

Disclosures on Capital Adequacy and Market Discipline (CAMD) – Pillar III

A) Scope of Application

Qualitative Disclosures:

- (a) These guidelines apply to Delta Brac Housing Finance Corporation Ltd.
 (b) DBH has no subsidiary companies.
 (c) Not Applicable

Quantitative Disclosures:

- (d) Not Applicable

B) Capital Structure

Qualitative Disclosures:

- (a) Summary information on terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or Tier 2.

Tier 2 Capital includes:

- i) General provision up to a limit of 1.25% of Risk Weighted Asset (RWA) of Credit Risk.

Conditions for maintaining regulatory capital:

- i) The amount of Tier 2 capital will be limited to 100% of the amount of Tier 1 capital.

Quantitative Disclosures:

- (b) The amount of Tier 1 capital, with separate disclosure of:

Particulars	Amount in Crore Taka
Paid up capital	121.85
Non-repayable share premium account	5.50
Statutory reserve	122.51
General reserve & other reserve	119.50
Retained earning	41.40
Dividend equalization account	25.00

Amount in Crore Taka

c) The total amount of Tier 2 capital	29.68
(d) Other deductions from capital	-
(e) Total eligible capital	465.45

C) Capital Adequacy

Qualitative Disclosures

- (a) A summary discussion of DBH's approach to assessing the adequacy of its capital to support current and future activities.

Risk Weighted Assets (RWA) and Capital Adequacy Ratio (CAR)

DBH has applied Standard Approach for computation of Capital Charge for Credit Risk and Market Risk while Basic Indicator Approach for Operational Risk. Total Risk Weighted Assets (RWA) of the Company is determined by multiplying capital charge for market risk and operational risk by reciprocal of the minimum capital adequacy ratio and adding the resulted figures to the sum of risk weighted assets for credit risk. Total RWA is then used as denominator while total Eligible Capital as numerator to derive Capital Adequacy Ratio.

Strategy to Achieve the Required Capital Adequacy:

- Rigorous monitoring of overdue loans to bring those under 90 days overdue
- Financing clients having good rating as per Company's policy
- Using benefit of credit risk mitigation by taking eligible collaterals against transactions
- Focusing more to increase the spread on housing loan and thus increasing retained earnings

- Raise fresh capital by issuing bonus share/right issue.

Quantitative Disclosures

Amount in crore Taka

(b) Capital requirement for Credit Risk	237.46
(c) Capital requirement for Market Risk	6.55
(d) Capital requirement for Operational Risk	27.28
(e) Total and Tier 1 capital ratio:	
CAR on Total capital basis (%)	17.16
CAR on Tier 1 capital basis (%)	16.06

D) Credit Risk

Qualitative Disclosures

(a) The general qualitative disclosure requirement with respect to credit risk including:

- Definitions of past due and impaired (for accounting purposes)

As per the Bangladesh Bank's Prudential Guideline on Capital Adequacy and Market Discipline for Financial Institutions, the unsecured portion of any claim or exposure (other than claims secured by residential property) that is past due for 90 days or more, net of specific provisions (including partial write-off) will be risk weighted as per risk weights of respective balance sheet exposures. For the purpose of defining the net exposure of the past due loan, eligible financial collateral (if any) may be considered for Credit Risk Mitigation.

- Description of approaches followed for specific and general allowances and statistical methods

General provisions are maintained according to the relevant Bangladesh Bank Guideline and Specific provisions are maintained as per DBH's internal policy which is much more conservative than Bangladesh Bank Guidelines.

Discussion on FI's credit risk management policy:

Implementation of various strategies to minimize risk:

To encounter and mitigate credit risk, the following control measures are taken place at DBH:

- Vigorous monitoring and follow up by fully dedicated recovery and collection team
- Strong follow up of compliance of credit policies by appraiser and credit department
- Taking collateral, performing valuation and legal vetting on the proposed collateral by members of our own dedicated technical and legal department
- Seeking legal opinion from external lawyers for any legal issues if required
- Regular review of market situation and industry exposures
- Insurance coverage for funded assets.

In addition to the best industry practices for assessing, identifying and measuring risks, DBH also considers Guideline for Managing Core Risks of Financial Institutions issued by Bangladesh Bank for management of risks.

Approved Credit Policy by the Board of Directors

The Board of Directors has approved the credit policy for the company where major policy guidelines, growth strategy, exposure limits and risk management strategies have been described/stated. Credit policy is regularly updated to cope up with the changing global, environmental and domestic scenarios.

Separate Credit Administration Department

An independent Credit Administration Department is in place, at DBH, to scrutinize all loans from risk-weighted point of view and assist the management in creating a high quality portfolio and maximize returns from assets. The Credit department assesses credit risks and suggests mitigations and ensures that adequate security documents are in place before sanction of loan and before disbursement of loans.

Special Recovery and Collection Team

A strong recovery team monitors the performance of the loans and advances, identifies early sign of

delinquencies in portfolio and takes corrective measures to mitigate risks, improve loan quality and to ensure recovery of loans in a timely manner including legal actions.

Independent Internal Compliance Department

Appropriate internal control measures are in place at DBH. An Internal Compliance Department has been established to ensure compliance with all internal guidelines, Bangladesh Bank guidelines, operational procedures and adequacy of internal control and documentation procedures.

Credit Evaluation

To mitigate credit risk, DBH search for credit reports from Credit Information Bureau (CIB) of Bangladesh Bank. The report is scrutinized by Credit Admin Department and Loan Operation Department to understand the liability condition and repayment behavior of the client. Depending on the reports, opinions are taken from the concerned related parties for better understanding about client's credit worthiness.

Credit Approval Process

To ensure both speedy service and mitigation of credit risk, the approval process is maintained through a multilayer system.

Depending on the size of the loan, a multilayer approval system is designed. As smaller loan are very frequent and comparatively less risky, lower sanctioning authority is set to improve processing time and associated risk. Bigger loans require more scrutiny as the associated risk is higher hence sanctioning authority is higher as well.

Early Warning System

Performance of loans is regularly monitored to trigger early warning system to address the loans and advances whose performance show any deteriorating trend. It helps the company to grow its credit portfolio with ultimate objective of protecting the interest of the stakeholders.

Methods used to measure Credit Risk

As per the directives of Bangladesh Bank, 'The Standardize Approach' is applied by the company to measure its Credit Risk.

Quantitative Disclosures

(b) Total gross credit risk exposures broken down by major types of credit exposure.

Particulars	Amount in crore Taka
Housing Loan	4,186.39
Loan against Deposit	18.34
Staff Loan	11.03
Installment Receivables	7.49
Others	1.09
Total	4,224.34

(c) Geographical distribution of exposures, broken down in significant areas by major types of credit exposure.

Area	Amount in crore Taka
Dhaka	3,950.61
Chittagong	250.14
Sylhet	22.03
Comilla	1.55
Total	4,224.34

(d) Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.

Sector	Amount in crore Taka
Housing & Real Estate	4,205.04
Others	19.30
Total	4,224.34

(e) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure.

Particulars	Amount in crore Taka
Repayable on demand	7.49
Not more than 3 months	308.50
Over 3 months but not more than 1 year	822.33
Over 1 year but not more than 5 years	2,259.99
Over 5 years	826.02
Total	4,224.34

(f) By major industry or counter party type:

i) Amount of impaired loans and if available, past due loans, provided separately

The amount of classified loans and advances of DBH are given below as per Bangladesh Bank guidelines.

Particulars	Amount in crore Taka
Housing loans up to 5 years	0.57
Housing loans over 5 years	10.93
Totals	11.50

ii) Specific and general provisions:

Specific and general provisions were made on the amount of classified and unclassified loans and advances of DBH.

Particulars	Amount in crore Taka
Provision on classified loans and advances	11.50
Provision on unclassified loans and advances	93.98
Total	105.48

iii) Charges for specific allowances and charge-offs during the year.

During the year the specific and general

provisions were made on the amount of classified and unclassified loans and advances of DBH.

Particulars	Amount in crore Taka
Provision on classified loans and advances	1.50
Provision on unclassified loans and advances	8.84
Total	10.34

Amount in crore Taka

(g) Gross Non Performing Assets (NPA) 11.50

Non Performing Assets (NPAs) to outstanding Loans and Advances 0.27%

Movement of Non-Performing Assets (NPAs)

Amount in crore Taka

Opening Balance	11.85
Additions	3.40
Reductions	3.75
Closing Balance	11.50

Movement of Specific Provisions for NPAs

Opening Balance	0.94
Provisions made during the period	0.17
Write-off	0.45
Written-back of excess provisions	0.00
Closing Balance	0.66

E) Equities: Banking book positions

Qualitative Disclosures

(a) The general qualitative disclosure requirement with respect to equity risk, including:

Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. Discussion of important policies covering the valuation and accounting of equity holdings in the banking book positions. This includes the accounting techniques and valuation

methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.

Quoted shares are valued at cost prices and if the total cost of a particular share is lower than the market value of that particular share, then provision are maintained as per terms and conditions of regulatory authority. Mutual funds have been valued at 85% of latest published NAV available as on December, 2017. On the other, unquoted share is valued at cost price or book value as per latest audited accounts.

Quantitative Disclosures

(b) Value disclosed in the balance sheet of investments, as well as the fair value of those investments, for quoted securities, a comparison to publicly quoted share values where share price is materially different from fair value.

Particulars	Amount in crore Taka
Quoted shares (Market price)	33.80
Quoted shares (Cost Price)	35.27
Unquoted shares	1.20

Breakup of Total Investment	
Particulars	Amount in crore Taka
Government securities	0.11
Non marketable securities	5.45
Preference share	13.00
Investment in share (lock-in)	0.47
Marketable Securities	35.27
Commercial paper	10.00

(c) The cumulative realized gain (losses) arising from sales and liquidations in the reporting period.

Particulars	Amount in crore Taka
Cumulative realized gain (loss)	1.65

(d)

Particulars	Amount in crore Taka
Total unrealized gains(Losses)	(1.06)
Total latent revaluation gains (Losses)	-
Any amounts of the above included in Tier 2 Capital	-

(e) Capital requirements broken down by appropriate equity groupings, consistent with FI's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital.

Specific Risk –Market value of investment in equities is BDT 33.80 crore. Capital requirement is 10% of the said value which stands at BDT 3.38 crore.

General Risk – Market value of investment in equities is BDT 33.80 crore. Capital requirement is 10% of the said value which stands at BDT 3.38 crore.

F) Interest rate in the banking book

Qualitative Disclosures

(a) The general qualitative disclosure requirement including the nature of interest risk and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits.

Interest rate risk in the banking book arises from mismatches between the future yield of assets and their funding cost. Assets Liability Committee (ALCO) monitors the interest rate movement on a regular basis.

DBH measures the interest rate risk by calculating maturity gap between Risk Sensitive Assets (RSA)

and Risk Sensitive Liabilities (RSL) i.e. a positive maturity gap affect company's profitability positively with the increment of interest rate and negative maturity gap affects company's profitability adversely with the increment of interest rate.

Quantitative Disclosures

(b) The increase (decline) in earning or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring interest rate risk broken down by currency (as relevant).

Interest Rate Risk-Increase in Interest Rate: (BDT in Crore) Where applicable

Particulars	Maturity wise Distribution of Assets-Liabilities				
	1 to 30/31 day (One month)	Over 1 month to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to 1 year
A. Total Rate Sensitive Liabilities (A)	366.90	142.85	153.74	141.56	1,389.88
B. Total Rate Sensitive Assets (B)	561.16	181.57	244.52	320.68	550.37
C. Mismatch	194.26	38.71	90.77	179.12	-839.51
D. Cumulative Mismatch	194.26	232.97	323.74	502.87	-336.64
E. Mismatch (%)	52.95%	27.10%	59.04%	126.54%	-60.40%

Interest Rate Risk			
Magnitude of Shock	Minor	Moderate	Major
	2%	4%	6%
Change in the Value of Bond Portfolio (BDT in Crore)	0.00	0.00	0.00
Net Interest Income (BDT in Crore)	-6.73	-13.47	-20.20
Revised Regulatory Capital (BDT in Crore)	458.72	451.98	445.25
Risk Weighted Assets (BDT in Crore)	2,712.48	2,712.48	2,712.48
Revised CAR (%)	16.91%	16.66%	16.41%

G) Market Risk

Qualitative Disclosures

(a) Views of BOD on trading/investment activities

All the Market risk related policies/guidelines are duly approved by BOD. The BOD sets limits, reviews and updates the compliance on regular basis aiming to mitigate market risk.

Method used to measure Market risk

Market risk is the probability of losing assets in balance sheet and off-balance sheet position arising out of volatility in market variables i.e. interest rate, exchange rate and prices of securities. In order to calculate the market risk for trading book purposes the company uses Standardize (rule based) Approach. Capital charge for interest rate risk and foreign exchange risk is not applicable to our company as because we do not have such balance sheet items.

Market Risk Management System

A system for managing Market Risk is in place where guideline has been given regarding long-term, short-term funding, liquidity contingency plan, local regulatory compliance etc. Treasury manages the Market risk with the help of Asset Liability Management Committee (ALCO) and Asset Liability Management (ALM) Desk in the following manner:

Interest Risk Management

Treasury Department reviews the risk of changes in the income of the company as a result of movements in the market interest rates. In the normal course of business, DBH tries to minimize the mismatches between the duration of interest rate sensitive assets and liabilities. Effective Interest Rate Risk Management is done as under:

Market analysis

Market analysis over interest rate movements are reviewed by the Treasury Department of the company. The type and level of mismatch interest rate risk of the company is managed and monitored from two perspectives, being an economic value perspective and earning value perspective.

GAP analysis

ALCO has established guidelines in line with central bank's policy for the management of assets and liabilities, monitoring and minimizing interest rate risks at an acceptable level. ALCO in its regular monthly meeting analyzes Interest Rate Sensitivity by computing GAP i.e. the difference between rate sensitive assets and rate sensitive liabilities and takes decision of enhancing or reducing the GAP according to prevailing market situation aiming to mitigate interest rate risk.

Continuous Monitoring

Company's treasury manages and controls day-to-day trading activities under the supervision of ALCO that ensures continuous monitoring of the level of assured risks.

Equity Risk Management

Equity Risk is the risk of loss due to adverse change in the market place of equities held by the Company.

Equity Risk is managed by the following manner:

DBH minimizes the equity risks by portfolio diversification as per investment policy of the Company.

Quantitative Disclosures

(b) The capital requirements for Market Risk:

Amount in crore Taka

Interest rate risk	-
Equity position risk	6.76
Foreign Exchange Position and Commodity risk (If any)	-

H) Operational Risk:

Qualitative disclosure:

a) Views of Board on the system to reduce Operational Risk:

All the policies and guidelines of internal control and compliances are established as per advice of the Board. The Board delegates its authority to Executive Committee and Managing Director. Audit Committee of the Board oversees the activities of internal Control and compliance as per good governance guideline issued by Securities and Exchange Commission.

Performance gap of executives and staff

DBH's recruitment policy is based on retaining and attracting the most suitable people at all levels of the business and this is reflected in our objective approach to recruitment and selection. The approach is based on the requirements of the job (both now and in future), matching the ability and potential of the individual. Qualification, skills and competency form our basis for nurturing talent. Favorable job responsibilities are increasingly attracting greater participation from different level of employees in the DBH family. We aim to foster a sense of pride in working for DBH and to be the employer of choice. As such there exists no performance gap in DBH.

Potential external events

No such potential external event exists to raise operational risk of DBH at the time of reporting.

Policies and Procedure for mitigating operational risk

DBH has established a strong Internal Control Department to address operational risk and

to frame and implement policies to deter such risks. Internal Control Department assesses operational risk across the company and ensures that appropriate framework exists to identify, assess and manage operational risk.

Approach to calculating capital charge for operational risk:

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. DBH uses basic indicator approach for calculating capital charge against operational risk i.e. 15% of average positive annual gross income of the company over last three years.

Quantitative Disclosures:

b) Capital requirement for operational risk:

Amount in crore Taka

Capital requirement for operational risk:	27.28
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