

# Directors' Report

## Dear Shareholders,

The Directors of DBH Finance PLC have the pleasure of presenting the Directors' Report of your Company together with audited accounts for the year ended December 31, 2022.

## Macroeconomic Performances of Bangladesh Economy

Bangladesh economy was growing consistently high over a decade crossing 7.0 percent milestone in FY 2015-16 and 8.0 percent milestone in FY 2018-19, however, the pandemic COVID-19 reduced the growth rate to 3.45 percent in FY 2019-20. The economy grew by 6.94 percent in FY2020-21.

Bangladesh logged higher growth in gross domestic product (GDP) in 2021-22 fiscal year compared to the previous year, but it was 15 basis points below the provisional estimate. The economy grew by 7.1 per cent in 2021-22 fiscal year, up from 6.94 per cent the previous year. According to the data released by Bangladesh Bureau of Statistics on February 6, 2023, the provisional GDP growth rate figure was 7.25 per cent for FY22. Similarly, the state-owned statistical agency revised downwards the per capita GDP of the country to \$2,687 from \$2,824. The GDP size also increased to \$470.22 billion in FY22, which was \$416.26 billion in the previous year.

However, the inflation rate in Bangladesh was around 9%, higher than previous estimates, due to supply chain disruptions, rising food and energy prices, and monetary policy changes. Additionally, the country's foreign currency reserves were depleting fast, partly due to a widening trade deficit and increased demand for foreign currency, putting pressure on the Bangladeshi taka.

The government took steps to address these challenges, such as seeking external financing and tightening monetary policy, but the situation remained a concern for the economy. The country also faced structural challenges, including a shortage of skilled labor, infrastructure bottlenecks, and limited access to markets.

Despite these challenges, the Bangladesh economy remained resilient, with continued growth in key sectors and efforts to improve the business environment and attract investment. The

government is working to address the country's economic challenges and promote sustainable, long-term growth.

According to Mr. Rahul Anand, the IMF mission chief to Bangladesh, as on November 17, 2022 Bangladesh's gross reserves was about \$27.5 billion as per international statistical definitions. But, according to the BB's calculation the reserve was \$34.24 billion on the same day and that includes EDF and others, said its Spokesman GM Abul Kalam Azad.

## GDP, Per capita GDP and GNI

According to the final estimate, the volume of GDP at current market prices reached at Tk. 35,30,184.8 crore in FY 2020-21, which was Tk. 31, 70,469.4 crore in FY 2019-20. In nominal term GDP growth was 11.35 percent. GDP is provisionally estimated Tk. 39,76,462 crore in FY 2021-22, Tk. 4,46,278 crore higher than previous fiscal year. Per capita GDP is estimated to be US\$ 2,723 in FY 2021-22. Medium-term GDP forecasts are Tk. 44,12,849 crore in FY 2022-23, Tk. 49.49,712 crore in FY 2023-24, and Tk. 55,59,517 crore in FY 2024-25. As per the final estimate, per capita GDP in FY 2020-21 was US\$ 2,462, US\$ 228 up from the previous fiscal year. Per capita gross national income increased to US\$ 2,591 in FY 2020-21, US\$ 265 up from FY 2019-20. The per capita gross national income is provisionally estimated to US\$ 2,824 in FY 2021-22, US\$ 233 higher than previous fiscal year.

## Savings and Investment

During FY 2020-21, domestic savings decreased to 25.34 percent of GDP, 1.74 percentage point lower than the previous year. Likewise, national savings as percent of GDP decreased to 30.79 percent in FY 2020-21, 0.63 percentage point lower than FY 2019-20. Gross domestic savings is provisionally estimated to be 21.56 percent of GDP in FY 2021-22, 3.78 percentage point lower than previous fiscal year. Gross national savings is estimated to be 25.45 percent of GDP, 5.34 percentage point lower than previous fiscal year. The contribution of investment to GDP decreased to 31.02 percent in FY 2020-21, 0.29 percentage point lower than the previous fiscal year. Of 31.02 percent contribution to GDP, private investment is 23.70 percent while public investment is 7.32 percent. Public investment as a percentage of GDP has slightly increased and private investment

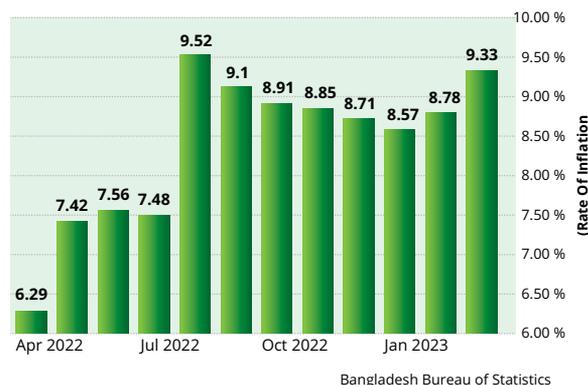
as a percentage of GDP has slightly decreased compared to the previous fiscal year. Investment is estimated to be 31.68 percent of GDP of which private investment is 24.06 percent and public investment is 7.62 percent in FY 2021-22. Overall investment is 0.66 percentage point higher than last fiscal year.

## Inflation

The rate of inflation measured by consumer price index (12-month average) setting up 2005-06 as the base year ascended to 7.70% in Dec'22 while it was 5.54% in Dec'21 (figure-I, table-I). Furthermore, the rate of inflation (point-to-point basis) ascended to 8.71% in Dec'22 from 6.05% in Dec'21 setting up 2005-06 as the base year. According to data from

the Bangladesh Bureau of Statistics (BBS), inflation eased for the fifth consecutive month as it fell to 8.57 per cent in January 2023.

**Fig. 1: Rate of Inflation**



## Bangladesh Economic Review 2022

**Table 1: Medium Term Macroeconomic Framework: Key Indicators**

Indicators	2017-18	2018-19	2019-20	2020-21	2021-22	2021-22	2022-23	2023-24	2024-25
	Actual				Budget	Revised Budget	Projection		
<b>Real Sector</b>									
Real GDP growth (%)	7.32	7.88	3.45	6.94	7.20	7.25	7.50	7.80	8.0
CPI Inflation (%)	5.78	5.48	5.65	5.56	5.30	5.80	5.60	5.50	5.50
Investment (% GDP)	31.8	32.2	31.3	31.0	31.7	31.68	31.5	32.8	33.6
Private	24.94	25.25	24.02	23.70	23.31	24.06	24.88	25.91	26.65
Public	6.9	7.0	7.3	7.3	8.4	7.62	6.6	6.9	7.0
<b>Fiscal Sector (% of GDP)</b>									
Total Revenue	8.2	8.5	8.4	9.3	11.3	9.8	9.8	10.4	10.6
Tax Revenue	7.4	7.7	7.0	7.6	10.0	8.7	8.8	9.3	9.5
Of which NBR Tax Revenue	7.1	7.4	6.8	7.5	9.5	8.3	8.4	8.8	9.0
Non-Tax Revenue	0.8	0.9	1.4	1.7	1.2	1.1	1.0	1.1	1.1
Public Expenditure	12.2	13.3	13.0	13.3	17.5	14.9	15.4	15.5	15.6
Of which ADP	4.5	5.0	4.8	4.9	6.5	5.2	5.6	6.3	6.4
Overall Balance	-4.0	-4.7	-4.7	-4.0	-6.2	-5.1	-5.5	-5.1	-5.0
Financing	4.0	4.7	4.7	4.0	6.2	5.1	5.5	5.1	5.0
Domestic Financing	3.0	3.4	3.3	2.3	3.3	3.1	3.2	2.9	2.8
External Financing(net)	1.0	1.1	1.4	1.4	2.9	2.0	2.3	2.2	2.3
<b>Money and Credit (Year-on-year % change)</b>									
Domestic Credit	14.7	12.3	14.0	10.1	14.0	17.8	16.0	16.0	17.0
Credit to the Private sector	16.9	11.3	8.6	8.3	11.0	14.8	15.0	15.0	16.0
Broad Money	9.2	9.9	12.6	13.6	13.8	15.0	15.6	16.0	16.5
<b>External Sector (% Change)</b>									
Export, f.o.b	6.7	9.1	-17.1	15.4	12.0	34.1	20.0	18.0	18.0
Import, f.o.b	25.2	1.8	-8.6	19.7	11.0	30.0	12.0	14.0	14.5
Remittance	15.1	10.2	12.4	36.1	35.0	1.0	16.0	10.0	10.0
Current Account Balance(% GDP)	-2.98	-1.45	-1.26	-0.91	-0.06	-2.19	-1.19	-0.86	-0.81
Gross Foreign Exchange Reserves (Billion US\$)	32.86	32.72	36.04	46.39	48.37	42.05	47.07	54.89	64.11
Forex. Reserve in the month of Import	6.2	6.0	7.2	7.8	7.4	5.5	5.5	5.6	5.6
<b>Memorandum Item</b>									
GDP at current market prices (Billion Tk.)	26392	29514	31705	35302	34560	39765	44500	49913	56063

Source: Finance Division, Ministry of Finance, BBS

## Performance of Financial Sector in 2022

During the year 2022, Bangladesh Bank has perused a cautiously accommodative policy stance to contain inflationary and exchange rate pressures, support desired economic growth, ensure the necessary flow of funds to the economy's productive and employment generating activities. A broad-based growth momentum across the economy continued till the December 22, owing to the performance of the agriculture and service-related sectors aided by supportive monetary and government policy measures. The real GDP growth of FY22 exhibited a marginal downward revision to 7.10 percent from 7.25 percent estimate in the midst of the combined risks posed by challenges to the post-pandemic recovery and the Russia-Ukraine war-induced global uncertainties. Considering the recent macroeconomic developments in the national as well as global front, the government has revised the GDP growth target to 6.50 percent, previously set at 7.50 percent for FY23 (Bangladesh Bank Quarterly Oct-December 2022, Volume XX, No: 2).

Inflationary pressure has been at the forefront of monetary challenges faced by BB during the year. The point-to-point headline inflation came down to 8.71 percent in December 2022 after reaching a decade high of 9.52 percent in August 2022 although it remained above the targeted level of 7.5 percent for FY23. The inflation is attributed to a significant increase in food and non-food prices mainly because of the pass-through effect of elevated global commodity prices in the face of supply shocks, higher shipping costs, and domestic currency depreciation. The inflation outlook might continue to confront some uncertainties in the second half of FY23 also because of increasing price pressures emanating from the strained supply chain, pessimistic progress regarding a peaceful resolution of the Russia-Ukraine war, and elevated global commodity prices.

During the year, BB's foreign exchange management faced significant challenges on mitigating the increasing pressure on the exchange rate and depleting forex reserve. Bangladesh Taka depreciated sharply during the period of Jul- Dec 22 reflecting excess demand for foreign exchange

along with an appreciation of the USD in the global market. To mitigate the depreciating pressure and bring current account deficits to a comfortable level, BB extended necessary policy measures, including net sales of USD 7.6 billion during FY22 and USD 12.9 billion during CY2022 to meet the excess demand for the greenback, imports barriers for unnecessary and luxury items, reduction of ERQ, reduction of cash foreign currency holdings by money changers, reduction of NOP limit, interest rate hike on borrowing from EDF, import monitoring and restrictions on foreign travels. As of end December 2022, BB's foreign exchange reserves stood at USD 33.8 billion compared with USD 41.8 billion at the end of June 2022. The exchange rate of BDT/USD depreciated to 99 at the end of December 2022—amounting 13.13 percent depreciation since January 2022.

As a part of the combined effort to combat the macroeconomic challenges, BB and the Ministry of Finance has been in discussions with the International Monetary Fund regarding a fiscal assistance for \$4.7 billion which was subsequently approved by IMF's board. The first instalment of \$447.8 million would come in February 2023, followed by six equal instalments of \$708.7 million.

To achieve monetary policy objectives, Bangladesh Bank has taken several policy measures during the period under review. Some of the critically important measures are: increasing the repo rate amid automatic quantitative tightening through selling a huge amount of foreign currencies to banks; relaxing the lending rate cap for consumer loans, including credit cards, and removing specific floor for the deposit rate; providing all sorts of production enhancing supports in terms of refinancing/pre-financing lines for agriculture, CMSMEs, import substitutes, and export-oriented industries; and continuing the support by providing enough refinance facilities to implement the Government's ongoing stimulus package. Some of these key initiatives undertaken by the central bank are discussed in detail below:

### **Inflationary Control through Policy Rate Hike:**

With a view to control upward moving inflationary indicators and widening current account gap, BB

initially raised its repo rate by 25 basis points to 5.0 percent in May 2022. Subsequently, Central Bank further increased its repo-rate by 50 basis points to 5.50 percent at the end of June 2022 which was hiked by another 25 basis point to 5.75 percent in September 2022. In January 2023, the repo rate was finally revised to 6.00 percent resulting to a 1.25 percent increase in policy rate over a span of a year-and-a-half.

**Introduction of Pre/re finance Schemes:** BB introduced various pre/re-finance schemes of more than Tk. 50,000 crore, prioritizing investment in agriculture, CMSMEs and import substituting industries allowing them to avail term loans and working capital loans at easier terms and conditions. BB also provided a credit guarantee facility against all CMSMEs term loans. BB also formed Bangladesh Bank Agricultural Development Common Fund (BBADCF) in December 2022 to accelerate agricultural farm production. It would help the private banks to speed up their farm loan disbursements to enhance the country's food production for food security. It is worthwhile mentioning that BB has set a target for the country's agricultural credit disbursement at Tk. 30,911 crore for FY23.

**Rationalization of Rate of Interest/Profit on Deposit and Loan/Lease/Investment for Financial Institutions:** Under this directive, the rate of interest/profit on deposits for the financial institutions has been set at maximum 7% and for that of all loans/leases/investments 11% effective from 01 July 2022. The circular was issued by BB to curb anomalies prevalent among some financial institutions who were collecting deposits at high interest rates without complying with the existing market rates in terms of deposit collection and disbursement of loans. As a result, the cost of funds of those institutions were increasing unreasonably, which resulted in disbursement of loans at high interest rates. Consequently, the rising default loans was having a negative impact on the economy as a whole, including production.

**Loan/lease/investment classification of Financial Institutions:** According to this initiative, the term loan/lease/investment which were unclassified up to September 2022 shall not be

marked as classified, if minimum 50% of loan payable during October-December 2022 is paid by end of December 2022. The rest portion of the unpaid installment shall be payable by next 1 year of predetermined time at equal installments. Based on FIs-customer relationship, installment can be rescheduled and collected according to new schedule, with considering 1 year extended period with the remaining tenure.

**Loan/Lease/Investment Write-off Policy for Financial Institutions:** As a part of its effort in bringing in greater financial discipline, BB has asked NBFIs to initiate necessary legal action against fund diversions, loan created through fraud-forgery or in the name of fake entity. The loans/leases/investments so created will not be allowed to be written-off before setting the legal issue.

**Calculation of Investment components of Capital Market Exposure:** To rejuvenate the capital market, BB has allowed banks and financial institutions to compute their stock market exposure limit based on the purchase price of the securities they own rather than their current market value. It also provided more time for banks & NBFIs to adjust their investment from the capital market exposure limit. Moreover, in February, 2022 BB has issued a circular to the NBFIs specifying the components of investment that would be included in the capital market exposure to ensure greater clarity regarding the calculation of exposure of the financial entity.

**Initiation of Secondary Trading of Government Securities:** In October, 2022 Bangladesh Bank issued a circular which allows Government treasury bonds and treasury bills to be traded at Over the Counter (OTC) and Anonymous Order Matching trading platform. To ease the participation of general investors in the bonds and bills, the trading is allowed on the trading platforms of the Dhaka Stock Exchange and the Chittagong Stock Exchange. In 2019, the BSEC, the DSE and the Bangladesh Bank entered into a tripartite agreement where the DSE agreed to waive all listing fees for government bonds and have the rational tax structure from the government. DSE also agreed to charge a feasible amount in trading and settlement of government bonds.

**Single Borrower and Large and Loan Exposure Limit:** In circular issued in January 2022, BB has set the limit for aggregate principal amount of total (funded and non-funded) exposure to a single person/counterparty or a group at a maximum of 25 percent of capital the bank at any point of time of which funded exposure has been restricted to a maximum 15 percent of capital. Under the same directive, the banks shall sanction large loans as per the limits set against their classified loan ratio.

**L/C Cash Margin on Import Financing:** In line with government's effort to control forex reserve depletion, BB has directed that a minimum 100 percent cash margin shall have to be maintained for opening LC against importing Motor car (Sedan car, SUV etc.) electrical and electronic products used as home appliances, gold, precious metals, RMG, and pearls, among other items, to discourage imports in a bid to keep the country's currency and debt management more integrated and stable. Minimum 75 percent cash margin shall have to be maintained for setting LC against importing all other products except baby foods, essential food products, fuel, medical equipment including lifesaving drugs and equipment recognized by the Directorate of Health, directly imported capital equipment and raw materials for production oriented local industries and export oriented industries, products related to agro-sector and essential products imported for government thrust sectors.

**Application and Realization of Non-Transactional Fee/Charges on Credit Card:** In a directive issued by BB, it was stated that no non-transactional fees/charges (Annual fee, CIB fee, SMS fee, etc.) are allowed to charge on customer of credit card before activation of the card. However, non-transactional fees/charges are permitted to apply after activation of the credit card on consent of the customer. If an active credit card does not have any transactional liability (transaction related to shopping, cash withdrawal, or merchandise transaction), no fine is allowed to impose on non-transactional fees/charges because of overdue/late payment of non-transactional fees/charges.

**Cash Incentive against Remittance through Legal Channel:** BB has allowed to provide incentive/cash assistance at existing rate against repatriation of the income through formal channel originating from retirement benefits such as pension funds, Provident fund, Bonus and other gratuities paid by employer. This is a part of central bank's initiative to encourage repatriation of the hard-earned remittances of the expatriates through legal channel.

**Regarding emphasizing on disbursement of agricultural credit at 4% concessional interest rate for cultivating import substitute crops:** In a bid to combat global price-hike resulted in higher import cost and loss in foreign currency and to give a boost to the production and cultivation of import substitute crops (pulses, oilseeds, spices and maize) shall be facilitated with agricultural credit at 4% concessional interest rate at farmers' level under interest subsidy facility of the government.

**Limitation on Ex-Bangladesh travel of bank and NBFIs officials and employees:** With a view to strengthening the foreign exchange reserve of the country amid volatility in the global economy stemmed from the covid-19 pandemic and overseas war, BB has suspended overseas tour to participate in training/ meetings/ seminars/ workshops/ study tours, including private overseas tour, of bank and NBFIs officials and employees.

**Policy on Interest Waiver:** Under this directive, loan principal is not allowed to be waived. Interest of loans generated by forgery and loans of willful defaulter are also not permitted to be waived. At the same time, interest cannot be waived by debiting income account of the state owned commercial and specialized banks. Interest waiver of the loans must be approved by the board of directors of the respective banks.

**Master Circular on Loan Rescheduling:** Transfer of Interest charged on Rescheduled Loans to Income Account: Under this directive, interest charged on rescheduled loans is not allowed to be transferred to income account unless authentically recovered. The financial base of the banks is deteriorating, but they are showing inflated financial health due to

such a practice which is already in violation of BB's master circular on loan rescheduling of 2012.

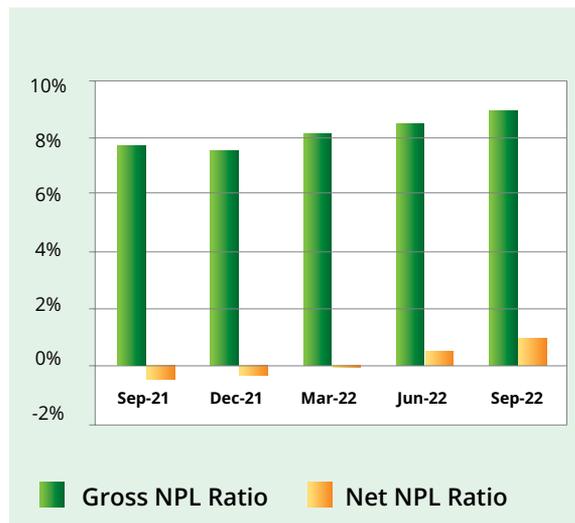
**Inward wage remittances by Mobile Financial Service Providers (MFSPs):** To bring wider flexibility, BB has allowed licensed MFSPs to repatriate wage earners' remittance in association with internationally recognized online payment gateway service providers (OPGSPs)/banks/digital wallets/card schemes and/or aggregators abroad (hereinafter referred to as approved/licensed foreign payment service providers, foreign PSPs).

**Easing of cap on lending interest and withdraws floor for deposit interest rates for Banks:** Very recently, Bangladesh Bank has decided to raise the interest rate on consumer loans to 12 percent from 9 percent to contain inflationary pressure. Earlier, as per a central bank instruction aimed at supporting the fast-growing economy, accelerating industrialization and keeping the cost of funds lower for borrowers, banks have been maintaining the 9 percent interest rate on all loans except for credit cards since April 2020. Simultaneously, BB has also withdrawn the floor for deposit interest rates (3 months and above) which was earlier tagged with average inflation rate encourage savings and also to maintain the purchasing power of the depositors.

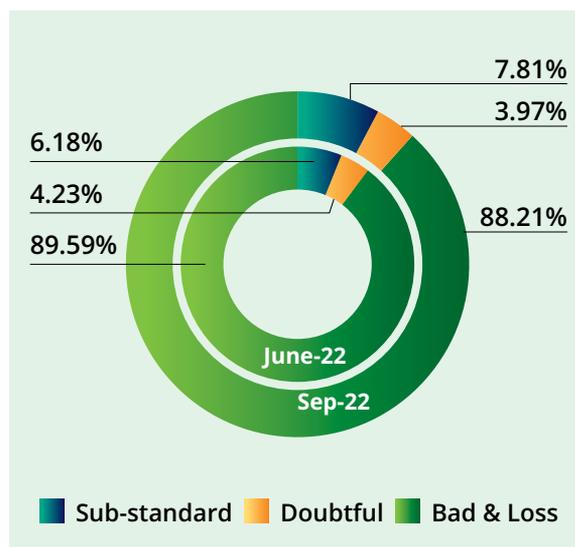
**Banking Sector:**

Banking sector demonstrated a mixed trend in the review quarter compared to the previous quarter as asset size and profitability increased, while asset quality, measured by gross NPL ratio, deteriorated. The asset size of the banking sector increased by 0.62 percent in the review quarter and reached BDT 21,680.49 billion. Banking sector's assets to GDP ratio stood at 54.52 percent. This asset growth was largely attributed to increase the loans and advances as well as other assets. Lion's share of the banking sector's assets (68.42 percent) including loans and advances (73.72 percent) were occupied by the PCBs. During the review quarter, PCBs' asset and loan share increased marginally. Holding the second largest market share, SCBs' asset share (23.80 percent) registered a small decrease while share of their loans and advances (19.41 percent) recorded a slight increase compared to the preceding period.

**NPL Ratio of the Banking Industry**



**NPL Composition of Banking Industry**



Source: Quarterly Financial Stability Assessment Report, Bangladesh Bank, July-September 2022

Asset quality in the banking sector slightly decreased as non-performing loan (NPL) ratio increased to 9.36 percent at end-September 2022 from 8.96 percent at end-June 2022. On the other hand, at the close of September 2022, net non-performing loans (non-performing loans less loan-loss reserve and interest suspense) to total loans i.e., net NPL ratio was 0.90 percent. This ratio has gradually deteriorated due to higher amount of classified loans. However, provision maintenance ratio increased by 6 basis points and stood at 84.74 percent.

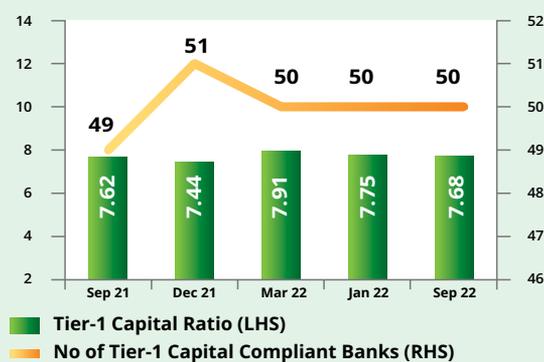
## Banking Sector Loan Loss Provisions

Amount in billion BDT

Period	Required Provision	Provision Maintained	Provision Maintenance Ratio (%)
Dec-20	669.76	617.11	92.14
Mar-21	648.02	646.78	99.81
Jun-21	709.51	653.69	92.13
Sep-21	723.49	661.44	91.42
Dec-21	806.54	666.47	82.63
Mar-22	850.68	703.22	82.67
June-22	862.68	730.48	84.68
Sep-22	886.83	751.54	84.74

Like the previous quarters, bad and loss (B/L) category continued to hold the lion's share of total classified loans in the review quarter. At end-September 2022, B/L category pertained 88.21 percent of total classified loans against 89.59 percent at end-June 2022. The share of other two categories of classified loans- sub-standard (SS) and doubtful (DF) stood at 7.81 percent and 3.97 percent respectively in the review quarter.

### Banking Industry's Tier-1 Capital Ratio



### Banking Sector Capital to Risk-Weighted Assets Ratio



Source: Quarterly Financial Stability Assessment Report, Bangladesh Bank, July-September 2022

The banking system's total regulatory capital (TRC) exceeded the minimum capital requirement (MCR) by BDT 111.03 billion in the review quarter. After the second quarter of 2022, the banking sector's quarterly CRAR showed a minor decrease. The CRAR was 11.15 percent at end-June 2022 and 11.01 percent at the end of the review quarter. In both quarters, the ratio was higher than the regulatory requirement of 10 percent.

In the review quarter, profitability of the banking sector, measured by return on asset (ROA) and return on equity (ROE), increased to 0.53 percent and 9.48 percent respectively compared to 0.46 percent and 8.20 percent of the respective ratios of the preceding quarter.

At end-September 2022, the banking system met the cash reserve ratio requirement (CRR) on both overall and banking cluster basis. On the other hand, the system maintained SLR of 21.58 percent, 10.50 percentage points higher than the minimum requirement. At end-September 2022, Advance-to-Deposit Ratio (ADR) of the banking industry stood at 76.30 percent which was 1.53 and 4.22 percentage points higher than those of end-June 2022 and end-September 2021.

The liquidity situation of the banking system is usually measured by banks' excess cash reserves in a narrow sense and banks' excess liquid assets in a broad sense, exhibits a declining trend during the period owing to several factors. Some of them are the continuous rise in demand after the visible improvement of corona impacts, the increase in credit flow to public and private sectors, the excessive higher import costs due to very high commodity prices, and the significant depreciation BB has taken various initiatives, including continuous liquidity supports to the conventional banks through repo and assured liquidity support facility and the introduction of an Islamic bank liquidity facility (IBLF). Nonetheless, some banks, particularly Shariah-based Islamic banks, have been facing liquidity pressure during the last couple of months. As a result, the banks' total excess reserves and excess liquid assets declined from Tk. 26,876 crore and Tk. 2,03,435 crore at the end of June 2022 to Tk. 6,591 crore and Tk. 1,53,177 crore at the end of November 2022, respectively.

Interest rate in the call money market jumped up to 5.81 percent at the end of December 2022 from 2.66 percent at the close of December 2021. The weighted-average interest rate on lending moved up to 7.22 percent in December 2022 from 7.15 percent in December 2021, maintaining the rate far below the government-fixed ceiling of 9.0 percent. Likewise, the weighted-average interest rate on deposit also moved to 4.23 percent from 3.99 percent during the same period.

Yields on government securities of most maturities showed sharp upward movement in December 2022 compared to that of a year earlier, reflecting expected credit growth both in public and private sectors in the phase of economic recovery.

### Interest Rate Movement (In Percent)

Instruments	December 2022	December 2021
T- Bills:		
91- day	7.30	2.37
182- day	7.50	3.24
364- day	8.00	3.47
Call Money Rate	5.81	2.66
Lending Rate (All Banks)*	7.22	7.15
Deposit Rate (All Banks)*	4.23	3.99

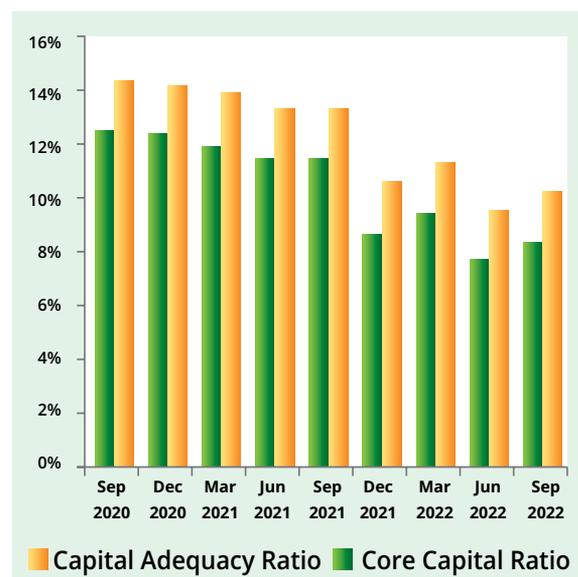
Source: Bangladesh Bank website

### NBFI sector:

The key financial soundness indicators manifest the mixed performance of non-bank Financial Institutions (FIs) during the period under review. During September 2022 quarter, the capital adequacy ratio (CAR) and the core capital ratio (Tier-1 capital) of the Financial Institutions (FIs) increased moderately compared to the previous quarter. On an aggregate basis, CRR maintained by FIs was higher than the required CRR in June 2022. Moreover, SLR maintained by the FIs was

significantly higher (more than four times) than the required level.

### FIs' Non-performing Loans Ratio



Particulars	End Sep-20	End Dec-20	End Mar-21	End Jun-21	End Sep-21	End Dec-21	End Mar-22	End Jun-22	End Sep-22
Capital Adequacy Ratio (%)	14.33	14.23	13.82	13.33	13.30	10.58	11.27	9.53	10.16

Source: Quarterly Financial Stability Assessment Report, Bangladesh Bank, July-September 2022

In the review quarter, the capital adequacy ratio (CAR) and the Tier-1 capital (core capital) ratio of the FIs stood at 10.16 percent and 8.35 percent, respectively. Both the ratios increased by 0.63 and 0.65 percentage point, respectively at end-September 2022 compared to those of end-June 2022.

### FIs' Liability and Equity Composition

Particulars	Jun-22	Sep-22
Borrowing	246.40	238.03
Deposits	451.31	444.05
Capital	69.44	63.00
Others	181.66	188.04
<b>Total</b>	<b>948.81</b>	<b>933.12</b>

**FIs' Classified Loans and Lease**

(Amount in billion BDT)

Quarter	Aggregate NPL	Aggregate NPL to total loan (%)
Mar-20	70.34	10.51
Jun-20	89.06	13.29
Sep-20	102.45	15.47
Dec-20	100.59	15.03
Mar-21	103.54	15.46
Jun-21	103.28	15.39
Sep-21	117.57	17.62
Dec-21	130.17	19.33
Mar-22	142.32	20.63
Jun-22	159.36	22.99
Sep-22	173.27	24.61

Aggregate classified loans and leases stood at BDT 173.27 billion at end September 2022 from BDT 130.17 billion at end December 2021. The ratio of classified loans and leases increased to 24.61 percent at end September 2022, which is more than 5.00 percentage points higher than the December quarter and 1.62 percentage points higher from June 2022.

The liquidity position of FIs in line with regulatory requirements also portrays a reasonable situation. Both the Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) maintained by FIs remained well above the required level in the review quarter. The aggregate amount of cash reserve ratio (CRR) maintained by the FIs was BDT 5.80 billion as of end-June 2022 compared to BDT 5.15 billion at end-March 2022, recording an increase of 12.73 percent. An excess amount of BDT 500.56 million was observed against the CRR requirement. The amount of statutory liquidity ratio (SLR) maintained by FIs registered at BDT 91.40 billion at the end-June 2022 against the requirement of BDT 21.77 billion.

**Capital Market:**

Both the bourses of the country experienced bearish trend during the year, portrayed by respective downtrends in indices, P/E ratio. At the close of December 2022, Broad index of DSE and all share price index of CSE stood at 6206.81 points and 18328.02 respectively which were at 6756.66 points and 19666.07 points respectively a year earlier.

For the month of December 2022, total turnover value of traded shares stood at BDT 72.31 billion which was a staggering 62.65 percent lower than that of the same month of the last year. At the end of December 2022, the P/E ratio of DSE stood at 14.10 which was 16.29 at the close of the previous year. The market capitalization of DSE stood at BDT 7609.37 billion at the end of December 2022 which was 40.34 percent higher than that of December 2021.

During December 2022, total turnover value of traded shares stood at BDT 2.87 billion which was 74.07 percent lower than that of the same month of the previous year. Similarly, by the close of the year, the P/E ratio for CSE declined to 14.35 from 17.29 a year earlier. The market capitalization of CSE stood at BDT 7414.38 billion at the end of December 2022 which was 61.69 percent higher than that of December 2021.

The downward index might be attributed to the investors rising uncertainty towards the market and the financial sector as a whole. A deep and vibrant capital market is crucial for long-term financing which could uphold the financial stability and expedite the economic growth.

**Real Estate Sector of Bangladesh: A Comprehensive Analysis**

Bangladesh is a rapidly developing nation and its real estate market is a key component of this growth. With rapid urbanization, population growth and continuation of infrastructure development across the country, the demand for housing and other real estate services has been steadily increasing, leading to a surge in real estate development. The Bangladesh government has also taken strides to promote the real estate sector in order to meet the

demands of its citizens. In addition, the real estate sector is one of the most important contributors to the nation's economy, contributing approximately 8% of the country's GDP. The sector has been growing at an average rate of 10% per annum over the past few years, driven mainly by rising demand for housing and commercial properties. The residential segment of the real estate market in Bangladesh is dominated by mid-income and low-income housing. This segment has seen a major growth in recent years due to the increasing demand for affordable housing. The government has been actively involved in the development of this sector through the implementation of various policies and incentives.

### **Present Real Estate Market Scenario**

Due to the ongoing Russia-Ukraine war, the strain on foreign currency reserves, the dollar shortage, runaway inflation, higher construction costs, and the implementation of the new DAP (Detailed Area Plan), the Real Estate sector has been facing a range of challenges since 2022. This has created an unstable situation of raw material prices both in domestic and international markets, resulting in realtors slowing down on taking up new projects.

At a press conference held on December 18, 2022, Real Estate Housing Association of Bangladesh (REHAB) stated that the prices of flats would increase from the next year, and flats and plots would not be available at the same price of previous year. Furthermore, due to the reduction of floor area ratio (FAR) announced by the new DAP, most of the buildings in Dhaka will lose floors and number of units, thus exacerbating the housing crisis and leading to a sharp increase in flat prices and rent. REHAB members have not been able to reach any agreement or compromise with the landowner in the last four months after the notification of the new DAP. No one has passed a new plan. Many are working on old projects. As a result, there will be a shortage of flats in the future and prices will increase. President of the Real Estate and Housing Association of Bangladesh, said, "Under the current circumstances, there is no scope for realtors to be over-ambitious." Managing director of Sheltech Group, another reputed real estate company, said the company has not cut the number of projects yet.

He thinks the situation around gas and electricity would take some time to have an impact on the real estate sector. Another managing director of a real estate company said the discontinuation of the scope to legalize untaxed money by investing in the stock market might have some impacts on the sector. People are a little bit tense because of the protracting war, the dragging pandemic, the dollar shortage, the fall in foreign currency reserves, and the overall direction of the economy, he said. Despite the high cost of raw material and land, policymakers are still pushing for the implementation of the DAP, leaving the real estate sector in an uncomfortable situation.

Overall, the real estate sector is not in a comfortable position at the moment, as the price of land is increasing and developers will not be allowed to construct buildings over a third of the land due to the new rules introduced in Dhaka city. However, the demand for flats has not declined and sales of secondary flats have also increased due to lower prices and availability of utility connections.

### **Opportunities and Challenges of Detailed Area Plan (DAP) implementation:**

The new Detailed Area Plan (DAP 2022-2035) of RAJUK has various sustainable urbanization-friendly initiatives, including planned drainage systems, flood flow protection access roads, outdoor spaces, community facilities, transportation, business areas, streetscape, and more. This DAP will be used as the basis for land use zoning, infrastructure development, spatial planning, civic amenities, utility services, and other issues of the metropolis. Dhaka's metropolis region is now 1562 sq km, which means the DAP is applicable from the forest area of Gazipur to the trade area of Narayanganj, and covering Savar, Old Dhaka, and Keraniganj along the way. The goal is to decentralize the population of Dhaka to the outskirts of the city by providing affordable housing in those regions, with the intention of solving the city's problems by promoting equity.

However, several challenges remain for the housing industry, according to REHAB. The new DAP determines the Floor Area Ratio (FAR) in proportion to the road width, which could cause difficulties for the real estate industry. Under the new rules, a 4-5

story building may be approved even if there is no wide road, while previously, an 8-10 story building could be constructed. Consequently, the apartment selling price will be higher, which may not be feasible for customers. Additionally, the new DAP rules will be most detrimental to landowners, as they will be restricted to a minimum number of apartments per land. Due to the reduction of FAR, landowners considering joint venture development may be offered 25-40% less usable area than before, which may not be a viable option for many of them, and the total cash money will also be significantly reduced. Rent prices will consequently skyrocket due to the shortage of housing, creating dissatisfaction for landowners, homeowners, and tenants alike.

### An Overview of the Current Trend in the Real Estate Sector

- The primary market, which includes new construction and development projects developed by developers and groups of people, has seen a surge in activity and investment. In Dhaka and Chattogram cities, new apartments, condominiums, and commercial buildings are being built in the city center, while in the outskirts, new residential communities are being developed.

The secondary market, which consists of the sale and resale of existing properties, has also been booming, due to an increasing number of investors looking for investment opportunities in the real estate market. Sales of secondary flats have increased due to lower prices and the availability of utility connections.

Pro-tech companies, such as Bproperty and Apex Property Limited, are operating their services in the real estate market with marketplaces in different locations, providing an additional layer of support for those looking to buy and sell property, apart from developers and real estate brokerage houses. This allows buyers to have access to enough inventory and information before dealing with their desired properties.

- The majority of successful companies today offer their services exclusively through digital platforms. Their websites provide customers with the ability to view their portfolio, ready flats, and works in progress. Moreover, online

consulting services are available from many of these companies, like Bproperty and Bikroy.com, giving buyers access to sufficient inventory and information before they engage with any properties.

- In addition to conventional home loans, some Banks and NBFIs, permitted by the Bangladesh Bank, are offering Islamic Home Finance, a Sharia-compliant financing solution, which allows customers to purchase real estate with the mode of Hire Purchase Under Shirkatul Meelk (HPSM). The financing is structured in such a way that it is compliant with Islamic financing principles and the payments made by the clients are free of Riba (interest). This alternative for customers who wish to purchase real estate without incurring interest charges is available through a variety of banks and NBFIs, permitted by the central bank in Bangladesh.
- In line with the Sustainable Finance Department of the Central Bank, the interest rates of loans under the Refinancing Scheme for Green Housing have been reduced by 2%. Banks and Non-Banking Financial Institutions (NBFIs) will be able to avail funds from the scheme at 1% less than the Bank Rate, thus paying 3% as per the current rate. Buyers with low and mid-level incomes will be able to get a loan of up to Tk. 3 million for environment-friendly flats in multistoried buildings. Furthermore, the Central Bank will also provide loans of up to Tk. 300 million to builders interested in constructing multistory eco-friendly buildings. A major condition for availing the loan is that the flat must be smaller than 750 sq feet in size. The interest rate for such loans will be 5% if repaid within five years, according to the circular; 5.5% for loans with a tenure of more than five years but less than eight years; and 6% for loans with a tenure of over eight years, as compared to the previous rates of 7%, 7.5%, and 8%, respectively. Earlier, borrowers were not eligible to apply for loans under the scheme if they had loans under other refinancing schemes; however, the new circular has relaxed this condition to some extent. This loan will be disbursed from the Environment Friendly Refinancing Fund of the Central Bank by all Scheduled Banks and Financial Institutions operating in the country

except Sharia-based banks and financial institutions. Housing companies must construct eco-friendly buildings with flats smaller than 750 square feet in order to qualify. Furthermore, both individual and institutional level borrowers are obligated to show an environment-friendly certificate, obtained within 90 days of applying for the loan.

- All eligible regular government officers and employees can avail of a housing loan as per the eligibility criteria of the loan scheme designed by the Ministry of Finance. According to the present circular, the maximum loan ceiling is Tk75 lakh and the maximum duration is 20 years. The applicable rate of interest under this scheme is 9%, of which the government will provide a subsidy of 5%, and the employee will bear the remaining 4% interest. A total of 13 banks, including one NBF, DBH Finance PLC, have been partnered with the Ministry of Finance to facilitate home loans to government employees under the Government Employee Home Loan Scheme.

### Opportunities of Real Estate Sector

Approximately 2 million people are currently employed in the real estate and related industries, such as architects, engineers, management officials, and direct and indirect laborers. Over the past five years, this sector has generated roughly Tk. 20 billion in sales and an average of Tk. 2 billion in tax revenue annually for the government, contributing approximately 10% to GDP. To take advantage of the growth potential in the sector, the government has invested heavily in improving the country's infrastructure, resulting in better connectivity and improved access to markets. With the population projected to double by 2050, Bangladesh is experiencing rapid urbanization, thus creating numerous opportunities in the real estate sector due to an increased demand for housing and commercial space.

- The development of the Metro Rail, Elevated Expressway, and Bangabandhu Tunnel has created a great opportunity for real estate in Bangladesh. Commuters are increasingly choosing to reside outside the main cities of Dhaka and Chattogram, driving up the demand

for housing on the outskirts of Dhaka City. This surge in demand provides a great opportunity for real estate developers in Bangladesh.

- Currently, approximately 64% of the residents in Dhaka reside in rented properties. This is a similar scenario in other major cities in Bangladesh. Therefore, real estate companies have a significant opportunity to explore the affordable housing market for this segment.
- Decentralizing the cities by transforming the upazilas and municipalities around Dhaka and Chittagong into small satellite towns will create housing opportunities for the local people, and provide additional economic benefits such as job creation and increased investment. DAP is applicable all the way from the forest area of Gazipur to the trade area of Narayanganj, covering Savar, Old Dhaka, and Keraniganj along the way. So, the outskirts of Dhaka are also included in the detailed area plan, resulting in an increased demand for housing in these areas. Similarly, according to the draft plan of the CDA, the new Chattogram metropolis will be almost five times larger than its current size (Source: Business Standard). The master plan aims to build at least 11 satellite towns and six industrial zones with an up-to-date water supply system, flood control, river management, drainage system, and a well-planned traffic management system. The satellite towns are Hathazari, Madunaghat, Kumira, Rauzan, Gahira, Pahartali, and Boalkhali, Patia, resulting in an increased demand for housing on the outskirts of Chattogram City.
- Now, digital land-registration services are available in 17 out of 495 upazilas in the country, under a pilot project (source: Financial Express). These services, such as e-mutation, land-development tax, civil-suit management, digital databank, hotline, map collection, certified copy of record of rights, khatian service, and mouza map, are being offered online on the website and through mobile apps, to make services more convenient and efficient. Moreover, these digital services offer various benefits, such as faster and easier processing of land documents, greater transparency in the land registration process, improved accuracy of the records, and

cost savings. Unfortunately, most general and real estate people are unaware of these digital services and the associated benefits. However, with more awareness, the services can become more widely used.

- New dimensions of the real-estate market, such as real-estate brokerage houses, online marketplaces, and ProTech companies, have been active in Bangladesh, resulting in the creation of new jobs and providing buyers with more options for dealing in their desired properties, in addition to the primary market being driven by developers.

### Challenges of Real Estate Sector

In spite of its potential, the real estate business in Bangladesh was not without its challenges in 2022. The Real Estate sector has been facing difficulties due to the Russia-Ukraine war, a strain on foreign currency reserves, a dollar shortage, runaway inflation, higher construction costs, and an unstable situation of raw material prices in both domestic and international markets.

- The implementation of the new DAP has not put the sector in a comfortable position. In this new DAP, the Floor Area Ratio (FAR) has been determined in proportion to the road width, which may cause difficulties for the real estate industry. Previously, an 8 to 10-story building could be constructed even if there was no wide road, but now, only a 4 to 5-story building can be approved there. Consequently, the apartment selling price will also be higher, which may not be viable for customers.
- The year 2022 began with a set lending cap imposed by the central bank despite high inflation, however, maintaining a single rate became difficult for some Financial institutions due to the rising cost of funds in the current money market.
- The real estate market in Bangladesh is challenged by a lack of institutional-based education, with only Daffodil University offering courses in the field. Moreover, the high turnover rate of salespeople in this industry is higher than any other sector in Bangladesh, leading

to inadequate governance and making the job less attractive, thus making it challenging for companies to recruit professionals.

- Smaller flats are in high demand in the ever-busy corporate society of Dhaka, yet the supply of this kind of accommodation is not on the development list of the developers. A working person living in the city, either by themselves or with their spouse, could own a flat with a bank finance facility, paying a monthly installment equivalent to their rental amount for a 10-15 year period. The investors in the real estate sector may have thought about this, however, no signs of it have been seen yet.
- The Real Estate market had a first spike in Bangladesh in early 2006 and lasted till 2009, and we have witnessed the second spike from 2015 to 2018. We may see another spike in the current year, and we predict it will last from 2022 to 2025. Factors such as scarcity of land, DAP implementation, runaway inflation, higher construction costs, and new opportunities for cost-effective living will determine the new spike.

Both the government and the private developer companies must work together to promote growth in the real estate sector in Bangladesh. The government should put in place favorable policies to encourage developers to build low-cost and affordable housing for the masses. In addition, the concept of 'affordable housing' needs to be widely promoted to ensure everyone has access to basic accommodation. Solving the housing problem in the country requires joint efforts from both the industry and the government.

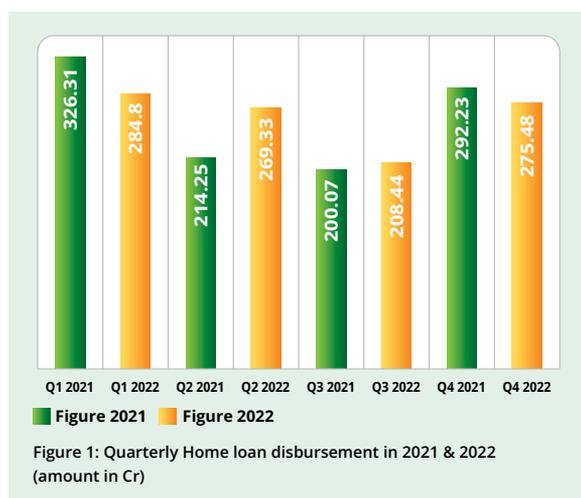
### Product wise Performance

#### ■ Performance of Home Loan Operations 2022

After a solid disbursement growth of 58% in 2021, the objective for 2022 was to achieve continued disbursement growth and achieve sizable portfolio growth. However, like most other sectors, the Ukraine war interrupted the robust growth of the real estate sector in Bangladesh which ultimately had an adverse effect on the loan disbursement

growth of DBH in the year 2022. Total loan disbursement in the year 2022 stood at BDT 1038.06 Cr resulting in 0.5% growth from loan disbursement in the year 2021.

In the first quarter of the year 2022, net loan disbursement was BDT 284.8 Cr which was 13% less than the same period of 2021. In the 2nd quarter of the year 2022, DBH disbursed 269.33 Cr., which was 20% more than the same period of the year 2021. In 3rd quarter DBH posted net loan disbursement of BDT 208.44 Cr and in the 4th quarter loan disbursement was BDT 275.48 Cr. In both quarters disbursement figures were very similar to the disbursement figures for the year 2021.



The rate of interest of home loans remained low and unchanged till the end of the first quarter of the year 2022 and most banks and FIs were lending at 7.5% to 9%. However, soon after, the cost of the fund started to increase due to multiple factors including the shift in the central bank’s monetary policy to curb inflationary pressure. As a result, deposit rates took an upward trend from the beginning of the second quarter of the year 2022. At beginning of the year, DBH was able to source deposits at 6% which got increased to 6.5%-7% by April 2022. Most NBFIs and the number of banks started to source funds above 7% at that time. Bangladesh Bank imposed a cap for the maximum rate for deposits and lending for NBFIs. The maximum deposit rate is set at 7% and the lending cap was set at 11% for NBFIs effective from July 1, 2022. Even though for banks there was a lending cap in place by the central bank but there was no deposit cap applicable to banks.

As the cost of the fund increased, DBH’s net interest margin (NIM) took a substantial hit and had no other alternative but to increase the lending rate. At the beginning of the year, DBH was offering loans at 9% or lower to compete with banks but was forced to increase its lending rate to slightly beyond 9%. However, a number of leading banks still continued to offer home loans at a lower rate of 8%-9%. As there was a difference in lending rate from banks offered by DBH, disbursement growth slowed down to some extent from the second quarter onwards. Even though DBH has revised its lending rate to cope with the cost of funds, the change in the weighted average Rate of Interest of DBH’s home loan portfolio was minimal. The weighted average Rate of Interest of DBH’s home loan portfolio was almost 9% in January 2022 which got increased to 9.38% in December 2022. DBH had to adjust lending rates keeping in mind market rates offered by different banks and NBFIs to remain competitive.

In August 2022, RAJUK published its Detail Area Plan for 2016-2035. One of the objectives of this new DAP was to reduce the density of the population of Dhaka. As a measure, the Floor Area Ratio was reduced in most parts of Dhaka city except the new towns, which will result reduce the number of floors and units in the new projects to be approved under this new DAP. This will have adverse effects on developers, landowners as well as clients as apartment prices will increase for a reduced number of units per project. The submission of plans for approval came to near zero level for new projects after this new DAP became active. If the issue is not addressed, it will create a vacuum on the supply side in the coming years and adversely affect the financial sector.

Some banks were focused on balance transfer and were offering home loans at a lower rate than the market to attract clients. These prompted some clients to transfer their balance. There was a high level of prepayment throughout the year which includes both voluntary prepayments as well as balance transfers to other banks. With the high level of prepayment and lower disbursement growth, net portfolio growth for the year was 1.50%, which was short of projected and targeted portfolio growth. The loan portfolio stood at appx BDT. 4400 crores at the end of December 2022.

However, despite challenges, DBH had always been able to keep the operational cost down and mobilize funds at a relatively lower cost due to the excellent market reputation and this enabled DBH to remain competitive in the market even with a number of front liner banks in operation. As of the end of December 2022, non-performing loans (NPL) for DBH stood at 0.86% which is still by far the lowest in the industry.

In the year 2022, DBH continued to penetrate the market with geographic expansion to cater to more prospective loan and deposit clients. After careful market analysis, DBH opened its 13th branch at Rajshahi, a divisional town in the northern region of the country in February 2022. Later on in September 2023, DBH opened another branch in the northern region of the country at Rangpur. In addition to geographical expansion, as part of product diversification and entertaining growing demand for Islamic products for both deposit and financing, DBH initiated the process to launch its Islamic wing which is expected to be operational by the second quarter of 2023. In addition, DBH also got enlisted as a participatory financial institution for the government employees' home loan scheme under the Ministry of Finance's subsidized government home loan scheme.

### ■ Performance of Deposit Portfolio

Over the years DBH has established itself as one of the leading depository institutions 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, Day-wise Deposit, Monthly Income Deposit, Quarterly Income Deposit, Flexible Fixed Deposit, Easy Deposit, Cumulative Deposit, Double Money Deposit, Deposit Pension Scheme (DPS). 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, 2022 the deposit portfolio of DBH stands at Tk. 40,060.59 million with an interest payable worth another Tk. 802.00 million. The deposit portfolio of DBH closed almost 8.91 percent lower when compared that of the preceding year in FY 2022, gross amount of interest payable on the DBH deposit products have been decreased when compared to that of preceding twelve months. The deposit portfolio has decreased as DBH opted to broaden fund sourcing from bond issuance and, credit facilities from commercial banks and replace a portion of the deposit portfolio to ensure cost minimization and diversification.

DBH also provides loan against deposits (LAD) to cater to its customers' urgent financial need. As of December 31, 2022, the LAD portfolio of DBH stood at Tk. 184.95 million.

### Recovery

Industry's aggregate classified loans and leases stood at BDT 173.27 billion at the end- September 2022 from BDT 159.36 billion at the end-June 2022. The ratio of classified loans and leases increased to 24.61 percent at the end-September 2022 which was 1.62 percentage points higher than that of the previous quarter and 6.99 percentage points higher than that of end-September 2021. Scammers siphoned off a large volume of funds from some of the NBFIs in the form of loans using fake documents, creating piles of defaulted loans in the sector. Besides many credit recipients who got benefits from the NBFIs during the Covid pandemic are now willingly turning into defaulters.

In terms of NPL, DBH is in far better position than the industry scenario. The Classified loans of DBH reached to Tk. 384.77 million with NPL ratio of 0.86% at the end of 2022. While aggregate NPL ratio for both Banks and FIs have 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. 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. 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 Tk. 40,060.59 million which holds 67.74 percent of our funding basket.

The funding of our company also comprises of both long term and short term bank loans to manage our cost of fund efficiently. The Bank loan portfolio of DBH consists of funds received under Housing Loan Refinance Scheme of Bangladesh Bank worth Tk. 1239.99 million and received credit facilities and short term borrowing from local market worth Tk. 7,591.87 million.

DBH has also issued a 4-year Zero Coupon bond with an issue size of Tk. 3.00 billion, which has been fully subscribed and Tk. 2,248.28 million remains outstanding at the closing of 2022. Apart from that the shareholders' contribution to the funding mix is Tk. 7,995 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, 2022 is presented below:

Source	Amount in Million Taka
Deposits	40,060.59
Borrowing from Banks, Fls & Other Agents	11,080.14
Equity	7,994.96

## Treasury Operations

Money market continued to tighten round the year especially during the latter half mainly due to quantitative tightening by BB by selling huge amount dollar into the local forex market coupled

with exchange rate devaluation, rising inflation owing to declining flow of remittance and rising import payments stemming from the effect of Russia-Ukraine war. The sale of foreign currencies to meet higher import demand than those of export earnings and inward remittances has resulted in a large volume of local currency withdrawal, significantly contributing to the declining trend of excess cash reserves/liquidity. The banks' total excess reserves and excess liquid assets declined from Tk. 26,876 crore and Tk. 2,03,435 crore at the end of June 2022 to Tk. 6,591 crore and Tk. 1,53,177 crore at the end of November 2022, respectively.

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 credit / deposit 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.

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 maintaining stable liquidity coupled with fostering arbitrage income during 2022. During the year, with a view to cost minimization as the key objective, the treasury wing focused on sourcing stable funds and term deposits from the public to replace the interbank funds and also accessed fund from the overnight market to 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.

## Investment in Securities

The year 2022 was closed in an unexpected way for the Bangladesh Stock Market. DSEX – the benchmark decreased from the peak point 7105.69 point to 6206.81 points; almost 898.88 point. During 2022, DSE observed the average turnover of BDT 9608.52 million whereas the average turnover during 2021 was 14,752.20 million. It means Average Turnover during 2022 was decreased by 34.87% from the previous year.

The performance of IPOs was not up to the mark during 2022 compared to 2021. During 2022, nine companies only got listed in the DSE's secondary market, raising around 1,088 crores. Among the newly listed companies, the banking sector IPOs performed worst whereas the Insurance sector topped the list by performing the best during 2022. In terms of sector wise transaction in DSE, the top performers were the pharmaceuticals and chemical sector followed by Miscellaneous sector. Pharma & Chemical sector transacted 15.59% of the total transaction whereas 11.22% of total transaction made by miscellaneous sector. The textile sector (10.24%), Engineering Sector (9.81%) & Insurance sector (7.41%) held the third, fourth & fifth position respectively.

Considering the market conditions, we followed wait and see policy and booked some profit when there was a chance. It saved us from occurring huge loss and thus it made our portfolio performance almost similar to the market condition.

## Human Resources

DBH 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. 131 of this report.

## Information Technology

During the last financial year, Information Technology (IT) department implemented some important technology solutions as well as maintained its existing ICT infrastructure and software systems securely.

A surveillance audit has been completed for the ISO 27001:2013 standard framework to ensure best practices in risk-based, systemic Information security management.

IT department has implemented an RTGS system for automatic Inter-Bank/FI money market settlement and developed a management system for Zero Coupon Bond, Treasury Bills & Treasury Bond. We have also integrated VAT management software with our centralized software. Moreover, our centralized software system has been enhanced with a new feature for Affordable loans, Cluster based loan approval, and a new Deposit Scheme (i.e., DPS) management. Furthermore, we have developed a system to contribute data of Geographical and Flat Characteristic Information of Builder for the "Residential Property Price Monitoring Database (RPPMDb) Solution" of Bangladesh Bank as per the proposal of IMF Mission.

IT department has been working relentlessly to maintain and implement ICT systems as per business demand and technology trends.

## 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 Employees 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

DBH Finance PLC. with its strong fundamentals has earned the highest credit rating award for the 17 (seventeen) consecutive years. Emerging Credit Rating Limited (ECRL) reaffirms AAA in the long term and ST-1 in the short term rating of DBH Finance PLC. in its latest entity rating done based on the Company's accounting year ended on 2021.

### 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. 26 of this annual report. Financial Highlights as required by Bangladesh Bank has also been given on page no. 27 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, 2022 was Tk. 44,536 million. We have extended loan to around 18,293 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, 2021	December 31, 2022
Income Tax paid on company's income	646.44	751.24
Tax collected at source on behalf of Government	328.54	359.96
Value Added Tax (VAT)	47.31	48.10
Excise Duty	64.40	73.96
<b>Total</b>	<b>1,086.69</b>	<b>1233.26</b>

Creating employment has a vital impact on the economy and number of employees of DBH as on December 31, 2022 was 344. Efficient workforce is very important for the organization as well as for the country. Keeping same in view, DBH has spent Tk. 0.51 million for training of its employees. During the period from January 1, 2022 to December 31, 2022, DBH has paid Tk. 390.44 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 it is working 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.

The details of the CSR initiatives have been presented under the head of Corporate Social Responsibility on the page no. 119 of this report.

### Highlights on Financial Performance

(Figures in Million Taka)

Particulars	December 31, 2021	December 31, 2022
Operating Revenue	5,373	5,180
Interest Expense	2,890	3,045
Operating Expense	565	610
Profit Before Provisions	1,918	1,524
Profit Before Tax	1,721	1,580
Net Profit After Tax	1,044	1,017

### 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 there from 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. 113).
- 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. 128.

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

Given the prevailing macroeconomic landscape, it is noteworthy to mention that there has been a significant upsurge in the demand for deposits, which has correspondingly resulted in an increase in the deposit rate or the cost of funds, coupled with a rise in withdrawals during the fiscal year. As a result, the Net Operating Cash Flow Per Share (NOCFPS) has witnessed a marked deviation, with a net outflow of cash to the tune of Tk. 3,918 million.

Subsequently, it is important to highlight that the interest income recorded a decline of 4%, leading to a noticeable variance in the net interest income.

However, it is encouraging to note that the company's loan portfolio and disbursement have displayed remarkable resilience and growth. The loan portfolio increased by 1.5% in December 2022, with a value of Tk. 4,400 Cr, compared to Tk. 4,337 Cr in December 2021. The loan disbursement also reflected a marginal increase of 0.5% in 2022, amounting to a total disbursement of Tk. 1,038 Cr, compared to the previous year's disbursement of Tk. 1,033 Cr.

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

Attendance by the Directors in the Board has 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 2022 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 2022 have recommended @ 17% dividend [@ 15% cash i.e. Tk. 1.50 per share and @ 2% stock i.e. 1(one) share against every 50 (fifty) 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 on page nos. 12 to 21 of the Annual Report.

As per the Companies Act and Articles of Association of DBH, the following Directors will retire in the 27<sup>th</sup> Annual General Meeting and are seeking re-election .

- Mr. Mohammad Anisur Rahman (representing BRAC)
- Mr. Nazir Rahim Chowdhury (representing DLICL)
- Mr. Khandkar Manwarul Islam (Representing DLICL)

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

- a) Brief resume of the Directors have been included on page nos. 12 to 21 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 an 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 Statutory Auditors

M/S. ACNABIN, Chartered Accountants, an eligible chartered accountant firm for auditing financial institutions as well as the listed companies (listed with BB, BSEC & FRC) was acting as the Statutory Auditors of the Company for the last 3 (three) consecutive years and will retire in the forthcoming AGM. According to Bangladesh Bank and BSEC rules, the auditors/audit firm cannot be appointed for a continuous period of more than 3 (three) years.

Accordingly, to appoint a new audit firm, the Board of Directors of the Company, on the recommendation the Audit Committee, has recommended M/s. Hoda Vasi Chowdhury, Chartered Accountants to appoint as the Statutory Auditors of the Company for the year 2023. The Firm is on the panel of Bangladesh Bank, Bangladesh Securities and Exchange Commission, and Financial Regulatory Council (FRC) for auditing the Banks and FIs as well as for the listed companies. The Board recommendation and evaluation were after due consideration of various factors such as industry experience, technical skills, independence, audit approach, competency of the audit team, etc.

In this regard, as per the expression of interest of the auditors the audit fee has been recommended at Tk. 5,00,000.00 plus VAT, subject to prior approval from Bangladesh Bank. Hence, the agenda for the appointment of Statutory Auditors (Hoda Vasi Chowdhury) will be placed before the shareholders for their approval.

### Corporate Governance

As a listed housing finance company (DBH) with 26 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