Quarterly
Financial Stability Assessment Report

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Bangladesh Bank

Quarterly

Financial Stability Assessment Report

July-September 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 up to September 30, 2015 unless stated otherwise in the relevant chapters/sections.

MESSAGE OF THE GOVERNOR

The global financial crisis of 2007-2008 and persisting slowdown of the global growth in its aftermath are vivid examples of how imbalance and instability in the macroeconomic and financial environments create downward spirals. Against this backdrop, financial stability analysis has begun to gain increasing importance among financial sector regulators and other supervisors around the world. It is, therefore, of utmost importance to remain watchful against risks or threats to stability and balances in the macroeconomic and financial environments towards maintaining stability of the financial system.

In order to ensure stability of the Bangladesh financial system, Bangladesh Bank is continuously assessing risks to and vulnerabilities of the financial system, implementing macroprudential initiatives with a broad-based contingency planning framework and financial inclusion activities. Alongside, Bangladesh Bank is steadily strengthening financial sector regulation and supervision towards full convergence with Basel based international best practice standards in capital, provisioning, liquidity, leverage, governance and risk management with the use of online reporting and real time surveillance practices. Importantly, supervision of individual institutions is increasingly being focused on emerging risks, so that systemic risk can be sooner identified and better managed.

The Bangladesh financial system has already demonstrated strong resilience and stability outcomes attributable to prudent monetary and fiscal policies. Besides, sustained growth and declining inflation, external sector stability has indeed been stunning. In recent years, we have actively leveraged the financial system for innovating and deepening empowerment initiatives in agriculture, cottage, micro, small and medium enterprises, women entrepreneurship, sustainable financing and hence improving the quality of our growth. These initiatives also boosted domestic demand, helping us to diminish the impacts of external shocks, especially in the aftermath of the recent global financial crisis. The impact of these macro-economic policies has also been reflected in terms of significant transformation of our inclusive economic growth and impressive stability indicators.

I believe the stakeholders of the financial system would get important insights from the report that may improve their preparedness towards withstanding shocks to the financial system. I also believe this issue will promote lively informed discussions on the critical aspects of financial sector developments. Finally, I would like to thank the officials of Financial Stability Department for their wholehearted involvement and valuable contribution in preparing this report.

Atiur Rahman, PhD
Governor

MESSAGE OF THE DEPUTY GOVERNOR

The shocks of Greek sovereign debt crisis and China's stock market plunges have continued and caused the world economic slowdown and market turmoil during the July-September quarter of 2015. Though economic activities in advanced economies are being supported by low oil prices, continued accommodative financing conditions, waning fiscal consolidation and improving labor markets, the outlook has worsened in emerging market economies (EMEs) amid heightened uncertainty, as structural impediments and macroeconomic imbalances are restraining growth in some countries, while others are adjusting to lower commodity prices and tighter external financing conditions. Inflationary pressures are expected to remain restrained following the recent fall in oil prices and the still abundant global spare capacity.

Amid the stated developments in the global financial system, Bangladesh financial system remained moderately stable during the review quarter, attributable to declining inflation, enormous foreign exchange reserve and fall in import payments. Increased profitability, decreased bad and loss loans, increased capital to risk weighted assets ratio ensured the health of banking sector even though there has been slight decline in asset quality, profitability and capital adequacy ratio of the NBFI's sector. Importantly, for strengthening policy coordination among the financial regulators a concept paper on "Coordinated Supervision Framework" has been prepared. Besides, a master circular on SME financing has been issued for enhancing the growth of the SME sector and a notable amount of target has been set for agricultural and rural credit for all schedule banks.

I hope that stakeholders of the financial system would get important insights from this report and will be able to prepare themselves in withstanding shocks, both internal and external. I appreciate the dedication and effort of the officials of Financial Stability Department for preparing this report in a timely manner.

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
NGO	Nog Government Organization
NPL	Non-performing Loan
NPO	Non Profit Organization
PCBs	Private Commercial Banks
P/E	Ration 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

Although the world economy underwent a moderate level of turbulences in July-September quarter of 2015 (CY15), e.g. supporting of economic activities by low oil prices, continued accommodative financing conditions, waning fiscal consolidation and improving labor markets, Bangladesh financial system demonstrated a notable resilience and stability during July-September quarter of 2015.

Gross international reserves increased notably and stood at USD 26 billion at end-September 2015, sufficient enough to meet more than eight months' import bills. However, Inflation and wage earners' remittance recorded a minor decline in the third quarter of CY15 with respect to the preceding one.

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

The index of industrial production (general-manufacturing) decreased in September 2015 with respect to that of the preceding quarter. Import payments and export receipts decreased moderately in the review quarter from those of the preceding quarter.

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 recorded a minor decline and the share of investment and money at call slightly increased at the end of September 2015 compared with the end-June 2015 positions. Asset quality, measured by non-performing loans (NPL) to the aggregate loan portfolio, slightly declined while NPL to regulatory capital improved slightly over the preceding quarter. The provision shortfall narrowed moderately. Key profitability indicators-Return on Assets (ROA) and Return on Equity (ROE)-increased slightly in the reporting quarter.

At the end of September 2015, a significant portion of the banks were able to maintain their minimum capital to Risk Weighted Asset Ratios (CRAR) 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 capital to risk weighted asset ratio slightly improved from the end-June 2015 position. The Tier-1 capital ratio also increased slightly; though the ratio was much higher than the minimum requirement of 5.5 percent. As of end-September 2015, the Advance-to-Deposit Ratio (ADR) of the banking industry slightly decreased relative to the end-June 2015 position.

Stress testing analysis, based on the data as of September quarter CY15, indicates that, in the event of default by 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 bank and the banking system as a whole were found to be well resilient against various liquidity stress scenarios as of end-September CY15.

Like the banking sector, Non-bank Financial Institutions (NBFIs) sector too demonstrated a mixed trend in the review quarter. Asset quality deteriorated moderately from June 2015 while the key profitability indicators - ROA and ROE - declined slightly from those of the previous quarter.

During the review quarter, the NBFIs sector had no shortfall in either the Cash Reserve Ratio (CRR) or the Statutory Liquidity Ratio (SLR). The Capital Adequacy Ratio (CAR) of the NBFI 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 stress scenarios as of end-September 2015. However, 14 NBFIs were prone to shock events necessitating the supervisory attention.

The capital market exhibited a comparatively better performance in terms of turnover with moderate improvement of the DSEX, DSE 30, and DSES in September 2015 compared with June 2015. However, the amount of corporate bonds issued remained unchanged compared with end-June 2015.

Bangladesh Bank 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 ones are as follows:

(i) **Formation of Sustainable Finance Department and Financial Inclusion Department:** Bangladesh Bank has established two new departments namely "Sustainable Finance Department" and "Financial Inclusion Department" in July 2015 to strengthen the resilience of the financial system through articulating an inclusionary base as well as directing more finance towards green economy.

(ii) **Inclusion of two new Financial Institutions:** To strengthen the financial base of the country Bangladesh Bank issued license to two new financial institutions namely 'Meridian Finance & Investment Limited' and 'CAPM Venture Capital & Finance Limited' in July 2015 and August 2015 respectively.

(iii) **Financial Inclusion:** Bangladesh Bank, as part of its financial inclusion drive, has taken a number of initiatives in the review quarter, some of which are:

a) **Master Circular on SME Financing:** Bangladesh Bank has issued a master circular in July 2015 on SME financing that gives liberty to the banks and NBFIs to fix loan limit for small enterprises. The circular also includes a structured and comprehensive reporting template on cottage, micro, small and medium enterprise financing.

(b) **Agricultural and Rural Credit Policy:** Bangladesh Bank has declared agricultural and rural credit policy in July 2015 in order to facilitate the small and marginal farmers. It also includes an instruction that if any bank fails to achieve its annual agricultural and rural credit disbursement target, it needs to deposit the shortfall amount in Bangladesh Bank without any interest.

(c) **Financial Services for new areas recently included in the map of Bangladesh:** In August 2015, Bangladesh Bank has instructed all banks and NBFIs to expand SME credit, to disburse agricultural loan under the annual agricultural and rural credit policy and programs, and to give preferential CSR support to the inhabitants of 111 enclaves who have received citizenship of Bangladesh.

(iv) **Master circular on Prevention of Money Laundering & Terrorist Financing for Insurance Companies:** The Bangladesh Financial Intelligence Unit (BFIU) circulated an instruction in July 2015 for all insurance companies empowered by the Money Laundering Prevention Act, 2012 and the Anti-Terrorism Act, 2009 (Amended up to 2013) for resisting money laundering and terrorist financing.

(v) **Foreign Exchange Regulation (Amendment) Act, 2015:** Foreign Exchange Regulation (Amendment) Act, 2015 has been passed in the Parliament on 9 September 2015 which would enhance Bangladesh Bank's regulatory powers to take different contemporary decisions in congruence with the movement of world foreign exchange market.

(vi) **Stability Initiatives taken by Financial Stability Department:** Financial Stability Department of Bangladesh Bank has prepared quarterly reports on Financial Projection Model (FPM), Interbank Transaction Matrix (ITM), Bank Health Index, and has prepared a concept paper on Coordinated Supervision Framework for Bangladesh financial system. Besides, the department has developed a framework for assessing systemic risk named "Systemic Contingent Claim Approach (SCCA)" and has decided to apply the same as a risk assessment tool.

Bangladesh financial system, during the review quarter, has been mostly successful in withstanding different challenges materialised in the global financial system. This has been possible due to coordinating role of financial sector regulators, financial intermediaries, stakeholders of the financial system, and the Government. Nevertheless, there is no scope to be complacent. Financial sector regulators need to remain vigilant about the spillover effects of their policy stances on the real economy to the best extent possible.

Chapter-1

Macroeconomic Developments

During the September quarter of Calendar Year 2015 (CY15) key macroeconomic indicators of Bangladesh economy exhibited a diverse trend. Moderate inflation and healthy foreign exchange reserve coupled with decreased import payments made the economy reasonably stable.

1.1 Inflation

At end-September 2015, inflation reached to 6.2 percent compared with 6.4 percent at end-June 2015 and this trend continued throughout the quarter (Chart 1.1).

1.2 Foreign Exchange Reserve and its Import Coverage

At end-September 2015, the gross foreign exchange reserve reached to USD 26.4 billion, an increase by 5.4 percent from the USD 25.0 billion recorded at end-June 2015.

1.3 Wage Earners' Remittance

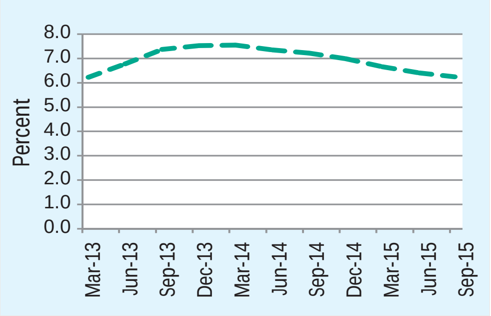
The remittances from Bangladeshi nationals working abroad decreased by 3.1 percent and remained USD 3,933.6 million at the end-September, 2015, as compared with USD 4,058.6 million recorded at the end of June, 2015.

However, remittance growth during June 2015 quarter was 7.6 percent with respect to the preceding quarter.

1.4 Industrial Production

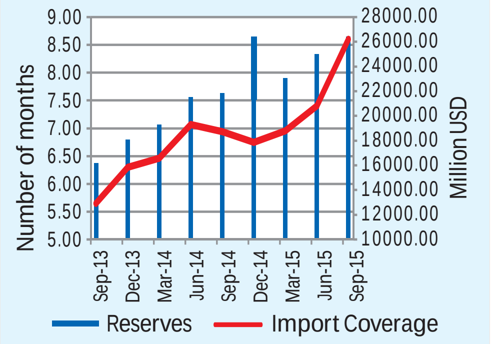
The Quantum Index of Industrial Production (General-manufacturing) at end-September 2015 reached 238.7[1] compared with 285.5 at end-June 2015.

Chart 1.1 Inflation



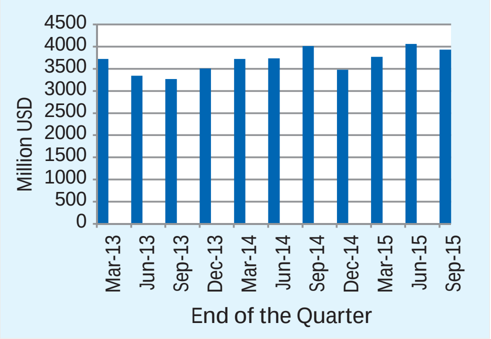
Source: Economic Trends, BB (various issues).

Chart 1.2 Foreign Exchange Reserve



Source: Research Department, BB.

Chart 1.3 Wage Earners' Remittance



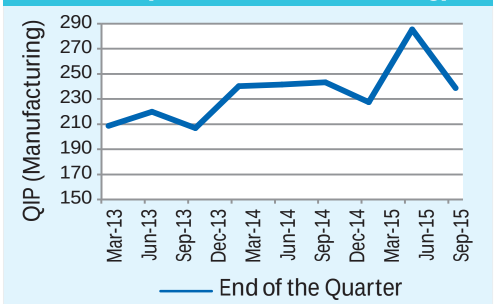
Source: Monthly Economic Trends, BB (various issues).

1.5 Imports and Exports

In the third quarter of CY15, aggregate import payment[2] decreased by 16.2 percent and reached to USD 9,955.0 million as compared with USD 10,924.0 million

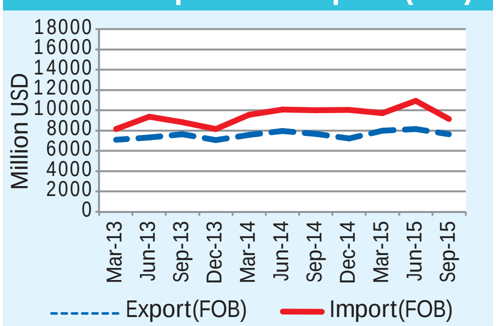
[1] Provisional
[2] On FOB basis

Chart 1.4 Industrial Production Index (General-Manufacturing)



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

Chart 1.5 Exports and Imports (FOB)



Source: Research Department, BB.

recorded in the previous quarter. Export receipts, on the other hand, declined by 6.3 percent and reached to USD 7,640.0 million compared with USD 8,156.0 million recorded in the second quarter of CY15.

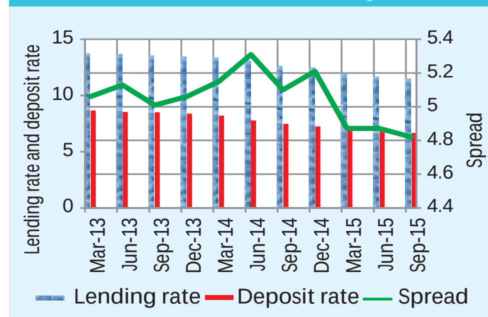
1.6 Interest Rate Spread

The interest rate spread between the weighted average lending and deposit rates slightly decreased to 4.8 percent in September 2015 from 4.9 percent of the preceding quarter; the weighted average lending rate, during the quarter was recorded as 11.5 percent while the deposit rate as 6.7 percent. Pertinently, in the review quarter, both the lending and deposit rates slightly declined.

1.7 Exchange Rate

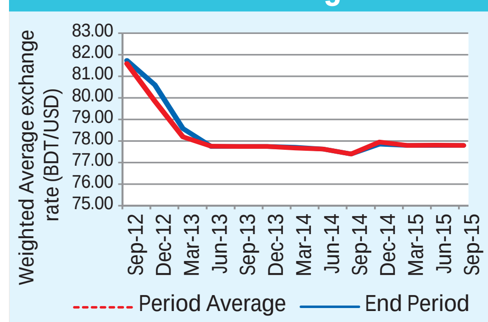
The value of the Bangladesh taka in terms of US dollar remained unchanged to BDT 77.80

Chart 1.6 Interest Rate Spread



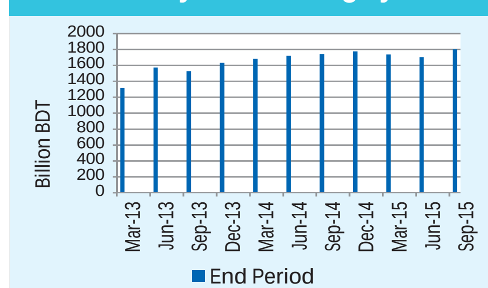
Source: Major Economic Indicators, BB (various volumes).

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.

per USD during both the September 2015 and June 2015 quarters.

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

Credit to the Government (gross) by the banking system increased by BDT 99.7 billion or 5.9 percent during this quarter since the previous quarter, although, a declining trend was observed in the first and second quarters of CY15.

Chapter-2

Banking Sector Performance

During the July-September quarter of calendar year 2015, the banking sector demonstrated a positive trend in terms of asset growth, return on assets, return on equity, and provision maintenance. Whereas share of loans and advances to total assets slightly decreased while the share of investments in government and other securities slightly increased.

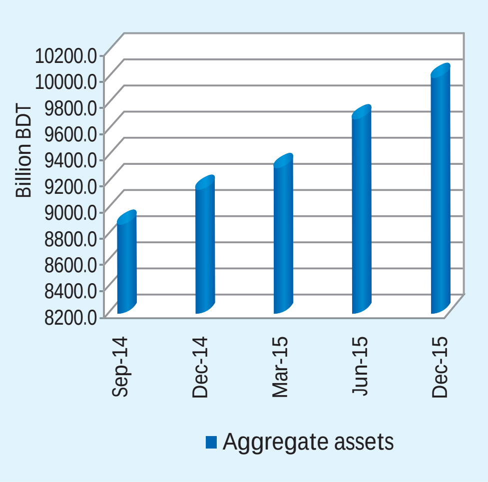
2.1 Assets Structure of the Banking Sector

The balance sheet size of the banking sector[3] grew by almost 3.2 percent and reached BDT 10,001.2 billion at end-September 2015. Loans and advances, as a percentage of total assets recorded a minor decrease, and investments recorded a slight increase compared with end-June CY15.

The share of loans and advances, the largest among the asset items, decreased by 78 basis points at end-September of CY15, while the share of investments in government and other securities increased by 45 basis points (both expressed as percentage of total assets) compared with end-June 2015. The share of banks' assets with Bangladesh Bank (BB) decreased by 5 basis points, and balances with other banks and Financial Institutions (FIs) decreased by

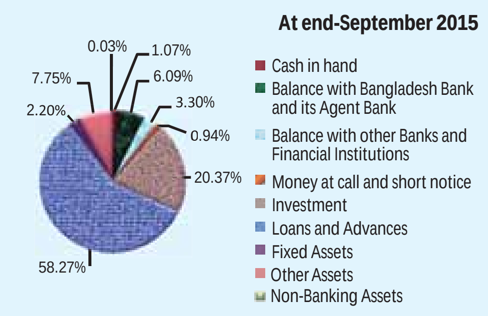
[3] Taking into account only scheduled banks

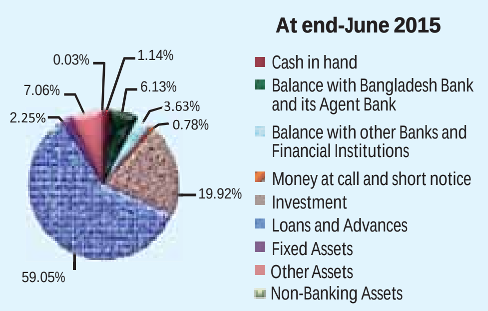
Chart 2.1 Asset size of the Banking Industry



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

Chart 2.2 Asset structure of the Banking Industry



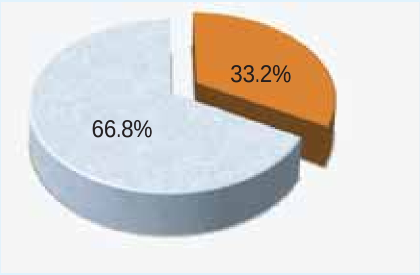


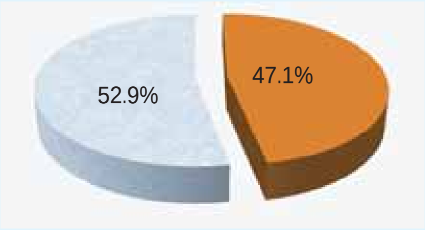
Source: Compilation (aggregate B/S account of banking industry): FSD, BB.

33 basis points. Banks' money at call increased by 14 basis points and the share of other assets increased by 69 basis points.

The asset concentration ratios of the top 5 banks and top 10 banks relative to total banking system assets were 33.2 percent and 47.1 percent respectively at end-September 2015; the proportion seemed quite similar to that in the preceding quarter.

Chart 2.3 Top 5 and Top 10 Banks based on Assets Size as at End-September 2015





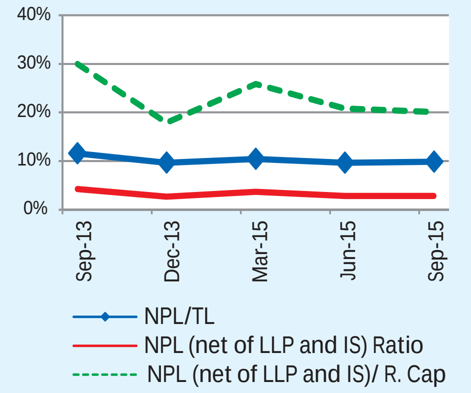
Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

2.2 Asset Quality

The NPL ratio[4] increased by 20 basis points, reaching 9.9 percent at end-September 2015 from 9.7 percent recorded at end-June 2015. Besides, non-performing loans net of specific loan loss provisions and interest suspense to total loans remained almost unchanged to 2.8 percent compared with that of end-June 2015. Whereas non-performing loans net of specific loan loss provisions and interest suspense to regulatory capital decreased to 20.1 percent at end-September 2015 from 20.8 percent of end-June 2015.

The distribution of banks, based on their NPL ratios, indicates that the number of banks with double-digit values was 15 in September CY15. Moreover, 10 banks' NPL ratios were higher than 20.0 percent, a phenomenon that requires regulatory attention.

Chart 2.4 NPL Ratio



Source: BRPD, BB.

The provision maintenance ratio[5] at end-September 2015 reached 92.5 percent as opposed to 91.8 percent recorded at end-June 2015.

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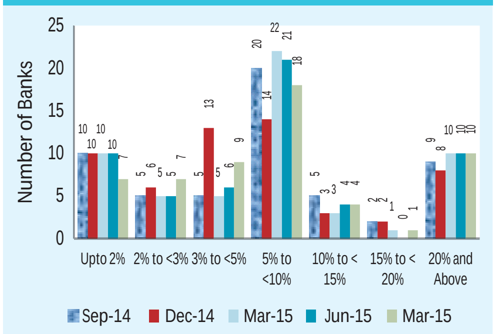
4 Non-performing loan to total loan ratio.
5 Maintained provision to required provision.

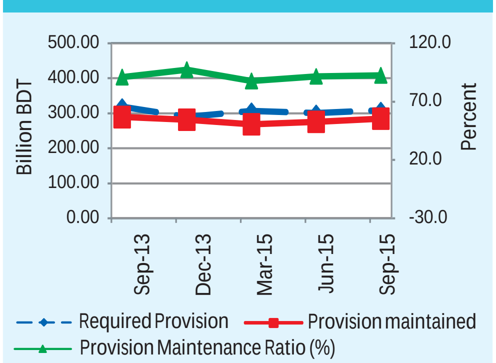
Chart 2.5 Distribution of Banks by NPL Ratio



Source: BRPD, Compilation FSD.

It is mentionable that 45.4 percent and 60.4 percent of the non-performing loans were concentrated in the top 5 and top 10 banks respectively at end-September 2015 (chart 2.7).

Chart 2.6 Banking Sector Loan Loss Provision

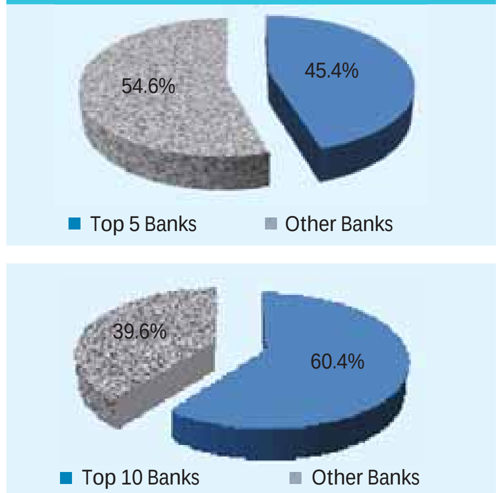


Source: BRPD, BB.

The ratio of bad/loss loans to total classified loans stood at 80.0 percent at end-September CY15[6]. The NPL under sub-standard and doubtful categories, on the other hand, constituted 11.2 and 8.8 percent of total NPLs respectively. The proportion of bad/loss loans and sub standard loans decreased by 10 basis points in each

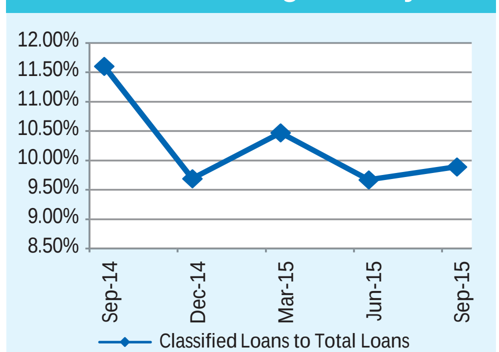
[6] Compared with 80.1 percent recorded at end-June CY15.

Chart 2.7 Top 5 and Top 10 Banks based on NPL as of End-September 2015



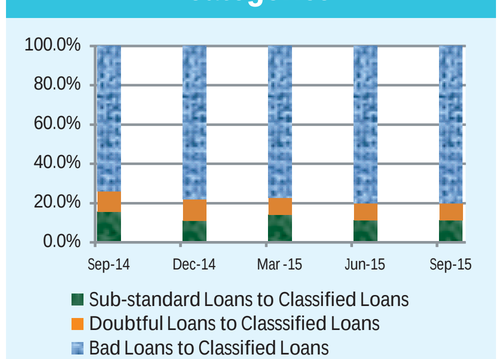
Source: BRPD; Compilation FSD.

Chart 2.8 NPL Ratio of the Banking Industry



Source: BRPD, BB.

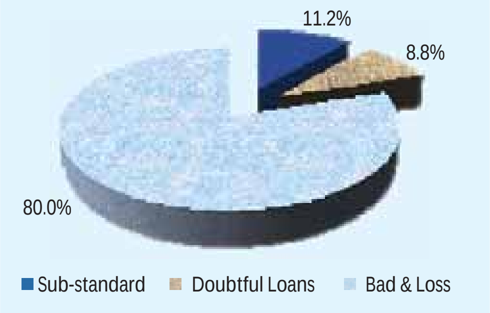
Chart 2.9 Proportion of NPL Categories



Source: BRPD, BB.

category while the proportion of doubtful loan increased by 30 basis points from the previous quarter.

Chart 2.10 NPL Composition of Banks

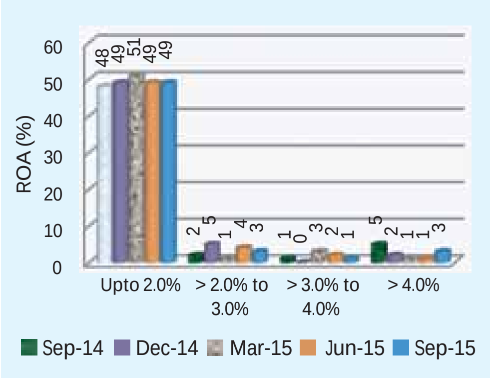


Source: BRPD, BB.

2.3 Profitability

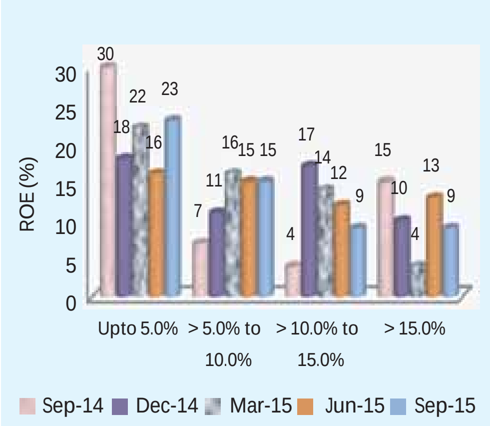
Both the return on assets (ROA) and return on equity (ROE) increased by 15 and 166 basis points respectively, at end-September CY15 from the previous quarter and reached at 0.57 and 6.57 percent respectively. Almost 87.5 percent of the banks had a ROA of less than 2.0 percent, while 12.5 percent of banks had a ROA higher than 2.0 percent. On the other hand, 58.9 percent of the banks had a ROE higher than 5.0 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

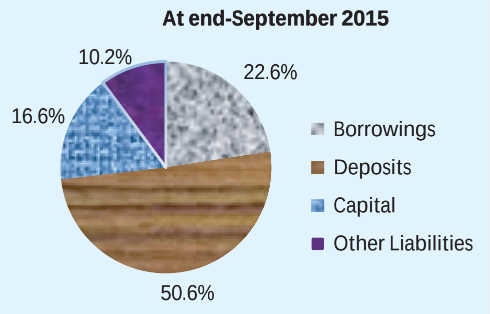
Non-bank Financial Institutions (NBFIs) showed a mixed trend in the review quarter of CY15. Key financial soundness indicators, such as non-performing loans and leases and profitability ratios declined, portraying a deficient performance of the industry in the review quarter.

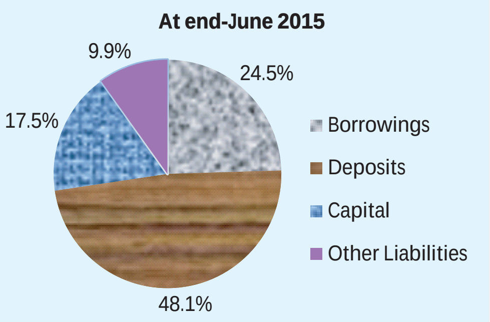
3.1 Sources of Funds of the NBFIs

Deposits constituted the major source of total funds for the NBFIs while borrowings were the second important source. Other sources of funding were capital, call money and bonds.

At end-September 2015, borrowings, deposits, capital and other liabilities constituted 22.6, 50.6, 16.6 and 10.2 percent respectively as the sources of funds of the NBFIs. These proportions of sources of funds remained unchanged from those observed at end-June 2015.

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. Other assets of NBFIs comprised of cash, balances with banks/FIs, investments and other assets including fixed and non-financial assets.

NBFIs' loans and leases constituted 72.5 percent of total assets at end-September 2015. On the other hand, cash and balances with banks/FIs, investments, fixed assets, and other assets comprised 15.4, 3.2, 1.2 and 7.7 percent of total assets respectively.

When compared with end-June 2015 positions, the proportion of cash and balances with other banks/FIs and investments decreased by 50 basis points each while the proportions of loans and leases, and other assets increased by 40 and 60 basis points respectively. The proportion of fixed assets, however, remained almost unchanged.

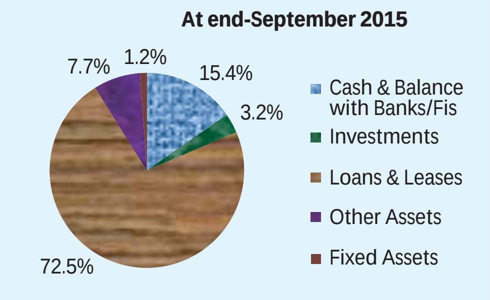
3.3 Asset Quality

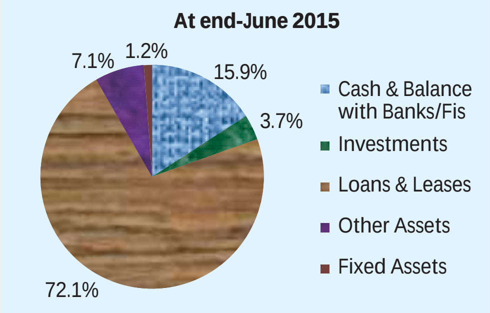
NBFIs' asset quality recorded a moderate deterioration in September 2015[7]. The ratio of non-performing loans and leases to total loans and leases reached 10.6 percent at

[7] There has been no change in regulatory requirements regarding NBFIs' asset classification in September quarter CY15.

end-September 2015, which is 290 basis points higher than the ratio of 7.7 percent recorded at end-June 2015.

Chart 3.2 NBFIs' Assets Composition





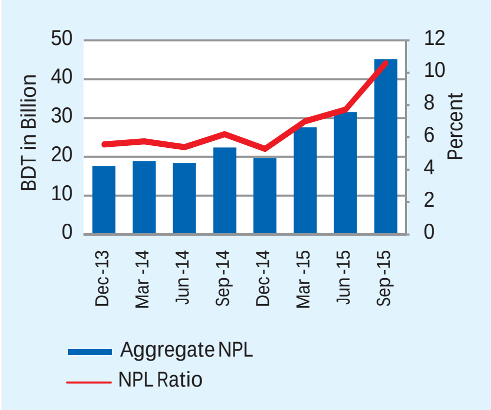
Source: NBFIs, FSD staff compilation.

3.4 Profitability

The NBFIs' profitability has declined in the September quarter of CY15 over the June quarter of CY15[8].

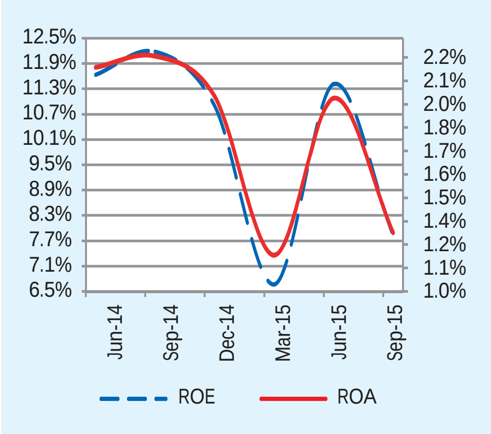
The ROA and ROE reached 1.3 and 7.8 percent respectively in the September quarter of CY15 as compared to 2.0 and 11.4 percent respectively recorded at the end of the preceding quarter.

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.

[8] Here profitability indicators-ROA and ROE- have been annualized from quarterly ratios.

Chapter-4

Banking Sector Liquidity and Capital Adequacy

Though banking sector underwent some ups and downs during the quarter under review, it 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.

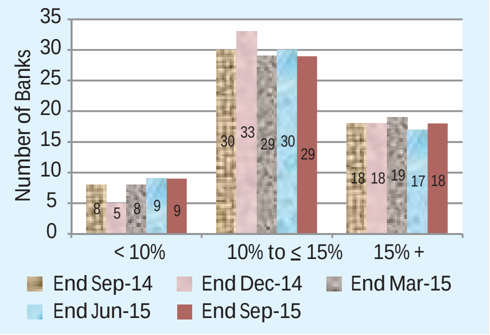
4.1 Capital Adequacy

Under the Basel-III framework, banks in Bangladesh were 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 in the review quarter.

Compared with end-June 2015, the number of banks compliant to the minimum CRAR requirement remained same in this quarter; 47 banks out of 56 have been able to maintain their capital ratios of 10.0 percent or higher in line with Pillar 1 of the Basel III capital framework. However, as evident from Chart 4.2, a substantial share of banking assets were still concentrated within the CRAR-compliant group of banks reflecting a stable and resilient condition for financial sector. It is to mention that CRARs of 29 banks were within the range of 10-15 percent and their assets accounted for nearly 65 percent of the total banking industry's assets at end-September 2015. This indicates that a significant portion of the banking sector assets were managed by the CRAR-compliant banks.

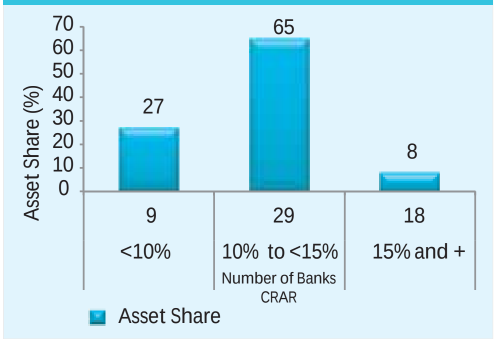
The banking sector aggregate CRAR at end-September 2015 was 10.5 percent, slightly higher than the minimum requirement of 10.0 percent and 20 basis points higher than the ratio recorded at end-June 2015. The Tier-1 capital ratio was 8.0 percent as opposed to 7.9 percent recorded at end-June 2015. Notably, the ratio is significantly higher than the minimum regulatory requirement of 5.5 percent.

Chart 4.1 Banking Sector Capital to Risk-Weighted Assets Ratio



Source: DOS, BB.

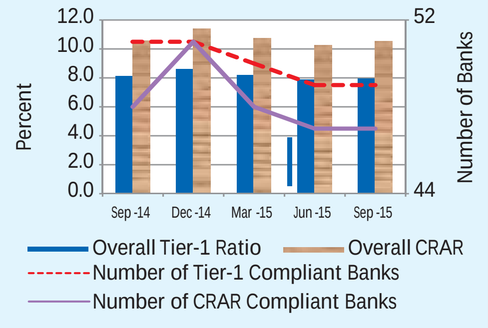
Chart 4.2 Assets Share of Banks based on CRAR at End-September 2015



Source: DOS, BB.

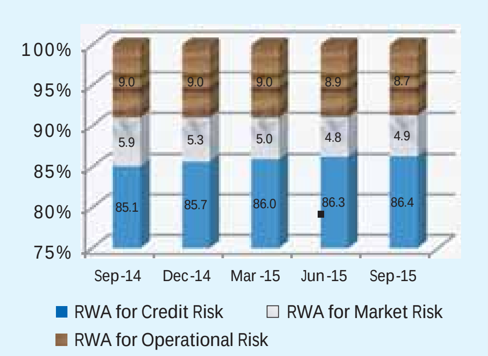
At end-September 2015, risk-weighted assets arising from credit risks accounted for 86.4 percent of the total industry's risk-weighted assets under Pillar 1 of the Basel III capital adequacy framework. Operational and market risks found to be the next aspects to the banking sector's risk weighted assets (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

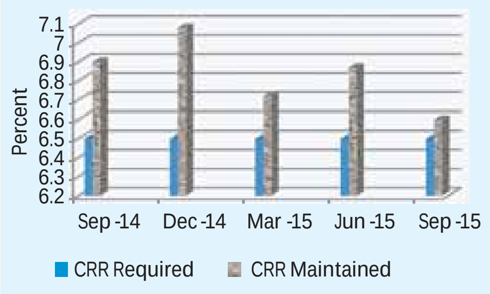


Source: DOS, BB.

4.2 Liquidity

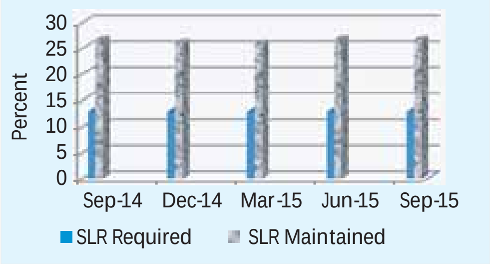
During the review quarter of CY15, banking sector as a whole maintained required levels of CRR and SLR.

Chart 4.5 Banking Sector CRR: September 2015



Source: DOS, BB.

Chart 4.6 Banking Sector SLR: September 2015

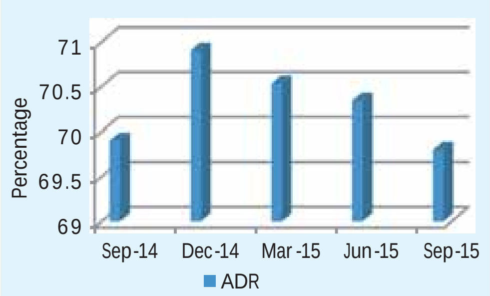


Source: DOS, BB.

It is to mention that, the conventional banks are recommended to maintain an Advance-to-Deposit Ratio (ADR) up to 85 percent while the Islamic Shari'ah banks are recommended for 90 percent.

As evident from Chart 4.7, ADR of the banking industry decreased by 50 basis points at end-September 2015 from the end-June 2015 position.

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 maintain a stable financial system.

5.1 Liquidity

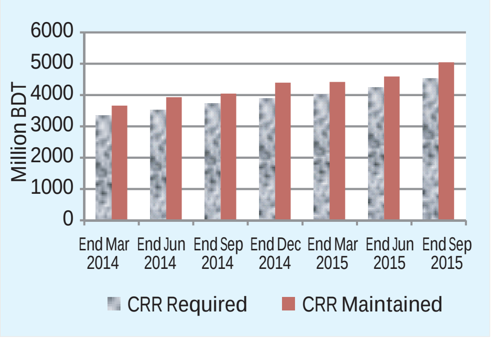
NBFIs receiving term deposits are required to maintain a statutory liquidity ratio (SLR) of 5.0 percent of their total liabilities, inclusive of an average 2.5 percent cash reserve ratio (CRR) of their total term deposits. On the other hand, NBFIs operating without term deposits are required to maintain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

As of end-September 2015, the aggregate amount of maintained CRR was BDT 5,052.1 million as compared to BDT 4,594.1 million recorded at end-June 2015, scoring an increment of 10.0 percent. On the other hand, at end-September 2015, the amount of maintained SLR was BDT 68.7 billion, which was 1.4 percent higher than the amount maintained at end-June 2015. During the review quarter of CY15, the NBFI sector had no CRR and SLR shortfall.

5.2 Capital Adequacy

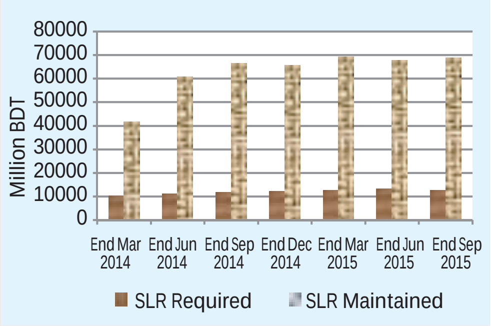
In the September quarter of CY15, NBFIs were required to maintain a 10.0 percent capital adequacy ratio (CAR) with at least 5.0 percent in core capital, in line with the Basel II framework.

Chart 5.1 NBFIs' CRR



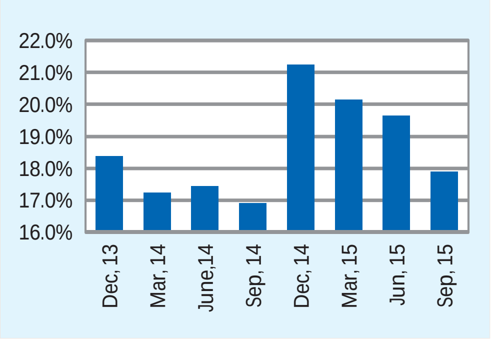
Source: DFIM, BB.

Chart 5.2 NBFIs' SLR



Source: DFIM, BB.

Chart 5.3 Capital Adequacy Ratio of NBFI Sector



Source: DFIM, BB.

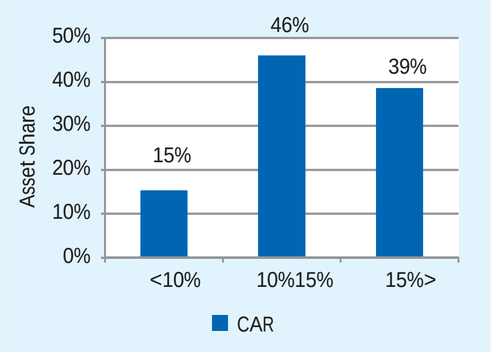
The aggregate CAR of the NBFIs decreased slightly from 19.7 percent in the previous quarter to 17.9 percent in the September quarter of CY15, attributable to an increase of RWA along with the decrease in the core capital.

However, as of end-September 2015, 27 out of 31 NBFIs, were able to maintain minimum regulatory CAR.

As evident from Chart 5.4, a significant portion of the NBFIs' asset was concentrated within the NBFIs compliant to regulatory CAR; 10 NBFIs' CARs were within the range of 10-15 percent and their assets accounted for nearly 46 percent of the total industry's assets, whereas 17 NBFIs' CARs were above 15 percent and their assets accounted for 39 percent of the industry's assets at end-September 2015. However, 4 NBFIs' CARs were less than 10 percent and their assets accounted for nearly 15 percent of the total industry's assets. This proportion has almost doubled since June 2015 indicating an overall deterioration of CAR during this quarter.

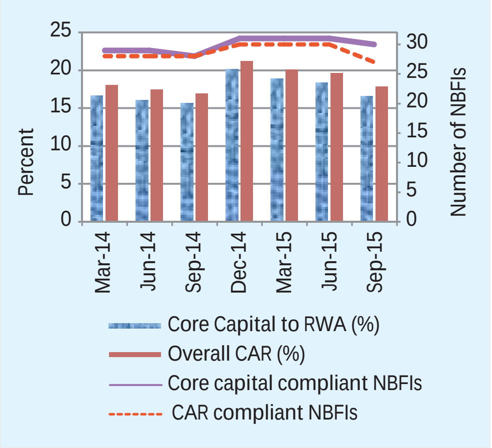
In addition, the Tier-1 capital ratio was recorded as 16.6 percent in the third quarter of CY15. This figure indicates that the NBFIs sector was compliant with the Basel II requirements in respect of the Tier-1 capital ratio too, though the ratio in the review quarter was slightly lower than that of end-June 2015.

Chart 5.4 Asset Share of NBFIs based on CAR as at End-September 2015



Source: DFIM, BB.

Chart 5.5 Overall CAR and Tier 1 Capital Ratio of the NBFI Sector



Source: DFIM, BB.

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[9]

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-September 2015 revealed that banking sector's capital to risk weighted asset ratio (CRAR)[10] was 10.53 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-September 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[11]):** If NPLs had increased by 3, 9 and 15 percent, then 11, 26 and 31 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 had defaulted, then 20, 32 and 35 banks respectively would have been non-compliant in maintaining minimum required CRAR.

c) **Fall in the Forced Sale Value (FSV) of Mortgaged Collateral:** If FSV of mortgaged collateral had declined by 10, 20 and 40 percents, 2, 5, and 9 banks would have been non-compliant respectively 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, 13, and 18 banks would have been non-compliant respectively 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, 5 banks would fail to maintain the minimum required CRAR in case of a major shock scenario.

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9 The analyses here are based on the data as of end-September 2015 unless otherwise stated.
10 CRAR = Capital to Risk Weighted Assets Ratio =Total Eligible Capital/ (Credit RWA + Market RWA + Operational RWA), where RWA Risk-weighted assets)
11 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 as of End-September 2015

Shocks[12]	Banking Sector %
Pre-shock CRAR	10.53
CRAR after shock (%)	
Credit Risks:	
Increase in NPLs:	
Shock-1: 3%	9.75
Shock-2: 9%	7.76
Shock-3: 15%	4.51
Increase in NPLs due to default of top large borrowers	
Shock-1: Top 3 borrowers	8.76
Shock-2: Top 7 borrowers	7.11
Shock-3: Top 10 borrowers	6.18
Fall in the FSV[13] of mortgaged collateral	
Shock-1: 10%	10.04
Shock-2: 20%	9.55
Shock-3: 40%	8.55
Negative shift in the NPL categories	
Shock-1: 5%	9.89
Shock-2: 10%	8.12
Shock-3: 15%	7.05
Increase in NPLs in highest outstanding sectors	
Sector concentration 1[14] (Performing loan directly downgraded to B/L[15])	
Shock-1: 3%	10.48
Shock-2: 9%	10.38
Shock-3: 15%	10.27
Sector concentration 2[16] (Performing loan directly downgraded to B/L)	
Shock-1: 3%	10.49
Shock-2: 9%	10.41
Shock-3: 15%	10.33
Market Risks	
Interest rate risk (change in interest rate)	
Shock-1: 1%	10.09
Shock-2: 2%	9.65
Shock-3: 3%	9.20
Exchange rate risk (Currency appreciation/depreciation)	
Shock-1: 5%	10.49
Shock-2: 10%	9.73
Shock-3: 15%	10.41
Equity price risk (Fall in equity prices)	
Shock-1: 10%	10.26
Shock-2: 20%	9.99
Shock-3: 40%	9.45
Combined Shock	
Shock-1	7.88
Shock-2	2.87
Shock-3	-3.47

12 Shock-1 = Minor, Shock-2 = Moderate, Shock-3 = Major.
13 FSV = Forced Sale Value
14 Sector with highest outstanding
15 B/L = Bad/Loss
16 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 risks:

a) **Interest Rate Risk:** Considering the change in market interest rate by 1, 2 and 3 percent, 6, 9 and 11 banks would fail to maintain the minimum required CRAR respectively.

b) **Exchange Rate Risk:** In the event of minor shock, i.e., an appreciation/ depreciation in the exchange rate by 5 percent, no bank's CRAR would fall below the minimum required level. However, only 1 bank's CRAR would fall below the minimum required level in the events of moderate and major shocks.

c) **Equity Price Risk:** In the event of a 10, 20 and 40 percent fall in equity prices, 2, 2 and 5 banks would be non-compliant in maintaining minimum required CRAR respectively.

6.2.2 Combined Shock[17]

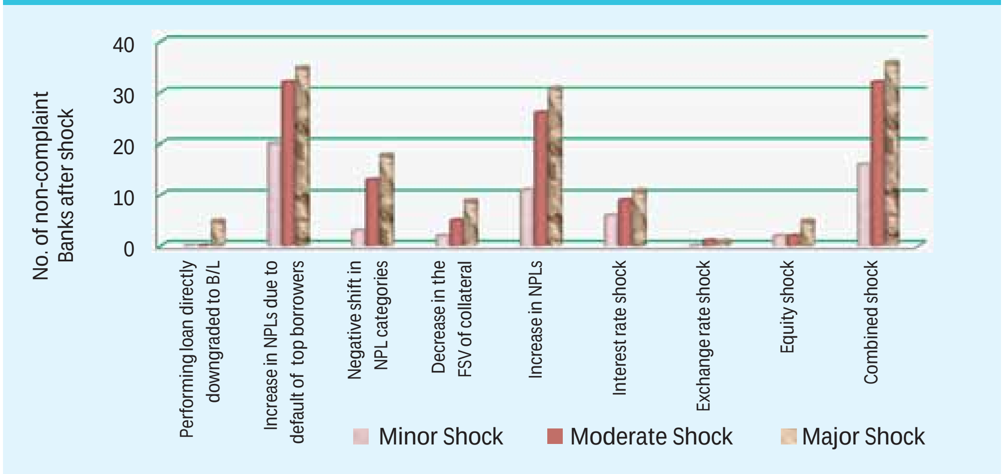
In the event of minor, moderate and major combined shocks, 16, 32 and 36 banks would be undercapitalized respectively; CRAR in these cases would be downgraded to 7.88, 2.87, and -3.47 percent respectively.

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

6.2.3 Liquidity Shock

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

Chart 6.1 Number of Non-compliant Banks at Different Shock Scenarios : September 2015



Source: FSD, BB.

17 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 price 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[18] are analysed.

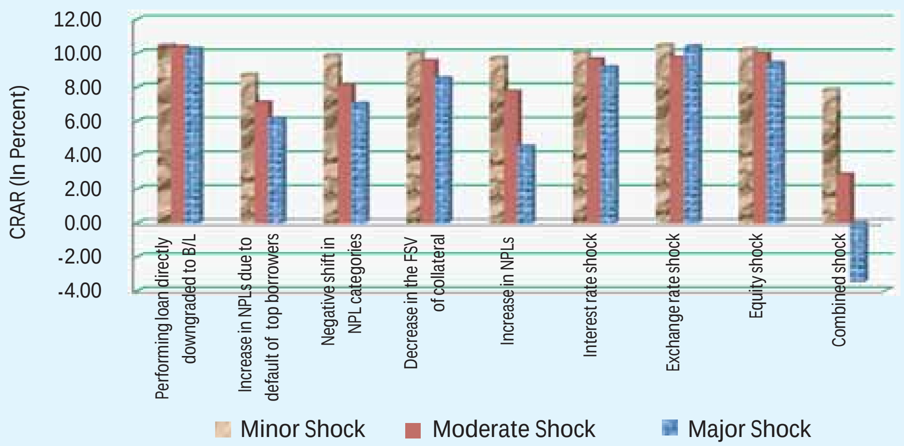
The overall financial strength and resilience of an NBFI is identified by plotting its achieved ratings in a Weighted Average Resilience-Weighted Insolvency Ratio (WAR-WIR) Matrix.

Table 6.2 Liquidity Risk of the Banking Sector: End-September 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 : September 2015



Source: FSD, BB.

Results from the stress tests, based on the data of end-September 2015, revealed that out of 31 NBFIs, 4 were positioned in 'Green', 13 were in 'Yellow' and 14 were in 'Red' zone.

The results indicated that 17 NBFIs performed as resilient institutions during the quarter under review. It is mentionable that, NBFIs positioned in the 'Red' zone are recommended to undergo contingency arrangements to withstand the distressed situations in the context of an unfavorable event.

Table 6.3 Stress Testing: Zonal Position of NBFIs

(Number of NBFIs)

Period	Green	Yellow	Red
End-Dec 2014	4	19	8
End-Mar 2015	4	12	15
End-June 2015	4	12	15
End-Sep 2015	4	13	14

Source: DFIM, BB

18 credit, interest rate, equity price and liquidity

Chapter-7

Capital Market Development and Corporate Bond Market

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

7.1 DSE Performance and Index Movement

DSE turnover fluctuated during October 2014 to September 2015. In the third quarter of CY15 (review quarter), turnover was BDT 311.3 billion as compared to BDT 305.9 billion recorded in the second quarter of CY15, thus scoring a 1.8 percent increase in volume. At end-September 2015, key DSE indices DSEX, DSE 30 and DSES increased by 5.9, 4.4 and 5.2 percents respectively from those of end-June 2015.

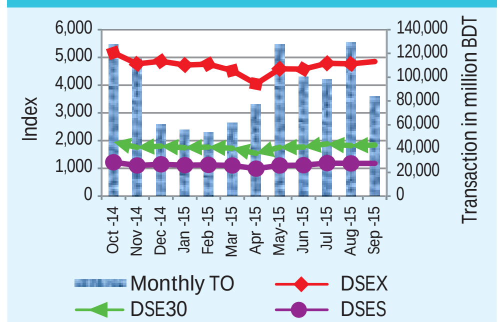
7.2 Price/Earnings (P/E) Ratio

The weighted average P/E ratio in September 2015 was 16.4, which was 3.1 percent higher than that of June 2015 and 0.7 percent lower than that of March 2015. The overall market P/E ratio recorded an upward trend with moderate fluctuations from June 2013 to September 2014, and declined slightly thereafter.

7.3 Sectoral Turnover

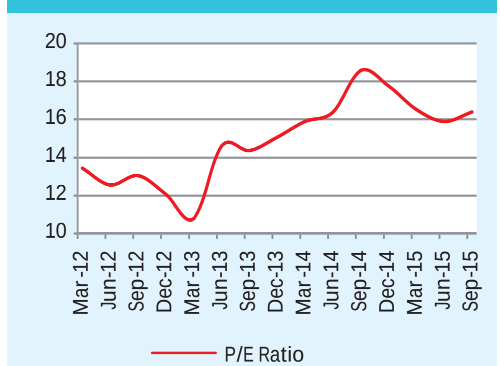
In the third quarter of CY15, the highest turnover was recorded for the Chemical and Pharmaceuticals sector, followed by Engineering, and the Fuel and Power sectors respectively (Chart 7.3).

Chart 7.1 DSE Performance and Index Movement



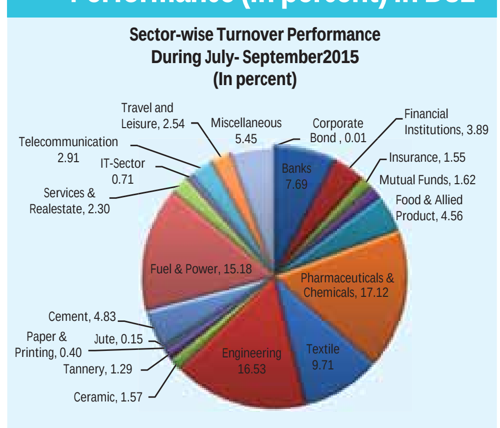
Source: Data-DSE, Compilation - FSD.

Chart 7.2 P/E Ratio



Source: Dhaka Stock Exchange.

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

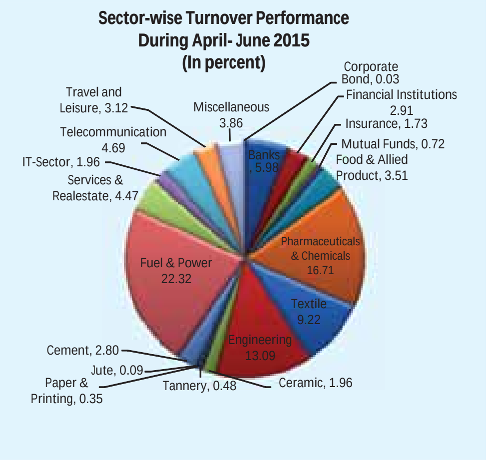


However, the proportionate turnover of these sectors remained almost same in the review quarter compared to the previous quarter. It is mentionable that, in the review quarter contribution of the banking sector to DSE turnover was 7.7 percent, as compared to 6.0 percent recorded in the June quarter of the CY15. The NBFI sector's contribution was 3.9 percent in the review quarter compared with 2.9 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.

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



Source: Data DSE: Compilation, FSD.

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

Chapter-8

Recent Stability Initiatives of Bangladesh Bank

Bangladesh Bank has undertaken a number of significant initiatives during the third quarter of CY15 having importance to stability of the financial system of Bangladesh. Some important ones are:

8.1 Formation of Sustainable Finance Department and Financial Inclusion Department

Bangladesh Bank has established two new departments namely "Sustainable Finance Department" and "Financial Inclusion Department" in July 2015 to strengthen the resilience of the financial system through articulating an inclusive base as well as to direct more finance towards green economy. The main objectives of Sustainable Finance Department are to form and implement policies related to environment friendly banking, i.e., environment friendly financing and distribution, environmental and social risk management, in-house environmental management, automated banking practice, green strategic planning etc. On the other hand, Financial Inclusion Department shall take initiatives to broaden the base of financial inclusion, inaugurate different inclusive refinancing scheme, look for new sectors of financial inclusion, and conduct different researches.

8.2 Inclusion of Two New Non-bank Financial Institutions

To strengthen the financial base of the country Bangladesh Bank issued licenses to two new financial institutions namely 'Meridian Finance and Investment Limited' and 'CAPM Venture Capital and Finance Limited' in July 2015 and August 2015 respectively.

8.3 Financial Inclusion

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

8.3.1 Master Circular on SME Financing

Bangladesh Bank has issued a master circular in July 2015 on SME financing to enhance the accessibility of entrepreneurs and make it more integrated, inclusive and sustainable. The circular gives liberty to the banks and Non-bank Financial Institutions (NBFIs) to fix loan limit for small enterprises. The circular includes a structured and comprehensive reporting template on cottage, micro, small and medium enterprise (CMSME) financing which would enable BB to monitor the flow of SME financing effectively as well as to ensure its accessibility by the eligible group or entity.

8.3.2 Agricultural and Rural Credit Policy

Since Agricultural and Rural sector is very crucial for the resilience of the financial system, Bangladesh Bank has showed its highest priority on this area and has taken different initiatives to upgrade and flourish the sector. In order to facilitate the small and marginal farmers, Bangladesh Bank has declared agricultural and rural credit policy in July 2015 along with an instruction that if any bank fails to achieve its annual agricultural and rural credit disbursement target, it shall be required to deposit the shortfall amount in Bangladesh Bank without any interest. These initiatives have helped the banking industry to disburse about 19.5 percent of its total loan disbursement target in the stated quarter.

8.3.3 Financial Services for New Areas Recently Included in the Map of Bangladesh

Bangladesh Bank has taken different prompt initiatives to assure financial services to newly included 111 enclaves. In August 2015, BB has instructed all Banks and NBFIs to expand SME credit to the enterprises of those entrepreneurs who have received citizenship of Bangladesh. The aim is to establish cottage, micro, small and medium enterprises and to expand the prospective creative business initiatives by the inhabitants of those enclaves. Bangladesh Bank has also instructed all the scheduled banks to disburse agricultural loan among the inhabitants of those enclaves under the annual agricultural and rural credit policy & programs. Additionally, Bangladesh Bank circulated an instruction to the Banks and NBFIs to give preferential CSR support for enclave dwellers for the advancement of their living standards.

8.4 Instruction Regarding Prevention of Money Laundering and Terrorist Financing

Bangladesh Financial Intelligence Unit (BFIU) has taken a number of initiatives during July-September 2015 to ensure the proper functioning of the financial system through preventing the illegal flow of money. Followings are some of the key instructions given by BFIU in the review quarter with a broad aim of preventing Money Laundering/Terrorist Financing (ML/TF) and deterring the illegal flow of money in the financial sector.

i. Designated Non Financial Businesses and Professions (real estate developers, dealers in precious metals or stones, trust and company service providers, lawyers, notary, other legal professionals and accountants) are required to formulate a policy guideline considering the international standards, laws and regulations.

ii. Non Government Organization (NGOs)/Non Profit Organizations (NPOs) shall have to use banking channel for receiving foreign aid/donation and doing transactions of BDT 1,00,000 or more as per the instruction circulated by BFIU.

iii. The money changers shall not make any transaction with the individuals or entities listed in the sanction list of the United Nations Security Council Resolutions (UNSCRs) committee.

iv. Insurance companies are required to collect complete and accurate information of the customers, and identify the beneficial owner of the insurance policies. In this regard, the insurance companies shall have to comply some key issues, i.e., uniform account opening form, Know Your Customer (KYC) maintenance, regular transaction monitoring, cash transaction reporting (CTR), suspicious transaction reporting (STR), record keeping, training

BFIU has also issued a ML/TF Risk Assessment Guidelines for Non-bank Financial Institutions and a ML/TF Risk Management Guidelines for banks to safeguard the financial sector from being abused by money launderers and terrorist financiers.

8.5 Enactment of Foreign Exchange Regulation (Amendment) Act, 2015

Foreign Exchange Regulation (Amendment) Act, 2015 has been passed in the Parliament on 9 September 2015. The Act would enhance Bangladesh Bank's regulatory powers to take different decisions in congruence with the movement of world foreign exchange market. The Act incorporates clauses to ensure a convenient business environment for the foreign investors as well as to liberalize the market to a greater extent. The law also empowers Government to change the type and limit of foreign currency investments in consultation with Bangladesh Bank as and when required.

8.6 Financial Projection Model

Financial stability Department prepared third quarter's report on Financial Projection Model (FPM) containing analysis on the strengths and weakness of individual banks during the quarter and comprehensive scenario analyses to identify risks associated with them.

8.7 Interbank Transaction Matrix

During the September quarter, the first report on Interbank Transaction Matrix was produced, which showed the extent of interconnectedness among the banks and non-banks financial institutions and also detected the risk arising from contagion.

8.8 Bank Health Index/HEAT Map

The Bank Health Index (BHI) was prepared during the September quarter CY15 containing assessment of individual banks relative to their peers, while the Health Assessment Tool (HEAT map) showed relative soundness of individual banks with three distinct colors - green, yellow, and red.

8.9 Coordinated Supervision Framework for Bangladesh Financial System

During the review quarter a concept paper on Coordinated Supervision Framework was prepared with an aim to strengthen policy coordination among the financial sector regulators.

8.10 Analysis of Systemic Risk in Bangladesh Banking Sector: Systemic Contingent Claims Approach

Bangladesh Bank developed a framework for measuring systemic solvency risk based on market-implied expected losses of a number of private commercial banks enlisted with Dhaka Stock Exchange, employing Systemic Contingent Claims Approach (SCCA), generalized extreme value distribution theory and multivariate dependence structure to generate aggregate calculations of joint expected losses and expected shortfall of multiple financial institutions. Bangladesh Bank also estimated the spillover/contagion effects of a large bank on the whole banking industry[19]. In addition, the Bank attempted to measure individual bank's contributions to systemic risk and contingent liabilities of the banking industry during times of stress.

19 Comprised of scheduled banks only.

Table I : CPI Inflation (12 month Average)

(In percent)

Month	Inflation
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
Sep-15	6.24

Base: 2005-06=100

Table II : Foreign Exchange Reserve

(Amount in million USD)

Month	International Reserve
Mar-14	19,294.9
Apr-14	20,370.1
May-14	20,267.5
Jun-14	21,508.0
July-14	21,383.5
Aug-14	22,070.4
Sep-14	21,836.6
Oct-14	22,312.4
Nov-14	21,590.0
Dec-14	22,309.8
Jan-15	22,042.3
Feb-15	23,031.5
Mar-15	23,052.9
Apr-15	24,071.7
May-15	23,707.7
Jun-15	25,021.0
July-15	25,469.1
Aug-15	26,175.3
Sep-15	26,379.0

Table III : Wage Earners' Remittance

(Amount in million USD)

Quarter	Workers Remittance
Jun-13	3,339.8
Sep-13	3,270.4
Dec-13	3,502.5
Mar-14	3,722.4
Jun-14	3,733.1
Sep-14	4,010.0
Dec-14	3,476.0
Mar-15	3,771.1
Jun-15	4,058.6
Sep-15	3,933.6

Table IV : Industrial Production Index (Manufacturing)

Quarter	Index
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
Sep-15	238.70

Table V : Exports and Imports

(Amount in million USD)

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
Sep-13	7,627.97	8,804.00
Dec-13	7,057.84	8,143.00
Mar-14	7,556.85	9,560.00
Jun-14	7,943.96	10,064.00
Sep-14	7,665.10	10,003.00
Dec-14	7,219.10	10,045.70
Mar-15	7,990.54	9,711.00
Jun-15	8,156.00	10,924.00
Sep-15	7,640.00	9,155.00

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
Sep-15	11.48	6.66	4.82

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
Sep-15	77.8000	77.8000

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

(In billion BDT)

Period	Amount
Mar-13	1,315.4
Jun-13	1,574.7
Sep-13	1,527.3
Dec-13	1,631.8
Mar-14	1,682.0
Jun-14	1,722.3
Sep-14	1,742.5
Dec-14	1,776.8
Mar-15	1,738.6
Jun-15	1,703.4
Sep-15	1,803.0

Table IX : Asset Structure of the Banking Industry

(Amount in billion BDT)

Property and Assets	30-09-14	31-12-14	31-03-15	30-06-15	30-09-15
Cash in hand	95.3	91.1	114.1	110.6	106.6
Balance with Bangladesh Bank and its Agent Bank	570.6	572.8	553.3	594.0	608.6
Balance with other banks and financial Institutions	355.1	409.7	351.6	352.1	330.1
Money at call and short notice	100.7	54.2	76.6	76.0	93.7
Investment	1,803.5	1,833.1	1,872.1	1,930.0	2,037.3
Loans and Advances	5,156.5	5,392.9	5,481.3	5,721.0	5,827.2
Fixed Assets	203.9	216.7	217.3	218.1	220.0
Other Assets	593.2	570.7	639.7	684.1	774.7
Non-banking Assets	1.7	1.9	2.8	2.9	2.9
Total Assets	8,880.5	9,143.1	9,308.8	9,688.8	10,001.2

Table X : Banking Sector Assets & NPL Concentration (End September 2015)

(Amount in billion BDT)

Assets	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount	3,325.0	6,676.2	4,703.1	5,298.1
Share (%)	33	67	47	53
NPL	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount	248.6	298.5	330.5	216.6
Share (%)	45.4	54.6	60.4	39.6

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%
Sep-15	547.1	9.9%	2.8%	20.1%

Table XII : Distribution of Banks by NPL Ratio

Range	Number of Banks as at end					
	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Up to 2.0%	10	10	10	10	10	7
2.0% to <3.0%	2	5	6	5	5	7
3.0% to <5.0%	10	5	13	5	6	9
5.0% to <10.0%	20	20	14	22	21	18
10.0% to <15.0%	3	5	3	3	4	4
15.0% to <20.0%	2	2	2	1	0	1
20.0% & above	9	9	8	10	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
Sep-15	308.5	285.2	92.4

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
Sep-15	9.9	11.2	8.8	80.0

Table XV : Classified Loan Composition (End-September 2015)

(Amount in billion BDT)

Particulars	Amount	Percent of Total
Sub-Standard	61.4	11.2
Doubtful	48.2	8.8
Bad & Loss	437.5	80.0
Total	547.1	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
Sep-15	49	3	1	3

Note: ROA for March-14, June-14, September-14, March-15, June-15 and September-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
Sep-15	23	15	9	9

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

Table XVIII : NBFIs' Borrowing, Deposit and Capital

(Amount in billion BDT)

Particulars	September-2015
Borrowings	133.2
Deposits	297.6
Capital	97.7
Other Liabilities	60.3
Total	588.8

Table XIX : NBFIs' Asset Composition

(Amount in billion BDT)

Particulars	September-2015
Cash & Balance with Banks/FIs	90.4
Investments	19.1
Loans & Leases	426.9
Other Assets	45.5
Fixed Assets	6.9
Total	588.8

Table XX : NBFIs' Classified Loans and Leases

(Amount in billion BDT)

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
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
Sep-15	45.2	10.6

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
Sep-15	1.3	7.8

Table XXII : Banking Sector CAR

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

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

CRAR	Number of Banks & their asset size		Asset Share (%)
	Number of Banks	Asset Size (in billion BDT)	
<10%	9	2,699.1	27.0
10% to ≤ 15%	29	6,508.9	65.0
15% +	18	793.2	8.0
Total	56	10,001.2	100

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

Particulars	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Core Capital to RWA (%)	8.8	8.3	8.1	8.6	8.2	7.9	8.0
Number of core capital compliant banks	51	50	51	51	50	49	49
Overall CAR (%)	11.3	10.7	10.6	11.4	10.7	10.3	10.5
Number of CAR compliant banks	50	48	48	51	48	47	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	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
RWA for Credit Risk	4,845.9	5,089.9	5,230.1	5,419.3	5,553.9	5,732.3	5,969.9
RWA for Market Risk	327.4	335.1	361.0	336.9	323.3	316.4	336.0
RWA for Operational Risk	532.4	541.4	550.6	567.8	583.8	593.1	600.2
Total RWA	5,705.7	5,966.4	6,141.7	6,323.9	6,461.0	6,641.8	6,906.1

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
Sep-15	69.8

Table XXVII : Bank Cluster-wise ADR at End-September 2015

(In percent)

Bank wise	ADR
SCBs	53.9
PCBs	76.9
FCBs	61.7
DFIs	73.7
Industry	69.8

Table XXVIII : NBFIs' CRR & SLR

(Amount in million BDT)

Quarter End	Aggregate CRR			Aggregate SLR		
	Required	Maintained	Surplus/Shortfall	Required	Maintained	Surplus/Shortfall
Jun 2014	3,530.5	3,928.9	398.4	10,981.2	60,698.7	49,717.5
Sep 2014	3,720.5	4,049.0	328.5	11,582.8	66,411.9	54,829.1
Dec 2014	3,887.7	4,396.9	509.2	12,053.7	65,557.8	53,504.1
Mar 2015	4,015.8	4,414.3	398.5	12,544.7	69,205.1	56,660.4
Jun 2015	4,251.0	4,594.1	343.1	13,169.1	67,786.3	54,617.2
Sep 2015	4,542.1	5,052.1	510.0	12,433.1	68,748.9	56,315.8

Table XXIX : Capital Adequacy Ratio of NBFI Sector

Particulars	End June-14	End Sep-14	End Dec-14	End Mar-15	End Jun-15	End Sep-15
Eligible Capital to RWA (%)	17.4	16.9	21.2	20.1	19.7	17.9

Table XXX : Asset Share of NBFIs based on CAR at End-September 2015

(In percent)

CAR Range	No. of banks	Asset Share
<10%	4	15%
10% to ≤ 15%	10	46%
above 15%	17	39%

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

(Amount in billion BDT)

Particulars	End Mar-14	End June-14	End Sep-14	End Dec-14	End Mar-15	End Jun-15	End Sep-15
Risk-weighted Assets (RWA)							
Credit RWA	356.53	380.68	396.12	417.86	440.64	460.02	474.97
Market RWA	26.95	26.09	33.94	34.66	37.38	39.34	40.48
Operational RWA	27.88	27.30	26.91	34.26	33.63	33.90	33.93
Total RWA	**411.36**	**434.08**	**456.97**	**486.78**	**511.65**	**533.26**	**549.38**
Capital							
Core Capital (Tier -1)	67.58	68.30	69.77	71.50	98.01	96.62	91.38
Supplementary Capital	5.26	5.45	5.92	5.98	5.35	6.44	6.92
Eligible Capital	72.84	73.75	75.69	77.48	103.36	103.06	98.3

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

(Based on data as of end- September 2015)

Shocks	CRAR after Shock (%)		
	Minor Level	Moderate Level	Major Level
Performing loan directly downgraded to B/L	10.48	10.38	10.27
Increase in NPLs due to default of top borrowers	8.76	7.11	6.18
Negative shift in NPL categories	9.89	8.12	7.05
Decrease in the FSV of collateral	10.04	9.55	8.55
Increase in NPLs	9.75	7.76	4.51
Interest rate shock	10.09	9.65	9.20
Exchange rate shock	10.49	9.73	10.41
Equity shock	10.26	9.99	9.45
Combined shock	7.88	2.87	-3.47

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

(Based on data as of end- September 2015)

Shocks	No. of Banks		
	Minor Level	Moderate Level	Major Level
Performing loan directly downgraded to B/L	0	0	5
Increase in NPLs due to default of top borrowers	20	32	35
Negative shift in NPL categories	3	13	18
Decrease in the FSV of collateral	2	5	9
Increase in NPLs	11	26	31
Interest rate shock	6	9	11
Exchange rate shock	0	1	1
Equity shock	2	2	5
Combined shock	16	32	36

NB: Pre-shock CRARs of 8 Banks out of 56 were below the minimum required level of 10% as of 30 September 2015.

Table XXXIV : Price Earnings Ratio of Capital Market

Quarter	Price Earnings Ratio
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
Sep-15	16.4

Table XXXV : DSE Performance: April 2014 to September 2015

Month	DSE Turnover (BDT in mn)	Index		
		DSEX	DSE 30	DSES
Apr-14	97,977.61	4,566.86	1,671.93	1,018.20
May-14	58,457.67	4,430.48	1,609.27	992.82
Jun-14	77,349.71	4,480.52	1,644.75	1,019.34
Jul-14	41,156.83	4,427.16	1,626.52	1,004.66
Aug-14	126,589.06	4,549.52	1,713.83	1,057.37
Sep-14	175,809.67	5,074.31	1,960.87	1,195.53
Oct-14	127,656.08	5,173.23	1,949.48	1,220.04
Nov-14	115,494.28	4,769.43	1,760.06	1,106.77
Dec-14	60,132.60	4,864.96	1,803.06	1,150.22
Jan-15	55,698.48	4,724.05	1,747.76	1,115.70
Feb-15	53,603.13	4,763.22	1,772.42	1,130.92
Mar-15	61,392.47	4,530.48	1,728.48	1,103.13
Apr-15	77,561.19	4,047.29	1,545.19	992.54
May-15	127,815.54	4,586.95	1,758.02	1,112.79
Jun-15	100,610.12	4,583.11	1,769.37	1,122.03
Jul-15	98,272.67	4,792.31	1,883.91	1,189.86
Aug-15	129,354.00	4,768.67	1,826.98	1,176.49
Sep-15	83,702.11	4,852.08	1,847.97	1,180.89

Table XXXVI : Sector-wise Turnover Performance

(In percent)

Broad sector	Sector	% of total turnover	
		2015Q2	2015Q3
Financial Sector	Banks	5.98	7.69
	Financial Institutions	2.91	3.89
	Insurance	1.73	1.55
	Mutual Funds	0.72	1.62
Manufacturing	Food & Allied Product	3.51	4.56
	Pharmaceuticals & Chemicals	16.71	17.12
	Textile	9.22	9.71
	Engineering	13.09	16.53
	Ceramic	1.96	1.57
	Tannery	0.48	1.29
	Paper & Printing	0.35	0.40
	Jute	0.09	0.15
	Cement	2.80	4.83
Service & Miscellaneous	Fuel & Power	22.32	15.18
	Services & Real estate	4.47	2.30
	IT - Sector	1.96	0.71
	Telecommunication	4.69	2.91
	Travel and Leisure	3.12	2.54
	Miscellaneous	3.86	5.45
Bond	Corporate Bond	0.03	0.01
	Total	**100.00**	**100.00**

Note: 2015Q2 = June quarter 2015, 2015Q3 = September quarter 2015

Table XXXVII : Corporate Bond Issuance

(Amount in million BDT)

	September-2014	December-2014	March-2015	June-2015	September-2015
Corporate Bond Issuance	3,000.0	4,500.0	4,500.0	4,500.0	4,500.0

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