



## BANGLADESH FINANCIAL SECTOR REPORT:

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As the fog clears,  
banks' maladies  
exposed

## As the fog clears, banks' maladies exposed

### Clear winners emerging amidst flight to quality

- **Banking sector in the spotlight, for mostly the wrong reasons:** The delicate state of Bangladesh's banking sector has dominated news flow in recent times. The focus is warranted, given the alarming state of some banks and the contagion risk posed by bank failures. This report aims to help you understand what caused the current predicament, what is being done to remedy the situation, and what could lie in store.
- **Asset quality issues coming out:** Lax loan classification regulations and generous loan rescheduling policies allowed banks to significantly underreport non-performing loans (NPLs) in the previous regime. Bangladesh Bank (BB) has rightly tightened regulations in the new regime to facilitate more faithful reporting and this has exposed the alarming extent of the banking sector's NPLs— reported NPL ratio more than doubled YoY in 1Q25 and provision shortfalls have skyrocketed. Both are expected to worsen in 2Q25 due to stricter loan classification standards; bear in mind reported numbers very likely understate the true scale of bad loans in the system. Interestingly, the asset quality issue appears to be fairly concentrated, with a few business groups and banks responsible for the lion's share of NPLs and provision shortfalls.
- **Distressed banks under the microscope:** BB is utilizing Asset Quality Reviews (AQRs) by global audit firms to diagnose problem banks and guide resolution strategies. AQRs of six banks have been completed and a merger has been prescribed for five. The merger blueprint ([Bank Resolution Ordinance, 2025](#)) involves the creation of a government-capitalized bridge bank which will take on the performing assets and liabilities of the five target banks; NPLs could be offloaded to private Asset Management Companies (AMCs). This is just one of multiple resolution methods available to BB and troubled banks, and we could see other solutions (debt to equity conversion, long term bonds, etc.) pursued down the line.
- **Reforms, consolidation, and treasury bias ahead:** The sector is poised for a significant transformation, underpinned by sweeping government reforms and an inevitable consolidation drive. The consolidation will occur on two fronts: i) Formally via mergers and acquisitions (and possibly liquidations), and ii) Organically via deposit market share consolidation. The latter has flooded top banks with low-cost funding and these funds have been (and are still being) channeled into treasury securities. Treasuries currently boast the goldilocks profile of low risk and high returns and are suitable for strong (due to return potential) and weak (as a survival mechanism) banks alike.
- **The strong to get stronger:** Recent developments in the banking sector have essentially engineered a launch pad for top banks. Armed with low-cost deposits, substantial treasury portfolios, and improving spreads, these banks are well positioned for most sectoral outcomes.

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## Banking sector in the spotlight, for mostly the wrong reasons

The banking sector serves as the lifeblood of any modern economy, a critical circulatory system that directs nutrients (i.e. credit) into the arteries of commerce and industry. When this vital sector is compromised by deep-seated weaknesses, the flow of capital can seize up. This does not merely slow down the economy; it risks a full-scale economic paralysis, where a loss of confidence triggers instability, credit markets freeze, and the entire economic engine is threatened. Hence it is only natural that when a country's banking sector is left battered and bruised by prolonged abuse (as is the case with Bangladesh), it demands everyone's attention.

Problems rampant in Bangladesh's banking sector have dominated news flow recently and with good reason. While the frequency and intensity of coverage is fairly recent, the underlying problems are not. The gaping cracks in the sector that have come (and are still coming) to light are the results of years of regulatory dereliction, governance failures, and predatory ownership. These have culminated in trillions of BDT being siphoned off and left multiple banks on the brink of insolvency. In the absence of liquidity support and public assurances from BB, many of these banks would have succumbed to depositor runs and we may very well have seen a systemic event take shape.

BB, under new leadership, has been actively working on fixing the ailing sector and has taken a diagnostic approach to treating banks. The process has unfolded as follows: first, identification of the most distressed banks; second, commissioning of Asset Quality Reviews (AQRs) by global audit firms; and finally, implementation of a resolution strategy for any bank deemed insolvent. The International Monetary Fund (IMF) estimates that up to USD35bn (roughly 8% of GDP) will be needed to restore the banking sector. In response, Bangladesh's Finance Adviser opined that efforts would be made to limit the rescue package to ~USD5 or 6bn. In any case, this is an endeavor the interim government can initiate but not likely see through. With the national election scheduled for February 2026, there is not enough time for the interim government to complete a sectoral overhaul; an elected government will have to ultimately take on the responsibilities of fixing the banking sector.

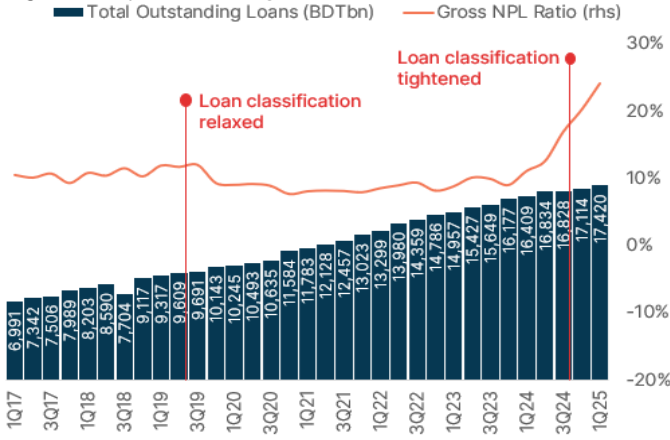
AQRs of six banks (First Security Islami Bank, Global Islami Bank, Union Bank, Social Islami Bank, EXIM Bank, and ICB Islamic Bank) have been completed and the discoveries are alarming—the auditors' assessments place the aggregate NPLs (as of 3Q24) of these banks at four times higher than initially reported (BDT1,476bn versus BDT350bn); NPL ratios of the banks were also found to be dramatically higher. The glaring discrepancies are presented in the appendix section (Figure 13) of this report and they suggest these banks had been providing misleading financial information to all stakeholders, including BB. Data credibility has long been an Achilles heel for the sector and these AQR findings are a testament to that defect. The findings also intensify concerns surrounding the underreporting of bad loans by other distressed banks.

This report aims to run you through the most important elements of Bangladesh's current banking sector problem. We will uncover what led to this predicament, reveal which banks are most impaired, discuss what is being done to remedy the situation, and point out which banks are best positioned to come out on top in the long run. As with most research endeavors, we will begin by examining the data.

## Asset quality issues coming out

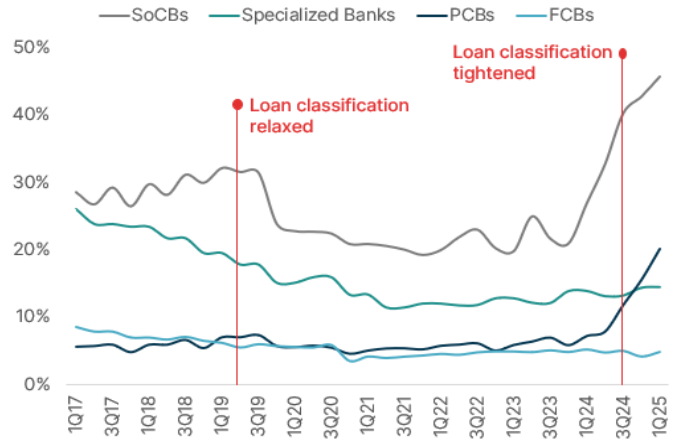
### Regulatory rug pull reveals towering NPL pile

Figure 1: Reported banking sector loans and NPL ratio



Source: Bangladesh Bank (does not incorporate AQR findings)\*

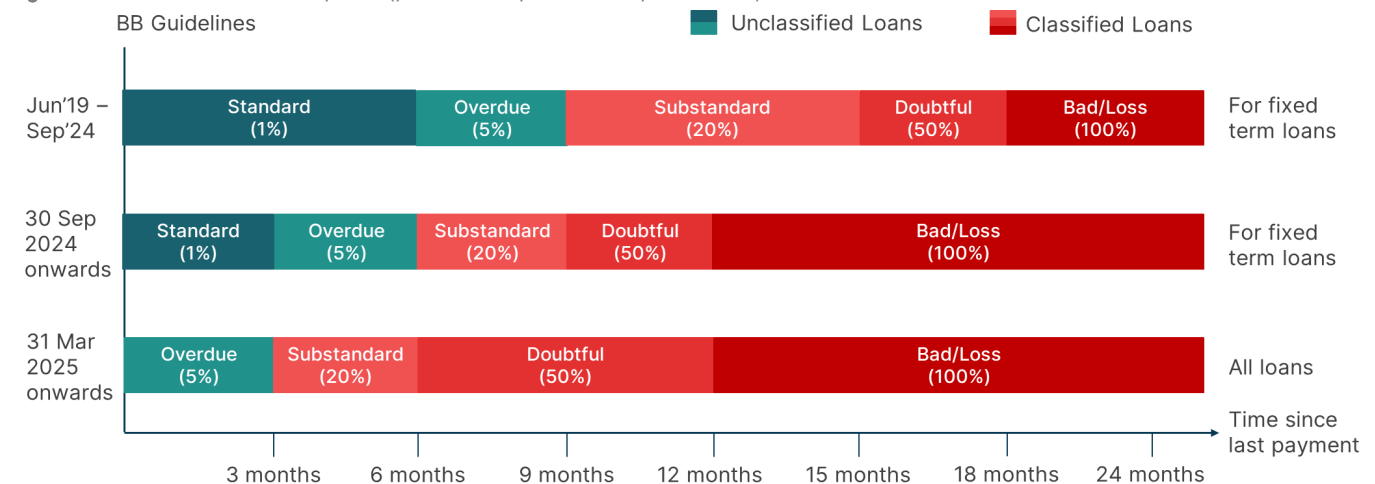
Figure 2: Reported gross NPL ratios by types of banks



Source: Bangladesh Bank

The figures above show a peculiar trend— NPL ratio dipped and essentially plateaued between 3Q19 and 1Q24— a period plagued by both significant world events (Covid-19 and the Russia-Ukraine conflict) and considerable domestic pressures (high inflation and steep currency depreciation). It is irrational for sectoral NPL ratio to not rise against such a backdrop. It is also uncanny how much the ratio shot up 2024 onwards, more than doubling between 1Q24 and 1Q25. This puzzling NPL trajectory is a consequence of BB's loan classification regulations under the last regime. Regulations introduced 2019 onwards were imperative for keeping reported NPLs at bay but bear in mind the effect was purely cosmetic— they brought down reported NPLs but did little to address to underlying loan book issues. The regulations essentially allowed banks to sweep classified loans under the rug and now that the interim government is gradually lifting the rug (via stricter classification regulations), we are slowly seeing the true and alarming extent of the banking sector's NPL problem.

Figure 3: Loan classification snapshot (provision requirement in parenthesis)



Source: Bangladesh Bank & News Dailies

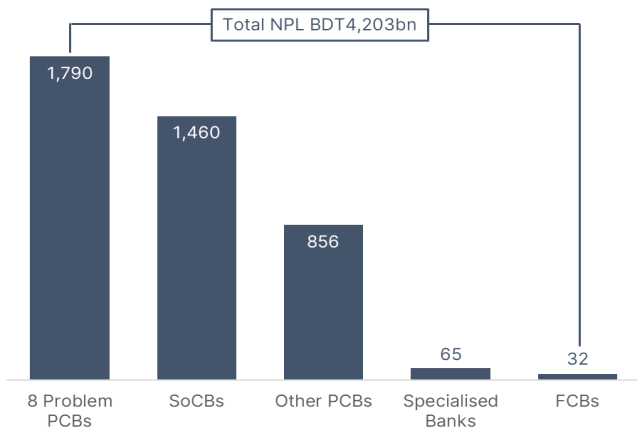
Prior to 2019, most types of loans would be considered overdue immediately (i.e. day after) following non-payment. This was significantly altered for fixed term loans in 2019, as the period of non-payment that triggered overdue status was extended generously to six months. This translated

to a total buffer of nine months before a fixed term loan would become classified and warrant higher provisions. Lax classification was supplemented by exceptionally lenient loan rescheduling facilities in 2019 and 2022, as bad loans were allowed to be rescheduled with a mere 2-5% downpayment (previously 10-50%). Subsequently, ~BDT3tn was rescheduled between 2019 and 2024; rescheduled and written-off loan ratios are presented in the appendix. These rescheduling facilities kept reported NPLs low and allowed banks to get away with significantly lower loan provisions—unclassified loans require 1-5% provision compared to 20-100% for classified loans. This was a classic case of kicking the can down the road and unsurprisingly, the NPL can has returned with a vengeance.

In the new regime, BB has tightened regulations to expedite NPL recognition; Figure 3 shows how time to classified status has been shortened in two phases. This is a welcome move as NPL numbers are now more reliable. We will almost certainly see another jump in reported NPLs in 2Q25, as BB's March-end guideline not only prescribes quicker recognition but also encompasses all loans (instead of just fixed term loans). On that note, we should see another bump in provision shortfalls as well.

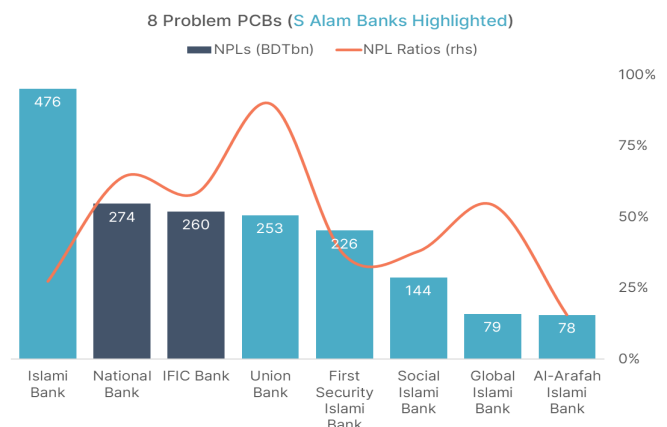
### NPL problem is fairly concentrated

Figure 4: Reported NPLs of different bank groups (Mar'25; in BDTbn)



Source: Bangladesh Bank & News Dailies

Figure 5: Reported NPLs of the 8 problem PCBs (Mar'25)



Source: Bangladesh Bank & News Dailies

Reported NPLs in the banking sector totaled ~BDT4.2tn at the end of March 2025 and eight problem banks and four state-owned banks accounted for 75% of the total. The problem PCBs and their NPL burdens are presented in Figure 5. Interestingly, these banks all possess controversial ownership ties as six of the eight are linked to S Alam group, while National Bank and IFIC Bank were helmed by Sikder Group and Salman Fazlur Rahman respectively. The boards of these PCBs, and six others, have been restructured by BB in the new regime in a bid to insulate banking operations from ownership and safeguard depositor interests. Among state-owned banks, Janata Bank alone held ~BDT708bn NPLs (NPL ratio of 75%) at the end of 1Q25. Janata, and other NPL heavyweights, are presented in Table 12 in the Appendix section. A critical caveat here is that these are only the reported figures and most likely understate the true extent of bad loans.

On the borrower side, ten influential business groups are under government investigation, namely S Alam Group, Beximco Group, Nabil Group, Summit Group, Orion Group, Gemcon Group, Nassa Group, Bashundhara Group, Sikder Group, and Aramit Group. Defaulted loans associated with these groups totaled ~BDT517bn at the end of 2024, with Beximco (205bn) and S Alam (119bn) commanding the largest shares. [Recent probes](#) revealed S Alam took out ~BDT2.2tn from their network banks.

## Provision shortfall has skyrocketed; more to come

Figure 6: Banking sector provision shortfall and components

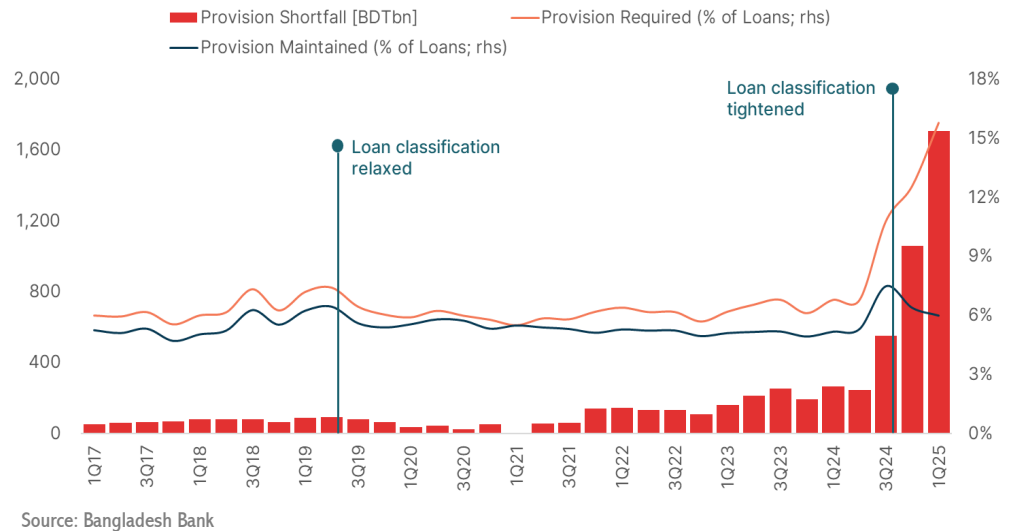
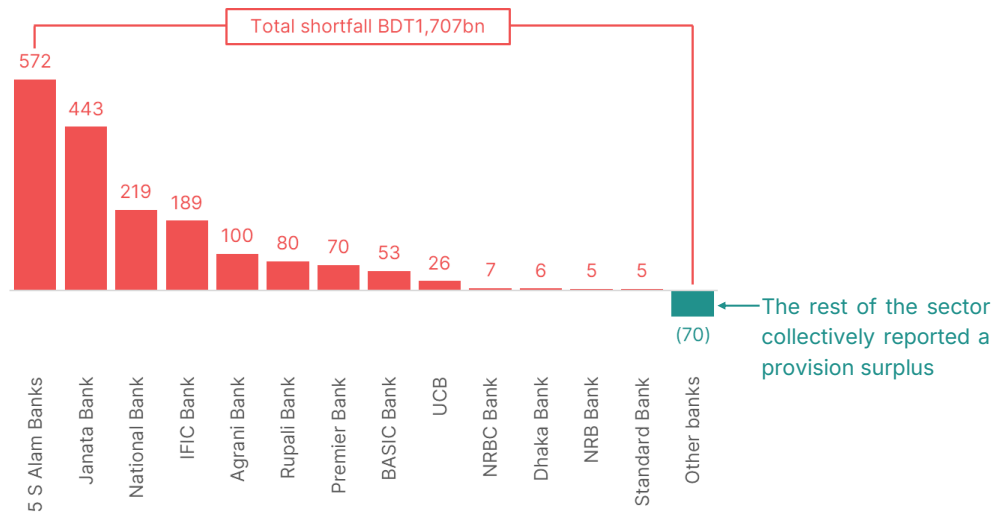


Figure 6 depicts how provision requirements have risen steeply in recent quarters on the back of stricter loan classification regulations and deteriorating loan quality (aftermath of broader macro pressures). Remember that higher reported NPLs warrant higher provisions (20-100% for classified loans compared to 1-5% for unclassified ones). There has been no commensurate increase in provisions maintained by banks and provision shortfalls have skyrocketed (to ~BDT1.7tn in 1Q25) as a result. Figure 3 earlier lays out how provision requirements have changed substantially since Sep'24.

## Like NPLs, provision shortfall is fairly localized

Figure 7: Provision shortfalls (in BDTbn) of select banks as on 31 March 2025



It is evident from Figure 7 that the earlier identified problem banks command the lion's share of sectoral shortfall and interestingly, beyond these banks, there is a provision surplus in aggregate. The 5 S Alam banks mentioned above are Islami Bank, First Security Islami Bank, Union Bank, Social Islami Bank, and Bangladesh Commerce Bank. It is worth mentioning shortfalls are poised to rise going forward due to March's stricter guidelines. We could also see more banks enter the shortfall list.



## Distressed banks under the microscope

### AQRs to point the way

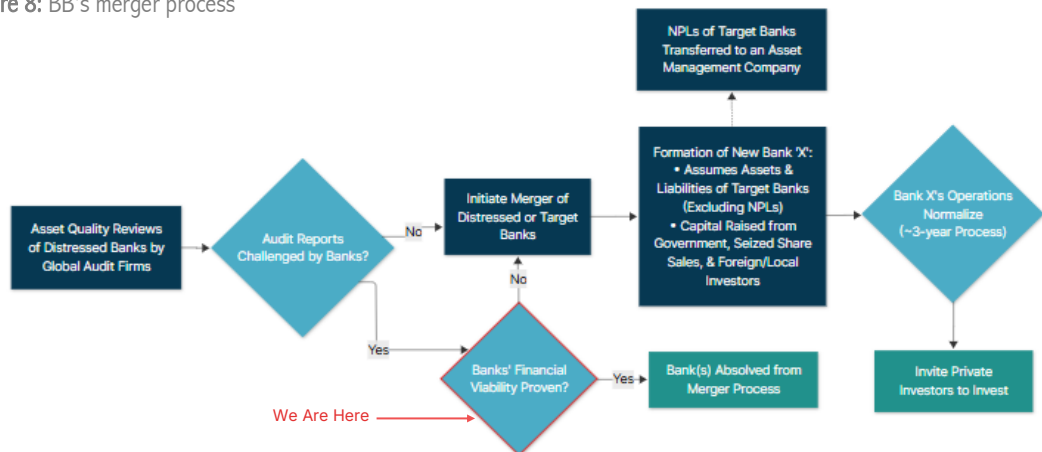
BB is taking a diagnostic approach to addressing prevailing sectoral fragilities. The modus operandi appears to be a preliminary identification of most distressed banks, followed by AQRs of those banks by global audit firms, and then finally, a resolution approach for banks deemed insolvent. An AQR thoroughly looks at loan classification, rescheduled loans, large defaulters, single borrower exposure, asset risks, regulatory compliance, financial policies, internal control systems, and asset-liability mismatches.

AQRs of six banks have been completed and in light of the dire discoveries discussed earlier, BB has initiated the process to merge five of them, namely First Security Islami Bank, Global Islami Bank, Union Bank, Social Islami Bank, and EXIM Bank. These names should be familiar by now as they appear repeatedly on the news and in this report. Four are affiliated with the S Alam Group while EXIM Bank's former Chairman (arrested last year) has strong ties to the previous regime. BB has issued show cause notices to these banks, demanding justification (s) for merger exemption. The onus is now on the banks to prove financial viability, but doing so would require immediate repayment of funds borrowed from BB to meet regulatory and liquidity requirements (e.g. CRR, SLR, and CAR). The banks' boards and sponsors would also be asked to supply fresh capital in absence of the prescribed merger. Based on the banks' responses, BB will assess merger participation and execution.

Eleven additional PCBs have also been earmarked for AQRs. Although not officially disclosed, the names mentioned by news dailies are fairly consistent and likely close to the mark. This list, and other relevant information pertaining to AQR recipients, have been presented in the appendix.

### A five-bank merger in the works

Figure 8: BB's merger process



Source: News Dailies and BB Publications

Steps taken by BB surrounding the five banks offer a glimpse into the central bank's merger approach. Figure 8 lays out a simplified version of BB's action plan from inspection to implementation. If the merger proceeds as planned, a new bank (referred to as X henceforth) will be formed that will take on the performing assets and liabilities of the five distressed (or target) banks. Only performing assets and liabilities are transferred since the ultimate goal is to create a clean, functional bank that can attract private sector investments in the future. The initial capital for X is



expected to come primarily from the government (this does amount to a controlled bailout) and from the sales of seized sponsor shares; foreign investors (e.g. development partners) could also be approached in this regard and there are no restrictions on full foreign ownership. BB has assured that lower-level staff of target banks will not be laid off post merger but existing branches could be reorganized; no reassurances have been given to top management of the five banks. While BB's intent to safeguard jobs is commendable, it will be quite challenging to uphold in practice as branch and headcount reductions are essentially inherent features of a merger.

The proposed merger is based on the bridge bank model, with BB surgically transplanting the performing assets and critical liabilities of the five distressed banks to X. The formation of X facilitates the delivery of essential banking services to the five banks' clients throughout the resolution process and reduces contagion risk. Once X is established, the target banks' licenses could be withdrawn and winding-up procedures (for remaining assets and liabilities), initiated. Bridge banks typically have a lifespan of 2-3 years from the final transfer of assets and liabilities (BB has set a maximum limit of five years using one-year extensions) after which it is merged, sold, or wound up. If X succeeds in becoming financially viable and securing private sector investments, it could ultimately carry on as a regular commercial bank (under new ownership).

NPLs of the five (and other distressed) banks could be offloaded to AMCs. It is crucial these transfers are done in a way that does not exacerbate moral hazard. Public funds must not be used to set up the AMCs that buy bad loans from banks (i.e. avoiding a disguised bailout) and the loans must be transacted at a fair, market-based (and likely discounted) price. A fair value transaction forces the bank to recognize a loss and ensures the bank is held accountable for its lending decisions. Otherwise, we are back to the original problem of putting bad loans under a rug, only this time it is someone else's rug. Ideally, the bank should receive liquid and risk-free assets (e.g. cash and/or treasury securities) in exchange for NPLs, as these would alleviate liquidity pressures and provision shortfalls.

It appears the government and BB are well aware of the pitfalls discussed above, as official plans do not include state-funded AMCs. Rather, private AMCs could be licensed for the purpose. On the fair value concern, independent valuations are already underway— six PCBs have been inspected by global audit firms and eleven others are next in line.

## Consolidation mergers are not the only play in town

Although the proposed five-bank merger has dominated news flow lately, it is not the only solution available to policymakers and distressed banks. We could see:

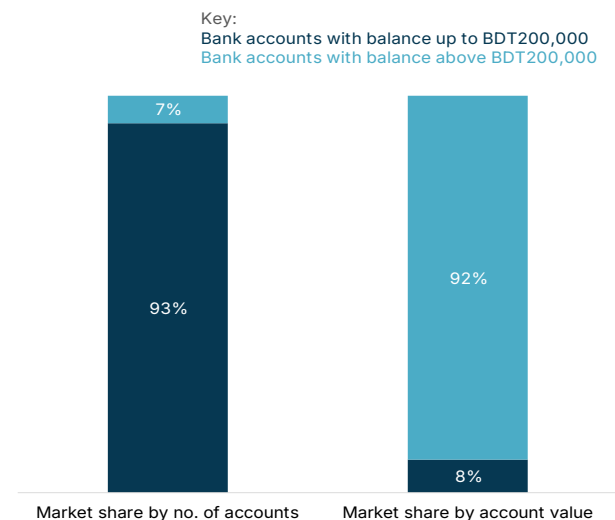
- **Government bailouts (preferably controlled):** We could see capital injections by the government beyond the one planned for X. These interventions should be as restrained as possible since the use of taxpayer money to rescue failing banks is a highly undesirable outcome and one that should only be considered as a last resort. It is imperative that bailouts not be used in lieu of liquidation.
- **Debt to equity conversions:** Here creditors/depositors of a bank are offered the option to convert their debt to bank shares. The goal of the conversion is to ease liquidity pressures on troubled banks and allow them more time to turn things around. As things stand, distressed banks will not be able to support full withdrawals by large depositors. The Finance Adviser commented these depositors will be offered the choice between bank shares and treasury bonds. If these treasury bonds are fresh issues by the government, then it constitutes an indirect bailout.

- **Long term bonds:** Struggling banks can also turn to long term bonds to address both funding constraints and capital adequacy requirements. Banks in Bangladesh have a history of utilizing perpetual and subordinated bonds to pump up Tier-2 and Additional Tier-1 Capital respectively. Distressed banks, however, might find it difficult to generate sufficient private sector interest for their bonds. The government may have to step in and assist with the initial recapitalization efforts. If the government chooses to do so, it would again constitute an indirect bailout.
- **Acquisitions:** One of the more straightforward approaches where one bank acquires another. In the case of a distressed bank, a strong bank could emerge as an acquirer at the right price. The price is critical here as without a significant discount, there is little incentive for a healthy bank to take on the burdens of a weaker bank.
- **Haircut:** A "haircut" refers to the reduction in value of a financial asset. In a bank resolution, this would mean certain creditors or depositors would receive less than the full amount they are owed. The Bank Resolution Ordinance, 2025 stipulates that a bank's shareholders will be the first to absorb losses followed by certain creditors (e.g. subordinated bondholders, unsecured creditors) and then, if necessary, large depositors. Small, insured depositors will be prioritized in the event of refunds, receiving full deposit protection up to BDT100,000 per depositor per bank (this could be doubled to BDT200,000) courtesy of the Deposit Insurance Trust Fund (DITF). Recovery of balances above this limit will depend on the troubled bank's available net assets and liquidation outcomes.

Informally, some banks have moved on to enlisting third part recovery agents in the meantime with better loan collection capabilities. Progress of these agents will need to be tracked.

As of March 2025, 93% of deposit accounts (~154mn accounts) had balances less than or equal to BDT200,000— this means up to 93% of deposit accounts would enjoy full deposit protection if the insurance limit is raised. Interestingly, these accounts made up only 8% (~BDT1.6tn) of total deposits in terms of value. In other words, 7% of deposit accounts (~11mn accounts) held 92% (~BDT17.6tn) of total deposits. This phenomenon is displayed in Figure 9 below. If the deposit insurance limit is kept at BDT100,000, up to 90% of deposit accounts (~149mn accounts) would qualify for full protection. A caveat here is if the same depositor has multiple accounts in the same bank, his/her total insured amount for this bank will not exceed BDT100,000 (or BDT200,000) even if the aggregate account balance is higher.

**Figure 9:** Bangladesh's deposit mix (as on 31 March 2025)



Source: Bangladesh Bank

## Reforms, consolidation, and treasury bias ahead

### Sweeping reforms on the cards

Bangladesh is working on a government-wide strategy to overhaul the banking sector. A host of legislative, supervisory, and institutional changes are in the works and we have a rough timeline of their planned rollouts (Table 1 below). These changes are designed to check regulatory forbearance, expand BB's toolkit, modernize insolvency procedures, strengthen asset recovery mechanisms, enforce discipline among banks, and ultimately enable a genuine and orderly cleanup of the banking sector. A Banking Sector Crisis Management Council (BCCMC) will be formed to coordinate these reforms. Some of the reforms lined up are part of the ongoing IMF program and they will likely influence future disbursements.

Table 1: Policy pipeline

Policy tool	Purpose	Expected rollout
Deposit Protection Ordinance	1. Double deposit insurance to BDT200,000 2. Allow the new Deposit Protection Fund to finance bank resolutions	By December 2025
Bank Company Act (Amendment)	Enhance ownership transparency and ensure board/owner suitability	By December 2025
Distressed Asset Management Act	1. Create a framework for licensing private AMCs 2. Launch a platform for trading NPLs	By 2025
Full implementation of Risk-Based Supervision	A more proactive and tailored risk assessment system	January 2026
Bankruptcy Act (Amendment)	Facilitate the early restructuring of viable but distressed companies in order to avoid prolonged liquidation proceedings	Early 2026
Money Loan Court Act (Amendment)	Expedite loan recovery and case resolution by boosting court staffing and resources	Early 2026

Source: News Dailies

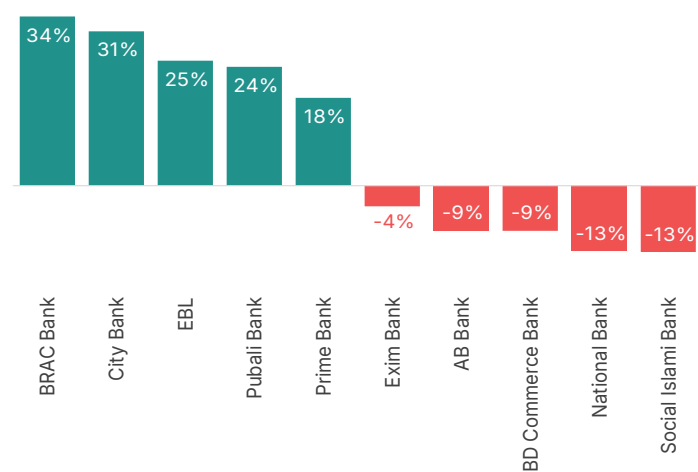
An important caveat here is that the plans announced by Bangladesh Bank may not be entirely set in stone. There could be changes and modifications based on the situation.

### Sectoral consolidation brewing

There are an excessive number of banks and weak banks in Bangladesh, meaning sectoral consolidation is an inevitability. We have already covered one form of consolidation—the BB-led merger of five troubled banks. A different flavor would be Bank Asia's planned acquisition of Bank Alfalah's Bangladesh operations, which is subject to regulatory approvals. Notably, this is a strategic purchase rather than a regulator-enforced merger.

A different kind of consolidation is already well on its way and it concerns deposit flows. Increased BB scrutiny and news media coverage last year brought to light the appalling status of multiple banks. This naturally prompted depositors to pull their money out of these banks, leading to a run of sorts. As these banks were frail to begin with, the barrage of withdrawals threatened to push them into insolvency. Cases of withdrawal requests being deferred or outright denied started emerging, which only fueled depositor fears. Amidst growing tensions, BB stepped in with liquidity support and verbal assurances and these proved decisive in stemming the tide of anxious depositors.

Figure 10: YoY change in banks' deposits (2024)

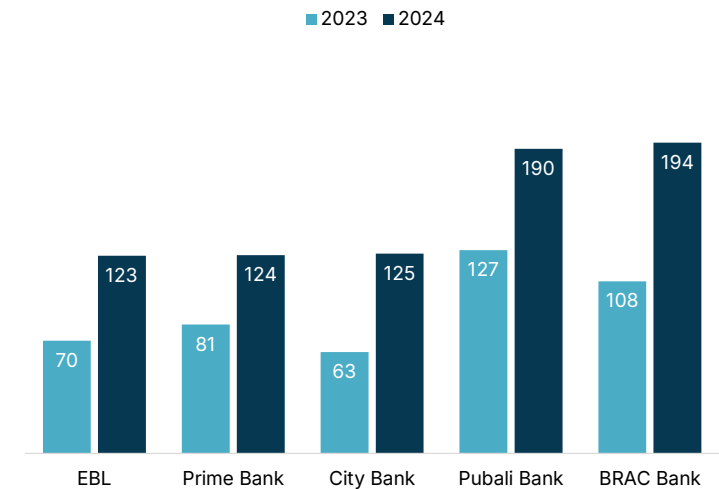


Source: Bangladesh Bank

In a remarkable case of “one bank’s loss is another bank’s gain”, the retrieved deposits eventually found their way to safer banks, supercharging their deposit growth in 2024 (and beyond). While troubled banks saw their deposits decline YoY, top banks enjoyed >20% deposit growth. This phenomenon is presented in Figure 10 below. It is worth mentioning that the deposit losses of weaker banks reported here are a conservative estimate— there are cases where deposits were not taken out simply because the banks did not have the capacity to support a lump sum withdrawal.

Treasuries tick all the boxes

Figure 11: Treasury investments of top banks (BDTbn)



Source: Bangladesh Bank

Figure 11 above shows how top banks ramped up their treasury portfolios in 2024. This was a natural consequence of the economic backdrop existing at the time— treasury yields were high, private credit demand was low, government borrowing demand was high, political uncertainty was palpable, and the overall economy was going slow. In that environment, treasury securities essentially offered the goldilocks profile of low risk and high returns. Moreover, rising provision requirements for loans made treasuries even more attractive.

While the macro situation has improved this year, many of the forces that made treasuries the optimal bet last year remain in play (e.g. attractive yields, soft private credit demand, risk-free status). Importantly, inflation has been consistently falling this year and we expect this to push down rates materially in 2H25— yields have already dipped considerably in July-August's treasury auctions (by ~200bps). If market participants broadly expect yields to continue downhill, we could see a bump in demand from banks because they would want to get in while yields are still fairly high, either to lock in the rates or to be in a position to realize capital gains when yields fall. Couple this with the fact that the government typically borrows less in the first half of fiscal years (i.e. July to December), we are looking at the prospect of consistent and consequential yield drops in 2H25.

Beyond portfolio return optimization, treasuries could play a key part in redressing shaky banks. Banks with capital shortfalls could be forced to buy treasury securities as these would allow them to generate healthy returns without compounding CAR deficits. Since treasuries are perceived as being risk-free, they do not increase the risk-weighted assets of banks. Hence, banks can earn income from treasury investments without having to put up additional capital for CAR compliance. The income would provide a much needed boost to profits, which would in turn strengthen the bank's capital base. If instead the bank made a fresh loan, it would have to put up additional capital in line with the increase in its risk-weighted assets (since loans are risky assets) to maintain CAR. Naturally, securing fresh capital is a particularly tall order for a bank already struggling with a capital shortfall.

## The strong to get stronger

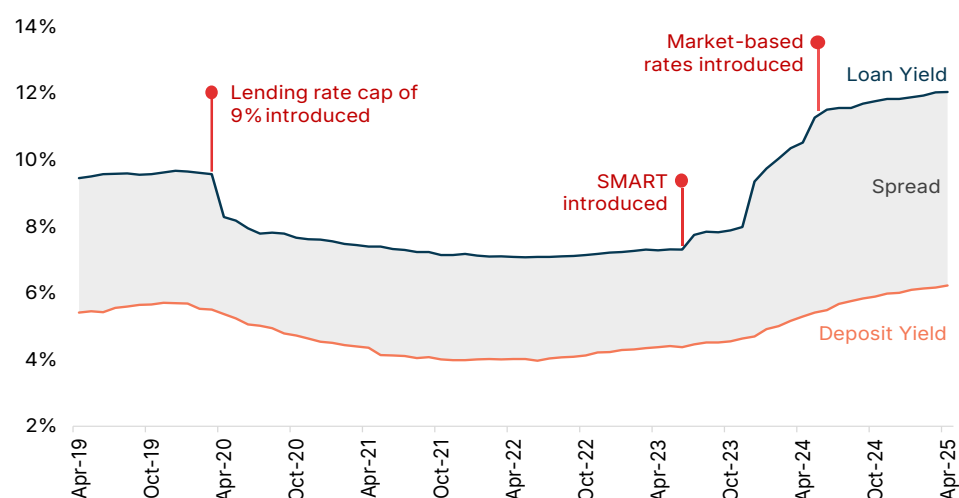
We have strong conviction that the stage is set for a few banks to leapfrog most of their peers. Instead of hovering around the 2-3% market share, they will get to 5 to 10% in the next 10 years. Below we have articulated some of the reasons.

### Top banks to thrive on deposit boom and treasury income

Recent developments in the banking sector have essentially engineered a launch pad for top banks. These banks have been (and still are) witnessing a deluge of deposits driven by depositor flight to safety. The banks have deployed these funds into high yielding treasuries and are now in possession of sizeable treasury portfolios. It is no secret that [banks' treasury incomes surged in 2024](#) and we expect to see the same this year— only this year, capital gains are likely to be more pronounced (due to declining yields).

### Spreads have improved after removal of lending rate caps

Figure 12: Banking sector interest rate spread



Source: Bangladesh Bank

Figure 12 above clearly displays how banking sector profitability was impacted by the introduction of the lending rate in cap in April 2020. The rate cap was virtually a plague on the banking sector (and the broader economy), as it squeezed banks' margins, made certain lending segments unfeasible (e.g. SMEs), fueled myopic lending, and crippled monetary policy transmission. The rate cap inexplicably persisted through significant, inflationary world events (post-Covid commodity price surge, Russia-Ukraine conflict) and was completely at odds with the staunch monetary tightening employed by regional peers at the time.

After a series of consequences and widespread criticism, the previous government finally replaced the 9% cap with the SMART (Six-month Moving Average Rate of Treasury) mechanism. The mechanism utilized a reference rate based on 182-day treasury bill yield and added spreads on top for different loan categories. While SMART did allow lending rates to drift towards a more market-determined level, the pace was unmistakably dictated by the government. The government and BB modulated borrowed and devolved amounts to keep 182-day yields at bay; the central bank also determined the spreads for specific loan categories. These aspects meant the SMART regime rates were not market-based in reality.

The SMART formula was scrapped in May 2024 in favor of market-driven rates—the IMF program was central to its removal. Lending rates have been higher since, leading to spread expansion for banks (evident in Figure 12). The expansion has been more pronounced for top banks, as they are able to attract deposits without significantly hiking deposit rates. Access to relatively cheap deposits combined with higher returns on assets (loans and treasuries) mean improved profitability for top banks going forward. Bear in mind, however, that rising provision requirements could dampen profit expansion for banks without sufficient provision cover.

## **Loan loss provisions for clean banks will come down**

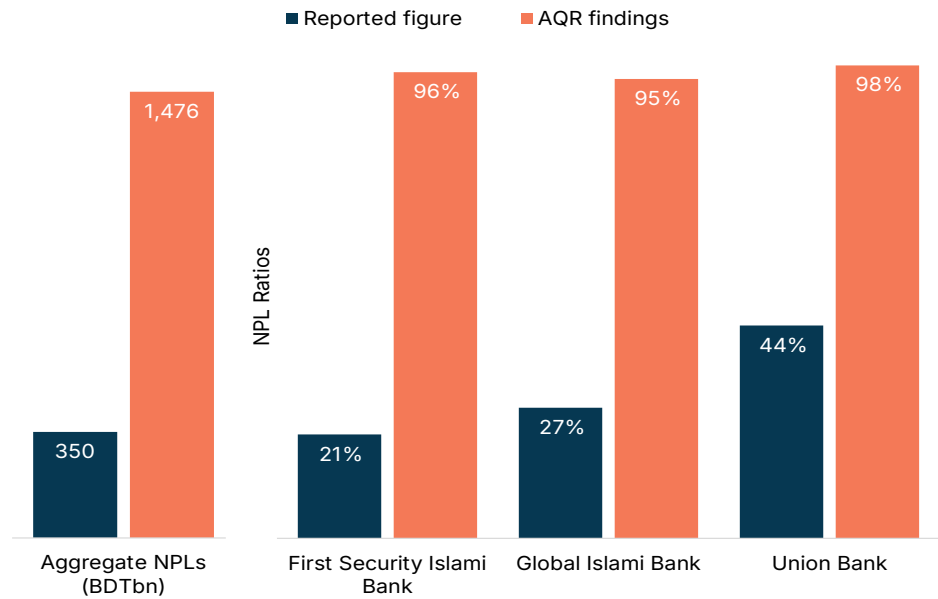
Banks with relatively cleaner balance sheets are likely to see their loan loss provisions come down in the coming years. This will happen due to 3 reasons:

1. Problem loans are being recognized aggressively: To comply with BB's regulatory changes, these banks are swiftly recognizing their bad loans. Once the cleanup process concludes, additional provisions will stem only from incremental bad loans.
2. Credit growth is on the slow lane: The bulk of the incremental asset growth in 2024 and 2025 came from investments in government treasuries. In other words, banks have significantly reduced credit growth.
3. Recoveries will start to kick in: BB is rolling out major reforms in the banking sector designed to help banks recover bad loans. As loan recoveries pick up, provisions (net of recoveries) will naturally come down.



## Appendix

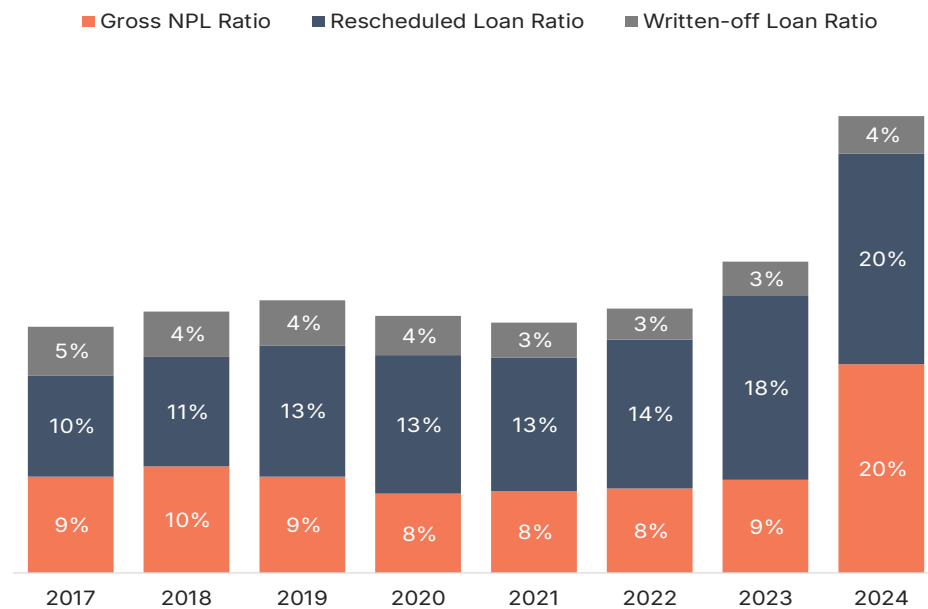
Figure 13: Reported NPL statistics versus AQR findings (as on 30 September 2024)



Source: News Dailies

*Note: Aggregate NPLs refer to the combined NPLs of First Security Islami Bank, Global Islami Bank, Union Bank, Social Islami Bank, EXIM Bank, and ICB Islamic Bank*

Figure 14: Gross NPLs, Rescheduled loans, and written-off loans as a % of total loans



Source: News Dailies

*Note: In the previous regime, lax regulations and unfaithful reporting culminated in chronic underreporting of NPLs. Hence, the NPL ratio lost its efficacy as an indicator of overall banking sector health. Stressed loan ratio, which incorporates non-performing, rescheduled, and written-off loans, is a more appropriate measure to assess the asset quality of the banking sector. The stressed loan ratio does not, however, incorporate restructured or litigated loans (data for these loans are not readily or regularly available); these two should also be considered if we want to look at the total problem loans in the banking sector.*

Table 12: Reported NPL statistics of distressed banks (as on 31 March 2025)

Bank	NPLs (BDTbn)	Share of NPL	NPL Ratio
Janata Bank	708	17%	75%
Islami Bank	476	11%	27%
Agrani Bank	297	7%	41%
National Bank	274	7%	64%
IFIC Bank	260	6%	58%
Union Bank	253	6%	90%
First Security Islami Bank	226	5%	37%
Sonali Bank	191	5%	21%
Rupali Bank	171	4%	36%
Social Islami Bank	144	3%	38%
Premier Bank	98	2%	29%
AB Bank	88	2%	26%
United Commercial Bank	86	2%	15%
Global Islami Bank	79	2%	54%
Al-Arafah Islami Bank	78	2%	16%
Padma Bank	48	1%	87%
Bank Asia	41	1%	14%
Other banks	684	16%	N/a
<b>Sector</b>	<b>4,203</b>	<b>100%</b>	<b>24%</b>

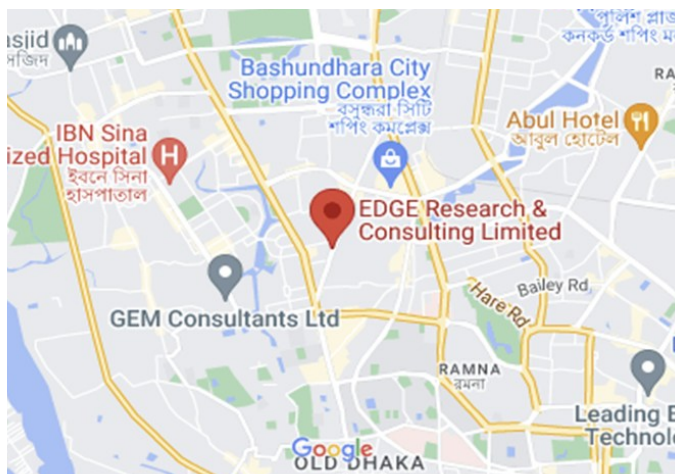
Source: Bangladesh Bank Publications and News Dailies


Table 13: AQR participants

Bank	Audited by	Funded by	Status
First Security Islamic Bank	KPMG	Asian Development Bank	Completed
Global Islami Bank			
Union Bank			
Social Islami Bank	Ernst & Young	Asian Development Bank	AQRs targeted to conclude by December 2025
EXIM Bank			
ICB Islamic Bank			
AB Bank	Deloitte	Asian Development Bank	AQRs targeted to conclude by December 2025
IFIC Bank			
National Bank			
Islami Bank	TBD	The World Bank	Planning phase; AQRs targeted to conclude by December 2025
Al-Arafah Islami Bank			
BD Commerce Bank			
United Commercial Bank			
Premier Bank			
NRB Commercial Bank			
NRB Bank			
Meghna Bank			

Source: Bangladesh Bank Publications and News Dailies

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