

DIRECTORS' REPORT 2016

Bismillahir Rahmanir Rahim
Dear Shareholders,
Assalamu Alaikum Wa Rahmatullah

On behalf of the Board of Directors, I am happy to present the 20th Report of the Board of Directors of your Company along with the Financial Statements (which includes Balance Sheet, Profit and Loss Account, Statement of Changes in Equity and Cash Flow Statement) for the year ended December 31, 2016. We have the pleasure to place herewith the Directors' Report and the Auditors' Report together with the Audited Financial Statements of the Company for the year ended December 31, 2016 for your valued consideration, approval and adoption in compliance with the provisions of Section 184 of the Companies Act 1994, Rule 12 (and the schedule there under) of the Securities and Exchange Commission Rules 1987, BSEC Notification on Corporate Governance dated 7th August, 2012 and IAS-1: Presentation of Financial Statements as adopted by The Institute of Chartered Accountants of Bangladesh (ICAB).

Global Economic Outlook:

Global growth is expected to be tepid at 3.1 percent in 2016, down from 3.2 percent in 2015 (World Economic Outlook, October 2016). Growth, however, is projected to rise up to 3.4 percent in 2017. Advanced economies are expected to grow by 1.6 percent in 2016, 0.5 percentage points lower than in 2015, edging up to 1.8 percent in 2017. However, emerging markets and developing economies are projected to grow by 4.2 percent in 2016, 0.2 percentage points higher than in 2015, rising further to 4.6 percent in 2017.

The downward growth revisions in advanced economies reflect a deterioration of economic activities in Euro zone following the exit process of UK from EU (Brexit) and its subsequent impact on the US and the Japanese economies. US growth is expected to decrease to 1.6 percent in 2016 from 2.6 percent in 2015 and increase to 2.2 percent in 2017. Reflecting the adverse impact from Brexit, growth in the Euro area has been revised downward to 1.7 percent and 1.5 percent in 2016 and 2017 respectively from 2.0 percent in 2015. Japan is projected to grow by 0.5

percent in 2016 as in 2015 and is expected to grow by 0.6 percent in 2017.

The growth in emerging market and developing economies in 2016 is expected to improve as a result of buoyant economic activities in leading Southeast and South Asian countries, modest recovery of oil prices, contained asset price and exchange rate after the Brexit referendum and despite some growth moderation in China. Chinese growth is revised downward to 6.6 percent in 2016 and 6.2 percent in 2017, from 6.9 percent in 2015. India's economic growth in 2016 and 2017 is expected to continue at 7.6 percent.

Developments in the Bangladesh Economy:

Globally, 2016 has been an unprecedented year. Brexit, US Election, rise of populism, refugee crisis and terrorism will continue to define the political and economic scenario of the world in 2017. Inside the country, a number of positive as well as challenging developments will shape the dynamics of Bangladesh's journey in 2017. As most big economies are still struggling to recover from slow growth, Bangladesh's major economic boost will have to come from within the country.

Stability in Bangladesh, both economically and politically was strong in 2016. This has helped in achieving higher growth of gross domestic product that crossed 7 percent in fiscal year 2016. Industry played the main role in higher GDP followed by the services sector. Low petroleum prices in the global market helped inflation rates to stay low since Bangladesh spends a significant amount on petroleum products. Export earnings increased at a higher rate than imports and export-GDP ratio increased in FY2016 while import-GDP ratio declined. Surely, improved infrastructural facilities, technological upgradation, skills development will facilitate the growth process more than that of previous year of the sector.

While macroeconomic indicators are better compared to many other countries, Bangladesh will have to focus on a number of issues that may hinder the growth momentum of the country. In 2016, the

banking sector continued to display its weaknesses. Rise of non-performing loans, lower capital adequacy and the overall lack of governance in the sector are disturbing for the economy. Window dressing through rescheduling and restructuring of NPL and government support to the loss making overall financial institutions cannot solve the problem unless stern measures are taken against malpractices and fraudulent cases. Cyber crime has emerged as a new phenomenon for the financial market in Bangladesh.

In 2017, Bangladesh would continue to drive its ambitions for becoming a higher middle income country. The country will also prepare to come out of the least developed country status. These will require consolidation of its achievements and preparation for tackling further challenges. As the country received commitments for an investment of USD 24 billion from the Chinese government and in the process of implementing mega projects, it requires lots of clarity to capitalize the opportunities.

Bangladesh's economic and social achievements are widely acclaimed around the world. The challenge is now to make this sustainable and inclusive. Maintaining macroeconomic stability, increasing efficiency in project implementation as well as national earnings and improving governance are major issues that will have to be vigorously followed up in 2017. This ambition is underpinned by continuous economic and political reforms.

Industry Outlook:

Non Bank Financial Institutions (NBFIs) have emerged as an important segment of financial system in Bangladesh. NBFIs offer diversified financial services mostly long-term in nature to cater the ever changing demands of customers. NBFIs play crucial roles in providing additional financial services that cannot be always met by the banks. In addition, NBFIs are engaged in the capital market as well as in real estate sector of Bangladesh. As a watchdog, Bangladesh Bank supervises NBFIs through a risk-based supervisory system so that NBFIs can deliver financial services efficiently. NBFIs showed strong performance in terms of growth in assets and deposits during FY16.

NBFIs' business line is narrow in comparison with Banks in Bangladesh. NBFIs have been allowed to offer term deposit service for tenure of at least three months effective from 2 December 2013. Presently,

out of 33 NBFIs, three are Government-owned, 11 are joint venture and the rest 19 are locally private-owned. Meanwhile, the branch network increased to 220 as on 30 June 2016. In accordance with the review of Bangladesh Bank as on 30 June, 2016, the Industrial performance (NBFIs) was positive and favorable to the interested people. The total asset of NBFIs stood at Tk. 672.80 billion up to June 2016 against Tk. 611 billion during 2015 registering an increase of 10.11%. At the same time, the total deposit of NBFIs stood at Tk. 351.40 billion up to June 2016 against 318.10 billion during 2015 registering an increase of 10.47%. The total liability stood at Tk. 575 billion up to June 2016 against Tk. 509 billion during 2015 registering an increase of 12.97%. Moreover, the other indicators are still positive respectively.

Performance of FFIL during 2016:

It is with much pleasure to bring to the notice of the honorable Shareholders that in spite of some drawbacks, threats and stiff competition in the Financial Market during 2016 was another successful year of the Company. It was possible because of the strength of our teamwork, well organized structure, collective efforts, and constant endeavors with a view of providing prompt and high quality services to diverse group of customers and dedication to broaden the depth and width of its services while maintaining high asset quality.

The Principal Activities of the Company:

- Mid to long term financing in the form of lease, term loan and home loan;
- Working capital finance in the form of credit sale financing against accounts receivable, short term revolving loan and work order financing;
- Investment products in the form of deposits.

There was no significant change in the nature of these activities during the year 2016.

REVIEW OF BUSINESS:

Lease Finance:

The Lease Finance is one of the major financial activities of FFIL. The Company offers full payout financial lease for machinery, equipment, and vehicles. FFIL provides

services to customers of different segments including growing companies, blue-chip companies and SMEs. Though as prudent business model, the company has diversified alternatives. The investment under lease finance of the company reached at Tk. 440.51 million in 2016.

Term Finance:

The Term Finance, one of core products of the Company is available for interested clients having short, medium, and long term requirements from 12 to 60 months depending on the business nature and need. The Company's investment under term finance rose at Tk. 9,806.55 million during 2016 from Tk. 7864.62 million in the year 2015 registering an increase of 24.69%.

House Finance:

House finance is another alternative product of FFIL to increase individuals' lifestyle and comfort. House finance is available for commercial, industrial, SME sectors, period ranging from 12 to 120 months depending on the business nature and need. The Company's investment under house finance rose at Tk. 2,217.96 million during 2016 from Tk. 1514.77 million in the year 2015 registering an increase of 46.42%.

Deposit Mobilization:

FFIL mobilizes its deposit products to corporate and individuals through its wide range of deposit schemes with different maturity options, monthly/quarterly/half-yearly/yearly income options, double/triple money options, monthly saving options etc. The deposit base of the Company continued to register a steady growth and stood at Tk. 8,224.28 million during 2016 from Tk. 7,049.85 million in the year 2015 registering an increase of 16.66%. The growth was made due to high standard products and services along with competitive rate of interest offered to customers what creates confidence level amid the depositors.

Total Assets:

The FFIL has sound asset management policy which assures safeguarding of assets against unauthorized use or disposition. The Company also follows proper records and policy regarding capital expenditures. Out of total asset, the Company has Vehicles which

incur depreciation each year. The Book Value of those Fixed Assets is declined. The total assets size of the Company rose at Tk. 17,110.15 million during 2016 from Tk. 13,278.22 million in the year 2015 registering an increase of 28.86%.

Recovery:

According to Bangladesh Bank's guidelines for classification of non-performing loan (NPL) for NBFIs, the NPL in the same period stood at Tk. 1,382.79 million which is almost 9.99% of the total outstanding loans and advances. FFIL maintains required provision against loans and advances of any other accounts that are considered by Management as doubtful of recovery.

The recovery team is being strengthened for vigorous monitoring and follow-up. Necessary legal actions have been initiated against several clients. It is expected that with our all out efforts the NPL will be reduced at a logical point at the end of 2017.

Investment in Securities:

FFIL has managed its investment in securities very efficiently and skillfully over the preceding years and this year was no exception. FFIL maintains its own portfolio for investment in shares and securities of listed companies. These are fully diversified with securities of different industries/sectors. The risk of investment is being minimized through diversification and investing mostly in fundamentally strong securities.

Portfolio Management:

FCML, a full-fledged subsidiary of FFIL is providing portfolio Management services to a wide range of customer of the country keeping in mind the responsibilities to the society in which it works. FCML is providing management services under both discretionary and non-discretionary account categories.

Margin Loan Facility:

FCML provides margin loan facilities to its portfolio customers for purchase of shares and securities. The amount of portfolio loan outstanding as on 31 December 2016, was TK. 1,553.34 million as against Tk. 1,861.83 million as on 31 December 2015. The

above amount represents the aggregate margin loan facility extended to different portfolio customers for purchasing shares listed in the stock exchanges against their deposit. Loans are fully secured by way of lien on shares purchased under margin loan account.

Financial Performance of FFIL

The FFIL Group's consolidated financial performance in 2016 has been summarized below:

Particulars		2016	2015
Operating income	Taka in Million	365.94	510.95
Operating expenses	Taka in Million	133.80	104.53
Profit before tax	Taka in Million	177.00	215.07
Provision for taxation	Taka in Million	85.61	85.39
Profit after tax	Taka in Million	91.39	129.68
Retain Earning Balance	Taka in Million	115.55	151.43
Earnings Per Share	Taka	0.75	1.05

Transfer to Statutory Reserves:

The appropriations to Statutory Reserve for the Financial Year ended December 31, 2016 as per financial statements are:

(Taka in Million)

Particulars	2016	2015
Net Profit for the year	92.36	129.61
Balance of Reserve at the beginning of the year	129.98	104.64
Transfer to Statutory Reserve	25.21	25.33
Balance of Reserve at the end of the year	155.19	129.97

Contribution to National Economy:

As a financial institute, FFIL contributes to the economic prosperity by providing financial products and services. FFIL contribute to the national exchequer in the form of Income Tax & VAT. During the year the company has deposited an amount of Tk. 126.83 million to the Govt. exchequer as corporate tax of the

company. Moreover, the company also collected and deposited to the Govt. exchequer as withholding Tax and VAT is given below.

(Taka in Million)

Particulars	2016	2015
Income Tax paid on company's income	47.64	19.37
Tax collected at source on behalf of Government	73.56	57.08
Value Added Tax (VAT)	2.08	2.45
Excise Duty	3.55	0.86
Total	126.83	79.76

Key Operating and Financial Data for Last Preceding 5 (Five) Years:

Key operating and financial data of FFIL for last preceding five (5) years as per Notification No. BSEC / CMRRCD /2006/ 158/134/Admin/44 dated 07 August 2012 are shown on page 22 of this report. Moreover, the Financial Highlights as required by Bangladesh Bank is also given on page 21 of this report.

Anti-Money Laundering:

Anti-money laundering laws made the government to stop money laundering methods that involve financial institutions. Under the guidelines set forth by anti-money laundering, or "AML" financial institutions are required to verify large sums of money passing through the institution, and they are required to report suspicious transactions. To prevent money laundering, the management of FFIL has a well managed Anti-money Laundering Committee.

Risk & its Mitigation:

Risk mitigation planning is the process of developing options and actions to enhance opportunities and reduce threats to project objectives. Risk mitigation implementation is the process of executing risk mitigation actions. Risk mitigation progress monitoring includes tracking identified risks, identifying new risks, and evaluating risk process effectiveness throughout the project. Our financial and operational performance is closely associated with a number of risks, e. g, Credit risk, Liquidity risk, Market risk, Interest rate risk, Portfolio risk & Operational risk as well. The Board is always aware about those risks and proactive in formulating strategies for mitigation of those risks.

The management works with a comprehensive plan to manage, monitor and mitigate the risks. Effective mitigation of risks is fundamental to the achievement of our goals. The details of risks & related action of the Company are discussed on page 66 of this report.

Implementation of BASEL-II:

Pillar-I (Minimum Capital Requirement): The Pillar involves the calculation of minimum capital requirements to cover credit risk, market risk and operational risk. According to Bangladesh Bank's instruction, all FI's have to maintain regulatory Capital Adequacy Ratio (CAR) at minimum 10% where we are maintaining 10.75%. In this aspect the capital is categorized in two tires:

- **Tire-I Capital:** Tier I capital is core capital, this includes equity capital and disclosed reserves (Statutory reserve, general reserve, retained earnings) also include non-redeemable non-cumulative preferred stock, Minority interest in subsidiaries;
- **Tire-II Capital:** Tier 2 capital is supplementary Capital that includes items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt, such as Revaluation Reserve of Fixed Assets, Revaluation Reserve for securities, all other preference shares and General Provision up to a limit of 1.25% of Risk Weighted Assets (RWA) for Credit Risk.

The Pillar II (Supervisory Review Process): The Pillar-II is capital framework what intended to ensure that Companies have adequate capital to support the relevant risks in their business, and that they have appropriate processes to ensure compliance with regulatory authorities. It is also intended to encourage Company to develop and use better risk management techniques in monitoring and managing their risks. Pillar 2 therefore acts to further the safety and soundness of business. The Basel Implementation Unit (BIU) of FAS Finance & Investment Limited has been formed as per Basel-II Guideline of Bangladesh Bank and headed by the Managing Director and comprising of 4 members.

Corporate Social Responsibility (CSR):

FFIL always acknowledges its responsibilities for the well being of the society and takes part in such activities whenever it becomes necessary. We get

our business sustenance from the society in which we live and operate. In reciprocation, we want to do something back to the society. Our corporate social responsibility includes our customer, employees, shareholders, business associates, and the society as a whole. The details of CSR activities of the Company are discussed on page 72 of this report.

Shareholding Pattern:

The pattern of Shareholding of the Company as at the end of the year 2016 is shown on page 86 of this report.

Board Meetings and Attendance of the Directors:

During the year, the Board of Directors met eight (8) times, Executive Committee met three (3) times, and Audit Committee met five (5) times. The attendance record of the Directors as well as provided remuneration is shown on page 87 of this report. The Directors who could not attend the meetings were granted leave of absence.

Directors' Appointment & Re-appointment:

As per Article # 104 & 105 of the Articles of Association of the Company, the following Directors will retire in the 20th Annual General Meeting and being eligible offered themselves for re-appointment:

1. Ms. Mahfuza Rahman Baby
2. Ms. Soma Ghosh
3. Mr. Md. Atharul Islam
4. Mr. Arun Kumer Kundu

Corporate and Financial Reporting Framework:

In conformity with the BSEC Notification No. SEC/CMRRCD/2006-158/134/Admin/44 dated August 7, 2012, the Member of the Board of Directors of FFIL confirms the compliance with the financial reporting framework as per following manner:

- The financial statements, prepared by the management of FFIL make a fair presentation of its activities, operational details and results, cash flow information and changes in equity structure;
- Proper books and accounts of the Company have been maintained;

- Appropriate accounting policies, including International Accounting Standards (IASs)/ International Financial Reporting Standards (IFRSs) as adopted by Institute of Chartered Accountants of Bangladesh (ICAB) as applicable in Bangladesh, have been consistently applied in preparation of the financial statements. Any change or deviation whether significant has been adequately disclosed;
- Accounting estimates are based on reasonable and prudent judgment;
- The Internal control and compliance processes have been properly designed and effectively implemented and monitored;

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 FFIL 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 is appropriate to adopt going concern assumptions and no material uncertainty exists in preparing the financial statements.

Dividend Recommendation:

The Board of Directors of the Company has recommended 5% Stock Dividend per share for the year 2016 in its 185th Meeting of the Board of Directors dated April 22, 2017.

Appointment of External Auditor:

The Auditors of the Company, M/s Pinaki & Co., Chartered Accountants, has completed their first year's audit as the statutory auditors of the Company, as appointed at the 19th Annual General Meeting. As per the stipulation of BSEC's order no SEC/CMRRCD/2009-193/104/Admin dated July 27, 2011 and DFIM Circular No. 04 dated April 30, 2015, they are eligible for reappointment for three consecutive years. On the basis of the proposal of the Board's Audit

Committee, the Board recommends the appointment of M/s Pinaki & Co., Chartered Accountants, as the auditors of the Company for the year 2017 at an existing remuneration of Tk. 1,25,000/- (Taka one lac twenty five thousand) only plus VAT.

Status of Compliance:

In accordance with the Condition 7(ii) of BSEC's Notification no. SEC/CMRRCD/2006-158/134/Admin/44 dated August 7, 2012, the Directors are required to confirm the guidelines' compliance as per aforesaid condition. A statement on the compliance of the said notification is given on page 77 of this report. In addition to the preceding notification you may also notice the Statement of compliance with the good governance guidelines issued by the Bangladesh Bank vides DFIM Circular No. 7, dated 25 September 2007 regarding the policies on the responsibility & accountability of the Board of Directors, Chairman & Chief Executive of financial institution. The statement of the good governance guidelines is given on page 88 of this report.

The System of Internal Control:

The Board of Directors assures the Shareholders that the Company has a forceful risk management process to ensure that the system of internal control is sound in design and has been effectively implemented and monitored. The Company takes reasonable steps to identify material risks that may hamper business results and systematically reviews these risks in light of the changing internal and external environment in order to assess that the controls in place are adequate to address these risks.

Plan for Utilization of Undistributed Profit:

The undistributed profit will be utilized to invest in financing assets and meet contingencies under section 100 of the Schedule I of the Companies Act 1994.

Related Party Transaction:

All transactions with related parties have been made on a commercial basis and the basis was the principle of "Arm's Length Transaction". Details of related party and transactions have been disclosed as per BFRS under the note no. 42 of the Financial Statements of FAS Finance & Investment Limited on page 154 of this report.

Human Resources:

An organization's human resource management strategies maximize return on investment in the organization's human capital and minimize financial risk. Human Resources seek to achieve this by aligning the supply of skilled and qualified individuals and the capabilities of the current workforce, with the organizations ongoing and future business plans and requirements to maximize return on investment and secure future survival and success. To ensure such objectives, FFIL's human resource drives to implement the organization's human resource requirements not only effectively but also pragmatically, ethically and practical manner to maintain low employee turnover rate by providing proper counseling, training, long term career growth and friendly working environment. Besides, FFIL keeps continuous effort for searching new talents those who can contribute by adding some values with some new ideas to reach our company at desired level in this competitive market. It's a demand of evolving business environment that the human resources of the company requires training for every changing process, customer preferences, numerous new technology applications, compliance and regulatory requirements. FFIL conducted several training programs in various functional areas as per individual employee's requirement during the year. FFIL upholds its values in its actions. It ensures honesty and sincerity in all interactions, respect all with whom we work and interact with dignity and consideration, keep promises, rely on each other, pursuit and maintain indiscrimination in respect to religion, class, cast, and gender to treat people as individual.

Information Technology:

In the world of globalization, Information system is such where data are collected, classified and put into process interpreting the result thereon in order to provide an integrated series of information for further communicating and analyzing. In a progressively more spirited worldwide atmosphere, Information System plays the role as 'enabler and facilitator', which endows with tactical values and step up to the excellence of administration. 'An Information System is a particular type of work system that uses information technology to detain, store, retrieve, analyze or display information, thereby partisan one or more other work structure. Information systems may also help managers and workers investigate problems, envisage complex subjects and generate new merchandise or services.

FFIL is driving to upgrade its IT platform regularly and making required investment to bring about changes in technological infrastructures to bring efficiency to its operation and have more satisfied customers. As you may be aware the Company is procuring state-of-the-art & robust core operating systems to combine and integrate all the operations of the Company and to have efficient use of the information.

Acknowledgement:

Directors of FFIL take this opportunity to thank the valued clients, shareholders, bankers, business associates, financial institutions, Governments, and other stakeholders for their consistent support and encouragement to the Company. I am sure you will join our Directors in conveying our sincere appreciation to all employees of the Company and its subsidiaries for their hard work and commitment. Their dedication and competence have ensured that the Company continues to be a significant and leading player in the Financial-Services-industry.

Board also expresses its gratitude to Bangladesh Bank, Bangladesh Securities & Exchange Commission, Dhaka Stock Exchange Limited, Chittagong Stock Exchange Limited, National Board of Revenue, Registrar of Joint Stock Companies & Firms and other Regulatory Authorities for their assistance and guidance. Our sincere appreciation goes to the employees of the Company for their loyalty, efforts and dedication.

Finally, the Board of Directors likes to thanks the Hon'ble Shareholders for their confidence on the Board & Management. Consequent upon, the Board also assures that the process of strengthening and development of the Company will continue in coming days to optimize the wealth of the stakeholders.

On behalf of the Board of Directors,



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Md. Siddiqur Rahman, FCS
Chairman

Dated: Dhaka, 22 April, 2017