Quarterly Financial Stability Assessment Report

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Bangladesh Bank

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July-September 2017

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

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MESSAGE FORM THE GOVERNOR

The global financial crisis of 2007-2009 was perhaps the most significant event in recent financial history that presented various challenges in maintaining financial stability for regulatory authorities around the globe. Indeed, the crisis forced regulatory attention towards enhancing financial stability by beefing up capital and liquidity buffers, more stringent regulations, and introduction of macroprudential policy. In line with the stances of other central banks, Bangladesh Bank has also commenced evaluation of financial system risks and vulnerabilities and implementation of macroprudential initiatives with a broad-based contingency planning framework and inter-agency coordination activities.

Bangladesh Bank is steadily strengthening financial sector regulation and supervision towards convergence with Basel based standards on capital adequacy, loan-loss provisioning, liquidity, leverage, governance and risk management to the best extent possible. Nevertheless, there is no room for complacency; we have to remain vigilant to manage core risks that may impede smooth financial intermediation process and raise stability issues putting stakeholders' confidence on the financial system into question. Through this report, we want to let the stakeholders of the financial system know 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 the report which may help them 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 FORM THE DEPUTY GOVERNOR

The global economic activity has demonstrated an upswing during July-September, 2017. Growth in China and other parts of emerging Asia remains strong, and the difficult conditions faced by several commodity exporters in Latin America, the Commonwealth of Independent States, and sub-Saharan Africa has showed some signs of improvement. The notable growth pickup in advanced economies was broad based, with stronger activity in the United States and Canada, the euro area, and Japan. Financial market sentiment has generally been strong, with continued gains in equity markets in advanced as well as emerging market economies. Of course, the current global macro-economic and financial market environment is still subject to various uncertainties, e.g., the sustainability of global growth momentum, the impact of monetary policy normalisation by the US Federal Reserve and possibly other major central banks, trade-off between containing financial risks and sustaining growth in China, and the recent escalation of geopolitical tensions in a number of jurisdictions.

The Bangladesh economy demonstrated mixed performance during the review quarter attributable to increase in inflation and import, decrease in foreign exchange reserves, wage earners' remittance, export and credit to the Government by the banking sector. A number of initiatives taken by Bangladesh Bank also have implications for macro-financial stability of the country. Issuance of prudential guidelines for agent banking operation in Bangladesh, amendment of guidelines on credit card operations of banks, changes in the foreign exchange regulations, promotion of cashless transaction, issuance of instruction for prevention of money laundering, terrorist financing, and proliferation are instances of notable ones.

Bangladesh Bank has been working on increasing financial sector regulatory parameter and introducing best practices regarding capital, provisioning, liquidity, leverage, governance and risk management. Also, we are cautious in managing core risks that may hinder smooth functioning of the financial system.

I commend the dedication and effort of the officials of Financial Stability Department who worked hard in preparing this report. I hope all the stakeholders of the financial systems will get important insights from the report and will play their due roles in maintaining stability of the financial system in the forthcoming quarters.

Shitangshu Kumar Sur Chowdhury

Deputy Governor

Contents

		Page
Executive Summary		x
Chapter 1	**Macroeconomic Developments**	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
Chapter 2	**Banking Sector Performance**	03
2.1	Assets Structure	03
2.2	Asset Quality	04
2.3	Profitability	06
Chapter 3	**Financial Institutions' Performance**	07
3.1	Sources of Funds	07
3.2	Assets Composition	07
3.3	FI's Liability-Asset Ratio	07
3.4	Asset Quality	08
3.5	Profitability	08
3.6	FI sector asset concentration	08
Chapter 4	**Banking Sector Liquidity and Capital Adequacy**	09
4.1	Capital Adequacy	09
4.2	Liquidity	10
4.3	Leverage ratio	11
Chapter 5	**Financial Institutions' Liquidity and Capital Adequacy**	13
5. 1	Liquidity	13
5.2	Capital Adequacy	13
Chapter 6	**Stress Test and Resilience of the Banking and FIs Sectors**	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
Chapter 7	**Capital Market Development**	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

Contents

			Page
	7.1.4	Market Capitalization	19
	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	20
	7.2.4	Market Capitalization	21
Chapter 8	**Recent Stability Initiatives of Bangladesh Bank**		23
	8.1	Prudential Guidelines for Agent Banking Operation	23
	8.2	Loan Classification and Provisioning	23
	8.3	Amendment of Guidelines on Credit Card Operations of Banks	23
	8.4	Foreign Direct Investment Promotion Project (FDIPP)	23
	8.5	Help Desk to Assist Foreign Investors	24
	8.6	Changes in the Foreign Exchange Regulations	24
	8.7	Promotion of cashless transaction	25
	8.8	Issuance of Agricultural & Rural Credit Policy & Program for the FY 2017-18	25
	8.9	Instructions for Prevention of Money Laundering, Terrorist Financing and Proliferation Financing	26
	8.10	Issuance of Uniform KYC Profile Form for Insurance Companies	26
Appendix			27

List of Charts

			Page
Chart	1.1	Inflation	01
Chart	1.2	Foreign Exchange Reserves	01
Chart	1.3	Wage Earners' Remittance	01
Chart	1.4	Exports and Imports (FOB)	01
Chart	1.5	Interest Rate Spread	02
Chart	1.6	Exchange Rate	02
Chart	1.7	Credit to the Govt. (Gross) by the Banking System	02
Chart	2.1	Asset Size of the Banking Industry	03
Chart	2.2	Bank Cluster-wise Assets at end-September 2017	04
Chart	2. 3	Banking Sector Assets and Loans/ Advances	04
Chart	2. 4	Asset Structure of the Banking Industry	04
Chart	2. 5	Top 5 banks based on Assets Size	05
Chart	2. 6	Top 10 banks based on Assets Size	05
Chart	2. 7	Banking Sector Asset Concentration: Lorenz Curve	05
Chart	2. 8	NPL Ratio of the Banking Industry	05
Chart	2. 9	Distribution of banks by NPL ratio	05
Chart	2. 10	Banking Sector Loan Loss Provision	05
Chart	2. 11	Top 5 Banks based on NPL	06
Chart	2. 12	Top 10 Banks based on NPL	06
Chart	2. 13	Proportion of NPL Categories	06
Chart	2. 14	NPL Composition of Banks	06
Chart	2. 15	Distribution of Banking Sector Return on Assets (ROA)	06
Chart	2. 16	Distribution of Banking Sector Return on Equity (ROE)	06
Chart	3. 1	FIs' Sources of Fund	07
Chart	3. 2	FIs' Assets Composition	07
Chart	3. 3	FIs' Liability-Asset Ratio	08
Chart	3. 4	FIs' Non-performing Loans and Leases	08
Chart	3. 5	FIs' ROA and ROE	08
Chart	3. 6	FI sector asset concentration: Lorenz Curve	08
Chart	4.1	Banking Sector Capital to Risk-Weighted Assets Ratio	09
Chart	4.2	Assets Share of Banks based on CRAR at End-September 2017	09
Chart	4.3	Tier-1 Capital Ratio and Overall CRAR of the Banking Industry	10
Chart	4.4	Bank Cluster-wise CRAR at End-September 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-September 2017	11
Chart	4.8	Bank Cluster-wise Leverage ratio at End-September 2017	11
Chart	5. 1	FIs' CRR	13
Chart	5. 2	FIs' SLR	13
Chart	5. 3	Capital Adequacy Ratio of FI Sector	13
Chart	6. 1	Number of Non-compliant Banks at Different Shock Scenarios: September 2017	17
Chart	6. 2	Banking Sector CRAR at Different Shock Scenarios: September 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	CSE Performance	20
Chart	7.6	CSE Price/Earnings Ratio	21
Chart	7.7	Sectoral Turnover (in percent) in CSE	21
Chart	7.8	Market Capitalization and Its Growth Rate in CSE	21

List of Tables

			Page
Table	6. 1	Stress test on the Banking Sector Based on Data as of End-September 2017	16
Table	6. 2	Liquidity Risk in the Banking Sector: End-September 2017	17
Table	6. 3	Stress Testing: Zonal Position of FIs	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 (September-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-September 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	FIs' Borrowing, Deposit and Capital	34
Table	XIX	FIs' Asset Composition	34
Table	XX	FIs' Classified Loans and Leases	35
Table	XXI	FIs' ROA & ROE	35
Table	XXII	Banking Sector CAR/CRAR Distribution	35
Table	XXIII	Banking Sector Asset Share based on CRAR as at end-September 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-September 2017	37
Table	XXIX	FIs' 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	Sectoral Turnover of DSE	42
Table	XXXIX	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
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
TSL	Two-Step Loan
USD	United States Dollar
WAR	Weighted Average Resilience
WIR	Weighted Insolvency Ratio

Executive Summary

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

Global macroeconomic condition remained upbeat in general despite a few downside risks. Stronger growth in investment, trade and industrial production coupled with growing business and consumer confidence pushed up the global growth momentum in the first half of 2017 which has been projected to continue in the second half as well. While strong domestic demand contributed to the growth of China and most of the advanced economies except the United Kingdom, growth momentum slowed down in India due to lingering impact of its currency exchange initiative along with uncertainty over introduction of Goods and Services Tax. Expectations of lower consumer price inflation prevailed in emerging market and developing economies as global oil prices declined. Financial markets around the globe remained buoyant. On the contrary, downside risks prevailed as China's excessive credit growth and a faster-than-expected US monetary policy normalization could result in reversal in market sentiment and confidence in emerging market economies. In addition, elevated policy uncertainty in the US and geopolitical tensions in some jurisdictions may present renewed threats to global growth prospect.

During the review quarter, the domestic macroeconomic situation exhibited resilience despite it experienced some stress. General inflation increased slightly due to rise in food inflation; however, non-food inflation maintained the lower trend. Wage earners' remittance and export receipts recorded a drop while import payments increased during the period. Consequently, the Bangladesh Taka (BDT) experienced a small depreciation against US Dollar (USD). Meanwhile, gross foreign exchange reserves slightly declined; still the amount is equivalent to meeting more than six months' imports of goods and services. The interest rate spread reduced further as weighted average deposit rates increased. Gross government borrowing from the banking sector also decreased over the previous quarter.

The banking sector demonstrated mixed performance in the review quarter. The aggregate asset of the banking sector increased by 1.9 percent and stood at 63.8 percent of the gross domestic product (GDP). The share of loans and advances in the total assets continued to increase. Gross non-performing loan (NPL) ratio increased by 60 basis points (bps) during the quarter and reached 10.7 percent at end-September 2017. However, the share of bad and loss loans decreased over the previous quarter. Key profitability indicators, both Return on Assets (ROA) and Return on Equity (ROE) increased in the review quarter. At end-September 2017, capital to risk-weighted assets ratio (CRAR) of the banking sector stood at 10.7 percent compared to 10.9 percent in the previous quarter. A majority of the banks were able to maintain the minimum capital conservation buffer of 1.25 percent. Besides, the banking industry maintained a leverage ratio much higher than the regulatory minimum requirement on both solo and consolidated basis. Advance-to-deposit ratio (ADR) of the banking industry increased to 74.8 percent compared to 73.9 percent in the previous quarter. Nevertheless, no sign of liquidity pressure was evident during the review quarter; banks were able to maintain the required Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).

Financial Institutions (FIs) sector exhibited a mixed trend as well. During the review quarter, FIs enjoyed an enhanced profitability and a sufficient capital adequacy and liquidity situation. Both ROA and ROE increased over the previous quarter. The capital adequacy ratio (CAR) and Tier-1 capital ratio, in line with Basel II capital framework, stood at 13.3 and 11.8 percent respectively compared to 13.7 and 15.6 percent respectively in the preceding quarter, well above the minimum regulatory requirements. However, FIs continued to face challenge in the form of decline in asset quality. The ratio of classified loans and leases to total loans and leases increased by 50 bps during the quarter and reached 9.4 percent at end-September 2017.

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

The domestic capital market demonstrated a scenario of price appreciation. The main indices of DSE (DSEX) and CSE (CASPI), and price/earnings (P/E) ratios in both bourses demonstrated an increase during the review quarter. DSE and CSE turnover recorded a rise of about 60.2 and 36.1 percent respectively over the previous quarter. The highest turnover was recorded by the banking sector in both bourses. In both bourses, the market capitalization increased at end-September 2017 compared to those of end-June 2017.

Bangladesh Bank has taken a number of initiatives having bearings on financial system stability. During the review quarter, Bangladesh Bank, among various initiatives, has issued guidelines on agent banking operations, agricultural & rural credit policy and program for the FY 2017-18 and operating guidelines for Two-Step Loan fund under the Foreign Direct Investment Promotion Project, revised provision requirements for loan losses of banks, amended guidelines on credit card operations of banks, instructed banks to set up help desk to assist foreign investors, brought about a number of changes in foreign exchange regulations to make foreign exchange operations easier as well as more disciplined, and provided instructions for prevention of money laundering, terrorist financing and proliferation financing, among other relevant issues.

In sum, the financial system of Bangladesh remains largely resilient in the review quarter. While the global growth outlook remained positive, potential downside risks emanating from abrupt policy changes in China and US need to be dealt with caution.

Chapter-1

Macroeconomic Developments

The Bangladesh economy showed mixed performance during the third quarter of CY17, as evident from slight increase in inflation and import, minor decreases in foreign exchange reserves, wage earners' remittance and export.

1.1 Inflation

At end-September 2017, inflation increased to 5.6 percent with respect to that of end-June 2017 and declined slightly from 5.7 percent of end- September 2016. Food inflation increased to 6.7 percent from 6.0 percent of end-June 2017, while non-food inflation decreased to 3.8 percent from 4.8 percent recorded at-end June 2017 (Chart 1.1).

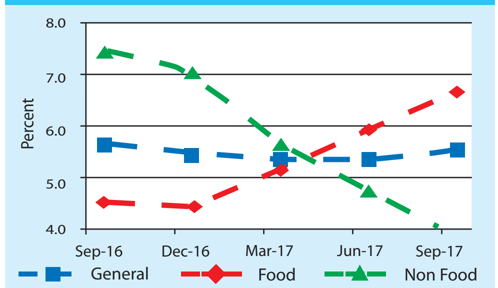
1.2 Foreign Exchange Reserve and its Import Coverage

At end-September 2017, the gross foreign exchange reserves reached at USD 32.8 billion recording a decline of 1.8 percent, from USD 33.4 billion of end-June 2017. The reserve position was equivalent to meeting more than six months' imports of goods and services[1]. It is noteworthy that at the end-September 2016, reserve position was USD 31.4 billion.

1.3 Wage Earners' Remittance

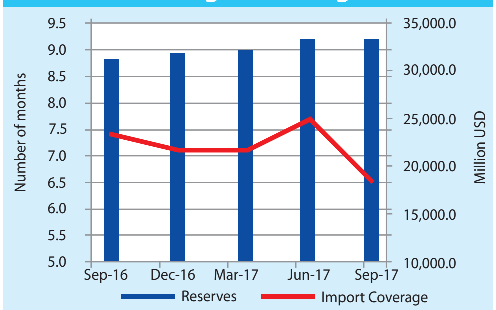
Remittance from Bangladeshi nationals, working abroad, stood at USD 3,387.9 million during the review quarter, recording a decrease of 5.2 percent compared to USD 3,574.9 million recorded during the preceding quarter. Of course, the remittance of the review quarter was 4.4 percent higher than that of the same period of the previous year. It is noteworthy that during second quarter of 2017, remittance inflow was 18.1 percent higher with respect to the position of the first quarter.

Chart 1.1 Inflation



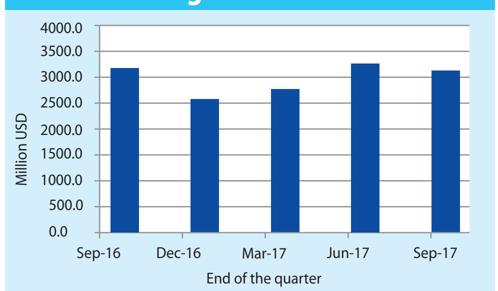
Source: Bangladesh Bureau of Statistics, Base 2005-06=100.

Chart 1.2 Foreign Exchange Reserves



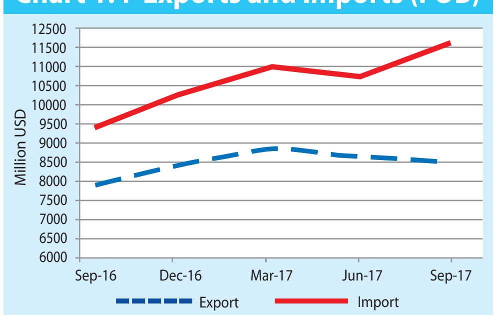
Source: Statistics Department, BB.

Chart 1.3 Wage Earners' Remittance



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

Chart 1.4 Exports and Imports (FOB)



Source: Statistics Department, BB.

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

1.4 Imports and Exports

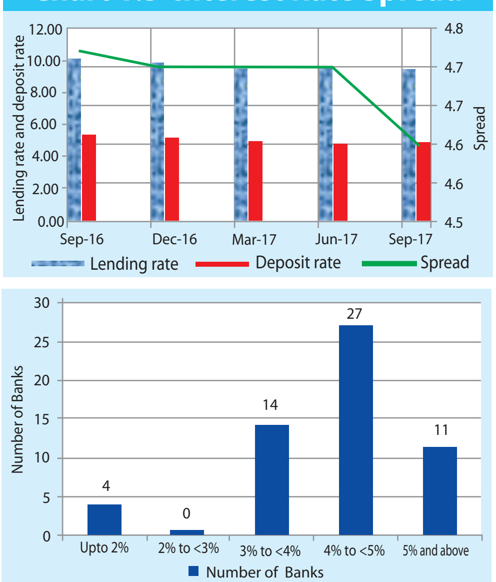
In the review quarter, aggregate import payments[2] increased by 9.7 and 28.4 percent respectively from USD 11,123.0 million of the preceding quarter and USD 9,502.0 million of the same quarter of CY16. In contrast, export receipts decreased by 1.6 percent from that of the preceding quarter. However, when compared with September quarter of 2016 export receipts recorded an increase of 8.1 percent.

1.5 Interest Rate

The spread between weighted average lending and deposit rates decreased to 4.6 percent with respect to that of end-June 2017; spreads of 11 out of 57 banks were above 5.0 percent. Out of these 11 banks, 5 and 6 were in the category of FCBs and PCBs respectively.

In September 2017, the weighted average lending and deposit rates were 9.5 and 4.9 percent respectively which were 9.5 and 4.8 percent of June 2017 and 10.1 and 5.4 percent of September 2016.

Chart 1.5 Interest Rate Spread

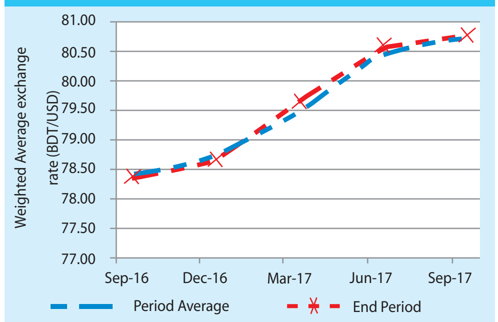


Source: Statistics Department, BB.

1.6 Exchange Rate[3]

The Bangladesh Taka-US dollar, exchange rate, recording a slight depreciation, stood at 80.74 in September 2017 from 80.59 in June 2017. The rate was 78.40 per USD in September 2016.

Chart 1.6 Exchange Rate

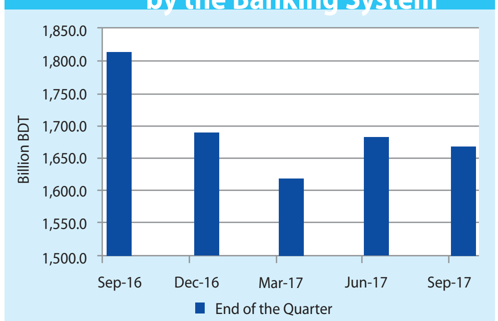


Source: Monthly Economic Trends, BB (Various issues).

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

Credit to the Government (gross), by the banking system, decreased by 1.1 percent and 7.8 percent respectively from the position of end-June 2017 and end-September 2016;

Chart 1.7 Credit to the Govt. (Gross) by the Banking System



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

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

[3] BDT per USD on weighted average basis.

Chapter-2

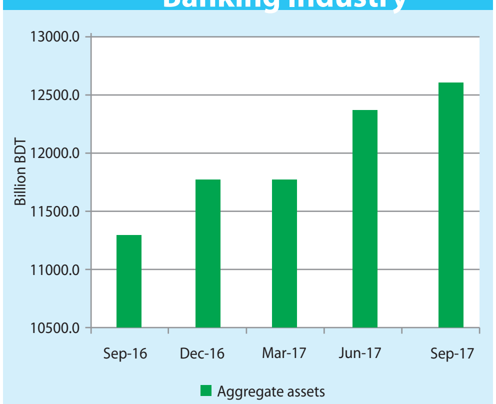
Banking Sector Performance

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

2.1 Assets Structure

The balance sheet size of the banking sector[4] stood at BDT 12,608.7 billion at end-September 2017, recording an increase of 1.9 percent from BDT 12,370.3 billion of end-June 2017 and 11.6 percent from BDT 11,296.6 billion of end-September 2016 position. Maximum portion of the banking industry's assets were held by PCBs. It is to mention that banking sector assets-to-GDP ratio stood at 63.8 percent at end-September 2017[5] which was 62.6 percent at the end of the preceding quarter and 65.2 percent at end-September 2016[6] .

Chart 2.1 Asset Size of the Banking Industry



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

Loans and advances, the largest segment among the asset items, constitute 63.5 percent of total assets during the review quarter. Major portion of loans and advances were extended by PCBs. Pertinently, the share of loans and advances, as a percentage of total assets, increased by 60 basis points at end-September CY17, compared with that of end-June 2017.

The share of banks' assets with Bangladesh Bank decreased by 90 basis points while balances with other banks and financial institutions increased by 20 basis points compared with that of end-June 2017. Banks' money at call increased by 30 basis points, while the share of other assets remained almost same. However, the share of investments in government and other securities increased by 10 basis points.

The asset concentration ratios of Top 5 and Top 10 banks against the total banking system assets were 31.3 and 44.6 percent respectively at end- September 2017 (Chart 2.5 & 2.6).

Banking sector asset concentration has also been illustrated using Lorenz Curve and Gini Coefficient. As depicted in Chart 2.7, the position of the Lorenz Curve indicates the presence of a moderate concentration in assets of the banking industry. The calculated Gini coefficient of 0.5 supports the presence of moderate concentration in asset[7]. Importantly, there has been no change in asset concentration ratio in the banking sector.

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[4] Taking into account only scheduled banks(57).

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

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

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

2.2 Asset Quality

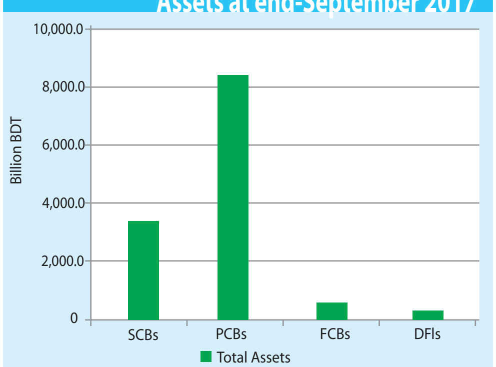
The gross NPL ratio[8] stood at 10.7 percent at end-September 2017, increasing by 60 basis points from 10.1 percent of end-June 2017 and remained same when compared to end-September 2016 position. Besides, non-performing loans net of specific loan loss provisions and interest suspense to total loans increased to 2.9 percent from 2.6 percent of end-June 2017 and from 2.8 percent of end-September 2016. Moreover, non-performing loans net of specific loan loss provisions and interest suspense to regulatory capital increased to 22.4 percent from 19.7 percent of end-June 2017 and from 20.8 percent of end-September 2016.

The distribution of banks, based on their gross NPL ratios, indicates that 12 banks came up with double-digit ratios in September CY17 compared to 16 in September CY16.

The provision maintenance ratio[9], at end-September 2017, slightly increased to 86.3 percent from 85.8 percent recorded at end-June 2017 and 88.2 percent at end-September 2016.

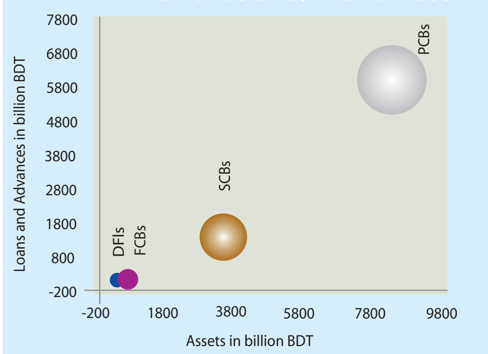
Based on NPL, 47.0 and 64.9 percents of the non-performing loans were concentrated in the Top 5 and Top 10 banks[10] respectively at end-September 2017 (Chart 2.11 & 2.12).

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



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

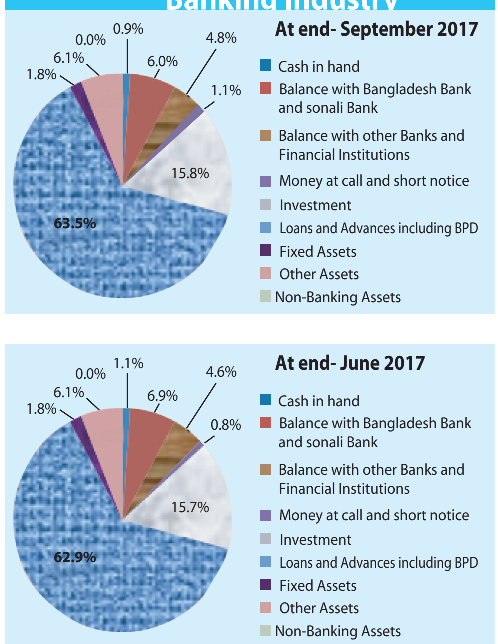
Chart 2.3 Banking Sector Assets and Loans/ Advances



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

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

Chart 2.4 Asset Structure of the Banking Industry



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

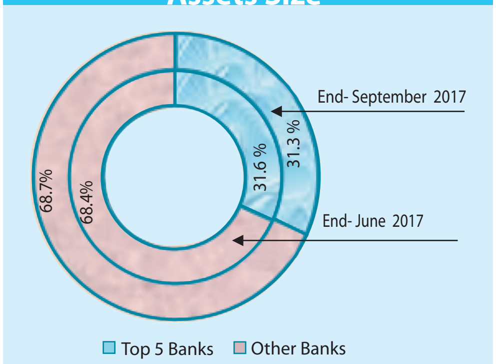
The ratio of bad and loss loans to total classified loans stood at 82.0 percent at end-September CY17 while sub-standard and doubtful loans constituted 12.0 and 6.0 percent of total NPLs respectively during the review quarter. Pertinently, the proportion of

8 Non-performing loan to total loan ratio.

9 Non-performing loan to total loan ratio.

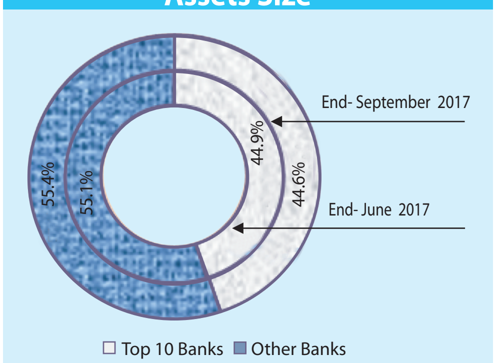
10 Maintained provision to required provision.

Chart 2.5 Top 5 banks based on Assets Size



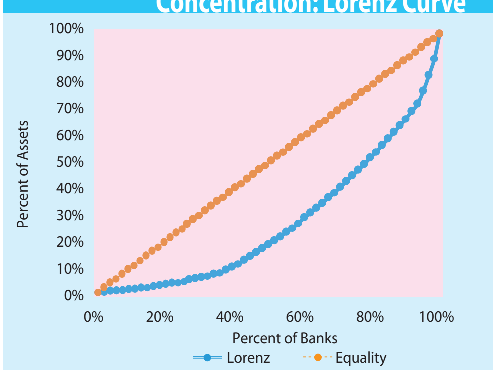
Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

Chart 2.6 Top 10 banks based on Assets Size



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

Chart 2.7 Banking Sector Asset Concentration: Lorenz Curve

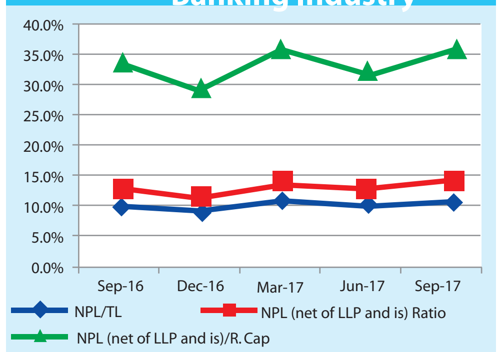


Note: Assets are displayed from lowest to highest (ascending order) from the origin.

Source: BRPD, BB.

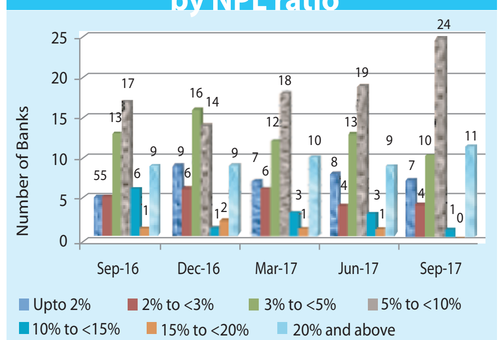
bad and loss loans decreased by 1.1 percentage points and sub-standard loans increased by 1.8 percentage points while doubtful loans decreased by 0.7 percentage points compared to those of the previous quarter.

Chart 2.8 NPL Ratio of the Banking Industry



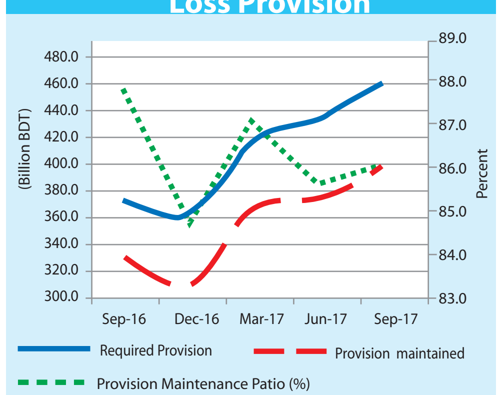
Source: BRPD, BB.

Chart 2.9 Distribution of banks by NPL ratio



Source: BRPD, Compilation FSD.

Chart 2.10 Banking Sector Loan Loss Provision

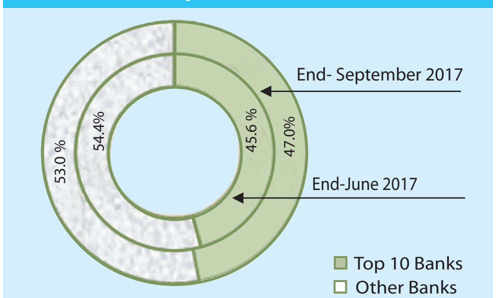


Source: BRPD, BB.

2.3 Profitability

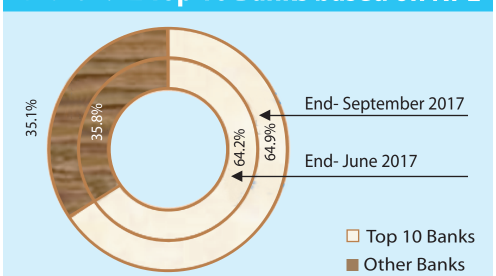
In the review quarter, profitability of the banking sector increased on a quarter-on-quarter basis. Return on assets (ROA) and return on equity (ROE) of the banking sector stood at 0.4 and 5.9 percents respectively against 0.3 and 3.7 percents of the respective ratios of the preceding quarter[11]. Almost 91.0 percent of the banks' ROA was up to 2.0 percent. On the other hand, 75.4 percent of the banks' ROE was higher than 5.0 percent.

Chart 2.11 Top 5 Banks based on NPL



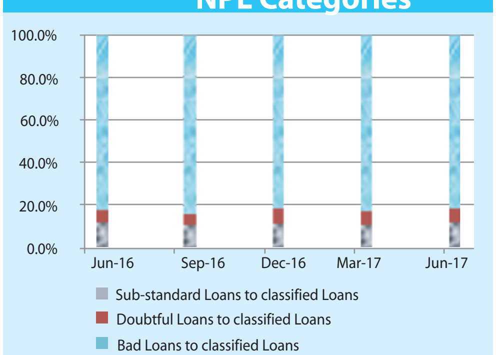
Source: BRPD, Compilation FSD.

Chart 2.12 Top 10 Banks based on NPL



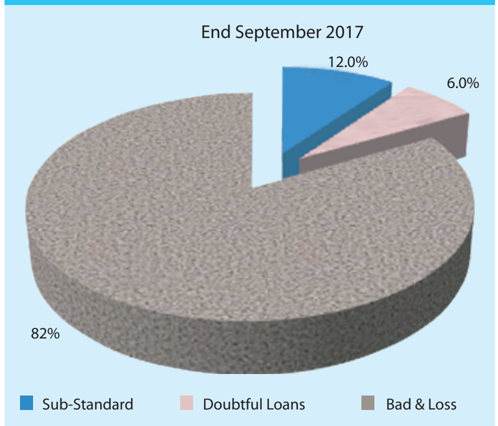
Source: BRPD, Compilation FSD.

Chart 2.13 Proportion of NPL Categories



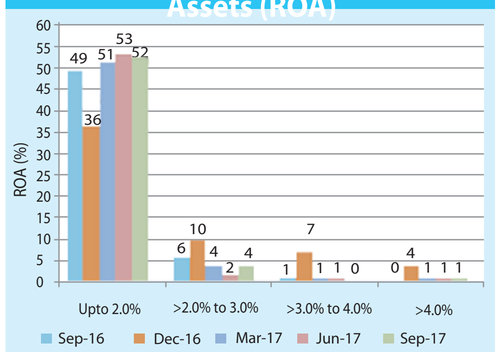
Source: BRPD, BB.

Chart 2.14 NPL Composition of Banks



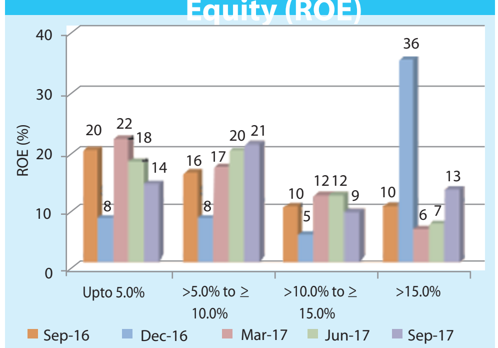
Source: BRPD, BB.

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



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

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



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

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11 The figures are annualised form of quarterly ratios.

Chapter-3

Financial Institutions' Performance

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

3.1 Sources of Funds

At end-September 2017, borrowings, deposits, capital and other liabilities constituted 21.8, 55.3, 13.5 and 9.3 percent of the sources of funds of the FIs respectively. In comparison with end-June 2017, the share of the liabilities remained mostly unchanged.

3.2 Assets Composition

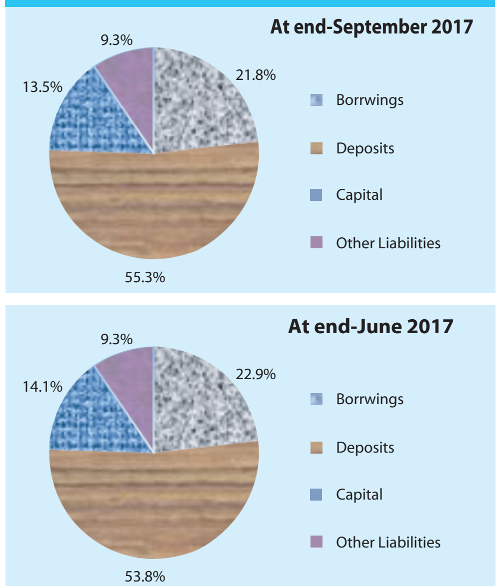
Loans and leases constituted 73.3 percent of total assets of FIs at end-September 2017. Cash and balances with banks/FIs, investments, fixed assets and other assets comprised 15, 2.8, 1.3 and 7.6 percent of total assets respectively.

When compared with end-June 2017 positions, the share of loans and leases decreased by 0.7 percentage points. Cash and balances with other banks/FIs increased by 0.4 percentage points; the proportion of investments increased by 0.4 percentage point while the share of rest of the assets remained almost same.

3.3 FI's Liability-Asset Ratio[12]

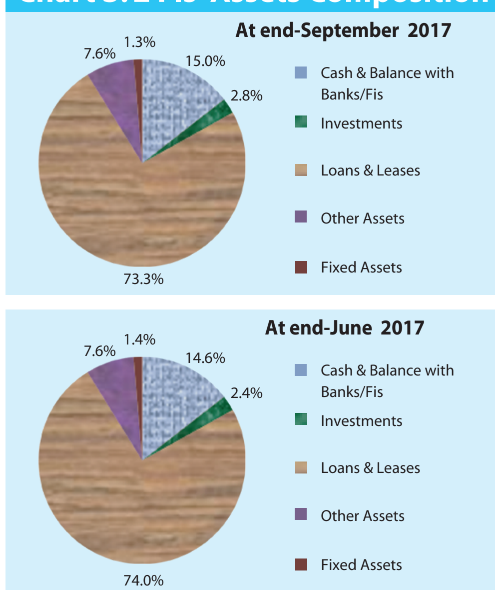
The liability-asset ratio stood at 86.5 percent which is 60 basis points higher than the ratio of 85.9 percent recorded in the June quarter of 2017.

Chart 3.1 FIs' Sources of Fund



Source: FIs; Compilation: FSD, BB.

Chart 3.2 FIs' Assets Composition



Source: FIs; Compilation: FSD, BB.

[12] Total liability divided by total asset.

3.4 Asset Quality

FIs' asset quality slightly declined in September 2017. The ratio of classified loans and leases to total loans and leases rose to 9.4 percent at end-September 2017, 0.5 percentage points higher than the ratio of 8.9 percent recorded at end-June 2017.

3.5 Profitability

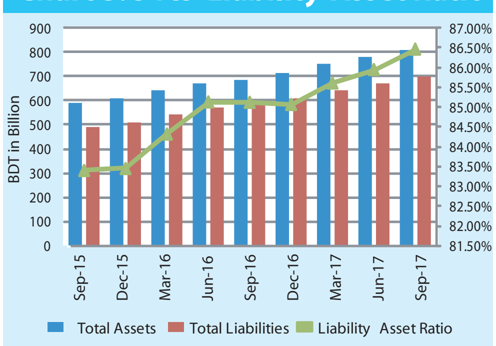
FIs' profitability increased in the review quarter over the June quarter of 2017 [13].

The key profitability indicators - return on assets (ROA) and return on equity (ROE) stood at 0.6 and 4.4 percent respectively in the September quarter of 2017 as compared to 0.5 and 3.5 percent respectively recorded in the preceding quarter.

3.6 FI sector asset concentration

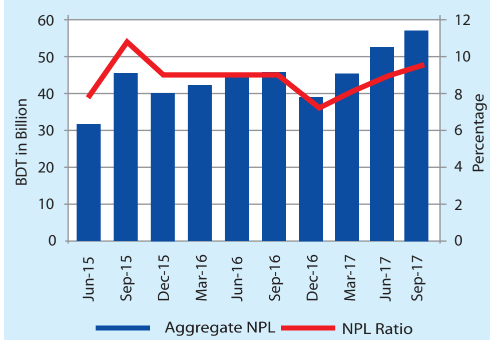
FI sector asset concentration has been illustrated using Lorenz curve and Gini Coefficient. As depicted in chart 3.6, the position of Lorenz Curve indicates the presence of moderate concentration in the assets of the FI sector. The calculated Gini coefficient of 0.4 supports the presence of stated type of concentration in the FIs' assets.

Chart 3.3 FIs' Liability-Asset Ratio



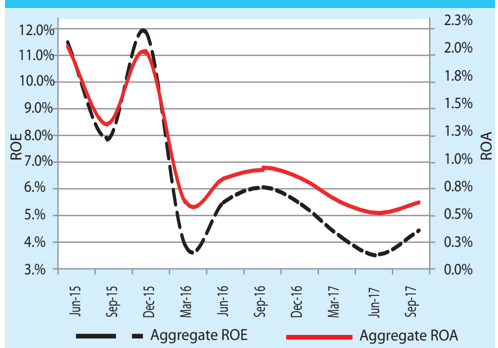
Source: FIs; Compilation: FSD, BB.

Chart 3.4 FIs' Non-performing Loans and Leases



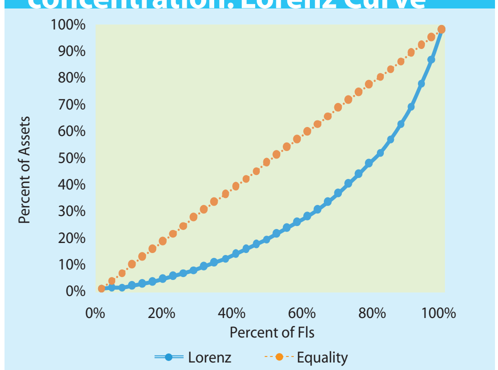
Source: DFIM, BB.

Chart 3.5 FIs' ROA and ROE



Source: FIs; Compilation: FSD, BB.

Chart 3.6 FI sector asset concentration: Lorenz Curve



Source: FIs; Compilation: FSD, BB.

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

Banking Sector Liquidity and Capital Adequacy

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

4.1 Capital Adequacy

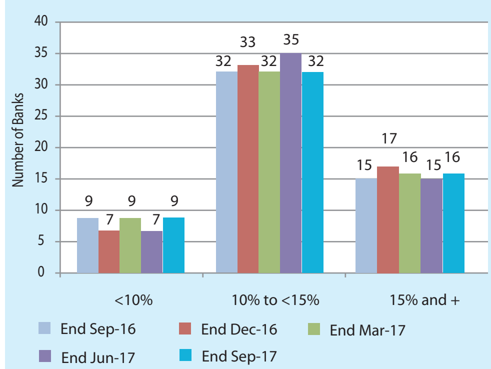
In the review quarter, 48 out of 57 banks maintained CRARs of 10.0 percent or higher in line with Pillar 1 of the Basel III capital framework. In addition, substantial share of banking assets was concentrated within the CRAR-compliant group of banks (chart 4.2); CRARs of 31 banks were within the range of 10-15 percent and their assets accounted for nearly 67.0 percent of the total banking industry's assets at end-September 2017.

The banking sector aggregate CRAR stood at 10.7 percent[14], 20 basis points lower than the ratio recorded at end-June 2017 and 40 basis points higher than the ratio of 10.3 percent recorded at end-September 2016. Tier-1 capital ratio slightly decreased to 7.5 percent compared to 7.8 percent of the previous quarter and 7.6 percent of end-September 2016. Still the ratio was considerably higher than the minimum regulatory requirement of 6.0 percent.

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

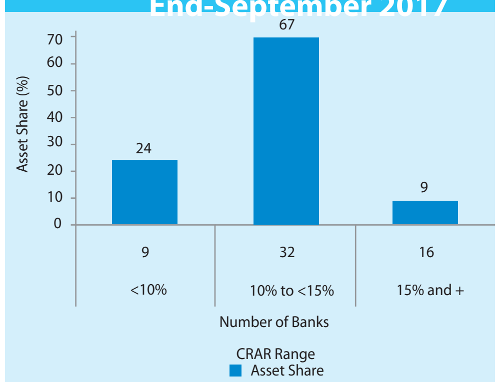
At end-September 2017, risk-weighted assets, arising from credit risks, accounted for 87.9 percent of the total industry's risk-weighted assets under Pillar 1 of the Basel III capital adequacy framework. It is mentionable that the proportion of credit risk weighted assets was 87.7 percent in the previous quarter and 87.2 percent at end-September 2016. Next positions were held by operational and market risks (Chart 4.5).

Chart 4.1 Banking Sector Capital to Risk- Weighted Assets Ratio



Source: DOS, BB.

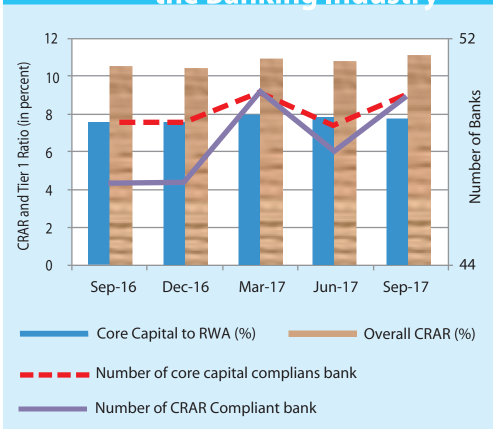
Chart 4.2 Assets Share of Banks based on CRAR at End-September 2017



Source: DOS; Compilation FSD.BB.

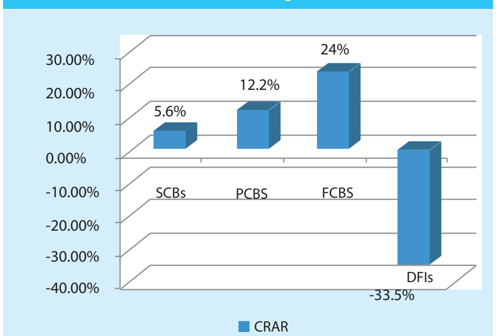
14 In the review quarter, minimum required CRAR was 10 percent.

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-September 2017



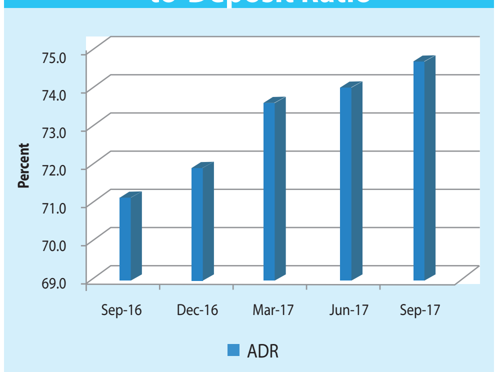
Source: DOS, BB.

Chart 4. 5 Distribution of Risk Weighted Assets

Source: DOS, BB.

In the review quarter, against the regulatory requirement of 1.25 percent, 45 out of 57 banks have been able to maintain the minimum required capital conservation buffer (CCB) on solo basis[15]. However, in case of consolidated basis[16], 28 out of 36 banks fulfilled this regulatory requirement. The aggregate figure of CCB of the banking sector, in the stated quarter, was 0.65 and 1.08 percents on solo and consolidated basis respectively.

Chart 4.6 Banking Sector Advance-to-Deposit Ratio



Source: DOS, BB.

4.2 Liquidity

During the review quarter, banking sector, as a whole, was able to maintain the required level of CRR[17] and SLR.

Advance to Deposit Ratio (ADR) of the overall banking industry was 74.8 percent, 90 basis points higher than that of end-June 2017 and 380 basis points higher than that of end-September 2016 (Chart 4.6).

[15] Solo Basis refers to all position of a bank and its local and overseas branches/offices.

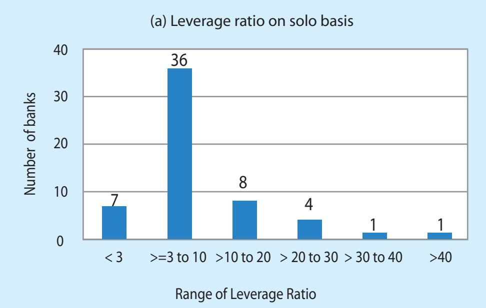
[16] Consolidated Basis refers to all position of a bank (including its local and overseas branches/offices) and its subsidiary company/companies engaged in financial (excluding insurance) activities like merchant banks, brokerage firms, discount houses, etc (if any).

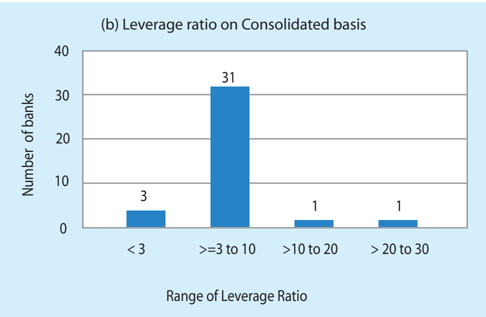
[17] On bi-weekly average basis.

4.3 Leverage ratio

In the review quarter, banking industry fulfilled the minimum leverage ratio requirement of 3.0 percent, on both solo and consolidated basis[18]. At end-September 2017, banking industry's leverage ratio was 4.8 percent on solo basis; 50 out of 57 banks have maintained a leverage ratio of 3.0 percent or higher (Chart 4.7). On the other hand, in case of consolidated basis, 33 out of 36 banks have been able to fulfill the regulatory requirement. FCBs maintained higher leverage ratio compared to other banking clusters.

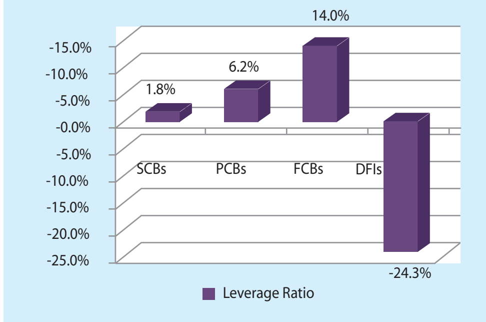
Chart 4.7 Leverage ratio of banks at End-September 2017





Source: DOS, BB.

Chart 4.8 Bank Cluster-wise Leverage ratio at End-September 2017



Source: DOS, BB.

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[18] In line with Basel III guidelines issued by Bangladesh Bank vide BRPD Circular No. 18 dated December 21,2014.

Chapter-5

Financial Institutions' Liquidity and Capital Adequacy

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

5. 1 Liquidity

As of end-September 2017, the aggregate amount of maintained CRR was BDT 6683.1 million as compared to BDT 6509.6 million recorded at end-June 2017, implying that maintained amount was 2.7 percent higher than the amount required. On the other hand, the amount of maintained SLR was BDT 83.3 billion against required amount of BDT 17.6 billion. The maintained SLR is 8.3 percent higher than the amount maintained at end-June 2017. During the review quarter, the FIs sector had no CRR and SLR shortfall[19].

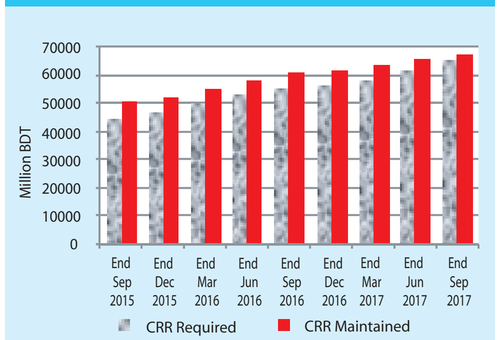
5.2 Capital Adequacy

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 slightly decreased from 13.7 percent of the June quarter of CY17 to 13.3 percent in the September quarter of CY17.

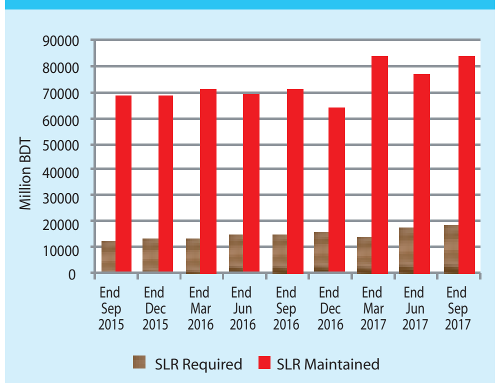
It is to mention that the maintained CAR was well above the minimum regulatory requirement. In addition, the Tier-1 capital ratio was recorded at 11.8 percent; 3.8 percentage points lower than the ratio of end-June 2017.

Chart 5.1 FIs' CRR



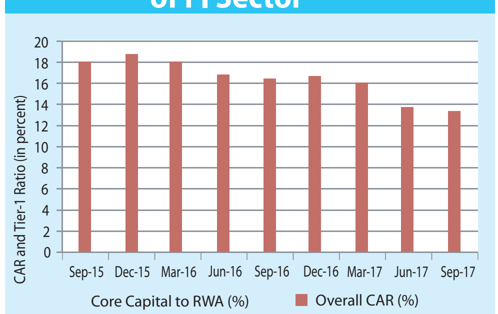
Source: DFIM, BB.

Chart 5.2 FIs' SLR



Source: DFIM, BB.

Chart 5.3 Capital Adequacy Ratio of FI Sector



Source: DFIM, BB.

[19] 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 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

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

6.2.1 Individual Shocks

Data as of end-September 2017 revealed that the banking sector's capital to risk weighted asset ratio (CRAR) was 10.65 percent. Out of 57 banks, 9 banks' pre-shock CRARs were below the minimum regulatory requirement of 10.0 percent. Therefore, the remaining 48 banks were considered for the analyses based on end-September 2017 data. The following sub-sections give details of the shocks and associated outcomes.

6.2.1.1 Credit Risk

a) **Increase in Non-performing Loans (NPL):**

If NPLs increase by 3, 9 and 15 percent, then 4, 29 and 35 banks respectively will fail to maintain the minimum required CRAR (Table 6.1).

b) **Increase in NPL due to Default of Top Large Borrowers:** If 3, 7 and 10 largest borrowers of each bank in the industry defaulted, then 21, 38 and 39 banks respectively would become non-compliant in maintaining the minimum required CRAR.

c) **Fall in the Forced Sale Value (FSV) of Mortgaged Collateral:** If FSV of mortgaged collateral declined by 10, 20 and 40 percent, then it would make 3, 3, and 7 banks non-compliant respectively 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 3, 10, and 15 banks respectively would have been non-compliant in maintaining the minimum required CRAR.

e) **Increase in NPL in Highest Outstanding Sector:** In the event of minor, moderate and major shocks, 3, 5 and 6 banks respectively would fall below the minimum regulatory requirement of CRAR

6.2.1.2 Market Risk

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

Table 6.1 Stress test on the Banking Sector Based on Data as of End-September 2017		
Shocks[20]		**Banking Sector (%)**
Pre-shock CRAR		10.65
CRAR after shock (%)		
Credit Risks:		
Increase in NPLs:		
	Shock-1: 3%	9.75
	Shock-2: 9%	7.50
	Shock-3: 15%	3.87
Increase in NPLs due to default of top large borrowers		
	Shock-1: Top 3 borrowers	8.93
	Shock-2: Top 7 borrowers	7.23
	Shock-3: Top 10 borrowers	6.45
Fall in the FSV[21] of mortgaged collateral		
	Shock-1: 10%	10.00
	Shock-2: 20%	9.35
	Shock-3: 40%	8.02
Negative shift in the NPL categories		
	Shock-1: 5%	10.23
	Shock-2: 10%	8.28
	Shock-3: 15%	7.00
Increase in NPLs in highest outstanding sectors		
	Sector concentration 1[22] (Performing loan directly downgraded to B/L[23])	
	Shock-1: 3%	10.58
	Shock-2: 9%	10.48
	Shock-3: 15%	10.30
	Sector concentration 2[24] (Performing loan directly downgraded to B/L)	
	Shock-1: 3%	10.51
	Shock-2: 9%	10.25
	Shock-3: 15%	9.98
Market Risks		
Interest rate risk (Change in interest rate)		
	Shock-1: 1%	10.33
	Shock-2: 2%	10.01
	Shock-3: 3%	9.69
Exchange rate risk (Currency appreciation/depreciation)		
	Shock-1: 5%	10.62
	Shock-2: 10%	10.59
	Shock-3: 15%	10.56
Equity price risk (Fall in equity prices)		
	Shock-1: 10%	10.38
	Shock-2: 20%	10.11
	Shock-3: 40%	9.57
Combined Shock		
	Shock-1	7.82
	Shock-2	2.54
	Shock-3	-4.71

20 Shock-1 = Minor, Shock-2 = Moderate, Shock-3 = Major.
21 FSV = Forced Sale Value.
22 Sector with highest outstanding.
23 B/L = Bad/Loss.
24 Sector with second highest outstanding.

a) Interest Rate Risk: In the event of interest rate shock of 1, 2 and 3 percents, 3, 4 and 6 banks respectively would 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 capital requirement.

c) Equity Price Risk: In the event of a 10, 20 and 40 percent fall in equity prices, 3, 4 and 6 banks respectively would be non-compliant in maintaining the minimum required CRAR.

6.2.2 Combined Shock[25]

In the event of minor, moderate and major combined shocks, 18, 35 and 40 banks respectively would become undercapitalized.

In sum, 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 banking system as a whole seemed to remain resilient against specified liquidity stress scenarios at end-September 2017.

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

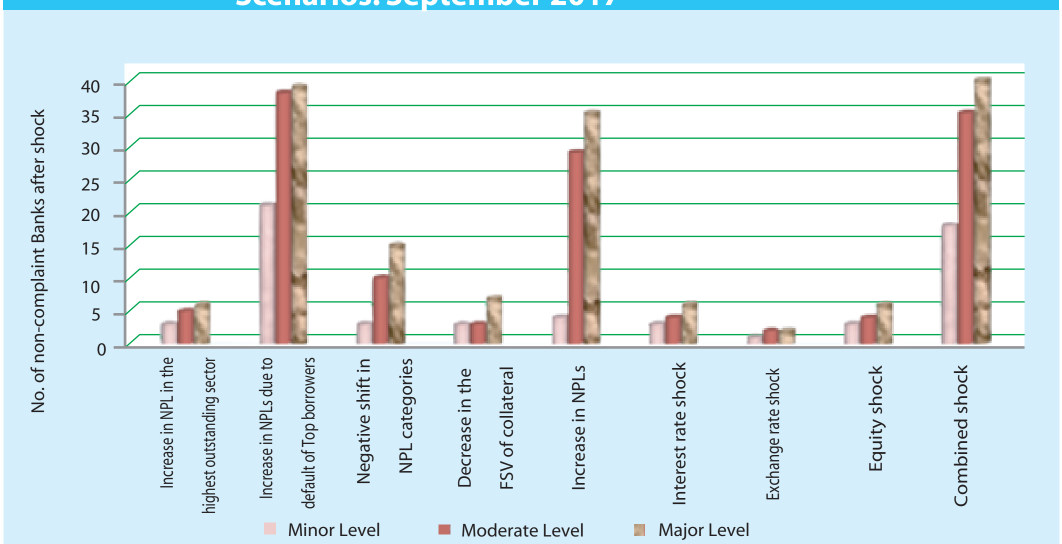
Liquidity Stress*	Stress Scenarios		
	Minor	Moderate	Major
Day 1	1	1	1
Day 2	1	1	1
Day 3	1	1	1
Day 4	1	1	1
Day 5	1	1	1

* Consecutive 5 working days.

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

Source: FSD, BB.

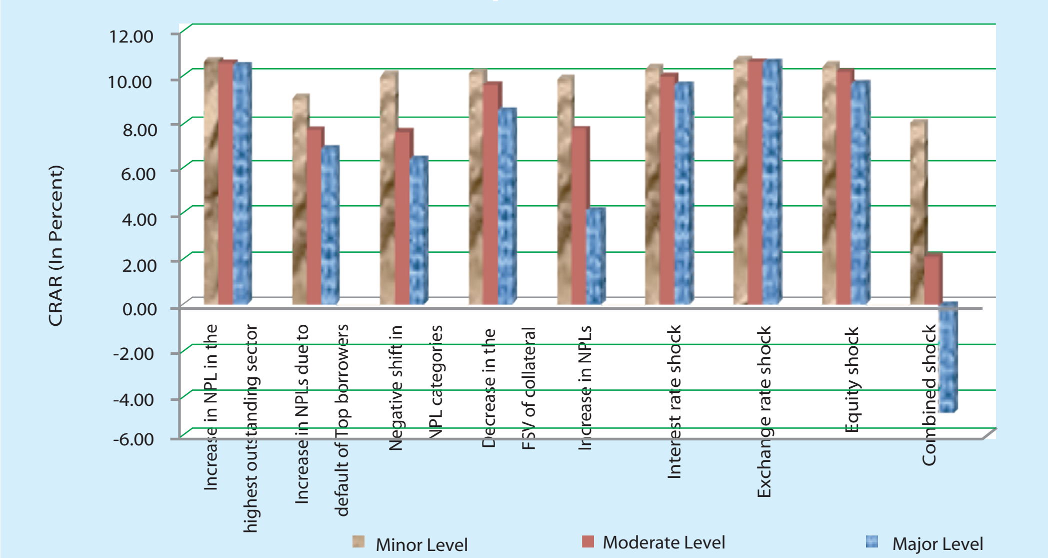
Chart 6.1 Number of Non-compliant Banks at Different Shock Scenarios: September 2017



Source: FSD, BB.

25 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 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 analysed.

At end-September 2017, out of 33 FIs, 3, 17, and 13 were positioned in Green, Yellow, and Red zones respectively (Table 6.3).[26] It is mentionable 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-Jun 2016	5	13	15
End-Sep 2016	6	17	10
End-Dec 2016	5	21	7
End-Mar 2017	4	18	11
End-Jun 2017	4	17	12
End-Sep 2017	3	17	13

Source: DFIM, BB.

[26] 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

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

7.1 Dhaka Stock Exchange (DSE)

7.1.1 DSE Performance

In the third quarter of CY17, DSE turnover increased by about 60.2 percent and reached BDT 604.6 billion from BDT 377.3 billion recorded in the previous quarter. At end-September 2017, key DSE indices-DSEX, DS30 and DSES-increased by 7.7, 4.5 and 3.8 percent respectively from those of end-June 2017

7.1.2 Price/Earnings (P/E) Ratio

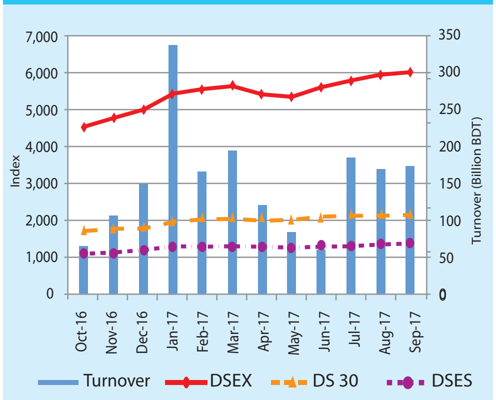
The weighted average P/E ratio increased by 60 basis points (bps) during the quarter and stood at 16.3 at end-September 2017. An overall upward trend is observed in market P/E ratio since the first quarter of CY16.

7.1.3 Sectoral Turnover

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

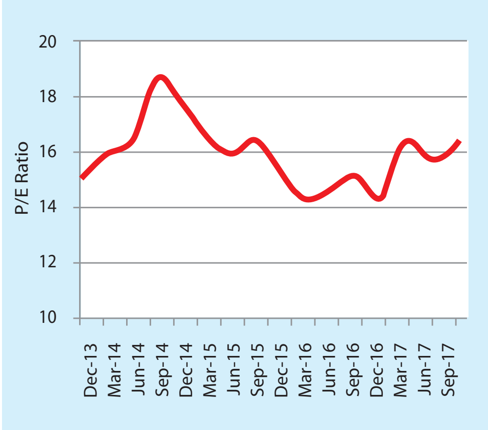
Contribution of the banking sector to DSE turnover increased sharply to 24.2 percent from 15.9 percent recorded in June quarter of CY17. The financial institutions sector's contribution was 9.1 percent which was 12.6 percent in the previous quarter.

Chart 7.1 DSE Performance



Source: DSE; Compilation: FSD, BB.

Chart 7.2 Price/Earnings Ratio

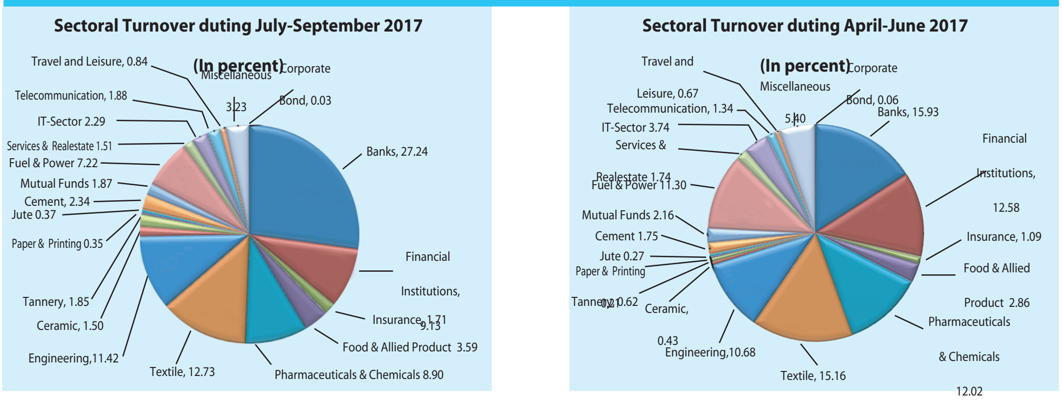


Source: DSE.

7.1.4 Market Capitalization

At end-September 2017, the market capitalization stood at BDT 4,072.1 billion, which is 7.1 percent higher than that of the previous end-quarter (i.e. June 2017). Growth rate of market capitalization had been exhibiting mixed trend over the quarters.

Chart 7.3 Sectoral Turnover (in percent) in DSE



Source: DSE; Compilation: FSD, BB.

7.2 Chittagong Stock Exchange (CSE)

7.2.1 CSE Performance

In the review quarter, CSE turnover was BDT 41.8 billion compared to BDT 30.7 billion recorded in the second quarter of CY17, registering a 36.1 percent increase in terms of volume. While most of the companies, mutual funds and corporate bonds listed in DSE are also listed with CSE, debentures and Govt. T-bonds are traded only through DSE. Like those of DSE, a scenario of price appreciation was also observed in key CSE indices such as CASPI[27], CSE30 and CSI[28], which increased by 7.8, 5.4 and 4.1 percent respectively during the review quarter.

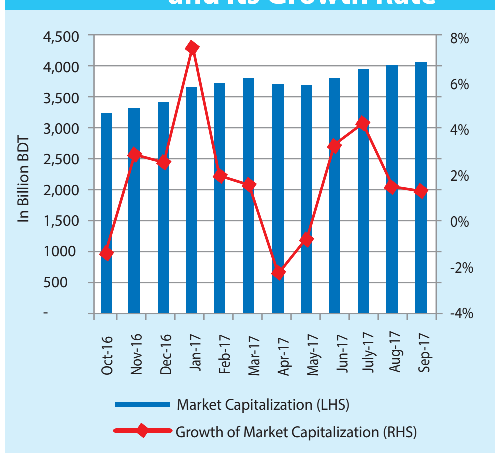
7.2.2 Price/Earnings (P/E) Ratio

The weighted average P/E ratio increased by 10 bps and reached 17.2 during the quarter.

7.2.3 Sectoral Turnover

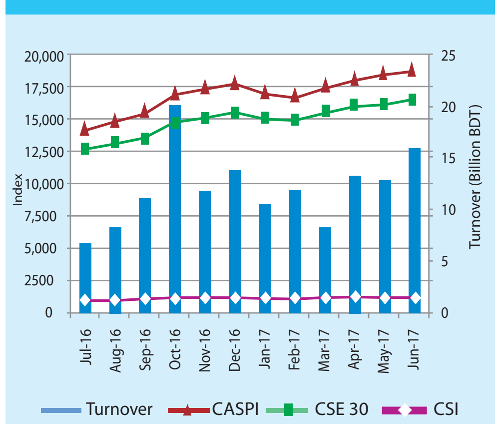
Banking sector continued to record the highest turnover during the review quarter. Contribution of the banking sector to CSE turnover was 36.6 percent compared to 25.1 percent recorded in the previous quarter (Chart 7.7). Highest turnover by banking sector in both bourses indicates investors' growing confidence in the stability of this sector.

Chart 7.4 Market Capitalization and Its Growth Rate



Source: DSE; Compilation: FSD, BB.

Chart 7.5 CSE Performance

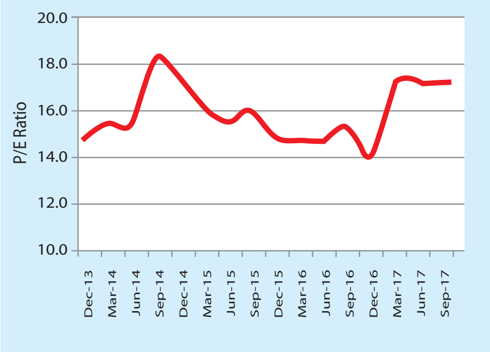


Source: CSE; Compilation: FSD, BB.

[27] CASPI refers to CSE All Share Price Index.

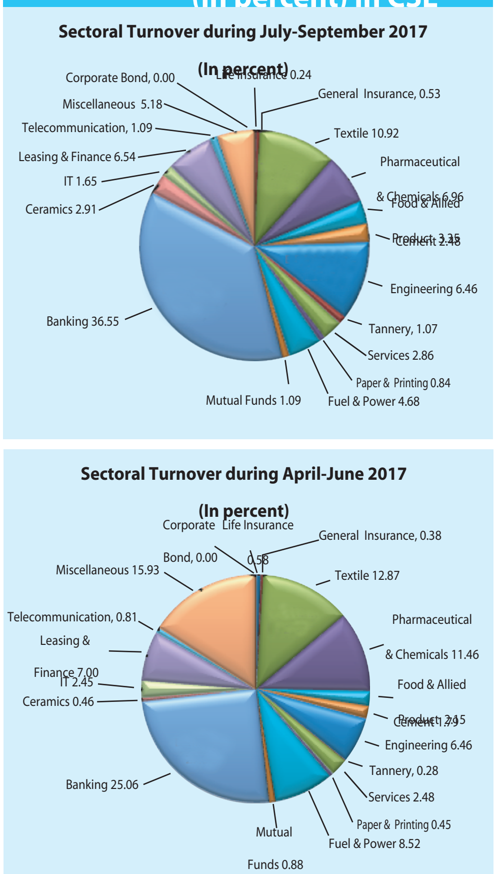
[28] CSI refers to CSE Shari'ah Index.

Chart 7.6 Price/Earnings Ratio



Source: CSE

Chart 7.7 Sectoral Turnover (in percent) in CSE



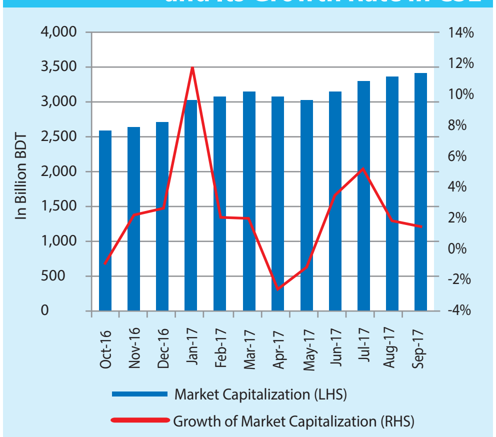
Source: CSE; Compilation: FSD, BB.

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

7.2.4 Market Capitalization

At end-September 2017, the market capitalization of CSE stood at BDT 3,382.7 billion, which is 8.7 percent higher than that of end-June 2017. An overall mixed trend of market capitalization growth was observed in CSE over the quarters.

Chart 7.8 Market Capitalization and Its Growth Rate in CSE



Source: CSE; Compilation: FSD, BB.

Chapter-8

Recent Stability Initiatives of Bangladesh Bank

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

8.1 Prudential Guidelines for Agent Banking Operation

As the demand and importance of agent banking have increased widely over time, BB took initiative to update and combine the existing policies in this regard to ensure sound and disciplined expansion of this service. Accordingly, BB issued 'Prudential Guidelines for Agent Banking Operation in Bangladesh', which contains guidelines with regard to approval process of agent banking operation, agency contract and permissible activities, responsibilities of bank, assessment of agent, agent operations, technology for settlement of transactions, AML/CFT requirement, measures for customer protection, reporting requirements and supervisory oversight, among other relevant issues.

8.2 Loan Classification and Provisioning

i) With a view to encouraging participation of the banks in disbursing agricultural and micro-credits, BB decided that banks would maintain general provision of 1 percent instead of 2.5 percent against all unclassified short-term agricultural and micro-credits.

ii) Considering the cost of operation of the credit card business, BB revised the requirement of maintaining general provision against unclassified credit card loans from 5 percent to 2 percent to promote cashless secured transaction.

8.3 Amendment of Guidelines on Credit Card Operations of Banks

To mitigate some practical and technical problems encountered by banks, BB amended few sections of the 'Guidelines on Credit Card Operations of Banks' issued on 11 May 2017. The amended sections are 10(C), 12(C), 13(f), 14(d), 18(e) and 19(a) regarding issuance of supplementary credit cards, interest/profit rates, billing process, collection/recovery mechanism, fraud control and security of credit cards, respectively. However, the guidelines would come into effect from 01 January 2018.

8.4 Foreign Direct Investment Promotion Project (FDIPP)

Under the Foreign Direct Investment Promotion Project sponsored by Japan International Cooperation Agency (JICA), a Two-Step Loan (TSL) fund amounting to Japanese Yen 7,033 million will be disbursed through BB with the aim of promoting private sector investment in

Bangladesh and FDI from Japan. Under this fund, the Participating Financial Institutions (PFIs) will be provided with refinance or pre-finance for on lending loan to Japanese-invested enterprises and Bangladeshi enterprises in business relationship with Japanese enterprises supporting their operations mainly in manufacturing sector for short to long term duration. In this regard, BB developed and issued an Operating Guidelines (OG) comprising policies and procedures to operate the TSL fund. This OG outlines the TSL component of the project, its management structure and governing agreement, eligibility of end-borrowers and sub-projects, financing scheme, issues relating to sub-loan by PFIs, on-lending loan by FDIPP-implementation unit, debt servicing, rescheduling and event of default, fund management, monitoring and reporting requirements.

8.5 Help Desk to Assist Foreign Investors

To boost foreign direct investment (FDI) and to facilitate potential investors to make productive investment in Bangladesh, BB advised banks to set up at least one dedicated FDI help desk comprising of competent officials in their Head Offices and/or main branches of Authorized Dealers (ADs) in Dhaka and Chittagong. BB also circulated an indicative terms of reference for the FDI help desk.

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) To bring uniformity in regulations between the enterprises of Export Processing Zones (EPZs) and Economic Zones (EZs), BB decided that equity from foreign shareholders and authorized loan received in foreign currency from external sources may be credited in Foreign Currency (FC) accounts of 'Type A' and 'Type B' enterprises of EPZs. BB also allowed 'Type C' enterprises of EPZs to convert their local equity or authorized loan received in local currency into foreign exchange to settle obligations for importing capital machinery. 'Type B' enterprises of EPZs were also allowed to avail this opportunity if equity or authorized foreign loan received from abroad falls short to meet such obligations. Besides, instructions regarding repayment of Taka loans along with interest shall remain unchanged.

ii) In order to enhance housing finance facility to non-resident Bangladeshis (NRBs) working abroad, BB decided to provide this facility at a maximum debt equity ratio of 75:25 instead of the existing ratio of 50:50.

iii) To facilitate admission and study abroad by Bangladesh nationals, ADs were allowed to release foreign exchange on account of Health Coverage/Health Insurance/Medical Insurance fee provided that such fees are mandatory for Visa/Admission in permissible courses supported by documentary evidence (I-20, Admission Acceptance Letter, Offer Letter etc.) from the concerned educational institution.

iv) In order to encourage ADs to use the loan under the Green Transformation Fund, BB reduced the interest rate against this loan to be charged to ADs to six-month USD LIBOR plus 1.00 percent from the existing six-month USD LIBOR plus 2.25 percent. BB also allowed ADs to determine their own loan interest rates to the borrowers covering their cost of borrowing from the fund and operational expenses, plus a reasonable risk-adjusted spread and profit margin.

v) To facilitate short term import finance, BB decided that ADs may, on behalf of industrial importers, issue repayment bank guarantees without getting BB approval favouring International Islamic Trade Finance Corporation extending buyer's credit up to 180 days for import of industrial raw materials for own use by importers, on sight basis, subject to adherence to all applicable credit norms and prudential parameters including single borrower exposure limit.

8.7 Promotion of cashless transaction

To ensure security, minimize transaction risks and enhance public awareness in card-based payments through different payment channels, BB updated and combined the previously issued instructions in this regard. Subsequently, BB issued a circular concerning safety, security and promotion of card-based transactions and different payment channels such as ATM, POS and online/internet/e-payment gateway. Besides, banks were instructed to strengthen their cyber security, and arrange necessary training and awareness programs on the same for their employees.

8.8 Issuance of Agricultural & Rural Credit Policy & Program for the FY 2017-18

During the review quarter, BB announced its agricultural & rural credit policy and program for the financial year (FY) 2017-18. The disbursement target for banks was set at BDT 20,400 crore which is 16.2 percent higher than that of the previous FY. The credit policy and program provides a highlight of banks' credit disbursement in agricultural and rural sector in FY 2016-17, describes briefly the features of this program, and delineates activities regarding credit disbursement, monitoring, recovery, use of information technology, awareness and training, among other topics.

8.9 Instructions for Prevention of

Money Laundering, Terrorist Financing and Proliferation Financing

In order to prevent money laundering, terrorist financing and proliferation financing, BB issued instructions for scheduled banks and institutions engaged in mobile financial services through two separate circulars. In general, both circulars include instructions regarding compliance framework, customer acceptance policy, know your customer (KYC), customer due diligence (CDD), new service or technology, transaction monitoring, Suspicious Transaction Report (STR), prevention of financing of terrorism and financing of proliferation of weapons of mass destruction, recruitment and training of employees, and record keeping. Besides, scheduled banks were provided specific instructions regarding correspondent banking, agent banking, overseas bank branches and subsidiaries, self assessment and independent testing of bank branches, domestic and cross-border wire transfer. Moreover, specific instructions were given to mobile financial services providers for recruitment of agents and distributors, and monitoring of their activities.

8.10 Issuance of Uniform KYC Profile Form for Insurance Companies

To encounter the risk of money laundering and terrorist financing, uniform KYC profile form was issued for both life and non-life insurance companies/corporations, which would come into effect from 01 January 2018.

Appendices

Table I : CPI Inflation (12 month Average)

(Percent)

Month	Inflation (General)	Inflation (Food)	Inflation (Non-Food)
Sep-16	5.7	4.6	7.5
Dec-16	5.5	4.5	7.1
Mar-17	5.4	5.2	5.7
Jun-17	5.4	6.0	4.8
Sep-17	5.6	6.7	3.8

Base: 2005-06=100

Table II Foreign Exchange Reserve

(Amount in million USD)

Month-end	International Reserve
Sep-15	26,379.0
Dec-15	27,493.3
Mar-16	28,265.9
Jun-16	30,137.6
Sep-16	31,385.9
Dec-16	32,092.0
Mar-17	32,215.0
Jun-17	33,407.0
Sep-17	32,816.6

Table III Wage Earners' Remittance

(Amount in million USD)

Quarter	Amount
Sep-15	3,933.6
Dec-15	3,553.6
Mar-16	3,572.5
Jun-16	3,871.5
Sep-16	3,245.8
Dec-16	2,921.1
Mar-17	3,027.7
Jun-17	3,574.9
Sep-17	3,387.9

Table IV Exports and Imports

(Amount in million USD)

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
Sep-15	7,640.0	9,155.0
Dec-15	8,089.0	9,836.0
Mar-16	8,624.0	9,765.0
Jun-16	9,088.0	10,720.0
Sep-16	7,909.0	9,502.0
Dec-16	8,501.0	10,645.0
Mar-17	8,920.0	11,448.0
Jun-17	8,689.0	11,123.0
Sep-17	8,549.0	12,199.0

Table V Interest Rate (Weighted Average) Spread

(In Percent)

Period	Lending Rate	Deposit Rate	Spread
Sep-15	11.5	6.7	4.8
Dec-15	11.2	6.3	4.8
Mar-16	10.8	5.9	4.9
Jun-16	10.4	5.5	4.9
Sep-16	10.1	5.4	4.7
Dec-16	9.9	5.2	4.7
Mar-17	9.7	5.0	4.7
Jun-17	9.5	4.8	4.7
Sep-17	9.5	4.9	4.6

Table VI Weighted Average Exchange Rate

(BDT/USD)

Quarter	Period Average	End Period
Sep-15	77.8000	77.8000
Dec-15	78.7800	78.5100
Mar-16	78.4100	78.4000
Jun-16	78.4000	78.4000
Sep-16	78.4000	78.4000
Dec-16	78.8040	78.7022
Mar-17	79.5000	79.7000
Jun-17	80.5900	80.6000
Sep-17	80.7400	80.8000

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

(Amount in billion BDT)

Period	Amount
Sep-15	1,803.0
Dec-15	1,710.6
Mar-16	1,632.5
Jun-16	1,804.8
Sep-16	1,807.7
Dec-16	1,691.1
Mar-17	1,615.1
Jun-17	1,684.5
Sep-17	1,666.0

Table VIII Asset Structure of the Banking Industry

(Amount in billion BDT)

Property and Assets	31-12-2016	31-03-2017	30-06-2017	30-09-2017
Cash in hand	107.2	109.1	141.6	115.8
Balance with Bangladesh Bank and its Agent Bank	756.5	747.8	847.8	756.7
Balance with other banks and financial Institutions	473.9	474.9	572.3	601.4
Money at call and short notice	86.8	107.9	101.0	136.8
Investment	2148.6	2055.4	1942.5	1991.3
Loans and Advances	7136.5	7370.4	7775.7	8004.5
Fixed Assets	224.7	224.9	225.8	226.3
Other Assets	687.3	687.0	760.1	772.3
Non-banking assets	3.7	3.7	3.5	3.5
Total Assets	**11,625.3**	**11,781.1**	**12,370.3**	**12,608.6**

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

(Amount in billion BDT)

Assets	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount	3,948.0	8,660.6	5,626.2	6,982.4
Share (%)	31.3%	68.7%	44.6%	55.4%
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 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. (%)
Sep-15	547.1	9.9	2.8	20.1
Dec-15	513.7	8.3	2.3	16.5
Mar-16	594.1	9.9	2.9	21.2
Jun-16	633.7	10.1	2.8	21.1
Sep-16	657.3	10.3	2.8	20.8
Dec-16	621.7	9.2	2.3	18.0
Mar-17	734.1	10.5	2.9	22.7
Jun-17	741.5	10.1	2.6	19.7
Sep-17	803.1	10.7	2.9	22.4

Table XI Distribution of Banks by NPL Ratio

Range	Number of Banks as at end				
	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Up to 2.0%	5	9	7	8	7
2.0% to <3.0%	5	6	6	4	4
3.0% to <5.0%	13	16	12	13	10
5.0% to <10.0%	17	14	18	19	24
10.0% to <15.0%	6	1	3	3	1
15.0% to <20.0%	1	2	1	1	0
20.0% & above	9	9	10	9	11
Total	**56**	**57**	**57**	**57**	**57**

Table XII Banking Sector Loan Loss Provisions

(Amount in billion BDT)

Period	Required Provision	Provision Maintained	Provision Maintenance Ratio (%)
Sep-15	308.5	285.2	92.4
Dec-15	308.9	266.1	86.1
Mar-16	336.2	294.9	87.7
Jun-16	361.8	317.3	87.7
Sep-16	372.3	328.5	88.2
Dec-16	362.1	307.4	84.9
Mar-17	419.2	366.9	87.5
Jun-17	436.4	374.5	85.8
Sep-17	463.1	399.7	86.3

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
Sep-15	9.9	11.2	8.8	80.0
Dec-15	8.8	8.9	6.4	84.7
Mar-16	9.9	15.1	5.4	79.6
Jun-16	10.1	11.8	8.3	79.9
Sep-16	10.3	11.6	6.0	82.4
Dec-16	9.2	10.2	5.4	84.4
Mar-17	10.5	11.1	6.8	82.1
Jun-17	10.1	10.2	6.8	83.1
Sep-17	10.7	12.0	6.0	82.0

Table XIV Classified Loan Composition (End-September 2017)

(Amount in billion BDT)

Particulars	Amount	Percent Of Total
Sub-Standard	96.1	12.0
Doubtful	48.3	6.0
Bad & Loss	658.6	82.0
Total	**803.0**	**100.0**

Table XV Banking Sector ROA Range

Quarter	ROA Range			
	Up to 2.0%	> 2.0% to ≤ 3.0%	> 3.0% to ≤ 4.0%	> 4.0%
Sep-15	49	3	1	3
Dec-15	35	12	5	4
Mar-16	48	2	2	4
Jun-16	49	3	3	1
Sep-16	49	4	3	0
Dec-16	48	7	1	1
Mar-17	51	4	1	1
Jun-17	53	2	1	1
Sep-17	52	4	0	1

Note: ROAs have been annualized from respective quarterly ratios.

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%
Sep-15	23	15	9	9
Dec-15	9	7	12	28
Mar-16	20	18	7	11
Jun-16	17	17	13	9
Sep-16	14	20	14	8
Dec-16	11	12	16	18
Mar-17	22	17	12	6
Jun-17	18	20	12	7
Sep-17	14	21	9	13

Notes: ROEs have been annualized from respective quarterly ratios .

Table XVII Banking Sector ROA and ROE

Ratio	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
ROA	0.5	0.4	0.5	0.8	0.1	0.3	0.4
ROE	6.8	5.0	6.1	10.8	1.2	3.7	5.9

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

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

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

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

(d) Similar method applied for annualizing quarterly ROE.

Table XVIII FIs' Borrowing, Deposit and Capital

(Amount in billion BDT)

Particulars	March-2017	June-2017	September-2017
Borrowings	167.3	178.5	177.0
Deposits	404.0	418.9	447.9
Capital	108.1	109.5	109.8
Other Liabilities	71.5	72.1	75.7
Total	**750.9**	**778.9**	**810.4**

Table XIX FIs' Asset Composition

(Amount in billion BDT)

Particulars	March-2017	June-2017	September-2017
Cash & Balance with Banks/FIs	113.8	113.8	121.4
Investments	29.3	18.9	22.6
Loans & Leases	546.7	576.4	593.7
Other Assets	50.6	59.2	62.0
Fixed Assets	10.5	10.7	10.7
Total	**750.9**	**778.9**	**810.4**

Table XX FIs' Classified Loans and Leases

(Amount in billion BDT)

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
Jun-15	31.6	7.7
Sep-15	45.2	10.6
Dec-15	40.0	8.9
Mar-16	41.8	8.9
Jun-16	45.1	9.0
Sep-16	45.6	8.9
Dec-16	39.3	7.4
Mar-17	45.0	8.1
Jun-17	52.0	8.9
Sep-17	55.9	9.4

Table XXI FIs' ROA & ROE

(In percent)

Quarter	Aggregate ROA	Aggregate ROE
Sep-15	1.3	7.8
Dec-15	2.0	11.8
Mar-16	0.6	3.9
Jun-16	0.8	5.5
Sep-16	0.9	6.0
Dec-16	0.8	5.4
Mar-17	0.6	4.2
Jun-17	1.0	7.4
Sep-17	0.5	3.6

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)						
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
< 10%	8	9	9	7	9	7	9
10% to ≤15%	31	32	32	33	32	35	31
15% +	17	15	15	17	16	15	17

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

CRAR	Number of banks & their asset size		Asset share (%)
	Number of banks	Asset size (in billion BDT)	
<10%	9	3065.2	24
10% to ≤ 15%	31	8403.4	67
15% +	17	1140.1	9
Total	**57**	**12608.7**	**100.00**

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

Particulars	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Core Capital to RWA (%)	8.1	8.2	7.6	7.6	7.9	7.8	7.8	7.5
Number of core capital compliant banks	49	50	49	49	50	49	50	49
Overall CAR (%)	10.8	10.6	10.3	10.3	10.8	10.7	10.9	10.7
Number of CAR compliant banks	48	48	47	47	50	48	50	48
No. of banks in the industry	56	56	56	56	57	57	57	57

Table XXV Distribution of Risk Weighted Assets of the Banking Industry

(Amount in billion BDT)

Particulars	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
RWA for Credit Risk	6570.6	6,758.4	6,891.7	7,262.4	7,439.9
RWA for Market Risk	310.2	299.6	304.7	301.6	297.9
RWA for Operational Risk	653.3	696.4	707.2	718.6	724.4
Total RWA	**7534.1**	**7,754.4**	**7,903.6**	**8,282.5**	**8,462.2**

Table XXVI Banking Sector Regulatory Capital Position (Solo Basis)

(Amount in billion BDT)

Period	Minimum Capital Requirement	Total Regulatory Capital
Mar-16	745.3	756.1
Jun-16	775.2	768.8
Sep-16	783.4	776.9
Dec-16	808.1	837.6
Mar-17	820.9	844.2
Jun-17	857.0	899.6
Sep-17	873.6	901.0

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

(In percent)

Period	ADR %
Dec-14	70.9
Mar-15	70.5
Jun-15	70.3
Sep-15	69.8
Dec-15	71.0
Mar-16	71.5
Jun-16	71.6
Sep-16	71.1
Dec-16	71.9
Mar-17	73.4
Jun-17	73.9
Sep-17	74.8

Table XXVIII Bank Cluster-wise ADR at end-September 2017

(In percent)

Bank wise	ADR (%)
SCBs	52.4
PCBs	84.5
FCBs	65.0
DFIs	78.3
Industry	74.8

Table XXIX FIs' CRR & SLR

(Amount in billion BDT)

Quarter End	Aggregate CRR			Aggregate SLR		
	Required	Maintained	Surplus/Shortfall	Required	Maintained	Surplus/Shortfall
Dec 2015	4,781.6	5,234.6	453.0	12,935.7	68,042.7	55,107.0
Mar 2016	4,976.3	5,540.4	564.1	13,567.2	71,023.4	57,456.2
Jun 2016	5,312.6	5,829.6	517.0	14,570.9	69,361.9	54,791.0
Sep 2016	5,576.8	6,115.4	538.6	15,122.4	71,110.0	55,987.6
Dec 2016	5,805.0	6,177.7	372.8	15,514.5	64,958.2	49,443.7
Mar 2017	5,939.4	6,400.4	461.00	14,313.4	83,290.4	68,977.0
Jun 2017	6,158.8	6,509.6	350.8	16,880.2	76,950.7	60,070.5
Sep 2017	6,485.2	6,658.6	173.4	17,645.4	83,334.0	65,688.6

Table XXX Capital Adequacy Ratio of FI Sector

Particulars	End Jun-16	End Sep-16	End Dec-16	End Mar-17	End Jun-17	End Sep-17
Eligible Capital to RWA (%)	16.7	16.3	16.6	16.0	13.7	13.3

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

(Amount in billion BDT)

Particulars	End Jun-16	End Sep-16	End Dec-16	End Mar-17	End June-17	End Sep-17
Risk Weighted Assets (RWA)						
Credit RWA	496.0	506.4	518.3	543.8	579.3	592.6
Market RWA	42.5	47.6	50.0	55.3	54.2	61.5
Operational RWA	38.7	38.9	41.3	42.4	42.7	42.8
Total RWA	**577.2**	**592.9**	**609.6**	**641.5**	**676.2**	**696.9**
Capital						
Core Capital (Tier -1)	88.5	88.8	91.3	92.2	92.7	82.4
Supplementary Capital	7.9	8.0	9.7	10.2	10.4	10.6
Eligible Capital	96.3	96.8	101.0	102.4	103.1	93.0

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

(Based on data as of end-Sep 2017)

Shocks	CRAR after Shock (%)		
	Minor Level	Moderate Level	Major Level
Increase in NPL in the highest outstanding sector	10.58	10.48	10.30
Increase in NPLs due to default of Top borrowers	8.93	7.23	6.45
Negative shift in NPL categories	9.98	8.23	6.83
Decrease in the FSV of collateral	10.00	9.35	8.02
Increase in NPLs	9.75	7.50	3.87
Interest rate shock	10.33	10.01	9.69
Exchange rate shock	10.62	10.59	10.56
Equity shock	10.38	10.11	9.57
Combined shock	7.82	2.54	-4.71

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

(Based on data as of end-June 2017)

Shocks	No. of Banks		
	Minor Level	Moderate Level	Major Level
Increase in NPL in highest outstanding sector	3	5	6
Increase in NPLs due to default of Top borrowers	21	38	39
Negative shift in NPL categories	3	10	15
Decrease in the FSV of collateral	3	3	7
Increase in NPLs	4	29	35
Interest rate shock	3	4	6
Exchange rate shock	1	2	2
Equity shock	3	4	6
Combined shock	18	35	40

Table XXXIV Price/Earnings Ratio of Capital Market

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

Table XXXV DSE Performance

Month	DSE Turnover (BDT in millions)	Index		
		DSEX	DSE 30	DSES
Sep-16	86.89	4,695.19	1,778.70	1,125.86
Oct-16	105.60	4,592.18	1,733.43	1,100.04
Nov-16	141.50	4,801.24	1,775.34	1,140.59
Dec-16	177.80	5,036.05	1,810.91	1,191.87
Jan-17	342.32	5,468.34	1,993.15	1,268.28
Feb-17	194.04	5,612.70	2,025.83	1,305.64
Mar-17	217.70	5,719.61	2,090.76	1,303.72
Apr-17	153.18	5,475.55	2,016.14	1,263.91
May-17	122.58	5,403.12	2,005.19	1,251.39
Jun-17	101.56	5,656.05	2,083.80	1,296.74
Jul-17	209.29	5,860.65	2,143.51	1,315.20
Aug-17	195.89	6,006.43	2,138.73	1,322.10
Sep-17	199.44	6,092.84	2,177.62	1,345.86

Table XXXVI CSE Performance

Month	CSE Turnover (BDT in millions)	Index		
		CASPI	CSE 30	CSI
Jul-16	4.93	13,917.27	12,828.17	984.75
Aug-16	5.15	13,900.78	12,632.72	978.74
Sep-16	5.43	14,429.44	13,096.15	1,005.13
Oct-16	6.80	14,146.41	12,748.85	984.32
Nov-16	8.30	14,778.22	13,178.89	1,028.41
Dec-16	11.05	15,477.66	13,583.60	1,072.08
Jan-17	20.07	16,937.97	14,768.35	1,150.34
Feb-17	11.88	17,375.73	15,064.53	1,185.02
Mar-17	13.77	17,738.31	15,583.38	1,188.16
Apr-17	10.51	16,993.94	15,078.78	1,150.63
May-17	11.95	16,707.07	14,897.02	1,131.42
Jun-17	8.22	17,516.71	15,580.37	1,178.39
Jul-17	13.04	18,148.44	15,918.75	1,200.62
Aug-17	12.85	18,604.76	16,068.52	1,207.35
Sep-17	15.86	18,881.60	16,424.84	1,227.25

Table XXXVII Market Capitalization

As on end-month	Market Capitalization (in billion BDT)		Growth of market capitalization (in percent)	
	DSE	CSE	DSE	CSE
Jul-16	3,207.37	2,548.01	0.68	1.67
Aug-16	3,192.56	2,529.59	-0.46	-0.72
Sep-16	3,281.91	2,612.52	2.80	3.28
Oct-16	3,236.34	2,579.05	-1.39	-1.28
Nov-16	3,328.81	2,664.98	2.86	3.33
Dec-16	3,412.44	2,741.34	2.51	2.87
Jan-17	3,668.12	2,998.77	7.49	9.39
Feb-17	3,739.30	3,064.14	1.94	2.18
Mar-17	3,798.31	3,124.93	1.58	1.98
Apr-17	3,710.93	3,038.78	-2.30	-2.57
May-17	3,683.02	3,005.92	-0.75	-1.08
Jun-17	3,801.00	3,113.24	3.20	3.57
Jul-17	3,961.34	3,273.16	4.22	5.14
Aug-17	4,020.91	3,332.30	1.50	1.81
Sep-17	4,072.08	3,382.72	1.27	1.51

Table XXXVIII Sectoral Turnover of DSE

(In percent)

Broad Sector	SECTOR	% of Total Turnover	
		2017Q2	2017Q3
Financial Sector	Banks	15.93	27.24
	Financial Institutions	12.58	9.13
	Insurance	1.09	1.71
Manufacturing	Food & Allied Product	2.86	3.59
	Pharmaceuticals & Chemicals	12.02	8.90
	Textile	15.16	12.73
	Engineering	10.68	11.42
	Ceramic	0.43	1.50
	Tannery	0.62	1.85
	Paper & Printing	0.21	0.35
	Jute	0.27	0.37
	Cement	1.75	2.34
Service & Miscellaneous	Mutual Funds	2.16	1.84
	Fuel & Power	11.30	7.22
	Services & Real estate	1.74	1.51
	IT - Sector	3.74	2.29
	Telecommunication	1.34	1.88
	Travel and Leisure	0.67	0.84
	Miscellaneous	5.40	3.23
Bond	Corporate Bond	0.06	0.03
	Total	**100.00**	***100.00***

Note: 2017Q2 ≡ June quarter 2017, 2017Q3 ≡ September quarter 2017

Table XXXIX Sectoral Turnover of CSE

(In percent)

Broad Sector	SECTOR	% of Total Turnover	
		2017Q2	2017Q3
Financial Sector	Banks	25.06	36.55
	Leasing & Finance	7.00	6.54
	Life Insurance	0.58	0.24
	General Insurance	0.38	0.53
Manufacturing	Food & Allied Product	2.15	3.35
	Pharmaceuticals & Chemicals	11.46	6.96
	Textile	12.87	10.92
	Engineering	6.46	11.05
	Ceramic	0.46	2.91
	Tannery	0.28	1.07
	Paper & Printing	0.45	0.84
	Cement	1.79	2.48
Service & Miscellaneous	Fuel & Power	8.52	4.68
	Services	2.48	2.86
	IT	2.45	1.65
	Telecommunication	0.81	1.09
	Mutual Funds	0.88	1.09
	Miscellaneous	15.93	5.18
Bond	Corporate Bond	0.00	0.00
	Total	**100.00**	**100.00**

Note: 2017Q2 ≡ June quarter 2017, 2017Q3 ≡ September quarter 2017

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