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IDLCSL Flash Note

Policy Rate, Spread Cap & Recent Changes

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Policy rate held at 10% - No cut in H1FY27

Policy rate unchanged due to:

- CPI Inflation at 9.4% in May-26 (vs. <7% target for easing)
- Middle East conflict sustaining energy & input cost pressures
- Post-election fiscal spending for demand-pull inflation
- IMF program requiring tight monetary stance
- Exchange rate stability mandates contractionary policy

Implication:

- Private sector credit growth at historic low of 4.72% (Mar-26)
- Banks continue to prefer G-Secs over private lending
- Elevated funding costs continue to compress NIMs.
- SME & retail borrowers face elevated lending rates

Fig: Policy Rate & Inflation: USA

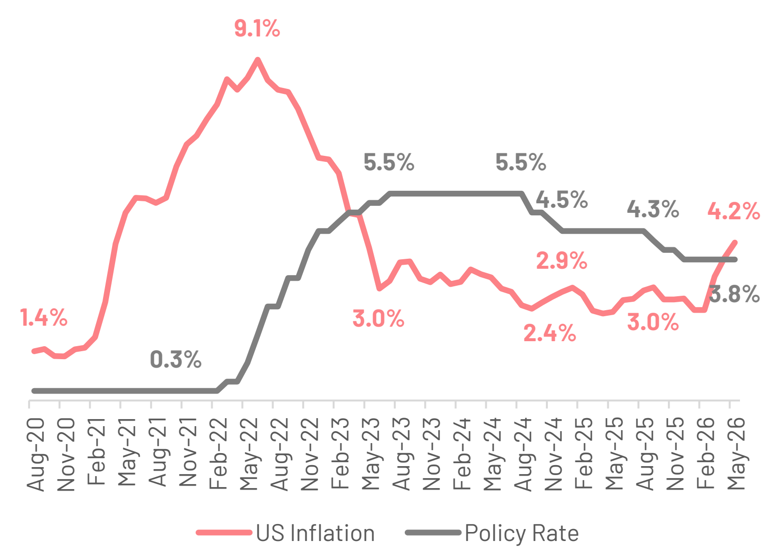


Fig: Policy Rate & CPI Inflation: Bangladesh

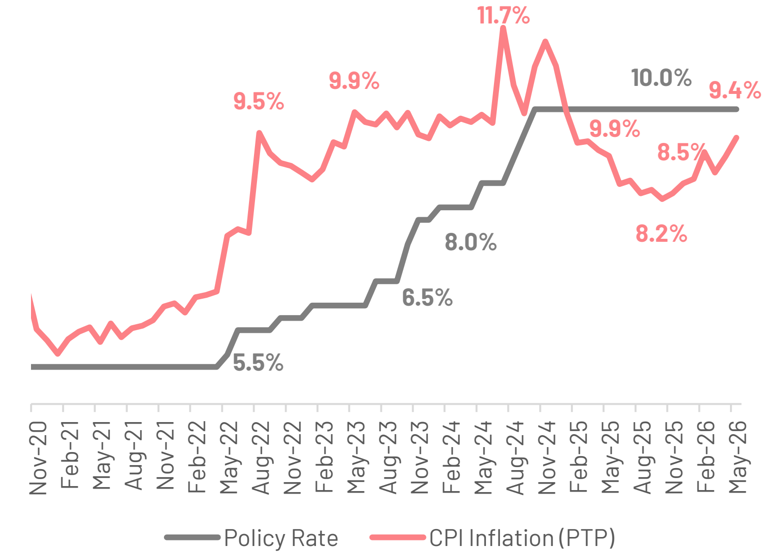
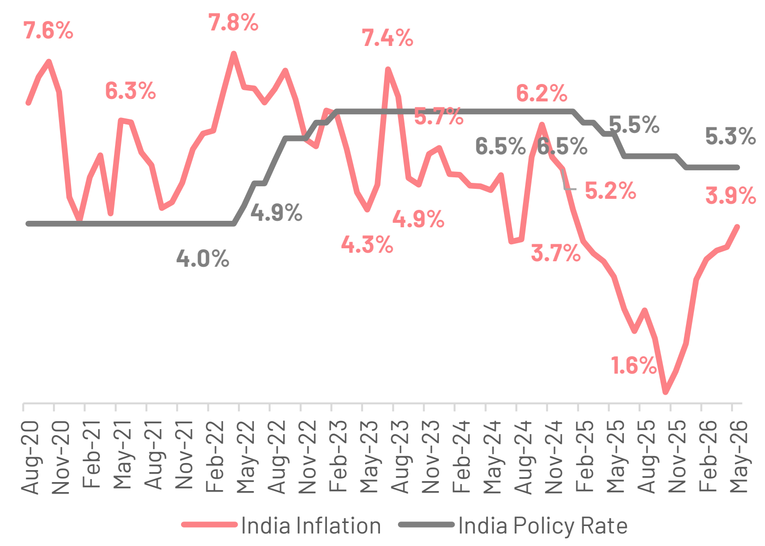


Fig: Policy Rate & Inflation: India



Source: IDLC-SL Research, Investing.com, Bangladesh Bank

4% spread cap under consideration – narrowing bank margins

The 4% cap on lending-deposit spread was removed in November 2023 as BB shifted to market-based interest rate regime. Spreads have since widened significantly: sector average now 5.72%, some banks at 7–9%.

Implication:

- Sector NIM is already negative in 2025. A forced compression of 1.7%–2.0% will erode profitability further in the entire sector.
- Margin compression for well-run private banks (UTTARABANK, DUTCHBANGL, BRACBANK etc). Penalizes market-efficient and well-run banks; may push lending toward lower-risk corporate clients over SMEs.
- Overall, the banks will now have to depend even more on the investment income portion to sustain its profit base.
- Additionally, deposit rates will likely be suppressed to offset margin compression. Retail savers may shift funds toward government securities or higher and safer return generating segments.
- Highly leveraged firms may see short-term improvement in interest expenses and subsequent profitability.

Source: IDLC-SL Research, Bangladesh Bank

4% spread cap under consideration – narrowing bank margins

Bank	Spread (2025)*	Net Interest income (BDT mn)*
UTTARABANK	**6.5%**	**11,488**
DUTCHBANGL	**5.7%**	**19,872**
BRACBANK	**4.6%**	**16,033**
SHAHJABANK	**4.4%**	**13,068**
DHAKABANK	**4.2%**	**6,033**
EBL	**4.1%**	**9,538**
JAMUNABANK	4.0%	376
PRIMEBANK	3.5%	4,161
NCCBANK	3.5%	5,763
PUBALIBANK	3.5%	9,532
BANKASIA	2.9%	(1,277)
CITYBANK	2.8%	2,909
NRBCBANK	2.7%	1,654
MTB	2.5%	2,848
UCB	2.3%	10,037
ONEBANKPLC	2.3%	2,565
ALARABANK	1.8%	6,113
SOUTHEASTB	1.8%	2,116

Bank	Spread (2025)*	Net Interest income (BDT mn)*
SBACBANK	1.7%	937
ISLAMIBANK	1.5%	18,472
MIDLANDBNK	1.4%	(899)
NRBBank	1.3%	(48)
STANDBANKL	0.5%	58
MERCANBANK	0.0%	(4,626)
RUPALIBANK	-0.8%	(15,706)
PREMIERBAN	-1.0%	(5,950)
TRUSTBANK	-2.6%	4,138
IFIC	-3.9%	(22,282)
NBL	-7.5%	(35,573)
ABBANK	-9.7%	(35,240)
EXIMBANK**	0.0%	-
FIRSTSBANK	0.0%	-
SIBL	0.0%	-
UNIONBANK	0.0%	-
GIB	0.0%	-
ICBIBANK^	0.0%	-

*Spread = Average Overall Lending Rate – Average Overall Deposit Rate. **05 Merged Banks.^2025 Annual Report is not yet published.

Source: IDLC-SL Research

Recent changes in banking regulations

Personal Loan Tenure: BB extended the maximum personal loan tenure from 5 years to 8 years and removed the restriction that capped consumer finance growth below total loan growth. Auto loan limit raised to BDT 8.0mn for EVs/hybrid & BDT 6.0mn for general automobile. Debt-Equity ratio 60:40 for general auto loans & 80:20 for EV/hybrid.

Personal Loan Limit: Unsecured personal loans limit is proposed to increase from BDT 0.5mn to BDT 1.0mn in FY27 budget; Credit card limit increased from BDT 1.0mn to BDT 2.0mn.

Positives:

- GDP uplift via consumer spending
- Retail portfolio expansion for banks
- Lower EMI burden for retail borrowers

Negatives:

- Higher credit risk over longer tenors
- Potential NPA build-up if not managed

Impacted Banks: UTTARABANK, JAMUNABANK, BANKASIA, DUTCHBANGL

Source: IDLC-SL Research

Recent changes in banking regulations

Non-Resident Convertible Taka Account (NRCTA): BB introduced a new banking facility allowing expatriate Bangladeshis to open NRCTA accounts (current, savings, or FD) via offshore banking units. Funds can be freely repatriated including principal and interest. Account holders can invest in local capital market (FDI, portfolio investments) and provide loans to Type-A foreign industrial enterprises in SEZs.

Positives:

- Opens up investment for FDI & FPI.
- Inspires channeling remittance through formal banking and supports offshore banking unit growth
- Opens new investment avenue for diaspora as both the investment and repatriation of all amount is possible without any prior BB approval.
- Loan to the nominee or expatriate against the NRCTA account.

Negatives:

- Restricted from agri, forestry and housing investment against NRCTA Account
- SEZ loan use is limited to operating expenses only
- Can not be repatriated if used in property purchase for residential use.

Source: IDLC-SL Research

Dividend Declaration Regulation

The regulation:

1. Cash dividends may only be declared from current-year earnings; retained earnings and reserves are ineligible.
2. Banks must fully comply with CRR and SLR requirements, with no shortfalls or penalties.
3. Classified loans and investments must remain below 10% of total loans and investments.
4. No provisioning shortfall against loans, investments, or other assets is permitted.
5. Banks availing any Bangladesh Bank deferral facility are ineligible to declare dividends during the deferral period.
6. Cash dividends are restricted to banks with paid-up capital of at least BDT 20bn (USD 163.9mn).
7. Cash dividends cannot exceed 50% of the total dividend declared.
8. Subject to full compliance with the above-mentioned conditions, banks may declare dividends to with the following limits:
    a. The total dividend declared shall not exceed 30% of the paid up capital.
    b. CAR ≥ 15% (including 2.5% CCB): Eligible for cash and stock dividends; payout ratio capped at 50%.
    c. CAR ≥ 12.5% and < 15% (including 2.5% CCB): Eligible for cash and stock dividends; payout ratio capped at 40%.
    d. CAR > 10% and < 12.5% (including 2.5% CCB): Eligible for stock dividends only.

Impact: Only BRACBANK has the required paid up capital amount to declare cash dividend in 2027 while only 16 out of 31 banks are eligible for stock dividends only.

Analyst Comment: While aimed at restricting payouts by weak banks, the regulations may significantly reduce sector-wide dividend yields and weaken retail investor sentiment.

Source: IDLC-SL Research, Bangladesh Bank

Banking Sector Condition

SL	Trading Code	Paid Up Capital (BDT Mn) *	NPL 2025	Provision Coverage 2025	CAR 2025	Retained Earnings 2025	Capital Shortfall 2025	Provision Shortfall 2025	Dividend 2025	2027 Dividend Eligibility		
										Cash	Stock	Reason for any ineligibility
1	PUBALIBANK	14,967	2.20%	215.15%	15.34%	32,276	-	-	15% Cash & 15% Stock	No	Yes	Paid-up Capital
2	EBL	16,437	2.42%	132.83%	14.88%	16,319	-	-	25% Cash & 5% Stock	No	Yes	Paid-up Capital
3	BRACBANK	22,896	2.43%	112.34%	19.64%	51,953	-	-	15% Cash & 15% Stock	Yes	Yes	
4	CITYBANK	17,494	2.50%	114.83%	15.51%	24,669	-	-	15% Cash & 15% Stock	No	Yes	Paid-up Capital
5	PRIMEBANK	12,186	2.73%	143.27%	17.81%	19,545	-	-	25% Cash & 5% Stock	No	Yes	Paid-up Capital
6	MIDLANDBNK	6,589	3.08%	135.77%	15.92%	1,397	-	-	3% Cash & 3% Stock	No	Yes	Paid-up Capital
7	DHAKABANK	10,569	3.77%	184.04%	13.39%	3,309	-	-	10% Cash	No	Yes	Paid-up Capital
8	NCCBANK	11,548	4.12%	115.99%	15.54%	6,990	-	-	17% Cash & 4% Stock	No	Yes	Paid-up Capital
9	TRUSTBANK	9,941	4.39%	92.25%	12.94%	5,862	-	-	8% Cash & 5% Stock	No	Yes	Paid-up Capital
10	SHAHJABANK	11,130	4.46%	96.29%	13.90%	3,180	-	-	13% Cash	No	Yes	Paid-up Capital
11	JAMUNABANK	9,393	4.49%	116.92%	16.77%	4,469	-	-	29% Cash	No	Yes	Paid-up Capital
12	UTTARABANK	12,128	4.84%	66.64%	17.11%	5,328	-	-	5% Cash & 25% Stock	No	Yes	Paid-up Capital
13	MTB	10,814	6.02%	98.53%	13.59%	2,246	-	-	12% Stock	No	Yes	Paid-up Capital
14	DUTCHBANGL	10,150	6.43%	118.24%	17.13%	38,106	-	-	25% Cash & 5% Stock	No	Yes	Paid-up Capital
15	SOUTHEASTB	13,374	7.51%	80.61%	13.71%	2,664	-	-	3% Cash & 7% Stock	No	Yes	Paid-up Capital
16	BANKASIA	13,915	8.38%	117.52%	15.32%	4,910	-	-	8.5% Cash & 8.5% Stock	No	Yes	Paid-up Capital
17	NRBBANK	6,906	9.05%	57.50%	14.07%	715	-	-	No Dividend	No	Yes	Paid-up Capital
18	MERCANBANK	11,066	15.19%	28.81%	12.52%	810	-	-	No Dividend	No	No	Paid-up Capital, NPL

* As on 24th May, 2026

Banking Sector Condition

SL	Trading Code	Paid Up Capital (BDT Mn) *	NPL 2025	Provision Coverage 2025	CAR 2025	Retained Earnings 2025	Capital Shortfall 2025 (BDT Mn)^^	Provision Shortfall 2025 (BDT Mn)^^	Dividend 2025	2027 Dividend Eligibility: Cash	2027 Dividend Eligibility: Stock	2027 Dividend Eligibility: Reason for any ineligibility
19	UCB	15,504	15.50%	26.36%	8.42%	4,070	-	32,780	No Dividend	No	No	Paid-up, NPL, CAR, Shortfall
20	NRBCBANK	8,287	17.17%	32.34%	11.15%	1,555	-	6,200	No Dividend	No	No	Paid-up, NPL, Shortfall
21	ALARABANK	11,517	17.54%	22.43%	10.72%	253	-	54,000	No Dividend	No	No	Paid-up, NPL, Shortfall
22	ONEBANKPLC	10,658	19.61%	33.51%	11.33%	4,572	-	39,030	No Dividend	No	No	Paid-up, NPL, Shortfall
23	SBACBANK	8,242	19.92%	17.63%	13.37%	55	-	-	No Dividend	No	No	Paid-up, NPL, Shortfall
24	STANDBANKL	11,158	29.89%	14.61%	12.59%	98	-	52,000	No Dividend	No	No	Paid-up, NPL, Shortfall
25	RUPALIBANK	4,879	39.05%	9.05%	2.94%	449	41,890	140,140	No Dividend	No	No	Paid-up, NPL, CAR, Shortfall
26	ISLAMIBANK	16,100	50.68%	7.58%	6.60%	2,061	65,970	846,150	No Dividend	No	No	Paid-up, NPL, CAR, Shortfall
27	ABBANK	8,957	56.53%	11.30%	-3.36%	(53,892)	65,510	-	No Dividend	No	No	Paid-up, NPL, CAR, Shortfall
28	NBL	32,197	59.23%	7.48%	-5.45%	(73,662)	90,320	-	No Dividend	No	No	NPL, CAR, Capital Shortfall
29	IFIC	19,221	61.47%	3.75%	2.45%	(19,709)	47,040	-	No Dividend	No	No	Paid-up, NPL, CAR, Shortfall
30	PREMIERBAN**	12,334	-	-	-	-	48,660	-	No Dividend	No	No	Paid-up, CAR, Shortfall
31	ICBIBANK**	6,647	-	-	-	-	20,120	-	Not Declared	No	No	Paid-up, CAR, Shortfall
32	EXIMBANK^	14,476	-	-	-	-	259,140	-	No Dividend	No	No	Paid-up, CAR, Shortfall
33	FIRSTSBANK^	12,081	-	-	-	-	641,620	-	No Dividend	No	No	Paid-up, CAR, Shortfall
34	SIBL^	11,402	-	-	-	-	300,530	-	No Dividend	No	No	Paid-up, CAR, Shortfall
35	UNIONBANK^	10,363	-	-	-	-	296,530	-	No Dividend	No	No	Paid-up, CAR, Shortfall
36	GIB^	9,874	-	-	-	-	156,930	-	No Dividend	No	No	Paid-up, CAR, Shortfall

* As on 24th May 2026. ** 2025 Annual Report is not yet published. ^ 5 Merged Banks not listed. ^^ Approximate numbers from news articles

Distressed Asset Management Act, 2026

- The proposed law was published on the website of the Financial Institutions Division for public feedback. The law would create a formal market for buying and selling bad loans and allow private firms to buy bad loans from banks & financial institutions, seize mortgaged assets and take control of indebted companies.
- The draft proposes the creation of a new independent regulator, the Distressed Asset Management Unit (DAMU), led by a BB Deputy Governor for a single three-year term, under the oversight of the Bangladesh Bank. Major regulation include:
  - DAMCs can seize and sell mortgaged property without obtaining a court order — the single biggest departure from current NPL recovery law in Bangladesh.
  - DAMCs may appoint administrators to manage companies with large distressed loans. Original shareholders regain control once debts are fully repaid.
  - Defaulters and associates cannot own, manage or participate in any DAMC or LSC, nor can they purchase distressed assets sold under this law.
- **Distressed Asset Management Company (DAMC):** Licensed private firms buying NPLs from banks/NBFIs on cash basis . Establish trusts to hold & manage assets . Raise investor funds (domestic & foreign) . Cannot borrow from banks & financial institutions . 20% or more independent directors for DAMC.
- **Loan Service Company (LSC):** Hired by banks & DAMCs for recovery operations . Handle borrower communications, debt restructuring, asset tracing & legal procedures . Cannot accept deposits or use coercive/unlawful methods.

Impact:

- Banks can sell NPLs for cash which will clean balance sheets and will result in improved CRAR ratios. Creates formal distressed debt market. It would create new investor asset class in Bangladesh

Source: IDLC-SL Research

BB sets observer in 4 weak Banks

- Bangladesh Bank has appointed observers at four banks—National Bank (NBL), Al-Arafah Islami Bank (ALARABANK), Premier Bank (PREMIERBAN), and IFIC Bank (IFIC)—to strengthen supervisory oversight and closely monitor their operations.
- The appointed observers include **Munir Ahmed Chowdhury** (Director, Bank Supervision Department-12) for National Bank, **Mohammad Anisur Rahman** (Director, Islamic Banking Regulations and Policy Department) for Al-Arafah Islami Bank, **ANM Moinul Kabir** (Director, Payment Systems Department-1) for Premier Bank, and **AKM Kamruzzaman** (Director, Forex Reserve and Treasury Management Department-1) for IFIC Bank.
- Observers will participate in board meetings and oversee operational activities, with their assignments expected to continue until the financial condition of the respective banks improves. After the regime change, the central bank had already restructured the board of these banks.

Fig: Condition of the 4 Banks

Bank	NBL	ALARABANK	PREMIERBAN	IFIC
NPL (Annual 2024)	64.2%	15.1%	22.8%	55.0%
Provision Coverage (Annual 2024)	6.9%	28.5%	20.1%	6.4%
Capital Adequacy Ratio (CAR; Annual 2024)	0.7%	12.1%	10.5%	7.7%
LTM P/E	negative	45.4	negative	negative
Recent NAV	(3.4)	21.5	16.2	8.9
LT Ratings	A-	AA	AAA	BBB+
ST Ratings	ST-2	ST-2	ST-1	ST-3

Source: IDLC-SL Research, Daily Newspaper

IFRS – 9 from 2028

- Bangladesh Bank has issued BRPD-1 Circular No. 06 dated 08 March 2026, introducing guidelines for implementing the IFRS 9–based Expected Credit Loss (ECL) framework in the banking sector.
- Under the new framework, banks must apply the ECL model to funded and non-funded credit facilities from 1 January 2028, with coverage extended to other financial instruments from 1 January 2029.
- Loans will be categorized into three stages based on credit risk deterioration: **Stage 1** (performing loans), **Stage 2** (significant increase in credit risk), and **Stage 3** (credit-impaired loans), with provisioning based on 12-month or lifetime expected credit losses depending on the stage. The framework will also extend provisioning requirements to off-balance-sheet exposures, including loan commitments, bank guarantees, and unused credit lines.
- Credit risk assessment under the new system will incorporate macroeconomic indicators such as GDP growth, inflation, and interest rate trends. To implement the framework, banks will need to upgrade data infrastructure and risk-modelling capabilities, while Bangladesh Bank will provide regulatory guidance and supervisory support during the transition.
- The adoption of IFRS 9 would result in more risk management, better financial transparency, and bolster investor confidence in the banking sector.

Tab: Existing & Previous Loan Classification & Parameters

	Categories	Pre-April 2025 Parameters	Provision (CMSME)	Post-April 2025 Parameters	Provision (CMSME)
Unclassified	STD- 0	No past due or overdue	1% (0.25%)	No past due or overdue	1% (0.5%)
	STD - 1			≥ 1D but < 1M	
	STD - 2			≥ 1 M but < 2M	
	SMA	≥ 1M but < 3M	5%	≥ 2M but < 3M	5% (0.5%)
Classified	SS	≥ 3M but < 9M *(≥ 6M but < 18M)*	20%	≥ 3M but < 6M	20%
	DF	≥ 9M but < 12M *(≥ 18M but < 30M)*	50%	≥ 6M but < 12M	50%
	BL	≥ 12M *(≥ 30M)*	100%	≥ 12M	100%

Source: IDLC-SL Research, Daily Newspaper

Easing repatriation

- The new circular, FEID (Foreign Exchange and Investment Department) Circular No. 1 dated 08 March 2026, substantially expands the scope of bank-level approvals for repatriation of sale proceeds from transfer of shares. The circular is aimed at reducing repatriation time, repatriation cost, maintaining international standards & increasing foreign direct investment in the economy.
- **Authorized Dealer (AD) banks can now independently process repatriation for transactions of up to BDT 1.0bn (USD 8.2mn), where fair value has been determined by an independent valuer using prescribed valuation methods. Moreover, transactions of up to BDT 10mn (USD 0.082mn) do not require an independent valuation report.**
- For transactions where the deal value does not exceed the Net Asset Value (NAV) based on the latest audited financial statements, AD banks may process repatriation regardless of the transaction amount, eliminating a major bottleneck in the capital outflow process.
- The circular requires that audited financial statements used for valuation must not be older than six months from the MoU signing date. If older, the target company must prepare interim audited financial statements.
- AD banks must complete repatriation within five working days if no discrepancies are found and forward cases requiring Bangladesh Bank approval within three working days. The entire transfer process must be completed within 45 days of the MoU signing or Bangladesh Bank approval, whichever is later.
- To strengthen oversight, AD banks must form internal approval committees—headed by the CFO for smaller transactions and the CEO for transactions up to BDT 1.0bn—to evaluate valuation reports and authorize repatriation. Committees must include members with relevant professional qualifications such as CFA.

Source: Daily Newspapers, Bangladesh Bank

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Rating	
Buy	An upside of 15% or more within a trading range of 180 days
Sell	A downside of 10% or more within a trading range of 180 days.
Hold	An upside or downside of less than the above within a trading range of 180 days.

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As at 1 Jan '26 Recommendation	IDLCSL Count	% of Total
Outperform	N/A	N/A
Market Perform	N/A	N/A
Underperform	N/A	N/A
Total	**N/A**	**N/A**

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