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The dangerous illusion of bank bonds

Subordinated bonds circulate among commercial lenders, shoring up capital on paper while quietly concentrating risk across the system

AHSAN HABIB

At its core, banking is about pricing and managing risk. Trouble begins when risk is quietly recycled within the system rather than reduced or spread adequately across the board. In trading bonds, that is increasingly what is happening in the country's banking sector.

Commercial lenders issue subordinated bonds and buy them from one another to strengthen capital in line with regulatory requirements.

While this boosts capital ratios on paper, it does not attract funds from corporates or individual investors to the desired level, which goes against the very purpose of bank bond trading. The practice keeps risk tightly concentrated within the banking sector.

Put simply, it is like households in a neighbourhood lending to and borrowing from each other, rather than spreading risk by transacting with better-off groups. The exposure does not vanish; it just circulates.

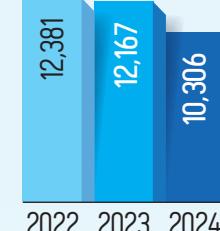
In the three years since 2022, banks accounted for around 80 percent of subordinated bond investors, according to official data. The consequence hit three years later, when the Bangladesh Bank in 2025 put five ailing lenders in the merger process.

Of them, four banks collectively owe institutional investors about Tk 2,900 crore in Mudaraba subordinated bonds and more than Tk 1,000 crore in Mudaraba perpetual bonds.

That enormous Tk 3,000 crore could simply disappear from the books, since bond investments do not have the insurance protection deposits enjoy.

RISK BUILDING INSIDE
Under banking regulations,

ISSUANCE OF SUBORDINATED BONDS BY 15 BANKS (In crore taka)

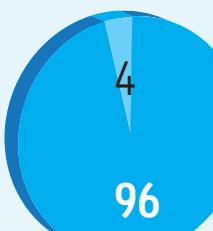


SOURCE: FINANCIAL REPORTS

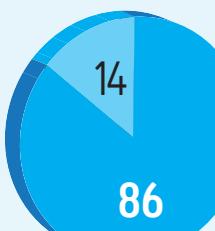
YEAR-WISE SUBSCRIPTION OF BONDS

■ By banks ■ By corporate

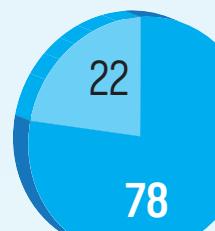
YEAR 2022



YEAR 2023



YEAR 2024



Swiss firm starts operating Pangaon terminal

STAFF CORRESPONDENT, Ctg

The Pangaon Inland Container Terminal (PICT) in West Keraniganj of Dhaka formally resumed operations yesterday under the management of Medlog Bangladesh Private Limited, a concern of the Switzerland based logistics giant Medlog.

The resumption of operations under a globally reputed company has raised hopes that the long loss-making terminal will turn profitable.

The Pangaon terminal was constructed jointly by the Chittagong Port Authority (CPA) and the Bangladesh Inland Water Transport Authority (BIWTA) in 2013, with the aim of reducing cargo pressure on highways.

Before the Medlog handover, the CPA managed the terminal's operations. However, high freight rates, lengthy clearance times, and a lack of other logistics support had left most of the terminal's capacity unused.

The facility, built at a cost of around Tk 155 crore, incurred losses for nearly a decade, prompting the government to decide to hand over its operations to an efficient private management.

On November 17, the CPA signed an agreement with Medlog Bangladesh for the management and operation of the Pangaon ICT for 22 years.

Inaugurating the terminal's resumed operations, Shipping Adviser Brig Gen (Retd) M Sakhawat Hussain hoped that upgrading the terminal to international standards would increase container movement.

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subordinated bonds count as Tier-2 capital. In the event of a failure, these bonds are repaid only after depositors and senior creditors, making them higher risk and higher return than deposits.

Banks deduct subordinated bonds from their demand and time liabilities but lend using the bond proceeds. This can worsen liquidity mismatches in a fragile banking system.

When banks subscribe to one another's bonds, no fresh capital enters the sector. Even when corporates appear to buy bonds, many of these investors are provident funds of other banks, keeping exposure within the system.

"Deposits of one bank are effectively being shown as capital of another," said AF Nesaruddin, former president of the

Institute of Chartered Accountants of Bangladesh (ICAB). "That erodes the quality of capital."

The Bangladesh Bank has previously recognised the danger of direct cross-buying, where two banks subscribe to each other's bonds. The banking regulator instructed banks to avoid such transactions to limit contagion risk.

Banks then adopted somewhat a circular subscription, according to data.

Under this arrangement, Bank A buys Bank B's bonds, Bank B buys Bank C's, and Bank C buys Bank A's. While technically compliant with the rules, the effect is much the same.

"It keeps almost the same risk within the system," said Asif Khan, president of CFA Society Bangladesh, a platform for practitioners in the investment and fund management industry.

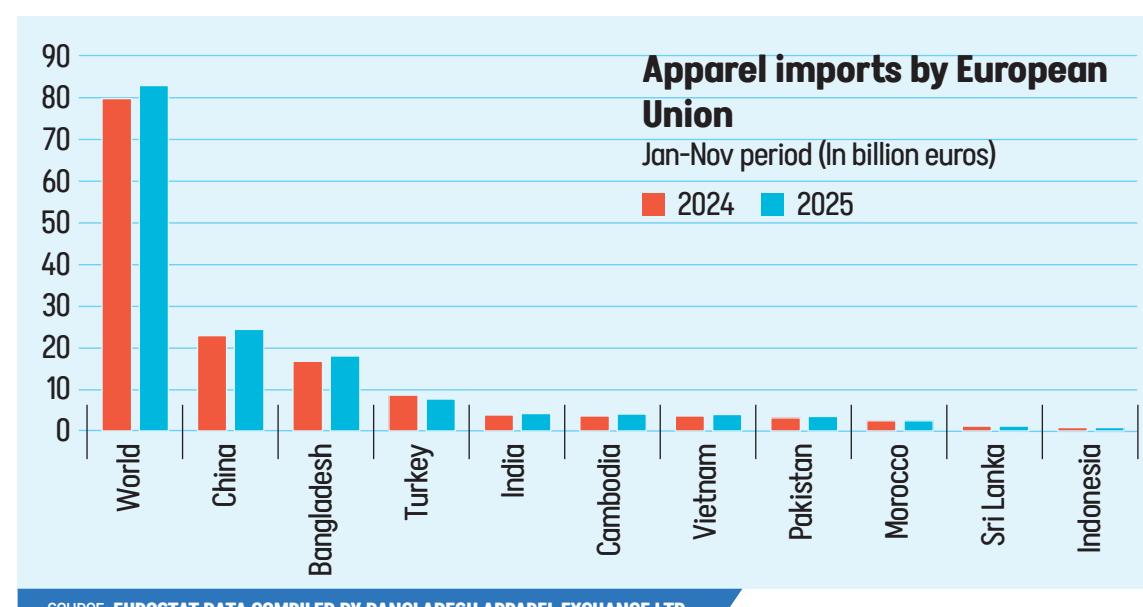
"If one bank fails, the stress spreads to others," he added.

Khan said the practice goes against the spirit of the central bank's directive but said banks are driven into it by a lack of investors. According to him, strengthening the demand side of the bond market could resolve the problem.

BANKS ARE NOT THE VILLAINS

Bankers and analysts say heavy reliance on bank-to-bank bond subscriptions is caused by a weak bond market rather than reckless behaviour by the lenders.

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RMG exports to EU grew 7% in Jan-Nov

REFAYET ULLAH MIRDHA

The country's ready-made garment (RMG) exports to the European Union (EU) grew 7.65 percent to \$18.05 billion (around \$20 billion) during the January-November period of last year, compared with the same period in 2024, according to Eurostat, the EU's official statistical office.

The rise follows a 15 percent

increase in shipments to the United States, Bangladesh's single largest market, during January-October last year amid the reciprocal tariffs.

The new US duties reshaped the apparel trade in the South Asian region, prompting countries with higher US tariffs to divert a large portion of shipments to Europe, often at more competitive prices. This shift intensified competition

in the European garment market. Despite the year-on-year gain, exports to the EU fell 10.87 percent month-on-month to \$13.7 billion in November 2025 compared with November 2024. Eurostat data showed that while unit prices for garments fell 3.25 percent, export volumes rose 11.26 percent. Over the 12 months from November 2024, unit prices dropped 12.27 percent.

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Govt tightens oversight of public assets to curb fiscal risks

STAR BUSINESS

The government has introduced a new "Property, Plant and Equipment (PPE) and Lease Manual" to strengthen asset governance and mitigate long-term liabilities, as hidden fiscal exposures from state-owned entities continue to pose risks to macroeconomic stability.

The move comes amid revelations by the Finance Division that Bangladesh's total contingent liabilities have reached Tk 6.39 lakh crore.

Record breaking 2025

-13,000 Crore

Net Deposit Growth

A.D. Ratio 83% 16419

Much of this is linked to state-owned enterprises (SOEs) and poorly monitored lease arrangements that often remain outside regular budget calculations, according to a press release.

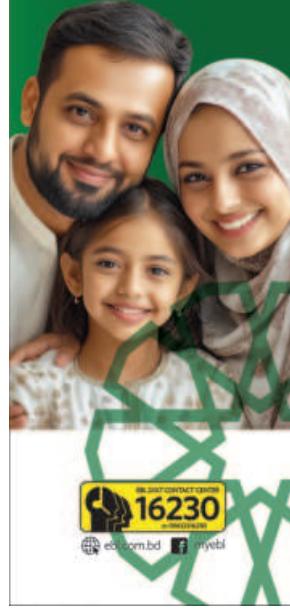
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ACI to enter property, semiconductor businesses

STAR BUSINESS REPORT

ACI Ltd, one of the leading diversified conglomerates in Bangladesh, plans to enter the property and semiconductor businesses.

The group will form two new subsidiaries -- ACI Properties Ltd and ACI Semiconductor Ltd -- according to decisions by the ACI board, taken on Thursday.

The group has 17 subsidiaries and 5 joint ventures.

The group suffered losses for the third consecutive year in the financial year 2024-25

ACI, in disclosures made through advertisements, said it would form ACI Properties Ltd with an authorised capital of Tk 100 crore and a paid-up capital of Tk 10 crore.

ACI will hold 85 percent of the shares, subject to the approval of the concerned authority.

The group operates under five strategic business units, spanning health, consumer care, agribusiness, and motors, and said its semiconductor subsidiary will also have an authorised capital of Tk 100 crore and a paid-up capital of Tk 10 crore.

In this case, ACI will hold 85 percent of the shares.

The conglomerate said the formation of the subsidiaries is subject to the approval of the concerned authority.

The group suffered losses for the third consecutive year in the financial year 2024-25.

ACI, however, posted a profit in the first quarter of the fiscal year 2025-26.