



## Directors' Report

Bismillah Hir Rahmanir Rahim

Dear Shareholders:

On behalf of the Board of Directors of National Housing Finance and Investments Limited, I have the honor to present before you the Annual Report and Audited Financial Statements reflecting performance of your Company in the year ending on December 31, 2016, together with the corresponding Auditors' Report.

The Directors' Report has been prepared in compliance with section 184 of the Companies Act 1994, Corporate Governance notification of BSEC dated 7 August, 2012, the Listing Regulations of DSE & CSE, Guidelines of Bangladesh Bank and other applicable Rules and Regulations. As per BSEC's Corporate Governance notification, a separate report titled 'Report on Corporate Governance' is furnished alongside the foregoing reports which shall constitute a part of this Directors' Report.

### **The Bangladesh Economy**

Bangladesh has experienced high and steady growth (7.10 percent) exceeding the Government's anticipated 7.0 percent growth target. The Bangladeshi company has had an average growth rate of 6% for over a decade. Growth exceeded 7.0 percent in FY16, making Bangladesh the third highest growth performer in Asia. Measured at current market prices, the GDP of Bangladesh in FY16 was estimated at Taka 17,329 billion which was about 14.3 percent higher than that of FY15. The per capita GDP is estimated to have been Tk. 55,259 in FY16. However, the government has again set a target for GDP growth in FY16 at around 7.2 percent and inflation rate has been targeted at 5.8 percent with an expectation of accelerated growth in agriculture, industry and service sectors.

Outstanding bank credit (excluding foreign bills and inter-bank items) during FY16 rose by 16.16% to Taka 6654.76 billion as against an increase of 13.50% in FY15.

Bank deposits (excluding inter-bank items) increased by 18.84% to Taka 8,495.81 billion during FY16 against 12.64% increase in FY15. Most of the macro-economic indicators in Bangladesh are performing well and domestic demand remain buoyant. In recent months, prompt actions taken by the Bangladesh Government in the aftermath of the terrorist attacks in July 2016 helped restore investor confidence. Nonetheless, any fallout from the weaker external demand from a mediocre global growth needs to be closely monitored.

In 2015, Bangladesh reached the lower middle income country status, and expects to reach upper middle income status by 2030 or earlier. The government's focus on easing infrastructure bottlenecks and improving business climate would support potential growth and medium term growth performance. Prudent fiscal policy, accompanied by the Bangladesh Bank's cautiously expansionary monetary policy – targeting private credit growth at 16.5 % and overall growth at 16.4% - and effective supervision are expected to support macro-financial stability.

Aided by pragmatic policy support of the Bangladesh Government and Bangladesh Bank, the low and stable inflation accompanied by a macroeconomic environment helped Bangladesh become a role model of sustainable finance. Banks and financial institutions are playing a significant role by providing credit to the un-banked, un-served and under-served people, particularly to women through cost refinance windows of Bangladesh Bank for micro, small and medium enterprises and eco-friendly green projects. These policies would make finance and growth more sustainable.

From a macro perspective, domestic demand growth is expected to remain robust over the near and medium-term reflecting demographics, investments, and improving infrastructure and cost of doing business. Furthermore, favorable monetary conditions would likely support growth but economic spillovers from weaker external demand need to be closely monitored.

## Money Market Scenario

Bangladesh Bank pursued a cautious yet growth friendly monetary and accommodative policy stance for FY16. The weighted average interest rates on deposits increased during FY10-FY13 and then started decreasing from FY14 and reached at 5.54 percent in FY16. Similarly, the weighted average interest rates on lending increased during the period of FY10 to FY12 and started declining thereafter and reached at 10.39 percent in FY16. Weighted average interest rate in the call money market was between FY16 at 3.9% to 5.7%.

## Capital Market Activities

The DSE broad index and the market capitalization of Dhaka Stock Exchange Limited (DSE) were quite stable during July 2015 to February 2016. The market was declining during the third quarter of FY16. The DSEX (Dhaka stock Exchange Index) and the market capitalization declined to Taka 4,195.70 billion and Taka 2,999.90 billion respectively at the end of April 2016 from Taka 4,507.60 billion and Taka 3,185.70 billion in June 2016. However, the market became stable at the end of FY16 as a result of effective measures taken on the Capital market. DSE launched “DSE mobile application on 9 March 2016. DSE launched “Up-gradation of Listed Securities page in DSE Website” on 7 April 2016 and “New Book Building Software (BBS)” 26 May 2016. Eleven companies raised new equity of Taka 4.3 billion in the capital market in FY16, lower than Taka of 7.3 billion raised by the 21 companies in FY15. Of the new equity issued, Taka 0.8 billion rose through private placements and Taka 3.5 billion raised through public placements. In FY15, equity issued through private and public placements were Taka 1.7 billion and Taka 5.6 billion respectively.

## Performance of the Financial Sector

Non-Bank Financial Institutions have been created for serving a special purpose financial activity. Present-day industrial and real estate enterprises depend on money market on one hand and the capital market on the other for financing their entrepreneurial initiatives in the forms of loans and equities. The money market comprises of banks and non-bank financial institutions. While banks play the major role in supplying the lion's share of the funding necessary by the industry, the Non-Bank Financial Institutions (NBFIs) provide a comparatively smaller portion but that represents a vital impetus to recipients in times of need.

In line with expectations, Bangladesh's Non-Bank Financial Institutions have been playing a crucial role by offering additional financial services that cannot always be provided by the banks, particularly easy and speedy services necessary for emergency and off-the- cuff requirements in industrial establishments. The NBFIs, with more multifaceted products and services have taken their place in the competitive financial market to satisfy the changing demands of customers. NBFIs also play an important role in the capital market as well as in real estate sector of Bangladesh. Presently, out of 33 NBFIs, 3 are Government-owned, 11 are joint ventures and 19 are privately-owned local entities. Meanwhile, the branch network increased to 220 as on 30 June 2016.

NBFIs are investing in various sectors of the economy, but their investments are mostly concentrated in industrial sector.

NBFIs are allowed to invest in the capital market to the extent indicated in the Financial Institution Act, 1993. In 2015, all NBFIs' total investment in capital market was Taka 19.4 billion compared to Taka 18.4 billion in 2014.

Investment in capital market accounted for 3.2 percent of the total assets of all NBFIs. At the end of June 2016, NBFIs total investment in capital market stood at Taka 21.1 billion.

NBFIs are allowed to mobilize term deposit only. At present, term liabilities are subject to a statutory liquidity requirement (SLR) of 5.0 percent inclusive of average 2.5 percent cash reserve ratio (CRR) on bi-weekly basis. The SLR for the NBFIs operating without taking term deposit is 2.5 percent.

## Industry Outlook

### Housing Finance

In our analysis of the last year, I would like to state that not much has changed since 2016. The growth of the real estate sector reached its peak in Bangladesh's history in 2006. The social, business and economic impact of quasi-perfect democracy and free enterprise during over one and half decade starting in 1991 wrote the history – people were able to engage in employments they chose (jobs at home and abroad and self-employment meaning business – micro, medium or large), more employment meant more incomes, inflow of cash to people's hands could flow out to the fields of their choice. Financially self-reliant people have a natural tendency to build shelters, houses for themselves first before getting engaged in any other risky activities. The result was a housing boom hitherto unprecedented in the history of Bangladesh.

The housing sector, representing buying and selling of, and lending for lands, plots, apartments, buildings, commercial spaces, blocks for offices, universities, schools, colleges, hospitals, hotels and restaurants and the like plunged further 2010-11. The downswing continued until 2014 when a slow revival began. The process is still on due mainly to a comparative calm in the political spectrum and a resultant positive movement in trade and commerce.

Many factors led to the growth in the economic machinery besides relative stability in political and economic climate. Bangladesh is a country with a little land mass of 130, 168 sq km (excluding all water bodies as delimited by international boundaries/coastlines) packed with a huge population of 160 million representing a density of about 1237.51 persons per sq km. This high rate of population density, particularly, the great concentration of people in urban areas, mostly in Dhaka, the capital, is the lone determinant of the status of the real estate sector. The land-population ratio of the country makes it inevitable that clusters of architecturally modern houses and townships be built throughout the country if the growing population is to be accommodated at least in livable conditions. Though still not enough encouraging, the real estate market will expand in the near future. Shelter and for that matter housing essentially forms a part of the five-fold Basic Needs of a human being. An upward trajectory is already in sight as statistics presents: the total outstanding housing loans of banks and financial institutions as at end June, 2016, amounted to Taka 562.9 billion which is 15.73 percent higher than that of the previous year. And at our company, we disbursed Tk. 168.00 cr, 271.00 cr and Tk. 331.00 cr during 2014, 2015 and 2016 respectively, representing year-on- year growth rates of 74.46%, and 22.14% at the close of 2015 and 2016. Further pronounced demand and supply may be expected based on this trend in years ahead.

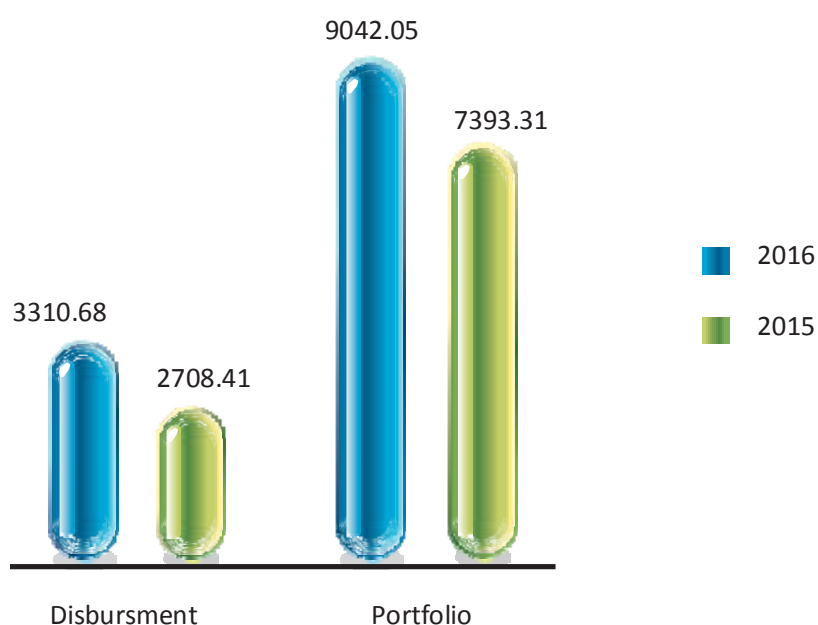
However, sustainable and prodigious developments in the sector will depend on a number of factors: firstly, stabilization of the conditions of politics and economics at the macro level; secondly, restoration of popular confidence in the capacity of the government in providing truly responsible safety and security systems covering threats to life, liberty and wealth; thirdly, re-building of investors' confidence in the capital market; fourthly, re- invigoration of business activities which have lost vigor due to many deterrents ranging from insufficient infrastructural facilities, scarcity of power and energy, poor law and order conditions, dearth of land and labor, inept government services and policies, corruption, bureaucratic inaccessibility, above all, existence of a government apparatus which is gradually becoming business friendly will greatly enhancement the purchasing power of the people by creating opportunities for higher wages and self employment.

## Operational Overview of National Housing volume

Despite depression in the housing and construction sectors, NHFIL has been able to remarkably expand its business volumes during 2016 which can be seen from the data furnished below:

(Amount in BDT Million)

Particulars	2016		2015	
	Disbursement	Outstanding Portfolio	Disbursement	Outstanding Portfolio
Home mortgage loan	2,856.04	7,604.64	2,299.52	5,503.68
Lease & Term finance including SME and other	454.64	1,437.41	408.89	1,889.63
Total:	3,310.68	9,042.05	2,708.41	7,393.31



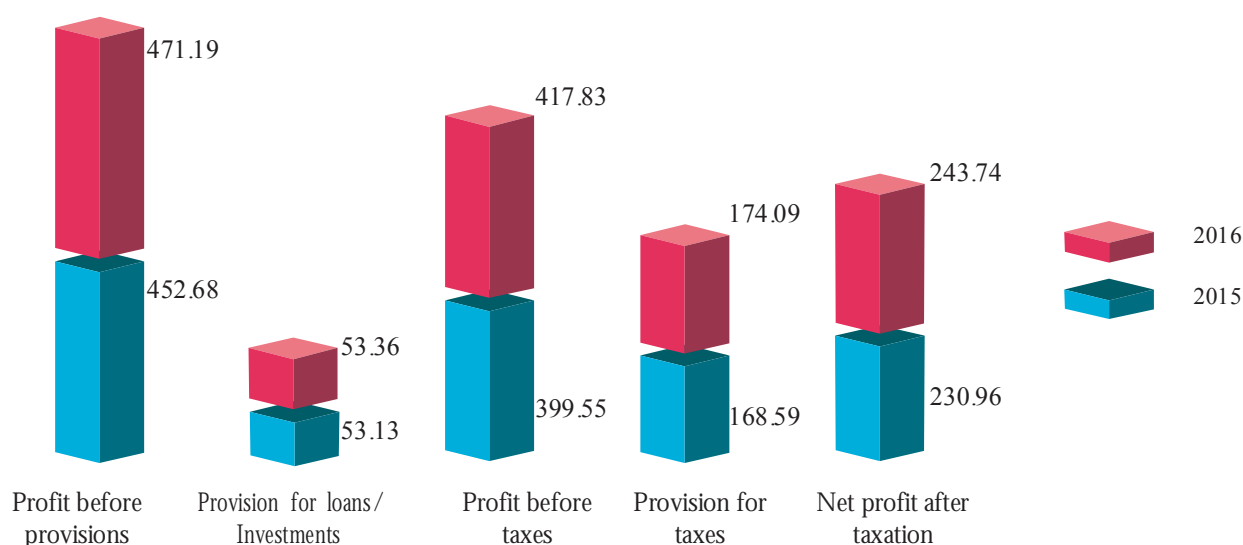
The total portfolio of the Company reached to Tk. 9,042.05 million from Tk. 7,393.31million during 2016, registering a growth rate of 22.30%.

The demand of dwelling houses, office buildings, shopping malls and so forth in a developing country like Bangladesh is dramatically increasing due to the fast process of urbanization and high economic growth rates. Not only rural people are migrating in search of employment, but many wealthy people are moving to urban areas for fulfillment of their expectations for betterment of the lives of their future generations and for enjoying the modern facilities of city life.

## Financial performance during the year 2016

The Company's financial performance over the 1st, 2nd, 3rd and 4th quarters and the yearly performances are given below in the context of its fair disclosure policy.

Particulars	2016					2015
	Q1	Q2	Q3	Q4	Yearly	
Net interest income	139.84	141.88	123.16	157.48	562.36	509.70
Total operating income	152.31	153.45	131.55	165.99	603.30	553.27
Total operating expenses	24.75	28.02	28.52	50.89	132.18	100.59
Profit before provisions	127.56	125.43	103.03	115.10	471.12	452.68
Provision for loans/ Investments	15.55	2.44	20.96	14.34	53.29	53.13
Profit before taxes	112.01	122.99	82.07	100.76	417.83	399.55
Provision for taxes	47.57	48.39	38.99	39.10	174.05	168.59
Net profit after taxation	64.44	74.56	43.08	61.66	243.77	230.96



## Credit Rating

On 25 June, 2015, CRAB assigned 'A 1' rating in the Long Term and 'ST-3' in the Short Term to NHFIL based on financials up to 31 December, 2014. Banks/FIs rated as 'A 1' (Strong Capacity & High Quality) have strong capacity to meet financial commitments, maintain high quality, with low credit risk, but are susceptible to adverse changes in circumstances and economic conditions. In Short Term Rating Scales and Definitions ST-3 (Average Grade) means average capacity for timely repayment of obligations.

## Dividend

NHFIL has earned a net profit after tax of TK 243.74 million as against TK. 230.96 million in the previous year. The Board of Directors recommended a 18% Cash Dividend i.e. Tk. 1.80 for each share for the year ended 31 December, 2016, subject to approval at the 18<sup>th</sup> Annual General Meeting.

## Directors

In terms of the Shareholders' Agreement, the following Directors are to retire in the 18<sup>th</sup> Annual General meeting.

SL#	Directors to Retire	Organization Represented
01	Mr. Latifur Rahman	Bangladesh Lamps Ltd.
02	Mr. Akhtar Ahmed	Reliance Insurance Ltd.
03	Mr. A F M Shariful Islam	National Bank Ltd.

The following shareholders being eligible for election/ re-election expressed their interest to be elected as Directors in the 18<sup>th</sup> AGM:

SL#	Directors to be Elected/re-elected	Organization Represented
01	Mr. Latifur Rahman	Bangladesh Lamps Ltd.
02	Mr. Akhtar Ahmed	Reliance Insurance Ltd.
03	Mr. M. A. Sabur	United Commercial Bank Ltd.

## Auditors

The Company's Auditors, M/s Howladar, Yunus & Co., Chartered Accountants are due to retire at the 18<sup>th</sup> AGM. Having completed three years of audit work they are not eligible for re-appointment for the year 2017. Many "A" graded audit firms have expressed their interest to act as auditor. Upon appraisal by the Audit Committee, the Board recommended the appointment of M/s Syful Shamsul Alam & Co., Chartered Accountants for the year 2017 at a remuneration of Tk. 250,000.00.

## Appreciation

While closing the submission of the Performance and Financial Report 2016 before you, I wish, on behalf of the Board of Directors, to ventilate our deep gratitude and sincere thanks to all of our shareholders, our partners in business, our clients, our associates for their kind assistance and support whenever needed and called for. For their patience and courage in walking with us all through these past windy years, and for the counsel and the comfort they so kindly offered.

We would like to make special mention of our Central Bank who were with us all the way in providing advice and support whenever required. We are also deeply indebted to all other regulatory authorities for their invaluable guidance. Finally we would like to express our gratitude to the Officers and Staff of NHFIL, without whose help and support we would not have achieved such success.



Latifur Rahman  
Chairman  
Dhaka, Dated 04 April 2017