Quarterly

# Financial Stability Assessment Report


Issue: 2014 (I)
October-December 2014

Bangladesh Bank
Financial Stability Department

# Quarterly

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## October-December 2014

Financial Stability Department
Bangladesh Bank

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*This report is based on unaudited and provisional data of banks and non-bank financial institutions available up to December 31, 2014 unless stated otherwise in the relevant chapters/sections. The editors owe to Mr. Glenn Stephen Tasky, Macroprudential Supervision Advisor to Bangladesh Bank and Mr. Biru Paksha Paul, Ph.D, Chief Economist of Bangladesh Bank for their valuable comments/feedback on the draft report.*

# MESSAGE OF THE GOVERNOR

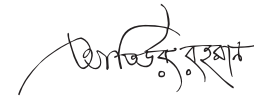
After the global financial crisis, which began in mid-2007, financial stability analysis has begun to gain increasing importance among financial sector regulators and other supervisors. Such analyses matter not only to maintain stability of domestic financial systems, but also to the broader area of stability of the global financial system.

In order to ensure stability of the Bangladesh financial system, Bangladesh Bank (BB) devotes its resources to assess risks and vulnerabilities to the financial system, implement a macroprudential framework and a broad-based contingency planning framework. At the same time, BB undertakes different initiatives in the area of financial inclusion. Indeed, financial inclusion has a strong underpinning in the financial system of Bangladesh, to the extent that Bangladesh has demonstrated itself to be a role model of financial inclusion. We firmly believe that financial stability and financial inclusion are not substitutes, but rather complements; policy actions to increase financial inclusion, especially in a frontier economy like Bangladesh, have the side benefit of contributing to financial stability as well.

The Bangladesh financial system demonstrated moderate resilience during the December quarter of 2014, attributable to a number of developments, for instance, steady economic growth, tolerable inflation, macroeconomic stability, robust export growth, and a record buildup of foreign exchange reserve. It is noteworthy that effective implementation of microprudential regulation/supervision, coupled with broad-based financial inclusion, contributed notably to the stability of the financial system. Importantly, supervision of individual institutions is increasingly being focused on emerging risks, so that systemic risk can be sooner identified and better managed.

The Financial Stability Report (FSR), publication of which commenced in 2011, is an effort through which BB has been trying to assess the long-term resilience of the Bangladesh financial system. So far four issues of the FSR have been published. Very recently, BB has taken the initiative to prepare/publish a Quarterly Financial Stability Assessment Report (QFSAR) with the aim of assessing the overall financial conditions during a quarter, an assessment that can be used as a forward-looking safeguarding tool for future financial sector development. The QFSAR gives an independent perspective and commentary on the state of financial stability during a quarter and contains suggestions/guidance notes that will help stakeholders in making contingency arrangements. The report focuses on key macroeconomic indicators, banking and NBFIs sectors' performances, risks to and resilience of the sectors and capital market development, in order to address the severity of factors that may adversely affect the stability situation, so that necessary measures can be taken well ahead to stabilize the financial environment.

I believe stakeholders of the financial system will get important insights from the report that may improve their preparedness towards withstanding shocks to the financial system. I hope this issue will also promote lively, informed public discussion on these critical aspects of financial sector development.



Atiur Rahman, PhD
Governor

# MESSAGE OF THE DEPUTY GOVERNOR

Bringing all financial institutions under a well-supervised, coordinated regulatory framework lowers risks and promotes financial stability. In a stable financial system, all the market players and their regulators work simultaneously to guard against financial vulnerabilities and fragilities and thus contribute to upholding the growth of the economy. Bangladesh Bank (BB), as a supervisory institution, has already demonstrated its ability to cope with the global financial crisis and domestic uncertainties to preserve financial stability. In this regard, BB has been applying microprudential tools to oversee the performance of individual banks and simultaneously preparing a macroprudential framework to address systemic risks.

The Financial Stability Department (FSD), since its creation, has been working relentlessly to ensure that every stability aspect is recognized, analysed, and monitored. To this end, FSD has taken steps to implement a Financial Projection Model and an Interbank Transaction Matrix. The department also conducts periodic stress tests on the banks. Besides, FSD is exploring the arena of macroprudential regulation, such as a countercyclical capital buffer, a broad-based "Contingency Planning and Bank Intervention/Resolution Framework" and a "Lender of Last Resort Framework" for banks. Moreover, recognizing the volatility of real estate markets and their contribution to financial sector instability in other countries, FSD is also developing an index of conditions in the real estate sector that can be used to detect possible overheating.

One of the continuing endeavours of the FSD is the publication of the "Financial Stability Report" on a yearly basis, with the aim to convey to the stakeholders of the financial system our assessment of

risks and vulnerabilities to the financial system of Bangladesh, so that they can plan to withstand and adapt to plausible shocks. However, as a yearly stability analysis may not always be able to capture within-the-year developments/dynamics in the financial systems, we feel it necessary to assess the stability of the financial system at more frequent intervals. Preparation of this "Quarterly Financial Stability Assessment Report (QFSAR)" is such an endeavor of BB in line with its broader goal of maintaining financial stability.

This first issue of the QFSAR contains major trends and developments in the banking and non-bank financial institutions (NBFI) sectors, developments of the capital market, risks and fragilities to the financial system, and resilience of the banks and the NBFIs to adverse but plausible events. Undoubtedly, there will be new risks and imbalances arising in the financial sector that are not currently foreseen, and we will be alert and resourceful in devoting the necessary resources to dealing with these challenges. It is expected that the editors and all others concerned will give due emphasis to these emerging risks in future.

I commend the effort and dedication of the FSD officials who work hard to bring the report to light. I hope all the stakeholders of the financial system will derive important insights from the report and will contribute to maintaining the stability of the financial system in the forthcoming quarters.

Shitangshu Kumar Sur Chowdhury
Deputy Governor

# Contents


| | | Page |
|---|---|---|
| | Acronyms | xvi |
| | Executive Summary | xix |
| **Chapter-1** | **Macro Economic Development** | 1 |
| 1.1 | Inflation | 1 |
| 1.2 | Foreign Exchange Reserve and its import coverage | 1 |
| 1.3 | Wage Earners' Remittance | 2 |
| 1.4 | Industrial Production | 2 |
| 1.5 | Imports and Exports | 3 |
| 1.6 | Interest Rate Spread | 3 |
| 1.7 | Exchange Rate | 3 |
| 1.8 | Credit to the Government (Gross) by the Banking System | 4 |
| **Chapter-2** | **Banking Sector Performance** | 5 |
| 2.1 | Assets structure of the banking sector | 5 |
| 2.2 | Asset quality | 6 |
| 2.3 | Profitability | 9 |
| **Chapter-3** | **Non Bank Financial Institutions' Performance** | 11 |
| 3.1 | Sources of funds of the NBFIs | 11 |
| 3.2 | Assets Composition/ Structure | 11 |
| 3.3 | Asset Quality | 12 |
| 3.4 | Profitability | 12 |
| **Chapter-4** | **Banking Sector liquidity and capital adequacy** | 15 |
| 4.1 | Capital Adequacy | 15 |
| 4.2 | Banking sector liquidity | 17 |
| **Chapter-5** | **Non-bank Financial Institutions' liquidity and capital adequacy** | 21 |
| 5. 1 | Liquidity | 21 |
| 5.2 | Capital Adequacy | 21 |
| **Chapter-6** | **Stress Testing and Resilience of the Banking and NBFI sectors** | 23 |
| 6.1 | Stress Testing | 23 |
| 6.2 | Stress Testing for banks | 23 |

6.2.1 Individual Shocks 23
6.2.2 Combined Shock 26
6.3 Stress Testing on NBFIs 27

**Chapter-7 Capital Market Development and Corporate Bond Market** 31
7.1 Price/Earnings (P/E) Ratio 31
7.2 DSEX Index Movement 31
7.3 Daily Average Volume 32
7.4 Daily Average Turnover 32
7.5 Corporate Bond Market 33

**Chapter-8 Recent stability initiatives of Bangladesh Bank** 35
8.1 Financial Projection Model (FPM) 35
8.2 Interbank Transaction Matrix (ITM) 35
8.3 Preparation of Financial Stability Report (FSR) 36
8.4 Financial Inclusion 36
8.4.1 Bank Account for street children 36
8.4.2 School Banking 37
8.4.3 Mobile Banking/Mobile Financial Services 37
8.5 "Contingency Planning and Bank Intervention/Resolution Framework" and "Lender of Last Resort Framework" 37
8.6 Roadmap on implementation of Basel III 37

**Appendices** 39-52

## List of Charts


| | | | Page |
|---|---|---|---|
| Chart | 1.1 | Inflation: Mar, 2013 to December, 2014 | 1 |
| Chart | 1.2 | Foreign Exchange Reserve - September, 2013 to December, 2014 | 1 |
| Chart | 1.3 | Wage Earners' Remittance - March, 2013 to December, 2014 | 2 |
| Chart | 1.4 | Industrial Production Index (Manufacturing) - Mar, 2013 to Sep., 2014 | 2 |
| Chart | 1.5 | Exports and Imports (fob) | 3 |
| Chart | 1.6 | Interest Rate Spread- Mar., 2013 to Dec., 2014 | 3 |
| Chart | 1.7 | Exchange Rate - September, 2012 to December, 2014 | 4 |
| Chart | 1.8 | Credit to the Govt. (Gross) By the Banking System | 4 |
| Chart | 2.1 | Asset Size of the Banking Industry | 5 |
| Chart | 2.2 | Asset Structure of the Banking Industry | 6 |
| Chart | 2.3 | Top 5 and Top 10 Banks Based on Assets Size | 6 |
| Chart | 2.4 | NPL Ratio - End Sep., 2013 to End Dec., 2014 | 7 |
| Chart | 2.5 | Distribution of Banks By NPL Ratio | 7 |
| Chart | 2.6 | Banking Sector Loan Loss Provision | 7 |
| Chart | 2.7 | Worst 5 and Worst 10 Banks Based on NPL | 8 |
| Chart | 2.8 | NPL Ratio of the Banking Sector | 8 |
| Chart | 2.9 | Proportion of NPL Categories | 8 |
| Chart | 2.10 | NPL Composition of Banks: End-December 2014 | 9 |
| Chart | 2.11 | Banking Sector Return on Assets (ROA) | 9 |
| Chart | 2.12 | Banking Sector Return on Equity (ROE) | 9 |
| Chart | 3.1 | NBFIs' Borrowing, Deposit, Capital, and other Liabilities: End-December 2014 | 11 |
| Chart | 3.2 | NBFIs' Assets Composition: December 2014 | 12 |
| Chart | 3.3 | NBFIs' Classified Loan and Leases | 12 |
| Chart | 3.4 | NBFIs' Profitability Indicators, ROA & ROE | 13 |

| | | | |
|---|---|---|---|
| Chart | 4.1 | Banking Sector CAR During Dec., 2013 to Dec., 2014 | 15 |
| Chart | 4.2 | Assets Share of Banks Based on CAR at End December 2014 | 16 |
| Chart | 4.3 | Tier-1 Capital Ratio and Overall CAR of the Banking Industry | 17 |
| Chart | 4.4 | Distribution of Risk-Weighted Assets | 17 |
| Chart | 4.5 | Banking Sector CRR: December 2014 | 18 |
| Chart | 4.6 | Banking Sector SLR: December 2014 | 18 |
| Chart | 4.7 | Banking Sector Advance-Deposit Ratio: March 2014 to December 2014 | 18 |
| Chart | 4.8 | Bank Cluster-Wise Advance-Deposit Ratio: at End-December 2014 | 19 |
| Chart | 5.1 | NBFIs' CRR & SLR - End-March, 2014 to End-Dec, 2014 | 21 |
| Chart | 5.2 | Capital Adequacy Ratio of NBFI Sector | 22 |
| Chart | 5.3 | Asset Share of NBFIs Based on CAR as at End September, 2014 | 22 |
| Chart | 5.4 | Overall CAR and Tier 1 Capital Ratio of the NBFI Sector | 22 |
| Chart | 6.1 | Number of Non-Compliant Banks at Different Shock Scenarios: December 2014 | 27 |
| Chart | 6.2 | Banking Sector CAR at Different Shock Scenarios: December 2014 | 28 |
| Chart | 7.1 | P/E Ratio - March, 2012 to December 2014 | 31 |
| Chart | 7.2 | DSEX Index Movements - March, 2013 to December,2014 | 31 |
| Chart | 7.3 | Daily Average Volume - March, 2013 to December, 2014 | 32 |
| Chart | 7.4 | Daily Average Turnover- March, 2013 to December, 2014 | 32 |
| Chart | 7.5 | Corporate Bond Issuance - June, 2014 to December2014 | 33 |

# List of Tables


| | | | Page |
|---|---|---|---|
| Table | 6.1 | Stress Tests on the Banking Sector Based on the Data as of End-December, 2014 | 25 |
| Table | 6.2 | Liquidity Risk of the Banking Sector: December 2014 | 27 |
| Table | 6.3 | Stress Tests and Resilience of NBFIs | 29 |

## List of Appendices


| | | | Page |
|---|---|---|---|
| Table | i | CPI Inflation (12 Month Average) | 39 |
| Table | ii | Foreign Exchange Reserve | 39 |
| Table | iii | Wage Earners' Remittance | 40 |
| Table | iv | Industrial Production Index (Manufacturing) | 40 |
| Table | v | Exports and Imports | 40 |
| Table | vi | Interest Rate (Weighted Average) Spread | 41 |
| Table | vii | Weighted Average Exchange Rate | 41 |
| Table | viii | Credit to the Government (Gross) By the Banking System | 42 |
| Table | ix | Asset Structure of the Banking Industry | 42 |
| Table | x | Banking Sector Assets & NPL Concentration (End December, 2014) | 43 |
| Table | xi | Banking Sector NPL Ratio | 43 |
| Table | xii | Distribution of Banks By NPL Ratio | 44 |
| Table | xiii | Banking Sector Loan Loss Provisions | 44 |
| Table | xiv | Banking Sector Classified Loans Ratios | 45 |
| Table | xv | Classified Loan Composition (End December 2014) | 45 |
| Table | xvi | Banking Sector ROA | 45 |
| Table | xvii | Banking Sector ROE | 46 |
| Table | xviii | NBFIs' Borrowing, Deposit and Capital | 46 |
| Table | xix | NBFIs' Asset Composition | 46 |
| Table | xx | NBFIs' Classified Loans and Leases | 47 |
| Table | xxi | NBFIs' ROA & ROE | 47 |
| Table | xxii | Banking Sector CAR | 47 |
| Table | xxiii | Banking Sector Asset Share Based on CAR as at End December 2014 | 48 |
| Table | xxiv | Tier-1 Capital Ratio and Overall CAR of the Banking Industry | 48 |
| Table | xxv | Distribution of Risk Weighted Assets of the Banking Industry | 48 |
| Table | xxvi | Banking Sector Advance-to-Deposit Ratio ((ADR) In 2014 | 49 |
| Table | xxvii | Bank Cluster-Wise ADR at End-December 2014 | 49 |
| Table | xxviii | NBFIs' CRR & SLR | 49 |
| Table | xxix | Capital Adequacy Ratio of NBFI Sector | 50 |

| | | | |
|---|---|---|---|
| Table | xxx | Asset Share of NBFIs Based on CAR at end-September 2014 | 50 |
| Table | xxxi | Overall CAR and Tier 1 Capital of NBFI Sector | 50 |
| Table | xxxii | Non-Complaint Banks at Different Shock Scenarios | 51 |
| Table | xxxiii | Banking Sector CAR at Different Shock Scenarios | 51 |
| Table | xxxiv | Price Earnings Ratio of Capital Market | 52 |
| Table | xxxv | DSE Broad Index, Daily Average Volume and Daily Average Turnover | 52 |
| Table | xxxvi | Corporate Bond Issuance | 52 |

## Acronyms

| | |
|---|---|
| ADR | Advance-to-Deposit Ratio |
| B/L | Bad and Loss |
| BB | Bangladesh Bank |
| BBS | Bangladesh Bureau of Statistics |
| BDT | Bangladesh Taka |
| BRPD | Banking Regulation and Policy Department |
| BS | Balance Sheet |
| CAR | Capital Adequacy Ratio |
| CPI | Consumer Price Index |
| CRR | Cash Reserve Requirement |
| CY | Calendar Year |
| DFIs | Development Finance Institutions |
| DFIM | Department of Financial Institutions and Markets |
| DOS | Department of Off-site Supervision |
| DSE | Dhaka Stock Exchange |
| DSEX | DSE Broad Index |
| FCBs | Foreign Commercial Banks |
| FI | Financial Institution |
| FOB | Free On Board |
| FPM | Financial Projection Model |
| FSD | Financial Stability Department |
| FSR | Financial Stability Report |
| FSV | Forced Sale Value |
| FX | Foreign Exchange |
| GDP | Gross Domestic Product |
| GFC | Global Financial Crisis |
| HQLA | High Quality Liquid Assets |
| IMF | International Monetary Fund |
| IS | Interest Suspense |

| | |
|---|---|
| ITM | Interbank Transaction Matrix |
| MFS | Mobile Financial Services |
| MOF | Ministry Of Finance |
| MPD | Monetary Policy Department |
| NBFI | Non-bank Financial Institution |
| NPL | Non-performing Loan |
| OBS | Off-balance Sheet |
| PCBs | Private Commercial Banks |
| P/E Ratio | Price Earning Ratio |
| QFSA | Quarterly Financial Stability Assessment |
| QIP | Quantum Index of Industrial Production |
| ROA | Return On Assets |
| ROE | Return On Equity |
| RWA | Risk-weighted Assets |
| SCBs | State-owned Commercial Banks |
| S&P | Standard and Poor's |
| SDB | Specialised Development Bank |
| SLR | Statutory Liquidity Requirement |
| TL | Total Loan |
| WAR | Weighted Average Resilience |
| WIR | Weighted Insolvency Ratio |

# Executive Summary

Six years after the onset of the global financial crisis (GFC), recovery is continuing in different economies. However, the pace of recovery is still weak, attributable to the persistence of legacies of the crisis (IMF's Global Financial Stability Report, October 2014). The Bangladesh financial system is not yet heavily interconnected with the global financial system. Nevertheless, like other developing economies, it is susceptible to shocks originating from advanced economies and other parts of the world, emerging economies in particular.

The GFC, on the one hand, compelled most of the advanced economies to experiment, in alternating fashion, with both unprecedented expansionary and severe austerity measures; on the other hand, it brought vast changes in approaches to bank regulation and supervision. Particularly, increasing importance is being given to financial stability. Bangladesh is in no way an exception to that. Although a good number of advanced economies were seriously impacted by the crisis, the Bangladesh financial system has been mostly successful in withstanding the crisis. Indeed, the Bangladesh financial system continued to demonstrate a notable resilience during the last couple of years. Nevertheless, financial stability is playing a prominent role in BB's regulatory approach to the growing financial services industry, which borrows from international approaches while addressing concerns unique to Bangladesh.

This report analyses key trends in the financial system of Bangladesh based on the positions of important financial intermediaries as of the December quarter of the calendar year 2014 (CY14). The Bangladesh financial system, during the reporting quarter, demonstrated a moderate level of resilience.

Inflation demonstrated a notable downward trend during all the consecutive quarters of CY14 including the reporting quarter, which could largely be attributed to the declining global and regional food prices and adherence to the monetary program of Bangladesh Bank (BB).

International reserves are now at a quite satisfactory level. As of end-December 2014, the level of international reserves was able to meet approximately six months' import bills, although the import coverage slightly declined compared with that of the September quarter.

The wage earners' remittance recorded a minor decline in the December quarter of CY14 with respect to the same quarter of the CY13. Nevertheless, the remittance

inflow is still in a better level and contributing to economic development of the country.

The index of industrial production (manufacturing) demonstrated an increasing trend in the first three quarters of CY14 implying a continuing expansion of economic activities in the country.

Import payments demonstrated a rising trend throughout the CY14 including the reporting quarter. Export receipts recorded an increasing trend during the first two quarters of CY14 and thereafter recorded a minor decline in the third and fourth quarters with respect to the June quarter.

The spread between the weighted average lending and deposit rates slightly increased in December quarter of CY14 compared with the same in the preceding quarter; the current high spread could partly be attributed to large non-performing loans (NPL) in the industry.

The Bangladesh taka (BDT) recorded a minor depreciation against US dollar in the reporting quarter compared with the same in the preceding quarter. Credit to the Government (gross) by the banking system recorded a slight increase in the December quarter of CY14 compared with the same quarter of CY13.

The banking sector showed a mixed performance during all the quarters of CY14 including the reporting quarter; the balance sheet size grew considerably over the entire period, while in the review quarter, the share of loans and advances slightly increased and the share of investments slightly decreased. Share of money at call has also decreased. Asset quality, measured by NPL with respect to the aggregate loan portfolio, and regulatory capital notably improved in the review quarter compared with the preceding quarter. The provision shortfall has also improved. Key profitability indicators - Return on Assets (ROA) and Return on Equity (ROE) - recorded a moderate increase in the reporting quarter.

At end-December 2014, the proportion of banks compliant with the minimum capital adequacy ratio (CAR) increased compared with the same at end-September 2014; a significant portion of the scheduled banks were able to maintain their minimum capital ratios above 10.0 percent in line with Pillar 1 of the Basel II capital framework. Indeed, a quite substantial share of banking assets was concentrated within the CAR compliant bank group, which is good for the financial stability.

The overall banking sector CAR was moderately higher than the minimum

requirement of 10.0 percent. Furthermore, the Tier-1 capital ratio was much higher than the minimum requirement of 5.0 percent.

BB considers the advance-to-deposit ratio (ADR) as a gross measure to calculate the liquidity condition prevailing in the banking system. As of end-December 2014, ADRs for most of the banks were much lower than the applicable limit. To manage the liquidity situation in the industry and to ease the inflationary pressures, BB increased the cash reserve requirement (CRR) by 50 basis points, effective from 24 June 2014.

Stress testing results, based on the data of December quarter of CY14, indicate that the banking industry is relatively less resilient in the face of different credit shocks. Importantly, increases in non-performing loan (NPL) and default of the largest borrowers were found to be the main factor for the CAR to fall below the minimum regulatory requirements, implying that the banking sector as a whole must pay due attention to manage these shocks. In contrast, the banking industry was found to be fairly resilient in the face of various market risk shocks. Moreover, the individual banks and the banking system as a whole were found to be well resilient against various liquidity stress scenarios as at end-December of CY14.

Non Bank Financial Institutions (NBFIs) represent one of the most important segments of the financial system in Bangladesh. After a turbulent CY13, this sector has been successful in withstanding the stressed situation; asset quality slightly improved compared with end-September 2014. However, NBFIs' key profitability indicators ROA and ROE slightly deteriorated in the reporting quarter compared with those of the previous quarter.

Throughout the CY14 including the review quarter, NBFIs' aggregate amount of the maintained CRR and SLR were much higher than the regulatory requirements. The CAR of the NBFI sector recorded a minor decrease in the third quarter of CY14, compared with the preceding quarter, attributable to a disproportionate increase of risk-weighted assets compared with total eligible capital. Still, this position was well in excess of the minimum regulatory requirement. A quite substantial share of NBFI sector assets was concentrated within the CAR compliant NBFI group, which is also good for financial stability. In addition, the Tier-1 ratio in the September quarter was much higher than the regulatory requirement of 5.0 percent.

Stress testing on the NBFIs reveals that a majority of them were resilient in the event of different stress scenarios as of end-December 2014. However, a few of them were prone to adverse effects in stressed scenarios, and they warrant supervisory attention.

The capital market, after a considerable period of price correction, is still demonstrating a mixed trend; the Price/Earnings (P/E) ratio and the DSE Broad Index recorded a slight deterioration in the December quarter of CY14 compared with those of the preceding quarter. On the other hand, the amount of corporate bond issuance was exactly one and half times the amount issued as of end-September 2014, which is encouraging for the capital market.

BB has been acting relentlessly to improve and maintain stability of the financial system. To this end, the Bank has taken a number of initiatives in the recent past. Some notable ones are:

(i) **Financial Stability Report (FSR):** Bangladesh Bank commenced preparation of the financial stability report from 2011 with the aim to reveal key trends in the important segments of the financial system, risks and fragilities facing the financial system, and resilience thereof to adverse events. So far four issues of the report have been published.

(ii) **Financial Projection Model (FPM):** BB has developed this dynamic tool for supervision of banks under technical assistance of the World Bank, with the broad aim of assessing the strengths and weaknesses of the banks and taking prudential/corrective measures as and when necessary. Implementation of the model has commenced from early 2014.

(iii) **Interbank Transaction Matrix (ITM):** BB has developed this tool to analyze and review the interconnection/contagion risks among the banks and non-bank financial institutions. The tool has been deployed from January 2014.

(iv) **Financial Inclusion:** BB, as part of its financial inclusion drive, has taken a number of initiatives, of which some important ones are:

a) **Bank account for street children:** BB introduced this service in June 2014 that allows street children to open a savings account with participating banks for as little as BDT 10.

b) **School Banking:** BB introduced 'school banking' as part of its financial inclusion initiatives and issued a guideline in 2013 to provide students with necessary banking services.

c) **Mobile Banking/Mobile Financial Services:** Mobile Banking/Mobile Financial Services (MFS) has been offered to the stakeholders from 2011.

(v) **BASEL III Implementation:** BB issued an 'Action Plan/Roadmap' for implementing the Basel III framework in March 2014. Besides, BB issued Basel III Guidelines in December 2014.

Although most economies are having hard time to maintain financial stability, the Bangladesh financial system has been successful in withstanding different challenges. This has been possible to a large extent due to coordinating role of financial sector regulators, financial intermediaries, stakeholders of the financial system, and most importantly of the Government. Nevertheless, there is no room for complacency. Financial intermediaries have to become even more prudent in enhancing corporate governance and internal control mechanisms, implementing regulatory requirements, and meeting global standards to the best extent possible. Besides, they have to give more attention to the management of risks they are facing in their day-to-day operations and thus contribute to maintaining stability of the financial system of Bangladesh.

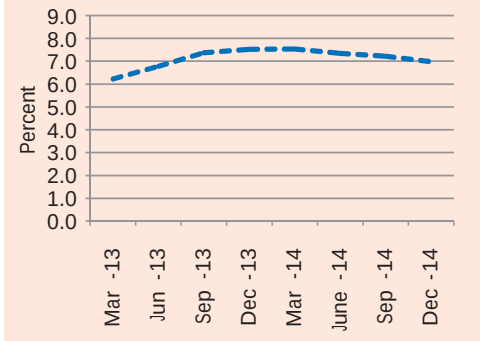
# Macro Economic Development

The Bangladesh economy, during the fourth quarter of CY14, showed a mixed trend not significantly different from preceding three quarters, highlighting the importance of a coordinated approach to fiscal, monetary and exchange rate policies to achieve the long-term goals of sustainable economic growth while keeping inflation under control.

## 1.1 Inflation

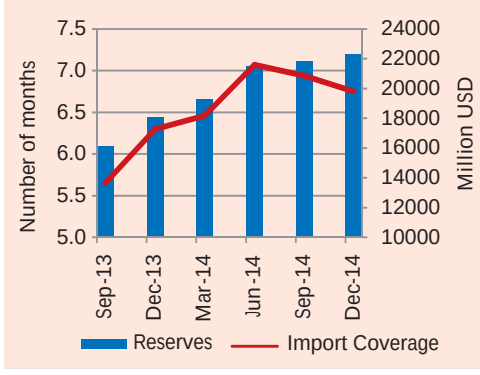
Inflation demonstrated a notable downward trend with minor fluctuations during all the quarters of CY14. As of end-December 2014, inflation was 6.99 percent, as opposed to 7.53 percent recorded at end-December 2013. As evident from Chart 1.1, inflation recorded a declining trend after March 2014, which could be attributed largely to declining global and regional food prices and adherence to the monetary program of Bangladesh Bank (BB).

**Chart 1.1 Inflation: March 2013 to December, 2014**




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

**Chart 1.2 Foreign Exchange Reserve - September, 2013 to December, 2014**




*Source: Research Department, BB.*

## 1.2 Foreign Exchange Reserve and its import coverage

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

The foreign exchange reserves held by BB increased by USD 4,215.2 million or 23.3 percent to USD 22,309.8 million at end-December 2014, compared with USD 18,094.6 million recorded at end-December

2013. It is noteworthy that in the fourth quarter of CY13, growth of the foreign exchange reserve over the position of end-December 2012 was 41.9 percent. Although the rate of growth in reserves in December quarter over the previous quarter is decelerating, it is still substantial.

### 1.3 Wage Earners' Remittance

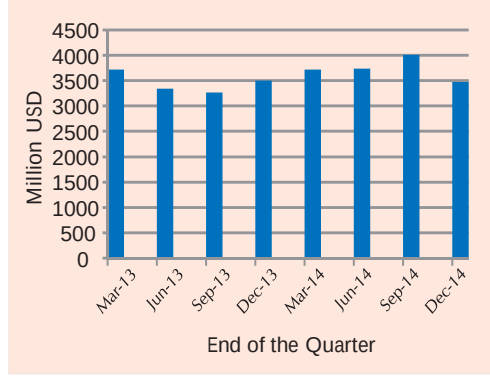
Remittance by the wage earners' has emerged as a key driver of economic growth and poverty reduction in Bangladesh. A good number of workers are finding employment abroad every year. Robust remittance inflows in recent years have been instrumental in maintaining the current account surplus despite a widening trade deficit. This, in turn, has enabled Bangladesh to maintain a growing level of foreign exchange reserves.

The foreign exchange remittance from Bangladeshi nationals working abroad decreased by 0.7 percent to USD 3,476.04 million in the December quarter of CY14 compared with USD 3,502.5 million recorded in the same quarter of CY13.

### 1.4 Industrial Production

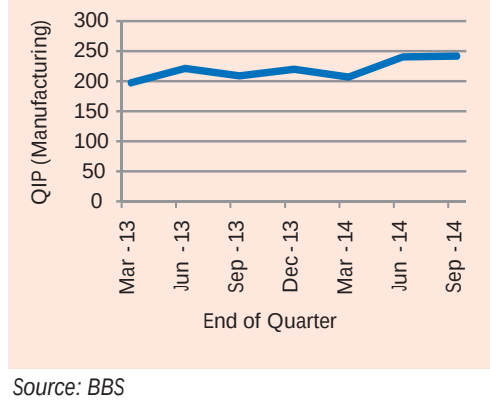
In the absence of GDP at a shorter interval, the quantum index of

**Chart 1.3 Wage Earners' remittance - March, 2013 to December, 2014**




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

**Chart 1.4 Industrial Production Index (Manufacturing) - Mar., 2013 to Sep., 2014**




*Source: BBS*

industrial production (QIP) is treated as a good proxy of economic activities. Indeed, the QIP is one of the most important indicators to measure the trend of industrial production. A high industrial production index indicates a high level of economic activity and is seen as good for stockholders, especially in

industrial sectors, while a low index serves as a signal of insufficient industrial output. As seen from Chart 1.4, the QIP (manufacturing) demonstrated an increasing trend during the first three quarters of CY14.

In the September quarter of CY14, the QIP remained almost same as in the previous quarter.

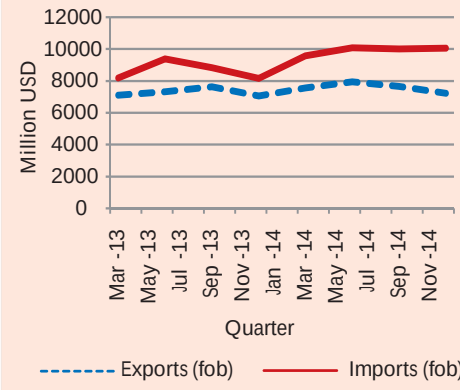
## 1.5 Imports and Exports

Throughout CY14, aggregate import payments in US dollar demonstrated a rising trend. On the other hand, export receipts recorded an increase during the first two quarters of CY14 and later recorded a minor decline. In the December quarter of CY14, imports rose by 23.4 percent with respective to same quarter of CY13, while exports recorded a rise of 2.3 percent[1].

## 1.6 Interest Rate Spread

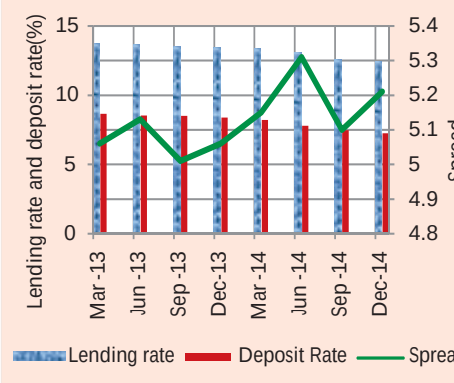
The spread between the weighted average lending and deposit rates slightly increased to 5.21 percent in December 2014 from 5.10 percent recorded in September 2014.

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




*Source: Research Department, BB.*

**Chart 1.6 Interest Rate Spread- Mar., 2013 to Dec., 2014**




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

## 1.7 Exchange Rate

Bangladesh has been maintaining a floating exchange rate system since 31 May 2003. However, BB has some indirect influence on the exchange

[1] Exports and imports measured in US dollar.

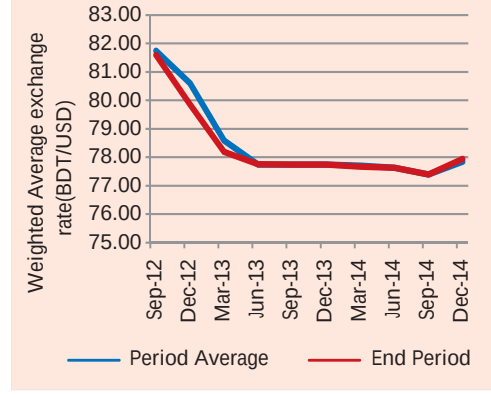
rate so that inflation target is not impacted.

The Bangladesh taka recorded a notable appreciation against the US dollar during the period December-2012 to December 2014, from BDT 80.60 to BDT 77.85 per USD. The value of the taka against the US dollar continued to increase during the first three quarters of CY14, but a slight depreciation recorded in the fourth quarter.

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

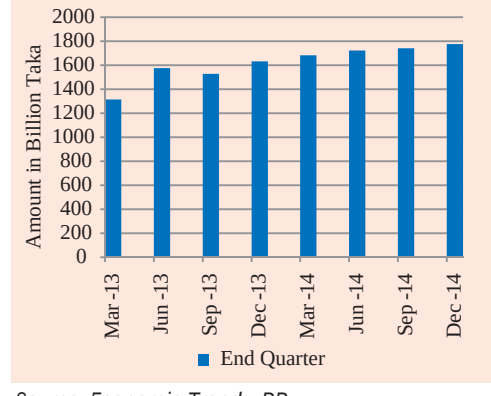
Credit to the Government (gross) by the banking system increased by BDT 145.0 billion or 8.9 percent at end-December of CY14, compared with the same at end-December of CY13, a sharp deceleration from the increase of 25.8 percent at end-December CY13 with respect to the same at end-June CY12.

**Chart 1.7 Exchange Rate - September, 2012 to December, 2014**




*Source: Economic Trends, BB.*

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




*Source: Economic Trends, BB.*

# Banking Sector Performance

The financial system of Bangladesh is dominated by the banking sector. It includes 5 state-owned commercial banks (SCBs), 3 government-owned specialized development banks (SDBs), 39 domestic private commercial banks (PCBs), 9 foreign commercial banks (FCBs), and 4 non-scheduled banks. It is mentionable that 9 new commercial banks were licensed as scheduled banks and got permission for beginning their banking business operations in 2013.

The banking sector showed a mixed performance during the December quarter of CY14; while the balance sheet size grew considerably, the shares of loans and advances increased and the share of investments slightly decreased. Money at call has also decreased at end-December 2014 compared with end-September 2014.

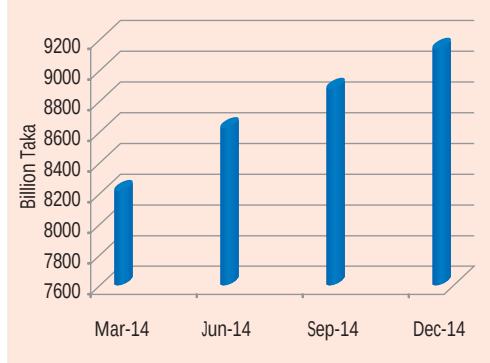
During the December 2014 quarter, asset quality notably improved relative to the aggregate loan portfolio and regulatory capital compared with those of the preceding quarter. NPLs were widely distributed among the banks. The provision shortfall has improved notably. However, more than three-fourths of the classified loan was bad/loss. Besides, both ROA and ROE moderately increased.

## 2.1 Assets structure of the banking sector

While evaluating the performance of the banking sector for a quarter, it is very important to focus on balance sheet size and the change in the components of the assets with respect to those of the previous quarter.

The balance sheet size of the banking sector grew considerably during all the quarters of CY14, increasing by almost 3.0 percent in the December quarter alone, and stood at BDT 9,143.1 billion at end-December 2014. Loans and advances as a percentage of total assets have increased and investments recorded a decrease compared with that of end-September of CY14.

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




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

The share of loans and advances is the largest among asset items, and it increased by 0.9 percentage points at end-December of CY14, while the share of investment in government and other securities decreased by 0.3 percentage points (both expressed as percentage of total assets) compared with those at end-September 2014. The share of banks' assets with BB has decreased by 0.2 percentage points, and balances with other banks and FIs increased by 0.5 percentage points.

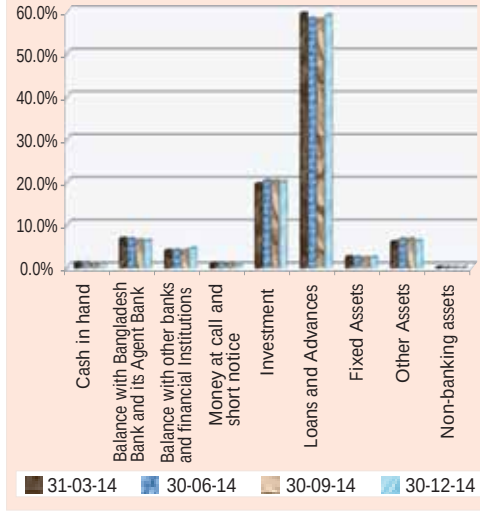
Banks' money at call has decreased by 0.5 percentage points and the share of other assets decreased by 0.4 percentage points.

The asset concentration ratios of the top 5 banks and top 10 banks within the total assets were 33 percent and 47 percent respectively at end-December 2014.

## 2.2 Asset quality

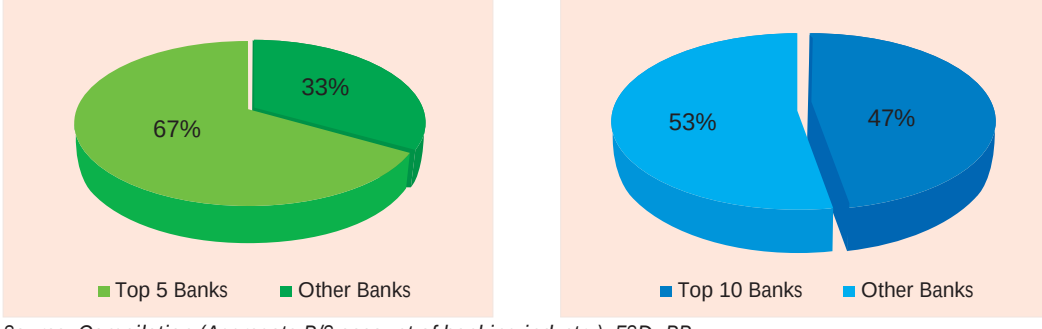
Non-performing loans (NPLs) reduce banks' profitability, as banks cannot appropriate interest income from their NPLs. In addition, banks need to record expenses as loan loss reserves to reflect expected losses. A bank with a high percentage of NPLs faces an erosion of capital, as profits are less than they would otherwise be and could even turn into severe losses as higher and higher provisions are required.

**Chart 2.2 Asset structure of the banking industry**



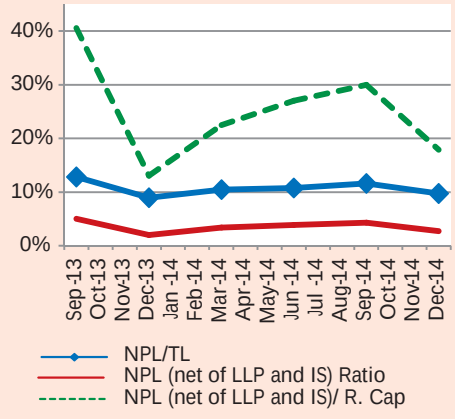

*Source: Compilation (Aggregate B/S account of banking industry): FSD, BB*

**Chart 2.3 : Top 5 and Top 10 banks based on Assets size**




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

**Chart 2.4 NPL ratio - End Sep., 2013 to End Dec, 2014**

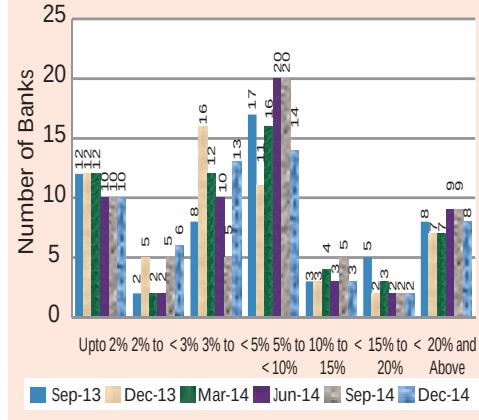



*Source: BRPD, BB.*

The NPL ratio[2] decreased to 9.7 percent at end-December 2014 from 11.6 percent recorded at end-September 2014. Besides its effect on earnings and capital, the decrease of non-performing loans in the banks might cause an increase in credit flow from the supply side of the bank. It is also instructive to view non-performing loans net of specific loan loss provision and interest suspense to total loans and to regulatory capital. These measures decreased to 2.7 percent and 17.9 percent respectively at end-December 2014 from 4.3 percent and 30.0 percent recorded at end-September 2014.

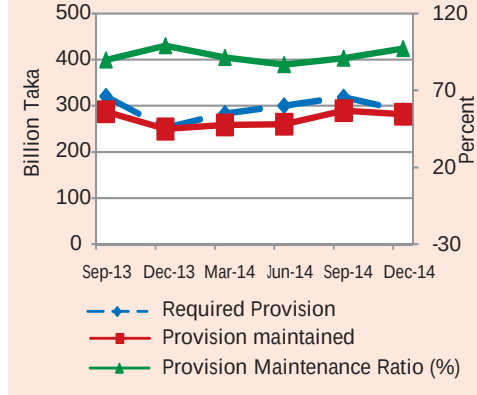
The distribution of banks, based on their NPL ratios, indicates that the number of banks with double-digit values was 13 in December CY14, three less than the number in September CY14. Moreover, 8 banks had NPL ratios over 20.0 percent.

**Chart 2.5 Distribution of banks by NPL ratio**




*Source: BRPD, Compilation FSD.*

**Chart 2.6 Banking sector loan loss provision**



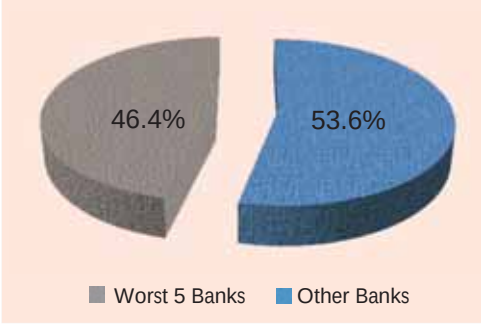

*Source: BRPD, BB.*

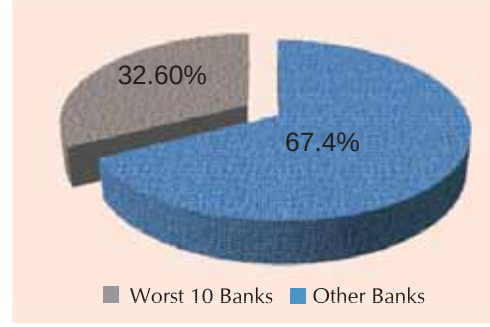
[2] Non-performing loan to total loan ratio.

Provision maintenance ratio (maintained provision to required provision) at end-December 2014 stood at 97.3 percent as opposed to 90.9 percent recorded at end-September 2014.

Classified loan concentration ratios (based on NPL amount) of the worst 5 banks and worst 10 banks were 53.6 percent and 67.4 percent respectively at end- December 2014 (chart 2.7).

**Chart 2.7 Worst 5 and worst 10 banks based on NPL**

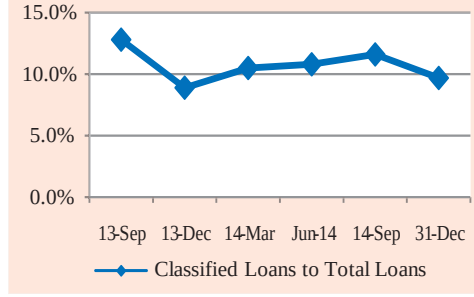



*Source: BRPD; Compilation FSD.*

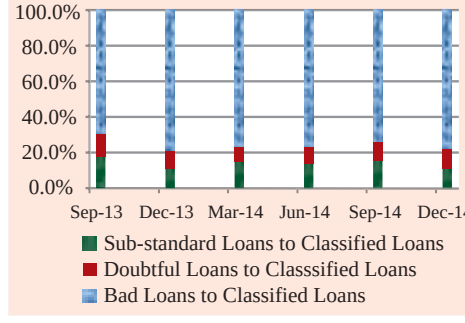
The ratio of B/L loans to total classified loans increased to 77.8 percent at end-December CY14 from 73.9 percent of end-September CY14. The NPL under sub-standard and doubtful categories, on the other hand, constituted 11.0 percent and 11.2 percent of total NPL respectively. It is mentionable that even a high percentage of bad/loss loans do not necessarily indicate a negative sign for financial stability because possible credit losses have already been captured in 100 percent provisions maintained by banks. Of course, additional losses might occur if the provisioning base is understated through overvaluation of the collateral, or if the collateral is difficult to repossess and sell.

**Chart 2.8 NPL ratio of the banking sector**




*Source: BRPD, BB.*

**Chart 2.9 Proportion of NPL categories**



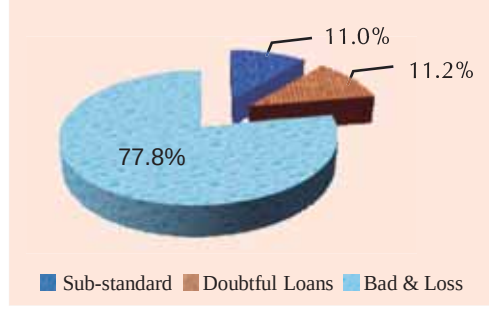

*Source: BRPD, BB.*

## 2.3 Profitability

Profitability is one of the important indicators of banks' performance and that has significant implications on banks' operations. A sound and profitable banking sector is better able to resist negative shocks and acts as a safeguard for financial stability. Profitability of commercial banks may be affected by many factors, including economic booms and recession. In the context of the Bangladesh banking sector, varying economic conditions from one quarter to another can also be expected to have an impact on the profitability of the banks.

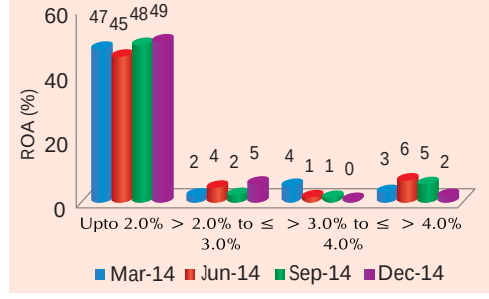
The return on assets (ROA) replicates the ability of a bank's management to produce profits from the bank's assets,[3] while the return on equity (ROE) specifies the return to shareholders on their investments. ROA increased by 0.88 percentage points at end-December CY14[4] with respect to the position of the previous quarter, and reached the levels of 0.7 percent. At end-December 2014, ROE also increased by 10.8 percentage points and reached the level of 8.7 percent compared with that of end-September 2014.[5]

**Chart 2.10 NPL composition of banks: End-December 2014**



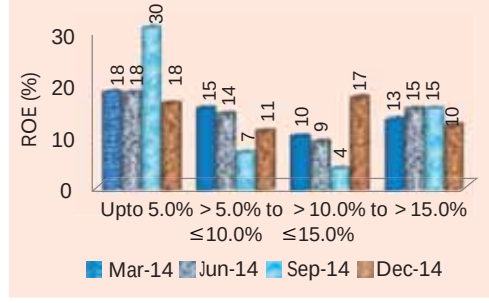

*Source: BRPD, BB.*

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




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

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




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

3 It may, in addition, be influenced due to off-balance-sheet activities and non-asset-based activities such as fees and commissions.

4 Calculated for the year ended on December 31, 2014.

5 September 2014 based ROA and ROE are annualised ratios.

# Non Bank Financial Institutions' Performance

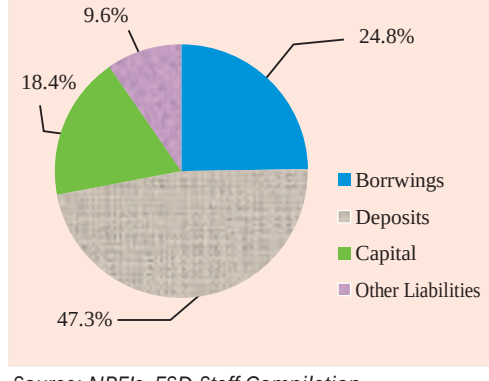
Non Bank Financial Institutions (NBFIs) represent one of the most important parts of Bangladesh financial system. They constitute a rapidly growing segment of the financial system in Bangladesh. The NBFIs have been contributing toward increasing both the quality and quantity of financial services and thus mitigating the lapses of existing financial intermediation to meet the growing needs of different types of investments in the country. NBFIs are regulated under the Financial Institutions Act, 1993. Now, a total of 31 NBFIs are operating in Bangladesh.

## 3.1 Sources of funds of the NBFIs

NBFIs collect funds from a wide range of sources including financial instruments, loans from banks, financial institutions, insurance companies and international agencies as well as deposits from institutions and the public. Lines of credit from banks constitute the major source of total funds for NBFIs. Deposits from the public are another important source of fund for NBFIs, which has been increasing over the years. It is mentionable that NBFIs are allowed to take deposits directly from the public as well as institutions. NBFIs are allowed to mobilize term deposits only, with tenor not less than three months. Other than those, the major funding sources are capital, call money, bonds and securitization.

In the source of fund of the NBFI sector, borrowings, deposits, capital and other liabilities constituted 24.8 percent, 47.3 percent, 18.4 percent and 9.6 percent respectively as at end-December 2014.

**Chart 3.1 NBFIs' Borrowing, Deposit, Capital, and Other Liabilities: End-December 2014**




*Source: NBFIs, FSD Staff Compilation.*

## 3.2 Assets Composition/ Structure

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

NBFIs' loans and leases constituted 71.6 percent of total assets as at end-December 2014.

Cash and balances with banks/FIs, investments, fixed assets and other assets comprised 16.3 percent, 3.5 percent, 1.2 percent and 7.4 percent of total assets respectively.

### 3.3 Asset Quality

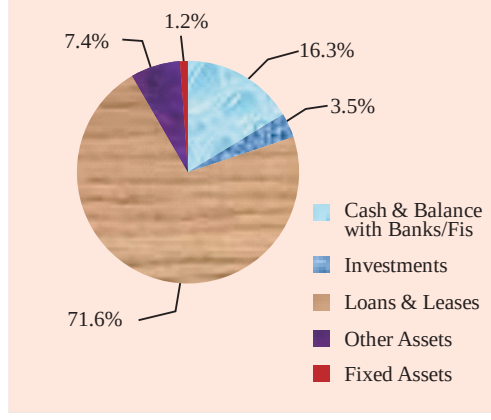
NBFIs recorded a notable improvement in asset quality in December 2014[6]. Classified loans and leases decreased by 12.1 percent or from BDT 22.4 billion to BDT 19.7 billion in December 2014. The ratio of classified loans and leases to total loans and leases reached to 5.3 percent at end- December 2014, 90 basis points lower than the ratio recorded at end- September 2014.

### 3.4 Profitability

Profitability of an NBFI reflects its efficiency in managing resources and its long-term sustainability. Profitability indicators determine the capacity to absorb probable losses by building an adequate capital base, finance its business expansion and pay adequate dividends to its shareholders. NBFIs' major portion of income was generated from loans and leases. Interest on deposits was the major outlay of total expenses.

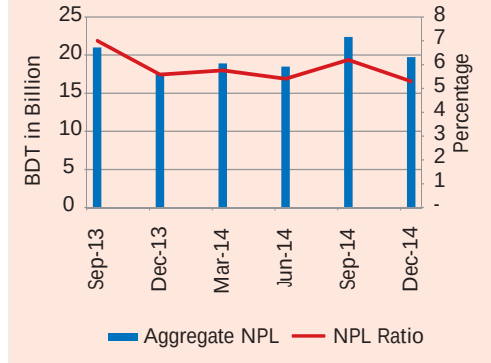
The NBFIs' profitability has slightly declined in December 2014 quarter

**Chart 3.2 NBFIs' assets composition: December 2014**




*Source: NBFIs, FSD staff compilation.*

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



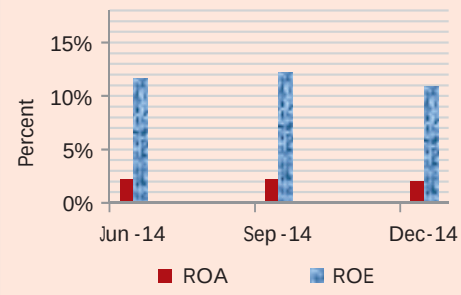

*Source: DFIM, BB.*

6 There has been no change in regulatory requirements regarding NBFIs' asset classification in 2014.

compared with the September quarter[7].

The ROA and ROE[8] were 2.0 percent and 10.9 percent respectively in the December 2014 quarter as opposed to 2.2 percent and 12.2 percent respectively recorded at the preceding quarter implying that profitability of the NBFI sector has slightly declined.

**Chart 3. 4 NBFIs' Profitability indicators, ROA & ROE**




*Source: NBFIs; FSD staff compilation.*

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

[8] Annualized from respective quarterly ratios.

# Banking Sector liquidity and capital adequacy

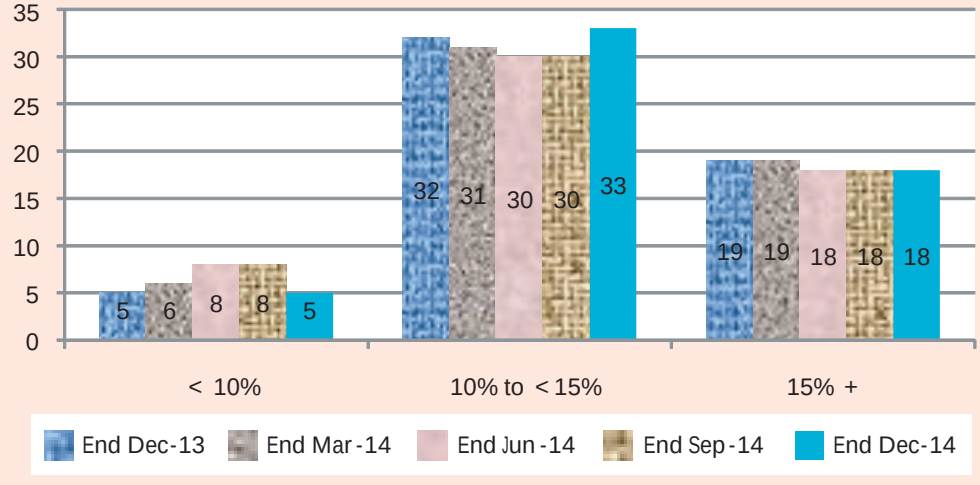
The banking sector should have adequate capital and liquidity, not only for ensuring the health and soundness of the banks, but also for enabling the growth and stability of the financial system. As the banking sector underwent some ups and downs in CY13, one of the major challenges for the banks continues to be to raise their capital adequacy with a view to enhancing their risk resilience. While the liquidity position is improving from a standpoint of prudential soundness, excess liquidity over the past few months may have reflected some challenges for the economy, as it may imply a low level of demand for credits by the private sector.

## 4.1 Capital Adequacy

The capital adequacy ratio (CAR) determines a bank's capacity to repay its liabilities and absorb various risks faced by the bank. *Under the Basel-II framework, banks in Bangladesh were required to maintain regulatory capital of at least 10.0 percent of their total risk-weighted assets or BDT 4.0 billion, whichever is higher.*

Compared with end-September 2014, the proportion of banks compliant with the minimum CAR increased at end-December 2014. 91 percent of the scheduled banks were able to maintain their capital ratios of 10.0 percent and higher in line with Pillar 1 of the Basel II capital framework.

**Chart 4.1 Banking Sector CAR during Dec., 2013 to Dec., 2014**



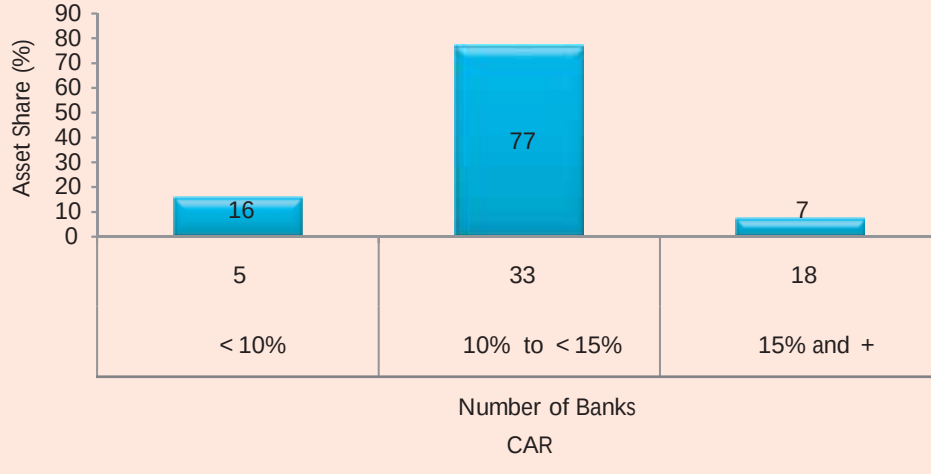

*Source: DOS, BB.*

Moreover, as evident from Chart 4.2, a quite substantial share of banking assets was concentrated within the CAR compliant bank group. It is to mention that 33 banks' CARs were within the range of 10-15 percent and their assets accounted for nearly 77.0 percent of the total banking industry's assets as at end- December 2014, indicating that most of the banking sector assets are managed by the CAR compliant banks. Banks failing to maintain the minimum required CAR are usually instructed to make up the shortfall within some stipulated time period. In some cases, banks are asked to submit their capital restoration plans and subsequently comply with the same.

The banking sector aggregate CAR at end-December 2014 was moderately higher than the minimum requirement of 10.0 percent. Although, the Tier-1 capital ratio was on a slightly decreasing trend during the first three quarters of CY14 but increased in the fourth quarter and the maintained ratio is much higher than the minimum regulatory requirement of 5.0 percent.

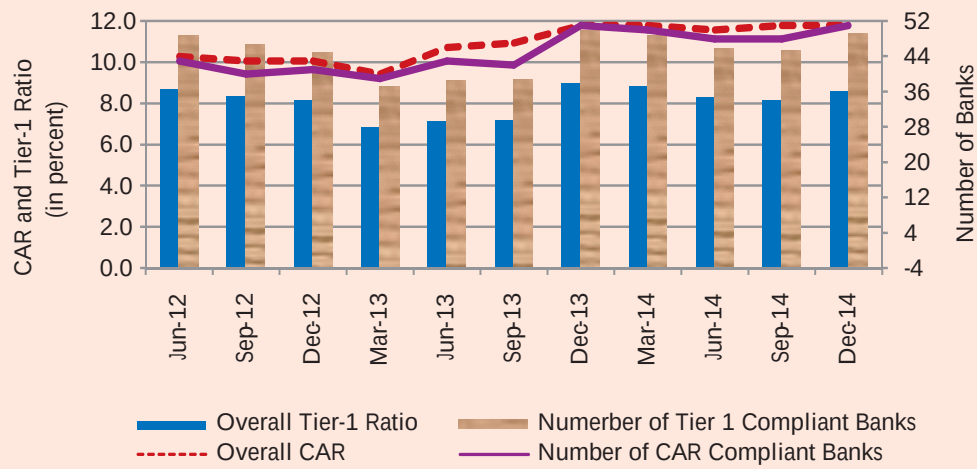
At the end-December 2014, under Pillar 1 of the Basel II capital adequacy framework, risk-weighted assets arising from credit risks accounted for 85.7 percent of the total industry risk-weighted assets, and the next positions were held by operational and market risk respectively (Chart 4.4).

**Chart 4.2 Assets share of banks based on CAR at end December 2014**



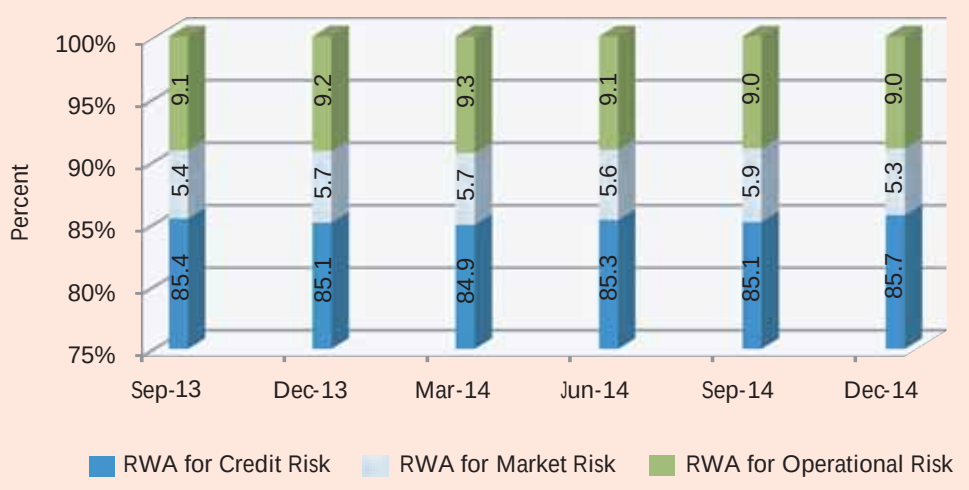

*Source: DOS, BB.*

**Chart 4. 3 Tier-1 capital ratio and overall CAR of the banking industry**




*Source: DOS, BB.*

**Chart 4. 4 Distribution of risk-weighted assets**




*Source: DOS, BB.*

## 4.2 Banking sector liquidity

To manage the liquidity situation of banks and ease the inflationary pressures, BB increased the Cash Reserve Ratio (CRR) from 6.0 percent to 6.5 percent in 2014[9].

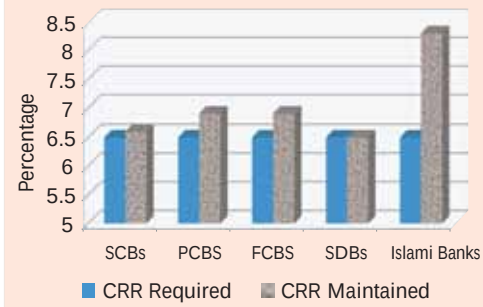
Banking sector, as a whole, maintained satisfactory liquidity

9 Effective from June 24, 2014.

position as at end-December 2014 in terms of both CRR and SLR requirements. As evident from chart 4.5, at end-December 2014 Islamic Shari'ah banks maintained relatively higher CRR over respective requirements, PCBs and FCBs also maintained moderately higher CRR. On the other hand, FCBs maintained higher SLR over their requirements. Same scenario holds for SCBs and PCBs.

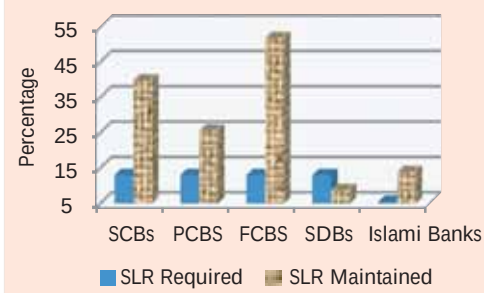
BB considers the advance-to-deposit ratio (ADR) as a gross measure to calculate the liquidity condition prevailing in the economy. Indeed, the ADR is a useful background indicator of the adequacy of a bank's liquidity in Bangladesh. The smooth operation of the bank depends on how efficiently the bank can make use of its fund and pay its liability. BB has, from time to time, changed its stance regarding ADR, analysing the then-prevailing liquidity scenarios in the banking system, and recommended a ceiling of ADR ratios for banks. With a perceived surge in ADR in the banking system in early 2011, banks were instructed in February 2011 to scale down their ADR within a prescribed level (for conventional banks up to 85 percent and for Islamic Shari'ah banks up to 90 percent) by

**Chart 4. 5 Banking sector CRR: December 2014**



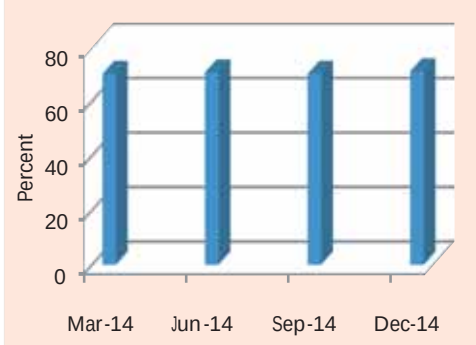

*Source: DOS, BB.*

**Chart 4. 6 Banking sector SLR: December 2014**




*Source: DOS, BB.*

**Chart 4. 7 Banking sector advance-deposit ratio: March 2014 to December 2014**



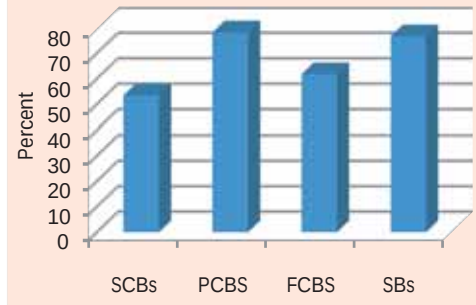

*Source: DOS, BB.*

June 2011. BB is mostly continuing that policy and monitoring the ADRs of banks within that framework.

As evident from Chart 4.7 and 4.8, ADR remained the same at end-March 2014 and end-June 2014, slightly increased at end-December 2014 (0.9 percent).

ADR for private commercial banks at end-December 2014 was the highest i.e. 78.3 percent among four bank clusters.

**Chart 4. 8 Bank cluster-wise advance-deposit ratio: At end-December 2014**




*Source: DOS, BB.*

# Non-bank Financial Institutions' liquidity and capital adequacy

The Non-bank Financial Institutions (NBFIs) sector works as a catalyst to economic growth. NBFIs are required to maintain liquidity and capital adequacy as per Bangladesh Bank regulations. This enables the NBFIs to play their due role in the overall development of the country.

## 5. 1 Liquidity

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

In every quarter, during March 2014 to December 2014, NBFIs' aggregate amount of maintained CRR was muchhigher than the CRR required for them.

As of end-December 2014, the aggregate amount of maintained CRR was BDT 4396.9 million, which was 8.6 percent higher than that recorded at end-September 2014.

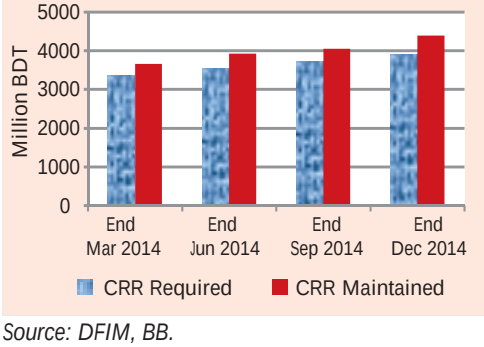
On the other hand, the amount of maintained SLR was 65.6 billion, which was 1.2 percent lower than the same recorded at end- September 2014.

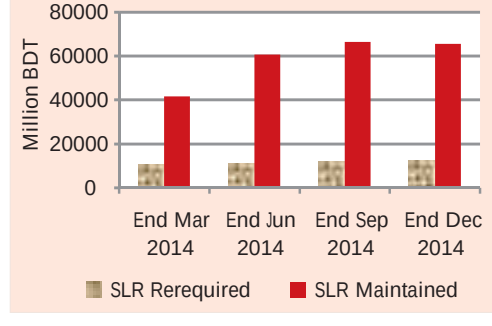
It is noteworthy that, during the entire period from March 2014 to December 2014, NBFI sector had no CRR and SLR shortfall.

## 5.2 Capital Adequacy

Capital adequacy focuses on the position of NBFIs' capital and protection of the depositors from the potential losses that the NBFIs might incur. It helps absorb major financial risks, namely credit risks, market risks, interest rate risks, etc.

**Chart 5. 1 NBFIs' CRR & SLR - end-March, 2014 to end-Dec, 2014**




*Source: DFIM, BB.*

NBFIs have been instructed by BB under the Basel II framework to maintain a capital adequacy ratio (CAR) of not less than 10.0 percent with at least 5.0 percent in core capital.

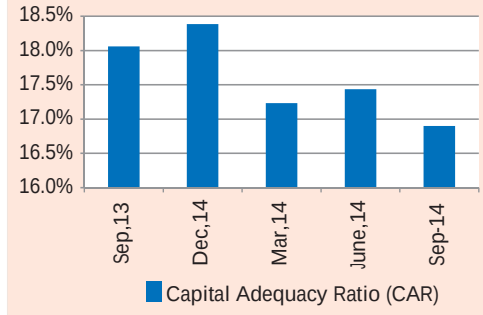
The CAR of the NBFI sector was 17.2 percent in the June quarter of CY14, but slightly decreased to 16.9 percent in September of CY14 attributable to an increase of RWA disproportional to the increase in total eligible capital.

Nevertheless, this position was well in excess of the regulatory minimum requirement of 10.0 percent. Pertinently, as of end-September 2014, out of 31 NBFIs, 2 failed to maintain regulatory minimum requirement of CAR.

As evident from Chart 5.3, a quite substantial share of NBFI sector's assets was concentrated within the CAR compliant NBFI group. 9 NBFIs' CARs were within the range of 10-15 percent and their assets accounted for nearly 41 percent of the total NBFI industry's assets, whereas 19 NBFIs' CARs were above 15 percent and their assets accounted for 46 percent of the NBFI industry's assets as at end 2014. This analysis indicates the soundness of NBFI sector.

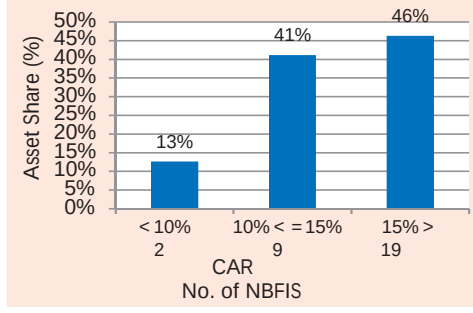
In addition, the Tier-1 capital ratio was 15.9 percent, 16.1 percent and 15.6 percent in the first three quarters of CY14 respectively. These figures indicate that the NBFI sector was compliant with the Basel II requirements in respect of the Tier-1 capital ratio too, though in the September quarter of CY14 it decreased from its previous quarter.

**Chart 5. 2 Capital Adequacy Ratio of NBFI Sector**



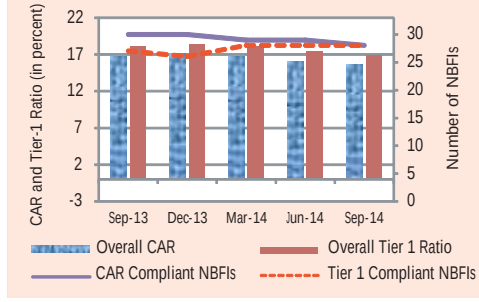

*Source: DFIM, BB.*

**Chart 5. 3 Asset Share of NBFIs based on CAR as at end September, 2014**




*Source: DFIM, BB.*

**Chart 5. 4 Overall CAR and Tier-1 capital ratio of the NBFI sector**




*Source: DFIM, BB.*

# Stress Testing and Resilience of the Banking and NBFI sectors

## 6.1 Stress Testing[10]

Stress testing refers to a range of techniques used to assess the vulnerability of a financial institution or the entire system to exceptional but plausible events. Bangladesh Bank first issued guidelines on stress testing for banks and NBFIs on April 21, 2010 (vide DOS Circular No.01/2010) whereby the aforementioned institutions were instructed to conduct stress testing exercise on a half-yearly basis. Reporting on stress testing commenced on the positions of the institutions based on end-June 2010. Subsequently, revised guidelines were issued for banks on February 23, 2011 (vide DOS Circular No.01/2011). In addition, separate guidelines for NBFIs were issued on July 12, 2012 (vide DFIM Circular No.06/2012). It is to note that currently both banks and the NBFIs are required to submit their stress testing reports to BB on a quarterly basis.

## 6.2 Stress Testing for banks[11]

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

### 6.2.1 Individual Shocks[12]

BB conducts stress tests on banks through simple sensitivity analysis, a technique which provides ways to assess risks relating to their credit, interest rate and exchange rate, and liquidity positions. In each case, except liquidity shock, the after-shock capital adequacy ratio (CAR) is compared with the minimum regulatory requirement, which is currently 10.0 percent of the banks' risk-weighted assets. It may be mentionable that in the December quarter of CY14, out of 56 banks, 5 banks' pre-shock CARs were below the minimum regulatory requirement

10 Stress testing analysis here is based on a number of assumptions. However, materialization of the shock scenarios is considered unlikely, though plausible. Hence, the results are useful for contingency planning, but are not indicative of actual conditions in the marketplace.

11 The analyses here are based on the data as of end-December 2014 unless otherwise stated.

12 For details, see "Guidelines on Stress Testing" for banks issued by Bangladesh Bank vide DOS Circular No. 01 dated February 23, 2011.

of 10.0 percent. Moreover, the banking industry's CAR was 11.4 percent at the end of that quarter.

#### 6.2.1.1 Credit risk

**a) Credit risk due to increase in non-performing loan (NPL)[13]:**

In this case, impacts are measured for 3 standardised shock scenarios; in particular 3 percent, 9 percent and 15 percent of the performing loan portfolio of a bank are assumed to be downgraded directly to bad and loss (B/L) category, necessitating 100 percent provisioning. As of the December quarter of CY14, 5, 22, and 34 out of 51 banks[14] would fail to maintain the minimum required CAR in the event of minor, moderate and major shocks respectively.

**b) Credit risk due to default of top large loan borrowers:** If 3, 7 and 10 largest borrowers of each bank in the industry default, 24, 31 and 33 banks respectively would become non-compliant in minimum required CAR.

**c) Credit risk due to decrease in the Forced Sale Value (FSV) of the mortgaged collateral:** If FSV of mortgaged collateral declines by 10, 20 and 40 percents, 3, 4, and 7 banks out of 51[15] respectively would become non-compliant in CAR.

**e) Credit risk due to negative shift in NPL categories:** If 5, 10 and 15 percent downward shifts in the NPL categories materialize, 3, 10, and 15 banks respectively would become non-compliant in CAR.

**f) Credit risk due to increase in NPL in particular sector(s)[16]:** The banking industry as a whole would remain resilient at every scenario (minor, moderate and major) as its CAR would remain well above the minimum regulatory requirement. However, out of 51 banks, only 2 banks would fail to maintain the minimum required CAR in case of major shock while none would be impacted in the event of minor or moderate shocks.

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13 NPL is composed of sub-standard, doubtful and bad/loss loans.

14 Having initial CAR of 10.0 percent or higher.

15 5 banks had CAR below 10.0 percent.

16 This type of credit shock has been done from the perspective of increase in NPLs due to downgrading of the most concentrated sector of individual banks.

| Table 6. 1 Stress tests on the banking sector based on the data as of end-December, 2014 | |
|---|---|
| **Shocks** | **System (%)** |
| **Initial CAR (%)** | 11.35 |
| **CAR after shock (%)** | |
| **Credit Risks** | |
| **Increase in NPLs by** | |
| Shock-1: 3% | 10.59 |
| Shock-2: 9% | 8.64 |
| Shock-3: 15% | 5.32 |
| **Default of top large loan borrowers** | |
| Shock-1: 3 largest borrowers | 7.49 |
| Shock-2: 7 largest borrowers | 5.32 |
| Shock-3: 10 largest borrowers | 3.92 |
| **Fall in the forced sale value (FSV) of mortgaged collateral** | |
| Shock-1: 10% | 10.88 |
| Shock-2: 20% | 10.42 |
| Shock-3: 40% | 9.46 |
| **Negative shift in NPL categories** | |
| Shock-1: 5% | 10.75 |
| Shock-2: 10% | 8.85 |
| Shock-3: 15% | 7.84 |
| **Credit concentration** | |
| Sectoral concentration 1 (Performing loan directly downgraded to B/L) | |
| Shock-1: 3% | 11.30 |
| Shock-2: 9% | 11.18 |
| Shock-3: 15% | 11.08 |
| Sectoral concentration 2 (Performing loan directly downgraded to B/L) | |
| Shock-1: by 3% | 11.29 |
| Shock-2: by 9% | 11.18 |
| Shock-3: by 15% | 11.07 |
| **Market Risks** | |
| **Interest Rate Risk (change in interest rate)** | |
| Shock-1: 1% | 11.30 |
| Shock-2: 2% | 11.25 |
| Shock-3: 3% | 11.20 |
| **Exchange rate risk (Currency appreciation/depreciation)** | |
| Shock-1: 5% | 11.32 |
| Shock-2: 10% | 11.30 |
| Shock-3: 15% | 11.28 |
| **Equity price risk (Fall in equity prices)** | |
| Shock-1: 10% | 10.92 |
| Shock-2: 20% | 10.49 |
| Shock-3: 40% | 9.61 |
| **Combined Shock** | |
| Shock-1 | 9.03 |
| Shock-2 | 4.21 |
| Shock-3 | -2.02 |

*Note: Shock-1 indicates Minor, Shock-2 Moderate and Shock-3 Major. B/L indicates Bad/Loss.*

g) **Credit shock under Basel II[17]:** Credit shock under Basel II requirements (balance sheet exposure) reveals that, 8, 8 and 9 banks, out of 51, in the event of each category of minor, moderate and major shocks, would become undercapitalized. On the other hand, stress tests on off-balance sheet exposures shows that, only 2 banks would become non-compliant in CAR in each case of minor, moderate and major level shocks.

Overall, based on the data of the December quarter of CY14, the banking industry is found to be less resilient when different credit shocks are applied. Importantly, increases in NPL and default of the largest borrowers would be the main factors for causing CAR to fall below the minimum regulatory requirements.

#### 6.2.1.2 Market Risk

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

a) **Interest rate risk:** Considering the change in interest rate of 1, 2 and 3 percent, 7, 12 and 14 banks respectively would fail to maintain the minimum required CAR.

b) **Exchange Rate risk:** A currency appreciation/ depreciation by 5, 10, and 15 percent would not lead to non-compliance of any bank in terms of CAR[18].

c) **Equity price risk:** Considering a 10, 20 and 40 percent fall in equity price, 3, 4 and 4 banks respectively would become non-compliant in CAR.

### 6.2.2 Combined Shock[19]

Under minor, moderate and major combined shocks, 16, 33 and 35 banks respectively would become undercapitalized; CAR in these cases would be downgraded to 9.03, 4.21, and -2.02 percent respectively.

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

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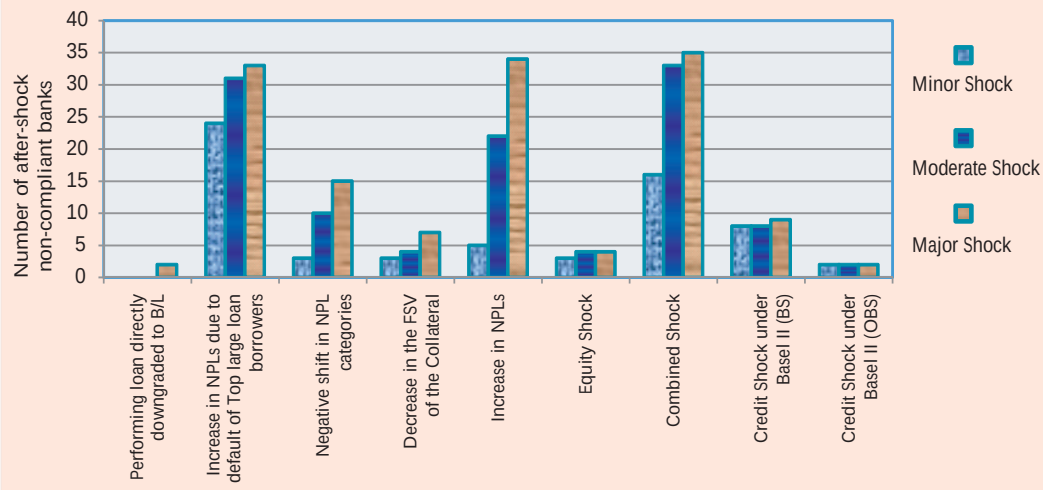
17 Including on balance sheet and off-balance sheet exposures.

18 Already compliant in CAR.

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

**Chart 6. 1 Number of non-compliant banks at different shock scenarios : December 2014**




*Source: FSD, BB.*

### 6.2.3 Liquidity risk[20]

In the December quarter of CY14, the individual banks and the banking system as a whole were found to be resilient against specified liquidity stress scenarios.

**Table 6. 2 Liquidity risk of the Banking Sector: December 2014**

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

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

## 6.3 Stress Testing on NBFIs

Non-bank financial institutions (NBFIs) are required to undergo stress tests on a quarterly basis. Stress testing on NBFIs is primarily based on a simple sensitivity analysis using four risk factors- interest rate, credit, equity price and liquidity. The stress test for credit risk assesses the impact of an increase in NPLs, a downward shift in NPL categories, a fall in the value of

20 A liquidity stress test is conducted to assess the ability of a bank to withstand an unexpected liquidity drain without taking recourse to any outside liquidity support. The liquidity stress test considers chronic withdrawal of demand and time deposits (both in local and foreign currency). A bank is considered to be well liquid if it can continue its operation/business (after maintaining SLR) up to 5 consecutive days under a stressed situation. Standard shocks are 2, 4 and 6 percent respectively in excess of the bank's normal withdrawal.

**Chart 6. 2 Banking Sector CAR at different shock scenarios: December 2014**


*Source: FSD, BB.*

eligible collateral against loans and leases, an increase in NPLs under bad/loss category[21] and an increase in NPLs due to the default of top large borrowers. Minor, moderate and major level of shock scenarios to the individual risk factors are applied giving weights of 50.0 percent, 30.0 percent and 20.0 percent respectively.

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

Results from the stress tests, based on the data of December quarter of CY14, reveal that out of 31 NBFIs, 4 and 19 NBFIs were positioned as Green and Yellow respectively. On the other hand, 8 NBFIs were positioned as Red. These 8 NBFIs

21 In particular, two sectors where the NBFI has the highest exposure.

warrant supervisory attention from stress testing standpoint (Table 6.3). Pertinently, for September quarter of CY14, 3, 17 and 10 NBFIs were positioned as Green, Yellow and Red zone respectively[22].

In a nut shell, based on the data of the December quarter of CY14, a majority of the NBFIs are resilient in the face of different shock scenarios. Nevertheless, the NBFIs with supervisory concerns from a stress test standpoint should have contingency arrangements to withstand the distressed situations if the unfavorable events materialise.

**Table 6. 3 Stress Tests and Resilience of NBFIs**

(Number of NBFIs)

| Period | Green | Yellow | Red |
|---|---|---|---|
| End-Sep 2014 | 3 | 17 | 10 |
| End-Dec 2014 | 4 | 19 | 8 |

*Source: DFIM, BB.*

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

# Capital Market Development and Corporate Bond Market

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

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

The P/E ratio shows how much an investor is willing to pay per taka of earnings. It is an indicator for considering the extent of risks an investment might entail. The indicator is important to better understand what happens in the market after a large gain or decline. It is also one of the best gauges to know how expensive or cheap the overall stock market is at a certain moment.

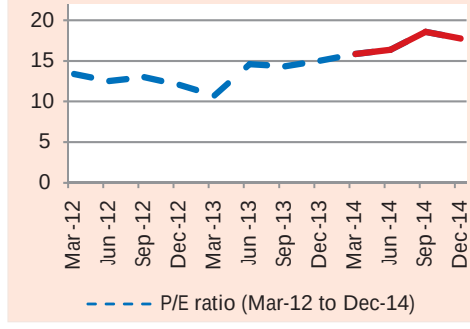
The weighted average P/E ratio for December quarter of CY14 was 17.77, which was 4.36 percent lower than those of the September quarter of CY14 and 17.92 percent higher than those of the December quarter of CY13. The overall market P/E ratio recorded an upward trend during June 2013 to September 2014 and thereafter declined slightly.

## 7.2 DSEX Index Movement

The Dhaka Stock Exchange (DSE) launched its two new price indices DSE Board Index (DSEX) and DSE 30 Index (DSE 30) on January 28, 2013 for better reflecting market trends. DSE revaluated and rebalanced the indices as per criteria set by S&P Dow Jones Indices LLC (S&P). The free-float method excludes locked-in shares held by promoters and governments.

During the fourth quarter (October-December) of CY14, the DSEX index

**Chart 7. 1 P/E Ratio - March, 2012 to December 2014**




*Source: Dhaka Stock Exchange.*

**Chart 7. 2 DSEX Index Movements - March, 2013 to December, 2014**


*Source: Dhaka Stock Exchange.*

slightly decreased after a notable improvement in the third quarter of the CY14. It is mentionable that the index increased by 14.03 percent at end-December 2014 from end-December 2013.

### 7.3 Daily Average Volume

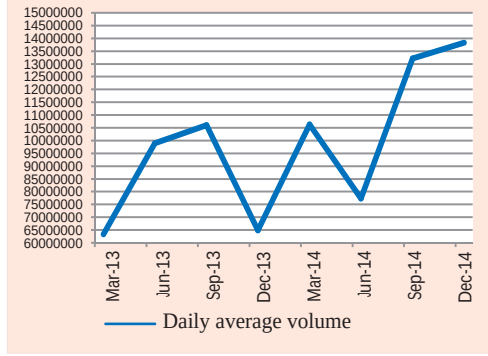
The daily average volume is the average amount of securities traded in a day. The amount of daily volume on a security can fluctuate from day to day depending on the amount of new information available about the company. When average daily trading volume is high, the stock is showing that it can be easily traded and has high liquidity. As a result, average daily trading volume can have an effect on the price of the security/stock. If trading volume isn't very high, the security will tend to be less expensive because people are not willing to buy it.

The daily average volume displayed an upward trend with notable fluctuation during March 2013 to December 2014. From June 2014, average volume moved upwards.

### 7.4 Daily Average Turnover

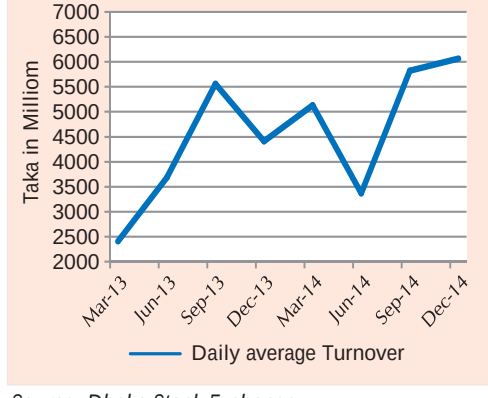
The Daily average turnover is the average amount of turnover[23] in a day. The extent of ups and downs in the turnover of capital market mainly depends on economic environment and some other factors such as short term increase in profit in capital market than those of other economic activities.

**Chart 7. 3 Daily Average Volume - March, 2013 to December, 2014**




*Source: Dhaka Stock Exchange.*

**Chart 7. 4 Daily Average Turnover- March, 2013 to December, 2014**




*Source: Dhaka Stock Exchange.*

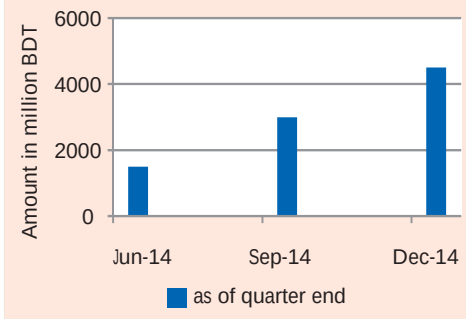
[23] A measure of stock liquidity calculated by dividing the total number of shares traded over a period by the average number of shares outstanding for the period.

The Daily average turnover was fluctuating during the period from March 2013 to December 2014, but did not show any particular trend. From June 2014, average turnover demonstrated a rising trend.

## 7.5 Corporate Bond Market

The corporate bond market ensures that funds flow towards productive investments and market forces exert competitive pressures on lending to the private sector. It is widely acknowledged that a well-functioning corporate bond market is important for an efficient capital market. In Bangladesh, however, equity financing from capital markets through issuing new shares is not very significant, whereas debt financing through issuing corporate bonds is almost nonexistent. The absence of a secondary bond market is a major reason for non-existence of corporate bond market in Bangladesh.

**Chart 7. 5 Corporate Bond issuance - June, 2014 to December, 2014**




*Source: DFIM, BB.*

As of end-December 2014, the amount of corporate bonds issued was 1.5 times the amount issued as of end-September 2014, which is encouraging for the stock market. Indeed, a persistent increase in the issuance of such bonds will help building up an efficient capital market.

# Recent stability initiatives of Bangladesh Bank

The importance of the financial system to economic growth has become more obvious in recent years. In the recent past, Bangladesh Bank has taken a number of initiatives for enhancing the stability of the financial system and maintaining confidence of the stakeholders therein, and thus to contribute significantly to the macroeconomic stability and growth of the country. The followings are some notable initiatives that have been taken in the financial system by Bangladesh Bank up to December 2014:

## 8.1 Financial Projection Model (FPM)

The Financial Projection Model (FPM) is mainly a tool for carrying out a dynamic supervision process. The FPM is intended to help Bangladesh bank in taking policy measures having importance from a financial stability standpoint. The model has been fully customized taking into account the existing prudential, regulatory and accounting practices in the financial sector of Bangladesh. The FPM has been introduced for the banking system from early 2014.

The main purpose of the FPM is to (i) assess the strengths and weaknesses of individual banks in the system based on hypothetical scenarios; (ii) perform comprehensive scenario analyses to identify risks; and (iii) improve BB's risk assessment capacity for individual banks.

All scheduled banks have been advised to take part to the implementation of the model from March 2014 (vide FSD circular No. 01/2014 dated March 03, 2014). In this regard, the Financial Stability Department developed one input template and a user manual. Initially, the scheduled banks were asked to submit appropriately filled-in input template for the quarters from December 2011 to March 2014 before June 15, 2014.

## 8.2 Interbank Transaction Matrix (ITM)

'Interbank Transaction Matrix' is a liquidity monitoring tool introduced by the BB for analyzing and reviewing the interconnectedness among the banks and non-bank financial institutions periodically to detect the risks arising from interconnection/contagion. The Matrix will help uncover the interrelation and interdependence in the interbank market. In this regard, a 'Data Template' and a 'User Manual' have been prepared by BB.

This tool has come into force from January 2014, and necessary instructions have been given to the banks and the NBFIs through FSD Circular No. 02/2013 dated December 18, 2013. The ultimate goal of this matrix is to focus on liquidity monitoring of banks and NBFIs with attention on both the individual financial institutions and the system as a whole towards establishing a more stable and resilient financial system in Bangladesh.

## 8.3 Preparation of Financial Stability Report (FSR)

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

## 8.4 Financial Inclusion

Bangladesh Bank has been embracing financial inclusion as an important development priority, as developing an inclusive financial system is a vital component for economic and social progress. A number of initiatives have been taken by BB as part of its financial inclusion drive, some of which are discussed below:

### 8.4.1 Bank Account for street children

BB introduced the service in June 2014 that allows street children to open a savings account with participating banks for as little as BDT 10. The initiative aims to "prevent the derailment of street children through developing their financial position". Permitting children to open bank accounts will hopefully lead to a higher level of physical security for them, and bring relief from the fear of their hard-earned money being taken by others.

The move is significant as it drops an earlier requirement of co-signature of a parent or a guardian due to unavailability of the same if the child is an orphan or has been forced to leave home. BB is coordinating with some banks that are piloting the scheme, in partnership with approved, legally-registered NGOs working on the financial inclusion of children. New accounts require a co-signature from an NGO, whose staff retains control of the account until the child attains the age of 18. For the poorest children, NGOs' involvement is aimed at ensuring the use of

children's money for their chief needs: survival, emergencies and planning for the future.

### 8.4.2 School Banking

BB introduced 'school banking' as part of its financial inclusion drive in November 2010, and issued a guideline in 2013 to provide students with necessary banking services by ensuring more transparent, encouraging and dynamic institutional financial supports to them under the school banking program. This financial net covers students as young as six years but not more than 18 years with an initial deposit of BDT 100 operated by their parents or legal guardians. This initiative will have a long-term positive effect and will be beneficial in keeping stability in the financial system.

### 8.4.3 Mobile Banking/Mobile Financial Services

Bangladesh has been gradually moving towards branchless banking, referred to as 'mobile financial services, which since 2011 has been providing easy access to formal financial services. Mobile financial services have the potential to enable people to have a higher disposable income, which in turn could lead to greater savings and a wider deposit base for the banks and other financial institutions.

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

BB, with technical support of the World Bank Group and the International Monetary Fund (IMF), has prepared the Contingency Planning framework to address the stability issue of the Bangladesh financial system. The Board of Directors of BB has approved two documents, namely "Contingency Planning and Bank Intervention/ Resolution Framework" and "Lender of Last Resort Framework" on September 30, 2013. A series of tasks under these frameworks have already been accomplished. It is expected that the frameworks will be effective during 2015.

## 8.6 Roadmap on implementation of Basel III

Basel III is a new regulatory framework for ensuring sufficient capital and liquidity, recommended by the Basel Committee on Banking Supervision. With a view to assessing the preparedness of the banks for implementing the framework, BB has conducted a quantitative impact study. Based on the findings of the

study, BB issued an 'Action Plan/Roadmap' for implementing the framework (vide BRPD Circular No.07/2014 dated March 31, 2014). Besides, BB issued guidelines on Basel III framework vide BRPD Circular No. 18/2014 dated December 21, 2014. Reporting of CRAR (capital to risk weighted asset ratio) and Leverage Ratio will be starting from March quarter of 2015 quarter.

### 8.7 Coordinated Supervision

With the aim of ensuring and maintaining financial stability, BB has taken an initiative to develop a 'Coordinated Supervision Framework' for the financial system. As part of developing this framework, preparation of a draft concept paper regarding policy coordination among the regulators is proceeding, considering the individual roles of regulators without creating conflicts over polices adopted. In this regard, a working committee, comprising the officials of BB, Bangladesh Securities and Exchange Commission, Insurance Development and Regulatory Authority, Microcredit Regulatory Authority and Registrar of Joint Stock Companies and Firms, has been formed. The committee has been entrusted with finalizing the concept paper.

# Appendices

## Table I CPI Inflation (12 month Average)

*(In percent)*

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

*Base : 2005-06 = 100*

## Table II Foreign Exchange Reserve

*(Amount in million USD)*

| Month | International Reserve |
|---|---|
| Sep-13 | 16154.8 |
| Oct-13 | 17345.4 |
| Nov-13 | 17105.9 |
| Dec-13 | 18094.6 |
| Jan-14 | 18119.1 |
| Feb-14 | 19150.5 |
| Mar-14 | 19294.9 |
| Apr-14 | 20370.1 |
| May-14 | 20267.5 |
| Jun-14 | 21508.0 |
| July-14 | 21383.5 |
| Aug-14 | 22070.4 |
| Sep-14 | 21836.6 |
| Oct-14 | 22312.4 |
| Nov-14 | 21590.0 |
| Dec-14 | 22309.8 |

| Table III Wage Earners' Remittance | |
|---|---|
| | *(Amount in million USD)* |
| **Quarter** | **Workers Remittance** |
| Mar-13 | 3719.5 |
| Jun-13 | 3339.8 |
| Sep-13 | 3270.4 |
| Dec-13 | 3502.5 |
| Mar-14 | 3722.4 |
| Jun-14 | 3733.1 |
| Sep-14 | 4010.0 |
| Dec-14 | 3476.0 |

| Table IV Industrial Production Index (Manufacturing) | |
|---|---|
| **Quarter** | **Index** |
| Mar-13 | 197.01 |
| Jun-13 | 220.81 |
| Sep-13 | 208.67 |
| Dec-13 | 219.86 |
| Mar-14 | 206.68 |
| Jun-14 | 240.13 |
| Sep-14 | 241.62 |

| Table V Exports and Imports | | |
|---|---|---|
| | | *(Amount in million USD)* |
| **Quarter** | **Aggregate Exports (f.o.b)** | **Aggregate Imports (f.o.b)** |
| Mar-13 | 7104.21 | 8158.00 |
| Jun-13 | 7314.32 | 9356.00 |
| Sep-13 | 7627.97 | 8804.00 |
| Dec-13 | 7057.84 | 8143.00 |
| Mar-14 | 7556.85 | 9560.00 |
| Jun-14 | 7943.96 | 10064.00 |
| Sep-14 | 7665.10 | 10003.00 |
| Dec-14 | 7219.10 | 10045.70 |

## Table VI Interest Rate (Weighted Average) Spread

*(In Percent)*

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

## Table VII Weighted Average Exchange Rate

*(BDT/USD)*

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

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

*(In billion BDT)*

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

## Table IX Asset Structure of the banking industry

*(Amount in billion BDT)*

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

**Table X Banking Sector Assets & NPL Concentration (End December, 2014)**

*(Amount in billion BDT)*

| Assets | Top 5 Banks | Other Banks | Top 10 Banks | Other Banks |
|---|---|---|---|---|
| Amount | 2999.0 | 6144.1 | 4287.4 | 4855.7 |
| Share (%) | 32.8 | 67.2 | 46.9 | 53.1 |
| **NPL** | **Top 5 Banks** | **Other Banks** | **Top 10 Banks** | **Other Banks** |
| Amount | 269.0 | 232.6 | 338.1 | 163.5 |
| Share (%) | 53.6 | 46.4 | 67.4 | 32.6 |

**Table XI Banking Sector NPL Ratio**

*(Amount in billion BDT)*

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

| Table XII Distribution of banks by NPL ratio | | | | | | |
|---|---|---|---|---|---|---|
| Range | Number of Banks as at end | | | | | |
| | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 |
| Up to 2.0% | 12 | 12 | 12 | 10 | 10 | 10 |
| 2.0% to < 3.0% | 2 | 5 | 2 | 2 | 5 | 6 |
| 3.0% to < 5.0% | 8 | 16 | 12 | 10 | 5 | 13 |
| 5.0% to < 10.0% | 17 | 11 | 16 | 20 | 20 | 14 |
| 10.0% to < 15.0% | 3 | 3 | 4 | 3 | 5 | 3 |
| 15.0% to < 20.0% | 5 | 2 | 3 | 2 | 2 | 2 |
| 20.0% & above | 8 | 7 | 7 | 9 | 9 | 8 |
| Total | 55 | 56 | 56 | 56 | 56 | 56 |

| Table XIII Banking Sector Loan Loss Provisions | | | |
|---|---|---|---|
| | | | *(Amount in billion BDT)* |
| Period | Required Provision | Provision Maintained | Provision Maintenance Ratio (%) |
| Sep-13 | 320.3 | 287.5 | 89.8 |
| Dec-13 | 252.4 | 249.8 | 99.0 |
| Mar-14 | 283.0 | 258.7 | 91.4 |
| Jun-14 | 300.4 | 260.4 | 86.7 |
| Sep-14 | 318.6 | 289.6 | 90.9 |
| Dec-14 | 289.6 | 281.7 | 97.3 |

## Table XIV Banking Sector Classified Loans Ratios

*(In percent)*

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

## Table XV Classified Loan Composition (end December 2014)

*(Amount in billion BDT)*

| Particulars | Amount | Percent of Total |
|---|---|---|
| Sub-Standard | 55.3 | 11.0 |
| Doubtful | 56.2 | 11.2 |
| Bad & Loss | 390.1 | 77.8 |
| Total | 501.6 | 100.0 |

## Table XVI Banking Sector ROA

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

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

| Table XVII Banking Sector ROE | | | | |
|---|---|---|---|---|
| Quarter | ROE Range | | | |
| | Up to 5.0% | > 5.0% to ≤ 10.0% | > 10.0% to ≤ 15.0% | > 15.0% |
| Mar-14 | 18 | 15 | 10 | 13 |
| Jun-14 | 18 | 14 | 9 | 15 |
| Sep-14 | 30 | 7 | 4 | 15 |
| Dec-14 | 18 | 11 | 17 | 10 |

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

| Table XVIII NBFIs' Borrowing, Deposit and Capital | |
|---|---|
| *(Amount in billion BDT)* | |
| **Particulars** | **December, 2014** |
| Borrowings | 128.2 |
| Deposits | 244.9 |
| Capital | 95.1 |
| Other Liabilities | 49.8 |
| Total | 518.0 |

| Table XIX NBFIs' Asset Composition | |
|---|---|
| *(Amount in billion BDT)* | |
| **Particulars** | **December, 2014** |
| Cash & Balance with Banks/FIs | 84.4 |
| Investments | 18.2 |
| Loans & Leases | 370.9 |
| Other Assets | 38.6 |
| Fixed Assets | 5.9 |
| Total | 518.0 |

| Table XX NBFIs' Classified loans and Leases (Amount in billion BDT) | | |
|---|---|---|
| **Quarter** | **Aggregate NPL** | **Aggregate NPL to total loan (%)** |
| Sep-13 | 21.0 | 7.0 |
| Dec-13 | 17.7 | 5.6 |
| Mar-14 | 18.9 | 5.8 |
| Jun-14 | 18.5 | 5.4 |
| Sep-14 | 22.4 | 6.2 |
| Dec-14 | 19.7 | 5.3 |

| Table XXI NBFIs' ROA & ROE (In percent) | | |
|---|---|---|
| **Quarter** | **Aggregate ROA** | **Aggregate ROE** |
| Jun-14 | 2.2 | 11.6 |
| Sep-14 | 2.2 | 12.2 |
| Dec-14 | 2.0 | 10.9 |

| Table XXII : Banking Sector CAR | | | | | | |
|---|---|---|---|---|---|---|
| **CAR** | **Number of banks (at end period)** | | | | | |
| | **Sep-13** | **Dec-13** | **Mar-14** | **Jun-14** | **Sep-14** | **Dec-14** |
| < 10% | 14 | 5 | 6 | 8 | 8 | 5 |
| 10% to < 15% | 25 | 32 | 31 | 30 | 30 | 33 |
| 15% + | 16 | 19 | 19 | 18 | 18 | 18 |

## Table XXIII Banking Sector Asset Share based on CAR as at end-December 2014

| CAR | Number of banks & their asset size | | Asset Share (%) |
|---|---|---|---|
| | Number of banks | Asset size (in billion BDT) | |
| < 10% | 5 | 1432.0 | 15.7 |
| 10% to < 15% | 33 | 7044.2 | 77.0 |
| 15% + | 18 | 666.8 | 7.3 |
| Total | 56 | 9143.0 | 100.0 |

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

| Particulars | Mar-12 | Jun-12 | Sep-12 | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Core Capital to RWA (%) | 8.7 | 8.7 | 8.4 | 8.1 | 6.8 | 7.1 | 7.2 | 9.0 | 8.8 | 8.3 | 8.1 | 8.6 |
| Number of core capital compliant banks | 44 | 44 | 43 | 43 | 40 | 46 | 47 | 51 | 51 | 50 | 51 | 51 |
| Overall CAR (%) | 11.3 | 11.3 | 10.9 | 10.5 | 8.8 | 9.1 | 9.1 | 11.5 | 11.32 | 10.7 | 10.6 | 11.4 |
| Number of CAR compliant banks | 43 | 43 | 40 | 41 | 39 | 43 | 42 | 51 | 50 | 48 | 48 | 51 |
| No. of banks in the industry | 47 | 47 | 47 | 47 | 47 | 54 | 55 | 56 | 56 | 56 | 56 | 56 |

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

*(Amount in billion BDT)*

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

| Table XXVI Banking Sector Advance-to-Deposit Ratio ((ADR) in 2014 | |
|---|---|
| **Period** | **ADR (%)** |
| March-14 | 69.9 |
| June-14 | 70.5 |
| September-14 | 69.9 |
| December-14 | 70.9 |

| Table XXVII Bank Cluster-wise ADR at end-December 2014 | |
|---|---|
| **Bank wise** | **ADR (%)** |
| SCBs | 53.5 |
| PCBs | 78.3 |
| FCBs | 61.8 |
| DFIs | 76.7 |
| Industry | 70.9 |

**Table XXVIII NBFIs' CRR & SLR**

*(Amount in million BDT)*

| Quarter End | Aggregate CRR | | | Aggregate SLR | | |
|---|---|---|---|---|---|---|
| | Required | Maintained | Surplus/Shortfall | Required | Maintained | Surplus/Shortfall |
| Mar 2014 | 3346.4 | 3660.6 | 314.2 | 10284.3 | 41751.5 | 31467.2 |
| Jun 2014 | 3530.5 | 3928.9 | 398.4 | 10981.2 | 60698.7 | 49717.5 |
| Sep 2014 | 3720.5 | 4049.0 | 328.5 | 11582.8 | 66411.9 | 54829.1 |
| Dec 2014 | 3887.7 | 4396.9 | 509.2 | 12053.7 | 65557.8 | 53504.1 |

| Table XXIX Capital Adequacy Ratio of NBFI Sector | | | | | |
|---|---|---|---|---|---|
| **Particulars** | **End Sep-13** | **End Dec-13** | **End Mar-14** | **End June-14** | **End Sep-14** |
| Eligible Capital to RWA (%) | 18.1 | 18.4 | 18.0 | 17.4 | 16.9 |

| Table XXX Asset Share of NBFIs based on CAR at end-September 2014 | | |
|---|---|---|
| **CAR Range** | **No. of banks** | **Asset Share (%)** |
| < 10% | 2 | 8.7 |
| 10% to < 15% | 9 | 43.0 |
| 15% & above | 19 | 48.3 |

*Note: 1 (one) NBFI did not report its CAR.*

| Table XXXI Overall CAR and Tier 1 Capital of NBFI Sector | | | | | |
|---|---|---|---|---|---|
| *(Amount in billion BDT)* | | | | | |
| **Capital Adequacy Ratio (CAR)** | | | | | |
| **Particulars** | **End Sep-13** | **End Dec-13** | **End Mar-14** | **End June-14** | **End Sep-14** |
| **Risk-weighted Assets (RWA)** | | | | | |
| Credit RWA | 3,447.9 | 3,459.9 | 3,565.3 | 3,806.8 | 3961.2 |
| Market RWA | 215.2 | 237.5 | 269.5 | 260.9 | 339.4 |
| Operational RWA | 262.1 | 264.7 | 278.8 | 273.0 | 269.1 |
| **Total RWA** | **3,925.2** | **3,962.1** | **4,113.6** | **4,340.7** | **4569.7** |
| **Capital** | | | | | |
| Core Capital (Tier-1) | 654.3 | 675.8 | 683.0 | 697.7 | 715.0 |
| Supplementary Capital | 54.5 | 52.6 | 57.1 | 59.2 | 59.8 |
| Eligible Capital | 708.8 | 728.4 | 740.1 | 756.9 | 774.8 |

## Table XXXII Non-complaint banks at different shock scenarios (Based on data on End-December 2014)

| Shocks | Non-compliant banks | | |
|---|---|---|---|
| | Minor Shock | Moderate Shock | Major Shock |
| Performing loan directly downgraded to B/L : Sectoral Concentration 1* | 11.30 | 11.18 | 11.08 |
| Performing loan directly downgraded to B/L : Sectoral Concentration 2** | 11.29 | 11.18 | 11.07 |
| Increase in NPLs due to default of Top large loan borrowers | 7.49 | 5.32 | 3.92 |
| Negative shift in NPL categories | 10.75 | 8.85 | 7.84 |
| Decrease in the FSV of the Collateral | 10.88 | 10.42 | 9.46 |
| Increase in NPLs | 10.59 | 8.64 | 5.32 |
| Interest Rate | 11.30 | 11.25 | 11.20 |
| Exchange Rate: Currency Appreciation/Depreciation | 11.32 | 11.30 | 11.28 |
| Equity Shock | 10.92 | 10.49 | 9.61 |
| Combined Shock | 9.03 | 4.21 | -2.02 |
| Credit Shock under Basel II (BS) | 10.14 | 10.11 | 10.07 |
| Credit Shock under Basel II (OBS) | 10.96 | 10.95 | 10.94 |

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

## Table XXXIII Banking Sector CAR at different Shock Scenarios (Based on data on End-December 2014)

| Shocks | System (%) | | |
|---|---|---|---|
| | Minor Shock | Moderate Shock | Major Shock |
| Performing loan directly downgraded to B/L : Sectoral Concentration 1 | 0 | 0 | 2 |
| Increase in NPLs due to default of Top large loan borrowers | 24 | 31 | 33 |
| Negative shift in NPL categories | 3 | 10 | 15 |
| Decrease in the FSV of the Collateral | 3 | 4 | 7 |
| Increase in NPLs | 5 | 22 | 34 |
| Interest Rate | 7 | 12 | 14 |
| Exchange Rate: Currency Appreciation Depreciation | 0 | 0 | 0 |
| Equity Shock | 3 | 4 | 4 |
| Combined Shock | 16 | 33 | 35 |
| Credit Shock under Basel II (BS) | 8 | 8 | 9 |
| Credit Shock under Basel II (OBS) | 2 | 2 | 2 |

*NB: Pre-shock CARs of 5 banks out of 56 were below the minimum required level of 10% as on 31 December 2014.*

## Table XXXIV Price Earnings Ratio of Capital Market

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

## Table XXXV DSE Broad Index, Daily Average Volume and Daily Average Turnover

| Quarter | DSE Board Index | Daily Average Volume | Daily Average Turnover in million BDT |
|---|---|---|---|
| Mar-13 | 3590.05 | 63423904.07 | 2406.34 |
| Jun-13 | 4104.65 | 98952727.59 | 3682.73 |
| Sep-13 | 3937.68 | 106046251.50 | 5556.71 |
| Dec-13 | 4266.55 | 64940448.00 | 4411.54 |
| Mar-14 | 4491.98 | 106230973.50 | 5131.63 |
| Jun-14 | 4480.52 | 77376385.06 | 3370.76 |
| Sep-14 | 5074.31 | 132149883.30 | 5822.98 |
| Dec-14 | 4864.96 | 138265542.00 | 6064.46 |

## Table XXXVI Corporate Bond Issuance

*(Amount in million BDT)*

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

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