Volume 16 I Issue 1 I January 2020

IDLC MONTHLY

BUSINESS REVIEW

10.30%*
December,2018

11.99%*
SEPTEMBER, 2019

NON PERFORMING LOANS

Banking Sector Combating Amidst Macro Challenges

** Gross NPL ratio of Banking Sector of Bangladesh as per BRPD, BB*

IDLC Finance Limited

financing happiness

contents

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FROM THE EDITOR

Banking sector aspiring to descend from the saddle of non-performing loans

Bangladesh, the once "bottomless basket" has grown to be the new "Asian Tiger", on account of incessant growth in the last decade. International investors are eyeing for Bangladesh as a promising investment destination due to immense growth opportunities. Also, the ongoing mega projects will change the blueprint of the country's infrastructure, which is considered to be an obstacle in doing business.

However, the ever-piling up non-performing loans in the banking sector can make the situation worse.

Non-performing loans eats up the portion of loanable fund of a Financial Institutions by keeping provision, which was otherwise supposed to be channeled to the deficit sector i.e. the business entities or to productive sectors. As of November 2019, government already borrowed 90% of its annual limit from the banks, which will in turn, reduce banks' portion of loanable fund. Further NPL pressure may aggravate the situation and lead to a liquidity crisis. Alongside, rising non-performing loans will have a direct hit on banks' solvency scenario, for which banks may succumb to an unhealthy position in long run.

As NPL is constantly becoming a burning issue for the banking sector as well the economy, NPL management is need of this hour. Reinforcing good corporate governance is a prime activity for the sector. Instances of how companies become bankrupt in absence of good governance are aplenty worldwide. In India, merger between the strong banks and the weak banks (in terms of balance sheets) is evident recently as the problem of non-performing bank loans has emerged over the past few years. Our banking industry can also follow their suit, as combining portfolios can provide additional risk diversification. Lastly, establishing Asset Management Companies (AMC) which will purchase the toxic assets of the banks at a discount, and collect from the non-performing assets via selling securities over the years. Without taking care of ever-stacking NPL, the banking sector cannot contribute to the real economic growth. Hence, it is high time the top management of the FIs should come up with effective solutions.

Adnan Rashid
Assistant General Manager
IDLC Finance Limited

INDUSTRY & EQUITY ANALYSIS TEAM

ASIF SAAD BIN SHAMS
Email: shams@idlc.com

ADNAN RASHID
Email: adnan@idlc.com

SUSHMITA SAHA
Email: sushmita@idlc.com

BONNISHIKHA CHOWDHURY
Email: shikha@idlc.com

FARHEEN SULTANA RAHMAN
Email: farheen@idlc.com

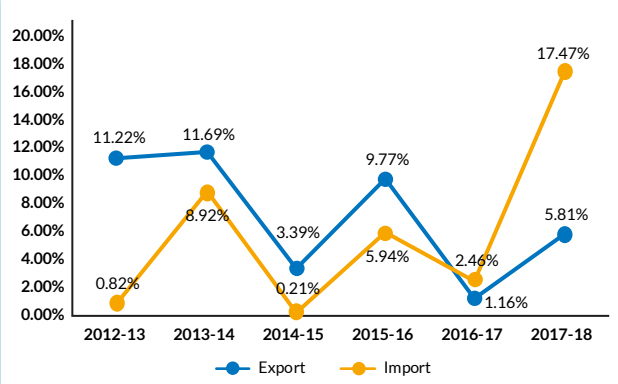
RAIDAH MOMO IBRAHIM
Email: momo@idlc.com

PRIMA FARHEEN
Email: primaf@idlc.com

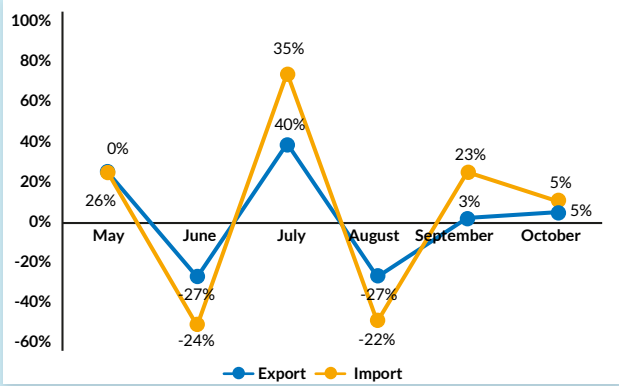
ECONOMY AT A GLANCE

EXPORT-IMPORT

Growth in Export Imort Trade (Last 5 Years)

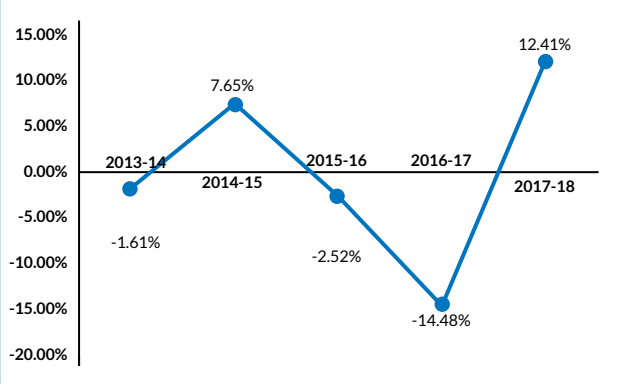


Export-Import Monthwise Growth- 2019

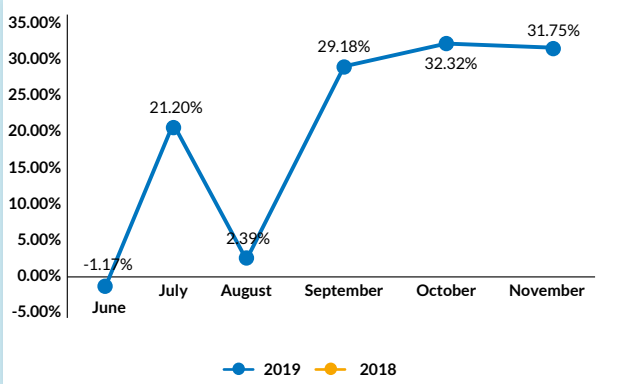


REMITTANCE

Remittance Growth of Last 5 years

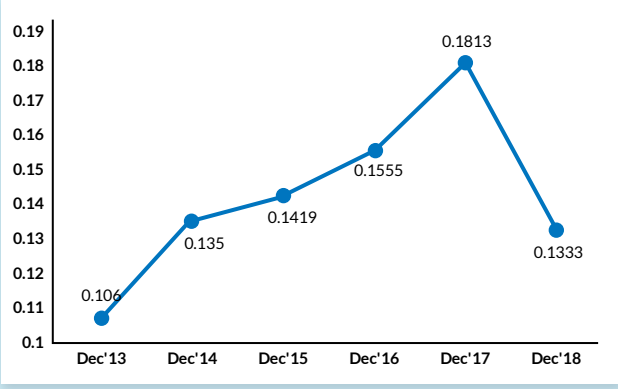


Remittance Growth-2017-18 (Y-O-Y)

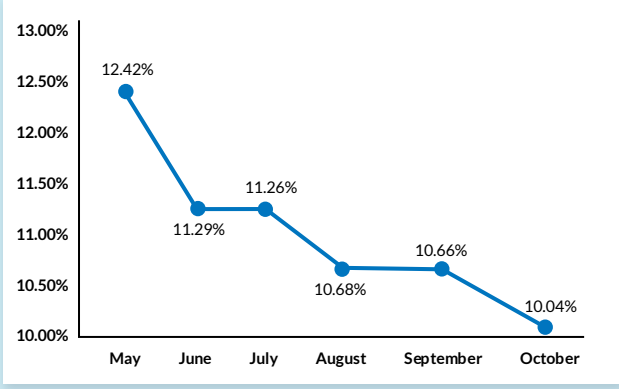


PRIVATE SECTOR CREDIT GROWTH

Private Credit Growth of last 5 years



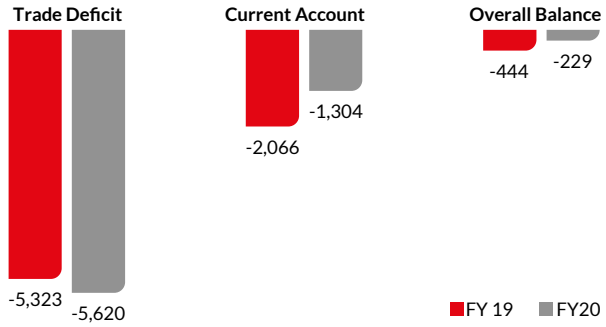
Private sector credit growth 2019



MONTH IN BRIEF

● Trade deficit widened slightly in the first four months of the fiscal year when exports fell more than imports

Balance of payments (Jul-Oct) In million dollars



● Entrepreneurs have made fresh investment to set up 58 new garment factories between **January and October this year while 60 units were shut down, according to BGMEA.**

● The Bangladesh Road Transport Authority (BRTA) has approved 12 ride sharing companies **in line with the Ride-sharing Service Guidelines 2017 to legalize their services in the country.**

● Leading mobile phone operator Grameenphone has deposited BDT 100 crore **to the national exchequer as 'unpaid Value Added Tax (VAT)' after a long dispute with the National Board of Revenue.**

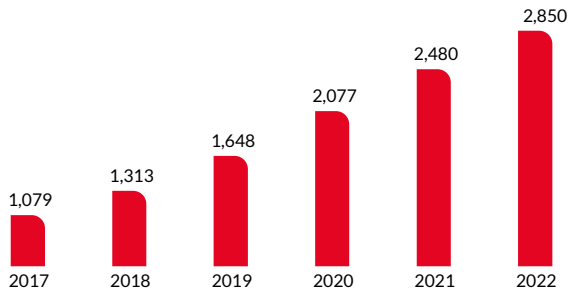
● Bangladesh's economy expanded **at a striking 8.15% rate in fiscal year 2018-19.**

● Bangladesh has gone up 21 notches with an overall score **of 39.1 out of 100 in the Global Sustainable Competitiveness Index (GSCI) 2019.**

● Bangladesh Honda Private Ltd has introduced the first ever locally manufactured 160cc motorcycle Honda Xblade **at a lower-than-expected price tag of BDT 172,900.**

● Bangladesh's e-commerce market stands at USD1.6 billion currently and will double to USD 3 billion **by 2023 on the back of a digital foundation laid down by the government and a young and tech-savvy population**

Market size (USD in bln)



● The poverty rate in Bangladesh fell **by 1.3% points to 20.5% in the fiscal year 2018-19**

● The government has reduced the rate of advance income tax (AIT) **on import of cement raw materials to 3.0% from 5.0%.**

"WE EXPECT REMITTANCE FLOW TO CROSS $20-BILLION MARK BY THE END OF THE CURRENT FISCAL YEAR (FY), 2019-20"

Kazi Sayedur Rahman, Executive Director, Bangladesh Bank (BB) on remittance increases by 18 percent in 2019.

"There are too many banks and this is high time for merger and acquisition"

Dr. Mirza Azizul Islam, Former adviser to the caretaker government, on GDP growth of 2019.

"Stronger value of Bangladeshi taka against US dollar compared to competitor currencies has added to the woes as the industry keeps struggling with unit price"

Dr Rubana Huq, President, BGMEA on ups and downs of the RMG sector.

"No crowding-out impact on the economy following the higher bank borrowing by the government"

Dr. Shamsul Alam, Member, GED, Ministry of Planning, on GDP growth of 2019.

"SINGLE-DIGIT INTEREST RATE ON ALL LOANS, EXCEPTING CREDIT CARDS, WILL TAKE EFFECT FROM APRIL 01"

AHM Mustafa Kamal, Finance Minister, on Lending, deposit interest rates

"SLOWDOWN IN PRIVATE SECTOR CREDIT GROWTH HAS ALSO BECOME A CONCERN AS IT HIT A RECORD NINE-YEAR LOW"

Abul Kashem Khan, Former President, Dhaka Chamber of Commerce and Industry (DCCI), on Robust economic growth in 2019

WORLD ECONOMIC INDICATOR-DECEMBER 2019

Country	GDP size (USD in million)	Gross Domestic Product (yearly % Change)	Inflation (%)	Current Account Balance (% of GDP 2019)	Interest Rates (%), Ten years treasury bond	Currency Units (per USD)
Frontier Market						
Sri Lanka	22,597.70	-0.80	4.80	-3.00	10.33	181.54
Vietnam	261,917.70	0.00	5.23	3.00	3.12	23,172.50
Kenya	23,413.60	-1.30	5.82	-5.20	12.51	101.20
Thailand	137. 11	2.40	0.20	7.00	1.50	30.20
Nigeria	123,378.90	0.62	11.85	2.30	11.31	362.50
Bangladesh	**302,571.40**	**0.93**	**6.05**	**-1.40**	**9.20**	**84.60**
Emerging Markets						
Brazil	469,020.00	1.20	3.30	-1.70	1.50	30.20
Saudi Arabia	198,765.20	2.40	-0.10	1.90	N/A	3.75
India	704,918.80	4.50	5.50	-1.80	6.70	71.00
Indonesia	287,834.30	5.00	3.00	-2.20	7.20	13,990.00
Malaysia	91,634.90	4.40	1.10	3.10	3.40	4.14
Phillipines	86,997.20	6.20	1.30	-1.20	4.50	50.60
Turkey	201,778.70	0.90	10.60	0.20	12.10	5.98
Thailand	137,110.80	2.40	0.20	7.00	1.50	30.20
China	3,517,582.30	6.00	4.50	1.50	3.00	7.00
Russia	433,654.90	1.70	3.50	6.20	6.50	62.40
Developed Markets						
France	674,671.70	1.40	1.00	-0.90		0.90
Germany	955,522.90	0.50	1.10	6.60	-0.30	-2.30
Italy	495,695.00	0.30	0.20	2.90	1.30	0.90
Spain	346,739.20	2.00	0.40	1.00	0.40	0.90
Hong Kong	92,314.40	-2.90	3.10	4.40	1.70	7.79
Singapore	90,613.10	0.50	0.40	17.90	1.80	1.35
United States	5,385,635.00	2.10	2.10	-2.40	1.80	N/A
Denmark	86,840.30	2.10	0.70	7.80	-0.20	6.70
Netherlands	226,511.00	1.90	2.60	9.40	-0.20	0.90
Australia	344,948.10	1.70	1.70	0.10	1.20	1.46
Switzerland	177,569.80	1.10	-0.10	10.20	-0.50	0.98
Britain	553,251	1.00	1.50	-4.30	0.90	0.76

HOW TO DEVELOP A TALENT PIPELINE FOR YOUR DIGITAL TRANSFORMATION

Companies in all facets of industry are digitizing their operations, but most are struggling to find the talent they need to do it. Most, but not all. In a global survey of over 1,000 business leaders, the Harvard Business Review set out to discover what the companies that are good at staffing their digitalization projects are doing differently. They found that higher pay and more expensive training had nothing to do with it, rather it was hiring dynamic people who can develop their skills and incentivizing them to do so.

Through the survey, they learned how companies that had robust talent pipelines actually built them. They saw that the companies had to do a combination of four things:

- **They look for potential, not credentials:** The life cycle of any given technological skill is about 2 years. Strong candidates therefore need to be curious, adaptable and quick to learn.

  The leaders of the survey cast a wider net than other companies. They are more likely to hire people with associate degrees, vocational or trade school graduates, those returning to the workforce after military service or those who have taken time out for parenting. A candidate who worked as a teenager, or joined the military to pay for college, may be more motivated, resilient, agile, and a better team player than someone from a more privileged situation.

- **They value soft skills as much as technical ones:** Today IT development is more about finding problems and creating solutions. The skills in highest demand among the survey respondents were teamwork, leadership and communication – all soft skills, followed by user experience and analytics (both technical skills).

- **They think about teams, not individuals:** Companies will always need PhDs and MBAs to groom as future leaders. But the leaders in the survey are much more likely than poor performers to hire graduates with non-STEM (Science, Technology, Engineering and Mathematics) degrees, non-college graduates with high aptitude scores and vocational or trade school graduates. Candidates are evaluated on their ability to play on a team, rather than the individual skills they bring to the table. Leaders in agile organizations and teams are not always those with the most impressive titles or broad managerial responsibilities.

- **They incentivize employees to grow:** According to the survey results, leading companies are much more inclined than the laggards to reward higher skill levels with better compensation, benefits and responsibility. But surprisingly, they do not offer significantly more training opportunities; they are only slightly more likely to offer traditional classroom training and leading-edge tools such as just-in-time online courses.

The reason became clear when they talked to managers. Employees know that they must upgrade their skills continually, and they have a multitude of ways to do that, of which the most accessible are online. If someone would like to be certified in machine learning, Python, or R (all technical skills in high demand), there are free or affordable courses online that they can take during work hours or their personal time. Once a company has hired a person with potential, it must give them opportunities and incentives, but it does not need to spoon-feed them further education.

ABOUT THE RESEARCH

'How to Develop a Talent Pipeline for Your Digital Transformation' – is a Harvard Business Review Article by Jeff Kavanaugh and Ravi Kumar S. The article states that, the companies that are good at staffing their digitalization projects are doing differently than those who spend on higher salary or expensive training.

GLOBAL BANKING ANNUAL REVIEW 2019: THE LAST PIT STOP?

RESEARCH IN FOCUS

A whole ten years following the global financial crisis, there are clear signs that the banking industry has entered the late phase of the economic cycle – growth in volumes and top-line revenues is slowing, with loan growth of just 4 percent in 2018 (the lowest in the last 5 years and 150 basis points below normal GDP growth). Yield curves have been flattening and though valuations fluctuate, investor confidence in banks is weakening once more.

Emerging-market banks have seen ROTEs (Return on Tangible Equity) decline steeply, from 20% in 2013 to 14.1% in 2018, largely due to digital disruption that continues unabated. Banks in developed markets have strengthened productivity and managed risk costs, raising ROTE from 6.8% to 8.9%. But the global industry has been in dire straits, with nearly 60% of banks printing below the cost of equity. Prolonged economic slowdown with low or even negative interest rates may wreak further havoc.

The difference between the 60% banks that disrupt value and the rest that create it is in geography, scale, differentiation and business models. Let us first look at geography: banks in the United States earn nearly 10% more than European banks do, implying the different environments they operate in. Then comes scale: research confirms that scale in banking, as in most industries is generally correlated with stronger returns.

Now geography cannot be controlled, the location and area of operation place their particular challenges on the banks. Scale can be built though it may take time, attractive acquisitions and partnerships are currently available for most banks. However banks can reinvent themselves even irrespective of scale or business models. The three universal organic performance levers that all banks should consider are risk management, productivity and revenue growth. Building the talent and advanced data analytics infrastructure required to compete in the industry can help the situation too.

But just as counter-cyclicality has gained prominence on regulators' agendas, banks also need to renew their focus on risk management, especially the new risks of an increasingly digital world. Advanced analytics and artificial intelligence are already producing new and highly effective risk tools; banks should adopt them. Marginal cost reduction has started to lose steam. They need to industrialize tasks that don't contribute to competitive advantage and transfer them to multitenant utilities.

The degrees of strategic freedom that banks enjoy depend on its business model, assets, and capabilities relative to peers, as well as on the stability of the market in which it operates. Considering these factors, the report narrowed the set of levers that bank leaders should consider, to practically take achievable moves to materially improve and protect returns within the short period of time afforded by a late cycle. The report classifies each bank into four categories, each with a set of levers that management should consider.

The four categories are defined by two dimensions: the bank's strength relative to peers and the market stability of the domain within which the bank operates.

There are four bank archetypes, based on enterprise strength and market stability

ABOUT THE RESEARCH

'Global banking annual review 2019: The last pit stop?'- is a McKinsey report. The report states, as growth slows, banks across the globe need to urgently consider a suite of radical organic or inorganic moves before hitting a downturn.

Market leaders are the top-performing financial institutions in more attractive markets. They have the best run economically in this cycle, they grow faster than the market and they earn well above their cost of equity. The real challenge is to sustain performance and maintain their leadership status into the next cycle.

Resilients are the top performing operators that generate economic profit regardless of the market conditions. This means they maintain their leadership status despite challenging market and business conditions. For resilient leaders in challenged business models such as broker dealers, reinvention of the traditional operating model itself is the imperative.

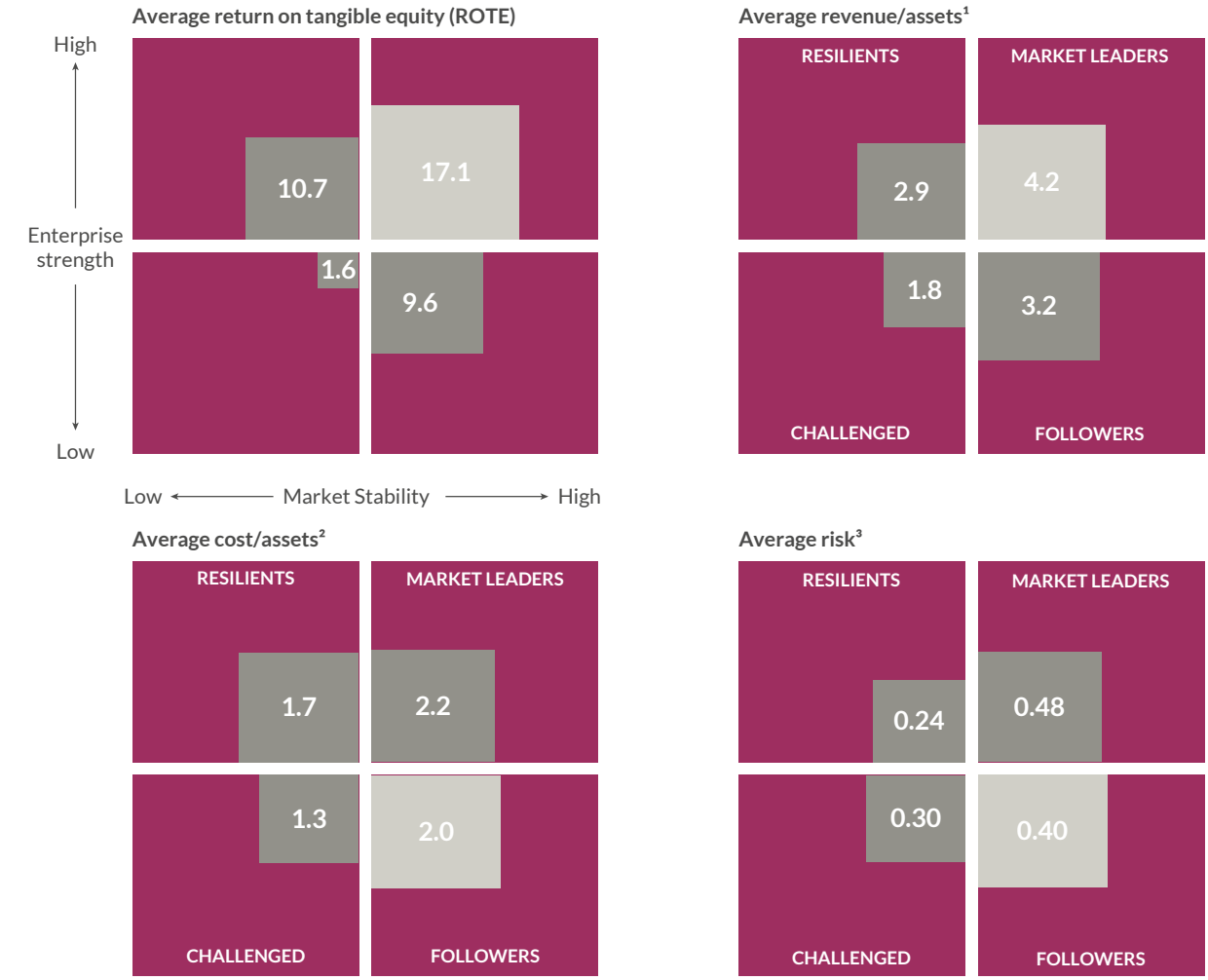
Followers are the mid-tier organizations that continue to generate acceptable returns, largely due to favorable conditions of the markets in which they operate. However, the overall strength of the enterprise is weak compared to others. The key priority for followers is to rapidly improve operating performance to offset market deterioration as the cycle turns. They can achieve this by scaling, differentiating, or radically cutting costs.

Challenged Banks are the ones that generate low returns in unattractive markets and public banks trade at significant discounts to book value. Their strategic priority is to find scale through inorganic options. They may do this if reinventing their business model is not feasible.

To identify the degrees of freedom relevant for each category of bank, the report assessed how each category has performed economically in the last few years.

Revenue yield is the key differentiator across the four archetypes

Average performance metrics by archetype, 2016-18, %



NON PERFORMING LOANS

BANKING SECTOR COMBATING AMIDST MACRO CHALLENGES

Adnan Rashid & Monthly Business Review Team

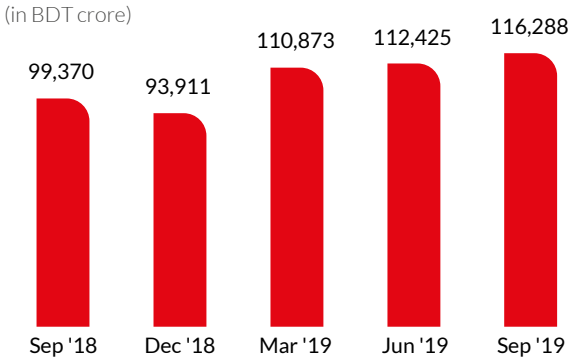
Financial industry is the driving force of any country by being the intermediary between deficit units and surplus units of funds. A stronger and dynamic banking sector is the key for any economy to function properly.

The same applies to Bangladesh as well. With an above 6% GDP growth rate over the last decade, Bangladesh is recognized as one of the highest growth potential economies of the world.

However, high Non-Performing Loans (NPLs) has been a growing concern for the local banking sector and the economy as a whole for quite some time now. And the ever more worrying fact is that the situation is yet to show any sign of improvement.

NPL has direct impact on a bank's profitability. Due to provisioning requirement against NPL, banks are required to keep provision of fund against the diligent accounts and cannot book profit on them. Continuous rise in NPL pushes the banks into red and eventually requires banks to raise equity to cover for the provision requirement. If the provisioning shortfall continues for long and the NPL scenario of the bank does not improve, the bank may struggle to repay depositors money and eventually the question of solvency of the financial institution may arise. If such instances happen to majority of banks and for longer period of time, the economy may face liquidity shortage and acute dearth of public confidence, hence, eroding country's growth potential and economic development.

Defaulted loans at banks
(in BDT crore)



Gross NPL Ratio by the types of Banks

Type of Banks	2018				2019		
	March	June	September	December	March	June	September
Sate Owned Commercial Banks	29.84%	28.24%	31.23%	29.96%	32.20%	31.58%	31.50%
Specialized Banks	23.39%	21.68%	21.68%	19.46%	19.46%	17.82%	17.81%
Private Commercial Banks	6.00%	6.01%	6.65%	5.54%	7.08%	7.13%	7.43%
Foreign Commercial Banks	7.01%	6.66%	7.09%	6.47%	6.20%	5.48%	6.01%
All Banks	10.78%	10.41%	11.45%	10.30%	11.87%	11.69%	11.99%

Source: BRPD, BB

Definition of Non-Performing Loans

Let's first look at what state defines an account to become non-performing loan. The definition of NPL was changed twice in last 10 years. Initially, the general definition of NPL was that when an account becomes 6 months past due, it becomes a diligent loan. In 2012, Bangladesh Bank changed this definition in line with BASEL II and defined a loan to be default when it becomes 3 months past due.

Obviously, this tightening of policy in line of international standard gave rise to the NPL state of the local banking sector. It multiplied by a series of scams and irregularities that unearthed one after another, which hit the overall health of the sector hard.

Classification status of banks

Classification Status	Months Overdue		
	Jun, 06	Dec, 12	Jun, 19
Standard	00 - 02	00 - 01	00-07
Special Mention Account	03 - 05	02	08
Sub Standard	06 - 08	03 - 05	09-14
Doubtful	09 - 11	06 - 08	15-17
Bad Loan	12 & Above	09 & Above	18 & 18+

Source: BRPD, BB

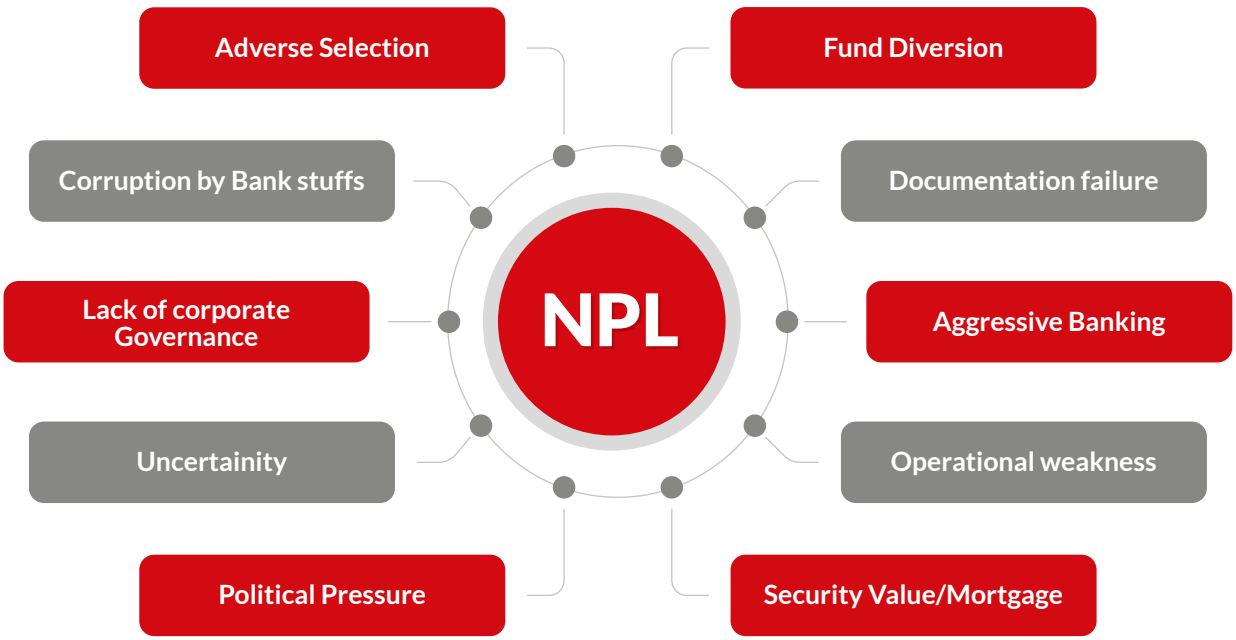
Classification of loans for Non-Banking Financial Institutions (NBFI)

Months Overdue	Classification Status
00-02	Standard
03-05	Special Mention Account
06-11	Sub standard
12-17	Doubtful
18+	Bad loan

Again, in the middle of 2019, Bangladesh Bank relaxed the classification policy and regulated that a 9 month past due will be termed as a default loan. However, the policy remained same for Non-Banking Financial Institutions (NBFI) as post-2012.

Now, the policy relaxation may ease up the NPL ratio of the banking sector, but the underlying vulnerability of bad loans to the banking system will remain the same as before, as per market experts. To some extent it may encourage the defaulters rather than bringing qualitative change to loan origination or recovery processes as in retrospect, this actually benefits the defaulters as they get longer time period to pay off loans than the good borrowers and even with lower cost. Moreover, it does not ramp up the confidence of depositors as banks can actually defer the provisioning requirement which is essential to safeguard small depositors' money.

Major reasons of NPL as per the market insiders



Restructure, reschedule and written off rules and their negative impact on default culture

The policy of restructuring loans was initially introduced in order to facilitate the borrowers with good payment behaviour. Such benefits were supposed to be a one-time offer on the condition that if the firms fail, the banks will take legal action. However, today as it stands, all the business groups which restructured their default loan under this large loan restructuring package have defaulted on their loan repayments. Banks recovered only 25% of total restricted loans in last four years.

The usual policy for rescheduling was, a borrower must pay at least 15% of the outstanding balance to avail a fresh loan from the rescheduling bank. However, The Central Bank issued special policies on May, 2019 on loan rescheduling and one time exit.

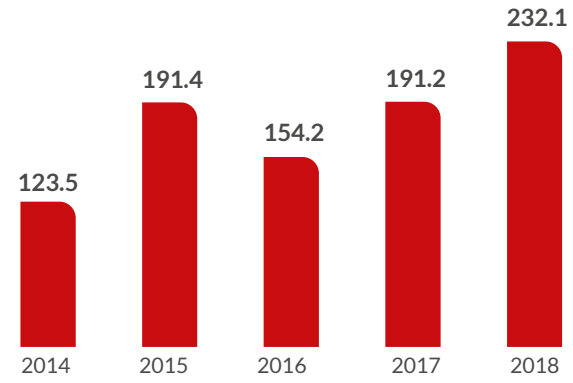
New Circular on loan rescheduling on 2019

Down payment	2%
Interest rate	9%
Payback period	10 Years
Criteria of defaulter	• Trading (wheat, food and allied, edible oil and refinery) • Shipping Industry (Ship-Breaking and Ship Building), Industrial Loan involving in import-export activities of Specialized Banks • Other sectors (at Banks' discretion)
Cut-off Date of default	31 December 2018
Deadline of Application Filing	February 04 2020

This, on the paper, seems like a really lucrative opportunity for the defaulters to start with a clean slate. But such opportunities were extended to the large loan defaulters of the country before, and most of them took the opportunity and reverted back to the bad loan zone. Also, this somewhat look like a reward for bad borrowers and punishment for good borrowers. At present, the normal lending rate of almost all types of loans are in the double digit, while a delinquent customer is getting this record clean at 9% for 10 years, which is even lower than what some banks offer against deposit due to liquidity crunch.

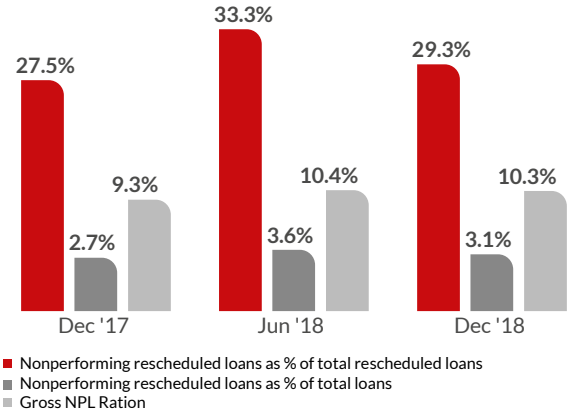
Earlier in 2015, the Central Bank extended such facilities. At that time, 11 large business groups got their loans of nearly BDT 15,000 crore restructured on relaxed terms. However, the amount swelled to BDT 17,103 crore as repayments were not made, according to Bangladesh Bank.

Rescheduled Loans (BDT in billion)



Source: BRPD, BB; Computation: FSD, BB.

Status of Non-performing Rescheduled Loans



Source: BRPD, BB; Computation: FSD, BB.

A rundown on the ARA and NI act for possible repercussions of defaulting in loans and current state of cases in queue in courts:

Negotiable Instrument Act, 1881 (NI): Sections 138 & 140

Financial institutions can file criminal suit against dishonoured cheques after legal notice and the suit can be filed without termination of the agreement. After paper submission of the suit, the court will issue a summon notice. If the notice is not honoured the court will issue an arrest warrant. Arrest warrant is the most powerful tool of NI act as it puts the defaulter under pressure of going to the jail. The defaulter can take bail from the court later after getting arrested. However, if the summons notice does not work, there will be trial followed by verdict. On average it takes 2 years or more to reach the verdict depending on the lawyer and court pressure.

Process of NI Act Suit:

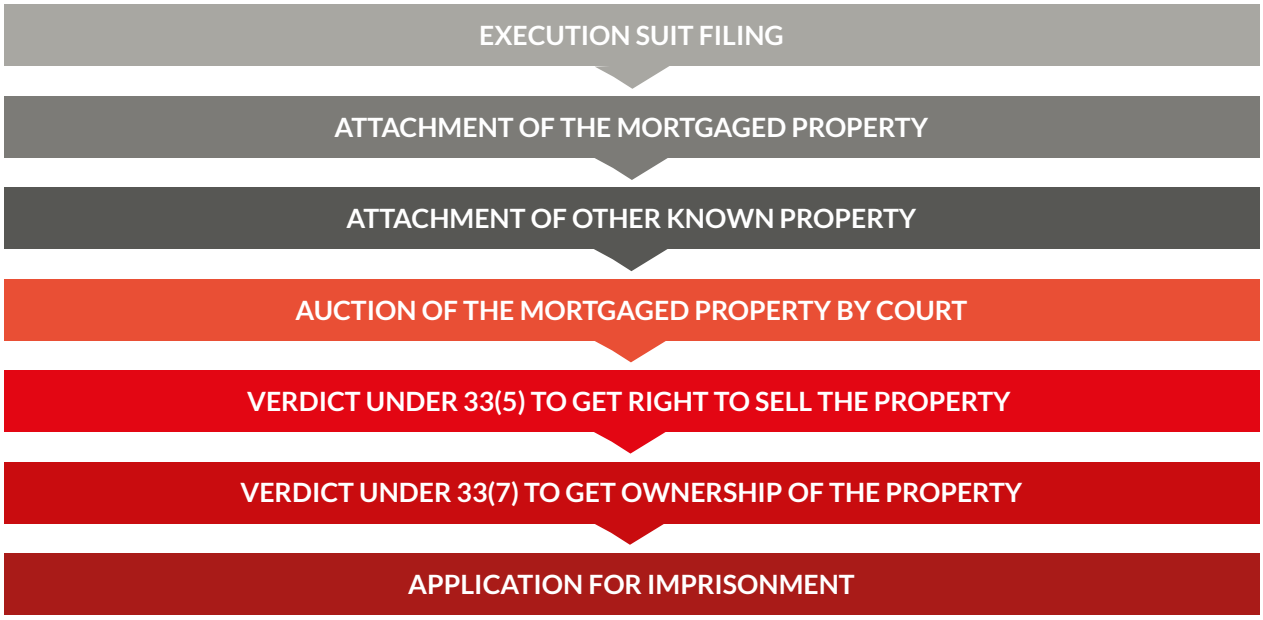
Artha Rin Adalot Ain, 2003 (ARA)

It is filed to recover entire receivables from bad clients. Loan call up is the prerequisite for the act. Directors and their personal properties can be attached. Normally it takes on average 3 to 5 years to reach verdict.

Money Suit Process under Artha Rin Adalot Ain 2003

Step 1 : Main Suit for Decree

Step 2: Execution Suit for Decree



The number of cases piling up in the court is very high. On average a bank or financial intuition has around 4000 to 4500 cases piled up in the court.

Amount of time needed to reach Virdict	
Act Name	Years
Negotiable Instrument Act, 1881 (NI): Sections 138 & 140	On average 2 years or more
Artha Rin Adalot Ain, 2003 (ARA)	On average 2 to 5 years

Provisioning Shortfall due to high NPL

As per central bank regulations, banks have to keep 0.50% to 5% provision with Bangladesh Bank against defaulted loans for general category, 20% against classified loans of sub-standard category, 50% against classified loans of doubtful category, and 100% against classified loans of bad or loss category. However, 12 banks faced a combined provision shortfall of BDT 12,000 crore in the third quarter of 2019. Rising trend in defaulted loans in the banking sector is largely responsible for the huge provisioning shortfall. .

Banks with Provisioning Shortfall

Bank	Shortfall (In crore BDT)
BASIC Bank Ltd.	3,021
AB Bank Ltd.	2,833
Sonali Bank Ltd.	2,456
Rupali Bank Ltd.	996
National Bank Ltd.	958
Bangladesh Commerce Bank Ltd.	488
Dhaka Bank Ltd.	332
Trust Bank Ltd.	280
Standard Bank Ltd.	128
Mutual Trust Bank Ltd.	114
Shahjalal Islami Bank Ltd.	63
Social Islami Bank Ltd.	63

Source: BB

Possible further adverse impact of liquidity crisis

As of November 21, 2019 the Government borrowed BDT 42,607 crore (90% of its annual limit) set in the budget. In contrast, only BDT 26,446 crore was borrowed from the banking sector in the entire fiscal 2018-19.

Soaring government borrowing may lead to a liquidity crisis for Banks/FIs since most of their loanable funds are occupied there. On the other hand, upward pressure on devaluation of USD-BDT exchange rate is prone to have an adverse impact on the import-oriented/trading businesses, which will, in turn, work as an impetus for default culture and hit the banks' profitability.

IMF and ADB's assessment of current NPL situation of Bangladesh

A recent report of the International Monetary Fund draws a gloomier picture of the state of non-performing loans of Bangladesh's banking sector. According to the report, the actual size of bad loan is more than the officially recognized amount as Central Bank's definition of default loan does not capture all sources of problem assets.

IMF opined that around 675 large borrowers that are previously reported as defaulters have obtained stay order from the high court and no longer appear in the CIB database and banks can report them as non-classified. There are BDT 79,242 crore such loans as of January 10, 2019, according to Bangladesh Bank.

Those loans should be counted as problem assets as well as those in the Special Mention accounts, which is the precursor to classified category. The report also mentioned, large number of the special mention loans are rescheduled or restructured many times and in so doing mask the problem loans. However, as per the report the solution to such problem should be in line with the country's macroeconomic performance.

According to another report titled "Managing Non Performing loans in Bangladesh" by ADB, any kind of irregularities in the credit management can contribute to the NPL growth in the Banking System. Moreover, it hampers the new lending capacity because of the shortage of fund causing economic slowdown. To improve asset quality, including writing-off loans with the rise of NPL level the banks are required to raise provisions against probable loan losses and carry out internal consolidation which apparently cause decline

in credit disbursement. Thus, lower return on assets and return on equity taking place and affecting bank solvency and liquidity. Thus, the high NPL ratio is weakening the overall credit quality of the banking sector in Bangladesh.

However, as per the report, apart from following the international best practices and the resolution strategies implemented in other countries Bangladesh needs to follow the below mentioned key measures:

- Corporate governance should be strengthened and carefully due diligence should be followed in lending decisions by banks.
- The existing Bankruptcy Act, 1997 should be strengthen or a bankruptcy and insolvency law should be enacted as a one stop solution consolidating all the laws.
- Both the Government and the Central Bank have to ensure rigorous implementation of the present banking rules and regulations.
- Fair pricing of collaterals through competent accounting firms with global best practices should be ensured. A data warehouse for collaterals also needs to be set up in order to ensure that.
- Consolidation, merging, divesting, restructuring or even privatization of State Owned Commercial Banks can be done in order to bring down their number.
- A national AMC like the Republic of Korea's KAMCO or Malaysia's Danaharta can be established to take over NPLs from ailing banks

Approaches made by the neighbouring countries in managing ballooning NPL and what we can learn from them:

China

China penalized the defaulted customers by putting restriction on enjoying different social benefits that the regular citizens are entitled to avail. Restrictions are namely not being able to purchase air ticket, purchase tickets of high-speed train, serve as executive or representative of corporate entities, avail further credit requests and getting banned on personal ID that is used to avail the hotel accommodation facilities. This blacklist contains many political bodies, legislative and government staffs of China and there is no exception in punishment. Even, they cannot buy any real estate. In some cases, the defaulters do not get any promotion upon being defaulter. In some of the provinces of China, the defaulters are socially and publicly shamed. For Example, a court in the Southwest Sichuan Province began leaving recorded messages on the phones of 20 debtors. When someone rings a defaulter, the message plays: "The person you are calling has been put on a blacklist by the courts for failing to repay their debts. Please urge this person to honor their legal obligations."

Malaysia

Malaysia blacklisted their overdue clients. Defaulters in Malaysia are not allowed to leave the country. Besides penalization, Malaysia went through a major restructuring of credit disbursement. Malaysian government used a recovery strategy in a non-cash format to settle down the outstanding loans, by converting non-cash recovery asset or collaterals into cash. Malaysia introduced Asset Management Companies (AMC) to extract these loans.

Republic of Korea

To bring a comprehensive financial stability, the Government of the Republic of Korea took steps and succeeded in a very short time. The licenses are cancelled and operations are suspended for those financial institutions which failed to meet the minimum capital adequacy standard, the balance sheets of viable ones are cleaned up to give a boost, mergers are created into large banks and restructured banks are given responsibility of corporate restructuring with allocation of public resources. NPL is a concerning issue but NPL ratio dropped when Korea Asset Management Corporation (KAMCO) purchased NPLs with discount but sold it off with high prices. The healthy banks received capital through public bonds by acquiring insolvent ones by the Korea Deposit Insurance Corporation and guaranteed by the government on interest costs. As a result, commercial banks had become more transparent and healthier than before, and both foreign and local investors 'confidence has largely been restored. NPL, was fought well to be reduced. This legal framework, securitization and other reforms such as in the bankruptcy law, contributed to KAMCO's success.

Initiatives by Government and regulators to buckle down the burgeoning NPL and what more should be done

Over the years several measures have been adopted by the regulators in order to address nonperforming Loans in Bangladesh. Some mentionable measures are:

Year	Measures
1986	Setting of recovery targets and prohibiting nonpayers from access to further credit etc.
1990	Enacting Financial Loan Court Act, 1990 and Bankruptcy Act, 1997 etc.
2000	Enacting the Money Loan Court Act 2003 and the Bank Company (Amendment) Act 2003 for quick settlement of filed cases etc.
2012	Tightening loan classification and tightening of definition and delinquency periods for fixed term loans.
2013	Amending the Bank Company Act, Special diagnostic examination of SCBs by Bangla-desh Bank etc.
2015	Restructuring of large loans above BDT 5 billion
2019	Changing the definition of Loan Classification and Provisioning and rolling out new re-scheduling circular

However, there are also some very important ongoing reform measures among which if necessary amendments to the major acts are especially mentionable.

Ongoing and prospective reform measures:

Merger or consolidation between FIs with strong equity base with FIs with relatively small equity base:

Regulations on merger can help decrease the rate of NPL. As the strong and efficient banks with better underwriting capacity merges with weaker and smaller banks, then it becomes easier for them to avoid default payments. Liquidation of a financial institution leaves scars on a country's economy which takes years to heal. Restructuring is always a better idea than liquidation for mainly three reasons.

First of all, it prevents from system collapse, secondly, liquidation leads to spread widening which restructuring prevents. Thirdly, saves from credit crunch caused by fund crisis. The success of restructuring can be seen widely in our neighbouring countries. In 1985, two large state-owned banks of Philippines, that together owned 50% of the total banking assets, saw 70% of their assets going bad. These two banks were eventually restructured through a comprehensive rehabilitative process like transferring NPL to a third party trust, heavy cost cutting measures etc. However, through new management, recapitalization, the banks were able to be improve their capital adequacy ratios and return to profitability by 1987.

On the other hand, a major step taken by Vietnam in reducing NPLs, was the establishment of the Vietnam Asset Management Company (VAMC) in July 2013, which acquired approximately $13.5 billion in NPLs by the end of 2017, financed by the issuance of VAMC (special) bonds. This measure played an important role in reducing NPL on the banks' balance sheets. As a matter of fact, some of our successful institutions of present days are also results of restructuring.

Establishing Asset Management Company (AMC)

Successful AMCs can help banks improve their balance-sheet picture, thereby allowing them to free up capital for lending. The government may decide to set up special bankruptcy courts to attend to AMC-transferred assets cases only, along with strict time-bound proceedings including the appeal process. These measures will help increase the price offered by AMCs to the banks as the residual value of restructured NPL assets will increase, thereby encouraging banks to release the better-priced bad loans.

Reinforcing Corporate Governance

Moreover, in order to diminish NPL growth good and transparent corporate governance must be ensured in the management and board committee. The governance bodies should be empowered to make objective decisions while issuing loans.

Setting up data-warehouse

Recommendations of creating of secondary market for NPLs, setting up a separate data warehouse for NPLs under the existing facilities of the Credit Information Bureau of the Bangladesh Bank, and tax rebate facility for traders of the default loans should also be considered.

Syed Mahbubur Rahman is the Managing Director & CEO of Mutual Trust Bank Limited (MTB). Prior to joining MTB, he was the Managing Director & CEO of both Dhaka Bank Limited and BRAC Bank Limited. He also served as Deputy Managing Director at BRAC Bank Ltd. and Prime Bank Limited. With a banking experience more than 30 years, he is deemed as one of the most esteemed banking professionals of Bangladesh. Of late, MBR had an opportunity to have a one-to-one conversation on in and out of current NPL management in Bangladesh and discussed the way outs.

Syed Mahbubur Rahman

Managing Director & CEO Mutual Trust Bank Ltd.
Former Chairman, Association of Bankers Bangladesh

MBR: From BDT 99,370 Crore in September,2018 to BDT 1,16, 288 crore in September,2019; the NPL growth in Banking sector seems to be going out of control. Despite of strong policy provided by the regulators, in your opinion what are the major driving forces behind such unwanted growth?

Syed Mahbubur Rahman: If we look at the history of banking sector of Bangladesh, it can be noticed that this sector actually started growing around the early 80s. During that time, in the first generation banks, there used to be insider lending and the presence of corporate governance was very negligible. The system of classifying non-performing loans was extremely lax in absence of a standardized loan classification procedure and specific time limits for loans to be classified. Generally, a long time was required for a loan to be identified as classified, and as such the provisioning requirement was less important. This resulted in huge non-performing loan and the poisonous practice started to spread as the defaulters were not penalized. As we all live in the same society watching people getting away even after defaulting somehow influenced others.

However, by late 80s, Bangladesh Bank started recognizing the threats and gradually corporate governance started to get importance in this sector. The government introduced a comprehensive financial sector reform program in the country in the late 80s. As part of this program, a new system of loan classification and provisioning against potential loan losses for advances was introduced. Restrictions on internal lending established where proper disclosure in annual report with permission from Bangladesh Bank was introduced. On the other hand, as there was no loan courts, defaulters were also taking the advantage of this. The civil courts were burdened with other businesses and such suits of banks consumed time for disposing of. The delay caused made the bank sector suffer for non-realisation of dues in time and the bankers gathered bitter experience in realizing the same. To remove this difficulty, the government enacted a special piece of legislation named "The Artha Rin Adalat Ain, 1990" which failed to fulfil the expectation and subsequently went through some changes, and ultimately was passed in the parliament as "The Artha Rin Adalat Ain, 2003"by repealing the earlier one.

But the processes have been very time consuming, which makes all these less effective. For example, it takes almost 8 to 9 years to dispose. On the other hand, even if we win a case, encashing the production or disposal of collateral or even getting the right value of collateral takes a lot of time. Thus, such lengthy processes have contributed greatly to the culture of impunity. We are, however, getting some positive result by using Section 138 of Negotiable Instruments Act, 1881, dishonoring of Security Cheques . Offence of dishonor of cheque is considered as a criminal offence.

Also another reason is having so many bank for an economy of our size, and this has resulted unhealthy competition, ultimately leading to occurrence of non performing loans. However the government must have insights regarding approving such a large number of Banks. Since all the banks are operating in the same economy, it is obvious that there will be competition and each and every bank has the thrust for profit. Falling into that trap, banks sometimes over finance against

negligible securities or without any business cause, which leads to fund diversion and that ultimately fuels non-performing loans. Bangladesh Bank has strict restriction on mentioning the purpose of financing and monitoring the fund flow but sometimes for the sake of profitability we do not follow those guidelines which also has positive influence on the NPL growth. On the other hand, sometimes we use rescheduling as a short term way out without looking at the capacity of the concerned, which is also not a good practice as ultimately they default. Moreover, as a banker we always focus on the current NPL stock but hardly working on the forward flow. All these factors are working as a driving force in the NPL growth of Bangladesh.

MBR: In order to avoid the adverse selection in case of assessing the potentiality of the clients, what mistakes we are still doing which is contributing to this growing NPL? As a market expert what are your tips to avoid such mistakes?

Syed Mahbubur Rahman: We, as bankers need to be very diligent. Considering the current market scenario, finding the right kind of human resources is a big deal. With the growth of financial institutions, we are having difficulties in having quality resources too. In this business, we must have a qualified resources to have better understanding of our clients' businesses. This include knowing not only the client's business but also the need, character, transaction pattern details etc. Apart from understanding the client's business pattern, it is also important to understand his working capital or term loan requirement. Most importantly, continuous follow up on receivables, stock reports, product details and completion of other documentation are mandatory.

MBR: Considering current market scenario, what macro-economic factors are affecting and being affected because of such mounting NPL growth?

Syed Mahbubur Rahman: NPL increases as increased number of borrowers default on their loan, which means money is not coming back to the organization, resulting in no reinvestment and supply decreasing. Currency circulation will fall back, banks will not be able to lend as limited resources will be available and as a whole it will affect all financial institutions and thus the whole economy greatly.

MBR: Compared to our neighboring countries like China and Malaysia, in terms of both technical and strategical advancement, particularly in which cases we are falling behind in order to control NPL?

Syed Mahbubur Rahman: To begin with, government and the people in the financial institutions need to have good intention. As we can see from neighboring countries such as China, after the crisis in late 90s, they took steps and reversed the crisis into positive changes at banks. Until there is right governance and things are taken seriously at the top level, things are difficult to change. It will be hard to reduce NPL if actions are not taken at the root level. Also, unless penalty or actions are taken against the defaulters, there will be no urge for people to change and take loan seriously to repay.

To bring a change, we must be aware of all the defaulters. We can still see how defaulters are being celebrated in our society. If this continues, nobody would realize and would continue to default. For instance, we can have the names of the defaulter in the system to let everyone know, limit their social right such as voting rights or seizing passport and other important documents. The main idea is to establish penalty against defaulters.

Technology can aid in controlling NPL. With the advancement of technology, it's easier to reach public and create awareness so that people are aware of the defaulters. We have to invest on technology, as we all know future is nothing without technology.

MBR: What are the way outs both Banking sector and Regulators to control the growing NPL growth and what new initiatives should be introduced as per your opinion?

Syed Mahbubur Rahman: Regulators should be allowed to work with independence with no influence. Bangladesh Bank has been trying best to bring changes such as improving customer experience, enhancing security issue etc. We are grateful for the changes it brought. But we need to do more with the technological changes that are happening globally. In respect of reform of laws, Bangladesh bank has already forwarded our recommendations to Law commission and as are awaiting to have their response.

Also, government intention must be aligned with the betterment of the future for the financial institutions. Without proper guidance and governance, changes are rare to be plausible.

Finally, defaulters must be name and shame to let them realize that they are wrongdoers. Database must be created to keep track of reasons of defaulting and defaulters. Defaulters cannot go unrecognized. With this principle in head, moving forward, I hope we can fight against the growing NPL growth.

IDLC Reaches Out To The Neglected Elderly Of Apon Nibash Old Home

IDLC Finance Limited, country's largest financial institution recently took an initiative of reaching out to Syeda Selina Shelly's initiative Apon Nibash Old Home

All the 60 elderly woman who currently lives in the old home have been found on the streets of different districts of Bangladesh. Syeda Selina Shelly rescued them upon getting to know about them.

In the year 2015, Syeda Selina Shelly established Apon Nibash with feeling of urgency to do something for these elderly women. Currently the old home has 60 residents from different part of the country and 15 volunteers who works for elderly citizens.

IDLC Finance limited, as part of Medical Support organized a health camp for all the residents on December 5, 2019. IDLC has already arranged a follow up health checkup campaign which will be held on the month of April of 2020.

IDLC has also provided logistical support to the residents of the old home by providing a washing machine, iron beds, mattress and blankets for the winter, bed sheets and first aid kit.

CEO & Managing Director of IDLC, Arif Khan went to visit and handover the logistics himself.

IDLC will surely keep supporting Apon Nibash on upcoming years.

- Arif Khan
CEO & Managing Director
IDLC Finance Limited

IDLC Lays the Foundation Stone of its Permanent Corporate Office

On December 16, 2019, IDLC Finance Limited's Chairman Aziz Al Mahmud laid the foundation stone of its permanent corporate office at 153 Tejgaon Industrial Area, Dhaka, through an inauguration event. Arif Khan, CEO & MD of IDLC Finance along with the Board of Directors and company officials was also present at the event. IDLC is going to build its permanent corporate office of 20 stories according to international energy efficient green building standards and for the parent and its subsidiaries companies. All modern amenities and facilities will be available such as auditorium, customer zone, priority lounge, health care facilities, day care, etc.

IDLC is going to build its permanent corporate office of 20 stories according to international energy efficient green building standards and for the parent and its subsidiaries companies.

EARNING DISCLOSURE OF IDLC FOR THE PERIOD ENDED SEPTEMBER 30, 2019

Financing business maintained NPAT amidst falling Investment Income

(Figures for Q3, 2019)

(-28%)

NPAT (CONSOLIDATED)
BDT 1,308 mn
Base: NPAT for YTD Q3 2018

9%

CUSTOMER ADVANCES
BDT 86.8 bn
Base: Balance at 30 Sep, 2018

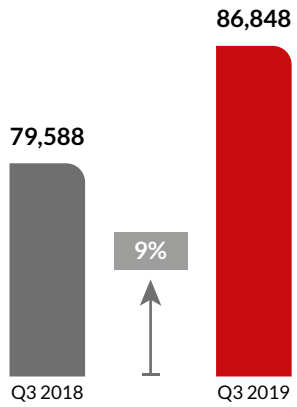
27 BPS

NON PERFORMING LOANS
2.94%
Base: NPL% at 30 Sep, 2018

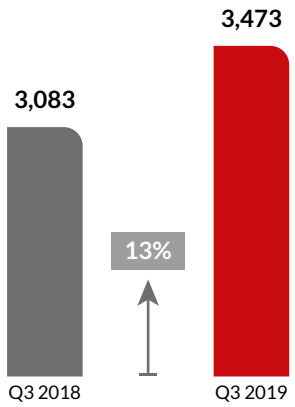
YoY Performance Metrics (Group) in BDT million

(Figures in YTD Values)

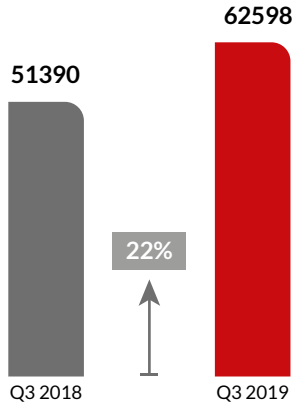
Loans and Advances



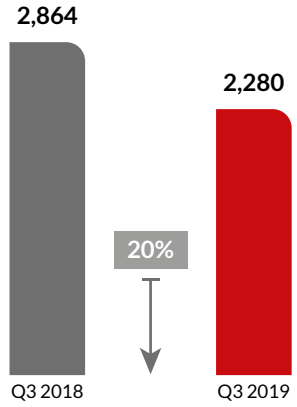
Net Interest Income



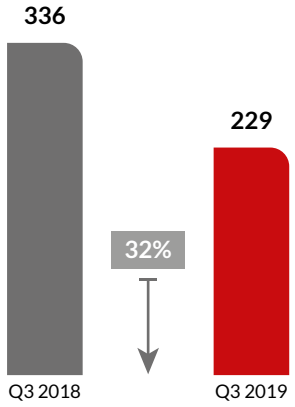
Non Bank Deposits



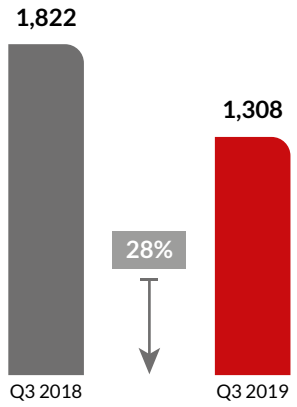
Operating Profit



Provision charges: Loans & Investments

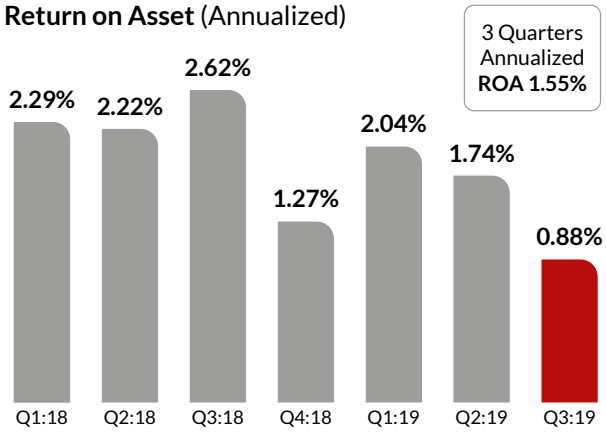


Net Profit

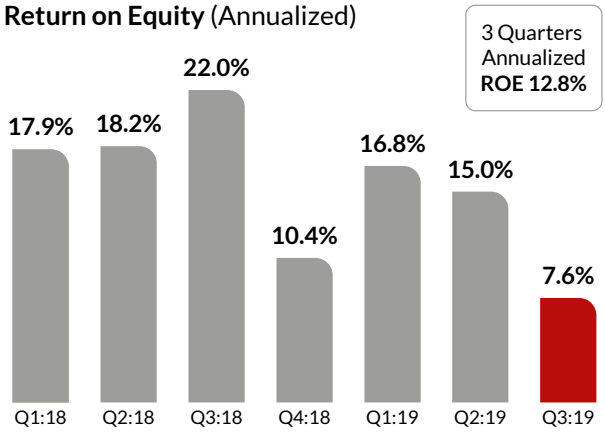


Shareholders' Return

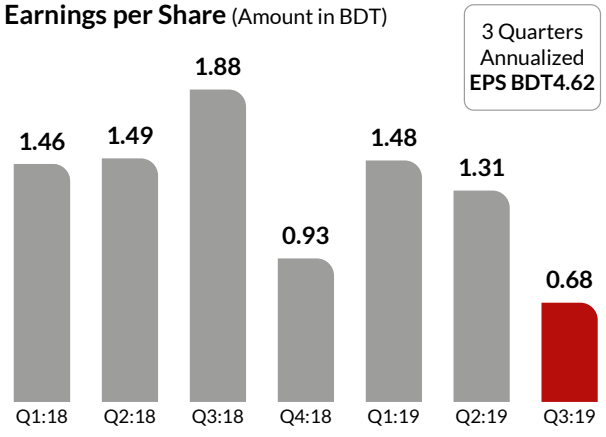
Return on Asset (Annualized)



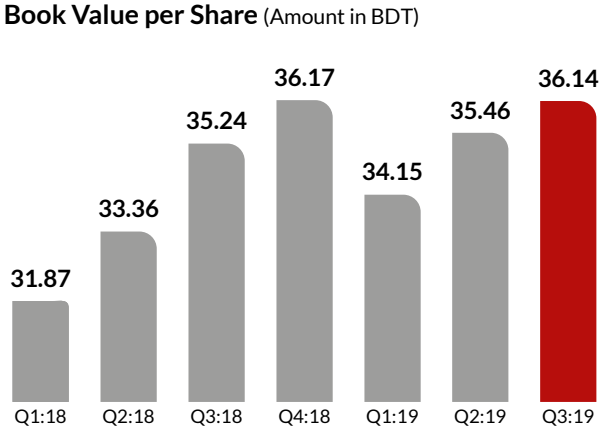
Return on Equity (Annualized)



Earnings per Share (Amount in BDT)



Book Value per Share (Amount in BDT)



Non-Financial Highlights

New Offerings:

- **IDLC Affordable Housing loans**
  - Targeting households with monthly incomes below BDT 60,000
  - Ticket size: between BDT 0.8mn – BDT 2.5mn
  - Tab based financing
- **IDLC Very Small Enterprise (VSE) Financing**
  - Ticket size: between BDT 0.2mn – BDT 1.5mn
  - CRG based underwriting
  - Tab based financing
- **New wealth management product – Monthly Deposit Pension Scheme (DPS) – under way:**
  - Initialized test phase with internal colleagues
  - Launch being held till third party integrations are readied

FOOSTO

Foosto is a network of food ordering and delivery system in Bangladesh. A fairly new start-up that was initiated to bring home chefs and food lovers under one roof. More than 18 million people live in Dhaka city. The sad reality is that millions of the working aged female population in these cities do not engage in any kind of work outside their home because of social and religious restrictions. With a passion to do something for those women who never thought of working outside home, Suman Saha, came up with this idea to give a floor to these people and earn a living.

Suman Saha, an intellectual man, studied and pursued PhD in computer science and worked in different research projects to build several cutting edge solutions. In 2018, he discussed his interest of building a technological solution that can make a positive impact in the society with his three friends: Pavel Hoque, Golam Quawser, Gazi Kutub Uddin. After seeing that his friends also share a keen interest about bringing the change, he proposed to build a home-made food delivery service for office people. Thus, Suman and his friends built an online marketplace, called Foosto where people can use their cooking skills to prepare, promote and sell home-made food to earn money and become self-sufficient. Foosto targets women from middle-class families and propose them to become merchants of the company. The company believes that women from such background will be more interested to earn money for their families and thus will take the job seriously.

It's a challenge to convince such women to pursue them to come to this career. Many don't want to go out for training and thus Foosto arranges at the clients' houses. It takes couple of weeks to convince these women and complete the registration process. Foosto follows several marketing strategies to find new merchants such as Referral Program where the company offers cash rewards to any existing merchants if she can introduce another potential merchants in the business. This is a proven effective marketing strategy since there are lot of existing companies like Airbnb, Uber which use this strategy to hunt their merchants. They also use usual marketing strategies such as distribution of flyers, SMS marketing, and online marketing through different social networking sites in order to find home chefs.

Foosto is more interested on quality service over quantity. They believe that if they maintain good quality of service all the time, they can make a strong position in this competitive market. The company's motto is "Good food on time". There are two goals in this motto.

1) **Providing quality food from an individual merchant, and**
2) **Deliver food on time.**

They have been working for these two goals and investing money and time to make them perfect. Foosto is applicable to operate in Gulshan, Banani, Tejgaon, Badda, Karwan Bazar, Banglamotor, Shahbag, Dhanmondi, Shyamoli and Lalmatia in Dhaka city.

Foosto has 150 registered home chefs. Some of the home chefs provide more than 30 lunch boxes daily. They are female and come from middle class families. There are also 11000 registered customers who come from corporate offices. They are focusing on effective marketing strategies and consistent good quality service.

There are several ways that the company charges money. A commission of 10%-20% is charged on the total income of the home chefs. A 2% service fee is charged from the customers, depending on the total price of the food. Also, the company charges the customers

Sumon Saha

A.K.M Ehteshamul Hoque

Golam Qawser

Gazi Kutub Uddin

for the delivery service. The founders also have a plan to generate revenue from advertisements on their food box. They provide food boxes with the company logo to the home chefs in order to pack their food for the customers. Foosto charge other companies for promoting their products/services on its food boxes. In the future, the company would generate revenue from Ads on Foosto system. The company plans to charge other companies for promoting their products/services on its application.

It is understood that this idea is the type that faces a chicken-and-egg problem because it won't be attractive to users until it already has a lot of users. Foosto followed a unique strategy as soon as it introduced service in the market. The process started with finding few home chefs in the market. They were asked to start offering food on Foosto. The company procured food from clients even if it did not have sufficient number of customers in the market. These procured food boxes were sent as free sample food boxes to different corporate offices to promote service. This smart strategy did jump start the operation in the new market very easily. The founders of Foosto were quite satisfied by the positive feedback received by implementing this marketing strategy just after launching the app.

There exist a few challenges of this business. It is well aware by everyone that there is no existing billion dollar food delivery business based on home-made food as opposed to restaurant food, such as Pathao, Foodpanda. Why is it like that? After some rigorous research, a problem is found in the existing business policy of food delivery business based on home-made food. Customers tend to place an order on any food ordering system either just before their meal time (Lunch/Dinner) or when they feel hungry. Moreover, customers want their delivery to be as fast as possible. This is the usual nature of most of the customers. On the other hand, home chefs prepare food after receiving an order to avoid any probable loss. This preparation time takes 312 hours depending on the recipes. Hence, there exists a huge gap between the demand of customers (in terms of interested time frame for ordering food) and the supply from home chefs (in terms of food preparation time). The founders have analysed data from the Foosto food ordering system. 75% of the orders were made within three hours before the lunch time (9:00am-12:00pm) and during the lunch time (12:00pm - 1:00pm). Therefore, it can be concluded that if any home-made food ordering and delivery business doesn't take orders from their customers during the meal time or close to the meal time, then the business would hardly find any customers.

The most crucial challenge is to maintain the quality of food. Since the food is supplied by an individual chef and not by any established caterer or restaurant, it is quite challenging to maintain a certain level of food standard. In order to ensure food quality, Foosto follows several quality assurance processes. There are a lot of businesses (such as Amazon and Airbnb) which provide services from individual service providers to public and they tend to have their own defined strategies to maintain satisfactory service level. Foosto tend to do the same. Another critical challenge is concerned with predicting the market demand. Since Foosto procures food from home chefs way ahead of customer orders, they must be able to predict the market demand as precisely as possible in order to avoid any financial loss. For this, Foosto is building an intelligent system that would understand market demand and procure

Key Info

- Goals of Foosto are providing **quality food** from individual merchants and deliver food on time.
- Foosto has **150** registered home chefs and **11000** registered customers who come from corporate offices.
- Foosto arranges training at the clients' houses who can't go outside so that they are well-prepared to use the platform.
- Foosto is applicable widespread in Dhaka.

food automatically by analyzing past data. The system would be a smart predictor, knowledge based machine learning system.

The founders of Foosto are introducing AI-based solution using deep learning technology which would help to overcome the limitation of home-made food delivery business policy by synchronizing demand and supply. How? At first, the AI-based system, Foosto smartly predicts the demand of the current market. Based on the market demand, Foosto automatically procures food from home chefs 12 hours ahead of the meal time. Finally, the system creates a virtual inventory of procured food for customers. Because of this smart solution, home chefs prepare food before the meal time without worrying about any probable loss, because Foosto would pay for any unsold procured food. On the other hand, customers order food from the virtual inventory during meal time and don't need to wait for the food preparation time. Once, it is ensured at the customer-end that they don't need to wait for the preparation time for home-made food, the founders are hopeful to get more customers on their platform. At the same time, this AI-based solution will not only boost the volume of sales for home chefs but will also encourage other women to work with Foosto. The effective marketing strategies will take foosto to new customers and good quality of service increase the number of repeat customers.

In the future, the company is going to setup several permanent/mobile distribution centres to distribute food within the city. The delivery men would pick up food boxes from the home chef's houses and bring them to the distribution centres. The boxes would then be sorted and prepared for delivery to the respective customers from these centres. Foosto desires to reach all horizon and expand the business to enable mass majority to take the service and enhance the economy. It's a new innovative change with lots of opportunities and various struggles. But, if successful, this could turn the game and give people hope to start new ventures.

Performance of Equity Markets of Bangladesh and Peer Countries

Bangladesh equity market closed the month of December in negative territory. During the month, the broad index DSEX declined by 5.9%, losing 278.5 points. The blue chip index DS30 and the Shariah index DSES also decreased by 8.2% and 7.6% respectively.

Among the regional peers, Sri Lanka and Vietnam's index also declined by 1.3% and 1.0%, while Pakistan yielded a positive return of 3.7% during the month of December. Similarly, the MSCI Frontier Markets Index gained 3.9%. Over the long term, Vietnam showed the most encouraging track record with a 5 years' return of 78.8%.

Table 1: Equity market performance in Bangladesh and peer countries

Indices	Index Points, December, 2019	Return*					
		1M	3M	YTD	12M	3Y	5Y
Bangladesh							
DSEX	4,452.9	-5.9%	-10.0%	-17.3%	-17.3%	-11.6%	-8.5%
DS30	1,513.3	-8.2%	-14.0%	-19.5%	-19.5%	-16.4%	-16.1%
DSES	999.8	-7.6%	-12.2%	-18.9%	-18.9%	-16.1%	N/A
Peer Countries							
Pakistan (KSE 100)	40,735.1	3.7%	27.0%	9.9%	9.9%	-14.8%	27.5%
Sri Lanka (CSE - All Share)	6,129.2	-1.3%	6.8%	1.3%	1.3%	-1.6%	-15.9%
Vietnam (VNI)	961.0	-1.0%	-3.6%	7.7%	7.7%	44.5%	78.8%
MSCI Frontier Markets Index	**766.9**	**3.9%**	**5.7%**	**13.8%**	**13.8%**	**18.6%**	**4.3%**

* All returns are Holding Period Return

Source: Investing.com, MSCI, DSE

Liquidity Condition in Equity Market of Bangladesh

During December, the total market capitalization decreased by 4.8%, while free float market capitalization decreased by 5.6%. The daily average turnover of December 2019 was BDT 3.4 bn (USD 39.5 mn), decreasing by 14.1% from that of last month. Accordingly, turnover velocity which represents overall liquidity of the market decreased to 23.7% in December compared to 24.9% of last month. In 2018, turnover velocity of Bangladesh equity market was 37.7%, whereas it was 5.4% in India, 6.9% in Sri Lanka, 34.8% in Vietnam and 70.7% in Thailand.

Table 2: Market capitalization and turnover statistics

Particulars	31-Dec-19	30-Nov-19	% change
Total market capitalization (USD* mn)	39,994	42,015	-4.8%
Total equity market capitalization (USD mn)	33,131	35,146	-5.7%
Total free float market capitalization (USD mn)	13,464	14,267	-5.6%
Daily Avg. Turnover (USD mn)	39.5	45.9	-14.1%
Turnover Velocity~	23.7%	24.9%	N/A

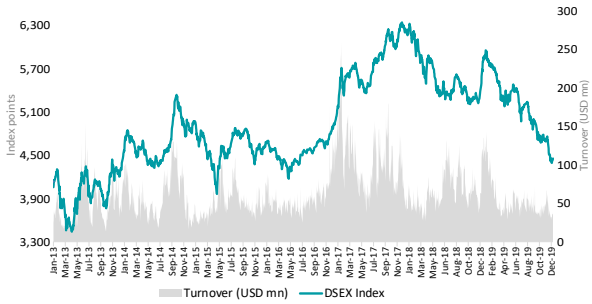
*All USD figures are converted using an exchange rate of 84.90 as of December 31, 2019 as per Bangladesh Bank website.

~Turnover velocity is calculated by dividing monthly total turnover with month-end market capitalization. The figures are annualized.

Historical Index Points and Market Participation Data

Since its inception on January 27, 2013, DSEX yielded a holding period return of 9.8% till December, 2019. During the same period, daily average turnover of the market amounted to BDT 5.4 bn (USD 63.3 mn) (Figure 1).

Figure 1: DSEX since inception along with market turnover

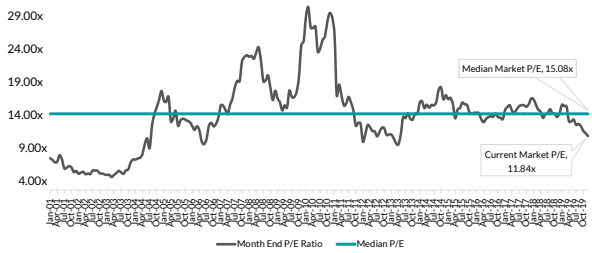


Market Valuation Level - P/E Ratio

The market P/E decreased to 11.84x in December compared to last month's 12.26x. It is also way lower than the 19 years' median market P/E of 15.08x (Figure 2). In terms of trailing 12 month P/E ratio equity market of Bangladesh is cheaper than most of its regional peers. (Figure 3).

Figure 2: Historical market P/E* and it's median

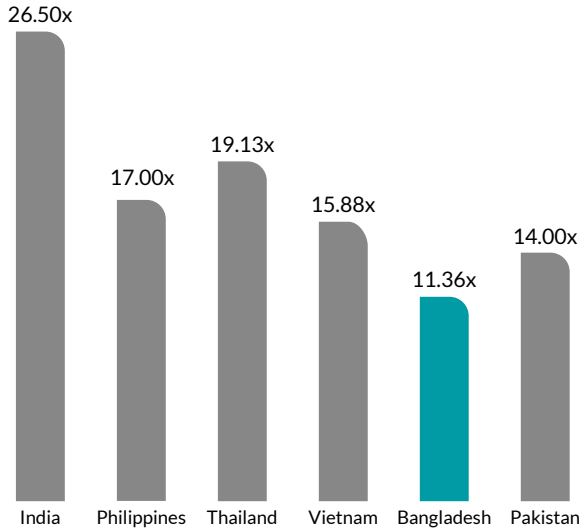
Current Market P/E in Context of History



*Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their total audited annual earnings.

Source: CEIC, DSE

Figure 3: Current market P/E* of Bangladesh and peer countries



*Trailing 12 month P/E as of November 30, 2019. Source: IDLC, Bloomberg

Sector Performance

During December, all the major sectors yielded negative returns, among which Telecommunication and Food & Allied yielded the most negative returns of -10.2% and -9.1% respectively.

The largest sector in terms of market capitalization, Bank is relatively undervalued in terms of P/E ratio. On the other hand, Telecommunication sector has the highest dividend yield of 9.4% among all sectors.

Table 3: Sector performance snapshot

Sector	Market capitalization (USD mn)		Return*						P/E (x)**	P/BV (x)^	Dividend Yield~
	Total	Free Float	1M	3M	YTD	12M	3Y	5Y			
Bank	6,334	3,580	-1.9%	-4.4%	-5.9%	-5.9%	19.5%	55.0%	8.1	0.9	2.3%
Pharmaceuticals & Chemicals	5,535	2,894	-6.1%	-7.1%	-4.5%	-4.5%	14.3%	40.5%	11.7	10.2	2.1%
Telecommunication	4,728	502	-10.2%	-19.0%	-16.5%	-16.5%	15.6%	0.4%	14.4	2.2	9.4%
Fuel & Power	4,424	1,171	-6.2%	-9.1%	-10.1%	-10.1%	11.7%	11.8%	9.8	1.3	6.1%
Food & Allied	2,617	934	-9.1%	-15.8%	-18.0%	-18.0%	6.3%	16.0%	19.0	6.3	1.9%
Engineering	1,737	892	-7.1%	-15.8%	-28.6%	-28.6%	-27.7%	-13.8%	13.8	1.2	2.1%
NBFI	1,669	526	-6.6%	-7.5%	-22.2%	-22.2%	-7.0%	-8.5%	12.4	1.4	2.5%
Textile	1,234	698	-3.5%	-3.3%	-29.1%	-29.1%	-16.8%	-14.8%	13.5	0.7	2.6%
Miscellaneous	1,141	283	-3.1%	-11.2%	-7.7%	-7.7%	3.8%	36.8%	20.3	1.1	2.1%
Cement	811	336	-9.3%	-13.0%	-33.2%	-33.2%	-53.9%	-60.3%	24.6	1.9	2.8%
Life Insurance	721	318	3.9%	1.9%	-1.5%	-1.5%	34.0%	12.9%	13.6	6.0	1.7%
Non Life Insurance	615	351	-1.1%	-1.8%	31.9%	31.9%	54.2%	53.7%	14.2	1.2	2.6%
Ceramics	274	118	-6.8%	-8.8%	-14.4%	-14.4%	-11.3%	1.4%	20.7	1.6	1.9%
Tannery	232	117	-1.2%	-18.3%	-28.9%	-28.9%	-24.4%	-27.7%	19.8	1.8	3.3%
Travel & Leisure	258	138	-3.3%	7.2%	-11.5%	-11.5%	-10.1%	-15.1%	24.1	0.6	3.1%
IT	237	152	5.9%	2.3%	-11.0%	-11.0%	-15.2%	1.0%	16.9	1.1	1.4%
Services & Real Estate	159	82	-7.5%	-7.9%	-21.7%	-21.7%	-42.7%	-48.9%	9.5	0.8	3.5%
Paper & Printing	118	40	-0.6%	-8.6%	-40.7%	-40.7%	-44.4%	-52.0%	21.4	2.3	2.7%
Jute	30	20	-7.2%	-25.6%	-46.2%	-46.2%	162.8%	194.0%	37.1	9.1	1.0%
Market	**32,598**	**12,975**	**-5.9%**	**-10.0%**	**-17.3%**	**-17.3%**	**-11.6%**	**-8.5%**	**11.8**	**1.5**	**3.9%**

*All returns are Holding Period Return.

**Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their annualized earnings excluding companies trading at an annualized P/E greater than 80.0x.

^P/BV is calculated by dividing total market capitalization of listed companies with their total book values excluding companies with negative book values.

~Dividend yield is calculated by dividing last year's declared cash dividend with market capitalization.

Cap Class Performance

During the month of December, all cap classes yielded positive returns. However, among them, the large cap was the highest dividend yielding (4.4%) class.

Table 4: Performance of different market cap classes

Cap Class	Market Capitalization of Constituent Companies (USD mn)	% of Total Equity Market Capitalization	Return*						P/E (x)	P/BV (x)	Dividend Yield^
			1M	3M	YTD	12M	3Y	5Y			
Large	≥120	81.7%	-7.7%	-13.0%	-13.2%	-13.2%	13.0%	16.6%	11.6	1.6	4.4%
Mid	36-119	11.3%	-2.6%	-5.1%	-5.7%	-5.7%	3.4%	21.3%	11.2	0.8	2.3%
Small	12-35	5.2%	-6.3%	-9.0%	-22.2%	-22.2%	-10.6%	17.4%	18.2	0.7	2.6%
Micro	<12	1.8%	-2.4%	-6.8%	-15.0%	-15.0%	-6.6%	19.6%	19.2	0.9	1.7%
Market	**-**	**-**	**-5.9%**	**-10.0%**	**-17.3%**	**-17.3%**	**-11.6%**	**-8.5%**	**11.8**	**1.5**	**3.9%**

* All returns are Holding Period Returns

Performance of 20 Largest Listed Companies in Bangladesh

Among the 20 largest listed companies in terms of market capitalization, NATLIFEINS (+10.3%) advanced the most in December, followed by ISLAMIBANK (+3.8%). All the other companies posted negative returns, of which BXPHARMA (-13.5%) faced the highest selling pressure during the month.

Majority of these companies yielded outstanding return over longer time horizon (5 years) such as BRACBANK (+198.7%), RENATA (+132.8%), EBL (+118.5%) and BERGERPBL (+107.7%).

Among the scrips GP, SUMITPOWER, TITASGAS, EBL, ISLAMIBANK, UPGDCL and PUBALIBANK recorded a higher dividend yield compared to that of market.

Table 5: Snapshot of 20 largest companies in terms of market capitalization

DSE Code	Sector	Market capitalization (USD mn)		Daily Avg. Turnover (USD mn)	Return*						P/E (x)	P/ BV (X)	Dividend Yield
		Total	Free Float		1M	3M	YTD	12M	3Y	5Y			
GP	Telecommunication	4,546	455	0.56	-10.2%	-18.9%	-16.8%	-16.8%	16.6%	0.8%	11.4	11.5	9.8%
BATBC	Food & Allied	2,056	544	0.37	-9.6%	-15.7%	-17.0%	-17.0%	23.4%	19.1%	20.2	6.4	1.7%
SQURPHARMA	Pharmaceuticals & Chemicals	1,889	1,239	1.03	-8.8%	-12.3%	-18.6%	-18.6%	-2.0%	19.9%	12.0	2.6	2.1%
UPGDCL^	Fuel & Power	1,523	152	0.44	-6.6%	-18.2%	-15.6%	-15.6%	145.6%	N/A	20.0	4.7	4.8%
RENATA	Pharmaceuticals & Chemicals	1,144	559	1.12	-5.9%	-3.7%	6.5%	6.5%	50.8%	132.8%	23.6	6.1	0.8%
BRACBANK	Bank	830	462	1.90	-1.6%	-7.2%	-9.7%	-9.7%	55.3%	198.7%	15.5	2.2	0.0%
BERGERPBL	Miscellaneous	754	38	0.03	-2.1%	-9.8%	4.5%	4.5%	25.5%	107.7%	33.5	10.3	1.8%
ICB	NBFI	694	22	0.01	-6.7%	-12.5%	-27.3%	-27.3%	-7.1%	-25.0%	(10.9)	1.7	0.0%
MARICO	Pharmaceuticals & Chemicals	621	62	0.09	-1.7%	-1.6%	43.5%	43.5%	104.3%	80.6%	17.4	30.3	3.9%
LHBL	Cement	460	162	0.27	-12.7%	-6.1%	-20.9%	-20.9%	-57.4%	-70.8%	25.0	2.6	3.0%
SUMITPOWER	Fuel & Power	457	168	0.05	-2.9%	-5.6%	0.6%	0.6%	24.3%	41.9%	6.5	0.9	9.6%
DUTCHBANGL	Bank	420	55	0.23	-0.6%	3.0%	23.4%	23.4%	61.2%	94.2%	7.9	1.7	0.0%
OLYMPIC	Food & Allied	389	281	0.11	-7.4%	-17.0%	-21.5%	-21.5%	-41.8%	1.6%	14.8	4.9	2.9%
ISLAMIBANK	Bank	362	185	0.05	3.8%	-11.6%	-17.8%	-17.8%	-28.1%	-0.8%	6.5	0.6	5.2%
TITASGAS	Fuel & Power	360	90	0.05	-5.8%	-8.9%	-8.9%	-8.9%	-24.7%	-49.9%	10.7	0.5	8.4%
NATLIFEINS	Life Insurance	357	82	1.14	10.3%	11.3%	30.8%	30.8%	91.3%	97.3%		32.1	0.6%
BXPHARMA	Pharmaceuticals & Chemicals	332	288	0.29	-13.5%	-15.9%	-10.6%	-10.6%	-9.4%	42.6%	8.1	1.0	2.2%
EBL	Bank	317	217	0.09	-3.5%	-4.9%	6.7%	6.7%	56.1%	118.5%	8.8	1.2	5.5%
PUBALIBANK	Bank	291	203	0.06	-5.5%	-2.0%	-1.3%	-1.3%	29.7%	35.5%	6.6	0.9	4.0%
NBL	Bank	279	192	0.10	-1.2%	3.8%	-4.2%	-4.2%	17.4%	32.9%	9.3	0.5	0.0%
Market		**32,598**	**12,975**	**39.47**	**-5.9%**	**-10.0%**	**-17.3%**	**-17.3%**	**-11.6%**	**-8.5%**	**11.8**	**1.5**	**3.9%**

*All returns are Holding Period Return.

^Five years' return is not available for UPGDCL as they were not listed then.

Top Performing Mutual Funds

The top ten open end mutual funds based on 3 year CAGR outperformed the market during the same period. Among them, VIPB Accelerated Income Unit Fund (+12.3%) yielded the highest return. On YTD 2019 basis, all the funds generated negative returns. However, MTB Unit Fund posted the least negative return (-0.9%), compared to the rest.

Table 6: Top ten open end funds based on 3Y return (CAGR) performance

Name	Asset Management Company	Fund Size (USD mn)	Return		
			2019 YTD*	2018	2016-2018
VIPB Accelerated Income Unit Fund~	VIPB	9.0	-4.6%	-7.8%	12.3%
Third ICB Unit Fund	ICB	3.3	-8.2%	-7.0%	11.2%
Seventh ICB Unit Fund	ICB	4.5	-7.8%	-11.9%	10.7%
LankaBangla 1st Balanced Unit Fund	LankaBangla	4.7	-8.0%	-2.0%	10.7%
Fifth ICB Unit Fund	ICB	3.7	-8.6%	-7.0%	10.4%
UFS-Popular Life Unit Fund~	UFS	8.8	-9.0%	-4.6%	10.2%
Sixth ICB Unit Fund	ICB	3.1	-8.4%	-9.3%	9.5%
MTB Unit Fund	Alliance	9.1	-0.9%	-4.2%	9.2%
Second ICB Unit Fund	ICB	1.3	-10.6%	-7.1%	8.7%
Peninsula AMCL BDBL Unit Fund One	Peninsula	2.3	-7.7%	-14.3%	7.7%
Market (Broad Index) Return (%)			**-18.0%**	**-13.8%**	**5.2%**

*Based on published NAV and DSEX point of December 26, 2019
~ 2016-18 returns are calculated from inception date in 2016.

The top ten closed end mutual funds on the basis of 5 years (2014-2018) performance also yielded negative returns on YTD basis. However, PHPMF1 (-3.0%) yielded the least negative returns, compared to the rest. All these funds are traded at a lucrative discount compared to their NAV. Besides, all the funds also offered higher dividend yields compared to market (Table 7).

Table 7: Top ten close end funds based on 5Y return (CAGR) performance

DSE Code	Fund Manager	Fund Size (USD mn)	Price[1] (BDT)	NAV[1] (BDT)	Price/ NAV	Dividend Yield[2] (%)	NAV Return[3]				Redemption Year[4]
							2019 YTD	2018	2016-18	2014-18	
NLI1STMF	VIPB	7.4	10.4	12.5	83.3%	12.5%	-4.9%	-8.0%	13.3%	14.6%	2020
SEBL1STMF	VIPB	13.7	9.9	11.7	84.8%	12.1%	-4.9%	-8.3%	12.8%	13.7%	2020
GRAMEENS2	AIMS	35.2	11.5	16.4	70.2%	7.8%	-7.0%	-1.6%	12.2%	12.4%	2029
1JANATAMF	RACE	34.7	4.3	10.2	42.4%	7.0%	-3.2%	-4.5%	7.1%	10.3%	2029
RELIANCE1	AIMS	8.0	8.0	11.3	70.9%	12.5%	-6.4%	-1.1%	12.0%	10.2%	2020
PHPMF1	RACE	33.2	4.2	10.0	42.0%	7.1%	-3.0%	-4.9%	8.5%	10.2%	2031
EBL1STMF	VIPB	17.0	4.5	10.0	45.0%	6.7%	-4.5%	-3.5%	9.5%	10.0%	2030
POPULAR1MF	RACE	35.6	4.1	10.1	40.6%	7.3%	-4.1%	-4.4%	8.3%	10.0%	2031
PRIME1ICBA	ICB AMCL	7.7	4.9	6.5	75.2%	12.2%	-11.0%	-8.6%	7.6%	9.4%	2030
ABB1STMF	RACE	28.2	4.1	10.0	41.0%	7.3%	-8.7%	-5.0%	8.5%	9.2%	2032
Market						**3.9%**	**-18.0%**	**-13.8%**	**5.2%**	**4.8%**	

1 Price as of December 29, 2019, and NAV published on December 26, 2019.

2 On last cash dividend declared.

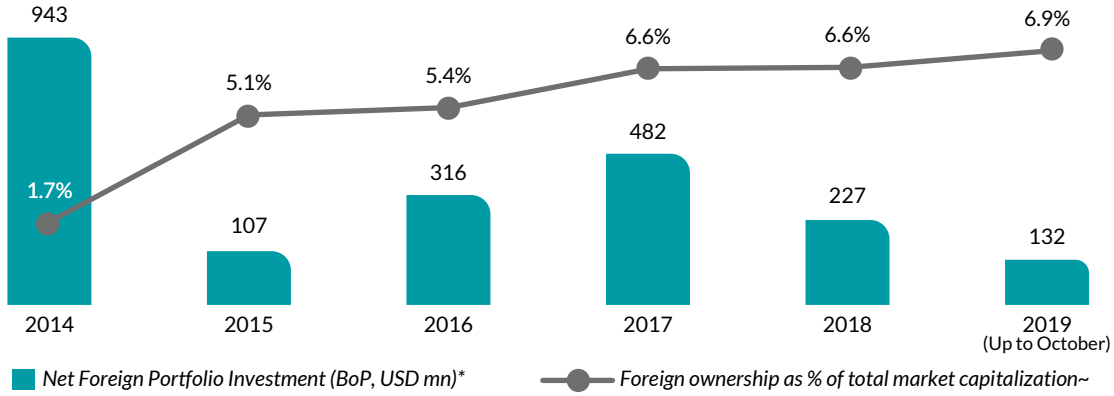
3 CAGR computed for respected periods, except for 2018 and 2019 YTD, adjusted for dividend. YTD returns of funds debuting within the year represent return generated since debut, hence is not directly comparable with return of funds that operated throughout the year.

4 In reference to BSEC Press Release বিএসইবস/মুখপাত্র (৩য় খন্ড)/২০১১/২৫ published on December 16, 2018, tenure of existing listed closed end mutual funds can be extended by another tenure equal to maximum 10 years, provided that the full tenure of the subject fund does not exceed 20 years in total. However, the mutual funds those are not willing to extend their tenure will still have the option to convert or wind up as per rules and regulations.

Foreign Participation in Equity Market of Bangladesh

Over last 5 years, Bangladesh equity market has seen a surge of foreign investment. As of October, 2019 total foreign ownership stood at 6.9% of the total equity market capitalization, which was only 1.7% in 2014.

Figure 4: Net foreign portfolio investment and foreign ownership as % of total equity market capitalization



Source: DSE and Bangladesh Bank
*Net portfolio investment data are as of December of the respective years.
~% of foreign ownership of equity market capitalization data are as of December of the respective years except for 2019 (November).

Among all the companies with foreign ownership, BRACBANK had the highest foreign shareholding of 43.2% as of November 2019, followed by DBH with 42.2%.

Table 8: Top ten companies with highest foreign shareholding as of November 2019

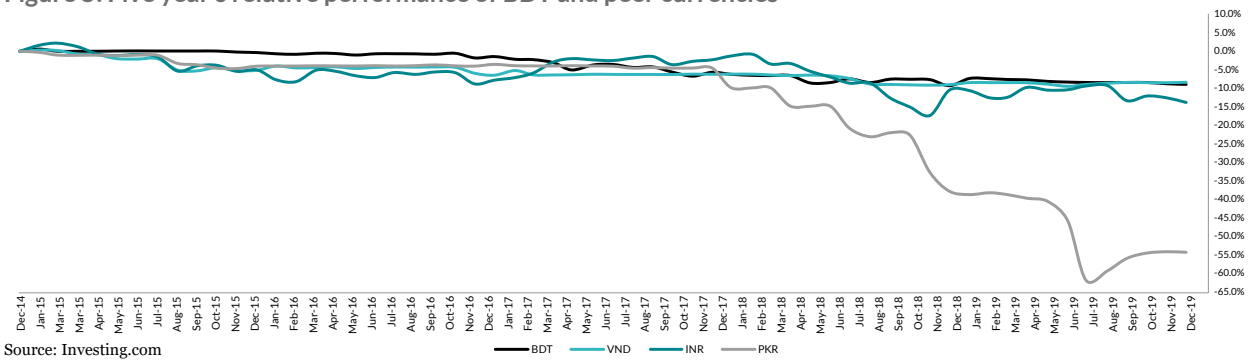
Ticker	Sector	Foreign Shareholding
BRACBANK	Bank	43.5%
DBH	NBFI	42.1%
OLYMPIC	Food & Allied	39.9%
BXPHARMA	Pharmaceuticals & Chemicals	36.7%
ISLAMIBANK	Bank	23.8%
RENATA	Pharmaceuticals & Chemicals	22.7%
MLDYEING	Textile	21.9%
SQURPHARMA	Pharmaceuticals & Chemicals	19.8%
SHEPHERD	Textile	19.6%
VFSTDL	Textile	18.3%

*Source: DSE

Performance of BDT and Currencies of Peer Countries against USD

Since 2015, BDT retained its value better than majority of the currencies of peer countries. While BDT depreciated by 8.9% against US Dollar, other currencies of neighbor countries like Vietnamese Dong (VND), Indian Rupee (INR) and Pakistani Rupee (PKR) lost 8.4%, 13.2% and 53.7%, respectively.

Figure 5: Five year's relative performance of BDT and peer currencies



Source: Investing.com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