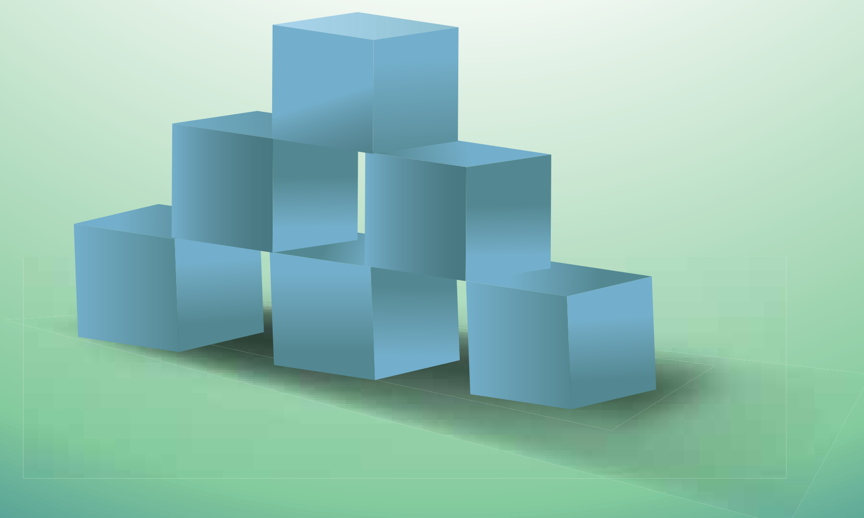
Quarterly Financial Stability Assessment Report (QFSAR)



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Quarterly

Financial Stability Assessment Report

April-June 2015

Financial Stability Department
Bangladesh Bank

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This report is based on unaudited and provisional data of banks and non-bank financial institutions available upto June 30, 2015 unless stated otherwise in the relevant chapters/sections.

MESSAGE OF THE GOVERNOR

Financial stability issues have begun to attract increasing attention of policy makers after the global financial crisis. Though Bangladesh has not been affected much by the crisis, maintaining a safe and secure financial system is an important policy objective of the Government, Bangladesh Bank and other financial sector regulators and stakeholders. Bangladesh Bank has been working relentlessly to maintain a sustainably stable financial system in Bangladesh. As an example of our efforts, we have commenced more effective coordination of our policy stances with other regulators of the financial system under a Memorandum of Understanding arrangement.

While rendering efforts towards maintaining financial stability, Bangladesh Bank prudently observes whether its regulatory stances have any spillover effects on the real economy, and monitors the impacts of developments in the real economy on financial sector. In order to attain a desired level of steadiness in the economy, the Government of Bangladesh continues to fine tune its fiscal stances from time to time, while Bangladesh Bank applies macro-prudential approaches to regulation and supervision in addition to implementing micro-prudential ones. Bangladesh Bank also puts its financial inclusion initiatives as a policy measure to bring a vast number of poor people under the benefit of financial system, thereby contributing to inclusive growth and stability.

Bangladesh Bank commenced preparing the Financial Stability Assessment Report from late 2014 with an aim to convey its assessment about key trends in the major segments of the financial system on a quarterly basis. This issue of the Report contains trends in macroeconomic indicators, banking and NBFIs sectors' performances including their liquidity and capital adequacy, major risks to which they are exposed to and their resilience to plausible adverse events, in addition to the capital market developments for the April-June quarter of 2015.

Encouragingly, the financial system of Bangladesh was moderately resilient in withstanding potential financial and economic shocks during the review quarter. It is worth mentioning that a favourable domestic macroeconomic environment, stringent microprudential regulations, gradual application of macroprudential oversights, and broad based financial inclusion initiatives contributed significantly to maintain the stability of the financial system. Moreover, successful implementation of the Basel II framework in banks and non-bank financial institutions, transition to the Basel III capital and liquidity frameworks for banks, all against a backdrop of ample system liquidity, also helped to maintain a moderate level of financial stability.

I hope this report will furnish financial system stakeholders with valuable information and facilitate financial stability initiatives in the upcoming quarters. This report may also make the stakeholders aware of any risks and fragilities to the financial systems well ahead of the time they might materialize. I would like to thank the FSD staff for their enthusiastic involvement and valuable contribution for bringing this report to light.

Atiur Rahman, PhD
Governor

MESSAGE OF THE DEPUTY GOVERNOR

During the April-June quarter of 2015, the world economy has undergone a moderate turbulence. The Greek sovereign debt crisis intensified, as the country imposed capital controls, defaulted on IMF debt, and was forced to enter into negotiations on a new bailout. Besides, China's stock market plunges as high as 30 percent in late June, created some anxiety throughout the global stock markets. Though these events have not affected Bangladesh economy that much, policy makers had to remain alert to withstand any spillover effects if the situations aggravate further. In this context, Bangladesh Bank has been steadily progressing to add a new dimension in its regulatory landscape. It has taken steps to implement a number of new macroprudential approaches, in addition to the existing microprudential ones. Implementation of a Contingency Planning Framework, adoption of an Interbank Transaction Matrix and Financial Projection Model, development of a framework for the countercyclical capital buffer, bringing to fruition a lender of last resort regime, designing methodologies for identification of domestic systemically important banks (D-SIBs), and devising an oversight mechanism for payment and settlement systems are some key initiatives for making the financial system more shock-resilient and stable. Moreover, bringing all types of financial institutions under a coordinated supervision framework is progressing steadily, with a view to guard against vulnerabilities and promote financial stability. In addition, innovative initiatives for financial inclusion are paving the way for the economy towards inclusive growth and stability.

The Quarterly Financial Stability Assessment Report (QFSAR) is one of the important attempts of Bangladesh Bank to assess the overall financial situation of the country during a quarter. This is the third issue of the QFSAR, containing discussions on key aspects of the financial system during April-June 2015. It also covers issues such as macroeconomic trends, performance of the banking and non-bank financial institutions (NBFIs) sectors, capital market developments, risk associated with these sectors, resilience against risks and fragilities and notable initiatives taken by Bangladesh Bank during the quarter under review.

I expect that this report will enable the stakeholders to derive important insights for preparing themselves to withstand shocks in the financial systems. I commend the dedication and effort of the officials of Financial Stability Department who worked hard for bringing the report to light, keeping it precise, informative and insightful to the best extent possible.

Shitangshu Kumar Sur Chowdhury
Deputy Governor

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Acronyms

ADR	Advance-to-Deposit Ratio
B/L	Bad and Loss
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDT	Bangladesh Taka
BRPD	Banking Regulation and Policy Department
CAR	Capital Adequacy Ratio
CPI	Consumer Price Index
CRAR	Capital to Risk-weighted Asset Ratio
CRR	Cash Reserve Requirement
CY	Calendar Year
DFIs	Development Finance Institutions
DFIM	Department of Financial Institutions and Markets
DOS	Department of Off-site Supervision
DSE	Dhaka Stock Exchange
DSEX	DSE Broad Index
FCBs	Foreign Commercial Banks
FIs	Financial Institutions
FOB	Free on Board
FSD	Financial Stability Department
FSV	Forced Sale Value
FX	Foreign Exchange
GDP	Gross Domestic Product
IMF	International Monetary Fund
IS	Interest Suspense
NBFIs	Non-bank Financial Institutions
NPL	Non-performing Loan
PCBs	Private Commercial Banks
P/E	Price Earnings Ratio
QFSAR	Quarterly Financial Stability Assessment Report
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk-weighted Assets
SCBs	State-owned Commercial Banks
SLR	Statutory Liquidity Requirement
TL	Total Loan
USD	United States Dollar
WAR	Weighted Average Resilience
WIR	Weighted Insolvency Ratio

Executive Summary

During the April-June quarter of 2015 (CY15), the world economy has undergone a moderate level of turbulences. The Greek sovereign debt crisis intensified, China's stock market plunges as high as 30 percent created anxiety throughout the global stock market. Amid all these, Bangladesh financial system demonstrated a notable resilience and stability during the period.

Inflation recorded a moderate decline in the second quarter of CY15 while the wage earners' remittance recorded a moderate increase with respect to the preceding quarter. Gross international reserves stood at USD 25 billion at end-June 2015, sufficient enough to meet more than seven months' import bills.

The index of industrial production (general-manufacturing) increased notably in June 2015 from the March quarter CY15. Import payments increased moderately while export receipts increased slightly in the review quarter from the preceding quarter.

The spread between the weighted average lending and deposit rates remained unchanged during the quarter under review. The value of Bangladesh Taka (BDT) against the US dollar (USD) also remained unchanged while credit to the Government (gross) by the banking system recorded a slight decrease.

The banking sector displayed a mixed performance during the review quarter. While the balance sheet size grew to a notable extent, the share of loans and advances to total assets slightly increased and the share of investment slightly decreased. The share of money at call also decreased slightly at the end of June 2015. Asset quality, measured by non-performing loans (NPL) to the aggregate loan portfolio, slightly improved and NPL to regulatory capital recorded a moderate improvement over the preceding quarter. The provision shortfall narrowed moderately. Key profitability indicators, i.e., Return on Assets (ROA) and Return on Equity (ROE), recorded a minor decline in the reporting quarter.

At the end of June 2015, the number of banks compliant with the minimum capital to risk-weighted assets ratio (CRAR) decreased slightly from that of end-March 2015; still, a significant portion of the banks were able to maintain their minimum capital ratios above 10.0 percent in line with Pillar 1 of the Basel III capital framework. Moreover, a substantial share of banking assets was concentrated within the CRAR-compliant banks over this period. The overall banking sector CRAR slightly dropped from the end-March 2015 position. The Tier-1 capital ratio also declined slightly; though the ratio was much higher than the minimum requirement of 5.5 percent. As of end-June 2015, the Advance-to-Deposit ratio (ADR) of the banking industry slightly decreased relative to the end-March 2015 position.

Stress testing analysis, based on the data as of June quarter CY15, indicated that default of the largest borrowers would have a major impact on the banking sector CRAR, implying that the banking sector as a whole should pay due attention to managing concentration risk in a prudent manner. In contrast, the banking industry was found to be fairly resilient in the face of various market risk shocks. Moreover, the individual banks and the banking system as a whole were found to be well resilient against various liquidity stress scenarios as of end-June CY15.

Non-bank Financial Institutions (NBFIs) demonstrated a mixed trend in the second quarter of CY15. Asset quality recorded a minor deterioration from March 2015 while the key profitability indicators - ROA and ROE - recorded a notable improvement over the previous quarter.

During the review quarter, the NBFIs had no shortfall in either the Cash Reserve Ratio (CRR) or the Statutory Liquidity Ratio (SLR). The capital adequacy ratio (CAR) of the NBFIs sector decreased slightly in the review quarter, from the preceding quarter, attributable to a disproportionate increase of risk-weighted assets relative to its total eligible capital. A substantial share of this sector's asset was concentrated within the CAR compliant NBFIs, which attributed further in maintaining the stability of the sector. In addition, the Tier-1 ratio was much higher than the regulatory requirement of 5.0 percent.

Stress testing analysis on the NBFIs reveals that a majority of them were resilient in the event of different stress scenarios as of end-June 2015. However, 15 NBFIs were prone to shock events necessitating the supervisory attention.

The capital market exhibited a comparatively weak performance in terms of turnover with slight improvement of the DSEX, DSE 30, and DSES in June 2015 compared with March 2015. On the other hand, the amount of corporate bonds issued remained unchanged compared with end-March 2015.

BB has been acting relentlessly to improve the stability of the financial system of Bangladesh. To this end, the Bank has taken a number of initiatives in the review quarter. Some notable initiatives are as follows:

i) **Formation of Separate Agricultural Credit Department/Cell:** In June 2015, Bangladesh Bank issued an instruction for the banks to form a separate agricultural credit department/cell at the Head Office level with required manpower, and also at the branch level to engage at least one officer. All agricultural loan-related activities will be administered by this department/cell.

ii) **Prevention of Money Laundering & Terrorist Financing Instructions for Financial Institutions:** The Bangladesh Financial Intelligence Unit (BFIU), housed in Bangladesh Bank, issued an instruction in June 2015 requiring all Non-bank Financial Institutions (NBFIs) to be compliant with the issues on prevention of money laundering and terrorist financing. The regulation requires the FIs to have their own policy in conformity with the acts to prevent money laundering and terrorist financing.

iii) **Financial Inclusion:** BB, as part of its financial inclusion drive, has taken a number of initiatives in the review quarter. Some of these policies are:

   (a) Credit Financial Services for women entrepreneurs in the Cottage, Micro and Small sectors: Bangladesh Bank issued an instruction in April 2015 for all scheduled commercial banks and NBFIs to provide with credit to fresh women entrepreneurs in the Micro and Small sectors. All banks and NBFIs are to choose at least three women who are interested to start a business, and they would have to provide with loan to at least one of these entrepreneurs.

   (b) SME Credit Facilities for the Entrepreneurs belonging to Rakhaine and other Tribes, the physically disabled, socially deprived entrepreneurs, and the people of the Third Gender Group: In order to support rapid and broad-based inclusive economic growth, BB issued a circular in June 2015 instructing all scheduled commercial banks and NBFIs to allow SME credit facilities for the entrepreneurs belonging to Rakhaine and other Tribes, the physically disabled, socially deprived entrepreneurs, and the people of the Third Gender Group.

Amid tensions in a number of jurisdictions in the global economy during the review quarter, the Bangladesh financial system has been mostly successful in withstanding any associated challenges. Stringent regulation and supervision by Bangladesh Bank, supportive measures taken by the Government and a coordinating role of the financial sector regulators, all helped to optimize the outcomes of the stability initiatives. Nevertheless, coordination among the financial sector regulators could be strengthened further. Besides, financial sector regulators need to remain cautious about the spillover effects of their policy stances on the real economy to the best extent possible.

Chapter-1

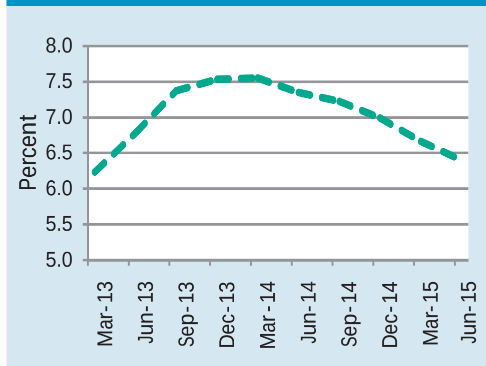
Macro Economic Developments

Bangladesh economy during the second quarter (April-June) of CY15 remained quite balanced with respect to macroeconomic indicators which might foretell uncertainties. In particular, increased public confidence in the capital market and a steadier financial market made the economy more stable than the previous quarter.

1.1 Inflation

As of end-June 2015, inflation was consistent with the target of monetary policy of 6.5 percent, as it stood at 6.4 percent compared with 6.7 percent recorded at end-March 2015. As evident from chart 1.1, inflation has recorded a declining trend from early 2014.

Chart 1.1 Inflation

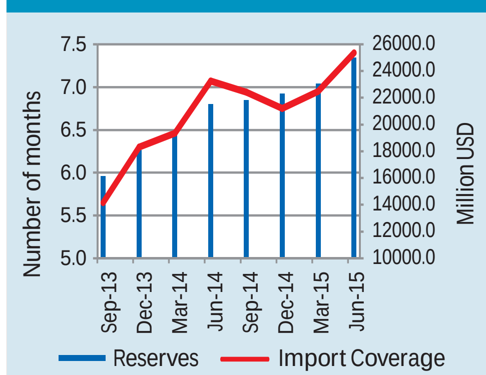


Source: Economic Trends, BB (various issues).

1.2 Foreign Exchange Reserve and its Import Coverage

As of end-June 2015, the gross foreign exchange reserve stood at USD 25 billion, an increase by 8.5 percent from the USD 23.1 billion recorded at end-March 2015 and significantly higher than the USD 21.5 billion recorded at end-June 2014. The rate of growth in reserves in the June quarter had even accelerated compared with the growth in the previous quarter.

Chart 1.2 Foreign Exchange Reserve



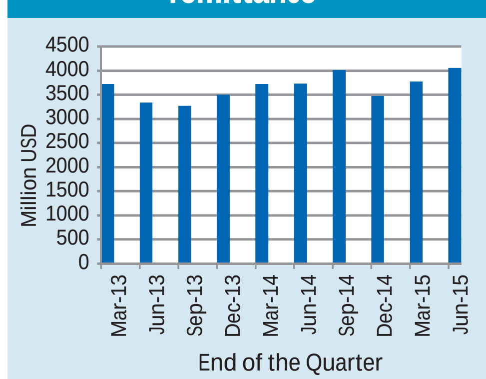
Source: Research Department, BB.

With the current level of reserves, Bangladesh can meet more than seven months of its import bills on a FOB basis.

1.3 Wage Earners' Remittance

The remittances from Bangladeshi nationals working abroad increased by 7.6 percent to

Chart 1.3 Wage Earners' remittance



Source: Monthly Economic Trends, BB (various issues).

USD 4058.6 million in the June quarter of CY15, compared with USD 3771.1 million recorded in the March quarter of CY15.

1.4 Industrial Production

The Quantum Index of Industrial Production (General-manufacturing) at end-June 2015 stood at 285.5[1], compared with 227.5 recorded at end-March 2015. The index demonstrates an increasing trend, which implies a higher level of economic activity.

1.5 Imports and Exports

In the second quarter of CY15, aggregate import payments[2] in US dollars increased by 12.5 percent and reached to USD 10924.0 million as compared with USD 9711.0 million recorded in the first quarter of CY15. Export receipts recorded a positive growth, increasing by 2.1 percent and reached to USD 8156.0 million compared with USD 7990.5 million recorded in the first quarter of CY15.

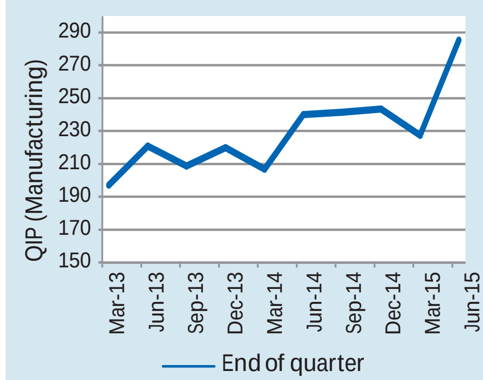
1.6 Interest Rate Spread

The spread between the weighted average lending and deposit rates remained unchanged at 4.9 percent in June 2015. However, in the review quarter, both the deposit and lending rates declined; the former was 6.8 percent while the latter was 11.7 percent.

1.7 Exchange Rate

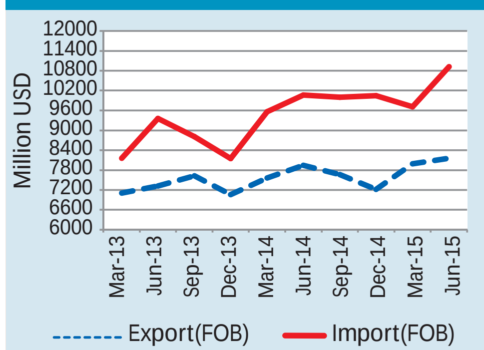
The value of the Bangladesh taka against the US dollar remain unchanged at end-June 2015 compared with the same at end-

Chart 1.4 Industrial Production Index (General-Manufacturing)



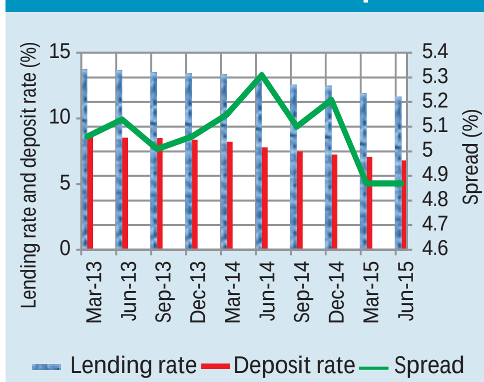
Note: Base 2005-06=100. Source: BBS.

Chart 1.5 Exports and Imports (FOB)



Source: Statistics Department, BB.

Chart 1.6 Interest Rate Spread



Source: Major Economic Indicators, BB (various volumes).

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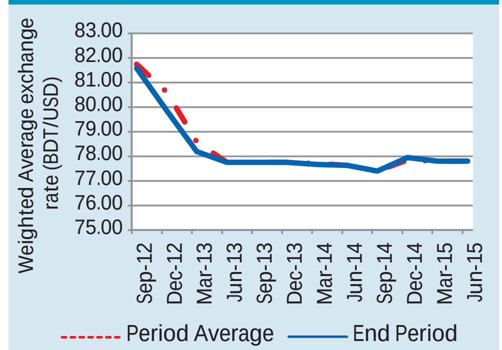
[1] Provisional
[2] On FOB basis

March 2015. It is mentionable that the weighted average exchange rate at the end of the review period remained at BDT 77.80 per USD.

1.8 Credit to the Government (Gross) by the Banking System

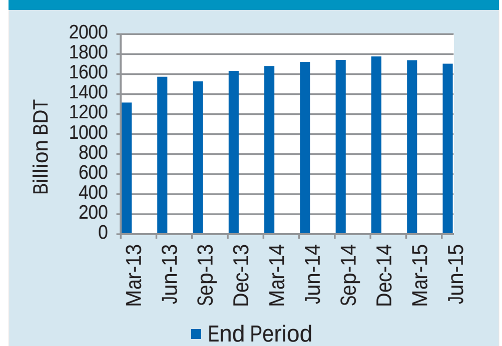
Credit to the Government (gross) by the banking system decreased by BDT 35.1 billion or 2.0 percent at end-June CY15, since end-March CY15. It is mentionable that this rate of decrease was 20 basis points lower than the rate of decline observed in the previous quarter.

Chart 1.7 Exchange Rate



Source: Economic Trends, BB.

Chart 1.8 Credit to the Govt. (gross) by the banking system



Source: Economic Trends, BB.

Chapter-2

Banking Sector Performance

The banking sector exhibited a mixed performance during the June quarter of CY15. The share of loans and advances in total assets increased, and the share of investments decreased. The share of money at call also decreased slightly.

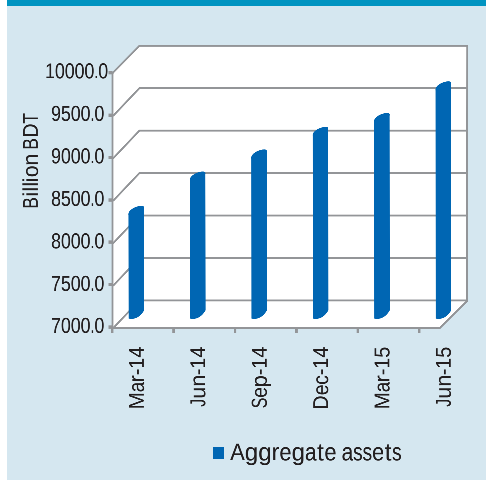
During the June quarter of CY15, asset quality of the banks improved moderately relative to the aggregate loan portfolio. Also, the ratio of non-performing loans (NPLs) to regulatory capital recorded a slight improvement. NPLs were widely distributed among the banks. The provision shortfall also slightly improved. It is mentionable that more than three-fourths of the non-performing loans were in the bad/loss category. Profitability indicators, both ROA and ROE, recorded a minor decline.

2.1 Assets structure of the banking sector

The balance sheet size of the banking sector[3] grew by almost 4.1 percent and stood at BDT 9688.8 billion at end-June 2015. Loans and advances, as a percentage of total assets recorded a minor increase, and investments recorded a slight decrease compared with end-March CY15.

The share of loans and advances, the largest among asset items, increased by 17 basis points at end-June of CY15, while the share of investments in government and other securities decreased by 19 basis points (both expressed as percentage of total assets) compared with end-March 2015. The share of banks' assets with BB increased by 19 basis points, and balances with other banks and FIs decreased by 14 basis points.

Chart 2.1 Asset size of the banking industry



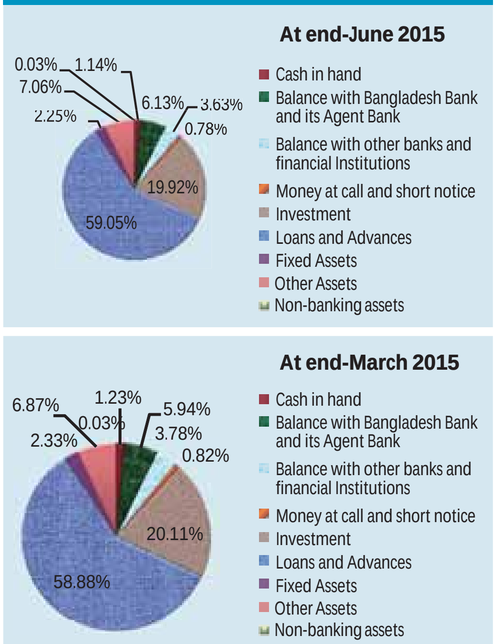
Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

Banks' money at call decreased by 4 basis points and the share of other assets increased by 19 basis points.

The asset concentration ratios of the top 5 banks and top 10 banks relative to total banking system assets were 33 percent and 47 percent respectively at end-June 2015.

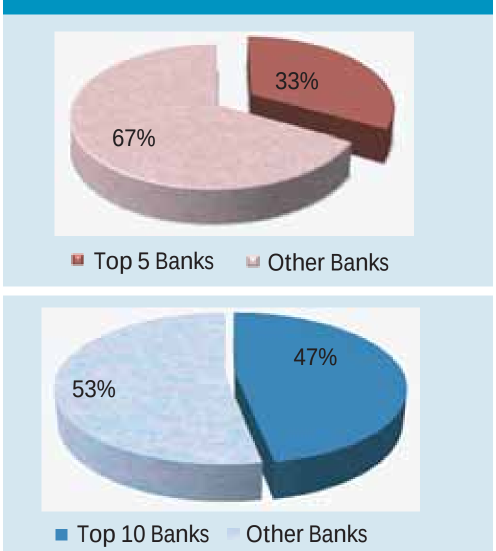
3 Taking into account only scheduled banks

Chart 2.2 Asset structure of the banking industry



Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

Chart 2.3 Top 5 and Top 10 banks based on Assets size as at end-June 2015



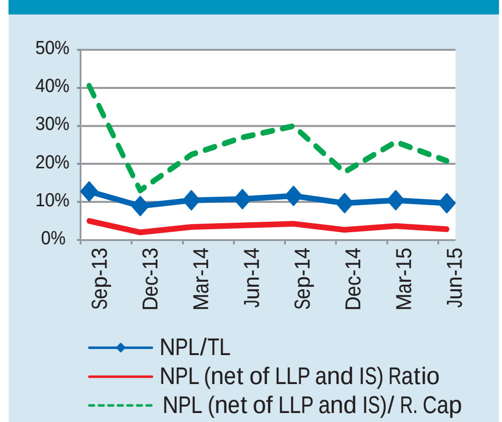
Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

2.2 Asset Quality

The NPL ratio[4] decreased by 80 basis points, reaching 9.7 percent at end-June 2015 from 10.5 percent recorded at end-March 2015. Besides, non-performing loans net of specific loan loss provisions and interest suspense to total loans and to regulatory capital decreased to 2.8 percent and 20.8 percent respectively at end-June 2015 from 3.7 percent and 25.8 percent recorded at end-March 2015.

The distribution of banks, based on their NPL ratios, indicates that the number of banks with double-digit values remained unchanged in June quarter of CY15 compared with the previous quarter's figure of 14. Moreover, 10 banks with NPL ratios over 20.0 percent require proper regulatory attention.

Chart 2.4 NPL ratio



Source: BRPD, BB.

The provision maintenance ratio[5] at end-June 2015 stood at 91.8 percent as opposed to 87.7 percent recorded at end-March 2015.

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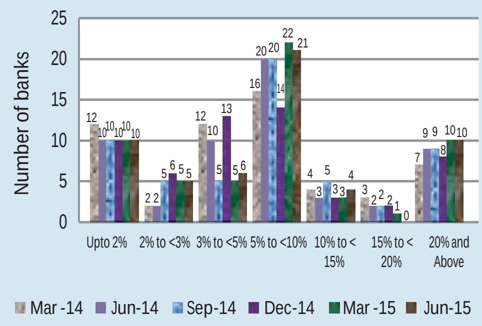
4 Non-performing loan to total loan ratio.
5 Maintained provision to required provision.

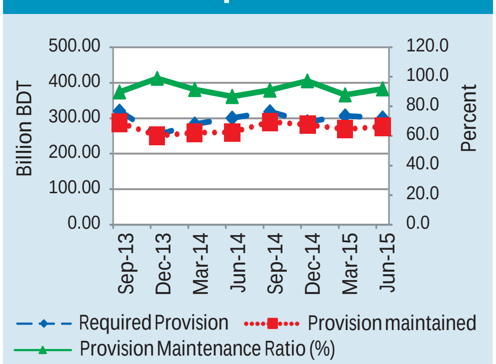
Chart 2.5 Distribution of banks by NPL ratio



Source: BRPD, Compilation FSD.

It should be noted that 48.0 percent and 61.7 percent of the non-performing loans were concentrated in the top 5 banks and top 10 banks respectively, when banks' NPL ratios were sorted in a descending order, at end-June 2015 (chart 2.7). Accordingly, it may be inferred that the NPL problem in Bangladesh is disproportionately concentrated in the largest banks.

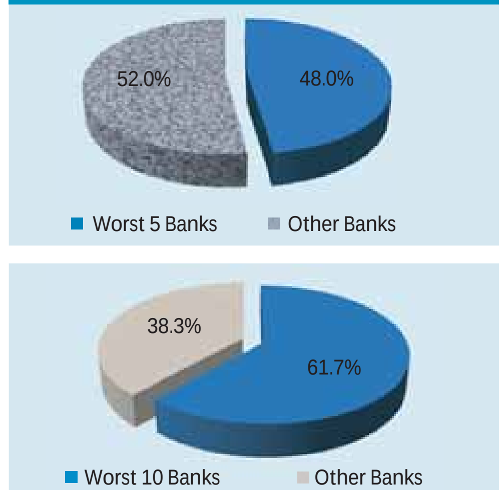
Chart 2.6 Banking sector loan loss provision



Source: BRPD, BB.

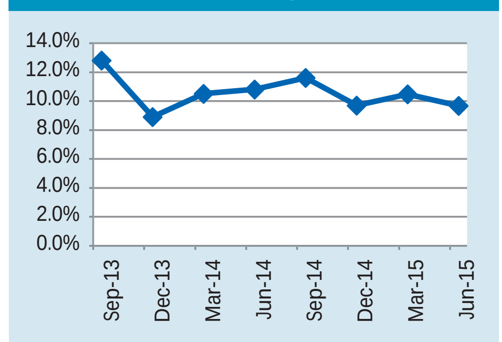
The ratio of bad/loss loans to total classified loans stood at 80.1 percent at end-June CY15[6]. The NPL under sub-standard and doubtful categories, on the other hand, constituted 11.4 and 8.5 percent of total

Chart 2.7 Top 5 and Top 10 banks based on NPL as of end-June 2015



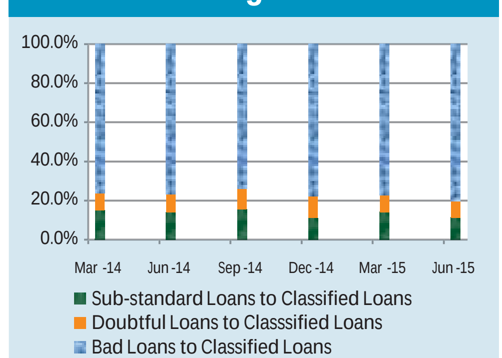
Source: BRPD; Compilation FSD.

Chart 2.8 NPL ratio of the banking Industry



Source: BRPD, BB.

Chart 2.9 Proportion of NPL categories

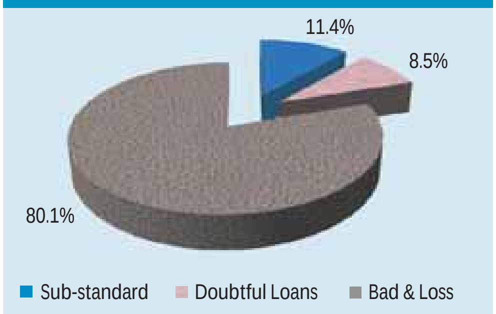


Source: BRPD, BB.

[6] Compared with 77.1 percent recorded at end-March CY15.

NPLs respectively. It is mentionable that the proportion of bad/loss loans increased by 3 percentage points while the proportion of doubtful and sub-standard loan decreased by 0.3 and 2.8 percentage points respectively from the previous quarter.

Chart 2.10 NPL composition of banks

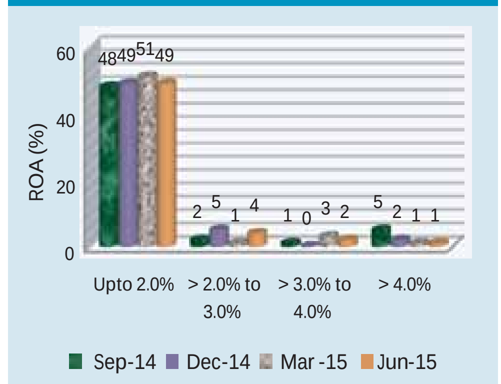


Source: BRPD, BB.

2.3 Profitability

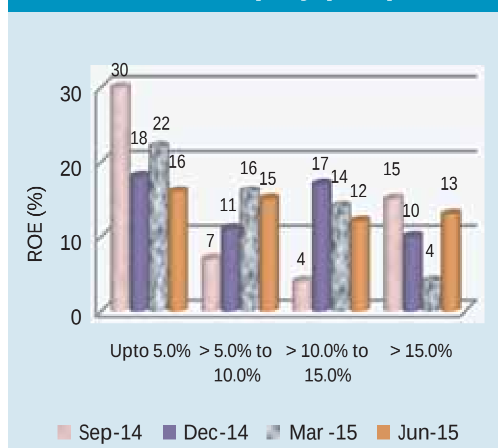
Both the return on assets (ROA) and return on equity (ROE) decreased by 22 and 72 basis points at end-June CY15 with respect to the position of the previous quarter and reached the levels of 0.42 and 4.9 percent respectively. Almost 87.5 percent of banks had a ROA of less than 2 percent, while 12.5 percent of banks had a ROA higher than 2 percent. On the other hand, 71.4 percent of the banks had a ROE of higher than 5 percent.

Chart 2.11 Banking Sector return on assets (ROA)



Source: Compilation (Aggregate P/L account of banking industry): FSD, BB.

Chart 2.12 Banking Sector return on equity (ROE)



Source: Compilation (Aggregate P/L account of banking industry): FSD, BB.

Chapter-3

Non-bank Financial Institutions' Performance

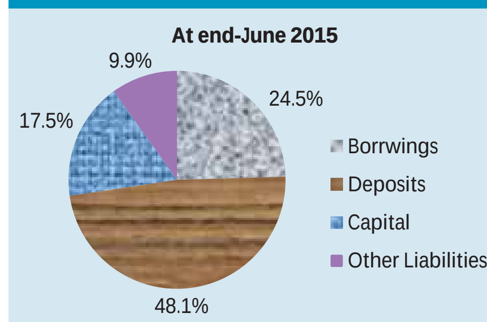
Non-bank Financial Institutions (NBFIs) showed a mixed trend in the review quarter of CY15. Key financial soundness indicators, such as non-performing loans and leases deteriorated and profitability ratios slightly increased, portraying a diverse performance of the industry.

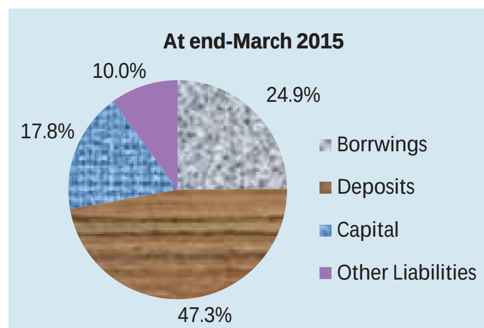
3.1 Sources of funds of the NBFIs

Deposits constitute the major source of total funds for the NBFIs while borrowings are the second important source. NBFIs are allowed to take deposits directly from the public as well as from institutions. However, NBFIs are allowed to mobilize term-deposits only, with a tenor not less than three months. Besides, their major funding sources are capital, call money and bonds.

At end-June 2015, borrowings, deposits, capital and other liabilities constituted 24.5, 48.1, 17.5 and 9.9 percent respectively of the sources of funds of the NBFIs. In comparison with end-March 2015, the proportions of all the sources of funds remained almost unchanged. Deposits have increased slightly, by 80 basis points, while all other sources adjusted accordingly.

Chart 3.1 NBFIs' Borrowing, Deposit, Capital, and Other Liabilities





Source: NBFIs, FSD Staff Compilation.

3.2 Assets Composition/Structure

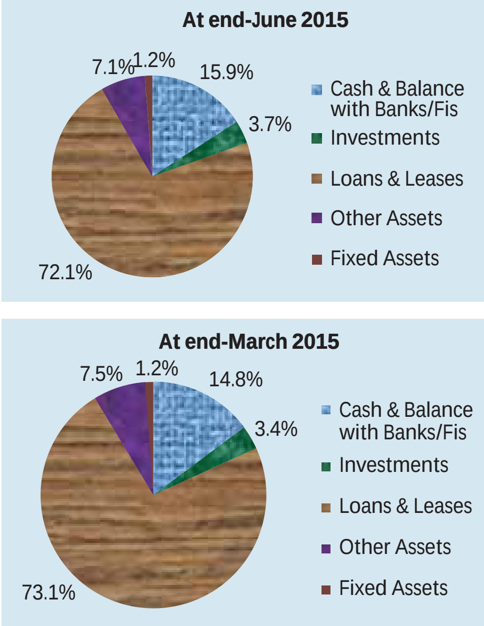
The major portion of NBFIs' funds was deployed in loans and leases. Besides, cash and balances with banks/FIs, investments, and other assets (including fixed and non-financial assets) are the main components of their assets.

NBFIs' loans and leases constituted 72.1 percent of total assets at end-June 2015. Cash and balances with banks/FIs, investments, fixed assets, and other assets comprised 15.9, 3.7, 1.2 and 7.1 percent of total assets respectively.

When compared with end-March 2015[7] positions, the proportion of cash and balances with other banks/FIs and investments decreased by 110 and 30 basis points respectively. However, the proportions of loans and leases, and other assets decreased by 100 and 40 basis points respectively while the proportion of fixed assets remained unchanged.

[7] One NBFI could not submit Balance Sheet and Profit Loss Account statement for the March quarter 2015. In this case, industry positions have been compiled using December 2014 based figures of the NBFI.

Chart 3.2 NBFIs' assets composition



Source: NBFIs, FSD staff compilation.

3.3 Asset Quality

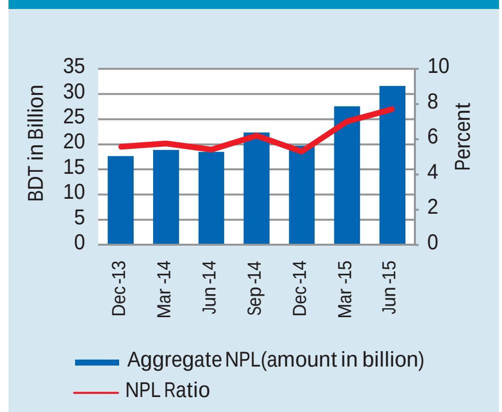
NBFIs' asset quality deteriorated notably in June 2015[8]. Non-performing loans and leases increased from BDT 27.6 billion at end-March 2015 to BDT 31.6 billion in end-June 2015, recording an increase of 14.5 percent. The ratio of non-performing loans and leases to total loans and leases reached to 7.7 percent at end-June 2015, which is 70 basis points higher than the ratio of 7.0 percent recorded at end- March 2015.

3.4 Profitability

The NBFIs' profitability has improved in the June quarter of CY15 over the March quarter of CY15[9].

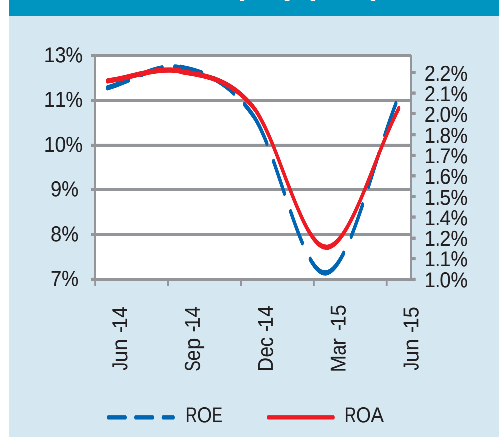
The ROA and ROE stood at 2.0 and 11.4 percent respectively in the June quarter of CY15 as opposed to 1.2 and 6.7 percent respectively recorded at the preceding quarter.

Chart 3.3 NBFIs' non-performing loan and leases



Source: DFIM, BB.

Chart 3.4 NBFIs' Return on Assets (ROA) and Return on Equity (ROE)



Source: NBFIs; FSD staff compilation.

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8 There has been no change in regulatory requirements regarding NBFIs' asset classification in June quarter CY15.

9 Here profitability indicators-ROA and ROE- have been annualized from quarterly ratios.

Banking Sector Liquidity and Capital Adequacy

The banking sector as a whole, continued to maintain its regulatory capital higher than the minimum requirement of 10.0 percent. On the other hand, the advance-to-deposit ratio (ADR) decreased slightly from the previous quarter.

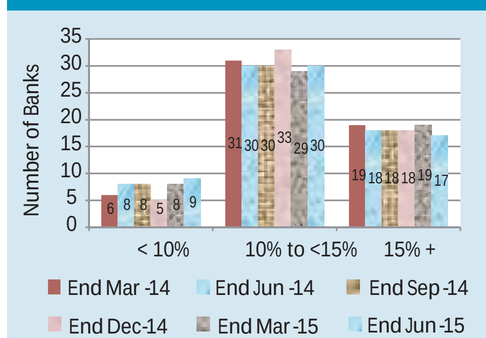
4.1 Capital Adequacy

Under the Basel-III framework, banks in Bangladesh are required to maintain a capital to risk-weighted assets ratio (CRAR) of at least 10.0 percent and Tier-1 capital ratio of at least 5.5 percent.

Compared with end-March 2015, the number of banks compliant with the minimum CRAR slightly decreased in this quarter; 47 banks out of 56 have been able to maintain their capital ratios of 10.0 percent and higher in line with Pillar 1 of the Basel III capital framework. This number was 48 at end- March 2015. However, as evident from Chart 4.2, a quite substantial share of banking assets was still concentrated within the CRAR-compliant group of banks. It is to mention that 29 banks' CRARs were within the range of 10-15 percent and their assets accounted for nearly 67 percent of the total banking industry's assets at end-June 2015. This indicates a significant portion of the banking sector assets are being managed by the CRAR-compliant banks.

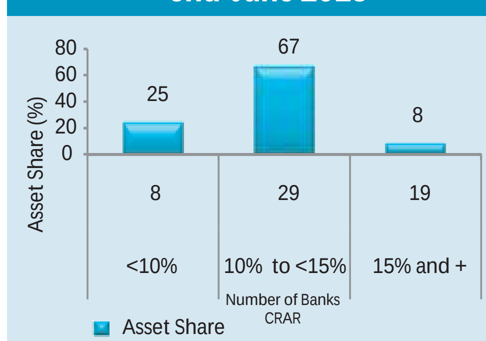
The banking sector aggregate CRAR at end-June 2015 was 10.3 percent, which was slightly higher than the minimum requirement of 10.0 percent but 40 basis points lower than the ratio recorded at end-March 2015. The Tier-1 capital ratio stood at 7.9 percent as opposed to 8.2 percent recorded at end-March 2015. Nevertheless, the ratio is significantly higher than the minimum regulatory requirement of 5.5 percent[10].

Chart 4.1 Banking Sector Capital to Risk-Weighted Assets Ratio



Source: DOS, BB.

Chart 4.2 Assets share of banks based on CRAR at end-June 2015

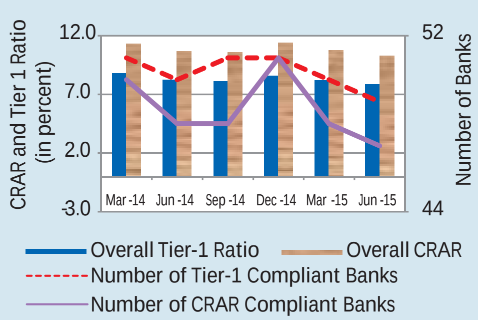


Source: DOS,BB.

10 At end-June 2015, the minimum requirement for the Tier-1 ratio was 5.5 percent under Basel III regime.

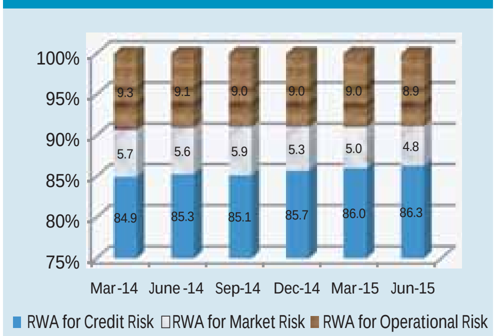
At end-June 2015, under Pillar 1 of the Basel III capital adequacy framework, risk-weighted assets arising from credit risks accounted for 86.3 percent of the total industry's risk-weighted assets, and the next positions were held by operational and market risk respectively (Chart 4.4).

Chart 4.3 Tier-1 capital ratio and overall CAR/CRAR of the banking industry



Source: DOS, BB.

Chart 4.4 Distribution of risk-weighted assets

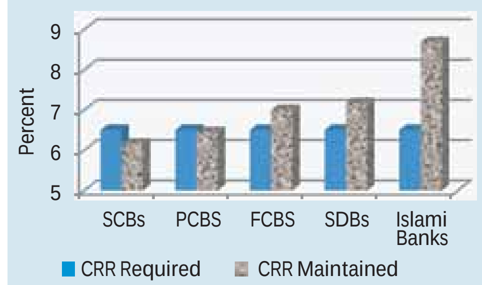


Source: DOS, BB.

4.2 Liquidity

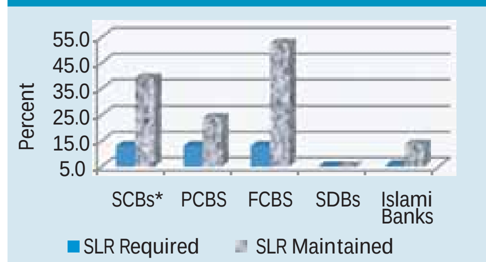
All banking clusters except the SCBs generally met their liquidity requirements. Islamic shari'ah banks significantly exceeded their CRR requirements, while FCBs significantly exceeded their SLR requirements.

Chart 4.5 Banking sector CRR: June 2015



Source: DOS, BB.

Chart 4.6 Banking sector SLR: June 2015



Source: DOS, BB.

Conventional banks are required to maintain an Advance-to-Deposit Ratio (ADR) up to 85 percent while for the Islamic Shari'ah banks, the ceiling of ADR is 90 percent.

As evident from Chart 4.7, ADR of the banking industry decreased by 20 basis points at end-June 2015 from the end-March 2015.

Chart 4.7 Banking sector Advance-to-Deposit ratio

Source: DOS, BB.

Chapter-5

Non-bank Financial Institutions' Liquidity and Capital Adequacy

The Non-bank Financial Institutions (NBFIs) work as a catalyst to economic growth of the country. As per existing regulations, NBFIs are required to maintain liquidity and capital adequacy ratios which enable them to play an important role in maintaining stable financial system.

5.1 Liquidity

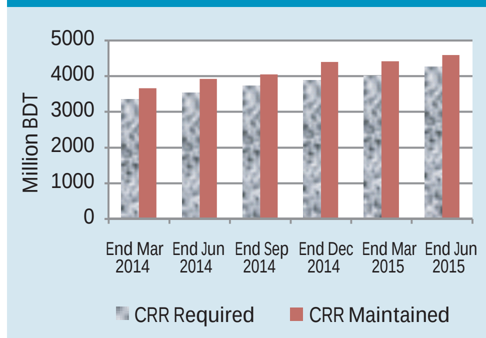
NBFIs taking term deposits have to maintain a statutory liquidity requirement (SLR) of 5.0 percent of their total liabilities, inclusive of an average 2.5 percent cash reserve ratio (CRR) of their total term deposits. On the other hand, NBFIs operating without term deposits have to maintain an SLR of 2.5 percent and are exempted from maintaining the CRR.

As of end-June 2015, the aggregate amount of maintained CRR was BDT 4594.1 million as compared to BDT 4414.3 million recorded at end-March 2015, scoring an increment of 4.1 percent. On the other hand, at end-June 2015, the amount of maintained SLR was BDT 67.8 billion, which is 2.1 percent lower than the amount maintained at end-March 2015. During the review quarter of CY15, the NBFI sector had no CRR and SLR shortfall.

5.2 Capital Adequacy

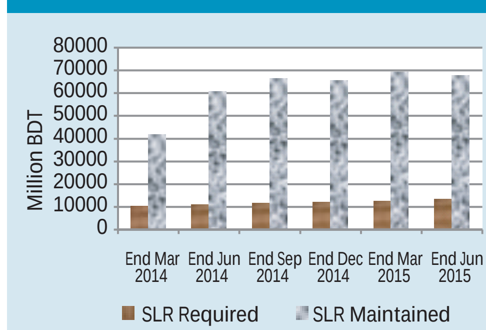
In the June quarter of CY15, NBFIs were required to maintain a 10.0 percent capital adequacy ratio (CAR) with at least 5.0 percent in core capital in line with the Basel II framework.

Chart 5.1 NBFIs' CRR



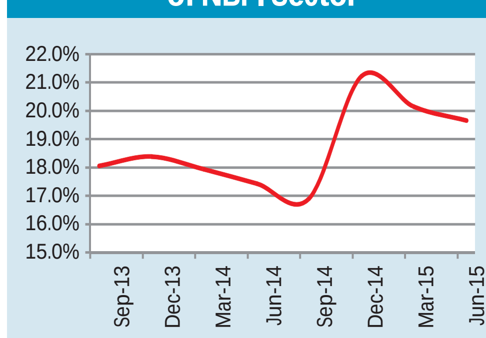
Source: DFIM, BB.

Chart 5.2 NBFIs' SLR



Source: DFIM, BB.

Chart 5.3 Capital Adequacy Ratio of NBFI Sector



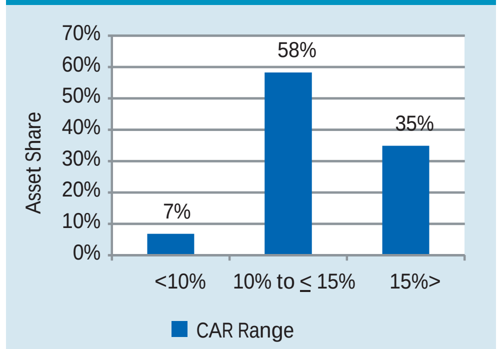
Source: DFIM, BB.

The CAR of the NBFIs sector decreased slightly from 20.1 percent in the March quarter of CY15 to 19.7 percent in the June quarter of CY15, attributable to an increase of RWA disproportional to the increase in total eligible capital. Nevertheless, this position was well in excess of the regulatory minimum requirement. However, as of end-June 2015, only 1 out of 31 NBFIs, failed to maintain minimum regulatory requirement of CAR.

As evident from Chart 5.4, a significant portion of the NBFIs sector's assets was concentrated within the CAR compliant NBFIs group; 13 NBFIs' CARs were within the range of 10-15 percent and their assets accounted for nearly 58 percent of the total industry's assets, whereas 17 NBFIs' CARs were above 15 percent and their assets accounted for 35 percent of the industry's assets as at end-June 2015. This analysis indicates the adequacy of the required capital of NBFIs.

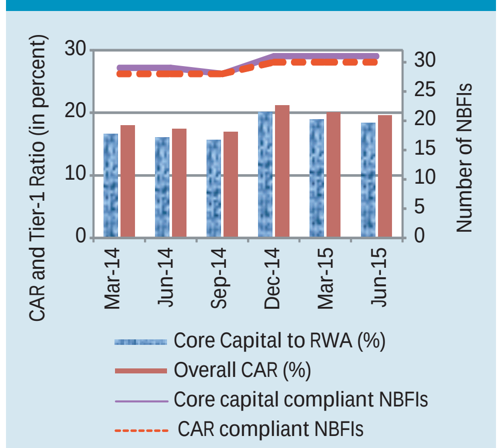
In addition, the Tier-1 capital ratio was recorded as 18.4 percent in the second quarter of CY15. This figure indicates that the NBFIs sector was compliant with the Basel II requirements in respect of the Tier-1 capital ratio too, though the ratio in the review quarter was slightly lower than the ratio of end-March 2015.

Chart 5.4 Asset Share of NBFIs based on CAR as at end-June 2015



Source: DFIM, BB.

Chart 5.5 Overall CAR and Tier 1 capital ratio of the NBFI sector



Source: DFIM, BB.

Chapter-6

Stress Testing and Resilience of the Banking and NBFI Sectors

6.1 Stress Test

BB conducts stress tests on banks and Non-bank Financial Institutions (NBFIs) on a quarterly basis.

6.2 Stress Test on Banks [11]

Stress test on banks is conducted through sensitivity analysis incorporating impacts of the shock scenarios of credit risk, market risk and liquidity risk.

6.2.1 Individual Shocks

Data as of end-June 2015 reveals that banking sector's capital to risk weighted asset ratio (CRAR)[12] was 10.3 percent. Out of 56 banks, 9 banks' pre-shock CRARs were below the minimum regulatory requirement of 10.0 percent. Therefore, the remaining 47 banks are considered for the analyses based on end-June 2015 data. The following sub-sections give details of the shocks and their associated outcomes.

6.2.1.1 Credit risk

a) **Increase in non-performing loans (NPL[13]) :** If NPLs increased by 3, 9 and 15 percent respectively then 7, 21 and 29 banks respectively would have failed to maintain the minimum required CRAR.

b) **Increase in NPL due to default of top large borrowers:** If 3, 7 and 10 largest borrowers of each bank in the industry defaulted, 26, 31 and 32 banks respectively would have been non-compliant in maintaining minimum required CRAR.

b) **Fall in the forced sale value (FSV) of mortgaged collateral:** If FSV of mortgaged collateral declined by 10, 20 and 40 percents, 4, 4, and 8 banks would have been non-compliant in maintaining minimum required CRAR.

d) **Negative shift in the NPL categories:** If NPL categories shifted downward by 5, 10 and 15 percent, then 3, 10, and 15 banks respectively would have been non-compliant in maintaining minimum required CRAR.

e) **Increase in NPL in highest outstanding sector:** The banking industry as a whole would remain resilient at minor and moderate shock scenarios. However, after-shock CRAR would fall below the minimum regulatory requirement in the event of a major shock. Out of 47 banks, only 2, 3 and 4 banks will fail to maintain the minimum required CRAR in case of minor, moderate and major shocks respectively.

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11 The analyses here are based on the data as of end-June 2015 unless otherwise stated.

12 CRAR = Capital to Risk Weighted Assets Ratio = Total Eligible Capital/(Credit RWA + Market RWA + Operational RWA), where RWA = Risk-weighted assets)

13 NPL = Non-performing loans, composed of sub-standard, doubtful and bad/loss loans.

Table 6.1 Stress test on the banking sector based on the data of end-June 2015

Shocks[14]		Banking Sector %
Pre-shock CRAR		10.27
CRAR after shock (%)		
Credit Risks:		
Increase in NPLs:		
	Shock-1: 3%	9.48
	Shock-2: 9%	7.45
	Shock-3: 15%	4.08
Increase in NPLs due to default of top large borrowers		
	Shock-1: Top 3 borrowers	7.09
	Shock-2: Top 7 borrowers	4.38
	Shock-3: Top 10 borrowers	2.98
Fall in the FSV[15] of mortgaged collateral		
	Shock-1: 10%	9.79
	Shock-2: 20%	9.30
	Shock-3: 40%	8.31
Negative shift in the NPL categories		
	Shock-1: 5%	9.67
	Shock-2: 10%	7.85
	Shock-3: 15%	6.79
Increase in NPLs in highest outstanding sectors		
	Sector concentration 1[16] (Performing loan directly downgraded to B/L[17])	
	Shock-1: 3%	10.20
	Shock-2: 9%	10.07
	Shock-3: 15%	9.93
	Sector concentration 2[18] (Performing loan directly downgraded to B/L)	
	Shock-1: 3%	10.21
	Shock-2: 9%	10.09
	Shock-3: 15%	9.96
Market Risks		
Interest rate risk (change in interest rate)		
	Shock-1: 1%	10.25
	Shock-2: 2%	10.23
	Shock-3: 3%	10.21
Exchange rate risk (Currency appreciation/depreciation)		
	Shock-1: 5%	10.25
	Shock-2: 10%	10.23
	Shock-3: 15%	10.21
Equity price risk (Fall in equity prices)		
	Shock-1: 10%	10.01
	Shock-2: 20%	9.74
	Shock-3: 40%	9.21
Combined Shock		
	Shock-1	8.09
	Shock-2	3.44
	Shock-3	-2.55

14 Shock-1 = Minor, Shock-2 = Moderate, Shock-3 = Major.
15 FSV = Forced Sale Value
16 Sector with highest outstanding
17 B/L = Bad/Loss
18 Sector with second highest outstanding

6.2.1.2 Market Risk

The banking industry found to be fairly resilient in the face of various shocks arising from market risk:

a) **Interest rate risk:** Considering the change in market interest rate by 1, 2 and 3 percent, 7, 12 and 12 banks, respectively, may fail to maintain the minimum required CRAR.

b) **Exchange Rate risk:** An appreciation/depreciation in the exchange rate by 5, 10 and 15 percent may lead to non-compliance of 1, 2 and 3 banks respectively in maintaining minimum required CRAR.

c) **Equity price risk:** In the event of a 10, 20 and 40 percent fall in equity prices, 3, 4 and 5 banks, respectively, may be non-compliant in maintaining minimum required CRAR.

6.2.2 Combined Shock[19]

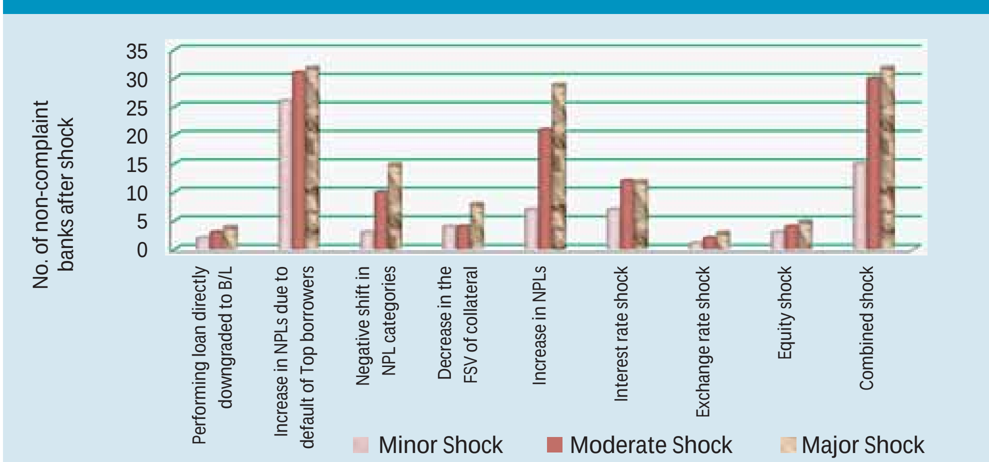
In the event of minor, moderate and major combined shocks, 15, 30 and 32 banks, respectively, may be undercapitalized; CRAR in these cases would be downgraded to 8.09, 3.44, and -2.55 percent respectively.

Altogether, among different specified shocks, the default of the top large loan borrowers may have the most adverse impact on the banking sector CRAR. This implies that individual banks and the banking sector, as a whole, must pay due attention to managing the concentration risk in a prudent manner.

6.2.3 Liquidity Shock

Based on end-June 2015 data, the individual banks and the banking system as a whole seems to be resilient against specified liquidity stress scenarios.

Chart 6.1 Banking Sector CRAR at different shock scenarios: June 2015



Source: FSD, BB.

19 These types of shocks are usually conducted by aggregating the result of credit shock (stress results of increase in NPLs, negative shifts in NPL categories, decrease in the FSV of the mortgaged collateral, exchange rate shock, equity shock and interest rate shock).

6.3 Stress Test on NBFIs

Bangladesh Bank also conducts stress tests on Non-bank Financial Institutions (NBFIs) based on a simple sensitivity analysis, in which four risk factors[20] are analyzed.

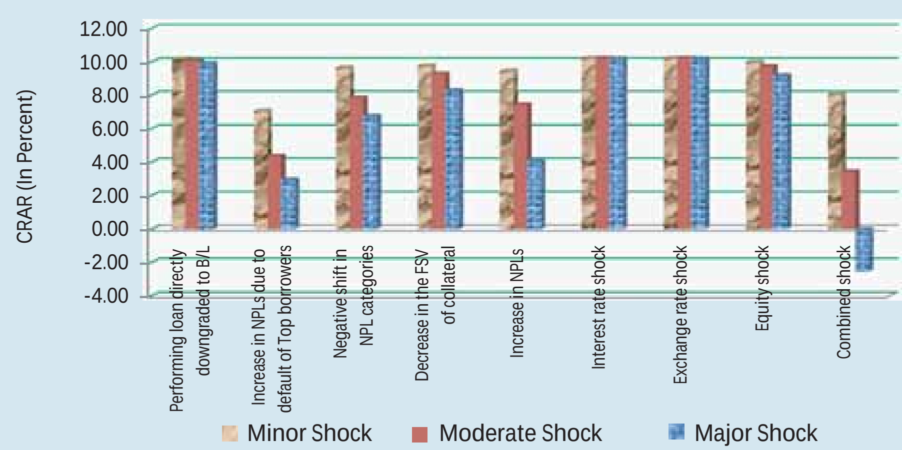
The overall financial strength and resilience of an NBFI is identified by plotting its achieved ratings in a Weighted Average Resilience-Weighted Insolvency Ratio (WAR-WIR) Matrix.

Table 6.2 Liquidity risk of the Banking Sector: End-June 2015

Liquidity Stress*	Stress Scenarios		
	Minor	Moderate	Major
Day 1	1	1	1
Day 2	1	1	1
Day 3	1	1	1
Day 4	1	1	1
Day 5	1	1	1

** Consecutive 5(five) working days.*
Note: '1' indicates that the system is liquid and '0' not liquid.
Source: FSD, BB.

Chart 6.2 Number of non-compliant banks at different shock scenarios: June 2015



Source: FSD, BB.

Results from the stress tests, based on the data of end-June 2015, reveal that out of 31 NBFIs, 4 were positioned in 'Green', 12 were in 'Yellow' and 15 were in 'Red' zone.

The results indicate that 16 NBFIs performed as resilient institutions during the April-June 2015 quarter. NBFIs position remained unchanged from that of January-March 2015 quarter. It should be noted that, NBFIs positioned in the 'Red' zone should have contingency arrangements to withstand the distressed situations if the unfavorable events occur.

Table 6.3 Stress Testing: Zonal Position of NBFIs

(Number of NBFIs)

Period	Green	Yellow	Red
End-Sep 2014	3	17	10
End-Dec 2014	4	19	8
End-Mar 2015	4	12	15
End-June 2015	4	12	15

Source: DFIM, BB

20 credit, interest rate, equity price and liquidity

Chapter-7

Capital Market Development and Corporate Bond Market

The capital market in Bangladesh, demonstrated a comparatively weak trend in the quarter under review as evident from movements of a number of key indicators detailed below:

7.1 DSE Performance and Index Movement

DSE turnover has been fluctuating since July 2014 to June 2015. In the second quarter of CY15, turnover was BDT 135.3 billion as compared to BDT 170.7 billion recorded in the first quarter of CY15 which is a 20.7 percent decline in volume. At-end June 2015, key DSE indices - DSEX, DSE 30 and DSES- increased by 1.2, 2.4 and 1.7 percents respectively from those of end-March, 2015.

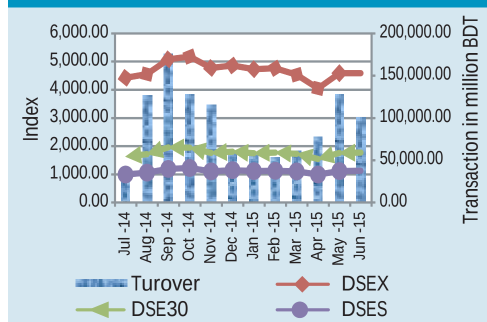
7.2 Price/Earnings (P/E) Ratio

The weighted average P/E ratio in June 2015 was 15.9, which was 3.8 percent lower than that of March 2015 and 10.5 percent lower than that of December 2014. The overall market P/E ratio recorded an upward trend with moderate fluctuations from June 2013 to September 2014, and thereafter declined slightly.

7.3 Sectoral Turnover

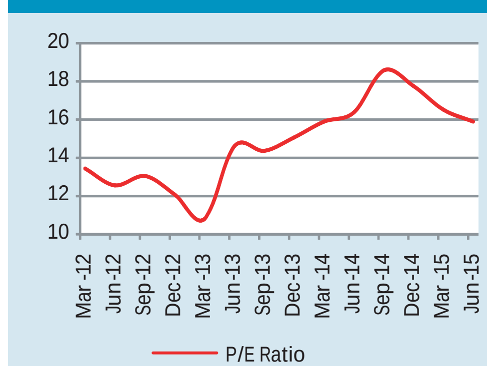
In the second quarter of CY15, the highest turnover was recorded for the Fuel and Power sector, while the next positions were held by Pharmaceuticals and Chemicals, and the Engineering sectors respectively (Chart 7.3). These positions were similar to what were recorded in the first quarter of CY15.

Chart 7.1 DSE Performance and Index Movement



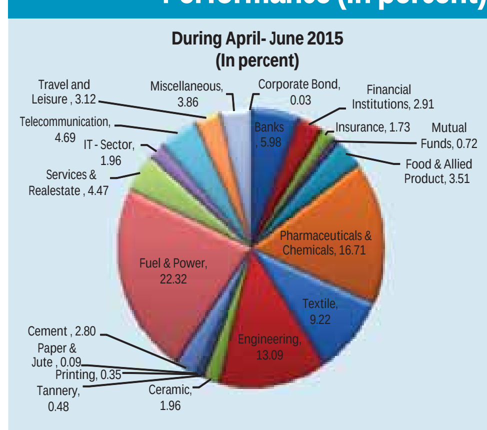
Source: Data-DSE, Compilation - FSD.

Chart 7.2 P/E Ratio



Source: Dhaka Stock Exchange.

Chart 7.3 Sector-wise Turnover Performance (in percent)



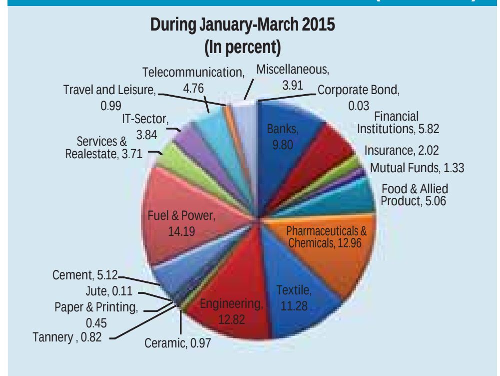
However, the proportionate turnover of these sectors decreased in the review quarter compared to the previous quarter. It is mentionable that, in the review quarter contribution of the banking sector to DSE turnover was 6.0 percent, as opposed to 9.8 percent recorded in the March quarter of the CY15. The NBFI sector's contribution was 2.9 percent in the review quarter compared with 5.8 percent in the previous quarter.

7.4 Corporate Bond Market

The corporate bond market ensures that the funds flow towards productive investments and market forces exert competitive pressures on lending to the private sector. Indeed, a well-functioning corporate bond market is important for an efficient capital market.

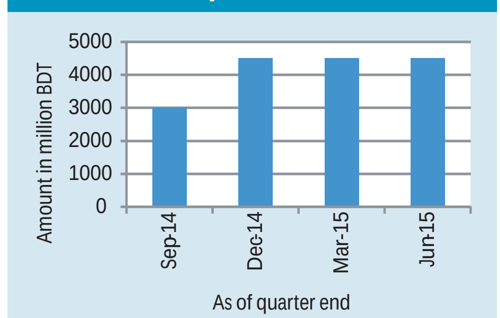
As of end-June 2015, the amount of corporate bonds issued was unchanged compared with the amount issued as of end-March 2015.

Chart 7.3 Sector-wise Turnover Performance (in percent) (Continued)



Source: Data DSE: Compilation, FSD.

Chart 7.4 Corporate Bond Issuance



Source: DFIM, BB.

Chapter-8

Recent Stability Initiatives of Bangladesh Bank

Bangladesh Bank has taken a number of initiatives to contribute significantly to macroeconomic stability and economic development during June quarter of CY15. Some important initiatives are:

8.1 Formation of Separate Agricultural Credit Department/Cell

The agricultural sector works as one of the key areas of economic activities of our country. Access to finance in this area can help the sector to flourish even more, and contribute to sound financial development and stability. Moreover, loans to this sector will diversify the loan portfolio of the banks, thereby help in reducing the sectoral concentration of the loans. Bangladesh Bank, always gives priority to this sector. In June 2015, Bangladesh Bank instructed the banks to form a separate agricultural credit department/cell at the Head Office level with required manpower, and also at the branch level to engage at least one officer. All agricultural loan-related activities will be administered by this department/cell.

8.2 Financial Inclusion

BB has taken a number of initiatives as part of its financial inclusion drive during the review quarter, some of which are:

8.2.1 Credit Financial Services for women entrepreneurs in Cottage, Micro and Small sector

Bangladesh Bank issued an instruction in April 2015 requiring all banks and Non-bank Financial Institutions (NBFIs) to provide with credit to fresh women entrepreneurs in the Micro and Small sectors. All banks and NBFIs are to find at least three women who are interested to start a business, and then to provide with loan to at least one of these entrepreneurs.

8.2.2 SME Credit Facilities for the Entrepreneurs belonging to Rakhaine and other Tribals, the physically disabled, socially deprived entrepreneurs, and the people of Third Gender Group

In order to support rapid and broad-based inclusive economic growth, BB has issued an instruction in June 2015, requiring all scheduled commercial banks and NBFIs to allow SME Credit Facilities for the Entrepreneurs belonging to Rakhaine and other Tribes, the physically disabled, socially deprived entrepreneurs, and the people of Third Gender Group. The objectives of this initiative are to extend financial services to the underdeveloped and underprivileged segments of society and provide SME support to the marginal entrepreneurs. Credit extended to these qualified groups of people may be qualified for the refinance facilities from Bangladesh Bank.

8.3 Prevention of Money Laundering & Terrorist Financing Instructions for Financial Institutions

The Bangladesh Financial Intelligence Unit (BFIU) issued an instruction in June 2015 for all Non-bank Financial Institutions (NBFIs) for the prevention of money laundering and terrorist financing empowered by the Money Laundering Prevention Act, 2012 and the Anti-Terrorism Act, 2009 (Amended upto 2013). The instruction requires the NBFIs to have their own policies in consistent with the acts to prevent money laundering and terrorist financing. As stipulated in the circular, common account opening form, Know Your Customer (KYC) maintenance, regular transaction monitoring, cash transaction reporting, suspicious transaction reporting, record keeping, training of employees, etc., are also required to be complied with by FIs.

Appendices

Table I : CPI Inflation (12 month Average)

(In percent)

Month	Inflation
Mar-13	6.23
Jun-13	6.78
Sep-13	7.37
Dec-13	7.53
Mar-14	7.54
Jun-14	7.35
Sep-14	7.22
Dec-14	6.99
Mar-15	6.66
Jun-15	6.40

Base: 2005-06=100

Table II : Foreign Exchange Reserve

(Amount in million USD)

Month	International Reserve
Dec-13	18094.6
Jan-14	18119.1
Feb-14	19150.5
Mar-14	19294.9
Apr-14	20370.1
May-14	20267.5
Jun-14	21508.0
July-14	21383.5
Aug-14	22070.4
Sep-14	21836.6
Oct-14	22312.4
Nov-14	21590.0
Dec-14	22309.8
Jan-15	22042.3
Feb-15	23031.5
Mar-15	23052.9
Apr-15	24071.7
May-15	23707.7
Jun-15	25021.0

Table III : Wage Earners' Remittance

(Amount in million USD)

Quarter	Workers Remittance
Mar-13	3719.5
Jun-13	3339.8
Sep-13	3270.4
Dec-13	3502.5
Mar-14	3722.4
Jun-14	3733.1
Sep-14	4010.0
Dec-14	3476.0
Mar-15	3771.1
Jun-15	4058.6

Table IV : Industrial Production Index (Manufacturing)

Quarter	Index
Mar-13	197.01
Jun-13	220.81
Sep-13	208.67
Dec-13	219.86
Mar-14	206.68
Jun-14	240.13
Sep-14	241.62
Dec-14	243.36
Mar-15	227.45
Jun-15	285.50

Table V : Exports and Imports

(Amount in million USD)

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
Jun-13	7314.32	9356.00
Sep-13	7627.97	8804.00
Dec-13	7057.84	8143.00
Mar-14	7556.85	9560.00
Jun-14	7943.96	10064.00
Sep-14	7665.10	10003.00
Dec-14	7219.10	10045.70
Mar-15	7990.54	9711.00
Jun-15	8156.00	10924.00

Table VI : Interest Rate (Weighted Average) Spread

(In Percent)

Period	Lending Rate	Deposit Rate	Spread
Mar-13	13.73	8.67	5.06
Jun-13	13.67	8.54	5.13
Sep-13	13.51	8.50	5.01
Dec-13	13.45	8.39	5.06
Mar-14	13.36	8.21	5.15
Jun-14	13.10	7.79	5.31
Sep-14	12.58	7.48	5.10
Dec-14	12.46	7.25	5.21
Mar-15	11.93	7.06	4.87
Jun-15	11.67	6.80	4.87

Table VII : Weighted Average Exchange Rate

(BDT/USD)

Quarter	Period Average	End Period
Sep-12	81.7392	81.5896
Dec-12	80.6013	79.8499
Mar-13	78.5857	78.1932
Jun-13	77.7521	77.7593
Sep-13	77.7501	77.7500
Dec-13	77.7505	77.7500
Mar-14	77.7094	77.6709
Jun-14	77.6300	77.6300
Sep-14	77.4000	77.4000
Dec-14	77.8522	77.9494
Mar-15	77.8000	77.8000
Jun-15	77.8002	77.8050

Table VIII : Credit to the Government (Gross) by the Banking System

(In billion BDT)

Period	Amount
Mar-13	1315.4
Jun-13	1574.7
Sep-13	1527.3
Dec-13	1631.8
Mar-14	1682.0
Jun-14	1722.3
Sep-14	1742.5
Dec-14	1776.8
Mar-15	1738.6
Jun-15	1703.4

Table IX : Asset Structure of the banking industry

(Amount in billion BDT)

Property and Assets	30-06-14	30-09-14	31-12-14	31-03-15	30-06-15
Cash in hand	93.0	95.3	91.1	114.1	110.6
Balance with Bangladesh Bank and its Agent Bank	571.8	570.6	572.8	553.3	594.0
Balance with other banks and financial Institutions	345.2	355.1	409.7	351.6	352.1
Money at call and short notice	85.0	100.7	54.2	76.6	76.0
Investment	1746.0	1803.5	1833.1	1872.1	1930.0
Loans and Advances	5017.6	5156.5	5392.9	5481.3	5721.0
Fixed Assets	202.3	203.9	216.7	217.3	218.1
Other Assets	564.3	593.2	570.7	639.7	684.1
Non-banking assets	1.7	1.7	1.9	2.8	2.9
Total Assets	8626.9	8880.5	9143.1	9308.8	9688.8

Table X : Banking Sector Assets & NPL Concentration (end-June 2015)

(Amount in billion BDT)

Assets	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount	3217.4	6471.4	4554.2	5134.6
Share (%)	33.0	67.0	47.1	52.9
NPL	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount	251.9	273.3	324.0	201.1
Share (%)	48.0	52.0	61.7	38.3

Table XI : Banking Sector NPL Ratio

(Amount in billion BDT)

Quarter	Aggregate NPL	Gross NPL Ratio (NPL/TL)	NPL (net of LLP and IS) Ratio	NPL (net of LLP and IS)/ Reg. Cap.
Sep-13	567.2	12.8%	5.0%	40.6%
Dec-13	405.8	8.9%	2.0%	13.0%
Mar-14	481.7	10.5%	3.4%	22.5%
Jun-14	513.5	10.8%	3.9%	27.0%
Sep-14	572.9	11.6%	4.3%	30.0%
Dec-14	501.6	9.7%	2.7%	17.9%
Mar-15	546.6	10.5%	3.7%	25.8%
Jun-15	525.2	9.7%	2.8%	20.8%

Table XII : Distribution of banks by NPL ratio

Range	Number of Banks as at end					
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Up to 2.0%	12	10	10	10	10	10
2.0% to <3.0%	2	2	5	6	5	5
3.0% to <5.0%	12	10	5	13	5	6
5.0% to <10.0%	16	20	20	14	22	21
10.0% to <15.0%	4	3	5	3	3	4
15.0% to <20.0%	3	2	2	2	1	0
20.0% & above	7	9	9	8	10	10
Total	56	56	56	56	56	56

Table XIII : Banking Sector Loan Loss Provisions

(Amount in billion BDT)

Period	Required Provision	Provision Maintained	Provision Maintenance Ratio (%)
Sep-13	320.3	287.5	89.8
Dec-13	252.4	249.8	99.0
Mar-14	283.0	258.7	91.4
Jun-14	300.4	260.4	86.7
Sep-14	318.6	289.6	90.9
Dec-14	289.6	281.7	97.3
Mar-15	306.8	269.0	87.7
Jun-15	300.3	275.6	91.8

Table XIV : Banking Sector Classified Loans Ratios

(In percent)

Period	Classified Loans to Total Loans	Sub-Standard Loans to Classified Loans	Doubtful Loans to Classified Loans	Bad Loans to Classified Loans
Sep-13	12.8	17.9	12.6	69.5
Dec-13	8.9	11.2	10.1	78.7
Mar-14	10.5	15.0	8.7	76.3
Jun-14	10.8	14.0	9.2	76.8
Sep-14	11.6	15.6	10.5	73.9
Dec-14	9.7	11.0	11.2	77.8
Mar-15	10.5	14.1	8.8	77.1
Jun-15	9.7	11.3	8.5	80.2

Table XV : Classified Loan Composition (end-June 2015)

(Amount in billion BDT)

Particulars	Amount	Percent of Total
Sub-Standard	59.6	11.3
Doubtful	44.8	8.5
Bad & Loss	420.8	80.2
Total	525.2	100.0

Table XVI : Banking Sector ROA

Quarter	ROA Range			
	Up to 2.0%	>2.0% to≤3.0%	>3.0% to≤4.0%	>4.0%
Mar-14	47	2	4	3
Jun-14	45	4	1	6
Sep-14	48	2	1	5
Dec-14	49	5	0	2
Mar-15	51	1	3	1
Jun-15	49	4	2	1

Note: ROA for March-14, June-14, Sepember-14, March-15 and June-15 are annualized figures.

Table XVII : Banking Sector ROE

Quarter	ROE Range			
	Up to 5.0%	>5.0% to≤10.0%	>10.0% to≤15.0%	>15.0%
Mar-14	18	15	10	13
Jun-14	18	14	9	15
Sep-14	30	7	4	15
Dec-14	18	11	17	10
Mar-15	22	16	14	4
Jun-15	16	15	12	13

Note: ROA for March-14, June-14, Sepember-14, March-15 and June-15 are annualized figures.

Table XVIII : NBFIs' Borrowing, Deposit and Capital

(Amount in billion BDT)

Particulars	June-2015
Borrowings	138.7
Deposits	272.1
Capital	98.7
Other Liabilities	55.9
Total	565.4

Table XIX : NBFIs' Asset Composition

(Amount in billion BDT)

Particulars	June-2015
Cash & Balance with Banks/FIs	89.8
Investments	20.8
Loans & Leases	407.7
Other Assets	40.2
Fixed Assets	6.9
Total	565.4

Table XX : NBFIs' Classified loans and Leases

(Amount in billion BDT)

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
Dec-13	17.7	5.6
Mar-14	18.9	5.8
Jun-14	18.5	5.4
Sep-14	22.4	6.2
Dec-14	19.7	5.3
Mar-15	27.6	7.0
Jun-15	31.6	7.7

Table XXI : NBFIs' ROA & ROE

(In percent)

Quarter	Aggregate ROA	Aggregate ROE
Jun-14	2.2	11.6
Sep-14	2.2	12.2
Dec-14	2.0	10.9
Mar-15	1.2	6.7
Jun-15	2.0	11.4

Table XXII : Banking Sector CAR/CRAR

CAR/CRAR	Number of banks (at end period)					
	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
< 10%	6	8	8	5	8	9
10% to <15%	31	30	30	33	29	30
15% +	19	18	18	18	19	17

Table XXIII : Banking Sector Asset Share based on CRAR as at End-June 2015

CRAR	Number of banks & their asset size		Asset Share (%)
	Number of banks	Asset size (in billion BDT)	
<10%	9	2623.4	27.1
10% to<15%	30	6523.9	67.3
15% +	17	541.6	5.6
Total	56	9688.8	100.0

Table XXIV : Tier-1 Capital ratio and Overall CAR/CRAR of the Banking Industry

Particulars	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Core Capital to RWA (%)	9.0	8.8	8.3	8.1	8.6	8.2	7.9
Number of core capital compliant banks	51	51	50	51	51	50	49
Overall CAR (%)	11.5	11.3	10.7	10.6	11.4	10.7	10.3
Number of CAR compliant banks	51	50	48	48	51	48	47
No. of banks in the industry	56	56	56	56	56	56	56

Table XXV : Distribution of Risk Weighted Assets of the Banking Industry

(Amount in billion BDT)

Particulars	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
RWA for Credit Risk	4815.9	4845.9	5089.9	5230.1	5419.3	5553.9	5732.3
RWA for Market Risk	324.8	327.4	335.1	361.0	336.9	323.3	316.4
RWA for Operational Risk	518.9	532.4	541.4	550.6	567.8	583.8	593.1
Total RWA	5659.6	5705.7	5966.4	6141.7	6323.9	6461.0	6641.8

Table XXVI : Banking Sector Advance-to-Deposit Ratio (ADR)

(In Percent)

Period	ADR
March-14	69.9
June-14	70.5
September-14	69.9
December-14	70.9
March-15	70.5
June-15	70.3

Table XXVII : Bank Cluster-wise ADR at end-June 2015

(In Percent)

Bank wise	ADR
SCBs	52.8
PCBs	78.4
FCBs	61.9
DFIs	74.0
Industry	70.3

Table XXVIII : NBFIs' CRR & SLR

(Amount in million BDT)

Quarter End	Aggregate CRR			Aggregate SLR		
	Required	Maintained	Surplus/Shortfall	Required	Maintained	Surplus/Shortfall
Mar 2014	3346.4	3660.6	314.2	10284.3	41751.5	31467.2
Jun 2014	3530.5	3928.9	398.4	10981.2	60698.7	49717.5
Sep 2014	3720.5	4049.0	328.5	11582.8	66411.9	54829.1
Dec 2014	3887.7	4396.9	509.2	12053.7	65557.8	53504.1
Mar 2015	4015.8	4414.3	398.5	12544.7	69205.1	56660.4
Jun 2015	4251.0	4594.1	343.1	13169.1	67786.3	54617.2

Table XXIX : Capital Adequacy Ratio of NBFI Sector

Particulars	End Mar-14	End June-14	End Sep-14	End Dec-14	End Mar-15	End Jun-15
Eligible Capital to RWA (%)	18.0	17.4	16.9	21.2	20.1	19.7

Table XXX : Asset Share of NBFIs based on CAR at end-June 2015

(In Percent)

CAR Range	No. of banks	Asset Share
<10%	1	7%
10% to ≤ 15%	13	58%
above 15%	17	35%

Table XXXI : Overall Risk-weighted Assets and Tier 1 Capital of NBFI Sector

(Amount in billion BDT)

Particulars	End Dec-13	End Mar-14	End June-14	End Sep-14	End Dec-14	End Mar-15	End Jun-15
Risk-weighted Assets (RWA)							
Credit RWA	345.99	356.53	380.68	396.12	417.86	440.64	460.02
Market RWA	23.75	26.95	26.09	33.94	34.66	37.38	39.34
Operational RWA	26.47	27.88	27.30	26.91	34.26	33.63	33.90
Total RWA	**396.21**	**411.36**	**434.08**	**456.97**	**486.78**	**511.65**	**533.26**
Capital							
Core Capital (Tier -1)	65.43	67.58	68.30	69.77	71.50	98.01	96.62
Supplementary Capital	5.45	5.26	5.45	5.92	5.98	5.35	6.44
Eligible Capital	70.89	72.84	73.75	75.69	77.48	103.36	103.06

Table XXXII : Banking Sector's After Shock CRAR at Different Shock Scenarios

(Based on data as of End- June 2015)

Shocks	CRAR after Shock (%)		
	Minor Level	Moderate Level	Major Level
Performing loan directly downgraded to B/L	10.20	10.07	9.93
Increase in NPLs due to default of Top borrowers	7.09	4.38	2.98
Negative shift in NPL categories	9.67	7.85	6.79
Decrease in the FSV of collateral	9.79	9.30	8.31
Increase in NPLs	9.48	7.45	4.08
Interest rate shock	10.25	10.23	10.21
Exchange rate shock	10.25	10.23	10.21
Equity shock	10.01	9.74	9.21
Combined shock	8.09	3.44	-2.55

Table XXXIII : Number of Non-complaint Banks at Different Shock Scenarios

(Based on data as of End- June 2015)

Shocks	No. of Banks		
	Minor Level	Moderate Level	Major Level
Performing loan directly downgraded to B/L	2	3	4
Increase in NPLs due to default of Top borrowers	26	31	32
Negative shift in NPL categories	3	10	15
Decrease in the FSV of collateral	4	4	8
Increase in NPLs	7	21	29
Interest rate shock	7	12	12
Exchange rate shock	1	2	3
Equity shock	3	4	5
Combined shock	15	30	32

NB: Pre-shock CRARs of 8 banks out of 56 were below the minimum required level of 10% as of 31 June 2015.

Table XXXIV : Price Earnings Ratio of Capital Market

Quarter	Price Earnings Ratio
Mar-12	13.4
Jun-12	12.5
Sep-12	13.0
Dec-12	12.1
Mar-13	10.8
Jun-13	14.6
Sep-13	14.4
Dec-13	15.1
Mar-14	15.9
Jun-14	16.4
Sep-14	18.6
Dec-14	17.8
Mar-15	16.5
Jun-15	15.9

Table XXXV : DSE Performance: April 2014 to June 2015

Month	DSE Turnover		Ratio of Turnover to Market Cap.	Index		
	Value Tk. in mn	Volume Nos. mn		DSEX	DSE 30	DSES
Apr-14	97,977.61	1,762.14	0.03	4,566.86	1,671.93	1,018.20
May-14	58,457.67	1,357.16	0.02	4,430.48	1,609.27	992.82
Jun-14	77,349.71	1,678.03	0.03	4,480.52	1,644.75	1,019.34
Jul-14	41,156.83	1,045.80	0.01	4,427.16	1,626.52	1,004.66
Aug-14	126,589.06	2,856.20	0.04	4,549.52	1,713.83	1,057.37
Sep-14	175,809.67	3,894.85	0.05	5,074.31	1,960.87	1,195.53
Oct-14	127,656.08	2,955.57	0.04	5,173.23	1,949.48	1,220.04
Nov-14	115,494.28	2,534.75	0.04	4,769.43	1,760.06	1,106.77
Dec-14	60,132.60	1,537.81	0.02	4,864.96	1,803.06	1,150.22
Jan-15	55,698.48	1,452.69	0.02	4,724.05	1,747.76	1,115.70
Feb-15	53,603.13	1,369.75	0.02	4,763.22	1,772.42	1,130.92
Mar-15	61,392.47	1,320.88	0.02	4,530.48	1,728.48	1,103.13
Apr-15	77,561.19	1667.96	0.03	4,047.29	1,545.19	992.54
May-15	127,815.54	3266.43	0.04	4,586.95	1,758.02	1,112.79
Jun-15	100,610.12	2671.40	0.03	4,583.11	1,769.37	1,122.03

Table XXXVI : Sector-wise Turnover Performance

(In percent)

Broad sector	Sector	% of total turnover	
		2015Q1	**2015Q2**
Financial Sector	Banks	9.80	5.98
	Financial Institutions	5.82	2.91
	Insurance	2.02	1.73
	Mutual Funds	1.33	0.72
Manufacturing	Food & Allied Product	5.06	3.51
	Pharmaceuticals & Chemicals	12.96	16.71
	Textile	11.28	9.22
	Engineering	12.82	13.09
	Ceramic	0.97	1.96
	Tannery	0.82	0.48
	Paper & Printing	0.45	0.35
	Jute	0.11	0.09
	Cement	5.12	2.80
Service & Miscellaneous	Fuel & Power	14.19	22.32
	Services & Real estate	3.71	4.47
	IT - Sector	3.84	1.96
	Telecommunication	4.76	4.69
	Travel and Leisure	0.99	3.12
	Miscellaneous	3.91	3.86
Bond	Corporate Bond	0.03	0.03
	Total	**100.00**	**100.00**

Note: 2015Q1 = March quarter 2015, 2015Q2 = June quarter 2015

Table XXXVII : Corporate Bond Issuance

(Amount in million BDT)

	June-2014	September-2014	December-2014	March-2015	June-2015
Corporate Bond Issuance	1500.0	3000.0	4500.0	4500.0	4500.0

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