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Credit Operations of Banks

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Foreword

As part of BIBM's continued efforts to generate and share reliable, evidence-based knowledge for strengthening Bangladesh's financial sector, this review paper titled "Credit Operations of Banks - 2024" presents the key findings from the Institute's bi-annual assessment of the banking system's credit environment. Now in its twelfth occasion, the study offers a clear evaluation of banks' credit operations during 2023 and 2024 - a period shaped by both reform efforts and persistent structural challenges.

This review is characterized by growing concerns about deteriorating asset quality, governance weaknesses, poor credit discipline, rising non-performing loans, and uneven credit distribution across sectors and regions. In Bangladesh, where bank credit remains the primary source of financing due to underdeveloped capital markets, the effectiveness and integrity of credit operations are crucial for investment, productivity, and sustainable growth. Hence, this study therefore highlights both the challenges and the emerging opportunities facing the banking sector during this critical phase.

The paper provides a concise analysis of major issues, including regulatory and supervisory changes, banks' compliance with credit risk management guidelines, loan portfolio structures, trends in NPLs and write-offs, and the use of Fintech and AI in lending. It also reviews banks' experiences with ICRRS, refinance schemes, credit guarantee facilities, and lending to new sectors. The findings are based on survey responses from 37 banks, secondary data from Bangladesh Bank and other reliable sources, and six case studies that illustrate practical examples of both sound and unsound lending practices.

The insights from this study are intended to assist bankers, regulators, policymakers, and other stakeholders to identify gaps, corrective actions, and design forward-looking strategies to improve credit quality, strengthen risk management, and ensure fair and productive allocation of financial resources. At the very time when Bangladesh Bank is advancing major reforms - including asset quality reviews, Ultimate Beneficial Owner (UBO) guidelines, IFRS 9 implementation, bank resolution Ordinance, 2025, and enhanced supervision - this review is especially relevant.

I am pleased to share this research with professionals in the banking industry, regulatory agencies, academia, and other interested readers. I hope it serves as a timely and valuable resource for all who are committed to restoring the strength, credibility, and resilience of Bangladesh's banking sector, and to ensuring that credit operations contribute effectively to the nation's economic goals.

Dr. Md. Ezazul Islam
Director General, BIBM

Acknowledgment

We would like to express our profound gratitude to Dr. Md. Akhtaruzzaman, Former Director General of BIBM, for his invaluable guidance, encouragement, and strategic direction, which greatly contributed to the successful completion of the review paper *"Credit Operations of Banks - 2024."* His insights have been instrumental in shaping the depth, relevance, and rigor of this study.

Our sincere thanks are also extended to Professor Dr. Mohammad Tazul Islam, Director (Training), BIBM, for his unwavering supports and guidance.

The research team gratefully acknowledges the cooperation of all Heads of Credit and Credit Risk Management Departments of the scheduled banks who responded to the questionnaire and shared valuable data and insights. We are also thankful to the learned participants of the Focus Group Discussion and the Roundtable Discussion organized at BIBM, whose informed perspectives enriched the analysis and contributed meaningfully to the refinement of the study.

We would like to express our appreciation to our esteemed colleagues at BIBM for their support, encouragement, and collaborative spirit throughout the review process. Our special thanks go to Mr. Md. Al-Mamun Khan, Mr. Md. Habibur Rahman, Mr. Md. Morshadur Rahman, Mr. Azizur Rahamn and Mst. Shamsun Naher Sumi for their dedicated assistance in primary data collection and coordination activities.

Finally, we gratefully acknowledge all individuals and institutions who, directly or indirectly, extended their cooperation, expertise, and time to support the preparation of this twelfth review on the credit operations of banks in Bangladesh. Their contributions have been invaluable in bringing this study to fruition.

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Executive Summary

The credit operations of banks in Bangladesh have come under increasing scrutiny due to systemic fragilities that have manifested in lax regulatory enforcement, rising non-performing loans (NPLs), weak governance structures, and uneven credit allocation. Despite significant growth in the banking sector, the quality of bank credit has not kept pace with the development aspirations of the country. Domestic credit to the private sector in Bangladesh stood at only 35.7 percent of GDP in 2024, significantly below peer economies such as China (194.2%), Malaysia (116.1%), and Vietnam (125%). Further, this low level of intermediation, compounded by concentrated lending to a few sectors and urban areas, has undermined both economic growth and public confidence in the banking system.

Recognizing these challenges, Bangladesh Bank (BB) has undertaken a series of reform measures, including but not limited to board restructuring, adoption of global loan classification standards, implementation of the Ultimate Beneficial Owner (UBO) requirement, enactment of the Bank Resolution Ordinance, 2025, and planned introduction of Risk-Based Supervision and IFRS 9. Special emphasis has been placed on restoring asset quality through comprehensive asset quality reviews and pursuing recovery of misappropriated funds both domestically and internationally. These initiatives have generated optimism for improved credit operations, although practical challenges persist.

This review paper employs a mixed-methods approach, combining structured questionnaires sent to 37 banks-including state-owned, private, Shariah-based, specialized, and foreign banks - with secondary data from BB's reports, statistics, and circulars. The analysis covers portfolio composition, credit disbursement, sectoral and geographic distribution, compliance with the credit risk management manual, recovery of classified and written-off loans, and adoption of Fin-Tech and AI solutions in lending processes. Six case studies contemplated in the review paper provide insights into causes of success and failure in credit operations.

The review findings reveal persistent issues, including disproportionate concentration of loans in large industry and urban areas, under-financing of new sectors, challenges in applying ICRRS templates, underutilization of refinance and credit guarantee schemes, weak enforcement in managing classified and written-off loans, and unreliable external credit ratings. While improvements have been observed in areas such as digital loan products, collateral liquidation, and maintenance of MIS for accepted applications, significant lacking remain in proactive credit risk management. Mere compliance with CRM guidelines is insufficient to reduce NPLs. A strategic approach combining rigorous due diligence, accurate credit appraisal, sectoral diversification, and robust recovery

mechanisms is critical to ensuring sustainable asset quality and long-term financial stability.

Policy and operational recommendations emphasize the need to reshape loan portfolios through asset-based financing, enhance financial inclusion in rural and underserved areas, set realistic budgeted disbursement targets, strengthen governance and MIS systems, expand use of Fin-Tech/AI solutions, and reinforce recovery mechanisms for defaulted loans. Regulatory support - including template adjustments for ICRRS, facilitation of refinancing schemes, and enforcement of single-party exposure limits - along with capacity building for both bankers and borrowers, is essential for sustainable credit operations. Implementing these measures will improve asset quality, mitigate systemic risks, and strengthen the role of banks.

Table of Contents

1. Introduction	01
2. Brief Review of Issue Based Recent Literature on Credit Operation in Banks	04
3. Changes in Regulatory and Supervisory Requirements for Credit Operations of Banks during 2023- 2025	06
4. Review of Credit Portfolio, NPLs and Sustainable Finance of Banks	08
5. Review of Compliance Level with CRM Guidelines	26
6. Review of Selective Key Areas and Problems Faced by Banks in Credit Operations in 2024	38
7. Cases on Different Types of Projects / Borrowers	51
8. The Issues Raised in Credit Review 2022 and their Status in 2024	61
9. Issues Observed in Credit operation of Banks in 2024 and Possible Way Outs	61
References	69
Appendix-1	71
Appendix-2	72

List of Figures

Figure 4.1: Domestic Bank Credit Scenario	09
Figure 4.2: Growth of Advances by Major Economic Purposes: 2022-2023 & 2023-2024	11
Figure 4.3: Growth of Industrial Term Loan by Size and Sector: 2022-2023 & 2023-2024	13
Figure 4.4: Growth of Advances by Division: 2022-2023 & 2023-2024	15
Figure 4.5: Growth of Advances by Size of Loan Account: 2022-2023 & 2023-2024	16
Figure 4.6: Growth of Advances by Urban and Rural: 2022-2023 & 2023-2024	18
Figure 4.7: Growth of Advances by Security: 2022-2023 & 2023-2024	20
Figure 4.8: Composition of NPL of Banks	22
Figure. 4.9: Sustainable Finance: Amount and Trend (In Million BDT)	24
Figure 4.10: Sustainable Finance (SF): Share of Banks and FCs (%)	25

List of Tables

Table 4.1: Contribution of Each Group of Banks to Different Economic Purposes (%)	10
Table 4.2: Industrial Term Loan by Size and Sector: Share of Each Group of Banks (%)	12
Table 4.3 Advances by Division: Share of each Group of Banks (%)	14
Table 4.4: Share of Each Group of Banks to Different Size of Loan Accounts (%)	15
Table 4.5: Advances by Urban and Rural: Share of Each Group of Banks (%)	17
Table 4.6: Advances by Security: Share of Each Group of Banks (%)	19
Table 4.7: Gross NPL and Net NPL by Bank Group	21
Table 4.8: Gross NPL and Provision Scenario	21
Table 4.9: Banks' Concentration in Different Percentages of NPLs	22
Table 4.10: Sector-wise NPLs Concentration of Banks	23
Table 5.1: Indicators Using for Assessing Credit Risk	26
Table 5.2: Attention by Banks to the Credit Concentration Risk Areas	27
Table 5.3. Availability of Guideline and Systems in Banks as per CRM Guidelines 2016	28
Table 5.4: ICRRS and its Application	29
Table 5.5: Effectiveness of ICRRS	30
Table 5.6: Regularity of Loans Approved under ICRRS	31
Table 5.7: Reasons for Irregular of Loans Approved under ICRRS	31
Table 5.8: Facing Problems/Challenges by Banks in Applying ICRR System	32
Table 5.9: Factors Considered in Accepting Collateral Security	33
Table 5.10: Factors Considered in Taking Third-party Guarantees	34
Table 5.11: Loans Recovered by Liquidating Collateral and Utilizing Guarantee	35
Table 5.12: Steps for Credit Risk Administration	35
Table 5.13. Maintaining Accurate and Updated Database of all Credit Application	36
Table 5.14: Warning Signs Considered Most Important in Predicting Problem Loans	37
Table 5.15: Strategies/Measures Applied to Recover Problem Assets	38
Table 6.1: Credit Budget Amount and Actual Disbursed Amount by Banks in Major Economic Purposes (BDT in Crore)	39
Table 6.2: Credit Amount, NPL and Provision of Banks	40
Table 6.3(a) Disbursement of Loan for the First Time to New Sectors/ Industries in 2024	40
Table 6.3 (b) New Sectors Financed and Reasons for not financing new sectors	41
Table 6.4: Most Desired Sectors for Investment by Banks in 2024	41
Table 6.5: Specific Sectors/Industries with the Highest and Lowest Amount of Credit Disbursement in 2024	42

Table 6.6. Availing Refinance /Credit Guarantee Schemes Offered by Bangladesh Bank	43
Table 6.7: Key Problems Faced by Banks in Utilizing Refinance and Credit Guarantee Schemes	44
Table 6.8: Measures Applied for Recovery Purpose except Court Settlement	46
Table 6.9: Forced Loan as percentage of Total Loan	46
Table 6.10: Written-off Loan and Recovery thereof	46
Table 6.11: Measures Taken to Recover the Written-off Loan	47
Table 6.12: Information Related to Sustainable Finance in 2024	48
Table 6.13: Green/Sustainable Finance Products	48
Table 6.14: New Conventional Banking Products and New Islamic Banking Products	49
Table 6.15: FinTech/AI technology Applied by Banks in Credit Appraisal	50
Table 6.16: Problems faced by the Banks along with Possible Suggestions in Credit Operations	50
Table 8.1: The Issues Raised in Credit Review 2022 and their Status in 2024	61

Credit Operations of Banks

1.1. Introduction

In the past several years, the fragilities of the credit operation of the banking sector have contributed to a series of predicaments marked by lax implementation of regulations, serious irregularities in lending, rising NPLs at record high, weak governance structures, deterioration of operational and allocational performance and importantly overall damage of public confidence on the banking system, even though the position varies substantially from bank to bank.

The significance of the quality of bank credit[1] in financing economic activities is not required to be echoed specially in Bangladesh as two other conduits of finance, namely equity and bond market, here are not at all broad and deep enough. A large body of literature, historically starting from Bagehot (1873) and Schumpeter (1912) to Beck, Thorsten & Levine, Ross (2024), emphasizes on the well-functioning credit operation of banks on the level and the rate of growth of a country's per capita income. They highlight circumstances when banks can actively spur innovations and future growth by identifying and funding productive investment.

With regard to a question as to what extent was the banking sector of Bangladesh successful to maintain quality of credit, to say the least, it was not at all functioned in line with the development aspiration of economy of the country. The domestic credit by banks to the private sector as a percentage of GDP, generally developed economies tend to have higher ratios compared to developing ones, was only 35.7 per cent in Bangladesh whereas this ratio accounted for 194.2 per cent in China, 116.1 per cent in Malaysia, 125 per cent in Vietnam and 50.1 per cent in India in 2024 (World Development Indicators, World Bank Group). This ratio is, of course, is not at any rate satisfactory as 62 scheduled banks are in operation in the country. Further, uneven perking of bank credit amount in terms of persons, genders, business groups, sectors, geographical areas have added additional agony to the miserable picture of credit operation of banks. But what cause most panic is that the volume of bad loans in the banking sector soared to record almost Tk 420,335 crore, of this Tk 300, 028 concentrated in just 10 banks.

[1] Quality of credit operation must have the features like coming back money in accordance with agreed terms of repayment, investing the money in productive sectors, applying money by the borrower according to stated purpose, making rational amount of profits for banks, taking security as an insurance or a cushion, considering national interest and taking calculated risks and a prudent banker is an expert in assessing such risks, diversification of advances.

The ongoing initiatives of Bangladesh Bank for the turnaround of the banking sector have, however, generated high expectations of a well-functioning credit operation with soundness and promotion of deeper intermediation. Bangladesh Bank (BB) has undertaken a robust set of reform measures to address long standing operational problems of credit operation. Measures include, but are not limited to, board re-structuring, back to global loan classification standard, introducing 'Ultimate Beneficial Owner (UBO[2]), enactment of Bank Resolution Ordinance, 2025, and planning to introduce Risk Based Supervision and IFRS 9. Particularly, BB has given the highest possible importance on reinstating the quality of existing bank credit through applying dual strategies namely conducting a comprehensive asset quality review of bank's assets and pursuing the recovery of stolen assets both domestically and internationally with the formation of task forces.

In this changed environment of the banking sector, where both optimism and challenges are prevailing, Bangladesh Institute of Bank management (BIBM) is going to review the credit operation of banks of 2023 and 2024 consecutively for the twelve times. The findings of this post mortem initiative are expected to be helpful for banks to take necessary corrective measures in their future credit operation activities.

1.2. Chapter Plan

The main objective of this study is to review different aspects of credit operation of banks in 2023 and 2024. Section-1 covers initial issues of the review papers like introduction, chapter plan, and data and methodology. Section-2 reviews recent issue-based literature relating to credit operations in banks mostly published in 2024-2025. Section-3 reviews changes in regulatory and supervisory requirements for credit operations of banks in 2023 and 2024. Section-4 evaluates the credit portfolio of banks. Section-5 reviews the norms followed by banks in their credit operations as per the CRM manual. Section 6 assesses key contemporary areas of credit Operation in banks along with problems thereof. Section-7 presents six cases pointing out some causes of success/failure. Section-8 shows the status of the issues raised in the 2022 credit review. Finally, acute challenges observed in credit operations in 2024 and possible solutions are discussed at the ending section.

2 UBO refers to the natural person(s) who ultimately own or control a bank or a legal entity within the bank's ownership structure. Bangladesh Bank has introduced new reporting requirements to identify and verify UBOs, aiming to enhance transparency and accountability within the banking sector.

1.3. Data and Methodology

The overall methodology of the review was mixed methods using both primary and secondary sources covering qualitative as well as quantitative data. A semi structured questionnaire was sent to the heads of credit/credit risk management department of all scheduled banks for collecting primary data. All groups of banks namely State-Owned Commercial banks (SOCBs), Private Commercial banks (PCBs) including all generation of Conventional Banks (CBs) and Shariah Based Islami Banks (IBs), Specialized Banks (SBs) and Foreign Commercial Banks (FCBs) were covered in collecting data. Finally, 4(four) SOCBs, 2(two) SBs, 27(twenty-seven) PCBs including 5(five) Shariah Based Banks and 4(four) FCBs totaling 37 banks (Appendix 1) have sent back questionnaires with answers.

The secondary data were collected from BB's Annual Reports, Economic Trends, BB's Bulletin and circulars, and Scheduled Bank Statistics. In case of loan portfolio analysis, data for 2023 and 2024 were utilized in the report. Ratios, compound annual growth rate (CAGR) as well as tabular and graphical techniques were applied. Six practical cases relating to credit operations were studied to get an insight into the causes of success and failure of lending. A comparative discussion on findings generated from the survey data has been done between 2023 and 2024 as credit review was not conducted in 2023. Finally, the discussants and participants have given valuable inputs on the issues placed in the paper prepared for roundtable discussion along with relevant areas linked with credit operation in banks in 2023, 2024 and 2025. The paper has been finalized by contemplating the opinions of discussants and participants of the aforesaid program.

2. Brief Review of Issue Based Recent Literature on Credit Operation in Banks.

Issues	Reviewed Literature
Slow Private Sector Credit Growth	Private sector credit growth stood at 7.2 % in May this year – well below the central bank's target of 9.8%. The following causes were opined by the top executive of some banks. 1. Loan growth is slow due to low private sector demand and a liquidity crunch caused by rising defaulted loans. Further, heavy government borrowing leads banks to favor safer government loans over private lending. To increase private credit growth, imports must rise, especially imports of capital machinery. With more capital machinery, businesses will invest in new projects, which will increase liquidity in the market and also boost banks' deposit growth (Mahbubur Rahman, MD & CEO of Mutual Trust Bank, The Business Standard on July 02, 2025). 2. Private sector credit will grow only when business confidence is restored. No entrepreneur invests in an uncertain environment. Political uncertainty, and law and order situation are hindering private sector credit growth. Additionally, a banking sector liquidity crisis – with 25% of loans in default – is limiting banks' lending capacity (Sheikh Mohammad Maroof, Managing director of Dhaka Bank, July 2, 2025.
Burden of NPL	The management and recovery of Non-Performing Loans (NPLs) are paramount priorities for BB in its efforts to ensure the financial stability and resilience of the banking sector. To this end, the Expected Credit Loss (ECL) methodology-based provisioning system is scheduled for implementation in 2027, in alignment with the International Financial Reporting Standard (IFRS 9). In the context of recovering defaulted loans, particularly those in legal proceedings within the Artha Rin Adalat and higher courts, BB has issued a policy directive highlighting the essential role of commercial banks' legal departments. Establishing an Asset Management Company (AMC) is also under the planning of BB (Monetary Policy Statement, 2025.
Corporate Governance, Political Risk and Default Culture	Governor of Bangladesh Bank had underscored the need for significant reforms in corporate governance of banks, particularly in light of widespread irregularities and financial reporting issues. He has highlighted the importance of political will in tackling corruption and nepotism within the banking sector. He also adds that supervisory system will not be able to address political risks. To reduce political risks, politics itself must be reformed (Mansur, 2025). The root cause of country's default loans is mainly psycho-political rather than economic reasons (Paul, 2022). Borrowers don't bother about

Issues	Reviewed Literature
	repaying loans to the state-run banks as they get different policy support in various ways, including the increase in the number of installments, the extension of the repayment period and the waiver of interest (See, Habib, 2023). Majid (2023) states that unhealthy corporate cultures of selected banks in Bangladesh have ever the last four decades adversely impacted the work climate and bank performance. Bankers driven by greed, self-dealing and ego, and an 'ends -justify the means mentally' in pursuing overambitious revenue and profitability targets led to very unfortunate banking scandals in the country.
Fictitious Balance sheet and Auditors' Responsibilities.	Accounting ensures transparency to stakeholders, such as investors and regulatory bodies, by providing access to relevant data for informed decision-making. When investors have clear and reliable information about a country's business environment, they are more likely to invest in its economy. Auditors must be transparent themselves. It's not just about arithmetic; auditors must observe with insight and identify risks (Ahmed, 2025). This is found that at the end of 2024, the non-performing loan (NPL) ratio was 4%. But after the following quarter, we found the ratio to be 36%. The balance sheets of several banks have been found to be "fictitious", failing to reflect their true financial state. The massive mismatch did not happen due to any regulatory issue. It happened only because of misreporting which misled the facts and reality, Quality of financial statements was much neglected when they were provided officially or unofficially to the regulatory authority over the years (Mansur, 2025.)
Risk Based Supervision Framework	A noteworthy advancement in BB's supervisory approach is the implementation of a Risk-Based Supervision (RBS) framework. Following the successful completion of a pilot program with three banks in April 2024, the initiative progressed to a second phase that involved 20 banks undergoing preliminary risk assessments. BB has also released updated stress testing guidelines to enhance risk management practices across the sector. These guidelines encompass conventional risk categories—such as credit, market, operational, and liquidity risks—and have also integrated climate risk stress testing to address potential vulnerabilities arising from natural disasters (Monetary Policy Statement, 2025).
Merger and Acquisition	It's very important that an asset quality review is completed using international definitions to really understand what are the strengths and weaknesses of each bank so that good banks don't take on excess liabilities beyond what they are expecting, rapidly implementing bank mergers before proper assessment may further undermine confidence in the sector, deterring intermediation capacity (Haven, 2024).

3. Changes in Regulatory and Supervisory Requirements for Credit Operations of Banks during 2023- 2025

Bangladesh Bank has issued following prudential regulations, guidelines and circulars relating to credit operation from January 05, 2023 till now for smooth flow of credit along with safeguard of loan amount.

Date/ Period	Department	Issue	Brief Contents
January 05, 2023	BRPD	Write-off Policy for Credit/ Investment	Any credit/investment up to 200,000/- can be written-off by bank without filing suit at court under Money Loan Court Act, 2003. But, in case of credit for Agriculture and CMSME this amount will be up to 500,000/- considering the legal expenses.
August 02, 2023 August 07, 2023	BRPD DFIM	Charge Documents (Read out, take signature along with thumb impression)	All scheduled banks and finance companies were instructed to make sure that loan-related documents, termed as charge documents, were read out to borrowers, and guarantors. At the same time, banks and finance companies have to take signatures on loan documents (in applicable cases) along with thumb impression of both hands of borrowers and guarantors by verifying those with national identification (NID) number database.
October 01, 2023	SMESPD	Renaming 'Refinancing scheme for setting up Agro Based Product Processing Industries in Rural Areas' with reduced interest rate	'Refinancing scheme for setting up Agro Based Product Processing Industries in Rural Areas' was renamed as 'Refinancing scheme for Agro Based Product Processing'. In this regard, the ago-based industries/services must be outside Dhaka and Chattogram City Corporation and prioritizes suburban entrepreneurs to avail this refinance facility.
November 23, 2023	SFD	Preserve and spend in Climate Risk Fund allocated in ECCMA from Annual CSR budget	BB has instructed all the scheduled banks and finance companies to preserve and spend half in Climate Risk Fund (CRF) from the allocated rate (20%) in Environment and Climate Change mitigation & Adaptation (ECCMA) sector from their annual CSR budget.

January 03, 2024	BRPD	Internal Credit Risk Rating System	Validity of the directive regarding relaxing paragraph 1.8[3] and 1.10(d)[4] of the 'Guidelines on Internal Credit Risk Rating System'.
March 12, 2024	BRPD	Identification, finalization and initiatives taken against the willful defaulters	BB defines the willful defaulters, process to identify and finalize the willful defaulters. Steps need to be taken by the banks against the willful defaulters and banks will be penalized in case of violating these instructions and reporting to BB in this regard.
April 08, 2024	BRPD	Overdue of Loan/Investment	If any installment/installments or any part of a term loan is not paid within the stipulated time, that installment/installments or part of it will be treated as overdue immediate after completing the consecutive 3 months after its due date.
May 12, 2024	BRPD	Following 'Alternative Dispute Resolution' for speeding up the recovery of default loan	Every bank has to set a target to recover at least 1% of their total default loan in the form of cash using 'Alternative Dispute Resolution' by June 30, 2026. Board of Directors will give the necessary instructions based on the development of recovery in every half-yearly Board meeting.
November 27, 2024	BRPD	Master Circular: Loan Classification and Provisioning	All the loans will be categorized under two types. Unclassified [Standard-0 (STD-0), Standard-1 (STD-1), Standard-2 (STD-2), Special Mention Account (SMA)], and classified [Sub-Standard (SS), Doubtful (DF) and Bad/Loss (B/L)]
January 23, 2025	BRPD	Implementation of ECL-based Loan Classification and Provisioning under IFRS 9	* BB plans to implement Expected Credit Loss (ECL) methodology-based provisioning system for banks in accordance with International Financial Reporting Standard (IFRS 9) by 2027. *To achieve the goal of implementing IFRS 9 for the banking sector by 2027, BB has outlined a roadmap with the specified timelines. *To implement the ECL-based classification and provisioning, readiness of the banking sector and early assessment of banks' financial health in

[3] The ICRR consists of 4-notched rating system covering the Quantitative and Qualitative parameters. The Ratings and scores are *Excellent (≥80%), Good (≥70% to <80%), Marginal (≥60% to <70%), Unacceptable (<60%).*

[4] In deriving ICRR, whatever score a borrower gets in the qualitative analysis if the score in the quantitative part is less than 50%, the borrower's ICRR shall be "Unacceptable".

			accordance with IFRS 9 are essential. In this regard, seven preparatory instructions have also been provided by BB.
April 16, 2025	BRPD	Identification, finalization and initiatives taken against the willful defaulters	After identifying and finalizing the willful defaulters' banks need to report it to the Credit Information Bureau, BB, mentioning WD (Willful Defaulter).
May 08, 2025	BRPD	Transactions with Bank-Related Persons or Institutions	BB clarifies the definition and general provisions for transactions with 'Bank-related Persons or Institutions', procedure of classifying bank-related persons or institutions by BB, provisions for director and representative director related credit facilities; regarding credit facilities to independent directors; for credit facilities to alternate directors; for credit facilities to Government-nominated bank directors, for credit facilities to the Managing Director/Chief Executive Officer; for credit facilities to significant shareholders and for credit facilities to subsidiary companies.

Source: *www.bb.org.bd*

4. Review of Credit Portfolio, NPLs and Sustainable Finance of Banks

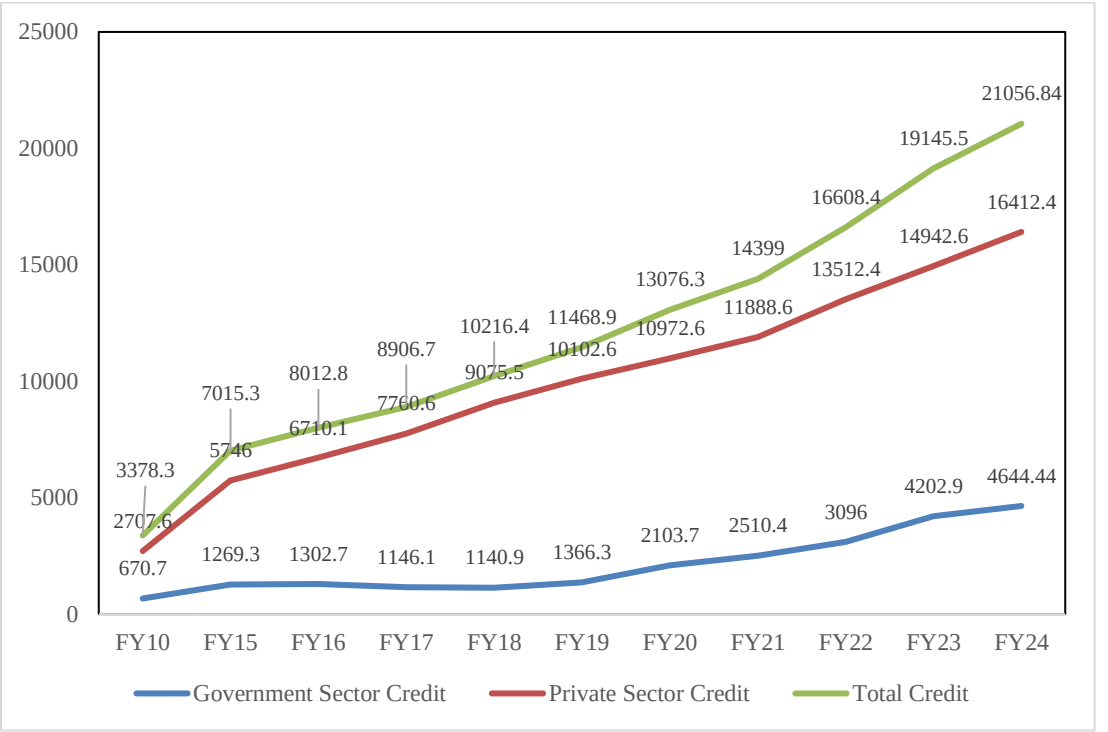
4. A. Review of Credit Portfolio of Banks

A well-diversified portfolio is a prerequisite for the safety and soundness of the banking sector, as well as for the balanced development of the economy. The credit portfolios of banks, with respect to size, composition, quality, and growth, were reviewed in this section to examine performance, sustainability, and resilience in absorbing shocks.

4.1. Domestic Bank Credit Scenario: Government and Private Sector Credit

Domestic credit plays a vital role in any economy in driving its activities and sustaining fiscal operations. Figure 4.1 shows that there is an upward trend in the overall domestic credit, consisting of Government and Private Sector credit, from FY10 to FY24. Apart from the persistent increase in private sector credit, recent rise in public sector loans has contributed to this trend. Government sector credit may increase further due to a decline in government revenue from taxes and a budget deficit in the current fiscal year.

Figure 4.1: Domestic Bank Credit Scenario (In Billion Taka)



***Source**: Annual Reports of Bangladesh Bank*

4.2.1 Composition of Loans and Advances by Major Economic Purposes

The distribution of loans and advances across various economic sectors reflects shifting priorities and trends in bank lending activities over time. Table 4.1 shows loans and advances by major economic purposes. In 2024, around 33.38 per cent of all banks' outstanding loans were in the trade sector, which was 1.10 percent lower compared to 2023.

Table 4.1: Contribution of Each Group of Banks to Different Economic Purposes[5] (%)

Sl. No.	Economic Purpose	Dec-23					Dec-24				
		SOCBs	PCBs	SBs	FCBS	**Total**	SOCBs	PCBs	SBs	FCBs	**Total**
1	Agriculture, Fishing and Forestry	4.53	2.32	80.67	2.49	**5**	4.66	1.94	69.27	1.4	**4.39**
2	Industrial Term Loan (Including SME)	13.52	22.06	0.53	36.05	**20.03**	21.63	24.03	1.09	14.03	**22.59**
3	Industrial Working Capital Financing (Including SME)	14.95	22.2	0.81	12.42	**19.81**	12.02	22.19	1.89	29.8	**19.79**
4	Construction	6.49	9.07	0.36	0.96	**8.06**	4.72	8.82	0.01	0.81	**7.49**
5	Transport	1.84	0.46	0	0.11	**0.73**	1.68	0.43	0	0.05	**0.67**
6	Trade and Commerce	39.37	34.5	9.38	21.85	**34.48**	36.01	33.63	11.38	30.19	**33.38**
7	Consumer Finance	14.19	6.95	3.78	16.58	**8.64**	15	6.63	9.14	13.39	**8.64**
8	Others*	5.11	2.44	4.47	9.54	**3.25**	4.28	2.33	7.22	10.33	**3.05**
	Total	100	100	100	100	**100**	100	100	100	100	**100**

***Source**: Authors' Calculation based on data from Scheduled Bank Statistics*

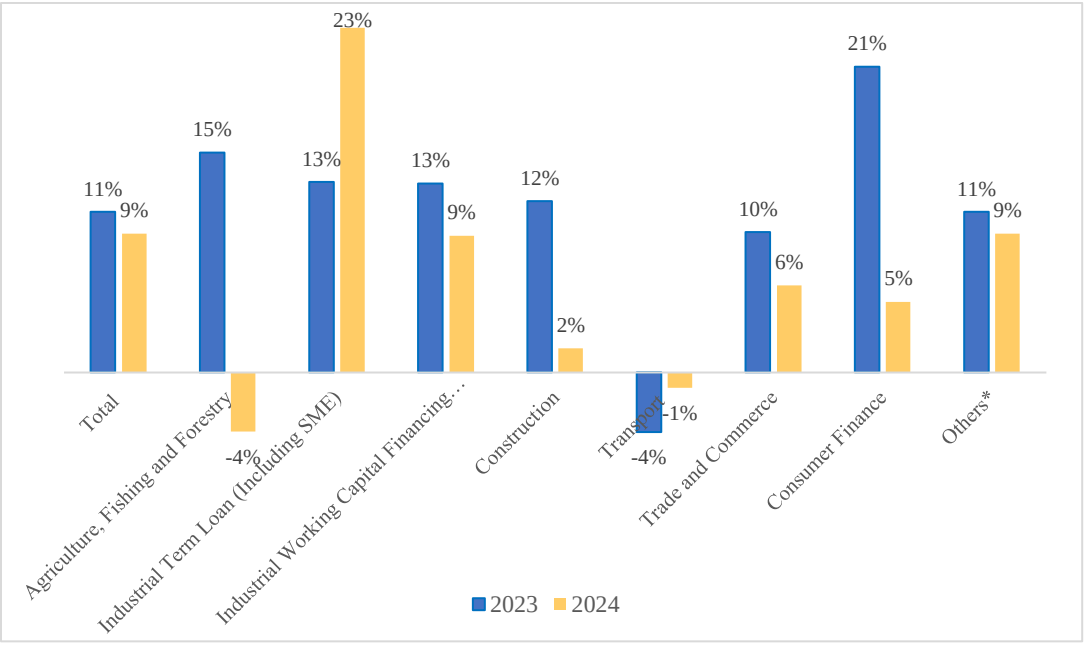
[5] Others category includes water works, sanitary services and miscellaneous.

In this sector, both SOCBs and PCBs reduced the flow of funds significantly in 2024. All banks' outstanding industrial term loans increased slightly to 22.59 per cent in 2024 from 20.03 per cent in 2023. However, the outstanding industrial working capital financing of all banks remained almost the same. The proportion of outstanding loan amounts to the agriculture, fishing, and forestry sector slightly decreased from 5 percent in 2023 to 4.39 percent in 2024. The amount of outstanding loans of all banks in the construction sector was also seen to experience a slight decrease from 8.06 percent in 2023 to 7.49 percent in 2024.

4.2.2 Growth of Loans and Advances by Major Economic Purposes

An analysis of sector-wise credit growth offers valuable insights into the shifting priorities and performance of the banking sector. Figure 4.2 shows the growth of Loans and Advances by Major Economic Purposes. It shows that total bank credit decreased to 9 percent in 2024 from 11 percent of 2023. However, amidst this growth, the industrial term loan sector was seen to have a massive hike from 13 percent to 23 percent in 2024. On the other hand, the consumer finance sector dropped to 5 percent in 2024 from 21 percent of 2023. In 2024, along with the transport sector, the agriculture, fishing and forestry sector also experienced negative growth, where the transport sector's negative growth was seen to go down from negative 4 percent to negative 1 percent in 2024.

Figure 4.2: Growth of Advances by Major Economic Purposes: 2022-2023 & 2023-2024



***Source**: Authors' Calculation based on data from Scheduled Bank Statistics*

4.3.1. Composition of Industrial Term Loans

Industrial term loans are crucial for creating capital goods or fixed assets through initiating new projects or extending existing projects. Table 4.2 shows that about 72.66 percent of the total outstanding industrial term loans were concentrated in large industries in 2024, and in that category, PCBs and FCBs had the highest concentration. SBs are highly concentrated in small and medium scale industries, with around 87.82 percent of their total outstanding loans in 2024. The concentration of SBs was seen to be shifted from large industries in 2023 with 43.04 percent industrial term loan distribution, to being distributed 87.82 percent of their industrial term loan in small- and medium-scale industries. Moreover, among all the industrial credit, cottage industries seemed to get the least focus by all the banks both in 2023 and 2024. In both years, all banks' contributions in this industry were less than 1 percent all together.

Table 4.2: Industrial Term Loan by Size and Sector: Share of Each Group of Banks (%)

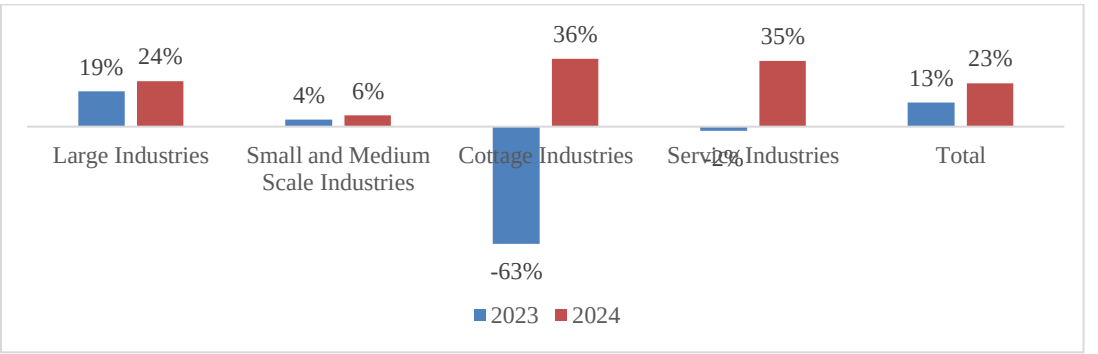
Sl. No.	Size of Industrial Credit	Dec-23					Dec-24				
		SOCBs	PCBs	SBs*	FCBs	**Total**	SOCBs	PCBs	SBs*	FCBs	**Total**
1	Large Industries	69	71.32	43.04	92.24	**71.98**	71.64	72.72	10.10	85.06	**72.66**
2	Small and Medium Scale Industries	20	14.12	37.66	1.77	**14.41**	20.86	10.40	87.82	2.79	**12.39**
3	Cottage Industries	0	0.16	0.77	0.00	**0.13**	0.08	0.17	0.06	0.03	**0.15**
4	Service Industries	11	14.40	18.52	5.99	**13.48**	7.42	16.72	2.02	12.12	**14.80**
5	Total	100	100	100	100	**100**	100	100	100	100	**100**

***Source**: Authors 'Calculation based on data from Scheduled Bank Statistics*

4.3.2. Growth of Industrial Term Loan

The dynamics of industrial term loan growth offer valuable insights into the shifting momentum of investment across key economic sectors. Figure 4.3 shows the growth of industrial term loans. In examining the growth picture, the overall growth rate of industrial term loans in 2024 was 23 percent, which is 10 percent more growth than in 2023. This notable increase can be attributed to several factors, including post-pandemic investment revival, policy support such as refinance schemes and relaxed lending guidelines, and improved business confidence driven by a stable economic outlook. A discernible increase in the growth rate of industrial term loans is observed in the cottage industries, where the rate rebounded from a negative 63 percent in 2023 to 36 percent in 2024, possibly reflecting targeted credit programs and greater access to formal financing for micro and small enterprises. Similarly, a significant rise in industrial term loans was seen in the service industries, which jumped from a negative 2 percent in 2023 to 35 percent in 2024, likely due to expanding investments in technology, logistics, and other service-related sectors. These trends suggest that both policy initiatives and sector-specific dynamics played a critical role in accelerating industrial term loan growth in 2024.

Figure 4.3: Growth of Industrial Term Loan by Size and Sector: 2022-2023 & 2023-2024



***Source**: Authors' Calculation based on data from Scheduled Bank Statistics*

4.4.1. Composition of Advances by Division

The regional distribution of bank advances reflects a significant concentration of financial resources in specific areas, raising concerns over equitable economic development. Table 4.3 shows the composition of advances by division. About 86.49 percent of bank advances were concentrated in the Dhaka and Chattogram divisions in 2024, i.e., only about 13.51 percent of advances went to other divisions. Such an inequitable distribution of loans is required to be addressed very soon to bring people of all areas across the country under the development. FCBs advanced

up to 93.05 percent of its total loan in Dhaka in 2024, and divisions like Mymensingh and Barisal almost received no advances from FCBs in both 2023 and 2024. To reduce regional economic distribution, such inequitable distribution is required to bring it down to a rational level. This may increase concentration risk, which would compel banks to keep additional capital under Basel III.

Table 4.3 Advances by Division: Share of each Group of Banks (%)

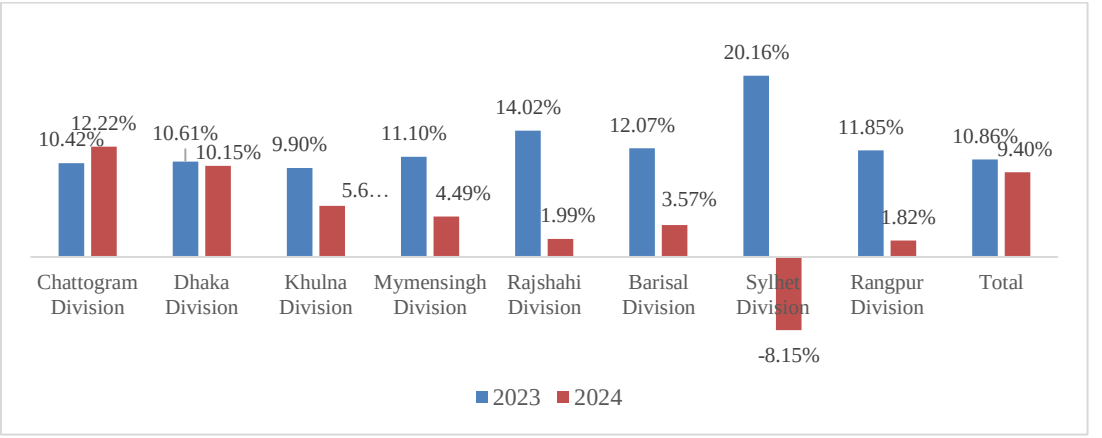
Sl. No.	Divisions	Dec- 23					Dec- 24				
		SOCBs	PCBs	SBs	FCBs	**Total**	SOCBs	PCBs	SBs	FCBs	**Total**
1	Chattogram	8.37	20.69	14.67	6.67	**17.56**	10.14	20.80	14.35	6.55	**18.02**
2	Dhaka	67.36	68.74	30.18	92.80	**68.00**	66.49	69.40	31.43	93.05	**68.47**
3	Khulna	7.60	2.64	13.87	0.08	**3.93**	7.37	2.59	13.77	0.05	**3.80**
4	Mymensingh	2.47	0.76	10.02	0.00	**1.36**	2.37	0.72	10.07	0.00	**1.30**
5	Rajshahi	5.15	3.78	8.88	0.05	**4.11**	4.91	3.52	8.42	0.04	**3.83**
6	Barisal	2.28	0.66	8.06	0.00	**1.19**	2.24	0.60	7.99	0.00	**1.13**
7	Sylhet	1.43	1.16	4.81	0.40	**1.30**	1.38	0.90	4.83	0.31	**1.09**
8	Rangpur	5.35	1.56	9.52	0.00	**2.54**	5.09	1.45	9.14	0.00	**2.36**
	Total	100	100	100	100.	**100**	100	100	100	100	**100**

***Source**: Authors' Calculation based on data from Scheduled Bank Statistics*

4.4.2. Growth of Advances by Division

The regional distribution of credit growth offers valuable insights into the economic dynamics across different parts of the country. Figure 4.4 shows the growth of advances by division. In 2024, except for the Chattogram division, all the other divisions experienced a decline in the growth of advances. Even the growth of advances in Chattogram division was very small, increasing only by 1.8 percent in 2024. This growth over a tiny base does not signify any major change in credit disbursement in that division. Moreover, negative growth was seen in the Sylhet division in 2024. Except for that, other divisions like Rajshahi, Rangpur, and Barisal had a huge decline in the growth rate in 2024.

Figure 4.4: Growth of Advances by Division: 2022-2023 & 2023-2024



***Source**: Authors' calculation based on data from Scheduled Bank Statistics*

4.5.1. Composition of Advances by Size of Loan Account

The distribution of bank credit in terms of loan sizes offers valuable insights into the lending patterns and risk preferences of various bank types. Table 4.4 shows the composition of advances by size of loan account. About 43.81 percent of bank credit was outstanding in the largest loan category of above Tk. 200 million in 2024, and SOCBs had the highest contribution in this case (57.74 percent), followed by FCBs, PCBs, and SBs. SBs had the highest concentration in the small-sized loan category (upto 1 million), which is about 73.18 percent in 2024.

Table 4.4: Share of Each Group of Banks to Different Size of Loan Accounts (%)

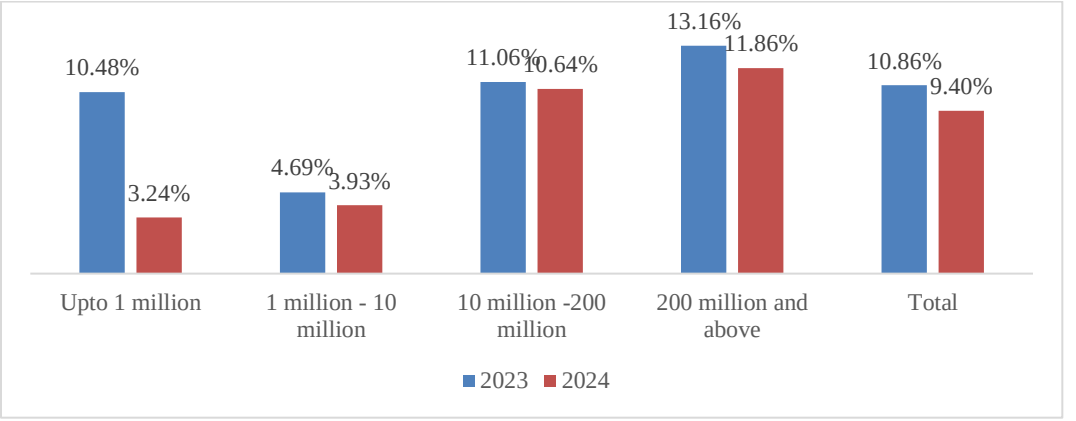
Sl. No.	Size of Loan Accounts	Dec- 23					Dec- 24				
		SOCBs	PCBs	SBs	FCBs	**Total**	SOCBs	PCBs	SBs	FCBs	**Total**
1	Up to 1 million	14.16	6.52	74.59	7.39	**10.07**	14.02	5.96	73.18	6.10	**9.51**
2	1 million - 10 million	13.36	15.87	12.87	14.26	**15.22**	12.26	15.15	13.44	13.38	**14.46**
3	10 million - 200 million	14.77	37.49	5.43	39.31	**31.87**	15.99	37.53	5.22	37.20	**32.23**
4	200 million and above	57.71	40.11	7.11	39.04	**42.85**	57.74	41.37	8.16	43.32	**43.81**
	Total	100	100	100	100	**100**	100	100	100	100	**100**

***Source**: Authors' Calculation based on data from Scheduled Bank Statistics*

4.5.2. Growth of Advances by Size of Loan Account

The distribution and dynamics of loan growth across various account sizes offer critical insights into changing credit patterns and banking behavior. Figure 4.5 illustrates the comparative growth of advances segmented by the size of loan accounts for the periods 2022–2023 and 2023–2024. A clear contraction in growth rates is observed across all loan-size categories in 2024 relative to the previous year. For loan accounts up to BDT 1 million, the growth rate dropped markedly from 10.48% in 2023 to 3.24% in 2024, indicating a slowdown in credit expansion for micro-level borrowers. The 1–10 million segments also experienced a moderate decline, with growth decreasing from 4.69% to 3.93% over the same period. In the 10–200 million categories, the growth rate contracted slightly from 11.06% in 2023 to 10.64% in 2024, while the largest loan accounts, those above 200 million, saw a sharper reduction from 13.16% to 11.86%, suggesting a relative cooling in large-scale industrial and corporate borrowing. Overall, the total growth of advances declined from 10.86% in 2023 to 9.40% in 2024, reflecting a broad-based moderation in credit growth irrespective of loan size. The uniform downward shift across segments may point to tightening liquidity conditions, cautious lending strategies by banks, or subdued investment demand during the 2023–2024 period.

Figure 4.5: Growth of Advances by Size of Loan Account: 2022-2023 & 2023-2024



***Source**: Authors' Calculation based on data from Scheduled Bank Statistics*

4.6.1. Composition of Advances by Urban and Rural

The distribution of bank advances between urban and rural areas provides critical insight into the inclusiveness of financial services and the extent of regional development disparities. Table 4.5 shows the composition of advances by urban and rural. A very tiny decreasing trend of inequality between urban and rural financing has been observed in 2024 although the disparity is still exorbitantly high.

About 91.84 percent of the total advances of all banks were outstanding in the urban areas in 2024 compared to 91.95 percent in 2023. In generalization of this finding, it is required to consider the fact that sometimes borrowers invest in rural areas by taking loans from the urban branch. SBs are only extending their larger portion of advances in rural areas whereas the picture is completely reverse in case of PCBs, SOCBs and FCBs. This disparity is required to be addressed gradually in order to ensure equitable development across the country. Some of the reasons for poor extension of advances in rural areas are poor infrastructural development, shortage of utilities and entrepreneurial initiatives.

Table 4.5: Advances by Urban and Rural: Share of Each Group of Banks (%)

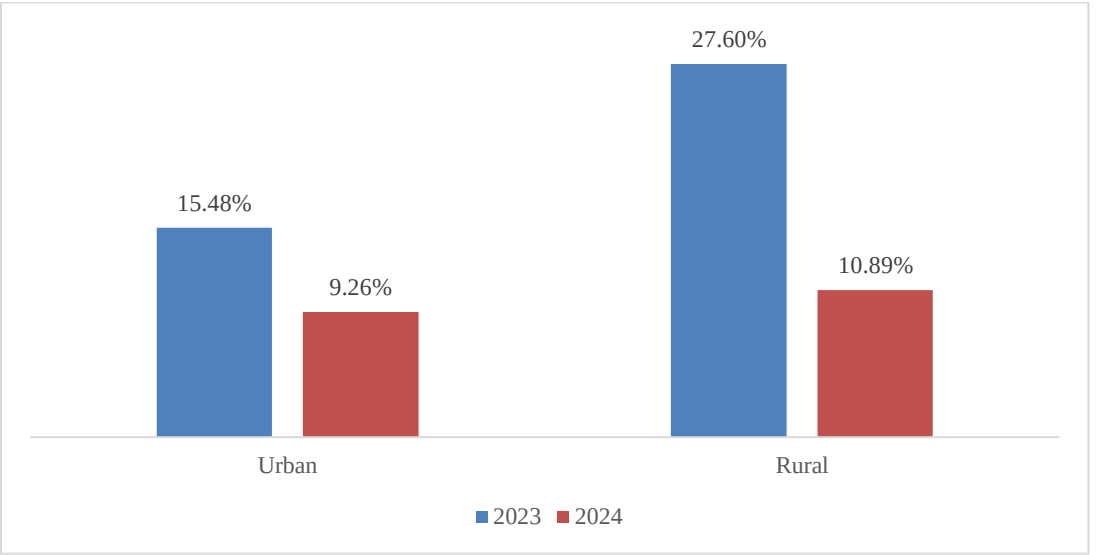
Sl. No.	Urban / Rural	Dec- 23					Dec- 24				
		SOCBs	PCBs	SBs	FCBs	**Total**	SOCBs	PCBs	SBs	FCBs	**Total**
1	Urban	87.10	95.09	39.09	99.87	**91.95**	87.41	95.23	39.99	87.72	**91.84**
2	Rural	12.90	4.91	60.91	0.13	**8.05**	12.59	4.77	60.01	12.28	**8.16**
	Total	100	100	100	100	**100**	100	100	100	100	**100**

***Source**: Authors' Calculation based on data from Scheduled Bank Statistics*

4.6.2. Growth of Advances by Urban and Rural

An analysis of credit distribution trends across geographic regions provides critical perspectives on the broader economic dynamics of a country. Figure 4.6 shows the growth of advances by urban and rural. Comparing the growth in both urban and rural sector advances of 2023 and 2024, it can be seen that the growth rate decreased in both sectors in 2024. A significant decline in the growth rate of the rural sector advances was seen in 2024 which went down by almost 16.71 percent. This decline in the advances growth in the rural sector could be a result of the severe flood that happened in August 2024 which caused extensive damage to infrastructure and agriculture in rural regions. The resulting economic disruption reduced the capability of lending in these areas, along with other economic and political issues.

Figure 4.6: Growth of Advances by Urban and Rural: 2022-2023 & 2023-2024



***Source**: Authors' Calculation based on data from Scheduled Bank Statistics*

4.7.1. Composition of Advances by Security

The pattern of bank advances based on the type of security offers significant understanding of the risk appetite and lending practices of the banking sector. Table 4.6 shows the composition of advances by security. Not much shifts have been seen in the advances by security between 2023 and 2024. A total of 62.82 percent of the advances of all banks in 2024 were secured by real estate, followed by guarantee, financial obligations, merchandise, machinery and fixed assets (Table 4.6). Notably, real estate is considered as sensitive security which may suffer from price volatility, leaving loans partly unsecured and potentially leading to strategic default. Shares and securities were the least preferred form of security acceptable to banks in both years. The proportion of unsecured advances of all banks in 2024 was 0.59 percent, slightly higher than in 2023.

Table 4.6: Advances by Security: Share of Each Group of Banks (%)

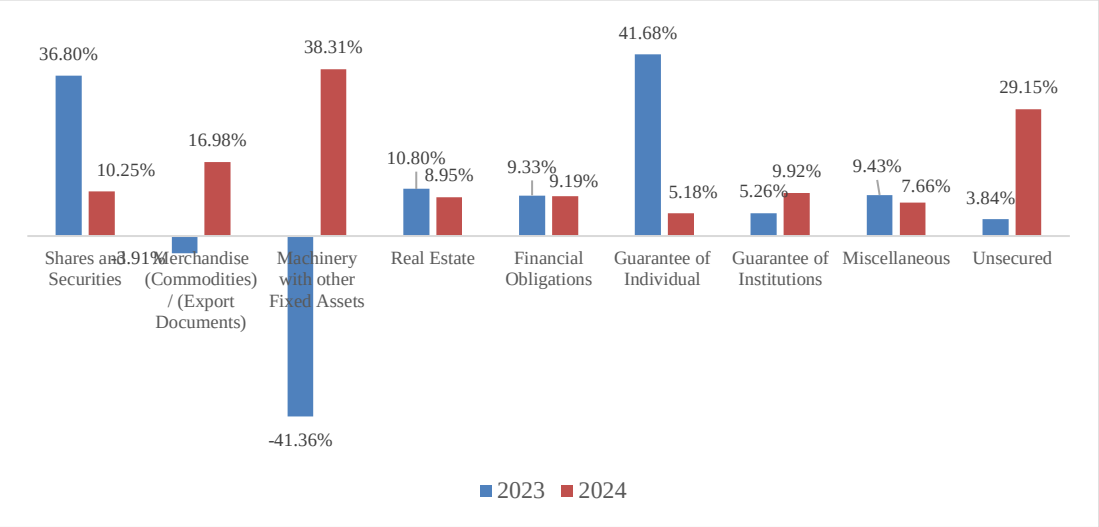
Sl. No.	Type of Security against Credit	Dec- 23					Dec- 24				
		SOCBs	PCBs	SBs	FCBs	**Total**	SOCBs	PCBs	SBs	FCBs	**Total**
1	Shares and Securities	0.00	0.89	0.00	1.67	**0.70**	0.00	0.93	0.00	0.61	**0.70**
2	Merchandise (Commodities) / (Export Documents)	5.40	4.91	0.06	4.81	**4.87**	5.36	5.37	0.82	4.43	**5.21**
3	Machinery with other Fixed Assets	0.56	1.18	1.07	2.08	**1.07**	0.47	1.60	0.00	2.61	**1.36**
4	Real Estate	62.08	66.13	31.50	19.74	**63.07**	64.49	65.40	32.40	18.05	**62.82**
5	Financial Obligations	3.91	8.66	2.19	12.79	**7.59**	3.39	8.75	2.12	11.86	**7.57**
6	Guarantee of Individual	10.62	9.97	6.27	7.24	**9.93**	10.72	9.49	5.92	6.60	**9.55**
7	Corporate Guarantee	15.33	3.90	0.05	11.29	**6.38**	13.31	4.46	0.03	13.53	**6.41**
8	Miscellaneous	2.08	3.96	58.62	33.11	**5.88**	2.09	3.62	56.29	35.39	**5.78**
9	Unsecured	0.02	0.41	0.23	7.27	**0.50**	0.17	0.38	2.43	6.92	**0.59**
	Total	100	100	100	100	**100**	100	100	100	100	**100**

***Source**: Authors' Calculation based on data from Scheduled Bank Statistics*

4.7.2. Growth of Advances by Security

An analysis of the year-on-year growth in bank advances based on the type of security reveals notable shifts across key categories in 2024. Figure 4.7 shows growth of advances by security. As regards growth of advances against different forms of security, the highest growth was observed in 2024 in machinery and fixed asset category followed by unsecured advances. The growth in Machinery with other fixed asset drove from a negative 41.36 in 2023 percent to 38.31 percent in 2024. On the other hand, the growth of advances on the Guarantee of Individual category experienced a sharp decline from 41.68 percent in 2023 to 5.18 percent in 2024.

Figure 4.7: Growth of Advances by Security: 2022-2023 & 2023-2024



***Source**: Authors' Calculation based on data from Scheduled Bank Statistics*

4. B. Non -Performing Loan (NPL)

4.8 Bank Group-wise Gross NPL and Net NPL

An insightful analysis of non-performing loans (NPLs) across different bank groups help to understand variations in asset quality and provisioning practices over the years. Table 4.7 shows Bank Group-wise Gross NPL and Net NPL. In case of examining the status of NPL, all groups of banks except SBs demonstrated almost the same trend for Gross and Net NPLs during the period 2019–2024. In June 2024, SOCBs experienced the highest percentage of Gross NPL (32.77%) followed by SBs, PCBs, and FCBs. In 2024, only FCBs maintained a negative Net NPL by keeping enough provision. On the contrary, the SOCBs experienced a significant hike in Net NPL which rose to 18.32% in June 2024. SBs are trying to keep the Net NPL under their grip; however, there is still a Net NPL of 1.14%.

Table 4.7: Gross NPL and Net NPL by Bank Group

Bank Groups	Gross NPL (%)					Net NPL (%)				
	Dec-19	Dec-21	Jun-22	Jun-23	Jun-24	Dec-19	Dec-21	Jun-22	Jun-23	24-Jun
SOCBs	23.9	19.3	21.9	25.01	32.77	6.1	2.5	6	10.8	18.32
SBs	15.1	12	11.7	12.14	13.11	3	4.4	-0.1	0.9	1.14
PCBs	5.8	5.3	6	6.46	7.94	-0.1	-1.1	-0.6	-0.5	0.77
FCBs	5.7	4.3	4.4	4	4.74	0.2	-0.7	-0.5	-0.3	-0.5
All banks	9.3	7.9	9	10.11	12.56	1	-0.4	0.5	1.6	3.68

Source: *Authors' Calculation based on Bangladesh Bank Annual Report*

4.9. Gross NPL and Provision Scenario

An assessment of banks' asset quality and risk management is reflected in the trends of non-performing loans (NPLs) and corresponding provisioning levels. Table 4.8 shows Gross NPL and Provision Scenario. Gross NPL of the banks increased by an amount of Tk. 553.51 billion between June 2023 and June 2024 (Table 4.8). During the same period, provision requirement against NPL increased by Tk.131.35 billion and banks increased the amount of their provision against NPL by an amount of Tk. 97.85 billion.

Table 4.8: Gross NPL and Provision Scenario

Particulars	NPL and Provision Scenario		
	23-Jun	24-Jun	Change
Gross NPL (in billion)	1560.4	2113.91	553.51
Required Provision (in billion)	1010.3	1141.65	131.35
Provision maintained (in billion)	795.7	893.55	97.85
Deficit (-)	-214.6	-248.1	-33.5
Provision maintained Ratio (%)	78.80%	78.26%	-0.54%

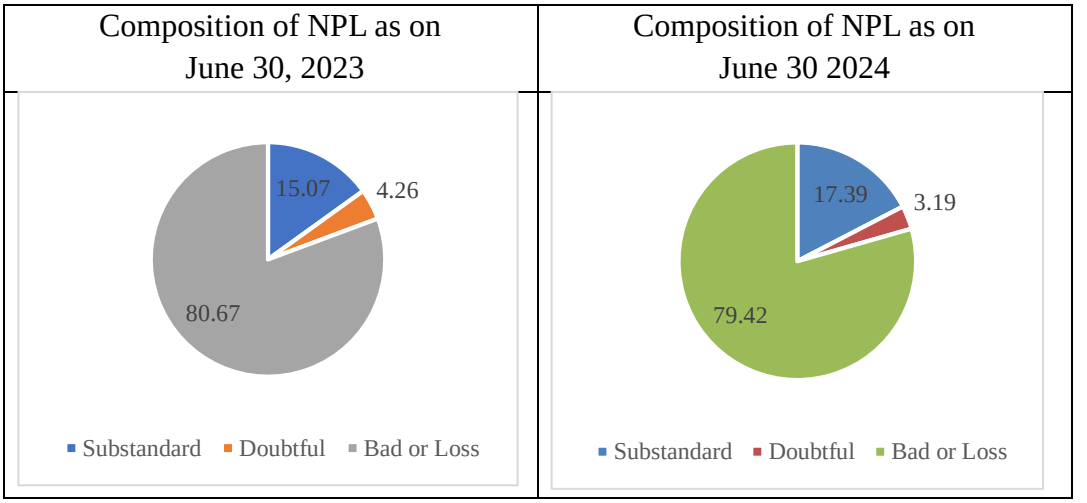
Source: *Authors' calculation based on Bangladesh Bank, Annual Report*

4.10 Composition of NPL of Banks

Understanding the composition of Non-Performing Loans (NPLs) is essential to assess the quality and risk profile of a bank's asset portfolio. Figure 4.8 shows composition of NPL of Banks. In composition of NPL, no major changes were noticed between June 30, 2023 and June 30, 2024. During this period, bad and loss category loan constituted the largest part of the pie (Fig.4.8). In June 2024, bad and loss category loan was about 79.42 percent of total NPL which was slightly lower than the position at June 30, 2023. However, NPL in Substandard category

increased to 17.39 percent in June 2024. This indicates that the NPLs are moving out very slowly from its worst category to SS category.

Figure 4.8: Composition of NPL of Banks



Source: *Bangladesh Bank, Financial Stability Assessment Report*

4.11 Banks' Concentration in Different Percentages of NPLs

The distribution of Non-Performing Loans (NPLs) across banks helps us to understand the overall health and risk exposure of the banking sector. Table 4.9 shows Banks' Concentration in Different Percentages of NPLs. In examining banks' concentration in Gross NPLs in 2024, the highest number of banks, i.e., 20 (twenty) banks, were in the more than 5 percent to 10 percent NPLs bracket, whereas only 6 (six) banks maintained less than 2 percent and 3 (three) banks maintained NPL in between 2 percent to 3 percent successfully. However, the burden of NPLs accounting for 10 percent and above is being held by 21 banks, which is a serious cause of concern (Table 4.9).

Table 4.9: Banks' Concentration in Different Percentages of NPLs

Percentage of NPL	Number of Banks				
	Sep- 19	Sep- 21	Sep- 22	Sep- 23	Sep- 24
≤2%	5	9	6	8	6
>2% to ≤3%	3	8	5	1	3
>3% to ≤5%	10	19	22	16	11
>5% to ≤10%	22	10	11	20	20
>10% to ≤15%	4	3	4	3	4
>15% to ≤20%	3	5	3	4	3
>20%	10	7	9	9	14
Total	57	61	60	61	61

Source: *Bangladesh Bank Financial Stability Report*

4.12 Sector-wise NPLs Concentration

An analysis of the sector-wise distribution of Non-Performing Loans (NPLs) reveals significant concentration patterns across key economic sectors. Table 4.10 shows Sector-wise NPLs Concentration. The manufacturing sector captured the highest proportion of NPL, hovering around half of the total NPL in both 2023 and 2024. The trade & commerce sector experienced the second-highest proportion of NPL. Together, these two sectors constitute over three-fourths of the non-performing loan (NPL) share within the specified sectors. The Loans to Capital Market sector had a relatively lower-level percentage share of NPL. In case of sector-wise Gross NPL ratio 2024, the Trade & Commerce sector is seen to have the highest Gross NPL ratio followed by Manufacturing, Agriculture, Services, Credit to NBFI, Consumer Credit and Capital Market Loans.

Table 4.10: Sector-wise NPLs Concentration of Banks

#	Name of Sector	Dec- 23		Dec- 24	
		Gross NPL Ratio (%)	% Share of NPL of a particular sector	Gross NPL Ratio (%)	% Share of NPL of a particular sector
1	Agriculture	6.36	2.90	6.92	3.18
2	Industrial (Manufacturing)	9.13	55.10	9.60	54.32
3	Industrial (Services)	6.68	9.36	6.55	8.85
4	Consumer Credit	3.08	2.48	3.29	2.49
5	Trade & Commerce	10.00	23.96	12.07	23.13
6	Credit to NBFI	3.39	0.31	5.80	0.37
7	Loans to Capital Market	1.11	0.08	1.38	0.09
8	Other Loans	5.82	5.82	8.25	7.57
	Total	8.16	100	8.94	100

Source: *Bangladesh Bank Financial Stability Report*

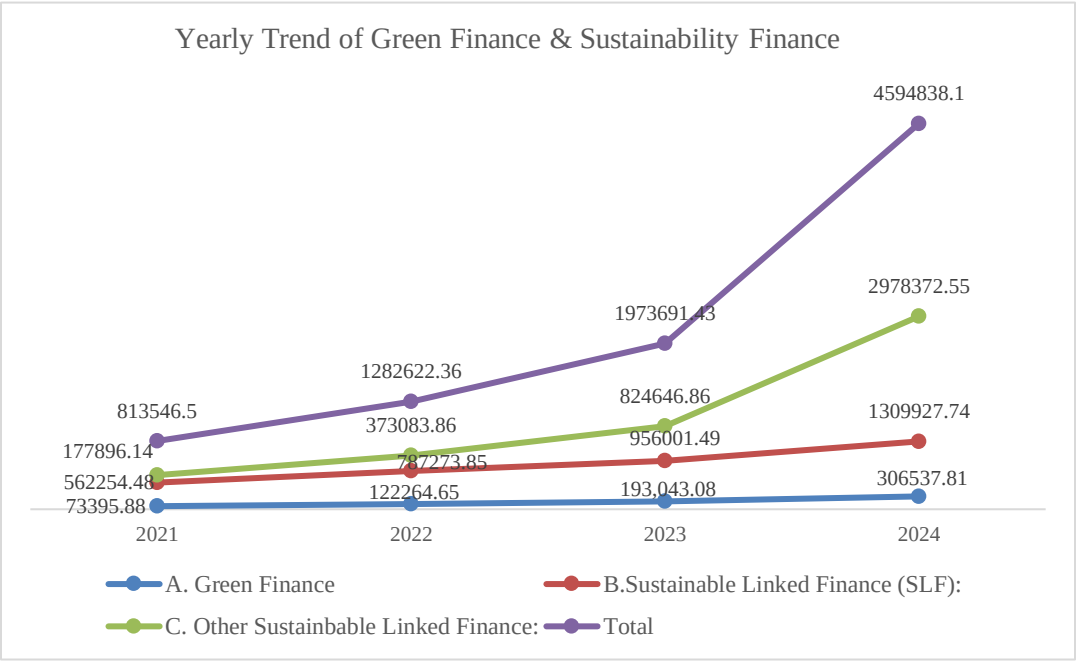
4. C. Sustainable Finance

4.13 Sustainable Finance (SF): Lending Amount and Trend

Sustainable finance has emerged as a critical driver of environmentally and socially responsible investment, reflecting growing global and domestic commitments toward sustainability. Figure 4.9 shows the lending amount and trend of sustainable finance. The growth of sustainable finance (SF), consisting of Green Finance, Sustainable Linked Finance, and Other Sustainable Linked Finance, was phenomenal in 2024. This upward trend has been consistent since 2021. The amount of SF increased by BDT 2,621,146.67 million (from 1,973,691.43 million

in 2023 to 4,594,838.10 million in 2024) within just one year (Figure 4.9). Notably, Other Sustainable Linked Finance accounted for BDT 2,978,372.55 million, representing almost 64.82 percent of the total SF in 2024.

Figure. 4.9: Sustainable Finance: Amount and Trend (In Million BDT)



Source: *Bangladesh Bank, Quarterly Review Report on Sustainable Finance of Banks & Finance Companies*

4.14 Sustainable Finance (SF): Share of Banks and FCs

The distribution of Sustainable Finance by Banks and Finance Companies (FCs) reveals distinct patterns in their commitment to various categories of sustainable lending over recent years. Figure 4.10 shows the share of Sustainable Finance by Banks and FCs. In total Sustainable Finance for 2023, Banks allocated 49.09 percent to Sustainable Linked Finance (SLF), followed by Other Sustainable Linked Finance (OSLF) with 42.55 percent, and Green Finance with 8.35 percent (Figure 4.10). On the other hand, FCs collectively advanced 49.40 percent in Sustainable Linked Finance and Other Sustainable Linked Finance combined, and 50.60 percent in Green Finance in 2023. The Sustainable Finance distribution by Banks in 2024 shows a slightly different pattern, with 28.47 percent allocated to SLF and 65.47 percent to OSLF, while the share of Green Finance dropped to 6.06 percent. However, FCs financed all categories of sustainable finance in nearly equal proportions.

Figure 4.10: Sustainable Finance (SF): Share of Banks and FCs (%)

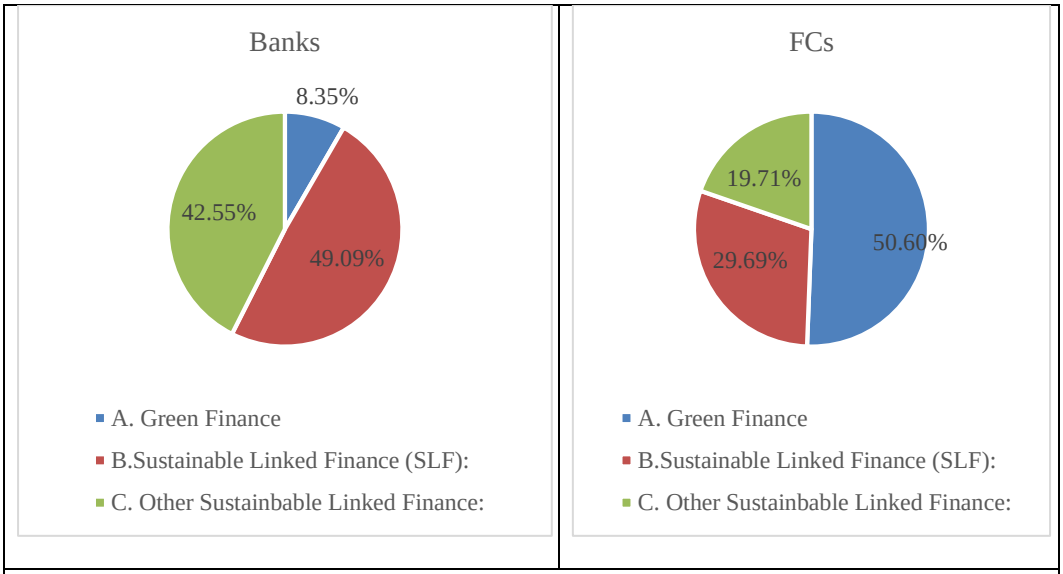
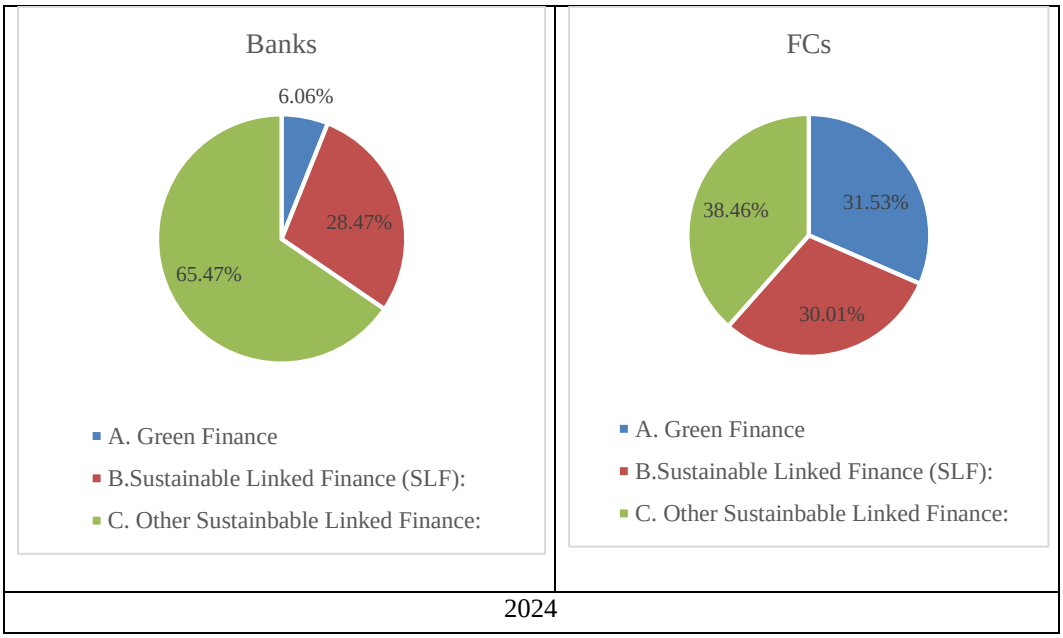


Figure 4.10: Sustainable Finance (SF): Share of Banks and FCs (%)



Source: *Bangladesh Bank, Quarterly Review Report on Sustainable Finance of Banks & FCs*

5. Review of Compliance Level with CRM Guidelines

For smooth credit operations, all the banks require to follow the Credit Risk Management (CRM) Guideline given by the central bank in 2016. However, sometimes banks fail to comply with the requirements of CRM guideline. Therefore, this section of the review shows the extent of present status of credit operations of banks following the CRM guideline.

5.1 Credit Operation in Banks: Indicators of Credit Risk

5.1.1 Assessing Level of Credit Risk

As recommended by CRM guideline, for assessing credit risk commercial banks should practice various indicators. From Table 5.1, it is observed that banks were highly concentrated on using net NPL ratio and 'Excess CDR/ADR/IDR, as the indicators for assessing their credit risk with a significant positive change of 12.78% and 9.74% in 2024 compared to 2022. On the other hand. banks reduced the focus on 'Credit Concentration Ratio' resulting a negative change of 6.80%. Although some other parameters showed the positive change, many banks in different groups did not fully used these indicators for assessing their credit risk.

Table 5.1: Indicators Using for Assessing Credit Risk

#	Particulars	Response (%)							
		2024						2022	Change
		SOCBs	SBs	CBs	IBs	FCBs	All Banks	All Banks	
1	Net NPL Ratio	100.00	100.00	100.00	80.00	75.00	94.59	81.81	12.78
2	Credit Concentration Ratio (HHI/ Gini Coefficient/ others)	75.00	100.00	86.36	60.00	75.00	81.08	87.88	-6.80
3	Credit Risk Weighted Assets as a % of Total Assets	75.00	100.00	86.36	100.00	100.00	89.19	90.91	-1.72
4	Excess CDR/ADR/IDR	75.00	100.00	95.45	100.00	100.00	94.59	84.85	9.74
5	Frequency of Loan documentation exceptions	50.00	50.00	90.91	60.00	100.00	81.08	75.76	5.32
6	Frequency of Rescheduling and/or restructuring	75.00	50.00	95.45	80.00	100.00	89.19	84.84	4.35
7	Others (Please specify)	0.00	50.00	13.64	20.00	0.00	13.51	-	-
	Total	**n=4**	**n=2**	**n=22**	**n=5**	**n=4**	**n=37**	**n=33**	

***Source**: Researchers' calculation based on primary data.*

5.1.2. Credit Concentration Risk

The attention of banks towards credit concentration risk is shown in Table 5.2. Although all the responded banks provided their full attention on group wise and single borrower wise exposure in 2024 to address the concentration risk, a very few of the CBs and IBs did not give full attention towards the sector wise, division wise and top borrower wise exposure which resulted in negative change in 2024 compared to 2022. The respondent banks said that among all the concentration risk areas they used single borrower wise exposure as the most vulnerable areas of concentration risk followed by top borrower wise, sector wise, group wise and division wise exposure.

Table 5.2: Attention by Banks to the Credit Concentration Risk Areas

#	Particulars	Response (%)							
		2024						2022	Change
		SOCBs	SBs	CBs	IBs	FCBs	All Banks	All Banks	
1	Sector wise exposure	100	100	95.45	80	100	94.59	100	-5.41
2	Division wise exposure	100	100	95.45	80	75	91.89	93.94	-2.05
3	Group wise exposure	100	100	100	100	100	100	100	0
4	Single borrower wise exposure	100	100	100	100	100	100	100	0
5	Top borrower wise exposure	100	100	100	80	100	97.30	100	-2.70
6	Others (Please specify)	0	100	4.55	20	0	10		
	Total	**n=4**	**n=2**	**n=22**	**n=5**	**n=4**	**n=37**	**n=33**	

***Source**: Researchers' calculation based on primary data.*

5.2. Credit Operation in Banks: Managing Credit Risk in Origination Process

5.2.1 Credit Scoring Model, Functional Segregation, Incentive and Punishment System

As per CRM guideline, commercial banks must have credit scoring model for small enterprise financing, segregation of relationship management function, approval and credit administration function, incentive scheme for recovering NPL and punishment system for delay in recovery of loan. From the survey data it is found that 62 percent banks have credit scoring model for small enterprise financing in 2024 which is less than 22.68 percent compared to 2022. Some SOCBs (25%) did not segregate the relationship management, approval and credit administration

functions as per the CRM guideline (Table 5.3). A positive change was observed in case of incentive schemes (9.67%) as well as punishment system (2.21%) regarding loan recover in 2024 over 2022 reflecting more strategic movement of banks.

Table 5.3. Availability of Guideline and Systems in Banks as per CRM Guidelines 2016

#	Particulars	Response (%)							
		2024						2022	Change
		SOCBs	SBs	CBs	IBs	FCBs	All Banks	All Banks	
1	Credit scoring model for small enterprise financing	75.00	50.00	68.18	60.00	25.00	62.16	84.84	-22.68
2	Segregation of Relationship Management, and Credit Administration Functions	75.00	100.00	90.91	100.00	100.00	91.89	96.97	-5.08
3	Incentive scheme for recovery of NPL	100.00	0.00	72.73	80.00	50.00	70.27	60.60	9.67
4	Punishment system for delay in recovery of loan	75.00	50.00	54.55	60.00	50.00	56.76	54.55	2.21
	Total	**n=4**	**n=2**	**n=22**	**n=5**	**n=4**	**n=37**	**n=33**	

***Source**: Researchers' calculation based on primary data.*

5.2.2 Internal Credit Risk Rating System (ICRRS[6]) for Assessing Credit Risk.

5.2.2.1 ICRRS and its Application

For identifying the credit risk, commercial banks follow ICRRS guideline as per the instruction of BB**.** According to the findings, 53 percent of the respondent banks claimed that major gap exists between internal rating as per ICRRS and external rating given by ECAI (Table 5.4). However, SOCBs and FCBs did not experience any gap. SOCBs, SBs and IBs did not use any other model and only 31 percent of respondent banks used other risk rating models in addition to ICRRS.

[6] Bangladesh Bank introduced 'Guidelines on Internal Credit Risk Rating System for Banks' to analyze a borrower's repayment ability based on customer's quantitative and qualitative information including its liquidity, cash flow, profitability, debt profile, market indicators, industry and operational background, management capabilities, and other indicators. This guide line has been effective from 1st July 2019 and onward. All the commercial banks have to strictly follow this rating system without making any change, extension, modification or deletion.

Table 5.4: ICRRS and its Application

#	Particulars	Response (%)					
		2024					
		SOCBs	SBs	CBs	IBs	FCBs	All Banks
1	Existence of major gap between internal rating under ICRRS and external rating from ECAI						
	Yes	0.00	50.00	66.67	40.00	0.00	53.13
	No	100.00	50.00	33.33	60.00	100.00	46.88
2	Have other risk rating model in addition to ICRRS						
	Yes	0.00	0.00	31.82	0.00	100.00	31.43
	No	100.00	100.00	68.18	100.00	0.00	68.57
3	Borrowers became defaulter in spite of having good credit rating given by External Credit Rating agencies in 2024						
	Yes	50.00	0.00	61.90	100.00	0.00	57.58
	No	50.00	100	38.10	0.00	100.00	42.42
	Total	**n=4**	**n=2**	**n=22**	**n=5**	**n=4**	**n=37**

***Source**: Researchers' calculation based on primary data.*

The findings of the study also revealed that more than half of the sampled banks mentioned that borrowers became defaulter in spite of having good credit rating given by external credit rating agencies(ECAI) in 2024. In response to the questions "Reasons of becoming defaulter despite being rated good by ECAI", Responded reported several answers as depicted in Box 5.1.

Box 5.1: Reasons of Becoming Defaulter Despite being Rated Good by ECAI

1. Business failure due to different internal & external factors (Economical, political, socio-economical etc.)
2. Lack of authenticity of financials provided to the credit rating agency to some extent.
3. Willful defaulter and lack of borrower's willingness to pay.
4. External credit ratings are based on past financial performance and projections, which may not reflect current risks.
5. Long aged account receivable and failure to collect bills from work order awarding authority.
6. Due to time gap, current financial health of the borrower may not be represented.
7. Currently up to date audited financial statements can be verified through The Institute of Chartered Accounts of Bangladesh, but ECAI rating report is likely to be misleading.

***Source**: Researchers' compilation based on primary data.*

5.2.2.2 Effectiveness of ICRRS in Selecting Right Borrower

A majority of the responded banks claimed that for selecting right borrower, ICRRS was moderately effective (around 69%) whereas 28% of them considered that the use of ICRRS was highly effective and almost none of them assured that it was not effective (Table 5.5).

Table 5.5: Effectiveness of ICRRS

Particulars	Response (%)					
	2024					
	SOCBs	**SBs**	**CBs**	**IBs**	**FCBs**	**All Banks**
Effectiveness of ICRRS in selecting right borrower						
Low	0.00	0	5.00	0.00	0.00	2.86
Medium	50.00	50	70.00	60.00	100.00	68.57
High	50.00	50	25.00	40.00	0.00	28.57
Total	**n=4**	**n=2**	**n=22**	**n=5**	**n=4**	**n=37**

***Source**: Researchers' calculation based on primary data.*

5.2.2.3 Regularity in Repayment of Loans Approved under ICRRS and Utilization of DVS

A lion portion of respondent banks (82.35%) affirmed that loan proposal that approved by applying ICRRS were regular in repayment. On the other hand, 43.23 percent of them also said that they have approved some loans through ICRRS which were irregular in repayment. All the respondents stated that they had utilized financial statements received under documents verification system (DVS) (Table 5.6). Most of the respondents mentioned that using financial statements under DVS has some limitations like the lack of transparency, authenticity, validation, verification, privacy and security; misleading information for intention of tax evasion which makes working capital assessment difficult; many business owners especially SMEs are not fully aware of what DVS is or how it works, etc. However, in their opinions, using statements under DVS has some benefits as well. For example, DVS allows banks, regulators, and other stakeholders to verify whether audited financials are fake or not[7].

[7] DVS aligns with efforts by Bangladesh Bank, NBR, and other agencies to promote financial discipline and transparency; it reduces the chances of overstated revenue or assets being used to obtain loans or avoid taxes and others.

Table 5.6: Regularity of Loans Approved under ICRRS

#	Particulars	Response (%)					
		2024					
		SOCBs	SBs	CBs	IBs	FCBs	All Banks
1	Loan proposal approved as per ICRRS are regular in repayment						
	Yes	100	100	75	80	100	82.35
	No	0	0	25	20	0	17.65
2	Loan proposal approved as per ICRRS are irregular in repayment						
	Yes	50	50	40.90	80	0	43.23
	No	50	50	59.10	20	100	56.77
3	Utilization of financial statements received under documents verification system (DVS)						
	Yes	100	100	100	100	100	100
	No	0	0	0	0	0	0.00
	Total	**n=4**	**n=2**	**n=22**	**n=5**	**n=4**	**n=37**

***Source**: Researchers' calculation based on primary data.*

Respondents were asked the reasons for irregular repayment of loan that were approved under ICRRS. Table 5.7 summarizes the responses of banks. A vast majority of them opined that external factors like both global and domestic politics, economic, market instability, adverse exchange rate movement, price hike, natural disaster, and others may cause regular loans become irregular.

Table 5.7: Reasons for Irregular of Loans Approved under ICRRS

#	Reasons	% of Banks
1	External factors (global and domestic political, economic, market instability, exchange rate, price hike, natural disaster)	89.18
2	Inaccurate information in the Financial Statement (ICRRS analyses the financial data based on a backdated information or historical data which are often different from the date of credit approval).	59.45
3	Business risk of client and deterioration of business performance	54.05
4	Lack of honest and sincere officials	45.94
5	Internal factors (liquidity crisis, high leverage and poor future business planning)	35.13
6	Willful Defaulter and unwillingness to repayment	29.72
7	Weak follow-up and post disbursement monitoring	29.72
8	Overestimated projections at the time of appraisal	21.62
9	Delaying in Bill Payable by GoB and accounts receivable	13.51

Source: Researchers' calculation based on primary data.

5.2.2.4 Facing Problems/Challenges by Banks in Applying ICRR System

Banks are required to use ICRRS without any modification. However, in some cases banks face some limitation while using it. In response to the question 'whether the banks face any problem for applying ICRRS?', respondents identified different predicaments that are depicted in Table 5.8. The most acuate challenges of banks are getting quality of data and updated financials. Additionally, banks raised the issue of corporate guarantor as credit rating substitution where no security is considered. Moreover, ICRRS does not consider FDR and assignment of bill receivables of contractors as the security.

Table 5.8: Facing Problems/Challenges by Banks in Applying ICRR System

#	Particulars	Frequency	% of Banks
1	Poor data quality and unavailability of audited or updated financials specially for SMEs.	21	56.75
2	Auditor's financial statements in some cases do not match with ICRRS template.	18	48.64
3	Absence of template for risk rating of NGOs & MFIs for linkage credit	16	45.71
4	While conducting ICRR for corporate guarantor as credit rating substitution, no security is considered.	10	28.57
5	For using major revenue generated unit, sometimes one unit earn major revenue but other unit have major assets. In this case borrowers get lower score.	10	28.57
6	Does not consider FDR and assignment of bill receivables of contractors as security in ICRRS.	8	22.86
7	Corporate and SME borrowers should have different ICRRS.	5	14.29
8	Dealing with historical data and ignoring financial projection.	4	11.43
	Total	**n=37**	

***Source**: Researchers' calculation based on primary data.*

5.3 Credit Operations in Banks: Managing Credit Risk Mitigation Strategies

5.3.1. Mitigation Strategies: Considerations for Collateral Security

Security is one of the best options for banks to recover the loan and mitigating the credit risk. However, due to the diverse category and features of security, sometimes banks face various problems in case of liquidating such security. The finding of the survey identified that majority of the sampled banks (81.08%) considered location, entrance road, accessibility, clear demarcation of the security when accept the collateral (Table-5.9). Besides, more than half of the respondents opined that they also considered clean chain of ownership, title verification, legal status, title of the security followed by marketability, salability, transferability, loan to value, authenticity of documents and others.

Table 5.9: Factors Considered in Accepting Collateral Security

#	Issues	Frequency	% of Banks
1	Location, entrance road, accessibility, clear demarcation of the security	30	81.08
2	Clean chain of ownership, title verification, Legal status, title of the security	25	67.57
3	Marketability, salability, transferability	24	64.86
4	Loan-to-Value (LTV), market value & valuation of collateral	20	54.05
5	Proper documentation (incl. Proper title deed and mutation in the name of the client), authenticity of documents and updated papers	13	35.14
6	Control over the security or possession	10	27.03
7	Stability of value	6	16.22
8	Regulatory and Compliance Issues (incl. Eligible collateral security coverage as per CRM guideline	4	10.81
9	Enforceability and Control over security	3	8.11
		n=37	

***Source**: Researchers' calculation based on primary data.*

5.3.2. Mitigation Strategies: Factors Considered in Taking Third-Party Guarantees

Taking third-party guarantees is another way for banks to mitigate credit risk. According to findings, almost all the respondents considered the legal capacity of the guarantor, permission of corporate guarantee as per MoA and AoA, board approval and CIB of guarantor. A substantial number of respondents also considered equity statement of guarantor and few of the SOCBs, SBs and IBs did not consider rating of Guarantor Company by ECAI and ICRRS. Additionally, most of the banks also emphasized on reciprocal guarantee arrangement and IT 10(B) (Table 5.10).

Table 5.10: Factors Considered in Taking Third-party Guarantees

#	Particulars	Response (%)							
		2024						2022	Change
		SOCBs	SBs	PCBs	IBs	FCBs	All Banks	All Banks	
1	Legal capacity of the guarantor	100.00	50.00	100.00	100.00	100.00	97.30	96.97	0.33
2	Rating of guarantor company by ECAI	50.00	50.00	63.64	20.00	100.00	59.46	73.74	-14.28
3	ICRR of guarantor	75.00	50.00	77.27	40.00	75.00	70.27	75.76	-5.49
4	Corporate guarantee supported by a MoA and AoA	75.00	50.00	100.00	100.00	100.00	94.59	84.85	9.74
5	Corporate guarantee approved in the board meeting	75.00	50.00	100.00	100.00	100.00	94.59	96.97	-2.38
6	CIB of guarantor	100.00	50.00	100.00	100.00	100.00	97.30	100.00	-2.70
7	Equity statement of guarantor	75.00	50.00	90.91	60.00	75.00	81.08	90.90	-9.82
8	Reciprocal guarantee arrangement	75.00	50.00	45.45	40.00	50.00	48.65	-	-
9	IT 10(B)	50.00	50.00	81.82	40.00	75.00	70.27	-	-
10	Others (Please specify)	0.00	0.00	9.09	0.00	0.00	5.41	-	-
	Total	**n=4**	**n=2**	**n=22**	**n=5**	**n=4**	**n=37**	**n=33**	

***Source**: Researchers' calculation based on primary data.*

5.3.3. Loans Recovered by Liquidating Collateral and Utilizing Guarantee

In case of loan default, banks can recover the loan by liquidating collateral and utilizing guarantee. In 2024, it is found that all the respondent basks recovered 34.25 percent of their classified loans by liquidating collateral and 25.34 percent by utilizing guarantees. The study also found a significant growth of recovery of written of loan by liquidating collateral and utilizing guarantee. The sampled banks affirmed that they recovered 40.69 percent of written off loans in 2024 by liquidating collateral which was only 10.43 percent in 2022. Similarly, they recovered 25.02 percent of written off loan by utilizing guarantees which was very low in 2022 (3.27% only) (Table 5.11).

Table 5.11: Loans Recovered by Liquidating Collateral and Utilizing Guarantee

#	Category	Liquidating collateral (%)	Utilizing guarantee (%)
1	Classified Loan	34.25%	25.34%
2	Written off Loan	40.69%	25.02%

***Source**: Authors' Calculation based on primary data.*

5.4. Credit Operations in Banks: Managing Credit Risk in the Administration Process

5.4.1. Administration Process: Steps for Credit Risk Administration

As stated in CRM guideline, all banks monitor the borrower through making customer call, frequent site visits, evaluate effectiveness of loan administration and others. From the survey findings, it is evident that almost all the banks (83.33%) made phone call in monthly basis (Table 5.12). Most of the banks monitor the loan through site visit in quarterly and annual basis. In case of examining the credit policy, majority of the banks check the effectiveness of policy on annual basis.

Table 5.12: Steps for Credit Risk Administration

#	Particulars	Response (%)					
		2024					
		SOCBs	SBs	CBs	IBs	FCBs	All Banks
1	**Making phone call**						
	Monthly	100.00	50	90.91	75.00	50.00	83.33
	Quarterly	0.00	50	4.55	25.00	25.00	11.11
	Semi-Annually	0.00	0	0.00	0.00	0.00	0.00
	Annually	0.00	0	4.55	0.00	25.00	5.56
2	**Site visit**						
	Monthly	0.00	0	4.55	50.00	25.00	11.11
	Quarterly	50.00	100	54.55	0.00	25.00	47.22
	Semi-Annually	25.00	0	22.73	0.00	0.00	16.67
	Annually	25.00	0	18.18	50.00	50.00	25.00
3	**Examining effectiveness of credit policy**						
	Monthly	25.00	0	4.76	25.00	0.00	8.82
	Quarterly	25.00	50	13.64	0.00	0.00	14.71
	Semi-Annually	25.00	0	0.00	0.00	0.00	2.94
	Annually	25.00	50	80.95	75.00	100.00	73.53
4	**Others**						
	Monthly	0.00	0	0.00	100.00	0.00	25.00
	Quarterly	0.00	0	50.00	0.00	0.00	25.00
	Semi-Annually	100.00	0	0.00	0.00	0.00	25.00
	Annually	0.00	0	50.00	0.00	0.00	25.00
		n=4	**n=2**	**n=22**	**n=5**	**n=4**	**n=37**

***Source**: Researchers' calculation based on primary data.*

5.5. Credit Operation in Banks: Managing Credit Risk with Appropriate MIS

5.5.1. Maintaining Accurate and Updated Database of All Credit Applications

Accurate and complete credit application databases are vital for effective credit risk management, Table 5.13 assesses the extent of database maintenance across banks for approvals, rejections, collateral, and supporting documents. The 2024 findings indicate that all categories of banks maintained accurate and up-to-date records for approved applications and associated collateral. However, similar diligence was lacking in the documentation of declined applications and security taken. Notably, State-Owned Commercial Banks (SOCBs) demonstrated full compliance in maintaining their databases across all components.

Table 5.13. Maintaining Accurate and Updated Database of all Credit Application

#	Particulars	Response							
		2024						2022	Change
		SOCBs	SBs	CBs	IBs	FCBs	All Banks	All Banks	
1	Approved applications	100	100	100	100	100	100	85	15
2	Declined applications	100	100	95	80	100	94	88	6
3	Collateral	100	100	95	80	100	94	85	9
4	Other Security[8]	100	0	100	100	100	100	30	70
	Total	**n=4**	**n=2**	**n=22**	**n=5**	**n=4**	**n=37**	**n=30**	

***Source**: Researchers' calculation based on primary data 2024.*

[8]Borrower's details, FDR, Dividend, Financial Institutes/Counter Letters/SBLC, Bank Deposit, Shares traded in secondary market, Bill assignment, Joint registration of vehicle/ vessel, Personal Guarantee, Corporate Guarantee, Registered charge with RJSC&F, Repayment Cheques, Insurance Policy

5.6. Credit Operation in Banks: Managing Credit Risk of Problem Loans

5.6.1. Considering the 'Warning Signs' in Predicting Problem Loans

Table 5.14 presents the findings from 37 banks across five institutional categories (SOCBs, SBs, CBs, IBs, and FCBs), emphasizing the most frequently utilized early warning indicators for identifying potential problem loans in Bangladesh. In 2024, all participating banks identified 'documentation weakness' as the most critical warning signal, followed by 'collateral deterioration', 'excessive utilization of credit lines', and 'delays in the submission of financial statements.

Table 5.14: Warning Signs Considered Most Important in Predicting Problem Loans

#	Particulars	Response							
		2024						2022	Change
		SOCBs	SBs	CBs	IBs	FCBs	All Banks	All Banks	
1	Documentation weakness	100	100	82	100	100	89	100	-21.00
2	Collateral deterioration	100	100	82	80	100	86	96	-10
3	Extended credit and high use of lines of credit	50	100	27	40	50	38	96	-62
4	Delay in receipt financial statements	0	50	27	20	50	27	93	-66
5	Delay in fulfilling management promises or returning telephone calls	25	50	22	0	50	24	96	-72
6	Change in senior management	0	0	82	20	75	59	92	-31
	Total	**n=4**	**n=2**	**n=22**	**n=5**	**n=4**	**n=37**	**n=30**	

***Source**: Researchers' calculation based on primary data 2024.*

5.6.2 Strategies and Measures for Recovering Problem Assets

Respondent banks largely used 'legal action' as strategy for collecting money from habitual/willful defaulters in 2024 followed by offering settlement depending on bank-customer relationship, close monitoring and alike. To ensure the fastest recovery of loan and to reduce litigation costs, banks also followed strategies like

arranging auction for selling property, disposal of collateral security, adopting ADR, creating social pressure, etc. (Table 5.15)

Table 5.15: Strategies/Measures Applied to Recover Problem Assets

#	Particulars	Frequency	% of Banks
1.	Filling suit in court as per law	23	62
2.	Offering settlement depending on bank-customer relationship	12	32
3.	Close monitoring	11	30
4.	Arranging auction for selling property	10	27
5.	Disposal of collateral security	7	19
6.	Adopting Alternative Dispute Resolution (ADR)	5	14
		n=37	

***Source**: Researchers' calculation based on primary data 2024.*

6. Review of Selective Key Areas and Problems Faced by Banks in Credit Operations in 2024

6.1 Credit Budget and Actual Disbursement in Major Economic Purposes

Table 6.1 shows the budgeted amount of credit and actual disbursement amount by banks in major economic purposes for 2022 and 2024. It is observed that banks significantly increased their budgeted amount in industry term loan, working capital, construction, trade and sustainable finance areas. In 2024, percentage of actual disbursed figure to budgeted amount ranged between 67 percent and 104 percent. It is noteworthy that banks disbursed more than the budgeted amount in case of sustainable finance. As a whole, the industry except a few economic purposes, experienced a deceasing trend of loan disbursement compared to budgeted amount in major economic purposes in 2024.

Table 6.1: Credit Budget Amount and Actual Disbursed Amount by Banks in Major Economic Purposes (BDT in Crore)

Economic	2022			2024			
Purpose	**Average Budgeted Amount**	**Average Actual Disbursed Amount**	**% of Actual to Budgeted**	**Reported Banks**	**Average Budgeted Amount**	**Average Actual Disbursed Amount**	**% of Actual to Budgeted**
Agriculture, Fishing & Forestry	1195.58	750.044	62.73	26	1103.93	907.66	82
Industry: Term Loan	**4668.06**	4488.1	96.14	12	**7673.91**	7003.90	91
Industry: Working Capital Financing	**3131.05**	3982.28	127.19	13	**9840.28**	8853.21	90
Construction	**1481.98**	1246.47	84.11	17	**3102.92**	2690.77	87
Transport	170.99	153.049	89.51	15	294.56	209.71	71
Trade and Commerce	**4259.99**	3810.41	89.45	18	**7707.53**	6105.08	79
Other Institutional Loans	771	571.58	74.13	13	529.40	353.31	67
Consumer Finance	1087.65	749.03	68.87	17	1730.45	1383.86	80
Sustainable Finance (including Green finance)	**1469.17**	931.55	63.41	22	**5666.04**	5904.07	104
Miscellaneous	-	-	-	19	1017.54	903.01	88.74
n=33				n=37			

***Source**: Researchers' calculation based on primary data.*

6.2 Information on credit and NPL of Respondent Banks

Through the questionnaire survey, the study also collected data on loan amount, NPL and provision of loan from the sampled banks. Table 6.2 reveals that in 2024, amount of large loan of sampled banks were 39.17 percent of their total loan and loan against corporate guarantee were 2.59 percent. The total NPL of the same banks were 25.53 percent where the NPL of large loan were 25.16 percent. It is alarming that the total provision were 12.38 percent and the provision for large loan were only 5.16 percent. It is also found that the advance deposit ratio (%) was 79.18 percent in 2024.

Table 6.2: Credit Amount, NPL and Provision of Banks

#	Particulars	Response (BDT Crore)	
		2024	
		Total	%
1	Amount of total loan	1356148.26	-
2	Amount of large loan	531241.07	39.17%
3	Loan against corporate guarantee	35137.96	2.59%
4	Total NPL	346226.17	25.53%
5	NPL from large loan	133641.21	25.16%
6	Total provision	167916.33	12.38%
7	Provision for large loan	27385.93	5.16%
8	Advance Deposit Ratio	79.18%	
	Total	**n=37**	

***Source**: Researchers' calculation based on primary data.*

6.3. Disbursement of Loan to New Sectors/Industries in 2024 and Reasons for decline

Table 6.3(a) shows that in 2024, fewer banks extended financing to new sectors or industries compared to 2022, and the majority of banks (79%) did not disburse any credit facilities to these areas. This is a matter of concern, as a continuation of this trend could hinder the growth of economic activities across the country. Table 6.3(b) presents a mixed scenario regarding banks' engagement with new sectors in 2024. While some banks ventured into sectors such as motorbike distribution, agriculture, trade and commerce, startups, cosmetics, car manufacturing, geo-bag manufacturing, and renewable energy, the majority refrained from expanding into new areas. The key reasons cited for this reluctance include political unrest, global economic uncertainty, sector-wide business challenges, liquidity constraints, high Investment Deposit (ID) ratios, elevated NPL rates, and regulatory restrictions. In some cases, internal factors such as already diversified loan portfolios and lack of management appetite for new sectors also contributed to conservative lending behavior. This highlights a cautious approach among banks amid prevailing macroeconomic and institutional risks.

Table 6.3(a) Disbursement of Loan for the First Time to New Sectors/Industries in 2024

#	Response	Percentage of Banks							
		2024						2022	Change
		SOCBs	SBs	PCBs	IBs	FCBs	All Banks	All Banks	
1	Yes	0	0	20	40	25	21	35	-14
2	No	100	100	80	60	75	79	65	14
	Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	
		n=4	**n=2**	**n=22**	**n=5**	**n=4**	**n=37**	**n=33**	

***Source**: Researchers' calculation based on primary data.*

Table 6.3 (b) New Sectors Financed and Reasons for not financing new sectors

#	New Sectors financed
1	Motorbike distribution industry
2	Agriculture, trade & commerce
3	We have disbursed loan in startup business
4	Color cosmetics
5	Car manufacturing, geo - bag manufacturing
6	Geo bag industry
7	Renewable energy sector [solar project]
Reasons for not financing	
1	Unrest political situation and global economic crisis
2	Turmoil in the whole industries
3	Bank's portfolio is already diversified; lack of risk appetite for new sectors.
4	Due to liquidity crisis and higher ID ratio.
5	lack of motivation due to higher NPL.
7	Restriction from different regulators in loan disbursement

***Source**: Researchers' calculation based on primary data.*

6.4. Most Desired Sectors for Investment by Banks in 2024

Table 6.4 highlights banks' investment preferences in 2024, with the RMG/Textile sector being the most favored due to its strong export potential, employment generation, and anticipated growth. Other prioritized sectors like Pharmaceuticals, Agriculture, IT, and Trading were selected for their economic contributions, growth prospects, and alignment with national development priorities.

Table 6.4: Most Desired Sectors for Investment by Banks in 2024

#	Lucrative Sectors	Reasons for Selection	Frequency
1.	RMG/Textile	✓ Earning foreign currency ✓ Employment generation ✓ Diversified business prospect ✓ Utilize the CM portion for settlement of import liability ✓ Significant growth rate ✓ Forthcoming growth possibility	15
2.	Pharmaceuticals	✓ Growing health sector ✓ Technology-based industry ✓ Good payment behavior	9
3.	Agriculture, Fishing & Forestry	✓ Contribution to GDP ✓ Food security ✓ Increasing agro-based export	9
	IT	✓ High growth rate ✓ Digitalization and expanding periphery businesses ✓ Accelerating the development of digital Bangladesh	7
	Trading Business (Export, Essential Commodities, Micro)	✓ Core of SME activities and domestic trade.	7

#	Lucrative Sectors	Reasons for Selection	Frequency
	Food & Allied Industries	✓ Consistent industry growth and rising consumer demand	5
	Renewable Energy	✓ Global sustainability drive; focus on solar and wind projects.	5
	CMSME & SME	✓ Low risk, less exposure, longer time for classification ✓ Priority lending	4
	Manufacturing/Industrial	✓ Encourages local production and import substitution.	2
	Construction	✓ Driven by infrastructure expansion and urbanization.	2

Source: *Researchers' calculation based on primary data.*

6.5 Specific Sectors/Industries with the Highest and Lowest Amount of Credit Disbursement in 2024

Based on credit disbursement, Table 6.5 categorizes the sectors where banks focused more in 2024. According to the table, banks disbursed highest amount to trade and commerce followed by industry, RMG, agriculture, fishing & forestry and others whereas the lowest amount was disbursed to transport followed by institutional loans, manufacturing (incl. handloom, soaps & detergents factories, leather processing and tanning) chemical and fertilizer and so on.

Table 6.5: Specific Sectors/Industries with the Highest and Lowest Amount of Credit Disbursement in 2024

#	Highest to Lowest Amount of Credit Disbursement in 2024	% of Banks	#	Lowest to Highest Amount of Credit Disbursement in 2024	% of Banks
1	Trade & Commerce / Trading /Importer	79.41	1	Transport	64.71
2	Industry	52.94	2	Other Institutional Loans	23.53
3	RMG / Readymade Garments / Garments	41.18	3	Manufacturing (incl. Handloom, Soaps & Detergents Factories, Leather Processing and Tanning)	23.53
4	Agriculture, Fishing & Forestry/ Agriculture and rural credit	35.29	4	Miscellaneous	20.59
5	Textile	32.35	5	Chemical and Fertilizer	17.65
6	Consumer Finance / Consumer Lending	29.41	6	Light engineering & Metal workshop/ Light Construction	11.76
7	Construction	26.47	7	IT / Telecommunication	14.71
8	Food & Allied / Processing / Beverage	20.59	8	Cement	5.88

Source*: Researchers' calculation based on primary data.*

6.6. Availing Refinance/Credit Guarantee Schemes Offered by Bangladesh Bank and Related Problems

6.6.1 Availing Refinance /Credit Guarantee Schemes Offered by Bangladesh Bank

Table 6.6 reveals a mixed trend in availing of Bangladesh Bank's refinance and credit guarantee schemes between 2022 and 2024. While most schemes showed increased participation in 2024 - especially the Credit Guarantee Scheme (from 72.73% to 86.49%) and Women Entrepreneur Refinance (from 63.64% to 72.97%) some schemes, such as Small Enterprise Refinance, witnessed a slight decline (from 78.79% to 67.57%). These variations may reflect shifting policy focus or changing demand dynamics across different bank types.

Table 6.6. Availing Refinance /Credit Guarantee Schemes Offered by Bangladesh Bank

Sl No.	Particulars	Response (%)						
		2024						2022
		SOCBs	**SBs**	**CBs**	**IBs**	**FCBs**	**All Banks**	**All Banks**
1	Housing Refinance	75.00	0.00	13.64	20.00	25.00	21.62	21.21
2	Refinancing for Renewable Energy and Energy Efficient Products	75.00	50.00	59.09	20.00	50.00	54.05	42.43
3	ADB supported Refinance Scheme for Brick Kiln Efficiency Improvement	50.00	50.00	22.73	20.00	50.00	29.73	24.24
4	Refinance Scheme supported by Shariah based Banks and FCs	50.00	0.00	27.27	40.00	25.00	29.73	18.19
5	Sharecroppers Refinance	75.00	50.00	27.27	0.00	25.00	29.73	24.24

6	Women Entrepreneur Refinance	100.00	100.00	72.73	60.00	50.00	72.97	63.64
7	Small Enterprise Refinance	100.00	50.00	68.18	80.00	25.00	67.57	78.79
8	SME Refinance	100.00	100.00	81.82	80.00	75.00	83.78	78.79
9	Credit Guarantee Scheme	100.00	100.00	90.91	80.00	50.00	86.49	72.73
10	Others*, if any	0.00	0.00	27.27	0.00	0.00	16.22	21.21
	Total	n=4	n=2	n=22	n=5	n=4	n=37	N = 33

***Source**: Researchers' calculation based on primary data.*

*Covid 19 Refinance Scheme and Refinance fund for Low-income People, Agriculture, 10/50/100 Tk. Account Holders' 750 cr refinance Scheme.

6.6.2 Key Problems Faced by Banks in Utilizing Refinance and Credit Guarantee Schemes

Table 6.7 highlights that banks in 2024 faced significant challenges in utilizing refinance and credit guarantee schemes, with the most cited issues being difficulties in loan monitoring and recovery (57%) and high time and cost burdens associated with guarantees (46%). Compared to 2022, there has been a marked increase in the percentage of banks reporting these problems, indicating growing operational and procedural inefficiencies that may hinder the effective uptake of such schemes.

Table 6.7: Key Problems Faced by Banks in Utilizing Refinance and Credit Guarantee Schemes

Sl. No	**Problems Recognized**	Frequency (2024)	% of Banks (2024)	% of Banks (2022)
1	Hard to monitor & recovery of loan	21	57	42
2	Time consuming and higher charge of guarantee	17	46	36
3	Lengthy documentation process	14	38	33
4	Strictness in repayment schedule	12	32	27
5	Delay to get refinance from BB	9	24	21
6	High guarantee charge/cost	5	14	12
7	Delay of guarantee approval	4	11	12
8	Fees difficulty of refinance under CGS (Credit Guarantee Scheme)	2	5	9
9	Sector wise disbursement cap	2	5	9
Total		**n=37**		**n=33**

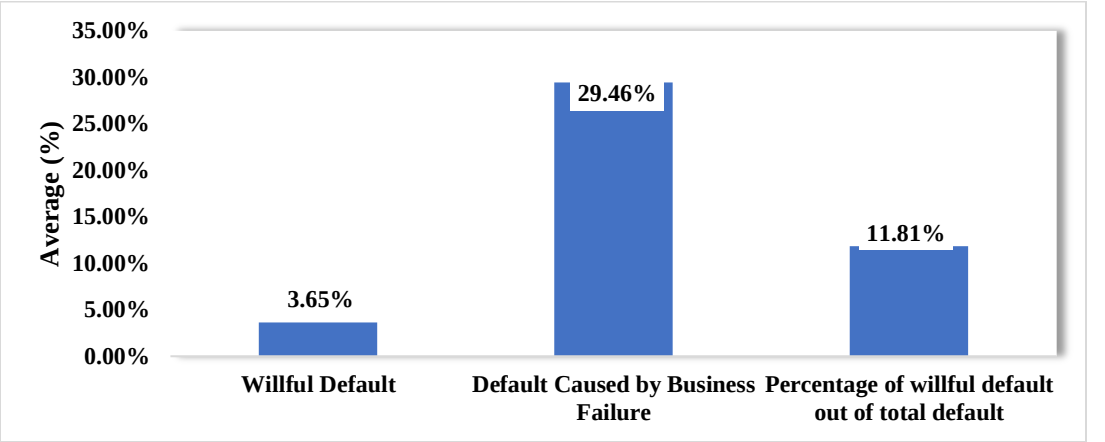
***Source**: Researchers' calculation based on primary data.*

6.7 Default Loan and Written-off Loan and their Recovery Status

6.7.1 Default Loan- Cause, Willful Default and Percentage of Willful Default out of Total Default

In 2024, willful default was found 3.65 percent out of total loans and business failure fueled this default by 29.46 percent (Graph-6.1). It means, nearly 70 percent reasons are non-business related like- political unrest, sluggish movement of the then economy, etc. which is endorsed by the percentage of willful default out of total default (11.81%). About 88 percent lenders were genuinely failed to restrain themselves to be defaulters in 2024.

Graph 6.1: Default Loan- Cause, Willful Default and Percentage of Willful Default out of Total Default (%)



***Source**: Researchers' calculation based on primary data*

6.7.2 Measures Applied for Recovery Purpose except Court Settlement

Except court settlement, banks applied different recovery measures in 2024, which not only saved time but also were cost effective. Respondent banks highly relied upon practicing continuous communication, sending reminder letters and meeting with the defaulted borrower (86.11%), followed by negotiation of terms, selling or liquidation of collateral, restructuring and rescheduling, etc. Although one-fourth banks of the whole industry consider 'interest waiver' as a well-practiced recovery measure, it should not be welcome in consideration of banks' profitability issue. On the other hand, recovery through specialized team and third-party agent are considered as the least preferred measures considering the industry perception (Table 6.8.).

Table 6.8: Measures Applied for Recovery Purpose except Court Settlement

Sl.	Recovery Measure	% of Banks
1	Continuous communication, sending reminder letters and meeting with the defaulted borrower to persuade	86.11%
2	Negotiation of terms in line with the regulatory guidelines (ADR)	86.00%
3	Selling, disposal or liquidation of collateral	69.44%
4	Restructuring and rescheduling	52.78%
5	Interest waiver	25.00%
6	Assign specialized recovery team and engage third party recovery agent	22.22%

***Source**: Researchers' calculation based on primary data*

6.7.3 Forced Loan as percentage of Total Loan

The review finds that 23.05 percent of total loan emerged from LATR was converted into forced loan and 1.47 percent from LIM in 2024 by converting Off-Balance Sheet Activities (OBSA). (Table 6.9).

Table 6.9: Forced Loan as percentage of Total Loan

#	Category	Forced Loan of Total Loan (%)
1	Loan Against Trust Receipt (LATR)	23.05%
2	Loan Against Imported Merchandise (LIM)	1.47%

***Source**: Researchers' calculation based on primary data*

6.7.4 Written-off Loan and Recovery thereof

As per Table 6.10, a depressed situation was observed in 2024 in case of both written-off loan out of total loan outstanding and recovery rate of total written off loan (4.98% and 2.11% respectively) compared to 2022. This portrays a dejection picture about the NPL management achievements in spite of taking a number of recovery measures by banks.

Table 6.10: Written-off Loan and Recovery thereof

Particulars		Response (%)	
		2022	2024
1.	Written off loan as % of total loan outstanding as on 31st December	3.50	4.98
2.	Recovery of total written off loan (%)	5.94	2.11

***Source**: Researchers' calculation based on primary data*

Banks always try to lessen written-off loan as much as possible as these not only stopped banks' profit but also erode assets from the balance sheet. These consequences always forced banks to take diverse measures to recover the written-off loans. More than 90 percent respondent banks have created a separate 'Written-off Loan Recovery Unit' & 'Debt collection Unit' in this regard. Besides executing arrest warrant and cases, banks took legal supports under N. I. Act and Artho Rin Adalat Ain. A total of 38.71 percent banks exercised 'Out of the court settlement' to make recovery more cost effective and time saving. Non-judicial measures always got priority over judicial measures. Frequent communication, persuasion (calls, letters), visit & meeting with the borrower, guarantor and family members of the borrower, creating social and reputational pressure on borrower through frequent visits are some of noteworthy measures taken by banks in 2024 (Table 6.11).

Table 6.11: Measures Taken to Recover the Written-off Loan

No.	Recovery Measure	% of Banks
1	Creation of a separate 'Written-off Loan Recovery Unit' & 'Debt collection Unit', team or task force.	90.32%
2	Legal Measures taken under N. I. Act and Artho Rin Adalat Ain, and Executing Arrest Warrant and Monitoring the Cases	77.42%
3	Frequent Communication, persuasion (calls, letters), visit & meeting with the borrower, guarantor and family members of the borrower	58.06%
4	Exercising out of the court settlement	38.71%
5	Selling or liquidating the mortgaged property	35.48%
6	Actions as per Bangladesh Bank's circulars/guidelines	22.58%
7	Creating social and reputational pressure on borrower through frequent visits	19.35%

***Source**: Researchers' calculation based on primary data*

6.8 Green and Sustainable Finance

6.8.1 Trends and Risk Distribution of Sustainable Finance in the Banking Sector

Table 6.12 indicates that, on average, 36.61% of total finance was allocated to sustainable financing in 2024, with the majority of projects (68.29%) falling under the low-risk category. Despite financing a higher volume of low-risk projects, the NPL ratio was unexpectedly highest for low-risk loans (22.40%) compared to high (12.84%) and medium-risk (13.55%) categories, suggesting potential weaknesses in risk classification or monitoring.

Table 6.12: Information Related to Sustainable Finance in 2024

#	Category	Average
1	% of Sustainable Finance of Total Finance	36.61%
2	% of loans of total loans categorized as -	
	High risks	0.41%
	Medium risks	9.25%
	Low risks	68.29%
3	No. of High, medium and low risk projects financed by your banks as per ESRM Guidelines in 2024	
	High risks	543
	Medium risks	5742
	Low risks	28765
4	% of NPL of loans categorized as -	
	High risks	12.84%
	Medium risks	13.55%
	Low risks	22.40%

***Source**: Researchers' calculation based on primary data.*

6.8.2 Status of Green/Sustainable Finance Products

As illustrated in Table 6.13, maximum priority was given by banks in 2024 for financing agriculture sector over other sectors/areas to ensure food security, one of the key indicators of sustainability, particularly in an agrarian country, like Bangladesh. After that, respondent banks prioritized energy efficient products followed by low risk rated MSMEs, recycling plant, ETP and working capital financing in solar arrangements.

Table 6.13: Green/Sustainable Finance Products

Sl.	Green/Sustainable Finance Product	% of Banks
1	Agricultural (Crop, Livestock, Pisciculture, Fishing, Agro)	78.13%
2	Energy Efficiency	53.13%
3	Low Risk Rated (as per ESDD) Micro, Small and Medium enterprises	50.00%
4	Recycling plant (Paper, plastic waste, battery, Ship, PET bottle) & Recyclable Goods Manufacturing Plant	40.63%
5	ETP (Central, Biological, Chemical) and Environment Friendly / Brick Kiln Efficiency Improvement Project	28.13%
6	Working capital and demand loan for Green Products/projects/initiatives, Financing in Solar arrangement (panel, home system, grid, energy)	25.00%

***Source**: Researchers' calculation based on primary data*

6.9 New Conventional Banking Products and New Islamic Banking Products in 2024.

Table 6.14 shows that in 2024, both conventional and Islamic banks introduced new products tailored to client needs. Conventional products focused on automation,

SME financing, and supply chain liquidity. Islamic banks introduced Shariah-compliant products like Bai-Muazzal Installment for green projects and others targeting sector-specific priorities.

Table 6.14: New Conventional Banking Products and New Islamic Banking Products

#	New Conventional Banking Products	Observations	New Islamic Banking Products	Observations
1	Trade Pay	The product is designed to cater vendor payment, suppliers' payment, utility payment, VAT payment etc. on an automated system.	Bai-Muazzal Installment under Refinance Scheme for green projects	To provide fund for eco-friendly project
2	Distributor Financing OD	Created to facilitate SME financing facilities.	Amani (Islami Banking)	
3	NCC Supply Chain Finance	Designed to optimize cash flow in supply chains, this financing enhances liquidity for buyers and suppliers by enabling quicker access to funds.	Ilham (Islami Banking)	
4	Overdraft - Agri	To provide financing to primary producers, entrepreneurs, or farms to boost agricultural output.		
5	Thikana	Home Loan for SME business person		
6	Shafollo Plus & Jibika Plus	SME Digital Loan		
8	Amar Angina Amar Krishi	It's a microcredit product for women without collateral.		

***Source**: Researchers' compilation based on primary data*

6.10 FinTech/AI technology used by Banks in Credit Appraisal

Fintech is now almost a vital ingredient for bank to deliver faster, cheaper, more accessible, and most importantly user-friendly financial services. Day by day, it ensures a wide range of applications in banks from mobile banking and peer-to-peer (P2P) lending to blockchain and robo-advisors. As per Table 6.15, banks in Bangladesh used different types of FinTech/AI based loan products like-Digital Nano Loan, Generative AI, etc. Further, banks are currently planning to adopt more cutting edged FinTech/AI Technology based products to ensure accurate and tech based efficient credit appraisal. (Appendix-2)

Table 6.15: FinTech/AI technology Applied by Banks in Credit Appraisal

Sl	Name of FinTech/AI	Applications
1	Digital Nano Loan	Digital Nano Loan service by using a credit scoring model that analyzes financial and metadata to assess creditworthiness. This AI-driven approach enables rapid loan approvals and disbursements, facilitating access to formal financial services for individuals who are traditionally excluded from the physical banking services.
2	NANO Loan	For assessing the credit risk of borrowers of small enterprises via mobile applications.
3	Time Series Forecasting for Macroeconomic Factors	For Econometric Analysis on Bank's Performance Indicators
4	ML Models	For Credit Risk Scorecards
5	BI Tools – Power BI, Shiny etc.	Dynamic Dashboards, Analytics, Financial Indicators
6	Python, R, SQL for Quantitative Modelling	For Portfolio Analysis, Product Recommendation etc.
7	Generative AI	ChatGPT, Gemini etc. for Task Automation and Knowledge gathering

***Source**: Researchers' calculation based on primary data*

6.11 Problems Faced by Banks along with Possible Suggestions in Credit Operations

The study tried to clutch the problems that the banking industry experienced in 2024, to know the overall status of credit operations by banks in Bangladesh. Out of many- rise in NPL due to post-pandemic recovery challenges, global inflation, and sector-specific downturns which fueled the problem of maintaining corresponding lending relationships highly, Political instability both from domestic and global context, lack of effective implementation of law and order, etc. are noteworthy. Possible solutions have also been suggested by the respondents to overcome the respective problems aiming to a sound, regulation-driven, profitable and sustainable credit culture in the banking industry of Bangladesh (Table 6.16).

Table 6.16: Problems faced by the Banks along with Possible Suggestions in Credit Operations

Sl	Problems	Possible Suggestions
1	Rise in NPL due to post-pandemic recovery challenges, global inflation, and sector-specific downturns which is causing problem like maintaining corresponding lending relationships	a. Strengthen pre-sanction and post-sanction due diligence.
		b. Introduce early warning systems and automated alerts with continuation of monitoring.
		c. Strengthen recovery mechanisms including legal reforms and asset reconstruction support.
		d. Enforce stricter regulations for defaulters.
2	Lack of proper and updated information (including CIB data, industry information or analysis, other banks client qualitative information), updated audited financials, quarterly management reports and other compliance certificates	Better integration with CIB and putting more effort in collecting proper data from relevant platform and R & D must be functional

Sl	Problems	Possible Suggestions
3	Political instability (domestic and global)	Analyze and monitor political situation and take preventive measures
4	Regulatory and Compliance Challenges	Training of employees and implement automated regulatory reporting systems.
5	Economic Crisis and Uncertainty (domestic and global)	Maintaining sufficient liquid asset and conducting regular liquidity stress tests
6	Lack of effective implementation of law and order	Effective implementation of law and order.
7	Bureaucratic procedures, manual and complex documentation, lack of digitization cause inefficiencies and customer dissatisfaction as these make the process lengthy	a. Adopt end-to-end digital loan processing platforms.
		b. Implement e-KYC to identity faster and centralized approval process and documentation for quick approval and disbursement of credit.

***Source**: Researchers' calculation based on primary data*

7. Cases on Different Types of Projects / Borrowers

7.1 Case Study -1: A Successful Trading Business

M/s. Anik Traders has been engaged in whole sale trading business of consumer food items such as Rice, Pulse, Oil, Dalda, Sugar, Flour Ata, wheat since 1990 at Chasara, Narayangonj. They mainly import Rice, Pulse, Oil, Sugar, Wheat, Maize, Zinger, all types of spices from different countries of the world. Meanwhile, M/s. Anik Traders expanded its business manifold and is now one of the largest Food Items Importer in Narayangonj. Every year they import bulk amount of commodities. Mr. Banik Sarkar, owner of the M/s. Anik Traders, has good relationship with the city group of Industries. He is the major supplier of Sugar to the City Group. He always maintains a huge amount of stock in his Godowns- Chasara, Narayangonj; Jashore- B-Baria, Chattogram and Tangail.

A sister concern of M/s. Banik Food Industries is situated at BSCIC I/E, Narayangonj measuring 21.66 decimal along with 7490.00 sft Industrial building. They purchased a plot from M/s. Lokman Printing Press in 2005 and afterwards they started processing of pulses in the plot. They also supply the produced items to the aforementioned clients. They have is 35 years' of experience in this business. Banking relation of M/s. Anik Traders and M/s. Banik Food Industries with ABC Bank Limited begun on 10.09.2017 through opening a current deposit account with Narayangonj Branch, Narayangonj. In the same year, a composite limit, consisting LC (Letter of Credit), MPITR (Murabaha Post Import Trust Receipt), BMCTR (Bai Muajjal Commercial Trust Receipt), of Tk.5.00 Crore was sanctioned in favor of the borrower. Since then, the limit gradually increasedup to Tk.20.00 crore as shown in the following Table.

Year	Limit	A/c Turnover
2017	Tk.5.00 crore	Tk.17.00 crore
2018	Tk.5.00 crore	Tk.17.00 crore
2019	Tk.10.00 crore	Tk.32.00 crore
2020	Tk.10.00 crore	Tk.32.00 crore
2021	Tk.10.00 crore	Tk.32.00 crore
2022	Tk.15.00 crore	Tk.50.00 crore
2023	Tk.15.00 crore	Tk.50.00 crore
2024	Tk.20.00 crore	Tk.75.00 crore

Meanwhile, they also availed of LC facility of Tk.3.00 Crore, MPI TR Facility of Tk.150.00 lac, BMCTR limit of Tk.50.00 lac in 1st approval in 2021 and this facility was 6 times renewed and enhanced by 6 times. In the year 2024, LC facility of Tk.12.00 crore, MPI TR Facility of Tk.6.00 crore, BMCTR limit of Tk.2.00 crore in last approval in 2024.

The total land area of M/s. Anik Traders and M/s. Banik Food Industries is 21.66 decimal, along with they have an Industrial building of 7490.00 sft. Total manpower of the industry is of 25 persons. They also purchase/supply various food items from the following very renowned & well-known companies of Bangladesh.

1.	Meghna Group of Companies	2.	Sobnam Vegetable Oil Ltd.	3.	Cumilla Flour Mill
4.	Desh Bandhu Sugar Ltd.	5.	City Group of Companies	6.	Jannat Flour Mills, B-Baria
7.	Sonali Trading, Chittagong	8.	Munmun Flour Mills Tangail	9.	Shajib Trading Chattagram
10.	Mominul Flour Mills, Shylet				

The annual sales turnover of M/s. Anik Traders and M/s. Banik Food Industries was only Tk.5.00 crore in 2017 which has increased to an amount of about Tk.20.00 crore in recent years. They have been maintaining a sustainable business growth rate thorough out the year. They were successful to develop their customer base with competitive price, quality, and smooth value chain. Both M/s. Anik Traders and M/s. Banik Food Industries are now moving ahead with a vision of offering quality products to the customers across the country.

Reasons for Success:

#	Reasons	Details
1	Strong customer base	Mr. Banik Sarkar has made a strong customer base with strategic marketing initiatives.
2	Efficient distribution and logistics	The enterprise has established a robust supply chain for quick product movement.
3	Strong sales and marketing strategy	A strong sales and marketing strategy is being followed.
4	Long experience	They engaged in trading business since long. During this period, he has gathered huge experience in the field of trading business.
5	Smoothness in bank finance	ABC Bank PLC has been always with the enterprise to meet up finance needs.
6	Selling products mostly on cash in competitive price	Mr. Banik Sarkar usually sells his products on cash at competitive price.

Source: *A Private Commercial Bank*

7.2 Case Study 2: An Unsuccessful Textile Mill

Tanjim Textile Limited, a local renowned fabric dyeing, printing and finishing manufacturing company, is registered with RJSCF. The company has a modern and compliant dyeing, printing and finishing factory equipped with branded machineries and equipment from Holland, Korea, Indonesia, USA & India.

The registered office of the company is located at Dhanmondi, Dhaka and the project located at Madhabdi in the area of 139.00 decimal land. All infrastructural facilities like water, electricity, gas, road, etc. are available at the project. Late Mr. Rahman, father of Mr. Hossain, started saree business way back in the year 1975. The business was started with the name of Rahman & Sons. In the year 2001, the company was incorporated with RJSCF as a local fabric printing, dyeing & finishing company under the name of Tanjim Textile Limited. They sold their product in the name of "Tanjim Sharee" which are liked very much by the Bengali women across the world.

Suddenly conflict among the family members were reached at the pick. Due to family conflict, they failed to cope up with the updated design of sarees and solve other problems, their production of sarees was suspended for almost four years.

For this reason, their business was downtrend day by day & now the client has no investment with any mentionable business. It is regrettable to share here that, others factors like- due to outbreak of COVID 19 pandemic, economic recession, price

hike due to the massive devaluation of taka against US dollar, increased freight cost due to Russia-Ukraine war, increase of fuel and utility prices and low GAS pressure at Madhabdi reduced their cash flow and hindered production and which resulted cumulative net loss of Tk.1100.00 lac from the year 2020 to 2024.

Causes of Failure:

SL. No.	Causes	Details
1.	Second succession line up	Business didn't have qualified or prepared individuals ready to take over key leadership roles.
2.	Management inefficiency	It caused poor coordination, wasted resources, low productivity and missed opportunities.
3.	Problem of counterfeit products	It occurred loss of revenue, brand damage and image.
4.	Lack of Business Diversification	The company lacks introducing variety of products/businesses. The company could minimize the losses by diversification of its product/business line.
5.	COVID-19 Effects	There was a significant decline of export of the company caused by the COVID 19.
6.	Crisis of Dollar	Crisis of dollars interrupted the procurements of raw materials from other countries.
7.	Russia-Ukraine War	Russia Ukraine War had a profound impact on global business as well as our local business which causes disruption is global supply chain, trade restriction, market instability and inflation.
8.	Higher Cost of Sales	Inflation, dollar crisis as well as devaluation of Taka created high cost of sales although sales price increased minimally. The radical increases of overhead costs also affected the profit of the company.
9.	Underutilization of Production Capacity	The mill running only with utilization of 60% production capacity has caused negative growth of the business.
10.	Huge Bank Loans	The company has huge bank loans which needs to pay a good amount of interest.

Source: *A Private Commercial Bank*

7.3 Case Study -3: A Successful Feeds Mills

M.N Feeds Ltd (MNFL) was founded in 1995, with a commitment to produce and market animal feed products of high-quality standard and absolute hygiene for the farmers. MNFL has deep roots and connections to some of the feed industry pioneers who paved the way for excellence in animal nutrition.

MNFL produces and distributes poultry, fish, shrimp, and cattle feed throughout Bangladesh through 05 Sector Office, 10 Zonal Offices, 35 Regional Offices, 25 Depots, 15 Poultry Diseases Diagnosis Lab, and 05 Fish Diseases Diagnosis Lab with the contribution of more than 1200 outlets. MNFL has over the years become synonymous with quality & a trusted partner as a feed manufacturer in Bangladesh. The Company has 19 independent plants capable of producing both pelleted feed

and mash feed. The plants are strategically located in Gazipur and Cumilla. Gazipur plant is established on 12 bigha land and Cumilla Plant on 20 bigha land.

At present the total installed output capacity is 500,000 metric tons per year. At present company is availing total credit limit of BDT 1500.00 Crore from multiple banks and present outstanding of BDT 1100.00 Crore [Outstanding Break up-Term Loan: BDT Term Loan: BDT 10.00 Crore; Funded WC: BDT 450.00 Crore and Non-Funded WC: BDT 640.00 Crore] against provisional Sales for BDT 2,200 Crore in FY 2024-25.

Milestone of MNFL:

1995	MNFL starts operation at Bagharbazar, Gazipur with 1st pellet plant.
2013	MNFL starts operation in Choudhya Gram, Cumilla with 5th mash/pellet plant.
2016	MNFL starts operation at Choudhya Gram, Cumilla with 13th Mash/Pellet Plant.
2017	MNFL starts shrimp operation in Choudhya Gram, Cumilla with 14th & 15th shrimp plant.
2020	MNFL expanded operation in Choudhya Gram, Cumilla with 16th & 17th floating plant.
2023	MNFL launched 18th and 19th floating plant at Choudhya Gram, Cumilla.
2024	MNFL launched 20th floating plant at Choudhya Gram, Cumilla

Reasons for Success:

#	**Reasons**	**Details**
1.	Dedication & Long Experience	Mr. Tajul Islam, Managing Director of the company is engaged in feed mill business since long and he started business with age of 25 years and now he is 55 years old. During this period, he has gathered huge experience in the field of feed business.
2.	Timely Implementation of Plan with Gradation of the Mill	Phase by phase Mr. Tajul Islam is upgraded the mills with capacity enhancement and new technology to be competitive in the market based on market feedback survey.
3.	Proper Loan Structuring by Banks	Need based financed by multiple banks
4.	Smooth repayment of Long-Term Loan and WC loan	MD of the company uses bank loans in optimum way and return back money to bank when due.
5.	Strong Distribution Channel throughout the country	Company has 05 Sector Office, 10 Zonal Offices, 35 Regional Offices, 25 Depots, 15 Poultry Diseases Diagnosis Lab, and 05 Fish Diseases Diagnosis Lab with the contribution of more than 1200 outlets.
6.	Local and import Sources of Raw Materials & Labor Force	Company is sourcing maize and other raw material from local and abroad based on pricing benefit.
7.	Experienced Management Team	Company has a pool of experiences management from plant management to finance and marketing.

Source: *A Private Commercial Bank*

7.4 Case Study 4: An Unsuccessful Electronics Goods Manufacturing Business

ABC Electronics Limited was incorporated as a private limited company on 10th June 2014, under the Companies Act 1994. The company is one of the largest manufacturing partners and authorized distributor of world renown brand in Bangladesh. The company is involved in manufacturing of consumer electronics such as refrigerators, mobile phones, air conditioners and microwave ovens etc.

Nationwide Smart Plazas are owned by ABC Electronics for giving a premium shopping experience of all original products under same roof. At Gazipur, ABC Electronics owns a state-of-the-art mobile and other home appliance manufacturing factory with thousands of Bangladeshis' employment. ABC Electronics official page shares the latest news and stories about Consumer Electronics & Appliances like TV, Refrigerator, AC, Microwave Oven, Washing Machine, Dishwasher, Air Purifier, Air Dresser and Mobile phones, tablets & devices with genuine warranty in Bangladesh.

ABC Electronics has remarkable achievement winning the national awards of Bangladesh. In 2019, ABC Electronics was recognized by the government "The First Global Brand Manufacturer in Bangladesh for Smart Mobile Phone set and Consumer Electronics Manufacturing." In 2020, ABC Electronics has been awarded with the "President's Industrial Development Award". "The First Position in the Hi-Tech industry category." ABC Electronics received Nationally Highest VAT payer for FY 2018-19. In 2022, Ministry of Industries awarded National Productivity and Quality Excellence Award to ABC Electronics Ltd. "The first prize in the Steel & Engineering Category."

At present the total installed output capacity is BDT 8,866.80 Crore [14,778 pcs/dayX300 days/year X BDT 20,000/pcs] with present capacity utilization is only 15%. Currently, company is availing total credit limit of BDT 3,400.00 Crore from multiple banks and present outstanding of BDT 1,950.00 Crore [Outstanding Break up-Term Loan: BDT Term Loan: BDT 650.00 Crore; Funded WC: BDT 800.00 Crore and Non-Funded WC: BDT 500.00 Crore] against provisional Sales for BDT 800.00 Crore in FY 2024-25.

Causes of Failure:

SL. No.	Causes	Details
1	Cancellation of exclusive authorized manufacturer of one of the renown electronics brand of the world	ABC Electronics established factory at Gazipur on acre of land for producing the goods as exclusive authorized manufacturer by taking long term loan from multiple banks. However, recently his exclusive authorized manufacturing permission has been cancelled. Therefore, sales of the company drastically fall although they started manufacturing other renown brand of electronics.

2	Foreign Exchange Loss	Taka devaluation also negatively affect the company's profitability as portion of sales has to remit in Dollar.
3	Underutilization of Production Capacity	The factory is running only with utilization of 15 percent production capacity due to sales drop.
4	Over Financing	The company took long term and short-term loan but could not gradually adjusted with the decline of sales.
5	Balance sheet mismatch and fund diversion	There is a balance sheet mismatch as short-term liability is greater than current assets and company uses short term loan in other projects.
6	Availability of illegal mobile sets in the market	Availability of illegal mobile sets in the market also negative affect the sales as price of mobile set produced by ABC Electronics is higher than price of illegal mobile set of same brand in the Bangladesh market.
7	Lack of Succession	Mr. Abdul Mannan, MD of ABC Electronics has lack of succession plan. No family member can manage the company in absence of him.
8	Unrelated diversification	Mr. Abdul Mannan, MD of ABC Electronics recently established other ambitious projects which are unrelated diversification of business. He also incurs loss from these projects and cannot repay the huge loan. Now Group has around overdue of BDT 500.00 Crore in CIB liability and some are Bad & Loss.

Source: *A Private Commercial Bank*

7.5 Case Study 5: A Successful Auto Rice Mill

M/s Kamal Pasha & Sons Auto Rice Mill is situated in Bahadurpur, Ashuganj, Brahmanbaria. This agro based business is a proprietorship firm. The sales turnover of the entrepreneur is above Tk.17.00 crore annually. At present, capital investment in business is about Tk.2.50 crore. The entrepreneur is doing business since 2010. Their banking relationship with the Mercantile Bank PLC Ashuganj Branch with the funded limit of Tk.1.80 crore (i.e., CC (Hypo) Tk. 1.50 Crore, & Term Loan Tk.0.30 Crore).

Mr. Aslam, proprietor of M/s Kamal Pasha & Sons, started the business with an initial annual sales turnover of Tk. 1.00 Crore. Now, Mr. Aslam is 40 (forty) years old having personal net-worth of Tk. 5.50 crore approximately which was Tk.0.50 Crore in 2010. Earlier, Mr. Aslam had been accompanied with the trading business of rice and paddy of his father late Md. Kamal Pasha who started the business about 45 years ago.

In the beginning, Mr. Aslam set up a semi auto rice mill in a small structure in 2010 with their family finance. Before it, they had established a rice mill in 1998 for crushing of paddy locally. Thereafter, the modernization of the semi-auto rice mill was done to meet up the demand of the market in terms of demand and quality. The

Customer was using his funds and bank finance to run his own mill. Recently, the Customer has made agreement for five years with three fully automatic rice mills to rent serial for rice manufacturing through which M/s Kamal Pasha & Sons Auto Rice Mill can process 1800 bosta /3600 mounds paddy each week from these rice mills.

Banking relation of M/s Kamal Pasha & Sons with Mercantile Bank PLC started on 27.03.2017 through opening a current deposit account with Ashuganj Branch, Brahmanbaria. In the same year, a fresh Cash Credit (Hypo) limit of Tk.0.75 Crore was sanctioned in favor of the borrower against 76.00 decimal land. The CC (Hypo.) limit gradually enhanced up to Tk.1.50 crore as shown in the following Table.

Year	Limit	A/c Turnover
2018	Tk.0.75 Crore	Tk.12.90 Crore
2019	Tk.0.75 Crore	Tk.13.50 Crore
2020	Tk.0.75 Crore	Tk.13.70 Crore
2021	Tk.0.75 Crore	Th.13.30 Crore
2022	Tk.0.75 Crore	Tk.13.80 Crore
2023	Tk.1.25 Crore	Tk.13.90 Crore
2024	Tk.1.25Crore	Tk.16.68 Crore
2025	Th.1.50Crore	--

At present, M/s Kamal Pasha & Sons Mill is standing on 46.00 decimal of land. Manpower is 40 people; daily production is 625 Mound of rice. Paddy is collected during the season from local sources such as Kishorganj, Netrokona, Habigonj, Sylhet and Sunamgonj districts. Their products are sold in Moulvibazar, Habigonj, Sylhet, Sunamgonj, Netrokona, Chattogram, Narayangonj, Bhairab, Ashuganj, Narsingdi areas. They also supply rice to the Government.

The annual sales turnover of M/s Kamal Pasha & Sons was only Tk.6.00 Crore in 2010 which increased to an amount of about Tk.16.68 crore in recent years. They have maintained a sustainable business growth around the years. They become able to develop their customer base with competitive rice, quality, and smooth value chain. M/s Kamal Pasha & Sons is now moving ahead in daily rice production and marketing with a combination of efficiency, honesty and tireless hard work, success reaches to the entrepreneur over time.

Reasons for Success:

#	Reasons	Details
1.	Long Experience	Mr. Aslam is engaged in rice mill business since long. During this period, he has gathered huge experience in the field of rice business.
2.	Up Gradation of the Mill	It was a major decision to upgrade with the modern technologies. It assists to increase production for filling up market demand, and maintain quality in production. The mill has sufficient warehouse capacity to stock raw materials as well as finished products.
3.	Smoothness in Bank Finance	Mercantile Bank PLC has been always with the enterprise to meet up capital needs.
4.	Strong Customer Base	Mr. Aslam has made a strong customer base with strategic marketing initiatives.
5.	Local Sources of Raw Materials & Labor Force	The surrounding districts (Moulvibazar, Habigonj, Sylhet, Sunamgonj) are famous for the cultivation of paddy. Mr. Aslam collects paddy from these districts in reasonable price. He utilizes local labor force with minimum wages.
6.	Strong Supply Chain	Quality relationships with customers and suppliers help to maintain smooth supply chain of the business.
7.	Selling Products Mostly on Cash in Competitive Price.	Mr. Aslam usually sells his products on cash at competitive price.
8.	Transportation of Goods	The transportation system for supply and carry of business items across the country is very congenial.
9.	Self-Motivation	Mr. Aslam is a hardworking & self-driven businessman. He supervises overall activities of the business such as management, accounts, supply chain, marketing, labor management, etc.
10.	Strong Second line	Two brothers of Mr. Aslam help in operation of the auto rice mill business causing smooth operation of the business.

Source: *A Private Commercial Bank*

7.6 Case Study -6: An Unsuccessful Recycling & E-waste Company

Azizu Recycling & E-waste Company Ltd., a Manufacturing concern of Electronics Recycling & E-waste Company, has taken a loan of BDT 32.00 crore from the XYZ Bank Limited. Azizu Recycling & E-waste Company Ltd. was incorporated as a private limited company [October 29, 2013 (Reg. No. C-112104/13)] under the leadership of Mr. Abul Kalam Azad, Chairman of the company.

Background:

Azizu Recycling & E-waste Company Ltd. is the leading electronics recycling & e-waste Company in Bangladesh since the year 2013 and started banking with us from the year 2017. They are the dominant player in this line of business. Their factory is located at Deulpara, Kutubpur, Fatullah, Narayanganj on their owned premises. They procure their raw materials i.e. various types of used Networking

Board, Mobile Board, Processor, Raiser Card, Memory Board (RAM), HDD Board, Scrap Computer Accessories, Scrap CPU, IC Chip, Scrap Cable, Scrap Cell Phone, Scrap Electric Meters etc. from household and businesses. They have Memorandum of Understanding (MoU) with Grameen Phone, Banglalink, Robi, Airtel, Global Brand (Pvt.) Ltd., Next Accessories Ltd., Newport Express Courier and other local and multinational companies for recycling of their used scraps and networking boards.

Present Status:

The customer was 02 units of plant. One is e-waste plant & another is aluminium, copper etc manufacturing plant. First existing Recycling & e-waste Company is running smoothly and generate revenues sufficiently. In order to use the excess waste of aluminium, copper etc from the existing e-waste plant, the customer installs second plant adjacent to the existing e-waste plant. Where the customer will produce copper & aluminium plain sheet for the local market. The new plant is not properly survey by the customer. Even huge investment of the new plant, the customer could not run the factory and did not get any return from the new investment. So, the customer is going to lose day by day. The venture has become unsuccessful.

Causes of Failure:

SL. No.	Causes	Details
1.	COVID-19 Effects	There was a significant decline of business of the company caused by the COVID 19.
2.	Profitable Unit	Recycling & e-waste plant of first unit
3.	Losing Unit	Second plant is used to produce copper & aluminum plain sheet for local market. But the customer is failed to produce.
4.	Market survey	The customer has failed to market survey properly.
5.	Copper & Aluminum plain sheet	If there is huge demand of copper & aluminum plain sheet in the local market, but the customer could not start its production of new plant due to inefficiency of the entrepreneur.
6.	Non-cooperation of Environmental authority	As per customer opinion, the customer could not collect huge waste due to non-cooperation of Environmental authority.
7.	Govt rules & regulations	The customer could not get proper cooperation from the govt. rules & regulations.
8.	Shortage of expert manpower	The company has huge shortage of expert manpower.

Source: *A Private Commercial Bank*

8. The Issues Raised in Credit Review 2022 and their Status in 2024

Table 8.1 shows the issues raised in the credit review 2022 along with their status in 2024. Issues like tightening liquidity situation slightly improved and trend in green finance and sustainable finance, increased use of credit guarantee scheme were significantly increased. On the other hand, slower growth of private sector credit, decreasing trend of forced loan stemming from LATR were become worsen in 2024. However, some other issues remained as before in 2022.

Table 8.1: The Issues Raised in Credit Review 2022 and their Status in 2024

Sl.	Issues of 2022	Status in 2024
1.	Tightening liquidity situation	Moderately Improved
2.	Slower growth of private sector credit	Worsen
3.	Rising credit concentration in trade	Slightly reduced
4.	Growth of loans to cottage industries	Slightly increased
5.	Trend in green finance and sustainable finance	Substantially increased
6.	Decreasing trend of forced loan stemming from LATR	Worsen
7.	Increased use of credit guarantee scheme	Significantly increased
8.	Failing to continue business effectively because of over ambitions of the successors	Same as before
9.	Recovery of loan by liquidating collateral and utilizing guarantee	Improved
10.	Incentive schemes as well as punishment system relating to recovery of loan	Same as before
11.	Increasing growth of loans to new sector	Worsen
12.	Problems in refinancing schemes	Same as before
13.	Sector wise NPL changing	Increased

***Source**: Review of Credit Operation 2024*

9. Issues Observed in Credit operation of Banks in 2024 and Possible Way Outs

9.1 Reshaping Portfolio of Loans

The major slice of loan amount as usual went to the large industry with 72.66 percent followed by service industry 14.80 %, small and medium industry with 12.39 %, and cottage industry with only 0.15 percent as of December 31, 2024. This is further substantiated with the small amount of rural finance which was only 8.16 percent at the end of 2024; the relative figure of urban finance reached 91.84 percent in the same time.

It is required to reshape borrowers' portfolio through moving from the traditional balance sheet-based to asset-based financing by expanding financial services like

supply chain financing, nano-lending, wholesale financing, blended financing, equity financing, venture financing. Further, financial inclusion is an important matter in this respect. Bringing at least one person from each family under banking services with a concerted effort of all banks may be helpful to disburse loan to diversified sectors, areas and persons. In this context, banks may require to do proper research as well as have enabling policy and technical support for rolling-out new products across the country.

9.2 Increased Budgeted and Actual Disbursement of Credit in Major Economic Purposes

Compared to 2022, it is observed that banks significantly increase their budgeted amount for providing term loan, working capital, construction, trade and sustainable finance in 2024. However, banks failed to achieve the targeted amount of disbursement to different segments of the economy. Only banks were successful to disburse more money than the budgeted amount to the areas of sustainable finance.

This is definitely a good move of banks to increase budgeted amount of loan year on year basis for the sake of developing overall economy as well as creating new avenues for banks to make profit. However, if budgeted amount is not finally disbursed, it may impact on net interest income of banks negatively, as banks will deprive of getting planned interest income even though they have to incur committed interest expenses on the collected amount of funds. It is, therefore, suggested that banks might fix sector, geography, product wise budgeted amount of loan realistically at the beginning of the year so that gap between budgeted amount and disbursed amount will be minimized.

9.3 Domestic Credit by Banks to the Private Sector as a Percentage of GDP

As of December 2024, the domestic credit by banks to the private sector as a percentage of GDP was only 35.7 per cent in Bangladesh whereas this ratio accounted for 194.2 per cent in China, 116.1 per cent in Malaysia, 125 per cent in Vietnam and 50.1 per cent in India, indicating far below in Bangladesh as compared to its peer countries. As 62 scheduled banks are in operation in the country, it might be expected to soaring this rate manifolds.

Increasing private sector credit growth equitably across the country is necessary for increasing bank credit to GDP ratio and bringing a positive impact on employment generation and GDP growth in all localities of the country. In this context, banks

may need to focus on increasing loan amount more to rural and sub-urban areas by involving all branches of banks instead of concentrating mostly in urban areas only. A minimum AD ratio for each branch is required to be set for obliging banks / banks' branches to distribute loan equitably across the country even in the remotest areas. It is noteworthy to mention that, at the moment, slowing down the credit growth is not harmful to the economy as we first need to ensure price and exchange rate stability on priority basis. Even after, banks may channelize more funds to the sectors/industry which are not prone to the inflation rather important for fulfilling local consumption, apart from financing export-oriented industries.

9.4 Decreasing Growth of Loans to New Sector and reasons for reluctance

In 2024, fewer banks extended financing to new sectors compared to 2022, with 79% of banks not disbursing any credit to the new areas. Some banks, however, explored new sectors/areas, like motorbike distribution, agriculture, trade, start-ups, cosmetics, car and geo-bag manufacturing, for finance. Bankers have located a number of responsible factors, like political unrest, global uncertainty, sectoral challenges, liquidity issues, regulatory limits and conservative approach of management, for not financing new sectors.

Investment in the new sector is always a welcome step of banks particularly to speed-up the unmoving economic activities. Commercial banks may come forward towards financing new sector or industry to reduce the credit concentration risk and also to boost up the economic activities across the country. Hence, banks should plan each year to disburse a certain percentage (5% to 10%) of their total amount to the new sector/ industry. Further, regulatory authority may come forward with policy and financial support to address aforesaid responsible factors.

9.5 Facing Problems/Challenges by Banks in Applying ICRR System

Banks are required to use ICRRS without any modification. However, banks are facing serious challenges in getting quality data and updated financials for completing template. Banks has raised the issue about the 'corporate guarantor as credit rating substitution' where no security is being considered. Additionally, no template is available in ICRRS for risk rating of NGOs & MFIs for providing linkage credit. ICRRS does not consider FDR and assignment of bill receivables of contractors as the security.

Central banks may revise the template to consider the corporate guarantors' security and FDR, assignment of bill receivables of contractors as the security. Another template may design for the risk rating of NGO, MFI and for institutional lending.

In using main revenue generated unit, ICRRS may consider the major assets of the other unit of the same business. Moreover, there may have some score for financial projection of the businesses. Commercial banks may create data bank with relevant information for its own use through collecting data from suppliers, buyers, employees, spouse of the borrowers, etc. In using DVS, banks must not show any leniency to borrowers although commonly it is claimed that good borrowers become 'unacceptable' because of using Financial Statements with DVS.

9.6 Problems Faced by Banks in Utilizing Refinance and Credit Guarantee Schemes

Like in 2022, banks faced significant challenges in 2024 in utilizing refinance and credit guarantee schemes. The most frequently cited issues were difficulties in loan monitoring and recovery, as well as the high time and cost burden associated with credit guarantees. Compared to 2022, a noticeable increase in reporting these problems by bankers indicates growing operational and procedural inefficiencies in utilizing aforesaid schemes which may hinder the effective uptake of such special schemes.

To ensure the proper use of refinancing schemes, Bangladesh Bank may consider several remedial measures like shortening the documentation process, expediting disbursement of refinance funds, and offering more flexible repayment schedules. Such steps could encourage both banks and clients to make greater use of refinancing facilities. More funds along with smooth operation of refinance schemes are expected as these financing are being operated with subsidized interest rates and flexible repayment terms and ensured triple paybacks like financial, social and economic benefits. A massive awareness program is also required to be undertaken to make these schemes familiar among the targeted sectors and individuals.

9.7 Classified Loans and Advances

At the end of June 2024, the gross NPL ratio of the banking sector stood at 12.56 per cent (Table 4.7); however, this percentage may reach 30 percent in the coming day (MPS, January -June, 2025). This sharp increase in NPLs[9] has raised growing concerns for the banking sector. In this perspective following measures can be

[9] This sharp increase in NPLs is primarily attributed to the implementation of stricter loan classification guidelines, which took effect on 30 September 2024. Moreover, the introduction of comprehensive loan classification and provisioning guidelines aligned with international best practices, which came into force on 1 April 2025. The non-renewal of some existing large loans and the non-repayment of rescheduled loans worsen the scenario. The growing volume of classified loans is deteriorating banks' capital adequacy, profitability, and their overall ability to lend.

undertaken on priority basis. Surprisingly, low-risk sustainable loans, usually considered less risky in consideration of sustainability and environmental issue, carry the highest average NPL ratio at 22.40%, compared to 13.55% for medium-risk and 12.84% for high-risk loans.

It might be required to differentiate normal classified loan sanctioned to businesses in place with the due diligence and backed by good security and from anonymous scammed loans given in the name of invisible business entity without appraisal and due diligence, banks can take appropriate strategies catering to the nature of classified loans. A special tribunal may be formed to collect classified loan and take legal actions in against of scammers. An Asset Management Company (AMC) might also be formed for a specific period to get rid of from the curse of CL. For speeding up the recovery of default loan, banks may weigh up on techniques like alternative dispute resolution (ADR), arbitration, social-shaming method, etc. Further, to avoid large default loan, banks may cautiously follow the single party exposure limit in one way, on the other hand corporate sector might be advised to source long term funds from the capital market by issuing shares or bonds for getting comfortable time period to return funds. In this respect, policy and regulatory support as well as a close nexus between money market and capital market is required.

9.8. Recovery of Classified and Written Off Loan by Liquidating Collateral and Utilizing Guarantee

In 2024, it is found that all the respondent banks recovered 34.25 percent of their classified loans by liquidating collateral and 25.34 percent by utilizing guarantees. The study also found a significant growth of recovery of written of loan by liquidating collateral and utilizing guarantee. The sampled banks affirmed that they recovered 40.69 percent of written off loans in 2024 by liquidating collateral which was only 10.43 percent in 2022. Similarly, they recovered 25.02 percent of written off loan by utilizing guarantees which was very low in 2022 (3.27% only)

It is a good sign for banks that they significantly improve the recovery of classified and written-off loans through liquidating collateral and utilizing guarantee. Therefore, it can be said that before accepting the collateral and guarantee, banks should focus on the authenticity and enforceability of the collateral as well as the effectiveness of guarantee in recovery of loan. In case of guarantee, banks may consider the relationship between guarantor and principal debtor along with the credibility and financial solvency of the guarantor. Banks should accept such

guarantor from which they will get assistance in recovering the loan rather than only as a measure of comfort.

9.9 Written-off Loan and their Recovery

A depressed situation was observed in 2024 in case of both relative amount of written-off loan out of total loan outstanding and recovery rate of total written off loan (4.98% and 2.11% respectively) compared to 2022. This portrays a dejection picture about the NPL management achievements.

In spite of taking a number of recovery measures by banks in 2024, the volume of written-off loan and their recovery are not satisfactory. Besides, unfriendly economic condition, political unrest, problem to trace borrower, lax in imposing law and order and improper follow-up were mentionable causes. A healthy balance between good borrower retention plan and enforcement of law and order strictly can improve this situation.

9.10. Considering 'Interest Waive' as a Recovery Measure

Although one-fourth banks of the whole industry consider 'interest waiver' as a well-practiced recovery measure, it should not be encouraged in consideration of banks' profitability issue. On the other hand, recovery through specialized team and third-party agent are considered as the least preferred measures considering the industry perception.

If interest income is waived on a regular fashion, it will create a negative pressure on bank's net interest income (NII). In this perspective, the prudence in selecting right borrower by banks might also be questionable. Reducing volume of interest waive will not only increase the bank's profitability but it also enhances the banks' market reputation by spreading message about the bank's strict position in collecting its loan.

9.11 Fin Tech/AI Technology

Fintech is now almost a vital tool for bank to deliver faster, cheaper, more accessible, and most importantly user-friendly financial services. Day by day, it ensures a wide range of applications in banks from mobile banking and peer-to-peer (P2P) lending to blockchain and robo-advisors. It is also noteworthy to mention that banks in Bangladesh are using different types of FinTech/AI based loan products like-Digital Nano Loan, Generative AI, etc.

To ensure IT efficiency at par with international standard, issues like emphasizing on local solutions in place of foreign Core Banking Software (CBS); doing credit appraisal thoroughly with the help appropriate software, initiating digital

transformation with Artificial Intelligence (AI), Robotic Process Automation (RPA) and Blockchain adoption; developing disaster recovery systems (DRS) with having hot disaster recovery setups and live testing protocols; prompting a cashless society through raising awareness, improving digital financial literacy, fostering interoperability among payment systems; enhancing capacity building activities through developing an Independent IT institute; among others are required to have fullest possible attention by the BB and all banks.

9.12 Credibility of the Rating Given by the External Credit Assessment Institutes (ECAI)

More than half of the sampled banks mentioned that borrowers became defaulter in spite of having good credit rating given by ECAI in 2024. Responded reported that several reasons like lack of borrower's willingness to repay, absence of authenticity of financials, tiny fees for rating, biased ranking, etc. are responsible for not having accurate rating from the ECAI.

It is noticed that weak borrowers used to get good rating in case of both short and long term, which is rated by the credit agencies. So, the activities of the rating agencies should be made more transparent; agencies should also be brought under accountability for their rating. It is notable to mention that ECAI also requires to have sufficient time for preparing rating along with a reasonable amount of fees for doing their ranking efficiently.

9.13 Maintaining MIS of Accepted and Declined Application

Compared to 2022, a development has been observed by the banks in maintaining the database of approved and declined application and collateral of credit in 2024. However, both conventional and Islamic banks were not found to be sincere in maintaining the database of rejected applications of credit and associated collateral security.

In order to comply with the CRM guideline of BB, all banks need to be cent percent compliant in maintaining the database of accepted and declined applications of the credit along with reasons for acceptance or rejection of credit application. This kind of MIS is required for banks for the future references. It is expected that bank will give more attention in maintaining MIS as per CRM.

In 2024, there was improvement in some areas in the compliance level with CRM guideline compared to 2022. However, it is important to remember that risk compliance and risk management are not the same thing. Mere compliance with CRM guidelines may not reduce the NPL problems of the banking sector. If banks

are compliant with CRM guidelines, the regulator may be satisfied and will not impose any fine. However, this is not enough for reducing bank level credit loss. Banks need to manage credit risk proactively in addition to compliance with CRM guidelines. Bank's approaches like determining creditworthiness, knowing customer properly, conducting due diligence, maintaining rational leverage and setting accurate credit limit are required to be practiced meticulously without any influence. Therefore, mere high level of compliance with CRM is not an end in itself. Rather banks need to go beyond to reduce their loss from credit related transactions.

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Appendix-1: List of Sample Banks

State-Owned Banks		Private Commercial Banks		Foreign Commercial Banks	TOTAL
State owned Commercial Banks	**Specialized Banks**	**Conventional Banks**	**Islamic Banks**		
1. Sonali	1. RAKUB	1.Bank Asia	1. IBBL	1. HSBC	**37**
2. BDBL	2. BKB	2. Trust	2. Shahjalal	2. Cylon	
3. Agrani		3. South East	3.SIBL	3.Woori	
4. Janata		4. NCCB	4. FSIB	4. CITI NA	
		5. NRBC	5. Union		
		6. NRB			
		7. City			
		8. Community			
		9. MTBL			
		10. ONE			
		11. IFIC			
		12. Prime			
		13. Premier			
		14. AB			
		15. Bengal			
		16. UCB			
		17. BRAC			
		18. Mercantile			
		19. Rupali			
		20. Dhaka			
		21. National			
		22. Jamuna			

Appendix-2

Plan to Adopt FinTech/AI Technology for Credit Appraisal

Sl	Planning
1	To make a software/application for the corporate clients to provide 'One stop solution' service for quick disbursement of approved credit facilities supported by AI technology.
2	To enhance credit risk assessment with data-driven insights by reducing human error and bias in loan evaluation.
3	Enhancing its credit appraisal process by gathering stakeholders' feedback, setting clear goals for FinTech/AI adoption, ensuring data quality through strong governance, and launching a pilot program to test AI-driven systems with real-time feedback.
4	Developing a database software to analyze credit appraisal as well as preserve all loan related data
5	Adoption of FinTech in credit appraisal which is a priority transformation initiative to enhance lending efficiency and risk controls.
6	To explore opportunities regarding digitization of credit review process and increase the reliance on the related tools to improve operational efficiency.
7	Adoption of FinTech/AI Technology for credit appraisal, accumulate client related market information, funded & non-funded performance of client, checking clients' various benchmark compared to industry bench mark, etc.
8	Planning to collaborate with Fintech companies /AI technology provider to integrate advanced credit appraisal capabilities (microservice-based Core Banking System) through API alignment.
9	Planning to involve AI experts/analysts to make more informed decisions, manage risks more effectively, and even predict potential defaults proactively. AI-powered tools can process and analyze both structured and unstructured data collected from diverse sources by offering a more holistic view of a company's financial situation.
10	Planning on modernizing credit operations by adopting AI and FinTech tools. Key initiatives include AI-driven credit scoring using alternative data, automated loan origination for small-ticket loans, machine learning for risk assessment in CMSE and retail segments, integration with CIB and FinTech platforms for richer credit data, and real-time monitoring to manage risks dynamically. These efforts aim to improve speed, accuracy, and financial inclusion.

Source: Researchers' calculation based on primary data

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