

Directors' Report 2021

The Board of Directors is pleased to welcome you all to the 30th Annual General Meeting (AGM) of the Bank and present before you the Annual Report along with the Audited Financial Statements for the year 2021. A review of business and financial performance and the underlying forces affecting those have been briefly pointed out.

Global economic outlook

Over the past two years COVID-19 pandemic continued to wreak havoc on lives and livelihood and disrupted the global financial stability. Year 2021 started with new uncertainties as pandemic resurged in some parts of the world with outbreak of the Delta variant which eventually impeded the pace of global economic recovery. However, global economy has gained momentum at a moderate pace, partly attributable to incremental coverage of vaccination and better management of the pandemic. Rising energy prices and supply chain disruptions have resulted in higher and more broad-based inflation than anticipated, notably in the United States and many emerging market and developing economies. All these have put pressure on quicker revival of economic activities to the full scale. IMF projected global economy to grow 5.9% in 2021 and expects to moderate to 4.4% in 2022.

Geopolitical tensions and social unrest relating to Russia-Ukraine war is threatening to imperil energy supply, international trade, and policy cooperation thus resulting in elevated food and energy prices. Soaring commodity prices, sweeping financial sanctions and the potential for a ban on energy imports from Russia all these are threatening to stumble the global economy, weakened by the COVID-19 pandemic, still struggling to gain momentum.

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

Particulars	2021	2022 p	2023 p
World	5.9	4.4	3.8
Advanced Economies	5.0	3.9	2.6
Other Advanced Economies	4.7	3.6	2.9
USA	5.6	4.0	2.6
Euro Area	5.2	3.9	2.5
Emerging Market and Developing Economies	6.5	4.8	4.7
China	8.1	4.8	5.2
India	9.0	9.0	7.1

Source: IMF World Economic Outlook Update (January 2022); p for projection.

A brief overview of Bangladesh economy

Bangladesh economy has showed its resilience in 2021. With timely implementation of stimulus packages, continued fiscal and monetary policy supports, hefty remittance inflows, declining COVID-19 infection rate, and increasing coverage of vaccination

helped country's economy to walk in the path of recovery from the COVID-19 fallout. As a result, country's economic growth recovered faster attaining 6.94% GDP growth in FY 2021 from 3.45% in FY 2020 largely driven by activities in the agriculture and industry sectors. To support investment and employment generating activities in the recovery process, Bangladesh Bank continued its efforts in line with expansionary monetary policy stance for FY 2022.

Following FY 2020, agriculture sector remained resilient and showed solid performance in FY 2021 growing by 3.17%. Industry sector strongly rebounded and grew by 10.29% in FY 2021 after a slower growth of 3.61% in previous fiscal year. To boost the production and generate employment, government and Bangladesh Bank continued to provide policy support, including sector specific stimulus packages and various refinance schemes, which resulted in higher growth performance. Service sector activities started rebounding in FY 2021 and continued gaining momentum in FY 2022.

COVID-19 had pushed down the credit growth in the FY 2021. However, private sector credit started to grow as the external trade started picking up since early FY 2022. As import of capital machinery increased along with vaccine payment started and international travels resumed, US dollar slightly appreciated against Bangladeshi taka. Between June-December of 2021, value of Taka depreciated by 1.16% in terms of US dollar and was quoted at Tk. 85.8 at the end of 2021.

Driven by non-food components, point to point CPI inflation exhibited an upward trend reaching at 6.05% in December 2021. Twelve month average CPI inflation was 5.55% in December 2021 which is slightly higher than the target of 5.30% for FY 2022. Country's gross foreign exchange reserves stood at USD 46.15 billion at the end of December 2021 compared to USD 43.17 billion of last year.

Even though the import and export grew substantially, the import growth was higher compared to export earnings which resulted in higher trade deficit of the country. Meanwhile, country's current account deficit deteriorated further in the first half of FY 2022 due to higher import payment obligations along with lower inflow of remittances. Current account deficit stood at USD 8.18 billion during July-December in FY 2022 against USD 3.52 billion surplus in July-December in FY 2021.

Bangladesh Securities and Exchange Commission (BSEC) and the Government of Bangladesh took a number of initiatives to boost investors' confidence in the capital market. Moreover, the central bank undertook several policy measures under the stimulus package which helped in amplifying liquidity in the market, building investors' confidence and stabilizing the capital market.

Banking industry in 2021

Bangladesh banking industry features state-owned commercial banks (SCBs) and local and foreign private commercial banks (PCBs) with a marked difference in service quality, profitability and financial soundness indicators (governance, asset quality, capital adequacy etc.). Since the COVID-19 pandemic, the banking sector has been playing a crucial role to channelize stimulus packages to priority sectors for maintaining the vibrancy of the economic activities.

The overall banking sector showed mixed performances in September-December 2021 as reflected by a fall in the ratio of non-performing loans (NPLs) to total loans, a moderation in capital to risk-weighted asset ratio (CRAR), a growth in banks advances, widening in provision shortfall, a rise in profitability, and maintenance of adequate liquidity in the banking industry.

The burden of default loans of the banks became even heavier in 2021 despite certain forbearance measures allowed by the central bank to help businesses withstand the shock of the pandemic. The ratio of gross NPLs to total loans stood at 7.93% at the end of 2021 from 8.12% at September 2021 but increased from 7.66% at the end of 2020. This huge pileup of bad loans may choke the credit supply channel of the economy with due repercussions on the resilience of the private sector.

Private sector credit growth which faced sluggishness started to pick momentum in the last quarter of 2021. Domestic loan grew by 12.37% at the end of December 2021 against 9.91% at the end of December 2020. The spread between the weighted average interest rate on advances and deposits of banking industry was 3.19% at the end of December 2021.

To prevent the asset-liability mismatch due to the recent declining trend in banks' deposit rate, Bangladesh Bank issued a circular regarding rationalization of deposit rate of scheduled banks where banks were instructed to determine deposit rate (with period of three months and above) not below the average inflation rate of previous three months. Given the liquidity surplus in the banking system following the easy monetary regime in the pandemic period, Bangladesh Bank mopped up some excess liquidity from the banking system in H1, FY 2022 to rationalize the liquidity condition. Growing trend of private sector credit growth also contributed to reduce excess liquidity. Advance-Deposit Ratio (ADR) of the banking industry stood at 73.15% in December 2021 which was 72.08% as at the end-September 2021, reflecting rising demand for loans as the economy returns to normalcy.

The capital to risk-weighted assets ratio (CRAR) moderated to 11.08% as of December 2021 compared to 11.22% in September 2021 and 11.64% at the end of December 2020, mostly driven by weaker asset quality of state owned banks. The central bank has instructed the scheduled banks to increase the leverage ratio gradually to 4% by 2026 from 3%.

Profitability of the banking sector improved in 2021 compared to 2020 as reflected by a rise in net profit and return on equity (RoE). Net Profit in the banking industry increased from BDT 52.79 billion

in 2020 to BDT 57.78 billion in 2021. Return on equity modestly increased to 4.44% in 2021 from 4.28% in 2020, although return on asset (RoA) remained unchanged at 0.25%.

The banking sector, as a whole, maintained 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 31 December 2021.

Some important initiatives taken by Bangladesh Bank in 2021 are as follows:

- Raising loan margin ratio to 70:30 for purchasing digital devices (laptop/ computer/ mobile/ tab) under consumer finance from the previous ratio of 30:70.
- Implementation of government's stimulus package of BDT 10 billion for the pandemic-affected tourism sector.
- Instruction to rationalize deposit rate with period of three months and above, not below inflation rate, due to recent declining trend in banks deposit rate.
- Implementation of Basel III in Bangladesh: increasing leverage ratio gradually to 4% by 2026 from current 3% level.
- Guidelines regarding dividend declaration against shareholding of a bank.
- Relaxing loan classification criteria: minimum 15% of the installments payable against the loan from January 2021 to December 2021 is repaid by 31 December 2021.
- A detailed policy regarding treatment of Non-Banking Assets.
- Instruction to verify Financial Statements submitted by borrowers using the Document Verification System (DVS) of the Institute of Chartered Accountants of Bangladesh (ICAB).
- Refinance scheme of BDT 30 billion for agriculture sector.
- Instruction to provide at least 15% of CMSME loans to women entrepreneurs by 2024.
- Refinance scheme of BDT 5 billion for low income group people holding bank accounts of Tk. 10, 50, 100.
- Instruction to buildup own startup fund by transferring 1% of net profit for 5 years from 2021-2025.
- Instruction to run Special CSR activities (1% of PAT) under Corporate Social Responsibility (CSR) of banks to mitigate COVID-19 crisis.

Economy and business outlook 2022

The global economy is recovering from the COVID-19 outbreak, though the recovery process is uneven among countries. World Bank projects that the Bangladesh economy will grow by 6.4% in FY 2022 due to improvement in domestic demand and resumption of export items. Despite excess liquidity and depressed private sector credit growth, BB is expected to continue the expansionary and accommodative monetary policy for recovery, as a key priority, of economy from the slowdown.

It is expected that since the economic activities are being rebounded in recent periods after a significant improvement of COVID-19 situation in the country, it would subsequently ease the

pressure on excess liquidity, increasing private sector credit growth by strengthening economic activities. Here, Bangladesh Bank's policy is to let flow the funds to the productive sectors, including agriculture, SMEs, export-oriented industries and the informal sector, which have been hit hard by the pandemic. Providing adequate supply of credit to productive and manufacturing sectors would help faster recovery of economic activities and achievement of the growth target in FY 2022.

However, Bangladesh economy has been facing some pressures in FY 2022 regarding inflation mainly due to commodity price hike in the international market. With a steep fall in remittance inflows and escalation of import payments for various infrastructure projects of government along with upward trend in global food and oil prices, the deficit in current account balance is likely to increase in near future. However, current account balance may improve if export earnings continue to rebound on the back of continued global economic recovery in near-term. Therefore, Bangladesh Bank remains vigilant for taking appropriate policy measures on the development of exchange rate depreciation and inflation expectation. Both exports and imports are growing fast. Demand for workforce has grown in the countries that are main sources of wage-earners' remittances for Bangladesh.

Financial performance highlights of EBL

Banking industry passed a challenging year in terms of governance, capital adequacy, profitability and soundness in 2021 along with adverse effect of COVID-19 pandemic. Despite intensified challenges, EBL managed its portfolio efficiently closing the year 2021 with an NPL of 3.70% (2.72% in 2020) which is lower than that of industry average (7.93% as of December 2021).

Our primary focus in 2021 was on efficient balance sheet management, upholding service excellence, recovery of classified and written off loans, mobilization of stable deposits, and rationalizing costs. A brief review of financial performances of the Bank (solo) are as follows:

- Net interest income (NII) which contributed 45% of total operating income increased by 31% in 2021 compared to last year (interest income decreased by 18% and interest expense decreased by 39%).
- Non-interest income which contributed rest 55% increased by 21% mainly due to increase of income from investment by 21% and income from commission, exchange and brokerage by 8% in 2021 compared to 2020.
- Compared to last year, operating income increased by 21% and operating expense increased marginally by 4%. As a consequence, operating profit of the Bank increased by 36% and reached at BDT 10,468 million in 2021. EBL reached at this ten thousand million profit club for the very first time since its inception.
- Total provision increased by 126% in 2021 compared to last year. General provision increased as funded and non-funded loan outstanding both increased in 2021. Moreover, last year Bangladesh Bank had a provision relaxation on consumer finance from 5% to 2% which led to provision release. In addition, we have maintained special general provision of BDT 153 million for COVID-19 to comply with regulatory requirement. Due to loan classification forbearance allowed by Bangladesh Bank in 2020, requirement for specific provision decreased for that year. Also, recovery from write off loan was lesser in 2021 (BDT 363 million in 2021 compared to BDT 726 million in 2020). These two reasons have caused Specific provision to increase by 120%. In 2021, BDT 391 million other provision was released mainly due to provision release for quoted securities as market price increased.
- Total tax provision increased by 37% in 2021 compared to last year mainly due to increase in revenue and lesser income from zero (income from govt. securities) and concessional tax rate (dividend income, amortization gain, etc.) buckets in 2021.
- Finally Bank's profit after tax (PAT) increased by BDT 551 million or 13% in 2021 compared to 2020.

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

BDT in million

Particulars	Group		% Change (Group)	Bank		% Change (Bank)
	2021	2020		2021	2020	
Net interest income (NII)	7,935	6,052	31%	7,761	5,930	31%
Non-interest income	9,908	8,515	16%	9,397	8,203	15%
Total operating income	17,842	14,567	22%	17,158	14,134	21%
Total operating expense	6,977	6,672	5%	6,690	6,441	4%
Operating profit (Profit before provision and tax)	10,866	7,895	38%	10,468	7,692	36%
Specific provision	1,762	928	90%	1,683	765	120%
General provision	815	(274)	397%	815	(274)	397%
Special general provision for COVID-19	153	602	-75%	153	602	-75%
Other provision [charged/(released)]	(396)	(101)	290%	(391)	(92)	327%
Total provisions	2,334	1,155	102%	2,260	1,001	126%
Profit before tax for the year	8,531	6,740	27%	8,208	6,691	23%
Tax provision for the year	3,731	2,560	46%	3,554	2,588	37%
Profit after tax (PAT)	4,800	4,180	15%	4,654	4,103	13%
Earnings per share (EPS) (restated)	5.03	4.38	15%	4.88	4.30	13%

ROA and ROE have slightly increased in 2021 due to higher growth of PAT compared to growth of equity. Cost to income ratio has sharply come down to 38.99% (came below 40% after a long period of time) mainly due to increase of operating income by 21% whereas operating expense has increased marginally by 4%. The Capital to risk weighted assets ratio (CRAR) has decreased to 14.08% in 2021 from 15.23% in 2020. Following table presents some of the key financial ratios:

Particulars	Bank	
	Year 2021	Year 2020
Return on average equity (PAT/Average Equity)	15.51%	15.04%
Return on average assets (PAT/Average Assets)	1.28%	1.22%
Cost to income ratio (operating expense/ operating income)	38.99%	45.58%
Capital to risk weighted assets ratio (CRAR)	14.08%	15.23%
NPL ratio	3.70%	2.72%
EPS (BDT) (2020 restated)	4.88	4.30
Price to book value ratio (restated)	118.40%	118.51%

Appropriation of profit

Profit after tax (PAT) of the Bank stands at BDT 4,654 million during the year including net deferred tax income of BDT 301 million out

of which BDT 294 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 Bangladesh Bank. BDT 1,421 million needs to be transferred to statutory reserve in 2021 to equalize statutory reserve with paid-up capital of the Bank. Thus, cumulative profit available for distribution stands at BDT 2,939 million out of which the Board of Directors recommended 12.5 % cash dividend and 12.5 % stock dividend amounting to BDT 2,385 million for the year 2021.

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 14.08% as on 31 December 2021. For details please see Market Discipline (Basel III) section of this annual report.

History of raising capital

As on the reporting date (31-12-2021), the Bank had paid up capital of BDT 9,538,644,670 of which 86.44% was raised through stock dividend. The history of raising paid up capital to BDT 9,538.64 million as of year-end 2021 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
28 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
30 May 2021	17.5% Bonus Share	142,064,920	1,420,649,200	9,538,644,670

*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 2021, NPL ratio of the banking industry stood at 7.93% which was 7.66% in December 2020. The NPL ratio of EBL was 3.70% at the end of 2021 which was 2.72% at the end of 2020. The status of unclassified and classified loan of the Bank is as follows:

BDT in million

Particulars	2021	2020	% Change
Unclassified loans:	259,415	222,717	16.48%
Standard (Including staff loan)	257,387	220,984	16.47%
Special Mention Accounts (SMA)	2,028	1,733	17.02%
Classified loans:	9,979	6,226	60.26%
Sub-standard (SS)	925	1,033	-10.41%
Doubtful (DF)	604	287	110.13%
Bad/loss (BL)	8,450	4,906	72.22%
Total loans	269,394	228,944	17.67%
NPL %	3.70%	2.72%	

Management discussion and analysis

A separate section titled "Management discussion and analysis" has been presented in this annual report. Under this section, a comparative analysis of financial performance (2017-2021) of the Bank has been presented with analytics. A brief highlight of EBL business units namely Corporate Banking, Retail & SME Banking and Treasury, FI and Offshore Banking 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 2021. A brief review of subsidiaries business during 2021 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 stakeholder

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. The major areas focused by RMC in 2021 have been presented in "**Report of the Risk Management Committee of the Board**" section of this annual report. Also the major areas focused by ERM in 2021 have been described in "**Report of the Executive Risk Management Committee**" 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 2021.

- 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 2021 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 on 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 '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 2021 which has been mentioned at the end of 'Corporate Governance Report'.

CSR activities

Being a socially responsible corporate citizen, EBL engaged in a number of CSR activities throughout the year, including a number of donations towards charitable causes.

- We have donated BDT 50 million to Prime Minister's Relief & Welfare Fund for providing PPE/Testing Kits/Respiratory equipment to fight COVID-19 pandemic through Bangladesh Association of Banks (BAB).
- We have spent BDT 41.1 million to combat against COVID-19 pandemic as part of special COVID-19 CSR program as per Bangladesh Bank's direction.

- We donated BDT 10 million to the Prime Minister's Relief and Welfare Fund for providing financial assistance to the affected people at Pirgonj in Rangpur due to communal violence.
- Donated 75,000 pieces (costing BDT 22.11 million) of blankets to Prime Minister's Relief & Welfare Fund through BAB for distribution among cold-hit people. EBL has donated another 8,935 pieces of blankets (costing BDT 2.64 million) to distribute among cold affected people across the country.
- 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.

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 2021, we contributed BDT 6,912 million to national exchequer as tax, VAT and excise duty. We paid advance corporate tax of BDT 2,285 million while deposited withheld tax of BDT 3,497 million, VAT of BDT 694 million and Excise Duty of BDT 436 million during the year 2021.

On behalf of the Board of Directors



Md. Showkat Ali Chowdhury

Chairman of the Board of Directors
Dhaka, 16 April 2022