

Company Overview

Eastern Bank Limited (The Bank) was established and commenced its operation in August 1992 by taking over the business, assets, liabilities and losses of erstwhile Bank of Credit & Commerce International (Overseas) Limited. The principal activities of the bank are to provide a comprehensive range of financial services including commercial banking, consumer banking, trade services, SME, retail, custody and clearing services to its customers. As of December 2019, the Bank has 85 branches, 3 sub-branches, 207 ATMs, 26 Agent banking outlets and 15 priority centers.

The Bank has four fully owned subsidiaries: EBL Securities Ltd., EBL Investments Ltd.; EBL Finance (HK) Ltd. and 'EBL Asset Management.

Composition and growth of Consolidated Operating Income:

(BDT mn)	2016	2017	2018	2019	2020 (3M)
Interest Income	13,663	14,611	20,188	23,583	6,067
<i>Growth</i>	0%	7%	38%	17%	12%
Interest Expense	8,055	8,732	12,577	15,306	4,113
<i>Growth</i>	-19%	8%	44%	22%	24%
Net Interest Margin	3.9%	3.4%	3.7%	3.6%	3.3%
Operating Income	11,710	12,863	13,615	15,020	3,988
<i>Growth*</i>	15.3%	9.8%	5.8%	10.3%	7.2%
As % of Operating Income					
Net interest income	48%	46%	56%	55%	49%
Non-interest income	52%	54%	44%	45%	51%
Investment income	28%	25%	17%	18%	28%
Commission and brokerage income	23%	27%	25%	25%	22%
Other operating income	2%	2%	2%	2%	1%
Growth*					
Net interest income	52%	5%	29%	9%	-8%
Non-interest income	-6%	14%	-14%	12%	27%
Investment income	-8%	0%	-29%	17%	106%
Commission and brokerage income	-3%	33%	-2%	9%	-11%
Other operating income	-4%	13%	9%	16%	-26%

*Growth for 2020 is calculated for 3 months over the same period of the last year.
Net Interest Margin: Net interest income/average of loans & advances

Historical Loans & Advances and Term Deposits:

(BDT bn)	2016	2017	2018	2019	2020 (Mar)	5-year CAGR
Loans & Adv.	156	192	217	239	238	--
% of Total Asset	74%	75%	76%	71%	69%	--
Growth (YoY)*	16%	23%	13%	10%	0%	15%
Term Deposits	140	167	199	240	242	--
% of Total Asset	66%	65%	70%	71%	70%	--
Growth (YoY)	10%	19%	19%	20%	1%	16%
Credit-Deposit	80%	83%	83%	77%	--	--

*Growth for 2020 is calculated over December 2019.

The Company was enlisted with the DSE and the CSE on 20 March 1993 and 29 September 2004 respectively:

As on	Sponsor	Govt.	Instt.	Foreign	Public
30-Jun-20	31.56%	0.00%	44.55%	0.32%	23.57%
31-Dec-19	31.56%	0.00%	44.46%	0.40%	23.58%
31-Dec-18	31.56%	0.00%	43.68%	0.52%	24.24%
31-Dec-17	31.56%	0.00%	43.94%	0.51%	23.99%

Company Fundamentals

Market Cap (BDT mn)	25,084.6
Market Weight Sector Weight	0.9% 5.4%
No. of Share Outstanding (in mn)	811.8
Free-float (Public + Institution + Foreign)	68.4%
Paid-up Capital (BDT mn)	8,118.0
3 Months Daily Average Turnover (BDT mn)	10.2
3-month Return (Dividend & Free-float Adjusted)	-1.7%
Current Price (BDT)	30.9
52-week price range (BDT)	28.0 - 38.6
Sector Forward P/E	6.5

	2017	2018	2019	2020 (3M Ann)
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Financial Information (BDT mn):

Operating Income	12,863	13,615	15,020	15,950
Operating Profit	7,056	7,380	8,378	8,886
Profit Before Tax	4,267	4,728	6,343	6,633
Profit After Tax	2,428	3,111	3,990	3,342
Shareholder's Equity	21,876	23,375	25,962	26,857
Deposit	166,959	199,156	239,980	241,950
Loans and Advances	191,685	217,380	239,095	237,970
Investment	26,106	29,888	42,066	55,261
Total Asset	256,300	285,500	338,201	345,399
Retained Earnings	3,305	4,960	6,003	6,839

Margin:

Operating Profit	54.9%	54.2%	55.8%	55.7%
Pretax Profit	33.2%	34.7%	42.2%	41.6%
Net Profit	18.9%	22.8%	26.6%	21.0%

Growth:

Loans & Advances	22.6%	13.4%	10.0%	-0.5%
Deposits	19.1%	19.3%	20.5%	0.8%
Equity	5.0%	6.9%	11.1%	3.4%
Operating Income	9.8%	5.8%	10.3%	6.2%
Operating Profit	8.3%	4.6%	13.5%	6.1%
Net Profit	-10.6%	28.1%	28.3%	-16.2%

Financial Indicators:

Credit/Deposit	83.1%	83.1%	77.2%	--
Asset/Equity	11.7	12.2	13.0	12.9
CRAR	14.1%	12.2%	14.7%	--
NPL	2.5%	2.4%	3.4%	--
NPL Coverage	160%	150%	120%	--
Cost to Income	45.2%	45.6%	43.8%	--

Profitability:

ROE	11.4%	13.8%	16.5%	--
ROA	1.0%	1.2%	1.3%	--

Dividend History:

Dividend % (C/B)	20/-	20/10	25/-	--
Dividend Yield	3.9%	5.6%	8.1%	--
Dividend Payout	66.9%	52.2%	50.9%	--

Valuation:

Price/Earnings	10.4	8.1	6.3	7.5
Price/BV	1.2	1.1	1.0	0.9
Restated EPS (BDT)	3.0	3.8	4.9	4.1
Restated NAVPS (BDT)	26.9	28.8	32.0	33.1

Industry Overview

The banking sector in Bangladesh comprises four categories of scheduled banks - state-owned commercial banks (SCBs), state-owned development financial institutions (DFIs), private commercial banks (PCBs) and foreign commercial banks (FCBs).

Number of Banks: At present, there are 60 scheduled banks that operate in Bangladesh under full control and supervision of Bangladesh Bank. There are 6 State Owned Commercial Banks (SOCB), 3 Specialized Banks, 34 Conventional Private Commercial Banks, 8 Islami Shariah based Private Commercial Banks and 9 Foreign Commercial Banks. As per the financial stability report of the Bangladesh Bank, at the end of December 2019, total number of bank branches increased to 10,578 from 10,286 in December 2018.

Loans and Advances: The asset structure of the banking industry continued to be dominated by loans and advances, which secured 66.51 percent share in 2018 while it was 66.49 percent in 2018. This increase was due to the growth in loans and advances by 11.9 percent in 2019 compared to 14.1 percent in 2018. Total loans and advances of the banking system stood at BDT 10,834 billion as of December 2019.

Deposits: Deposits served as the main sources of funds for the banking industry. According to the financial stability report 2019, total deposits of the bank sector was BDT 12,450 billion as of December 2019 which was BDT 11,186 billion in last year, registering 11.3% year over year (YoY) growth.

Advance-Deposit Ratio (ADR): The ADR of all banks has been re-fixed at 87 percent for conventional banks and at 92 percent for Shariah-based Islamic banks enabling banks to lend more during the coronavirus lockdown. The earlier ratios were 85 per cent and 90 per cent respectively. The revised limit of ADR came into effect from April 2020. The ADR of the banking industry increased to 77.3 percent at end-December 2019 from 77.6 percent at end- December 2018. However, the ADR of the banking industry remained below the allowable limit set by BB.

Private Sector Credit: Private sector credit growth hit 12-year low in June 2020 amid rising liquidity crisis in the country's banking sector due to soaring non-performing loans and poor deposit growth. As per the latest Bangladesh Bank data, the private sector credit growth slumped to 8.6 per cent in June 2020, well below the BB target to reach 14.5 per cent credit growth by the month. The growth rate in June was the lowest since December 2008. The government's heavy borrowing from banking sector to complete its annual development programme also affected loan disbursement to private sector.

CRR & SLR: Bangladesh Bank (BB) has re-fixed the Cash Reserve Ratio (CRR) at 4.0 per cent on bi-weekly average basis with a provision of minimum 3.5 per cent on a daily basis effective from April 15, 2020 against average total demand and time liabilities (ATDTL) of the second preceding month. The current rate of SLR (statutory liquidity reserve) for conventional banks is 13.0% and for islami shariah based banks is 5.5% of ATDTL.

Bangladesh Bank relaxed CRR for offshore banking units of the country's scheduled banks in an attempt to reduce cost of fund and make the OBU operations more attractive. The central bank issued a circular slashing bi-weekly average CRR rate to 2% from 4% and daily CRR rate to 1.5%. The banks are allowed

to maintain the CRR and SLR only for the offshore banking operations (OBOs) using both local and foreign currencies. The banks will be eligible to comply with the CRR requirement using their balance of foreign currency clearing accounts held with the central bank, particularly for the OBOs. Besides, the banks will be allowed to maintain the SLR using their balance of nostro accounts. A nostro account refers to an account that a bank holds in a foreign currency in another bank abroad.

Liquid Assets: As of December 2019, the market share of liquid assets of PCBs' increased substantially whereas the share was declined moderately for the SCBs and FCBs. PCBs' share increased by 7.9 percentage points, while the share of the SCBs reduced by 6.0 percentage points. Allowing higher proportion of institutional government funds to be deposited in PCBs might have caused the change as these deposits were shifted mostly from the SCBs to the PCBs. This recent stance improved the overall liquidity situation in the PCBs.

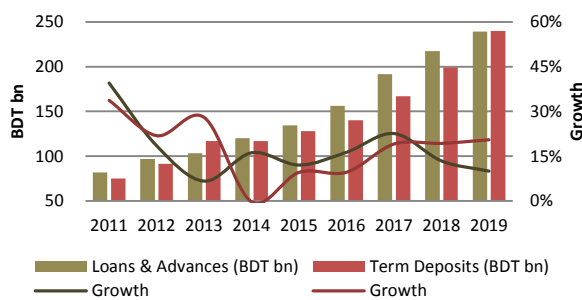
Non-Performing Loans (NPLs): Asset quality of the banking industry considerably improved as the gross NPL ratio declined from 10.3 percent in 2018 to 9.3 percent in 2019. It appears that the main driving force for decline in industry's overall NPL ratio was improvement of asset quality in SCBs and SDBs. However, gross NPL ratios still remained high for these two categories of banks. During the review year, net NPL ratio dropped significantly to 1.0 percent from 2.2 percent of the preceding year. Banking sector maintained a higher level of loan-loss provision in CY19 compared to that of CY18, resulting in an increased provision maintenance ratio. Nonetheless, high volume of provision shortfall in SCBs still remained a concern for the banking industry. The amount of gross NPL increased by BDT 4.2 billion to reach BDT 943.3 billion in 2019.

Agent Banking: Agent banking, which takes banking services to the unbanked people, is going from strength to strength, with both deposit collection and loan disbursement on the rise. As of March 2020, accounts in the agent banking platform, where 22 banks now give banking services to people, stood at 6.5 million accounts, which is more than double that from a year earlier, according to data from the central bank. The lenders have mobilized deposits and given out loans exponentially in recent months by way of using the model. Deposits soared 129 per cent year-on-year to BDT 85.35 billion at the end of March 2020, while loan disbursement grew 306 per cent to BDT 8.53 billion (Source: The Daily Star, July 2020).

Investment Positives

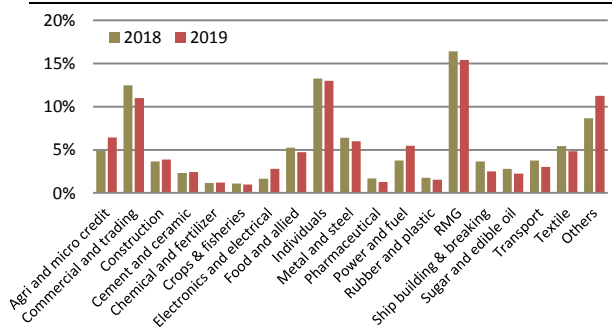
- As of March 2020, **the balance-sheet size of the Bank stood at BDT 345.40 billion increased by 2.13% over December 2019 and 5-year CAGR (Compound Annual Growth Rate) was 14.29%**. Loans and advances was 68.90% of the total assets of the Bank as of March 2020.
- As of December 2019, **total loan portfolio of the Bank stood at BDT 239.09 billion grew by 10% over last year where 5-year CAGR was 14.78%. Deposit portfolio was BDT 239.98 billion grew by 20% over last year where 5-year CAGR was 15.51%. The Bank has set 8% & 10% growth target for the loans and deposit portfolio for the year 2020.** (Source: Annual Report 2019).

Loan & Deposit



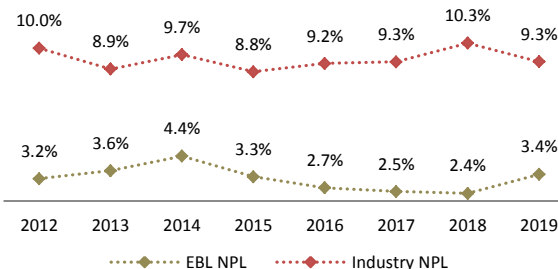
- The Bank has designed its products basket to create a well-balanced and diversified portfolio. **As of December 31, 2019, Loan Diversification was ensured as RMG sector got 15% of loan portfolio followed by Personal Loan (13%) and Commercial & Trading (11%).**

Portfolio Composition



- The Bank is pursuing its business in SME sector since last nine years to reduce concentration on large borrower. The **SME portfolio consists around 15% of total portfolio** as of December 2019. In 2019, SME and retail loan stood at BDT 49.61 billion grew by 13.81% over 2018. The Bank shall **continue its priority in SME sector** to reduce concentration risk on large borrowers.
- As of December 2019, **NPL (classified loan to total loan) of the Bank stood at 3.35%** which was far below the industry average NPL of 9.32%. The Bank has given special emphasis to improve the asset quality. The Bank is expecting to keep the NPL ratio to below 3.5% in 2020 as per annual report 2019.

Historical NPL of the Bank & Industry



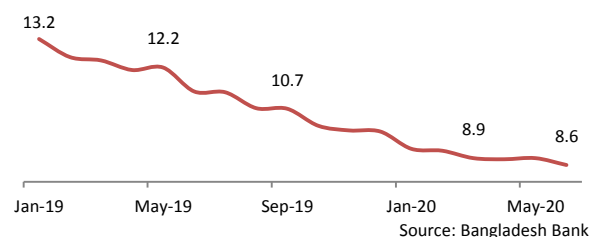
- Cost to income ratio has decreased due to higher growth of operating income than that of operating expense. In 2019, cost to income ratio has reduced to 43.76% which 45.63% in 2018. **The Bank is targeted to keep the cost-income ratio less than 45% in 2020** as per annual report 2019.

- In 2019, the Bank issued Non-Convertible, Non-Listed & Redeemable Subordinated Bond of BDT 5,000 million through private placement to enhance Tier-II capital.
- To spread the network in global context, the Bank has opened up full-fledged representative offices in China in 2019 to tap the business opportunities and contribute to the growing China-Bangladeshi trade business. This is the first footprint of any Bangladeshi financial institution in China.
- For the first time in private sector banks in Bangladesh, EBL has been awarded **Ba3 rating in 2016 and reaffirmed in 2019 by world renowned ratings agency Moody's** with a stable outlook. This rating is equivalent to that of our sovereign rating (Ba3). Credit Rating Information and Services Limited (CRISL) has rated the Company as "AA+" in the long term and "ST-1" in the short term along with a stable outlook.

Investment Negatives

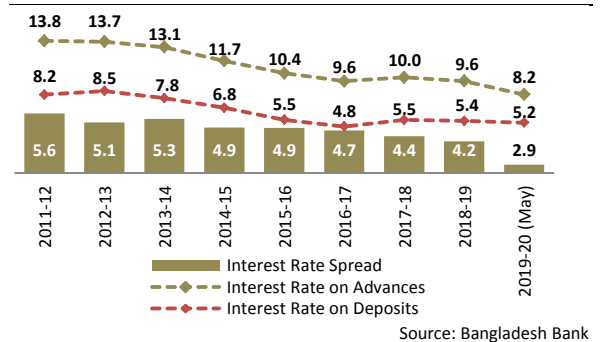
- The Bank's lending portfolio has seen slow growth over the last two years** due to the private sector credit growth is in declining trend since 2019. The liquidity crisis in the banking sector along with reluctance of the entrepreneurs in making new investments to observe the revival efforts of the covid-19 pandemic may cause to lower growth of the lending portfolio. Meanwhile, **the Bank is giving more emphasis on deposit hunting to overcome the liquidity crisis in the sector in recent times.**

Private Sector Credit Growth (in percentage)



- Implementation of 9% interest rate on loan (except credit cards) effective from April 2020 is expected to squeeze the margin of the Banks as the banks have to adjust the deposit rates too. Interest rates on deposits and advances and spread of the bank sector is shown below:

Interest Rate & Spread (%) of the banking sector



- As of December 2019, 68% of its total deposits are sourced from costly fixed deposits. As of December 2019, CASA ratio (CASA ratio of a bank is the ratio of deposits in current and saving accounts to total deposits) of the Bank stood at 31%.

- As of March 2020, borrowings from other banks and financial institutions of the Bank increased to BDT 55.19 bn which is 17% of the Bank's total liabilities which is more costly source of financing.

Latest Quarter Update – March 2020

Particulars (BDT mn)	Jan-Mar 2020	Jan-Mar 2019	Growth
Net Interest Income	1,954	2,122	-7.9%
% of total operating income	49.0%	57.0%	
Investment Income	1,099	535	105.4%
% of total operating income	27.6%	14.4%	
Commission, Exchange and Brokerage Income	879	989	-11.1%
% of total operating income	22.0%	26.6%	
Other Operating income	56	75	-25.3%
% of total operating income	1.4%	2.0%	
Total Operating Income	3,988	3,720	7.2%
Operating Profit	2,222	2,107	5.5%
Net Profit	836	861	-2.9%
EPS (BDT)	1.03	1.06	-2.8%

Latest Quarter: Loans and advances & Deposits Portfolio

Particulars (BDT bn)	Dec '19	Mar '20
Loans and advances	239	238
Addition over December 2019	--	-1.12
Deposits	240	242
Addition over December 2019		1.97

- Loan portfolio of the Bank decreased by BDT 1.12 billion during the 1st quarter of 2020 as the entrepreneurs were reluctant to take loans for business expansion amid covid-19 worsens.
- Net interest income of the Bank has decreased due to the increase in interest paid on deposits and borrowings than that of interest income on loans and advances.
- Operating profit of the Bank has increased despite decrease in net interest income during the period over the same period of last year. This was due to higher operating income and lower operating expenses.
- Profit after tax has decreased by 2.9% during the period over last year due to increased provision and higher income tax.

ILSL Research Team:

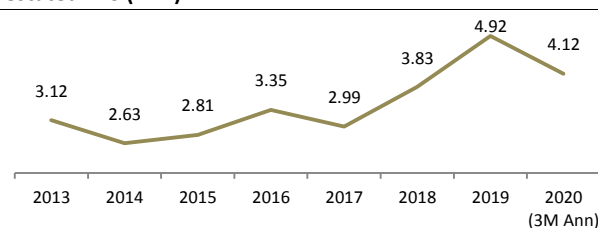
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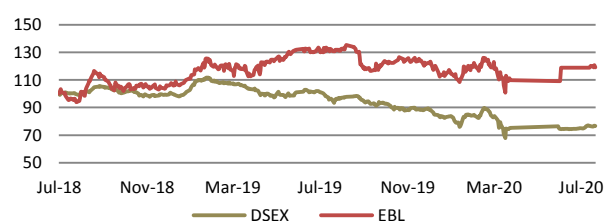
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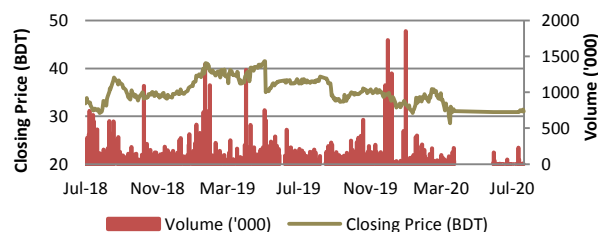
Restated EPS (BDT)



Movement of DSEX & EBL Index (Rebased)



Price & Volume Movement



Concluding Remark

The Bank strives to have a strong brand presence in the country's banking industry. Despite various external challenges, Bank's overall business achieved healthy growth in recent periods and is expected to grow beyond the industry in the coming years as the Bank is focusing more on SME financing and retail business.

Source: Annual Reports, Bangladesh Bank website, DSE Website, newspaper news, ILSL Research, The bank's website.

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