

Constraints and Challenges of Financial Institutions in Bangladesh: A Possible Way Out

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Abstract

For a country like Bangladesh, ensuring financial access to all level of business, entrepreneurship and individual should be a critical priority. In the development of any country, a well trusted financial system is a prerequisite. Non-Banking Financial Institutions (NBFIs) were established for meeting the special and growing financial needs of the country. Only a few of NBFIs are running their operation effectively. One of the listed NBFIs, People's Leasing, are currently on liquidation due to the collapse of its financial condition in the last several years. The NBFIs sector is new and small as compared to Banks, the event of liquidation is the first event of liquidation in this sector which made this sector vulnerable. Many more NBFIs are already at stake, which could be subject to liquidation or similar types of actions in the near future. This paper examined all the listed NBFIs and found that more NBFIs may face the same types of regulatory risk as like as the PLFSL in the near future. Finding alternative sources of funds should be a priority of this industry as the higher cost of funds continues to rise over the years. In 2018, the cost of weighted average fund of NBFIs was 70% upper than Banks. The Non-performing Loan (NPL) of NBFIs is continuously increasing. At the end of 2018, their NPL raised at 7.77% of their overall Leases, loans and advances. This paper shows that the retained earnings of listed NBFIs industry, is in decreasing trend over the last five years, their retained earnings goes down to negative in 2017 at 1.68 billion and at the end of 2018 it was negative 2.90 billion. After the liquidation of PLFSL, a systemic risk was evolved in the industry. Investors and depositors are confused about whether to keep their investment or not. Annual growth of deposit falls to 5.86 % in 2018. This sector also experienced a negative trend of NIM from the last five years. Also, some NBFIs are experiencing negative Interest rate spread (IRS). NBFIs are engaged in direct competition with the banks now, specially, after banks entry in the leasing activity. NBFIs firstly come into seen with the leasing products but currently the overall leasing activities of NBFIs industry is at the level of 13.6 %. The annual growth of total asset was not satisfactory due to the fall of the growth rate of their asset in 2018. Total asset as compared to GDP was also reduced to 2.75% (2018)

from 3% of 2017. This sector may be able to act significantly in our financial sector if we can handle the current situation. If this sector is given appropriate support for overcoming their condition, this sector can also be a sustainable sector.

Keywords: Financial Sector, Financial Institutions, Non-Banking Financial Institutions, Bangladesh

1. Introduction

1.1 Background of the Study

Recent events of some Financial Institutions (FIs) in Bangladesh triggered this study of NBFIs sector. NBFIs are tremendously facing competition with Banks because whatever the activities NBFIs are doing is already been delegated to the banks. Especially, NBFIs come into seen in the real world as leasing finance companies at the beginning and then come up with multiproduct. Now, the leasing activities is also being delegated to the Banks therefore given the higher cost of fund it difficult for NBFIs to compete with Banks. The central bank has directed to shut People's Leasing due to downturn of its financial sustainability. This liquidation might give a feeling of confidence or distrust to the depositors. This can lead to a lack of confidence of depositors and investors of this industry to trust any of the NBFIs in Bangladesh. In this situation, other NBFIs are affected by the decision of liquidation. Depositors are at stake whether they should keep their deposit or not. Most of the NBFIs are in this kind of difficulties, the good one is also facing the difficulties because of lack of confidence of the depositors upon this financial institution collapse. This issue of depositors' distrust can hard hit the whole industry including the good one. Another important factor which made this industry more vulnerable is their investment in capital market. Given the capital market nose diving in last one year the NBFIs are their subsidiaries are at stake. It is unknown to us at this moment that why the authority choose liquidation as the best alternative whereas we know there are several alternatives available. News says many other NBFIs are in danger zone too. Central Bank is also investigating financial scandals of this industry which also a motivating factor to go for this study. Therefore, this paper tried to dig deep into the matter whether the other listed NBFIs can survive in the industry or not. In Bangladesh, presently 34 NBFIs are working with a network of 262 branches (As on 30 June 2018) in Bangladesh. Listed NBFIs are having a shareholding position of 30.67% with the General public, 22.03% with Institutional shareholders, 1.42% with Government, Foreign investors hold 3.54%, another 42.34% of shares are with the sponsors or directors.

1.2 Objectives of the Study

The central purpose of this study is to search the constraints and challenges of FIs listed in Bangladesh. This paper aimed at identifying the factors that leads NBFIs to distress, or other constrains for which NBFIs can be a subject to liquidation or restructuring or reason for choosing liquidation as best alternative from others.

Specifically, the objectives are as follows

- a. To identify the constraints or difficulties for which NBFIs might face liquidation or acquired by good one or required for restructuring.
- b. To understand the circumstance at which NBFIs might be considered for converting into Banks.

1.3 Limitations of the Study

We have tried our best to make this paper more valuable but like other papers we also faced some limitations during this study. The first limitation is limited access in meeting with all the listed NBFIs officials and also in some case cannot take the proper information due to their time limit. Also, we were not able to meet any regulators of NBFIs which could add some values to our paper. Furthermore, this study is based on the published information by the institution, we were not able to get any information internally, such as information regarding rescheduling of lease, loan and advances. Most of the researches done in this field were discussed the success part of this sector whereas this paper focused at the failure of this industry.

1. Literature Review

NBFIs, with their services secured a competitive position in the market. NBFIs was successful in placing them in a position where they can meet the growing financial needs. NBFIs have a role of interest in our capital market and other sectors including real estate. Most of the NBFIs have are operating merchant banking activities with separately established subsidiaries. Bangladesh Bank has the supreme authority to set rules and procedures for operating NBFIs in Bangladesh. Though NBFIs is not as old as Banking companies, over time NBFIs become an essential segment of our financial system.

In 1992, a Non-Banking Financial Institution, named Bangladesh Commerce and Investment Limited turned out to be a strong candidate liquidation because of the severe crisis of liquidity. But this was not liquidated for protecting the interest of this sector and the depositors. It was allowed to convert into a scheduled bank, now known as the Bangladesh Commerce Bank. The PLFSL which encountered liquidity crunch like that of BCIL is not considered for conversion into a bank.

Also, in the case of ICB Islamic Bank Bangladesh Bank (BB) has done nothing. Now ICB Islamic Bank is in ICU with life-support, it seems liquidation or acquisition could be a better solution rather running the Bank. FIs are having significant hesitancy related to business continuity assumption due to aggregate loss of Tk. 18.23 billion and negative equity of Tk. 10.95 billion as at closing December 2018.

It is unknown to us that when on the same issue of trust, confidence of depositors and financial failure, Bank was not liquidated, now what makes BB to decide to liquidate a Non-Banking financial Institution. We will see whether this step can protect the interest of the entire financial sector and the depositors. Sources from BB states that Bangladesh Industrial Finance Company Limited (BIFC), People's Leasing and First Finance Ltd are running out of capacity for returning depositors money

Islam & Osman (2011) examined the Malaysian market and found a long-run relationship of NBFIs with per capital real GDP. That study revealed a committed link with real employment. The result of their empirical study showed that in financial sector, NBFIs is a vital component through which financial resource can flow efficaciously .

According to Fadzlan Sufian (2007) the health of capital market is increase with the development of Non-Banking Financial Institutions (NBFIs). Sufian added NBFIs can lead the economy forward in the development of productive and efficient capital market.

According to a paper from 2007 conducted by N & Jon accounting practices and disclosures quality of leasing companies. Hossain and Shahiduzzaman (2005) focuses on how important this sector is in the economic development of Bangladesh.

With regard to the literature the number of studies available are finite quantity on Non-Banking Financial Institutions (NBFIs). However, none of the mentioned studies focused on constraints and challenges, the NBFIs in Bangladesh is facing to survive in the industry.

3. Methodology

3.1 Source and Description of Data

This study is based on the published data of the listed non-banks financial institutions (NBFIs) in Bangladesh. The main sources of data are the audited financial reports of FIs published in their annual reports. The cumulative measures of financial data will be used for getting a preview of NBFIs industry. This study will be based on all listed NBFIs, the period covering from 2014-2018 for this study. The ICB contributes significantly to the development of the capital market in Bangladesh, it has been left out of the purview of the present paper as the same has not been created or is not under direct control of Bangladesh Bank.

3.2 Techniques of Analysis

3.2.1 Meta-Analysis

In this study, the meta-analysis approach is used. All the published papers, news, articles were considered for this analysis. This approach helped to achieve the objective of finding constraints or difficulties NBFIs are facing for which liquidation, acquisition or restructuring of NBFIs may take place. Also, this paper tried to investigate how the factor of trust and confidence are affecting depositors and investor of NBFIs.

3.2.2 Consultation with Stakeholders

Consultation with stakeholders are a valuable part of this report. As a part of this study some stakeholders of this industry were interviewed. We applied this knowledge over this project paper. Stakeholders were interviewed including Top Management of NBFIs, officials NBFIs, Borrowers, Lenders, Depositors, Auditors and other stakeholders for gaining the primary information and their ideas regarding the industry's constraints and challenges.

3.2.3 Numerical & Graphical Analysis

Several numerical & graphical analyses were done to identify factors that leads NBFIs to distress, factor leading to other constrains which can be a cause of liquidation, and reasons for liquidation. As a part of this Cost of fund was analyzed for looking into how NBFIs are talking the challenges like Higher cost of fund. This paper also shows how NBFIs are securing them into the industry, analysis was performed in finding lending rate, Interest rate spread, loan productivity, core profitability. Individual Return on asset was also analyzed to view which NBFIs are efficiently managing their assets and which of NBFIs fails to manage their asset efficiently. As a part of achieving the objective, we have drawn our attention into Asset quality of NBFIs. In order to do that we investigated into the classification of Lease, loans and advances and rate of Non-Performing Loan (NPL) of individual NBFIs and overall sectoral NPL. Also, while looking at NPL we were focused on whether NBFIs are maintaining their required provision or not. News says,

some of the NBFIs have no capacity to return clients' money. As a part of investigating this we considered focusing on individual and overall asset liability. We also investigated the amount of available funds liquidity timing of this industry. As a part we also looked into the SLR and CRR requirements of NBFIs by Bangladesh Bank. This paper also examined how NBFIs are diversifying their product for tackling their competition with Banks. For this we analyzed the break ups of Lease, loans and advances, which represents their primary business funds. Also, the geographical pattern of investment has been seen for identifying whether there is any new market available for NBFIs. As a way out we looked into the parameters like how of Lease, loan and Advance and Total assets are growing annually with the growing financial industry. Further we will look at the Compounding Growth of the same. In addition, we focused on the total asset of NBFIs as a percentage (%) of GDP.

4. Analysis and Findings

4.1 Constraints of NBFIs

After completing the analysis of financial statements of listed NBFIs and the interviewing some officials, managers, and stakeholders of NBFIs some facts have been revealed regarding the constraints and challenges faced by NBFIs.

4.1.1 Cost of Weighted Average Fund

Weighted average cost of weighted average fund of FIs are more than the Bank. In 2014 it was 53% higher than the Bank, 51% in 2015, 50% in 2016, 48% in 2017 and the highest 70% in the year 2018. This higher cost of fund is a big constraint of NBFIs.

Year	WACOF (%)		Difference (NBFIs-Bank)	% Change from Bank COF
	NBFIs	Banks		
2014	11.06	7.25	3.81	53%
2015	9.56	6.34	3.22	51%
2016	7.82	5.22	2.6	50%
2017	7.29	4.91	2.38	48%
2018	8.92	5.26	3.66	70%

Table 1: Weighted Average Cost of Fund

Source: Author's calculation, WACOF of Banks collected from Statistics Department, Bangladesh Bank.

4.1.2 Factor Leading to Distress

4.1.2.1 Asset Quality of NBFIs

At the end of 2018 Leases, loans, and advances of listed NBFIs was 76.13% of total asset. As a part of verifying asset quality, we draw our attention at the Non-performing Loans (NPL) of NBFIs.

i. Overall Classification of Leases, Loans, and advances of all listed NBFIs

At closing of December 2018, the NPL of FIs stood at 39.90 billion which is 7.77 percent of total Leases, loans, and advances. Details of classification is shown in the table below.

Overall Leases, loans and advances (31-12-2018)		
Particulars	Amounts in Billion	In %
Standard	453.05	88.28%
Special Mention Account	20.23	3.94%
Unclassified	473.28	92.23%
Sub-Standard	7.24	1.41%
Doubtful	3.62	0.71%
Bad/Loss	29.03	5.66%
Classified (NPL)	39.90	7.77%
Total	513.18	100.00%

Table 2: Overall Classification of Leases, Loans and advances

Note: People's Leasing & First Finance have not published their lasted audited financial statement of 2018. Data of 2017 used for those NBFIs. **Source:** *Author's calculation.*

ii. Individual Classification of Leases, loans, and advances

In the individual NPL calculation we can see Bangladesh Industrial Finance Company Limited is having NPL above 97% (8.16 Billion) at the end of 2018, NPL of First Finance Limited as in 2017 was above 30% (3.07 Billion), which leads them to be strong candidate for liquidation as peoples leasing, or otherwise they may face situation like ICAB Islamic Bank Limited.

NPL of Premier Leasing & Finance Limited at the end of 2018 was above 25.63%. NBFIs having NPL above 10% are MIDAS Financing (12.49%), FAS Finance & Investment (15.21%), Fareast Finance (15.27%), People's Leasing (2017) (17.09%), Prime Finance (17.12%). In terms of NPL these NBFIs are having more risk for coming back to normal situation.

Among the twenty-two listed NBFIs only Delta Brac Housing Finance in Bangladesh was able to maintain an NPL rate below 1% with an unclassified portfolio of 43.71 billion as in December 2018. After Delta Brac this list topped by IPDC Finance followed by IDLC Finance and United Finance with an NPL rate of bellow 3%. LankaBangla Finance, Islamic Finance, National Housing Finance, BD Finance, International Leasing & Finance managed to keep their NPL below 5%.

Phoenix Finance, GSP Finance, Bay Leasing & Investment, Union Capital and Uttara Finance crossed an NPL rate of 5% but somehow managed to keep their NPL below 10%.

Ranking by NPL (Low to High)	Name of NBFIs	Leases, loans and advances			
		Amounts in Billion		In %	
		Unclassified	Classified (NPL)	Unclassified	Classified (NPL)
1	Delta Brac Housing Finance	43.71	0.13	99.70%	0.30%
2	IPDC Finance Ltd.	43.38	0.95	97.86%	2.14%
3	IDLC Finance Ltd.	82.12	1.81	97.84%	2.16%
4	United Finance Ltd.	17.41	0.53	97.04%	2.96%
5	LankaBangla Finance Ltd.	66.38	2.30	96.65%	3.35%
6	Islamic Finance	11.29	0.45	96.19%	3.81%
7	National Housing Finance	11.84	0.53	95.75%	4.25%
8	Bangladesh Finance	13.03	0.60	95.58%	4.42%
9	International Leasing and Fin.	35.22	1.68	95.44%	4.56%
10	Phoenix Finance and Inv.	25.70	1.57	94.23%	5.77%
11	GSP Finance Company	6.75	0.60	91.85%	8.15%
12	Bay Leasing and Inv.	9.21	0.96	90.54%	9.46%
13	Union Capital Ltd.	12.57	1.35	90.32%	9.68%
14	Uttara Finance and Inv.	32.35	3.57	90.07%	9.93%
15	MIDAS Financing Ltd.	9.00	1.28	87.51%	12.49%
16	FAS Finance & Inv.	13.02	2.34	84.79%	15.21%
17	Fareast Finance & Inv.	8.46	1.53	84.73%	15.27%
18	People's Leasing (2017)	8.63	1.78	82.91%	17.09%
19	Prime Finance	7.02	1.45	82.88%	17.12%
20	Premier Leasing	9.44	3.25	74.37%	25.63%
21	First Finance Ltd. (2017)	6.48	3.07	67.82%	32.18%
22	Bangladesh Industrial Fin.	0.25	8.16	2.99%	97.01%
Total		473.28	39.90	92.23%	7.77%

Table 3: Classification of Leases, Loans and advances of NBFIs

Note: People's Leasing & First Finance have not published their lasted audited financial statement of 2018. Data of 2017 used for those NBFIs. **Source:** Author's calculation.

4.1.3 Required Provision for Loans and Advances

NBFI Name	Amounts in Million
	Provision Shortfall 2018
BIFC	223
First Finance ltd	47
International Leasing and Financial Services Limited	2,525
Premier Leasing & Finance Limited	1,058

Table 4: NBFIs having shortfall in provision

Source: Data Collected from Annual reports of respective NBFIs.

4.1.4 Trends of Profit, Retained Earning and Equity

4.1.4.1 Overall industry trends of profit, retained enring and equity

Overall NBFI industry's net profit/ (loss) after tax, retained earnings and Shareholders' equity trends over last five years are as below. Overall net profit of listed NBFIs were 5.09 billion in 2014 and 5.74 billion in 2018. The industry experienced a lowest profit in 2017 which is 0.65 billion. The industry's overall profit was 3.57 billion in 2016 and 4.60 billion in 2017. In net profit the

five years compound annual growth rate is 2.43%. This industry's retained earning was 8.06 billion in 2014 which was in decreasing trend over the years, 5.68 billion in 2015 and 4.56 billion in 2016. The industry is experiencing a negative shift in retained earnings from 2017, retained earnings in 2017 was negative 1.68 billion and negative 2.90 billion in 2018. Five years compound annual growth rate is negative 181.51%. Shareholder's equity was 57.15 billion in 2014 and 66.99 billion in 2018.

Amounts in Billion BDT			
Year	Net profit	Retained Earnings	Shareholder's equity
2014	5.09	8.06	57.15
2015	3.57	5.68	60.22
2016	4.60	4.56	62.37
2017	0.65	(1.68)	62.71
2018	5.74	(2.90)	66.99
CAGR	2.43%	-181.51%	3.23%

Table 6: Trends of Overall Net profit, retained earnings and Shareholder's equity

Source: Author's calculation.

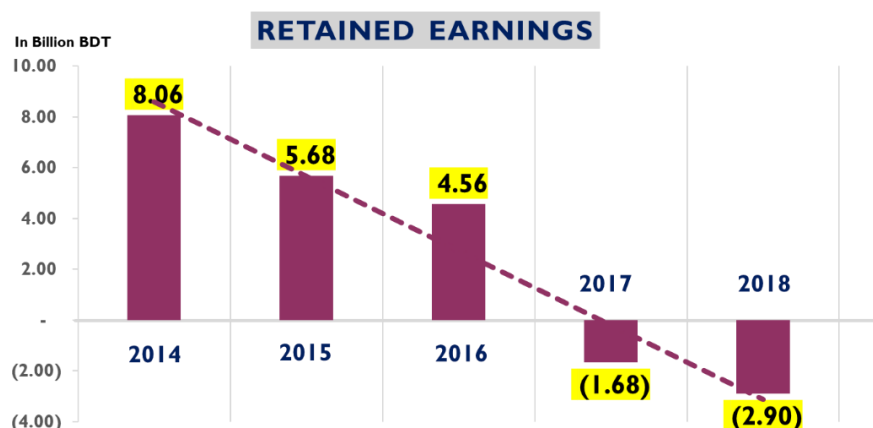


Figure: Trends of retained earnings

4.1.4.2 Negative trends of Individual NBFIs profit, retained enringing and equity

NBFIs having going concern threat or indication exists in their operation can be strong candidate for being liquidation. Some major indicators of going concern including continuous loss, negative retained earnings and negative equity is seen in some NBFIs. One NBFIs have all three elements in their financial statements, Bangladesh Industrial Finance Company Limited have a continuous loss over last few years. The company have now an accumulated loss of Tk. 9.57 billion and negative equity of 8 billion. As per the last published report of 30 September 2019 Peoples leasing's negative retained earnings was 1.6 billion, this company was facing a loss over last four years, after making continuous loss in last three-years Prime Finance & Investment Limited manage to get profit of 0.06 billion in 2018, this company have negative retained earnings of 1.50 billion as of 2018. First finance, a comparatively new candidate of this list, is making losses from last two years, retained earnings of this company goes down to negative due to this loss. The

negative retained earnings as of December 2018 is 6.5 billion. MIDAS Financing Limited managed to get out from the losses and negative retained earnings in recent years. Their retained earnings were negative in 2014, 2015 and 2016. Currently they have a positive returned earning of 0.05 billion.

Amounts in Billion BDT

Name of NBF	Particulars	2018	2017	2016	2015	2014
Bangladesh Industrial Finance Company Limited (BIFC)	Shareholder's equity	(8.00)	(6.69)	0.32	1.00	1.62
	Retained Earnings	(9.57)	(8.26)	(1.26)	(0.58)	0.05
	Net (Loss)	(1.31)	(7.00)	(0.68)	(0.63)	0.06
People's Leasing and Financial Services Limited	Shareholder's equity	2.91	3.11	3.11	3.71	4.55
	Retained Earnings	(1.61)	(1.42)	(1.42)	(0.81)	0.29
	Net (Loss)	(0.20)	0.05	(0.49)	(0.88)	0.20
Prime Finance & Investment Limited	Shareholder's equity	2.39	2.33	2.79	3.74	4.49
	Retained Earnings	(1.50)	(1.55)	(1.09)	(0.14)	0.62
	Net(Loss)	0.06	(0.46)	(0.95)	(0.43)	0.47
Fareast Finance & Investment Limited	Shareholder's equity	1.18	1.04	2.06	2.13	2.08
	Retained Earnings	(0.80)	(0.94)	0.08	0.16	0.20
	Net (Loss)	0.13	(0.94)	0.10	0.20	0.31
First Finance Limited	Shareholder's equity	0.86	1.26	1.57	1.52	1.51
	Retained Earnings	(0.65)	(0.24)	0.06	0.02	0.07
	Net (Loss)	(0.41)	(0.30)	0.05	0.01	0.07
MIDAS Financing Limited	Shareholder's equity	1.45	1.44	1.15	0.89	0.24
	Retained Earnings	0.05	0.16	(0.11)	(0.44)	(0.48)
	Net (Loss)	0.01	0.22	0.27	(0.15)	(0.37)

Table 7: Negative trends of Individual NBFIs profit, retained enringing and equity

Source: Author's calculation.

4.1.5 Liquidation effect of People's Leasing on NBF

The liquidation of People's Leasing affects NBFIs industry negatively. This liquidation initiated a mixed feeling of confidence about the regulators and distrust about the NBF

4.1.5.1 Systemic risk

Liquidation of PLFSL created a systemic risk to all the listed NBFIs in the industry. Investors and depositors are confused whether they will get back their deposit or not. They are not getting any new deposits. Borrowing from banks also reducing as banks also cannot rely of NBFIs. Finally, this liquidation affected the capital market very negatively. Share price nose drive after the news of liquidation.

4.1.5.2 Investors and depositors distrust issues

After the liquidation of People's Leasing, it is come into seen that the financial conditions of many NBFIs are vulnerable. At present they are not getting new deposits from clients. Now they are depending on the profits of outside investments. AS per a report of "The Daily Observer, dated 29 September 2019" a source of Bangladesh Bank said client's funds were misused by the owners of

companies, now they are not able to offer profit to the clients by their own funds. They are trying to borrow money from different banks and call money market to manage their clients. Some banks also taking out their money from NBFIs for meeting their own fund crisis. This creates huge crisis in the NBFi industry. Some NBFIs are not returning the deposited money after finishing the tenures of the deposit. The report also states that the everyday the central regulatory body, Bangladesh Bank, is receiving 10 to 15 complaints of non-payment of deposits.

4.1.5.3 Dearth of deposit

The feeling of distrust is spreading out among the depositors & investors, which may hard hit some of NBFIs and the industry at large. In the deposit we saw a lower growth rate in 2018 compared to 2017. Also, some NBFIs have a negative trend in the deposit. Also, some depositor may switch between NBFIs in this industry.

i. Overall trends of annual deposit

Annual Growth of overall industry deposit was significantly low in 2018, which may be a result of recent issues including liquidation in this sector which confused new depositors to come into an investment in this sector and existing depositors are also taking out their deposit from some NBFIs. The growth is slower in 2018 among last five years which was 5.86%. This industry enjoyed more growth than Banking industry from 2015 to 2017. The highest growing year for both the industry was 2015 where NBFIs experienced a growth of 35.30% and Banking industry experienced a growth of 13.83%. If we look at the compounding annual growth rate (CAGR) of both the industry, we found that NBFIs enjoyed a higher growth than the Banking industry. Banking industry's CAGR was 9.20% and NBFIs industry's CAGR was 16.55% at the end of 2108.

Year	NBFI		Banks	
	Amounts	Annual Growth %	Amounts	Annual Growth %
2014	195.40	N/A	6,965.10	N/A
2015	264.38	35.30%	7,928.60	13.83%
2016	320.84	21.36%	8,933.90	12.68%
2017	397.00	23.74%	9,874.90	10.53%
2018	420.28	5.86%	10,815.42	9.52%
CAGR		16.55%	CAGR	9.20%

Table 8: Overall Deposits growth of NBFIs and Banks

Source: Author's calculation. Data of Banks collected from Annual report of Bangladesh Bank and Quarterly scheduled banks statistics.

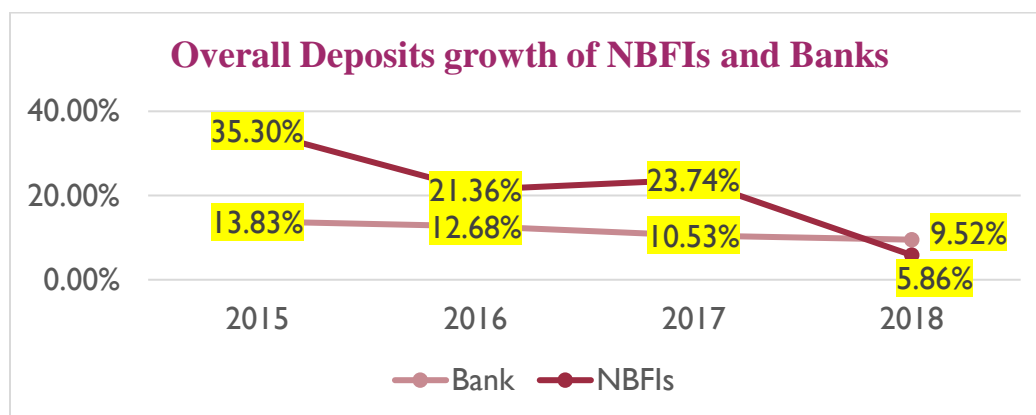


Figure: Deposits of NBFIs

ii. Individual trends of deposit

After analyzing the following data, we can see there are two types of response in deposits of NBFIs. Some NBFIs have a negative trend in the deposit and some have a positive trend. Depositors may switch between NBFIs in this industry. After the end of 2018 we can see 50% (11) of listed NBFIs are having a positive annual growth of 12.5% which is 34.5 billion in BDT and another 50% (11) is having a negative growth of 9.3% which is 11.3 billion in their deposits.

a. NBFIs with positive trends in deposit

Rank	Name of NBFIs	Deposit Amount (In Billion BDT)			Δ Deposit			
					Δ In Billion BDT		Δ %	
		2018	2017	2016	2018	2017	2018	2017
1	National Housing Fin.	16.1	11.7	8.5	4.5	3.2	38.4%	37.6%
2	IPDC Finance Ltd.	37.1	29.7	17.2	7.3	12.6	24.6%	73.2%
3	Bay Leasing	8.0	6.4	4.9	1.6	1.5	24.6%	30.1%
4	IDLC Finance Ltd.	72.7	62.1	49.3	10.6	12.8	17.1%	25.9%
5	Islamic Finance	13.0	11.2	8.0	1.8	3.2	16.0%	40.4%
6	Uttara Finance	18.0	15.7	15.4	2.3	0.4	14.6%	2.3%
7	First Finance Ltd.	6.9	6.3	5.5	0.6	0.8	8.8%	14.1%
8	People's Leasing and Fin	20.9	19.2	16.0	1.7	3.2	8.6%	19.9%
9	Delta Brac Housing Fin.	43.3	41.2	34.4	2.1	6.8	5.2%	19.8%
10	LankaBangla Finance	53.4	51.7	40.1	1.7	11.5	3.3%	28.7%
11	Phoenix Finance and Inv	20.8	20.4	16.4	0.4	3.9	1.9%	24.0%
Total		310.2	275.6	215.8	34.5	59.8	12.5%	27.7%

Table 9: NBFIs with Positive Trends in Deposit

Source: Author's calculation.

b. NBFIs with negative trends in deposit

The news of liquidation of PLFSL and crisis in other NBFIs causes a decrease of 11.3 billion BDT in their deposit accounts. The NBFIs are not receiving any new deposits and the old depositors are taking their money from a feeling of distrust. The feeling of distrust is spreading out among the depositors, which might hard hit some of NBFIs and the industry at large.

Rank	Name of NBFi	Deposit Amount			Δ Deposit			
		(In Billion BDT)			Δ In Billion		Δ %	
		2018	2017	2016	2018	2017	2018	2017
1	Prime Finance	6.6	8.9	9.0	(2.3)	(0.1)	-25.8%	-0.9%
2	GSP Finance Company	3.1	4.2	3.7	(1.1)	0.5	-25.5%	13.2%
3	Fareast Finance	5.58	6.91	6.3	(1.3)	0.6	-19.3%	9.4%
4	Union Capital Ltd.	12.7	14.7	13.1	(1.9)	1.5	-13.2%	11.7%
5	Premier Leasing	8.6	9.8	9.0	(1.2)	0.8	-11.8%	9.2%
6	FAS Finance	7.83	8.78	8.2	(1.0)	0.6	-10.9%	6.8%
7	MIDAS Financing Ltd.	7.3	7.7	6.7	(0.5)	1.1	-6.2%	16.3%
8	Bangladesh Finance and Inv.	9.6	10.2	9.0	(0.6)	1.2	-6.0%	13.1%
9	Bangladesh Industrial Fin. Co	5.47	5.64	5.1	(0.2)	0.5	-3.0%	10.4%
10	International Leasing	28.1	29.0	21.9	(0.8)	7.1	-2.9%	32.3%
11	United Finance Ltd.	15.2	15.6	13.1	(0.4)	2.6	-2.8%	19.6%
Total		110.1	121.4	105.1	(11.3)	16.3	-9.3%	15.6%

Table 10: NBFIs with Negative Trends in Deposit

Source: Author's calculation.

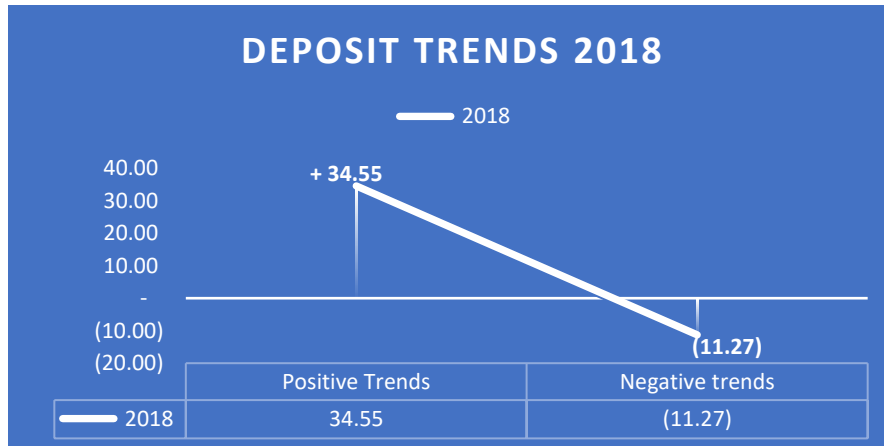


Figure: Trends of Deposit in 2018

4.1.6 Capital Adequacy

4.1.6.1 Overall capital adequacy

Bangladesh Bank has issued a guideline regarding the necessity of keeping capital adequacy in the name of CAMD and stated that FIs to comply with minimum CA ratio of 10%. The bellow is the overall capital adequacy of all listed NBFIs. This shows the overall capital adequacy ratio is 13.52% which is in a surplus position. The industry is having RAW of 527.39 billion. Overall, the Core Capital to RAW of this industry is 11.78% at the end of 2018.

Amounts in Billion BDT

Overall Capital adequacy (31 December 2018)	
Particulars	Amounts
Core capital(Tier-I)	62.11
Supplementary capital (Tier-II)	9.21
Eligible Capital	71.32
Total Risk Weighted Assets	527.39
Capital Adequacy (CA) Ratio	13.52%

Table 11: Overall Capital Adequacy

Source: Author's calculation.

4.1.6.2 Individual capital adequacy ratio

The individual capital adequacy shows that Bangladesh Industrial Finance Company Limited is having a negative ratio of 77.13%, as per the financial statement of People's Leasing they are having a negative CAR of 77.13% and International Leasing and Financial Services Limited is maintaining 7.91% which is lower than the minimum required ratio.

Rank (High to low CA Ratio)	NBFIs	Capital Adequacy Ratio
1	Prime Finance & Investment Limited	21.92%
2	GSP Finance Company (Bangladesh) Limited	20.29%
3	Delta Brac Housing Finance Corporation Limited	18.90%
4	Uttara Fin. and Inv. ltd	17.92%
5	Bangladesh Fin. and Inv.Co. ltd	17.84%
6	IDLC Finance Limited	17.34%
7	National Housing Finance and Investments Limited	16.61%
8	United Finance Limited	16.33%
9	LankaBangla Finance Limited	16.18%
10	MIDAS Financing Limited	16.14%
11	Bay Leasing and Investment Limited	15.98%
12	Islamic Finance and Investment Limited	15.30%
13	IPDC Finance Limited	14.01%
14	Premier Leasing & Finance Limited	13.89%
15	Union Capital Limited	12.53%
16	First Finance Limited (2017)	12.04%
17	Fareast Fin. & Inv. ltd	11.62%
18	FAS Fin. & Inv. ltd	11.27%
19	Phoenix Finance and Investments Limited	10.35%
20	International Leasing and Financial Services Limited	7.91%
21	People's Leasing and Financial Services Limited (2017)	-71.31%
22	Bangladesh Industrial Finance Company Limited	-77.13%

Table 12: Individual Capital Adequacy Ratio

Source: Author's calculation.

4.1.7 Lack of Due Diligence

Lack of due diligence is a great problem in this sector. Most of the parties are coming to make a business relationship with NBFIs because of the speedy process of the loans from the sector. Mostly they have already tried with Banks for financing and as the banks are not interested in non-collateral-based financing, banks rejected the offer that's the reason customers are taking loans with higher interest rates from NBFIs. In maintain a speedy process the NBFIs faces many challenges including performing a careful due diligence of the parties they are intended to start business with. Clear customer acceptance policies and procedures should be developed for accepting new customers. In an interview with Lenders, he told me that "Due diligence performed by Banks are quite high in standard in comparison with NBFIs". Also, as the main priority of NBFIs is speedy service, they are having a scope limitation to perform due diligence carefully as they are not having much time.

4.2 Challenges Faced by NBFIs

Challenges like maintaining core profitability, Management efficiency, competition with Banks, Challenge to Borrow funds and other challenges. Major challenges NBFIs are facing is discussed as below.

4.2.1 Core Profitability

4.2.1.1 Overall NBFIs net interest margin (NIM)

Overall Net interest margin of NBFIs are comparatively lower than NIM of PCBs and lower than the overall NIM of all banks. NBFIs Net interests margin was falling from 2014 and maintained the continuous fall in four years starting from 2014, at the end of 2018 the NIM should an increase.

Year	Net Interest margin (%)		
	NBFIs	PCBs	All Banks
2014	3.26	4.11	3.56
2015	2.74	3.85	3.28
2016	2.45	3.89	3.27
2017	2.37	3.52	3.13
2018	2.61	3.52	3.18

Table 13: Overall Net Interest margin (%) of NBFIs, PCBs and All Banks

Source: Author's calculation. Data of Banks collected from Annual report of Bangladesh Bank.

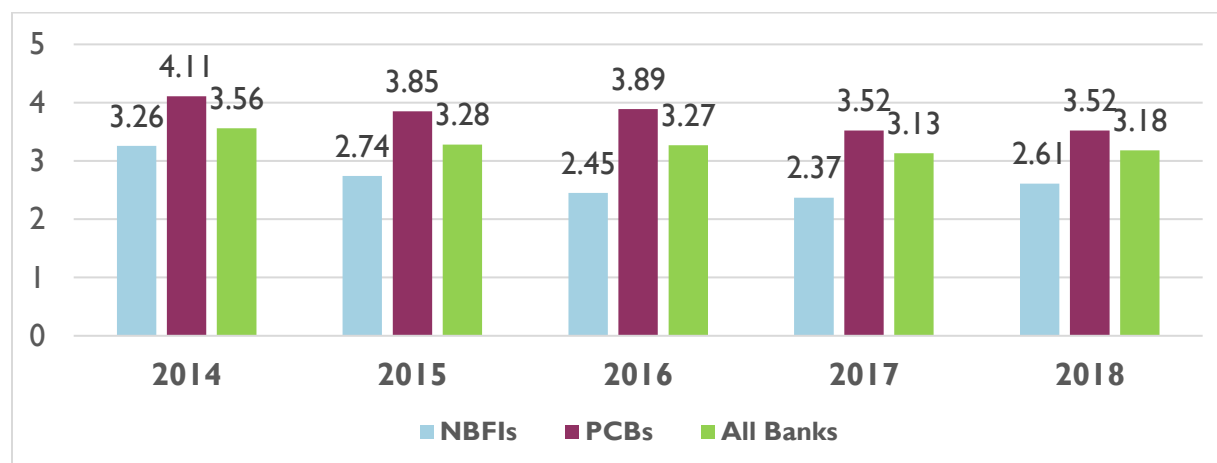


Figure: Overall Net Interest margin (%) of NBFIs, PCBs and All Banks

4.2.1.2 Individual NBFIs with positive NIM (%)

GSP finance ranked top in the list of maintaining a higher Net Interest margin (NIM), in 2018 their NIM was 6.01% and higher in 2016 which was 7.36%. In 2018 Bay leasing's NIM was less than 1, which was 0.27%, previous year (2017) Bay's NIM was 0.98%. Among 22 listed companies 16 companies managed to keep their NIM positive over last five years.

Rank	Name of NBFIs	In %				
		2018	2017	2016	2015	2014
1	GSP Finance Co.	6.01	6.38	7.36	5.65	4.62
2	National Housing Finance	3.11	3.58	4.59	5.78	6.01
3	IDLC Finance Limited	3.87	4.17	4.71	4.65	4.90
4	United Finance Limited	3.79	3.06	3.73	4.00	5.25
5	Uttara Finance and Inv.	5.63	4.67	4.11	3.29	1.87
6	IPDC Finance Limited	3.36	2.73	2.83	5.26	5.37
7	Phoenix Finance and Inv.	3.37	3.36	3.60	4.01	4.25
8	Delta Brac Housing Finance	3.12	2.94	1.68	4.59	4.59
9	Islamic Finance and Inv.	2.13	2.11	3.84	3.28	3.29
10	LankaBangla Finance Ltd.	2.83	2.62	2.65	2.13	2.38
11	FAS Finance & Inv.	2.14	1.52	1.77	3.19	3.88
12	Bangladesh Finance and Inv. Co	2.22	2.17	2.31	2.95	2.35
13	Union Capital Limited	1.55	1.13	2.59	3.52	3.15
14	Premier Leasing & Finance	1.59	2.35	1.90	2.59	1.30
15	International Leasing	1.69	1.43	1.26	2.32	2.18
16	Bay Leasing and Inv.	0.27	0.98	1.15	1.42	1.28

Table 14: Individual NBFIs with positive Net Interest margin (%)

Source: Author's calculation.

4.2.1.3 NBFIs with negative NIM (%)

Six listed non-banking financial institutions were having a negative NIM in one or more years within the last five year. Bangladesh Industrial Finance Company Limited (BIFC) topped the list of negative NIM as well. BIFC is experiencing an increase in Net Interest margin (NIM) from over

last years. In 2018 BIFC's NIM was -7.96, which increased from -7.55 of 2017. People's Leasing which is on liquidation now were experienced negative NIM in 2015 & 2016. In 2018 this company's NIM was 0.32 which was calculated as per a quarterly report of 30 September 2018. Prime finance managed to get out from the trend of Negative NIM in 2018 after having negative NIM for last two consecutive times. First finance started experiencing this from 2017, there NIM gone down to negative 0.12% in 2017, in 2018 they also maintained and increased the negative NIM to 1.71%, Fareast finance and MIDAS finance was able to get out from this after having one-time negative NIM in last five years.

Rank	Name of NBFI	In %				
		2018	2017	2016	2015	2014
1	Bangladesh Industrial Finance Co.	-7.96	-7.55	-5.47	-2.11	-1.46
2	People's Leasing	0.32	0.24	-0.99	-3.31	1.80
3	Prime Finance & Inv.	0.34	-1.70	-0.83	0.23	1.89
4	First Finance Limited	-1.71	-0.12	1.87	0.99	1.36
5	Fareast Finance & Inv.	0.93	-1.55	0.22	2.14	3.87
6	MIDAS Financing Ltd	1.47	2.54	3.48	2.17	-0.15

Table 15: Individual NBFIs with Negative Net Interest margin (%)

Source: Author's calculation.

4.2.2 Lending Rate

Lending rate of NBFIs are more than the lending rate of Bank. Still customers are coming to NBFIs because of several factors including speedy processing of loans and others. In 2014 the lending rate of NBFIs are 27% higher than the Bank, 34% in 2015, 35% in 2016, 33% in 2017 and the highest 40% in the year 2018. Maintaining a higher lending rate in this very competitive industry is a big challenge of NBFIs.

Year	WALR (%)		Difference (%) (NBFIs-Bank)	% Change from Bank LR
	NBFIs	Banks		
2014	15.79	12.46	3.33	27%
2015	14.94	11.18	3.76	34%
2016	13.44	9.93	3.51	35%
2017	12.44	9.35	3.09	33%
2018	13.30	9.49	3.81	40%

Table 16: Overall Lending rate of NBFIs and Bank

Source: Author's calculation. Data of Banks collected from Annual report of Bangladesh Bank and Quarterly scheduled banks statistics.

4.2.3 Interest Rate Spread

NBFIs have to maintain interest rate spread (IRS) at a balanced rate, if NBFIs failed to maintain a balanced IRS they will have to suffer in various ways. In 2014 the interest rate spread of NBFIs are 13% higher than the Bank, 37% in 2015, 27% in 2016, 30% in 2017 and the rate fall at 22% in the year 2018. Maintaining a higher lending rate in this very competitive industry is a big challenge of NBFIs.

Year	IRS (%)		Difference (NBFIs-Bank)	% Change from Bank IRS
	NBFIs	Banks		
2014	5.87	5.21	0.66	13%
2015	6.64	4.84	1.8	37%
2016	5.96	4.71	1.25	27%
2017	5.77	4.44	1.33	30%
2018	5.15	4.23	0.92	22%

Table 17: Overall Interest rate spread of NBFIs and Bank

Source: Author's calculation. Data of Banks collected from Annual report of Bangladesh Bank and Quarterly scheduled banks statistics.

4.2.3.1 Individual NBFIs interest rate spread

In terms of interest rate spread National Housing Finance and Investments Limited is doing well among all listed NBFIs based on average IRS. National housing was able to secure a higher spread among all the listed NBFIs in 2016, 2017 & 2018. There are 16 listed NBFIs which are maintaining a positive IRS.

4.2.3.1.1 NBFIs with positive interest rate spread (IRS)

Rank	Particulars	In %				
		2018	2017	2016	2015	2014
1	National Housing Finance	8.64%	7.51%	6.66%	6.00%	6.10%
2	United Finance Limited	5.01%	4.76%	6.35%	7.84%	8.08%
3	IDLC Finance Limited	5.15%	5.77%	5.96%	6.64%	5.87%
4	GSP Finance Company	4.87%	5.80%	7.37%	4.85%	1.99%
5	Delta Brac Housing Finance	5.13%	4.61%	2.60%	5.84%	6.35%
6	IPDC Finance Limited	3.59%	3.03%	3.00%	4.72%	4.70%
7	Phoenix Finance and Inv.	2.73%	2.96%	3.37%	3.97%	4.15%
8	Union Capital Limited	3.57%	2.65%	3.42%	3.95%	3.19%
9	Islamic Finance and Inv.	3.99%	3.62%	4.24%	2.59%	2.01%
10	Bangladesh Finance and Inv.	2.36%	2.97%	2.56%	3.36%	3.98%
11	LankaBangla Finance Ltd.	3.76%	3.74%	3.28%	1.95%	2.36%
12	Premier Leasing & Finance	2.73%	3.91%	1.89%	3.91%	2.62%
13	Uttara Finance and Inv.	4.07%	4.86%	3.20%	2.46%	0.43%
14	FAS Finance & Inv.	2.28%	3.10%	2.52%	3.26%	3.52%
15	International Leasing	2.46%	2.57%	1.82%	2.09%	1.37%
16	Bay Leasing and Inv.	1.62%	1.85%	1.60%	1.84%	1.43%

Table 18: NBFIs with positive Interest rate spread

Source: Author's calculation. Data of Banks collected from Annual report of Bangladesh Bank and Quarterly scheduled banks statistics.

4.2.3.1.2 NBFIs with negative interest rate spread (IRS)

Among listed NBFIs Bangladesh Industrial Finance Company Limited (BIFC) is at the top of the list of NBFIs having a negative interest rate spread. BIFC is consistently maintaining its negative IRS, which is growing over the year. Prime finance and First finance are also having a negative IRS over last four years. Fareast Finance are facing the challenge of negative IRS from last two years. MIDAS Financing limited managed to come back from the negative IRS and now continuing with a positive IRS. People's Leasing's IRS was negative in 2014 & 2015, after that it managed to continue with positive interest rate spread.

In %						
Rank	Particulars	2018	2017	2016	2015	2014
1	Bangladesh Industrial Fin.	-9.43%	-9.15%	-7.70%	-4.07%	-3.46%
2	Prime Finance	-1.16%	-3.23%	-2.50%	-1.01%	0.53%
3	First Finance Limited	-3.16%	-1.34%	-0.27%	-0.06%	0.93%
4	Fareast Finance	-0.58%	-2.69%	0.06%	1.44%	2.13%
5	MIDAS Financing Ltd.	0.63%	2.16%	3.16%	0.07%	-1.10%
6	People's Leasing	5.25%	5.75%	5.94%	-0.56%	-0.58%

Table 19: NBFIs with Negative Interest rate spread

Source: Author's calculation. Data of Banks collected from Annual report of Bangladesh Bank and Quarterly scheduled banks statistics.

4.2.4 Level of Deposits & Borrowings and Leases, Loans and Advances

4.2.4.1 Overall level of deposits & borrowings and leases, loans and advances

NBFIs should maintain a higher deposits and borrowings than their total of Leases, loans and advances. Listed NBFIs overall Leases, loans and advances was higher than their deposit and borrowings at the end of 2014 & 2015. After that they started to level and was able to maintain a higher deposits and borrowings in 2016, 2017 & 2018. Over last five years deposits & borrowings and the Leases, loans and advances were more than 70% of NBFIs total asserts. At the end of 2018 listed NBFIs are having a deposits and borrowings of 78.35% and Leases, loans and advances 76.13%

Year	Deposits and Borrowings		Leases, loans and advances		Difference
	Amounts	% of Total Assets	Amounts	% of Total Assets	
2014	267.48	72.47%	289.37	78.40%	-5.93%
2015	343.54	75.42%	351.80	77.24%	-1.81%
2016	416.60	77.35%	413.91	76.85%	0.50%
2017	516.19	79.28%	489.76	75.22%	4.06%
2018	533.72	78.35%	518.61	76.13%	2.22%

Table 20: Overall Deposits & Borrowing and Leases, Loans and advances of NBFIs

Source: Author's calculation.

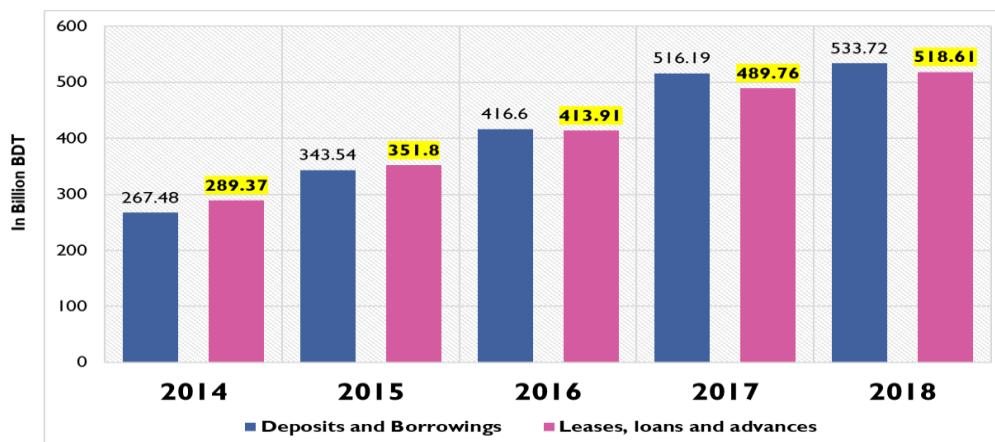


Figure: Overall Deposits & Borrowing and Leases, Loans and advances

4.2.4.2 Individual level of deposits & borrowings and leases, loans and advances

Over last five years all the NBFIs except one failed to maintain a higher Deposits and Borrowings than the Leases, Loans and advances once or more than once in this five-year period. 9 NBFIs (Serial 1 to 9) are continuously having higher leases, loans and advances than their Deposits and Borrowings. 5 NBFIs (Serial 10 to 14) faced the same situation in 3 years with this five-year period. 4 NBFIs (Serial 15 to 18) faced the same situation for 2 years and 3 NBFIs (Serial 19 to 21) faced for 1 year within this five year. Only one company, Delta Brac was able to maintain a higher Deposits and Borrowings than the leases, loans and advances. This mismatch should be eliminated to have a safe position as the leases, loans & advances and deposits & borrowings are holding major % of total assets and liabilities respectively.

		Amounts in Billion														
Sl	Name of NBFIs	Deposits and Borrowings (A)					Leases, Loans and advances (B)					Difference (A – B)				
		2018	2017	2016	2015	2014	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
1	BD Industrial Fin. Co.	8.15	8.04	7.70	9.07	8.06	8.41	8.38	8.77	10.63	8.96	(0.26)	(0.34)	(1.07)	(1.56)	(0.9)
2	Fareast Finance	8.71	10.62	10.73	10.09	8.07	9.99	11.60	10.98	11.32	10.02	(1.28)	(0.98)	(0.26)	(1.23)	(1.95)
3	First Finance Ltd.	8.00	8.36	6.98	7.75	7.47	8.79	9.55	9.14	8.89	7.99	(0.79)	(1.19)	(2.16)	(1.15)	(0.52)
4	GSP Finance co	5.24	6.02	4.63	3.77	3.06	7.88	8.51	6.53	4.99	4.47	(2.64)	(2.49)	(1.90)	(1.22)	(1.41)
5	IPDC Finance Limited	42.98	33.96	18.32	4.77	4.40	44.33	34.47	19.48	6.42	5.68	(1.34)	(0.51)	(1.16)	(1.64)	(1.28)
6	MIDAS Financing Ltd	8.97	9.14	7.99	4.24	4.52	10.05	10.10	8.77	5.02	4.81	(1.08)	(0.96)	(0.78)	(0.78)	(0.29)
7	Phoenix Finance and Inv.	24.88	26.43	19.90	15.84	13.25	27.28	28.83	21.54	17.03	14.47	(2.40)	(2.41)	(1.63)	(1.19)	(1.22)
8	Prime Finance	8.37	11.08	12.32	12.64	11.06	9.94	12.21	14.80	14.36	13.44	(1.56)	(1.13)	(2.48)	(1.72)	(2.39)
9	Uttara Finance and Inv.	26.29	26.36	19.50	19.13	17.56	35.92	30.50	23.67	22.98	20.93	(9.63)	(4.14)	(4.16)	(3.85)	(3.36)
10	BD Finance and Inv.	13.07	14.26	13.30	13.10	11.66	13.86	14.23	13.88	13.56	11.04	(0.79)	0.04	(0.58)	(0.46)	0.62
11	FAS Finance	14.99	15.50	14.42	11.09	5.20	15.43	13.98	14.02	11.78	6.08	(0.44)	1.52	0.40	(0.69)	(0.88)
12	Islamic Finance	13.11	11.40	8.23	6.70	4.98	11.74	10.50	9.07	7.76	6.08	1.37	0.90	(0.84)	(1.05)	(1.10)
13	LankaBangla Finance	69.67	70.24	51.02	39.11	28.39	68.68	66.54	51.24	41.82	30.40	0.99	3.69	(0.22)	(2.71)	(2.00)
14	Union Capital Limited	17.43	20.01	16.95	14.61	13.69	15.50	17.83	17.10	15.64	14.74	1.93	2.18	(0.15)	(1.03)	(1.05)
15	Bay Leasing	14.74	12.78	10.09	7.71	6.08	12.92	11.96	10.02	7.87	6.39	1.82	0.82	0.06	(0.16)	(0.31)
16	IDLC Finance Limited	85.21	73.49	61.89	58.21	45.79	83.93	71.50	62.22	55.21	47.07	1.27	1.99	(0.33)	3.00	(1.28)
17	International Leasing	39.34	39.64	31.73	19.06	14.52	37.82	36.37	30.71	20.28	16.06	1.51	3.26	1.02	(1.22)	(1.54)
18	National Housing Fin.	17.91	13.39	9.49	6.43	4.79	12.36	10.25	8.96	7.31	5.55	5.55	3.14	0.53	(0.88)	(0.75)
19	United Finance Limited	17.80	18.08	15.27	14.12	11.11	17.94	16.96	13.80	11.94	10.73	(0.14)	1.12	1.47	2.18	0.38
20	People's Leasing	26.07	25.26	22.28	22.31	15.24	9.35	9.85	9.46	15.15	19.09	16.72	15.42	12.82	7.16	(3.85)
21	Premier Leasing	13.37	14.42	13.40	13.77	8.03	12.63	13.41	13.91	12.59	7.27	0.75	1.01	(0.51)	1.18	0.76
22	Delta Brac	49.40	47.70	40.47	30.01	28.60	43.85	42.24	35.84	29.25	27.09	5.56	5.46	4.64	0.76	1.51

Source: Author's calculation.

Table 21: Level of Deposit and Borrowings of Individual NBFIs

4.2.4.3 Lower deposits & borrowings than leases, loans and advances

At the end of 2018, Deposits & Borrowings of 12 NBFIs were lower than the Leases. Total loan was 209.82 billion against the Deposits & Borrowings of 187.46 billion. Leases, loans and advances was 22.36 billion higher than the Deposits & Borrowings.

As at end of 2018				
Amounts in Billion				
Sl	Name of NBFIs	Deposits and Borrowings	Leases, Loans and advances	Difference
1	BD Finance and Inv. Co.	13.07	13.86	(0.79)
2	Bangladesh Industrial Fin. Co.	8.15	8.41	(0.26)
3	Fareast Finance	8.71	9.99	(1.28)
4	FAS Finance	14.99	15.43	(0.44)
5	First Finance Ltd.	8.00	8.79	(0.79)
6	GSP Finance co	5.24	7.88	(2.64)
7	IPDC Finance Limited	42.98	44.33	(1.34)
8	MIDAS Financing Limited	8.97	10.05	(1.08)
9	Phoenix Finance and Inv.	24.88	27.28	(2.40)
10	Prime Finance	8.37	9.94	(1.56)
11	United Finance Limited	17.80	17.94	(0.14)
12	Uttara Finance and Inv.	26.29	35.92	(9.63)
Total		187.46	209.82	(22.36)

Table 22: Lower Deposits & Borrowings and Leases, loans and advances

Source: Author's calculation.

4.2.5 AD Ratio

The industry is having an AD Ratio of more than 100 percent continuously in last five years. But this AD ratio is falling from the AD ratio of 2014, currently the AD ratio is in 123%.

Particulars	AD Ratio (%)
2014	148%
2015	133%
2016	129%
2017	123%
2018	123%

Table 23: Overall AD Ratio

Source: Author's calculation.

4.2.5.1 Individual AD Ratio

GSP Finance topped the list of AD Ratio with a ratio of 253 %, meaning this company is having Loan and Advance 2.53 times more than their deposits. After GSP Finance, we found that Uttara Finance, FAS Finance, Fareast, Bay, Bangladesh industrial finance, prime finance are having their AD ratio within 150%-199%. 19 out of 22 NBFIs are having AD ratio more than 100 %, meaning they are dependent on funds other than deposits.

Rank	AD Ratio as on 31 December 2018	
	Particulars	AD Ratio
1	GSP Finance Company (Bangladesh) Limited	253%
2	Uttara Fin. & Inv. Ltd	199%
3	FAS Fin. And Inv. Ltd	197%
4	Fareast Fin	179%
5	Bay Leasing	161%
6	Bangladesh Industrial Fin. Co. ltd	154%
7	Prime Fin	150%
8	Premier Leasing	147%
9	BD Fin & Inv Co. ltd	145%
10	MIDAS Financing Limited	138%
11	International Leasing	134%
12	Phoenix Fin. & Inv. ltd	131%
13	LankaBangla Fin ltd	129%
14	First Finance Limited	128%
15	Union Capital Limited	122%
16	IPDC Finance Limited	120%
17	United Finance Limited	118%
18	IDLC Finance Limited	115%
19	Delta Brac Housing Fin. Co. ltd	101%
20	Islamic Finance and Investment Limited	90%
21	National Housing Fin. & Inv. ltd	77%
22	People's Leasing	45%

Table 24: Individual AD Ratio of NBFIs

Source: Author's calculation.

4.2.6 Effects of Banks entry in the activity of NBFIs

NBFIs are engaged in direct competition with the banks now, specially, after banks entry in the leasing activity. NBFIs firstly come into seen with the leasing products and currently the overall leasing activities of NBFi industry is at the level of 13.6 %. In 1995 was the year commercial banks hit the road of leasing in Bangladesh.

Leases, Loans and Advances of listed NBFIs as of 31 December 2018		
Particulars	Amounts in Billion BDT	In %
Term Finance	258.34	50.3%
Housing Finance / Real Estate	92.92	18.1%
Lease Finance	69.74	13.6%
Short term Finance	21.36	4.2%
Mortgage finance	17.51	3.4%
Car / Auto Loan	11.67	2.3%
Margin loan to portfolio investors	10.92	2.1%
Personal loan	5.69	1.1%
Hire Purchase	4.90	1.0%
Credit card receivables	3.61	0.7%
Other Finance	16.53	3.2%
Total	513.18	100%

Table 25: Overall category of Leases, Loans and Advances of listed NBFIs

Note 1: People's Leasing & First Finance have not published their lasted audited financial statement of 2018. Data of 2017 used for those NBFIs. **Source:** Author's calculation.

4.2.7 Borrowing from other banks, FIs and agents

Borrowings from Bank have comparatively lower cost than the cost of deposits. But Banks also cannot rely on NBFIs presently. Bangladesh Industrial Finance Company (BIFC) was the first NBFIs which default Tk. 2000 million. The NBFIs are unable to make profit from their business and they started to make up the profit of depositors by using the borrowing funds which triggered banks to take of their investments from NBFIs. Borrowing growth was 20.97% in 2016, 24.46% in 2017 and it comes down to -4.82% at the end of 2018. The annual growth borrowings come down to negative in 2018, which indicates the banks are also facing the same issue of trust and confidence with NBFIs.

Year	Amounts in Billion BDT	
	NBFIs	
	Amount	Annual Growth
2014	72.07	
2015	79.16	9.83%
2016	95.76	20.97%
2017	119.19	24.46%
2018	113.45	-4.82%
	5-Year CAGR	9.50%

Table 26: Borrowings from other banks, FIs and agents

Source: Author's calculation.

4.2.8 CRR and SLR

4.2.8.1 Overall cash reserve ratio (CRR)

We found that the listed NBFIs industry's overall cash reserve ratio is negative. There is a deficit of 316.17 million in the overall cash reserve ratio of twenty-two listed NBFIs. We have investigated the reason of negative CRR of NBFIs and found that only five NBFIs out of twenty-two NBFIs were unable to maintain the CRR and all others are maintaining a positive CRR.

Particulars	Amounts in Million BDT
Required Reserve	6,468.97
Actual Reserve held with Bangladesh Bank	6,152.80
Surplus / (Deficit)	(316.17)

Table 27: Overall CRR

Source: Author's calculation.

4.2.8.2 NBFIs with negative CRR

The Cash reserve ratio of this five NBFIs made the total CRR of listed NBFIs negative.

Amounts in Million BDT				
SL	NBFIs	Required Reserve	Actual Reserve	Deficit
1	Bangladesh Industrial Finance Company Limited	45.54	0.11	(45.43)
2	FAS Finance & Investment Limited	68.75	7.15	(61.60)
3	First Finance Limited (2017)	86.65	39.23	(47.42)
4	International Leasing and Financial Services Limited	314.46	6.35	(308.11)
5	People's Leasing and Financial Services Limited (2017)	156.40	12.37	(144.03)
	Total	671.80	65.21	(606.59)

Table 28: NBFIs with negative CRR

Source: Author's calculation.

4.2.8.3 Overall Statutory liquidity reserve (SLR)

The overall Statutory liquidity reserve (SLR) is in surplus position. The overall surplus is 40.46 billion at the end of December 2018.

Particulars	Amounts in Billion BDT
Required Reserve	16.56
Actual Reserve held with Bangladesh Bank	57.02
Surplus / (Deficit)	40.46

Table 29: Overall SLR

Source: Author's calculation.

4.2.8.4 NBFIs with negative SLR

Only one NBFIs was unable to maintain the Statutory liquidity reserve (SLR) in 2018. This NBFIs is facing big crisis in their liquidity and in many other indicators.

Amounts in Million BDT				
SI	NBFIs	Required Reserve	Actual Reserve	Deficit
1	Bangladesh Industrial Finance Company Ltd	112.46	108.63	(3.83)

Table 30: NBFIs with Negative SLR

Source: Author's calculation.

4.2.8.5 Maturity wise Assets and obligations

After analyzing their maturity periods of assets and liabilities we found that NBFIs are having no problems in repaying their funds. NBFIs may have problems in paying their funds in between 1 Months to 1 year because they have 249.88 billion to get and 262.88 billion to pay in that period. Over 1 year to 5 years and Over 5 Years they can pay their obligations without any shortage, they have no funds to get above 10 Years, but they have obligations to pay after 10 years' time. If they want to pay all the obligations clearly, they have to focus on their asset quality, and they have to reduce their NPL at an acceptable level.

Amounts in Billions			
Maturity Period	Lease, loans and advances & Balances with Banks & FIs	Deposits and Borrowing from Banks and FIs	Difference
On Demand	24.44	3.84	20.59
1 Months to 1 year	249.88	262.88	(13.00)
Over 1 year to 5 years	201.26	151.38	49.87
Over 5 Years	88.16	69.55	18.61
Above 10 Years	-	7.94	(7.94)
	563.74	495.59	68.15

Table 31: Maturity wise assets and obligations

Source: Author's calculation.

4.2.9 Challenges to pay Dividend

As a result of the negative trends in profit, retained earnings, equity some NBFIs were unable to pay dividend regularly. If we look at the dividend history, we can find that Bangladesh Industrial Finance Company Limited have not paid any cash dividend or stock dividend since last five years, People's Leasing and Financial Services Limited, which is decided to be liquidate was also unable to pay any cash dividend & stock dividend in last five years, except 2014 when they paid stock dividend only. In last five years Prime Finance & Investment limited only paid a cash dividend in 2014 and have not paid any cash dividend and stock dividend over the previous five years. In previous five years MIDAS Financing Ltd was also unable to pay any cash dividend, First Finance Ltd & Fareast Finance & Investment Ltd have not paid any dividend in last two years. Shareholders are having a very negative impact as they are not getting any dividend from their investment.

SI	Name of NBFI	In %									
		2018		2017		2016		2015		2014	
		C.D.	S.D.	C.D.	S.D.	C.D.	S.D.	C.D.	S.D.	C.D.	S.D.
1	Bangladesh Industrial Fin. Co. Ltd	-	-	-	-	-	-	-	-	-	-
2	People's Leasing & Fin. Service ltd	-	-	-	-	-	-	-	-	-	10.00
3	Prime Finance & Investment ltd.	-	-	-	-	-	-	-	-	12.50	-
4	MIDAS Financing Ltd	-	2.50	-	10.00	-	-	-	-	-	-
5	First Finance Ltd			-	-	-	5.00	-	-	-	5.00
6	Fareast Finance & Investment Ltd	-	-	-	-	5.00		10.00		10.00	2.50

Table 32: NBFIs with lowest or no dividend Payments.

Source: Author's calculation.

4.2.9.1 Five-year Dividend Payment history:

SI	Name of NBFI	In %									
		2018		2017		2016		2015		2014	
		C.D.	S.D.	C.D.	S.D.	C.D.	S.D.	C.D.	S.D.	C.D.	S.D.
1	Delta Brac Housing Finance	25	10	30	-	30	5	30	-	25	-
2	IDLC Finance	35	-	30	-	30	-	25	-	10	25
3	Uttara Finance	20	-	30	-	30	-	30	-	20	10
4	Phoenix Finance	-	15	20	-	20	-	20	-	20	-
5	National Housing Finance	10	10	19	-	18	-	17	-	15	-
6	Bay Leasing and Inv.	10	-	10	5	15	-	15	-	15	-
7	LankaBangla Finance	15	-	7.50	7.50	15	15	15	15	10	10
8	GSP Finance Co.	18	-	-	23.50	22	-	15.50	-	-	55
9	Islamic Finance	10	4.50	14.50	-	3	11	13	-	8	4
10	United Finance Limited	10	-	10.00	5	10	5	5	10	5	10
11	Fareast Finance & Inv.	-	-	-	-	5	-	10	-	10	2.50
12	Prime Finance & Inv.	-	-	-	-	-	-	-	-	13	-
13	IPDC Finance	7	8	-	20	-	20	-	20	5	10
14	FAS Finance & Investment	-	5	-	10	-	5	-	10	10	-
15	Premier Leasing & Finance	-	5	5.00	5	5	5	-	5	-	-
16	Bangladesh Finance and Inv.	-	10	-	10	-	10	-	10	5	-
17	International Leasing	-	5	-	12	-	5	-	5	5	-
18	Union Capital	-	5	-	5	-	10	5	7	-	10
19	Bangladesh Industrial Fin.	-	-	-	-	-	-	-	-	-	-
20	First Finance			-	-	-	5	-	-	-	5
21	MIDAS Financing	-	2.50	-	10.00	-	-	-	-	-	-
22	People's Leasing	-	-	-	-	-	-	-	-	-	10

Table 33: Five-year dividend history of listed NBFIs

Source: Author's calculation.

4.2.10 Challenges to Expanding Business

4.2.10.1 Geographical location-wise lease, loans and advances

Listed NBFIs are mostly Dhaka based, 82.06% of Leases, loans and advances was Dhaka based. Out of 513.18 billion 421.12 billion was Dhaka based. 11.88% of Leases, loans and advances was Chattagram based, in Rajshahi 2.07% in Khulna 1.77% and rest of the divisions area having Leases, loans and advances of less than 1%, Barisal division Leases, loans and advances was 0.17%. NBFIs need to explore their market to compete with Banks. Their businesses in Bangladesh are mainly based on Dhaka Chittagong.

Division	Amounts in Billion BDT	In %
Dhaka Division	421.12	82.06%
Chattagram Division	60.99	11.88%
Rajshahi Division	10.60	2.07%
Khulna Division	9.10	1.77%
Sylhet Division	4.44	0.86%
Rangpur Division	3.49	0.68%
Mymensingh Division	2.54	0.50%
Barisal Division	0.90	0.17%
Total	513.18	100.00%

Table 34: Geographical location-wise Lease, loans and advances

Note 1: People's Leasing & First Finance have not published their lasted audited financial statement of 2018. Data of 2017 used for those NBFIs. **Source:** *Author's calculation.*

4.2.10.2 Branches of NBFIs

Year	Number of Branches		
	NBFIs	Bank	% of Bank
2014	195	9040	2.16%
2015	210	9397	2.23%
2016	224	9654	2.32%
2017	254	9955	2.55%
2018	262	10114	2.59%

Table 35: Number of Branches of NBFIs and Bank

Source: *Author's calculation.*

4.2.11 Loan Productivity

NBFIs are running their operation with a small number of people so their loan productivity is expecting to be high compared to Banks. Currently, 5346 persons are employing in listed NBFIs. The overall loan productivity of NBFIs at the end of 2018 was 97.01 million per employee. This productivity plays an important role in survival of NBFIs. We can see NBFIs are aggressing in distributing their Leases, loans and advances.

Year	Loan Productivity (In BDT Million)	AD Ratio (%)
2014	87.55	148
2015	82.95	133
2016	84.08	129
2017	87.77	123
2018	97.01	123

Table 36: Loan Productivity

Source: Author's calculation.

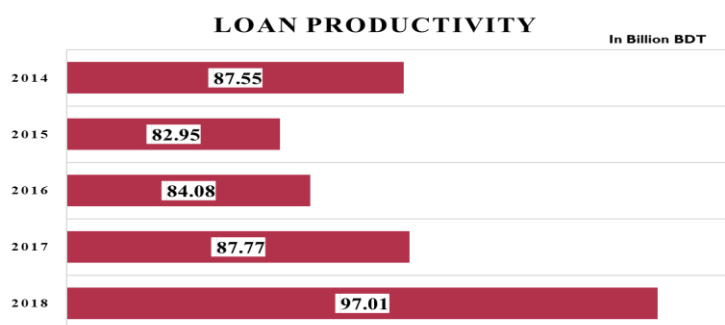


Figure: Loan Productivity

4.2.12 Management Quality

We have calculated some ratio to show the management quality. Cost to income ratio (Management inefficiency ratio) and Burden is calculated as a part of showing management quality.

4.2.12.1 Cost to Income Ratio (Management inefficiency Ratio)

In 2014 this ratio was lowest among the five years. We found the cost to income ratio in last three years are almost at the same level varying from 40 to 43%

Year	Cost to Income ratio (In %)
2014	35
2015	40
2016	43
2017	42
2018	43

Table 37: Cost to Income Ratio

Source: Author's calculation.

4.2.12.2 Burden Ratio

Analysis shows that management is efficient in maintain the burden ratio. But we found that the burden ratio is decreasing over the year. We know that the more negative burden ratio indicates that the management is more efficient.

Year	Burden Ratio
2014	(4.17)
2015	(4.13)
2016	(2.88)
2017	(3.35)
2018	(2.32)

Table 38: Burden Ratio

Source: Author's calculation.

4.2.13 Return on Asset (ROA)

We found Overall ROA of NBFIs industry is 2.51 %, and ROA of PCBs is 0.57% as at the end of 2018 and this was in a competitive position over last four years. This indicates in terms of ROA, NBFIs are in a competitive position.

Year	ROA (%)	
	NBFIs	Banks (PCBs)
2014	0.62	0.99
2015	1.81	1.00
2016	2.74	1.03
2017	2.35	0.89
2018	2.51	0.57

Table 39: ROA of NBFIs and Bank

Source: Author's calculation. Data of Banks collected from Annual report of Bangladesh Bank.

4.2.14 Annual and Compounding Growth of Lease, Loan and Advance

Overall NBFIs Total lease, loan and advance stands at 518.61 billion at the end of 2018. NBFIs industry experienced annual growth 21.58% in 2015, 17.65% in 2016 and 18.33% in 2017. At the end of 2018, this industry experienced a considerably lower growth in lease, loan and advance which was 5.89%. The 5-year compounding annual growth rate of lease, loan and advance is 12.38%. NBFIs are enjoying higher annual and compounding rate of growth from the Banks. In 2015 banks annual growth was 13.27% while NBFIs were having a rate of 21.58% growth rate. At the end of 2018 both banks and NBFIs faced a lower growth rate and NBFIs fall after the banks in 2018.

(Amounts in Billion BDT)

Year	NBFIs		Banks	
	Amount	Annual Growth (%)	Amount	Annual Growth (%)
2014	289.37	N/A	5,450.42	N/A
2015	351.80	21.58%	6,173.65	13.27%
2016	413.91	17.65%	7,128.92	15.47%
2017	489.76	18.33%	8,377.52	17.51%
2018	518.61	5.89%	8,994.93	7.37%
5-Year CAGR		12.38%	5-Year CAGR	10.54%

Table 40: Growth of Total Lease, loan and Advance of NBFIs and Banks

Source: Author's calculation. Data of Banks collected from Annual report of Bangladesh Bank.

4.2.15 Annual and Compounding Growth of Total Assets

In total assets, NBFIs experienced a 13.04% of compounding annual growth rate and banks enjoyed a 7.39%. Over the last four years NBFIs annual growth of total assets was higher than the banking sectors total assets growth. In 2018 the growth of NBFIs fall below 5% which was largely lower among five years. Banks also trends to have a lower growth in last two years but NBFIs faced the situation in 2018, where the growth rate is 4.62%.

(Amounts in Billion BDT)

Year	NBFIs		Banks	
	Amount	Annual Growth (%)	Amount	Annual Growth (%)
2014	369.10	13.52%	9,143.00	14.28%
2015	455.50	23.41%	10,314.70	12.82%
2016	538.60	18.24%	11,626.60	12.72%
2017	651.12	20.89%	12,371.93	6.41%
2018	681.19	4.62%	13,059.26	5.56%
	5-Year CAGR	13.04%	5-Year CAGR	7.39%

Table 41: Growth of Total Assets of NBFIs and Banks

Source: Author's calculation. Data of Banks collected from Annual report of Bangladesh Bank and Quarterly scheduled banks statistics.

4.2.16 FIs Assets as % of GDP

Total assets of NBFIs increased over the years. NBFIs were able to maintain the growth level in last four years. In 2018 the total assets of NBFIs as a % of GDP was decreased from the last year. This decrease indicates that this sector is contributing less in our GDP. Total assets of NBFIs were 2.75% of GDP in 2014, 3% in 2015, 3.11% in 2016, 3.30% in 2017 and 3.03% in 2018.

Year	2014	2015	2016	2017	2018
GDP at current market prices (billion Tk.)	13,437	15,158	17,329	19,758	22,505
Total assets of Listed NBFIs (billion Tk.)	369.10	455.50	538.60	651.12	681.19
Total assets of Listed NBFIs as a % of GDP	2.75%	3.00%	3.11%	3.30%	3.03%

Table 42: Total assets of listed NBFIs as a % of GDP

Source: Author's calculation. Data of Banks collected from National Accounts Statistics, May 2018 & May 2016

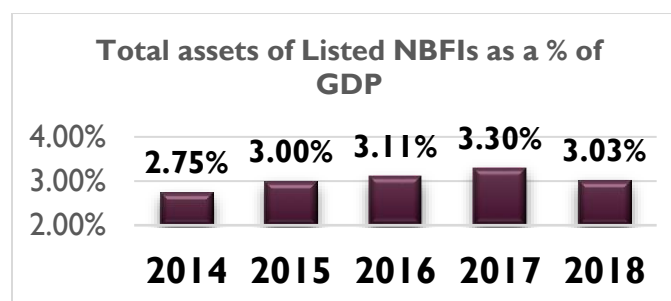


Figure: Total assets of listed NBFIs as a % of GDP

5. Conclusions

In our country by providing financial services, NBFIs have gained considerable popularity but after the liquidation things changes. After the liquidation of PLFSL some more NBFIs is coming into the seen which is in danger too. Regulatory actions might be taken at those NBFIs. As already one event of liquidation in this sector took place in the industry, which made the industry riskier. In this paper we found some important factors which should be treated with due care. We found factors like increasing amount of NPL, negative trends of retained earnings, equity and net profit. Also, there is dearth of deposits in the industry for the confidence crisis of the investors and depositors. We found some NBFIs are having negative result in their core profitability indicators like NIM, negative interest rate spread. Also, the industry this paper reviles an aggressive distribution of leases, loans and advances which created a challenge to borrow funds from banks and FIs. Continuously failing to pay dividend, failing to maintain the overall cash reserve requirements, and failing to grow business are making the industry vulnerable.

Given the constraints that they are encountering with currently, there is a challenge for them to turnaround themselves on an average as an industry. There is no situation of fair competition between banks and Financial Institutions (NBFIs), as the leasing activity is already been delegated to the Banks. As other than term deposits they cannot hold any other deposit that make their operation costly. Not only this, also the cost of und goes with the borrowings from the Banks, as they are not in a position to run their operation without taking additional funds from the banks. Some must be done for this industry which will support this industry for coming out from the risk. In this situation where no level playing fields exists, it becomes a regulatory necessity at this juncture to justify the leasing activity be concentrated to Non-Banking Financial Institutions (NBFIs) by taking away from Banks again. This might be a footstep for the NBFIs to turnaround.

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