

INTERVIEW WITH OUR MD & CEO



“

Bangladesh Finance demonstrated resilience in a challenging operating environment, delivering its unique client service, restoring profitable growth and maintaining a strong financial base. Our performance was underpinned by optimal management of our core operations and further progress in implementing the growth strategy.

It's been an extraordinarily difficult year for you as MD & CEO-how do you look back on 2022 through global and country's economic aspects?

The United Nations has said that global economic growth will fall significantly to 1.9% this year due to the food and energy crisis sparked by the war in Ukraine, Covid-19, high inflation and climate change. As per World Economic Situation and Prospects 2023 issued by UN, Average GDP growth is projected to moderate from 5.6% in 2022 to 4.8% in 2023 for South Asia region.

International organizations revised their forecasts for economic growth prospects and inflations. As per the United Nations (UN) publication 'World Economic Situation and Prospect 2022', the global economy grew by 5.5 percent in 2021, the highest growth rate since 1976, after contracting 3.4 percent in 2020. Global economy is expected to grow by 4.0 percent in 2022 and 3.5 percent in 2023.

Bangladesh is now the 35th largest economy in the world, according to a report titled 'The Top Heavy Global Economy', published by 'Visual Capitalist'. Bangladesh and India were the only two South Asian countries considered to be part of the 50 largest economies in this list based on International Monetary Fund (IMF) statistics. Citing IMF statistics, Canadian online publication 'Visual Capitalist' reported this information on December 29. Countries are listed in terms of Gross Domestic Product (GDP). As per the report, Bangladesh is the 35th largest economies in 2022 with a GDP size of US\$460.8 billion. Earlier, the rank of Bangladesh was 41st.

Bangladesh economy was growing consistently high over a decade crossing 7.0 percent milestone in FY 2015-16 and 8.0 percent milestone in FY 2018-19. However, the COVID-19 pandemic reduced the growth rate to 3.45 percent in FY 2019-20. The economy grew by 6.94 percent in FY 2020-21. According to the provisional estimates of BBS, the GDP growth stood at 7.25 percent in FY 2021-22, 0.05 percentage point higher than the target rate and 0.31 percentage point higher than the previous fiscal year.

Make comment on the performance and financial aspects of the NBFi Sector-2022?

As of 2022, total 35 licensed non-bank financial institutions (NBFIs) are functioning with network of 308 branches spreading over 37 districts. Among those branches, 174 are set up in Dhaka and the rest 134 are located in 36 districts. As per Bangladesh Bank Report based on December 2022, Total deposits of the NBFIs increased by Tk. 21,672 million or 5.21 percent to Tk. 437,526 million during the Oct-Dec, 2022 as compared to Jul-Sep, 2022. At the same time, NBFIs' total advances increased by Tk.10154 million or 1.47 percent to Tk.703,217 Million during Oct-Dec, 2022 as compared to Jul-Sep, 2022. As of September 2022, Total assets of financial institutions decreased by 1.65 percent and reached to BDT 933.12 billion at end-September 2022 from BDT 948.81 billion at end-June 2022. Total earning assets (i.e., loans, leases, and investment) of FIs constituted 77.47 percent of total assets at end-September 2022. The rest of total assets composed of cash and liquid assets, fixed assets, and other

assets. The liabilities to assets ratio stood at 91.96 percent at end-September 2022 which is 0.72 percentage point lower compared to 92.68 percent at end-June 2022.

Aggregate classified loans and leases stood at BDT 173.27 billion at end-September 2022 from BDT 159.36 billion at end-June 2022. The ratio of classified loans and leases increased to 24.61 percent at end-September 2022 which was 1.62 percentage points higher than that of the previous quarter and 6.99 percentage points higher than that of end-September 2021.

Profitability indicators as measured by Return on Assets (ROA) and Return on Equity (ROE) were negative since March 2021. Return on Assets (ROA) increased to -0.40 percent from -0.54 percent while Return on Equity (ROE) increased to -5.95 percent from -7.41 percent compared to the preceding period. It is noteworthy that ROA and ROE were -0.62 percent and -6.56 percent respectively in September 2021.

The Capital Adequacy Ratio (CAR) and the Tier-1 capital (core capital) ratio of the FIs stood at 10.16 percent and 8.35 percent, respectively. Total Risk-Weighted Assets (RWA) increased from BDT 698.33 billion at end-June 2022 to BDT 708.24 billion at end-September 2022. During the review quarter, the RWA for credit, market, and operational risks were 87.60 percent, 5.76 percent and 6.65 percent of overall RWA of the FIs, respectively.

What about the results for the year-2022? To what extent do they reflect these difficult market conditions?

Clearly, the impact of post-Covid 19 and Russia Ukraine War affected our 2022 financial results. We ended the year with a modest profit. There were definite positives – we made progress on our priorities. Unfortunately, we did not override net profit of 2022 compare to net profit of 2021. We had an increase in written off of some loans and advances. Considering the economic turmoil, we have maintained excess provision and transfer interest to interest suspense account. However, we have maintained a fair EPS and NAV for the year ended 31 December 2022.

As an MD & CEO, it would have been a challenging year, with the need to make tough decisions about staffing, financial management, and strategy in an uncertain and rapidly changing environment. However, it was also an opportunity to demonstrate leadership, resilience, and adaptability, as well as to identify new opportunities for growth and innovation. Overall, the year 2022 was a reminder of the importance of strong leadership, effective risk management, and resilience in the face of uncertainty and adversity.

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.

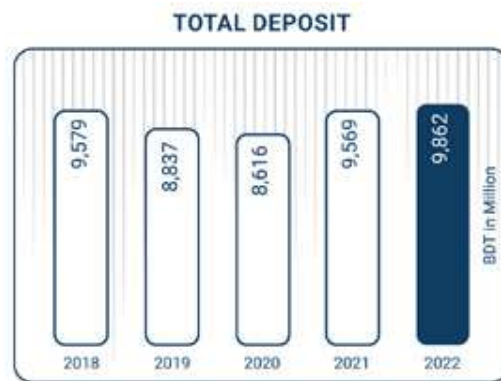
As such comparing with the previous year, the large corporate dependency is declining by increasing the retail and SME portfolios. In 2022, corporate portfolio was reduced by 2.5% subsequently SME and Retail portfolio was increased by 1.5% and 1% respectively.



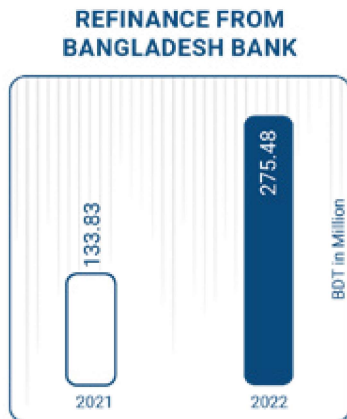
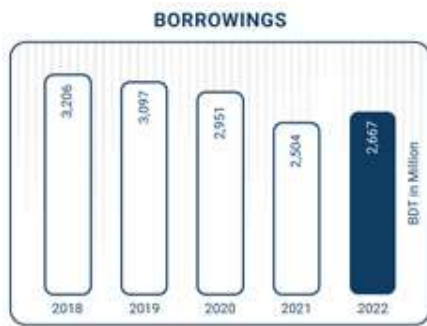
Our loans and leases portfolio increased by 2.4% in 2022 because of the changing concentration in corporate base to SME and retail base.



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 economic turmoil and reduction of deposit rate affects the financial market in such a way that most of the banks and NBFIs face a tough situation for collecting deposits from customers. However, we have closed our 2022 Balance sheet with 3.07% positive growth of Deposit.



As a part of our strategy, our target is to reduce commercial bank borrowing and increase Bangladesh Bank refinance scheme in our funding mix. Our bank borrowings have increased by 6.5% in 2022 compared to the previous year whereas our refinance from central bank increased by 106% in the year 2022 compared to previous year.



One of those choices, you mention was to refocus SME & Sustainable Finance.

Yes, that’s correct! Refocusing SME and sustainable finance can have a significant impact on economic growth and sustainability. Refocusing on SME finance involves providing better access to finance, creating financial instruments that meet their specific needs, and supporting them with technical assistance and capacity building. Sustainable finance refers to financial services and products that support sustainable development goals. This could include investments in renewable energy, green infrastructure, and sustainable agriculture, among others.

For refocusing on SME and sustainable finance, we have taken a special strategy- collaboration model. This model usually lends to large companies. Large companies buy the product and sell it to others. But under the collaboration model, loans are being given directly to entrepreneurs. In this model, we do not need a branch or a separate staff. In this case, we are working with big companies like Akiz Group, which have networks across the country and some NGOs through revenue sharing. It is possible to invest at the marginal level with less manpower. These loans are usually short term i.e. between six to two years. On the other hand, the recovery rate of these loans is 100%. The picture of the last two years says so.

On the other hand, we provide small and medium loans to farmers and consumers at the very marginal level by tying up with various producers and distribution companies. As a result, through our loans, farmers are able to buy tractors and other agricultural machinery in the village. Apart from this, we are providing unsecured loans of Tk 50 lakh to women entrepreneurs very easily at only 4% interest.

With the strategy review, where do you expect future growth to come from?

The sources of future growth will depend on the specific strategy that is adopted. However, there are several areas

where we can expect to see significant growth in the coming years, such as:

Our financial institution is characterized by its own business model, risk management framework and governance with transparency and accountability. If you look at the business model, we are providing small and medium credit to the marginal farmers and consumers through integration with various producers and distribution companies. Bangladesh Finance and Supply Line Limited will provide capital to grocery shopkeepers in just one day with the aim of including small entrepreneurs in the progress of sustainable development. Bangladesh Finance has undertaken the target of giving loans of 50 thousand taka to 5 thousand customers. Not only that, through our loans, by establishing liaison with Akij Group, Bangla Mark and Bangla Trucks, construction and agricultural entrepreneurs can do business through tractors and other agricultural machinery and construction parts even in remote areas. Financial capital can be taken through animal services for cow fattening and dairying. We provide unsecured loans of up to Tk 50 lakh in four days at only 4 percent interest to women entrepreneurs very easily. The name of this popular product of Bangladesh Finance is ‘Vijay’. As a result, we have focused heavily on SME and re-tail businesses in our business model for future sustainable growth.

In addition, Bangladesh Finance is the only financial institution currently listed in the capital market, which has achieved the distinction of being the first financial institution approved by the Central Bank for conducting Islamic Shariah-based business. Through the Islamic financial wing we will explore business potentiality in the market.

What about Bangladesh Finance’s approach to sustainability? Has it been affected by the recent recession took place globally?

During times of economic uncertainty and financial stress, companies may be tempted to prioritize short-term financial goals over longer-term sustainability objectives. This could lead to reduced investment in sustainability initiatives, such as renewable energy, Women Entrepreneurship loans, and social impact programs. However, it’s also possible that the pandemic has highlighted the importance of sustainability and resilience, both in terms of environmental sustainability and social equity. As a result, some companies may have doubled down on their sustainability efforts, recognizing the long-term benefits of sustainable practices and products.

It’s worth noting that sustainability is becoming an increasingly important factor for investors and consumers, who are looking for companies that prioritize environmental and social responsibility. As a result, companies that are able to demonstrate a strong commitment to sustainability may be better positioned to attract investment and maintain customer loyalty, even during challenging economic conditions.

Overall, it’s difficult to say how the recent recession may have specifically impacted Bangladesh Finance’s approach to sustainability. However, it’s clear that sustainability is becoming an increasingly important consideration for companies in all sectors, and those that prioritize sustainability may be better positioned for long-term success.

What do you expect for the upcoming year 2023? Do you think we can put the current crisis behind us?

It’s difficult to predict with certainty what the year 2023 will bring, given the ongoing uncertainty and complexity of the global state. In my opinion, the following challenges we will face in upcoming year:

Interest rate caps pose a difficult situation for financial institutions for the upcoming year. I think Bangladesh Bank should reconsider this and realistically remove this cap. Because now the country's inflation is over 9 percent. Banks are generally instructed to collect deposits from their customers at a rate higher than inflation. Meanwhile, it is now seen that the banks are giving more than seven percent to the customers. So, it can be said that if at the same time banks and financial institutions collect deposits at seven percent, then it is really a challenge for financial institutions. It appears that many depositors are withdrawing deposits. They're putting it in the bank, or putting it somewhere outside the channel. This has created problems for financial institutions to collect deposits.

To maintain the Non-Performing Loans (NPL) at an expected level will be a challenge for the year 2023. Due to global recession and the higher inflation, the corporates are facing problem.

Diversification of loans and deposit portfolio will help us to overcome the challenges we will face in the year 2023. We are targeting SME sectors with the support of Bangladesh Bank refinance schemes which help us to grow our loan portfolio without focusing much on deposits.

In addition, to increase the amount of customer deposits in the funding mix, create a sales model and relationship base business model for taking regular and small deposits, where we want to come up with a new concept of wealth management. This wealth management concept will work to provide customers with insurance services, capital market trading opportunities and other benefits of the financial sector. In short, we want to bring all the benefits of the money market under one umbrella. I believe we can take Bangladesh Finance to a unique height in the next three-four years with the help of our current Board of Directors.

Financial Sector is expected to fulfil an important role in society. What are your thoughts on this?

I believe that the financial sector does indeed play an important role in society. At its core, the financial sector is responsible for managing the flow of capital within the economy, channeling savings into productive investments and facilitating transactions between individuals, businesses, and governments. In addition, the financial sector has a critical role to play in promoting economic growth and development, by providing access to credit, investment capital, and other financial services that can help individuals and businesses to achieve their goals.

However, with this important role comes a significant responsibility to ensure that financial services are provided in a responsible, ethical, and sustainable manner. This means ensuring that financial services are accessible to all members of society, regardless of their background or circumstances, and that financial products and services are designed to meet the needs of customers rather than maximizing profits at all costs.

Furthermore, the financial sector must also ensure that it operates within the bounds of legal and regulatory frameworks, which are designed to promote stability, fairness, and transparency within the financial system.

Overall, I believe that the financial sector can play a crucial role in advancing social and economic progress, but it must do so in a responsible and sustainable way, which balances the needs of various stakeholders, including customers, shareholders, employees, and society as a whole.

Accelerating the sustainability shift is the strategic theme of the organization. How is Bangladesh Finance contributing to this goal?

As part of our strategic focus on accelerating the sustainability shift, Bangladesh Finance is taking a range of actions to promote sustainability and responsible business practices. Some of the ways that a financial institution like Bangladesh Finance might contribute to the sustainability shift including:

Promoting sustainable investment: Bangladesh Finance is working to promote investment in sustainable projects and businesses, such as renewable energy, sustainable agriculture, and eco-friendly technologies. This could involve developing new financial products and services that support sustainable investment, as well as providing guidance and advice to customers on sustainable investment opportunities.

Engaging with stakeholders: Bangladesh Finance is engaging with a range of stakeholders, including customers, investors, regulators, and civil society organizations, to promote sustainable business practices and ensure that its operations align with stakeholder expectations.

Supporting sustainable communities: We are supporting sustainable development within the communities in which it operates, through initiatives such as providing financial support to local businesses and community projects, supporting education and training programs, and promoting sustainable development practices.

Overall, there are many ways in which a financial institution like Bangladesh Finance can contribute to the sustainability shift, and it's likely that the company is taking a multifaceted approach to promoting sustainability and responsible business practices.

The financial industry is becoming ever more digitalized. What do clients think of this development?

I can't speak for all clients in the financial industry, as opinions on the digitalization of finance may vary depending on a number of factors, such as age, digital literacy, personal preferences, and cultural background.

However, in general, it seems that many clients are increasingly comfortable with digital financial services and expect them to be available from their financial institutions. The rise of digital banking platforms and fintech startups has introduced new levels of convenience, speed, and flexibility to financial services, which can be especially appealing to younger and more tech-savvy clients.

Moreover, the COVID-19 pandemic has accelerated the trend towards digital financial services, as many clients have had to adapt to remote working and social distancing measures.

“We are building a strong and consistent track record of delivery against our strategy, and we are well positioned for growth, notwithstanding the more challenging operating environment.”

As a result, we have seen a rapid adoption of digital payment systems, mobile banking apps, and other digital financial tools.

However, it's also important to note that some clients may still prefer more traditional, in-person banking services, especially for more complex transactions or for personalized financial advice. In addition, there are also concerns about the security and privacy of digital financial services, as well as potential issues related to data privacy and cybersecurity.

Overall, the digitalization of the financial industry is a complex and multifaceted trend, and clients' opinions on this development are likely to vary depending on a range of factors. Nevertheless, it's clear that digital financial services are becoming increasingly important and prevalent in today's financial landscape, and financial institutions will need to continue to innovate and adapt to meet the changing needs and preferences of their clients.

It's been 2+ years since you joined in Bangladesh Finance. How is Bangladesh Finance doing in terms of Corporate Governance?

Bangladesh Finance is doing its business with maintaining highest level of integrity, financial transparency and with the support and guidance of the most knowledgeable and experienced Board. The country's top audit firm is working as our external auditor. Qualified Chartered Accountants are working under the Independent Team for Internal Audit. Apart from this, two rating agencies are working on ratings in Bangladesh Finance. On the other hand, we have already contacted a foreign rating agency. Hopefully, Bangladesh Finance will be rated by any foreign rating agency as the first financial institution in the country. For these reasons we have already achieved SAFA, ICB, ICSB and Sustainable Finance Award.

With digitalization, what's the effect on employees?

The digitalization of the financial industry can have both positive and negative effects on employees, depending on the specific circumstances.

On the positive side, digitalization can create new opportunities for employees to learn new skills, work more efficiently, and improve their job satisfaction. For example, digital tools can help automate repetitive tasks, freeing up employees' time to focus on more strategic and creative work. Digital platforms can also enable remote work and collaboration, providing employees with greater flexibility and work-life balance.

Furthermore, digitalization can create new job roles and opportunities for employees with expertise in areas such as data analytics, artificial intelligence, and cybersecurity. As financial institutions adopt new digital technologies and business models, they may need to hire additional staff with specialized skills in these areas.

However, there are also potential negative effects of digitalization on employees. For example, digital tools may lead to job displacement, as some tasks become automated and fewer employees are needed to perform them. This can create job insecurity and reduce employee morale.

In addition, there may be concerns about the impact of digitalization on employees' work-life balance, as the always-on nature of digital technologies can create pressure to work longer hours or be available outside of regular working hours. Moreover, employees may need to invest time and resources to acquire new digital skills and adapt to new digital tools, which can be stressful or challenging for some.

Overall, the effects of digitalization on employees are complex and multifaceted, and depend on a range of factors, such as the specific digital technologies being adopted, the culture and values of the organization, and the skills and preferences of individual employees. Financial institutions will need to carefully consider the potential impacts of digitalization on their employees and take steps to mitigate any negative effects while maximizing the positive benefits.

Can you expand on the Bangladesh Finance's innovation?

Bangladesh Finance can stay ahead of the curve and differentiate itself in a highly competitive marketplace. By developing new products and services that are tailored to the needs of its customers and the broader financial landscape, Bangladesh Finance can position itself for long-term success in the evolving financial landscape. Some of our innovations are highlighted below:

Digital platforms: Bangladesh Finance is investing in digital platforms and technologies to improve the customer experience and streamline internal processes. This includes mobile banking

apps, account management tools, onboarding customers through digitally.

Sustainable finance solutions: Bangladesh Finance will develop innovative sustainable finance solutions such as green bonds, sustainability-linked loans, and social impact investment funds to meet the growing demand for socially responsible investing.

Collaborations with fintech companies: Bangladesh Finance continuously collaborating with fintech companies, NGOs, Local group of companies to develop innovative financial products and services.

Industry partnerships: Bangladesh Finance is in a process to initiate strategic partnerships with other financial institutions or industry players to develop new products and services that are mutually beneficial.

Customer-centric innovation: Bangladesh Finance is always focused on developing new products and services that are tailored to the specific needs of its customers, such as customized investment portfolios, personalized financial planning advice, or new digital tools for managing finances.



What dose Bangladesh Finance wants to achieve in the years ahead?

Bangladesh Finance is working with three major goals in mind. This includes moving away from the existing Dhaka-Chittagong-centric investment system to marginalization. Second is green or sustainable financing which could help our position as a leader in sustainable finance and attract customers who are increasingly focused on environmental, social, and governance (ESG) factors. Third is the financing of women entrepreneurs. Highlighting the special role in financing women entrepreneurs, Mr. Hamid said, "We are the first to provide loans up to 50 lakh taka in four days without collateral at only four percent interest" and it has already received a huge response. In addition to these three major goals, we would like to achieve in future:

Business growth: Bangladesh Finance always focused on expanding its customer base, developing new products and services, and increasing its market share in key sectors.

Digital transformation: As digital transformation continues to reshape the financial industry, Bangladesh Finance is investing in new digital platforms, technologies, and processes to improve the customer experience, reduce costs, and increase operational efficiency.

Financial inclusion: We always focused on expanding financial inclusion in underserved communities by developing innovative financial products and services that cater to the needs of low-income customers, women, and other marginalized groups.

Talent development: In order to stay competitive in a rapidly changing industry, Bangladesh Finance may be investing in the development of its employees by providing training, mentorship, and other professional development opportunities.

Overall, financial institutions like Bangladesh Finance aim to achieve a range of objectives that are aligned with their strategic priorities, customer needs, and broader societal goals. By staying focused on these objectives and continually adapting to the changing financial landscape, Bangladesh Finance can position itself for long-term success and achieve its mission of providing value to its customers and stakeholders.

Confidence has remained low since the financial crisis has faced by the world. What is Bangladesh Finance doing to reinforce confidence?

I think by taking the following steps to reinforce confidence, Bangladesh Finance can help to build a stronger and more resilient financial industry that is better able to meet the needs of its customers and stakeholders:

Enhancing transparency: Bangladesh Finance is working to increase transparency by providing clear and comprehensive information about its financial products and services, as well as its business practices and performance. This can help to build trust among customers and stakeholders, and reduce the likelihood of misunderstandings or misconceptions about the institution.

Improving risk management: Bangladesh Finance is continuously focused on strengthening its risk management capabilities, including by identifying and mitigating potential risks and vulnerabilities in its operations and financial products. This can help to ensure the safety and stability of the institution, and reassure customers and stakeholders that their investments and assets are secure.

Emphasizing ethical practices: We are committed to promoting ethical practices and behaviors across its operations and business activities. This could involve implementing rigorous standards and guidelines for employee conduct, developing strong codes of ethics and professional conduct, and establishing clear channels for reporting and addressing ethical concerns.

Investing in customer service: Bangladesh Finance is always investing in customer service and support, including by offering personalized financial advice, providing prompt and responsive service, and implementing effective complaint-handling mechanisms. This can help to build stronger relationships with customers and enhance their confidence in the institution.

Engaging with stakeholders: We actively engaging with stakeholders, including customers, regulators, investors, and the broader community, to ensure that their concerns and perspectives are heard and addressed. This can help to build trust and confidence among these stakeholders, and promote a positive image of the institution.

“We anticipated many of the challenges that presented themselves in 2022 and we were well prepared. We have to accept that the environment in which we operate is constantly evolving. To be both a successful and sustainable financial services provider we need to keep pace with economic, social, environmental, regulatory, technological and industry changes.”

