# Quarterly Financial Stability Assessment Report

Bangladesh Bank

Financial Stability Department

Issue: 2015 (1)
January-March 2015

## Quarterly

# Financial Stability Assessment Report

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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 March 31, 2015 unless stated otherwise in the relevant chapters/sections. The editors owe to Mr. Glenn Stephen Tasky, Macroprudential Supervision Advisor to Bangladesh Bank for making valuable comments/feedback on the draft report.*

# MESSAGE OF THE GOVERNOR

Financial stability, after the global financial crisis, has emerged as one of the key challenges before central banks and other supervisors. In our context too, it is not a smooth task to achieve the desired level of stability in a volatile global macroeconomy and external environment. Nevertheless, Bangladesh has been mostly successful in maintaining macroeconomic and financial system stability. Thanks to the prudent fiscal management of the Bangladesh Government, and the prudent role played by financial intermediaries and concerned regulators. Bangladesh Bank has made a paradigm shift in its regulatory landscape. We not only implement micro-and-macro-prudential approaches to regulation and supervision but also give considerable emphasis on financial inclusion to bring a vast number of poor and unbanked people under the financial intermediation network.

During the first quarter (January-March) of the calendar year 2015, the financial system of Bangladesh was mostly resilient and capable to withstand financial and economic shocks, either endogenous or exogenous. Stringent microprudential regulations and supervision, judicious application of macroprudential oversights, and broad-based financial inclusion all contributed significantly to the stability of the financial system. Successful cutting of inflation, robust export and remittance growth, and a record buildup of foreign exchange reserves helped to foster macroeconomic stability. An expanded structure of the banking and NBFI sector, successful implementation of the Basel II framework in scheduled banks and non-bank financial institutions, the transition to the Basel III capital and liquidity frameworks in the banking sector, maintenance of the desired level of system liquidity, and quiescent period in the capital market helped to maintain a moderate level of financial system stability.

The Financial Stability Report (FSR), a yearly publication of Bangladesh Bank, tries to evaluate the long term resilience of the financial system of Bangladesh. Alongside this useful report, Bangladesh Bank commenced preparation of this Quarterly Financial Stability Assessment Report (QFSAR) from late 2014 with a view to assessing stability situation of the financial system at a somewhat shorter interval. This is the second issue of the QFSAR, which gives significant focus on trends of macroeconomic indicators, banking and NBFI sectors' performances, including their liquidity and capital adequacy, the risks to and resilience of those, as well as capital market developments.

I strongly believe that this issue of the QFSAR will help the stakeholders of the financial system to get important insights and alert them promptly to any risks and fragilities to the financial system, and working together with these resourceful stakeholders, Bangladesh Bank will contribute mightily to maintaining the hard-fought stability of our growing financial system.

আতিউর রহমান

Atiur Rahman, PhD
Governor

# MESSAGE OF THE DEPUTY GOVERNOR

A stable financial system is a prerequisite to a smooth financial intermediation process and sustainable economic growth. It is also necessary to ensure an enabling environment for efficient allocation of resources and distribution of risks across the economy. Maintaining price stability is a mandated task of Bangladesh Bank. Indeed, the Bank has a good track record of remaining successful in this area. However, after the global financial crisis, the Bank has also become more or less bound to give due attention to maintaining financial system stability.

Ensuring financial stability is a challenging task given the complex nature of the financial system and the existence of numerous links between financial market participants and non-financial sectors, and among financial institutions themselves. In order to maintain the desired level of financial stability, approaches to supervision of the financial intermediaries from a macroprudential perspective is becoming more important. Put differently, if financial institutions are to fulfill their dual roles of credit intermediation and maturity transformation, while at the same time taking center stage in the payments system, assessment of risks to the financial markets on a system-wide basis is also becoming more crucial.

Bangladesh Bank is steadily moving ahead towards implementation of a macroprudential framework; implementation of a contingency planning framework, adoption of some state-of-the-art supervisory tools such as the Interbank Transaction Matrix (ITM) and Financial Projection Model (FPM), development of a framework for identification and supervision of domestic systemically important banks (D-SIBs), ensuring the continued reliability of the payment and settlement systems, and actively contributing to the development of efficient financial markets are some recent steps in this regard.

The Quarterly Financial Stability Assessment Report (QFSAR) is an important avenue through which Bangladesh Bank conveys its assessment of the overall stability situation of the macro-financial system during a particular quarter. The report deals with all important aspects of the financial system which are crucial for determining the stability concerns.

This is the second issue of the QFSAR. Like the first one (October-December 2014), it continues to cover a variety of issues such as macroeconomic trends, the performance of the banking and non-bank financial institution (NBFI) sectors, as well as events in the capital market in the context of its overall development. It also conveys the assessment of Bangladesh Bank about risks to the banking industry and NBFI sector and resilience of these institutions against adverse hypothetical events. The bottom line is to make the stakeholders of the financial system aware of the risks and vulnerabilities thereto well ahead of time so that they may prepare for containing the impact of shock events should they materialize.

I firmly believe that this issue of the QFSAR will promote a lively, informed public discussion on all key aspects of the financial system. I commend the dedication of the officials of Financial Stability and other contributing Departments for bringing the report to light.

Shitangshu Kumar Sur Chowdhury
Deputy Governor

# Contents

# List of Charts

# List of Tables



# List of Appendices

# 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 |
| BS | Balance Sheet |
| CAR | Capital Adequacy Ratio |
| CPI | Consumer Price Index |
| CRR | Cash Reserve Requirement |
| CRAR | Capital to Risk-weighted Asset Ratio |
| 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 |
| FI | Financial Institution |
| FOB | Free on Board |
| FPM | Financial Projection Model |
| FSD | Financial Stability Department |
| FSR | Financial Stability Report |
| FSV | Forced Sale Value |
| FX | Foreign Exchange |
| GDP | Gross Domestic Product |
| GFC | Global Financial Crisis |
| IMF | International Monetary Fund |
| IS | Interest Suspense |
| ITM | Interbank Transaction Matrix |
| NBFI | Non-bank Financial Institution |
| NPL | Non-performing Loan |
| OBS | Off-balance Sheet |
| PCBs | Private Commercial Banks |
| P/E Ratio | Price Earnings Ratio |
| QFSAR | Quarterly Financial Stability Assessment Report |
| QIIP | Quantum Index of Industrial Production |
| ROA | Return on Assets |
| ROE | Return on Equity |
| RWA | Risk-weighted Assets |
| SCBs | State-owned Commercial Banks |
| SDB | Specialized Development Bank |
| SLR | Statutory Liquidity Requirement |
| TL | Total Loan |
| USD | United States Dollar |
| WAR | Weighted Average Resilience |
| WIR | Weighted Insolvency Ratio |

# Executive Summary

This report analyses key trends in the financial system of Bangladesh based on the positions of important financial intermediaries as of the January-March quarter of the calendar year 2015 (CY15). The Bangladesh financial system, during the reporting quarter, demonstrated a mixed performance.

Inflation recorded a notable decline in the first quarter of 2015, which could largely be attributed to the decline in food prices. International reserves are now at a quite satisfactory level. As of end-March 2015, the level of international reserves was able to meet more than six months' import bills. The wage earners' remittance recorded a moderate increase in the first quarter of CY15 with respect to the same quarter of CY14. The remittance inflow is continuing to contribute significantly to the economic development of the country.

The index of industrial production (manufacturing) has demonstrated an increasing trend from March quarter CY14, and the trend is still continuing. Import payments recorded a minor growth in the review quarter with respect to the same quarter of the previous year. On the other hand, export receipts also recorded a notable growth during the period.

The spread between the weighted average lending and deposit rates notably narrowed in March 2015 compared with that of December 2014. The Bangladesh Taka (BDT) recorded a minor appreciation against the US Dollar (USD) in the review quarter compared with the preceding quarter. Credit to the Government (gross) by the banking system recorded a slight increase in the March quarter of CY15 compared with the same quarter of CY14.

The banking sector turned in a mixed performance during the March quarter of CY15. While the balance sheet size grew to a large extent, the share of loans and advances to total assets slightly decreased and the share of investment slightly increased. The share of money at call has increased considerably at end-March 2015. Asset quality, measured by non-performing loan (NPL) with respect to the aggregate loan portfolio, slightly deteriorated and with respect to regulatory capital it recorded a moderate worsening in the review quarter compared with the preceding quarter. Compounding the problem, the provision shortfall has also deteriorated moderately. Key profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE) recorded a declining trend in the reporting quarter.

At end-March 2015, the proportion of banks compliant with the minimum capital to risk-weighted assets ratio (CRAR) decreased slightly compared with that of end-December 2014; still, a significant portion of the scheduled banks were able to maintain their minimum capital ratios above 10.0 percent in line with Pillar 1 of the Basel III capital framework. Indeed, a quite substantial share of banking assets was concentrated within the CRAR compliant banks group, which is good for the financial stability. The overall banking sector CRAR was moderately higher than the minimum requirement of 10.0 percent. Furthermore, the Tier-1 capital ratio was much higher than the minimum requirement of 5.5 percent.

As of end-March 2015, the Advance-to-Deposit ratio (ADR) of the banking industry was slightly lower than the maximum allowable level, indicating very little liquidity stress.

Stress testing results, based on the data of March quarter of CY15, indicate that the banking industry is relatively less resilient in the face of different credit shocks than it was in the previous quarter; increases in NPL and default of the largest borrowers were found to be the main factors for the CRAR to fall below the minimum regulatory requirements, implying that the banking sector as a whole must pay due attention to managing these shocks. 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-March CY15.

Non-Bank Financial Institutions (NBFIs) represent one of the most important segments of the financial system in Bangladesh. After a turbulent CY14, a majority of NBFIs faced some stressed situations in early 2015; asset quality recorded a minor deterioration compared with that of end-December 2014. At the same time, NBFIs' key profitability indicators ROA and ROE slightly deteriorated in the reporting quarter compared with those of the previous quarter.

During the first quarter of CY15, NBFIs' aggregate amount of the maintained Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) were much higher than the minimum regulatory requirements. The capital adequacy ratio (CAR) of the NBFI sector recorded a minor decrease in the review quarter, compared with the preceding quarter, attributable to a disproportionate increase of risk-weighted assets compared with total eligible capital. Still, this position was well in excess of the minimum regulatory requirement of 10.0 percent. A quite substantial share of NBFI sector assets was concentrated within the CAR compliant NBFI group, which is also good for financial stability. In addition, the Tier-1 ratio in the March quarter CY15 was much higher than the regulatory requirement of 5.0 percent.

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

The capital market, after a considerable period of price correction, is still demonstrating a mixed trend; the Price/Earnings (P/E) ratio, DSEX, DSE 30, and DSES recorded a slight deterioration in the March 2015 compared with those in December 2014. On the other hand, the amount of corporate bond issued remained unchanged compared with the amount issued as of end-December 2014.

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 recent past. Some notable ones are:

(i) **BASEL III Implementation:** BB issued guidelines on risk based capital adequacy in line with Basel III vide BRPD Circular No. 18/2014 dated December 21, 2014. Reporting of capital to risk weighted asset ratio (CRAR) and Leverage Ratio was started from March quarter of CY15.

(ii) **Bank Health Index/HEAT map:** BB developed a Bank Health Index (BHI)/Health Assessment Tool (HEAT map) using six financial ratios to facilitate preliminary assessment of individual financial institutions relative to their peers with three distinct colors -green, yellow, and red.

(iii) **Financial Inclusion:** BB, as part of its financial inclusion drive, has taken a number of initiatives, of which some important ones are:
   - a) **Bank Account for Street Children:** BB introduced this service in June 2014 that allows street children to open a savings account with participating banks for as little as BDT 10.
   - b) **School Banking:** BB introduced 'school banking' as part of its financial inclusion initiatives and issued a guideline in 2013 to provide students with necessary banking services.
   - c) **Women Entrepreneur Development Unit in Banks:** BB has instructed all commercial banks and non-bank financial institutions in February 2015 to form a Women Entrepreneur Development Unit at their head offices and zonal offices (if any) with a view to giving preference to the micro and cottage level Women Entrepreneurs in accessing banking services.

(iv) **Deposit Insurance Premium Assessment (IDIPA) Software:** BB developed and launched a software named 'Information for Deposit Insurance Premium Assessment (IDIPA)' to modernize and digitize the Deposit Insurance Trust Fund (DITF) activities for premium collection, calculation, assessment and investment thereof.

(v) **Financial Stability Report (FSR):** Bangladesh Bank commenced preparation of the financial stability report from 2011 with the aim to reveal key trends in the important segments of the financial system, risks and fragilities facing the financial system, and resilience thereof to adverse events. The fifth issue of the report is going to be released soon. Bangladesh Bank also **commenced preparation of Quarterly Financial Stability Assessment Report (QFSAR)** from fourth quarter of calendar year 2014.

The Bangladesh financial system has been mostly successful in withstanding different challenges during the review quarter. To improve the stability situation of the country, a more coordinating role of financial sector regulators, financial intermediaries, and stakeholders of the financial system is an utmost necessity. Moreover, in order to keep the position of individual institutions robust and maintain the existing stability situation, priority has to be given to enhancing corporate governance and internal control mechanisms, implementing regulatory requirements, and meeting global standards to the best extent possible.

Chapter-1

# Macro Economic Developments

In the first quarter (January-March) of CY15, the economy of Bangladesh displayed a mixed performance attributable to some macroeconomic uncertainties, opting for safer liquid investments by financial intermediaries, and a slow restoration of public confidence to the capital market. Nevertheless, the economy has been mostly successful in maintaining domestic stability of the macro-financial system.

## 1.1 Inflation

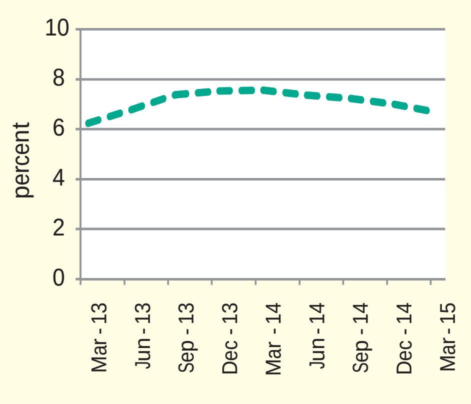
One of the principal targets of monetary policy is to keep the inflation within 6.5 percent by June 2015. Hopefully, as of end-March 2015, inflation stood at 6.66 (very near to target) percent as opposed to 7.55 percent recorded at end-March 2014. As evident from chart 1.1, inflation has recorded a declining trend from early 2014 and the trend is still continuing.

## 1.2 Foreign Exchange Reserve and its Import Coverage

As of end-March 2015, gross foreign exchange reserve stood at USD 23.1 billion as opposed to USD 22.3 billion recorded at end-December 2014 and USD 19.3 billion recorded at end-March 2014. It is mentionable that the foreign exchange reserves held by BB increased by 19.5 percent at end-March 2015 from that of end-March 2014. Although the rate of growth in reserves in March quarter of CY15 over the previous quarter was decelerating, it was still substantial.

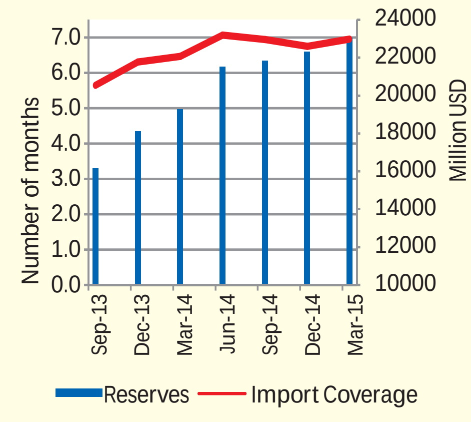
As a rule of thumb, international reserves should account for at least three months' worth of a country's import bills. With the current level of reserves, Bangladesh can meet more than six months of its import bills on a FOB basis.

**Chart 1.1 Inflation**




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

**Chart 1.2 Foreign Exchange Reserve**




*Source: Research Department, BB.*

## 1.3 Wage Earners' Remittance

The remittance from Bangladeshi nationals working abroad increased by 1.3 percent to USD 3771.1 million in the March quarter of CY15, compared with USD 3722.4 million recorded in the same quarter of CY14.

## 1.4 Industrial Production

In the absence of GDP at a shorter interval, the quantum index of industrial production (QIP) is treated as a good proxy of economic activities. As evident from Chart 1.4, the QIP (manufacturing) in December quarter of CY14[1], stood at 243.4, compared with 241.6 recorded at end-September 2014, demonstrating an increasing trend and implying a sufficient industrial output or high level of economic activities.

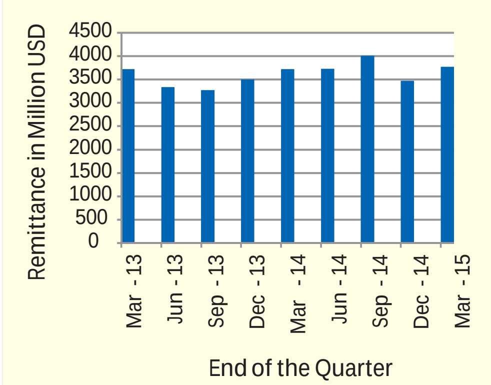
## 1.5 Exports and Imports

In the first quarter of CY15, aggregate import payments[2] in US dollars increased by 2.0 percent and reached to USD 9711.0 million compared with USD 9560.0 million recorded in the same quarter of CY14. Export receipts recorded a more positive growth, increasing by 5.7 percent and reached to USD 7990.5 million compared with USD 7556.9 million recorded in the same quarter of CY14.

## 1.6 Interest Rate Spread

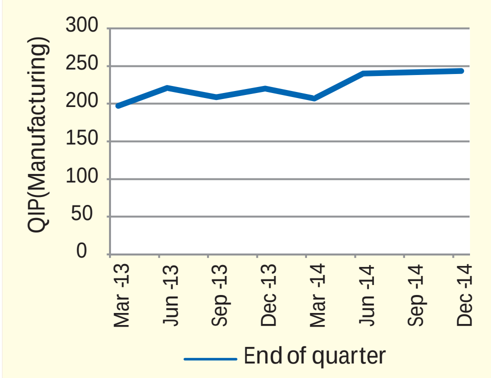
The spread between the weighted average lending and deposit rate decreased to 4.87 percent in March 2015 from 5.21 percent recorded in December 2014. Besides, both

**Chart 1.3 Wage Earners' remittance**



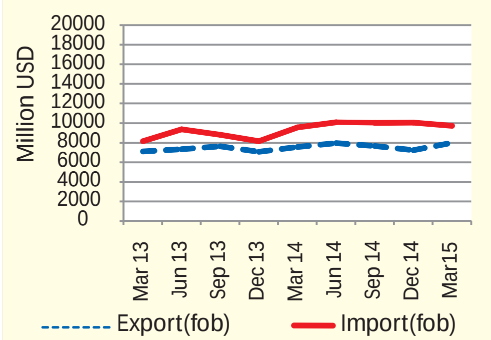

Source: Monthly Economic Trends, BB (various issues).

**Chart 1.4 Industrial Production Index (Manufacturing)**




Source: BBS.

**Chart 1.5 Exports and Imports (FOB)**




Source: Research Department, BB.

[1] Data for QIP (manufacturing) for the March quarter of CY15 was not available.
[2] on FOB basis

the deposit and lending rates declined in the review quarter compare with those of the preceding quarter.

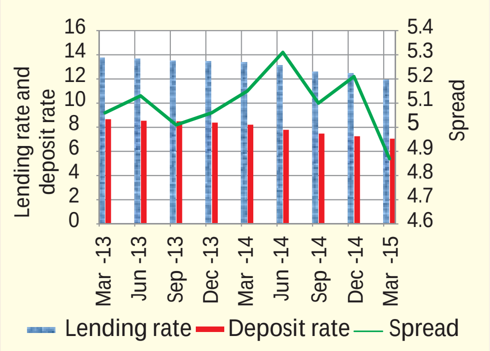
### 1.7 Exchange Rate

The Bangladesh taka (BDT) has recorded a slight appreciation against the US dollar from BDT 77.94 at end- December 2014, to BDT 77.80 per USD at end-March 2015, though the value of BDT against US dollar decreased in the first quarter of CY15 compared with the same quarter of CY14.

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

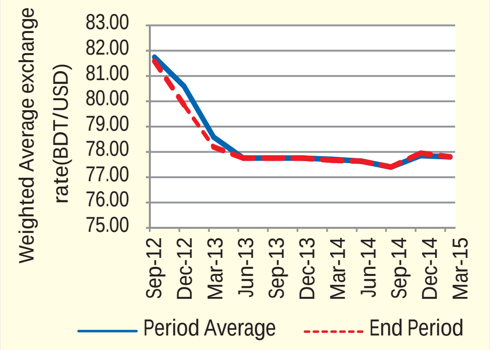
Credit to the Government (gross) by the banking system decreased by BDT 38.20 billion or 2.2 percent at end-March CY15, compared with the same at end-December of CY14, as opposed to an increase of 2.0 percent at end-December 2014 with respect to the preceding quarter.

**Chart 1.6 Interest Rate Spread**



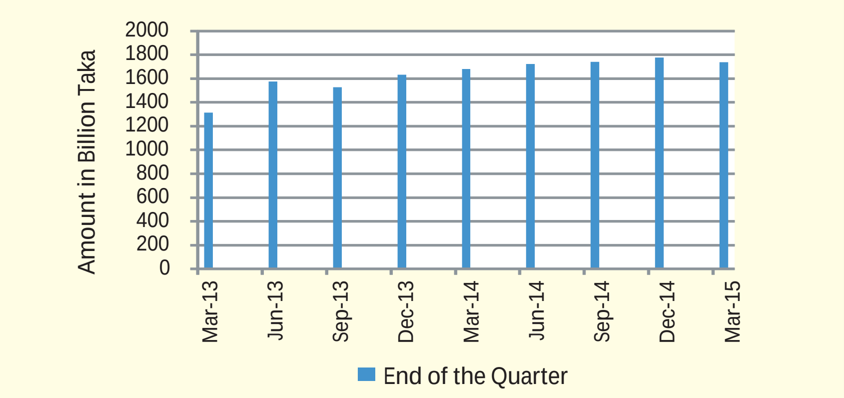

*Source: Major Economic Indicators, BB (various volumes).*

**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 showed a mixed performance during the March quarter of CY15; while the balance sheet size grew to a large extent, the shares of loans and advances decreased and the share of investments slightly increased. Share of money at call has increased considerably at end-March 2015 compared with that of end-December 2014.

During the March quarter CY15, asset quality slightly decreased relative to the aggregate loan portfolio. Also, the ratio of NPL to regulatory capital recorded a moderate decline. NPLs were widely distributed among the banks. The provision shortfall has also deteriorated moderately. It is mentionable that more than three-fourth of the classified loans was bad/loss. Both ROA and ROE recorded a minor decline.

## 2.1 Assets Structure of the Banking Sector

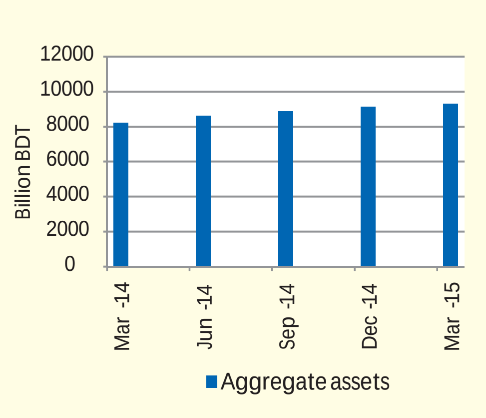
The balance sheet size of the banking sector[3] grew by almost 2.0 percent and stood at BDT 9308.8 billion at end-March 2015. Loans and advances, as a percentage of total assets, have slightly decreased and investments recorded a minor proportionate increase compared with those of end-December of CY14.

The share of loans and advances is the largest among asset items, and it decreased by 10 basis points at end-March of CY15, while the share of investment in government and other securities increased by 6 basis points (both expressed as percentage of total assets) compared with their respective amounts at end-December 2014. The share of banks' assets with BB has decreased by 32 basis points, and balances with other banks and FIs decreased by 70 basis points.

Banks' money at call has increased by 23 basis points and the share of other assets increased by 63 basis points.

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

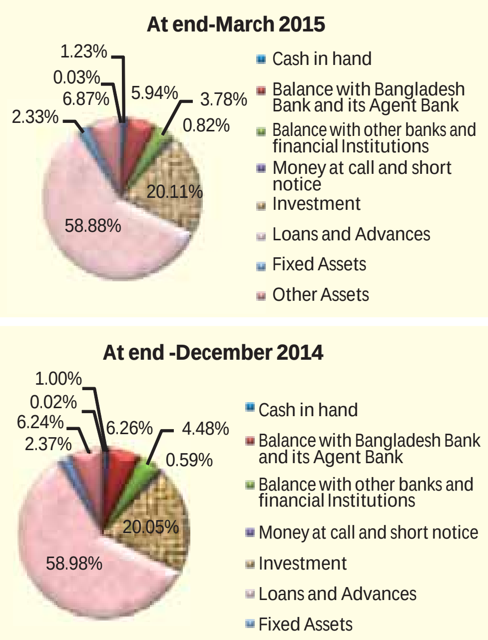
**Chart 2.1 Asset size of the banking industry**




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

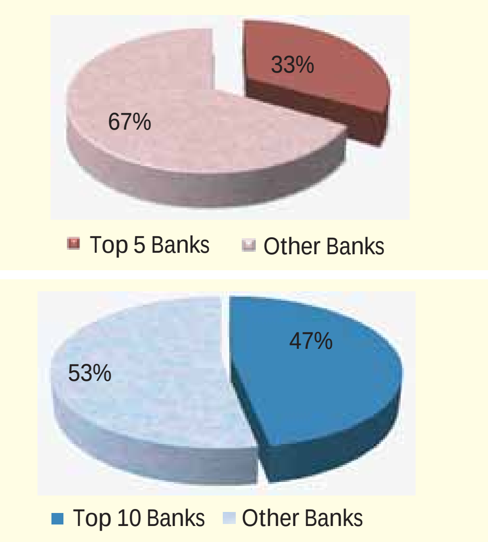
[3] Taking into account only scheduled banks

## 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-March 2015



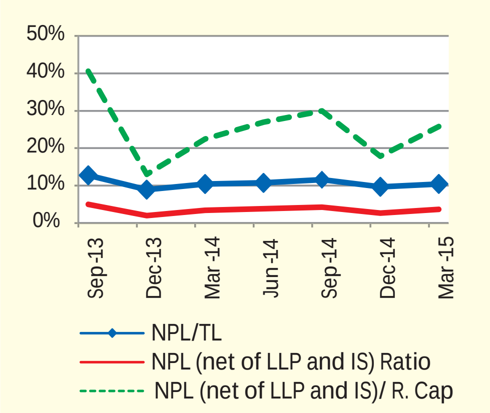

*Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.*

## 2.2 Asset Quality

The NPL ratio[4] increased by 0.8 percentage points, reaching 10.5 percent at end-March 2015 from 9.7 percent recorded at end-December 2014. Besides, non-performing loans net of specific loan loss provision and interest suspense to total loans and to regulatory capital increased to 3.7 percent and 25.8 percent respectively at end-March 2015 from 2.7 percent and 17.9 percent recorded at end-December 2014.

The distribution of banks, based on their NPL ratios, indicates that the number of banks with double-digit values was 14 in March quarter of CY15, 01 more than the number in December CY14. Moreover, 10 banks had NPL ratios over 20.0 percent.

## Chart 2.4 NPL ratio




*Source: BRPD, BB.*

The provision maintenance ratio[5] at end-March 2015 stood at 87.7 percent as opposed to 97.3 percent recorded at end-December 2014.

It is to note that 49.0 percent and 63.8 percent of the classified loans were

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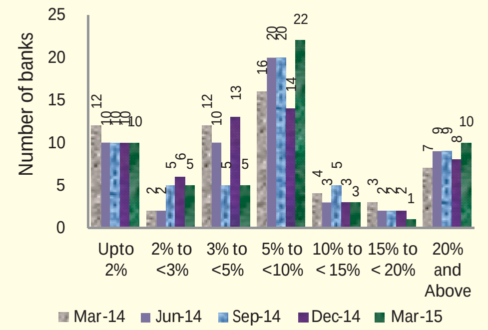
[4] Non-performing loan to total loan ratio.
[5] Maintained provision to required provision.

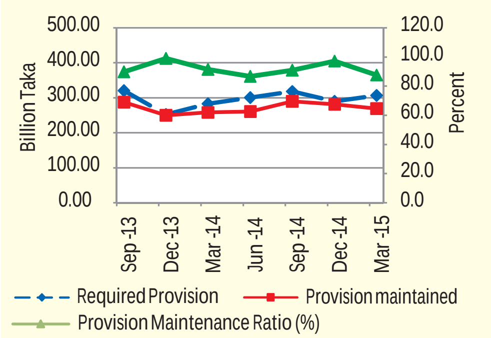
concentrated in the worst 5 banks and worst 10 banks respectively at end-March 2015 (chart 2.7).

## Chart 2.5 Distribution of banks by NPL ratio




*Source: BRPD, Compilation FSD.*

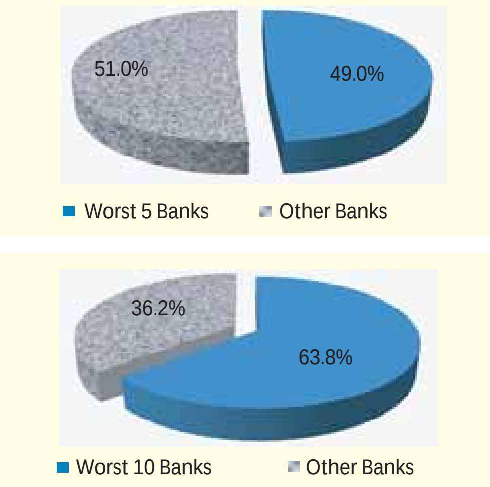
## Chart 2.6 Banking sector loan loss provision




*Source: BRPD, BB.*

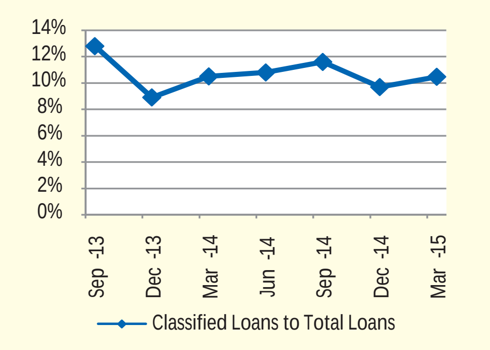
The ratio of bad/loss loans to total classified loans stood at 77.1 percent at end-March CY15, declining slightly from 77.8 percent at end-December CY14. The NPL under sub-standard and doubtful categories, on the other hand, constituted 14.1 percent and 8.8 percent of total NPLs respectively. Pertinently, in March quarter of CY15 the proportion of loans in bad/loss and doubtful category decreased by 0.7 and 2.4 percentage points respectively with respect to the preceding quarter. However, the proportion of sub-standard loans increased by 3.1 percentage points.

## Chart 2.7 Worst 5 and worst 10 banks based on NPL as of end-March 2015



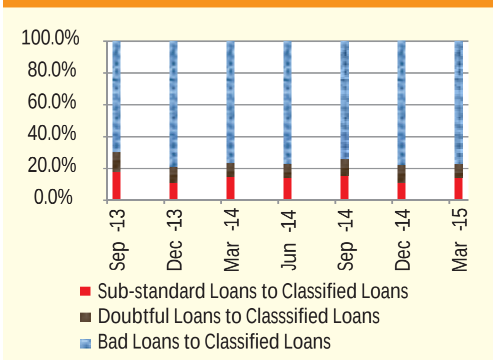

*Source: BRPD; Compilation FSD.*

## Chart 2.8 NPL ratio of the banking sector



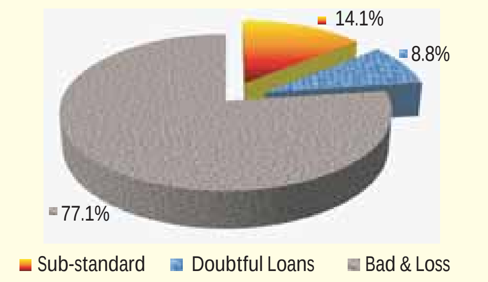

*Source: BRPD, BB.*

## Chart 2.9 Proportion of NPL categories



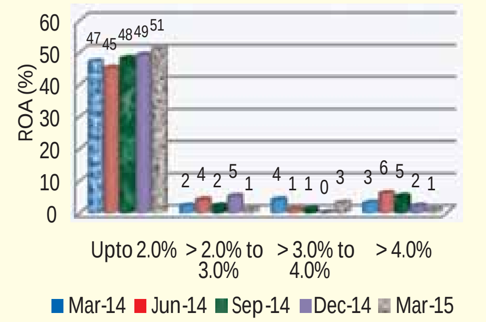

*Source: BRPD, BB.*

## Chart 2.10 NPL composition of banks




*Source: BRPD, BB.*

## Chart 2.11 Banking Sector return on assets (ROA)

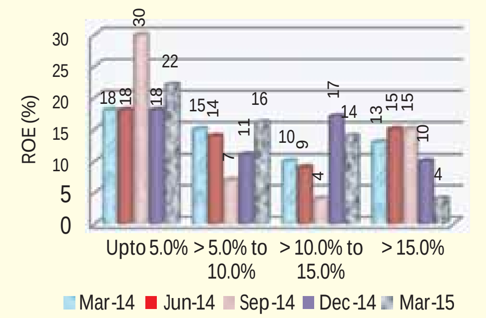



*Source: Compilation (Aggregate P/L account of banking industry): FSD, BB.*

## 2.3 Profitability

Both the return on assets (ROA) and return on equity (ROE) decreased by 0.06 and 3.1 percentage points at end-March CY15 with respect to the position of the previous quarter[6], and reached the level of 0.64 and 5.6 percent respectively. It is mentionable that almost 91 percent of banks had a ROA of less than 2 percent, while only 9 percent of banks had a ratio higher than 2 percent. On the other hand, 61 percent of the banks had a ROE of higher than 5 percent.

## Chart 2.12 Banking Sector return on equity (ROE)




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

[6] For December 2014, ROA and ROE were actual ratios while the ratios for March 2015 quarter have been annualised.

Chapter-3

# Non-Bank Financial Institutions' Performance

The macroeconomic environment might have caused some stresses on the business of the non-bank financial institutions (NBFIs) in the first quarter of CY15. Key financial soundness indicators, such as classified loans and leases and profitability ratios, slightly deteriorated portraying a diverse signal for the industry.

### 3.1 Sources of Funds of the NBFIs

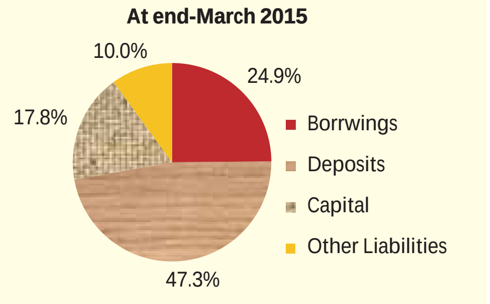
Deposits constitute the major source of total funds for the NBFIs. Borrowings are another important source of fund for NBFIs. It is mentionable that NBFIs are allowed to take deposits directly from the public as well as from institutions. However, NBFIs are allowed to mobilize term deposits only, with a tenor not less than three months. Other than those, the major funding sources are capital, call money and bonds.

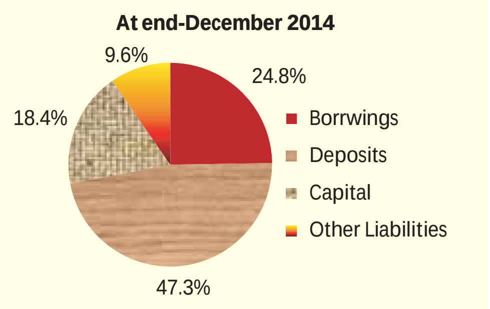
At end-March 2015, borrowings, deposits, capital and other liabilities constituted 24.9, 47.3, 17.8 and 10.0 percent respectively of the sources of fund of the NBFI sector. In comparison with end-December 2014 positions, the proportion of borrowings and other liabilities increased by 0.10 and 0.4 percentage points respectively while the proportion of deposits remained unchanged. On the other hand, the proportion of capital declined by 60 basis points.

### 3.2 Assets Composition/Structure[7]

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

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



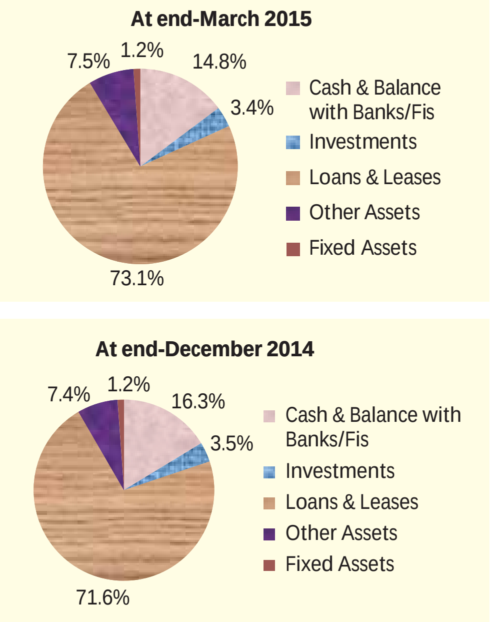

*Source: NBFIs, FSD Staff Compilation.*

NBFIs' loans and leases constituted 73.1 percent of total assets at end-March 2015. Cash and balances with banks/FIs, investments, fixed assets, and other assets comprised 14.8, 3.4, 1.2 and 7.5 percent of total assets respectively.

When compared with end-December 2014 positions, the proportion of cash and balances with other banks/FIs and investments decreased by 150 and 10 basis points respectively. However, the proportions of loans & leases, and other assets increased by 150 and 10 basis points respectively while the proportion of fixed assets remained unchanged.

[7] One NBFI could not submit Balance Sheet for the quarter ended March-2015 and Profit Loss Account statement of 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

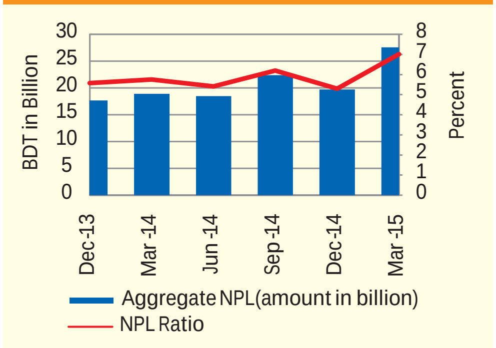
NBFIs' asset quality deteriorated notably in March 2015[8]. Classified loans and leases increased from BDT 19.7 billion in end-December 2014 to BDT 27.6 billion in end-March 2015, recording an increase of 39.9 percent. The ratio of classified loans and leases to total loans and leases reached to 7.0 percent at end-March 2015, which is 170 basis points higher than the ratio of 5.3 recorded at end- December 2014.

## 3.4 Profitability

The NBFIs' profitability has moderately declined in the March quarter of CY15 compared with the December quarter of CY14[9].

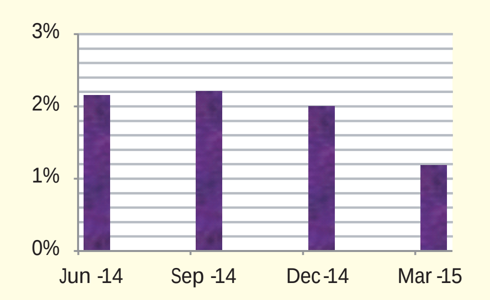
The ROA and ROE[10] stood at 1.2 percent and 6.7 percent respectively in the March quarter of CY15 as opposed to 2.0 and 10.9 percent respectively recorded at the preceding quarter.

**Chart 3.3 NBFIs' Classified loan and leases**



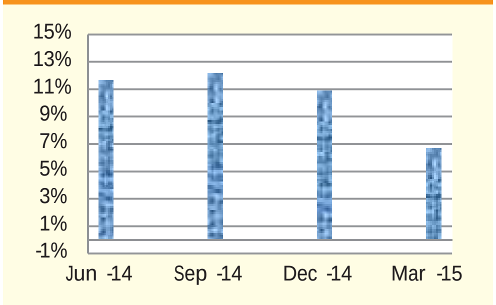

*Source: DFIM, BB.*

**Chart 3.4 NBFIs' Return on Assets (ROA)**




*Source: NBFIs; FSD staff compilation.*

**Chart 3.5 NBFIs' 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 March quarter CY15.
9 Here profitability indicators-ROA and ROE- have been annualized from quarterly ratios.
10 Annualized from respective quarterly ratios.

Chapter-4

# Banking Sector Liquidity and Capital Adequacy

One of the major challenges for banks is to maintain their capital as per requirement of the Basel III framework with a view to enhancing their risk resilience. The proportion of banks compliant in capital to risk-weighted assets ratio (CRAR) and Tier -1 capital ratio decreased moderately. From a liquidity perspective, the advance-to-deposit ratio (ADR) decreased slightly at end-March 2015 compared with end-December 2014.

## 4.1 Capital Adequacy

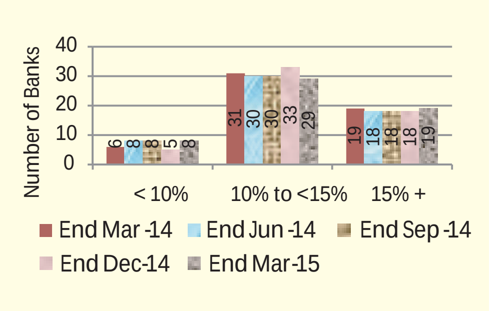
*Under the Basel-III framework, banks in Bangladesh are required to maintain a regulatory capital ratio of at least 10.0 percent and Tier-1 capital of at least 5.5 percent of their total risk-weighted assets in the review quarter.*

Compared with end-December 2014, the proportion of banks compliant with the minimum CRAR decreased at end-March 2015; 86 percent of the scheduled banks were able to maintain their capital ratios of 10.0 percent and higher in line with Pillar 1 of the Basel III capital framework. This ratio was 91 percent at December 2014 quarter in line with Basel II regime.

However, as evident from Chart 4.2, a quite substantial share of banking assets was still concentrated within the CRAR-compliant bank group. It is to mention that 29 banks' CRARs were within the range of 10-15 percent and their assets accounted for nearly 68 percent of the total banking industry's assets at end- March 2015, indicating that a significant portion of the banking sector assets are being managed by the CRAR-compliant banks.

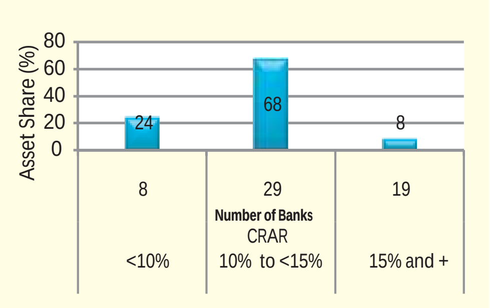
The banking sector aggregate CRAR at end-March 2015 was 10.7 percent, which was moderately higher than the minimum requirement of 10.0 percent but 0.70 percentage points lower than the ratio recorded at end-December 2014. The Tier-1 capital ratio stood at 8.2 percent as opposed to 8.6 percent recorded at end-December 2014; however, the ratio is still higher than the minimum regulatory requirement of 5.5 percent[11].

**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-March 2015**

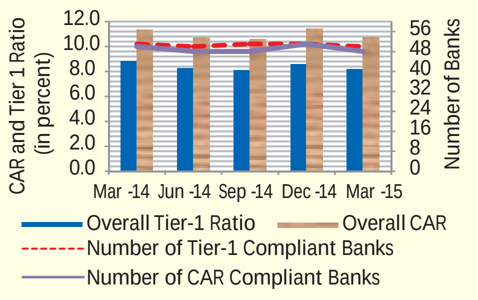



Source: DOS,BB.

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

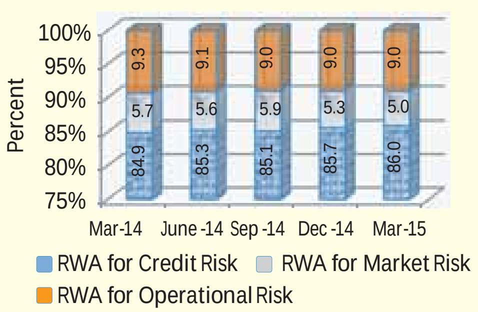
At end-March 2015, under Pillar 1 of the Basel III capital adequacy framework, risk-weighted assets arising from credit risks accounted for 86 percent of the total industry risk-weighted assets, and the next positions were held by operational and market risk respectively (Chart 4.4).

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




*Source: DOS, BB.*

**Chart 4.4 Distribution of risk-weighted assets**




*Source: DOS, BB.*

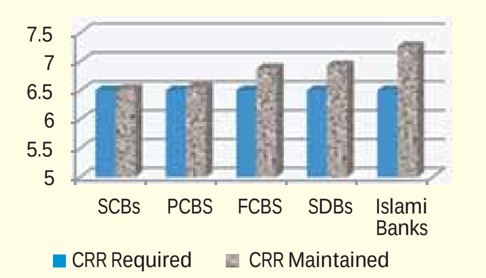
## 4.2 Liquidity

To manage the liquidity situation of banks and ease the inflationary pressures, BB increased the Cash Reserve Ratio (CRR) from 6.0 to 6.5 percent in mid 2014[12].

The banking sector, as a whole, was able to maintain a satisfactory liquidity position at end-March 2015 in terms of both the CRR and SLR requirements.

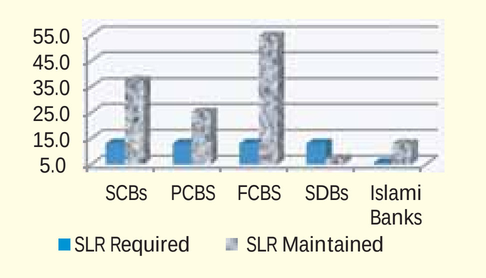
All banks, except the SDBs, generally met or comfortably exceeded their liquidity requirements. Islamic banks significantly exceeded their CRR requirements, while FCBs and SCBs significantly exceeded their SLR requirements.

**Chart 4.5 Banking sector CRR: March 2015**




*Source: DOS, BB.*

**Chart 4.6 Banking sector SLR: March 2015**




*Source: DOS, BB.*

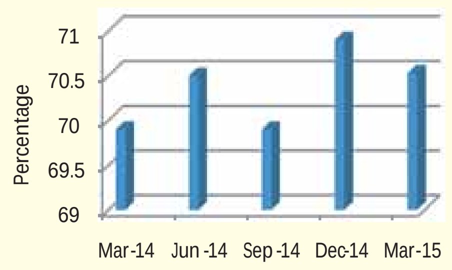
With a perceived surge in advance-to-deposit ratio (ADR) in the banking system in early 2011, banks were instructed in February 2011 to scale down their ADR

12 Effective from June 24, 2014.

within a prescribed level (for conventional banks up to 85 percent and for Islamic Shari'ah banks up to 90 percent) by June 2011. BB is mostly pursuing that policy and monitoring the ADRs of banks within that framework.

As evident from Chart 4.7, ADR of the banking industry decreased by 0.4 percentage points at end-March 2015 compared with that of end-December 2014.

**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 Institution (NBFI) sector works as a catalyst to economic growth. NBFIs are required to maintain liquidity and capital adequacy as per Bangladesh Bank regulations. This enables the NBFIs to play an important role in the overall development of the country.

## 5.1 Liquidity

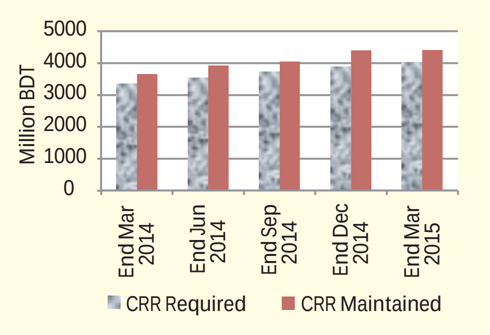
NBFIs taking term deposits have to maintain a statutory liquidity requirement (SLR) of 5.0 percent of their total liabilities, inclusive of an average 2.5 percent cash reserve ratio (CRR) of their total term deposits. On the other hand, NBFIs operating without taking term deposits have to maintain an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

As of end-March 2015, the aggregate amount of maintained CRR was BDT 4414.3 million as opposed to BDT 4396.9 million recorded at end-December 2014, recording an increment of 40 basis points. On the other hand, at end-March 2015, the amount of maintained SLR was BDT 69.2 billion, which was 5.5 percent higher than the amount maintained at end-December 2014. It is noteworthy that in the March quarter of CY15, the NBFI sector had no CRR and SLR shortfall.

## 5.2 Capital Adequacy

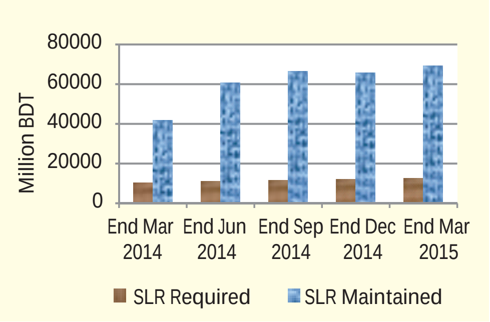
In the March quarter of CY15, NBFIs were required to maintain a capital adequacy ratio (CAR) of not less than 10.0 percent with at least 5.0 percent in core capital in line with the Basel II framework.

**Chart 5.1 NBFIs' CRR**



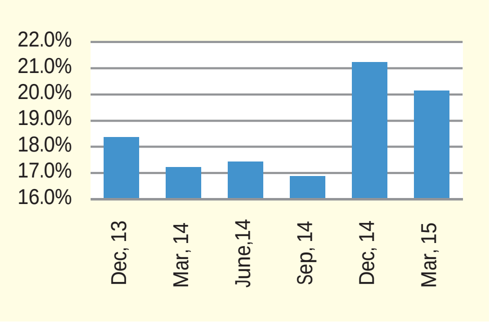

*Source: DFIM, BB.*

**Chart 5.2 NBFIs' SLR**




*Source: DFIM, BB.*

**Chart 5.3 Capital Adequacy Ratio of NBFI Sector**



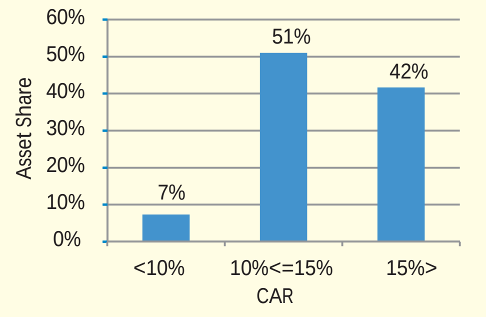

*Source: DFIM, BB.*

The CAR of the NBFI sector was 21.2 percent in the December quarter of CY14, which slightly decreased to 20.1 percent in the March 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 of 10.0 percent. Importantly, as of end-March 2015, out of 31 NBFIs, only 1 failed to maintain regulatory minimum requirement of CAR.

As evident from Chart 5.4, a significant portion of the NBFI sector's assets was concentrated within the CAR compliant NBFI group. 10 NBFIs' CARs were within the range of 10-15 percent and their assets accounted for nearly 51 percent of the total NBFI industry's assets, whereas 20 NBFIs' CARs were above 15 percent and their assets accounted for 42 percent of the NBFI industry's assets as at end-March 2015. This analysis indicates the soundness of the NBFI sector.

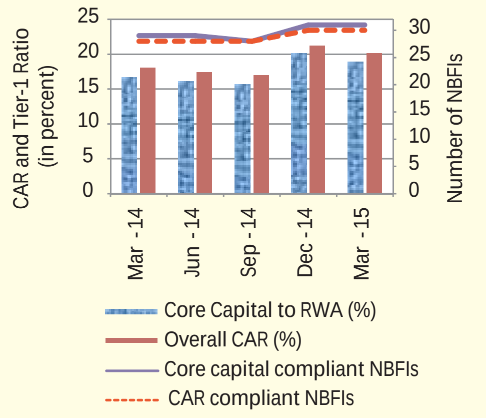
In addition, the Tier-1 capital ratio was 18.9 percent in the first quarter of CY15. This figure indicates that the NBFI sector was compliant with the Basel II requirements in respect of the Tier-1 capital ratio too, though the ratio in the review quarter was slightly lower than the ratio recorded at end-December 2014.

**Chart 5.4 Asset Share of NBFIs based on CAR as at end-March 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 Testing

Stress testing is conducted on banks and non-bank financial institutions (NBFIs) on a quarterly basis.

## 6.2 Stress Testing on Banks[13]

For banks, a battery of stress events are put forth and the tests are carried out. Shock scenarios include credit risks, market risks, and liquidity risks. The following sub-sections give details of the shocks and the outcomes associated with those:

### 6.2.1 Individual Shocks

BB conducts stress tests on banks through simple sensitivity analysis incorporating impacts of credit, interest rate, exchange rate, equity and liquidity shock scenarios. It may be mentioned that in the March quarter of CY15, stress tests have been conducted on 48 banks out of 56 as 8 banks' pre-shock CRARs[14] were below the minimum regulatory requirement of 10.0 percent. Pertinently, the banking industry's CRAR was 10.7 percent at the end of the stated quarter.

#### 6.2.1.1 Credit risk

a) **Credit risk due to increase in non-performing loan (NPL)[15]:** As of March quarter CY15, 8, 19, and 31 banks out of 48[16] would have failed to maintain the minimum required CRAR in the event of minor, moderate and major shocks respectively.

b) **Credit risk due to default of top large loan borrowers:** If 3, 7 and 10 largest borrowers of each bank in the industry default, 23, 30 and 32 banks, respectively, would have been non-compliant in minimum required CRAR.

c) **Credit risk due to decrease in the Forced Sale Value (FSV) of the mortgaged collateral:** If FSV of mortgaged collateral declines by 10, 20 and 40 percents, then 4, 4, and 7 banks out of 48[17] respectively would have been non-compliant in CRAR.

d) **Credit risk due to negative shift in NPL categories:** If 5, 10 and 15 percent downward shifts in the NPL categories materialize, then 4, 14, and 15 banks, respectively, would have been non-compliant in CRAR.

e) **Credit risk due to increase in NPL in highest outstanding sector:** The banking industry as a whole would remain resilient at every scenario (minor, moderate and major) as its CRAR would remain above the minimum regulatory requirement. Put differently, out of 48 banks, only 2, 4 and 4 banks would fail to maintain the minimum required CRAR in case of minor, moderate and major shock respectively.

Overall, based on the data of the March quarter of CY15, default of the largest borrowers would be the main factors for causing CRAR to fall below the minimum regulatory requirements of 10.0 percent.

13 The analyses here are based on the data as of end-March 2015 unless otherwise stated.
14 CRAR = Total Eligible Capital/(Credit RWA + Market RWA + Operational RWA, where RWA Risk-weighted assets)
15 NPL is composed of sub-standard, doubtful and bad/loss loans.
16 Having initial CRAR of 10.0 percent or higher.
17 8 banks had CRAR below 10.0 percent at end-March CY15.

| Table 6.1 Stress tests on the banking sector based on the data as of end-March, 2015 | |
|---|---|
| **Shocks[18]** | **System (%)** |
| **Initial CRAR (%)** | 10.73 |
| **CRAR after shock (%)** | |
| **Credit Risks** | |
| **Increase in NPLs by** | |
| Shock-1: 3% | 10.00 |
| Shock-2: 9% | 8.10 |
| Shock-3: 15% | 4.87 |
| **Default of top large loan borrowers** | |
| Shock-1: 3 largest borrowers | 7.24 |
| Shock-2: 7 largest borrowers | 4.66 |
| Shock-3: 10 largest borrowers | 3.17 |
| **Fall in the FSV of mortgaged collateral** | |
| Shock-1: 10% | 10.27 |
| Shock-2: 20% | 9.81 |
| Shock-3: 40% | 8.87 |
| **Negative shift in NPL categories** | |
| Shock-1: 5% | 10.14 |
| Shock-2: 10% | 7.84 |
| Shock-3: 15% | 6.83 |
| **Credit concentration** | |
| Sectoral concentration 1[19] | |
| (Performing loan directly downgraded to B/L) | |
| Shock-1: 3% | 10.67 |
| Shock-2: 9% | 10.56 |
| Shock-3: 15% | 10.44 |
| Sectoral concentration 2[20] | |
| (Performing loan directly downgraded to B/L) | |
| Shock-1: 3% | 10.67 |
| Shock-2: 9% | 10.55 |
| Shock-3: 15% | 10.43 |
| **Market Risks** | |
| **Interest Rate Risk (change in interest rate)** | |
| Shock-1: 1% | 10.66 |
| Shock-2: 2% | 10.59 |
| Shock-3: 3% | 10.53 |
| **Exchange rate risk (Currency appreciation/depreciation)** | |
| Shock-1: 5% | 10.72 |
| Shock-2: 10% | 10.70 |
| Shock-3: 15% | 10.69 |
| **Equity price risk (Fall in equity prices)** | |
| Shock-1: 10% | 10.47 |
| Shock-2: 20% | 10.21 |
| Shock-3: 40% | 9.68 |
| **Combined Shock** | |
| Shock-1 | 8.61 |
| Shock-2 | 3.61 |
| Shock-3 | -2.18 |

18 Shock-1 indicates Minor, Shock-2 Moderate and Shock-3 Major. B/L indicates Bad/Loss.
19 Sector with highest outstanding.
20 Sector with second highest outstanding.

#### 6.2.1.2 Market Risk

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

a) **Interest rate risk:** Considering the change in interest rate of 1, 2 and 3 percent, 7, 12 and 13 banks, respectively, would fail to maintain the minimum required CRAR.

b) **Exchange Rate risk:** A currency appreciation/depreciation by 5, 10, and 15 percent would lead to non-compliance of 2 banks in each of the shock scenarios, i.e., minor, moderate and major- in terms of CRAR.[21]

c) **Equity price risk:** In the event of a 10, 20 and 40 percent fall in equity prices, 3, 4 and 7 banks, respectively, would have been non-compliant in CRAR.

### 6.2.2 Combined Shock[22]

Under minor, moderate and major combined shocks, 16, 31 and 33 banks, respectively, would have been undercapitalized; CRAR in these cases would be downgraded to 8.61, 3.61, and -2.18 percent respectively.

In sum, among different specified shocks, the default of the top large loan borrowers would have the most major impact on the banking sector capital to risk-weighted asset ratio, implying that individual banks and the banking sector, as a whole, must pay due attention to managing the concentration risk in a prudent manner.

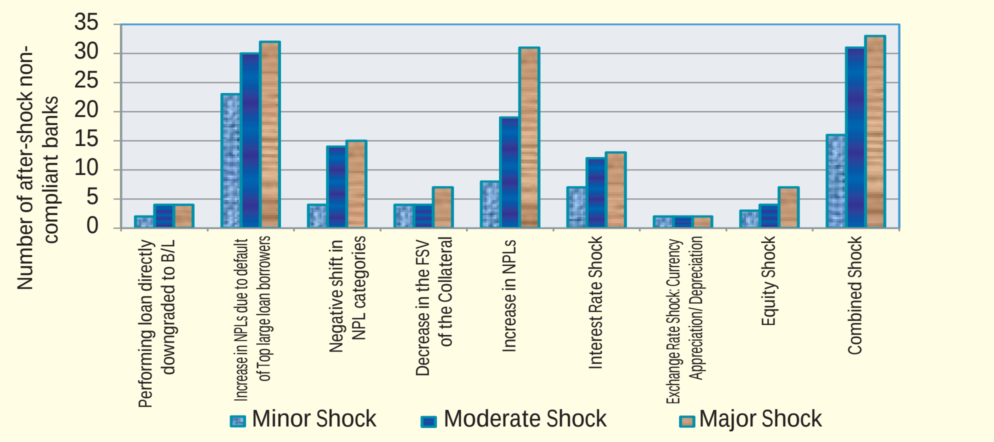
### 6.2.3 Liquidity Shock

In the March quarter of CY15, the individual banks and the banking system as a whole were found to be resilient against specified liquidity stress scenarios.

## 6.3 Stress Testing on NBFIs

Non-bank financial institutions (NBFIs) are required to undergo stress tests on a quarterly basis. Stress testing on them is primarily based on a simple sensitivity analysis using four risk factors- interest rate, credit, equity price and liquidity.

**Chart 6.1 Number of non-compliant banks at different shock scenarios : March 2015**




*Source: FSD, BB.*

21 Already compliant in CRAR.

22 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).

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

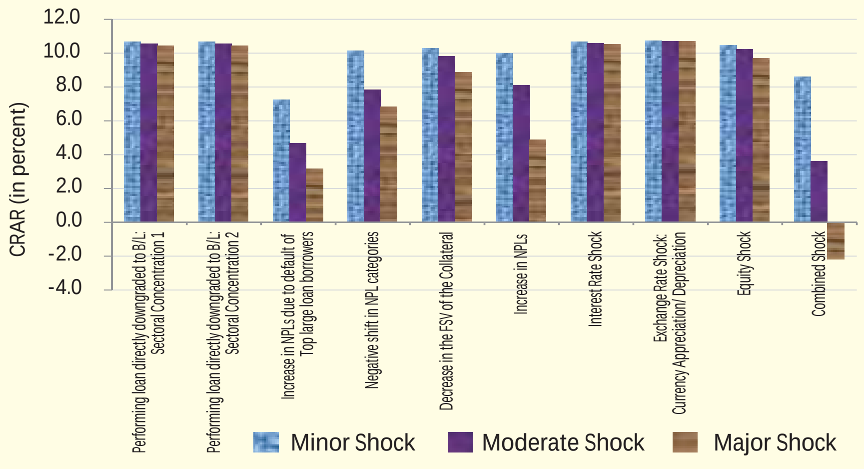
Results from the stress tests, based on the data of the March quarter of CY15, reveal that out of 31 NBFIs, 4 and 12 NBFIs were positioned as Green and Yellow respectively. On the other hand, 15 NBFIs were positioned as Red. These 15 NBFIs warrant

**Table 6.2 Liquidity risk of the Banking Sector : March 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 Banking Sector CRAR at different shock scenarios : March 2015**




*Source: FSD, BB.*

supervisory attention from a stress testing standpoint (Table 6.3). Pertinently, for the December quarter of CY14, 4, 19 and 8 NBFIs were positioned as Green, Yellow and Red respectively.

In sum, based on the data of the March quarter of CY15, a majority of the NBFIs are resilient in the face of different shock scenarios. However, the number of NBFIs positioned as Red was almost double in March quarter of CY15, compared with the December quarter of CY14. Indeed, NBFIs positioned in the "Red" zone warrant supervisory attention from a stress test standpoint and they should have contingency arrangements to withstand the distressed situations if the unfavorable events materialise.

**Table 6.3 : Stress Tests and Resilience of NBFIs**

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

**Out of 31 NBFIs, 1 has been exempted from stress testing analysis for the September quarter of CY14 as it has started its commercial operation recently*
*Source: DFIM, BB.*

Chapter-7

# Capital Market Development and Corporate Bond Market

The capital market in Bangladesh, after a considerable period of price correction, is still demonstrating a mixed trend as evident from movements of a number of key indicators as detailed below:

## 7.1 DSE Performance and Index Movement

DSE turnover has been fluctuating during the period from April 2014 to March 2015. In March 2015, turnover increased by 2.1 percent and reached to BDT 61392.5 million as compared to BDT 60132.6 million recorded in December 2014. At the end of the first quarter (January-March) of CY15, key DSE indices - DSEX, DSE 30 and DSES-decreased by 6.9, 4.1 and 4.1 percent respectively from those at the end of the fourth quarter of CY14.

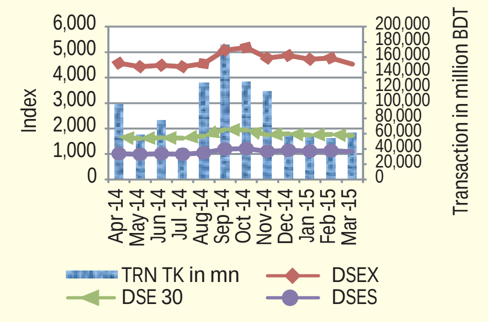
## 7.2 Price/Earnings (P/E) Ratio

The weighted average P/E ratio in March 2015 was 16.5, which was 7.1 percent lower than that of December 2014 and 3.8 percent higher than that of March CY14. The overall market P/E ratio recorded an upward trend with moderate fluctuations during June 2013 to September 2014, and thereafter declined slightly.

## 7.3 Sectoral Turnover

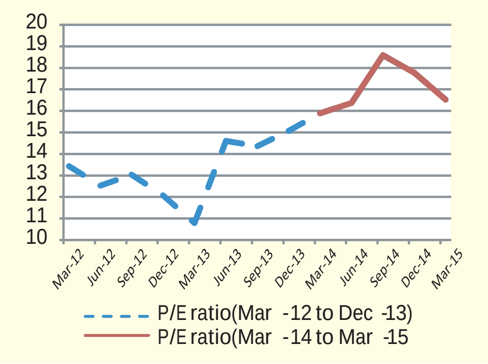
In the first quarter of CY15, the highest turnover was recorded for Fuel & Power sector, while the next positions were for

**Chart 7.1 DSE Performance and Index Movement**



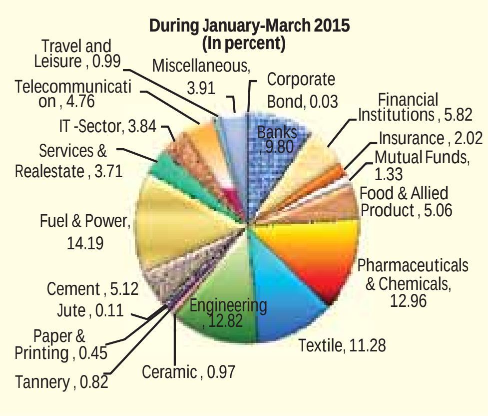

*Source: Data-DSE, Compilation - FSD.*

**Chart 7.2 P/E Ratio**




*Source: Dhaka Stock Exchange.*

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



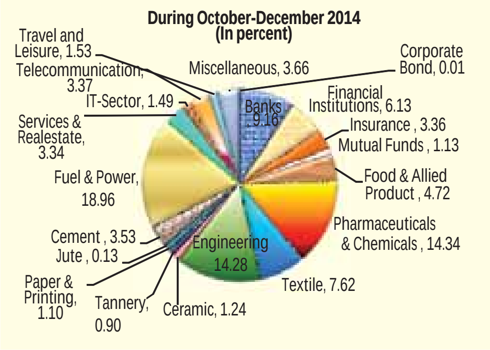
Pharmaceuticals & Chemicals, and for Engineering sectors respectively (Chart 7.3). This pattern was similar to what was recorded in the fourth quarter of CY14.

## 7.4 Corporate Bond Market

The corporate bond market ensures that 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.

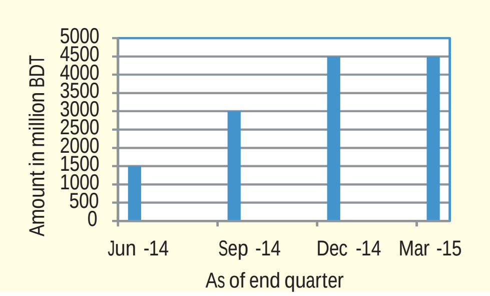
As of end-March 2015, the amount of corporate bonds issued was unchanged compared with the amount issued as of end-December 2014.

**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

The importance of the financial system to economic growth has become more obvious in recent years. In this perspective, a number of notable initiatives have been taken by Bangladesh Bank in the recent past. Some steps, for instance, are as follows:

## 8.1 Preparation of Financial Stability Report

Bangladesh Bank commenced preparation of the Financial Stability Report (FSR) from 2011. So far four issues of the report have been released. The fifth issue of the report is going to be released very soon. The FSR contains key trends in the important segments of the financial system, risks and fragilities of the financial system and resilience thereof to adverse events.

## 8.2 Preparation of Quarterly Financial Stability Assessment Report

Bangladesh Bank commenced preparation of the Quarterly Financial Stability Assessment Report (QFSAR) from fourth quarter of calendar year 2014. The QFSAR aims to convey the assessment of Bangladesh Bank on macroeconomic development, trends in key segments of the financial sector in Bangladesh - banks, non-bank financial institutions (NBFIs), and capital markets. It also conveys an up-to-date assessment of risks to the banking and NBFI sectors, and resilience of those sectors to hypothetical scenarios.

## 8.3 Financial Inclusion

Bangladesh Bank has been embracing financial inclusion as an important development priority. A number of initiatives have been taken by BB as part of its financial inclusion drive, some of which are discussed below:

### 8.3.1 Bank Account for Street Children

BB introduced this service in June 2014, which allows street children to open a savings account with participating banks for as little as BDT 10. The aim of the initiative is to "prevent the derailment of street children through developing their financial position".

BB is coordinating with some banks that are piloting the scheme, in partnership with approved, legally-registered NGOs working on the financial inclusion of children. To open new accounts require a co-signature from an NGO, whose staff retains control of that account until the child attains the age of 18.

### 8.3.2 School Banking

BB introduced this product as part of its financial inclusion drive in November 2010, and issued a guideline in 2013 to provide students with necessary banking services by ensuring more transparent, encouraging and dynamic institutional financial supports to them under the school banking program. This financial net covers students as young as 6 years but not more than 18 years with an initial deposit of BDT 100.

### 8.3.3 Formation of Women Entrepreneur Development Unit in Banks and Financial Institutions

Bangladesh Bank has taken different initiatives to ensure women empowerment in our country. As a continuation of this effort, Bangladesh Bank has instructed all commercial banks and non-bank financial institutions in February 2015 to form a Women Entrepreneur Development Unit at their head offices and zonal offices (if any).[23] The objective of the Unit is to give preference to the micro- and cottage-level women entrepreneurs in receiving industrial and service sector loans, arranging different promotional activities to encourage new entrepreneurs, allowing SME loans to flow to them, and other development activities with high importance. The proposed Unit will have to monitor the activities of branch-level Women Entrepreneur Dedicated Desks/Help Desks. Active participation of women in economic activities will promote financial inclusion and thus contribute to maintaining stability of the financial system.

### 8.4 Contingency Planning and Bank Intervention/Resolution Framework and Lender of Last Resort Framework

Bangladesh Bank adopted the Contingency Planning and Bank Intervention/ Resolution Framework and Lender of Last Resort Framework on September 30, 2013. A series of tasks under these frameworks have already been accomplished. These frameworks aim at taking preparation for financial crisis and containing the negative impact when crisis events materialize.

### 8.5 Implementation of Basel III

#### 8.5.1 Implementation of Basel III capital framework

BB issued guidelines on risk based capital adequacy in line with Basel III capital framework vide BRPD Circular No. 18/2014 dated December 21, 2014. Reporting of capital to risk weighted asset ratio (CRAR) and Leverage Ratio was started from March quarter of 2015. It is mentionable that the full implementation of Basel III capital framework in banks will be commenced from January 1, 2020.

#### 8.5.2 Implementation of Basel III Liquidity Ratios

Liquidity is one of the vital attributes of stability of the financial system. Adequate liquidity keeps a bank able to function in the event of any sudden shock. Bangladesh Bank has already issued Basel III liquidity framework; two fundamental requirements of which are to maintain- the minimum standard Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR aims to maintain an adequate level of unencumbered, high-quality liquid assets. NSFR, for its part, aims to limit over-reliance on short term wholesale funding and encourages a better assessment of liquidity risk. To facilitate the reporting process of LCR and NSFR, Bangladesh Bank has issued a Guidance Notes in January, 2015 (DOS Circular No. 01 dated January 01, 2015). As circulated, the liquidity matrices are:

a) LCR (Stock of high quality liquid assets/total net cash outflows over the next 30 calendar days)$\geq$100% ; and

b) NSFR (Available amount of stable funding/Required amount of stable funding) > 100%.

To facilitate the calculation and reporting of LCR and NSFR, Bangladesh Bank has provided a reporting template with necessary instructions.

[23] See GBCSRD Circular No. 02 dated 03 March 2015 for details.

### 8.6 Coordinated Supervision

With the aim of ensuring and maintaining financial stability, BB has taken an initiative to develop a 'Coordinated Supervision Framework' for the financial system. As part of developing this framework, preparation of a draft concept paper regarding policy coordination among the regulators is proceeding, considering the individual roles of regulators without creating conflicts over polices adopted. In this regard, a working committee has already been formed, comprising the officials of concerned regulators. The committee has taken comments/feedback from all financial sector regulators and incorporated those in the stated concept paper. In this regard, a booklet incorporating the finalized concept paper will be published by BB soon.

### 8.7 Bank Health Index/HEAT Map

The Bank Health Index (BHI) facilitates preliminary assessment of individual financial institutions relative to their peers, while the Health Assessment Tool (HEAT map) shows relative soundness of individual banks with three distinct colors -green, yellow, and red. BB has developed the BHI and HEAT map using six financial ratios with the assumption that it will provide a glimpse of financial health of the individual institutions, compared to their peers, as well as the health of the overall financial system.

### 8.8 Profit/interest on BDT 10, BDT 50 and BDT 100 Accounts

An inclusive financial system is more stable as it can cope easily with any vulnerabilities of the system. To strengthen the base of our financial system, Bangladesh Bank has taken different inclusive moves, such as allowing farmers, students, street urchins and communities beyond the reach of traditional financial services to open bank accounts for as little as BDT10, BDT 50 and BDT100. To make the accounts more active and attractive, Bangladesh Bank has issued a circular in March 2015 to give interest/ profit against these types of accounts. The highest rate payable against different existing savings accounts should be applicable in these accounts.

### 8.9 National Payment System Act-2015 (Draft)

A secured and efficient payment system is one of the preconditions for constructing a stable financial system. A regulatory framework is essential to enhance the competency of the system. In this regard, Bangladesh Bank has prepared a draft of 'National Payment System Act-2015' for the establishment and operation of a national payment system and for regulating and overseeing electronic payments. The Act would empower Bangladesh Bank to regulate and oversee the national payment system as a whole, with the aim of reducing any inefficiencies and potential risks therein. If the Act comes into effect, Bangladesh Bank would be empowered to: (a) elaborate policies for continuous modernization of the national payment system; (b) issue licenses to payment services providers and operators of systems in conformity with the terms of this Act and take any further implementing measures; (c) determine general or individual conditions, standards, rules and/or procedures in accordance with this Act and any further implementing measure regarding any licensed entity and their activities and ensure that such conditions, standards, rules and procedures are duly complied; (d) act as a forum for the consideration of matters of policy and mutual interests concerning the national payment system, and (e) perform any such other functions relating to payment, clearing or settlement systems or the issuance of payment instruments permitting the accomplishment of its functions.

### 8.10 Information for Deposit Insurance Premium Assessment (IDIPA) Software

A well-designed Deposit Insurance System ensures the protection of depositors' interests in a crisis situation of the banks and retains public confidence towards the financial system. Depositors' trust helps keeping a financial institution insulated from any unusual deposit run or a systemic crisis. To make the deposit insurance system more robust, collect data from the banks and calculate the required premiums for the Deposit Insurance Trust Fund (DITF), BB launched a software named 'Information for Deposit Insurance Premium Assessment (IDIPA)' in February, 2015. The software has been introduced to modernize and digitize the DITF activities for premium collection, calculation, assessment and investments thereof. In the past, Bangladesh Bank used to process premium related data manually. However, using this software, BB will be able to calculate deposit insurance premium in a faster and more accurate manner.

## 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 |

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 |

## 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 |

## 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 |

## Table V : Exports and Imports

*(Amount in million USD)*

| Quarter | Aggregate Exports (F.O.B) | Aggregate Imports (F.O.B) |
|---|---|---|
| Mar-13 | 7104.21 | 8158.00 |
| 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 |

## 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 |

## 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 |

## 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 |

## Table IX : Asset Structure of the banking industry

*(Amount in billion BDT)*

| Property and Assets | 31-03-14 | 30-06-14 | 30-09-14 | 31-12-14 | 31-03-15 |
|---|---|---|---|---|---|
| Cash in hand | 89.3 | 93.0 | 95.3 | 91.1 | 114.1 |
| Balance with Bangladesh Bank and its Agent Bank | 554.0 | 571.8 | 570.6 | 572.8 | 553.3 |
| Balance with other banks and financial Institutions | 323.1 | 345.2 | 355.1 | 409.7 | 351.6 |
| Money at call and short notice | 73.4 | 85.0 | 100.7 | 54.2 | 76.6 |
| Investment | 1602.7 | 1746.0 | 1803.5 | 1833.1 | 1872.1 |
| Loans and Advances | 4878.3 | 5017.6 | 5156.5 | 5392.9 | 5481.3 |
| Fixed Assets | 202.0 | 202.3 | 203.9 | 216.7 | 217.3 |
| Other Assets | 490.9 | 564.3 | 593.2 | 570.7 | 639.7 |
| Non-banking assets | 1.7 | 1.7 | 1.7 | 1.9 | 2.8 |
| Total Assets | 8215.4 | 8626.9 | 8880.5 | 9143.1 | 9308.8 |

## Table X : Banking Sector Assets & NPL Concentration (End March, 2015)

*(Amount in billion BDT)*

| Assets | Top 5 Banks | Other Banks | Top 10 Banks | Other Banks |
|---|---|---|---|---|
| Amount | 3076.1 | 6232.8 | 4382.9 | 4926.0 |
| Share (%) | 33.0 | 67.0 | 47.1 | 52.9 |
| **NPL** | **Top 5 Banks** | **Other Banks** | **Top 10 Banks** | **Other Banks** |
| Amount | 267.8 | 278.8 | 349.0 | 197.6 |
| Share (%) | 49.0 | 51.0 | 63.8 | 36.2 |

## 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% |

## Table XII : Distribution of Banks by NPL ratio

| Range | Number of Banks as at end | | | | | |
|---|---|---|---|---|---|---|
| | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
| Up to 2.0% | 12 | 12 | 10 | 10 | 10 | 10 |
| 2.0% to <3.0% | 5 | 2 | 2 | 5 | 6 | 5 |
| 3.0% to <5.0% | 16 | 12 | 10 | 5 | 13 | 5 |
| 5.0% to <10.0% | 11 | 16 | 20 | 20 | 14 | 22 |
| 10.0% to <15.0% | 3 | 4 | 3 | 5 | 3 | 3 |
| 15.0% to <20.0% | 2 | 3 | 2 | 2 | 2 | 1 |
| 20.0% & above | 7 | 7 | 9 | 9 | 8 | 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 |

## 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 |

## Table XV : Classified Loan Composition (end-March 2015)

*(Amount in billion BDT)*

| Particulars | Amount | Percent of Total |
|---|---|---|
| Sub-Standard | 77.2 | 14.1 |
| Doubtful | 47.8 | 8.8 |
| Bad & Loss | 421.6 | 77.1 |
| Total | 546.6 | 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 |

*Note: ROA for March-14, June-14, Sepember-14 & March-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 |

*Note: ROE for March-14, June-14 , Sepember-14 & March-15 are annualized figures.*

### Table XVIII : NBFIs' Borrowing, Deposit and Capital

*(Amount in billion BDT)*

| Particulars | March, 2015 |
|---|---|
| Borrowings | 134.1 |
| Deposits | 255.3 |
| Capital | 95.9 |
| Other Liabilities | 54.0 |
| Total | 539.3 |

### Table XIX : NBFIs' Asset Composition

*(Amount in billion BDT)*

| Particulars | March, 2015 |
|---|---|
| Cash & Balance with Banks/FIs | 79.8 |
| Investments | 18.4 |
| Loans & Leases | 394.4 |
| Other Assets | 40.5 |
| Fixed Assets | 6.2 |
| Total | 539.3 |

## 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 |

## 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 |

## Table XXII : Banking Sector CAR/CRAR

| CAR/CRAR | Number of banks (at end period) | | | | | |
|---|---|---|---|---|---|---|
| | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
| < 10% | 5 | 6 | 8 | 8 | 5 | 8 |
| 10% to <15% | 32 | 31 | 30 | 30 | 33 | 29 |
| 15% + | 19 | 19 | 18 | 18 | 18 | 19 |

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

| CRAR | Number of banks & their asset size | | Asset Share (%) |
|---|---|---|---|
| | Number of banks | Asset size (in billion BDT) | |
| <10% | 8 | 2267.1 | 24.4 |
| 10% to<15% | 29 | 6289.1 | 67.6 |
| 15% + | 19 | 752.6 | 8.0 |
| Total | 56 | 9308.8 | 100.0 |

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

| Particulars | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
|---|---|---|---|---|---|---|---|---|
| Core Capital to RWA (%) | 7.1 | 7.2 | 9.0 | 8.8 | 8.3 | 8.1 | 8.6 | 8.2 |
| Number of core capital compliant banks | 46 | 47 | 51 | 51 | 50 | 51 | 51 | 50 |
| Overall CRAR (%) | 9.1 | 9.1 | 11.5 | 11.3 | 10.7 | 10.6 | 11.4 | 10.7 |
| Number of CRAR compliant banks | 43 | 42 | 51 | 50 | 48 | 48 | 51 | 48 |
| No. of banks in the industry | 54 | 55 | 56 | 56 | 56 | 56 | 56 | 56 |

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

*(Amount in billion BDT)*

| Particulars | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
|---|---|---|---|---|---|---|---|
| RWA for Credit Risk | 4706.0 | 4815.9 | 4845.9 | 5089.9 | 5230.1 | 5419.3 | 5553.9 |
| RWA for Market Risk | 299.0 | 324.8 | 327.4 | 335.1 | 361.0 | 336.9 | 323.3 |
| RWA for Operational Risk | 503.3 | 518.9 | 532.4 | 541.4 | 550.6 | 567.8 | 583.8 |
| Total RWA | 5508.3 | 5659.6 | 5705.7 | 5966.4 | 6141.7 | 6323.9 | 6461.0 |

## 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 |

## Table XXVII : Bank Cluster-wise ADR at end-March 2015

*(In Percent)*

| Bank wise | ADR |
|---|---|
| SCBs | 52.2 |
| PCBs | 77.9 |
| FCBs | 59.5 |
| DFIs | 73.3 |
| Industry | 70.5 |

## 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 |

## Table XXIX : Capital Adequacy Ratio of NBFI Sector

| Particulars | End Dec-13 | End Mar-14 | End June-14 | End Sep-14 | End Dec-14 | End Mar-15 |
|---|---|---|---|---|---|---|
| Eligible Capital to RWA (%) | 18.4 | 18.0 | 17.4 | 16.9 | 21.2 | 20.1 |

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

*(In Percent)*

| CAR Range | No. of banks | Asset Share |
|---|---|---|
| <10% | 1 | 7% |
| 10% to < 15% | 10 | 51% |
| 15% & above | 20 | 42% |

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

*(Amount in billion BDT)*

| Particulars | End Sep-13 | End Dec-13 | End Mar-14 | End June-14 | End Sep-14 | End Dec-14 | End Mar-15 |
|---|---|---|---|---|---|---|---|
| **Risk-weighted Assets (RWA)** | | | | | | | |
| Credit RWA | 3,447.9 | 3,459.9 | 3,565.3 | 3,806.8 | 3961.2 | 4178.6 | 4406.4 |
| Market RWA | 215.2 | 237.5 | 269.5 | 260.9 | 339.4 | 346.6 | 373.8 |
| Operational RWA | 262.1 | 264.7 | 278.8 | 273.0 | 269.1 | 342.6 | 336.3 |
| **Total RWA** | **3,925.2** | **3,962.1** | **4,113.6** | **4,340.7** | **4569.7** | **4867.8** | **5116.5** |
| **Capital** | | | | | | | |
| Core Capital (Tier-1) | 654.3 | 675.8 | 683.0 | 697.7 | 715.0 | 980.1 | 966.2 |
| Supplementary Capital | 54.5 | 52.6 | 57.1 | 59.2 | 59.8 | 53.5 | 64.4 |
| Eligible Capital | 708.8 | 728.4 | 740.1 | 756.9 | 774.8 | 1033.6 | 1030.6 |

## Table XXXII : Non-compliant Banks at Different Shock Scenarios (Based on data on End-March 2015)

| Shocks | Non-compliant banks | | |
|---|---|---|---|
| | Minor Shock | Moderate Shock | Major Shock |
| Performing loan directly downgraded to B/L :Sectoral Concentration 1* | 10.67 | 10.56 | 10.44 |
| Performing loan directly downgraded to B/L :Sectoral Concentration 2** | 10.67 | 10.55 | 10.43 |
| Increase in NPLs due to default of Top large loan borrowers | 7.24 | 4.66 | 3.17 |
| Negative shift in NPL categories | 10.14 | 7.84 | 6.83 |
| Decrease in the FSV of the Collateral | 10.27 | 9.81 | 8.87 |
| Increase in NPLs | 10.00 | 8.10 | 4.87 |
| Interest Rate | 10.66 | 10.59 | 10.53 |
| Exchange Rate: Currency Appreciation/Depreciation | 10.72 | 10.70 | 10.69 |
| Equity Shock | 10.47 | 10.21 | 9.68 |
| Combined Shock | 8.61 | 3.61 | -2.18 |

*Note: BS - Balance Sheet, OBS - Off-Balance Sheet, * - sector with highest outstanding*
*** - sector with second highest outstanding*

## Table XXXIII : Banking Sector CRAR at Different Shock Scenarios

*(Based on data as of End- March 2015)*

| Shocks | System (%) | | |
|---|---|---|---|
| | Minor Shock | Moderate Shock | Major Shock |
| Performing loan directly downgraded to B/L | 2 | 4 | 4 |
| Increase in NPLs due to default of Top large loan borrowers | 23 | 30 | 32 |
| Negative shift in NPL categories | 4 | 14 | 15 |
| Decrease in the FSV of the Collateral | 4 | 4 | 7 |
| Increase in NPLs | 8 | 19 | 31 |
| Interest Rate | 7 | 12 | 13 |
| Exchange Rate: Currency Appreciation Depreciation | 2 | 2 | 2 |
| Equity Shock | 3 | 4 | 7 |
| Combined Shock | 16 | 31 | 33 |

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

## Table XXXIV : Price Earnings Ratio of Capital Market

| Quarter | Price Earnings Ratio |
|---|---|
| Mar-12 | 13.43 |
| Jun-12 | 12.53 |
| Sep-12 | 13.04 |
| Dec-12 | 12.07 |
| Mar-13 | 10.79 |
| Jun-13 | 14.60 |
| Sep-13 | 14.36 |
| Dec-13 | 15.07 |
| Mar-14 | 15.89 |
| Jun-14 | 16.37 |
| Sep-14 | 18.58 |
| Dec-14 | 17.77 |
| Mar-15 | 16.52 |

## Table XXXV : DSE Performance: April 2014 to March 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 |

## Table XXXVI : Sector-wise Turnover Performance

*(In percent)*

| Broad sector | Sector | % of total turnover | |
|---|---|---|---|
| | | **2014Q4** | **2015Q1** |
| Financial Sector | Banks | 9.16 | 9.80 |
| | Financial Institutions | 6.13 | 5.82 |
| | Insurance | 3.36 | 2.02 |
| | Mutual Funds | 1.13 | 1.33 |
| Manufacturing | Food & Allied Product | 4.72 | 5.06 |
| | Pharmaceuticals & Chemicals | 14.34 | 12.96 |
| | Textile | 7.62 | 11.28 |
| | Engineering | 14.28 | 12.82 |
| | Ceramic | 1.24 | 0.97 |
| | Tannery | 0.90 | 0.82 |
| | Paper & Printing | 1.10 | 0.45 |
| | Jute | 0.13 | 0.11 |
| | Cement | 3.53 | 5.12 |
| Service & Miscellaneous | Fuel & Power | 18.96 | 14.19 |
| | Services & Real estate | 3.34 | 3.71 |
| | IT - Sector | 1.49 | 3.84 |
| | Telecommunication | 3.37 | 4.76 |
| | Travel and Leisure | 1.53 | 0.99 |
| | Miscellaneous | 3.66 | 3.91 |
| Bond | Corporate Bond | 0.01 | 0.03 |
| | **Total** | **100.00** | **100.00** |

*Note: 2014Q4 = December quarter 2014, 2015Q1= March quarter 2015*

## Table XXXVII : Corporate Bond Issuance

(Amount in million BDT)

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

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