

Quarterly Financial Stability Assessment Report

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Bangladesh Bank

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Financial Stability Assessment Report

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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 June 30, 2017 unless stated otherwise in the relevant chapters/sections.

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MESSAGE OF THE GOVERNOR



The Quarterly Financial Stability Assessment Report (QFSAR) reveals the developments associated with financial stability of Bangladesh, particularly major sources of systemic risk and vulnerabilities for the financial system - comprising financial intermediaries, markets and market infrastructures. Broad objective of publishing this report is to promote awareness of the systemic risks among the policy makers, stakeholders of the financial services industry and the public at large, with the ultimate aim of promoting financial stability.

The current issue of the QFSAR, the eleventh issue in its series, provides key input to Bangladesh Bank's macroprudential policy analysis by furnishing a financial system-wide assessment of risks and vulnerabilities. Such a system-wide approach constitutes an important complement to microprudential supervision of Bangladesh Bank.

Our analyses reveal that the financial system of Bangladesh was mostly stable during April-June 2017 as evident from the banking sector's improved performance in terms of asset quality, profitability and capital adequacy. Nevertheless, Bangladesh Bank remains watchful for avoiding any build up of systemic risks with the help of its micro and macroprudential supervision approaches and close coordination with other financial sector regulators.

Recently, Bangladesh Bank and the Government of Bangladesh have jointly initiated the process of forming a high powered financial stability council (FSC) as a contingency arrangement to better address systemic risk. Ensuring timely and responsive role of financial intermediaries in the delivery of financial services and proper compliance of prudential standards and norms could add important value in materializing this shared responsibility.

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


Fazle Kabir
Governor



MESSAGE OF THE DEPUTY GOVERNOR

Global economic growth has strengthened during April-June, 2017. Prospects for many transition economies have also improved. East and South Asia remain world's most dynamic regions, benefiting from robust domestic demand and supportive macroeconomic policies. The underlying pace of economic growth in the United States remains steady. Unemployment remains on a downward trend in Europe. However, the outlook for a few developing regions, several of the least developed countries, and countries where poverty levels remain high have deteriorated. Albeit these mixed global developments, Bangladesh financial system remained mostly stable during the review quarter.

A number of domestic macroeconomic indicators demonstrated improving trend in the review quarter. Stable inflation, decline in interest rate, increase in foreign exchange reserve and sizeable wage earners' remittance contributed notably to maintaining a reasonable level of stability in the financial system. Several initiatives taken by Bangladesh Bank also have implications to macro-financial stability of the country. Issuance of guidelines on credit card operations of banks, prudential guidelines for consumer and small enterprise financing, regulation for investment in bonds/debentures by banks, re-fixation of interest rate on agricultural and rural credit, changes in the foreign exchange regulations, permission of a new financial institution are instances of notable ones.

Improving trend in all the headline indicators such as capital adequacy, asset quality, leverage ratio, profitability and liquidity demonstrate that banking sector of the country remains resilient and robust to withstand any unintended shock. Stress test for financial institutions (FIs) also reveals similar performance. However, all financial institutions themselves have to show their optimal performance by ensuring prudent corporate policy and good governance while discharging their professional duties.

I appreciate the commitment and effort of the officials of Financial Stability Department and other contributing departments of Bangladesh Bank in preparing this report. I believe the report will help the stakeholders in understanding and withstanding shocks, both internal and external, and will contribute to maintaining stability of our financial system.

Shitangshu Kumar Sur Chowdhury

Deputy Governor

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Acronyms

ADs	Authorised Dealers
ADR	Advance-to-Deposit Ratio
B/L	Bad and Loss
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDT	Bangladesh Taka
BRPD	Banking Regulation and Policy Department
CPI	Consumer Price Index
CRAR	Capital to Risk-weighted Asset Ratio
CRR	Cash Reserve Ratio
CSE	Chittagong Stock Exchange
CY	Calendar Year
DFIs	Development Finance Institutions
DFIM	Department of Financial Institutions and Markets
DOS	Department of Off-site Supervision
DSE	Dhaka Stock Exchange
FCBs	Foreign Commercial Banks
FIs	Financial Institutions
FOB	Free on Board
FSD	Financial Stability Department
FSV	Forced Sale Value
FX	Foreign Exchange
FY	Financial Year
GFET	Guidelines for Foreign Exchange Transactions
IS	Interest Suspense
NPL	Non-performing Loan
PCBs	Private Commercial Banks
P/E Ratio	Price Earnings Ratio
QFSAR	Quarterly Financial Stability Assessment Report
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk-weighted Assets
SCBs	State-owned Commercial Banks
SLR	Statutory Liquidity Requirement
SME	Small & Medium Enterprise
USD	United States Dollar
WAR	Weighted Average Resilience
WIR	Weighted Insolvency Ratio

This report conveys the assessment of Bangladesh Bank on the resilience of the domestic financial system to risks and vulnerabilities during the April-June quarter of the calendar year 2017 (CY17). Also, the report discusses issues relating to development and regulation of the financial sector which may affect the stability of the financial system.

Global macroeconomic condition continued to improve despite the prevailing uncertainties.

Growth momentum in global economic activities remained uptrend with signs of continued strengthening of global trade and industrial production. Global headline inflation has also been generally softened as global commodity prices turned downward or stagnated since the beginning of 2017. Expectation of continued policy support in China and a very gradual path of US monetary policy normalization led to buoyant financial markets. While China's growth is expected to remain unchanged, India's growth is expected to pick up sending positive vibes within the region. However, China's excessive credit growth and a faster-than-expected US monetary policy normalization could result in reversal in market sentiment and confidence in emerging market economies. In addition, elevated policy uncertainty in the US and geopolitical tensions in some jurisdictions may present renewed threats to global growth prospect.

The domestic macroeconomic situation exhibited moderate level of resilience during the review quarter. General inflation along with non-food inflation maintained the lower trend while food inflation demonstrated a rise. Gross foreign exchange reserves increased to USD 33.4 billion, which is equivalent to meeting more than seven months' imports of goods and services. Wage earners' remittance recorded an increase of 18.1 percent over the previous quarter. Minor decrease was observed in both exports and imports during the period. Meanwhile, the Bangladesh Taka (BDT) experienced a small depreciation against US Dollar (USD). Both the weighted average lending and deposit rates declined further. Gross government borrowing from the banking sector slightly increased over the previous quarter but decreased with respect to the same quarter of the preceding year.

The banking sector demonstrated improved performance in the review quarter. The aggregate asset of the banking sector increased by 5.0 percent and stood at 63.2 percent of the gross domestic product (GDP). The share of loans and advances in the total assets continued to increase while the share of investments in government and other securities declined. Gross non-performing loan (NPL) ratio decreased by 40 basis points (bps) during the quarter and reached 10.1 percent at end-June 2017. However, the share of bad and loss loans increased slightly over the previous quarter. Key profitability indicators, both Return on Assets (ROA) and Return on Equity (ROE) increased in the review quarter. At end-June 2017, capital to risk-weighted assets ratio (CRAR) of the banking sector increased by 20 bps and stood at 10.9 percent. A majority of the banks were able to maintain the minimum capital conservation buffer which was introduced in early 2016 under Basel III framework. Besides, the banking industry maintained a leverage ratio much higher than the regulatory minimum requirement on both solo and consolidated basis. Advance-to-deposit ratio (ADR) of the banking industry increased to 73.9 percent. Nevertheless, no sign of liquidity pressure was evident during the review quarter; banks were able to maintain the required Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).

Financial Institutions (FIs) sector exhibited a mixed trend. During the review quarter, FIs enjoyed an improved profitability and a comfortable capital adequacy and liquidity situation. Both ROA and ROE increased over the previous quarter. The capital adequacy ratio (CAR) and Tier-1 capital ratio, in line with Basel II capital framework, stood at 13.7 and 12.2 percent respectively, well above the minimum regulatory requirements. On the other hand, FIs continued to face challenge in the form of decline in asset quality. The ratio of classified loans and leases to total loans and leases increased by 83 bps during the quarter and reached 8.9 percent at end-June 2017.

The banking and FIs sectors were found mostly resilient under different scenarios of stress test. Stress test on banks, based on the data as of end-June 2017, indicates that default of top borrowers and rise in gross non-performing loan (NPL) would have major impacts on the banking sector CRAR. However, individual bank and the banking system, as a whole, appear to be resilient against various market and liquidity stress scenarios. On the other hand, stress test on FIs reveals that a majority of them remain resilient in the event of stress scenarios as of end-June 2017.

The domestic capital market demonstrated a scenario of price correction. The main indices of DSE (DSEX) and CSE (CASPI), and price/earnings (P/E) ratios in both bourses went down slightly during the review quarter. DSE and CSE turnover recorded a decrease of about 50 and 32.9 percent respectively over the previous quarter. The highest turnover was recorded by the banking sector in both bourses. While the market capitalization in DSE increased marginally, the same in CSE decreased marginally at end-June 2017 compared to those of end-March 2017.

Bangladesh Bank has taken a number of initiatives having bearings on financial stability. During the review quarter, Bangladesh Bank, among various initiatives, has issued guidelines on credit card operations of banks, revised Prudential Guidelines for Consumer and Small Enterprise Financing, updated instructions regarding investment in bonds/debentures, re-fixed interest rate on agricultural and rural credit to increase credit flow in this sector, brought about changes in foreign exchange regulations to make foreign exchange operations easier as well as more disciplined, instructed banks to ensure maximum usage of electronic payment systems, redefined Cottage, Micro, Small and Medium Enterprises (CMSME) in line with the National Industrial Policy 2016 and revised lending rate to women entrepreneurs to motivate them in business and productive investment activities.

In sum, the financial system of Bangladesh remains resilient in the review quarter. While the global growth outlook has improved, potential risk arising from hike in Fed rate and US policy uncertainty need to be dealt with cautiously.

Macroeconomic Developments

Domestic macro-financial system of Bangladesh has been able to demonstrate moderate level of stability during the review quarter, attributable to stable inflation, decline in interest rate and import, increase in foreign exchange reserves and wage earners' remittance.

1.1 Inflation

At end-June 2017, inflation remained unchanged at 5.4 percent with respect to that of end-March 2017 and declined slightly from 5.9 percent of end-June 2016. Whereas, food inflation increased to 6.0 percent from 5.2 percent of end-March 2017, non-food inflation decreased to 4.8 percent from 5.7 percent recorded at-end March 2017 (Chart 1.1).

1.2 Foreign Exchange Reserve and its Import Coverage

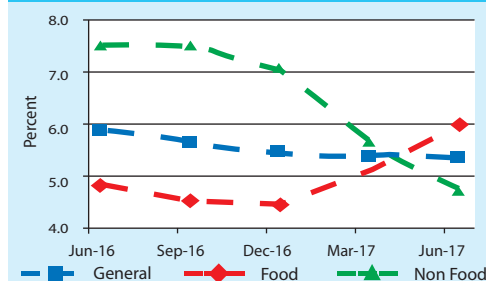
At end-June 2017, the gross foreign exchange reserves reached at USD 33.4 billion recording an increment of 3.7 percent, from USD 32.2 billion of end-March 2017. The reserve position was equivalent to meeting more than seven months' imports of goods and services¹. It is noteworthy that at the end-June 2016, reserve position was USD 30.1 billion.

1.3 Wage Earners' Remittance

Remittance from Bangladeshi nationals, working abroad, stood at USD 3,574.9 million during the review quarter, recording an increase of 18.1 percent compared to USD 3,027.7 million recorded during the preceding quarter and decrease of 7.7 percent from USD 3,871.5 million at the same period of previous year. It is noteworthy that during first quarter of 2017, remittance inflow increased by 3.6 percent compared to the preceding quarter.

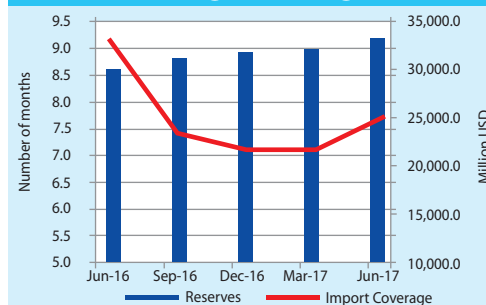
¹ Compiled on the basis of import (shipment) data received from NBR (Since September 2016).

Chart 1.1 Inflation



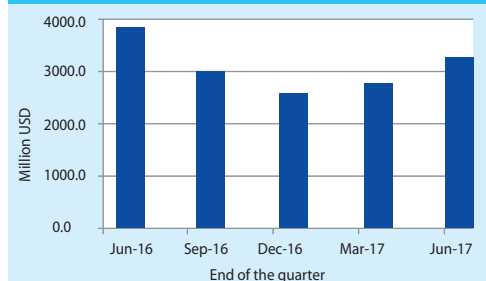
Source: Bangladesh Bureau of Statistics, Base 2005-06=100.

Chart 1.2 Foreign Exchange Reserves



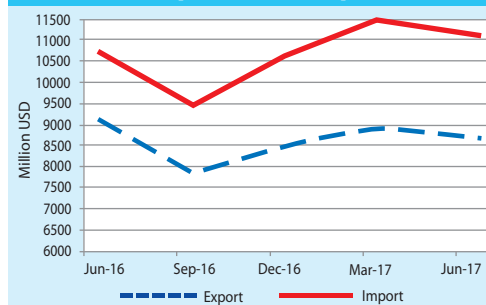
Source: Statistics Department, BB.

Chart 1.3 Wage Earners' Remittance



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

Chart 1.4 Exports and Imports (FOB)



Source: Statistics Department, BB.

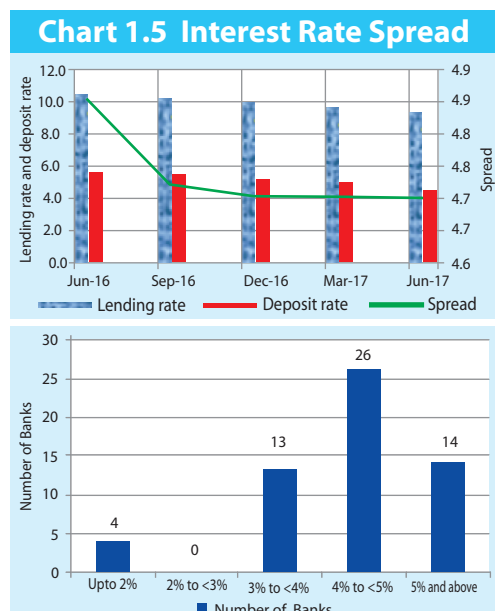
1.4 Imports and Exports

In the review quarter, aggregate import payments² decreased by 2.8 percent and reached at USD 11,123.0 million as compared to USD 11,448.0 million recorded in the preceding quarter. Pertinently, in the same quarter of the previous year import payments were USD 10,720.0 million. Export receipts, on the other hand, decreased by 2.6 percent and reached at USD 8,689.0 million compared to USD 8,920.0 million recorded in the preceding quarter and scoring a decline of 4.4 percent from USD 9,088.0 million recorded in the same quarter of the previous year.

1.5 Interest Rate

The spread between weighted average lending and deposit rates remained unchanged at 4.7 percent with respect to that of end-March 2017; spreads of 13 out of 57 banks were above 5.0 percent. Out of these 13 banks, 5 were in the category of FCBs and 8 PCBs.

In June 2017, the weighted average lending and deposit rates dropped to 9.5 and 4.8 percent respectively from 9.7 and 5.0 percent of March 2017 and from 10.4 and 5.5 percent of June 2016.

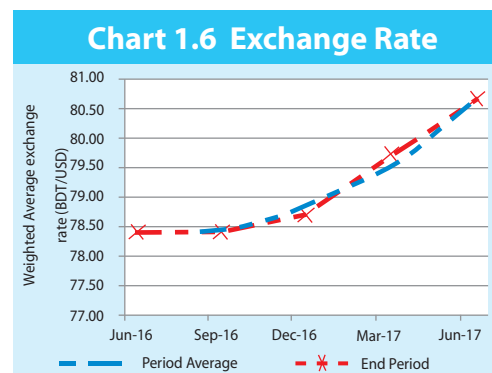


Source: Statistics Department, BB.

² On FOB basis.
Note: P = provisional

1.6 Exchange Rate

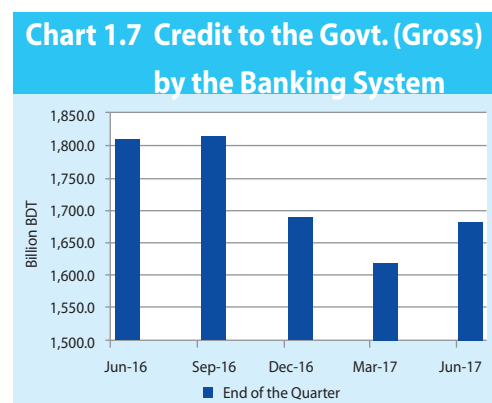
The Bangladesh Taka in terms of US dollar,³ recording a slight depreciation, stood at BDT 80.59 per USD, in June 2017, from BDT 79.50 per USD in March 2017. The rate was BDT 78.40 per USD in June 2016.



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

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

Credit to the Government (gross), by the banking system, increased by BDT 69.4 billion or 4.3 percent during the review quarter with respect to the position of end-March 2017; however, it declined by BDT 120.3 billion or 6.7 percent from the same quarter of the previous year. It is mentionable that in the preceding quarter, credit to the Government recorded a decrease of 4.5 percent compared to October-December quarter of 2016.



Source: Statistics Department, BB. (Various issues).

³ On weighted average basis.

Banking Sector Performance

The banking sector demonstrated a positive trend in terms of asset growth, profitability and asset quality during the April-June quarter of CY17.

2.1 Assets Structure

The balance sheet size of the banking sector⁴ stood at BDT 12,370.3 billion, increasing by 5.0 percent from BDT 11,781.2 billion of end-March 2017 and 11.2 percent from BDT 11,128.5 billion of end-June 2016 position. Maximum portion of the banking industry's assets were held by PCBs. It is to mention that banking sector assets-to-GDP ratio stood at 63.2 percent at end-June 2017⁵ which was 68.0⁶ percent at the end of the preceding quarter and 64.2 percent at end-June 2016⁷.

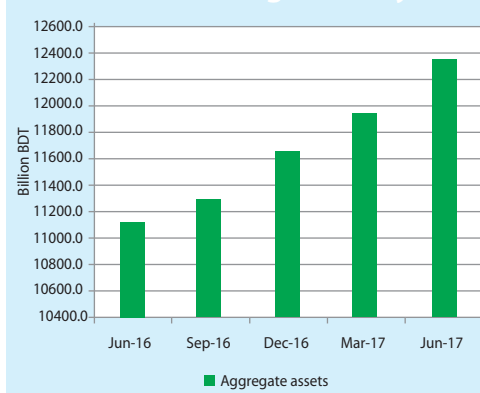
Loans and advances, the largest segment among the asset items, constitute 62.9 percent of total assets during the review quarter. Major portion of loans and advances were held by PCBs. Pertinently, the share of loans and advances, as a percentage of total assets, increased by 30 basis points at end-June CY17, compared with that of end-March 2017.

The share of banks' assets with Bangladesh Bank increased by 50 basis points and balances with other banks and financial institutions increased by 60 basis points compared with that of end-March 2017. Banks' money at call decreased by 10 basis points, while the share of other assets increased by 30 basis points. However, the share of investments in government and other securities decreased by 170 basis points.

The asset concentration ratios of Top 5 and Top 10 banks against the total banking system assets were 31.6 and 44.9 percent respectively at end-June 2017 (Chart 2.5 & 2.6).

Banking sector asset concentration has also been illustrated using Lorenz Curve and Gini Coefficient. As depicted in Chart 2.7, the position of the Lorenz Curve indicates the presence of a moderate concentration in assets of the banking industry. The calculated Gini coefficient of 0.5 supports the presence of moderate concentration in asset⁸.

Chart 2.1 Asset Size of the Banking Industry



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

⁴ Taking into account only scheduled banks(57).

⁵ Taking into account GDP at current market price for the financial year 2016-17p.

⁶ Taking into account GDP at current market price for the financial year 2015-16.

⁷ Taking into account GDP at current market price for the financial year 2015-16.

⁸ The Lorenz curve is usually used for showing the extent of income inequality in a country. The diagonal line in the square containing the Lorenz curve represents equality in the distribution. The closer the Lorenz Curve is to the line of equality, the more equal the distribution is. Graphically, the Gini coefficient can be easily represented by the area between the Lorenz curve and the line of equality. Gini coefficient varies from 0 to 1; 0 indicates complete inequality while 1 complete inequality. The concept has been adapted here to show the concentration in banking assets.

2.2 Asset Quality

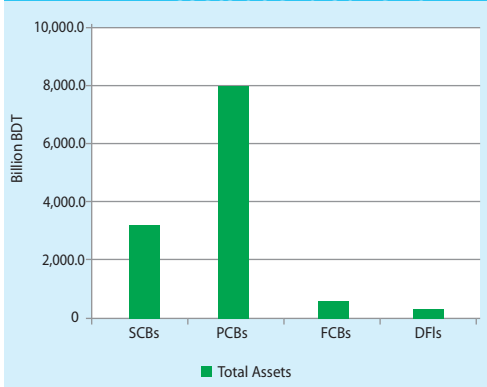
The gross NPL ratio⁹ stood at 10.1 percent at end-June 2017, decreasing by 40 basis points from 10.5 percents of end-March 2017 and remained same when compared to end-June 2016 position. Besides, non-performing loans net of specific loan loss provisions and interest suspense to total loans decreased to 2.6 percent from 2.9 percent of end-December 2016 and from 2.8 percent of end-June 2016. Moreover, non-performing loans net of specific loan loss provisions and interest suspense to regulatory capital decreased to 19.7 percent from 22.7 percent of end-December 2016 and from 21.1 percent of end-June 2016.

The distribution of banks, based on their gross NPL ratios, indicates that 13 banks came up with double-digit ratios in June CY17 and same in June CY16.

The provision maintenance ratio¹⁰, at end-June 2017, slightly decreased to 85.8 percent from 87.5 percent recorded at end-March 2017 and 87.7 percent of end-June 2016.

Pertinently, 45.6 and 64.2 percents of the non-performing loans were concentrated in the Top 5 and Top 10 banks, based on NPL, respectively at end-June 2017 (chart 2.11 & 2.12).

Chart 2.2 Bank Cluster-wise Assets at end-June 2017

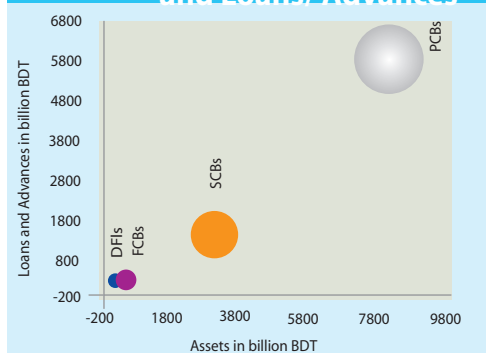


Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

⁹ Non-performing loan to total loan ratio.

¹⁰ Maintained provision to required provision.

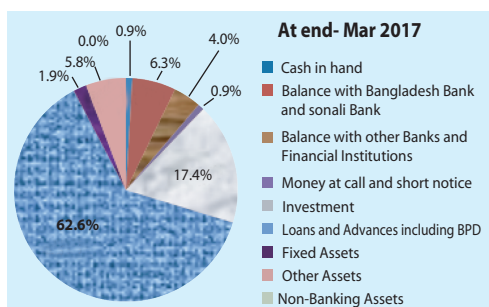
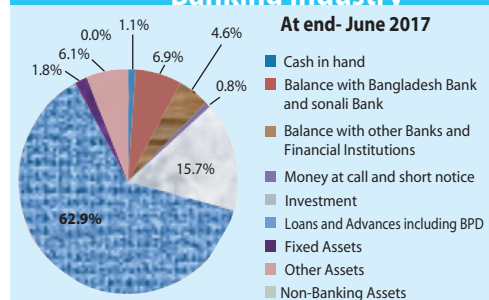
Chart 2.3 Banking Sector Assets and Loans/ Advances



Note: PCB-Private Commercial Bank, SCB-State-owned Commercial Bank, FCB- Foreign Commercial Bank, DFI-Development Finance Institutions.

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

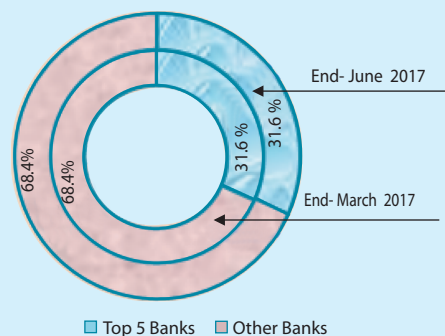
Chart 2.4 Asset Structure of the Banking Industry



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

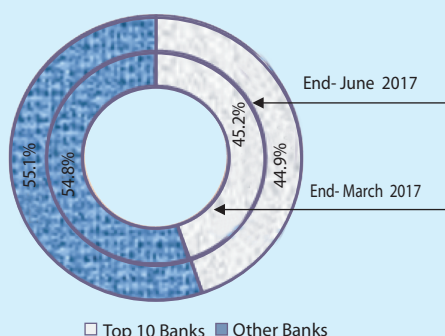
The ratio of bad and loss loans to total classified loans stood at 83.1 percent at end-June CY17 while sub-standard and doubtful loans constituted 10.2 and 6.8 percent of total NPLs respectively during the review quarter.

Chart 2.5 Top 5 banks based on Assets Size



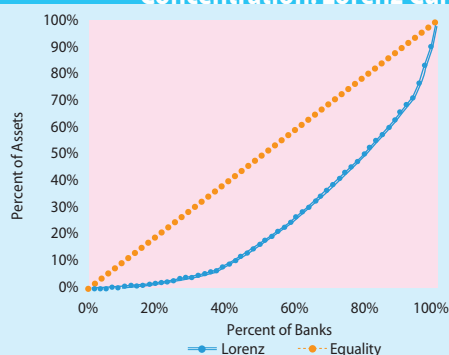
Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

Chart 2.6 Top 10 banks based on Assets Size



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

Chart 2.7 Banking Sector Asset Concentration: Lorenz Curve

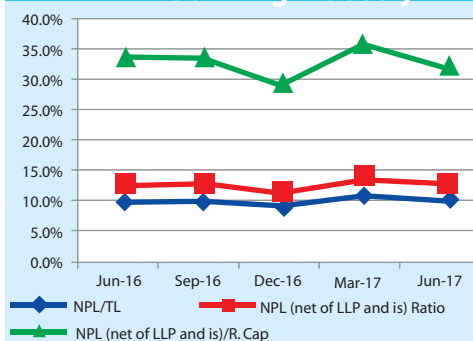


Note: Assets are displayed from lowest to highest (ascending order) from the origin.

Source: BRPD, BB.

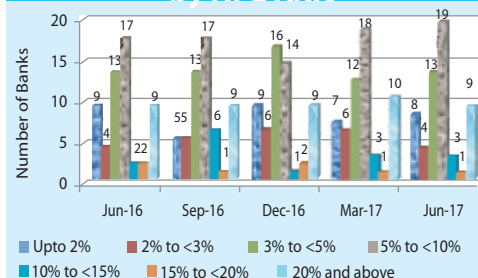
Pertinently, the proportion of bad and loss loans increased by 1.0 percentage points and sub-standard loans decreased by 0.9 percentage points while doubtful loans remained unchanged compared to those of the previous quarter.

Chart 2.8 NPL Ratio of the Banking Industry



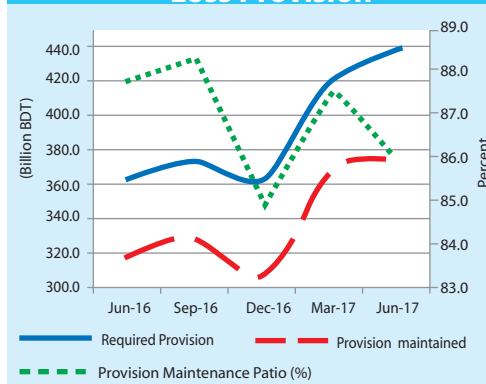
Source: BRPD, BB.

Chart 2.9 Distribution of banks by NPL ratio



Source: BRPD, Compilation FSD.

Chart 2.10 Banking Sector Loan Loss Provision

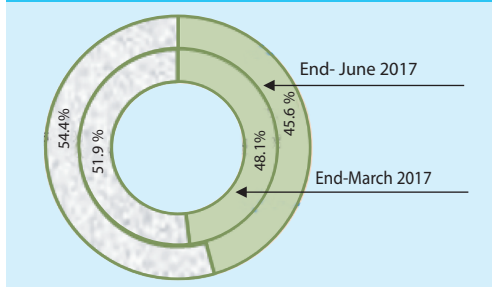


Source: BRPD, BB.

2.3 Profitability

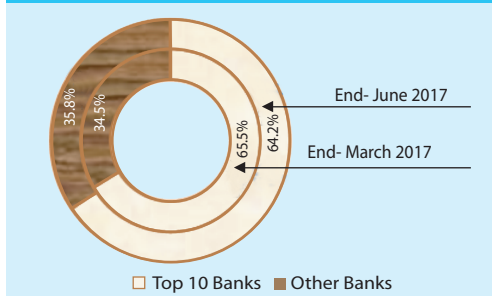
In the review quarter, profitability of the banking sector increased on a quarter-on-quarter basis. Return on assets (ROA) and return on equity (ROE) of the banking sector stood at 0.3 and 3.7 percents respectively against 0.1 and 1.2 percents of the respective ratios of the preceding quarter. Almost 93.0 percent of the banks' ROA was up to 2.0 percent. On the other hand, 68.4 percent of the banks' ROE was higher than 5.0 percent.

Chart 2.11 Top 5 Banks based on NPL



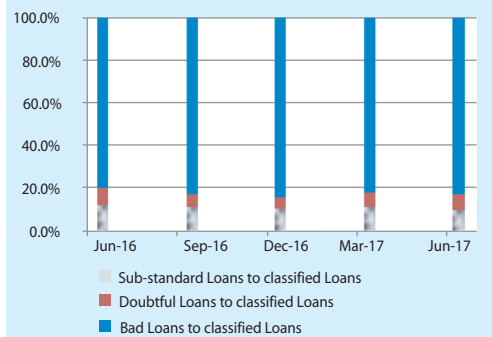
Source: BRPD, Compilation FSD.

Chart 2.12 Banks based on NPL



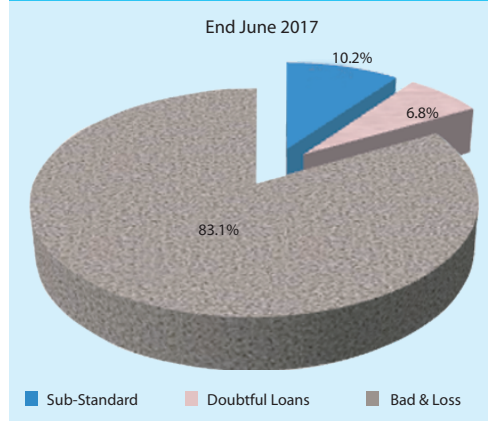
Source: BRPD, Compilation FSD.

Chart 2.13 Proportion of NPL Categories



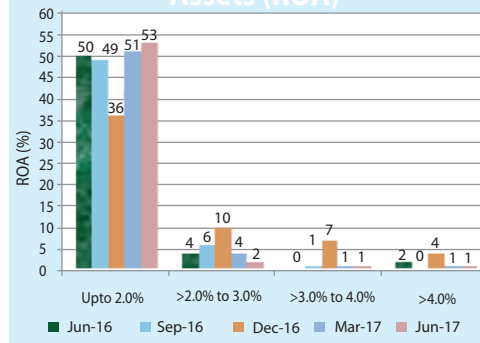
Source: BRPD, BB.

Chart 2.14 NPL Composition of Banks



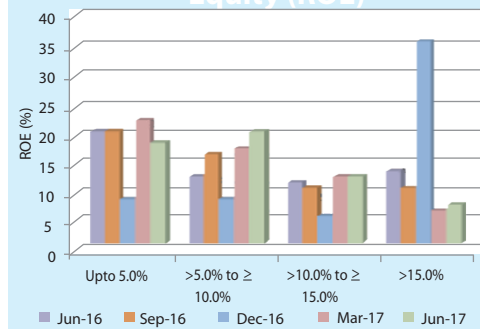
Source: BRPD, BB.

Chart 2.15 Distribution of Banking Sector Return on Assets (ROA)



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

Chart 2.16 Distribution of Banking Sector Return on Equity (ROE)



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

Financial Institutions' Performance

Financial Institutions (FIs) displayed a mixed trend in the review quarter of CY17. Key financial soundness indicators, such as gross non-performing loans and leases ratio went down whereas profitability ratios improved over the preceding quarter.

3.1 Sources of Funds

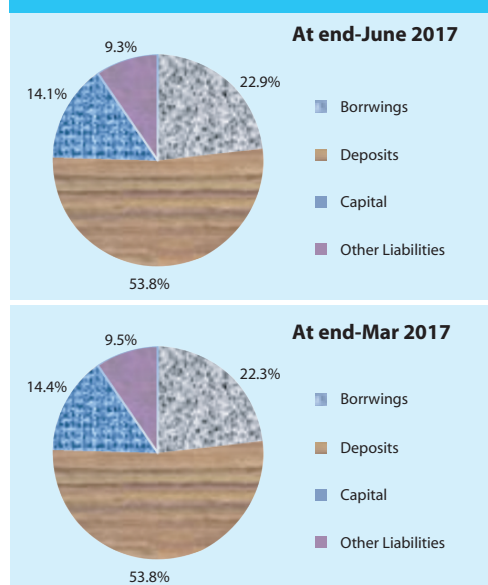
At end-June 2017, borrowings, deposits, capital and other liabilities constituted 22.9, 53.8, 14.1 and 9.3 percent of the sources of funds of the FIs respectively. In comparison with end-March 2017, the share of the liabilities remained mostly unchanged.

3.2 Assets Composition

Loans and leases constituted 74 percent of total assets of FIs at end-June 2017. Cash and balances with banks/FIs, investments, fixed assets and other assets comprised 14.6, 2.4, 1.4 and 7.6 percent of total assets respectively.

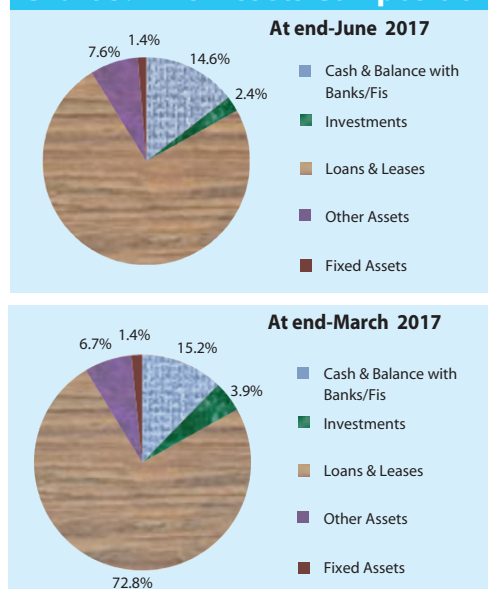
When compared with end-March 2017 positions, the share of loans and leases increased by 1.2 percentage points. Cash and balances with other banks/FIs decreased by 0.6 percentage points; the proportion of investments decreased by 1.5 percentage points while the share of rest of the assets remained almost same. In particular, at end-June 2017, the FI sector's assets-to-GDP ratio stood at 3.9 percent which was 3.8 percent at end-March 2017¹².

Chart 3.1 FIs' Sources of Fund



Source: FIs; Compilation: FSD, BB.

Chart 3.2 FIs' Assets Composition



Source: FIs; Compilation: FSD, BB.

¹² In the calculation of asset-to-GDP ratio, nominal GDP of FY2016-17 has been taken into account. It is mentionable that in Bangladesh GDP is compiled on a yearly basis.

3.3 Asset Quality

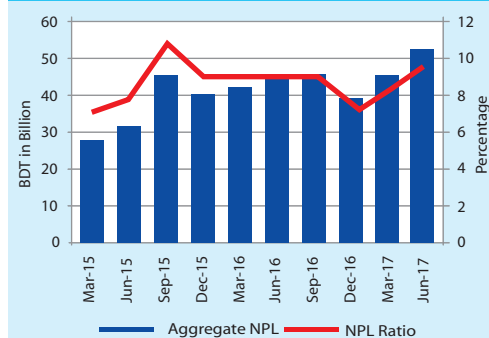
NBFIs' asset quality slightly declined in June 2017. Classified loans and leases increased from BDT 45.0 billion at end-March 2017 to BDT 52.0 billion at end-June 2017, recording an increase of 15.6 percent. The ratio of classified loans and leases to total loans and leases rose to 8.9 percent at end-June 2017, 80 basis points higher than the ratio of 8.1 recorded at end-March 2017.

3.4 Profitability

FIs' profitability increased in the review quarter over the March quarter of 2017¹³.

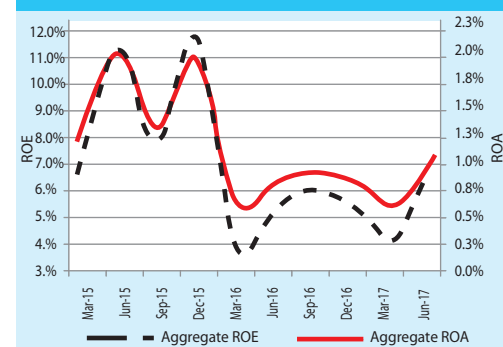
The key profitability indicators - return on assets (ROA) and return on equity (ROE) stood at 1.0 and 7.4 percent respectively in the June quarter of 2017 as compared to 0.6 and 4.2 percent respectively recorded in the preceding quarter.

Chart 3.3 FIs' Non-performing Loans and Leases



Source: DFIM, BB.

Chart 3.4 FIs' ROA and ROE



Source: FIs; Compilation: FSD, BB.

¹³ Here profitability indicators-ROA and ROE- are annualized from quarterly ratios.

Banking Sector Liquidity and Capital Adequacy

Banking sector capital to risk-weighted assets ratio (CRAR) slightly increased with respect to that of the previous quarter. Majority of the banks were able to maintain minimum capital conservation buffer. Besides, the advance-to-deposit ratio (ADR) increased.

4.1 Capital Adequacy

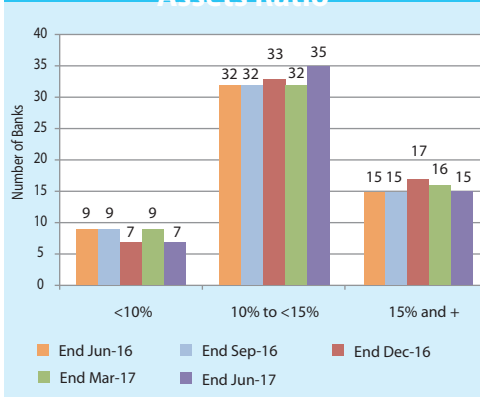
In the review quarter, majority of the banks were compliant to the minimum CRAR requirement; 50 out of 57 banks were able to maintain CRARs of 10.0 percent or higher in line with Pillar 1 of the Basel III capital framework. In addition, substantial share of banking assets was concentrated within the CRAR-compliant group of banks (chart 4.2); CRARs of 35 banks were within the range of 10-15 percent and their assets accounted for nearly 78.0 percent of the total banking industry's assets at end-June 2017.

At end-June 2017, the banking sector aggregate CRAR was 10.9 percent, slightly higher than the minimum requirement of 10.0 percent and 20 basis points higher than the ratio recorded at end-March 2017 and 60 basis points higher than the ratio of 10.3 percent at end-June 2016. On the other hand, Tier-1 capital ratio decreased to 7.8 percent compared to its previous quarter and still remaining slightly higher than 7.6 percent of end-June 2016. Notably the ratio was significantly higher than the minimum regulatory requirement of 6.0 percent.

On the other hand, FCBs maintained higher CRAR while CRAR of the DFIs was negative in the review quarter (chart 4.4).

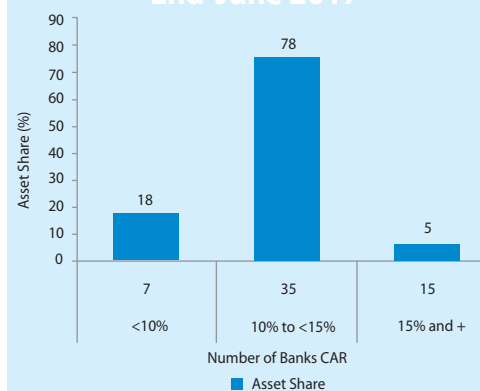
At end-June 2017, risk-weighted assets, arising from credit risks, accounted for 87.7 percent of the total industry's risk-weighted assets under Pillar 1 of the Basel III capital adequacy framework. The proportion was 87.2 percent in the previous quarter and 87.1 percent at end-June 2016. Next positions were held by operational and market risks (Chart 4.5).

Chart 4.1 Banking Sector Capital to Risk-Weighted Assets Ratio



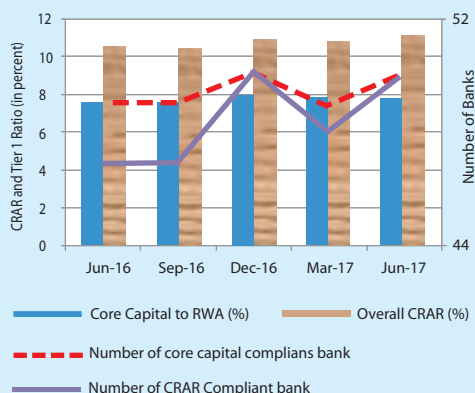
Source: DOS, BB.

Chart 4.2 Assets Share of Banks based on CRAR at End-June 2017



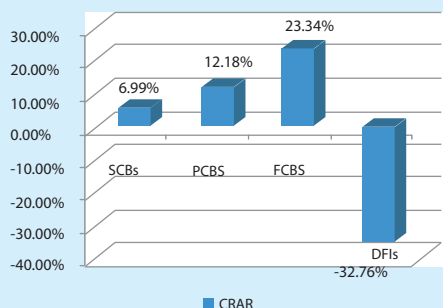
Source: DOS; Compilation FSD.BB.

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



Source: DOS, BB.

Chart 4.4 Bank Cluster-wise CRAR at End-June 2017



Source: DOS, BB.

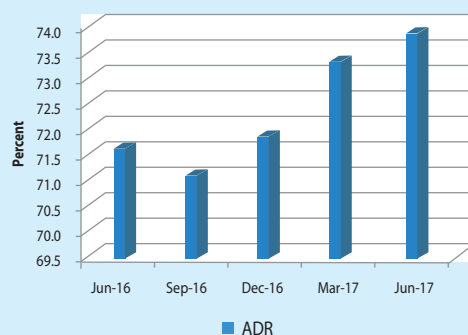
Chart 4.5 Distribution of Risk Weighted Assets



Source: DOS, BB.

In the review quarter, against the regulatory requirement of 1.25 percent, 44 out of 57 banks have been able to maintain the minimum required capital conservation buffer (CCB) on solo basis. On the other hand, in case of consolidated basis, 27 out of 36 banks successfully fulfilled this regulatory requirement. The aggregate figure of CCB of the banking sector, in the stated quarter, was 0.86 and 1.32 percents on solo and consolidated basis respectively.

Chart 4.6 Banking Sector Advance-to-Deposit Ratio



Source: DOS, BB.

4.2 Liquidity

During the review quarter, banking sector, as a whole, was able to maintain the required level of CRR and SLR¹⁴.

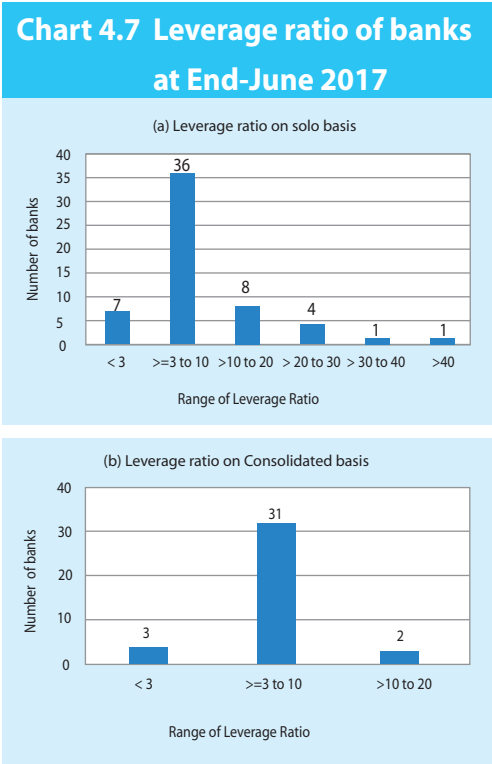
ADR of the overall banking industry was 73.9 percent, 50 basis points higher than that of end-March 2017 and 230 basis points higher than that of end-June 2016 (Chart 4.6).

4.3 Leverage ratio

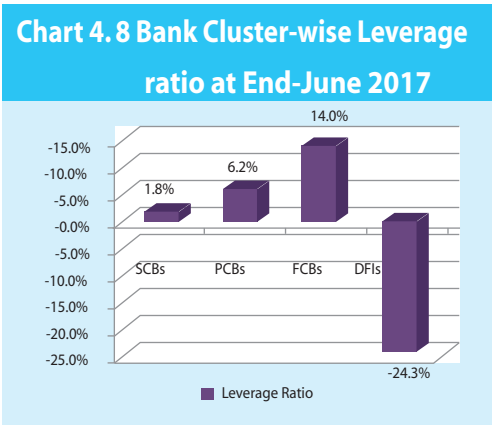
In the review quarter, banking industry has been able to fulfill the minimum leverage ratio requirement of 3.0 percent, on both solo and consolidated basis. At end-June 2017,

¹⁴ On bi-weekly average basis

banking industry's leverage ratio was 4.8 percent on solo basis; 50 out of 57 banks have successfully maintained a leverage ratio of 3.0 percent or higher (Chart 4.7). On the other hand, in case of consolidated basis, 33 out of 36 banks have been able to fulfill the regulatory requirement. FCBs maintained higher leverage ratio compared to other banking clusters.



Source: DOS, BB.



Source: DOS, BB.

Financial Institutions' Liquidity and Capital Adequacy

During the review quarter, FI sector displayed a mixed performance in terms of liquidity and capital adequacy. There was no shortfall in cash reserve ratio (CRR) and statutory liquidity ratio (SLR) but capital adequacy ratio (CAR) slightly decreased compared to that of the previous quarter.

5.1 Liquidity

As of end-June 2017, the aggregate amount of maintained CRR was BDT 6509.6 million as compared to BDT 6,400.4 million recorded at end-March 2017, scoring an increment of 1.7 percent. On the other hand, at end-June 2017, the amount of maintained SLR was BDT 76.9 billion against required amount of BDT 16.9 billion. The maintained SLR is 7.6 percent less than the amount maintained at end-March 2017. During the review quarter, the FIs sector had no CRR and SLR shortfall.

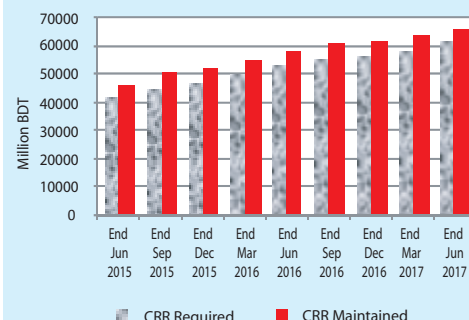
5.2 Capital Adequacy

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

The CAR of the FI sector decreased slightly from 15.9 percent of the March quarter of CY17 to 13.7 percent in the June quarter of CY17.

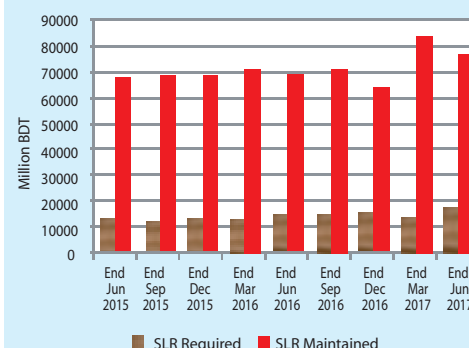
It is to mention that the maintained CAR was well above the minimum regulatory requirement of 10 percent. In addition, the Tier-1 capital ratio was recorded at 12.2 percent; 2.2 percentage points lower than the ratio of end-March 2017.

Chart 5.1 FIs' CRR



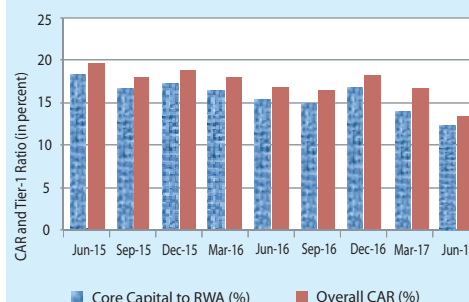
Source: DFIM, BB.

Chart 5.2 FIs' SLR



Source: DFIM, BB.

Chart 5.3 Capital Adequacy Ratio of FI Sector



Source: DFIM, BB.

Stress Test and Resilience of the Banking and FI Sectors

6.1 Stress Test

Both banks and financial institutions (FIs) are required to submit returns of stress testing on a quarterly basis, which are evaluated by Bangladesh Bank.

6.2 Stress Test on Banks¹⁵

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

6.2.1 Individual Shocks

Data as of end-June 2017 revealed that the banking sector's capital to risk weighted asset ratio (CRAR) was 10.86 percent. Out of 57 banks (except 1 newly formed), 7 banks' pre-shock CRARs were below the minimum regulatory requirement of 10.0 percent. Therefore, the remaining 49 banks were considered for the analyses based on end-June 2017 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 (NPL¹⁶): If NPLs increased by 3, 9 and 15 percent, then 6, 27 and 37 banks respectively would likely to fail 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 25, 38 and 41 banks respectively would likely to become non-compliant in maintaining the minimum required CRAR.
- c) Fall in the Forced Sale Value (FSV) of Mortgaged Collateral:** If FSV of mortgaged collateral declined by 10, 20 and 40 percent, then it would likely make 6, 6, and 10 banks respectively non-compliant in maintaining the minimum required CRAR.
- d) Negative Shift in the NPL Categories:** If NPL categories shifted downward by 5, 10 and 15 percent, then 6, 13, and 19 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, 3, 6 and 9 banks respectively would likely fall below the minimum regulatory requirement.

¹⁵ The analyses here are based on the data as of end-December 2016 unless stated otherwise.

¹⁶ NPL = Non-performing loans, composed of sub-standard, doubtful and bad/loss loans.

Table 6.1 Stress test on the Banking Sector Based on Data as of End-June 2017

Shocks ¹⁷		Banking Sector (%)
Pre-shock CRAR		10.86
CRAR after shock (%)		
Credit Risks:		
Increase in NPLs:		
	Shock-1: 3%	9.96
	Shock-2: 9%	7.69
	Shock-3: 15%	4.07
Increase in NPLs due to default of top large borrowers		
	Shock-1: Top 3 borrowers	9.26
	Shock-2: Top 7 borrowers	7.67
	Shock-3: Top 10 borrowers	6.83
Fall in the FSV¹⁸ of mortgaged collateral		
	Shock-1: 10%	10.27
	Shock-2: 20%	9.68
	Shock-3: 40%	8.47
Negative shift in the NPL categories		
	Shock-1: 5%	10.23
	Shock-2: 10%	8.28
	Shock-3: 15%	7.00
Increase in NPLs in highest outstanding sectors		
	Sector concentration 1¹⁹ (Performing loan directly downgraded to B/L²⁰)	
	Shock-1: 3%	10.79
	Shock-2: 9%	10.64
	Shock-3: 15%	10.50
	Sector concentration 2²¹ (Performing loan directly downgraded to B/L)	
	Shock-1: 3%	10.73
	Shock-2: 9%	10.47
	Shock-3: 15%	10.21
Market Risks		
Interest rate risk (Change in interest rate)		
	Shock-1: 1%	10.51
	Shock-2: 2%	10.16
	Shock-3: 3%	9.80
Exchange rate risk (Currency appreciation/depreciation)		
	Shock-1: 5%	10.81
	Shock-2: 10%	10.76
	Shock-3: 15%	10.71
Equity price risk (Fall in equity prices)		
	Shock-1: 10%	10.59
	Shock-2: 20%	10.32
	Shock-3: 40%	9.77
Combined Shock		
	Shock-1	8.06
	Shock-2	2.58
	Shock-3	-4.49

¹⁷ Shock-1 = Minor, Shock-2 = Moderate, Shock-3 = Major.

¹⁸ FSV = Forced Sale Value.

¹⁹ Sector with highest outstanding.

²⁰ B/L = Bad/Loss.

²¹ Sector with second highest outstanding.

6.2.1.2 Market Risk

The banking industry²² is found to be mostly resilient in the face of various shocks arising from market risks:

a) Interest Rate Risk: In the event of interest rate shock of 1, 2 and 3 percents, 4, 5 and 9 banks respectively would likely to fail to maintain the minimum required CRAR.

b) Exchange Rate Risk: In the event of currency appreciation or depreciation by 1, 2 and 3 percent, no bank would likely fall below the minimum regulatory requirement.

c) Equity Price Risk: In the event of a 10, 20 and 40 percent fall in equity prices, 4, 4 and 6 banks respectively would likely be non-compliant in maintaining the minimum required CRAR.

6.2.2 Combined Shock²³

In the event of minor, moderate and major combined shocks, 17, 37 and 41 banks respectively would likely become undercapitalized.

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

The individual banks and the banking system as a whole seemed to remain resilient against specified liquidity stress scenarios at end-June 2017.

Table 6.2 Liquidity Risk in the Banking

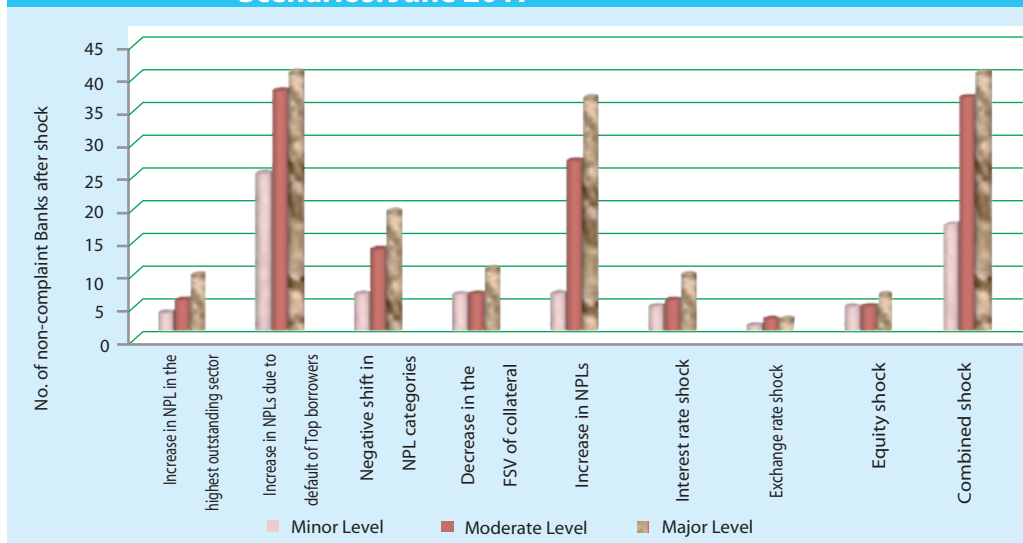
Liquidity Stress*	Sector: End-June 2017 Stress Scenarios		
	Minor	Moderate	Major
Day 1	1	1	1
Day 2	1	1	1
Day 3	1	1	1
Day 4	1	1	1
Day 5	1	1	1

* Consecutive 5 working days.

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

Source: FSD, BB.

Chart 6.1 Number of Non-compliant Banks at Different Shock Scenarios: June 2017

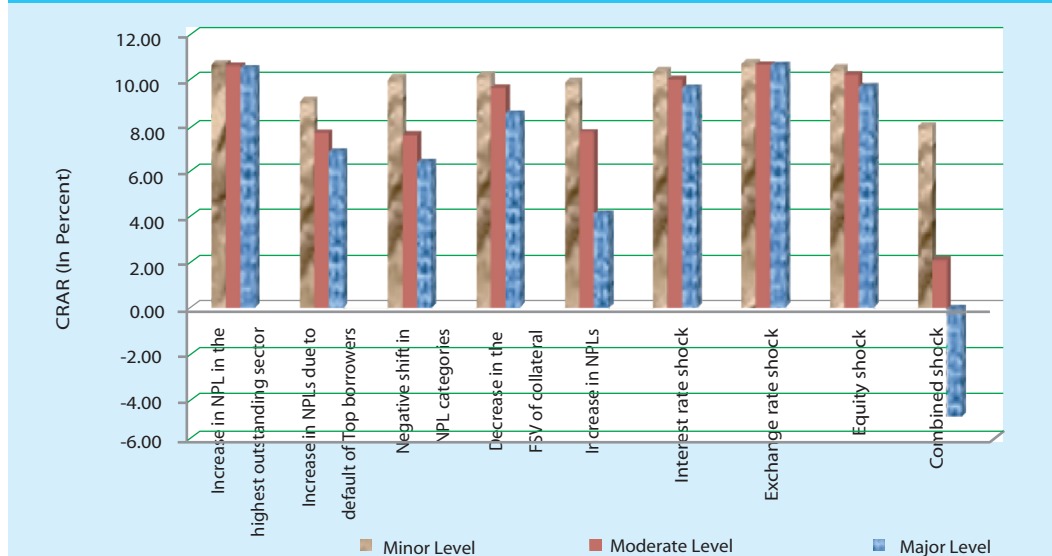


Source: FSD, BB.

²² Only scheduled banks have been considered here.

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

Chart 6.2 Banking Sector CRAR at Different Shock Scenarios: June 2017



Source: FSD, BB.

6.3 Stress Test on FIs

Stress testing on Financial Institutions (FIs) reveals that out of 33 FIs, 4, 17, and 12 were in Green, Yellow, and Red zones respectively (Table 6.3) at end-June 2017²⁴. It is mentionable that the results of stress tests, furnished here, are based on simple sensitivity analysis under several hypothetical assumptions. Therefore, the results should not be treated as exact materialization of shock events.

Table 6.3 Stress Tests: Zonal			
Quarter	Position of FIs (Number of FIs)		
	Green	Yellow	Red
End-Mar 2016	4	17	11
End-Jun 2016	5	13	15
End-Sep 2016	6	17	10
End-Dec 2016	5	21	7
End-Mar 2017	4	18	11
End-Jun 2017	4	17	12

Source: DFIM, BB.

²⁴ 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.

Capital Market Development

In the review quarter²⁵, most of the domestic capital market indicators in both bourses demonstrated slight price correction with respect to the positions of the previous quarter.

7.1 Dhaka Stock Exchange (DSE)

7.1.1 DSE Performance

In the second quarter of CY17, DSE turnover decreased by about 50 percent and reached BDT 377.3 billion from BDT 754.1 billion recorded in the previous quarter. At end-June 2017, key DSE indices-DSEX, DS30 and DSES-decreased slightly by 1.1, 0.3 and 0.5 percent respectively from those of end-March 2017.

7.1.2 Price/Earnings (P/E) Ratio

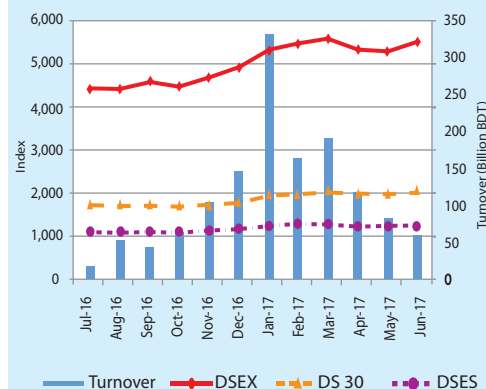
The weighted average P/E ratio decreased by 60 basis points (bps) during the quarter and stood at 15.7 at end-June 2017. However, the overall market P/E ratio displayed an upward trend since the first quarter of CY16.

7.1.3 Sectoral Turnover

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

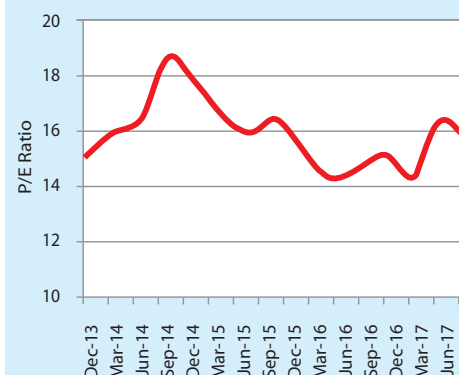
It is mentionable that, in the review quarter, contribution of the banking sector to DSE turnover decreased to 15.9 percent from 16.0 percent recorded in March quarter of CY17. The financial institutions sector's contribution was 12.6 percent which was 10.2 percent in the previous quarter.

Chart 7.1 DSE Performance



Source: DSE; Compilation: FSD, BB.

Chart 7.2 Price/Earnings Ratio



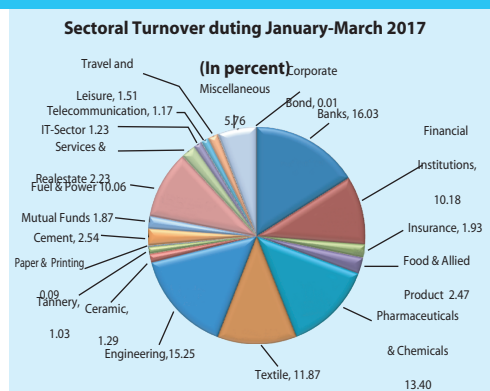
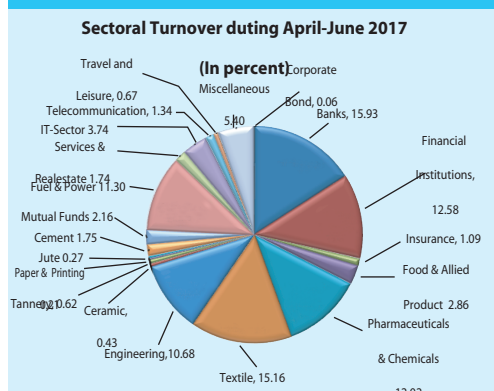
Source: DSE.

7.1.4 Market Capitalization

At end-June 2017, the market capitalization stood at BDT 3,801.0 billion, which is about 0.1 percent higher than that of the previous end-quarter (i.e. March 2017). Growth rate of market capitalization had been exhibiting mixed trend over the quarters.

²⁵ Second quarter of calendar year 2017.

Chart 7.3 Sectoral Turnover (in percent) in DSE



Source: DSE; Compilation: FSD, BB.

7.2 Chittagong Stock Exchange (CSE)

7.2.1 CSE Performance

In the review quarter, CSE turnover was BDT 30.7 billion compared to BDT 45.7 billion recorded in the first quarter of CY17, registering a 32.9 percent drop in terms of volume. While most of the companies, mutual funds and corporate bonds listed in DSE are also listed with CSE, debentures and Govt. T-bonds are traded only through DSE. Like those of DSE, a downward price correction was also observed in key CSE indices such as CASPI²⁶, CSE30 and CSI²⁷, which decreased by 1.2, 0.02 and 0.8 percent respectively during the review quarter.

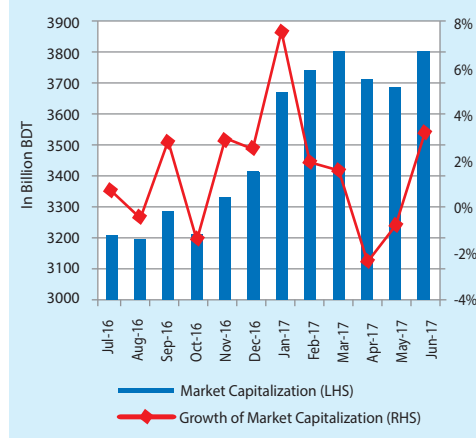
7.2.2 Price/Earnings (P/E) Ratio

The weighted average P/E ratio remained almost unchanged at 17.1 during the quarter.

7.2.3 Sectoral Turnover

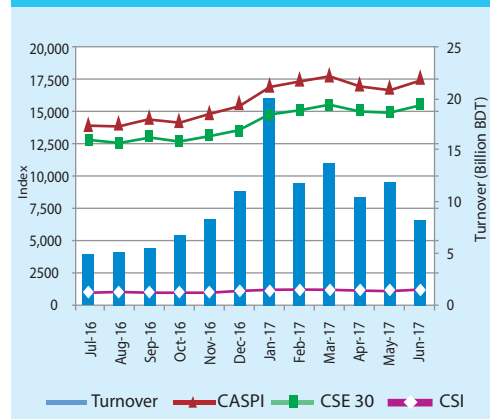
Banking sector recorded the highest turnover during the June quarter of CY17. Contribution of the banking sector to CSE turnover was 25.1 percent compared to 20.7 percent recorded in the previous quarter (Chart 7.7). Highest turnover by banking sector in both bourses indicates investors' growing confidence in the stability of this sector.

Chart 7.4 Market Capitalization and Its Growth Rate



Source: DSE; Compilation: FSD, BB.

Chart 7.5 CSE Performance



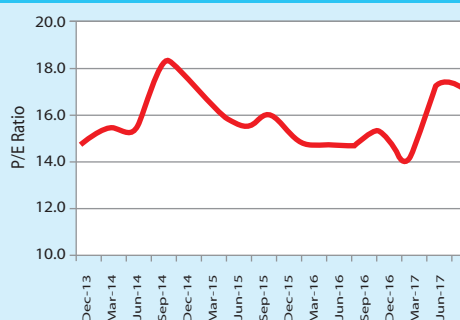
Source: CSE; Compilation: FSD, BB.

²⁶ CASPI refers to CSE All Share Price Index.

²⁷ CSI refers to CSE Shari'ah Index.

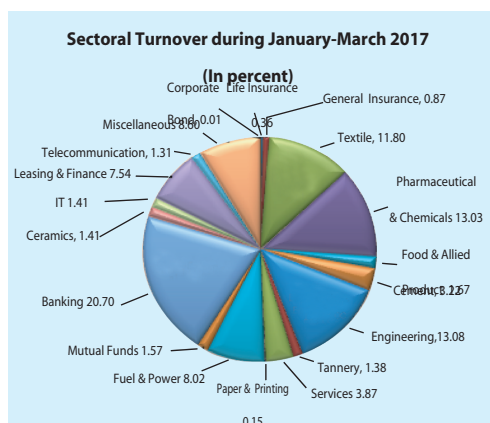
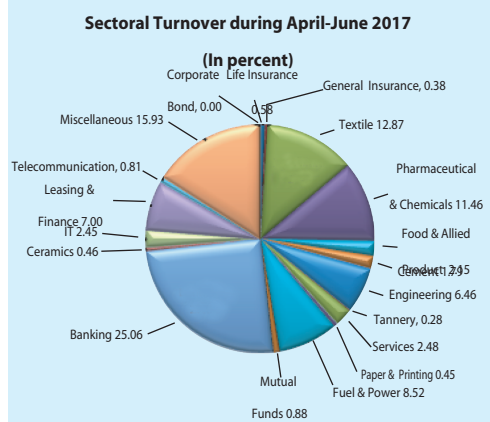
Mentionable that next three sectors in terms of turnover were recorded by textile, pharmaceuticals and chemicals, and fuel and power sectors respectively.

Chart 7.6 Price/Earnings Ratio



Source: CSE

Chart 7.7 Sectoral Turnover (in percent) in CSE

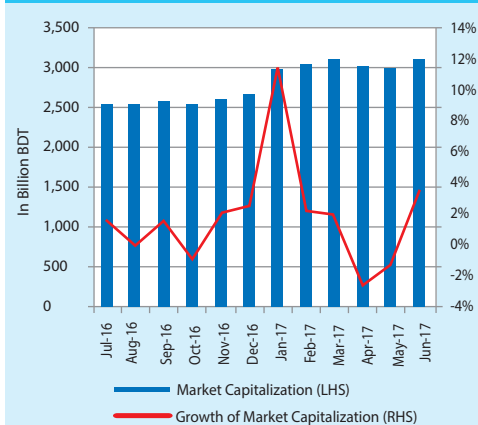


Source: CSE; Compilation: FSD, BB.

7.2.4 Market Capitalization

At end-June 2017, the market capitalization of CSE stood at BDT 3,113.2 billion, which is about 0.2 percent lower than that of end-March 2017. An overall mixed trend of market capitalization growth was observed in CSE over the quarters.

Chart 7.8 Market Capitalization and Its Growth Rate



Source: CSE; Compilation: FSD, BB.

Recent Stability Initiatives of Bangladesh Bank

During the April-June quarter of the calendar year 2017, Bangladesh Bank (BB) has taken a number of initiatives having implications to domestic financial system stability. Some of the important ones are:

8.1 Guidelines on Credit Card Operations of Banks

Considering the necessity of improving the electronic payment systems and the growth of domestic credit card operations, BB issued guidelines on credit card operations of banks to ensure safe, secure and efficient operations of credit cards as a payment instrument. The guidelines include an overview of credit card operations and instructions regarding credit limit and settlement, marketing, eligibility criteria, issuance of principal, supplementary and corporate credit cards, terms and conditions, billing process, collection/recovery mechanism, protection of customer rights, dispute resolution, internal control and compliance, fraud control and security of credit cards, and other legal and regulatory issues.

8.2 Prudential Guidelines for Consumer Financing

Taking into account the increasing demand for consumer goods, BB revised regulations for credit cards (regulation 13)) and regulations for personal loans including loans for the purchase of consumer durables (regulation 30) of "Prudential Guidelines for Consumer Financing" [BRPD Circular No.

04/2017]. The amended regulation for cards states that maximum limit for unsecured loans and secured loans (against liquid securities) under credit card shall not exceed BDT 10 lac and 25 lac respectively. Similarly, revised regulation for personal loans including loans for the purchase of consumer durables sets limit per person for personal loans at BDT 5 lac without any securities while the amount shall not exceed BDT 20 lac for loans secured against collaterals.

8.3 Investment in Bonds/Debentures

In the light of freshly added section 26(ka) of Bank Company (Amendment) Act, 2013, BB instructed banks to invest no more than 5 percent of their total amount of paid-up capital, share premium, statutory reserves and retained earnings in the bonds/debentures of another company. The circular also includes instructions regarding approval of the bonds/debentures by Bangladesh Securities and Exchange Commission (BSEC), External Credit Rating of the issuing company and single borrower exposure limit of the investing bank, among other relevant issues.

8.4 Prudential Guidelines for Small Enterprise Financing

Due to increasing legal complexities arising from post dated/undated cheques collected as collateral against loans, BB abolished the relevant regulation (regulation no. 6(e)) from the Prudential Guidelines for Small Enterprise

Financing. Accordingly, BB issued an instruction (regulation 14) through BPRD Circular 08/2017 in which banks had been advised to collect a letter of authority from the clients for debiting their accounts for repayment of loan installment(s) as per loan agreement, a memorandum of deposit of Cheque, and fully prepared and valid signed post dated cheques for each installment stipulating amount and date as per repayment schedule.

8.5 Re-fixation of Interest Rate on Agricultural and Rural Credit

With the aim to increase the credit flow in the agriculture sector, BB decreased the upper limit of the interest rate on agricultural and rural credit from 10 percent to 9 percent.

8.6 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) BB increased the maximum limit that authorized dealers (AD) would be allowed to remit abroad on behalf of IT/software firms to meet their bona fide expenses from USD 25,000 to USD 30,000 in a calendar year. BB also clarified that this facility is not linked with exporter's retention quota (ERQ) account and is remittable through wire transfer and/or international card within the limit.
- ii) To promote export of ICT services, BB permitted service exporters to retain 70 percent of their repatriated export receipts in ERQ accounts. Earlier it was 60 percent.
- iii) BB accorded general approval in favour of individuals and institutions resident in Bangladesh for purchase of Taka bonds issued with permission of Bangladesh Securities and Exchange Commission (BSEC) by foreign owned/controlled companies in Bangladesh.
- iv) In order to widen the scope for repatriation of ICT related payments, ADs were allowed to provide facilities to credit inward remittances received in international card number/account against the services provided by individual developers/freelancers. In this context, ADs shall issue to individual developers/freelancers international cards (termed as 'Freelancer Card') having dual currency units with features of being prepaid from abroad. Mentionable that the stated inward receipt exceeding USD 10,000 or equivalent is subject to declaration in Form-C (ICT).
- v) BB issued a new circular regarding foreign exchange transactions by the enterprises of Economic Zones (EZs) in Bangladesh, replacing FE Circular No. 22/2016 which discusses category of enterprises of EZs and provides instructions about foreign investment in EZs, maintaining Foreign Currency (FC) accounts and Taka accounts by enterprises of EZs, export/selling of goods from EZs, selling of Bangladeshi goods or raw materials or non-physical contents to enterprises of EZs, import by enterprises of EZs, credit facilities, repatriation of dividend/disinvestment proceeds to non-resident shareholders, repatriation of royalty, technical know-

how and technical assistance fees, working in EZs by foreign nationals and reporting thereof.

vi) ADs were allowed to release foreign exchange for study of Bangladeshi students in permissible courses abroad in favour of the designated intermediary payment processing entity provided it is clearly mentioned in the admission documents of the concerned main educational institution that fees, charges etc. are to be remitted through the said entity.

vii) To improve remittance services for the non-resident Bangladeshis (NRBs), BB advised banks to set up remittance help desk in branches involved in remittance services, to provide remittance related information to the beneficiaries on priority basis, to arrange separate complain registers for NRBs/their beneficiaries and to promote all types of investment opportunities for NRBs and the advantages of remitting money through legal channels.

8.7 Permission of New Financial Institution

BB granted permission to one new financial institution named 'Alliance Leasing and Finance Company Limited' on 06 June 2017 under section 4(1) of the Financial Institutions Act, 1993.

8.8 Usage of Electronic Interbank Payment System

To ensure maximum usage of electronic interbank payment systems, specially

Electronic Fund Transfer (EFT) and Real Time Gross Settlement (RTGS) systems, BB instructed scheduled banks to take necessary steps to provide origination service for EFT and RTGS transactions from all of their branches within 31 December 2017. Besides, BB advised banks to promote these services among the stakeholders and to arrange training/workshop and awareness programs for banks' employees and customers respectively.

8.9 Redefining Cottage, Micro, Small and Medium Enterprises (CMSME)

During the review quarter, BB revised the definitions and credit limits of CMSME in manufacturing and service sector, and of Micro and Small enterprises in trading sector in line with the National Industrial Policy 2016. BB also clarified that excluding Micro and Small enterprises, other enterprises in the trading sector would not be considered for the purpose of SME financing.

8.10 Revision of CMSME Credit Disbursement Target

In order to secure the desired level of CMSME credit in the overall credit portfolio, BB instructed banks and FIs to disburse at least 20 percent of total loan portfolio to CMSME in 2017 and to increase it gradually to 25 percent by 2021. Moreover, to improve the sector-wise distribution of CMSME loan portfolio, BB urged banks and FIs to disburse at least 50 percent of overall CMSME credit to Cottage, Micro and Small enterprises and minimum 10 percent of total CMSME loan to women entrepreneurs. Banks and FIs were advised to increase the share of

manufacturing, service and trading sector to minimum 40, 25 and maximum 35 percent of CMSME loan portfolio by 2021.

8.11 Revision of Interest Rate on Lending to Women Entrepreneurs

To motivate women entrepreneurs in business and productive investment activities, BB instructed banks and FIs to limit their interest rates on lending at 9 percent for financing women led enterprises under 'Small Enterprise Refinance Scheme', 'Refinance Scheme for Setting-up Agro-based Product Processing Industries in Rural Area' and 'Refinance Scheme for New Entrepreneurs in Cottage, Micro and Small sectors'. Earlier the maximum lending rate was 10 percent.

Table I : CPI Inflation (12 month Average)

(Percent)

Month	Inflation (General)	Inflation (Food)	Inflation (Non-Food)
Mar-16	6.1	5.5	7.0
Jun-16	5.9	4.9	7.5
Sep-16	5.7	4.6	7.5
Dec-16	5.5	4.5	7.1
Mar-17	5.4	5.2	5.7
Jun-17	5.4	6.0	4.8

Base: 2005-06=100

Table II Foreign Exchange Reserve

(Amount in million USD)

Month-end	International Reserve
Jun-15	25,021.0
Sep-15	26,379.0
Dec-15	27,493.3
Mar-16	28,265.9
Jun-16	30,137.6
Sep-16	31,385.9
Dec-16	32,092.0
Mar-17	32,215.0
Jun-17	33,407.0

Table III Wage Earners' Remittance

(Amount in million USD)

Quarter	Amount
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
Sep-16	3,245.8
Dec-16	2,921.1
Mar-17	3,027.7
Jun-17	3,574.9

Table IV Exports and Imports

(Amount in million USD)

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
Jun-15	8,156.0	10,924.0
Sep-15	7,640.0	9,155.0
Dec-15	8,089.0	9,836.0
Mar-16	8,624.0	9,765.0
Jun-16	9,088.0	10,720.0
Sep-16	7,909.0	9,502.0
Dec-16	8,501.0	10,645.0
Mar-17	8,920.0	11,448.0
Jun-17	8,689.0	11,123.0

Table V Interest Rate (Weighted Average) Spread

(In Percent)

Period	Lending Rate	Deposit Rate	Spread
Jun-15	11.7	6.8	4.9
Sep-15	11.5	6.7	4.8
Dec-15	11.2	6.3	4.8
Mar-16	10.8	5.9	4.9
Jun-16	10.4	5.5	4.9
Sep-16	10.1	5.4	4.7
Dec-16	9.9	5.2	4.7
Mar-17	9.7	5.0	4.7
Jun-17	9.5	4.8	4.7

Table VI Weighted Average Exchange Rate

(BDT/USD)

Quarter	Period Average	End Period
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
Sep-16	78.4000	78.4000
Dec-16	78.8040	78.7022
Mar-17	79.5000	79.7000
Jun-17	80.5900	80.6000

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

(Amount in billion BDT)

Period	Amount
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
Sep-16	1,807.7
Dec-16	1,691.1
Mar-17	1,615.1
Jun-17	1,684.5

Table VIII Asset Structure of the Banking Industry

(Amount in billion BDT)

Property and Assets	30-09-2016	31-12-2016	31-03-2017	30-06-2017
Cash in hand	107.5	107.2	109.1	141.6
Balance with Bangladesh Bank and its Agent Bank	691.1	756.5	747.8	847.8
Balance with other banks and financial Institutions	408.1	473.9	474.9	572.3
Money at call and short notice	102.2	86.8	107.9	101.0
Investment	2154.9	2148.6	2055.4	1942.5
Loans and Advances	6736.4	7136.5	7370.4	7775.7
Fixed Assets	225.8	224.7	224.9	225.8
Other Assets	867.1	687.3	687.0	760.1
Non-banking assets	3.5	3.7	3.7	3.5
Total Assets	11,296.6	11,625.3	11,781.1	12,370.3

Table IX Banking Sector Assets & NPL Concentration (June-2017)

(Amount in billion BDT)

Assets	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount	3,906.3	8,464.0	5,557.3	6,813.0
Share (%)	31.6	68.4	44.9	55.1
NPL	Top 5 banks	Other banks	Top 10 banks	Other banks
Amount	338.3	403.2	476.3	265.2
Share (%)	45.6	54.4	64.2	35.8

Table X Banking Sector NPL Ratio

(Amount in billion BDT)

Quarter	Aggregate NPL	Gross NPL Ratio (NPL/TL) (%)	NPL (net of LLP and IS) Ratio (%)	NPL (net of LLP and IS)/ Reg. Cap. (%)
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
Sep-16	657.3	10.3	2.8	20.8
Dec-16	621.7	9.2	2.3	18.0
Mar-17	734.1	10.5	2.9	22.7
Jun-17	741.5	10.1	2.6	19.7

Table XI Distribution of Banks by NPL Ratio

Range	Number of Banks as at end				
	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Up to 2.0%	9	5	9	7	8
2.0% to <3.0%	4	5	6	6	4
3.0% to <5.0%	13	13	16	12	13
5.0% to <10.0%	17	17	14	18	19
10.0% to <15.0%	2	6	1	3	3
15.0% to <20.0%	2	1	2	1	1
20.0% & above	9	9	9	10	9
Total	56	57	57		57

Table XII Banking Sector Loan Loss Provisions

(Amount in billion BDT)

Period	Required Provision	Provision Maintained	Provision Maintenance Ratio (%)
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
Sep-16	372.3	328.5	88.2
Dec-16	362.1	307.4	84.9
Mar-17	419.2	366.9	87.5
Jun-17	436.4	374.5	85.8

Table XIII Banking Sector Classified Loans Ratios

(In percent)

Period	Classified Loans To Total Loans	Sub-Standard Loans To Classified Loans	Doubtful Loans To Classified Loans	Bad Loans To Classified Loans
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
Sep-16	10.3	11.6	6.0	82.4
Dec-16	9.2	10.2	5.4	84.4
Mar-17	10.5	11.1	6.8	82.1
Jun-17	10.1	10.2	6.8	83.1

Table XIV Classified Loan Composition (End-June 2017)

(Amount in billion BDT)

Particulars	Amount	Percent Of Total
Sub-Standard	75.4	10.2
Doubtful	50.1	6.8
Bad & Loss	616.0	83.1
Total	741.5	100.0

Table XV Banking Sector ROA Range

Quarter	ROA Range			
	Up to 2.0%	> 2.0% to ≤ 3.0%	> 3.0% to ≤ 4.0%	> 4.0%
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	49 ^R	3 ^R	3 ^R	1 ^R
Sep-16	49 ^R	4 ^R	3 ^R	0 ^R
Dec-16	48 ^R	7 ^R	1 ^R	1 ^R
Mar-17	51	4	1	1
Jun-17	53	2	1	1

Note: ROAs have been annualized from respective quarterly ratios. R - revised

Table XVI Banking Sector ROE Range

Quarter	ROE Range			
	Up to 5.0%	> 5.0% to ≤ 10.0%	> 10.0% to ≤ 15.0%	> 15.0%
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	17 ^R	17 ^R	13 ^R	9 ^R
Sep-16	14 ^R	20 ^R	14 ^R	8 ^R
Dec-16	11 ^R	12 ^R	16 ^R	18 ^R
Mar-17	22	17	12 ^R	6
Jun-17	18	20	12	7

Notes: ROEs have been annualized from respective quarterly ratios. R- revised

Table XVII Banking Sector ROA and ROE

	Quarter						
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
ROA	1.3	0.5	0.4 ^R	0.5 ^R	0.8 ^R	0.1	0.3
ROE	14.2	6.8	5.0 ^R	6.1 ^R	10.8 ^R	1.2	3.7

Notes: 1. The figures are annualized from respective quarterly ratios; e.g.

(a) annualized ROA of 1st quarter of 2017 = (Profit in 1st quarter of 2017 x 4/Total asset at the end of 1st quarter of 2017) x 100.

(b) annualized ROA of 2nd quarter of 2017 = ((Profit in 1st quarter of 2017+ Profit in 1st quarter of 2017) x 2/Average of assets at the end of 1st and 2nd quarters of 2017) x 100.

(c) Annualized ROA of 4th quarter of 2016 = (Aggregate of profits in four quarters of 2016/Average of total assets at the end of four quarters of 2016) x100.

(d) Similar method applied for annualizing quarterly ROE.

2. R- Revised

Table XVIII FIs' Borrowing, Deposit and Capital

(Amount in billion BDT)

Particulars	December-2016	March-2017	June-2017
Borrowings	158.7	167.3	178.5
Deposits	383.7	404.0	418.9
Capital	106.8	108.1	109.5
Other Liabilities	65.9	71.5	72.1
Total	715.1	750.9	778.9

Table XIX FIs' Asset Composition

(Amount in billion BDT)

Particulars	December-2016	March-2017	June-2017
Cash & Balance with Banks/FIs	86.7	113.8	113.8
Investments	33.0	29.3	18.9
Loans & Leases	534.2	546.7	576.4
Other Assets	49.9	50.6	59.2
Fixed Assets	11.3	10.5	10.7
Total	715.1	750.9	778.9

Table XX FIs' Classified Loans and Leases
(Amount in billion BDT)

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
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
Sep-16	45.6	8.9
Dec-16	39.3	7.4
Mar-17	45.0	8.1
Jun-17	52.0	8.9

Table XXI FIs' ROA & ROE
(In percent)

Quarter	Aggregate ROA	Aggregate ROE
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
Sep-16	0.9	6.0
Dec-16	0.8	5.4
Mar-17	0.6	4.2
Jun-17	1.0	7.4

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

Table XXII Banking Sector CAR/CRAR Distribution

CAR	Number Of Banks (At End Period)						
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
< 10%	8	8	9	9	7	9	7
10% to ≤15%	30	31	32	32	33	32	35
15% +	18	17	15	15	17	16	15

Table XXIII Banking Sector Asset Share based on CRAR as at end-June 2017

CRAR	Number of banks & their asset size		Asset share (%)
	Number of banks	Asset size (in billion BDT)	
<10%	7	2,211.6	17.8
10% to < 15%	35	9,588.5	77.5
15% +	15	570.2	4.7
Total	57	12,370.3	100

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

Particulars	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Core Capital to RWA (%)	8.0	8.1	8.2	7.6	7.6	7.9	7.8	7.8
Number of core capital compliant banks	49	49	50	49	49	50	49	50
Overall CAR (%)	10.5	10.8	10.6	10.3	10.3	10.8	10.7	10.9
Number of CAR compliant banks	47	48	48	47	47	50	48	50
No. of banks in the industry	56	56	56	56	56	57	57	57

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

Particulars	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
RWA for Credit Risk	6474.9	6570.6	6,758.4	6,891.7	7,262.4
RWA for Market Risk	316.3	310.2	299.6	304.7	301.6
RWA for Operational Risk	645.5	653.3	696.4	707.2	718.6
Total RWA	7,436.7	7534.1	7,754.4	7,903.6	8,282.5

Table XXVI Banking Sector Regulatory Capital Position (Solo Basis)*(Amount in billion BDT)*

Period	Minimum Capital Requirement	Total Regulatory Capital
Dec-15	729.6	746.0
Mar-16	745.3	756.1
Jun-16	775.2	768.8
Sep-16	783.4	776.9
Dec-16	808.1	837.6
Mar-17	820.9	844.2
Jun-17	857.0	899.6

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

Period	ADR %
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
Sep-16	71.1
Dec-16	71.9
Mar-17	73.4
Jun-17	73.9

Table XXVIII Bank Cluster-wise ADR at end-June 2017*(In percent)*

Bank wise	ADR (%)
SCBs	51.3
PCBs	83.6
FCBs	68.1
DFIs	79.5
Industry	74.0

Table XXIX FIs' CRR & SLR*(Amount in billion BDT)*

Quarter End	Aggregate CRR			Aggregate SLR		
	Required	Maintained	Surplus/Shortfall	Required	Maintained	Surplus/Shortfall
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
Sep 2016	5,576.8	6,115.4	538.6	15,122.4	71,110.0	55,987.6
Dec 2016	5,805.0	6,177.7	372.8	15,514.5	64,958.2	49,443.7
Mar 2017	5,939.4	6,400.4	461.00	14,313.4	83,290.4	68,977.0
Jun 2017	6,158.8	6,509.6	350.8	16,880.2	76,950.7	60,070.5

Table XXX Capital Adequacy Ratio of FI Sector

Particulars	End Mar-16	End Jun-16	End Sep-16	End Dec-16	End Mar-17	End Jun-17
Eligible Capital to RWA (%)	17.9	16.7	16.3	16.6	16.0	13.7

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

(Amount in billion BDT)

Particulars	End Mar-16	End Jun-16	End Sep-16	End Dec-16	End Mar-17	End June-17
Risk Weighted Assets (RWA)						
Credit RWA	481.3	496.0	506.4	518.3	543.8	579.3
Market RWA	39.5	42.5	47.6	50.0	55.3	54.2
Operational RWA	37.9	38.7	38.9	41.3	42.4	42.7
Total RWA	558.7	577.2	592.9	609.6	641.5	676.2
Capital						
Core Capital (Tier -1)	92.7	88.5	88.8	91.3	92.2	92.7
Supplementary Capital	7.2	7.9	8.0	9.7	10.2	10.4
Eligible Capital	99.9	96.3	96.8	101.0	102.4	103.1

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

(Based on data as of end-June 2017)

Shocks	CRAR after Shock (%)		
	Minor Level	Moderate Level	Major Level
Increase in NPL in the highest outstanding sector	10.79	10.64	10.5
Increase in NPLs due to default of Top borrowers	9.26	7.67	6.83
Negative shift in NPL categories	10.23	8.28	7.00
Decrease in the FSV of collateral	10.27	9.68	8.47
Increase in NPLs	9.96	7.69	4.07
Interest rate shock	10.51	10.16	9.8
Exchange rate shock	10.81	10.76	10.71
Equity shock	10.59	10.32	9.77
Combined shock	8.06	2.58	-4.49

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

(Based on data as of end-June 2017)

Shocks	No. of Banks		
	Minor Level	Moderate Level	Major Level
Increase in NPL in highest outstanding sector	3	5	9
Increase in NPLs due to default of Top borrowers	25	38	41
Negative shift in NPL categories	6	13	19
Decrease in the FSV of collateral	6	6	10
Increase in NPLs	6	27	37
Interest rate shock	4	5	9
Exchange rate shock	1	2	2
Equity shock	4	4	6
Combined shock	17	37	41

Table XXXIV Price/Earnings Ratio of Capital Market

Quarter	DSE Price/Earnings Ratio	CSE Price/Earnings Ratio
Mar-14	15.9	15.4
Jun-14	16.4	15.4
Sep-14	18.6	18.2
Dec-14	17.8	17.2
Mar-15	16.5	16.1
Jun-15	15.9	15.4
Sep-15	16.4	15.9
Dec-15	15.2	14.7
Mar-16	14.3	14.7
Jun-16	14.6	14.6
Sep-16	15.1	15.2
Dec-16	14.3	14.0
Mar-17	16.3	17.1
Jun-17	15.7	17.1

Table XXXV DSE Performance

Month	DSE Turnover (BDT in millions)	Index		
		DSEX	DSE 30	DSES
Jul-16	65.74	4,525.35	1,770.28	1,109.10
Aug-16	96.29	4,526.58	1,735.36	1,097.48
Sep-16	86.89	4,695.19	1,778.70	1,125.86
Oct-16	105.60	4,592.18	1,733.43	1,100.04
Nov-16	141.50	4,801.24	1,775.34	1,140.59
Dec-16	177.80	5,036.05	1,810.91	1,191.87
Jan-17	342.32	5,468.34	1,993.15	1,268.28
Feb-17	194.04	5,612.70	2,025.83	1,305.64
Mar-17	217.70	5,719.61	2,090.76	1,303.72
Apr-17	153.18	5,475.55	2,016.14	1,263.91
May-17	122.58	5,403.12	2,005.19	1,251.39
Jun-17	101.56	5,656.05	2,083.80	1,296.74

Table XXXVI CSE Performance

Month	CSE Turnover (BDT in millions)	Index		
		CASPI	CSE 30	CSI
Jul-16	4.93	13,917.27	12,828.17	984.75
Aug-16	5.15	13,900.78	12,632.72	978.74
Sep-16	5.43	14,429.44	13,096.15	1,005.13
Oct-16	6.80	14,146.41	12,748.85	984.32
Nov-16	8.30	14,778.22	13,178.89	1,028.41
Dec-16	11.05	15,477.66	13,583.60	1,072.08
Jan-17	20.07	16,937.97	14,768.35	1,150.34
Feb-17	11.88	17,375.73	15,064.53	1,185.02
Mar-17	13.77	17,738.31	15,583.38	1,188.16
Apr-17	10.51	16,993.94	15,078.78	1,150.63
May-17	11.95	16,707.07	14,897.02	1,131.42
Jun-17	8.22	17,516.71	15,580.37	1,178.39

Table XXXVII Market Capitalization

As on end- month	Market Capitalization (in billion BDT)		Growth of market capitalization (in percent)	
	DSE	CSE	DSE	CSE
Jul-16	3,207.37	2,548.01	0.68	1.67
Aug-16	3,192.56	2,529.59	-0.46	-0.72
Sep-16	3,281.91	2,612.52	2.80	3.28
Oct-16	3,236.34	2,579.05	-1.39	-1.28
Nov-16	3,328.81	2,664.98	2.86	3.33
Dec-16	3,412.44	2,741.34	2.51	2.87
Jan-17	3,668.12	2,998.77	7.49	9.39
Feb-17	3,739.30	3,064.14	1.94	2.18
Mar-17	3,798.31	3,124.93	1.58	1.98
Apr-17	3,710.93	3,038.78	-2.30	-2.57
May-17	3,683.02	3,005.92	-0.75	-1.08
Jun-17	3,801.00	3,113.24	3.20	3.57

Table XXXVIII Sectoral Turnover of DSE

(In percent)

Broad Sector	SECTOR	% of Total Turnover	
		2017Q1	2017Q2
Financial Sector	Banks	16.03	15.93
	Financial Institutions	10.18	12.58
	Insurance	1.93	1.09
Manufacturing	Food & Allied Product	2.47	2.86
	Pharmaceuticals & Chemicals	13.40	12.02
	Textile	11.87	15.16
	Engineering	15.25	10.68
	Ceramic	1.29	0.43
	Tannery	1.03	0.62
	Paper & Printing	0.09	0.21
	Jute	0.08	0.27
	Cement	2.54	1.75
Service & Miscellaneous	Mutual Funds	1.87	2.16
	Fuel & Power	10.06	11.30
	Services & Real estate	2.23	1.74
	IT - Sector	1.23	3.74
	Telecommunication	1.17	1.34
	Travel and Leisure	1.51	0.67
	Miscellaneous	5.76	5.40
Bond	Corporate Bond	0.01	0.06
	Total	100.00	100.00

Note: 2017Q1 ≡ March quarter 2017, 2017Q2 ≡ June quarter 2017

Table XXXIX Sectoral Turnover of CSE
(In percent)

Broad Sector	SECTOR	% of Total Turnover	
		2017Q1	2017Q2
Financial Sector	Banks	20.70	25.06
	Leasing & Finance	7.54	7.00
	Life Insurance	0.36	0.58
	General Insurance	0.87	0.38
Manufacturing	Food & Allied Product	1.67	2.15
	Pharmaceuticals & Chemicals	13.03	11.46
	Textile	11.80	12.87
	Engineering	13.08	6.46
	Ceramic	1.41	0.46
	Tannery	1.38	0.28
	Paper & Printing	0.15	0.45
	Cement	3.22	1.79
Service & Miscellaneous	Fuel & Power	8.02	8.52
	Services	3.87	2.48
	IT	1.41	2.45
	Telecommunication	1.31	0.81
	Mutual Funds	1.57	0.88
	Miscellaneous	8.60	15.93
Bond	Corporate Bond	0.01	0.00
	Total	100.00	100.00

Note: 2017Q1 ≡ March quarter 2017, 2017Q2 ≡ June quarter 2017

