DIRECTORS' REPORT

The Board of Directors of BRAC Bank Limited is pleased to present the annual Directors' Report along with the audited financial statements for the year ended December 31, 2020. This report summarises the global and domestic economic performance and outlook for the coming years, while also presenting a detailed analysis of the bank's financial performance and competitive context for the year 2020. The Board has established the effective internal control system over the financial statements recording, reporting and preparation of the bank's financial statements to ensure accuracy of the financial data, aligned with best practices in financial reporting.

Overall operating context

In 2020, BRAC Bank operated in a highly complex environment, characterised by the COVID-19 pandemic and the measures to alleviate its economic impact. The crisis has been global, severe and unforeseen, and has generated enormous uncertainty, given the impossibility of predicting its scope and duration. However, Bangladesh, like most other world economies, responded with fiscal and monetary policies to limit the damage from the pandemic. Hopes raised by effective pandemic containment measures and vaccine procurement deals secured towards the final months of 2020 also led to improvement in public sentiment that were reflected in the country's financial markets.

Global economy

Notwithstanding the heightened public measures, the coronavirus pandemic continued to surge globally till the writing of this report, with the number of confirmed infections exceeding 93 million with over two million deaths worldwide. Confirmed cases particularly rose in the United States, Latin America, India and South Africa, with renewed surges in the UK, Australia, Japan, Spain and France that had previously flattened the infection curve but are perhaps witnessing a new and more infectious mutant of the virus. This has led to some countries reinstating lockdowns, while others have slowed reopening. These trends only offer a glimpse of the massive challenges for the global economy in achieving pre-pandemic levels of activity, as the virus continues to spread erratically and new variants are coming to the fore.

The year 2020 in a nutshell

MAJOR IMPACT OF CORONAVIRUS

COUNTRY-WIDE LOCKDOWN FOR 3 MONTHS

TEPID RECOVERY POST LOCKDOWN RELEASE

SWIFT BOUNCE-BACK EXPECTED

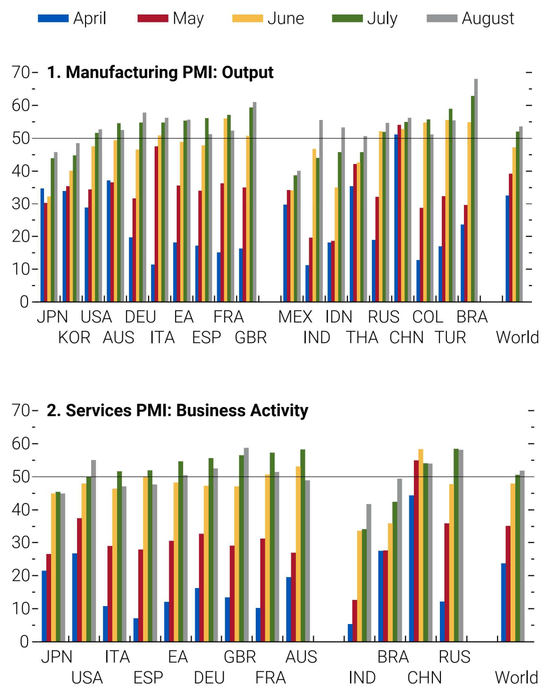
Despite economic activity plunging in April 2020 due to the “great lockdown”, the global economy has started to comparatively recover from the lows, as nations cautiously engaged in phase-wise re-opening of economies from May-June 2020 onwards. Notably, the recovery was most evident in retail sales where consumer spending rose with the “unlocking”, a trend that is mostly alluded to the release of pent-up demand, while firms remained watchful in responding to this revival, given industrial production in many countries remained well below December 2019 levels.

GDP data for Q2’2020 produced a positive surprise for China, as public investment helped boost activity following the easing of lockdowns in early April 2020, while the United States and the Euro area contracted at a historic pace, yet with less severity than earlier projections. Interestingly, China has already articulated its focus on re-emergence in the post-pandemic world and is increasingly banking on technology for global supremacy.

These apart, many countries such as India, Mexico, Korea and the Philippines experienced muted growth due to sharp decline in consumption and investments, continuous spread of the virus, soft external demand and weaker remittance inflows. Private sector capex also plunged to historic lows, as companies were grappled with an uncertain future. Yet, Q3’2020 GDP outturns mostly surprised on the upside in countries like Australia, Euro area, India, Japan, Korea, New Zealand, Turkey and the United States, or were in line with expectations in nations such as China and Mexico.

Business surveys of purchasing managers (under the broad metric of purchasing managers’ index) demonstrate that firms in the United States, Euro area, China and Brazil registered output expansion in July and August 2020, as compared to the previous month, which is in contrast with India, Japan and Korea, where output experienced compression. Further, September 2020 indicators suggested a stronger and more resilient activity in manufacturing over services, likely due to the increase in infections, while other headline indicators, such as daily consumer spending in the United States suggest a levelling-off in activity. Although recent vaccine rollouts and early stages of vaccination that the world is witnessing now have elevated hopes of a faster-than-expected turnaround, renewed coronavirus waves led by new variants pose persistent concerns for the global economy.

FIGURE 1: Purchasing Managers’ Indices, 2020 (Index; 50+ = expansion)



Source: IHS Markit; and IMF staff calculations

Global oil prices

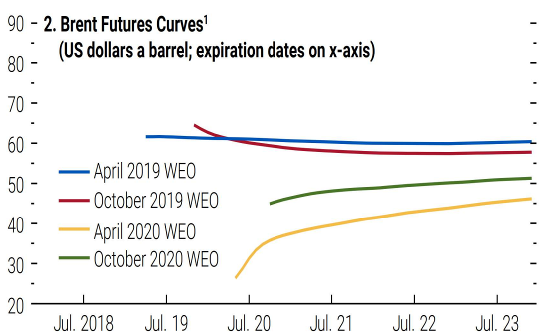
Average petroleum spot prices per barrel are projected at $43.8 in 2021. The oil futures curve indicates that prices are expected to rise in the medium-term, and is forecasted at $48 per barrel or 25 per cent below the 2019 average. Pandemic-led collapse in global oil demand and storage uncertainty resulted in a decline by 60 per cent in oil prices between February and April 2020.

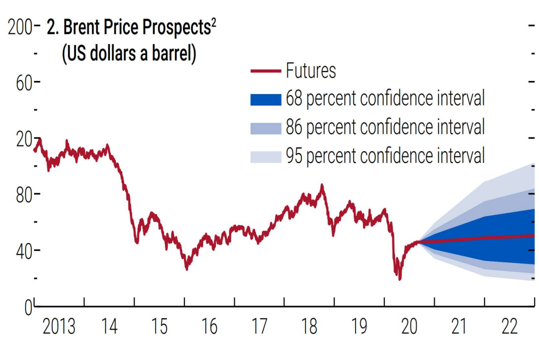
In March 2020, OPEC+ failed to arrive at a consensus on supply cuts, but by mid-April 2020, the cartel decided to curb production as a response to the plummeting of oil prices, by 9.7 million barrels a day in May-July 2020, by 7.7 million barrels a day until December 2020, and by 5.8 million barrels a day until April 2022. This is already being reflected in rising oil prices during the first quarter of the year 2021, averaging at about $60-70 per barrel.

US crude oil production was also hurt as the front-month futures price for the West Texas Intermediate (WTI) blend briefly went into the negative territory of - $37 in April 2020, resulting in an unprecedented 2 million barrels a day decline in US crude oil production in May 2020. However, since late-April 2020, oil prices recovered from $15 to $40 a barrel by early June 2020, but declined again to $25 into August 2020 with exhaustion in pent up demand. Many countries, taking advantage of lower oil prices, have added to their strategic petroleum reserve capacities.

The oil market in the near-term, as reflected in price recovery in Q1'2021, can be alluded to anticipated recovery in economic activity. Yet it remains below 2019-average with broadly balanced price risks. Upside risk of oil price is contingent on the following: escalating geopolitical events in the Middle East, faster vaccines rollout, excessive cuts in oil and gas upstream investments, and further bankruptcies in the energy sector. Downside risks include renewed slowdown in global economic activity, large inventories, stronger oil production growth in several non-OPEC+ countries, faster normalisation of Libya's oil production, breakdown of the OPEC+ agreement, and widespread reluctance to take the vaccine jab. Global policy actions to lower CO2 emissions present a further downside risk to oil demand in the medium- and long-term.

FIGURE 2:. Brent futures curves and price prospects





Source: Bloomberg Finance L.P.; IMF, Primary Commodity Price System; Refinitiv Datastream and IMF staff estimates

Global liquidity

The COVID-19-induced recession would have produced far worse outcomes in the absence of massive policy support that helped economic activity gain some traction. In advanced economies, discretionary revenue and spending measures announced so far adds up to as much as 9 per cent of GDP, and liquidity support disbursed in the form of equity injections, asset purchases and loan and credit guarantees amounts to another 11 per cent. Emerging market (EM) and developing economies have also announced smaller but sizable responses, amounting up to 3.5 per cent of GDP in discretionary budget measures, with another 2 per cent in various forms extended as liquidity support.

The novelty, speed and timeliness of policy actions, in addition to their sheer scale, has played a pivotal role in upholding public sentiment. For instance, the €750 billion European Union (EU) pandemic recovery/stimulus package fund, majority of which is grant-based, represents a unique example. Further, a wide range of transient lifeline policies undertaken worldwide is also noteworthy, which includes cash and in-kind transfers to affected firms and households, wage subsidies to sustain employment and prevent layoffs, expanded unemployment insurance coverage, tax deferrals, and also regulatory initiatives to ease classification rules and provisioning requirements for banks' non-performing loans (NPLs), together with the release of buffers to help absorb losses.

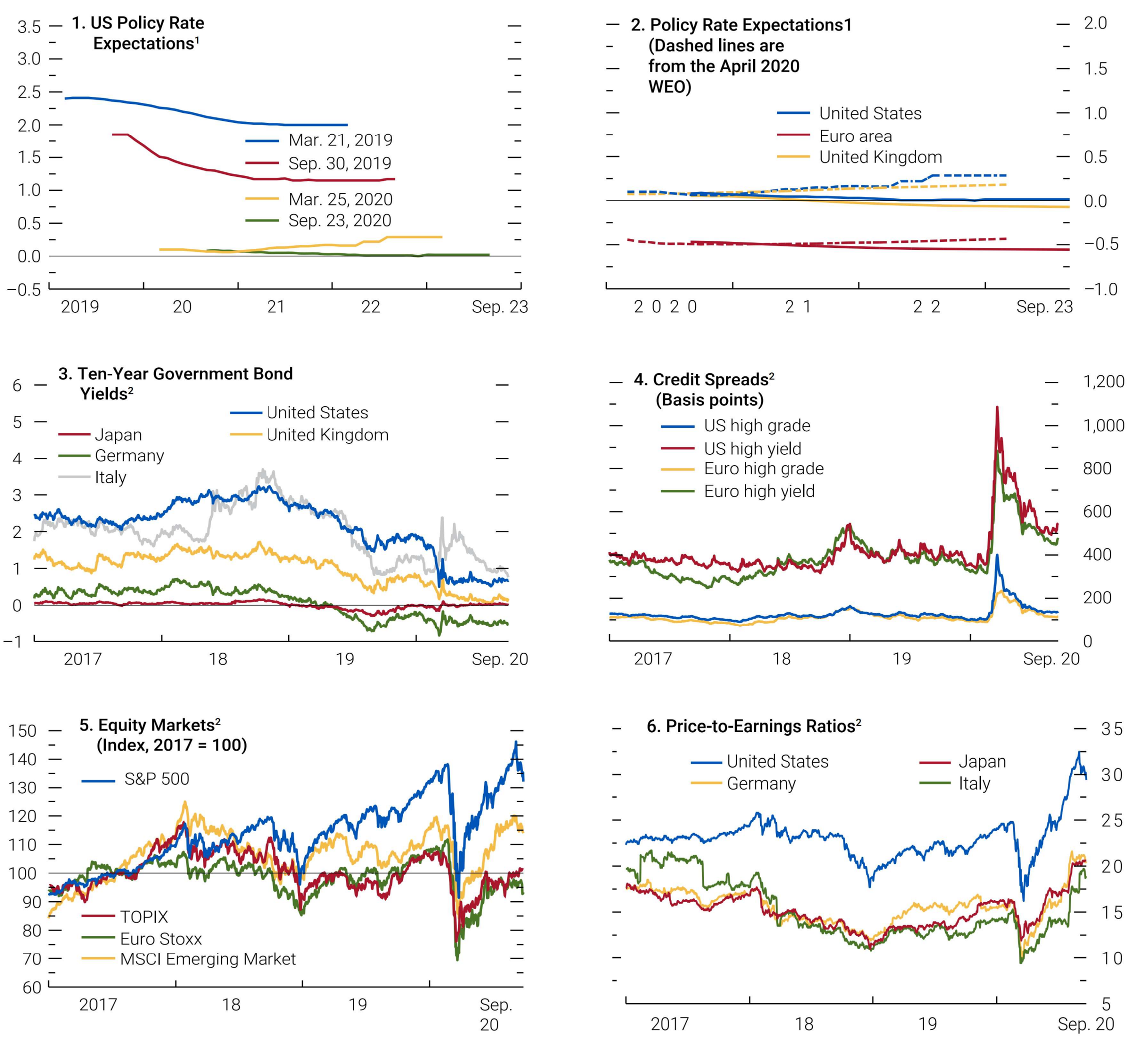
In advanced economies, central banks have undertaken more diverse and a larger scale of asset purchases and re-lending facilities, supporting credit provisions to a wide range of borrowers. Moreover, the Federal Reserve (Fed) has also instituted changes in its monetary policy strategy; as such it will target average inflation of 2 per cent over time. Emerging market central banks' responses spanned interest rate cuts and new re-lending facilities, while also ensuring initiation of asset purchases for the first time in many cases.

It is to be noted that financial conditions have more or less eased since June 2020 for advanced economies as well as most of the emerging market and developing economies due to the aggressive policy countermeasures undertaken using the financial system, which played a vital role in preventing further collapse from the COVID-19 shock. However, only a partial reflection of the expected benefit from such measures indicates the continuing dissonance between financial markets and the real economy.

In advanced economies, equity markets have either recovered or exceeded their pre-pandemic levels, while sovereign bond yields remain broadly unchanged or have declined further since June 2020, as seen in Italy following the EU's pandemic recovery package and ECB's pandemic emergency purchase program. Corporate spreads, particularly high-yield credit, have also dropped further as experienced by the United States. The decline in interest rates reflects a combination of lower return on safe assets and compression of risk premiums.

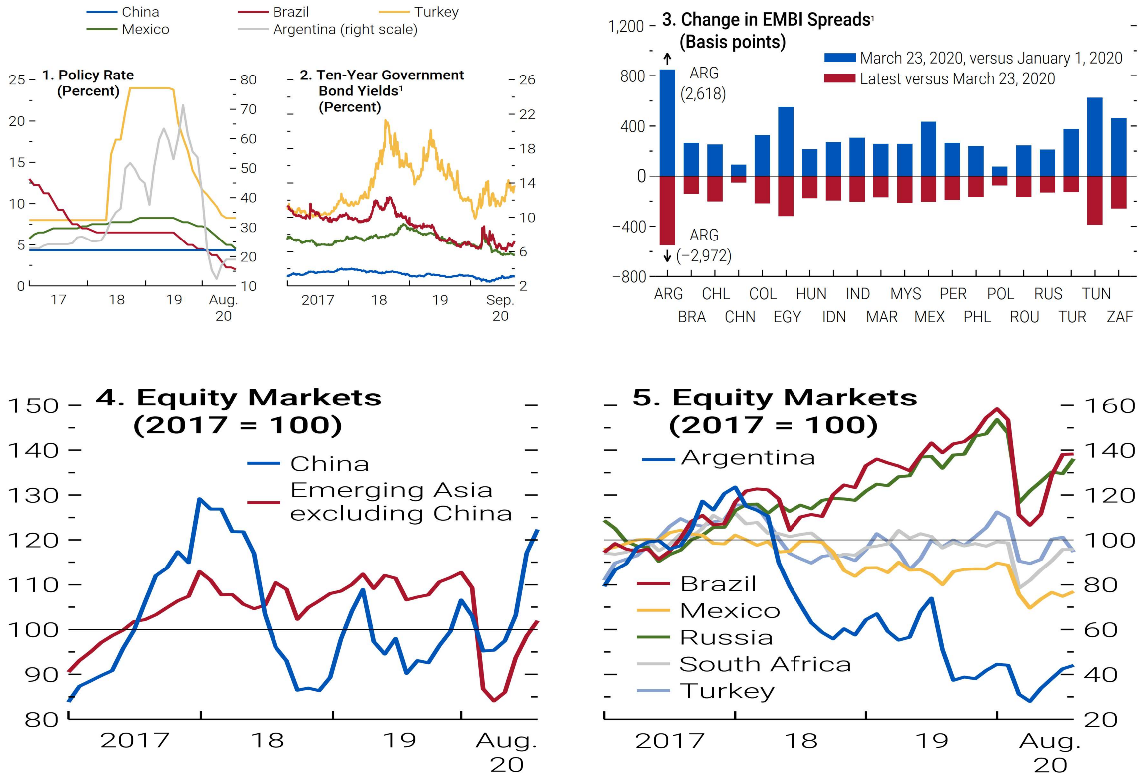
Shifting risk appetites have enforced sovereign yields in emerging markets to decline in recent months. Moreover, spreads over US Treasury securities have continued to compress since June 2020, in line with the stronger risk appetite. Equity markets, notably in China and India, have also firmed up since June 2020. Furthermore, dollar liquidity support and rapid recovery have revived portfolio inflows into some of the major emerging markets of Asia, including China and India, following the sharp reversal witnessed in March 2020, though the extent of recovery in portfolio flows remains uneven with some countries experiencing larger outflows than others.

FIGURE 3. Advanced economies: monetary and financial market conditions



Sources: Bloomberg Finance L.P.; Haver Analytics; Refinitiv Datastream; and IMF staff calculations.

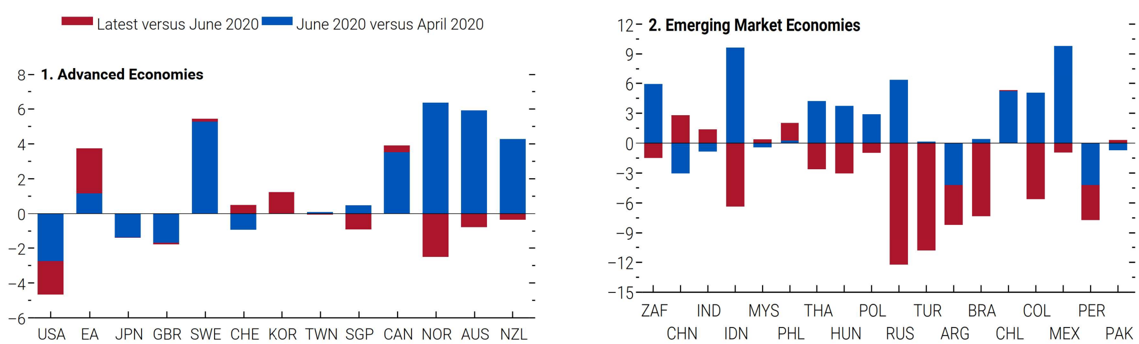
FIGURE 4: Emerging market economies: Monetary and financial conditions



Sources: Bloomberg Finance L.P.; Haver Analytics; IMF, International Financial Statistics; Refinitiv Datastream; and IMF staff calculations.

Among the major currencies, the US dollar depreciated by over 4.5 per cent in real effective terms between April and late September 2020, reflecting improving global risk sentiment on the one hand and concerns regarding the speed of the US recovery due to rising COVID-19 cases on the other. The Euro appreciated by 4 per cent on improving economic prospects and lower infection rates. Commodity currencies also firmed-up, in line with commodity prices. Emerging market currencies also recovered between April-June 2020 against the severe pressures that persisted in March 2020. Chinese renminbi has also strengthened, while other Asian emerging market currencies remained stable in real effective terms. On the other hand, the Russian rouble depreciated on account of geopolitical factors, while currencies of countries either severely affected by the pandemic or with a vulnerable external or fiscal position also weakened, including that of Argentina, Brazil and Turkey.

FIGURE 5. Real effective exchange rate (REER) changes, April-September 2020



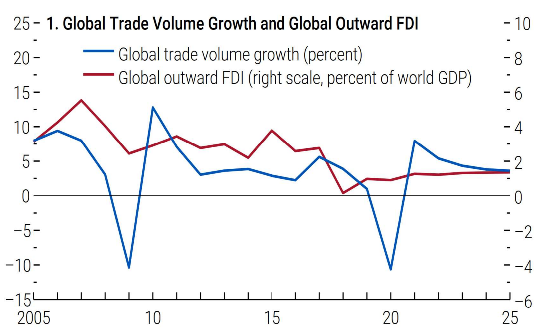
Source: IMF Staff calculations

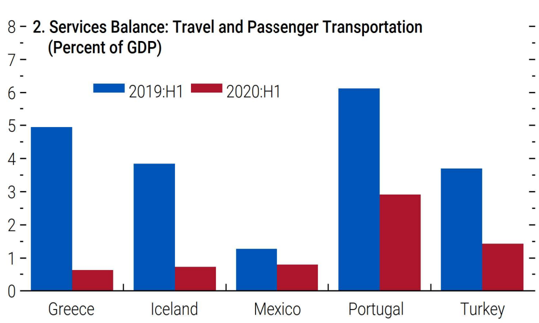
Global trade

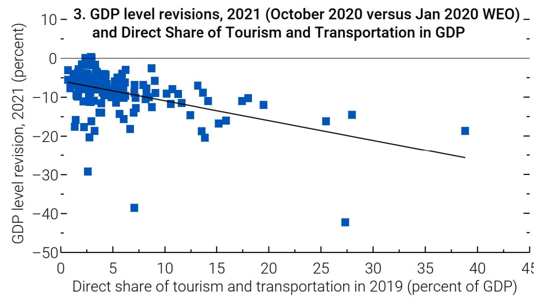
Global trade growth is projected to weaken significantly in 2020, contracting by 9.6 per cent. Though global trade contracted in similar pace during the 2009 global financial crisis, the contraction in activity from the current pandemic is much more pronounced. Further, the current recession depicts particularly sharp contraction in contact-intensive sectors than manufacturing, unlike past recessions where manufacturing sector contracted sharply as demand for capital goods and consumer durables plummeted. In the current synchronised global downturn, downsized trade volumes primarily reflect weak final demand from both consumers and firms.

In 2021, global trade volume is forecasted to grow by 8.1 per cent, considering projected recovery in global activity with easing of lockdowns, and by 4 per cent over the medium-term. Foreign direct investment (FDI) as a share of global GDP is also expected to remain below the pre-pandemic level, as firms move away from foreign producers due to the perceived risks of foreign reliance, which may further exacerbate the decline in trade activity.

Figure 6. Global trade volume growth, global outward FDI and travel-related trade services







Sources: World Travel and Tourism Council; and IMF staff estimates

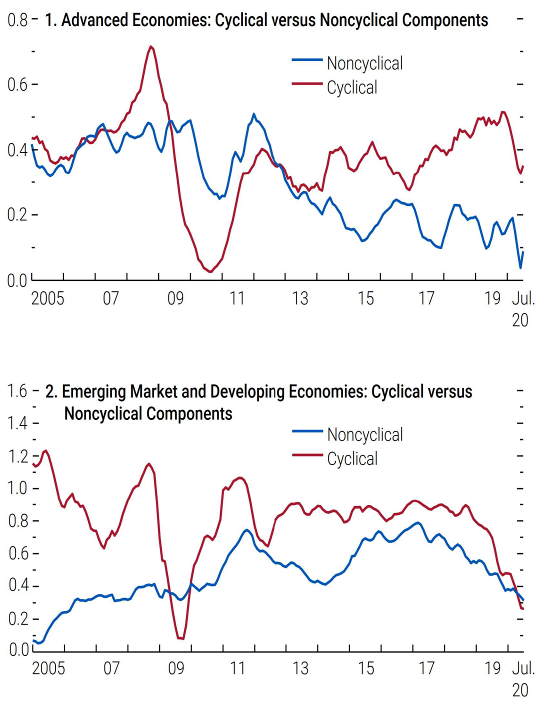
All countries are expected to suffer sizable declines in exports and imports in varying degrees. Particularly, tourism-dependent economies are likely to remain subdued due to continued international travel restrictions and consumers' fear of contagion. Balance of payments (BoP) position of countries such as Greece, Iceland, Portugal and Turkey reflect this fact with collapse in net revenues during H1'2020. As a result, tourism-based nations that have larger contribution to GDP are projected to suffer substantially from the loss of activity during 2020-21 compared to pre-pandemic forecasts. Oil-exporting nations also face a challenging external outlook, suffering a severe trade shock with the decline in oil prices, though this condition is easing with recovery in oil prices witnessed in the first quarter of the current year.

Global inflation

Inflation in advanced economies remain below pre-pandemic levels, whereas in emerging market and developing economies inflation has picked-up marginally following large declines during the early stages of the pandemic. Inflation projections for 2020-21 remain considerably uncertain, as contending forces will shape price developments. For instance – price pressures may shoot up due to the release of suppressed demand, persistent supply disruptions and lower credibility of monetary policy frameworks due to fiscal dominance in certain countries. Yet, these forces will be counterbalanced by factors affecting demand, such as persistent precautionary increase in consumers' savings due to higher perceived financial and health risk, transfer of purchasing power from consumers to lenders with lower propensity to spend, and monetary policy constraints to stimulate demand, particularly in advanced economies.

However, a sectoral disaggregation of pre-pandemic and mid-pandemic inflation provides directional insights into the future. In fact, in most of the advanced economies and large emerging market economies, decline in inflation appears broad-based, reflecting weak price pressures in sectors responsive to aggregate demand, such as housing, recreation, restaurants and hotels, as well as less responsive "noncyclical" sectors, such as clothing, footwear, communications, education, healthcare, transportation services and other miscellaneous goods and services.

Figure 7. Contribution to headline inflation

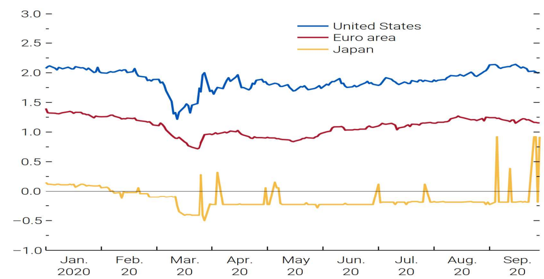


Sources: Eurostat; Haver Analytics; OECD; and IMF staff calculations

Given the relatively weak aggregate demand and projections of sizeable slack into 2022, price pressures in the cyclically-sensitive sectors are expected to stay muted, whereas inflation in the non-cyclical group has been on a downward spiral even before the pandemic. As a result, for advanced economies, the general expectation is tamed inflation, with projections pegged at 0.7 per cent in 2020, thereafter increasing to 1.3 per cent in 2021 as recovery gains foothold, and broadly stabilising at 1.9 per cent onwards.

Inflation expectations in emerging market economies also remain relatively low, as compared to historical averages. In the emerging market and developing economy group, inflation is projected at 5 per cent and 4.2 per cent, respectively, in the next two years, moderating thereafter at 4 per cent over the medium-term, below the historical average for the group.

Figure 8. Five-year inflation swaps (percent; market-implied average inflation rate)



Sources: Bloomberg Finance L.P.; and IMF staff calculations

Global economic outlook

Global growth is projected at -3.5 per cent in 2020, which has been revised upwards by 0.9 per cent in the IMF's October 2020 World Economic Outlook. This upward revision reflects stronger-than-anticipated recovery taking root in H2'2020, which is expected to gradually strengthen going into 2021. This recovery is likely to be characterised by persistent social distancing norms until vaccination provides herd immunity, while the risk of recurring lockdowns remain a possibility due to risks originating out of virus mutations before vaccination gains momentum. Nevertheless, global growth is projected at 5.5 per cent in 2021, given additional policy support in some large economies and expectations of a vaccine-driven recovery, implying a 1.8 per cent increase in global GDP relative to 2019.

The advanced economy group is projected to de-grow by 4.9 per cent in 2020 and bounce back with 4.3 per cent growth in 2021. However, the projected rebound reflects a net loss of 0.8 per cent relative to 2019. Particularly, the US economy is projected to yield a contraction by 3.4 per cent, followed by an expansion of 5.1 per cent in 2021. In the Euro area, a deeper contraction of 7.2 per cent is projected, given it experienced a sharper downturn compared to the US in H1'2020, and likewise a growth of 4.2 per cent is expected in 2021 given its lower GDP base. Advanced economies in Asia are likely to experience moderate downturn than those of Europe in light of lesser severity of the pandemic and smaller GDP declines in H1'2020.

Growth forecast for emerging market and developing economies is forecasted at -2.4 per cent in 2020 and 6.3 per cent in 2021. Within this group, China's economic activity picked up rapidly, and Q2'2020 GDP produced a positive surprise on the back of robust policy support and resilient exports. Given its much stronger prospects in the global order, growth projections are estimated at 2.3 per cent and 8.1 per cent, respectively, for 2020 and 2021.

Excluding China, growth prospects for many countries in this group remain dim and uncertain due to continuous spread of the virus, beleaguered healthcare systems, relatively greater economic importance of the severely-affected sectors, such as tourism, and greater dependence on external finance, including remittances. As a result, all emerging market and developing economy regions, particularly large economies of emerging Asia such as India and Indonesia, are expected to contract in 2020 as they continuously try to contain the pandemic and focus on coming out of the woods. With a much more severe GDP contraction than anticipated for Q2'2020, India is expected to contract by 8 per cent in 2020, followed by a sharp recovery to 11.5 per cent in 2021, from the lower base of 2020.

Regional differences remain self-evident, with many countries in Latin America facing deep contractions owing to the pandemic, while many countries in the Middle East, Central Asia, and oil-exporting countries in sub-Saharan Africa are affected by low oil prices, civil conflict, or economic crisis. For 2020 and 2021, growth for emerging market and developing economies, excluding China, is forecasted at -5.7 per cent and 5 per cent, respectively.

In conclusion, the downturn triggered by the coronavirus pandemic is unprecedented, as compared to past recessions – where the services sector has usually witnessed smaller growth declines than the manufacturing sector. However, in the current crisis, the public health response and behavioural changes needed to slow the transmission of the virus have translated into larger contractions in service sectors than the manufacturing sector, particularly those that are reliant on face-to-face or in-person interactions, such as wholesale and retail trade, hospitality, and arts and entertainment. Such sectors face a markedly difficult path to any semblance of pre-pandemic normalcy.

Overview of Bangladesh economy

The global novel coronavirus pandemic has slowed down some of the economic progress made by Bangladesh in the just concluded fiscal year as a result of the pandemic-induced mobility restrictions disrupting the production and supply of goods and services, as well as sharply contracting external demand in Q4'FY2020. The readymade garments (RMG) industry – the sector that accounts for 8.5 per cent of GDP – was particularly hit as product exports declined by a massive 18.12 per cent during the year. Despite numerous challenges, Bangladesh's economic performance has been consistent, steadily growing by more than 6 per cent over the past decade. In line with this trend, GDP growth stood at 5.24 per cent in FY2020 as per the provisional estimates, compared to 8.15 per cent in the previous fiscal year.

Total imports into the country declined by 8.56 per cent, albeit at a much slower pace than exports. In contrast, remittance inflows expanded by 10.87 per cent to USD 16.42 billion, which helped reduce the current account deficit (CAD), while increase in capital and financial account inflows facilitated a surplus of USD 2.93 billion in the balance of payments (BoP) from USD 179 million in the previous fiscal year. Foreign exchange reserves also increased significantly and stood at USD 36.04 billion, as of June 30, 2020, with 8.6 months of import coverage.

In order to combat the adverse effects of the pandemic, the Government announced a number of stimulus packages worth BDT 1.03 trillion/USD 12.2 billion, or 3.7 per cent of the GDP, for different economic units encompassing the following facets:

- Wage support for export industries
- Subsidies on interest payments for working capital loans
- Strengthened export facilitation
- Liquidity support for refinance schemes
- Comprehensive support for agriculture
- Support for health care, cash and food transfers to the vulnerable

These packages are being distributed to the public and other beneficiaries by the banking sector under the central bank's guidance to ensure economic revival.

Bangladesh Bank has also undertaken various policy measures, including repo rate reduction, cut in cash reserve requirement (CRR), ADR limit enhancement, special repo, bond repurchase, moratorium on loan repayments and extension of usance period to re-align the economy closer to the pre-pandemic growth path.

In terms of the fiscal profile of Bangladesh, low government revenue to GDP remained a key weakness with a ratio of 12.4 per cent in FY2020, while it is 19.8 per cent for India, 14.7 per cent for Pakistan, 13.5 per cent for Sri Lanka, 23.9 per cent for Nepal and an average of 25.6 per cent for developing countries. Moreover, introduction of new value-added-tax (VAT) law from July 2019 has seen little success. In addition to a weak revenue collection ratio, Bangladesh's recent increase in infrastructure expenditure has led to a rise in budget deficits from 4.8 per cent to 5.3 per cent of GDP in the revised budget of FY2020, while the actual number could be much higher. On the other hand, government debt-GDP ratio was relatively low at 40.3 per cent in FY2020, and almost half of the external debt is concessional, which mitigates refinancing risks and helps limit debt-servicing costs.

GDP growth performance

Bangladesh has witnessed robust economic growth, averaging 6.5 per cent over the last decade despite challenging global economic conditions. According to provisional estimates, GDP growth in Bangladesh stood at 5.24 per cent in FY2020, as against 8.15 per cent in FY2019, which is the lowest growth since FY2009. Although the economic situation of the country seemed normal in the first eight months of FY2020, the global spread of the COVID-19 pandemic has had a huge negative impact on the economy of the country since March 2020.

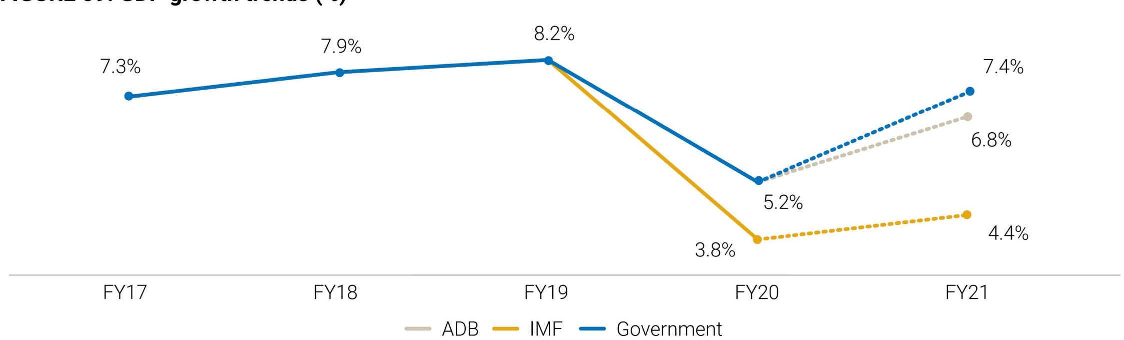
Sovereign ratings

Bangladesh has been rated by three renowned global rating agencies with assigned credit profile of "stable" for over a decade. It has received 'Ba3' and 'BB-' ratings, respectively, from Moody's and Standard & Poor's (S&P). Fitch Ratings reaffirmed Bangladesh's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB-' with a "stable outlook" on November 11, 2020; while other South Asian economies either received a negative outlook or were assigned a lower rating. As a result, Bangladesh stands in a lucrative position ratings-wise.

According to Fitch, Bangladesh has strengthened its external buffers despite the COVID-19 shock, with reserves crossing the USD 43 billion mark due to lower imports, higher remittances and increased borrowings from multilateral agencies. Remittances, which is an important driver of household consumption, has been surprisingly resilient, partly due to repatriation of savings by workers returning home and partly because of the government's 2 per cent cash incentive program for inward remittances through the formal channel.

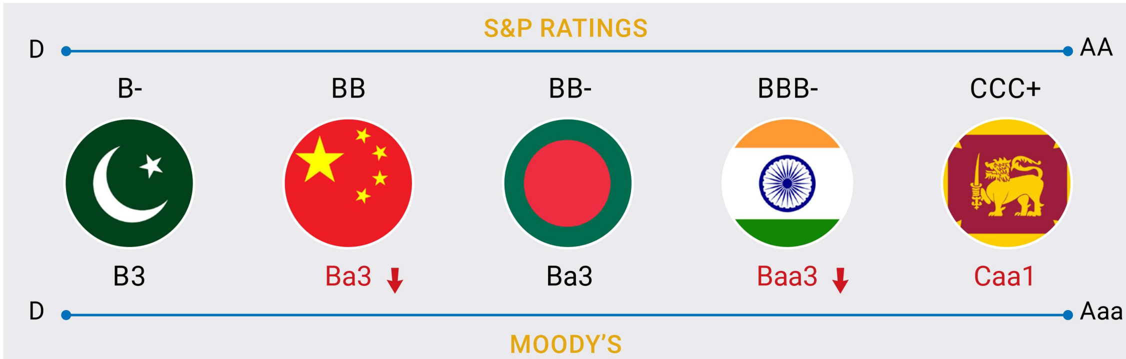
On the downside, the country's lower government revenue-to-GDP ratio of 12.4 per cent remains a key weakness in its fiscal profile, which is far below the 'BB' median of 29 per cent. Some of the other chief concerns include poor governance and high NPLs in the banking sector, one of the lowest ranking on the Ease of Doing Business index, as well as high debt-revenue ratio of 438.6 per cent in the 'BB' category.

FIGURE 09. GDP growth trends (%)



Source: ADB & IMF publications

Figure 10: Credit rating comparison with peers



*Red = Downgrade; Black = Unchanged; Down-arrow = Outlook changed to negative

Agricultural sector

The importance of the agro-economy in the country is undeniable, as it accounted for 40.62 per cent of the total labour force and 13.35 per cent of GDP in FY2020, as compared to 13.65 per cent of GDP in the previous fiscal year.

In FY2020, the growth of the agri sector declined to 3.11 per cent from 3.92 per cent in the previous fiscal, primarily due to shortage of seasonal labour for harvesting and pandemic-induced export restrictions on poultry, crab, shrimp and fish production. Considering the significance of the sector, a total of BDT 21,484 crore was allocated in the FY2020 budget, which is 4.11 per cent of the total allocation, whereas BDT 9,000 crore was allocated in the budget of FY2020 as subsidy for fertiliser and other agri inputs. However, agricultural credit disbursement declined by 3.67 per cent in FY2020, achieving 94.3 per cent of the disbursement target of BDT 24,124 crore.

FIGURE 11: Sectoral GDP Share (%)

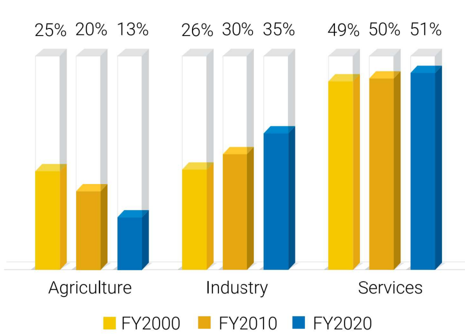
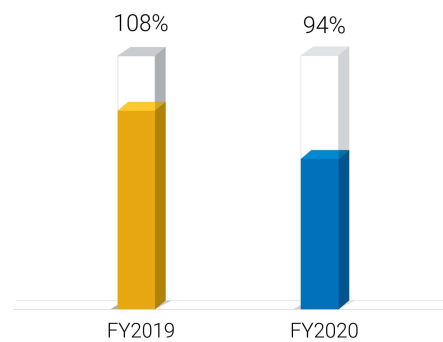


FIGURE 12: Agricultural credit disbursement target achievement (%)



Source: Bangladesh Bank Annual Reports

As per the Ministry of Agriculture estimates, food grain production is expected to expand by 10.11 per cent in FY2020, whereas fish production is expected to increase by 2.30 per cent. Public food grain procurement and import target achievement stood at 61.48 per cent and 76.34 per cent till February 2020. On the other hand, the private sector imported a total of 46.21 lakh MT of food grains during the same period.

Figure 13. Food grain and Fish production (lakh MT)

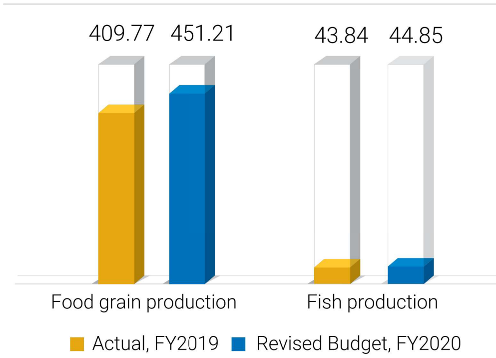
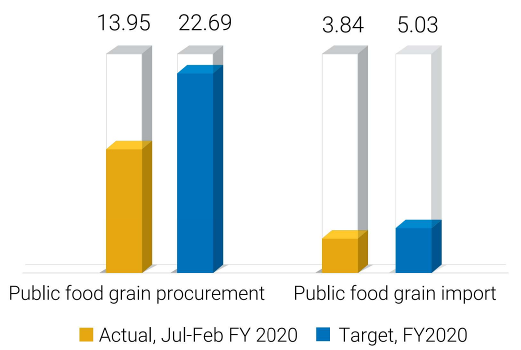


Figure 14. Public food grain procurement and imports (lakh MT)



Source: Bangladesh Economic Review 2020

Industry sector

The contribution of the industry sector to GDP is progressively expanding in Bangladesh. Following this trend, the size of the industry as a percentage of the GDP increased to 35.36 per cent in FY2020 from 35.00 per cent in the previous fiscal year.

However, growth of the broad industry sector, which includes sub-sectors such as manufacturing, mining and quarrying, electricity gas and water supply, and construction– declined from 12.68 per cent in FY2019 to 6.48 per cent in FY2020 on the back of lower garments exports during the global economic slowdown, followed by postponement or outright cancellation of export orders from key destinations. The contribution of the manufacturing sector-to-GDP stood at 24.18 per cent, the highest in the GDP composition, amounting to BDT 271,067 crore. However, growth declined from 14.20 per cent in FY2019 to 5.84 per cent in FY2020. Within the manufacturing sub-sector, large and medium enterprises experienced a larger decline in growth – from 14.84 per cent to 5.47 per cent, as compared to the small-scale industries whose growth declined from 10.95 per cent to 7.78 per cent. The growth of the construction sector stood at 9.06 per cent, as compared to 10.25 per cent in the previous fiscal year.

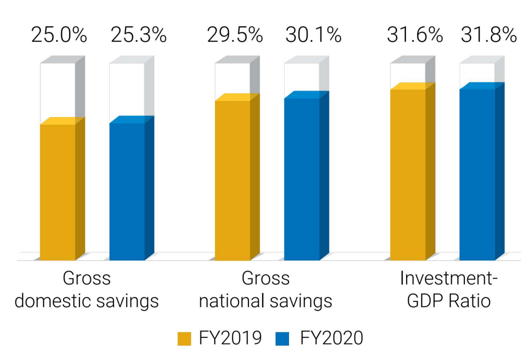
Services sector

The services sector grew by 5.32 per cent in FY2020, as compared to 6.78 per cent in the previous fiscal year, as wholesale and retail trade and transport services were severely hampered due to mobility restrictions. In fact, among the broad services sectors, sub-sectors such as wholesale and retail trade, hotels and restaurants, transport, storage and communications, financial intermediation, real estate and renting and health and social work decelerated significantly, ranging from about 1.0 per cent to 3.1 per cent, as compared to the previous fiscal year. As a result, contribution of the broad services sector-to-GDP declined to 51.30 per cent in FY2020 from 51.35 per cent in FY2019.

Savings and investment

Investment-to-GDP ratio increased slightly to 31.8 per cent in FY2020, among which contribution from the public sector and private sector stood at 8.12 per cent and 23.63 per cent of GDP, respectively. However, growth in investments slowed down to 10.63 per cent in FY2020, as compared to 14.19 per cent in the previous fiscal year, primarily due to the economic slowdown caused by the COVID-19 pandemic beginning Q4'FY2020.

FIGURE 15: Gross Domestic Savings, National Savings and Investment (as percentage of GDP)

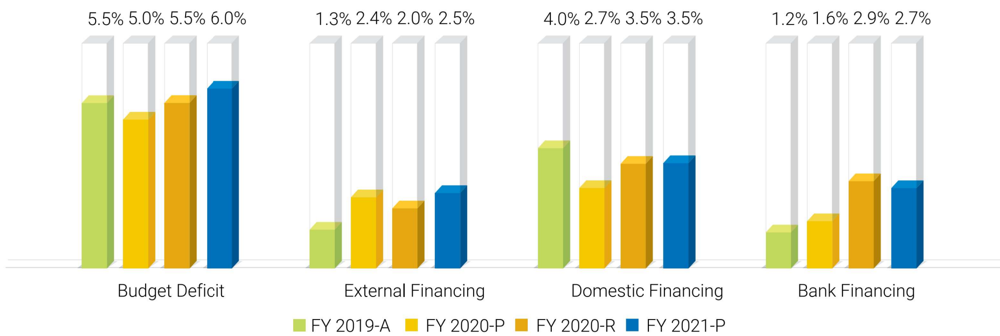


Source: Bangladesh Economic Review 2020

Fiscal sector

Budget deficit has been revised at BDT 153,508 crore for FY2020 and is expected to increase to BDT 190,000 crore in FY2021 as per the proposed budget. Deficit financing from external sources and foreign grants has been revised downwards by BDT 56,163 crore for FY2020, whereas financing from domestic sources has been revised upwards by BDT 97,345 crore – out of which financing from the banking system has been estimated BDT 82,421 crore.

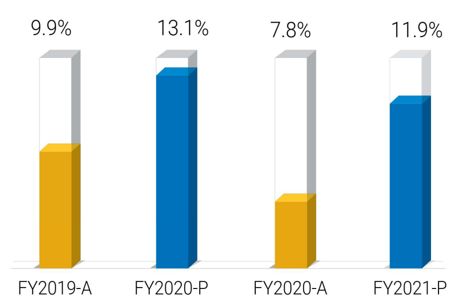
FIGURE 16: Budget deficit financing (as % of GDP)



Source: Budget Speech 2020-21; A=Actual, P=Proposed, R=Revised

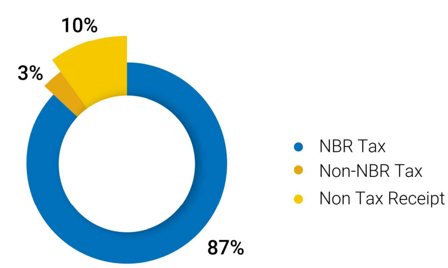
The National Board of Revenue (NBR) collected BDT 218,408 crore in FY2020 against its revised target of BDT 300,500 crore, achieving 72.68 per cent of the target. Revenue collection also declined for the first time since independence by 2.26 per cent in FY2020 amid the pandemic that surfaced in the last quarter of the fiscal year, which is a peak time for revenue collection. In fact, tax revenue from NBR and non-NBR sources both declined during the fiscal year except non-tax revenue, which increased sharply from injection of surplus funds into government treasury from various autonomous, semi-autonomous, state-owned and public non-financial corporations. This initiative has helped the government to reduce bank borrowing from March 2020 while smoothly facilitating its budget expenditure. In addition, tax-GDP ratio also fell from 9.9 per cent in FY2019 to 7.8 per cent in FY2020.

FIGURE 17: Government revenue to GDP ratio (%)



Source: Budget Speech 2020-21; A=Actual, P=Proposed, R=Revised

FIGURE 18: Total revenue composition (%)



Source: Budget Speech 2020-21; A=Actual, P=Proposed, R=Revised

Expenditure target for FY2020 has been revised downwards at BDT 501,577 crore or 17.88 per cent of GDP, which was BDT 391,690 crore or 15.40 per cent of GDP in FY2019. Similarly, development expenditure has been revised at BDT 202,349 crore or 7.21 per cent of GDP from BDT 151,055 crore or 6.0 per cent of GDP in FY2019. As per the provisional estimates, the total expenditure in the fiscal year stood at BDT 398,490 crore, and ADP expenditure was BDT 161,857 crore, achieving 80.45 per cent of revised ADP target for FY2020. Development projects were also reprioritized in FY2020 to ease fiscal pressures arising from COVID-related expenses.

External sector

Export earnings and import expenditures have suffered heavily due to the stagnation caused by the COVID-19 pandemic in world trade. In FY2020, total export earnings decreased by 17.10 per cent to USD 32.83 billion, among which the most important ready-made garments sector suffered a de-growth of 18.12 per cent. Similarly, imports declined by 8.57 per cent to USD 50.69 billion. Given the larger fall in exports relative to imports, trade deficit widened to USD 17.86 billion from USD 15.84 billion, an increase of 12.75 per cent. However, remittance inflows increased by 10.87 per cent to USD 18.21 billion in FY2020 which has helped contain current account deficit at USD 4.72 billion in FY2020 from USD 4.49 billion in FY2019, an increase of 5.19 per cent. Along with financial account receipts, Bangladesh has reported a surplus of USD 2.93 billion in FY2020 compared to USD 179 million in the previous fiscal.

Exports

Total Export earnings declined by 16.93 per cent from USD 40.54 billion to USD 33.67 billion in FY2020. In an already bleak global trade environment during the first eight months of the fiscal year, this contraction in exports was primarily exacerbated by the readymade garments sector that declined by 18.12 per cent. The impact of the coronavirus outbreak on the export sector became apparent when year-on-year export growth declined by 18.21 per cent in March 2020, followed by 82.86 per cent decline to USD 520.01 million in April 2020. However, activity has remained mostly stable since May 2020, and export earnings declined by only 2.50 per cent year-on-year in the final month of the fiscal. Some of the products that have been able to sustain growth during this period are frozen fish (17.99 per cent), pharmaceuticals (4.49 per cent), handicraft (2.86 per cent), and raw jute and jute products (8.10 per cent).

Imports

Total imports declined by 8.56 per cent from USD 59.91 billion to USD 54.78 billion in FY2020. Imports of food grains and consumer goods increased by 7.76 per cent and 5.38 per cent respectively, while imports of intermediate commodities and capital goods declined by 5.05 per cent and 23.92 per cent respectively. The government's declaration of general holiday from 26 March to 30 May had idled nearly all industries and construction projects, which curtailed import requirements.

Remittance

Remittance inflows increased by 10.87 per cent from USD 16.42 billion to USD 18.21 billion in FY2020, despite growing more than 20 per cent during the first 8 months of the fiscal year. Majority of the remittance come from Middle Eastern countries such as Saudi Arabia (22.06 per cent), the United Arab Emirates (13.58 per cent), and the United States (13.21 per cent). Despite the challenging situation posed by the COVID-19 pandemic, Bangladesh has been able to maintain stable inflows of remittance. The 2 per cent cash incentive allocated by the government of Bangladesh, followed by relaxation of documentation requirements, has played a vital role in encouraging expatriates to remit more money through the legal channels, which has strengthened the remittance inflows. Buoyant remittances also deserve notable credit for narrowing the current account deficit in FY2020.

Foreign direct investment

Foreign direct investment has recorded its first de-growth in seven years because of the slowdown induced by the coronavirus pandemic. During the fiscal year 2020, net FDI inflows plunged by 39 per cent to USD 2.37 billion, which is in line the global trend that witnessed the largest capital outflow on record, with investors withdrawing USD 83 billion from developing countries.

(USD Million)

Component	Net inflows in FY2019	Net inflows in FY2020	% change
Equity capital	1,195	728	-39.1%
Reinvested earnings	1,363	1,510	10.8%
Intra-company loans	1,330	132	-90.0%
Total	**3,889**	**2,370**	**-39.0%**

Source: Bangladesh Bank

The United States, the United Kingdom, Singapore, South Korea and the Netherlands, remain among the top-five FDI contributors in Bangladesh.

Balance of payment (BoP)

Trade deficit increased to USD 17.86 billion in FY2020 from USD 15.84 billion in FY2019 due to larger fall in exports compared to imports. In addition, services account deficit decreased by 20.00 per cent while primary income deficit increased by 30.39 per cent. In terms of secondary income account, its surplus balance increased by 11.12 per cent in FY2020 due to the higher growth in worker's remittances. As a result, current account deficit increased slightly from USD 4.49 billion to USD 4.72 billion in FY2020.

On the other hand, the financial account surplus increased from USD 5.13 billion to USD 7.54 billion despite net FDI falling by 39 per cent. As a result, overall balance of payment recorded a surplus of USD 2.93 billion in FY2020 due to the foreign borrowings from international lenders to fill the financing gap created by the pandemic, compared to a surplus of USD 179 million in the previous fiscal year.

Foreign exchange reserves

Foreign exchange reserve stood at USD 35.85 billion in FY2020 compared to USD 32.72 billion in FY2019. Following the closure of the fiscal year, the foreign exchange reserves crossed the USD 41 billion mark on 28 October 2020; USD 42 billion mark on 15 December 2020; and a record high of USD 43.17 billion on December 31, 2020. Lower import payments, strong remittance inflows, and borrowing from multilateral organizations have particularly boosted the foreign exchange reserves of the country.

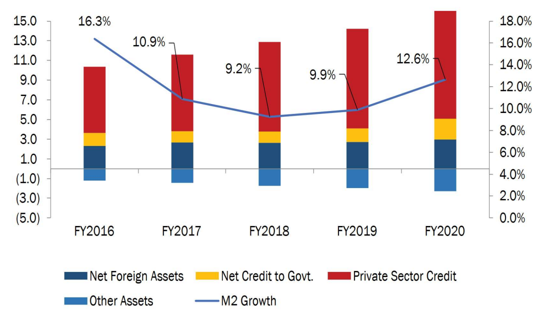
Exchange rate

During the first half of FY2020, the USDBDT exchange rate faced moderate depreciating pressure, which subsided gradually during the second half of the fiscal year due to the shrinking growth of imports, better than expected growth of inward remittances, and a significant amount of receipt in the financial accounts. Overall, the weighted average interbank rate stood at 84.76 in FY2020 compared to 84.03 in FY2019, depreciating the taka by 0.86 per cent. The central bank kept the exchange rate broadly stable by intervening in the foreign exchange markets by buying excess USD against the Taka from the market. In fact, Bangladesh Bank (BB) bought USD 877 million from the market, injecting BDT 7,434 crore (approx.) during FY2020, whereas no dollar was purchased by BB during the previous two fiscal years.

Money supply and credit growth

Broad money (M2) growth accelerated by 2.7 per cent to BDT 1.37 trillion in FY2020. Net foreign assets (NFA) increased by 10.7 per cent as balance of payments surplus increased from USD 179 million to USD 3,655 million. Sharper fall in exports relative to imports were partially offset by stronger inflow of remittance in the current account (CA). Similarly, net domestic assets (NDA) increased by 13.2 per cent driven by the private sector credit growth. On the other hand, reserve money (RM) increased by 15.6 per cent compared to 5.3 per cent of previous fiscal year.

FIGURE 19. Broad money growth trend



Source: Bangladesh Bank

Domestic credit growth increased to 14.0 per cent in FY2020 from 12.3 per cent in FY2019. Private sector credit growth, which accounts for 84 per cent of total credit, declined by 2.7 per cent as economic activity plunged both at home and abroad. Private sector credit growth remained slow due to focus on quality lending for most part of the fiscal year, which was further aggravated by the coronavirus outbreak in March 2020, yet the country's private sector credit growth remains above other fast-growing South Asian and East Asian emerging markets and developing economies such as India, Sri Lanka, and Indonesia. In contrast, public sector credit growth increased significantly on borrowing to finance necessary expenditure and COVID-19 related measures amid prior efforts to confine sales of national savings certificates to intended beneficiaries.

FIGURE 20: Public and private sector credit growth

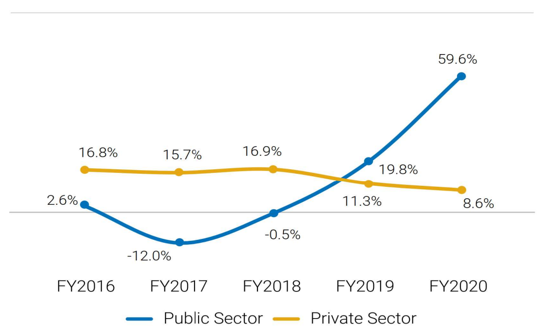
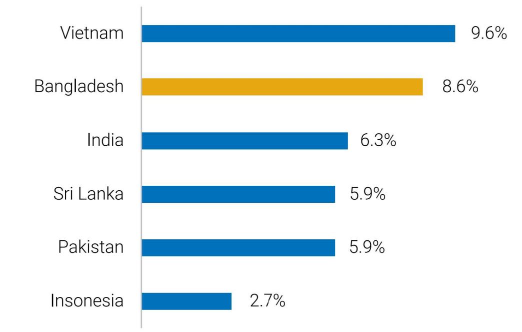


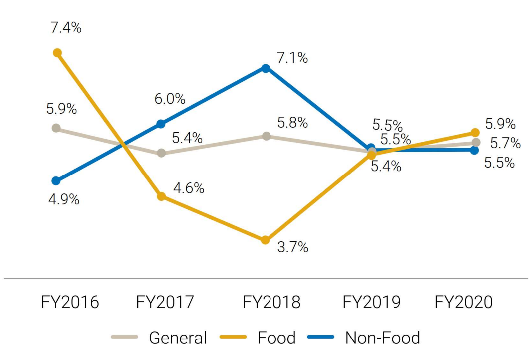
FIGURE 21: Cross-country private sector growth comparison



Inflation rate

Inflation rate increased to 5.65 per cent in FY2020 from 5.48 per cent in FY2019; exceeding the targeted inflation rate by 15 bps. The annual average non-food inflation, particularly medical and healthcare expenses, and supply chain disruption caused by the coronavirus pandemic, were largely responsible for this higher inflation. Food and non-food inflation stood at 5.52 per cent (+0.01 per cent) and 5.85 per cent (+0.43 per cent) respectively.

FIGURE 22. CPI Inflation trend, 12-month average: Base FY2006=100



Source: Bangladesh Bank

Interest rates

Weighted average lending rate of commercial banks declined year-on-year from 9.58 per cent to 7.95 per cent at the end of June 2020. In contrast, weighted average deposit rates declined from 5.43 per cent to 5.06 per cent during the same period. The resulting net effect concluded with a sharp decline in scheduled banks' spread by 126 bps at the end of June 2020.

Call money rates

Call money market remained moderately liquid for the most part of FY2020 except a few months accompanying sizable treasury auctions. During the fiscal year, average call money rate stood at 4.70 per cent with monthly average call money rate fluctuating between 3.5 per cent and 5.0 per cent. The central bank cut repo rate from 6.0 per cent to 5.25 per cent and cash reserve requirement from 5.5 per cent to 4.0 per cent – each in two stages – to implement the stimulus packages by boosting banks' liquidity during the coronavirus pandemic in March-April 2020. However, the corresponding effect on the money market materialized only after the end of the fiscal year. Bangladesh Bank again followed it by another repo rate cut to 4.75 per cent in its Monetary Policy Statement for FY2021, which is "essentially expansionary and accommodative" for growth keeping a lid on inflation.

Bangladesh economic outlook

Bangladesh has managed to grow in FY19-20 as COVID-19 affected only the tail end of the year. In light of the post-COVID recovery assumption, the government of Bangladesh has projected a GDP growth rate of 8.2 per cent in FY2021. However, as per the Asian Development Outlook 2020 Update, GDP growth is projected at 6.8 per cent in FY2021 given the lingering effects of pandemic.

The Asian Development Bank (ADB) also projects gradual economic recovery to take hold during the first two quarters of FY2021, followed by a more rapid recovery during the latter part of the year aided by a strong manufacturing base in tandem with rising external demand from advanced economies. As a result, the economic outlook of Bangladesh will remain largely balanced as discussed below:

- Honourable Prime Minister Sheikh Hasina has announced stimulus packages worth BDT 1.03 trillion (3.7 per cent of GDP) in April 2020, majority of which will be implemented in FY2021. Restoration of consumer confidence and government stimulus package both are likely to boost private and public investment. The downside risk includes a prolonged pandemic in Bangladesh or its major export markets.

- The central banks' monetary policy will remain expansionary and accommodative in FY2021 toward achieving the government's growth target within the prescribed inflationary levels. As part of its expansionary policy, the Bangladesh Bank has reduced its main policy repo rate by 50 bps to 4.75 per cent in July'20 Monetary Policy Statement (MPS). In addition, broad money growth target has been set at 15.6 per cent, and domestic credit at 19.3 per cent - among which public and private sector growth target has been set at 44.4 per cent and 14.8 per cent respectively. Risks towards achieving monetary goals include uncertainty surrounding COVID-19, natural calamities, rising non-performing loans, and unexpected inflationary pressure.

- In addition, Bangladesh Bank intends to strengthen the monetary policy transmission by switching to a monetary policy regime based on the policy interest rate, which is under development and adoption is deferred until pandemic-related uncertainties subside. The central bank will also continue to adjust sector-specific support policies and programs on an as-needed basis.

- Revenue collection target has been set at 11.9 per cent of GDP and spending at 17.9 per cent, resulting in a budget deficit of 6.0 per cent of GDP - 60 per cent of which is to be financed domestically. Banks and non-banks are expected to provide 77 per cent and 23 per cent of domestic financing respectively in line with efforts that begun in FY2019 to reduce reliance on non-bank national savings certificates. Despite setting less ambitious target than previous years, fully achieving the revenue target may still be a challenge because of the pandemic.

- Budget spending is targeted to grow by 13.2 per cent over the FY2020 revised budget, driven by higher pay and allowances, interest payments, and subsidies; and development expenditure by 6.3 per cent, driven by high-priority development projects. Given the government's expenditure must rise due to the implementation of stimulus package and large priority projects, budget deficit is expected to reach 6.2 per cent of GDP, and may lead to greater reliance on external lines of credit. However, strong macro fundamentals such as lower public and foreign debt, and higher foreign exchange reserve greatly minimizes risk of debt distress. Less than targeted govt. expenditure will reduce budget deficit accordingly.

- Exports are likely to make gradual recovery in FY2021, particularly in the second half of the fiscal year, in line with the expected recovery in global trade. Exports are expected to grow by 8.0 per cent in FY2021 aided by government stimulus measures, improving business climate, and duty-free trade opportunities extended by People's Republic of China. The country should explore opportunities to sign other free or preferential trade agreements.

- Imports are expected to grow by 5.0 per cent as the RMG industry, which requires substantial imports of raw materials, gradually returns to the pre-pandemic levels of output. Implementation of large infrastructure projects is also expected to boost imports of capital equipment and materials.

- Trade deficit will remain broadly stable as both exports and imports gradually increase with rising factory output, while the current account deficit is expected to be 1.1 per cent of GDP in FY2021.

- Private consumptions are also expected to remain firm as remittances have made a swift recovery since March - April 2020. However, shrinking job opportunities for migrants and net repatriation of workers from host countries, especially the Persian Gulf and Southeast Asia, will have visible impacts on the growth in remittances, which is expected to moderate at 4.5 per cent in FY2021.

- The growth of agriculture is projected to increase from 3.1 per cent in FY2020 to 3.5 per cent in FY2021, facilitated by government subsidies for seed, fertilizer, innovation, farm mechanization, and irrigation, and by central bank refinancing facilities to provide working capital for small and medium-sized farms. Despite government subsidies to agriculture and its efforts to expand arable area with increased mechanization, rice imports may need to be larger than earlier expectations to make up for lost output from floods.

- Following strong consumer demand, expected economic recovery in major export destinations, and expected growth in private investment, the industry sector is likely to grow at 10.3 per cent in FY2021 from 6.5 per cent in FY2020. Sustained growth of agriculture in addition to industry growth is expected to support the service sector to grow by 5.5 per cent in FY2021.
- Inflation is expected to remain steady at 5.5 per cent in FY2021 given sufficient crop production and favourable commodity prices. Fiscal and monetary stimulus are less likely to drive up prices given underutilized production capacity of firms and consumer caution on spending. Upside risk includes drag from foreign cost pressures, which may push inflation above past averages.

Thus, addressing the challenges posed by the COVID-19 pandemic with timely fiscal and monetary initiatives will continue to be of paramount importance. In fact, continuous policy support to internal and external sectors of the economy can strengthen growth momentum of the country, while improving governance and transparency in the banking sector will ensure sustained economic prosperity and stable economic outlook for Bangladesh in the post-COVID world.

Our Performance highlights:

Confidence in achieving progress collectively during pandemic year

At BRAC Bank, as an institution rooted in the country's soil, we aim to extend our perimeter of positivity to help our stakeholders and the public at large face the hostility of the current times with confidence and resilience. In fact, our purpose of serving our customers and our stakeholders in the best possible way remains at the forefront of our efforts in restoring the lives of millions after the ravages of the pandemic. Indeed, we aim to make sure that everyone can access basic financial services by promoting the use of digital payment platforms that make transactions easier, giving access to financial propositions targeted at especially the base of the pyramid, providing cash-in/cash-out services in remote areas and small communities and offering specific financial support.

Despite the COVID-19 pandemic that has created a deep socio-economic threat, we believe that continuing to remain on our journey of sustainable value creation for all will help ease the challenges, even as we focus on contributing to the goals of the nation in every possible way as it climbs up the economic ladder. We believe that the post-COVID world will continue to focus on intensification of building back better and hence our strategy targets the unbanked and underserved, including individuals and SMEs across Bangladesh who face difficulties in obtaining credit, have limited financial understanding, or are in financial distress. We have a proud history and legacy of pioneering SME banking in Bangladesh and today, our deep roots, robust scale with a nationwide footprint, unique competitive strengths (including industry-leading TAT), product diversity and commitment to customer service, ensure that we cater to a broad range of their financial needs, while also sharing financial insights and knowhow.

We will continue to focus on giving people access to the financial system, while also seeking to ensure that no one needs to leave the financial system. Further, we will continue to intensify our efforts in helping financially-underserved people access the banking system through digital platforms so they can make payments; use basic, tailored financial services; overcome socio-economic barriers; take greater control of their financial journey; and make use of faster and more secure transactions, thus saving time and effort. With our refreshed retail financial services strategy we will continue to target segments that have witnessed a structural shift- for instance housing and mortgage finance as people realise the value of their own home and also the need for larger homes as work-from-home and study-from-home become more commonplace. We will also strive to help customers finance their own mobility through deepening our presence in vehicle loans. On the corporate and large customer front, we will place emphasis on extending all kinds of support to ensure rapid revenue recovery and also restoration of profitability. Our sophisticated working capital and trade-related financial solutions have been devised to serve their most pressing needs around access to finance.

We strongly believe that our interventions and forward-thinking customer-first strategies, rooted in sustainably enhancing the penetration of formal finance in a country with deep financial under-penetration, will not only reinforce our commitment to emerge as the best and most preferred bank for our customers, but also the best bank in Bangladesh. We believe that digital will play a big role in the future and are focused on making the right investments with a view to ensure a robust tech platform that will make banking invisible, yet all-pervasive, which represents our eventually goal in building the BRAC Bank of tomorrow.

Since the start of January 2020, the coronavirus outbreak has created significant disruption for our colleagues and customers. We understand the difficulties this poses and have put in place robust measures to support them through this challenging time. Depending on how the situation unfolds amidst the uncertainty, there is the possibility of economic deceleration that may add up credit losses in the economy. At the bank, we will continue to monitor the situation closely through close collaboration amongst all the bank's divisions and support functions, even as we are drawn by the sound potential the country offers and the promise of a better tomorrow.

Agility in constant change

At BRAC Bank, we are proud to mark over 20 years of business excellence by renewing our pledge to deliver outstanding products and services, while ensuring that our business model generates sustainable value for the future. We believe in continuous improvement, constantly pushing our limits and relentlessly pursuing perfection in everything we choose to do.

The bank has always been aware of the need to stay relevant and nimble in a fast-changing and highly competitive environment. That's why we have been constantly evolving, re-engineering our processes and redesigning our technologies, always looking at newer ways to do things and appraising our impact on our customers and communities.

Thus we believe that adapting to constant change has been one of our key structural advantages that has enabled us to create a strong position in the market. Today, we believe that adopting constant change will be our key material driver as we steer our business out of the distress caused by the pandemic and advance towards the many opportunities for growth and expansion that are yet to be discovered. Enhancing our relevance for today and well into tomorrow, we expect to embrace the following initiatives:

- Restructure/reshape underperforming areas of the bank so that they are able to contribute to value expansion
- Reduce operating costs via augmenting efficiencies
- Invest in automation and digitisation to enhance our lead in the digital future
- Increase agility and the pace of project implementation
- Reduce NPLs and bring it to our predefined targets
- Maintain capital limits as per regulatory requirements at all times
- Foster responsible banking with superior customer service and proactive regulatory compliance
- Explore opportunities where we can amplify our social and environmental impact

Under our adaptability focus, we also intend to continue to make progress across the following priorities:

Enhancing phygital banking

At BRAC Bank, we have always believed that there exists an inherent opportunity to differentiate by adapting to digital transformation faster. The digital landscape is revolutionising the way we live. This transformation is creating new opportunities and we have witnessed examples of how digital initiatives have replaced business models and improved them. We have also seen how digital banking helps lift-off traffic at our branches, thus also contributing to cost efficiency.

Hence, at our bank, our focus on developing robust digital infrastructure in the past helped in smooth customer facilitation and financial intermediation during the pandemic, allowing us to perform our responsibilities as an essential service. With this experience, we are now looking at faster digital transformation- from the front office to the back-end, to enable us to be quicker and faster in serving the needs of a fast digitalising country. To be digitally successful, we have identified that we need to re-architect our technology infrastructure on the cloud, enable tech-related scalability through ecosystem partnerships, improve business/technology collaboration and reinforce data analytics. Net-net, our focus on digital is to ensure a simple, yet highly experiential interface with our customers and we find that as a leader in digital transformation in the country's banking industry, we will continue to achieve sound progress on this front in 2021 and beyond.

Connecting customers to opportunities through offering superior products & services

As a vanguard of the country's banking sector, we are focused on providing our customers with new opportunities, especially those affected by the pandemic. We believe that with the easing of the pandemic and the way certain geopolitical events shape up, Bangladesh will attract accelerated investments considering its intrinsic socio-economic advantages, not least among these being a large and low-cost labour pool and ease of doing business. Thus, our strategic investments in technology, product innovation and scale, especially digital, is not only improving our customer service standards, but also connecting them to newer opportunities. For our customers, we introduced diversified digital features in 2020 to make everyday banking easier, including a feature where they could implement instant money transfers.

At BRAC Bank, our Service Excellence & Quality Assurance team adopts focused initiatives under the framework of 'Lean' and 'Six Sigma' integrated methodologies toward improvement of service levels and process standards to ensure that our customers have the best experience with us. The team also actively engages with customers via various channels to capture their feedback, which is analysed comprehensively to ensure accurate and well-targeted improvements. Further, our complaints management and grievance resolution team collaborates with the respective units and conducts detailed root-cause analysis on an on-going basis to address issues and ensure a delightful customer experience.

Human capital is on our priority

The employees of BRAC Bank make our diversification, differentiation, collaboration and growth strategies work. Therefore, our focus is first directed at our employees, thus enabling us to nurture a 'people first' policy. Our employee development strategies are directed at building a competent and versatile human capital because competent and engaged employees create value for our stakeholders.

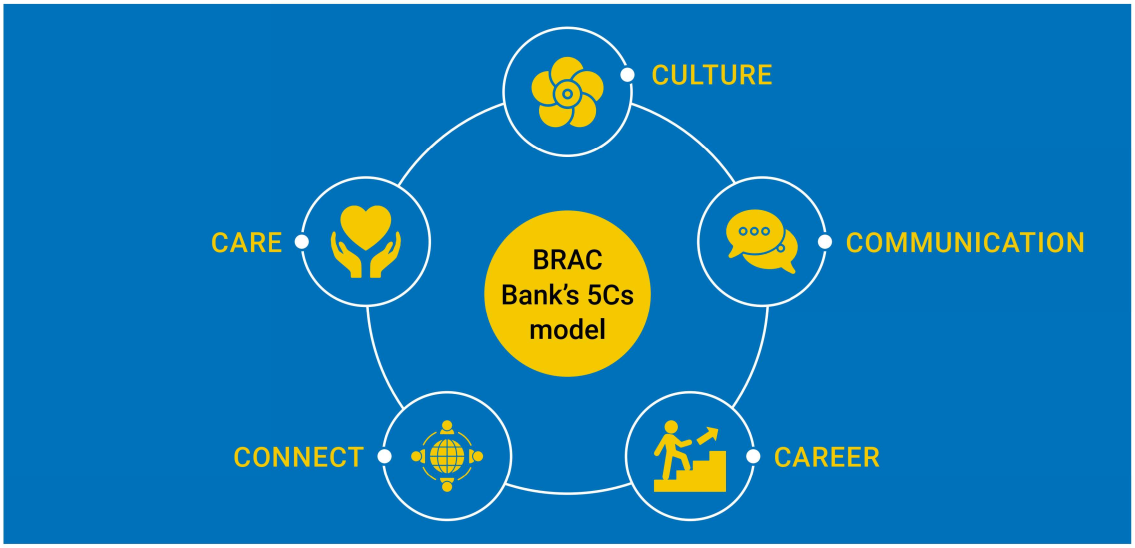
At BRAC Bank we pursue time-tested employee value propositions under our shared value focus, driven by the ethos of:

- Developing an entrepreneurial mind-set and ensuring empowered decision-making
- Fostering talent management anchored on owner-partner-manager philosophy
- Cultivating superior employee experiences, designed to encourage meritocracy, performance and prudent risk-taking

At the bank, our human capital engagement strategies and practices are targeted at enhancing our brand as a preferred employer and employer of choice among new-age human resources who are also digital natives. Under our robust HR and talent management practices, we offer a suite of best-in-class initiatives that enable us to grow and retain the quality of our human capital, thus ensuring that we preserve the integrity of our intellectual capital at all times.

Co-worker engagement through the '5Cs' model

At BRAC Bank, with a view to ensure holistic talent management and engagement, we have adopted the 5Cs engagement model.



BRAC Bank engages and develops its human capital by ensuring an enduring connect with the bank's vision, core values and operating principles, encouraging open, honest and transparent communication, strengthening connect with employees and community through continuous engagement, supporting career development through trainings and a cutting-edge workplace environment, and demonstrating employee care as an institution empathetic to the cause of its people. Holistic well-being and welfare forms the cornerstone of our employee engagement model, especially at the time of the pandemic-induced lockdown where we engaged with our employees digitally and provided them with all sorts of institutional assistance with a view to help them cope better.

We understand that skills shortage is an acute challenge facing our sector and hence we not only develop and foster unique talent acquisition strategies, but also ensure that we provide a vibrant and versatile environment where employees can learn and improve their capacities and skills every day.

Shared value	Way of thinking (employees)	Way of thinking (employer)
Flexible deployment	Willingness to work in a variety of organisational roles and settings	Encourage employees to work in inter- and intra-departmental roles
Customer focus	Provide superior customer service	Provide information, skills and incentives to focus externally
Performance focus	Focus on what we do, not where we work	Link rewards and benefits with performance, rather than organisational dependency
Project-based work	Gain acceptance of project-based work over functions-based work	Structuring work around projects rather than organisational functions
Human spirit and work ethic	Value work that is meaningful	Provide work that is meaningful and purposeful
Commitment	Commit to assisting the organisation to achieve consistent outcomes	Commit to assisting employees to achieve their personal objectives
Learning and development	Commit to lifelong learning	Enter into partnerships for holistic employee development
Open information	Willingness to show enterprise and initiative	Provide employees with access to a wide variety of useful information

Please refer to page 273 for details on our people and page 265 for details on human resource accounting.

Financial overview

In assessing financial performance, BRAC Bank's management uses a wide variety of financial metrics to assess progress and ensure transparent information disclosure. Such an assessment also guides our shareholder and stakeholder value creation focus, while also allowing us to preserve our balance sheet strength.

It must be noted that BRAC Bank achieved performance in 2020 under a highly distressed environment unleashed by the pandemic and exacerbated by high and uneven competitive intensity. Further, our operating context was also characterised by increasing regulatory compliance pressures and continuous monitoring by the central bank (to ensure stability of the banking system, enhanced vigilance over non-performing loans and reversal in private sector investment trends).

Context and synopsis of financial performance

BRAC Bank is one of the largest banks in Bangladesh. As of 31 December 2020, we had BDT 397,502 million of total property and assets and BDT 273,063 million of Loans and advances. Our market capitalisation had reached BDT 58,736 million at the close of the year. Our purpose is to help people and businesses achieve success and ensure that we reach institutional finance to the unserved and underserved swaths of the country. Further, we do not merely meet our legal and regulatory obligations, but also aspire to exceed expectations. We focus on areas where our activity can have the greatest socio-economic impact, helping development-oriented growth in an inclusive and sustainable way, which is aligned with the national goal of achieving a middle-income country status in the near future.

We engage in all types of typical banking activities, operations and services. Our scale, business model and diversification drive our aim to be the best bank of Bangladesh, acting responsibly and earning the enduring loyalty of our stakeholders (Regulators, customers, shareholders, people and communities).

In 2020, against the backdrop of the pandemic, our commitment to our stakeholders was even stronger:

- Our priority was to safeguard the health and safety of our 7,740 employees, by implementing measures such as redefining our way of working, with large number of our colleagues working from home at the peak of the pandemic, and gradual return to the workplace amid de-escalation even as we followed all Governmental safety recommendations and regulations.
- For our more than 1 million customers, we strengthened our propositions and implemented support measures to ensure the necessary financial assistance through pre-approved lines of credit and payment deferrals through moratoriums, as well as facilitating other relief measures of the Government.
- For our shareholders, we kept all channels open to share information and material developments in an accurate and timely way, which went a long way in building enhanced levels of trust.
- In line with our commitment, we contributed to the welfare of society. We implemented actions and mobilised resources together with the Government and institutions to help combat the health crisis with several solidarity initiatives.
- Lastly, as the global pandemic intensified, we accelerated our digital transformation, focusing on our multi-channel strategy and digitalisation of processes and businesses.

Thus, deepening stakeholder engagement and focusing on achieving our target plans and initiatives despite the adversities, we were able to report a resilient and respectable performance for the year 2020 achieved in challenging conditions and circumstances.

BRAC Bank reported creditable performance in challenging times. For the year ended 31 December 2020, the bank's total revenue (net interest income plus other income) stood at BDT 20,508 million, representing a decline of 4 per cent over 2019. Decline in revenue is primarily attributed to shrinkage in interest income, commissions and exchange and brokerage income. Net interest income declined by 24 per cent to BDT 11,380 million, mainly due to regression in the overall business activity in the country on account of COVID-19, along with virtual standstill enforced for about 3 months to control the spread of virus transmission.

Operating expenses increased to BDT 11,907 million in 2020 (vs. BDT 11,440 million in 2019), reflecting our drive to build assets and capabilities for ensuring scale-up of business and future preparedness, especially in digital banking. During the year, tech- and IT-related hardware and software and motor vehicles costs were capitalised as asset. Staff expenses, a key component of our operating expenses, increased during the year due to manpower addition and continuous annual wage revisions. Notwithstanding income-pressures imposed by the pandemic and also relatively higher infrastructure spends, the bank's cost-to-income ratio declined by about 5 percentage points to 58 per cent, which is still amongst the best in the country's banking sector.

The twin effects of decline in income and increase in costs put pressure on our operating profit, which shrunk by 14 per cent BDT 8,602 million during the year.

As a prudent and conservative measure to protect from any anticipated and unintended loans shocks, total loan loss provisions were enhanced to BDT 1,867 million, vs. BDT 1,442 million in the preceding year. It is to be noted that the bank's provisioning policies remain more stringent than regulatory requirements. NPL Coverage Ratio based on only specific provisions excluding write-offs was 114 per cent; including general and floating provisions, it stood at 171 per cent. The bank's NPL stood at 2.93 per cent, as against 3.99 per cent in the preceding year, a sound achievement in a hostile environment.

The bank's profit before tax (PBT) declined by 21 per cent to BDT 6,735 million. After providing for income tax of BDT 2,194 million, net profit after tax (PAT) decelerated by 20 per cent to BDT 4,541 million from BDT 5,646 million in 2019. Consequently, basic earnings per share (EPS) stood at BDT 3.42 from BDT 4.26 in 2019 (previous year's figure has been restated).

As on 31 December 2020, the bank's total balance sheet stood at BDT 397,502 million, representing a satisfactory increase of 8 per cent vs. BDT 369,404 million on 31 December 2019. Total deposits rose by a credible 8 per cent to BDT 289,054 million, vs. BDT 268,309 million in the previous year. The bank's loans and advances portfolio of BDT 273,063 million achieved growth of 3 per cent vs. the previous year.

On a consolidated basis, the bank's profit before tax (PBT) decelerated by 16 per cent to BDT 6,321 million. After providing for income tax of BDT 2,295 million, net profit after tax (PAT) declined by 12 per cent to BDT 4,026 million, vs. BDT 5,583 million in the previous year. Basic earnings per share (EPS) stood at BDT 3.33, vs. BDT 3.73 in 2019 (previous year's figure has been restated). As on 31 December 2020, the bank's total balance sheet stood at BDT 456,595 million, constituting a 10 per cent increase over BDT 414,855 million on 31 December 2019.

Please refer to page 472 for details on the bank's financial disclosures.

Quarterly financial performance

As a part of our governance and compliance processes, the Board and Board-appointed Audit Committee review the quarterly financial performance of the bank, both on standalone and consolidated basis. The Board Audit Committee (BAC) and Board of Directors (BOD) continuously monitor and evaluate both financial and non-financial performance of the bank and the Group (including subsidiaries). During the year 2020, BAC reviewed the quarterly financial statements and BOD approved the same before disclosing it to shareholders and stakeholders.

Key metrics under quarterly financial performance for 2020 are summarised below:

BDT in million, unless otherwise stated

Particulars	Standalone (At the end of period)			
	Q1	Q2	Q3	Q4
Loans and advances	259,329	259,359	265,037	273,063
Deposits and other accounts	263,479	286,873	283,111	289,054
Total property and assets	357,346	387,783	389,631	397,502
NAV Per Share (BDT)	31.54	29.72	32.55	35.41

Particulars	Standalone				
	Q1	Q2	Q3	Q4	Full Year 2020
Total revenue	5,706	3,994	5,331	5,477	20,508
Total operating expenses	3,184	2,997	2,872	2,854	11,907
Total provisions	850	399	584	33	1,867
PAT	1,076	443	1,277	1,745	4,541
EPS (BDT)	0.81	0.33	0.96	1.32	3.42

Particulars	CONSO (At the end of period)			
	Q1	Q2	Q3	Q4
Loans and advances	260,143	260,184	265,885	273,439
Deposits and other accounts	295,545	331,121	326,596	333,616
Total property and assets	407,495	446,004	447,761	456,595
NAV Per Share (BDT)	33.73	30.90	33.81	36.63

Particulars	CONSO				
	Q1	Q2	Q3	Q4	Full Year 2020
Total revenue	7,386	5,679	7,896	7,765	28,727
Total operating expenses	5,115	4,948	5,312	5,158	20,533
Total provisions	851	400	585	36	1,873
PAT	761	190	1,425	1,651	4,026
EPS (BDT)	0.57	0.22	1.13	1.40	3.33

Based on the quarterly financial statements, the BAC and BOD obtained detailed reviews and analytical evaluation underlying the reasons for changes and deviations from targets. They also assessed whether the changes were in line with business strategies adopted during the period, to test the efficacy and efficiency of strategies. The BOD also reviewed results against the performance of the overall banking industry. Based on the reviews, they developed updated approaches for further improvement of the bank's position and business performance.

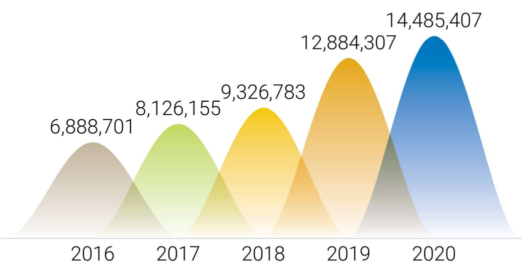
In 2020, we fortified our focus on cost optimisation, investments in technology, complaint/grievance resolution, ESG targets adoption and improving operating efficiency, thus representing a balanced approach that enabled us to advance our capabilities to respond to evolving stakeholder needs and expectations, while also enabling us to move forward to become the best digital bank of Bangladesh.

Please refer to page 169-183 for details on the bank's key operating performance indicators, shown as five-year financial summary and in graphical representation.

BRAC Bank vs. Industry

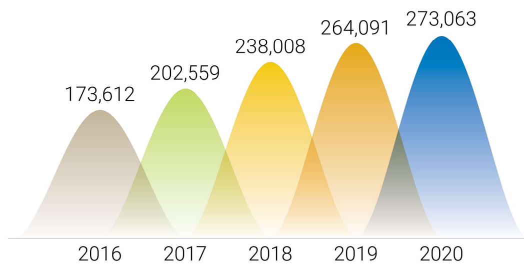
Industry Loans and advances

BDT in million



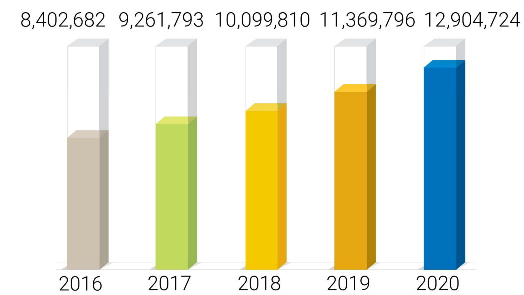
BBL Loans and advances

BDT in million



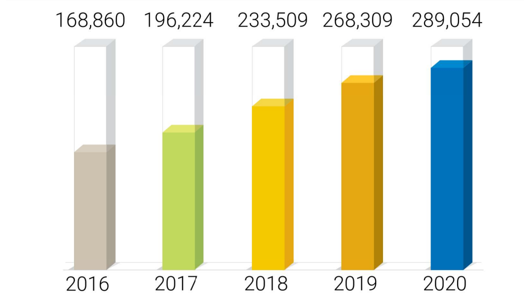
Industry Deposits and other accounts

BDT in million



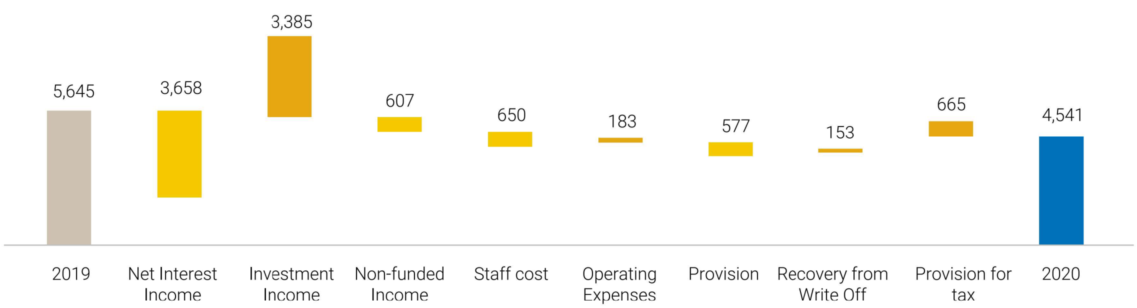
BBL Deposits and other accounts

BDT in million



Profit growth in 2020 and its major contributors

BDT in million



Financial position & performance:

Particulars (BDT in million)	Consolidated			Standalone		
	2020	2019	%	2020	2019	%
Cash and bank balances	62,638	69,664	-10%	33,602	38,629	-13%
Investments	94,095	55,952	68%	68,896	45,944	50%
Loans and advances	273,439	264,870	3%	273,063	264,091	3%
Fixed assets	11,067	10,873	2%	7,349	8,189	-10%
Other assets	13,863	12,001	16%	14,526	12,485	16%
Non-banking assets	66	66	0%	66	66	0%
Goodwill	1,427	1,427	0%	-	-	-
Total Assets	**456,595**	**414,855**	**10%**	**397,502**	**369,404**	**8%**

Particulars (BDT in million)	Consolidated			Standalone		
	2020	2019	%	2020	2019	%
Borrowing from banks	35,943	35,949	0%	35,283	35,390	0%
Money at Call and Short notice	85	1,274	-93%	85	1,274	-93%
Deposits and other accounts	333,616	297,755	12%	289,054	268,309	8%
Other liabilities	32,774	33,214	-1%	26,125	25,512	2%
Total shareholders' equity	48,568	40,582	20%	46,955	38,919	21%
Non Controlling interest	5,610	6,081	-8%	-	-	-
Total Liabilities and Shareholders' Equity	**456,595**	**414,855**	**10%**	**397,502**	**369,404**	**8%**

Particulars (BDT in million)	Consolidated			Standalone		
	2020	2019	%	2020	2019	%
Interest income	27,080	32,623	-17%	24,709	29,692	-17%
Interest expense	13,552	14,698	-8%	13,329	14,654	-9%
Net interest income	13,528	17,925	-25%	11,380	15,038	-24%
Investment income	8,182	3,057	168%	6,457	3,072	110%
Non Funded Income	7,017	6,837	3%	2,672	3,279	-18%
Non-interest income	15,199	9,895	54%	9,129	6,350	44%
Total income	28,727	27,819	3%	20,508	21,388	-4%
Staff costs	9,062	7,888	15%	6,247	5,598	12%
Other Operating expenses	11,471	10,971	5%	5,659	5,843	-3%
Total operating expenses	20,533	18,859	9%	11,907	11,440	4%
Operating Profit	**8,194**	**8,960**	**-9%**	**8,602**	**9,948**	**-14%**
Share of profit/(loss) of associates	-	(4)	-100%	-	-	
Gain/(loss) on disposal of subsidiaries/associates	-	5	-100%	-	-	
Profit/(loss) before provisions	8,194	8,962	-9%	8,602	9,948	
Provision	1,873	1,461	28%	1,867	1,442	29%
Net profit before taxes	**6,321**	**7,501**	**-16%**	**6,735**	**8,505**	**-21%**
Provision For taxes	2,295	2,918	-21%	2,194	2,860	-23%
Profit after taxes	**4,026**	**4,583**	**-12%**	**4,541**	**5,646**	**-20%**
"Earnings Per Share (EPS BDT) [previous years figure restated]"	3.33	3.73	-11%	3.42	4.26	-20%

Particulars (USD in million)	Consolidated			Standalone		
	2020	2019	%	2020	2019	%
Cash and bank balances	739	821	-10%	396	455	-13%
Investments	1,110	659	68%	812	541	50%
Loans and advances	3,224	3,120	3%	3,220	3,111	4%
Fixed assets	131	128	2%	87	96	-10%
Other assets	163	141	16%	171	147	16%
Non-banking assets	1	1	0%	1	1	0%
Goodwill	17	17	0%	-	-	-
Total Assets	**5,384**	**4,886**	**10%**	**4,687**	**4,351**	**8%**
Borrowing from banks	424	423	0%	416	417	0%
Money at Call and Short notice	1	15	-93%	1	15	-93%
Deposits and other accounts	3,934	3,507	12%	3,409	3,160	8%
Other liabilities	386	391	-1%	308	300	3%
Total shareholders' equity	573	478	20%	554	458	21%
Non Controlling interest	66	72	-8%	-	-	-
Total Liabilities and Shareholders' Equity	**5,384**	**4,886**	**10%**	**4,687**	**4,351**	**8%**

Particulars (USD in million)	Consolidated			Standalone		
	2020	2019	%	2020	2019	%
Interest income	319	384	-17%	291	350	-17%
Interest expense	160	173	-8%	157	173	-9%
Net interest income	160	211	-24%	134	177	-24%
Investment income	96	36	168%	76	36	110%
Non Funded Income	83	81	3%	32	39	-18%
Non-interest income	179	117	54%	108	75	44%
Total income	339	328	3%	242	252	-4%
Staff costs	107	93	15%	74	66	12%
Other Operating expenses	135	129	5%	67	69	-3%
Total operating expenses	242	222	9%	140	135	4%
Operating Profit	**97**	**106**	**-8%**	**101**	**117**	**-13%**
Share of profit/(loss) of associates	-	(0)	-100%	-	-	-
Gain/(loss) on disposal of subsidiaries/associates	-	0.1	-100%	-	-	-
Profit/(loss) before provisions	97	106	-8%	101	117	
Provision	22	17	28%	22	17	30%
Net profit before taxes	**75**	**88**	**-16%**	**79**	**100**	**-21%**
Provision for taxes	27	34	-21%	26	34	-23%
Profit after taxes	**47**	**54**	**-12%**	**54**	**66**	**-19%**
"Earnings Per Share (EPS USD) [previous years figure restated]"	0.04	0.04	-11%	0.04	0.05	-19%

Note: The above USD balances are just converted from BDT balances using USD/BDT rate as on December 31, 2020

Extraordinary gain/loss

There was no extraordinary gain/loss during the year 2020.

Change in the nature of business

During the year under review, there has been no change in the nature of business.

Subsidiary performance

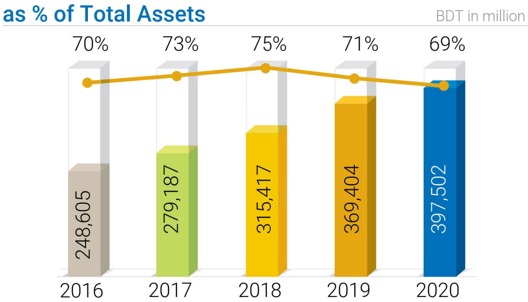
Presence	Within Bangladesh			Outside Bangladesh
Subsidiary name	BRAC EPL Investment Limited	BRAC EPL Stock Brokerage Limited	bKash Limited	BRAC Saajan Exchange Limited
Total assets	BDT 3,440 mn	BDT 2,613 mn	BDT 61,356 mn	GBP 12 mn
Profit / (Loss)	BDT 44 mn	BDT 161 mn	(BDT 674 mn)	(GBP 0.30 mn)
Address	Refer to page 50			
Website	www.bracepl.com/investments	www.bracepl.com/brokerage	www.bkash.com	https://bracsaajanexchange.com
E-mail	query@bracepl.com	info@bracepl.com	support@bkash.com	info@bracsaajanexchange.com
Details of all BBL's subsidiaries are furnished in the below disclosure, which may be referred to.				
BBL's percentage of shareholding	Notes to the financial statements as at and for the year ended 31 December 2020 [Note: 1.2.6 (Summary of shareholding in subsidiaries and associates)]			
Subsidiary overview	Refer to page 301-313			
Subsidiary Directors' Report	Page 605	Page 616	Page 628	Page 637
Subsidiary financial statements	Page 609	Page 621	Page 630	Page 639

Portfolio and segmental analysis:

BRAC Bank registered a fairly strong growth of 8 per cent YoY, or BDT 28,098 million, in total assets from BDT 369,404 million in 2019 to BDT 397,502 million in 2020. Growth in total assets was majorly driven by increase in Government investments and loans and advances. The bank continued to focus on its small and medium enterprise (SME) business portfolio during the current year as well. Further, it also continued to invest in the development of its digital banking platform to cope with increased demand and ensure better and improved services to its customers, which also helped to increase the amount of total assets of the bank in 2020.

Total Assets & loan and Advances as % of Total Assets

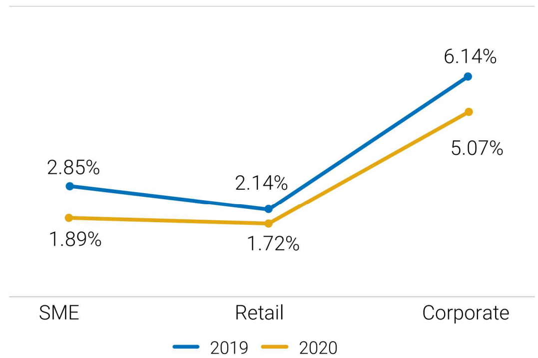
BDT in million



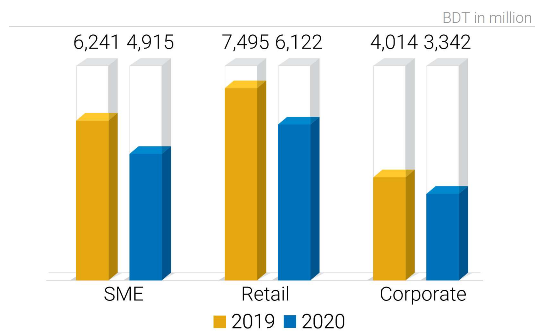
Business segment-wise performance

The business segments of BRAC Bank experienced mixed performance during the year under report in terms of key financial metrics, including portfolio, revenues and NPL. The overall loan portfolio of the bank witnessed a decent growth of 3 per cent, despite tough market conditions especially on account of the pandemic. Growth was mainly attributed to sharp expansion in the SME division.

Non-performing loans (NPLs) witnessed satisfactory improvement in 2020, despite of the pandemic, which is a highly credible achievement in challenging times. NPL declined to 2.93 per cent in 2020 vs. 3.99 per cent in the previous year. This success was possible due to continuous and collaborative efforts in collections and recovery from all business units.



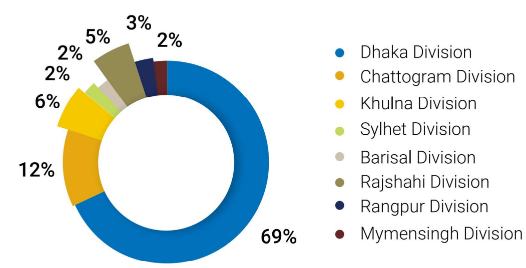
Due to the adverse effects of the pandemic, segment-wise revenues declined by 21 per cent in SME, 18 per cent in Retail and 17 per cent in the Corporate business, as compared to the previous year.



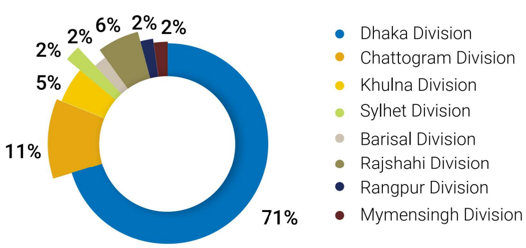
Geographic location-wise portfolio:

Concentration of loans declined marginally by 2 per cent in the Dhaka division over 2019. However, it is to be noted that this concentration is calculated based on the location of the branch and not the actual investment destination. The bank strives to ensure geographical miscellany of loan disbursement, facilitated by its wide network of branches and SME unit offices as well as digital platforms, which ensures homogenous development and also financial inclusion and empowerment.

2020 in percent



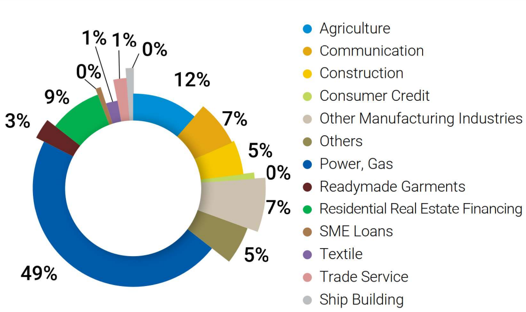
2019 in percent



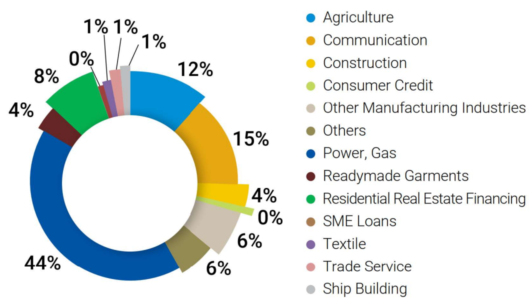
Sector-wise loan portfolio

BRAC Bank focuses on all areas of banking, along with SME lending. However, in 2020, with a view to intensify support to our SME customers, especially on account of major business disruptions faced by this sector due to the pandemic, loans to this segment comprised 49 per cent of our loan portfolio. Consumer credit comprised 12 per cent and trade services constituted 9 per cent of the total loan portfolio during the year.

2020 in percent



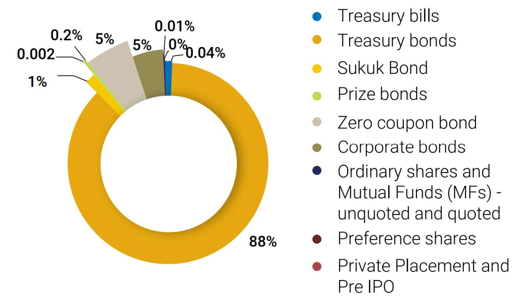
2019 in percent



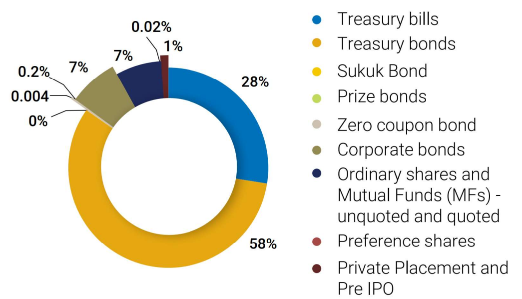
Investment mix

BRAC Bank invested in treasury bonds by BDT 60,779 million (88 per cent of total investment in 2020). Investments were kept mostly to maintain SLR, as per Bangladesh Bank guidelines.

2020 in percent



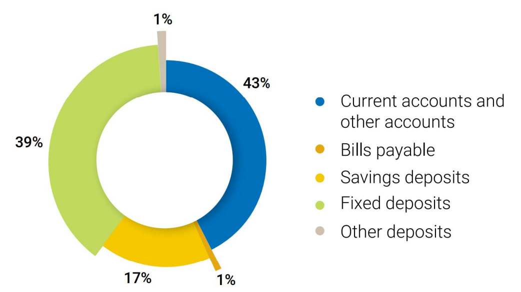
2019 in percent



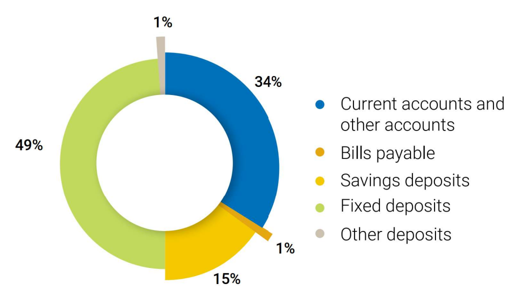
Deposit Portfolio

BRAC Bank continuously strives to enhance its deposit base through ensuring superior customer service and assurance of respectable rates. The year 2020 was no different as we focused on expanding our deposit base.

2020
in percent



2019
in percent

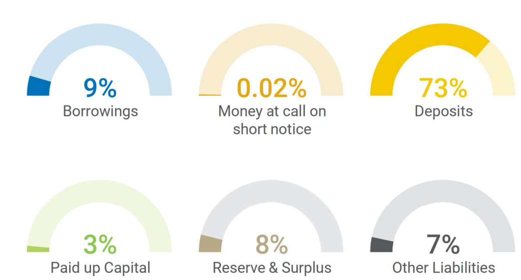


Sources and utilisation of funds

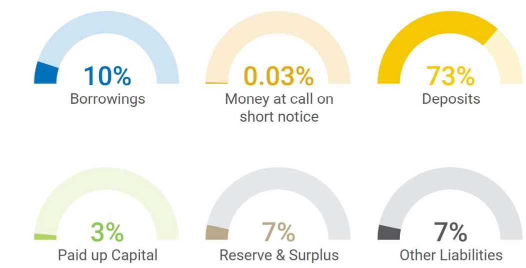
Total liabilities as on 31 December 2020 stood at BDT 350,547 million, representing an increase of 6 per cent YoY. The increase can be corroborated with the 8 per cent increase in deposits amounting to BDT 289,054 million. Further, just like in the past, our borrowings from Bangladesh Bank increased by 87 per cent to BDT 23,370 million in 2020, as compared to last year.

The major chunk of BRAC Bank's funds are derived from customer deposit accounts, bulk of which is utilised as loans and advances, as evidenced in the charts below. A slice of this pie is retained in the form of cash/equivalents to maintain adequate CRR and SLR ratios as per Bangladesh bank.

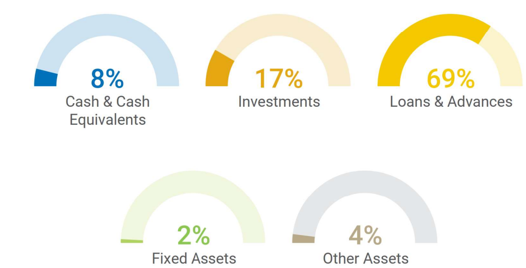
Sources of Funds 2020
in percent



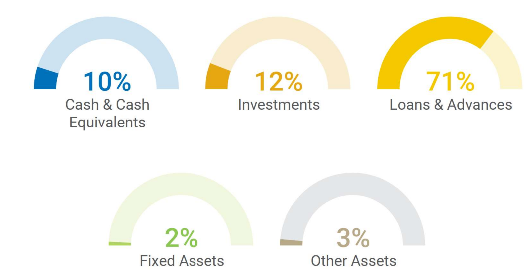
Sources of Funds 2019
in percent



Utilization of Funds 2020
in percent



Utilization of Funds 2019
in percent



Efficiency review of BRAC Bank

Please refer to page 169-197 for detailed indicators on disclosure of five-year financial summary, graphical presentation, stock price, Dupont and horizontal and vertical analysis.

Regulatory capital

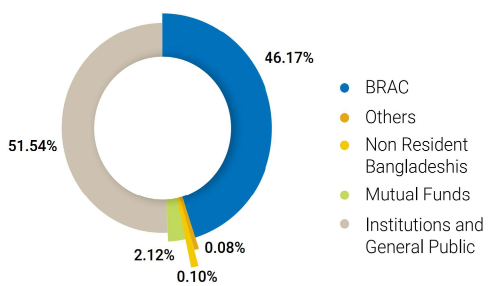
Please refer to page 553 for details on disclosure on financials and page 438 for Basel-III section.

Shareholders' value creation

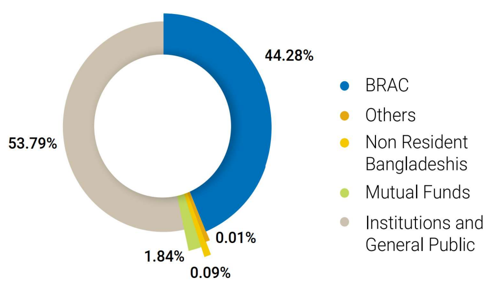
Shareholders' equity at BRAC Bank increased by 21 per cent in 2020, compared to the previous year. Within the sponsors, BRAC holds 46.17 per cent shareholding and institutions and the general public holds 51.54 per cent.

The shareholding position of the bank as of December 31, 2020 and 2019 is mentioned hereunder:

Shareholding Position 2020 in percent



Shareholding Position 2019 in percent



Share price and market capitalisation

Please refer to page 186 for details on disclosure of stock price statistics.

Credit rating of BRAC Bank

Credit rating generally reflects the strengths of a bank, which is manifested in a strong management team; sustainable growth in interest income, non-interest income, loans and advances and deposits; sustenance of adequate capital levels; improving asset quality and robust liquidity position.

BRAC Bank's credit rating, based on financial statements for the year ended 31 December 2020, is under process and will be published in due course.

Please refer to page 364 for details on all credit ratings obtained by BRAC Bank, which are furnished in disclosure on credit rating in the Corporate Governance section.

Contribution to the national exchequer

BRAC Bank has transformed itself into one of the strongest financial institutions of Bangladesh, leading the financial services sector with responsibility and agility. Over the years, the bank has ensured substantive contributions to the national economy, reflected in collecting Government revenues and depositing the same to the exchequer, as per the laws of the country. The bank also deducts tax, VAT and excise duty at the time of making payments for goods and services. Besides these, the bank also pays income tax.

Please refer to page 184 for details of disclosure on contribution to the nation in the performance analysis.

Basis for related party transactions

The bank needs to conduct transactions with related parties in the normal course of business. The nature of related party transactions are either loans and advances or deposits made with us at arm's length price or at fair market value.

Please refer to page 601 for details of related party transactions are disclosed in "Annexure – K".

Strategic outlook

Leaving off from the pandemic-stricken 2020, the year 2021 will provide further challenges to the banking industry. The social, economic and regulatory landscape will continue to change in response to the evolving environment, which will only add to the overall uncertainty. However, change generates opportunity, and BRAC Bank's position of strength, together with our next-generation infrastructure infuses us with confidence that the bank will continue to remain as our customers' choice and preferred financial gateway for meeting their diverse expectations and aspirations.

In the year ahead, we are confident that our business will continue to build on its digital capabilities, which will enable us to further differentiate ourselves and drive our transformation growth strategy with accelerated momentum.

Further, with large Government dole through financial stimulus and relief passed via the banking channel, which will help in overall systemic liquidity, will also enable banks to deepen engagement with beneficiaries as potential customers. Moreover, banks have generally repriced deposit rates in view of the cap on industrial lending rates enforced earlier to maintain spreads and will now intensify focus on non-funded business with a view to diversify their revenues and also open this channel up as a potential offset to the core lending business.

SMEs, which are at the "DNA of BRAC Bank" will continue to receive priority, aligned with our mission to transform ourselves form "lender to banker", thus focusing on expanding our share of their banking needs and requirements. While we expect to explore some opportunities resident in the retail lending space, we will remain selective and cautious in corporate lending services. Further, we will continue to invest in technology and human resources with a view to ensure overall superior customer service and retention.

While our Retail banking wing will explore more digital banking opportunities to provide world-class banking services to our customer as a single-stop solution for all their needs, Agent banking will be a focus area and a key channel that will take the bank's products and services to the masses, thus enabling us to align to our mission of expanding financial inclusion. Local Corporate and Emerging Corporate will explore untapped business opportunities outside of the near-saturated metropolitan cities of Dhaka and Chittagong.

Appointment, re-appointment and retirement of Directors

Dr. Zahid Hussain

The Board of Directors of BRAC Bank appointed Dr. Zahid Hussain as Independent Director to the Board on September 2020. Subsequently, his appointment was approved by Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank.

Dr. Hussain received his PhD in Economics from Boston University, USA, in 1992. He completed his Master of Arts in Political Economy from Boston University, USA, in 1987. He earned his MBA from the Institute of Business Administration, University of Dhaka, Bangladesh, in 1979.

Mr. Meheriar M. Hasan

The Board of Directors of BRAC Bank appointed Mr. Meheriar M. Hasan as a Nominated Director to the Board on November 2020. Subsequently, his appointment was approved by Bangladesh Bank.

Mr. Hasan holds a Master of Science in Finance, Master of Arts in Economics and a Bachelor of Arts in Economics with a minor in Mathematics from the University of Arizona.

Mr. Shameran Bahar Abed

Mr. Shameran Bahar Abed was appointed as Nominated Director to the Board on December 2020. Subsequently, his appointment was approved by Bangladesh Bank.

Mr. Shameran is a lawyer by training, having been called to the Bar by the Hon'ble Society of Lincoln's Inn in London, UK. He completed his undergraduate studies at Hamilton College in the United States, majoring in Economics and minoring in Political Science.

Ms. Fahima Choudhury

Ms. Fahima Choudhury was appointed as an Independent Director to the Board of BRAC Bank in May 2018. She will complete her first tenure in May 2021.

As per Corporate Governance (CG) Code, the tenure of office of an Independent Director shall be for a period of 3 (three) years, which may be extended for 1 (one) tenure only. Accordingly, the Board of BRAC Bank approved her 2^{nd} tenure at the 289^{th} Board of Directors' meeting held on March 22, 2021.

Pursuant to the Companies Act 1994, one-third of the Directors shall retire from the Board at the AGM in a Public Limited Company

According to the Companies Act, 1994, Schedule-1, Reg-79 and Clause 103 of the Articles of Association of BRAC Bank, "At the ordinary general meeting in every subsequent year, one-third ($1/3^{rd}$) of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest to one-third shall retire from office."

Further, as per the Corporate Governance (CG) Code issued by Bangladesh Securities and Exchange Commission (BSEC), Independent Director/s shall not be subject to retirement by rotation.

Accordingly, Ms. Nihad Kabir, among the Directors except Independent Directors, will retire from the Board of Directors at the ensuing Annual General Meeting and is eligible for re-appointment. She has given her consent for re-appointment.

The brief profile of the above Directors and involvement in other businesses has been furnished in the Director's profile section and notes to the financial statements.

Meetings of the Board, attendance and remuneration as on December 31, 2020:

Sl. No.	Name of the Director	Designation	Presence of the Director in the meeting during their tenure			Remuneration (Amount in BDT)
			No. of meetings	Present	Absent	
1	Dr. Ahsan H. Mansur	Chairman & Independent Director	19	19	-	152,000
2	Ms. Nihad Kabir	Nominated Director	19	17	02	136,000
3	Mr. Kaiser Kabir **	Nominated Director	11	08	03	64,000
4	Mr. Asif Saleh	Nominated Director	19	14	05	112,000
5	Mr. Kazi Mahmood Sattar	Independent Director	19	19	-	152,000
6	Ms. Fahima Choudhury	Independent Director	19	17	02	136,000
7	Ms. Farzana Ahmed	Independent Director	16	14	02	112,000
8	Dr. Zahid Hussain	Independent Director	07	06	01	48,000
9	Mr. Meheriar M. Hasan	Nominated Director	04	03	01	24,000
10	Mr. Shameran Bahar Abed	Nominated Director	02	02	-	16,000

** Mr. Kaiser Kabir resigned from the Board on September 2020

Please refer to page 333 for details on disclosure on corporate governance.

Risks and concerns

At BRAC Bank, one of our core priorities is to continuously strengthen our risk management framework and control strategy. This enables us to maintain our medium-low risk profile in the face of an ever-changing economic, social and regulatory environment. In line with the Group´s forward-looking risk management and control practices, potential threats that may affect the development of our strategic plans are identified, assessed and monitored through regular analysis of our top risks under different scenarios. Further, the main strategic risks identified by the bank and the extended Group are regularly monitored by the senior management, including any mitigating actions. Some of the key risks of the prevalent environment include digital transformation and new competitive environment, which implies increased competition from existing players and new entrants (including fintechs and digital-first companies). This is redefining the way business is conducted as well as the customer experience and market expectations. In this respect, we believe digitalising our existing business while transforming the current bank into a digital platform is key to competing in the new environment. Our collaborative approach also play a key role in this transformation. Further, we are also committed to the progress of society, supporting inclusive and sustainable growth.

Thus, operating in a complex and regulatory-charged environment, we have reinforced the bank's Risk Management Division (RMD) in 2020, increasingly aligning the function with regulatory requirements and reforms. Further, we also revised the risk management policy and in 2020, we widened the operational perimeter of our risk management division, which in turn helps us stay abreast of best practices and deploy them to ensure holistic risk management within the bank.

Moreover, we have a specialist risk management expertise that allows us to delegate responsible owners for each core risk. Besides, we also have a proper delegation of authority to escalate and deal with every risk formation and ensure sufficient mitigation. We have also constituted different forums for risk escalation, including the Enterprise Risk Associates Forum (ERAF) for evaluation and subsequent resolution. Subsequently, ERAF issues, which require top management's guidance and decisions, are placed at the Enterprise Risk Management Committee (ERMC). ERAF, as well as ERMC, convene every month to identify, address and mitigate risks. Finally, for the Board's oversight and guidance, critical risk elements are highlighted in the Board Risk Management Committee (BRMC).

Details on disclosure on notes to financial statements section 2.10 (Page 507), risk management section (page 400-472).

Preparation of financial statements and annual report

Our primary focus is to ensure the integrity and quality of the financial statements of BRAC Bank. Thus while preparing the annual report, true and fair presentation has been given priority. We have also embraced the following principles:

- Appropriate accounting policies have been used and applied consistently
- We have maintained proper books of accounts
- We have applied judgments and accounting estimates that are reasonable and prudent
- We have prepared the financial statements on a going concern basis
- We have adopted other laws and rules applicable in Bangladesh

The Board Audit Committee of the bank has reviewed the financial statements of 2020 and referred to the Board of Directors for their consideration. The external auditor, M/s. Rahman Rahman Huq, Chartered Accountants, appointed by the shareholders, have certified the fairness of the financial statements for the year ended 31 December 2020.

Details on Disclosure on notes to financial statements section 2.1 to 2.9.1

Internal control and compliance

Banking is a diversified and dynamic financial activity which involves diverse risks. Hence, an effective internal control system, best practices in governance, transparency of all financial activities and accountability towards stakeholders and regulators have become key to ensure stability and smooth performance of the banking industry. An effective internal control and compliance system has become essential in order to underpin effective risk management practices and to ensure sustainable performance of a bank. At BRAC Bank, our ICCD embodies our "TREE", which refers to:

- Transparency
- Reliability
- Effectiveness
- Ethics

BRAC Bank has established an appropriate and effective internal control environment through the Board of Directors, management, organisational and procedural controls and an independent audit mechanism in order to ensure that the bank is managed and controlled in a sound and prudent manner. The bank identifies weakness through internal control systems and takes appropriate measures to overcome these. The Board has also established an Audit Committee to monitor the effectiveness of internal control systems of the bank. The Audit Committee meets the senior management periodically to discuss the effectiveness of the internal control system of the bank and ensures that the management has taken appropriate actions as per the recommendations of Bangladesh Bank's inspection team, external auditors and also the bank's ICCD.

The bank reviews the overall effectiveness of the internal control system on an annual basis, which is reviewed and evaluated and feedback is provided to the Board of Directors on the effectiveness of internal control policies, practices and procedures on an ongoing basis.

Please refer to page 269 for details of disclosure on ICCD.

Corporate governance

Our governance framework is premised on competent leadership, effective internal controls, a strong risk culture and ownership and accountability to all our stakeholders, including our customers, shareholders, employees, society and regulators.

BRAC Bank has an active Board that plays a key role in setting our governance standards to meet stakeholders' expectations, while our leadership and operating model ensures an appropriate balance of power, accountability and independence in decision-making across various function of the bank. Further, robust mechanisms have been put into place to ensure that corporate governance principles are embedded deep in our corporate culture. The bank has also adopted best practices in terms of disclosure, transparency and business ethics aimed at adding value to stakeholders' expectations. We also complied with corporate governance practices in all respects of the Corporate Governance (CG) Code and Good Governance guidelines issued by Bangladesh Bank.

BRAC Bank is committed to continually review its corporate governance policies and guidelines to ensure transparency in its practices and delivery of the highest ethical standards and quality information dissemination to stakeholders on an ongoing basis.

The Board is aware about the need to shape governance structures and practices through their knowledge and leadership to drive the bank on a sustainable growth path. The Board is collectively engaged in ensuring that corporate governance processes are structured to direct the bank's actions, assets and resources to achieve this purpose while upholding all governance norms- in letter and in spirit.

Please refer to page 314 for details of disclosure on corporate governance.

Going concern basis

The bank's financial statements have been prepared on a going concern basis, as the Board is satisfied that the bank will have adequate resources to continue in business over the foreseeable future with reasonable growth in businesses. In assessing the going concern status, the Board has also considered the current statement of financial position, the profit & loss statement, business portfolio, operational strengths, long-term strategy of the business and regulatory capital and liquidity plans and plans for future capital mobilisation.

Hence, it can be concluded that there is no doubt about going concern rather we have firm reason to believe going concern of business.

Please refer to page 397 for details of disclosure on Going concern status of BRAC Bank.

COVID-19 pandemic and our response

BRAC Bank undertook practical steps right from the onset of the COVID-19 pandemic crisis in Bangladesh. The framework, highlighted by proactive action, has been focused on reducing heightened risks arising out of the COVID-19 pandemic across all facets of risks impacting the business, safety of all colleagues, and business continuity from operational risks, with likely impact on asset quality from credit risk, market risk and operational risk. This is due to sharp changes in underlying risk factors in the asset and liability book, liquidity pressures owing to changes in the perception of borrowers on cash flows as well as deposit withdrawals owing to disruptions enforced by civic lockdowns, etc.

The bank adopted actions on the following fronts:

- **Protecting our colleagues** – Issuing and implementing advisories around staff health, maintenance of hygiene in office premises, quarantine and isolation facilities and one-stop telemedicine for all employees.
- **Ensuring business stability** – Testing and deploying new business continuity plans (BCPs), including driving and scaling-up work-from-home (WFH) initiative.
- **Protecting business operations** – Putting in place additional controls and monitoring key operational risk parameters that could see an escalation in a lockdown and WFH environment.
- **Maintaining adequate liquidity** – Enhanced monitoring of liquidity position and deposit withdrawals to take pre-emptive action.
- **Conserving capital** – Credit advisories issued around origination and disbursal of new exposures with enhanced monitoring of existing vulnerable credit exposures.

Further, we constituted a COVID-19 monitoring team "COVID Test & Evac" that has been meeting weekly (or as-and-when required) to review the situation in each of the said fronts, evaluating which risk profile needs to be heightened and taking appropriate mitigation measures in response to the ground situation.

CSR initiatives during COVID–19 pandemic

BRAC Bank stood in solidarity with the country in the collective battle against the COVID-19 pandemic and remains committed to a multi-pronged response supporting customers, employees, business partners, Government agencies and the community at large. Further, we directly supported Government entities towards meeting their urgent equipment and sanitation requirements. Towards augmenting the country's collective efforts in fighting against the pandemic, BRAC Bank committed to contribute to the PM's Relief Fund and to other causes as well.

Please refer to page 383 for details of disclosure on Corporate Citizenship at BRAC Bank.

Dividend

BRAC Bank's dividend policy is reviewed annually if any material changes take place in the applicable rules and regulations. Our Board is continuously making efforts to uphold and protect the interests of all categories of shareholders as well as to ensure stable growth of the bank. The decision regarding dividend shall be taken only by the Board at its meeting and not by a committee of the Board or by way of a resolution passed by circulation. Final dividend shall be paid only after approval by the shareholders' at the Annual General Meeting (AGM) of the bank. Further, the decision on dividend would be subject to considerations of any other relevant factors for example:

- External factors, including state of the domestic economy
- Dividend policy of competitors
- Tax implications including applicability and rate of dividend distribution tax
- Shareholder expectations
- Profitability and key financial metrics
- Bank's regulatory capital maintenance and compliance with the requirements as per Internal Capital Adequacy Assessment Process (ICAAP) projections
- All applicable regulatory requirements
- Bangladesh bank approval on the dividend payment

In order to maintain a satisfactory Total Capital to Risk-weighted Asset Ratio (CRAR) of the bank, the Board of Directors recommended total dividend 15 per cent in combination of 10 per cent Cash and 5 per cent Stock dividend for the year ended December 31, 2020, subject to approval at the 22nd Annual General Meeting (AGM).

Appointment of auditor

The existing auditors, M/s. Rahman Rahman Huq, Chartered Accountants, have completed their third consecutive year as auditors of BRAC Bank. According to Bangladesh Bank guidelines, one auditor cannot be appointed for more than three consecutive years. Therefore, we are required to change existing auditors of BRAC Bank for the financial year 2021 as they are not eligible for re-appointment for the year 2021. Hence we have collected expression of willingness to work as auditors of BRAC Bank for the year 2021 from four eligible audit firms. The Board of Directors has recommended M/s. Hoda Vasi Chowdhury & Co, Chartered Accountants, to be appointed as auditors of the bank for the year 2021. The appointment of the auditor will be confirmed by the shareholders' at the 22nd AGM.

Acknowledgement and gratitude

The year 2020 was a critical year in our development journey because of the COVID-19 pandemic, which reinforced our vision of the best digital and most responsible bank of Bangladesh. During the year, we continued to invest significantly in our propositions and execute our strategy of delivering positive outcomes for all our stakeholders.

Going into 2021 with increased levels of interest and growth possibilities from customers, we are on track to significantly increase revenues and restore profitability growth. This will be achieved through our customer-focused scalable business model and alignment with our vision of change in the competitive banking sector of the country.

We express our gratitude for your confidence in us. Your relentless support contributed to the growth and development of our business. We sincerely acknowledge the employees of BRAC bank for their commitment, devotion and hard work as they are core to our success.

We also take this opportunity to acknowledge and express our appreciation to our shareholders, clients, Bangladesh Bank and other Government agencies, regulatory bodies and everyone with whom the bank is connected with. We will do everything possible to uphold your faith and trust on us today and deep into the future.

For and on behalf of the Board of Directors,

Dr. Ahsan H. Mansur
Chairman