DIRECTORS' REPORT

WORLD
ECONOMY 2020

A Pandemic like no other

A once-in-a-century crisis—a Great Disruption unleashed by a viral pandemic—hit the world economy in 2020. The pandemic spread like a forest fire, reaching every corner of the world, infecting more than 90 million and killing close to 2 million people worldwide. For several months, uncertainties and panic paralyzed most economic activities in both developed and developing economies. Trade and tourism came to a grinding halt, while job and output losses exceeded levels seen in any previous crisis. In a matter of months, the number of people living in poverty increased sharply, while income and wealth inequality trended towards new highs. Governments around the world responded rapidly—and boldly—to stem the health and economic contagion of the crisis. Fiscal and monetary stimulus packages were quickly rolled out to save the economy. The crisis responses, however, entailed difficult choices between saving lives and saving livelihoods, between speed of delivery and efficiency, and between short-term costs and long-term impacts. Limited fiscal space and high levels of public debt constrained the ability of many developing countries to roll out sufficiently large stimulus packages.

The pandemic has exposed the systemic vulnerability of the world economy. It has also shown that sustainable development—promoting inclusive and equitable growth, reducing inequality and enhancing environmental sustainability—can provide safeguards and resilience against future crisis. There is clearly no sustainable development without resilience and there is no resilience without sustainable development. Building economic, social and environmental resilience must guide the recovery from the crisis. Economic resilience with new fiscal and debt sustainability frameworks, societal resilience with universal social protection schemes and climate resilience with greater investments in the green economy must be the building blocks of a resilient recovery.

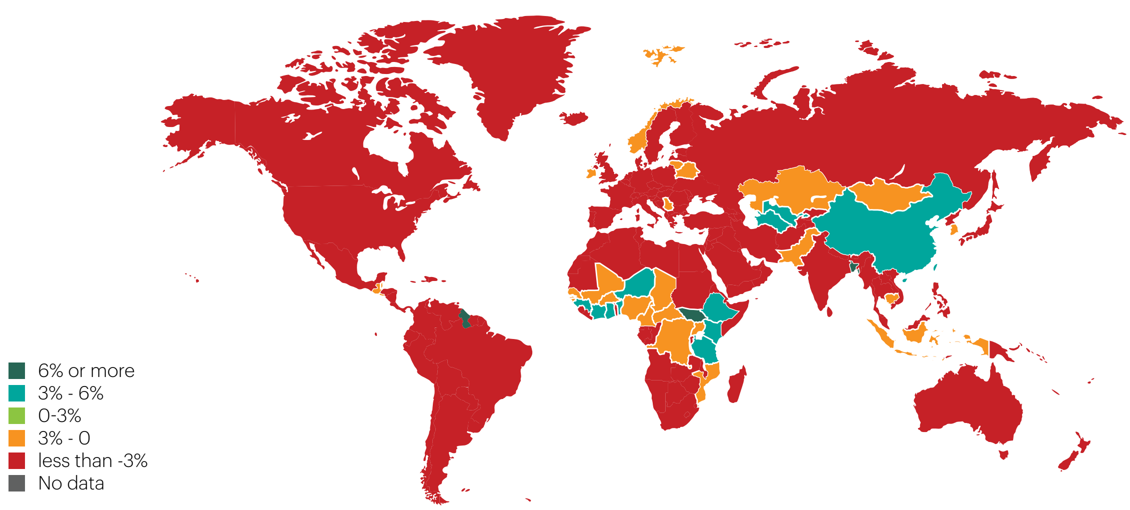


Figure: World map by GDP growth in 2020

This will also require a stronger and more effective multilateral system which can complement and reinforce—not undermine—national efforts to put the world firmly on the trajectory of sustainable development.

Plummeting World Economic Growth

World gross product fell by an estimated 4.3 per cent in 2020—the sharpest contraction of global output since the Great Depression. In contrast, world output had shrunk by 1.7 per cent during the 'Great Recession' in 2009. The pandemic clearly hit the developed economies the hardest, given the strict lockdown measures that many countries in Europe and several states of the United States of America imposed early on during the outbreak. Output in developed economies is estimated to have shrunk by 5.6 per cent in 2020, with growth projected to recover to 4.0 per cent in 2021. A renewed outbreak, however, set off new lockdown measures in the third quarter of 2020 in many countries in Europe, making a quick recovery more unlikely. The developing countries experienced a relatively less severe contraction, with output shrinking by 2.5 per cent in 2020. Their economies are projected to grow by 5.7 per cent in 2021. The least developed countries (LDCs) saw their gross domestic product (GDP) shrink by 1.3 per cent in 2020, with growth expected to reach 4.9 per cent in 2021. The countries in Latin America and the Caribbean and South Asia experienced the sharpest declines. In contrast, the economies in East Asia fared relatively better than those in all other developing regions, with GDP expanding by 1 per cent in 2020. On the back of China's quick - and robust - recovery, the East Asian economies are forecast to grow by 6.4 per cent in 2021. The economies of the Group of Twenty (G20)—which account for nearly 80 per cent of world output—contracted by 4.1 per cent, mirroring the overall performance of the world economy. Only China, among G20 members, managed to register positive growth in 2020. It will remain critical that the G20 economies return to the trajectory of growth, not only to lift the rest of the world economies but also to make the world economy more resilient to future shocks.

Short-term pain, long-term scars

The pandemic will likely transform consumer behaviour and economic structures. It is unlikely that in-person interactions will quickly return to pre-crisis levels even if millions are inoculated against COVID-19. Remote work will likely become the new norm for many service sector jobs. Meetings and conferences may remain largely digital, reducing demand for business travel-related services. Consumer spending will increasingly move online. Leisure and entertainment will also become increasingly digital, replacing brick-and-mortar venues for retail and entertainment. These shifts will likely reduce local government revenues and adversely impact the delivery of basic services—health, sanitation, education, transportation and public safety—in urban centres worldwide. These shifts, already under way before the pandemic, will profoundly impact the trajectory of sustainable development in the future. Furthermore, the pace of digitalization, automation and robotization will likely accelerate during the post-pandemic period, as businesses will pursue resilience and safeguards against shocks to labour supply. Accelerated and more widespread automation and digitalization will likely make many job losses permanent. While automation and innovation typically increase the productivity of workers and firms that can embrace new technologies, they also displace less productive workers and firms.

Digitalization is transforming manufacturing and service delivery worldwide

Across the globe, COVID-19 has created rapidly growing demand for digital services, accelerating ongoing digital transformation. With lockdowns and movement restrictions in place, operating digitally has been the only viable option for many firms to stay in business and government agencies to perform their functions. Digital processes are becoming ever more embedded in production and trade as information and communication technology (ICT) services control business processes and facilitate transactions within networks and between firms and customers. New technologies, such as 3D printing and additive manufacturing, have the potential to fundamentally alter business models and redefine comparative advantage by facilitating scale-independent efficient production and bringing production systems closer to consumers. In the medium term, such developments could support reshoring trends by increasing the competitiveness of previously non-competitive production locations and by encouraging a shift from the traditional model of economies of scale of large plants serving global markets to networks of smaller, more flexible and geographically distributed plants. Moreover, digitalization and emerging technologies, including artificial intelligence and machine learning, are also transforming service delivery worldwide. They will increasingly facilitate the cross-border exchange of health, education and other services, reinforcing the growing importance of services in global trade and development.

South Asia: this former champion will have to find its way back to growth

The pandemic and the global economic crisis have consequently left deep marks on South Asia, turning this former growth champion into the worst performing region in 2020. Regional economic growth fell dramatically from 3.1 per cent in 2019 to -8.6 per cent in 2020, a far cry from the 5.1 per cent growth predicted in 2019. Without exception, all economies in the region have been badly hit by the crisis, whose impacts have been amplified and accelerated by existing vulnerabilities. Poorly organized labour markets and the absence of a reliable social safety net prevented Governments from implementing the effective restrictions needed to contain the spread of the pandemic, while fiscal constraints and limited economic diversification restricted Governments' manoeuvring space. Higher price inflation due to COVID-19-induced supply constraints limited the space required for monetary policy to make up for the shortfall. India's economic growth has fallen from 4.7 per cent in 2019 to -9.6 per cent in 2020, as lockdowns and other containment efforts slashed domestic consumption without halting the spread of the disease, despite drastic fiscal and monetary stimulus. Economic growth in Pakistan, which was already in the grip of an ongoing twin fiscal and balance-of-payments crisis, has fallen from 0.3 per cent in 2019 to -2.7 per cent in 2020. Maldives, meanwhile, took a brutal hit from the near standstill in international tourism, erasing more than a fifth of its output in 2020 compared with the previous year. Even Bangladesh, the fastest growing economy in the region, has seen economic growth fall, although this was cushioned somewhat by a recovery in trade and remittances in the second half of the year.

Economic growth in South Asia in 2021 will be insufficient, at 6.9 per cent, to make up for the losses of 2020, as pandemic hotspots re-emerge and, increasingly, the ability of Governments to deal with the multitude of challenges becomes exhausted. While trade, remittances and investment are expected to pick up in 2021, as much of the global economy moves towards recovery from the widespread lockdown, investment and domestic consumption in many South Asian countries will nevertheless remain subdued owing to the continuing threat of the pandemic and the scarring effects of the crisis. Regional economic growth for 2022 is forecast at 5.3 per cent, which would allow South Asia to finally exceed its 2019 economic output, albeit only marginally. On the other hand, South Asian countries that are relatively more exposed to global economic conditions, such as Bangladesh and Maldives with their high share of foreign trade and Nepal with its dependence on tourism and remittances, will enjoy a stronger rebound, of about 10 per cent growth in 2021. Other countries in the region will experience economic growth ranging from 3.1 per cent (Sri Lanka) to 7.3 per cent (India).

The recovery is subject, however, to significant risks. The forecasts assume effective containment of the virus in South Asia and the rest of the world including no further lockdowns in 2021, resurgence of global trade, and the effective continuation of fiscal stimulus and containment efforts in South Asia and other regions. Failure of any or all of these baseline assumptions to materialize could plunge the region deeper into crisis. Opportunities exist as well but they are less likely and would be less impactful than the downside risks. The development of new growth sectors, aided by targeted fiscal stimulus and the disruptive effects of the crisis, could propel South Asia's development trajectory and allow the region to make up lost ground much more quickly. A forceful global commitment to counter the negative consequences of the pandemic, particularly in developing countries, could also allow the region to build back better and stronger and regain its position as the global development champion.

BANGLADESH
ECONOMY

Over the past decade Bangladesh's economic growth has steadily increased from 6 percent to 8 percent. The global novel Coronavirus (COVID-19) pandemic has adversely affected the economy of Bangladesh. According to the provisional estimates of the Bangladesh Bureau of Statistics (BBS), GDP growth in FY2019-20 stood at 5.24 percent, compared to 8.15 percent in the previous fiscal year. Growth in export and import in FY2019-20 is negative. However, remittance inflows grew by 10.87 percent has reduced the current account deficit compared to the previous fiscal year. At the same time, the increase in capital and financial account inflows has led to a surplus in the overall balance of payments. As a result, the foreign exchange reserves have increased significantly. During this period, a marginal depreciation in exchange rate of Taka with the US dollar is being observed. To keep the country's economy afloat in the face of the ongoing Coronavirus pandemic, extra spending on healthcare, emergency humanitarian assistance has been materialised. The government has already announced a financial package of about Tk. 1.2 lakh crore for economic recovery. Some of the notable activities of this package are: create special funds for export oriented industries; provide working capital facilities to the affected industry and service sector organisations; provide working capital facilities to small (including cottage industries) and medium industrial enterprises; increase the benefits of the Export Development Fund; increase coverage of social security; direct cash transfer to targeted people, formulate various funds for the agricultural sector. As well as financial incentives, various activities including policy support such as reduction of import duty on COVID-19 related products, policy support to increase liquidity in the banking sector has been provided. As a result of this initiatives and lifting of holidays the economy has started to recover and thus the Asian Development Bank (ADB predicts that in 2021 Bangladesh will top the growth rate among the SAARC countries.

Sectoral Growth

According to the provisional estimate of BBS, the growth of agriculture sector has slowed to 3.11 percent in the FY2019-20, from 3.92 percent in FY2018-19. During the same period, industry sector grew by 6.48 percent, which was 12.68 percent in the previous fiscal year. The service sector grew by 5.32 percent in FY2019-20 compared to 6.78 percent in the previous fiscal year. Within the broad agriculture sector, the growth rate of agriculture and forestry sector decelerated from 3.15 percent to 2.08 percent in FY2019-20. In addition, growth in fishing sector slowed slightly to 6.10 percent from 6.21 percent of previous fiscal year. The contribution of the broad agricultural sector to the GDP stood at 13.35 percent in FY2019-20 against 13.65 percent in the previous fiscal year. Of the 4 sectors of the broad industrial sector, growth in the manufacturing (large and medium scale and small scale) has slowed down significantly. According to provisional estimate, the growth of large and medium enterprises and small scale industries in GDP stood at 5.47 and 7.78 percent respectively in FY2019-20, compared to 14.84 percent and 10.95 percent in the previous fiscal year. The growth of the construction sector stood at 9.06 percent as compared to 10.25 percent over the previous fiscal year. Overall, the contribution of the broad industry sector stood at 35.36 percent in FY2019-20, as compared to 35.00 percent in the previous fiscal year. Among the broad service sector, wholesale and retail trade; hotels and restaurants; transport, storage and communication; financial intermediations; real estate and renting and business activities; health and social works etc. have decelerated significantly (about 1 to 3.1 percent) compared to FY2018-19. The contribution of broad service sector to the GDP stood at 51.30 percent in FY2019-20, which was 51.35 percent in the previous fiscal year.

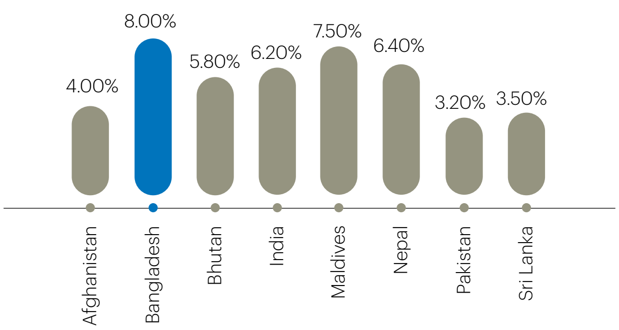


Figure: ADB forecast of GDP growth in SAARC countries for 2021

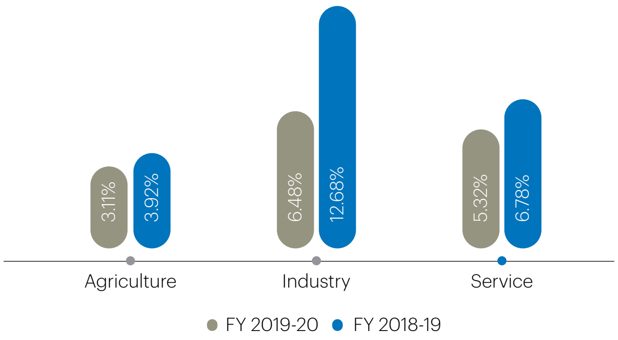
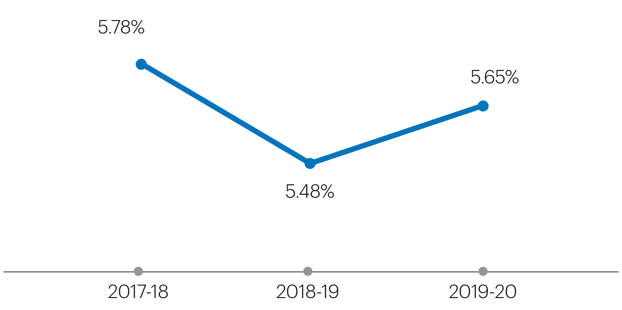


Figure: Comparison of sector wise growth in FY 2019-20 and FY 2018-19

Inflation

In FY2018-19, the average CPI inflation was 5.48 percent, remained within the target (5.50%) and 0.30 percent lower than the previous fiscal year. Food inflation for FY2018-19 decreased to 5.51 percent from 7.13 percent in FY2017-18, while non-food inflation increased to 5.43 percent from 3.73 percent of previous fiscal year. In FY2019-20, the inflation rate stood at 5.65 percent, which is slightly higher than the target (5.50%). In this case, food inflation increased to 5.56 percent and non-food inflation stood at 5.85 percent. The Coronavirus (COVID-19) has slowed global economic activity and reduced inflation globally. However, the pandemic could ignite world food production and disruption of supply chain. Therefore, food inflation is likely to increase in the coming months.

Inflation Rate (Last 3 Financial years)



Exchange Rate

In FY2018-19, the weighted average exchange rate of the taka against the US dollar deprecated by 2.35 percent compared to the previous fiscal year and stood at Tk. 84.03. In FY2019-20, the interbank weighted average exchange rate of taka against US$ depreciated by 0.9 percent and stood at 84.60.

Foreign Exchange Reserve

The surplus in the overall balance helped to maintain the foreign exchange reserve up. On 30 June 2020, the foreign exchange reserves reached US$ 36.04 billion. On 30 June 2019, the foreign exchange reserve was US$ 32.72 billion. It is noteworthy that remittances have recently gone up to a record US$ 43.17 billion as on 31 December, 2020.

Export

The economic activities came to stagnant due to the COVID-19 pandemic, which also affected country's foreign trade. The total export earnings for FY2018-19 stood at US$ 40,535.04 million, which is 10.55 percent higher than the previous fiscal year. Total export earnings in FY2019-20 stood at US$ 33,674.09 million, down 16.93 percent from the previous fiscal year. On month-to-month basis, export growth in March 2020 declined by 18.21 percent over the same month of the previous fiscal year due to the coronavirus outbreak. In June 2020, export earnings declined by only 2.50 percent compared to the same month of the previous fiscal year. Some of the products that have been able to sustain growth during this period are: frozen fish (17.99%), pharmaceuticals (4.49%), handicraft (2.86%), raw jute and jute products (8.10%). On the other hand, growth in the readymade garments sector slowed to 18.12 percent.

Import

The total import payment (C&F) for FY2018- 19 stood at 59,914.70 million, up 1.78 percent from the previous fiscal year. Imports in FY2019-20 stood at US$ 54,784.70 million, down 8.56 percent over the previous fiscal year. Of this, imports of food grains and consumer goods increased by 7.76 percent and 5.38 percent, respectively, while imports of intermediate commodities and capital goods declined by 5.05 percent and 23.92 percent respectively.

Remittance

In FY2018-19, remittance inflows increased by 9.60 percent over the previous fiscal year to US$ 16,419.63 million. In FY2019-20, remittance inflows stood at US$ 18,205.01 million, an increase of 10.87 percent over the previous fiscal year. The lion's share of remittances comes from Middle Eastern countries. In this regard, during FY2019-20, Saudi Arabia (22.06%), the United Arab Emirates (13.58%) and the United States (13.21%) topped the list. In this regard, remittance from United States has shown a significant growth.

BANKING INDUSTRY
IN 2020

The performance of the banking sector of Bangladesh has been largely affected by the COVID-19 pandemic situation for the last four months of FY20. Almost all the large financial markets around the world have been extremely impaired due to the lockdown aiming at hindering the escalation of pandemic. Bangladesh has also lost huge export earnings and its pace of internal production has been reduced significantly due to 66 (sixty six) days long countrywide lockdown. Both the internal and external situations of the financial market have created enormous pressure on the banking sector. Despite these, all scheduled banks of the country remained operational for specified time in every working day during the lockdown period to provide regular banking services to their customers. Moreover, to help the scheduled banks and non-bank financial institutions (NBFIs) to survive in this critical situation and to continue their contribution in revamping the country's economy, Bangladesh Bank (BB) has announced a series of policies and prudential measures from the very beginning of the pandemic situation. These include but not limited to, re-fixation of the regulatory liquidity ratios to ensure additional liquidity in the banking sector, issuance of sufficient prudential guidelines to maintain proper office environment in the banks for continuing the business activities in a limited scale as well as compensation package for the employees as frontline workers during the lock down period, easing of foreign trade and foreign currency transaction regulations, temporary relaxation in the loan classification policy, modeling and implementation of the Govt. stimulus packages for different segments of the economy and refinance schemes to provide liquidity support to those packages and introduction of special fund for capital market investment, etc. Furthermore, the pre-announced ceiling of lending rate was also introduced from April 01, 2020. As a part of supervisory activities, regular and special on-site inspections have been conducted throughout the year. The performance of the Risk Management Committee at the board level of banks is also being evaluated regularly. Special monitoring has been continued by BB to oversee the liquidity level of the banking sector which results in a sufficient and strong level of aggregate liquidity at the end of FY20. Besides, BB continues its efforts to reduce overall NPLs of the banking sector. At the end of FY20, the overall NPL ratio and Capital to Risk weighted Asset Ratio (CRAR) stood at 9.56 percent and 11.63 percent respectively.

Capital adequacy focuses on the overall position of bank's capital and the protection of the depositors and other creditors from potential losses that a bank might incur. It helps banks to absorb possible losses due to credit, market and operational risks that a bank might be exposed to during its normal course of business. Under Basel-III, banks in Bangladesh are instructed to maintain the Minimum Capital Requirement (MCR) at 10.0 percent of the Risk Weighted Assets (RWA) or BDT 4.0 billion as capital, whichever is higher. The aggregate amount of regulatory capital of the banking sector was BDT 1211.35 billion as on 31 December 2019 which increased to BDT 1267.09 billion at the end of June 2020. When it comes to, Capital to Risk weighted Assets Ratio by type of Banks, the State owned Commercial banks (SCB) have been consistently poor apart from 2018 with lower than required CRAR whereas Private Commercial Banks (PCB) and Foreign Commercial Banks (FCB) have maintained quite good CRAR.

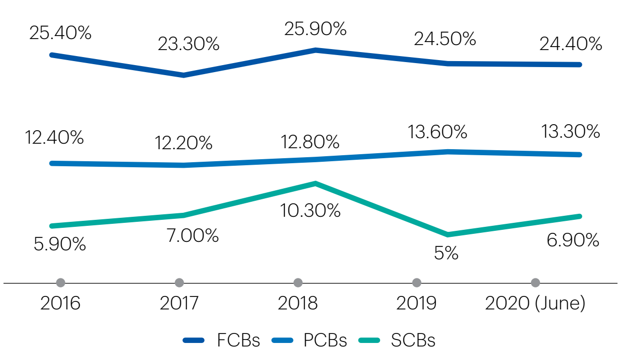


Figure: Capital to Risk Weighted Assets Ratio (CRAR) by Type of Banks

(Source: DOS, BB)

The most important indicator to demonstrate the asset quality is the ratio of gross Non-Performing Loans (NPLs) to total loans and net NPLs to net total loans. At the end of December 2019, the gross NPL ratio of the banking sector stood at 9.32 percent. FCBs had the lowest and SCBs had the highest gross NPL ratio. FCBs' gross NPL ratio was 5.74 percent, whereas those of SCBs and PCBs were 23.86 and 5.78 percent respectively at the end of December 2019. It is important to note that the ratio of gross NPLs to total loans and advances indicates a mixed trend in the banking sector during the period from 2011 to June 2020. NPL ratio of the banking sector was 6.1 percent in 2011. But the ratio sharply increased to 10.0 percent in 2012 mainly due to adaptation of new loan classification policy. From 2013, a fluctuating trend of NPL ratio was observed and it was 9.32 percent as on 31 December 2019. At the end of June 2020, NPL ratio of the banking sector stood at 9.16 percent. Comparatively poor assessment and inadequate follow-up and supervision of the loans have eventually resulted into the current situation of poor asset quality of SCBs and SBs. However, various measures (i.e. strengthening of recovery unit and special recovery program) for increasing recovery against non-performing loans have been taken by the banks. Besides, several policy initiatives regarding restructuring, rescheduling, recovery, one time exit and write-off of classified loans have also been taken by Bangladesh Bank to reduce NPLs.

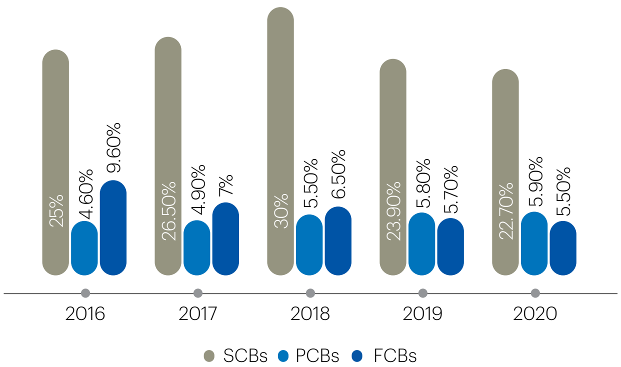


Figure: Ratio of Gross NPLs to Total Loans by type of Banks (Source: BRPD, BB)

Although various indicators are used to determine earnings and profitability, the most representative and widely used ones are return on assets (ROA), return on equity (ROE) and net interest margin (NIM). Earnings as measured by ROA and ROE differ among the bank categories. It is important to note that the ROA of the SCBs and SBs were always less than the industry average ROA. On the other hand, after showing an increasing trend from 2012 to 2016, ROA of PCBs has gradually declined in the recent years. Though ROA of FCBs showed a decreasing trend from 2014 to 2018 but it always remained in a strong position. ROA of the banking sector stood at 0.42 percent in June 2020.

Banks are going to face substantial pressure originating from an ever-bulging defaulted loans in the next years as the regulatory support in this particular area is due to expire by the end of this calendar year, bankers and experts say. The banks were not allowed to classify loans adversely until December 31, 2020, in line with the BB's directives. Experts, however, advised the banks to assess upfront the risk appetite for both customers and sectors. Such an assessment will help better adjust risks that might be created after the end of Bangladesh Bank's policy support intended to help businesses overcome the adverse effects of the Covid-19 pandemic, they noted, saying 2021-22 will be more challenging years for the banks.

BUSINESS
REVIEW

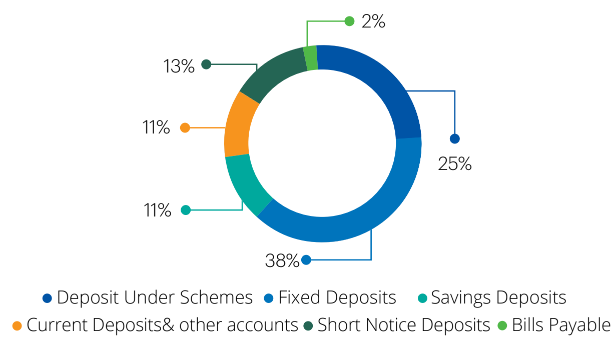
Deposits & Deposit Mix

The major challenge faced by the Bank during 2020 was to bring down the cost of deposit for implementation of single digit loan interest rate as per Bangladesh Bank's instruction. To do so, we have emphasized on restructuring our deposit mix with a view to keeping down the cost of funds as well as to build up the sustainable deposit base by reducing our dependence on big chunk corporate deposits. As a result, high cost deposits dropped significantly by 10.48% and Low Cost and No Cost deposit grew by 23.55% and 15.44% respectively. At the end of 2020 total deposits of the Bank stood at BDT 245,265.71 million as compared to BDT 247,624.47 million of 2019. However, we are endeavoring to make our deposit products even more attractive to the prospective clienteles by ensuring delivering superior and value adding customer services.

Deposit Mix BDT in Million

Type	2020		2019	
	Volume	%	Volume	%
Deposit Under Schemes	60,745.94	24.8	55,695.38	22.5
Fixed Deposits	93,258.75	38.0	116,338.77	47.0
Savings Deposits	27,577.42	11.2	23,894.40	9.7
Current Deposits & other accounts	26,263.19	10.7	23,231.08	9.4
Short Notice Deposits	33,349.33	3.6	25,419.21	10.3
Bills Payable	4,071.08	1.7	3,045.63	1.2
Total	**245,265.71**	**100**	**247,624.47**	**100**

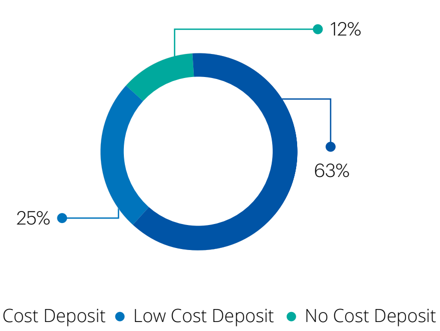
Deposit Mix 2020



BDT in Million

Deposit Mix	Dec-20	Dec-19	Growth
High Cost Deposit	154,004.70	172,034.15	-10.48%
Low Cost Deposit	60,926.75	49,313.61	23.55%
No Cost Deposit	30,334.27	26,276.71	15.44%
Total	**245,265.71**	**247,624.47**	

Deposit Mix-2020



Loans and Advances

Total loans and advances of the Bank stood at BDT 248,994.39 million as on December 31, 2020 against that of BDT 236,890.38 million at the end of 2019. The Bank recorded a 5.11% growth in loans and advances. Major sectors where the Bank extended credit includes trade and commerce, garments industries, large and medium scale industries, construction, agriculture and related sectors, hospital and medical Services, transport, pharmaceuticals etc. Besides, the Bank continued its support to Small and Medium Enterprises (SMEs) and expanded credit facilities to them through its SME Financing Division.

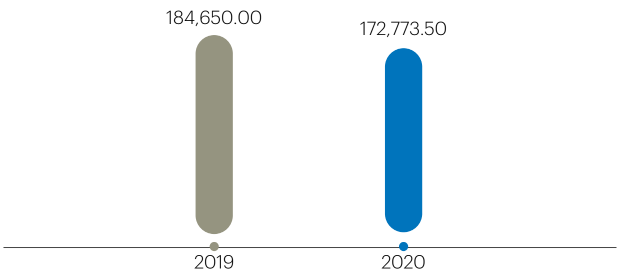
Sector Wise Loans & Advances Mix BDT in Million

Sectors	Dec-20	%	Dec-19	%
Education (School/College, University, Research institute)	326.26	0.13	326.95	0.14
Health	2,268.87	0.91	246.28	0.1
Agriculture	11,124.86	4.47	3,988.29	1.68
Commodities (Sugar/ Edible Oil/ Wheat/ Rice/ Dal/ Peas/ Maize etc), Food & Beverage	12,620.85	5.07	19,646.37	8.29
Trade Finance	35,204.74	14.14	36,648.56	15.47
Transport	1,535.20	0.62	1,216.53	0.51
Shipping	9,874.17	3.97	146.66	0.06
Textile (Excluding IDBP)	14,928.37	6	11,250.39	4.75
Textile (IDBP)	832.23	0.33	1,804.69	0.76
Readymade Garments (RMG) [excluding IDBP]	48,059.97	19.3	42,935.27	18.12
Readymade Garments (RMG) [IDBP]	67.362	0.03	276.41	0.12
Tele communication	923.93	0.37	941.61	0.4
IT & Computer/Trade	378.59	0.15	368.48	0.16
Power & Fuel	2,861.77	1.15	7,633.70	3.22
Real Estate	7,736.39	3.11	7,708.73	3.25
Cement	1,296.75	0.52	1,085.58	0.46
Chemicals	2,344.05	0.94	4,463.61	1.88
Leather & Leather products	4,669.17	1.88	4,418.41	1.87
Plastic & Plastic products	919.42	0.37	1,055.02	0.45
Electrical & Electronic goods	3,724.00	1.5	4,537.80	1.92
Paper & Packaging	4,846.12	1.95	5,142.11	2.17
Jute & Jute products	3,484.64	1.4	3,184.60	1.35
Glass & Glass products	0.009	-	0.01	-
Ceramics (Table ware, Sanitary ware, Tiles etc.)	1,182.31	0.47	1,114.34	0.47
Iron & Steel	10,548.79	4.24	20,279.39	8.56
Engineering & Construction	7,572.01	3.04	7,313.01	3.09
Contractor Finance	4,766.49	1.91	4,046.99	1.71
Capital Market Intermediaries	810.06	0.33	623.61	0.26
Backward Linkage	4,148.63	1.67	3,895.94	1.64
Non Bank Financial Institution (NBFI)	8,770.58	3.52	9,049.27	3.82
Service (Hotel, Restaurant, Travelling, Tickets, etc.)	1,649.63	0.66	1,658.30	0.7
Others	39,518.14	15.87	29,883.48	12.62
Total	**248,994.39**	**100**	**236,890.38**	**100**

Import Trade

Like before, this year also MBL has exhibited quality financing while facilitating import trade. As international trade had halted during some time in 2020 due to the impact of COVID-19, the Bank's import business dropped by 6% to BDT 172,773.50 million compared to BDT 184,650.00 million of the year 2019. The Bank is engaged in opening Letter of Credit in different sectors including machineries, garments & accessories, wheat, sugar, CDSO, vegetable oil, cement clinkers, hot roll steel, raw cotton, ships-breaking industries etc.

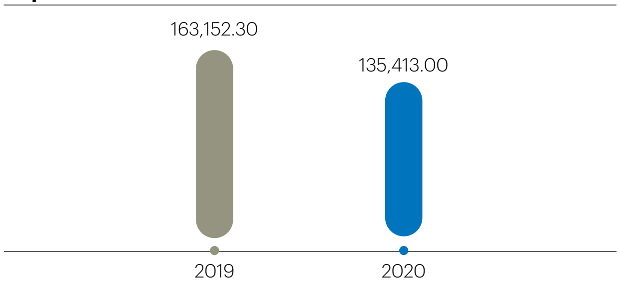
Import BDT in Million



Export Trade

The Bank's export business dropped by 17% to BDT 135,413.00 in 2020 as against BDT 163,152.30 million of the year 2019 due to COVID-19 impact. The focal point of our export financing was the garment industry, the lone driving force of the economy of Bangladesh and the single biggest source of foreign exchange and employment provider of the country. Other notable items were jute & jute goods, leather, handicrafts, tea, frozen food & fish products.

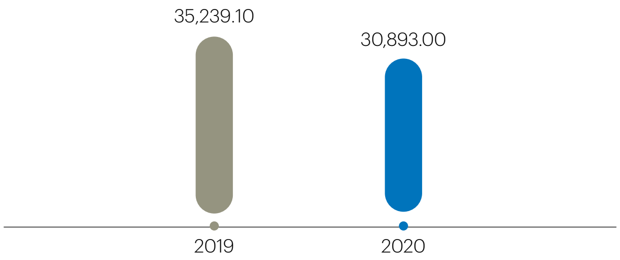
Export BDT in Million



Foreign Remittance

The Bank experienced a slight 12% fall in inward remittance collection due to the impact of COVID-19. In 2020, the bank handled a total inward foreign remittance of BDT 30,893.00 million compared to BDT 35,239.10 million in 2019. During the time, we have strengthened our relationships with various global money transfer companies.

Remittance BDT in Million



Review of Divisional Performance

MBL has several business divisions. Detail overview of business divisions during 2020 has been presented in a separate segment under 'Divisional Overview'.

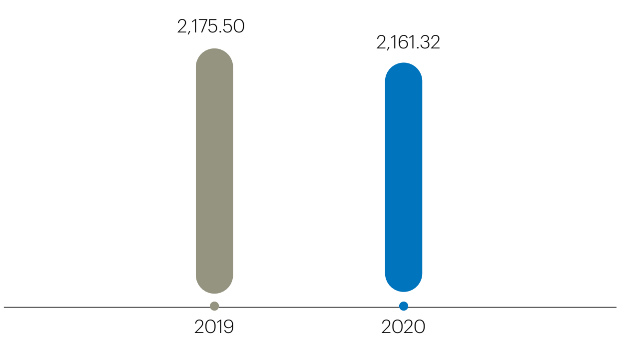
Operating Performance

MBL continued to keep pace in delivering growth in every aspect of its operating performance during the year 2020, which faced dual challenge of implementing single digit interest rate and COVID-19 impact. The bank strengthened its focus on cost optimization and improving operating efficiency, a balanced approach that has enabled us to upgrade its capabilities to respond to market needs and prepare it to become the best Bank in Bangladesh. Its relentless focus on customer needs and our stakeholder expectations has made us competitive in the banking industry. The low interest rate environment, slow growth environment of the previous years has made the Bank vigilant. The banking industry is facing an unusual combination of circumstances that are giving special impetus to its drive for efficiency. The Bank is cautious of its strategies as margins on loan operations have been driven down in the industry due to significant amount of bad loans. Customer of the Bank preferences in terms of banking products and services are also changing and the Bank has particularly focused on the channels that are used to access these products. The Bank has invested our resources into acquiring technology to provide better services and reduce security risks. Added to these pressures is the cost of being compliant with enhanced regulatory requirements of Bangladesh Bank. The Bank's carefully executed efficiency initiatives under these exceptional pressures have enabled it to achieve significant results, our revenue stream and asset base are growing while overhead costs are growing at a slower rate. The key operating performance indicators are depicted below:

Financial Performance Analysis- Profitability

Net interest income of the Bank fell sharply for the impact of implementation of single digit interest rate during 2020. As a result, during the year operating profit of the bank stood to BDT 3,947.73 million as compared to BDT 7,355.75 million in the year 2019. Large amount of provision set aside during 2019 helped the bank as a cushion during the earning volatility in 2020. As a result, Net profit after tax of the Bank slightly decreased to BDT 2,161.32 million in 2020 compared to 2,175.50 in 2019.

Net Profit BDT in Million



Total Income

Gross Income of the Bank dropped to BDT 27,275.79 million registering a 12.84% fall in the year 2020 in comparison to 2019 mainly due to the impact of low interest rate. The decrease in the income stream was largely attributable to the implementation of single digit interest rate since April 2020. Besides, fees based income contributed lightly towards positive growth of profit. During the year 2020, MBL focused on sound portfolio management and kept down cost of fund at optimum level.

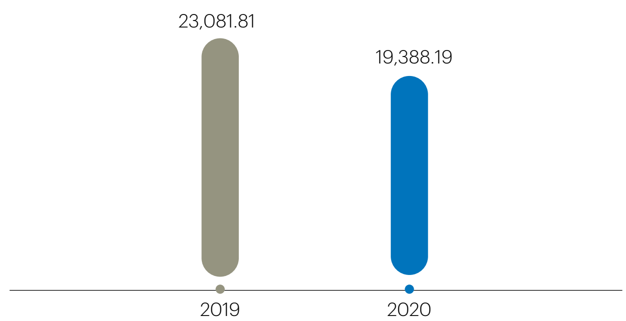
BDT in Million

Particulars	2020	2019
Interest Income	19,388.19	23,081.81
Investment Income	4,139.01	3,828.90
Commission, Exchange and Brokerage	2,206.34	2,950.70
Other Operating Income	1,542.24	1,430.75
Total Income	**27,275.79**	**31,292.16**

Interest Income

Total interest income fell sharply by 16.00% year-on-year to BDT 19,388.19 million in 2020 with stable business volumes but falling rates. All the major businesses segments such as Corporate Banking, Retail Banking, SME Banking, Cards Operation and Treasury faced the impact of the falling interest rate. MBL managed its risk and return considering top down and bottom up line approach.

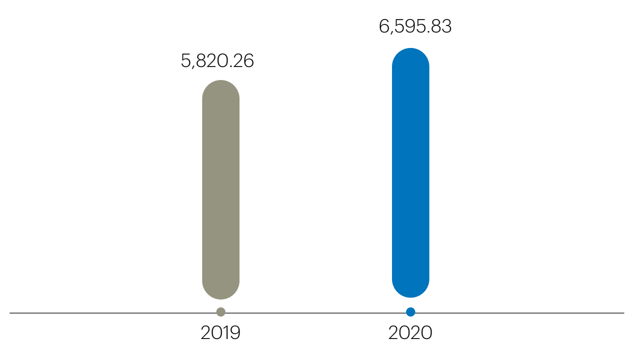
Interest Income BDT in Million



Operating Expenses

Operating expenses increased by 13.33% year-on-year to BDT 6,595.83 million in 2020 consistent with the business expansion and resources hunting. Salaries and employee benefits increased to BDT 3,030.84 million and represented 45.95% of the total operating expenses in 2020. Office administration and establishment expenses mainly include rent on premises, taxes, electricity, legal expenses, insurance, security printing and stationery, postage and telecommunication. The growth of office administration and establishment expenses was driven by higher transaction volumes, opening new branches and growth in employment. The bank was able to maintain its cost per employee and administration and establishment expenses per branch within the budgeted levels for the last five years consecutively. MBL firmly believes that the continuous reminders and awareness will generate solid business growth.

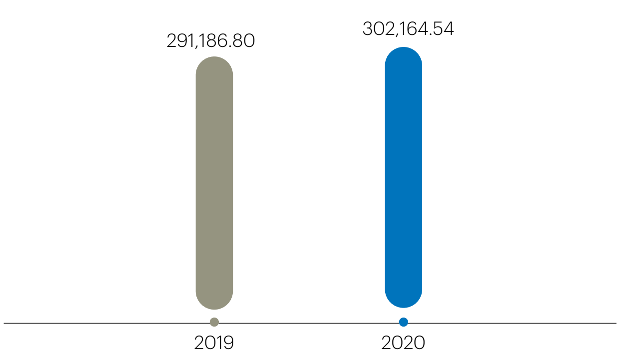
Operating Expenses BDT in Million



Net Interest Margin (NIM)

Net Interest Income (NIM) dropped by 46.51% to BDT 2,655.97 million in 2020 with a stable 5.11% growth of loan volumes despite of having a lot of challenges for interest on loan and advances throughout the year. Total interest earnings assets increased by 3.77% year-on-year to BDT 302,164.54 million while net interest margin (net interest income as percentage of average earnings assets) decreased by 13.73% as of December 2020.

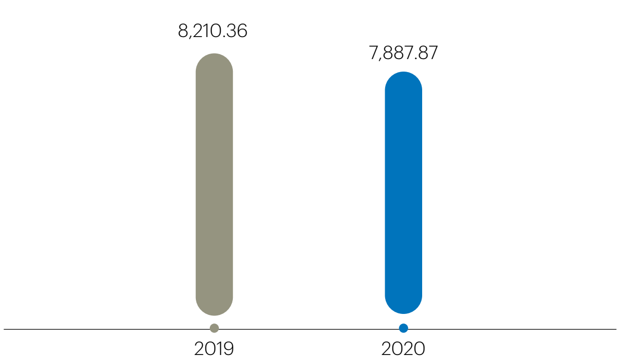
Earning Assets BDT in Million



Non-Interest Income

Other operating income (i.e. total income other than interest income i.e. investment income, commission, exchange and brokerage, other operating income) decreased 3.93% and stood at BDT 7,887.87 million during the year 2020. While Investment income grew by 8.10% against the last year.

Non Interest Income BDT in Million



Financial Position Analysis

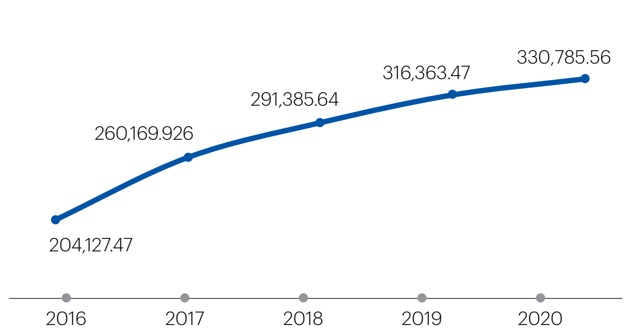
Asset Portfolio

The Bank has a healthy Balance sheet size with BDT 330,785.56 million assets base as on 31 December 2020. Loans and advances contribute major part i.e. 75.27% of total assets. Investments stand the second largest part i.e. 14.80% of total assets.

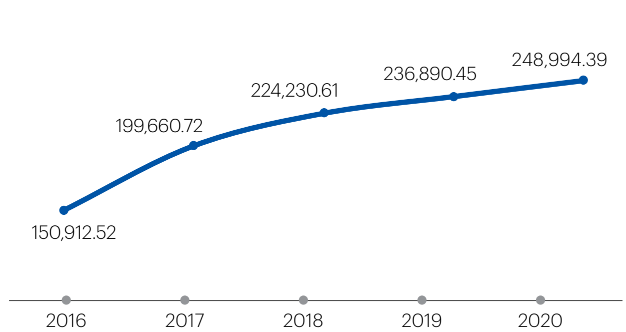
The core earning assets of the Bank are Loans and Advances and Investment. The credit portfolio of the Bank experienced a constant growth of 5.11% in 2020 over 2019. Government investment consists of Treasury bills & Bonds quantum of government securities holding increased by 1.86% over 2019.

Funded Business of the Bank as on December 31, 2020 stood at BDT 248,994.39 million whereas non-funded business stood at BDT 108,112.30 million for the same time period.

Balance Sheet Size BDT in Million



Loans & Advances BDT in Million



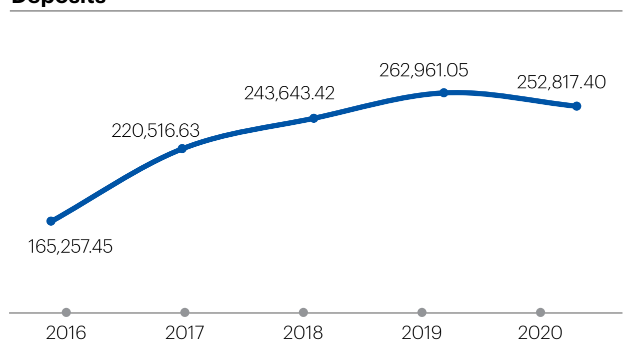
Liabilities

Total liabilities increased by 4.48% year-on-year to BDT 308,683.78 million in 2020. Borrowing from other banks financial institutions and agents balance increased by 84.61% to BDT 38,071.69 million and non-convertible Subordinated bond decreased by 14.29% to BDT 3,600 million.

Deposit

It is the quantum of deposits placed by customers in the Bank through Current, Savings, SND, Scheme Deposits, and Term Deposits i.e. FDR etc accounts. Total deposits stood at BDT 245,265.71 million in 2020 from BDT 247,624.47 million of 2019.

Deposits BDT in Million



Capital

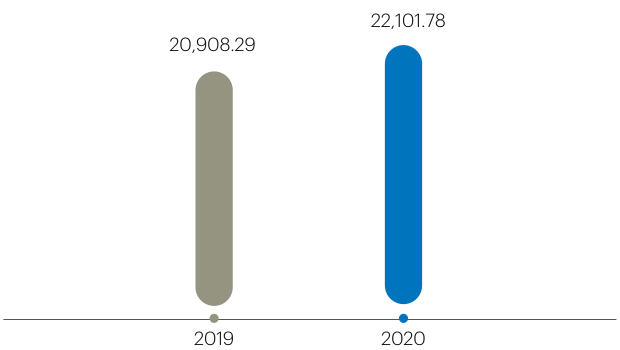
MBL is committed to maintain a strong capital base to support business expansion, provide a cushion against unforeseen risks, safeguard shareholder wealth and foster investor confidence. The policy allows taking advantage of emerging opportunities and invests further in the core business to enhance shareholder returns. The Bank's capital management framework includes a capital adequacy assessment process to ensure that it can mitigate current and future risks and achieve its strategic objectives.

Market Performance Analysis

Shareholder Equity

Total Shareholders' Equity increased to BDT 22,101.78 million in 2020 from BDT 20,908.29 million in the previous year.

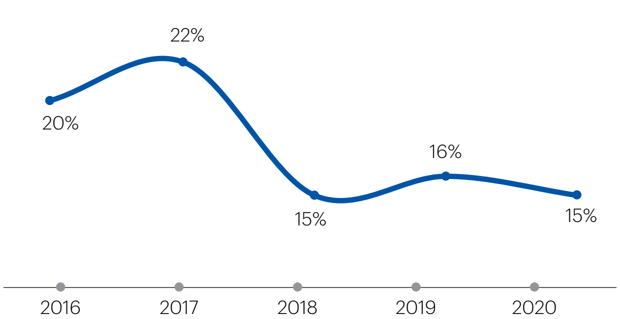
Shareholders' Equity BDT in Million



Dividend

The Board of Directors is continuously making efforts to uphold and protect the interests of all categories of shareholders as well as to ensure stable growth of the bank. In order to maintain a satisfactory capital adequacy ratio of the bank, the Board has recommended a 15% (10% cash & 5% stock) dividend for the year ended 31 December 2020, subject to the approval at the 22nd Annual General Meeting.

Dividend



Credit Rating

Emerging Credit Rating Limited (ECRL) has reaffirmed the long term rating of MBL to 'AA' and short term rating to 'ST-2' based on its financial up to December 31, 2019 and other qualitative and quantitative information up to the date of rating. ECRL also placed the Bank with 'Stable Outlook'.

In addition, Moody's has assigned 'B2' rating to MBL.

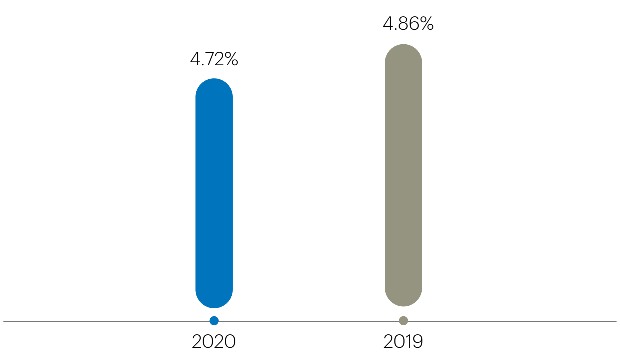
Contribution to National Exchequer

As a corporate entity, MBL pays tax and VAT on its own income according to prevailing laws of the country. By this way, the Bank has contributed extensively to the government's revenue. During the year 2020, The Bank contributed an amount of Tk. 4,693.04 million toward national exchequer in the form of tax and VAT on its earnings. Besides the Bank deducts tax, vat, excise duties etc. from various payments and deposits the same to government exchequer.

Status of Asset Quality

The non-performing loan (NPL) ratio of the Bank deceased to 4.72% as of 2020, a little bit improvement from 4.86% at the end of 2019 and well below the industry average. A comprehensive and prudent process is adopted by the Bank from loan origination, approval through disbursement up to timely recovery, which has helped to maintain the NPL at below industry average. Precise diversification of the portfolio and avoidance of over- concentration on any one sector have also helped maintain the quality of the loan portfolio. Provision has been charged against classified loans & advances to profit and loss account for BDT 345.93 million for 2020.

NPL Ratio



Internal Control System

Internal control systems are designed, implemented and maintained by the Mercantile Bank Limited (MBL) in order to provide reasonable assurance to fulfill the objectives that is, reliability of financial reporting, efficiency and

effectiveness of operations, compliance with laws and regulations and risk assessment of material misstatement.

The major components of MBL's internal control include control environment, Bank's risk assessment process, information system (including the related business processes, control activities relevant to the audit, relevant to financial reporting, and communication) and monitoring of controls. Further has been discussed in "Corporate Governance" segment of this Annual Report.

Risk Management

The Board Risk Management Committee (BRMC) reviews and monitors the overall risk management system of the Bank and updates the Board from time to time. In addition, it has been emphasized to follow DOS Circular No.04, 'Risk Management Guidelines for Banks' issued by Bangladesh Bank dated 8 October, 2018. Risk management functions are subject to continuous scrutiny of ICCD and supervision of RMD to ensure appropriateness and integrity of the risk management mechanism. The risk management system of MBL has been described in "Risk Management Report" section of this annual report. Also the major areas focused by BRMC in 2020 have been presented in "Board Risk Management Committee (BRMC) Report" section of this annual report.

Financial Reporting

Appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment. International Accounting Standards (IAS)/ Bangladesh Accounting Standards (BAS)/ International Financial Reporting Standards (IFRS)/ Bangladesh Financial Reporting Standard (BFRS), as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there-from has been adequately disclosed.

Supportive Disclosure

- It is hereby confirmed that proper disclosures have been made in Annual Report regarding:
- Basis for related party transactions.
- Remuneration to directors including independent directors.
- The number of Board meetings held during the year and attendance by each director.
- The pattern of shareholding by:
    - Parent/Subsidiary/ Associated Companies and other related parties (name wise details).
    - Directors, Chief Executive Officer, Company Secretary, and Chief Financial Officer, Head of Internal Audit and their spouses and minor children (name wise details).
    - Disclosure on Executives (Top 5 salaried employees of the company, other than the Directors, CEO, Company Secretary, CFO and Head of Internal Audit). Shareholders holding ten percent (10%) or more voting interest in the company (name wise details).
    - Shareholders holding ten percent (10%) or more voting interest in the company (name wise details).
- Disclosure on the appointment/ re-appointment of directors the Bank:
    - Brief resumes of the directors,
    - Nature of expertise in specific functional areas,
    - Names of companies in which the person also holds the directorship and the membership of committees of the board.

ToR/Code of Conduct

The Board of Directors of Mercantile Bank Limited has adopted all the policies, guidelines, circulars etc. (issued from time to time by Bangladesh Bank) as its Terms of Reference (ToR) and/or Code of Conduct and therefore separate documents like (i) Code of Conduct for Board Members, (ii) ToR for Audit Committee, (iii) ToR for Chairman and (iv) ToR for Managing Director & CEO have not been framed/laid down by the Board. The Directors have complied with such Code of Conduct/ ToR. A separate Report on 'Corporate Governance' has also been furnished with this Annual Report.

Going Concern Basis

Going concern is one of the fundamental assumptions in accounting on the basis of which financial statements are prepared. Financial statements are prepared assuming that a business entity will continue to operate in the foreseeable future without the need or intention on the part of management to liquidate the entity or to significantly curtail its operational activities. It is the responsibility of the management of a bank to determine whether the going concern assumption is appropriate in the preparation of financial statements. The management of MBL has calculated all the ratios related to the maintenance of regulatory capital & liquidity such as CRAR, LCR, NSFR, Leverage ratio, CRR & SLR and assessed adequacy of bank's liquidity as per structured liquidity profile, and has performed stress testing to determine bank's shock absorbent capacity in different distress scenario. All the ratios and results thus calculated reveal that MBL is running well above the level of different parameters set by the respective guidelines of Bangladesh Bank.

Branch Network

At the end of 2020, the number of branches of the Bank reached to 150. The Bank has 185 ATMs for facilitate cash withdrawal 24/7. The branches are located at major trade centers as well as at the rural areas of the country. Expansion of branches at rural areas has provided the lower income group an access to the modern banking system and prompt receipt of remittances. MBL has been providing its 'Islamic Banking Window' services in 25 branches as of December 2020. Besides, MBL has expanded its footprint with 101 agent banking outlets in different locations throughout the country.

150 Branches

101 Agent Banking Outlets

185 ATMS

Correspondent Relationship

MBL has been maintaining widespread correspondent banking relationship around the globe. As on December 31, 2020 MBL maintained Relationship Management Application (RMA) with 624 top ranked and best rated banks in 61 (Sixty One) countries across the world. Currently, we are enjoying Credit Limit of almost USD 950 million from various renowned banks across the world. Major foreign Correspondent Banks of MBL includes but not limited to Commerzbank AG, JP Morgan Chase Bank, Wells Fargo Bank NA, Standard Chartered Bank, MUFG Bank, Mizuho Corporate Bank Ltd., HSBC, Mashreq Bank Psc, Habib American Bank, Habib Bank AG Zurich, UBAF, Unicredito Italiano Spa, Swed Bank AB, Nordea Bank AB, Banca UBAE S.P.A., Bank Muscat, Emirates NBD and United Bank Limited. Besides, we maintained 24 (twenty four) Nostro Accounts in major currencies of the world as on December 31, 2020.

Correspondance Relationship with

61 Countries

624 Banks

Minority Interest

Minority shareholders have been protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly and have effective means of redress.

Review of Subsidiaries Performance

Mercantile Exchange House (UK) Limited

With permission from Bangladesh Bank and registration of Financial Services Authority, UK, MBL stretched its business in UK through its fully owned subsidiary named 'Mercantile Exchange House (UK) Limited' to facilitate fast and reliable medium to remit the hard- earned money of expatriates to home. Mercantile Exchange House (UK) Ltd. has been carrying out remittance business since 2011 in UK. Besides, they are also engaged in promoting different products and services of Mercantile Bank Ltd. in UK market. Details have been discussed in 'Subsidiary Overview' segment.

Mercantile Bank Securities Limited

Mercantile Bank Securities Limited is developed to provide higher, better and diversified services to a wide range of customers. MBSL is offering high quality products and services at a competitive rate. Mercantile Bank Securities Limited (MBSL) was formed on 27 June 2010, to deal with stock dealing and broking. As a subsidiary it started its separate operation from 14 September, 2011. At present,

MBSL has 7 branches. Mercantile Bank Securities Limited offers full-fledged international standard brokerage service with margin loan facility. Details have been discussed in 'Subsidiary Overview' segment.

MBL Asset Management Limited

MBL Asset Management Limited (MBL AML) has been incorporated its operations since November 29, 2018 as a new subsidiary company of Mercantile Bank. The company has licensed by Bangladesh Securities and Exchange Commission (BSEC) in January 30, 2020. MBL AML is regulated under Bangladesh Securities and Exchange Commission (Mutual Fund) Rules 2001. Details have been discussed in 'Subsidiary Overview' segment.

Off-shore Banking

At present Mercantile Bank Limited is operating two Off-shore Banking Units, as a separate business unit in compliance with the Rules and Guidelines of Bangladesh Bank. The Bank commenced operation at these units through its Gulshan Branch, Dhaka and Chittagong EPZ Branch, Chittagong on July 04, 2010. As on December 31, 2020 total exposure of OBUs increased to USD 149.86 million from USD 141.68 million on December 31, 2019. However, net profit of OBU slightly decreased to USD 4.24 million equivalent BDT 376.93 million during the year 2020 as compared to that of USD 4.44 million equivalent BDT 376.93 million in 2019.

Mobile Banking

Mercantile Bank Limited has started its Mobile Banking operation in 2012 with the vision to be one of the leading Service Providers of the country. Later on, the Bank has re-branded its Mobile financial Service as 'MYCash'. Being one of the Pioneers in the industry, MYCash has transaction connectivity with every telecom operator of the country. At present, MYCash has more than 0.57 million customers and 25,000 agents where "Utility Bill Payment" and "Corporate Payment Collection" (B2B) are the key transaction drivers. Besides providing basic mobile financial services, MYCash system is integrated with different service providers to make value added service available to their customers. Last year MYCash was nominated as one of the most loved MFS brand of the country by Bangladesh Brand Forum through the research conducted by Nielsen Bangladesh.

Outlook 2021

After a pandemic like no other, and after incurring an extraordinarily large loss of lives and livelihoods, the world will strive to pick up the pieces and move on in 2021. Thanks to the tireless work of scientists and healthcare professionals, both treatments and cures will characterize 2021.

In Bangladesh, GDP growth was estimated to have reached 5.24% in 2020 despite the global effect of the COVID-19 pandemic according to Bangladesh Bureau of Statistics (BBS) data. It is forecasted to pick up to 6.8% in 2021. The post-pandemic global economic recovery and the private consumption boosted by strong remittance flows from the Bangladeshi expatriates around the world are expected to be the key drivers of growth in 2021. The country's most immediate challenge is related to the economic, social and public health impacts of the COVID-19 pandemic. We are still expecting a pick-up in activity in 2021.

Of course, that depends on the domestic economy starting to recover. But there is so much uncertainty and it is very difficult to ascertain with precision the recovery's speed or extent. We still expect that the country would quickly come back to previous growth rates, if global economic conditions are supportive.

Acknowledgements

My gratitude goes to the Government of the People's Republic of Bangladesh, Officials of Bangladesh Bank, officials of Bangladesh Securities and Exchange Commission, Dhaka Stock Exchange, Chittagong Stock Exchange and National Board of Revenue. Specially, we owe a great debt to the officials of the Central Bank for their advice and guidance throughout the year and to our external auditors for their valuable feedback. I also express my sincere gratitude to my colleagues for their commitment and dedication towards achieving a common goal. Last but not the least, my whole-hearted appreciation goes to our shareholders and customers for their continued support and for believing in us.

On behalf of the Board of Directors,

Morshed Alam, MP
Chairman