Liquidity Management of Islamic Banks: Bangladesh Context

Banking Research Series 2026

Keynote Paper of Research Workshop of BIBM

Issue No. 01

Dr. Md. Mahabbat Hossain
Md. Abdul Karim
Md. Farid Uddin
Md. Emon Arefin
Dr. Md. Omor Faruq
A.K.M. Mizanur Rahman

Published by

Bangladesh Institute of Bank Management

BIBM
Bangladesh Institute of Bank Management
Since 1974

Banking Research Series-2026

Keynote Paper of Research Workshop of BIBM
Issue No. 01

Liquidity Management of Islamic Banks: Bangladesh Context

Research Team

Dr. Md. Mahabbat Hossain CIPA, CSAA, DIB
Associate Professor, BIBM

Md. Abdul Karim, CSAA
Faculty Member (on Deputation), BIBM and Director, Bangladesh Bank

Md. Farid Uddin, FCA, CIPA, CSAA
Senior Vice President, Islami Bank Bangladesh PLC

Md. Emon Arefin
Lecturer, BIBM

Dr. Md. Omor Faruq
Director, Monetary Policy Department, Bangladesh Bank

A.K.M. Mizanur Rahman, CIPA, CSAA
SEVP and Deputy Chief, EBL Islamic Banking

Bangladesh Institute of Bank Management (BIBM)
Mirpur, Dhaka-1216, Bangladesh

Liquidity Management of Islamic Banks: Bangladesh Context

Editorial Advisor : **Dr. Md. Ezazul Islam**
Director General, BIBM

Coordinator : **Dr. Mohammad Tazul Islam**
Professor and Director (Training), BIBM

Research Team : **Dr. Md. Mahabbat Hossain CIPA, CSAA, DIB**
Associate Professor, BIBM
: **Md. Abdul Karim, CSAA**
Faculty Member (on Deputation), BIBM and Director, Bangladesh Bank
: **Md. Farid Uddin, FCA, CIPA, CSAA**
Senior Vice President, Islami Bank Bangladesh PLC
: **Md. Emon Arefin**
Lecturer, BIBM
: **Dr. Md. Omor Faruq**
Director, Monetary Policy Department, Bangladesh Bank
: **A.K.M. Mizanur Rahman, CIPA, CSAA**
SEVP and Deputy Chief, EBL Islamic Banking

Support Team : **Md. Al-Mamun Khan**
Senior Officer (PPR), BIBM
: **Md. Habibur Rahman**
Assistant Senior Officer (General), BIBM
: **Md. Morshadur Rahman**
Officer (PPR), BIBM
: **Md. Homaun Bappy**
Officer (General), BIBM
: **Mst. Shamsun Naher Sumi**
Junior Officer (General), BIBM

Graphics & Illustration : **Azizur Rahman,** *Junior Officer (IT/ICT), BIBM*

Published : August 2026

Copyright©BIBM 2026

The views in this publication are of authors only and do not necessarily reflect the views of the institutions involved in this publication.

Forewords

It gives me great pleasure to present this research report titled Liquidity Management of Islamic Banks: Bangladesh Context. The study has been undertaken at a significant time for the Islamic banking industry in Bangladesh, when sound liquidity management has become increasingly important for maintaining financial resilience, depositor confidence, profitability, and sustainable growth. As a leading training, academic, and research institution for the banking sector, Bangladesh Institute of Bank Management (BIBM) remains committed to promoting evidence-based policy dialogue, professional capacity development, sound risk management, and the orderly development of Islamic banking and finance in Bangladesh. This publication reflects that continuing institutional commitment.

Liquidity management is a fundamental function of every banking institution. However, Islamic financial institutions face distinctive challenges because they must manage surplus and deficit funds through Shariah-compliant mechanisms while maintaining compliance with prudential regulations and preserving profitability. The limited availability of short-term and tradable Islamic liquidity instruments, the underdeveloped Islamic interbank market, the need for competitive returns on Shariah-compliant instruments, and concerns relating to operational procedures and Shariah governance make liquidity management a particularly important area for the Islamic banking industry.

The study provides a comprehensive assessment of the regulatory framework, available liquidity-management instruments, institutional practices, and operational challenges of Islamic financial institutions in Bangladesh. It examines the management of both surplus and deficit liquidity along with regulatory requirement. The research team has combined questionnaire-based information, Focus Group Discussions, Key Informant Interviews, regulatory reviews, and institutional data to present a practical and evidence-based analysis of prevailing liquidity-management practices.

I believe that this report will serve as a useful reference for Islamic banks, Islamic banking operations of conventional banks, finance companies, Bangladesh Bank, relevant government authorities, Shariah scholars, policymakers, academics, researchers, and practitioners. The report not only identifies the existing constraints but also offers practical recommendations for strengthening regulatory coordination, market infrastructure, treasury operations, Shariah review, internal Shariah audit, liquidity forecasting, and contingency funding arrangements.

I commend the research team for their dedication, professionalism, and commitment to producing this timely study. On behalf of BIBM, I extend sincere appreciation to Bangladesh Bank, the participating Islamic financial institutions, Shariah professionals, and all other stakeholders who shared their valuable time, information, and experience. I hope that the findings and recommendations of this report will encourage continued dialogue and support meaningful reforms for strengthening liquidity management.

Dr. Md. Ezazul Islam
Director General, BIBM

Acknowledgment

The research team gratefully acknowledges the support, guidance, and cooperation of all individuals and institutions that contributed to the completion of this study titled *Liquidity Management of Islamic Banks: Bangladesh Context*. This study would not have been possible without the collective support of Islamic financial institutions, Shariah professionals, bankers, researchers, and other stakeholders involved in the Islamic banking and finance industry of Bangladesh.

We express our sincere gratitude to the Bangladesh Institute of Bank Management (BIBM) for providing the institutional support, research environment, and resources required to undertake this study. We are especially grateful to the Director General of BIBM for his continuous encouragement, guidance, and commitment to promoting rigorous, policy-oriented research on contemporary issues in banking and finance.

The research team extends heartfelt appreciation to Bangladesh Bank, particularly the officials of the Debt Management Department, the Special Purpose Vehicle responsible for Government Sukuk-related activities, and other relevant departments for their valuable cooperation, insights, and participation in the Focus Group Discussions and Key Informant Interviews. We also convey our sincere appreciation to the full-fledged Islamic banks, Islamic banking operations of conventional banks, Islamic finance companies, and their respective Treasury Departments, Islamic Banking Divisions, Risk Management Departments, Shariah Secretariats, and Internal Shariah Audit units that participated in the questionnaire survey, Focus Group Discussions, and Key Informant Interviews.

The research team gratefully acknowledges the distinguished discussants and participants of the Research Workshop for their critical observations, constructive comments, and valuable suggestions. Their feedback has contributed to refining the analysis, findings, and recommendations of the study.

We also acknowledge the administrative and logistical support provided by the BIBM Training, and Publication wings. We extend our appreciation to colleagues and staff members who assisted in data collection, coordination with participating institutions, workshop arrangements, and document preparation at different stages of the study.

Finally, the research team expresses its deepest appreciation to all respondents, participants, and stakeholders whose cooperation made this work possible. Their contributions demonstrate a shared commitment to strengthening the liquidity-management framework, and enhancing Shariah compliance of Islamic banking and finance in Bangladesh.

Dr. Md. Mahabbat Hossain, *CIPA, CSAA, DIB*
Md. Abdul Karim, *CSAA*
Md. Farid Uddin, *FCA, CIPA, CSAA*
Md. Emon Arefin
Dr. Md. Omor Faruq
A.K.M. Mizanur Rahman, *CIPA, CSAA*

Table of Contents

1. Introduction	**01**
1.1 Objectives of the Study	04
1.2 Methodology of the Study	05
1.3 Structure of the Report	06
2. Shariah Perspectives and Literature Review on Liquidity Management	**07**
2.1 Shariah Viewpoints on Liquidity Management	07
2.2 Literature Review	12
3. Theoretical Foundations of Liquidity Management of IBs	**15**
3.1 Regulatory Liquidity Management for Islamic Banks in Bangladesh	17
3.2 Liquidity Management of Islamic Banks in Surplus Position	23
3.3 Liquidity Management of Islamic Banks in Deficit Position	30
4. Regulatory Framework for Liquidity Management of IBs	**39**
4.1 Liquidity Management of Islamic Banks: International Standard	39
4.2 Liquidity Management of Islamic Banks: Domestic Regulations	44
5. Findings and Data Analysis	**50**
5.1 Current Status of Islamic Banking Sector in Bangladesh	50
5.2 Liquidity Trend of Islamic Banks	51
5.3 Islamic Financial Institution-wise Liquidity Position	53
5.4 Perception Regarding Availability and Operations of Liquidity Instruments	56
5.5 Summary Outcome of FGD and KII	60
6. Issues and Recommendations	**70**
6.1 Ensuring Shariah Compliance in Liquidity Management	70
6.2 Expanding Shariah Review and Shariah Audit to Treasury Activities	71
6.3 Ensuring Adequate Shariah-Compliant Instruments Before Any Increase in SLR Requirements	71
6.4 Considering LCR and NSFR Requirements in Light of IFI-Specific Constraints	72
6.5 Ensuring Competitive and Transparent Rates of Return on Shariah-Compliant Instruments	73
6.6 Introducing Shariah-Compliant Earnings on Foreign Currency Accounts Maintained with Bangladesh Bank	73
6.7 Developing Shariah-Compliant Foreign Currency Liquidity and Funding Arrangements	74
6.8 Introducing Islamic Interbank Liquidity Support Against BGIS and Developing an Overnight Facility	74
6.9 Recalibrating the Maximum IDR in Line with Instrument Availability	74
6.10 Strengthening Coordination, Market Discipline, and Institutional Capacity	75
6.11 Rate of Return for Depositors and Profit-Smoothing Practices	75
6.12 Modification of Associated Regulations	76
6.13 Mutual Liquidity Support Through Qard Arrangements Among IFIs	77
6.14 Structuring New Shariah-Compliant Liquidity-Support Instruments	77
References	**79**
Appendices	**82**

List of Tables

Table 1.1: Respondent of the Questionnaire and Participants of the FGD/KII	06
Table 4.1: Prevailing CRR and SLR Requirements to Scheduled Banks	47
Table 5.1: Current Status of Islamic Banking Sector in Bangladesh	51
Table 5.2: IFI-wise Liquidity Indicators as on December 31, 2025	53
Table 5.3: Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)	56
Table 5.4: Liquidity Coverage Ratio and Net Stable Funding Ratio	57
Table 5.5: Investment Deposit Ratio (IDR)	57
Table 5.6: Instrument for Investing Surplus Liquidity Through BB	58
Table 5.7: Instrument for Surplus Liquidity through Money Market	59
Table 5.8: Instrument for Surplus Liquidity through Capital Market	59
Table 5.9: Instrument for Fund Collection in Deficit: Through BB	60

List of Box

Box 3.1: Major Causes of Liquidity Deficits in Islamic Banks	31
Box 4.1: Major Areas Covered by IFSB-12 Related with Liquidity Management	41
Box 4.2: Permissible Modes for Obtaining Liquidity by IFI	43
Box 5.1: Key Issues and Suggestions Emerging from the FGD and KII	62

List of Figures

Figure 2.1: Preconditions for Effective Liquidity Management in Islamic Banks	09
Figure 3.1: Overall Liquidity Management of Islamic Banks	16
Figure 3.2: Liquidity Management of IBs for Meeting Regulatory Requirement	18
Figure 3.3: General Reasons for Surplus Liquidity	23
Figure 3.4: Liquidity Management of Islamic Banks in Surplus Position	24
Figure 3.5: Operational Procedures of BGIIB	26
Figure 3.6: Indicative Operational Procedures of Investment in BGIS	28
Figure 3.7: Liquidity Management of Islamic Banks in Deficit Position	33
Figure 3.8: Operational Procedures of IBLF for IFIs	35
Figure 3.9: Operational Procedures of MLS to IFIs	36
Figure 3.10: Operational Procedures of SLS to IFIs	38
Figure 5.1: Liquidity Position in the Banking Sector: Conventional and Islamic	53

List of Abbreviations

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ACB	Audit Committee of the Board
ADR	Advance-Deposit Ratio
ALCO	Asset-Liability Management Committee
ALM	Asset-Liability Management
AS	Alayhi-S-Salam (Peace be upon him)
ASEAN	Association of Southeast Asian Nations
ASF	Available Stable Funding
ATDTL	Average Total Demand and Time Liabilities
BB	Bangladesh Bank
BCBS	Basel Committee on Banking Supervision
BDT	Bangladeshi Taka
BIBM	Bangladesh Institute of Bank Management
BIS	Bank for International Settlement
BGIIB	Bangladesh Government Islamic Investment Bond
BGIS	Bangladesh Government Investment Sukuk
BGITB	Bangladesh Government Islamic Treasury Bills
BGSS	Bangladesh Government Special Sukuk
BIBM	Bangladesh Institute of Bank Management
BRPD	Banking Regulation and Policy Department
BSEC	Bangladesh Securities and Exchange Commission
CAD	Canadian Dollar
CAR	Capital Adequacy Ratio
CIPA	Certified Islamic Professional Accountant
CMSME	Cottage, Micro, Small, and Medium Enterprises
CNY	Chinese Yuan (Renminbi)
CPSS	Committee on Payment and Settlement Systems
CRR	Cash Reserve Ratio
CSAA	Certified Shariah Adviser and Auditor
CSE	Chittagong Stock Exchange
CSBIB	Central Shariah Board for Islamic Banks of Bangladesh
CSI	Chittagong Stock Exchange Shariah Index
DB	Dual Bank / Dual Banking
DBO	Domestic Banking Operations
DIB	Diploma in Islamic Banking
DMD	Debt Management Department
DSE	Dhaka Stock Exchange
EUR	Euro
FCs	Finance Companies
FCA	Fellow Chartered Accountant
FGD	Focus Group Discussion
FF	Full-fledged Islamic Bank
GBP	British Pound Sterling
GDP	Gross Domestic Products

HQLA	High-Quality Liquid Assets
IAH	Investment Account Holders
IB	Islamic Banks
IBLF	Islamic Banks Liquidity Facility
IDR	Investment-Deposit Ratio
IFIs	Islamic Financial Institutions
IIFM	Islamic Interbank Fund Market
IIFS	Institutions Offering Islamic Financial Services
IFSB	Islamic Financial Services Board
IRR	Investment Risk Reserve
ISA	Internal Shariah Audit
ISBS	Islamic Shariah-Based Securities
JPY	Japanese Yen Japan
KIIs	Key Informant Interviews
LCFP	Liquidity Contingency Funding Plan
LCR	Liquidity Coverage Ratio
MLF	Mudarabah Liquidity Facility
MLS	Mudarabah Liquidity Support
MTDR	Mudarabah Term Deposit Receipt
NIM	Net Interest Margin
NPIs	Non-Performing Investments
NSFR	Net Stable Funding Ratio
OBO	Offshore Banking Operations
OBU	Offshore Banking Unit
PER	Profit Equalization Reserve
PSR	Profit-Sharing Ratio
RMD	Risk Management Department
ROA	Return on Assets
ROE	Return on Equity
RSF	Required Stable Funding
SEVP	Senior Executive Vice President
SLR	Statutory Liquidity Ratio
SLS	Special Liquidity Support
SND	Special Notice Deposit
SPV	Special Purpose Vehicle
SS	Shariah Standard
SSC	Shariah Supervisory Committee
SWT	Subhanahu Wa Ta'ala (Glorified and Exalted Be He)
UIAH	Unrestricted Investment Account Holders
USD	United State Dollar

Executive Summary

Liquidity management is a core function of banking because it determines an institution's ability to meet withdrawal demands, settlement obligations, financing commitments, and regulatory requirements as they fall due. For Islamic financial institutions (IFIs), liquidity management is particularly complex because conventional interest-based instruments and facilities cannot be used. Islamic banks must therefore maintain an appropriate balance among liquidity, profitability, regulatory compliance, and Shariah compliance. The challenge is intensified by the predominance of short-term deposits, the relatively longer maturity of financing and investment assets, limited availability of Shariah-compliant high-quality liquid assets, and the underdeveloped Islamic money market in Bangladesh.

This study examines the liquidity-management framework of Islamic banks in Bangladesh from regulatory, operational, market, and Shariah perspectives. Its objectives are to evaluate the existing regulatory framework, identify the challenges of managing surplus and deficit liquidity, assess the availability and effectiveness of current instruments, and recommend practical measures for strengthening liquidity management. The study follows a qualitative and descriptive approach. It draws on international standards and domestic regulations, including those issued by the Basel Committee on Banking Supervision (BCBS), the Islamic Financial Services Board (IFSB), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and Bangladesh Bank (BB). Primary information was collected through questionnaire surveys, Focus Group Discussions (FGD), and Key Informant Interviews (KII) involving officials from full-fledged Islamic banks, Islamic banking operations of conventional banks, Islamic finance companies, Bangladesh Bank, and BIBM.

The study finds that Islamic banking in Bangladesh has achieved considerable growth and plays a significant role in deposit mobilization, financing, trade, remittance mobilization, and employment. However, the liquidity position of Islamic banks has experienced substantial volatility in recent years. The sector moved from a position of sizeable surplus liquidity during the early post-pandemic period to liquidity pressure and, at certain points, deficit liquidity. This deterioration reflects a combination of factors, including weak recovery of financing, growth in non-performing investments, deposit withdrawal pressure, asset-liability mismatches, macroeconomic tightening, limited market-based funding sources, and reduced confidence in some institutions. These developments underscore the importance of strengthening liquidity forecasting, contingency funding plans, risk governance, and access to reliable Shariah-compliant liquidity instruments.

Islamic banks are required to comply with several regulatory liquidity requirements, including the Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), and Investment–Deposit Ratio (IDR). At present, banks are required to maintain a daily CRR of 3 percent and a bi-weekly

average CRR of 4 percent, while they are required to maintain SLR of 5.5 percent. The maximum allowable IDR for Islamic banks is 92 percent. The institution-level analysis shows substantial differences in liquidity positions among the surveyed IFIs. All surveyed full-fledged Islamic banks reported IDRs at or above the regulatory ceiling, indicating relatively high fund deployment and possible liquidity pressure. In contrast, several Islamic banking operations of conventional banks reported comparatively low IDRs, substantial excess CRR balances, high SLR holdings, and sizeable investments in government instruments. In a few cases, interbank placements and government instruments constituted a very large proportion of the Islamic operation's deposit base or financing portfolio. While these positions provide liquidity cushions, they may also indicate limited financing opportunities, excessive concentration in government instruments, or inefficient deployment of funds. The liquidity position of Islamic finance companies requires separate interpretation because their CRR and SLR requirements differ from those of banks.

Bangladesh Bank has introduced several Shariah-compliant instruments and facilities to support Islamic liquidity management. These include Bangladesh Government Islamic Investment Bond (BGIIB), Bangladesh Government Investment Sukuk (BGIS), Bangladesh Government Special Sukuk (BGSS), the Islamic Interbank Fund Market (IIFM), Mudarabah-based interbank placements, Islamic Banks Liquidity Facility (IBLF), Mudarabah Liquidity Support (MLS), and Special Liquidity Support (SLS). These initiatives have improved the Islamic liquidity-management environment, particularly by providing SLR-eligible instruments and central-bank support facilities. However, the study finds that their availability, maturity structure, tradability, return competitiveness, operational efficiency, and market depth remain inadequate. The absence of a vibrant overnight Islamic money market and an active secondary market for Sukuk limits the ability of IFIs to manage day-to-day liquidity mismatches efficiently.

The questionnaire findings indicate that most respondents do not face major difficulties in maintaining CRR, SLR, LCR, and NSFR. Nevertheless, participants identified important concerns. All respondents expected additional Shariah-compliant instruments for SLR purposes. A significant proportion reported operational challenges in investing surplus funds in BGIIB, BGIS, interbank placements, and capital-market instruments. The IIFM was considered ineffective by a large majority of respondents. Interbank placements were also identified as a major area of concern, with many respondents and FGD/KII participants indicating that transactions are not always operated in accordance with the substantive principles of Mudarabah. In particular, concerns were raised regarding the pre-agreed nature of returns, insufficient linkage between actual fund utilization and final profit distribution, lack of transparency, mixing of Islamic and conventional funds, and recovery risk.

The study also identifies Shariah-governance concerns in the final settlement of BGIIB, interbank placements, IBLF, and MLS, especially where provisional profit needs to be subsequently adjusted based on actual performance. Participants therefore emphasized the

need for more active involvement of the Shariah Supervisory Committee (SSC) and Internal Shariah Audit (ISA) in treasury activities. Treasury operations should be subject to periodic Shariah review covering fund placement, profit calculation, provisional-profit adjustment, settlement, rollover, and segregation of Islamic and conventional funds. The study further highlights the need for Shariah-compliant foreign-currency liquidity arrangements and a permissible earning mechanism for foreign-currency balances maintained by Islamic banks with Bangladesh Bank.

Based on the findings, the study recommends strengthening Shariah governance throughout the liquidity-management cycle and extending Shariah review and ISA to treasury operations. Bangladesh Bank and the relevant government authorities may consider ensuring the regular issuance of BGIS, BGSS, and short-term Sukuk across different maturities, supported by a published issuance calendar. Development of a secure electronic platform for issuance, trading, transfer, and settlement would improve market liquidity and support a secondary market for Islamic instruments. Any future increase in SLR requirements or reduction in the maximum allowable IDR should be considered only after ensuring the adequate availability of diversified, tradable, and Shariah-compliant liquidity instruments.

The study further recommends reviewing the practical application of LCR and NSFR to IFIs in light of the limited availability of Shariah-compliant high-quality liquid assets, while maintaining equivalent prudential objectives. The rate of return on Shariah-compliant government instruments should be determined through transparent and commercially reasonable processes so that such instruments remain competitive with comparable conventional alternatives without compromising their Shariah structure. Bangladesh Bank may also consider developing Shariah-compliant foreign-currency pools, foreign-currency liquidity-support arrangements, and arrangements involving international Islamic financial institutions.

To strengthen short-term liquidity management, the study recommends the development of an Islamic overnight market and an interbank liquidity-support mechanism against unencumbered BGIS or BGSS holdings. Such a facility may provide a Shariah-compliant alternative to conventional repo and reverse repo arrangements, subject to an appropriate contractual structure and Shariah approval. IFIs may also explore separate and independent Qard-based mutual liquidity-support arrangements, provided that no facility is made conditional upon a reciprocal benefit and that the structure is reviewed by a competent Shariah authority before implementation. Finally, Islamic banks should align deposit-profit distribution, profit-smoothing practices, fund mobilization, and liquidity planning with the actual performance of Shariah-compliant assets so that depositors' expected returns remain transparent, prudent, and consistent with Shariah principles.

Liquidity Management of Islamic Banks: Bangladesh Context

1. Introduction

Liquidity management is considered as one of the most critical functions of banking institutions. A bank's sustainability and public confidence depend largely on its capacity to meet obligations when they fall due without facing unacceptable losses. Banks operate as financial intermediaries by mobilizing funds from surplus units, mainly depositors, and deploying those funds to deficit units through financing and investment activities. Since deposits are generally short-term and withdrawable on demand, while financing and investments are often medium- to long-term in nature, banks inherently face maturity transformation and liquidity risk. Effective liquidity management is therefore essential to ensure that banks can honor withdrawal demands, meet financing commitments, comply with regulatory requirements, and maintain uninterrupted banking operations. Indeed, liquidity management is often regarded as the lifeblood of banking operations and business processes because it directly affects the ability of an institution to sustain its day-to-day activities and maintain stakeholders' confidence (Abdullah, 2010). Given the risks associated with inadequate liquidity and the opportunity costs arising from excessive liquidity holdings, the primary objective of liquidity management is to maintain an appropriate balance between safety and profitability (Sobol, 2020).

The importance of liquidity management has gained further prominence in the aftermath of several global and domestic financial crises. These crises demonstrated that even financially sound institutions may experience severe distress if liquidity risks are not properly managed. Failure to address liquidity challenges adequately may lead to severe consequences, including bank failures and systemic instability in the financial sector (Majid, 2003). Consequently, regulatory authorities across the world strengthened liquidity-related supervisory frameworks through the introduction of measures such as the Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) under the Basel III framework. In Bangladesh, liquidity management has become an increasingly important concern for banks due to changing macroeconomic conditions, inflationary pressures, fluctuations in deposit growth, rising non-performing loans, and evolving regulatory requirements. The banking sector challenges observed in Bangladesh in recent times have further underscored the importance of sound liquidity management practices to preserve depositors' confidence and financial stability.

Conventional banks generally manage liquidity through a combination of regulatory reserves, money market transactions, central bank facilities, and investments in government securities. Common liquidity management instruments include treasury bills, treasury bonds, call money market transactions, repo and reverse repo facilities, standing lending facilities, and interbank borrowing arrangements to meet-up Statutory Liquidity Ratio (SLR) in additional to the Cash Reserve Ratio (CRR). These instruments provide banks with opportunities to invest surplus funds and obtain liquidity during periods of temporary shortages. Well-developed money and capital markets further enhance the ability of conventional banks to manage liquidity efficiently.

While liquidity management is important for all banks, Islamic Financial Institutions (IFIs) face additional complexities arising from the requirements of Shariah. IFIs are prohibited from engaging in interest-based transactions and therefore cannot freely utilize many conventional liquidity management instruments. Furthermore, Islamic banking liabilities are predominantly short-term in nature, while a substantial portion of financing and investment portfolios are medium- to long-term, creating potential asset-liability mismatches and liquidity pressures. Islamic banks are also required to ensure that all activities comply with the principles of Shariah, including the prohibition of Riba (interest), Gharar (excessive uncertainty), and Maysir (speculation). Consequently, liquidity management in IFIs involves balancing three interrelated objectives: maintaining adequate liquidity, ensuring profitability, and preserving Shariah compliance. Owing to the limited availability of Shariah-compliant money market instruments and active secondary markets, liquidity risk has long been recognized as one of the most significant risks faced by IFIs.

To address these challenges, Islamic banks require Shariah-compliant alternatives for managing both surplus and deficit liquidity positions and meeting regulatory requirements. Over the years, Bangladesh Bank has introduced several Islamic liquidity management instruments and facilities to support Islamic banking operations. The major instruments currently available include Bangladesh Government Islamic Investment Bond (BGIIB), Bangladesh Government Investment Sukuk (BGIS), Bangladesh Government Special Sukuk (BGSS), Islamic Interbank Fund Market (IIFM), and interbank placements under Mudarabah arrangements. In addition, Bangladesh Bank has introduced several Shariah-compliant liquidity support mechanisms, including Islamic Banks Liquidity Facility (IBLF), Mudarabah Liquidity Support (MLS), and Special Liquidity Support (SLS), to facilitate short-term liquidity management by Islamic banks.

These initiatives have significantly improved the liquidity management framework for Islamic banks; however, concerns remain regarding the availability, competitiveness, tradability, and operational effectiveness of these instruments.

The importance of developing appropriate Shariah-compliant liquidity management instruments has also been emphasized in the literature. Sumon and Ahmed (2022), in their study on the development of Sukuk in Bangladesh, argued that Sukuk has significant potential to support liquidity management in Islamic banks by providing an avenue for maintaining statutory liquidity requirements while simultaneously financing government development and infrastructure projects. Similarly, Sarker et al. (2019), after reviewing the experiences of Bahrain and Malaysia, highlighted the need for diversified Islamic liquidity management instruments in Bangladesh and suggested the introduction of Bangladesh Government Islamic Treasury Bills (BGITB) and Unrestricted Wakalah-based instruments to strengthen liquidity management practices in the Islamic banking industry.

International standard-setting bodies have also underscored the importance of liquidity risk management in Islamic finance. Under Basel III, the Basel Committee on Banking Supervision (BCBS) introduced the LCR and NSFR to enhance the resilience of banks. The Islamic Financial Services Board (IFSB) issued IFSB-12 as a dedicated framework for liquidity risk management in institutions offering Islamic financial services, while IFSB-23 further recognizes liquidity management as part of the broader capital adequacy and risk management framework for Islamic banks. Similarly, AAOIFI Shariah Standard No. 44 provides guidance on permissible Shariah-compliant mechanisms for obtaining and deploying liquidity. At the domestic level, Bangladesh Bank has issued the Guidelines for Conducting Islamic Banking (2009), Risk Management Guidelines (2018), Asset Liability Management Guidelines (2016), and several circulars relating to CRR, SLR, LCR, NSFR, BGIIB, BGIS, IBLF, MLS, and SLS to facilitate liquidity management by Islamic banks.

Despite the remarkable growth of Islamic banking in Bangladesh and the introduction of several liquidity management initiatives, a number of challenges continue to exist. The yield on certain Islamic liquidity instruments has historically been lower than that of comparable conventional instruments, reducing their attractiveness for investment. The Islamic Interbank Fund Market has yet to function effectively and efficiently. The secondary market for Islamic securities remains limited, while the availability of Shariah-compliant capital market instruments is relatively low. Challenges also arise in relation to foreign currency

liquidity management, correspondent banking arrangements, Nostro account management, and the absence of dedicated Offshore Banking Unit (OBU) operations for Islamic banking windows. Furthermore, ensuring Shariah compliance throughout liquidity management operations remains a critical concern. These challenges highlight the need for a comprehensive assessment of the existing liquidity management framework of Islamic banks in Bangladesh and the formulation of practical policy recommendations for its further development and strengthening.

1.1 Objectives of the Study

Although Islamic banking has expanded significantly in Bangladesh, liquidity management remains a major operational and regulatory concern. This is mainly due to the limited availability of Shariah-compliant liquidity instruments and the still-developing structure of the Islamic financial market. Against this backdrop, the study examines the liquidity management framework of Islamic banks in Bangladesh from regulatory, operational, and market perspectives. The study focuses on examining the opportunities and constraints associated with managing liquidity in both surplus and deficit positions and assessing the effectiveness of existing liquidity management instruments and facilities. The specific objectives of the study are as follows:

a. to evaluate the liquidity management of Islamic banks from regulatory perspective;

b. to identify operational issues of liquidity management in surplus position of funds of an Islamic bank;

c. to examine the operational issues of liquidity management in deficit position of funds of an Islamic bank; and

d. to develop practical recommendations for strengthening liquidity management of Islamic banks in the context of Bangladesh.

1.2 Methodology of the Study

This study is qualitative in nature and primarily follows a descriptive research approach to examine the liquidity management practices of Islamic banks in Bangladesh. The study seeks to analyze the existing regulatory framework, operational practices, available liquidity management instruments, and challenges faced by Islamic banks in managing liquidity under both surplus and deficit positions.

To achieve the objectives of the study, a comprehensive review of relevant international standards and domestic regulatory frameworks has been conducted. The review covers the guidelines and standards issued by the BCBS, IFSB, AAOIFI, and Bangladesh Bank relating to liquidity management, treasury operations, and risk management of Islamic banks.

Both primary and secondary sources of data have been used in the study. Primary data were collected through questionnaires (Appendix I and II), Focus Group Discussions (FGDs), and Key Informant Interviews (KIIs). The participants included executives working in the Treasury Departments of full-fledged Islamic banks and Islamic banking operations of conventional banks, Heads of Islamic Banking Divisions of dual banks, officials of Shariah Secretariats, and representatives from the Debt Management Department (DMD), Special Purpose Vehicle (SPV) designated for Government Sukuk and other relevant departments of Bangladesh Bank. These interactions provided valuable insights into the practical challenges, operational procedures, regulatory issues, and market realities relating to liquidity management of Islamic banks.

Secondary data were collected from publications and circulars of Bangladesh Bank, regulatory guidelines, international standards, research articles, and other published reports relevant to Islamic banking and liquidity management. The collected information was analyzed using qualitative and thematic approaches to identify key issues, assess existing practices, and develop policy recommendations for strengthening the liquidity management framework of Islamic banks in Bangladesh. A summary respondent of the questionnaire and the participants of the FGD/KII is presented in Table 1.1.

Table 1.1: Respondent of the Questionnaire and Participants of the FGD/KII

S/n	Particulars	Respondents
1.	Number of Islamic Financial Institutions Provided Quantitative Data (Appendix I)	▪ Full-Fledged IB: 04 ▪ Dual IB: 10 ▪ Finance Companies (FCs): 02
2.	Number of Islamic Financial Institutions provided Qualitative Data (Appendix II)	▪ Full-Fledged IB: 04 ▪ Dual IB: 14 ▪ FCs: 02
3.	Number of Officials Participated in the FGD/KII	▪ Officials of Bangladesh Bank: 07 ▪ Officials of Full-Fledged IB: 09 ▪ Officials of Dual IB: 17 ▪ Officials of FCs: 03 ▪ Officials of BIBM: 02 ▪ IB Expert: 02

1.3 Structure of the Report

The report is structured into five major chapters. Following the introductory chapter, Chapter 2 presents the Shariah perspectives and literature review on liquidity management with particular emphasis on Islamic banking. The chapter reviews relevant literature, discusses Shariah perspectives, examines the theoretical foundations of liquidity management, and highlights key operational issues and challenges faced by Islamic banks.

Theoretical foundations of liquidity management of Islamic banks based on regulations and market practices regulatory are portrayed in Chapter 3. The chapter presents the liquidity management aspects from regulatory requirement perspective along with surplus and deficit liquidity position of Islamic banks in Bangladesh.

Chapter 4 summarizes the regulatory framework for liquidity management from international and domestic perspective. It reviews relevant international standards and guidelines issued by international standard-setting bodies, along with the regulatory framework and liquidity management instruments available in Bangladesh.

Chapter 5 presents the findings and analysis of the study. It evaluates the liquidity position of Islamic banks in Bangladesh and analyzes the information collected through questionnaire surveys, Focus Group Discussions (FGDs), and Key Informant Interviews (KIIs). The chapter also incorporates selected case studies and stakeholder perspectives to identify key operational and regulatory issues relating to liquidity management.

Finally, Chapter 6 summarizes the major issues identified by the study and provides practical recommendations for strengthening the liquidity management framework of Islamic banks in Bangladesh. The report concludes with a set of policy suggestions aimed at enhancing the effectiveness, efficiency, and Shariah compliance of liquidity management practices in the Islamic banking sector.

2. Shariah Perspectives and Literature Review

2.1 Shariah Viewpoints on Liquidity Management

Although liquidity management is a modern banking concept, its underlying principles are firmly rooted in the teachings of Shariah. Islamic law emphasizes prudent financial management, fulfillment of obligations, preservation of wealth, avoidance of harm, and preparedness for future contingencies. These principles collectively support the need for effective liquidity management in Islamic financial institutions. The objective of liquidity management in Islam is not merely to maintain adequate cash balances but also to ensure that financial resources are managed in a manner consistent with Shariah while safeguarding the interests of depositors, investors, shareholders, and other stakeholders.

The Holy Qur'an emphasizes the importance of fulfilling obligations and honoring contractual commitments. Allah (SWT) states: “O you who have believed, fulfil all contracts” (Surah Al-Ma'idah, 5:1). This verse establishes a fundamental principle that contractual obligations must be honored. In the context of banking, maintaining adequate liquidity enables a bank to meet withdrawal demands, settle liabilities, and fulfill obligations to depositors, investors, counterparties, and regulators. Consequently, prudent liquidity management may be viewed as a practical mechanism for ensuring compliance with this Qur'anic injunction.

The Qur'an also encourages financial discipline, planning, and proper management of obligations. Allah (SWT) commands: “O you who have believed, when you contract a debt for a specified term, write it down...” (Surah Al-Baqarah, 2:282). This verse highlights the importance of transparency, accountability, and sound financial management.

A particularly relevant example of contingency planning and resource management is found in the story of Prophet Yusuf (AS). During the years of abundance, he advised storing surplus agricultural produce to prepare for future years of scarcity (Surah Yusuf, 12:47–49). This Qur'anic narrative illustrates the importance of maintaining reserves during periods of surplus to address future liquidity shortages and uncertainties. The principle underlying this guidance is directly relevant to the maintenance of liquidity buffers and contingency funding arrangements in modern banking institutions.

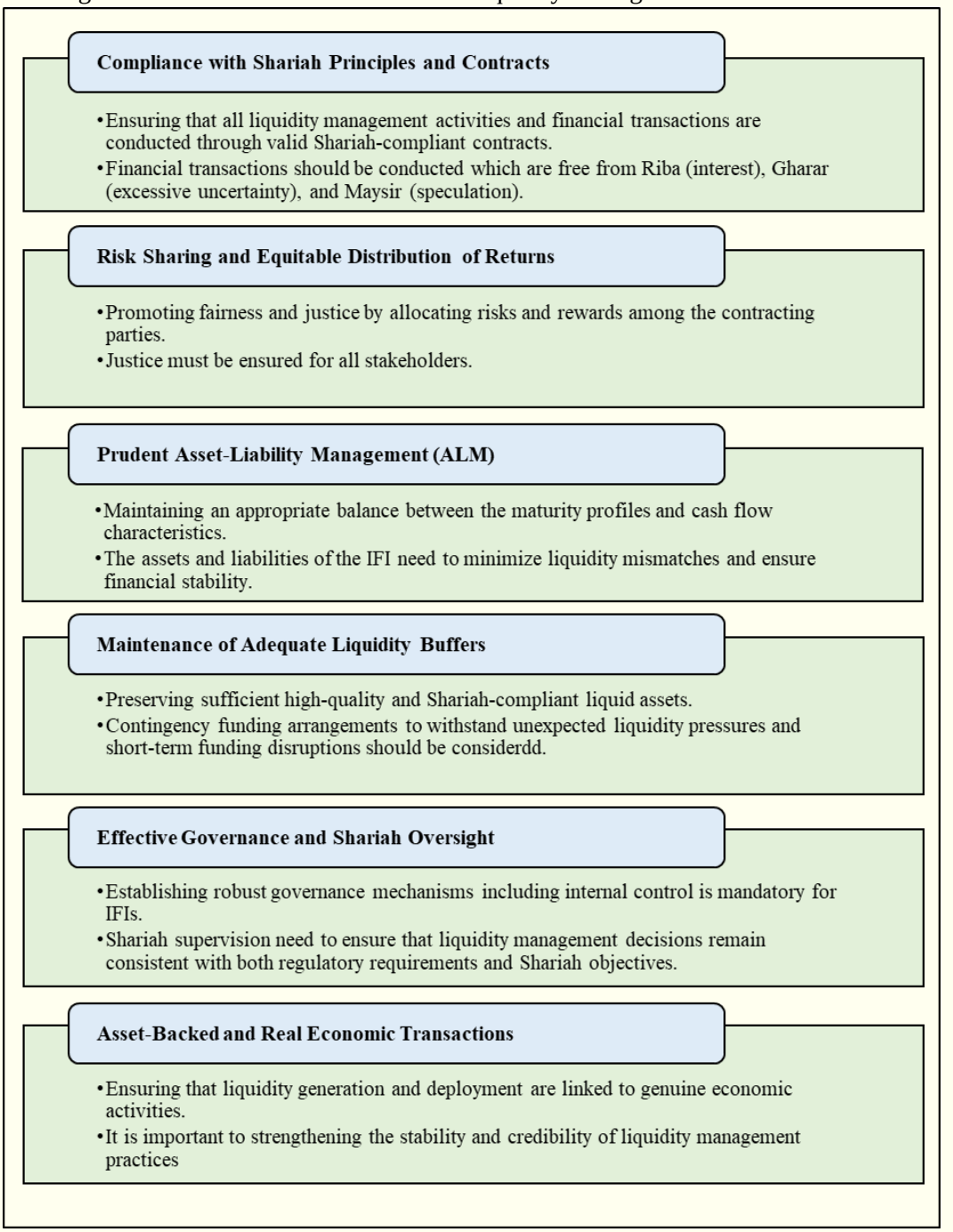
Shariah also emphasizes the avoidance of harm and the preservation of public interest. Allah (SWT) states: “And do not throw yourselves with your own hands into destruction” (Surah Al-Baqarah, 2:195). Inadequate liquidity may expose a financial institution to financial distress, reputational damage, loss of confidence,

or even insolvency. Maintaining sufficient liquidity reserves is therefore consistent with the Shariah objective of preventing harm and protecting stakeholders from potential losses. This principle is further reinforced by the Islamic legal maxim Al-Darar Yuzal (harm must be eliminated), which supports the adoption of prudent risk management measures, including adequate liquidity buffers.

The Sunnah also stresses the importance of meeting financial obligations promptly. The Prophet Muhammad (peace be upon him) said: "Delay in payment by a wealthy person is injustice" (Sahih al-Bukhari, Hadith No. 2400; Sahih Muslim, Hadith No. 1564). This hadith underscores the importance of maintaining the financial capacity to discharge obligations in a timely manner. For Islamic banks, effective liquidity management is essential to ensure that obligations to depositors, investment account holders, counterparties, and other stakeholders are fulfilled without unnecessary delay.

The concept of preserving wealth (Hifz al-Mal) is one of the fundamental objectives (Maqasid al-Shariah) and serves as an important foundation for liquidity management in Islamic finance. Adequate liquidity protects depositors' funds, supports the continuity of banking operations, reduces the likelihood of financial distress, and contributes to overall financial stability. From this perspective, liquidity management is not merely a regulatory requirement but also a Shariah imperative aimed at safeguarding wealth and promoting public interest (Maslahah). According to AAOIFI Shariah Standard No. 44, liquidity denotes cash and other liquid assets, while liquidity management involves maintaining an appropriate balance between securing liquidity quickly and cost-effectively and deploying available funds efficiently (AAOIFI SS 44, Clause 2). For banks, effective liquidity management is critical to institutional stability and long-term sustainability. In Islamic banking, however, liquidity management must be conducted within defined Shariah parameters. They must avoid Riba, Gharar, Maysir, and other non-permissible activities. Accordingly, Islamic banks depend on genuine trade, real economic transactions, profit-and-loss sharing arrangements, and asset-backed instruments to manage liquidity in a Shariah-compliant manner. Figure 2.1 present the key preconditions for liquidity management in Islamic banks.

Figure 2.1: Preconditions for Effective Liquidity Management in Islamic Banks



Source: *Authors' Own Compilation*

In banking, management of liquidity arises in surplus situation and deficit situation along with regulatory compliance. In a surplus liquidity situation, a bank must actively explore avenues to invest excess funds, transforming them into earning assets for the benefit of its Investment Account Holders (IAH)—that is, depositors—as well as its shareholders. Idle funds erode profitability and can eventually trigger liquidity challenges. Therefore, Shariah requires preservation of wealth (Hifz al-Mal) as a fundamental objective (Maqasid al-Shariah).

The deficit liquidity situation requires serious and proactive management. Liquidity management in banks is inherently risky, as institutions face challenges such as sudden depositor withdrawals, asset–liability mismatches, market funding disruptions, and loss of confidence. If left unmanaged, these risks can quickly escalate into solvency crises and even systemic instability. Therefore, business prudence and effective fund management require Islamic banks to maintain sufficient liquidity to meet their obligations as they fall due, while ensuring the productive utilization of funds and protecting stakeholders from undue financial risks in line with the principles of Amanah (trust), Maslahah (public interest), and Hifz al-Mal (protection of wealth).

The Guidelines for Islamic Banking issued by Bangladesh Bank require Islamic banking companies and Islamic banking branches/windows to maintain the prescribed CRR and SLR as determined by Bangladesh Bank from time to time (Bangladesh Bank, 2009, Section VI). The Guidelines also provide a Shariah-compliant mechanism for managing liquidity stress by allowing Islamic banks and branches to open or maintain Mudarabah SND accounts with one another. Through this arrangement, an institution facing liquidity pressure may receive deposits from another institution having surplus funds, with the return determined in accordance with the applicable Mudarabah SND rate or agreed profit-sharing arrangement (Clause No. 4, Section VI). These requirements constitute the primary regulatory liquidity buffers designed to ensure the safety, stability, and liquidity resilience of Islamic banking institutions.

From a Shariah perspective, compliance with the law of the land and regulatory requirements issued by the competent authority is an important obligation, provided that such requirements do not contradict any explicit injunction of Shariah. The Holy Qur'an commands believers to obey Allah, His Messenger, and those entrusted with authority among them (Surah Al-Nisa, 4:59).

For Islamic banks, receiving funds is generally limited to transactions with other Islamic banks or Islamic banking operators. However, Shariah scholars in

Bangladesh have expressed support for allowing Islamic banks to receive funds from conventional banks, provided these are maintained through current accounts or Mudarabah accounts, which do not involve Riba (interest).

The Central Shariah Board for Islamic Banks of Bangladesh (CSBIB) addressed this issue in its 41st meeting of the Fiqh Committee, held on 6 August 2019. In that meeting, the committee adopted a resolution permitting such arrangements under specific Shariah-compliant conditions:

ইসলামী ব্যাংক সমূহ তারল্য সংকট নিরসনে শরীয়াহ অনুমাদিত উৎস থেকে ফান্ড /ডিপোজিট সংগ্রহ করার সর্বাত্মক প্রচেষ্টা চালাবে, যেন কনভেনশনাল ফান্ড ব্যবহারের প্রয়োজন না হয়। তবে তা সম্ভব না হলে জরুরি প্রয়োজনে কনভেনশনাল ব্যাংক / ফাইন্যান্সিয়াল ইনস্টিটিউশন থেকে শরীয়াহ অনুমোদিত পদ্ধতিতে ফান্ড / ডিপোজিট গ্রহন করা যেতে পারে। এ ক্ষেত্রে প্রয়োজনে শরীয়াহ সুপারভাইজরি কমিটির পরামর্শ গ্রহন করতে হবে।

It is expected that all Islamic banks – both full-fledged or dual, should have a fund management policy. It is stated in the policy of a dual bank that;

> "The excess liquidity of the Islamic banking division can be invested in Bangladesh Government Islamic Investment Bonds (BGIIB) and Bangladesh Government Investment Sukuk. In case the Islamic Banking division faces a liquidity crisis, it may overcome this by availing facilities from BGIIB, accessing funds through Mudarabah Liquidity Support, or utilizing the Islamic Banks Liquidity Facility. Furthermore, Islamic banking divisions may open or maintain Mudarabah SND accounts with each other and meet liquidity crises by receiving deposits in the Mudarabah SND/TD account, based on pre-agreed profit-sharing ratios (PSR) and weightage."

Another bank's fund management policy highlights a different approach. It notes that conventional treasury divisions earn profits largely from interest-based activities, which are not permissible under Shariah. However, profits derived from foreign currency exchange are considered permissible. Full-fledged Islamic banking divisions also engage in such transactions on a regular basis.

> "Conventional treasury earned profit by using their fund and seems large portion of that is interest. But only exchanging of Foreign Currency and earned from that is permissible in Shariah. Full-fledged Islamic Banking also does it as regular basis. To utilize the Islamic Banking ideal fund, it is required to conduct a Restricted Mudaraba Aggrement between Islamic Banking Division & Treasury Division of Head Office."

It is evidenced from this policy that the bank manages its surplus funds by placing them with the conventional treasury division and sharing profits under a restricted Mudaraba framework.

AAOIFI provides a clear statement on liquidity management. In Shariah Standard No. 44, Clause 4/1, it states:

> "Obtaining and deploying liquidity through interest-bearing loans is prohibited by Shariah, whether transacted directly or through overdraft or interest-bearing commission-based facilities. Any liquidity support made available by supervisory or regulatory bodies (such as central banks) must be provided only through Shariah-compliant modes such as Mudarabah and investment agency."

Furthermore, in Clause 4/2, AAOIFI recommends permissible alternatives for liquidity support, including Salam, Istisna'a, Sale and Lease Back, Tawarruq and Interest-free loans.

2.2 Literature Review

Liquidity Management in International Banks

Due to the extensive cross-border business activities, international banks need to maintain stable liquidity specifications, specifically during periods of financial stress. Global exposure makes international banks more vulnerable from the perspective of liquidity management, as it is comparatively more complex than domestic banks operating within the purview of a certain geographical location. From 2007 to 2009, the lessons from the global financial crisis made liquidity management strategies more important, which led to the introduction of the Basel III framework.

According to the work of Diamond and Dybvig (1983), liquidity management was addressed as the difference between short-term deposits and long-term lending, which creates the maturity mismatch. Later investigations raised this concept by analyzing the relationship between liquidity risk and financial solvency. In the global financial crisis, the international arena focused on the Basel regulation, which introduced standards to maintain liquidity, popularly known as LCR and NSFR. These measures were introduced to ensure that there is sufficiency in maintaining high-quality liquid assets for the short term, and in the long run, stable funding sources are available. According to the study by Giordana and Schumacher (2013), it was found that the Basel III liquidity standards have led European banks to remain strict in implementing liquidity regulation, which influences the lending behavior of these banks and also influences the monetary policy. Their study revealed that banks with higher maturity mismatches are more sensitive to liquidity shocks.

From the study by Bonner and Eijffinger (2013), an outlook of liquidity management practices among Dutch banks operating under Basel-type regulation was observed. The study concluded that the banks are very positive regarding maintaining more than the minimum regulatory compliance as a precaution against future uncertain events. According to Mordel (2018), enough liquidity

requirements bring positive change in the banking industry by reducing maturity mismatch. However, the study also found that strict liquidity requirements may decrease bank profitability by restricting lending capacity, popularly known as credit crunch.

Studies by Doerr and Drehmann (2026) identified that LCR increases the high-quality liquid asset holdings of the banks, which ultimately reduces the reliance on short-term funding, which is unstable. It has also been found that international Islamic banks are more prone to liquidity risk due to the restrictions on dealing with interest-based financial instruments (Mohammad et al., 2020).

Liquidity Management in Bangladeshi Banks

Liquidity management has traditionally been considered one of the vital factors for bank management. It deals with the ability of banks to meet the customer demands (especially the deposit demands) instantly as they arise. In recent years in Bangladesh, liquidity management has become one of the most critical challenges for bank management from the perspective of financial stability and adherence to regulations. Studies have been conducted on this issue, covering the responsible factors for liquidity shortages, challenges, and ways to maintain balanced liquidity (Bhowmik, Hossain, & Sarker, 2025). The previous research papers were more focused on how liquidity is maintained by conventional and Islamic banks. For instance, Rahman and Banna (2016) investigate that due to the Shariah restrictions, Islamic banks need to maintain an additional amount of liquidity as compared to conventional commercial banks. The study also suggested that liquidity risk is responsible for loss and insolvency in both Islamic and conventional banks.

The studies regarding liquidity management emphasized different perspectives of liquidity management. The findings by Tasnova (2022) based on 29 listed commercial banks in Bangladesh suggest that both bank-specific determinants as well as macroeconomic determinants are to be taken into consideration while managing liquidity. He added that, monetary policy implementation and favorable business conditions in the country impact the liquidity management of the bank.

Using the panel data of private commercial banks (PCBs) and state-owned commercial banks (SOCBs) from 2011 to 2020, an investigation by Bari and Uddin (2022) revealed that ratios such as loan-to-deposit ratio, growth of GDP, inflation, size of the bank, and capital adequacy ratio have a significant impact on liquidity management and also found that the private commercial banks performed better at maintaining liquidity positions as compared to state-owned banks due to regular management of liquidity and efficient operation. As per the studies by Naoaj

(2023), liquidity determinants of 28 commercial banks were analyzed, and the report revealed that while the size of the bank and regulatory requirements can negatively impact liquidity management, leverage has a significantly positive impact on liquidity.

Researchers identified the mismatch between assets and liabilities of banks as one of the key indicators of liquidity management (Lee, 2013). According to the research by Ara and Haque (2014), one of the main reasons for the liquidity gap is to collect the short-term liabilities and lend them for long-term finance. Findings from the research suggest that asset-liability management should be prioritized for proper bank management in Bangladesh. As per Hoque et al. (2024), liquidity performance is further improved by ratios such as net interest margin (NIM), capital adequacy, and quality of credit.

Liquidity Management of International Islamic Banks

From the perspective of theoretical foundations, Islamic banks have always maintained the balance between Shariah compliance, profitability, and liquidity. From this point of view, Dhiraj, Puneri, and Benraheem (2019) mentioned that liquidity management in Islamic banks is challenging due to the unavailability of Islamic liquid instruments and unstructured Islamic interbank market. Islamic Bank has also been studied from the perspective of Basel III regulation. According to study conducted by Ayub, Alhabshi, and Othman (2023) on the liquidity standards of the Islamic Bank in Pakistan, the LCR and NSFR, have a significant impact on the profitability and stability of all the Islamic banks. The study also substantiated that Basel III is vital for the resilience of the Islamic bank, but it understands the profitability of the larger liquid assets to meet urgent liquidity demand.

As per Wahyudi, Zuliansyah, and Musthofa (2024), Islamic banks in ASEAN countries, who are adhering to the Basel III indicators, found management efficiency among the Islamic banks. It is signifying that the stability of the Islamic bank depends on the regulatory environment. The findings recommended that long-term stability depends on the regulatory environment and institutional culture of the country. Mikou, Lahrichi, and Achchab (2024) found that Islamic banks face major challenges due to their remaining limited Shariah-compliant instruments, along with a weak secondary market and the differences in regulation across countries. Governance, risk measurement techniques, and technological innovation are vital factors for liquidity management practice. Malhou and Maimoun (2021) found that proper asset-liability management is vital to reducing liquidity risk and long-term resilience in Islamic banks.

Liquidity Management of Bangladeshi Islamic Banks

Islamic banks cannot deal with interest-based instruments like a conventional bank and therefore, liquidity management is more challenging task in IFIs. As the banking industry in Bangladesh is suffering from the vulnerability of non-performing loans, liquidity management has emerged as a further threat to overall bank management. Rahman and Banna (2016) conducted a comparative study on the liquidity management of Islamic and conventional banks and found that Islamic banks face difficulty in maintaining liquidity management due to the lack of suitable instruments and restrictions on borrowing from interest-bearing sources.

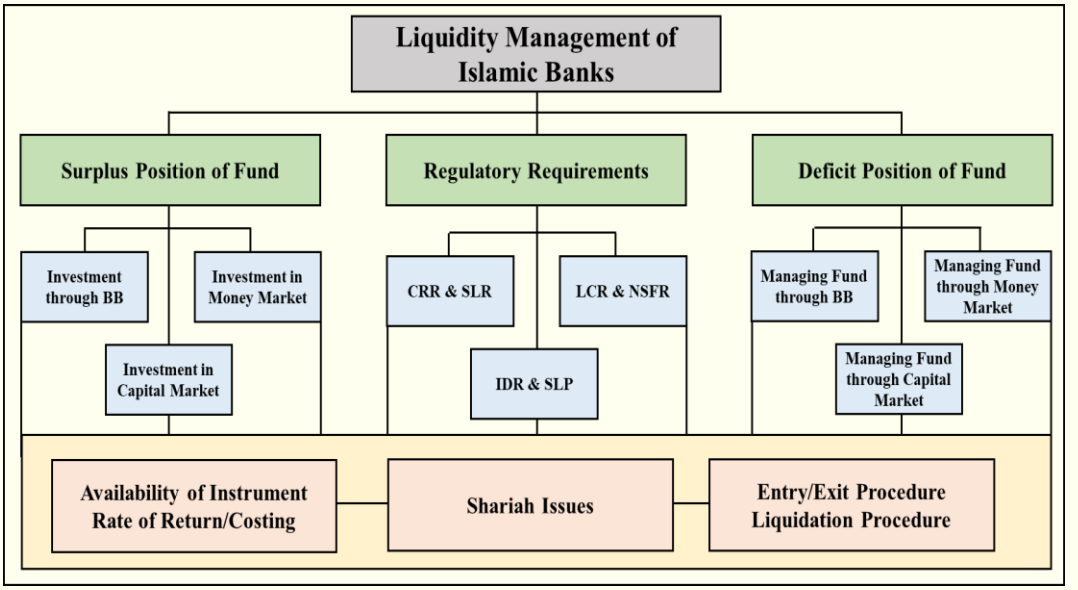
Jalil and Biswas (2018) analyzed Basel III standards from the perspective of the liquidity management of Islamic banks. The study was made to compare Islamic banks with conventional banks of Bangladesh, using liquidity ratio, liquidity gap, LCR, and NSFR. Findings from the paper suggested that the liquidity ratio was higher in Islamic banks as compared to the conventional banks; however, there was a negative liquidity gap due to the maturity mismatch between investment and deposit, and the study also suggested that the IBs are complying with the Basel III standards.

Other studies have also emphasized the liquidity shortfall of the Islamic banks. Chowdhury, Zaman, and Alam (2019) studied six Islamic banks of Bangladesh, and the outcome was that the size of the bank's non-performing assets negatively affects liquidity risk, while return on assets (ROA), return on equity (ROE), capital adequacy ratio (CAR), and investment-to-deposit ratio positively influence liquidity management. As per Rahman (2019), Islamic banks in Bangladesh have fewer liquidity management tools available as compared to conventional banks due to the underdeveloped money market. The study also put emphasis on Sukuk, Islamic interbank markets, and central bank-supported Shariah-compliant instruments to improve liquidity management efficiency in Bangladesh.

3.Theoretical Foundations of Liquidity Management of IBs

Liquidity management is a core concern in banking because it affects the safety, profitability, and stability of financial institutions. Several theories explain how banks manage liquidity, allocate funds, and address asset-liability mismatches. Although developed mainly for conventional banking, their underlying concepts remain relevant to Islamic banks, subject to Shariah-compliant interpretation. This section briefly reviews the theoretical foundations of liquidity management in Islamic banks. Figure 3.1 presents the major liquidity management aspects of Islamic banks in Bangladesh.

Figure 3.1: Overall Liquidity Management of Islamic Banks



Source: *Authors' Compilation*

Figure 3.1 outlines the conceptual framework for liquidity management in IFIs. It shows that liquidity management is centered on three connected areas: deploying surplus funds, meeting regulatory liquidity requirements, and addressing liquidity shortages. Islamic banks must manage these areas in a balanced manner while remaining consistent with Shariah principles, regulatory expectations, and their business objectives.

Islamic banks should comply with a number of regulatory liquidity requirements prescribed by Bangladesh Bank and international standards. In addition to managing regulatory requirement, Islamic banks seek to deploy excess funds through various investment avenues to generate returns for depositors and shareholders in a surplus liquidity position. Such investments may be made through instruments offered by Bangladesh Bank, money market placements, and capital market instruments. Conversely, when a bank experiences a liquidity deficit, it must obtain funds through appropriate Shariah-compliant mechanisms. Such funding may be sourced from Bangladesh Bank facilities, interbank money market arrangements, or capital market instruments, depending on the nature and duration of the liquidity requirement.

The framework further highlights three cross-cutting considerations that influence all aspects of liquidity management. First, the availability of instruments and their associated rate of return or cost play a critical role in determining the attractiveness and effectiveness of liquidity management options. Second, all liquidity

management activities must comply with Shariah requirements, making Shariah considerations a central element in the selection and utilization of liquidity management instruments. Third, operational factors such as entry procedures, exit mechanisms, and liquidation processes significantly affect the practicality and efficiency of liquidity management instruments. Consequently, the effectiveness of liquidity management in Islamic banks depends not only on the availability of appropriate instruments but also on their economic viability, operational flexibility, and compliance with Shariah principles.

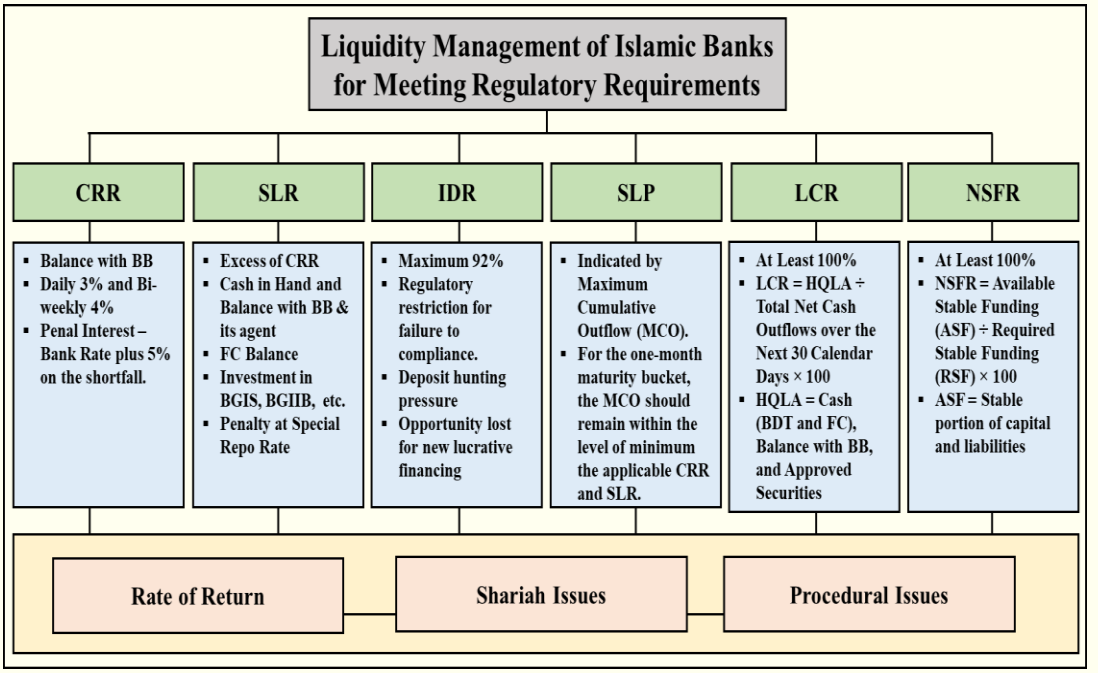
Accordingly, the framework suggests that effective liquidity management in Islamic banks requires a comprehensive approach that simultaneously addresses regulatory compliance surplus liquidity management, and deficit liquidity management while taking into consideration profitability, cost, operational efficiency, and Shariah compliance.

3.1 Regulatory Liquidity Management for Islamic Banks in Bangladesh

Banks in Bangladesh are required to maintain several regulatory liquidity requirements prescribed by Bangladesh Bank to ensure their ability to meet financial obligations and contribute to the overall stability of the banking system. The two primary statutory liquidity requirements are CRR and SLR, which are imposed under the provisions of the Bangladesh Bank Order 1972 and the Bank Company Act 1991. These requirements serve as the fundamental liquidity buffers for banks and are intended to strengthen their resilience against liquidity shocks.
In addition to CRR and SLR, Islamic banks need to comply with a number of prudential liquidity standards introduced in line with the Basel III framework. These include LCR and NSFR. Consequently, Islamic banks in Bangladesh are required to maintain liquidity through a combination of statutory reserve requirements, prudential liquidity ratios, and Shariah-compliant liquidity management instruments.

Furthermore, Bangladesh Bank has prescribed the Investment-Deposit Ratio (IDR) for Islamic banks through DOS Circular No. 02 dated April 12, 2020. The ratio is intended to ensure prudent deployment of deposits and prevent excessive concentration of funds in financing and investment activities that may adversely affect liquidity. Collectively, CRR, SLR, LCR, NSFR, and IDR constitute the core regulatory framework for liquidity management of Islamic banks in Bangladesh. Liquidity management approach of Islamic banks for meeting regulatory requirement is summarized in Figure 3.2.

Figure 3.2: Liquidity Management of IBs for Meeting Regulatory Requirement



***Source**: Authors' Compilation*

Cash Reserve Ratio (CRR)

Under Article 36(1) of the Bangladesh Bank Order, 1972 and Section 33(1) of the Bank Company Act, 1991, all scheduled banks in Bangladesh are required to maintain a minimum level of liquid assets against their demand and time liabilities. One of the principal regulatory liquidity requirements is the Cash Reserve Ratio (CRR), which requires banks to maintain a prescribed percentage of their Average Total Demand and Time Liabilities (ATDTL) as cash reserves with Bangladesh Bank.

The CRR serves as a primary liquidity buffer for banks and is also used by Bangladesh Bank as an important monetary policy instrument to regulate liquidity and money supply in the economy. By requiring banks to hold a portion of their liabilities as cash reserves, the CRR enhances their ability to meet withdrawal demands and contributes to the overall stability of the banking system.

For the purpose of CRR calculation, the requirement is based on the Average Total Demand and Time Liabilities (ATDTL) of a bank. At present, scheduled banks are required to maintain a minimum daily CRR of 3.00 percent and a bi-weekly average CRR of 4.00 percent of their ATDTL for Domestic Banking Operations (DBO), or such rates as may be prescribed by Bangladesh Bank from time to time (MPD

Circular No. 01 dated March 4, 2025 and FE Circular No. 07 dated February 29, 2024).

The CRR is maintained through balances held in current accounts with Bangladesh Bank in local currency (BDT). These balances must remain free from any encumbrance and readily available for regulatory purposes. Accordingly, any portion of the balance that is subject to lien or other encumbrances, including liens against discounting facilities or capital liens applicable to foreign banks, is excluded from the computation of maintained reserves and excess reserves.

Statutory Liquidity Ratio (SLR)

Another important regulatory liquidity requirement for Islamic banks is SLR. Accordingly, banks require to maintain a prescribed percentage of their ATDTL in the form of approved liquid assets. The objective of SLR is to ensure that banks maintain an adequate stock of high-quality liquid assets to meet their obligations and withstand liquidity stress while promoting the overall stability of the banking system.

Unlike the Cash Reserve Ratio (CRR), which is maintained solely in cash balances with Bangladesh Bank, the SLR may be maintained through a combination of approved liquid assets, including cash, balances with designated institutions, and approved securities. Accordingly, SLR serves as an additional liquidity buffer that enables banks to meet unexpected liquidity needs without disrupting their normal business operations.

At present, Islamic banks are required to maintain SLR at a minimum of 5.50 percent of their ATDTL on a daily basis for both Domestic Banking Operations (DBO) and Offshore Banking Operations (OBO), or at such rate as may be prescribed by Bangladesh Bank from time to time (MPD Circular No. 02 dated December 10, 2013 and DOS Circular No. 01 dated January 19, 2014).

For Islamic banks, the eligible components of SLR generally include cash in hand (both local and foreign currencies), balances maintained with Sonali Bank as the agent bank of Bangladesh Bank, excess CRR reserves, investments in BGIIB, unencumbered investments in BGIS, foreign currency balances, and other liquid assets approved by Bangladesh Bank. In the case of OBO, credit balances maintained in Nostro accounts in major foreign currencies such as USD, GBP, EUR, JPY, CAD, and CNY with correspondent banks may also be considered eligible for meeting the SLR requirement, subject to the conditions prescribed by Bangladesh Bank.

Failure to maintain the prescribed SLR attracts regulatory penalties. In accordance with the instructions of Bangladesh Bank, a penalty is imposed at the prevailing Special Repo Rate on the amount by which the bank's SLR falls short of the required level on a daily basis (DOS Circular No. 01, dated January 19, 2014).

Liquidity Coverage Ratio (LCR)

In addition to CRR and SLR, Islamic banks are required to comply with LCR, a key prudential liquidity standard introduced under the Basel III framework. The LCR is designed to enhance the short-term resilience of banks by ensuring that they maintain an adequate stock of High-Quality Liquid Assets (HQLA) to withstand severe liquidity stress scenarios. Specifically, banks are required to hold sufficient HQLA to cover their projected net cash outflows over a 30-calendar-day stress period. The minimum regulatory requirement is an LCR of 100 percent.

The LCR is calculated as follows:

> **LCR = High-Quality Liquid Assets (HQLA) ÷ Total Net Cash Outflows over the Next 30 Calendar Days × 100**
>
> where:
>
> **Total Net Cash Outflows = Total Expected Cash Outflows – Total Expected Cash Inflows**

For regulatory purposes, total cash inflows are capped at 75 percent of total cash outflows to ensure that banks maintain a minimum level of liquid assets rather than relying excessively on anticipated inflows.

The stock of HQLA usually consists of assets that can be converted into cash quickly, with minimal or no loss of value, even during periods of market stress. For Islamic banks in Bangladesh, eligible HQLA typically include Cash in hand (both local and foreign currencies), Balances maintained with Bangladesh Bank in local and foreign currencies (excluding encumbered balances), and Unencumbered approved securities eligible under the regulatory framework.

The LCR serves as an important supervisory tool for assessing the short-term liquidity strength of banks and their ability to absorb liquidity shocks arising from unexpected withdrawals, funding disruptions, or market stress. Compliance with the LCR requirement encourages banks to maintain sufficient high-quality liquid assets and strengthens the overall resilience of the banking sector.

For Islamic banks, however, compliance with the LCR requirement presents additional challenges because of the relatively limited availability of Shariah-compliant high-quality liquid assets compared to those available to conventional

banks. The shortage of diversified and actively traded Islamic liquidity instruments may constrain the ability of Islamic banks to optimize liquidity management while maintaining profitability. Consequently, the development of a broader range of Shariah-compliant liquid instruments remains an important consideration for strengthening the liquidity management framework of Islamic banks in Bangladesh.

Net Stable Funding Ratio (NSFR)

NSFR is another important prudential liquidity standard introduced under the Basel III framework to promote the long-term resilience of banks. Unlike the LCR, which focuses on short-term liquidity needs over a 30-day stress period, the NSFR addresses structural liquidity risk over a one-year horizon by encouraging banks to maintain a stable funding profile in relation to the composition and maturity characteristics of their assets and off-balance-sheet exposures.

The NSFR is defined as the ratio of Available Stable Funding (ASF) to Required Stable Funding (RSF), and banks are required to maintain a minimum NSFR of 100 percent.

NSFR = Available Stable Funding (ASF) ÷ Required Stable Funding (RSF) × 100

Available Stable Funding (ASF) refers to the share of a bank's capital and liabilities that is likely to remain stable over a one-year horizon, even under prolonged stress conditions. Required Stable Funding (RSF), in contrast, indicates the level of stable funding needed in view of the liquidity profile and remaining maturities of the bank's assets and off-balance-sheet commitments.

The NSFR aims to reduce excessive dependence on short-term funding and limit maturity mismatches between assets and liabilities. By requiring banks to maintain sufficient stable funding, it promotes sound funding practices and strengthens resilience against prolonged liquidity stress. For Islamic banks, the NSFR is especially relevant because their financing and investment portfolios are often medium- to long-term, while deposits may be relatively short-term. The ratio encourages greater reliance on stable funding sources and helps reduce liquidity risk arising from asset-liability mismatches.

Investment Deposit Ratio (IDR)

In addition to statutory and prudential liquidity requirements, Islamic banks in Bangladesh are required to maintain the IDR, which serves as an important indicator of liquidity and funding risk. Similar to the Advance-Deposit Ratio (ADR) applicable to conventional banks, the IDR measures the proportion of total investments financed by deposits and other eligible funding sources. The ratio is

prescribed to ensure that banks do not excessively deploy their funds in financing and investment activities in a manner that could create undue liquidity pressure. The IDR is calculated by dividing total investments by total eligible liabilities, including deposits and certain additional funding sources as prescribed by Bangladesh Bank. The ratio is designed to promote prudent fund deployment and maintain an appropriate balance between liquidity and profitability.

According to DOS Circular No. 02, dated April 12, 2020, the maximum permissible IDR for Islamic banks is 92 percent, while the corresponding ADR for conventional banks is 87 percent. By imposing a ceiling on the IDR, Bangladesh Bank seeks to ensure that Islamic banks retain sufficient liquidity to meet withdrawal demands and other obligations while supporting sustainable growth in financing and investment activities.

Structural Liquidity Profile (SLP) and Maximum Cumulative Outflow (MCO)

According to Asset-Liability Management (ALM) Guidelines, 2016, Bangladesh Bank requires banks to prepare a Structural Liquidity Profile (SLP) to assess the maturity transformation of assets and liabilities in both local and foreign currencies. The SLP presents expected cash inflows and outflows across different maturity buckets and helps identify potential liquidity mismatches. A negative liquidity gap in any maturity bucket may serve as an early warning signal, indicating the need to realign the maturity structure of assets and liabilities.

An important indicator derived from the SLP is the Maximum Cumulative Outflow (MCO) ratio, which measures the maximum cumulative net cash outflow in a specified maturity bucket in relation to the bank's available liquidity resources. For the one-month maturity bucket, the MCO should generally remain within the level of minimum regulatory liquidity reserves, including the applicable CRR and SLR. Under the earlier regulatory benchmark, the MCO for conventional banks would be 17 percent, equivalent to the combined CRR and SLR requirements of 4 percent and 13 percent, respectively. Shariah-based banks are also permitted to maintain the MCO, considering their relatively higher IDR and the shorter-term nature of certain investment assets.

For longer maturity buckets, banks are required to set prudent MCO limits through their Board of Directors, or through the Asset-Liability Management Committee (ALCO) in the case of foreign banks, considering the institution's business model, funding structure, liquidity risk appetite, and overall strategy. Since the MCO limit may significantly influence a bank's ability to deploy funds and manage liquidity

risk, the Board and ALCO should establish these limits with due caution and periodically review them.

Banks are required to prepare the SLP and calculate the MCO in accordance with Bangladesh Bank instructions, including DOS Circular No. 02 dated March 29, 2011. Conventional banks operating Islamic banking activities should prepare a combined SLP and MCO to obtain a comprehensive view of the bank's overall liquidity position.

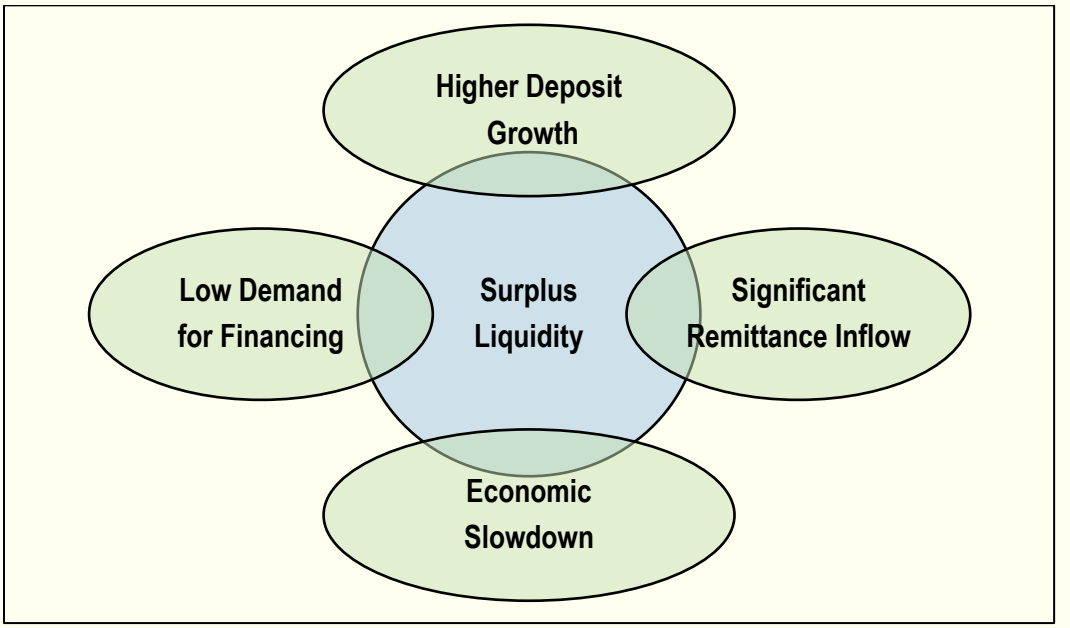
For the one-month maturity bucket, the Maximum Cumulative Outflow (MCO) ratio may be calculated as follows:

$$\textbf{MCO} = \frac{\textit{Total outflow up to one month + Total OBS up to one month}}{\textit{Total inflows + Net Nostro A/c balance + Available FC balance with BB}}$$

3.2 Liquidity Management of Islamic Banks in Surplus Position

Surplus liquidity generally arises from strong deposit growth, significant inward remittance inflows, weak investment demand, limited financing opportunities, and overall economic slowdown (Figure 3.3). These factors may lead to the accumulation of excess funds within the banking system. Effective management of such surplus liquidity is essential to ensure the productive utilization of funds, enhance profitability, and maintain the financial stability and soundness of banks.

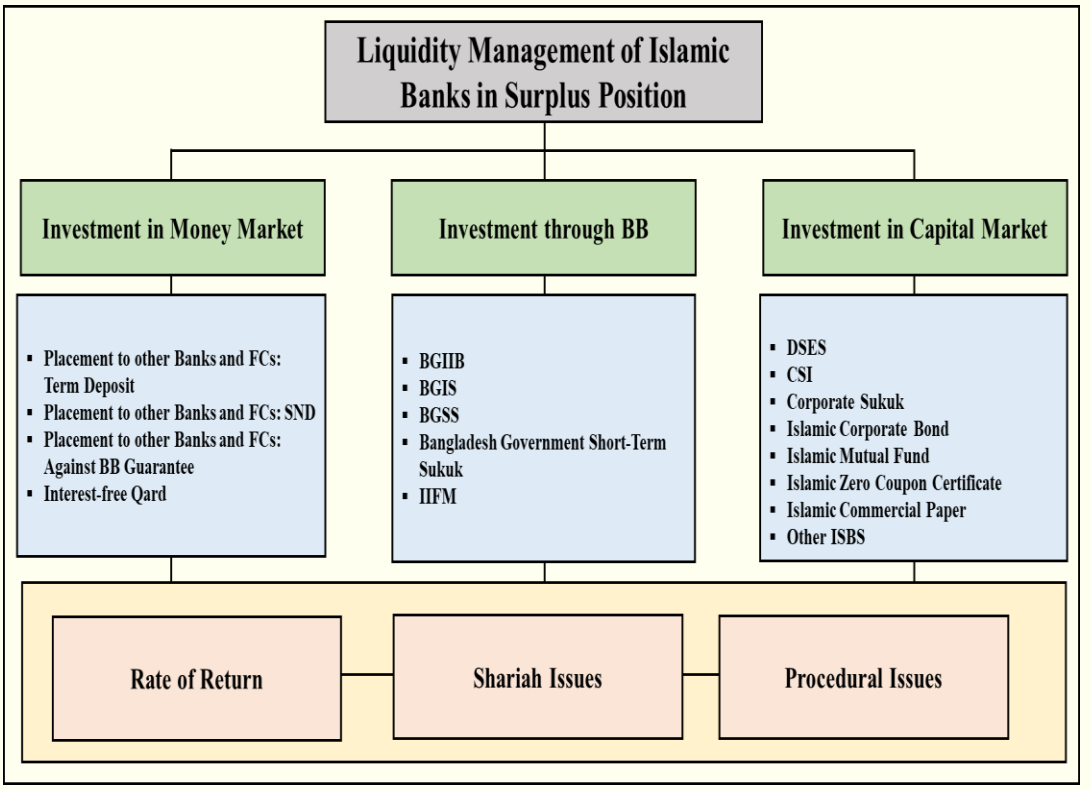
Figure 3.3: General Reasons for Surplus Liquidity



Source: *Authors' Compilation*

Management of surplus liquidity is a critical component of treasury operations in Islamic banks. Surplus liquidity arises when the available funds of a bank exceed its financing, investment, and regulatory liquidity requirements. While maintaining adequate liquidity is essential for ensuring financial stability and meeting unexpected obligations, excessive idle funds may adversely affect profitability and reduce returns to depositors and shareholders. Therefore, Islamic banks are required to deploy surplus funds through Shariah-compliant investment avenues that generate reasonable returns while preserving liquidity and minimizing risk. In Bangladesh, surplus liquidity may be invested through Bangladesh Bank instruments such as BGIIB, BGIS, BGSS, and IIFM; capital market instruments such as Shariah-compliant equities, corporate Sukuk, Islamic corporate bonds, and Islamic mutual funds; and money market placements, including Mudarabah-based term deposits and Special Notice Deposits (SND). The effectiveness of these investment avenues depends on factors such as the availability of instruments, expected rate of return, Shariah compliance requirements, and operational or procedural considerations associated with investment, redemption, and liquidation.

Figure 3.4: Liquidity Management of Islamic Banks in Surplus Position



Source: *Authors' Compilation*

Bangladesh Government Islamic Investment Bond (BGIIB)

The Government of Bangladesh introduced the BGIIB in September 05, 2004 to provide Islamic banks with a Shariah-compliant avenue for investing surplus liquidity and meeting statutory liquidity requirements. The instrument operates under the Bangladesh Government Islami Investment Bond (Islami Bond) Rules, 2004, subsequently amended in 2014 (through DMD Circular No. 05 dated September 01, 2014). Structured on the principles of Mudarabah, the BGIIB enables Shariah-based banks, finance companies and individuals to invest their excess funds.

The BGIIB is structured as a pooled Mudarabah arrangement under the prescribed regulatory framework. In this structure, participating Islamic banks, Islamic banking branches, financial institutions, and eligible individuals invest funds in a common pool. Bangladesh Bank acts as the Mudarib or fund manager, while the investors act as Rabb al-Mal or capital providers. The profit-sharing ratio between the investors and the Mudarib is fixed at 90:10.

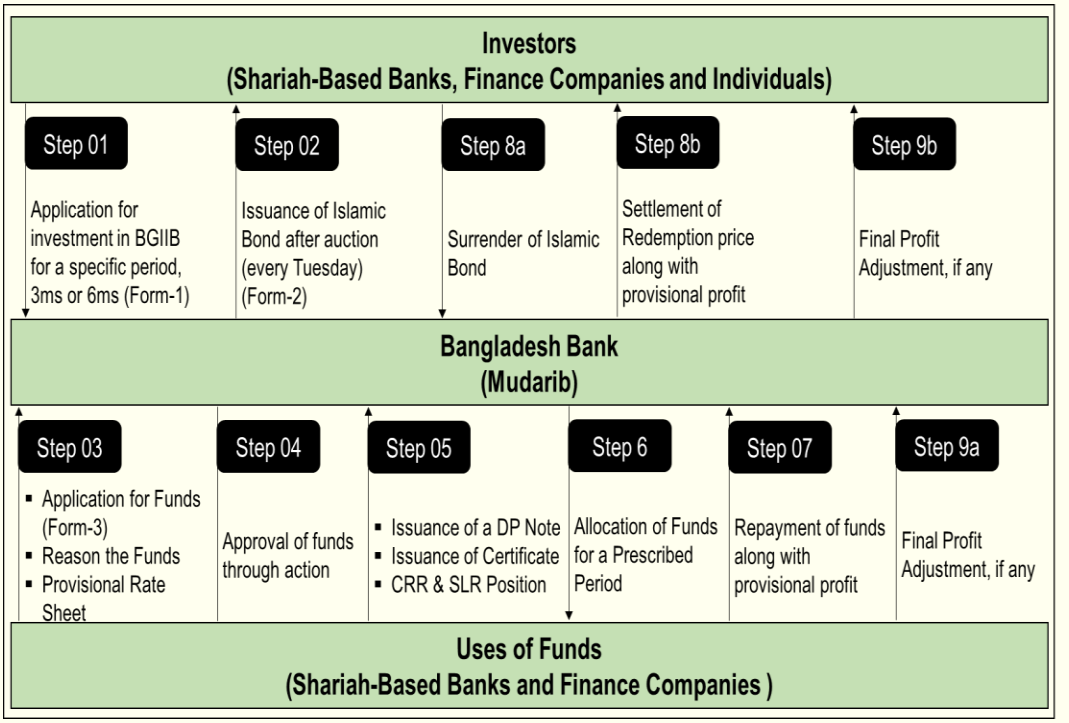
The instrument supports short-term liquidity management through three-month and six-month maturities. BGIIB funds are invested and allocated through periodic auctions, currently held every Tuesday. The six-month BGIIB was introduced in 2004, while the three-month BGIIB was introduced in January 2015. The auctions of one-year and two-year Islamic Bonds have remained suspended since January 2015

Unlike conventional government securities that offer predetermined interest, the return on BGIIB is linked to the actual profit generated from the utilization of the Mudarabah funds. The profit rate is benchmarked to the prevailing three-month and six-month Mudarabah Term Deposit Receipt (MTDR) rates applicable to the institutions utilizing the funds. Initially, profit is paid at a provisional rate upon maturity of the bond, which is subsequently adjusted based on the actual performance of the investment pool, with final settlement generally completed by 31 March of the following year. Consequently, the return on BGIIB varies according to the profitability of the underlying investments financed through the Mudarabah pool.

In addition to serving as an avenue for investing surplus liquidity, BGIIB is recognized by Bangladesh Bank as an eligible component of the SLR for Islamic banks. Furthermore, funds obtained through BGIIB are not deducted or netted off against SLR holdings when calculating compliance with the regulatory liquidity requirement. As a result, the instrument plays a dual role by supporting both liquidity management and regulatory compliance. Since its introduction, BGIIB has

remained one of the most important Shariah-compliant liquidity management instruments available to Islamic banks in Bangladesh. Nevertheless, several concerns have been raised regarding its limited maturity structure, lack of an active secondary market, limited tradability, and competitiveness relative to conventional liquidity management instruments. In addition, some Shariah scholars and practitioners have expressed concerns regarding the mechanism of provisional profit distribution and subsequent adjustment, arguing that a significant and persistent divergence between provisional and actual profits may raise Shariah governance and transparency issues that warrant careful attention.

Figure 3.5: Operational Procedures of BGIIB



Source: Authors' Compilation

Bangladesh Government Investment Sukuk including Special Sukuk (BGSS)

BGIS was introduced by the Government of Bangladesh as a Shariah-compliant instrument for mobilizing funds to finance development projects while simultaneously providing Islamic financial institutions with an alternative investment avenue for managing surplus liquidity. The first sovereign Sukuk was issued on December 28, 2020. Since then, the Government has issued several Sukuk to finance various development and infrastructure projects.

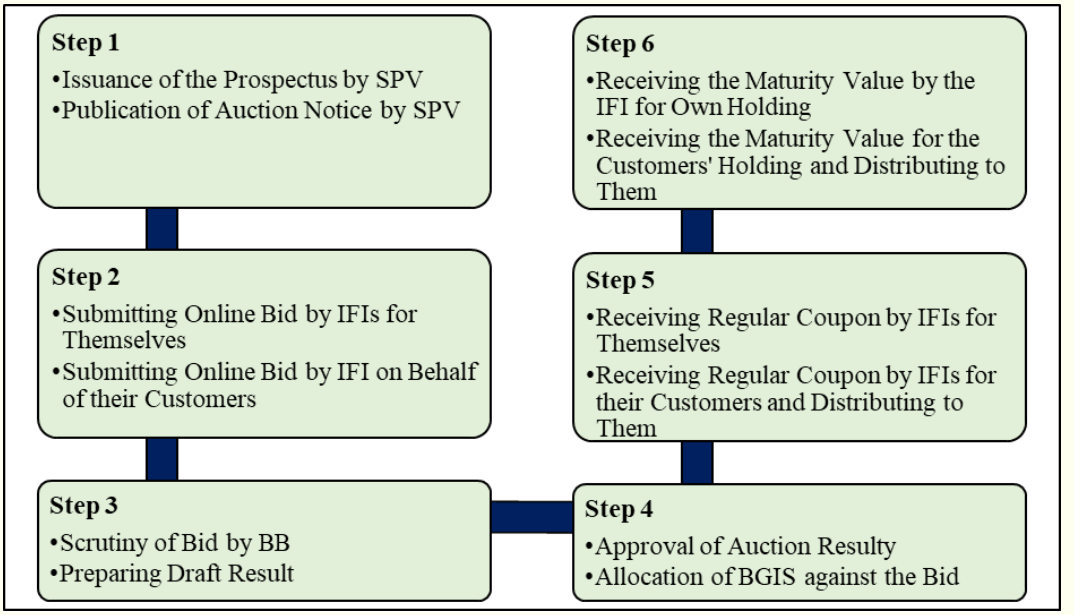
The Sukuk certificates held by banks and financial institutions qualify as approved securities for meeting SLR requirement prescribed by Bangladesh Bank. Unlike BGIIB, which is primarily a short-term liquidity management instrument, BGIS offers a long-term investment opportunity with maturities ranging from five to ten years. At this moment, there is no short-term BGIS however, expecting to have very soon.

Investors receive periodic income generated from the underlying assets. For the inaugural Sukuk issue, the rental rate was fixed at 4.69 percent per annum, payable on a semi-annual basis whereas BGIS-9 offers 9.75 percent per annum. As a sovereign instrument backed by the Government, BGIS is generally considered a low-risk investment and has often provided returns that are competitive with conventional government securities.

According to DMD Circular Letter No. 13 dated August 4, 2025, a total of 80 percent of the publicly offered Sukuk certificates are allocated to Shariah-based banks, Islamic finance companies, Islamic insurance companies, and Islamic banking operations of conventional banks and financial institutions. This preferential allocation framework reflects the policy objective of supporting the growth of Islamic finance and ensuring the availability of Shariah-compliant investment opportunities for Islamic financial institutions. Through this arrangement, Islamic banks and other Islamic financial institutions are able to secure a significant share of Sukuk issuances, thereby enhancing their ability to invest surplus liquidity, diversify investment portfolios, and meet regulatory liquidity requirements through Shariah-compliant instruments. Consequently, the BGIS has become an increasingly important component of liquidity management and SLR compliance for Islamic financial institutions in Bangladesh.

Figure 3.6 illustrate an indicative operational process flow of investment in BGIS. The process flow BGSS and short-term Sukuk may differ based on the structure and underlying features.

Figure 3.6: Indicative Operational Procedures of Investment in BGIS



Source: *Authors' Compilation*

Islami Interbank Fund Market (IIFM)

IIFM was introduced by Bangladesh Bank through DOS Circular Letter No. 23 dated December 27, 2011 to facilitate liquidity management among Islamic banks and Islamic banking operations of conventional banks in Bangladesh. The primary objective of the IIFM was to establish a Shariah-compliant interbank liquidity management platform that would enable Islamic financial institutions to manage temporary surplus and deficit liquidity positions efficiently. The initiative was designed to provide an Islamic alternative to the conventional call money market and strengthen liquidity integration among Islamic banking institutions.

Under the framework, Islamic Shariah-based scheduled banks and Islamic banking branches or windows of conventional banks may place their excess funds in the Islamic Bond Fund (IBF) after meeting their own liquidity requirements. The IBF acts as a custodian and intermediary for the placement and allocation of funds among participating institutions. All transactions under the IIFM are conducted on the basis of Mudarabah, whereby surplus banks provide funds and recipient institutions utilize the funds for Shariah-compliant financing and investment activities.

The profit generated from the utilization of funds is distributed among the providers of funds based on the actual performance of the recipient institutions. A provisional profit is calculated and distributed on a daily basis, which is subsequently adjusted based on the final annual profit rate declared by the recipient institutions for the

corresponding calendar year. No profit is payable if the placed funds remain unutilized. The allocation of funds among recipient institutions is generally determined according to the Profit-Sharing Ratio (PSR) prescribed under the framework. The maturity of placements is typically overnight; however, where holidays intervene, the maturity is automatically extended until the next working day.

The IIFM was established to address short-term liquidity mismatches and provide emergency liquidity support among Islamic banks. Despite its potential benefits, the IIFM has not developed into an active and vibrant interbank market. Discussions with industry practitioners indicate that participation in the market has remained limited due to relatively low rates of return compared to alternative liquidity management instruments, operational constraints, and the availability of other investment avenues. As a result, the IIFM is currently not being utilized as an effective liquidity management tool by most Islamic banks, limiting its contribution to the development of an active Islamic money market in Bangladesh.

Utilization of Surplus Liquidity through the Islamic Money Market

Islamic banks may also deploy their surplus liquidity through the Islamic money market using various Shariah-compliant interbank placement arrangements under Mudarabah principle. Given the importance of liquidity, return, and ease of encashment, Islamic banks frequently place excess funds with other Islamic banks and Islamic banking operations through instruments such as Mudarabah-based term deposits and Mudarabah Special Notice Deposits (SNDs). These placements provide an avenue for earning returns on temporarily idle funds while preserving liquidity and maintaining flexibility in fund management. The Islamic interbank market therefore plays an important role in facilitating the efficient allocation of liquidity among participating institutions by channeling surplus funds from liquidity-rich banks to those experiencing temporary liquidity shortages. Consequently, it contributes to balancing liquidity positions within the Islamic banking system and enhances the overall effectiveness of liquidity management in the industry. Nevertheless, a key concern in the Islamic money market relates to ensuring Shariah compliance in the execution process, particularly with regard to the calculation and distribution of profits between fund providers and fund recipients. Transparency and adherence to Mudarabah principles are essential to maintaining the Shariah integrity of such transactions

Investment in Capital Market

In addition to investments in Bangladesh Bank instruments and the Islamic money market, Islamic banks may deploy a portion of their surplus liquidity in the capital market to diversify their investment portfolios and enhance returns. Compared with money market instruments, capital market investments generally offer the potential for higher returns, although they also expose banks to greater market risk, price volatility, and liquidity risk. Consequently, such investments are typically undertaken within the limits prescribed by regulatory authorities and the bank's internal risk management framework.

Islamic banks primarily invest in Shariah-compliant equities listed under the DSE Shariah Index (DSES) of the Dhaka Stock Exchange and the Chittagong Stock Exchange Shariah Index (CSI). These indices comprise companies that satisfy prescribed Shariah screening criteria relating to business activities, financial ratios, and income sources. In addition, Islamic banks may invest in corporate Sukuk along with Islamic corporate bonds.

Other potential capital market instruments include Shariah-based mutual funds, Islamic Zero- Coupon Certificates, Islamic Commercial Papers, and other Islamic Securities Based Securities (ISBS) that comply with applicable Shariah and regulatory requirements set by Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank. These instruments provide opportunities for income generation, portfolio diversification, and efficient deployment of surplus liquidity while maintaining adherence to Islamic financial principles.

Despite these opportunities, the scope of capital market investment by Islamic banks in Bangladesh remains relatively limited due to the shortage of diversified Shariah-compliant instruments, the underdeveloped secondary market, liquidity constraints, and concerns relating to valuation and market volatility. Consequently, the development of a broader range of tradable Islamic capital market instruments is essential for strengthening the liquidity management framework of Islamic banks and enhancing the efficiency of surplus fund deployment.

3.3 Liquidity Management of Islamic Banks in Deficit Position

A liquidity deficit arises when the demand for liquidity exceeds the available supply of funds. Such situations may create significant challenges for banks in meeting their short-term obligations, including depositor withdrawals, settlement of interbank transactions, supplier payments, operating expenses, regulatory compliance, and other contractual commitments. Compared with the management of surplus liquidity, liquidity management in a deficit position is considerably more

critical because failure to obtain funds in a timely manner may disrupt normal banking operations, damage customer confidence, and expose the institution to liquidity and reputational risks. The challenge is even greater for Islamic banks because Shariah requirements restrict access to conventional interest-based funding sources, thereby limiting the range of available liquidity management options. Consequently, Islamic banks must rely on a relatively narrow set of Shariah-compliant instruments and facilities to address liquidity shortages.

Several factors contribute to liquidity shortages in the Islamic banking sector of Bangladesh. Persistent growth in non-performing investments (NPIs), delays in investment recovery, weak deposit growth, and aggressive government borrowing from the banking system may reduce the availability of funds and create liquidity pressures. In addition, monetary tightening measures adopted by Bangladesh Bank to control inflation may absorb liquidity from the banking sector and further constrain funding availability. Economic downturns, financial market volatility, geopolitical conflicts, and other external shocks may also trigger liquidity stress by increasing uncertainty and weakening depositor confidence. Furthermore, incidents of large-scale financial irregularities, governance failures, or adverse media reports may discourage deposit mobilization and accelerate withdrawals. Asset-liability mismatches arising from differences in the maturity structure of deposits and investments constitute another major source of liquidity risk. Liquidity shortages may also intensify during seasonal and occasional periods of high cash demand, such as religious festivals, agricultural harvesting seasons, and large government payment cycles. Therefore, the timely identification and effective management of liquidity deficits are essential for ensuring operational continuity, maintaining public confidence, and safeguarding the financial stability of Islamic banks. The summary of primary reasons for liquidity crisis is depicted in Box 3.1.

Box 3.1: Major Causes of Liquidity Deficits in Islamic Banks

- **High Growth of Non-Performing Investments (NPIs)**, reducing cash inflows and limiting the recycling of funds.
- **Delay in Recovery of Investments and Receivables**, causing liquidity to remain locked in financing portfolios.
- **Weak Deposit Growth or Deposit Withdrawal Pressure**, resulting in a mismatch between funding requirements and available resources.
- **Decline in Inward Remittance Inflows**, which may adversely affect deposit growth and liquidity availability, particularly for Islamic banks that rely heavily on remittance-linked deposits as a significant source of funding.
- **Asset-Liability Mismatches**, arising from differences in the maturity profiles of deposits and investments.

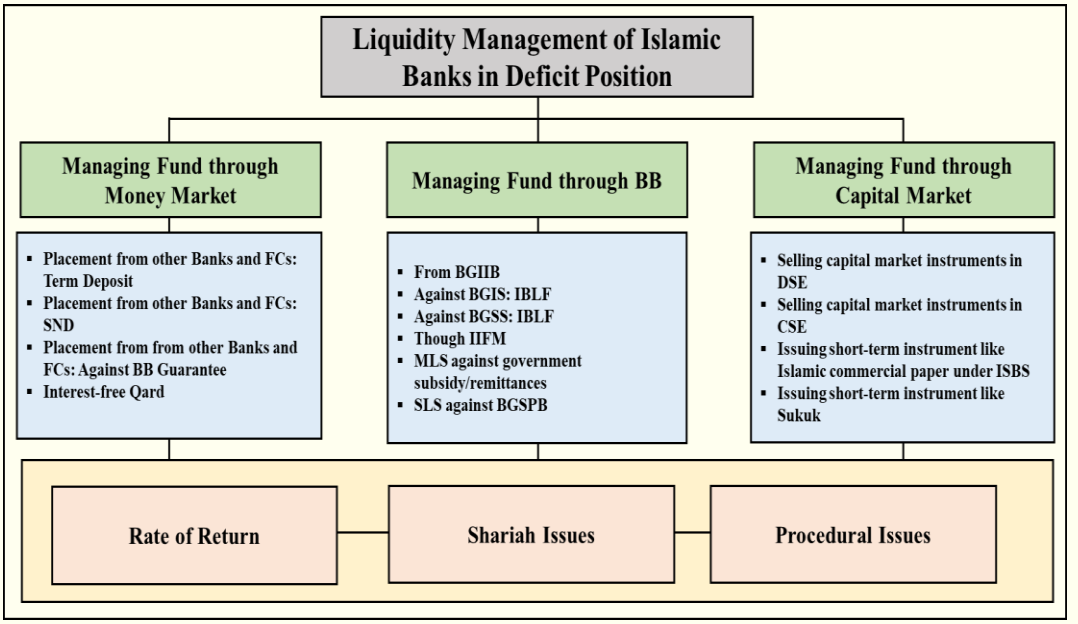
- **Excessive Investment Expansion**, where financing growth outpaces deposit mobilization and stable funding sources.
- **Limited Availability of Shariah-Compliant Liquidity Management Instruments**, restricting access to alternative funding sources during liquidity stress.
- **Underdeveloped Islamic Interbank Money Market**, limiting opportunities for short-term liquidity placement and borrowing.
- **Monetary Tightening Measures by Bangladesh Bank**, which may absorb liquidity from the banking system and increase funding constraints.
- **Large-Scale Government Borrowing from the Banking Sector**, reducing the volume of funds available to banks.
- **Economic Slowdown and Business Recession**, adversely affecting investment recovery and deposit mobilization.
- **Financial Market Volatility and External Shocks**, including geopolitical conflicts, exchange rate instability, and global financial crises.
- **Loss of Depositor Confidence**, resulting from financial irregularities, governance weaknesses, adverse media reports, or reputational concerns.
- **Seasonal and Event-Based Cash Demand**, particularly during religious festivals, agricultural harvesting periods, and major government payment cycles.
- **Foreign Currency Liquidity Shortages**, arising from trade imbalances, exchange rate pressures, and limited access to Shariah-compliant foreign currency funding sources.
- **Concentration of Deposits or Financing Portfolios**, which may expose banks to sudden liquidity shocks if major depositors withdraw funds or large investments become impaired.

Source: *Authors' Compilation*

Figure 3.7 presents the conceptual framework for liquidity management of Islamic banks in a deficit position. When an Islamic bank experiences a shortage of liquidity, it may obtain funds through three broad channels: the Islamic money market, Bangladesh Bank facilities, and capital market instruments. Funding through the Islamic money market may be arranged through Mudarabah-based placements, including term deposits, Special Notice Deposits (SND), and placements supported by Bangladesh Bank guarantees. In addition, liquidity shortages may be addressed through the capital market by liquidating existing investments in Shariah-compliant securities, issuing short-term instruments such as Sukuk, Islamic commercial papers, or other Islamic securities and bonds (ISBS).

Along with BGIIB and IIFM, Islamic banks may also access liquidity support from Bangladesh Bank through various Shariah-compliant mechanisms, such as IBLF, MLF, and SLS.

Figure 3.7: Liquidity Management of Islamic Banks in Deficit Position



Source: Authors' Compilation

Islamic Banks Liquidity Facility (IBLF)

To strengthen the liquidity management framework of Islamic banks and deepen the Islamic financial system, Bangladesh Bank introduced IBLF through DMD Circular No. 03 dated December 5, 2022. The facility was designed to provide short-term liquidity support to scheduled Islamic banks operating in Bangladesh through a Shariah-compliant mechanism.

The IBLF is structured on the basis of a Mudarabah contract, whereby Bangladesh Bank acts as the investor (Rab al-Mal) and the participating Islamic bank acts as the investment manager (Mudarib). Under this arrangement, Bangladesh Bank provides liquidity support against eligible collateral, enabling Islamic banks to meet short-term funding requirements without resorting to conventional interest-based borrowing facilities.

As originally introduced under DMD Circular No. 03 of 2022, the IBLF had a tenor of 14 days and the applicable profit rate was linked to the respective bank's three-month MTDR rate. Subsequently, the operational framework was revised, and currently the facility is generally provided for a tenor of seven days, with rollover facilities available subject to the payment of profit and compliance with Bangladesh Bank requirements. The applicable profit rate is now linked to the respective bank's one-month MTDR rate. Eligible collateral consists of unencumbered BGIS or BGSS, against which a haircut of 5 percent is applied. The entire security remains

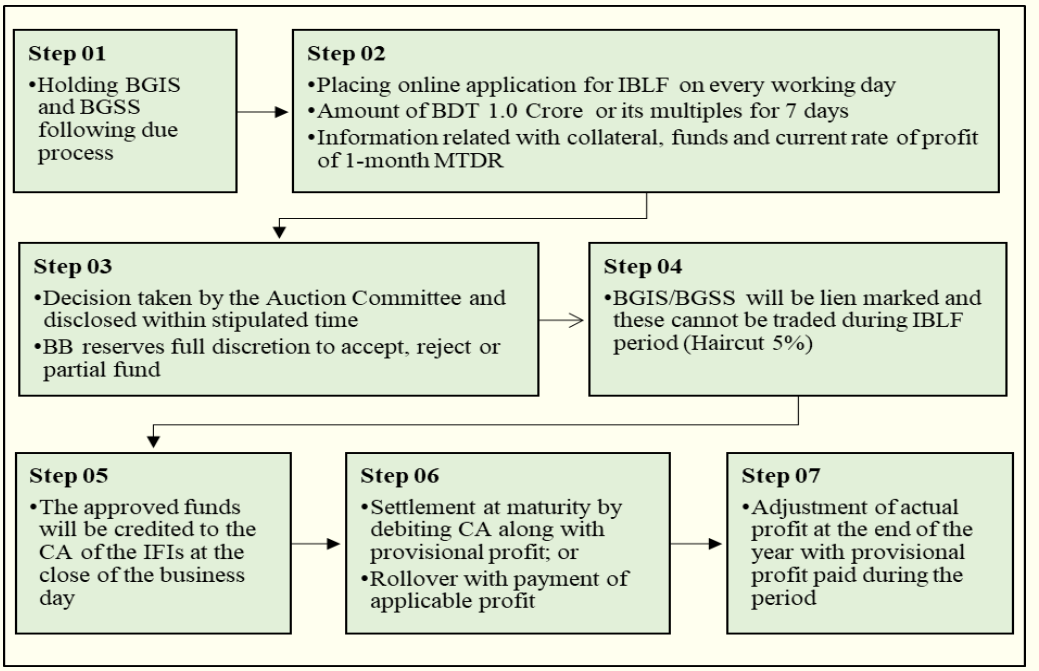
under lien in favor of Bangladesh Bank during the facility period. The participating institution continues to receive any interim periodic income from the underlying collateral during the period.

Islamic banks may apply for the facility on any working day through online platform. The minimum application amount is BDT 1.0 crore, or multiples thereof. Upon approval of the Auction Committee of Bangladesh Bank, the liquidity support amount is credited to the current account of the concerned institution on the same business day. Bangladesh Bank reserves the right to approve, partially approve, or reject any application.

At maturity, Bangladesh Bank recovers the principal amount along with the applicable profit by debiting the current account of the IFI and subsequently releases the collateral. If the maturity date falls on a holiday, the tenor is automatically extended to the next working day, and the profit is calculated accordingly. As with other Mudarabah-based arrangements, the provisional profit is subject to adjustment at the end of the calendar year based on the actual profit performance of the participating institution.

The introduction of the IBLF marks an important step in expanding Shariah-compliant liquidity management instruments in Bangladesh. An indicative operational procedure of IBLF is depicted in Figure 3.8.

Figure 3.8: Operational Procedures of IBLF for IFIs



Source: *Authors' Compilation*

Mudarabah Liquidity Support (MLS)

To provide an additional Shariah-compliant liquidity support mechanism during periods of temporary liquidity stress, Bangladesh Bank introduced MLS through DMD Circular No. 02 dated February 5, 2023. The facility is designed to serve as a contingency liquidity management tool for Islamic banks facing interim liquidity shortages under exceptional circumstances. Unlike the Islamic Banks Liquidity Facility (IBLF), which is collateralized by Sukuk holdings, MLS utilizes specific claims of banks against the Government of Bangladesh as eligible collateral.

The MLS is structured on the basis of a Mudarabah contract, whereby Bangladesh Bank acts as the investor (Rab al-Mal) and the participating Islamic bank acts as the investment manager (Mudarib). Under this arrangement, Bangladesh Bank provides liquidity support against eligible government receivables that are expected to be received by the participating bank in the future.

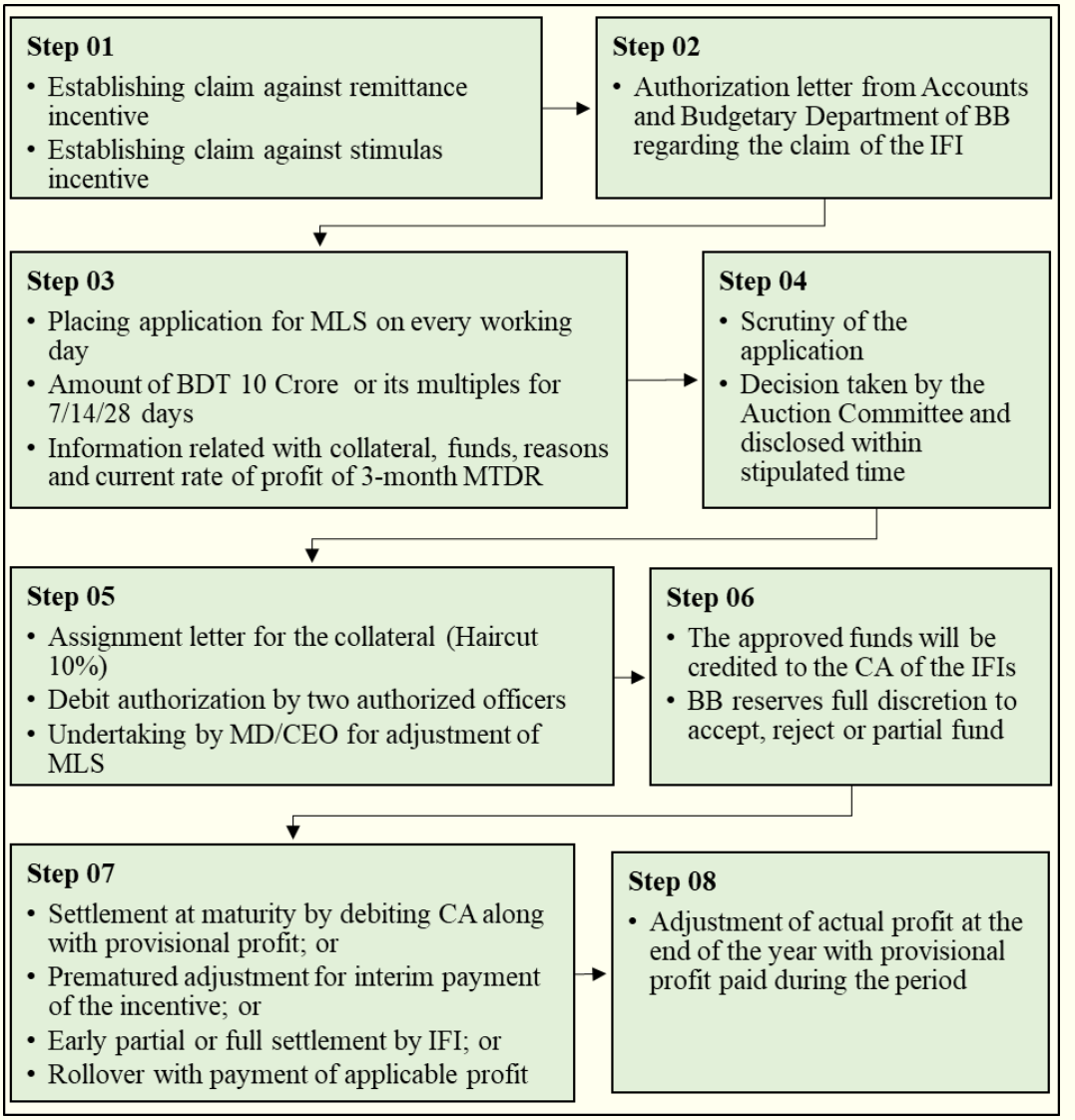
The eligible collateral for MLS consists of approved claims of banks against the Government of Bangladesh arising from special schemes and incentive programs. These include:

(i) claims relating to remittance incentives payable by the Government against inward remittance transactions, and

(ii) claims relating to financial stimulus and incentive schemes, including government subsidy claims under industrial, service sector, and CMSME stimulus programs.

To be eligible, such claims must be duly lodged with and approved by the concerned department of Bangladesh Bank.

Figure 3.9: Operational Procedures of MLS to IFIs



Source: *Authors' Compilation*

The expected profit rate under MLS is linked to the prevailing three-month Mudarabah Term Deposit Receipt (MTDR) rate of the respective bank. The facility is available for tenors of 7, 14, and 28 days, while profit is calculated using the Actual/Actual day-count convention. The minimum amount that may be availed under the facility is BDT 10 crore, or multiples thereof.

To mitigate risk, Bangladesh Bank applies a haircut of 10 percent on the eligible collateral value. The same haircut rate applies to both remittance incentive claims and financial stimulus or incentive claims. During the tenure of the facility, the collateral is assigned in favor of Bangladesh Bank and may be utilized to recover

losses arising from negligence, misconduct, breach of contract, or other relevant circumstances attributable to the participating institution.

Islamic banks may apply for MLS on any working day through the prescribed procedure. Following review and approval by the concerned departments and the Auction Committee of Bangladesh Bank, the approved amount is credited to the current account of the participating institution. Bangladesh Bank retains full discretion to approve, partially approve, or reject any application based on regulatory and liquidity considerations.

At maturity, Bangladesh Bank recovers the principal amount and the applicable profit by debiting the current account of the IFI and subsequently releases the assigned collateral. Provision has also been made for partial or full early settlement, in which case profit is calculated only for the actual holding period. If any payment relating to the assigned claims is received during the tenure of the facility, the amount is adjusted accordingly. Similar to other Mudarabah-based liquidity facilities, the provisional profit is adjusted at the end of the calendar year based on the actual profit performance of the participating institution (Figure 3.9).

Special Liquidity Support (SLS)

To further strengthen the liquidity management framework of Islamic banks, Bangladesh Bank introduced SLS facility in 2024 (Ref. DMD/239/2024-148, dated January 18, 2024). The facility was designed as an emergency Shariah-compliant liquidity support mechanism for Islamic banks by utilizing interest free Shariah-based Special Bonds issued by the Government of Bangladesh. The SLS is structured as a Qard (interest-free loan) facility, with the Special Bonds serving as collateral (Rahn) against which liquidity support is provided.

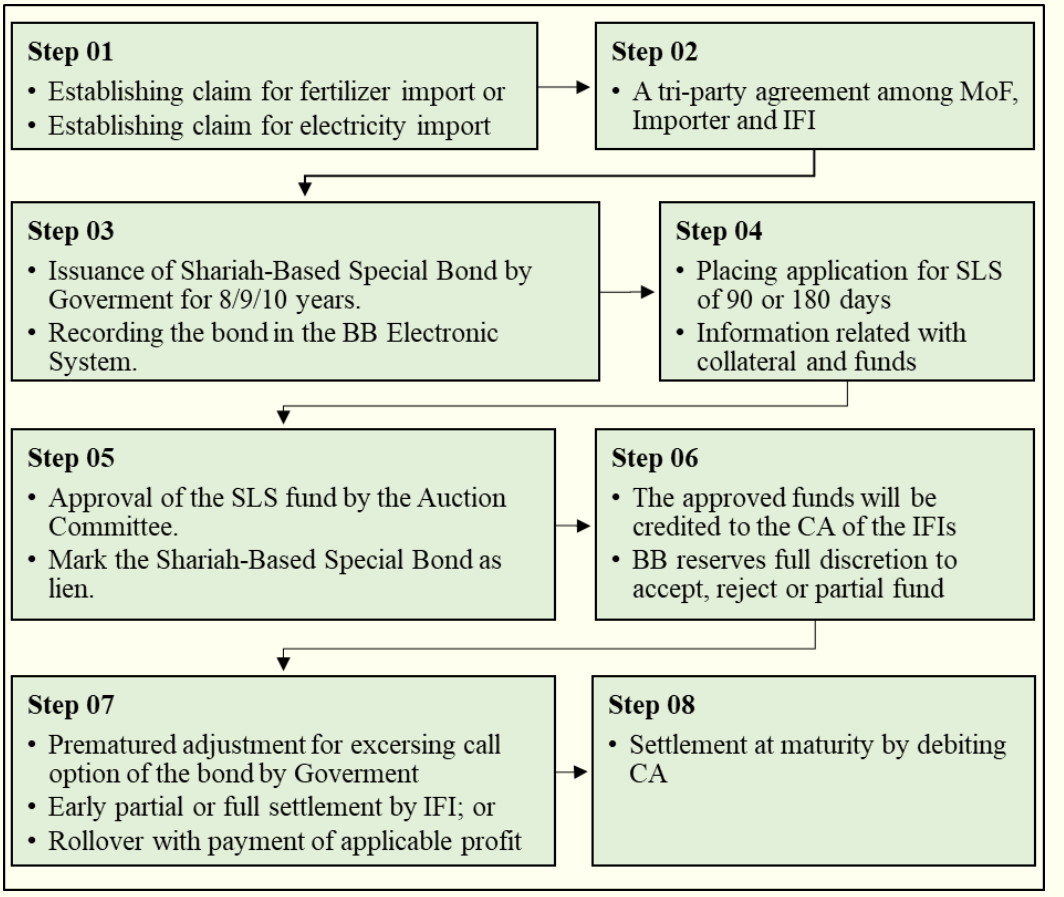
Under this framework, Islamic banks may obtain liquidity support from Bangladesh Bank by pledging unencumbered Shariah-based Special Bonds. The amount of liquidity support is generally equivalent to the face value of the pledged bonds. Furthermore, where the Government exercises a call option and redeems the underlying Special Bonds, the concerned bank remains eligible to receive SLS against the corresponding amount, subject to the applicable terms and conditions prescribed by Bangladesh Bank.

Unlike other liquidity facilities based on Mudarabah, the SLS is provided on a profit-free basis, reflecting its nature as a Qard. The facility is available for tenors of 90 or 180 days, providing greater flexibility for banks facing temporary liquidity stress. The underlying Special Bonds generally represent claims of banks against

the Government of Bangladesh arising from subsidies payable to importers of essential commodities, including fertilizer and electricity.

To avail the facility, the participating bank is required to electronically mark a lien on the eligible Special Bonds through the Bangladesh Bank securities registry system. Upon approval, Bangladesh Bank provides liquidity support equivalent to the value of the pledged bonds. At maturity, the SLS amount is recovered by debiting the current account of the participating institution, and the lien on the pledged securities is subsequently released. In the event that the Government redeems the bonds through a call option during the tenure of the facility, the corresponding SLS balance is adjusted accordingly. Standard operational procedure is demonstrated in Figure 3.10.

Figure 3.10: Operational Procedures of SLS to IFIs



Source: *Authors' Compilation*

4. Regulatory Framework for Liquidity Management of IBs

4.1 Liquidity Management of Islamic Banks: International Standard

Sound liquidity risk management enables a bank to meet its payment, settlement, and funding obligations on time under both normal and stressed conditions. A liquidity problem in one institution may also weaken public confidence and generate broader financial-system effects, especially when the institution is large or systemically important. For this reason, international standard-setting bodies have developed various principles, standards, and supervisory guidelines to support banks in identifying, measuring, monitoring, and controlling liquidity risk.

The Basel Committee on Banking Supervision (BCBS)

BCBS has developed a comprehensive international framework for liquidity risk management and supervision. In September 2008, the BCBS issued the *Principles for Sound Liquidity Risk Management and Supervision*, commonly referred to as the *Sound Principles*. These principles provide broad guidance for banks and supervisory authorities on the governance, measurement, monitoring, and management of liquidity risk.

Following a review of the framework, the BCBS confirmed through a press release issued on 17 January 2019 that the *Sound Principles* remained fit for purpose. The Committee further advised banks and supervisors to remain vigilant regarding evolving liquidity risks in financial markets and to apply the principles consistently throughout the economic cycle, irrespective of prevailing market liquidity conditions. The review also recognized LCR and NSFR under Basel III as important complements to the broader qualitative guidance provided under the Sound Principles.

The guidance contains seventeen principles for banks and supervisory authorities and emphasizes the need for a robust liquidity risk management framework integrated with the overall risk management process of a bank.

The *Sound Principles* place particular emphasis on the approval of a liquidity risk tolerance and liquidity management strategy by the board of directors; effective governance and internal controls; regular cash-flow forecasting; comprehensive stress testing; maintenance of adequate liquidity buffers; contingency funding plans; active management of intraday liquidity; disclosure of liquidity risk information; and effective supervisory oversight. The application of these principles should be proportionate to the size, nature, complexity, and systemic importance of a bank's activities.

Following the Global Financial Crisis of 2007–2009, the BCBS strengthened the international liquidity framework under Basel III. The initial Basel III liquidity framework was issued in 2010, followed by the revised Liquidity Coverage Ratio (LCR) standard in 2013 and the final Net Stable Funding Ratio (NSFR) standard in 2014.

In addition to the LCR and NSFR, the BCBS has developed a set of liquidity monitoring tools to support the ongoing assessment of banks' liquidity risk exposures. These supplementary tools cover: (i) contractual maturity mismatch, (ii) concentration of funding, (iii) available unencumbered assets, (iv) the LCR by significant currency, and (v) market-related monitoring tools. Together, these indicators provide banks and supervisors with additional insights into cash-flow patterns, funding concentration, balance-sheet structure, asset liquidity, and potential sources of liquidity stress (BCBS, 2013a).

The BCBS has also issued a separate framework on intraday liquidity management. Developed in consultation with the Committee on Payment and Settlement Systems (CPSS), the framework provides quantitative monitoring tools to assist supervisors in assessing banks' intraday liquidity risk and their capacity to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. These tools complement the broader qualitative guidance provided in the Principles for Sound Liquidity Risk Management and Supervision (BCBS, 2013b).

Islamic Financial Services Board (IFSB)

The expanding role of Institutions Offering Islamic Financial Services (IIFS) in many jurisdictions, and their growing importance for financial stability, has increased the need for a liquidity risk management framework that reflects the distinctive features of Islamic finance. In this context, the IFSB has issued various standards, guiding principles, and technical guidance to assist IIFS in identifying, measuring, monitoring, and managing liquidity risk.

IFSB-1: *Guiding Principles of Risk Management for Institutions Offering Islamic Financial Services*, issued in December 2005, provides guidelines and best practices for establishing and implementing effective risk management systems in IIFS. The standard identifies liquidity risk as one of the six major risks faced by IIFS and sets out two specific principles relating to its management. It emphasizes the need for IIFS to maintain appropriate liquidity policies, systems, and internal controls. IFSB-1 also highlights the responsibility of supervisory authorities to facilitate Shari'ah-compliant lender-of-last-resort arrangements and other liquidity support mechanisms for IIFS where necessary (IFSB, 2005).

Building upon IFSB-1, the IFSB issued IFSB-12: *Guiding Principles on Liquidity Risk Management for Institutions Offering Islamic Financial Services* in March 2012. IFSB-12 provides 23 guiding principles for the robust management, supervision, and monitoring of liquidity risk in IIFS. The standard broadly complements international liquidity risk management practices, including those developed by the BCBS, while taking account of the distinctive contractual, operational, and Shariah-compliance features of IFI (IFSB, 2012). The brief on the areas covered by IFSB-12 primarily related with liquidity management by IFI is depicted in Box 4.1.

Box 4.1: Major Areas Covered by IFSB-12 Related with Liquidity Management

- **Board and Senior Management Oversight:** The board of directors should approve the liquidity risk tolerance, strategy, and key policies of the IIFS. Senior management should ensure the effective implementation of these policies and maintain appropriate systems, controls, and reporting arrangements.
- **Liquidity Risk Management Framework:** An IIFS should establish a sound and comprehensive liquidity risk management framework integrated with its overall enterprise risk management process. The framework should enable the institution to maintain sufficient liquidity to meet its obligations as they fall due under both normal and stressed conditions.
- **Liquidity Risk Strategy, Policies, and Procedures:** IIFS should formulate and implement a clearly defined liquidity risk management strategy supported by appropriate policies, procedures, limits, and operating guidelines. The strategy should take account of the institution's business model, funding structure, risk appetite, market access, and availability of Shariah-compliant liquidity instruments.
- **Governance Structure and Segregation of Functions:** IFSB-12 emphasizes a clear governance structure that specifies the respective roles and responsibilities of the board of directors, senior management, Assets and Liabilities Committee (ALCO), treasury function, risk management function, Shari'ah Supervisory Board, and other relevant business units. Appropriate segregation should be maintained between liquidity risk-taking, monitoring, control, and review functions.
- **Liquidity Risk Identification, Measurement, Monitoring, and Reporting:** IIFS should establish effective processes for identifying and measuring liquidity risk arising from on- and off-balance-sheet exposures, funding concentration, maturity mismatches, contingent liabilities, and the specific liquidity implications of Islamic financing and investment contracts. Regular monitoring and timely reporting should be ensured for effective decision-making.
- **Liquidity Buffers and Shari'ah-Compliant High-Quality Liquid Assets:** IIFS should maintain an adequate stock of unencumbered, high-quality, and Shariah-compliant liquid assets that can be readily converted into cash or used to generate liquidity during periods of stress.
- **Stress Testing:** IIFS should conduct regular liquidity stress tests to assess the potential effects of institution-specific, market-wide, and combined stress scenarios on their liquidity position. Stress-testing results should be incorporated into liquidity risk limits, liquidity buffers, funding strategies, and contingency planning.
- **Liquidity Contingency Funding Plan:** An IIFS should develop and maintain a robust Liquidity Contingency Funding Plan (LCFP) to address unexpected liquidity pressures. The plan should identify potential stress events, alternative sources of Shariah-compliant funding, roles and responsibilities, communication arrangements, and procedures for timely escalation and decision-making.

- **Disclosure and Market Discipline:** IIFS should disclose relevant qualitative and quantitative information on their liquidity position and liquidity risk management practices. Appropriate disclosure enables stakeholders and market participants to assess the institution's capacity to manage liquidity risk effectively.
- **Supervisory Oversight:** Supervisory authorities should establish an appropriate legal, regulatory, and supervisory framework for monitoring liquidity risk in IIFS. They should assess the adequacy of liquidity risk management practices through both on-site inspections and off-site surveillance, require corrective action where deficiencies are identified, and support the development of Shari'ah-compliant liquidity infrastructure and liquidity support mechanisms.

Source: *Authors' Compilation*

Although IFSB-23, *Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services*, is principally a capital adequacy standard, it also contains important implications for liquidity risk management in IFIs. In particular, the standard recognizes the close relationship between profit-rate risk, the behavior of unrestricted investment account holders (UIAH), and liquidity risk. Where the return generated from Islamic financing and investment assets falls below prevailing market expectations, UIAH may withdraw their funds, thereby creating liquidity pressure for the institution. This risk may be particularly relevant where funds are invested in relatively long-term Murabahah, Ijarah, or other financing assets with returns that cannot be adjusted promptly in response to changing market conditions.

IFSB-23 further discusses displaced commercial risk, which may arise when an IFI faces commercial pressure to smooth the returns paid to investment account holders (IAHs) in order to remain competitive and reduce the risk of fund withdrawals. In such circumstances, the institution may forgo part of its shareholders' income or use mechanisms such as the Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR), subject to the applicable Shariah, regulatory, and governance requirements. While these mechanisms may help reduce the likelihood of abrupt withdrawals by IAHs, they may also transfer part of the commercial risk associated with investment assets to the shareholders of the institution.

Accordingly, IFSB-23 allows supervisory authorities to require Islamic financial institutions to hold regulatory capital against the portion of risk transferred from unrestricted profit-sharing IAHs to shareholders. This treatment is reflected through the supervisory discretion parameter, commonly referred to as alpha (α), which determines the proportion of risk-weighted assets funded by unrestricted profit-sharing investment accounts to be included in the capital adequacy calculation. Therefore, IFSB-23 highlights that liquidity management in Islamic banks cannot be assessed independently of profit-rate risk, displaced commercial risk, IAH behavior, and the institution's capital resilience.

Accounting and Auditing Organization for Islamic Financial Institutions

AAOIFI provides the Shariah foundation for liquidity management by defining the contractual principles that Islamic financial institutions must observe when obtaining or deploying liquidity. Shariah Standard (SS) No. 44, *Obtaining and Deploying Liquidity*, is particularly relevant in this regard. Unlike the BCBS and the IFSB, AAOIFI does not prescribe quantitative liquidity ratios; rather, it requires liquidity arrangements to be structured through valid Shariah-compliant contracts and to remain free from Riba, Gharar, and Maysir (AAOIFI, 2010).

The Standard also emphasizes that liquidity instruments should be linked to genuine economic activities and identifiable underlying assets, usufructs, services, projects, or investments. Liquidity support from a central bank, supervisory authority, or another institution should therefore be provided through permissible Shariah modes, such as Mudarabah, Wakalah bi al-Istithmar, Qard, or other approved arrangements. Box 4.2 summarizes the permissible modes for obtaining liquidity.

Box 4.2: Permissible Modes for Obtaining Liquidity by IFI

- **Salam:** An Islamic financial institution may obtain immediate liquidity by entering into a Salam contract as the seller, whereby it receives the full purchase price in advance and undertakes to deliver the specified commodities at a future date. The transaction must comply with the requirements of AAOIFI SS 10 on *Salam and Parallel Salam*.
- **Istisna'a:** Liquidity may be obtained through an Istisna'a contract in which the institution acts as the manufacturer or seller and receives the agreed consideration in advance or according to the agreed payment schedule. Such transactions must comply with AAOIFI 11 on *Istisna'a and Parallel Istisna'a*.
- **Sale and Leaseback Arrangement:** An institution may sell an asset that it owns for immediate cash and subsequently lease the asset from the purchaser. However, the sale and lease transactions must be independently valid, properly documented, and must not result in a prohibited buy-back arrangement. The relevant requirements of AAOIFI SS 9 on *Ijarah and Ijarah Muntahia Bittamleek* should be observed.
- **Mudarabah and Musharakah Arrangements:** An institution may mobilize funds through Mudarabah or Musharakah-based investment arrangements, provided that the funds are deployed in Shariah-compliant activities and the parties share profit according to an agreed ratio. Losses must be borne in accordance with the applicable Shari'ah principles. These arrangements are governed by AAOIFI SS 12 on *Sharikah (Musharakah) and Modern Corporations* and Shariah Standard No. 13 on *Mudarabah*.
- **Issuance of Investment Sukuk:** Islamic financial institutions may raise liquidity by issuing Shariah-compliant investment Sukuk. The Sukuk should represent ownership interests in identifiable underlying assets, usufructs, services, projects, or investment activities and should comply with AAOIFI SS17 on *Investment Sukuk.*
- **Monetization (Tawarruq):** An institution may obtain liquidity through Tawarruq by purchasing a commodity on deferred-payment-terms under a Murabahah or Musawamah arrangement and subsequently selling that commodity to an independent third party for immediate cash. The institution must acquire ownership and possession, whether actual or

constructive, of the commodity before its resale. The arrangement must comply with AAOIFI SS 30 on *Monetization (Tawarruq)* and should not involve prohibited organized or circular arrangements.

- **Qard:** Liquidity may also be obtained through a Qard, which is an interest-free loan repayable at its principal amount. No additional amount may be stipulated in favor of the lender as a condition of the loan. This arrangement is governed by AAOIFI SS 19 on *Loan (Qard)*.

Source: *Authors' Compilation based on AAOIFI standards*

4.2 Liquidity Management of Islamic Banks: Domestic Regulations

Bangladesh Bank Order, 1972

Under Article 36(1) of the Bangladesh Bank Order, 1972, every scheduled bank is required to maintain with Bangladesh Bank a balance not less than the prescribed portion of its total demand and time liabilities. Bangladesh Bank determines this requirement in line with monetary policy objectives and notifies it through the Official Gazette. Article 36(3) requires every scheduled bank to submit periodic returns to Bangladesh Bank, signed by two responsible officers, containing such information as require for the purposes of the Order.

Under Article 36(4), where the balance maintained by a scheduled bank falls below the prescribed minimum, Bangladesh Bank may impose penal interest on the shortfall at a rate above the Bank Rate, as determined from time to time. If the shortfall continues on the date of the next return, Bangladesh Bank may impose a higher rate of penal interest for that day and each subsequent day during which the balance remains below the required minimum.

Article 36(5) provides for further sanctions where the default continues. Bangladesh Bank may impose fines on directors and officers who knowingly and willfully contribute to the default and may prohibit the bank from accepting fresh deposits. In the event of non-compliance with such prohibition, the responsible directors and officers may be subject to additional daily fines.

Under Article 36(6), a scheduled bank that fails to submit the required return is liable to a penalty of Taka twenty-five thousand for each day during which the failure continues. Furthermore, under Article 36(7), any person who willfully or recklessly makes a materially false statement, or omits a material fact, in a return submitted under this Article may be liable to a fine of up to Taka ten lakh for each such return.

Article 36(8) provides that penalties imposed under Article 36 shall be payable on demand. In the event of non-payment, Bangladesh Bank may recover the amount through the competent Civil Court, subject to the prior sanction of the Government.

Bank Company Act, 1991

Section 33 of the *Bank Company Act, 1991* provides the statutory basis for the maintenance of liquid assets by banking companies in Bangladesh. Under Section 33(1), every banking company is required to maintain prescribed liquid assets in Bangladesh. For this purpose, cash includes balances maintained with Bangladesh Bank, deposits maintained in current accounts with Bangladesh Bank or its agents, balancing deposits maintained with Bangladesh Bank, and, in the case of a banking company incorporated outside Bangladesh under Section 13(3) of the Act, certain deposits maintained with Bangladesh Bank.

Under Section 33(3), Bangladesh Bank is empowered to determine the method for ascertaining the assets and liabilities of banking companies and to prescribe the ratio of liquid assets that must be maintained on a continuous basis. Section 33(4) requires every banking company to submit a monthly return to Bangladesh Bank, in the prescribed form and manner, before the close of the following month. The return must include: (a) the liquid assets maintained in accordance with the requirements of Section 33; and (b) the bank's time and demand liabilities in Bangladesh at the close of business on each Thursday of the relevant month or, where Thursday is a public holiday, on the preceding working day. Under Section 33(5), where a banking company fails to maintain the required level of liquid assets, Bangladesh Bank may impose a penalty on the amount of the shortfall.

For the purpose of CRR calculation, the reserve requirement is based on ATDTL of a bank. At present, scheduled banks are required to maintain a minimum daily CRR of 3.00 percent and a bi-weekly average CRR of 4.00 percent of their ATDTL for DBO, or such rates as may be prescribed by Bangladesh Bank from time to time (MPD Circular No. 01 dated March 4, 2025 and FE Circular No. 07 dated February 29, 2024).

The CRR is maintained through balances held in current accounts with Bangladesh Bank in local currency (BDT). These balances must remain free from any encumbrance and readily available for regulatory purposes. Accordingly, any portion of the balance that is subject to lien or other encumbrances, including liens against discounting facilities or capital liens applicable to foreign banks, is excluded from the computation of maintained reserves and excess reserves.

Guidelines for Islamic Banking, 2009

Bangladesh Bank issued the *Guidelines for Islamic Banking, 2009* to provide a broad regulatory framework for Islamic banking operations in Bangladesh. Section VI of the Guidelines sets out specific requirements relating to liquidity management by Islamic banks and Islamic banking branches of conventional scheduled banks.

Under the Guidelines, all Islamic banking companies are required to maintain the CRR and SLR at the rates prescribed by Bangladesh Bank from time to time. Commercial banks operating Islamic banking branches are also required to maintain CRR and SLR for their Islamic branches at the same rates applicable to full-fledged Islamic banks. For this purpose, such banks are required to maintain a separate current account with Bangladesh Bank for their Islamic banking branches.

The Guidelines also provide mechanisms for addressing liquidity shortages and utilizing surplus funds of Islamic banks. In the case of surplus liquidity, Islamic banks and Islamic banking branches may invest in BGIIB. Conversely, institutions facing liquidity shortages may avail liquidity support from the Islamic Bond Fund in accordance with the prescribed rules.

In cases where an Islamic bank or branch does not hold surplus investment in BGIIB at the time of liquidity stress, it may avail funds from Bangladesh Bank at a provisional profit rate linked to its respective Mudarabah Short Notice Deposit Account. However, such financial support is not available where funds generated from the sale of Islamic Investment Bonds remain available for investment.

Bangladesh Bank Circulars on CRR and SLR Requirements

Pursuant to the Bangladesh Bank Order, 1972, the Bank Company Act, 1991, and the Guidelines for Islamic Banking, 2009, Bangladesh Bank issues circulars from time to time prescribing the CRR and SLR requirements for scheduled banks, including Islamic banks.

At present, banks are permitted to maintain the CRR in local currency (Taka) only. For this purpose, the end-of-day balances of Taka current accounts maintained with different offices of Bangladesh Bank are aggregated to determine the daily maintained cash reserve. Such balances must remain fully unencumbered. Any portion of the balance subject to lien, including lien against discounting facilities or capital lien in the case of foreign banks, is excluded when calculating both the maintained CRR and excess cash reserve.

The eligible components for maintaining SLR include cash in tills in both local and foreign currencies, gold, daily excess cash reserve maintained with Bangladesh Bank, balances maintained with Bangladesh Bank's agent bank, unencumbered approved securities as defined in Section 5(Ka) of the Bank Company Act, 1991, and credit balances in the Foreign Currency Clearing Account maintained with Bangladesh Bank.

Under MPD Circular No. 01/2020 dated April 9, 2020, scheduled banks, including Islamic banks, are required to maintain CRR at 4 percent of their Average Total Demand and Time Liabilities (ATDTL) on a bi-weekly basis. In addition, as per MPD Circular No. 01/2025 dated March 4, 2025, the daily CRR maintained by banks must not fall below 3 percent of ATDTL.

Islamic banks are currently required to maintain SLR at a minimum of 5.50 percent of their ATDTL on a daily basis for both Domestic Banking Operations (DBO) and Offshore Banking Operations (OBO), or at such rate as may be prescribed by Bangladesh Bank from time to time (MPD Circular No. 02 dated December 10, 2013, and DOS Circular No. 01 dated January 19, 2014). Table 4.1 summarizes the prevailing CRR and SLR requirements applicable to scheduled banks in Bangladesh.

Table 4.1 Prevailing CRR and SLR Requirements of Scheduled Banks

Reserve Ratios		**Conventional Banking**	**Islamic Banking**	**Offshore Banking**
CRR (%)	Daily	3.0	3.0	Nil
	Biweekly	4.0	4.0	Nil
SLR (%)	Monthly	13.0	5.5	13

Source: *Based on DOS Circular No. 01/2014, dated 09/01/2014; MPD Circular No. 01/2020, dated 09/04/2020; and MPD Circular No. 01/2025, dated 04/03/2025*

Bangladesh Bank Circulars on Investment–Deposit Ratio (IDR)

IDR is an important prudential indicator for Islamic banks, as it measures the extent to which funds are deployed in investments relative to the institution's eligible funding base. Although the ratio is commonly referred to as the Investment–Deposit Ratio, the denominator is not limited to deposits alone; rather, it includes the relevant liabilities and funding sources prescribed by Bangladesh Bank, excluding capital.

Bangladesh Bank requires banks to maintain their ADR or IDR at a prudent level so that excessive fund deployment does not create undue liquidity pressure. The maximum ratio is generally determined with reference to the following benchmark:

Maximum ADR/IDR = 100% - (CRR + SLR)%

In determining an appropriate ADR or IDR, the board of directors of a bank is also required to consider factors such as its capital base, liquidity position, asset quality, non-performing loan or investment position, and compliance with the LCR and NSFR. Subject to these considerations, the board may allow an additional margin of up to 4.5 percentage points for conventional banks and up to 2 percentage points for Shariah-based banks over the benchmark ratio. Under DOS Circular No. 05 dated September 17, 2019 and DOS Circular No. 02 dated April 12, 2020, the maximum permissible ADR for conventional banks is 87 percent, while the maximum permissible IDR for Islamic banks is 92 percent.

Asset-Liability Management (ALM) Guidelines, 2016

Bangladesh Bank issued the revised *Managing Core Risks in Banking: Asset-Liability Management (ALM) Guidelines* through BRPD Circular No. 02 dated March 7, 2016. The Guidelines replaced the earlier ALM Guidelines issued in 2003 and provide a comprehensive framework for the management of liquidity and other relevant issues.

The ALM Guidelines incorporate key Basel III liquidity requirements and identify the LCR and NSFR as central tools for liquidity measurement and management. Section 1.1.1 of the Guidelines addresses the LCR, while Section 1.1.2 deals with the NSFR. Bangladesh Bank has also issued separate guidance notes on the implementation of the LCR and NSFR under Basel III. In addition, the *Guidelines on Risk Based Capital Adequacy: Revised Regulatory Capital Framework for Banks in Line with Basel III*, issued in December 2014, provide the broader regulatory context for the implementation of Basel III requirements in the banking sector.

Section 1.3 of the ALM Guidelines sets out further policy requirements relating to the Advance–Deposit Ratio (ADR)/Investment–Deposit Ratio (IDR), wholesale borrowing, structural liquidity profile, maximum cumulative outflow, contingency funding plans, liquidity risk limits, and regulatory compliance. The Guidelines also emphasize the role of the Asset-Liability Management Committee (ALCO), Treasury Department, and senior management in monitoring liquidity positions, maturity mismatches, regulatory ratios, and contingency liquidity arrangements.

In addition to maintaining ADR/IDR, banks are required to prepare a Structural Liquidity Profile (SLP) to assess the maturity transformation of assets and liabilities in both local and foreign currencies (Section 1.3.4). An important indicator derived from the SLP is the Maximum Cumulative Outflow (MCO) ratio, which measures

the cumulative net cash outflow in a specified maturity bucket in relation to the bank's available liquidity resources. For the one-month maturity bucket, the MCO should generally remain within the applicable minimum regulatory liquidity reserve requirement, comprising CRR and SLR.

Under the regulatory benchmark, MCO for conventional banks is 17 percent, equivalent to the combined CRR and SLR requirements of 4 percent and 13 percent, respectively. For Shariah-based banks, the corresponding MCO benchmark is 9.5 percent, comprising a CRR of 4 percent and an SLR of 5.5 percent.

Guidelines on Risk Based Capital Adequacy, 2014

Bangladesh Bank issued the *Guidelines on Risk Based Capital Adequacy: Revised Regulatory Capital Framework for Banks in Line with Basel III* in December 2014. The Guidelines recognize liquidity risk as a material risk to be assessed. For assessing liquidity risk, banks are required to monitor regulatory liquidity indicators, including the CRR, SLR, ADR/IDR, LCR, and NSFR. Under the market-discipline requirements, the Guidelines require banks to make both qualitative and quantitative disclosures relating to liquidity risk. The qualitative disclosures should cover the Board of Directors' views on the system for reducing liquidity risk, the methods used to measure liquidity risk, the liquidity risk management system, and the policies and processes adopted to mitigate liquidity risk. The quantitative disclosures should include the LCR, NSFR, stock of high-quality liquid assets, total net cash outflows over the next 30 calendar days, available stable funding, and required stable funding.

Risk Management Guidelines for Banks, 2018

Bangladesh Bank issued the *Risk Management Guidelines for Banks* through DOS Circular No. 04 dated October 8, 2018, which replaced the previous guideline issued in 2012. The Guidelines apply to all scheduled banks in Bangladesh, including conventional banks, full-fledged Islamic banks, and Islamic banking branches and windows of conventional banks. The Guidelines require banks to establish a comprehensive, board-approved risk management framework that is commensurate with their size, nature, and complexity of operations and is reviewed at least annually.

In relation to liquidity risk, the Guidelines require banks to maintain effective policies, procedures, limits, management information systems, internal controls, and a risk appetite framework. The Treasury Department is primarily responsible for the day-to-day management of liquidity. The Risk Management Department (RMD), through its Liquidity Risk Desk, provides independent enterprise-level

oversight and ensures compliance with the relevant Asset-Liability Management Guidelines. In this role, the Liquidity Risk Desk oversees the preparation of the Structural Liquidity Profile, projected sources and uses of funds, and statements of total demand and time liabilities by the Treasury Department. It also monitors the calculation and maintenance of key regulatory liquidity indicators, including CRR, SLR, ADR/IDR, LCR, NSFR, Maximum Cumulative Outflow, Wholesale Borrowing Guidelines, and undrawn commitments. The Basel Implementation Unit should maintain close coordination and communication with the RMD to support effective monitoring of regulatory capital and liquidity requirements.

Regulations Related with Capital Market Exposure by Banks

With the aiming of diversified the portfolio as well to earn higher profit, Islamic banks also utilize their surplus funds through investments in the capital market though such exposure involves to market risk and price volatility. In this regard, banks invest in Shariah-compliant equities listed under the Shariah index of Dhaka Stock Exchange (DSES) and Chittagong Stock Exchange (CSI). Furthermore, to generate certain profits, Islamic banks may invest in corporate Sukuk, which characterize ownership in underlying assets. Islamic corporate bonds and Shariah-based mutual funds also provide diversified investment opportunities, enabling banks to optimize returns while maintaining compliance with ethical and religious guidelines.

Capital market investments are subject to regulatory limits prescribed by Bangladesh Bank under Section 26(Ka) of the Bank Company Act, 1991. As per DOS Circular No. 02 dated 16 September 2013, banks' capital market exposure on a solo basis is capped at 25 percent of Paid-up Capital, Share Premium, Statutory Reserve, and Retained Earnings, while DOS Circular No. 07 dated 25 February 2014 permits a consolidated exposure limit of up to 50 percent of the same capital components.

5. Findings and Data Analysis

5.1 Current Status of Islamic Banking Sector in Bangladesh

Since the establishment of Islamic banking in Bangladesh in 1983, the industry has played an important role in deposit mobilization and financing key sectors of the economy. At present, excluding the ongoing merger process, the sector consists of 10 full-fledged Islamic banks with 1,699 branches out of 11,372 branches in the overall banking industry. In addition, Islamic financial services are offered through 45 Islamic banking branches of 17 conventional banks and 905 Islamic banking windows of 21 conventional banks. In 2025, excess liquidity in the overall banking

sector stood at BDT 2,836 billion, while the Islamic banking sector accounted for BDT 119 billion, representing around 4 percent of the total excess liquidity (Table 5.1).

Table 5.1: Current Status of Islamic Banking Sector in Bangladesh (In BDT Billion)

Particulars	All Banks			Islamic Banks (Yearly Growth in %)			Share in Overall Banking Industry (%)		
	2023	2024	2025*	2023	2024	2025*	2023	2024	2025*
Assets	23984.0	26297.80	26947.56#	5848.18 (8.55)	6411.62 (9.63)	6606.68 (3.04)	24.38	24.38	24.52
Deposits	17491.30	18837.10	19965.80	4407.97 (7.72)	4577.41 (3.84)	4709.88 (2.89)	25.20	24.30	23.59
Investment	15383.40	16828.80	17341.70	4678.82 (9.87)	5015.49 (7.20)	5222.04 (4.12)	30.41	29.80	30.11
Gross NPLs/ NPIs	1456.33	3457.66	4203.35	248.45 (47.54)	2159.06 (769.00)	2629.09 (21.77)	17.06	62.44	62.55
Export** (Million USD)	55787.88	47245.41	23765.58	11347.30 (-12.86)	10305.49 (-9.18)	5087.63 (-50.63)	20.34	21.81	21.41
Imports** (Million USD)	65133.33	66924.73	35174.97	15967.30 (-14.92)	15878.83 (-0.55)	7821.49 (-50.74)	24.51	23.73	22.24
Remittances** (Million USD)	21917.12	26888.42	16552.93	8314.49 (59.99)	8843.55 (6.36)	3660.81 (-58.60)	37.94	32.89	22.12
Branches	11283	11361	11372	1700 (1.07)	1731 (1.82)	1744 (0.75)	15.07	15.24	15.34
Liquidity excess (+)/ Short fall (-)	1631.78	2142.86	2836.40	111.07 (-13.71)	94.35 (-15.05)	119.90 (27.08)	6.81	4.40	4.23
Written-off bad debts	674.41	805.20	807.80#	36.63 (33.57)	30.66 (-16.29)	18.93 (-38.27)	5.43	3.81	2.34
Employment (In Person)	207692	-	-	50306 (0.91)	52565 (4.49)	51760 (-1.53)	24.22	-	-
*End June 2025, #End March 2025, ** During January-June 2025.									

Source: *BB Annual Report, Monthly Economic Trends and Major Economic Indicators.*

5.2 Liquidity Trend of Islamic Banks

The following graph provides a comprehensive view of the liquidity conditions in Bangladesh's banking system from March 2021 to March 2026. The graph compares two segments—Islamic and conventional banks—revealing distinct structural differences, cyclical movements, and emerging stress patterns over time.

Islamic banks were characterized by a substantial liquidity surplus, significantly exceeding that of conventional banks in the early 2021. This unusually high surplus suggests a phase of excess fund accumulation, likely driven by lower investment demand during the post-pandemic recovery phase. In contrast, conventional banks operated with a more moderate liquidity buffer, fluctuating within BDT 150–350 Billion. However, from late 2021 through 2022, Islamic banks experienced a persistent and steep decline in liquidity. This tight liquidity situation is attributed to several factor, including a high volume of non-performing investment (NPIs) resulting from credit fraud and irregularities, slow recovery and withdrawal

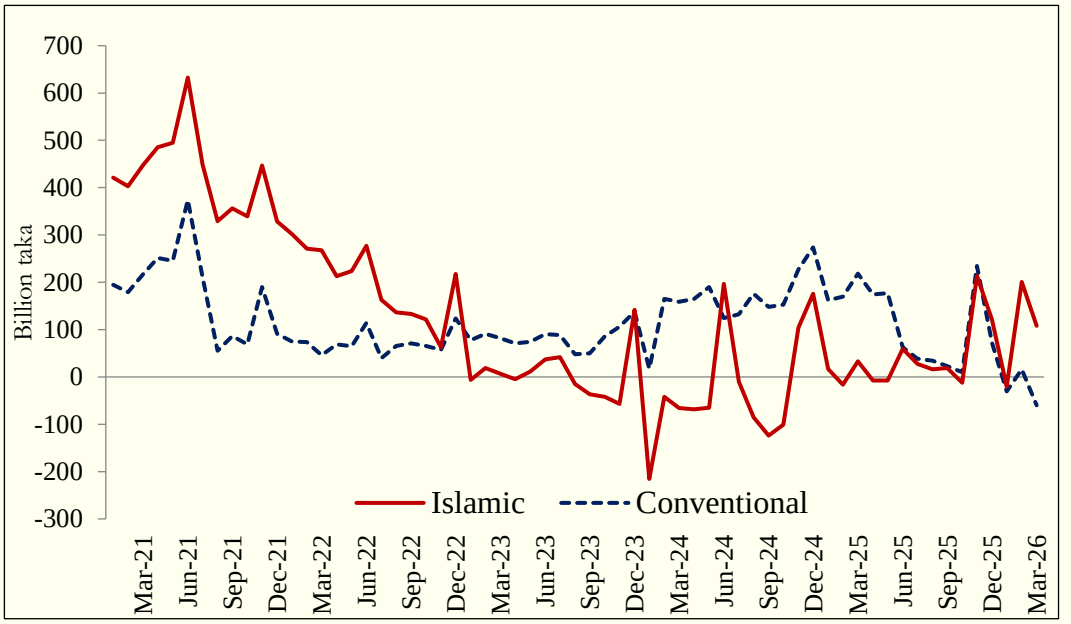
pressures. Additionally, the absence of deep and diversified Shariah-compliant money market instruments may have limited their ability to manage liquidity effectively.

The most critical phase emerges in 2023, when Islamic banks transition from surplus to deficit liquidity. Around early 2023, liquidity approaches zero and subsequently turns negative. This marks a structural shift from excess liquidity to funding stress. By late 2023, Islamic banks recorded a sharp deficit of nearly BDT 200 Billion. The volatility observed—frequent sharp spikes followed by steep declines—further suggests fragility and lack of stability in liquidity management frameworks.

Several key structural and policy-relevant insights are revealed in the graph. First, Islamic banks exhibit higher initial liquidity but significantly greater volatility and long-term deterioration, pointing to structural constraints such as limited liquidity instruments and weaker interbank integration. Second, conventional banks demonstrate relatively stable and resilient liquidity management, supported by diversified tools and more mature market mechanisms. Third, the increasing volatility and declining liquidity toward the end of the period indicate tightening financial conditions, possibly driven by contractionary monetary policy, inflationary pressures, or external imbalances.

The graph underscores the urgent need for strengthening liquidity management frameworks, particularly in the Islamic banking sector. Developing Shariah-compliant money market instruments, enhancing interbank coordination, and improving regulatory oversight are essential to mitigate systemic risks. At the same time, the emerging pressures in conventional banks suggest that liquidity tightening is becoming a system-wide phenomenon, warranting careful calibration of monetary policy to maintain financial stability while supporting economic growth. A summary of liquidity position of banking sector is depicted in Figure 5.1.

Figure 5.1: Liquidity Position in the Banking Sector: Conventional and Islamic



Source: *Liquidity Forecasting Wing, Monetary Policy Department, Bangladesh Bank*

5.3 Islamic Financial Institution-wise Liquidity Position

Islamic financial institutions (IFIs) are required to maintain prescribed regulatory liquidity requirements. Beyond these requirements, they need to deploy surplus funds efficiently in Shariah-compliant avenues and arrange funds when faced with liquidity deficits. As financing is the principal purpose of deposit mobilization by banks, excess liquidity should be managed prudently, as its prolonged retention may adversely affect profitability. However, the deployment of funds in alternative instruments should not generally take priority over financing to the real economy. Table 5.2 presents selected liquidity indicators of the surveyed Islamic financial institutions, including full-fledged Islamic banks (FF), Islamic banking operations of conventional banks (DB), and finance companies (FC).

Table 5.2: IFI-wise Liquidity Indicators as on December 31, 2025

IFI	Investment to Deposit (IDR) (%)	Cash Reserve with BB to Deposit (%)	CRR Maintained to Requirements (%)	Investment in Govt. Instrument to Deposit (%)	Investment in Govt. Instrument to Financing (%)	SLR Maintained to Requirements (%)	Interbank Placement to Deposit (%)	Interbank Placement to Financing (%)
FF-01	102.35	4.48	116.43	6.55	6.40	123.85	4.84	4.73
FF-02	92.19	3.95	112.28	10.84	11.76	224.13	1.21	1.32
FF-03	96.65	4.52	110.68	14.28	14.77	250.00	5.17	5.35
FF-04	98.47	4.26	112.21	9.61	9.76	183.97	3.54	3.60
DB-01	47.47	3.94	101.62	5.99	12.62	112.38	2.13	4.48
DB-02	62.69	25.21	630.33	6.92	11.04	125.78	3.97	6.33
DB-03	61.18	11.41	277.85	38.07	62.23	674.50	1.14	1.86

IFI	Investment to Deposit (IDR) (%)	Cash Reserve with BB to Deposit (%)	CRR Maintained to Requirements (%)	Investment in Govt. Instrument to Deposit (%)	Investment in Govt. Instrument to Financing (%)	SLR Maintained to Requirements (%)	Interbank Placement to Deposit (%)	Interbank Placement to Financing (%)
DB-04	67.33	4.51	164.86	34.16	50.73	682.76	2.21	3.28
DB-05	50.85	4.94	128.47	10.36	20.37	195.74	1.61	3.17
DB-06	32.35	8.76	376.00	47.65	147.26	1123.08	5.59	17.29
DB-07	31.84	5.81	137.50	38.38	120.56	907.04	32.57	102.32
DB-08	26.15	4.56	113.70	24.91	95.24	451.86	29.53	112.90
DB-09	27.02	7.35	204.52	9.20	34.05	186.26	0.00	0.00
DB-10	71.88	1.56	100.00	113.28	157.61	4833.33	0.00	0.00
FC-01	73.59	1.01	101.87	27.37	37.19	791.48	3.37	4.58
FC-02	100.23*	1.37	101.30	5.29	5.27	112.35	4.25	4.24

**Interbank placement was used for financing in addition to deposit*

Source: *Questionnaire Survey*

The Table presents substantial variation in liquidity positions and fund-deployment patterns among the surveyed Islamic financial institutions. From the Investment–Deposit Ratio (IDR) perspective, the maximum allowable IDR for Islamic banks is 92 percent; however, all four full-fledged Islamic banks reported ratios above this threshold, ranging from 92 percent in FF-02 to 102 percent in FF-01. This suggests comparatively tight liquidity positions and a greater possibility of funding pressure; whose investment deployment exceeded the regulatory limit by a notable margin. In contrast, the IDRs of the Islamic operations of dual banks ranged from 26 percent to 72 percent, indicating comparatively large unutilized or surplus funds. The low IDR suggests that a relatively small share of their deposit has been deployed in financing.

The cash reserve maintained with Bangladesh Bank, expressed as a percentage of deposits, also varies significantly, from 1.56 percent to 25.21 percent. Nevertheless, the CRR maintained-to-requirement ratio is reported at 100 percent or above for all institutions, indicating compliance with the prescribed 4 percent CRR requirement based on the reported regulatory calculation. The exceptionally high CRR maintenance ratios of DB-02, DB-03, and DB-06, at 630 percent, 278 percent, and 376 percent respectively, indicate sizeable excess balances with Bangladesh Bank, which may reflect surplus liquidity, limited investment opportunities, or cautious liquidity management.

The investment in government instruments-to-deposit ratio shows that government securities constitute an important liquidity-management avenue, particularly for dual banks. While the ratio ranges from 6.55 percent to 14.28 percent among the full-fledged Islamic banks, it rises sharply for several dual banks, including DB-03, DB-04, DB-06, DB-07, DB-08, and DB-10. DB-10 is particularly exceptional, with government-instrument investment equal to 113 percent of deposits and SLR maintained at 4,833 percent of the requirement, indicating an unusually large

holding of eligible government instruments relative to its deposit. It is also observed that some of the banks, e.g., DB 3, DB 4, DB 6, DB 7, DB 8 and DB 10, a significant portion of funds have been invested in government instrument as compared to commercial financing. In some cases, especially in DB 6, DB 7 and DB 10, banks preferred to investment in government securities than the private financing.

All institutions reported SLR maintenance above the required 5.5 percent, with the SLR maintained-to-requirement ratio ranging from 112 percent to 4,833 percent. Although these excess holdings provide a substantial regulatory liquidity cushion and may support access to Shariah-compliant liquidity facilities, excessively high investment in government instruments may also indicate limited availability of Shariah-compliant private financing.

Interbank placements also show marked differences across institutions. Most full-fledged Islamic banks and several dual banks maintain relatively limited interbank placements compared with deposits and financing, whereas DB-07 and DB-08 show unusually high interbank placements, equivalent to about 33 percent and 30 percent of deposits and 102 percent and 113 percent of financing, respectively. These figures suggest that some of the banks consider interbank placements as a major avenue for deploying funds instead financing.

However, such heavy reliance on interbank placements may expose the institutions to concentration, counterparty, rollover, and return-related risks. Overall, the table indicates a clear contrast between relatively high investment deployment and potential liquidity pressure among full-fledged Islamic banks and the substantial surplus-liquidity position of several Islamic operations of dual banks, which is largely reflected in excess CRR balances, sizeable holdings of government instruments, and, in some cases, significant interbank placements.
It should be noted that Islamic banking operations of dual banks and Islamic finance companies do not have separately managed capital in the same manner as full-fledged Islamic banks, as these operations are not established as separate subsidiaries. Accordingly, Islamic banking operations of dual banks primarily deploy funds mobilized through Islamic deposits after maintaining the applicable CRR and SLR requirements. However, the survey findings indicate that one dual bank had access to a Qard facility from its parent bank, which may provide an additional source of liquidity support during periods of temporary funding requirement.

It should also be noted that the CRR and SLR requirements applicable to finance companies differ from those applicable to banks. Finance companies are required to maintain a CRR of 1.5 percent and an SLR of 5 percent, including the CRR. In addition, placements with other banks are treated as eligible components of SLR

for finance companies. Accordingly, the liquidity indicators of finance companies should be interpreted separately from those of full-fledged Islamic banks and Islamic banking operations of conventional banks.

5.4 Perception Regarding Availability and Operations of Liquidity Instruments

The research team conducted a questionnaire survey to collect the views and perceptions of relevant professionals regarding liquidity management practices and the associated liquidity management instruments. Based on the responses received, Tables 5.3 to 5.9 have been prepared and analyzed.

Table 5.3: Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

S/n	Questions	Yes (%)	No (%)	Suggestions
1.	Is there any Shariah issues. faced for maintaining CRR by your Islamic banking operations?	15.00	85.00	➢ Scope for return from CRR
2.	Do you face any operational problems in investing funds in Bangladesh Government Islamic Investment Bond (BGIIB) as a part of SLR?	25.00	75.00	➢ No secondary market and return insufficient from eligible SLR instruments
3.	Do you face any Shariah non-compliance problem in investing funds in BGIIB as a part of SLR?	15.00	85.00	➢ Low profitability and lengthy process ➢ Shariah non-compliance
4.	Do you face any operational problem in investing funds in Bangladesh Government Investment Sukuk (BGIS) as a part of SLR?	15.00	85.00	➢ Limited issuance, low trading volume and weak secondary market of BGIS
5.	Do you face any Shariah non-compliance problem in investing funds in BGIS as a part of SLR?	10.00	90.00	➢ Short term BGIS
6.	Do you expect any Shariah-compliant new instruments for SLR purpose?	100.00	0.00	➢ Islamic repo and reverse repo

Source: *Questionnaire Survey*

The majority of the Islamic banks (75-90)% do not face substantial problems with the current Islamic banking regulations regarding CRR and SLR. Around (10-15)% of banks are concerned about the Shariah non-compliance issues. About 25 percent of the Islamic banks face any operational problem in investing funds in the BGIIB as a part of SLR. In that case, rate of return is the main issue as opined by the banks. However, all banks expect Shariah-compliant new instruments for SLR purposes like short-term BGIS (Table 5.3).

Table 5.4: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

S/n	Questions	Yes (%)	No (%)	Suggestions
1.	Do you face any operational problem in maintaining Liquidity Coverage Ratio (LCR) as Islamic Banking operations?	15.00	85.00	➢ Lack of high-quality liquid asset. ➢ There is no requirement for Islamic NBFI and or windows separately
2.	Do you face any Shariah non-compliance problem in maintaining LCR as Islamic Banking operations?	10.00	90.00	
3.	Do you face any operational problem in maintaining Net Stable Funding Ratio (NSFR) as Islamic Banking operations?	20.00	80.00	
4.	Do you face any Shariah non-compliance problem in maintaining NSFR as Islamic Banking operations?	0.00	100.00	

Source: *Questionnaire Survey*

Similar to the findings relating to CRR and SLR, most IFIs reported satisfaction with the existing LCR and NSFR requirements (Table 5.4). Operational challenges associated with maintaining these ratios were also relatively limited, with only 15 percent of respondents identifying challenges in complying with the LCR and 20 percent reporting challenges relating to the NSFR. Shariah non-compliance concerns were found to be minimal, affecting only 10 percent of respondents in the case of the LCR and none in the case of the NSFR. Nevertheless, participants in the Focus Group Discussion (FGD) observed that the application of LCR and NSFR requirements to IFIs may expect further regulatory consideration. In particular, they highlighted the limited availability of Shariah-compliant high-quality liquid assets (HQLA) and the relatively underdeveloped Islamic money market, which may constrain the ability of IFIs to manage these liquidity ratios as efficiently as their conventional counterparts.

Table 5.5: Investment Deposit Ratio (IDR)

S/n	Questions	Yes (%)	No (%)	Suggestions
1.	Do you face any operational problem in maintaining Investment Deposit Ratio (IDR) as Islamic Banking operations?	30.00	70.00	➢ Maximum allowable IDR should gradually be decrease
2.	Do you face any Shariah non-compliance problem in maintaining IDR as Islamic Banking operations?	5.00	95.00	

Source: *Questionnaire Survey*

As per the Table 5.5, Islamic banks do not face major trouble to maintain the Investment Deposit Ratio (IDR). However, there remain mentionable daily operational problems, impacting 30 percent of banks. Furthermore, Shariah noncompliance is almost absent, as 95 percent of banks do not face major issues. The respondents and FGD participants suggested that Bangladesh Bank may consider reducing the maximum allowable IDR for Islamic banks, subject to the availability of sufficient Shariah-compliant liquidity management instruments. Such a revision should be carefully designed so that banks can maintain adequate liquidity buffers without creating excessive idle funds or constraining their capacity to finance the real economy.

Table 5.6: Instrument for Investing Surplus Liquidity Through BB

S/n	Questions	Yes (%)	No (%)	Suggestions
1.	Do you face any operational problem in investing funds in BGIIB as additional to the SLR requirement?	35.00	65.00	➢ Low profit rate and delay in profit distribution ➢ Shariah non-compliance in final settlement of BGIIB. ➢ More short term BGIS ➢ Lack of confidence ➢ Ensure good governance ➢ More BGIS issuance for Full-fledged IBs ➢ Regular issuance of BGIS
2.	Do you face any Shariah non-compliance problem in investing funds in BGIIB as additional to the SLR requirement?	15.00	85.00	
3.	Do you face any operational problem in investing funds in BGIS as additional to the SLR requirement?	25.00	75.00	
4.	Do you face any Shariah non-compliance problem in investing funds in BGIS as additional to the SLR requirement?	5.00	95.00	
5.	As per your opinion, do you think that Islamic the Inter-bank Fund Market (IIFM) is efficient and effective?	15.00	85.00	
6.	Do you expect any Shariah-compliant new instruments for investing surplus fund in government instrument?	95.00	5.00	

Source: *Questionnaire Survey*

From the Table 5.6, it is quite evident that Islamic banks face problems while investing extra liquidity; While Shariah regulations are quite fine, 35 percent banks face operational problems in investing funds in BGIIB as additional to the SLR requirement, and 25 percent trouble is from BGIS. The FGD and KII participants highlight the Shariah issue in finalization of provisional rate based on actual performance of the BGIIB funds. One of the pressing issues is the Inter-bank Fund Market (IIFM), as 85 percent complain about the effectiveness of the existing system. Due to these hurdles, around 95 percent of banks expect Bangladesh Bank to introduce alternative government instruments for their surplus money.

Table 5.7: Instrument for Surplus Liquidity through Money Market

S/n	Questions	Yes (%)	No (%)	Suggestions
1.	Do you face any operational problem in investing funds in other banks as placement?	65.00	35.00	➢ Problem in recovery of the placed fund ➢ Shariah-compliance in settlement. ➢ Ensure transparency disclosure ➢ Mixing Islamic funds with conventional funds
2.	Do you face any Shariah non-compliance problem in investing funds in other banks as placement?	55.00	45.00	
3.	Do you expect any Shariah-compliant new instruments for investing surplus fund through interbank placement?	100.00	0.00	

Source: *Questionnaire Survey*

The majority of the Islamic banks face the dilemma of investing the extra cash in the money market as depicted in Table 5.7. Majority faces operational problems in investing funds in other banks as placement (65%) and Shariah non-compliance worries (55%) placing funds to other banks. Due to loopholes in the current system, all banks expect new and Shariah-compliant instruments to manage bank-to-bank investments procedures. The questionnaire respondents and FGD/KII participants recommended introducing Shariah-compliant alternatives to conventional repo and reverse repo facilities.

Table 5.8: Instrument for Surplus Liquidity through Capital Market

S/n	Questions	Yes (%)	No (%)	Suggestions
1.	Do you face any operational problem in investing funds in capital market?	65.00	35.00	➢ Low yield of Shariah-compliant instruments. ➢ Need market stability ➢ Mostly debt-based instruments. ➢ Shariah-compliant more equity-based instruments ➢ More Sukuk with good image
2.	Do you face any Shariah non-compliance problem in investing funds in capital market?	45.00	55.00	
3.	Do you expect any Shariah-compliant new instruments for investing surplus fund in capital market?	90.00	10.00	

Source: *Questionnaire Survey*

Similar to the money market, the majority of the Islamic banks face the dilemma of investing the extra cash for the capital market as well. Majority banks (65%) face regular operational problems in investing funds in capital market due limited number of Shariah compliant instruments. The FGD/KII participants raise the issue of low yield of Shariah-compliant instruments as compare to conventional instruments. Due to loopholes in the current system, 90 percent banks expect new and Shariah-compliant instruments for the capital market.

Table 5.9: Instrument for Fund Collection in Deficit: Through BB

S/n	Questions	Yes (%)	No (%)	Suggestions
1.	Do you face any operational problem in managing/collecting funds from BB under Islamic Banks Liquidity Facility (IBLF)?	20.00	80.00	➢ Adequate collateral and Shariah-based securities needed. ➢ Shariah issues in final settlement. ➢ Insufficient collateral
2.	Do you face any Shariah non-compliance problem in managing/collecting funds from BB under IBLF?	5.00	95.00	
3.	Do you face any operational problem in managing/collecting funds from BB under Mudarabah Liquidity Support (MLS)?	20.00	80.00	
4.	Do you face any Shariah non-compliance problem in managing/collecting funds from BB under MLS?	10.00	90.00	
5.	Do you face any operational problem in managing/collecting funds from BB under Special Liquidity Support (SLS)?	20.00	80.00	
6.	Do you face any Shariah non-compliance problem in managing/collecting funds from BB under SLS?	5.00	95.00	
7.	Do you expect any Shariah-compliant new instruments for getting liquidity support from Bangladesh Bank?	85.00	15.00	

Source: *Questionnaire Survey*

It is noted that none of the dual IBs has avail IBLF, MLS, and SLS facilities yet. Only full-fledged banks have availed such facility. All of the facilities are provided against instruments. Without having instrument, banks cannot avail these however, the availability of the instruments are limited. Therefore, a majority (85%) still expect other Shariah-compliant options from Bangladesh Bank in terms of liquidity support in the future (Table 5.9).

5.5 Summary Outcome of FGD and KII

Several additional issues were identified through the FGD and KII. Market participants emphasized the need for an effective and efficient overnight Islamic fund placement market to support short-term liquidity management. Similar to the IBLF, an interbank money market arrangement against BGIS holdings may also be considered to facilitate short-term liquidity support among Islamic banks. Some professionals observed that excessive investment in government instruments should not take priority over private-sector financing, as the core banking function is to mobilize deposits and channel them into productive financing for the real economy. Most of the FGD participants and key informants acknowledged that interbank placements are not always operated in accordance with the fundamental principles of Mudarabah. In practice, many transactions are conducted in a manner similar to conventional interbank money market, where profit are agreed upon in advance and

the actual performance of the underlying fund utilization is not adequately reflected in the final profit distribution. Such practices may weaken the risk-sharing nature of Mudarabah and raise concerns regarding Shariah compliance. Therefore, the participants emphasized the need for strengthening the operational framework, profit-calculation methodology, disclosure practices, and Shariah oversight of interbank placements to ensure that these transactions are conducted in accordance with the underlying principles and requirements of Shariah.

The FGD and KII participants acknowledged that IFIs currently enjoy certain regulatory advantages in their transactions involving BGIIB. Under the existing framework, an IFI may invest surplus funds in the BGIIB pool and, at the same time, avail liquidity support from the same pool without significant restrictions. Furthermore, investment in BGIIB is treated as an eligible component for maintaining the SLR, while funds availed from the BGIIB pool are generally not netted off against such SLR holdings. As a result, an institution may continue to receive regulatory liquidity benefits from its BGIIB investment while simultaneously utilizing liquidity obtained from the pool.

The participants also emphasized the need for a more active role of the Shariah Supervisory Committee (SSC) and Internal Shariah Audit (ISA) in ensuring Shariah compliance in the final settlement of interbank placements, BGIIB operations, IBLF, and MLS. Islamic finance professionals further suggested opening dedicated avenues for Shariah-compliant foreign currency funds. They also recommended that Bangladesh Bank may consider aligning the foreign currency accounts maintained by Islamic banks with central bank earning mechanisms, as Islamic banks currently do not avail earnings generated from such foreign currency accounts.

Few participants of the FGD/KII recommended that IFIs may establish separate and independent Qard-based liquidity-support arrangements to address temporary liquidity shortages. Each facility should be provided at the discretion of the lending institution and should not be contractually linked to, or conditional upon, the provision or utilization of a similar facility by the counterparty. No interest, additional return, or other stipulated benefit should be charged or received in relation to the Qard. Subject to proper documentation, internal approval, and Shariah governance, such arrangements may promote mutual cooperation and provide a Shariah-compliant source of short-term liquidity support among Islamic banks.

The concerned authorities informed that the preparation of a BGIS issuance calendar is under consideration. They also indicated that initiatives have been taken to develop an Islamic money market and introduce Shariah-compliant open market operations. More BGIS and BGSS issuances are expected to be a regular process, while short-term government Sukuk may be issued on a regular basis in the near future. In issuing BGIS, the authorities are also trying to align the expected rate of return with comparable conventional instruments. Some innovate structure and Sukuk-based new projects are to be undertaken. At the same time, the authorities expect market participants to behave rationally and transparently in disclosing their rates while availing the IBLF facility. The issues and suggestions identified through the FGD and KII are summarized in Box 5.1.

Box 5.1: Key Issues and Suggestions Emerging from the FGD and KII

- Development of an effective and efficient overnight Islamic fund placement market for short-term liquidity management.
- Introduction of an interbank liquidity-support arrangement against BGIS holdings, similar to the IBLF mechanism, to facilitate liquidity support among Islamic banks.
- Need to ensure that excessive investment in government instruments does not crowd out private-sector financing, as the core function of banks is to channel deposits into productive economic activities.
- Review of the regulatory treatment of BGIIB transactions, particularly where an institution invests in the BGIIB pool and simultaneously avails liquidity support from the same pool without netting off the liquidity facility against SLR-eligible holdings.
- Strengthening the role of the Shariah Supervisory Committee (SSC) and Internal Shariah Audit (ISA) in reviewing the final settlement, profit calculation, documentation, and Shariah compliance of interbank placements, BGIIB, IBLF, and MLS transactions.
- Development of dedicated Shariah-compliant foreign currency liquidity-management arrangements for Islamic banks.
- Consideration of an appropriate Shariah-compliant earning mechanism for foreign currency accounts maintained by Islamic banks with Bangladesh Bank.
- Introduction of separate and independent Qard-based liquidity-support arrangements among IFIs, subject to proper documentation, internal approval, regulatory oversight, and Shariah governance.
- Preparation and publication of a regular BGIS issuance calendar to support liquidity planning and investment decisions by Islamic banks.
- Development of an active Islamic money market and Shariah-compliant open market operation framework.
- Regular issuance of BGIS and BGSS to expand the stock of Shariah-compliant liquidity-management instruments.
- Regular issuance of short-term government Sukuk to address the short-term liquidity-management needs of Islamic banks.
- Alignment of the expected rate of return on BGIS, BGSS, and short-term Sukuk with comparable conventional instruments, while maintaining Shariah compliance.
- Exploration of innovative Sukuk structures and Sukuk-based projects to diversify the range of Shariah-compliant instruments available in the market.

- Ensuring rational, transparent, and consistent disclosure of rates by market participants while availing IBLF and other liquidity-support facilities.
- Strengthening the operational framework, profit-calculation methodology, disclosure practices, and Shariah governance of interbank placements to ensure that Mudarabah-based transactions reflect actual fund utilization and risk-sharing principles.

Source: Based on FGD and KII

Case Study 1: Managing Withdrawal Pressure Through Controlled Liquidity Measures

Background

ABC Bank PLC, a full-fledged Islamic bank in Bangladesh, had historically maintained adequate liquidity and had not experienced any significant liquidity crisis. However, this case concerns the severe liquidity stress the bank faced toward the end of 2022 following media reports alleging investment-related irregularities. The reports reportedly affected depositor confidence and intensified withdrawal pressure, despite the bank's earlier record of maintaining a sufficient liquidity position. Over the following three to four months, the bank's deposit base reportedly declined at its lowest point. The situation created significant challenges for day-to-day liquidity management and, according to the case information, affected the bank's ability to maintain the prescribed CRR and SLR requirements.

Despite availing available liquidity-support mechanisms from Bangladesh Bank, including the IBLF, MLS, and SLS, the bank continued to face substantial withdrawal pressure. The case demonstrates that, during periods of financial stress, liquidity management depends not only on the availability of funds and regulatory support but also on depositor confidence, communication, and the pace of cash outflows.

Measures Adopted by the Bank

The bank reportedly adopted a gradual and controlled disbursement strategy rather than imposing a complete restriction on withdrawals. The objective was to moderate the speed of fund outflows, preserve available liquidity, and minimize the risk of wider depositor panic.

Cheque-based Withdrawal Management

Initially, the bank introduced a system-based ceiling of BDT 5 crore for cheque-based withdrawals. However, some customers reportedly attempted to circumvent the limit by issuing several cheques below the prescribed threshold. In response, the bank progressively reduced the withdrawal ceiling to BDT 2 crore and subsequently to BDT 50 lakh.

According to the case information, cheques exceeding BDT 50 lakh were subject to additional processing and were not immediately honored during the first or second presentation. This arrangement reportedly slowed the pace of large withdrawals while avoiding an outright and visible restriction on customers' access to funds. Such measures, however, should be considered only within the applicable legal, regulatory, contractual, and customer-protection requirements.

ATM Withdrawal Management

The bank also introduced temporary controls on cash withdrawals through ATMs, including transactions initiated by cardholders of other banks, in order to manage immediate cash outflows more prudently.

Financing and Trade-business Management

The bank undertook several measures to conserve liquidity and prioritize essential economic activities. These included rationalizing new financing approvals, aligning financing disbursements with the level of investment recovery where practicable, encouraging the opening of letters of credit against 100 percent cash margin, prioritizing letters of credit for essential commodities and industrial raw materials, and discouraging the opening of letters of credit for non-essential or luxury items.

Stakeholder Communication and Confidence Building

The bank also emphasized internal communication and customer assurance. Employees were encouraged to communicate consistently with customers and assure them that their deposits remained protected. The bank reportedly received moral and institutional support from investment clients, regulators, and other stakeholders, which contributed to efforts to restore confidence.

Support Provided by the Central Bank

Financial Regulatory Support

Although internal liquidity redistribution and coordinated cash-flow management served as essential first-line measures, support from the central bank became indispensable during the period of severe and prolonged liquidity stress. Bangladesh Bank extended liquidity assistance through the Shariah-compliant facilities and instruments designed to provide timely cash support. When withdrawal pressure exceeds an institution's internal liquidity capacity, such assistance, together with appropriate regulatory flexibility, becomes critical to maintaining uninterrupted payment services, meeting legitimate withdrawal demands, preserving depositor confidence, and preventing wider disruption to the banking system.

Non-Financial Regulatory Support

The regulatory support is not limited to the provision of funds only. Clear, credible, and reassuring communication from the central bank can play an equally important role in restoring public confidence. Structured, targeted, and frequent messages from senior regulatory officials may help counter rumors, reduce panic-driven withdrawals, and reassure customers about the safety and continuity of banking services. Accordingly, Bangladesh Bank provided support in a timely and prudent manner, considering the bank's systemic importance and the potential contagion effects that prolonged liquidity stress could create for the wider banking sector. Such communication, when timely, fact-based, and consistent with the actual support measures undertaken, can complement financial assistance and contribute meaningfully to stabilizing depositor confidence.

Practical Insights

The case suggests that liquidity management during a period of exceptional withdrawal pressure is not merely a matter of maintaining regulatory ratios or obtaining emergency funding. It is also closely linked to depositor sentiment, market perception, communication quality, and the ability of management to control the pace of outflows without triggering further panic.

The reported approach sought to reduce the speed of withdrawals, avoid a crowd reaction, preserve a degree of normal customer access, and maintain confidence in the institution. According to the case information, withdrawal pressure gradually moderated, sudden liquidity depletion was avoided, and depositor confidence was substantially preserved.

Lessons for Islamic Banks

The case highlights the importance of maintaining a robust contingency funding plan, reliable early-warning indicators, effective depositor-communication strategies, and coordinated decision-making among the Treasury Department, Risk Management Department, Asset-Liability Management Committee (ALCO), senior management, Shariah governance functions, and regulator. These arrangements should be supported by clearly defined roles, escalation procedures, and regular stress testing to ensure timely action when liquidity pressure emerges.

The case also indicates that, during periods of liquidity stress, carefully designed and legally compliant soft-control measures may help manage withdrawal pressure more effectively than abrupt or blanket restrictions. However, any such measure must remain consistent with Bangladesh Bank directives, contractual obligations, customer rights, and Shariah principles.

Most importantly, the case demonstrates that internal liquidity-management measures alone may not be sufficient during severe and prolonged stress. Timely support from the regulator may become indispensable when withdrawal pressure exceeds the bank's internal liquidity capacity. Such support should extend beyond liquidity assistance and may include appropriate operational flexibility, supervisory guidance, and coordinated regulatory intervention.

Clear, credible, and reassuring communication from the central bank is essential for restoring and sustaining public confidence. Structured and timely messages from senior regulatory officials may help counter rumors, reduce panic-driven withdrawals, and reassure customers about the safety and continuity of banking services. In this way, financial assistance and regulatory communication can jointly contribute to stabilizing the affected institution and reducing the risk of contagion across the wider banking sector.

Source: *Authors' Compilation Based on KII*

Case Study 2: Coordinated Branch Cash-Flow Management under Liquidity Stress

Background

During the period of liquidity stress, XYZ Islamic Bank faced an uneven distribution of cash across its branch network. While certain branches maintained surplus cash balances, others experienced difficulty in meeting increased withdrawal demands. According to the case information, the bank was expected to ensure that customers with legitimate withdrawal requests were not turned away without payment. This heightened the operational sensitivity of branch-level liquidity management and required continuous monitoring of cash positions across the network.

Measures Adopted by the Bank

The bank primarily relied on internal coordination, structured monitoring, and the redistribution of available cash within its branch network before seeking external funding support.

Zonal-level Liquidity Monitoring

Zonal Heads were assigned responsibility for monitoring the daily liquidity positions of branches under their respective jurisdictions. This enabled the timely identification of branches with surplus cash and those facing immediate shortages. Surplus funds were then reallocated, where operationally feasible, to branches experiencing withdrawal pressure.

Role of Feeder Branches

Feeder branches acted as intermediate liquidity-management points within their networks. They coordinated the transfer of cash between branches, balanced local surplus and deficit positions, and reduced the need for frequent intervention by Head Office. This decentralized support mechanism improved the speed of liquidity redistribution and helped maintain uninterrupted branch operations.

Head Office Oversight and Prioritization

The Head Office maintained central oversight of the overall liquidity position and intervened when branch- or zone-level adjustments were insufficient. In such cases, cash allocations were made based on the urgency of the requirement, the scale of withdrawal pressure, and the operational importance of the concerned branch, rather than solely on a first-come-first-served basis.

Exceptional External Support

In extreme circumstances, the bank reportedly arranged temporary liquidity support from other banks, which was encashed through Bangladesh Bank and deployed to meet urgent withdrawal requirements. Such support was not used as a routine funding source; rather, it was treated as an exceptional measure for maintaining operational continuity during periods of heightened stress. Any such arrangement should remain subject to applicable regulatory requirements, proper documentation, and Shariah review where relevant.

Use of Regulatory Facilities

Where internal cash redistribution could not adequately meet branch-level requirements, the bank obtained funds through cheque encashment with Bangladesh Bank and subsequently distributed the funds among branches according to priority and need.

Practical Insights

The case demonstrates that effective liquidity management during stress periods is neither fully centralized nor fully decentralized. Rather, it requires a coordinated structure in which branches respond promptly to local cash needs, zonal offices balance liquidity within their networks, and Head Office intervenes strategically when internal adjustments are insufficient. The approach also highlights the importance of real-time cash-flow information, clear escalation procedures, prioritization criteria, and close coordination among branches, zonal offices, Head Office, and Bangladesh Bank.

Outcome and Lessons

According to the case information, the coordinated approach enabled branches to continue cash payments, reduced operational disruption, and supported compliance with regulatory expectations during a period of significant withdrawal pressure. The principal lesson is that internal liquidity redistribution should constitute the first line of defense during branch-level liquidity stress. External funding support, including central-bank facilities or other exceptional arrangements, should generally be considered after available internal liquidity-management options have been assessed and utilized. Effective branch-level coordination, therefore, remains essential for preserving depositor confidence and ensuring operational continuity during periods of liquidity pressure.

Source: Authors' Compilation Based on KII

Case Study 3: From a Sustainable Shariah-Based Bank to a Vulnerable Institution

Background

Shariah Bank PLC began operations in 19XX as a full-fledged commercial bank operating on Shariah principles. During its first three decades, the bank grew rapidly and became one of the leading financial institutions in the country, supported by increasing public acceptance of Islamic banking and a conservative approach to liquidity management. For nearly a decade, it was reportedly the only Bangladeshi bank included among the world's top 1,000 banks, reflecting its institutional strength and market position during that period.

A defining feature of the bank's early operations was its cautious liquidity strategy. Instead of maintaining only the minimum regulatory liquidity requirement, the bank consistently held substantial liquidity buffers. This reflected a prudent approach to liquidity risk management and helped strengthen depositor confidence. The following discussion is based on indicative data and reported developments; therefore, the figures and events should be interpreted as case-based evidence rather than independently verified findings.

Phase I: Conservative Liquidity Management, 19XX–2011

The bank's liquidity position during this phase indicates a consistent pattern of conservative liquidity management. In 2004, against a CRR requirement of 6.00 percent, the bank reportedly maintained 14.76 percent. Similarly, against an SLR requirement of 5.50 percent, it maintained 20.84 percent, far above the regulatory minimum. By 2011, the CRR cushion had narrowed to 7.24 percent against the 6.00 percent requirement; however, the SLR remained significantly higher at 23.51 percent against the required 5.50 percent.

This pattern suggests that the bank's liquidity surplus was not merely a temporary position. Rather, it reflected an institutional culture of prudence and self-control in liquidity management. Such buffers involved an opportunity cost, as excess liquidity could reduce short-term profitability. However, they also provided resilience against unexpected withdrawal pressure and reputational shocks.

Phase II: Reputational Pressure and Initial Liquidity Stress, 2012–2013

During 2012–2013, the bank faced reputational pressure following public allegations linking it with terrorism financing and other adverse narratives. Although such allegations did not necessarily reflect the bank's financial fundamentals, they had the potential to influence depositor perception. In banking, reputational risk can quickly transform into liquidity risk when depositors respond to uncertainty through withdrawals.

In the second half of 2013, the bank experienced its first major liquidity pressure since commencement of operations. However, the long-standing liquidity buffers enabled the bank to absorb withdrawal pressure without breaching major regulatory requirements. This episode demonstrates that maintaining liquidity above the regulatory minimum can function as an important form of institutional insurance during periods of confidence shock. It is noted that the regulatory support helped a lot regain the depositors' confidence.

Phase III: Governance Change and Progressive Liquidity Weakening, 2017–2023

The year 2017 marked an important turning point in the bank's governance history. The bank reportedly experienced significant changes in ownership, board composition, and senior management. Contemporary media reports described a major shift in control and rapid changes in senior positions. This case study does not independently verify those reports or assess the

motives behind the governance transition. However, it notes that the period following 2017 coincided with a gradual weakening of institutional performance, market confidence, and liquidity resilience.

The situation deteriorated sharply toward the end of 2022, when extensive negative media coverage regarding the bank's financial condition triggered a serious loss of depositor confidence and large-scale withdrawals. Unlike the 2013 episode, the bank's accumulated liquidity buffers were no longer sufficient to absorb the pressure. For the first time in its history, the bank reportedly faced difficulty in consistently maintaining the required cash reserve with the central bank.

Bangladesh Bank responded by extending liquidity support and introducing additional Shariah-compliant liquidity-support instruments for the sector. The stress was not confined to this bank alone; several other Islamic banks also experienced withdrawal pressure during the same period. This suggests that the episode had sector-wide confidence implications, rather than being limited to a single institution.

The 2023 liquidity indicators highlight the nature of the stress:

Indicator	Regulatory Requirement	Maintained
CRR	4.00%	5.10%
SLR	5.50%	6.04%
LCR	100%	48.74%
NSFR	100%	100.09%

Although the bank technically maintained CRR and SLR, the position was reportedly supported by central bank assistance. The LCR shortfall was particularly significant, as the maintained ratio stood at 48.74 percent against the 100 percent requirement. This indicates acute short-term liquidity pressure. In contrast, the NSFR remained marginally compliant at 100.09 percent, suggesting that the core problem was not necessarily the long-term funding structure but the immediate availability of liquid assets during a period of depositor panic.

Phase IV: Regulatory Intervention and Partial Recovery, 2024–2025

Following the political transition in 2024, the interim government reconstituted the bank's board through a special appointment process. The new board initiated corrective measures aimed at restoring depositor confidence, strengthening governance, and improving liquidity management. These measures appeared to produce some positive results. By the end of 2025, the bank reportedly maintained a CRR of 4.66 percent against the requirement of 4.00 percent and an SLR of 6.81 percent against the requirement of 5.50 percent. These buffers were modest compared with the bank's earlier conservative liquidity position, but they indicated partial recovery from the 2023 stress period.

Phase V: Renewed Liquidity Stress, 2026

In June 2026, the bank again experienced liquidity pressure. This time, the immediate trigger was reportedly linked to uncertainty regarding the central bank's approach to the bank's board composition. Although the trigger was governance-related rather than directly financial, it again affected depositor confidence. Withdrawal pressure reportedly intensified, with deposits declining by around BDT 20,000 crore within a short period. Bangladesh Bank provided emergency liquidity support exceeding BDT 12,000 crore to stabilize operations and maintain payment continuity.

This episode reinforces an important lesson: compliance with regulatory ratios alone cannot fully protect a bank from liquidity stress if depositor confidence deteriorates sharply. Confidence can weaken faster than regulatory indicators are able to capture.

Case Analysis

First, maintaining liquidity above the regulatory floor may involve an opportunity cost, but it can provide critical resilience during periods of stress. The bank's ability to withstand the 2013 reputational shock was largely supported by the liquidity buffers accumulated during its earlier years. This suggests that excess liquidity, when maintained prudently, may serve as an institutional safeguard against sudden confidence shocks.

Second, reputational and governance risks can rapidly transform into liquidity risks. Allegations, adverse narratives, governance changes, and uncertainty regarding institutional control may influence depositor behavior, even where the bank had a long record of strong performance. As long as banks are able to mobilize deposits and retain depositor confidence, internal liquidity outflows may remain manageable. However, continuous public discussion of reported irregularities involving Islamic banks can create panic among depositors, stakeholders, and the wider public, thereby accelerating liquidity outflows and sharply reducing fresh cash inflows.

Third, regulatory support becomes essential during severe liquidity stress, particularly where the affected institution has systemic importance. In this case, the regulator responded promptly by extending liquidity support to the affected Islamic bank and other vulnerable institutions. However, the case also suggests that financial assistance alone may not be sufficient to restore depositor confidence on a sustainable basis. One Islamic bank was initially able to regain the confidence of certain groups of depositors and temporarily stabilize its position, but it later faced renewed liquidity pressure due to continuing uncertainty regarding institutional stability. Depositor trust must therefore be rebuilt through transparent governance, credible management, effective communication, asset-quality improvement, and consistent regulatory oversight.

Fourth, large-scale withdrawals may distort the fund mix of Islamic banks. A decline in low-cost and no-cost deposits may increase reliance on higher-cost funds, thereby putting pressure on profitability and limiting the capacity for profit distribution. In addition, Islamic banks may face income-recognition constraints where income is derived from doubtful or irregular transactions. Such constraints may further weaken profitability and reduce the institution's ability to respond effectively to withdrawal pressure.

Fifth, Islamic banks face additional constraints because their liquidity management must remain within Shariah-compliant instruments and arrangements. This makes it particularly important to develop diversified liquidity-support facilities, active Islamic money-market instruments, credible contingency funding plans, and effective depositor-communication strategies.

Overall, the case reinforces the need for stronger preventive measures within the broader regulatory framework. Islamic banks should strengthen self-regulatory practices, including governance standards, early-warning indicators, contingency funding plans, internal controls, asset-liability management, and Shariah governance oversight. At the sectoral level, the implementation of a national integrity strategy and stronger ethical standards in banking may help improve governance practices and restore confidence. Unhealthy and aggressive competition among banks should also be contained, as such practices may weaken risk discipline and increase systemic vulnerability.

Conclusion

The broader lesson of this case is that liquidity management in Islamic banks cannot be reduced to mechanical compliance with CRR, SLR, LCR, and NSFR requirements. These ratios are necessary, but they are not sufficient. Liquidity resilience ultimately depends on governance quality, institutional reputation, depositor confidence, asset quality, effective communication, and the availability of Shariah-compliant liquidity instruments. A bank may remain formally compliant with selected regulatory ratios and still become vulnerable if public confidence, governance credibility, and short-term liquidity access deteriorate simultaneously. Therefore, sustainable liquidity management requires not only regulatory compliance but also strong governance, proactive regulatory support, and continuous efforts to preserve depositor trust.

Source: *Authors' Compilation Based on KII*

6. Issues and Recommendations

The study identifies a number of regulatory, market, operational, and Shariah-governance issues affecting the liquidity management of Islamic financial institutions (IFIs) in Bangladesh. Although Bangladesh Bank has introduced several Shariah-compliant instruments and facilities, including BGIIB, BGIS, BGSS, IBLF, MLS, and SLS, the overall liquidity-management framework remains constrained by the limited availability of short-term and tradable instruments, the underdevelopment of the Islamic interbank market, operational concerns in transaction settlement, and the need for stronger Shariah governance. The recommendations presented below are intended to strengthen liquidity resilience, improve the productive deployment of surplus funds, and enhance the ability of IFIs to manage temporary liquidity deficits without compromising Shariah compliance.

6.1 Ensuring Shariah Compliance in Liquidity Management

Shariah compliance should remain a central consideration throughout the full liquidity-management cycle, including fund placement, fund collection, collateral management, profit calculation, provisional-profit adjustment, settlement, rollover, and early redemption. Although most questionnaire respondents did not report major Shariah concerns in maintaining CRR, SLR, LCR, and NSFR, a proportion of respondents and FGD/KII participants expressed concerns regarding the final settlement of BGIIB, interbank placements, IBLF, and MLS. Particular attention is required where provisional profit is paid initially and adjusted later based on actual performance, as inadequate transparency or a substantial and persistent difference between provisional and final profit may create Shariah-governance concerns.

Islamic banks, Bangladesh Bank, and other relevant market participants should therefore ensure that the contractual structure, profit-sharing mechanism, calculation methodology, collateral arrangement, and settlement process of each

liquidity-management instrument are clearly documented and consistently implemented. Standardized Shariah-compliant agreements, operational manuals, settlement checklists, and disclosure formats may be developed for BGIIB, interbank Mudarabah placements, IBLF, MLS, SLS, and any future liquidity facilities. The actual performance basis of Mudarabah arrangements should be transparent, and the process for provisional-profit adjustment should be communicated clearly to all relevant parties.

6.2 Expanding Shariah Review and Shariah Audit to Treasury Activities

Treasury activities should be brought explicitly within the scope of Shariah review by the Shariah Supervisory Committee (SSC) and Internal Shariah Audit (ISA). In many Islamic banks, Shariah review and ISA tend to focus more on financing and branch-banking operations, whereas treasury operations involve a range of significant Shariah-sensitive activities, including interbank placements, liquidity support facilities, Sukuk investment, foreign-currency transactions, capital market operations, and profit settlement.

SSC should approve or review the Shariah structure of treasury products, while ISA should periodically examine whether the approved structure has been implemented in practice. The review should cover, among other matters, the segregation of Islamic and conventional funds, calculation and distribution of profit, provisional-profit adjustment, documentation of Qard arrangements, and settlement of Mudarabah placements. Treasury-related Shariah observations should be reported regularly to senior management, the SSC, the Board Risk Management Committee, and the Audit Committee of the Board, as appropriate. This would help strengthen confidence in Islamic liquidity instruments and ensure that Shariah compliance is maintained not only at the product-design stage but also during execution and settlement.

6.3 Ensuring Adequate Shariah-Compliant Instruments Before Any Increase in SLR Requirements

The study finds that Islamic banks and Islamic banking operations maintain substantial excess SLR in several cases, particularly through holdings of government instruments. While such holdings provide a liquidity cushion and support regulatory compliance, a prolonged or excessive concentration of funds in government instruments may reduce the capacity of IFIs to finance productive private-sector activities. Financing the real economy should remain the principal purpose of deposit mobilization, whereas government instruments should serve

primarily as liquidity-management, risk-management, and regulatory-compliance tools.

Accordingly, any future increase in the SLR requirement for Islamic banks should be considered only after ensuring the adequate and regular availability of diversified Shariah-compliant SLR-eligible instruments. Bangladesh Bank and the relevant government authorities may consider preparing and publishing a regular issuance calendar for BGIS, BGSS, and future short-term Sukuk. The issuance of short-tenor government Sukuk, including one-month, three-month, six-month, nine-month and one-year instruments, would provide IFIs with more effective options for managing surplus liquidity and meeting SLR requirements. Greater availability of tradable Sukuk would also reduce excessive dependence on BGIIB and improve the flexibility of Islamic banks in responding to changing liquidity conditions.

The development of an active secondary market is equally important. A secure electronic trading, transfer, and settlement platform for BGIS, BGSS, and other eligible Islamic instruments would improve price discovery, facilitate liquidity conversion, and strengthen the usefulness of Sukuk as High-Quality Liquid Assets. The policy objective should be to ensure that Islamic banks hold sufficient regulatory liquidity buffers without unnecessarily diverting funds away from productive private financing.

6.4 Considering LCR and NSFR Requirements in Light of IFI-Specific Constraints

The LCR and NSFR are important prudential tools for strengthening short-term and long-term liquidity resilience. The survey findings suggest that most IFIs do not face major operational or Shariah-compliance difficulties in maintaining these ratios. However, FGD participants observed that the application of LCR and NSFR requirements to IFIs may require further regulatory consideration because of the limited availability of Shariah-compliant High-Quality Liquid Assets (HQLA). As the conventional banks are required to hold more HQLA and availability of such instruments are sufficient, they enjoy competitive advantages in this regard.

Bangladesh Bank may therefore review the practical application of LCR and NSFR to Islamic banks and Islamic banking operations while maintaining equivalent prudential objectives. Such a review may consider the availability, maturity, market liquidity, and tradability of Shariah-compliant assets eligible for HQLA treatment.

6.5 Ensuring Competitive and Transparent Rates of Return on Shariah-Compliant Instruments

The rate of return on liquidity-management instruments is a key determinant of their usefulness for Islamic banks. The study indicates that some market participants consider the returns on BGIIB, BGIS and certain other Islamic instruments to be less attractive than those available through comparable conventional instruments. Where Shariah-compliant instruments provide persistently lower returns without sufficient liquidity, or tradability, Islamic banks may face opportunity costs in deploying surplus funds. This may ultimately affect profitability, returns to depositors, and the competitiveness of Islamic banking operations.

The expected rate of return on Shariah-compliant government instruments should therefore be determined through a transparent and economically reasonable process, taking account of the underlying Shariah structure, actual asset performance, prevailing market conditions, maturity, risk profile, and returns available on comparable conventional government instruments. Alignment with conventional-market yields should not mean replication of interest-based transactions; rather, it should aim to ensure that the expected return on Shariah-compliant instruments remains commercially competitive within a valid Shariah structure.

6.6 Introducing Shariah-Compliant Earnings on Foreign Currency Accounts Maintained with Bangladesh Bank

Foreign-currency liquidity management remains a significant operational challenge for Islamic banks, particularly because Islamic banks maintain foreign-currency balances with Bangladesh Bank but do not avail earnings generated from such balances. This may create an opportunity cost for Islamic banks and reduce the efficiency of foreign-currency liquidity management due to Shariah issue.

Bangladesh Bank may consider introducing a Shariah-compliant mechanism through which foreign-currency balances maintained by Islamic banks can generate permissible returns. In this regard, Bangladesh Bank may consider to manage two separate pool for conventional banks and Islamic banks. Such a mechanism may be structured through an appropriate Shariah-compliant arrangement, such as Wakalah, Mudarabah, or another permissible investment arrangement, subject to a detailed assessment of legal, regulatory, accounting, operational, and Shariah requirements. This would help Islamic banks manage foreign-currency balances more efficiently while maintaining adherence to Shariah principles.

6.7 Developing Shariah-Compliant Foreign Currency Liquidity and Funding Arrangements

In addition to earnings on foreign-currency balances, Islamic banks require access to Shariah-compliant foreign-currency liquidity support during periods of temporary funding stress. The absence of sufficient Shariah-compliant foreign-currency funding avenues may create difficulties in managing trade-related payments, correspondent banking obligations, Nostro account requirements, and foreign-currency liquidity mismatches.

Bangladesh Bank, in consultation with Islamic banks, Shariah scholars, and relevant market participants, may explore the development of appropriate foreign-currency liquidity arrangements international entities like Islamic Development Bank (IsDB).

6.8 Introducing Islamic Interbank Liquidity Support Against BGIS and Developing an Overnight Facility

The study identifies the need for a more active, efficient, and transparent Islamic interbank money market. The existing IIFM is not an effective mechanism for managing daily or overnight liquidity mismatches. Market participants emphasized the need for an efficient overnight fund-placement and fund-collection mechanism that can enable IFIs with surplus liquidity to place funds with institutions facing temporary shortages.

Bangladesh Bank may consider introducing an interbank Shariah-compliant liquidity-support arrangement against unencumbered BGIS or BGSS holdings. Similar to the IBLF, this facility could enable one Islamic bank to obtain short-term liquidity from another Islamic bank or Islamic banking operation by placing eligible Sukuk under lien or Rahn. The arrangement may be structured through Shariah-compliant mode, depending on the nature of the transaction and the role of the participating institutions. An appropriately designed facility would provide an alternative to conventional repo and reverse repo transactions and help create a more active Islamic money market.

6.9 Recalibrating the Maximum IDR in Line with Instrument Availability

The maximum allowable IDR for Islamic banks is currently higher than the corresponding ADR applicable to conventional banks. The survey findings and stakeholder discussions suggest that Bangladesh Bank may consider reviewing the maximum IDR for Islamic banks, particularly where high financing deployment creates potential liquidity pressure beside credit risk. However, a reduction in the permissible IDR should not be introduced in isolation, as it may result in idle funds

and adversely affect financing to the real economy if adequate Shariah-compliant investment and liquidity-management instruments are not available.

6.10 Strengthening Coordination, Market Discipline, and Institutional Capacity

The development of a sound Islamic liquidity-management framework requires coordinated action by Bangladesh Bank, the Ministry of Finance, the Special Purpose Vehicle (SPV) for Sukuk issuance, Islamic banks, finance companies, Shariah scholars, and market infrastructure providers. Bangladesh Bank may establish a regular consultation mechanism involving relevant stakeholders to identify market constraints, evaluate the operation of existing facilities, and design new Shariah-compliant liquidity instruments.

Islamic banks should also strengthen their internal capacity in treasury management, liquidity forecasting, stress testing, contingency funding planning, and Shariah governance. The Treasury Department, Risk Management Department, ALCO, Basel Implementation Unit, Shariah Secretariat, and Internal Shariah Audit should work in a coordinated manner to ensure that liquidity decisions are commercially sound, prudentially appropriate, and Shariah compliant. Enhanced disclosure, improved governance, and timely reporting would strengthen market discipline and confidence in Islamic liquidity-management practices.

6.11 Rate of Return for Depositors and Profit-Smoothing Practices

Islamic banks mobilize a substantial portion (about 80%) of their deposits under Mudarabah-based arrangements, under which depositors act as Rabb al-Mal and are entitled to share in the actual profit generated from the deployment of funds. In principle, they also bear investment losses, except where such losses arise from the misconduct, negligence, or breach of contract by the Mudarib. In practice, however, IFIs may face displaced commercial risk when the expected return of depositors becomes lower than the returns available from competing institutions. To mitigate this risk and retain depositors' confidence, Islamic banks may apply permissible profit-smoothing mechanisms, subject to appropriate Shariah and regulatory requirements.

Nevertheless, an Islamic bank should not maintain an excessively high level of surplus liquidity while continuing to mobilize additional Mudarabah deposits by offering comparatively high expected profit rates through profit-smoothing practices. Such an approach may increase the cost of funds, reduce profitability, create pressure on shareholders' returns, and raise concerns regarding the appropriate use of depositors' funds. The declared and distributed profit rates

should therefore be supported by the actual performance of Shariah-compliant financing and investment activities, prudent liquidity planning, and a transparent profit-distribution methodology.

In this regard, Islamic banks should strengthen their asset-liability management, liquidity forecasting, and deposit-pricing practices to ensure a reasonable alignment between expected depositor returns, the availability of productive financing opportunities, and the actual income generated from Shariah-compliant assets. The use of profit-equalization or similar mechanisms, where permitted, should be governed by clear policies approved by the Shariah Supervisory Committee, Board of Directors, and relevant regulatory authorities. A coordinated industry-level approach, supported by regular Shariah review and internal Shariah audit, would help ensure consistency, transparency, and Shariah compliance in Mudarabah deposit management and profit distribution across the Islamic banking industry.

6.12 Modification of Associated Regulations

A review of the existing regulatory framework indicates that certain provisions relating to liquidity management may require reconsideration from both regulatory and Shariah perspectives. Under Article 36(1) of the Bangladesh Bank Order, 1972, every scheduled bank is required to maintain the prescribed CRR. Article 36(4) further provides that, where the CRR balance maintained by a bank falls below the prescribed amount, Bangladesh Bank may impose penal interest on the amount of the shortfall at a rate above the Bank Rate. The issue is also reflected in DOS Circular No. 01 dated January 19, 2014.

However, according to the Guidelines for Islamic Banking, 2009, Islamic banks are required to refrain from receiving and paying interest in all their operations. From a Shariah perspective, the application of the term and concept of "penal interest" to Islamic banks may therefore create a conceptual inconsistency with the fundamental principles governing Islamic banking. While regulatory sanctions for non-compliance with CRR requirements are necessary to ensure financial discipline and stability, such sanctions may be structured as regulatory penalties rather than interest-based charges.

Accordingly, the study recommends that the relevant provisions of the Bangladesh Bank Order, 1972, and associated regulations be reviewed to explore the possibility of replacing the term "penal interest" with "penalty" or another appropriate regulatory sanction in the case of Islamic banks. Such an amendment would preserve the regulatory objective of enforcing compliance while ensuring greater consistency with the Shariah principles governing Islamic banking operations.

6.13 Mutual Liquidity Support Through Qard Arrangements Among IFIs

As a mechanism of mutual cooperation, two IFIs may establish separate and independent Qard-based liquidity-support arrangements. For example, Bank A may, at its own discretion, provide Bank B with an interest-free Qard of up to BDT 100 crore when Bank B faces a temporary liquidity shortfall and submits a request acceptable to Bank A. Separately, Bank B may, at its own discretion, provide Bank A with an interest-free Qard of up to BDT 120 crore when Bank A experiences a genuine liquidity need and its request is approved by Bank B.

Each arrangement should be independently documented, approved, and operated. The availability or utilization of one facility must not be made conditional upon the establishment, continuation, or utilization of the other facility. Neither institution should charge interest, require any additional return, obtain a compensatory balance, receive preferential commercial treatment, or derive any other stipulated benefit in connection with the Qard. Each drawdown should remain subject to the independent liquidity position, internal approval, and Shariah governance requirements of the lending institution. Such an arrangement, when structured as separate and non-reciprocal Qard support mechanisms, may promote cooperation among Islamic banks and provide a Shariah-compliant option for addressing temporary liquidity shortages. The proposed structure must be reviewed and approved by a competent Shariah authority before implementation.

The study concludes that an effective liquidity-management framework for IFIs requires diversified Shariah-compliant instruments, an active Islamic money market, sound regulatory support, and strong Shariah governance. Coordinated efforts by Bangladesh Bank, the Government, IFIs, Shariah scholars, and market participants will be essential to strengthen liquidity resilience, protect depositor confidence, and support the sustainable growth of Islamic banking in Bangladesh.

6.14 Structuring New Shariah-Compliant Liquidity-Support Instruments

To broaden the range of liquidity-management options available to IFI, Bangladesh Bank and relevant market participants may consider developing additional Shariah-compliant liquidity-support instruments in line with the AAOIFI Shariah Standards. Short-term liquidity facilities may be structured through Salam or Istisna'a arrangements, where the provision of funds is linked to genuine underlying assets, commodities, or future production or delivery obligations. Such structures should ensure that the underlying transactions are commercially substantive, properly documented, and supported by clear documentation.

For medium-term liquidity support, a sale-and-leaseback arrangement may also be considered, subject to the relevant Shariah requirements. Under such a structure, an institution may sell an eligible asset to a liquidity provider and subsequently lease the asset for an agreed period under a separate Ijarah contract. Any future repurchase arrangement should remain independent of the original sale and lease contracts and should comply with applicable Shariah requirements.

The development of these instruments should be supported by standardized documentation, clear operational procedures, appropriate collateral and risk-management arrangements, and prior approval from competent Shariah authorities and Bangladesh Bank. Such initiatives may help diversify liquidity-support options, reduce dependence on a limited number of existing facilities, and strengthen the resilience of Islamic banks during periods of temporary liquidity stress.

References

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). (2010). *Obtaining and Deploying Liquidity*. (AAOIFI SS 44).

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). (2019). *AAOIFI governance standard No. 11: Internal Shari'ah audit*. https://aaoifi.com/issued-standards-2/?lang=en

Abdullah, D. V. (2010). *Liquidity management in institutions offering Islamic financial services*. Second Islamic Financial Stability Forum, Jeddah, Saudi Arabia.

Ara, U. H. A., & Haque, E. (2014). Asset liability mismatch: An empirical study on nationalized commercial banks in Bangladesh. *Asian Business Review, 4*(2), 55–63.

Ayub, R., Alhabshi, S. M., & Othman, A. H. A. (2023). Managing liquidity and profitability: A study of the impact of Basel III regulations on Islamic banks in Pakistan. *International Journal of Islamic Economics and Finance Research, 6*(2), 69–83.

Bari, F., & Uddin, M. D. (2022). Liquidity management of banks: Panel evidence from Bangladesh. *Journal of Business Studies, 43*, 77–92.

Basel Committee on Banking Supervision. (20110). *Basel III: International framework for liquidity risk measurement, standards and monitoring.* Bank for International Settlements.

Basel Committee on Banking Supervision. (2013a). *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*. Bank for International Settlements.

Basel Committee on Banking Supervision. (2013b). *Monitoring tools for intraday liquidity management*. Bank for International Settlements.

Bonner, C., & Eijffinger, S. C. W. (2016). The impact of liquidity regulation on bank intermediation. *Review of Finance, 20*(5), 1945–1979. https://doi.org/10.1093/rof/rfv063

Chowdhury, M., Zaman, S., & Alam, M. (2019). Liquidity risk management of Islamic banks in Bangladesh. In *Proceedings of the International Conference*, 37–48.

Dhiraj, N. S., Puneri, A., & Benraheem, H. (2019). A succinct analysis of mitigating liquidity risk in Islamic banks in the light of liquidity and risk management principles. *International Journal of Islamic Business Ethics, 4*(1), 527–539. https://doi.org/10.30659/ijibe.4.1.527-539

Diamond, D. W., & Dybvig, P. H. (1983). Bank runs, deposit insurance, and liquidity. *Journal of Political Economy, 91*(3), 401–419. https://doi.org/10.1086/261155

Doerr, S. and Drehmann, M. (2026). "The Liquidity Coverage Ratio a decade on: a stocktake of the literature". BIS Paper No. 164, available at https://www.bis.org/publ/bppdf/bispap164.htm, cited on June 24, 2026.

Giordana, G. A., & Schumacher, I. (2013). Bank liquidity risk and monetary policy: Empirical evidence on the impact of Basel III liquidity standards. *International Review of Applied Economics, 27*(5), 633–655. https://doi.org/10.1080/02692171.2013.789889

Hoque, A., Le, D. T., & Le, T. (2024). Does digital transformation reduce bank risk-taking? Evidence from Vietnamese commercial banks. *Journal of Open Innovation: Technology, Market, and Complexity, 10*(2), Article 100260. https://doi.org/10.1016/j.joitmc.2024.100260

Islamic Financial Services Board. (2005). *Guiding principles of risk management for institutions (other than insurance institutions) offering only Islamic financial services* (IFSB-1).

Islamic Financial Services Board. (2012). *Guiding principles on liquidity risk management for institutions offering Islamic financial services (excluding Islamic insurance [Takāful] institutions and Islamic collective investment schemes)* (IFSB-12).

Islamic Financial Services Board. (2021). *Revised capital adequacy standard for institutions offering Islamic financial services* [Banking segment] (IFSB-23).

Jalil, M. A., & Biswas, A. A. (2018). The state of liquidity risk management of Islamic banks in Bangladesh: A comparative study with conventional banks. *Journal of Islamic Finance, 7*(2). https://ssrn.com/abstract=3276785

Malhou, F. A., & Maimoun, A. (2021). Theoretical analysis on asset-liability management of liquidity risk: The case of Islamic banks. *SHS Web of Conferences*. https://doi.org/10.1051/shsconf/202111902006

Mikou, S., Lahrichi, Y., & Achchab, S. (2024). Liquidity risk management in Islamic banks: Review of the literature and future research perspectives. *European Journal of Studies in Management and Business, 29*, 56–73.

Mordel, A. (2018). Prudential liquidity regulation in banking: A literature review (Discussion Paper No. 18-8). Bank of Canada.

Naoaj, M. S. (2023). Measuring liquidity risk and its determinants in commercial banks of Bangladesh: An empirical investigation. *European Journal of Business and Management Research, 8*(2), 250–254. https://doi.org/10.24018/ejbmr.2023.8.2.1887

Rahman, M. L., & Banna, S. H. (2016). Liquidity risk management: A comparative study between conventional and Islamic banks in Bangladesh. *Journal of Business and Technology (Dhaka), 10*(2), 18–35. https://doi.org/10.3329/jbt.v10i2.29465

Roy, S., Misra, A. K., Padhan, P. C., & Rahman, M. R. (2019). Interrelationship among liquidity, regulatory capital and profitability: A study on Indian banks. *Cogent Economics & Finance, 7*(1), Article 1664845. https://doi.org/10.1080/23322039.2019.1664845

Sarker, M. A. A., et al. (2019). Liquidity management instruments for the Islamic banks in Bangladesh. Bangladesh Bank. https://intranet.bb.org.bd/openpdf.php

Sobol, I. (2013). Liquidity management practices in Islamic banking. *Zarządzanie i Finanse, 11*, 566–576.

Sumon, S. M., & Ahmed, R. (2022). Islamic banking liquidity management in Bangladesh: Sukuk. *International Journal of Innovative Science and Research Technology, 7*, 1–10.

Tasnova, N. (2022). Impact of bank-specific and macroeconomic determinants on banks' liquidity: An empirical study on listed commercial banks in Bangladesh. *Finance & Economics Review, 4*(1), 11–24. https://doi.org/10.38157/fer.v4i1.372

Wahyudi, B. T., Zuliansyah, A., & Musthofa, U. H. (2024). Comparative analysis of operational and liquidity risks of Islamic banks in the ASEAN region using Basel III. *Indonesian Journal of Islamic Economics and Finance, 4*(2), 423–436. https://doi.org/10.37680/ijief.v4i2.6674

Appendix I: Questionnaire for Quantitate Information

General Information

Name of the Bank	
Name, Designation and Contact Details of the Respondent	Name : Designation : Phone No. : Email :

Selected Financial Data of Islamic Banking Operations as of December 31, 2025:

S/n	Particulars	Amount
1.	Total Deposits (BDT)	
2.	Total Financing/Investments (BDT)	
3.	CRR Requirement (BDT)	
4.	CRR Maintained (BDT)	
5.	SLR Requirement (BDT)	
6.	SLR Maintained (total investment in government securities) (BDT)	
7.	Inter-bank Placements made to other IFIs (BDT)	
8.	Inter-bank Placements received from other institutions (BDT)	
9.	Investment in BGIIB (BDT)	
10.	Funds availed against BGIIB (BDT)	
11.	Investment in Capital Market (BDT)	

Appendix II: Questionnaire for Opinion Survey

General Information

Name of the Bank	
Name, Designation and Contact Details of the Respondent	Name : Designation : Phone No. : Email :

Note for the Respondents

This survey seeks your professional opinion regarding different instruments related with liquidity management of Islamic banks, and their Shariah and operational aspects.

There are no right or wrong answers. Your responses will remain confidential.

Response from the Banks' Perspective

S/n	Liquidity Management Aspects	Response
A	**Liquidity Instruments for Regulatory Compliance**	
	CRR Related Issue	
1.	Is there any Shariah issue faced for maintaining CRR by your Islamic banking operations?	a) Yes b) No Suggestions:
	SLR Related Issue	
2.	Do you face any operational problem in investing funds in Bangladesh Government Islamic Investment Bond (BGIIB) as a part of SLR?	a) Yes b) No Suggestions:
3.	Do you face any Shariah non-compliance problem in investing funds in BGIIB as a part of SLR?	a) Yes b) No Suggestions:
4.	Do you face any operational problem in investing funds in Bangladesh Government Investment Sukuk (BGIS) as a part of SLR?	a) Yes b) No Suggestions:
5.	Do you face any Shariah non-compliance problem in investing funds in BGIS as a part of SLR?	a) Yes b) No Suggestions:
6.	Do you expect any Shariah-compliant new instruments for SLR purpose?	a) Yes b) No Suggestions:
	LCR Related Issue	
7.	Do you face any operational problem in maintaining Liquidity Coverage Ratio (LCR) as Islamic Banking operations?	a) Yes b) No Suggestions:

8.	Do you face any Shariah non-compliance problem in maintaining LCR as Islamic Banking operations?	a) Yes b) No Suggestions:
	NSFR Related Issue	
9.	Do you face any operational problem in maintaining Net Stable Funding Ratio (NSFR) as Islamic Banking operations?	a) Yes b) No Suggestions:
10.	Do you face any Shariah non-compliance problem in maintaining NSFR as Islamic Banking operations?	a) Yes b) No Suggestions:
	IDR Related Issue	
11.	Do you face any operational problem in maintaining Investment Deposit Ratio (IDR) as Islamic Banking operations?	a) Yes b) No Suggestions:
12.	Do you face any Shariah non-compliance problem in maintaining IDR as Islamic Banking operations?	a) Yes b) No Suggestions:
B	**Liquidity Instruments for Investment of Funds in Surplus Position**	
	Investment Through Bangladesh Bank	
13.	Do you face any operational problem in investing funds in BGIIB as additional to the SLR requirement?	a) Yes b) No Suggestions:
14.	Do you face any Shariah non-compliance problem in investing funds in BGIIB as additional to the SLR requirement?	a) Yes b) No Suggestions:
15.	Do you face any operational problem in investing funds in BGIS as additional to the SLR requirement?	a) Yes b) No Suggestions:
16.	Do you face any Shariah non-compliance problem in investing funds in BGIS as additional to the SLR requirement?	a) Yes b) No Suggestions:
17.	As per your opinion, do you think that Islamic Inter-bank Fund Market (IIFM) is efficient and effective?	a) Yes b) No Suggestions:
18.	Do you expect any Shariah-compliant new instruments for investing surplus fund in government instrument?	a) Yes b) No Suggestions:
	Investment Through Money Market	
19.	Do you face any operational problem in investing funds in other banks as placement?	a) Yes b) No Suggestions:
20.	Do you face any Shariah non-compliance problem in investing funds in other banks as placement?	a) Yes b) No Suggestions:

21.	Do you expect any Shariah-compliant new instruments for investing surplus fund through interbank placement?	a) Yes b) No Suggestions:
	Investment Through Capital Market	
22.	Do you face any operational problem in investing funds in capital market?	a) Yes b) No Suggestions:
23.	Do you face any Shariah non-compliance problem in investing funds in capital market?	a) Yes b) No Suggestions:
24.	Do you expect any Shariah-compliant new instruments for investing surplus fund in capital market?	a) Yes b) No Suggestions:
C	**Liquidity Instruments for Collection of Funds in Deficit Position**	
	Managing Fund Through Bangladesh Bank	
25.	Do you face any operational problem in managing/collecting funds from BB under Islaimc Banks Liquidity Facility (IBLF)?	a) Yes b) No Suggestions:
26.	Do you face any Shariah non-compliance problem in managing/collecting funds from BB under IBLF?	a) Yes b) No Suggestions:
27.	Do you face any operational problem in managing/collecting funds from BB under Mudarabah Liquidity Support (MLS)?	a) Yes b) No Suggestions:
28.	Do you face any Shariah non-compliance problem in managing/collecting funds from BB under MLS?	a) Yes b) No Suggestions:
29.	Do you face any operational problem in managing/collecting funds from BB under Special Liquidity Support (SLS)?	a) Yes b) No Suggestions:
30.	Do you face any Shariah non-compliance problem in managing/collecting funds from BB under SLS?	a) Yes b) No Suggestions:
31.	Do you expect any Shariah-compliant new instruments for getting liquidity support from Bangladesh Bank?	a) Yes b) No Suggestions:
D	Overall Suggestions	

Appendix III: Summary of Recommendation Proposed by Respondents

- The introduction of Islamic repo and reverse repo.
- Availability of High-Quality Liquid Assets (HQLA).
- Initiative for enhancing profit rate on BGIIB.
- Alignment of the rate of return from BGIS and other treasury instruments.
- Effective functioning of the Islamic Interbank Fund Market (IIFM).
- Greater clarity from Bangladesh Bank regarding modes applied liquidity support provided.
- Strengthen corporate governance and proper disclosure.
- Improve Shariah governance for liquidity operations.
- Recovery concerns regarding interbank placements.
- Introduction of Tawarruq-based instruments with proper governance for restricted use.
- Segregation of conventional and Islamic funds.
- Increase of equity-based Islamic instruments.
- Ensuring trading platform of BGIS in secondary market.

In a nutshell, Islamic banks need to have access to a Shariah-approved money market for enhanced liquidity management. In this regard, central banks may introduce short-term and tradable Sukuk. The central bank may launch Islamic treasury bills and other short-term Islamic bills; increase the Sukuk issuance, including Bangladesh Government Islamic Investment Bonds (BGIIB); create a digital platform for trading BGIS and BSIIB; and establish a secondary market for Islamic liquidity instruments. Enhanced collaboration of Islamic banks with Bangladesh banks may help to innovate Shariah-compliant liquidity instruments for Islamic banks. In this regard, standardizing the liquidity instruments as per the Shariah, a centralized Shariah board may be established for uniformity across the Islamic banking industry of Bangladesh. Moreover, automated interbank treasury operations and real-time transactions of the surplus and deficit funds using a secured platform are timely needs.

Source: *Questionnaire Survey*

Appendix IV: Example of CRR, SLR, IDR, LCR and NSFR Calculation

A. Cash Reserve Ratio (CRR) Calculation

Formula

- CRR = Average Total Demand and Time Liabilities (ATDTL) × Prescribed CRR Rate

Hypothetical Data

- Total Countable Liabilities known as ATDTL for April 2026= Tk. 50,000 crore
  (ATDTL figure of 2 months back, i.e., average figure of April 2026, which has been communicated by the bank to BB within May 10, 2026)
- CRR Rate = 3% (On daily basis)
- CRR Requirement (Daily) = Tk. 50,000 crore × 3% or Tk. 1500 crore (Any day of June 2026)
- Therefore, the bank must maintain cash reserve balance of Tk. 1500 crore with Bangladesh Bank in June 2026.
- Balance with BB on June 18, 2026= Tk. 2200 crore. Therefore, CRR maintained on the day is 4.4%
- CRR maintained during last two weeks (From June 07-18, 2026): 3.5%, 4.1%, 3.6%, 3.9%, 4.7%, 3.0%, 4.8%, 3.4%, 4.8%, and 4.4%.
- CRR Requirement on Bi-weekly basis will be calculated at the end of each week. Therefore, CRR maintained at the end of the week (June 18, 2026)= 4.02%.
- **The CRR information will be preserved in the Bank but communicated to BB on monthly basis (within 10th day of the subsequent month).**

B. Statutory Liquidity Ratio (SLR) Calculation

Formula

- SLR = Average Total Demand and Time Liabilities (ATDTL) × Prescribed SLR Rate

Hypothetical Data

- Total Countable Liabilities known as ATDTL for April 2026 = Tk. 50,000 crore
  (ATDTL figure of 2 months back, i.e., average monthly figure of April 2026, which has been communicated by the bank to BB within May 10, 2026)
- Required SLR Rate (for June 2026) = 5.5%
- SLR Requirement = Tk. 50,000 crore × 5.5%, or Tk. 2750 crore
- Therefore, the bank must maintain liquid assets of at least Tk. 2750 crore in approved forms.
- CRR Requirement (Bi-weekly) = Tk. 50,000 crore × 4% or Tk. 2000 crore
- Daily excess of Cash Reserve = (Day-end balance of unencumbered cash maintained in Taka current accounts with BB – Required cash reserve on Bi-weekly average basis).
- Actual Cash Reserve with BB (June 18, 2026)= Tk. 2200 Cr. Therefore, excess of CRR on the day= Tk. 2200 Cr-2000 Cr. = Tk. 200 Cr.
- The Bank maintained approved liquid assets (June 18, 2026):

  Cash in Hand including FC Tk. 523 crore; Investment in BGIIB Tk. 2,035 crore; Investment BGIS (Unencumbered) Tk. 8 crore; FC Clearing Account Tk. 73 crore; Nostro A/c Balance Tk. 1 crore; Balance with Sonali Bank PLC as an agent of BB Tk. 27 crore; HFT Securities Tk. 6 crore; Excess Cash Eligible for SLR Tk. 200 crore.

- Total Eligible SLR Assets = Tk. 2870 crore; therefore, Excess/(Shortfall) of SLR = Tk. 120 crore (June 18, 2026)
- CRR shortfall, if any, will be ignored for SLR calculation
- Funding form BGIIB net of with investment in BGIIB
- **The SLR information will be preserved in the Bank but communicated to BB on monthly basis (within 10th day of the subsequent month).**

C. Investment to Deposit Ratio (IDR) Calculation

Formula

- IDR = (Total Investments – EDF & Refinance Investments) ÷ (Total Demand and Time Deposits + Bond Surplus + Interbank Deposit Surplus)

Hypothetical Data (All are Day-end Balance)

- Total Demand and Time Deposits excluding Interbank Deposit = Tk. 50,000 crore
- Interbank Deposit Surplus = Tk. 2000 crore
- Bond Surplus = Tk. 500 crore (Difference between Bond issuance and purchase by the Bank)
- Total Investments = Tk. 40,000 crore
- EDF & Refinance Investments = Tk. 2000 crore
- Bond Deficit, if any, will be ignored in adjusted deposit calculation.

Step 1: Calculation of Adjusted Deposits

- Adjusted Deposits = 50,000 + 2000 + 500 = Tk. 52,500 crore

Step 2: Calculation of Adjusted Investments

- Adjusted Investments = 40,000 – 2000 = Tk. 38,000 crore

Step 3: Calculation of IDR

- IDR = 38,000 Cr. ÷ 52,500 Cr. = 72%
- **The IDR information will be preserved in the Bank but communicated to BB on monthly basis (within 10th day of the subsequent month).**

D. Liquidity Coverage Ratio (LCR) Calculation

Formula

- LCR = High Quality Liquid Asset (HQLA) ÷ Total Net Cash outflows over next 30 calendar days

Hypothetical Data

S/n	Components	Weight	Amount	Weighted Amount
1	**Customer Deposit (excluding Financial Institutions):**			
a.	Current (including 10% of savings)----10%	0.10	157,968,772.24	15,796,877.22
b.	Savings (90%)----------5%	0.05	483,471,646.06	24,173,582.30
c.	Fixed (less than 1 month)-------5%	0.05	24,604,110.49	1,230,205.52
d.	Fixed (more than 1 month)-----0%	0.00	817,216,397.46	-
2	**Deposit from financial institutions:**			
a.	Current -----100%	1.00	54,419.31	54,419.31

b.	Fixed (less than 1 month)------ 100%	1.00	110,738.01	110,738.01
c.	Fixed (more than 1 month)----- 75%	0.75	1845090.52	1383817.89
3	Other borrowings & placement received--100%	1.00	24,370,702.84	24,370,702.84
4	All other monetary liabilities issued by the bank that do not fit into one of the above categories--75%	0.75	75,536,265.34	56,652,199.01
5	Amounts outstanding of commercial letters of credit (settlement date within the next 30 days). ---100%	1.00	71,566,037.63	71,566,037.63
6	Amounts outstanding of guarantees, standby letters of credit, performance bonds, bid bonds, and similar instruments-20%	0.20	18,842,871.28	3,768,574.26
7	Principal and interest receivables, on performing Term loans, from all non-financial customers within the next 30 days	-0.50	9,449,138.74	(4,724,569.37)
A	**Total Net Cash outflows over next 30 calendar days**		**1,685,036,189.93**	**194,382,584.63**
8	Cash on hand (Lcy+Fcy)	1.00	59,463,971	59,463,971
9	Balance with Bangladesh Bank:			
	a) Local Currency Total (Total TK. Current account balance with BB)	1.00	75,375,743	75,375,743
	b) Foreign Currency Total (Total FC clearing account balance with BB)	1.00	3,852,603.94	3,852,603.94
10	Book value of other unencumbered eligible GOVT. Securities in HTM portfolio	1.00	85,854,390.11	85,854,390.11
B	**HQLA**		**224,546,708.00**	**224,546,708.00**

- **Liquidity Coverage Ratio (LCR): 115.52%**

E. Net Stable Funding Ratio (NSFR) Calculation

S/n	Component	Weight	Amount	Weighted Amount
1	Regulatory Capital (consolidated)	100%	114,037,564	114,037,564
2	**Customer Deposit (excluding Financial Institutions):**			
a	Current (including 10% of savings)	80%	180,114,000	144,091,200

b	Savings (90%)	90%	599,026,955	539,124,260
d	Fixed (more than 1 month to less than 1 year)	100%	1,571,751,733	1,571,751,733
4	Liabilities with a remaining maturity of one year or more (excluding those mentioned in 2, 3, 5 and 6)	100%	170,158,242	170,158,242
5	All other monetary liabilities (excluding those mentioned in 2,3,4 above and amounts owed to financial institutions)	50%	126,378,229	63,189,114
A	**Available Stable Funding (ASF)**		**2,761,466,723**	**2,602,352,113**
7	Residential Mortgages, regardless of maturity, those qualify for the 50% RW under Basel lIl Standardized Approach	65%	30,632,686	19,911,246
8	Loans to non-financial client other than natural persons or small businesses with a residual maturity of less than a year	50%	84,766,340	42,383,170
9	Other Loans to non-financial clients with remaining maturity of one year or more, those qualify for the 50% RW under Basel lIl Standardized Approach	65%	954,174,738	620,213,580
11	All loans (excluding those mentioned from 7 to 10 and 21 to 22) with a residual maturity of one year or more	100%	1,412,536,579	1,412,536,579
12	Cost price of debt securities (excluding those issued by other FIs) with a residual maturity of one year or more	100%	126,032,093	126,032,093
14	Undrawn portion of lines of credit (continuous loans)	10%	192,298,531	19,229,853
15	Undrawn portion of lines of credit (Term loans)	5%	22,683,768	1,134,188
16	Amounts outstanding of commercial LC	20%	83,329,431	16,665,886
17	Amounts outstanding of guarantees, standby letters of credit, performance bonds, bid bonds, acceptance and similar instruments.	10%	499,893,693	49,989,369
19	Fixed assets (Cost Price)	100%	10,214,300	10,214,300
20	All other assets not mentioned above	100%	46,141,663	46,141,663
B	**Required Stable Funding (RSF)**		**3,462,703,822**	**2,364,451,927**

- **Net Stable Funding Ratio (NSFR): 110.06%**

THIS PAGE IS INTENTIONALLY LEFT BLANK

Bangladesh Institute of Bank Management

Plot No.-4 MainRoad No.-1(South), Section No. - 2, Mirpur, Dhaka - 1216

Tel: 48032091-4; 48032097-8; 48032104; email: office@bibm.org.bd; Website: www.bibm.org.bd

Price: BDT 300.00
USD 8.00