

# Quarterly Financial Stability Assessment Report

ISSUE : 2016 (II)  
APRIL-JUNE 2016



Bangladesh Bank

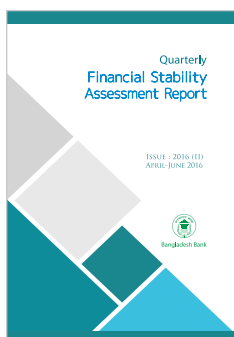
Quarterly

# Financial Stability Assessment Report

April-June 2016



Financial Stability Department  
**Bangladesh Bank**



### Advisor

Shitangshu Kumar Sur Chowdhury, Deputy Governor

### Coordinators

1. Ashok Kumar Dey, Executive Director
2. Debashish Chakraborty, General Manager
3. Md. Nazrul Islam, Deputy General Manager
4. Md. Anwarul Islam, Deputy General Manager
5. Mohammad Jamal Uddin, Deputy General Manager

### Team of Editors

1. Md. Ala Uddin, Joint Director
2. Abdul Hye, Joint Director
3. Mohammad Muzahidul Anam Khan, Deputy Director
4. Farzana Islam, Deputy Director
5. Mohammad Arif Hasan, Deputy Director
6. Gazi Arafat Ali, Deputy Director
7. Banna Banik, Deputy Director
8. Laila Fatin, Assistant Director
9. Md. Mehedi Hasan, Assistant Director

### Data Support/Write-up Support

1. Banking Regulation and Policy Department
2. Department of Financial Institutions and Markets
3. Department of Off-site Supervision
4. Debt Management Department
5. Foreign Exchange Policy Department
6. Payment Systems Department
7. Research Department
8. SME & Special Programmes Department
9. Statistics Department
10. Sustainable Finance Department

*This report is based on unaudited and provisional data of banks and non-bank financial institutions available up to June 30, 2016 unless stated otherwise in the relevant chapters/sections.*

## MESSAGE OF THE GOVERNOR



Bangladesh Bank has been working relentlessly to maintain the stability of the Bangladesh financial system, keeping close coordination with the policy objective of the Government of Bangladesh and other financial sector regulators. While rendering efforts towards maintaining financial stability, Bangladesh Bank oversees the performances of its prudential and regulatory stance and monitors the impacts of development in the real economy on the financial sector. In order to attain a desired level of stability in the economy, the Government continues to fine tune its fiscal stance, from time to time, while Bangladesh Bank applies macroprudential approaches in terms of regulation and supervision in addition to implementing microprudential ones.

Bangladesh Bank has started preparing the Financial Stability Assessment Report from late 2014 with an aim to convey its assessment regarding key trends in the major segments of the financial system to the stakeholders on a quarterly basis. This issue of the report contains trends in macroeconomic indicators, banking and FI sectors' performances including their liquidity and capital adequacy, major risks to which they are exposed to and their resilience to plausible adverse events, in addition to the capital market developments for the April-June quarter of 2016.

The framework for the domestic financial system, which is evolving day by day, needs to ensure efficient risk management, intermediation and effective transmission of monetary policy signals. Encouragingly, the financial system of Bangladesh has been moderately resilient in withstanding potential financial and economic shocks.

I hope this report will enlighten financial system stakeholders with valuable information and facilitate financial stability initiatives in the upcoming months. I would like to thank the officials of Financial Stability Department of Bangladesh Bank for their enthusiastic involvement and valuable contribution in bringing this report to light.

  
**Fazle Kabir**  
Governor



## MESSAGE OF THE DEPUTY GOVERNOR

Before the Brexit, economic data and financial market developments suggested that the global economy was evolving broadly. Despite the better-than-expected performance in early 2016, the outcome of the U.K. consensus could have deteriorated the expected macroeconomic consequences to a sizeable increase in economic, political, and institutional uncertainty. Declines in oil supply, attributable to a gradual slowdown in non-OPEC production and some supply disruptions (notably in Nigeria and Canada), helped bolster oil prices. Productivity growth, in most advanced economies, remained sluggish and inflation was below the target level. Indicators of real activity were somewhat stronger than expected in China. Post-referendum asset price and exchange rate movements in emerging markets have been generally contained. Amid the stated situation in the global financial system, Bangladesh financial system remained moderately stable during the review quarter.

Bangladesh Bank works diligently to maintain the stability of domestic financial system. In the review quarter, key macroeconomic indicators of the economy showed a positive trend. Decline in inflation, increase in foreign exchange reserve, exports and wage earners' remittance contributed significantly to maintaining a sustainable level of stability in the Bangladesh financial system. It may be mentioned that some notable initiatives had been taken by Bangladesh Bank (BB) and Government to improve the overall economic situation. BB amended the guidelines on Risk Based Capital Adequacy, issued guidelines on Commercial Papers of Financial Institutions, introduced 7 and 14 day BB bills in addition to the existing 30 day BB bills, revised the interest rate of agricultural and rural credit, and brought a number of changes in its foreign exchange regulations. All these, along with prudent debt management as well as proper and timely fiscal management, have bearing on stability of the macro-financial system.

I appreciate the dedication of the officials of Financial Stability Department of Bangladesh Bank to prepare the report in a timely manner. I hope that this quarterly report will promote lively informed discussions on the critical aspects of the financial sector developments and help the stakeholders to remain prepared against any adversaries.

A handwritten signature in black ink, appearing to read 'SKS' followed by a flourish.

**Shitangshu Kumar Sur Chowdhury**  
Deputy Governor

# Contents

	Page
Acronyms	viii
Executive Summary	ix
<b>Chapter 1 Macroeconomic Developments</b>	<b>1</b>
1.1 Inflation	1
1.2 Foreign Exchange Reserve and its Import Coverage	1
1.3 Wage Earners' Remittance	1
1.4 Industrial Production	1
1.5 Imports and Exports	1
1.6 Interest Rate	2
1.7 Exchange Rate	2
1.8 Credit to the Government (Gross) by the Banking System	2
<b>Chapter 2 Banking Sector Performance</b>	<b>3</b>
2.1 Assets Structure of the Banking Sector	3
2.2 Asset Quality	4
2.3 Profitability	6
<b>Chapter 3 Financial Institutions' Performance</b>	<b>7</b>
3.1 Sources of Funds	7
3.2 Assets Composition	7
3.3 Asset Quality	7
3.4 Profitability	8
<b>Chapter 4 Banking Sector Liquidity and Capital Adequacy</b>	<b>9</b>
4.1 Capital Adequacy	9
4.2 Liquidity	10
4.3 Leverage ratio	11
<b>Chapter 5 Financial Institutions' Liquidity and Capital Adequacy</b>	<b>13</b>
5.1 Liquidity	13
5.2 Capital Adequacy	13
<b>Chapter 6 Stress Test and Resilience of the Banking and FIs Sectors</b>	<b>15</b>
6.1 Stress Test	15
6.2 Stress Test on Banks	15
6.2.1 Individual Shocks	15
6.2.2 Combined Shock	17
6.2.3 Liquidity Shock	17
<b>Chapter 7 Capital Market Development and Corporate Bond Market</b>	<b>19</b>
7.1 DSE Performance and Index Movement	19
7.2 Price/Earnings (P/E) Ratio	19
7.3 Sectoral Turnover	20
7.4 Corporate Bond Market	20
<b>Chapter 8 Recent Stability Initiatives of Bangladesh Bank</b>	<b>21</b>

## List of Charts

			Page
Chart	1.1	Inflation	1
Chart	1.2	Foreign Exchange Reserves	1
Chart	1.3	Wage Earners' Remittance	1
Chart	1.4	Industrial Production Index (General-Manufacturing)	1
Chart	1.5	Exports and Imports (FOB)	2
Chart	1.6	Interest Rate Spread	2
Chart	1.7	Exchange Rate	2
Chart	1.8	Credit to the Govt. (Gross) by the Banking System	2
Chart	2.1	Asset Size of the Banking Industry	3
Chart	2.2	Asset Structure of the Banking Industry	3
Chart	2.3	Top 5 Banks based on Assets Size	4
Chart	2.4	Top 10 Banks based on Assets Size	4
Chart	2.5	NPL Ratio	4
Chart	2.6	Distribution of banks by NPL ratio	5
Chart	2.7	Banking Sector Loan Loss Provision	5
Chart	2.8	Top 5 Banks based on NPL	5
Chart	2.9	Top 10 Banks based on NPL	5
Chart	2.10	NPL Ratio of the Banking Industry	5
Chart	2.11	Provision of NPL Categories	6
Chart	2.12	NPL Composition of Banks	6
Chart	2.13	Banking Sector Return on Assets (ROA)	6
Chart	2.14	Banking Sector Return on Equity (ROE)	6
Chart	3.1	FIs' Borrowing, Deposit, Capital and Other Liabilities	7
Chart	3.2	FIs' Assets Composition	7
Chart	3.3	FIs' Non-performing Loan and Leases	8
Chart	3.4	FIs' ROA and ROE	8
Chart	4.1	Banking Sector Capital to Risk-Weighted Assets Ratio	9
Chart	4.2	Assets Share of Banks based on CRAR at End-June 2016	9
Chart	4.3	Tier-1 Capital Ratio and Overall CAR/CRAR of the Banking Industry	10
Chart	4.4	Distribution of Risk-Weighted Assets	10
Chart	4.5	Banking sector CRR: June 2016	10
Chart	4.6	Banking sector SLR: June 2016	10
Chart	4.7	Banking Sector Advance-to-Deposit Ratio	11
Chart	4.8	Leverage ratio of banks at End-June 2016	11
Chart	5.1	FIs' CRR	13
Chart	5.2	FIs' SLR	13
Chart	5.3	Capital Adequacy Ratio of FI Sector	14
Chart	6.1	Banking Sector CRAR at Different Shock Scenarios: June 2016	17
Chart	6.2	Number of Non-compliant Banks at Different Shock Scenarios: June 2016	18
Chart	7.1	DSE Performance and Index Movement	19
Chart	7.2	Price/Earnings Ratio	19
Chart	7.3	Sector-wise Turnover Performance (in percent) in DSE	19

## List of Tables

			Page
Table	6.1	Stress test on the banking Sector based on the Data as of End-June 2016	16
Table	6.2	Liquidity Risk of the Banking Sector: End-June 2016	17
Table	6.3	Stress Testing: Zonal Position of FIs	18

## List of Appendices

Table	I	CPI Inflation (12 month Average)	23
Table	II	Foreign Exchange Reserve	23
Table	III	Wage Earners' Remittance	24
Table	IV	Industrial Production Index (General-Manufacturing)	24
Table	V	Exports and Imports	24
Table	VI	Interest Rate (Weighted Average) Spread	25
Table	VII	Weighted Average Exchange Rate	25
Table	VIII	Credit to the Government (Gross) by the Banking System	26
Table	IX	Asset Structure of the Banking Industry	26
Table	X	Banking Sector Assets &NPL Concentration (June-2016)	27
Table	XI	Banking Sector NPL Ratio	27
Table	XII	Distribution of Banks by NPL Ratio	28
Table	XIII	Banking Sector Loan Loss Provisions	28
Table	XIV	Banking Sector Classified Loans Ratios	29
Table	XV	Classified Loan Composition (End-June 2016)	29
Table	XVI	Banking Sector ROA	29
Table	XVII	Banking Sector ROE	30
Table	XVIII	Banking Sector ROA and ROE	30
Table	XIX	FIs' Borrowing, Deposit and Capital	30
Table	XX	FIs' Asset Composition	30
Table	XXI	FIs' Classified Loans and Leases	31
Table	XXII	FIs' ROA & ROE	31
Table	XXIII	Banking Sector CAR/CRAR	31
Table	XXIV	Banking Sector Asset Share based on CRAR as at end-Jun 2016	32
Table	XXV	Tier-1 Capital ratio and Overall CAR/CRAR	32
Table	XXVI	Distribution of Risk Weighted Assets of the Banking Industry	32
Table	XXVII	Banking Sector Regulatory Capital Position (Solo Basis)	32
Table	XXVIII	Banking Sector Advance-to-Deposit Ratio (ADR)	33
Table	XXIX	Bank Cluster-wise ADR at end-June 2016	33
Table	XXX	FIs' CRR & SLR	33
Table	XXXI	Capital Adequacy Ratio of FI Sector	34
Table	XXXII	Overall Risk-weighted Assets and Tier 1 Capital of FI Sector	34
Table	XXXIII	Banking Sector's After Shock CRAR at Different Shock Scenarios	35
Table	XXXIV	Number of Non-compliant Banks at Different shock Scenarios	35
Table	XXXV	Price Earnings Ratio of Capital Market	36
Table	XXXVI	DSE Performance: January 2015 to June 2016	36
Table	XXXVII	Sector-wise Turnover Performance	37
Table	XXXVIII	Corporate Bond Issuance	37



## Acronyms

ADs	Authorised Dealers in Foreign Exchange
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
CCB	Capital Conservation Buffer
CP	Commercial Paper
CPI	Consumer Price Index
CRAR	Capital to Risk-weighted Asset Ratio
CRR	Cash Reserve Ratio
CY	Calendar Year
DFIs	Development Finance Institutions
DFIM	Department of Financial Institutions and Markets
DOS	Department of Off-site Supervision
DSE	Dhaka Stock Exchange
FCBs	Foreign Commercial Banks
FIs	Financial Institutions
FOB	Free on Board
FSD	Financial Stability Department
FSV	Forced Sale Value
FX	Foreign Exchange
GTF	Green Transformation Fund
IS	Interest Suspense
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
SME	Small & Medium Enterprise
TL	Total Loan
USD	United States Dollar
WAR	Weighted Average Resilience
WIR	Weighted Insolvency Ratio

## Executive Summary

Macro-financial system of Bangladesh demonstrated a notable resilience and stability during the period of April-June quarter of calendar year 2016 (CY16). Gross international reserves reached to USD 30.2 billion at the end of the review quarter. The Quantum Index of Industrial Production (General-Manufacturing) increased moderately compared to end-March 2016 position. Inflation recorded a minor decline with respect to the preceding quarter. Wage earners' remittance displayed a moderate improvement. The spread between the weighted average lending and deposit rates remained mostly unchanged compared with that of the previous quarter. Bangladesh Taka (BDT) against the US Dollar (USD) remained almost same, while credit to the Government (gross) by the banking system recorded a moderate increase. Both import payments and export receipts increased moderately.

The banking sector displayed a mixed performance during the review quarter. The balance sheet size grew to a notable extent. The shares of loans and advances to total assets slightly decreased. The share of investments in government and other securities also recorded minor decrease. However, the share of money at call and short notice recorded minor increase. Asset quality, measured by non-performing loans (NPL) to the aggregate loan portfolio, declined over the previous quarter. However, asset quality, measured by net NPL to regulatory capital, slightly improved. The provision shortfall widened moderately. Key profitability indicators, i.e., Return on Assets (ROA) and Return on Equity (ROE), decreased in the review quarter.

At the end of June 2016, overall banking sector's capital to risk weighted ratio (CRAR) slightly declined from the end-March 2016 position of 10.6 percent, still the maintained ratio was above the minimum regulatory requirement. Tier-1 capital ratio decreased slightly from 8.2 percent of the preceding quarter. In terms of leverage ratio, banking sector performed well; 45 out of 56 banks were able to maintain minimum required level of capital conservation buffer in the reporting quarter. 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-June 2016, the Advance-to-Deposit ratio (ADR) of the banking industry slightly increased compared with that of end-March 2016. Furthermore, banking sector, as a whole, had no shortfall in Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).

Stress test analysis, based on the data as of June quarter CY16, indicates that default of the largest borrowers and increase in non-performing loan (NPL) would have major impacts on the banking sector CRAR. However, the individual banks and the banking system, as a whole, were found to be resilient against various liquidity stress scenarios.

Financial Institutions (FIs) sector also demonstrated a diverse trend in the review quarter. Asset quality remained mostly unchanged compared to March 2016 position while the key profitability indicators - ROA and ROE - increased notably over the previous quarter. During the review quarter, the FIs had no shortfall in either CRR or SLR. The capital adequacy ratio (CAR) of the FIs sector decreased slightly compared to the position of the preceding quarter. Moreover, the Tier-1 ratio was higher than the regulatory requirement of 5.0 percent.

Stress testing analysis on the FIs reveals that a majority of them was resilient in the event of stress scenarios as of end-June 2016. However, 15 out of 33 FIs were somewhat prone to different shock events.

The capital market in Bangladesh demonstrated a scenario of price appreciation in the review quarter compared to the preceding quarter; the DSEX, DSE 30, and DSES increased moderately. On the other hand, no corporate bonds were issued in the second quarter of 2016.

Bangladesh Bank has taken a number of initiatives, in the review quarter, having implications for financial stability. For instance, Bangladesh Bank has amended guidelines on risk based capital adequacy for banks, issued guidelines on Commercial Paper for Financial Institutions, introduced 7-and 14-day Bangladesh Bank Bills to make the monetary policy implementation and liquidity management more effective, revised interest rate of agricultural and rural credit, changed foreign exchange regulations, issued circular for providing cent percent refinance/pre-finance to women led enterprises at preferential interest rate (bank rate + maximum 5 percent spread) in line with prevailing women entrepreneurship development strategy of Bangladesh Bank.

In sum, amid tensions in a number of jurisdictions in the global economy during the review quarter, Bangladesh financial system has been able to maintain a notable level of stability.

## Macroeconomic Developments

Macroeconomic situation in the review quarter was mostly favourable attributable to a decline in inflation and interest rates, an increase in foreign exchange reserves, exports and wage earners' remittance.

### 1.1 Inflation

At end-June 2016, inflation decreased to 5.9 percent from 6.1 percent of end-March 2016 and this trend continued throughout the quarter (Chart 1.1).

### 1.2 Foreign Exchange Reserve and its Import Coverage

At end-June 2016, the gross foreign exchange reserves reached at USD 30.2 billion recording an increase of 6.8 percent, from the USD 28.3 billion of end-March 2016. The reserve position was sufficient to meet more than nine month's import bills on FOB basis.

### 1.3 Wage Earners' Remittance

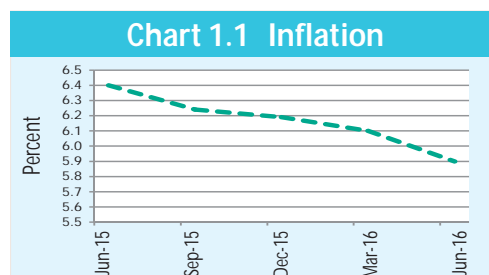
The remittances from Bangladeshi nationals, working abroad, stood at USD 3,871.5 million during the review quarter, recording an increment of 8.4 percent compared to USD 3,572.5 million recorded during the preceding quarter.

It is noteworthy that in the January-March quarter of 2016 remittance growth was 0.5 percent compared to October-December quarter of 2015.

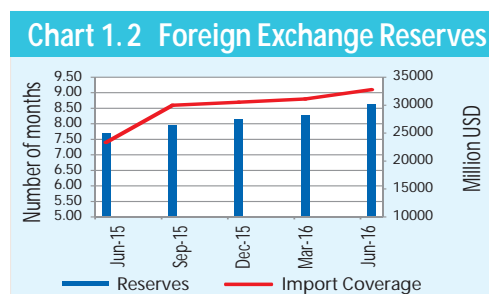
### 1.4 Industrial Production

The Quantum Index of Industrial Production (General-Manufacturing) at end-June 2016 reached to 321.2 compared with 272.2 at end-March 2016. The QIP (manufacturing) demonstrated an increasing trend over the quarter that implies sufficient industrial output.

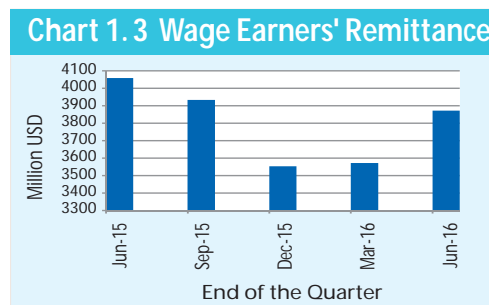
<sup>1</sup> On FOB basis



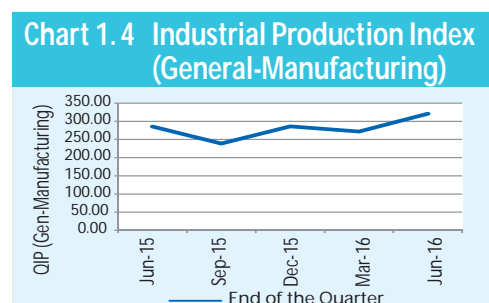
Source: Monthly Economic Trends, BB (various issues).



Source: Research Department, BB.



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

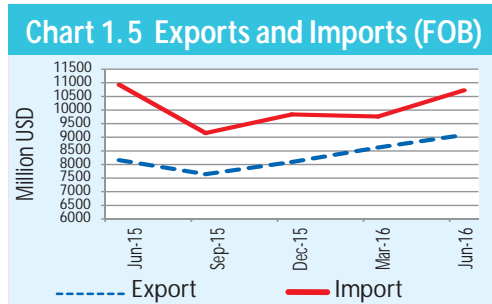


Note: Base 2005-06=100. Source: BBS.

### 1.5 Imports and Exports

In the review quarter of CY16, aggregate import payments<sup>1</sup> increased by 9.8 percent and reached at USD 10,720.0 million as

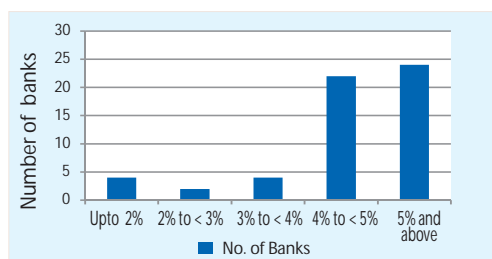
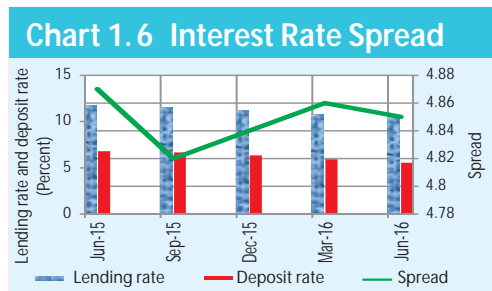
compared to USD 9,765.0 million recorded in the previous quarter. Export receipts, on the other hand, increased by 5.4 percent and reached at USD 9,088.0 million compared with USD 8,624.0 million recorded in the fourth quarter of CY15.



Source: Research Department, BB.

### 1.6 Interest Rate Spread

The spread between the weighted average lending and deposit rates remained mostly unchanged to 4.9 percent with respect to that of end-March 2016; spread of 24 banks out of 56 is above 5.0 percent. Foreign Commercial Banks' (FCBs) spread is much higher than the industry average and



Source: Statistics Department, BB.

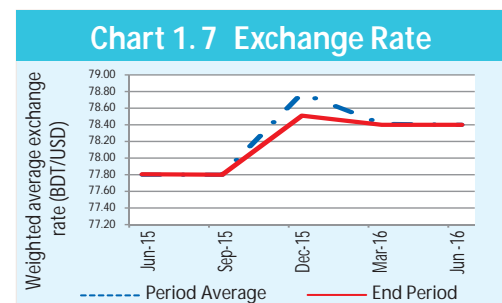
<sup>2</sup> Four banks categories are:  
SCBs-State-owned Commercial Banks.  
FCBs-Foreign Commercial Banks.  
SDBs-Specialized Development Banks.  
PCBs-Private Commercial Banks.

Specialized Banks' spread is the lowest among the four categories of banks<sup>2</sup>.

In the review quarter, the weighted average lending rate was recorded at 10.4 percent while the deposit rate was 5.5 percent. Both the lending and deposit rates slightly declined compared with those of the preceding quarter.

### 1.7 Exchange Rate

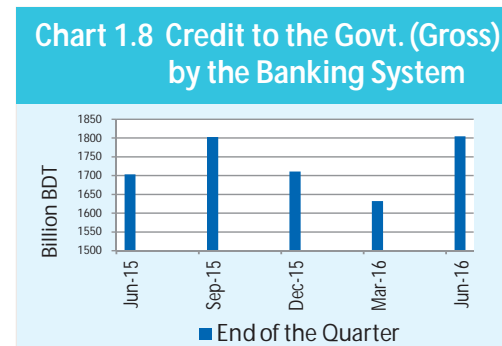
The value of the Bangladesh Taka, in terms of US dollar, remains mostly unchanged at BDT 78.40 per USD, in June 2016, compared with the previous quarter.



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

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

Credit to the Government (gross), by the banking system, increased by BDT 172.3 billion or 10.6 percent during the review quarter. In the preceding quarter, credit to the government recorded a decline of 4.6 percent compared to October-December quarter of 2015.



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

## Banking Sector Performance

Banking sector exhibited a mixed performance in terms of asset growth, return on assets, return on equity and asset quality during the April-June quarter of CY16.

### 2.1 Assets Structure of the Banking Sector

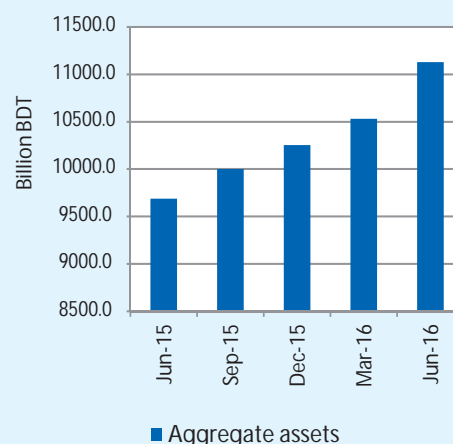
The balance sheet size of the banking sector<sup>3</sup> grew by almost 5.7 percent and reached BDT 11,128.5 billion at end-June 2016. Loans and advances, as a percentage of total assets, recorded a minor decrease compared with that of end-March CY16. The proportion of investment also decreased.

The share of loans and advances, the largest among the asset items, decreased by 10 basis points at end-June of CY16, compared with that of end-March 2016. The share of banks' assets with Bangladesh Bank decreased by 20 basis points and balances with *other banks and financial institutions* increased by 30 basis points. Banks' money at call increased by 10 basis points, and the share of other assets increased by 80 basis points. However, the share of investments in government and other securities decreased by 110 basis points.

The asset concentration ratios of Top 5 and Top 10 banks as against total banking system assets were 30.4 and 44.2 percent respectively at end-June 2016 (Chart 2.3 & 2.4); the proportions increased relative to that in the preceding quarter.

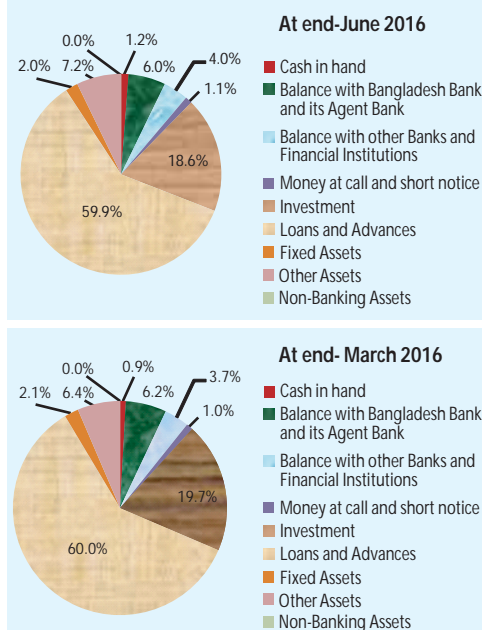
<sup>3</sup> Taking into account only scheduled banks.

Chart 2.1 Asset size of the Banking Industry



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

Chart 2.2 Asset Structure of the Banking Industry



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

## 2.2 Asset Quality

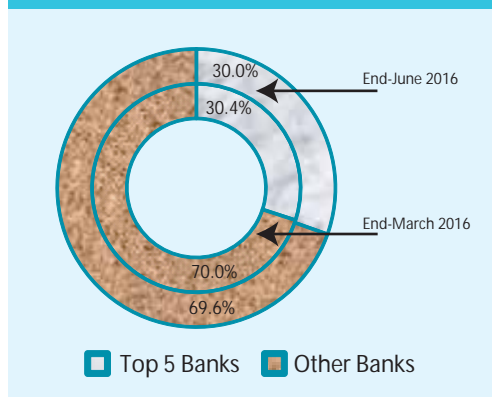
The NPL ratio<sup>4</sup> increased by 20 basis points, reaching 10.1 percent at end-June 2016 from 9.9 percent recorded at end-March 2016. State-owned commercial banks' (SCBs) NPL remains higher than that of the overall banking industry. Besides, non-performing loans net of specific loan loss provisions and

interest suspense to total loans decreased to 2.8 percent from 2.9 percent recorded at end-March 2016. Non-performing loans net of specific loan loss provisions and interest suspense to regulatory capital decreased to 21.1 percent at end-June 2016 from 21.2 percent of end-March 2016.

The distribution of banks, based on their NPL ratios, indicates that 13 banks came up with double-digit values in June CY16.

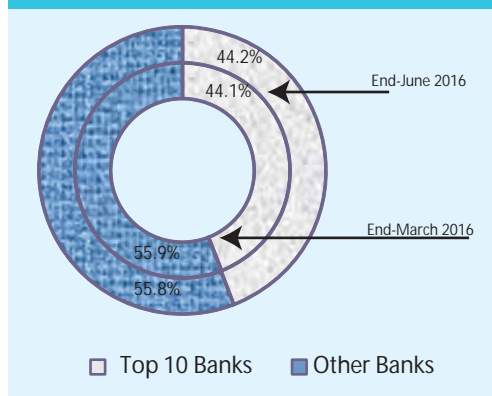
The provision maintenance ratio<sup>5</sup>, at end-June 2016, remained almost same to 87.7 percent as compared to that of end-March 2016.

**Chart 2.3 Top 5 Banks based on Assets Size**



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

**Chart 2.4 Top 10 Banks based on Assets Size**

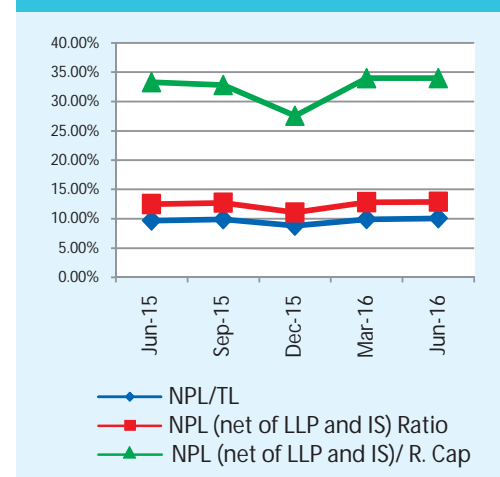


Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

<sup>4</sup> Non-performing loan to total loan ratio.

<sup>5</sup> Maintained provision to required provision.

**Chart 2.5 NPL Ratio**

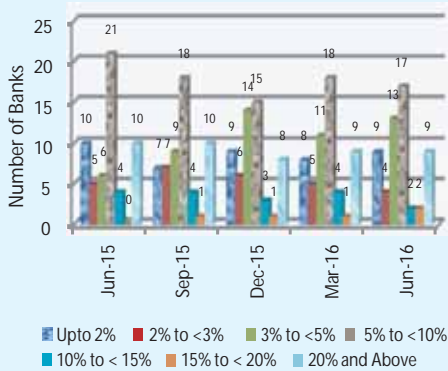


Source: BRPD, BB.

It is to mention that 50.2 and 64.6 percent of the non-performing loans were concentrated in the Top 5 and Top 10 banks respectively at end-June 2016 (chart 2.8 & 2.9).

The ratio of bad/loss loans to total classified loans stood at 79.9 percent at end-June

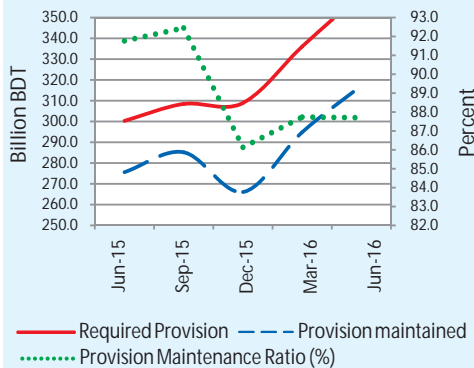
**Chart 2.6 Distribution of banks by NPL ratio**



Source: BRPD, Compilation FSD.

CY16<sup>6</sup>. The NPL under sub-standard and doubtful categories, on the other hand, constituted 11.8 and 8.3 percent of total NPLs respectively. The proportion of doubtful and bad/loss loans increased by 2.9 and 0.3 percentage points respectively, while the proportion of sub-standard loans decreased by 3.3 percentage points from the previous quarter.

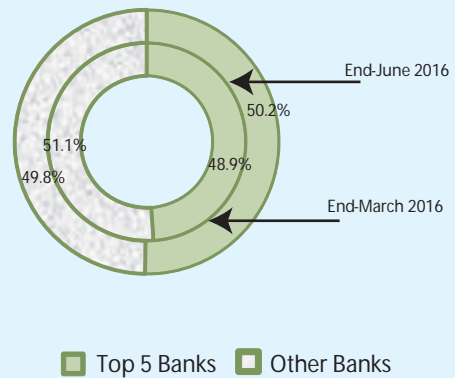
**Chart 2.7 Banking Sector Loan Loss Provision**



Source: BRPD, BB.

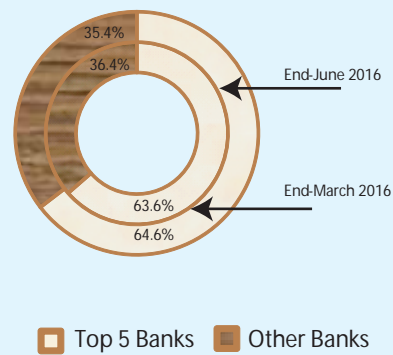
<sup>6</sup> Compared with 79.6 percent recorded at end-March CY16.

**Chart 2.8 Top 5 Banks based on NPL**



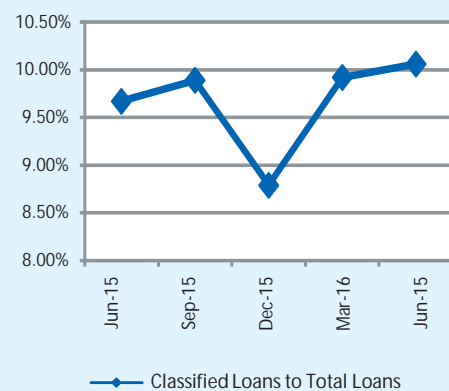
Source: BRPD; Compilation FSD.

**Chart 2.9 Top 10 Banks based on NPL**



Source: BRPD; Compilation FSD.

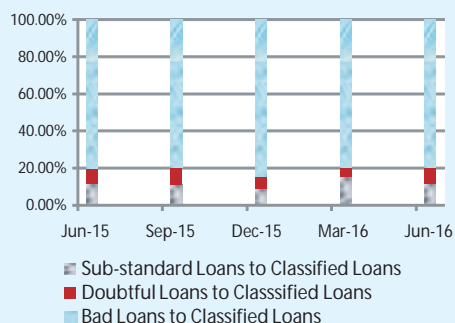
**Chart 2.10 NPL Ratio of the Banking Industry**



Source: BRPD, BB.

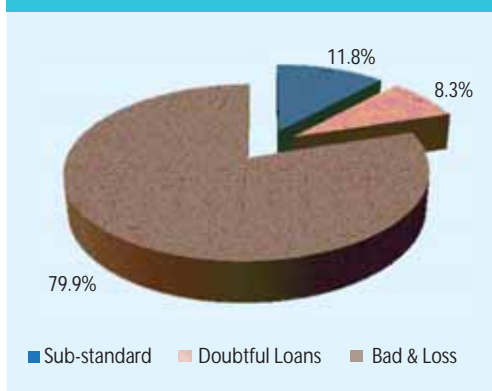


**Chart 2.11 Proportion of NPL Categories**



Source: BRPD, BB.

**Chart 2.12 NPL Composition of Banks**

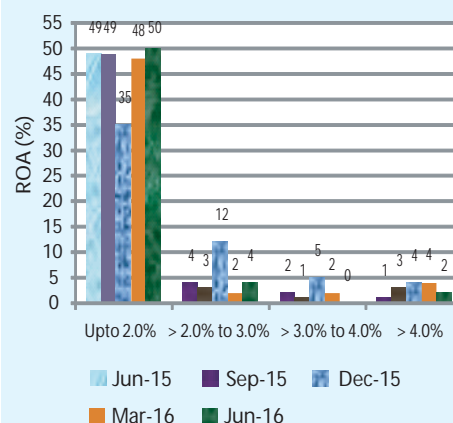


Source: BRPD, BB.

### 2.3 Profitability

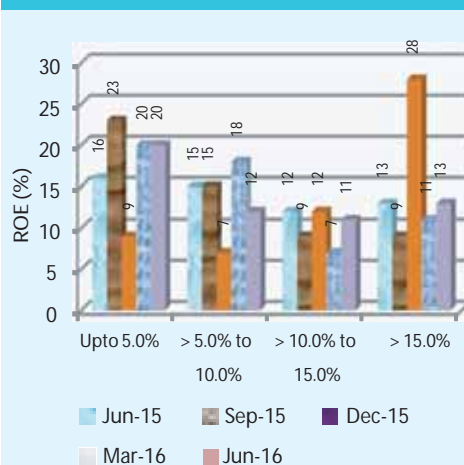
In the review quarter, both return on assets (ROA) and return on equity (ROE) decreased by 0.3 and 3.7 percentage points respectively, from those of the previous quarter (0.5 and 6.8 percent). Almost 89.3 percent of the banks' ROA was up to 2.0 percent, while 10.7 percent of banks' ROA was higher than 2.0 percent. On the other hand, 64.3 percent of the banks' ROE was higher than 5.0 percent.

**Chart 2.13 Banking Sector Return on Assets (ROA)**



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

**Chart 2.14 Banking Sector Return on Equity (ROE)**



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

## Financial Institutions' Performance

Financial Institutions (FIs) showed a mixed trend in the review quarter of CY16. Key financial soundness indicators, such as non-performing loans remained same but profitability ratios went down.

### 3.1 Sources of Funds

At End-June 2016, borrowings, deposits, capital and other liabilities constituted 23.2, 52.3, 14.9 and 9.7 percent of the sources of funds of the FIs respectively. In comparison with end-March 2016, the proportions of all the sources of funds remained mostly unchanged.

### 3.2 Assets Composition

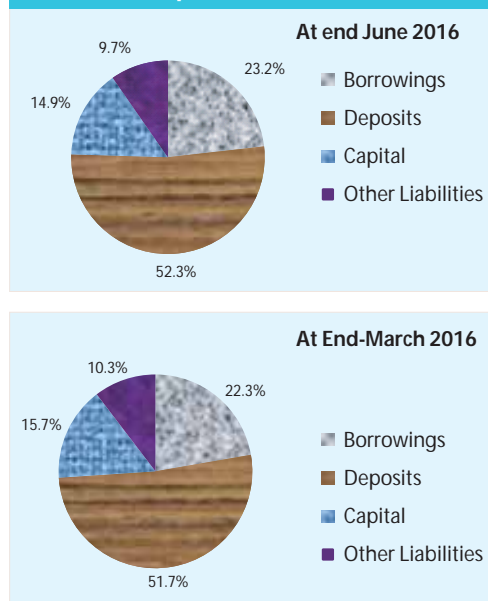
FIs' loans and leases constituted 74.2 percent of total assets at end-June 2016. Cash and balances with banks/FIs, investments, fixed assets, and other assets comprised 13.7, 3.4, 1.0 and 7.6 percent of total assets respectively.

When compared with End-March 2016 positions, the proportion of cash and balances with other banks/FIs has decreased by 120 basis points. The proportion of loans and leases has increased by 130 basis points, while the proportion of other asset classes remained almost same.

### 3.3 Asset Quality

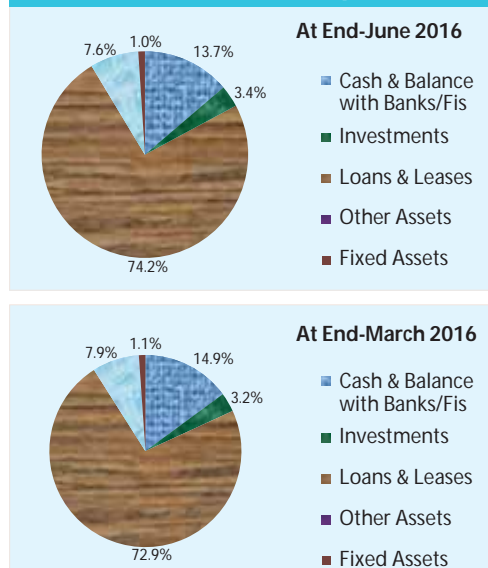
FIs' asset quality remained unchanged in June 2016<sup>7</sup>. Non-performing loans and

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



Source: FIs, FSD Staff Compilation.

**Chart 3.2 FIs' Assets Composition**



Source: FIs, FSD Staff Compilation.

<sup>7</sup> There has been no change in regulatory requirements regarding NBFIs' asset classification in June quarter CY16.

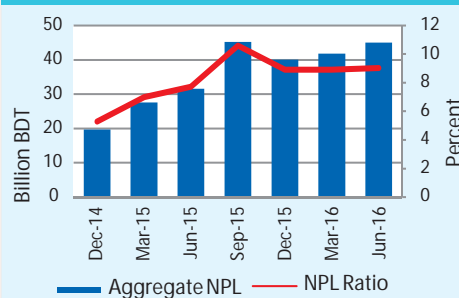
leases increased from BDT 41.8 billion at end-March 2016 to BDT 45.1 billion in end-June 2016, recording an increase of 7.9 percent. The ratio of non-performing loans and leases to total loans was 9.0 percent, slightly higher than that of the end- March 2016 (8.9 percent).

### 3.4 Profitability

FIs' profitability has improved in the review quarter over the March quarter of 2016<sup>8</sup>.

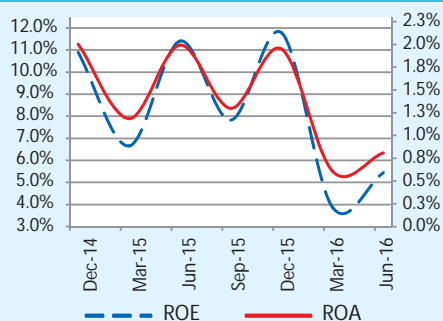
The return on assets (ROA) and return on equity (ROE) stood at 0.8 and 5.5 percent respectively in the June quarter of 2016 as compared to 0.6 and 3.9 percent respectively recorded in the preceding quarter.

**Chart 3.3 FIs' Non-performing Loan and Leases**



Source: DFIM, BB.

**Chart 3.4 FIs' ROA and ROE**



Source: FIs; FSD Staff Compilation.

<sup>8</sup> Here profitability indicators-ROA and ROE- have been annualized from quarterly ratios.

## Banking Sector Liquidity and Capital Adequacy

The banking sector capital to risk-weighted assets ratio (CRAR) decreased 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. Most of the banks (44 out of 56 banks) were able to maintain minimum capital conservation buffer. The advance-to-deposit ratio (ADR) increased slightly.

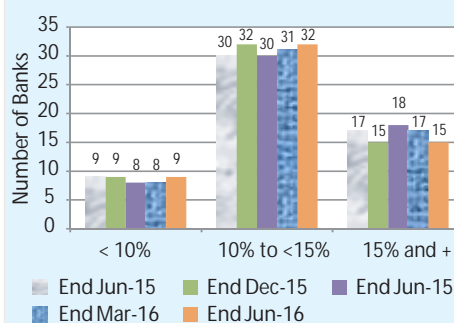
### 4.1 Capital Adequacy

In the review quarter, a majority of banks were compliant to the minimum CRAR requirement, compared to end- March 2016. 47 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 having positive impact on the stability of the financial system. CRARs of 32 banks were within the range of 10-15 percent and their assets accounted for nearly 64.0 percent of the total banking industry's assets at end-June 2016 indicating that a significant portion of the banking sector assets are managed by the CRAR-compliant banks.

The banking sector aggregate CRAR at end-June 2016 was 10.3 percent, slightly higher

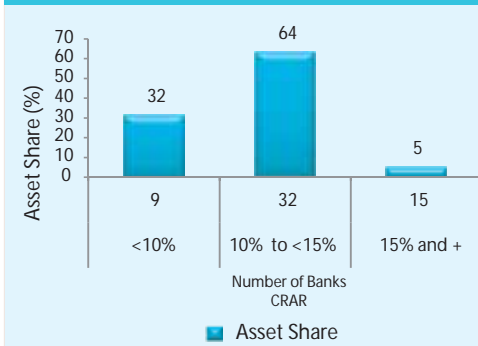
than the minimum requirement of 10.0 percent and 30 basis points lower than the ratio recorded at end-March 2016. Though in the review quarter, Tier-1 capital ratio declined to 7.6 percent from 8.2 percent recorded at end-March 2016, still the ratio was significantly higher than the minimum regulatory requirement of 5.5 percent<sup>9</sup>

**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-June 2016**

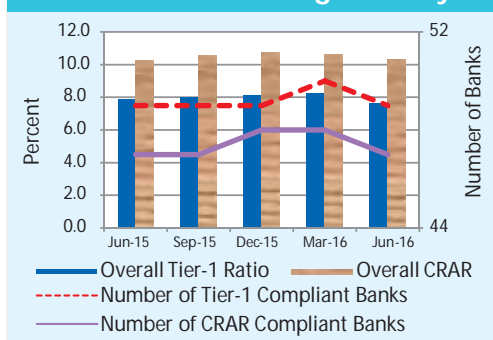


Source: DOS, BB.

<sup>9</sup> 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 at least 5.5 percent for April-June quarter of 2016.

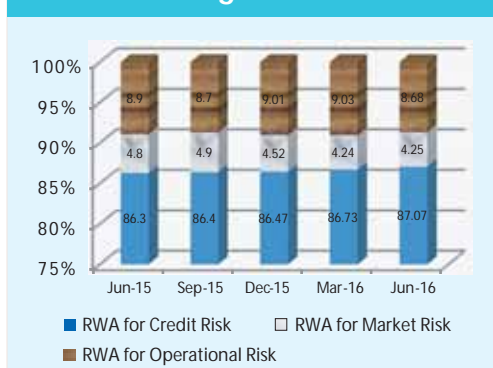
At end-June 2016, risk-weighted assets, arising from credit risks, accounted for 87.1 percent of the total industry's risk-weighted assets under Pillar 1 of the Basel III capital adequacy framework. Next positions were held by operational and market risks (Chart 4.4).

**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.

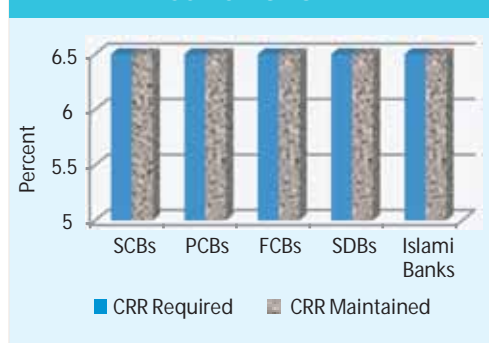
Maintenance of Capital Conservation Buffer (CCB) for banks has been started from 2016 and would be fully implemented by 2019 in line with the Basel III framework<sup>10</sup>. Against

the regulatory requirement of 0.625 percent for CY16, 45 out of 56 banks has been able to maintain required capital conservation buffer on solo basis during the review quarter. On the other hand, in case of consolidated basis, 29 out of 36 banks have been able to fulfill this regulatory requirement. The aggregate CCB of banks in the stated quarter was 0.34 and 0.88 percents on solo and consolidated bases respectively.

## 4.2 Liquidity

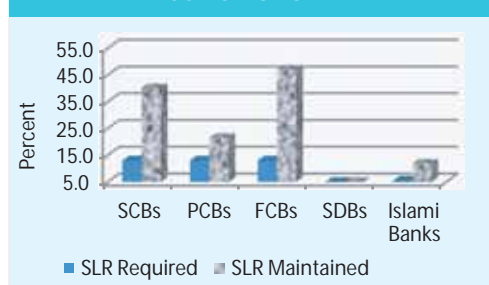
During the review quarter of CY16, banking sector, as a whole, was able to maintain the required level of CRR<sup>11</sup> and SLR.

**Chart 4.5 Banking sector CRR : June 2016**



Source: DOS, BB.

**Chart 4.6 Banking sector SLR : June 2016**



Source: DOS, BB.

<sup>10</sup> Banks were required to maintain a capital conservation buffer of 0.625 percent, above the regulatory minimum capital requirement of 10.0 percent during the review quarter.

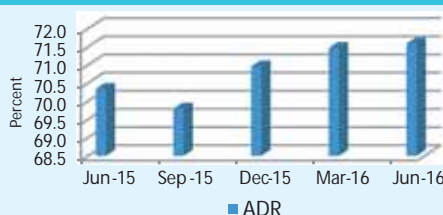
<sup>11</sup> On bi-weekly average basis.

As evident from Chart 4.7, ADR of the overall banking industry has increased by 10 basis points at end-June 2016 from that of end-March 2016<sup>12</sup>.

### 4.3 Leverage ratio

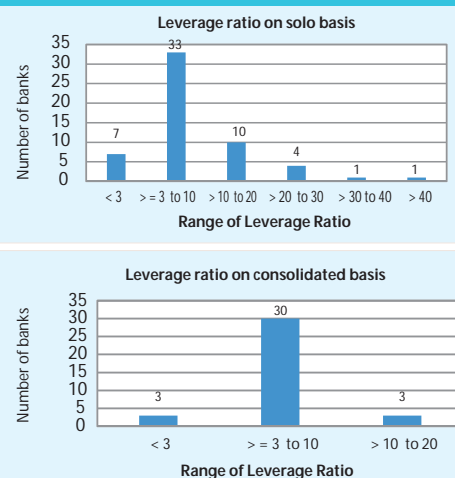
For the stated quarter, minimum requirement for Tier-1 leverage ratio<sup>13</sup> was 3.0 percent, on both solo and consolidated bases. Against the regulatory requirement, the banking sector has been able to maintain a leverage ratio of 4.8 percent on solo basis; 49 out of 56 banks have successfully maintained leverage ratio of 3.0 percent or higher (Chart 4.8). On the other hand, in case of consolidated basis, 33 out of 36 banks have been able to fulfill the regulatory requirement.

**Chart 4.7 Banking Sector Advance-to-Deposit Ratio**



Source: DOS, BB.

**Chart 4.8 Leverage ratio of banks at End-June 2016**



Source: DOS, BB.

12 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.

13 As per "Guideline on Risk Based Capital Adequacy" revised regulatory capital framework for Banks in line with Basel III, issued in December 21, 2014, Leverage Ratio =  $\frac{\text{Tier-1 Capital (after related deduction)}}{\text{Total Exposure (after related deduction)}}$

## Financial Institutions' Liquidity and Capital Adequacy

During the review quarter, FI sector displayed a mixed trend in terms of liquidity and capital adequacy. While there was no shortfall in cash reserve ratio (CRR) and statutory liquidity ratio (SLR), capital adequacy ratio slightly declined.

### 5.1 Liquidity

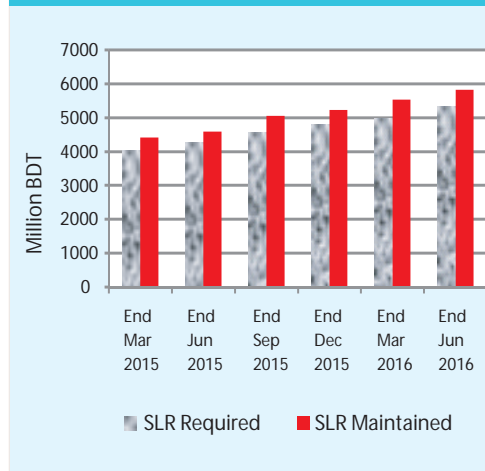
As of end-June 2016, the aggregate amount of maintained CRR was BDT 5,829.6 million as compared to BDT 5,540.4 million recorded at end-March 2016, scoring an increment of 5.2 percent. On the other hand, at end-June 2016, the amount of maintained SLR was BDT 69.4 billion, which is 2.3 percent lower than the amount maintained at end-March 2016. During the review quarter, the FIs sector had no CRR and SLR shortfall<sup>14</sup>.

### 5.2 Capital Adequacy

In the review quarter, FIs 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.

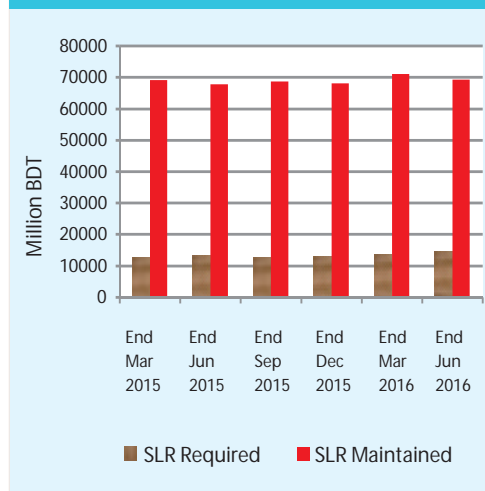
The CAR of the FIs sector decreased slightly from 17.9 percent in the March quarter of CY16 to 16.7 percent in the June quarter of CY16. It is to mention that the maintained

Chart 5.1 FIs' CRR



Source: DFIM, BB.

Chart 5.2 FIs' SLR

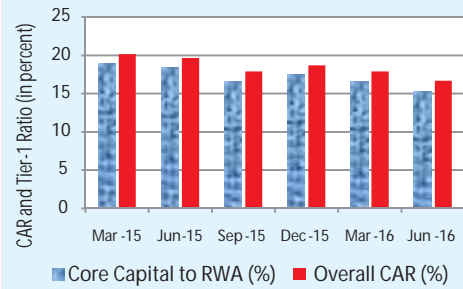


Source: DFIM, BB.

<sup>14</sup> FIs 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, FIs operating without term deposits are required to maintain an SLR of 2.5 percent and are exempted from maintaining the CRR.

CAR was well above the minimum regulatory requirement. In addition, the Tier-1 capital ratio was recorded at 15.3 percent in the review quarter of CY16; slightly lower than the ratio of end-March 2016. Still the end-June CY16 data indicates that the FIs sector was compliant with the Basel II requirements in respect of the Tier-1 capital ratio too.

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



Source: DFIM, BB.



## Stress Test and Resilience of the Banking and FIs Sectors

### 6.1 Stress Test

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

### 6.2 Stress Test on Banks<sup>15</sup>

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-June 2016 revealed that the banking sector's capital to risk weighted asset ratio (CRAR)<sup>16</sup> was 10.3 percent. Out of 56, 9 banks' pre-shock CRARs were below the minimum regulatory requirement of 10.0 percent. Therefore, the remaining 47 banks were taken into account for the analyses based on end-June 2016 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)<sup>17</sup>:** If NPLs increased by 3, 9 and 15 percent, then 8, 27 and 33 banks respectively may not be able to maintain the minimum required CRAR (Table 6.1).

**b) Increase in NPL due to Default of Top Large Borrowers:** If 3, 7 and 10 largest borrowers of each bank in the industry defaulted, then 26, 32 and 34 banks

respectively would have been non-compliant in maintaining the minimum required CRAR.

**c) Fall in the Forced Sale Value (FSV) of Mortgaged Collateral:** If FSV of mortgaged collateral declined by 10, 20 and 40 percent, then 1, 1, and 7 banks respectively would have been non-compliant in maintaining the minimum required CRAR.

**d) Negative Shift in the NPL Categories:** If NPL categories shifted downward by 5, 10 and 15 percent, then 1, 11, and 20 banks respectively would have been non-compliant in maintaining the minimum required CRAR.

**e) Increase in NPL in Highest Outstanding Sector:** In the event of minor, moderate and major shocks, 1, 1 and 5 banks respectively would have fallen 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, 8 and 11 banks respectively may not be able to maintain the minimum required CRAR.

<sup>15</sup> The analyses here are based on the data as of end-June 2016 unless otherwise stated.

<sup>16</sup> CRAR = Capital to Risk Weighted Assets Ratio = Total Eligible Capital / (Credit RWA + Market RWA + Operational RWA), where RWA = Risk-weighted assets).

<sup>17</sup> 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-June 2016**

Shocks <sup>18</sup>	Banking Sector (%)
<b>Pre-shock CRAR</b>	10.34
<b>CRAR after shock (%)</b>	
<b>Credit Risks:</b>	
<b>Increase in NPLs:</b>	
Shock-1: 3%	9.52
Shock-2: 9%	7.45
Shock-3: 15%	4.01
<b>Increase in NPLs due to default of top large borrowers</b>	
Shock-1: Top 3 borrowers	8.59
Shock-2: Top 7 borrowers	6.99
Shock-3: Top 10 borrowers	6.28
<b>Fall in the FSV<sup>19</sup> of mortgaged collateral</b>	
Shock-1: 10%	9.82
Shock-2: 20%	9.30
Shock-3: 40%	8.24
<b>Negative shift in the NPL categories</b>	
Shock-1: 5%	9.70
Shock-2: 10%	7.68
Shock-3: 15%	6.55
<b>Increase in NPLs in highest outstanding sectors</b>	
<i>Sector concentration 1<sup>20</sup></i> <i>(Performing loan directly downgraded to B/L<sup>21</sup>)</i>	
Shock-1: 3%	10.29
Shock-2: 9%	10.18
Shock-3: 15%	10.07
<i>Sector concentration 2<sup>22</sup></i> <i>(Performing loan directly downgraded to B/L)</i>	
Shock-1: 3%	10.29
Shock-2: 9%	10.20
Shock-3: 15%	10.11
<b>Market Risks</b>	
<b>Interest rate risk (change in interest rate)</b>	
Shock-1: 1%	9.94
Shock-2: 2%	9.55
Shock-3: 3%	9.15
<b>Exchange rate risk (Currency appreciation/depreciation)</b>	
Shock-1: 5%	10.28
Shock-2: 10%	10.23
Shock-3: 15%	10.18
<b>Equity price risk (Fall in equity prices)</b>	
Shock-1: 10%	10.08
Shock-2: 20%	9.83
Shock-3: 40%	9.31
<b>Combined Shock</b>	
Shock-1	7.66
Shock-2	2.34
Shock-3	-4.26

<sup>18</sup> Shock-1 = Minor, Shock-2 = Moderate, Shock-3 = Major.

<sup>19</sup> FSV = Forced Sale Value.

<sup>20</sup> Sector with highest outstanding.

<sup>21</sup> B/L = Bad/Loss.

<sup>22</sup> Sector with second highest outstanding.

**b) Exchange Rate Risk:** A currency appreciation/depreciation by 5, 10, and 15 percent would lead to non-compliance of 1 bank in each of the minor, moderate and major shocks in terms of CRAR.

**c) Equity Price Risk:** In the event of a 10, 20 and 40 percent fall in equity prices, 1, 1 and 3 banks respectively would have been non-compliant in maintaining the minimum required CRAR.

### 6.2.2 Combined Shock<sup>23</sup>

In the event of minor, moderate and major combined shocks, 19, 34 and 39 banks respectively may become undercapitalized; CRAR in these cases would be downgraded to 7.7, 2.3 and -4.3 percent respectively.

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

### 6.2.3 Liquidity Shock

Based on end-June 2016 data, the individual banks and the banking system as a whole seemed to be resilient against specified liquidity stress scenarios.

**Table 6.2 Liquidity Risk of the Banking Sector: End-June 2016**

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

\* Consecutive 5 working days.

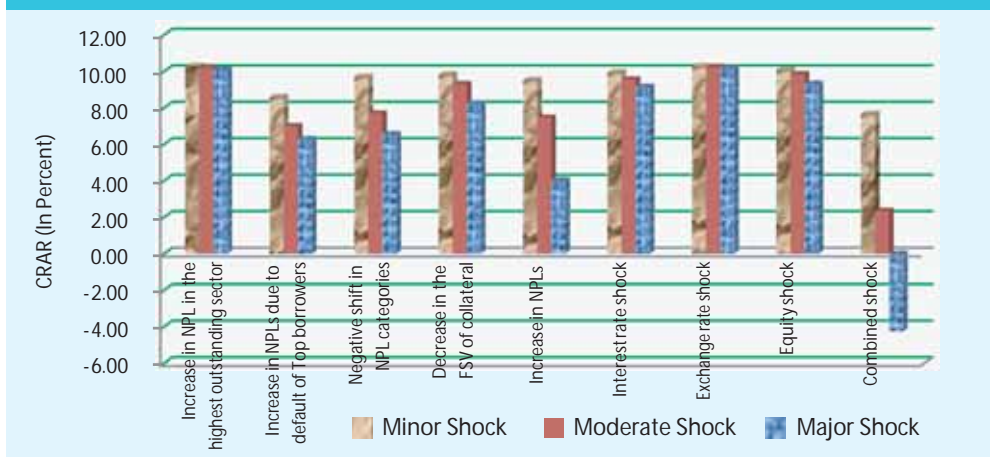
Note: '1' indicates that the system is liquid and '0' not liquid.

Source: FSD, BB.

### 6.3 Stress Test on FIs

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

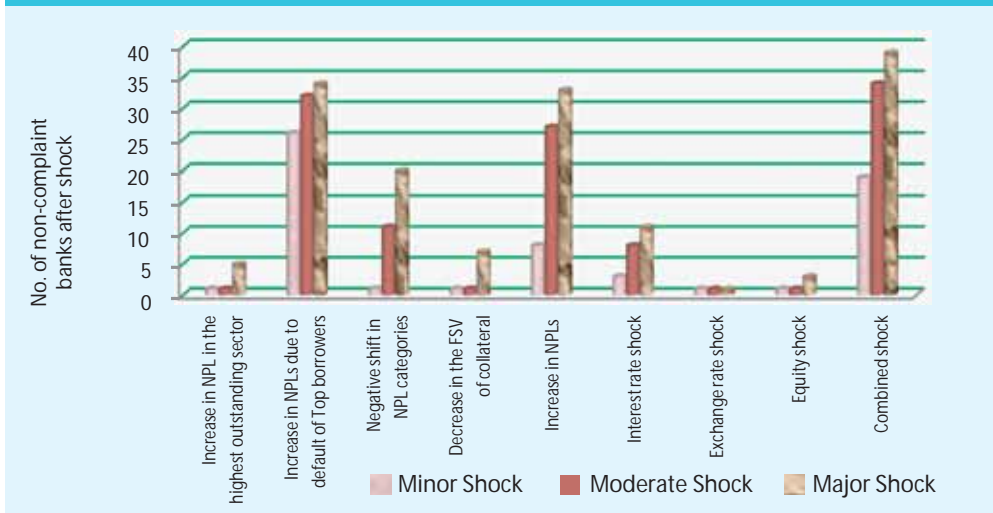
**Chart 6.1 Banking Sector CRAR at Different Shock Scenarios: June 2016**



Source: FSD, BB.

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

**Chart 6.2 : Number of Non-compliant Banks at Different Shock Scenarios: June 2016**



Source: FSD, BB.

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

Results from the stress tests based on the data of end-June 2016 (Table 6.3) revealed that out of 33 FIs, 5 were in 'Green', 13 in 'Yellow' and 15 in 'Red' zone. It is mentionable that the results of stress testing, depicted here, are based on sensitivity analysis under several hypothetical assumptions. Therefore, the results should not be treated as exact materialization of shock events.

**Table 6.3 Stress Testing: Zonal Position of FIs**

(Number of FIs)

Quarter	Green	Yellow	Red
End-Dec 2014	4	19	08
End-Mar 2015	4	12	15
End-Jun 2015	4	12	15
End-Sep 2015	4	13	14
End-Dec 2015	4	18	10
End-Mar 2016	4	17	11
End-Jun 2016	5	13	15

Source: DFIM, BB

## Capital Market Development and Corporate Bond Market

The capital market in Bangladesh demonstrated a scenario of price appreciation in the review quarter<sup>24</sup> as evident from movements of a number of key indicators detailed below:

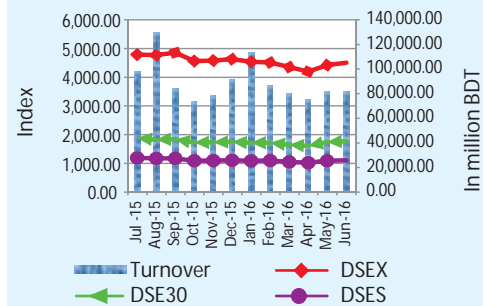
### 7.1 DSE Performance and Index Movement

In the second quarter of CY16, DSE turnover was BDT 237.9 billion as compared to BDT 279.9 billion recorded in the first quarter of CY16, scoring a 15 percent decline in terms of volume. At end-June 2016, key DSE indices DSEX, DSE 30 and DSES increased by 3.4, 7.4 and 5.6 percent respectively from those of end-March 2016.

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

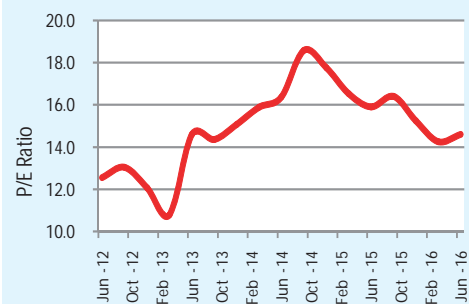
The weighted average P/E ratio in June 2016 was 14.6, which was 30 basis points higher than that of March 2015. The overall market P/E ratio displayed an upward trend in the second quarter of 2016.

Chart 7.1 DSE Performance and Index Movement



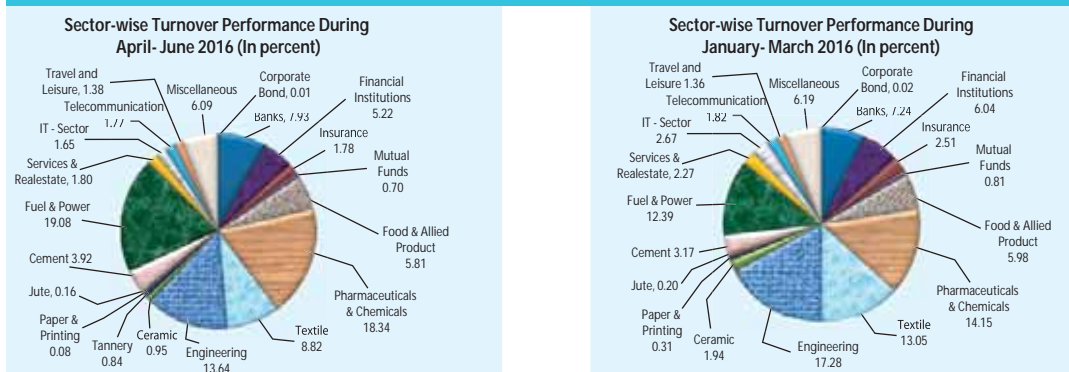
Source: DSE; Compilation : FSD, BB.

Chart 7.2 Price/Earnings Ratio



Source: Dhaka Stock Exchange.

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



Source: DSE; Compilation : FSD, BB.

<sup>24</sup> Second quarter of calendar year 2016.

### 7.3 Sectoral Turnover

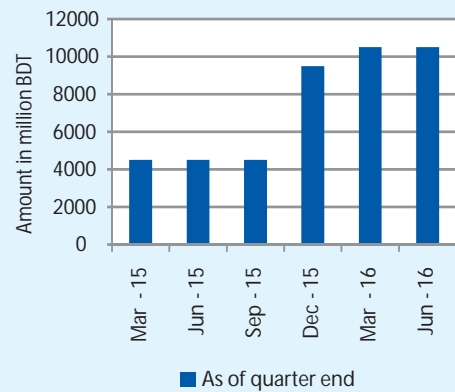
In the review quarter, the highest turnover was recorded for the fuel and power followed by pharmaceuticals and engineering sector. Next two positions were held by the textile and banking sectors respectively (Chart 7.3).

It is mentionable that, in the review quarter, contribution of the banking sector to DSE turnover was 7.9 percent, as compared to 7.2 percent recorded in the March quarter of the CY16. The FIs sector's contribution was 5.2 percent compared with 6.0 percent of the previous quarter.

### 7.4 Corporate Bond Market

No corporate bonds were issued in the second quarter of CY16.

Chart 7.4 Corporate Bond Issuance



Source: DFIM.

## Recent Stability Initiatives of Bangladesh Bank

During the April-June quarter of the calendar year 2016 (CY16), Bangladesh Bank (BB) has taken a number of initiatives having bearing on the domestic financial system stability. Some of the important ones among the initiatives introduced are as follows:

### 8.1 Amendment of Guidelines on Risk Based Capital Adequacy for Banks

During the review quarter, BB has amended section 3.1.3 of "Guidelines on Risk Based Capital Adequacy - Revised Regulatory Capital Framework for banks in line with Basel-III", which now allows the inclusion of the entire general provision/general loan-loss reserve maintained against unclassified loans and advances in Tier-2 capital. Earlier the amount eligible for inclusion was limited to a maximum 1.25 percent of credit risk-weighted assets under Standardized approach. BB has commenced the phased-in Basel III implementation process in Bangladesh from January 2015.

### 8.2 Guidelines on Commercial Paper for Financial Institutions

Considering the emerging roles of Commercial Paper (CP) as a new money market instrument to corporate houses in Bangladesh and subsequent involvement of Financial Institutions (FIs) in CP, BB has issued "Guidelines on Commercial Paper for Financial Institutions" to set some standards that will facilitate FIs to perform different roles regarding CP in an organized way. The guidelines has delineated the eligibilities, duties and responsibilities of FIs as investor, issuer, guarantor and issuing and paying agent (IPA) along with other related issues and reporting requirements of BB.

### 8.3 Introduction of 7 and 14 day Bangladesh Bank Bills

In addition to the existing 30-day BB bill, Bangladesh Bank has introduced two more BB bills - 7 and 14 days bills - for effective

implementation of monetary policy keeping reserve money in the desired level and liquidity management more effectively. Subsequently, it has been decided that auctions of 7, 14 and 30-day BB bills will take place on every working day starting from April 06, 2016.

### 8.4 Revision of Interest Rate of Agricultural and Rural Credit

Taking into account the recent downward trend in both deposit and lending rates, BB has revised the interest rate of agricultural and rural credit lowering the upper limit from 11 to 10 percent. Previously it was lowered from 13 to 11 percent in December 2014 on the same consideration. Though banks are allowed to fix their own interest rates on lending to most of the sectors, BB has been imposing an upper limit on the lending rates of priority sectors like agricultural and rural sectors.

### 8.5 Changes in the Foreign Exchange Regulations

During the review quarter, BB has brought a number of changes in its foreign exchange regulations that are stated below:

- i) Authorized Dealers (ADs) have been allowed to release foreign exchange without visa to the resident Bangladesh nationals proceeding to the countries/zones with provision of visa on port entry/arrival basis up to the unused annual travel quota entitlement applicable for country concerned subject to complying with other relevant instructions. The above mentioned facility will also be applicable for official visits abroad by the officials of Government/Semi-Government and Autonomous bodies traveling to countries/zones having provision of visa on port entry/arrival basis. Earlier the provision of releasing foreign exchange to outbound travelers without visa was restricted up to USD 200 or equivalent.

- ii) The maximum borrowing limit of ADs from Export Development Fund (EDF) against their foreign currency financing of input procurement for BGMEA *member mills* has been enhanced from USD 15 million to USD 20 million.
- iii) ADs have been allowed to release foreign exchange towards remittance of fees related to publication of articles in reputed international journals written by resident Bangladeshi nationals. ADs shall have to be satisfied with the genuineness of the invoices from the publishing companies/publishers abroad and deduction of applicable taxes before effecting remittances.
- iv) While conducting foreign exchange transactions with agents of foreign principals under the currently abolished Section 18A of Foreign Exchange Regulation Act, 1947, ADs have been instructed to maintain customer-wise files of updated agency agreements, ensure timely repatriation of commissions, fees, service charges etc. to be received by agents and observe relevant other regulations. In case of foreign exchange transactions with branch/liaison/representative office/any other place of business in Bangladesh under the modified Section 18B (1) of Foreign Exchange Regulation Act, 1947, ADs will be required to maintain a list of their clients of the above mentioned offices and ensure timely reporting to BB regarding permission, encashment certificate, no objection certificate, etc of the same.
- v) Alongside the existing provision of opening inland back to back LCs denominated in foreign exchange, inland LCs denominated in foreign exchange may also be opened in favor of local contractor for implementing purchase order of relevant public authority under international tender.

### 8.6 Circular on Small and Medium Sized Enterprise (SME) Financing

In order to motivate women entrepreneurs in productive investments, the Operating Guidelines of the Two Step Loan (TSL) fund of JICA assisted Financial Sector Project for the

Development of Small and Medium Sized Enterprises (FSPDSME) has been amended to allow providing 100 percent refinance/pre-finance to women led enterprises at preferential interest rate (bank rate + maximum 5 percent spread) in line with prevailing women entrepreneurship development strategy of BB.

### 8.7 Developments in Payment Systems

With the aim of easing business transactions and protecting customers' interests in card based electronic transactions through ATM, POS and e-Payment Gateway during Eid and other festivals, BB advised the scheduled banks to take some initiatives like maintaining ceaseless connection of ATM and POS network, ensuring security and constant supply of money in ATM booths, sending instant SMS alert against a transaction, providing early message regarding any cessation of POS services, etc.

### 8.8 Single Borrower Exposure Limit

In order to comply with section-26(Kha) of the Banking Companies Act, 1991 (amended up to 2013) and to improve banks' credit risk management, BB has clarified the instructions provided in paragraph 3 of BRPD circular no - 02/2014 regarding the exclusion of certain types of exposures and counterparties from single borrower exposure limit. Accordingly, banks have been instructed to bring down their exposures within the specified limit if the aggregate outstanding principal amount of funded exposures to any single person/counterparty or group has already exceeded 25 percent of the capital held by banks as per clause (1) of Section-13 of the Banking Companies Act, 1991.

### 8.9 Environment Friendly Initiatives by Banks and FIs

As part of promoting environment friendly and sustainable development, BB has instructed banks to make Solid Waste Management System, Rainwater Harvesting and Solar Power Panel available in their own establishments as well as rented/leased business centers. Moreover, banks have been allowed to finance certain institutions/groups as grants or at reduced interest rates and such financing may be considered as the usage of Climate Risk Fund.



**Table I : CPI Inflation (12 month Average)**

*(In percent)*

Month	Inflation
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
Mar-16	6.10
Jun-16	5.92

Base: 2005-06=100

**Table II : Foreign Exchange Reserve**

*(Amount in million USD)*

Month	International Reserve
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
Jan-16	27,138.9
Feb-16	28,058.5
Mar-16	28,265.9
Apr-16	29,106.2
May-16	28,802.9
Jun-16	30,137.6

**Table III : Wage Earners' Remittance***(Amount in million USD)*

Quarter	Workers Remittance
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
Mar-16	3,572.5
Jun-16	3,871.5

**Table IV : Industrial Production Index (General-Manufacturing)**

Quarter	Index
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
Mar-16	272.20
Jun-16	321.20

**Table V : Exports and Imports***(Amount in million USD)*

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
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
Mar-16	8,624.00	9,765.00
Jun-16	9,088.00	10,720.00

**Table VI : Interest Rate (Weighted Average) Spread***(In percent)*

Period	Lending Rate	Deposit Rate	Spread
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
Mar-16	10.78	5.92	4.86
Jun-16	10.39	5.54	4.85

**Table VII : Weighted Average Exchange Rate***(BDT/USD)*

Quarter	Period Average	End Period
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
Mar-16	78.4100	78.4000
Jun-16	78.4000	78.4000

**Table VIII : Credit to the Government (Gross) by the Banking System***(Amount in billion BDT)*

Period	Amount
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
Mar-16	1,632.5
Jun-16	1,804.8

**Table IX : Asset Structure of the Banking Industry***(Amount in billion BDT)*

Property and Assets	30-06-15	30-09-15	31-12-2015	31-03-2016	30-06-2016
Cash in hand	110.6	106.6	93.9	92.0	133.1
Balance with Bangladesh Bank and its Agent Bank	594.0	608.6	662.5	649.8	669.1
Balance with other banks and financial Institutions	352.1	330.1	390.1	390.2	442.7
Money at call and short notice	76.0	93.7	85.3	107.8	125.0
Investment	1,930.0	2,037.3	2,226.1	2,069.4	2070.2
Loans and Advances	5,721.0	5,827.2	6,002.8	6,316.5	6660.6
Fixed Assets	218.1	220.0	243.3	224.6	225.3
Other Assets	684.1	774.7	549.0	676.2	799.1
Non-banking assets	2.9	2.9	2.3	3.3	3.4
<b>Total Assets</b>	<b>9,688.8</b>	<b>10,001.2</b>	<b>10,255.3</b>	<b>10,529.8</b>	<b>11,128.5</b>

**Table X : Banking Sector Assets & NPL Concentration (June 2016)***(Amount in billion BDT)*

Assets	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount	3384.8	7743.7	4923.5	6205.0
Share (%)	30.4	69.6	44.2	55.8
NPL	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount	318.0	315.7	409.2	224.4
Share (%)	50.2	49.8	64.6	35.4

**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.
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
Mar-16	594.1	9.9	2.9	21.2
Jun-16	633.7	10.1	2.8	21.1

**Table XII : Distribution of Banks by NPL Ratio**

Range	Number of Banks as at end						
	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Up to 2.0%	10	10	10	7	9	8	9
2.0% to <3.0%	6	5	5	7	6	5	4
3.0% to <5.0%	13	5	6	9	14	11	13
5.0% to <10.0%	14	22	21	18	15	18	17
10.0% to <15.0%	3	3	4	4	3	4	2
15.0% to <20.0%	2	1	0	1	1	1	2
20.0% & above	8	10	10	10	8	9	9
<b>Total</b>	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 (%)
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
Mar-16	336.2	294.9	87.7
Jun-16	361.8	317.3	87.7

**Table XIV : Banking Sector Classified Loans Ratios***(In percent)*

Period	Classified Loans to Total Loans	Sub-Standard Loans to Classified Loans	Doubtful Loans to Classified Loans	Bad Loans to Classified Loans
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
Mar-16	9.9	15.1	5.4	79.6
Jun-16	10.1	11.8	8.3	79.9

**Table XV : Classified Loan Composition (end-June 2016)***(Amount in billion BDT)*

Particulars	Amount	Percent of Total
Sub-Standard	74.7	11.8
Doubtful	52.4	8.3
Bad & Loss	506.6	79.9
<b>Total</b>	<b>633.7</b>	<b>100.0</b>

**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
Mar-16	48	2	2	4
Jun-16	50	4	0	2

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
Mar-16	20	18	7	11
Jun-16	20	12	11	13

Note: ROEs have been annualized from respective quarterly ratios.

**Table XVIII : Banking Sector ROA and ROE**

	Quarter						
	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
ROA	0.7	0.6	0.4	0.6	1.3	0.5	0.2
ROE	8.7	5.6	4.9	6.6	14.2	6.8	3.1

Notes: The figures are annualized from respective quarterly ratios.

**Table XIX : FIs' Borrowing, Deposit and Capital**

(Amount in billion BDT)

Particulars	June-2016
Borrowings	156.1
Deposits	351.4
Capital	100.0
Other Liabilities	64.9
<b>Total</b>	<b>672.4</b>

**Table XX : FIs' Asset Composition**

(Amount in billion BDT)

Particulars	June-2016
Cash & Balance with Banks/FIs	92.4
Investments	22.9
Loans & Leases	499.2
Other Assets	50.9
Fixed Assets	7.0
<b>Total</b>	<b>672.4</b>



**Table XXI : FIs' Classified Loans and Leases***(Amount in billion BDT)*

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
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	40.0	8.9
Mar-16	41.8	8.9
Jun-16	45.1	9.0

**Table XXII : FIs' ROA & ROE***(In percent)*

Quarter	Aggregate ROA	Aggregate ROE
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
Mar-16	0.6	3.9
Jun-16	0.8	5.5

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

**Table XXIII : Banking Sector CAR/CRAR**

CAR	Number of Banks (At End Period)							
	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
< 10%	8	5	8	9	9	8	8	9
10% to ≤15%	30	33	29	30	29	30	31	32
15% +	18	18	19	17	18	18	17	15

**Table XXIV : Banking Sector Asset Share based on CRAR as at end-Jun 2016**

CRAR	Number of Banks & their asset size		Asset Share (%)
	Number of Banks	Asset Size (in billion BDT)	
<10%	9	3509.47	32
10% to ≤15%	32	7067.16	63
15% +	15	551.89	5
<b>Total</b>	<b>56</b>	<b>11128.5</b>	<b>100</b>

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

Particulars	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Core Capital to RWA (%)	8.3	8.1	8.6	8.2	7.9	8.0	8.1	8.2	7.6
Number of core capital compliant banks	50	51	51	50	49	49	49	50	49
Overall CAR (%)	10.7	10.6	11.4	10.7	10.3	10.5	10.8	10.6	10.3
Number of CAR compliant banks	48	48	51	48	47	47	48	48	47
No. of banks in the industry	56	56	56	56	56	56	56	56	56

**Table XXVI : Distribution of Risk Weighted Assets of the Banking Industry**
*(Amount in billion BDT)*

Particulars	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
RWA for Credit Risk	5,419.3	5,553.9	5,732.3	5,969.9	6,008.4	6,174.5	6474.93
RWA for Market Risk	336.9	323.3	316.4	336.0	313.8	301.4	316.25
RWA for Operational Risk	567.8	583.8	593.1	600.2	626.1	643.1	645.50
<b>Total RWA</b>	<b>6,323.9</b>	<b>6,461.0</b>	<b>6,641.8</b>	<b>6,906.1</b>	<b>6,948.3</b>	<b>7,119.0</b>	<b>7,436.7</b>

**Table XXVII : Banking Sector Regulatory Capital Position (Solo Basis)**
*(amount in Billion)*

Period	Minimum Capital Requirement	Total Regulatory Capital
Jun-15	704.88	682.31
Sep-15	727.64	727.20
Dec-15	729.56	745.95
Mar-16	745.28	756.12
Jun-16	775.24	768.84

**Table XXVIII : Banking Sector Advance-to-Deposit Ratio (ADR)**  
(In percent)

Period	ADR
Mar-14	69.9
Jun-14	70.5
Sep-14	69.9
Dec-14	70.9
Mar-15	70.5
Jun-15	70.3
Sep-15	69.8
Dec-15	71.0
Mar-16	71.5
Jun-16	71.6

**Table XXIX : Bank Cluster-wise ADR at end-June 2016**  
(In percent)

Bank wise	ADR
SCBs	50.5
PCBs	81.2
FCBs	63.9
DFIs	80.1
Industry	71.6

**Table XXX : FIs' 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
Mar 2016	4,976.3	5,540.4	564.1	13,567.2	71,023.4	57,456.2
Jun 2016	5,312.6	5,829.6	517.0	14,570.9	69,361.9	54,791.0

**Table XXXI : Capital Adequacy Ratio of FI Sector**

Particulars	End Mar-15	End Jun-15	End Sep-15	End Dec-15	End Mar-16	end Jun-16
Eligible Capital to RWA (%)	20.1	19.7	17.9	18.7	17.9	16.7

**Table XXXII : Overall Risk-weighted Assets and Tier 1 Capital of FI Sector***(Amount in billion BDT)*

Particulars	End Dec-14	End Mar-15	End Jun-15	End Sep-15	End Dec-15	End Mar-16	End Jun-16
<b>Risk-weighted Assets (RWA)</b>							
Credit RWA	417.86	440.64	460.02	474.97	465.03	481.27	495.96
Market RWA	34.66	37.38	39.34	40.48	40.46	39.45	42.53
Operational RWA	34.26	33.63	33.90	33.93	37.14	37.58	38.73
<b>Total RWA</b>	<b>486.78</b>	<b>511.65</b>	<b>533.26</b>	<b>549.38</b>	<b>542.63</b>	<b>558.31</b>	<b>577.22</b>
<b>Capital</b>							
Core Capital (Tier -1)	71.50	98.01	96.62	91.38	94.61	92.68	88.45
Supplementary Capital	5.98	5.35	6.44	6.92	6.68	7.20	7.85
Eligible Capital	77.48	103.36	103.06	98.3	101.29	99.89	96.30

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

*(Based on data as of end-June 2016)*

Shocks	CRAR after Shock (%)		
	Minor Level	Moderate Level	Major Level
Performing loan directly downgraded to B/L	10.29	10.18	10.07
Increase in NPLs due to default of Top borrowers	8.59	6.99	6.28
Negative shift in NPL categories	9.70	7.68	6.55
Decrease in the FSV of collateral	9.82	9.30	8.24
Increase in NPLs	9.52	7.45	4.01
Interest rate shock	9.94	9.55	9.15
Exchange rate shock	10.28	10.23	10.18
Equity shock	10.08	9.83	9.31
Combined shock	7.66	2.34	-4.26

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

*(Based on data as of end-June 2016)*

Shocks	No. of Banks		
	Minor Level	Moderate Level	Major Level
Performing loan directly downgraded to B/L	1	1	5
Increase in NPLs due to default of Top borrowers	26	32	34
Negative shift in NPL categories	1	11	20
Decrease in the FSV of collateral	1	1	7
Increase in NPLs	8	27	33
Interest rate shock	3	8	11
Exchange rate shock	1	1	1
Equity shock	1	1	3
Combined shock	19	34	39

*NB: Pre-shock CRARs of 9 banks out of 56 were below the minimum required level of 10% as of 30 June 2016. Therefore, the above table represents 47 banks data.*

**Table XXXV : Price Earnings Ratio of Capital Market**

Quarter	Price Earnings Ratio (%)
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
Mar-16	14.3
Jun-16	14.6

**Table XXXVI : DSE Performance: January 2015 to June 2016**

Month	DSE Turnover (BDT in mn)	Index		
		DSEX	DSE 30	DSES
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
Jan-16	113,496.31	4,540.89	1,719.15	1,095.27
Feb-16	86,421.46	4,511.97	1,722.85	1,099.78
Mar-16	79,972.67	4,357.54	1,648.95	1,052.14
Jun-16	81,382.95	4,507.58	1,770.82	1,110.84

**Table XXXVII : Sector-wise Turnover Performance**

(In percent)

Broad sector	Sector	% of total turnover	
		2016Q1	2016Q2
Financial Sector	Banks	7.24	7.93
	Financial Institutions	6.04	5.22
	Insurance	2.51	1.78
	Mutual Funds	0.81	0.70
Manufacturing	Food & Allied Product	5.98	5.81
	Pharmaceuticals & Chemicals	14.15	18.34
	Textile	13.05	8.82
	Engineering	17.28	13.64
	Ceramic	1.94	0.95
	Tannery	0.60	0.84
	Paper & Printing	0.31	0.08
	Jute	0.20	0.16
	Cement	3.17	3.92
Service & Miscellaneous	Fuel & Power	12.39	19.08
	Services & Real estate	2.27	1.80
	IT - Sector	2.67	1.65
	Telecommunication	1.82	1.77
	Travel and Leisure	1.36	1.38
	Miscellaneous	6.19	6.09
Bond	Corporate Bond	0.02	0.01
	<b>Total</b>	100.00	100.00

Note: 2016Q1 March quarter 2016, 2016Q2 June quarter 2016.

**Table XXXVIII : Corporate Bond Issuance**

(Amount in million BDT)

Corporate Bond Issuance	December 2014	March 2015	June 2015	September 2015	December 2015	March 2016	June 2016
	4,500.0	4,500.0	4,500.0	4,500.0	9,500.0	10,500.0	10,500.0

---

Published by G.M. Abul Kalam Azad, General Manager, Department of Communications and Publications, Bangladesh Bank, Head Office, Motijheel, Dhaka-1000, Bangladesh. website : [www.bb.org.bd](http://www.bb.org.bd), Printed by Dhew Communications, Moghbazar, Dhaka-1217.

DCP : 01-2017-275