2016

Role of Investment Corporation of Bangladesh in the Development of Capital Market: Opportunities and Challenges

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PhD Dissertation

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Institute of Bangladesh Studies
University of Rajshahi, Bangladesh

June 2016

Role of Investment Corporation of Bangladesh in the Development of Capital Market: Opportunities and Challenges

A Dissertation submitted to the Institute of Bangladesh Studies (IBS), University of Rajshahi in partial fulfillment of the requirements for the award of the degree of Doctor of Philosophy In Finance and Banking

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CERTIFICATE

Certified that the thesis entitled "Role of Investment Corporation of Bangladesh in the Development of Capital Market: Opportunities and Challenges" submitted to the Institute of Bangladesh Studies, University of Rajshahi for the degree of Doctor of Philosophy by Mr. S. M. Aslam Parvez, was completed under my direct supervision. So far I know, this thesis is his original work. He did not take any direct help from anybody else for writing this thesis.

I went through the draft and final thesis and found it suitable for submission for the award of PhD Degree in the field of Finance and Banking.

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DECLARATION

I do hereby declare that the dissertation entitled "Role of Investment Corporation of Bangladesh in the Development of Capital Market: Opportunities and Challenges" submitted to the Institute of Bangladesh Studies, University of Rajshahi for the award of the degree of Doctor of Philosophy in Finance and Banking is exclusively original work of mine. I did not take any direct help from anybody for writing this thesis. This is completely my own product. No part of it in any from, has been submitted to any other University or Institute for any degree, diploma or for other similar purposes.

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ACKNOWLEDGEMENT

The completion of this thesis would not have been at all possible without the supervision and guidance of my esteemed Supervisor Dr. M. Zainul Abedin, Professor of Economics, Institute of Bangladesh Studies, University of Rajshahi. I initially proposed the title of this thesis and finally my supervisor accepted it. My debts are unlimited to him and I express my deep sense of gratitude to him. I think it is a great opportunity to work with such an accommodative man like him. I had always easy access to him despite his heavy academic engagements. Needless to say, he always served as a rescuer whenever I faced problem regarding my present work.

I remain greatful to the authority of IBS for offering me a scholarship for conducting this study. I also express my deep sense of gratitude to the teachers of IBS, who taught us in the course works on different subjects. They are professor Dr. Swarochish Sarker (Director), Professor Dr. Jakir Hossain, Dr. M. Mostafa Kamal, Dr. Md. Nazimul Haque and Dr. Md. Kamruzzaman.

I should express indebtedness to Mr. Ziaul Haque Khondoker, Ex Managing Director and Mr. Iftekeruz-zaman, Managing Director of ICB for their valuable suggestions for improving the quality of my thesis.

Finally, I wish to record my deep sense of gratitude and indebtedness to my wife Mrs. Sharmina Parvez for giving inspiration and shouldering the responsibilities of my family and keep me aloof from family matters. They deserve special thanks for the sacrifice they made during the tenure of my research.

- S. M. Aslam Pavez

Abbreviations

AAGR	:	Average Annual Growth Rate
ABBL	:	AB Bank Limited
AG	:	Annual Growth
ALCO	:	Asset Liability Committee
AMBITE	:	Advanced Manufacturing Business Implementation Tool for Europe
AMCL	:	Asset Management Company Limited
ATM	:	Automated Teller Machine
Avg.	:	Average
AVP	:	Assistant Vice President
BB	:	Bangladesh Bank
BIBM	:	Bangladesh Institute of Bank Management
BLFCA	:	Bangladesh Leasing and Financial Companies Association
BMRE	:	Balancing, Modernization, Rehabilitation, and Expansion
BODs	:	Board of Directors
CAMELS	:	Capital, Assets, Management, Earnings, Liquidity, and Sensitivity to Market Risk
CAR	:	Credit Asset Ratio
CBL	:	The City Bank Limited
CBs	:	Commercial Banks
CDR	:	Credit Deposit Ratio
CEO	:	Chief Executive Officer
CIB	:	Credit Information Bureau
CLs	:	Classified Loans & Advances
CRM	:	Credit Risk Management
CRR	:	Cash Reserve Requirement
CSFs	:	Critical Success Factors
CV	:	Coefficient of Variation
DEA	:	Data Envelope Analysis

DF Loans	:	Doubtful Loans & Advances
DFIs	:	Development Financial Institutions
DMD	:	Deputy Managing Director
EFT	:	Electronic Fund Transfer
ENAPS	:	European Network for Advanced Performance Studies
EPS	:	Earnings per Share
EVA	:	Economic Value Added
EVP	:	Executive Vice President
FCBs	:	Foreign Commercial Banks
FOREX	:	Foreign Exchange
FPIs	:	Financial Performance Indicators
FSRP	:	Financial Sector Reforms Programs
IAS	:	International Accounting Standard
IB	:	Islamic Banks
IFIC	:	International Finance Investment and Commerce Bank Limited
INCO	:	Interest Cost
KPIs	:	Key Performance Indicators
KSI	:	Key Success Indicators
LLRS	:	Large Loan Reporting System
LRA	:	Lending Risk Analysis
MD	:	Managing Director
MFIs	:	Micro-Finance Institutions
MIs	:	Management Information System
MOF	:	Ministry of Finance
MPMs	:	Modern Performance Measurement Systems
MRA	:	Microfinance Regulatory Authority
NBFI	:	Non-Banking Financial Institution
NBL	:	National Bank Limited
NCBs	:	Nationalized Commercial Banks
NFPIs	:	Non-Financial Performance Indicators

NINCO	:	Non-interest Cost
NLLC	:	New Loan Ledger Card
NPA	:	Non-Performance Assets
NPAT	:	Net Profit after Tax
NPBT	:	Net Profit before Tax
NPLs	:	Non-Performing Loans
NSD	:	New Service Development
PBP	:	Profit before Provision
PBT	:	Profit before Tax
PCBs	:	Private Commercial Banks
PER	:	Price Earning Ratio
PO	:	Principal Officer
PPS	:	Performance Planning System
ROA	:	Return on Assets
ROCE	:	Return on Capital Employed
ROI	:	Return on Investment
7-SModel	:	Strategy; Structure; System; Style; Skills; Staff; and Shared Values
SAVP	:	Senior Assistant Vice President
SCBs	:	State-owned Commercial Banks
SGR	:	Straight Line Growth Rate
SLR	:	Statutory Liquidity Requirement
SME	:	Small and Medium Enterprise
SS Loans	:	Sub-standard Loans & Advances
SVP	:	Senior Vice President
Tk.	:	Taka
TPMS	:	Traditional Performance Measurement Systems
VAIC	:	Value Added Intellectual Coefficient
VP	:	Vice President

Abstract

Investment corporation of Bangladesh (ICB) is one of the renowned investment banks in Bangladesh. As an investment bank, ICB has been performing its merchandising and financial assistance operations since its inception. ICB exists for financial and other activities for capital market development and industrialization. It includes: (i) Direct participation in equity; (ii) Purchase of shares; (iii) Lease financing; (iv) Venture Capital financing; (v) Advance against equity; and to act as trustee as well as custodian to the issue of debentures, bonds, mutual funds; etc.

By innovating new opportunities ICB can enhance its activities as well as can improve the condition of capital market of Bangladesh. A comprehensive study is needed to evaluate the performance of ICB. The dynamics of capital market is changing gradually. To adapt this changing environment it is needed to adapt new policies and activities. In this regard an in depth study is needed to update the activities of ICB. Proper dissemination of research-based information is also absent in the capital market sector. A lack of capital market friendly policies, fluctuation in foreign currencies, fluctuation of bank rates, a shortage of information on trading and many other issues are hindering the development of capital market.

To overcome this problem research based data is necessary. Moreover, recent changes in world economy and, price hike are affecting the development of capital market and for these reasons ICB may face some challenges in the coming years. To, address the problem such type of study is required. The main purpose of the study is to evaluate the role of ICB in the development of capital market in Bangladesh and the related prospects and challenges.

There are some research objectives of this study. The principal objective of the study is to examine the role of Investment Corporation of Bangladesh in capital market development and to explore the opportunities and challenges. There are some specific objectives which are- (1) To analyze the initiatives of ICB for capital market development; (2) To explore the opportunities of ICB in developing capital market; (3) To trace the challenges of ICB in capital market development; (4) To analyze and examine the growth trend of capital market in Bangladesh; (5) To evaluate the development and measure the performance of ICB; and (6) To help in taking measures for improving the performance of ICB. Content analysis method has been used in this study. The researcher has used the documents of ICB and capital market of Bangladesh to evaluate the role of ICB in capital market development. Both qualitative and quantitative interpretations were needed for the present study. The present study has exclusively used this method by compiling the data, of last 10 years (2001-2011) of DSE, CSE, ICB and other related financial organizations. After collected data, the researcher edited the data and used the SPSS software for analysis. To make the data more meaningful, these data were analyzed in tabular forms, percentages, ratios, mean, and time series and in some statistical forms according to their suitability and necessity of the study.

The key findings of the study are as follows. In analyzing the general growth of capital markets in Bangladesh, variables that have been known to determine growth were selected. Key indicators of growth include Market capitalization, Percentage of GDP, Investments through IPO, Turnover in primary and secondary markets, and the growth of accounts. From the study findings, it is found that the paid up capital has been steadily rising. From around the year 2006, ICB has been performing much better as seen from its net profits exceeding the paid-up capital. Since the estimates of total income and Net profit are positive, so with the increase of these, Market Capitalization

will Increase. If the performance of ICB improves continuously, it helps the growth of our capital market to a great extent. Different activities of ICB, influence the activities of our capital market in various ways. Growth trends of income, earning per shore, return on equity, resources and financial results (expenditure) of ICB lead to the growth of our capital market. So, there is a positive correlation between the growth of activities of ICB and that of the activities of our capital market. This is how the role of ICB in the development of our capital market is visible and justified. It is found that total income of ICB has positive role in the development of capital market in Bangladesh. It is also found that net profit of ICB has positive role in the development of capital market in Bangladesh. Analyzing the findings of the study the researcher concludes that ICB has positive role in the development of capital market in Bangladesh.

On the basis of the study the researcher has also made some recommendations for the development of the performance of ICB and for the development of capital market of Bangladesh. These are given below.

ICB Related: (1) Investing by costly borrowing funds should be reduced. Management may look for source of less costly funds and increase income. (2) Employees should be set up in proper position according to their skill and education background. (3) Dividend policy should be fair to all funds so that the investors may be satisfied. Dividend policy should be on earning basis, not year basis. (4) Unnecessary documentation and levels in the process of withdraw of securities should be eliminated. For these computerization is needed and training is a must. (5) It is needed to reduce difficulties in deposit collection and fund management in the prevailing money market situation. (6) Existing training facilities for the officers and employees of the Corporation is not sufficient. So it is needed to provide necessary training facilities for

the officers and staffs. (7) The Corporation needs to develop long-term strategic and risk management planning. To do so, they can develop computer simulation program. (8) ICB needs to adjust competitive strategy as there are lots of competitors already available in the market. (9) ICB Needs to fast of pace in decision making by large institutional and individual investors during bearish trend. (10) ICB needs to introduce innovative policy as the rapid changes in business environment and frequent changes in rules and regulations.

Capital Market Related: (1) It is Required to build the image of capital market and get back confidence of investors. (2) Company should try to minimize the overvaluation of share price. (3) Company should try to minimize liquidity problem and ICB can provide more loans for the investors with minimum interest. (4) SEC should introduced good and new share in the market. (5) Needs transparency in management. (6) It needs proper knowledge and training regarding stock market. (7) The key to existence of secondary markets is an efficient market trading place, where buying and selling is done efficiently and liquidity is maintained in the market place. To ascertain this efficiency and liquidity, the secondary market needs enforceable trading rules, an efficient transaction/settlement/clearing mechanism and the existence of a securities Finance House to support margin trading. (8) The security market system in Bangladesh needs professionally trained government officials (in security market areas), financial accountants, legal specialists specializing in credit analysts, market operators, fund managers, investment educators, journalists who understand security markets and other related security markets professional. (9) There is further a need for investor education also. The easiest means is an educational video produced combined by the ICB, DSE and Ministry of Finance, which explains what shares and bonds are, what is a mutual fund, what is a stock exchange. What is an investor

account, how can one buy and sell easily, and how the government will protect the investors against mal practice of the market operators. (10) Improve economic environment, where monetary policy and interest rate structure is such that a risky capital market cab exists, and the fiscal policy is attractive to the company seeking funds and to the investor providing funds, in the form of tax benefits.

Capital markets are financial markets for the buying and selling of long-term debt or equity-backed securities. These markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or government making long-term investments. To ensure sound economic development a sound capital market is very essential. The present scenario of the capital market is very horrific and unstable. As a state owned investment company of Bangladesh ICB can play a vital role to make a sound capital market. In this regard an evaluation of the performance of ICB was necessary. The present study has evaluated the performance of ICB in Capital market development. Moreover, it has opened a new branch of knowledge and approach to upgrade the performance of ICB. As it is known, the main objective of ICB was to encourage and broaden the base investment, to develop capital market and to mobilize savings from the surplus unit. It is observed that the performance of ICB was satisfactory. In almost all the areas, ICB's performance was improving in comparison to the past few years. Dividend payment, Net operating income, Operating profit, the amount of its investment in the main operational areas has also been increased. In terms of lease financing, Project commitments etc. the amount of allocation is also increasing. By playing significant role in the above field ICB has emerged as a key role player in the capital market of Bangladesh.

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Introduction

1.1 Prelude

The capital market is a source of financing for companies around the world. It is the market for buying and selling equity and debt instruments. The capital market is the engine of growth for an economy, and performs a critical role in acting as an intermediary between savers and companies seeking additional financing for business expansion. Capital Market means the market, or realistically, the group of interrelated markets, in which capital in financial form is lent or borrowed for medium and long term and, in cases such as equities, for unspecified periods.[1] A capital market is a market for securities (debt or equity), where business enterprises (companies) and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year,[2] as the raising of short-term funds takes place on other markets (e.g., the money market). The capital market includes the stock market (equity securities) and the bond market (debt). Money markets and capital markets are parts of financial markets. Capital markets may be classified as primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors via a mechanism known as underwriting. In the secondary markets, existing securities are sold and bought among investors or traders, usually on a securities exchange, over-the-counter, or elsewhere. Industry and commerce as well as government and local authorities raise capital from the capital market which performs

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[1] Banglapedia, *National Encyclopedia of Bangladesh* (Dhaka: Asiatic Society of Bangladesh, 2003), p. 363.

[2] Steven M. Sheffrin, *Economics: Principles in Action* (Upper Saddle River: Pearson Prentice Hall), 2003, p. 283.

several important functions in the process of economic development. Most important among them are the promotion of savings and investment and efficient allocation of funds among competing uses. Participants in the capital markets are many. They include the commercial banks, saving and loan associations, credit unions, mutual saving banks, finance houses, finance companies, merchant bankers, discount houses, venture capital companies, leasing companies, investment banks, investment companies, investment clubs, pension funds, stock exchanges, security companies, underwriters, portfolio-managers, and insurance companies.

The history of the development of Capital market in Indian Subcontinent is very ancient. In Bengal capital market was founded during the Mughal regime in the early 17th century in a limited scale. It has been elaborately discussed in chapter three. Bangladesh inherited from Pakistan a very small capital market consisting of 1130 branches of 12 commercial banks, the Dhaka Stock Exchange (DSE), 10 insurance companies established between 1958 and 1971, and the Samabaya (co-operative) Bank Ltd. The activity of DSE remained suspended until 1976, when it renewed operations with nine listed companies having paid up capital of Tk. 137.52 million. After liberation the capital market actually started its function with the introduction of Dhaka Stock Exchange (DSE) and Investment Corporation of Bangladesh (ICB) in 1976. Although, in mid-1980s, two private investment companies got permission to participate in the capital market activities in Bangladesh but due to some irregularities they failed to operate their activities. The Chittagong Stock Exchange (CSE) began its journey on the 10th October of 1995 from Chittagong City through the cry-out trading system with the promise to create a state-of-the art bourse in the country. So, if we want to make any kind of discussion on the development of capital market of Bangladesh we have to focus on the rules, regulations,

activities, policy, present status etc. of Dhaka Stock Exchange, Chittagong Stock Exchange and Investment Corporation of Bangladesh.

Economic growth in a modern economy hinges on an efficient and effective financial sector that pools domestic savings and mobilizes capital for productive projects. Absence of effective capital market could leave most productive projects which carry developmental agenda unexploited. Capital market connects the monetary sector with the real sector and therefore facilitates growth in the real sector and economic development. Capital market increases the proportion of long-term savings (pensions, funeral covers, etc) that is channeled to long-term investment. Capital market enables contractual savings industry (pension and provident funds, insurance companies, medical aid schemes, collective investment schemes, etc) to mobilize long-term savings from small individual households and channel them into long-term investments. It fulfills the transfer function of current purchasing power, in monetary form, from surplus sectors to deficit sectors, in exchange for reimbursing a greater purchasing power in future. In this way, capital market enables corporations to raise capital/funds to finance their investment in real assets. The implication will be an increase in productivity within the economy leading to more employment, increase in aggregate consumption and hence growth and development. It also helps in diffusing stresses on the banking system by matching long-term investments with long-term capital. It encourages broader ownership of productive assets by small savers. It enables them to benefit from economic growth and wealth distribution, and provides avenues for investment opportunities that encourage a thrift culture critical in increasing domestic savings and investment ratios that are essential for rapid industrialization. Capital market also provides equity capital and infrastructure development capital that has strong socio-economic benefits through development of

roads, water and sewer systems, housing, energy, telecommunications, public transport, etc. These projects are ideal for financing through capital market via long dated bonds and asset backed securities. Infrastructure development is a necessary condition for long-term sustainable growth and development. In addition, capital market increases the efficiency of capital allocation by ensuring that only projects which are deemed profitable and hence successful attract funds. This will, in turn, improve competitiveness of domestic industries and enhance ability of domestic industries to compete globally, given the current momentum towards global integration. The result will be an increase in domestic productivity which may spill over into an increase in exports and, therefore, economic growth and development. Moreover, capital market promotes public-private sector partnerships to encourage participation of private sector in productive investments. The need to shift economic development from public to private sector to enhance economic productivity has become inevitable as resources continue to diminish. It assists the public sector to close resource gap, and complement its effort in financing essential socio-economic development, through raising long-term project based capital. It also attracts foreign portfolio investors who are critical in supplementing the domestic savings levels. It facilitates inflows of foreign financial resources into the domestic economy. Recent empirical research linking capital market development and economic growth suggests that capital market enhances economic growth and development. Countries with well developed capital markets experience higher economic growth than countries without. Evidence indicates that, while most capital markets in African countries are relatively underdeveloped, those countries which introduced reforms that are geared towards development of capital market have been able to grow at relatively higher and sustainable rates. South Africa, the country that capital market is the largest and most

developed in Africa, in terms of market capitalization and trading volume, has been growing significantly since 2000. Its average per capita real GDP growth rate over the last 8 years has been at 3.2 %. Countries like Egypt, Ghana, Tanzania, Botswana and Mauritius, whose capital markets have been developing recently, were able to realize average per capita growth rates of more than 2.8% for the past 8 years. However, some economies which did not have formal or effective capital market like Lesotho, Seychelles and Ethiopia could not manage to realize average per capita growth rates above 2.7 % over the past 8 years. Even those countries with small and less developed capital market like Swaziland and Uganda did not manage to realize average per capita growth rates above 2.7 % during the past 8 years. Capital market enhances efficient financial intermediation. It increases mobilization of savings and therefore improves efficiency and volume of investments, economic growth and development.

Bangladesh has achieved stable growth over the last 10 years. It seems that the global financial crisis has not significantly affected Bangladesh mainly due to the growth in exports and remittances, albeit pressures from the global slowdown are building up. Before the onset of the global financial crisis, a 6.5 percent growth target for FY2009 was attained. With the financial crisis in the developed countries unfolding and recession lasting longer than earlier anticipated, a growth rate in the range of 5.5 per cent to 6.5 per cent is more likely to attain in future. Although external debt is on the rise in recent years, it looks manageable because ratio of exports to external debt is declining.

Compared with the neighboring countries, the Bangladesh capital market is small and has yet to play a bigger role in the economy. The share of domestic debt securities in the country's GDP was approximately 12% in 2006 and that of India and Pakistan was

35.9% and 26.3%, respectively. Likewise, equity market capitalization over GDP was substantially lower among the South Asian countries. Therefore, Bangladesh has to accelerate to develop the capital market because it has a pressing need for investment resources to bolster its stretched infrastructure resources, to build more power stations, bridges, ports and gas-pipelines to empower the people in the development of enterprise and the creation of jobs. Debt markets are an extremely effective mechanism for matching the long term needs of savers with those of issuers.

The capital market in Bangladesh is still at a developing stage. But, there was a steady progress in the capital market in the past due mainly to the government's continuous efforts to develop a sound securities market. There had been continuous development of the capital market over the years. As of the end of 2007, there were 350 securities listed on the Dhaka Stock Exchange with a market capitalization of US$ 10.82 billion (Table 1.1). The average growth of market capitalization had been 34.8 percent per annum over the last 10 years. The transaction volume also increased significantly with an average growth rate of 28.5 percent during the same period. The average size of companies in Bangladesh is very small compared to those of other countries. The company had an average issued capital of only Taka 331 million in 2007. Owing to the tiny size of companies, shares are concentrated in a few hands within a few years after becoming public. This is the main reason for thin trading and infrequent trading of stocks of some companies. The foreign portfolio investment in Bangladesh capital market is insignificant. In the 1990s, there had been some foreign portfolio investment. Much of these investments were made in private placement of new issues. However, in subsequent years, these investments were mostly withdrawn with the introduction of lock-in period for privately placed securities. While there is no official record of foreign portfolio

investment in the capital market, an assessment of the Securities and Exchange Commission (SEC) indicates that the investment of foreign portfolio investors in Bangladesh is roughly 2.5 percent.[3]

Table 1.1
Key Statistics of Capital Market in Bangladesh

Year	Number of Listed Securities	Market Capitalization (In Billion)		Transaction (In Billion)		Transaction/ Market Cap (%)	Price Index
		in Taka	in US $	in Taka	US $		
2000	241	62.92	1.17	40.27	0.78	64.00	642.68
2001	249	63.77	1.12	39.87	0.74	62.52	817.79
2002	260	71.26	1.23	34.98	0.61	49.09	822.34
2003	267	97.59	1.67	19.15	0.33	19.63	967.88
2004	256	224.92	3.81	53.18	0.90	23.64	1971.31
2005	286	233.08	3.52	64.84	0.98	27.82	1275.05
2006	310	323.37	4.67	65.08	1.10	20.13	1321.39
2007	350	742.20	10.82	332.87	4.71	44.85	2535.96

Note: Securities include stocks, bonds, debentures and mutual funds.

Source: DSE, CSE and SEC reports

The supply of new securities in the market had been small in Bangladesh. The number of new issues and the funds raised from the market were limited. During the past ten years, an average of 10 companies made public floatation of shares and raised funds of about Taka 2.77 billion per year. In spite of the efforts of the government to increase the supply of new floatation of shares, there were no conspicuous results. The major impediment to public offering of securities is with the attitude of entrepreneurs. It is widely believed that fear of losing control over the company still prevails among the entrepreneurs and sponsors. This prevents many entrepreneurs from floating shares in the market. Accordingly, as stated above, the controlling interest is retained for most of the publicly traded companies by the sponsor directors and their family members.

[3] M.S. Islam, *An Examination of the Securities Markets in Bangladesh*, Dhaka., 2008.

The debt securities market is small. Government debt securities such as treasury bills, treasury bonds and national savings certificates (NSC) dominate the market, among which NSC account for roughly two-thirds. The corporate bond issues had been very occasional and had been stagnant due to a lack of varied corporate debt supply. This is because, in general, companies prefer to rely on banks for funds rather than on the bond market, thereby avoiding the need to comply with disclosure and governance norms. These imply that the capital market had not been effectively utilized as a vehicle for financing by companies. Table 1.2 shows the poor condition of capital market.

Table 1.2
Capital raised in the Capital Market

Year	Number of Initial Issues			Capital Raised in Taka (Million Taka)		
	Stocks	Corporate Bonds	Total	Stocks	Corporate Bonds	Total
2000	7	0	7	422.85	0.00	422.85
2001	11	0	11	572.20	0.00	572.20
2002	8	0	8	450.20	0.00	450.20
2003	14	0	14	2,952.67	0.00	2,952.67
2004	3	0	3	588.04	0.00	588.04
2005	18	0	18	2,310.50	0.00	2,310.50
2006	10	0	10	12,624.83	0.00	12,624.83
2007	13	1	14	3,463.97	3,000.00	6,463.97

Source: DSE, CSE and SEC reports

1.2 Performance of Capital Market in Bangladesh (2001-2011)

The recent performance of the capital markets in Bangladesh, notably from December 2010 till February of 2011, has been very poor compared with its performance over the last five years. The index fell from a high of around 8,900 points to 4864.30104[4] points, a drop of almost fifty percent in just three months. However, its recent performance has

[4] On 17 January, 2012

cast a big doubt about its future performance. It is a case of "too much money chasing too few stocks". This correction in the market has been long overdue because there was too much money in the stock market in too few stocks. This inflationary pressure was finally controlled by the central bank by raising its cash reserve ratio (CRR) and statutory liquidity ratio (SLR) thus resulting in limiting the liquidity flow into the capital market. One of the main reasons for this was that the domestic banks had too much of their money invested in the stock market, for quick and easy profit taking and as a result caused the stock market to rise even higher. So, to control the excess money in the capital market the central bank took these drastic measures, as it is within their right to do so, to control inflation.

The problems of the capital markets in Bangladesh are structural, and, actually quite far-reaching than what meets the eyes. As we all know, the capital markets here, notably the Dhaka Stock Exchange (DSE), is way overvalued due to, firstly, the DSE index calculations being incorrect. Secondly, there are big syndicates acting together to artificially influence the prices resulting in huge profits for them at the expense of the average investors who put in their hard earned lifetime savings. And last, but definitely not least, is the Securities and Exchange Commission (SEC) whose total policy and regulations favors' the syndicates which primarily consists of high net worth people and the stock exchange members resulting in an "artificial demand driven market". Until and unless these fundamental issues are addressed the capital markets here will fail to see the light of the day.

The Bangladesh capital market still has a long way to go. A number of measures have been taken by the government to improve the condition of capital markets. If more investor-

friendly policy reforms were to be implemented, the capital market will undoubtedly play a critical role in leading Bangladesh towards being the next Asian tiger with growth comparable to India, Vietnam and the other most dynamic economies in the region.

1.3 Investment Corporation of Bangladesh

If we want to evaluate the country's capital market, the role of Investment Corporation of Bangladesh cannot be ignored. The Investment Corporation of Bangladesh (ICB) was established on 1 October 1976, under "The Investment Corporation of Bangladesh Ordinance 1976". The establishment of ICB was a major step. To encourage and broaden the base of investments and also to develop the capital market is one of the major objectives. There are different types of business policy which are provided by ICB. To provide financial assistance is to projects subject of their economic and commercial viability. Adoption and application of corporate governance principles and guideline receive unremitting attention of ICB. The fundamental features of corporate governance standards exercised by ICB are among others, peruse ethical norms in all operations ensure full disclosure and greater transparency in financial statements, generate reliability and trust our thickness in business transactions optimize the quality of services to clients and safe guard the interest of the shareholders and others stakeholders. Investment Corporation of Bangladesh operates with an understanding that the stock market is to be a dependable source of capital for growth of industry and business and it cannot be cash now for players in just trading in shares. Imbalance in supply of and demand for securities, difficulties in harmonization of efforts in managing interest rates, inflation, exchange rate and money supply and problems in coordination of capital market with money market are some of the areas that need to be taken into consideration.

Despite limitations caused by both indigenous and exogenous factors ICB has taken steps to contribute to make stable capital market and some of such steps are continuous purchase of share in situations of fall in the share prices and avoiding force sale. The Corporation, in a consortium of four state owned commercial banks, two insurance companies and one development financial institution, has floated a TK 50 billion open end mutual fund with the objective of stabilizing market and making it transparent and vibrant and also deepening it.[5] Investment Corporation of Bangladesh, since its inception, plays various roles in implementing some decisions that have national priority and in the same way it continues to remain as a catalyst in achieving the economic objective of the country. It introduces new products and services, targets growth sectors, and aligns its business strategies with implementation and achievements. From the beginning ICB remains engaged with identifying the internal and external factors that are favorable and unfavorable for achieving its objectives and this enables the organization to grow and gain strength. As a part of restructuring program of ICB under Capital Market Development Program (CMDP) initiated by the Govt. of Bangladesh (GOB) and the Asian Development Bank (ADB) and in terms of power conferred upon in the ICB Ordinance, three subsidiary companies, namely (i) ICB Capital Management Limited; (ii) ICB Securities Trading Company Limited; and (iii) ICB Asset Management Company Limited have been formed and made operational to carry out merchant banking, stock brokerage functions and mutual fund operations respectively. After the issuance of govt. gazette notifications, ICB Capital Management Limited and ICB Asset Management Company Limited commenced their functions form 1 July 2002 and ICB Securities Trading Company Limited from 13 August 2002. The subsidiary companies are operated by their own memorandum and articles of association, Companies Act, 1994, SEC's rules and regulations and other applicable laws.

[5] ICB, *Annual Report*. 2010-2011, p. 29.

The companies have independent Boards of Directors and separate management.[6] Such initiatives of ICB for the development of capital market are very familiar. In spite of having continuous effort and initiatives for the development of capital market ICB is facing a lot of problems in its thirty six years journey. But there is a few in depth study regarding its performance. Moreover it has a number of opportunities to contribute in the development of the capital market. For these reason the researcher is very much interested to conduct a study on the role, prospects and challenges of Investment Corporation of Bangladesh.

1.4 Statement of the Problem

The ICB was entrusted with the responsibility of accelerating the pace of industrialization, developing a vibrant capital market and providing institutional support to meet the equity gap of public limited companies in the industrial sector. ICB now underwrites public issue of shares and provides bridging loans to priority sectors. It also participates in direct purchase of shares, and the underwriting, purchase, and sale of debentures, and bonds.

It has been managing investors' accounts, mutual funds and unit funds and participating in trade in the stock exchanges. Observing the importance of ICB in the promotion of industrial sector, huge amount of capital has invested in it by different financial institutions during the last 36 years. As, an investment bank, ICB has been performing its merchandising and financial assistance operations since its inception. ICB's existing financial and other activities for capital market development and industrialization include: (i) Direct participation in equity; (ii) Purchase of shares; (iii) Lease financing; (iv) Venture Capital financing; (v) Advance against equity; and to act as trustee as well as custodian to the issue of debentures, bonds, mutual funds; etc.[7]

[6] ICB, *Annual Report.* 2010-2011, p. 112.
[7] ICB, *Annual Report.* 2010-2011, p. 90.

In spite of having a number of activities the financial position of Investment Corporation of Bangladesh in respect of its financial assistance operations has not improved significantly over the last three decades. Although, to solve these crises, the authorities have taken some important measures but yet, the performance of the said operations could not be improved to the expected level. By innovating new opportunities the ICB can enhance its activities as well can improve the condition of capital market of Bangladesh. A comprehensive study is needed to evaluate the performance of ICB. The dynamics of capital market is changing gradually. To adapt this changing environment it is needed to adapt new policies and activities. In this regard an in depth study is needed to update the activities of ICB. Proper dissemination of research-based information is also absent in the capital market sector. So a serious study is required. **The main purpose of this study is to evaluate the role of ICB in the development of capital market in Bangladesh and the related prospects and challenges.**

1.5 Study Questions

The research questions are given below:

(1) What are the prospects of ICB in the development of Capital Market?

(2) Why ICB has not achieved expected level?

(3) In which way they are trying to develop the capital market?

(4) What are the inadequacies of ICB's initiative in capital market development?

(5) How those can be avoided for better performance in future?

(6) What challenges' are facing ICB at present?

(7) What challenges' may face ICB in future?

(8) How can ICB overcome the present and future challenges?

1.6 Objectives of the Study

The principal objective of the study is to examine the role of Investment Corporation of Bangladesh in capital market development and to explore the opportunities and challenges. There are some specific objectives which are as follows:

(1) To analyze the initiatives of ICB for capital market development;

(2) To explore the opportunities of ICB in developing capital market;

(3) To trace the challenges of ICB in capital market development;

(4) To analyze and examine the growth trend of capital market in Bangladesh;

(5) To evaluate the development and measure the performance of ICB; and

(6) To help in taking measures for improving the performance of ICB.

1.7 Review of Literature

Review of literature is a source of knowledge and provides a deep understanding about the topic or the issue closely related to the study to be undertaken. It also finds knowledge gap and justify the proposed research. In view of doing so, the researcher has gone through various relevant books, journals, web sites, and research reports for finding research gap and making a new contribution in the existing knowledge as well as relevant understanding about the study. Some of them are cited in the following.

Rahman (2003)[8]

In the study on "Development of Capital Market in Bangladesh: A Study on Dhaka Stock Exchange" is an important work on Capital market of Bangladesh. In his study Mr. Raman mention that ICB is playing a significant role since1976. According to his research findings the current management practice of ICB in connection with financial assistance operation is

[8] Md. Hafizur Rahman, "Development of Capital Market in Bangladesh: A Study on Dhaka Stock Exchange", Unpublished PhD. Thesis (Rajshahi: Institute of Bangladesh Studies, Rajshahi University, 2003).

not sound. Various companies enjoy underwriting and bridge financing facilities but they are not repaying their loans in time. The present loan recovery position of ICB is not satisfactory. He opined that for sound development of capital market, this situation should be changed. The research has only focused a few causes. But a number of factors are responsible for the sluggish development of capital market. A comprehensive study can do so. In this regard the present study has helped the researcher to find out all the barriers of ICB which are making barrier to make a strong capital market.

Rahman (2000)[9]

In his another study entitled "Investment Corporation of Bangladesh: A Study of Growth, Productivity and Performance" he desired to evaluate the growth, productivity and performance of ICB with reference to its operational activities like merchandising and financial assistance operations. In his study he has only evaluated the role of ICB in capital market development. He has not focused on the Prospects and Challenges of ICB in Capital market development. The present study has tried to fill up the gap.

Pandya (1992)[10]

In his study entitled "Securities and Exchange Board of India (SEBI): Its Role, Powers, Functions and Activities" he observes that as a regulatory and development body, SEBI's efforts in the direction of investor protection are varied and unlimited. The measures brought in by SEBI broadly cover measures for a locative efficiency in the primary market with fair degree of transparency, reforms in the secondary market for visible and mutual funds, regulation of various market intermediaries and above all for

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[9] Md. Hafizur Rahman, "Investment Corporation of Bangladesh: A Study of Growth, Productivity and Performance" Unpublished M.Phil Thesis (Rajshahi: Institute of Bangladesh Studies, Rajshahi University, 2000).

[10] Pandya V H, "Securities and Exchange Board of India: Its Role, Powers, Functions and Activities", *Chartered Secretary*, Vol. 22, No. 9 (Sept), 1992, p. 783.

the protection of the investing public. In Bangladesh ICB is one of the responsible authorities for capital market development. So, like the Indian study a study can be done to evaluate the performance of ICB in the development of capital market.

Rahman (1992)[11]

In his article entitled "Development of Capital Market and Economic Growth: Role of Investment Finance Institutions" is a very rich descriptive writing on the capital market of Bangladesh. He points out that a developed capital market is both a necessary and sufficient condition for industrial development of a country. He observes that the functions of the DFIs and investment companies like ICB, NCL and others were aimed at achieving the same objective. He also observes that the DFIs failed to establish prospective projects; and investors' companies also similarly failed to activate securities market and to ensure supply of long-term credit and risk capital which they were supposed to do. He opines that most of the projects of the DFIs are sick. He says that these show the inefficiency of the DFIs to carry out their functions for which those institutions were created. Though his article was not in depth, it articulates interest to conduct study on this regard.

Ali (1987)[12]

In his paper entitled "Review of Operations- Future Strategies: A summary" he tried to make an analysis of ICB's performance over a period of 10 years from1976-1986. He highlighted on all the activities of ICB. The paper was on secondary materials and covered policies, Procedures, business operations, resource mobilization, organization management etc. In his conclusion he has set some targets and suggested it for achieving those. 25years have passed but such type of new study is not conducted. In this connection the present one has been able to give new updates.

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[11] Md. Mozibur Rahman, "Development of Capital Market and Economic Growth: Role of Investment Finance Institutions". *Bank Parikrama*, Vol. XVII (1992), pp. 20-24.

[12] M. sekander Ali, "Review of Operations- Future Strategies: A summary" (Dhaka: ICB, 1987), pp. 1-54.

Imam (1989)[13]

The study on "Stock Market Development: A Perspective of Investment Corporation of Bangladesh" is a very nice one. In this study the author analyses the contribution of ICB in the development of capital market in Bangladesh. He observes that ICB enabled to create demand for stock in trade dealings to a great extent pooling savings through various schemes. He also opines that it failed to ensure benefits for sufficient number of profitable companies and thereby induced them, including profitable ones, to make public issues. Finally the author says that lack of motivation to finance desired sectoral industries, malpractice of not showing earned profit in books of account, dearth of companies paying satisfactory dividend, which is less than the rate of return on government securities and absence of board based shares, etc. are some of the reason for sluggish development of capital market in Bangladesh. The study was much related with the role of ICB but it is not an in depth Work.

Khosru (2000)[14]

In his article entitled "The Capital Market of Bangladesh: Present and Future" is a descriptive work on Bangladesh capital market. The author opines that the Bangladesh capital market still remains hag-ridden due to a combination of negative factors such as the smallest size and shallowness of the market, absence of a CDS, partly market liquidity aggravated by the absence of varied tradable financial instruments, lack of investors, market awareness and market transparency, the prodigal nature of our nation as a whole, the deplorable standard of research, information dissemination and book-keeping, unprofessional approaches of brokers to their services, and so on so forth. He also states

[13] Mohamood Osman Imam, "Stock Market Development: A Perspective of Investment Corporation of Bangladesh*." The Dhaka University Studies,* Part-C, Vol. 10(1) (1989) pp. 79-101.

[14] Amir Khosru Mahmud Chowdhury, "The Capital Market of Bangladesh: Present and Future." *Portfolio*, Chittagong Stock Exchange, January, 2000, pp. 7-9.

that ours is a emerging market, in this perspective yet to go a long way and mature. He further states that we need to frequent analysis of market trend. In this connection the present study has helped to understand about the present trend of capital market.

Nabi (1987)[15]

In his article entitled "Financial Operations of Two Major Development Finance Institutions of Bangladesh" he examines some aspects of the financial operations of BSB and BSRS. The author evaluated their financial performance including loans sanction and loan disbursement, short term loan, underwriting and debenture finance, direct equity investment, industrial sector-wise sanction of term loans, employment generation and recovery position etc. It is found that considering assistance to industrial sector, BSB's performance was better than that of BSRS. But considering the assistance like underwriting of shares and debentures, direct equity investment and recovery performance is better than BSB. ICB is also engaged with such activities but in his study the performance of ICB has not discussed. So, the present study has covered the knowledge gap.

Jaman and Basher (2000)[16]

In their article entitled "Bangladesh Capital Market in the New Millennium" they observe that equity financing is superior to debt financing since equity empirically yielded higher returns to compensate its in-built higher risks than debts. Due to absence of a strong capital market, large projects are predominantly debt financed in Bangladesh because of its availability and soft terms. They mentioned that market de-capitalization is unlikely to take place in presence of a strong capital market. They also

[15] Kazi Ahmed Nabi, "Financial Operations of Two Mejor Development finance Institutions of Bangladesh" *Chittagong University Studies,* Vol. 3, 1987, pp. 119-137.

[16] S A K Rahat Zaman and Syed Abul Basher, "Bangladesh Capital Market in the New Millennium", *Portfolio*, Chittagong Stock Exchange, January, 2000, pp, 7-9.

added that there is a number of loss-stricken state owned enterprise (SOEs) that are still be privatized. The government wants to get rid of these sick enterprises. However, they suggest that, capital market participation, in the form of floating debt and equity remains to be the acceptable option of financing and materializing these projects. ICB can play an important role in this regard. The present study has conducted to find out the ways to overcome the problems.

Rashid (2012)[17]

In his article entitled "Bangladesh Capital Market: Prospects and Challenges" is a descriptive work on Bangladesh capital market. In his article the author pointed out the strengths and weaknesses of the capital market of Bangladesh. The author has also find out the causes of underdevelopment of the capital market and suggested some measures for its development. He stressed on the improved function of SEC, Banks, mass media etc. but he has said nothing about Investment Corporation of Bangladesh.

Rahman and Haque (2012)[18]

In their article entitled "Current Economic Condition of Bangladesh: Capital Market Perspective" they analyzed the growth and development of the capital market of Bangladesh. They also analyzed the present unstable situation of Bangladesh capital market and the causes of the instability. Finally they have made some recommendations for the development of the capital market in brief but they have said nothing about the role of ICB in capital market development.

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[17] Mamun Rashid, "Bangladesh Capital Market : Prospects and Challenges". In Munir Quddus and Farida Khan (ed.), *Bangladesh Economy in the 21st Century (*Dhaka: The University Press Ltd., 2011), pp. 107-114.

[18] M. Hafizur Rahman and Monimul Haque, "Current economic Condition of Bangladesh: Capital Market Perspective" *Institute of Bangladesh Studies Alumni Association, Rajshahi University, Suvenir* (Rajshahi: March, 2012), pp. 67-73.

Mitsuru Mizuno (2009)[19] in his work entitled "The Finance in the Capital Market and Credit Rating in Bangladesh" he nicely analyzed the capital market of Bangladesh. In his article he has mentioned about some drawbacks of Bangladesh capital market. He also suggested to credit rating system of Bangladesh for capital market development. In his article there is nothing about ICB.

1.8 Justification of the Study

One of the major investment banks in Bangladesh, the Investment Corporation of Bangladesh (ICB), plays a leading role in developing the capital market. It has taken a number of initiatives for the development of the capital market. 36 years have passed since its inception. So, it is the high time to evaluate its performance and to adopt new inputs to enhance its activities. So, it is a crying need to evaluate the role of ICB and to explore new avenues to upgrade the performance of ICB. It appears that studies so far done on this issue in Bangladesh are limited. In this perspective this study hopes to be a pioneer work in this field. It will be able to examine the role of Investment Corporation of Bangladesh in capital market development and to explore the opportunities and challenges. For those reasons the researcher has chosen this field of study. The review of literature also shows research gap in this field. Moreover, researchers, students, teachers and policy makers will be benefited from this study.

1.9 Scope and Limitations

The present study has assessed the role of Investment Corporation of Bangladesh in capital market development and explores the opportunities and challenges. Role of ICB in the development of capital market and the initiatives of ICB has been evaluated in the present

[19] Mitsuru Mizuno, "The Finance in the Capital Market and Credit Rating in Bangladesh" *Center for China and Asian Studies,* Nihon University College of Economics (Tokyo: 2009).

study. In this regard the researcher has tried to find out both the success and failure of ICB. Besides, the researcher has find out the causes of failure and the way to take effective measures for enhancing the activities of ICB. All these efforts have contributed to develop the capital market of Bangladesh. Every research work may have some limitations and the present study is not an exception in this regard. There remains ample scope of variations in the interpretation of data by different persons if they are not aware of the background of data collection. So, data itself have limitation and could not always serve the exact purpose of the study. This study has faced such problem as well. Besides, it was difficult to collect necessary papers and documents from different offices as the recording system is defective in our country. However, the researcher has overcome those limitations with extensive efforts and effective decision. Some other limitations are the study covers only a decade (2001-2011). So, many recent developments are absent here.

1.10 The Thesis structure

Chapter One : Introduction

Chapter Two : Methodology

Chapter Three : Capital market of Bangladesh : An overview

Chapter Four : The Profile and Functions of Investment Corporation of Bangladesh (ICB)

Chapter Five : Opportunities of ICB for the development of capital market

Chapter Six : Challenges of ICB to develop capital market

Chapter Seven : Analysis of Role and performance of ICB to develop capital market

Chapter Eight : Summary, Recommendations and Conclusions.

Chapter Two
Methodology and Conceptual Framework

2.1 Prelude

The methodology and conceptual framework of any study is a crucial phenomenon that guides the researcher in conducting a systematic research. This chapter is divided into three broad sections. The first section is devoted to analyze methodology of the study. The second and third sections explain the conceptual framework and the operational definitions of key terms and concepts respectively. Methodology of any research builds up the way that leads to help for attaining the goal of research successfully. It also gives a guideline to the researcher to perform research work methodically. However, the selection of the methodology depends on the nature of the source of the data as well as the objectives of respective research.

2.2 Methodology of the Study

Methodology means the way of doing a research systematically. Methodology includes the procedure of selecting the study area, nature of the study, sample size and sampling techniques, methods of data collection, analytical framework etc., which are used for a study. A method involves a process or technique in which various stages or steps of collecting data/information are explained and the analytical techniques are defined.[20] Methodology is also defined as "a set of methods used in an area of particular activity"[21]. The word "Method" comes from the Greek word 'meta' and 'hoods'

[20] M. Zainul Abedin, *A Hand Book of Research* (2nd ed.: Dhaka: Book Syndicate, 2005), p. 51.

[21] A.S. Hornby, "*Oxford Advanced Learner's Dictionary*", 5th ed. (London: Oxford University Press, 1998), p. 734.

meaning a way[22]. So, methodology can be understood as the systematic and logical study of the principles guiding scientific investigations[23]. Thus Methodology implies to the methods used in a particular study. The researcher should also consider the logics behind the use of the methods in the contest of a particular study and explain why he is using a particular method or technique.

2.2.1 Area of the Study

The study has mainly considered ICB and its three subsidiary companies. It has also considered as well as DSE and CSE for a while. The data provided in the annual reports related to the capital market of Bangladesh has been used.

2.2.2 Selection of a Method

Methodology is the key guideline of any research. Hence selection of a well-defined method is very important for any scientific inquiry in any field of knowledge. Though methodology plays an important role in any scientific or social research, the methods to be used somehow differ from one research to another. Content analysis method has been used in this study. The researcher has used the documents of ICB and capital market of Bangladesh to evaluate the role of ICB in capital market development. For this reason content analysis method has been selected for the present study. Both qualitative and quantitative interpretations are needed for the present study. The present study has exclusively used this method by compiling the data of last 10 years of DSE, CSE, ICB and other related financial organizations.

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[22] William Geddie, ed., *Chamber's Twentieth Century Dictionary* (London: W&R Chamber Ltd., 1965), p. 669.

[23] Julins Gould and William L. Kolb, eds., *Dictionary of Social Science* (London: Tavistack Publications, 1964), p. 425.

2.2.3 Types and Sources of Data

Secondary data and information have been used largely in this study. The secondary sources of data which were published in statistical reports, different annual reports of ICB, DSE, SEC, and CSE, documents, ordinances, books and different periodicals published at home and abroad. Materials, which have been incorporated in the study, were dully acknowledged. However, some primary data and information were collected from the officials of ICB, DSE, SEC and CSE. The secondary data covers the period from 2001 to 2011.

2.2.4 Analysis of Data

Collected data and information have been analyzed by the researcher. Computer was used in necessary fields. To make the data more meaningful, these have been analyzed in tabular forms, percentages, ratios, mean, median, standard deviation, and time series and in some statistical forms according to their suitability and necessity of the study.

2.2.5 Variables and Indicators

Various indicators and variables have been used to evaluate the role of ICB in capital market development and to assess the effectiveness of the initiatives of ICB. Growth, growth rate, share market index, capital size, turnover, total capital, Number of listed companies, Number of securities, Size of market capitalization, Daily trade, Dividend yield, Liquidity, etc., have been considered as variables in the study.

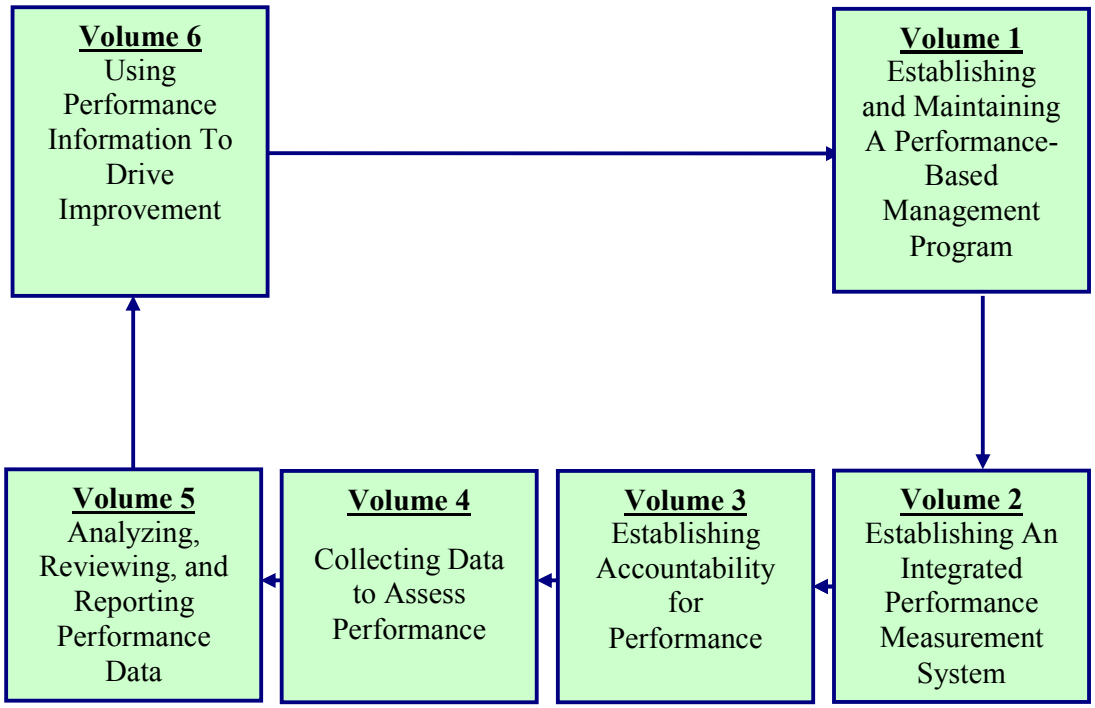
2.3 Conceptual Framework

The conceptual framework of any study is a crucial phenomenon that guides the researcher in conducting an organized research. Construction of a conceptual framework is often necessary for guiding the researcher towards implementation of a study based on set objectives.

2.3.1 Performance-Based Management (PBM) Process/Handbook Model

The Performance-Based Management Process/Handbook Model is shown in Figure 2.1 below. Topics covered by each volume are listed in the figure.

Figure 2.1
Performance-Based Management Process/Handbook Model



Source: Adopted based on Handbook Model (www.orau.gov/pbm/pbmhandbook/volume%202.pdf)

Analysis

Volume 1: Establishing and Maintaining a Performance-Based Management Program

- An Introduction to Performance-Based Management
- Step 1: Define Organizational Mission and Strategic Performance Objectives
- Step 2: Establish an Integrated Performance Measurement System
- Step 3: Establish Accountability for Performance
- Step 4: Establish a System/Process for Collecting Data to Assess Performance
- Step 5: Establish a System/Process for Analyzing, Reviewing, and Reporting Performance Data

- Step 6: Establish a System/Process for Using Performance Information to Drive Improvement
- Maintaining a Performance-Based Management Program

Volume 2: Establishing an Integrated Performance Measurement System

- Understanding Performance Measurement
- Establishing an Integrated Performance Measurement System
- Choosing a Performance Measurement Framework
- Developing Performance Measures—Getting Organized
- Developing Performance Measures—Sample Approaches
- Maintaining an Integrated Performance Measurement System

Volume 3: Establishing Accountability for Performance

- The Concept of Accountability
- Establishing Accountability for Performance
- Accountability Tools

Volume 4: Collecting Data to Assess Performance

- Determining Data Needs
- Components of a Data Collection Plan
- Data Collection Considerations
- Data Collection Methods
- Suggestions for Measuring R&D Activities

Volume 5: Analyzing, Reviewing, and Reporting Performance Data

- Introduction to Data Analysis
- Training Your Organization in Analysis Skills
- Generating Useful Information - Step 1: Question Review
- Generating Useful Information - Step 2: Data Collection and Organization
- Generating Useful Information - Step 3: Data Analysis
- Generating Useful Information - Step 4: Data Presentation

Volume 6: Using Performance Information to Drive Improvement

- Using Performance Information to Drive Improvement
- Benchmarking
- Reengineering
- Continuous Improvement
- Process Improvement

2.3.2 High Level Block Diagram of the Performance Measurement Process

Figure 2.2 shows a high level block diagram of the performance measurement process. It has been separated into 11 discrete steps. This is a guideline, intended to show the process generically. Different organizations which best know their own internal processes should feel free to adapt the guidelines where necessary to best fit within their operations. Subcomponents within the steps may need to be exchanged, or it may be necessary to revisit completed steps of the process based on new information arising from latter steps.

A brief description of each of the process steps follows:

(1) Identify the process flow. This is the first and perhaps most important step. If your employees cannot agree on their process (es), how can they effectively measure them or utilize the output of what they have measured?

(2) Identify the critical activity to be measured. The critical activity is that culminating activity where it makes the most sense to locate a sensor and define an individual performance measure within a process.

(3) Establish performance goal(s) or standards. All performance measures should be tied to a predefined goal or standard, even if the goal is at first somewhat subjective. Having goals and standards is the only way to meaningfully interpret the results of your measurements and gauge the success of your management systems.

(4) Establish performance measurement(s). In this step, you continue to build the performance measurement system by identifying individual measures.

(5) Identify responsible party(s). A specific entity (as in a team or an individual) needs to be assigned the responsibilities for each of the steps in the performance measurement process.

(6) Collect data. In addition to writing down the numbers, the data need to be pre-analyzed in a timely fashion to observe any early trends and confirm the adequacy of your data collection system.

(7) Analyze/report actual performance. In this step, the raw data are formally converted into performance measures, displayed in an understandable form, and disseminated in the form of a report.

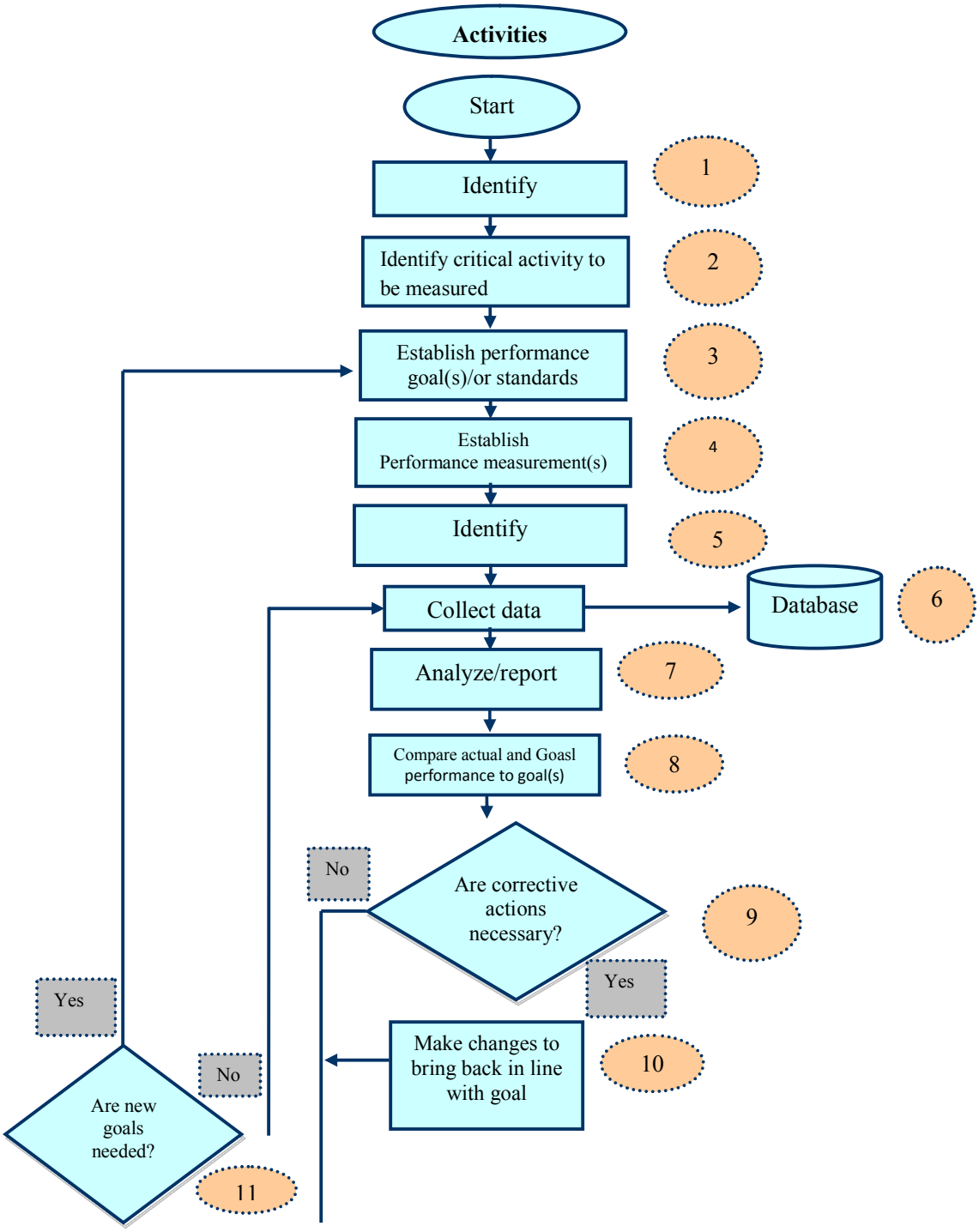
(8) Compare actual performance to goal(s). In this step, compare performance, as presented in the report, to predetermined goals or standards and determine the variation (if any).

(9) Are corrective actions necessary? Depending on the magnitude of the variation between measurements and goals, some form of corrective action may be required.

(10) Make changes to bring back in line with goal. This step only occurs if corrective action is expected to be necessary. The actual determination of the corrective action is part of the quality improvement process, not the performance measurement process. This step is primarily concerned with improvement of your management system.

(11) Are new goals needed? Even in successful systems, changes may need to be revised in order to establish ones that challenge an organization's resources, but do not overtax them. Goals and standards need periodic evaluation to keep up with the latest organizational processes.

Figure 2.2
Performance Measurement Process (High Level Block Diagram)



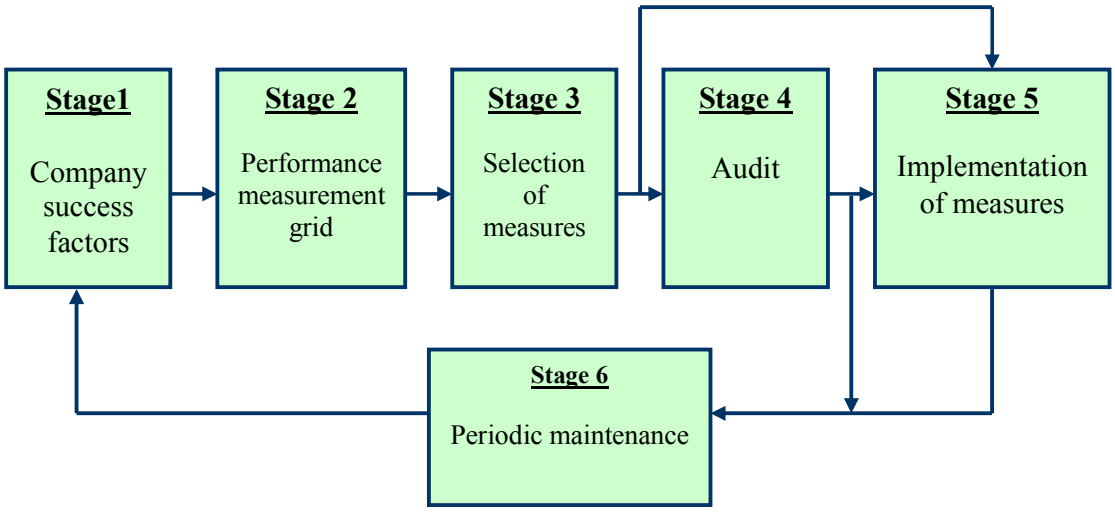
Source: Adopted by Researcher based on Block Diagram (http://www.orau.gov/pbm/handbook/1-1.pdf)

2.3.3 Medori and Steeple Integrated Framework

Medori and Steeple (2000) present an integrated framework for auditing and enhancing performance measurement systems. This approach consists of six detailed stages. Similar to most frameworks, the starting point begins with defining the company's manufacturing strategies and success factors (stage-1).

In the next stage, the primary task is to match the company's strategic requirements with six defined competitive priorities (e.g. product quality, cost, flexibility, time, delivery and future growth; stage-2).

Figure 2.3
Medori & Steeple Integrated Framework



Source:www.etd.aau.edu.et/dspace/bitstream/123456789/.../Fentahun%20Thesis.p 207

Then, the selection of the most suitable measures takes place by the use of a checklist that contains 105 measures with full description (stage-3).

After the selection of measure, the existing performance measurement system is audited to identify which existing measure will be kept (stage-4).

And essential activities are the actual implementation of the measures in which each measure is described by 8 elements: objective, benchmark, equation, frequency, data source, responsibility and improvement (stage-5).

The last stage is based around the periodic review of the company's performance measurement system (stage-6).

2.3.4 Operational Definitions of the Key Terms and Concepts

a) Capital Market

Capital market is the market in which individuals and institutions trade financial securities. Organizations/institutions in the public and private sectors also often sell securities on the capital markets in order to raise funds. Thus, this type of market is composed of both the primary and secondary markets.

b) Financial Market

Financial market refers to any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives. Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees and market forces determining the prices of securities that trade. The financial markets only allow the participants that meet certain criteria, which can be based on factors like the amount of money held, the investor's geographical location, knowledge of the markets or the profession of the participant.

c) Money Market

Money market is a segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year. Money market securities consist of negotiable certificates of

deposit (CDs), bankers, acceptances, Treasury bills, commercial paper, municipal notes, federal funds and repurchase agreements.

d) Stock Market

The term stock market is used for the overall market in which shares are issued and traded on exchanges or in over-the-counter markets. Stock market is also known as the equity market, it is one of the most vital areas of a market economy because it provides companies with access to capital and allows investors to own companies and participate in economic growth.

e) Market Capitalization

Market capitalization is the total value of the tradable shares of a publicly traded company; it is equal to the share price times the number of shares outstanding. As outstanding stock is bought and sold in public markets, capitalization could be used as a proxy for the public opinion of a company's net worth and is a determining factor in some forms of stock valuation. Preferred shares are not included in the calculation.

f) Mutual Fund

Mutual fund is a type of professionally-managed collective investment scheme that pools money from many investors to purchase securities. While there is no legal definition of mutual fund, the term is most commonly applied only to those collective investment schemes that are regulated, available to the general public and open-ended in nature. Hedge funds are not considered a type of mutual fund.

g) Primary Market

Primary market is that part of the capital markets that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called

underwriting. In the case of a new stock issue, this sale is an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus. Primary markets create long term instruments through which corporate entities borrow from capital market.

h) Secondary Market

Secondary market also called aftermarket is the financial market in which previously issued financial instruments such as stock, bonds, options, and futures are bought and sold.

i) A Security

Security is generally a fungible, negotiable financial instrument representing financial value. Securities are broadly categorized into:

- ✓ Debt securities (such as banknotes, bonds and debentures),
- ✓ Equity securities, e.g., common stocks; and,
- ✓ Derivative contracts, such as forwards, futures, options and swaps.

The company or other entity issuing the security is called the issuer. A country's regulatory structure determines what qualifies as a security. For example, private investment pools may have some features of securities, but they may not be registered or regulated as such if they meet various restrictions.

j) Share

Share is a single unit of ownership in a corporation, mutual fund, or other organization. A joint stock company divides its capital into shares, which are offered for sale to raise capital, termed as issuing shares. Thus, a share is an indivisible unit of capital, expressing the proprietary relationship between the company and the shareholder. The denominated value of a share is its face value: the total capital of a company is divided into number of shares.

Chapter Three
Capital Market of Bangladesh: An Overview

3.1 Introduction

Capital Market is the market, or realistically, the group of interrelated markets, in which capital in financial form is lent or borrowed for medium and long term and, in cases such as equities, for unspecified periods. It works as the engine of an economy. Vibrant capital is likely to support a robust economy. Despite a challenging political environment and widespread poverty Bangladesh has achieved significant progress in social development. With growth reaching 7% in 2006, the economy has reached an impressive level. It is noteworthy that leading global investment banks—City, Glodman Sachs, JP Morgan and Mernil Lynch- have identified Bangladesh as a key global investment opportunity[24]. However, the capital market in Bangladesh is still underdeveloped, and its development is imperative for the full realization of the country's development potential.

3.2 Historical Background of Bangladesh Capital Market

Though the capital market history of Bangladesh refers back to 28 April, 1954 when the East Pakistan Stock Exchange Association Ltd. was established. Formal trading began on the bourse in 1956. But its existence was present during the Mughal regime. In Bengal capital market was founded during the Mughal regime in the early 17th century in a limited scale. There were money and capital market activities in Suba-e-Bangala throughout the 17th century. "Bengal under the Nawabs was fairly developed

[24] Mamun Rashid, "Bangladesh Capital Market : Prospects and Challenges", In Munir Quddus and Farida Khan (ed.), *Bangladesh Economy in the 21st Century (*Dhaka: The University Press Ltd., 2012), p.107.

in trade and communication. A historian characterized Bengal of the Nawabi period as "easy in its finances, moderate in its expenditure, free from charges and cares of independent dominion, its inhabitants enjoying in the occupation of agriculture and commerce, public peace and abundance". The prosperity of Nawabi Bengal was attributed to large investments by European nations and dispersal of Bengal raw silk, cloths etc. in vast amounts to the west and north and inland as far as Guzrat, Lahore and even Ispahan. Bengal exported large volumes of agricultural and industrial products to Asia and Europe. Asian merchants and Europeans, especially the English and Dutch East India Companies, invested their money to buy exportable goods and sometimes provided local producers with loan funds.[25] Artisans and farmers had to take loan from local and foreign moneylenders and merchants to increase their volume of production. But the cost of borrowing money was very high. "In 1720-21, the English companies' debt in Bengal amounted to Rs 2.4 million. The Dutch Company also borrowed from the local capital market. Its debt to the Kasimbazar merchants with interest amounted to about Rs 1.5 million in September 1724. In March 1754, Dutch borrowing in Bengal stood at Rs 2.83 million. Jagat Sheth was the main creditor of the European companies. The French and the Ostend Companies also borrowed freely from the local money market. The Ostend Company borrowed money from local *Sarrafs* and merchants. In the three years between 1755 and 1757, the Dutch debt to the Houses of Jagat Sheth amounted to Rs 2.386 million. At the time of the fall of Chandranagar in March 1757, the French owed Rs. 1.5 million to the Jagat Sheths."[26] During this period fund was not available for the capital market. Commercial banks were established in the second half of the 17th century. They were engaged in providing short-term loans and trade

[25] Banglapedia, *National Encyclopedia of Bangladesh* (Dhaka: Asiatic Society of Bangladesh, 2003), p. 363.
[26] Ibid. p.364.

financing. The growing trade of Bengal, the increase in activities of traders and mercantile communities, and the resultant increase in the circulation of money led to the development of banking throughout Mughal Bengal. Moneylenders, moneychangers, village merchants (mahajans) and shopkeepers performed the function of banks and advanced both long and medium term loans to rulers when the latter were in financial hardship. Indigenous bankers also issued and discounted hundies (bills of exchange) and bank drafts. Apart from their financial transactions with government, these banking houses also extended loans to the private parties. They gave loans on mutual trust, sometimes without any document, or even a witness. Loans were also granted on mortgages of lands, ornaments and other valuable utensils.

After the conquest of Bengal both the administration and trade of Bengal were controlled by the British East India Company until 1813. Subsequently, other British companies were allowed to enter into and conduct business in the area. To operate and manage production, and trade and commerce, the houses of agencies came into being under the partnership arrangements of the British private traders and Calcutta-based merchants. As these houses and private traders did not have sufficient money, technical knowledge and expertise - huge amount of capital and also technical know-how was imported from Britain for investment in Bengal. All new firms, private traders and agency houses also borrowed large amount of money from local sources. “Issuance of paper certificates or bonds by the East India Company made the transfer of money easier. The flow of long-term capital started to increase in Bengal with British investment in the railway sectors in 1854. Local moneylenders and landlords then lent their money to Indigo Planter. After 1850, banks in British India started to give long-term loans abreast of short-term lending. 17 loan offices were established throughout the Bangladesh region between 1850 and

1894. The capital was increased significantly by the establishment of 15 new commercial banks in the region between 1896 and 1942."[27]

The Pakistani banking system after independence consisted of two branch offices of the State Bank of Pakistan and seventeen large commercial banks, two of which were controlled by Bangladeshi interests and three by foreigners others were owned by West Pakistanies. There were fourteen smaller commercial banks. The newly independent government immediately designated the Dhaka branch of Reserve Bank of India as the Office of the central bank of Pakitan. Along with the normal central banking activities, the State Bank was entrusted with the responsibility of operating and fostering the growth of the country's credit system. It took significant steps to develop the Banking System through setting up of commercial banks and credit institutions. Besides, the progress in commercial banking, there has been other expansion to meet medium and long-term credit requirements of agriculture, industry, and Housing through setting up of several specialized financial institutions before independence. Insurance companies were playing a vital role in the development of capital market of Pakistan. There were 81 insurance companies (including 40 indigenous) in Pakistan and 10 were registered in East Pakistan. "Total investment of all insurance companies was Rs 386.81 million at the end of 1964. The capital market in Pakistan included the following: (a) post office saving banks, postal life insurance, defense saving certificates and Prize Bonds; (b) the National Investment (Unit) Trust; (c) the Industrial Corporation of Pakistan; (d) specialized credit institutions for agriculture, industry, and house-building viz. the Agricultural Development Bank, Industrial Development Bank, Pakistan Industrial Credit and Investment Corporation, and the House Building Finance Corporation; (e)

[27] Banglapedia, *National Encyclopedia of Bangladesh* (Dhaka: Asiatic Society of Bangladesh, 2003), p. 364.

Insurance Companies; and (f) Stoke Exchanges."[28] There were two registered stock exchanges in Pakistan, one at Dhaka and the other at Karachi. Some organized limited dealings took place in Lahore also. The really active market, however, was that at Karachi registered in 1949. It provided a market place for gilt-edged securities as well as for equity issues of public limited companies. The East Pakistan Stock Exchange was established in Dhaka in 1954 but started functioning in 1956. It was later renamed as the Dhaka Stock Exchange (DSE) Ltd. on 23 June 1962.

The trading was suspended during the liberation war of Bangladesh in 1971. After independence in 1971 its Operation resumed again in 1976 with the change in government policy. During 1976, there were only 9 listed companies with total paid up capital of Tk. 0.138 billion and market capitalization of Tk. 0.147 billion which was 0.138 % of GDP. Since then the stock exchange continued its journey of growth. The second stock exchange of the country, the Chittagong Stock Exchange (CSE) was established in December 1995. In order to control operation of the stock exchanges and trading of stocks of listed companies, the government of Bangladesh established the Securities and Exchange Commission of Bangladesh on the 8th June, 1993 under the Securities and Exchange Commission Act, 1993. The mission of the SEC is to protect the interests of securities investors, develop and maintain fair, transparent and efficient securities markets, ensure proper issuance of securities and compliance with securities laws[29].

From the inception the capital market of Bangladesh was growing in a slow pace. There was a large surge in the capital market in the summer and fall of 1996 evidenced by a 197.43%, 372.30% and 370.51% increase in the market capitalization, total annual

[28] Banglapedia, *National Encyclopedia of Bangladesh* (Dhaka: Asiatic Society of Bangladesh, 2003), p. 365.

[29] M Khokan Bepari and Abu Mollik, *Bangladesh Stock Market Growing? Key Indicator Based Assesment* (Bangladesh Agricultural University: 2010), P.5.

turnover and daily average turnover respectively in DSE; and there were 506.63%, 210.2% and 615.15% increase in the market capitalization, total annual turnover and daily average turnover in CSE. DSE general index grew from 832 in January 1 1996 to 3567 in November 14, 1996 while that of CSE grew from 409.4 in 1995 to 1157.9 in 1996. The market, however, crashed in December of 1996 and the index started to decline significantly since then with the index assuming a value of 507.33 as of November of 1999, a cumulative decline of 83.44% from 1996 to 1999 with the annual rate of 27.82%, and has yet to fully recover. Investors' confidence was significantly damaged because of excessive speculations, allegedly aggravated by widespread irregular activities. The government of Bangladesh undertook the Capital Market Development Program (CMDP) supported by the ADB on 20 November 1997. The CMDP aimed at (i) strengthening market regulation and supervision, (ii) developing the stock market infrastructure, (iii) modernizing stock market support facilities, (iv) increasing the limited supply of securities in the market, (v) developing institutional sources of demand for securities in the market, and (vi) improving policy coordination. The policy matrix of the CMDP included 95 program measures. Central Depository Bangladesh Limited (CDBL) was incorporated as a public limited company on 20th August 2000 to operate and maintain the Central Depository System (CDS) of Electronic Book Entry, recording and maintaining securities accounts and registering transfer of securities; changing the ownership without any physical movement or endorsement of certificates and execution of transfer instruments, as well as various other investor services including providing a platform for the secondary market trading of Treasury Bills and Government Bonds issued by the Bangladesh Bank. CDBL went live with the Electronic Treasury Bills registry of Bangladesh Bank on 20th October, 2003 and thereafter started equity market operations on 24th January, 2004. It was set

up to facilitate the computerized delivery and settlement of securities and eliminate to the extent possible, the paper work involved in handling the transactions and that would ensure risk-free and cost-effective settlement. Before establishment of CDBL, the delivery, settlement and transfer procedures were handled manually and were plagued by lengthy delays, risks of damage, loss, forgeries, duplication and considerable investment in time and capital. Besides, both the CSE (July 1998) and the DSE (August 1998) have automatic trading services[30]. By having automated trading system and a central depository in place, the credibility of the country's Stock Exchanges in the eyes of the prospective foreign investors are expected to grow stronger and boost investment activities in the country's stock markets. Contrastingly, foreign portfolio investment, was never more than $200 million, has virtually disappeared from the capital market of Bangladesh.

3.3 Functions and Importance of Capital Market

Capital market plays an important role in economic and social development of a country by accumulating resources. In this way, it facilitates and promotes the process of economic growth in the country. Various functions and significance of capital market are discussed below:

3.3.1 Link between Savers and Investors

The capital market functions as a link between savers and investors. It plays an important role in mobilizing the savings and diverting them in productive investment. In this way, capital market plays a vital role in transferring the financial resources from surplus and wasteful areas to deficit and productive areas, thus increasing the productivity and prosperity of the country.

[30] M Khokan Bepari and Abu Mollik, *Bangladesh Stock Market Growing? Key Indicator Based Assesment* (Bangladesh Agricultural University: 2010), P.6.

3.3.2 Encouragement to Saving

With the development of capital, market, the banking and non-banking institutions provide facilities, which encourage people to save more. In the less- developed countries, in the absence of a capital market, there are very little savings and those who save often invest their savings in unproductive and wasteful directions, i.e., in real estate (like land, gold, and jewellery) and conspicuous consumption.

3.3.3 Encouragement to Investment

The capital market facilitates lending to the businessmen and the government and thus encourages investment. It provides facilities through banks and non-bank financial institutions. Various financial assets, *e.g.,* shares, securities, bonds, etc., induce savers to lend to the government or invest in industry. With the development of financial institutions, capital becomes more mobile, interest rate falls and investment increases.

3.3.4 Promotes Economic Growth

The capital market not only reflects the general condition of the economy, but also smoothens and accelerates the process of economic growth. Various institutions of the capital market, like non-bank financial intermediaries, allocate the resources rationally in accordance with the development needs of the country. The proper allocation of resources results in the expansion of trade and industry in both public and private sectors, thus promoting balanced economic growth in the country.

3.3.5 Stability in Security Prices

The capital market tends to stabilize the values of stocks and securities and reduce the fluctuations in the prices to the minimum. The process of stabilization is facilitated by providing capital to the borrowers at a lower interest rate and reducing the speculative and unproductive activities.

3.3.6 Benefits to Investors

The credit market helps the investors, i.e., those who have funds to invest in long-term financial assets, in many ways:

a) It brings together the buyers and sellers of securities and thus ensures the marketability of investments,

b) By advertising security prices, the Stock Exchange enables the investors to keep track of their investments and canalize them into most profitable lines,

c) It safeguards the interests of the investors by compensating them from the Stock Exchange Compensating Fund in the event of fraud and default.

3.4 Regulatory Bodies of Bangladesh Capital market

Securities and Exchange Commission (SEC) is the regulatory authority of Bangladesh Capital market. Capital market plays a significant role in the economy as a source of long term financing. A fair, efficient and transparent capital market is essential for a country for its industrialization and economic development. To develop such a fair, efficient and transparent capital market, the Securities and Exchange Commission was established as a regulator through enactment of the Securities and Exchange Commission Act, 1993 (in June 1993), with the following mission:[31]

- Protecting the interest of investors in securities;
- Developing the capital and securities markets; and
- Framing of securities rules concerning above.

The Commission frames rules and regulations under the relevant laws ensure control of the capital market through compliance of duties and responsibilities of the issuer, stock

[31] SEC, *Annual Report.* 2010-2011. p.11.

exchange and market intermediaries. The Commission consists of a chairman and four full time members who are appointed by the government for a period of three years as per law, and terms of their service is determined by the government. The Chairman is the chief executive officer of the Commission.

3.5 Participant of Bangladesh Capital Market

3.5.1 The Dhaka Stock Exchange (DSE)

Dhaka Stock Exchange Ltd (DSE) is the oldest and largest stock exchange in Bangladesh. Though DSE was established on 28 April 1954 but its commercial operation started in 1956. The board of directors consisting of 24 members direct the activities of DSE. Out of them, 12 directors are elected by direct votes of DSE members and other 12 directors are nominated by the elected members from non-DSE members upon approval of the Commission. At present, there are 238 members in DSE of which 22 members are registered by the Commission for conducting securities business. DSE has expanded its on-line trading network to many district towns like Gazipur, Narayanganj, Comilla, Feni, Habiganj, Maulvibazar, Mymensingh, Chittagong, Khulna, Sylhet, Kushtia, Barisal, Rajshahi and Bogra including the divisional towns. As on 30 June 2011 total number of listings in DSE was 490 against which issued capital was Tk. 80683.90 crore and the market capitalization was Tk. 285389.22 crore.[32]

3.5.2 The Chittagong Stock Exchange (CSE)

The Chittagong Stock Exchange Ltd (CSE), the second stock exchange, was established in 1995. The board of directors consisting of 24 members direct the activities of CSE. Out of them, 12 directors are elected by direct votes of CSE members and other 12 directors are nominated by the elected members from non-CSE members

[32] SEC, *Annual Report.* 2010-2011. p.12.

upon approval of the Commission. Now there are 135 members in CSE of which 120 members are registered by the Commission for conducting securities business. As on June 30, 2011 total number of securities in CSE was 215 against which issued capital was Tk. 20677.39 crore and market capitalization was Tk. 225978.00 crore.[33]

3.5.3 Over -the-Counter Market or OTC Market

Securities are traded without intermediaries through mutual understanding in the OTC market, which are outside the stock exchanges. In CSE stock exchange's OTC market, there are opportunities of securities trading. Under Securities and Exchange Commission (Over-the- Counter) Rules, 2001, OTC market was established in CSE. Securities de-listed from the exchanges and securities not listed with the exchanges but issued obtaining consent from the Commission can be traded in the OTC market. Dhaka Stock Exchanges Ltd started OTC market in line with the direction of the Commission on the 6th September, 2009. Settlement procedure of the OTC market is like the public market.

3.5.4 Investment Corporation of Bangladesh (ICB)

Investment Corporation of Bangladesh was established in 1976 with the objective of encouraging and broadening the base of industrial investment. ICB underwrites issues of securities, provides substantial bridge financing programmes, and maintains investment accounts, floats and closed-end unit funds to ensure supply of securities as well as generate demand for securities. ICB also operates in the DSE and CSE as dealers.

3.5.5 Specialized Banks: Bangladesh Shilpa Bank (BSB), Now Bangladesh Development Bank Ltd.

BSB, Bangladesh Shipa Rin Sangstha (BSRS), Bank of Small Industries and Commerce Bangladesh Limited (BASIC), some Foreign Banks and NCBs are engaged in long term industrial financing.

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[33] SEC, *Annual Report.* 2010-2011. p.12.

3.5.6 Insurance Companies

The insurance Sector is regulated by the Insurance Act. 1938. 21 Companies are working under General insurance and the life insurance is provided by 6 companies. The industry is dominated by the two large, state –owned companies Shadaran Bima Corporation (SBC) for general insurance and Jibon Bima Corporation (JBC) for life insurance which together command most of the total assets of the insurance sector.

3.5.7 Micro Financial Institutions

A rapidly growing segment of Rural Financial Market (RFM) in Bangladesh is the member based cooperative institutions. The largest member based institution is the **Grameen Bank,** the only formal institution of its type. All other are Non-Government Organizations (NGOs), biggest among them are **BRAC, ASA** and **Proshika.** Most of these institutions have an explicit social agenda to cater to the poorest sections of the non-agricultural population, with women, making up a majority of their clientele. Up to December 1999 all the reported Micro Finance Non –Government Organizations (MFNGOs) have disbursed Tk. 92,436.20 million and the outstanding loan was Tk. 18,692.17 million. Total active members were 9,433,974. The average recovery rate was approximately 95%. There are 87 MFIs, which have outstanding, lone of more than Tk. 10 million, and 18 MFIs have outstanding loan of more than Tk. 50 million[34].

3.6 Bond Market

The capital market of Bangladesh is predominantly an equity based securities market. Number of bonds and other debt instruments are insignificant. At present, there is Tk 140 million of debentures of 8 companies listed in the stock exchanges. In order to popularize the government bond and to increase the depth of market, trading of government treasury

[34] Md. Hafizur Rahman, "Development of Capital Market in Bangladesh: A Study on Dhaka Stock Exchange" unpublished Ph.D Thesis (Rajshahi: Institute of Bangladesh Studies, Rajshahi University, 2003), p. 12.

bonds have been introduced in stock exchanges with effect from 1 January 2005. As on 30 June 2011, 212 government treasury bonds, 3 corporate bond, 8 debentures were listed in DSE whose market capitalization was Tk 39401.30 crore[35]. But bonds are not yet popular.

3.7 Categorization of Listed Companies

Listed securities are categorized into "A", "B", "Z", "N" and "G" based on profitability, commercial operation, holding of AGM and accumulated loss exceeding paid up capital etc. This categorization helps investors to know the qualities of securities before making investment decision. During the reporting FY (2010-2011), number of "A" category companies has increased compared to the last FY. The number of "B" category companies has increased and "Z" category companies have decreased compared to the last FY, which can be seen in the following Table 3.1.

Table 3.1
Categorization of Listed Companies

Name of the category	Criteria of Categorization	Number of Companies FY2009-2010	Number of Companies FY 2010-2011
"A" Category	Companies that hold AGM regularly and declare dividend 10% or higher	166	235
"B" category	Companies that hold AGM regularly and declare dividend less than 10%	14	7
"G" Category	Companies that have not yet started commercial operation	0	0
"N" Category	Companies that are newly listed in stock exchanges whose next AGM have not yet take place after the listing	7	5
"Z" category	Companies that do not hold AGM regularly or do not pay any dividend or accumulated loss exceeds paid up capital or commercial operation remains suspended for more than six months	41	20

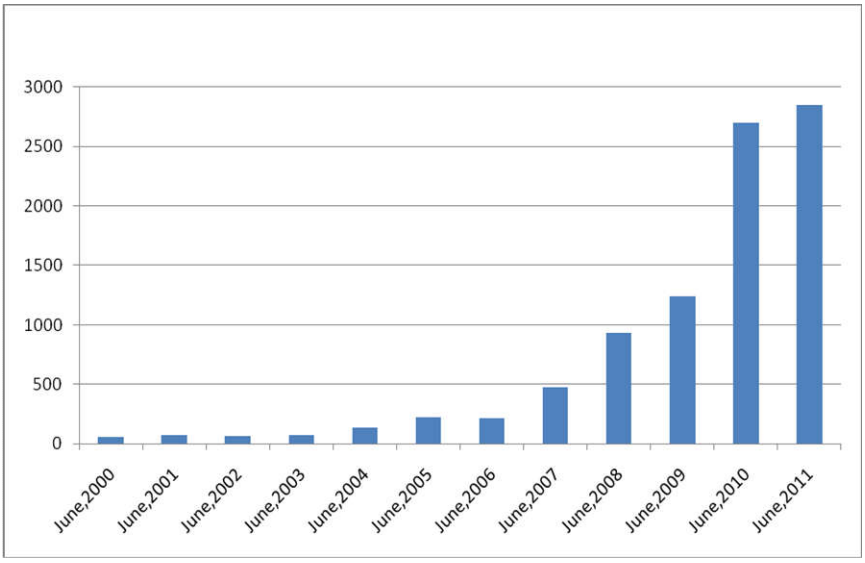
Source: DSE *Annual Report*, 2010-2011.

[35] SEC, *Annual Report.* 2010-2011. p.12.

3.8 Expansion of the Capital Market and Its Future

The capital market of Bangladesh is an emerging market. Although the capital market started in 1956, the establishment of the Securities and Exchange Commission started in 1993 quickened the pace of growth of the securities market by strengthening the role of the market participants. While in 2000 the market capitalization was only around 2.24% of the country's GDP, at the end of June, 2011 it stood around 41.22% as the average daily turnover of the country's main stock exchange. The trading network has expanded to the six divisions of the country transcending the periphery of Dhaka and Chittagong. The network is also expanding to district towns and other important places gradually. But expansion of the trading network is not enough; it requires expansion of investment related knowledge specially for the investors and development of trend in investing based on fundamentals, which will help investors to protect themselves in many ways SEC, DSE, CSE and merchant bankers arrange regular training programs for the investors in related areas. Booklets and brochures have also been published in this regard. To conduct more extensive level of training, an institute named Bangladesh Institute of Capital Market has got approval recently. For the sake of the depth of the capital market, efforts are underway to launch activities for the development of bond market and derivatives market. It is expected that in the next 5 year considerable development will take place in these areas. Actions have been initiated to launch a full-fledged separate automated clearing house, which is expected to reduce settlement time and thus improve overall market efficiency. To demonstrate the growth of the capital market, two graphs showing the market capitalization of DSE and the ratios of market capitalization of DSE to gross domestic product (GDP) during the last ten years have been presented in Figure 3.1 and Figure 3.2 respectively.

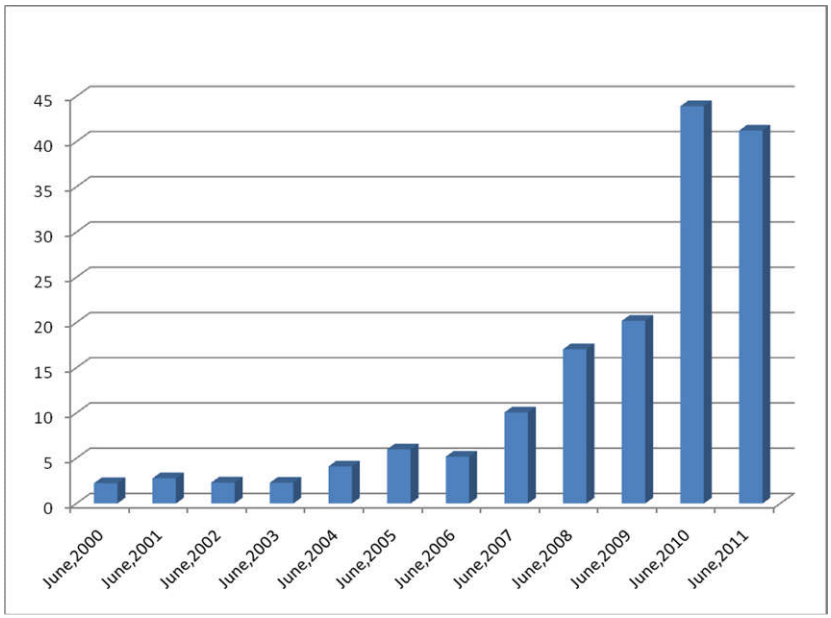
Figure 3.1
Market Capitalization (in Billion Taka)



Source: DSE *Annual Report*, 2000-2011.

From the diagram it is found that the trend of total market capital is increasing day by day. In the year of 2000 the market capital was 53.12 Billion Taka. But in 2011 the total market capital increased to 2853.90 Billion Taka.

Figure 3.2
Market Capitalization to GDP (%)



Source: DSE *Annual Reports*, 2000-2011 and ICB Bank *Annual Report*, 2000-2001

The present diagram shows that the contribution of stock market in GDP is also increasing except the case of 2006 and 2011. In 2000 the contribution of capital market in GDP was 2.24% and in 2011 the ratio reached to 41.22 percent.

3.9 Causes of Under Development

In spite of having a lot of opportunities the capital market of Bangladesh is remaining in its infant stage. Access to high quality and credible corporate formation remains a major problem in the market. While a handful of institutional investors may enjoy certain benefits because they have an investment unit manned with qualified officers, not much is available for retail investors. In the absence of independent research, retail investors primarily focus on advice given by their brokers, which often consists of market rumors. This is not acceptable and often leads to enormous losses for small investors who are vital for a low-income and pre-emerging market like Bangladesh. Filtering of information among different types of investors leaves room for manipulation; this happened in the market meltdown causing great loss to many individuals and households.

The market does not have adequate number of fundamentally sound scripts. The authorities should not force major corporations to come into the market, without creating an enabling environment. Focus should be on the privatization of state owned enterprises through public offerings in bourses. The market has to reach a stage of development when companies recognize credible alternative to bank financing.

Although, the government has reduced interest rates on savings instruments, this particular market is still limited to the commercial banks, and individual investors do not have access to these instruments. These savings instruments are considered risk-free, and since these are not present in the capital market, the overall risk of investment for an investor does not have the option to reduce his average portfolio risk by adding these risk-free opportunities.

An estimate suggests that the ratio of institutional-to-retail investors is still low in Bangladesh compared to other emerging markets. Institutional investors bring long-term commitment and a greater focus on fundamentals and hence stability in the market. The presence of institutional investors is also expected to ensure better valuation levels due to their specialized analytical skills. While we do have public sector as well as private sector institutional investors in the economy proprietary investment from these institutions is not significant other than Investment Corporation of Bangladesh that was created in 1976 and currently manages several mutual funds[36].

An international level of corporate governance is still lacking. Multinational corporations and institutions operating in Bangladesh often adhere to a international standard compliance regime. Parent companies of these corporations and institutions have their scrip listed in developed markets. Unless the local market adheres to, and effectively enforces a standard corporate governance system, there will not be a level-playing field for international business houses, compared to local operators.

An important aspect for capital market functioning is the reflection of fair value of script. This is not adequately present in the current scenario, and due to this reason the market is not receiving the attention of an important segment of investors, both foreign and local. Investors are perhaps depending much on speculative analysis, resulting in volatility in the market as opposed to fundamental analysis, which could attract more stable long-term investors who are sure about their investment tenure and expectations[37].

3.10 Situation of the Capital Market of Bangladesh (2010-2011)

Bangladesh Capital Market is an unpredictable market in the world. Although capital markets of different countries of the world collapsed in the face of global recession, the

[36] Mamun Rashid, "Bangladesh Capital Market : Prospects and Challenges". In Munir Quddus and Farida Khan (ed.), *Bangladesh Economy in the 21st Century (*Dhaka: The University Press Ltd., 2011), p.109.

[37] Ibid

capital markets of Bangladesh remained quite buoyant at that time. The market capitalization and the general index increased remarkably during the period. Market capitalization of the Dhaka Stock Exchange (DSE) rose from 21.4 percent of GDP in June 2009 to 39 percent of GDP in June 2010 indicating keen interests showed by the investors in the capital market. By the end of June 2010, the number of BO (Beneficiary Owner) accounts has increased to 25.64 lakh from 14.15 lakh at the end of June 2009 and the number of BO account increased to 34.15 lakh by April 2011[38]. The increased interest/participation of the general people in the capital market pushed up the general indices, as well as PE and market capitalization. The bullish trend in stock prices continued during the first half of FY 2010-11 and the general index skyrocketed to 8918.51 on 5 December, registering 44% increase as compared to the corresponding figure at the end of June 2010. Following such `overheating' a price correction started and the index started falling registering a very low level to 5203.08 on February 2011 showing 3715.43 points less than level of just three months earlier[39]. The market witnessed the biggest ever boom like 1996.[40] The recent market fall down was not a one-day game, Bangladesh stock index marked 80 percent growth in the year of 2010. The Bull Run, however, faced its first halt in December 2010.On December 8 DGEN suffered the third highest single-day plunge since 2001 losing 185.53 points or 2.12 percent. On

[38] Ministry of Finance*, Bangladesh Economic Review, 2010-2011* (Dhaka: Finance Division, 2011), p. 67.

[39] ICB, *Annual Report.*2010-2011, p.36.

[40] The price-earnings ratio of the Dhaka Stock Exchange in 1986 was only 6.8, it jumped to 20.6 and 23.9 respectively in 1987 and 1989, and to 40.0 in 1996 but fall to 11.32 in 1997. However, the second capital market of Bangladesh (CSE) earned the market capitalization of 23959.2 million Taka in the year of commencement but that stood to Taka 52435.6 million in 1997. However, the market continues with the steady growth to achieve the target until June 1996. After the general election in June 1996, the market witnessed a big boom. Large number of investors entered the capital market. The new issues multiplied and speculative fever gripped the market, trading volume rose sharply and indexes reached at 3648 points on 14th November 1996. Price Earnings Ratio soared and shares were traded at 80 times. On the other hand, at the same time the Chittagong Stock Exchange gained approximately 1057% in only one-Year time. In November 1996, the inevitable happened and the market crashed. In a span of twenty months, the DSE index has come down to 650 points in June 1998.

December 19, 2010 DSE suffered its biggest crash, of course up until then, as the index nosedived by 551 points or 6.72 percent. It is known to everybody that the DSE General Index (DGEN) plunged by 600 points, and all indices fell nearly 8 percent due to panic-sale on January 9, 2011. Breaking the previous day's record, on January 10, DGEN shed 660 points or 9.25 percent within one hour of trading. The capital market was shut down and closed due to rapid falling of Index. Although some measures taken by the regulatory authority, people suffered major financial losses and lost confidence in the stock market of Bangladesh. Year 2010 could be termed as a boom Year for the investors, even though a record fall in December created huge panic among the investors. It would be difficult to find out an investor who made no losses in 2010. Table 3.2 shows the details.

Table 3.2
Statement of highest and lowest levels of indices of DSE and CSE during 2010-11

Indices	Highest level		Lowest level		Difference (points)
	Date	points	date	points	
Dhaka Stock Exchange Ltd. (DSE):					
1. DSE All Share Price Index (DSI)	05 Dec 2010	7383.93	28 Feb 2011	4317.89	3066.04
2. DSE General Index (DGEN)	05 Dec 2010	8918.51	28 Feb 2011	5203.08	3715.43
3. DSE-20	05 Dec 2010	5429.29	28 Feb 2011	3514.51	1914.78
Chittagong Stock Exchange Ltd. (CSE):					
1. CSE All Share Price Index (CASPI)	02 Dec 2010	24763.71	28 Feb 2011	14684.13	10079.60
2. CSE Selective Category Index (CSCX)	05 Dec 2010	16122.42	28 Feb 2011	9477.58	6644.84
3. CSE-30	05 Dec 2010	22627.63	25 May 2011	12804.25	9823.38

Source: ICB *Annual Report* 2010-11, p-82

The price index, turnover, market capitalization and its ratio to GDP everything was in boom condition. In a country like Bangladesh where more than 32 percent national savings, a lower rate of nominal interest rate, negative real rate of interest rate

encouraged many new investors to the market for investment. Such new entry was also supported by easier access to the market due to branch expansion by the brokers. Meanwhile, financial institutions also found that, due to lack of business opportunities they were being burdened with huge amounts of excess liquidity. Due to the opportunity of making huge profits in the stock market, 1.5 million new investors were invention in the stock market in 2010. According to Centre for Policy Dialogue's (CPD) analysis, the total number of beneficiary owners' (BO) account holders was 3.21 million on December 20 last year, which was 1.25 million in the same month a year before. This number increased by 154 percent in 2010.[41]

The booming bubble finally burst, the Bull Run finally stopped. From 1st week of December 2010 the down slope of the index continued till January 10, 2011. The rate of decline was basically due to the nervousness of all market participants. On December 2010 the Central Bank sent 50 teams on surprise visits to different bank branches in Dhaka and Chittagong after it received complaints that the banks were investing in the stock market from their reserves to make profit. Some banks were in fact found involved in such irregularities. During that time, the daily transaction in the share market was on an average of Tk 2000 crore and sometimes even Tk 3000 crore, which was double compared to that of the previous year (2009).[42]

The DSE Index grew almost 2500 point without any major price correction by December 2010. To bring the ever increasing price of shares in the market under control, both Bangladesh Bank (BB) and Security and Exchange Commission (SEC) had sent different

[41] Aantaki Raisa, *"Behind the Scenes the Stock Market Saga"* The Star, weekly publication of the Daily Star, January 21, 2011.

[42] M. Hafizur Rahman and Monimul Haque, "Current economic Condition of Bangladesh: Capital Market Perspective" *Institute of Bangladesh Studies Alumni Association, Rajshahi University, Suvenir (*Rajshahi*:*March, 2012), p.71.

directives; Bangladesh Bank initiated the withdrawn of illegally invested industrial loans from the market by December 31, 2010 and raised the Cash Reserve Requirement (CRR) and statutory liquidity requirement (SLR) both to 6 percent and 19 percent respectively to safeguard the interest of the depositors. The central bank issued a circular on November 28, 2010 which asked banks to adjust all loans, amounting to Tk 10 million and above, that have been diverted to areas other than the purposes mentioned in the loan applications by December 15, 2010. This surely put the banks in trouble as a lot of that money was invested in the share market. As a result, banks started selling shares and withdrawing money from the stock market. This was the beginning of the price-slides in December 2010. To tackle the disaster and assure the panicked investors the central bank extended the time limit by one month for the banks for submission of the list of loans to January 15, 2011. The commercial banks were instructed to adjust such loan portfolios by February 15, 2011 instead of January 15 to ease the pressure on the money market. The securities regulator increased the margin loan ratio from 1:1 to 1:1.5 and then to 1:2. But that did not prevent the fall at that time. The liquidity crisis in the money market was one of the key factors behind the continuous slide in share prices and turnover. After continuous share price falling in the middle of January, 2011, the government and especially the Prime Minister's instruction to Bangladesh Bank help the market in terms of flow of funds. During this drama, it should be borne in mind that the regulator put in 83 directives during the period between January 17, 2010 and January 10, 2011. It changed the directives of margin loan ratio 19 times. The scenario is changing gradually and the general index of both stock markets is increasing day by day now.

3.11 Conclusion

The capital markets in Asia are getting attractive attention from global investors with the growing corporatization of the Asian economies. East Asia has progressed a lot in attracting western companies for listing in Asian bourses as well as supporting innovative instruments. Southeast Asia is coming up with India leading the way, comparing the local market scenario with that of the region, Bangladesh is in a pretty good shape as we have most of the infrastructure in place. Our market capitalization is relatively smaller, at US$9.3 billion, which is just over 13% of GDP. Higher liquidity is skewed towards handful of scraps, while stagnant situation exists for a few less profitable issuers. Quality analysis needs to address this valuation issue in a more pro-active manner. Independent analysts should raise the flag when scrip is overvalued or undervalued, the intrinsic value of a traded security should be covered in the research paper. Investors are perhaps depending on speculative analysis resulting in volatility in the market as opposed to fundamental analysis that could attract more stable long-term investors who are more confident about their investment tenure and expectations. It is observed that whenever there is a downturn in the market, individual investors panic. At present, the Government is trying to overcome the problems of capital market.

Chapter Four
The Profile and the Functions of Investment Corporation of Bangladesh

4.1 Prelude

The Investment Corporation of Bangladesh (ICB) was established on the 1st October in 1976, under "The Investment Corporation of Bangladesh Ordinance, 1976" (no. XL of 1976). The establishment of ICB was a major step in a series of measures undertaken by the Government to accelerate the pace of industrialization and to develop a well-organized and vibrant capital market particularly securities market in Bangladesh. ICB caters to the need of institutional support to meet the equity gap of the companies. In view of the national policy of accelerating the rate of savings and investment to foster self-reliant economy, ICB assumes and indispensable and pivotal role. Through the enactment of the Investment Corporation of Bangladesh (Amendment Act, 2000 (no. 24 of 2000), reforms in operational strategies and business policies have been implemented by establishing and operating subsidiary companies under ICB[43]. More over to maintain a transparent and vibrant capital market, ICB with other capital market institutions worked together closely for demutualization of exchanges and reducing cost of doing business. This chapter is furnished with the emergence, objectives, policy, and the functions of ICB.

4.2 Background and the Origin of ICB

The origin of ICB has an extensive history. Under the nationalization policy of the government of Bangladesh in 1972, Bangladesh Shilpa Rin Sangstha (BSRS) was

[43] ICB, *Annual Report.* 2009-10, p.14

created by merging 'Investment Corporation of Pakistan' and Pakistan Industrial Credit and Investment Corporation.'[44]

Immediately, after liberation, in view of socio-economic changes, the scope of private sector investment in the economy was kept limited by allowing investment in projects up to TK. 25 lacks only. The new investment policy which was announced in July, 1972 provided for an expanded role of private sectors by allowing investment in projects to the tune of TK. 3 core. This ceiling was subsequently raised up to TK. 10 crore. The amount of money was not enough according to the demand. For this reason it was keenly felt to establish an organization which was being able to supply sufficient equity fund. In the revised investment policy, which was announced in December 1975, the government announced its decision to reactivate the stock exchange and establish Investment Corporation of Bangladesh. Accordingly a committee of officials examined the matter and recommended for re-establishment of ICB.[45]

The present name 'The Investment Corporation of Bangladesh, came into being on October 1 in 1976 under the Investment Corporation of Bangladesh Ordinance 1976 (No. XL of 1976). From then it has encouraged and broaden the base of investment and to develop the capital market and to mobilize the savings. Initially, the activities of ICB were limited to underwriting public issue of shares, bridge financing, debenture financing and opening/maintaining investors' accounts (Investors' Scheme). ICB had largely expanded its areas and scope of activities and now provides various types of investment and banking services. Added activities include providing debenture loans to

[44] Md. Hafizur Rahman, "Investment Corporation of Bangladesh: A Study of Growth, Productivity and Performance", unpulished M.Phil Thesis (Rajshahi: Institute of Bangladesh Studies, Rajshahi University, 2000), p. 42.

[45] Investment Corporation of Bangladesh (ICB), *General Information*, p.2.

companies and loans to investors on margin trading basis, providing advances against ICB unit certificates, leasing of industrial equipment, managing unit fund and mutual funds, and participating in stock for trading exchange securities[46].

4.3 Objectives of ICB

Investment Corporation of Bangladesh is working to meet the following objectives[47]-

- To encourage and broaden the base of investments;
- To develop the capital market;
- To mobilize savings;
- To promote and establish subsidiary companies for business expansion and
- To provide for matters ancillary thereto.

4.4 Business Policy of ICB

The business policy of Investment Corporation of Bangladesh is as follows[48]-

- To act on commercial consideration with due regard to the interest of industry, commerce, depositors, investors and to the public in general viability;
- To arrange equity support and loans for projects singly or through consortium of financial institutions including banks;
- To develop and encourage entrepreneurs;
- To diversify investments;
- To inspire small and medium savers for investment in securities;
- To create employment opportunities and
- To encourage more investment in agro-based and information and communication technology (ICT) sectors.

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[46] Banglapedia, *National Encyclopedia of bangladesh* (Dhaka: Asiatic Society of Bangladesh, 2003), p. 36?

[47] ICB, *Annual Report.* 2010-2011, p. 52

[48] Ibid

4.5 Nature of Business

The principal activities of the Corporation are to provide various kinds of investment banking service to its customers. These activities mainly include providing loans to Operative Investors on margin trading basis, providing advance against ICB Unit Certificates and ICB Mutual Fund Certificates, Lease Financing, management of Unit Fund and Mutual Funds as well as Operating Investors' Accounts, issuing Bank Guarantee, Consumer Credit Scheme and promoting and establishing subsidiary companies.

4.6 Operational Activities and Management of ICB

Corporate governance is the mechanism of internal controls and procedures used to define and protect the rights and responsibilities of various stakeholders. ICB believes that corporate governance is a set of relationship among the Board of Directors, management, shareholders and other stakeholders under legal framework and regulatory environment. It provides a structure through which the objectives of ICB are set and the means of attaining those objectives and monitoring of performances are determined. The fundamental features of corporate governance standards exercised by ICB are, among others, pursue ethical norms in all financial statements, generate reliability and trustworthiness in business transaction, optimize the quality of services to clients and safeguard the interest of the shareholders and other stakeholders. The Corporation takes utmost care so that the rules, regulations, guidelines, directives of government, Bangladesh Bank, SEC and others are complied regularly. To lay solid foundation for effective management, the respective roles and responsibilities of the Board/Board committees and the management have been clearly outlined. The Board delegates some

of its power to the management excepting framing of policies and guidelines, objectives and strategies, monitoring and reviewing management performance[49].

4.6.1 Board of Directors of ICB

The primary role of corporate governance is played by the Board of Directors. The dynamism, guidance and stewardship of the Board are all that drive the Corporation towards sustainable growth[50]. Prominent economists, financial analyst, teachers of university are recruited as the chairman and board of directors of ICB.

4.6.2 Composition of the Board

According to ICB Ordinance, The board comprises 11(eleven) members. The Board is responsible for the governance of the Corporation on behalf of shareholders within a framework of policies and control that provides for effective risk assessment and management. The Board provides leadership and articulates the Corporation's objectives. Except Managing Director, all directors are nonexclusive and independent and represent the Board on behalf of the government, banks, insurance corporations, financial institutions and general public.

4.6.3 Committees

To ensure proper running of business of the Corporation and oversee different operational aspects of the Corporation, the Board has formulated different standing committees. According to the latest Bangladesh Bank circular other committees excluding executive and audit committee formed by the Board members have been abolished. By increasing members in both committees, each committee comprises of five members[51].

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[49] ICB, *Annual Report.* 2010-2011, p. 39.
[50] ICB, *Annual Report.* 2009-2010, p. 27.
[51] ICB, *Annual Report.* 2010-2011, p. 39

4.6.4 Meeting of the Board of Directors/Board Committees

The Board meets at least once in a month to formulate policy, setting up of goals and evaluation of Corporation's overall performance etc. The Board of Directors held 15 meetings during 2010- 11. Besides, 3 meeting relating to ICB Unit Fund and ICB Mutual Fund were held. In addition 2 meetings of audit committee and 2 meetings of restructuring committee were held during the year under review.

4.6.5 Role of Chairman

The Chairman of the Corporation is appointed by the government. He is responsible for directing the business of the board. He along with other directors of ICB plays the vital role of making decisions favoring the Corporation. They determine the appropriate strategy and frame necessary policy measures through discussion. The chairman also chairs in the Annual General Meeting.

4.6.6 Role of Managing Director

The Managing Director is the chief executive of the Corporation. His responsibility is to direct the daily activities and overall management of the Corporation. He takes necessary steps for operating overall activities and implementing the decision and strategies taken by the Board. He is accountable to the Board for financial and operational performances of the Corporation.

4.7 Financial Report and Transparency

Financial statements are prepared with Bangladesh Financial Reporting Standards as set by the Institute of Chartered Accountants of Bangladesh (ICAB)[52]. Financial Reports are circulated to listed entities within and outside the organization on a quarterly and annual basis. The Management Report is presented quarterly to the Board of Directors

[52] ICB, *Annual Report.* 2009-2010, p. 28

containing Financial and Management Accounting reports. Audit committee accepts the responsibility for preparation of financial reports, maintaining adequate records for safeguarding the assets of the Corporation, preventing and detecting fraud or irregularities, selecting suitable accounting policies, applying those policies consistently and making reasonable, prudent judgments and estimation where necessary. The Board of Directors ensures that the Bangladesh Financial Reporting Standards are adhered to, subject to any material departure being disclosed and explained in the notes to the accounts. The Board also conform that the Corporation keeps accounting records, which disclose to reasonable accuracy. The Board also conforms that the Corporation keeps accounting records, which disclose with reasonable accuracy, the financial position of the Corporation and which enable them to ensure that the financial statements comply with the requirements of the Companies Act 1994, Securities and Exchange Commission Act 1994, Securities and Exchange Commission Rules 1987 and Financial Institutions Act 1993 and all amendments thereto[53].

4.8 Shareholders' Role and Preservation of the Rights of the Shareholders

ICB strongly believes that all shareholders should have access to complete information on its activities and performance. The shareholders play an important role in assisting the Board to implement corporate governance. The Corporation welcomes the active participation of the shareholders at annual general meeting and solicits their views at all times, promoting healthy dialogue. ICB's web site www.icb.gov.bd has all relevant latest information for the convenience of the shareholders. Besides, the secretary's department

[53] ICB, *Annual Report.* 2010-2011, p. 41.

of the Corporation is dedicated to the services of the shareholders. The external statutory auditors attend the annual general meeting to respond to the queries of the shareholders on the preparation and contents of auditors' report and financial statements.

4.9 Capital Structure and Shareholding Position of ICB

Initially, the authorized and paid up capital of the corporation was Tk 20 crore divided into 20 lack shares of Tk. 100 each, subscribed by the government of Bangladesh (27%), Bangladesh Bank (12%), Bangladesh Shilpa Bank (6%), Bangladesh Shilpa Rin Sangstha (6%), Nationalized Commercial Banks (15%), Sadharan Bima Corporation (9%) and the general public (25%)[54]. The authorized and paid up capital of ICB was increased in 1999-2000 to Tk. 1,00 crore and Tk 46.6 crore. ICB is a listed company in both Dhaka and Chittagong Stock Exchanges. The reserve fund of the corporation was Tk. 425.08 crore on 30 June 2000 and the types of reserves were general reserves, building reserves and dividend equalization reserves.

Total fund of ICB during the year 1999-2000 was Tk 6,784.84 crore which comprised shareholders' equity i.e., share capital, reserves and retained profits (Tk 894.97 crore), long-term debts Tk 1,153.81 crore, deferred interest (Tk 292.72 crore), deferred liabilities (Tk 18.81 crore), lease deposits (Tk 0.66 crore), and other liabilities (Tk 4,423.83 crore)[55]. On 30 June 2011, the total value of assets of ICB were valued at Tk 3031.84, crore comprising paid up capital (Tk 250 crore), reserves (Tk 2050.87 crore), retained profit (Tk 702.20 crore), long term government loan (Tk 3.15 crore), debentures (Tk 6.80 crore), others (Tk 18.82 crore)[56]. The capital structure and share holding position of ICB are given in Tables 4.1 and 4.2.

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[54] Banglapedia, *National Encyclopedia of bangladesh* (Dhaka: Asiatic Society of Bangladesh, 2003), p. 36.

[55] ICB, *Annual Report.* 1999-2000, p.12

[56] ICB, *Annual Report.* 2010-2011, p. 53.

Table 4.1
Capital Structure of ICB (In Crore Taka)

Particulars	ICB			Consolidated (ICB & its subsidiaries)		
	as on 30 June		Increase/ Decrease	as on 30 June		Increase/ Decrease
	2011	2010	(Percentage)	2011	2010	(Percentage)
Paid-up capital	250.00	200.00	25.00	250.00	200.00	25.00
Reserves	1921.29	1820.12*	5.56	2050.87	1939.58*	5.74
Retained Profit	407.77	322.25	26.54	702.20	533.96	31.51
Long-term govt. loan	3.15	3.50	-10.00	3.15	3.50	-10.00
Debentures	6.80	11.80	-42.37	6.80	11.80	-42.37
Others	11.74	10.60	10.77	18.82	26.89	-30.02
Total	2600.75	2368.27	9.82	3031.84	2715.73	11.64

*Restated

Source: ICB Annual Report 2010-2011, p. 266.

Table 4.2
Shareholding position as on 30 June 2011

Sl. no.	Shareholders	No. of shareholders	No. of shares	Percentage of shareholding
1.	Government of the People's Republic of Bangladesh	1	6750000	27.00
2.	State owned commercial banks	4	5681749	22.73
3.	Development financial institutions	1	6407749	25.63
4.	State owned Insurance corporation	2	3088905	12.36
5.	Denationalized private commercial banks	2	2271312	9.08
6.	Private commercial banks & Mutual Fund	6	20892	0.08
7.	Other institutions	73	56829	0.23
8.	General public	1840	722564	2.89
	Total	1929	25000000	100.00

Source: ICB Annual Report 2010-2011

4.10 Operational Activities of ICB

ICB has continued to provide financial and other assistance to companies in different forms with a view to accelerating the pace of industrialization as well as to developing a well-organized and vibrant securities market in the country. In this regard ICB undertakes diverse activities. ICB exists financial and other activities for capital market development and industrialization include: (i) direct participation in equity; (ii) purchase of shares, debentures, bonds and preference shares; (iii) lease financing; (iv) venture capital financing; (v) advance against equity; (vi) to act as trustee as well as custodian to the issue of debentures, bonds, mutual funds; etc[57]. The activities of ICB are given below.

4.10.1 Consideration of Application

Investment Corporation of Bangladesh receives application for financial assistance. In 2010-11, ICB received 42 amounting to Tk. 943.83 crore. There were 08 pending applications at the end of 2009-10. Therefore, ICB had total of 50 applications for processing in 2010-11 out of which 26 applications were approved, 14 were rejected and 10 were under consideration[58].

4.10.2 Commitment

ICB makes commitment to provide financial assistance in various projects. During 2010-2011, ICB made commitment of total financial assistance of Tk. 262.27 crore to 26 projects. In 2009-10, ICB's commitment of total financial assistance was Tk. 209.62 crore to 19 projects.[59] In addition, ICB committed to act as trustee to the issue of bonds of three companies of Tk. 675.00crore during the year. ICB also committed to act as trustee as well as custodian to the issues of 3 close-end mutual funds of Tk. 400.0 crore[60].

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[57] ICB, *Annual Report.* 2010-2011, p. 90.
[58] Ibid.
[59] Ibid.
[60] ICB, *Annual Report.* 2010-2011, p. 91.

4.10.3 Cumulative Commitment

Up to 30 June 2011, cumulative commitment by ICB for financial assistance stood at Tk. 1370.40 crore to 624 projects. A summarized cumulative commitments made by ICB up to 30 June 2011 is given below[61] in Table 4.3.

Table 4.3
Cumulative commitments of ICB up to 30 June 2011

Nature of commitments	No. of projects	Amount(Tk. in crore)
Bridging loans	306	116.48
Debenture loans	50	52.30
Total	*356	168.78
Direct underwriting:		
Shares	44	73.29
Debentures	6	14.00
Total	**50	87.29
Pre-IPO Placement:		
Shares	46	153.23
Debentures	13	46.50
Purchase of preference shares	14	140.65
Purchase of debentures	54	301.60
Investment in bonds	12	103.34
Direct equity participation	20	97.73
Advance against equity	2	40.00
Lease financing	57	231.28
Total	***218	1114.33
Grand Total	624	1370.40

Source: ICB Annual Report 2010-2011

* Includes 38 projects which were given commitments for both bridging loans and debenture loans.

** Includes 5 projects which were given commitments for direct underwriting of shares and debentures.

*** Commitments were given by ICB to (a) 10 projects for Pre-IPO placement of both shares and debentures: (b) 6 projects for both purchase of debentures and lease financing; (c) 5 projects for equity participation, purchase of debentures and lease financing; (d) 6 projects for purchase of preference shares and lease financing; (e) 5 projects for equity participation, purchase of debentures, lease financing and purchase of bonds; and (f) 1 project for both purchase of debentures and equity participation; (g) 1 project for both purchase of debentures and to provide advance against equity.

4.10.4 Disbursement

The cumulative disbursement of project loans of ICB stood at Tk. 114.52 crore to 308 projects. ICB discontinued bridge financing from 1997.

[61] Ibid.

The following Table 4.4 shows sector-wise cumulative disbursement of project loans by ICB:

Table 4.4
Position of sector-wise disbursement of project loans (Tk. in crore)

Sectors	No. of projects	Bridging loans	Debenture loans	Total	Percentage
Textile	58	43.72	1.00	44.72	39.04
Food & allied products	99	17.22	2.10	19.32	16.87
Specialized jute products, jute yarn, twine and carpets	33	14.85	0.53	15.38	13.43
Engineering	29	9.61	1.21	10.82	9.45
Chemical, pharmaceuticals and allied products	30	8.14	0.76	8.90	7.77
Glass, ceramic and other non-metallic mineral products	9	3.60	-	3.60	3.14
Paper, board, printing and publishing	11	3.39	0.10	3.49	3.05
Tannery, leather and rubber products	12	3.28	0.28	3.56	3.11
Services	6	1.60	-	1.60	1.40
Ships, roads and Inland water transport	16	1.45	-	1.45	1.27
Forest products and allied	1	-	0.15	0.15	0.13
Miscellaneous	4	1.33	0.20	1.53	1.34
Total	308	108.19	6.33	114.52	100.00

Source: ICB Annual Report 2010-2011

4.10.5 Loan Portfolio

At the beginning of the 2010-2011 financial year, there were 92 companies in the loan portfolio of ICB with total outstanding loans and interest of Tk. 438.16 crore. During 2010-2011, 3 companies completely liquidated their liabilities with ICB. As on 30 June 2011, liabilities of remaining 89 companies stood at Tk. 433.83 crore which includes Tk. 30.57 crore as principal and Tk. 403.26 crore as interest. As on 30 June 2011, the balance of interest suspense and loan loss provision against project loans were Tk. 30.77 crore and Tk. 4.32 crore respectively[62].Besides, in line with the BRPD circular

[62] ICB, *Annual Report.* 2010-2011, p. 93.

no. 02 of 13 January 2003 of Bangladesh Bank, a total amount of Tk. 441.32 crore was written-off against 98 companies. Out of the 98 companies, 18 companies have settled their loan liabilities with ICB. Up to 30 June 2011, Tk. 32.96 crore was waived and Tk. 9.76 crore, including Tk. 2.73 crore during the year has been recovered against written off loans of Tk. 441.32 crore. Therefore, the net balance of loan stood at Tk. 398.60 crore which was written-off under the said circular[63].

4.10.6 Acts as Trustee, Custodian and Issue Manager

ICB acted as trustee to the debenture issues of 17 companies involving Tk. 184.15 crore, 13 bonds of 10 companies involving Tk. 1549.36 crore and manager to the public issues of 41 companies involving Tk. 104.99 crore up to 30 June 2011. However, ICB has, under restructuring programme, discontinued issue management function since 2003. This issue manager function is being performed by ICB Capital Management Ltd. a subsidiary of ICB. ICB also acted as trustee as well as custodian to 19 close-end mutual funds of Tk. 1550.0 crore and 2 open-end mutual funds with initial capital of Tk. 10.0 crore each (which was raised to Tk. 180.0 crore as on 30 June 2011)[64].

4.10.7 Lease Financing

ICB introduced lease financing scheme in 1999 to facilitate rapid industrialization and business diversification in the country.

As on 30 June, 2011 the sum of projects under consideration stood at 7 (seven), for lease assistance of Tk. 150.74 crore by adding up the single application received in FY 2010-2011 for lease assistance of Tk. 36.94 crore with the previous balance[65]. Meanwhile, ICB disbursed a total of Tk. 162.41 crore under lease financing scheme up to 30 June, 2011. Table 4.5 displays the position of ICB's lease financing during 2001-2011.

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[63] Ibid.
[64] ICB, *Annual Report.* 2010-2011, p. 95.
[65] Ibid

Table 4.5
Position of lease financing scheme during 2001-02 to 2010-11(Tk. in crore)

Year		Particulars			
		Sanction	**Disbursement made**	**Recovery**	**Income from lease financing**
2010-11	no. of projects		1		
	Amount		50.00	13.03	4.98
2009-10	no. of projects	3	1		
	Amount	79.00	15.00	21.80	6.58
2008-09	no. of projects	3	3		
	Amount	30.35	3.92	20.68	4.92
2007-08	no. of projects	4	4		
	Amount	9.39	18.47	17.17	4.82
2006-07	no. of projects	5	1		
	Amount	20.96	0.35	18.64	5.60
2005-06	no. of projects	2	2		
	Amount	1.05	52.05	16.92	3.54
2004-05	no. of projects	2	4		
	Amount	50.55	5.25	5.06	2.07
2003-04	no. of projects	7	5		
	Amount	11.21	6.44	2.91	2.46
2002-03	no. of projects	8		6	8
	Amount	13.23		1.51	1.68
2001-02	no. of projects	5	6	6	6
	Amount	6.01	6.03	1.29	1.57
Cumulative up to 30 June 2011	no. of projects	51	28		
	Amount	233.68	162.41	124.07	37.18

Source: ICB Annual Reports 2001-02 to 2010-11

Lease financing scheme sanctioned 5 projects during 2001-02 and the amount was Tk 6.01 crore. And the disbursement was on 6 projects and the amount of disbursement was Tk 6.03 crore. The recovery was Tk. 1.29 crore while the no of project were 6. Income from the lease financing was Tk. 1.57 crore while the no of project were 6.

Lease financing scheme sanctioned 8 projects during 2002-03 while the amount was Tk. 13.23 crore. There was no disbursement made on that year. The recovery was Tk. 1.51 crore. While the no of projects were 6. Income from the lease financing on that year was Tk. 1.68 crore while the no of projects were 8.

Lease financing scheme sanctioned 7 projects during 2003-04 and the amount was Tk. 11.21 crore. There were 5 projects whose disbursement was made and the amount of disbursement Tk. 6.44 crore. The recovery was Tk. 2.91 crore in amounts. Income from the lease financing was Tk. 2.46 crore.

Lease financing scheme sanctioned 2 projects during 2004-05 and the amount was Tk. 50.55 crore. There disbursement made for 4 projects and the amount of disbursement was Tk. 5.25 crore. The recovery was Tk. 5.06 crore. Income from the lease financing was Tk. 2.07 crore.

Lease financing scheme sanctioned 2 projects during 2005-06 while the amount was Tk. 1.05 crore. And the disbursement was on 2 projects and the amount of disbursement was Tk 52.05 crore. The recovery was Tk. 16.92 crore. Income from the lease financing was Tk. 3.54 crore.

Lease financing scheme sanctioned 7 projects during 2006-07while the amount was Tk. 20.96 crore. And the disbursement was on 1 projects and the amount of disbursement was Tk 0.35 crore. The recovery was Tk. 18.64 crore. Income from the lease financing was Tk. 5.60 crore.

Lease financing scheme sanctioned 4 projects during 2007-08 while the amount was Tk. 9.39 crore. There disbursement made for 4 projects and the amount of disbursement

was Tk. 18.47 crore. The recovery was Tk. 17.17 crore. Income from the lease financing was Tk. 4.82 crore.

Lease financing scheme sanctioned 3 projects during 2008-09 while the amount was Tk. 30.35 crore. There disbursement made for 3 projects and the amount of disbursement was Tk. 3.92 crore. The recovery was Tk. 20.68 crore. Income from the lease financing was Tk. 4.92 crore.

Lease financing scheme was sanctioned 3 projects during 2009-10 while the amount was Tk. 79.00 crore. There disbursement made for 1 project and the amount of disbursement was Tk. 15.00 crore. The recovery was Tk. 21.80 crore. Income from the lease financing was Tk. 6.58 crore.

4.11 Other Operational Activities

ICB provides advance against ICB unit/mutual fund certificates, bank guarantee scheme, lease and venture capital financing scheme. ICB also manages Equity and Entrepreneurship Fund (EEF) as a sub-agent of Bangladesh Bank.

4.11.1 Advance against ICB Mutual/Unit Fund Certificates Scheme

ICB provides advance against certificates of ICB unit/mutual funds and ICB AMCL unit fund. An amount of Tk. 2.53 crore was disbursed under this scheme in 2001-02. The net balance of outstanding advance on that date stood at Tk. 0.34 crore. The recovery was Tk. 7.50 crore. An amount of Tk. 3.12 crore was disbursed under this scheme in 2002-03 which was Tk. 2.53 crore in the previous year. The net balance of outstanding advance on that date stood at Tk. 2.37 crore. The recovery was Tk. 2.86 crore. An amount of Tk. 4.19 crore was disbursed under this scheme in 2003-04 which was Tk. 3.12 crore in the

previous year. The net balance of outstanding advance on that date stood at Tk.2.91 crore. The recovery was Tk. 3.65 crore. An amount of Tk. 4.66 crore was disbursed under this scheme in 2004-05 which was Tk. 4.19 crore in the previous year. The net balance of outstanding advance on that date stood at Tk. 4.05 crore. The recovery was Tk. 3.90 crore. An amount of Tk. 4.56 crore was disbursed under this scheme in 2005-06 which was Tk. 4.66 crore in the previous year. The net balance of outstanding advance on that date stood at Tk. 4.98 crore. The recovery was Tk. 4.23 crore. An amount of Tk. 4.09 crore was disbursed under this scheme in 2006-07 which was Tk. 4.65 crore in the previous year. The net balance of outstanding advance on that date stood at Tk. 5.13 crore. The recovery was Tk. 4.59 crore. An amount of Tk. 4.84 crore was disbursed under this scheme in 2007-08 which was Tk. 4.09 crore in the previous year. The net balance of outstanding advance on that date stood at Tk. 6.70 crore. The recovery was Tk. 3.93 crore. An amount of Tk. 4.78 crore was disbursed under this scheme in 2008-09 which was Tk. 4.84 crore in the previous year. The net balance of outstanding advance on that date stood at Tk. 8.82 crore. The recovery was Tk. 3.63 crore. An amount of Tk. 5.56 crore was disbursed under this scheme in 2009-10 which was Tk. 4.78 crore in the previous year. The net balance of outstanding advance on that date stood at Tk. 9.24 crore. The recovery was Tk. 6.25 crore. An amount of Tk. 6.98 crore was disbursed under this scheme in 2010-11 which was Tk. 5.56 crore in the previous year. As on 30 June 2011, the cumulative disbursement was Tk. 55.53 crore. The net balance of outstanding advance on that date stood at Tk. 7.58 crore. Up to 30 June 2011 the total recovery under this scheme was Tk. 35.80 crore.

The Table 4.6 shows the comparative position of the scheme during 2001-02 to 2010-11.

Table 4.6
Position of advance against ICB unit/mutual funds and ICB AMCL Unit Fund Certificates (Tk. in crore)

Year	Particulars		
	Disbursement	Recovery	Net outstanding balance
2000-01	2.05	3.25	1.20
2001-02	2.53	7.50	0.34
2002-03	3.12	2.86	2.37
2003-04	4.19	3.65	2.91
2004-05	4.66	3.90	4.05
2005-06	4.65	4.23	4.98
2006-07	4.09	4.59	5.13
2007-08	4.84	3.93	6.70
2008-09	4.78	3.63	8.82
2009-10	5.56	6.25	9.24
2010-11	6.98	5.80	7.58
Cumulative up to 30 June 2011	55.53	35.80	7.58

Source: ICB Annual Reports 2001-02 to 2010-11

4.11.2 Consumer Credit Scheme

Under this scheme the cumulative amount of loan disbursed up to 30 June 2011 was Tk. 10.95 crore. No amount has been disbursed during 2010-11[66].

4.11.3 Venture Capital Financing

With a view to encourage rapid industrialization ICB as part of business diversification has launched venture capital financing scheme of high risk but potential industry. Up to 30 June 2011 ICB has received 5 applications for financing of Tk. 76.62 crore. Among these 5 projects, 3 are of electricity generation project in new technology, 1 of inventing car without fuel and the other is a project for providing air-conditioning facilities by a new technology[67].

[66] ICB, *Annual Report.* 2010-2011, p. 96.
[67] Ibid. p.97.

4.11.4 Equity and Entrepreneurship Fund (EEF)

The Government of Bangladesh (GOB) had set up an Equity Development Fund (EDF) in the budget 2000-01 known as Equity and Entrepreneurship Fund (EEF) with a view to encouraging the investors to invest in the rather risk but promising two sectors, namely, software industry and food-processing/agro-based industry. Initially the management of the fund was vested to Bangladesh Bank. Subsequently a sub-agency agreement was signed between ICB and Bangladesh Bank on 1 June 2009. According to this agreement, the management of the fund has been devolved on ICB. During 2010-11, ICB made commitment of total EEF assistance of Tk. 803.67 crore to 504 projects. In 2009-10 ICB's commitment to EEF was Tk. 210.19 crore to 124 projects. During 2010-11, a total number of 85 projects have disbursed an amount of Tk. 75.07 crore to 78 projects which are Agro based and 7 projects at ICT. As a result a total amount of Tk. 84.17 crore has been disbursed to 102 projects on 30 June, 2011[68]. Therefore opportunity for employment of nearly 15521 no. of people has been created under this scheme.

4.12 ICB's Role in the Capital Market

Capital market plays very important role to finance the industrialization and infrastructural sector of the country. ICB and its three subsidiary companies played very important and expanded roles through participation in both the primary and secondary markets to develop a vibrant and sustainable capital market in the country. As on 30 June 2011, the number of ICB assisted securities were 154 out of 278 listed securities (excluding 212 Govt. treasury bonds) of Dhaka Stock Exchange Ltd. out of 238 listed securities of Chittagong Stock Exchange Ltd. ICB assisted securities were 115[69].

[68] ICB, *Annual Report.* 2010-2011, p. 97.
[69] ICB, *Annual Report.* 2010-2011, p. 85.

During bearish market owing to free fall of indices in stocks, ICB's massive participation in trading through its different portfolios including proprietary, unit fund, mutual funds and investor's accounts along with subsidiaries made a significant contribution in maintaining stability, reliability and liquidity of the stock market. During 2010-11, the total trading of ICB and its subsidiary companies in both the bourses was Tk. 13382.67 crore which was 7.61 per cent higher than the total trade volume of Tk. 12435.32 crore in the previous year. ICB and its subsidiary companies contribution to total turnover of Tk. 358086.56 crore of both the bourses was 3.74 per cent against 4.48 per cent in the preceding year[70]. Though the rate of contribution of ICB and its subsidiary companies to total turnover in both the bourses has decreased, the total volume of transaction has increased significantly during the year. The following Table 4.7 shows the position of transactions made by ICB and its subsidiary companies on DSE and CSE during 2010-11 and 2009-10:

Table 4.7
Transactions of ICB & its subsidiary companies on the stock exchanges during 2010-11 and 2009-10*

(Tk. in crore)

Particulars	Dhaka Stock Exchange Ltd. (DSE)			Chittagong Stock Exchange Ltd. (CSE)			Total		
	2010-11	2009-10	Change (Percentage)	2010-11	2009-10	Change (percentage)	2010-11	2009-10	increase (percentage)
Total turnover	325881.92	256350.55	27.12	32205.08	21520.36	49.65	358087	277870.91	28.87
Transactions of ICB and its subsidiary companies	13202.33	12241.30	7.85	180.34	194.02	-7.05	13382.67	12435.32	7.62
ICB and its subsidiary companies' contribution in total turnover (percentage)	4.05	4.78		0.56	0.90		3.74	4.48	

Source: ICB Annual Report 2010-2011

[70] Ibid.

The growth of merchant banking, mutual fund operations and stock brokerage activities of the three subsidiary companies of ICB, namely ICB Capital Management Ltd., ICB Asset Management Company Ltd. and ICB Securities Trading Company Ltd. had been remarkable during the year. All the mutual funds and unit funds managed by ICB and its subsidiary company ICB Assets Management Company Ltd. had earned higher income over 2009-10 and declared handsome dividends during the year under report.

ICB encourages companies to float bonds in the securities market. Up to 30 June 2011, 12 bonds of 9 companies of Tk. 1307.95 crore have been floated of which three are listed corporate bonds. Ten out of these twelve bonds were floated under trusteeship of ICB.

ICB has taken steps to float two sectoral mutual funds of Tk. 500.0 crore each mainly to develop the power sector of the country.

Due to continuous price falling in the last few months in 2010-11 financial years, an initiative has taken to form an open-end mutual fund of Tk. 5000.00 crore called "Bangladesh Fund" by ICB to regain investor's reliance through increasing flow of liquidity for a stable and dynamic stock market. This open-end fund is the largest open-end mutual fund in the history of our country. Confidence in investors has regain due to forming this new fund which consequently plays important role in maintaining stability in the market.

To protect the investors capital, improvements in market liquidity, stabilize the market situation and for the long time development for the capital market Investment Corporations of Bangladesh (ICB), Sonali Bank Limited, Janata Bank Limited, Agrani Bank Limited, Rupali Bank Limited, Bangladesh Development Bank Limited, Shadharon Bima Corporation and Jibon Bima Corporation jointly sponsored the fund. ICB Capital Management Limited acts as a trustee and custodian of the fund and ICB Asset Management Company limited is the Asset Manager of the fund.

The Trust deed and the Investment Management Agreement of Bangladesh Fund have been approved by the Securities and Exchange Commission with some necessary amendments on April 26, 2011 and the approved Trust Deed was registered on May 04, 2011. The Commission on May 30, 2011 issued the Registration Certificate and permits to invest the sponsor contribution to the Capital Market. Collection of the Sponsor Portion of the initial target of the Bangladesh Fund i.e BDT 1500.00 crore of BDT 5000.00 crore is under process and offer letter has been sent to different institutions and individuals to invest in the rest portion of the Fund it i.e BDT 3500.00 crore. Besides these the draft prospectus of the Fund has been submitted to the Commission for approval. Upon receiving the approval, the abridged version of the prospectus was published in the newspaper[71].

To maintain efficiency and stability in capital market, ICB is playing an important role as a market maker at present situation. ICB has stepped up its efforts to persuade the listed companies to comply with the corporate governance guidelines enforced by the Securities and Exchange Commission.

4.13 Activities of the Subsidiary Companies

As a part of the restructuring program of ICB under Capital Market Development Program (CMDP) initiated by the Govt. of Bangladesh (GOB) and the Asian Development Bank (ADB) and in terms of power conferred upon in the ICB Ordinance, three subsidiary companies, namely-

(i) ICB Capital Management Limited;

(ii) ICB Securities Trading Company Limited; and

(iii) ICB Asset Management Company Limited

[71] ICB, *Annual Report.* 2010-2011, p. 86.

have been formed and made operational to carry out merchant banking, stock brokerage functions and mutual fund operations respectively. After the issuance of govt. gazette notifications, ICB Capital Management Ltd. And ICB Asset Management Company Ltd. commenced their functions from 1 July 2002. The subsidiary companies are operated by their own memorandum and articles of association, Companies Act, 1994 and SEC's companies have independent Boards of Directors and separate management[72].

As per provision of ICB Ordinance (amended), ICB ceased to undertake new business in the respective areas from the dates the subsidiary companies became operative. Table 4.8 shows the basic facts of the ICB subsidiary companies.

Table 4.8
Basic facts of ICB Subsidiary Companies (incrore taka)

Sl. No.	Particulars	ICB Capital Management Limited	ICB Asset Management Company Limited	ICB Securities Trading Company Limited
1.	Issuing date of "Certificate of Incorporation" by the Register of Joint Stock Companies & Firms	5 December 2000	5 December 2000	5 December 2000
2.	Issuing date for Commencement of Business" by the Register of Joint Stock Companies & Firms	5 December 2000	5 December 2000	5 December 2000
3.	Issuing date of "Certificate of Registration" by SEC	"Merchant Banker Registration Certificate" 16 October 2001	"Asset Manager Registration Certificate" 14 October 2001 1 July 2002	5 December 2000 "Stock Broker Registration Certificate" DSE: 13 August 2002 CSE: 17 August 2002
4.	Commencement of operations	1 July 2002	100.00	50.00
5.	Authorized Capital	100.00	100.00	50.00
6.	Paid-up capital	81.90	21.00	22.50
7.	Short term loan	313.99	7.00	70.00
8.	Long term loan	14.63	4.47	-
9.	Reserves/retained earnings	158.82	30.16	38.00
10.	Manpower: officers non-officer employees Total	49* 62 111	35** 25 60	67*** 65 132
11.	Branches	7	-	7

* 10 on deputation ** 7 on deputation ***18 on deputation

[72] ICB, *Annual Report.* 2009-10. p.80.

Source: ICB Annual Report 2010-2011

4.13.1 Operational Results

The operational results of the three subsidiary companies of ICB during 2010-11 are described below.

4.13.1.1 ICB Capital Management Limited (ICML)

ICB Capital Management Ltd. (ICML), started its journey as a subsidiary company of Investment Corporation of Bangladesh (ICB) on July 1, 2002. The authorized and paid-up capital of ICML as on 30 June 2011 stood at Tk. 100.0 crore and Tk. 81.90 crore respectively. ICML has been playing an important role in the development of capital market by carrying out the functions of underwriting public issue of securities, portfolio management, issue management and management of investment accounts with the objectives to help mobilize savings and encourage and broaden the base of investment. The Company has emerged as one of the fastest growing merchant bank in the country[73].

Capital Structure of ICML: The capital structure of ICML as on 30 June 2011 is shown below in Table 4.9.[74]

Table 4.9
Capital Structure of ICML (as on 30 June 2011)

(Taka in crore)

Authorized Capital	100.00
(1) Paid-up Capital	81.90
(2) Long Term Loan	14.63
(3) Retained Earnings	158.82
Total (1+2+3)	255.35

Source: ICML Annual Report 2010-2011

[73] ICB, *Annual Report.* 2010-2011, p. 113.
[74] ICML, *Annual Report*. 20010-2011, p.21.

ICML provides underwriting support singly or through consortium to viable and prospective companies seeking long term fund from capital market in the form of equity or debt. ICML has also been rendering consultancy services to the projects including feasibility study and appraisal for Equity and Entrepreneurship Fund (EEF) scheme of the Government.

Up to 30 June 2011, the amount of deposits received and total investment made against 32729 investors `accounts operated by the Company stood at Tk. 1271.32 crore and Tk. 9904.63 crore respectively. The Company provide underwriting assistance to the issues of shares/ debentures of Tk. 557.29 crore to 98 companies and performed the responsibilities of issue manager of 71 companies of Tk. 4834.70 crore as on 30 June 2011. Besides, as on 30 June 2011, an amount of Tk. 135.56 crore has been invested in 139 securities in the company's own portfolio, the market value of which was Tk. 157.55 crore. Table 4.10 displays the financial results of ICB capital management limited.

Table 4.10
Financial results of ICB Capital Management Ltd. (in crore taka)

Year	Particulars						
	Income	**Expenditure**	**Gross profit**	**Net profit**	**EPS (Tk.)**	**NAV (Tk.)**	**Dividend**
2000-01	2.05	0.98	1.07	0.98	8.32	98.12	7
2001-02	2.50	1.23	1.27	1.09	14.36	105.22	8
2002-03	3.57	1.85	1.72	1.61	18.56	126.35	8
2003-04	4.07	1.99	2.08	1.90	23.69	142.35	10.00
2004-05	12.78	6.72	6.06	5.45	68.11	169.47	15.00
2005-06	1051	6.20	3.63	3.07	38.43	207.90	15.00
2006-07	17.76	7.62	10.15	8.80	110.00	302.90	16
2007-08	53.84	12.88	38.89	34.70	291.59	585.61	10%,1B:4
2008-09	70.26	20.59	49.67	39.54	126.84	364.39	16%
2009-10	109.75	34.43	75.31	40.73	77.19	266.80	20.00% (stock)
2010-11	127.45	45.10	82.35	59.41	83.87	326.71	40.00% (stock)

Note: B = Bonus

Source: ICB Annual Reports 2003-04 to 2010-11

The ICB Capital Management Ltd. had income of Tk. 4.07 crore in 2003-04 and the expenditure was Tk. 1.99 crore while the gross profit was Tk. 2.08 crore and the net profit was Tk. 1.90 crore. The EPS was Tk. 23.69 crore and the NAV was Tk. 142.35 crore. The ICB Capital Management Ltd. declared 10% dividend in that year.

The ICB Capital Management Ltd. had income of Tk. 12.78 crore in 2004-05 and the expenditure was Tk. 6.72 crore while the gross profit was Tk. 6.06 crore and the net profit was Tk. 5.45 crore. The EPS was Tk. 68.11 crore and the NAV was Tk. 169.47 crore. The ICB Capital Management Ltd. declared 15% dividend in that year.

The ICB Capital Management Ltd. had income of Tk. 10.51 crore in 2005-06 and the expenditure was Tk. 6.20 crore while the gross profit was Tk. 3.63 crore and the net profit was Tk. 3.07 crore. The EPS was Tk. 38.43 crore and the NAV was Tk. 207.90 crore. The ICB Capital Management Ltd. declared 15% dividend in that year.

The ICB Capital Management Ltd. had income of Tk. 17.76 crore in 2006-07 and the expenditure was Tk. 7.62 crore while the gross profit was Tk. 10.15 crore and the net profit was Tk. 8.80 crore. The EPS was Tk. 110.00 crore and the NAV was Tk. 302.90 crore. The ICB Capital Management Ltd. declared 16% dividend in that year.

The ICB Capital Management Ltd. had income of Tk. 53.84 crore in 2007-08 and the expenditure was Tk. 12.88 crore while the gross profit was Tk. 38.89 crore and the net profit was Tk. 34.70 crore. The EPS was Tk. 291.59 crore and the NAV was Tk. 585.61 crore. The ICB Capital Management Ltd. declared 10%, 1B:4 dividends in that year.

The ICB Capital Management Ltd. had income of Tk. 17.76 crore in 2009-10 and the expenditure was Tk. 109.75 crore while the gross profit was Tk. 34.43 crore and the net

profit was Tk. 40.73 crore. The EPS was Tk. 77.19 crore and the NAV was Tk. 266.80 crore. The ICB Capital Management Ltd. declared 20% (Stock) dividend in that year.

The ICB Capital Management Ltd. had income of Tk. 127.45 crore in 20010-11 and the expenditure was Tk. 45.10 crore while the gross profit was Tk. 82.35 crore and the net profit was Tk. 59.41 crore. The EPS was Tk. 83.87 crore and the NAV was Tk. 326.71 crore. The ICB Capital Management Ltd. declared 40 %(Stock) dividend in that year.

4.13.1.2 ICB Securities Trading Company Ltd. (ISTCL)

ICB Securities Trading Company Limited (ISTCL) has its prosperous past, glorious present, prospective future. ISTCL is a wholly owned subsidiary of Investment Corporation of Bangladesh (ICB) which started its business on 13 August 2002 a part of the restructuring program of ICB under Capital Market Development Program (CMDP) initiated by the Government of Bangladesh (GOB) and the Asian Development Bank (ADB) and in terms of power conferred in the ICB Ordinance[75]. The Company is being operated pursuant to its own Memorandum and Articles of Associations, SEC's Rules and Regulations and other applicable laws. ISTCL provides direct trading facilities for buying and selling securities listed with the Stock Exchanges and also in the "Over-the-Counter Market" through its head office at Dhaka with extended work stations and branch offices at Uttara, Chittagong, Sylhet, Barisal, Rajshahi, Khulna and Bogra. The Company is also authorized to buy, sell, hold or otherwise acquire or invest the capital of the Company in shares, stocks and fixed income securities as a Stock Dealer[76]. Table 4.11 exhibits the stock brokerage fucntions of ISTCL during 2009/2010-2010/2011.

[75] ISTCL, *Annual Report.* 2010-2011, p.5.
[76] ICB, *Annual Report.* 2010-2011, p. 115.

Table 4.11
Stock brokerage functions of ISTCL during 2009-10 to 2010-11 (in core Taka)

Particulars	2010-11			2009-10		
	DSE	CSE	Total	DSE	CSE	Total
Total turnover	325915.25	32175.78	358091.03	256350.55	21520.36	277870.91
Transactions of ISTCL	27527.93	248.49	27776.42	2269.85	254.06	22873.91
Proportion of ISTCL in total turnover (percentages)	8.45	0.77	7.76	8.82	1.18	8.23

Source: ICB Annual Report 2010-2011

ISTCL works as full Service Depository Participant in the Central Depository Bangladesh Limited (CDBL) for Bo (Beneficiary Owners) Account opening and maintenance, Dematerialization and Re-materialization; Pledging, Un-pledging of Securities; Settlement, Transfers and Transmission of Securities and other services. Till June 2011, total 21,314 Beneficiary Owners Account are in operation in ISTCL whereas number of individual account is 21,098 and number of Company account is 216.

The Company's proportion of turnover was 7.76 percent against total turnover of Tk. 358, 091.03 crore of both the bourses in 2010-11. Value of trades conducted by the Company in both the bourses was Tk. 27, 776.42 crore, which was 21.43 percent higher than that of Tk. 22,873.91 crore conducted in the previous year. It is stated that from January 2009 to June 2011, Company's total buying is Tk. 28,377.02 crore and total sale is Tk. 26,760.80 crore resulted to total turnover Tk. 55,137.79 crore which is 9.04 percent of DSE total turnover of Tk. 609,720.59 crore. ICB Capital Management Limited graded highest contributor about 26 percent to ISTCL in respect of total trade

volume. The contribution of Merchant Banks is about 33 percent and it is about 16 percent of total transactions to the ICB's and Public trade in 20010-2011[77].

The Company started its function as Stock Dealer from February 2010 and in financial year 2010-11, its turnover was Tk. 147.57 crore, and Realized profit was Tk. 5.18 crore. In the last year, ISTCL participated in the "Bidding" under "Book Building" method of RAK Ceramics and MI Cement Factory. Besides, ISTCL acted as a selling agent of shares of three Companies to off-load, namely 1.94 percent National Tube shares of Bangladesh Steel and Engineering Corporation, 25.55 percent Rupali Bank shares of Government and 8.32 per cent Eastern Lubricants of Bangladesh Petroleum Corporation to be continued. In addition, the Company has extended credit facilities to the respective clients for securities transactions in the secondary markets according to the Securities and Exchange Commission (SEC) rules. As on 30 June, 2011, the amount of interest earnings was Tk. 19.88 crore.

The ICB Securities Trading Co. Ltd. had income of Tk. 2.75 crore in 2003-04 and the expenditure was tk1.86crore while the gross profit was Tk. 0.89crore and the net profit was Tk. 0.56crore. The EPS was Tk. 44.83crore and the NAV was Tk.139.13 crore. The ICB Capital Management Ltd. declared 25%dividend in that year (Table 4.12).

The ICB Securities Trading Co. Ltd. had income of Tk. 4.60 crore in 2004-05 and the expenditure was Tk. 3.20 crore while the gross profit was Tk. 1.40 crore and the net profit was Tk. 0.88 crore. The EPS was Tk. 69.97 crore and the NAV was Tk.179.09 crore. The ICB Capital Management Ltd. declared 30%dividend in that year.

[77] ICB, *Annual Report.* 2010-2011, p. 116.

The ICB Securities Trading Co. Ltd. had income of Tk. 4.14 crore in 2005-06 and the expenditure was Tk. 3.35 crore while the gross profit was Tk. 0.79 crore and the net profit was Tk. 0.55 crore. The EPS was Tk. 43.81 crore and the NAV was Tk.192.90 crore. The ICB Capital Management Ltd. declared 30% dividend in that year.

The ICB Securities Trading Co. Ltd. had income of Tk. 9.59 crore in 2006-07 and the expenditure was Tk. 6.05 crore while the gross profit was Tk. 3.54 crore and the net profit was Tk. 3.01 crore. The EPS was Tk. 240.62 crore and the NAV was Tk.393.52 crore. The ICB Capital Management Ltd. declared 40%dividend in that year.

The ICB Securities Trading Co. Ltd. had income of Tk. 32.57 crore in 2007-08 and the expenditure was Tk. 13.04 crore while the gross profit was Tk. 19.53 crore and the net profit was Tk. 16.03 crore. The EPS was Tk. 1282.00 crore and the NAV was Tk. 1481.48 crore. The ICB Capital Management Ltd. declared 2:1 bonus and 42% cash dividend in that year.

The ICB Securities Trading Co. Ltd. had income of Tk. 38.79 crore in 2008-09 and the expenditure was Tk. 17.03 crore while the gross profit was Tk. 21.76 crore and the net profit was Tk. 18.79 crore. The EPS was Tk. 501.00 crore and the NAV was Tk.1061.64 crore. The ICB Capital Management Ltd. declared 1:1 dividend in that year.

The ICB Securities Trading Co. Ltd. had income of Tk. 89.75 crore in 2009-10 and the expenditure was Tk. 45.76 crore while the gross profit was Tk. 43.98 crore and the net profit was Tk. 38.80 crore. The EPS was Tk. 516.00 crore and the NAV was Tk.1046.87 crore. The ICB Capital Management Ltd. declared 1:2 dividend in that year.

The ICB Securities Trading Co. Ltd. had income of Tk. 123.27 crore in 2010-11 and the expenditure was Tk. 58.54 crore while the gross profit was Tk. 64.73 crore and the net profit was Tk. 39.54 crore. The EPS was Tk. 211.00 crore and the NAV was Tk.480.45 crore. The ICB Capital Management Ltd. declared 2:1dividend in that year.

Table 4.12

Financial results of ICB Securities Trading Co. Ltd. (Tk. in crore)

Year	Particulars						
	Income	**Expenditure**	**Gross profit**	**Net profit**	**EPS(Tk.)**	**NAV(Tk.)**	**Dividend**
2000-01	2.05	0.98	1.07	0.98	8.32	98.12	10
2001-02	2.50	1.23	1.27	1.09	14.36	105.22	12
2002-03	3.57	1.85	1.72	1.61	18.56	126.35	20
2003-04	2.75	1.86	0.89	0.56	44.83	139.13	25.00
2004-05	4.60	3.20	1.40	0.88	69.97	179.09	30.00
2005-06	4.14	3.35	0.79	0.55	43.81	192.90	30.00
2006-07	9.59	6.05	3.54	3.01	240.62	393.52	40.00
2007-08	32.57	13.04	19.53	16.02	1282.00	1481.48	2:1
2008-09	38.79	17.03	21.76	18.79	501.00	1061.64	1:1
2009-10	89.75	45.76	43.98	38.70	516.00	1046.87	1:2
2010-11	123.27	58.54	64.73	39.54	211.00	480.45	2:1

Source: ICB Annual Reports 2003-04 to 2010-11

4.13.1.3 ICB Asset Management Company Ltd. (ICBAMCL)

ICB Asset Management Company Limited was established as part of the restructuring program of ICB under Capital Market Development Program (CMDP) initiated by the Govt. of Bangladesh and the Asian Development Bank (ADB) and in terms of power

conferred upon in the ICB Ordinance. The Company started its functions for management of mutual funds from July 1, 2002[78].

The activities of the Company have invigorated the Mutual Fund industry and already established itself as one of the fast expanding Asset Management Company in the country. Up to 30 June 2011, the Company floated 11 close end mutual funds and 2 open-end mutual funds have been floated during 2010-11. The Company has planned to float various regular and special types of mutual funds including Bangladesh Fund, First Agrani Bank Mutual Fund, Sonali Bank First Mutual Fund, ICB AMCL Growth Mutual Fund-1, ICB Employees Superannuation Mutual Fund One: Scheme One, ICB AMCL Socially Responsible Mutual Fund-one, Standard Bank First ICB AMCL Mutual Fund, Janata Bank Employees Provident Mutual Fund: Scheme one etc. recently.

During 2010-11 the Company declared dividends for its close-end mutual funds ranging from 10.0 per cent to 55.0 per cent. In contrast the highest 50.0 per cent and lowest 10.0 per cent dividend was declared in 2009-10. Besides, the Company has declared dividends for its two open-end mutual funds namely, ICB AMCL Unit Fund and ICB AMCL Pension Holders Unit Fund at the rates of Tk. 32.0 and Tk. 30.0 (including half yearly Tk. 9050) per unit.

ICB Asset Management Company Ltd. Has declared stock dividend at the rate of 50.0 per cent for its shareholders in 2010-11 as against stock dividend at the rate of 75.0 per cent declared in 2009-10. The net investment in the portfolios and 5.0 per cent cash dividend of the 13 mutual funds of the Company stood at Tk. 1135.96 crore as on 30

[78] ICBMCL, *Annual Report.* 2010-2011 p.19

June 2011 of which the market value was Tk. 1240.57 crore. On the other hand, the net investment in the company's own portfolio was Tk. 88.50 crore as on 30 June 2011, the market value of which was Tk. 99.29 crore[79]. Table 4.13 exhibits the financial results of ICB asset Management company limited.

Table 4.13
Financial results of ICB Asset Management Company Limited (Tk. In crore)

Year	Particulars						
	Income	**Expenditure**	**Gross profit**	**Net profit**	**EPS (Tk.)**	**NAV (Tk.)**	**Dividend**
2000-01	.48	.42	.48	.59	6.5	80.83	7.00
2001-02	.75	.65	.77	.82	9.6	98.67	8.00
2002-03	1.01	.9	1.02	1.04	15.68	102.69	10.00
2003-04	2.44	1.36	1.08	1.08	21.66	110.77	12.00
2004-05	5.81	2.28	3.53	3.42	68.38	159.74	18.00
2005-06	6.17	2.21	3.96	3.64	72.95	232.70	20.00
2006-07	6.74	2.42	4.32	4.02	80.49	293.19	25.00
2007-08	32.57	13.04	19.53	16.10	429.00	560.49	2B:1
2008-09	38.79	17.03	21.76	18.79	501.00	1061.64	1B:1
2009-10	37.11	6.22	30.88	28.19	134.26	480.30	5% cash, 3B:4
2010-11	38.40	6.68	32.11	25.56	121.73	506.15	50% Stock

Source: ICB Annual Reports 2003-04 to 2010-11

The ICB Asset Management Company. Ltd. had income of Tk. 2.44 crore in 2003-04 and the expenditure was Tk. 1.36 crore while the gross profit was Tk. 1.08crore and the net profit was Tk. 1.08 crore. The EPS was Tk. 21.66 crore and the NAV was Tk.110.77 crore. The ICB Capital Management Ltd. declared 12%dividend in that year.

The ICB Asset Management Company .Ltd. had income of Tk. 5.81 crore in 2004-05 and the expenditure was Tk. 2.28 crore while the gross profit was Tk. 3.53 crore and the net

[79] ICB, *Annual Report.* 2010-2011, p. 118.

profit was Tk. 3.42 crore. The EPS was Tk. 68.38 crore and the NAV was Tk.159.74 crore. The ICB Capital Management Ltd. declared 18% dividend in that year.

The ICB Asset Management Company. Ltd. had income of Tk. 6.17 crore in 2005-06 and the expenditure was Tk. 2.21 crore while the gross profit was Tk. 3.96 crore and the net profit was Tk. 3.64 crore. The EPS was Tk. 72.95 crore and the NAV was Tk.232.70 crore. The ICB Capital Management Ltd. declared 20%dividend on that year.

The ICB Asset Management Company. Ltd. had income of Tk. 6.74 crore in 2006-07 and the expenditure was Tk. 2.42 crore while the gross profit was Tk. 4.32 crore and the net profit was Tk. 4.02 crore. The EPS was Tk. 80.49 crore and the NAV was Tk.293.19 crore. The ICB Capital Management Ltd. declared 25% dividend on that year.

The ICB Asset Management Company. Ltd. had income of Tk. 32.57 crore in 2007-08 and the expenditure was Tk. 13.04 crore while the gross profit was Tk. 19.53 crore and the net profit was Tk. 16.10 crore. The EPS was Tk. 429.00 crore and the NAV was Tk.560.49 crore. The ICB Capital Management Ltd. declared 2:1 dividend in that year.

The ICB Asset Management Company. Ltd. had income of Tk. 38.79 crore in 2008-09 and the expenditure was Tk. 17.03 crore while the gross profit was Tk. 21.76 crore and the net profit was Tk. 18.79 crore. The EPS was Tk. 501.00crore and the NAV was Tk.1061.64 crore. The ICB Capital Management Ltd. declared 1:1 dividend in that year.

The ICB Asset Management Company. Ltd. had income of Tk. 37.11 crore in 2009-10 and the expenditure was Tk. 6.22 crore while the gross profit was Tk. 30.88 crore and the net profit was Tk. 28.19 crore. The EPS was Tk. 134.26 crore and the NAV was Tk.480.30 crore. The ICB Capital Management Ltd. declared 5% cash, 3:4 dividends in that year.

The ICB Asset Management Company. Ltd. had income of Tk. 38.40 crore in 2010-11 and the expenditure was Tk. 6.68 crore while the gross profit was Tk. 32.11 crore and the net profit was Tk. 25.56 crore. The EPS was Tk. 121.73 crore and the NAV was Tk.506.15 crore. The ICB Capital Management Ltd. declared 50% (Stock) dividend in that year.

4.14 Human Resource Management of ICB

ICB, being a service organization it considers the human resources as an effective tool for its development. ICB tries to pay due recognition to the employees for their contribution. Merit, seniority, managerial efficiency and sense of responsibility are given priority in promotion. In case of direct recruitment merit gets top most priority. However, regional and other social factors are considered in line with Govt. policy.

ICB has its own Personnel Management Information System (PMIS) software for the data entry, data tracking and data information needs of the human resources payroll management and accounting function within the corporation. Two medical retainers are engaging for giving health care facilities to the employees. During the year under review Hepatitis-B vaccine has been given to 841 persons, which includes officers, staff and their family members.

4.15 Conclusion

The establishment of ICB was a major step in a series of measures undertaken by the Government to accelerate the pace of industrialization and develop a well organized and vibrant capital market particularly securities market in Bangladesh. ICB caters to the need of institutional support to meet the equity gap of the companies. It operates with an understanding that the stock market is to be a dependable source of capital for growth of industry and business and it cannot be a cash cow for players in just trading

in shares. Imbalance in supply of and demand for securities, difficulties in harmonization of efforts in managing interest rates, inflation, exchange rate and money supply and problems in coordination of capital market with money market are some of the areas that need to be taken into consideration.

Chapter Five
Opportunities of Investment Corporation of Bangladesh for the Development of Capital Market

5.1 Prelude

In the contemporary world the capital markets are drawing the attention of global investors. In Asia, it is getting the attractive attention of global investors with the growing corporatization of the Asian economies. East Asia has progressed a lot in attracting western companies for listing in Asian bourses as well as supporting innovative instruments. Southeast Asia is coming up with India leading the way, comparing the local market scenario with that of the region, Bangladesh is in a pretty good shape as we have most of the infrastructure in place. Our market capitalization is relatively smaller, at US$9.3 billion, which is just over 13% of GDP. Higher liquidity is skewed towards handful of scraps, while stagnant situation exists for a few less profitable issuers.

At present, the Government is heavily focusing on developing a debt capital market. Such measures are certainly welcome as Bangladesh lacks a proper secondary market for bonds. The market is yet to support short-term capital requirements of corporations. Commercial Paper (CP) has not; yet been issued primarily to interest ret volatility and illiquid risk-free instruments that can be used as benchmark for short-term or for long-term financing. It can, therefore, be said that we have a somewhat flat yield curve in Bangladesh at the moment. Debt trading of state-owned oil companies like Jamuana Oil Company Ltd. and Meghna Petroleum limited on the local bourses in January 2008 has spurred a lot of encouragement among investors. This initiative taken by the government to list State Owned Enterprises will increase market capitalization and

improve liquidity. SEC is also contemplating the introduction of the book-building method in the valuation of IPOs order to ensure a fair price. This will encourage companies with sound financial health to enter the market. Regulatory pressures are mounting on telecom companies to be listed. It is estimated that the listing of the top telecom companies will attract more foreign investment, increase market capitalization by several folds, and lead to higher standards of corporate governance.

There is still a huge potential in the market for securitization and other derivatives, which will allow foreign investors, to hedge their exposure. Investment Corporation of Bangladesh plays an important role in implementing some decisions that have national priority and in the same way it continues to remain as a catalyst in achieving the economic objectives of the country. It introduces new products and services, targets growth sectors, and aligns its business strategies with implementation and achievements. From the very inception of its establishment, ICB remains engaged with identifying the internal and external factors that are favorable and unfavorable for achieving its objectives and this enables the organization to grow and gain strength.

5.2 Capital Markets Development in Bangladesh and in some Other Asian Countries.

The capital markets have grown rapidly worldwide in the last two decades and have contributed significantly to economic development, their growth has not been in a balanced fashion. The non-security markets, including banking, developed long before the development of the security markets in Asia. The vast majority of medium and long term loans have been provided by DFIs, specialized banks and nationalized as well as private commercial banks. Non-bank financial markets have had tremendous success

only in the last few years in S. Korea, Singapore and very recently in Malaysia, Thailand, Indonesia and India.

The role of the securities markets is to mobilize individual savings which are not necessarily already in financial institutions and to channel them into productive activities. The Asian security markets, until recently, were not a significant source of investment funds as most financing was often channeled through the non-securities market as Government guaranteed subsidized loans from government agencies, government-controlled DFIs, and/or domestic commercial banks. Most of these countries pursued economic policies which gave a priority role to lending institutions and often emphasized the role of state intervention in the allocation of financial resources.

The growth of security markets in Bangladesh and some other developing countries has been constrained by the availability of cheap or subsidized loan funds. Business enterprises here have become excessively reliant on medium to long term debt financing from banks. Security markets, and not DFIs, should provide risk capital and long-term debt financing. Due to an unbalanced capital market development and a hazardous overdependence on debt financing, the Bangladeshi economy and companies are now saddled with huge debt obligations that are difficult to service during times of high real interest rates and economic recession. Given a changing global environment and the uncertainty of availability of external resources in future in such a rapidly changing world order, Bangladesh will have to find and generate resources at home and in the private sector, if it has to sustain economic growth and industrialization.

Security markets will thrive only if the environment itself is conductive to economic growth, i.e. policies that promote efficient allocation of resources rather than being allocated in

accordance with Government directives. Policies that discriminate against capital market development include the following:

(a) Tax policies that may favor bank deposits and other savings schemes, rather than yields from stocks and bonds.

(b) Credit policies that give priority to selected sectors and discriminate against certain others.

(c) Interest rate policies that hold rates below market levels, thus reducing the cost of borrowing and encouraging debt financing instead of equity financing.

In addition to the general economic environment, other legal and institutional factors that are critical to the successful development of capital market are:

(a) Existence of sufficient number of market intermediaries such as brokers, dealers and underwriters.

(b) Reasonably well-developed accounting, auditing and disclosure standards, so that financial information is available and is accurate.

(c) Establishment and vigorous enforcement of rational and comprehensive legal and regulatory framework, so that abuses are prevented and investors are protected. This maintains the integrity of the financial system and sustains investor confidence.

Every country experiences a hierarchy in terms of capital market development – first commercial banks, then security markets (stocks and bonds), and then the non-monetary intermediaries (i.e. insurance companies, pension funds, mutual funds, investment trusts, leasing, venture capital firms, etc.). Unfortunately, development of the security market is extremely complex and suffers from numerous problems.

These problems start with the supply of securities. Reasons for limited supply start with a distorted government interest rate and credit allocation policy, where financial asset prices are distorted due to loans which are easily available and are cheaper than equity capital. Other factors often mentioned are:

(i) Presence of family owned companies and of state-owned government enterprises;

(ii) High share issue costs due to government involvement in the pricing, and long and poor issuing procedures;

(iii) Reluctance to disclose information to the public, competitors and tax authorities; and

(iv) Lack of fiscal and other incentives and absence of government pressures for companies to go public.

Finally, government's role in security markets must be changed from one of direct involvement to a more catalytic and supervisory one.

There are serious problems also on the demand side. Individual investors are small in number due to lack of education, knowledge, lack of information and understanding of what security markets actually are. Institutional investors such as insurance companies, pension funds, investment trusts (typically the driving force in developed markets) tend to be limited or do not participate in security markets. Additionally, foreign portfolio investment is generally restricted except recently in all ASEAN countries and has blossomed the security market there.

Finally, some basic and pervasive institutional weaknesses in accounting and credit analysis dampen the enthusiasm of investors in security markets. Add to this the weak technical skills and analytical capacity of securities industry professionals and one

realizes the need for substantial upgrading. Antiquated trading practices and rules, poor underwriting and project appraisal, lack of a supervisory agency- all constitute major institutional problems that need to be improved in Bangladesh. Quite often, government supervision and inadequate skills of financial analysts, lawyers and accountants, are due to funding, staffing and organizational constraints. There are government authorities that perform regulatory duties, no agency is given responsibility to develop capital markets (almost all the countries in Asia now have a Security Exchange Commission of Board). It is not only the availability of financial intermediation that is important, but the degree of institutional structure should depend on the projected level of operations and resource generation.

Aside from the above three problems, if policies and existing rules regarding securities markets are neutral or negative, and "unofficial" or "Bazaar" (kerb) market is often developed alongside. These are characterized by wide spreads, high risks and tax evasion. Vested interests grow in certain segments and make reforms later much harder to accomplish. This is very much the case in Bangladesh, where 65% of the transactions are not carries out or recorded on the official DAE floor, including those by I.C.B. in its investor accounts and various funds.

5.3 Opportunities of ICB for the Development of Capital Market

Created in 1979, ICB is the only complete investment company in Bangladesh. Its main objectives are to encourage and broaden the investment base in the country, to develop the capital market, to mobilize savings and to provide for matters ancillary thereto. Its functions include underwriting of public issues of shares in the primary market and to provide bridging loans against underwriting, purchasing corporate debentures and

bonds, merchandising stock by maintaining investors' accounts, by floating close-ended mutual funds and the open-ended Unit Fund, operating at the Stock Exchange, directly purchasing shares from the Government, participating in Government privatization program, and providing investment counsel to issuers and investors. It provides working capital and project loans to several projects, arranges and participates in underwriting consortiums, helps in industrialization and develops and encourages entrepreneurs. Unfortunately, given the vast range of its functions and business policy, ICB has found itself involved in several operations which at times are contrary and sometimes at odds with each other.

ICB's direct participation in security markets includes managing the Unit Fund, the six mutual funds, operating investor's accounts, underwriting public issues and providing bridge loans. As a result of these various operations, it is a major participant on the floor of the Dhaka Stock Exchange, with a turnover of nearly 15 to 20% of the total business on the DSE. While ICB may have done very well in some areas in the past, its business tactics in several areas have hurt growth of the market in the last two years and are greatly responsible for the sluggishness and inactivity on the DSE. Let us review the major activities of ICB.

5.3.1 Unit Fund of ICB

ICB operates an open-ended unit scheme since 1981 and currently its size has reached nearly Tk. 170 crores. As a result of very high dividend payouts in an otherwise very slow market, ICB unit certificates have been a very popular and attractive investment instrument with not only individual investors, big and small alike, but also with several institutions. ICB Units are not traded on DSE Floor but their sale and repurchase prices

are fixed by the ICB, with the spread between the two being Taka 5 per unit. Let us review some key statistics about the Unit Fund.

Secondly, the accounting treatments of income from sale, less repurchase of Unit certificates, is also improvised and highly overstated. In 1989-90, ICB's Unit Fund Balance Sheet shows an income from this source of Taka 7.01 crores, but in fact it was only Taka 2.36 crores. ICB's Unit Fund treats the excess of sale price (say Taka 130) over par value (Taka 100) as income. This is incorrect. The income from this source is only Taka 5 per unit sold and since only 55.12 lakh unit were sold in 1989-90, the income from this source should only be Taka 2.76 crores, and not Taka 7.01 crores, as shown in ICB's Unit Fund Balance Sheet.

ICB's Unit Fund has thus created an income of several crore Taka, which is truly not there. The Market operators have wondered and speculated as how ICB is able to pay out such high dividends? From an investor's viewpoint, high returns are very desirable. But returns are supposed to be in line with risk, and Unit certificates are not very risky. A key to development of capital markets is a balanced risk-return profile in alternative investment opportunities. In the light of this, questions often asked are: Are such high dividends feasible, given current portfolio composition? With only 45% of the portfolio invested in shares, stocks and debentures and the remaining 55% deposited in short-term money market funds, ICB cannot maintain such high dividend payouts in the future.

Other than such improvised accounting practices, ICB's high dividend payouts have left stock market operators, brokers and other bank executives in a very sorry state. Massive funds have flown out of the stock market and the commercial bank deposits into the Unit Fund, putting further constraints on the stock exchange. Several brokers

have withdrawn from the market and sold out their share positions; this pool of securities has been further picked up by the Unit Fund for its portfolio. And, with more shares locked up in the Unit Fund, the existing problem of security supply will become worse in the future. Unit Fund has cornered a huge chunk of the shares available in the market with its massive pool of cash, leaving a very small float of shares in the market and consequently a very low turnover in an already depressed market.

Bonus shares sold by ICB Unit Fund have always been to the ICB portfolio, leaving one to wonder how ICB itself financed the purchase of these bonus shares, worth Taka 7.67 crores in 1987-88, Taka 9.60 crores in 1988-89 and Tk. 16.32 crores in 1989-90. If funding is not provided by Unit Fund, how can a publicly listed company like ICB buy such a huge portfolio of shares, without any investment of funds? It seems that the Unit Fund first sells these bonus shares to ICB on credit, to create an income pool for high dividend payout on these Units, and then buys these shares back from ICB after the dividends are paid out. Such inter transfer of shares from the Unit Fund to ICB and then back from ICB to the Unit Fund is not an ethical investment practice, though there is nothing illegal about it.

A technical fault with the operation of the Unit Fund is that these certificates are not traded and that their prices are fixed by ICB. All mutual funds should quote the net asset value (NAV) of the portfolio, and their prices should be determined in the market place. ICB Unit certificates do not quote their net asset value. Further, the bid ask spread of Taka 5 is very high. While this spread constitutes a big chunk of the Unit Fund income, a spread of nearly Taka 5 greatly reduces redemption with ICB because investors can sell/transfer these at lower spreads in the market place.

To conclude, ICB Unit Fund's high dividend payout policy has led to a huge investment of funds in these units. This has led it to lock up more and more shares in the Unit portfolio, sort of like 'cornering' the market, and leaving an already poor float of shares, much worse. With few shares in the market place, the daily turnover has fallen tremendously in the market place. ICB is supposed to help develop the capital market by providing liquidity, higher float and a higher turnover in the market trading place; unfortunately, its operational tactics have hurt the stock exchange trading volume. Further, if ICB, as a government organization, is involved in accounting miss-improvisations, one wonders how the government can convince the rest of the businesses to improve their accounting and auditing standards.

5.3.2 Mutual Funds of ICB

The six close-ended mutual funds in Bangladesh are all managed and floated by the ICB. Though the return on these mutual funds has been respectable, there is no competition in the mutual fund industry since no other financial institution is allowed to issue them. The only change in the portfolio position comes from the sale of bonus shares. As in Unit Fund, income for dividend payouts comes from the sale of bonus shares from one fund to the other. The accounting treatment of these bonus shares is again wrong, since their cost price is always taken to be zero and not the average investment cost. Secondly, these bonus shares are always sold from one mutual fund to the other, leading to an internal transfer within the various operations of ICB. In 1989-90, the First, Fourth and Fifth Mutual Funds sold the bonus shares in their portfolio to the ICB Unit Fund and Sixth Mutual Fund, While the Second, Third and Sixth Mutual Funds sold share to the ICB Unit Fund, thus creating money for dividend payouts. So thinly traded are these mutual funds that their total annual turnover in 1989-90 was only

2 to 3% of their market capitalization, except the Sixth Mutual Fund. If this is true, ICB should seriously consider redeeming some of the earlier mutual funds. This will free the tremendously sought after multinational shares. Bangladesh has too many mutual funds. Even in booming and fairly developed stock markets like Thailand, Malaysia, Korea and India, there are only six to eight mutual funds in each country.

To sum, mutual funds suffer from the same accounting weaknesses as the Unit Fund in its treatment of bonus shares. Again, internal transfer from one Fund to the other to finance dividend payouts is not necessarily healthy for the industry. Mutual Funds do not have to have an infinite life as they do here; the earlier ones should be redeemed. Too many mutual funds lead to investment passivity. ICB should publish the net asset value to these mutual funds. And finally, ICB's monopoly of mutual funds should be abolished and other investment companies or banks should be allowed to complete in the mutual funds business.

5.3.3 Investors Accounts of ICB

Of all the ICB's operations, this scheme deserves a second look. In this loan scheme, ICB provides three times the contribution of an investor, though lately this has been reduced in many situations. This translates to a 25% margin requirement the lowest of any country in the world. For a country with a very low, national savings rate, ICB lends out Tk. 3 for every Tk. 1that it mobilizes from the investors and that too from relatively well-off investors. The scheme boasts over 41,000 investment accounts, though several individuals/households hold multiple accounts. With a very small staff and poor management skills, it is difficult to figure out how ICB manages such a large number of clients with their portfolio management. Conversations with several small

investors' outside ICB reveals a growing unhappiness and a deep frustration with these investor account operations. Let us look at some other issues.

a) **Margin Trading:** Almost every country has a Securities Finance House, which finances purchases of shares by holding shares as collateral. The rates on these loans are a couple of percentage points above prime and there is continuous marking/ adjustment of these loan accounts. To protect itself from stock price decreases, no Finance House loans more 50 percent of the total purchase and that is not too available for each scrip and to every individual. These margin loans are based on the investor's net worth and his/her credit worthiness. In Bangladesh, such a Finance House does not exist, but margin loans are provided by ICB at a slightly subsidized rate, with subsidy ranging from 2 to 3 percentage points below the market rate. In the absence of availability of such a scheme to member brokers or to other investment companies like NCL, BCIL, NIFCO and others, ICB is able to dictate terms to the investors seeking this financing. This includes signatures on blank forms, authorizing ICB to make any investments on their behalf. One can think of no country or no firm who does this or any investor who would sign such black authorization. Given this blanket author, ICB has misused these investor accounts, as we will see later. These should be corrected.

b) **Coming back to Margin Trading:** ICB has not market the margin balances to the market conditions due to lack of skills. ICB had hoped that dividend receipts would pay up for the interest payments, but with margin loans at 13.5- 14% and dividend yields of only 7-8%, even the most active investor account would remain in a perpetual debit unless liquidated. This, of course, presumes that the margined shares

even pay dividends, most of which don't. With stock prices in a tailspin and a decline in the share index of over 50 percent over the last two years, almost all accounts are operating with negatives equity balances and huge margin loan balances. Investors who have been acquainted with their account balances are visibly upset, because most of the shares were placed in their accounts without their oral or written permission.

5.3.4 Investor Accounts Operations and Transactions

Almost all investor account transactions take place within ICB. Buy or sell orders for these accounts are rarely executed on the DSE floor. Such internal transfers and transactions are suspect and the actual identity of the investor's buying and selling is never known. With 41,000 account holders, ICB cannot provide this service efficiently. Potential for the scheme operators to help acquaintances is large and small investors do not get the benefit of their counseling and advice.

As part of the overall reform, the Ministry of Finance should ban all transfers of shares that are not executed and recorded on the DSE floor. All transactions in investor accounts should be conducted on the floor of DSE. This will lead to an end of the unofficial 'kerb' market in Bangladesh, lead to an identification of share ownership and will also constrain the company sponsors to accumulate more shares than they are allowed to own.

All transactions carried on the DSE floor should carry a nominal clearing fee of 0.1% or so. At the end of each month, DSE should be required to send a computerized record of all the transactions to the company, even though the company needs such ownership records only when it closes its share books. At the time of closing, the company and

DSE books should match to ascertain the validity of security holdings. Such a transition has a cost but the current insufficient and irregular trading practices in the 'kerb' market will make changes in the distant future difficult to implement.

Coming back to the investor accounts, ICB should complete an overhaul of active/inactive accounts, debit/credit balances and ban being and selling shares for investor accounts unless written permission is obtained for each transaction. The blanket permission to operate investor accounts has often been misused by ICB in subscribing some poor new issues it has underwritten. By placing 5 shares in each investor account, without the knowledge of the investor, and then providing it a margin loan three times over, ICB can complete the subscription of any underwritten issue. ICB should reduce its involvement to no more than 10,000 investor accounts, given their limited manpower and expertise. They can continue providing margin loans to other brokers or investor and keep their shares as collateral. But ICB should let investors do their own investing, buying and selling and thus becoming personally purchased, rather than making these investors passive. Passive investors will never lead to a developed capital market. We need active investors for the development of capital market.

5.3.5 ICB Underwriting

Once upon a time, ICB was the sole underwriter of new issues in the market but now faces stiff competition from some new entrants, like Banquet Indosuez, SABINCO, American Express, and others. To diversify its risk in underwriting and committing funds, ICB often heads a large consortium of DFI institutions like BDBL and other nationalized commercial banks. This facilitates the new issue process. In a typical public issue elsewhere in the world, the role of an underwriter is very important in the new issues process. The underwriter is responsible for its amount of the subscription, while at the same time

promotes the public issue for the company itself. This promotion is done through advertisements in newspapers, press, business Periodicals and promotion through conferences for brokers, press and investors. The lead underwriter or the manager of the public issue has to look after the whole process starting from securing consent of the Ministry of Finance Controller of Capital Issues, arranging underwriting consortium, coordinating efforts with the Stock Exchange, coordinating the efforts of brokers, bankers, registrars, advertisers, printers, etc., developing a marketing strategy and monitoring the issue during the subscription period. Unfortunately, the art of underwriting in Bangladesh is very poor and the responsibility of the lead manager here is to just commit its portion of the underwritten funds. All other responsibilities are that of the company sponsors themselves, whose main motive is only to get the underwriters commitment.

The issue is rarely advertised properly and very little money or effort is spent on marketing or promoting the issue. With a fixed commission set by the CCI, and no variation allowed for size or risk, the services provided by the lead manager of the issue are poor. Often the investing public does not even know about the new issue, since it is not marketed and advertised properly. The commissions for brokers are very small or non-existent. In addition to this poor underwriting process, valuation is another problem. Companies going public are heavily over-capitalized, diluting ownership tremendously. Their financial statements are window dressed; their balanced sheets for the last three years are revalued at the time of public issue, with major increases coming from real estate overvaluation. This causes major problems in the after-issues market.

ICB and lately other DFIs, especially BDBL, provides term and bridge loans for industrial projects in the hope that they would take these companies public. ICB has often relied on

the project appraisals of the two BDBL and BSRS, and committed funds to these projects. These poor appraisals at the two DFIs have been a cause of the near collapse of the Bangladesh lending market. As a result of this, ICB is sitting on massive sums of bad debt that has caused severe resource constraints and massive liquidity problems. IN their need to recover bridge loans and in some cases due to bad project funding, ICB has rushed a few companies to the market prematurely, for a public issue. These companies were neither profitable, nor well-prepared to go public. Such underwriting and the poor performance of these companies in the after-issue market, has hurt ICB's image in underwriting operations, leading to poor subscriptions of their issues. But then, as mentioned earlier, ICB has been able to fully subscribe all its underwritings by pushing shares in the investor accounts. ICB staff needs training in the art of underwriting, project appraisal, company valuation, marketing of the issue, etc. Underwriting an issue as the lead manager does not mean just a commitment of funds for the project; infect as a lead manager, ICB should promote and market the new issue. (ICB should seek an amendment in Company Laws for varying and increased underwriting fees.)

5.3.6 Financing Industrial Projects

In additional to the above four functions of ICB, all of which are related to its merchant banking activities, ICB also acts as a DFI and finance industrial projects. In this area, ICB is facing massive problems just as the other DFI in Bangladesh, BDBL. ICB has disbursed loan for 298 projects, of which 266 are in commercial operation, 4 are in trial operation and the reaming 28 projects under implementation. The total amount of money disbursed has been Tk. 83.40 crores. The total over dues are Tk. 137.72 crores, with a recovery of only Tk. 10.26 crores, leading to a recovery of less than 8%. This is lower than that of the other DFI, BDBL. This has caused a severe liquidity crisis at ICB. ICB should consider a rehabilitation of its project and loan portfolio.

5.4 Prospects of ICB

5.4.1 Growth Trend of Income of ICB

It is very important for ICB to expand its incomes, because it wants to reach the level of maximum profit. ICB Income the only means through which ICB can provide its services to the common people. One of the first generation Investment Corporation in Bangladesh, ICB maintains twin objectives such as to maximize profit and customer satisfaction. Now, it is needed to explore their growth of income that is shown in the Table 5.1.

Table 5.1
Growth Trend of Income of ICB (Tk. in crore)

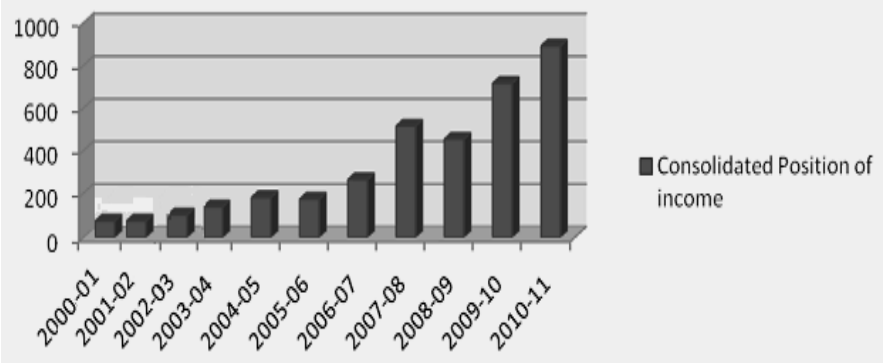
Years	Consolidated Position of income	Growth (%)
2000-01	81.36	-
2001-02	103.62	12.7
2002-03	117.38	21.62
2003-04	143.49	26.24
2004-05	187.82	30.89
2005-06	180.2	-4.06
2006-07	271.92	50.9
2007-08	523.25	92.43
2008-09	461.81	-11.74
2009-10	724.19	56.82
2010-11	899.51	24.21

Source: ICB Annual Reports 2003-04 to 2010-11

The table shows that the growth of income of ICB is all along the positive except the years of 2005 and 2008. In 2005 and 2008, the growth of incomes of ICB is negative that are (-4.06 and -11.74) percent. This indicates that this year the amount of incomes decreased. From the very beginning the growth of incomes of ICB sharply increased up to 2004. The highest growth rate of incomes of ICB was found in 2007 (92.43 percent). The remarkable growth also existed in the years of 2009 (56.82 percent), 2006 (50.9 percent), and 2004 (30.89 percent). After 2004 it strongly decreased. The conclusion

from the above analysis is that the growth of ICB incomes is increased day by day. The above table is shown below graphically in Figure 5.1.

Figure 5.1
Consolidated Position of Inomce (Tk. in crore)



Source: Table 5.1

5.4.2 Growth Trend of Net profit of ICB

It is very important for ICB to expand its net profits because it wants to reach the maximum profit of ICB. ICB net income is a means through which ICB can provide its services to the common people. Now, the study likes to explore their growth of net profit that is shown in the Table 5.2.

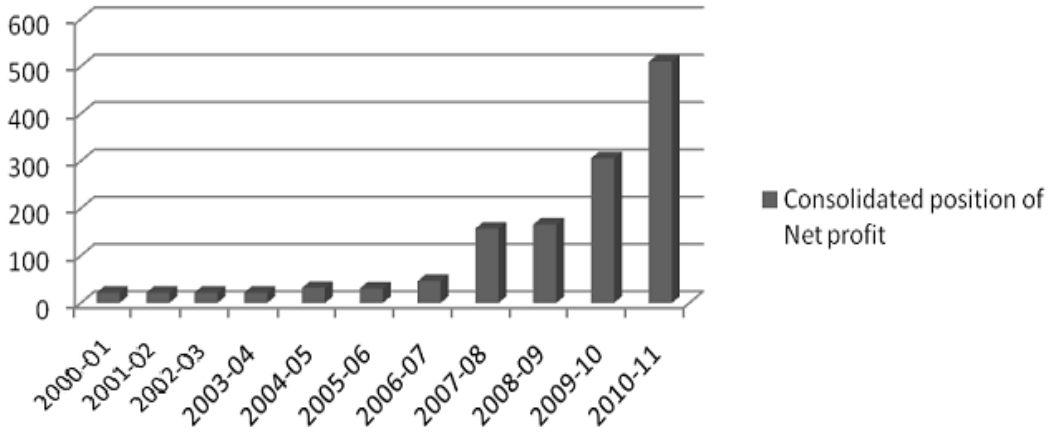
Table 5.2
Growth Trend of Net profit of ICB (Tk in crore)

Years	Consolidated Position of Net Profit	Growth (%)
2000-01	8.16	-
2001-02	10.68	30.885
2002-03	18.14	69.85
2003-04	21.68	19.51
2004-05	31.68	46.13
2005-06	30.46	-3.85
2006-07	46.07	51.25
2007-08	157.15	241.11
2008-09	165.83	5.52
2009-10	305.67	84.33
2010-11	510.04	16.84

Source: ICB Annual Reports 2003-04 to 2010-11

The table shows that the growth of net profits of ICB is all along the positive except the year of 2005. In 2005, the growth of net profit of ICB is negative that is (-3.85) percent. This indicates that this year the amount of net profit decreased. From the very beginning the growth of net profit of ICB sharply increased up to 2004. The highest growth rate of net profit of ICB was found in 2007 (241.11 percent). The remarkable growth also existed in the years of 2009 (84.33 percent), 2006 (51.25 percent), and 2004 (46.13 percent). The conclusion from the above analysis is that the growth of ICB net profits is increased day by day. The above table is shown below graphically (Figure 5.2).

Figure 5.2
Consolidated Position of Net Profit (Tk. in crore)



Source: Table 5.2

5.4.3 Growth Trend of Earning per share of ICB (Consolidated)

It is very important for ICB to expand its Earning per share because it wants to reach the maximum earnings level. ICB earning per share is a means through which ICB can provide its services to the common people. Now, the study likes to explore their growth of EPS that is shown in the Table 5.3.

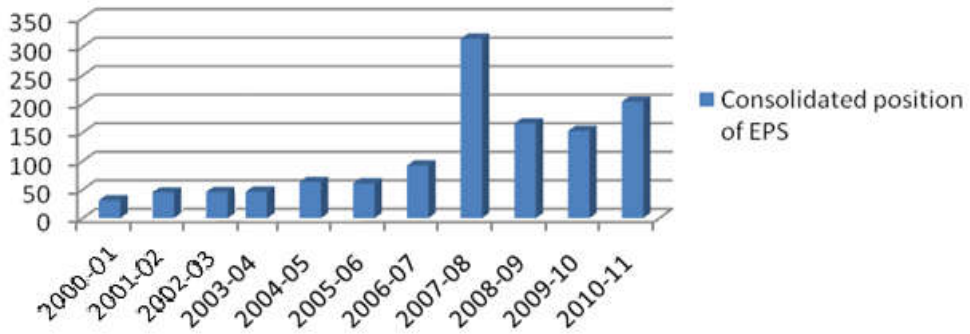
Table 5.3
Growth Trend of Earning per share (Tk in crore)

Years	Consolidated position of EPS	Growth (%)
2000-01	18.19	-
2001-02	24.64	35.45
2002-03	38.14	54.78
2003-04	46.41	21.68
2004-05	63.36	36.52
2005-06	60.92	-3.85
2006-07	92.13	51.23
2007-08	314.3	241.15
2008-09	165.83	-47.24
2009-10	152.84	84.33
2010-11	204.01	16.84

Source: ICB Annual Reports 2003-04 to 2010-11

The table shows that the growth of earning per share of ICB is all along the positive except the years of 2005 and 2008. In 2005 and 2008, the growth of earning per share of ICB is negative that is (-3.85) percent. This indicates that this year the amount of earning per share decreased. From the very beginning the growth of net profit of ICB sharply increased up to 2004. The highest growth rate of net profit of ICB was found in 2007 (241.15 percent). The remarkable growth also existed in the years of 2009 (84.33 percent), 2006 (51.23 percent), and 2004 (36.52 percent). The conclusion from the above analysis is that the growth of ICB earning per share is increased day by day. The above table is shown below graphically (Figure 5.3).

Figure 5.3
Consolidated Position of EPS (Tk. in crore)



Source: Table 5.3

5.4.4 Growth Trend of Book value of ICB

It is very important for ICB to expand its book value because it wants to reach the maximum book value level. ICB book value is a means through which ICB can provide its services to the common people. Now, it is needed to explore their growth of book value that is shown in the Table 5.4.

Table 5.4
Growth Trend of Book value of ICB (Tk in crore)

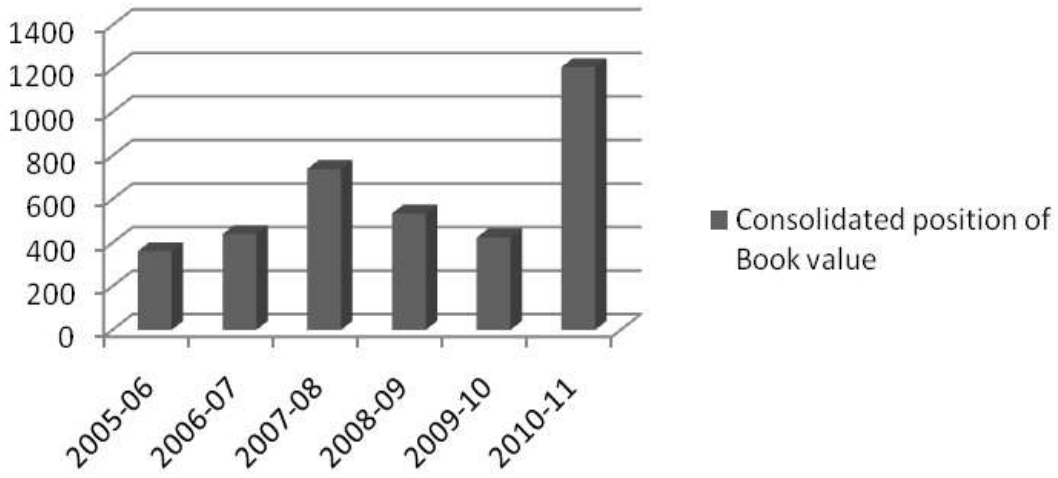
Years	Consolidated position of Book value	Growth (%)
2005-06	361.8	-
2006-07	440.31	21.7
2007-08	739.53	67.96
2008-09	534.97	-27.66
2009-10	424.25	-20.87
2010-11	1207.04	11.98

Source: ICB Annual Reports 2005-06 to 2010-11

The table shows that the growth of book value of ICB is all along the positive except the year of 2008 and 2009. In 2008 and 2009, the growth of book value of ICB is

negative that is (-27.66) and (-20.87) percent. This indicates that this year the amount of book value decreased. From the very beginning the growth of book value of ICB sharply increased. The highest growth rate of Book value of ICB was found in 2007 (67.96 percent). The remarkable growth also existed in the years of 2006 (21.7 percent), and 2010 (11.98 percent). After 2007 it slightly decreased. The conclusion from the above analysis is that the growth of ICB book value is moderated day by day. The above table is shown below graphically in Figure 5.4.

Figure 5.4
Consolidated Position of Book value (Tk. in crore)



Source: Table 5.4

5.4.5 Growth Trend of return on equity of ICB:

It is very important for ICB to expand its return on equity because it wants to reach the maximum returns level. ICB return on equity is a means through which ICB can provide its services to the common people. Now, we like to explore their growth of return on equities that is shown in the Table 5.5.

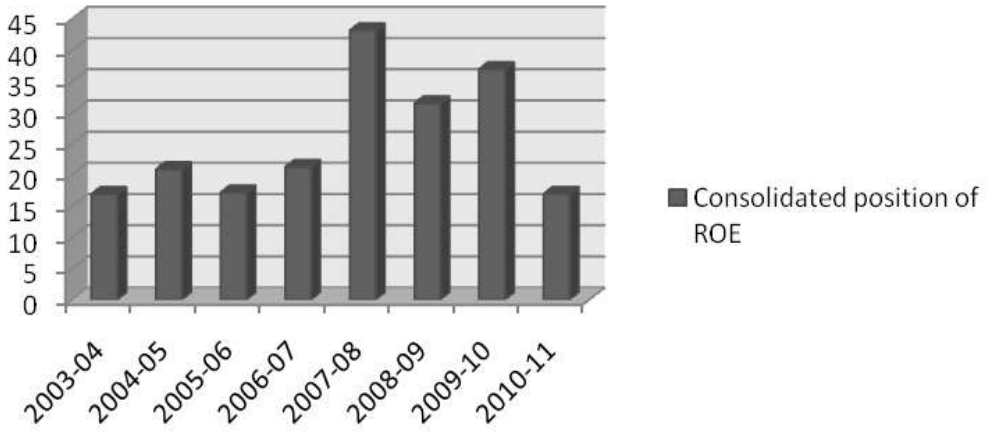
Table 5.5
Growth Trend of return on equity (Tk in crore)

Years	Consolidated position of ROE	Growth (%)
2000-01	8.16	
2001-02	10.68	30.88
2002-03	13.14	23.03
2003-04	16.94	28.92
2004-05	20.91	23.44
2005-06	17.19	-17.79
2006-07	21.28	23.79
2007-08	43.16	102.82
2008-09	31.47	-27.09
2009-10	36.95	17.68
2010-11	16.98	4

Source: ICB Annual Reports 2003-04 to 2010-11

The table shows that the growth of return on equity of ICB is all along the positive except the year of 2005 and 2008. In 2005 and 2008, the growth of return on equity of ICB is negative that is (-17.79) and (-27.09) percent. This indicates that this year the amount of return on equity decreased. From the very beginning the growth of return on equity of ICB sharply increased. The highest growth rate of return on equity of ICB was found in 2007 (102.82 percent). The remarkable growth also existed in the years of 2006 (23.79 percent), and 2004 (23.44 percent). The conclusion from the above analysis is that the growth of ICB return on equity is moderated day by day. The above table is shown below graphically in Fig 5.5.

Figure 5.5
Consolidated Position of ROE (Tk. in crore)



Source: Table 5.5

5.4.6 Growth Trend of Capital Adequacy Ratio of ICB

It is very important for ICB to expand its capital adequacy ratio because it wants to reach the maximum capital adequacy ratio level. ICB capital adequacy ratio is a means through which ICB can provide its services to the common people. Now, we like to explore their growth of capital adequacy ratio that is shown in the Table 5.6.

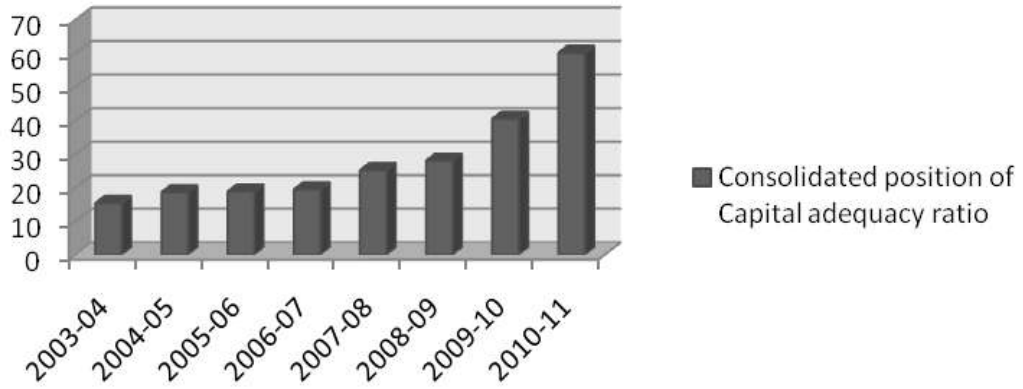
Table 5.6
Growth Trend of Capital Adequacy Ratio

Years	Consolidated position of Capital adequacy ratio	Growth (%)
2003-04	15.33	-
2004-05	18.59	21.27
2005-06	18.79	1.08
2006-07	19.38	3.14
2007-08	25.14	29.72
2008-09	27.96	11.22
2009-10	40.47	44.74
2010-11	60.13	-12.03

Source: ICB Annual Reports 2003-04 to 2010-11

The table shows that the growth of capital adequacy ratio of ICB is all along the positive except the year of 2010. In 2010, the growth of capital adequacy ratio of ICB is negative that is (-12.03) percent. This indicates that this year the amount of capital adequacy ratio decreased. From the very beginning the growth of capital adequacy ratio of ICB sharply increased. The highest growth rate of capital adequacy ratio of ICB was found in 2009 (44.74 percent). The remarkable growth also existed in the years of 2007 (29.72 percent), 2004 (21.27 percent), and 2008 (11.22 percent). The conclusion from the above analysis is that the growth of ICB capital adequacy ratio is increased day by day. The above table is shown below graphically in Fig. 5.6.

Figure 5.6
Consolidated Position of Capital Adequacy Ratio



Source: Table 5.6.

5.4.7 Growth Trend of Unit fund of ICB

It is very important for ICB to expand its Unit fund because it wants to reach the level of maximum Unit fund. ICB Unit funds is a means through which ICB can provide its services to the common people. Now, it is needed to explore their growth of unit fund that is shown in the Table 5.7.

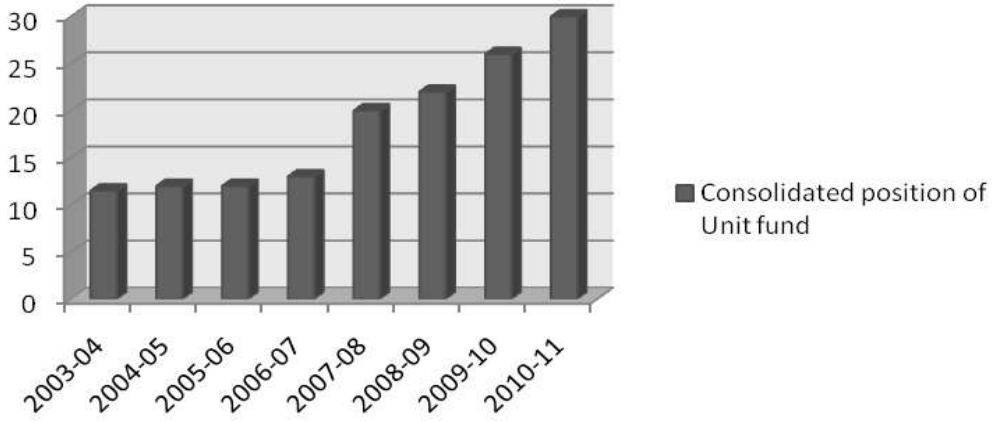
Table 5.7
Growth Trend of Unit fund of ICB (Tk in crore)

Years	Consolidated position of Unit fund	Growth (%)
2003-04	11.5	-
2004-05	12	4.35
2005-06	12	0
2006-07	13	8.33
2007-08	20	53.85
2008-09	22	10
2009-10	26	18.18
2010-11	30	15.38

Source: ICB Annual Reports 2003-04 to 2010-11

The table shows that the growth of Unit fund of ICB is all along the positive except the year of 2005. In 2005, the growth of unit fund of ICB is zero that is (0.00) percent. From the very beginning the growth of Unit fund of ICB sharply increased. The highest growth rate of Unit fund of ICB was found in 2007 (53.85 percent). The remarkable growth also existed in the years of 2009 (18.18 percent), 2010 (15.38 percent), and 2006 (8.33 percent). The conclusion from the above analysis is that the growth of ICB Unit fund is increased day by day. The above table is shown below graphically in Fig 5.7.

Figure 5.7
Consolidated Position of Unit Fund (Tk. in crore)



Source: Table 5.7.

5.4.8 Growth Trend of AMCL Unit fund of ICB (Asset Management Company Limited)

It is very important for ICB to expand its AMCL Unit fund because it wants to reach the level of maximum AMCL Unit fund. ICB AMCL Unit funds is a means through which ICB can provide its services to the common people. Now, we like to explore their growth of AMCL Unit fund that is shown in the Table 5.8.

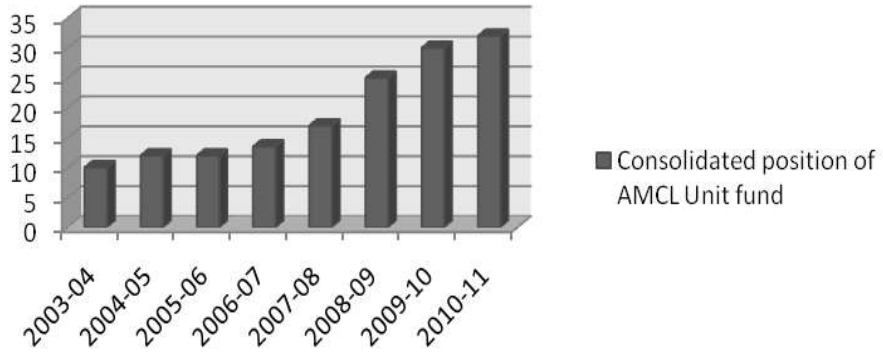
Table 5.8
Growth Trend of AMCL Unit fund (Tk in crore)

Years	Consolidated position of AMCL Unit funds	Growth (%)
2000-01	7	-
2001-02	8	11.12
2002-03	8	0
2003-04	10	15
2004-05	12	20
2005-06	12	0
2006-07	13.5	12.5
2007-08	17	25.93
2008-09	25	47.06
2009-10	30	20
2010-11	32	6.67

Source: ICB Annual Reports 2003-04 to 2010-11

The table shows that the growth of AMCL Unit fund of ICB is all along the positive except the year of 2005. In 2005, the growth of AMCL Unit fund of ICB is zero that is (0.00) percent. This indicates that this year the amount of AMCL Unit fund is zero. From the very beginning the growth of AMCL Unit fund of ICB sharply increased. The highest growth rate of AMCL Unit fund of ICB was found in 2008 (47.06 percent). The remarkable growth also existed in the years of 2007 (25.93 percent), 2009 (20 percent), and 2006 (12.5 percent). The conclusion from the above analysis is that the growth of ICB AMCL Unit fund is increased day by day. The above Table is shown below graphically in Fig. 5.8.

Figure 5.8
Consolidated Position of AMCL Unit Fund (Tk. in crore)



Source: Table 5.8.

5.4.9 Growth Trend of Resources (Authorized Capital) of ICB

It is very important for ICB to expand its Resources (Authorized Capital) because it wants to reach the level of maximum Resources (Authorized Capital). ICB Resources (Authorized Capital) is a means through which ICB can provide its services to the common people. Now, we like to explore their growth of Resources (Authorized Capital) that is shown in the Table 5.9.

Table 5.9
Growth Trend of Resources (Authorized Capital) (Tk in crore)

Years	Consolidated Position of Authorized Capital	Growth (%)
2000-01	100	-
2001-02	100	0
2002-03	100	0
2003-04	100	0
2004-05	100	0
2005-06	100	0
2006-07	100	0
2007-08	100	0
2008-09	100	0
2009-10	500	400
2010-11	500	0

Source: ICB Annual Reports 2003-04 to 2010-11

The table shows that the growth of Resources (Authorized Capital) of ICB is all along the zero except the year of 2009. In 2009, the growth of Resources (Authorized Capital) of ICB is Tk. 500 crore that is (400) percent. This indicates that this year the amount of Resources (Authorized Capital) is in high. The highest growth rate of Resources (Authorized Capital) of ICB was found in 2009 (400 percent). There is no another remarkable growth existed in the analysis. The conclusion from the above analysis is that the growth of ICB Resources (Paid up Capital) is moderated day by day.

5.4.10 Growth Trend of Resources (Paid up capital) of ICB

It is very important for ICB to expand its Resources (Paid up capital) because it wants to reach the level of maximum Resources (Paid up capital). ICB Resources (Paid up capital) is a means through which ICB can provide its services to the common people. Now, we like to explore their growth of Resources (Authorized Capital) that is shown in the Table 5.10.

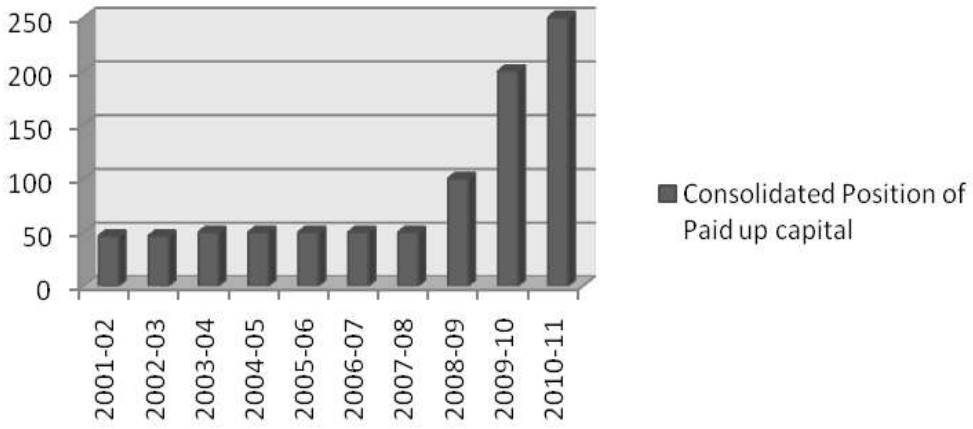
Table 5.10
Growth Trend of Resources (Paid up capital) (Tk in crore)

Years	Consolidated Position of Paid up capital	Growth (%)
2000-01	46.6	-
2001-02	46.6	0
2002-03	46.6	0
2003-04	50	7.3
2004-05	50	0
2005-06	50	0
2006-07	50	0
2007-08	50	0
2008-09	100	100
2009-10	200	100
2010-11	250	25

Source: ICB Annual Reports 2001-02 to 2010-11

The table shows that the growth of Resources (Paid up capital) of ICB is all along the positive. In 2003, the growth of Resources (Paid up capital) of ICB is Tk. 50 crores that is (7.3) percent. This indicates that this year the amount of Resources (Paid up capital) is in positive. The highest growth rate of Resources (Paid up capital) of ICB was found in 2008 and 2009 (100 percent). There is another remarkable growth existed in the year 2010. The conclusion from the above analysis is that the growth of ICB Resources (Paid up capital) is increased day by day. The above table is shown below graphically in Fig. 5.9.

Figure 5.9
Consolidated Position of Paid Up Capital (Tk. in crore)



Source: Table 5.9

5.4.11 Growth Trend of Resources (Reserves) of ICB:

It is very important for ICB to expand its Resources (Reserves) because it wants to reach the level of maximum Resources (Reserves). ICB Resources (Reserves) is a means through which ICB can provide its services to the common people. Now, we like to explore their growth of Resources (Reserves) that is shown in the Table 5.11.

Table 5.11
Growth Trend of Resources (Reserves) (Tk in crore)

Years	Consolidated Position of Reserves	Growth (%)
2000-01	48.14	-
2001-02	52.51	11.12
2002-03	59.11	13.33
2003-04	69.11	16.92
2004-05	84.11	21.7
2005-06	100.61	19.62
2006-07	122.61	21.87
2007-08	164.61	34.25
2008-09	164.61	0
2009-10	1820.12	1005.72
2010-11	1921.29	5.56

Source: ICB *Annual Reports* 2001-02 to 2010-11

The table shows that the growth of Resources (Reserves) of ICB is all along the positive. In 2002, the growth of Resources (Reserves) of ICB is Tk. 59.11 crore that is (13.33) percent. This indicates that this year the amount of Resources (Reserves) is positive. The highest growth rate of Resources (Reserves) of ICB was found in 2009 (1000.72 percent). There are other remarkable growth rates existed in the table. The conclusion from the above analysis is that the growth of ICB Resources (Reserves) is increased day by day.

5.4.12 Growth Trend of Resources (Retained Profit) of ICB

It is very important for ICB to expand its Resources (Retained Profit) because it wants to reach the level of maximum Resources (Retained Profit). ICB Resources (Retained Profit) is a means through which ICB can provide its services to the common people. Now, we like to explore their growth of Resources (Retained Profit) that is shown in the Table 5.12.

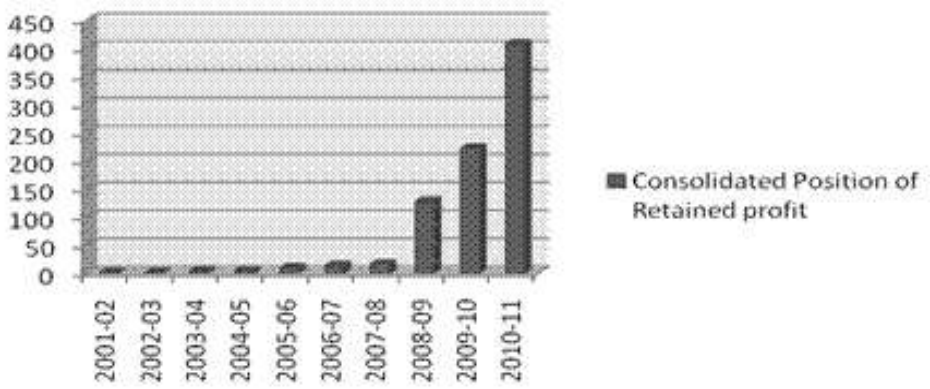
Table 5.12
Growth Trend of Resources (Retained Profit) (Tk in crore)

Years	Consolidated Position of Retained profit	Growth (%)
2000-01	1.21	-
2001-02	1.48	14.36
2002-03	1.74	17.57
2003-04	4.73	171.84
2004-05	5.36	13.31
2005-06	9.82	83.21
2006-07	13.82	40.73
2007-08	16.33	18.16
2008-09	128.08	684.32
2009-10	222.25	73.52
2010-11	407.77	83.47

Source: ICB *Annual Reports* 2001-02 to 2010-11

The table shows that the growth of Resources (Retained Profit) of ICB is all along the positive. In 2002, the growth of Resources (Reserves) of ICB is (17.57) percent. This indicates that this year the amount of Resources (Retained Profit) is in positive. The highest growth rate of Resources (Retained Profit) of ICB was found in 2008 (684.32 percent). There are other remarkable growths existed in the table. The conclusion from the above analysis is that the growth of ICB Resources (Retained Profit) is increased day by day. The above table is shown below graphically in Fig. 5.10.

Figure 5.10
Consolidated Position of Retained Profit (Tk. in crore)



Source: Table 5.12

5.4.13 Growth Trend of Financial assistance of project (Amount) of ICB

It is very important for ICB to expand its financial assistance of project (Amount) because it wants to reach the maximum level of financial assistance of project (Amount) of ICB. ICB Financial assistance of project (Amount) is a means through which ICB can provide its services to the common people. Now, we like to explore their growth of financial assistance of project (Amount) that is shown in the Table 5.13.

Table 5.13

Growth Trend of Financial assistance of project (Tk in crore)

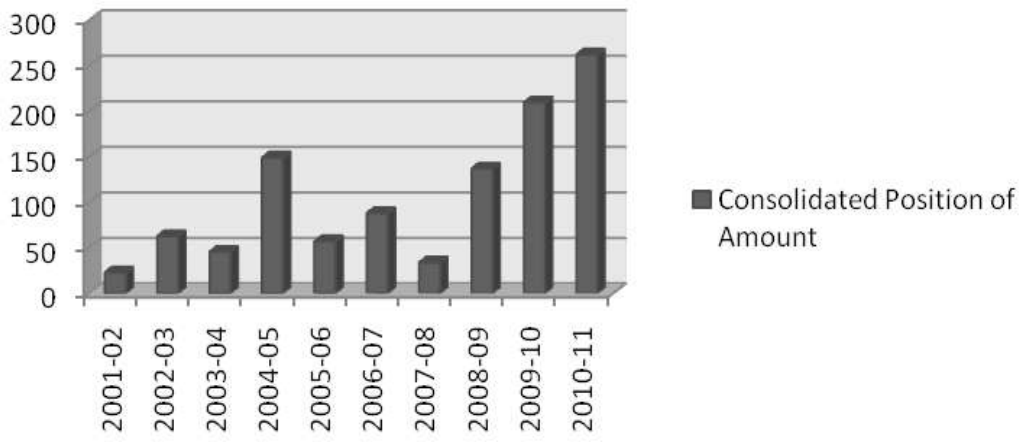
Years	Consolidated Position of Amount	Growth (%)
2000-01	18.5	-
2001-02	22.95	40.24
2002-03	62.82	173.73
2003-04	45.51	-27.55
2004-05	149.05	227.51
2005-06	57.15	-61.66
2006-07	88.05	54.07
2007-08	33.89	-61.51
2008-09	137.05	304.4
2009-10	209.62	52.95
2010-11	262.27	25.16

Source: ICB *Annual Reports* 2001-02 to 2010-11

The table shows that the growth of financial assistance of project (Amount) of ICB is all along the positive except the year of 2003, 2005 and 2007. In 2003, 2005 and 2007, the growth of financial assistance of project (Amount) of ICB is negative that is (-27.55), (-61.66) and (-61.51) percent. This indicates that this year the amount of financial assistance of project (Amount) decreased. From the very beginning the growth

of financial assistance of project (Amount) of ICB sharply increased. The highest growth rate of financial assistance of project (Amount) of ICB was found in 2008 (304.4 percent). The remarkable growth also existed in the years of 2004 (227.51 percent), and 2002 (173.73 percent). The conclusion from the above analysis is that the growth of ICB financial assistance of project (Amount) is increasing day by day. The above table is shown below graphically in Fig. 5.11.

Figure 5.11
Consolidated Position of Amount (crore taka)



Source: Table 5.13

5.4.14 Growth Trend of ICB Mutual Funds (Capital Funds)

It is very important for ICB to expand its Mutual Funds (Capital Funds), because it wants to reach the level of maximum Mutual Funds (Capital Funds). ICB Mutual Funds (Capital Funds) is a means through which ICB can provide its services to the common people. Now, the study likes to explore their growth of Mutual Funds (Capital Funds) that is shown in the Table 5.14.

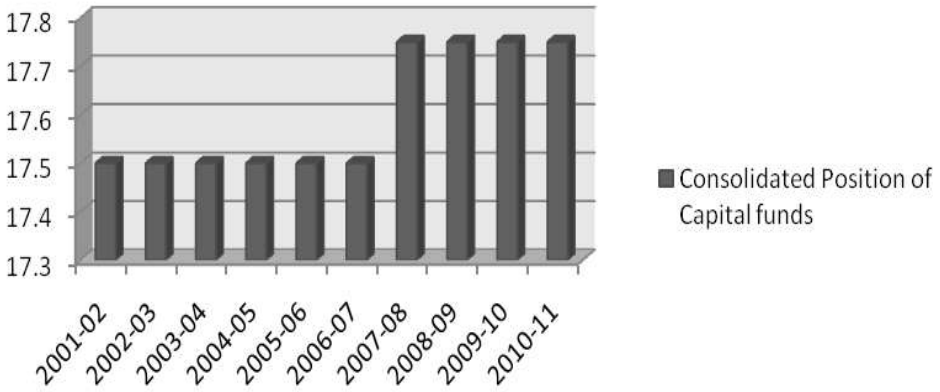
Table 5.14
Growth Trend of ICB Mutual Funds (Capital Funds) (Tk in crore)

Years	Consolidated Position of Capital funds	Growth (%)
2000-01	17.5	0
2001-02	17.5	0
2002-03	17.5	0
2003-04	17.5	0
2004-05	17.5	0
2005-06	17.5	0
2006-07	17.5	0
2007-08	17.75	16.67
2008-09	17.75	0
2009-10	17.75	0
2010-11	17.75	0

Source: ICB Annual Reports 2001-02 to 2010-11

The table shows that the growth of Mutual Funds (Capital Funds) of ICB is all along the zero. In 2001, the growth of Mutual Funds (Capital Funds) of ICB is 17.5 crore Taka. The highest growth rate of Mutual Funds (Capital Funds) of ICB was found in 2007 (16.67 percent). The conclusion from the above analysis is that the growth of ICB Mutual Funds (Capital Funds) is remaining unchanged for long time. The above table is shown below graphically in Fig 5.12.

Figure 5.12
Consolidated Position of Capital Funds (Tk. in crore)



Source: Table 5.14

5.4.15 Growth Trend of ICB Mutual Funds (Investments at Cost):

It is very important for ICB to expand its Mutual Funds (Investments at cost), because it wants to reach the level of maximum Mutual Funds (Investments at cost). ICB Mutual Funds (Investments at cost) is a means through which ICB can provide its services to the common people. Now, the study likes to explore their growth of Mutual Funds (Investments at cost) that is shown in The Table 5.15.

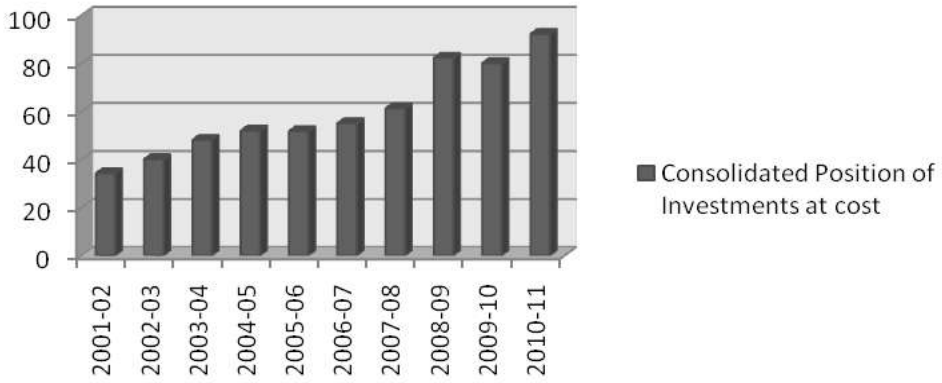
Table 5.15
Growth Trend of ICB Mutual Funds (Investments at cost) (Tk in crore)

Years	Consolidated Position of Investments at cost	Growth (%)
2001-02	34.21	-
2002-03	40.12	17.27
2003-04	48.13	19.97
2004-05	51.99	8.02
2005-06	51.78	-0.4
2006-07	55.04	6.3
2007-08	61.28	11.34
2008-09	82.3	34.3
2009-10	80.08	-2.7
2010-11	92.22	15.16

Source: ICB Annual Reports 2001-02 to 2010-11

The table shows that the growth of Mutual Funds (Investments at cost) of ICB is all along the positive. In 2002, the growth of Mutual Funds (Investments at cost) of ICB is 40.12 crore taka that is (17.27) percent. This indicates that this year the amount of Mutual Funds (Investments at cost) is positive. The highest growth rate of Mutual Funds (Investments at cost) of ICB was found in 2008 (34.3 percent). There are other remarkable growth existed in the table. The conclusion from the above analysis is that the growth of ICB Mutual Funds (Investments at cost) is increased day by day. The above table is shown below graphically in Fig 5.13.

Figure 5.13
Consolidated Position of Investments at cost (Tk. crore taka)



Source: Table 5.15

5.4.16 Growth Trend of ICB Financial Results (Income)

It is very important for ICB to expand its Financial Results (Income), because it wants to reach the level of maximum Financial Results (Income). ICB Financial Results (Income) is a means through which ICB can provide its services to the common people. Now, it is needed to explore their growth of Financial Results (Income) that is shown in the Table 5.16.

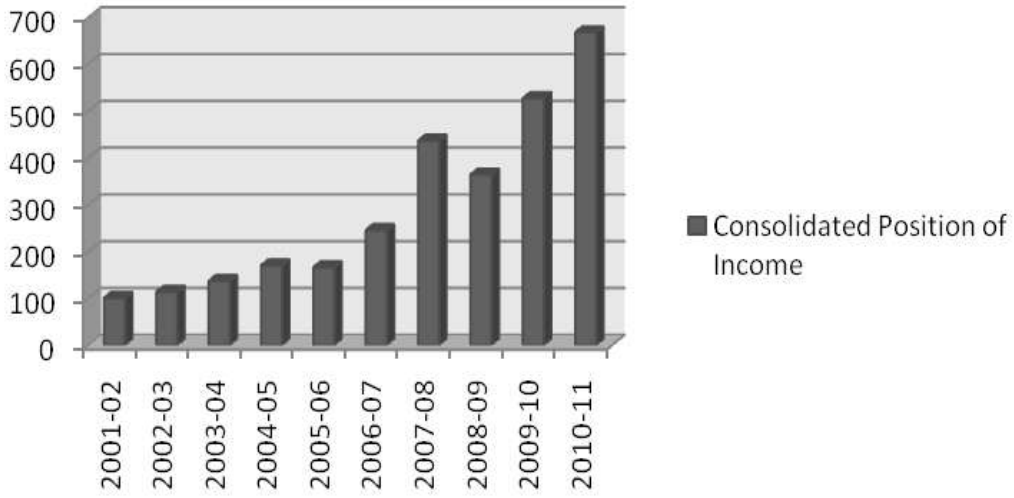
Table 5.16
Growth Trend of Income (Tk in crore)

Years	Consolidated Position of Income	Growth (%)
2001-02	100.76	-
2002-03	113.8	12.94
2003-04	137.35	20.69
2004-05	170.38	24.05
2005-06	166.41	-2.33
2006-07	245.87	47.75
2007-08	437.01	77.74
2008-09	364.21	-16.66
2009-10	527.62	44.87
2010-11	668.35	26.67

Source: ICB Annual Reports 2001-02 to 2010-11

The table shows that the growth of Financial Results (Income) of ICB is all along the positive. In 2002, the growth of Financial Results (Income) of ICB is 113.8 crore taka that is (12.94) percent. This indicates that this year the amount of Financial Results (Income) is positive. The highest growth rate of Financial Results (Income) of ICB was found in 2007 (77.74 percent). There are other remarkable growth existed in the table. The conclusion from the above analysis is that the growth of ICB Financial Results (Income) is increased day by day. The above table is shown below graphically in Fig 5.14.

Figure 5.14
Consolidated Position of Income (Tk. in crore)



Source: Table 5.16

5.4.17 Growth Trend of ICB Financial Results (Expenditure):

It is very important for ICB to expand its Financial Results (Expenditure), because it wants to reach the level of minimum Financial Results (Expenditure). ICB Financial Results (Expenditure) is a means through which ICB can provide its services to the common people. Now, we like to explore their growth of Financial Results (Expenditure) that is shown in the Table 5.17.

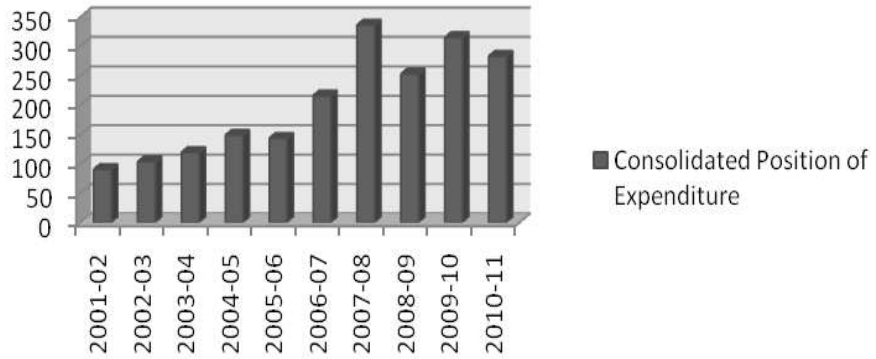
Table 5.17
Growth Trend of Expenditure (Tk in crore)

Years	Consolidated Position of Expenditure	Growth (%)
2001-02	90.33	-
2002-03	103.12	14.19
2003-04	119.21	15.6
2004-05	148.45	24.53
2005-06	143.22	-3.52
2006-07	215.64	50.57
2007-08	335.82	55.73
2008-09	252.58	-24.79
2009-10	314.57	24.53
2010-11	282.83	-10.09

Source: ICB Annual Reports 2001-02 to 2010-11

The table shows that the growth of Financial Results (Expenditure) of ICB is all along the positive. In 2002, the growth of Financial Results (Expenditure) of ICB is 103.12 crore Taka that is (14.19) percent. This indicates that this year the amount of Financial Results (Expenditure) is positive. The highest growth rate of Financial Results (Expenditure) of ICB was found in 2007 (55.73 percent). There are other remarkable growth existed in the analysis. The conclusion from the above analysis is that the growth of ICB Financial Results (Expenditure) is increased day by day. The above table is shown below graphically in Fig 5.15.

Figure 5.15
Consolidated Position of Expenditure (Tk. in crore)



Source: Table 5.17

A total picture of ICB's activities is documented in the appendices starting from appendix-1 to Appendix 16. These present the record of all activities of ICB for the period from 2001 to 2011.

5.5 Conclusion

ICB intends to capitalize on the broad economic prospects of the country and aims at optimizing benefits for the capital market by using the opportunities that are bound to open up. The ultimate aim is to develop new and exciting investment opportunities and products that raise the bar and exceed the expectations in terms of innovation and performance. One of the main objectives of ICB has been to mobilize resources in the securities market and to help in the development of the capital market in Bangladesh. It does this through the Unit Fund, Mutual Funds, Investor Accounts and Underwriting. In the absence of any competition in several of these fields, ICB's contributions to the development of the securities market may look commendable. ICB should strengthen its priorities- providing investor education and instilling investor confidence in the share market which should be the leading role for it to play. ICB's success in different areas obviously leads to the promotion of capital market in Bangladesh. The foregoing analysis is a proof of this statement.

Chapter Six
Challenges of Investment Corporation of Bangladesh to Develop Capital Market

6.1 Prelude

Investment Corporation of Bangladesh has to face many challenges in developing Capital Market. In the modern world the capital markets have drown the attention of global investors. In the Asian countries, it is receiving the striking concentration of global investors with the growing business of the Asian economies. Bangladesh has advanced a lot in attracting western companies for listing in Asian bourses as well as supporting innovative instruments. It is in a pretty good shape as it has most of the infrastructure in place. This chapter has discussed about the capital market related challenges, comparative assessment of collapsing of capital market, continuation of falling and the major challenges of ICB.

6.2 Factors which promote the Capital Market Development

Major factors that promote the capital market development are discussed bellow.

6.2.1 Market Infrastructure development

A. Restoring Investor Confidence

- Set up Investor Protection Fund.
- Enforce regulations.

B. Urgent need for training and enhancing Skills

- Technical Assistance for training on a larger scale is necessary.
- Specialized training is essential.

- All transactions at ICB or outside should be registered and cleared by the DSE Clearing House.
- No transfer of shares accepted by company unless approved by DSE Clearing House can take place.

C. Economic Restructuring

- Bring interest rates in a coordinated structure.
- Introduce fiscal incentives by reducing corporate and other taxes.

D. Suitable Legal and Regulatory Framework

- Supervisory Agency should be strengthen.
- Imposition of fines and compliance of laws should be introduced.
- Company legislation guidelines should be followed.
- Security legislation guidelines should be followed.
- Legal framework should be framed and be followed.
- Grievance/complaint cell should be established.

E. Development of accounting Standards

- Improved accounting practices in security markets should be maintained.
- Institute of Chartered Accountants guidelines should be followed.
- Government Audits Should be regularised.

6.2.2 Improving Market Infrastructure/ Supervision

A. Dhaka Stock Exchange

- Restructure organization/management of DSE is necessary.
- Restructure membership of DSE.
- Transactions/Settlement/Clearing House is necessary.
- Securities Finance House in essential.

B. Investment Corporation of Bangladesh

- Stop the parallel illegal stock exchange on ICB floor.
- Reorganize its operations.

C. Ministry of Finance (Role)

- Supervisory Agency.
- Regulatory Agency.
- Legal Framework.
- Grievance Cell.
- Guidelines for Listing.
- Guidelines for Underwriting/Issuing.

D. Bangladesh Bank

- Help set up a Securities Finance House.
- Increase margin requirement from 25% to 50%.
- Bring NSS interest rates in line with other market returns.
- Allow commercial banks to hold liquidity requirements in the form of securities to a limited extent.
- Identify clear role for other investment companies, like NCL and BCIL.

6.2.3 Role of Government

A. Economic Environment

- Bring interest rates in line with returns on other financial assets.
- Improve fiscal incentives for firms to go public.
- Encourage equity financing instead of debt financing.
- Reduce or eliminate taxes on dividend income.
- Credit allocation should be based on economic and not political considerations.

B. Increase Investor Base and Demand for Securities

- For investor protection Fund MOF should enforce regulations.
- Encourage financial institutions, other banks, etc. to invest in securities.

C. Increase Supply of Securities

- Offload its own holding of multinational shares.
- Accelerate privatization.

- Encourage public sector bonds.
- Help create a corporate and government bond market for investors.
- Inducements to go public.
- Tie foreign currency loans to force companies to go public.
- Establish maximum D/E ratio as 2:1.
- Encourage family owned businesses to issue preferred stock.
- Tie term loans to private business houses to their taking other business units public.

D. Privatization

- Offload good quality enterprises.
- Once privatized, use sale proceeds to retire debt.
- Do not overcapitalize and overvalue public sector undertakings.
- Increase divestment from 49% to 75%.
- Transfer management to private hands or reduce government control.

6.2.4 Market Activities

A. Trading practices

- Ban illegal or kerbed trading.
- Set up Securities Finance House.
- Improved clearing/settlement procedures.

B. Underwriting/Issuing Policies/Listing

- Clear guidelines for listings on DSE.
- Underwriting fees and issuing costs should be determined.
- Guidelines for bonus and rights issues and their accounting treatment should be given.

C. Brokerage

- Capital Adequacy for members should be seen.
- Brokerage fees in new issues also should e introduced.

- Regulate membership.
- Regulate leasing and transfer of membership.

6.2.5 General Reforms

- Investor education is necessary.
- Enhanced training is essential.
- Improved corporate performances and trustworthy accounting statements are necessary.
- Sincere compliance of legislation is essential.
- Credit worthiness of underwriters should be seen.
- Remove the market cornering of shares by sponsors and ICB to increase depth, liquidity, turnover, and volume on DSE.
- ICB priorities to be changed and adjusted.
- All transactions, sales, and transfers of shares should be routed through DSE.

6.3 Legal Framework

A major problem in Bangladesh is that there are ad hoc laws and decrees which affect business and markets and their scattered nature undermines the attempts to deal with the basic laws. The legislation for legal protection should be comprehensive and catered separately for company laws, securities laws and the stock exchange.

Company legislation should make provisions which:

- Prevent possible malpractices by promoters and directors;
- Give members and shareholders the information they need to fulfill their role;
- Provide detailed financial statements for the information of members, creditors and potential members and creditors. Such information must be promptly filed with the authority. Failure to do so invites penalty;

- Protect as far as possible those who grant credit to companies in the ordinary course of business;
- Impose onerous duties upon directors;
- Provide for an external auditor who reports directly to and is responsible to the shareholders;
- Protect minority shareholders from the whims of others;
- provide stiff penalties upon those who run the companies and in whom investors have placed their trust, if they do not discharge their functions with due diligence and care; and
- Establish an agency within the MOF to administer and supervise the relevant legislation.

6.4 Regulatory Framework

The above company legislation should be supplemented by Security Exchange Ordinance legislation. This legislation should:

- Regulate persons and institutions dealing in securities;
- Give wide powers to the MOF to investigate complaints and make investigations;
- Arm the supervisory agency with powers to call for detailed information, upon threat of penalty, from operators in the market place; and
- Enable the supervisory agency to prohibit securities trading on the exchange if fraudulent practices or unusual situations exist (e.g. trading of BTC stock on June 30, 1991 and the A.B. Bank stock in July 1990);
- Create a grievance cell within the MOF and DSE;
- Establish an Investor Protection Fund within the MOF and DSE, financed partly by the listed companies, partly by the DSE and partly by the collection of fines and penalties from violators of law.
- Within the stock exchange itself, regulations should establish prudential provisions for the following:

- Entry qualification of members;
- Capital adequacy to cushion losses;
- Liquidity adequacy;
- Supervision by the MOF regulatory authority and submission of detailed information to the authority;
- Written code of ethics and behavior for market operators.

6.5 Supervisory Agency

The Ministry of Finance should assume a firmer role in formulating the security market policies and should exercise final authority at the administrative level over matters affecting the securities industry. Given the weaknesses in the present regulatory framework and the lack of co-ordination between the CCI, RJSC, DSE and ICB, the Ministry of Finance should establish a Supervisory Agency within the Ministry of Finance. Such an agency should exercise the basic regulatory functions and should be charged with the responsibility to implement security market legislation and administrative regulations issued by the Executive and monitor compliance therewith.

Such a Supervisory Agency does not have to be a fully fledged office in its initial stages but should meet once every two months and supervise the existing market situations. (A token fee should be paid to each member for attending a meeting).

Such a Supervisory Agency should consist of six members- one each from the Ministry of Finance, Bangladesh Bank, Dhaka Stock Exchange, Office of the Attorney General or Law Ministry, Investment Corporation of Bangladesh, and the Chamber of Commerce and Industry. Such an agency should not be a full-time office for now, but should be set within the confines of the Ministry of Finance. Its principal functions should include:

- Supervision of financial management of listed companies;
- Review of registration statements and periodic reporting and disclosure compliance;
- Preservation of adequate accounting and auditing standards;
- Supervision of all intermediaries in the securities market- DSE, ICB, Securities Finance House (if one is set up), underwriters, etc;
- Maintenance of fair, orderly, transparent and efficient trading markets including DSE, margin trading and ICB's activities; and
- Supervise an investor protection fund.

Such an agency should not aim at running the daily operations of the DSE or ICB or the listed companies, but should maintain surveillance and focus on compliance of company laws, auditing, and accounting and disclosure requirements. Such an agency should be empowered adequately.

The factors, related to the investment corporation of Bangladesh, Dhaka stock exchange, the Ministry of Finance, BSEC and the Government itself, that have inhibited the development of the security markets in Bangladesh include the following. Lack of coordination, trust and faith has left the Bangladeshi security markets in a tailspin, aside from other obvious factors. Security prices reflect corporate current performances and the market's expectations in them. With extremely poor performances by the companies, it is difficult to expect share prices to inch up.

Other weaknesses, though some may overlap and may still be attributed to the ICB, DSE, Ministry of Finance, BSEC and the Government itself, are:

(1) A weak primary and secondary market infrastructure;

(2) Limited supply of securities due to limited listings; Due to a financial structure distorted because financial assets are not priced based on risk; and a financial sector where term loans are cheaper and easier to obtain than risky equity finance;

(3) Limited demand of securities in the absence of any participation by institutional investors; a low savings rate in the economy and a lack of investor confidence in the nation's overall financial sector, its industrialists and in its government ability to protect their investments;

(4) Pervasive institutional weaknesses in the accounting, regulatory, legal and credit analysis capability in the nation;

(5) A corporate sector characterized by family-owned companies, which retain family control and are reluctant to disclose information; and a sector dominated by state-owned enterprises, which rely completely on government funds;

(6) Absence of an economic environment crucial to investor confidence, through the maintenance of political stability steady economic growth and support for the private sector;

(7) Lack of fiscal or other incentives for companies to go public;

(8) An interest rate structure which offers extremely high after-tax returns in national savings schemes, thus actually retarding rather than supporting capital market development;

(9) Credit allocation more on political or social considerations rather than on economic realities;

(10) Over-reliance on debt finance that has led to an unbalanced capital structure, high debt/equity ratios, and financial vulnerability during downturns;

(11) A weak institutional framework in terms of financial intermediaries, investment companies and the stock exchange itself;

(12) Absence of an institution which specializes in security financing through margin facilities and which provides in after-market institutional support;

(13) Lack of credit worthiness of the issuing companies, and lately, the underwriting consortiums themselves;

(14) Virtual absence of the corporate, government or public sector bond market;

(15) Lack of depth, liquidity and low turnover on the stock exchange, which is further compounded by a very poor float of the existence shares and further aggravated by the dominating presence of an illegal 'Kerb' market both, at ICB and outside, making it impossible for existing member brokers to make a living.

(16) Ad hoc and poor government disinvestment of state enterprises (i.e. privatization), leaving them burdened with huge debt, over employment, powerful unions and inefficient and bureaucratic management; and finally,

(17) Lack of technical skills and specialized training in trading practices, valuation skills in pricing companies and state enterprises, poor underwriting skills, inefficient and corrupt project appraisals, regulatory issues, outdated and uninformed company and securities legislation, absence of accountants and lawyers trained in security markets, and untrained financial analysts, brokers, dealers and the entire regulatory staff.

In addition to the problems and weaknesses outlined above, and those created by the ICB, DSE, Ministry of Finance and the Government, the single most inhibiting factor is the lack of vision of what security markets are supposed to do and what they really are. Even several highly educated people and industrialists do not know what investment in risky assets means i.e. there are profits and high returns in an economic upturn and losses in a downturn and they as stock holders and hence owners of the firm, have to accept losses just as they adore profits. No magic wand exits that can raise prices. Investor education to that effect is essential; otherwise there will be a run on selling assets further, both at the stock exchange and ICB.

6.6 Capital Market Related Challenges

The present most important problems of the capital market are lack of confidence of investors and lack of liquidity of the capital market. After the crush of the capital market in 2011, a continuous fall in turnover has been observed, revealing the crisis of liquidity in the capital market since the collapse. In FY 2011-12, the turnover sunk to Tk. 117145.07 crore from Tk. 325879.77 crore in FY 2010-11, a reduction of Tk. 208734.7 crore, meaning a fall of 64 percentages. The prevailing concretionary monetary policy through high rate of interest along with government's greater than before dependency on loans from the banking sector for financing public deficit have also weakened supply of liquidity into the capital market.

In January 2013 total market capitalization of DSE was Tk. 184545.2 crore, a less of 4.5 percent than that of previous fiscal year of 2011-12. In FY 2010-11, the market capitalization was Tk. 232701.6 crore. In FY 2009-10, the turning year, saw the market capitalization increased by 127.31 percent from the previous year and reached from Tk. 100143.3 crore in FY 2008-09 to Tk. 227640.8 crore in FY 2009-10. The increasing trend of market capitalization till FY 2011-12 states that the volume of value of capital stock has followed a positive trend, but after the crush the market capitalization starts to fall. There is no significant correlation between GDP and market capitalization. That means, the size of market capitalization did not show any influence on GDP yet.

In FY 2012-13, the market capitalization and investment ratio witnessed a downward trend, reaching at 83.01 percent. This indicates the descent in ratio between capitalization and investments, revealing a continuous fall in the capital market.

Sector wise performance of the market capitalization process has a clear implication of the growth process of capital market over the time. During FY 1995-96 the sectors which have directly influential role of real sector contributed the major market capitalization but in FY 2000-01 the scenario has turned to changed and financial sectors have started to contribute the major market capitalization and finally in FY 2010-11 the major sector wise contribution of market capitalization was banking sector. In this year, the banks, insurance including mutual funds jointly contributed 53 percent of the market capitalization whereas pharmaceuticals and chemicals, textile industries, food and allied products and engineering contributed 21 percent jointly of total market capitalization.

After the crush of the capital market in FY 2010-11, the components of financial sectors fell down significantly. The sector wise contribution of financial institutions fell down from 12 percent to 8 percent from FY 2010-11 to January, 2013. Moreover, continuous fall down in the contribution of banking sector is observable. From this time horizon, the falling rate of contribution in banking sector in market capitalization is 2 percent which came down from 29 percent to 27 percent from FY 2010-11 to January 2013.

By analyzing different indicators of the capital market in 1996 it is clear that a single game planner played this game and in which there are less contribution of financial sectors in the process of market capitalization.

The trend of general index of DSE during capital market crash of 1996 showed that the price of general index share grew at a smooth rate from January 1995 to June 1996. In January 1995, the general index was 834.08 which became 959 in June, 1996. After this month, the game plan started and creating false demand probably, the price of index started to grow significantly.

On the other hand by analyzing different indicators of the capital market in 2011s it is clear that a group of game planner played this game and in which there are significant contribution of financial sectors in the process of market capitalization.

The percentage change of general index of DSE made an exceptional result in 2011 than that of the capital market crashes in 1996. This exceptional result occurred due to long time market volatility. In November 2009, the general index of DSE increased about 30.22 percent than the previous month.

After this consecutive twelve months, the general index rose on average 1 to 12 percent monthly. This long time growth of the capital market index made a greater confidence among general investors of the capital market. Consequently, in this period, no greater market price volatility of general index was observable. As a result, a continuous trend of a greater profit induced general investors to reinvest their profits along with additional capital. In this time, however, the long term game planners again won the game. They collected the liquid money from the capital market by selling the shares and therefore, the supply of shares increased and made the general index fall.

The government took many steps to address the continuous declining trend of the capital market like tax rebate of capital market investors, exemption of credit for marginal level investors as well as influence banks to generate more investment in capital market. But every steps have proven to be inefficient due to lack of policy adjustments due to lack of confidence of investors, liquidity problem, regulatory problems and structural problems.

One of the major causes of the lack of confidence might be overvalued of the share price which has prevailed during before the crash of capital market. It was found that many of the new issues were overvalued and lost value in fast few month that are

contrary to traditional ideas regarding IPO. As a result after crashing the market the value of these kinds of shares devalued significantly which is responsible for loss the confidence of the investors.

After crushing the capital market in 2011, a continuous fall in turnover indicates the crisis of liquidity of capital market over the time. In prevailing of contractionary monetary policy of the central bank, the interest rate increased and the liquidity crisis deepened in the banking sector. As the liquidity crisis further deepened in the financial sector, the ability of the investors to borrow and invest in shares rapidly declined and remained constrained. In times of a concretionary monetary policy, the rising price level always contributes to a liquidity crisis in the financial sector. Behind this, the government debt in banking sector has risen significantly from banking sector which created crowding out of private investment from capital market. Jointly, these reasons decline the confidence of the small investors as well.

Both the SEC and the stock exchanges failed to monitor the issue of IPO and rights shares. Overpricing through overstating EPS (earning per share) and NAV (net asset value) is still a problem. Non-compliance of the listed companies with the mandatory disclosure requirements is persistent. Audit opinions are not often reliable. The SEC did not allow merchant banks to make forced-selling when share prices started falling. As a result the outcome is that both the merchant banks and the investors are now holding investments with heavy losses. The analysis shows that there was cartel in controlling the index of the capital market. Several research along with Ibrahim Khaled reported that the specific persons as the ruling actors of the capital market crash but the scenario of the ‘game planners’ of this capital market, however, remained unspecified. There are many Challenges prevailing in the capital market of Bangladesh.

6.7 Banks' Key Risks Management

Banks and similar financial institutions need to meet forthcoming regulatory requirements for risk management and capital. However, it is a serious error to think that meeting regulatory requirements is the sole or even the most important reason for establishing a sound, scientific risk management system.

Risk management is the process by which managers satisfy these needs by identifying key risks, obtaining consistent, understandable, operational risk measures, choosing which risks to reduce and which to increase and by what means, and establishing procedures to monitor the resulting risk position.

It may define Risks as uncertainties resulting in adverse outcome, adverse in relation to planned objective or expectations. Financial risks are uncertainties resulting in adverse variation of profitability or outright losses. Insofar as profit or loss of business depends upon the net result of all cash inflows and cash outflows, uncertainties in cash inflows and/or outflows also create uncertainties in net cash flow or profits. Factors that are responsible for uncertainties (such as sales volume, sales price, purchase price and administrative and transportation expenses) in cash outflows are risk elements or risk factors.

6.8 Type of Key Risks

Risk may be defined as reduction in firm value due to changes in the business environment. Typically, the major sources of value loss are identified as:

(i) **Market Risk:** Market risk is the change in net asset value due to changes in underlying economic factors such as interest rates, exchange rates, and equity and commodity prices.

(ii) **Credit Risk:** credit risk is the change in net asset value due to changes the perceived ability of counter parties to meet their contractual obligations.

(iii) **Operational Risk:** Operational risk results from costs incurred through mistakes made in carrying out transactions such as settlement failures, failures to meet regulatory requirements, and untimely collections.

(iv) **Performance Risk:** performance risk encompasses losses resulting from the failure to properly monitor employees or to use appropriate methods.

(v) **Other risks (** Compliance, strategic, reputation and money laundering risk)

6.9 Measures and Remedies of Bank Risks

6.9.1 Market Risk

The goal of the market risk section is to address the fundamentally different approach to capital requirements for market risk compared to credit risk, and to review how regulations have been revised under Basel II.5 to more comprehensively capture risks arising from trading book positions.

- Fundamental approach to market risk vs. credit risk
- Standardized approach to market risk and revisions under Basel II.5
- Model based approaches: Value at Risk (VaR) models
- Regulatory requirements; data standards, confidence intervals and holding periods, back-testing, stress and scenario testing
- Exercise: Back-testing VaR
- Basel II.5 changes to market risk:
    - Stressed VaR; Calculation basis and potential effects
    - Rationale for capturing credit risk in the trading book
    - Incremental Risk Charge: capture of default and credit migration risk in the trading book

- Liquidity horizons and their integral role in calculation of the incremental risk charge
- Specific rule changes for correlation trading, nth to default portfolios etc.
- Pillar 2 & 3 amendments arising from Basel II.5 trading book revisions.
- Likely capital impact of Basel II.5 and impact on trading business models.

6.9.2 Operational Risk

Operational risk was a new risk brought into the regulatory capital framework for Basel II. The aim of this section is to explore the fundamental challenges of calculating capital charges for operational risk and to understand the various methodologies available to banks under Basel II and Base III.

- Definitions and sources of operational risk
- The challenge of allocating/quantifying capital for operational risk
- Exercise: operational risk examples
- Basic indicator, Standardized and Advanced Management Approaches (AMA)
- Regulatory standards for AMA, and their relative usefulness
- Typical quantitative and non-quantitative methods applied under AMA
- Architecture of a typical AMA bank's operational risk capital system
- Comparison of operational risk capital requirements across global banks.

6.9.3 Regulatory Capital

The goal of this section is to review the definitions of bank capital under Basel Accords and the key characteristics which determine the classification of capital. Particular focus will be given to the changing requirements for bank capital under Basel III.

A. Core Equity Tier 1

- Rational for Basel III requiring higher levels of Core Equity Tier 1 capital
- Criteria: permanence and loss absorbing capability
- Composition of Core Tier 1: ordinary shares, retained earnings, other accumulated comprehensive income
- Levels of core capital required under Basel III: minimum core capital, capital conservation buffer, G-SIFI requirements, counter-cyclical buffer
- Deductions from core capital: e.g. cross holdings in other institutions, deferred tax relating to prior year losses, excess expected loss. Changing capital treatment from Basel II to Basel III for deductions.

B. Other Tier One Capital

- Types: Preference shares, innovative capital securities
- Hybrid capital: differentiating features between regular and innovative - coupon, non-cumulative, non-redeemable, convertible, calls and step up etc.
- Performance of Tier one hybrid capital during the crisis: degree of loss absorption
- Phase out of incentives to redeem under Basel III & Dodd-Frank
- Contingent Capital (CoCo's) role and likely regulatory treatment as other Tier 1 capital.

C. Tier Two Capital

- Types: cumulative preference shares, perpetual and dated subordinated debt
- Typical features of dated subordinated debt: fixed coupon, ten year, five year non-call maturity step-up, default and cross default features
- Criteria: Basel limitations of 50% of tier one, amortization of capital eligibility

- Performance of Tier two capital during the crisis - going concern versus gone concern loss absorption
- Case study: effect of Basel III on the capital ratios of a large international bank.

6.9.4 Other Regulatory Capital "Hot Topics"

- Global Systemically Important Financial Institutions (GSIFI's) criteria and disclosure.
- National regulatory capital requirements in excess of Basel III; EU local systemic buffers, Swiss finish, UK ICB, and other expected national enhancements to requirements
- Contingent Capital: principles, issues, regulatory capital treatment and market examples.

6.9.5 Leverage Ratio

- Proposed Basel III leverage ratio rules; calculation, disclosure and timing
- Treatment of specific product types under Basel leverage ratio rules e.g. derivatives, secured financing transactions, trade finance and off-balance sheet positions.
- Potential transactions/mitigants to "improve" an institutions leverage ratio.
- Comparison of Basel/CRD IV in Europe to existing leverage ratio requirements (e.g. USA, Canada, Switzerland)
- Potential implications of a "Blunt instrument" such as the leverage ratio upon bank risk appetite, capital allocation and product pricing decisions
- Case study: impact of leverage ratio on capital requirements compared to leverage for a large international bank.

6.9.6 Liquidity Accord

The goal of this section is to contrast the historic approach to regulation of liquidity compared to capital, understand the purpose and calculation methodologies of the Basel III liquidity ratios, and understand the potential implications of their introduction, particularly at a time when capital adequacy requirements are also being increased.

- Fundamental nature of liquidity risk and rationale for the absence of a capital requirement
- General treatment of liquidity risk under Basel I & II
- Pillar II Principles for sound liquidity management: stress testing, contingency planning, risk tolerance, liquidity pricing etc.
- Liquidity risk tolerance given different business models, e.g. retail and wholesale banks, multi-nationals and investment banks
- Strategies, policies and practices
- Liquidity costs, benefits and risks
- Definition of liquid assets
- The Liquidity Coverage Ratio: calculation guidelines and worked example applied to a large international bank
- Net Stable Funding Ratio: calculation principles and disclosure example
- Implications of the leverage ratio upon profitability, risk weighted assets, products and business models
- Exercise: implications of the Basel liquidity ratios on bank balance sheet line items
- Basel liquidity accord supervisory monitoring tools.

6.9.7 Analytic Overview

The goals of this section are to introduce the role of capital in the overall management, regulation and supervision of a bank and the approach to capital regulation taken by Basel III.

6.9.7.1 Overview

- Why capital management is critical to banks?
- The role and importance of capital in the banking business model
- Differentiating expected versus unexpected loss and the role of capital
- Defining and quantifying risk for capital and risk management purposes: Credit, market, liquidity, operational and others.

6.9.7.2 Perspectives on capital: regulatory, supervisory, market and management

- Differing perspectives: shareholders, regulators, management
- Accounting or common capital
- Economic capital: Internal management assessment of unexpected loss
- Supervisory approach: Role of capital in overall regulation
- Development of regulatory capital regulation under Basel I and Basel II
- Case Study: Compare and contrast shareholder's funds, economic and regulatory capital
- Lessons learned from the global financial crisis applied to regulatory capital adequacy
- Role of Basel II.5 and Basel III in addressing pre-crisis weaknesses in the global banking system

6.9.8 Credit Risk: Calculation of Risk Weighted Assets for Regulatory Capital

The goal of this section is to give an understanding of the main techniques used to calculate regulatory capital for credit risk under Pillar I of the Basel II/III accords, and give an update of the latest regulatory changes.

6.9.8.1 Credit Risk Fundamentals

- Fundamentals: Principles of calculating regulatory capital for credit risk
- Identifying types of credit risk and those which require specific pillar I capital allocation
- The Standardized Approach:
- Risk weights by exposure class and rating
- Internal ratings based approaches
- Credit risk: Key elements - exposure at default, probability of default and loss given default
- Incorporation of correlation into the Basel framework for different exposure classes
- Calculation of capital charges for IRB exposures
- Qualitative aspects of IRB approach; regulatory approval, data requirements, rating scales
- Contrast capital allocation for IRB and standardized approaches
- Case study: Comparing standardized and IRB exposures for a large international bank.

6.9.8.2 Regulatory capital Treatment for Specific Classes of Credit Risk Exposure

- Derivative counterparty risk; fundamental challenges of measuring exposure, current exposure, standardized and advanced approach
- Basel III changes to derivative counterparty risk measurement: Credit valuation adjustments (CVA), purpose of CVA and regulatory capital formulae, impact of CVA on credit quality of derivatives portfolio, stressed inputs to models, correlation adjustments for large counterparties, central counterparties, and specific wrong-way risk
- Exercise: impact of Basel III counterparty risk rules on risk weighted assets

- Contingent exposure: Credit conversion factors for exposure at default under the Standardized/FIRB approaches. Challenge of EAD for AIRB approach. Changes to contingent liquidity obligations under Basel III and implications for bank products such as letters of credit
- Securitization: Standardized and RBA approaches. Changes to framework for re-securitization exposures (CDOs). Perceived shortcomings with existing securitization framework and proposed revised Basel framework
- Covered bonds; Regulatory capital treatment, importance of other factors such as liquidity eligibility. Credit risk mitigation framework for regulatory capital
- General capital treatment of risk mitigation via risk weights and loss given default
- Netting of exposures: application of ISDA agreements or other netting occurrences for regulatory capital mitigation
- Exercise: managing credit exposures and mitigation effect
- Collateral: simple and comprehensive approaches
- Treatment of credit hedging and guarantees under the regulatory capital framework
- Securitization as a credit risk mitigation and the development of capital arbitrage

6.10 Risk Management of ICB

6.10.1 Internal Control and Risk Management

At ICB, a governance process is institutionalized, ensuring that risk management concepts and policies are applied to all business and risk types. Decision making levels are based on its objectives and risk tolerance limits. Many of the critical decision levels for investments, major lending and policy initiatives are institutionalized through

appropriate committees comprising of senior officials and experts. Strategies, policies and limits are designed to ensure that risks are prudently diversified. Risk mitigating activities are reviewed periodically by the senior management and by the Board. Our experienced compliance, audit and risk management teams play a vital role in ensuring that rules and regulations are strictly followed in all its process, not just in letter but also in spirit. The risk management discipline is centrally initiated but prudently decentralized; percolating to the departmental heads and helping them mitigate risks at the transactional level, the most effective form of risk management.

For the credit and financing business, the Corporation has a Project Appraisal Committee (PAC) comprising of senior officials to consider medium to bigger credit proposals as per our approval matrix. The Corporation has in place a Risk Management Committee. The Risk Management Committee reviews the contents of the summarized position of the risk registers on a quarterly basis and the risk management processes covering credit and underwriting controls, operations, compliance and technology risks. Besides, the Corporation has formed a multi-level Asset Liability Management Committee (ALCO) comprising of senior officials. The ALCO Committee will review the strategic management of interest rates and liquidity risks, product pricing for various loans and advances, desired maturity profile and mix of the incremental asset and liabilities. In order to enable frequent reviews and actions, an internal ALCO Committee on a monthly basis, analyses and initiates appropriate actions keeping in view the emerging conditions. In case of margin loan funding, when the credit limit is breached, a system-generated alert control margin mechanisms make it possible to provide sufficient data about the required margin to be deposited by the client, hereby reducing risk. Besides, a stock-based categorization allows limits to be set based on the

liquidity and quality of the specific stock. To manage equity price risk, ICB overviews it's managed for portfolios on daily basis. As a leading lending institution of the country, ICB has a sale–purchase committee, comprising of high officials to manage this risk. Everyday sale-purchase committee members meet together and taking sale buy decision considering their practical experience in capital market along with various fundamentals, technical and sentimental analysis. The portrayal of risk mitigation policy has entailed in risk management chapter.

6.10.2 Strategy on Corporate Governance at Operational Management Level

- ICB's operational management entails continuous market monitoring, addressing various risks involved in course of different operations and developing appropriate risk mitigation system.
- Audit Department, Organization and Methods Department and Inspection and Compliance Department are responsible for auditing and internal control and are independent from external auditors. These departments can directly submit information/statements to the audit committee of the Board.
- Different committees have been formed for portfolio management, procurement, funding, manpower selection and promotion, technology selection, business development, cost control and cost reduction and fund management and employees' welfare support management for improvement of performance.
- Management promotes ethical and basic decisions through formal and transparent code of conduct and makes regular disclosures of all matters including unit fund, mutual funds and other business schemes.

- Dividends, loans, interest, etc. are paid to all stakeholders in time.

6.10.3 Communication to Shareholders & Stakeholders

- ICB firmly believes that all shareholders should have access to complete information on its activities and performance and the shareholders can play an important role in assisting the Board to implement corporate governance.
- The Corporation welcomes the active participation of the shareholders at annual general meeting and solicits their views at all times, promoting healthy dialogue.
- ICB's web site www.icb.gov.bd has all relevant latest information for the convenience of the shareholders.
- The secretary's department of the Corporation is dedicated to the services of the shareholders.
- The external statutory auditors attend the annual general meeting to respond to the queries of the shareholders on the preparation and contents of auditors' report and financial statements.

6.11 Portfolio Models (Risk and Return)

The portfolio model deals with the construction of optimal portfolios by rational risk-averse investors, and its implications for the returns on different assets and hence, security price. One way to evaluate the risk of portfolio is by estimating the extent to which future portfolio values are likely to deviate from expected portfolio return. This is measured by the variance of the portfolio's return and is called the total portfolio risk. Total portfolio risk can be broken down into two types of risk: (I) Systematic risk and (II) Unsystematic risk.

The capital asset pricing model is an economic theory that attempts to provide a relationship between risk and return, or, equivalently it is a model for pricing of risky securities. The CAPM asserts that the only relevant risk that investors will require compensation for assuming is systematic risk because that risk cannot be eliminated by diversification basically CAPM says that the expected return of a security or a portfolio is equal to the rate on a risk-free security plus a risk premium

Understand the relationship (or "trade-off") between risk and return

(1) Define risk and return and show how to measure them by calculating expected turn, standard deviation, and coefficient of variation.

(2) Discuss the different types of investor attitudes toward risk.

(3) Explain risk and return in a portfolio context, and distinguish between individual security and portfolio risk.

(4) Distinguish between avoidable (unsystematic) risk and unavoidable (systematic) risk and explain how proper diversification can eliminate one of these risks.

(5) Define and explain the capital-asset pricing model (CAPM), beta, and the characteristic line.

(6) Calculate a required rate of return using the capital-asset pricing model (CAPM).

(7) Demonstrate how the Security Market Line (SML) can be used to describe this relationship between expected rate of return and systematic risk.

6.11.1 Definition of Return

Income received on an investment plus any change in market price, usually expressed as a percent of the beginning market price of the investment.

$$R = \frac{D_t + (P_t - P_{t-1})}{P_{t-1}}$$

6.11.2 Definition of Risk

The variability of returns from those that are expected.

$$\overline{R} = \sum_{i=1}^{n} (R_i)(P_i)$$

$\overline{R}$ is the expected return for the asset

R_i is the return for i^{th} possibility

P_i is the probability of that return

(n is the total number of possibilities)

6.11.3 Market Capitalization

The market capitalization refers to the sum that derived from the current stock price per share times the total number of shares outstanding. Although the market capitalization of a company indicates the value of that company, it is only a temporary metric based on the current stock market. In terms of economic significance, the assumption behind market capitalization is that market size is positively correlated with the ability to mobilize capital and diversify risk on an economy in a wide basis (Agarwal 2001). In January 2013 total market capitalization of DSE was Tk. 184545.2 crore, a less of 4.5 percent than that of previous fiscal year of 2011-12. Figure 6.1 displays the facts.

Figure 6.1
Total Market Capitalization

Soure: Dhaka Stock Exchange (DSE)

In FY 2010-11, the market capitalization was Tk. 232701.6 crore. In FY 2009-10, the turning year, saw the market capitalization increased by 127.31 percent from the previous year and reached from Tk. 100143.3 crore in FY 2008-09 to Tk. 227640.8 crore in FY 2009-10. The increasing trend of market capitalization till FY 2011-12 states that the volume of value of capital stock has followed a positive trend, but after the crush the market capitalization starts to fall.

6.11.4 Market Capitalization Ratio

Market capitalization ratio equals the value of listed shares divided by gross domestic product (GDP). This ratio is often used as a measure of size of the stock market. In FY 2011-12, the market capitalization ratio was 21.12 percent, which sharply declined from 29.55 percent of the previous FY 2010-11. Between FY 1995-96 and FY 2008-09, market capitalization remained within four to 20 percent. In FY 1995-96, the rate of market capitalization was 4.77 percent, which reached at 5.72 percent in FY 2004-05. After this period, the rate of market capitalization increased and in FY 2008- 09 the market capitalization ratio reached at 16.29 percent. In FY 2009-10, however, market capitalization ratio doubled than that of the previous year and reached at 32.79 percent. Figure 6.2 shows the ups and downs of market capitalization ratios.

Figure 6.2
Market Capitalization Ratio

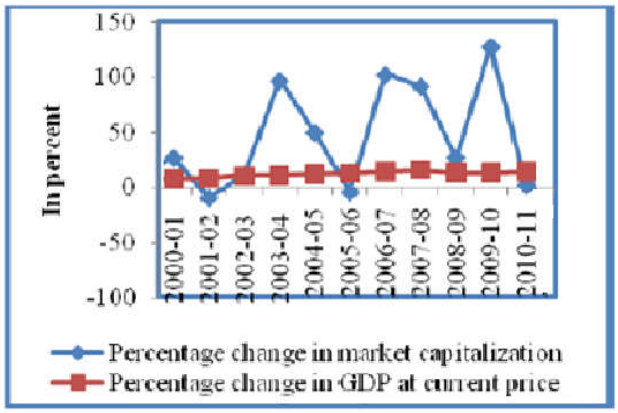
Soure: Dhaka Stock Exchange (DSE)

6.11.5 Relationship between Capitalization and Gross Domestic Product (GDP)

The market capitalization to GDP ratio can be used as an indicator of market development. No significant correlation exists between GDP and market capitalization. That means the size of market capitalization does not bear any significant relations with the growth of the economy.

The percentage change in GDP at current price illustrates a smooth shape whereas the percentage change in market capitalization demonstrates an erratic trend of ups and downs. In FY 1996-97, the rate of growth in market capitalization was 33.26 percent whereas the rate of growth in GDP at current price was 8.64 percent. Figure 6.3 shows the details from 2001-2002 financial year.

Figure 6.3
Relationship between Capitalization and Gross Domestic Product (GDP)



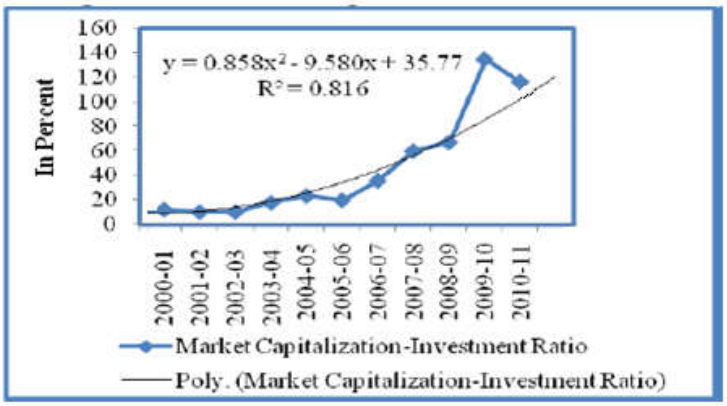
Soure: Dhaka Stock Exchange (DSE)

Again in FY 2001-02, the market capitalization witnessed a negative growth by 9.82 percent whereas the percentage change of GDP at current price was 7.75 percent. In FY 2010-11, the percentage change of market capitalization was 2.22 percent whereas the percentage change in GDP at current price was 13.42 percent. Finally in FY 2012-13, the percentage change in GDP at current price was 16.16 percent whereas, the percentage changes in market capitalization faced a negative growth, reaching at 16.95 percent.

6.11.6 Market Capitalization and Investment Ratio

In FY 2011-12, the market capitalization and investment ratio witnessed a downward trend, reaching at 83.01 percent. This indicates the descent in ratio between capitalization and investments, revealing a continuous fall in the capital market. During FY 1995-96 to FY 2006-07, the market capitalization and investment ratio persisted between 10 percent and 35 percent. Following that fiscal year in FY 2007-08, the scenario changed significantly and the ratio of the market capitalization and investment increased with a high growth and reached 59.69 percent, indicating huge concentration in capital market than other forms of investment. In FY 1995-96, the market capitalization and investment ratio was 23.86 percent, which increased with an average rate of increasing growth of 1.12 percent in the following year and reached at 35 percent in FY 2006-07. In FY 2007-08, the market capitalization and investment ratio increased to 59.69 percent, a 70.54 percent higher than that of the previous fiscal year. This increasing rate prevailed during FY 2009-10 and FY 2010- 11 and the market capitalization and investment ratio were 134.29 percent and 116.13 percent respectively. Figure 6.4 displays market capitalization and investment ratios' movements over the years.

Figure 6.4
DSE Market Capitalizations and Investment Ratio



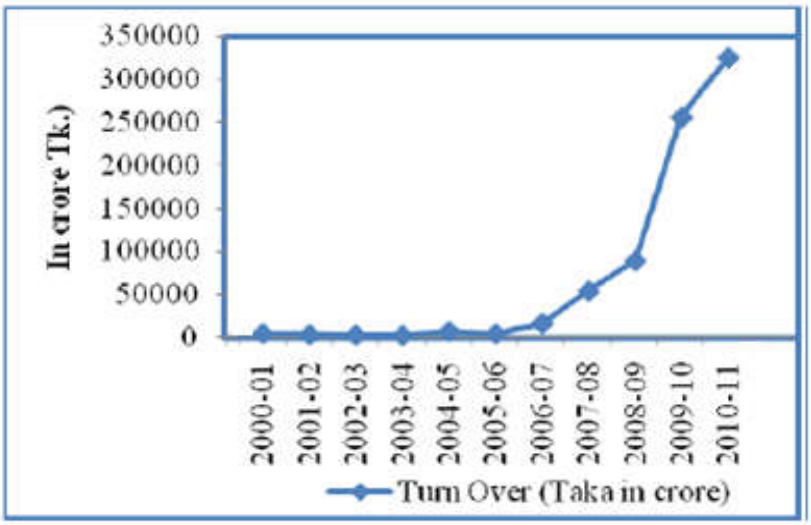
Source: Dhaka Stock Exchange and Bangladesh Bank

During these years the market capitalization exceeded the total investment of the economy. In FY 2012-13, market capitalization and investment ratio became 83.01 percent, representing a plunge in the market.

6.11.7 Turnover

Turnover equals the value of total shares which is divided by the market capitalization. High turnover is often used as an indicator of high level of liquidity. Turnover can also be used as the complements of total value traded ratio. (Mollik and Bepari) Whereas total value traded and GDP ratio captures trading compared with the size of the economy, turnover measures trading related to the size of the stock market. Therefore, a small, liquid market may have a high turnover ratio within a small total value traded and GDP ratio. Figure 6.5 shows movements of turn over during 2001 to 2011.

Figure 6.5
Turn Over



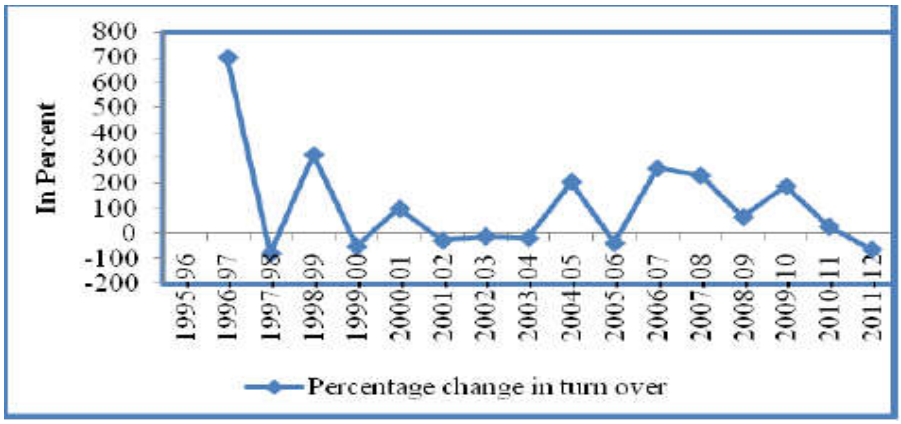
Source: Bangladesh Economic Update, March

After the crush of the capital market in 2011, a continuous fall in turnover has been observed, revealing the crisis of liquidity in the capital market since the collapse. In FY

2011-12, the turnover sunk to Tk. 117145.07 crore from Tk. 325879.77 crore in FY 2010-11, a reduction of Tk. 208734.7 crore, meaning a fall of 64 percentages. The prevailing concretionary monetary policy through high rate of interest along with government's greater than before dependency on loans from the banking sector for financing public deficit have also weakened supply of liquidity into the capital market.

The extent of ups and downs in turnover of the capital market mainly depends on economic environment and others factors such as short term increase in profit than those of other economic activities. In calendar year 1996, the sudden increase in general index tempted the people, inducing them to invest more in the capital market. Therefore, in FY 1996-97, the turnover increased by 697.81 percent than the previous fiscal year. The 'game planner' associated with the artificial increase in the general price index achieved their goal by alluring general public to invest in the market. Figure 6.6 exhibits the movement of percentage changes of turn over of DSE during 1995-2013, covering the two major crashes.

Figure 6.6
The Percentage change of turnover of DSE during FY 1995-96 to January, 2013



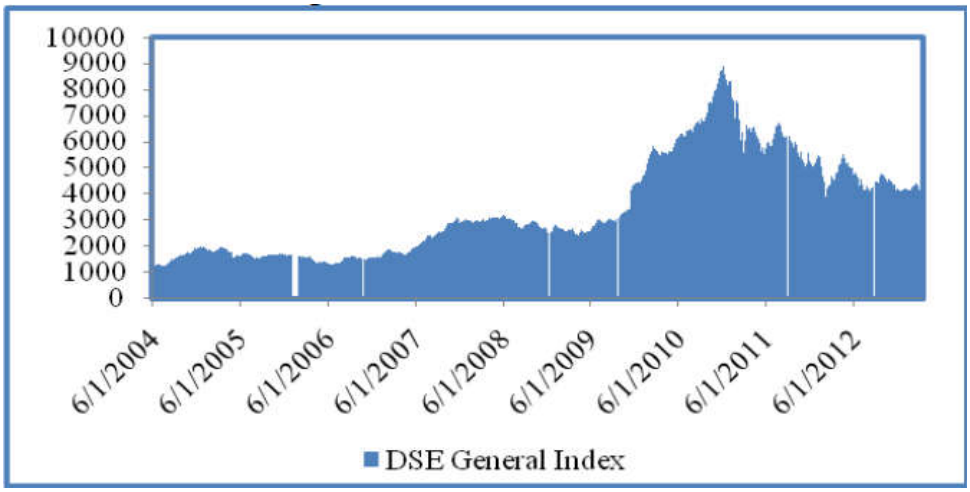
Source: Bangladesh Economic Update, March 2013

There has been a significant level of squeezes in liquidity in the capital market during this period. In FY 1995-96, the turnover of DSE was Tk. 819.91 crore whereas in FY 1996-97, this turnover reached at Tk. 6541.35 crore. 'Fake' demand augmentation mechanism during this period has led the general price index to move vertically and hence, increased the liquidity of capital market. The following year in FY 1997-98, the turnover reduced by a significant rate of 80.71 percent and reached at Tk.1261.6 crore. Again, in FY 2009-10, the turnover increased dramatically and reached at Tk. 256353.55 crore and it continued at Tk. 325879.77 in FY 2010-11 and dropped to Tk. 117145.07 crore in FY 2011-12 by 64.05 percent.

6.11.8 Capital Market Volatility

Volatility is a measurement of the degree of price movements of a stock. It shows how active a stock price typically is over a certain period of time. In general, the volatility of stock is determined by the fluctuations in stock index. Fluctuation in the stock index also depends on the demand and supply of securities traded in a stock exchange. The market estimate of volatility can be used as the barometer of the vulnerability of the stock market. Stock return volatility represents the variability of day-to-day stock price changes over a period of time, which is taken as a measure of risk by the relevant agents. High volatility, unaccompanied by any change in the real situation, may lead to a general erosion on the confidence of investors in the market and redirect the flow of capital away from the stock market. The excessive level of volatility also reduces the usefulness of stock price as a reflector of the real worth of the firm. Figure 6.7 shows the DSE general index during 2004-2012.

Figure 6.7
DSE General Index



Source: Bangladesh Economic Update, March 2013

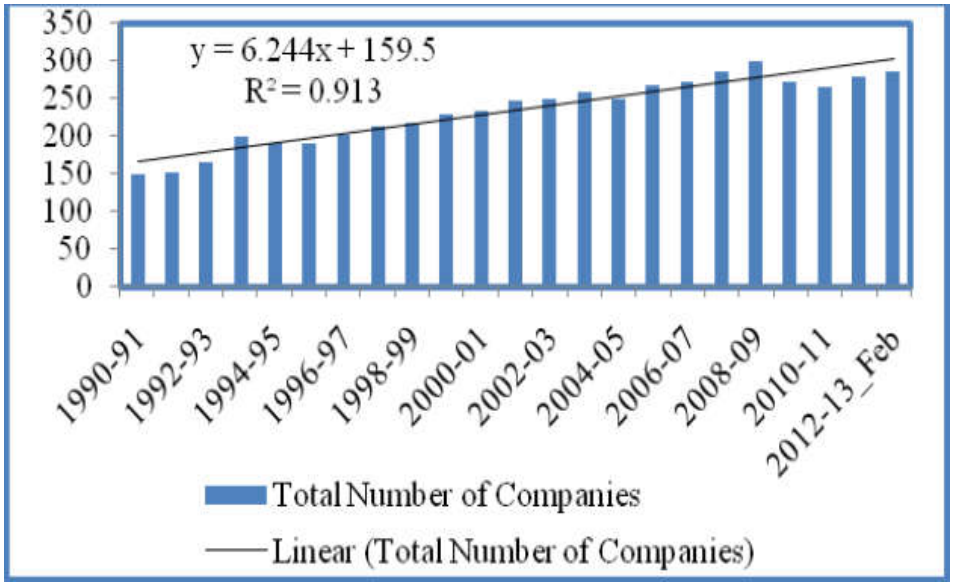
The volatility in stock return in DSE seems to follow clustering at particular points; there are periods of high volatility followed by periods of low volatility. Many events and random shocks are responsible for the index price fluctuations. For example, declaration of lucrative incentives in the national budget of FY 2003-04, floatation of shares of some profitable companies through Initial Public Offer (IPO) along with several important reform measures initiated by the Securities and Exchange Commission (SEC) helped allure the investors back to the capital market.

The downward drive of capital market in 1996 had been created by fake demand mechanism resulting to short term price volatility in the capital market. In FY 2010-11, the 'game plan' was different from 1996 and the index volatility has a similar shape for a sudden time (about one year) before the downturn of the market. In FY 2012-13, however, the volatility followed a declining trend. From the above analysis it is clear that DSE index movement was not normal and the fall was so abrupt that it caused huge loss for investors.

6.11.9 Capital Market Size

One of the important indicators of capital market is the number of its listed companies. The rationale of including this measure is that as the number of listed company increases, available securities and trading volume rises as well. Based on the properties of the companies, the companies are divided into five groups; A, B, G, N and Z. Figure 6.8 shows the increasing trend of total number of companies.

Figure 6.8
Total number of companies



Source: Bangladesh Economic Update, March 2013

In February, FY 2012-13, the number of DSE listed company was 286. The number of the listed company grew from 149 in FY 1990- 91 to 286 in February, FY 2012-13 with an average annual rate of growth of 3.01 percent and a standard deviation of 44.32. In FY 1990-91, the number of listed companies of DSE was 149 whereas in FY 2001-02, the number of listed companies increased to 248. The rationale of including this measure is that as the number of listed company increases that reveals available securities and trading volume also increases.

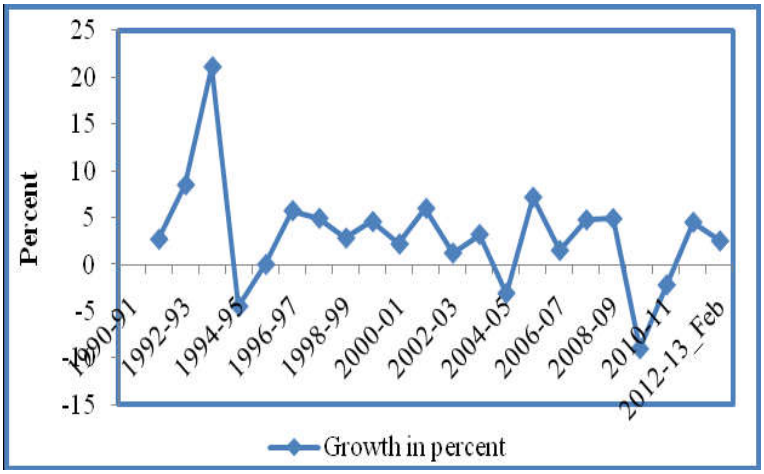
The descriptive statistics of the total listed companies in DSE showed that the minimum and maximum numbers of listed companies of DSE were 149 and 300 respectively. The average mean value of listed companies was 234 based on the last twenty three year's information. The standard deviation of the number of listed companies was 44.32 (Table 6.1). The high level of standard deviation means that there is significant level of volatility in case of listed companies in DSE.

Table 6.1
Descriptive statistics of listed companies of DSE

	N	Minimum	Maximum	Mean	Std. Deviation
Listed Companies	23	149	300	234.48	44.322
Valid N (List wise)	23				

In FY 1991-92, the number of listed companies increased to 2.68 percent whereas in FY 1994-95; the number of listed companies decreased to 4.47 percent. In FY 2009-10, the number of listed companies of DSE decreased from 300 to 273, about 9 percent less than the previous year. Figure 6.9 shows the percentage growth trend of listed companies.

Figure 6.9
Growth in percent of companies

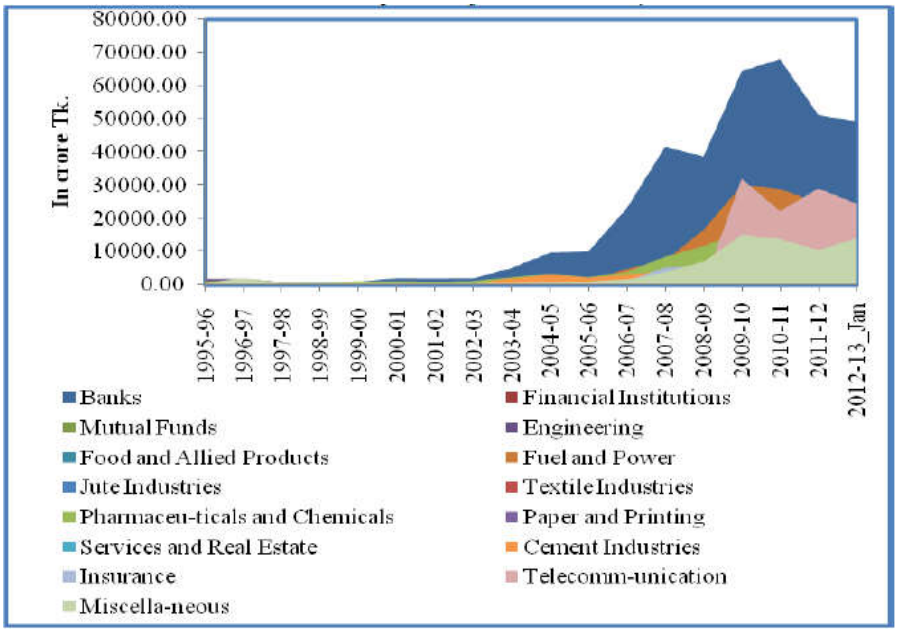


6.11.10 Sector Wise Performance

Sector wise performance of the market capitalization process has a clear implication of the growth process of capital market over time. Till FY 1995-96 the sectors, which were directly related to real economy, contributed the major market capitalization but the scenario has changed since FY 2000-01, with the financial sectors contributing the major market capitalization. Since FY 2010-11 the banking sector emerged as the major sector in terms of contribution of market capitalization.

In January 2013, a declined trend of market capitalization was witnessed for the banking sector, reaching at Tk. 49251.80 crore, a sharp drop Tk. 1986.9 crore than in FY 2011-12 in which year the banking sector contributed a total amount of Tk. 51238.60 crore. On the basis of market capitalization in ordinary shares of companies listed with DSE, total market capitalization of banking sector in FY 2010-11 was Tk. 68061.9 crore which was 5.67 percent higher than that of previous fiscal year. In this FY 2010-11, total market capitalization of mutual fund was Tk. 3595.5 crore which was Tk. 3588.10 crore in FY 2011-12. Generally, the investment in mutual fund is assumed to be safe investment due to volatility in capital market but the market capitalization of mutual fund was comparatively lower than the other sector. In FY 2010-11, the market capitalization of fuel and power sector was Tk. 28931.4 crore which was 4 percent lower than that of previous fiscal year. Figure 6.10 shows the sector wise contribution in market capitalization during 1995-2013.

Figure 6.10
Sector-wise contributions in market capitalization (FY 1995-96 to January, FY 2012-13)

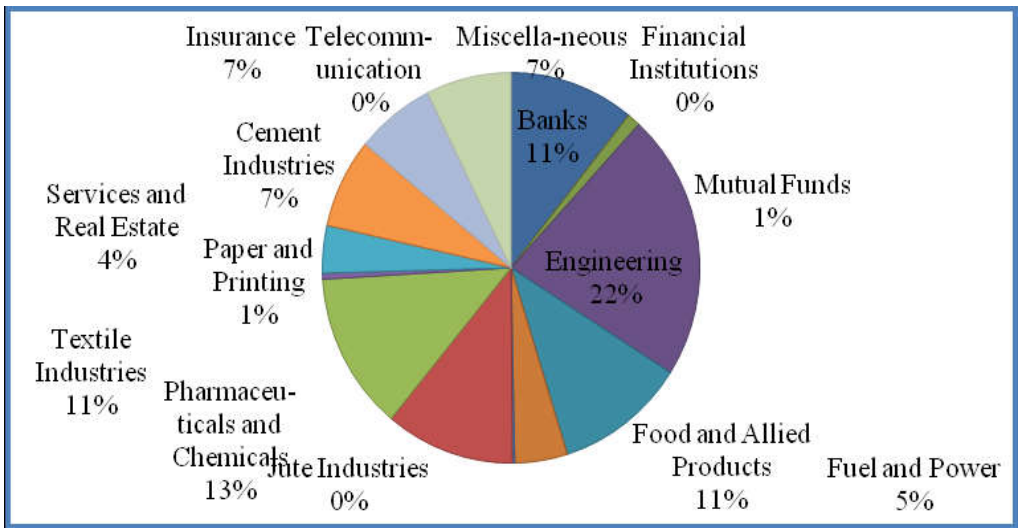


Source: Bangladesh Economic Update, March 2013

Although the real sector components of economy such as jute industry gained a positive growth in market capitalizations in FY 2010-11 than previous FY 2009-10 but the total market capitalization was lower which was only Tk. 79 crore. But in FY 2011-12 there observed again negative growth of this sector and total market capitalization of this sector turned in to Tk. 49.80 crore. Telecommunication sector started its activities in capital market in FY 2009-10 with a total market capitalisation of Tk. 31826.6 crore. In the following fiscal year, the market capitalisation of this sector dropped down by 30.46 percent and stood at Tk. 22131.4 crore. Sector wise composition of the financial sector including banks, investment and insurance continues to hold the majority share in total market capital capitalisation. In FY 1995- 96, the major contributions of market capitalisation were engineering (22 percent), pharmaceuticals (13 percent), food and allied products (11 percent), banks (11 percent) and insurance (7 percent). Figures 6.11

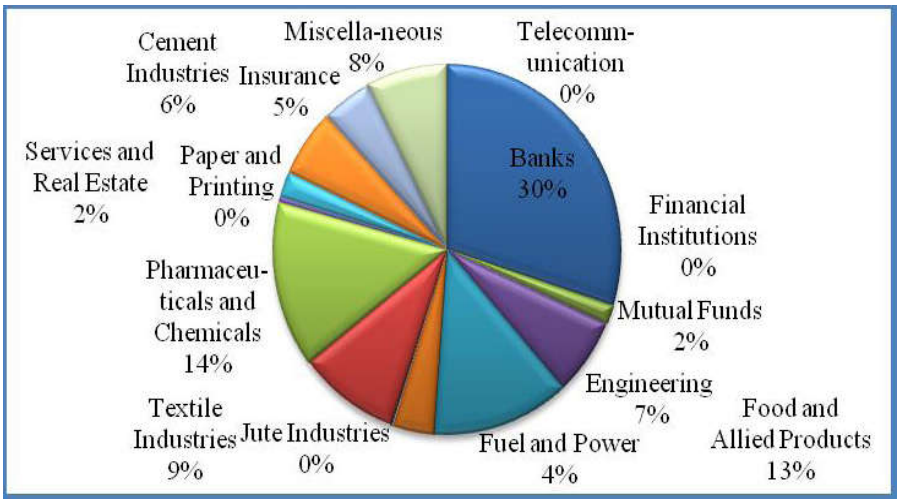
and 6.12 display sector wise performance in GDP in 1995/96 and in 2001/02 financial years respectively.

Figure 6.11
Sector Wise Performance in FY 1995-96



Source: Dhaka Stock Exchange (DSE)

Figure 6.12
Sector wise performance in FY 2001-02



Source: Dhaka Stock Exchange (DSE)

In FY 2001-02, the major sector wise contribution of market capitalization has significantly differed from the previous period. In this fiscal year the major contribution

in terms of market capitalization was banking sector. About 30 percent market capitalization has contributed by banking sector. All the other sectors like engineering, food and allied products, pharmaceuticals and fuel and power have less contribution in market capitalization. The sectors, which can directly influence the real economy, have contributed less than that of previous time and the growth in share of financial sector in market capitalization has increased significantly.

The financial sector contribution in capital market in terms of market capitalisation increased significantly in FY 2010-11. In this year, the banks, insurance including mutual funds jointly contributed 53 percent of the market capitalisation whereas pharmaceuticals and chemicals, textile industries, food and allied products and engineering contributed 21 percent jointly of total market capitalisation. The short term profit of financial sector induced the investors to make a larger investment in financial sector than those of the real sectors. Therefore, in the short run, the profit has been maximized but in the long run, a disturbing effect on the economy could be seen which has already been observed.

6.11.11 Challenges Related to ICB Mutual Fund

Bangladesh is a least developed country. Its economy depends on agriculture by more than 60%. Now it can be understood that its industrialization is in infant stage. So, for the better growth of industrialization, capital market is so important for our country

Mutual Funds are managed and run by a professional management team , the success and growth of the mutual funds depend on future profitability, and investors confidence and also depend on the management's performance.

From depositor's point of view:

a) The services provided by the related personal are not prompt. It is taking more than required time for giving the service.

b) Some laggard procedure is also taking place at the time of execution of order.

c) Withdrawal of any funds of securities is also very lengthy and complicated process and inefficiently managed.

From portfolio investment point view:

- ICB has not yet done any systematic analysis for measuring how they are doing.
- ICB has not identified any key variables to size up all its diversified performance.

From capital market point of view:

- Dividend is one of the sources of income for the mutual fund. Most Of the companies do not declare dividend up to satisfactory level.
- The rate of supply of fundamentally strong securities is very low.
- Political unsteady position also hearts the investor's sentiment in the market and thereby leads to flat the stock market.
- Using costly borrowing capital for the investment on securities is another factor problem for high expenditure of maintenance of funds, which affects the income of funds.

6.12 Conclusion

The continuous fall in the capital market exhibits lack of confidence in the investors. The absence of confidence has persisted as the government has failed to bring the perpetrators of two crushes to book and the regulatory regime is yet to enforce zero-tolerance on the activities of the cartels. The regulatory regime is fighting with faulty

mechanisms that allow, amongst others, activities such as over-valuations of stocks, non-compliance of the listed companies with the mandatory disclosure requirements, faulty audit opinions. The concretionary monetary policy and other policy measures have also kept the liquidity crisis unaddressed and in some cases have exacerbated the supply of liquidity. Moreover, the non-implementation of certain measures announced by the government has retarded the recovery. The revival of lost confidence in investors requires multi-pronged approach including actions against the cartels, signal of zero-tolerance by the regulatory regime on corporate governance, increased supply of liquidity to the general investors and full implementation of measures announced by the government.

Chapter Seven
Analysis of the Role and Performance of ICB to Develop Capital Market

7.1 Prelude

There are many different categories of institutions, which play a vital role for changing the social structure and for the economic development of our country. ICB is one of the most important institutions of them. Investment Corporation of Bangladesh (ICB) is playing an important role to build, nursure and to enhance Capital Market for the economic growth of Bangladesh. Investment Corporation of Bangladesh acts as an Investment Banker, Market maker and Portfolio Manager. As banking financial institution it receives term deposits and provides margin loan. As a development financial institution it provides term loan to finance equity gap, provides working capital. As a market maker it issues unit certificate and it is underwriting securities. It also issues and manages Mutual Funds. That is why it is very much important for us to know about practical functions of ICB which are playing significant roles for the economic development of Bangladesh. This study tried to explore the role of Investment Corporation Bangladesh in the development of capital market. The researcher focused on ICB's financial performance by evaluating its liquidity, solvency and profitability position and also tried to evaluate its portfolio performance of different funds.

7.2 Growth Trend of Profit of ICB

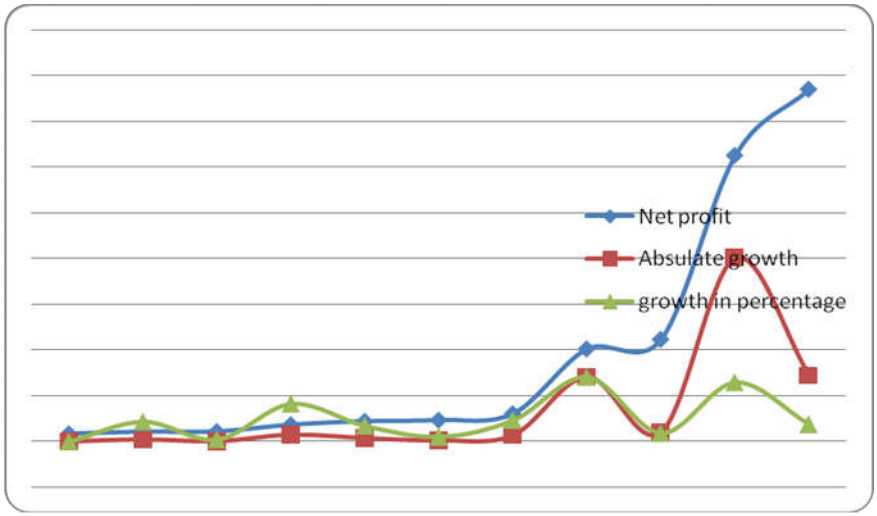
Since inception, ICB is playing vital role to develop capital market of Bangladesh. While performing its duty ICB is gaining profit from its various products. In this section the growth trend of profit was analyzed through some tables and charts.

Table 7.1
Growth Trend of Profit of ICB (Tk. in crore)

Year	Net profit	Absolute growth	growth in yearly %
2000-1	8.16		
2001-2	10.43	2.27	21.76
2002-3	10.68	0.25	2.34
2003-4	18.14	7.46	41.12
2004-5	21.93	3.79	17.28
2005-6	23.19	1.26	5.43
2006-7	30.23	7.04	23.29
2007-8	101.19	70.96	70.13
2008-9	111.63	10.44	9.35
2009-10	313.04	201.41	64.34
2010-11	385.52	72.48	18.80

Source: Annual Reports of ICB

Figure 7.1
Growth Trend of Profit of ICB



Source: Table 7.1

From the Table 7.1 it is seen that growth trend of profit of ICB is dominating in recent years. Last two years, it is increasing rapidly. At the beginning year, the percentage of trend of profit of ICB is slightly increasing. In economic year 2007-08, the percentage of profit of ICB is in the most upper stage, and it is more than 70%. But in absolute term the highest growth was attained in 2009-2010. Figure 7.1 shows it.

7.3 Growth Trend of earning per share of ICB

From the following Table 7.2, it is seen that Growth Trend of earning per share of ICB is dominating in mid year of last eight years. From the sixth year, earning per share is decreasing rapidly. However from 2010-2011 financial year it again increases.

Table 7.2
Growth Trend of earning per share of ICB (in Tk.)

Year	Earnings per share	Absolute growth	Growth in yearly %
2003-4	38.84		
2004-5	43.87	5.03	11.46
2005-6	46.38	2.51	5.41
2006-7	60.47	14.09	23.30
2007-8	202.39	141.92	70.12
2008-9	111.63	-90.76	-81.30
2009-10	106.52	-5.11	-4.79
2010-11	114.16	7.64	6.69

Source: *Annual reports* of ICB

7.4 Growth trend of paid up capital of ICB

From the following Table 7.3, it is seen that the paid up capital growth trend of ICB is increasing.

Table 7.3
Paid up capital growth trend of ICB (in crore taka)

Year	Paid up capital	Absolute Growth	Growth in percentage
2000-1	46.6		
2001-2	46.6	0	0
2002-3	46.6	0	0
2003-4	50	3.4	7.30
2004-5	50	0	0
2005-6	50	0	0
2006-7	50	0	0
2007-8	50	0	0
2008-9	100	50	100
2009-10	200	100	100
2010-11	250	50	25

Source: Annual reports of ICB.

The paid up capital at the beginning years are stable. But in the last three years, it is increasing rapidly. It is expected that it will further increase in future.

7.5 Book value per share growth trend

Growth Trend of book value per share of ICB is increasing during the last eight economic years. At the sixth year book value per share decreased. Then again, it began to increase.

Table 7.4
Book value per share growth trend

Year	Book value per share	Absolute growth	Growth in percentage
2003-4	270.33		
2004-5	281.63	11.3	4.18
2005-6	325.92	44.29	15.73
2006-7	378.64	52.72	16.18
2007-8	569.12	190.48	50.31
2008-9	396.12	-173	-30.40
2009-10	939.4	543.28	137.15
2010-11	1035.23	95.83	10.20

Source: Annual Reports of ICB.

From the Table 7.4, it is seen that in fiscal year 2007-8, the percentage of book value per share of ICB increases, and it is about more than 50%. In economic year 2008-9, the percentage of book value per share of ICB decreases, and it is about 30%. In economic year 2009-10, the percentage of book value per share of ICB again, increases and it is about 137%. So it can be expected that, the earning per share of ICB will increase day by day.

7.6 Shareholders' equity growth trend

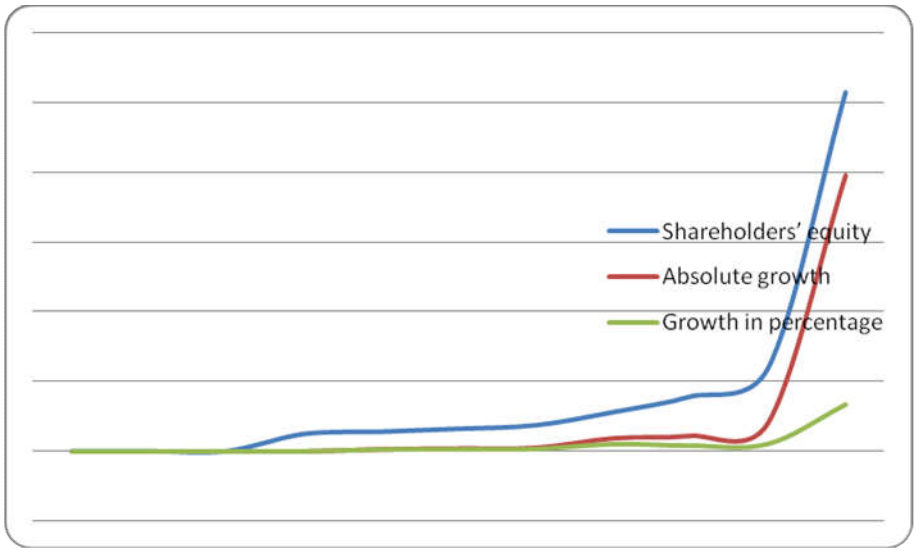
The shareholder's equity growth trend is absolutely increasing trend and the trend looks like an exponential graph. In the year 2007-8, the percentage of shareholder's equity of ICB increases, and it is about 50%.

Table 7.5
Shareholders' equity growth trend

Year	Shareholders' equity	Absolute growth	Growth in percentage
2003-4	123.84		
2004-5	139.47	15.63	12.62
2005-6	160.43	20.96	15.03
2006-7	186.43	26	16.21
2007-8	280.95	94.52	50.70
2008-9	392.69	111.74	39.77
2009-10	598.86	206.17	52.50
2010-11	2579.06	1980.2	330.66

Source: Annual reports of ICB

Figure 7.2
Shareholders' equity growth trend



Source: Tale 7.5

From the Table 7.5 and graph 7.2, it is seen that in the year 2008-9, the percentage of shareholder's equity of ICB increases, and it is about 40%. And in economic year 2009-10, the percentage of shareholder's equity of ICB increases, and it is about more than 52%. But In economic year 2010-11, the percentage of shareholder's equity of ICB increases by more than the last years, and it is about more than 330%.

7.7 Total asset growth trend

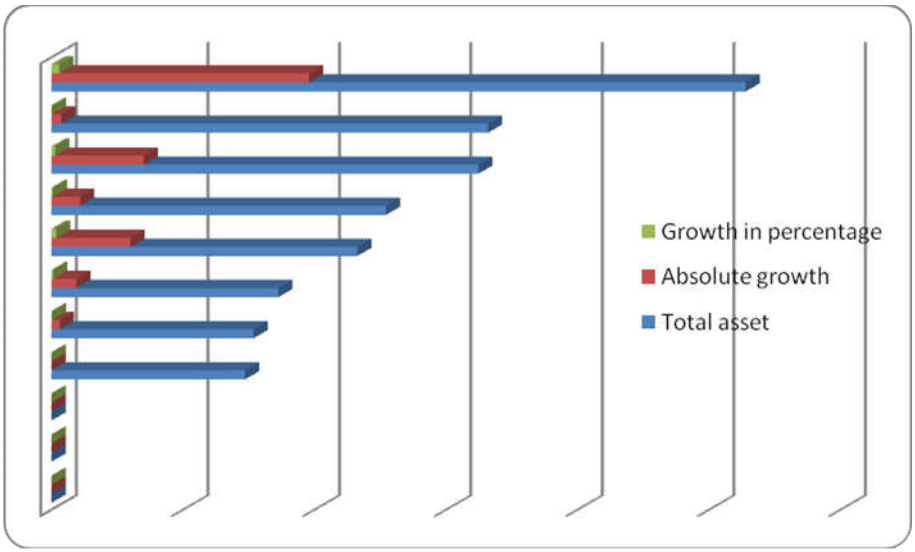
From the Table 7.6 and graph 7.3 it is seen that, the total asset growth trend is absolutely increasing trend and the trend looks like an exponential graph.

Table 7.6
Total asset growth trend

Year	Total asset	Absolute growth	Growth in percentage
2003-4	1471.45		6.862825
2004-5	1535.65	64.2	7.162253
2005-6	1724.19	188.54	8.041601
2006-7	2325.08	600.89	10.84414
2007-8	2542.69	217.61	11.85907
2008-9	3244.49	701.8	15.13226
2009-10	3319.89	75.4	15.48393
2010-11	5277.44	1957.55	24.61392

Source: Annual Reports of ICB.

Figure 7.3
Total asset growth trend



Source: Table 7.6

In economic year 2010-11, the percentage of Total asset growth trend of ICB increases, and it is about more than 24%. In economic year 2008-9, the percentage of Total asset

growth trend of ICB increases, and it is about 15%. And in economic year 2009-10, the percentage of Total asset growth trend of ICB increases, and it is about more than 15%. So, the percentage of Total asset growth trend of ICB is increasing day by day.

7.8 Dividend Payout growth trend

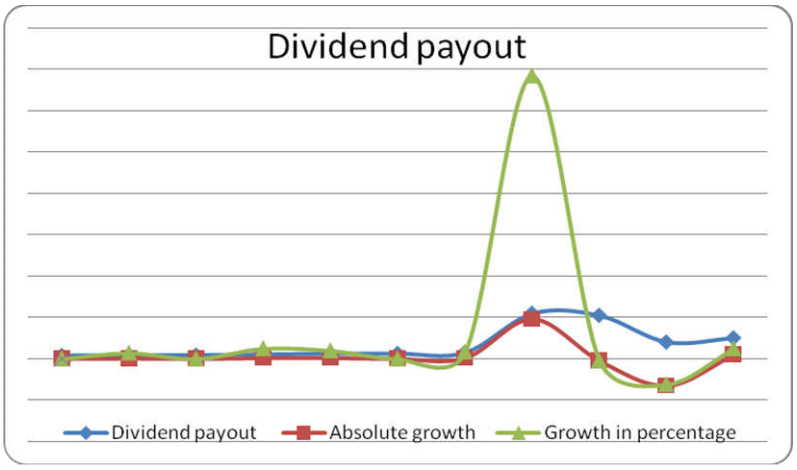
Dividend Payout growth trend absolutely increases. In economic year 2007-08, the percentage of dividend Payout growth of ICB is the highest, and it is about more than 685%.

Table 7.7
Dividend Payout growth trend (Tk. in crore)

Year	Dividend payout	Absolute growth	Growth in percentage
2000-1	7		
2001-2	8	1	14.29
2002-3	8	0	0.00
2003-4	10	2	25.00
2004-5	12	2	20.00
2005-6	12	0	0.00
2006-7	14	2	16.67
2007-8	110	96	685.71
2008-9	105	-5	-4.55
2009-10	40	-65	-61.90
2010-11	50	10	25.00

Source: Annual Reports of ICB.

Figure 7.4
Dividend Payout growth trend



Source: Table 7.7.

From the above Table 7.7 and graph 7.4 it is seen that in the year 2003-04, the percentage of dividend Payout growth of ICB increases, and it is about 25%. In economic year 2009-10, the percentage of dividend Payout growth of ICB decreases, and it is about more than -61%. But in economic year 2010-11, the percentage of dividend Payout growth of ICB increases again and it is absolutely 25 percent.

7.9 Investment growth trend

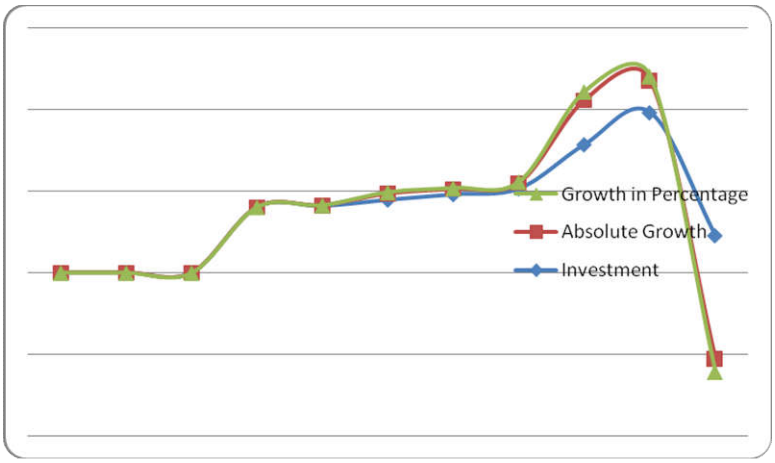
From the Table 7.8 it is seen that investment growth trend absolutely increases. In economic year 2008-09, the percentage of Investment growth of ICB is the highest and it is about more than 52%.

Table 7.8
Investment growth trend (Tk. in crore)

Year	Investment	Absolute Growth	Growth in Percentage
2003-4	403.35		
2004-5	408.3	4.95	1.23
2005-6	446.69	38.39	9.40
2006-7	479.94	33.25	7.44
2007-8	515.65	35.71	7.44
2008-9	787.24	271.59	52.67
2009-10	984.47	197.23	25.05
2010-11	226.67	-757.8	-76.98

Soruce: Annual reports of ICB

Figure 7.5
Investment growth trend



Source: Table 7.8

In economic year 2005-06, the percentage of Investment growth of ICB increases, and it is about 9.4%. And in economic year 2009-10, the percentage of Investment growth of ICB is increased, and it is about more than 25%. But in economic year 2010-11, the percentage of Investment growth of ICB decreased, and it is about more than -76%. We hope for a better future of ICB.

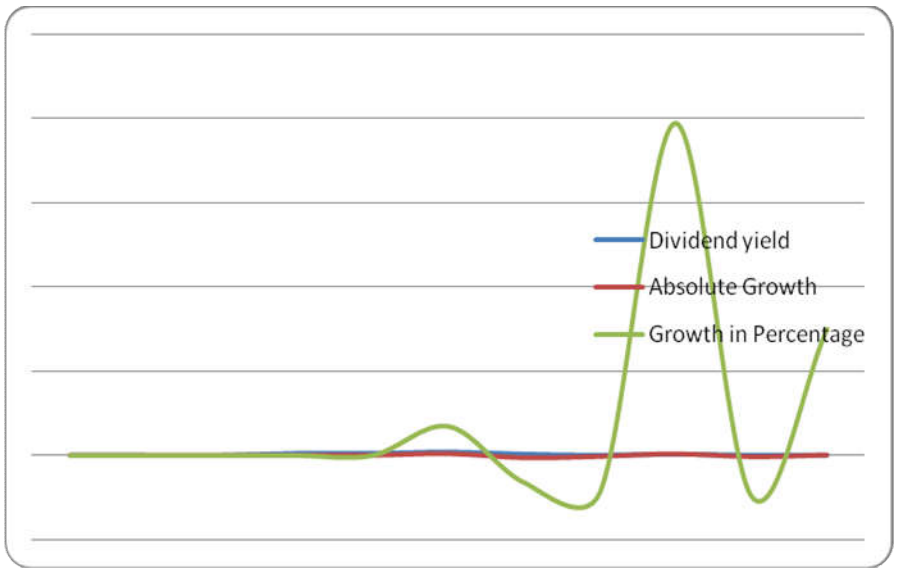
7.10 Dividend Yield Growth Trend

Dividend yield growth trend absolutely unstable. It goes ups and downs. In economic year 2008-09, the percentage of dividend yield growth of ICB attained the highest of 789%.

Table 7.9
Dividend Yield Growth Trend (Tk. crore taka)

Year	Dividend yield	Absolute Growth	Growth in Percentage
2003-4	5		
2004-5	5	0	0
2005-6	8.45	3.45	69
2006-7	2.98	-5.47	-64.73
2007-8	0.37	-2.61	-87.58
2008-9	3.29	2.92	789.19
2009-10	0.1	-3.19	-96.96
2010-11	0.4	0.3	300

Figure 7.6
Dividend Yield Growth Trend



From the Table 7.9 it is seen that in economic year 2005-06, the percentage of dividend yield growth of ICB increased, and it is about 69%. And in economic year 2006-07, the percentage of dividend yield growth of ICB decreased, and it is about more than -64%. In economic year 2009-10, the percentage of dividend yield growth of ICB is decreased, and it is about more than -96%. But in economic year 2010-11, the percentage of dividend yield growth of ICB increases again and it is absolutely 300 percent. So, it may further increase.

7.11 Price Earnings Ratio

From the Table 7.10, the Price Earnings Ratio trend is seen unstable. In economic year 2007-08, the percentage of Price Earnings Ratio of ICB is the highest, and it is about more than 613%.

Table 7.10
Price Earnings Ratio

Year	Net profit	Absolute Growth	Growth in Percentage
2004-5	6		
2005-6	3.24	-2.76	-46
2006-7	8.69	5.45	168.21
2007-8	62.04	53.35	613.92
2008-9	24.01	-38.03	-61.30
2009-10	60.2	36.19	150.73
2010-11	30.67	-29.53	-49.05

Source: Annual reports of ICB.

Figure 7.7
Price Earnings Ratio

Source: Table 7.10

In economic year 2005-06, the percentage of Price Earnings Ratio of ICB decreased, and it is about -46%. And in economic year 2006-07, the percentage of Price Earnings Ratio of ICB increased, and it is about more than 168%. In economic year 2009-10, the percentage of Price Earnings Ratio of ICB increased, and it is about more than 150%. But in economic year 2010-11, the percentage of Price Earnings Ratio of ICB decreased again and it is about -49 percent. Figure 7.7 shows it in details.

7.12 Number of shareholder's Growth Trend

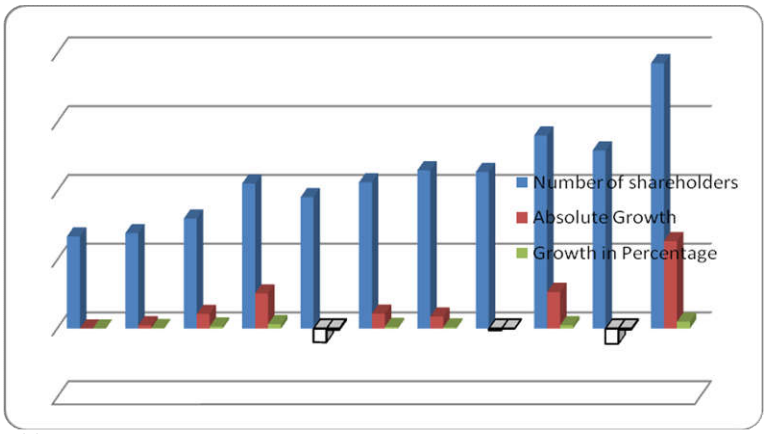
From the Table 7.11 it is seen that the Number of shareholders Growth Trend is absolutely increasing with minor ups and downs.

Table 7.11
Number of shareholders Growth Trend

Year	Number of shareholders	Absolute Growth	Growth in Percentage
2000-1	669		
2001-2	693	24	3.59
2002-3	799	106	15.30
2003-4	1054	255	31.91
2004-5	955	-99	-9.39
2005-6	1063	108	11.31
2006-7	1150	87	8.18
2007-8	1138	-12	-1.04
2008-9	1404	266	23.37
2009-10	1294	-110	-7.83
2010-11	1929	635	49.07

Source: Annual reports of ICB

Figure 7.8
Number of shareholders Growth Trend



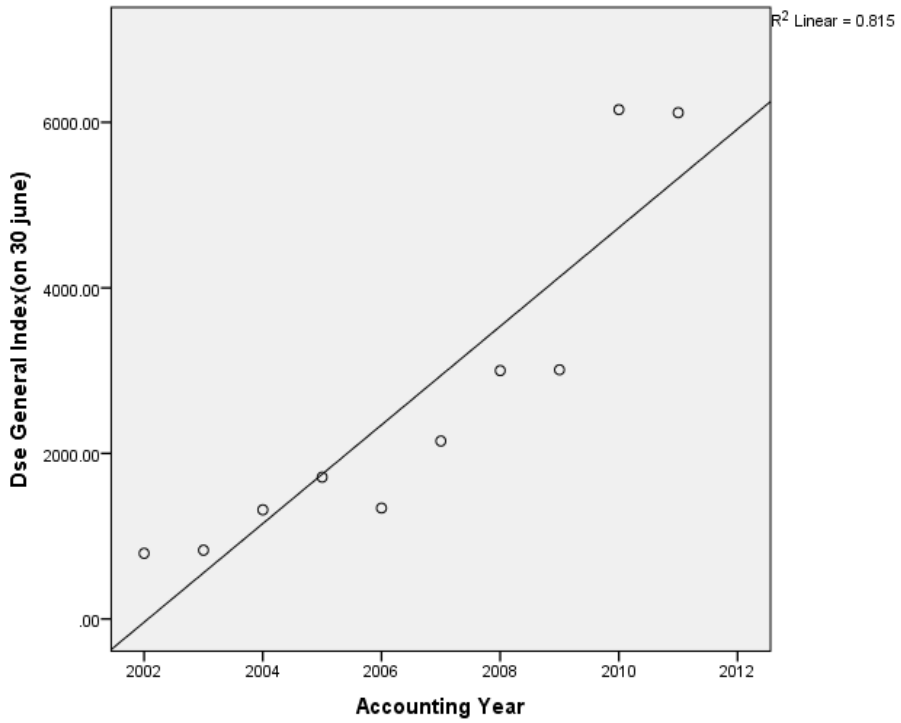
Source: Table 7.11

In economic year 2010-11, the percentage of shareholders growth of ICB is the highest and it is about more than 49%. In economic year 2003-04, the percentage of shareholders growth of ICB increased, and it is about 32%. And in economic year 2009-10, the percentage of shareholders growth of ICB decreased, and it is nearly -8%. In economic year 2004-05, the percentage of shareholders growth of ICB decreased, and it is about more than -9%. But in economic year 2010-11, the percentage of shareholders growth of ICB is increased again.

7.13 Growth Trend of Capital Market in Bangladesh

Growth trend of the capital market can easily be measured by the general index. As can be seen from the scatter plot with superimposed trend line, the general index (DSE) has been progressively increasing; a positive linear trend.

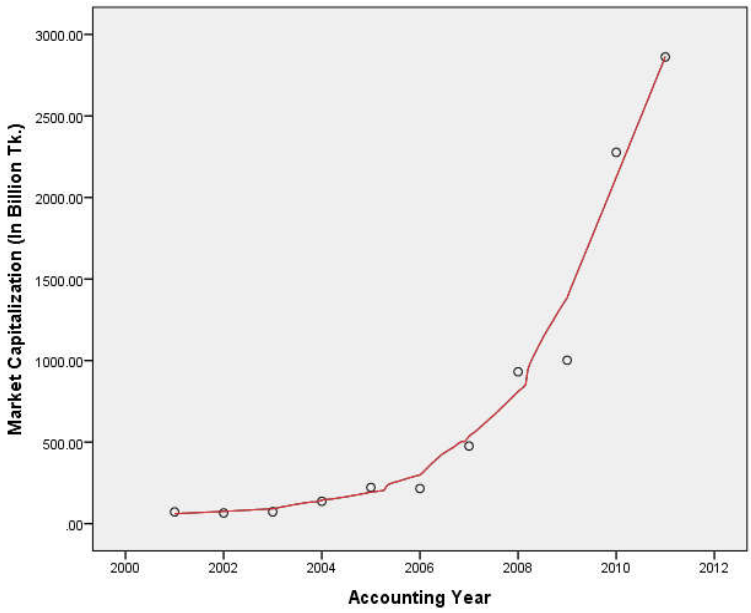
Figure 7.9
DSE General Index



Source: Appendix table 17 to 21.

DSE was chosen here as it seems to contribute much to the general index. Market Capitalization is a key indicator in analyzing the growth trend in the capital markets. The scatterplot shows the change in market capitalization over time.

Figure 7.10
Market Capitalization



Source: Appendix tables 17 to 21.

As can be seen from the chart 7.10, the growth is a curve best described by a logistic model. While the two methods of analyzing growth in capital markets are all suitable, they give different distributions. Consequently we have to select a model that best predicts the growth of capital markets.

Factor analysis allows us to test for this. In essence, factor analysis helps us to decide how variables best suit (loads on) a hypothetical variable. The suitability of these variables is measured from 0–1, the variable whose coefficient is near one is the best suited for the analysis. The Table 7.12 shows factor analysis for Market Capitalization and DSE general index with component selected with Eigen value of above 1. As can

be seen from the table below, Market Capitalization loads on a hypothetical variable than the DSE general index.

Table 7.12
Key Statistics of Capital Market in Bangladesh (Tk. in crore)

Year	Number of Listed Securities	Market Capitalization (Tk. in crore)	Transaction (Tk. in crore)	Transaction/ Market Cap (%)	Price Index
2000	241	6200.92	4000.27	6400.00	64200.68
2001	249	6300.77	3900.87	6200.52	81700.79
2002	260	7100.26	3400.98	4900.09	82200.34
2003	267	9700.59	1900.15	1900.63	96700.88
2004	256	22400.92	5300.18	2300.64	197100.31
2005	286	23300.08	6400.84	2700.82	127500.05
2006	310	32300.37	6500.08	2000.13	132100.39
2007	350	74200.20	33200.87	4400.85	253500.96
2008	412	104400.80	66700.96	4000.64	230900.35
2009	415	190300	147500.90	8200.33	374700.53
2010	445	350800.00	400900.91	8400.31	687700.66
2011	459	261600	-	-2500.40	525700.6

Note: Securities include stocks, bonds, debentures and mutual funds.

Source: DSE, CSE and SEC reports

7.14 Conclusion

As we know, the main objective of ICB was to encourage and broaden the base of investment, to develop capital market and to mobilize savings from the surplus unit and many other issues. We observe that the performance if ICB was satisfactory. In almost all the areas, ICB's performance was improving in comparison to the past few years. Dividend payment, Net operating income, Operating profit, the amount of its investment in the main operational areas have also been increased. In terms of lease financing, Project commitments etc. the amount of allocation is also increasing. By playing significant role in the above fields, ICB has emerged as an important player in the capital market of Bangladesh.

Chapter Eight
Summary, Recommendations and Conclusion

8.1. Prelude

The capital markets are the source of financing for companies around the world. It is the market for buying and selling equity and debt instruments. The capital market is the engine of growth for an economy, and performs a critical role in acting as an intermediary between savers and companies seeking additional financing for business expansion. ICB is one of the renowned investment banks in Bangladesh. As an investment bank, ICB has been performing its merchandising and financial assistance operations since its inception.

8.2. Statement of the Problem

ICB was entrusted with the responsibility of accelerating the pace of industrialization, developing a vibrant capital market and providing institutional support to meet the equity gap of public limited companies in the industrial sector. ICB now underwrites public issue of shares and provides bridging loans to priority sectors. It also participates in direct purchase of shares, and the underwriting, purchase, and sale of debentures, and bonds. It has been managing investors' accounts, mutual funds and unit funds and participating in trade in the stock exchanges. Observing the importance of ICB in the promotion of industrial sector, huge amount of capital has invested in it by different financial institutions during the last 36 years. As, an investment bank, ICB has been performing its merchandising and financial assistance operations since its inception. ICB's existing financial and other activities for capital market development and industrialization include: (i) Direct participation in equity; (ii) Purchase of shares; (iii) Lease financing; (iv) Venture Capital financing; (v) Advance against equity; and to act

as trustee as well as custodian of the issue of debentures, bonds, mutual funds; etc.[80] By innovating new opportunities the ICB can enhance its activities as well can improve the condition of capital market of Bangladesh. A comprehensive study is needed to evaluate the performance of ICB. The dynamics of capital market is changing gradually. To adapt this changing environment it is needed to adapt new policies and activities. In this regard an in depth study is needed to update the activities of ICB. Proper dissemination of research-based information is also absent in the capital market sector. A lack of capital market friendly policies, fluctuation in foreign currencies, fluctuation of bank rates, a shortage of information on trading and many other issues are hindering the development of capital market. To overcome this problem research based data is necessary. Moreover, recent changes in world economy and, price hike are affecting the development of capital market and for these reasons ICB may face some challenges in the coming years. To, address the problem such type of study is required. The main purpose of the study is to evaluate the role of ICB in the development of capital market in Bangladesh and highlight the related prospects and challenges.

8.3. Study Questions

A few questions have been raised critically but categorically to reconcile the research objectives. These questions are given below:

(1) What are the prospects of ICB in the development of Capital Market?

(2) In which ways ICB is trying to develop the capital market?

(3) What are the inadequacies of ICB's initiatives in capital market development?

(4) What challenges' are facing by ICB at present?

(5) How can ICB overcome the present and future challenges?

[80] ICB, *Annual Report.* 2010-2011, p. 90.

8.4. Objectives of the Study

The principal objective of the study was to examine the role of Investment Corporation of Bangladesh in capital market development and to explore the opportunities and challenges. There are some specific objectives which were as follows:

(1) To analyze the initiatives of ICB for capital market development;

(2) To explore the opportunities of ICB in developing capital market;

(3) To trace the challenges of ICB in capital market development;

(4) To analyze and examine the growth trend of capital market in Bangladesh;

(5) To evaluate the development and measure the performance of ICB.

8.5. Justification of the Study

One of the major investment banks in Bangladesh, the Investment Corporation of Bangladesh (ICB), plays a leading role in developing the capital market. It has taken a number of initiatives for the development of the capital market. 36 years have passed since its inception. So, it is the high time to evaluate its performance and to adopt new inputs to enhance its activities. It is a crying need to evaluate the role of ICB and to explore new avenues to upgrade the performance of ICB. It appears that studies so far done on this issue in Bangladesh are limited. In this perspective this study hopes to be a pioneer work in this field. It will be able to examine the role of Investment Corporation of Bangladesh in capital market development and to explore the opportunities and challenges. For these reasons the researcher has chosen this field of study. The review of literature also shows research gap in this field. Researchers, teachers and students and policy makers will be benefited from this study.

8.6. Methodology of the Study

Content analysis method has been used in this study. The researcher has used the documents of ICB and capital market of Bangladesh to evaluate the role of ICB in capital market development. For this reason content analysis method has been selected

for the present study. Both qualitative and quantitative interpretations were needed for the present study. The present study has exclusively used this method by compiling the data of last 10 years of DSE, CSE, ICB and other related financial organizations.

Types and Sources of Data

Secondary data and information have been used largely in this study. The secondary sources of data include published statistical reports, different annual reports of ICB, DSE, SEC, and CSE, documents, ordinances, books and different periodicals published at home and abroad. Materials, which have been incorporated in the study, were dully acknowledged. However, some primary data and information were collected from the officials of ICB, DSE, SEC and CSE. The study covers the period from 2001 to 2011.

8.7. Historical Background of Bangladesh Capital Market

Though the history of capital market of Bangladesh refers back to 28 April, 1954 when the East Pakistan Stock Exchange Association Ltd. was established. Formal trading began on the bourse in 1956. In Bengal capital market was founded during the Mughal regime in the early 17th century in a limited scale. There were money and capital market activities in Suba-e-Bangala throughout the 17th century. “Bengal under the Nawabs was fairly developed in trade and communication. An historian characterized Bengal of the Nawabi period as 'easy in its finances, moderate in its expenditure, free from charges and cares of independent dominion, its inhabitants enjoying in the occupation of agriculture and commerce, public peace and abundance'. The prosperity of Nawabi Bengal was attributed to large investments by European nations and dispersal of Bengal raw silk, cloths etc. in vast amounts to the west and north and inland as far as Guzrat, Lahore and even Ispahan. Bengal exported large volumes of agricultural and industrial products to Asia and Europe. Asian merchants and

Europeans, especially the English and Dutch East India Companies, invested their money to buy exportable goods and sometimes provided local producers with loan funds."[81] Artisans and farmers had to take loan local and foreign moneylenders and merchants to increase their volume of production. But the cost of borrowing money was very high. "In 1720-21, the English companies' debt in Bengal amounted to Rs 2.4 million. The Dutch Company also borrowed from the local capital market. Its debt to the Kasimbazar merchants with interest amounted to about Rs 1.5 million in September 1724. In March 1754, Dutch borrowing in Bengal stood at Rs 2.83 million. Jagat Sheth was the main creditor of the European companies. The French and the Ostend Companies also borrowed freely from the local money market. The Ostend Company borrowed money from local Sarrafs and merchants. In the three years between 1755 and 1757, the Dutch debt to the Houses of Jagat Sheth amounted to Rs 2.386 million. At the time of the fall of Chandranagar in March 1757, the French owed Rs. 1.5 million to the Jagat Sheths."[82] During this period fund was not available for the capital market. Commercial banks were established in the second half of the 17th century. They were engaged in providing short-term loans and trade financing. The growing trade of Bengal, the increase in activities of traders and mercantile communities, and the resultant increase in the circulation of money led to the development of banking throughout Mughal Bengal. Moneylenders, moneychangers, village merchants (mahajans) and shopkeepers performed the function of banks and advanced both long and medium term loans to rulers when the latter were in financial hardship. Indigenous bankers also issued and discounted hundies (bills of exchange) and bank drafts. Apart from their financial transactions with government, these banking houses also extended

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[81] Banglapedia, *National Encyclopedia of Bangladesh* (Dhaka: Asiatic Society of Bangladesh, 2003), p. 363.
[82] *Ibid*. p.364.

loans to the private parties. They gave loans on mutual trust, sometimes without any document, or even a witness. Loans were also granted on mortgages of lands, ornaments and other valuable utensils.

8.8. Investment Corporation of Bangladesh (ICB)

Investment Corporation of Bangladesh was established in 1976 with the objective of encouraging and broadening the base of industrial investment. ICB underwrites issues of securities, provides substantial bridge financing programmes, and maintains investment accounts, floats and closed-end unit funds to ensure supply of securities as well as generate demand for securities. ICB also operates in the DSE and CSE as dealers.

8.9. Expansion of the Capital Market

The capital market of Bangladesh is an emerging market. Although the capital market started in 1956, the establishment of the Securities and Exchange Commission in 1993 quickened the pace of growth of the securities market by strengthening the role of the market participants. While in 2000 the market capitalization was only around 2.24% of the country's GDP, at the end of June, 2011 it stood around 41.22% as the average daily turnover of the country's main stock exchange. The trading network has expanded to the six divisions of the country transcending the periphery of Dhaka and Chittagong. The network is also expanding to district towns and other important places gradually. But expansion of the trading network is not enough; it requires expansion of investment related knowledge specially for the investors and development of trend in investing based on fundamentals, which will help investors to protect themselves in many ways. SEC, DSE, CSE and merchant bankers arrange regular training programs for the investors in related areas. Booklets and brochures have also been published in this

regard. To conduct more extensive level of training, an institute named Bangladesh Institute of Capital Market has got approval recently. For the sake of the depth of the capital market, efforts are underway to launch activities for the development of bond market and derivatives market. It is expected that in the next 5 years considerable development will take place in these areas. Actions have been initiated to launch a full-fledged separate automated clearing house, which is expected to reduce settlement time and thus improve overall market efficiency. To demonstrate the growth of the capital market, two graphs showing the market capitalization of DSE and the ratios of market capitalization of DSE to gross domestic product (GDP) during the last ten years have been presented in the text.

8.10. Situation of the Capital Market of Bangladesh (2001-2011)

Bangladesh Capital Market is an unpredictable market in the world. Although capital markets of different countries of the world collapsed in the face of global recession, the capital markets of Bangladesh remained quite buoyant at that time. The market capitalization and the general index increased remarkably during the period. Market capitalization of the Dhaka Stock Exchange (DSE) rose from 21.4 percent of GDP in June 2009 to 39 percent of GDP in June 2010 indicating keen interests showed by the investors in the capital market. By the end of June 2010, the number of BO (Beneficiary Owner) accounts has increased to 25.64 lakh from 14.15 lakh at the end of June 2009 and the number of BO account increased to 34.15 lakh by April 2011[83]. The increased interest/participation of the general people in the capital market pushed up the general indices, as well as PE and market capitalization. The bullish trend in stock prices continued during the first half of FY 2010-11 and the general index skyrocketed to

[83] Ministry of Finance, *Bangladesh Economic Review, 2010-2011* (Dhaka: Finance Division, 2011), p.67.

8918.51 on 5 December, registering 44% increase as compared to the corresponding figure at the end of June 2010. Following such `overheating' a price correction started and the index started falling registering a very low level to 5203.08 on February 2011 showing 3715.43 points less than level of just three months earlier[84]. The market witnessed the biggest ever boom like 1996. The recent market fall down was not a one-day game, Bangladesh stock index marked 80 percent growth in the year of 2010. The Bull Run, however, faced its first halt in December 2010.On December 8 DGEN suffered the third highest single-day plunge since 2001 losing 185.53 points or 2.12 percent. On December 19, 2010 DSE suffered its biggest crash, of course up until then, as the index nosedived by 551 points or 6.72 percent. It is known to everybody that the DSE General Index (DGEN) plunged by 600 points, and all indices fell nearly 8 percent due to panic-sale on January 9, 2011. Breaking the previous day's record, on January 10, DGEN shed 660 points or 9.25 percent within one hour of trading. The capital market was shut down and closed due to rapid falling of Index. Although some measures taken by the regulatory authority, people suffered major financial losses and lost confidence in the stock market of Bangladesh. Year 2010 could be termed as a boom Year for the investors, even though a record fall in December created huge panic among the investors. It would be difficult to find out an investor who made no losses in 2010.

8.11. Background and the Origin of ICB

The origin of ICB has an extensive history. Under the nationalization policy of the government of Bangladesh in 1972, Bangladesh Shilpa Rin Sangstha (BSRS) was created by merging 'Investment Corporation of Pakistan' and Pakistan Industrial Credit and Investment Corporation.'[85]

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[84] ICB, *Annual Report.*2010-2011, p.36.

[85] Md. Hafizur Rahman, "Investment Corporation of Bangladesh: A Study of Growth, Productivity and Performance". (Rajshahi: Institute of Bangladesh Studies, 2000). p.42.

Immediately, after liberation, in view of socio-economic changes, the scope of private sector investment in the economy was kept limited by allowing investment in projects up to TK. 25 lacks only. The new investment policy which was announced in July, 1972 provided for an expanded role of private sectors by allowing investment in projects to the tune of TK. 3 core. This ceiling was subsequently raised up to TK. 10 crore. The amount of money was not enough according to the demand. For this reason it was keenly felt to establish an organization which was being able to supply sufficient equity fund. In the revised investment policy, which was announced in December 1975, the government announced its decision to reactivate the stock exchange and establish Investment Corporation of Bangladesh. Accordingly a committee of officials examined the matter and recommended for re-establishment of ICB.[86]

The present name 'The Investment Corporation of Bangladesh, came into being on October 1st in 1976 under the Investment Corporation of Bangladesh Ordinance 1976 (No. XL of 1976). From then it has encouraged and broaden the base of investment and to develop the capital market and to mobilize the savings. Initially, the activities of ICB were limited to underwriting public issue of shares, bridge financing, debenture financing and opening/maintaining investors' accounts (Investors' Scheme). ICB had largely expanded its areas and scope of activities and now provides various types of investment and banking services. Added activities include providing debenture loans to companies and loans to investors on margin trading basis, providing advances against ICB unit certificates, leasing of industrial equipment, managing unit fund and mutual funds, and participating in stock for trading exchange securities[87].

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[86] Investment Corporation of Bangladesh (ICB), *General Information*, p.2.

[87] Banglapedia, *National Encyclopedia of bangladesh* (Dhaka: Asiatic Society of Bangladesh, 2003), p. 36.

Objectives of ICB

Investment Corporation of Bangladesh is working to meet the objectives[88]-

- To encourage and broaden the base of investments;
- To develop the capital market;
- To mobilize savings;
- To promote and establish subsidiary companies for business expansion

8.12. Capital Structure and Shareholding Position of ICB

Initially, the authorized and paid up capital of the corporation was Tk 20 crore divided into 20 lack shares of Tk. 100 each, subscribed by the government of Bangladesh (27%),Bangladesh Bank (12%), Bangladesh Shilpa Bank (6%), Bangladesh Shilpa Rin Sangstha (6%), Nationalized Commercial Banks (15%), Sadharan Bima Corporation (9%) and the general public (25%)[89]. The authorized and paid up capital of ICB was increased in 1999-2000 to Tk. 1,00 crore. ICB is a listed company in both Dhaka and Chittagong Stock Exchanges. The reserve fund of the corporation was Tk. 425.08 crore on 30 June 2000 and the types of reserves were general reserves, building reserves and dividend equalization reserves.

Total fund of ICB during the year 1999-2000 was Tk 6,784.84 crore which comprised shareholders' equity i.e., share capital, reserves and retained profits (Tk 894.97 crore), long-term debts (Tk 1,153.81 crore), deferred interest (Tk 292.72 crore), deferred liabilities (Tk 18.81 crore), lease deposits (Tk 0.66 crore), and other liabilities (Tk 4,423.83 crore)[90]. On 30 June 2011, the total value of assets of ICB were valued at Tk

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88 ICB, *Annual Report.* 2010-2011, p. 52

89 Banglapedia, *National Encyclopedia of bangladesh* (Dhaka: Asiatic Society of Bangladesh, 2003), p. 36.

90 ICB, *Annual Report.* 1999-2000, p.12

3031.84, crore comprising paid up capital (Tk 250 crore), reserves (Tk 2050.87 crore), retained profit (Tk 702.20 crore), long term govt. loan (Tk 3.15 crore), debentures (Tk 6.80 crore), others (Tk 18.82 crore)[91].

8.13. Human Resource Management of ICB

ICB, being a service organization considers the human resources as an effective tool for its development. ICB tries to pay due recognition to the employees for their contribution. Merit, seniority, managerial efficiency and sense of responsibility are given priority in promotion. In case of direct recruitment merit gets top most priority. However, regional and other social factors are considered in line with Government. policy.

ICB has its own Personnel Management Information System (PMIS) software for the data entry, data tracking and data information needs of the human resources payroll management and accounting function within the corporation. Two medical retainers are engaging for giving health care facilities to the employees. During the year under review (2011). Hepatitis-B vaccine has been given to 841 persons, which includes officers, staff and their family members.

8.14. Evolution of Capital Markets in General and some problems

Every country experiences a hierarchy in terms of capital market development – first commercial banks, then security markets (stocks and bonds), and then the non-monetary intermediaries (i.e. insurance companies, pension funds, mutual funds, investment trusts, leasing, venture capital firms, etc.). Unfortunately, development of the security market is extremely complex and suffers from numerous problems.

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[91] ICB, *Annual Report.* 2010-2011, p. 53.

These problems start with the supply of securities. Reasons for limited supply start with a distorted government interest rate and credit allocation policy, where financial assets' prices are distorted due to loans which are easily available and are cheaper than equity capital. Other factors often mentioned are:

(i) Presence of family owned companies and of state-owned government enterprises;

(ii) High share issue costs due to government involvement in the pricing, and long and poor issuing procedures;

(iii) Reluctance to disclose information to the public, competitors and tax authorities; and

(iv) Lack of fiscal and other incentives and absence of government pressures for companies to go public.

Finally, government's role in security markets must be changed from one of direct involvement to a more catalytic and supervisory one.

8.15. Capital Market Related Challenges

The present most important problems of the capital market are lack of confidence of investors and lack of liquidity of the capital market. After the crush of the capital market in 2011, a continuous fall in turnover has been observed, revealing the crisis of liquidity in the capital market since the collapse. In FY 2011-12, the turnover sunk to Tk. 117145.07 crore from Tk. 325879.77 crore in FY 2010-11, a reduction of Tk. 208734.7 crore, meaning a fall of 64 percentages. The prevailing contractrionary monetary policy through high rate of interest along with government's greater than before dependency on loans from the banking sector for financing public deficit have also weakened supply of liquidity into the capital market.

In January 2013 total market capitalization of DSE was Tk. 184545.2 crore, a less of 4.5 percent than that of previous fiscal year of 2011-12. In FY 2010-11, the market capitalization was Tk. 232701.6 crore. In FY 2009-10, the turning year, saw the market capitalization increased by 127.31 percent from the previous year and reached from Tk. 100143.3 crore in FY 2008-09 to Tk. 227640.8 crore in FY 2009-10. The increasing trend of market capitalization till FY 2011-12 states that the volume of value of capital stock has followed a positive trend, but after the crush the market capitalization starts to fall. There is no significant correlation between GDP and market capitalization. That means, the size of market capitalization did not show any influence on GDP yet.

In FY 2012-13, the market capitalization and investment ratio witnessed a downward trend, reaching at 83.01 percent. This indicates the descent in ratio between capitalization and investments, revealing a continuous fall in the capital market.

Sector wise performance of the market capitalization process has a clear implication of the growth process of capital market over the time. During FY 1995-96 the sectors which have directly influential role of real sector contributed the major market capitalization; but in FY 2000-01 the scenario has turned to changed and financial sectors have started to contribute the major market capitalization and finally in FY 2010-11 the major sector wise contribution of market capitalization was banking sector. In this year, the banks, insurance including mutual funds jointly contributed 53 percent of the market capitalization whereas pharmaceuticals and chemicals, textile industries, food and allied products and engineering contributed 21 percent jointly of total market capitalization.

After the crush of the capital market in FY 2010-11, the components of financial sectors fell down significantly. The sector wise contribution of financial institutions fell

down from 12 percent to 8 percent from FY 2010-11 to January, 2013. Moreover, continuous fall down in the contribution of banking sector is observable. From this time horizon, the falling rate of contribution of banking sector in market capitalization came down from 29 percent to 27 percent from FY 2010-11 to January 2013.

By analyzing different indicators of the capital market, it is clear that a single game planner played this game and in which there are less contribution of financial sectors in the process of market capitalization.

8.16. Capital Market Volatility

Volatility is a measurement of the degree of price movements of a stock. It shows how active a stock price typically is over a certain period of time. In general, the volatility of stock is determined by the fluctuations in stock index. Fluctuation in the stock index also depends on the demand and supply of securities traded in a stock exchange. The market estimate of volatility can be used as the barometer of the vulnerability of the stock market. Stock return volatility represents the variability of day-to-day stock price changes over a period of time, which is taken as a measure of risk by the relevant agents. High volatility, unaccompanied by any change in the real situation, may lead to a general erosion on the confidence of investors in the market and redirect the flow of capital away from the stock market. The excessive level of volatility also reduces the usefulness of stock price as a reflector of the real worth of the firm.

8.17. Challenges Related to ICB Mutual Fund

Bangladesh is a least developed country. Its economy depends on agriculture by more than 60%. Now it can be understood that its industrialization is in infant stage. So, for the better growth of industrialization, capital market is so important for our country.

Mutual Funds are managed and run by a professional management team, the success and growth of the mutual funds depend on future profitability and investors investment confidence and also on the management performance.

From depositor's point of view:

d) The services provided by the related personal are not prompt. It is taking more than required time for giving the service.

e) Some laggard procedure is also taking place at the time of execution of order.

f) Withdrawal of any funds of securities is also very lengthy and complicated process and inefficiently managed.

From portfolio investment point of view:

- ICB has not yet done any systematic analysis for measuring how they are doing.
- ICB has not identified any key variables to size up all its diversified performance.

From capital market point of view:

- Dividend is one of the sources of income for the mutual fund. Most Of the companies do not declare dividend up to satisfactory level.
- The rate of supply of fundamentally strong securities is very low.
- Political unsteady position also hearts the investor's sentiment in the market and thereby leads to flat the stock market.
- Using costly borrowing capital for the investment on securities is another factor problem for high expenditure of maintenance of funds, which affects the income of funds.

8.18. Recommendations

In spite of having a number of activities the financial position of Investment Corporation of Bangladesh in respect of its financial assistance operations has not improved significantly over the last three decades due to various kinds of challenges. Although the authorities have taken some important measures yet, the performance of the said operations could not be improved to the expected level. So, it is necessary to take initiatives for the development of the activities of ICB. Based on the study findings the researcher has made the following recommendations for the development of performance of ICB.

ICB Related Recommendations

(1) Investing by costly borrowing funds should be reduced. Management may look for source of less costly funds and increase income.

(2) Employees should be set up in proper position according to their skill and educational background.

(3) Dividend policy should be fair to all funds so that the investors may be satisfied. Dividend policy should be on earning basis, not on year basis.

(4) Unnecessary documentation and levels in the process of withdraw of securities should be eliminated. For these, computerization is needed and training is a must.

(5) It is needed to reduce difficulties in deposit collection and fund management in the prevailing money market situation.

(6) Existing training facilities for the officers and employees of the Corporation is not sufficient. So it is needed to provide necessary training facilities for the officers and staffs.

(7) The Corporation needs to develop long-term strategic and risk management planning. To do so, they can develop computer simulation program.

(8) ICB needs to adjust competitive strategy as there are lots of competitors already available in the market.

(9) ICB Needs to be fast in pace in decision making while the large institutional and individual investors are in bearish trend.

(10) ICB needs to introduce innovative policy as the rapid changes in business environment and frequent changes in rules and regulations occur.

(11) It Needs to reduce bureaucratic problems and to provide fast services for the stake holders.

(12) To raise more capital and bring a stable situation in capital market it is needed to issue new mutual funds.

(13) At present the way of access to investor scheme is very complicated. So it is required to eliminate the barriers for easy access to investor's scheme.

(14) Protect minority shareholders from the whims of others.

(15) Provide stiff penalties upon those who run the companies and in whom investors have placed their trust, if they do not discharge their functions with due diligence and care.

(16) The Investment Corporation of Bangladesh (ICB) has long enjoyed immunity from the regulators. ICB functions as a DFI, as a commercial bank in some ways, as a merchant bank involved in underwriting and managing mutual funds and as an investment advisor in operating investor accounts. As a result of all these complex functions, ICB has escaped the eyes of the regulators,

especially the Bangladesh Bank. Today, ICB is in a liquidity crisis owing to all its functions- poor loan recovery, poor underwriting, mismanagement of investor accounts, its unconventional (and wrong) tactics in share market trading and finally, its poor accounting practices in the past. ICB does not help the market place by operating a sort of a parallel stock exchange on its own premises. ICB needs to do so.

(17) It is needed to bring institutional changes/reform that includes establishing clear guidelines for underwriting and capital issues for new public offerings, bonus shares and rights issues.

Capital Market Related Recommendations

- It is Required to build the image of capital market and get back confidence of investors.
- The company should try to minimize the overvaluation of share price.
- The company should try to minimize liquidity problem so that ICB can provide more loans for the investors with minimum interest.
- SEC should introduce good and new share in the market.
- It needs transparency in management.
- It needs proper knowledge and training regarding stock market.
- The key to existence of secondary markets is an efficient market trading place, where buying and selling is done efficiently and liquidity is maintained in the market place. To ascertain this efficiency and liquidity, the secondary market needs enforceable trading rules, an efficient transaction/settlement/clearing mechanism and the existence of a securities Finance House to support margin trading.

- The security market system in Bangladesh needs professionally trained government officials (in security market areas), financial accountants, legal specialists specializing in credit analysts, market operators, fund managers, investment educators, journalists who understand security markets and other related security markets professional.

- There is further a need for investor education also. The easiest means is an educational video produced combined by the ICB, DSE and Ministry of Finance, Which explains what shares and bonds are, what is a mutual fund, what is a stock exchange. What is an investor account, how can one buy and sell easily, and how the government will protect the investors against mal practice of the market operators.

- Improve economic environment, where monetary policy and interest rate structure is such that a risky capital market cab exists, and the fiscal policy is attractive to the company seeking funds and to the investor providing funds, in the form of tax benefits.

- Build a physical market structure; reorganize the management, operations, membership structure and the self- regulation of the Dhaka stock exchange. A complete reorganization of Investment Corporation of Bangladesh should include the working of investor accounts, margin calls, underwriting practices, a conservative dividend payout and more liberalized capital gains policy in unit fund and mutual funds, and of course, like any other DFI, a rehabilitation of its loan portfolio.

- It has to improve firm guidelines for improvements in market institutional structure, including capital issue process (new issues or bonus issues or rights issues) and clear guidelines for underwriting and the role that underwriters have to play.

At the same time, it is needed to improve market trading practices. The process of clearing/transfer/settlement should be simplified and a securities finance House to be set up to provide funds for margin trading, by holding shares as collateral.

8.19. Conclusion

Capital markets are financial markets for the buying and selling of long-term debt or equity-backed securities. These markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or government making long-term investments. To ensure sound economic development a sound capital market is very essential. The present scenario of the capital market is very horrific and unstable. As a state owned investment company of Bangladesh ICB can play a vital role to make a sound capital market. In this regard an evaluation of the performance of ICB was necessary. The present study has evaluated the performance of ICB in Capital market development. Moreover, it has opened a new branch of knowledge and approach to upgrade the performance of ICB. As it is known, the main objective of ICB was to encourage and broaden the base investment, to develop capital market and to mobilize savings from the surplus unit. It is observed that the performance of ICB was satisfactory. In almost all the areas, ICB's performance was improving in comparison to the past few years. Dividend payment, Net operating income, Operating profit, the amount of its investment in the main operational areas has also been increased. In terms of lease financing, Project commitments etc. the amount of allocation is also increasing. By playing a significant role in the above field, ICB has emerged as a key role player in the capital market of Bangladesh.

8.20. Suggestion for further research areas

- Conducting a special study in the context of Capital Market is necessary.
- Another study for formulation of policies and procedures for acquisition, valuation and resolution of financial assets and other business and operational activities is also essential.

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Appendices

Appendix 1: Financial Position of ICB (Tk. in crore)

Particulars	2000-1	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
Authorized Capital	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	500.00	500.00
Paid up Capital	46.60	46.60	46.60	50.00	50.00	50.00	50.00	50.00	100.00	200.00	250.00
Total shareholders' equity				123.84	139.47	160.43	186.43	280.95	392.69	598.86	2579.06
Investments				403.35	408.30	446.69	479.94	515.65	787.24	984.47	226.67
Total asset				1471.45	1535.65	1724.19	2325.08	2542.69	3244.49	3319.89	5277.44
Total liabilities				1347.61	1396.18	1963.76	2138.65	2261.75	2851.81	2721.03	2698.38
Reserves	46.51	52.51	59.11	69.11	84.11	100.61	122.61	164.61	164.61	1820.12	1921.29
Retained earnings	0.86	1.48	1.74	4.73	5.36	9.82	13.82	16.33	128.08	222.25	407.77
Government loan	5.25	5.25	5.25	5.25	5.25	4.90	4.55	4.20	3.85	3.50	3.15
Debenture loan	1.3.53	97.87	89.67	76.03	61.80	51.80	41.80	31.80	21.80	11.80	6.80
Book value per share(taka)				270.33	281.63	325.92	378.64	569.12	396.12	939.40	1035.23

Appendix 2: Financial Results of ICB (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
Income	73.49	100.76	113.80	137.35	170.38	166.41	245.87	437.01	364.21	527.62	668.35
Expenditure	65.32	90.33	1.3.12	119.21	148.45	143.22	215.64	335.82	252.58	314.57	282.83
Net profit	8.16	10.43	10.68	18.14	21.93	23.19	30.23	101.19	111.63	313.04	385.52
Earning Per Share (Taka)				38.84	43.87	46.38	60.47	202.39	111.63	106.52	114.16
Market Price Per Share (Taka)				122.75	200.00	142.00	403.00	3751.75	2478.76	4991.75	3749.50
Cash				10	12	12	14	10	5	15	15
Bonus				-	-	-	-	100	100	25	35
Dividend yield (%)				5.00	5.00	8.45	2.98	0.37	3.29	0.10	0.40
Price Earning Ratio				-	6.00	3.24	8.69	62.04	24.01	60.20	30.67
Net Profit Per Employee				0.05	0.06	0.06	0.07	0.22	0.24	0.65	0.84

Appendix 3: Financial assistance of project (commitment) (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
No. of projects	7	10	36	17	11	11	12	9	15	19	26
Amount	23.92	22.95	62.82	45.51	149.05	57.15	88.05	33.89	137.05	209.62	262.27

Appendix 4: Trustee to the issue of bonds (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
No. of companies	-	-	1	-	3	-	-	2	-	1	3
Amount	-	-	30.00	-	194.36	-	-	400.00	-	250.00	675.00

Appendix 5 : Custodian/Trustee to the issue of mutual fund (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
No. of mutual funds	-	-	2	-	-	-	2	2	3	7	3
Amount	-	-	20.00	-	20.00	-	30.00	120.00	245.00	750.00	400.00

Appendix 6 : Advance against ICB Unit/Mutual Fund and ICB AMCL Unit Fund certificates (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
Disbursement	2.73	1.85	3.12	3.89	4.66	4.65	4.09	4.82	4.78	5.56	6.98

Appendix 7: Lease financing (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
No. of project	5	5	8	7	2	2	5	4	3	3	-
Amount sanctioned	4.33	6.18	13.23	11.21	50.55	1.05	20.96	9.36	30.35	79.00	-

Appendix 8: Overdue loans (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
Principal	52.20	49.01	113.64	103.43	33.62	34.09	34.34	34.03	33.71	31.53	26.33
Interest	427.38	437.60	387.13	397.47	426.36	426.27	422.59	412.67	411.91	400.41	349.27
Total	479.58	486.61	500.77	500.90	456.98	460.36	456.93	446.70	445.62	431.94	375.60

Appendix 9: Outstanding loans as on 30 June (7+8) (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
Principal	65.17	62.53	128.05	121.76	43.04	40.16	37.19	34.48	33.71	31.78	30.57
Interest	428.30	438.08	389.39	398.04	423.76	426.41	423.20	412.77	411.91	406.38	403.26
Total	493.47	500.61	517.44	519.80	466.80	466.57	460.39	447.25	445.62	438.16	433.83

Appendix 10 : Legal action (Tk. in crore)

Year	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
No. of cases filed	3	5	3	51	11	9	8	8	2	4	1
No. of decrees obtained	4	5	9	6	6	3	3	4	8	3	3

Appendix 11: ICB Investor' Scheme (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
No. of accounts opened	759	794	-	-	-	-	-	-	-	-	-
No. of account closed	1535	1432	932	774	807	815	549	1545	1624	995	723
Net operative accounts	52031	51393	50461	49687	48880	48065	47516	45971	44347	43352	42203
Deposits received	13.36	19.77	13.91	27.31	22.77	16.77	18.18	32.75	30.68	48.55	55.13
Loans disbursed	44.59	45.98	27.36	58.73	119.32	94.80	83.19	206.46	512.38	1170.69	548.34
Investment made	46.64	55.04	41.11	62.91	121.23	73.02	176.07	420.34	469.08	1079.69	976.29

Appendix 12: Public issue (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
No. of companies	2	4	2	7	8	11	12	5	12	19	14
Size of issue (general public)	6.25	6.00	8.80	74.20	80.75	118.06	409.99	279.56	467.12	660.64	680.50
Public subscription	3.91	21.66	118.24	1666.61	984.65	1415.38	3005.07	2002.43	3889.22	12571.03	8227.58

Appendix 13: Transaction of ICB & Its Subsidiary Companies on the stock exchanges (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
DSE	366.99	225.82	728.91	631.26	796.90	425.46	1020.75	3973.97	5158.42	12241.30	13202.33
CSE	10.27	334.51	521.08	426.33	268.73	256.05	285.24	337.62	266.21	194.02	180.34

Appendix 14: ICB Mutual Funds (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
Numbers	8	8	8	8	8	8	8	8	8	8	8
Capital Fund	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.75	17.75	17.75	17.75
Investments at cost	34.23	34.21	40.12	48.13	51.99	51.78	55.04	61.28	82.30	80.08	92.22
Total market value of investments	43.98	33.99		58.63	67.66	53.61	86.75	146.51	202.99	320.58	338.57
1st ICB Mutual Fund	170	175	180	200	210	210	190%,1B:2	265	310	400	500
2nd ICB Mutual Fund	40	42	45	50	55	55	62	75	95	200	250
3rd ICB Mutual Fund	45	50	50	50	52	52	56	65	85	140	185
4th ICB Mutual Fund	38	40	40	45	48	48	52	60	80	125	165
5th ICB Mutual Fund	23	24	24	24	27	27	33	45	56	100	135
6th ICB Mutual Fund	17	17.50	17.50	17.50	18.50	18.50	23	30	37	75	90
7th ICB Mutual Fund	14	14.50	14.50	15	16	16	22.50	30	35	70	95
8th ICB Mutual Fund	13	1.50	13.50	14	15	15	18	25	32	65	90

Appendix 15: ICB Unit Fund (Tk. in crore)

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
Gross sale	30.14	30.67	18.12	17.97	17.09	17.89	18.22	20.45	32.85	39.62	52.36
Repurchase	41.98	34.54	18.59	20.79	23.46	19.34	25.61	29.56	15.29	13.11	13.94
Net sale	-11.84	-3.87	-0.47	-2.12	-6.37	-1.45	-7.39	-9.11	17.56	26.31	38.42
Investment, at cost	419.70	397.13	431.33	604.59	637.09	653.22	631.73	563.39	824.82	892.49	838.60
Total market value of investment	376.76	270.22	314.75	626.63	700.89	520.48	707.52	1053.80	1630.88	2715.41	2714.85
Rate of dividend (%)	12	12.30	12.30	11.50	12	12	13	20	22	26	30

Appendix 16: Manpower

	2000-01	2001-02	2002-03	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11
Officer	251	239	241	234	254	261	266	283	290	290	287
Employee	139	138	131	131	142	150	154	182	174	188	174
Total	390	377	372	365	396	411	420	465	464	478	461

Appendix 17: Market Capitalization and GDP at Current Market Price (Tk. in crore)

Accounting Year	Market Capitalization (In Billion Tk.)	GDP at Current Market Price
2000-01	72.17	2535.46
2001-02	65.52	2732.01
2002-03	72.59	3005.8
2003-04	136.64	3329.73
2004-05	222.05	3707.07
2005-06	215.42	4157.28
2006-07	475.86	4724.77
2007-08	931.03	5458.22
2008-09	1002.01	6148
2009-10	2276.95	6943.24
2010-11	2861.77	7874.95

Appendix 18: Paid-up Capital, Investment, Number of Companies and Participation of ICB (Tk. in crore)

Accounting Year	Paid-up - Capital of ICB (crore tk)	Investment Through IPO	Number of Companies for IPO	Investment Recieved against IPO	ICB participation in Total Turnover
2000-01	46.6	18.7	10	86.6	377.26
2001-02	46.6	19.8	9	87.28	560.33
2002-03	46.6	31.1	8	191.54	1243.66
2003-04	50	113.52	10	2501.71	1057.59
2004-05	50	80.75	8	984.65	1065.63
2005-06	50	179.89	15	1717.62	681.51
2006-07	50	425.22	14	3153.39	1305.99
2007-08	50	378.57	12	3827.41	4311.59
2008-09	100	505.82	17	5760.6	5424.63
2009-10	200	859.23	24	16343.27	12435.32
2010-11	250	1925.4	17	8097.32	13382.67

Appendix 19: Index and Market Capital of DSE and CSE (Tk. in crore)

Accounting Year	DSE General Index(on 30 June)	CSE Selective Category Index (on 30 June)	Total Market Capital DSE (in Crore Tk)	Total Market Capital CSE (in Crore Tk)
2000-01			7216.8	6282.36
2001-02	792.56		6551.8	5619.05
2002-03	830.46		7259.2	6064.17
2003-04	1318.92	1669.37	13664.1	12590.59
2004-05	1713.17	2348.58	22204.56	20304.44
2005-06	1339.52	1992.35	21542.19	21542.19
2006-07	2149.32	3478.59	47585.54	40323.1
2007-08	3000.5	5853.58	93102.52	93102.52
2008-09	3010.26	6772.23	100200.9	96166.33
2009-10	6153.68	11694.38	227695.3	212230.9
2010-11	6117.23	10974.1	286177	223758.5

Appendix 20: Turnover and Participation of ICB in DSE and CSE (Tk. in crore)

Accounting Year	Total turnover in DSE (in crore tk)	Participation of ICB in DSE	Total turnover of CSE	Participation of ICB in CSE	Total Turnover in Secondary Market(In Crore Tk)
2000-01	4909.4	366.99	1448.17	10.27	6357.57
2001-02	3493.56	225.82	1584.13	334.51	5077.69
2002-03	3059.7	722.55	1091.24	512.11	4150.94
2003-04	2477.1	631.26	837.76	426.33	3314.86
2004-05	7522.52	796.9	1667.15	268.73	9190.37
2005-06	4600.81	425.46	1140.8	256.05	5741.61
2006-07	16467.14	1020.75	3563.31	285.24	20030.45
2007-08	54328.56	3973.97	8016.2	337.62	62344.76
2008-09	89378.95	5158.42	12518.25	266.21	101897.2
2009-10	256350.6	12241.3	21520.36	194.02	277870.9
2010-11	325881.9	13202.33	32205.08	180.34	358087

Appendix 21: Transaction, Total Income, and Net Profit of ICB (in crore Tk.)

Accounting Year	Transaction of securities Through inv. Scheme (in crore Tk.)	Total Income of ICB (in crore Tk.)	Net Profit of ICB
2000-01	72.37	73.49	8.16
2001-02	73.45	100.76	10.43
2002-03	70.23	113.8	10.68
2003-04	107.48	137.35	18.14
2004-05	263.91	170.38	21.93
2005-06	130.93	166.41	23.19
2006-07	336.18	245.87	30.23
2007-08	883.01	437.01	101.01
2008-09	927.77	364.21	111.63
2009-10	2053.48	527.62	313.04
2010-11	1747.33	668.35	385.52