

# Directors' Report



## Dear Shareholders,

The Directors of Delta Brac Housing Finance Corporation Limited have the pleasure of presenting the Directors' Report of your Company together with audited accounts for the year ended December 31, 2018.

## Macroeconomic Performance of Bangladesh Economy

Bangladesh is one of the fastest growing economies in the globe. The country has witnessed five years average GDP growth of 6.97% at the end of FY 18. The economy continued to grow rapidly and achieved a record growth of 7.86 percent in FY18, over-performing the Government's FY18 growth target of 7.4 percent. The growth momentum was supported by strong domestic and external demand. A surge in remittance inflows at 17.3 percent, along with strong private sector credit growth boosted consumption demand. At the same time, higher growth in investment-related imports reflected robust investment demand. Export growth also maintained its momentum during this period. Bangladesh Bank projects GDP growth to range from 7.5-7.7 percent for FY19, assuming a continuation of domestic political calm and no further escalation of global trade-related conflicts.

Annual average CPI inflation increased to 5.8 percent in June 2018, marginally higher than the 5.5 percent target ceiling for FY18. This increase in average CPI inflation was broadly tracking the food inflation dynamics driven by flood-related domestic shocks and higher global commodity prices, while non-food inflation witnessed a decreasing trend. Bangladesh Bank's projection shows average inflation for H1 FY19 to be around 5.4-5.8 percent assuming no large domestic and

external shocks. Looking ahead, inflation risks in FY19 from higher global commodity prices and exchange rate movements are on the upside.

In FY18, Bangladesh Bank's monetary and financial policies embraced, alongside price and macro-financial stability objectives, inclusivity and environmental sustainability dimensions, in line with the government's SDG-focused sustainable development agenda. As liquidity condition tightened, BB reduced Cash Reserve Requirement (CRR) by 100 basis points to 5.5 percent and repo rates by 75 basis points to 6.0 percent with effect from April 2018. Moreover, to ease the liquidity conditions, BB increased available repo tenors to 7, 14 and 28 days. Inflationary risk concerns remained largely under control since broad money (M2) growth for FY18, the key determinant of inflation, moderated to 9.2 percent, well below the target of 13.3 percent.

Bangladesh's external sector developments in FY18 have been dominated by import dynamics. Import growth in FY18, reached a high of 25.0 percent. Foreign exchange reserves reached USD 32.94 bn in FY18, down from USD 33.5 bn in FY17. The BDT depreciated against the USD by 3.88% in FY18. Current account deficit was the largest factor behind this widening gap, which is around 3 percent of GDP. However, import decomposition in FY18 reflected a high import of capital goods, food imports due to flood-related weather.

The benchmark DSEX index fell continuously till July 2018. The last half of the year, index maintained a stable position until closing for the year at 5,385.64 with 13.75% drop YoY. The big drop of index during January 2018 to July 2018 was caused due to poor performance of financial sectors as well as the liquidity crisis in

the banking sector. The rest of the year, market showed little positive movement during July to September period, but moved flat by the end of the year.

### Performance of Financial Sector in 2018

Monetary policy stance for 2018 aimed at attaining price and macro-financial stability along with sustainable economic growth. Bangladesh Bank undertook necessary macro-prudential measures that focused on sector composition and quality of credit flows without restricting access to credit for productive sectors. Macro-prudential steps to curb imprudent unproductive lending included closer surveillance on adherence to prescribed Asset-Liability Management (ALM) and Forex Risk Management guidelines, a new directive requiring banks to rationalize their Advance/Deposit Ratios to reduce their over exuberance in lending, and stricter end use surveillance on bank loans including import financing.

Advance to Deposit Ratio (ADR) of the overall banking industry stood at 76.4 percent as on September 2018, 0.3 percentage points lower than that of end-June 2018 and 1.6 percentage points higher than that of end-September 2017.

Effective liquidity management in the banking system ensures the stability in the money market, long term interest rate as well as exchange rate and, thereby, promotes economic growth. Liquidity condition of the banking sector can be assessed by call money rate, Advance Deposit Ratio (ADR) ratio, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). At the beginning of April, 2018 rising demand for liquidity from strong private sector credit growth accompanied by the negative growth in NFAs caused tightening of liquidity conditions. As liquidity condition tightened, BB reduced Cash Reserve Requirement (CRR) by 100 basis points to 5.5 percent and repo rates by 75 basis points to 6.0 percent with effect from April 2018.

Moreover, to ease the liquidity conditions, BB increased available repo tenors to 7, 14 and 28 days. Under this situation, banks can now borrow from BB for longer period. This will give banks and financial institutions a scope to recalibrate their liquidity position in case of adverse conditions.

In December 2018, weighted average deposit rate for Scheduled Banks has increased to 5.26% from 4.91% in December 2017. On the other hand weighted average lending rates of scheduled banks also increased to 9.49% in December 2018, from 9.35% in December 2017. The interest rate spread also slightly reduced to 4.23% in December 2018 from 4.44% during the same time of previous year.

The balance sheet size of the banking sector recorded slight increase and reached BDT 14,072.2 billion at end September 2018. The increase was 0.4 percent from end-June 2018 and 11.6 percent from end-September 2017. However, credit growth needs to be aligned with targeted GDP growth. Banking sector's assets-to-GDP ratio remained almost stable at 62.5 percent at end-September 2018, compared to 62.3 percent at end-June 2018.

Overall NPL in the banking sector has edged up in July-September, 2018. Gross NPL for private commercial banks (PCBs) increased from 6.0 percent in April-June, 2018 to 6.7 percent in July-September, 2018. Gross NPL for SCBs widened further about 3.0 percentage point to 31.2 percent in July-September, 2018, reflecting a weaker provisioning. The system-wide gross NPL moves up by 1.0 percentage point during July-September, 2018 to 11.5 percent.

Gross NPL Ratios by Type of Banks (In Percent)		
Type of Banks	Sep. 17	Sep. 18
State Owned Commercial Banks	29.3	31.2
Specialized Banks	23.8	21.7
Private Commercial Banks	6.0	6.7
Foreign Commercial Banks	7.9	7.1
All Banks	10.7	11.5

Profitability of the banking sector was constrained as observed from a slight decrease in return on assets (ROA) and return on equity (ROE). This decline primarily happened due to high provision requirement against rising NPLs and fall in interest rate spread.

Profitability Ratios by Type of Banks (In percent)		
Type of Banks	Return on Asset (ROA)	
	2017	2018P
All Banks	0.7	0.4
Type of Banks	Return on Equity (ROE)	
	2017	2018P
All Banks	9.6	5.4

P= Provisional

Capital to risk-weighted assets ratio (CRAR) of the banking sector remained unchanged at 10.9 percent at end-September 2018; however, it was above the regulatory minimum requirement of 10 percent. Notable that 48 out of 57 banks maintained CRAR at or above the 10 percent mark.

Capital to Risk Weighted Asset Ratios by Types of Banks (In Percent)		
Type of Banks	Sep. 17	Sep. 18
All Banks	10.6	10.9

Non-Bank Financial Institutions (NBFIs), have been playing a crucial role by providing additional financial services that is not usually provided by the banks. Share of deposits, the major source of fund in FIs' total funds reached 55.9 percent as on September, 2018. Loans and leases comprising 72.6 percent of total assets dominated the asset composition.

Liabilities to assets ratio increased at end-September 2018. FIs' classified loans and leases ratio increased from 9.2 percent at end-June 2018 to 11.2 percent at end-September 2018. FIs' capital adequacy ratio (CAR) decreased slightly and stood at 12.4

percent at end-September 2018. However, the maintained CAR was well above the regulatory requirement of 10 percent.

Bangladesh Bank has also designed stress testing techniques to determine the situations of different financial institutions under which four risk factors- credit, interest rate, equity price and liquidity - are analyzed. At end-September 2018, out of 34 FIs, 4, 18 and 12 were positioned in Green, Yellow, and Red zones respectively on the basis of stress test results.

Bangladesh Bank (BB) took a number of initiatives during the year, which have implications to domestic financial system stability. During the year, some of the important initiatives, taken by Bangladesh Bank, were amendment in Guidelines on Risk Based Capital Adequacy (RBCA) for banks, amendment in Asset Liability Management Guidelines, issuance of Bangladesh Mobile Financial Services (MFS) Regulations 2018, issuance of Agricultural and Rural Credit Policy and Program for FY 2018-19, rationalization of schedule of charges, modification in various foreign exchange regulations to smoothen the foreign exchange market in Bangladesh.

### Real Estate Industry Outlook and Possible Future Development

Home sales are likely to pick up this year after a underwhelming 2018, spurred by hopes of political stability and positive economic growth outlook. Real estate sales always slowed down before the parliamentary elections and this time is no different. People feel encouraged to invest if there is stability. And it can be assumed there will be political and social stability and investment this year. The general expectation is the real estate sector this year will be far better than the last year. Growth slowed down in the last three months of 2018. Many prospective buyers kept their investment on hold in 2018. As a result, overall

sales slipped a bit. The market was also static in first half of 2018 because of interest rate increase. The interest rate rose in the first half of the year in the face of liquidity crisis in the banking sector. The average interest rose to 11 percent in 2018 from 8.5 percent a year earlier because of liquidity crunch, The home loan market shrank to about Tk 5,000 crore in 2018 from about Tk 7,000 crore the previous year. The market is supposed to be better this year. In 2017, interest rates for home loans had dropped to single-digit figures, which had caused a surge in apartment purchase by middle-income families. Unfortunately, at the start of 2018, interest rates increased, which could have caused a slight dip in apartment sales earlier in the year. The exact number of apartments sold in a particular year is hard to come by as not all properties are registered. According to REHAB, the sector is delivering some 6,000 to 8,000 apartments a year now, which is significantly lower than reported sale of 18,000 units in 2011.

The real estate market is expected to bounce back from a prolonged period of stagnation. The housing market went on a downturn in 2012 for intermittent political instability, a bearish stock market and the government's apathy towards providing gas connections to new buildings. Developers said the property price corrections in the past few years have lured in many prospective home buyers. Prices hit rock-bottom at the beginning of 2017, after which it started to pick up little by little. The construction of relatively smaller flats by major developers also attracted the middle-class and fixed income groups. The real estate sector is repositioning itself. The apartment prices have also seen correction. And the developers have paid attention to design features in line with the customers. However, the demand for luxury apartments has not increased, according to developers. It appears that a section of the rich people is more interested in owning a second home abroad.

As the economy is growing and the middle class is expanding, the demand for housing will go up. However, it is not the time for quick growth. Rather this is a time for steady growth. Bangladesh's real estate sector is growing steadily on the back of rapid development of the country, rising demand for housing, expanding middle class and soaring per-capita income. The sector is quite stable, the real estate sector will grow steadily as the economy is growing at a healthy pace and per-capita income is increasing significantly. It is true that the middle- and low-income groups cannot afford an apartment without consistent financial assistance. Most of the countries around the world offer such financial support for their citizens. Unfortunately, we do not have such kind of a support system in Bangladesh. The cost of land is a challenge for making apartments affordable. If developers own the land of a project they can bring down the price of an apartment. If they share the land with someone else, then prices go up. To make housing more affordable, the government may take initiatives to encourage decentralization. They should encourage realtors to build suburbs on the outskirts of Dhaka city to relieve stress from the core areas. If well planned suburbs with proper zoning can be developed in the upcoming areas such as Purbachal and Jheelmil by providing a large chunks of land to reputed developers at a reasonable cost, it would help improve the situation. Developing small parcels of land in an unplanned manner will just result in the same problem. Along with the rising price of land, construction costs are going up for developers. Prices of cement and steel rebar have increased steadily over the last few years. The local currency, taka, has devalued against the US dollar which has also increased the cost of imported items. The registration cost is very high when someone buys a property. The cost is around 16 percent of the property price. If the government takes the initiative to reduce it, it will help to make housing more affordable.

The real estate sector could achieve double-digit growth provided the sector gets policy level supports from the government.

Recently, the government initiated a program for government employees to provide the employees with long-term financial support to purchase an apartment. If the government initiates long-term home loan facilities for the general people as it did for the government employees, more people will be able to afford an apartment. Meanwhile, government officials now can apply for home loans with interest cost as low as 5%. Under this scheme, almost 12 lac employees can avail the benefit. But the scheme is designed as such it will only allow government banks and FI to lend to the government employees under the scheme. As per the present policy, the interest rate of the loans are to remain fixed for the duration of the loan, which will make it impossible for private banks and FIs who does not have access to long term matching fund and who will have to collect funds at competitive rate from the market. If the policy can be reviewed and private sector banks and FIs are also included in the scheme, than more and more people can get the benefits of this program.

## **Product wise Performance**

### **• Performance of Home Loan Operations**

During FY 2018, the demand for home loans were slowed down on the back of political uncertainty ahead of national election and interest rates volatility prevailing in the economy. As a result, sale of flats were dropped in the last 3 months of 2018, besides apart from the traditional market players, new entrants have entered the home loan market. The Private Commercial Banks (PCBs) and Non-Bank Financial Institutions (NBFIs) involved with home loans were engaged in intense competition for most of the year.

As expected the home loan market has negatively influenced our lending figures. Being a housing finance specialist DBH has forecasted the situation prudently and focused on extending its base of core retail clientele while maintaining the asset quality. The Company's home loan book in housing finance grew at a meager pace of 3.27% to Taka 43.43 billion during the financial year while keeping gross NPL ratio at the level of 0.30% only. During the year, the gross interest income from the housing finance portfolio stood at Taka 4,842.29 million. DBH holds an adjustable rate home loan portfolio and the average rate of interest as well as the gross interest income on the home loan book increased due to the upward shift in the market rate of interest.

The disbursement figures experienced a serious fall compared to last year but the Company has retained its position as the specialist housing financier with the largest market share in making new disbursements. Total approvals during the year stood at Taka 8,632.15 million as against Taka 15,197.98 million in the preceding twelve months. Total disbursement has decreased by 43.20% and at the end of FY 2018 the net figure was Taka 9,443.74 million as against Taka 13,539.23 million in the preceding twelve months. During the year under review, a total of Taka 8,937.37 million was received by way of repayment of principal on loans through monthly installments and redemption ahead of schedule. Gross non-performing loans as of December 31, 2018 have been fully provided for, as required by Bangladesh Bank, DBH has a loan loss reserve amounting to 1% of unclassified outstanding loans.

### **• Performance of Deposit Portfolio**

Over the years DBH has established itself as one of the leading depository institution in the industry. The company has earned the trust of the clients by providing transparent

& quality service. DBH has kept its focus on deposit collection as its main source of funding mechanism. As a result DBH has managed to fund over 80% of its home loan operations through deposit. At present the Company offers a diverse deposit product line including Annual Income Deposit, Monthly Income Deposit, Quarterly Income Deposit, Cumulative Deposit, Flexible Fixed Deposit, Easy Way Deposit, Children's Deposit, Easy Home Deposit, DBH Platinum Deposit and Day-wise Deposit. In compliance to the regulations of Bangladesh Bank the minimum tenure of the deposits is three months. These products are targeted towards various customer segments comprising of retail and corporate clientele.

At the close of December 31, 2018 the deposit portfolio of DBH stands at Taka 43,318.72 million with an interest payable worth another Taka 1,319.40 million. As the deposit portfolio experienced a growth of 5.17% in FY 2018, gross amount of interest payable on the DBH deposit products have also been increased when compared to that of preceding twelve months.

DBH also provides loan against deposits (LAD) to cater to its customers' urgent financial need. As of December 31, 2018, the LAD portfolio of DBH stood at Taka 379.95 million.

### **Recovery**

Default loan has affected the country's bank & FI sector that halts the overall economy to grow and deprives honest borrowers to collect required funds. And, for the rise of default culture, Banks & FIs are losing out revenues and need to make provisioning against the bad loans from income. FIs' classified loans and leases ratio increased from 9.2 percent at end-June 2018 to 11.2 percent at end-September 2018.

Classified loan of DBH reached to BDT 132.77 Million with NPL ratio of 0.30% at the end of

2018. While aggregate NPL ratio for both Banks and FIs has gone up, DBH has been successful to restrain the increase to a minimum level. Needless to say, this is by far the best figure in Bank & FI industry. Credit goes to company's management, showing company's commitment to its stakeholders. Special recovery team of the company played contributory role to get that figure with their all-out effort for recovery of loans. Intense follow-up and proper monitoring through frequent customer visits are the keys to efficient and effective recovery system.

### **Funding Operations**

Being one of the largest non-bank depository institutions of the industry, the funding composition of the Company has remained significantly reliant on the deposit portfolio. Presently DBH's deposit product line consists of Annual Income Deposit, Monthly Income Deposit, Quarterly Income Deposit, Cumulative Deposit, Flexible Fixed Deposit, Easy Way Deposit, Children's Deposit, Easy Home Deposit, DBH Platinum Deposit and Day-wise Deposit. These products are tailored to meet the diversified needs of our retail and corporate client base. The deposit portfolio of the Company has stood at Taka 43,318.72 million.

The funding of our company comprises of both long term and short term sources of fund to efficiently manage our cost of fund. The term loan portfolio of DBH consists of funds received under Housing Loan refinance Scheme of Bangladesh Bank worth Taka 2,219.15 million and term loans received from local markets for Taka 2,420.00 million. Apart from that the shareholder's contribution in the funding mix is Taka 5,039.98 million, which is almost 9.50% of total fund. The Company is continuously striving to source diversified avenues of funding to minimize its cost as well as asset-liability maturity & interest rate mismatch in the balance sheet.

The funding status of DBH as of December 31, 2018 is presented below:

Source	Amount in Million Taka
Deposits	43,318.72
Term loans	4,639.15
Equity	5,039.98

### Treasury Operations

Growth of private sector credit and the decline of liquidity posed challenges for the entire treasury function of banking industry in 2018. Growing trend of Non-Performing Loans (NPL) increased demand for additional capital and liquidity driving banks profitability downwards.

In DBH, Treasury acts as a catalyst between the core functions of housing finance & deposit mobilization. Amidst all these challenges, DBH Treasury continued to make meaningful contribution for the company in terms of profitability, liquidity management and risk management. And, in the face of these market challenges, the ALM concentration of the company was to source low cost deposit from the market to fund the loan portfolio and maximize spread through exploring new opportunities.

In the period under review, the Central Bank continued its balanced monetary stance to prioritize price stability, while supporting growth and employment generation. Bangladesh Bank adopted policies to facilitate short-term and medium-term macroeconomic management, with monetary and financial policies promoting socially responsible financing, facilitating attainment of the government's near and long-term inclusive, environmentally sustainable growth objectives. Money market remained tight mostly in 2018. Private sector credit growth along with increased cash demand ahead of the national election mopped up liquidity.

Treasury of DBH actively managed the liquidity gaps by managing the flow of assets and

liabilities under strict regulatory requirements. The treasury department reorganized the funding mix and steadily shifted its objective towards attaining stable liquidity as market rates began to edge up during 2018. During the year, with a view to cost minimization as the key objective, the treasury wing focused on sourcing long term funds and term deposits from the public to replace the interbank funds and also accessed fund from the overnight market to reduce overall cost of fund and enhance treasury income. The treasury department contributed a significant portion of the interest income through investment activities during this period. Throughout the year the treasury department maintained a well-balanced liquidity position of the company by adhering to the rules and regulations of the Central Bank.

### Investments in Securities

The year 2018 was a sluggish year for the Bangladesh Stock Market. The benchmark DSEX index fell continuously till July 2018. The last half of the year, index maintained a stable position until closing for the year at 5,385.64 with 13.75% drop YoY. The big drop of index during January 2018 to July 2018 was caused due to poor performance of financial sectors as well as the liquidity crisis in the banking sector. The rest of the year, market showed little positive movement during July to September period, but moved flat by the end of the year. Political uncertainty and exchange rate had a big role too, as most foreign investors opted to realize profit to reduce risk.

Considering the market conditions, we followed wait and see policy and booked some profit when there was a chance. Thus, performance of our portfolio was tiny better than the overall DSEX performances. The total investment of the Company reached to Tk. 607.82 mn at the end of 2018 out of which the outstanding investment in marketable securities was Tk. 358.50 mn. Income from total investment of the Company increased by 5.56% and reached to TK. 45.90 mn in 2018.

## Human Resources

DBH believes that its best investment is in the human resources, as the Company believes that human resource is the edifice on which the company's performance and productivity are standing on. As human resources are one of the key success factors of the company, DBH maintains its policy of recruiting the very best and implementing continuous programs to develop, motivate and retain its talented and capable human resources.

DBH's commitment towards maintaining a fair and healthy working atmosphere binds it upon keeping an unbiased/impartial approach in all its scope that is, free from all kinds of discrimination based on gender, age, race, national origin, religion, marital status, or any other basis not prohibited by law. This maximizes efficiencies at tasks and helps employees reach their full potentials.

A separate report on human resources has been presented on page no. 116 of this report.

## Information Technology

DBH's Information Technology (IT) department supports company's business objective by developing, maintaining and implementing dynamic, cost-effective & secured Information and Communication Technology (ICT) solutions.

During the financial year 2018, IT department has improved its ICT infrastructure by implementing network security device (i.e., firewall) for "Advanced Persistent Threat" (APT) protection, "Automatic Failover System" of smart-host servers and "Data Guard Broker" in Data center (DC) & Disaster Recovery (DR) sites.

Centralized software system has been enhanced as per changes in business needs and according to the need for process re-engineering. Some of the major accomplishments were enhancement of legal module, customer service module, document release module, Internal Audit module and implementation of online CV submission and recruitment system.

DBH's IT department is working relentlessly to maintain and upgrade its existing infrastructure and software systems as per business demand and technology trend ensuring availability, integrity & confidentiality.

## Internal Control system

DBH has adequate system of internal controls for business processes, with regard to operations, financial reporting, fraud control, compliance with applicable laws and regulations, etc. These internal controls and systems are devised as a part of the principles of good governance and are accordingly implemented within the framework of proper check and balances. Your Company ensures that a reasonably effective internal control framework operates throughout the organisation, which provides assurance with regard to safeguarding the assets, reliability of financial and operational information, compliance with applicable statutes, execution of the transactions as per the authorisation and compliance with the internal policies of the Company.

The internal audit adopts a risk based audit approach and conducts regular audits of all the branches/offices of the Company and evaluates on a continuous basis, the adequacy and effectiveness of the internal control mechanism, adherence to the policies and procedures of the Company as well as the regulatory and legal requirements. The internal audit department places its findings before the Audit Committee of the Board of Directors at regular intervals. The Audit Committee of the Board of Directors actively reviews the adequacy and effectiveness of internal control systems and suggests improvement for strengthening the control systems according to the changing business needs from time to time.

## Codes and Standards

The Company has adopted various codes, standards and policies set out by Bangladesh



Bank and Bangladesh Securities and Exchange Commission including inter alia Know Your Customer (KYC) Guidelines, Anti Money Laundering Guideline, Asset Liability management Guideline, Code of Conducts for employee as well as the Directors, HR Policies, IT Policies and Treasury Manual etc.

The Company has the mechanisms in place to review and monitor adherence to these codes and standards and ensure reporting and compliances as required.

### Credit Rating

Delta Brac Housing Finance Corporation Limited with its strong fundamentals has earned the highest credit rating award for the 13 (thirteen) consecutive years. Emerging Credit Rating Limited (ECRL) reaffirms AAA in the long term and ST-1 in the short term rating of Delta Brac Housing Finance Corporation Limited in its latest entity rating done based on the Company's accounting year ended on 2017.

### Key operating and financial data of at least last preceding 5 (five) years

Key operating and financial data of last preceding 5 (five) years has been presented under the heading of Operational and Financial Highlights on the page no. 22 of this annual report. Financial Highlights as required by Bangladesh Bank has also been given on page no. 23 of this report.

### Contribution to National Economy

At DBH we believe that we have some responsibilities to the development of country where we operate our business and to the society where we belong. As a financial institute, DBH contributes to the economic prosperity by providing financial products and services to housing sector. Our total credit exposure as on December 31, 2018 was Tk. 43,848 Million. We have extended loan to around 18,302 customers to meet their housing need, which is one of the basic needs of people.

DBH contributes to the national exchequer in the form of income tax, VAT & Excise duty. Company's contribution to the national exchequer is given below.

Taka in Million

Particulars	December 31, 2018	December 31, 2017
Income Tax paid on company's income	499.48	299.87
Tax collected at source on behalf of Government	395.22	316.70
Value Added Tax (VAT)	32.50	33.69
Excise Duty	49.24	38.83
Total	976.44	689.09

Creating employment has a vital impact on the economy and number of employees of DBH as on December 31, 2018 was 243. Efficient workforce is very important for the organization as we as for the country. Keeping same in view, DBH has spent Tk. 0.36 million for training of its employees. During the period from January 1, 2018 to December 31, 2018, DBH has paid Tk. 340.06 million as salaries and allowances to its employees.

### Contribution to the society during the year

DBH's responsibilities to the society are manifested in its activities, as a responsible corporate citizen, through its continuous effort to promote ownership of housing, wealth creation and also towards the improvement of the underprivileged of the society.

Corporate Social Responsibility policy of the Company was approved by the Board of Directors in line with the Bangladesh Bank's Guidelines on CSR with a view to engage the institution into a broad range of direct and indirect CSR activities including humanitarian

relief and disaster response as well as to widening of advancement opportunities for disadvantaged population segments in the areas of healthcare, education and training as well as greening initiatives etc.

Consequently, during the period we took few projects under CSR fund for the common good of the disadvantaged population segments.

The details of the CSR initiatives have been presented under the head of Corporate Social Responsibility on the page no. 103 of this report.

### Highlights on Financial Performance

(Figures in Million Taka)

Particulars	December 31, 2018	December 31, 2017
Operating revenue	6,058	4,785
Interest expenses	4,062	2,968
Operating expenses	495	449
Profit before provisions	1,501	1,369
Profit before tax	1,607	1,492
Net profit after tax	1,048	949

### Corporate and Financial Reporting Framework

The Members of the Board, in accordance with the Bangladesh Securities & Exchange Commission's Notification no. BSEC/CMRRCD/ 2006-158/ 207/ Admin/ 80 dated June 3, 2018; confirmed compliance with the financial reporting framework for the following:

- The financial statements prepared by the Management of DBH, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the issuer company have been maintained.

- Appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment.

- International Accounting Standards (IAS)/ International Financial Reporting Standards (IFRS), as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure therefrom has been adequately disclosed.

- The system of internal control is sound in design and has been effectively implemented and monitored. (Statement given on page no. 96)

- The minority shareholders have been protected from abusive actions by, or in the interest of controlling shareholders acting either directly or indirectly and have effective means of redress.

- There are no significant doubts upon the issuer company's ability to continue as a going concern.

### Going Concern

The financial statements of the Company have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Board of Directors of DBH has made annual assessment about whether there exists any material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern, including review of budget and future outcome of inherent uncertainties in existence.

Based on the different indications, Directors feel it appropriate to adopt going concern assumptions and no material uncertainty exists in preparing the financial statements.

A separate report on the matter is given on page no. 113.

### **Explanations on Significant Deviations from the last year's results**

DBH as a pioneer housing finance Company, mainly finances in mortgage sector and its earnings performances are historically growing in each year. During the year 2018 net profit after tax of the Company has grown by 10.42% than that of last year. Hence, no significant deviations have occurred in the current year's operations from that of last year's operations.

### **Board Meetings and Attendance by the Directors**

Attendance by the Directors in the Board have been summarized and given in Annexure-i and the fees paid to them for attending the Board Meeting during the period has been given in Annexure-ii of this report.

### **Shareholding Pattern**

Shareholding patterns of the Company as at the end of the 2018 has been shown in Annexure-iii of this report.

### **Proposed Dividend**

The Board of Directors at the time of considering the financial statements for the year ending 31 December 2018 have recommended @ 35% dividend [@ 25% cash i.e. Tk. 2.50 per share and @ 10% stock i.e. 1(one) share against every 10 (ten) shares held] from the distributable profits of the Company, which will be placed before the shareholders in the forthcoming AGM for approval.

The Members of the Board agreed in principle and declared that pursuant to the Corporate Governance Code-2018, the Board shall not declare bonus share or stock dividend as interim dividend.

### **Directors' Appointment & Re-appointment**

The profile of Directors of the Company has been presented in page Nos. 10 to 19 of the Annual Report.

In accordance with the Articles of Association of DBH, the following Directors will retire in the 23rd Annual General Meeting and being eligible for re-election, they are seeking re-election to the Board.

- Mr. Nasir A. Choudhury (representing GDICL)
- Ms. Mehreen Hassan, Bar-at-law (representing DLICL)
- Mr. Mohammed Irfan Syed (representing BRAC)

Pursuant to the Clause 1.2(c) of the CGC-2018, appointment of the following Independent Director shall be approved by the shareholders in the forthcoming AGM.

- Major General Syeed Ahmed BP, (Retd.)

### **Disclosure of information in case of the appointment /re-appointment of the Directors**

- a) Brief resume of the Directors have been included in page nos. 10 to 19 of this Annual Report
- b) Nature of the expertise of the Directors have been disclosed in the brief profiles
- c) Name of the Directors and entities in which they have interest as Directors have also been disclosed in the brief profiles as well as in the notes (no. 41.1) of the Financial Statements.

### **Appointment of Auditors**

M/s. Aziz Halim Khair Choudhury (AHKC), Chartered Accountants (correspondent of international firm of chartered accountants, PKF International, UK) an eligible chartered accountants firm for auditing the financial institutions as well as listed companies (listed with BB, BSEC & FRC) had been serving DBH for last one year as statutory auditors and will retire in the forthcoming AGM. According to Bangladesh Bank as well as BSEC's rules, they are eligible for re-appointment for the accounting year 2019. Accordingly, the Board recommended to appoint them for the year

2019 with a fee of Tk. 420,000.00 plus VAT, subject to prior approval from Bangladesh Bank.

Hence, the agenda for re-appointment of auditors (AHKC) will be placed before the shareholders for their approval.

### **Corporate Governance**

As a listed housing finance company (DBH) with 23 years of compliant history, DBH has a strong institutional framework to meet the regulatory requirement of Corporate Affairs. DBH's experienced Board maintains an overview on the Company through the Supervisory Committees. In addition to bringing valuable perspective to the Board, DBH's independent directors contribute meaningfully through their roles within the committees.

DBH understands sound corporate governance and its importance in retaining and enhancing investors trust. The Company's commitment to values and performance is driven by transparency and integrity, which goes a long way in achieving the top position. It adheres to the core values of credibility and accountability to serve its stakeholders with passion and commitment. Its values and transparent processes act as a catalyst in growth.

Pursuant to the BSEC's Corporate Governance Codes, the following statements are appended as part of this Annual Report:

- (i) Audit Committee Report to the Shareholders;
- (ii) Statement on Financial Statements by Chief Executive Officer (CEO) and Head of Finance;

- (iii) Report on the Corporate Governance;
- (iv) Certificate regarding compliance of conditions of Corporate Governance; and
- (v) Statement on minority shareholders rights protection.

A statement of compliance on the Good Governance Guidelines issued by Bangladesh Bank has also been enclosed as a part of this annual report.

### **Acknowledgement**

The Board of Directors of the Company would like to extend their sincere thanks and gratitude to its stakeholders for assistance and guidance from time to time. The Directors of the Company acknowledge their gratitude to its customers, financiers, Bangladesh Bank, Bangladesh Securities & Exchange Commission (BSEC), Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) and other regulatory authorities for their guidance and support to the Company and the co-operation extended by the Auditors, and the devoted efforts put in by the Company's employees at all levels to uphold the Company's performance.

For and on behalf of the Board of Directors.

A handwritten signature in black ink, appearing to read 'Nasir A. Choudhury', with a horizontal line extending to the right.

**Nasir A. Choudhury**  
Chairman

# Directors' Meeting & Attendance



## Annexure-i

- During the financial year under reporting total six Board Meetings were held and the attendance of the Directors are noted below:

Name of Directors	Nominated by	Total Meetings	Meetings Attended	Changes during 2018	
				Date of Board Acceptance	
				Joining	Leaving
Mr. Nasir A. Choudhury Chairman	Green Delta Insurance Company Ltd.	6	6	-	-
Dr. A M R Chowdhury Vice Chairman	BRAC	6	5	-	-
Mr. A Z Mohammad Hossain	Green Delta Insurance Company Ltd.	6	4	-	-
Ms. Mehreen Hassan, Bar- at- Law	Delta Life Insurance Company Ltd.	6	4	-	-
Mr. Saif Md. Imran Siddique	BRAC	4	4	-	23-10-2018 (resigned)
Mr. M I Chowdhury	Independent Director	5	4	-	27-12-2018 (tenure completed)
Mr. Md. Sayeed Ahmed, FCA, ACMA, CGMA	Delta Life Insurance Company Ltd.	6	6	-	-
Mr. Md. Mujibur Rahman	Delta Life Insurance Company Ltd.	6	6	-	-
Ms. Rasheda K. Choudhury	Independent Director	6	3	-	-
Mr. Mohammed Irfan Syed	BRAC	0	0	27-12-2018 (nominated by BRAC)	-
Major General Syeed Ahmed BP, (Retd.)	Independent Director	0	0	27-12-2018 (appointed by the Board)	-

# Directors' Remuneration



## Annexure-ii

- The statement of remuneration paid to the Directors during the financial year under reporting are noted below:

Name of Directors	Board		Executive Committee		Audit Committee		Total Fees Paid (Tk.)
	Attendance	Fees (Tk.)	Attendance	Fees (Tk.)	Attendance	Fees (Tk.)	
Mr. Nasir A. Choudhury Chairman	6	48,000	0	0	4	32,000	80,000
Dr. A M R Chowdhury Vice Chairman	5	40,000	4	32,000	4	32,000	104,000
Mr. A Z Mohammad Hossain	4	32,000	0	0	2	16,000	48,000
Ms. Mehreen Hassan, Bar- at- Law	4	32,000	2	16,000	0	0	48,000
Mr. Saif Md. Imran Siddique (Resigned on 23-10-2018)	4	32,000	3	24,000	0	0	56,000
Mr. M I Chowdhury (tenure completed on 27-12- 2018)	4	32,000	0	0	4	32,000	64,000
Mr. Md. Sayeed Ahmed, FCA, ACMA, CGMA	6	48,000	0	0	4	32,000	80,000
Mr. Md. Mujibur Rahman	6	48,000	0	0	0	0	48,000
Ms. Rasheda K. Choudhury	3	24,000	0	0	0	0	24,000
Mr. Mohammed Irfan Syed (Joined on 27-12-2018)	0	0	0	0	0	0	0
Major General Syeed Ahmed BP, (Retd.) (Joined on 27-12-2018)	0	0	0	0	0	0	0
<b>Total</b>	-	<b>3,36,000</b>	-	<b>72,000</b>	-	<b>1,44,000</b>	<b>5,52,000</b>

# Pattern of Shareholdings



as on 31<sup>st</sup> December 2018

Annexure-iii

(i) Shareholding position of Sponsors:

Name	No. of Shares held	Percent (%)
BRAC	22,406,611	18.39
Delta Life Insurance Company Limited	21,479,325	17.63
Green Delta Insurance Company Limited	18,649,813	15.31
Mr. Kazi Fazlur Rahman	0	0.00
Mr. Faruq A. Choudhury	24	0.00
Dr. Salehuddin Ahmed	24	0.00
Mr. Q. M. Shariful Ala, FCA	0	0.00
<b>Total</b>	<b>62,535,797</b>	<b>51.32</b>

(ii) Shareholding status of Directors/CEO/CFO/CS/HIAC/HICT & their spouses & minor children:

Name of the Directors	Nominated by	No. of Share(s) held	Percent (%)
Mr. Nasir A. Choudhury, Chairman	Green Delta Insurance Company Ltd.	-	-
Dr. A M R Chowdhury, Vice Chairman	BRAC	-	-
Mr. A Z Mohammad Hossain	Green Delta Insurance Company Ltd.	-	-
Ms. Mehreen Hassan, Bar- at- Law	Delta Life Insurance Company Ltd.	-	-
Mr. Md. Sayeed Ahmed, FCA, ACMA, CGMA	Delta Life Insurance Company Ltd.	-	-
Mr. Md. Mujibur Rahman	Delta Life Insurance Company Ltd.	-	-
Mr. Mohammed Irfan Syed	BRAC	-	-
Ms. Rasheda K. Choudhury	Independent Director	-	-
Major General Syeed Ahmed BP, (Retd.)	Independent Director	-	-

Name of the Executives	Status	No. of Share(s) held	Percent (%)
Mr. Q. M. Shariful Ala, FCA	Managing Director & CEO	-	-
Mr. Hassan I. Yussouf	Head of Information Technology	-	-
Mr. Syed Aminul Islam	Head of Finance	-	-
Mr. Jashim Uddin, FCS	Company Secretary & Head of Corporate Affairs	-	-
Mr. Shihabuddin Mahmud	In-charge, Internal Audit	-	-

(iii) Top five salaried persons other than CEO, CFO, CS, HIAC & HICT

Name of the Executives	Status	No. of Share(s) held	Percent (%)
Mr. Nasimul Baten	Head of Operations	-	-
Mr. A. K. M. Tanvir Kamal	Head of Credit	-	-
Mr. Tanvir Ahmad	Head of Human Resources	-	-
Mr. Saiyaf Ejaz	Head of Recovery, Customer Services & Administration	-	-
Mr. Md. Zakaria Eusuf	Head of Branch	-	-

(iv) Shareholders holding 10 % or more voting interest in the Company:

Name of the Shareholders	No. of Shares held	Percent (%)
BRAC	22,406,611	18.39
Delta Life Insurance Company Limited	21,479,325	17.63
Green Delta Insurance Company Limited	18,649,813	15.31



# Management Discussion and Analysis



## World Economy 2018

The global economy is navigating rough seas. Global trade and investment have been slowing on the back of increases in bilateral tariffs while many emerging market economies are experiencing capital outflows and a weakening of their currencies. The global economy looks set for a soft landing, with global GDP growth projected to slow from 3.7% in 2018 to 3.5% in 2019-20.

Union and the United Kingdom manage to strike a deal that maintains the closest possible relationship between the parties. In some euro area countries, the exposure of banks to their government debt could weigh on credit growth if risk premia were to increase further, with dampening effects on consumption, investment, GDP growth and ultimately jobs.

Growth performance for 2018 and the outlook for 2019 in the Euro Area are also anticipated

## OECD Economic Outlook Projections: Real GDP growth revised down

Year-on-year, %. Arrows for 2018 and 2019 indicate the direction of revisions since September 2018.\*

	2018	2019	2020	2018	2019	2020
World	3.7	3.5	3.5			
G-20	3.8	↓ 3.7	↓ 3.7			
Australia	3.1	↑ 2.9	↓ 2.6			
Canada	2.1	2.2	↑ 1.9			
Euro area	1.9	↓ 1.8	↓ 1.6			
Germany	1.6	↓ 1.6	↓ 1.4			
France	1.6	↓ 1.6	↓ 1.5			
Italy	1.0	↓ 0.9	↓ 0.9			
Japan	0.9	↓ 1.0	↓ 0.7			
Korea	2.7	2.8	2.9			
United Kingdom	1.3	1.4	↑ 1.1			
United States	2.9	2.7	2.1			
Argentina	-2.8	↓ -1.9	↓ 2.3			
Brazil	1.2	2.1	↓ 2.4			
China	6.6	↓ 6.3	↓ 6.0			
India	7.5	↓ 7.3	↓ 7.4			
Indonesia	5.2	5.2	↓ 5.1			
Mexico	2.2	2.5	2.8			
Russia	1.6	↓ 1.5	1.8			
Saudi Arabia	1.7	2.6	2.5			
South Africa	0.7	↓ 1.7	↓ 1.8			
Turkey	3.3	↑ -0.4	↓ 2.7			

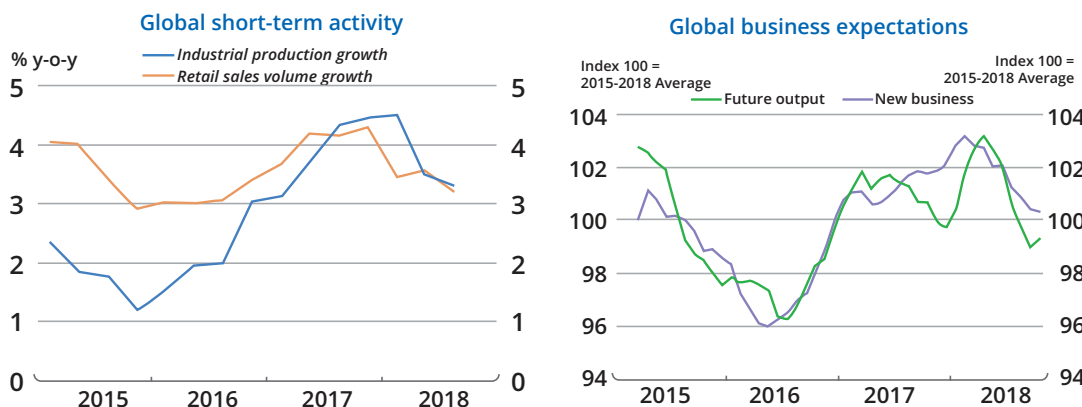
Capital flows, which had fuelled the expansion of emerging market economies, have been reversing towards advanced economies and especially the United States. Trade tensions have heightened uncertainty for businesses and risk disrupting global value chains and investment, especially in regions tightly linked to the United States and China. Political and geopolitical uncertainty has increased in Europe and the Middle East.

Political tensions other than trade have also grown. In the Middle East and Venezuela, geopolitical and political challenges have translated into more volatile oil prices. In Europe, Brexit is an important source of political uncertainty. It is imperative that the European

to decline in 2018 and 2019 due to the Brexit and the recently adopted trade measures by the US administration. Among the emerging and the developing economies, China and a number of Asian economies are also expected to experience somewhat a weaker growth in 2019. However, India's growth rate is expected to rise from 6.7 percent in 2017 to 7.5 percent in 2018 and 7.3 percent in 2019, with some support from the structural reforms. Among the oil exporting countries, particularly the Middle East, growth received boost from higher oil prices, though price increases have sharply reversed since November 2018 from higher production.

The ongoing trade tension could have some positive spillover on the Bangladesh economy

**Chart - 1: Activity is losing steam**

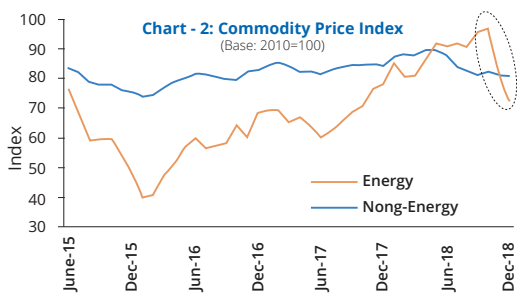


through higher demand for the Bangladeshi readymade garments. The pickup in the construction activities in the Middle East from the high oil prices till October 2018 is expected to support labor demand from Bangladesh. Global energy prices have sharply reversed during the last quarter of 2018. Since October 2018, crude oil prices declined by around 30 percent from their recent highs, reflecting both supply and demand factors. Although given the regulated domestic fuel prices in Bangladesh, oil price decline would have less immediate impact on inflation but it would have positive impact on the current account dynamics. Similarly, global food prices have declined during the second half of 2018 when food production in Bangladesh has also picked up in the aftermath of the floods in 2017. Both global and domestic commodity prices therefore have favorably lessened the short-to medium-term inflation risks in Bangladesh.

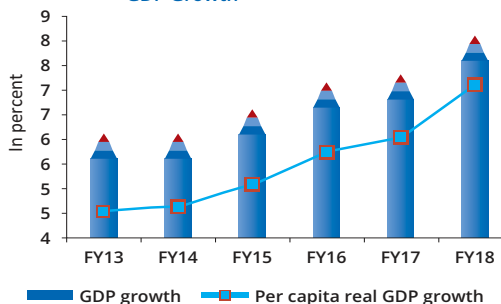
### Bangladesh Economy

The Bangladesh economy experienced an impressive growth in FY18, underpinned by strong domestic and external demand, as reflected in buoyant public and private investment and consumption, driven by higher exports, remittances and private credit growth. During the period, a good harvest of food production may offset some inflation risks from the pass-through effects of global oil and commodity prices.

Bangladesh has achieved a recorded GDP growth of 7.9 percent in FY18, up from 7.3 percent in FY17 (Chart-3). The robust growth mainly propelled by industry, agriculture and service sectors' activities. The key sectors, industry, services and agriculture grew by 12.1, 6.4 and 4.2 percent respectively (Chart-4).



**Chart - 3: Trends in Bangladesh Real GDP Growth**

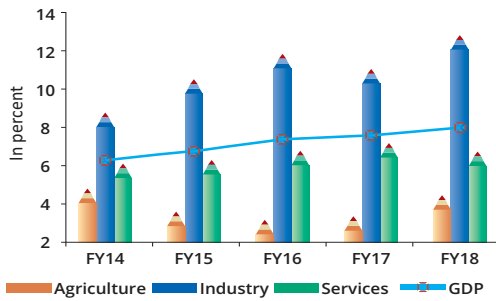


Source:

- (1.) Organization for Economic Co-operation and Development (OECD report)
- (2.) Bangladesh Bank's Monetary Policy Statement, January-June 2019

The data of Bangladesh Bureau of Statistics (BBS) showed that GDP at current market price was BDT 22,504.8 billion for FY18 which was 13.9 percent higher than that of the preceding year. In FY18, per capita real GDP and GNI

**Chart - 4: Trends in Sectoral GDP Growth**



Source: Bangladesh Bureau of Statistics

were estimated at BDT 62,477 and BDT 65,326 respectively. During the same period, per capita nominal GDP and GNI were estimated at BDT 137,518 (USD 1675) and 143,789 (USD 1751) respectively.

**Sectoral Growth Rate of GDP**

Growth decomposition shows that the industry sector appeared to attain the highest growth followed by services and agriculture sector.

**Agriculture Sector**

The growth in agriculture sector increased to 4.2 percent in FY18 from 3.0 percent in FY17. This growth in agriculture sector mainly aided by favorable weather, higher crop prices, and timely supply of inputs and finance.

**Industry Sector**

The industry sector, constituting around one-third of gross value-added (GVA) in the economy, grew by around 12.1 percent in FY18, up from 10.2 percent in FY17, led mainly by manufacturing and construction activities.

The Growth in large and medium scale industry increased to 14.3 percent in FY18 from 11.2 percent in FY17, growth in electricity, gas and water supply increased to 9.2 percent in FY18 from 8.5 percent in FY17 and growth in construction increased to 9.9 percent in FY18 from 8.8 percent in FY17. The construction sector received a boost from the government’s mega projects implementation. Growth in manufacturing sub-sector increased to 13.4 percent from 11.0 percent over the same period.

**Service Sector**

Despite some moderation, the service sector, comprising more than half of GVA, registered a modest growth of 6.4 percent in FY18. Within the sector, larger growth impulse primarily came from the wholesale and retail trade, transport and financial intermediation. The sub-sectors viz. wholesale and retail trade, transport and financial intermediation grew by 7.5, 6.6 and 7.9 percent in FY18 compared to 7.4, 6.8 and 9.1 percent in FY17, respectively.

**Sectoral Share of GDP**

Sectoral share of GDP shows that the service sector appeared to be the largest share followed by industry and agriculture sector.

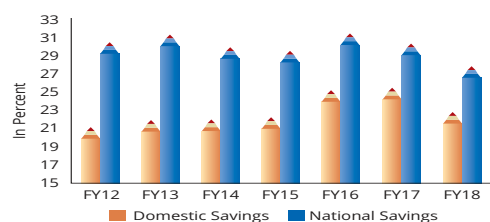
With the gradual upward trends of GDP, the sectoral composition of GDP has also been changing over the time. Contribution of agriculture sector has been declining and has shifted towards industry sector during the last several years. The contribution of the industry sector in GDP increased to 33.7 percent in FY18. The increasing share was mainly supported by the manufacturing and large & medium scale industries sub-sector whose share in GDP increased by 5.1 percentage points to 22.9 percent and 5.9 percentage points to 19.1 percent respectively in FY18.

The share of agriculture slightly went down to 14.2 percent in FY18 from 14.7 percent in FY17.

**Savings and Investment**

Gross Domestic Savings (GDSs) at current market price stood at 22.83 percent of GDP in FY18, lower than 25.3 percent of GDP in the previous fiscal year. Gross National Savings (GNSs) decelerated to 27.42 percent of GDP in FY18 from 29.6 percent in FY17 (Chart-5).

**Chart - 5: Trends in Domestic and National Savings** (In Percent of GDP)



Source: Bangladesh Bureau of Statistics.

Investment as a percent of GDP accelerated to 31.23 percent in FY18 from 30.5 percent in FY17. Public investment to GDP ratio increased to 8.0 percent in FY18 from 7.4 in FY17. The ratio of private investment to GDP increased to 23.26 in FY18 from 23.1 in FY17. It may be noted that private and public investment increased by 14.7 and 22.5 percent respectively in FY18 compared to in FY17.

#### Investment as percent (%) of GDP

	FY16	FY17	FY18
Private	22.99	23.10	23.26
Public	6.66	7.41	7.97
Total	29.65	30.51	31.23

#### Banking Sector

The most worrisome development in the banking sector is the unabated rise in classified loans. As a proportion of outstanding loan, the figure increased from 8.8% in December 2015 to 11.5% in September 2018. In terms of absolute amount, the figure was taka 89,339 crores in June 2018 and rose to taka 99,370 crores in September 2018. Fls' classified loans ratio at end September 2018 rose to 11.2%.

#### Capital Market

2018 was a choppy year for Bangladesh Capital markets with several headwinds such as rising interest rates owing to liquidity crunch, historic high deficit in current account balance (USD 9.8 billion deficit in FY18), currency (BDT) depreciation on high import payment for importing capital machineries for mega infrastructure and power projects and payment for fuel oil import at high cost as well as tensions and expectations about the outcome of National General Election of 2018.

Market in 2018 has consolidated its position on the base of 2017's staggering return of 24.0%. The market witnessed a reasonable correction of 13.8% in 2018.

Source: (1.) Bangladesh Bank Annual Report 2017-2018  
(2.) Market pulse, Dec 2018 issue

#### Overview of the Financial Services Industry

The Bangladesh's financial services sector, comprising of a range of institutions from Commercial and Specialized Banks (private and public), Non-Banking Financial Institutions (NBFIs), Insurance Companies, Co-operative Societies etc., are diverse and expanding rapidly. Over the years, the Government of Bangladesh has initiated several reforms to liberalise this industry and expand its reach to the un-Bank people in the rural and remote areas. Adding a further dimension, the Government and Bangladesh Bank have also allowed new entities such as Mobile Financial Services Provider to enter the financial sector.

Non-Bank Financial Institutions (NBFIs) have been playing a crucial role by providing additional financial services that is not usually provided by the banks. The NBFIs, with more multifaceted products and services have taken their place in the competitive financial market to satisfy the changing demands of the customers. The role of NBFIs sector has been growing. The asset of NBFIs increased substantially by 17.82 percent to BDT 841.07 billion in December 2017 which was BDT 713.87 billion in December 2016. At the end of June 2018, total assets of NBFIs increased to BDT 870.30 billion.

Total deposits of the NBFIs increased to BDT 467.98 billion (64.41 percent of total liabilities) in December 2017 from BDT 382.43 billion (63.05 percent of total liabilities) in December 2016 showing an overall growth of 22.37 percent. At the end of June 2018, total deposit of NBFIs increased to BDT 480.1 billion. At the end of June 2018, the NPL for NBFIs was 9.22 percent.

#### Loans at Affordable Cost and Term

Availability of suitable funding options to potential home owners is a crucial requirement if the purchase of flats/homes is to accelerate. A large section of population in urban areas are first time borrowers. The traditional funding for the purchase of a flat usually came from the lifetime savings of a family, which is changing as younger generation looks for home ownership.

Banks and FIs are providing longer term loans, flexible repayment factoring to match the customers need. As these needs keep going up, home loan providers will have to find matching resources of stable and long term funds as well as a market for securitization of loan book.

**Pursuant to the Corporate Governance Code, 2018 the management of DBH has prepared the following analysis in relation to the company's position and operations along with brief discussion of changes in the financial statements among others, focusing on :**

**(a) Accounting policies and estimation for preparation of financial statements**

The financial statements have been prepared on a going concern basis and accrual method under historical cost convention and therefore did not take into consideration of the effect of inflation. The preparation and presentation of the financial statements and the disclosure of information have been made in accordance with the DFIM circular no. 11 dated 23<sup>rd</sup> December 2009 in conformity with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), the Companies Act 1994, the Financial Institutions Act 1993, Securities and Exchange Rules 1987, the listing rules of Dhaka and Chittagong Stock Exchanges and other applicable laws & regulations in Bangladesh and practices generally followed by Housing Finance Institutions.

As Bangladesh Bank is the primary regulator of Financial Institutions, Bangladesh Bank's guidelines, circulars, notifications and any other requirements are given preference to IAS and IFRS, where any contradictions arises. Appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment.

**(b) Changes in accounting policies and estimation**

The principle accounting policies had been consistently maintained since inception of the Company except the changes in the Depreciation Method from Reducing Balance Method to Straight Line Method. The Board of Directors approved the changes (Depreciation Method) in the accounting policies on May 26, 2011. Thus, the cost of the fixed asset is recovered through charging in Profit & Loss Account within a reasonable time.

During the year under consideration, the Company has not adopted any change in the accounting policies and estimates.

**(c) Comparative analysis of financial performance and financial position as well as cash flows for current financial year with immediate preceding five years explaining reasons thereof**

The financial year 2018 has been challenging

In mn taka except ratios

Particulars	2013	2014	2015	2016	2017	2018
A. Interest Income	4,625	4,533	4,395	4,209	4,573	5,855
B. Profit After Tax	565	648	726	829	949	1,048
C. Average Asset	30,246	33,299	37,180	42,821	50,526	56,040
D. Average Equity	2,347	2,606	2,922	3,351	3,975	4,699
E. Profit Margin (B/A)	12.21%	14.30%	16.52%	19.69%	20.75%	17.90%
F. Asset Turnover (A/C)	15.29%	13.61%	11.82%	9.83%	9.05%	10.45%
G. Financial Leverage (C/D)	12.89	12.78	12.73	12.78	12.71	11.93
H. Return on Equity (E*F*G)	24.07%	24.88%	24.86%	24.73%	23.88%	22.30%

Above figures represent 12 months financial information of each year commencing from 01 January to 31 December of every year.

one with an operating environment, constrained margins and rate volatility both deposits and loans rate. Nonetheless, we have managed to end the year with satisfactory results.

Considering our management excellence in understanding the home loan business and specialization in human capital, we are pleased with the progress of the company. The following DuPont analysis contains in-depth financial performances, dissecting our current year's results.

### Highlights of Key Strengths (DuPont Analysis)

Despite facing numerous external challenges, DBH fared well in 2018 in terms of liquidity, solvency and profitability. Our focus has been on improving asset quality, recovering classified loans, enhancing service excellence and rationalizing costs. The underlying reasons behind this year's financial performance has been noted below:

#### Net Interest Income (+11.64%):

Despite being affected by certain industry challenges, our core activities have produced satisfactory results in 2018. Net interest income (which contributes 89.82% of total operating income) increased by 11.64%. Investment income grew by 5.57%.

#### Interest Income (+28.03%):

Company's interest income, mostly from home loans, increased by 28.03% (BDT1282 million) mainly for following reason:

Loans and advances grew by 3.80% to BDT 43,848 million at year-end 2018 characterized by slower growth in first half but a positive turnaround in the second half of 2018 which eventually affected the average loan balances. Efficient management of interest rate risk management ensured attractive growth of interest income in 2018

#### Interest Expense (+36.89%):

Company's interest expense on deposit and borrowing increased by 36.89% (BDT 1095 million) primarily due to following reason:

Interest expense on deposit increased by 39.05% to BDT 3,658 million in 2018 compared to previous year. Bank and FI industry faced a sudden shortage of liquid funds in 2018 which forced banks and FIs to collect deposit at higher rate. As a result, the average cost of deposit increased to 8.46% as on December 2018 compared to 6.76% in the previous year.

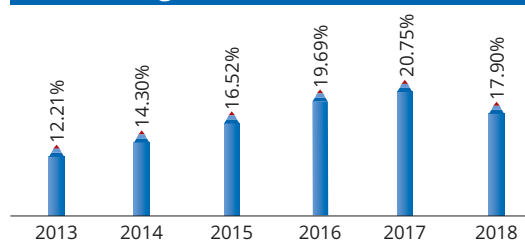
#### Net Operating Profit (+9.64%):

Due to higher growth of operating expenses (10.28%) and slight lower growth of operating income (9.80%), Net operating profit of the company increased by 9.64% and reached at BDT 1,501 million in 2018.

#### Profit After Tax (+10.42%):

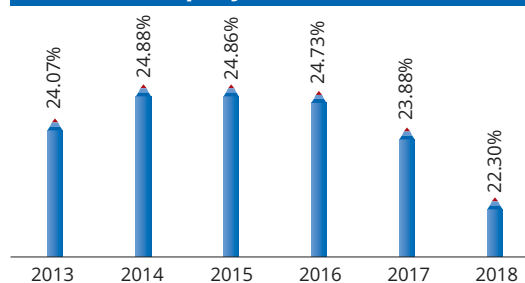
Eventually, the profit after tax of the company increased by 10.42% and stands at BDT 1,048 million due to the factors mentioned above. As a result, our earnings per share (EPS) in 2018 has also increased to BDT 8.60 (BDT 7.79 in 2017).

#### Profit Margin



Profit margin has been consistently over 15% in the last 4 years. Consistent Profit margin achieved by increasing interest income and reducing costs.

#### Return on Equity



There are three major financial metrics that drive return on equity (ROE) of DBH: operating efficiency, asset use efficiency and financial leverage. Though faced with numerous challenges, DBH

has been able to make highest average ROE compared to major competitors in the industry.

### Outlook

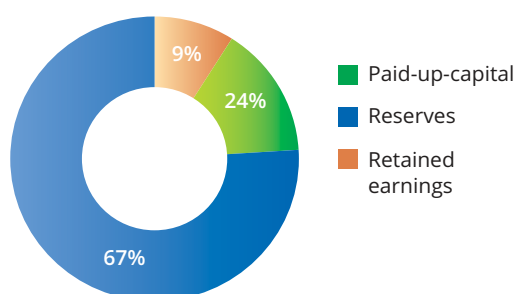
Interest rates volatility during the year appears to have calmed down at the end and expected to have within this range going forward as banks have already more or less adjusted their Advance to deposit (A/D) ratio.

### Capital Adequacy Ratio

DBH has been maintaining the healthy CAR since long to comply with the Bangladesh Bank's Prudential Guideline on Capital Adequacy and Market Discipline for FIs.

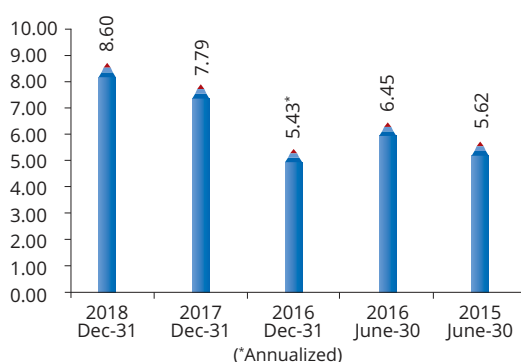
### Shareholders Fund:

#### Shareholders' Funds-2018



### Earnings per share (restated):

Earnings per share (in BDT)



The earnings per share of the company has increased to Tk. 8.60 in 2018 from Tk. 7.79 in 2017, with a growth of 10.42%.

### Cash Flow Analysis

In mn Taka

Particulars	2018	2017
i) Net cash flows from operating activities	1,328.14	2,018.39
ii) Net cash used in investing activities	22.85	-170.03
iii) Net cash used in financing activities	-365.56	-182.78
iv) Net increase / (decrease) in cash and cash equivalents (i+ii+iii)	985.44	1,665.58
v) Cash and cash equivalents at the beginning of the year	10,815.92	9,150.34
vi) Cash and cash equivalents at the end of the year (iv+v)	11,801.36	10,815.92

### Cash Flow from Operating Activities

Cash generated from operating activities before changes in operating assets and liabilities increased by 42% to Tk. 1,508 mn in 2018 compared to previous year. The growth primarily came from increased inflows of receipts from interest income.

### Cash Flow from financing activities

The company paid Tk. 182 mn as dividend in the year 2017 for the half year ended on December 2016. On the other hand, the Company also paid Tk. 365 mn as dividend in the year 2018 against the accounting year 2017.

### Overall scenario

The cash and cash equivalent balance of the company rose to Tk. 11,801 mn in 2018 compared to Tk. 10,816 mn in 2017.

### (d) Comparative financial performances with the peer industry

#### Housing Finance Industry

An overall positivity, propelled by a combination of factors, is expected to push growth in the housing finance industry over the long term. The Government is also continuously strengthening its focus on its "Housing for All" mission. According to this mission, Government

Employees are getting home loan @ 5% (with a Govt. subsidy of 5%). Above all a boost to the affordable housing sector will definitely drive the affordable housing finance industry.

The financial institution industry is marked by high levels of competition with 34 NBFIs operating in the space. The major housing loan providers are some commercial banks, BHBFC, DBH and other few NBFIs.

DBH continued keeping pace outperforming the industry in 2018 in terms of growth of different performance and financial position measures. The impetus of growth can be seen by comparing financial data of DBH with industry's financial information.

Particulars	DBH	Average of Top Five NBFIs (In terms of Asset Size)
Total Asset (MN Taka)	57,652	69,135
Loan Portfolio (MN Taka)	42,712	53,447
NPL Ratio	0.27%	2.24%
Cumulative Written off loan amount (MN Taka)	9.3	794
'AAA' credit rating for ten consecutive years	Thirteen consecutive years	Nil
ROA (Annualized)	1.93%	1.15%
ROE (Annualized)	23.60%	12.45%
Net cash flow from operating activities as a percentage of Interest income	65.25%	42.90%

Notes:

- A. For the 9 months ending 30 September, 2018 except NPL ratio & written off (as on 31 Dec, 2017); full year data is not publicly available for all companies yet.
- B. Excluding Investment Corporation of Bangladesh (ICB), IDCOL & Reliance Finance.

The FI industry is still burdened with an alarming amount of non-performing loans (NPLs) that make funds costlier and FIs' operations riskier. DBH has achieved the lowest level of NPL, outperforming its competitors. Most

significantly, DBH has tightened its belt and taking coordinated steps to gear up recovery efforts to hold NPL volume to a level where requirements for financial provisions against such loans could be saddled up to a bare minimum with lesser impact on profitability. All this is expected to bolster business and benefits for all stakeholders over time.

The rising trend and volume of written-off loans of NBFIs indicate lack of due diligence while sanctioning credits. In order to reflect the actual position of classified loan, written off loan must be added to the existing amount of classified loan. If the loan had not been written off, the NPL ratio would have reached to much higher level except DBH due to negligible amount of written off loans.

Among all financial institutions & local banks of Bangladesh only DBH has been rated the highest 'AAA' credit rating for thirteen consecutive years. The level of credit rating provides a very important indication of the financial safety, security and strength of the concerned bank or financial institution and is particularly relevant to its depositors and other investors such as shareholders and lenders.

Last five years have been the years of success and accomplishments for DBH on the operational and financial fronts. Though faced with numerous challenges, DBH has been able to make highest average ROE compared to major competitors in the industry. Despite of a modest growth of its asset base DBH maintained average ROA above the industry ROA.

**(e) Risk and concerns as well as the mitigation plan related to the financial statements**

The Company always concentrates on delivering high value to its stakeholders through appropriate tradeoff between risk and return. A well-structured and proactive risk management system is in place within the Company to address the risks relating to credit, market, liquidity and operations. Details of the Risk Management have been described at notes 2.30 of the Financial Statements on page no. 145 of this annual report.



**(f) Future plan for Company's operation, performance and financial position with justification thereof**

Company is planning to continue its operation with a steady outlook. Considering the market condition, DBH planned its budget for the year 2019, where the total disbursement target is projected to Tk. 12,818 mn which is 25% more than the disbursement figure of 2018.

The Company expects to maintain healthy dividends to its shareholders in line with previous years.

**Going Forward**

Considering the overall situation, we intend to achieve cautious and healthy growth in earnings in the following year as the political situation is expected to improve

in upcoming days. However, we intend to pick up pace in the medium term future by leveraging the opportunities of the country's growing economy. Given the well-tested management excellence, goodwill of the company, relationship with the developers and stakeholders, we are well positioned to reap the benefits from such prospects.



**Q. M. Shariful Ala**  
Managing Director & CEO