

Quarterly

# Financial Stability Assessment Report

January-March 2017



Financial Stability Department  
**Bangladesh Bank**



### Advisor

Shitangshu Kumar Sur Chowdhury, Deputy Governor

### Coordinators

1. Ashok Kumar Dey, Executive Director
2. Dr. Md. Kabir Ahmed, General Manager
3. Jiban Krishno Roy, Deputy General Manager
4. Mohammad Jamal Uddin, Deputy General Manager

### Team of Editors

1. Md. Ala Uddin, Joint Director
2. Farzana Islam, Joint Director
3. Mohammad Arif Hasan, Deputy Director
4. Gazi Arafat Ali, Deputy Director
5. Md. Harun Or Rashid, Assistant Director
6. Laila Fatin, Assistant Director
7. Faruque Ahmed, Assistant Director

### Data/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. Research Department
7. Statistics Department
8. Sustainable Finance Department

*This report is based on unaudited and provisional data of banks and non-bank financial institutions available up to March 31, 2017 unless stated otherwise in the relevant chapters/sections.*

Web link of this report: <https://www.bb.org.bd/pub/index.php>

## MESSAGE OF THE GOVERNOR



Financial stability, viewed as the resilience of the financial system to unanticipated adverse shocks, enables continued smooth functioning of the financial intermediation process. In line with its broader mandate, Bangladesh Bank publishes Quarterly Financial Stability Assessment Report in addition to publishing stability report on a yearly basis. Increased globalization of financial markets as well as growing inter-connectedness of the global financial system may exert negative spillover effect on our country too. Considering this reality, Bangladesh Bank enhances its surveillance on financial institutions, markets and infrastructures towards achieving a desired level of stability of our financial system.

During January-March 2017, prudent monetary policy management and fiscal discipline have supported macroeconomic stability, allowing the financial system to get benefit from favourable external demand, moderate flow of remittances and lower commodity prices. Stringent microprudential regulation and supervision, judicious application of macroprudential oversight and inclusive finance campaign, all contributed significantly to the stability of the financial system. An expanded structure of the banking and financial institutions with rising contribution to GDP along-with the gradual implementation towards Basel III capital and liquidity frameworks helped to maintain a moderate level of financial system stability. Several financial inclusion initiatives made way for domestic demand-driven employment, income and output that also helped improve the quality of growth and supported macro-financial stability strengthening the economy's resilience.

I hope our analyses and assessments will help creating risk awareness among the stakeholders of the financial system as well as enable them prepare for and adapt to possible shocks. I would like to thank the officials of Financial Stability Department for preparing this report.

  
**Fazle Kabir**  
Governor



## MESSAGE OF THE DEPUTY GOVERNOR

During the review quarter, January-March 2017, economic activity gained some momentum in advanced economies. For instance, growth picked up in the United States and also remained solid in the United Kingdom in the aftermath of the June 2016 referendum in favour of leaving the European Union (Brexit). Economic upturn has been evident in Japan attributable to strong net export growth. Similar trend was observed in the euro area countries, such as Germany and Spain, as a result of strong domestic demand. However, economic performance across emerging market has remained mixed. Though China's growth remained strong, activity has slowed in India and Brazil and remained weak in fuel and non-fuel commodity exporters more generally, while geopolitical factors held back growth in parts of the Middle East and Turkey. Amid these developments, Bangladesh financial system remained mostly stable during January-March 2017.

A number of domestic macroeconomic indicators demonstrated improving trend. Decline in inflation and interest rate and increase in foreign exchange reserve, wage earners' remittance and exports contributed notably to maintaining a reasonable level of stability in the financial system. Several initiatives have been taken by Bangladesh Bank to improve the macro-financial stability of the economy. Development of a tool named Composite Financial Stability Index (CFSI), revision of call borrowing limit and statutory liquidity requirement for financial institutions (FIs), issuance of guidelines on environmental and social risk management (ESRM) for banks and financial institutions, issuance of updated uniform account opening form & Know Your Customer (KYC) profile form for banks are instances of some notable ones.

I commend the dedication and effort of the officials of Financial Stability Department and other contributing departments of Bangladesh Bank in preparing this report. I believe the evaluation and assessment of this report will furnish important insights to the stakeholders that will contribute to maintaining the stability of our financial system in the forthcoming quarters.

**Shitangshu Kumar Sur Chowdhury**

Deputy Governor



# Contents

	Page
Acronyms	ix
Executive Summary	x
<b>Chapter 1 Macroeconomic Developments</b>	01
1.1 Inflation	01
1.2 Foreign Exchange Reserve and its Import Coverage	01
1.3 Wage Earners' Remittance	01
1.4 Imports and Exports	02
1.5 Interest Rate	02
1.6 Exchange Rate	02
1.7 Credit to the Government (Gross) by the Banking System	02
<b>Chapter 2 Banking Sector Performance</b>	03
2.1 Assets Structure	03
2.2 Asset Quality	04
2.3 Profitability	05
<b>Chapter 3 Financial Institutions' Performance</b>	07
3.1 Sources of Funds	07
3.2 Assets Composition	07
3.3 Assets Quality	08
3.4 Profitability	08
<b>Chapter 4 Banking Sector Liquidity and Capital Adequacy</b>	09
4.1 Capital Adequacy	09
4.2 Liquidity	10
4.3 Leverage ratio	11
<b>Chapter 5 Financial Institutions' Liquidity and Capital Adequacy</b>	13
5.1 Liquidity	13
5.2 Capital Adequacy	13
<b>Chapter 6 Stress Testing and Resilience of the Banking and FIs Sectors</b>	15
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
6.3 Stress Test on FIs	18
<b>Chapter 7 Capital Market Development</b>	19
7.1 Dhaka Stock Exchange (DSE)	19
7.1.1 DSE Performance	19
7.1.2 Price/Earnings (P/E) Ratio	19
7.1.3 Sectoral Turnover	19
7.1.4 Market Capitalization	19

## Contents

	Page
7.1.5 Corporate Bond Market	20
7.2 Chittagong Stock Exchange (CSE)	20
7.2.1 CSE Performance	20
7.2.2 Price/Earnings (P/E) Ratio	20
7.2.3 Sectoral Turnover	21
7.2.4 Market Capitalization	21
<b>Chapter 8 Recent Stability Initiatives of Bangladesh Bank</b>	23
8.1 Composite Financial Stability Index (CFSI)	23
8.2 Rationalisation of Rate of Interest on Deposit and Lending	23
8.3 Rationalisation of Schedule of Charges	23
8.4 Call Borrowing Limit for Financial Institutions (FIs)	23
8.5 Computation of Statutory Liquidity Reserve of FIs	23
8.6 Changes in the Foreign Exchange Regulations	24
8.7 Refinance Scheme for Green Products/Initiatives	25
8.8 Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions	25
8.9 Amendment to Guidelines for Customer Services and Complaint Management	26
8.10 Instructions Regarding Mobile Financial Services Operation	26
8.11 Issuance of Uniform Account Opening Form & KYC Profile Form	26
<b>Appendix</b>	27

## 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 Exports and Imports (FOB)	1
Chart 1.5 Interest Rate Spread	2
Chart 1.6 Exchange Rate	2
Chart 1.7 Credit to the Govt. (Gross) by the Banking System	2
Chart 2.1 Asset Size of the Banking Industry	3
Chart 2.2 Bank Cluster-wise Assets at end-March 2017	3
Chart 2.3 Banking Sector Assets and Loans/ Advances	4
Chart 2.4 Asset Structure of the Banking Industry	4
Chart 2.5 Top 5 Banks based on Assets Size	4
Chart 2.6 Top 10 Banks based on Assets Size	5
Chart 2.7 NPL Ratio of the Banking Industry	5
Chart 2.8 Distribution of banks by NPL ratio	5
Chart 2.9 Banking Sector Loan Loss Provision	5
Chart 2.10 Top 5 Banks based on NPL	5
Chart 2.11 Top 10 Banks based on NPL	5
Chart 2.12 Proportion of NPL Categories	6
Chart 2.13 NPL Composition of Banks	6
Chart 2.14 Distribution of Banking Sector Return on Assets (ROA)	6
Chart 2.15 Distribution of Banking Sector Return on Equity (ROE)	6
Chart 3.1 Fls' Sources of Fund	7
Chart 3.2 Fls' Assets Composition	7
Chart 3.3 Fls' Non-performing Loans and Leases	8
Chart 3.4 Fls' 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-March 2017	9
Chart 4.3 Tier-1 Capital Ratio and Overall CRAR of the Banking Industry	10
Chart 4.4 Bank Cluster-wise CRAR at End March 2017	10
Chart 4.5 Distribution of Risk Weighted Assets	10
Chart 4.6 Banking Sector Advance-to-Deposit Ratio	10
Chart 4.7 Leverage ratio of banks at End-March 2017	11
Chart 4.8 Bank Cluster-wise Leverage ratio at End-March 2017	11
Chart 5.1 Fls' CRR	13
Chart 5.2 Fls' SLR	13
Chart 5.3 Capital Adequacy Ratio of FI Sector	13
Chart 6.1 Number of Non-compliant Banks at Different Shock Scenarios: March 2017	17
Chart 6.2 Banking Sector CRAR at Different Shock Scenarios: March 2017	18
Chart 7.1 DSE Performance	19
Chart 7.2 Price/Earnings Ratio	19
Chart 7.3 Sectoral Turnover (in percent) in DSE	20
Chart 7.4 Market Capitalization and Its Growth Rate	20
Chart 7.5 Corporate Bond Issuance	20
Chart 7.6 CSE Performance	21
Chart 7.7 Price/Earnings Ratio	21
Chart 7.8 Sectoral Turnover (in percent) in CSE	21
Chart 7.9 Market Capitalization and Its Growth Rate	21

## List of Tables

			Page
Table	6. 1	Stress test on the Banking Sector Based on Data as of End-March 2017	16
Table	6. 2	Liquidity Risk in the Banking Sector: End-March 2017	17
Table	6. 3	Stress Tests: Zonal Position of Fls	18

## List of Appendices

Table	I	CPI Inflation (12 month Average)	27
Table	II	Foreign Exchange Reserve	27
Table	III	Wage Earners' Remittance	27
Table	IV	Exports and Imports	28
Table	V	Interest Rate (Weighted Average) Spread	28
Table	VI	Weighted Average Exchange Rate	29
Table	VII	Credit to the Government (Gross) by the Banking System	29
Table	VIII	Asset Structure of the Banking Industry	30
Table	IX	Banking Sector Assets & NPL Concentration (March-2017)	30
Table	X	Banking Sector NPL Ratio	31
Table	XI	Distribution of Banks by NPL Ratio	31
Table	XII	Banking Sector Loan Loss Provisions	32
Table	XIII	Banking Sector Classified Loans Ratios	32
Table	XIV	Classified Loan Composition (End-March 2017)	33
Table	XV	Banking Sector ROA Range	33
Table	XVI	Banking Sector ROE Range	33
Table	XVII	Banking Sector ROA and ROE	34
Table	XVIII	Fls' Borrowing, Deposit and Capital	34
Table	XIX	Fls' Asset Composition	34
Table	XX	Fls' Classified Loans and Leases	35
Table	XXI	Fls' ROA & ROE	35
Table	XXII	Banking Sector CAR/CRAR Distribution	35
Table	XXIII	Banking Sector Asset Share based on CRAR as at end-Mar 2017	36
Table	XXIV	Tier-1 Capital Ratio and Overall CAR/CRAR of the Banking Industry	36
Table	XXV	Distribution of Risk Weighted Assets of the Banking Industry	36
Table	XXVI	Banking Sector Regulatory Capital Position (Solo Basis)	36
Table	XXVII	Banking Sector Advance-to-Deposit Ratio (ADR)	37
Table	XXVIII	Bank Cluster-wise ADR at end-March 2017	37
Table	XXIX	Fls' CRR & SLR	37
Table	XXX	Capital Adequacy Ratio of FI Sector	38
Table	XXXI	Overall Risk-weighted Assets and Tier 1 Capital of FI Sector	38
Table	XXXII	Banking Sector's After Shock CRAR at Different Shock Scenarios	39
Table	XXXIII	Number of Non-complaint Banks at Different Shock Scenarios	39
Table	XXXIV	Price/Earnings Ratio of Capital Market	40
Table	XXXV	DSE Performance	40
Table	XXXVI	CSE Performance	41
Table	XXXVII	Market Capitalization	41
Table	XXXVIII	Corporate Bond Issuance	42
Table	XXXIX	Sectoral Turnover of DSE	42
Table	XL	Sectoral Turnover of CSE	43

## 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
LCAF	Letter of Credit Authorization Form
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 January-March 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 macro-financial condition improved despite the prevailing uncertainties.*** Economic activities gained momentum in advanced economies with pick up in investment, manufacturing and trade during the first quarter of CY17. Expectation of continued policy support in China and fiscal expansion in the United States (US) led to buoyant financial markets. However, further hike in Fed rate and potential further appreciation of US dollar pose risk of reversal in market sentiment and confidence in emerging market economies. In addition, geopolitical tensions in some jurisdictions may present renewed threats to global growth prospect.

***During the review quarter, the domestic macroeconomic situation exhibited enhanced resilience compared to the preceding 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 32.2 billion, which is equivalent to meeting more than seven months' imports of goods and services. Wage earners' remittance recorded an increase of 3.6 percent over the previous quarter. A positive growth was observed in both exports and imports. The Bangladesh Taka (BDT) experienced further depreciation against US Dollar (USD) enhancing export competitiveness. The interest rate spread remained unchanged during the quarter. Government borrowing from the banking sector remained on a downward path.

***The banking sector displayed a mixed trend in the review quarter.*** The aggregate balance sheet of the banking sector increased and stood at 68 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 nonperforming loan (NPL) ratio slightly increased over the previous quarter. However, provision maintenance ratio also increased leading to enhanced resilience of the banking system. Key profitability indicators, both Return on Assets (ROA) and Return on Equity (ROE), annualised from respective quarterly ratios, experienced a drop in the review quarter. At end-March 2017, capital to risk-weighted assets ratio (CRAR) of the banking sector declined slightly albeit remained above the minimum regulatory requirement. 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 bases. 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 also demonstrated a mixed development.*** During the review quarter, FIs faced challenge in the form of weakening in asset quality and profitability; on the

other hand, FIs enjoyed a comfortable capital adequacy and liquidity situation. The ratio of classified loans and leases to total loans and leases increased by 70 basis points (bps) during the quarter and reached at 8.1 percent. Both ROA and ROE decreased slightly over the previous quarter. However, the capital adequacy ratio (CAR) and Tier-1 capital ratio, in line with Basel II capital framework, stood at 15.9 and 14.4 percent respectively, well above the minimum regulatory requirements. FIs did not face any liquidity pressure during the review quarter as evident from their maintenance of higher CRR and SLR.

***Most of the banks and FIs found resilient from standpoint of stress test.*** Stress test on banks, based on the data as of end-March 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 liquidity stress scenarios. On the other hand, stress test on financial institutions (FIs) reveals that a majority of them remain resilient in the event of stress scenarios as of end-March 2017, though 11 out of 33 FIs displayed vulnerability to some extent at different shock events.

***The domestic capital market demonstrated a scenario of price appreciation.*** The main indices of DSE (DSEX) and CSE (CASPI), and P/E ratios in both bourses displayed an upward trend during the review quarter. DSE and CSE turnover recorded a notable increase of 77.5 and 74.9 percent respectively over the previous quarter. The highest turnover was recorded by the banking sector in both bourses. An increase in market capitalization was also registered in both bourses at end-March 2017. No corporate bonds were issued during this quarter.

***Bangladesh Bank has taken a number of initiatives having bearings on financial stability.*** During the review quarter, Bangladesh Bank, among other initiatives, has developed a Composite Financial Stability Index (CFSI), advised banks to rationalize deposit and lending rates and schedule of charges, changed base for setting call borrowing limit of FIs, revised computation of Statutory Liquidity Reserve of FIs, issued consolidated guidelines on refinance scheme for green products/initiatives and guidelines on Environmental & Social Risk Management (ESRM) for Banks and FIs, brought about changes in foreign exchange regulations to make foreign exchange operations easier as well as more disciplined, updated Uniform Account Opening Form and Know Your Customer (KYC) Profile Form, and provided instructions to maintain discipline in Mobile Financial Services (MFS).

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 appreciation of US dollar need to be dealt with cautiously.

## Macroeconomic Developments

Decline in inflation and interest rate, increase in foreign exchange reserves, wage earners' remittance, and exports contributed to the reasonable level of stability of Bangladesh financial sector during the review quarter, January-March 2017.

### 1.1 Inflation

At end-March 2017, inflation slightly decreased to 5.4 percent from 5.5 percent recorded at end-December 2016 and 6.1 percent at end-March 2016. Whereas, food inflation increased to 5.2 percent from 4.5 percent of end-December 2016, non- food inflation decreased to 5.7 percent from 7.1 percent recorded at-end December 2016 (Chart 1.1).

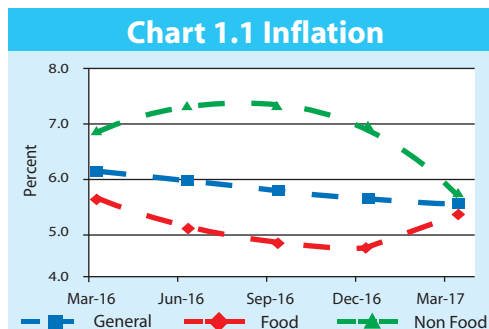
### 1.2 Foreign Exchange Reserve and its Import Coverage

At end-March 2017, the gross foreign exchange reserves reached at USD 32.2 billion recording an increment of 0.4 percent, from the USD 32.1 billion of end-December 2016. The reserve position was equivalent to meeting more than seven months' imports of goods and services<sup>1</sup>. It is noteworthy that at the end-March, reserve position was USD 28.3 billion.

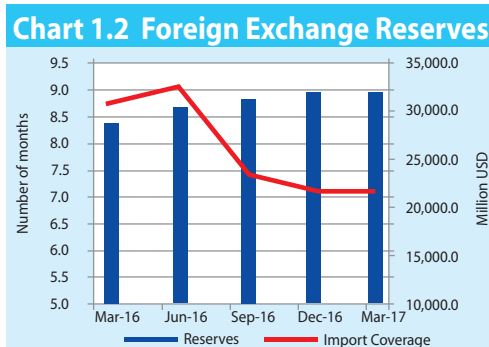
### 1.3 Wage Earners' Remittance

Remittance from Bangladeshi nationals, working abroad, stood at USD 3,027.7 million during the review quarter, recording an increase of 3.6 percent compared to USD 2,921.1 million recorded during the preceding quarter and decrease of 15.3 percent from USD 3,572.5 million at the same period of previous year. It is noteworthy that during fourth quarter of 2016, remittance inflow declined by 10.0 percent compared to the preceding quarter.

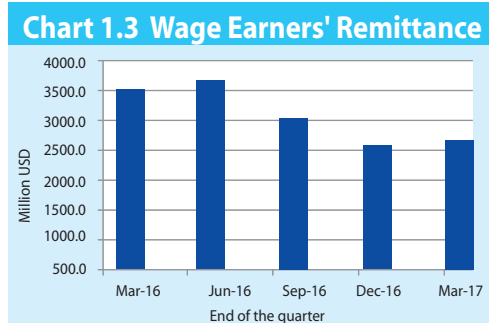
<sup>1</sup> Compiled on the basis of import (shipment) data received from NBR ( Since September 2016).



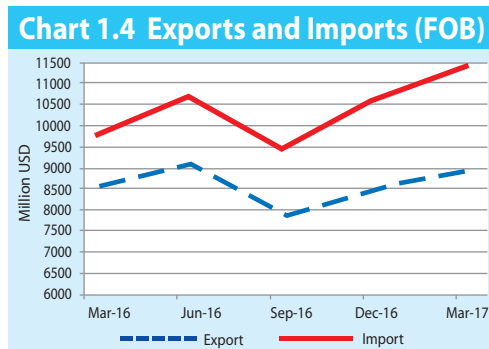
Source: Bangladesh Bureau of Statistics, Base 2005-06=100.



Source: Statistics Department, BB.



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



Source: Statistics Department, BB.



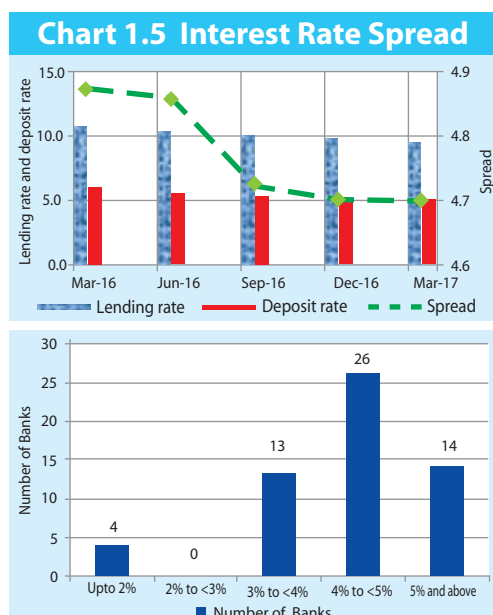
## 1.4 Imports and Exports

In the review quarter, aggregate import payments<sup>2</sup> increased by 7.5 percent and reached at USD 11,448.0 million as compared to USD 10,645.0 million recorded in the preceding quarter. Pertinently, in the same quarter of the previous year import payments were USD 9,765.0 million. Export receipts increased by 4.9 percent and reached at USD 8,920.0 million compared to USD 8,501.0 million recorded in the fourth quarter of CY16 while scoring an increment of 3.4 percent from USD 8,624.0 million recorded in first quarter of CY16.

## 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-December 2016; spreads of 14 out of 57 banks were above 5.0 percent. Out of these 14 banks, 5 were FCBs and 9 PCBs.

In March 2017, the weighted average lending and deposit rates were 9.7 and 5.0 percent respectively which were 10.8 and 5.9 percent in March 2016. Both the lending and deposit rates slightly declined in the review quarter compared to those of the preceding quarter.



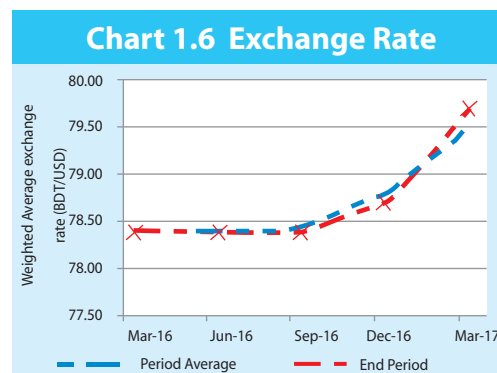
Source: Statistics Department, BB.

<sup>2</sup> On FOB basis.

Note: P = provisional

## 1.6 Exchange Rate

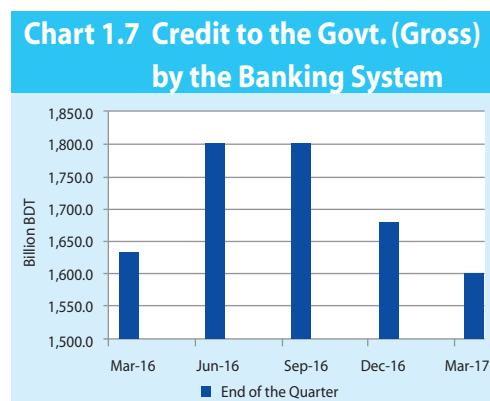
The Bangladesh Taka in terms of US dollar<sup>3</sup>, recording a slight depreciation, stood at BDT 79.50 per USD, in March 2017, from BDT 78.80 per USD in December 2016. The rate was BDT 78.41 per USD in March 2016.



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, decreased by BDT 76.0 billion or 4.5 percent during the review quarter with respect to the position of end-December 2016 and it declined by BDT 78.1 billion or 4.6 percent from the same quarter of the previous year. Mentionable that in the preceding quarter, credit to the government recorded a decrease of 6.5 percent compared to July-September quarter of 2016.



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

<sup>3</sup> On weighted average basis.

# Banking Sector Performance

The banking sector demonstrated a mixed trend in terms of asset growth, profitability and asset quality during the January-March quarter of CY17.

## 2.1 Assets Structure

The balance sheet size of the banking sector<sup>4</sup> stood at BDT 11,781.2 billion, increasing by 1.3 percent from BDT 11,625.3 billion of end-December 2016 and 11.9 percent from BDT 10,529.8 billion of end-March 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 68 percent at end-March 2017<sup>5</sup> which was 67.2 percent at the end of the preceding quarter and 60.8 percent at end-March 2016.

Loans and advances, the largest segment among the asset items, constitute 62.6 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 120 basis points at end-March CY17, compared with that of end-December 2016.

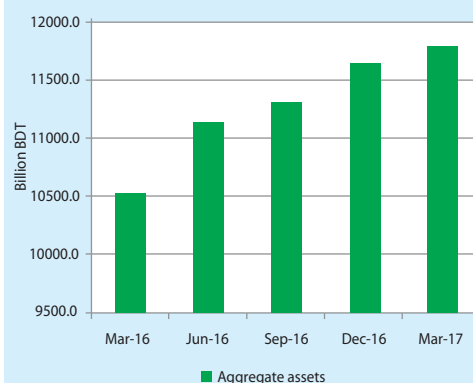
The share of banks' assets with Bangladesh Bank decreased by 20 basis points and balances with other banks and financial institutions remains almost same compared with that of end-December 2016. Banks' money at call increased by 20 basis points, while the share of other assets decreased by 10 basis points. However, the share of investments in government and other securities decreased by 110 basis points.

<sup>4</sup> Taking into account only scheduled banks (57).

<sup>5</sup> Taking into account GDP at current market price for the financial year 2015-16.

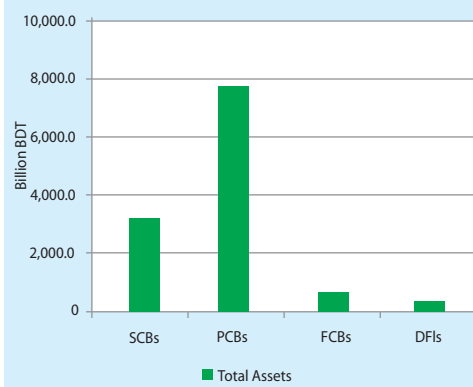
The asset concentration ratios of Top 5 and Top 10 banks against the total banking system assets were 31.6 and 45.2 percent respectively at end-March 2017 (Chart 2.5 & 2.6); the proportions decreased relative to those in the preceding quarter.

**Chart 2.1 Asset Size of the Banking Industry**



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

**Chart 2.2 Bank Cluster-wise Assets at end-March 2017**



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

## 2.2 Asset Quality

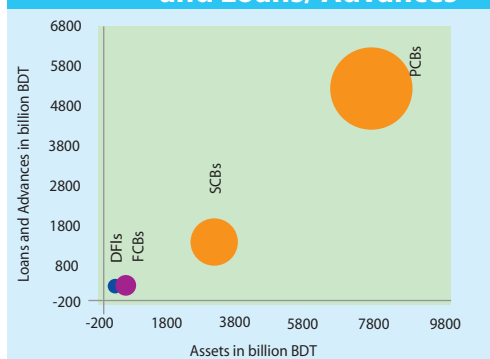
The gross NPL ratio<sup>6</sup> stood at 10.5 percent at end-March 2017, increasing by 130 basis points from 9.2 percents of end-December 2016 and 60 basis points from 9.9 percent of end-March 2016. Besides, non-performing loans net of specific loan loss provisions and interest suspense to total loans increased to 2.9 percent from 2.3 percent of both end-December 2016 and end-March 2016. Moreover, non-performing loans net of specific loan loss provisions and interest suspense to regulatory capital increased to 22.7 percent from 18.0 percent of end-December 2016 and 21.2 percent of end-March 2016.

The distribution of banks, based on their gross NPL ratios, indicates that 14 banks came up with double-digit ratios in March CY17 and same in March CY16. Pertinently, NPL of SCBs was highest in the review quarter.

The provision maintenance ratio<sup>7</sup>, at end-March 2017, increased to 87.5 percent from 84.9 percent recorded at end-December 2016 and decreased from 87.7 percent of end-March 2016.

Pertinently, 48.1 and 65.5 percents of the non-performing loans were concentrated in the Top 5 and Top 10 banks respectively at end-March 2017 (chart 2.11 & 2.12).

**Chart 2.3 Banking Sector Assets and Loans/ Advances**

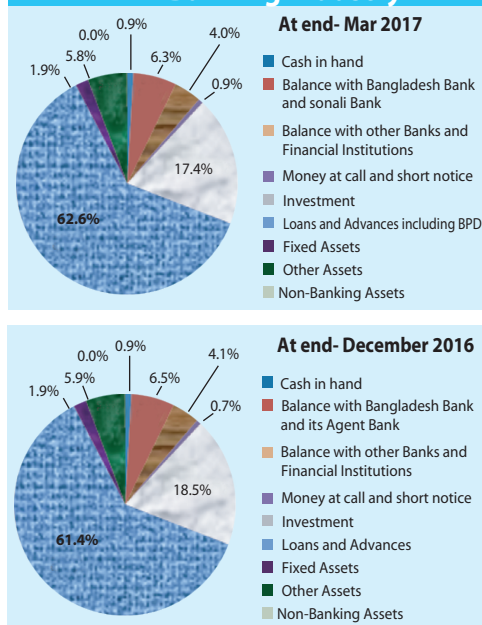


Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

<sup>6</sup> Non-performing loan to total loan ratio.

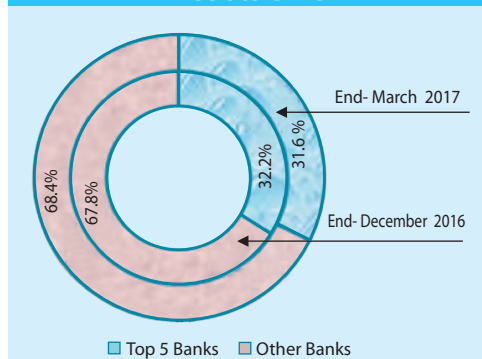
<sup>7</sup> Maintained provision to required provision.

**Chart 2.4 Asset Structure of the Banking Industry**



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

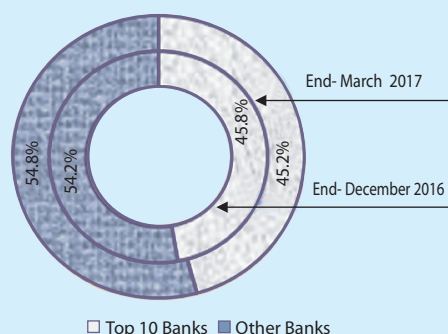
**Chart 2.5 Top 5 banks based on Assets Size**



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

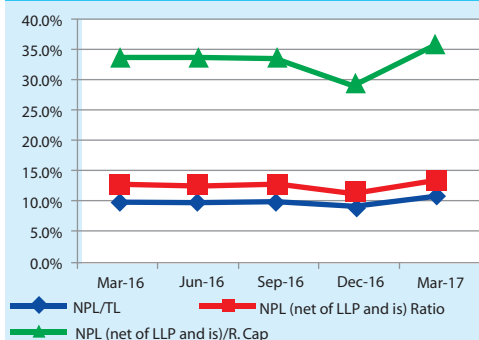
The ratio of bad and loss loans to total classified loans stood at 82.1 percent at end-March CY17 while sub-standard and doubtful loans constituted 11.1 and 6.8 percent of total NPLs respectively during the review quarter. Pertinently, the proportion of bad and loss loans decreased by 2.3 percentage points while the proportions of sub-standard and doubtful loans increased by 0.9 and 1.4 percentage points from those of the previous quarter.

**Chart 2.6 Top 10 banks based on Assets Size**



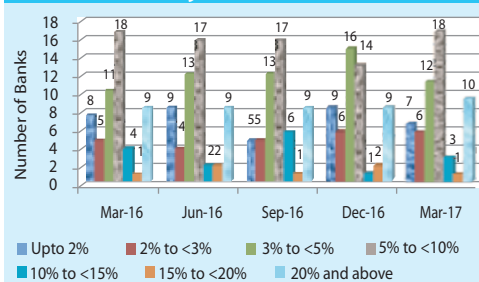
Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

**Chart 2.7 NPL Ratio of the Banking Industry**



Source: BRPD, BB.

**Chart 2.8 Distribution of banks by NPL ratio**



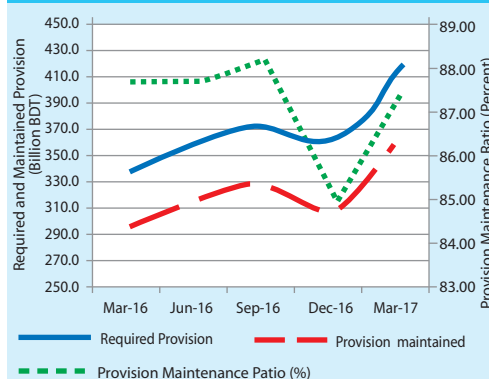
Source: BRPD, Compilation FSD.

### 2.3 Profitability

In the review quarter, profitability of the banking sector decreased on a quarter-on-quarter basis. Return on assets (ROA) and return on equity (ROE) of the

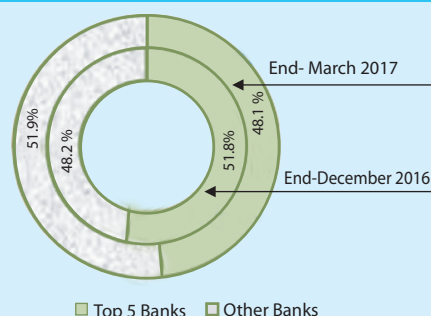
banking sector stood at 0.1 and 1.2 percents respectively against 0.8 and 10.8 against percents of the respective of the preceding quarter<sup>8</sup>. Almost 87.7 percent of the banks' ROA was up to 2.0 percent. On the other hand, 61.4 percent of the banks' ROE was higher than 5.0 percent.

**Chart 2.9 Banking Sector Loan Loss Provision**



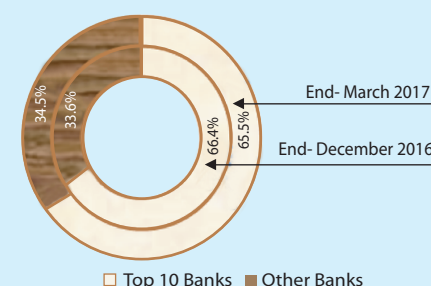
Source: BRPD, BB.

**Chart 2.10 Top 5 Banks based on NPL**



Source: BRPD, Compilation FSD.

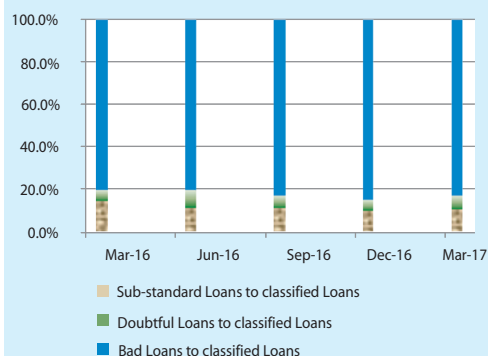
**Chart 2.11 Top 10 Banks based on NPL**



Source: BRPD, Compilation FSD.

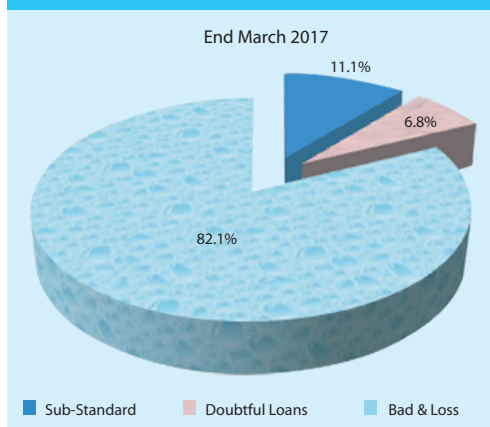
<sup>8</sup> The figures are annualised form of quarterly ratios.

**Chart 2.12 Proportion of NPL Categories**



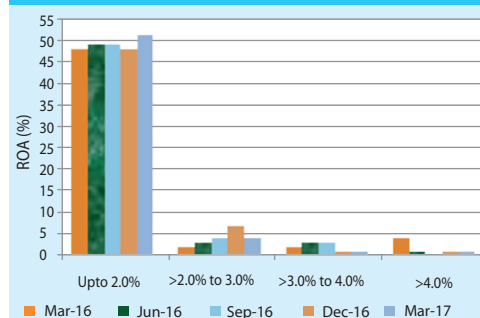
Source: BRPD, BB.

**Chart 2.13 NPL Composition of Banks**



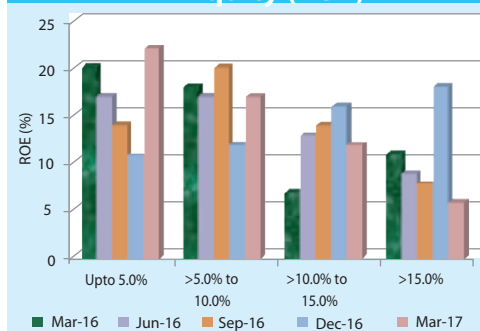
Source: BRPD, BB.

**Chart 2.14 Distribution of Banking Sector Return on Assets (ROA)**



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

**Chart 2.15 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) faced some strain in their performance during the review quarter of CY17. Key financial soundness indicators, such as gross non-performing loans and leases ratio along with profitability ratios slightly declined over the preceding quarter.

### 3.1 Sources of Funds

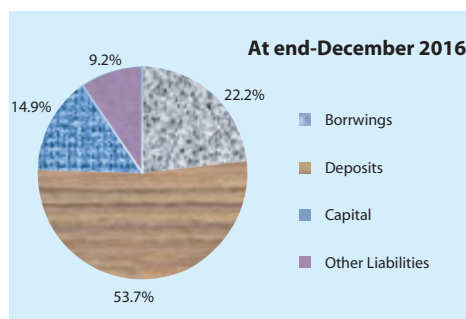
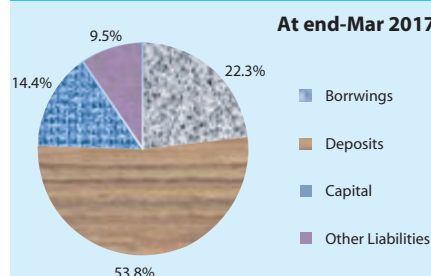
At end-March 2017, borrowings, deposits, capital and other liabilities constituted 22.3, 53.8, 14.4 and 9.5 percent of the sources of funds of the FIs respectively. In comparison with end-December 2016, the share of the liabilities remained almost same.

### 3.2 Assets Composition

Loans and leases constituted 72.8 percent of total assets of FIs at end-March 2017. Cash and balances with banks/FIs, investments, fixed assets and other assets comprised 15.2, 3.9, 1.4 and 6.7 percent of total assets respectively.

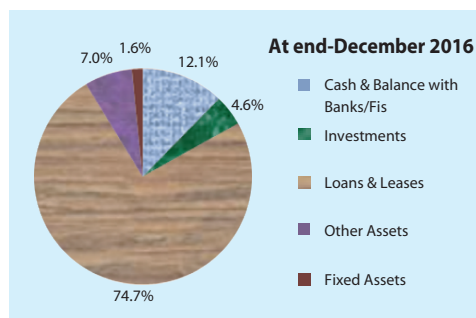
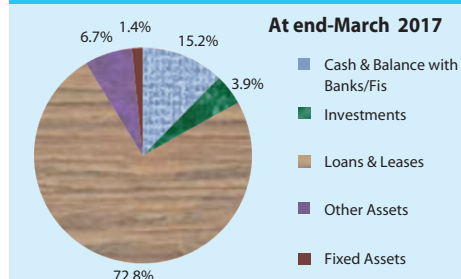
When compared with end-December 2016 positions, the share of loans and leases decreased by 1.9 percentage points. Cash and balances with other banks/FIs increased by 3.1 percentage points; the proportion of investments decreased by 0.7 percentage point while the share of rest of the assets remained almost same.

**Chart 3.1 FIs' Sources of Fund**



Source: FIs; Compilation: FSD, BB.

**Chart 3.2 FIs' Assets Composition**



Source: FIs; Compilation: FSD, BB.

### 3.3 Asset Quality

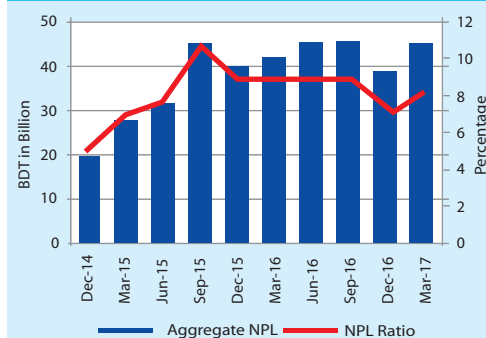
NBFIs' asset quality slightly deteriorated in March 2017. The ratio of classified loans and leases to total loans and leases reached to 8.1 percent at end-March 2017, which is 70 basis points higher than the ratio of 7.4 recorded at end- December 2016

### 3.4 Profitability

Fls' profitability declined to some extent in the review quarter over the December quarter of 2016<sup>9</sup>.

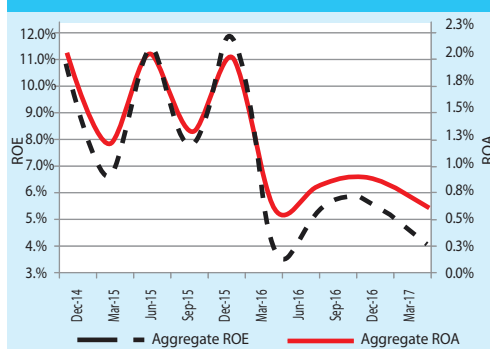
The key profitability indicators - return on assets (ROA) and return on equity (ROE) stood at 0.6 and 4.2 percent respectively in the March quarter of 2017 as compared to 0.8 and 5.4 percent respectively recorded in the preceding quarter.

**Chart 3.3 Fls' Non-performing Loans and Leases**



Source: DFIM, BB.

**Chart 3.4 Fls' ROA and ROE**



Source: Fls; Compilation: FSD, BB.

<sup>9</sup> Here profitability indicators - ROA and ROE - have been annualized from quarterly ratios.



## Banking Sector Liquidity and Capital Adequacy

The banking sector of Bangladesh operated under Basel III capital and liquidity frameworks in the review quarter. Banking sector capital to risk-weighted assets ratio (CRAR) slightly decreased with respect to that of the previous quarter; still the ratio was higher than the minimum regulatory requirement of 10.0 percent. Majority of the banks were able to maintain minimum capital conservation buffer. Besides, the advance-to-deposit ratio (ADR) increased.

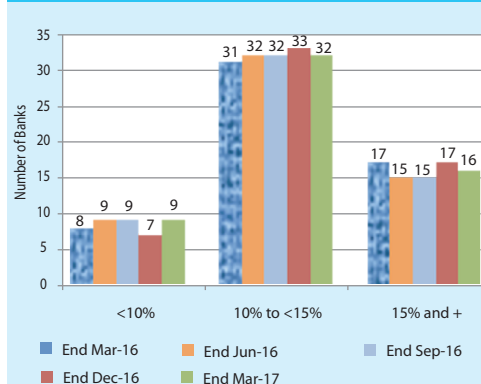
### 4.1 Capital Adequacy

In the review quarter, majority of the banks were compliant to the minimum CRAR requirement. Pertinently, 48 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 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-March 2017.

At end-March 2017, the banking sector aggregate CRAR was 10.7 percent, slightly higher than the minimum requirement of 10.0 percent and 10 basis points lower than the ratio recorded at end-December 2016 and 10 basis points higher than the ratio of 10.6 percent at end-March 2016. Tier-1 capital ratio remained same to 7.9 percent compared to its previous quarter and slightly lower than 8.2 percent of end-March 2016.

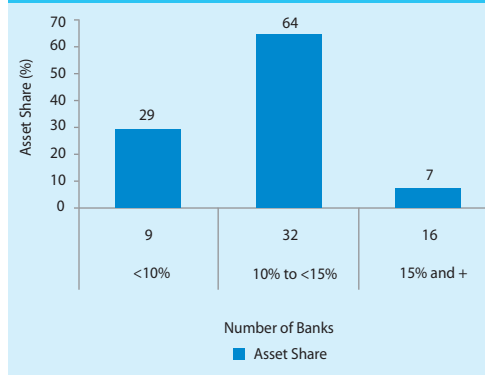
Notably the ratio was significantly higher than the minimum regulatory requirement which was 5.5 percent for CY16 and 6.0 percent for CY17. Pertinently, FCBs maintained higher CRAR while CRAR of the DFIs was negative in the review quarter.

**Chart 4.1 Banking Sector Capital to Risk-Weighted Assets Ratio**



Source: DOS, BB.

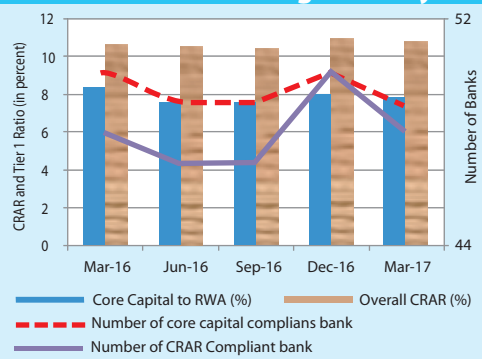
**Chart 4.2 Assets Share of Banks based on CRAR at End-March 2017**



Source: DOS; Compilation FSD.BB.

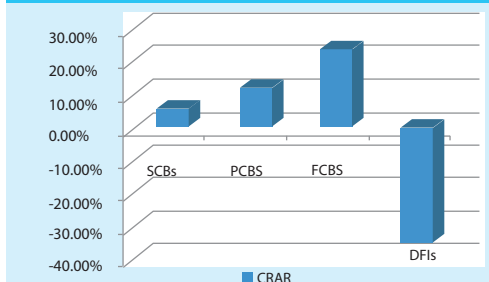


**Chart 4.3 Tier-1 Capital Ratio and Overall CRAR of the Banking Industry**



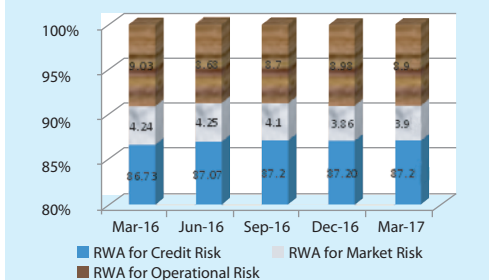
Source: DOS, BB.

**Chart 4.4 Bank Cluster-wise CRAR at End-March 2017**



Source: DOS, BB.

**Chart 4.5 Distribution of Risk Weighted Assets**

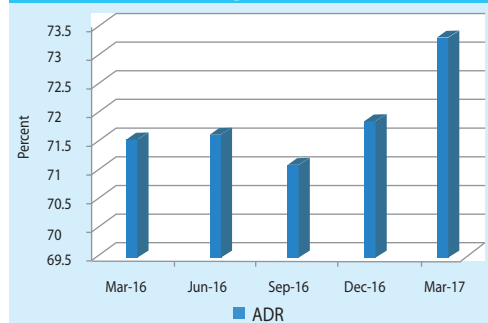


Source: DOS, BB.

At end-March 2017, risk-weighted assets, arising from credit risks, accounted for 87.2 percent of the total industry's risk-weighted assets under Pillar 1 of the Basel III capital adequacy framework which was same in previous quarter and 86.7 percent at end-March 2016. Next positions were held by operational and market risks (Chart 4.5).

The Capital Conservation Buffer (CCB) requirement for banks has been started from early 2016 and would be fully implemented by 2019 in line with the Basel III framework. Against the regulatory requirement of 1.25 percent for CY17, 44 out of 57 banks have been able to maintain the minimum required CCB on solo basis during the review quarter. On the other hand, in case of consolidated basis, 26 out of 36 banks successfully fulfilled this regulatory requirement. The aggregate figure of CCB of the banking sector, in the stated quarter, was 0.68 and 1.28 percents on solo and consolidated bases respectively.

**Chart 4.6 Banking Sector Advance-to-Deposit Ratio**



Source: DOS, BB.

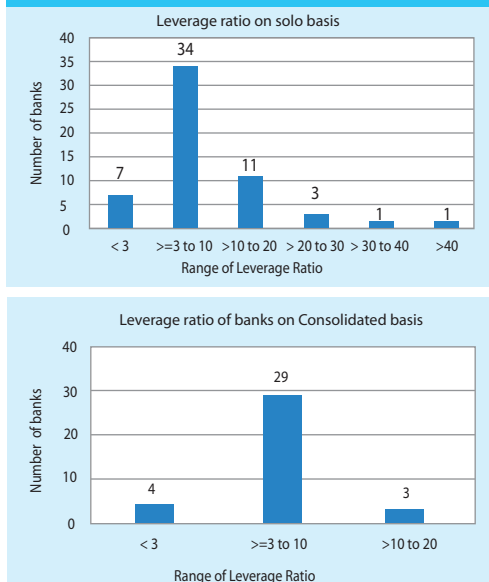
## 4.2 Liquidity

During the review quarter, banking sector, as a whole, was able to maintain the required level of CRR<sup>10</sup> and SLR.

ADR of the overall banking industry was 73.4 percent, 150 basis points higher than that of end-December 2016 and 190 basis points higher than that of end-March 2016 (Chart 4.6).

<sup>10</sup> On bi-weekly average basis

**Chart 4.7 Leverage ratio of banks at End-March 2017**

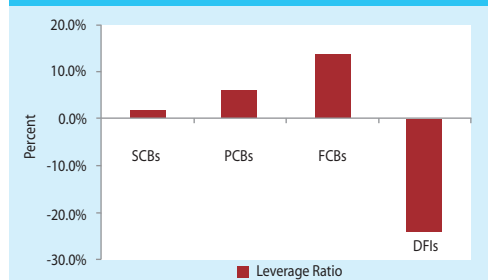


Source: DOS, BB.

#### 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 bases. At end-March 2017, banking industry's leverage ratio was 4.9 percent on solo basis; 49 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, 32 out of 36 banks have been able to fulfill the regulatory requirement. FCBs maintained higher leverage ratio compared to other banking clusters.

**Chart 4.8 Bank Cluster-wise Leverage ratio at End-March 2017**



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); however, capital adequacy ratio decreased slightly compared to that of the previous quarter.

### 5.1 Liquidity

As of end-March 2017, the aggregate amount of maintained CRR was BDT 6,400.4 million as compared to BDT 6,177.73 million recorded at end-December 2016, scoring an increment of 3.6 percent. On the other hand, at end-March 2017, the amount of maintained SLR was BDT 83.3 billion against required amount of BDT 14.3 billion. During the review quarter, the FIs sector had no CRR and SLR shortfall<sup>11</sup>.

### 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.

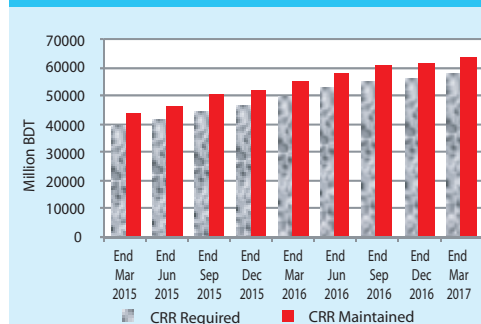
The CAR of the FI sector decreased from 16.6 percent<sup>12</sup> of the December quarter of CY16 to 15.9 percent in the March quarter of CY17.

It is to mention that the maintained CAR was well above the minimum regulatory requirement. In addition, the Tier-1 capital ratio was recorded at 14.4 percent; 60 basis points lower than the ratio of end-December 2016.

<sup>11</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.

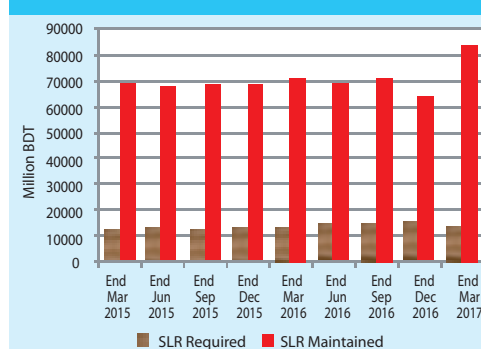
<sup>12</sup> Revised figure

Chart 5.1 FIs' CRR



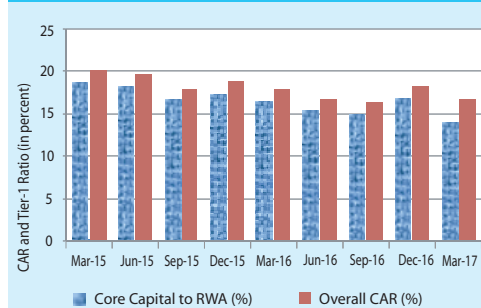
Source: DFIM, BB.

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

Bangladesh Bank performs stress tests on Banks and Financial Institutions (FIs) on quarterly basis.

### 6.2 Stress Test on Banks<sup>13</sup>

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

#### 6.2.1 Individual Shocks

Data as of end-March 2017 revealed that the banking sector's capital to risk weighted asset ratio (CRAR)<sup>14</sup> was 10.68 percent. Out of 57 banks (except 1 newly formed), 9 banks' pre-shock CRARs were below the minimum regulatory requirement of 10.0 percent. Therefore, the remaining 47 banks were considered for the analyses based on end-March 2017 data. The following sub-sections provide details of the shocks and the associated outcomes.

##### 6.2.1.1 Credit Risk

**a) Increase in Non-performing Loans (NPL)<sup>15</sup>:** If NPLs increase by 3, 9 and 15 percent, then 2, 24 and 34 banks respectively may 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 default, then 23, 35 and 38 banks respectively may 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 decline by 10, 20 and 40 percent, then respectively 1, 3, and 8 banks may be non-compliant in maintaining the minimum required CRAR.

**d) Negative Shift in the NPL Categories :** If

NPL categories shift downward by 5, 10 and 15 percent, then 1, 11, and 15 banks respectively are likely become non-compliant in maintaining the minimum required CRAR.

**e) Increase in NPL in Highest Outstanding**

**Sector :** In the event of a minor shock, no bank would fall below the minimum regulatory requirement of CRAR. However, due to moderate and major shocks, 3 and 3 banks respectively may fall below the minimum regulatory requirement.

<sup>13</sup> The analyses here are based on the data as of end-March 2017 unless stated otherwise.

<sup>14</sup> CRAR = Capital to Risk-Weighted Asset Ratio = Total Eligible Capital / (Credit RWA + Market RWA + Operational RWA), where RWA = Risk-weighted assets.

<sup>15</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 Data as of End-March 2017**

Shocks <sup>16</sup>		Banking Sector (%)
<b>Pre-shock CRAR</b>		10.68
<b>CRAR after shock (%)</b>		
<b>Credit Risks:</b>		
<b>Increase in NPLs:</b>		
	Shock-1: 3%	9.83
	Shock-2: 9%	7.68
	Shock-3: 15%	4.12
<b>Increase in NPLs due to default of top large borrowers</b>		
	Shock-1: Top 3 borrowers	9.05
	Shock-2: Top 7 borrowers	7.65
	Shock-3: Top 10 borrowers	6.81
<b>Fall in the FSV<sup>17</sup> of mortgaged collateral</b>		
	Shock-1: 10%	10.14
	Shock-2: 20%	9.60
	Shock-3: 40%	8.48
<b>Negative shift in the NPL categories</b>		
	Shock-1: 5%	10.00
	Shock-2: 10%	7.53
	Shock-3: 15%	6.34
<b>Increase in NPLs in highest outstanding sectors</b>		
	<b>Sector concentration 1<sup>18</sup></b> <b>(Performing loan directly downgraded to B/L<sup>19</sup>)</b>	
	Shock-1: 3%	10.63
	Shock-2: 9%	10.54
	Shock-3: 15%	10.44
	<b>Sector concentration 2<sup>20</sup></b> <b>(Performing loan directly downgraded to B/L)</b>	
	Shock-1: 3%	10.64
	Shock-2: 9%	10.54
	Shock-3: 15%	10.45
<b>Market Risks</b>		
<b>Interest rate risk (Change in interest rate)</b>		
	Shock-1: 1%	10.32
	Shock-2: 2%	9.95
	Shock-3: 3%	9.59
<b>Exchange rate risk (Currency appreciation/depreciation)</b>		
	Shock-1: 5%	10.64
	Shock-2: 10%	10.59
	Shock-3: 15%	10.55
<b>Equity price risk (Fall in equity prices)</b>		
	Shock-1: 10%	10.42
	Shock-2: 20%	10.15
	Shock-3: 40%	9.62
<b>Combined Shock</b>		
	Shock-1	7.94
	Shock-2	2.10
	Shock-3	-4.71

<sup>16</sup> Shock-1 = Minor, Shock-2 = Moderate, Shock-3 = Major.

<sup>17</sup> FSV = Forced Sale Value.

<sup>18</sup> Sector with highest outstanding.

<sup>19</sup> B/L = Bad/Loss.

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

### 6.2.1.2 Market Risk

The banking industry<sup>21</sup> 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, 1, 2 and 5 banks respectively may fail to maintain the minimum required CRAR.

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

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

### 6.2.2 Combined Shock<sup>22</sup>

In the event of minor, moderate and major combined shocks, 15, 35 and 38 banks respectively are likely become undercapitalized; CRAR in these cases may be downgraded to 7.94, 2.10, and -4.71 percent respectively.

Altogether, among different specified shocks, the default of the top large loan borrowers and increase in NPLs may 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-March 2017.

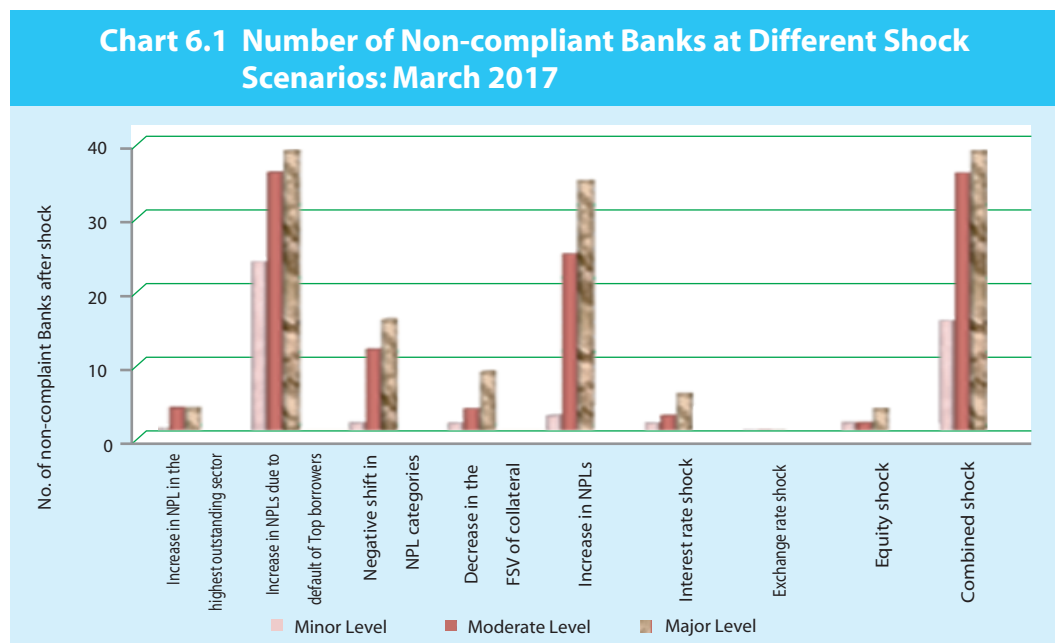
**Table 6.2 Liquidity Risk in the Banking Sector: End-March 2017**

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.

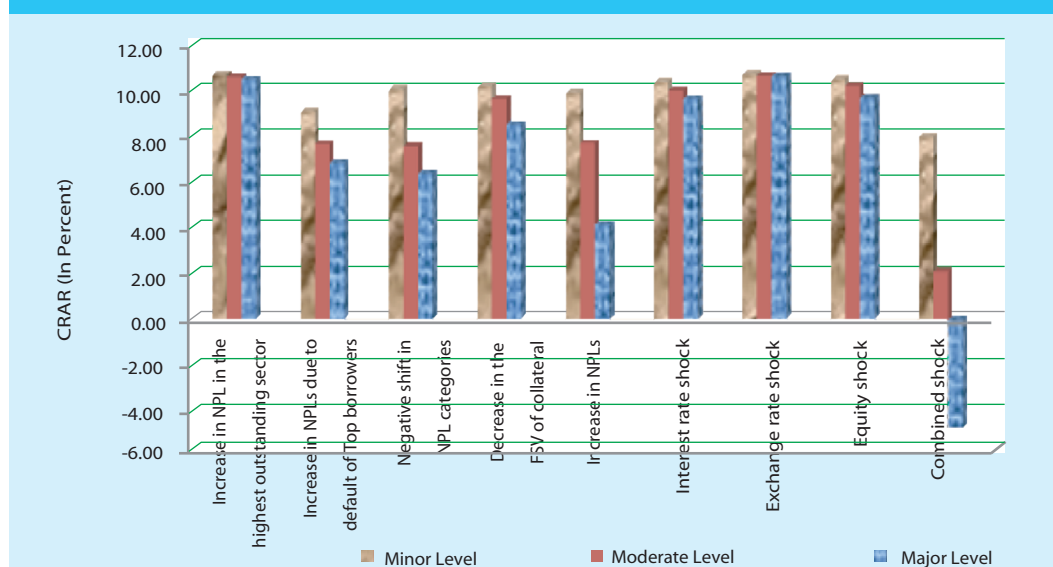


Source: FSD, BB.

<sup>21</sup> Only scheduled banks have been considered here.

<sup>22</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 Banking Sector CRAR at Different Shock Scenarios: March 2017**



Source: FSD, BB.

### 6.3 Stress Test on FIs

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

At end-March 2017, out of 33 FIs, 4, 18, and 11 were positioned in Green, Yellow, and Red zones respectively (Table 6.3).<sup>23</sup> It is worth mentioning that the results of stress tests, furnished 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 Tests: Zonal Position of FIs** (Number of FIs)

Quarter	Green	Yellow	Red
End-Dec 2015	4	18	10
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

Source: DFIM, BB.

<sup>23</sup> 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 quarter<sup>24</sup>, the domestic capital market maintained the uptrend exhibiting a scenario of price appreciation as evident from the movements of a number of key indicators in both bourses of the country.

### 7.1 Dhaka Stock Exchange (DSE)

#### 7.1.1 DSE Performance

In the first quarter of CY17, DSE turnover increased by 77.5 percent and reached BDT 754.1 billion from BDT 424.9 billion recorded in the last quarter of CY16. At end-March 2017, key DSE indices-DSEX, DS30 and DSES-increased by 13.6, 15.5 and 9.4 percents respectively from those of end-December 2016.

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

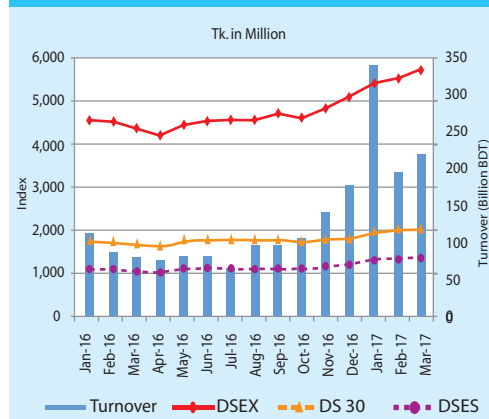
The weighted average P/E ratio increased sharply by 200 basis points (bps) during the quarter and stood at 16.3 in March 2017. The overall market P/E ratio displayed an upward trend since the first quarter of CY16.

#### 7.1.3 Sectoral Turnover

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

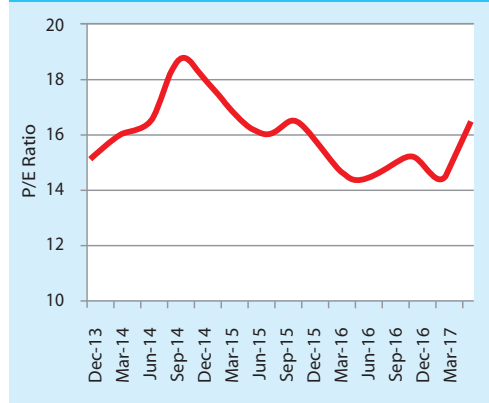
It is mentionable that, in the review quarter, contribution of the banking sector to DSE turnover increased to 16.0 percent from 9.4 percent recorded in December quarter of CY16. The financial institutions sector's contribution was 10.2 percent which was 6.6 percent in the previous quarter.

**Chart 7.1 DSE Performance**



Source: DSE; Compilation: FSD, BB.

**Chart 7.2 Price/Earnings Ratio**



Source: DSE.

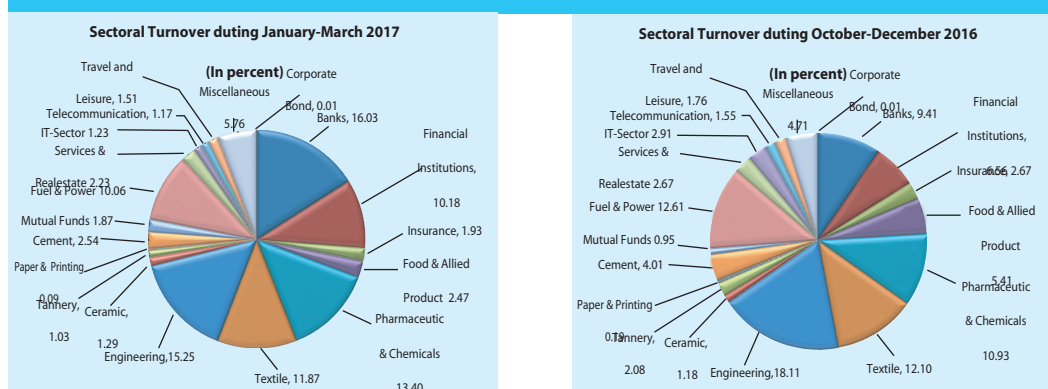
#### 7.1.4 Market Capitalization

At end-March 2017, the market capitalization stood at BDT 3,798.3 billion, which is about 11.3 percent higher than that of the previous end-quarter (i.e. December 2016). Though growth rate of market capitalization displayed a mixed trend, an overall positive trend was observed since November 2016.

<sup>24</sup> First quarter of calendar year 2017.



**Chart 7.3 Sectoral Turnover (in percent) in DSE**



Source: DSE; Compilation: FSD, BB.

### 7.1.5 Corporate Bond Market

No corporate bonds were issued in the first quarter of CY17. It is the fourth consecutive quarter without any new issuance of corporate bonds.

## 7.2 Chittagong Stock Exchange (CSE)

### 7.2.1 CSE Performance

In the review quarter, CSE turnover was BDT 45.7 billion compared to BDT 26.2 billion recorded in the last quarter of CY16, registering a 74.9 percent gain 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. Noticeable that CSE turnover was only 6.1 percent of the DSE turnover recorded during the quarter. Like those of DSE, upward trend was also observed in key CSE indices-CASPI<sup>25</sup>, CSE30 and CSI<sup>26</sup>, which increased by 14.6, 14.7 and 10.8 percents respectively during the review quarter.

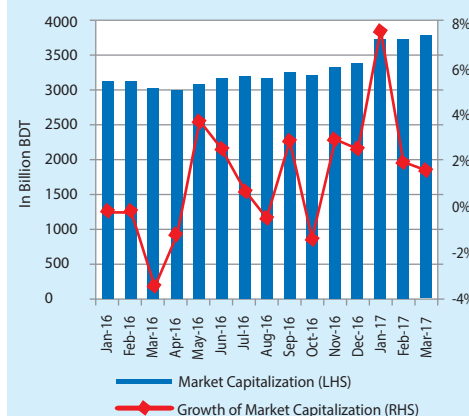
### 7.2.2 Price/Earnings (P/E) Ratio

The weighted average P/E ratio increased sharply by 310 bps during the quarter and stood at 17.1 in March 2017.

<sup>25</sup> CASPI refers to CSE All Share Price Index.

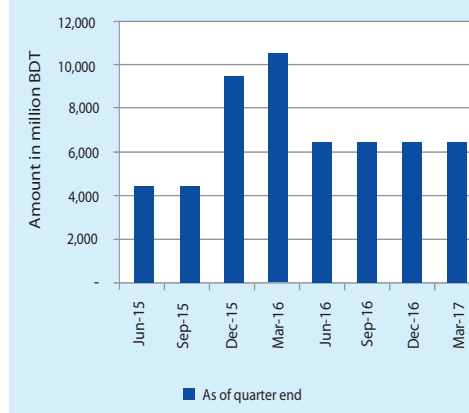
<sup>26</sup> CSI refers to CSE Shari'ah Index.

**Chart 7.4 Market Capitalization and Its Growth Rate**



Source: DSE; Compilation: FSD, BB.

**Chart 7.5 Corporate Bond Issuance**

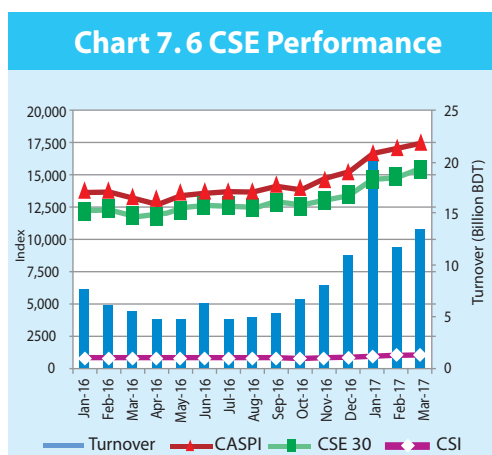


Source: DFIM, BB.

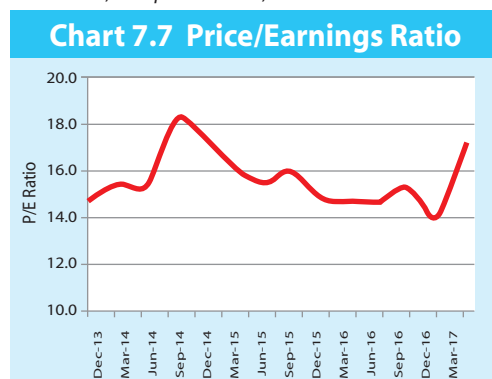
### 7.2.3 Sectoral Turnover

Banking sector recorded the highest turnover during the March quarter of CY17. Contribution of the banking sector to CSE turnover was 20.7 percent compared to 9.7 percent recorded in the previous quarter (Chart 7.8). Highest turnover by banking sector in both bourses indicates investors' growing confidence in the stability of this sector.

Mentionable that next four positions in terms of turnover were recorded by engineering, pharmaceuticals & chemicals, textile and miscellaneous sectors respectively.



Source: CSE; Compilation: FSD, BB.



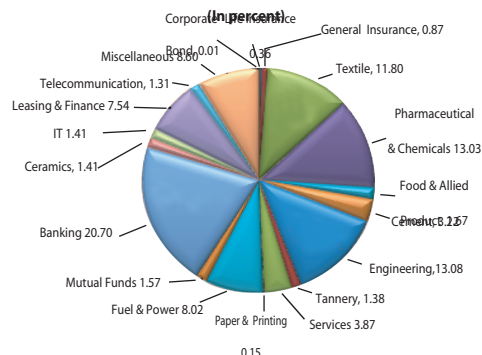
Source: CSE.

### 7.2.4 Market Capitalization

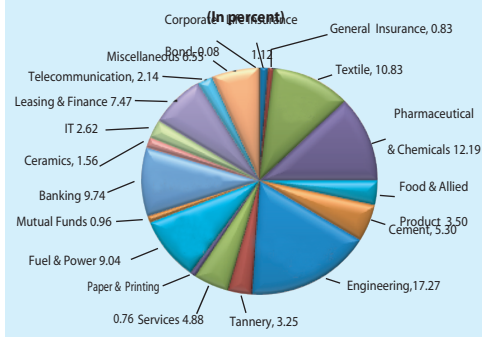
At end-March 2017, the market capitalization of CSE stood at BDT 3,124.9 billion, which is about 14.0 percent higher than that of end-December 2016. Similar to DSE, an overall positive trend of market capitalization growth was observed in CSE since November 2016.

### Chart 7.8 Sectoral Turnover (in percent) in CSE

Sectoral Turnover during January-March 2017

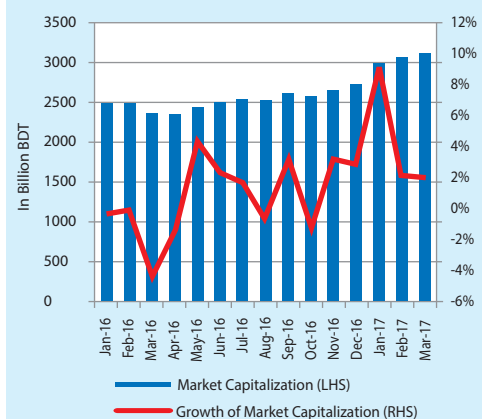


Sectoral Turnover during October-December 2016



Source: CSE; Compilation: FSD, BB.

### Chart 7.9 Market Capitalization and Its Growth Rate



Source: CSE; Compilation: FSD, BB.

# Recent Stability Initiatives of Bangladesh Bank

During the January-March quarter of the calendar year 2017 (CY17), Bangladesh Bank (BB) has taken a number of initiatives having implications to domestic financial system stability. Some of the important ones are:

## 8.1 Composite Financial Stability Index (CFSI)

BB has developed a tool named Composite Financial Stability Index (CFSI) to measure the stability of the financial system as well as to monitor build-up of any systemic stress in the financial system. It takes into account the interconnectedness among different sectors of the economy and thus reflects any stress in the financial sector stemming from other sectors as well. CFSI is a combination of eighteen different macroeconomic and financial soundness indicators aggregated under three sub-indices- Banking Soundness Index (BSI), Financial Vulnerability Index (FVI) and Regional Economic Climate Index (RECI). This index reflects the volatility of the financial system. Excess volatility in any direction for a prolonged period can be an indication of build-up of systemic risk in the system provided that other relevant information is taken into consideration during the time of analysing the index.

## 8.2 Rationalisation of Rate of Interest on Deposit and Lending

Observing banks' recent trend of decreasing interest rate on deposit more than the same on lending, BB advised them to stem the declining trend in deposit rates and urged to reduce the intermediation spread and to emphasize on recovery of defaulted loans

along with different aspects of management efficiency for maintaining the lower trend of lending rate.

## 8.3 Rationalisation of Schedule of Charges

Analysing the recent trends in schedule of charges, for instance charging of varying/differential fees/commissions in diverse forms and rates at different stages of loan processing in the Cottage, Micro, Small and Medium Enterprise (CMSME) sector, BB issued instructions regarding loan application fee, documentation fee, CIB charge, stamp charge, legal and valuation fee, and early settlement fee for CMSME sector and prohibited banks to impose any charge/fee/commission other than the ones mentioned above.

## 8.4 Call Borrowing Limit for Financial Institutions (FIs)

BB decided that the base for setting the upper limit of call borrowing for Financial Institutions (FIs) would be equity instead of net asset from 01 February 2017 onward. Accordingly, FIs were instructed to determine their equities based on the balance sheet as of 31st December of each year and allowed to borrow maximum 30 percent of the calculated equities from the call money market for the next 12 months (i.e. 01 February-31 January). Earlier, FIs were allowed to borrow maximum 15 percent of their net assets from the call money market.

## 8.5 Computation of Statutory Liquidity Reserve of FIs

BB replaced section-02 of the FID circular no. 06/2003 regarding computation of Statutory

Liquidity Reserve of FIs. The section was replaced as follows: "For computing the liquidity reserves of FIs, the eligible components include cash balance (Bangladeshi currency and note), balance maintained with Bangladesh Bank, balance maintained with other banks/FIs, unencumbered Bangladesh treasury bills and treasury bonds, and assets approved by notification in Government gazette or by Bangladesh Bank."

## 8.6 Changes in the Foreign Exchange Regulations

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

- i) To widen the scope of Taka working capital loans for foreign owned/controlled companies, BB decided that resident persons/companies may purchase Commercial Papers (CPs) issued by such companies in terms of general instructions of the Guidelines on Commercial Paper (CP) for Banks issued vide BRPD Circular No. 07, dated 25 September 2016.
- ii) To facilitate foreign exchange transactions, authorized dealers (ADs) were allowed to issue guarantee, bid bond or performance bond in local currency against taka equivalent back to back foreign currency guarantee with suitable coverage for exchange rate fluctuation from counter guarantee issuing banks abroad.
- iii) BB clarified that shares may be issued in favor of non-residents by debit to non-resident Taka accounts maintained by ADs in the names of their overseas branches and correspondents against inward remittance in convertible foreign currencies. Hence, ADs may issue certificate in support of the payment from such account for purchase of shares in Bangladeshi companies.
- iv) In order to keep minimum involvement of AD's own fund for settlement of import, ADs maintaining exporter's retention quota (ERQ) accounts were allowed to transfer fund from their ERQ accounts to other ADs of same exporters or their subsidiaries/sister concerns for settlement of import payment subject to observance of specific terms and conditions stipulated for both the fund transferring and receiving ADs.
- v) BB enhanced the limit of advance payment by ADs on behalf of exporters from ERQ up to USD 25,000 or its equivalent for bona fide business purposes subject to observance of specific terms and conditions. Earlier the limit was USD 10,000 or its equivalent.
- vi) To enhance the scope of business travel abroad by officials of enterprises located in Export Processing Zones (EPZs) and Economic Zones (EZs), card issuing ADs were permitted to issue International Debit/Prepaid card up to three (03) top tier officials of concerned enterprise against balances held in foreign currency accounts maintained as per Paragraph 31, Chapter 13 of Guidelines for Foreign Exchange Transactions-2009 (GFET) and FE circular no. 22 dated 09 August 2016. EPZs and EZs enterprises may avail such card facility from one card issuing bank only.
- vii) In order to ease short-term borrowing by Type A industries in EPZs/EZs, it was

decided that they may access short-term foreign currency loans from parent companies/shareholders abroad and other Type A subsidiaries/associates operating in EPZs/EZs. Before transferring the fund as such, ADs were advised to satisfy themselves that the fund is unencumbered.

viii) To facilitate the remittance on account of registration fee for medical check-up services to migrant workers, ADs were allowed, upon requests from approved medical centers, to remit the fee to the Bank Account of the beneficiaries subject to production of invoices specifying details of the check-up by persons and deduction of applicable taxes.

ix) Besides usual/quarterly payments, LCs/Contracts for import of capital machinery require phase-wise payments as part of the total import value, which, in some cases, leads Letter of Credit Authorization Form (LCAF) to expire before settlement of such remainder payments. To facilitate these remainder payments, BB decided that ADs may effect such remittances within 30 months of LCAF issuance against import of capital machinery without obtaining its revalidation. Moreover, revalidation of LCAF will not be required for remittances against import out of fund held in foreign currency accounts of importers maintained under general or special authorization from BB.

x) In order to ease reconversion of unspent Bangladesh Taka into foreign currency by foreign tourists, any licensed Money Changers (MCs), whether it encashed earlier or not, may reconvert up to USD

500 in cash of the unspent Taka of foreign tourists provided that the tourist submits system generated encashment certificate provided by any licensed MC.

### **8.7 Refinance Scheme for Green Products/Initiatives**

To facilitate private sector credit flow into environment friendly products/ initiatives, BB issued a consolidated guidelines on Refinance Scheme for Green Products/Initiatives. The guideline lists 51 green products/initiatives under 8 sectors eligible for the refinance scheme. It features different aspects of the refinance scheme including interest rate applicable for Participatory Financial Institution (PFI) and customers, calculation of duration of loan repayment and interest rate, eligibility criteria, application procedure, recovery procedure, utilization of refinanced loan and other relevant issues.

### **8.8 Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions**

In order to broaden the scope of Guidelines on Environmental Risk Management (ERM) issued vide BRPD circular no. 01 dated 30 January 2011, BB issued the 'Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh' by incorporating Social Risks and expanding risk rating system. This guideline includes typical Environmental and Social (E&S) Risks for banks and FIs in Bangladesh, risks associated with E&S Risks in credit management, applicability of the guidelines, applicable standards and other relevant issues.

### **8.9 Amendment to Guidelines for Customer Services and Complaint Management**

BB amended section no. 2.09.01 of the Guidelines for Customer Services and Complaint Management issued vide FICSD circular no. 01 dated 13 July 2014. The amendment comprises instructions governing the change in interest rates for term loans with variable interest rates, early settlement fee for continuous or demand loans and late fee/penal rate/compensation imposed for late payment of installation of term loans. Besides, banks were advised not to accept blank cheques as collateral against loans due to recent rise in fraudulent activities involving MICR cheques.

### **8.10 Instructions Regarding Mobile Financial Services Operation**

To prevent misuse of and to maintain discipline in the Mobile Financial Services

(MFS), BB instructed MFS providers to close all accounts of a customer except one if the customer had more than one account. The transaction limits for individual accounts of MFS were also revised. Besides, BB advised MFS providers to keep record of cash-in or cash-out amounting to BDT 5,000 and beyond.

### **8.11 Issuance of Uniform Account Opening Form & KYC Profile Form**

In the context of various legal amendments and changes in international standards regarding anti-money laundering activities, BB issued updated "Uniform Account Opening Form & Know Your Customer (KYC) Profile Form". Banks were advised to introduce the updated forms within 01 April 2017.

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

(Percent)

Month	Inflation (General)	Inflation (Food)	Inflation (Non-Food)
Dec-15	6.2	6.1	6.4
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

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

## 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

**Table IV Exports and Imports***(Amount in million USD)*

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
Mar-15	7,990.5	9,711.0
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

**Table V Interest Rate (Weighted Average) Spread***(In Percent)*

Period	Lending Rate	Deposit Rate	Spread
Mar-15	11.9	7.1	4.9
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



**Table VI Weighted Average Exchange Rate**

(BDT/USD)

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

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

(Amount in billion BDT)

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

### Table VIII Asset Structure of the Banking Industry

(Amount in billion BDT)

Property and Assets	30-06-2016	30-09-2016	31-12-2016	31-03-2017
Cash in hand	133.1	107.5	107.2	109.1
Balance with Bangladesh Bank and its Agent Bank	669.1	691.1	756.5	747.8
Balance with other banks and financial Institutions	442.7	408.1	473.9	474.9
Money at call and short notice	125.0	102.2	86.8	107.9
Investment	2070.2	2154.9	2148.6	2055.4
Loans and Advances	6660.6	6736.4	7136.5	7370.4
Fixed Assets	225.3	225.8	224.7	224.9
Other Assets	799.1	867.1	687.3	687.0
Non-banking assets	3.4	3.5	3.7	3.7
<b>Total Assets</b>	<b>11,128.5</b>	<b>11,296.6</b>	<b>11,625.3</b>	<b>11,781.1</b>

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

(Amount in billion BDT)

Assets	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount	3,727.1	8,060.0	5,323.2	6,463.9
Share (%)	31.6	68.4	45.2	54.8
NPL	Top 5 banks	Other banks	Top 10 banks	Other banks
Amount	352.8	381.3	480.9	253.2
Share (%)	48.1	51.9	65.5	34.5

**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

**Table XI Distribution of Banks by NPL Ratio**

Range	Number of Banks as at end				
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Up to 2.0%	8	9	5	9	7
2.0% to <3.0%	5	4	5	6	6
3.0% to <5.0%	11	13	13	16	12
5.0% to <10.0%	18	17	17	14	18
10.0% to <15.0%	4	2	6	1	3
15.0% to <20.0%	1	2	1	2	1
20.0% & above	9	9	9	9	10
<b>Total</b>	<b>56</b>	<b>56</b>	<b>56</b>	<b>57</b>	<b>57</b>

### Table XII Banking Sector Loan Loss Provisions

(Amount in billion BDT)

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

### 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
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
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

**Table XIV Classified Loan Composition (End-March 2017)***(Amount in billion BDT)*

Particulars	Amount	Percent Of Total
Sub-Standard	81.5	11.1
Doubtful	50.0	6.8
Bad & Loss	602.6	82.1
<b>Total</b>	<b>734.1</b>	<b>100.0</b>

**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%
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	49 <sup>R</sup>	3 <sup>R</sup>	3 <sup>R</sup>	1 <sup>R</sup>
Sep-16	49 <sup>R</sup>	4 <sup>R</sup>	3 <sup>R</sup>	0 <sup>R</sup>
Dec-16	48 <sup>R</sup>	7 <sup>R</sup>	1 <sup>R</sup>	1 <sup>R</sup>
Mar-17	51	4	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%
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	17 <sup>R</sup>	17 <sup>R</sup>	13 <sup>R</sup>	9 <sup>R</sup>
Sep-16	14 <sup>R</sup>	20 <sup>R</sup>	14 <sup>R</sup>	8 <sup>R</sup>
Dec-16	11 <sup>R</sup>	12 <sup>R</sup>	16 <sup>R</sup>	18 <sup>R</sup>
Mar-17	22	17	12 <sup>R</sup>	6

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

**Table XVII Banking Sector ROA and ROE**

	Quarter						
	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
ROA	0.6	1.3	0.5	0.4 <sup>R</sup>	0.5 <sup>R</sup>	0.8 <sup>R</sup>	0.1
ROE	6.6	14.2	6.8	5.0 <sup>R</sup>	6.1 <sup>R</sup>	10.8 <sup>R</sup>	1.2

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 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.

(c) Similar method applied for annualizing quarterly ROE.

2. R- Revised

**Table XVIII Fls' Borrowing, Deposit and Capital**

(Amount in billion BDT)

Particulars	September-2016	December-2016	March-2017
Borrowings	155.9	158.7	167.3
Deposits	362.1	383.7	404.0
Capital	102.1	106.8	108.1
Other Liabilities	66.0	65.9	71.5
<b>Total</b>	<b>686.1</b>	<b>715.1</b>	<b>750.9</b>

**Table XIX Fls' Asset Composition**

(Amount in billion BDT)

Particulars	September-2016	December-2016	March-2017
Cash & Balance with Banks/Fls	99.3	86.7	113.8
Investments	20.6	33.0	29.3
Loans & Leases	511.7	534.2	546.7
Other Assets	47.2	49.9	50.6
Fixed Assets	7.3	11.3	10.5
<b>Total</b>	<b>686.1</b>	<b>715.1</b>	<b>750.9</b>

**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

**Table XXI FIs' ROA & ROE**

(In percent)

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

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)						
	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
< 10%	9	8	8	9	9	7	9
10% to ≤15%	29	30	31	32	32	33	32
15% +	18	18	17	15	15	17	16

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

CRAR	Number of banks & their asset size		Asset share (%)
	Number of banks	Asset size (in billion BDT)	
<10%	9	3,452.0	29.3
10% to ≤ 15%	32	7,509.9	63.7
15% +	16	819.1	7.0
<b>Total</b>	<b>57</b>	<b>11,781.0</b>	<b>100.0</b>

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

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

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

Particulars	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
RWA for Credit Risk	6,174.5	6474.93	6570.6	6,758.4	6,891.7
RWA for Market Risk	301.4	316.25	310.2	299.6	304.7
RWA for Operational Risk	643.1	645.50	653.3	696.4	707.2
<b>Total RWA</b>	<b>7,119.0</b>	<b>7,436.7</b>	<b>7534.1</b>	<b>7,754.4</b>	<b>7,903.6</b>

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

Period	Minimum Capital Requirement	Total Regulatory Capital
Sep-15	727.6	727.2
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



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

(In percent)

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

**Table XXVIII Bank Cluster-wise ADR at end-March 2017**

(In percent)

Bank wise	ADR (%)
SCBs	52.5
PCBs	82.8
FCBs	61.5
DFIs	76.0
Industry	73.4

**Table XXIX FIs' CRR & SLR**

(Amount in billion BDT)

Quarter End	Aggregate CRR			Aggregate SLR		
	Required	Maintained	Surplus/Shortfall	Required	Maintained	Surplus/Shortfall
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
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

**Table XXX Capital Adequacy Ratio of FI Sector**

Particulars	End Dec-15	End Mar-16	End Jun-16	End Sep-16	End Dec-16	End Mar-17
Eligible Capital to RWA (%)	18.7	17.9	16.7	16.3	16.6	16.0

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

*(Amount in billion BDT)*

Particulars	End Dec-15	End Mar-16	End Jun-16	End Sep-16	End Dec-16	End Mar-17
<b>Risk Weighted Assets (RWA)</b>						
Credit RWA	465.0	481.3	496.0	506.4	518.3	543.8
Market RWA	40.5	39.5	42.5	47.6	50.0	55.3
Operational RWA	37.1	37.9	38.7	38.9	41.3	42.4
<b>Total RWA</b>	<b>542.6</b>	<b>558.7</b>	<b>577.2</b>	<b>592.9</b>	<b>609.6</b>	<b>641.5</b>
<b>Capital</b>						
Core Capital (Tier -1)	94.6	92.7	88.5	88.8	91.3	92.2
Supplementary Capital	6.7	7.2	7.9	8.0	9.7	10.2
Eligible Capital	101.3	99.9	96.3	96.8	101.0	102.4

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

*(Based on data as of end-Mar 2017)*

Shocks	CRAR after Shock (%)		
	Minor Level	Moderate Level	Major Level
Increase in NPL in the highest outstanding sector	10.63	10.54	10.44
Increase in NPLs due to default of Top borrowers	9.05	7.65	6.81
Negative shift in NPL categories	10.00	7.53	6.34
Decrease in the FSV of collateral	10.14	9.60	8.48
Increase in NPLs	9.83	7.68	4.12
Interest rate shock	10.32	9.95	9.59
Exchange rate shock	10.64	10.59	10.55
Equity shock	10.42	10.15	9.62
Combined shock	7.94 2.10	-4.71	

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

*(Based on data as of end-Mar 2017)*

Shocks	No. of Banks		
	Minor Level	Moderate Level	Major Level
Increase in NPL in highest outstanding sector	0	3	3
Increase in NPLs due to default of Top borrowers	23	35	38
Negative shift in NPL categories	1	11	15
Decrease in the FSV of collateral	1	3	8
Increase in NPLs	2	24	34
Interest rate shock	1	2	5
Exchange rate shock	0	0	0
Equity shock	1	1	3
Combined shock	15	35	38

NB: Pre-shock CRARs of 9 banks out of 56 (except one newly formed) were below the minimum required level of 10% as of 31 March, 2017. Therefore, the above table represents 49 bank's data.

**Table XXXIV Price/Earnings Ratio of Capital Market**

Quarter	DSE Price/Earnings Ratio	CSE Price/Earnings Ratio
Dec-13	15.1	14.7
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

**Table XXXV DSE Performance**

Month	DSE Turnover (BDT in millions)	Index		
		DSEX	DSE 30	DSES
Jan-16	113.50	4,540.89	1,719.15	1,095.27
Feb-16	86.42	4,511.97	1,722.85	1,099.78
Mar-16	79.97	4,357.54	1,648.95	1,052.14
Apr-16	75.05	4,195.70	1,612.34	1,025.15
May-16	81.42	4,419.39	1,745.81	1,091.87
Jun-16	81.38	4,507.58	1,770.82	1,110.84
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

**Table XXXVI CSE Performance**

Month	CSE Turnover (BDT in millions)	Index		
		CASPI	CSE 30	CSI
Jan-16	7.76	13,987.34	12,329.86	958.42
Feb-16	6.17	13,920.51	12,567.92	967.56
Mar-16	5.58	13,407.24	12,036.79	921.23
Apr-16	4.97	12,918.64	11,995.51	900.13
May-16	4.79	13,623.07	12,503.52	966.16
Jun-16	6.43	13,802.59	12,773.70	983.54
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

**Table XXXVII Market Capitalization**

As on end- month	Market Capitalization (in billion BDT)		Growth of market capitalization (in percent)	
	DSE	CSE	DSE	CSE
Jan-16	3,153.07	2,485.35	-0.21	-0.33
Feb-16	3,143.50	2,482.52	-0.30	-0.11
Mar-16	3,036.42	2,373.19	-3.41	-4.40
Apr-16	2,999.85	2,342.99	-1.20	-1.27
May-16	3,108.75	2,447.87	3.63	4.48
Jun-16	3,185.75	2,506.11	2.48	2.38
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

**Table XXXVIII Corporate Bond Issuance**
*(Amount in million BDT)*

Corporate Bond Issuance	End Period					
	Dec-2015	Mar-2016	Jun-2016	Sep-2016	Dec-2016	Mar-2017
	9,500.0	10,500.0	6,450.0	6,450.0	6,450.0	6,450.0

**Table XXXIX Sectoral Turnover of DSE**
*(In percent)*

Broad Sector	SECTOR	% of Total Turnover	
		2016Q4	2017Q1
Financial Sector	Banks	9.41	16.03
	Financial Institutions	6.56	10.18
	Insurance	2.67	1.93
Manufacturing	Food & Allied Product	5.41	2.47
	Pharmaceuticals & Chemicals	10.93	13.40
	Textile	12.10	11.87
	Engineering	18.11	15.25
	Ceramic	1.18	1.29
	Tannery	2.08	1.03
	Paper & Printing	0.19	0.09
	Jute	0.18	0.08
	Cement	4.01	2.54
Service & Miscellaneous	Fuel & Power	12.61	10.06
	Services & Real estate	2.67	2.23
	IT - Sector	2.91	1.23
	Telecommunication	1.55	1.17
	Travel and Leisure	1.76	1.51
	Mutual Funds	0.95	1.87
	Miscellaneous	4.71	5.76
Bond	Corporate Bond	0.01	0.01
	<b>Total</b>	<b>100.00</b>	<b>100.00</b>

Note: 2016Q4 = December quarter 2016, 2017Q1 = March quarter 2017.

**Table XL Sectoral Turnover of CSE**

(In percent)

Broad Sector	SECTOR	% of Total Turnover	
		2016Q4	2017Q1
Financial Sector	Banks	9.74	20.70
	Leasing & Finance	7.47	7.54
	Life Insurance	1.12	0.36
	General Insurance	0.83	0.87
	Manufacturing Food & Allied Product	3.50	1.67
	Pharmaceuticals & Chemicals	12.19	13.03
	Textile	10.83	11.80
	Engineering	17.27	13.08
	Ceramic	1.56	1.41
	Tannery	3.25	1.38
	Paper & Printing	0.76	0.15
	Cement	5.30	3.22
Service & Miscellaneous	Fuel & Power	9.04	8.02
	Services	4.88	3.87
	IT	2.62	1.41
	Telecommunication	2.14	1.31
	Mutual Funds	0.96	1.57
	Miscellaneous	6.55	8.60
Bond	Corporate Bond	0.00	0.01
<b>Total</b>		<b>100.00</b>	<b>100.00</b>

Note: 2016Q4 = December quarter 2016, 2017Q1 = March quarter 2017.

# Quarterly Financial Stability Assessment Report

ISSUE : 10, 2017 (I)  
JANUARY-MARCH 2017



Bangladesh Bank

















