liquidity, banks can employ a range of ratios. Limits for managing liquidity can also be established using these ratios. But if they weren't used regularly and their interpretation considered qualitative components, such ratios would be worthless. Use ratios at all times to more qualitative data on ability to borrow money, including the probability of a rise in requests for early withdrawals, a drop in credit lines, a reduction in transaction size or a shortening of the duration of the term funds that are accessible to banks.

Bank asset liability managers should be aware of how financial ratios are created, the variety of alternative information available and the extent to which any asset liability management choices are dependent on financial ratios. Also the range of references that can be made from ratios, that can be included in the numerator or denominator. Comparisons based on ratios between banks or even within a single bank could be misleading because banks calculations of ratio components aren't always precise.

c)Other balance sheet ratos

Examples of typical ratios that banks employ to track their existing and projected funding levels include :

i. Sum of credits to sum of deposits
ii. Liquid assets to overall deposits
iii. Liquid assets compared to short term liabilities

d)Foreign currency liquidity management

Every bank needs an approach for measuring, tracking and managing the liquidity positions in the main currencies that it operates. Moreover to determining its overall foreign currency liquidity requirements and considering the bank's commitments in home currencies, each currency's strategy should be the subject of a separate examination.

4.8 Liquidity risk management

The dangers that a bank won't be able to pay its debts to depositors or pay for asset growth when it becomes due without suffering unacceptable costs or losses is what is meant by liquidity risk management in banks.

Elements of liquidity risk management :

Long term funding risk and short term cash flow risk are the two main components of liquidity risk. The risk associated with long term finance includes the possibility that loans won't be readily available when the company needs them or that they won't be for the vital length of time or at a price that is acceptable.

Liquidity risk management is important in banking because the reduction of the risk of a lack of liquid assets to pay creditors duty to be one of the primary goals of liquidity management for banking sector. Maintaining cash balances that enable to satisfy daily

responsibilities. Management can prevent any insolvency difficulties by reducing liquidity risk.
Liquidity risk also impact in bank performance. Liquidity risk is viewed as a discount for bank profitability since it requires more money to achieve liquidity but it actually has a positive impact on bank's net interest margin. In a market based financial system, liquidity risk has adverse effects on bank performance.
Bank management can prevent liquidity risk by following some steps. At first, need to maintain an accurate balance sheet with current assets and liabilities listed clearly in order to minimize liquidity issues. Cash, accounts receivable, inventory all be considered as current assets.

Chapter Five : Methodology of the Study

Primary data are the first information obtained through research projects. On the other hand, the data that come from primary data are called secondary data.

For data collection process, we uses secondary data from the following sources :

i. Bangladesh Bank circulars
ii. Bangladesh Bank regulations and guidelines
iii. Financial Stability Report
iv. Bangladesh Bank publications
v. Annual report Bangladesh Bank and Foreign Commercial Bank

Here we use Commercial Bank of Ceylon PLC, Standard Chartered Bank, Habib Bank Limited, State Bank of India, National Bank of Pakistan, Citibank N.A. Woori bank, The HSBC Limited and Bank Alfalah Limited as sample size to analyze the data.

Chapter Six : Literature Review

When it comes to banking activities, managing liquidity is quite important, particularly whereas depositors require cash on a regular basis. Effective liquidity management can improve a bank's operational efficiency and have an effect on client retention.
Through its monetary system, Nigerian central bank oversees and controls liquidity of the nation's banking sector, it functions via the interbank money market to guarantee the durability of the monetary process, an appropriate money supply and minimal rate of inflation (Central Bank of Nigeria 2005, Liquidity Management).

In bank of Nigeria, under the direct process of liquidity management, DMBs are directly under the regulatory authority of the monetary authority to influence credit availability and cost. in order for the indirect method of liquidity management to be successful, market based devices must often be used. This means that degree of market infrastructure improvement is necessary (Allen, F. & Gale, D. 2000).

Compared to liquid assets, long term investments are more profitable in Sri Lankan banks. Investing in assets that yield large profits is a functional requirement. The analysis draws on 20 years of annual data from commercial banks in Sri Lanka that hold licenses. Revenue is the dependent variable but liquidity management is independent variable. While the capital adequacy ratio, liquidity ratio etc were used to monitor liquidity management and also ROA was used to measure profitability (Sandaram P. Premaratna and Handunnetti Visaka de Silva, April 12, 2014).

Finding experimental proof of the impact that efficient liquidity management has on commercial bank profitability as well as exploring strategies for improving liquidity positions are the main objectives of the study on liquidity management in Indian commercial banks. Because of the survey's nature, quantitative research methodologies are used. Several conclusions are drawn from the study's structured and also unstructured questionnaire on bank management as well as the financial reports of the selected banks in an effort to meet its goals. Also tables with percentage and frequency distributions are created by gathering, organizing and classifying the data that was gathered from primary and secondary sources (Sovaniski, Tim, July 9,2018).

Bangladesh Bank sets some regulations and guidelines for foreign commercial banks in Bangladesh for maintaining proper liquidity management. For Net Stable Funding Ratio, the ratio must be at least equal to required stable financing in order for it to be considered acceptable. The minimum amount that can be used is 100 percent (Bangladesh Bank Regulation-2012).

The most widely used metrics for calculating revenue and profitability are Return On Asset and Return On Equity. ROA compares the bank's returns to its liabilities and obligations. It indicates that a bank has taken on too much debt if its ROE is much higher that its ROA (Bangladesh Bank Guidelines – 2012).

The Cash Reserve Requirement and Statutory Liquidity Reserve varies from year to year. The Advance Deposit Ratio serves as a gauge for the bank's overall lending and liquidity conditions. ADR ratios must meet a minimum requirement of 87 percent (BB Regulation – 2012).

Chapter Seven : Liquidity Management Practices & Challenges and Risks

7.1 : Liquidity Management Practices

A specific percentage of a bank's assets must be held in comparatively risk free securities designed for monetary management. Banking ability to succeed would be significantly impacted by proper liquidity management. By doing correctly, it offers valuable information about cash position of past, present and future and this also gives a clear picture of monetary stability of foreign commercial banks.

There are both internal and external factors which influencing liquidity management decisions. A smart capital allocation strategy based on profitability has a good effect on foreign commercial banks economic resilience. When the quantity of troubled loans has increased, the poor attribute of foreign commercial bank loans has been adversely affecting bank liquidity.

Five strategic requisites make up Commercial Bank of Ceylon PLC's overarching strategy, which positioning it as the top bank in Sri Lanka. Maintaining sensible expansion, emphasizing customer centricity, practice digital guidance, manage risk and achieve operational excellence.CBC has conducted study of the wants and requirements for each client group so that they may be precisely satisfied and appropriate strategies can easily put in place to draw in and keep the various consumer bases.

In case of Standard Chartered Bank strategy, they maintain a number of key management initiatives which will fortify the balance sheet and increase returns of shareholders, the revised techniques will refocus group toward over lucrative and little capital intensive industries.

For State Bank of India, they readjusting its approach to boost deposits in current accounts. It is reacting to Center's just in time finance policy which has decreased bank float. Draw middle class and high profile clients, as well as startups and new businesses, is the bank's current priority.

Woori Bank also follows some strategies for conducting bank efficiently. Five techniques were created by Woori Bank to accomplish goals of Woori Bank. Consumer move, business enhancement, culture novelty, advance technology and risk monitoring.

In HSBC strategy, their approach helps them to achieve their goal of becoming their clients go to foreign economic partner. It contains goals for quickening the flow of capital to regions primarily Asia and wealth which have proven to yield the highest return and sustained benefit.

7.2 Challenges & Risks

Foreign commercial banks faces many challenges and risks to conduct the banking operation. There is an inherent danger of liquidity from some of their daily activities. For instance, usually banks use short term obligations, such as deposits, funding for long term loans such as mortgages. For these kinds of banks, liquidity risk arises from this maturity mismatch if depositors take money out of the bank suddenly. When a bank's incapacity to fulfill its responsibilities whether actual or imagined, threatens its viability or financial standing, it is said to be engaging in foreign commercial banks liquidity risk.

Considering the risk to their own liquidity that comes with lending to the bank, other banks may one of primary providers of liquidity in this situation. Selling liquid assets could become necessary if the bank is unable to pay the outflows. This would be difficult for foreign commercial banks to fully drown liquid assets due to their quality. Many assets would probably be lost in the liquidation at the last.
Numerous macroeconomics and market conditions further impact on liquidity. Here, includes the currency rate system, the fiscal policy and general regulatory framework of a nation. For progressing liquidity circumstance also requires a strong investor base and also prevailing market mood.

Chapter Eight : Performance and Impact

8.1 Performance and Impact

The ability of a bank to maintain sufficient funds to pay off its maturing commitments is referred to as bank liquidity. The ability of the banks to quickly process withdrawal requests obligations (including those involving cash, checks and other instruments) valid new loan demand and adherence to existing reserve requirements. Therefore, managing liquidity involves strategically supplying or withholding liquidity from the market circulation in order to maintain the necessary level of short term reserves without impairing the bank's capacity for profit or its ability to conduct business. The adequate liquidity is essential to the smooth operation of all commercial organizations.
All nine foreign commercial banks in Bangladesh's financial performance is much better than other private commercial banks in Bangladesh. We have assessed net stable funding ratio, cash reserve ratio, statutory liquidity reserve, advance deposit reserve etc and see that all foreign commercial banks maintained the required liquidity ratios which are prescribed by Bangladesh Bank. In some cases these foreign commercial banks maintained much higher liquidity ratios what is actually prescribed by Bangladesh Bank. The effect of liquidity control on stability and profitability is significant on foreign commercial banks in Bangladesh. The company's liquidity status is of interest to all investors. Although relevant to other businesses, the issue of liquidity is of the utmost importance to banking institutions. This justifies why banks display cash and other liquid assets in their balance sheet statement. Thus, the bank makes sure that there is a enough supply of both cash and nearby cash securities are accessible for satisfy client obligations for withdrawals and their requests for new loans when they are in need of liquidity. Every bank would be highly profitable if it reduced its liquidity. A negative correlation between liquidity and profitability. Therefore, maintaining a balance between profitability and liquidity is crucial for banking sector.

Chapter Nine : Data analysis & Findings of the Study

9.1 Selected Banks

Every foreign commercial bank in Bangladesh is being considered. There are nine foreign commercial banks are in Bangladesh. These are : Commercial Bank of Ceylon PLC, Standard Chartered Bank, Habib Bank Limited, State Bank of India, National Bank of Pakistan, Citibank N.A. Woori Bank, The HSBC Limited & Bank Alfalah Limited.

9.2 Analysis & Interpretation

Question 1 : Do foreign commercial banks abide by the Bangladesh Bank's liquidity requirements ?

Liquidity Coverage Ratio
This requirement is based on the techniques of the conventional liquidity coverage ratio that banks employ to determine their exposure to potential liquidity events. The ratio must be at least 100 percent to be considered acceptable.

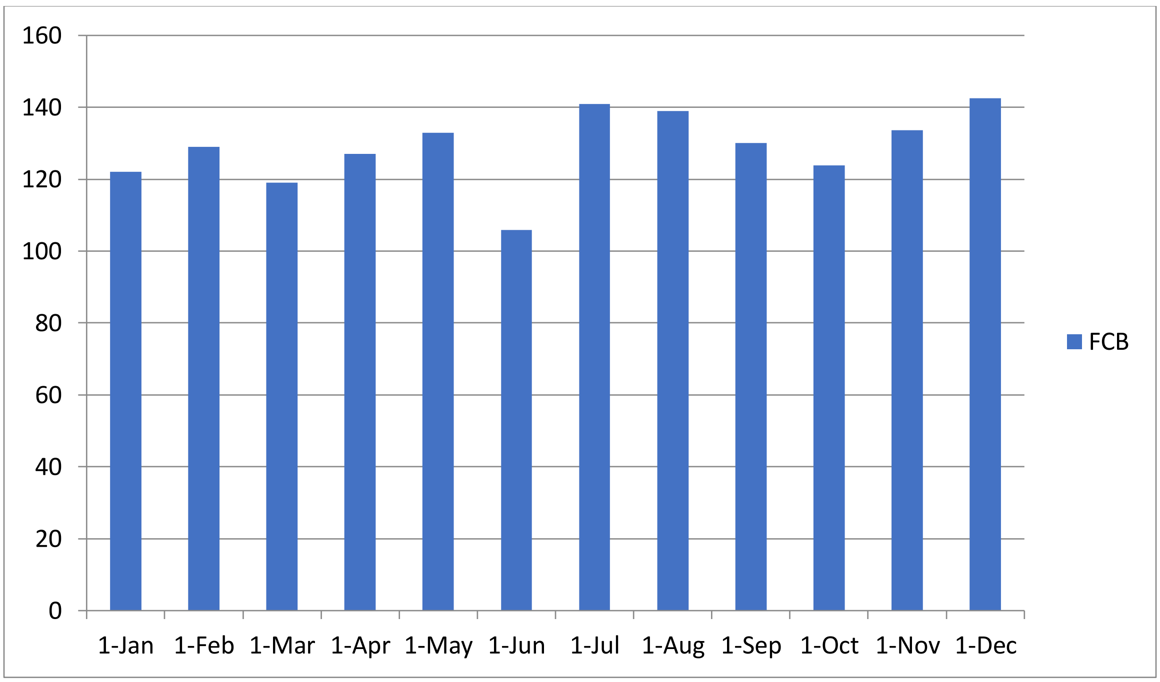
Net Stable Funding Ratio
The goal of the NSFR is to prevent an over reliance on short term wholesale finance during periods of high market liquidity and to promote better evaluation of liquidity risk across all on and off balance sheet items.The ratio must be at least equal to required stable financing in order for it to be considered acceptable. The minimum amount that can be used is 100 percent.

Table 1 : Foreign Commercial Banks monthly LCR in 2016

Month of 2016	Foreign Commercial Banks
Jan-1	122.07
Feb-1	128.95
Mar-1	119.1
Apr-1	126.97
May-1	132.88
Jun-1	105.57

Jul-1	140.98
Aug-1	139.01
Sep-1	130.11
Oct-1	123.91
Nov-1	133.66
Dec-1	142.47

FSource : FFFinancial Stability Report 2016, Bangladesh Bank



Source : Financial Stability Report 2016, Bangladesh Bank

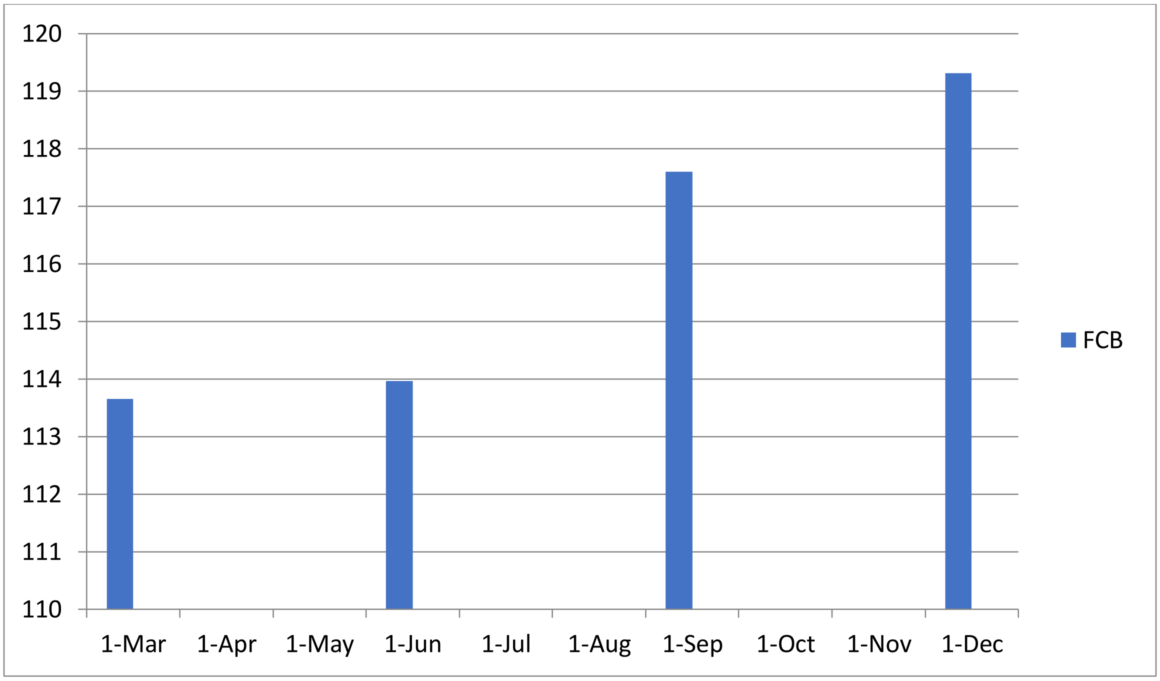
Here we see that, all the months of 2016, Foreign Commercial Banks of Bangladesh maintained the required Liquidity of Cash Reserve.

Table 2 : Foreign Commercial Banks Quarterly NSFR in 2016

Quarters of 2016	Foreign Commercial Banks
Mar -1	113.65
Jun- 1	113.97

Sep -1	117.6
Dec -1	119.31

Source : Financial Stability report of 2016, Bangladesh Bank



Source : Financial Stability Report of 2016, Bangladesh Bank

Here, Foreign Commercial Banks Net Stable Funding Ratio are over 100 percent in all four quarters of 2016. So, all four quarters of 2016,Foreign Commercial Banks also able to maintain the requirement of Net Stable Funding Ratio.

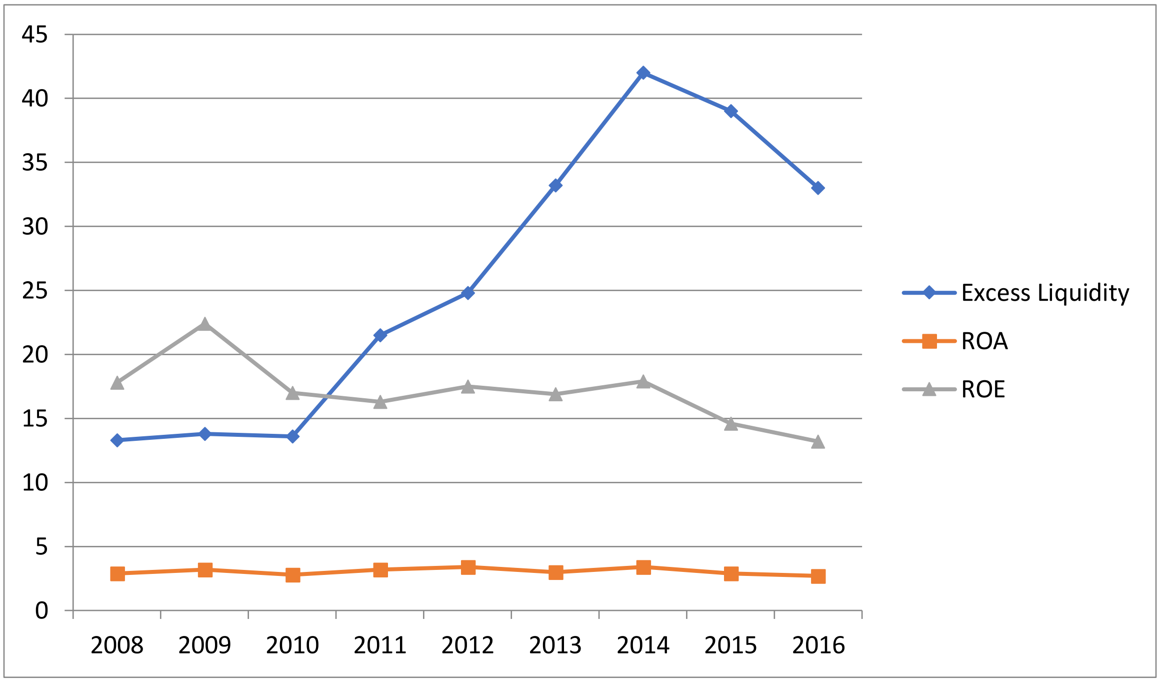
Question 2 : Does too much liquidity guarantee higher bank profits ?

When a bank's revenues are more than its necessary expenses, it is said to be profitable. A bank's ability to maintain healthy operations in the present and the future, to absorb potential future collision and to increase elasticity capacity is reflected in its potential income. The return on asset (ROA) and return on equity (ROE) are the most frequently used measures of income and profitability. ROA shows how effective the bank's management has been transforming their assets into net profits. On the other hand, ROE calculation represents the rate of return going to the bank's shareholders.

Table 3 : Excess Liquidity, ROA, ROE of Foreign Commercial Banks

Years	Required SLR	Liquidity Ratio	Excess Liquidity	Profitability ratio	
				ROA	ROE
2008	18	31.3	13.3	2.9	17.8
2009	18	31.8	13.8	3.18	22.4
2010	18.50	32.1	13.6	2.8	17
2011	13	34.5	21.5	3.2	16.3
2012	13	37.8	24.8	3.4	17.5
2013	13	46.2	33.2	3	16.9
2014	13	55	42	3.4	17.9
2015	13	52	39	2.9	14.6
2016	13	46	33	2.7	13.2

Source : Annual Report of Bangladesh Bank, 2015-2016



Source : Annual Report 2015-2016,BB

Here in this chart, first three years excess liquidity level are essentially consistent, while ROA and ROE are rising and falling. Excess liquidity rises higher from 2011 to 2014, where ROA and ROE rises as well. Liquidity declined over the following two years, ROA and ROE also declined.

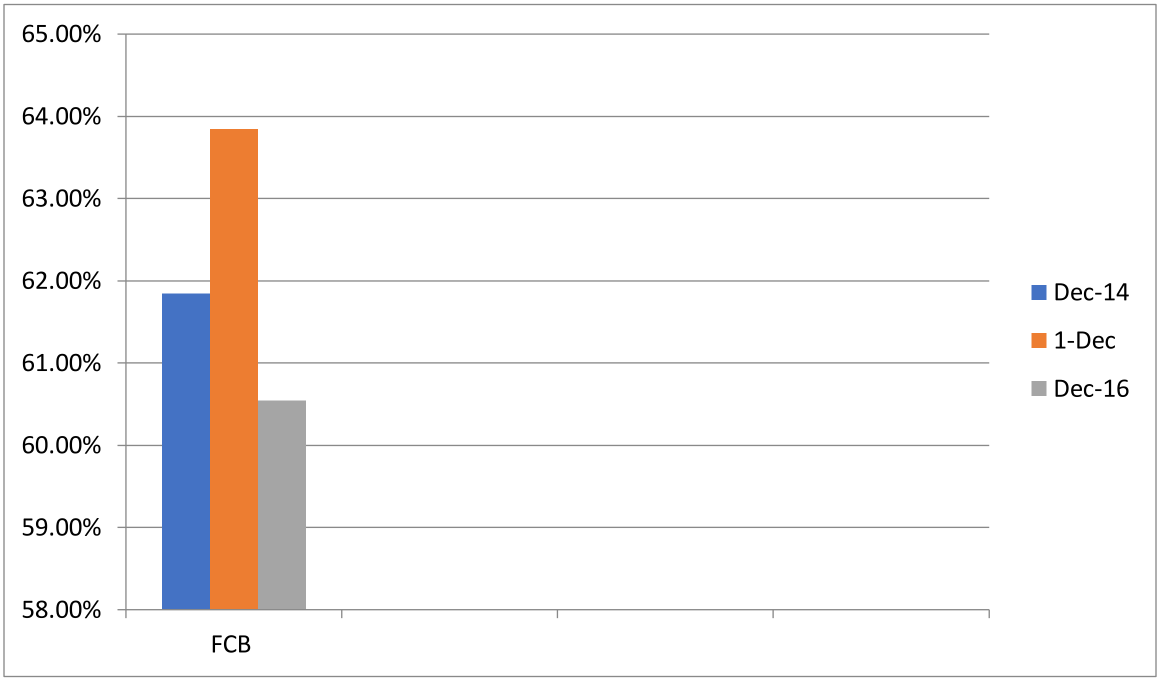
Question 3 : What impact does Advance Deposit Ratio on Liquidity ?

The ADR is a measure of both the banks in total lending and liquidity situation. ADR for traditional banks was established by Bangladesh Bank by 87 percent.

Table 4 : Foreign Commercial Banks Advance Deposit Ratio

Banks	December, 2014	December, 2015	December, 2016
FCB	61.84%	63.84%	60.54%

Source : Financial Stability Report 2014, 2015. 2016 of Bangladesh Bank



Source : Annual Report 2015-2016, Bangladesh Bank

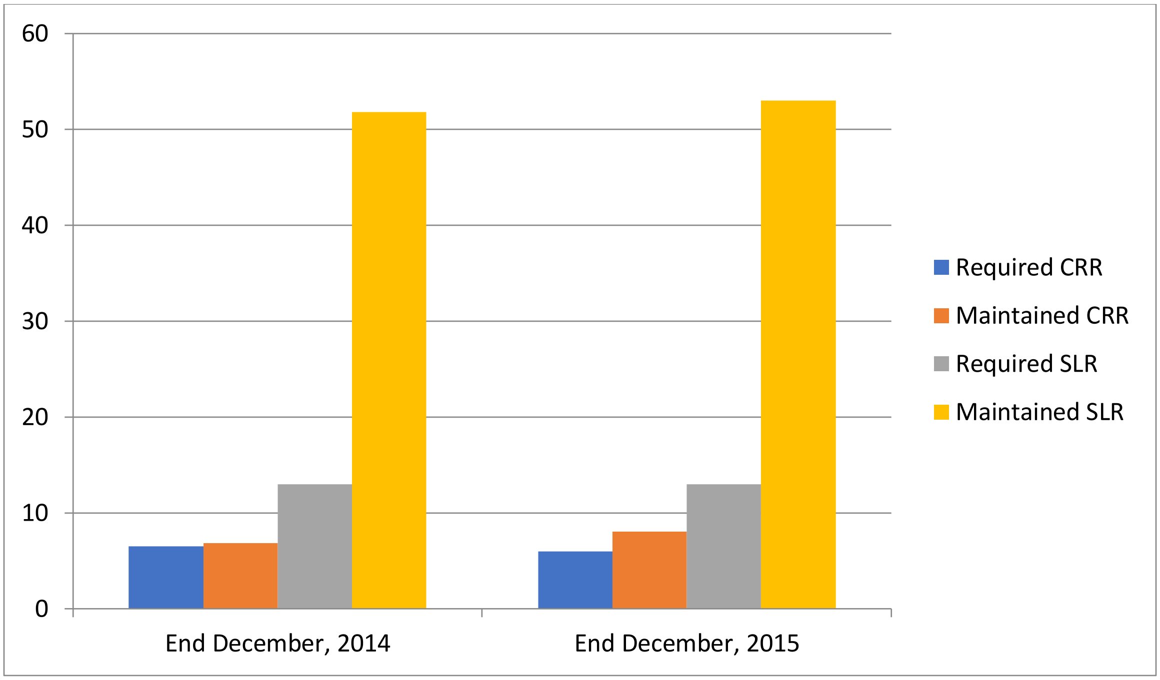
Here we see that, The Advance Deposit Ratio is below the minimum standard of Bangladesh Bank. This suggests that banks have been under lending which has led to a significant liquidity excess in the economy.

Question 4 : Are Foreign Commercial Banks keeping up the necessary Cash Reserve Requirement and Statutory Liquidity Reserve ?

Table 5 : CRR and SLR of Foreign Commercial Banks

Years	Required CRR	Maintained CRR	Required SLR	Maintained SLR
End December, 2014	6.50	6.87	13	51.83
End December,2015	6	8.02	13	53

Source : 2014-2015 Financial Stability Report



Source : 2014-2015 Financial Stability Report

This demonstrates how foreign commercial banks are maintaining CRR and SLR much above what is required.

Comparative Analysis : Foreign commercial banks and Domestic banks in Bangladesh

Foreign commercial banks offer their clients a greater variety of financial products and services since they have access to the world's financial markets. For this reason, the banking industry is now more competitive and foreign investment is flooding the nation. On the other hand, the capital obtained from foreign commercial banks are not long term and the process of getting them is laborious because the bank must perform a great deal of verification. The bank has the authority to impose strict requirements for loan approval. Higher fees apply to foreign commercial bank accounts compared to regular bank accounts. Most of the foreign commercial banks don't provide very good customer service.

In case of domestic banks of Bangladesh, the information held by domestic banks is more comprehensive than that of foreign commercial banks. Reduced interest rates apply to loans handled by domestic banks. When lending money, domestic banks typically don't require collateral. On the other hand, all these problems together have stunted domestic banks growth and presented a host of other difficulties, including a shortage of liquidity, a decline in revenue due to a narrowing expansion, a abate in export and import due to a foreign exchange emergency and increase in non performing loans.

9.3 Findings

1. The Basel 3 liquidity ratio rules are effectively followed by the all Foreign Commercial Banks of Bangladesh. In every month of 2016, their LCR was far over 100%. Additionally, the quarterly NSFR was also higher than the required level of 100% in every quarter of 2016.

2. Since 2013, Foreign Commercial Banks have consistently held the most surplus liquidity and have also generated greater Return on Assets and Return on Equity. It is not lucrative for banks to hold surplus liquidity. Furthermore, increased liquidity does not constantly result in higher bank ROA and ROE.
3. Since 2014, all Foreign Commercial Banks of Bangladesh have maintained CRR and SLR levels that are significantly higher than the necessary rate, so that easily preventing liquidity pressure.

Chapter Ten : Conclusion and Recommendation

10.1 Conclusion

A significant component that has a direct impact on the profitability and economic expansion of the bank is liquidity management. Effective management of liquidity can reduce risk and increase loanable money which also increases earnings. This research attempts to look into the banking industry's liquidity management situation and the role that liquidity plays in assuring profit. For the purpose of performing the study, data from foreign commercial banks were taken into consideration.

In order to evaluate the ratios and liquidity position, in accordance with Basel 3 guidelines, secondary data were used from Bangladesh Bank website.

In contrast to regulatory requirements, the banking sector maintained over liquidity coverage ratios and net stable funding ratios in 2016. However, extra liquidity has a mixed impact connection to profitability. According to this study, the advance deposit ratio and liquidity are inversely related.

10.2 Recommendation

According to this study, the lack of investment opportunities led to a significant liquidity excess in the banking industry. The banking industry had a large surplus of cash which caused banks to pay enormous costs that could not be recovered from the minor investment.

For the banks to become more profitable, it is necessary to invest the extra liquidity they have in a variety of investment opportunities.

The most important issue facing foreign commercial banks of Bangladesh is liquidity management. The following are a few suggestions for liquidity management strategies :

1. There are not many detailed observations of the large consumers deposit and advance habits. In order to effectively manage the liquidity situation, banks must guarantee that deposit and advance positions are precisely supervised.

2. Foreign commercial banks must be very careful while making loans.

3. To fulfill the financing requirements in a liquidity emergency situation, each bank must have an up to date contingency funding strategy.

4. For appropriate judgements about liquidity management, an efficient management information method is required.

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Appendix – 1

List of Foreign Commercial Banks of Bangladesh.

- Commercial Bank of Ceylon PLC
- Standard Chartered Bank
- Habib Bank Limited
- State Bank of India
- Citibank N.A.
- National Bank of Pakistan
- The HSBC Bank
- Woori Bank
- Bank Alfalah Limited

Appendix – 2

Sources of Demand & Supply for Liquidity in the Bank

Liquid Cash Supplies Originate From :	Requests For Bank Cash Usually Result From:
Deposits from new clients	Refund of customer deposit
Client loan paybacks	Payback of loans without a deposit
Withdrawals from customer deposits	Request for credit from satisfied quality loan clients
Taking out loans from the money market	Distribution of cash dividends to stockholders