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Financial Stability Assessment Report

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This report is based on unaudited and provisional data of banks and financial institutions available up to September 30, 2019 unless stated otherwise.

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Message from the Governor

The global economy experienced a sustained slowdown in the review quarter due to unabated trade tensions and protectionism coupled with geopolitical uncertainties across the globe. Amid the global economic slowdown, Bangladesh witnessed a robust economic growth on the back of a strong domestic demand and public sector investment. Pertinently, most of the domestic macroeconomic indicators exhibited sign of resilience in the review quarter. Average annual inflation remained contained within the target level. Gradual reduction in trade deficit and a steady inflow of wage earners' remittances helped to improve the country's current account balance, bringing it down to less than one percent of GDP. Bumper production of agricultural outputs is expected to contribute towards further improvement of the current account balance as well as the inflation situation. Gross foreign exchange reserves position was adequate in meeting more than five months' imports of goods and services.

The banking sector in Bangladesh also appeared to be resilient despite one or two sporadic events. The industry maintained a strong capital position, much higher than the minimum regulatory requirement. The liquidity situation also improved in the review period. To boost up private sector investment, Bangladesh Bank has been providing policy supports including special rescheduling policy for the genuine businesses that are in distress due to unfortunate circumstances beyond their control. We are optimistic that such efforts would remove the bottlenecks in supply of funds for both businesses and banks, increase economic activities, create job opportunities and subsequently bring down the nonperforming loans. Proper due diligence and good governance on the part of banks should provide the much needed impetus to this cause. To achieve the Government's Vision 2021 and Vision 2041, the banking industry has to play a pivotal role for sustaining the current growth momentum. To this end, banks need to be more proactive in funding output oriented high yielding innovative projects, promoting technology based ventures that would create opportunities for a large pool of tech savvy youths and diversifying the portfolio through financial inclusion. Moreover, to facilitate the growth aspiration, interest rates need to be rationalized to maintain competitiveness of our business with the rest of the world. We hope all the stakeholders of the financial sector would extend their cooperation in this endeavor.

Finally, I expect that this report will be enlightening for the stakeholders in providing the most recent information about the country’s macro-financial conditions. I appreciate the diligent efforts of my colleagues of the Financial Stability Department in preparing this report.

Fazle Kabir
Governor

Message from the Deputy Governor

The macroeconomic situation in Bangladesh remained mostly stable in the review quarter. Resilient real and external sectors contributed to the momentum of economic growth even though some segments of the banking and financial institutions (FIs) sectors appeared to have faced minor stress.

The real sector is moving forward with stable inflation, mainly driven by domestic consumption and public sector investment. However, private sector investment still needs to attain the desired momentum. Higher lending rate is often accused of being as a hindrance in private sector development as investment in this sector is mainly financed by banking sector. Lowering the lending rate to a single digit, therefore, is of prime importance. Bangladesh Bank is vigilant regarding the issue and is working diligently in close coordination with the Government.

Pertinently, to curb the current NPL level, Bangladesh Bank allowed the banks to reschedule the defaulted loans of financially affected real borrowers for a maximum tenure of 10 years. All the scheduled banks are also advised to form special monitoring cells for close surveillance of NPLs amounting BDT 1 billion and above. These initiatives may contribute to lessening banks' defaulted loans, which will in turn increase their market competitiveness and profitability.

In the external sector front, strong remittance inflow helped reduce current account deficit and thus contributed to maintaining the external sector sustainability of the country. Also, foreign exchange reserves remained mostly stable for the last couple of quarters. Moreover, Government's recent initiative to provide 2(two) percent cash incentives on money remitted by expatriate Bangladeshis through legal channels has boosted the remittance inflow substantially.

I hope this report will help the stakeholders of the financial system to apprehend the present and future stability concerns of our financial system and take necessary preemptive measures. I acknowledge the dedication and commitment of the officials of the Financial Stability Department in bringing this report to light.

Ahmed Jamal
Deputy Governor

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Acronyms

ADs	Authorised Dealers
ADR	Advance-to-Deposit Ratio
B/L	Bad and Loss
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDT	Bangladesh Taka
BPS	Basis Points
BRPD	Banking Regulation and Policy Department
CAR	Capital Adequacy Ratio
CPI	Consumer Price Index
CRAR	Capital to Risk-weighted Asset Ratio
CRR	Cash Reserve Ratio
CSE	Chittagong Stock Exchange
CY	Calendar Year
DFIs	Development Finance Institutions
DFIM	Department of Financial Institutions and Markets
DOS	Department of Off-site Supervision
DSE	Dhaka Stock Exchange
EMEs	Emerging Market Economies
FCBs	Foreign Commercial Banks
FIs	Financial Institutions
FOB	Free on Board
FSD	Financial Stability Department
FSV	Forced Sale Value
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GFET	Guidelines for Foreign Exchange Transactions
IS	Interest Suspense
NPL	Non-performing Loan
PCBs	Private Commercial Banks
P/E Ratio	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
SME	Small and Medium Enterprise
USA	United States of America
USD	United States Dollar
UK	United Kingdom

Executive Summary

The purpose of this report is to assess the resilience of the Bangladesh financial system to risks and vulnerabilities, both endogenous and exogenous, during the July-September quarter of the calendar year 2019 (CY19). The report also discusses different financial sector issues having implications to stability of the Bangladesh financial system.

Global economic growth remained sluggish during the third quarter of CY19. Ongoing trade tension between USA and China and a host of geopolitical issues across the globe have worsened the business confidence, seized upon the global trade and hampered output growth, which eventually weighed down the global growth momentum. Growth in major advanced as well as several emerging market economies was broadly stagnant during the review quarter. Global inflation softened further reflecting the deflated commodity demand. The tightening global financial condition compelled central banks in a number of advanced as well as emerging and developing economies to adopt accommodative policy.

The domestic macroeconomic situation was broadly stable during the review quarter. Annual average inflation at the end of the review quarter remained almost same as that of the previous quarter. During the review period, both import payments and export receipts increased marginally while wage earners' remittances recorded slight decline compared to those of the preceding period. Deficit in current account balance as well as overall balance of payment reduced further in the review quarter. Gross foreign exchange reserves was stable and stood at USD 31.8 billion at end-September 2019, which is equivalent to meeting more than five months' imports. The nominal exchange rate of BDT per USD was unchanged during the period. Though the weighted average lending and deposit rates increased, their spread declined further. Government borrowing from the banking system maintained the uptrend at the end of the review quarter.

Despite experiencing some stress, the banking sector appeared to be resilient in the review period. A modest growth in the assets of the banking sector was observed during the September quarter. Compared to the preceding quarter, share of loans and advances, the largest component of the asset structure, remained almost same while share of investments increased notably at end-September 2019. Asset concentration ratio in top 5 and top 10 banks declined slightly. Both gross and net nonperforming loan (NPL) ratio increased at end-September 2019 compared to those of end-June 2019. Though high NPL ratio in state-owned banks constituted the bulk of the industry's NPL ratio, deterioration of asset quality in a few PCBs and FCBs largely appeared to push up the overall ratio during the quarter. Subsequently, provision maintenance ratio decreased at the end of the review period. Profitability, as measured, by ROA and ROE also decreased during the period compared to the previous period. Capital to risk-weighted assets ratio (CRAR) of the banking sector stood at 11.6 percent at end-September 2019, remaining well above the regulatory minimum requirement of 10.0 percent. Liquidity situation seemed to improve further during the review period as evident from decreased advance-to-deposit ratio (ADR).

Financial institutions (FIs) sector exhibited an improved scenario in the review quarter. The asset size of FIs sector recorded an increase at end-September 2019 compared to that of end-March 2019. Deposits were the main component of FIs' liabilities while loans and leases continued to dominate the asset composition. Share of FIs' deposits in total liabilities increased while share of borrowings decreased at end-September 2019 compared to those of end-June 2019. Capital position of FIs increased resulting in a declined liabilities-to-assets ratio. Both gross and net NPL ratio of FIs decreased at end-September 2019 leading to an increased profitability during the quarter compared to that of the preceding quarter. Moreover, FIs' capital adequacy ratio (CAR) increased notably and stood at 17.3 percent at end-September 2019. During the review quarter, FIs maintained the required Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) well above the regulatory minimum requirement.

The banking and FIs sectors demonstrated a reasonable level of resilience under stressed scenarios. Stress tests on banks based on September 2019 data revealed that default of top borrowers would have the most adverse impact on banks' capital adequacy. Besides, increase in NPLs in general and negative shift in NPL category would have significant effects under different shock scenarios. Overall, credit risk remained the most dominant risk factor for banks. During the period, the banking system appeared to be reasonably resilient against the market and liquidity risks. Stress test on FIs revealed that a majority of them would remain resilient under various stress scenarios as of end-September 2019.

The domestic capital market remained bearish during the review quarter. Compared to the preceding quarter, major equity indices and market capitalization in both Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) exhibited a decline in the review period. Market turnover increased at DSE while the same decreased at CSE during the period. Price-earnings (P/E) ratio also decreased during the same period. Analysis of sectoral turnover revealed that depressed trading of the shares of top contributing sectors played a major role in the bearish market scenario. Besides, capital market exposure of the banking sector was much below the regulatory maximum limit, which appeared to minimize possibility of any stability concern from the capital market in the near term. On the contrary, since market capitalization and turnover in both bourses owe much on the banking sector, stress on the banking sector may cause detrimental effect on the stock markets.

Bangladesh Bank (BB) took a number of initiatives during the review quarter, which have implications to domestic financial system stability. Some of the important initiatives taken by BB were instructions for close monitoring of banks' classified loan accounts amounting to BDT 100 crore and above, revision of maintenance of CRR and SLR for offshore banking operations in Bangladesh, refixation of advance/investment-to-deposit ratio to be maintained by banks, temporary liquidity support for investment in capital market by banks, agricultural loan facility for the flood affected farmers, refixation of the maximum limit of borrowing from the call money market for financial institutions, imposition of transaction limit for e-wallet operated by Payment Service Provider (excluding MFS), redefining cottage, micro, small and medium enterprise (CMSME) to facilitate financing in CMSME, and modifications in various foreign exchange regulations to smoothen the foreign exchange market in Bangladesh, among other issues.

Chapter 1: Macroeconomic Developments

1.1 Global Macroeconomic Situation

Major economies of the world recorded mixed trend in growth during the third quarter of 2019. However, inflation slightly eased. Weak global financial condition prompted a number of central banks to adopt accommodative policy stance. Continuing trade tension between USA and China worsened the global trade and investment.

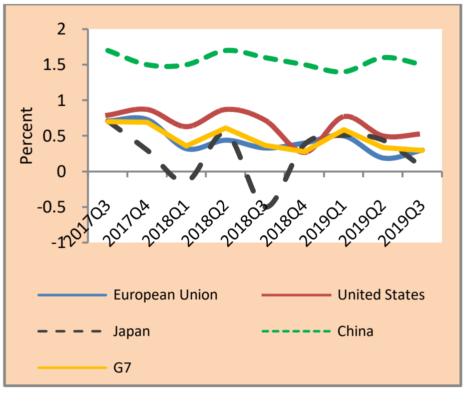
1.1.1 Global GDP Growth

Major economies of the world (G-7) recorded mixed trend in growth during the third quarter of 2019-the review quarter. During the period, growth in European Union and United Kingdom recorded marginal improvement. However, Japan and China posted declining growth (Chart 1.1).

1.1.2 Global Inflation

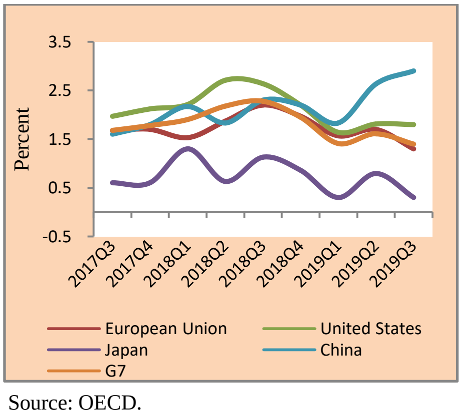
Global inflation slightly eased during the review quarter compared to that of the preceding quarter. Prices of major commodities (specially, metal and agricultural commodities) in the global market dropped more than the anticipated levels. Energy prices recorded marked decline of 8 percent from the previous quarter. Trade tension along with weak performance of global economy deflated the commodity demand. Chart 1.2 depicts the inflation in European Union, G7, China, United States, and Japan.

Chart 1.1 GDP Growth-Quarterly



Source: OECD.

Chart 1.2 Global Inflation



Source: OECD.

1.1.3 Global Financial Condition

Weak momentum in global output growth, as well as ongoing trade tension prompted a number of central banks to adopt accommodative monetary policy stance. US Federal Reserve cut federal fund rate in July and September of 2019. European Central Bank also reduced deposit rate in September and declared to resume quantitative easing. Among emerging and developing countries, Brazil, Chile, India, Indonesia, Mexico, Peru, Philippines, Russia, South Africa, Thailand, and Turkey have reduced policy rates since April 2019.

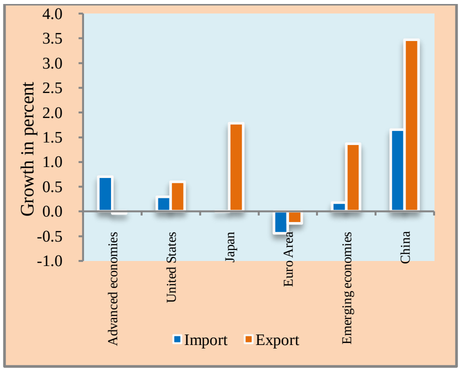
1.1.3 Global Trade and Investment

Trade tension between USA and China has made a significant impact on global trade and production mechanism during the review quarter. Also, this prolonged issue appeared to have created policy uncertainty among the investors. Emerging Market economies achieved marginal export growth while negative export growth was evident in advance economies. China and Japan recorded notable export growth. However, Euro area experienced negative growth both in export and import.

Production in manufacturing sector has been undergoing cyclical headwinds. In particular, automobile and electronic sectors in advance countries, comprising a major share in global economy, is facing contraction.

Due to high tariffs and weak sentiments, domestic demand in major economies along with China was subsided. Consequently, Emerging Market and developing economies having final demand exposure to these large markets were also affected. Demand for intermediate goods embedded in global supply chain registered decline as well.

Chart 1.3 Quarterly Growth of Export and Import Volume



Source: CPB World Trade Monitor.

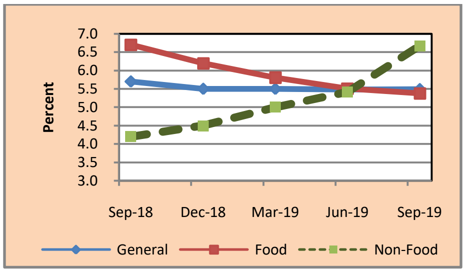
1. 2 Domestic Macroeconomic Situation

Stable inflation, increased flow in wage earners' remittance and export and overall improvement in current account balance attributed to a moderate level of stability during the review quarter.

1.2.1 Inflation

At end-September 2019, annual average CPI inflation (base 2005-06=100) remained unchanged to 5.5 percent compared to that of the previous quarter but slightly decreased compared to the position of end-September 2018. However, food inflation decreased to 5.4 percent from 5.5 percent of the preceding quarter, while non-food inflation rose to 6.7 percent from 5.4 percent during the period. It is mentionable that at end-September 2018, general food and non-food inflation were 5.7 percent, 6.7 percent and 4.2 percent respectively (Chart 1.4).

Chart 1. 4 Inflation

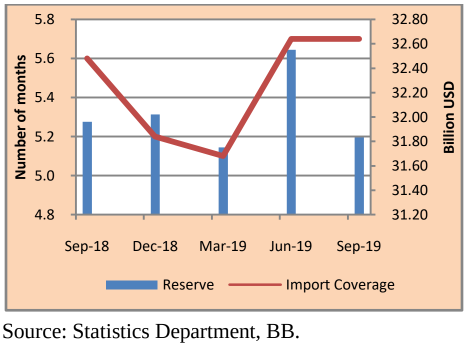


Source: Bangladesh Bureau of Statistics, Base 2005-06=100.

1.2.2 Foreign Exchange Reserve and its Import Coverage

At end-September 2019, the gross foreign exchange reserves reached USD 31.8 billion, recording a 2.2 percent decrease from USD 32.6 billion of end-June 2019 and 0.4 percent decrease from end-September 2018. Importantly, the reserve position was adequate to meeting more than five months' imports of goods and services (Chart 1.5).

Chart 1. 5 Foreign Exchange Reserves

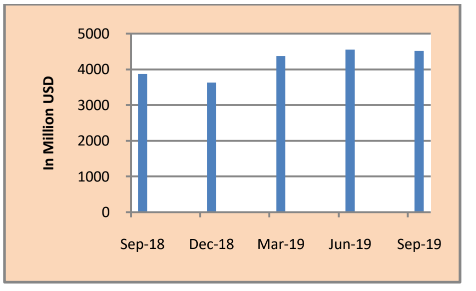


Source: Statistics Department, BB.

1.2.3 Wage Earners' Remittance

Remittance from Bangladeshi nationals working abroad stood at USD 4,514.6 million during the review quarter, recording an increase of 16.7 percent from that of the previous corresponding quarter of the previous calendar year. However, when compared with June quarter of 2019, remittance inflow recorded a decrease of 0.8 percent (Chart 1.6).

Chart 1. 6 Wage Earners' Remittance



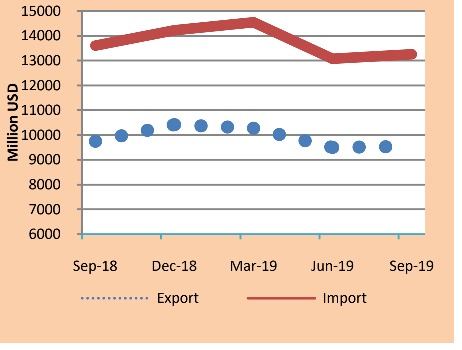
Source: Monthly Economic Trends, BB (various issues).

1.2.4 Imports and Exports

In the review quarter, aggregate import payment [1] increased by 1.4 percent and reached at USD 13,252 million from USD 13,072 million of the preceding quarter. On the other hand, export receipts stood at USD 9,535 million, increased by 0.3 percent from USD 9,506 million of the preceding quarter. However, in comparison with the same quarter of the previous year, both export receipts and import payments decreased by 2.2 and 2.6 percent respectively (Chart 1.7).

[1] On FOB basis.

Chart 1. 7 Exports and Imports (FOB)

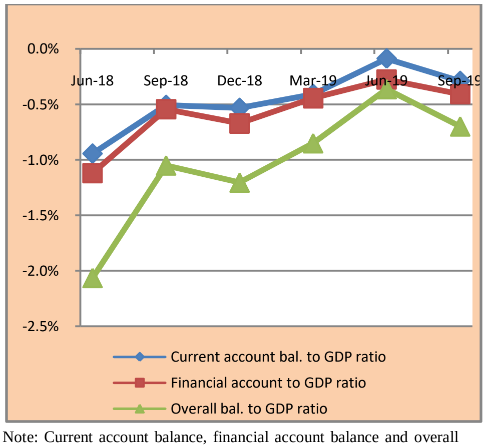


Source: Statistics Department, BB.

1.2.5 Current Account Balance

Current account balance to GDP ratio stood at -0.3 percent as of end-September 2019 recording a significant turndown compared to the previous quarter[2]. Financial account to GDP ratio also registered decline during the period. Consequently, overall balance to GDP ratio declined (chart 1.8).

Chart 1. 8 Balance of Payments



Note: Current account balance, financial account balance and overall balance represent quarterly positions.
Source: Monthly Economic Trends, BB (various issues).

1.2.6 Interest Rate

The spread between weighted average lending and deposit rates stood at 3.9 percent at end-September 2019; spreads of 13 out of 57 banks were above 5.0 percent. Out of these 13 banks, 7 and 6 were FCBs and PCBs respectively. Pertinently, in September 2019, the weighted average lending and deposit rates were 9.6 percent and 5.7 percent respectively as opposed to 9.5 percent and 5.2 percent of September 2018 (Chart 1.9).

Chart 1. 9 Interest Rate Spread

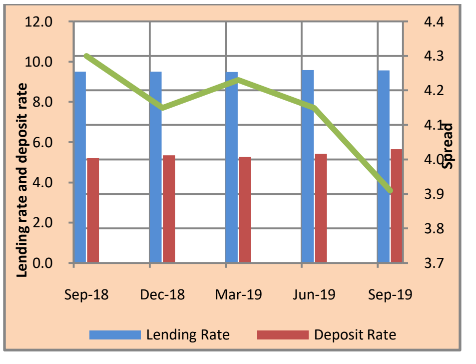
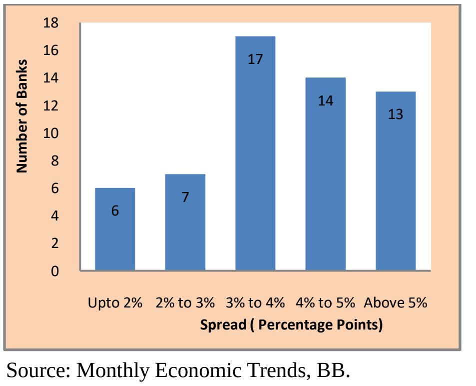


Chart 1.9 Interest Rate Spread-Contd.



Source: Monthly Economic Trends, BB.

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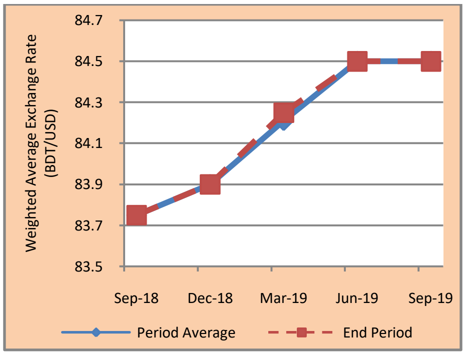
[2] Provisional Data. Current account balance represents quarterly position.

1.2.7 Exchange Rate[3]

Bangladeshi Taka (BDT) against US dollar (USD) remained unchanged compared to the rate of the preceding qurter. Exchange rate of BDT per USD stood at 84.5 which was 83.8 in September 2018 (Chart 1.10).

Chart 1. 10 Exchange Rate

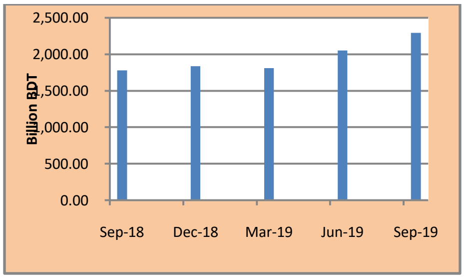


Source: Monthly Economic Trends, BB.

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

Credit to the Government (gross) by the banking system increased by 11.8 percent and stood at BDT 2,292.0 billion at end-September 2019 in comparison with the preceding quarter. However, it increased by 28.9 percent from corresponding quarter of the previous year (Chart 1.11).

Chart 1.11 Credit to the Govt. (Gross) by the Banking System



Source: Statistics Department, BB.

[3] BDT per USD on weighted average basis.

Chapter 2: Banking Sector Performance

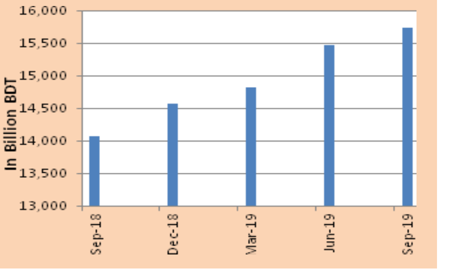
The banking sector balance sheet registered a moderate growth in the review quarter. However, asset quality and profitability slightly declined, warranting prudent actions by the banks.

2.1 Assets Structure

The asset size[4] of the banking sector expanded by 1.8 percent in the review quarter and reached BDT 15,744.4 billion at end-September 2019; the asset growth in the preceding quarter was 4.4 percent (Chart 2.1). The growth in assets in the review quarter could primarily be attributed to the deceleration in private sector credit growth during this period. The assets-to-GDP ratio stood at 62.1 percent at end-Sep 2019[5], which was 61.0 percent at end-June 2019.

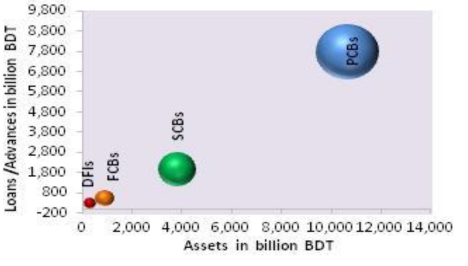
A major share of the banking sector's assets (67.7 percent) as well as loans and advances (74.1 percent) were held by the PCBs (Chart 2.2). Loans and advances, the largest segment among the asset items, constituted 66.4 percent of total assets in the review quarter and remained almost same as that of the preceding quarter. The share of investment showed a notable increase due to higher government borrowing through Treasury bond and securities while the shares of other major asset classes declined (Table 2.1).

Chart 2.1 Asset Size of the Banking Industry



Source: Financial Projection Model (FPM), FSD, BB.

Chart 2.2 Banking Sector Assets and Loans/ Advances: End-Sep 2019



Source: FPM, FSD, BB.

Table 2. 1 Asset Structure of the Banking Industry

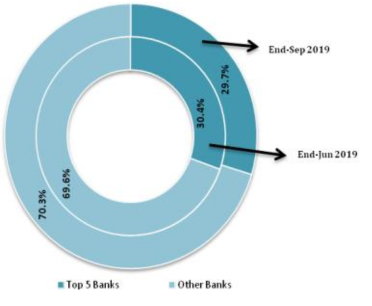
Component of Assets	% of Total asset (as on Jun'19)	% of Total asset (as on Sep'19)	Change
Cash in hand	1.1%	1.0%	-0.1%
Balance with BB and its Agent Bank	5.8%	5.3%	-0.5%
Balance with other banks and FIs	5.8%	5.3%	-0.5%
Investment	14.0%	15.1%	1.1%
Loans and Advances	66.2%	66.4%	0.2%
Fixed Assets	1.5%	1.5%	0.0%
Other Assets	5.5%	5.4%	-0.1%
Total Assets	100.0%	100.0%	

Source: FPM, FSD, BB.

[4]Taking into account only scheduled banks.
[5]Taking into account GDP at current market price for the financial year 2018-19.

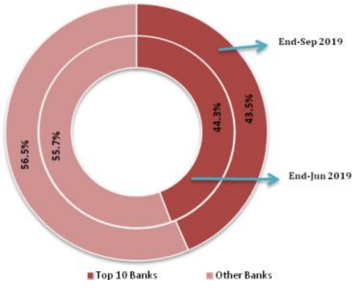
The asset concentration ratios of top 5 and top 10 banks[6] decreased slightly in the September quarter, 2019. The ratios were 29.7 percent and 43.5 percent at end-September 2019 which were 30.4 percent and 44.3 percent respectively at end-June, 2019 (Chart 2.3 and 2.4).

Chart 2.3 Top 5 banks based on Assets Size



Source: FPM, FSD, BB.

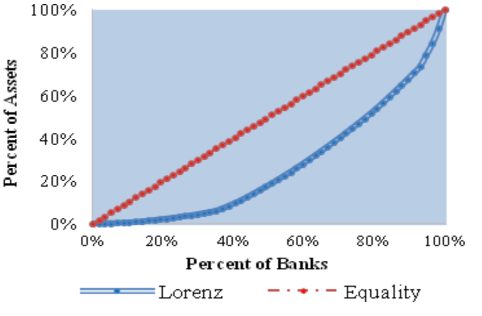
Chart 2.4 Top 10 banks based on Assets Size



Source: FPM, FSD, BB.

Banking sector asset concentration has also been illustrated using the Lorenz Curve and Gini Coefficient. The position of the Lorenz Curve, shown in Chart 2.5, indicated the presence of a moderate concentration in assets of the banking industry. The calculated Gini coefficient of 0.46 also supported the presence of moderate concentration in assets.

Chart 2.5 Banking Sector Asset Concentrations: Lorenz Curve



Note: Assets are displayed from lowest to highest (in ascending order) from the origin.
Source: FSD Staff calculation.

2.2 Asset Quality

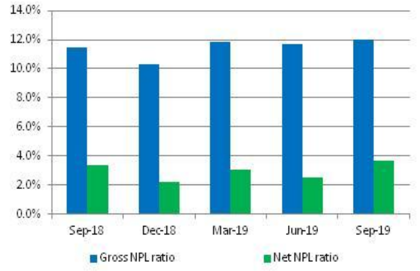
At end-September 2019, gross non-performing loan (NPL) ratio[7] reached at 12.0 percent which was 11.7 percent at end-June 2019 (Chart 2.6). This minor rise in NPL ratio could partially be attributed to high NPL ratio of SCBs and DFIs. Decline in asset quality of a few PCBs and FCBs, compared to end-June 2019 also pushed up the gross NPL ratio during the review period as the ratio remained mostly unchanged for SCBs and DFIs. Net NPL ratio[8] stood at 3.7 percent, which was 2.5 percent at end-June 2019. Despite maintaining a large volume of loan loss provisions against the rising NPLs, its adverse impacts on banks' profitability and

[6]Asset concentration ratio of top 5/10 banks is defined as the ratio of total assets of top 5/10 banks over the total assets of the banking industry.

[7]Ratio of nonperforming loans to total loans.
[8] Ratio of NPLs net of specific loan loss provisions and interest suspense to total loans.

capital adequacy remain as a concern. from financial stability viewpoint.

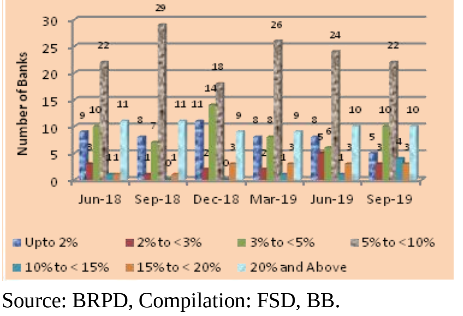
Chart 2.6 NPL Ratio of the Banking Industry



Source: BRPD, BB.

Besides, the number of banks having gross NPL ratio of 10 percent or higher has increased in recent quarters (Chart 2.7) which seems to be a sign of stress for the banking industry.

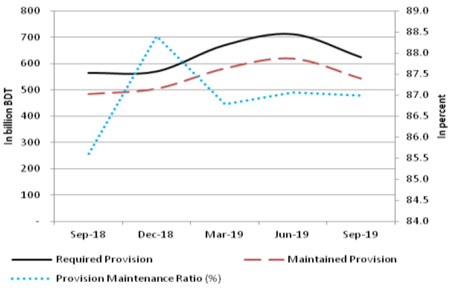
Chart 2.7 Distribution of banks by NPL ratio



Source: BRPD, Compilation: FSD, BB.

The provision maintenance ratio slightly decreased to 87.0 percent at end-September 2019 from 87.1 percent recorded in the preceding quarter (Chart 2.8). The decline in provision maintenance ratio could be attributed to proportionate adjustment in maintained provision relative to the required provision.

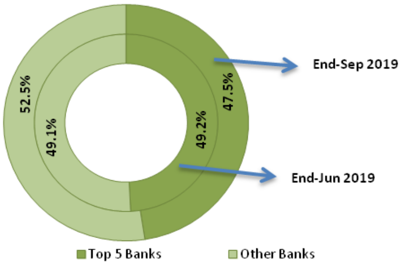
Chart 2.8 Banking Sector Loan Loss Provision



Source: BRPD, BB.

NPL concentration in Top 5 and Top 10 banks slightly decreased in September 2019 quarter. Based on NPL volume, 47.5 percent and 64.5 percent of the NPLs were concentrated in the Top 5 and Top 10 banks[9] respectively at end-September 2019 compared to the corresponding figures of 49.2 percent and 64.6 percent of the preceding quarter (Chart 2.9 and 2.10).

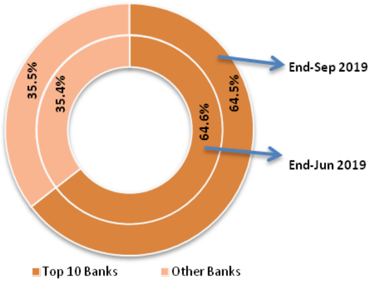
Chart 2.9 Top 5 Banks based on NPL



Source: BRPD, Compilation: FSD, BB.

[9] Ranked in terms of Gross NPL amount.

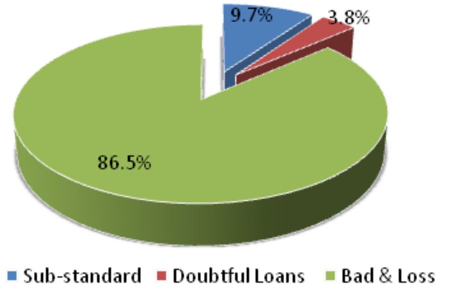
Chart 2.10 Top 10 Banks based on NPL



Source: BRPD, Compilation: FSD, BB.

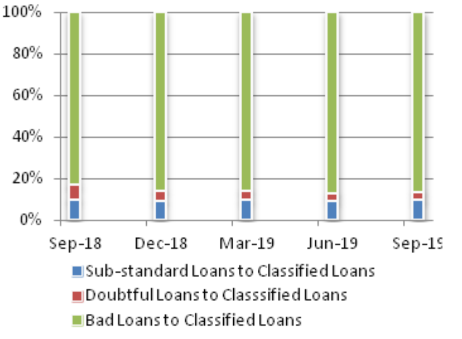
During the review quarter, as a percentage of gross NPLs, bad and loss loans stood at 86.5 percent while sub-standard and doubtful loans were 9.7 percent and 3.8 percent (Chart 2.11). The high proportion of bad and loss loans in recent quarters, as shown in Chart 2.12, indicates the necessity of stricter due diligence in credit management and enhanced recovery initiatives.

Chart 2.11 NPL Compositions of Banks



Source: BRPD, BB.

Chart 2.12 Proportions of NPL Categories

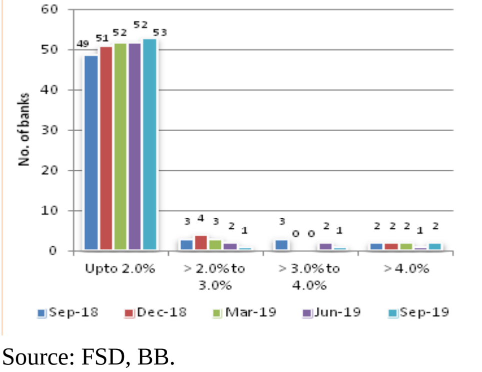


Source: BRPD, BB.

2.3 Profitability

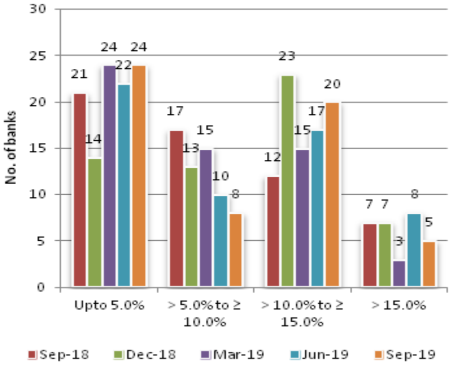
In the review quarter, return on asset (ROA) in the banking sector stood at -0.1 percent, which was 0.2 percent at the end of the preceding quarter. Besides, return on equity (ROE) stood at -1.9, which was 3.6 percent in the preceding quarter. The distributions of ROA and ROE of the banks (Chart 2.13 and 2.14) show that ROA of most of the banks remained below 2 percent while ROE remained below 5 percent for a large number of banks.

Chart 2.13 Distribution of Banking Sector Return on Assets (ROA)



Source: FSD, BB.

Chart 2.14 Distribution of Banking Sector Return on Equity (ROE)



Source: FSD, BB.

Chapter 3: Financial Institutions' Performance

The key financial soundness indicators of the FIs demonstrated mix performance in this quarter. Overall analysis shows majority of FIs did well in respect of profitability and solvency. Capital, in aggregate, has also increased. Asset quality slightly improved compared to last quarter as well as same period of the last year.

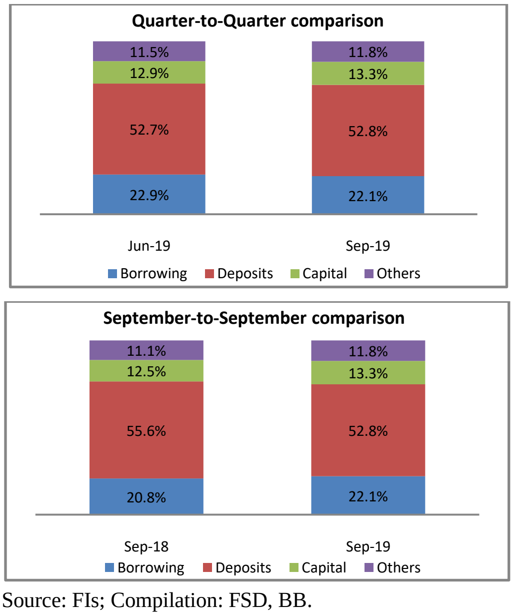
3.1 Growth of Assets/Liabilities

At end-September 2019, total assets/liabilities amounted to BDT 865.8 billion, slightly lower than the end-June 2019 figure of BDT 867.8 billion. At end-September 2018, total assets/liabilities was BDT 849.0 billion[10]. Hence, the industry experienced a descent growth of 2.2 percent on September-to-September basis. During this period, total assets (and liabilities) of 14 FIs increased while 19 FIs experienced a decline in their asset portfolios.

3.2 Sources of Fund: Composition and contribution

At end-September 2019, borrowings, deposits, capital, and other liabilities constituted 22.1 percent, 52.8 percent, 13.3 percent, and 11.8 percent of the sources of funds of the FIs. In comparison with previous quarter, the shares of deposit, capital and other liabilities increased by 0.1, 0.4 and 0.3 percentage points respectively whereas borrowings decreased by 0.8 percentage point. On September-to-September basis, the share of deposit declined by 2.8 percentage points while the shares of borrowing, capital and other liabilities increased.

Chart 3.1: Compositions of Sources of Fund



Source: FIs; Compilation: FSD, BB.

Growth in liabilities is largely attributed by 1.7 percent growth in borrowing. Contributions of capital and other liabilities are 1.1 and 0.9 percent respectively in 2.2 percent growth of total liabilities. Declining deposit, in contrast, has its distressing negative contribution of 1.7 percent in total liability growth.

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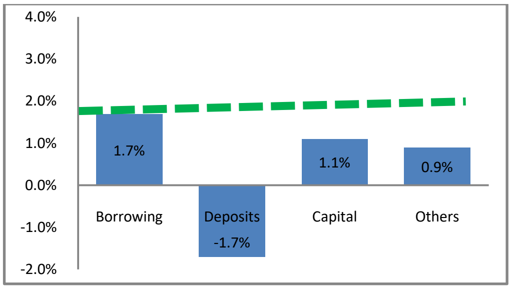
10 *Peoples Leasing & Financial Services Ltd. is excluded from the calculation to make a rational comparison between September 2018 and September 2019.*

Chart 3. 2 Contributions of components in Liability growth (Sept 18-Sept 19)



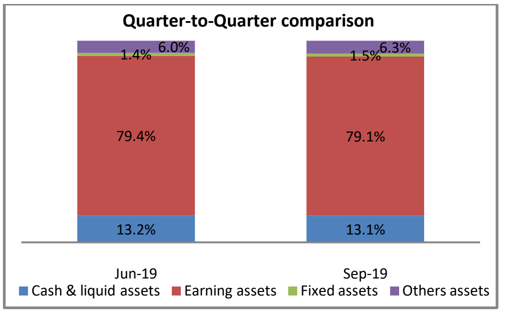
Source: FIs; Compilation: FSD, BB.

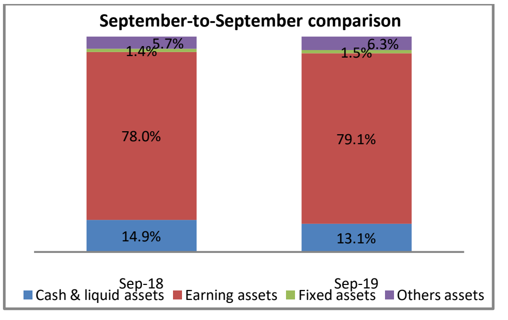
3.3 Assets: Composition and Contribution

Total earning assets (i.e., Loans and leases, and Investment) of FIs constituted 79.1 percent of total assets at end-September 2019. The rest of Total Assets was composed of cash and liquid assets, fixed assets and other assets; shares of these components were 13.1 percent, 1.5 percent and 6.3 percent respectively.

When compared with end-June 2019 positions, the share of fixed assets and other assets increased by 0.1 and 0.3 percentage points respectively, whereas share of cash and liquid assets and earning assets decreased by 0.1 and 0.3 percentage point. On a September-to-September basis, share of cash and liquid asset decreased by 1.8 percentage points while the shares of earning asset, fixed assets, and other assets increased by 1.2, 0.1, and 0.6 percentage points respectively.

Chart 3. 3 Composition of Assets

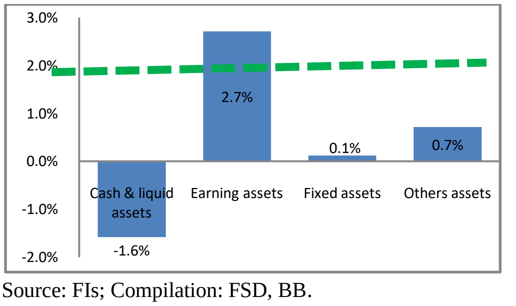




Source: FIs; Compilation: FSD, BB.

Earning assets contributed the highest 2.7 percent in Total Asset growth. In addition, fixed assets and other assets contributed 0.1 and 0.7 percent respectively. While cash and liquid asset pulled back the September-to-September basis Total Asset growth to 2.2 percent with its negative contribution of 1.6 percent.

Chart 3. 4 Contributions of components in Liability growth (Sept 18-Sept 19)



Source: FIs; Compilation: FSD, BB.

3.4 Changes in the Components of Liabilities and Assets

As Table 3.1 refers, the amount of deposit decreased in 25 FIs during September 2018-September 2019 period, which seems to be a matter of concern for the industry. However, 25 FIs were able to increase their capital base during this period.

Table 3. 1 Changes in Components of Liability (Sept 2018 - Sept 2019)

	Borrow	Deposit	Capital	Others Liab.	Total Liab.
Increase	16	8	25	26	14
Decrease	17	25	8	7	19

Data also reveals that cash and liquid asset decreased in 26 FIs, indicating some liquidity stress in those.

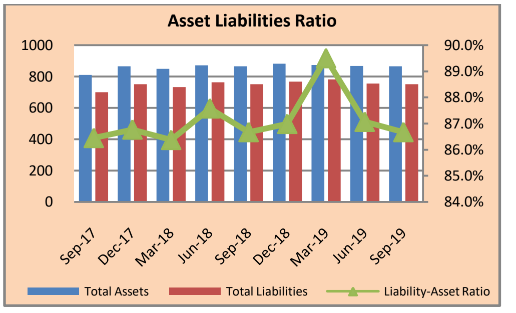
Table 3. 2 Changes in Components of Asset in FIs (Sept 2018 - Sept 2019)

	Cash & liquid assets	Earning assets	Fixed assets	Others assets	Total Asset
Increase	7	15	12	22	14
Decrease	26	18	21	11	19

3.5 Liabilities-Assets Ratio

The liabilities to assets ratio stood at 86.7 percent at the end-September 2019 which is 0.4 basis points lower than the previous quarter. The reduction in deposit and other liabilities reduced the growth of the total liabilities as well as the liabilities-asset ratio.

Chart 3. 5 FIs' Liabilities-Assets Ratio

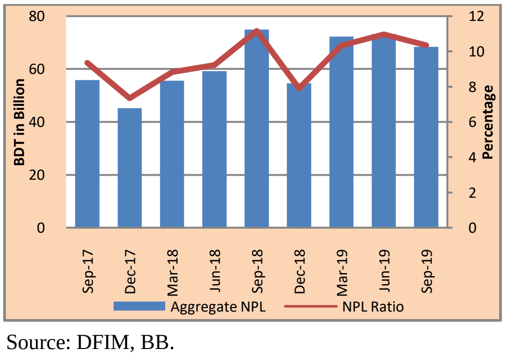


Source: FIs; Compilation: FSD, BB.

3.6 Asset Quality

FIs' classified loans and leases significantly decreased by 6.6 percent from that of the previous quarter. It stood at BDT 68.4 billion at end-September 2019, which was BDT 73.2 billion at end-June 2019. The ratio of classified loans and leases declined to 10.4 percent at end-September 2019, which is 0.6 percentage point lower than that of the previous quarter, and 0.8 percentage point lower from that of September 2018.

Chart 3. 6 FIs' Non-performing Loans



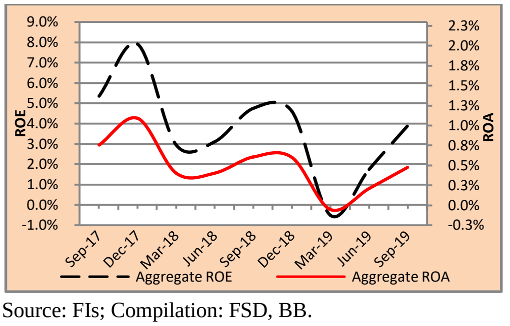
Source: DFIM, BB.

Net NPL ratio (after netting off interest suspense and provisions) was 5.4 percent at end-September 2019, which is 0.7 percentage point lower than June 2019, and 0.1 percentage points lower than September 2018. Adequacy of provision was 73.8 percent at end-September 2019 which is 4.2 percentage points lower than the end-June 2019 due to adjustment in provision against reduction of NPL. Seven FIs have provision shortfalls in this quarter.

3.7 Profitability

The Return on Assets (ROA) and Return on Equity (ROE) stood at 0.5 percent and 3.9 percent respectively compared to 0.2 percent and 1.8 percent respectively recorded in the last quarter and 0.6 percent and 4.7 percent respectively in the same quarter of 2018[11].

Chart 3. 7 FIs' ROA and ROE

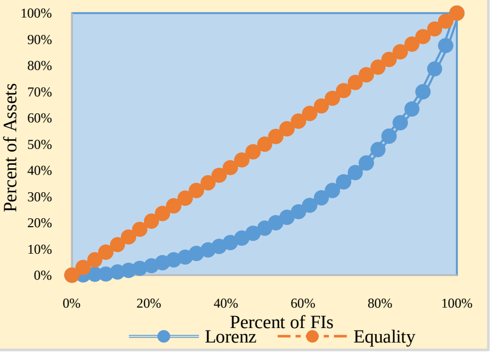


Source: FIs; Compilation: FSD, BB.

3.8 FIs Sector's Asset Concentration

FI sector's asset concentration has been illustrated using Lorenz curve and Gini Coefficient. As depicted in Chart 3.8, the position of Lorenz Curve implies the presence of moderate concentration in the assets of the FI sector. The calculated Gini coefficient is 0.497, which also supports the presence of stated type of concentration.

Chart 3. 8 FIs asset concentration: Lorenz Curve



Source: FIs; Compilation: FSD, BB.

[11] Here profitability indicators - ROA and ROE - are annualized from quarterly ratios.

Chapter 4: Banking Sector Capital Adequacy and Liquidity

Banking sector capital to risk-weighted assets ratio (CRAR) slightly decreased with respect to that of the previous quarter. Still, 32 banks out of 57 were able to maintain minimum capital conservation buffer. Moreover, liquidity position slightly improved as advance-to-deposit ratio (ADR) decreased slightly.

4.1 Capital Adequacy

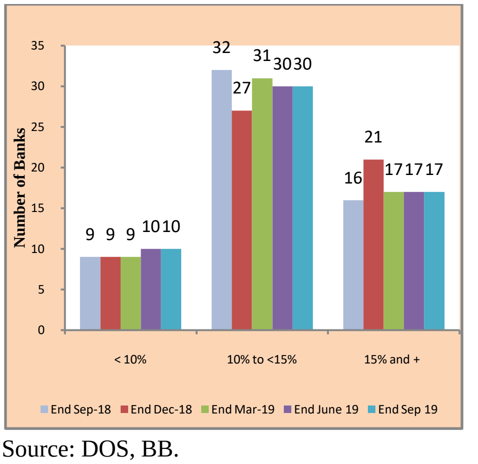
In the review quarter, 47 out of 57 banks maintained their CRARs at 10.0 percent or higher in line with Pillar 1 of the Basel III capital framework. The CRAR of the banking sector as a whole stood at 11.62 percent[12], which is respectively 12 basis points lower and 73 basis points higher than the ratio recorded at end-June 2019 and end-September 2018 (Chart 4.1).

Importantly, among 47 CRAR compliant banks, 30 had CRAR within the range of 10-15 percent and their aggregate assets accounted for nearly 57.4 percent of the total banking industry's assets at end-September 2019 (Chart 4.2).

The trend of Tier-1 capital ratio was similar to the trend of CRAR. Tier-1 capital ratio slightly decreased to 7.9 percent at end-September 2019 from 8.1 percent of the previous quarter and increased slightly from 7.6 percent of end-September 2018 (Chart 4.3). Whereas, the regulatory requirement of minimum Tier-1 capital ratio was 6.0 percent for those three quarters.

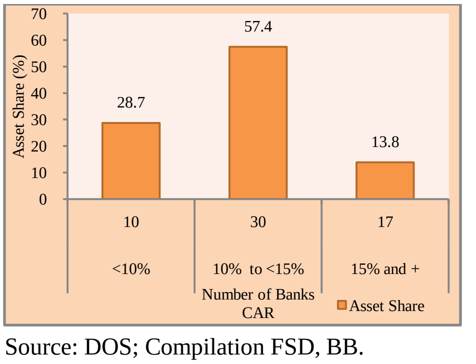
The FCBs maintained the highest CRAR in the industry while DFIs continued with negative CRAR in the review quarter (Chart 4.4).

Chart 4.1 Banking Sector Capital to Risk-Weighted Assets Ratio



Source: DOS, BB.

Chart 4.2 Distribution of Asset Share of Banks based on CRAR at End-September 2019

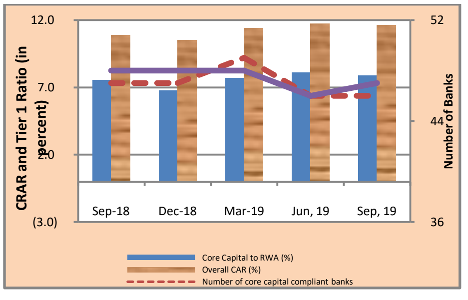


Source: DOS; Compilation FSD, BB.

[12] In the review quarter, minimum required CRAR was 10 percent.

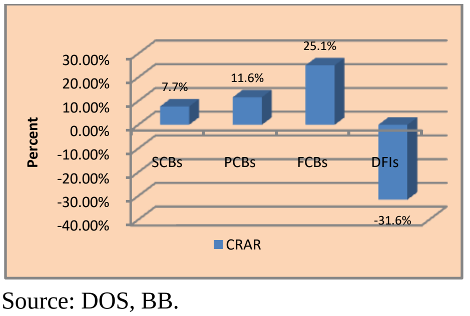
At end-September 2019, total risk-weighted assets of the banking sector, arising from credit risks, accounted for 88.2 percent of the total industry's risk-weighted assets under Pillar 1 of the Basel III capital adequacy framework. It is mentionable that the proportion of credit risk weighted assets was 88.1 percent in the previous quarter and at end-September 2018. Next positions were held by operational and market risks respectively (Chart 4.5).

Chart 4.3 Tier-1 Capital Ratio and Overall CRAR of the Banking Industry



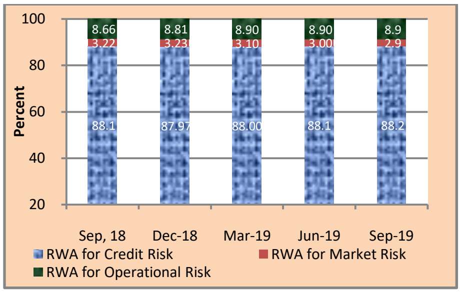
Source: DOS, BB.

Chart 4.4 Bank Cluster-wise CRAR at End-September 2019



Source: DOS, BB.

Chart 4.5 Distribution of Risk Weighted Assets



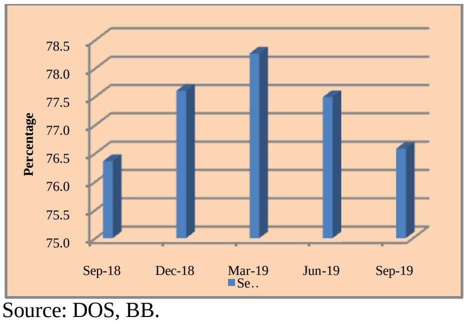
Source: DOS, BB.

In the review quarter, against the regulatory requirement of 2.50 percent of total RWA, out of 57 banks, 32 were able to maintain the minimum required Capital Conservation Buffer (CCB) on a solo basis. However, in case of consolidated basis, 16 out of 36 banks fulfilled this regulatory requirement. The aggregate figure of CCB of the banking sector, in the stated quarter, was 1.65 percent and 1.84 percent on solo and consolidated basis respectively.

4.2 Liquidity

During the review quarter, Advance-to-Deposit Ratio (ADR) of the overall banking industry stood at 76.6 percent which is 0.9 percentage point lower than that of end-June 2019 and 0.2 percentage point higher than that of end-September 2018 (Chart 4.6).

Chart 4.6 Banking Sector Advance-to-Deposit Ratio

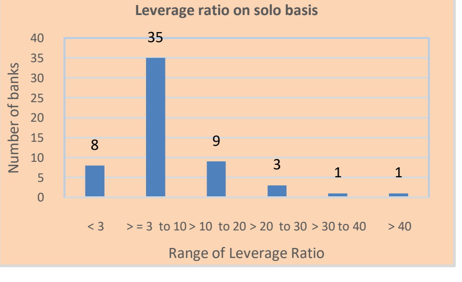


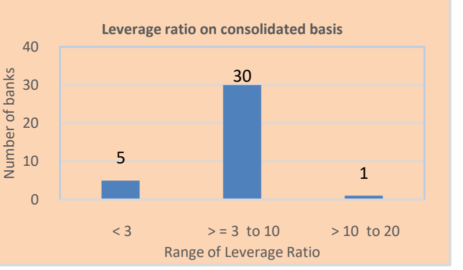
Source: DOS, BB.

4.3 Leverage ratio

In the review quarter, banking industry fulfilled the minimum regulatory requirement for leverage ratio of 3.0 percent, on both solo and consolidated basis[13]. During the period, banking industry's leverage ratio was 4.7 percent on solo basis; 48 out of 57 banks maintained a leverage ratio of 3.0 percent or higher (Chart 4.7). On the other hand, in case of consolidated basis, 31 out of 36 banks were able to fulfill the regulatory requirement. FCBs maintained the highest leverage ratio among the four banking clusters (Chart 4.8).

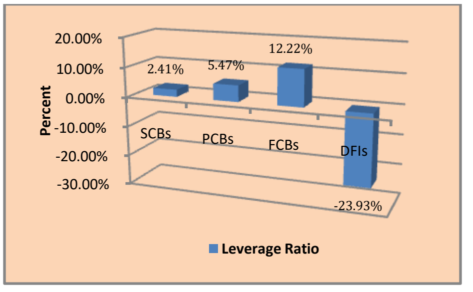
Chart 4.7 Leverage Ratio of banks at end-September 2019





Source: DOS, BB.

Chart 4.8 Bank Cluster-wise Leverage ratio at End-September 2019



Source: DOS, BB.

[13] In line with Basel III guidelines issued by Bangladesh Bank vide BRPD Circular No. 18 dated December 21, 2014.

Chapter 5: Financial Institutions: Capital Adequacy and Liquidity

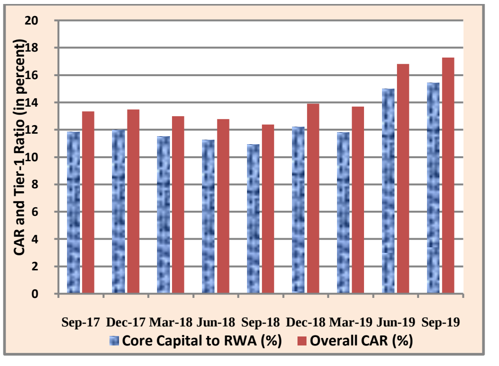
During the quarter under review, capital base of the FIs has slightly strengthened as well as Capital Adequacy Ratio (CAR) has also increased compared to that of the previous quarter due to upward trend in profitability and downsize of nonperforming loans. In addition, Statutory Liquidity Ratio (SLR) maintained by FIs registered a significant increase. The Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) by the FIs were also higher than the regulatory requirements. However, the increase in market risk may be mitigated by strengthening BB's monitoring towards FIs.

5.1 Capital Adequacy

Capital adequacy ratio (CAR) of the FIs slightly increased from 16.8 percent of end-June 2019 to 17.3 percent at end-September 2019. This ratio was well above the minimum regulatory requirement of the Basel II framework.[14] The ratio of core capital (Tier-1) to Risk Weighted Asset (RWA) increased by 0.41 percentage point compared to the previous quarter, April-June 2019. It is mentionable that 30 out of 33 FIs were able to maintain core capital ratio, while 27 succeeded to maintain CAR in the reviewed quarter.

Chart 5.1 shows the trend in core capital to RWA ratio and CAR since September 2017.

Chart 5. 1 Capital Adequacy Ratios of FIs in Bangladesh



Source: DFIM, BB.

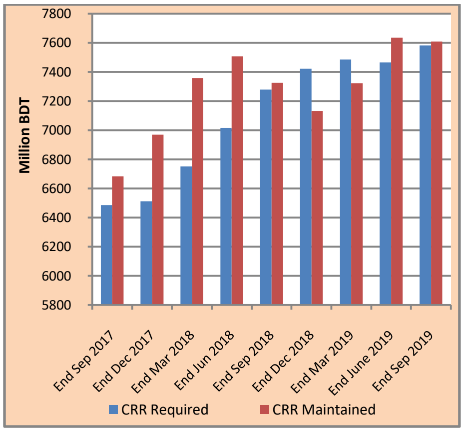
5. 2 Liquidity

As of end-September 2019, the aggregate amount of maintained CRR of the FIs was BDT 7,608.0 million as compared to BDT 7,634.6 million at end-June 2019, recorded a slight decrease of 0.3 percent. In addition, a total of BDT 24.7 million surpluses were observed in CRR maintained against the required CRR. The amount of SLR maintained was BDT 86.06 billion at end-September 2019 against the required amount of BDT 21.78 billion. The amount of SLR maintained was increased by 3.5 percent compared to the amount maintained in the previous quarter, April-June 2019. Chart 5.2 and Chart 5.3 demonstrated the trend in CRR

[14] FIs are required to maintain a capital adequacy ratio (CAR) of 10.0 percent with at least 5.0 percent in Tier-1 as per the Basel II framework.

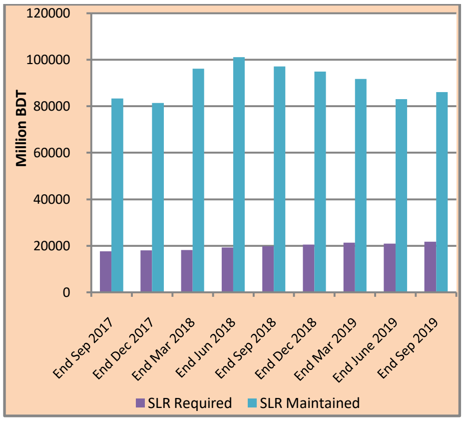
and SLR position of FIs since September 2017.

Chart 5. 2 Cash Reserve Ratio (CRR) of FIs in Bangladesh



Source: DFIM, BB.

Chart 5. 3 Statutory Liquidity Ratios (SLR) of FIs in Bangladesh



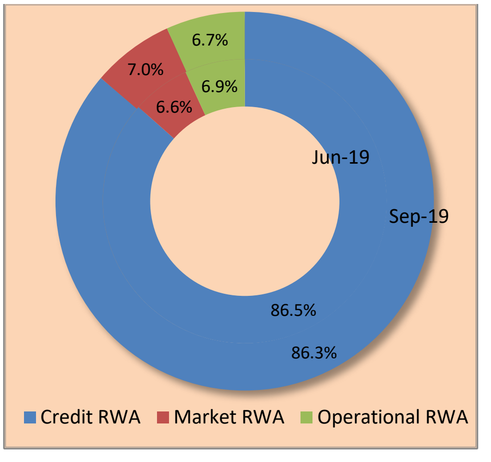
Source: DFIM, BB.

5.3 Risk Weighted Asset (RWA)

Chart 5.4 shows the different components of overall risk weighted assets (RWA) of the FIs in Bangladesh. At end-September 2019, RWA for credit, market and operational risks constituted 86.3 percent, 7.0 percent and 6.7 percent of overall RWA of the FIs respectively.

While comparing with the previous quarter positions, the share of market risk RWA increased by 0.4 percentage point, whereas each of credit risk RWA and operational risk RWA decreased by 0.2 percentage point.

Chart 5. 4 Different components of Risk Weighted Asset (RWA) of FIs in Bangladesh



Source: DFIM, BB.

Chapter 6: Stress Test and Resilience of the Banking and FIs Sectors

6.1 Stress Test

Bangladesh Bank conducts stress tests on banks and Financial Institutions (FIs) on quarterly basis.

6.2 Stress Test on Banks[15]

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

6.2.1 Individual Shocks

Banking sector's capital to risk weighted asset ratio (CRAR) was 11.65 percent in the September quarter. Out of 57 banks, 10 banks' pre-shock CRARs were below the minimum regulatory requirement of 10.0 percent[16]. As a result, the remaining 47 banks were considered for the analyses based on end-September 2019 data. Two new banks which have recently started their operations were also not considered in this stress testing exercise. The following sub-sections presents details of the shocks and the associated outcomes.

6.2.1.1 Credit Risk

a) **Increase in Non-performing Loans (NPL):** If NPLs increased by 3, 9 and 15 percent, then 3, 29 and 34 banks would fail to maintain the minimum required CRAR respectively.

b) **Increase in NPL due to Default of Top Large Borrowers:** If 3, 7 and 10 largest borrowers of each bank in the industry defaulted, then 21, 35 and 37 banks respectively would have become non-compliant in maintaining the minimum required CRAR.

c) **Fall in the Forced Sale Value (FSV) of Mortgaged Collateral:** If FSV of mortgaged collateral declined by 10, 20 and 40 percent, then it would make 2, 3 and 6 banks respectively non-compliant in maintaining the minimum required CRAR.

d) **Negative Shift in the NPL Categories:** If NPL categories shifted downward by 5, 10 and 15 percent, then 2, 10 and 15 banks respectively would have become non-compliant in maintaining the minimum required CRAR.

e) **Increase in NPL in Highest Outstanding Sector:** In the event of minor, moderate and major shocks 2, 4 and 5 banks respectively would fall below the minimum regulatory requirement.

6.2.1.2 Market Risk

The banking industry [17] found to be resilient to exchange rate shock but slightly vulnerable to equity price and interest rate shock:

a) **Interest Rate Risk:** In the event of interest rate shock of 1, 2 and 3 percent, 1, 2 and 4 banks respectively would fail to maintain the minimum required CRAR.

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[15] The analyses here are based on the data as of end-September 2019 unless stated otherwise.

[16] This analysis is done based on the minimum total capital ratio without considering the additional capital conservation buffer requirement.

[17] Only scheduled banks have been considered here.

Table 6. 1 Stress test on the Banking Sector based on Data as of End-September 2019

Shocks[18]		Banking Sector (%)
Pre-shock CRAR		**11.65**
CRAR after-shock (%)		
Credit Risks:		
Increase in NPLs:		
	Shock-1: 3%	**10.43**
	Shock-2: 9%	**7.55**
	Shock-3: 15%	**3.40**
Increase in NPLs due to default of top large borrowers		
	Shock-1: Top 3 borrowers	**9.99**
	Shock-2: Top 7 borrowers	**8.48**
	Shock-3: Top 10 borrowers	**7.56**
Fall in the FSV[19] of mortgaged collateral		
	Shock-1: 10%	**11.00**
	Shock-2: 20%	**10.34**
	Shock-3: 40%	**8.99**
Negative shift in the NPL categories		
	Shock-1: 5%	**10.92**
	Shock-2: 10%	**7.47**
	Shock-3: 15%	**6.00**
Increase in NPLs in highest outstanding sectors		
	Sector concentration 1[20] ***(Performing loan directly downgraded to B/L[21])***	
	Shock-1: 3%	**11.51**
	Shock-2: 9%	**11.21**
	Shock-3: 15%	**10.92**
	Sector concentration 2[22] ***(Performing loan directly downgraded to B/L)***	
	Shock-1: 3%	**11.58**
	Shock-2: 9%	**11.43**
	Shock-3: 15%	**11.29**
Market Risks		
Interest rate risk (change in interest rate)		
	Shock-1: 1%	**11.29**
	Shock-2: 2%	**10.93**
	Shock-3: 3%	**10.56**
Exchange rate risk (Currency appreciation/depreciation)		
	Shock-1: 5%	**11.62**
	Shock-2: 10%	**11.59**
	Shock-3: 15%	**11.56**
Equity price risk (Fall in equity prices)		
	Shock-1: 10%	**11.37**
	Shock-2: 20%	**11.09**
	Shock-3: 40%	**10.52**
Combined Shock		
	Shock-1	**8.37**
	Shock-2	**0.70**
	Shock-3	**-7.22**

[18]Shock-1 = Minor, Shock-2 = Moderate, Shock-3 = Major.
[19] FSV = Forced Sale Value.
[20] Sector with highest outstanding.
[21] B/L = Bad/Loss.
[22]Sector with second highest outstanding.

b) **Exchange Rate Risk:** In the event of currency appreciation or depreciation by 5, 10 and 15 percent, no bank would fall below the minimum regulatory requirement.

c) **Equity Price Risk:** In the event of equity price shock of 10, 20 and 40 percent 1, 2 and 3 banks would fall below the minimum regulatory requirement.

6.2.2 Combined Shock[23]

In the event of minor, moderate and major combined shocks, 12, 38 and 39 banks respectively would be undercapitalized.

6.2.3 Liquidity Shock

The banking system as a whole seemed to remain resilient against specified liquidity stress scenarios at end-September 2019. However, 1 Specialized Development Bank may be vulnerable in the event of 6 percent increase in average daily withdrawal of deposit.

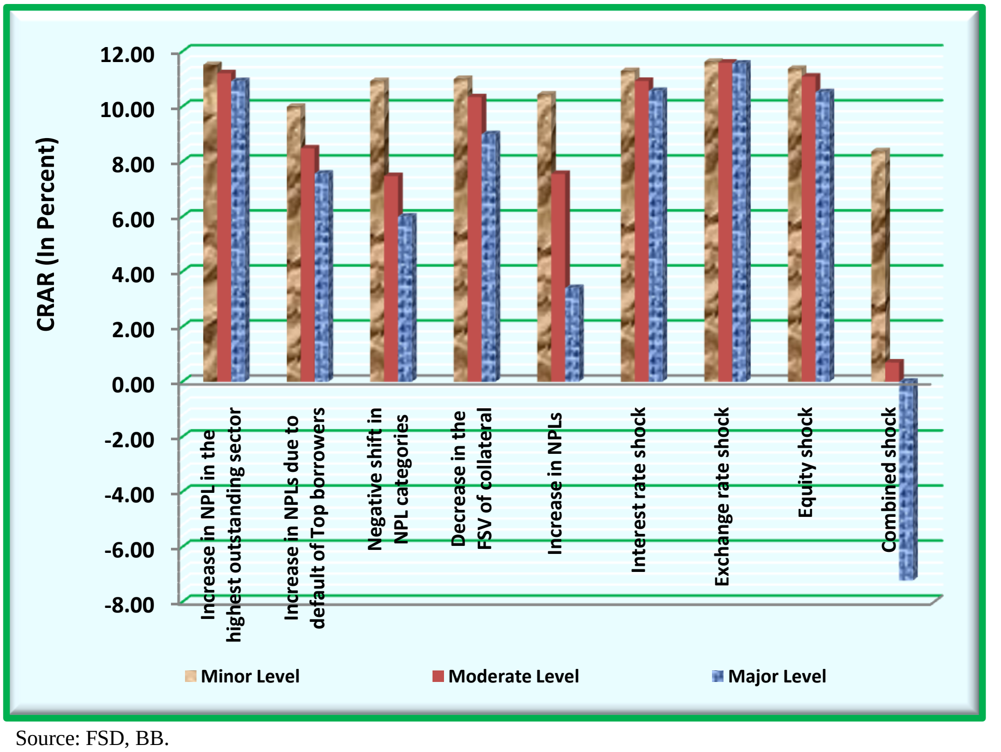
Table 6. 2 Liquidity Risk in the Banking Sector: End-September 2019

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 working days.
Note: '1' indicates that the system is liquid and '0' not liquid.
Source: FSD, BB.

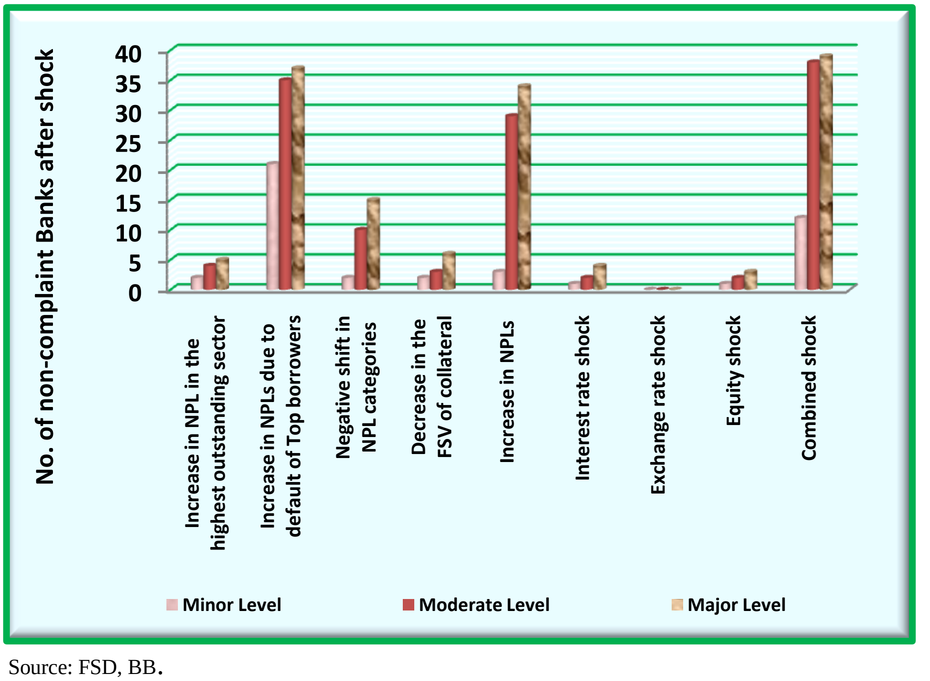
[23]Combined shock comprised of aggregate stress results of increase in NPLs, negative shifts in NPL categories, decrease in the FSV of the mortgaged collateral, exchange rate shock, equity price shock and interest rate shock.

Chart 6.1 Banking Sector CRAR at Different Shock Scenarios: September 2019



Source: FSD, BB.

Chart 6. 2 Number of Non-compliant Banks at Different Shock Scenarios: September 2019



Source: FSD, BB.

6.3 Stress Test on FIs

Bangladesh Bank also conducts stress tests on FIs based on a simple sensitivity analysis, in which four risk factors- credit, interest rate, equity price and liquidity- are analyzed.

At end-September 2019, out of 33 FIs, 4, 19, and 10 were positioned in Green, Yellow, and Red zones respectively on the basis of stress test result.

Table 6. 3 Stress Testing: Zonal Position of FIs

(Number of FIs)

Quarter	Green	Yellow	Red
End-Jun 2017	**4**	**17**	**12**
End-Sep 2017	**3**	**17**	**13**
End-Dec 2017	**4**	**19**	**10**
End-Mar 2018	**5**	**17**	**12**
End-Jun 2018	**3**	**18**	**13**
End-Sep 2018	**4**	**18**	**12**
End-Dec 2018	**4**	**17**	**13**
End-Mar 2019	**4**	**17**	**13**
End-June 2019	**4**	**18**	**11**
End-Sep 2019	**4**	**19**	**10***

* One (o1) FI is under process of liquidation.
Source: DFIM, BB.

Chapter 7: Capital Market Development

Both the bourses demonstrated price correction during the during the review quarter.

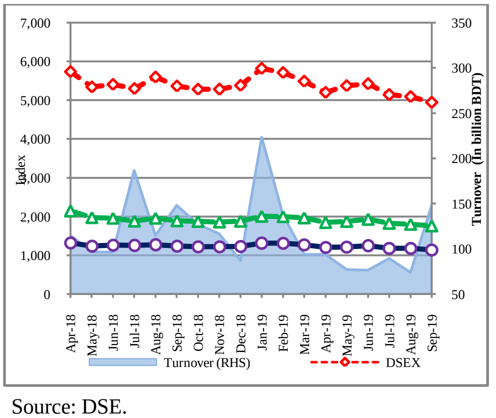
7.1 Dhaka Stock Exchange (DSE)

7.1.1 DSE Performance

DSE turnover increased to BDT 311.6 billion during July-September 2019 from BDT 247.6 during the previous quarter, resulting an increase of 25.8 percent. Increased turnover was owed to trading of the shares of every sector, except for Corporate Bond, Banks, Ceramic, Telecommunication, Food & Allied Products, and Tannery.

At end-September 2019, key DSE indices-DSEX, DS30, and DSES-decreased by 8.7 percent, 8.8 percent and 8.5 percent respectively compared to those of end-June 2019. Chart 7.1 illustrates the DSE performance for the period of April 2018 to September 2019.

Chart 7. 1 DSE Performance



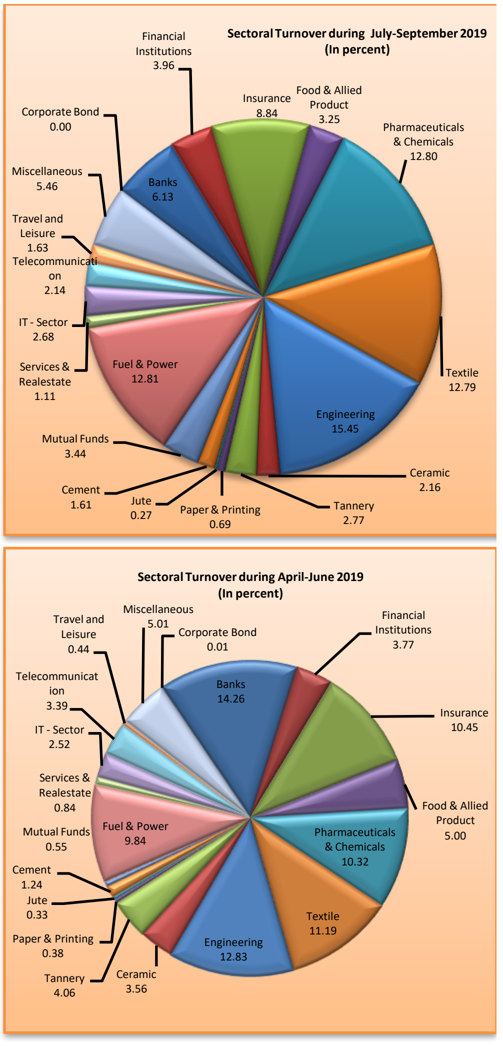
Source: DSE.

7.1.2 Sectoral Turnover

Chart 7.2 demonstrates that around 62.7 percent of the total DSE turnover was shared among five sectors namely, Engineering (15.5 percent), Fuel & Power (12.8 percent), Pharmaceuticals & Chemicals (12.8 percent), Textile (12.8 percent), and Insurance (8.8 percent). Besides, turnover of Banks, and Financial Institutions sector were 6.1 percent, 4.0 percent respectively.

During July-September 2019 quarter, turnover of banks dropped by 45.9 percent compared to that of the April-June 2019 quarter. Whereas, turnover of Financial Institutions, and Insurance sector increased by 32.1 percent, and 6.5 percent respectively compared to those of the previous quarter. Besides, sectoral turnover of Engineering, Fuel & Power, Pharmaceuticals & Chemicals, and Textiles increased by 51.6 percent, 63.8 percent, 56.0 percent, and 43.8 percent respectively during the reporting quarter compared to those of the previous quarter.

Chart 7.2 Sectoral Turnover at DSE



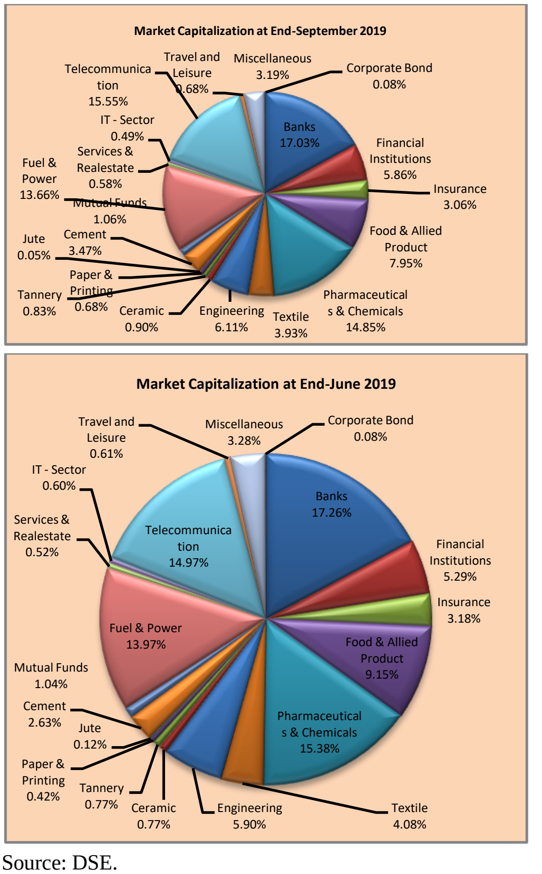
Source: DSE.

7.1.3 Market Capitalization

At end-September 2019, the market capitalization stood at BDT 3,738.5 billion, which is 6.5 percent lower than BDT 3,998.16 billion of end-June 2019. Chart 7.3 illustrates that at end-September 2019, the Banking sector secured the top position with 17.0 percent share in the total market capitalization followed by Telecommunication, Pharmaceuticals & Chemicals, and Fuel & Power with 15.5 percent, 14.8 percent, and 13.7 percent respectively.

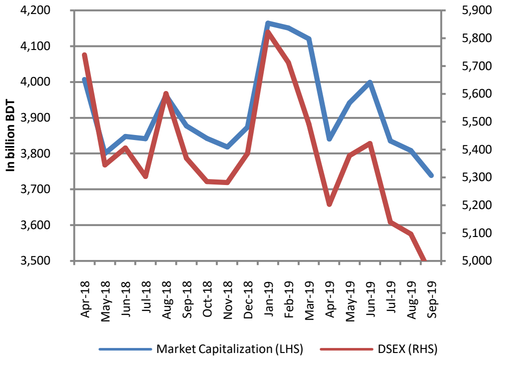
The contributions of the aforementioned sectors were 17.3 percent, 15.0 percent, 15.4 percent, and 14 percent respectively at end-June 2019.

Chart 7. 3 Market Capitalization at DSE



Source: DSE.

Chart 7. 4 Market Capitalization and DSEX



Source: DSE.

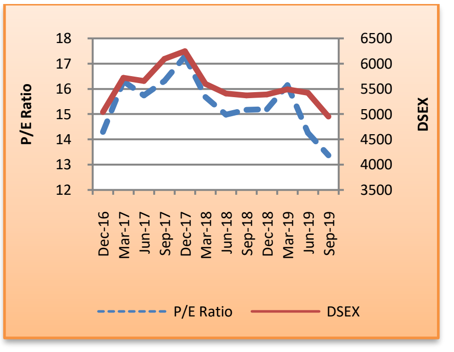
Chart 7.4 also shows downward trends in market capitalization as well as DSEX. It is to be mentioned that though the relationship between these two graphs is positive, however, the gap between these graphs widens (shrinks) when sectors with more weights in case of indexing such as, bank and telecommunication sectors become dull (vibrant).

As a percentage of GDP [24], DSE market capitalization stood at 16.6 percent at end-September 2019 compared to that of 17.8 percent at end-June 2019.

7.1.4 Price/Earnings (P/E) Ratio

The market P/E ratio decreased by 0.9 percentage points during the quarter and stood at 13.4 at end-September 2019. Chart 7.5 illustrates the movements of DSE broad index (DSEX) and market P/E ratio. It shows that there is a long-term positive relationship between DSE broad index (DSEX) and market P/E ratio. Since DSEX incorporates the price information of the shares listed at DSE, the movement in market price per share captured by P/E ratio is reflected in the index. The chart reveals that after a price appreciation in the first quarter of 2019, market has been demonstrating price correction.

Chart 7. 5 P/E Ratio and DSEX



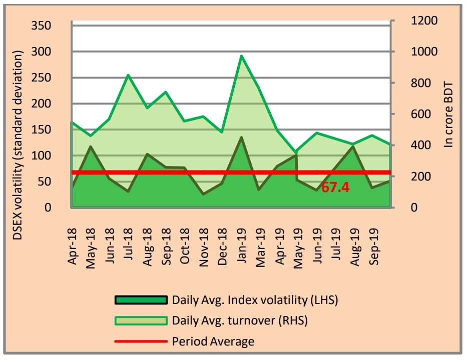
Source: DSE.

At end-September 2019, the highest P/E ratio was observed in the Jute sector (264.0) followed by the Miscellaneous (25.06) and Cement sector (24.9). The banking sector recorded the lowest P/E ratio (8.2) followed by the Mutual Funds (10.2), and Engineering (12.78). P/E ratio of Banking, and Financial Institutions decreased by 0.1 and 1.5 percentage points respectively, while, insurance sector increased by 1.5 percentage points compared to those of end-June 2019.

[24] GDP at current market price for 2018-19period is used to calculate this ratio.

7.1.5 Index Volatility and Market Liquidity

Chart 7. 6 DSEX Volatility and Daily Average DSE Turnover



Source: DSE, Economic Trends, BB; Computation: FSD, BB.

Chart 7.5 shows daily average turnover, daily average index volatility, and period average volatility. During last few quarters, the market was relatively less volatile together with episodes of low market liquidity (i.e. turnover). During the aforementioned period, the highest volatility in DSEX was recorded in January 2019 alongside the highest daily average turnover. However, DSEX together with turnover had been dropping since February 2019. Daily average volatility was 67.4, which was higher than that of previous quarter (62.4) and period average (66.8). However, a continuous decrease in DSE turnover continued its momentum, which indicates somewhat liquidity stress in the market during the review period.

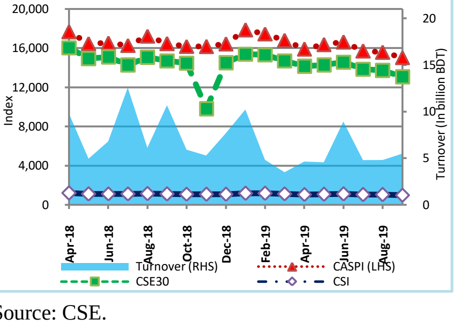
7.2 Chittagong Stock Exchange (CSE)

7.2.1 CSE Performance

CSE turnover decreased by 16.8 percent to BDT 15.1 billion during July-September 2019 from BDT 18.1 billion in the preceding quarter.

Drops in demand for stocks of Corporate Bond, Banking, Telecommunication, Food & Allied Product, and Leasing & Finance sectors mainly decelerated the CSE turnover during the quarter. At end-September 2019, the key CSE indices, such as CASPI[25], CSE30, and CSI[26] decreased by 9.5 percent, 10.3 percent, and 9.9 percent respectively compared to those of end-June 2019. Chart 7.7 presents the CSE performance for the period April 2018 to September 2019.

Chart 7. 7 CSE Performance



Source: CSE.

7.2.2 Sectoral Turnover

Miscellaneous sector recorded the highest turnover followed by Engineering, Banking, Fuel & Power,

[25]CASPI refers to CSE All Share Price Index.

[26] CSI refers to CSE Shari'ah Index.

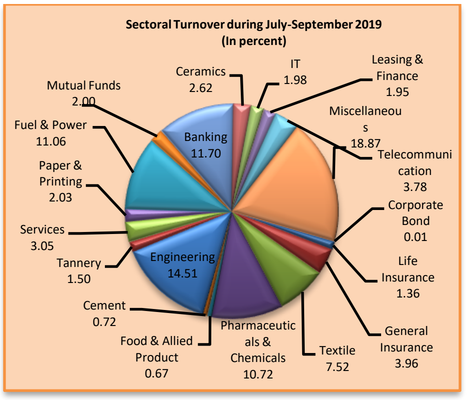
and Pharmaceuticals & Chemicals. Chart 7.8 shows that turnover of the abovementioned sectors engrossed 18.9 percent, 14.5 percent, 11.7 percent, 11.1 percent and 10.7 percent of the total turnover respectively during the review quarter, which were 8.2 percent, 8.9 percent, 25.9 percent, 8.3 percent, and 13.6 percent respectively in the previous quarter. Besides, during the review quarter, turnover of Leasing & Finance, Life Insurance, and General Insurance recorded 2.0 percent, 1.4 percent, and 4.0 percent respectively which were 3.1 percent, 1.7 percent, and 4.4 percent of the total turnover respectively in the preceding quarter.

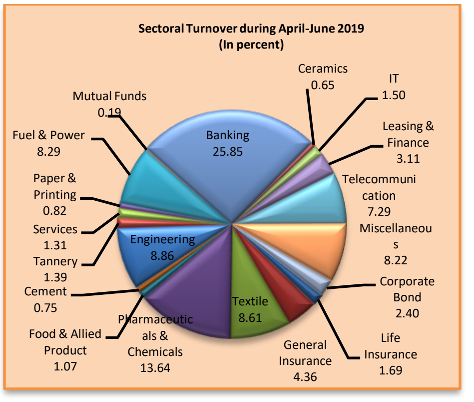
7.2.3 Market Capitalization

At end-September 2019, the market capitalization at CSE stood at BDT 3,019.7 billion, which is 8.3 percent lower than the end-June 2019 position of BDT 3,293.3 billion.

Chart 7.9 illustrates that at end-September 2019, the Banking sector secured the top position with 18.6 percent share in the total market capitalization followed by Telecommunications, Pharmaceuticals & Chemicals, Fuel & Power, and Miscellaneous with 16.3 percent, 15.2 percent, 14.4 percent, and 8.6 percent respectively.

Chart 7. 8 Sectoral Turnover at CSE

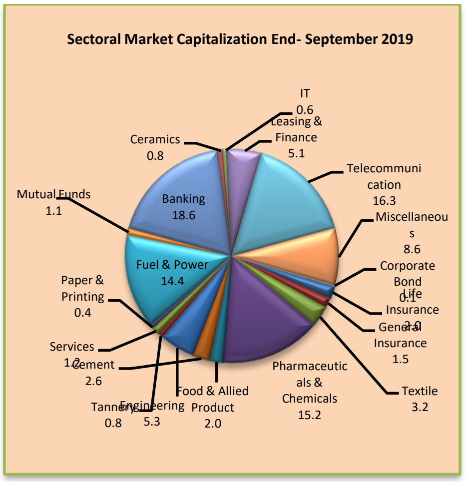


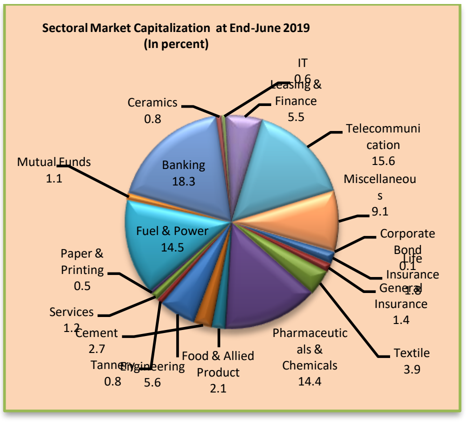


Source: CSE.

The contributions of the abovementioned sectors were 18.3 percent, 15.6 percent, 14.4 percent, 14.5 percent, and 9.1 percent respectively at end-June 2019.

Chart 7. 9 Market Capitalization at CSE

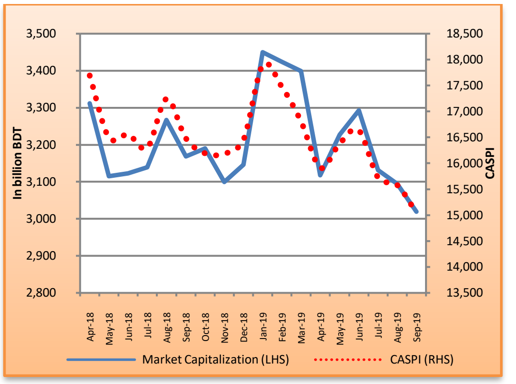




Source: CSE.

Similar to DSE, a downtrend was observed in market capitalization. At end-September, the market capitalization at CSE stood at BDT 3,019.7 billion, which is 8.3 percent lower than the end-June position of BDT 3,293.3 billion. As a percentage of GDP[27], CSE market capitalization stood at13.4 percent at end-September 2019 compared to 14.6 percent at end-June 2019.[28]

Chart 7. 10 Market Capitalization and CASPI



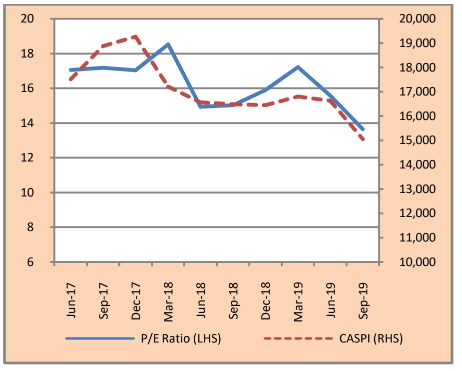
Source: CSE.

7.2.4 Price/Earnings (P/E) Ratio

The market P/E ratio plunged to 13.6 at end-September 2019 from 15.6 at end-June 2019 (Chart 7.11). During the review quarter, the highest P/E ratio was registered by Textile (130.5) followed by Cement (27.2) and Information Communication & Technology sector (26.3). The lowest P/E was recorded by Banking (9.0) followed by Telecommunication (10.5) and Engineering sector (12.4). Besides, P/E ratio of Leasing & Finance, and General Insurance were 13.4 and 12.9 respectively.

[27]GDP at current market price for 2017-18 period is used to calculate this ratio.

Chart 7. 11 CSE P/E Ratio and CASPI



Source: CSE.

7.3 Capital Market and Financial Stability

Capital markets play a critical role in promoting financial stability and economic growth. A stable and deep capital market mobilizes long-term corporate finance, thus fostering strategically important industries and moving them forward. The absence of a profound capital market weighs long-term funding on the banking sector; that could increase banks ' risk of maturity mismatch.

Following a buoyant market in the first quarter, both the bourses of the country were mostly depressed in the second and the review quarter. Except for an increase in turnover at DSE, decreases in all indicators and indices were observed in both the bourses during July-September 2019.

The market capitalization and P/E ratio showed a downtrend during the review quarter. Despite moderately active trading of the stocks of the Engineering, Fuel & Power, and Pharmaceuticals and Chemicals sector, market capitalizations in both bourses were depressed due mainly to low market participation of institutional investors such as banks. In the review quarter, banks' aggregate investment in the capital market was much below than the allowable limit of Bangladesh Bank[29 & 30]. Therefore, any adverse shock on stock price individually may not pose any stability threat to the financial sector in the near term. On the contrary, since market capitalization and turnover in both bourses owe much on the banking sector, stress on the banking sector may cause detrimental effect on the stock markets.

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[29]Banks' capital market exposure was 13.58% and 22.98% of regulatory capital on solo and consolidated basis respectively at end-September 2019. Those were 14.44% and 24.67% respectively at end-June 2019. (*Source: DOS, BB).*

[30] Maximum allowable limit to investment in capital market: 25% and 50% of total prescribed capital components on solo and consolidated basis respectively (DOS Circular No.-02/2013 and DOS Circular Letter No.-07/2014).

Chapter 8: Recent Stability Initiatives of Bangladesh Bank

Bangladesh Bank (BB) has taken a number of policy initiatives during the third quarter (July- September) of the calendar year 2019 conducive to resilient domestic financial system stability. Some of the key initiatives are stated below:

8.1 Monitoring of Classified Loan Accounts Amounting BDT 100 Crore and Above by Scheduled Banks

Bangladesh bank has directed all the scheduled banks to form a "Special Monitoring Cell" for close monitoring of classified loans amounting BDT 100 crore[31]. This Cell will have to submit a quarterly statement with various details of the classified loan accounts amounting BDT 100 crore and above to the central bank. Bangladesh Bank has also instructed the board of directors of the banks to review the quarterly statement. Moreover, the management of each bank will formulate a time-bound action-plan for recovery of such loans. The board of directors of the banks will give necessary directives assessing the implementation of that action-plan regularly. This initiative may help to reduce the classified loans. *[Ref.: BRPD Circular No. 06: date: 22-07-2019]*

8.2 Avoidance of High Expense for Luxurious Vehicles, Decoration and other Matters

Bangladesh Bank has issued a circular for all the banks operating in Bangladesh discouraging unnecessary high expense for luxurious vehicles, decoration of office space and other matters. Avoidance of unnecessary high expense will help banks to increase the capability of making their interest, fees and other charges more competitive. Moreover, frugal attitude in different sectors is crucial to maintain confidence of depositors and shareholders on the management of the bank companies. In this regard, some directions are provided in the circular such as limiting the book value of fixed assets to thirty percent of paid up capital, purchasing motorcar (Sedan) and Jeep (Sport Utility Vehicle) within BDT 50 lac[32] and BDT 1 crore respectively, using not more than 6000 and 3000 square feet area for city branch and rural branch respectively, using motion sensor and energy saving lights in offices, avoiding high expenses in arranging meeting, business development etc.

[Ref.: BRPD Circular letter No. 18: date: 20-08-2019]

[31] 100 crore = 1 billion.

[32] 1 lac = 0.1 million.

8.3 Maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) for Offshore Banking Operation (OBO)

As a safeguard against risk arising from offshore banking operation, BB has issued a set of instructions for the maintenance of CRR and SLR of Offshore Banking Operation (OBO) of banks. For calculation of required cash reserve and statutory liquidity reserve for OBO, banks will have to reckon customer deposit, deposit and borrowing from banks and financial institutions outside Bangladesh and other payable liabilities (excluding domestic intra-bank and interbank OBO to OBO transactions). BB has allowed both local and foreign currencies to comply with the CRR and SLR for OBO of the banks to avoid any kind of liquidity pressure on the market. Now banks may use credit balance from FC Clearing Account to meet CRR for OBO and the credit balance of Nostro Account for the SLR of OBO.

[Ref.: DOS circular letter no. 26; date: 19-08-2019]

8.4 Maintenance of Advance-Deposit Ratio (ADR)/ Investment-Deposit Ratio (IDR) for Banks.

Considering the overall situation of the banking sector i.e., capital base, liquidity position, interbank dependency, implementation of Basel-III, BB has fixed ADR at 85.0 percent (81.5 percent + additional 3.5 percent as per decision of bank's board of directors considering overall economic indices) for conventional banking and IDR at 90.0 percent (89.0 percent + additional 1.0 percent as per decision of bank's board of directors considering overall economic indices) for Islamic banking. Now banks will be able to provide more loans in different sectors that will help the country achieve the targeted GDP growth for the FY 2019-20.

[Ref.: DOS circular no. 05; date: 17-09-2019]

8.5 Temporary Liquidity Support for Investment in Capital Market by the Scheduled Banks

BB has taken a decision to provide temporary liquidity support to the scheduled banks to enhance their investment in the capital market which will contribute to develop the capital market. Banks will get such liquidity support through Repurchase Agreement (repo) mechanism. Banks are permitted to invest 95 percent of the value of the treasury bills and bonds in their own portfolios or the portfolios of their subsidiaries as loan. For this purpose fresh beneficiary owner account is needed. Banks will have to comply with the provision of their exposure limit in the capital market, i.e., 25 percent & 50 percent of eligible capital on solo and consolidated basis respectively.

[Ref.: DOS circular no. 06; date: 22-09-2019]

8.6 Agricultural & Rural Credit Policy and Program for the FY 2019-2020.

Bangladesh Bank has published the annual agricultural and rural credit policy and program for the financial year 2019-2020 to ensure proper credit flow to the agricultural sector which in turn will help to achieve the prime objectives of sustainable development goals (SDGs) i.e. alleviation of poverty, ensure safe and nutritious food, maintain good health for the people of the country. BB has widened the target and scope of agricultural and rural credit in this document. Besides, BB has emphasized to increase agricultural and rural credit disbursement of commercial banks through their own network and agent banking channel instead of depending on the micro-finance institutions.

[Ref.: ACD Circular No. 02: date: 23-07-2019]

8.7 Agricultural Loan Facility for the Flood Affected Farmers

BB has issued a circular for all the scheduled banks regarding agricultural loan facilities to the flood-affected farmers whose crops were damaged by recent flood in different districts including northern part and haor areas of the country. In this regard, BB has instructed the scheduled banks to provide new loans based on actual demand and realities for continuing the agro production activities in the flood affected areas. Furthermore, banks are instructed to postpone the repayment from the affected farmers until the situation improves; regularize default loan by allowing easy installment facility or reschedule loans by relaxing down payment condition; monitor the flood-affected farmers intensively to make sure the availability of new loan without any inconvenience. Besides, banks are also instructed to provide loans to the affected farmers for poultry and livestock farming, cattle-feed production and purchase and other income generating activities.

[Ref.: ACD Circular No. 03: date: 24-07-2019]

8.8 Changes in the Foreign Exchange Regulations/Transactions

BB has made a number of changes in its foreign exchange regulations/ transactions. Some key changes are stated below:

i) Limit of Export Development Fund (EDF) to Leather Goods and Footwear Industrial Sectors: Considering the nature of import, BB has decided that ADs can borrow funds from EDF against their loans to manufacturer-exporters of leather goods and footwear industrial sectors for input procurement up to maximum single borrower limit of USD 20 million instead of earlier USD 15 million, subject to compliance of other instructions regarding operations of EDF.

[Ref.: FE circular no. 28; date: 11-07-2019]

ii) ***Transactions from Private Foreign Currency Account for Trade Settlement:***

Noticing the confusion in the market regarding trade payment from Private Foreign Currency (PFC) Accounts in the name of eligible persons/firms, BB has issued a circular providing clarification to eliminate confusion over the use of balance of PFC accounts. Funds from PFC accounts may be used for payment of admissible imports in terms of Import Policy Order in force. Payment for legitimate services is also admissible, subject to compliance of regulations on taxes deduction. Balances held in this accounts may also be usable for payment in advance against import of legitimate goods and services. In this regard, ADs shall comply due with diligence and KYC/AML/CFT standards.

[Ref.: FE circular letter no. 18; date: 17-07-2019]

iii) Revised policy on *Foreign Exchange for Private Travel Abroad:*

Considering the travel expenses across the world, BB has increased private travel quota to USD 12,000 or equivalent per adult passenger during a calendar year from USD 5, 000 and USD 7,000 for travel to SAARC countries and Myanmar, and for travel to other countries respectively. For minors (below 12 years in age) the applicable quota, as before, will be half the amount admissible for adult. As usual, release of foreign exchange in the form of USD notes shall not exceed USD 5,000 per person within the entitlement. The time of effectiveness of the limit is January 2020. Other instructions regarding release of foreign exchange for travel will remain unchanged.*[Ref.: FE circular no. 30; date: 25-07-2019]*

iv) **Guidelines Regarding *Cash Incentive on Wage Earners Remittance:***

Remittance, an important source of foreign exchange reserve in Bangladesh, has substantial impact on the economic development. Considering its importance, the Government has taken decision to provide 2 percent cash incentives on money remitted by expatriate Bangladeshis, in an effort to encourage increased foreign remittance inflow into the country through legal channels. In line with this decision, BB has issued a guideline on providing 2 percent cash incentive for money to be remitted through banking channel into the country. Foreign remittance, worth of USD 1,500 or equivalent currency in each transaction will not require any documents to receive such cash incentive while for amount exceeding USD 1,500 or equivalent currency will need supporting documents. *[Ref.: FE circular no. 31; date: 06-08-2019]*

v) **Outward Remittances on Account of IT Expenses through Digital Wallet**

To bring wider scope for cross border transactions by alternative channel, BB has decided that Authorized Dealers (ADs) may release IT expenses within permissible limit on behalf of individual developers/ freelancers through their notional accounts (digital wallet) maintained with Online Payment Gateway Service Providers (OPGSPs) along with virtual (debit/credit/ore-paid) cards. BB also has enhanced the ceiling of outward remittances to USD 500 from the earlier USD 300 in a calendar year to facilitate freelancers/ developers for meeting bonafide needs.

[Ref.: FE circular no. 33; date: 09-09-2019]

vi) ***Repatriation of Export Proceeds through Online Payment Gateway Service Providers:***

ADs are allowed to repatriate remittances against small value service exports in non-physical form up to USD 10,000 instead of USD 5,000 per transaction through Online Payment Gateway Service Providers(OPGSPs).Other instructions in this regard will remain unchanged.

[Ref.: FE circular no. 34; date: 11-09-2019]

vii) Export Subsidy/Cash Incentive for the Financial Year 2019-2020

Export subsidy/Cash incentive plays an important role in export development. It helps exporters to become competitive in export markets. In this regard, Govt. has taken decision to provide cash incentives on selected export items. In line with this decision, BB has issued a set of instructions along with the rate of cash incentives (1 percent to 20 percent based on the types of export items) against export of products under 36 (thirty six) categories, including 1 percent additional special incentive for readymade garment products, for the fiscal year 2019-2020.

[Ref.: FE circular no. 35; date: 22-09-2019]

8.9 Assistance under Corporate Social Responsibility (CSR) Program

Recently Bangladesh was badly affected by flood and dengue fever. To overcome the situation, Bangladesh Bank has instructed banks and financial institutions to provide necessary assistance (financial & non-financial) to the flood and dengue affected people under their corporate social responsibility (CSR) program.

[Ref.: SFD Circular Letter No. 01; Date: 24-07-2019; SFD Circular Letter No.2; date: 31-07-2019]

8.10 Regarding Transfer of Jute Sector Outstanding Loans to Block Account

BB has issued a circular regarding transfer of jute sector outstanding loans to block account in accordance with the directive issued by Financial Institutions Division of Ministry of Finance. BB has advised NBFIs to ensure the implementation of this government directive. NBFIs are instructed to transfer outstanding loans of jute industry to a 'Block Account' with the facilities of two years moratorium and 10 years repayment based on the merit of the case and also on bank-client relationship. They are also instructed to charge interest rate equal to their cost of fund. However, NBFIs will be entitled to cancel these facilities if the clients fail to pay installments for four consecutive periods after two years of moratorium. Furthermore, loans taken under the refinance scheme of BB will not be eligible for these facilities.

[Ref.: DFIM Circular Letter No. 11: date: 25-07-2019]

8.11 Re-fixing the maximum limit of borrowing from the Call Money Market for Financial Institutions

Bangladesh Bank has enhanced the maximum limit of borrowing for non-bank financial institutions from the call money market to ease their liquidity situation. Financial institutions are now allowed to borrow up to 40 percent of their equities instead of 30 percent from the call money market. The equity will be ascertained on the basis of the balance sheet on the last working day of each calendar year of the NBFI concerned.

[Ref.: DFIM Circular letter No. 12: date: 05-08-2019]

8.12 Transaction Limit for E-wallet Operated by Payment Service Provider (excluding MFS)

BB has set the limit of e-wallet transactions operated by payment service providers except Mobile Financial Service (MFS). For personal e-wallet account, maximum deposit balance will be BDT 4,00,000. Ceiling of deposit is fixed at BDT 1,00,000 per day and BDT 4, 00,000 per month. Ceiling of transfer of money from e-wallet account is fixed at BDT 1, 00,000 per day and BDT 4, 00,000 per month to bank account or person to person account. But this limit will not be applicable for other transactions such as business to business, person to business and business to person under personal account and non-personal account.

[Ref.: PSD circular no. 04; date: 23-07-2019]

8.13 Master circular on cottage, micro, Small and Medium Enterprise (CMSME) Financing

In order to facilitate the financing in cottage, micro, small and medium enterprise (CMSME) sector, BB has issued a master circular for all the scheduled banks and financial institutions. The CMSME has been redefined in the circular according to the definition of National Industrial Policy 2016. The sector-wise highest credit limit in favour of CMSME along with general instructions of CMSME financing have been set. Different goals and targets have been set up to 2024 to promote the CMSME sectors. Moreover, the banks and financial institutions are also instructed to form a Women Entrepreneurs' Development Unit in head office as well as regional office to monitor the activities of Women Entrepreneurs’ Dedicated Desk at each branch of Bank and NBFIs. Instructions regarding refinancing scheme are also included in the circular.

[Ref.: SMESPD circular no. 02; date: 05-09-2019]

Appendix ICPI Inflation (12 month Average)

(Percent)

Month	Inflation (General)	Inflation (Food)	Inflation (Non-Food)
Jun-18	5.8	7.1	3.7
Sep-18	5.7	6.7	4.2
Dec-18	5.5	6.2	4.5
Mar-19	5.5	5.8	5.0
Jun-19	5.5	5.5	5.4
Sep-19	5.5	5.4	6.7

Base: 2005-06=100

Appendix II Foreign Exchange Reserve

(Amount in million USD)

Month-end	International Reserve
Mar-18	32,403.0
Jun-18	32,916.0
Sep-18	31,960.0
Dec-18	32,020.0
Mar-19	31,750.0
Jun-19	32,550.0
Sep-19	31,830.0

Appendix III Wage Earners' Remittance

(Amount in million USD)

Quarter	Amount
Sep-17	3,387.9
Dec-17	3,920.7
Mar-18	3,828.6
Jun-18	4,220.7
Sep-18	3,868.9
Dec-18	3,626.5
Mar-19	4,373.6
Jun-19	4,550.7
Sep-19	4,514.6

Appendix IV Exports and Imports

(Amount in million USD)

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
Sep-17	8,549.0	12,199.0
Dec-17	9,137.0	14,115.0
Mar-18	9,412.0	13,986.0
Jun-18	9,107.0	14,163.0
Sep-18	9,747.0	13,599.0
Dec-18	10,416.0	14,224.0
Mar-19	10,276.0	14,544.0
Jun-19	9,506.0	13,072.0
Sep-19	9,535.0	13,252.0

Appendix V Interest Rate (Weighted Average) Spread

(In percent)

Period	Lending Rate	Deposit Rate	Spread
Dec-17	9.4	4.9	4.5
Mar-18	9.7	5.3	4.4
Jun-18	9.9	5.5	4.4
Sep-18	9.5	5.3	4.2
Dec-18	9.5	5.3	4.2
Mar-19	9.5	5.4	4.1
Jun-19	9.6	5.4	4.2
Sep-19	9.6	5.7	3.9

Appendix VI Weighted Average Exchange Rate

(BDT/USD)

Quarter	Period Average	End Period
Dec-17	82.55	82.70
Mar-18	82.96	82.96
Jun-18	83.72	83.70
Sep-18	83.75	83.75
Dec-18	83.90	83.90
Mar-19	84.21	84.25
Jun-19	84.50	84.50
Sep-19	84.50	84.50

Appendix VII Credit to the Government (Gross) by the Banking System

(Amount in billion BDT)

Period	Amount
Sep-17	1,666.0
Dec-17	1,620.0
Mar-18	1,538.1
Jun-18	1,780.9
Sep-18	1,778.4
Dec-18	1,838.2
Mar-19	1,810.1
Jun-19	2,049.9
Sep-19	2,292.0

Appendix VIII Asset Structure of the Banking Industry

(Amount in billion BDT)

Property and Assets	31-12-2018	31-03-2019	31-06-2019	31-09-2019
Cash in hand	139.7	153.0	166.0	163.4
Balance with Bangladesh Bank and its Agent Bank	853.9	766.3	903.8	833.8
Balance with other banks and financial Institutions	914.1	892.1	890.6	827.5
Investment	1,957.6	2,036.2	2,169.3	2,380.6
Loans and Advances	9,685	9,962.9	10,234.8	10,449.9
Fixed Assets	229.0	233.0	234.5	236.8
Other Assets	783.7	770.2	867.5	847.8
Non-banking assets	3.9	4.2	4.3	4.6
Total Assets	**14,566.9**	**14,817.9**	**15,470.8**	**15,744.4**

Note: R-revised.

Appendix IX Banking Sector Assets & NPL Concentration (Jun-2019)

(Amount in billion BDT)

ASSETS	***TOP 5 BANKS***	***OTHER BANKS***	***TOP 10 BANKS***	***OTHER BANKS***
Amount	4,676.2	11,068.2	6,850.7	8,893.7
Share (%)	29.7	70.3	43.5	56.5
NPL	**Top 5 banks**	**Other banks**	**Top 10 banks**	**Other banks**
Amount	552.8	609.8	750.0	412.5
Share (%)	47.5	52.5	64.5	35.5

Appendix X 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)/ Req. Cap. (%)
Sep-17	803.1	10.7	2.9	22.4
Dec-17	743.0	9.3	2.2	17.2
Mar-18	885.9	10.8	3.3	27.6
Jun-18	893.4	10.4	2.7	22.7
Sep-18	886.0	11.5	3.3	26.0
Dec-18	939.1	10.3	2.2	17..8
Mar-19	1,108.7	11.9	3.0	22.6
Jun-19	1,124.3	11.7	2.5	18.6
Sep-19	1,162.9	12.0	3.7	27.3

Appendix XI Distribution of Banks by NPL Ratio

Range	Number of Banks as at end				
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Up to 2.0%	8	11	8	8	5
2.0% to <3.0%	1	2	2	5	3
3.0% to <5.0%	7	14	8	6	10
5.0% to <10.0%	29	18	26	24	22
10.0% to <15.0%	0	0	1	1	4
15.0% to <20.0%	1	3	3	3	3
20.0% & above	11	9	9	10	10
Total	**57**	**57**	**57**	**57**	**57**

Appendix XII Banking Sector Loan Loss Provisions

(Amount in billion BDT)

PERIOD	*REQUIRED PROVISION*	*PROVISION MAINTAINED*	*PROVISION MAINTENANCE RATIO (%)*
Sep-17	463.1	399.7	86.3
Dec-17	443.0	375.3	84.7
Mar-18	492.4	412.8	83.8
Jun-18	528.8	448.9	84.9
Sep-18	564.9	483.6	85.6
Dec-18	570.4	504.3	88.4
Mar-19	670.7	582.1	86.8
Jun-19	712.4	620.2	87.1
Sep-19	624.6	543.3	87.0

Appendix XIII 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-17	10.7	12.0	6.0	82.0
Dec-17	9.3	7.5	5.5	87.0
Mar-18	10.8	10.2	6.7	83.1
Jun-18	10.4	8.1	8.0	83.9
Sep-18	11.5	9.8	7.0	83.2
Dec-18	10.3	9.4	4.7	85.9
Mar-19	11.9	9.6	4.4	86.0
Jun-19	11.7	9.3	3.6	87.1
Sep-19	12.0	9.7	3.8	86.5

Appendix XIV Classified Loan Composition (End-September 2019)

(Amount in billion BDT)

PARTICULARS	AMOUNT	PERCENT OF TOTAL
Sub-Standard	112.9	9.7
Doubtful	45.2	3.8
Bad & Loss	1004.8	86.5
Total	1,162.9	100.0

Appendix XV Banking Sector ROA Range

Quarter	ROA Range			
	Up to 2.0%	> 2.0% to ≤ 3.0%	> 3.0% to ≤ 4.0%	> 4.0%
Sep-17	52	4	0	1
Dec-17	52	4	0	1
Mar-18	51	3	1	2
Jun-18	50	4	1	2
Sep-18	52	2	2	1
Dec-18	51	4	0	2
Mar-19	52	3	0	2
Jun-19	52	2	2	1
Sep-19	53	1	1	2

Notes: ROAs have been annualized from respective quarterly ratios.

Appendix XVI Banking Sector ROE Range

Quarter	ROE Range			
	Up to 5.0%	> 5.0% to ≤ 10.0%	> 10.0% to ≤ 15.0%	> 15.0%
Sep-17	14	21	9	13
Dec-17	16	8	21	12
Mar-18	22	17	14	4
Jun-18	21	17	12	7
Sep-18	21	17	12	7
Dec-18	14	13	23	7
Mar-19	24	15	15	3
Jun-19	22	10	17	8
Sep-19	24	8	20	5

Notes: ROEs have been annualized from respective quarterly ratios.

Appendix XVII Banking Sector ROA and ROE

Ratio	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
ROA	0.3	0.4	0.3	0.3	-0.5	0.2	-0.1
ROE	5.0	5.3	4.3	4.4	-8.1	3.6	-1.9

Notes: The figures are annualized from respective quarterly ratios; e.g.
(a) annualized ROA of 1st quarter of 2019 = (Profit in 1st quarter of 2019 x 4/Total asset at the end of 1st quarter of 2019) x 100.
(b) annualized ROA of 2nd quarter of 2019 = ((Profit in 1st quarter of 2019+Profit in 2nd quarter of 2019) x 2/Average of assets at the end of 1st and 2nd quarters of 2019) x 100.
(c) ROA of 2019 =Profits in 2019/Assets at end-December 2019) x100.
(d) Similar method applied for annualizing quarterly ROE.

Appendix XVIII FIs' Borrowing, Deposit and Capital

(Amount in billion BDT)

Particulars	Mar-2019	Jun-2019	Sep-2019
Borrowings	190.6	198.8	190.9
Deposits	483.3	457.0	457.5
Capital	91.6	112.2	115.3
Other Liabilities	107.5	99.8	102.1
Total	**873.0**	**867.8**	**865.8**

Appendix XIX FIs' Asset Composition

(Amount in billion BDT)

Particulars	Mar-2019	Jun-2019	Sep-2019
Cash & Balance with Banks/FIs	108.4	114.7	113.4
Investments	30.4	20.5	38.1
Loans & Leases	671.3	668.4	647.1
Other Assets	50.4	51.7	54.5
Fixed Assets	12.4	12.5	12.7
Total	**873.0**	**867.8**	**865.8**

Appendix XX FIs' Classified Loans and Leases

(Amount in billion BDT)

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
Mar-17	45.0	8.1
Jun-17	52.0	8.9
Sep-17	55.9	9.4
Dec-17	45.2	7.3
Mar-18	55.6	8.8
Jun-18	59.2	9.2
Sep-18	74.9	11.2
Dec-18	54.6	7.9
Mar-18	72.2	10.3
Jun-19	73.2	11.0
Sep-19	68.4	10.4

Appendix XXI FIs' ROA & ROE

(In percent)

Quarter	Aggregate ROA	Aggregate ROE
Sep-17	0.5	3.6
Dec-17	2.0	15.2
Mar-18	0.4	2.9
Jun-18	0.4	3.1
Sep-18	0.6	4.4
Dec-18	0.6	4.6
Mar-19	-0.05	-0.5
Jun-19	0.2	1.8
Sep-19	0.48	3.9

Note: The displayed ratios are annualized figures from respective quarterly ratios.

Appendix XXII Banking Sector CRAR Distribution

CAR	*NUMBER OF BANKS (AT END PERIOD)*						
	Mar-18	**Jun-18**	**Sep-18**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**
< 10%	10	9	9	9	9	10	10
10% to ≤15%	31	31	32	27	31	30	30
15% +	16	17	16	21	17	17	17

Appendix XXIII Banking Sector Asset Share based on CRAR as at end-September 2019

CRAR	**Number of banks & their asset size**		**Asset share (%)**
	Number of banks	**Asset size (in billion BDT)**	
<10%	10	4,521.9	28.7
10% to ≤15%	30	9,043.5	57.4
15% +	17	2,179.0	13.8
Total	**57**	**15,744.4**	**100.0**

Appendix XXIV Tier-1 Capital Ratio and Overall CRAR of the Banking Industry

Particulars	**Dec-17**	**Mar-18**	**Jun-18**	**Sep-18**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**
Core Capital to RWA (%)	7.0	7.7	7.6	7.0	6.8	7.7	8.1	7.9
Number of core capital compliant banks	50	4 7	46	47	47	49	46	46
Overall CRAR (%)	10.8	10.1	10.0	10.9	10.5	11.4	11.7	11.6
Number of CRAR compliant banks	48	47	48	48	48	48	46	47
No. of banks in the industry	57	57	57	57	57	57	57	57

Appendix XXV Distribution of Risk Weighted Assets of the Banking Industry

(Amount in billion BDT)

Particulars	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
RWA for Credit Risk	8240.2	8589.1	8769.3	8880.6 [R]	8998.9
RWA for Market Risk	301.4	314.9	309.3	302.0 [R]	296.9
RWA for Operational Risk	810.2	859.9	886.8	896.5 [R]	908.6
Total RWA	**9,351.8**	**9,763.9**	**9,965.3**	**10,079.1** [R]	**10,204.4**

Note: R-revised

Appendix XXVI Banking Sector Regulatory Capital Position (Solo Basis)

(Amount in billion BDT)

Period	Minimum Capital Requirement	Total Regulatory Capital
Sep-17	873.6	901.0
Dec-17	901.5	945.6
Mar-18	927.3	911.1
Jun-18	951.3	925.8
Sep-18	959.9	1018.4
Dec-18	1000.1	1025.6
Mar-19	1019.0	1136.6
Jun-19	1030.7	1183.7
Sep-19	1046.7	1189.2

Appendix XXVII Banking Sector Advance-to-Deposit Ratio (ADR)

Period	ADR (%)
Dec-16	71.9
Mar-17	73.4
Jun-17	73.9
Sep-17	74.8
Dec-17	75.9
Mar-18	77.0
Jun-18	76.7
Sep-18	76.4
Dec-18	77.6
Mar-19	78.3
Jun-19	77.5
Sep-19	76.6

Appendix XXVIII Bank Cluster-wise ADR at end-September 2019

Bank wise	ADR (%)
SCBs	60.4
PCBs	83.4
FCBs	61.0
DFIs	77.2
Industry	76.6

Appendix XXIX FIs' CRR & SLR

(Amount in million BDT)

Quarter End	Aggregate CRR			Aggregate SLR		
	Required	Maintained	Surplus/ Shortfall	Required	Maintained	Surplus/ Shortfall
Sep 2017	6,485.2	6,658.6	173.4	17,645.4	83,334.0	65,688.6
Dec 2017	6,512.1	6,968.4	456.3	17,981.9	81,455.7	63,473.8
Mar 2018	6,751.9	7,358.6	606.7	18,180.7	96,227.1	78,046.4
Jun 2018	7,015.2	7,508.0	492.8	19,246.2	101.073.8	81,827.6
Sep 2018	7,279.0	7,324.2	45.2	19,904.2	97,088.2	77,184.0
Dec 2018	7,422.5	7,131.8	(290.7)	20,508.7	94,986.1	74,477.4
Mar 2019	7,484.7	7,323.8	(160.9)	21,364.2	91,740.4	70,376.2
Jun 2019*	7,465.4	7,634.6	169.3	20,997.8	83,144.0	62,146.2
Sep 2019*	7,583.3	7,608.0	24.7	21,775.7	86,058.3	64,282.6

* 33 FIs were considered (*Peoples leasing and Financial Services Ltd. excluded)*

Appendix XXX Capital Adequacy Ratio of FI Sector

Particulars	End Jun-18	End Sep-18	End Dec-18	End Mar-19	End Jun-19	End Sep-19
Eligible Capital to RWA (%)	12.8	12.4	13.9	13.6	16.8	17.3

Appendix XXXI Overall Risk-weighted Assets and Tier 1 Capital of FI Sector

(Amount in billion BDT)

Particulars	End Jun-18	End Sep-18	End Dec-18	End Mar-19	End Jun-19*	End Sep-19*
Risk Weighted Assets (RWA)						
Credit RWA	665.5	670.4	659.3	648.1	631.6	635.3
Market RWA	51.9	53.2	51.8	49.1	48.2	51.6
Operational RWA	45	47.3	48.3	51.2	50.1	49.6
Total RWA	**762.5**	**770.9**	**759.3**	**748.4**	**729.9**	**736.5**
Core Capital (Tier -1)	85.8	84.1	92.5	88.6	109.5	113.5
Supplementary Capital	11.6	11.4	13.2	13.6	13.2	13.7
Eligible Capital	97.4	95.5	105.7	102.2	122.7	127.2

* 33 FIs were considered (*Peoples leasing and Financial Services Ltd. excluded)*

Appendix XXXII Banking Sector's After Shock CRAR at Different Shock Scenarios

(Based on data as of end-September 2019)

Shocks	CRAR after Shock (%)		
	Minor Level	Moderate Level	Major Level
Increase in NPL in the highest outstanding sector	11.51	11.21	10.92
Increase in NPLs due to default of Top borrowers	9.99	8.48	7.56
Negative shift in NPL categories	10.92	7.47	6.00
Decrease in the FSV of collateral	11.00	10.34	8.99
Increase in NPLs	10.43	7.55	3.40
Interest rate shock	11.29	10.93	10.56
Exchange rate shock	11.62	11.59	11.56
Equity shock	11.37	11.09	10.52
Combined shock	8.37	0.70	-7.22

Appendix XXXIII Number of Non-complaint Banks at Different Shock Scenarios

(Based on data as of end-September 2019)

Shocks	No. of Banks		
	Minor Level	Moderate Level	Major Level
Increase in NPL in highest outstanding sector	2	4	5
Increase in NPLs due to default of Top borrowers	21	35	37
Negative shift in NPL categories	2	10	15
Decrease in the FSV of collateral	2	3	6
Increase in NPLs	3	29	34
Interest rate shock	1	2	4
Exchange rate shock	0	0	0
Equity shock	1	2	3
Combined shock	12	38	39

Appendix XXXIVDSE Performance

Month	*(In billion BDT)*		Index		
	Turnover	Market Capitalization	DSEX	DS30	DSES
Jun-18	96.36	3,847.35	5,405.46	1,959.95	1,263.79
Jul-18	186.77	3,841.45	5,302.64	1,881.46	1,251.18
Aug-18	114.95	3,962.26	5,600.64	1,960.72	1,269.61
Sep-18	148.10	3,876.84	5,368.96	1,889.71	1,239.07
Oct-18	127.37	3,841.98	5,284.13	1,878.04	1,222.49
Nov-18	116.74	3,817.82	5,281.25	1,861.56	1,223.47
Dec-18	87.06	3,872.95	5,385.64	1,880.78	1,232.82
Jan-19	223.48	4,163.60	5,821.01	2,007.96	1,310.60
Feb-19	137.79	4,150.74	5,711.83	1,998.65	1,314.64
Mar-19	93.92	4,119.65	5,491.91	1,967.21	1,275.45
Apr-19	93.92	3,839.85	5,202.85	1,846.67	1,205.15
May-19	77.16	3,941.64	5,377.75	1,876.60	1,214.26
Jun-19	76.50	3,998.16	5,421.62	1,929.09	1,244.69
Jul-19	89.47	3,834.78	5,138.79	1,827.91	1,181.20
Aug-19	73.98	3,808.46	5,095.78	1,800.06	1,183.44
Sep-19	148.10	3,738.54	4,947.64	1,759.97	1,138.70

Appendix XXXVCSE Performance

Month	*(In billion BDT)*		Index		
	Turnover	Market Capitalization	CASPI	CSE30	CSI
Jun-18	6.78	3,123.52	16,558.51	15,092.77	1,120.37
Jul-18	12.56	3,139.76	16,296.11	14,284.23	1,114.27
Aug-18	6.11	3,267.22	17,244.19	15,059.11	1,136.06
Sep-18	10.67	3,168.92	16,483.29	14,720.68	1,099.18
Oct-18	5.90	3,190.65	16,191.65	14,499.72	1,077.34
Nov-18	5.28	3,099.68	16,182.32	9,810.66	1,072.84
Dec-18	7.67	3,146.83	16,449.51	14,500.66	1,076.78
Jan-19	10.22	3,450.03	17,890.92	15,405.79	1,162.04
Feb-19	15.21	3,424.32	17,473.49	15,346.03	1,157.71
Mar-19	3.48	3,399.04	16,803.16	14,724.32	1,120.20
Apr-19	4.63	3,118.26	15,912.87	14,146.92	1,048.61
May-19	4.55	3,227.77	16,375.76	14,272.06	1,060.01
Jun-19	8.92	3,293.30	16,634.21	14,589.68	1,088.92
Jul-19	4.79	3,131.68	15,725.46	13,875.83	1,026.42
Aug-19	4.80	3,094.94	15,580.60	13,730.71	1,023.33
Sep-19	5.47	3,019.73	15,046.73	13,081.32	981.22

Appendix XXXVI Sectoral Turnover of DSE

BROAD SECTOR	SECTOR	% OF TOTAL TURNOVER	
		2019Q2	2019Q3
Financial Sector	Banks	14.26	6.13
	Financial Institutions	3.77	3.96
	Insurance	10.45	8.84
Manufacturing	Food & Allied Product	5.00	3.25
	Pharmaceuticals & Chemicals	10.32	12.80
	Textile	11.19	12.79
	Engineering	12.83	15.45
	Ceramic	3.56	2.16
	Tannery	4.06	2.77
	Paper & Printing	0.38	0.69
	Jute	0.33	0.27
	Cement	1.24	1.61
Service & Miscellaneous	Mutual Funds	0.55	3.44
	Fuel & Power	9.84	12.81
	Services & Real estate	0.84	1.11
	IT Sector	2.52	2.68
	Telecommunication	3.39	2.14
	Travel and Leisure	0.44	1.63
	Miscellaneous	5.01	5.46
Bond	Corporate Bond	0.01	0.00
Total		**100.00**	**100.00**

Note: 2019Q2≡ June quarter 2019, 2019Q3≡ September quarter 2019.

Appendix XXXVII Sectoral Turnover of CSE

BROAD SECTOR	***SECTOR***	***% OF TOTAL TURNOVER***	
		2019Q2	**2019Q3**
Financial Sector	Banks	25.85	11.70
	Leasing &Finance	3.11	1.95
	Life Insurance	1.69	1.36
	General Insurance	4.36	3.96
Manufacturing	Food & Allied Product	1.07	0.67
	Pharmaceuticals & Chemicals	13.64	10.72
	Textile	8.61	7.52
	Engineering	8.86	14.51
	Ceramic	0.65	2.62
	Tannery	1.39	1.50
	Paper & Printing	0.82	2.03
	Cement	0.75	0.72
Service & Miscellaneous	Fuel & Power	8.29	11.06
	Services	1.31	3.05
	IT	1.50	1.98
	Telecommunication	7.29	3.78
	Mutual Funds	0.19	2.00
	Miscellaneous	8.22	18.87
Bond	Corporate Bond	2.40	0.01
Total		**100.00**	**100.00**

Note: 2019Q3≡ September quarter 2019, 2019Q2≡ June quarter 2019.

Appendix XXXVIII Price/Earnings Ratio of Capital Market

Quarter	DSE P/E Ratio	CSE P/E Ratio
Sep-17	16.3	17.2
Dec-17	17.3	17.0
Mar-18	15.7	18.5
Jun-18	15.0	14.9
Sep-18	15.2	15.0
Dec-18	15.2	15.9
Mar-19	16.1	17.2
Jun-19	14.3	15.6
Sep-19	13.4	13.6

Appendix XXXIXDSE Broad Index (DSEX) Volatility and DSE Turnover

Month	Daily Average Index Volatility[33]	Daily Average DSE Turnover (In crore BDT)
Jan-18	73.12	437.92
Feb-18	104.96	404.19
Mar-18	125.61	335.75
Apr-18	36.92	547.37
May-18	117.22	460.36
Jun-18	55.87	566.81
Jul-18	31.09	848.95
Aug-18	102.72	638.62
Sep-18	77.41	740.51
Oct-18	76.62	553.78
Nov-18	25.71	583.69
Dec-18	46.22	483.65
Jan-19	134.96	971.64
Feb-19	34.47	765.51
Mar-19	79.52	494.30
Apr-19	100.79	349.08
May-19	53.13	367.44
Jun-19	33.37	478.13
Jul-19	117.31	406.68
Aug-19	38.06	462.36
Sep-19	51.18	404.54

[33] Measured by average of daily standard deviation of DSEX during each month.