

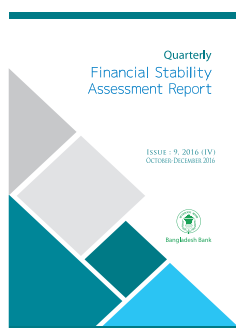
Quarterly

Financial Stability Assessment Report

October-December 2016



Financial Stability Department
Bangladesh Bank



Advisor

Shitangshu Kumar Sur Chowdhury, Deputy Governor

Coordinators

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

Team of Editors

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

Data/Write-up Support

1. Banking Regulation and Policy Department
2. Department of Financial Institutions and Markets
3. Department of Off-site Supervision
4. Debt Management Department
5. Foreign Exchange Policy Department
6. Research Department
7. Statistics Department
8. Sustainable Finance Department

This report is based on unaudited and provisional data of banks and non-bank financial institutions available up to December 31, 2016 unless stated otherwise in the relevant chapters/sections.

MESSAGE OF THE GOVERNOR



A stable financial system is the key to economic growth where financial sector delivers critical services to the real economy without any interruption. Being the central bank of the country, Bangladesh Bank has the responsibility to identify and address the key systemic risks, preferably before they materialize, and in a world with an ever increasing degree of uncertainty, this task continues to get more arduous. Pertinently, Bangladesh Bank is prepared to do whatever it takes to maintain stability of the financial system by strengthening financial sector regulation and supervision with increasing use of real time surveillance procedures.

Financial system of Bangladesh, during October-December 2016-the review quarter, has remained resilient attributable to prudent policies of the financial sector regulators as well as timely monetary and fiscal operations of the country. Significant transformation of economic growth and stability indicators over the recent past suggested that our macroeconomic policies has performed relatively well in fulfilling our desired goals. With digitalization of various activities across and within financial systems, our banking system is now more robust and prudent in terms of service delivery. Bangladesh Bank remained committed to play a catalytic and facilitating role for better payment systems while performing its responsibilities as a regulator and supervisor for ensuring their safety, security and soundness, along with customer protection. Through this report, we want to communicate with the stakeholders of the financial system about potential risks and fragilities as well as our recent steps having financial stability implications.

I believe the stakeholders of the financial system would be benefitted from this report which may help them endure any potential risks. Finally, I would like to thank the officials of Financial Stability Department for their valuable contribution in finalising this report.


Fazle Kabir
Governor



MESSAGE OF THE DEPUTY GOVERNOR

The forces shaping the global outlook, both those operating over the short term and those operating over the long term, point to subdued growth for 2016 and a gradual recovery thereafter, as well as to down-side risks. Election victory in the U.S. and the promise of more aggressive fiscal stimulus pushed up yields. Forward-looking indicators such as purchasing managers' indices have remained strong in the fourth quarter in most areas around the globe. The picture for emerging market and developing economies remains much more diverse. The growth rate in China was a bit stronger than expected, supported by continued policy stimulus. But activity was weaker than expected in some Latin American countries currently in recession, such as Argentina and Brazil, as well as in Turkey. Amid these developments in the global financial system, Bangladesh financial system remained reasonably stable during October-December 2016, the review quarter.

A number of key macroeconomic indicators demonstrated improving trend during the review quarter. Decline in inflation and interest rate and increase in foreign exchange reserve and export contributed notably to maintaining a reasonable level of stability in the financial system. Several initiatives have been taken by Bangladesh Bank, in the review quarter, with a view to improving the macro-financial stability of the economy. For instance, Bangladesh Bank has issued Guidelines on Core Banking Solution (CBS) Features and Controls, instructed all scheduled banks and Financial Institutions to form a separate 'Sustainable Finance Unit', restricted loan limit against lien/pledge of the Wage Earner Development Bond, U.S. Dollar Investment Bond and U.S. Dollar Premium Bond at maximum 75 percent of the face value of the bonds, signed a Project Agreement (PA) with the International Development Association (IDA) to carry out the tasks for implementation of Financial Sector Support Project and brought a number of changes in its foreign exchange regulations. In addition, Bangladesh Bank has developed a systemic risk dashboard encompassing six risk areas in the macro financial system namely macro risk, credit risk, funding and liquidity risk, market risk, profitability, and solvency risk and interlinkages. All these would have important bearing on the stability of our macro-financial system.

I expect that this report will enhance risk awareness among the stakeholders and help them withstand any endogenous and exogenous shocks. I value the dedication and 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

Contents

	Page
Acronyms	viii
Executive Summary	ix
Chapter 1 Macroeconomic Developments	01
1.1 Inflation	01
1.2 Foreign Exchange Reserve and its Import Coverage	01
1.3 Wage Earners' Remittance	02
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 Assets Quality	08
3.4 Profitability	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 Testing 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 and Corporate Bond Market	19
7.1 DSE Performance and Index Movement	19
7.2 Price/Earnings (P/E) Ratio	19
7.3 Sectoral Turnover	20
7.4 Market Capitalization	20
7.5 Corporate Bond Market	20
Chapter 8 Recent Stability Initiatives of Bangladesh Bank	21
Appendices	23

List of Charts

		Page
Chart	1.1 Inflation	1
Chart	1.2 Foreign Exchange Reserves	1
Chart	1.3 Wage Earners' Remittance	1
Chart	1.4 Exports and Imports (FOB)	1
Chart	1.5 Interest Rate Spread	2
Chart	1.6 Exchange Rate	2
Chart	1.7 Credit to the Govt. (Gross) by the Banking System	2
Chart	2.1 Asset Size of the Banking Industry	3
Chart	2.2 Asset Structure of the Banking Industry	3
Chart	2.3 Top 5 banks based on Assets Size	4
Chart	2.4 Top 10 banks based on Assets Size	4
Chart	2.5 NPL Ratio	4
Chart	2.6 Distribution of banks by NPL ratio	4
Chart	2.7 Banking Sector Loan Loss Provision	5
Chart	2.8 Top 5 Banks based on NPL	5
Chart	2.9 Top 10 Banks based on NPL	5
Chart	2.10 Proportion of NPL Categories	5
Chart	2.11 NPL Composition of Banks	5
Chart	2.12 Banking Sector Return on Assets (ROA)	6
Chart	2.13 Banking Sector Return on Equity (ROE)	6
Chart	3.1 FIs' Sources of Fund	7
Chart	3.2 FIs' Assets Composition	7
Chart	3.3 FIs' Non-performing Loans and Leases	8
Chart	3.4 FIs' ROA and ROE	8
Chart	4.1 Banking Sector Capital to Risk-Weighted Assets Ratio	9
Chart	4.2 Assets Share of Banks based on CRAR at End-December 2016	9
Chart	4.3 Tier-1 Capital Ratio and Overall CRAR of the Banking Industry	10
Chart	4.4 Banking sector CRR: December 2016	10
Chart	4.5 Banking sector SLR: December 2016	10
Chart	4.6 Banking Sector Advance-to-Deposit Ratio	10
Chart	4.7 Leverage ratio of banks at End-December 2016	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: December 2016	17
Chart	6.2 Banking Sector CRAR at Different Shock Scenarios: December 2016	18
Chart	7.1 DSE Performance and Index Movement	19
Chart	7.2 Price/Earnings Ratio	19
Chart	7.3 Sectoral Turnover (in percent) in DSE	20
Chart	7.4 Market Capitalization and Its Growth Rate	20
Chart	7.5 Corporate Bond Issuance	20

List of Tables

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

List of Appendices

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

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
BIDA	Bangladesh Investment Development Authority
BRPD	Banking Regulation and Policy Department
BSRD	Bangladesh Systemic Risk Dashboard
CAR	Capital Adequacy Ratio
CBS	Core Banking Solution
CPI	Consumer Price Index
CRAR	Capital to Risk-weighted Asset Ratio
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility
CY	Calendar Year
DFIs	Development Finance Institutions
DFIM	Department of Financial Institutions and Markets
DOS	Department of Off-site Supervision
DSE	Dhaka Stock Exchange
EFT	Electronic Fund Transfer
FCBs	Foreign Commercial Banks
FIs	Financial Institutions
FOB	Free on Board
FSD	Financial Stability Department
FSSP	Financial Sector Support Project
FSV	Forced Sale Value
FX	Foreign Exchange
FY	Financial Year
GFET	Guidelines for Foreign Exchange Transactions
GTF	Green Transformation Fund
IDA	International Development Association
IS	Interest Suspense
LCAF	Letter of Credit Authorization Form
LTFF	Long Term Financing Facility
NPL	Non-performing Loan
PFI	Participating Financial Institutions
PCBs	Private Commercial Banks
P/E Ratio	Price Earnings Ratio
QFSAR	Quarterly Financial Stability Assessment Report
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk-weighted Assets
SCBs	State-owned Commercial Banks
SLR	Statutory Liquidity Requirement
SME	Small & Medium Enterprise
USD	United States Dollar
WAR	Weighted Average Resilience
WIR	Weighted Insolvency Ratio

Executive Summary

The macro-financial system of Bangladesh was mostly resilient and stable during the October-December quarter of calendar year 2016 (CY16). General inflation along with food and non-food inflation continued to demonstrate downward trend recording a further drop compared to the preceding quarter. Gross international reserves increased to USD 32.1 billion, which is equivalent to meet seven months' imports of goods and services. Wage earners' remittance displayed a slight decline in growth rate while export receipts recorded a higher growth rate compared to the preceding quarter. An increase in import payments was observed as well. The Bangladesh Taka (BDT) experienced a small depreciation against US Dollar (USD). The interest rate spread remained unchanged though both the weighted average lending and deposit rates declined marginally. Government borrowing from the banking sector went down markedly.

The banking sector displayed an overall improved performance during the review quarter. The asset size of the banking sector grew notably as loans and advances as a percentage of total assets registered an increase of 180 basis points over the previous quarter. A marked improvement was recorded in key profitability indicators as both Return on Assets (ROA) and Return on Equity (ROE) increased during the quarter. Asset quality of the banking industry improved recording a drop in both gross and net non-performing loan (NPL) ratio. However, share of bad and loss loans in the gross NPL amount increased leading to a decline in provision maintenance ratio during the reporting quarter.

At end-December 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 increased by 50 and 30 basis points respectively during this 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 4.9 percent, being much above the regulatory minimum requirement of 3.0 percent, on solo basis. 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 demonstrated notable stability in the review quarter. Asset quality improved considerably registering a decline in gross NPL ratio. Both the capital adequacy ratio (CAR) and Tier-1 capital ratio, in line with Basel II capital framework, increased by 200 and 70 basis points respectively remaining much above the minimum regulatory requirement. However, the key profitability indicators - ROA and ROE - decreased slightly over the previous quarter. FIs did not face any liquidity pressure during the review quarter as evident from their maintenance of higher CRR and SLR.

Stress test on banks, based on the data as of end-December 2016, indicates that increase in the number of top borrowers' default and rise in gross non-performing loan (NPL) would have major impacts on the banking sector CRAR; combined shock aggregating the credit and market risks would also have adverse effects on the same. 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-December 2016, though 07 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 key indices - DSEX, DS30, and DSES displayed an upward trend. Market capitalization also increased by 4.0 percent at end-December 2016 compared to that of end-September 2016. However, price-earnings (P/E) ratio went down marginally during this period. No corporate bonds were issued during this quarter.

Bangladesh Bank has taken a number of initiatives, in the review quarter, having implications for financial stability. For instance, Bangladesh Bank has developed a risk dashboard named 'Bangladesh Systemic Risk Dashboard (BSRD)', issued guidelines on Core Banking Solution (CBS), instructed banks and FIs to form a separate 'Sustainable Finance Unit', brought about changes in foreign exchange regulations to make foreign exchange operations easier as well as more disciplined, and signed a project agreement with the International Development Association (IDA) to improve financial market infrastructure and access to long term financing mainly for manufacturing firms in Bangladesh.

In sum, amid the mixed developments in the global economy - a stronger-than-expected pickup in economic growth in the advanced economies against an unexpected slowdown in some emerging market economies, Bangladesh financial system remained mostly stable during the review quarter.

Macroeconomic Developments

The Bangladesh economy demonstrated a reasonable level of stability in the review quarter, October-December 2016, attributable to a decline in inflation and interest rates, an increase in foreign exchange reserves and exports, decrease in credit to the Government by banking sector.

1.1 Inflation

At end-December 2016, general, food and non-food inflation decreased to 5.5, 4.5 and 7.1 percent from 5.7, 4.6 and 7.5 percent respectively with respect to those of end-September 2016 (Chart 1.1).

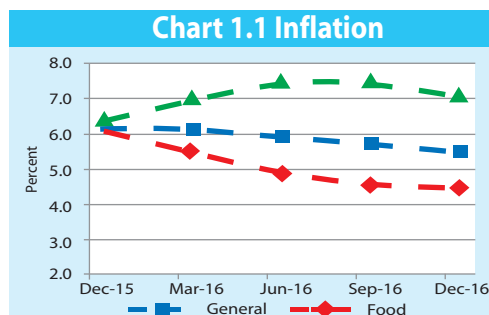
1.2 Foreign Exchange Reserve and its Import Coverage

At end-December 2016, the gross foreign exchange reserves reached at USD 32.1 billion recording an increase of 2.2 percent, from the USD 31.4 billion of end-September 2016. The reserve position was equivalent to meeting more than seven months' imports of goods and services¹.

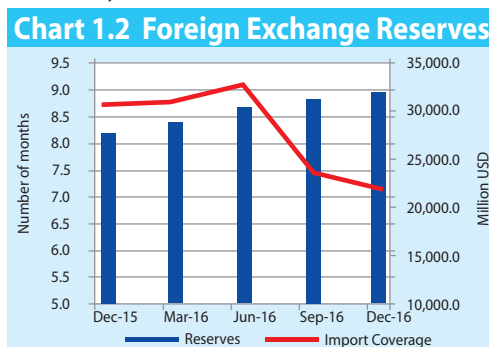
1.3 Wage Earners' Remittance

The remittances from Bangladeshi nationals, working abroad, stood at USD 2,921.1 million during the review quarter, recording a decline of 10.0 percent compared to USD 3,245.8 million recorded during the preceding quarter. It is noteworthy that in the July-September quarter of 2016 declined in remittance was 16.2 percent compared to that of April-June quarter of 2016.

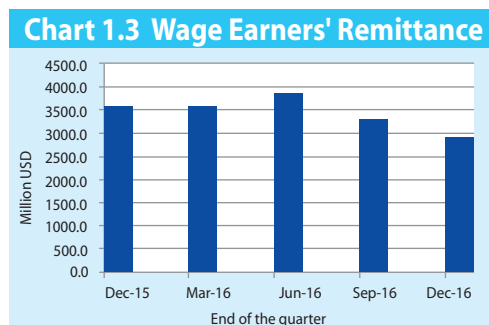
¹ Compiled on the basis of import (shipment) data received from NBR (Since September 2016).



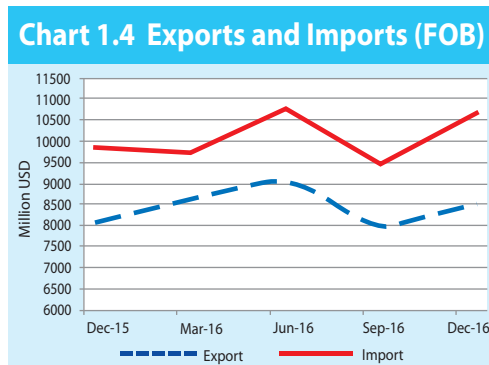
Source: Monthly Economic Trends, BB (various issues). Base 2005-06=100.



Source: Research Department, BB.



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



Source: Research Department, BB.

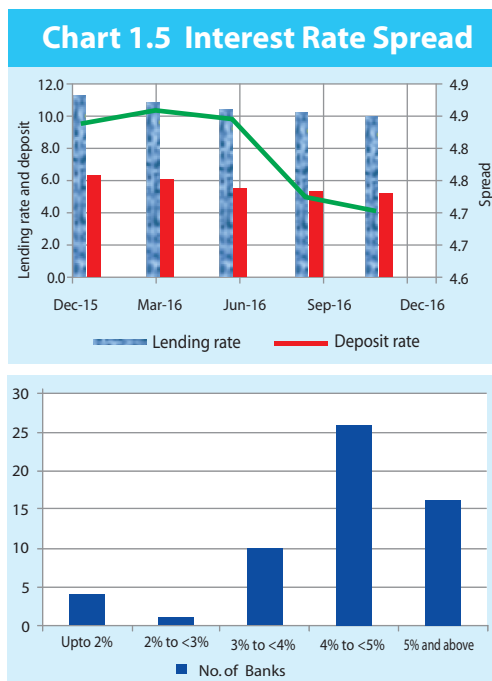
1.4 Imports and Exports

In the review quarter, aggregate import payments² increased by 12.0 percent and reached at USD 10,645.0 million as compared to USD 9,502.0 million recorded in the preceding quarter. Export receipts, in contrast, increased by 7.5 percent and reached at USD 8,501.0 million compared to USD 7,909.0 million recorded in the third quarter of CY16.

1.5 Interest Rate

The spread between weighted average lending and deposit rates remained unchanged at 4.7 percent with respect to that of end-September 2016; spreads of 16 out of 57 banks were above 5.0 percent. Out of these 16 banks, 5 were FCBs and 11 were PCBs.

In December 2016, the weighted average lending and deposit rates were 9.9 and 5.2 percent respectively. Both the lending and deposit rates slightly declined compared to those of the preceding quarter.



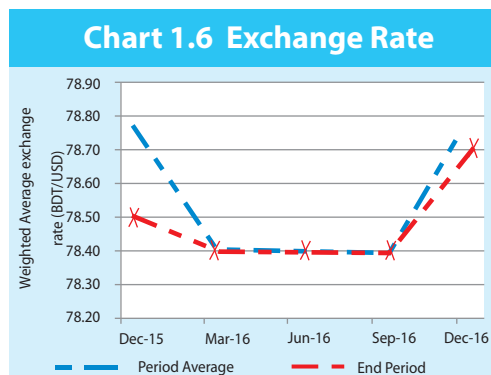
Source: Statistics Department, BB.

² On FOB basis.

Note: P = provisional

1.6 Exchange Rate

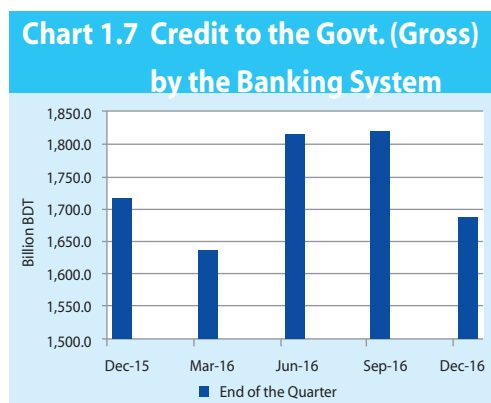
The Bangladesh Taka in terms of US dollar³, recording a slight depreciation stood at BDT 78.80 per USD, in December 2016, from USD 78.40 in September 2016.



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

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

Credit to the Government (gross), by the banking system, decreased by BDT 116.6 billion or 6.5 percent during the review quarter with respect to the position of end-September 2016. Mentionable that in the preceding quarter, credit to the government recorded an increase of 0.16 percentage points compared to April-June quarter of 2016.



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

³ On weighted average basis.

Banking Sector Performance

The banking sector demonstrated a positive trend in terms of asset growth, profitability and asset quality during the October-December quarter of CY16.

2.1 Assets Structure

The balance sheet size of the banking sector⁴ grew by nearly 2.9 percent and reached BDT 11,625.3 billion at end-December 2016 compared to end-September 2016 position. Loans and advances, as a percentage of total assets, recorded a slight increase. The proportion of investment declined slightly. It is to mention that banking sector assets-to-GDP ratio stood at 67.2 percent at end-December 2016⁵ which was 65.2 percent at the end of the preceding quarter.

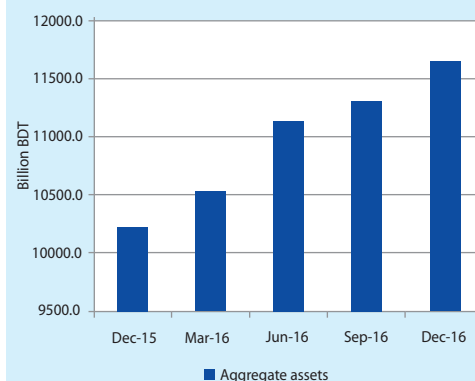
The share of loans and advances, the largest among the asset items, increased by 180 basis points at end-December CY16, compared to that of end-September 2016. The share of banks' assets with Bangladesh Bank increased by 40 basis points and balances with other banks and financial institutions increased by 50 basis points. Banks' money at call decreased by 10 basis points, while the share of other assets decreased by 130 basis points. However, the share of investments in government and other securities decreased by 60 basis points.

The asset concentration ratios of Top 5 and Top 10 banks against the total banking system assets were 32.2 and 45.8 percent respectively at end- December 2016 (Chart 2.3 & 2.4); the proportions decreased relative to that in the preceding quarter.

⁴ Taking into account only scheduled banks (57).

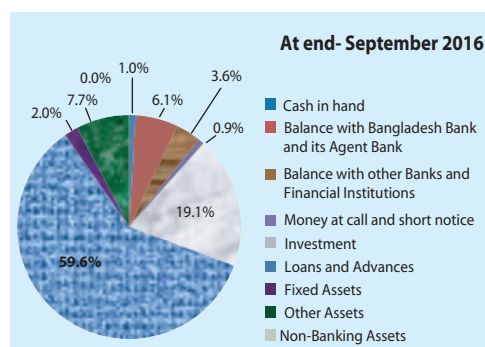
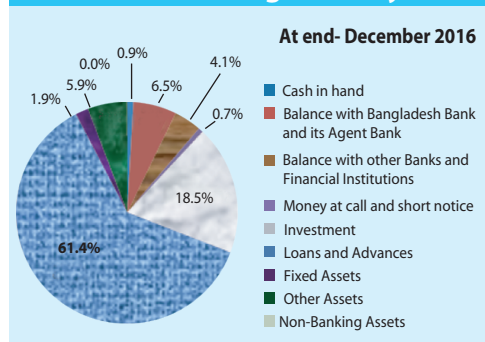
⁵ Taking into account GDP at current market price for the financial year 2015-16.

Chart 2.1 Asset Size of the Banking Industry



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

Chart 2.2 Asset Structure of the Banking Industry

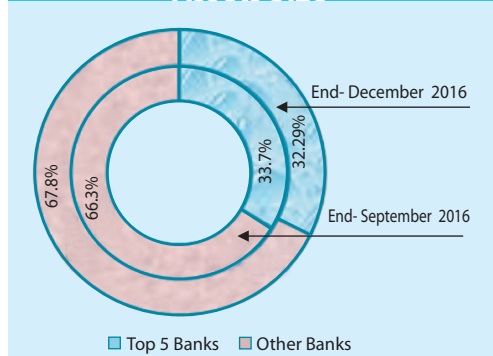


Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

2.2 Asset Quality

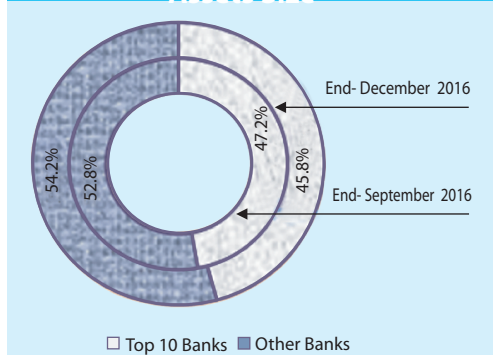
The gross NPL ratio⁶ declined to 9.2 percent at end-December 2016, decreasing by 110 basis points from 10.3 percents of end-September 2016. Besides, non-performing loans net of specific loan loss provisions and interest suspense to total loans decreased to 2.3 percent from 2.8 percent of end-September 2016. Besides, non-performing loans net of specific loan loss provisions and interest suspense to regulatory capital decreased to 18.0 percent from 20.8 percent of end- September 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

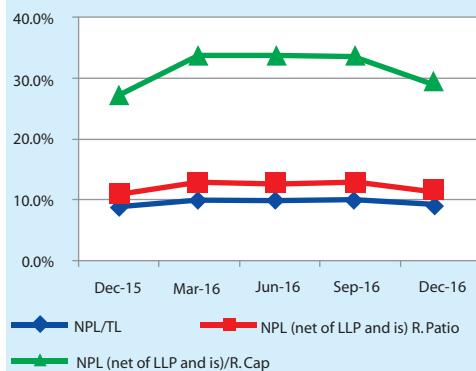


Source: Compilation (Aggregate B/S account of banking industry): FSD, BB.

⁶ Non-performing loan to total loan ratio.

The distribution of banks, based on their gross NPL ratios, indicates that 12 banks came up with double-digit values in December CY16.

Chart 2.5 NPL Ratio

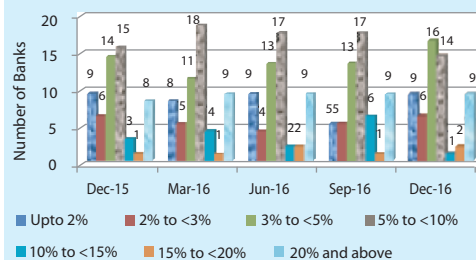


Source: BRPD, BB.

The provision maintenance ratio⁷, at end-December 2016, slightly decreased to 84.9 percent from 88.2 percent recorded at end-September 2016.

Pertinently, 51.8 and 66.4 percents of the non-performing loans were concentrated in the Top 5 and Top 10 banks respectively at end-December 2016 (chart 2.9 & 2.10).

Chart 2.6 Distribution of banks by NPL ratio

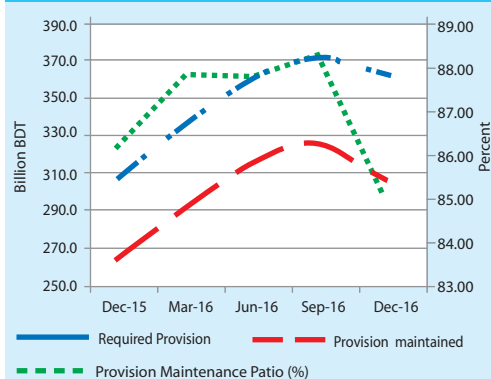


Source: BRPD, Compilation FSD.

⁷ Maintained provision to required provision.

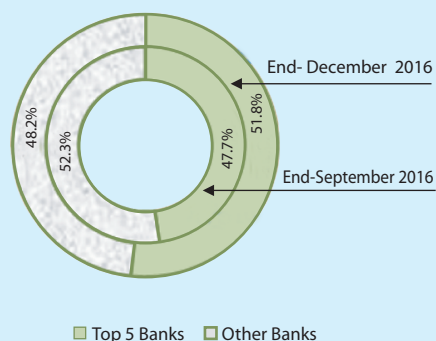
The ratio of bad and loss loans to total classified loans stood at 84.4 percent at end-December CY16. The NPL under sub-standard and doubtful categories, in contrast, constituted 10.2 and 5.4 percent of total NPLs respectively. Pertinently, the proportion of bad and loss loans increased by 2.0 percents while the proportions of sub-standard and doubtful loans decreased by 1.4 and 0.6 percentage points from those of the previous quarter.

Chart 2.7 Banking Sector Loan Loss Provision



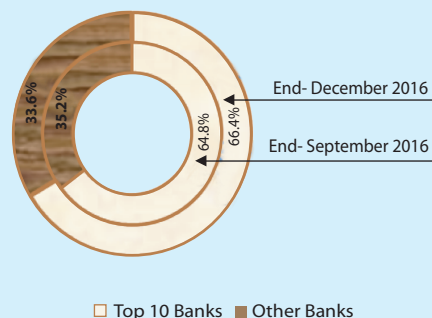
Source: BRPD, BB.

Chart 2.8 Top 5 Banks based on NPL



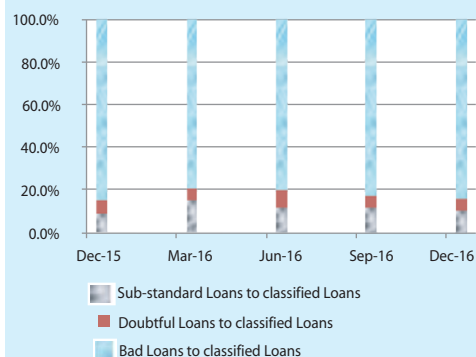
Source: BRPD, Compilation FSD.

Chart 2.9 Top 10 Banks based on NPL



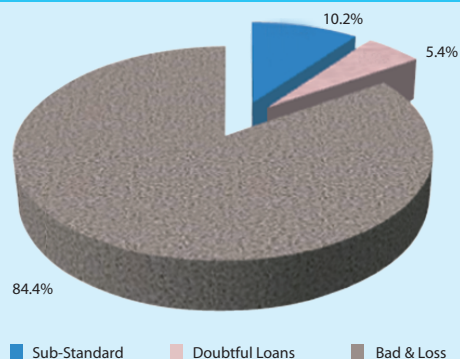
Source: BRPD, Compilation FSD.

Chart 2.10 Proportion of NPL Categories



Source: BRPD, BB.

Chart 2.11 NPL Composition of Banks

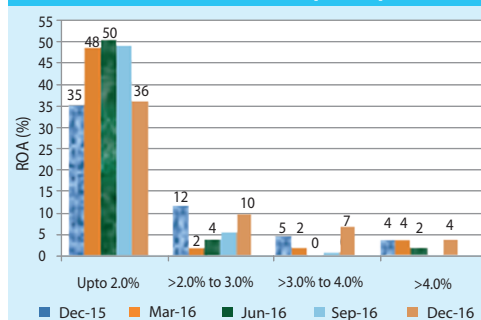


Source: BRPD, BB.

2.3 Profitability

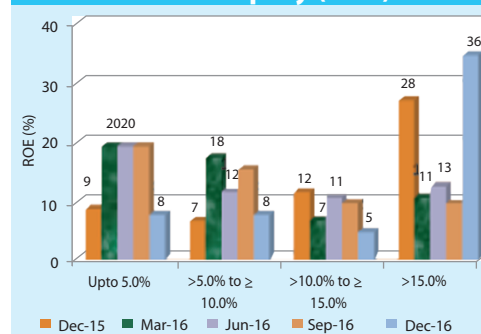
In the review quarter, profitability of the banking sector increased. Return on assets (ROA) and return on equity (ROE) of the banking sector stood at 1.8 and 24.3 percents respectively recording increments of 1.2 and 16 percentage points from the respective ratios of the preceding quarter⁸. Almost 63.2 percent of the banks' ROA was up to 2.0 percent, while 36.8 percent of banks' ROA was higher than 2.0 percent. On the other hand, 63.2 percent of the banks' ROE was higher than 15.0 percent.

Chart 2.12 Banking Sector Return on Assets (ROA)



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

Chart 2.13 Banking Sector Return on Equity (ROE)



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

⁸ Quarterly ratios were annualized.

Financial Institutions' Performance

Financial Institutions (FIs) showed a mixed performance in the review quarter of CY16. Key financial soundness indicators, such as gross non-performing loans and leases ratio showed improvement but profitability ratios went down over the preceding quarter.

3.1 Sources of Funds

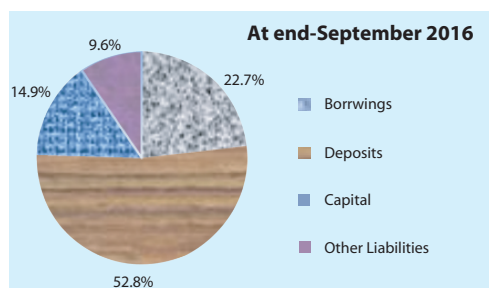
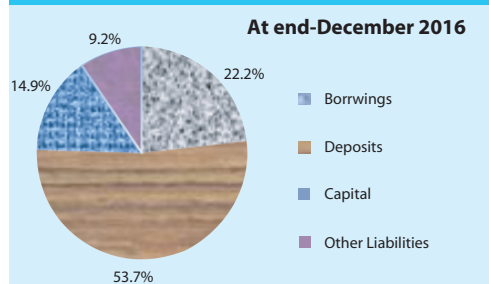
At end-December 2016, borrowings, deposits, capital and other liabilities constituted 22.2, 53.7, 14.9 and 9.2 percent of the sources of funds of the FIs respectively. In comparison with end-September 2016, the share of deposits increased by 09 basis points while the share of rest of the liabilities remained almost same.

3.2 Assets Composition

Loans and leases constituted 74.7 percent of total assets of FIs at end-December 2016. Cash and balances with banks/FIs, investments, fixed assets and other assets comprised 12.1, 4.6, 1.6 and 7.0 percent of total assets respectively.

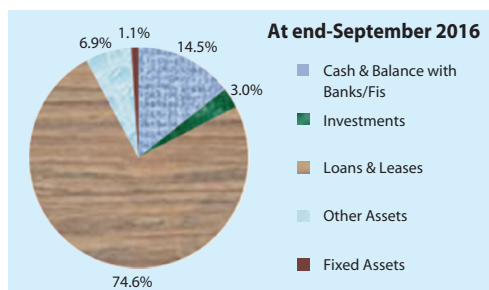
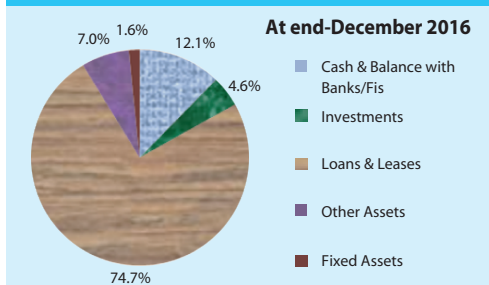
When compared with end-September 2016 positions, the share of loans and leases remained almost same. Cash and balances with other banks/FIs decreased by 240 basis points; the proportion of investments increased by 160 basis points while the share of rest of the assets remained almost same.

Chart 3.1 FIs' Sources of Fund



Source: FIs; Compilation: FSD, BB.

Chart 3.2 FIs' Assets Composition



Source: FIs; Compilation: FSD, BB.

3.3 Asset Quality

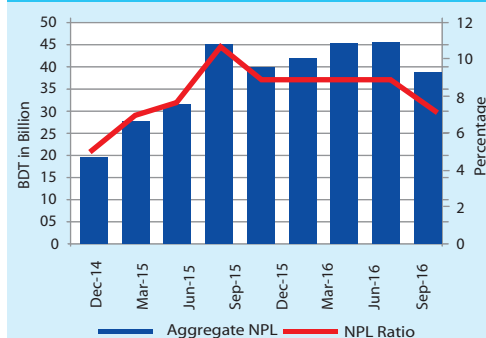
Fls' asset quality improved at end-December 2016. The amount of non-performing loans and leases decreased from BDT 45.6 billion at end-September 2016 to BDT 39.2 billion at end-December 2016. The ratio of non-performing loans and leases to total loans and leases decreased from 8.9 to 7.4 percent during the same period.

3.4 Profitability

Fls' profitability declined slightly in the review quarter over the September quarter of 2016⁹.

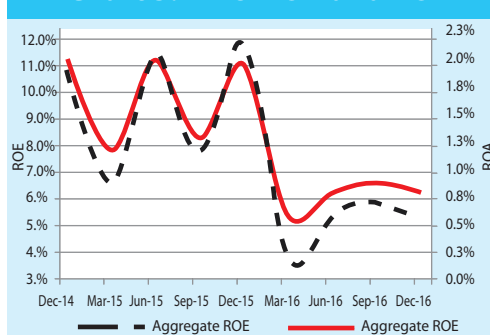
The key profitability indicators - return on assets (ROA) and return on equity (ROE) stood at 0.8 and 5.4 percent respectively in the December quarter of 2016 as compared to 0.9 and 6.0 percent respectively recorded in the preceding quarter.

Chart 3.3 Fls' Non-performing Loans and Leases



Source: DFIM, BB.

Chart 3.4 Fls' ROA and ROE



Source: Fls; Compilation: FSD, BB.

⁹ Here profitability indicators - ROA and ROE - have been annualized from quarterly ratios.

Banking Sector Liquidity and Capital Adequacy

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

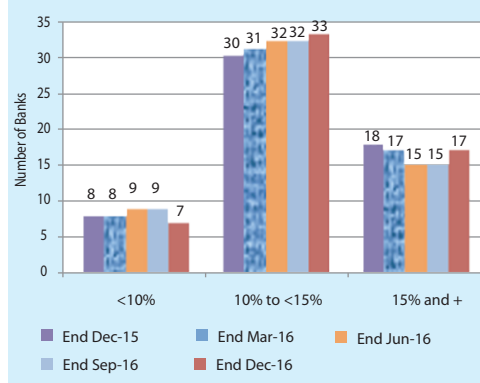
4.1 Capital Adequacy

In the review quarter, a majority of the banks were compliant to the minimum CRAR requirement, compared to end-September 2016. Pertinently, 50 out of 57 banks were able to maintain CRARs of 10.0 percent or higher in line with Pillar 1 of the Basel III capital framework. In addition, a substantial share of banking assets was concentrated within the CRAR-compliant group of banks (chart 4.2); CRARs of 33 banks were within the range of 10-15 percent and their assets accounted for nearly 73.0 percent of the total banking industry's assets at end-December 2016.

At end-December 2016, the banking sector aggregate CRAR was 10.8 percent, slightly higher than the minimum requirement of 10.0 percent and 50 basis points higher than the ratio recorded at

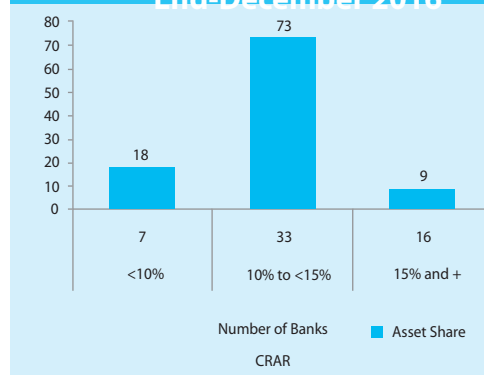
end-September 2016. Tier-1 capital ratio was 7.9 percent as compared to 7.6 percent recorded at end-September 2016. Notably the ratio was significantly higher than the minimum regulatory requirement of 5.5 percent.

Chart 4.1 Banking Sector Capital to Risk-Weighted Assets Ratio



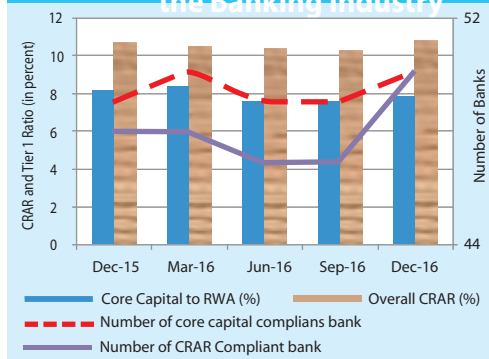
Source: DOS, BB.

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



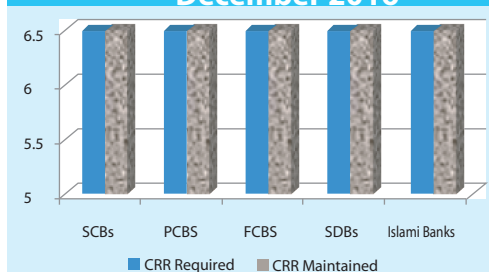
Source: DOS, BB.

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



Source: DOS, BB.

Chart 4.4 Banking sector CRR: December 2016



Source: DOS, BB.

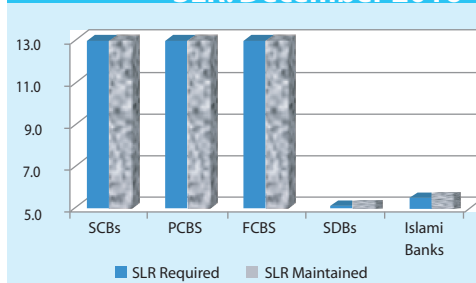
The Capital Conservation Buffer (CCB) requirement for banks has been started from early 2016 and would be fully implemented by 2019 in line with the Basel III framework¹⁰. Against the regulatory requirement of 0.625 percent for CY16, 47 out of 57 banks have been able to maintain the minimum required CCB on solo basis during the review quarter. On the other hand, in case of consolidated basis, 32 out of 37 banks successfully fulfilled this regulatory requirement. The aggregate CCB of the banking sector, in the stated quarter, was 0.80 and 1.31 percents on solo and consolidated basis respectively.

¹⁰ 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

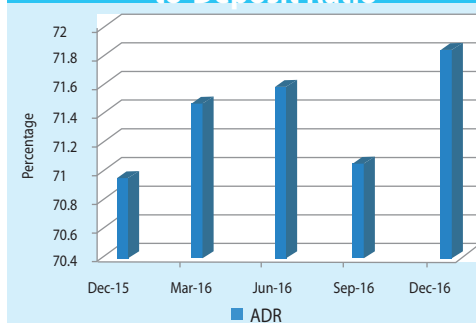
During the review quarter of CY16, banking sector, as a whole, was able to maintain the required level of CRR¹¹ and SLR.

Chart 4.5 Banking sector SLR: December 2016



Source: DOS, BB.

Chart 4.6 Banking Sector Advance-to-Deposit Ratio



Source: DOS, BB.

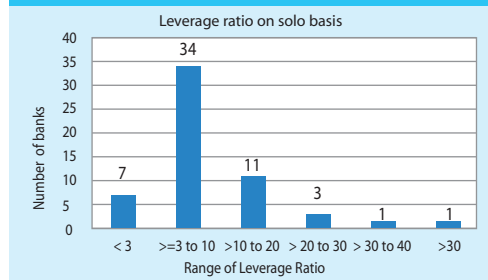
As evident from Chart 4.6, ADR of the overall banking industry has decreased by 79 basis points at end-December 2016 from that of end- September 2016.

¹¹ On bi-weekly average basis

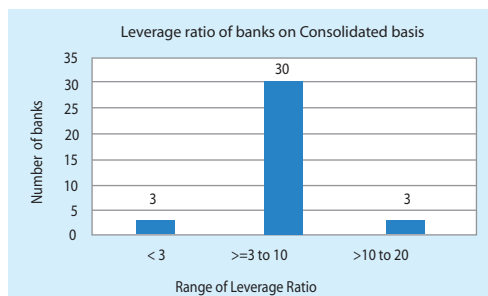
4.3 Leverage ratio

In the review quarter, banking industry has been able to fulfill the minimum leverage ratio requirement of 3.0 percent, on both solo and consolidated basis. At end-December 2016, banking industry's leverage ratio was 4.9 percent on solo basis; 50 out of 57 banks have successfully maintained a leverage ratio of 3.0 percent or higher (Chart 4.7). On the other hand, in case of consolidated basis, 33 out of 36 banks have been able to fulfill the regulatory requirement.

Chart 4.7 Leverage ratio of banks at End-December 2016



Source: DOS, BB.



Source: DOS, BB.

Financial Institutions' Liquidity and Capital Adequacy

During the review quarter, FI sector displayed a satisfactory performance in terms of liquidity and capital adequacy. There was no shortfall in cash reserve ratio (CRR) and statutory liquidity ratio (SLR). Capital adequacy ratio increased notably compared to that of the previous quarter.

5.1 Liquidity

As of end-December 2016, the aggregate amount of maintained CRR was BDT 6,177.73 million as compared to BDT 6,115.40 million recorded at end-September 2016, scoring an increment of 1.01 percent. On the other hand, at end-December 2016, the amount of maintained SLR was BDT 64.9 billion against required amount of BDT 15.5 billion. The maintained SLR is 8.7 percent lower than the amount maintained at end-September 2016. During the review quarter, the FIs sector had no CRR and SLR shortfall.¹²

5.2 Capital Adequacy

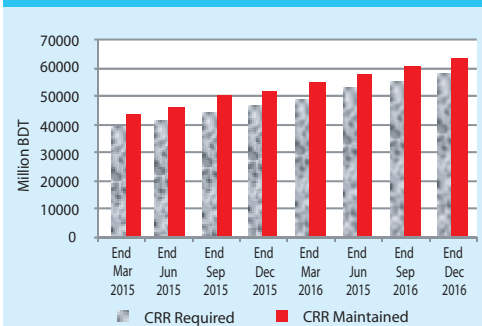
In the review quarter, FIs were required to maintain a capital adequacy ratio (CAR) of 10.0 percent with at least 5.0 percent in Tier-1 capital in line with the Basel II framework.

The CAR of the FI sector increased from 16.3 percent of the September quarter of CY16 to 18.3 percent in the December 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 16.7 percent; 70 basis points higher than the ratio of end-September 2016.

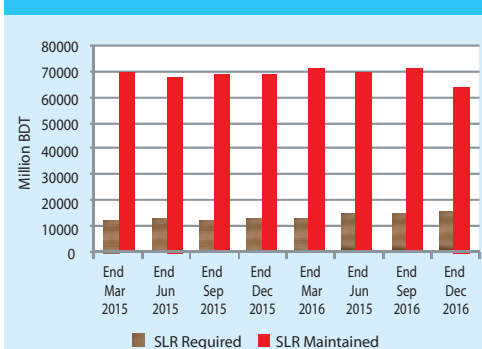
¹² FIs taking term deposits are required to maintain a statutory liquidity requirement (SLR) of 5.0 percent of their total liabilities, inclusive of an average 2.5 percent cash reserve ratio (CRR) of their total term deposits. On the other hand, FIs operating without term deposits are required to maintain an SLR of 2.5 percent and are exempted from maintaining the CRR.

Chart 5.1 FIs' CRR



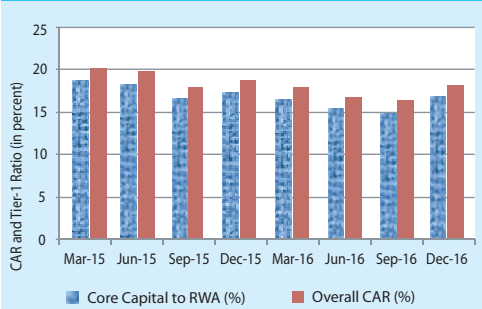
Source: DFIM, BB.

Chart 5.2 FIs' SLR



Source: DFIM, BB.

Chart 5.3 Capital Adequacy Ratio of FI Sector



Source: DFIM, BB.

Stress Test and Resilience of the Banking and FI Sectors

6.1 Stress Test

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

6.2 Stress Test on Banks¹³

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-December 2016 revealed that the banking sector's capital to risk-weighted asset ratio (CRAR)¹⁴ was 10.8 percent. Out of 57 banks (except 1 newly formed), 7 banks' pre-shock CRARs were below the minimum regulatory requirement of 10.0 percent. Therefore, the remaining 49 banks were considered for the analyses based on end-December 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 (NPL¹⁵) : If NPLs increased by 3, 9 and 15 percent, then 5, 27 and 35 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 23, 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, 2, 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, 8, and 14 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 of CRAR. However, due to moderate and major shocks, 1 and 4 banks respectively would fall below the minimum regulatory requirement.

¹³ The analyses here are based on the data as of end-December 2016 unless stated otherwise.

¹⁴ $CRAR = \text{Capital to Risk-Weighted Asset Ratio} = \frac{\text{Total Eligible Capital}}{(\text{Credit RWA} + \text{Market RWA} + \text{Operational RWA})}$, where $RWA = \text{Risk-weighted assets}$.

¹⁵ NPL = Non-performing loans, composed of sub-standard, doubtful and bad/loss loans.

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

Shocks ¹⁶		Banking Sector (%)
Pre-shock CRAR		10.80
CRAR after shock (%)		
Credit Risks:		
Increase in NPLs:		
	Shock-1: 3%	9.54
	Shock-2: 9%	7.75
	Shock-3: 15%	4.15
Increase in NPLs due to default of top large borrowers		
	Shock-1: Top 3 borrowers	9.05
	Shock-2: Top 7 borrowers	7.53
	Shock-3: Top 10 borrowers	6.69
Fall in the FSV ¹⁷ of mortgaged collateral		
	Shock-1: 10%	10.32
	Shock-2: 20%	9.83
	Shock-3: 40%	8.85
Negative shift in the NPL categories		
	Shock-1: 5%	10.20
	Shock-2: 10%	8.14
	Shock-3: 15%	7.09
Increase in NPLs in highest outstanding sectors		
	Sector concentration 1¹⁸ (Performing loan directly downgraded to B/L¹⁹)	
	Shock-1: 3%	10.76
	Shock-2: 9%	10.66
	Shock-3: 15%	10.57
	Sector concentration 2²⁰ (Performing loan directly downgraded to B/L)	
	Shock-1: 3%	10.75
	Shock-2: 9%	10.66
	Shock-3: 15%	10.56
Market Risks		
Interest rate risk (change in interest rate)		
	Shock-1: 1%	10.45
	Shock-2: 2%	10.10
	Shock-3: 3%	9.75
Exchange rate risk (Currency appreciation/depreciation)		
	Shock-1: 5%	10.76
	Shock-2: 10%	10.71
	Shock-3: 15%	10.66
Equity price risk (Fall in equity prices)		
	Shock-1: 10%	10.52
	Shock-2: 20%	10.24
	Shock-3: 40%	9.68
Combined Shock		
	Shock-1	8.18
	Shock-2	2.77
	Shock-3	-3.81

¹⁶ Shock-1 = Minor, Shock-2 = Moderate, Shock-3 = Major.

¹⁷ FSV = Forced Sale Value.

¹⁸ Sector with highest outstanding.

¹⁹ B/L = Bad/Loss.

²⁰ Sector with second highest outstanding.

6.2.1.2 Market Risk

The banking industry²¹ 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, 5, 9 and 9 banks respectively would fail to maintain the minimum required CRAR.

b) Exchange Rate Risk: In the event of currency appreciation or depreciation by 5 and 10 percent, no bank would fall below the minimum regulatory requirement. However, in case of currency appreciation or depreciation by 15 percent, 1 bank would fall below the minimum regulatory requirement.

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

6.2.2 Combined Shock²²

In the event of minor, moderate and major combined shocks, 14, 35 and 41 banks

respectively would be undercapitalized; CRAR in these cases would be downgraded to 8.2, 2.8, and -3.8 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-December 2016.

Table 6.2 Liquidity Risk in the Banking

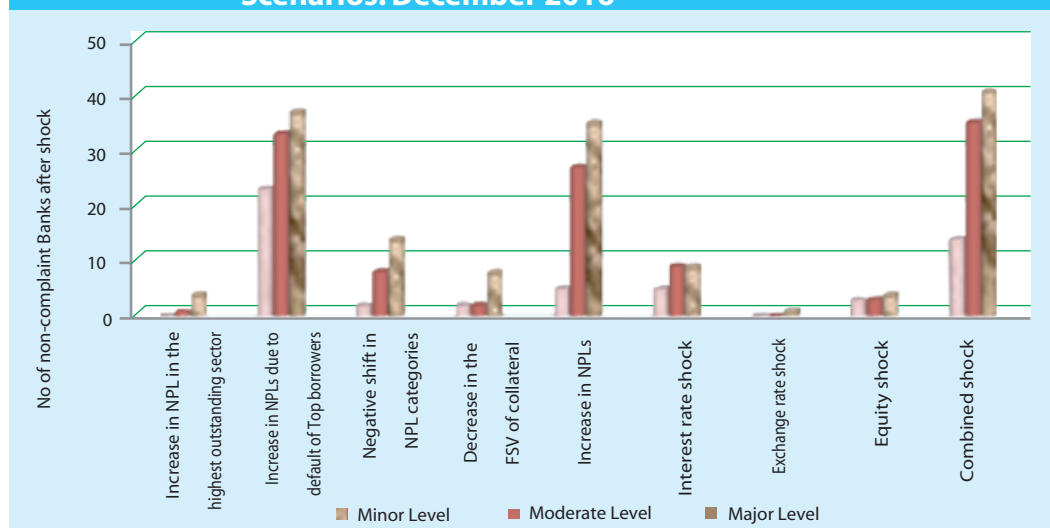
Liquidity Stress*	Sector: End December 2016 Stress Scenarios		
	Minor	Moderate	Major
Day 1	1	1	1
Day 2	1	1	1
Day 3	1	1	1
Day 4	1	1	1
Day 5	1	1	1

* 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: December 2016

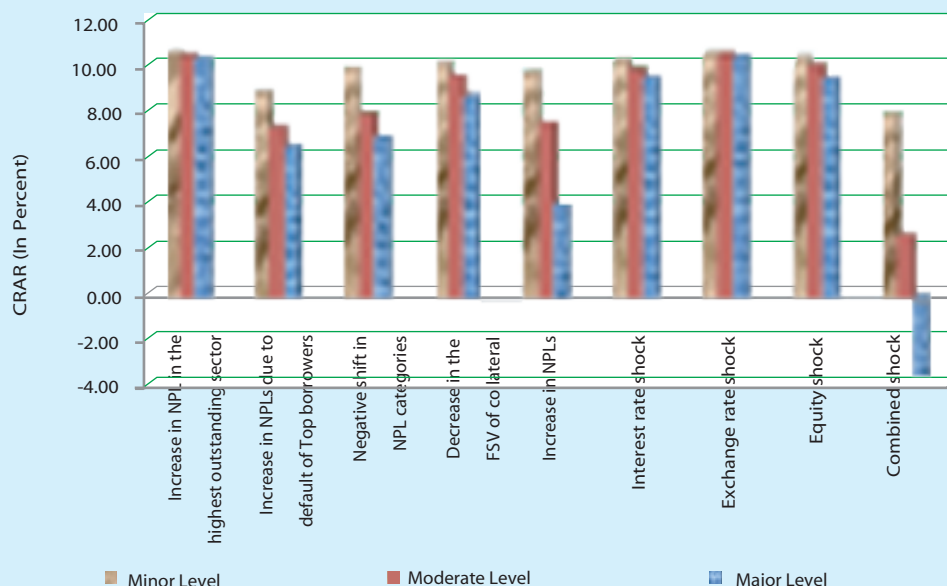


Source: FSD, BB.

²¹ Only scheduled banks have been considered here.

²² 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: December 2016



Source: FSD, BB.

6.3 Stress Test on FIs

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

At end-December 2016, out of 33 FIs, 5, 21, and 7 were positioned in Green, Yellow, and Red zones respectively (Table 6.3).²³ 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 Testing: Zonal

Quarter	Position of FIs (Number of FIs)		
	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
End-Dec 2016	5	21	7

Source: DFIM, BB.

²³ The overall financial strength and resilience of an FI is identified by plotting its achieved ratings in a Weighted Average Resilience-Weighted Insolvency Ratio (WAR-WIR) Matrix.

Capital Market Development and Corporate Bond Market

In the review quarter²⁴, the domestic capital market continued an upward trend exhibiting a scenario of price recovery as evident from the movements of a number of key indicators as detailed below:

7.1 DSE Performance and Index Movement

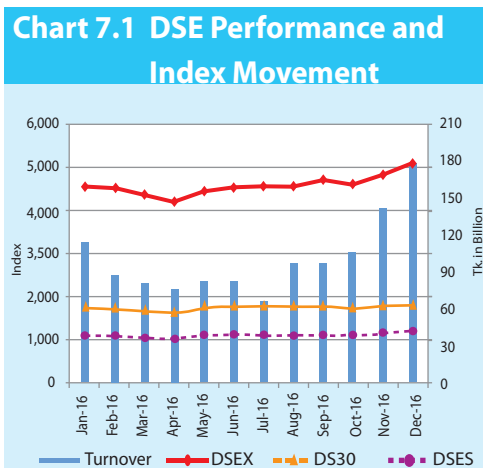
In the fourth quarter of CY16, Dhaka Stock Exchange (DSE) turnover was BDT 424.9 billion as compared to BDT 248.9 billion recorded in the third quarter of CY16, scoring a 70.7 percent gain in terms of volume. At end-December 2016, key DSE indices-DSEX, DS30 and DSES-increased by 7.3, 1.8 and 5.9 percent respectively from those of end-September 2016.

7.2 Price/Earnings (P/E) Ratio

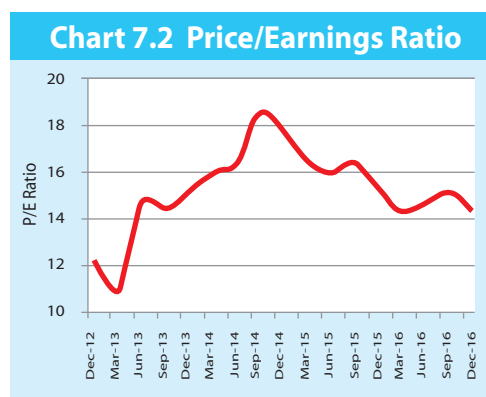
The weighted average P/E ratio was 14.3 in December 2016, 80 basis points lower than that of September 2016. The overall market P/E ratio displayed a downward trend in the fourth quarter of 2016.

7.3 Sectoral Turnover

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



Source: DSE; Compilation: FSD, BB.

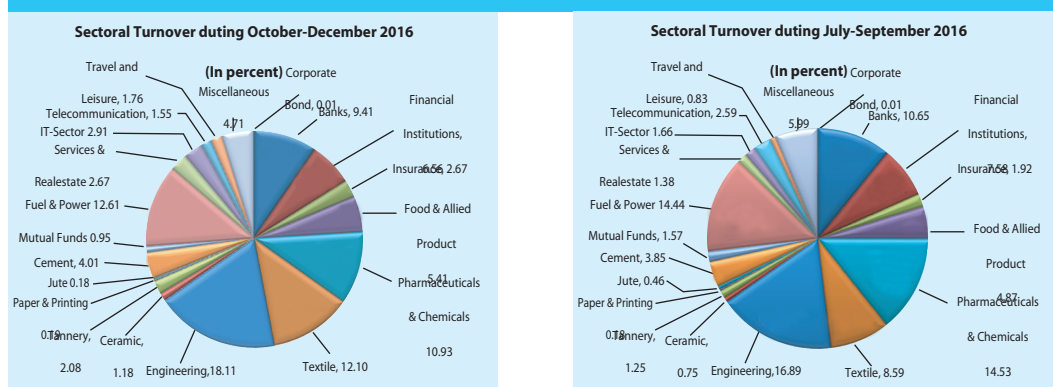


Source: DSE.

It is mentionable that, in the review quarter, contribution of the banking sector to DSE turnover was 9.4 percent, as compared to 10.7 percent recorded in the September quarter of CY16. The financial institutions sector's contribution was 6.6 percent which was 7.6 percent in the previous quarter.

²⁴ Fourth quarter of calendar year 2016.

Chart 7.3 Sectoral Turnover (in percent) in DSE



Source: DSE; Compilation: FSD, BB.

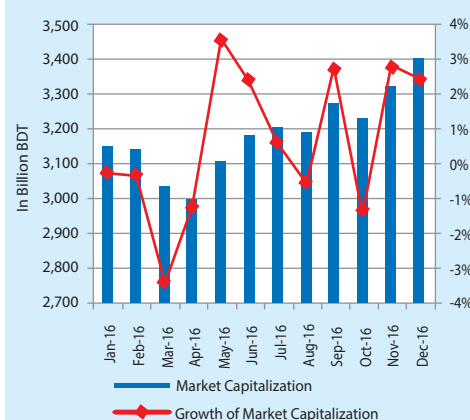
7.4 Market Capitalization

At end-December 2016, the market capitalization stood at BDT 3,412.4 billion, which is about 4.0 percent higher than that of the previous end-quarter (i.e. September 2016). Growth rate of market capitalization displayed a mixed trend albeit an overall upward trend of market capitalization observed since May 2016.

7.5 Corporate Bond Market

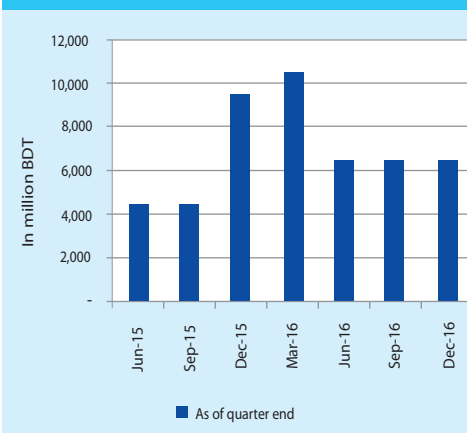
No corporate bonds were issued in the fourth quarter of CY16.

Chart 7.4 Market Capitalization and Its Growth Rate



Source: DSE; Compilation: FSD, BB.

Chart 7.5 Corporate Bond Issuance



Source: DFIM, BB.

Recent Stability Initiatives of Bangladesh Bank

During the October-December quarter of the calendar year 2016 (CY16), Bangladesh Bank (BB) has taken a number of initiatives having implications to domestic financial system stability. Some of the important ones are as follows:

8.1 Bangladesh Systemic Risk Dashboard (BSRD)

BB has developed a tool named Bangladesh Systemic Risk Dashboard (BSRD) with an aim to identify systemic risks in the financial system well ahead the same materializes. The BSRD contains relevant and necessary qualitative as well as quantitative indicators of systemic risk under six different risk dashboards - macro risk, credit risk, funding and liquidity risk, market risk, profitability and solvency risk and their inter-linkages. It will help capture symptoms of stress in different segments of the financial system, monitor build-up of risks in the real economy, ascertain funding and liquidity conditions in the financial sector and will in turn help the stakeholders towards their preparedness in withstanding potential shocks.

8.2 Guidelines on Core Banking Solution (CBS) Features and Controls

Core Banking Solution (CBS) is playing a vital role in delivering technology driven banking services and is also serving as the key repository of information for banks. However, due to variations in CBS used by banks, stakeholders face challenges in collecting necessary and intended information. In this connection, BB has issued "Guidelines on Core Banking Solution (CBS) Features and Controls" to guide the commercial banks in Bangladesh for maintaining minimum required features and controls in their CBS and other related banking solutions so that the banks can comply with most of the stakeholders' requirements. This guideline covers necessary features and controls of banking services like General Banking, Bills

and Remittance, Deposits, Loans/Credit/Investment, Trade Service, Treasury, System Administration and Reporting. Banks are instructed to complete its full compliance within 12 months from the date of Issuing this guideline.

8.3 Formation and Formulation of Terms of Reference of Sustainable Finance Division in Banks and Financial Institutions (FIs)

In order to strengthen the monitoring of the two main pillars of sustainable banking - environment-friendly banking and Corporate Social Responsibility (CSR), BB has instructed all scheduled banks and FIs in Bangladesh to form a separate 'Sustainable Finance Unit' (can also be named as department/cell/division) in their head offices. At the same time, previously formed Green Banking Unit/Cell and CSR Desk/Unit will be considered as null and void. BB has also provided an outline regarding the formation and formulation of the Sustainable Finance Unit and has instructed the banks and FIs to submit the implementation report to BB within 45 days from the date of issuing this circular.

8.4 Loan against Lien/Pledge of Wage Earner Development Bond, U.S. Dollar Investment Bond and U.S. Dollar Premium Bond

With reference to section 4(6), 4(5) and 4(5) of Wage Earner Development Bond, U.S. Dollar Investment Bond and U.S. Dollar Premium Bond Rules respectively, BB has restricted loan limit against lien/pledge of the above-mentioned bonds at maximum 75 percent of the face value of the bonds. Loans sanctioned as such can only be invested inside Bangladesh and such loans cannot be disbursed from any bank branches operating abroad. Few other relevant instructions have been issued through this circular.

8.5 Long Term Financing Facility (LTFF) under the Financial Sector Support Project (FSSP)

To improve financial market infrastructure and access to long term financing mainly for

manufacturing firms in Bangladesh, BB has signed a project agreement with the International Development Association (IDA) to carry out the tasks for implementation of Financial Sector Support Project. Under the arrangement, BB has formulated an Operations Manual (OM) for providing long term financing in foreign currency mainly for small and medium scale manufacturing enterprises in Bangladesh through the eligible banks namely the Participating Financial Institutions (PFIs). The OM governs the operation and implementation procedures of the fund and eligibility criteria of the banks to be the PFIs.

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 make the drawing arrangement easier, BB has revised section 4(kha) of 'Policy for establishment of Drawing Arrangement between the Exchange House abroad and the Bank operating in Bangladesh' regarding drawing arrangement through Electronic Fund Transfer (EFT). Accordingly, the amount of safety deposit under EFT system has been revised from USD 25,000 to USD 10,000 for NRD A/C or Term Deposit and from BDT 0.5 million to BDT 0.2 million for NRT A/C, provided that no overdrawn facility shall be provided in favour of any money transfer institution.
- ii) BB has established the Green Transformation Fund (GTF) to accelerate sustainable growth in export oriented textile and leather sectors conducive to transformation of green economy in the country vide FE Circular No. 02 dated January 14, 2016. To further fortify the financing arrangement under GTF, it has been decided to make provision for a Participation Agreement to be signed between BB and intended authorized dealers (ADs).
- iii) With reference to Vol-1, Chapter-7, Para-3(c) of Guidelines for Foreign Exchange Transactions (GFET) 2009, BB has exempted the ADs from obtaining prior approval of BB regarding extending time-limit of Letter of Credit Authorization Form (LCAF), with prior approval of Bangladesh Investment Development Authority (BIDA), issued for import of capital machineries under long term (i.e. more than one year) suppliers'/buyers' credit. Prior approval of BIDA will be sufficient in such cases.
- iv) Within the purview of Paragraph 34, Chapter 10 of Guidelines for Foreign Exchange Transactions (GFET) 2009, Vol-1, ADs may effect remittance towards cost of agent services of legal process under The USA PATRIOT Act, 2001 after satisfying themselves with the genuineness and bona fides of the requests through agreement/proforma invoice duly accepted and after deducting all applicable taxes.
- v) BB has issued clear instructions regarding releasing cash incentives against export of intestines, horns and tendons of cow and buffalo, locally produced paper and paper products, and auger and perfume. The instructions have clarified the eligibility criteria for cash incentives, rate of cash incentives, conditions for submitting applications, examinations and settlements of the applications by ADs, payment procedure and other relevant issues.

8.7 Precautionary Measures to Ensure Safety of the Bank Branch

In continuation of the BRPD Circular No. 07, dated 05 July 2015, BB has instructed banks to strengthen their auto alarm systems to fortify the safety of the bank branches. In this regard, banks have been instructed to set up alarm system enabled with auto lock gate, laser beam to ensure safety at night and motion detector close circuit camera.

Table I : CPI Inflation (12 month Average)

(Percent)

Month	Inflation (General)	Inflation (Food)	Inflation (Non-Food)
Dec-15	6.2	6.1	6.4
Mar-16	6.1	5.5	7.0
Jun-16	5.9	4.9	7.5
Sep-16	5.7	4.6	7.5
Dec-16	5.5	4.5	7.1

Base: 2005-06=100

Table II Foreign Exchange Reserve

(Amount in million USD)

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

Table III Wage Earners' Remittance

(Amount in million USD)

Quarter	Amount
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
Dec-16	2,921.1

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

Quarter	Aggregate Exports (F.O.B)	Aggregate Imports (F.O.B)
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
Dec-16	8,501.0	10,645.0

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

Period	Lending Rate	Deposit Rate	Spread
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
Dec-16	9.9	5.2	4.7

Table VI Weighted Average Exchange Rate

(BDT/USD)

Quarter	Period Average	End Period
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
Dec-16	78.8040	78.7022

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

(Amount in billion BDT)

Period	Amount
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
Dec-16	1,691.1

Table VIII Asset Structure of the Banking Industry

(Amount in billion BDT)

Property and Assets	31-12-2015	31-03-2016	30-06-2016	30-09-2016	31-12-2016
Cash in hand	93.9	92.0	133.1	107.5	107.2
Balance with Bangladesh Bank and its Agent Bank	662.5	649.8	669.1	691.1	756.5
Balance with other banks and financial Institutions	390.1	390.2	442.7	408.1	473.9
Money at call and short notice	85.3	107.8	125.0	102.2	86.8
Investment	2,226.1	2,069.4	2070.2	2154.9	2148.6
Loans and Advances	6,002.8	6,316.5	6660.6	6736.4	7136.5
Fixed Assets	243.3	224.6	225.3	225.8	224.7
Other Assets	549.0	676.2	799.1	867.1	687.3
Non-banking assets	2.3	3.3	3.4	3.5	3.7
Total Assets	10,255.3	10,529.8	11,128.5	11,296.6	11,625.3

Table IX Banking Sector Assets & NPL Concentration (December-2016)

(Amount in billion BDT)

Assets	Top 5 Banks	Other Banks	Top 10 Banks	Other Banks
Amount	3,748.8	7,876.5	5,320.4	6,304.9
Share (%)	32.2%	67.8%	45.8%	54.2%
NPL	Top 5 banks	Other banks	Top 10 banks	Other banks
Amount	321.8	299.9	412.9	208.8
Share (%)	51.8%	48.2%	66.4%	33.6%

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. (%)
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
Dec-16	621.7	9.2	2.3	18.0

Table XI Distribution of Banks by NPL Ratio

Range	Number of Banks as at end						
	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Up to 2.0%	10	7	9	8	9	5	9
2.0% to <3.0%	5	7	6	5	4	5	6
3.0% to <5.0%	6	9	14	11	13	13	16
5.0% to <10.0%	21	18	15	18	17	17	14
10.0% to <15.0%	4	4	3	4	2	6	1
15.0% to <20.0%	0	1	1	1	2	1	2
20.0% & above	10	10	8	9	9	9	9
Total	56	56	56	56	56	56	57

Table XII Banking Sector Loan Loss Provisions

(Amount in billion BDT)

Period	Required Provision	Provision Maintained	Provision Maintenance Ratio (%)
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
Dec-16	362.1	307.4	88.9

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
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
Dec-16	9.2	10.2	5.4	84.4

Table XIV Classified Loan Composition (End-December 2016)*(Amount in billion BDT)*

Particulars	Amount	Percent Of Total
Sub-Standard	63.6	10.2
Doubtful	33.7	5.4
Bad & Loss	524.4	84.4
Total	621.7	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%
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
Dec-16	36	10	7	4

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%
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
Dec-16	8	8	5	36

Note: ROEs have been annualized from respective quarterly ratios.

Table XVII Banking Sector ROA and ROE

	Quarter						
	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
ROA	0.4	0.6	1.3	0.5	0.2	0.6	1.8
ROE	4.9	6.6	14.2	6.8	3.1	8.3	24.3

Notes: The figures are annualized from respective quarterly ratios.

Table XVIII Fls' Borrowing, Deposit and Capital

(Amount in billion BDT)

Particulars	June-2016	September-2016	December-2016
Borrowings	156.1	155.9	158.7
Deposits	351.4	362.1	383.7
Capital	100.0	102.1	106.8
Other Liabilities	64.9	66.0	65.9
Total	672.4	686.1	715.1

Table XIX Fls' Asset Composition

(Amount in billion BDT)

Particulars	June-2016	September-2016	December-2016
Cash & Balance with Banks/Fls	92.4	99.3	86.7
Investments	22.9	20.6	33.0
Loans & Leases	499.2	511.7	534.2
Other Assets	50.9	47.2	49.9
Fixed Assets	7.0	7.3	11.3
Total	672.4	686.1	715.1

Table XX FIs' Classified Loans and Leases

(Amount in billion BDT)

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
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
Dec-16	39.3	7.4

Table XXI FIs' ROA & ROE

(In percent)

Quarter	Aggregate ROA	Aggregate ROE
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
Dec-16	0.9	6.0

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

Table XXIII Banking Sector Asset Share based on CRAR as at end-Dec 2016

CRAR	Number of banks & their asset size		Asset share (%)
	Number of banks	Asset size (in billion BDT)	
<10%	7	2,099.8	18
10% to < 15%	33	8,528.5	73
15% +	17	997.0	9
Total	57	11,625.3	100

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

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

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

Particulars	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
RWA for Credit Risk	5,969.9	6,008.4	6,174.5	6474.93	6570.6	6,758.4
RWA for Market Risk	336.0	313.8	301.4	316.25	310.2	299.6
RWA for Operational Risk	600.2	626.1	643.1	645.50	653.3	696.4
Total RWA	6,906.1	6,948.3	7,119.0	7,436.7	7534.1	7,754.4

Table XXVI 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
Dec-16	808.1	837.6

Table XXVII 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
Dec-16	71.9

Table XXVIII Bank Cluster-wise ADR at end-Dec 2016*(In percent)*

Bank wise	ADR (%)
SCBs	51.2
PCBs	81.3
FCBs	60.5
DFIs	78.5
Industry	71.9

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

Quarter End	Aggregate CRR			Aggregate SLR		
	Required	Maintained	Surplus/Shortfall	Required	Maintained	Surplus/Shortfall
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
Dec 2016	5,805.0	6,177.7	372.8	15,514.5	64,958.2	49,443.7

Table XXX Capital Adequacy Ratio of FI Sector

Particulars	End Sep-15	End Dec-15	End Mar-16	End Jun-16	End Sep-16	End Dec-16
Eligible Capital to RWA (%)	17.9	18.7	17.9	16.7	16.3	18.4

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

(Amount in billion BDT)

Particulars	End Sep-15	End Dec-15	End Mar-16	End Jun-16	End Sep-16	End Dec-16
Risk Weighted Assets (RWA)						
Credit RWA	475.0	465.0	481.3	496.0	506.4	449.4
Market RWA	40.5	40.5	39.5	42.5	47.6	49.0
Operational RWA	33.9	37.1	37.9	38.7	38.9	39.1
Total RWA	549.4	542.6	558.7	577.2	592.9	537.5
Capital						
Core Capital (Tier -1)	91.4	94.6	92.7	88.5	88.8	86.0
Supplementary Capital	6.9	6.7	7.2	7.9	8.0	8.0
Eligible Capital	98.3	101.3	99.9	96.3	96.8	94.0

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

(Based on data as of end-Dec 2016)

Shocks	CRAR after Shock (%)		
	Minor Level	Moderate Level	Major Level
Increase in NPL in the highest outstanding sector	10.76	10.66	10.57
Increase in NPLs due to default of Top borrowers	9.05	7.53	6.69
Negative shift in NPL categories	10.20	8.14	7.09
Decrease in the FSV of collateral	10.32	9.83	8.85
Increase in NPLs	9.54	7.75	4.15
Interest rate shock	10.45	10.10	9.75
Exchange rate shock	10.76	10.71	10.66
Equity shock	10.52	10.24	9.68
Combined shock	8.18	2.77	-3.81

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

(Based on data as of end-Dec 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	23	33	37
Negative shift in NPL categories	2	8	14
Decrease in the FSV of collateral	2	2	8
Increase in NPLs	5	27	35
Interest rate shock	5	9	9
Exchange rate shock	0	0	1
Equity shock	3	3	4
Combined shock	14	35	41

NB: Pre-shock CRARs of 7 banks out of 56 were below the minimum required level of 10% as of 31 December, 2016. Therefore, the above table represents 49 bank's data.

Table XXXIV 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
Dec-16	14.3

Table XXXV DSE Performance

Month	DSE Turnover (BDT in millions)	Index		
		DSEX	DSE 30	DSES
Jan-16	113.50	4,540.89	1,719.15	1,095.27
Feb-16	86.42	4,511.97	1,722.85	1,099.78
Mar-16	79.97	4,357.54	1,648.95	1,052.14
Apr-16	75.05	4,195.70	1,612.34	1,025.15
May-16	81.42	4,419.39	1,745.81	1,091.87
Jun-16	81.38	4,507.58	1,770.82	1,110.84
Jul-16	65.74	4,525.35	1,770.28	1,109.10
Aug-16	96.29	4,526.58	1,735.36	1,097.48
Sep-16	86.89	4,695.19	1,778.70	1,125.86
Oct-16	105.60	4,592.18	1,733.43	1,100.04

Table XXXVI 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
Dec-16	3,412.44	2.51

Table XXXVII Corporate Bond Issuance

(Amount in million BDT)

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

Table XXXVIII Sector-wise Turnover Performance

(In percent)

Broad Sector	SECTOR	% of Total Turnover	
		2016Q3	2016Q4
Financial Sector	Banks	10.65	9.41
	Financial Institutions	7.58	6.56
	Insurance	1.92	2.67
Manufacturing	Food & Allied Product	4.87	10.93
	Pharmaceuticals & Chemicals	14.53	12.10
	Textile	8.59	18.11
Service & Miscellaneous	Engineering	16.89	1.18
	Ceramic	0.75	2.08
	Tannery	1.25	0.19
	Paper & Printing	0.18	0.18
	Jute	0.46	4.01
	Cement	3.85	0.95
	Fuel & Power	14.44	12.61
	Services & Real estate	1.38	2.67
	IT - Sector	1.66	2.91
	Telecommunication	2.59	1.55
Bond	Travel and Leisure	0.83	1.76
	Mutual Funds	1.57	5.41
	Miscellaneous	5.99	4.71
	Corporate Bond	0.01	0.01
	Total	100.00	100.00

Note: 2016Q3=September quarter 2016, 2016Q4=December quarter 2016.

Quarterly Financial Stability Assessment Report

ISSUE : 9, 2016 (IV)
OCTOBER-DECEMBER 2016



Bangladesh Bank

Published by G.M. Abul Kalam Azad, General Manager, Department of Communications and Publications, Bangladesh Bank, Head Office, Motijheel, Dhaka-1000, Bangladesh.
website : www.bb.org.bd, Printed by Al-Kawser Printers, 167 Motijheel C/A, Dhaka-1000

DCP-06-2017-277

