

**Liquidity and Profitability Study of State Owned  
Commercial Banks (SCBs), Private Commercial Banks  
(PCBs) and Foreign Commercial Banks(FCBs)  
- Bangladesh Perspective**

By  
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# Agenda

- Objective of the study
- Methodology
- Banking Industry of Bangladesh –an overview
- Liquidity and profitability position of banking industry
- Effect of liquidity on profitability
- Findings and recommendations.

# Objectives of the Study

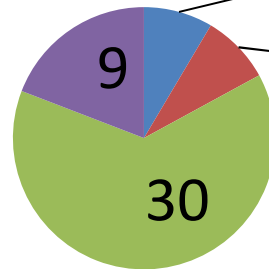
- To have a look in liquidity and profitability position of the different type of banks.
- To find out the reasons behind holding more liquidity by different type of banks.
- To find out the reasons behind different profitability by different type of banks.
- To see the impact of liquidity on profitability of different type of banks.

# Methodology

- Secondary data has been collected from different sources-Bangladesh Bank, published research journals, published books, websites, etc.
- Discussions with some experts associated with the Liquidity and Treasury management of commercial banks.

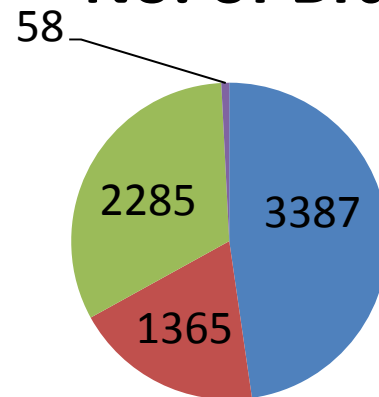
# Banking Industry of Bangladesh

**No. of Banks** 4



- SCBs
- DFIs
- PCBs
- FCBS

**No. of Branches**



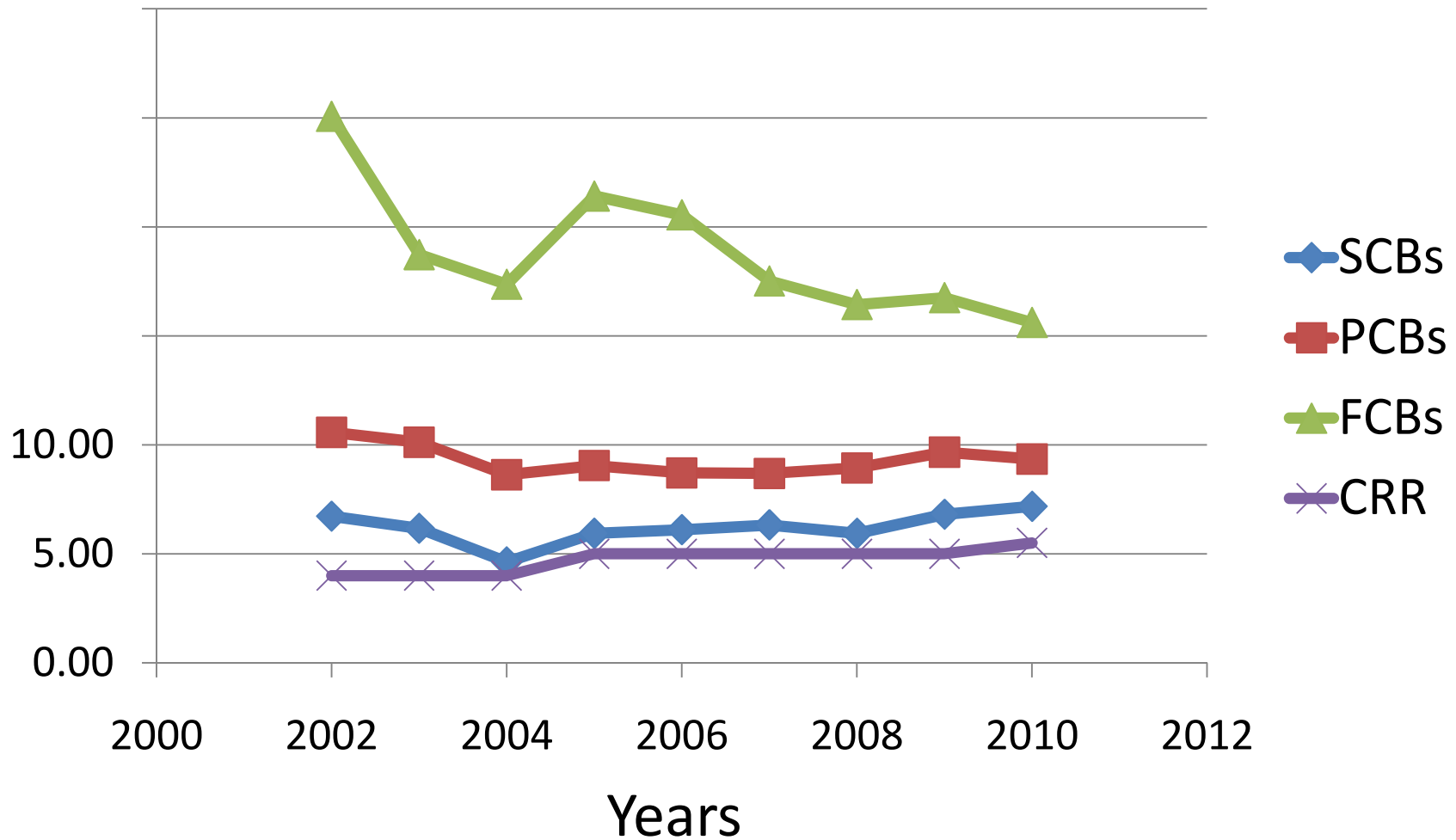
- SCBs
- DFIs
- PCBs
- FCBS

# Banking Industry of Bangladesh

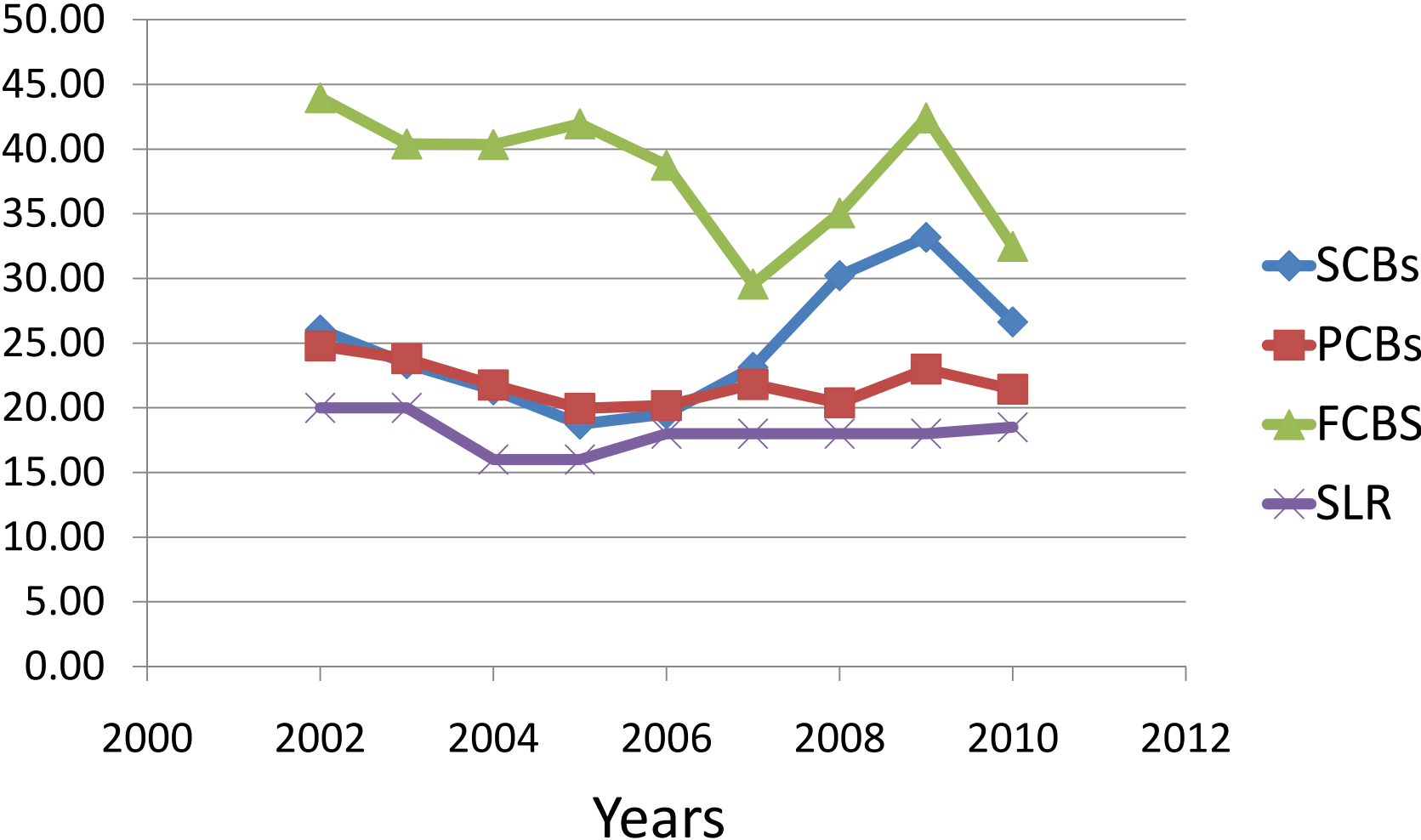
Category	Years	Amount in Billion (Taka)	% of Industry			
			SCBs	PCBs	FCBs	DFIs
Total Assets	2001	3706.16	70	17	5	8
	2010	8633.30	37	52	6	6
Total Deposits	2001	771.20	55	31	7	6
	2010	3689.20	28	61	6	5
Total Loans and Advances	2001	631.72	47	31	6	16
	2010	2958.81	22	65	6	7

Category	Yearly Average Growth (%)				
	Industry	SCBs	PCBs	FCBs	DFIs
Assets	10	3	24	14	6
Deposits	17	9	24	15	15
Loans and Advances	17	8	25	18	8

# Liquidity Position (Cash) (% of Deposit)

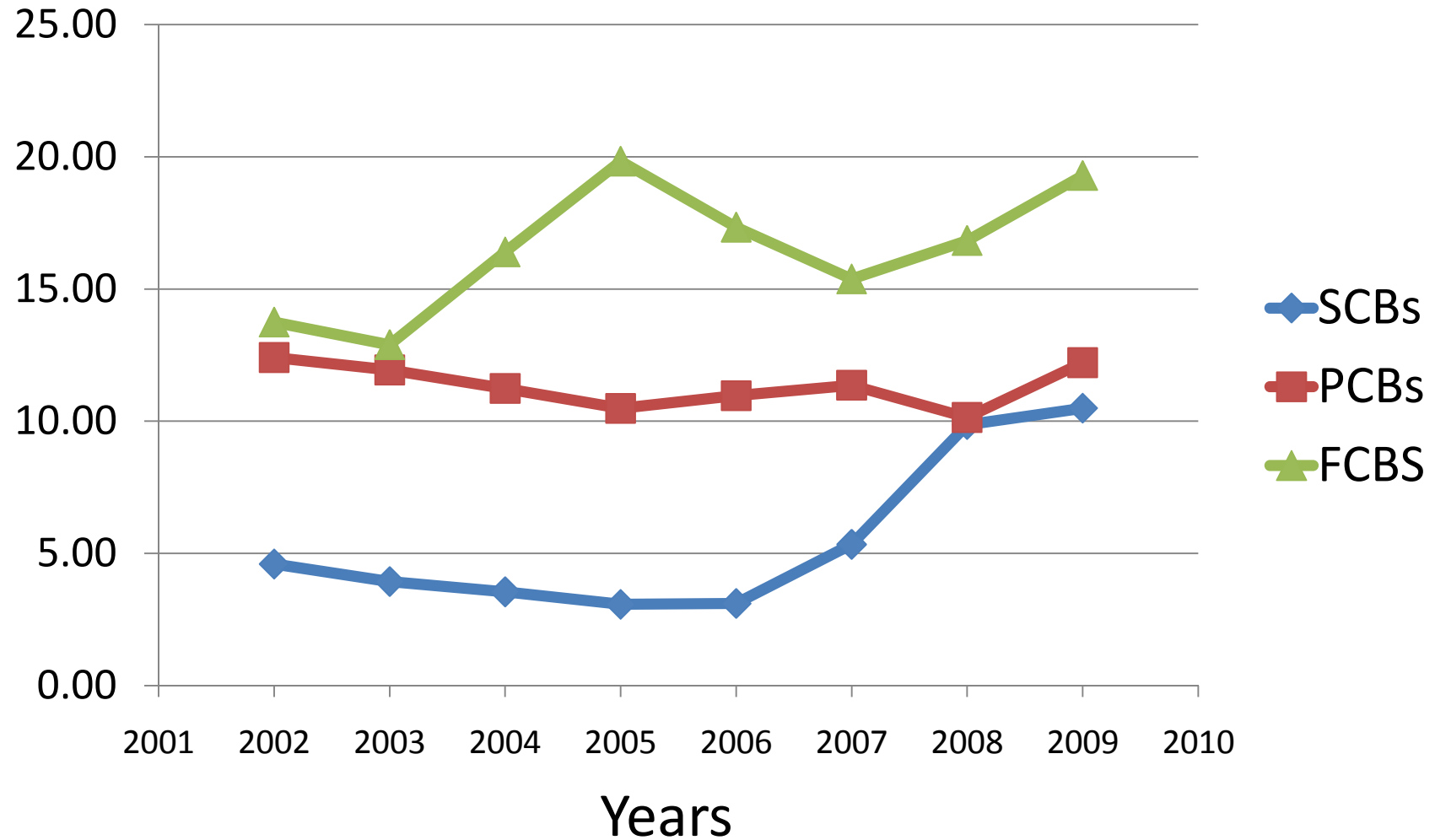


# Liquidity Position (Cash and Near cash) (% of Deposits)





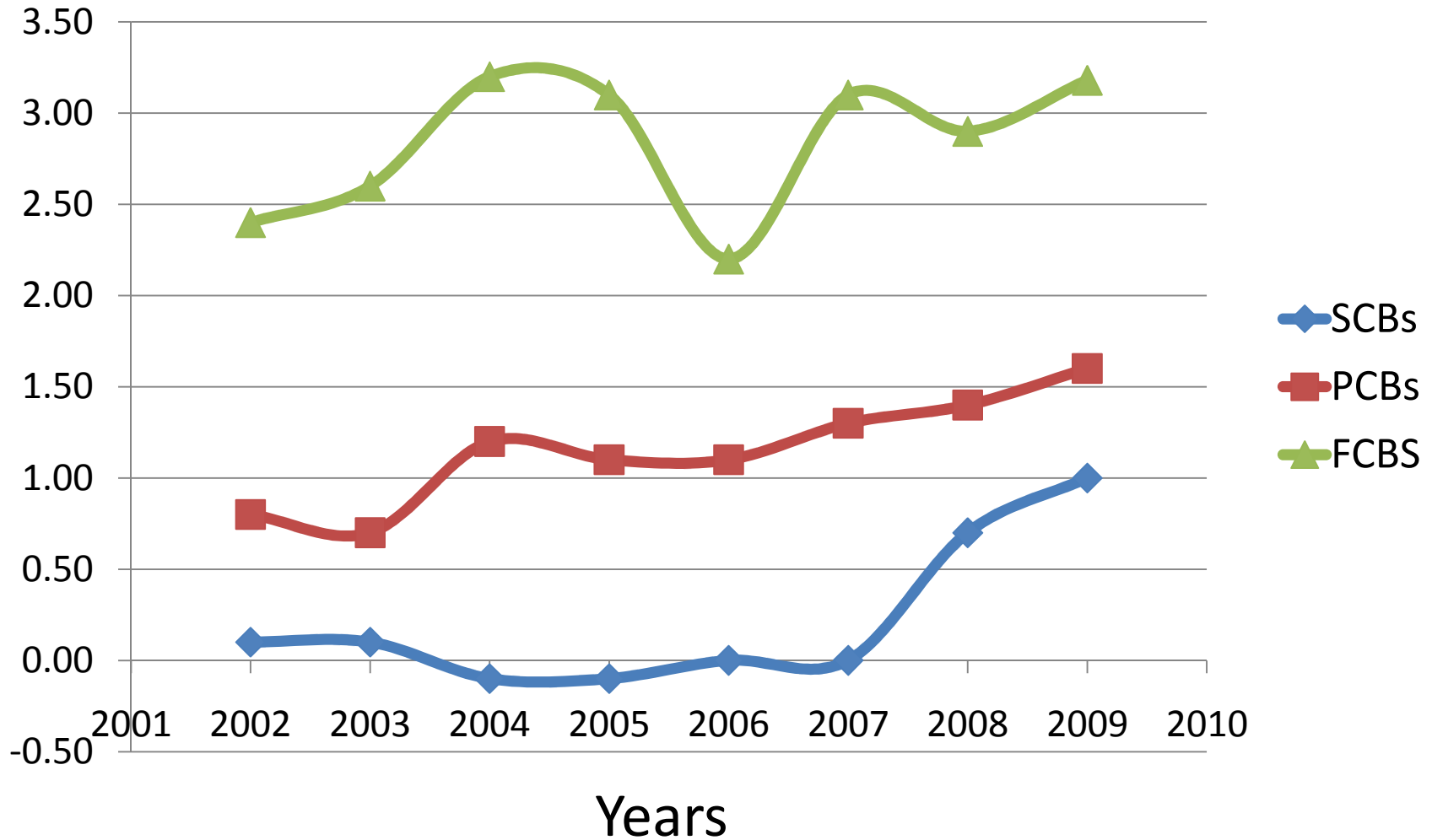
# Liquid Asset to Total Asset Ratio



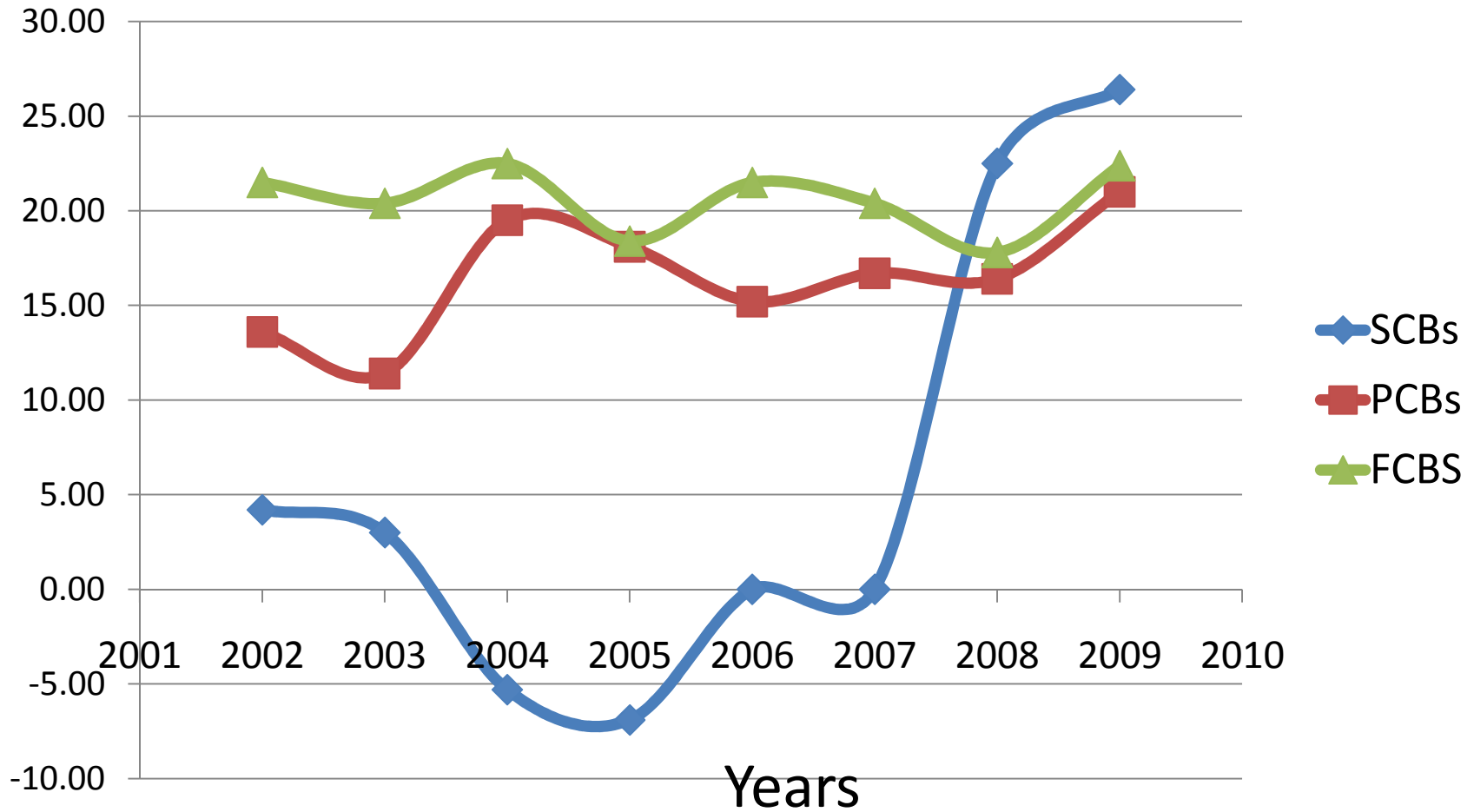
# Reasons behind higher liquidity

- More investment in government securities
- Lower scope of secondary trading of government securities
- Non-competitive nature of the banking system
- Lack of efficiency in liquidity management.

# Profitability (ROA)



# Profitability (ROE)



## Reasons for the difference in profitability of different type of banks.

- Differences in interest rate margin

As on 31 Dec 2010				
	Industry	SCBs	PCBs	FCBs
Interest Margin(%)	5.12	4.17	5.22	8.83

- Classified Loan:

Years	Industry	SCBs	PCBs	FCBS
2008	10.80	25.40	4.40	1.90
2009	9.20	21.40	3.90	2.30

- Non-interest income

Years	SCBs	PCBs	FCBs
2005	1.41	2.07	3.23
2006	2.02	2.77	2.35
2007	2.37	3.07	3.80
2008	2.90	3.07	3.62

# Does Liquidity affect the profitability?

- Bordereau, E. and Graham, C. (2010) in their paper “The Impact of Liquidity on Bank Profitability” analyze the impact of liquid asset holdings on bank profitability for a sample of large U.S. and Canadian banks (1997 to 2009). Results indicate that profitability has been improved for banks (In US and Canada) that hold more liquid assets, however, there is a point at which holding further liquid assets diminishes a banks’ profitability, all else equal. The paper also found that this relationship varies depending on a bank’s business model and the state of the economy.
- Bourke (1989) finds some evidence of a positive relationship between liquid assets and bank profitability for 90 banks in Europe, North America and Australia from 1972 to 1981, while Molyneux and Thornton (1992) and Goddard, et al (2004) find mixed evidence of a negative relationship between the two variables for European banks in the late 1980s and mid-1990s, respectively.

# Effect of Liquidity on Profitability

- Correlations between liquidity and profitability

Banks		ROA	Interest Earning
SCBs	Liquid Assets/ Total Assets	0.96	-0.23
PCBs	Liquid Assets/ Total Assets	-0.29	-0.23
FCBs	Liquid Assets/ Total Assets	0.46	-0.65

# Findings

- Though the banking industry has more liquid assets but is not out of liquidity risk due to lack of efficient money/securities market.
- Holding more liquid assets decreases the interest earning of the bank but can not hamper the overall profitability due to non-competitive nature of the banking industry.



# Recommendation

- An efficient secondary market of govt. securities should be established for efficient liquidity management of banking industry.
- Competitiveness of the banking industry should be increased to minimize the difference of
  - interest rate spread among the banks
  - non interest charges ,fees, commission among the banks

**Thank You**