

Directors' Report 2020

The Board of Directors is pleased to welcome you all to the 29th Annual General Meeting (AGM) of the Bank and present before you the Annual Report along with the Audited Financial Statements for the year 2020. A review of business and financial performance and the underlying forces affecting these have been briefly pointed out.

Global economic outlook

The COVID-19 pandemic has triggered an unprecedented global economic crisis which is far worse than the 2008-09 global financial meltdown. World economy is estimated to have slowed down by 3.3% in 2020. To protect financial system and economy, policymakers across the globe have taken unprecedented measures to bring it on track. Though recovery in China has been faster than expected, the global economy's rebound to pre-pandemic level of activity remains prone to setbacks. After ease of lockdown global trade started to pick up in June where China was a major contributor. In the second half of 2020 financial condition started to ease for advanced economies and for most emerging market and developing economies. This pandemic has increased inequality globally by pushing more people below poverty line mainly those who live on daily wage and are migrant workers.

IMF projects that the global economy will grow by 6.0% in 2021. Additional policy support announced for 2021, mainly in USA and Japan, is expected to help in lifting economic activities in advanced economies with favorable spillover to trading partners. However, pace of recovery is likely to vary significantly across countries, depending on access to vaccine, effectiveness of policy support, exposure to cross-country spillovers, and structure of the crisis.

GDP growth (year- on- year, in percent)

Particulars	2020	2021 p	2022 p
World	-3.3	6.0	4.4
Advanced Economies	-4.7	5.1	3.6
Other Advanced Economies	-2.1	4.4	3.4
USA	-3.5	6.4	3.5
Euro Area	-6.6	4.4	3.8
Emerging Market and Developing Economies	-2.2	6.7	5.0
China	2.3	8.4	5.6
India	-8.0	12.5	6.9

Source: IMF World Economic Outlook Update (April 2021); p for projection.

Bangladesh economy: An overview

Despite facing COVID-19 pandemic induced challenges in all economic sectors, Bangladesh economy managed a 5.24% GDP growth in FY 2020 while growth rates in neighboring countries like India, Pakistan, and Sri-Lanka are expected to be negative in 2020. Being suffered from substantial production loss in large and

medium scale manufacturing output, industry sector growth rate sharply came down to 6.48% in FY 2020. The service sector impact was less severe than the industry sector which grew by 5.32% in FY 2020 against 6.78% in FY 2019 as most of the leading sub-sector activities decreased due to lockdown measures. However, the agriculture sector maintained a solid growth amid this pandemic aided by the timely availability of inputs, favorable weather conditions at the time of cultivation and harvesting and partial use of harvester machine.

The government of Bangladesh and Bangladesh Bank took a series of timely and appropriate initiatives such as stimulus packages worth more than BDT 1.21 trillion, policy relaxations, low cost refinance schemes to support weaker segments of the economy and to ensure sufficient liquidity in the banking system. These policy initiatives paved the way for the economic recovery of Bangladesh remaining at the forefront among the neighboring South Asian economies. However, MSMEs, which is the backbone of the country's economy, is yet to get the desired momentum due to slower fund disbursement from stimulus packages. Annual average inflation rose to 5.65% in FY 2020 compared to 5.5% in FY 2019. Broad money supply increased by 12.64% at the end of FY 2020 driven largely by public sector borrowing from banking system. Government's revenue collection faced a large fall due to pandemic driven economic slowdown which resulted in 55.51% increase of costly borrowing at the last quarter of FY 2020.

Country's external trade faced disruption due to restrictions on mobility imposed to curb spread of COVID-19. Due to sharper fall of exports, current account deficit significantly widened with USD 2,439 million at the end of FY 2020. Yet, the overall balance of payment (BOP) experienced a surplus of USD 3,310 million during last quarter of FY 2020 supported by record high financial inflows. The inflow of remittance in FY 2020 increased by 10.87% over the FY 2019. Strong growth of wage earner's remittance and financial inflows in the form of assistance from multilateral institutions and development partners helped to reach a record foreign exchange reserve of USD 42.97 billion at the end of December 2020.

Favored by the expansionary monetary policy and capital market policy supports from regulators, the capital market bounced back in 2020, which is visible in rising share prices, turnover, and market capitalization. The food production, remittance, the stimulus package, the reopening, and the uptick in domestic demand and exports put the country on the path of recovery.

Banking industry in 2020

The banking industry in Bangladesh is highly fragmented into state-owned commercial banks (SCBs) and local and foreign private commercial banks (PCBs) with a marked difference in profitability

and other financial soundness indicators (governance, asset quality, capital adequacy etc.). During July-December 2020 banking sector's performance indicators showed resilience which is reflected in fall of non-performing loans (NPLs), a moderation in capital adequacy and profitability, an improvement in liquidity condition, and betterment of provision maintenance. Due to loan moratorium facility provided by Bangladesh Bank, the overall NPL ratio stood at 7.66% (including Offshore Banking Operation) at the end of December 2020. The capital to risk-weighted assets ratio (CRAR) was marginally moderated to 11.64% as of December 2020 compared to 11.94% in September 2020. In 2020, RoA and RoE of the banking sector dropped to 0.25% and 4.28% compared to those of 0.43% and 6.83% respectively in 2019.

Bank deposits grew by 13.1% in December 2020 compared to 12.4% in September 2020 amid the pandemic riding on higher remittance inflows. Loan disbursement from the stimulus packages helped loans and advance of the banking industry to grow marginally by 9.6% in September 2020 compared to 9% in June 2020. However, this growth decelerated to 8.2% in December 2020. Though public sector credit grew due to large flow of foreign loans and selling of national saving certificate, private sector credit demand was slower. Private sector credit grew slowly because of banks' cautiousness towards quality lending as well as investors' stickiness to survival strategies during the COVID-19 period instead of expanding their businesses. As the bank deposits grew faster than bank advances, the overall ADR fell from 74% at the end of September 2020 to 72.7% at the end of December 2020; way below the maximum regulatory ceiling which adversely affected the profitability of the banks.

The liquidity condition of the banking system broadly remained stable and sufficiently adequate. Bangladesh Bank's easing monetary policy stance, higher remittance flow, and government's stimulus packages ensured excess liquidity in the banking system. Due to implementation of lending rate ceiling of 9% from 1 April 2020, weighted average interest rates witnessed a significant decline both in lending and deposit. Moreover, excess liquidity in the banking sector due to pandemic driven weak credit demand led to sharp fall in the interest rate on lending. This induced the banks to lower the interest rate of deposit. Weighted average deposit and lending rates decreased from 5.51% and 9.58% in March 2020 to 4.54% and 7.61% in December 2020, respectively.

The banking sector, as a whole, was able to maintain the required level of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) and other liquidity ratios i.e. Liquidity Coverage ratio (LCR), Net Stable Funding Ratio (NSFR) as on 30 September 2020.

Some important initiatives taken by Bangladesh Bank in 2020 are as follows:

- Implementation of lending rate cap on 9%.
- Slashing cash reserve ratio (CRR) for both domestic and offshore banking operation.
- Reduction of bank rate and repo rate and increase of the ceiling of ADR.
- Payment by deferral (PBD) facility on loan payments for 2020 without downgrading or classifying the borrowers.

- 360-day special repo facility for bank and financial institutions.
- Instruction on maintaining status quo of loan classification as of 31 December 2019 without downgrading or classifying the borrowers.
- Agricultural credit facility at a concession rate.
- Instruction for waiver of late payment fee/charge/penal interest/additional revenue or any other fee/charge due to delayed credit card bill payment.
- Implementation of government's stimulus packages worth more than BDT 1.21 trillion mainly for export oriented industry, large industries and service sector.
- Refinance Facilities under Stimulus Packages provided to banks for disbursement to target sectors.
- Additional 1% special general provision for COVID-19 on PBD accounts.
- Setting cap on distribution of cash and stock dividend.

Banking sector has already been struggling with high volume of NPL, weak corporate governance, major scams and various irregularities. Banks played crucial role in implementing different stimulus packages announced by the government. Managing stressed assets and expediting the recovery process will be high priority for the banking sector in the post-moratorium era. Moreover, constant supervision and vigilance are required for channeling funds of the stimulus packages to the affected large industries, CMSME, and the agriculture sector.

Economy and business outlook 2021

To recover from the ongoing economic challenges caused by COVID-19 pandemic, expansionary monetary policy has been formulated for FY 2021 accommodating supporting needs while staying within targeted inflation rate of 5.5% for GDP growth target of 6.1%. Due to devastating impacts of the second wave of the coronavirus pandemic on the battered economy, government has set an achievable realistic target for FY 2021. Govt.-imposed lockdown and travel restrictions for second wave of the pandemic have impacted economic activities which could adversely affect livelihood and slow down the pace of economic recovery

As global economies are opening up, exports are likely to bounce back in the near term. Likewise, FDI inflows are expected to upturn by resuming the different development projects including continued collaboration with partner countries for investing in Bangladesh's different infrastructure projects. The government's stimulus packages along with the restoration of business confidence is likely to boost up public and private investment. Foreign exchange reserve will continue its uptrend provided that the economy gets support from strong growth of export and inflow of remittance. Recovery of private sector credit growth is expected to grow along with the growth of public sector borrowing mainly for implementing annual development program (ADP) and supporting stimulus packages for the pandemic hit economy.

Although overall NPLs have declined, the bad loans are expected to rise when the moratorium facility will be lifted. Bad loan recovery will be top priority for the banking sector in the post-moratorium era.

Recent successful results for vaccine development against COVID-19 has raised hopes for humanity which will impact the global as well as domestic economy positively. However, renewed waves and new variants of the virus can elevate downside risk and the economic recovery could be uneven. Weaker than expected growth in the export destinations mainly in USA and EU region will directly affect the recovery of Bangladesh economy. According to World Bank's forecast Bangladesh economy is forecasted to grow by 1.6% in 2021. All sector of the country's economy will not be able to recover in same pace. Stimulus packages and liquidity support will help large industries and public organizations to recover at a faster pace while the CMSME enterprises will lag behind. Hence policy support is required to absorb the need of small and micro enterprises, agriculture and young and new entrepreneurs. Bangladesh Bank has issued SMESPD circular no. 04 dated 29 March 2021 instructing commercial banks to constitute their own and separate "Start-up Fund" for lending to the startup companies along with government's BDT 5 billion refinance fund. This will be collateral free fund at a very concession rate.

Financial performance highlights of EBL

Banking industry passed a challenging year in terms of governance, capital adequacy, profitability and soundness in 2020. Despite intensified challenges, EBL managed its portfolio efficiently closing the year 2020 with an NPL of 2.72% (3.35% in 2019) which is lower than that of industry average (7.66% as of December 2020). It is to be mentioned here that, relaxation of classification criteria by Bangladesh Bank helped in reduction of new classification and down-gradation of loans.

The prime focus during the year has been upholding service excellence, maintaining asset quality, recovering classified and written off loans,

mobilization of deposits, and rationalizing costs. A brief review of financial performances of the Bank (solo) are as follows:

- Net interest income (NII) which contributed 42% of total operating income decreased by 27% in 2020 compared to last year (interest income decreased by 15% and interest expense decreased by 8%).
- Non-interest income which contributed rest 58% increased by 27% mainly due to increase of income from investment by 83% and other operating income by 39% in 2020 compared to 2019.
- Compared to last year, operating income decreased by 3% and operating expense increased marginally by only 1%. As a consequence, operating profit of the Bank decreased by 6% and reached at BDT 7,692 million in 2020.
- Total provision decreased by 49% in 2020 compared to last year. General provision decreased mainly due to provision relaxation on consumer finance from 5% to 2%. In addition, we have maintained special general provision of BDT 602 million for COVID-19 to comply with regulatory requirement. Specific provision decreased by 39% due to no new classification and down gradation of loans, and other provision decreased by 114% mainly due to provision released for quoted securities as market price increased. Besides, BDT 77 million have been maintained as other provision for "Start-up Fund".
- Total tax provision increased by 15% in 2020 compared to last year mainly due to decrease of deferred tax income as new classification and down gradation of loans were halted for 2020 as per Bangladesh Bank's instruction.
- Finally Bank's profit after tax (PAT) increased by BDT 94 million or 2.36% in 2020 compared to 2019.

Following table summarizes comparative financial performance of EBL both as a Group and as the Bank:

BDT in million

Particulars	Group			Bank		
	2020	2019	% Change	2020	2019	% Change
Net interest income (NII)	6,052	8,277	-27%	5,930	8,159	-27%
Non-interest income	8,515	6,743	26%	8,203	6,439	27%
Total operating income	14,567	15,020	-3%	14,134	14,597	-3%
Total operating expense	6,672	6,642	0%	6,441	6,387	1%
Operating profit (Profit before provision and tax)	7,895	8,378	-6%	7,692	8,210	-6%
Specific provision	928	1,255	-26%	765	1,255	-39%
General provision	(274)	56	-585%	(274)	56	-585%
Special general provision for COVID -19	602	-	-	602	-	-
Other provision [charged/(released)]	(101)	723	-114%	(92)	643	-114%
Total provisions	1,155	2,035	-43%	1,001	1,954	-49%
Profit before tax for the year	6,740	6,343	6%	6,691	6,256	7%
Tax provision for the year	2,560	2,353	9%	2,588	2,248	15%
Profit after tax (PAT)	4,180	3,990	5%	4,103	4,008	2%
Earnings per share (EPS)	5.15	4.92	5%	5.05	4.94	2%

ROA and ROE have decreased in 2020 due to higher growth of equity compared to growth of PAT. Cost to income ratio has increased mainly due to decrease of operating income by 3%. The Capital to risk weighted assets ratio (CRAR) has increased to 15.23% in 2020 from 14.74% in 2019. Following table presents some of the key financial ratios:

Particulars	Bank	
	Year 2020	Year 2019
Return on average equity (PAT/Average Equity)	15.04%	16.52%
Return on average assets (PAT/Average Assets)	1.22%	1.30%
Cost to income ratio (operating expense/operating income)	45.58%	43.76%
Capital to risk weighted assets ratio	15.23%	14.74%
NPL ratio	2.72%	3.35%
EPS (BDT)	5.05	4.94
Price to book value ratio	100.86%	105.41%

History of raising capital

As on the reporting date (31-12-2020), the Bank had paid up capital of BDT 8,117,995,470 of which 84.07% was raised through stock dividend. The history of raising paid up capital to BDT 8,117.99 million as of year-end 2020 is presented below:

AGM Date	Particulars	No. of Shares*	Volume in Taka	Cumulative Paid up Capital in BDT
9 December 1993	As per MOA & AOA	60,000,000	600,000,000	600,000,000
5 August 2001	20% Bonus Share	12,000,000	120,000,000	720,000,000
8 December 2003	15% Bonus Share	10,800,000	108,000,000	828,000,000
12 June 2007	25% Bonus Share	20,700,000	207,000,000	1,035,000,000
25 May 2008	34% Bonus Share	35,190,000	351,900,000	1,386,900,000
25 May 2008	Right Share 2:1 at Par	69,345,000	693,450,000	2,080,350,000
28 April 2009	20% Bonus Share	41,607,000	416,070,000	2,496,420,000
30 March 2010	17% Bonus Share	42,439,140	424,391,400	2,920,811,400
30 March 2011	55% Bonus Share	160,644,627	1,606,446,270	4,527,257,670
29 March 2012	35% Bonus Share	158,454,018	1,584,540,180	6,111,797,850
19 May 2016	15% Bonus Share	91,676,967	916,769,670	7,028,567,520
27 April 2017	5% Bonus Share	35,142,837	351,428,370	7,379,995,890
23 May 2019	10% Bonus Share	73,799,958	737,999,580	8,117,995,470

*Face value per share of BDT 10 has been considered in all the cases to conform to comparability.

Appropriation of profit

Profit after tax (PAT) of the Bank stands at BDT 4,103 million during the year including net deferred tax income of BDT 52 million out of which BDT 79 million arises on specific provision made against Bad/Loss loans and cannot be distributed as dividend as per BRPD Circular No.11 dated 12 December 2011 of BB. As the paid-up capital and statutory reserve of the Bank is equal, no fund is required to transfer to statutory reserve in 2020. Thus, cumulative profit available for distribution stands at BDT 6,520 million out of which the Board of Directors recommended 17.5% cash dividend and 17.5% stock dividend amounting to BDT 2,841 million for the year 2020.

Utilization of proposed stock dividend

Stock dividend has been recommended to strengthen the capital base of the Bank in order to support projected business growth and also to improve certain regulatory ratios.

Capital adequacy status under Basel III

Bank's Capital to Risk Weighted Assets Ratio (CRAR) remains consistently within the comfort zone against the requirement of 12.5% (Minimum total capital ratio plus capital conservation buffer) and ended at 15.23% as on 31 December 2020. For details please see Market Discipline (Basel III) section of this annual report.

Status of asset quality

As on 31 December 2020, NPL ratio of the banking industry stood at 7.66% which was 9.32% (without OBO) in December 2019. The NPL ratio of EBL was 2.72% at the end of 2020 which was 3.35% at the end of 2019. The status of unclassified and classified loan of the Bank is as follows:

BDT in million

Particulars	31-12-2020	31-12-2019	% Change
Unclassified loans:	222,717	224,280	-0.70%
Standard (Including staff loan)	220,984	221,568	-0.26%
Special Mention Accounts (SMA)	1,733	2,712	-36.10%
Classified loans:	6,226	7,771	-19.88%
Sub-standard (SS)	1,033	1,122	-7.98%
Doubtful (DF)	287	372	-22.66%
Bad/loss (BL)	4,906	6,278	-21.84%
Total loans	228,944	232,051	-1.34%
NPL %	2.72%	3.35%	

Management discussion and analysis

A separate section titled 'Management discussion and analysis' has been presented in page no. 155-187. Under this section, a comparative analysis of financial performance (2016-2020) of the Bank has been presented with analytics. A brief highlight of EBL business units namely Corporate Banking, Retail & SME Banking and Treasury has been presented along with strategic outlook. In pursuance of an inorganic growth route and to open up diversified earnings stream, EBL established or acquired four subsidiaries, all of them fully owned, till the reporting date i.e. 31 December 2020. A brief review of subsidiaries business during 2020 also has been presented under this section.

Internal control system

Robust internal control system helps EBL to ensure achieving goals and aspirations sustainably. This control system also ensures that the Bank complies with local laws and regulations as well as policies, plans, internal and external rules, guidelines and procedures, and subsequently decrease the risk of unexpected loss or damage to the Bank. The Board has delegated the responsibility of overall supervision of internal control system to Audit Committee of the Board. The key functionalities that have been established in reviewing adequacy and integrity of the system of internal control are as follows:

- Different committees have been formed consisting of relative stakeholders with expertise on the subject matter to assist the Board in guiding the Bank's operation in line with corporate mission, vision and strategies.
- The internal audit department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control system on regular basis and highlights significant findings in respect of any non-compliance.

- The Audit Committee of the Board reviews the internal control findings identified by the Internal Audit of the Bank, Inspection Team of Bangladesh Bank, External Auditors and Management, and evaluates the adequacy and effectiveness of the risk management and internal control systems.
- The Board of Directors holds meetings at suitable intervals with senior management, internal auditors, external auditors and the Audit Committee for evaluating the effectiveness of internal control system and provides necessary guidance.
- The internal audit department has direct access to the Audit Committee as and when required to ensure submission of internal audit findings to the Audit Committee without any management intervention.
- Self-Assessment of Anti-Fraud Internal Controls is carried out on half-yearly basis and is sent to Bangladesh Bank as per requirement of DOS Circular Letter No. 10 dated 09 May 2017 issued by BB after receiving compliance confirmation from respective stakeholders.

Risk management

The Risk Management Committee (RMC) of the Board reviews and monitors the overall risk management system of the Bank and updates to the Board from time to time. Risk management functions are subject to continuous scrutiny of Internal Control & Compliance Division (ICCD) and supervision of Risk Management Division (RMD) to ensure appropriateness and integrity of the risk management mechanism.

The risk management system of EBL has been described in "**Risk Management Report**" section of this annual report. Also the major areas focused by RMC in 2020 have been presented in "**Report of the Risk Management Committee of the Board**" section of this annual report.

Financial reporting

- Proper books of account as required by law have been maintained by EBL.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements.
- Accounting estimates and underlying assumptions are made on reasonable ground applying prudent judgment, and are reviewed on an ongoing basis.
- The Financial Statements (FS) of the Bank are prepared in accordance with applicable International Financial Reporting Standards (IFRSs) and relevant circulars/instructions issued by Bangladesh Bank (BB) and any departure from IFRS due to BB regulation has been adequately disclosed in the notes to the FS.
- A discussion on related party transactions has been stated in the 'Corporate Governance Report' and a statement with amount of related party transactions has been presented in the Annexure C1 of the FS 2020.
- Being responsible for preparation and fair presentation of the FS, the management of the Bank asserts that the FS prepared by the management as at and for the year ended 31 December 2020 present fairly, in all material respects, its state of affairs, the results of its operations, cash flows and changes in equity.
- There is no significant doubt upon the Bank's ability to continue as a going concern. EBL has neither intention nor the need to liquidate or curtail materially the scale of its operations. Hence, the financial statements of the Bank have been prepared as per going concern basis and the Bank will continue to operate for the foreseeable future.

Compliance with corporate governance guidelines

As a responsible corporate citizen, EBL duly complied with the provisions of corporate governance guidelines issued by Bangladesh Securities and Exchange Commission (BSEC). The compliance status of EBL on the guidelines has been presented in the section of 'Corporate Governance Report'. Also, K.M. HASAN & CO., Chartered Accountants, has certified the compliance status of EBL on the BSEC's corporate governance guidelines during 2020 which is mentioned in page 106 of this annual report.

CSR activities

As a socially responsible corporate, EBL continued to be engaged in a number of CSR activities throughout the year, including a number of donations towards charitable causes.

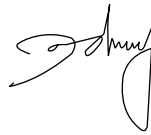
- We donated BDT 100 million to the Prime Minister's Relief and Welfare Fund for flood affected regions in Bangladesh.
- Donated 75,000 pieces (costing BDT 21.50 million) of blankets to Prime Minister's Relief & Welfare Fund through Bangladesh Association of Banks (BAB) for distribution among cold-hit people. We have also donated another BDT 2.6 million for distribution of 9000 pcs of blankets among cold-hit people.
- We have given BDT 4.5 million as scholarship to disadvantaged but meritorious students of University of Dhaka through Dhaka University Alumni Association (DUAA).
- We have donated BDT 50 million to Prime Minister's Relief & Welfare Fund for providing PPE/Testing Kits/Respiratory equipment as response to pandemic through BAB.
- Donated BDT 3.75 million to BIBM for construction of proposed 15 storied building of BIBM.

Bangladesh Bank has issued BRPD Circular no. 09 dated 26 April 2021 instructing commercial banks to spend 1% of the net income of 2020 in addition to planned CSR expenditure during 2021 for the people who have been severely affected by the pandemic. EBL will comply with the circular accordingly. However, the said additional expenditure on CSR can be adjusted with the CSR expenditure to be incurred for the period from 2022 to 2024.

Contribution to national exchequer

EBL regularly pays corporate tax on time, sometime even before it falls due if demanded by the tax authority. We also deposit excise duty, withheld tax and VAT to govt. exchequer on time deducted from customers, employees' salary as well as on bills from third parties including vendors. During the calendar year 2020 we contributed BDT 7,462.65 million to national exchequer as tax, VAT and excise duty. We paid advance corporate tax of BDT 3,582.47 million while deposited withheld tax of BDT 2,928.97 million, VAT of BDT 598.80 million and Excise Duty of BDT 352.41 million during the year 2020.

On behalf of the Board of Directors



Md. Showkat Ali Chowdhury

Chairman of the Board of Directors

Dhaka, 28 April 2021