

# DIRECTORS REPORT TO THE SHAREHOLDERS

**Bismillahir Rahmanir Rahim**

**Dear Shareholders,**

**Assalamu Alaikum,**

On behalf of the Board of Directors and the Management of First Finance Limited, it is indeed a great privilege for me to welcome you to the 27<sup>th</sup> Annual General Meeting of the Company. We are pleased to place herewith the Directors' Report and the Auditors' Report together with the Audited Financial Statements of the Company for the year ended on 31 December 2019 for your valued consideration, adoption and approval. The Directors' Report has been prepared in compliance with Section 184 of the Companies Act 1994, BSEC's Notification of 03 June 2018, Dhaka and Chittagong Stock Exchange (Listing) Regulations, 2015, guidelines of Bangladesh Bank and other applicable rules and regulations. Relevant disclosures and explanations relating to certain issues have been given by the Directors, which they consider important to ensure transparency and good governance practices.

## **Industry Analysis**

The NBFIs sector in Bangladesh has undergone a significant transformation over the past few years. The performance of the NBFIs has been particularly impressive in areas that have national priorities, like infrastructure finance, SME finance, housing finance, micro finance and financial inclusion. Small and medium size enterprises (SMEs) are the backbone of Asia's economies and they need better access to finance to grow. Presently 35 NBFIs are operating in Bangladesh under close monitoring of Bangladesh Bank as regulatory authority. NBFIs have an inclusive strategy in which the system can attract the client with its innovative and multifaceted products and services with simple paper work, quick approval, easy credit process, rapid decision-making and no excess bureaucracy to get nod for the approval of a proposal. So, NBFIs sector has been capable enough to capitalize the demand of existing and potential borrowers. Ease of operation, quick decision making and interaction with the clients differentiates an NBFIs from Banks where the structure has become somewhat unwieldy.

NBFIs are increasingly coming forward to provide credit facilities for meeting the diversified demand for investment fund in the country's expanding economy. NBFIs have been playing a vital role by providing additional financial services which cannot be usually provided by the banks. In 2019, NBFIs recorded growth in total assets, borrowings, deposits, and capital. According to Bangladesh Bank, the asset of NBFIs increased by 0.9% to Tk. 851.60 billion in 2018 from Tk. 839.90 billion in 2017. At the end of June 2019, the total assets of NBFIs increased by Tk. 874.30 billion. CMSME loan disbursement by banks and nonbank financial institutions increased by 4.25% to Tk. 1,624.27 billion in 2019 compared with Tk. 1,558.09 billion in 2018. NBFIs' investment at the end of June 2019 was 45.30% in industry, 19.4% in real estate, 2% in margin loan, 14.50% in trade and commerce, 3.40% in merchant banking, 2.50% in agriculture and 12.90% in other sectors. At the end of June 2019, the outstanding of loan/lease was increased by 5.64% to Tk. 678.10 billion from Tk. 641.90 billion. In addition to increasing loan/lease, the total NPL was also increased by 35.81% to Tk. 80.40 billion in 2019 from Tk. 59.20 billion in 2018 respectively.

## **Industry Outlook**

Like 2018, in 2019 NBFIs had a roller coaster ride with a cautionary monetary policy stance from the Central Bank. There were signs that the country was heading for surge in the interest rate finally culminating in a tight liquidity situation. Deposit in the banking sector was adversely affected due to high rate of National Saving Certificates.

From the beginning of the year 2019, it was clearly evident that severe liquidity crisis would be the primary challenge for the year. This resulted in both banks and NBFIs vying for deposits at an enhanced rate. For banks and NBFIs alike, continuity of the operational activities posed a severe challenge. Funds in the Non-bank Financial Institutions (NBFIs) largely dried up resulting in severe curtailment of investment activities. For the greater part of the year, NBFIs have been busy paying off the loans and deposits of the public. With no growth in credit, the bottom line had an anemic look for the industry as a whole. The private sector credit growth in the country decreased to 9.87 percent in December 2019 from 13.30 percent in December 2018 which hit a significant deterioration according to Bangladesh Bank. However the actual growth rate during this period has been decreasing as the

outgoing year was the lowest growth rate since 2008 at least. Add to this the astronomical rise in Non Performing Loan (NPL); it is a recipe for concern in the years to come.

The unforeseen shock emanating from the Central Bank's decision to close the operation of Peoples Leasing & Financial Services Ltd. had a disastrous effect on the overall confidence level in the NBFi sector. This culminated in major withdrawal of deposits from NBFIs leading to an abrupt stop of all investment activities. For NBFIs this was a period of trying to balance the Cash Flow from new deposits and installments from Loans and Advances.

Unlike the banks which have been continuously injected with massive amounts of liquidity through REPO, it is unfortunate that NBFIs are yet to receive any relief from the Central Bank. This is likely to have a major detrimental effect on the CMSME sector in which the Non-Banking industry has made mammoth contributions.

Source of funds has been one of the major concerns of NBFIs. Most of the banks are not willing to provide credit facilities to NBFIs. Again, in an environment where there are 64 Banks and 35 NBFIs, money market is inevitably overheated. The usual rescheduling and restructuring policy for so called good defaulters is likely to further intensify the liquidity situation.

### Capital Market Scenario

During 2019 the country's capital market was beset with lack of confidence and poor market capitalization. In the outgoing year, the market was unstable and sluggish which resulted in less IPOs, low trading, low capitalization and migration of local and foreign investors. Capital Market was heading for stagnation ostensibly on account of interest rate hike, severe liquidity problem and stuck up loans in the banking system. Add to this flight of funds into the National Savings Certificates and enforcement of Central Bank's Advance Deposit ratio, withdrawal of funds by foreign investors, the outlook was discouraging. Constant erosion of the market price and intermittent adjustment of the bank's Advance Deposit ratio, the Capital Market entered into a prolonged lackluster scenario. Although there have been sporadic movements, these were short lived. Though price index of Dhaka Stock Exchange (DSE) saw a sharp rise by 18.98 points or 0.42% which slightly increased the turnover to Tk. 319 crore from Tk. 301 crore in the last trading day, the average daily turnover value in DSE fell to Tk. 480 crore in 2019. In 2018, the average daily turnover was Tk. 552.03 crore.

### Operating and financial performance of the company

Loans, advances and leases of the company recorded at Tk. 860 Mn on 31 December 2018 registering 2.20 % down against last year. Deposit stood at Tk. 588.37 Mn resulting 14.32% decrease against last year. Equity attributable to shareholders' of the company increased to Tk. 993.44 Mn as compared to Tk. 858.52 Mn of last year.

Gross interest income of the company was Tk. 897.75 Mn which was 30.87% higher than that of 2018. Other income of the company was decreased by Tk. 20 Mn. Operational expenses in 2019 were increased by 16.4% and provision for loans, advances, leases and shares decreased by Tk. 130 Mn.

The financial results of the Company for the year 2019 with a comparison of 2018 are summarized below

Particulars		Year	
		2019	2018
Interest Income	<b>BDT mn</b>	898.75	685.94
Interest Expense	<b>BDT mn</b>	869.09	876.85
Net Interest Income	<b>BDT mn</b>	28.65	(190.90)
Non-Interest Income	<b>BDT mn</b>	64.39	68.03
Operating Expenses	<b>BDT mn</b>	319.74	270.69
Profit before Provision	<b>BDT mn</b>	(226.68)	(394.46)
Profit before Taxes	<b>BDT mn</b>	141.13	(399.80)
Net Profit after Taxes (NPAT)	<b>BDT mn</b>	134.92	(405.38)
Earnings Per Share	<b>BDT</b>	1.16	(3.49)

### Five Years Financial Summary

Key operating and financial summary of preceding 5 (Five) years of the company are the part of this report and have been submitted in page no. 09 of this annual report.

### **Related Party Transaction**

Compliant steps have been taken by the Board to avoid any conflict of interests that may arise, in transacting with related parties as per the definition of BAS & BFRS. A statement of related party transactions has been presented in note no. 42 on page no. 95 of this Annual Report.

### **Dividends**

The Board of Directors in its meeting held on 22 March, 2021 recommended Stock Dividend @ 2% for the year 2019 for all the shareholders out of current year's net profit in compliance with prior approval of Bangladesh Bank and BSEC press release ref. no. বিএসইসি/মুখপত্র (৩য় খ-)/২০১১/১২৯ তারিখ : ০২ অক্টোবর, ২০১৯ খ্রিষ্টাব্দ. The Board also states that no bonus shares or stock dividend has been paid during the year or will be paid in future as interim dividend apart from the above declaration.

### **Directors' Responsibilities for Financial Statements**

The Board is responsible to present a fair, balanced and understandable assessment of the Company's position and prospect as part of good corporate governance and to that end the directors confirm to the best of their knowledge that

1. the Financial Statements, prepared by the Management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
2. proper books of account as required by the law have been maintained;
3. appropriate accounting policies have been consistently applied in preparation of the Financial Statements and that the accounting estimates are based on reasonable and prudent judgments;
4. the Financial Statements was prepared in accordance with IAS/BASIIFRS/BFRS;
5. the system of internal control is sound in design and has been effectively implemented and monitored.

### **Going Concern**

The Board of Directors has reviewed the overall business plans, strategies and is optimistic that the Company has adequate resources to continue its operations. Accordingly, the financial statements of the Company are prepared based on the going concern concept.

### **Risk and Concerns**

The Board of Directors are responsible for formulating risk policies, determining methods to measure and manage risk, setting commensurate risk limits and monitoring their performance. Fundamentally, the company believes in managing risk in a forward looking manner and steering credit, interest rate, liquidity, market and operational risks through establishing strategies, models and parameters.

### **Management Discussion & Analysis**

Pursuant to the BSEC's Notification dated 03 June 2018, the management discussion and analysis report is given on page no. 28 of this Annual Report.

### **Report on the Compliance of the Conditions of BSEC's Notification**

In accordance with the BSEC's Notification dated 03 June 2018, the Board of Directors is required to report on the compliance of certain conditions. The notification was issued for the purpose of establishing a framework for ensuring good governance practices in the listed companies for the interest of the investors and the capital market. A statement on the compliance with the BSEC's conditions is given on page no. 43 of this Annual Report.

### **Pattern of Shareholding**

The pattern of Shareholding of the Company as at end of the year 2019 is shown on page no. 07 of this Annual Report.

### **Directors' Meeting, Attendance & Remuneration**

During the year ended on 31 December 2019, a total of 12 meetings of Board of Directors, 4 meetings of Audit Committee were held. No Executive Committee Meeting was held during the year 2019. The attendance in the Board meetings by each Director is given on page no. 35 of this Annual Report. Please note that the amount of total remuneration which has paid to the Directors including Independent Directors is given in note no. 32 in page no. 94 of this Annual Report.

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

As per Article 117 of the Articles of Association of the Company, one-third of the Directors of the Company required to retire by rotation at the 27<sup>th</sup> Annual General Meeting (AGM) and being eligible, the following members offered themselves for re-election as per the provisions of Article of Association of the Company:

1. M/S Alphet Systems Ltd. (Represented by Mr. Abu Zakir)
2. M/S Qasraj Trading Ltd. (Represented by Ms. Amatun Noor)

Alphabet Systems Ltd., Alphabet Associates Ltd, Qasraj Trading Ltd. Oparchor Trade International Ltd Raqas Trade International Ltd, Institutional Director of First Finance Limited has shown their intension to change their representatives and nominated Md. Abu Zakir, Mr. Md. Israfil Alam, MP, Ms. Amatun Noor, Mr. Md. Altaf Hossain and Mr. Abu Bakar Zahan Raminton Raza instead on Ms. Kazi Sauda Afirm, Mr. Miah Nuruddin Ahmad Apu, Mr. M. Rashiduzzaman Millat, Mr. Masud Hossain Khan and Mr. Md. Mahin, in 306<sup>th</sup>, 307<sup>th</sup> and 312<sup>th</sup> Board Meetings held on 11<sup>th</sup> May, 2019, 29<sup>th</sup> June, 2019 and 13<sup>th</sup> October, 2019 respectively.

Biographies of the Directors (including retiring directors) and the names of the Company where they have interest are mentioned in the Page no. 17 of the Annual Report.

### Approval for Appointment of Independent Directors

As per Bangladesh Securities and Exchange Commission Notification No. SEC/CMRRCD/2006-158/207/Admin/80, dated June 03, 2018 the Board has appointed Mr. Md. Habibur Rahman as the Independent Director of the company subject to approval of the shareholders in 27<sup>th</sup> AGM.

### Corporate Governance

Primarily, the conduct of the company is guided by the core values, code of ethics and a commitment to openness and transparency. The Board of Directors of the Company always endeavors to provide strategic direction for the Company by applying the highest standards of corporate governance practice. To this end, we comply with all reporting regulations and requirements as defined in the latest Corporate Governance Code issued by the Bangladesh Securities and Exchange Commission.

We establish necessary policies and procedures to protect the Company from risk and to provide it with clear strategic direction. We work to ensure that all governance matters are transparent to shareholders as well as stakeholders through channels such as the Annual General Meeting (AGM), quarterly financial statements and this annual report. Besides, 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.

### Appointment of Auditors

External auditors M/S Rahman Mostafa Alam & Co., Chartered Accountants, Paramount Heights (7<sup>th</sup> Floor, D2 & C1), 65/2/1, Box Culvert Road, Purana Paltan, Dhaka-1000, served as statutory auditor of FFL for the year 2018. 03 Chartered Accountants (CA) firm have shown their interest to be appointed as Statutory Auditors and submitted their proposals to conduct the statutory audit of First Finance Limited for the year 2020. The names of the Chartered Accountants Firms are as follows:

Sl. No.	Name of the Firm(s)	BSEC Listing No.	Bangladesh Bank Listing No.	Quoted Fee (Tk.)
1.	M/S Rahman Mostafa Alam & Co., Chartered Accountants	29	38	5,00,000+VAT
2.	G. Kibria & Co., Chartered Accountants	10	13	2,00,000+VAT
3.	M J Abedin & Co., Chartered Accountants	20	26	2,50,000+VAT

Among three of applicants, on the basis of the proposal of the Audit Committee and previous work experience, the Board of Directors recommended to appoint M/S G. Kibria & Co., Sadharan Bima Sadan (5<sup>th</sup> Floor), 24-25, Dilkusha C/A, Dhaka-1000, as the company's Statutory Auditor for the year 2020 at a

fee of Tk. 2,00,000.00 ( excluding VAT). Now in exercise of the power conferred upon Section 210(10) of the Companies Act, 1994, the shareholders of the company will approve the appointment in 27<sup>th</sup> AGM.

#### **Appointment of Professionals for Compliance Certificate**

M/S Arun & Company, Chartered Accountants, expressed their interest as Professionals for Compliance Certificate of First Finance Limited for the year 2020. The Board members recommended their appointment with annual fee of Tk. 25,000/= and placed the matter to the 27<sup>th</sup> AGM for shareholders' approval.

#### **Business Outlook**

The company will continue to capitalize on its strengths to generate sustainable revenue from SME and Corporate Financing, while expanding opportunities in Consumer Finance, Factoring, Treasury and Deposits. We will continue concentrating more on improving asset quality and strict recovery programs. Competition will remain intense among the NBFIs and Banks both in terms of asset and liability. As a result, interest spreads will continue to be under pressure like the previous year. Besides, we are concentrated on innovation and development to launce new products and services. To keep the pace, we hope to design more new products in the future. Overall, we are confident of recording a better financial performance for the year 2020.

However, 'Outlook' section in this document is based on assumptions and the actual outcome is uncertain and the stakeholders will be judicious while reviewing this section.

#### **Acknowledgment**

The Board of Directors of First Finance Limited likes to express gratitude to all the honorable shareholders, valued clients for their profound confidence in First Finance Limited. Our sincere appreciation to Bangladesh Bank, Bangladesh Securities and Exchange Commission (BSEC), Registrar of Joint Stock Companies & Firms (RJSC), Dhaka Stock Exchange Ltd. (DSE), Chittagong Stock Exchange Ltd. (CSE), Central Depository Bangladesh Limited (CDBL), National Board of Revenue (NBR), Banks and Financial Institutions, other Government Bodies, Bangladesh Leasing and Finance Companies Association (BLFCA) and Bangladesh Association of Publicly Listed Companies (BAPLC) and our statutory Auditors for their constructive suggestions and co-operations. We also express our appreciation for the commitment and dedication extended by the employees at all levels of the Company.

For and on behalf of the Board of Directors,

Sd/-

**Khan Mohammad Moinul Hasan**  
Chairman  
**First Finance Limited**