#### SINGAPORE **SHANGHAI 2.46**% **3.40% 5.25**% 17,002.04 2.789.25

**CURRENCIES** 83.95 102.62 11.80 **SELL TK** 84.95 106.42 12.41



DHAKA TUESDAY MARCH 17, 2020, CHAITRA 3, 1426 BS o starbusiness@thedailystar.net

## Banks meet Basel III terms. But things are not as rosy as it seems. coronavirus fears reign supreme

AKM ZAMIR UDDIN

Most of the banks in Bangladesh have implemented the Basel III guidelines within the deadline of 2019

Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09 with the view to improving regulation, supervision and risk management within the banking sector.

As per a roadmap issued by the Bangladesh Bank in 2014, banks were capital adequacy ratio (CAR) to 12.5 11.875 per cent in 2018 and 12.5 per

permission on a case-to-case basis, helping the banks to improve their capital base.

Last year, a record Tk 50,186 crore was rescheduled.

Despite that, 15 banks including the eight state-run lenders failed to implement the Basel III guidelines on

The central bank planned to raise the CAR to 10 per cent by 2015, and from there to 10.625 per cent the following year.

From there, the CAR would be supposed to raise their minimum raised to 11.25 per cent in 2017, to

of defaulted loans by giving special 94,313 crore at the end of 2019, up 0.42 per cent year-on-year.

"This has helped banks fortify their capital base. But the regulatory requirement has been fulfilled by way of a window dressing of banks' financial health in order to paint a rosy picture.

Risk-weighted assets decline when defaulted loans turn into unclassified loans, which narrows the requirement for capital, he said.

Besides, the requirement for provisioning also comes down due to the unclassified loans, giving a boost to the capital base as well, said Mansur, also a former official of the International Monetary Fund.

Rescheduled loans have frequently entered into the defaulted zone in recent years, creating a worrisome situation in the financial sector as a

The BB data showed that Tk 13,284 crore of the soured loans, regularised last year, has become defaulted. This means nearly one-fourth of the rescheduled loans turned bad again.

Banks will have to recover their defaulted loans and ensure corporate governance to improve their capital base, said Mansur, also the chairman of Brac Bank.

If they fail to do so, the banking sector will be mired in large capital shortfall in the days ahead, he added.

Khondker Ibrahim Khaled, a former central bank deputy governor, echoed the same.

The rampant rescheduling facility enjoyed by banks has helped raise their capital.

"But some banks including state run lenders even failed to increase their capital despite enjoying the facilities," Khaled added. The banking sector, however, did

not raise their CAR as per the Basel III guidelines because of the failure of the As of December last year, banks

maintained a CAR of 11.57 per cent, which is much lower than the The CAR of foreign banks is 24.45

per cent, private banks' 13.62 per

This is a good sign that the majority of the banks fulfilled the Basel III requirement, said Md Arfan Ali,

managing director of Bank Asia. All banks had taken a master plan five years ago to implement the Basel III, which helped them to strengthen their capital base.

Some banks had also issued bonds The capital requirement is based on to mobilise their fund in recent period, which had a positive impact on their capital.

Many foreign banks shy away from doing business with their counterparts if their capital base is not strengthened in line with the global requirement, according to Ali.

"My bank has selected good clients, who have managed good rating from credit rating agencies, for the disbursement of loans. Banks' requirement of capital is reduced if strong rated clients can be managed."

Banks will be able to calculate a lower amount of risk-weighted assets if they disburse loans to the high-rated clients, Ali said.

He also acknowledged that the lower requirement for provisioning against the default loans had also helped lenders strengthen their capital base last year.

## Stocks can't stop falling as

STAR BUSINESS REPORT

When it rains it pours, it is often said, and the condition of the Dhaka Stock Exchange is exactly that.

The bourse has been on the slide for the best part of the past six months now. Just when it was propping up -- be it organically or through intervention -- came the blow of coronavirus pandemic that is bringing the world down to its knees.

Yesterday, shares on the Dhaka Stock Exchange tumbled for the third straight day, plummeting nearly 5 per cent as investors rushed to cut losses

fearing the market may sink further as the coronavirus reigned supreme.

yesterday government announced that three more persons were diagnosed with the COVID-19 in Bangladesh, taking the number of active cases to five.

All educational institutions would be closed from today through March 31 as the government moved to contain the spread of the deadly virus.

DSEX, the key index of the country's premier bourse, lost 196.75 points, 4.96 per cent, to close at 3,772.55 yesterday, the lowest since October 21,

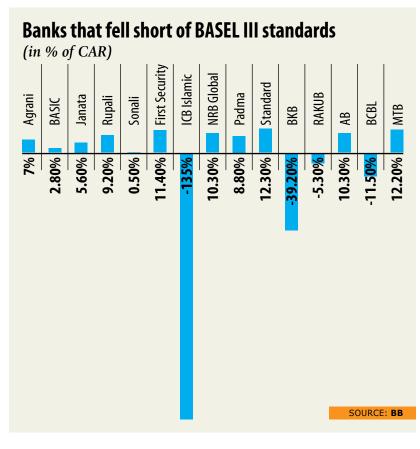
Since March 8, when government said three people tested positive for coronavirus in the country's maiden cases, the index shed 612 points, or 13.95 per cent.

During the time, about Tk 37,853 crore, or 11.24 per cent, eroded from the DSE as market capitalisation.

Yesterday's fall brought down the market capitalisation to Tk 298,893 crore, the lowest since May 2, 2016.

Even before the coronavirus outbreak, which was first reported by China in December last year, the index had been sluggish for a few months.

**READ MORE ON B3** 



per cent against their risk-weighted cent in 2019. assets by December 2019 from the then 10 per cent.

deadline, according to data from the central bank. On the surface, it seems like a

stroke of positive development from the sector that often comes under fire for its questionable corporate governance. But experts cautioned against

rejoicing: the feat was achieved through artificial means, so the banks' capital bases are not truly healthy. Banks have raised their capital

base by riding on the relaxed loan rescheduling policy offered by the central bank. The policy allowed defaulters to

reschedule their classified loans with the outstanding amount instead of the existing 10-50 per cent.

banks to reschedule a large amount year due to the central bank's relaxed



The CAR is a measurement of a bank's available capital expressed as a regulatory limit of 12.50 per cent. Of the 58 banks, 43 have met the percentage of its risk-weighted credit global regulatory standard within the exposures, which is used to protect depositors and promote the stability cent and state banks' 4.99 per cent, and efficiency of banks around the according to data from the BB.

> The ratio is calculated by dividing a bank's capital by its risk-weighted Risk-weighted assets are used to

> determine the minimum amount of capital that must be held by banks and other institutions to reduce risks of insolvency.

a risk assessment for each type of bank For instance, a loan that is secured

by a letter of credit is considered to be riskier and requires more capital than a down payment of just 2 per cent of a mortgage loan that is secured with collateral. Defaulted loans had not increased

The central bank also allowed too much in the banking sector last rescheduling

facility along with giving special permission regularising default loans, said Ahsan H Mansur, executive director of the Policy

Research Institute. Defaulted loans stood at Tk

# যতকাল রবে পদা, মেঘনা পৌরী, যমুনা বহুমান তত্তকাল রবে কীর্তি তোমার एथ मूजितूत तरमान। জাতির জনক বঙ্গবন্ধু শেখ মুজিবুর রহমানের শততম জন্ম দিবসে বিনম্র শ্রদ্ধা

### Postal savings return to old interest rates

STAR BUSINESS REPORT

The government yesterday restored the old rate of interest rates on ordinary and fixed deposits in Post Office Savings Bank, according to a notice from the finance ministry.

From today, savers at the postal saving bank will get 11.28 per cent on their three-year term deposit and 7.5 per cent on ordinary deposits, up from the reduced rates of 6 per cent and 5 per cent respectively.

The reinstatement comes less than a week after the government initiated the automation of ordinary and fixed deposit accounts of postal savings bank to ensure transparency and prevent affluent people from abusing the high interest-bearing tools designed for marginal and lowincome groups.

In a sudden move in the middle of last month, the Internal Resources Division under the finance ministry slashed the interest rates on deposits, sparking criticism and outcry from various quarters as marginal and lowincome people from rural and suburban areas mostly park their savings in postal savings bank because of proximity and ease in maintaining accounts.

READ MORE ON B3



Eastern Bank Ltd. 16230

