

# MANAGING DIRECTOR & CEO'S STATEMENT ON THE PERFORMANCE



NPL 2.54%

Credit Ratings: AA-

NAV: BDT 17.73

Market Cap.:

BDT 9,660 mn

CAR: 18.91%

## Dear Shareholders

The devastating impacts of COVID-19 pandemic across the globe have brought about unprecedented challenges to the global financial system. Amidst this widespread crisis, the economy of Bangladesh is also exposed to the consequential macroeconomic shocks created by the pandemic. The most significant challenge that the COVID-19 pandemic poses to the global economy is to make a trade-off between human lives and livelihoods. To this end, authorities around the world have taken all possible sorts of measures to curb the spread of the pandemic while facilitating the economic activities to the best extent possible. Yet substantial containment measures in most advanced and emerging market economies have caused heavy disruptions in demand conditions and supply chain management, resulting in sharp contraction of global economic growth and massive job losses. Though

the magnitude of the impacts of the pandemic on Bangladesh economy seems to be less severe so far compared to most of the other economies due to timely policy initiatives by the Government as well as Bangladesh Bank, it remains pivotal to identify the transmission channels of the impacts of COVID-19 and assess the implications of such impacts on the macro-financial scenario of Bangladesh in order to maintain current high growth trajectory of the economy and also to mitigate any unexpected future shocks to the financial system stability.

Due to COVID-19, the real sector of Bangladesh economy has been disrupted during the second half of FY20 by both demand and supply side shocks in varying degrees across different sectors and sub-sectors. As a result, the real GDP growth rate slowed down to 5.24 percent (estimated) in FY20, declined by 2.91 percentage points from the preceding fiscal year. Among all the three sectors of real economy, the industry sector was

impacted most followed by service sector and agriculture sector. Quantum Index of Manufacturing Industry experienced sharp fall since January'20 to April'20. As the raw materials of manufacturing industry are mostly imported from abroad, particularly from China and India, it immediately affected manufacturing industry through supply-chain disruption as soon as the pandemic broke out in China, though the first COVID-19 case in Bangladesh was confirmed in March'20. However, from May'20 onwards, the industry moved along the way of strong recovery. Major industry-wise quantum index exhibits W-shaped recovery of food industry and V-shaped recovery of textile and wearing apparel industry while pharmaceuticals industry remained unaffected and experienced rising trend even during the pandemic. Furthermore, general holiday, quarantine, social distancing, restriction on social gathering and ban on international flights and other measures had consequences for service sector, the highest contributor to Bangladesh GDP. Growth rate of this sector declined by 1.46 percentage points and reached at 5.32 percent in FY20. The major areas of service sector, which have been affected due to the containment measures, are transport, storage and communication, wholesale and retail trade, financial intermediation, real estate, renting and business activities.

This initiative was taken to make sure our clients are stress less despite the pandemic situation. We have seen a big pressure of encashment from the marginal and small depositors. We have ensured a seamless encashment service to all deposit clients- this has allowed us to gain the trust of our clients. During this pandemic, we have simplified the process of opening a fixed deposit account with us. With the help of our dedicated RMs and the IT-developed system, we managed to provide quick and prompt services at the doorstep of the clients. Impacts of COVID-19 on financial institutions (FIs) have been assessed by analyzing the historical trend up to December'20 and a market perception survey up to December 2021.

FIs "total assets declined substantially at end-March'20 and further went down at end-June'20 before recovering sharply since end-September'20 and exceeded the pre-COVID-19 level. FIs have projected their loan growth to gradually improve throughout 2021. ROA of FIs also witnessed a quick decline in March'20 quarter and thereafter increased slightly and remained mostly stable up to December'20. The profitability of FIs has been adversely impacted mainly due to severely affected real estate, textile, garments, transport, trade, and commerce sectors in which FIs have significant investments. However, FIs' projection of their interest and noninterest income reveals an expected uptrend in 2021, thereby suggesting improved profitability.

Despite the regulatory relaxation on loan and lease classification, the gross NPL ratio of the FI industry exhibited an upward trend in March'20 (at 10.51 percent) and September'20 (at 15.50 percent) mainly due to its long historical accumulated outstanding of non-performing Bad/Loss loans. Yet the majority of the FIs projected that their recovery rate of loans and leases would improve in the approaching quarters. However, such improvement might be challenging for the sector after the expiry of the relaxation period, if NPL management is not strengthened properly. High NPLs resulted decrease in FIs' CAR slightly during March'20 to September'20; however, the CAR remains at 14.3 percent at end-September'20, higher than the minimum regulatory requirement of 10.0 percent. Overall, though the market perception survey indicates a likely improved performance of FIs in 2021, improvement in NPL management would remain the key challenge for this industry in the coming quarters.

In 2021, Bangladesh Finance has successfully gained the trust of the people which is our great achievement whereas a few of the 35 NBFIs had performed poorly. Bangladesh Finance launched Strong Brand Visibility, Transformation, New Logo and Islamic Wing, Structured Finance Unit and we

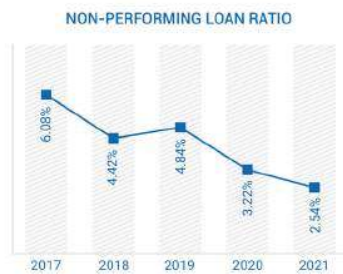
are the first listed financial institution to have a conventional business as well as an Islamic wing. In the case of corporate governance, we have been rendered accolades by two organizations (The Institute of Chartered Accountants of Bangladesh and The Institute of Chartered Secretariate of Bangladesh).

Through our Structured Finance Unit, we are providing services like Structural Finance, Corporate Advisory, Issue Management, Trustee Business. At present, we are raising funds of around Tk 2,000 crore from the market with bonds, preference shares and foreign funds. In terms of loan portfolio, 84 percent loans have been disbursed in retail, and genuine SME sector. We are doing small business with technology through a collaboration model, which no one has started yet. Where we do not have a branch or representative, we provide digital lending.

A number of responsive products including 'Bijoy' for women entrepreneurs, pension scheme 'Bangladesh Finance Retirement Plan' for private sector employees have made Bangladesh Finance unique in the world of financial institutions. As a result, the new initiatives and strong financial position helped us to achieve the AA- band credit rating from Single A+. This shows the rising steps of Bangladesh Finance.

We have set a strategic roadmap for five years where we have cautiously designed our every footsteps and pathway of becoming the case study. Fundraising, portfolio diversification, recovery strategy, customer service, smooth digitalized operation, and all the elements are included in a roadmap that will certainly make a stair to be the example.

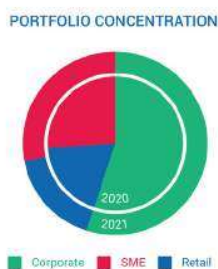
Bangladesh's banking sector already has a high level of non-performing loans (NPLs) and the pandemic is likely to worsen the situation. Many banks and financial Institutions basically failed to communicate with their customers that leads to a rise of default. But in this tough situation, we have maintained a close relationship with the customers,



Non-performing loan has been reduced significantly in 2020 by 1.62%. Total Non-performing loan has been decreased to BDT 413.20 million in 2020 from BDT 636.73 million in 2019. The strong recovery initiative and de-risking of portfolio are the major cause of this success.

As per our strategy, our focus is to increase the SME and retail book and make less concentration to corporate book. According to that we have minimized the corporate portfolio and shifted it to retail and SME base. For this, we have developed a partnership model where we will finance the retail and SMEs related with the big corporate house that will help to build a sustainable lending opportunity as well as a chance to contribute the national balance of economy.

**Segment:**



As such comparing with the previous year, the large corporate dependency is declining by increasing the retail and SME portfolios. In 2020, corporate portfolio was reduced by 2% subsequently retail portfolio was increased by 2% respectively.

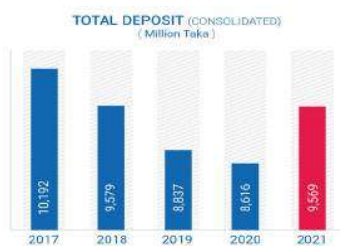
Also, we took a bold step to reduce our single party exposures from our portfolio. In 2020, our large loan exposure was 7 in number which was amounting BDT 4,108 million. We have reduced the exposure

to 6 in number amounting BDT 4,114 million. By such, we are taking more additional steps to decrease the large loan exposure efficiently.

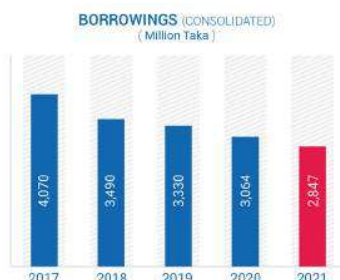


Consolidated loans and leases have a slight upward (6.4%) in 2021 because of the changing concentration in corporate base to SME and retail base.

The liquidity crunch in the financial market affects largely in deposit mobilization of FIs. De-Growth of deposit base thoroughly impact negatively in earnings also. The COVID-19 affects the financial market in such a way that most of the banks and NBFIs face a tough situation for collecting deposits from customers. Despite the effect of Covid-19, we have maintained our deposit portfolio in a planned way. We have reduced the bank dependency and focused on the customer deposit. Collection of more retail deposit is another strategic view of Bangladesh Finance.



We have reduced our bank borrowing by 7.1% in 2021 compared to the previous year. Our target is to reduce bank borrowing and increase customer deposit in our funding mix.



We have achieved better profitability in 2021 during the COVID-19 recovery stage. The consolidated EPS stood at Tk. 1.44 in 2021 from Tk. 1.69 in 2020, though our EPS decreases our profitability increase by 2.9%. The main reason of decreasing our EPS is to maintain provision of Tk. 315.36 million (836% higher compare to previous year) and adjustment of subsidiaries dividend income. The standalone EPS is increased to Tk. 1.51 in 2021 from Tk. 1.35 in 2020. We also set aside the interest income to interest suspense account where needed that leads us to make the quality profit.

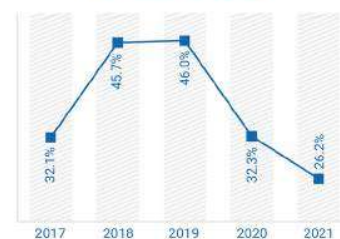
We have maintained sufficient provision and transfer interest to interest suspense account to build a strong financial position for future unforeseen loos.

**PROVISION AND INTEREST SUSPENSE AS A % OF NPL**



Compared to the year 2020, net interest increased slightly considering the loan growth. The interest income has been increased to 10.9% in 2021. Furthermore, there was a reduction of 16.11% in interest expense in 2021. Concentration in SME and retail portfolio and reduction of corporate portfolio of loan and leases lead to the decrease in net interest income.

**COST TO INCOME RATIO**



Cost to income ratio reduced by 6.1% which indicated that we have maintained our cost efficiency in line with our income. The group operating cost increased by 28.75% whereas our group operating income increased by 58.73%.



The Net Asset Value (NAV) has increased by 5.2% compared to last year 2020. We have managed to increase shareholders' value by Taka 0.87 in 2021.



Bangladesh Finance has been maintaining a good ratio of capital adequacy and the rising curve showed the financial strength of us. As CAR is used by regulators to determine capital adequacy for financial Institution to run stress tests and the solvency of the company, it shows the strong foundation of our company that generates the confident over the industry. Bangladesh Finance has experienced the highest market capitalization ever in 2021. In 2020, Market capitalization was BDT 4,875 million where as it is increased to BDT 9,660 million at the end of 2021.



Similarly, the share price has a positive growth of 191% compared to the end of last year. The growing image and the strong profitability base dictates the capital market largely.

Bangladesh Finance is always concerned

about the responsibility towards the society. As part of the corporate social responsibility, we have taken a lot of initiatives for the marginal population. In 2020, we have distributed face mask, Vaseline, hand sanitizer, blanket and many more to all stakeholders and to under privileged people whatever their location is.

The most important thing is the operational efficiency of any organization. We have introduced the 100% paperless digital approval system by which we have gained a system of fastest and efficient operation. We have also focused on the superior customer service. With the changes of the industry behavior and customer demand, Bangladesh Finance is always matching its deposit products. Our research and development team works relentlessly to initiate more attractive and customer friendly services. In addition, we have redesigned the branch operation and centralized the entire operational process to make a compact package for superior service.

Financial industry is now mostly dependent on digitalization of their all sort of internal and external operation.

Adoption of new technology helps to improve customer experience, reduce cost of operation, smart database system, reduction human errors, data-driven dynamic decision, effective reporting base, automation, boost productivity, elimination of geographical gap and many more. The use of technology will boost the opportunity of green banking. We are committed to set a role model for the industry in terms of digitalization and modernization of financial operations. We have a strong in-house software development wing and Bangladesh Finance already developed fully digital internal FDS system, Document archiving system and paperless approval system for all kinds of internal memo. We strongly believe that the forward looking strategy will mostly have implemented through the development of IT structure.

BD Finance Capital holdings Limited and BD Finance Securities Limited are two subsidiaries of Bangladesh

Finance. We have strongly focused on the performance and services of them also. As a result, we have achieved a tremendous profitability in both of the subsidiaries. BD Finance Securities Limited has achieved a 396% profit boost compared to last year. On the other hand, BD Finance Capital Holdings has achieved a 235% profit boost compared to last year. This success is a result of a cumulative effort of the Bangladesh Finance group. Achievements so far attained by Bangladesh Finance is the combined reflection of the dedication, commitment, hard work and all out efforts by each and every member for which I sincerely thank them. Implementation of the future plans I have discussed here might be challenging and not without risks indeed. But we are committed to materialize those by any means with the help of the customers, shareholders, depositors, borrowers, employees and all the stakeholders related to the organization. I strongly believe in the ability and team spirit that can surely build us stronger indeed.

Thanking You,

**Md. Kyser Hamid**  
Managing Director & CEO  
Bangladesh Finance Limited