

Banking Sector Review 2023



October 2023

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Preamble

The key building blocks for Bangladesh's financial sector are commercial banks, non-bank financial institutions, insurance companies, etc. In Bangladesh's financial sector, banks play a major role. Bank is the financial institution that deals with money through depositing money and then channels those funds into loaning activities. Bangladesh Bank is the central bank of Bangladesh and the chief regulatory authority in the sector. Bangladesh's economy is heavily reliant on the banking sector, although it encounters several challenges, such as liquidity problems, capital shortages, non-performing loans, inefficiencies, and so forth.

Late 1990s Financial Inclusion: Rise of Private Commercial Banks in Bangladesh

Financial inclusion (FI) has become a very important issue in developing countries like Bangladesh where a big portion of people are still far from the access to basic financial services and formal financial institutions. Following the start of the Financial Sector Reforms Programme (FSRP) in 1990, new private banks entered to the market, and foreign banks entered with more freedom in accordance with the program's guidelines. In addition, since information technology advances quickly, more people are using the internet as a delivery channel, which gradually lowers the overhead costs of the banks' marketing, IT, and staff departments by enabling them to offer high-quality services via ATM, POS (Point of Sale), online, internet, Tele-banking, SWIFT, and Reuter. These have dramatically altered the banking sector's market structure in Bangladesh.

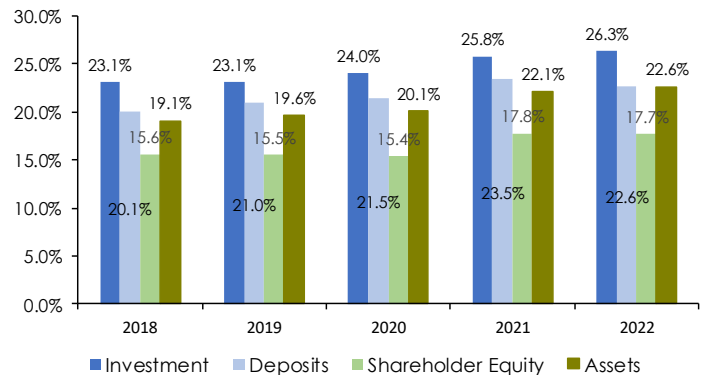
Islamic Banking: A Solution of 'Riba'

Islamic banking, also known as Shariah-Compliant Finance, is a subset of financial activities that abide by Islamic economic principles and put shariah law into practice. Along with conventional banks, Bangladesh's Islamic banking sector is crucial to accumulating deposits and funding important economic sectors. Since its foundation in 1983, this Shariah-based banking system has drawn increasing attention for its 'equity-based and interest-free' banking concept. A total of 10 full-fledged Islamic banks with 1654 branches are operating in Bangladesh as of the end of December 2022.

In terms of total investments and total assets, the aggregate market share of Islamic banks' slightly rose in 2022 compared to 2021. In 2022, Islamic banks held 22.6% (22.1% in 2021) of total asset, and as well as 26.3% (25.8% in 2021) of total investments of the overall banking system.

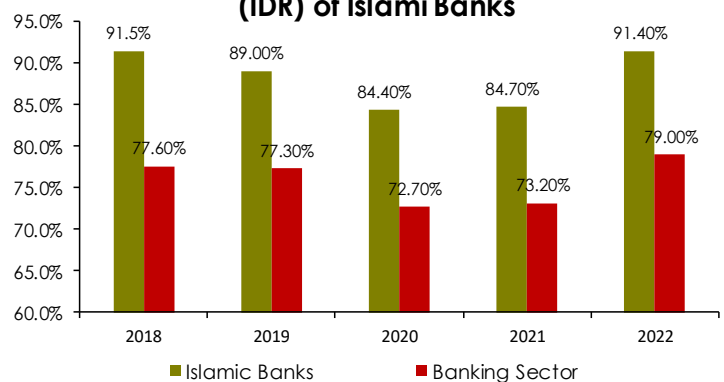
On the other hand, the market share of Islamic banks decreased marginally in terms of total deposits and shareholders' equity in 2022. The share of Islamic banks' total deposits and shareholders' equity reduced to 22.6% and 17.7% respectively in 2022 from 23.5% and 17.8% in 2021.

Trend of Market Share of Islami Banks



In comparison to the banking sector, Islamic banks performed well in 2022 in terms of their gross non-performing investment (GNPL) ratio, net non-performing investment (NNPL) ratio, and unclassified rescheduled investment (URSDL) ratios. However, GNPL and URSDL's distribution of Islamic banks somewhat declined in 2022 as compared to 2021. In 2022, the overall ROA of Islamic banks climbed to 0.5% from 0.4% in 2021. In contrast to the average return made by the Islamic banking sector in 2021 and 2022, six out of ten Islamic institutions were able to increase ROA. The aggregate investment (advance) to deposit ratio (IDR) increased to 91.4% in 2022 from 84.7% in 2021. The notable increase in IDR was partially caused by the stronger investment growth (15.6%) in 2022 compared to deposit growth (2.9%).

Investment (Advance) to Deposit Ratio (IDR) of Islami Banks



Broad Macroeconomic Pillars

Bangladesh is facing upward inflation trend in recent years. The general point to point CPI inflation rate has slightly decreased by 0.1% (MoM) in July 2023 and stood at 9.7%, but it was 2.21% higher than July last year when the general point to point CPI inflation rate was 7.48%.

Private sector credit growth in Bangladesh clocked to 10.6% in June 2023, which was 0.5% lower than the previous month. Foreign Exchange Reserve money decreased by 26.3% (YOY) at the end of June 2023, and stood at USD 30.9 billion, which was USD 41.9 billion in June 2022. The decrease of net foreign assets (NFA) was mainly responsible for the lower growth of reserve money in June 2023 compared to that of July 2022. Broad money (M2) recorded 10.5% (YoY) growth at the end of June 2023 against the projected growth of 9.50% for December 2023. Despite fall in net foreign assets (NFA) by 10.75%; the 15.16% increase in net domestic assets (NDA) was a key contributing factor to the higher than projected growth of broad money.

Domestic credit increased 15.3% (YoY) at the end of June 2023 compared to 15.6% growth at the end of June 2022. Of the sources of domestic credit, the public sector credit and private sector credit grew by 35.0% and 10.6% (YoY) respectively at the end of June 2023. NBR tax revenue collection increased by 9.89% (YoY) in FY23. VAT, income tax and customs duty stood at 37.4%, 33.73% and 11.12% of total NBR tax revenue respectively during the period under review.

Net borrowing of the government from the banking system increased by 64.4% (YoY) while non-bank borrowing of the government from the public decreased by 71.6% (YoY) in FY23; resulting in a 23.2% (YoY) increase in total domestic financing. As per budget for FY24, targets for government's borrowing from the banking system (net), non-banking system (net) and foreign sources (net) for FY23 has been set at BDT 1324 billion, BDT 230 billion and BDT 1025 billion respectively.

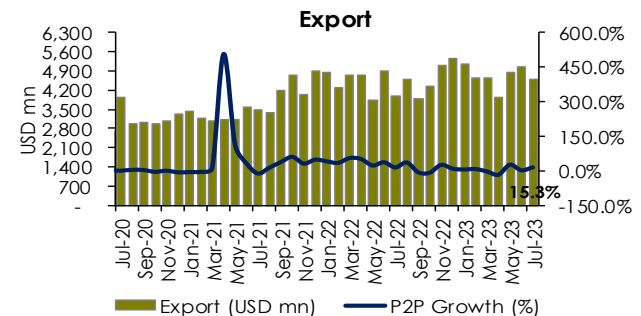
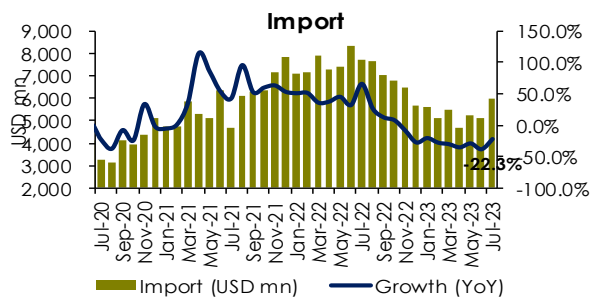
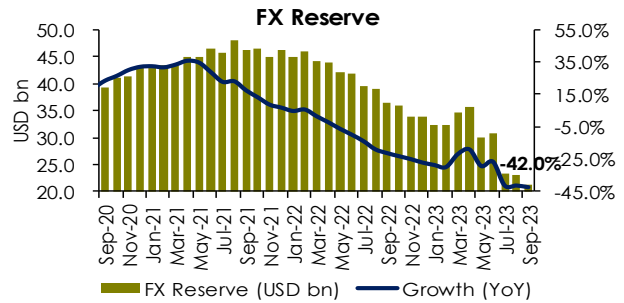
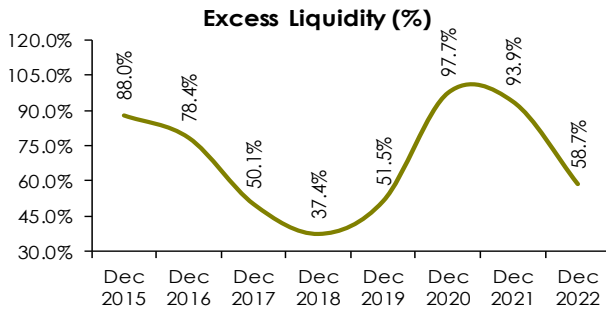
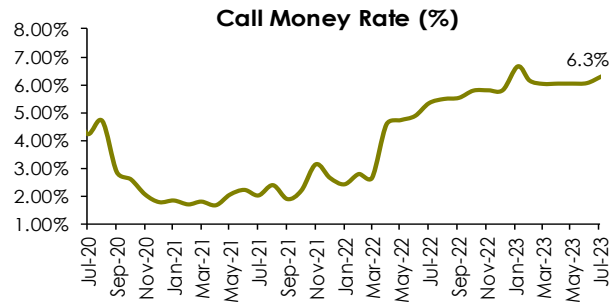
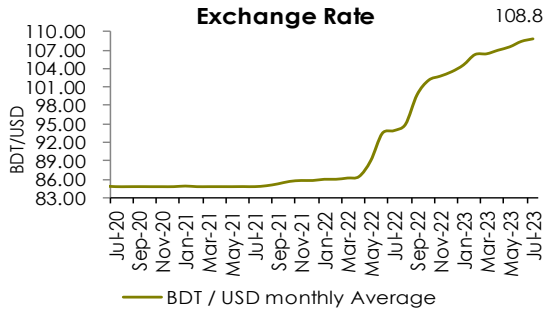
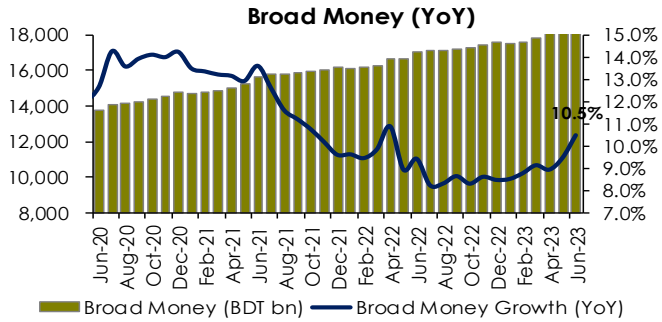
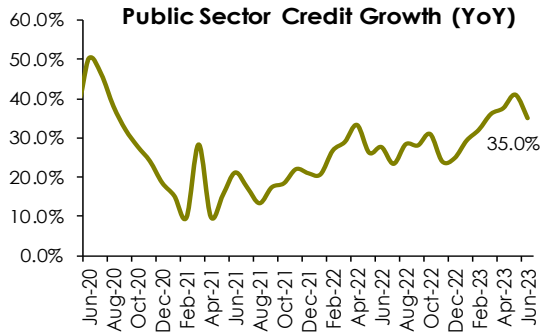
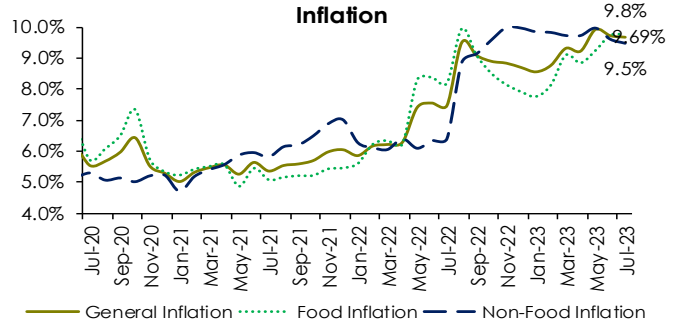
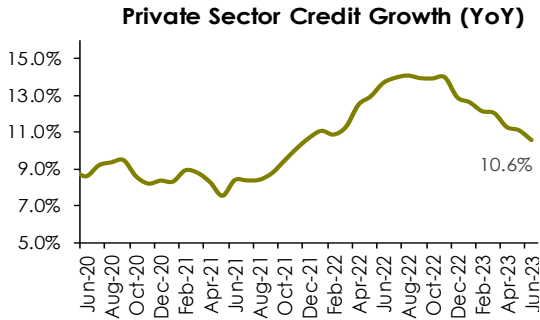
BDT/USD exchange rate increases continuously in recent months. In June 2023, exchange rate edged up by 15.9% (YoY) to BDT 108.3 from the previous year BDT 93.4. Bangladesh Bank sold a net of USD 2.20 billion in the foreign exchange market during July-August of FY24, compared to a net sale of USD 2.49 billion during July-August of FY23.

Total sale of National Savings Certificates (NSCs) of FY23 stood at BDT 80,858.6 crore which was 25.2% lower compared to the same period of the previous fiscal year. The net sale of NSCs in FY23 decreased 116.5% (YoY); falling acutely short from the revised target set for the entire fiscal year. Outstanding amount of NSCs stood at BDT 360714.2 crore at the end of June 2023, which was 0.9% lower compared to the same period of the previous fiscal year.

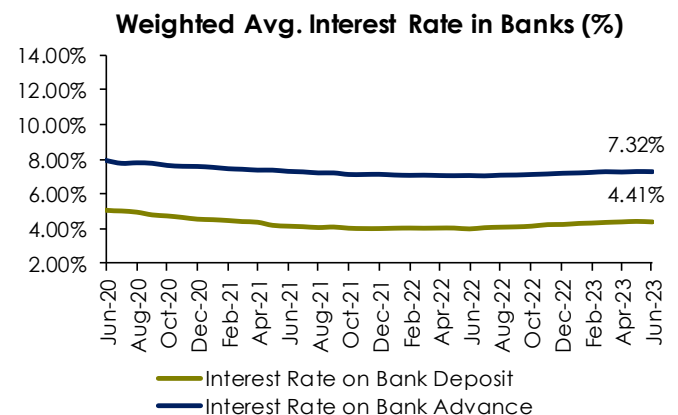
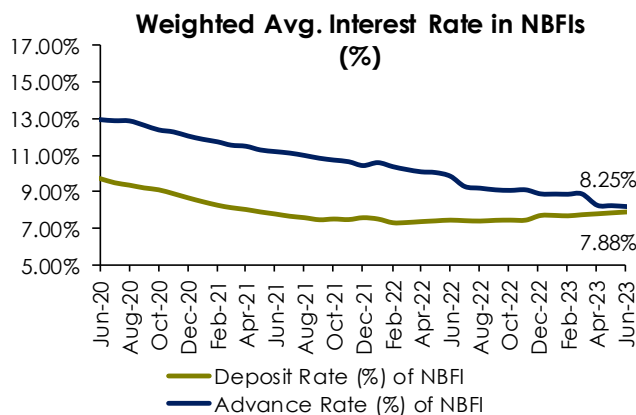
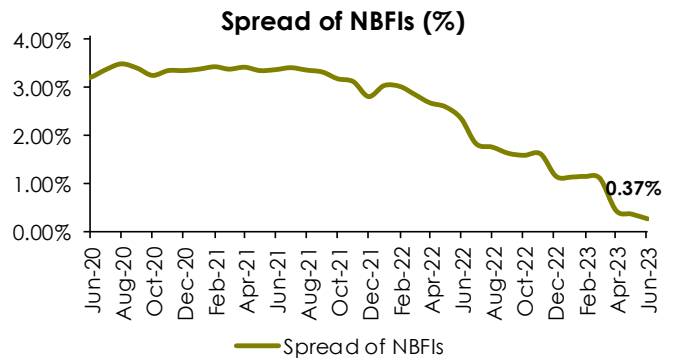
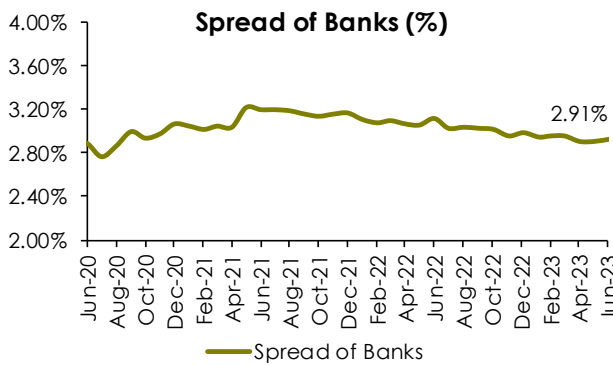
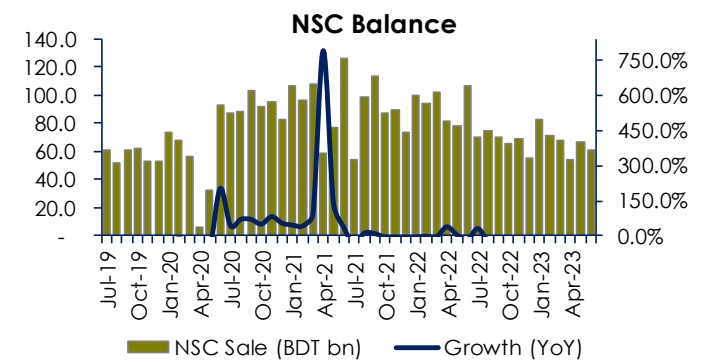
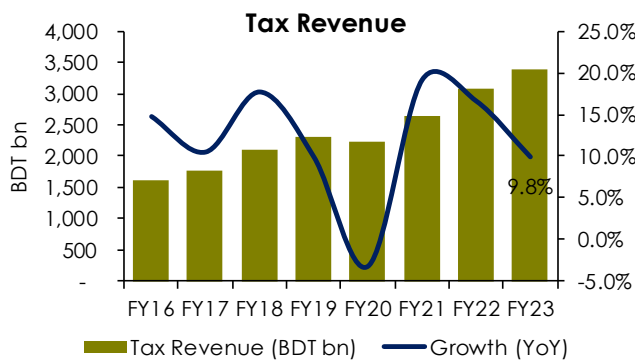
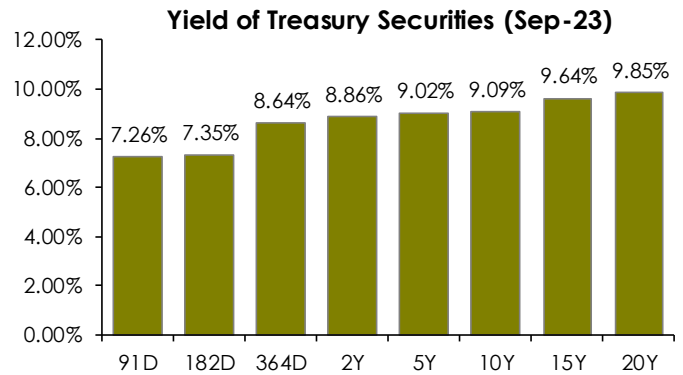
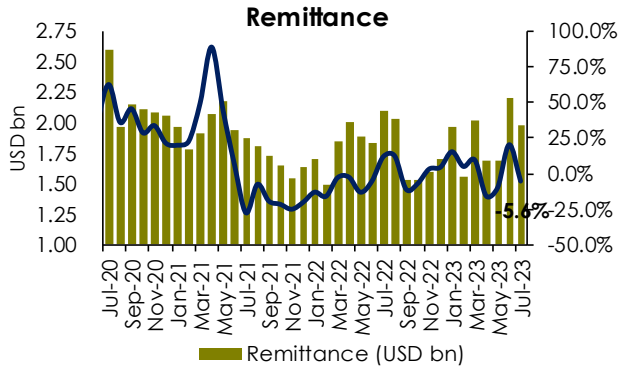
Key Indicators	Date	Amount	Δ (YoY)	
Private Sector Credit (BDT bn)	Jun-23	14,945	10.6%	
Public Sector Credit (BDT bn)	Jun-23	4,268	35.0%	
Domestic Credit (BDT bn)	Jun-23	19,178	15.3%	
Broad Money (BDT bn)	Jun-23	18,866	10.5%	
Fx Reserve (BDT bn)	Jun-23	30.9	-26.3%	
Exchange Rate (USD/BDT)	Jun-23	108.34	15.9%	
Remittance (BDT bn)	Jun-23	2.20	20.2%	
Export (BDT bn)	Jun-23	5,032	2.5%	
Import (BDT bn)	Jun-23	5,147	-38.5%	
Tax Revenue Collection (BDT bn)	FY23	3,390	9.8%	
Net Foreign Financing (BDT bn)	FY23	746	2.0%	
Domestic Debt as a % of GDP	FY23	18.0%	3.8%	
	Date	%	bps Δ YoY	
Weighted Avg Deposit Rate	Jun-23	4.38%	(35)	
Weighted Avg Lending Rate	Jun-23	7.31%	(36)	
Interest Rate Spread	Jun-23	2.93%	(1)	
Repo Rate	Oct-23	7.25%	150	
Reverse Repo Rate	Jul-23	4.50%	50	
Call Money Rate	Oct-23	7.23%	144	
12M Average General Inflation	Jul-23	9.2%	287	
P2P General Inflation	Jul-23	9.7%	221	
Commodity Price Change	1 Month	3 Months	6 Months	1 Year
Crude Oil	-8.8%	1.2%	7.8%	-4.3%
Brent Oil	-11.3%	-1.0%	6.3%	-10.8%
Diesel	3.4%	-11.6%	-22.1%	-44.3%
Coconut Oil	-3.3%	-9.2%	-12.6%	-40.4%
Cotton	-1.4%	-2.9%	-8.1%	-40.0%
Live Cattle	-0.6%	2.8%	4.5%	24.7%
Iron Ore	7.9%	-11.6%	1.4%	-13.2%
Copper	-2.9%	-9.5%	-6.7%	7.4%
Gold	-2.1%	-8.2%	-8.6%	11.5%
Copra Price Changes	1 Month	3 Months	6 Months	1 Year
Philippines	-5.4%	-4.0%	-3.4%	-7.4%
Indonesia	-2.9%	3.2%	1.2%	25.3%
Sri Lanka	0.6%	-13.4%	-32.2%	12.6%
India	-2.3%	2.5%	-4.9%	-1.7%

The spread between the weighted average interest rate on advances and deposits of all banks and NBFIs narrowed to 3.29% and 0.16% respectively in July FY24 from the previous month. The weighted average interest rate on deposits of all banks edged up 4.46% in July of FY24 compared to the previous month while the weighted average interest rate on deposits of NBFIs spiked 8.18% in July of FY24 compared to the previous month. Currently, 9.0% lending rate cap is removed and re-fixed as 6 months moving average of T-bill rate (SMART) plus 3% margin for banks and 5% margin for NBFIs.

Broad Macroeconomic Metrics



Broad Macroeconomic Metrics



Data Source: Bangladesh Bank Monthly Report

Performance of Banking Sector in Bangladesh

Bangladesh Bank (BB), being the regulatory authority of the money market, foreign exchange market and payment and settlement systems of Bangladesh, regulates and monitors the activities of all the scheduled banks and non-bank financial institutions (NBFIs). Currently, there are 6 state-owned commercial banks (SOCBs), 3 specialized development banks (SDBs), 43 domestic private commercial banks (PCBs) (33 Conventional and 10 Islamic Shariah-based banks), 9 foreign commercial banks (FCBs), and 35 non-bank financial institutions (NBFIs) operating in Bangladesh. Bangladesh Securities and Exchange Commission (BSEC) regulates and supervises the capital market comprising two stock exchanges- Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE).

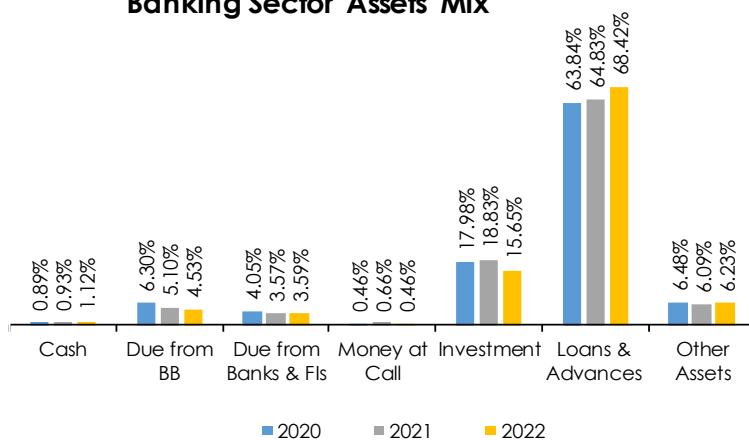
At present, 67 merchant banks, 479 brokers, 566 dealers, 24 custodian banks, 8 credit rating agencies, 25 fund managers, 58 asset management companies, and 234 trustees are operating in the capital market of Bangladesh. Insurance companies and micro-finance institutions are regulated and supervised by the Insurance Development and Regulatory Authority (IDRA) and the Microcredit Regulatory Authority (MRA) respectively. At present, 81 insurance companies and 739 registered micro-finance institutions are functioning in Bangladesh.

At the end of 2022, assets in the banking sector increased by 7.50% from that of 2021 and stood at BDT 21,962 billion. In addition, asset growth in 2021 and 2020 was 10.99% and 12.98% respectively. FCBs had the highest asset growth of 11.44% among all the banking clusters, followed by PCBs (9.60%), SDBs (7.66%), and SOCBs (0.92%) in 2022.

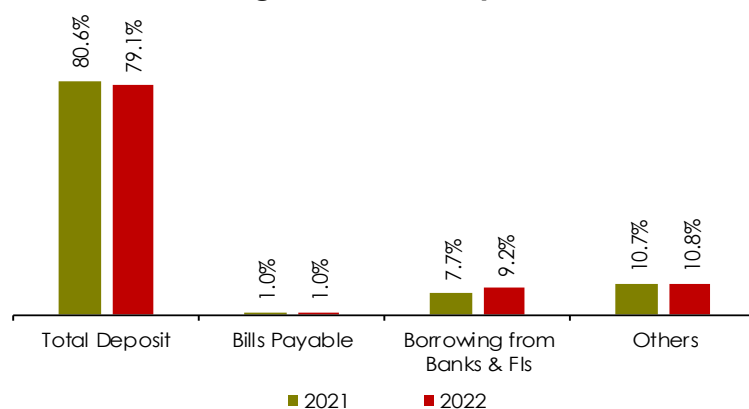
In total asset size of the banking sector at the end of 2022, total loans and advances constituted the highest share followed by total investment. Total loans and advances accounted for 68.42% of total assets (64.83% in 2021) where total investment constituted 15.65% (18.83% in 2021). In 2022, total loans and advances escalated by 13.45%, and stood at BDT 15,026 billion, which was in 12.74% growth in the previous year. However, the banking sector demonstrated a decreased exposure in total investment (including Government and other securities) compared to the last two years. In 2022, banks' total investment declined by 10.62% while it grew by 16.21% and 31.96% in 2021 and 2020 respectively. In addition, investment in Government securities decreased by 9.96% in 2022 compared to the preceding year.

At the end of December 2022, total liabilities (excluding equity), of the banking sector stood at BDT 20,691 billion. The total deposits constituted 79.1% of total liabilities; borrowing from banks and FIs recorded the highest growth of 28.5% while term and inter-bank deposits decreased by 0.1% and 10.6% respectively. Current and savings deposits grew by 7.0% and 10.2% respectively.

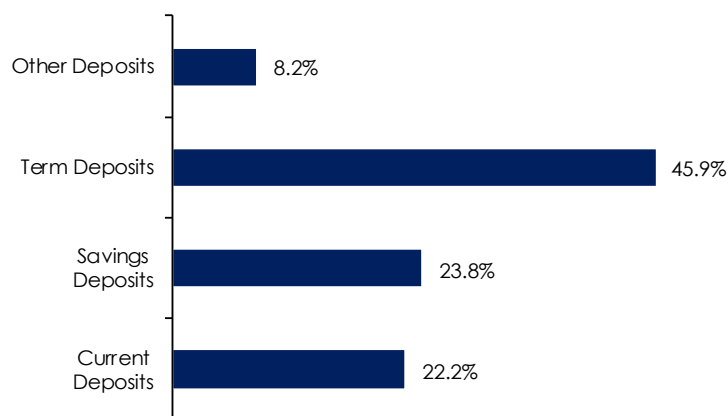
Banking Sector Assets Mix



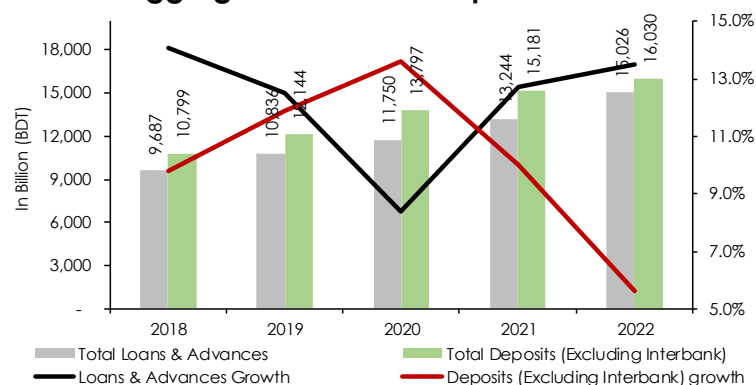
Banking Sector Liability Mix



Deposit Mix as of December 2022



Aggregate Loans and Deposit Position



Data Source: Bangladesh Bank Annual Report

Total deposit of banking sector stood at BDT 16,029 billion, and saw a 5.6% growth at the end of December 2022. On this year, loan growth was higher than the deposit growth, and this higher credit growth might entail stress in liquidity management of banks in the future.

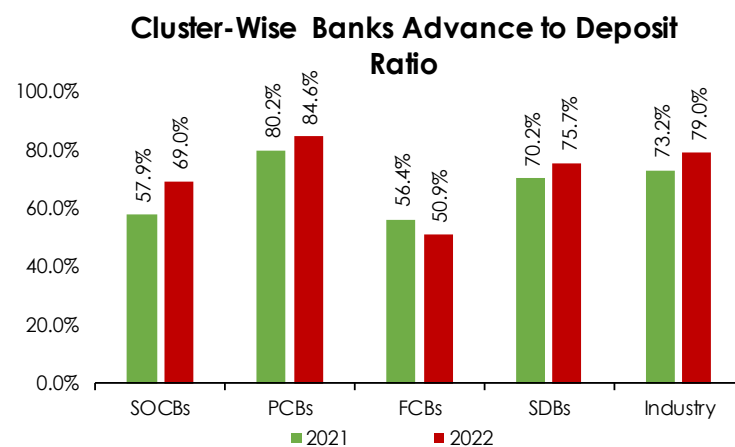
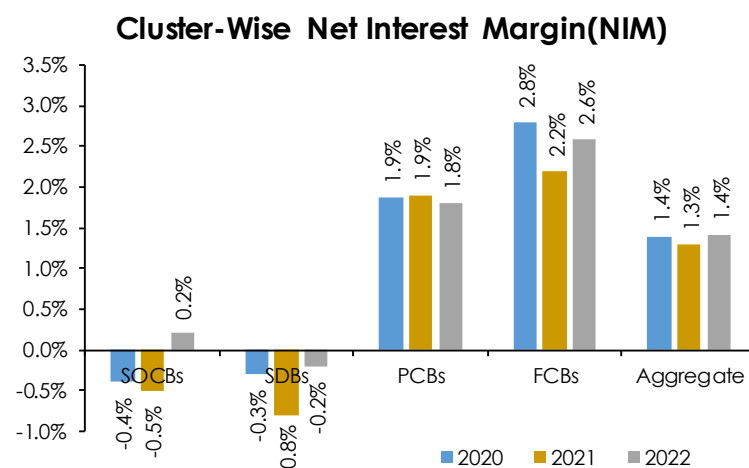
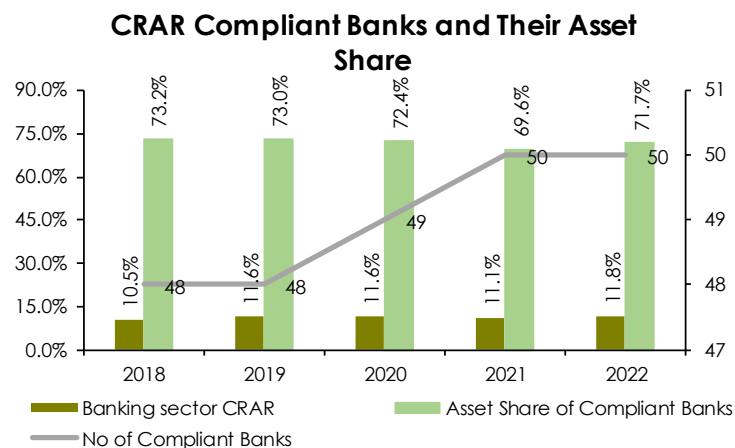
Return on assets (ROA) of the banking sector increased to 0.62% in 2022 compared to 0.25% in 2021. On the other hand, the return on equity (ROE) increased remarkably to 10.70% from 4.37% in 2021.

Both the interest income and interest expense increased by 10.88% and 8.28% respectively in 2022 in compare to 2021. Similarly, non-interest income and non-interest expense increased by 16.33% and 13.44% respectively which led to an increase in the net operating income by 36.85% compared to the previous year. In 2022, the weighted average lending rate increased to 7.22% from 7.18% in 2021. Similarly, the weighted average deposit rate registered an increase from 3.99% to 4.23% during the period. In consequence, the weighted average interest rate spread for the banks decreased from 3.20% in December 2021 to 2.99% in December 2022.

Capital to Risk-Weighted Assets Ratio (CRAR) of the banking sector increased by 75 basis points and stood at 11.83% at the end of December 2022 compared to 11.08% of the previous year. The maintained ratio was above the minimum regulatory capital requirement of 10.5% of Risk Weighted Asset (RWA) in line with the Basel-III capital framework and thus provided support to the resilience of the banking sector. The Tier-1 or core capital ratio of the banking sector increased by 95 basis points to reach 8.39% at the end of December 2022, achieving the level further above the minimum regulatory requirement of 6.0% in line with Basel-III framework. However, the ratio was 7.44% at the end of December 2021.

Banking industry experienced squeezed liquidity condition after first quarter of 2022 as indicated by gradual swelling of Advance to Deposit Ratio (ADR) and increasing call money rate. The banking sector's ADR stayed below the admissible limit of 87% but showed steady upward progress across 2022. It is pertinent to mention here that the ratio increased to 79.0% at the end of December 2022 from 73.15% of the preceding year. Banking sector maintained liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) above the minimum regulatory requirement throughout the year 2022. However, the LCR of the banking industry at end of December 2022 decreased to 153.97% from 193.60% at the end of December 2021. Furthermore, both conventional and Islamic Shariah-based banks were able to maintain the minimum required Cash Reserve Ratio (CRR) at the end of December 2022. In addition, both types of banks met the minimum required Statutory Liquidity Ratio (SLR) of 13.0% and 5.5% respectively.

Comparison of Capital Adequacy among the Neighboring Countries						
Countries	CRAR (%)					
	2017	2018	2019	2020	2021	2022
India	13.9%	13.7%	15.1%	15.8%	16.6%	16.0%
Sri Lanka	16.4%	16.2%	17.2%	17.1%	16.5%	15.3%
Pakistan	15.8%	16.2%	17.0%	18.6%	16.7%	16.6%
Bangladesh	10.8%	10.5%	11.6%	11.6%	11.1%	11.8%



Highlights of Listed Banking Industry in Bangladesh

Out of 61 schedule banks in Bangladesh, 35 banks are listed in the capital market. Their performance in recent years discussed below:

At the end of 2022, total asset of the publicly traded banks stood at BDT 15,437,450 million, which is increased by 12.5% against 7.50% sector growth to BDT 13,723,803 million from the previous year. In 2017, the total assets of the listed banking industry were BDT 8,865,868 million.

At the end of 2022, total deposits and other accounts of the publicly traded bank soared by 7.8% to BDT 11,461,951 million from the previous year BDT 10,635,092 million. Loan and advances of the publicly traded banks edged up by 13.2% against 5.6% sector growth to BDT 11,017,316 million on the end of December 2022, which was BDT 9,729,343 million in the previous year.

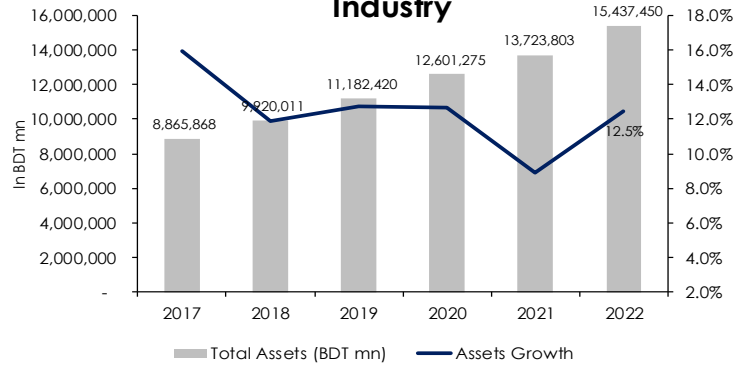
The aggregate amount of capital of the listed banking industry was BDT 611,557 million as of December 2017, which surged up BDT 896,346 million in 2022. Total interest income of listed banking industry was at BDT 667,649 million in 2021, which is reached BDT 748,745 million in the end 2022, increased by 12.1% against 10.88% banking sector growth. On the other hand, interest expense soaring 13.4% in 2022 from 2021 against 8.28% sector growth.

In FY22, DUTCHBANG is the largest Current Account and Savings Account (CASA) holder company in the listed banking industry, with 75.35% to 73.55% in the previous year followed by UTTARABANK (61.97%), BRACBANK (58.10%), PREMIERBAN (51.01%), CITYBANK (50.40%), ALARABANK (49.00%), IFIC (46.18%). For managing better Non-performing loan (NPL) in listed banking industry at the end of 2022, PUBALIBANK is in the best position with 2.62% against 8.16% overall banking sector NPL, followed by EBL, MIDLANDBNK, PREMIERBNK, PRIMEBANK, UNIONBANK, ISLAMIBANK, BRACBANK, EXIMBANK, CITYBANK.

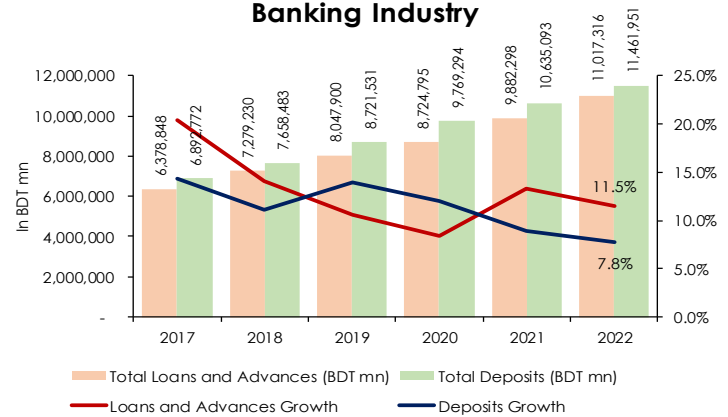
Top 10 Listed Banks in Terms of Managing NPL as of December 2022



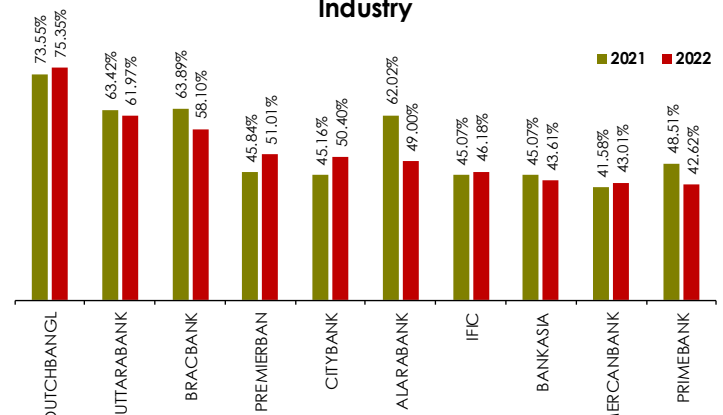
Total Assets Size of Listed Banking Industry



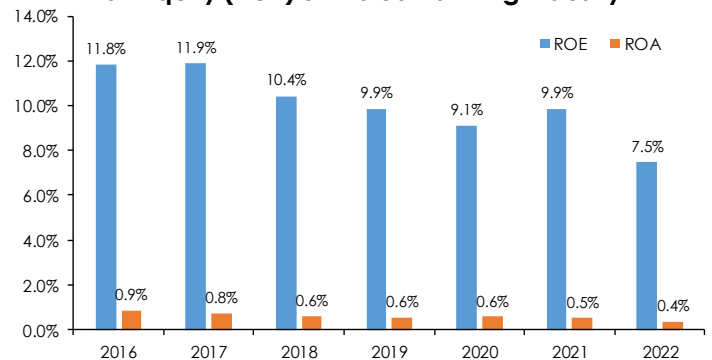
Credit and Deposit Position of Listed Banking Industry



Top 10 CASA Holder Company in Listed Banking Industry



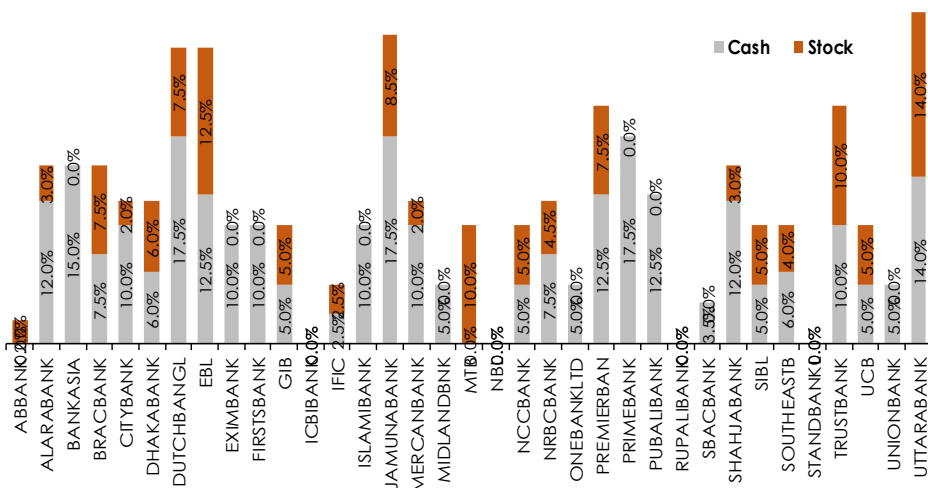
Average Return on Assets (ROA) and Return on Equity (ROE) on Listed Banking Industry



Data Source: Listed Banks Annual Reports

At the end of 2022, Return on Assets (ROA) and Return on Equity (ROE) of the listed banking industry decreased by 0.1% and 2.4% respectively in 2022 compare to 2021 and reached 0.4% and 7.5% respectively against sector 0.6% and 10.7%. Compare to paying cash dividend JAMUNABANK paying the highest cash dividend(17.5% cash and 3% stock) at the end of December 2022, followed by DUTCHBANGL (17.5% cash and 2% stock), PRIMEBANK (17% cash), BANKASIA (15% cash and 7.5% stock). At the end of December 2022, BRACBANK holds the highest market cap with 57,596 million followed by ISLAMIBANK (52,486 mn), DUTCHBANGL (44,203 mn), EBL (35,493 mn), TRUSTBANK (27,142 mn).

Dividend Payment as of December 2022



Listed Banks Market Performance

SL	Ticker	Current Market Price	Market Cap (BDT mn)	Free-Float Share (%)	EPS (2022)	NAV (2022)	PE Ratio	Latest Dividend as on 2022	
								Cash	Stock
1	ABBANK	9.7	8,518	68.2%	0.8	29.9	11.7	0.0%	2.0%
2	ALARABANK	23.8	26,105	50.4%	2.0	22.7	12.0	12.0%	3.0%
3	BANKASIA	20.2	23,551	46.7%	2.6	24.4	7.7	15.0%	0.0%
4	BRACBANK	35.8	57,596	53.8%	4.1	40.9	8.8	7.5%	7.5%
5	CITYBANK	21.4	26,207	69.4%	4.0	28.2	5.4	10.0%	2.0%
6	DHAKABANK	12.5	12,583	57.3%	1.8	22.7	7.1	6.0%	6.0%
7	DUTCHBANGL	59.1	44,203	13.0%	8.1	59.8	7.3	17.5%	7.5%
8	EBL	29.4	35,493	69.3%	4.8	33.3	6.2	12.5%	12.5%
9	EXIMBANK	10.4	15,055	67.4%	2.6	22.0	4.0	10.0%	0.0%
10	FIRSTSBANK	8.9	10,240	68.9%	2.8	21.3	3.1	10.0%	0.0%
11	GIB	8.6	8,492	54.5%	6.6	13.8	1.3	5.0%	5.0%
12	ICBIBANK	5.4	3,589	47.1%	-0.4	-18.5	-14.2	0.0%	0.0%
13	IFIC	11.2	20,502	61.1%	1.9	18.8	5.8	2.5%	2.5%
14	ISLAMIBANK	32.6	52,486	57.0%	3.8	43.2	8.5	10.0%	0.0%
15	JAMUNABANK	20.9	16,990	53.7%	2.1	26.3	9.9	17.5%	8.5%
16	MERCANBANK	13.3	14,717	65.6%	2.2	23.7	6.1	10.0%	2.0%
17	MIDLANDBNK	11.7	7,484	21.4%	1.0	13.4	11.8	5.0%	0.0%
18	MTB	15.5	15,238	63.1%	2.7	23.9	5.8	0.0%	10.0%
19	NBL	8.3	26,724	71.5%	-10.1	13.0	-0.8	0.0%	0.0%
20	NCCBANK	13.1	14,547	62.4%	2.5	21.9	5.2	5.0%	5.0%
21	NRBCBANK	16.8	13,921	29.3%	2.4	16.7	6.9	7.5%	4.5%
22	ONEBANKLTD	9.5	9,783	68.0%	1.6	19.2	6.0	5.0%	0.0%
23	PREMIERBAN	12.8	15,788	65.0%	3.4	21.6	3.7	12.5%	7.5%
24	PRIMEBANK	20	22,646	60.8%	3.5	28.4	5.7	17.5%	0.0%
25	PUBALIBANK	26	26,736	68.5%	5.5	42.0	4.7	12.5%	0.0%
26	RUPALIBANK	26	12,082	9.8%	0.6	36.1	42.4	0.0%	0.0%
27	SBACBANK	10.5	8,654	24.5%	0.7	13.3	14.5	3.5%	0.0%
28	SHAHJABANK	18.3	20,367	51.7%	3.3	20.3	5.5	12.0%	3.0%
29	SIBL	11.7	12,705	67.9%	2.4	20.2	4.9	5.0%	5.0%
30	SOUTHEASTB	13.3	17,103	66.8%	1.4	24.9	9.4	6.0%	4.0%
31	STANDBANKL	8.6	9,134	63.8%	1.1	16.7	8.1	0.0%	0.0%
32	TRUSTBANK	31.7	27,142	40.0%	3.6	25.9	8.7	10.0%	10.0%
33	UCB	12.4	18,309	64.6%	2.3	28.6	5.3	5.0%	5.0%
34	UNIONBANK	8.9	9,223	43.5%	2.7	15.5	3.3	5.0%	0.0%
35	UTTARABANK	22	16,145	69.4%	4.2	31.8	5.2	14.0%	14.0%

Contemporary Issues and Major Pitfall of Banking Sector in Bangladesh

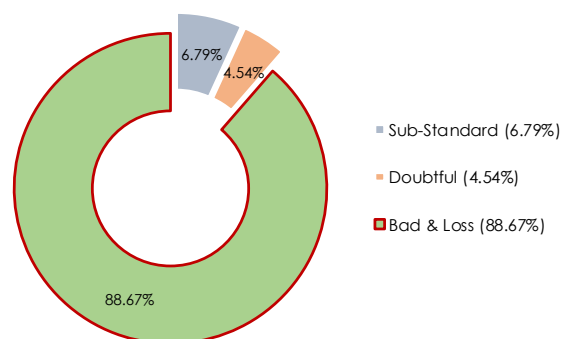
The banking sector in Bangladesh has been struggling to survive in recent years, with most banks facing problems of high Non-performing loans (NPL), lack of corporate governance and other problems. The situation like COVID-19 and Russia-Ukraine war have worsened the scenario of the entire economy. An important factor in our monetary and financial system, the banking sector continues to face challenges due to higher inflation, a weaker dollar exchange rate. In order to maintain good economic growth in the coming years, BB has taken measures to stabilize the economy, including the banking sector, by implementing monetary and fiscal policy.

The non-performing loan (NPL) in the banking sector reached 8.16% at the end of December 2022, up from 7.93% in the preceding year. The NPL ratio grew by 0.23% at the end of December 2022 compared to the end of December 2021. Additionally, as a result of a BDT 1,759 billion increase in the total outstanding loans and advances in the banking industry in 2022, the NPL amount grew by BDT 173.83 billion. Non-performing loans (NPLs) in the banking sector of Bangladesh reached a new high level in June 2023 as the withdrawal of a relaxed central bank policy, a slowdown in business sales, and intentional non-payments drove the amount of bad loans to BDT 156.03 billion. With the previous high of BDT 134.39 billion achieved in the third quarter of last year, this was the largest NPL in the history in Bangladesh. NPLs made up 10.1% of all deployed credits at the end of June 2023, while the banking sector's outstanding loans were BDT 1,543 billion. The growing trend in NPLs has been mostly attributed to poor corporate governance, relaxed regulations implemented by the central bank, and political instability. However, external factors like the extension of the Russia-Ukraine conflict and other geopolitical difficulties may cause sluggish business as well as impaired borrowers' ability to pay their debts, which might ultimately worsen the asset quality of Bangladesh's whole banking sector.

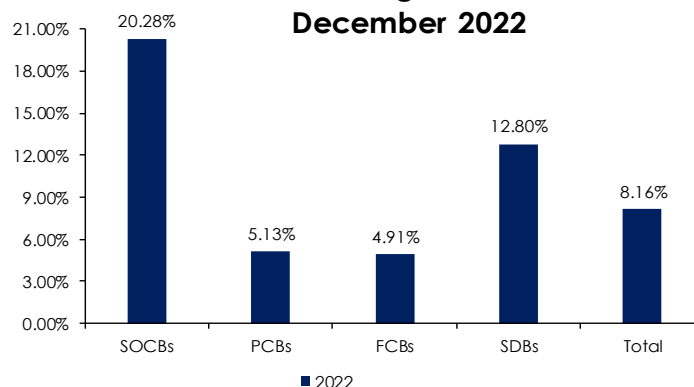
The NPL ratio for SOCBs increased by 1.0% from the end of December 2021 to end of December 2022, reaching 20.3%. The NPL ratio also showed a slight increase for FCBs and SDBs. The NPL ratios for FCBs and SDBs were 4.9% and 12.8%, respectively. In contrast, PCBs asset quality improved during the reporting year, it was seen by the fact that their overall NPL ratio decreased by 0.2% and eventually reached 5.1% by the end of December 2022.

In 2022, the share of Bad and Loss loans in NPL increased to 88.7% compared to 88.2% in 2021. This high Bad and Loss loan ratio indicates that a major portion of the NPL has not been performing for a longer period. The total Bad and Loss loan of the banking sector stood at BDT 1,069 billion at the end of December 2022 (BDT 910.58 billion at end of December 2021). The other two categories of classified loans namely sub-standard and doubtful constituted 6.8% (7.8% in 2021) and 4.5% (4.06% in 2021) of the total NPLs respectively.

NPL Composition in 2022



NPL in Banking Clusters as of December 2022



Sector-Wise NPL Scenario as of December 2022

Sector-Wise NPL Scenario as of December 2022			
In Billion (BDT)			
Sectors	Total Loans Outstanding	Total Non-Performing Loan	NPL Ratio
Agriculture	550.7	35.0	6.4%
Manufacturing Industry	7281.2	664.8	9.1%
RMG	1703.9	189.5	11.1%
Textile	1271.9	146.8	11.5%
Ship building and Ship breaking :	212.2	47.6	22.4%
Agro-Based Industry	1027.0	91.4	8.9%
Other Industries (Large Scale)	2091.6	96.1	4.6%
Other Industries (Small, Medium and Cottage)	631.3	74.1	11.7%
Pharmaceutical Industry	212.8	4.1	1.9%
Leather and Leather-based Industry	130.4	15.3	11.8%
Service Industry	1689.4	112.9	6.7%
Construction Loans	898.5	56.6	6.3%
Transport and Communication	212.7	18.5	8.7%
Other Service Industries	578.2	37.8	6.5%
Consumer Credit	968.4	29.9	3.1%
Credit Card	82.6	6.4	7.8%
Auto (Car) Loans	24.8	0.4	1.4%
Housing Finance	277.4	13.4	4.8%
Personal	583.7	9.7	1.7%
Trade and Commerce	2888.9	289.0	10.0%
Credit to NBFI	110.5	3.8	3.4%
Loans to Capital Market	81.3	0.9	1.1%
Merchant Banks	39.7	0.5	1.3%
Other than Merchant Banks	41.6	0.4	1.0%
Other Loans	1206.5	70.2	5.8%
Total	14776.9	1206.5	8.2%

As of end December 2022, the NPLs of BDT 1,206.57 billion imposed a loan-loss provision requirement of BDT 841.6 billion, against which the amount of provision maintained was BDT 731.5 billion. The provision maintained by the banks recorded a growth of 9.8% compared to the previous year. Thus, the overall provision shortfall stood at BDT 110.1 billion from BDT140.1 billion in 2021, recording an improvement during the period. Consequently, the provision maintenance ratio also increased to 86.9% in 2022 from 82.6% in 2021.

Rescheduled loans in the banking sector stood at BDT 637.2 billion in 2022, a significant increase from the previous year. The rescheduled loan ratio climbed from 12.9% at the end of 2021 to 14.4% at the end of 2022. The majority of the rescheduled loans were in the industrial sector, followed by RMG and textile sectors accounting for 31.7% and 20.5% of the total rescheduled loans, respectively in 2022.

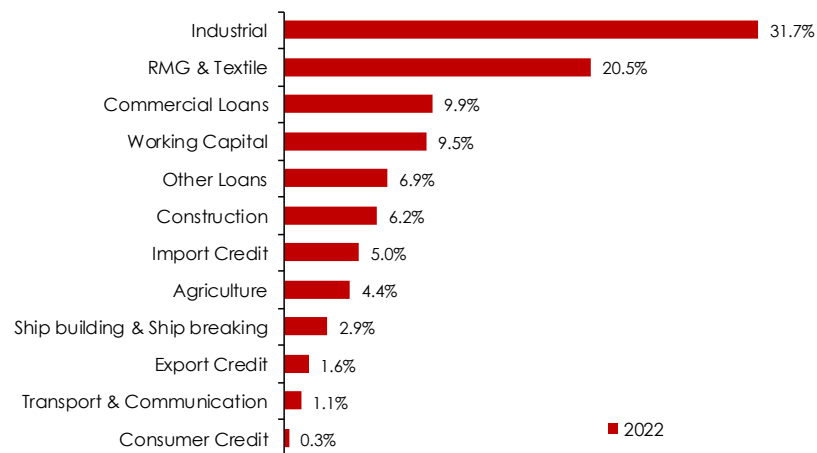
The cumulative written-off loan in banking sector reached to BDT 653.2 billion in 2022, which was BDT 604.9 billion in 2021. The cumulative written-off loan amount accounted for 2.9% of the banking sector's on-balance sheet assets at the end of December 2022. However, out of the total written-off loans, banks have been able to recover BDT 208.28 billion till the end of December 2022 and thus the net outstanding balance of written-off loans stood at BDT 444.93 billion where SOCBs, PCBs, FCBs and SDBs accounted for BDT 164.49 billion, BDT 265.68 billion, BDT 11.25 billion and BDT 3.51 billion respectively. In first six month on FY23 (January to June), banks written off loans reached more than 3 times higher than the same period of last year, and stood at BDT 4,51.3 billion, with 247.0% (YoY) growth.

Banks risk weighted assets (RWA) are broadly attributed to credit, market and operational risks as per BASEL-III capital framework. At the end of 2022, the credit risk weighted asset reached 88.2% of the total RWA, whereas the RWA associated with the market and operational risks were 3.5% and 8.3% respectively. In 2022, credit risk weighted assets to total RWA increased by 0.4%, whereas market risk weighted assets and operational risk weighted assets to total RWA decreased by 0.2% and 0.2% respectively compared to the previous year.

In market risk cluster, equity price risk made up nearly half of the market risk, and reached 44.6% in end of 2022, while foreign exchange rate risk and interest rate risk made up 29.3% and 26.0%, respectively. While interest rate and equity price risk declined in 2022, foreign exchange risk increased during this year.

Composition of Rescheduled Loans Outstanding				(Amount in BDT Billion)	
Year	Total Rescheduled Loans Outstanding	Unclassified Rescheduled Loans Outstanding	Classified Rescheduled Loans Outstanding	Unclassified Portion of Total Rescheduled Loans Outstanding	Classified Portion of Total Rescheduled Loans Outstanding
2019	1,362.4	1,063.5	298.8	78.1%	21.9%
2020	1,556.3	1,257.0	299.3	80.8%	19.2%
2021	1,684.0	1,354.3	329.6	80.4%	19.6%
2022	2,127.8	1,719.2	408.6	80.8%	19.2%

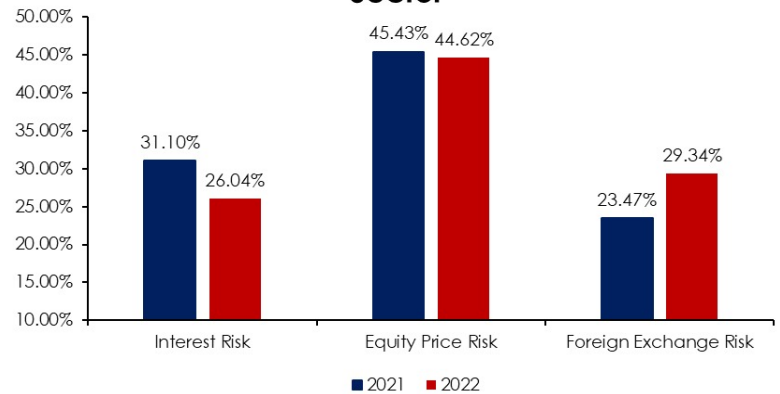
Sector-Wise Outstanding Rescheduled Loans End of 2022



Banking Sector Risk Structure under Basel III

	2021	2022
Credit RWA	87.83%	88.21%
Operational RWA	3.61%	3.45%
Market RWA	8.56%	8.34%

Market Risk Composition in Banking Sector



DSE Listed Banks Liquidity Statement (ALM) Analysis as of December 2022

SL	Ticker	Term Deposit to Total Deposit	ST Investment to Total Investment	LT Investment to Total Investment	ST Investment to ST deposit	LT Investment to LT deposits	Total Investment to Deposit ratio	Liquidity Surplus/(shortfall) (BDT Million)	Solvency Surplus/(shortfall) (BDT Million)
1	ABBANK	14.7%	73.4%	26.6%	98.9%	207.5%	114.9%	3,038	(50,221)
2	ALARABANK	21.7%	70.2%	29.8%	101.1%	154.1%	112.6%	(3,308)	(46,380)
3	BANKASIA	44.1%	51.9%	48.1%	104.6%	123.0%	112.7%	(8,776)	(34,248)
4	BRACBANK	41.1%	56.6%	43.4%	139.5%	153.1%	145.1%	(84,717)	(79,582)
5	CITYBANK	31.7%	52.0%	48.0%	97.1%	192.3%	127.3%	6,652	(97,201)
6	DHAKABANK	17.1%	60.0%	40.0%	87.2%	281.0%	120.4%	25,809	(75,437)
7	DUTCHBANGL	37.8%	63.5%	36.5%	110.7%	104.7%	108.4%	(29,218)	(7,779)
8	EBL	50.8%	57.4%	42.6%	146.8%	105.7%	125.9%	(73,001)	(9,224)
9	EXIMBANK	13.9%	64.4%	35.6%	85.7%	294.1%	114.5%	52,636	(114,557)
10	FIRSTSBANK	44.1%	57.5%	42.5%	119.8%	112.2%	116.5%	(52,439)	(25,545)
11	ICBIBANK	71.9%	25.3%	74.7%	87.9%	101.0%	97.4%	424	(94)
12	IFIC	41.4%	42.8%	57.2%	79.3%	149.7%	108.4%	45,605	(77,224)
13	ISLAMIBANK	27.9%	76.8%	23.2%	96.2%	75.3%	90.3%	39,123	97,165
14	JAMUNABANK	24.8%	60.2%	39.8%	91.4%	183.1%	114.1%	14,548	(46,363)
15	MERCANBANK	54.4%	50.9%	49.1%	137.5%	111.1%	123.1%	(48,226)	(16,958)
16	MTB	44.9%	51.8%	48.2%	123.7%	141.2%	131.6%	(30,408)	(43,051)
17	NBL	41.2%	38.4%	61.6%	69.3%	159.0%	106.2%	76,531	(103,029)
18	NCCBANK	45.7%	47.6%	52.4%	111.1%	145.4%	126.8%	(12,714)	(43,528)
19	NRBCBANK	22.0%	73.9%	26.1%	249.0%	312.3%	262.9%	(171,169)	(68,715)
20	ONEBANKLTD	19.1%	49.9%	50.1%	71.8%	304.4%	116.2%	51,633	(88,347)
21	PREMIERBAN	23.9%	50.7%	49.3%	73.2%	226.9%	109.9%	60,455	(89,910)
22	PRIMEBANK	40.2%	63.6%	36.4%	167.8%	142.6%	157.6%	(107,654)	(45,555)
23	PUBALIBANK	45.7%	57.4%	42.6%	124.4%	109.7%	117.7%	(67,822)	(22,629)
24	RUPALIBANK	31.2%	45.1%	54.9%	66.1%	177.7%	100.9%	137,174	(142,481)
25	SBACBANK	33.7%	56.6%	43.4%	110.8%	167.4%	129.9%	(5,236)	(16,614)
26	SHAHJABANK	37.2%	61.1%	38.9%	115.5%	124.2%	118.7%	(22,166)	(20,569)
27	SIBL	19.4%	77.6%	22.4%	103.5%	124.2%	107.5%	(9,672)	(15,989)
28	SOUTHEASTB	36.9%	46.5%	53.5%	88.7%	174.5%	120.3%	26,514	(102,040)
29	STANDBANKL	48.4%	54.3%	45.7%	121.7%	109.2%	115.7%	(19,116)	(7,642)
30	TRUSTBANK	13.2%	42.3%	57.7%	53.6%	482.3%	110.0%	131,379	(163,875)
31	UCB	54.2%	46.8%	53.2%	125.1%	120.2%	122.4%	(48,983)	(46,536)
32	UNIONBANK	27.4%	90.6%	9.4%	136.1%	37.3%	109.0%	(55,854)	36,680
33	UTTARABANK	47.7%	65.6%	34.4%	128.1%	73.6%	102.1%	(28,829)	24,738
34	MIDLANDBNK	60.8%	42.2%	57.8%	129.9%	114.7%	120.7%	(6,774)	(5,161)
35	GIB	13.8%	72.5%	27.5%	58.7%	139.4%	69.8%	42,331	(6,437)
	Industry	33.9%	58.7%	41.3%	102.3%	140.3%	115.2%	(172,232)	(1,554,337)

Data Source: Listed Banks Annual Reports

Credit Deployment Scenario in Banking Sector

One of the main source of funding for industries such as steel, paper, cement, chemicals, fertilizers, power, textiles, etc., is the banking industry. In order to encourage ecologically sustainable and socially responsible investment, the banking industry can act as a bridge between economic, social, and environmental development.

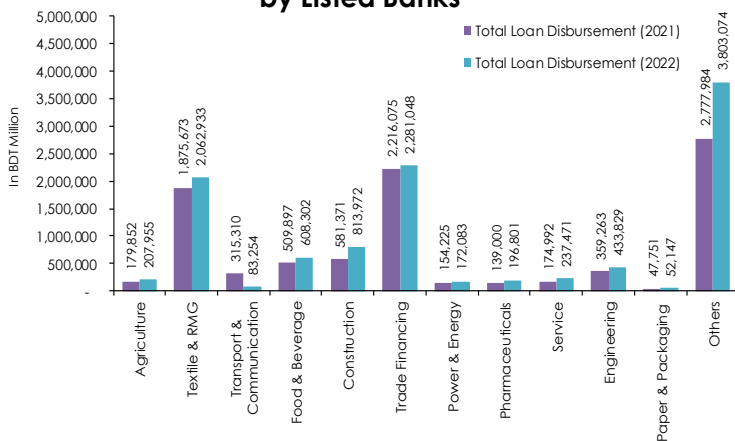
At the end of December 2022, total loan disbursement of banking sector stood at BDT 13,877 billion, a 14.6% growth from previous year to 12,105 billion. At the end of 2022, four sectors, namely large industries, wholesale and retail trade, miscellaneous, and import financing had saw a double digit share, 26.5%, 18.2%, 12.3% and 10.1% respectively. This scenario was very similar to that of 2021. A high market share (26.5%) of large industries loans indicates that banks were more engaged in disbursing corporate loans.

Disbursement of Cottage, Micro, Small and Medium Enterprise (CMSME) loans during January-March of FY23 decreased by 5.1%. Outstanding CMSME loans was 19.3% of total outstanding loans at the end of March of FY23, which was lower than that of the same quarter of the preceding year.

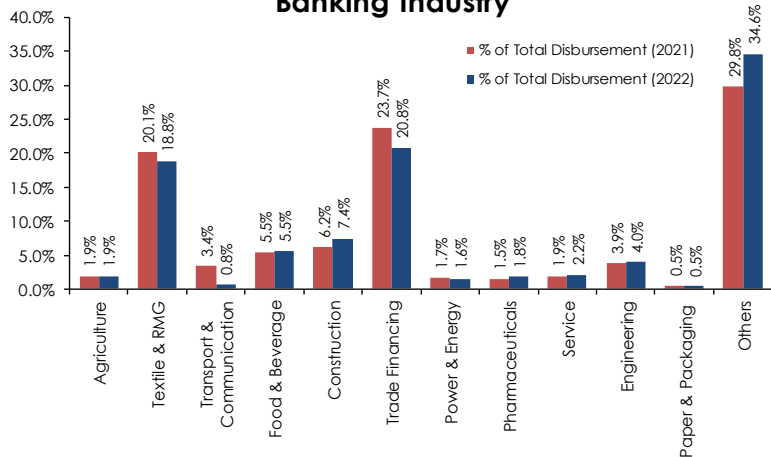
Total credit deployment by listed banking industry stood at BDT 10,976,105 million at the end of 2022, which is edge up 17.6% from the previous year to 9,331,394 million. Trade financing and Textile & RMG industry held a big percentage of disbursement respectively 20.8% and 18.8% respectively, followed by Construction, Food & Beverage, Engineering, Transport & Communication, Agriculture, Service, Power & Energy, Pharmaceuticals, Paper & Packaging and others. Others industry included tea manufacturing, wood & wooden products, leather, backward linkage, plastic & plastic products, IT, tobacco, and miscellaneous industry which is carried 34.6% of total loan disbursements at the end of 2022.

Sector-Wise Credit Deployment of Banking Sector as of 2022		
Sector	Credit (BDT Billion)	(%) of Total Credit
Large Industries	3,670.2	26.5%
Wholesale and Retail Trade	2,531.0	18.2%
Miscellaneous	1,712.3	12.3%
Import Financing	1,405.6	10.1%
Small and Medium Industries	891.0	6.4%
Service Industries	855.0	6.2%
Export Financing	829.9	6.0%
Agriculture	617.8	4.5%
Housing (Residential)	333.6	2.4%
Other Construction	302.7	2.2%
Housing (Commercial)	257.1	1.9%
Infrastructure Development	95.0	0.7%
House Renovation/Repairing/Extension	86.7	0.6%
Air Transport	54.2	0.4%
Lease Financing/Leasing	54.0	0.4%
Fishing	51.9	0.4%
Road Transport	43.6	0.3%
Housing (Residential)	36.1	0.3%
Water Transport	19.2	0.1%
Cottage Industries/Micro Industries	15.5	0.1%
Procurement by Government	14.5	0.1%
Water-works	0.3	0.0%
Sanitary Services	0.1	0.0%
Forestry and Logging	0.0	0.0%
Total Loan and Advances	13,877.0	100.0%

Sector-Wise Credit Deployment by Listed Banks



% of Loan Disbursement in Listed Banking Industry



Data Source: Listed Banks Annual Reports

\$800 billion Economy in 2030: How Banks Will Respond?

Bangladesh's economy has always been significantly influenced by banks. They contribute structurally to the growth of trade and industry. The nation's economic development is one of the primary contributions provided by the banks.

Here are some of the reasons why having a well-functioning banking system is essential for any nation's economic development, particularly one that is expanding quickly like Bangladesh. In order to reduce capital deficiency, banks borrow deposits from the surplus unit and lend them to the deficit unit for the growth of trade, industry, and commerce. These resources are subsequently put to good use by the deficit unit, which increased capital formation in the nation.

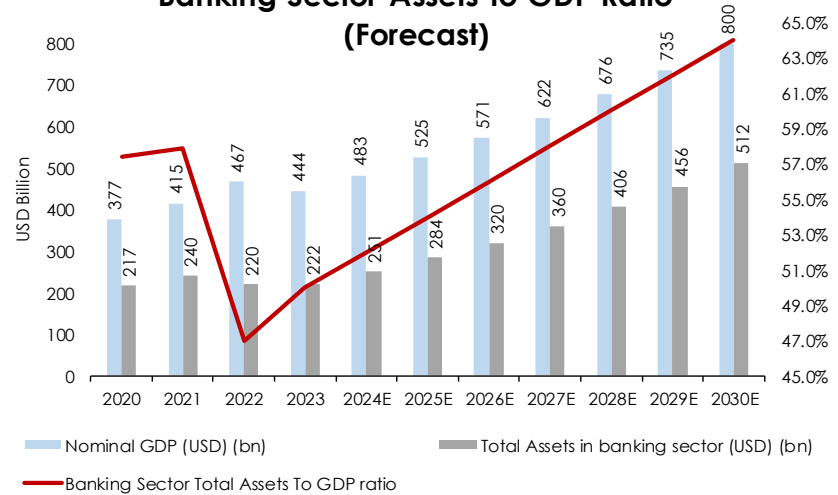
In an economy, commercial banks can produce revenue. Banks generate lending through their deposits activity, which results in increased purchasing power. Banks extend credit to raise the amount of money available for development initiatives, which boosts an economy's money flow. Increased production, employment, sales, and pricing result from the generation of credit. They thus promote quicker economic growth. Through the purchase of T-Bills and the investment of their capital in government securities, banks offer the government a long-term credit facility.

By providing capital to entrepreneurs and investing in productive purposes, banks encourage self-reliance, reduce unemployment and promote the right industries. For the purpose of accumulating wealth, banks provide advisory and advisory services, and banking professionals can introduce investors to mutual funds or direct investments. Economists believe that changing interest rates can increase the country's money supply. Banks also provide liquidity to the economy by funding illiquid assets with liquid liabilities.

In 2023, the nominal GDP stand at USD 444* billion (provisional), where banking sector total assets will be reached at USD 222 billion. Total assets and GDP show a positive association trend from year to year, which suggests a favorable relationship between them. With predicting assumption the country's GDP will surpass USD 800 billion at the end of 2030 by utilizing a chronological growth rate in comparison to banks' total assets.

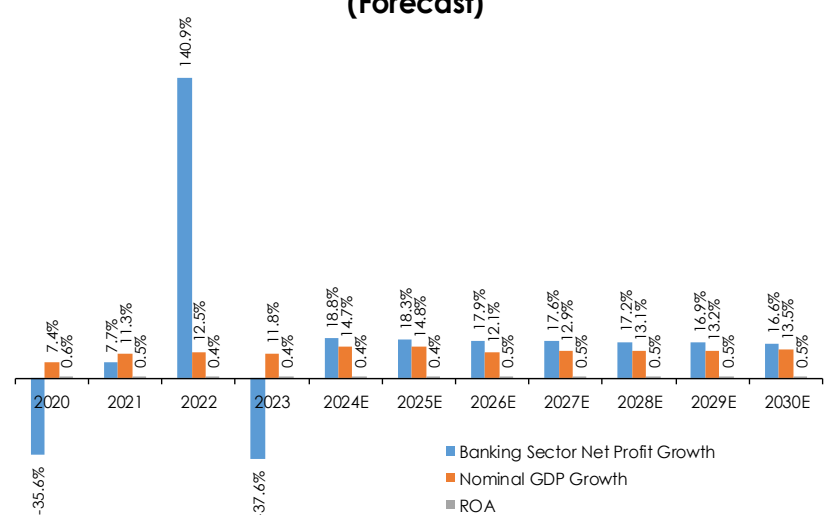
Additionally, the banking sector of the country has a significant impact on GDP. The total assets to GDP ratio for banks will be 50.0% in 2023, a slight increase from the previous year of 47%. On the other hand, banking sector net profit after tax stood at USD 1.4 billion at the end of 2022, with 140.95% growth, and ROA decreased to 0.36% in 2022. Our prediction says total assets growth will be 12.3% in 2030, reached the countries economy in USD 800 billion.

Banking Sector Assets to GDP Ratio (Forecast)



Year	Nominal GDP (USD) (bn)	Nominal GDP Growth	Total Assets in banking Sector (USD) (bn)	Total Assets Growth (YoY)	Total Assets To GDP ratio
2020	377	7.4%	217	13.0%	57.4%
2021	415	11.3%	240	11.0%	57.9%
2022	467	12.5%	220	7.5%	47.0%
2023	444	11.8%	222	1.1%	50.0%
2024E	483	14.7%	251	13.1%	52.0%
2025E	525	14.8%	284	13.0%	54.0%
2026E	571	12.1%	320	12.8%	56.0%
2027E	622	12.9%	360	12.7%	58.0%
2028E	676	13.1%	406	12.5%	60.0%
2029E	735	13.2%	456	12.4%	62.0%
2030E	800	13.5%	512	12.3%	64.0%

Banking Sector Net Profit vs Nominal GDP (Forecast)



Concluding Remarks

The financial sector in Bangladesh is dominated by the commercial banking system, which actually serves as the major finance providers to fund our economic growth. Utilizing cutting-edge information technology, our banking sector is transitioning from traditional banking to customer service-centric banking and competing in the open market with high-tech systems. In the last decade, Bangladesh economy clocked on average 15.3% of Nominal GDP growth along with 10.97% growth of banks assets, which is anticipated to grow at 12.3% up to 2030. Currently, there is intense competition in the banking sector due to the establishment of numerous banks in relation to the size of the economy. Besides, the quality of bank assets become questionable to some extent which can be validated by on average of 8.0% non-performing loan ratio over the past couple of years. Apart from the challenges related to recovery of NPL, good governance and mitigating operational risks, our overall banking industry inherently possesses satisfactory level of growth prospects for the upcoming years.

Glossary

BB- Bangladesh Bank	SOCBs- State-owned Commercial Banks
ADR- Advance-to-Deposit Ratio	SDBs- Specialized Development Banks
BBS- Bangladesh Bureau of Statistic	T-bill- Treasury Bill
BDT- Bangladesh Taka	T-bond- Treasury Bond
BL- Bad and Loss	USD- US Dollar
BSEC- Bangladesh Securities and Exchange Commission	LCR- Liquidity Coverage Ratio
CAR- Capital Adequacy Ratio	MPS- Monetary Policy Statements
CDBL- Central Depository Bangladesh Limited	NBFI- Non-Bank Financial Institution
CMSME- Cottage, Micro, Small and Medium Enterprise	NDA- Net Domestic Assets
CPI- Consumer Price Index	NFSR- Net Stable Funding Ratio
CRAR- Capital to Risk-weighted Assets Ratio	NIM- Net Interest Margin
CRWA- Credit Risk-Weighted Assets	NFSR- Net Stable Funding Ratio
CSE- Chittagong Stock Exchange	PCBs- Private Commercial Banks
DSE- Dhaka Stock Exchange	P/E- Price-Earnings Ratio
EPS- Earnings per Share	ROA- Return on Assets
FX- Foreign Exchange	ROE- Return on Equity
FI- Financial Institution	IDR- Investment to Deposit Ratio
FY- Fiscal Year	IDRA- Insurance Development and Regulatory Authority
GDP- Gross Domestic Product	IRR- Interest Rate Risk
NPL- Non-Performing Loan	NSC- National Savings Certificates
	CASA- Current Account and Savings Account

Appendix

Aggregate Balance Sheet of Banking Sector

Particulars (In Billion BDT)	2019	2020	2021	2022
Property and Assets	1,904	2,155	2,095	2,131
Cash in Hand	162	165	190	246
Balance with BB & SB (including FC)	916	1,160	1,042	996
Balance with other Banks & FIs	766	746	729	789
Money at Call & Short Notice	60	84	134	100
Investments				
Government	1,410	2,111	2,316	2,086
Others	1,098	1,199	1,530	1,352
Total Investment	2,508	3,310	3,846	3,438
Loans, CC, OD etc.	10,310	11,240	12,522	14,320
Bills purchased & Discounted	524	511	722	706
Total Loans & Advances	10,837	11,750	13,244	15,026
Fixed Assets	238	267	281	290
Other Assets	800	920	960	1,074
Non-banking Assets	5	5	4	4
Total Assets	16,291	18,406	20,429	21,962

Aggregate Income Statement of Banking Sector

Particulars (In Billion BDT)	2019	2020	2021	2022
Interest Income	1,002	908	871	965
Interest Expense	698	692	638	691
Net Interest Income	304	215	232	274
Non-Interest/Investment Income	300	373	403	468
Total Income	603	588	635	743
Operating Expenses	325	332	353	400
Profit before Provision	278	256	282	342
Total Provision	115	126	153	88
Profit before Taxes	164	130	129	255
Provision for Taxation	94	83	79	112
Net Profit after Tax	70	47	50	142

Banking Sector NPL Ratio and Its Composition (%)				
Year	NPL to Total Loans Outstanding	Sub-Standard Loans to NPL	Doubtful Loans to NPL	Bad Loans to NPL
2011	6.2%	14.8%	11.5%	73.8%
2012	10.0%	19.1%	14.2%	66.7%
2013	8.9%	11.2%	10.1%	78.7%
2014	9.7%	11.0%	11.2%	77.8%
2015	8.8%	8.9%	6.5%	84.6%
2016	9.2%	10.2%	5.4%	84.4%
2017	9.3%	7.5%	5.5%	87.0%
2018	10.3%	9.4%	4.7%	85.9%
2019	9.3%	9.1%	4.1%	86.8%
2020	7.7%	7.7%	5.3%	87.0%
2021	7.9%	7.8%	4.1%	88.2%
2022	8.2%	6.8%	4.5%	88.7%

Banking Sector Loan Loss Provisions (In BDT Billion)			
Year	Required Provision	Provision Maintained	Surplus/(Shortfall)
2013	52.4	249.8	-2.6
2014	89.6	281.7	-8.0
2015	8.9	266.1	-42.8
2016	62.1	307.4	-54.7
2017	443.0	375.3	-67.7
2018	570.4	504.3	-66.1
2019	623.4	555.0	-68.3
2020	648.0	646.8	-1.2
2021	806.5	666.5	-140.1
2022	841.6	731.5	-110.1

Selected Ratios of Banking Sector (%)					
Ratios	2018	2019	2020	2021	2022
ROA	0.3%	0.5%	0.3%	0.3%	0.6%
ROE	4.4%	7.4%	4.3%	4.4%	10.7%
Net Interest Margin	2.2%	2.1%	1.1%	1.3%	1.4%
Interest Income to Total Assets	5.9%	6.1%	4.9%	4.3%	4.4%
Net Interest Income to Total Assets	1.9%	1.9%	1.2%	1.1%	1.2%
Non Interest Income to Total Assets	1.9%	1.8%	2.0%	2.0%	2.1%
Non Interest Expense to Gross Operating Income	52.0%	52.8%	55.1%	55.6%	53.9%
CRAR	10.5%	11.6%	14.4%	11.1%	11.8%
Tier-1 Capital to RWA	6.8%	7.7%	9.7%	7.4%	8.4%
NPL to Total Loans Outstanding	10.3%	9.3%	8.1%	7.9%	8.2%
NPL to Total Capital	101.4%	92.1%	80.7%	74.6%	75.9%
Maintained Provision to NPL	53.7%	57.9%	72.2%	64.5%	60.6%

Banking Sector Deposit and Advance Rate in 2022			
Month	Deposit Rate	Advance Rate	Overall Spread
January	4.01%	7.13%	3.12%
February	4.02%	7.10%	3.08%
March	4.01%	7.11%	3.10%
April	4.02%	7.09%	3.07%
May	4.02%	7.08%	3.06%
June	3.97%	7.09%	3.12%
July	4.04%	7.09%	3.05%
August	4.07%	7.11%	3.04%
September	4.09%	7.12%	3.03%
October	4.13%	7.15%	3.02%
November	4.22%	7.18%	2.96%
December	4.23%	7.22%	2.99%

The report is based on assessment conducted by the Research and Innovation Lab (RIL) at Royal Capital Limited. Related data in this report are mainly sourced from Bangladesh Bank (BB) website, listed banks annual reports, newspaper, and different publications. RIL will not bear any responsibility for any changes in the related data and estimates made after the mentioned access date. This report is available at: www.royalcapitalbd.com

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Research and Innovation Lab

Royal Capital Limited

Ittefaq Bhaban (2nd Floor)

1, R.K. Mission Road, Dhaka-1203

Tel: 02 7114309, 7114093

Fax: 02 9571352

Email: ril@royalcapitalbd.com

Web: www.royalcapitalbd.com

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