



# Management of NPL

## Industry overview

Non-Performing Loans have been plaguing Bangladesh's banking sector for far too long, creating concerns not only for banks but also the regulator. In 2025, amid a broader push for transparency and strengthened supervisory oversight, the scale of this vulnerability became far more visible. By December 2025, NPL stood at BDT 5.57 trillion, 30.60% of total loans outstanding; among the highest levels in 25 years compared to BDT 3.45 trillion at year-end 2024.

The scale of the surge reflects both genuine economic deterioration and the effect of revised classification standards on longstanding bad loans. Over the preceding years, classification forbearance had understated the sector's true NPL position and the reinstatement of stricter recognition norms – aligned with stipulations of the IMF program – has now increased the volume of distressed assets which were previously unrecognized. Moreover, the underlying economic pressures due to political transition deepened the strain. According to Bangladesh Bureau of Statistics (BBS), real GDP growth moderated to 3.49% in FY 2025, weighed down by political disruptions in the first quarter that resulted in production well below historical averages. While economic activity showed subsequent improvement through the remainder of the year, the recovery remained slow. Energy supply disruptions – particularly chronic gas shortages – affected business's efficiency and dwindled utilization of production capacity. Private sector credit growth fell to a record low of 6.10% in December 2025, the weakest in over two decades, as entrepreneurs deferred investment amid political uncertainty and high lending rates.

In response, Bangladesh Bank introduced rescheduling and restructuring frameworks, long-term lending facilities for businesses affected by exchange rate fluctuation, and task forces for independent asset quality reviews. A three-year reform roadmap linked to the IMF's USD 5.5 billion program has also been outlined, encompassing a new Bank Resolution Ordinance, amendments to the Money Loan Court Act, a Distressed Asset Management Act to enable NPL trading, and the planned implementation of IFRS 9 provisioning standards by 2027.

Moody's, in its latest assessment, projected that loan-loss provisions will increase significantly in 2026 as existing reserves prove insufficient to cover the scale of non-performing assets. Yet within this challenging landscape, a handful of institutions demonstrated that disciplined risk management could still deliver sound asset quality.

## Strategic focus in 2025

**Asset Quality at the Core:** Portfolio management remained anchored to asset quality preservation through advanced risk assessment frameworks, enabling EBL to maintain one of the lowest NPL ratios in the industry.

**Toward Risk-Based Supervision:** The Bank progressed in its transition from compliance-driven oversight to a risk-based supervisory model – prioritizing governance depth and forward-looking risk assessment.

**ECL Readiness:** Significant groundwork was laid for the Expected Credit Loss framework, shifting provisioning from a reactive, incurred-loss model to a predictive methodology integrated with macroeconomic indicators; ahead of the sector-wide IFRS 9 mandate.

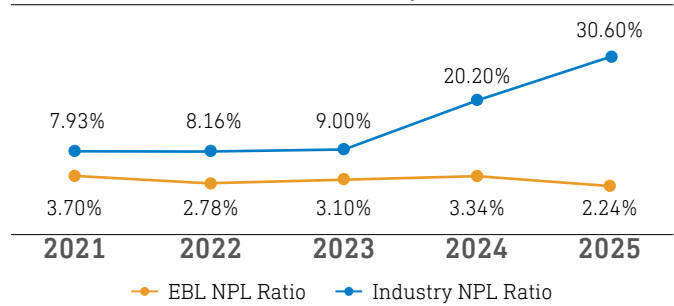
**Operational Discipline:** Sustained emphasis on cost efficiency ensured resilience despite tightening market conditions and subdued business sentiment.

**ESG Integration:** Climate risk assessments were completed and ESG considerations embedded across the lending portfolio, with new risk frameworks being developed; moving beyond policy alignment toward operational integration.

**Turning Uncertainty into Opportunity:** A proactive market stance enabled EBL to identify growth opportunities amid economic uncertainties, guided by disciplined leadership and a shared vision of long-term value creation.

## NPL position of EBL

### NPL Ratio Movement: EBL vs. Industry



Source: Bangladesh Bank

EBL's record in preserving asset quality stands as one of its defining institutional strengths. The Bank closed 2025 with a NPL ratio of 2.24%, against an industry average of 30.60% in December 2025.

This is not a single-year achievement. From 2015 through 2025, EBL has consistently maintained its NPL ratio around 3% – a period during which the industry average surged from 8.79% to over 30% in December 2025. The Bank's stringent credit evaluation practices identify potential stress at the point of origination and maintain vigilance throughout the tenor of each facility.

The outcome reflects institution-wide alignment: strong coordination across Business Units, Credit Risk Management, Special Asset Management, Senior management, and the Board of Directors has produced a unified approach to asset quality that positions EBL consistently among the industry's most resilient institutions.

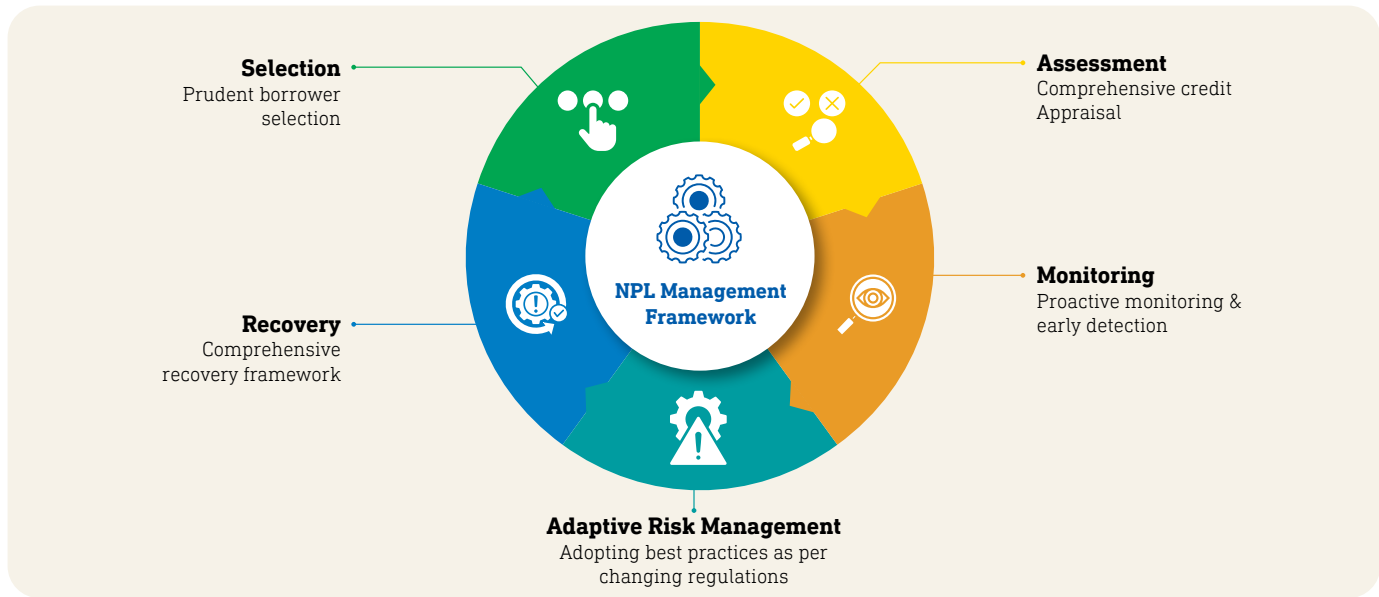
## Non-performing loans and specific provision coverage

BDT in million

Particulars	Total Outstanding	NPL		Specific Provision
	Amount	Amount	%	Amount
2025	477,040	10,675	2.24%	11,023
2024	410,718	13,718	3.34%	8,833
2023	353,357	10,941	3.10%	9,296
2022	308,916	8,579	2.78%	8,583
2021	269,393	9,979	3.70%	8,562

## NPL management: Our guiding principles

EBL's approach to NPL management addresses every stage of the credit lifecycle through five interconnected principles:



## Challenges in 2026

Bangladesh's business environment in 2026 is expected to remain under significant pressure as firms contend with persistently high operating costs, elevated lending rates, and subdued investment activity. Inflation stood at 8.49% in December 2025, with little prospect of rapid deceleration continuing to compress consumer demand and business margins, particularly for enterprises with limited pricing power.

### Evolving trade policy environment

During the year, the evolving global trade policy environment introduced additional pressures for export-oriented sectors. The United States imposed reciprocal tariffs of 37% on Bangladeshi goods in April 2025, which was subsequently reduced to 19% under a bilateral agreement, with a pathway to zero tariffs on certain garments manufactured with US-sourced inputs. However, key regional competitors secured parallel tariff reductions in the same period, narrowing Bangladesh's traditional cost advantage. More consequentially, the India-European Union (EU) Free Trade Agreement, concluded recently, will grant India preferential access across sectors that form Bangladesh's export backbone: garments, textiles, and leather goods.

### Domestic structural pressures persist

The BB's policy rate remains at 10%, commercial lending rates remain elevated, and inflation stood at 8.49% (Point-Point) in December 2025. Energy constraints, particularly gas supply shortages, continue to undermine production continuity. Construction and real estate activity remain slow, with downstream effects on building materials where excess capacity and weak demand compress profitability. SMEs face the sharpest vulnerability: limited access to affordable finance, rising compliance costs, and constrained market linkages tighten cash flows and heighten exposure to demand shocks.

### The regulatory landscape is transforming

New classification and provisioning circulars, issued ahead of IFRS 9 implementation in 2027, mandate earlier NPL recognition, stricter documentation, and more rigorous monitoring. The policy support schemes for rescheduling distressed facilities offer rehabilitation, but demand careful borrower selection and exit tracking to prevent repeat slippage. Provisioning requirements are also set to rise as ECL models incorporate forward-looking macroeconomic projections alongside historical trends.

### Way forward

**Proactive monitoring and stakeholder engagement:** Rigorous assessment of Early Alert Accounts and distressed portfolios, close engagement with clients on preventive measures, and transparent communication of evolving macroeconomic conditions to stakeholders.

**Strengthening NPL supervision and recovery:** Intensified efforts to restrict new NPL formation while reducing existing ones through adaptive recovery strategies, enhanced legal mechanisms, and alignment with changing regulatory guidelines.

**Upgrading credit assessment and monitoring:** Investment in comprehensive credit appraisal methodologies and automated assessment systems to strengthen borrower evaluation, improve real-time portfolio oversight, and enable swift corrective action.

**Implementing the expected credit loss framework:** Early adoption of ECL methodology positions EBL to transition from reactive provisioning to forward-looking credit risk identification from the earliest stages of the loan cycle.