Bangladesh Banking Sector Report

The COVID Crisis Poses A Historic Challenge To Banks - Only The Most Agile Will Survive

Key Highlights

- *Banks in Bangladesh were already struggling with a challenging environment Pre-Covid. The pandemic is worsening the impact of recent policy measures creating an Ill-timed double whammy from lending/deposit rate cap and legacy high NPLs.*
- *Not being able to price loans effectively due to lending cap will essentially force commercial banks to limit loans to the segments of economy – small and medium-sized enterprises – most affected by the crisis, exactly when liquidity is much needed*
- *The banking sector saw a BDT 18.2 bn fall in default loans and a 9% NPL in Mar'20 as Bangladesh Bank suspended reporting of default loans from January to help businesses tide over the coronavirus pandemic.*
- *The real underlying problem with toxic assets is still to be addressed. Mr Ali Reza Iftekhar, Chairman BAB, highlighted poor governance in the banking sector as a reason for the increased amount of non-performing loans (NPLs)*
- *Tight liquidity scenario is a risk despite BB's measures and government's high borrowing from banking sector is likely to see large crowding out effects*
- *Lack of a credit guarantee is limiting banks' ability to lend to corporates during the pandemic thus making the stimulus package ineffective. Bangladesh government is working with the World Bank to introduce a partial credit guarantee to share some of the potential losses with banks and started with an initial USD 300 mn credit guarantee scheme.*
- *On July 3, Bangladesh Bank ordered banks to disburse all the stimulus funds within August. Such forced disbursement of loans without a credit guarantee is likely to have negative repercussions for asset quality and further increase NPL risk for banks.*
- *The COVID-19 pandemic has caused a historic fall in the no-operating income of banks due to nosedive in LC opening and remittances*
- *The Capital to Risk-weighted Assets Ratio (CRAR) of the banking industry stood at 11.6% at the end of December 2019, which was 10.5% in 2018. Out of 58 scheduled banks, 48 banks maintained a CRAR of 10% or higher as of December 2019. Total capital shortfall stood at nearly BDT 236 bn in Dec'19. With the economic crisis amid covid-19, Banks's capital shortfall will increase further due to rising NPL provisioning. However, BB's timely decision to restrict the dividend payment till Sept'20 is a welcoming step to strengthen the financial health of banks.*
- *Budget impact FY20: Black money to be allowed in banking sector may accelerate the deposit growth slightly, corporate tax rate is unchanged while higher excise duty is imposed on deposit*
- *Among all Bangladeshi banks, BRAC Bank is best placed to deal with the pandemic due to its strong asset quality, high capitalization, high investment in digital banking and its 51% stake in bKash - the leading MFS operator in Bangladesh.*

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Overview of Bangladesh Banking Sector

Banks Will Be Severely Hit By COVID-19, Lending/Deposit Cap And Legacy NPLs Created Ill-Timed Double Whammy

The Bangladesh bank sector will be one of the hardest hit sectors of the economy, owing to the broad-based slowdown in the economy as a whole; combined with its exposure to the hardest hit sectors of the economy, such as foreign trade, RMG and the capital market. The Bangladesh bank sector was already struggling prior to the pandemic owing to the imposition of a 9% interest ceiling on all loans (except credit cards), liquidity pressures and a persistently deteriorating non-performing loan (NPL) situation. However, owing to the COVID-19 pandemic and subsequent lockdown, the banking sector will face an acute crisis on multiple fronts, as banks' asset quality is likely to deteriorate while their interest and fee-based income are all affected at the same time.

Lending cap will take a heavy toll on SME and retail businesses— The lending cap policy, which took effect on April 1, risks hitting a financial sector that is already reeling from multiple problem coming from different fronts. The Covid-19 crisis has significantly exacerbated the risks and problems in the sector. Not being able to price loans effectively will essentially force commercial banks to turn the tap off to the segments of economy – small and medium-sized enterprises – most affected by the crisis, exactly when liquidity is much needed. The cautionary alarm was raised by Selim RF Hussain, managing director of BRAC Bank indicating that cost of income ratio of SME segment raised to 130% from its previous level of 85% effectively making the segment a loss project. He also noted that "the Interest rate capping was practiced during the '70s. Later, in 1990, free market policies were taken up by the government to reform the financial sector, and that is why the banking sector grew at such a large scale. Now, this interest rate cap is taking the sector 30 years back." (see a June 23 article on SME and retail businesses will die out soon due to lending rate cap). We discuss the lending cap later in this report.

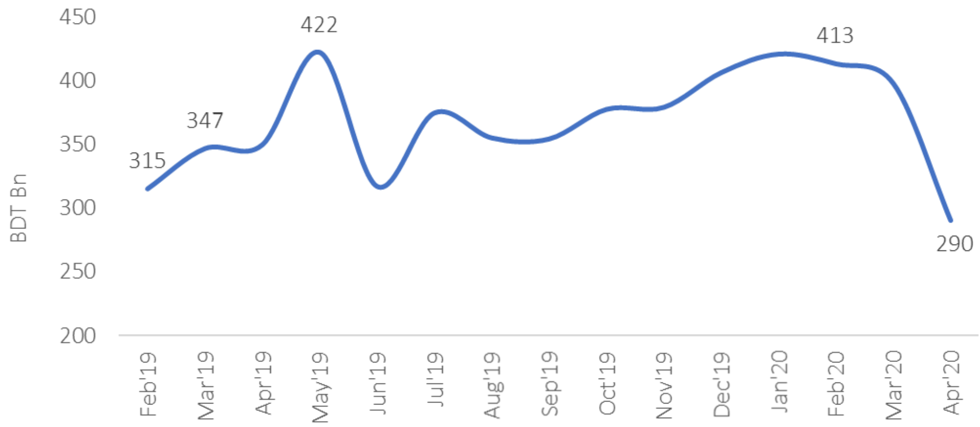
The legacy NPL will get worse due to the Covid-19 crisis — The high level of non-performing loans in the banking sector in Bangladesh has been an area of concern even before the pandemic. With the pandemic, the risk profile of the borrower has deteriorated across the world – and Bangladesh is no exception. With lending cap policy that take away the ability to cover the risk to the full extent created an ill-timed double whammy. Naser Ezaz Bijoy, country head of Standard Chartered Bank, opined that the NPL problem leaves Bangladesh poorly prepared to withstand the coronavirus fallout, while the pandemic's implications will increase the number of bad loans (source: Euromoney). In 2019, long before Covid-19 hit, NPLs surged by more than 117%. So-called soured loans topped USD 12 billion. That is not a huge tally relative to developed nations, but it is undeniably detrimental to a poverty-stricken, $330 billion economy where banks comprise more than 80% of all financing activity. ABB (Association of Bankers, Bangladesh) chairman Ali Reza Iftekhar said that the banks were facing two challenges such as reason and results—The governance of the banks is a reason whose result is the increased amount of non-performing loans (NPLs) (see a June 20 article on Stock market badly needs 'fully IT-based operation). NPL detail discussion is in later part of this report.

Steep fall in interest and non-interest income—The COVID-19 pandemic has caused a historic fall in the operating income of banks. In an unprecedented situation, both interest income and non-interest income have been drastically hit by the economy grinding to a total halt. The Bangladesh economy has been hit by a 'perfect storm' as the pandemic targets all the main pillars of the Bangladesh economy which has powered its growth for the past decade.

- **The RMG sector**, which contributes more than 80% of Bangladesh's total export earnings and directly employs 4 million workers has ground to a standstill as more than USD 6 billion worth of orders have been cancelled. This will affect banks interest income as the factories will be unable to pay installments, while the slowdown in export and import L/C processing will hit non-interest income.
- **Other significant exports,** such as seafood, footwear and agricultural products are also facing order cancellations due to economic disruption due to the pandemic and reduction in demand due to lockdown measures. This will affect both interest income from these export-oriented sectors and non-interest income from export L/C processing.

- **Remittances**, an important source of foreign exchange which amounted to USD 18.02 billion in the 2019-20 fiscal year, will be severely hit as the pandemic has significantly affected all the major destinations for Bangladeshi workers such as Europe and the Middle East. Banks will lose their fee income for processing remittance transactions.
- **Economic downturn hits MFS transactions too**—with the slowdown in economic activity, financial transactions have also come down. Mobile financial service (MFS) transactions have declined by 27% in April 2020 compared to the previous year. This decline will result in lower revenues from transaction fees for banks which have MFS subsidiaries, such as BRAC Bank. The closure of shops will also lead to a drastic decline in card transaction fees and POS fees for banks.

Figure 1: Slowdown in the MFS transaction



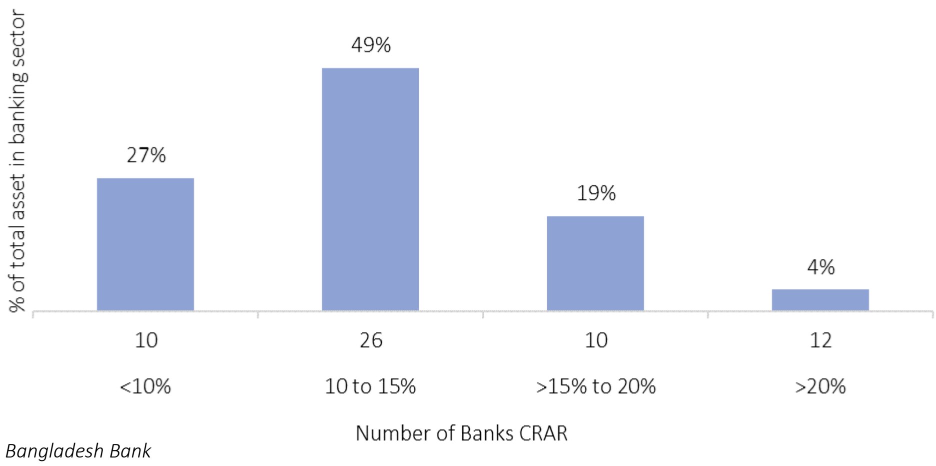
Source: Bangladesh Bank

Bangladesh Banks's Covid policy measures— Bangladesh Bank, the central bank of Bangladesh has undertaken a number of measures to support the economy during the pandemic. Some of the steps which will have a huge impact on bank sector earnings and asset quality.

- **Halt in loan classification till September 2020:** On 19 March, Bangladesh Bank announced a ban on classification of any loans until 30 June 2020 regardless of payments. This means that the classification status of all loans on 1 January 2020 shall remain unchanged until 30 June 2020. In a later circular dated 15 June, Bangladesh Bank extended the moratorium period to 30 September 2020. This is in effect, a moratorium on all loan payments till September 2020. The move has removed incentives from borrowers to pay their loan installments on time in order to keep their loans unclassified. As a result, banks (and financial institutions) are not likely to be able to collect loan payments from borrowers until then. Although the classifications status of these loans shall not change, and as such banks will not be required to keep provision against these loans, there is a risk of asset quality deterioration which might suddenly raise the amount of NPLs after the moratorium period is over.
- **BDT 20bn interest subsidy:** On 3 May, Bangladesh Bank issued a circular ordering interest income on all types of bank loans for the months of April and May to be put in a separate, blocked account, and forbidding the interest accrued for the two months from being accounted as interest income for the banks. Later, on 10 June, the Bangladesh Bank issued another circular allowing the interest to be transferred to the banks' books but allowing customers to pay those two months' interest income over 12 months in equal installments. This lessened the burden of interest payment on borrowers. The government also announced interest rate subsidies for borrowers, providing 9%, 2% and 1% interest rate subsidy for small, medium and large borrowers respectively. In this circular, "small" borrower was defined as those with outstanding loans below BDT 100,000, medium borrowers as those having outstanding loans between 100,000 and 1 million, and large borrowers as those having outstanding loans greater than 1 million.

Covid-19 might put pressure on capital adequacy even though 2019's numbers showed some progress— The Capital to risk-weighted assets ratio (CRAR) of the banking industry stood at 11.6% at end of December 2019, which was 10.5% in 2018. Reduction in provision requirement and some recovery made against defaulted loan at the end of 2019 led to the increased capital base of State-owned Commercial Bank's (SCB) and Private Commercial Bank's (PCB). Moreover, several banks including City Bank, Dutch-Bangla and Standard Bank issued subordinated bonds to strengthen the capital base (Tier-2) hence resulting a much better industry CARR. It was well above the minimum regulatory requirement of 10% in line with the Basel III capital framework issued by Bangladesh Bank in December 2014. Out of 58 scheduled banks, 48 banks maintained a CRAR of 10% or higher as of December 2019. However, 43 banks were able to maintain both regulatory capital of 10% and capital conservation buffer of 2.5% as per Basel III standards. total capital shortfall stood at nearly BDT 236 bn in Dec'19. With the economic crisis amid covid-19, Banks's capital shortfall will increase further due to rising NPL provisioning. However, BB's timely decision to restrict the dividend payment till Sept'20 is a welcoming step to strengthen the financial health of banks.

Figure 2: Asset share of banks based on CRAR (as on Dec' 2019)



Source: Bangladesh Bank

Taking the cross-country scenario into account, the capital adequacy of the country's banking sector remained low compared to the ratios of neighboring countries as of end-December 2019.

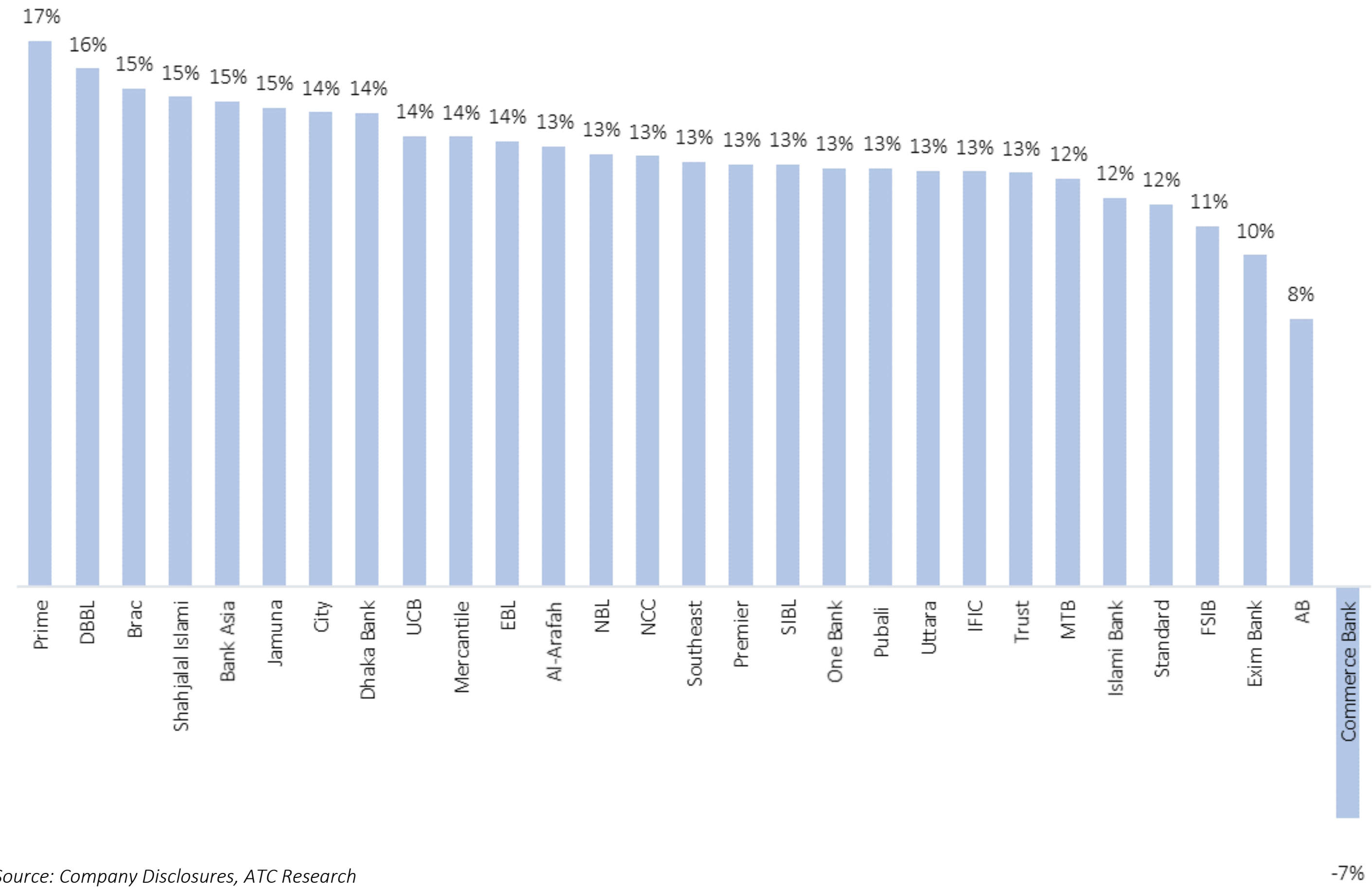
Table 1: Comparison of capital adequacy indicators of neighboring countries

Countries	CRAR (%)				
	2015	2016	2017	2018	2019
India	12.7*	13.3*	13.9*	13.7*	15.1*
Pakistan	17.3	16.2	15.8	16.2	17.0
Sri Lanka	15.4	15.6	15.2	15.1	16.5
Bangladesh	10.8	10.8	10.8	10.5	11.6
* Data as of end-September					

Source: Bangladesh Bank

Currently, the local bond market is dominated by redeemable subordinated bonds mainly issued by commercial banks, which help them construct their mandatory secondary capital base through the bond proceeds with a specific tenure. The Bangladesh Bank is implementing Basel III in the local banking industry so that banks are adequately capitalized to avert a systematic risk. To fulfill the Basel III requirements PCBs started to issue perpetual bonds. In this regard, The City Bank and Jamuna Bank got the greenlight from the Bangladesh Securities and Exchange Commission (BSEC) to begin issuing perpetual bonds of BDT400 crore each to strengthen their additional tier-1 capital base (see a June 24, article City, Jamuna banks to issue Basel III compliant perpetual bonds"). Other PCBs also looking to issue the perpetual bond in near future to fulfill the Basel III requirement.

Figure 3 : CAR Ratio of top PCB (As at Dec 2019)



Source: Company Disclosures, ATC Research

Government Stimulus Packages not likely to work without Credit Guarantee: WB's USD 300 mn proposal might be a silver lining— The government has announced several stimulus measures to help the economy deal with the fallout of the COVID-19 pandemic and associated lockdown and other mitigation measures. Most of these have been from the monetary side, in terms of easing liquidity and introducing new refinancing schemes. Some of the measures undertaken by the government are:

- The **cash reserve ratio (CRR)** was reduced from 5.5% to 5% on 1 April. The CRR was cut further to 4% on April 15. The cut in CRR is expected to free up BDT 171 billion in liquidity for the banking sector.
- The **advance-to-deposit ratio (ADR)** was increased 85% to 87% for conventional banks, and from 90% to 92% for Islamic banks, which is expected to add BDT 228 billion in extra liquidity for banks.
- The **repo interest rate** was cut from 6% to 5.75% on 23 March. The repo rate was further cut to 5.25% from 12 April to ensuring adequate liquidity in the financial system.
- On 13 May, Bangladesh Bank introduced a **long-term repo** with tenure of 360 days as opposed to the previous maximum 28-day repo. The borrowing margin has been set at 5% for treasury bonds and 15% on treasury bills, and the proceeds from borrowing can be used in implementation of stimulus packages.

- **Classification of loans** due to non-payment was stopped in the January-September 2020 period. This means that no loans can be downgraded between 1 January and 30 September, 2020. As such, banks will not need to keep provision against NPLs until September. The Association of Bankers of Bangladesh (ABB) has been lobbying Bangladesh Bank to increase the loan classification freeze period up to December 2020.
- **A BDT 50 billion package** was announced on 02 April for payment of worker's wages exclusively through mobile financial services, which would be disbursed through commercial banks. The funds would come from the government at zero interest, and banks will be allowed to charge a 2% service fee for verification of the workers' details. If the entire package is used up by export-oriented industries, this is likely to result in BDT 1 bn income for the banking sector.
- **Two refinancing packages** with tenure of 3 years were announced by BB on 12 April to be used for working capital finance. A BDT 300 bn package was announced for large industries and the service sector, while BDT 200 bn was earmarked for Cottage, Micro, Small and Medium Enterprises (CMSMEs). BB will re-finance 50% of the loan amount at a rate of 4%, while the remaining 50% will have to be provided from the bank's own sources. The banks will be able to lend at a maximum interest rate of 9%, and the government will pay an interest subsidy of 4.5% for large borrowers and 5% for SMEs. However, the government announced no credit guarantee, and thus banks will have to undertake the credit risk of the borrower. The potential net interest income from the two packages is around BDT 20 bn, but banks face the risk of the borrowers defaulting.
- **Additional loan packages** totaling to around BDT 340 billion have been announced for various vulnerable sectors including export-oriented industries, agriculture and low-income professionals and businessmen.

Although all of these measures are expected to ease the liquidity conditions in the banking sector; and while the government is offering interest rate subsidies to borrowers to enable them to borrow at interest rates of 4.5% and 4%, the fact that there is no credit guarantee from the government makes it very risky for banks to lend under these packages, as they will have to bear the full burden of any borrower defaulting on these loans. Banks will likely be reluctant to lend until there is a clearer picture of the economic recovery scenario. If banks do lend to corporates under the BB refinance packages, they run the risk of increasing the NPLs in the banking sector, which have already hit alarming levels in recent months. According to a survey conducted by BGMEA, only 2% applicants were getting the loan under these schemes making the stimulus package somewhat ineffective. This situation is reflected in the private sector credit growth, which dipped to a historic low at 8.2% in March 2020. In June, The World Bank has proposed $300 million to the Bangladesh Bank as support for forming a credit guarantee scheme to speed up lending by banks in high-risk sectors, especially to SMEs, during the pandemic. Notably, the guarantee will be given on a bank's portfolio based on risk measurement instead of on individual loans. Such an agreement to share part of the default risk would be enormously helpful in assuaging the fears of the banks with regard to risk of defaults and will encourage lending activity in the economy to start its recovery.

On 3 July 2020, Bangladesh Bank ordered all banks to implement all of the stimulus packages within August 2020. Since the Covid pandemic is nowhere near to being controlled in Bangladesh, the outlook for economic recovery is still very uncertain and it will be difficult for banks to accurately assess credit risk of borrowers. At the same time, the credit guarantee being negotiated with World Bank has not yet been implemented. Given these facts, forcing banks to disburse the entire stimulus package within August 2020 is likely to cause a further deterioration of asset quality in the financial system and increase NPL risk for banks.

Covid risk trajectory remains uncertain — Similar to the rest of the world, there remains a great deal of uncertainty on the true number of infections and deaths in Bangladesh. As of July 04, the number of recorded deaths increased to 1,997 and total confirmed cases are 159,679. Low testing rates make it difficult to accurately estimate the true prevalence of Covid-19 among the population, and there is a risk of a second wave if lockdown measures are relaxed. The government adopted a new zone-based lockdown policy after lifting the general lockdown on May 31. The only way that an economic recovery can take place is after Covid is contained. Several countries around the world are opening up their economies after successfully having controlled its spread. But given the extreme uncertainty about the true extent of the Covid pandemic in Bangladesh, it is likely that we will have to wait until a vaccine is available and administered to the population before the economic can recover to pre-Covid levels of activity.

Pressing Matters in Bangladesh Banking Sector

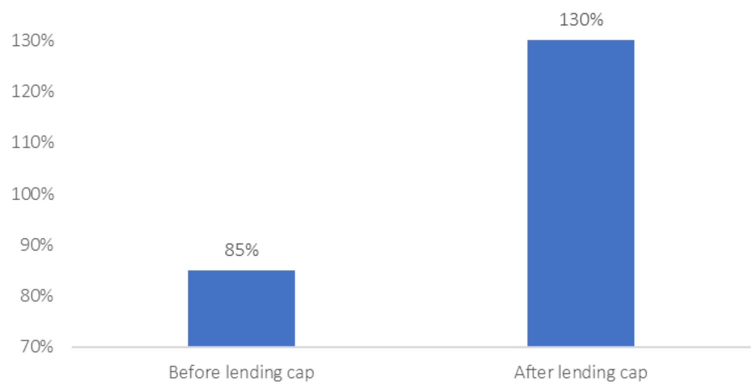
Interest Rate Ceiling Will Worsen Bank Profitability

Well-intentioned policy might backfire — On February 23, Bangladesh Bank asked scheduled banks to cap the interest rate at 9% for all types of lending, except credit cards, to expand business and economy effective from April 1, 2020. Previously the rate varied from 10% to 17% depending on type of credit. This came while the entire sector is facing difficulty of disbursing loans due to liquidity pressure. The key reason for this was the appeal of businesspeople to keep the interest rate at single digits so that they can grow businesses in respite. While well-intentioned, the results of the rate cap may turn out to be the direct opposite. Credit, particularly to individuals and small and medium-sized enterprises (SMEs), will likely dry up, increasing the vulnerability of the banking sector and jeopardizing economic growth and stability. Global investors have seen this "event" elsewhere -- history shows that a rate cap has generally a negative result. Solely from the perspective of banking profitability, given the operating expense and tax structure and default culture, it might make sense for the corporate loans to have c.3% spread but it hardly makes sense for the SME loans to have such minimal spread. Moreover, by offering a deposit rate that is lower than what the market demands, depositors will look for alternative investment venues, causing a slowdown in deposit growth. The resulting liquidity crunch would exacerbate the funding challenges already faced by banks today. Zahid Hussain, former World Bank economist, speaks for many when he says "the 9% interest rate cap will not cover the costs and risks, thus resulting in the sector's portfolios becoming commercially unviable overnight. This will… reduce the supply of credit to these customers, forcing them to borrow from unofficial predatory lending sources such as traditional moneylenders." (see a June 16 article- Bangladesh banking: Covid overwhelms Dhaka's weak system).

SME and retail businesses likely badly affected due to lending rate cap— The business of small and medium enterprises (SMEs) and retail segments may be badly affected by a lack of access to finance due to the interest rate cap as it is impossible for banks to run lending operations at the 9 percent rate in these two high cost sectors. In a recent interview with TBS News, Selim RF Hussain, the managing director of leading SME focused BRAC Bank, feared that it will be not possible to run small, micro, cottage and retail lending at this 9 percent interest (see a June 23 article 'SME and retail businesses will die out soon due to lending rate cap'),. He kept on stating that with the new lending cap, the effective cost to income ratio stood at 130% making the SME lending venture of BDT 160 bn portfolio a loss-making unit of BRAC Bank. According to him, Banks can run SME lending at this interest rate for six months at the highest, but no longer. All SME lending will have to be shut down.

Figure 4: Cost to income ratio of BRAC Bank SME segments (comparison between before and after lending cap imposition)

Apparently the picture speaks for all the SME segment of Bangladeshi Banks



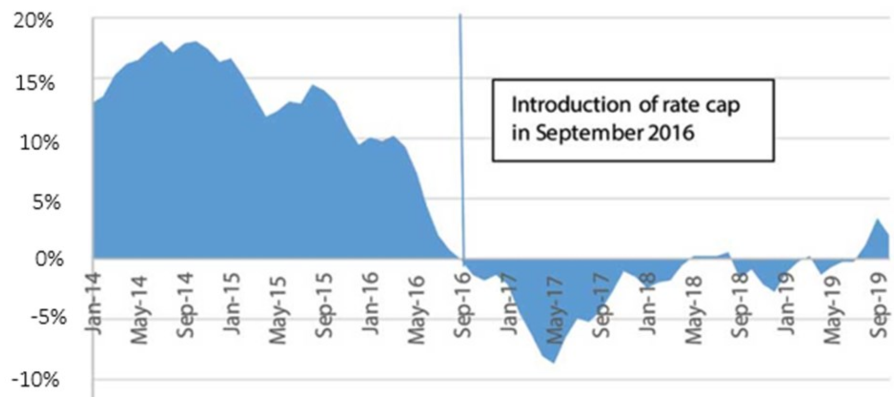
Source: TBS, ATC Research

International experience suggests the lending rate cap might backfire — In Africa, the Kenyan parliament passed a bill in September 2016 capping interest rates on loans at 4% above the policy rate. The rate cap was removed in November 2019 because it failed to achieve its goals, and those three years caused significant harm to the economy and well-being of the people. A memorandum by the president to parliament calling for repeal stated, "it is apparent that the capping of interest rates has caused unintended effects that are significant and damaging to our economy and in particular, the Micro, Small and Medium Enterprises (MSMEs) which are the hardest hit." (See also a October 17, 2019 article on Uhuru sides with banks, calls for removal of interest rate caps). As Figure 5 illustrates, as lending became unprofitable for banks, real credit growth rate turned from double digit to negative almost immediately after the rate cap was implemented. In particular, smaller banks that lent to individuals and micro and SMEs were hit hard. As the memorandum pointed out, "Studies indicate that the lending activity … (declined) by about 5% in the 12 months ending September 2017. Small banks have been disproportionately hit by capping due to their different business model of relying more on higher-risk/higher-return borrowers..." The memorandum also noted the "mushrooming", or growth of loan sharks and unregulated lenders that took advantage of the lack of financing available to small businesses and individuals. The result -- Kenya's private sector credit-to-GDP (gross domestic product) ratio shrank from a pre-rate cap high of 34% to 28% by 2018. The economy suffered, with growth 0.4% lower in 2017 and 0.2% lower in 2016 as credit dried up. Government tax revenue growth decelerated from 12% to 5%. Kenya is not an isolated example. The World Bank published a study on rate caps around the world and concluded that "interest rate caps often have substantial unintended side-effects. These side-effects include reduced price transparency, lower credit supply and loan approval rates for small and risky borrowers, lower number of institutions and reduced branch density, as well as adverse impacts on bank profitability."

In addition, non-performing loans (NPLs) in the Kenyan banking system shot up from 6.8% in 2015 to 12.3% in 2017. NPLs surged because borrowers' working capital and capital expenditure needs were interrupted. Instead of promoting growth, as the interest rate cap intended, it instead caused defaults and hardships for businesses and individuals.

Beidi Gu, Managing Director of TRG Management LP, suggested that "There are more effective means to promote access to credit. The Bangladesh government is already on the right path by reducing the attraction of the National Savings Certificates, which compete with bank deposits. A reduction of the budget deficit and government borrowing from banks should also alleviate the crowding out effect and allow for more deposits being directed towards commercial loans rather than government securities. Likewise, on the demand side, the government is doing a good job of supporting key industrial sectors, such as textiles. Other positive steps include reducing loan scams and large borrower defaults so that liquidity can flow to productive users. Promoting technologies that reduce credit distribution costs will also help in the long run." (see article "Interest rate cap: A critique from global perspective" published on January 17, 2020.). He also opined that "Unfortunately, rather than being a device to help the private businesses that have been Bangladesh's growth engine, the rate cap could be a hindrance. It could have adverse consequences for the country's economic stability, which has been exemplary among developing nations over the past decade."

Figure 5: Kenyan real credit growth (yoy%) (before and after introducing the lending cap)



Source: Financial Express, ATC Research

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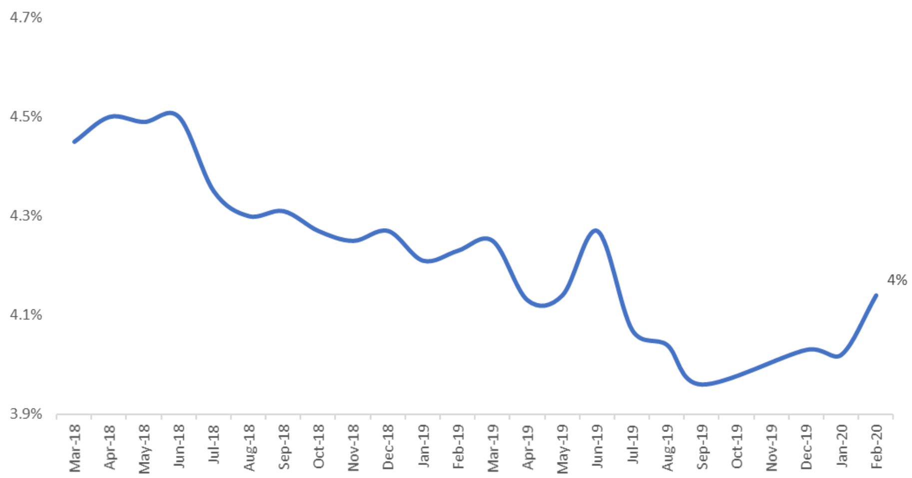
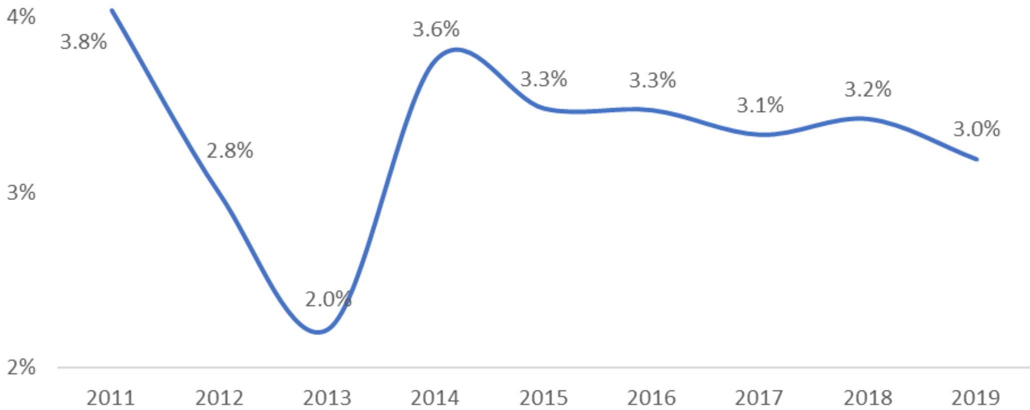
2 months interest to be paid over 12 months, Govt. to provide subsidy—Bangladesh Bank (BB) directed banks on May 2, 2020 to transfer all interest accrued or to be accrued between April 1 and May 31 this year from all of their loans to an interest-free blocked account. Banks are likely to be deprived of transferring nearly BDT 140 bn to their income book due to this decision. With the economic fallout being contracted both exports and imports to a great extent, banks' profits books have been dealt another big blow. It is unlikely that banks will enjoy profit this year if the amount is stuck in a block account. On a positive note, On June 10, the central bank instructed to banks to collect the suspended interest of the two months – April and May – in equal monthly instalments in twelve months starting from July 2020. However, the dearth happened in the meantime won't be recovered soon.

Figure 6: Interest Rate Spread Is in Decreasing Trend



Source: Bangladesh Bank, ATC Research

Figure 7: Trend of Bangladesh banking sector NIM (Net Interest Margin)



Source: Bangladesh Bank, ATC Research

Persistent NPLs Big Concern Despite Regulatory Seesaw

Recent low number is due to BB's rule to stop downgrading till Sep'20— Along with several regulatory changes dictating the spread, loan structure and lending rate revision policy, banks in Bangladesh are into deeper disarray as the Non-Performing loans soar persistently concentrated on the state-owned banks and loan rescheduling continues encouraging the bad borrowers. The Non-Performing Loans (NPL) stood at ~BDT 925 bn and NPL ratio reached to 9% as at Mar'20. It is noteworthy that this number is after exclusion of bad assets that has already been rescheduled and written off loans. In addition, the total bad loan number is heavily concentrated on the state-owned banks. The size of NPLs in Bangladesh is much higher than in other countries in Asia and the Pacific. Although the rate is apparently lower than the number indicated in Sep'19 (11.9%) and Dec'19 (9.32%) mainly due to loan rescheduling, one- time exit policy for bad loans offered by government on May 2019 and BB's rule to stop downgrading till Sep'20 for COVID-19, the real problem is still unresolved. Total loan rescheduling increased to all time high BDT 504.3 bn (117.3% YoY) in 2019. The total amount of provisioning shortfall is BDT 86.3 billion as at Mar'20. Persistence in default culture and taking advantage of relaxed loan rescheduling policy are the major contributors to such high toxic assets. The only silver lining is perhaps the fact that the bad assets are heavily concentrated on state owned banks and development financial institutions. In the private commercial banks domain, few good names can still be found with sound corporate governance and with stricter loan rescheduling policy. Loan rescheduling and under provisioning continues in other banks where the provision coverage is subpar, and many banks will not be able to record profits in current year if the bad loans of these banks are adequately provisioned for.

Figure 8 (a): Non Performing Loan (NPL) trend

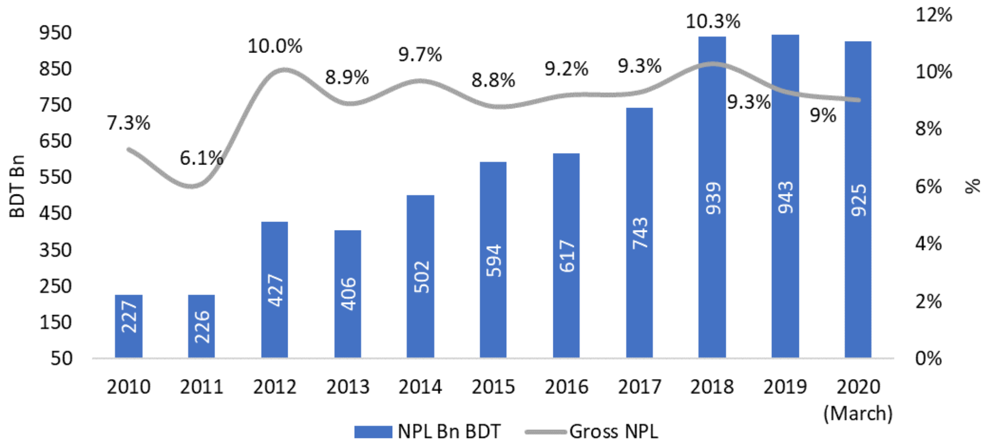
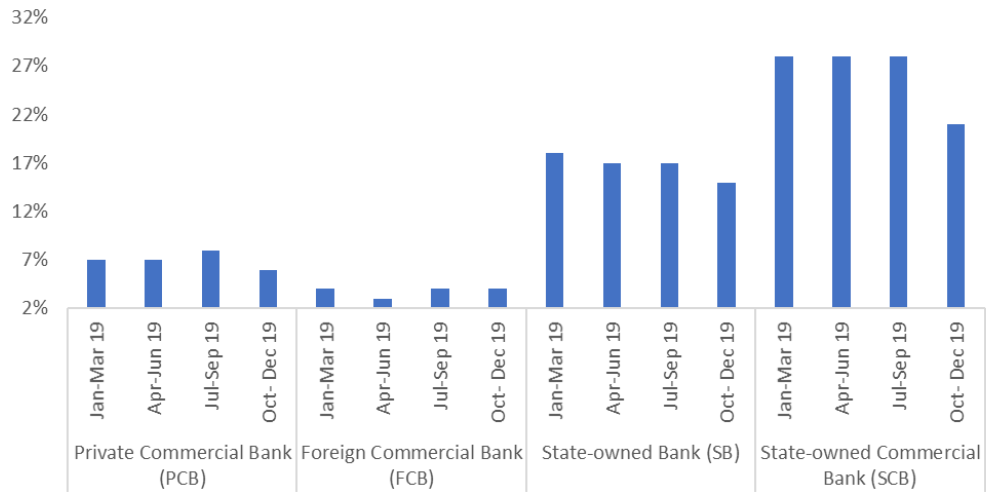
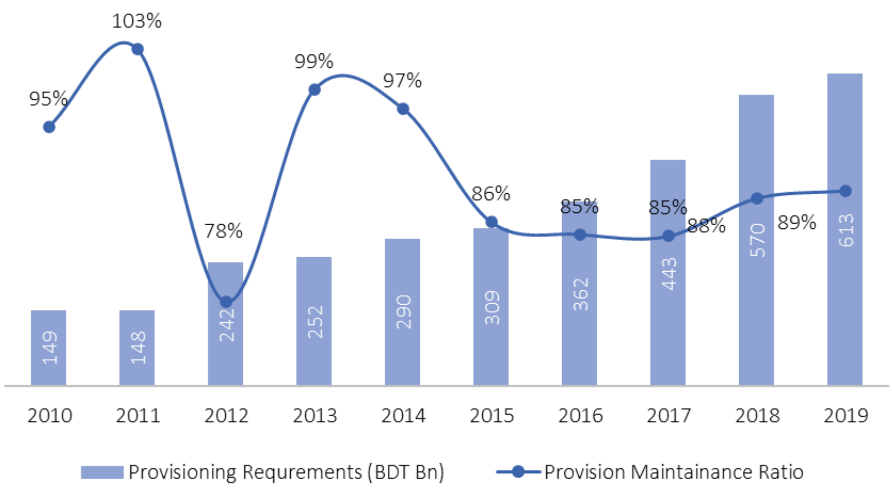


Figure 8(b): NPL Across Different Type of Bank: State-owned Banks (SCB) are the main contributor



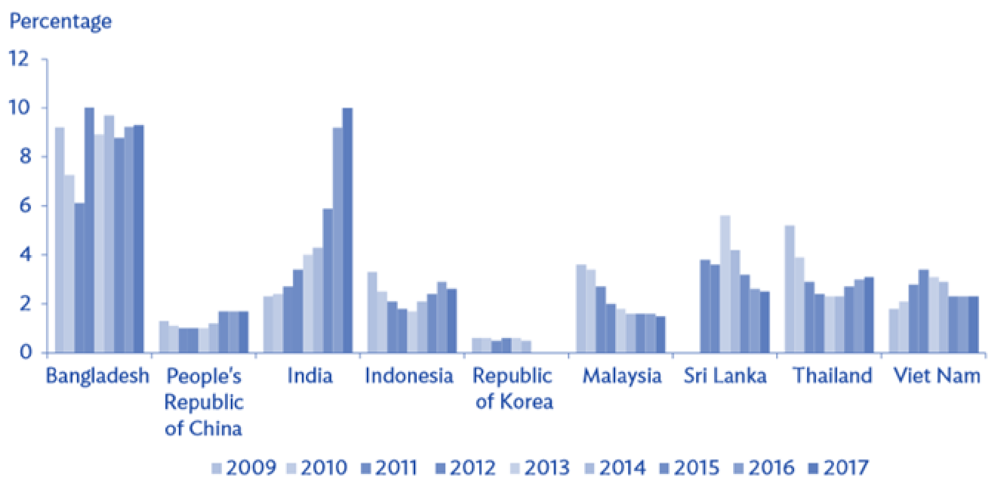
Source: Bangladesh Bank, ATC Research

Figure 9: Trend of provisioning requirements and maintenance ratio



Source: Bangladesh Bank, ATC Research

Figure 10: Gross ratios of nonperforming loans to total loans in Asia



Source: ADB

Willful default likely to see a surge, rescheduling might help clean the balance sheet— Although slow-down in investment activities and consumption might be weighing down on the continuous rise in NPL ratios, regulatory tangle regarding rescheduling and recategorization (see appendix for BB's summary circular) created moral hazard issue among good or able borrowers to willfully default their loans to take get their loans rescheduled at better terms. Apparently, these policy offers a solution for cleaner balance sheets than a remedy to improve risk management. In short-term, it might help the banks clean the book but in the long run the result might be even worse than current scenario.

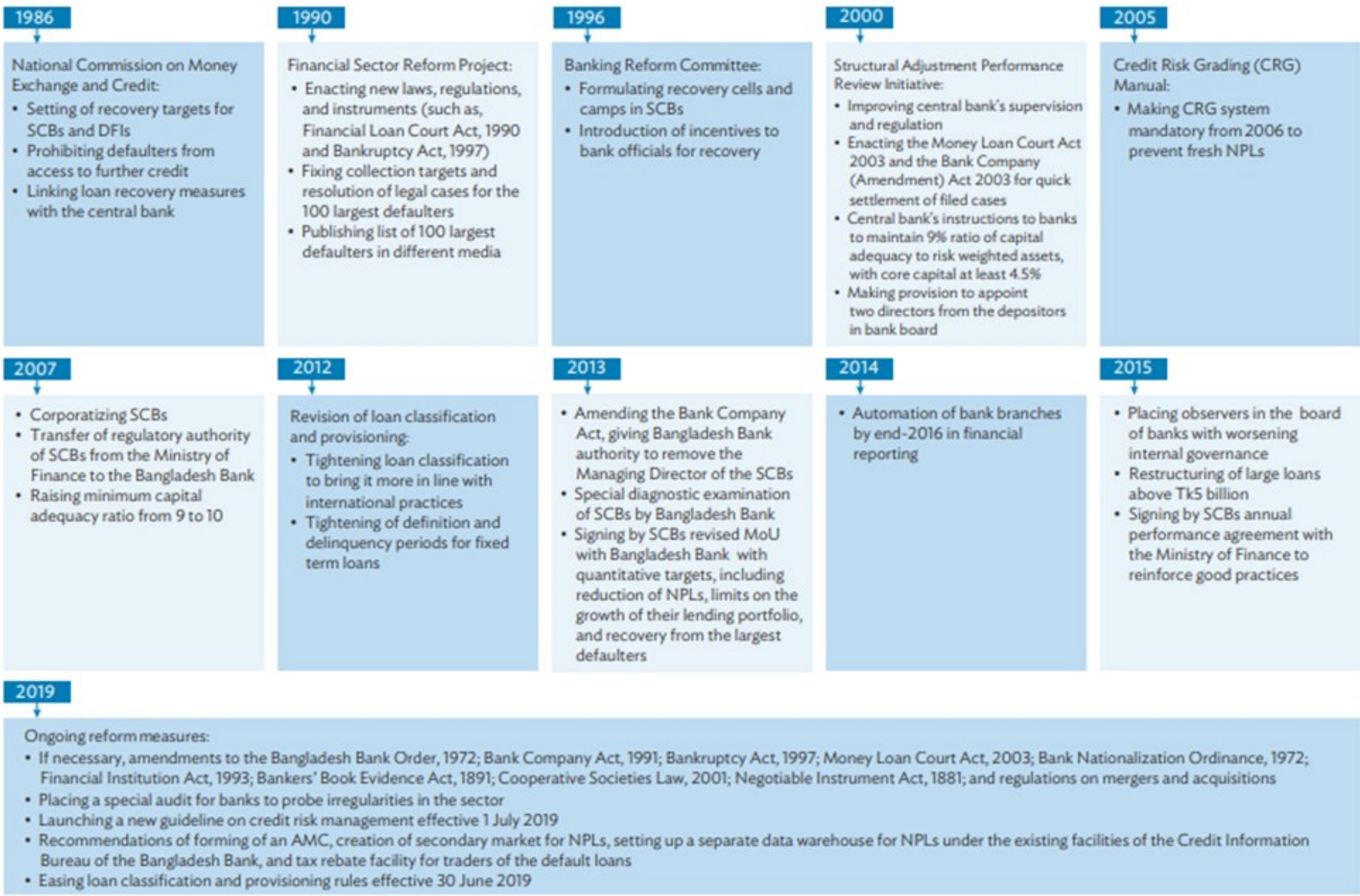
BB's mass lending package to tackle the Corona crisis without credit guarantee might backfire— In an effort to support the economy, the government has announced several timely and much-needed stimulus packages amounting nearly BDT 1 trillion. Apparently, most of these stimuluses will be mobilized through commercial banks under different refinancing schemes offered by BB where as much as 50% of this scheme will be funded by commercial bank's own source. Apart from the liquidity pressure that might be created for this, the major concern lies into the repayment ability of the borrowers who are mostly small, medium business who are heavy hurt by the pandemic. Without proper credit guarantee, banks might get into deep trouble and legacy NPL might get worse.

Additional credit risk likely to arise from capital market— Before market closure Mar'25, DSEX took a hit due to the lockdown and lost nearly 10% YTD. If the price floor had not been imposed, it would likely have performed far worse. Margin loans are likely to face a serious risk of default as the stock prices might fall if the price floor is withdrawn and it will be challenging to sell off the stocks due to an acute lack of liquidity. If those loans are properly provisioned for then most of the top banks who have brokerage/ merchant bank subsidiary might face additional provisioning pressure. According to unofficial surveys, the negative equity in the stock market reached more than BDT 120 bn in the first half of 2020.

COVID19 lockdown will further escalate the NPL problem— The NPL ratio is likely to shoot up further since the COVID19 lockdown is going to affect almost all the sectors. Thousands of consumers are now being placed under quarantine or lockdown, affecting their earning power and that of businesses serving them. As a result, the consumers might lose their ability to pay for credit, particularly mortgages. Also, business loans, especially to small and medium enterprises, are at risk due to the forced shutdown. RMG sector has already faced export order cancellation amounting nearly USD 3 to 4 bn. Travel and F&B will be hard hit, as they will have no way to make up for the lost revenues in the future. All these lockdown impacts will eventually affect the loan repayment capabilities. Although, the government asked not to downgrade any loan to defaulted one until December 2020 if borrowers fail to repay instalment, effective NPL is likely to rise further.

Asset management company formation for NPL might be solution but structural readiness is questionable— In mid-2019, The government has taken an initiative to form an asset management company within FY20 to buy distressed loans of banks as part of its efforts to clean up the financial sector like the Republic of Korea's KAMCO or Malaysia's Danaharta to take over NPLs from ailing banks. Although it is common practice to solve distressed asset problem in financial world, a strong regulatory framework and governance are the prerequisites and it is arguable whether Bangladesh is ready on these two fronts.

Figure 11: Trend of measures taken by Bangladesh Gov to tackle NPL

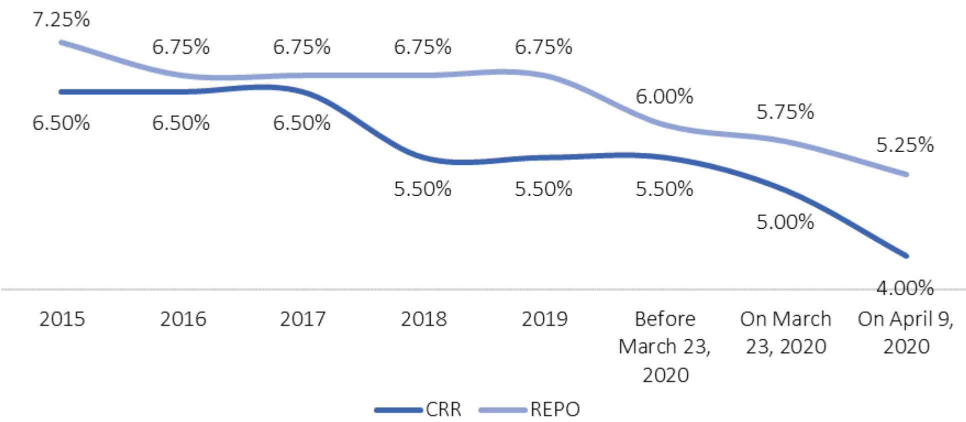


Source: ADB

Tight Liquidity Scenario Is A Risk Despite BB's Measure... Government's High Borrowing From Banking Sector Might See Large Crowding Out Effects

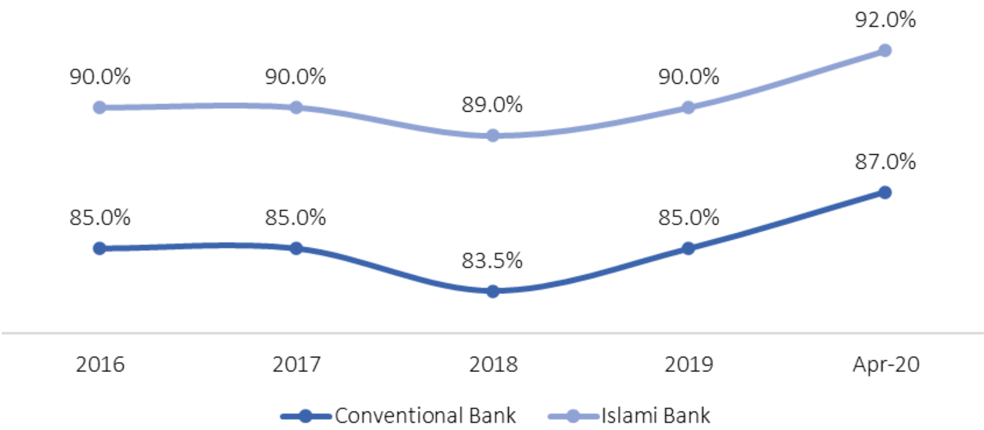
BB's initiatives might create nearly BDT 800 bn, but refinancing scheme might put pressure on banks' own liquidity — Even before Covid-19, the banking sector of Bangladesh was struggling with liquidity and the situation is likely to get exacerbated with the further asset quality deterioration and lower savings. Cash holding tendency amid an economic crisis will hurt banks' deposit growth. Moreover, sub-optimal deposit rate will discourage the depositors to keep their money in the Banking channel as the official inflation rate is hovering around 6%. Also, failure to pay regular installment by the business due to COVID-19 will also create the liquidity mismatch for the banks. However, in April 2020, BB took initiative to cut the CRR to 4% from 5.5%, Policy rate to 5.25% from 6% and increased the ADR ratio by 200 bps in an effort to support the economy in COVID19 crisis. This initiative might create approximately BDT 400 bn liquidity in the market. But these have not ignited the banking sector given the gravity of the economic fallout. The central bank has so far taken seven stimulus packages worth nearly BDT 800 bn to revive the economy and of the package, BDT 510 bn will be disbursed through a refinancing scheme. But to enjoy the refinance scheme, banks will have to provide at least 50 percent of each loan to the borrowers from their own sources without any credit guarantee from the central bank which might put pressure on their own liquidity given the existing relaxed repayment scenario. This situation is likely to be prolonged till the end of the year.

Figure 12: CRR and Repo Rate



Source: Bangladesh Bank, ATC Research

Figure 13: ADR ratio trend



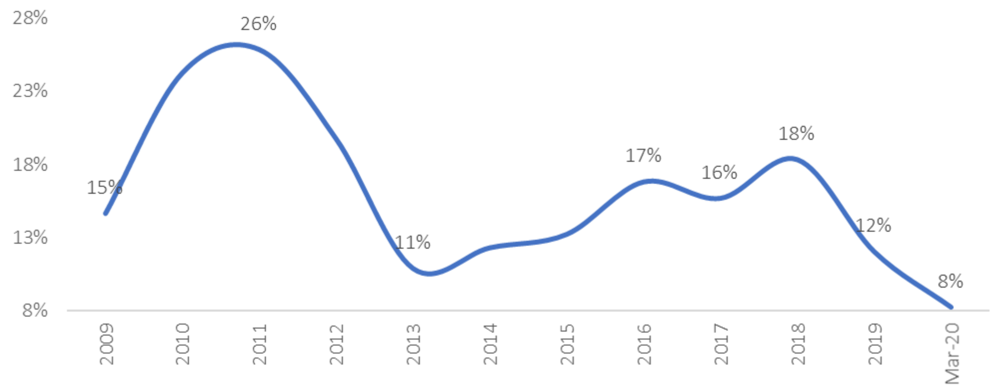
Source: Bangladesh Bank, ATC Research

Government heavy dependency might crowd out the private sector— Until May 12, 2020 the government borrowed BDT 783 bn from the banking sector, which has already surpassed its revised full-year bank borrowing target of BDT 729 bn although the gov initially set a bank borrowing target of BDT 473 bn in FY19-20 budget. It might escalate further amid implementation of massive stimulus packages amounting BDT 956 bn. the Government's such heavy dependency on the Bank to fund the deficit will crowd out the private sector loan. Notably private sector credit growth has already declined to 8% in Jan' 20 which is 11-year low which was before the pandemic hit. Bangladesh Bank has temporarily stopped publishing economic data due to operational disruption and social distancing measures, however we expect private sector credit growth to fall sharply in the coming days due to:

i. *The 9% interest rate cap on all loans except for credit cards, slated to take effect from April 1. Since prevailing interest rates on loans, especially SME loans, were higher than 9%, banks were already in the process of scaling back their loan portfolio growth in anticipation of the interest rate ceiling, even before the COVID-19 pandemic hit.*

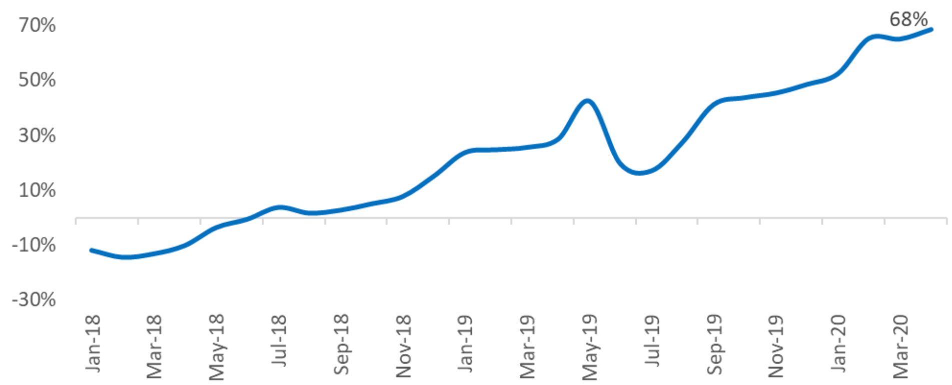
ii. *In sharp contrast to the fall in private sector credit growth, public sector credit growth has been experiencing significant growth, reaching 68.42% in April 2020. A big factor in the increase in public sector credit was the strict monitoring of investment limits in National Savings Certificates, which diverted government borrowing away from NSCs and into banks. The 5-year Treasury bond yield currently stands at 8.74% while the 10-year Treasury Bond rate stands at 8.90%. The coronavirus pandemic will require the government to ramp up spending in order to stem the economic damage, while revenue growth is likely to hit historic lows due to the fall in economic activity. These factors are likely to lead to a historically high budget deficit, and therefore public sector credit growth is expected to grow significantly. Combined with high interest rates on government securities and an uncertain economic recovery scenario, we expect private sector credit growth to be crowded out by government borrowing even after the pandemic.*

Figure 14: Private sector credit growth: down to a historic low



Source: Bangladesh Bank, ATC Research

Figure 15: YoY growth of net credit to public sector

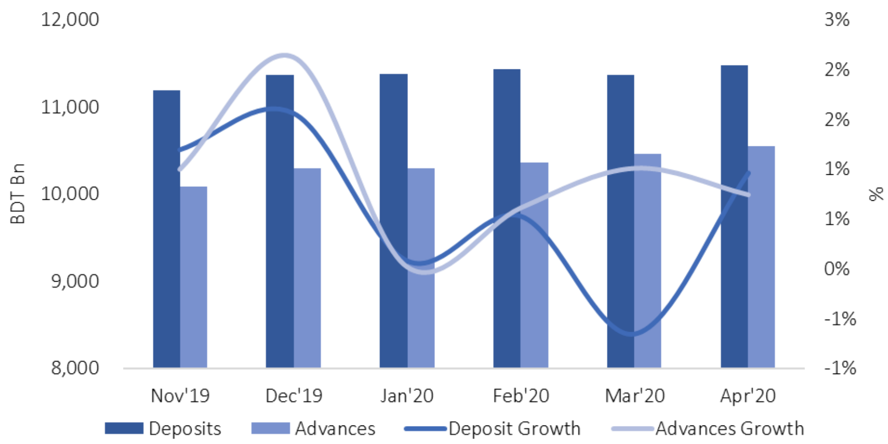


Source: Bangladesh Bank, ATC Research

Pandemic Will Slow The Loan And Deposit Growth

In January, the growth of deposit and loan were almost Nil, as the news started to widen that the government has decided to fix a uniform interest rate for all types of deposits from April 1. It is expected that, due to the current COVID-19 situation deposit growth will remain slow as people are withdrawing money to tackle the ongoing situation. This tendency of consumer behavior is observed due to the low reliance over banks for future uncertainties of liquidity position; it also gives people a sense of control over the situation. Now on the credit part, we can infer from the graph that growth in deposits with advances has a great correlation. Therefore, sluggish growth of deposit will also affect the credit growth as well.

Figure 16: Monthly Deposits & Advances



Source: Bangladesh Bank, ATC Research

Table 2: Interest rate spread (in %)

Month	Interest rate on deposits	Interest rate on advances	Spread
Sep'19	5.65	9.56	3.9
Oct'19	5.66	9.58	3.9
Nov'19	5.71	9.63	3.9
Dec'19	5.7	9.68	4.0
Jan'20	5.69	9.66	4.0
Feb'20	5.53	9.62	4.1

Source: Bangladesh Bank, ATC Research

Budgetary Impact of FY20-21: Money Whitening and Excise Duty

Black money to be allowed in banking sector may accelerate the deposit growth slightly— For the first time, the government proposed injecting black money in banks to help the sector amid the ongoing liquidity pressure and burden of stimulus package and high bank borrowing. Through this, the banking sector is likely to get a boost in deposit as the government allowed black money investments. In the proposed budget for FY2020-21, Finance Minister proposed to allow investing black money in all financial schemes and instruments. In that case, black money can be invested in cash, bank deposits, financial schemes and instruments, and all other kinds of deposits, saving deposits, saving instruments or certificates but subject to 10 % tax.

Unchanged corporate tax and imposition of higher excise duty— Although there were discussions on reducing the corporate tax rate in the pre-budget days to give the dying banking sector a comport, the actual budget proposal didn't pay any heed to such case. Rather, excise duty on bank balance credit/debit has been increased in next fiscal for balances greater than BDT 1 million. For bank balance less than BDT 1 million excise duty has been kept un-changed. However, this is less likely to impact bank deposit significantly. The summarized version of the excise duty is given in the following table—

Table 3 : Proposed Excise Duty on Higher Bank Balance

Balance	Existing	Proposed
Above BDT 1 mn to BDT 10 mn	BDT 2,500	BDT 3,000
Above BDT 10 mn to BDT 50 mn	BDT 12,000	BDT 15,000
Above BDT 50 mn	BDT 25,000	BDT 40,000

Source: Budget Speech, ATC Research

People's Leasing And Financial Services Limited (PLFSL) Bankruptcy And NBFI Weakness Poses Additional Risk To Financial Sector Stability

In July 2019, government has directed the central bank to liquidate People's Leasing and Financial Services Limited (PLFSL), a non-bank financial institution, due to the deterioration of its financial health in last several years. This will be the first instance of liquidation of any financial institution in the country. Previously, two banks- Bank of Credit and Commerce International and Oriental, that were on their last legs were restructured but not liquidated. Non-banking financial institutions (NBFIs) have been on the watchlist of various stakeholders, analysts and observers for long time. The failure of PLFSL triggered a crisis of confidence. That has subsequently worsened due to the unveiling of the scam of International Leasing and Financial Services Ltd. (ILFSL) another NBFI of the financial market. Bangladesh Bank (BB) conducts stress tests on these financial institutions based on four risk factors: credit, interest rate, equity price and liquidity. At end-September 2019, out of 33 NBFIs, 4, 19, and 10 were positioned in Green, Yellow, and Red zones respectively. Simply stated, only 4 are healthy, 19 are vulnerable and 10 need serious attention. Most clients of the vulnerable NBFIs are having difficulties cashing their deposits and profits at maturity. These companies misused the funds obtained from their clients. They borrowed money from different banks and call money markets as well.

There has been a maturity mismatch in the NBFI sector as they take deposit for a maximum period of two years but give out loans for 10 to 20 years in general. NBFIs have now become a boil in the body of the financial system. Measures are needed before the boil reaches toxic levels. To protect the sector BB raised the limit on NBFI borrowing from the inter-bank call money market from 30% to 40% of their equities with effect from September 1, 2019. Sensing their malpractices and to meet their own liquidity shortage, banks started withdrawing their investments from the NBFIs. BB instructed banks not to withdraw their deposits from the NBFIs. But none of these made a difference. The importance of adequate legal protection, clear institutional mandates and accountability to ensure sufficient independence and resources for oversight agencies to act effectively can hardly be overemphasized. Prioritization of financial stability at these agencies and cross-sectoral levels; will be crucial to ensure that risks outside the regulatory perimeter are mitigated and monitored. Strengthening the legal framework for NBFI resolution; would improve incentives and reduce the potential risks to public resources that could arise from the failure of financial institutions.

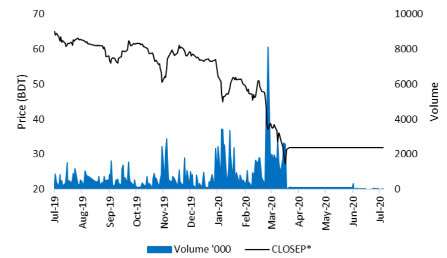
Key Highlights & Comments On Top Bangladeshi Banks

BRAC Bank (DSE: BRACBANK)

Basic Information: BRAC Bank

Closing Price as on July 06, 2020 (BDT)	31.9
52-week Price Range (BDT)	27.2-64.4
Number of Shares Mn	1,326
Market Cap BDT Mn	42,296
Market Cap USD Mn	499
Average Daily Turnover Value BDT Mn	38
Financial Year End	December

Price Volume Chart: BRAC Bank



Source: DSE, ATC Research

Key Highlights

- BRAC Bank is one of the best governed banks in Bangladesh, with a SME-focused lending portfolio and a strong position in deposit accounts allowing it to consistently earn higher interest spread than other banks.
- BRAC Bank has one of the better credit management processes in the banking sector, leading to an NPL ratio of 3.99% in 2019.
- BRAC Bank is one of the better capitalized banks in Bangladesh, with a Tier-1 ratio of 13.82% and a CAR of 15.07%
- It also owns 51% of bKash, the leading mobile financial services (MFS) provider in Bangladesh. bKash has seen an increase in adoption during the COVID-19 pandemic; having China's Alipay as a strategic investor is expected to lead to bKash extending its lead as the most popular MFS in Bangladesh.
- BRAC Bank has three subsidiaries, BRAC EPL Stock Brokerage – one of the leading brokerage firms in Bangladesh, BRAC EPL Investments and BRAC Saajan Exchange Ltd, a UK-based remittance provider with branches across Europe and close integration with bKash for direct remittance transfers.
- We expect BRAC Bank to focus on managing its existing balance sheet in 2020 amid the coronavirus crisis instead of trying to grow its lending portfolio. BRAC Bank's top management aims to bring down its cost-to-income ratio (CIR) from 54% reported in 2018 down to 45% by 2022 by leveraging technology, alternative delivery channels and greater use of technology.
- BRAC Bank has one of the lowest NPL ratios in Bangladesh due largely to its strong corporate governance, risk management and credit underwriting practices. NPL ratio came down to 3.1% in 2018 from 6% in 2015 based largely on aggressive writing off bad loans, de-risking their corporate loan portfolio and shifting lending focus to SME and retail sectors. BRAC Bank currently is rated Ba3 by Moody's, which is the same as Bangladesh sovereign credit rating and is the highest amongst Bangladeshi banks.
- BRAC Bank has also significantly upgraded its digital banking offerings. Its online banking product is one of the best offerings amongst Bangladeshi banks, which is likely to attract retail deposit clients and help increase its CASA ratio. BRAC Bank has also continued its aggressive push into agent banking, where customers are able to avail banking services through an agent, which significantly reduces bank operating costs compared to needing to open a branch. BRAC Bank has a total of 349 agent banking outlets across the country, covering 63 districts out of 64.

Key Risks

- BRAC Bank mainly focuses on the SME segment so the government's policy decision to impose a 9% interest rate ceiling on all loans will reduce their spread with higher risk. The COVID-19 pandemic will also heavily impact the SME sector so there will be high chance of increase of NPL.

Key Financials & Ratios: BRAC Bank

(Amounts are in BDT Mn except per share data and percentage)

Income Statement

	2015	2016	2017	2018	2019
Interest income	17,373	17,842	20,498	25,090	29,692
% Change	3.45%	2.70%	14.89%	22.40%	18.34%
Interest paid	8,699	7,036	8,351	11,574	14,654
% Change	-5.36%	-19.12%	18.69%	38.60%	26.61%
Net interest income	8,674	10,807	12,148	13,516	15,038
% Change	14.10%	24.59%	12.41%	11.26%	11.26%
Other operating income	6,410.69	6,422.40	6,562.04	5,649.20	6,350.31
% Change	6.59%	0.18%	2.17%	-13.91%	12.41%
Total operating income	15,085	17,229	18,710	19,165	21,388
% Change	10.78%	14.22%	8.59%	2.43%	11.60%
Operating expenses	7,286	7,962	9,660	10,343	11,440
% Change	6.49%	9.28%	21.32%	7.07%	10.61%
Profit before provision	7,799	9,267	9,050	8,822	9,948
% Change	15.12%	18.83%	-2.34%	-2.51%	12.76%
Provisions for loan loss	3,177	2,118	1,152	750	1,442
% Change	21.70%	-33.32%	-45.60%	-34.93%	92.34%
Pre-tax profit	4,621	7,148	7,897	8,072	8,505
% Change	10.99%	54.68%	10.48%	2.22%	5.36%
Tax	2,186	2,688	2,647	2,525	2,860
% Change	5.49%	22.97%	-1.51%	-4.62%	13.24%
Net profit after tax	2,436	4,460	5,250	5,547	5,646
% Change	16.44%	83.14%	17.70%	5.66%	1.78%

Balance sheet

	2015	2016	2017	2018	2019
Loans & Advances	147,434	173,612	202,559	238,008	264,091
% Change	20.91%	17.76%	16.67%	17.50%	10.96%
Total Assets	224,430	248,543	279,124	315,350	367,920
% Change	9.70%	10.74%	12.30%	12.98%	16.67%
Total Deposits	150,221	168,860	196,224	228,622	268,309
% Change	1.18%	12.41%	16.21%	16.51%	17.36%
Borrowing from other Banks	15,533	18,838	23,211	22,958	22,902
% Change	107.79%	21.28%	23.21%	-1.09%	-0.25%
Total Liabilities	205,677	227,165	253,196	283,779	330,262
% Change	10.08%	10.45%	11.46%	12.08%	16.38%
Total Equity	18,815	21,441	25,991	31,644	37,658
% Change	5.96%	13.95%	21.22%	21.75%	19.01%

Source: Company Disclosures, ATC Research

Key Financials & Ratios: BRAC Bank

(Amounts are in BDT Mn except per share data and percentage)

Per Share Data (BDT)

	2015	2016	2017	2018	2019
EPS	3.43	6.28	6.14	5.17	4.58
BVPS	26.53	30.18	30.39	29.50	30.53
DPS	2.50	1.00	-	-	0.75

Key Ratios

	2015	2016	2017	2018	2019
Net Interest Margin	6.44%	6.73%	6.46%	6.14%	5.99%
Cost to Income	48.30%	46.21%	51.63%	53.97%	53.49%
NPLs/Gross Loans	6.00%	3.40%	3.56%	3.10%	3.99%
NPL coverage	95.24%	117.68%	110.65%	102.60%	82.92%
ROA	1.14%	1.89%	1.99%	1.87%	1.65%
ROE	13.32%	22.16%	22.14%	19.25%	16.29%
Effective Tax Rate	47.30%	37.60%	33.52%	31.28%	33.62%
Dividend Payout Ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Tier 1 ratio	13.82%	13.82%	13.82%	13.82%	13.82%
CAR	15.07%	15.07%	15.07%	15.07%	15.07%

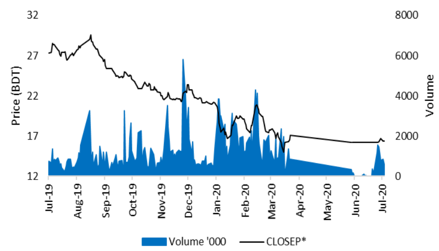
Source: Company Disclosures, ATC Research

City Bank (DSE: CITYBANK)

Basic Information: City Bank

Closing Price as on July 06, 2020 (BDT)	16.4
52-week Price Range (BDT)	14.8-29.7
Number of Shares Mn	1,016
Market Cap BDT Mn	16,770
Market Cap USD Mn	198
Average Daily Turnover Value BDT Mn	25
Financial Year End	December

Price Volume Chart: City Bank



Source: DSE, ATC Research

Key Highlights

- The City Bank Limited (CBL) is 1st generation bank holding about 3.1% market share of deposits. It strategically positioned itself as number 1 in cards segment with a portfolio worth BDT 56.4bn.
- It continues to outpace the industry in terms of loan growth and still improve on its spread (NIM was 4.1% in H1’2019 vs 3.9% in H1’2018) by improving its CASA ratio (37.0% in H1’2019 vs 34.0% in H1’2018) and borrowing cheap from overseas — partnering with IFC is helping the bank in this regard.
- City Bank’s ownership structure includes 28% stake of the sponsors, 21% stake of the institutions, 9% foreign and rest of the 42% general public as at February 2020.
- The bank’s strong foothold in customer service and digitalization, particularly defined by state of the art app, City Touch app, rated highest in Android, targets a younger age group, that is expected to garner strong deposit, CASA and retail loan growths.
- By partnering with IFC, the bank has revamped its SME program, with a long-term focus on SME-S business. The bank has invested heavily in SME infrastructure and has started disbursing loans, mostly through its branches and SME centers based out of Dhaka.
- CBL’s Retail loan portfolio — comprising mostly of home, personal and car loans (roughly 15% of loan book) — generated a staggering 40.0% CAGR in the 2015-2018 periods.
- Aggressive provisioning hit taken by the bank in last 3-4 years has helped cleaning up its balance sheet
- The bank also tends to outperform its peers when it comes to commission income owing to its strong foothold in trade services.

Key Risks

- CBL’s credit ratings were downgraded by Moody’s in June mainly due to deteriorating Capital condition because of falling profitability and excess dividend disbursement policy. However, in H1’2019, CAR has been improved to 13% on the back of increased profitability and subordinate bond issuance
- the bank’s history of high cash dividend is negative for preserving capital. On the positive note, In 2018, the bank reduced its cash dividend to 6%.
- Going forward, risks associated with asset quality pertains to the CBL’s increasing exposure to SME-Small loans

Key Financials & Ratios: City Bank

(Amounts are in BDT Mn except per share data and percentage)

Income Statement

	2014	2015	2016	2017	2018
Interest Income	14,029	15,325	16,042	16,784	22,917
% Change	3.06%	9.24%	4.68%	4.62%	36.54%
Interest Paid	8,907	9,819	9,565	9,289	13,716
% Change	3.64%	10.24%	-2.58%	-2.89%	47.67%
Net Interest Income	5,122	5,506	6,477	7,495	9,201
% Change	2.05%	7.49%	17.64%	15.72%	22.75%
Other operating income	5,416	7,278	7,919	7,421	6,701
% Change	44.29%	34.38%	8.80%	-6.29%	-9.69%
Total Operating Income	10,539	12,784	14,396	14,916	15,902
% Change	20.12%	21.31%	12.60%	3.61%	6.61%
Operating Expenses	5,403	6,111	6,880	8,047	9,223
% Change	16.77%	13.11%	12.58%	16.96%	14.62%
Profit before provision	5,136	6,673	7,516	6,869	6,679
% Change	23.87%	29.93%	12.63%	-8.60%	-2.77%
Provisions for loan loss	1,540	2,179	2,071	1,718	2,324
% Change	-34.19%	41.46%	-4.92%	-17.08%	35.32%
Pre-Tax Profit	3,596	4,495	5,444	5,152	4,355
% Change	99.09%	24.99%	21.13%	-5.37%	-15.47%
Tax	1,381	916	1,510	1,523	2,337
% Change	54.30%	-33.69%	64.88%	0.90%	53.40%
Net Profit after Tax	2,215	3,579	3,934	3,628	2,018
% Change	143.08%	61.58%	9.94%	-7.78%	-44.39%

Balance sheet

	2014	2015	2016	2017	2018
Loans & Advances	116,621	143,088	175,025	196,596	231,391
% Change	29.75%	22.69%	22.32%	12.32%	17.70%
Total Assets	177,228	214,840	259,424	275,531	324,780
% Change	20.18%	21.22%	20.75%	6.21%	17.87%
Total Deposits	118,727	143,729	174,695	183,493	205,170
% Change	10.45%	21.06%	21.54%	5.04%	11.81%
Borrowing from other Banks	16,944	22,080	31,695	37,906	60,453
% Change	114.37%	30.31%	43.55%	19.60%	59.48%
Total Liabilities	154,110	189,331	234,123	250,662	300,350
% Change	19.51%	22.85%	23.66%	7.06%	19.82%
Total Equity	23,118	25,509	25,301	24,869	24,430
% Change	24.79%	10.34%	-0.82%	-1.70%	-1.77%

Source: Company Disclosures, ATC Research

Bangladesh Banking Sector Report

Key Financials & Ratios: City Bank

(Amounts are in BDT Mn except per share data and percentage)

Per Share Data (BDT)

	2014	2015	2016	2017	2018
EPS	2.66	4.09	4.5	4.1	2.1
BVPS	27.72	29.13	23.6	27	25.2
DPS	1.50	2.20	2.4	1.9	0.6

Key Ratios

	2014	2015	2016	2017	2018
Net Interest Margin	4.96%	4.24%	3.49%	3.50%	3.98%
Cost to Income	51.27%	47.80%	47.79%	53.95%	58.00%
NPLs/Gross Loans	5.88%	7.58%	6.05%	5.43%	5.33%
NPL coverage	71.91%	57.53%	59.56%	56.63%	64.69%
ROA	1.36%	1.83%	1.66%	1.36%	0.67%
ROE	10.64%	14.72%	15.49%	14.46%	8.19%
Effective Tax Rate	38.41%	20.37%	27.73%	29.57%	53.66%
Dividend Payout Ratio	56.49%	53.84%	53.33%	46.34%	28.57%
Tier 1 ratio	10.30%	10.40%	10.50%	10.10%	8.30%
CAR	14.30%	13.20%	13.20%	14.70%	13.40%

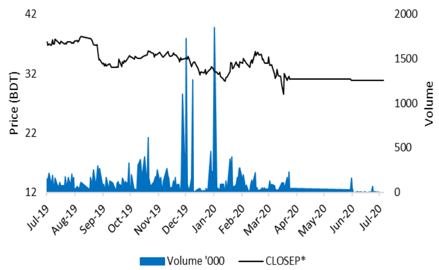
Source: Company Disclosures, ATC Research

Eastern Bank (DSE: EBL)

Basic Information: EBL

Closing Price as on July 06, 2020 (BDT)	30.9
52-week Price Range (BDT)	28-38.6
Number of Shares Mn	812
Market Cap BDT Mn	25,085
Market Cap USD Mn	296
Average Daily Turnover Value BDT Mn	4
Financial Year End	December

Price Volume Chart: EBL



Source: DSE, ATC Research

Key Highlights

- EBL is the 4th largest listed private commercial bank (PCB) in terms of market capitalization, holding 1.8% and 2.2% market share in deposits and loans & advances respectively

- Despite deteriorating liquidity conditions in the industry, EBL continued its outstanding deposit growth of 19.3% in 2018 (deposits grew by 19% in 2017) and 13.1% YTD in 9M'19.

- The bank has one of the lowest NPL ratio — which has been on a declining trajectory till 2018, reaching 2.4% from a peak of 4.3% in 2014 which could be attribute to a prudent loan approval process coupled with competent management. With an NPL coverage of roughly 130% in 2018, the bank seems to have already taken high provisions, denoting strong asset quality and relatively lower provision risk.

- With more than 70% loan portfolio in corporate segment, it is considered as one of the most preferred banks in the corporate segment.

- It has a decent and growing portfolio of consumer loan products. The bank's credit card segment has been growing rapidly in recent times. According to anecdotal, the bank was third in the credit cards market share in 2017, topping some of the well-known banks in this segment.

- The board of EBL comprised of prominent figures with outstanding business and academic track records. Experienced and reputed businesspeople on the board should drive the value

- EBL's ownership structure includes 32% stake of the sponsors, 46% stake of the institutions, 0.3% foreign and rest of the 24% general public as at February 2020.

Key Risks

- The bank has a high exposure to the corporate segment. Compared to its closest peers, the company is not aggressively diversifying to other segments. The competition to book corporate borrowers has intensified over the years and as such bank spreads are not only low but can often come under pressure.

- The total provision charged by EBL securities for margin loans is too low — considering many banks in the industry still carry negative equity attributable to margin loans.

Bangladesh Banking Sector Report

Key Financials & Ratios: EBL

(Amounts are in BDT Mn except per share data and percentage)

Income Statement

	2014	2015	2016	2017	2018
Interest Income	13,338	13,338	13,546	14,399	19,821
% Change	1.35%	0.00%	1.56%	6.30%	37.66%
Interest Paid	9,793	9,793	8,016	8,654	12,315
% Change	7.02%	0.00%	-18.14%	7.96%	42.30%
Net Interest Income	3,545	3,545	5,529	5,745	7,506
% Change	-11.58%	0.00%	55.98%	3.89%	30.66%
Other operating income	6,351	6,351	5,930	6,656	5,633
% Change	-37.33%	0.00%	-6.63%	12.25%	-15.37%
Total Operating Income	9,896	9,896	11,459	12,401	13,139
% Change	-30.03%	0.00%	15.80%	8.22%	5.96%
Operating Expenses	4,691	4,691	5,041	5,605	5,995
% Change	7.63%	0.00%	7.45%	11.19%	6.96%
Profit before provision	5,204	5,204	6,418	6,796	7,144
% Change	-46.81%	0.00%	23.32%	5.88%	5.13%
Provisions for loan loss	2,264	1,788	2,019	2,739	2,558
% Change	25.00%	-21.03%	12.91%	35.68%	-6.61%
Pre-Tax Profit	2,940	3,417	4,400	4,057	4,586
% Change	-63.12%	16.19%	28.77%	-7.79%	13.05%
Tax	1,196	1,196	1,743	1,652	1,505
% Change	-35.94%	0.00%	45.78%	-5.23%	-8.88%
Net Profit after Tax	1,745	2,221	2,656	2,405	3,081
% Change	-71.43%	27.28%	19.61%	-9.47%	28.11%

Balance sheet

	2014	2015	2016	2017	2018
Loans & Advances	130,226	130,226	152,084	184,027	209,306
% Change	10.09%	0.00%	16.78%	21.00%	13.74%
Total Assets	189,563	189,563	211,185	253,068	282,451
% Change	10.13%	0.00%	11.41%	19.83%	11.61%
Total Deposits	127,990	127,990	140,284	167,348	199,629
% Change	9.59%	0.00%	9.61%	19.29%	19.29%
Borrowing from other Banks	30,543	30,543	39,061	50,998	46,732
% Change	17.38%	0.00%	27.89%	30.56%	-8.36%
Total Liabilities	169,067	169,067	190,614	231,482	259,485
% Change	11.20%	0.00%	12.74%	21.44%	12.10%
Total Equity	20,496	20,496	20,572	21,586	22,966
% Change	2.04%	0.00%	0.37%	4.93%	6.40%

Source: Company Disclosures, ATC Research

Key Financials & Ratios: EBL

(Amounts are in BDT Mn except per share data and percentage)

Per

	2014	2015	2016	2017	2018
EPS	2.85	3.40	3.78	3.26	4.17
BVPS	33.54	29.27	29.27	29.25	31.12
DPS	2.00	2.00	2.00	2.00	2.00

Key Ratios

	2014	2015	2016	2017	2018
Net Interest Margin	2.85%	3.92%	3.29%	2.92%	3.59%
Cost to Income	47.41%	43.99%	43.99%	45.20%	45.63%
NPLs/Gross Loans	3.27%	2.69%	2.69%	2.50%	2.35%
NPL coverage	116.84%	147.00%	147.00%	159.54%	150.39%
ROA	0.96%	1.19%	1.33%	1.04%	1.15%
ROE	8.60%	11.63%	12.94%	11.41%	13.83%
Effective Tax Rate	40.66%	42.20%	39.62%	40.72%	32.82%
Dividend Payout Ratio	70.06%	58.88%	52.91%	61.35%	47.96%
Tier 1 ratio	10.19%	10.22%	10.80%	10.24%	9.33%
CAR	13.22%	14.24%	15.10%	14.09%	12.16%

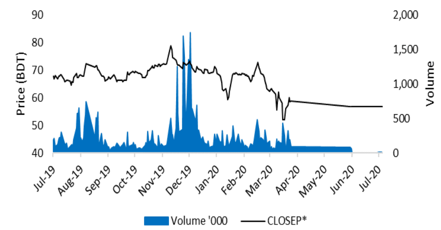
Source: Company Disclosures, ATC Research

Dutch Bangla Bank (DSE: DBBL)

Basic Information: DBBL

Closing Price as on July 06, 2020 (BDT)	56.9
52-week Price Range (BDT)	49.1-79.6
Number of Shares Mn	500
Market Cap BDT Mn	28,450
Market Cap USD Mn	335
Average Daily Turnover Value BDT Mn	15
Financial Year End	December

Price Volume Chart: DBBL



Source: DSE, ATC Research

Key Highlights

- Dutch Bangla Bank Limited (DBBL) is retail focused bank since its inception 1996. DBBL has the highest number of ATM booths (4,705 as of 2018) in the country, which has made this bank the most convenient bank for retail clients. Due to the ATM coverage people tend to maintain banking relationship with DBBL which in turn helps the bank to enjoy higher deposits in CASA account. DBBL has also introduced Fast Tracks for the first time in the country to ensure better and wider range of services to its valued customers.
- DBBL's main goal, regardless of any business environment, is for a safe and steady growth, what we can see from their stable asset growth. DBBL's strategic investments in IT infrastructure, branch, ATM network, mobile banking services and human capital continued. DBBL has been consciously making these strategically important investments to provide much better customer service with a wide range of products that will bring long-term stable growth and a more inclusive banking for all of Bangladesh.
- DBBL's classified loan as a percentage of total loan portfolios decreased to 4.4% at the end of 2018. At the end of 2018, total equity stood at BDT 23,086 million as compared to BDT 19,482 million in 2017. As of 31 December 2018, Capital to risk-weighted asset Ratio (CRAR) under Basel III stood 15.6% (Tier 1 capital 9.3% and Tier 2 capital 6.3%) against the Bangladesh Bank minimum requirement of 11.87%.
- DBBL's ownership structure includes 86.99% stake of the sponsors, 3.99% stake of the institutions, 0.02% foreign and rest of the 9% general public as at February 2020.

Key Risks

- DBBL has huge exposure in textile and RMG sector. Out of total loans and advances, 46% loans provided to these two sectors which may create concentration risk and may lead to deterioration of asset quality and increase NPL.

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Bangladesh Banking Sector Report

Key Financials & Ratios: DBBL

(Amounts are in BDT Mn except per share data and percentage)

Income Statement

	2014	2015	2016	2017	2018
Interest Income	15,207	16,028	15,646	16,353	20,946
% Change	3.52%	5.40%	-2.39%	4.52%	28.09%
Interest Paid	6,873	6,240	5,682	5,047	6,290
% Change	-6.52%	-9.21%	-8.94%	-11.18%	24.62%
Net Interest Income	8,334	9,788	9,964	11,305	14,656
% Change	13.58%	17.45%	1.79%	13.47%	29.64%
Other operating income	5,535	5,821	5,967	7,014	7,720
% Change	3.25%	5.17%	2.52%	17.54%	10.06%
Total Operating Income	13,869	15,609	15,931	18,320	22,376
% Change	9.22%	12.55%	2.06%	14.99%	22.14%
Operating Expenses	8,544	9,175	10,409	12,822	15,394
% Change	5.30%	7.38%	13.45%	23.18%	20.06%
Profit before provision	5,324	6,434	5,522	5,498	6,982
% Change	16.16%	20.84%	-14.18%	-0.44%	27.00%
Provisions for loan loss	806	142	2,268	(8)	425
% Change	-22.28%	-82.31%	1491.77%	-100.35%	-5423.18%
Pre-Tax Profit	4,519	6,267	3,234	5,126	6,561
% Change	27.40%	38.70%	-48.40%	58.49%	28.01%
Tax	2,312	3,247	1,471	2,838	2,562
% Change	49.53%	40.44%	-54.69%	92.88%	-9.72%
Net Profit after Tax	2,207	3,020	1,763	2,288	3,999
% Change	10.29%	36.87%	-41.64%	29.78%	74.81%

Balance sheet

	2014	2015	2016	2017	2018
Loans & Advances	124,423	152,270	173,398	197,705	218,037
% Change	16.91%	22.38%	13.88%	14.02%	10.28%
Total Assets	215,994	244,058	276,844	308,623	339,356
% Change	16.42%	12.99%	13.43%	11.48%	9.96%
Total Deposits	166,762	186,765	207,234	233,765	262,434
% Change	14.83%	11.99%	10.96%	12.80%	12.26%
Borrowing from other Banks	12,055	20,284	27,332	22,229	13,773
% Change	61.33%	68.26%	34.75%	-18.67%	-38.04%
Total Liabilities	201,476	227,303	259,184	289,378	316,709
% Change	16.53%	12.82%	14.03%	11.65%	9.44%
Total Equity	14,517	16,754	17,660	19,245	22,646
% Change	14.84%	15.41%	5.41%	8.98%	17.67%

Source: Company Disclosures, ATC Research

Key Financials & Ratios: DBBL

(Amounts are in BDT Mn except per share data and percentage)

Per

	2014	2015	2016	2017	2018
EPS	11.03	15.10	8.9	12.3	21
BVPS	72.59	83.77	88.4	97.4	115.4
DPS	4.0	4.0	3.0	3.0	0.0

Key

	2014	2015	2016	2017	2018
Net Interest Margin	7.22%	7.07%	5.37%	5.44%	6.72%
Cost to Income	61.61%	58.78%	65.34%	69.99%	68.80%
NPLs/Gross Loans	4.40%	3.69%	5.19%	4.88%	4.39%
NPL coverage	78.99%	88.55%	67.80%	73.82%	79.03%
ROA	1.10%	1.31%	0.68%	0.78%	1.23%
ROE	16.25%	19.32%	10.24%	12.40%	19.09%
Effective Tax Rate	51.17%	51.81%	45.50%	55.37%	39.05%
Dividend Payout Ratio	36.25%	26.49%	33.71%	24.39%	0.00%
Tier 1 ratio	9.40%	9.50%	9.20%	8.30%	9.30%
CAR	13.80%	13.70%	13.10%	13.00%	15.60%

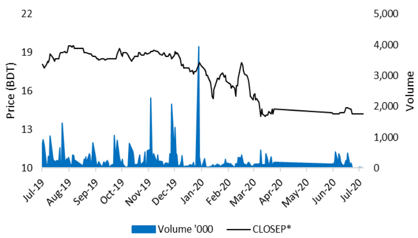
Source: Company Disclosures, ATC Research

Prime Bank (DSE: PRIMEBANK)

Basic Information: PRIMEBANK

Closing Price as on July 06, 2020 (BDT)	14.2
52-week Price Range (BDT)	13.5-19.9
Number of Shares Mn	1,132
Market Cap BDT Mn	16,078
Market Cap USD Mn	190
Average Daily Turnover Value BDT Mn	5
Financial Year End	December

Price Volume Chart: PRIMEBANK



Source: DSE, ATC Research

Key Highlights

- Prime Bank was established in 1995 by a group of prominent Bangladeshi businessmen and is one of the largest private commercial banks (PCBs) in Bangladesh.
- Prime Bank was regarded as one of the most prominent private banks before it faced a period of rising NPLs in 2015. Its management has been trying to emerge from the crisis through a renewed focus on a hiring high-quality human resources, aggressive management of NPLs and a gradual shift into the higher-margin SME sector. The management turnaround was largely completed by 2017 and Rahel Ahmed – an experienced banker having worked in several international banks was appointed as MD of Prime Bank.
- Under its new management, Prime Bank is trying to turn around the institution through aggressive NPL management and shifting focus away from the corporate sector to SME and retail, however, the coronavirus pandemic is likely to have disrupted their long term strategic plan by increasing the amount of NPLs in their balance sheet and disrupting their written-off loan recovery efforts.
- Prime Bank's ownership structure includes 38.92% stake of the sponsors, 27.02% stake of the institutions, 3.51% foreign and rest of the 30.55% general public as at February 2020.
- Prime Bank has 5 subsidiaries – Prime Bank Securities and Prime Bank Investments are based in Bangladesh and focuses on the capital market while the other 3 subsidiaries are remittance houses based in Singapore, the UK and Hong Kong.

Key Risks

- Prime Bank's loan portfolio is concentrated in the corporate segment. Due to its corporate focus, it is likely to be less affected by the government's 9% interest rate ceiling policy, but its concentration in the highly competitive corporate sector limits its potential for earning higher net interest margins while the coronavirus pandemic poses an acute threat to its loan portfolio.

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Key Financials & Ratios: PRIMEBANK

(Amounts are in BDT Mn except per share data and percentage)

Income Statement

	2014	2015	2016	2017	2018
Interest Income	18,446	15,551	13,989	14,769	18,390
% Change	-16.20%	-15.70%	-10.04%	5.58%	24.52%
Interest Paid	15,574	14,257	10,676	9,875	10,741
% Change	-11.91%	-8.45%	-25.12%	-7.50%	8.76%
Net Interest Income	2,872	1,294	3,313	4,894	7,650
% Change	-33.70%	-54.95%	156.07%	47.71%	56.31%
Other operating Income	9,034	10,779	8,710	7,254	5,250
% Change	5.65%	19.32%	-19.19%	-16.71%	-27.63%
Total Operating Income	11,906	12,073	12,023	12,148	12,899
% Change	-7.58%	1.40%	-0.41%	1.04%	6.18%
Operating Expenses	5,750	6,166	6,266	6,775	7,180
% Change	6.30%	7.25%	1.61%	8.12%	5.98%
Profit before provision	6,157	5,906	5,757	5,373	5,719
% Change	-17.63%	-4.06%	-2.52%	-6.67%	6.44%
Provisions for loan loss	2,877	3,154	3,412	3,564	1,782
% Change	-28.60%	9.66%	8.18%	4.46%	-50.02%
Pre-Tax Profit	3,280	2,752	2,345	1,809	3,938
% Change	-4.80%	-16.10%	-14.79%	-22.86%	117.68%
Tax	887	613	150	750	1,750
% Change	-45.10%	-30.91%	-75.53%	400.00%	133.33%
Net Profit after Tax	2,393	2,139	2,195	1,059	2,188
% Change	30.80%	-10.61%	2.62%	-51.76%	106.60%

Balance sheet

	2014	2015	2016	2017	2018
Loans & Advances	147,367	151,865	170,212	198,323	205,810
% Change	-4.05%	3.05%	12.08%	16.52%	3.78%
Total Assets	254,912	252,161	256,599	281,275	293,901
% Change	4.53%	-1.08%	1.76%	9.62%	4.49%
Total Deposits	204,838	194,825	197,934	199,014	197,518
% Change	1.45%	-4.89%	1.60%	0.55%	-0.75%
Borrowing from other Banks	7,669	10,442	12,930	22,087	33,945
% Change	98.77%	36.16%	23.82%	70.83%	53.68%
Total Liabilities	230,452	20,479	20,451	35,465	36,258
% Change	4.35%	-91.11%	-0.14%	73.42%	2.23%
Total Equity	24,461	26,415	25,285	24,708	26,181
% Change	6.21%	7.99%	-4.28%	-2.28%	5.96%

Source: Company Disclosures, ATC Research

Bangladesh Banking Sector Report

Key Financials & Ratios: PRIMEBANK

(Amounts are in BDT Mn except per share data and percentage)

Per Share Data (BDT)

	2014	2015	2016	2017	2018
EPS	2.32	2.08	1.94	0.94	1.93
BVPS	23.76	25.66	24.56	24.00	23.12
DPS	1.50	1.50	1.60	0.70	1.25

Key Ratios

	2014	2015	2016	2017	2018
Net Interest Margin	1.91%	0.86%	1.80%	2.42%	3.72%
Cost to Income	48.29%	51.08%	52.11%	55.77%	55.66%
NPLs/Gross Loans	7.61%	7.82%	5.96%	5.45%	6.16%
NPL coverage	56.42%	65.47%	71.90%	82.56%	65.37%
ROA	0.96%	0.84%	0.86%	0.39%	0.76%
ROE	10.08%	8.41%	8.49%	4.24%	8.60%
Effective Tax Rate	27.05%	22.27%	6.40%	41.46%	44.44%
Dividend Payout Ratio	64.53%	72.18%	82.47%	74.47%	64.77%
Tier 1 ratio	10.48%	10.00%	9.30%	10.01%	10.84%
CAR	12.71%	12.74%	12.45%	14.01%	17.04%

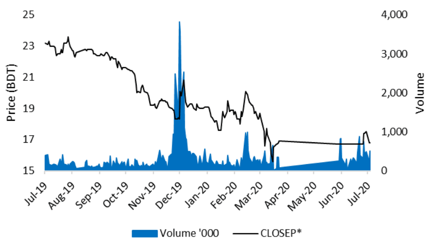
Source: Company Disclosures, ATC Research

Islami Bank (DSE: ISLAMIBANK)

Basic Information: ISLAMIBANK

Closing Price as on July 06, 2020 (BDT)	16.8
52-week Price Range (BDT)	15.3-23.8
Number of Shares Mn	1,610
Market Cap BDT Mn	27,048
Market Cap USD Mn	319
Average Daily Turnover Value BDT Mn	6
Financial Year End	December

Price Volume Chart: ISLAMIBANK



Source: DSE, ATC Research

Key Highlights

- Islami Bank Bangladesh Ltd was established in 1983 as a joint venture between several prominent Bangladeshi businessmen and a consortium of Middle Eastern financial institutions. It was the first Islamic bank in South Asia and introduced the concept of Islamic banking in Bangladesh.

- In 2017, the bank underwent a significant management change as a local conglomerate gained control of the board of directors and made a significant number of top-level management changes. Arastoo Khan, a bureaucrat from the Ministry of Finance was appointed as Chairman.

- These changes were not received well by its foreign sponsor-shareholders, with the Islamic Development Bank – which holds 7.5% of Islami Bank publicly airing its grievances with the new board. According to the IDB, the new group of local directors have wrested control away from the foreign shareholders who jointly own 52% of the outstanding shares of Islami bank. Since the management changes, there have been several allegations of loans being approved to a certain local conglomerate outside of normal procedures.

- Rescheduled loans have also increased 55% IN 2018, while NPLs have increased 30% in 2018 compared to 2017. Its capital adequacy ratio has declined to 12.17% on solo basis, which is below the regulatory minimum of 12.5%.

- Islami bank's loan portfolio is largely concentrated in the corporate sector. Net interest margin declined from 3.96% in 2013 to 3.62% in 2018, reflecting higher competition in the corporate lending segment. IBBL's cost-to-income ratio has seen a steady increase over the years, rising from 44% in 2013 to 49% in 2018. IBBL's return on assets decreased slightly from 0.67% in 2014 to 0.64% in 2018. IBBL's return on assets is relatively lower than other Bangladeshi banks.

- IBBL's large branch network, consisting of 384 branches has long been a key strategic strength compared to other banks, allowing it to establish a large deposit base across the country. However, Islami Bank's alternative delivery channels have lagged its competitors.

- IBBL's ownership structure includes 48.93% stake of the sponsors, 12.19% stake of the institutions, 23.54% foreign and rest of the 15.34% general public as at February 2020.

- IBBL has two capital market subsidiaries – Islami Bank Securities Limited and Islami Bank capital Management Limited.

Key Risks

- IBBL cannot depend only upon its deposit base going forward, and must urgently increase its service delivery avenues and seek to shift into higher margin lending products.

- Islami Bank had a mobile banking service called mCash, but it has not gained any traction in the mobile money market, which is dominated by BRAC Bank's bKash and Dutch Bangla Bank's Rocket. Its offerings in the agent banking, online banking and other alternative delivery channels do not stand out among the competition.

Key Financials & Ratios: ISLAMIBANK

(Amounts are in BDT Mn except per share data and percentage)

Income Statement

	2014	2015	2016	2017	2018
Interest Income	49,110	48,152	52,942	57,142	67,166
% Change	2.00%	-1.95%	9.95%	7.93%	17.54%
Interest Paid	30,650	28,738	29,345	31,383	37,999
% Change	-1.05%	-6.24%	2.11%	6.94%	21.08%
Net Interest Income	18,460	19,414	23,597	25,759	29,167
% Change	7.51%	5.17%	21.54%	9.16%	13.23%
Other operating income	8,937	8,400	8,615	9,798	10,430
% Change	12.44%	-6.01%	2.57%	13.72%	6.45%
Total Operating Income	27,397	27,814	32,212	35,556	39,597
% Change	9.07%	1.52%	15.81%	10.38%	11.36%
Operating Expenses	12,074	13,466	17,687	18,751	19,357
% Change	9.38%	11.53%	31.35%	6.02%	3.23%
Profit before provision	15,323	14,348	14,525	16,805	20,240
% Change	8.83%	-6.36%	1.24%	15.69%	20.44%
Provisions for loan loss	4,791	5,231	4,226	4,691	6,539
% Change	58.15%	9.19%	-19.22%	11.02%	39.37%
Pre-Tax Profit	10,532	9,117	10,299	12,113	13,701
% Change	-4.69%	-13.44%	12.97%	17.61%	13.11%
Tax	6,533	5,826	5,834	7,420	7,626
% Change	7.07%	-10.82%	0.14%	27.19%	2.77%
Net Profit after Tax	3,999	3,291	4,465	4,693	6,075
% Change	-19.19%	-17.71%	35.68%	5.11%	29.45%

Balance sheet

	2014	2015	2016	2017	2018
Loans & Advances	463,475	530,195	616,419	710,729	805,760
% Change	14.95%	14.40%	16.26%	15.30%	13.37%
Total Assets	652,422	725,821	797,700	899,960	997,430
% Change	19.22%	11.25%	9.90%	12.82%	10.83%
Total Deposits	560,696	615,359	681,352	755,022	822,573
% Change	18.51%	9.75%	10.72%	10.81%	8.95%
Borrowing from other Banks	7,658	17,766	16,921	29,229	37,814
% Change	#DIV/0!	132.01%	-4.76%	72.74%	29.37%
Total Liabilities	605,809	678,360	748,961	849,631	942,533
% Change	20.33%	11.98%	10.41%	13.44%	10.93%
Total Equity	46,613	47,461	48,739	50,329	54,896
% Change	6.52%	1.82%	2.69%	3.26%	9.07%

Source: Company Disclosures, ATC Research

Key Financials & Ratios: ISLAMIBANK

(Amounts are in BDT Mn except per share data and percentage)

Per Share Data (BDT)

	2014	2015	2016	2017	2018
EPS	2.48	2.04	2.78	3.06	3.92
BVPS	28.95	29.48	30.34	31.47	34.45
DPS	1.50	2.00	1.00	1.00	1.00

Key Ratios

	2014	2015	2016	2017	2018
Net Interest Margin	4.26%	3.91%	3.56%	3.40%	3.62%
Cost to Income	44.07%	48.42%	54.91%	52.74%	48.89%
NPLs/Gross Loans	4.92%	4.25%	3.83%	3.59%	4.12%
NPL coverage	74%	97%	108%	116%	105%
ROA	0.67%	0.48%	0.59%	0.55%	0.64%
ROE	8.85%	7.00%	9.28%	9.47%	11.55%
Effective Tax Rate	62.03%	63.90%	56.65%	61.26%	55.66%
Dividend Payout Ratio	60.39%	97.85%	35.97%	32.68%	25.51%
Tier 1 ratio	9.25%	9.42%	8.77%	8.75%	8.51%
CAR	12.83%	11.66%	10.84%	11.50%	12.17%

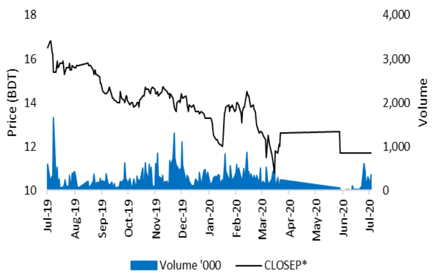
Source: Company Disclosures, ATC Research

United Commercial Bank Limited (DSE: UCB)

Basic Information: UCB

Closing Price as on July 06, 2020 (BDT)	11.7
52-week Price Range (BDT)	10.7-16.8
Number of Shares Mn	1,160
Market Cap BDT Mn	13,567
Market Cap USD Mn	160
Average Daily Turnover Value BDT Mn	4
Financial Year End	December

Price Volume Chart: UCB



Source: DSE, ATC Research

Key Highlights

- United Commercial Bank Limited (UCB) started its journey in 1983, now it has two subsidiaries named, UCB Capital Management Limited and UCB Investment Limited.
- UCB offers a wide range of banking products and financial services to corporate, SME and retail customers through a variety of delivery channels and through its subsidiary companies. With a vast network of 187 branches along with Off-shore banking unit, mobile financial service (UCash), Upay, Agent Banking, priority banking (UCB Imperial), remittance services, credit card business.
- With a view to bringing the unbanked people to the Banking facilities, UCB started full-fledged operation of Mobile Banking Services under the brand name "UCash" in the year 2013. Presently, the Bank has a substantial market share in Mobile Banking Services of Bangladesh which is growing further over the time. The Bank has dedicated agents for providing the Mobile Banking Services countrywide.
- UCB's ownership structure includes 36.67% stake of the sponsors, 0.81% stake of the government, 19.13% stake of the institutions, 1.28% foreign and rest of the 42.11% general public as at February 2020.

Key Risks

- UCB mainly focuses on corporate lending. Out of total loan portfolio, 65% derives from corporates. But increasing NPL implies that it has poor governance issue. UCB has to work on their governance and asset quality.

Key Financials & Ratios: UCB

(Amounts are in BDT Mn except per share data and percentage)

Income Statement

	2014	2015	2016	2017	2018
Interest Income	22,361	22,435	20,832	21,034	25,267
% Change	-2.78%	0.33%	-7.14%	0.97%	20.12%
Interest Paid	14,430	14,711	12,194	12,087	16,024
% Change	-9.36%	1.95%	-17.11%	-0.87%	32.57%
Net Interest Income	7,931	7,723	8,638	8,947	9,242
% Change	12.02%	-2.61%	11.84%	3.57%	3.30%
Other operating income	7,279	7,825	7,704	8,435	9,318
% Change	36.84%	7.50%	-1.54%	9.50%	10.46%
Total Operating Income	15,209	15,548	16,342	17,382	18,560
% Change	22.67%	2.23%	5.11%	6.37%	6.78%
Operating Expenses	6,490	7,146	8,755	9,431	10,902
% Change	23.10%	10.10%	22.52%	7.72%	15.60%
Profit before provision	8,719	8,402	7,587	7,951	7,658
% Change	22.35%	-3.64%	-9.70%	4.80%	-3.69%
Provisions for loan loss	1,884	1,150	2,397	2,490	2,750
% Change	52.04%	-38.95%	108.48%	3.86%	10.45%
Pre-Tax Profit	6,836	7,252	5,190	5,461	4,908
% Change	16.11%	6.10%	-28.44%	5.23%	-10.14%
Tax	3,167	3,275	2,561	3,028	2,381
% Change	12.23%	3.41%	-21.79%	18.20%	-21.35%
Net Profit after Tax	3,669	3,977	2,629	2,434	2,527
% Change	19.68%	8.41%	-33.91%	-7.41%	3.81%

Balance sheet

	2014	2015	2016	2017	2018
Loans & Advances	174,146	197,414	223,697	261,003	294,672
% Change	17.14%	13.36%	13.31%	16.68%	12.90%
Total Assets	266,101	293,847	329,721	363,315	401,076
% Change	17.57%	10.43%	12.21%	10.19%	10.39%
Total Deposits	211,072	220,866	257,704	278,195	297,173
% Change	14.16%	4.64%	16.68%	7.95%	6.82%
Borrowing from other Banks	10,510	18,744	25,565	33,846	44,694
% Change	190.57%	78.33%	36.39%	32.39%	32.05%
Total Liabilities	243,610	28,648	20,695	24,763	31,209
% Change	18.36%	-88.24%	-27.76%	19.65%	26.03%
Total Equity	22,493	25,589	25,756	26,510	28,000
% Change	9.69%	13.77%	0.65%	2.93%	5.62%

Source: Company Disclosures, ATC Research

Key Financials & Ratios: UCB

(Amounts are in BDT Mn except per share data and percentage)

Per Share Data (BDT)

	2014	2015	2016	2017	2018
EPS	4.39	3.96	2.49	2.31	2.40
BVPS	26.89	25.49	24.43	25.15	26.56
DPS	1.00	2.00	1.50	1.00	0.00

Key Ratios

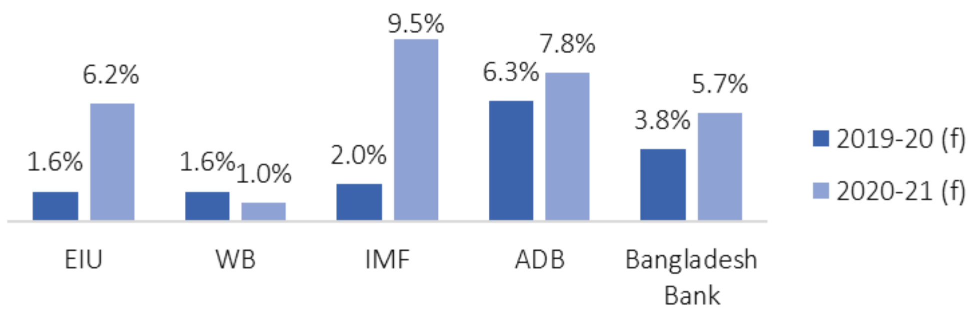
	2014	2015	2016	2017	2018
Net Interest Margin	4.91%	4.16%	3.56%	3.22%	3.14%
Cost to Income	42.67%	45.96%	53.57%	54.26%	58.74%
NPLs/Gross Loans	4.62%	5.23%	8.01%	7.38%	6.79%
NPL coverage	45.72%	42.65%	32.93%	38.50%	43.29%
ROA	1.49%	1.42%	0.84%	0.70%	0.66%
ROE	17.06%	16.54%	10.24%	9.31%	9.27%
Effective Tax Rate	46.33%	45.16%	49.35%	55.43%	48.52%
Dividend Payout Ratio	22.80%	50.48%	60.24%	43.29%	0.00%
Tier 1 ratio	7.92%	8.20%	7.82%	7.71%	7.43%
CAR	10.56%	12.16%	11.39%	12.07%	12.77%

Source: Company Disclosures, ATC Research

Appendix 1– Bangladesh Macroeconomic Outlook

Bangladesh's GDP growth to be nearly 2% for 2019-20—The World Bank and IMF have both forecast Bangladesh GDP growth for 2019-20 to be 1.6% and 2% respectively. Before the pandemic, WB had forecast Bangladesh GDP growth to be 7.20%. Bangladesh Bank is more optimistic, forecasting GDP growth to be 3.8% in the 2019-20 fiscal year before recovering to 5.7% in 2020-21. The actual GDP growth rate for 2020-21 is difficult to predict as a lot depends on the outcome of the pandemic. If a vaccine is found relatively quickly, then the world economy can start the recovery process in 2021-22. Global supply chains are expected to be re-routed to reduce reliance on China. Bangladesh could potentially benefit if the world economy recovers and foreign investors choose Bangladesh to diversify their supply chains away from China. However, WB thinks prospects for a V-shaped recovery are slim and projects 1% GDP growth in 2020-21 fiscal.

Figure : Bangladesh GDP Growth Forecast



Source: Published Source and ATC Research

Table : Bangladesh Bank's primary projections of Economic Indicators

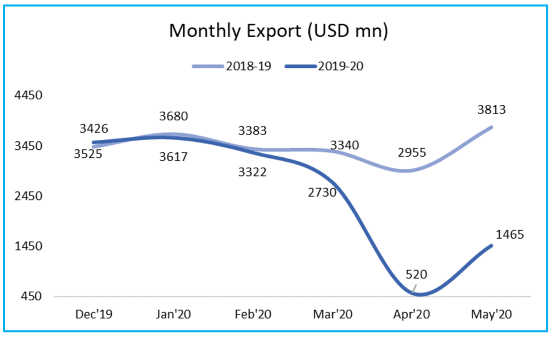
Indicators	FY19 (Estimated)	FY20 (Projected)	FY21 (Projected)	FY22 (Projected)
GDP	8.15%	3.8%	5.7%	8.0%
Export	10.1%	-17.9%	0.8%	16.1%
Import	1.8%	-8.8%	4.8%	2.0%
C/A Balance (& of GDP)	-1.7%	-2.2%	-3.5%	-1.8%
Private Sector Credit Growth	11.3%	8.5%	11.9%	12.3%

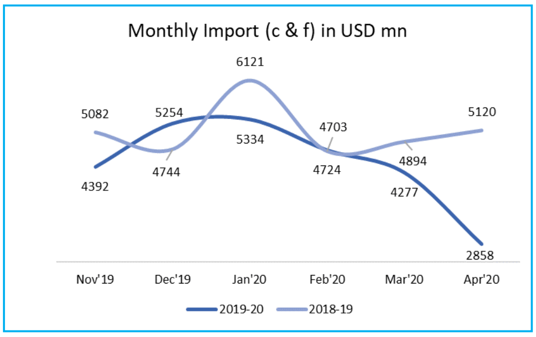
Source: Bangladesh Bank

- *For the last couple of years Bangladesh maintained an impressive GDP growth rate. However, in the face of the global Covid 19 pandemic, GDP growth is expected to slow down significantly.*
- *This pandemic has already started to affect both the supply and demand side of the economy. The International Monetary Fund (IMF) recently forecast the "Great Lockdown" recession will see - 3% GDP growth for the global economy in 2020, but now they think even this the gloomy outlook could be too positive. The coronavirus pandemic is set to leave 170 countries with lower GDP per capita by the end of the year.*
- *Due to Coronavirus, Bangladesh's economy has been losing BDT 33 billion every day from its service and agriculture sectors during the nationwide shutdown over the coronavirus outbreak, a new study says. The country incurred losses totaling an estimated BDT 1 trillion in March. The economic losses may exceed BDT 2 trillion, almost 9% of the GDP, if the country remains under lockdown until the end of May. Degrowth in GDP will cause a liquidity crunch in the economy which will hit the banking sector directly.*

Appendix 1– Bangladesh Macroeconomic Outlook

Export & Import Outlook

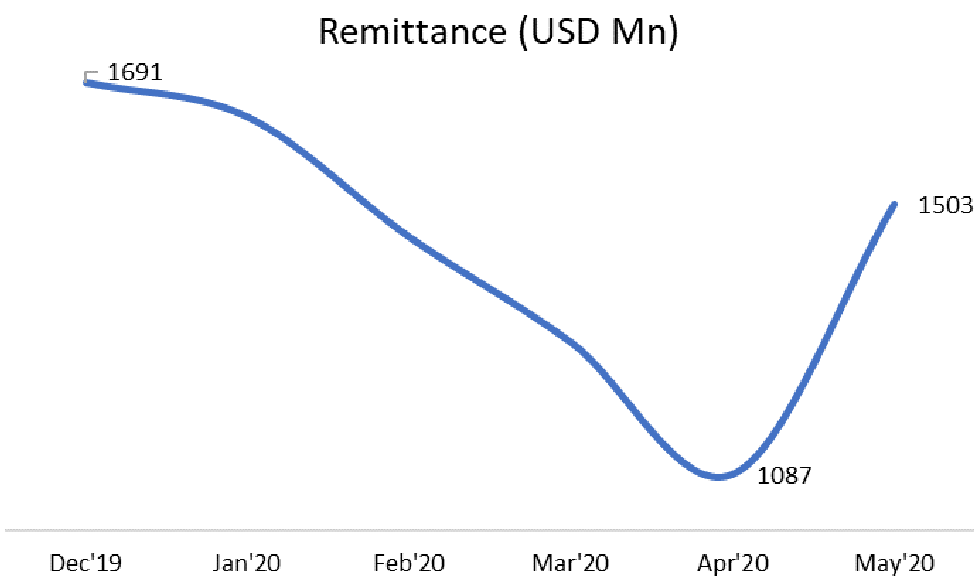




Source: Bangladesh Bank

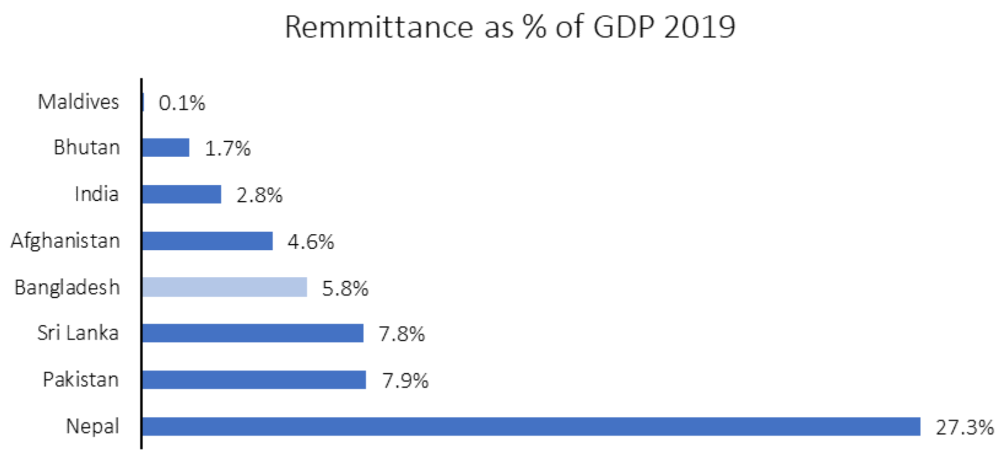
- Export bounced back on May by 182% as export earnings from RMG recovered when some of the orders resumed. But overall export and import on April declined by 82% and 33% respectively.
- Imports and exports declined by over 12% and 26% respectively through the Chattogram port in March. This port accounts for almost 92% of Bangladesh's import-export activities.
- This is due to the damaging effects of the novel coronavirus around the world. In February, too, imports had fallen by 16% from January, according to analysis by the customs value data of imported and exported goods available at the port city's customs house. In March, the country imported goods worth BDT 31,617 crore as per the customs value, about BDT 4,500 crore less than that in the previous month. Export earnings saw a steep 83% fall year-on-year in April due to halted production and order cancellations in the apparel sector brought on by a countrywide shutdown and the global economic fallout from Covid-19.
- However, this overall situation will reduce the banks commission and fee income as well as corresponding asset growth like import loan, discounting products and CAPEX loan etc.

Remittance Outlook



Source: Bangladesh Bank

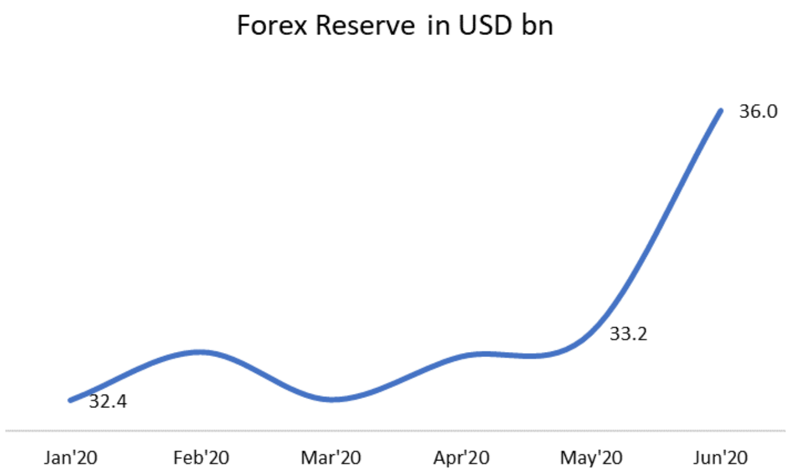
Appendix 1– Bangladesh Macroeconomic Outlook



Source: Bangladesh Bank

- Remittance in one of the major sources of foreign exchange reserve. For last couple of years, Bangladesh passed a golden era in terms of remittance.
- On May remittance showed some improvements by 38% thanks to the occasion of Eid-ul-Fitr. Inflow of remittance dropped to a three-year low to $1.08 billion in April following coronavirus outbreak in different parts of the world. Remittance inflow in April of this year was the lowest since May of 2017 when the country received $1.077 billion in remittance. It dropped nearly about 12% in March.
- Remittance inflow which usually sees a jump before any festival saw negative growth during Ramadan as a large number of migrant workers lost their jobs under the impact of the Covid-19 outbreak. In the first 14 days of May, remittance growth fell by 8.15% year-on-year as expatriates sent less money home even before Eid.
- Banking industry will face a direct hit on fee-based income due to the decreasing remittance.

Forex reserve Outlook



Source: Bangladesh Bank

- The country's foreign exchange (forex) reserve reached at US$36 billion mark on June following lower import payment pressure on the economy due to the worldwide spread of coronavirus pandemic and increased remittance due to the occasion of Eid-ul-fitr.
- It was $32.55 billion on March 24. According to BB, higher gold prices in the global market along with revaluation gain have helped to increase the country's forex reserve recently.

Appendix 2– Summary of Stimulus Package by Bangladesh Gov.

Sl. No.	Title	Size (in BDT bn)	Fund Duration	Targeted Beneficiary/ Purpose	Type of Facility	Interest Rate for Banks	Interest Rate/ Service Charges for Beneficiary	Source of Funds	Facility Duration
1	Package for Export Oriented Industries	50	June 2020	Payment of Workers' Wages for 3 months (max.)	Loan for Workers' Wages	-	2% (Service Charge)	Fiscal Budget	2 years
2	Package for COVID-19 affected Industries and Service Sector	300	3 years	Affected business (Except CMSME) of Industry and Service Sector for COVID-19	Working Capital Finance	4.5% (Interest Subsidy from Govt.)	9%	Own Source of Bank	1 year (max.)
3	Package for COVID-19 affected CMSMEs	200	3 years	Affected CMSMEs for COVID-19	Working Capital Finance	5% (Interest Subsidy from Govt.)	9%	Own Source of Bank	1 year (max.)
4	Package for manufacturer exorters for raw material importers	128	-	To facilitate raw materials imports under back-to-back LCs for manufacturer exporters under EDF	Working Capital Finance	1% (Interest Subsidy from BB)	2%	BB	-
5	Special Incentive Refinance Scheme for Agriculture Sector	50	September 2020	All working capital based Agriculture Sectors except crop and grains	Working Capital Finance	1%	4%	BB	18 months
6	Pre-Shipment Credit Refinance Scheme	50	3 years	Export oriented industries	Pre-shipment credit	3%	6%	BB	4 months
7	Refinance Scheme-2020 for Low-income people, Farmers and Micro/ Marginal Business	30	3 years	low-income people, farmers and Micro/ Marginal Businesses (Ultra poor and under pricileged people)	Micro Finance	1%	9% (max.) [3.5% for intermediary MFIs]	BB	1 year (max.) for micro finance 2 years (max.) for micro business
8	Refinance Scheme for Working Capital Finance and Large industries and Service Sector	150	3 years	Affected businesses (Except CMSME) of Industry and Service Sector for COVID-19	Working Capital Finance	9%	9%	BB	1 year (max.)
9	Package for to assist migrant workers, unemployed youth and rural population	20	-	Migrant workers, unemployed youth and rural population	Loan for the vulnerable groups	-	-	Fiscal Budget	-

Source: Newspaper & ATC Research

Appendix 3– Summary of Bangladesh Bank's Circular in Recent Times

Circular regarding Cash Reserve Ratio Reduction:

	23-Jun-14	3-Apr-18	23-Mar-20	9-Apr-20
Policy rate for Daily basis (in %)	6.00%	5.00%	4.50%	3.50%
+Increase/ (decrease) (in bps)	-	(100)	(50)	(100)
Policy rate for Bi-weekly basis (in %)	6.50%	5.50%	5.00%	4.00%
+Increase/ (decrease) (in bps)	-	(100)	(50)	(100)

Source: Bangladesh Bank

Circular regarding Repo Rates:

	14-Jan-16	3-Apr-18	23-Mar-20	9-Apr-20
REPO (in %)	6.75%	6.00%	5.75%	5.25%
+Increase/ (decrease) (in bps)	-	(75)	(25)	(50)
Reverse REPO (in %)	4.75%	4.75%	4.75%	4.75%
+Increase/ (decrease) (in bps)	-	+0	+0	+0

Source: Bangladesh Bank

Circular regarding Advance-Deposit Ratio (ADR):

	7-Mar-16	30-Jan-18	17-Sep-19
Max limit for Conventional Banks (in %)	85.00%	83.50%	85.00%
+Increase/ (decrease) (in bps)	-	(150)	+150
Max limit for Islamic Banks (in %)	90.00%	89.00%	90.00%
+Increase/ (decrease) (in bps)	-	(100)	+100

Source: Bangladesh Bank

Circular regarding One-time Exit:

	16-May-19
Cut-off date to consider a bad loan	31-Dec-18
Initial down payment	2.0%
Repayment timeline extension by	10 years
Grace period (including timeline)	1 year
max interest rate cap (in %)	9.0%
Required provisioning for banks	1.0%

Source: Bangladesh Bank

Circular regarding Loan Classification :

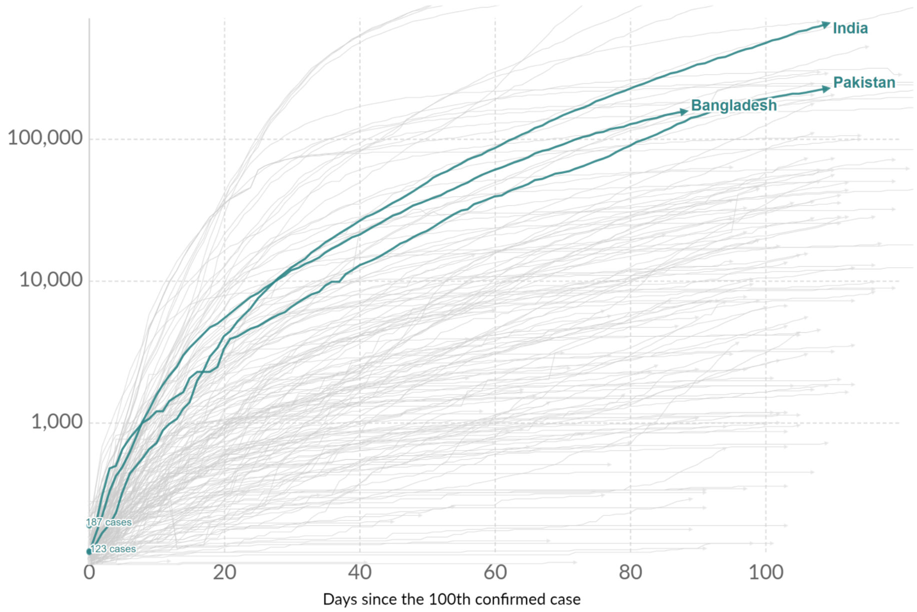
Loan Classification	Overdue Period		Total Delinquency Period	Time extended by
	Previous (23-Sep-12)	New (21-Apr-19)		
Overdue (Fixed-loans only)	Day 0	6 months	6 months	6 months
Sub-standard (All Loan caterories)	3-6 months	3-9 months	9-15 months	3 months
Doubtful (All Loan caterories)	6-9 months	9-12 months	15-18 months	3 months
Bad/ loss (All Loan caterories)	9 months or beyond	12 months or beyond	18 months or beyond	3 months

Source: Bangladesh Bank

Appendix 4– Current Covid-19 scenario

Figure: Total confirmed COVID-19 cases (as of July 04, 2020)

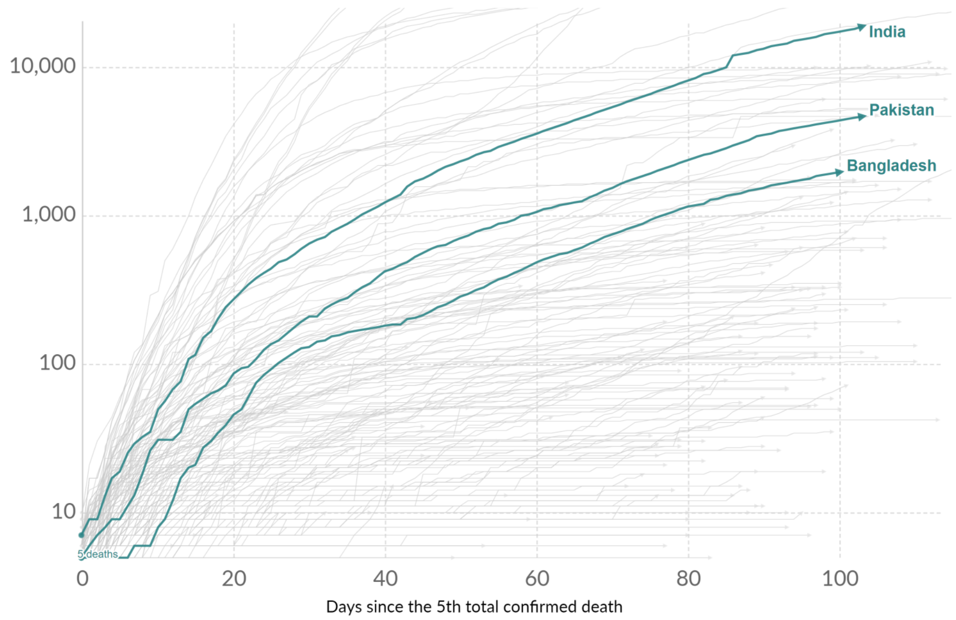
The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing



Source: European CDC

Figure: Total confirmed COVID-19 deaths (as of July 04, 2020)

Limited testing and challenges in the attribution of the cases of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19



Source: European CDC

Bangladesh Banking Sector Report

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