

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, 2019.

Macroeconomic Performance of Bangladesh Economy

Bangladesh's Strong growth continued in FY19, GDP growth in Bangladesh is officially estimated at 8.1 percent in FY19,

compared with 7.9 percent in FY 18, supported by rising exports and record remittances. Exports, private investment and private consumption boosted by strong remittances supported demand growth. Large and medium-scale manufacturing activities responded the fastest on the supply side, accompanied by broad-based growth in services, led by wholesale and retail trade. Total factor productivity growth and capital accumulation contributed to sustaining the 7 percent potential output growth rate of recent years, as employment transitioned from agriculture to manufacturing and services.

Contributions to Growth							
	FY13	FY14	FY15	FY16	FY17	FY18	FY19
GDP Growth	6.0	6.1	6.6	7.1	7.3	7.9	8.1
<i>Contribution of Production Sectors (%)</i>							
Industry	2.6	2.3	2.7	3.2	3.1	3.8	4.2
o/w Manufacturing	1.8	1.6	1.9	2.3	2.2	2.8	3.2
Services	2.9	2.9	3.0	3.2	3.4	3.2	3.3
Agriculture	0.4	0.7	0.5	0.4	0.4	0.6	0.5
Import duty	0.1	0.2	0.3	0.2	0.3	0.3	0.2
<i>Contribution of Expenditure Components (%)</i>							
Consumption	3.8	3.1	4.3	2.4	5.1	7.8	4.0
Private consumption	3.5	2.7	3.8	2.0	4.7	7.0	3.5
Government consumption	0.3	0.4	0.4	0.4	0.4	0.8	0.5
Investment	1.6	3.0	2.2	2.8	3.3	3.5	2.8
Private Investment	0.4	2.2	1.5	2.5	2.0	2.2	1.9
Government Investment	1.2	0.8	0.8	0.3	1.3	1.3	0.9
Trade Balance	0.2	0.4	-1.3	1.9	-0.9	-3.6	1.3
Exports, goods & services	0.5	0.6	-0.5	0.4	-0.4	1.2	2.3
Imports, goods & services	0.3	0.3	0.7	-1.5	0.5	4.8	1.0
Statistical discrepancy	0.4	-0.4	1.3	0.0	-0.1	0.2	0.1

Source: BBS, Growth in constant terms, National Accounts 2005-06 base

Inflation remained within the 5.5 percent target. Food inflation dropped to 5.5 percent in FY19 from 7.1 percent the previous year, as bumper rice yields led to falling prices. Non-food inflation increased from 3.7 percent to 5.4 percent, led by increasing clothing and footwear prices. Non-food inflation may have been driven by demand pull from the growing output gap (estimated at 1.4 percent of potential output in FY19) and cost push from an 8.5 percent nominal wage increase in industrial production sectors.

Broad money growth increased slightly while bank credit growth to the private sector decelerated. Broad money growth rose as public sector bank borrowing increased sharply. Private credit growth has been constrained by declining deposit growth, US dollar sales by Bangladesh Bank (BB), rising non-performing loans (NPLs), and pressure

to comply with the 9 percent ceiling on the lending rate. State-owned banks (SOBs) face high NPLs and low capital adequacy. The capital markets offer no alternative, remaining volatile with a downward trend since early 2019.

The balance of payments was slightly positive in FY19. The current account deficit narrowed to 1.7 percent of GDP as the trade and services accounts deficits fell and remittances rose. The financial account surplus fell to USD 5.6 billion in FY19 from USD 9.0 billion a year ago as rising FDI was offset by a sharp increase in net trade credit outflows. BB intervention in the foreign exchange market moderated the depreciation of the BDT/USD rate as the US dollar gained strength in global markets. However, the real effective exchange rate appreciated by about 5.6 percent, eroding Bangladesh's price competitiveness. To

offset this competitive disadvantage, the RMG sector has been provided with cash subsidies. In non-RMG sectors, which do not benefit from subsidies, export growth and investment have lagged. In addition to the negative effects on competitiveness, foreign exchange interventions have contributed to the taka liquidity shortage in the money markets. Reserve coverage at the end of FY19 was adequate at 5.8 months of imports.

The fiscal deficit is estimated at 4.6 percent of GDP in FY19, within the budget target of 5.0 percent. The deficit was similar to the previous year, but the composition of deficit financing shifted towards bank borrowing. However, sales of high yielding National Savings Certificates exceeded the budget target. The stock of debt rose marginally to 32.8 percent of GDP as both external and domestic debt levels rose modestly.

Going forward, the economy is likely to slow, partly due to weak global trade. In addition, downside risks include threats from a banking system under strain from a high number of non-performing loans and a high vulnerability to natural disasters such as flooding and cyclones.

However, the World Bank has cut its economic growth forecast for Bangladesh by 0.2 percentage point to 7.2 percent for the current fiscal year, but the country is still poised to clock in the highest growth in South Asia.

Performance of Financial Sector in 2019

Bangladesh Bank announced for the first time a yearly monetary policy instead of a half-yearly one, lowering drastically the private sector credit growth target while raising sharply the public sector credit growth target for the current financial year. Bangladesh Bank (BB) amended the monetary policy for the current FY20 keeping private sector credit growth target unchanged. The policy, however, increased the public sector credit growth target to 37.7%. Earlier, the central bank had set the target of credit to private sector at 14.80% for the current 2019-20 fiscal year. As per the revised policy, BB has set net domestic asset target of 15.5% instead of 16% for fiscal 2019-20. The policy also increased the broad money circulation target to 13% according to the revised policy.

Liquidity position slightly improved as advance-to-deposit ratio (ADR) decreased slightly. As on September 2019, Advance-to-Deposit Ratio (ADR) of the overall banking industry stood at 76.6 percent which is 0.9 percentage point lower than that of end-June 2019 and 0.2 percentage point higher than that of end-September 2018. To boost up private sector investment, Bangladesh Bank has been

providing policy supports including special rescheduling policy for the genuine businesses that are in distress due to unfortunate circumstances beyond their control.

The spread between the weighted average interest rate on advances and deposits of all banks remained unchanged at 3.92 percent at the end of November, 2019 as compared to October, 2019. The spread between the weighted average interest rate on advances and deposits of NBFIs in November 2019 increased to 2.40 percent from 2.38 percent of October 2019. The weighted average call money rate in the inter-bank money market was 4.50 percent in December 2019.

Mandatory online transactions and rise of source tax on the interest rate on national savings certificates (NSCs) siphoned bulk of the Private savings to the banking system from NSCs.

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

An acceleration in government borrowings led to a significant rise in the interest rates on treasury bills (T-bill) and bonds of different maturities

Interest Rate Movement (In Percent)

Instruments	Sep.18	Sep.19
T – Bills:		
91 - day	2.23	7.78
182 - day	3.41	8.36
364 - day	3.54	8.55
Call Money Rate	4.22	5.04
Lending Rate (All Banks)	9.54	9.56
Deposit Rate (All Banks)	5.27	5.65
NSD Certificate:		
3 - year	11.04	11.04
5 - year	11.76	11.76

BB has taken a decision to provide temporary liquidity support to the scheduled banks to enhance their investment in the capital market which will contribute to develop the capital market. Banks will get such liquidity support through Repurchase Agreement (repo) mechanism.

Banks are permitted to invest 95 percent of the value of the treasury bills and bonds in their own portfolios or the portfolios of their subsidiaries as loan. For this purpose fresh beneficiary owner account is needed. Banks will have to comply with the provision of their exposure limit in

the capital market, i.e., 25 percent & 50 percent of eligible capital on solo and consolidated basis respectively.

The asset size of the banking sector reached BDT 15,744.4 billion at end-September 2019; the asset growth in the preceding quarter was 4.4 percent. The growth in assets in July 2019 –September 2019 could primarily be attributed to the deceleration in private sector credit growth during this period. The assets-to-GDP ratio stood at 62.1 percent at end-Sep 2019, which was 61.0 percent at end-June 2019.

At end-September 2019, gross non-performing loan (NPL) ratio reached at 12.0 percent which was 11.7 percent at end-June 2019. This minor rise in NPL ratio could partially be attributed to high NPL ratio of SCBs and DFIs. Decline in asset quality of a few PCBs and FCBs, compared to end-June 2019 also pushed up the gross NPL ratio during the period July 2019 – September 2019 as the ratio remained mostly unchanged for SCBs and DFIs. Net NPL ratio stood at 3.7 percent, which was 2.5 percent at end-June 2019. Despite maintaining a large volume of loan loss provisions against the rising NPLs, its adverse impacts on banks profitability and capital adequacy remain as a concern from financial stability viewpoint.

Gross NPL Ratios by Type of Banks (In Percent)

Type of Banks	Sep.18	Sep.19
State Owned Commercial Banks	31.2	31.5
Specialized Banks	21.7	17.81
Private Commercial Banks	6.7	7.43
Foreign Commercial Banks	7.1	6.01
All Banks	11.5	11.99

Banking sector capital to risk-weighted assets ratio (CRAR) slightly decreased in July 2019 – September 2019 with respect to that of the previous quarter. Still, 32 banks out of 57 were able to maintain minimum capital conservation buffer.

Capital to Risk Weighted Asset Ratios by Types of Banks (In Percent)

Type of Banks	Sep.18	Sep.19
All Banks	10.9	11.6

Non-Bank Financial Institutions (NBFIs), have been playing a crucial role by providing additional financial services that is not usually provided by the banks.

At end-September 2019, total assets/liabilities amounted to BDT 865.8 billion, slightly lower than the end-June 2019 figure of BDT 867.8 billion. At end-September 2018, total assets/liabilities was BDT 849.0 billion. Hence, the industry

experienced a descent growth of 2.2 percent on September-to-September basis. During this period, total assets (and liabilities) of 14 FIs increased while 19 FIs experienced a decline in their asset portfolios.

FIs' classified loans and leases significantly decreased by 6.6 percent in July 2019- September 2019 from that of the previous quarter. It stood at BDT 68.4 billion at end-September 2019, which was BDT 73.2 billion at end-June 2019. The ratio of classified loans and leases declined to 10.4 percent at end-September 2019, which is 0.6 percentage point lower than that of the previous quarter, and 0.8 percentage point lower from that of September 2018.

The Return on Assets (ROA) and Return on Equity (ROE) stood at 0.5 percent and 3.9 percent respectively in July 2019 – September 2019 compared to 0.2 percent and 1.8 percent respectively recorded in the last quarter and 0.6 percent and 4.7 percent respectively in the same quarter of 2018. 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 2019, out of 33 FIs, 4, 19 and 10 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 instructions for close monitoring of banks' classified loan accounts amounting to BDT 100 crore and above, revision of maintenance of CRR and SLR for offshore banking operations in Bangladesh, re-fixation of advance/investment-to-deposit ratio to be maintained by banks, temporary liquidity support for investment in capital market by banks, agricultural loan facility for the flood affected farmers, re-fixation of the maximum limit of borrowing from the call money market for financial institutions, imposition of transaction limit for e-wallet operated by Payment Service Provider (excluding MFS), redefining cottage, micro, small and medium enterprise (CMSME) to facilitate financing in CMSME, and modifications in various foreign exchange regulations to smoothen the foreign exchange market in Bangladesh, among other issues.

Real Estate Industry Outlook and Possible Future Development

The year 2019 started with renewed hope for the real estate sector. The realtors expected good sales growth in

the backdrop of political stability and positive economic growth outlook. But for the real estate sector, that did not materialize and realtors' expectation about good level sales growth in 2019 remained unfulfilled. The existing price level of the apartments is still unaffordable for middle income clients. The tight liquidity situation and high interest rate prevailed during the year also made the loans costly for the potential customers. There was a general expectation that the high registration cost would be reduced, but apart from small changes in stamp duty, the registration cost still remained at a very high level. Moreover, the price of raw materials, particularly the price of rod and cement went up during the year. As a result, the price level of apartments increased further and had negative impact on sales.

On the positive side, the secondary market took a shape in recent years. In addition to individual brokers, some institutional brokers also entered the field and they brought lots of customers under their platform. More and more transactions took place for used apartments compared to new apartment sales, as customers found the price of used apartments relatively affordable compared to the price of the new apartments. But the high registration cost acted as a hindrance for the growth of secondary market.

The cost of fund of Banks and Financial Institutions increased significantly during the year. So their profit margin reduced during the year. Many banks and FIs paid double digit interests on their Fixed Deposits throughout the year. NBFIs are not allowed to open current/savings account, their source of fund is either public deposits or bank borrowings. As the rate of fixed deposit went up, their cost of fund increased sharply, in many cases much higher than most of the banks. As a result, NBFIs found it difficult to compete with good banks with their loan products.

Government introduced housing loan scheme for its employees. Government Banks and House Building Finance Corp. Ltd. (HBFC) are financing these clients under this scheme. The clients are paying 10% interest to the government banks and HBFC and government is reimbursing 50% of client's monthly interest with their monthly salary. These loans are fixed rate loans without any refinancing facility for the lenders, that is once disbursed the rate of the loans cannot be changed. So it is impossible for private banks and housing finance companies to give loans under this scheme as their cost of fund is variable. Many government employees used to apply at DBH and other private banks/FIs for their housing loans are now applying to these government banks and HBFC for housing loans to get the interest subsidy. This is discrimination for the private sector banks and FIs who had to mobilize funds

in a competitive way. Giving fixed rate loans is beyond their reach. Only if government make amendments in the scheme and make the rate of the clients variable (upward or downward)

The government directed Bangladesh Bank to liquidate People's Leasing and Financial Services (PLFS), a non-bank financial institution, due to deterioration of its financial health in the last several years. This is the first liquidation to take place in Bangladesh's financial sector. Previously, two banks - Bank of Credit and Commerce International (BCCI) and Oriental Bank - that faced similar problems were restructured but not liquidated. The depositors who kept money at People's Leasing may not get their full money back as most of its outstanding loans are reported to be in default. This created trust issues among depositors, and not only People's Leasing but all NBFIs were affected, but it also made depositors more cautious about placing funds in Banks and Financial Institutions with weak fundamentals.

Product wise Performance

■ Performance of Home Loan Operations

Bangladesh's socioeconomic condition has been very good since the beginning of the year 2019. But the existing price level of the apartments is still unaffordable for middle income clients. Not everything is looking optimistic for the real estate sector in the upcoming year. The prices of construction materials have been increasing for the last few years and there is no sign of that trend stopping.

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. The cost of fund of Banks and Financial Institutions increased significantly during the year. So their profit margin reduced during 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 1.54% to Taka 44.52 billion during the financial year while keeping gross NPL ratio at the level of 0.45% only. During the year, the gross interest income from the housing finance portfolio stood at Taka 5,189.88 million. Many government employees used to apply at DBH and other private banks/FIs for their housing loans are now applying to these government banks and HBFC for housing loans to get the interest subsidy. This is discrimination for the private sector banks and FIs who had to mobilize funds in a competitive way.

The disbursement figures remained almost static in 2019 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 8,933.90 million as against Taka 8,632.15 million in the preceding twelve months. Total disbursement has increased by 1.48% and at the end of FY 2019, the net figure was Taka 9,583.44 million as against Taka 9,443.74 million in the preceding twelve months. During the year under review, a total of Taka 9,266.40 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, 2019 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, 2019 the deposit portfolio of DBH stands at Taka 43,411.28 million with an interest payable worth another Taka 1,485.76 million. As the deposit portfolio experienced a growth of 0.21% in FY 2019, 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 167.92 million.

Recovery

Default loan has dogged into 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. The ratio of classified loans and leases of FIs declined to 10.4 percent at end-September 2019, which is 0.6 percentage point lower than that of the previous quarter, and 0.8 percentage point lower from that of September 2018.

Classified loan of DBH reached to BDT 202 Million with NPL ratio of 0.45% at the end of 2019. 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 43,411.28 million.

The funding of our company comprises of both long term and short term sources of fund to manage our cost of fund efficiently. The term loan portfolio of DBH consists of funds received under Housing Loan Refinance Scheme of Bangladesh Bank worth Taka 1,954.25 million and term loans received from local markets worth Taka 3,495.00 million. Apart from that the shareholder's contribution in the funding mix is Taka 5,812.34 million. 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, 2019 is presented below:

Source	Amount in Million Taka
Deposits	43,411.28
Term loans	5,449.25
Equity	5,812.34
Bank overdraft and call loan	1,602.09

Treasury Operations

Money market continued to be liquid round the year compared to 2018. Despite facing severe instability in the market, we were able to make significant contribution to the company's profitability, risk mitigation and liquidity management in the year and were able to generate positive return for the stakeholders.

In DBH, Treasury acts as a catalyst between the core functions of housing finance & deposit mobilization. Amidst all these 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. It is the policy of the Company to maintain adequate liquidity at all times. Liquidity risks are managed on a short, medium and long term basis. There are approved limits for loan to fund ratio, maximum balances with other banks and borrowing from call money market to ensure that loans and investments are funded by stable sources, maturity mismatches are within limits and that cash inflow from maturities of assets, customer deposits in a given period exceeds cash outflow by a comfortable margin even under a stressed liquidity scenario.

Bangladesh Bank (BB) took a number of initiatives during the year, which have implications to financial system stability. One of the important initiatives taken by BB was revision of maintenance of CRR and SLR for offshore banking operations in Bangladesh. The magnitude on the bank's OBU for managing this additional liquidity would be challenging. The spread between the weighted average interest rate on advances and deposits of all banks remained unchanged at 3.92 percent at the end of November, 2019 as compared to October, 2019. The spread between the weighted average interest rate on advances and deposits of NBFIs in November 2019 increased to 2.40 percent from 2.38 percent of October 2019. The weighted average call money rate in the inter-bank money market was 4.50 percent in December 2019.

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 during 2019. 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 market remained bearish throughout 2019. DSEX - the benchmark free float weighted market index - lost 17.3% in 2019, following price return of negative 13.8% in 2018. Liquidity crunch, corporate governance issue and other negative developments in the banking industry, overvalued currency and regulatory issues had an adverse effect in the capital market. Turnover also slowed down significantly with decreasing participation from both retail and foreign investors.

Liquidity issue worsened at the beginning of the year which brought down total turnover of the market after January. Even after improvement in the liquidity situation after the budget of 2019-20, turnover didn't improve due to poor investor confidence. The overall earnings of the market went through a slowdown because of slow export and low private sector credit growth. Investor confidence in the market was further shaken by deterioration of asset quality of the banks and regulatory restrictions on Grameenphone, the largest stock in the market.

Net foreign investment stood at negative BDT 3.8 bn in 2019 compared to negative BDT 5.9 bn in 2018.

Considering the market conditions, we followed wait and see policy and the performance of our portfolio was tiny better than the overall DSEX performances. The total investment of the Company reached down to Tk. 462.11 mn from Tk. 607.82 mn at the end of 2019, out of which outstanding investment in marketable securities was Tk. 361.53 mn. Income from total investment of the Company was Tk. 26.83 mn in 2019.

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. 102 of this report.

Information Technology

Information Technology is consistently changing the way we live and do businesses. Business process automation enables faster transaction processing, customer service and better decision making. Since inception, DBH implemented a cost-effective and efficient centralized software system which is being enhanced and re-engineered time-to-time as per business needs. Our ICT infrastructure is being monitored and well-maintained for maximum availability with security.

In the year 2019, we have implemented an additional disaster recovery site (Data Guard server) near to our data center and NID Verification system. Also VAT management system has been implemented to comply with the regulatory requirement.

The IT management in DBH actively reviews ICT policies, security and risk management measures and system up-gradation needs

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 14 (fourteen) 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 2018.

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 2019 amounts to Tk.44,522 Million. We have extended loan to around 18,839 customers to meet their housing need, which is one of the basic needs of people.

DBH contribute 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, 2019	December 31, 2018
Income Tax paid on company's income	566.17	499.48
Tax collected at source on behalf of Government	472.00	395.22
Value Added Tax (VAT)	41.56	32.50
Excise Duty	56.71	49.24
Total	1,136.44	976.44

Creating employment has a vital impact on the economy and number of employees of DBH as on December 31, 2019 is 249. Efficient workforce is very important for the organization as well as for the country. Keeping same in view, DBH has spent Tk.0.70 million for training of its employees. During the period from January 1, 2019 to December 31, 2019, DBH has paid Tk.352.61 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. 91 of this report.

Highlights on Financial Performance

(Figures in Million Taka)

Particulars	December 31, 2019	December 31, 2018
Operating revenue	6,583	6,058
Interest expenses	4,642	4,062
Operating expenses	524	495
Profit before provisions	1,419	1,501
Profit before tax	1,556	1,607
Net profit after tax	1,077	1,048

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. 85)
- 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. 99.

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 2019 net profit after tax of the Company has grown by 2.78% 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 2019 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 2019 have recommended @ 35% dividend [@ 20% cash i.e. Tk. 2.00 per share and @ 15% stock i.e. 3(three) shares against every 20 (twenty) 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 24th Annual General Meeting and being eligible for re-election, they are seeking re- election to the Board.

- Dr. A M R Chowdhury (representing BRAC)
- Mr. M. Anisul Haque, FCMA (representing DLICL)
- Mr. Syed Moinuddin Ahmed (representing GDICL)

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. 42.1) of the Financial Statements.

Appointment of Auditors

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 two years 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 2020. Accordingly, the Board recommended to appoint them for the year 2020 with a fee of Tk. 450,000.00 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 24 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.



Nasir A. Choudhury
Chairman

DIRECTORS' MEETING & ATTENDANCE

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

Annexure-i

Name of Directors	Nominated by	Total Meetings	Meetings Attended	Changes during 2019	
				Date of Board Acceptance	
				Joining	Leaving
Mr. Nasir A. Choudhury Chairman	Green Delta Insurance Company Ltd.	5	5	-	-
Dr. A M R Chowdhury Vice Chairman	BRAC	5	4	-	-
Mr. A Z Mohammad Hossain	Green Delta Insurance Company Ltd.	3	3	-	19-09-2019 (Nomination changed by GDIC)
Ms. Mehreen Hassan, Bar- at- Law	Delta Life Insurance Company Ltd.	5	5	-	-
Mr. Md. Sayeed Ahmed, FCA, ACMA, CGMA	Delta Life Insurance Company Ltd.	5	5	-	-
Mr. Md. Mujibur Rahman	Delta Life Insurance Company Ltd.	5	5	-	-
Ms. Rasheda K. Choudhury	Independent Director	5	5	-	-
Mr. Mohammed Irfan Syed	BRAC	5	5	-	-
Major General Syeed Ahmed BP, (Retd.)	Independent Director	5	4	-	-
Mr. Syed Moinuddin Ahmed	Green Delta Insurance Company Ltd.	1	1	19-09-2019 (Nominated by GDIC)	-

DIRECTORS' REMUNERATION

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

Annexure-ii

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	5	40,000	0	0	0	0	40,000
Dr. A M R Chowdhury Vice Chairman	4	32,000	2	16,000	2	16,000	64,000
Mr. A Z Mohammad Hossain (Nomination changed by GDIC on 19-09-2019)	3	24,000	0	0	3	24,000	48,000
Ms. Mehreen Hassan, Bar- at- Law	5	40,000	2	16,000	0	0	56,000
Mr. Md. Sayeed Ahmed, FCA, ACMA, CGMA	5	40,000	0	0	4	32,000	72,000
Mr. Md. Mujibur Rahman	5	40,000	0	0	4	32,000	72,000
Ms. Rasheda K. Choudhury	5	40,000	0	0	2	16,000	56,000
Mr. Mohammed Irfan Syed	5	40,000	2	16,000	0	0	56,000
Major General Syeed Ahmed BP, (Retd.)	4	32,000	0	0	3	24,000	56,000
Mr. Syed Moinuddin Ahmed (Nominated by GDIC in place of A Z Mohammad Hossain on 19-09-2019)	1	8,000	0	0	1	8,000	16,000
Total	-	3,36,000	-	48,000	-	1,52,000	5,36,000

PATTERN OF SHAREHOLDINGS

as on 31st December 2019

Annexure-iii

(i) Shareholding position of Sponsors:

Name	No. of Shares held	Percent (%)
BRAC	24,647,272	18.39
Delta Life Insurance Company Limited	23,627,257	17.63
Green Delta Insurance Company Limited	20,514,794	15.31
Mr. Kazi Fazlur Rahman	0	0.00
Mr. Faruq A. Choudhury	26	0.00
Dr. Salehuddin Ahmed	26	0.00
Mr. Q. M. Shariful Ala, FCA	0	0.00
Total	68,789,375	51.32

(ii) Shareholding status of Directors/CEO/CS/CFO/HIAC & 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	-	-
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	-	-
Mr. Syed Moinuddin Ahmed	Green Delta Insurance Company Ltd.	-	-
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. Jashim Uddin, FCS	Company Secretary & Head of Corporate Affairs	-	-
Mr. Syed Aminul Islam	Head of Finance	-	-
Mr. Shihabuddin Mahmud	In-charge, Internal Audit	-	-

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

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. Md. Hassan Iftekhar Yussouf	Head of IT	-	-
Mr. Saiyaf Ejaz	Head of Recovery, Customer Services & Administration	-	-

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

Name of the Shareholders	No. of Share(s) held	Percent (%)
BRAC	24,647,272	18.39
Delta Life Insurance Company Limited	23,627,257	17.63
Green Delta Insurance Company Limited	20,514,794	15.31

MANAGEMENT DISCUSSION AND ANALYSIS

World Economy

The global outlook is fragile, with increasing signs that the cyclical downturn is becoming entrenched. GDP growth remains weak, with a slowdown in almost all economies this year, and global trade is stagnating. A continued deepening of trade policy tensions since May is taking an increasing toll on confidence and investment, further raising policy uncertainty. Supportive labour market conditions continue

to hold up household incomes and consumer spending, at least in the near term, although survey measures point to weakness ahead. In many countries fiscal easing remains limited, with scope to take further advantage of low interest rates to support growth. Overall, given the balance of these forces acting, global GDP growth is projected to remain at around 3% in 2020 and 2021, after having declined to 2.9% this year, the weakest pace since the financial crisis (Table 1.0).

	Average 2012-2019	2018	2019	2020	2021	2019 Q4	2020 Q4	2021 Q4
	Percent							
Real GDP Growth¹								
World ²	3.3	3.5	2.9	2.9	3	3	2.9	3.1
G20 ²	3.6	3.8	3.1	3.2	3.3	3.2	3.2	3.3
OECD ²	2.1	2.3	1.7	1.6	1.7	1.8	1.7	1.7
United States	2.4	2.9	2.3	2	2	2.3	1.9	2
Euro area	1.5	1.9	1.2	1.1	1.2	1.1	1.2	1.2
Japan	1.1	0.8	1	0.6	0.7	1.1	0.8	0.5
Non-OECD ²	4.4	4.6	3.9	4	4	3.9	3.9	4.1
China	6.9	6.6	6.2	5.7	5.5	6.1	5.5	5.5
India ³	7.1	6.8	5.8	6.2	6.4			
Brazil	-0.1	1.1	0.8	1.7	1.8			
Unemployment rate⁴	6.6	5.3	5.2	5.1	5.1	5.1	5.1	5.1
Inflation^{1,5}	1.6	2.3	2	2.1	2.1	1.9	2.1	2.1
Fiscal balance⁶	-3.6	-2.9	-3.2	-3.3	-3.3			
World real trade growth¹	3.4	3.7	1.2	1.6	2.3	1.1	1.9	2.4

1. Percentage changes; last three columns show the increase over a year earlier.

2. Moving nominal GDP weights, using purchasing power parities.

3. Fiscal year.

4. Percent of labour force

5. Private consumption deflator.

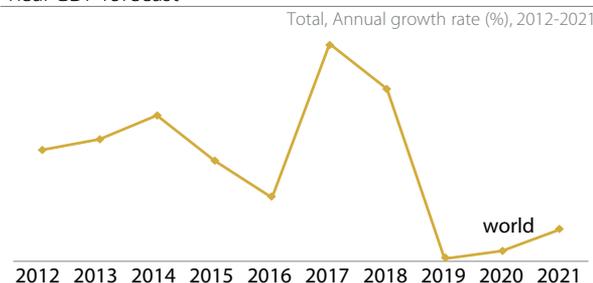
6. Percent of GDP.

Source: OECD Economic Outlook 106 database.

The global outlook is unstable

World GDP growth fell to 2.9% this year – its lowest rate since the financial crisis – and is expected to remain stuck at 3% over the next two years.

Real GDP forecast



COUNTRY NOTE

ECONOMIC SNAPSHOT

Short-term country prospects vary with the importance of trade for each economy though. GDP growth in the United States is expected to slow to 2% by 2021, while growth in Japan and the euro area is expected to be around 0.7 and 1.2% respectively. China's growth will continue to edge down, to around 5.5% by 2021. Other emerging-market economies are expected to recover only modestly, amidst imbalances in many of them. Overall, growth rates are below potential.

Global growth will be held down by high uncertainty

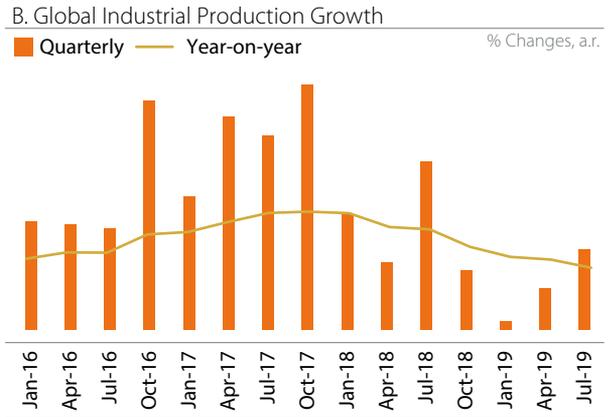
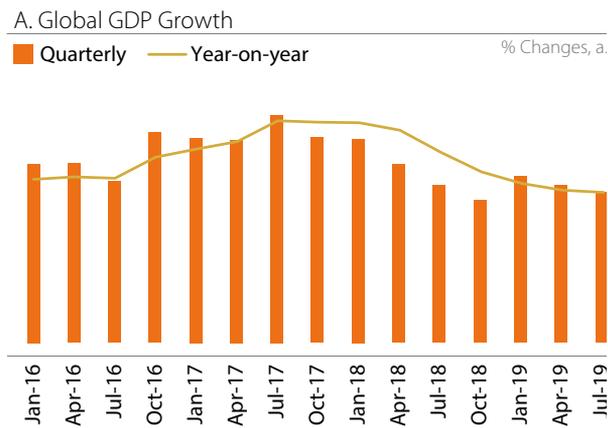
The biggest concern, however, is that the deterioration of the outlook continues unabated, reflecting unaddressed structural changes more than any cyclical shock. Climate change and digitalisation are ongoing structural changes for our economies. In addition, trade and geopolitics are

moving away from the multilateral order of the 1990s. It would be a policy mistake to consider these shifts as temporary factors that can be addressed with monetary or fiscal policy: they are structural. In the absence of clear policy directions on these four topics, uncertainty will continue to loom high, damaging growth prospects.

The lack of policy direction to address climate change issues weighs down investment. The number of extreme weather events is on the rise and insufficient policy action could increase their frequency. They may lead to significant disruptions to economic activity in the short term, and long-lasting damage to capital and land, as well as to disorderly migration flows. Adaptation plans are in their infancy, while mitigation, moving away from fossil fuels, through measures such as carbon taxes, has proved technically and politically challenging. Governments must act quickly: without a clear sense of direction on carbon prices, standards and regulation, and without the necessary public investment, businesses will put off investment decisions, with dire consequences for growth and employment.

The Chinese economy is structurally changing, rebalancing away from exports and manufacturing towards more consumption and services. Increasing self-sufficiency in core inputs for certain manufacturing sectors is reflecting a desire to move away from importing technology towards national production. A shift in energy utilisation to address pollution, and the rise in services also induce additional changes in Chinese demand for imports. China's traditional contribution to global trade growth is set to slow and change in nature. While India is set to grow rapidly, its growth model is different and its contribution to global trade growth will not be enough to substitute for China as a global engine for traditional manufacturing. However, China's contribution to the world economy will further impacted for the Corona Virus outbreak throughout China as well outside world and thus world economy may slowdown further.

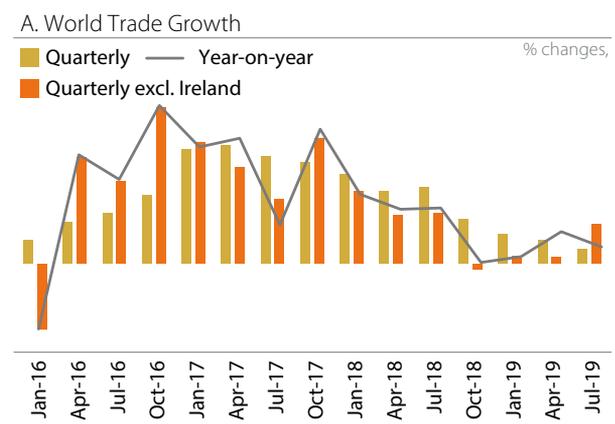
Figure 1.1. Global activity has slowed sharply



Note: GDP, industrial production and retail sales aggregation use PPP weights. Data in Panel C are for retail sales in the majority of countries, but monthly household consumption is used for the United States and the monthly synthetic consumption indicator is used for Japan. Data for India are unavailable for Panel C.

Source: OECD Economic Outlook 106 database;

Figure 1.2. Global trade growth is very weak



Note: Countries with rising export orders are ones with a PMI manufacturing export orders survey indicator at or above 50. Based on a sample of 29 countries.

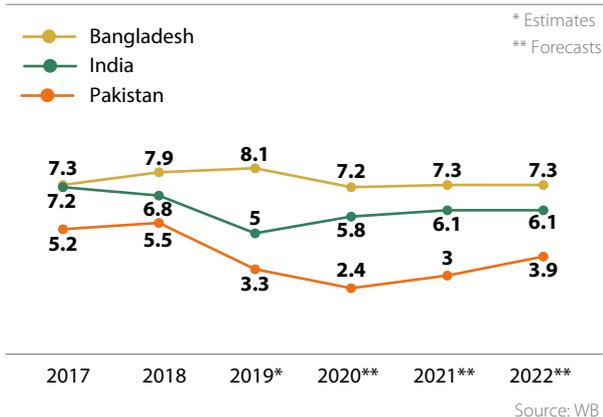
Source: OECD Report November 2019.

Bangladesh Economy

The economy appears to be in good shape so far in FY 2020, which started in July, 2019. The first quarter of FY20 manifested a mixed trend of economic activities where strong government expenditure, higher LNG import, favorable electricity production and robust remittance inflows (16.5 percent growth in Q1FY20) helped boost domestic demand, while weak export and import performance (-2.7 percent and -2.6 percent growth, respectively) and an attenuated private credit growth (10.7 percent) pointed to some deceleration. However, wages of low-skilled workers rose annually by over 6% in July–September and bank lending increased by over 12% in the same period. These developments indicate healthy domestic demand. They also likely mitigated the impact of the introduction of a wider VAT regime and a one-third increase in natural gas prices in July. According to the report, lack of progress in reforms to improve tax collection could result in more acute revenue shortfalls in Bangladesh and put further pressure on elevated fiscal deficit.

In the meantime, by analyzing the recent development of the economy, the World Bank has cut its economic growth forecast for Bangladesh by 0.2 percentage points to 7.2 percent for the current fiscal year, but the country is still poised to clock in the highest growth in South Asia. The Washington-based multilateral lender, however, kept the growth outlook unchanged at 7.3 percent for the next fiscal year, according to its semi-annual Global Economic Prospects.

GDP Growth of The Indian Subcontinent

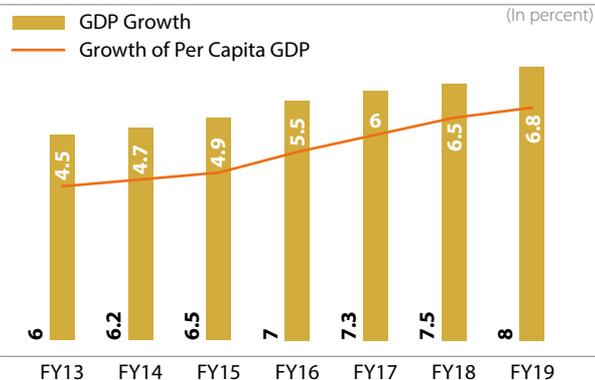


Bangladesh's exports showed signs of softening in recent months, after a substantial increase in exports to major trade partners in the last fiscal year. Bangladesh's export earnings fell 5.84 percent year-on-year to \$19.3 billion in the first six months of the fiscal year, according to data from the Export Promotion Bureau.

Sectoral Growth rate of GDP

The industry sector, the main driver of economic growth, remained subdued as reflected in the downturn of large and medium scale manufacturing output growth as well as a moderate expansion of credit to the industry sector.

Growth of Real GDP

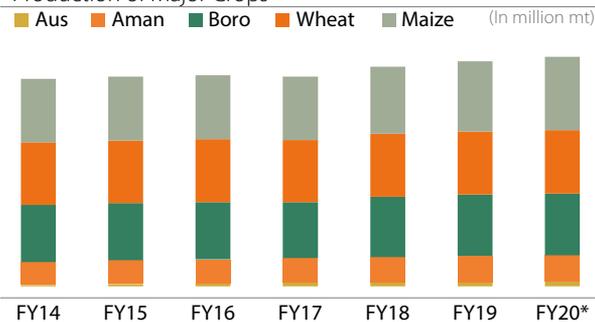


Source: BB staffs calculation based on BBS data

Agriculture Sector

Aided by the availability of inputs and timely credit supply, the agriculture sector activities set to continue in line with the targets. According to DAE reports, an amount of 3.1 mmt Aus crop has been harvested in Q1 FY20, which is higher than the target. However, the target of Aman production may be declined, as some part of the Aman crop in the South-western part of the country was damaged by the recent cyclone "Bulbul".

Production of Major Crops



*Target set by DAE,

Aus indicates actual production for FY20

Source: Department of Agriculture Extension

Industry Sector

Suggested by the sluggish growth of the large and medium scale manufacturing production and moderate credit growth to the industry sector. Available data (July- August, FY20) shows that large and medium scale manufacturing output growth dropped to 3.1 percent in Q1FY20, caused mainly by the negative growth of manufacturing of pharmaceuticals and medicinal chemical (-9.2 percent) and chemical and chemical products (-35.4 percent) and marginal growth of wearing apparel (0.1 percent) along with moderate growth of textile (16.9 percent), and leather and related product (4.9 percent).

The moderate growth of credit to the industry sector (12.3 percent growth in Q1FY20 compared to 17.6 percent growth in Q1FY19) also vindicated the weaker performance of the industry sector. However, construction activities remained active during this period, reflected in sizeable increase in cement production and clinker import (13.5 percent and 9.1 percent, respectively) as well as 15.4 percent growth of credit to construction activities.

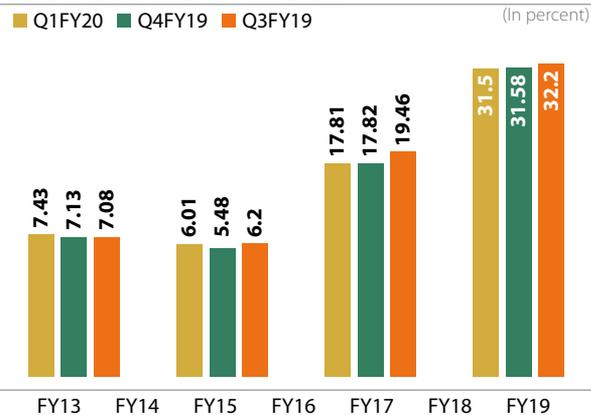
Service Sector

The service sector activities depicted a mixed trend, reflected in various indirect indicators. Cargo handled through port increased substantially by 15.1 percent in Q1FY20 compared to the same period of the previous fiscal year. However, bank credit to trade and commerce and transport grew by a moderate rate of 10.7 and 4.1 percent, respectively in the quarter under review.

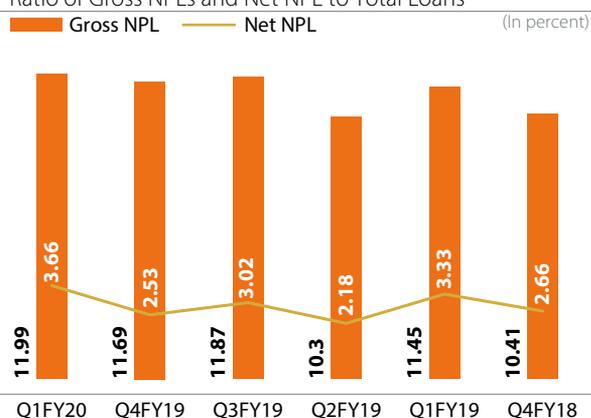
Banking Sector

Banking sector's indicators show a mixed performances during Q1FY20 compared to Q1FY19, reflected in rising non-performing loans (NPL), stable capital adequacy, rising liquidity condition and improving provision maintained. During Q1FY20, overall NPL and net NPL edge up driven mainly by increasing NPL of the private commercial banks (PCBs). Overall NPL of the banking industry increased to 11.99 percent in Q1FY20 from 11.69 percent in Q4FY19. Gross NPL for PCBs increased from 7.13 percent in Q4FY19 to 7.43 percent in Q1FY20, witnessed weaker provisioning. Overall capitalization of the banking system remained stable and CRAR reached at 11.7 percent in Q4FY19. Private commercial banks remained well capitalized with CRAR at 12.7 percent. Capital position of SCBs went up from 6.7 percent in Q3FY19 to 8.5 percent in Q4FY19, indicating improvement in capitalization.

Ratio of Gross NPLs to Total Loans



Ratio of Gross NPLs and Net NPL to Total Loans



Capital Market

The market remained bearish throughout 2019. DSEX - the benchmark free float weighted market index - lost 17.3% in 2019, following price return of negative 13.8% in 2018. Liquidity crunch, corporate governance issue and other negative developments in the banking industry, overvalued currency and regulatory issues had an adverse effect in the capital market. Turnover also slowed down significantly with decreasing participation from both retail and foreign investors.

Source: BB quarterly, July-Sep, 2019
World Bank Report, Jan 2020

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.

BB has issued another letter of intent on January 12, 2020 to Strategic Finance and Investments Ltd. and accordingly, the number of NBFIs would become 35 in the Country. Though, majority of the NBFIs are struggling since last year to survive amid rising default loans and inability to repay depositors money. However, Bangladesh Bank was also forced to start the process of liquidating Peoples Leasing and Financial Services Ltd. as the FI failed to repay the depositor's money.

At the end of September last year, the total default loans in NBFIs amounted to Tk. 6,838 Cr., up 25.23 percent from six months earlier. In addition to the defaulted amount mentioned above, default loans of Peoples Leasing alone are around Tk. 600 to 700 Cr.

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 23rd 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 Regulations 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 2019 has been challenging 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 2019 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:

In mn taka except ratios

Particulars	2014	2015	2016	2017	2018	2019
A. Interest Income	4533	4395	4209	4573	5855	6353
B. Profit After Tax	648	726	829	949	1048	1077
C. Average Asset	33299	37180	42821	50526	56040	58375
D. Average Equity	2606	2922	3351	3975	4699	5426
E. Profit Margin (B/A)	14.30%	16.52%	19.69%	20.75%	17.90%	16.95%
F. Asset Turnover (A/C)	13.61%	11.82%	9.83%	9.05%	10.45%	10.88%
G. Financial Leverage (C/D)	12.78	12.73	12.78	12.71	11.93	10.76
H. Return on Equity (E*F*G)	24.88%	24.86%	24.73%	23.88%	22.30%	19.85%

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

Interest Income:

Company's interest income, mostly from home loans, increased by 8.50% (BDT 498 million) mainly for following reason:

Loans and advances grew by 1.54% to BDT 44,522 million at year-end 2019 characterized by slower growth in first few months but a little bit turnaround in the second half of 2019 which eventually affected the average loan balances. Efficient management of interest rate risk management ensured moderate growth of interest income in 2019.

Interest Expense:

Company's interest expense on deposit and borrowing increased by 14.27% (BDT 580 million). Bank and FI industry faced a sudden shortage of liquid funds in 2018 which forced banks and FIs to collect deposit at higher rate. Accordingly Interest expense on deposit of DBH increased by 39.05% to BDT 3,658 million in 2018 compared to previous year. But money market in 2019 was little bit easier compared to 2018 which was one of the reasons of 14.27% growth of interest expense in 2019.

Profit After Tax:

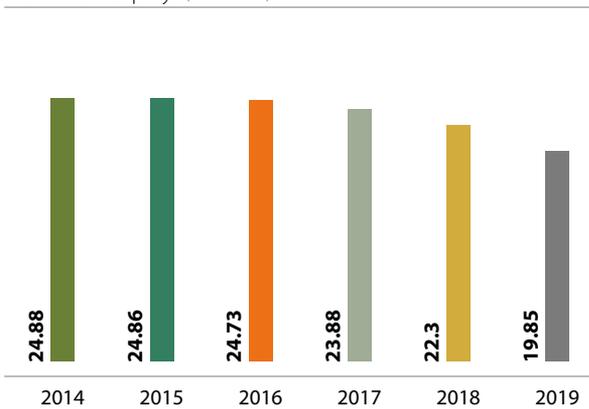
Eventually, the profit after tax of the company increased by 2.78% and stands at BDT 1,077 million mainly due to the factors mentioned above. As a result, our earning per share (EPS) in 2019 has also increased to BDT 8.04 (BDT 7.82 in 2018).

Profit Margin (In Percent)



Profit margin has been consistently over 15% in the last 5 years. Consistent profit margin achieved by increasing interest income and reducing costs.

Return on Equity (In Percent)



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

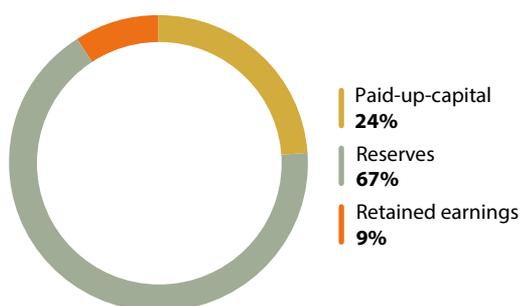
Interest rates volatility during the year appears to have calmed down at the end and expected to have within this range going forward as banks have already more or less adjusted their Advance to deposit (A/D) ratio.

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.

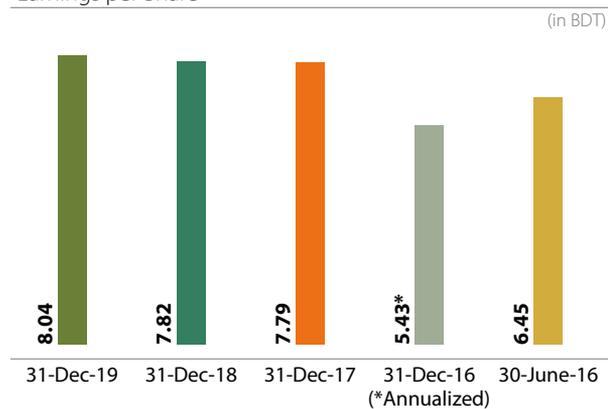
Shareholders Fund:

Shareholders' Funds-2019



Earnings per share (restated):

Earnings per Share



The earnings per share of the company has increased to Tk. 8.04 in 2019 from Tk. 7.82 in 2018, with a growth of 2.78%.

Cash Flow Analysis

Particulars	In mn Taka	
	2018	2019
i) Net cash flows from operating activities	1,328.14	1,930.06
ii) Net cash used in investing activities	22.85	42.85
iii) Net cash used in financing activities	-365.56	-304.63
iv) Net increase / (decrease) in cash and cash equivalents (i+ii+iii)	985.44	1,668.27
v) Cash and cash equivalents at the beginning of the year	10,815.92	11,801.36
vi) Cash and cash equivalents at the end of the year (iv+v)	11,801.36	13,469.63

Cash Flow from Operating Activities

Net cash generated from operating activities increased by 45.32% to Tk. 1,930.06 mn in 2019 compared to previous year.

Cash Flow from Financing Activities

The Company paid Tk. 304.63 mn as dividend in the year 2019 against the accounting year 2018.

Overall scenario

The cash and cash equivalent balance of the company rose to Tk. 13,469.63 mn in 2019 compared to Tk. 11,801.36 mn in 2018.

(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 commercial banks, BHBFC, DBH and other few NBFIs. But DBH is doing much better and also disburse a huge amount of money in real estate sector. DBH continued keeping pace outperforming the industry in 2019 in terms of growth of different performance and financial position measures. The impetus of growth could be accentuated comparing financial performance of DBH with the major peer group of the industry.

Particulars	DBH	Average of Top Five NBFIs (In terms of Asset Size)
Total Asset (MN Taka)	59,992	73,795
Loan Portfolio (MN Taka)	44,201	57,311
NPL Ratio	0.30%	2.56%
Cumulative Written off Loan amount (MN Taka)	9.3	962
'AAA' credit rating for ten consecutive years	Fourteen consecutive years	Nil
ROA (Annualized)	1.86%	1.00%
ROE (Annualized)	20.65%	10.26%
Net cash flow from operating activities as a percentage of Interest income	60.36%	-6.34%

Notes:

- A. For the 9 months ending 30 September, 2019 except NPL ratio & written off (as on 31 Dec, 2018); full year data is not publicly available for all companies yet.
- B. Excluding Investment Corporation of Bangladesh (ICB) & IDCOL.

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 fourteen consecutive years. The level of credit rating



Q. M. Shariful Ala
Managing Director & CEO

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. 129 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 2020, where the total disbursement target is projected to Tk. 12,938 mn which is 28% more than the disbursement figure of 2019.

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.