DIRECTORS' REPORT TO THE SHAREHOLDERS

In the name of Allah

The Most Gracious, the Most Merciful

Dear Shareholders,

Assalamu Alaikum Wa Rahmatullah Wa Barakatuhu

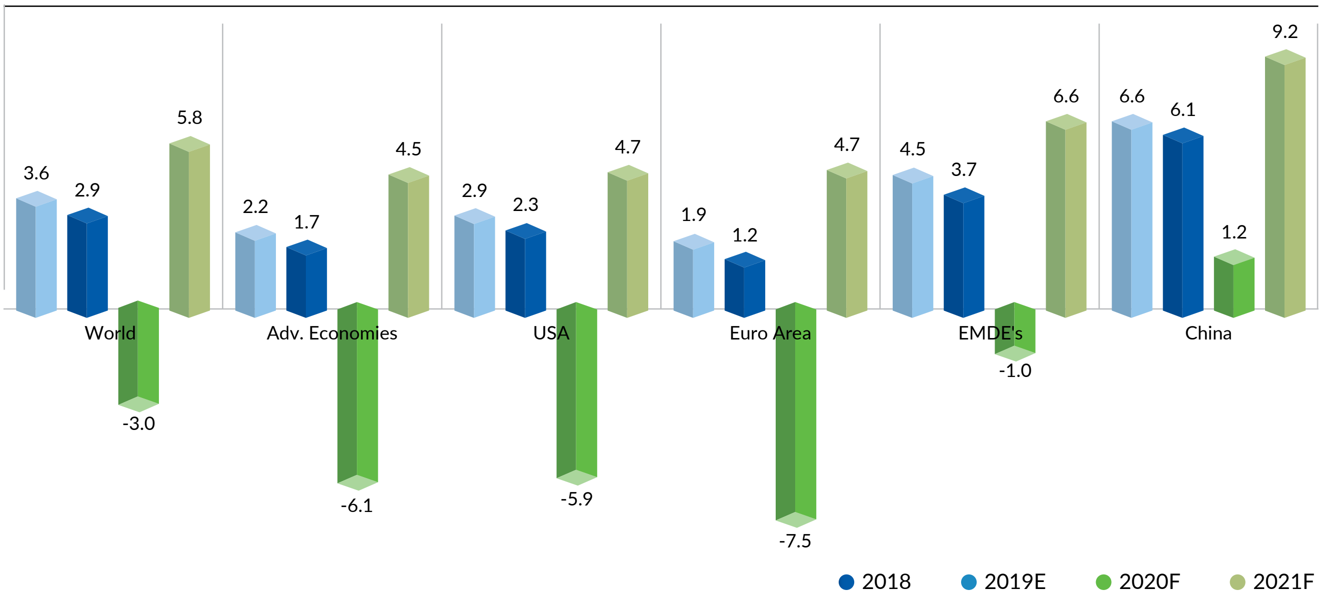
We are delighted to present before you the Directors' Report and Audited Financial Statements together with Auditors' Report of the Bank for the year ended on 31 December 2019. We have also provided a brief description of the performance and financial position of the Bank for the same year as well as various aspects of the world economy and Bangladesh economy.

WORLD ECONOMY

In 2019, the global growth trajectory reflects a sharp decline for a group of underperforming and stressed emerging market and developing economies. The growth profile also relies on relatively healthy emerging market economies maintaining their robust performance even as advanced economies and China continue to slow gradually. But the COVID-19 pandemic has radically changed the prospects of the global economy for the short-, the medium- and potentially for the long-term. In the short-term, as governments throughout the world introduce stringent measures limiting physical mobility and social activity to slow the spread of the virus and avert a health crisis, economic activity seriously contracted. This is leading to an unprecedented decline in global GDP during the first half of 2020.

A global economic recession is now all but guaranteed in 2020, with analysts worldwide continuing to slash their already grim forecasts as the rapid spread of the corona virus pandemic across the globe results in unprecedented containment measures and a rising number of businesses in danger of bankruptcy. The moves by central banks around the world to cut their interest rates to record lows and by governments to pump huge amounts of money into their economies. The question now becomes how deep the downturn will be, and how long it will last, with worst-case scenarios seeing weak growth continuing into 2021. Analysts have already cut their Global growth forecasts for this year to between 1 to 2 per cent, attributing the certainty of a recession to the shutdown of key economies economic activity in the first half and the negative impact Covid-19 is having on "all aspects of life". The International Monetary Fund defines a recession as an annual global growth rate below 2.5 per cent where the global economy grew only 2.9 per cent last year.

Global GDP Growth in %



Source: IMF

Global GDP Growth in %

Source: World Bank

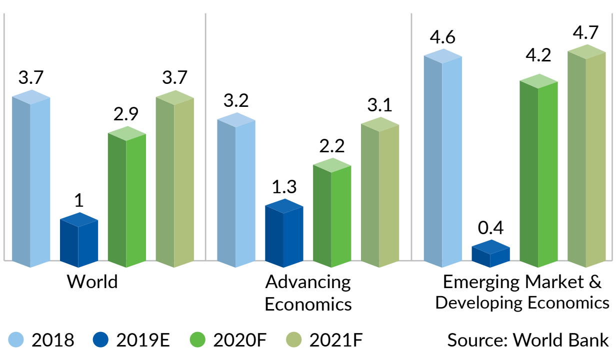
The COVID-19 pandemic is inflicting high and rising human costs worldwide, and the necessary protection measures are severely impacting economic activity. As a result of the pandemic, the global economy is projected to contract sharply by –3 percent in 2020, much worse than during the 2008–09 financial crisis. In a baseline scenario--which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound—the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support. The risks for even more severe outcomes, however, are substantial.

The significant actions of large central banks in recent months include monetary stimulus and liquidity facilities to reduce systemic stress. These actions have supported confidence and contribute to limiting the amplification of the shock, thus ensuring that the economy is better placed to recover.

Global Trade:

With so much fluctuation and uncertainty around trade agreements in globally was the "The biggest trend in 2019. Recent indicators suggest that global trade is on track to fall more in 2020 than it did during the global financial crisis, primly owing to the disruptions the COVID-19 pandemic has caused to international travel and global value chains . Trade is typically more volatile than output, and tends to fall sharply in times of crisis . Investment, which is more cyclical and more trade-intensive has declined worldwide as firms face financing problems and delay expansion. Disruptions in credit markets played an important role in the contraction in global trade. Travel restrictions and concerns about COVID-19 have led to a steep fall in tourism—a sector that in recent years has accounted for about 6.5 percent of global exports of goods and services. As the pandemic has spread, stringent border controls and production delays have weighed on trade. Measures to slow the outbreak have limited or delayed the supply of critical inputs. As per World Bank latest projection, the sharp fall in activity in the first half of this year is expected to contribute to a contraction in global trade of about 13.4 percent in 2020.

World Trade Volume (Goods and Services) (Growth in %)



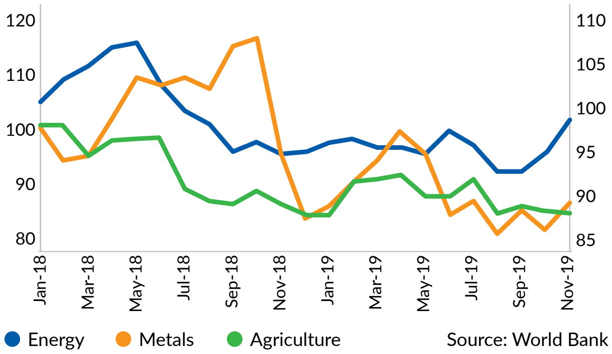
Source: World Bank

Global Commodity Market:

The prices of most commodities fell in 2019, mainly reflecting the deterioration in the growth outlook—especially that of EMDEs. But Most commodity prices declined in the first half of the year because of the sharp fall in global demand. Brent crude oil prices fell almost 70 percent from late January to mid-April, Controls to slow the spread of the pandemic has resulted in a sharp fall in travel and transport, which accounts for two-thirds of oil consumption. As per latest estimation of World Bank, Oil demand is expected to fall by 8.6 percent in 2020. Demand for metals has also fallen. Prices are anticipated to decline 16 percent in 2020 before showing a modest increase in 2021. This forecast is predicated on a recovery of Chinese demand, which accounts for around 50 percent of the consumption of base metals.

Agricultural prices, which weakened over the first half of the year, are expected to decline only marginally in 2020 as a whole, as they are less sensitive to economic activity than industrial commodities. Despite production levels and stocks for most staple foods being near all-time highs, there are growing concerns about food security due to global vulnerable supply chain.

Commodity Price



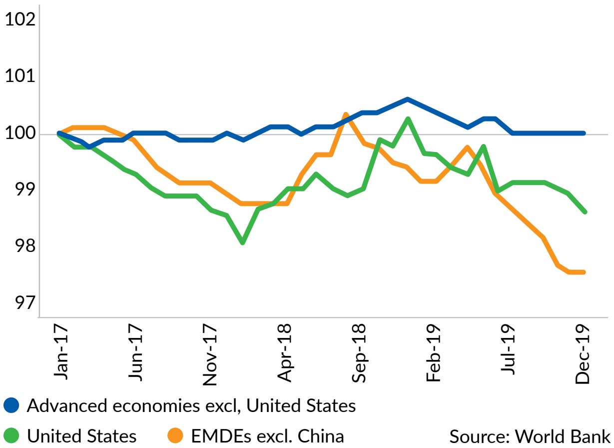
Source: World Bank

Global Financial market

Global financing conditions eased considerably in 2019. But in 2020, financial markets witnessed a historic flight to safety as the economic consequences of widespread measures to contain COVID-19 became apparent. Global equity valuations took an unprecedented plunge early in the year, while market volatility spiked to its highest level since 2008. EMDEs suffered from record capital outflows accompanied by a rise in sovereign borrowing spreads, which was especially severe for countries with high government debt . To contain financial stress, central banks injected liquidity into financial markets through a combination of direct credit provision to large investment-grade companies, expansion of the range of assets they accept as collateral, and large-scale asset purchases. Capital outflows from EMDEs have stabilized, while equity market valuations have retraced a considerable share of their earlier losses.

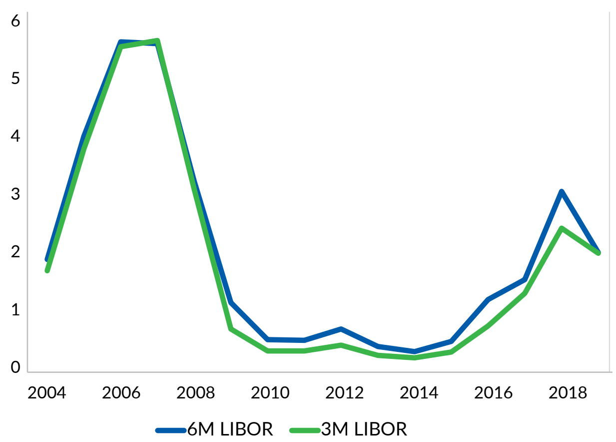
Global Financing conditions

Global Financing conditions



Source: World Bank

Global Benchmark Interest (LIBOR) rate movement in %



Risks to the Outlook

Lockdowns and other restrictions, while necessary to slow the spread of the virus, have been accompanied by a sharp reduction in economic activity . Their gradual removal is expected to pave the way for a partial recovery in the second half of the year. On this assumption, the world economy is projected by World Bank to contract by 5.2 percent in 2020. If this forecast materializes, the fall in global output would be more than double that of the 2009 global recession.

BANGLADESH ECONOMY

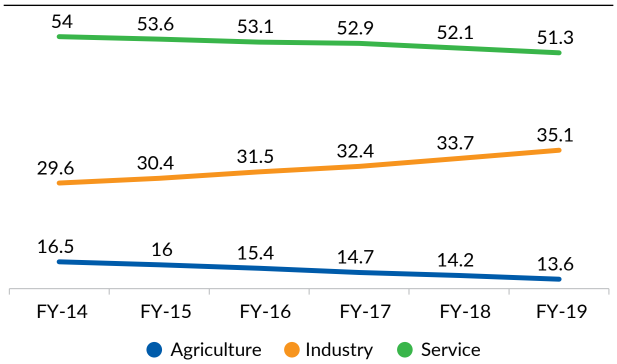
Growth performance of Bangladesh has witnessed stellar improvement over time. In last decade, Bangladesh economy continues to demonstrate remarkable resilience and strength amidst a significant decline and uncertainty in global economic conditions. Bangladesh's GDP growth in FY 2019, as economy expanded at an 8.15 per cent rate, was buoyant and maintained a strong growth momentum amidst subdued global growth. Its real GDP grew by 8.15 percent in FY19 up from 7.86 percent in FY18, supported largely by the pick-up in the investment demand; particularly public investment and private consumption boosted by healthy remittances have been the leading contributors. On the production side, the growth surge emerged mainly from the industry sector (13.02 percent growth) with 14.76 percent growth in manufacturing activities. Bangladesh has achieved some of its development goals based on the people's resilience and their entrepreneurial drives for bringing changes in their lives. It's true for remittance, export of garments, freelancing jobs, and farm and non-farm rural economic activities. Though Bangladesh economy shows tremendous performance in recent year, signs of widening resource gap, plight of capital, high non-performing loans, share market debacle, widespread corruption, traffic congestion and pollution are few major challenges for Bangladesh economy. Though at this moment, many of macroeconomic indicators of the country are experiencing rough ride, the country will need to create more and better jobs for its youth, nursing robust private sector with conducive business climate, skilled labour force, efficient infrastructure along with the right policies and quick actions will be critical for to accelerate growth and reach the next level of development.

The Bangladesh economy, like other economies around the world, is suffering from the fallouts of COVID‑19 pandemic. In some sector, Bangladesh economy was already facing challenges prior to the surfacing of the corona pandemic. These include the difficulties concerning the financial sector which have now been further aggravated by corona virus outbreak. As Bangladesh is being forced to endure lockdowns to tackle the Covid-19 pandemic, these lockdowns are having a crippling effect on workers and businesses across the country. The economy has almost come to a stagnant and debilitating effects are being observed in almost all sectors.

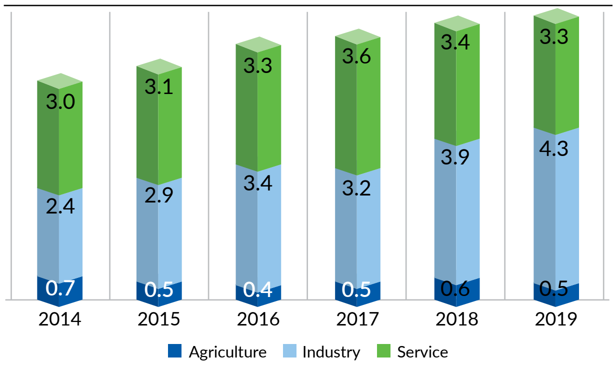
Agricultural sector

The agriculture sector grew at a lower rate of 3.51 per cent in FY19 compared to 4.19 per cent in FY18. Notwithstanding the favorable natural factors and strong government support in terms of timely availability of inputs and finance, the sector achieved a lower rate of growth of 3.51 per cent in FY19 than in FY18. The sector's share in GDP, too, declined to 13.60 per cent in FY19 from 14.23 per cent in FY18. The agricultural activities remained buoyant supported by the strong growth in fishing (6.29 percent) and forestry (5.58 percent). Animal farming, whose sectoral share to GDP is increasing subsequently, attained a moderate growth (3.47 percent). Steady growth in rice production abated rice import quite rapidly in FY19. Among the non-rice crops, production of maize increased by 20.7 percent, while wheat production declined marginally due to changing weather conditions from a long to a short winter period, reduction in the crop's acreage, and fungal disease infestation.

Sector wise GDP Contribution in %



COMPOSITION OF GDP GROWTH



Industrial sector

Industrial sector become the key driver of outstanding GDP growth in last couple of years. The share of the broad industry sector in GDP increase by 1.48 per cent point to 35.14 per cent in FY19 from 33.66 per cent in the previous fiscal year. The sector grew at 13.02 per cent in FY19 compared to 12.06 per cent in FY18. Within the broad industry sector, the manufacturing sub-sector grew by 1.33 percentage points to 14.73 per cent in FY19, compared to 13.40 per cent in the previous fiscal year. The large and medium scale industries sub-sector performed better than in the previous fiscal, growing at 15.61 per cent in FY19, compared to 14.26 per cent in FY18. The small scale manufacturing industries grew at a lower rate than other sub-sectors. This sub-sector grew at 10.26 per cent in FY19 as against 9.25 per cent in FY18.

The share of the manufacturing sub-sector in GDP increased to 24.21 per cent in FY19 from 22.85 per cent in the previous fiscal year, while the corresponding share of the large and medium scale industries sub-sector rose to 20.36 per cent in FY19 from 19.07 per cent in FY18 and that of the small scale industries sub-sector increased to 3.85 per cent in FY19 from 3.78 per cent in FY18.

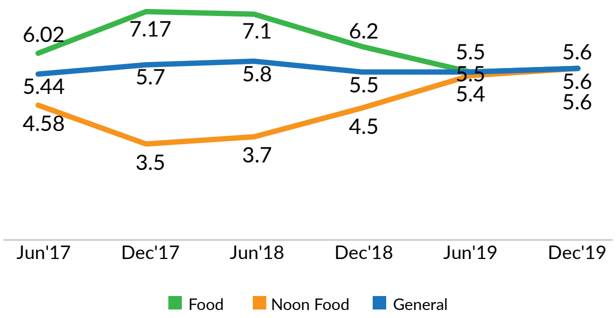
Service sector

The services sector accounts for the largest share of GDP, although the share is gradually diminishing. In FY19, 51.4 percent of GDP came from this sector which was 52.1 percent in FY18. Service sector grew by 6.8 percent, slightly up from 6.4 percent growth in FY18. The growth of major components of services sector - like, health and social works, wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, hotel and restaurants, education and transport, storage and communication increased. On the other hand, growth of public administration, defense and financial intermediations decreased slightly in FY19.

Inflation

The average inflation rate has increased by 4 basis points for the 12 months in the just-concluded year 2019 to 5.59 per cent due to some volatility in commodity markets in the country and the point-to-point inflation rate dropped to 5.75 per cent in December from 5.35 per cent in December 2019. The inflation rates for each of the months in the last calendar year, maintained an uptrend except for the month of December. The month-on-month inflation rate was also higher than the government's target of 5.55 per cent for the current FY 2020. Food inflation declined 53 basis points to 5.88 percent, aided by fall in the prices of vegetables and spices where Non-food inflation edged up eight basis points to 5.55 percent. With import growth lagging well behind GDP growth, the increase in cost of imports due to exchange rate depreciation can also not explain why the headline inflation in most months remained above 5.5 percent and non-food inflation closer to 6 percent.

Twelve Months Average Inflation Rate In %

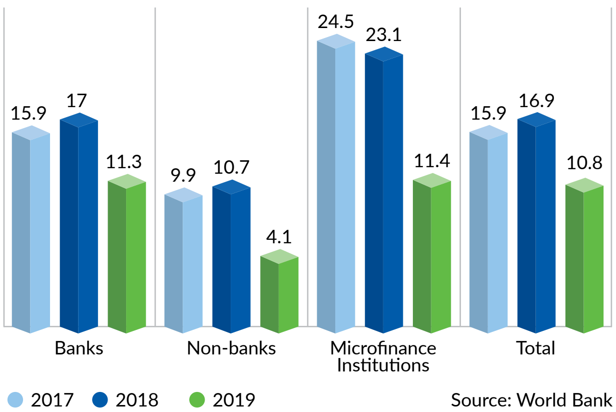


Money Supply and Credit Growth

Notwithstanding a strong growth in government borrowings from the banking system and the turnaround of the net foreign asset (NFA), broad money (M2) registered a modest growth of 12.04 percent at the end of end of December 2019 against 9.41 percent at the end of December 2018 where the programmed ceiling of 12 percent, driven mainly by a significant rise in government borrowings from the banking system. However, private credit growth continued to languish on the back of moderated import demand partly because of slow down of exports, and net foreign asset (NFA) maintained a lower positive growth despite a hefty inflow of remittances. Some respite on liquidity condition arising from growing bank deposits was cancelled out by the rising government borrowings from the banking sector, putting upward pressure on the interbank money market rates as well as interest rates on various government securities.

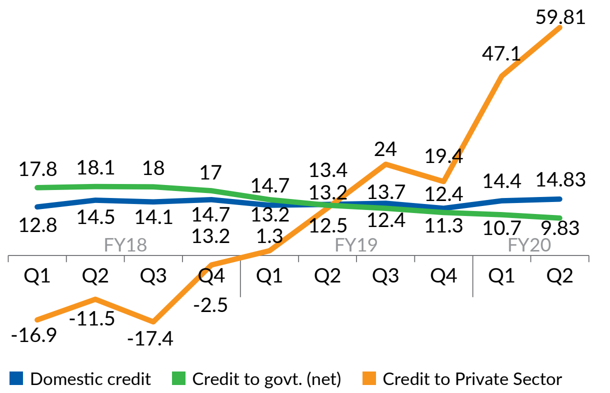
Mandatory online transactions and rise of source tax on the interest rates on national savings certificates (NSCs) siphoned bulk of the private savings to the banking system from NSCs. As a result, banks deposit growth picked up to 12.57 percent in December 2019 compared to 9.05 percent growth in December 2018. However, the rising government borrowings from the banking system offset the potential easing of liquidity condition emanated from strong deposit growth.

Private Sector Credit Growth in %



Source: World Bank

Growth of Credit in %



Foreign Direct Investment

Though the government has initiated to promote FDI, including 5-10 years' tax holiday, depreciation allowance, incentive on exports, bond facility for raw materials and machinery and 100-per cent profit repatriation, Investment in Bangladesh by overseas firms was far below their initial pledges in the past three consecutive years. The actual FDI figure was $2.2 billion, $3.6 billion and $2.9 billion in 2017, 2018 and 2019 respectively. That means FDI down by 20.46% in 2019 from 2018. According to the BB data, equity investment declined by 28.50% to $803.70 million, while reinvestment increased by 12.08% to $1.47 billion last year. In 2019, power sector received the highest investment of $942 million FDI, followed by the banking sector with $335.33 million, food with $248.51 million, the textile and weaving sector with $244.18 million and telecommunication attracting $208.35 million.

Fiscal Management

Historically, Bangladesh has an impressive track record in aggregate fiscal management. Though in the medium-term, fiscal policy poses an enormous challenge for Bangladesh; macroeconomic balance has been anchored on a fiscal deficit of no more than 5 per cent of GDP for the past 25 years or so. The primary problem stems from the lack of fiscal space caused by extremely low tax revenue collection of fewer than 10 per cent of GDP - one of the lowest in the world. Second, expenditure allocations have also been adversely affected by rising interest payments in the last two years on account of costly public borrowing through high interest savings certificates. Expenditures on subsidies and pensions have also crowded out much needed public expenditures in social sectors and vital operations and maintenance needs. Currently interest payments are the largest single expenditure item among current expenditures, exceeding expenditures on education and health. The budget for FY20 projected an increase in revenue growth of 45 per cent far higher than trend growth rates and even though the revenue outcomes in FY 2019 were one of the poorest in Bangladesh's history.

Budget deficit widen sharply in first half of FY20 compared with that in first half of FY19 owing to lower revenue collection and much higher expenditure. The deficit was predominantly financed from domestic a source which was mostly met from banking system and the rest from foreign sources.

Public Sector Credit Growth

In recent years, a strong push has been made to increase much needed public investment in infrastructure stemming from the simultaneous rollout of 10 mega infrastructure projects like the Padma Bridge, Rooppur Nuclear Power Plant, Dhaka Metro Rail, Karnafuli Tunnel, etc. Under performance of revenue collection together with increased spending on subsidies and mega projects is likely to increase the fiscal deficit in FY20. The net government borrowing posted around 60 per cent increase in Jul-Dec FY20 against 3.43 per cent in Jul-Dec FY19. Higher borrowing of the government during the first half of the fiscal year FY20 compelled the central bank to revise the growth rate of the borrowing significantly upward for the second half of FY19.

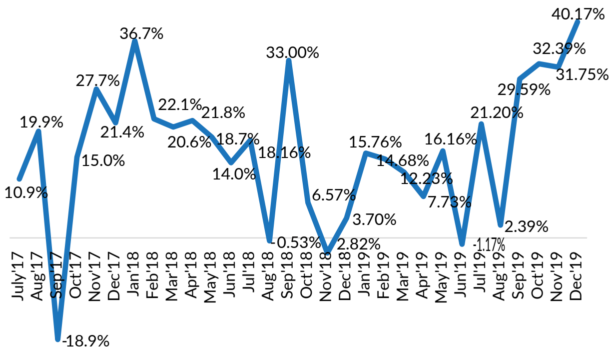
Export

A global economic downturn will have varied but wide repercussions across the Bangladesh economy. A global recession will be in the main transmitted to the Bangladesh economy through declining trade volume, investment. The transmission of the crisis will hit harder manufacturing exports that mean ready-made garment (RMG) exports which have already been facing a strong headwind as reflected in declining export earnings over the last few quarters as well as job losses in the industry. Bangladesh's apparel export has gone in the negative trajectory in last quarter of 2019. Shrinking export earnings from export registered a negative growth of 8.9 per cent in first half of FY20 compared to the same of previous FY.

Remittance

Bangladesh is the world's 6th largest manpower exporting country but it ranks 9th in terms of receiving remittances. The country has seen migration of around 12 million people with overseas jobs since the late 1970s. Remittance inflows grew by 25.46 percent in first half of FY20 compared to the same period of previous fiscal year. Strong growth in remittance inflows was due to the government policy of 2 percent cash incentives on remittance inflows through formal channel. The remittance inflows from Gulf region constituted around 59 percent of total remittance inflows with highest remittance inflows coming from Saudi Arabia.

Remittance Growth In %



Import

Import growth continued its negative trends for the last three quarters in 2019. The country's overall imports decreased by 2.73 per cent to $29.25 billion in the first half of FY20 from $30.07 billion in the same period of FY19 where most items, excepting clinker, crude petroleum, chemicals, pharmaceutical products, wheat, spices and pulses, saw a decline. Import payments as percentage of GDP decreased to 19.4 percent in FY19 from 21.5 in FY18. The negative import growth was ascribable mainly to decline in imports of consumer & intermediate goods and capital goods Moreover, the domestic demand particularly for back-to-back import of ready-made garment (RMG) accessories declined mainly due to lower export earnings recently.

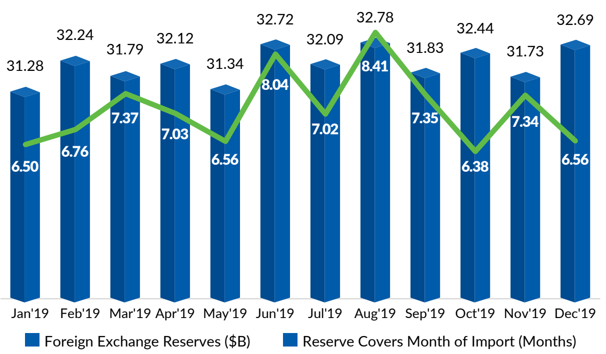
Balance of Payments

Although the country's merchandise trade gap widened, the deficit in current account balance declined significantly in the first half of FY 20. Current account deficit, however, stood at $1.34 billion in the first half of FY20. Robust remittance growth coupled with a declined in merchandise trade help keep current account deficit at modest level. The trade gap registered a 5.38 per cent increase over the same period of the FY19 when it was $7.80 billion. Workers remittance jumped by 25 per cent during the period while export and import of goods declined by 5.90 per cent and 2.72 per cent respectively. Financial account maintained a modest surplus of $1.79 billion in the July-December period where a surplus of $2.97 billion in the same period of FY19. As a result, overall balance of payments registered $27 million surplus in first half of FY20 which was in a deficit of $513 million in earlier year.

Foreign Exchange Reserve

The gross foreign exchange reserves of Bangladesh Bank stood at USD 32.69 billion as of end December 2019, which was USD 32.02 billion as of end December 2019. The current foreign exchange reserves (less ACU liability) is sufficient to pay import liability of 6.50 months; considering the average of the previous 12 months import payments. The gross foreign exchange balances held by commercial banks stood at 3.96 USD billion as of end December, 2019.

Fx Reserve of BB & Import Monthly Coverage

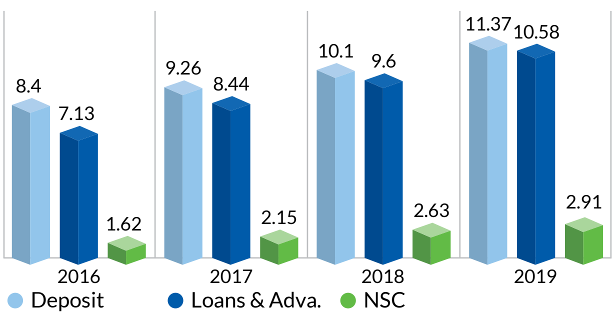


Banking Sector:

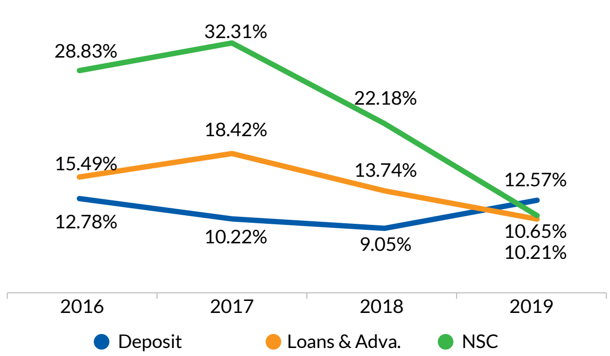
Bangladeshi banking sector's indicators show a mixed performance during 2019 compared to 2018. Reflected in rising non-performing loans (NPL), stable capital adequacy, rising liquidity condition and improving provision maintained. During 2019, overall NPL and net NPL edge up driven mainly by increasing NPL of the private commercial banks (PCBs).

Non-Performing loans and liquidity constraints in Banking Sector threaten stability and confidence in the financial system, which is the nerve center of a modern economy. The other serious factor driving liquidity shortages with concerns about the health of banks as it became clear that nonperforming loans were rising significantly. The sector is still struggling to recover from the recent setbacks caused by large financial frauds in several state-owned and private commercial banks. The problem has been compounded by recent changes in the tenure and family membership of bank boards. These weak regulation and governance in the banking sector and means that family ownership will have greater control in banks with the possibility of erosion of corporate governance. Banking supervision, which had improved significantly over the past two decades, is showing signs of deterioration. Beyond that, to reducing over burden of the banking sector to supplying long term financing, there is dire need for financial deepening through bond markets.

Deposit, Advances & NSC Outstanding (Taka in Lac Crore)



Deposit, Advance & NSC growth



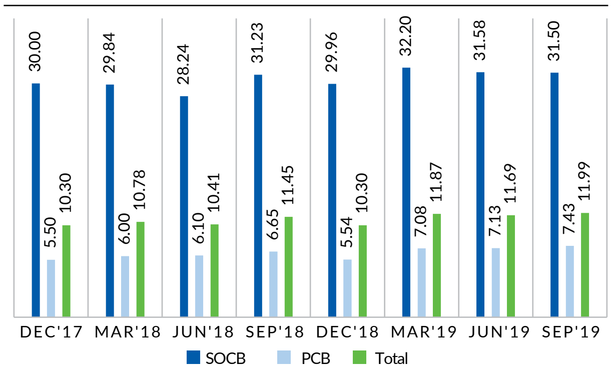
Deposit growth rose to 12.57 percent at the end of December 2019 from 9.05 percent at the end of December 2018. On the other hand, the growth of advances continued its downward trend and stood at 10.23 percent at the end December 2019 what was 13.74 percent December, 2018. At the end of 2019, deposit growth has exceeded the growth of advances as a result of slowdown the subscription of national saving certificates. Thus overall advance deposit ratio declined by almost one percentage point to 76.6 percent in September, 2019.

Non-performing loans (NPLs) status

Overall, banking sector has continued to bleed from bad loans for years now and the worsening trend has been affecting the banks' profit margins, scope of business expansion and the plan for job creation. NPLs have jumped another notch as of September 2019 at Tk.1163 billion or 12 per cent of total loans and advances, 24 per cent higher than Tk. 939 billion in December, 2018. The IMF estimates, that properly defined, distressed loans may account for as much as 20 per cent of the loan portfolio of the banking system. This problem has been most serious in the case of the state owned banks where non-performing loans accounted for nearly one-third of all loans.

Banking sector issues needs to be urgently, aggressively addressed. Urgent measures that are needed include strong corporate governance, enforcing 'fit and proper criteria' for banks' directors, enhancing banking regulations, reforming state banks, tightening criteria for loan rescheduling or restructuring and enhanced legal system to accelerate loan recovery.

NPL Movement In %



Banking Sector Liquidity Condition

Mandatory online transactions and rise of source tax on the interest rates on national savings certificates (NSCs) siphoned bulk of the private savings to the banking system from NSCs. As a result, banks deposit growth picked up to 12.6 percent in December 2019 compared to 9.9 percent growth in December 2018. Overall liquidity condition in the banking system remained well-adequate and stable at the end of 2019. Weak private credit demand along with strong deposit growth favored by the buoyant remittance inflows led to an increase in liquidity in the banking system. Consequently, interbank money market rates and interest rates on various government securities eased to some extend in late 2019. Total liquid assets of the scheduled banks stood at Taka 3.11 lac crore as of end December, 2019 against of minimum required amount of Taka 2.05 lac crore.

However, the rising government borrowings from the banking system offset the potential easing of liquidity condition emanated from strong deposit growth. Consequently, the ratio of liquid asset excess of SLR to total demand and time liabilities (TDTL) decreased to 7.2 in September 2019 from 7.6 percent in June 2019.

Interest (Profit) Rate Outlook

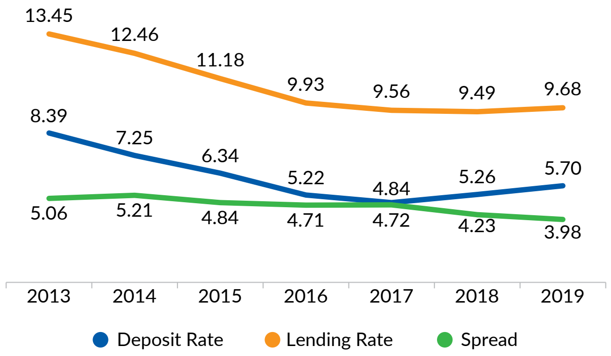
There has been a lot of hullabaloo over lowering of lending rate to single digit for quite some time. But when it came to fulfillment of the promise, the ground realities turned out to be different. Despite multi-pronged pressure, the banks have been finding it really difficult to fix a single digit lending rate. Though the recommendation of the BB-constituted committee is sector-specific, some banks may shy away from offering loans to the manufacturing sector borrowers at single-digit interest rates. For, the cost of funds does matter. It is rather high at this moment. The overall situation prevailing in the banking sector is not supportive of single-digit lending rate though it remains to be the most aspired one.

Bank interest rates has been on a declining trend for the past 6 years, with lending rates coming down from13.75% in June 2012 to 9.68% in December 2019. The decline can be attributed to two main factors. Inflation rates have been tamed over the past five years due to tighter monetary targets adopted by the central bank, resulting in lower nominal interest rates. A poor private investment environment due to lack of infrastructure also caused a huge amount of excess liquidity to build up in the banking sector. Competition between banks forced the interest rates to come down as a result and the spread has also steadily come down, reaching 3.98% in Dec, 2019.

The government has lately turned out to be a dominant borrower of funds belonging to banks. Such high borrowing is supposed to create a crowding-out effect on the private sector. But that is not happening because of the fact the demand for funds from the private sector are very much subdued at the moment.

What however remains to be the most important task for all concerned is streamlining the affairs of the banking industry. Banks do need to lend at cheaper rates to the real sectors of the economy, not coming under pressure but voluntarily. But they need to be on a sound footing to accomplish that task. The government, the central bank and relevant others should sincerely enable the banks to gain that strength.

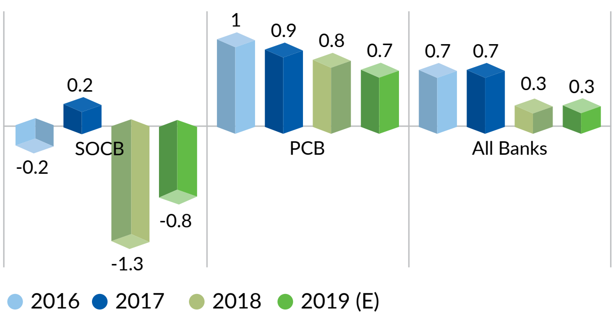
Weighted Deposit, Advance & Spread rate in %



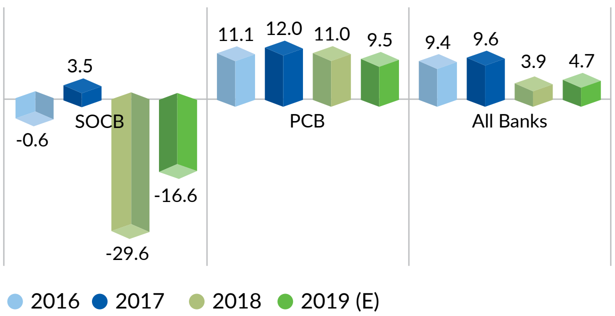
Banks Profitability

ROE is considered a measure of how effectively management is using a bank company's assets to create profits while the ROA gives a manager, investor or analyst an idea how efficient a company's management is at using its assets to generate earnings. Return on Asset (ROA) and asset of the country's banks almost same to 0.3 per sent at the end of December 2019 from that of a year ago. Besides, Return on Equity (ROE) of the banks up-ward to around 4.7 per cent at the end of December, 2019 while the rate was around 3.9 per cent in the previous year.

Return on Asset In %



Reurn on Equity In %



Banking Sector outlook

Even before outbreak of COVID-19 in Bangladesh, the banking sector has been back geared mainly due to mounting non-performing loans (NPLs) and lack of proper adherence of corporate governance. The already-weak banking sector could face further challenges in maintaining its asset quality and providing necessary support to the private sector in the sudden outbreak of COVID-19. Asset quality may be deteriorated in this crisis period as the repayment of the regular credits can be affected for various reasons, industry wise impact of the crisis, recession, opportunist borrowers etc.

Besides, banks will have to implement the lion's share of the stimulus packages worth more than Tk 100,000 crore announced by the government to help the affected industries. All sectors will face trouble if banks fail to run their operations smoothly as they are dedicated to circulating money to every part of the society. The problem is now starkly exposed as governments are trying to implement the huge stimulus packages through the banking system. The return on investment from the packages is only 2-2.5 per cent for banks, but the lenders have to bear 100 per cent credit risk. Many enterprises need to be given flexibility in loan repayment, which is to do with the immediate liquidity problem. Besides, as the crisis is going to hit the asset side of the financial institutions, it is obvious that it will create a decrease in the Net Income and Profitability. No bank or financial institution shall be immune to this fact. Besides, previously imposed regulatory bar for the interest rate will also have adverse effects on natural growth of banking sector.

Apart from the sudden damage due to COVID-19, reducing non-performing loans and minimizing risk of credit default are the key concern for stability of the banking sector. Strengthening risk management, enhancing of effective micro prudential regulation, ensuring corporate governance, and accelerating loan recovery process are needed for maintaining stability.

BD Economic outlook 2020

The unprecedented Covid-19 pandemic has caused disruptions to global trade, business, and education. Bangladesh is equally affected by this contagion.

The economic consequences of the Covid-19 outbreak are tough to handle as the entire of the global supply chain has been interrupted due to worldwide transportation shutdown. The extent of COVID-19 in front of the economic and financial losses are uncertain. While the outcome of the global efforts and the potential timeline for handling the situation is unclear, there are clear indications that the resulting economic devastation might even bring greater havoc.

COVID‑19 and consequent repercussions for the Bangladesh economy are already creating added pressure on the economy both from the demand

and supply sides. This will have adverse implications for revenue mobilization during the remainder of FY2019–20, as also beyond. Two major sources of external financing, namely exports of Ready-Made Garments (RMG) and remittance inflows, are projected to decline rapidly.

The shock absorption capacity of Bangladesh economy will critically hinge on efficacy of how this is done to stimulate demand, generate supply response and create employment opportunities. To revive economy from the adverse impacts emanating from the outbreak of COVID–19, the government will need to pursue an expansionary fiscal policy and go for expanded public expenditure to help mitigate the risks and shocks originating from the pandemic, stimulate domestic demand and strengthen supply–side responses. This will lead to higher budget deficit. There must be renewed efforts for better mobilization of resources and raising efficiency of public expenditure. The fiscal space to be created due to higher budget deficit should be used efficiently and with inclusivity, so that concerns of rising inequality are not further accentuated in view of COVID–19 response.

There are differing opinions on possible impacts of Covid-19 on the Bangladesh economy. Both the World Bank and the International Monetary Fund (IMF) have expressed apprehensions about the economic growth that may slide down to just over 2.0 per cent during the current fiscal year. Their prediction appears to be realistic given the decline in or negative growth in developed and developing nations. The government still remains optimistic about growth prospect. However, damages to the Bangladesh economy will depend largely on duration and pervasiveness of Covid-19, as well as effectiveness of government measures to tackle the calamity. The government has already announced financial incentives for countering the Covid-19 impacts and is also executing various social safety measures. Effective policies are essential to forestall the possibility of worse outcomes, and the necessary measures to reduce contagion and protect lives are an important investment in long-term human and economic health.

A GENERAL REVIEW OF THE PERFORMANCE OF SHAHJALAL ISLAMI BANK LIMITED

Bangladesh's economy has grown moderately during the year under review but banking industry had to pass another challenging year in respect of non-performing investment (non-performing loan), liquidity pressure, increased cost of the deposit, regulatory pressure for decreasing the rate of corporate investment and many other issues imposed upon banking sector.

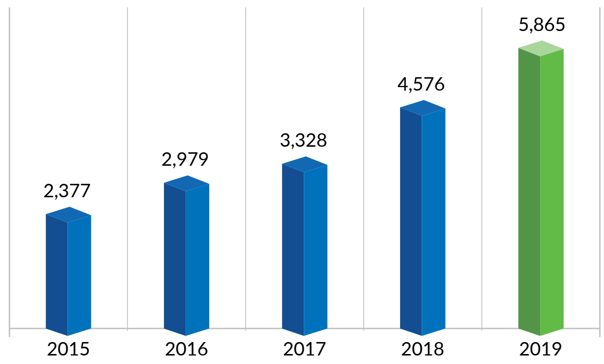
Despite huge challenges faced by the Banking sector, Shahjalal Islami Bank Limited passed another successful year. During the year 2019, the bank maintained the progress of business through its 132 branches and achieved significant growth in almost all the indicators. The operating profit stood at Tk.5,865.13 million, net profit after tax reached to Tk.1,718.30 million, return on average equity was 10.98 percent, Earnings per Share (EPS) stood at Tk.1.84. Non- performing investments (NPI) ratio was 4.91 percent. Capital to Risk-Weighted Assets Ratio of the Bank was 16.02 percent comprising maximum under Common Equity Tier-I Capital, which was much higher than the required rate of 12.50 percent. The total deposit was Tk. 203,384.15 million and the bank invested Tk. 197,285.68 million as of 31 December 2019. Export increased to Tk.147,052.00 million and import increased to Tk.157,060.00 million during the year under review.

Operating Profit:

The operating profit of the Bank has increased during the year 2019 due to the appropriate strategy taken by management. The operating profit increased mainly for proper management of deposit mix, diversification of investment portfolio, utilization of surplus fund & effective management of treasury operation. Operating profit increased by 28.16% from Taka 4,576.33 million to Taka 5,865.13 million in 2019 and net profit after tax increased from Taka 1,471.18 million to Taka 1,718.30 million in 2019 showing a growth of 16.80%. The net investment income increased by 23.19% and non-investment income increased by 17.76% during the year under review. Net profit after tax increased by 16.80% mainly due to higher profit income on investment in the year 2019. Return on equity was 10.98% in 2019 compared to 10.47% in 2018. Return on assets was 0.67% in 2019 as compared to 0.65% in 2018.

Operating Profit

BDT Million



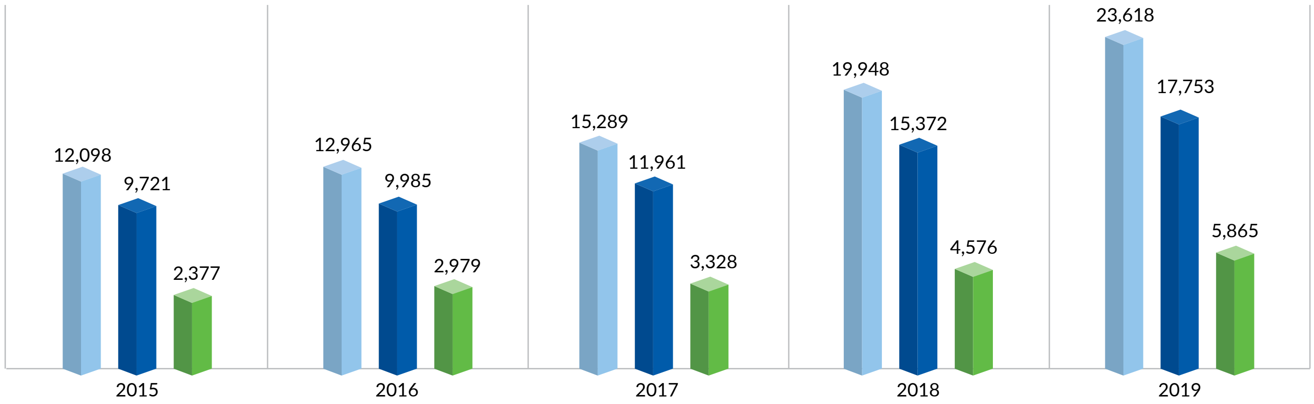
A summary of operating result of the bank as on 31December 2019 vis-a-vis the position of 31December 2018 is shown below:

Taka in million

Particulars	2019	2018
Total Income	23,618.31	19,947.84
Less: Total Expenditure	17,753.18	15,371.50
Net Profit before Provision & Taxation	**5,865.13**	**4,576.33**
Less: Provision for Investment, Off Balance Sheets Items, Shares & others	1,970.98	1,410.86
Net profit before Taxation	**3,894.15**	**3,165.47**
Less: Provision for Taxation	2,175.85	1,694.29
Net Profit after Tax	**1,718.30**	**1,471.18**
Appropriation:		
Statutory Reserve	778.83	633.09
Retained Earnings	939.47	838.09

The operating result of last five years is shown in the diagram below:

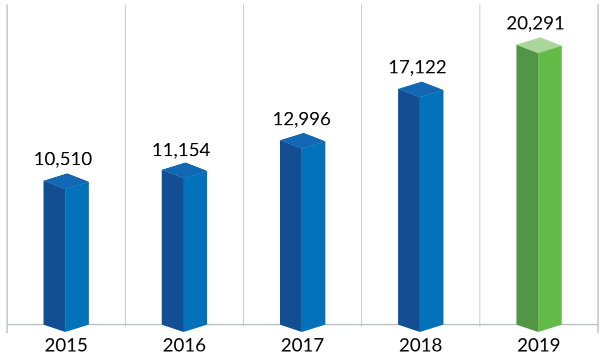
Operating Result



Investment Income:

Total Investment Income of the Bank stood at Tk. 20,290.69 million as of 31 December 2019 as against Tk. 17,121.99 million of 2018. The amount of Investment Income represents 85.91% of the total income of the year 2019 as against 85.83% of the total income of the year 2018. The trend of investment income is given below:

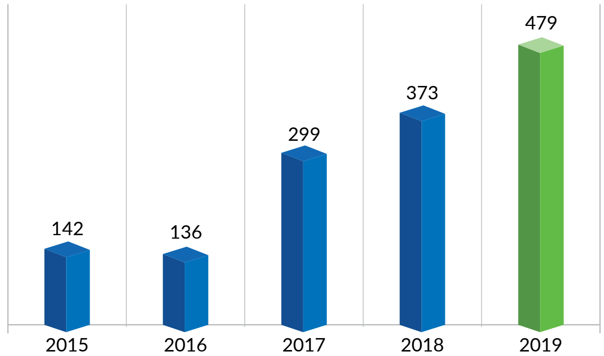
Investment Income BDT Million



Income from investment in Shares/ Securities

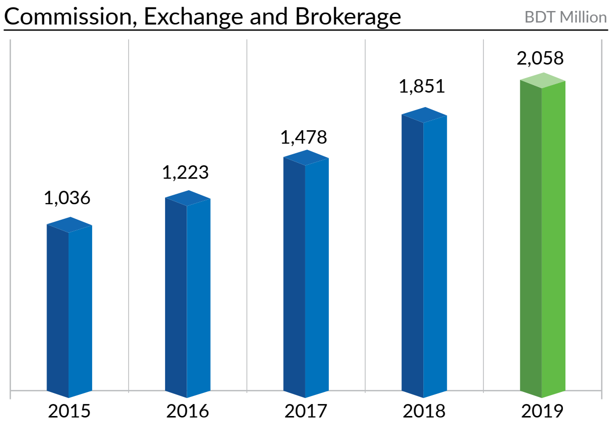
Income from investment in Shares/securities increased to Tk.478.76 million in 2019 from Tk. 373.50 million in 2018 showing a growth of 28.18% over last year. The progress of Income from investment in Shares/ securities is given below:

Income from investment in Shares/securities BDT Million



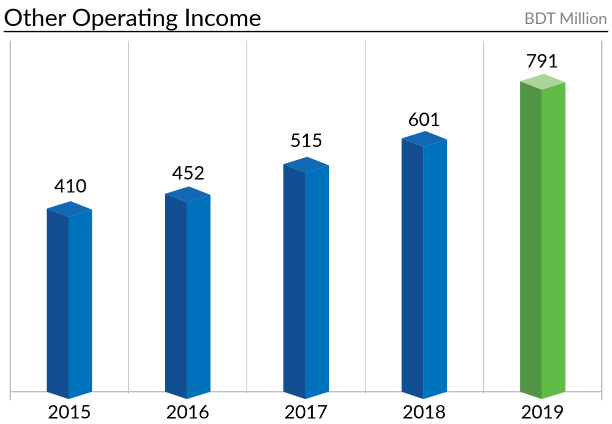
Commission, Exchange and Brokerage

Commission, Exchange and Brokerage income increased to Tk.2057.86 million in 2019 from Tk. 1,851.26 million in 2018 exhibiting a growth of 11.16% over the previous year. The increase in foreign exchange business is the key reason for the increase in this income. The growth of Commission, Exchange and Brokerage income is given below:



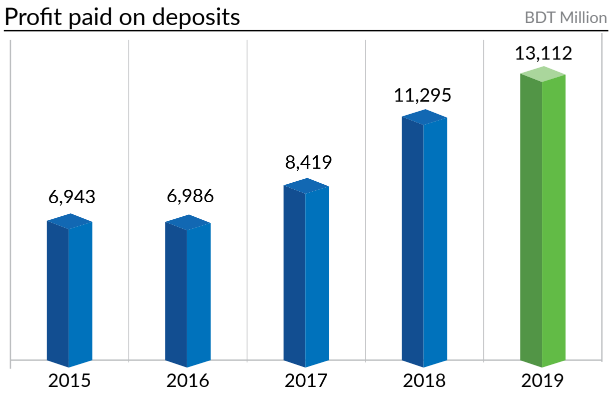
Other Operating Income

Other Operating Income stood at Tk.791.00 million for the year 2019 as against Tk. 601.09 million of 2018 representing a growth of 31.59% over 2018. The trend of Other Operating Income is given below:



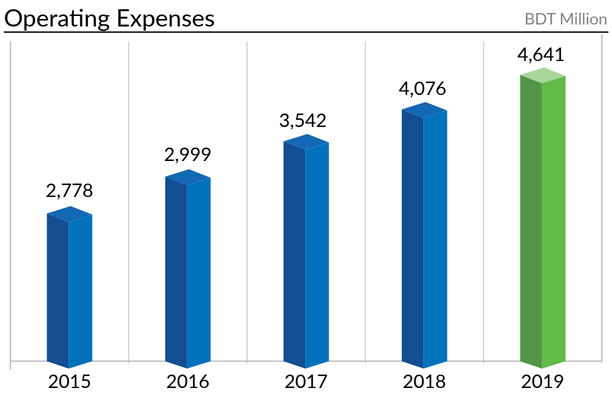
Profit Paid on Deposits:

Bank distributed Profit of Tk. 13,112.33 million among the Mudaraba Depositors in the year 2019 against Tk. 11,295.07 million in the year 2018 which being 76.47% of the Investment income earned from the deployment of Mudaraba Fund and 73.86% of the total expenditure of 2019 as against 73.48% of the total expenditure of 2018. Profit Paid on Deposits for the last five years is given below:



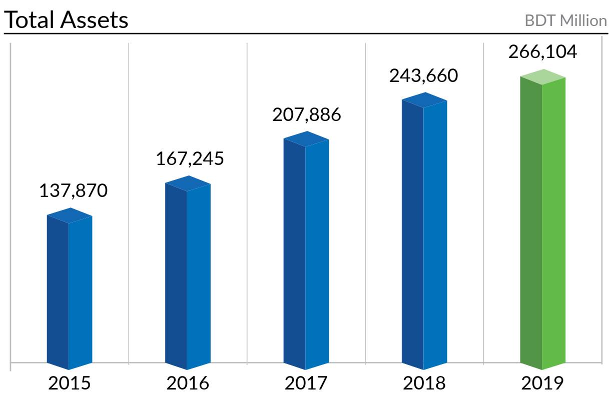
Operating Expenses

Total operating expenses for the year 2019 was Tk. 4,640.85 million whereas it was Tk. 4,076.44 million for the year 2018. Total operating expenses was 26.14% of the total expenditure for the year 2019 as against 26.52% of 2018. Graphical presentation of operating expenses is given below:



Total Assets

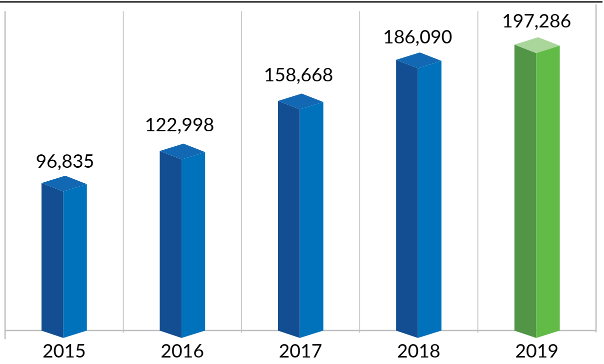
Bank's total asset as on 31 December 2019 stood at Tk. 266,103.71 million which was Tk. 243,659.89 million as of 31 December 2018. A major impact on this growth was the increase in Investments by 6.02% i.e. from Tk. 186,090.03 million to Tk. 197,285.68 million. Investments in Shares & Securities, as well as Balance with other Banks and Financial Institutions also increased by 26.94% and 36.18% respectively. The growth of total assets is shown below:



Investment

A total investment of the Bank stood at Tk. 197,285.68 million as of 31 December 2019 as against Tk. 186,090.03 million as on 31 December 2018 registering an increase of Tk. 11,195.65 million, i.e. 6.02% growth. The Bank was very conscious & careful in the deployment of funds. The trend of investment portfolio as on 31 December 2019 is given below:

Total Investment

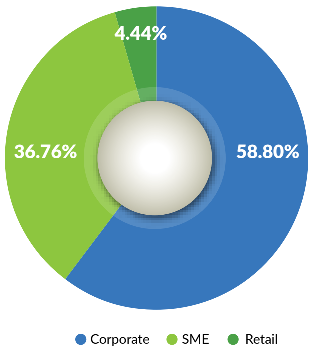


As part of the Bank's diversification strategy, the bank has been developing a balanced portfolio of corporate, retail, and SME investments. SJIBL placed focus on Retail & SME segments of businesses as not only these segments are becoming more important for the growth of the economy but also the competition in Corporate Banking is becoming ever more intense. The segment wise investment mix as on 31 December 2019 is given below:

Taka in Million

Particulars	Total	Mix
Corporate	116,010	58.80%
SME	72,517	36.76%
Retail	8,759	4.44%
Total	**197,286**	**100.00%**

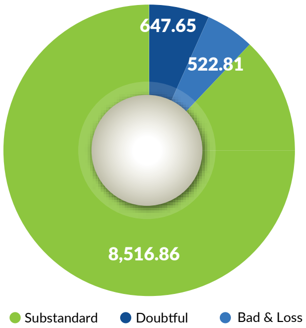
Segment wise investment Mix 2019



Non-performing Investment

Non-performing investment of the banking sector of Bangladesh stood at 9.32% as on 31 December 2019 whereas; non-performing investment of Shahjalal Islami Bank Limited (SJIBL) was 4.91% at the same period which is significantly lower than the country position. Non-performing investment of Shahjalal Islami Bank Limited decreased significantly during the year under review. The non-performing investment decreased to Tk.9,687.32 million as of 31 December 2019 from Tk.12,723.30 million as of 31 December 2018. The Bank has strengthened lending discipline and streamlined the recovery process to reduce the NPIs to an acceptable level. As a result of various initiatives taken by the Bank NPI came down to 4.91% from 6.84% of the previous year. However, we are taking more and more initiatives to realize and regularize non-performing investments and reducing it further.

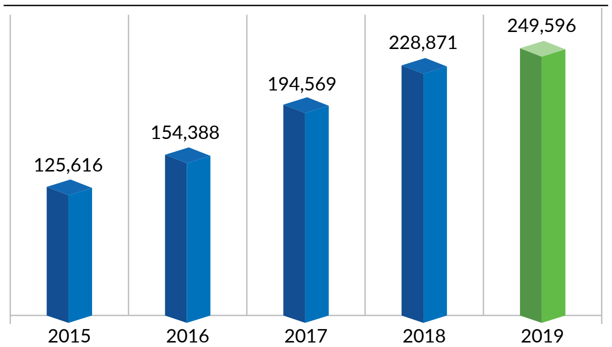
Non-performing Investment



Total Liabilities

Total liabilities stood at Tk. 249,596.44 million at the end of 2019 from Tk.228,870.93 million of 2018, which was 9.06% higher than that of the previous year. Total liabilities increased mainly due to an increase in deposits and an increase in other liabilities. Liability growth of last five years is shown below:

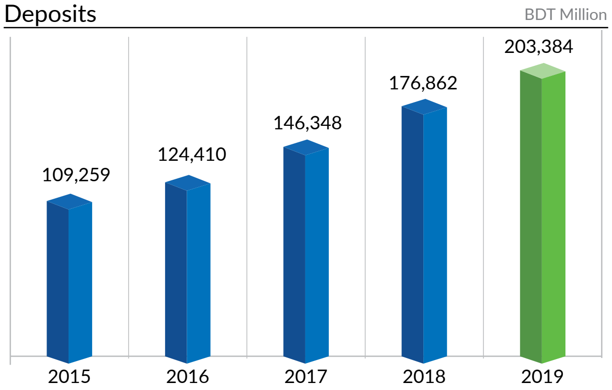
Liabilities



Deposit

Total deposit of Shahjalal Islami Bank Limited stood at Tk. 203,384.15 million as on 31 December 2019 which was Tk. 176,861.51 million as of 31 December 2018. Deposit is the 'life-blood' of a Bank. Bank puts the utmost importance in the mobilization of deposit introducing popular and innovative products. The bank always tries to give the highest return on the deposits of the customers. The mobilized deposits are plowed back in economic activities through profitable and safe investments. The growth of deposit is shown below:

Deposits



Deposit Mix

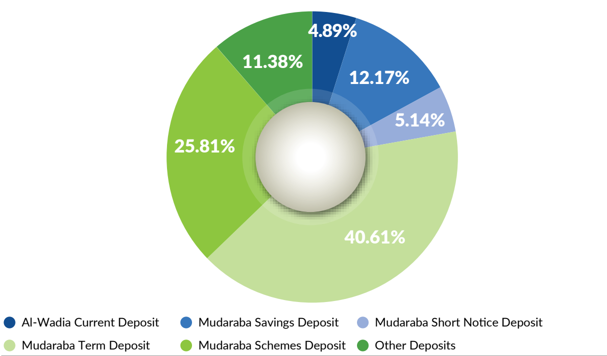
The Bank has placed utmost emphasis on the optimum deposit mix, as a result, low cost no cost deposit increased to Tk.68,302.51 million in 2019 from Tk. 55,078.99 million in 2018 exhibiting a growth of 24% during the year. The percentage of low cost no cost deposit increased to 33.58% of total deposit during the year 2019 from 31.14% in 2018. SJIBL renewed its focus on rebalancing the deposit base to increase the portion of the low-cost transaction-based deposit portfolio. As a result, the bank succeeded in trimming down a high-cost deposit base from 68.86% in 2018 to 66.42% in 2019, thereby consolidating the deposit mix in a beneficially preferred way.

The Deposit-mix of the Bank as on 31 December 2019

Nature of Deposit	Taka in million	Percentage of Total Deposit
Al-Wadia Current Deposit	9,952.29	4.89%
Mudaraba Savings Deposit	24,751.90	12.17%
Mudaraba Short Notice Deposit	10,444.27	5.14%
Mudaraba Term Deposit	82,587.97	40.61%
Mudaraba Schemes Deposit	52,493.67	25.81%
Other Deposits	23,154.05	11.38%
Total	**203,384.15**	**100.00%**

Mix of deposit as on 31 December 2019

Deposit Mix



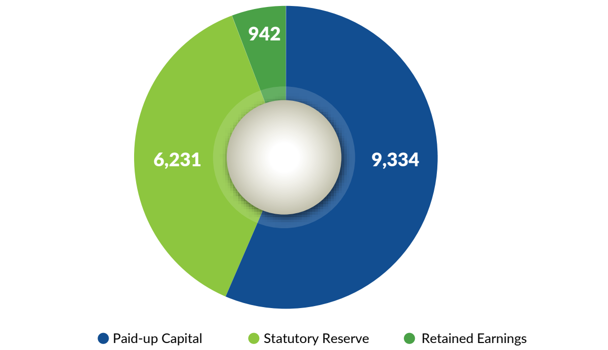
Placements from other Banks and Financial Institutions (Borrowings)

Total Placements from other Banks and Financial Institutions (Borrowings) stood at Tk.11,382.60 million as on 31 December 2019 which was Tk. 23,465.60 million as on 31 December 2018 resulting a negative growth of Tk.12,083.00 million. Bank puts importance in reducing dependency on the borrowed fund as a result of borrowing decreased by 51.49%.

Shareholders Equity

Total Shareholders Equity stood at Tk. 16,507.27 million at the end of 2019, which is 11.62% higher than that of the previous year. Shareholders Equity increased mainly due to the increase of Paid-up Capital and Statutory Reserve. Composition of Shareholders' Equity as on 31 December 2019 is given below:

Shareholders Equity



Regulatory Capital

Total Regulatory Capital of the Bank stood at Tk. 29,277.37 million as of 31 December 2019 which was Tk. 25,105.87 million as of 31 December 2018 with a growth of 16.62%. The bank maintained sound regulatory capital throughout the year 2019. The regulatory capital maintained was 16.02%, much higher than the required capital of 12.50%. The bank will keep focusing on retention of profit by issuing a bonus share and raising Tier-II capital by issuing Mudaraba Subordinated Bond to strengthen its capital adequacy position.

The Regulatory Capital and Risk-Weighted Asset of the bank are shown in the table below:

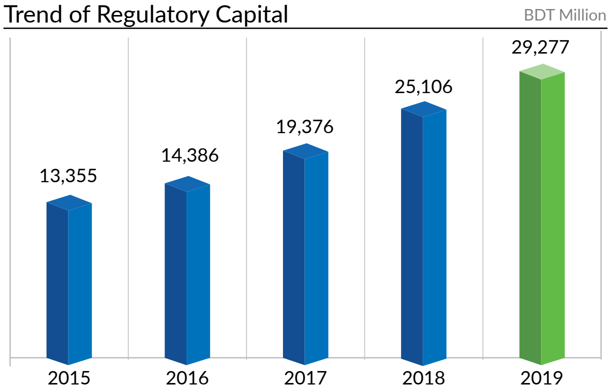
Taka in Million

Nature of Deposit	2019	2018
Regulatory Capital:		
1. Tier-1 (Going-Concern Capital)	16,507.27	12,893.37
2. Tier-2 (Gone-Concern Capital)	12,770.10	12,212.50
Total Regulatory Capital (1+2)	29,277.37	25,105.87

Nature of Deposit	2019	2018
Total Risk Weighted Assets (RWA)	182,775.69	173,161.45
Capital to Risk Weighted Assets Ratio (CRAR)	16.02%	14.50%
Tier-I Capital to RWA	9.03%	7.45%
Tier-II Capital to RWA	6.99%	7.05%
Minimum Capital Requirement (MCR)	18,277.57	17,316.14

Five years trend of regulatory capital is given below:

Trend of Regulatory Capital



Net Asset Value (NAV) per Share

The Net Asset Value per Share of Shahjalal Islami Bank Limited is always higher than the face value of its share. This indicates that the bank has created more value for its shareholders. As a result, the investor's confidence is increasing day by day and they are investing more in the Bank's share. The trend of NAV for the last five years is given below:

Year	Net Asset Value (NAV)
2019	17.68
2018	15.84
2017	15.69
2016	16.67
2015	16.68

Dividend

The Board of Directors of the Bank has recommended dividend @ 10% of which 5% cash and 5% stock for the year 2019. Over the last years, the Board of Directors declared dividends out of profit to shareholders at attractive rates. The rates of dividend declared by the Bank since 2015 are shown below:

Year	Dividend (%)
2019 (Proposed)	10 (5 Cash & 5 Stock)
2018	10 Stock
2017	10 Stock
2016	15 (10 Cash & 5 Stock)
2015	13 Cash

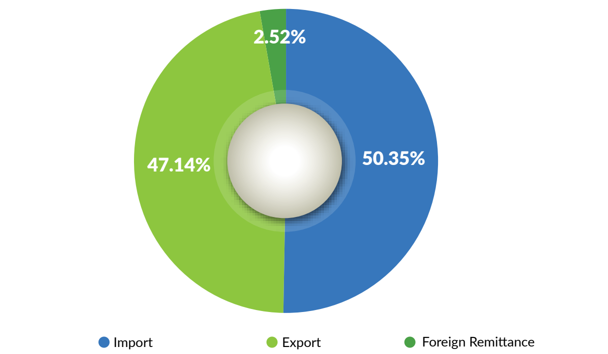
Foreign Exchange Business

Total Foreign Exchange Business handled during the year 2019 was Tk.311,961 million as against Tk.271,913 million of 2018 registering an increase of Tk.40,048 million, i.e. 14.73% growth. The particulars of Foreign Exchange Business are given below:

Particulars	Amount in Million Taka		Growth	Composition	
	2019	2018	2019	2019	2018
Import	157,060	140,382	11.88%	50.35%	51.63%
Export	147,052	125,402	17.26%	47.14%	46.12%
Foreign Remittance	7,849	6,129	28.06%	2.51%	2.25%
Total	311,961	271,913	14.73%	100.00%	100.00%

Mix of Foreign Exchange Business of 2019

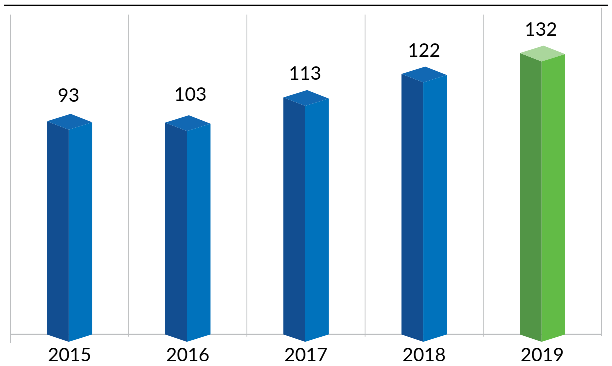
Foreign Exchange Business 2019



Branch Network

The Bank has been operating with a network of 132 branches around the country. In the year 2019, the Bank has opened 10 new branches. The Bank will not open any new branch in 2020, rather, it will relocate and reevaluate the existing branch operation if required. The growth of the branch network of the last five years is given below:

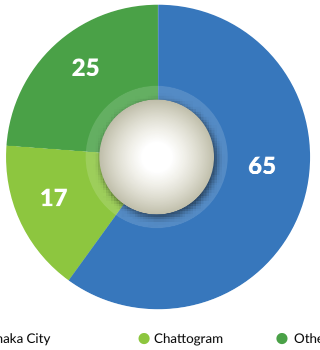
No. of Branch



Automated Teller Machine (ATM) Network

At present, the bank has been rendering services through 107 own ATM Booths and 2,295 shared ATM Booths which was 84 own ATM Booths and 2,270 shared ATM Booths in 2018. Through our ATM, customers can access cash withdrawal, balance inquiry, mini statement, mobile recharge, and cash withdrawal from bKash. A significant amount of cash transactions of Shahjalal Islami Bank Limited have been done through its 107 own ATMs and 2,295 shared ATMs all over the country. The bank is planning to invest continuously to increase and widen its ATM network significantly. Area wise ATM Booths are shown in the graph below:

ATM Network



Correspondent Relationship

Shahjalal Islami Bank has established a correspondent relationship across the world with major foreign banks. The number of correspondent banks stood at 416 as of 31 December 2019 across 57 countries. The Bank is successfully maintaining such relationships around the world to facilitate international trade transactions. The bank maintains 31 Nostro accounts in 10 major currencies with reputed international banks around the world in all of the important global financial centers. The Bank is also enjoying sufficient credit lines from correspondent banks to add confirmation to the Letter of Credits to facilitate international trade.

REVIEW OF PERFORMANCE OF VARIOUS SEGMENTS

Corporate Banking

Corporate banking is the custom made financing services for corporate houses. It is a major source of profit earning for our Bank. SJIBL has planned its corporate business, the prime earning source, exceedingly well achieving some milestones in its way forward. SJIBL has financed in almost all major corporate business sectors that are of large scale nature such as food and beverage, construction, power plants, transports, institutions, trade services, housing, utility, etc. To cater to the dynamic corporate business needs and also to come up with tailor-made services, Corporate & Large Investment is shaped according to the need of our corporate customers. Usually, the corporate clients avail commercial investment, export finance, project finance, finance against a work order, etc.

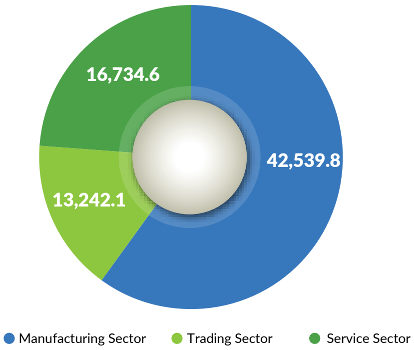
Corporate Banking covers the major part of the investment of Shahjalal Islami Bank Limited. Total outstanding corporate investment stood at Tk.118,928.78 million as of 31 December 2019 from Tk.107,193.11 million of 2018.

SME Banking

The role of Cottage, Micro, Small & Medium Enterprises (CMSME) is indispensable for the overall economic development of a country particularly for developing countries like Bangladesh. CMSME Sector has played a vital role in the economic development of Asia. Terming SME as an 'employment generating machine' they stressed on SME development for higher economic growth, narrowing the gap of income inequality and poverty alleviation. In Bangladesh, Small and Medium Enterprises (SME) account for more than 30% of GDP, 40% of total employment, and 80% of industrial employment. To achieve high and sustained economic growth, SMEs are not only concentrated in low-tech, traditional, and agro-based economic activities but also these are spread over other non-traditional manufacturing and service sectors as well.

SME investment stood at Tk. 72,516.50 million in 2019 which was Tk.70,395.40 million in 2018. with a growth of 3.01%. During the year 2019, the bank disbursed the total SME investment of Tk.46,361.70 million. Out of total outstanding Tk.42,539.80 million outstanding in the Manufacturing Sector, Tk.13,242.10 million outstanding in Trading Sector and Tk.16,734.60 million outstanding in Service Sector. The bank places the utmost importance to create women entrepreneurs as such disbursed Tk.1,310.66 million to the women entrepreneurs during the year 2019 and present outstanding from women entrepreneurs is Tk. 2,830.06 million. Sector-wise outstanding of SME investment is given below:

SME Banking



Retail Banking

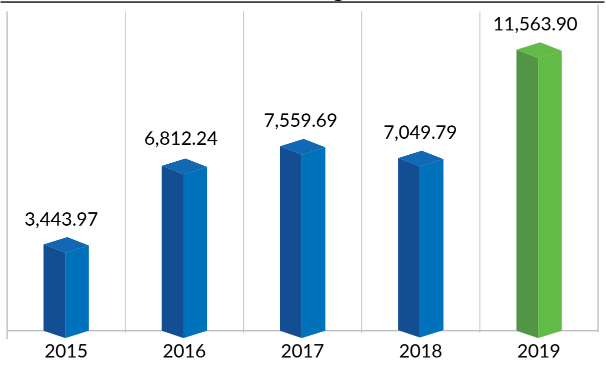
Shahjalal Islami Bank Limited is working relentlessly for the improvement of the living standard of the people as well as the society from various class & profession and to meet consumer demand in the fastest time through its Retail Investment Department having various attractive investment products. It has been investing in the private sectors- including House Building Investment for purchasing new flat, construction and renovation of a building, Household Durables Investment for purchasing household goods, Education Investment for higher study, Marriage Investment for financial assistance during the marriage, Car Investment for vehicle purchase and various other specialized investment products. Besides, we have introduced Semi-pacca Housing Investment to respond to the special arrangements for ensuring the provision of housing for middle and lower-income class people of the society. The retail Investment portfolio of the bank increased to Tk.8,758.81 million in 2019 from Tk.8,501.49 million in 2018 with a growth of 3.03%. The bank will continue its efforts to increase the retail portfolio for the betterment of middle and lower-middle-class people of Bangladesh.

Offshore Banking Unit

Offshore Banking Unit (OBU) is a separate business unit of Shahjalal Islami Bank Limited, governed under the Rules and Guidelines of Bangladesh Bank. The Bank obtained the Off-shore Banking Unit permission vide letter no. BRPD (P-3)744(99)/2008-2800 dated 24 July 2008. The Bank opened its Off-shore Banking Unit on 21 December 2008. The unit is located at Shahjalal Islami Bank Tower, Plot-4, Block-CWN(C), Gulshan Avenue, Gulshan, Dhaka-1212.

The total investment of the Off-shore Banking Unit stood at Tk. 11,563.90 million as of 31 December 2019 as against Tk. 7,049.79 million as on 31 December 2018 registering a tremendous increase of Tk. 4,514.11 million, i.e. 64.03% growth. The trend of the investment portfolio of OBU is given below:

Investment of Off Shore Banking Unit



Shahjalal Islami Bank Securities Limited

Shahjalal Islami Bank Securities Limited (SJIBSL) is a subsidiary company of Shahjalal Islami Bank Limited incorporated as a public limited company under the Companies Act 1994 and commenced its operation on 25 May 2011. The main objective of the company is to carry on the business of stock broker/dealers about shares and securities dealings and other services as mentioned in the Memorandum and Articles of Association of the Company. It has corporate membership of Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. Shahjalal Islami Bank Limited holds 91.79% shares of Shahjalal Islami Bank Securities Limited.

Bangladesh Capital Market observed a bearish trend with massive digester during the year 2019 due to the low participation of investors, currency depreciation, and instability in the money market. The total Operating income of SJIBSL stood at BDT 311.39 million as of 31 December 2019. Margin investment outstanding stood at BDT 4,796.47 million in December 2019, which was BDT 5,313.48 million in December 2018.

RISK MANAGEMENT

The risk of a Bank is defined as the possibility of losses, financial or otherwise. In line with the instruction of Bangladesh Bank, SJIBL formed a Risk Management Division (RMD) to formulate risk assessment and management policies, methodologies, guidelines, and procedures for risk identification, risk measurement, and risk monitoring. The division is responsible for deciding the acceptable level of risk and risk control by taking mitigating steps, Comprehensive Risk Management Report (CRMP), conducting monthly risk management meetings, stress testing, and reporting the competent authority from time to time. It also reports to Bangladesh Bank every quarter along with the CRMR, minutes of the monthly meeting, and all other required supporting papers. Moreover, in compliance with the "Bank Company Act 1991 as amended", Section 15 (Kha) and BRPD Circular No. 11 dated 27 October 2013 of Bangladesh Bank, the Bank has constituted a Risk Management Committee comprising of 5 (five) directors from the Board to formulate risk management policies, procedures and oversee the risk management activities of the Bank.

The prime objective of the Risk Management is that the Bank takes well calculative Business Risk Policy for safeguarding the Bank's capital, its financial resources, and profitability from various risks. In this context, the Bank implemented all the guidelines of Bangladesh Bank as under:

a) Investment (Credit) Risk Management

Investment (Credit) risk can be defined as the risk of failure of the customer/counter-party of the bank to meet financial obligations. The Management of specific investment risk is developed according to associated risk with individual business units. The investment risk management function ensures that appropriate policies are established and ensures compliance with the related sanction, monitoring procedures, and controls at the business unit level. Investment exposures are aggregated from individual business units and are monitored regularly.

The Bank pays adequate emphasis on business risk than analysis of security risk because the security reduces the risk but does not always improve the quality of investment. Besides, the Bank addresses the Investment (Credit) risk guideline cited by the Bangladesh Bank. As regards other parts of the Banking business, the control staffs follow a pragmatic program of regular monitoring and follow-up.

b) Foreign Exchange Risk Management

The Foreign Exchange Risk arises from transactions involved in foreign currency. To ensure effective Foreign Exchange Risk Management, the Bank has wide scope in establishing organizational structure and formulating Foreign Exchange Risk Management Policy as per Guidelines of Bangladesh Bank. Bank maintains various NOSTRO accounts to conduct operations in different currencies including BDT. The management of the Bank has set limits for handling NOSTRO accounts transactions that include time and amount limits. As per the guidelines of Bangladesh Bank, the Foreign Exchange business should be audited internally to review the key control issues such as various limits, compliance requirements, and statutory management. The Bank has been complying with all the applicable laws, regulations, and guidelines applicable to the management of Foreign Exchange Risk.

c) Asset Liability Risk Management

Asset Liability Management is a process of addressing liquidity risk and profit rate risk which may arise due to maturity mismatch between assets and liabilities as a consequence of changes in profit rates or liquidity. The Asset Liability Management Committee (ALCO) that is formed with the senior executives headed by Managing Director is mainly responsible for managing Asset Liability Risk. The key agenda of Asset Liability Management Risk is liquidity position, pricing, risk related to the Balance Sheet, maintaining CRR & SLR, Economic outlook & Market Status, and rate of profit (interest). For managing Balance Sheet risk properly, the Bank has already prepared a policy of The Asset Liability Management according to the guidelines of Bangladesh Bank. The Bank has been complying with all the applicable rules, regulations, and guidelines regarding Asset Liability Risk Management.

d) Money Laundering Risk Management

Money laundering risk is defined as the loss of reputation and expenses incurred as a penalty for being negligent in the prevention of money laundering. Shahjalal Islami Bank Limited has been taking preventive measures against money laundering and terrorist financing in line with the amended Money Laundering Prevention Act 2012, amended Anti Terrorism Act 2013, and guidelines issued by the Bangladesh Bank from time to time. Shahjalal Islami Bank applies risk-sensitive customer due-diligence measures, monitors business relationships and records in line with regulations. The Bank regularly collects the correct and full documentation of Know Your Customer (KYC) which enables the prudential prevention of money laundering. Shahjalal Islami Bank has formed a committee of Anti Money Laundering headed by the Deputy Managing Director as Chief Anti-Money Laundering Compliance Officer & the committee regularly monitors and ensures the compliance of issues relating to Money Laundering through the trained personnel of head office & branches.

e) Internal Control & Compliance Risk Management

Internal control and compliance is a process introduced by the bank's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws and regulations.

The banking industry has a diversified and complex financial activity, which involves high risk in different modes. Consequently, the issues of the internal control system have become most significant in Banking industry through which Bank identifies its weakness and takes appropriate measures to overcome the same. In order to have an efficient and effective internal control system, Shahjalal Islami Bank Limited has strengthened and segregated its Internal Control and Compliance Division into three separate units based on the relative guidelines framed by Bangladesh Bank.

f) Information and Communication Technology Security Risk Management

Information and Communication Technology Security (ICT) Risk is a function of the likelihood of a given threat exercising a particular potential vulnerability and the resulting impact of that adverse event on the Bank. ICT risk is business risk specifically the business risk associated with the use, ownership, operation, involvement, influence, and adoption of information and communication technology within the Bank. It consists of IT-related events that could potentially cause a negative impact to the banking business. It might occur with both uncertain frequency and magnitude and might create challenges in meeting strategic goals and objectives. Managing ICT risk is therefore an element of sustaining a secure environment, a detailed process of identifying factors that could damage or disclose data, evaluating those factors in light of data value and countermeasure cost, and implementing cost-effective solutions for mitigating or reducing risk. For effective management of Information Communication Technology Risk Bank has already formulated a Policy Guideline. Moreover, the Bank has been arranging internal IT audits and training on IT operations regularly.

g) Liquidity Risk Management

Liquidity risk is the risk that the Bank may not be able to meet its financial obligations as they become due. Liquidity risks also include the Bank's inability to liquidate any asset at a reasonable price on time. The policy of the Bank is to maintain enough liquid assets to meet its short, medium- and long-term obligations. The Bank has set various limits for its liquidity management such as liquidity coverage ratio, investment deposit ratio, maturity mismatch, commitment limit, wholesale borrowing limit, etc. SJIBL maintains a diversified and stable funding base comprising of retail, corporate and institutional deposits. The principle responsibility of the liquidity risk management of the bank rests with Treasury Division which maintains liquidity based on historical requirements, current liquidity position, anticipated future funding requirement, sources of fund, options for reducing funding needs, present and anticipated asset quality, present and future earning capacity, present and planned capital position.

FUTURE PROSPECT/ OUTLOOK

Considering the overall macroeconomic and geopolitical outlook, significant pressure is expected on banking sector margins in the wake of low benchmark rates and limited financing opportunities. Accordingly, our Bank intends to focus on building and maintaining a quality investment portfolio, enhancing its focus on customer service quality and major cost rationalization initiatives through continuous improvement in automation and product innovations.

Similarly, our Bank intends to focus on a low-cost core deposit mix by effectively utilizing our extensive branch network, Sub-branch, and Agent Banking operation. Our Bank is confident that the initiatives will enable it to maintain a stable performance trend going forward.

From the Bank's perspective, the focus will be given to value-added services via operational expansion and technological improvements. Effectiveness of the Bank's risk management systems, capitalization on low-cost liability, disciplined expense growth, expansion of our capital base, and strengthened corporate culture are primary factors in depicting continued strong financial soundness. Effective leadership with a clear vision is the key element of long-term sustainability leading to the highest levels of employee satisfaction and we aim to build cohesive teams and strong ethical standards. We will strive to enhance our domestic as well as global image to take the Bank from strong to stronger.

Our major steps towards managing upcoming challenges:

- Reduction of classification and strengthen recovery process in the present economic condition.
- Adoption of the latest technology to survive in a competitive market.
- Emphasis on employee productivity along with profitability and compliance.
- Continuous analysis of the business process to reduce cost and improve profitability.
- Continue to strengthen presence in SME and retail banking, the digital leadership race.
- Research and innovation of products to face cutting-edge marketing competition in existing and new markets.
- Diversification of corporate banking in line with the changing demand of customers.
- Promoting Green Finance and social integration through CSR & Financial Inclusion to achieve SDG goals of UNO.

Priorities in 2020

i) Deposit Mobilization

With a view of acute competition in deposit hunting due to the entrance of new players in the market, deposit mobilization will continue to be our top priority. In order to reduce the cost of deposit through optimum deposit mix, our priority will be on hunting of low cost no cost deposits.

ii) Investment Monitoring

Considering the economic depression due to COVID 19 pandemic, we will place our utmost emphasis on existing investment monitoring.

iii) Maintenance of Net Investment Income

Considering the possibility of continuous pressure on Net Investment Income due to bring down the profit rate on investment in a single digit, our priority will continue to be on maintaining spread by efficient management of cost of deposit as well as maintain profitability by increase fee-based income through further enhancement of trade business (import and export).

iv) Control of operating expenses and improvement of cost to income ratio

Due to the acute competition in the days-ahead profit income and other operating income will be squeezed. To maintain the growth of operating profit the Bank will continue to be looking for ways to reduce its operating costs without sacrificing the quality of services.

v) Management and Recovery of Non-Performing Investment (NPI)

Management and Recovery of Non-Performing Investment (NPI) will continue to be a critical success factor given the recent trend of NPI in the overall banking sector. Allocation of resources as well as best practices for the management of vulnerable investments will be our top priority to build a stronger balance sheet and healthy Profit & Loss Account.

vi) Asset Liability Management

Considering possible Profit rate risk, Foreign Exchange rate risk, Liquidity risk, and other market risks, our priority will be on proper Asset - Liability management i.e. Balance Sheet management in the coming year.

vii) Product Diversification

We shall continue our priority on growing investment in SME and retail business sectors to create a balanced portfolio of Corporate, SME, and Retail investment. As part of the diversification of our investment portfolio and boost the retail business we have already introduced the Shariah-based Credit Card. Exploration of retail business through Islamic Credit Card will be our major focus in the coming year.

viii) Capital Management

The bank will give priority on retention of profit and investing in rated customers to further strengthen its capital adequacy position.

ix) Information Technology

Introduction of up to date Information Technology will be the key success factor in the days ahead so the bank will also give priority to introduce the latest technology in SJIBL.

x) Shariah Compliance

As a full-fledged Shariah based Islami bank, our priority will continue to be compliant with the rules and regulations of Islami Shariah in all the operations of our bank.

xi) Research and Development

Considering innovation as one of our focused areas we have already established a Research and Development Unit for innovation and development of diversified products and services for continuous growth and sustainability. The introduction of new innovative and popular products will be our focus in 2020.

xii) Financial Inclusion

Financial Inclusion will be our priority in the years ahead. As part of inclusive banking, social integration, rural uplift, and inclusion of un-banked people in the banking system SJIBL have already introduced Agent Banking in 2019.

RESPONSIBILITIES TOWARDS STAFF

Health and safety of employees

A healthy, talented, committed, skilled and fully motivated team of human resources is the main driving force for providing better, faster, and coordinated services to the clients and for contributing at the highest level to the organization. Considering the fact, SJIBL is giving high priority to the health and safety of its employees. The bank has taken several steps for ensuring sound health and safety of its employees. The steps are given below:

- The bank is paying a medical allowance to its employees at a certain percentage of their basic salary.
- The bank has entered into an agreement with Delta Life Insurance Company Limited. Under this agreement the insurance company will bear the medical expenses of bank's employees, their spouse and children as per agreement in case of hospitalization. .
- Female employees will get six months of maternity leave with medical allowance for the first two issues.
- In order to provide a highly sophisticated and encouraging working environment, all the offices

of SJIBL including head office and branches are equipped with modern facilities with air-conditioning and generator for power back up.

- All SJIBL offices including head office and branches are equipped with fire fighting material and have multiple exit points for emergency exit.
- Corporate Head Office is Leed Certified Green Building.

Staff welfare

The Bank's strategy is to attract, retain, and motivate the most talented people and providing them with a healthy, safe, and progressive working environment and competitive compensation package. The Bank's policy is to look after people who want to make a long-term career with the Bank because trust and relationship are built over time; as such the bank offers its employees the following long term benefits:

i) Provident Fund (Defined Contribution Plan)

A "Defined Contribution Plan" is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Provident fund benefit is given to the eligible staff of the Bank under the rules of the provident fund duly recognized by the National Board of Revenue of Bangladesh. The Fund is administered by the Board of Trustees and is funded by fixed contributions equally from the employees and the bank. The fund is managed separately from the bank's assets, as per rules of the fund & section 399 of the Companies Act 1994.

ii) Gratuity Fund (Defined Benefit Plan)

Gratuity benefits are given to the staff of the Bank following the bank's approved Gratuity Fund Rules. National Board of Revenue has approved the gratuity fund as a recognized gratuity fund and the fund is operated by a separate Board of Trustees. Employees are entitled to get the benefit after completion of a minimum of 5 (five) years of service in the Bank. The gratuity is calculated based on the last basic pay of every employee in service as per IAS-19 "Employee Benefits". Gratuity fund is a "Defined Benefit Plan" and payable as per the modalities of the rules. Gratuity is calculated and transferred to the fund and charged to the expenses of the Bank.

iii) Superannuation Fund

"Shahjalal Islami Bank Limited Employees' Social Security- Superannuation Fund" commenced with effect from 1 January 2008. The purpose of the fund is to provide medical and death cum survival benefits in place of group insurance (death cum endowment). The fund shall be subscribed by the employees every month and with the contribution of the Bank.

iv) Benevolent Fund

The Benevolent Fund for the regular and confirmed employees of Shahjalal Islami Bank Limited was established in the year 2007. This fund is mainly used for payment of scholarship to the meritorious students of the children of SJIBL's officers and sub-staffs, to allow short-term quard/ grant for the unexpected and certain needs of the staff of SJIBL and their family like an accident, clinical treatment, marriage ceremony, etc.

v) Incentive Bonus

High quality and competent human resources are crucial to the continued growth and success of any business entity which can be achieved by improving the skill, knowledge, and productivity of employees. To increase the productivity of employees the Bank usually paid an incentive bonus to its employees every year. This bonus amount is distributed among the employees as per the bank's rule.

vi) Career prospect and training program

A resourceful training program can develop the efficiency and productivity of employees. The bank arranges various training and development programs in its training center all over the year. Furthermore, the bank arranges training for its employees in renowned training institutions at home and abroad.

Contribution to National Exchequer

The Bank has made provision of Tk. 2,175.85 million for corporate tax in 2019 against 1,694.29 million in 2018. The bank has also contributed to the economy by generating employment of 2,652 full-time officials. In the year 2019, Bank has paid Tk. 4,603 million to Government exchequer as source tax, salary tax, VAT, excise duty and other tax & VAT realized against various services. In the intermediation process, the Bank mobilized resources of Tk. 203,384.15 million from the surplus economic unit and deployed Tk. 197,285.68 million.

The Bank has generated direct and indirect employment for a large number of people over the years. With the payment of taxes and the investment in the network, the Bank is making a significant contribution to the development and growth of the nation.

Brand Positioning

Shahjalal Islami Bank Limited was established on 01 April 2001 under Companies Act 1994 as Islamic Shariah based commercial bank. SJIBL has established itself as a different shariah based Islami bank from all other banks by providing unique customer services, introducing innovative products and services complying shariah guidelines, creating shareholders' value, extending help to the underprivileged people by CSR, and Zakath. From the very beginning of its operation, the bank differentiated itself as one of the best banks among the third generation Islami banks for its asset quality, shariah compliance, social welfare, CSR activities, and technology-based automated banking solutions. With its 19 years of going forward the bank has established 132 branches, 107 ATMs, introduced several unique and innovative products and services, thus, the bank created itself a unique brand in the banking industry.

Customer Right

Shahjalal Islami Bank Limited considers its customers' rights with high priority. The bank does not judge its performance by looking at its profit figures; rather, the bank considers that it is the right of customers to get high-quality modern services. The bank thinks that customers' perception & satisfaction ultimately determines the success or failure of an organization. As such the bank is always protecting its customers' rights in all of its business activities.

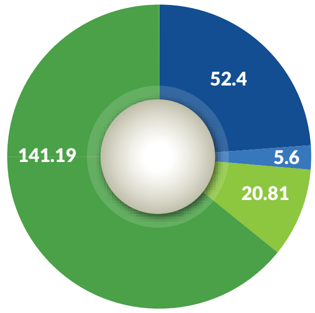
Corporate Governance

The Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank have issued notifications /circulars on corporate governance for listed companies/banks from time to time. Shahjalal Islami Bank Limited has established a set of good corporate governance practices in line with industry best practices and regulatory requirements of The Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank. The bank is ensuring transparency, accountability, and good governance at every step of its business operations.

Corporate Social Responsibility (CSR)

Shahjalal Islami Bank Limited has been spending a substantial amount from its annual profit each year to conduct its CSR activities in different areas such as education, health care, disaster management, environment, empowerment, human resources development, etc. to develop the backward sectors of Bangladesh and ensuring its sustainable development. The bank has been paying respect to social and public welfare, rather than profit maximization strategy. During the year 2019, the CSR expenses were BDT220.19 million which was BDT151.29 million in 2018. Sector-wise CSR contribution is given below.

CSR BDT Million



Zakat

Shahjalal Islami Bank Limited as a shariah based Islami Bank is paying Zakat as per the rules of Islami Shariah. Zakat is one of the five pillars of Islam and it purifies our wealth from evil. Zakat is not a charity but a compulsory payment by the rich to the poor. The main purpose of Zakat is to discourage the accumulation of wealth by a group of people in society and impair the tendency of uneven distribution of wealth in society. Islam has made a system for helping poor people and an effective method to maintain a balance between luxury and poverty. Zakat is paid by the bank at a rate of 2.58% of the closing balance of the Statutory Reserve, General Reserve, and Retained earnings of the previous year. Zakat is charged in the Profit & Loss Account of the Bank as per "Guidelines for Islamic Banking" issued by Bangladesh Bank through BRPD Circular No. 15 dated 09 November 2009. Zakat is paid to underprivileged people as per shariah principle. During the year 2019, the bank paid BDT140.73 million as Zakat which was BDT124.67 million in 2018.

Green Banking

Shahjalal Islami Bank Limited has set examples by pioneering Green Banking initiatives while the Bank has been pro-actively taking steps for diverse sustainable banking initiatives. In such aspect, green banking initiatives of the bank broadly categorized into formulation of policy, Green Finance, Environmental & Social Risk Management (ESRM), Online Banking and Energy Efficiency, monitoring the green banking activities of the bank. Besides, the Head Office building of Shahjalal Islami Bank Limited is a LEED Certified Green Building which is a pioneering step toward environmentally friendly business not only for the banking industry but also for the entire corporate sector of Bangladesh.

i) Formulation of Policy

Shahjalal Islami Bank Limited formulated a Policy of Green Banking in light with the Policy Guideline of Bangladesh Bank in the year 2011. The Bank has been following its Green Banking Policy since then. Also, the Environmental & Social Risk Management Guideline of Shahjalal Islami Bank Limited was formulated and approved in the Board in the 261st meeting held on 27 February 2018 in light with ESRM Guideline of Bangladesh Bank published in the year 2017.

ii) Green Finance

A total amount of Tk. 402.10 million was disbursed during the year 2019 by the bank in green finance. The total amount of outstanding Green Finance as of 31 December 2019 was Tk. 1005.85 million. The Bank has been gradually increasing its Green financing year on year basis.

iii) Online Banking and Energy Efficiency

As of 31 December 2019, the bank had 132 branches across the country with diversified deposits and some green investment products. The bank is operating under full online banking. The bank constructed a very modern head office using the latest technology of energy efficiency. The latest technology enables the bank to use maximum daylight and save electricity. Moreover, the bank is using a solar panel in its new branches to save a certain level of electricity.

Financial Inclusion

Financial inclusion emerges as one of the most effective tools among policymakers around the globe to ensure inclusive and sustainable economic development. Realizing the importance of financial inclusion, Shahjalal Islami Bank Limited has been exploring and promoting innovative and successful initiatives to bring the financially excluded people under the umbrella of financial inclusion. It has been working rigorously to ensure formal banking services to the poor and the under-privileged portion of the society through low cost digital financial services.

i) No Frill Accounts (NFAs) for Farmers and Under-privileged Group of the Society

To ensure banking services for the poor marginal farmers, Shahjalal Islami Bank Limited started to open No-Frill Accounts (NFAs) for farmers. Bangladesh Bank has gradually issued instructions for opening different categories of NFAs other than farmers. The bank also started to open NFAs for ready made garment workers, workers of small footwear & leather product industries, and physically challenged persons. Due to continuous initiatives from the bank, the number of farmer's accounts increased significantly. As of 31 December 2019, the total number of No Frill Accounts reached at 3140 and the balance thereof reached at BDT 3.10 million.

ii) School Banking

As a part of the financial inclusion drive, Shahjalal Islami Bank Limited introduced school banking facilities. According to the bank's policy, any student up to 18 years of age can open a school banking account through parents or legal guardians by depositing minimum BDT 100. The bank has taken many initiatives and awareness programs to create awareness among the students of school and college for an opening bank account. As of 31 December 2019, the number of school banking accounts reached at 17,110 with a balance of BDT 105.0 million.

iii) Banking for Street Urchin, Working Children, Lactating & Working Mother

Shahjalal Islami Bank Limited has signed an agreement with a renowned NGO named Aparajeyo Bangla to open accounts for Street Urchin and Working Children in the year 2018. Besides, it has started opening accounts for Lactating & Working Mother in the year 2019, and the number of such accounts is 1190 as of 31 December 2019.

iv) Agent Banking

Shahjalal Islami Bank Limited has started Agent banking Operations in 2019 targeting the vision to serve the un-banked community. Agent banking, among various initiatives of Shahjalal Islami Bank Limited, will be an emerging financial inclusion tool that will provide unhindered access to the tailor-made financial products to the underprivileged, under-served and poor segment of the population especially from geographically remote locations which will facilitate meeting their financial needs at an affordable cost within their vicinity. Agents will offer some banking services, including cash deposit and withdrawal, fund transfer, utility bill payment, and disbursement of salaries.

Agent Banking target customer segment at Rural-Urban Area:

Preparation of Financial Statements

The financial statements of the Bank prepared by the management present fairly its state of affairs, the result of its operations, cash flows and changes in equity under the historical cost convention and following the First Schedule (Section-38) of the Bank Companies Act 1991 (as an amendment), related Bangladesh Bank circulars, International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs), the Companies Act 1994, the listing regulations of the Stock Exchanges, the Securities and Exchange Rules 1987 and other laws and rules applicable in Bangladesh.

The financial statements of 2019 have been reviewed by the Audit Committee of the Board of Directors of the Bank and then referred to the Board of Directors for its consideration. The external auditor, M/s. ACNABIN, Chartered Accountants appointed by the shareholders, have certified the fairness of the financial statements for the year ended 31 December 2019.

Maintaining Proper Books of Account

Shahjalal Islamic Bank Limited maintained proper books of account for its financial transactions that occurred during 2019. The books of account have also been reviewed by the external auditor, M/s. ACNABIN, Chartered Accountants with an opinion that proper books of account as required by the law have been properly maintained.

Appropriate Accounting Policies

Appropriate accounting policies have been selected and applied consistently in preparation of financial statements and the accounting estimates are made based on reasonable and prudent judgment. Bank records the financial transaction on an accrual basis with required disclosures and also prepares the financial statements accordingly.

Internal Control and Compliance

Internal Control refers to the tools that provide reasonable assurance regarding the achievement of the Bank's goal concerning effectiveness and efficiency of operation, safeguarding the assets of the bank, Compliance of applicable laws and regulations, policy & procedures issued by both Bank and the regulators.

The above issues show the significance of effective internal control of a bank in the light of traditional activities. But in the context of residual risk under SRP, internal control has now become much more significant. Keeping such significance in view, Shahjalal Islami Bank Limited has strengthened and segregated its Internal Control and Compliance Division into three separate units based on the relative guidelines framed by Bangladesh Bank. Shahjalal Islami Bank Limited has formulated an Internal Control and Compliance Manual which has been updated from time to time. This manual contains Risk Assessment Methodology which has been designed to conduct Risk Based Internal Audit among some other significant issues.

Statement of Directors' Responsibility to establish an appropriate system of internal control

The Directors acknowledge their overall responsibilities for the Bank's system of internal control for establishing efficiency, effectiveness, reliability, timeliness, completeness, and compliance with applicable laws and regulations. This process involved a conformation that a system of internal control in accordance with the best financial reporting practice was in place throughout the year.

Going Concern

After reviewing the Bank's present and potential business growth, annual budget, performance, liquidity position, financing arrangement, the Directors are satisfied that the Bank has adequate resources to continue to operate in the foreseeable future and confirm that there is no material issue threatening to the going concern of the Bank. For this reason, Directors continue to adopt the going concern basis in preparing these financial statements. There are no significant doubts about the Bank's ability to continue as a going concern.

Credit Rating

Credit Rating Agency of Bangladesh Limited (CRAB) has made a rating on Shahjalal Islami Bank Limited. The report was issued on 25 June 2020, they rated the Bank as AA2 for the long term and ST-2 for the short term. Commercial Banks rated AA2 have very strong capacity to meet their financial commitments. Commercial Banks rated ST-2 are considered to have strong capacity for timely repayment. CRAB performed the rating surveillance based on the audited financial statement of 31 December 2019 and other relevant information.

Auditor's Report

The Board of Directors reviewed the Auditors Report issued by the Bank's auditor M/s ACNABIN, Chartered Accountants based on their audit of financial statements for the year ended 31 December 2019. The auditor issued an unqualified audit report which means no material misstatements exist in the financial Statements or no disagreement with management regarding the selection and application of accounting policies. The Board also reviewed the auditors' suggestion which they provided through a separate management report and gave the strategic guidelines to the management for improvement.

Appointment of Auditors

As per BSEC notification no. BSEC/CMRRCD/2006-158/208/Admin/81 dated 20 June 2018 and as per Dhaka Stock Exchange (Listing) Regulation, 2015 dated 30 June 2015, an auditor of a listed company cannot be appointed for more than three consecutive years. M/s ACNABIN, Chartered Accountants was the auditor of the Bank for the year 2019. As 2019 was the first year of the audit so the firm is eligible for reappointment and they have also expressed their willingness to be reappointed for the year 2020.

Section 210 of the Companies Act, 1994 gives authority to the shareholders to appoint the auditor and fix their remuneration. Hence, the board recommends appointing M/s ACNABIN, Chartered Accountants as the auditor of the bank for the year 2020 subject to the approval of the shareholders in the upcoming Annual General Meeting.

Vote of Thanks

The Board of Directors expresses its profound gratitude to Almighty Allah (SWT) for enabling the Bank to achieve growth in operation during the year 2019. The Board extends thanks to the Ministry of Finance, Bangladesh Bank, Bangladesh Securities & Exchange Commission, and the Government Agencies for providing assistance, guidance, support, and cooperation at various stages of operation of the Bank. The Board appreciates the support and cooperation received from foreign correspondents of the Bank all over the world.

The members of the Board of Shahjalal Islami Bank Limited take this opportunity to express gratitude and extend sincere thanks to its valued shareholders, customers, depositors, investment clients, and well-wishers for their valuable support and confidence on the Bank.

Finally, and more importantly, the Board would like to express its great appreciation and thanks to all of the officials of the Bank for rendering untiring efforts.

May Allah grant us courage, dedication, patience, and fortitude to run the bank to the best of our abilities.

Ameen.

On behalf of the Board of Directors

Md. Sanaullah Shahid
Chairman