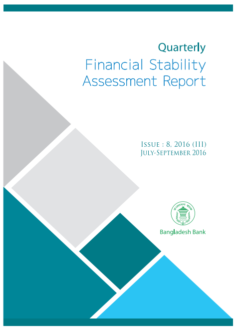
Quarterly

Financial Stability Assessment Report

July-September 2016

Financial Stability Department
Bangladesh Bank



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

MESSAGE OF THE GOVERNOR

Financial stability analysis has started to gain an increasing importance among the financial sector regulators and other supervisors across jurisdictions with a view to remaining watchful of risks which may hinder the stability of the macroeconomic and financial environments. In line with the global best practices, Bangladesh Bank continuously evaluates risks to and vulnerabilities of the financial system, by implementing macroprudential initiatives with a broad-based contingency planning framework and inter-agency coordination activities. Furthermore, Bangladesh Bank is steadily strengthening financial sector regulation and supervision towards full convergence with Basel based standards on capital, provisioning, liquidity, leverage, governance and risk management with increasing use of online reporting and real time surveillance procedures.

Financial system of Bangladesh has already demonstrated strong performances attributable to prudent policies of the financial sector regulators as well as timely and efficient monetary and fiscal stances of the country. Besides, sustained growth and external sector stability have been encouraging better business environment. The impact of macroeconomic policies has also been reflected in terms of significant transformation of economic growth and stability indicators over the recent past. With digitalization of various activities across and within financial systems, our banking system is now much capable in terms of service delivery. Nevertheless, we have to remain vigilant to encounter emerging threats like cyber security risk that may impede smooth financial intermediation process and raise stability issues putting stakeholders' confidence to the financial system into question. Bangladesh Bank's main focus is to maintain safety and soundness of individual financial institution as well as the financial system as a whole. To this end, Bangladesh Bank has developed various risk management tools. Through this report, we want to aware the stakeholders of the financial system about potential risks and fragilities, both endogenous and exogenous, well ahead of time.

I believe the stakeholders of the financial system would get important insights from this report which may help them to withstand any potential risks. Finally, I would like to thank the officials of Financial Stability Department for their wholehearted involvement and valuable contribution in preparation of this report.

Fazle Kabir
Governor

MESSAGE OF THE DEPUTY GOVERNOR

The Global economy reflects a more subdued outlook for advanced economies following the June 2016 U.K. referendum in favour of Brexit and weaker-than-expected growth in the United States. These developments have put further downward pressure on global interest rates. However, financial market sentiment towards emerging market economies has improved with expectations of lower interest rates in advanced economies, reduced concern about China's near-term prospects following the policy support to growth, and some firming of commodity prices. But prospects differ sharply across countries and regions, with emerging Asia in general and India in particular, showing robust growth and sub-Saharan Africa experiencing a sharp slowdown. Amid these developments in the global financial system, Bangladesh financial system remained moderately stable during July-September 2016, the review quarter.

Bangladesh Bank works diligently to maintain the stability of the domestic financial system. In the review quarter, a number of key macroeconomic indicators showed improving trend. Decline in inflation and import, and increase in foreign exchange reserve contributed significantly to maintaining a reasonable level of stability in the financial system. During the review quarter, several notable initiatives have been taken by Bangladesh Bank with a view to improving the macro-financial stability of the economy. For instance, Bangladesh Bank has granted permission to a new scheduled bank named Shimanto Bank Limited, issued guidelines on Commercial Papers of banks, amended guidelines on Internal Control and Compliance in banks, announced its agricultural and rural credit policy and program for the financial year 2016-17, encouraged banks to disburse agricultural credit through agent banking and brought a number of changes in its foreign exchange regulations. These, along with prudent debt and fiscal management, have important bearing on stability of our macro-financial system.

I anticipate that stakeholders of the financial system would get important insights from this report and will be able to position themselves in withstanding shocks, both internal and external. I value the enthusiasm of the officials of Financial Stability Department and other contributing departments of Bangladesh Bank to bring the report to light.

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
CAR	Capital Adequacy Ratio
CCB	Capital Conservation Buffer
CP	Commercial Paper
CPI	Consumer Price Index
CRAR	Capital to Risk-weighted Asset Ratio
CRR	Cash Reserve Ratio
CY	Calendar Year
DFIs	Development Finance Institutions
DFIM	Department of Financial Institutions and Markets
DOS	Department of Off-site Supervision
DSE	Dhaka Stock Exchange
EZ	Economic Zone
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
IS	Interest Suspense
JICA	Japan International Cooperation Agency
NPL	Non-performing Loan
OBU	Off-shore Banking Unit
OLL	On Lending Loan
PFI	Participating Financial Institution
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
TSL	Two Step Loan
USD	United States Dollar
WAR	Weighted Average Resilience
WIR	Weighted Insolvency Ratio

Executive Summary

During the July-September quarter of calendar year 2016 (CY16), the macro-financial system of Bangladesh demonstrated resilience and stability. Gross international reserves increased by 4.3 percent and inflation, in general, remained on a downward track recording a further drop compared to the preceding quarter. The interest rate spread declined further to reach at 4.7 percent. The Industrial Production Index (General-Manufacturing) decreased moderately compared to that of end-June 2016 position. A decline was recorded in import payments. Besides, Government borrowing from the banking sector increased moderately (0.2 percent).

The banking sector displayed a mixed performance during the review quarter. The asset size of the banking sector grew marginally and stood at 65.2 percent of gross domestic product at end-September 2016. A marked improvement was recorded in key profitability indicators as both Return on Assets (ROA) and Return on Equity (ROE) increased during the review quarter. Though gross non-performing loan (NPL) ratio increased over the previous quarter, net NPL ratio remained constant owing to increased amount of maintained provisions by banks.

At end-September 2016, capital adequacy of the banking sector remained above the minimum regulatory requirement. Both capital to risk-weighted assets ratio (CRAR) and Tier-1 capital ratio remained stable compared to those of the preceding quarter. A majority of the banks were able to maintain minimum capital conservation buffer which was introduced in early 2016 under Basel III framework. In terms of leverage ratio, banking sector performed well maintaining a ratio of 4.8 percent, notably higher than the minimum requirement of 3.0 percent, on solo basis. No sign of liquidity pressure was evident during the review quarter as indicated by the decline in advance-to-deposit ratio (ADR) and the maintenance of required Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) by the banking sector.

Financial Institutions (FIs) sector demonstrated considerable stability in the review quarter. Asset quality improved marginally registering a decline in gross NPL ratio. The key profitability indicators - ROA and ROE - also increased over the previous quarter. Though the capital adequacy ratio (CAR) decreased slightly, it still remained well above the minimum regulatory requirement. FIs did not face any significant liquidity pressure during this period as evident from their maintenance of higher CRR and SLR.

Stress test on banks, based on the data as of end-September 2016, indicates that default of the largest borrowers and rise in gross non-performing loan (NPL) would have major impacts on the banking sector CRAR. However, the individual banks and the banking system, as a whole, were found to be resilient against various liquidity stress scenarios. On the other hand, stress test on financial institutions (FIs) reveals that a majority of them was resilient in the event of stress scenarios as of end-September 2016, though 10 out of 33 FIs displayed vulnerability to some extent at different shock events.

In the review quarter, the capital market of Bangladesh continued to demonstrate a scenario of price recovery as the main indices - DSEX, DSE30, and DSES as well as the P/E ratio displayed an upward trend compared to those of the preceding quarter. Market capitalization increased slightly. Pertinently, no corporate bonds were issued during this quarter.

Bangladesh Bank has granted permission to one new scheduled bank in addition to introducing few initiatives/changes in the review quarter. During this period, Bangladesh Bank has issued guidelines on commercial paper for banks, amended guidelines on internal control and compliance in banks, brought about several changes in foreign exchange regulations to make foreign exchange operations easier as well as more disciplined, announced Agricultural & Rural Credit Policy & Program for the financial year 2016-17 and encouraged banks to disburse agricultural credit through agent banking.

In sum, amid mixed developments in the global economy - a subdued economic growth in the advanced economies against a robust growth in emerging market economies, Bangladesh financial system remained moderately stable during the review quarter.

Chapter-1

Macroeconomic Developments

The Bangladesh economy showed mostly an improving trend during the third quarter of CY16, attributable to a decline in inflation and interest rates, an increase in foreign exchange reserves albeit a decline in wage earners' remittance, industrial production index, exports, imports and moderate increase (0.2 percent) in credit to the Government by banking sector.

1.1 Inflation

At end-September 2016, both general and food inflation decreased to 5.7 and 4.6 percent from 5.9 and 4.9 percent respectively with respect to those of end-June 2016. Whereas, non-food inflation remained the same at 7.5 percent. (Chart 1.1).

1.2 Foreign Exchange Reserve and its Import Coverage

At end-September 2016, the gross foreign exchange reserves reached at USD 31.4 billion recording an increase of 4.3 percent, from the USD 30.1 billion of end-June 2016. The reserve position was equivalent to more than seven months' imports of goods and services[1].

1.3 Wage Earners' Remittance

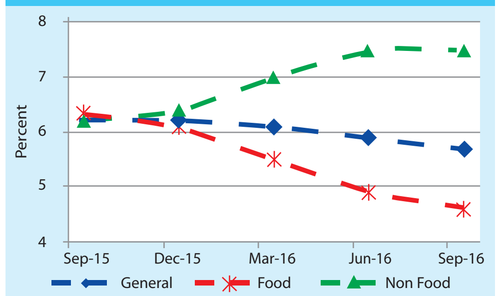
The remittances from Bangladeshi nationals, working abroad, stood at USD 3,245.8 million during the review quarter, recording a decline of 16.2 percent compared to USD 3,871.5 million recorded during the preceding quarter. It is noteworthy that in the April-June quarter of 2016 remittance growth was 8.4 percent compared to that of January-March quarter of 2016.

1.4 Industrial Production

The Quantum Index of Industrial Production (General-Manufacturing) at end-September 2016 dropped to 244.5P compared with 321.2 of end-June 2016. It is noteworthy that the QIP (manufacturing) demonstrated a fluctuating trend during the first three quarters of CY16.

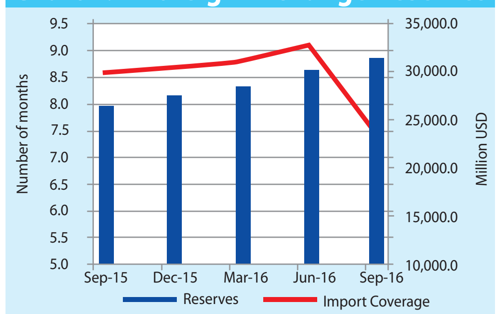
[1] Compiled on the basis of import (shipment) data received from NBR.

Chart 1.1 Inflation



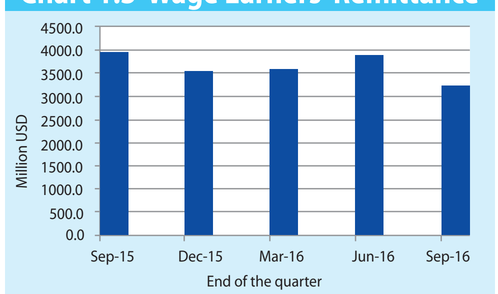
Source: Monthly Economic Trends, BB (various issues). Base 2005-06=100.

Chart 1.2 Foreign Exchange Reserves



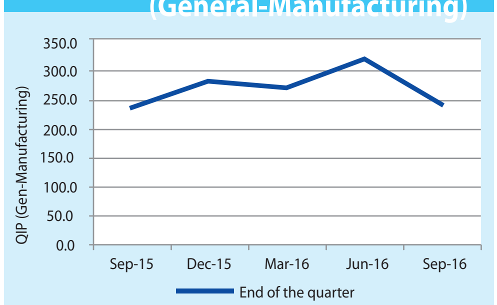
Source: Research Department, BB.

Chart 1.3 Wage Earners' Remittance



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

Chart 1.4 Industrial Production Index (General-Manufacturing)

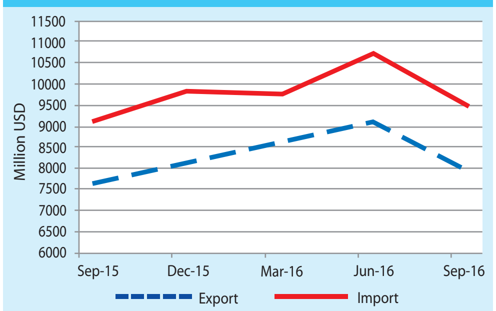


Note: Base 2005-06=100. Source: BBS.

1.5 Imports and Exports

In the review quarter of CY16, aggregate import payments[2] decreased by 11.4 percent and reached at USD 9,502.0 million as compared to USD 10,720.0 million recorded in the previous quarter. Export receipts, in contrast, decreased by 13.0 percent and reached at USD 7,909.0 million compared with USD 9,088.0 million recorded in the second quarter of CY16.

Chart 1.5 Exports and Imports (FOB)



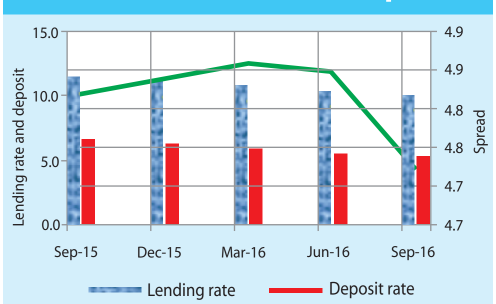
Source: Research Department, BB.

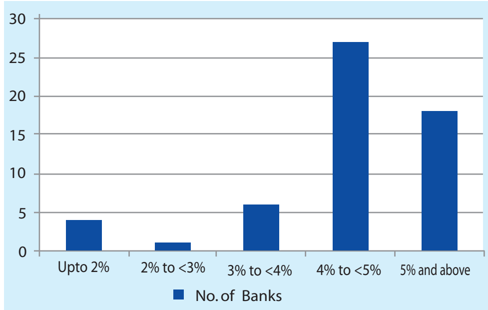
1.6 Interest Rate

The spread between weighted average lending and deposit rates decreased to 4.7 percent with respect to that of end-June 2016; spreads of 18 out of 56 banks were above 5.0 percent. Out of these 18 banks, 6 were FCBs and 12 PCBs.

In the review quarter, the weighted average lending and deposit rates were 10.1 and 5.4 percent respectively. Both the lending and deposit rates slightly declined compared with those of the preceding quarter.

Chart 1.6 Interest Rate Spread



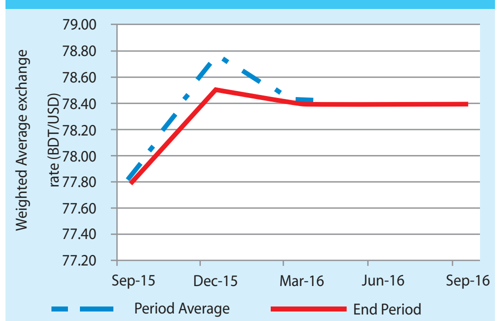


Source: Statistics Department, BB.

1.7 Exchange Rate

The value of the Bangladesh Taka, in terms of US dollar, remained unchanged at BDT 78.40 per USD, in September 2016, compared with that of the previous quarter.

Chart 1.7 Exchange Rate

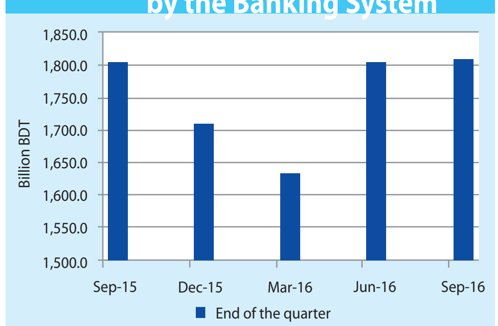


Source: Monthly Economic Trends, BB (Various issues).

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

Credit to the Government (gross), by the banking system, increased by BDT 2.9 billion or 0.2 percent during the review quarter. In the preceding quarter, credit to the government recorded an increase of 10.6 percent compared to January-March quarter of 2016.

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



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

[2] On FOB basis.
Note: P = provisional

Chapter-2

Banking Sector Performance

During the July-September quarter of CY16, the banking sector demonstrated a positive trend in terms of asset growth, profitability and asset quality.

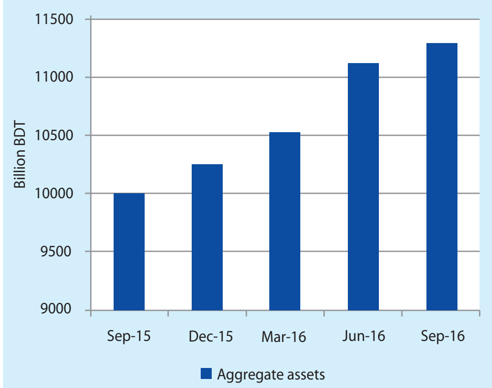
2.1 Assets Structure

The balance sheet size of the banking sector[3] grew by almost 1.5 percent and reached BDT 11,296.6 billion at end-September 2016. Loans and advances, as a percentage of total assets, recorded a slight decline compared with that of end-June CY16. The proportion of investment also increased. It is to mention that banking sector assets-to-GDP ratio stood at 65.2 percent at end-September 2016[4].

The share of loans and advances, the largest among the asset items, decreased by 30 basis points at end-September CY16, compared with that of end-June 2016. The share of banks' assets with Bangladesh Bank increased by 10 basis points and balances with other banks and financial institutions decreased by 40 basis points. Banks' money at call decreased by 20 basis points, while the share of other assets increased by 50 basis points. However, the share of investments in government and other securities increased by 50 basis points.

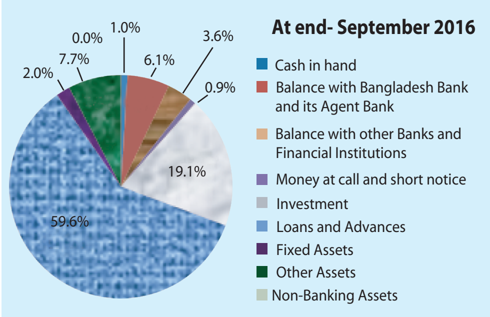
The asset concentration ratios of Top 5 and Top 10 banks against the total banking system assets were 33.7 and 47.2 percent respectively at end- September 2016 (Chart 2.3 & 2.4); the proportions increased relative to that in the preceding quarter.

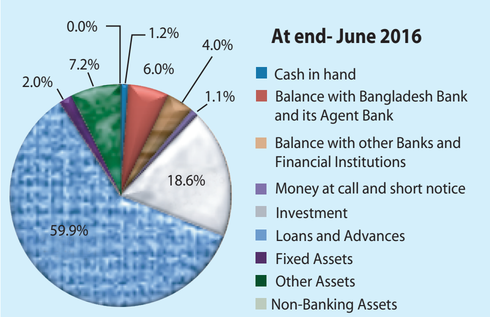
Chart 2.1 Asset Size of the Banking Industry



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

Chart 2.2 Asset Structure of the Banking Industry





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

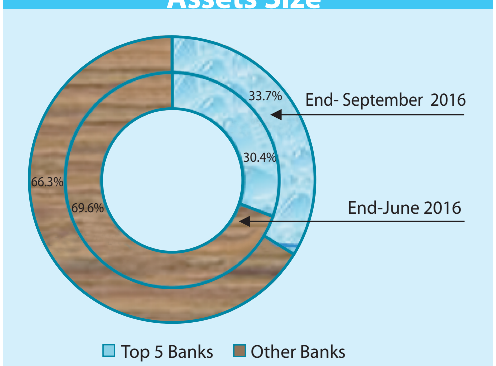
3 Taking into account only scheduled banks.

4 GDP at current market price for the financial year 2015-16.

2.2 Asset Quality

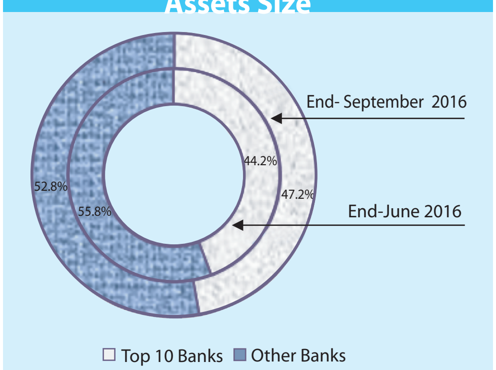
The gross NPL ratio[5] rose to 10.3 percent at end-September 2016, increasing by 20 basis points from 10.1 percents of end-June 2016. However, non-performing loans net of specific loan loss provisions and interest suspense to total loans remained almost same to 2.8 percent as compared to that of end-June 2016. Besides, non-performing loans net of specific loan loss provisions and interest suspense to regulatory capital decreased to 20.8 percent from 21.1 percent of end-June 2016.

Chart 2.3 Top 5 banks based on Assets Size



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

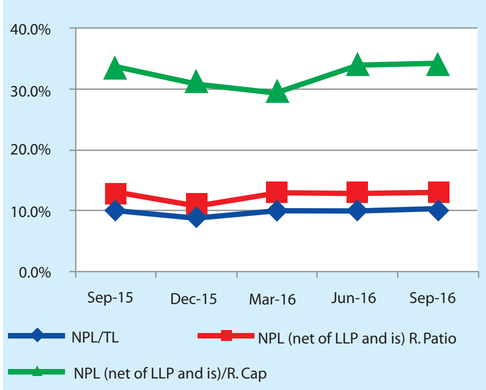
Chart 2.4 Top 10 banks based on Assets Size



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

The distribution of banks, based on their gross NPL ratios, indicates that 16 banks came up with double-digit values in September CY16

Chart 2.5 NPL Ratio

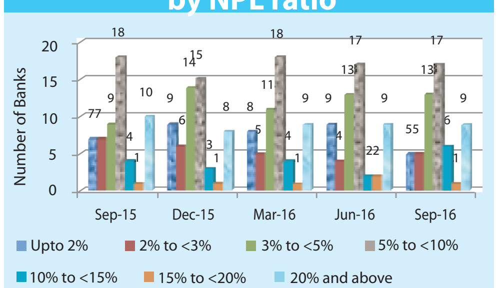


Source: BRPD, BB.

The provision maintenance ratio[6], at end-September 2016, increased to 88.2 percent from 87.7 percent recorded at end-June 2016.

Pertinently, 47.7 and 64.8 percent of the non-performing loans were concentrated in the Top 5 and Top 10 banks respectively at end-September 2016 (chart 2.8 & 2.9).

Chart 2.6 Distribution of banks by NPL ratio



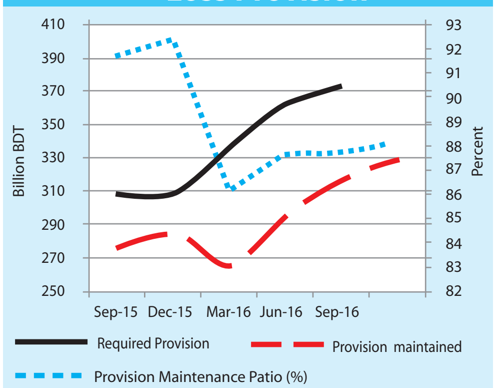
Source: BRPD, Compilation FSD.

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

[6] Maintained provision to required provision.

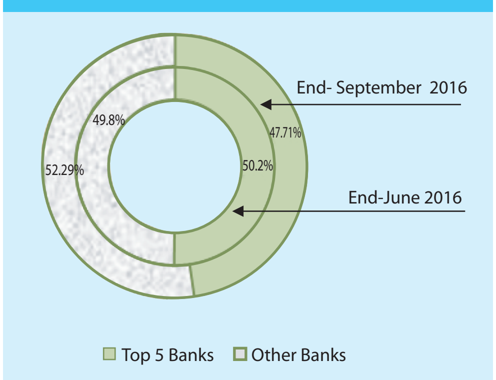
The ratio of bad and loss loans to total classified loans stood at 82.4 percent at end-September CY16. The NPL under sub-standard and doubtful categories, in contrast, constituted 11.6 and 5.9 percent of total NPLs respectively. Pertinently, the proportion of bad and loss loans increased by 2.5 percent, while the proportions of sub-standard and doubtful loans decreased by 0.2 and 2.3 percentage points from those of the previous quarter.

Chart 2.7 Banking Sector Loan Loss Provision



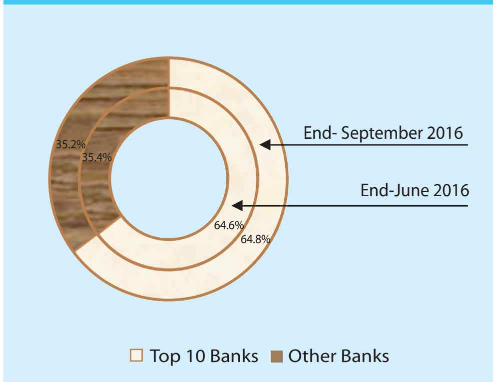
Source: BRPD, BB.

Chart 2.8 Top 5 Banks based on NPL



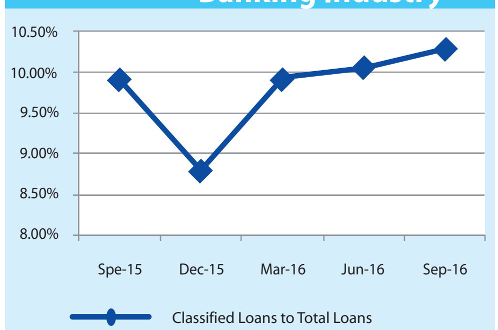
Source: BRPD, Compilation FSD.

Chart 2.9 Top 10 Banks based on NPL



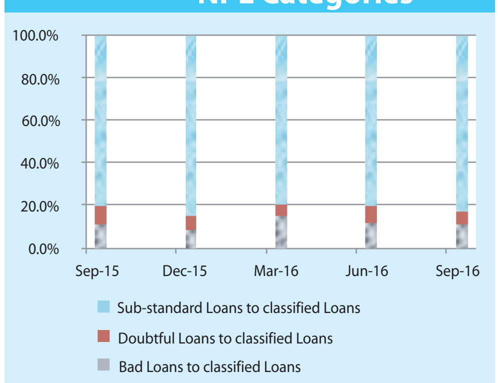
Source: BRPD, Compilation FSD.

Chart 2.10 NPL Ratio of the Banking Industry



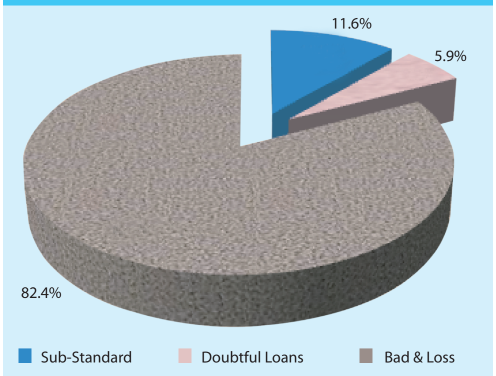
Source: BRPD, BB.

Chart 2.11 Proportion of NPL Categories



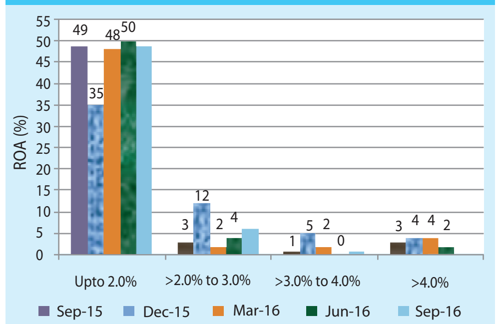
Source: BRPD, BB.

Chart 2.12 NPL Composition of Banks



Source: BRPD, BB.

Chart 2.13 Banking Sector Return on Assets (ROA)

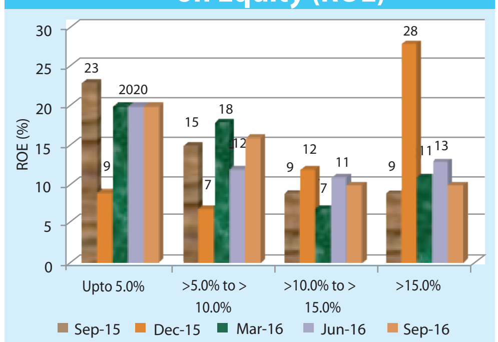


Source: Compilation (Aggregate P/L account of banking industry): FSD, BB.

2.3 Profitability

In the review quarter, profitability of the banking sector slightly increased. Return on assets (ROA) and return on equity (ROE) of the banking sector stood at 0.6 and 8.3 percents respectively recording an increment of 0.4 and 5.2 percentage points from the respective ratios of the preceding quarter (0.2 and 3.1 percent)[7] . Almost 87.5 percent of the banks' ROA was up to 2.0 percent, while 12.5 percent of banks' ROA was higher than 2.0 percent. On the other hand, 64.3 percent of the banks' ROE was higher than 5.0 percent.

Chart 2.14 Banking Sector Return on Equity (ROE)



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

[7] Quarterly rations were annualized.

Chapter-3

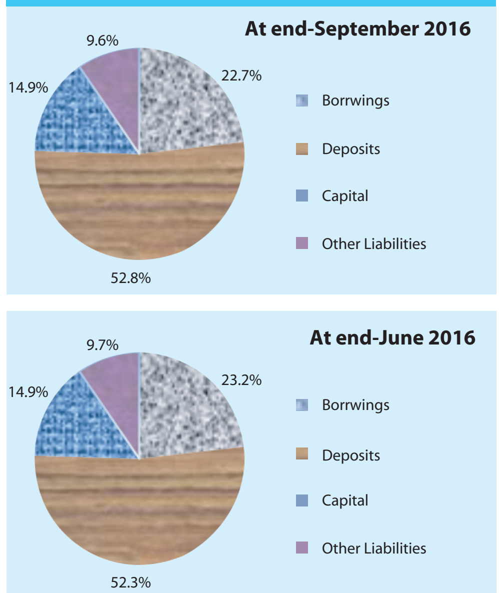
Financial Institutions' Performance

Financial Institutions (FIs) showed a positive trend in the review quarter of CY16. Key financial soundness indicators, such as gross non-performing loans and leases ratio and profitability ratios displayed an improvement over the preceding quarter.

3.1 Sources of Funds

At End-September 2016, borrowings, deposits, capital and other liabilities constituted 22.7, 52.8, 14.9 and 9.6 percent of the sources of funds of the FIs respectively. In comparison with end-June 2016, the share of borrowings decreased by 50 basis points while the share of deposits increased by 50 basis points; share of rest of the liabilities remained almost same.

Chart 3.1 FIs' Sources of Fund



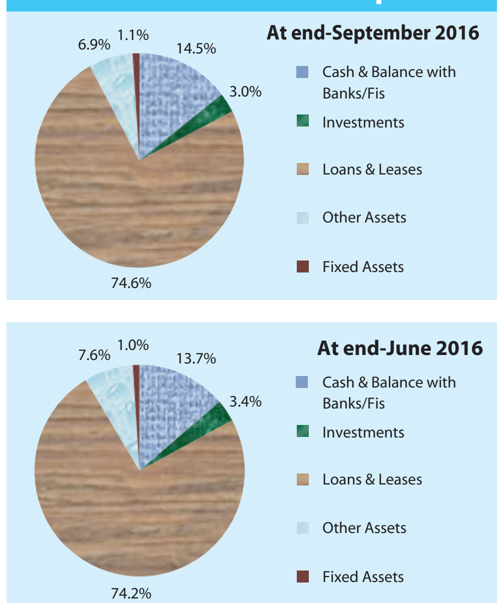
Source: FIs; Compilation: FSD, BB.

3.2 Assets Composition

Loans and leases constituted 74.6 percent of total assets of FIs at end-September 2016. Cash and balances with banks/FIs, investments, fixed assets and other assets comprised 14.5, 3.0, 1.1 and 6.9 percent of total assets respectively.

When compared with end-June 2016 positions, the share of loans and leases, and cash and balances with other banks/FIs increased by 40 and 80 basis points respectively; the proportion of investments and other assets decreased by 40 and 70 basis points while the share of fixed assets remained almost same.

Chart 3.2 FIs' Assets Composition

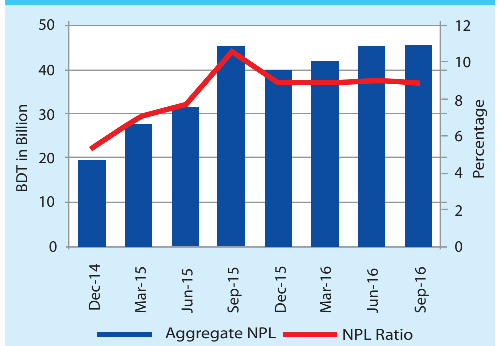


Source: FIs; Compilation: FSD, BB.

3.3 Asset Quality

FIs' asset quality improved at end-September 2016. Though the amount of non-performing loans and leases increased from BDT 45.1 billion at end-June 2016 to BDT 45.6 billion at end-September 2016, the ratio of non-performing loans and leases to total loans and leases decreased slightly from 9.0 to 8.9 percent during the same period.

Chart 3.3 FIs' Non-performing Loans and Leases



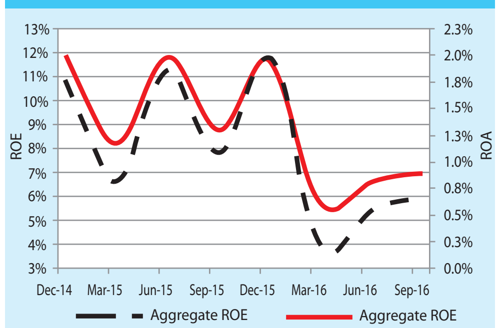
Source: DFIM, BB.

3.4 Profitability

FIs' profitability improved in the review quarter over the June quarter of 2016[8].

The key profitability indicators - return on assets (ROA) and return on equity (ROE) stood at 0.9 and 6.0 percent respectively in the September quarter of 2016 as compared to 0.8 and 5.5 percent respectively recorded in the preceding quarter.

Chart 3.4 FIs' ROA and ROE



Source: FIs; Compilation: FSD, BB.

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

Chapter-4

Banking Sector Liquidity and Capital Adequacy

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

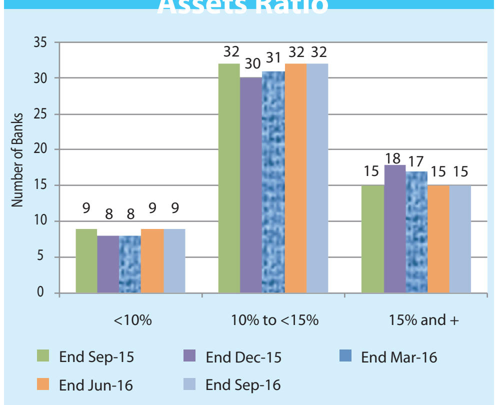
4.1 Capital Adequacy

In the review quarter, a majority of the banks were compliant to the minimum CRAR requirement, compared to end- June 2016. Pertinently, 47 out of 56 banks were able to maintain their capital ratios of 10.0 percent or higher in line with Pillar 1 of the Basel III capital framework. Moreover, a 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 62.0 percent of the total banking industry's assets at end-September 2016 indicating that a significant portion of the banking sector assets are managed by the CRAR-compliant banks.

At end-September 2016, the banking sector aggregate CRAR did not record any change from 10.3 percent of end-June 2016. Tier-1 capital ratio was also same to 7.6 percent. Still the ratio was significantly higher than the minimum regulatory requirement of 5.5 percent.

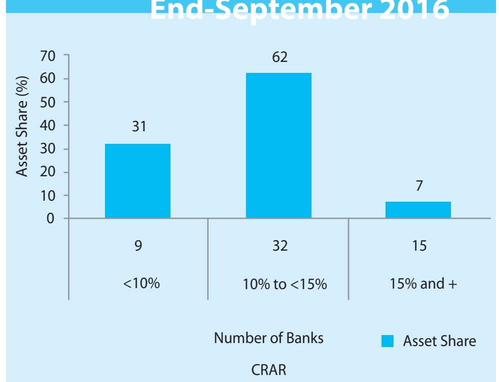
At end-September 2016, risk-weighted assets, arising from credit risks, accounted for 87.2 percent of the total industry's risk-weighted assets under Pillar 1 of the Basel III capital adequacy framework. Operational and market risks accounted for 8.7 and 4.1 percents respectively (Chart 4.4).

Chart 4.1 Banking Sector Capital to Risk- Weighted Assets Ratio



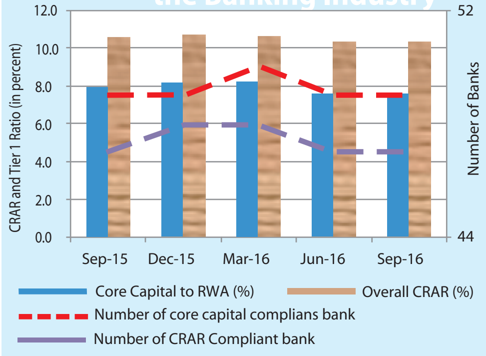
Source: DOS, BB.

Chart 4.2 Assets Share of Banks based on CRAR at End-September 2016



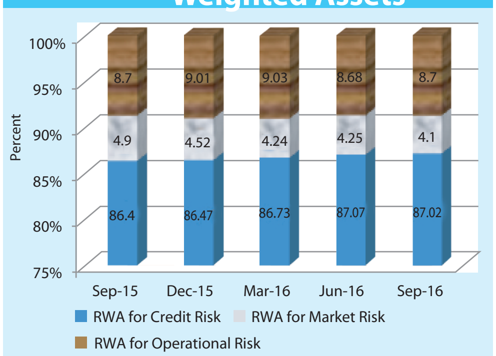
Source: DOS, BB.

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



Source: DOS, BB.

Chart 4.4 Distribution of Risk-Weighted Assets



Source: DOS, BB.

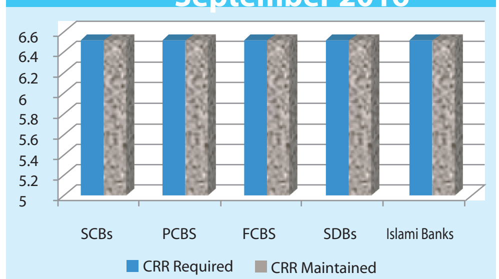
The Capital Conservation Buffer (CCB) requirement for banks has been started from early 2016 and would be fully implemented by 2019 in line with the Basel III framework[9] . Against the regulatory requirement of 0.625 percent for CY16, 44 out of 56 banks have been able to maintain the minimum required CCB on solo basis during the review quarter. On the other hand, in case of consolidated basis, 28 out of 36 banks have been able to fulfill this regulatory requirement. The aggregate CCB of banking sector, in the stated quarter, was 0.31 and 0.78 percents on solo and consolidated bases respectively.

[9] Banks were required to maintain a capital conservation buffer of 0.625 percent, above the regulatory minimum capital requirement of 10.0 percent during the review quarter.

4.2 Liquidity

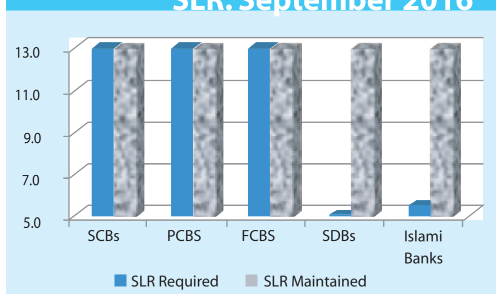
During the review quarter of CY16, banking sector, as a whole, was able to maintain the required level of CRR[10] and SLR.

Chart 4.5 Banking sector CRR: September 2016



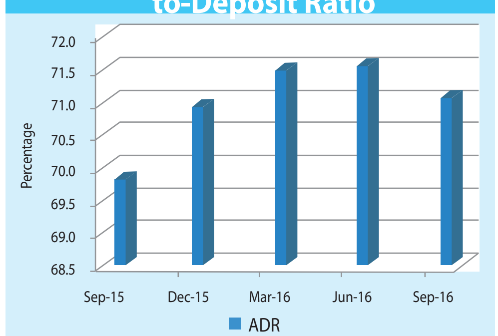
Source: DOS, BB.

Chart 4.6 Banking sector SLR: September 2016



Source: DOS, BB.

Chart 4.7 Banking Sector Advance-to-Deposit Ratio



Source: DOS, BB.

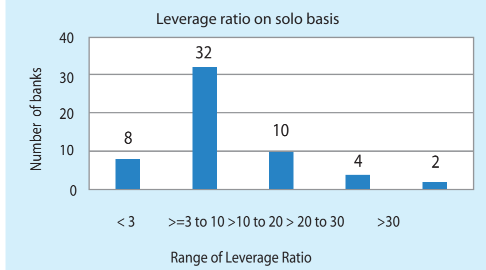
[10] On bi-weekly average basis.

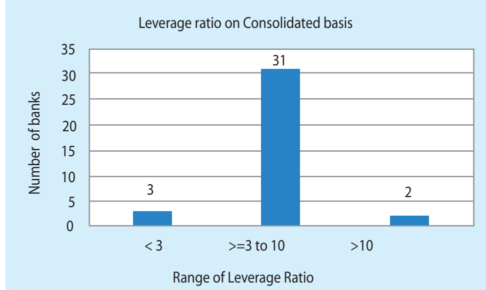
As evident from Chart 4.7, ADR of the overall banking industry has decreased by 50 basis points at end-September 2016 from that of end- June 2016.

4.3 Leverage ratio

In the review quarter, banking industry has been able to fulfill the leverage ratio requirement of 3.0 percent, on both solo and consolidated bases. At end-September 2016, banking industry's leverage ratio was 4.8 percent on solo basis; 48 out of 56 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 of 3.0 percent.

Chart 4.8 Leverage ratio of banks at End-September 2016





Source: DOS, BB.

Chapter-5

Financial Institutions' Liquidity and Capital Adequacy

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

5. 1 Liquidity

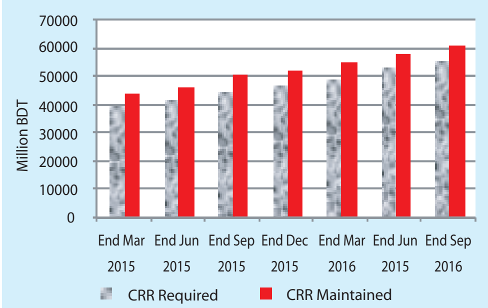
As of end-September 2016, the aggregate amount of maintained CRR was BDT 6,126.1 million as compared to BDT 5,829.6 million recorded at end-June 2016, scoring an increment of 5.1 percent. On the other hand, at end-September 2016, the amount of maintained SLR was BDT 71.1 billion, which is 2.5 percent higher than the amount maintained at end-June 2016. During the review quarter, the FIs sector had no CRR and SLR shortfall [11].

5.2 Capital Adequacy

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

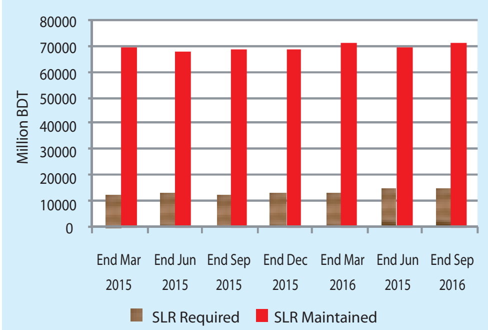
The CAR of the FIs sector decreased slightly from 16.7 percent of the June quarter of CY16 to 16.3 percent in the September quarter of CY16. It is to mention that the maintained CAR was well above the minimum regulatory requirement. In addition, the Tier-1 capital ratio was recorded at nearly 15.0 percent in the review quarter of CY16; slightly lower than the ratio of end-June 2016.

Chart 5.1 FIs' CRR



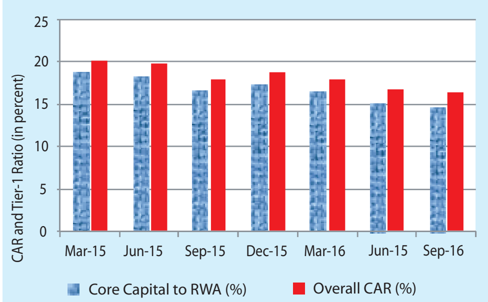
Source: DFIM, BB.

Chart 5.2 FIs' SLR



Source: DFIM, BB.

Chart 5.3 Capital Adequacy Ratio of FI Sector



Source: DFIM, BB.

[11] 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.

Chapter-6

Stress Testing and Resilience of the Banking and FIs Sectors

6.1 Stress Test

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

6.2 Stress Test on Banks[12]

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

6.2.1 Individual Shocks

Data as of end-September 2016 revealed that the banking sector's capital to risk weighted asset ratio (CRAR)[13] was 10.3 percent. Out of 56, 9 banks' pre-shock CRARs were below the minimum regulatory requirement of 10.0 percent. Therefore, the remaining 47 banks were considered for the analyses based on end-September 2016 data. The following sub-sections give details of the shocks and their associated outcomes.

6.2.1.1 Credit Risk

a) **Increase in Non-performing Loans (NPL[14]):** If NPLs increased by 3, 9 and 15 percent, then 6, 29 and 33 banks respectively would have failed 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, 33 and 37 banks respectively would have been non-compliant in maintaining the minimum required CRAR.

c) **Fall in the Forced Sale Value (FSV) of Mortgaged Collateral:** If FSV of mortgaged collateral declined by 10, 20 and 40 percent, then 2, 3, and 8 banks respectively would have been non-compliant in maintaining the minimum required CRAR.

d) **Negative Shift in the NPL Categories:** If NPL categories shifted downward by 5, 10 and 15 percent, then 2, 15, and 22 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 a minor shock, no bank would fall below the minimum regulatory requirement. However, due to moderate and major shocks, 1 and 4 banks respectively would fall below the minimum regulatory requirement.

6.2.1.2 Market Risk

The banking industry 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, 9 and 10 banks respectively would fail to maintain the minimum required CRAR.

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

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

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

Table 6.1 Stress test on the Banking Sector Based on the Data as of End-September 2016

Shocks[15]	Banking Sector (%)
Pre-shock CRAR	10.31
CRAR after shock (%)	
Credit Risks:	
Increase in NPLs:	
Shock-1: 3%	9.51
Shock-2: 9%	7.47
Shock-3: 15%	4.09
Increase in NPLs due to default of top large borrowers	
Shock-1: Top 3 borrowers	8.81
Shock-2: Top 7 borrowers	7.34
Shock-3: Top 10 borrowers	6.61
Fall in the FSV[16] of mortgaged collateral	
Shock-1: 10%	9.79
Shock-2: 20%	9.26
Shock-3: 40%	8.18
Negative shift in the NPL categories	
Shock-1: 5%	9.67
Shock-2: 10%	7.49
Shock-3: 15%	6.34
Increase in NPLs in highest outstanding sectors	
Sector concentration 1[17] ***(Performing loan directly downgraded to B/L[18])***	
Shock-1: 3%	10.26
Shock-2: 9%	10.17
Shock-3: 15%	10.07
Sector concentration 2[19] ***(Performing loan directly downgraded to B/L)***	
Shock-1: 3%	10.27
Shock-2: 9%	10.18
Shock-3: 15%	10.09
Market Risks	
Interest rate risk (change in interest rate)	
Shock-1: 1%	9.93
Shock-2: 2%	9.56
Shock-3: 3%	9.18
Exchange rate risk (Currency appreciation/depreciation)	
Shock-1: 5%	10.26
Shock-2: 10%	10.20
Shock-3: 15%	10.15
Equity price risk (Fall in equity prices)	
Shock-1: 10%	10.04
Shock-2: 20%	9.77
Shock-3: 40%	9.22
Combined Shock	
Shock-1	7.64
Shock-2	2.19
Shock-3	-4.40

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

b) Exchange Rate Risk: In the event of currency appreciation/ depreciation by 5, 10, and 15 percent, no bank's CRAR would fall below the minimum required level.

c) Equity Price Risk: In the event of a 10, 20 and 40 percent fall in equity prices, 3, 3 and 4 banks respectively would be non-compliant in maintaining the minimum required CRAR.

6.2.2 Combined Shock[20]

In the event of minor, moderate and major combined shocks, 19, 32 and 38 banks respectively would be undercapitalized; CRAR in these cases would be downgraded to 7.6, 2.2, and – 4.4 percent respectively.

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

6.2.3 Liquidity Shock

The individual banks and the banking system as a whole seemed to remain resilient against specified liquidity stress scenarios at end-September 2016.

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

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

* Consecutive 5 working days.

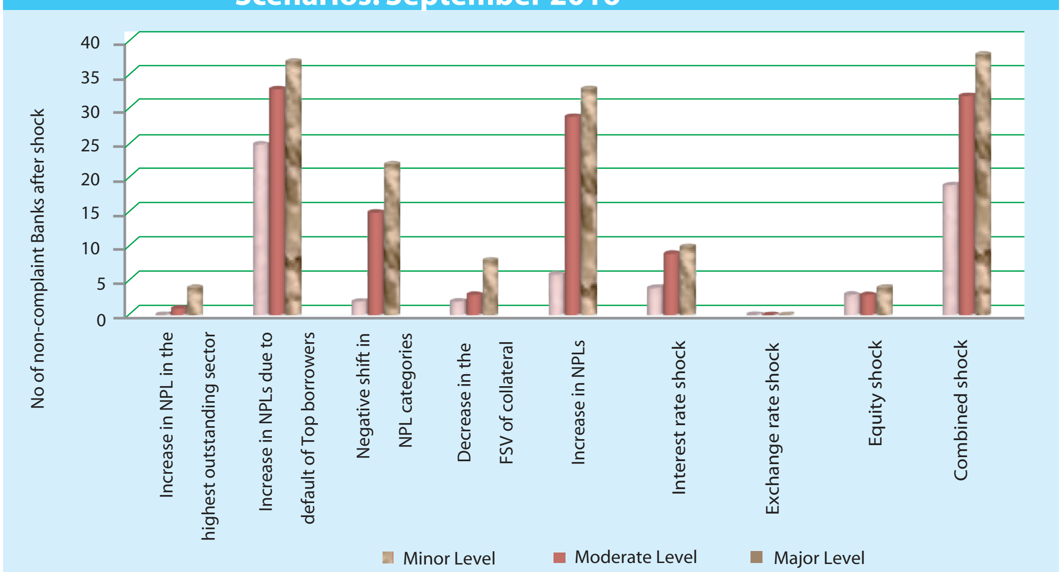
Note: '1' indicates that the system is liquid and '0' is not liquid.

Source: FSD, BB.

6.3 Stress Test on FIs

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

Chart 6.1 Number of Non-compliant Banks at Different Shock Scenarios: September 2016



Source: FSD, BB.

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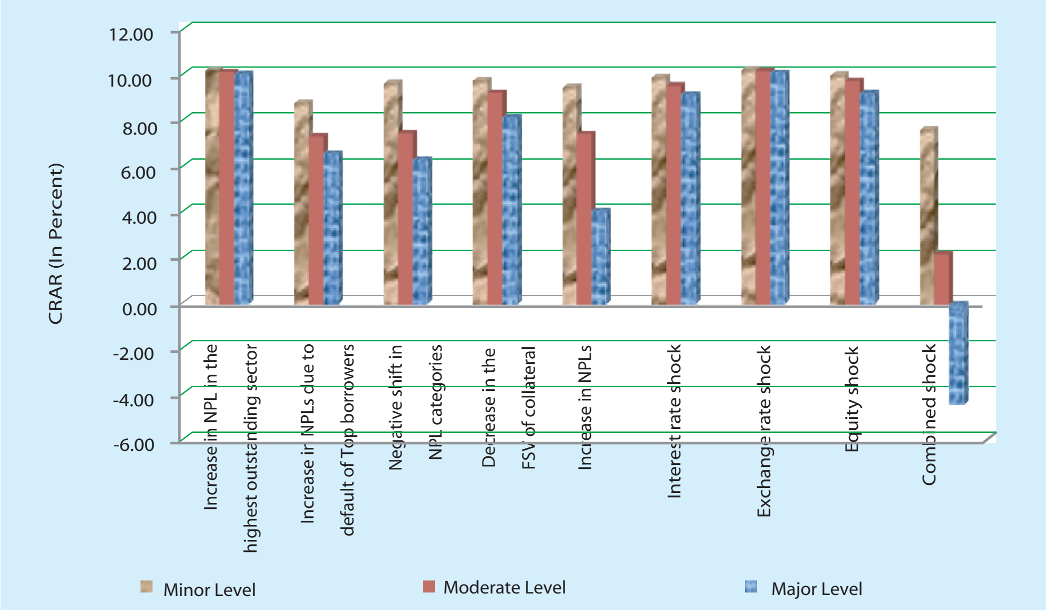
[20] Combined shock comprised of aggregate stress results of increase in NPLs, negative shifts in NPL categories, decrease in the FSV of the mortgaged collateral, exchange rate shock, equity price shock and interest rate shock.

Chart 6.2 Banking Sector CRAR at Different Shock Scenarios: September 2016



Source: FSD, BB.

Result of the stress tests revealed that resilience of the FIs sector improved during the review quarter compared with that of the preceding quarter. At end-September 2016, out of 33 FIs, 6, 17, and 10 FIs were positioned in Green, Yellow, and Red zones respectively (Table 6.3).[21] It is mentionable that the results of stress testing, depicted here, are based on sensitivity analysis under several hypothetical assumptions. Therefore, the results should not be treated as exact materialization of shock events.

Table 6.3 Stress Testing: Zonal Position of FIs (Number of FIs)

Quarter	Green	Yellow	Red
End-Sep 2015	4	13	14
End-Dec 2015	4	18	10
End-Mar 2016	4	17	11
End-Jun 2016	5	13	15
End-Sep 2016	6	17	10

Source: DFIM, BB.

[21] 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.

Chapter-7

Capital Market Development and Corporate Bond Market

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

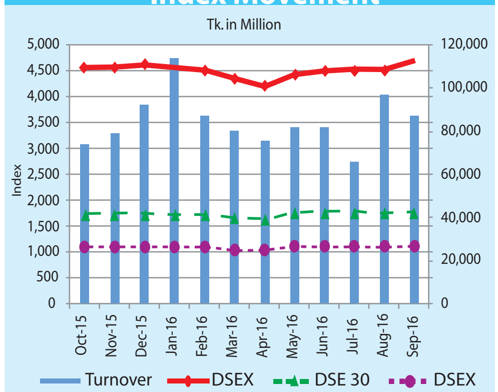
7.1 DSE Performance and Index Movement

In the third quarter of CY16, Dhaka Stock Exchange (DSE) turnover was BDT 248.9 billion as compared to BDT 237.9 billion recorded in the second quarter of CY16, scoring a 4.7 percent gain in terms of volume. At end-September 2016, key DSE indices DSEX, DSE30 and DSES – increased by 4.2, 0.4 and 1.4 percents respectively from those of end-June 2016.

7.2 Price/Earnings (P/E) Ratio

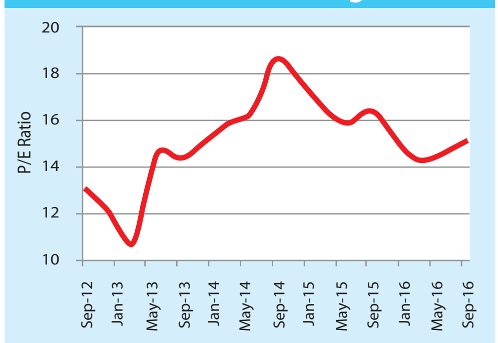
The weighted average P/E ratio in September 2016 was 15.1, which was 50 basis points higher than that of June 2016. The overall market P/E ratio displayed an upward trend in the third quarter of CY16.

Chart 7.1 DSE Performance and Index Movement



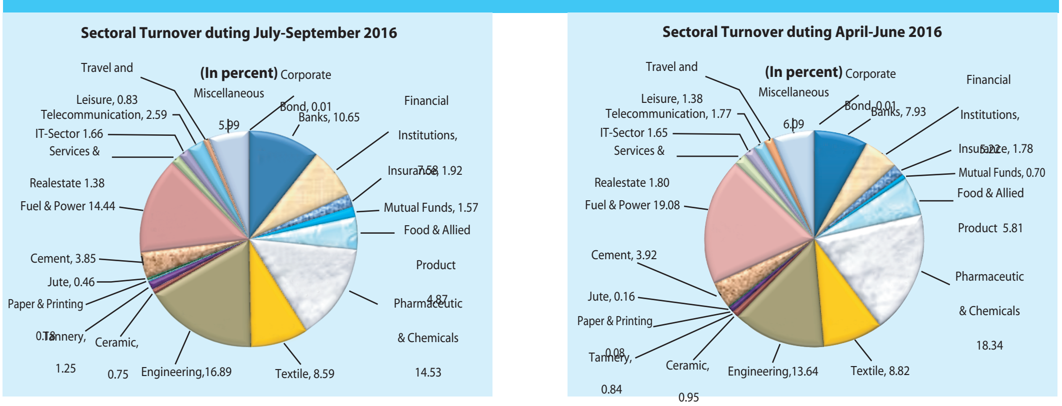
Source: DSE; Compilation: FSD, BB.

Chart 7.2 Price/Earnings Ratio



Source: DSE.

Chart 7.3 Sectoral Turnover (in percent) in DSE



[22] Third quarter of calendar year 2016.

7.3 Sectoral Turnover

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

It is mentionable that, in the review quarter, contribution of the banking sector to DSE turnover was 10.7 percent, as compared to 7.9 percent recorded in the June quarter of CY16. The financial institutions sector's contribution was 7.6 percent which was 5.2 percent in the previous quarter.

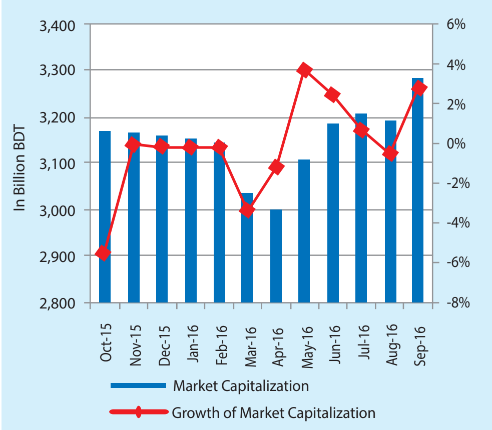
7.4 Market Capitalization

At end-September 2016, the market capitalization stood at BDT 3,281.9 billion, which is about 3.0 percent higher than that of end- June 2016. The growth rate of market capitalization picked up in the last month of the review quarter after a downward trend since May 2016.

7.5 Corporate Bond Market

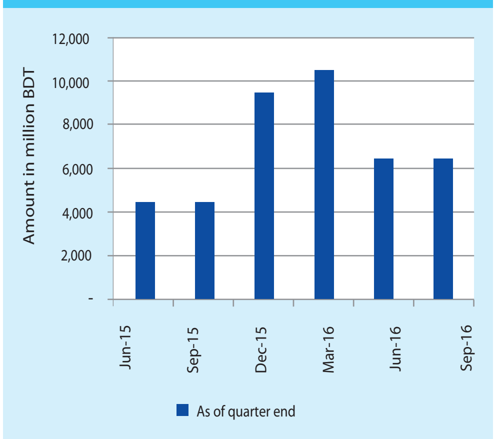
No corporate bonds were issued in the third quarter of CY16.

Chart 7.4 Market Capitalization and Its Growth Rate



Source: DSE; Compilation: FSD, BB.

Chart 7.5 Corporate Bond Issuance



Source: DFIM, BB.

Chapter-8

Recent Stability Initiatives of Bangladesh Bank

During the July-September quarter of the calendar year 2016 (CY16), Bangladesh Bank (BB) has brought about few notable changes as well as new initiatives having bearing on the domestic financial system stability. Some of the important ones are as follows:

8.1 Scheduling of Shimanto Bank Limited

During the review quarter, BB has granted permission to a new bank named Shimanto Bank Limited to operate as a scheduled bank in Bangladesh thus increasing the number to a total of 57 scheduled banks.

8.2 Guidelines on Commercial Paper for Banks

Considering the rapid growth of commercial paper (CP) market, as an alternative to bank financing in Bangladesh, BB has issued "Guidelines on Commercial Paper (CP) for Banks" to set uniform and standard procedures outlining general as well as specific instructions for banks regarding their permissible activities in CP market.

8.3 Amendment of Guidelines on Internal Control & Compliance in Banks

With the aim to make it more effective and realistic, BB has revised the "Guidelines on Internal Control & Compliance in Banks" by replacing/changing few sections of the same. Changes involve issues regarding internal control and compliance department (ICCD), audit plan, process and reporting.

8.4 Precautionary Measures to Ensure Safety of Bank Branch

BB has amended section 3(Gha) of BRPD circular no. 07 dated 05 July 2015 regarding the above-mentioned subject. The amendment includes instructions to Sonali, Janata, Agrani and Rupali banks to build up separate funds and all other banks to ensure full insurance coverage of cash at vault, cash on counter, cash in transit and cash in ATM booth to avoid any unexpected risks associated with those.

8.5 Monitoring of Sector-wise Outstanding Loans of Banks

In order to make the analysis of sector-wise loans more effective and informative, BB has revised the format of quarterly statement of sector-wise outstanding loans, which now includes a separate statement for OBU (Off-shore Banking Unit) loans and covers sector-wise loan information at more granular level.

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 has enhanced the limit of releasable foreign exchange to private sector participants for attending seminars, conferences, workshops and training, etc. abroad on per diem basis. Now, authorized dealers (AD) may release USD 350 per diem for SAARC member countries or Myanmar, and USD 400 per diem for other countries for the stated purposes. Any amount beyond this limit will require prior approval of BB.

ii) ADs have been allowed to remit abroad up to USD 25,000 (earlier USD 20,000) on behalf of IT/Software firms to meet their bona fide expenses in a calendar year.

Accordingly, the limit for issuance of International Card to a nominated official of IT/Software firm has been increased to USD 2,500 from USD 2,000 within the revised total of USD 25,000.

iii) In order to facilitate inward remittance against service export, BB has raised the maximum allowable limit per transaction for service export related payments through Online Payment Gateway Service Providers from USD 2,000 to USD 5,000.

iv) ADs have been allowed to discount foreign currency denominated usance bills of Type C companies of EPZ against their direct/deemed export bills in foreign currency provided that all relevant instructions of Guidelines for Foreign Exchange Transactions 2009 and FE circular no 03 dated 04 February 2013 are followed accordingly.

v) BB has issued a new circular regarding foreign exchange regulations applicable for enterprises and developers operating in Economic Zones (EZs) in Bangladesh. Through the circular, ADs have been instructed about their permissible activities in EZs with regard to exports, imports, credit facilities, account maintenance, repatriation of dividend/investment/ various fees to non-residents and reporting thereof. The circular also provides an overview of Acts, rules and regulations applicable to enterprises/developers of EZs.

8.7 Agricultural & Rural Credit Policy & Program for the FY 2016-17

During the review quarter, BB has announced its agricultural & rural credit policy and programs for the financial year (FY) 2016-17. The disbursement target by banks, during this period, has been set at BDT 17,550 crore which is 7.0 percent higher than that of previous year. The credit policy and program provides a highlight of banks' credit disbursement in agricultural and rural sector in FY 2015-16, describes briefly the features of this program and delineates activities regarding credit disbursements, monitoring, recovery, use of information technology, awareness and training, among other topics.

8.8 Agricultural Credit Disbursement through Agent Booth

In order to expand agricultural credit programs throughout the country, BB has encouraged scheduled banks to utilize the facility of agent banking for disbursing agricultural credits along with other banking activities. In this regard, BB has issued instructions for banks interested in using agent banking for the purpose of agricultural credit disbursement.

8.9 Two Step Loan Fund under JICA Assisted Urban Building Safety Project

In order to strengthen the safety measures of ready-made garments (RMG) factories, particularly in Dhaka, Narayanganj and Gazipur Districts and Chittagong City, through short and long-term finance, a Two Step Loan (TSL) fund has been established in BB under the Urban Building Safety Project sponsored by Japan International Cooperation Agency (JICA). Under TSL fund, Participating Financial Institutions (PFIs) will be provided with refinance or pre-finance for lending to enhance the safety of RMG factories. In this regard, an operational guidelines has been issued incorporating the terms and conditions of Sub Loans and On Lending Loan (OLL), eligibility criteria of the applicants, eligibility criteria for accreditation as PFIs, and other related issues.

Appendices

Table I : CPI Inflation (12 month Average)

(In Percent)

Month	Inflation (General)	Inflation (Food)	Inflation (Non-Food)
Sep-15	6.2	6.3	6.2
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

Base: 2005-06=100

Table II Foreign Exchange Reserve

(Amount in million USD)

Month-end	International Reserve
Apr-15	24,071.7
May-15	23,707.7
Jun-15	25,021.0
July-15	25,469.1
Aug-15	26,175.3
Sep-15	26,379.0
Oct-15	27,058.4
Nov-15	26,407.6
Dec-15	27,493.3
Jan-16	27,138.9
Feb-16	28,058.5
Mar-16	28,265.9
Apr-16	29,106.2
May-16	28,802.9
Jun-16	30,137.6
Sep-16	31,385.9

Table III Wage Earners' Remittance

(Amount in million USD)

Quarter	Amount
Sep-14	4,010.0
Dec-14	3,476.0
Mar-15	3,771.1
Jun-15	4,058.6
Sep-15	3,933.6
Dec-15	3,553.6
Mar-16	3,572.5
Jun-16	3,871.5
Sep-16	3,245.8

Table IV Industrial Production Index (General-Manufacturing

Quarter	Index
Sep-14	241.6
Dec-14	243.4
Mar-15	227.5
Jun-15	285.5
Sep-15	238.7
Dec-15	286.1
Mar-16	272.2
Jun-16	321.2
Sep-16	244.5[p]

P=Provisional

Table V Exports and Imports

(Amount in million USD)

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
Sep-14	7,665.1	10,003.0
Dec-14	7,219.1	10,045.7
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

Table VI Interest Rate (Weighted Average) Spread

(In Percent)

Period	Lending Rate	Deposit Rate	Spread
Sep-14	12.6	7.5	5.1
Dec-14	12.5	7.3	5.2
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

Table VII Weighted Average Exchange Rate

(BDT/USD)

Quarter	Period Average	End Period
Sep-14	77.4000	77.4000
Dec-14	77.8522	77.9494
Mar-15	77.8000	77.8000
Jun-15	77.8002	77.8050
Sep-15	77.8000	77.8000
Dec-15	78.7800	78.5100
Mar-16	78.4100	78.4000
Jun-16	78.4000	78.4000
Sep-16	78.4000	78.4000

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

(Amount in billion BDT)

Period	Amount
Sep-14	1,742.5
Dec-14	1,776.8
Mar-15	1,738.6
Jun-15	1,703.4
Sep-15	1,803.0
Dec-15	1,710.6
Mar-16	1,632.5
Jun-16	1,804.8
Sep-16	1,807.7

Table IX Asset Structure of the Banking Industry

(Amount in billion BDT)

Property and Assets	30-09-15	31-12-2015	31-03-2016	30-06-2016	30-09-2016
Cash in hand	106.6	93.9	92.0	133.1	107.5
Balance with Bangladesh Bank and its Agent Bank	608.6	662.5	649.8	669.1	691.1
Balance with other banks and financial Institutions	330.1	390.1	390.2	442.7	408.1
Money at call and short notice	93.7	85.3	107.8	125.0	102.2
Investment	2,037.3	2,226.1	2,069.4	2070.2	2154.9
Loans and Advances	5,827.2	6,002.8	6,316.5	6660.6	6736.4
Fixed Assets	220.0	243.3	224.6	225.3	225.8
Other Assets	774.7	549.0	676.2	799.1	867.1
Non-banking assets	2.9	2.3	3.3	3.4	3.5
Total Assets	**10,001.2**	**10,255.3**	**10,529.8**	**11,128.5**	**11,296.6**

Table X Banking Sector Assets & NPL Concentration (September-2016)

(Amount in billion BDT)

Assets	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount	3,806.0	7,490.6	5,328.2	5,968.4
Share (%)	33.7%	66.3%	47.2%	52.8%
NPL	**Top 5 banks**	**Other banks**	**Top 10 banks**	**Other banks**
Amount	308.9	338.6	419.4	228.1
Share (%)	47.7%	52.3%	64.8%	35.2%

Table XI Banking Sector NPL Ratio

(Amount in billion BDT)

Quarter	Aggregate NPL	Gross NPL Ratio (NPL/TL) (%)	NPL (net of LLP and IS) Ratio (%)	NPL (net of LLP and IS)/ Reg. Cap. (%)
Sep-14	572.9	11.6	4.3	30.0
Dec-14	501.6	9.7	2.7	17.9
Mar-15	546.6	10.5	3.7	25.8
Jun-15	525.2	9.7	2.8	20.8
Sep-15	547.1	9.9	2.8	20.1
Dec-15	513.7	8.3	2.3	16.5
Mar-16	594.1	9.9	2.9	21.2
Jun-16	633.7	10.1	2.8	21.1
Sep-16	657.3	10.3	2.8	20.8

Table XII Distribution of Banks by NPL Ratio

Range	Number of Banks as at end						
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Up to 2.0%	10	10	7	9	8	9	5
2.0% to <3.0%	5	5	7	6	5	4	5
3.0% to <5.0%	5	6	9	14	11	13	13
5.0% to <10.0%	22	21	18	15	18	17	17
10.0% to <15.0%	3	4	4	3	4	2	6
15.0% to <20.0%	1	0	1	1	1	2	1
20.0% & above	10	10	10	8	9	9	9
Total	56	56	56	56	56	56	56

Table XIII Banking Sector Loan Loss Provisions

(Amount in billion BDT)

Period	Required Provision	Provision Maintained	Provision Maintenance Ratio (%)
Mar-14	283.0	258.7	91.4
Jun-14	300.4	260.4	86.7
Sep-14	318.6	289.6	90.9
Dec-14	289.6	281.7	97.3
Mar-15	306.8	269.0	87.7
Jun-15	300.3	275.6	91.8
Sep-15	308.5	285.2	92.4
Dec-15	308.9	266.1	86.1
Mar-16	336.2	294.9	87.7
Jun-16	361.8	317.3	87.7
Sep-16	372.3	328.5	88.2

Table XIV Banking Sector Classified Loans Ratios

(In percent)

Period	Classified Loans To Total Loans	Sub-Standard Loans To Classified Loans	Doubtful Loans To Classified Loans	Bad Loans To Classified Loans
Mar-14	10.5	15.0	8.7	76.3
Jun-14	10.8	14.0	9.2	76.8
Sep-14	11.6	15.6	10.5	73.9
Dec-14	9.7	11.0	11.2	77.8
Mar-15	10.5	14.1	8.8	77.1
Jun-15	9.7	11.3	8.5	80.2
Sep-15	9.9	11.2	8.8	80.0
Dec-15	8.8	8.9	6.4	84.7
Mar-16	9.9	15.1	5.4	79.6
Jun-16	10.1	11.8	8.3	79.9
Sep-16	10.3	11.6	6.0	82.4

Table XV Classified Loan Composition (End-September 2016)

(Amount in billion BDT)

Particulars	Amount	Percent Of Total
Sub-Standard	76.5	11.6
Doubtful	39.1	6.0
Bad & Loss	541.7	82.4
Total	**657.3**	**100.0**

Table XVI Banking Sector ROA Range

Quarter	ROA Range			
	Up to 2.0%	> 2.0% to ≤ 3.0%	> 3.0% to ≤ 4.0%	> 4.0%
Jun-14	45	4	1	6
Sep-14	48	2	1	5
Dec-14	49	5	0	2
Mar-15	51	1	3	1
Jun-15	49	4	2	1
Sep-15	49	3	1	3
Dec-15	35	12	5	4
Mar-16	48	2	2	4
Jun-16	50	4	0	2
Sep-16	49	6	1	0

Note: ROAs have been annualized from respective quarterly ratios.

Table XVII Banking Sector ROE Range

Quarter	ROE Range			
	Up to 5.0%	> 5.0% to ≤ 10.0%	> 10.0% to ≤ 15.0%	> 15.0%
Mar-14	18	15	10	13
Jun-14	18	14	9	15
Sep-14	30	7	4	15
Dec-14	18	11	17	10
Mar-15	22	16	14	4
Jun-15	16	15	12	13
Sep-15	23	15	9	9
Dec-15	9	7	12	28
Mar-16	20	18	7	11
Jun-16	20	12	11	13
Sep-16	20	16	10	10

Note: ROEs have been annualized from respective quarterly ratios.

Table XVIII Banking Sector ROA and ROE

	Quarter						
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
ROA	0.6	0.4	0.6	1.3	0.5	0.2	0.6
ROE	5.6	4.9	6.6	14.2	6.8	3.1	8.3

Notes: The figures are annualized from respective quarterly ratios.

Table XIX FIs' Borrowing, Deposit and Capital

(Amount in billion BDT)

Particulars	June-2016	September-2016
Borrowings	156.1	155.9
Deposits	351.4	362.1
Capital	100.0	102.1
Other Liabilities	64.9	66.0
Total	**672.4**	**686.1**

Table XX FIs' Asset Composition

(Amount in billion BDT)

Particulars	June-2016	September-2016
Cash & Balance with Banks/FIs	92.4	99.3
Investments	22.9	20.6
Loans & Leases	499.2	511.7
Other Assets	50.9	47.2
Fixed Assets	7.0	7.3
Total	**672.4**	**686.1**

Table XXI FIs' Classified Loans and Leases

(Amount in billion BDT)

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
Jun-14	18.5	5.4
Sep-14	22.4	6.2
Dec-14	19.7	5.3
Mar-15	27.6	7.0
Jun-15	31.6	7.7
Sep-15	45.2	10.6
Dec-15	40.0	8.9
Mar-16	41.8	8.9
Jun-16	45.1	9.0
Sep-16	45.6	8.9

Table XXII FIs' ROA & ROE

(In percent)

Quarter	Aggregate ROA	Aggregate ROE
Sep-14	2.2	12.2
Dec-14	2.0	10.9
Mar-15	1.2	6.7
Jun-15	2.0	11.4
Sep-15	1.3	7.8
Dec-15	2.0	11.8
Mar-16	0.6	3.9
Jun-16	0.8	5.5
Sep-16	0.9	6.0

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

Table XXIII Banking Sector CAR/CRAR

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

Table XXIV Banking Sector Asset Share based on CRAR as at end-Sep 2016

CRAR	Number of banks & their asset size		Asset share (%)
	Number of banks	Asset size (in billion BDT)	
<10%	9	3,556.2	31.5
10% to ≤ 15%	32	6,975.2	61.7
15% +	15	765.2	6.8
Total	**56**	**11,296.6**	**100.0**

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

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

Table XXVI Distribution of Risk Weighted Assets of the Banking Industry

(Amount in billion BDT)

Particulars	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
RWA for Credit Risk	5,553.9	5,732.3	5,969.9	6,008.4	6,174.5	6474.93	6570.6
RWA for Market Risk	323.3	316.4	336.0	313.8	301.4	316.25	310.2
RWA for Operational Risk	583.8	593.1	600.2	626.1	643.1	645.50	653.3
Total RWA	**6,461.0**	**6,641.8**	**6,906.1**	**6,948.3**	**7,119.0**	**7,436.7**	**7534.1**

Table XXVII Banking Sector Regulatory Capital Position (Solo Basis)

(Amount in billion BDT)

Period	Minimum Capital Requirement	Total Regulatory Capital
Jun-15	704.9	682.3
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

Table XXVIII Banking Sector Advance-to-Deposit Ratio (ADR)

(In percent)

Period	ADR
Mar-14	69.9
Jun-14	70.5
Sep-14	69.9
Dec-14	70.9
Mar-15	70.5
Jun-15	70.3
Sep-15	69.8
Dec-15	71.0
Mar-16	71.5
Jun-16	71.6
Sep-16	71.1

Table XXIX Bank Cluster-wise ADR at end-Sep 2016

(In percent)

Bank wise	ADR (%)
SCBs	51.1
PCBs	80.0
FCBs	63.1
DFIs	79.5
Industry	71.1

Table XXX FIs' CRR & SLR

(Amount in billion BDT)

Quarter End	Aggregate CRR			Aggregate SLR		
	Required	Maintained	Surplus/Shortfall	Required	Maintained	Surplus/Shortfall
Jun 2014	3,530.5	3,928.9	398.4	10,981.2	60,698.7	49,717.5
Sep 2014	3,720.5	4,049.0	328.5	11,582.8	66,411.9	54,829.1
Dec 2014	3,887.7	4,396.9	509.2	12,053.7	65,557.8	53,504.1
Mar 2015	4,015.8	4,414.3	398.5	12,544.7	69,205.1	56,660.4
Jun 2015	4,251.0	4,594.1	343.1	13,169.1	67,786.3	54,617.2
Sep 2015	4,542.1	5,052.1	510.0	12,433.1	68,748.9	56,315.8
Dec 2015	4,781.6	5,234.6	453.0	12,935.7	68,042.7	55,107.0
Mar 2016	4,976.3	5,540.4	564.1	13,567.2	71,023.4	57,456.2
Jun 2016	5,312.6	5,829.6	517.0	14,570.9	69,361.9	54,791.0
Sep 2016	5,576.8	6,115.4	538.6	15,122.4	71,110.0	55,987.6

Table XXXI Capital Adequacy Ratio of FI Sector

Quarter End	End Sep-15	End Dec-15	End Mar-16	End Jun-16	End Sep-16
Eligible Capital to RWA (%)	17.9	18.7	17.9	16.7	16.3

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

(Amount in billion BDT)

Particulars	End Mar-15	End Jun-15	End Sep-15	End Dec-15	End Mar-16	End Jun-16	End Sep-16
Risk Weighted Assets (RWA)							
Credit RWA	440.64	460.02	474.97	465.03	481.27	495.96	506.39
Market RWA	37.38	39.34	40.48	40.46	39.45	42.53	47.57
Operational RWA	33.63	33.90	33.93	37.14	37.58	38.73	38.91
Total RWA	**511.65**	**533.26**	**549.38**	**542.63**	**558.31**	**577.22**	**592.87**
Capital							
Core Capital (Tier -1)	98.01	96.62	91.38	94.61	92.68	88.45	88.79
Supplementary Capital	5.35	6.44	6.92	6.68	7.20	7.85	7.99
Eligible Capital	103.36	103.06	98.3	101.29	99.89	96.30	96.78

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

(Based on data as of end-Sep 2016)

Shocks	CRAR after Shock (%)		
	Minor Level	Moderate Level	Major Level
Increase in NPL in the highest outstanding sector	10.26	10.17	10.07
Increase in NPLs due to default of Top borrowers	8.81	7.34	6.61
Negative shift in NPL categories	9.67	7.49	6.34
Decrease in the FSV of collateral	9.79	9.26	8.18
Increase in NPLs	9.51	7.47	4.09
Interest rate shock	9.93	9.56	9.18
Exchange rate shock	10.26	10.20	10.15
Equity shock	10.04	9.77	9.22
Combined shock	7.64	2.19	-4.40

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

(Based on data as of end-Sep 2016)

Shocks	No. of Banks		
	Minor Level	Moderate Level	Major Level
Increase in NPL in highest outstanding sector	0	1	4
Increase in NPLs due to default of Top borrowers	25	33	37
Negative shift in NPL categories	2	15	22
Decrease in the FSV of collateral	2	3	8
Increase in NPLs	6	29	33
Interest rate shock	4	9	10
Exchange rate shock	0	0	0
Equity shock	3	3	4
Combined shock	19	32	38

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

Table XXXV Price/Earnings Ratio of Capital Market

Quarter	Price/Earnings Ratio
Sep-14	18.6
Dec-14	17.8
Mar-15	16.5
Jun-15	15.9
Sep-15	16.4
Dec-15	15.2
Mar-16	14.3
Jun-16	14.6
Sep-16	15.1

Table XXXVI DSE Performance: October 2015 to September 2016

Month	DSE Turnover (BDT in millions)	Index		
		DSEX	DSE 30	DSES
Oct-15	73,357.07	4,564.49	1,725.97	1,092.30
Nov-15	78,419.91	4,581.00	1,734.08	1,102.45
Dec-15	91,611.96	4,629.64	1,750.59	1,107.12
Jan-16	113,496.31	4,540.89	1,719.15	1,095.27
Feb-16	86,421.46	4,511.97	1,722.85	1,099.78
Mar-16	79,972.67	4,357.54	1,648.95	1,052.14
Jun-16	81,382.95	4,507.58	1,770.82	1,110.84
Sep-16	86,893.82	4,695.19	1,778.70	1,125.86

Table XXXVII Market Capitalization

(Amount in billion BDT)

As on end-month	Market Capitalization	Growth of market capitalization (%)
Oct-15	3,168.91	-5.56
Nov-15	3,166.45	-0.08
Dec-15	3,159.76	-0.21
Jan-16	3,153.07	-0.21
Feb-16	3,143.50	-0.30
Mar-16	3,036.42	-3.41
Apr-16	2,999.85	-1.20
May-16	3,108.75	3.63
Jun-16	3,185.75	2.48
Jul-16	3,207.37	0.68
Aug-16	3,192.56	-0.46
Sep-16	3,281.91	2.80

Table XXXVIII Sector-wise Turnover Performance

(In percent)

Broad Sector	SECTOR	% of Total Turnover	
		2016Q2	2016Q3
Financial Sector	Banks	7.93	10.65
	Financial Institutions	5.22	7.58
	Insurance	1.78	1.92
	Mutual Funds	0.70	1.57
Manufacturing	Food & Allied Product	5.81	4.87
	Pharmaceuticals & Chemicals	18.34	14.53
	Textile	8.82	8.59
	Engineering	13.64	16.89
	Ceramic	0.95	0.75
	Tannery	0.84	1.25
	Paper & Printing	0.08	0.18
	Jute	0.16	0.46
	Cement	3.92	3.85
Service & Miscellaneous	Fuel & Power	19.08	14.44
	Services & Real estate	1.80	1.38
	IT - Sector	1.65	1.66
	Telecommunication	1.77	2.59
	Travel and Leisure	1.38	0.83
	Miscellaneous	6.09	5.99
Bond	Corporate Bond	0.01	0.01
	Total	100.00	100.00

Note: 2016Q2 June quarter 2016, 2016Q3 September quarter 2016.

Table XXXIX Corporate Bond Issuance

(Amount in million BDT)

Corporate Bond Issuance	End Period						
	Mar-2015	Jun-2015	Sep-2015	Dec-2015	Mar-2016	Jun-2016	Sep-2016
	4,500.0	4,500.0	4,500.0	9,500.0	10,500.0	6,450.0[R]	6,450.0

R=Revised

Quarterly

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