Quarterly

Financial Stability Assessment Report

Issue: 2015 (IV)
October-December
2015

বাংলাদেশ ব্যাংক

Bangladesh Bank

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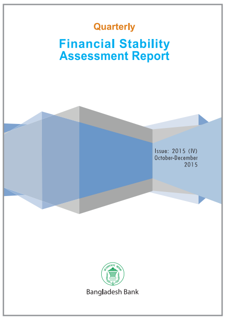
Financial Stability Department
Bangladesh Bank



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This report is based on unaudited and provisional data of banks and non-bank financial institutions available up to December 31, 2015 unless stated otherwise in the relevant chapters/sections.

MESSAGE OF THE GOVERNOR

The global macro-financial risks are being shifted from advanced to emerging economies. Due to increasing connectivity with the global economy, any sign of instability in the global macroeconomic and financial environment can affect our future economic growth prospects. Therefore, the role of Bangladesh Bank is very crucial in safeguarding against risks to stability and balances in the macroeconomic and financial environment.

In order to maintain stability of the Bangladesh financial system, Bangladesh Bank remains vigilant to diagnose risks and vulnerabilities of the financial system, implements macro-prudential initiatives and continues its financial inclusion activities. In addition to giving focus on macro-financial stability, Bangladesh Bank has given emphasis on sustainable and inclusive growth that can lift Bangladesh economy, ensuring social cohesion and empowerment, while protecting the environment.

Our financial system has grown and matured over the years, which enabled financing of a wider economic base with strong level of resilience attributable to prudent monetary and fiscal policies. In recent times, Bangladesh Bank has actively leveraged the financial system for innovating and deepening empowerment initiatives. These initiatives have boosted domestic demand, helped us to navigate the external shocks, especially in the aftermath of the 2007-2008 global financial crisis. We remain dedicated to serving the depositors and the borrowers through better regulation, supervision, policy innovation, and market development along with strong emphasis on improving governance for higher financial intermediation efficiency keeping fiscal and monetary policy objectives in mind. The current issue of this assessment report reflects our key efforts to stabilize our economy as well as conveys the performances of various players of our financial system.

I hope that the stakeholders will get a deep insight into the stability attributes of the quarter under review from this report. I would like to convey my heartfelt thanks to the officials of the Financial Stability Department who persevered tirelessly in preparing this report.

Fazle Kabir
Governor

MESSAGE OF THE DEPUTY GOVERNOR

The prospect of rising interest rates in the United States and economic slowdown in China were contributing to uncertainty and a higher risk of economic vulnerability worldwide during the October-December quarter of 2015. The growth in global trade slowed considerably and a decline in raw material prices posed problems for economies based on these, while the financial sector in many countries had weaknesses and financial risks were increased in emerging markets. The start of a normalization of U.S. monetary policy and China's shift toward consumption-led growth were essential. There are "potential spillover effects", with the prospect of increasing interest rates that have already contributed to higher financing costs for some borrowers, including emerging and developing markets.

Amid the stated developments in the global financial system, Bangladesh financial system remained moderately stable during the review quarter, attributable to declining inflation, high level of foreign exchange reserve, increase of export receipts, decrease in government borrowings and steady exchange rate. Increased profitability, decreased non-performing loan, and increased capital to risk-weighted asset ratio depict a healthy position of the banking sector. Asset quality and profitability of the non-bank financial institutions (NBFIs) in aggregate have also improved. Moreover, in line with Government's agriculture and agriculture-friendly development goals, a handsome amount of target has been set for agricultural credit for all scheduled banks. Investments by scheduled banks in non-listed special purpose fund/funds have been allowed and initiatives taken to facilitate housing finance to non-resident Bangladeshis (NRBs).

I acclaim the exertion and dedication of the officials of Financial Stability Department who worked hard to prepare the report in time. I hope that stakeholders of the financial system would get important insights from the report and would be able to anticipate any potential shock and maintain readiness to counter the same.

Shitangshu Kumar Sur Chowdhury
Deputy Governor

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Acronyms

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

Executive Summary

Global economic activity remained subdued during the review quarter. Growth in emerging markets and developing economies declined while a modest recovery continued in advanced economies. The gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services, lower prices for energy and other commodities, and a gradual tightening of monetary policy in the United States are the key transitions continued to influence the global economic outlook. Amid these developments, Bangladesh financial system remained mostly stable during the October-December quarter of 2015 (CY15).

Gross international reserves increased notably and reached to USD 27.5 billion at the end of October-December quarter 2015 (review quarter), sufficient enough to meet more than eight months' import bills. Index of Industrial Production (General-Manufacturing) increased moderately compared to end-September 2015 position. Inflation recorded a minor decline with respect to the preceding quarter. Wage earners' remittance displayed a slight decline. The spread between the weighted average lending and deposit rates recorded a slight rise during the quarter under review. The value of Bangladesh Taka (BDT) against the US dollar (USD) increased slightly while credit to the Government (gross) by the banking system recorded a moderate decrease. Import payments and export receipts increased moderately in the review quarter from those of the preceding quarter.

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

At the end of December 2015, a significant number of the banks were able to maintain their minimum regulatory capital to risk weighted asset ratios (CRAR) above 10.0 percent in line with Pillar 1 of the Basel III capital framework. Moreover, a substantial share of banking assets was concentrated within the CRAR-compliant banks over this period. The overall banking sector's capital to risk weighted asset ratio slightly improved from the end-September 2015 position. The Tier-1 capital ratio also increased slightly; the ratio was much higher than the minimum requirement of 5.5 percent. Importantly, in the review quarter, banking sector has been able to maintain a significant leverage ratio compared to the minimum requirement set by Bangladesh Bank.

As of end-December 2015, the Advance-to-Deposit ratio (ADR) of the banking industry slightly increased compared to the end-September 2015 position. Furthermore, banking sector as a whole had no shortfall in Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) in the review quarter.

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

Non-bank Financial Institutions (NBFIs) sector also demonstrated a mixed trend in the review quarter of CY15. Asset quality improved moderately from September 2015 position while the key profitability indicators - ROA and ROE - increased significantly over the previous quarter.

During the review quarter, the NBFIs had no shortfall in either the CRR or SLR. The capital adequacy ratio (CAR) of the NBFIs sector increased slightly in the review quarter, from the preceding quarter. A substantial share of this sector's asset was concentrated within the CAR compliant NBFIs, which attributed further in maintaining the stability of the sector. Moreover, the Tier-1 ratio was much higher than the regulatory requirement of 5.0 percent.

Stress testing analysis on the NBFIs reveals that a majority of them were resilient in the event of stress scenarios as of end-December 2015. However, 10 NBFIs were prone to shock events.

The capital market continued to record a price correction in the review quarter compared to the preceding quarter; the DSEX, DSE 30, and DSES declined slightly. On the other hand, the amount of corporate bonds issued increased significantly compared with end-September 2015 position.

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

I. **Central Database for Large Credit (CDLC):** Bangladesh Bank has introduced a new oversight framework named **'Central Database for Large Credit (CDLC)'** aimed to help banks/FIs to get early warning signals of stress on their credits and help monitor the large exposures in a more structured way.

II. **Investment in Capital Market:** Bangladesh Bank has issued a circular on 20 December 2015 regarding banks' investment in the capital market with the aim of continuing the policy support towards the formation of a vibrant capital market for betterment of the financial system.

III. **Taka loan to Non-resident Bangladeshis (NRBs) working abroad:** Bangladesh Bank issued a circular on 06 December 2015 allowing the Authorized Dealers (ADs) of Foreign Exchange to extend Taka denominated mortgage loans to NRBs subject to observance of the existing guidelines of Prudential Regulations for Consumer Financing (Regulation for housing finance).

IV. **Agricultural and Rural Credit Program including special credit program and loan to 111 enclaves:** Bangladesh Bank has launched a new programme for financing small and marginal sized farmers for productivity improvement. Bangladesh Bank has also instructed the banks to disburse agricultural loans to the farmers in newly included 111 enclaves of Bangladesh.

V. **Financial Sector Support Project (FSSP):** Bangladesh Bank has undertaken a Financial Sector Support Project (FSSP) with the financial assistance from the International Development Association (IDA) to improve financial market infrastructure, regulatory and oversight capacity of Bangladesh Bank and facilitate firms' access to long term financing.

VI. **Guideline on ICT Security for Banks and Non-bank Financial Institutions:** Bangladesh Bank has issued revised Guidelines on ICT security for banks and Non-bank Financial Institutions (NBFIs) to establish a standard ICT Security Policy and Management Approach which would help the banks and NBFIs for secured setup of their ICT infrastructure.

VII. **Investment in Special Purpose Vehicle, Alternative Investment Fund or Similar fund/funds by the scheduled bank:** Bangladesh Bank allowed all scheduled banks to invest in non-listed special purpose fund/funds (Special Purpose Vehicle, Alternative Investment Fund or similar), which are registered with Bangladesh Securities and Exchange Commission (BSEC).

VIII. **Prevention of Money Laundering and Terrorist financing:** Bangladesh Financial Intelligence Unit (BFIU) has instructed all cooperative societies and capital market intermediaries (CMIs) to comply with all respective provisions of the Money Laundering Prevention Act, 2012, and Anti Terrorism Act, 2009.

Volatile conditions of emerging markets and developing economies triggered some uncertainties and higher risks of economic vulnerabilities worldwide during the October-December quarter of 2015. Nevertheless, Bangladesh financial system has been mostly successful in withstanding different challenges during the review quarter which could be attributed to coordinating role of financial sector regulators, the Government, financial intermediaries, and stakeholders of the financial system. Whatsoever, there is no room for complacency. Financial sector regulators need to remain cautious about the spillover effects of their policy stances on the real economy to the best possible extent.

Chapter-1

Macroeconomic Developments

Bangladesh economy demonstrated a stable position with respect to key macroeconomic indicators during the review quarter of calendar year 2015 (CY15). This could be attributed to declining inflation, healthy foreign exchange reserve, increased exports, coupled with increased value of Taka and decreased government borrowings from the banking sector.

1.1 Inflation

At end-December 2015, inflation remained mostly unchanged to 6.2 percent with respect to the rate of end-September 2015 and this trend continued throughout the December quarter (Chart 1.1).

1.2 Foreign Exchange Reserve and its Import Coverage

At end-December 2015, the gross foreign exchange reserve reached at USD 27.5 billion, an increase by 4.2 percent, from the USD 26.4 billion recorded at end-September 2015.

1.3 Wage Earners' Remittance

The remittances from Bangladeshi nationals, working abroad, stood at USD 3,553.6 million, recording a decrement of 9.7 percent, at end-December 2015, as compared to USD 3,933.6 million recorded at end- September 2015.

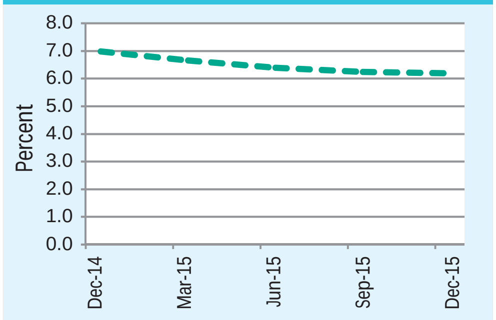
In the preceding quarter too remittance recorded a declined growth compared to April-June quarter of 2015.

1.4 Industrial Production

The Quantum Index of Industrial Production (General-Manufacturing) at end-December 2015 reached to 286.1 compared with 238.7 at end-September 2015.

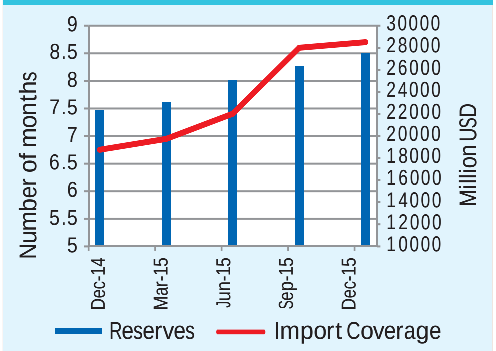
[1] On FOB basis

Chart 1.1 Inflation



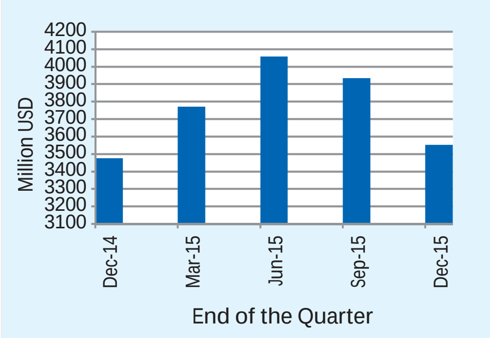
Source: Economic Trends, BB (various issues).

Chart 1.2 Foreign Exchange Reserve



Source: Research Department, BB.

Chart 1.3 Wage Earners' Remittance

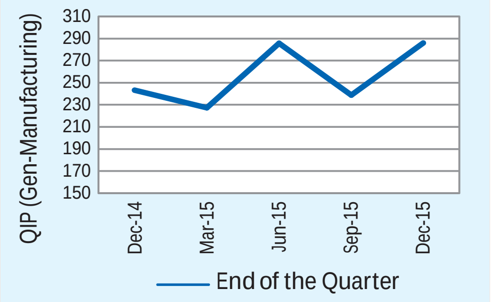


Source: Monthly Economic Trends, BB (various issues).

1.5 Imports and Exports

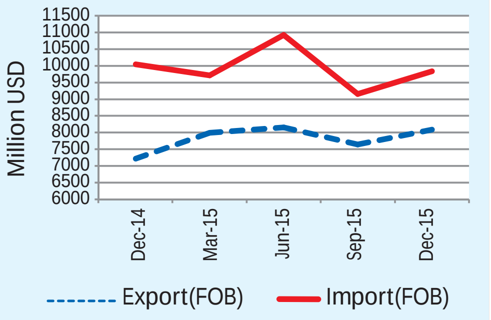
In the fourth quarter of CY15, aggregate import payment[1] increased by 7.4 percent and reached at USD 9,836.0 million as compared to USD 9,155.0 million recorded

Chart 1.4 Industrial Production Index (General-Manufacturing)



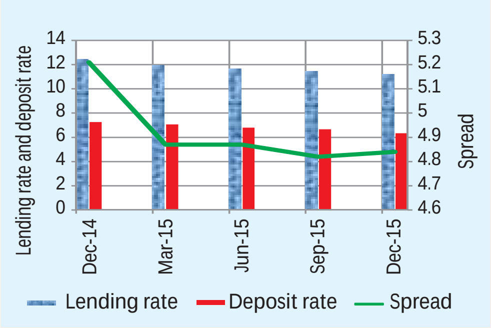
Note: Base 2005-06=100. Source: BBS.

Chart 1.5 Exports and Imports (FOB)



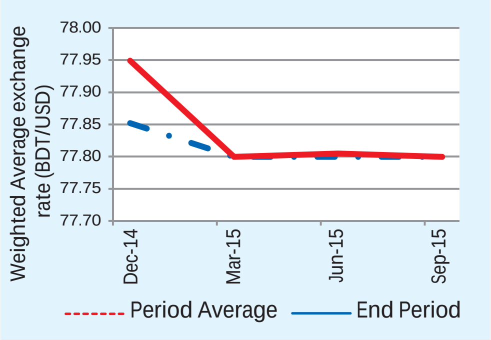
Source: Research Department, BB.

Chart 1.6 Interest Rate Spread



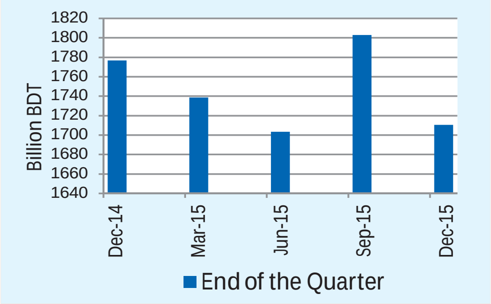
Source: Major Economic Indicators, BB (various volumes).

Chart 1.7 Exchange Rate



Source: Economic Trends, BB.

Chart 1.8 Credit to the Govt. (Gross) by the Banking System



Source: Economic Trends, BB.

in the previous quarter. Export receipts, on the other hand, increased by 5.9 percent and reached at USD 8,089.0 million compared with USD 7,640.0 million recorded in the third quarter of CY15.

1.6 Interest Rate Spread

The interest rate spread between the weighted average lending and deposit rates slightly increased to 4.9 percent in the review quarter; the weighted average lending rate was recorded as 11.2 percent while the deposit rate was 6.3 percent. Pertinently, in the review quarter, both the lending and deposit rates slightly declined.

1.7 Exchange Rate

The value of the Bangladesh Taka in terms of US dollar recorded an appreciation to BDT 78.78 per USD in December 2015 from USD 77.80 in September 2015.

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

Credit to the Government (gross) by the banking system decreased by BDT 92.4 billion or 5.1 percent during the review quarter. Except September quarter a declining trend was observed in the remaining three quarters of CY15.

Chapter-2

Banking Sector Performance

During the October-December quarter of CY15, the banking sector demonstrated a positive trend in terms of asset growth, return on assets, return on equity and asset quality.

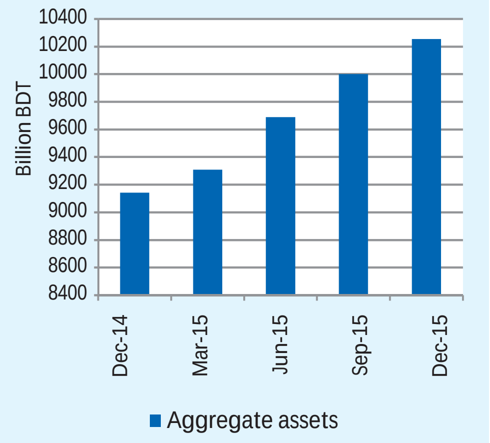
2.1 Assets Structure of the Banking Sector

The balance sheet size of the banking sector[2] grew by almost 2.5 percent and reached BDT 10,255.4 billion at end-December 2015. Loans and advances, as a percentage of total assets, recorded a slight increase while investments recorded a moderate increase compared with end-September CY15.

The share of loans and advances, the largest among the asset items, increased by 27 basis points at end-December of CY15, while the share of investments in government and other securities increased by 134 basis points (both expressed as percentage of total assets) compared with end-September 2015. The share of banks' assets with Bangladesh Bank increased by 38 basis points, and balances with other banks and Financial Institutions increased by 50 basis points. Banks' money at call decreased by 11 basis points, while the share of other assets decreased by 239 basis points.

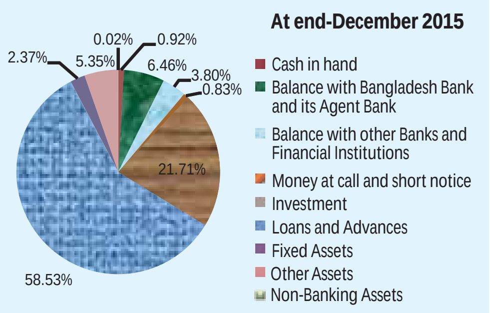
The asset concentration ratios of top 5 banks and top 10 banks as against total banking system assets were 29.5 percent

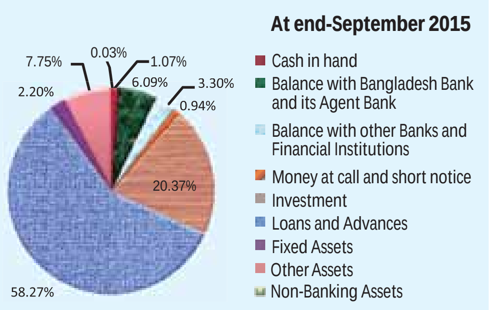
Chart 2.1 Asset size of the Banking Industry



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

Chart 2.2 Asset structure of the Banking Industry





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

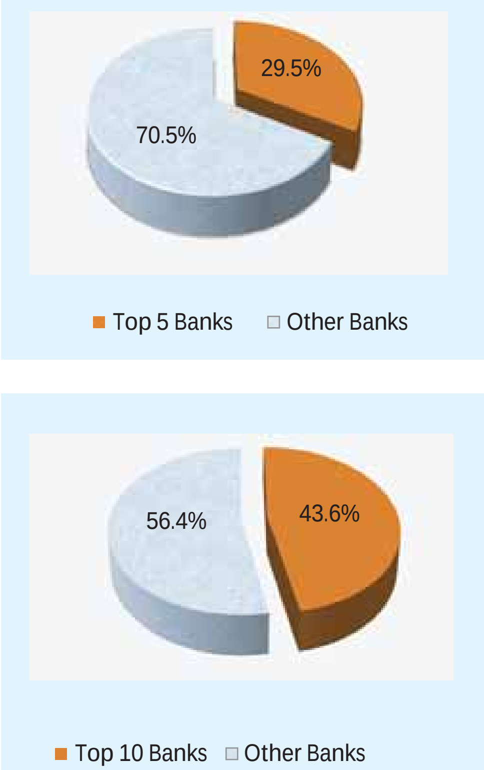
2 Taking into account only scheduled banks.

and 43.6 percent respectively at end-December 2015; the proportion decreased relative to that in the preceding quarter.

2.2 Asset Quality

The NPL ratio[3] decreased by 110 basis points, reaching 8.8 percent at end-December 2015 from 9.9 percent recorded at end-September 2015. State-owned commercial banks (SCBs)' NPL is higher than that of the overall banking industry.

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



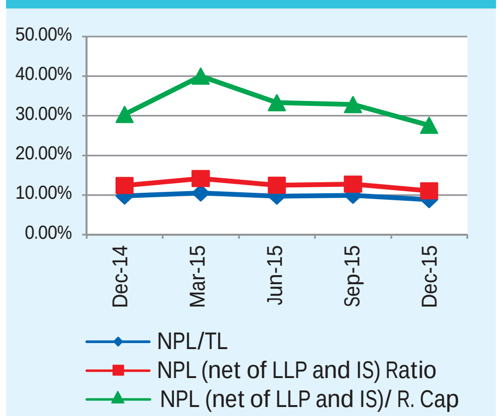
Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

However, NPL of SCBs decreased to 21.5 percent from 21.8 percent recorded at end-September 2015. Besides, non-performing loans net of specific loan loss provisions and interest suspense to total loans decreased to 2.3 percent from 2.8 percent recorded at end-September 2015. Whereas non-performing loans net of specific loan loss provisions and interest suspense to regulatory capital decreased significantly to 16.5 percent at end-December 2015 from 20.1 percent of end-September 2015.

The distribution of banks, based on their NPL ratios, indicates that 12 banks came up with double-digit values in December CY15. Of these, 8 banks' NPL ratios were higher than 20.0 percent.

The provision maintenance ratio[4], at end-December 2015, reached 86.1 percent as opposed to 92.5 percent recorded at end-September 2015.

Chart 2.4 NPL Ratio



Source: BRPD, BB.

It is to mention that 49.9 percent and 63.5 percent of the non-performing loans were concentrated in the top 5 and top 10 banks respectively at end-December 2015 (chart 2.7).

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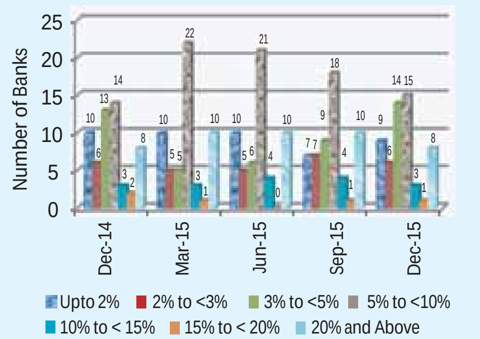
3 Non-performing loan to total loan ratio.

4 Maintained provision to required provision.

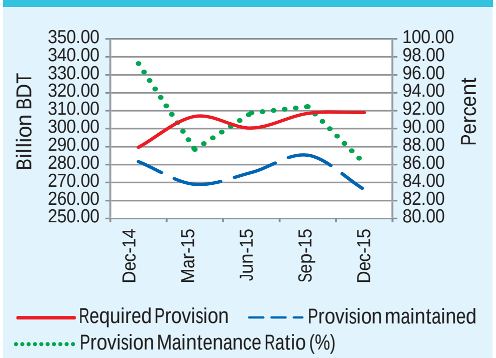
Chart 2.5 Distribution of Banks by NPL Ratio



Source: BRPD, Compilation FSD.

The ratio of bad/loss loans to total classified loans stood at 84.6 percent at end-December CY15[5]. The NPL under sub-standard and doubtful categories, on the other hand, constituted 8.9 and 6.5 percent of total NPLs respectively. The proportion of sub-standard loans and doubtful loans decreased by 2.4 percent and 2.3 percent respectively in each category while the proportion of bad/loss loans increased by 4.7 percent from the previous quarter.

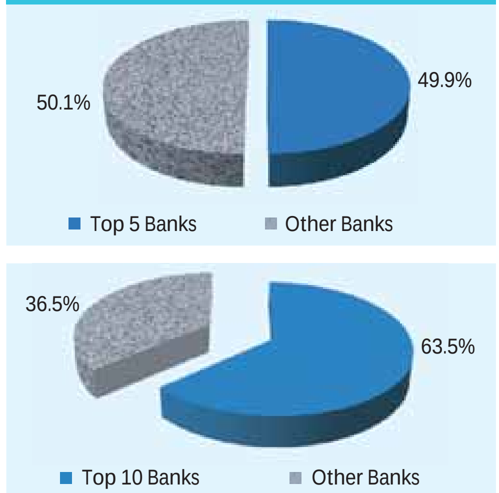
Chart 2.6 Banking Sector Loan Loss Provision



Source: BRPD, BB.

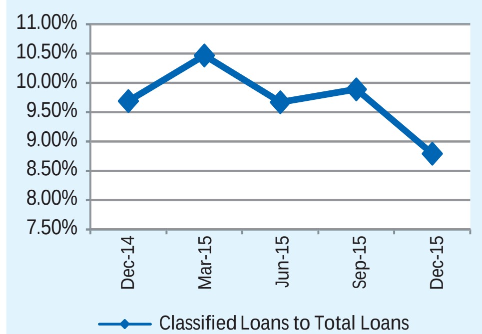
5 Compared with 80.0 percent recorded at end-September CY15.

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



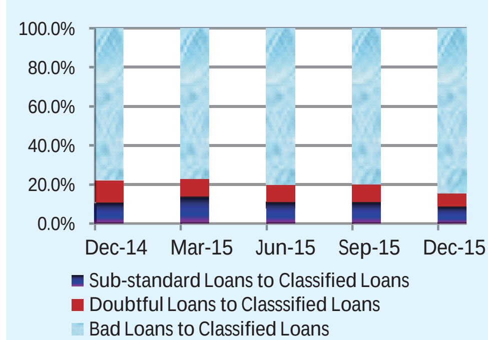
Source: BRPD; Compilation FSD.

Chart 2.8 NPL Ratio of the Banking Industry



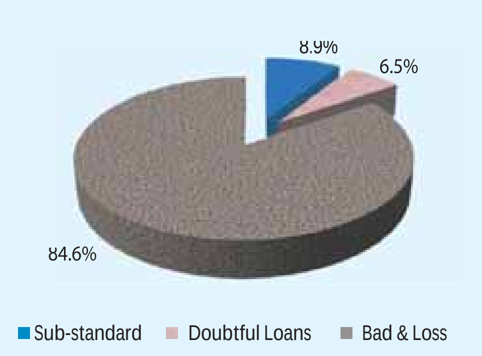
Source: BRPD, BB.

Chart 2.9 Proportion of NPL Categories



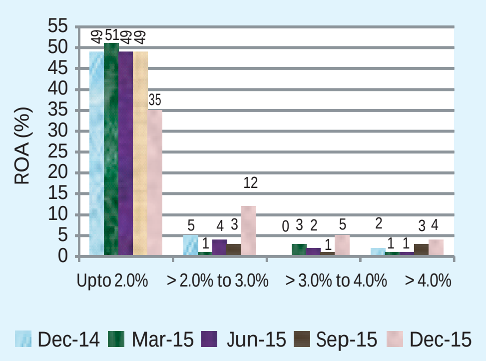
Source: BRPD, BB.

Chart 2.10 NPL Composition of Banks



Source: BRPD, BB.

Chart 2.11 Banking Sector Return on Assets (ROA)

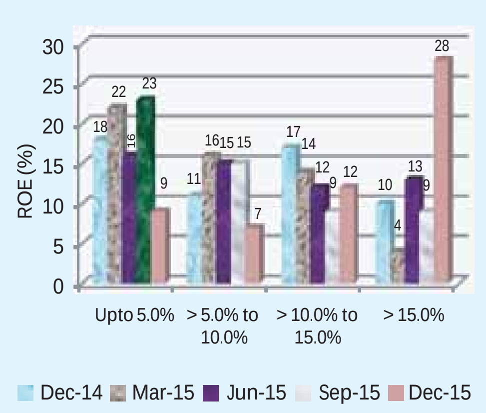


Source: Compilation (Aggregate P/L account of banking industry): FSD, BB.

2.3 Profitability

Both return on assets (ROA) and return on equity (ROE) increased by 70 and 763 basis points respectively, at end-December CY15 from the previous quarter and reached at 1.27 and 14.20 percent respectively[6]. Almost 62.5 percent of the banks had ROA of less than 2.0 percent, while 37.5 percent of banks had ROA higher than 2.0 percent. On the other hand, 83.9 percent of the banks had ROE higher than 5.0 percent.

Chart 2.12 Banking Sector Return on Equity (ROE)



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

6 ROA and ROE have been annualized from the respective quarterly ratios.

Chapter-3

Non-Bank Financial Institutions' Performance

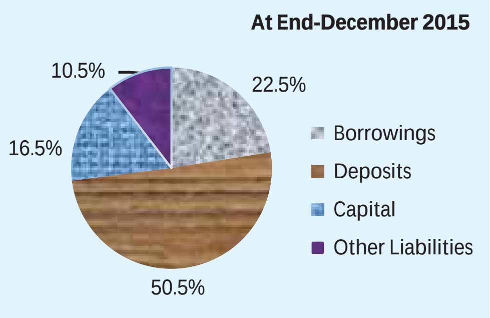
Non-bank Financial Institutions (NBFIs) showed a mixed trend in the review quarter of CY15. Key financial soundness indicators, such as non-performing loans and leases and profitability ratios deteriorated, portraying a lackluster performance of the industry in the review quarter.

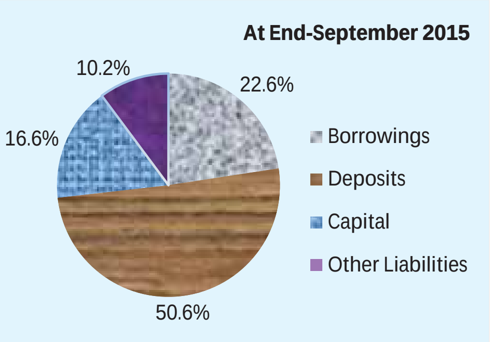
3.1 Sources of Funds of the NBFIs

Deposits constitute the major source of total funds for the NBFIs, while borrowings are the second important source. Capital, call money, bonds etc. constitute the other funding sources.

At end-December 2015, borrowings, deposits, capital and other liabilities constituted 22.5, 50.5, 16.5 and 10.5 percent respectively of the sources of funds of the NBFIs. In comparison with end-September 2015, the proportions of all the sources of funds remained almost unchanged.

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





Source: NBFIs, FSD Staff Compilation.

3.2 Assets Composition/Structure

The major portion of NBFIs' funds is deployed in loans and leases. Cash and balances with banks/FIs, investments, other fixed and non-financial assets are the other components of their assets.

NBFIs' loans and leases constituted 74.0 percent of total assets at end-December 2015. Cash and balances with banks/FIs, investments, fixed assets, and other assets comprised 15.2, 3.3, 2.1 and 5.4 percent of total assets respectively.

When compared with end-September 2015 positions, the proportion of cash and balances with other banks/FIs has decreased by 20 basis points. However, the proportion of loans and leases has increased by 150 basis points, while the proportion of other assets has decreased by 230 basis points.

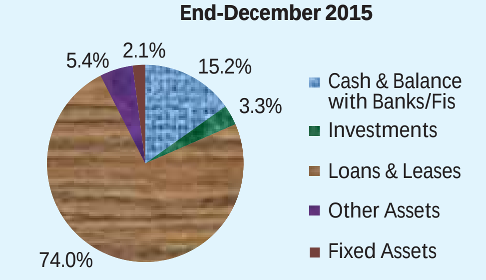
3.3 Asset Quality

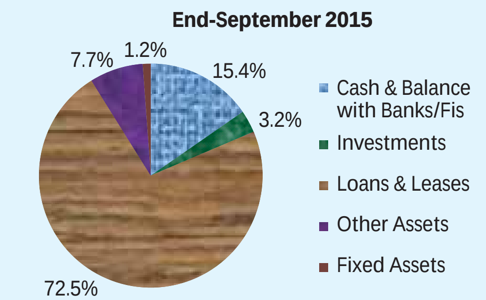
NBFIs' asset quality improved slightly in December 2015[7]. Non-performing loans and leases decreased from BDT 45.2 billion at end-September 2015 to BDT 40.0 billion in end-December 2015, recording a decrease

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

of 11.5 percent. The ratio of non-performing loans and leases to total loans and leases declined to 8.9 percent at end-December 2015, which is 170 basis points lower than the ratio of 10.6 percent recorded at end-September 2015.

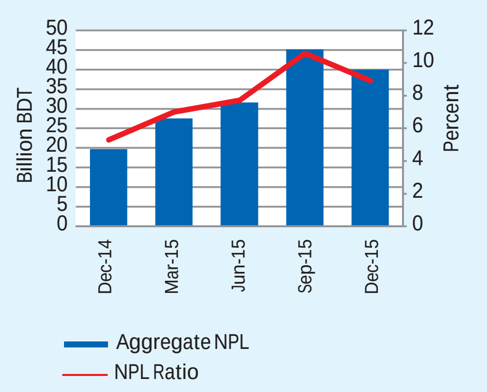
Chart 3.2 NBFIs' Assets Composition





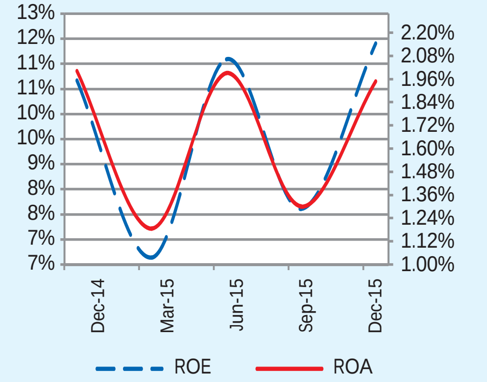
Source: NBFIs, FSD staff compilation.

Chart 3.3 NBFIs' Non-Performing Loan and Leases



Source: DFIM, BB.

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



Source: NBFIs; FSD staff compilation.

3.4 Profitability

NBFIs' profitability has improved in the December quarter of CY15 over the September quarter of CY15[8].

The return on assets (ROA) and return on equity (ROE) stood at 1.9 and 11.8 percent respectively in the December quarter of CY15 as compared to 1.3 and 7.8 percent respectively recorded in the preceding quarter.

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

Chapter-4

Banking Sector Liquidity and Capital Adequacy

The banking sector capital to risk-weighted assets ratio (CRAR) increased slightly in the review quarter compared with that of the previous quarter. The maintained overall CRAR was higher than the minimum requirement of 10.0 percent. The advance-to-deposit ratio (ADR) has slightly increased too.

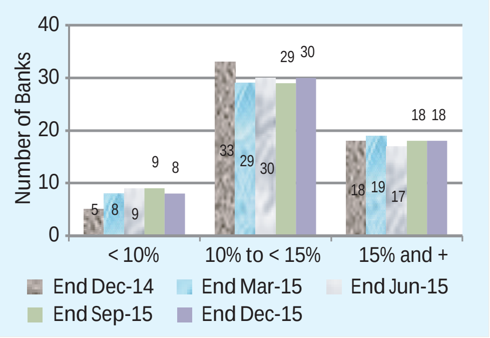
4.1 Capital Adequacy

Under the Basel-III framework, banks in Bangladesh are required to maintain a capital to risk-weighted assets ratio (CRAR) of at least 10.0 percent and Tier-1 capital ratio of not less than 5.5 percent.

In the review quarter, a majority of banks were compliant to the minimum CRAR requirement, compared to end-September 2015. 48 out of 56 banks were able to maintain their capital ratios of 10.0 percent or higher in line with Pillar 1 of the Basel III capital framework. Moreover, as evident from Chart 4.2, a substantial share of banking assets was concentrated within the CRAR-compliant group of banks reflecting a stable and resilient condition for the financial sector. CRARs of 30 banks were within the range of 10-15 percent and their assets accounted for nearly 65 percent of the total banking industry's assets at end-December 2015. This indicates that a significant portion of the banking sector assets are managed by the CRAR-compliant banks.

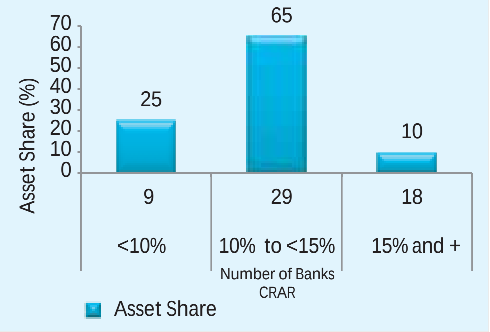
The banking sector aggregate CRAR at end-December 2015 was 10.8 percent, slightly higher than the minimum requirement of 10.0 percent and 24 basis points higher than the ratio recorded at end-September 2015. The Tier-1 capital ratio was 8.1 percent as compared to 8.0 percent recorded at end-September 2015. Notably, the ratio was significantly higher than the minimum regulatory requirement of 5.5 percent.

Chart 4.1 Banking Sector Capital to Risk-weighted Assets Ratio



Source: DOS, BB.

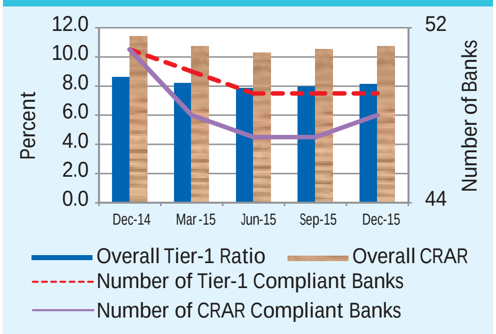
Chart 4.2 Assets Share of Banks based on CRAR at End-December 2015



Source: DOS, BB.

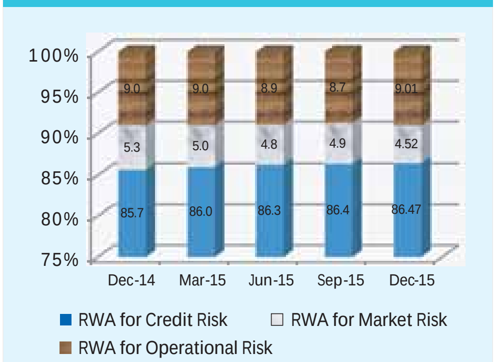
At end-December 2015, risk-weighted assets arising from credit risks accounted for 86.5 percent of the total industry's risk-weighted assets under Pillar 1 of the Basel III capital adequacy framework. Next positions were held by operational and market risks (Chart 4.4).

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



Source: DOS, BB.

Chart 4.4 Distribution of Risk-weighted Assets

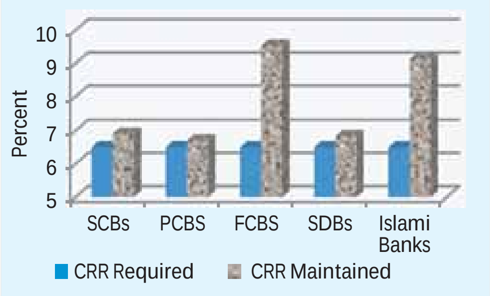


Source: DOS, BB.

4.2 Liquidity

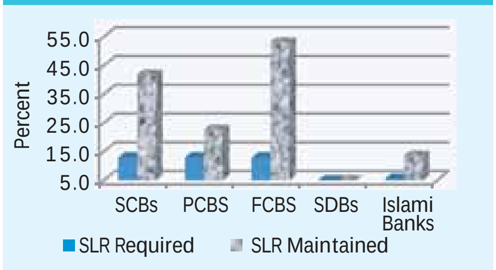
During the review quarter of CY15, banking sector as a whole was able to maintain the required levels of CRR and SLR[9].

Chart 4.5 Banking sector CRR: December 2015



Source: DOS, BB.

Chart 4.6 Banking Sector SLR: December 2015



Source: DOS, BB.

As evident from Chart 4.7, ADR of the overall banking industry has increased by 116 basis points at end-December 2015 from the end-September 2015 position[10].

Chart 4.7 Banking Sector Advance-to-Deposit Ratio

Source: DOS, BB.

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9 On bi-weekly average basis.

10 The conventional banks are recommended to maintain an Advance-to-Deposit Ratio (ADR) up to 85.0 percent while the Islamic Shari'ah banks are recommended for 90.0 percent.

Chapter-5

Non-bank Financial Institutions' Liquidity and Capital Adequacy

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

5.1 Liquidity

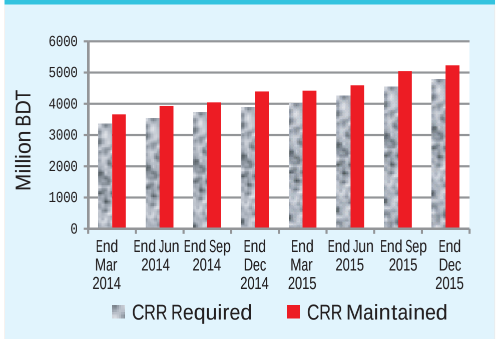
As of end-December 2015, the aggregate amount of maintained CRR was BDT 5,234.6 million as compared to BDT 5,052.1 million recorded at end-September 2015, scoring an increment of 3.6 percent. On the other hand, at end-December 2015, the amount of maintained SLR was BDT 68.0 billion, which is 1.0 percent lower than the amount maintained at end-September 2015. During the review quarter, the NBFI sector had no CRR and SLR shortfall .

5.2 Capital Adequacy

In the review quarter, NBFIs were required to maintain a 10.0 percent capital adequacy ratio (CAR) with at least 5.0 percent in Tier-1 capital in line with the Basel II framework.

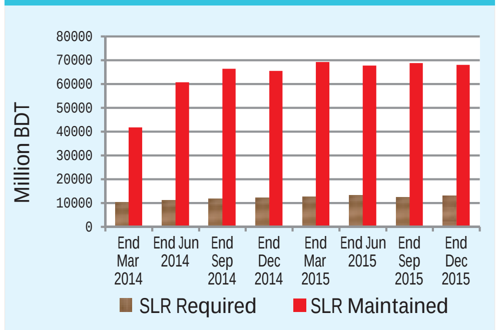
The CAR of the NBFIs sector increased slightly from 17.9 percent in the September quarter of CY15 to 18.7 percent in the December quarter of CY15. It is to mention

Chart 5.1 NBFIs' CRR



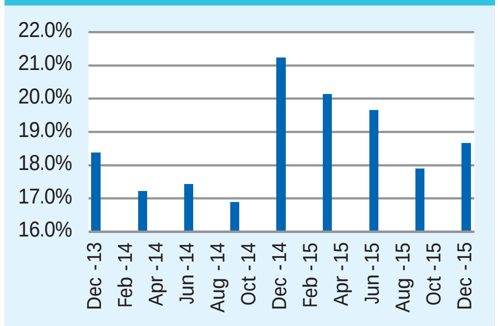
Source: DFIM, BB.

Chart 5.2 NBFIs' SLR



Source: DFIM, BB.

Chart 5.3 Capital Adequacy Ratio of NBFI Sector



Source: DFIM, BB.

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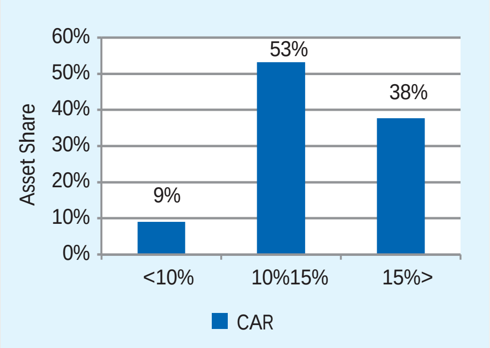
[11] NBFIs taking term deposits are required to maintain a statutory liquidity requirement (SLR) of 5.0 percent of their total liabilities, inclusive of an average 2.5 percent cash reserve ratio (CRR) of their total term deposits. On the other hand, NBFIs operating without term deposits are required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

that the maintained CAR was well in excess of the regulatory minimum requirement. As of end-December 2015, only 2 out of 32 NBFIs, failed to maintain the minimum regulatory requirement of CAR.

As evident from Chart 5.4, a significant portion of the NBFIs sector's assets was concentrated within the CAR compliant NBFIs group; CARs of 12 NBFIs were within the range of 10-15 percent and their assets accounted for nearly 53 percent of the total industry's assets, whereas the same of 18 NBFIs were above 15 percent and their assets accounted for 38 percent of the industry's assets as at end-December 2015. However, CARs of 2 NBFIs were less than 10.0 percent and their assets accounted for nearly 9.0 percent of the total industry's assets, the proportion has improved since September 2015.

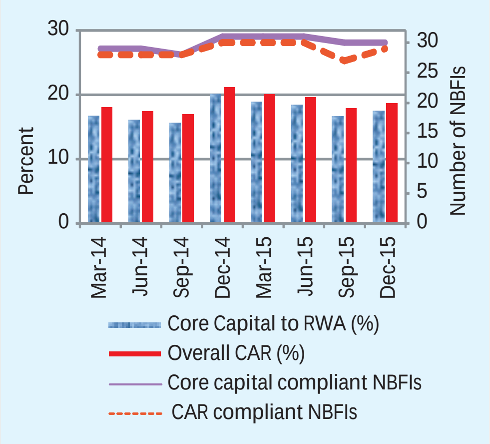
In addition, the Tier-1 capital ratio was recorded at 17.4 percent in the review quarter of CY15; slightly higher than the ratio of end-September 2015. The end-December data also indicates that the NBFIs sector was compliant with the Basel II requirements in respect of the Tier-1 capital ratio too.

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



Source: DFIM, BB.

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



Source: DFIM, BB.

Chapter-6

Stress Testing and Resilience of the Banking and NBFI Sectors

6.1 Stress Test

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

6.2 Stress Test on Banks[12]

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

6.2.1 Individual Shocks

Data as of end-December 2015 revealed that the banking sector's capital to risk weighted asset ratio (CRAR)[13] was 10.8 percent. Out of 56, 8 banks' pre-shock CRARs were below the minimum regulatory requirement of 10.0 percent. Therefore, the remaining 48 banks were considered for the analyses based on end-December 2015 data. The following sub-sections give details of the shocks and their associated outcomes.

6.2.1.1 Credit risk

a) **Increase in Non-Performing Loans (NPL[14]):** If NPLs had increased by 3, 9 and 15 percent, then 7, 19 and 32 banks respectively would have failed to maintain the minimum required CRAR.

b) **Increase in NPL due to Default of Top Large Borrowers:** If 3, 7 and 10 largest borrowers of each bank in the industry had defaulted, then 21, 32 and 35 banks respectively would have been non-compliant in maintaining minimum required CRAR.

c) **Fall in the Forced Sale Value (FSV) of Mortgaged Collateral:** If FSV of mortgaged collateral had declined by 10, 20 and 40 percent, then 2, 3, and 5 banks respectively would have been non-compliant in maintaining minimum required CRAR.

d) **Negative Shift in the NPL Categories:** If NPL categories shifted downward by 5, 10 and 15 percent, then 3, 9, and 11 banks respectively would have been non-compliant in maintaining minimum required CRAR.

e) **Increase in NPL in Highest Outstanding Sector:** In the event of minor, moderate and major shocks, 1, 1 and 3 banks respectively would fall below the minimum regulatory requirement.

6.2.1.2 Market Risk

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

a) **Interest Rate Risk:** Considering the change in market interest rate by 1, 2 and 3 percent, 3, 10 and 11 banks respectively would fail to maintain the minimum required CRAR (Table 6.1).

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

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

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

Table 6.1 Stress test on the Banking Sector Based on the Data as of End-December 2015	
Shocks[15]	Banking Sector %
Pre-shock CRAR	10.84
CRAR after shock (%)	
Credit Risks:	
Increase in NPLs:	
Shock-1: 3%	10.01
Shock-2: 9%	7.89
Shock-3: 15%	4.41
Increase in NPLs due to default of top large borrowers	
Shock-1: Top 3 borrowers	9.05
Shock-2: Top 7 borrowers	7.47
Shock-3: Top 10 borrowers	6.79
Fall in the FSV[16] of mortgaged collateral	
Shock-1: 10%	10.36
Shock-2: 20%	9.86
Shock-3: 40%	8.86
Negative shift in the NPL categories	
Shock-1: 5%	10.29
Shock-2: 10%	8.71
Shock-3: 15%	7.66
Increase in NPLs in highest outstanding sectors	
Sector concentration 1[17] (Performing loan directly downgraded to B/L[18])	
Shock-1: 3%	10.79
Shock-2: 9%	10.69
Shock-3: 15%	10.59
Sector concentration 2[19] (Performing loan directly downgraded to B/L)	
Shock-1: 3%	10.80
Shock-2: 9%	10.73
Shock-3: 15%	10.65
Market Risks	
Interest rate risk (change in interest rate)	
Shock-1: 1%	10.41
Shock-2: 2%	9.98
Shock-3: 3%	9.54
Exchange rate risk (Currency appreciation/depreciation)	
Shock-1: 5%	10.80
Shock-2: 10%	10.75
Shock-3: 15%	10.70
Equity price risk (Fall in equity prices)	
Shock-1: 10%	10.58
Shock-2: 20%	10.32
Shock-3: 40%	9.79
Combined Shock	
Shock-1	8.22
Shock-2	3.29
Shock-3	-3.25

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

b) **Exchange Rate Risk:** In the event of minor, moderate and major shocks, no bank's CRAR would fall below the minimum required level.

c) **Equity Price Risk:** In the event of a 10, 20 and 40 percent fall in equity prices, 2, 2 and 3 banks respectively would be non-compliant in maintaining minimum required CRAR.

6.2.2 Combined Shock[20]

In the event of minor, moderate and major combined shocks, 15, 31 and 37 banks respectively would be undercapitalized; CRAR in these cases would be downgraded to 8.22, 3.29, and -3.25 percent respectively.

Altogether, among different specified shocks, the default of the top large loan borrowers would have the most adverse impact on the banking sector CRAR.

6.2.3 Liquidity Shock

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

6.3 Stress Test on NBFIs

Bangladesh Bank also conducts stress tests on Non-bank Financial Institutions (NBFIs) based on a simple sensitivity analysis, in which four risk factors- credit, interest rate, equity price and liquidity - are analyzed.

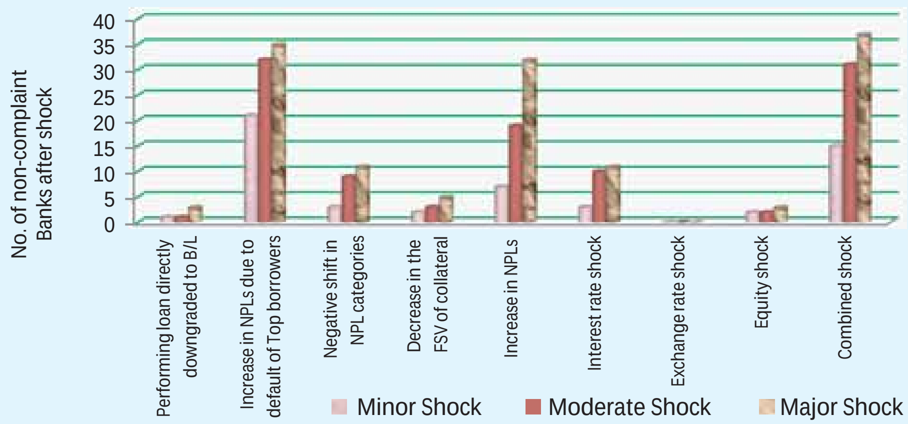
The overall financial strength and resilience of an NBFI is identified by plotting its achieved ratings in a Weighted Average

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

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

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

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



Source: FSD, BB.

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

Resilience-Weighted Insolvency Ratio (WAR-WIR) Matrix[21].

Results from the stress tests (Table 6.3), based on the data of end-December 2015, revealed that out of 32 NBFIs, 4 were in 'Green', 18 in 'Yellow' and 10 in 'Red' zone.

The results indicate that 22, out of 32NBFIs would have performed as resilient institutions during the quarter under review.

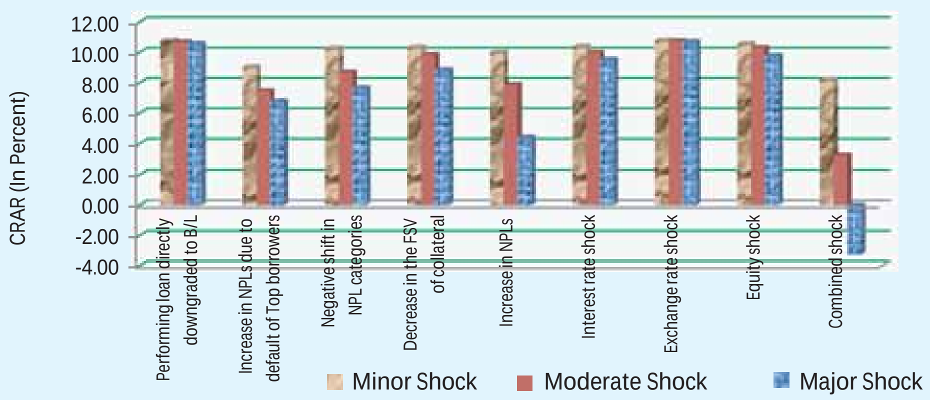
Table 6.3 Stress Testing: Zonal Position of NBFIs

(Number of NBFIs)

Period	Green	Yellow	Red
End-Dec 2014	4	19	8
End-Mar 2015	4	12	15
End-June 2015	4	12	15
End-Sep 2015	4	13	14
End-Dec 2015	4	18	10

Source: DFIM, BB

Chart 6.2 Banking Sector CRAR at Different Shock Scenarios: December 2015



Source: FSD, BB.

21 The stress test for credit risk ascertains the impact of a rise in NPLs, a downward shift in the NPL categories, a decline in the value of mortgaged collateral, an increase in NPLs under bad/loss category, and an increase in NPLs due to the default of the top large borrowers. Minor, moderate and major levels 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 Weighted Average Resilience (WAR) is calculated based on the weights of 10.0, 60.0, 10.0, and 20.0 percent for interest rate, credit, equity price, and liquidity respectively at three levels of shock scenarios.

Infection Ratio of an NBFI, defined by its NPL to loan ratio, that can completely erode the regulatory capital of the NBFI to zero is called the Critical Infection Ratio (CIR), implying its distance to default or insolvency. Computation of CIR assumes the erosion of full regulatory capital due to increase in NPL in the bad/loss category ignoring the tax impact.

Insolvency Ratio (IR), the ratio of Infection Ratio to the CIR, implies the percentage an NBFI is towards insolvency. For stress testing, minor, moderate and major level of shocks are applied giving weights of 50.0 percent, 30.0 percent and 20.0 percent respectively to derive the Weighted Insolvency Ratio (WIR).

Both the WAR and WIR, scaled between 1 to 5 (best to worst) grades, are categorized as either green (for grade 1) or yellow (for grade 2 and 3) or red (for 4 and 5) zone. The combined zonal position of the WAR-WIR Matrix is set based on the weights of 80.0 percent on WAR and 20.0 percent on WIR.

Chapter-7

Capital Market Development and Corporate Bond Market

The capital market in Bangladesh demonstrated a price correction in the review quarter[22] as evident from movements of a number of key indicators detailed below:

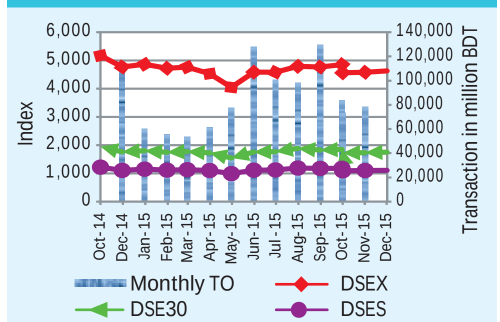
7.1 DSE Performance and Index Movement

In the fourth quarter of CY15, DSE turnover was BDT 243.4 billion as compared to BDT 311.3 billion recorded in the third quarter of CY15, scoring a 21.8 percent decrease in volume. At end-December 2015, key DSE indices DSEX, DSE 30 and DSES decreased by 4.9, 5.3 and 6.3 percent respectively from those of end-September 2015.

7.2 Price/Earnings (P/E) Ratio

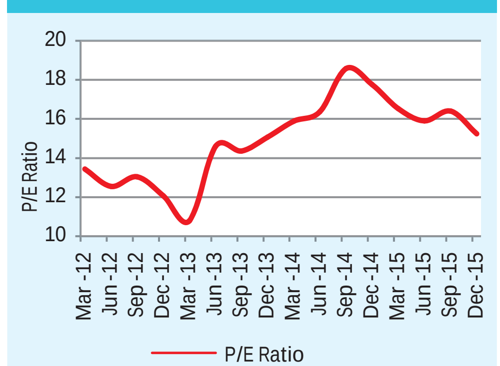
The weighted average P/E ratio in December 2015 was 15.3, which was 120 basis points lower than that of September 2015 and 70 basis points lower than that of

Chart 7.1 DSE Performance and Index Movement



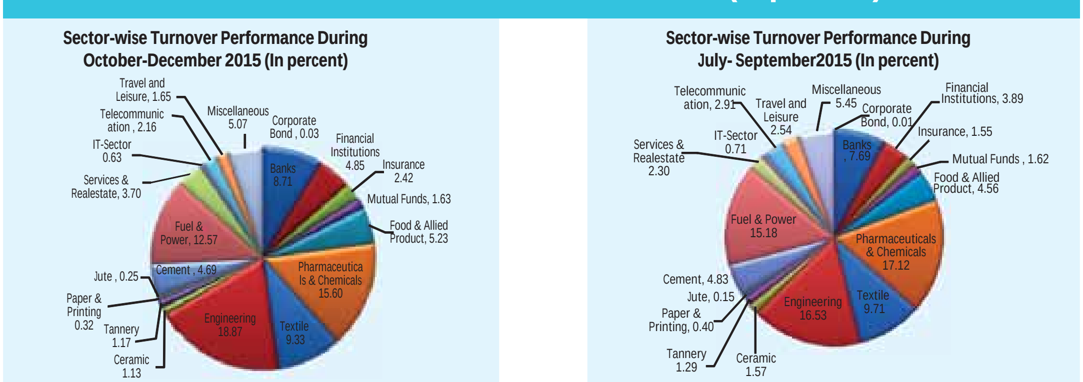
Source: Data-DSE, Compilation - FSD.

Chart 7.2 P/E Ratio



Source: Dhaka Stock Exchange.

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



Source: Data DSE: Compilation, FSD.

22 Fourth quarter of calendar year 2015.

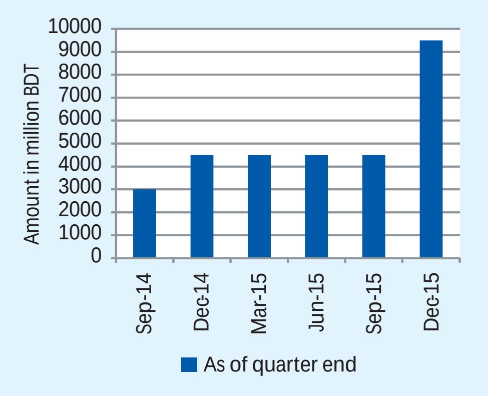
June 2015. The overall market P/E ratio displayed a downward trend in the CY15 except the July-September quarter of the year.

7.3 Sectoral Turnover

In the review quarter, the highest turnover was recorded for the Engineering sector. Next positions were held by the Pharmaceuticals, Chemical, Fuel and Power sectors respectively (Chart 7.3).

It is mentionable that, in the review quarter, contribution of the banking sector to DSE turnover was 8.7 percent, as compared to 7.7 percent recorded in the September quarter of the CY15. The NBFI sector's contribution was 4.9 percent compared with 3.9 percent in the previous quarter.

Chart 7.4 Corporate Bond Issuance



Source: DFIM.

7.4 Corporate Bond Market[23]

The amount of corporate bonds issued remained steady from December 2014 to September 2015 and became more than double in the review quarter compared with the amount of end-September 2015.

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

Chapter-8

Recent Stability Initiatives of Bangladesh Bank

During the October-December quarter of CY15, Bangladesh Bank has taken a number of initiatives which might have notable implications to the stability of the Bangladesh financial system. Some important ones are:

8.1 Central Database for Large Credit (CDLC)

In line with international best practices, Bangladesh Bank has introduced a new oversight framework named 'Central Database for Large Credit (CDLC)' with a view to revitalizing the distressed assets of the banks and NBFIs. The Framework will help banks and NBFIs to get early warning signals of stress on their credits and will help monitor the large exposures in a more structured way. Under the CDLC framework, Bangladesh Bank will collect both funded and non-funded exposures of banks and NBFIs to persons, counter parties or groups including investments in bonds/debentures/ commercial papers issued by those borrowers/obligors having an aggregate exposures of BDT 500 million and above. Banks and FIs will identify the budding stress in their exposures by splitting the 'Standard' category loans into 4 sub-categories, i.e., 'Standard-0 'for regular/renewed/rescheduled/restructured exposures, 'Standard-1' for overdue between 01-29 days, 'Standard-2' for overdue between 30-59 days and 'Standard-LQ' through qualitative measures[24]. Once loan accounts are reported to CDLC as Standard-2 or Standard-LQ, concerned banks and FIs will form a Lenders' Committee which will be recognized as Joint Lenders Forum (JLF). Then, the JLF has to come up with a Corrective Action Plan (CAP) for accounts those signaling a budding stress and banks/FIs with highest exposure will convene the forum.

8.2 Leverage Ratio Under Basel -III

Bangladesh Bank announced the revised Roadmap for implementation of Basel-III in December 2014 and started implementation of the framework in a phased-in manner starting from January 2015 and with full implementation of capital ratios by December 2019. Under Basel-III, a simple, transparent, non-risk based Leverage Ratio has been introduced[25]. The banking industry was able to maintain a leverage ratio of 5.2 percent against the minimum requirement of 3.0 percent as on 31 December 2015.

8.3 Investment in Capital Market

Bangladesh Bank issued a circular on 20 December 2015 regarding investments of banks in capital market. As per the circular, equity shares of the subsidiaries held by scheduled banks would not be included for the purpose of calculation of capital market investments on a solo basis. The circular aims at continuing the policy support

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24 For details see FSD Circular No.01/2015 dated 26/12/2015 of Bangladesh Bank.

25 Leverage Ratio= Tier I capital after related deductions /Total Exposure (after related deductions)

towards the formation of a vibrant capital market as well as the betterment of the entire financial system.

8.4 Taka loan to Non-resident Bangladeshis (NRBs) working abroad

To facilitate housing finance to Non-resident Bangladeshis (NRBs), Bangladesh Bank issued a circular on 06 December 2015 allowing the Authorized Dealers (ADs) of Foreign Exchange to extend mortgage loans in Taka to NRBs subject to compliance of the existing guidelines of Prudential Regulations for Consumer Financing (Regulation for housing finance). The housing finance facility shall be provided to the NRBs at a maximum debt equity ratio of 50:50.

8.5 Agricultural and Rural Credit Program including special credit program and loan to 111 enclaves

In line with the Government's agriculture and agro-friendly development goals, Bangladesh Bank formulates Agricultural and Rural Credit Policy and Program every year. Under this initiative Bangladesh Bank has set a target of BDT 16,400 crore to be disbursed by the commercial banks in FY 2015-16. Banks distributed 53.4 percent of its targeted amount as of December 2015 in which 33.9 percent was in the review quarter. Besides, Bangladesh Bank has launched a new financing project of BDT 750 crore with the assistance of Japan International Co-operation Agency (JICA) for improvement of productivity of small and marginal sized farmers. Bangladesh Bank instructed the banks to disburse agricultural loan among the farmers of newly included 111 enclaves of Bangladesh in November 2015.

8.6 Financial Sector Support Project (FSSP)

Bangladesh Bank has undertaken a Financial Sector Support Project (FSSP) with the financial assistance from the International Development Association (IDA) to improve financial market infrastructure, regulatory and oversight capacity of Bangladesh Bank and facilitate firms' access to long term financing with a view to ensuring stability and resilience of the financial sector. Estimated cost of the project is USD350.0 million out of which USD300.0 million would be borne by IDA while the rest would be borne by Bangladesh Bank. Bangladesh Bank will be the implementing agency and responsible for overall implementation of the project including: (i) enabling a large scale shift to electronic payments to enhance the efficiency of the financial system; (ii) enhancing the coverage of the Credit Information Bureau (CIB) for better credit risk management; (iii) increasing the effectiveness of the Bangladesh Financial Intelligence Unit to ensure safety and integrity of the financial system; (iv) enhancing reliability and robustness of the IT systems of the Bangladesh Bank; (v) development of a comprehensive Prompt Corrective Action (PCA) framework for the banks; (vi) modernization of human resources framework; and (vii) development of a National Financial Inclusion Strategy (NFIS) to boost the financial inclusion initiatives etc.

Bangladesh Bank has formed a Long Term Financing Facility (LTFF) under the stated project in October 2015. The financing would be provided in foreign currency to eligible Participating Financial Institutions

(PFIs) for lending or refinancing mainly to the small and medium scale manufacturing enterprises that would help flourish the sector and strengthen the productivity.

8.7 Guideline on ICT Security for Banks and Non-Bank Financial Institutions

A revised Guidelines on ICT security for banks and Non-Banks Financial Institutions (NBFIs) was issued on 09 November 2015 in order to establish a standard ICT Security Policy and ICT Security Management approach with a view to helping the banks and NBFIs for secured setup of their ICT infrastructure, establishing a procedure for Business Impact Analysis in conjunction with ICT Risk Management, ensuring best practices (industry standard) regarding usage of technology and analyzing security risks associated with it.

8.8 Investment in Special Purpose Vehicle, Alternative Investment Fund or Similar fund/funds by the scheduled banks.

In November 2015, Bangladesh Bank allowed all scheduled banks to invest in non-listed special purpose fund/funds (Special Purpose Vehicle, Alternative Investment Fund or similar) which are registered with Bangladesh Securities and Exchange Commission (BSEC). However, banks have to take permission from Bangladesh Bank before doing such type of investments and aggregate investment amount would be limited up to BDT 2.0 (two) billion.

8.9 Prevention of Money Laundering and Terrorist financing

Bangladesh Financial Intelligence Unit (BFIU) issued a circular on 07 October 2015 for all Cooperative Societies and another circular on 18 October 2015 for all Capital Market Intermediaries (CMIs) to comply with all respective provisions of the Money Laundering Prevention Act, 2012, and Anti Terrorism Act, 2009. Co-operative Societies have also been instructed to implement the provisions of the directives and instructions of BFIU. BFIU instructed CMIs to collect complete and accurate information of the customers, to identify the beneficial owner of the accounts and observe the transactions carefully. Furthermore, BFIU has coordinated the onsite visit of the 3rd round Mutual Evaluation (ME) process conducted by Asia Pacific Group on Money Laundering (APG)[26] during October 11-22, 2015. BFIU has also circulated the Money Laundering Prevention (Amendment) Act, 2015 on 09 December 2015.

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26 The Mutual Evaluation process is a demonstration of the commitment of member states to implement the Financial Action Task Force (FATF)'s standards and a remedy against the deficiencies identified in their systems. FATF monitors countries' progress in implementing the FATF Recommendations. In ME process, FATF conducts peer reviews of each member on an ongoing basis to assess levels of implementation of the FATF Recommendations, providing an in-depth description and analysis of each country's system for preventing criminal abuse of the financial system. APG, a FATF style regional body, enforces FATF standards on AML/CFT in Asia Pacific Region and conducts mutual evaluation for the countries in this region.

Table I : CPI Inflation (12 month Average)

(In percent)

Month	Inflation
Jun-13	6.78
Sep-13	7.37
Dec-13	7.53
Mar-14	7.54
Jun-14	7.35
Sep-14	7.22
Dec-14	6.99
Mar-15	6.66
Jun-15	6.40
Sep-15	6.24
Dec-15	6.19

Base: 2005-06=100

Table II : Foreign Exchange Reserve

(Amount in million USD)

Month	International Reserve
Dec-14	22,309.8
Jan-15	22,042.3
Feb-15	23,031.5
Mar-15	23,052.9
Apr-15	24,071.7
May-15	23,707.7
Jun-15	25,021.0
July-15	25,469.1
Aug-15	26,175.3
Sep-15	26,379.0
Oct-15	27,058.4
Nov-15	26,407.6
Dec-15	27,493.3

Table III : Wage Earners' Remittance

(Amount in million USD)

Quarter	Workers Remittance
Jun-13	3,339.8
Sep-13	3,270.4
Dec-13	3,502.5
Mar-14	3,722.4
Jun-14	3,733.1
Sep-14	4,010.0
Dec-14	3,476.0
Mar-15	3,771.1
Jun-15	4,058.6
Sep-15	3,933.6
Dec-15	3,553.6

Table IV : Industrial Production Index (General-Manufacturing)

Quarter	Index
Sep-13	208.67
Dec-13	219.86
Mar-14	206.68
Jun-14	240.13
Sep-14	241.62
Dec-14	243.36
Mar-15	227.45
Jun-15	285.50
Sep-15	238.70
Dec-15	286.05

Table V : Exports and Imports

(Amount in million USD)

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
Sep-13	7,627.97	8,804.00
Dec-13	7,057.84	8,143.00
Mar-14	7,556.85	9,560.00
Jun-14	7,943.96	10,064.00
Sep-14	7,665.10	10,003.00
Dec-14	7,219.10	10,045.70
Mar-15	7,990.54	9,711.00
Jun-15	8,156.00	10,924.00
Sep-15	7,640.00	9,155.00
Dec-15	8,089.00	9,836.00

Table VI : Interest Rate (Weighted Average) Spread

(In percent)

Period	Lending Rate	Deposit Rate	Spread
Mar-13	13.73	8.67	5.06
Jun-13	13.67	8.54	5.13
Sep-13	13.51	8.50	5.01
Dec-13	13.45	8.39	5.06
Mar-14	13.36	8.21	5.15
Jun-14	13.10	7.79	5.31
Sep-14	12.58	7.48	5.10
Dec-14	12.46	7.25	5.21
Mar-15	11.93	7.06	4.87
Jun-15	11.67	6.80	4.87
Sep-15	11.48	6.66	4.82
Dec-15	11.18	6.34	4.84

Table VII : Weighted Average Exchange Rate

(BDT/USD)

Quarter	Period Average	End Period
Sep-12	81.7392	81.5896
Dec-12	80.6013	79.8499
Mar-13	78.5857	78.1932
Jun-13	77.7521	77.7593
Sep-13	77.7501	77.7500
Dec-13	77.7505	77.7500
Mar-14	77.7094	77.6709
Jun-14	77.6300	77.6300
Sep-14	77.4000	77.4000
Dec-14	77.8522	77.9494
Mar-15	77.8000	77.8000
Jun-15	77.8002	77.8050
Sep-15	77.8000	77.8000
Dec-15	78.7800	78.5100

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

(Amount in billion BDT)

Period	Amount
Mar-13	1,315.4
Jun-13	1,574.7
Sep-13	1,527.3
Dec-13	1,631.8
Mar-14	1,682.0
Jun-14	1,722.3
Sep-14	1,742.5
Dec-14	1,776.8
Mar-15	1,738.6
Jun-15	1,703.4
Sep-15	1,803.0
Dec-15	1,710.6

Table IX : Asset Structure of the Banking Industry

(Amount in billion BDT)

Property and Assets	31-03-15	30-06-15	30-09-15	31-12-2015
Cash in hand	114.1	110.6	106.6	93.9
Balance with Bangladesh Bank and its Agent Bank	553.3	594.0	608.6	662.5
Balance with other banks and financial Institutions	351.6	352.1	330.1	390.1
Money at call and short notice	76.6	76.0	93.7	85.3
Investment	1,872.1	1,930.0	2,037.3	2,226.1
Loans and Advances	5,481.3	5,721.0	5,827.2	6,002.8
Fixed Assets	217.3	218.1	220.0	243.3
Other Assets	639.7	684.1	774.7	549.0
Non-banking assets	2.8	2.9	2.9	2.3
Total Assets	9,308.8	9,688.8	10,001.2	10,255.3

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

(Amount in billion BDT)

Assets	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount	3,023.9	7,231.5	4,469.6	5,785.8
Share (%)	29.5	70.5	43.6	56.4
NPL	**Top 5 Banks**	**Other Banks**	**Top 10 Banks**	**Other Banks**
Amount	256.1	257.6	326.3	187.4
Share (%)	49.9	50.1	63.5	36.5

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.
Dec-13	405.8	8.9%	2.0%	13.0%
Mar-14	481.7	10.5%	3.4%	22.5%
Jun-14	513.5	10.8%	3.9%	27.0%
Sep-14	572.9	11.6%	4.3%	30.0%
Dec-14	501.6	9.7%	2.7%	17.9%
Mar-15	546.6	10.5%	3.7%	25.8%
Jun-15	525.2	9.7%	2.8%	20.8%
Sep-15	547.1	9.9%	2.8%	20.1%
Dec-15	513.7	8.3%	2.3%	16.5%

Table XII : Distribution of Banks by NPL Ratio

Range	Number of Banks as at end						
	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Up to 2.0%	10	10	10	10	10	7	9
2.0% to <3.0%	2	5	6	5	5	7	6
3.0% to <5.0%	10	5	13	5	6	9	14
5.0% to <10.0%	20	20	14	22	21	18	15
10.0% to <15.0%	3	5	3	3	4	4	3
15.0% to <20.0%	2	2	2	1	0	1	1
20.0% & above	9	9	8	10	10	10	8
Total	56	56	56	56	56	56	56

Table XIII : Banking Sector Loan Loss Provisions

(Amount in billion BDT)

Period	Required Provision	Provision Maintained	Provision Maintenance Ratio (%)
Sep-13	320.3	287.5	89.8
Dec-13	252.4	249.8	99.0
Mar-14	283.0	258.7	91.4
Jun-14	300.4	260.4	86.7
Sep-14	318.6	289.6	90.9
Dec-14	289.6	281.7	97.3
Mar-15	306.8	269.0	87.7
Jun-15	300.3	275.6	91.8
Sep-15	308.5	285.2	92.4
Dec-15	308.9	266.1	86.1

Table XIV : Banking Sector Classified Loans Ratios

(In percent)

Period	Classified Loans to Total Loans	Sub-Standard Loans to Classified Loans	Doubtful Loans to Classified Loans	Bad Loans to Classified Loans
Sep-13	12.8	17.9	12.6	69.5
Dec-13	8.9	11.2	10.1	78.7
Mar-14	10.5	15.0	8.7	76.3
Jun-14	10.8	14.0	9.2	76.8
Sep-14	11.6	15.6	10.5	73.9
Dec-14	9.7	11.0	11.2	77.8
Mar-15	10.5	14.1	8.8	77.1
Jun-15	9.7	11.3	8.5	80.2
Sep-15	9.9	11.2	8.8	80.0
Dec-15	8.8	8.9	6.4	84.7

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

(Amount in billion BDT)

Particulars	Amount	Percent of Total
Sub-Standard	45.6	8.9
Doubtful	33.2	6.4
Bad & Loss	434.9	84.7
Total	**513.7**	**100.0**

Table XVI : Banking Sector ROA

Quarter	ROA Range			
	Up to 2.0%	>2.0% to≤3.0%	>3.0% to≤4.0%	>4.0%
Mar-14	47	2	4	3
Jun-14	45	4	1	6
Sep-14	48	2	1	5
Dec-14	49	5	0	2
Mar-15	51	1	3	1
Jun-15	49	4	2	1
Sep-15	49	3	1	3
Dec-15	35	12	5	4

Note: ROAs have been annualized from respective quarterly ratios

Table XVII : Banking Sector ROE

Quarter	ROE Range			
	Up to 5.0%	>5.0% to≤10.0%	>10.0% to≤15.0%	>15.0%
Mar-14	18	15	10	13
Jun-14	18	14	9	15
Sep-14	30	7	4	15
Dec-14	18	11	17	10
Mar-15	22	16	14	4
Jun-15	16	15	12	13
Sep-15	23	15	9	9
Dec-15	9	7	12	28

Note: ROEs have been annualized from respective quarterly ratios

Table XVIII : NBFIs' Borrowing, Deposit and Capital

(Amount in billion BDT)

Particulars	December-2015
Borrowings	137.20
Deposits	313.80
Capital	100.90
Other Liabilities	58.00
Total	609.9

Table XIX : NBFIs' Asset Composition

(Amount in billion BDT)

Particulars	December-2015
Cash & Balance with Banks/FIs	92.6
Investments	20.2
Loans & Leases	451.3
Other Assets	33.1
Fixed Assets	12.7
Total	609.9

Table XX : NBFIs' Classified Loans and Leases

(Amount in billion BDT)

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
Mar-14	18.9	5.8
Jun-14	18.5	5.4
Sep-14	22.4	6.2
Dec-14	19.7	5.3
Mar-15	27.6	7.0
Jun-15	31.6	7.7
Sep-15	45.2	10.6
Dec-15	40.01	8.9

Table XXI : NBFIs' ROA & ROE

(In percent)

Quarter	Aggregate ROA	Aggregate ROE
Jun-14	2.2	11.6
Sep-14	2.2	12.2
Dec-14	2.0	10.9
Mar-15	1.2	6.7
Jun-15	2.0	11.4
Sep-15	1.3	7.8
Dec-15	2.0	11.8

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

Table XXII : Banking Sector CAR/CRAR

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

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

CRAR	Number of Banks & their asset size		Asset Share (%)
	Number of Banks	Asset Size (in billion BDT)	
<10%	9	2560.7	25.0
10% to ≤ 15%	29	6703.0	65.0
15% +	18	991.7	10.0
Total	56	10255.4	100.0

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

Particulars	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Core Capital to RWA (%)	8.8	8.3	8.1	8.6	8.2	7.9	8.0	8.1
Number of core capital compliant banks	51	50	51	51	50	49	49	49
Overall CAR (%)	11.3	10.7	10.6	11.4	10.7	10.3	10.5	10.8
Number of CAR compliant banks	50	48	48	51	48	47	47	48
No. of banks in the industry	56	56	56	56	56	56	56	56

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

(Amount in billion BDT)

Particulars	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
RWA for Credit Risk	5,230.1	5,419.3	5,553.9	5,732.3	5,969.9	6008.4
RWA for Market Risk	361.0	336.9	323.3	316.4	336.0	313.8
RWA for Operational Risk	550.6	567.8	583.8	593.1	600.2	626.1
Total RWA	6,141.7	6,323.9	6,461.0	6,641.8	6,906.1	6948.3

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

(In percent)

Period	ADR
March-14	69.9
June-14	70.5
September-14	69.9
December-14	70.9
March-15	70.5
June-15	70.3
Sep-15	69.8
Dec-15	71.0

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

(In percent)

Bank wise	ADR
SCBs	52.4
PCBs	79.5
FCBs	63.8
DFIs	73.9
Industry	71.0

Table XXVIII : NBFIs' CRR & SLR

(Amount in million BDT)

Quarter End	Aggregate CRR			Aggregate SLR		
	Required	Maintained	Surplus/Shortfall	Required	Maintained	Surplus/Shortfall
Jun 2014	3,530.5	3,928.9	398.4	10,981.2	60,698.7	49,717.5
Sep 2014	3,720.5	4,049.0	328.5	11,582.8	66,411.9	54,829.1
Dec 2014	3,887.7	4,396.9	509.2	12,053.7	65,557.8	53,504.1
Mar 2015	4,015.8	4,414.3	398.5	12,544.7	69,205.1	56,660.4
Jun 2015	4,251.0	4,594.1	343.1	13,169.1	67,786.3	54,617.2
Sep 2015	4,542.1	5,052.1	510.0	12,433.1	68,748.9	56,315.8
Dec 2015	4,781.6	5,234.6	453.0	12,935.7	68,042.7	55,107.0

Table XXIX : Capital Adequacy Ratio of NBFI Sector

Particulars	End June-14	End Sep-14	End Dec-14	End Mar-15	End Jun-15	End Sep-15	End Dec-15
Eligible Capital to RWA (%)	17.4	16.9	21.2	20.1	19.7	17.9	18.7

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

(In percent)

CAR Range	No. of banks	Asset Share
<10%	2	9
10% to ≤ 15%	12	53
above 15%	18	38

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

(Amount in billion BDT)

Particulars	End Mar-14	End June-14	End Sep-14	End Dec-14	End Mar-15	End Jun-15	End Sep-15	End Dec-15
Risk-weighted Assets (RWA)								
Credit RWA	356.53	380.68	396.12	417.86	440.64	460.02	474.97	465.03
Market RWA	26.95	26.09	33.94	34.66	37.38	39.34	40.48	40.46
Operational RWA	27.88	27.30	26.91	34.26	33.63	33.90	33.93	37.14
Total RWA	**411.36**	**434.08**	**456.97**	**486.78**	**511.65**	**533.26**	**549.38**	**542.63**
Capital								
Core Capital (Tier -1)	67.58	68.30	69.77	71.50	98.01	96.62	91.38	94.61
Supplementary Capital	5.26	5.45	5.92	5.98	5.35	6.44	6.92	6.68
Eligible Capital	72.84	73.75	75.69	77.48	103.36	103.06	98.3	101.29

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

(Based on data as of End- December 2015)

Shocks	CRAR after Shock (%)		
	Minor Level	Moderate Level	Major Level
Performing loan directly downgraded to B/L	10.79	10.69	10.59
Increase in NPLs due to default of Top borrowers	9.05	7.47	6.79
Negative shift in NPL categories	10.29	8.71	7.66
Decrease in the FSV of collateral	10.36	9.86	8.86
Increase in NPLs	10.01	7.89	4.41
Interest rate shock	10.41	9.98	9.54
Exchange rate shock	10.80	10.75	10.70
Equity shock	10.58	10.32	9.79
Combined shock	8.22	3.29	-3.25

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

(Based on data as of End- December 2015)

Shocks	No. of Banks		
	Minor Level	Moderate Level	Major Level
Performing loan directly downgraded to B/L	1	1	3
Increase in NPLs due to default of Top borrowers	21	32	35
Negative shift in NPL categories	3	9	11
Decrease in the FSV of collateral	2	3	5
Increase in NPLs	7	19	32
Interest rate shock	3	10	11
Exchange rate shock	0	0	0
Equity shock	2	2	3
Combined shock	15	31	37

NB: Pre-shock CRARs of 8 banks out of 56 were below the minimum required level of 10% as of 31 December 2015. Therefore, the above table represents 48 banks data.

Table XXXIV : Price Earnings Ratio of Capital Market

Quarter	Price Earnings Ratio
Sep-12	13.0
Dec-12	12.1
Mar-13	10.8
Jun-13	14.6
Sep-13	14.4
Dec-13	15.1
Mar-14	15.9
Jun-14	16.4
Sep-14	18.6
Dec-14	17.8
Mar-15	16.5
Jun-15	15.9
Sep-15	16.4
Dec-15	15.2

Table XXXV : DSE Performance: April 2014 to December 2015

Month	DSE Turnover (BDT in mn)	Index		
		DSEX	DSE 30	DSES
Apr-14	97,977.61	4,566.86	1,671.93	1,018.20
May-14	58,457.67	4,430.48	1,609.27	992.82
Jun-14	77,349.71	4,480.52	1,644.75	1,019.34
Jul-14	41,156.83	4,427.16	1,626.52	1,004.66
Aug-14	126,589.06	4,549.52	1,713.83	1,057.37
Sep-14	175,809.67	5,074.31	1,960.87	1,195.53
Oct-14	127,656.08	5,173.23	1,949.48	1,220.04
Nov-14	115,494.28	4,769.43	1,760.06	1,106.77
Dec-14	60,132.60	4,864.96	1,803.06	1,150.22
Jan-15	55,698.48	4,724.05	1,747.76	1,115.70
Feb-15	53,603.13	4,763.22	1,772.42	1,130.92
Mar-15	61,392.47	4,530.48	1,728.48	1,103.13
Apr-15	77,561.19	4,047.29	1,545.19	992.54
May-15	127,815.54	4,586.95	1,758.02	1,112.79
Jun-15	100,610.12	4,583.11	1,769.37	1,122.03
Jul-15	98,272.67	4,792.31	1,883.91	1,189.86
Aug-15	129,354.00	4,768.67	1,826.98	1,176.49
Sep-15	83,702.11	4,852.08	1,847.97	1,180.89
Oct-15	73,357.07	4,564.49	1,725.97	1,092.30
Nov-15	78,419.91	4,581.00	1,734.08	1,102.45
Dec-15	91,611.96	4,629.64	1,750.59	1,107.12

Table XXXVI : Sector-wise Turnover Performance

(In percent)

Broad sector	Sector	% of total turnover	
		2015Q3	2015Q4
Financial Sector	Banks	7.69	8.70
	Financial Institutions	3.89	4.85
	Insurance	1.55	2.42
	Mutual Funds	1.62	1.63
Manufacturing	Food & Allied Product	4.56	5.23
	Pharmaceuticals & Chemicals	17.12	15.60
	Textile	9.71	9.33
	Engineering	16.53	18.87
	Ceramic	1.57	1.13
	Tannery	1.29	1.17
	Paper & Printing	0.40	0.32
	Jute	0.15	0.25
	Cement	4.83	4.69
Service & Miscellaneous	Fuel & Power	15.18	12.57
	Services & Real estate	2.30	3.70
	IT - Sector	0.71	0.63
	Telecommunication	2.91	2.16
	Travel and Leisure	2.54	1.65
	Miscellaneous	5.45	5.07
Bond	Corporate Bond	0.01	0.03
	Total	**100.00**	**100.00**

Note: 2015Q3 September quarter 2015, 2015Q4 December quarter 2015

Table XXXVII : Corporate Bond Issuance

(Amount in million BDT)

	September 2014	December 2014	March 2015	June 2015	September 2015	December 2015
Corporate Bond Issuance	3,000.0	4,500.0	4,500.0	4,500.0	4,500.0	9,500.0

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