

Directors' Report 2019

The Board of Directors is pleased to welcome you all to the 28th Annual General Meeting (AGM) of the Bank and present before you the Annual Report along with the Audited Financial Statements for the year 2019. A review of business and financial performance and the underlying forces affecting these have been briefly pointed out.

Global economy and its outlook

The subdued economic growth (2.9% in 2019) is seen as a consequence of rising trade barriers, heightened uncertainty surrounding trade and geo-politics, distinctive factors causing macroeconomic stress in several emerging market economies and structural factors, such as low productivity growth and ageing demographics in advanced economies. Trade tensions have risen sharply in 2019 due to significant increase of tariff between the United States and China and hurting business sentiment and confidence globally.

Advanced economies continue to slow toward their long-term potential. For the United States, trade related uncertainty has made negative effects on investment. In the euro area, growth has been downgraded due to weak exports, while Brexit-related uncertainty continues to weaken growth in the United Kingdom. In China, the growth downgrade reflects not only escalating tariffs but also slowing domestic demand. In India, growth weakened in 2019 mainly due to corporate and environmental regulatory uncertainty and concerns about the health of the non-bank financial sector. Growth in the low-income developing countries remains robust, though growth performance is more heterogeneous within this group. Robust growth is expected for non-commodity exporters, such as Vietnam and Bangladesh, while the performance of commodity exporters, such as Nigeria, is projected to remain lackluster.

The COVID-19 pandemic is perpetrating high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus. The health crisis is therefore having a severe impact on economic activity. As a result of the pandemic, the global economy is projected to contract sharply by 3% in 2020 as per projection of IMF in April 2020.

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

Particulars	2019	2020 p	2021 p
World	2.9	-3.0	5.8
Advanced Economies	1.7	-6.1	4.5
Other Advanced Economies	1.7	-4.6	4.5
USA	2.3	-5.9	4.7
Euro Area	1.2	-7.5	4.7
Emerging Market and Developing Economies	3.7	-1.0	6.6
China	6.1	1.2	9.2
India	4.2	1.9	7.4

Source: IMF World Economic Outlook Update (April 2020); p for projection.

Bangladesh economy: A brief review

Bangladesh economy continued to maintain healthy growth in FY 2019 supported by rising exports, private consumption, and record remittances. According to Bangladesh Bureau of Statistics (BBS), GDP growth in FY 2019 has reached at 8.1% (7.9% in FY 2018), the highest ever growth considering the new base year of 2005-06. This performance puts Bangladesh among the top ten fastest-growing countries globally. Large and medium-scale manufacturing activities responded the fastest on the supply side, accompanied by broad-based growth in services, led by wholesale and retail trade.

The diversion of export orders from China boosted export growth, which rose by 10.5% in FY 2019. Export growth has been led by RMG exports and supported by agricultural products, pharmaceuticals and other manufacturing products. There was a marked slowdown in import growth in FY 2019 which rose by 1.8% in FY 2019, much lower compared to over 25% growth in FY 2018. Decelerated import growth has been driven by a decline in food and capital machinery imports.

The industry sector grew by 13% in FY 2019, led mainly by manufacturing and construction activities. The service sector grew by 6.5% in FY 2019, led by an expansion in wholesale and retail trade, supplemented by strong growth in transportation and financial intermediation services. Agricultural growth fell to 3.5% in FY 2019 from 4.2% in FY 2018. A bumper rice harvest made a limited contribution to agricultural growth as growth in crops and horticulture declined from 3.1% in FY 2018 to 1.75% in FY 2019.

As bumper rice yields led to falling prices, food inflation dropped to 5.5% in FY 2019 from 7% in FY 2018. Non-food inflation increased from 3.7% to 5.4% in FY 2019, led by increasing clothing and footwear prices.

Broad money growth increased marginally (from 9.2% in FY 2018 to 9.9% in FY 2019) as public sector bank borrowing increased sharply. Private credit growth constrained by declining deposit growth, US dollar sales by Bangladesh Bank (BB), rising non-performing loan (NPL), and pressure to comply with the 9% ceiling on the lending rate.

Remittance inflows grew by 9.8% reaching a record USD 16.4 billion in FY 2019. The balance of payments was slightly positive (USD 12 million) in FY 2019. The current account deficit decreased to USD 5,254 million in FY 2019 from USD 9,567 million in FY 2018 as the trade and services deficits fell, and remittances rose.

Gross foreign exchange reserve stood at USD 32.6 billion at the end of FY 2019, representing around 5.8 months of prospective imports. BB intervention in the foreign exchange market moderated the depreciation of the BDT/USD rate as the US dollar gained strength in global markets. The real effective exchange rate appreciated by about 5.6% leading to a loss of price competitiveness internationally, particularly when combined with relatively low productivity and high inflation. The RMG sector has been provided with cash subsidies which have offset this competitive disadvantage.

Banking industry in 2019

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.). Too many banks chasing too few eligible borrowers resulting highly competitive interest rates and rising Non-performing loan (NPL) have been the major challenges facing the industry. Banking sector indicators reflected a mixed performance in terms of asset growth, capital adequacy, profitability and asset quality in 2019.

During July-September 2019, banking sector's indicators showed some mixed performance, as reflected in the non-performing loan (NPL), capital adequacy, provision shortfall position and liquidity conditions. During the said period, a modest growth in the assets of the banking sector was observed. Compared to June 2019, share of loans and advances remained almost same while share of investments increased notably at the end of September 2019 due to higher government borrowing through Treasury bond and securities. Overall NPL edged up, driven mainly by the performance in the SCBs and also deterioration of asset quality in a few PCBs. At the end of September 2019, gross NPL ratio reached at 12% which was 11.7% at the end of June 2019 and 10.3% at the end of December 2018. Provision maintenance ratio slightly decreased at the end of September 2019 compared to June 2019 and the decline in provision maintenance ratio could be attributed to proportionate adjustment in maintained provision relative to the required provision. Profitability as measured by ROA and ROE also decreased at the end of September 2019 compared to June 2019. Liquidity situation seemed to improve further during July-September 2019 period as evident from decreased advance-to-deposit ratio (ADR). ADR of the overall banking industry reached at 76.6% at the end of September 2019, remaining below the maximum regulatory ceiling.

Banking sector capital to risk-weighted assets ratio (CRAR) slightly decreased on 30 September 2019 (11.6%) with respect to that of 30 June 2019 (11.7%). As on 30 September 2019, 47 out of 57 banks satisfied CRAR compliance requirements in line with Pillar 1 of the Basel III capital framework.

In 2019, some of the following important initiatives taken by Bangladesh Bank:

- Revision of loan/investment write-off policy.
- Issuance of policy for offshore banking operations of banks in Bangladesh.
- Revision of loan classification and provisioning policy.
- Instructions regarding investment in non-listed securities and investment in special purpose vehicle, alternative investment fund or similar fund/funds by scheduled banks.
- Instructions for close monitoring of banks' classified loan accounts amounting to BDT 100 crore and above.
- Revision of maintenance of CRR and SLR for offshore banking operations in Bangladesh.

- Re-fixation of advance/investment-to-deposit ratio to be maintained by banks.
- Temporary liquidity support for investment in capital market by banks.
- Agricultural loan facility for the flood affected farmers.
- Guidelines regarding cash incentive on wage earners remittance.
- Modifications in various foreign exchange regulations to smoothen the foreign exchange market in Bangladesh.

Reducing NPL and minimizing risk of credit default are the key concern for stability of the banking sector. Strengthening risk management, enhancing of effective micro prudential regulations, ensuring corporate governance, and accelerating loan recovery process are needed for maintaining stability.

Economy and business outlook 2020

The FY 2020 monetary program has been formulated to accommodate GDP growth target of 8.2% and to fix a monetary growth path aiming at average inflation rate within the targeted ceiling of 5.5%. This would require a monetary program that limits broad money and domestic credit growth ceilings at 12.5% and 15.9% respectively by June 2020. Based on the trend of recent past, the public and private sectors will use this room for domestic credit growth to estimated extents respectively of 24.3% and 14.8% growth in credit to the two sectors. Some headwind stemmed from slowdown of export and import growth due to shrinking global economic growth may likely impact growth outlook in FY 2020. During July-December 2019 export decreased by 5.84% compared to July- December 2018 and import during July-November 2019 fell by 5.25% compared to July-November 2018.

In the financial sector, stock market volatility and high NPL remains a perennial source of risks. Lack of good governance in the banking sector could impair its capacity to extend credit and support growth if the economy slows down. Implementation of maximum 9% interest rate for all loans (except credit cards) from April 2020 will affect the liquidity and profitability of banks.

Global economic ramifications of the Covid-19 will adversely impact the previous growth projections for Bangladesh in 2020. As all major advanced economies are showing signs of recession, this will adversely affect Bangladesh through exogenous trade shocks and disruptions in supply chains. Large retail outlets have already closed their stores which may significantly affect factories and workers locked into supply chains with implications for countries like Bangladesh. In the post-Covid-19 period, the restructured shorter supply chains likely to result in permanent losses of business for many firms and their employees in Bangladesh.

The Covid-19 crisis has caused increased economic vulnerability as reflected in rapid slowdown in projected growth away from the trend. As projected by IMF, growth rate for Bangladesh stands at 2.0% for 2020. However, the economy is expected to bounce back to its trend growth rate in 2021 which is projected to be 9.5%. But that projection is entirely dependent on how soon Bangladesh is able to bring the pandemic under control.

Financial performance highlights of EBL

Banking industry passed a challenging year in terms of governance, capital adequacy, profitability and soundness in 2019. Despite intensified challenges, EBL managed its portfolio efficiently closing the year 2019 with an NPL of 3.35% (2.35% in 2018) which is lower than that of industry average (9.32%). The prime focus during the year has been improving asset quality, recovering classified and written off loans, mobilization of deposits, process automation, upholding service excellence, and rationalizing costs. A brief review of financial performances are as follows:

- Net interest income (NII) which contributed 56% of total operating income increased by 9% in 2019 compared to last year (interest income increased by 17% and interest expense increased by 22%).
- Non-interest income which contributed rest 44% increased by 14% mainly due to increase of income from investment by 19% and fees, commission & brokerage by 11% in 2019 compared to 2018.

- Compared to last year, operating income increased by 11% and operating expense increased by 7%. As a consequence, operating profit of the Bank increased notably by 15% and reached at BDT 8,210 million in 2019.
- Total provision decreased by 24% in 2019 compared to last year (general provision decreased by 83% mainly due to reduction of off-balance sheet exposure compared to last year, specific provision decreased by 33%, and other provision increased by 73% mainly due to decrease of market price of quoted securities).
- Total tax provision increased by 49% in 2019 compared to last year mainly due to increase of profit before tax by 36% and decrease of tax deductible expense for not having any write-off loans in 2019.
- Finally Bank's profit after tax (PAT) increased by BDT 927 million or 30% in 2019 compared to 2018.

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

BDT in million

Particulars	Group		% Change	Bank		% Change
	2019	2018		2019	2018	
Net interest income (NII)	8,277	7,611	9%	8,159	7,506	9%
Non-interest income	6,743	6,004	12%	6,439	5,633	14%
Total operating income	15,020	13,615	10%	14,597	13,139	11%
Total operating expense	6,642	6,235	7%	6,387	5,995	7%
Operating profit (Profit before provision and tax)	8,378	7,380	14%	8,210	7,144	15%
Specific provision	1,255	1,911	-34%	1,255	1,861	-33%
General provision	56	327	-83%	56	327	-83%
Other provision	723	415	74%	643	370	73%
Total provisions	2,035	2,652	-23%	1,954	2,558	-24%
Profit before tax for the year	6,343	4,728	34%	6,256	4,586	36%
Tax provision for the year	2,353	1,617	46%	2,248	1,505	49%
Profit after tax (PAT)	3,990	3,111	28%	4,008	3,081	30%
Earnings per share (EPS) (restated)	4.92	3.83	28%	4.94	3.79	30%

ROA and ROE have increased in 2019 due to increase in PAT by 30%. Cost to income ratio has slightly decreased due to higher growth of operating income than that of operating expense. The Capital to risk weighted assets ratio (CRAR) has increased to 14.74% in 2019 from 12.16% in 2018. Following table presents some of the key financial ratios:

Particulars	Bank	
	Year 2019	Year 2018
Return on average equity (PAT/average equity)	16.52%	13.83%
Return on average assets (PAT/average assets)	1.30%	1.15%
Cost to income ratio (operating expense/operating income)	43.76%	45.63%
Capital to risk weighted assets ratio	14.74%	12.16%
NPL ratio	3.35%	2.35%
EPS (BDT) (Restated)	4.94	3.79
Price to book value ratio (Restated)	105.41%	127.25%

Appropriation of profit

Profit after tax (PAT) of the Bank stands at BDT 4,008 million during the year including net deferred tax income of BDT 664

million out of which BDT 694 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. And BDT 738 million is required to transfer to statutory reserve in 2019 to equalize statutory reserve with paid-up capital of the Bank. Thus, cumulative profit available for distribution stands at BDT 3,714 million out of which the Board of Directors recommended 25% cash dividend amounting BDT 2,029 million for the year 2019.*

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 14.74% as on 31 December 2019. However, to keep pace with the growth of risk weighted assets and increased CRAR requirement under Basel III, the Bank issued 2nd 7 year Non-convertible Subordinated Bond of BDT 5,000 million in 2019. For details, please see Market Discipline (Basel III) section of this annual report.

*Board recommended 25% cash dividend for the year 2019 on 05 April 2020. Subsequently Bangladesh Bank has set a cap on dividend (Total: 30%; cash 15%) vide DOS Circular No. 03 dated 11 May 2020. However, final dividend decision will be taken by the shareholders at the 28th AGM in compliance with respective rules and regulations.

History of raising capital

As on the reporting date (31-12-2019), 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 on year-end 2019 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.

Status of asset quality

As on 31 December 2019, NPL ratio of the banking industry stood at 9.32% which was 10.30% one year back. The NPL ratio of EBL was 3.35% at the end of 2019 which was 2.35% at the end of 2018. The status of unclassified and classified loan of the Bank is as follows:

BDT in million

Particulars	31-12-2019	31-12-2018	% Change
Unclassified loans:	224,280	204,380	9.74%
Standard (Including staff loan)	221,568	199,999	10.78%
Special Mention Accounts (SMA)	2,712	4,381	-38.10%
Classified loans:	7,771	4,926	57.76%
Sub-standard (SS)	1,122	1,071	4.83%
Doubtful (DF)	372	633	-41.32%
Bad/loss (BL)	6,278	3,223	94.80%
Total loans	232,051	209,306	10.87%
NPL %	3.35%	2.35%	

Management discussion and analysis

A separate section titled 'Management discussion and analysis' has been presented in page no. 125. Under this section, a comparative analysis of financial performance (2015-2019) 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 2019. A brief review of subsidiaries business during 2019 also has been presented under this section.

Internal control system

EBL has a robust system of internal control to ensure achieving the goals and objectives that the Bank targets for long-term profitability along with reliable financial and managerial reporting. This sound control system also supports to certify that the Bank has complied with related laws and regulations as well as policies, plans, internal and external rules, guidelines and procedures, and accordingly support decreasing the risk of unexpected losses or damages to the Bank's reputation. 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 expert knowledge on the subject matter to assist the Board in guiding the Bank's operation in line with corporate vision, mission, 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 an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance.
- The Audit Committee of the Board reviews the 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.

- 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 2019 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 with 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 and any departure therefrom 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 2019.
- 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 2019 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 said 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 2019 which is mentioned in page 86 of this annual report.

CSR activities

Being 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 Bangabandhu Memorial Trust for observing Mujib Borsho.
- Donated 75,000 pieces (costing BDT 22.78 million) of blankets to Prime Minister's Relief & Welfare Fund through Bangladesh Association of Banks (BAB) for distribution among cold-hit people.
- Donated BDT 10 million to Prime Minister's Relief and Welfare Fund through BAB for devastating fire affected people in Chawkbazar, Dhaka.
- We have given BDT 4.5 million as scholarship to the students of University of Dhaka for their outstanding academic performance through Dhaka University Alumni Association (DUAA).
- Donated BDT 3.75 million to BIBM for construction of proposed 15 storied RCC building of BIBM.
- Donated BDT 3 million through BAB for CCTV Camera Surveillance Project of Gulshan and Banani Area.
- Donated 6,175 pieces (costing BDT 1.85 million) of blankets for distribution among cold-hit people.

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 2019 we contributed BDT 5,196.54 million to national exchequer as tax, VAT and excise duty. We paid advance corporate tax of BDT 1,682.77 million while deposited withheld tax of BDT 2,682.71 million, VAT of BDT 597.26 million and excise duty of BDT 233.81 million during the year 2019.

On behalf of the Board of Directors



Md. Showkat Ali Chowdhury

Chairman of the Board of Directors

Dhaka, 22 April 2020