

Directors' Report

Dear Shareholders,

The Directors of Delta Brac Housing Finance Corporation Limited have the pleasure of presenting the Directors' Report of your Company together with audited accounts for the period ended December 31, 2016, i.e. for the period of six months from July 1, 2016 to December 31, 2016, as your Company is in the process of changing its accounting period from existing July-June to January-December.

Bangladesh Economy

The national economy posted a healthy GDP growth rate of 7.11% in FY 16 on the back of strong macroeconomic fundamentals. Both industrial and service sector registered higher growth in the FY 16 fiscal compared to FY 15 registering 11.09% and 6.25% growth respectively. There were promising signs as private investment's share in GDP increased to 23% in FY 16 from 22.10% in FY 15 along with stable public investment.

Average annual inflation has decreased to 5.52% at the end of 2016 down from 6.19% in 2015. The point-to-point inflation also dropped to 5.03% in December from 6.10% a year earlier. Drop in both food and non-food inflation and political composure have helped to keep the inflation rate within government's and central bank's target of 5.80%. Food inflation has come down marginally to 5.38% in December 2016 from 5.48% in December 2015 whereas, non-food inflation slid to 4.49% from 7.05% during the same period.

Export earnings in the first half of FY 17 grew by 4.44% to USD 16.79 billion from USD 16.08 billion in FY16. However, the export figure stopped short of the target of USD 17.36 billion by 3.28%. Ready Made Garments (RMG), which

accounts for over 80% of total export, grew by 4.37% to USD 13.70 billion, against the target of USD 14.25 billion. The exports to the common market is facing the challenge of relative Taka appreciation as most major currencies including Euro and British Pound and competing emerging market currencies have depreciated sharply against the US Dollar, whereas Taka has remained stable.

Total import settlement grew by 14.58% during the first five months of FY 17 to USD 19.02 billion from USD 16.60 billion in the corresponding period in FY 16. The LC opening numbers has also posted a 6.95% growth to USD 18.69 billion during the same period. The primary driver of import growth has been capital machineries and industrial equipment which posted a stellar 51% growth to reach USD 2.50 billion from USD 1.38 billion last fiscal. Capital machinery import growth has come from all sectors including apparel, leather, pharmaceuticals and power & energy.

Wage earner's remittance saw a steep decline during H1 FY 17, dropping by 17.63% to USD 6.17 billion from USD 7.49 billion in the last fiscal. In FY 16, the overall remittance dropped 2.52% to USD 14.93 billion. These uninspiring numbers were registered at a time when the country's manpower export was 36.31% higher in 2016 than previous year with more than 0.75 million workers getting jobs abroad. Sharp fall in oil prices forced Gulf Cooperation Council (GCC) governments to undertake economic reforms to scale down government spending including lowering of public and private investment programs and adopt austerity measures, which ultimately impacted worker remittances from these countries.

The country's FX Reserves has continued to grow handsomely in 2016 reaching USD 32.09

billion from USD 27.49 billion at the end of 2015, up by 16.73%. Although, the current account slipped into negative territory on the back of falling remittances and rising imports, the overall balance of payment is in surplus due to surplus in financial account. During the July-November period, the balance of payment surplus stood at USD 1.90 billion compared to USD 2.04 billion in the corresponding period last fiscal. Higher foreign direct investment, portfolio investment and higher net foreign borrowing resulted in surplus in the financial account. Net foreign direct investment recorded a 9.60% growth to reach USD 719 million during July-November period of FY 17 compared to previous fiscal. In addition, the purchase of US Dollars by Bangladesh Bank through open market operation also helped to boost the overall FX Reserves.

USD/BDT pair held stable for most of 2016 before picking up towards the end of the year. The USD/BDT pair, which traded at 78.50 at the beginning of 2016, rose marginally to 78.55 in February before settling down at 78.40 in April. From April to September, there was no volatility in the USD/BDT market. Strong performance from exporters and steady remittance and import numbers ensured a surplus current account. The excess flow of Dollars was absorbed by the Central Bank as it purchased greenback directly from the commercial banks to maintain exchange rate stability and support export competitiveness.

There has been very little movement in call money rate throughout 2016. Multiple factors, which include high government borrowing from non-banking sources, less than expected private sector credit demand and discontinuation of reverse-repo mechanism, have weighed on the overnight interbank borrowing requirement. The weighted average call money rate dropped to 3.61% in December from 3.90% in January.

Dhaka Stock Exchange delivered a stellar performance during the first half of FY 17, picking up from a lackluster condition in the

previous fiscal. In July, from the very outset of FY 17, stock market started to recover as upbeat macroeconomic indicators and a steady political situation boosted investor confidence. Improvement in participation from both local and foreign investors contributed to recovery as DSEX index posted an 8.80% y-o-y growth as of December 2016. Investor sentiment was largely aided by the policy support extended by Bangladesh Bank to banks in adjusting their capital market exposure without selling shares. In addition, as the deposit rates in banks pummeled backed by excess liquidity in the banking sector, people were more eager to enter into the capital market in search of higher returns, which has driven up the turnover in the stock market.

Performance of Financial Sector in 2016

The Central Bank maintained policy continuity in formulating and implementing inclusive and investment friendly monetary policy. The main objective of Bangladesh Bank's pro-growth monetary policy is moderation and stabilization of CPI inflation alongside supporting output and employment growth. In the monetary policy for the first half of the FY17 (Jul-Dec), the target was set to keep inflation rate at 5.80 %, which was 6.20 % in FY 15-16.

Due to the excess liquidity prevalent in the market, the interest rates continued to decline throughout the year. In December 2016, weighted average deposit rate for Scheduled Banks has gone down to 5.22 % from 6.34 % in December 2015. On the other hand weighted average lending rates of scheduled banks also went down to 9.93 % in December 2016, from 11.18 % in December 2015. The interest rate spread also slightly reduced to 4.71% in December 2016 from 4.84% during the same time previous year which indicate that market lending rates decreased at a slightly higher pace when compared to that of deposit rates. Understandably, amidst ample liquidity the overnight rates were relatively low and stayed at 3.60% level for most of the period from July-December.

The gross NPL ratio rose to 10.30 % at end-September 2016, increasing by 20 basis points from 10.10 % of end-June 2016. However, non-performing loans net of specific loan loss provisions and interest suspense to total loans remained almost same to 2.80 % as compared to that of end-June 2016. Besides, nonperforming loans net of specific loan loss provisions and interest suspense to the provision maintenance ratio, at end-September 2016, increased to 88.20 % from 87.70 % recorded at end-June 2016. FIs' asset quality improved at end-September 2016. Though the amount of non-performing loans and leases increased from BDT 45.10 billion at end-June 2016 to BDT 45.60 billion at end- September 2016, the ratio of nonperforming loans and leases to total loans and leases decreased slightly from 9.00 to 8.90 % during the same period.

In the period under review, a majority of the banks were compliant to the minimum Capital to Risk (Weighted) Assets Ratio (CRAR) requirement, compared to end-June 2016. Pertinently, 47 out of 56 banks were able to maintain their capital ratios of 10.00 % or higher in line with Pillar 1 of the Basel III capital framework. Moreover, a substantial share of banking assets was concentrated within the CRAR compliant group of banks. CRARs of 32 banks were within the range of 10-15 % and their assets accounted for nearly 62.00 % of the total banking industry's assets at end-September 2016 indicating that a significant portion of the banking sector assets are managed by the CRAR compliant banks. At end-September 2016, the banking sector aggregate CRAR did not record any change from 10.30 % of end-June 2016. The capital adequacy ratio (CAR) of the NBFI sector decreased slightly from 16.70 % of the June quarter of CY16 to 16.30 % in the September quarter of CY16. It is to mention that the maintained CAR was well above the minimum regulatory requirement.

In the review period, profitability of the banking sector slightly increased. Return on assets (ROA) and return on equity (ROE) of the banking sector

stood at 0.60 and 8.30 % respectively recording an increment of 0.40 and 5.20 % points from the respective ratios of the preceding quarter (0.20 and 3.10 %). Almost 87.50 % of the banks' ROA was up to 2.00 %, while 12.50 % of banks' ROA was higher than 2.00 %. On the other hand, 64.30 % of the banks' ROE was higher than 5.00 %. For the NBFI sector the key profitability indicators – return on assets (ROA) and return on equity (ROE) stood at 0.90 and 6.00 % respectively in the September quarter of 2016 as compared to 0.80 and 5.50 % respectively recorded in the preceding quarter.

The balance sheet size of the banking sector grew by almost 1.50 % and reached BDT 11,296.60 billion at end-September 2016. Loans and advances, as a % of total assets, recorded a slight decline compared with that of end-June CY16. The proportion of investment also increased. It is to mention that banking sector assets-to-GDP ratio stood at 65.20 % at end-September 2016. ADR of the overall banking industry has decreased by 50 basis points at end-September 2016 to 71.10 % from that of end-June 2016.

Government securities (G-sec) yields across all tenors had been decreasing October 2015 onwards following low domestic credit demand and excess liquidity in the market. The Central Bank's decision to cut the repo and reverse repo rates by 50 bps in January brought down the yields further. Yields started to rise from May onwards when Bangladesh Bank announced G-Sec primary auction calendar with higher borrowing requirements. In June, total primary G-Sec issuance increased to BDT 121.50 billion from BDT 69 billion in May. As per the calendar, the primary issuance in July is set at BDT 123.50 billion. The 91 days, 182 days and 364 days T-bill yields in June increased by 134 bps, 50 bps and 79 bps respectively over January. While the yield on 10 year bond slipped marginally by 10 bps, the yields on 2 year, 5 year, 15 year and 20 year T-bonds surged by 9 bps, 16 bps, 56 bps and 86 bps over the same period.

Bangladesh Bank has granted permission to one new scheduled bank in addition to introducing few initiatives/changes in the review period. During this period, Bangladesh Bank has issued guidelines on commercial paper for banks, amended guidelines on internal control and compliance in banks, brought about several changes in foreign exchange regulations to make foreign exchange operations easier as well as more disciplined, announced Agricultural & Rural Credit Policy & Program for the financial year 2016-17 and encouraged banks to disburse agricultural credit through agent banking.

Real Estate Industry Outlook and Possible Future Development

Coming out of the sluggishness of the last five years, the real estate sector in Bangladesh is finally enjoying some much needed growth on the demand side. With rising disposable income, lowering housing loan interest rates and growing urban population, demand for apartments is increasing. Apartment prices seem to have hit a plateau and industry experts predict pricing to increase in the coming years. However, political stability, investor optimism and availability of utilities will continue to play a pivotal role in orchestrating the recovery of Bangladesh's Real Estate sector.

According to a United Nations report published in July 2014, Dhaka- the 11th most populous city in the world, has a population of 1.70 crore. The World Urbanization Prospects report of 2014 stated that 2010 to 2015 alone saw a 3.60% annual rise in population in Dhaka and it predicts that Dhaka is set to become the world's 6th most crowded city by 2030, with a population just above 27 million. Growth in urban population has also coincided with a rising middle-class segment with growing income. A report by Boston Consultancy Group states that the number of households with an annual income of USD 5,000 or more is set to triple within 2025 from existing 11.70 million. This

projected growth in the income of the middle income group as well as the urban population alone signifies the future potential of real estate in Bangladesh.

A change in social structure has also triggered demand for modern real estate properties e.g. apartments. According to a survey conducted by UNICEF in 2013, the average family size in Bangladesh is 4.60. This shows that families are becoming more 'nuclear', resulting in higher demand for smaller apartments with 3-4 rooms. Since 1970s, the Real Estate sector has been growing in leaps and bounds with growing urban population, growing income and change in demographics.

Despite tremendous growth potential of the sector, Real Estate had been suffering over last five years. Experts attribute this slump as the aftermath of the bursting financial bubble. Due to declining demand for apartments and residential plots, many real estate companies have been forced to lower prices and halt construction activities. Prices of apartments in all major residential zones have been slashed for attracting more buyers by Tk. 2,000/= to Tk. 10,000 per sft. This down ward pressure of price correction on the housing market has however eased, somewhat recently.

Now that the political tension has fairly decreased and the interest rate on home loans have also gone down to as low as 8.00 % p.a. the confidence of the potential buyers have begin to make a recovery too. As a result the real estate developers are also taking up new projects. However some impetus from the government is also required to revitalize the real estate sector to its full potential.

One of these policy changes could be that no government agencies will pursue people who are investing their undisclosed money in the sector after fulfilling set conditions, it should be all-inclusive. Otherwise, people with undisclosed

money will not be interested in investing in the real estate sector and will seek ways to transfer their money abroad illegally. According to a recent report by Global Financial Integrity, a Washington-based research and advisory organization, illegal capital flight from Bangladesh skyrocketed by 33.78% to USD 9.66 billion in 2013 through trade mis-invoicing and other channels. The outflow of illicit money could be reduced if the government allows the investment of undisclosed money with an indemnity.

The registration fee needs to go down, as the including value-added tax, advanced income tax and stamp duties eat up about 14% of a property's value. This is much greater than those in the neighbouring countries. The high cost of registration is one of the factors that have made housing loans rather unattractive. The growth of private real estate sector is further hindered by the astonishing increase in land prices. As per the data of Policy Research Institute of Bangladesh, between 1972 and 2010, land prices in Dhaka city grew by an average of 100-125% per year.

The real estate sector is spreading from Dhaka to areas such as Chittagong, Sylhet, Rajshahi, Bogra, Comilla, Mymensingh and Khulna. Regional companies are beginning to spring up. Some Dhaka-based firms have also undertaken projects in the regional growth centres. But while, the apartment purchase rate in Dhaka is still the highest in Bangladesh, Chittagong is closely behind. The demand for land as well as price in Cox's Bazar is also starting to increase because of the area's tremendous value as a tourist spot.

Under the present land allotment system the government allocate plots to individuals at a very low price compared to that prevailing in the market. These individuals in reality give these plots to real estate companies that develop the property and share the apartments with the owners of the land. In the process, customers who buy from the real estate companies have to pay higher prices for the flats. If the government

auction these plots directly to real estate companies at low prices then the developers will also be able to sell the apartments at a much lower price and accommodate more dwellers in large scale high rise apartment projects.

Even though the price of apartments have come down still in Dhaka it remains rather expensive for middle and low-income people, who opt to rent houses instead. The government needs to create a special fund of BDT 20,000-50,000 crore to provide low-cost easy home loans to help people buy apartments and facilitate home ownership among the middle and low-income people. The fund would be used to provide long-term credit to this segment at fixed single digit interest rates solely for the purpose of purchasing flats. The borrowers will take out a loan from the fund to buy a home, not to do business. So, they will try their best to repay the loan and the government can be assured that it will get its money back.

Up to 300 sub-sectors now depend on the real estate sector. According to REHAB, the apex body of real estate players which has more than 1,191 real estate companies as members, real estate and linked industries contributed about 12% to the country's GDP, employing a 3.50 million both directly and indirectly. Thus, the real estate sector must be protected in order to keep the 300 sub-sectors and the 3.5 million people alive.

Product wise Performance

• Performance of Home Loan Operations

During the first half of the FY 17, interest rates on home loans have continued to plunge to the lowest on record in a climb-down which gives realtors hope for a boom of the property market after a prolonged slump. Against the backdrop of the excess liquidity and rising NPLs prevailing in the financial market, banks are searching for relatively safe and potential investment areas. As

a result, apart from the traditional market players, new entrants have entered the home loan market. The Private Commercial Banks (PCBs) and Non-Bank Financial Institutions (NBFIs) involved with home loans are engaged in a price war and have cut down their rates by approximately 1.00% - 3.00% when compared to that of the previous closing of June 30, 2016.

As expected the rejuvenated home loan market has positively impacted our lending figures. Being a housing finance specialist DBH has forecasted the situation prudently and focused on extending its base of core retail clientele while maintaining the asset quality. During the 6 months as of December 31, 2016 the Company's loan book in housing finance grew at a healthy pace of 6.45% to Taka 35.55 billion from the June 30, 2016 closing figure of Taka 33.40 billion while keeping gross NPL ratio at the level of 0.36% only. During 6 months, the gross interest income from the housing finance portfolio stood at Taka 1,785.44 million. DBH holds an adjustable rate home loan portfolio and the average rate of interest as well as the gross interest income on the home loan book is decreasing due to the strong downward shift in the market rate of interest.

Even though managing settlements ahead of schedule was a challenge this year, the disbursement figures experienced a hefty rise compared to last year and the Company has retained its position as the specialist housing financier with the largest market share in making new disbursements. Total approvals during the 6 (six) months period ended on December 31, 2016 stood at Taka 6,230.00 million as against Taka 5,513.87 million in the previous period showing a growth by 12.99% from last year comparatives. Total disbursement has grown at a pace of 24.13% and at the end of the 6 months under review was Taka 6,156.86 million as against Taka 4,960.05 million of the comparative period of the preceding year. During the period, a total of Taka 4,003.93 million was received by way of repayment of principal on loans through monthly

installments and redemption ahead of schedule. Gross non-performing loans as of December 31, 2016 have been fully provided for, as required by Bangladesh Bank, DBH has a loan loss reserve amounting to 1% of outstanding loans.

• **Performance of Deposit Portfolio**

Over the years DBH has established itself as one of the leading depository institution 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, Monthly Income Deposit, Quarterly Income Deposit, Cumulative Deposit, Flexible Fixed Deposit, Easy Way Deposit, Children's Deposit, Easy Home Deposit, DBH Platinum Deposit and Day-wise Deposit. 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, 2016 the deposit portfolio of DBH stands at Taka 34.40 billion with an interest payable worth another Taka 768.66 million. As the market shifts downward the rate of interest on the DBH deposit products have also decreased.

DBH also provides loan against deposits (LAD) to cater to its customers' urgent financial need. As of December 31, 2016, the LAD portfolio of DBH stands at Taka 275.18 million.

Recovery

So far FY 2016-17 seems to be relatively stable in terms of containing the non performing loan (NPL) figures of the financial industry. At the close of June 30, 2016, the Gross NPL ratio for Banks and NBFIs were 10.10% and 9.00%

respectively. A quarter through FY 2016-17, at end of September 30, 2016 the gross NPL ratio for the sectors stood at 10.30% and 8.90% respectively. However, in terms of absolute figure the amount of classified loans of the banking sector increased by nearly 4.0% or Tk. 23.66 billion to Tk. 657.31 billion during the September quarter (Q1FY17) from Tk. 633.65 billion in the preceding quarter. On the other hand, for NBFIs the amount stood at Taka 45.6 billion which is a slight increase from the previous quarter's figure of Taka 45.1 billion.

Under such circumstances, DBH has shown steady and resilient performance in maintaining asset quality. According to the classification policy of the Central Bank, at the close of December 31, 2016 the NPL of the Company has marginally increased to 0.36 % from 0.34 % at end of the preceding financial year. While aggregate NPL ratio for Banks has gone up, DBH has been successful to restrain the increase to a minimum. Needless to say, this is by far the best figure in the financial industry.

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. Presently DBH's deposit product line consists of Annual Income Deposit, Monthly Income Deposit, Quarterly Income Deposit, Cumulative Deposit, Flexible Fixed Deposit, Easy Way Deposit, Children's Deposit, Easy Home Deposit, DBH Platinum Deposit and Day-wise Deposit. 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 Taka 34,393.96 million.

The funding of our company comprises of both long term and short term sources of fund to efficiently manage our cost of fund. Long-term loan portfolio of DBH consists of funds received under Housing Loan Refinance Scheme of Bangladesh Bank worth Taka 2,772.92 million

and loans sourced from commercial banks for Taka 2,286.34 million. Apart from that the shareholder's contribution in the funding mix is 3,591.41 million, which is almost 10.00 % of total fund. 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, 2016 is presented below:

Source	Amount in Million Taka
Deposits	34,393.96
Term loans	5,059,26
Equity	3,591.41

Treasury Operations

In DBH, Treasury acts as a catalyst between the core functions of housing finance & deposit mobilization. Over the years the treasury wing of DBH has evolved from a day-to-day fund managing unit to a core contributor in strategic decision making related to asset liability mismatch (ALM) and interest rate risk (IRR) mismatch management through in-depth market forecasting, internal liquidity projection and product re-pricing subject to regulatory constraints.

In the period under review, the Central Bank maintained its balanced monetary policy stance with the focus on moderation and stabilization of CPI inflation alongside supporting output and employment growth. Bangladesh Bank's monetary and financial policies continued to support inclusive, environmentally sustainable growth; addressing its developmental role in the longer term risks to macro-financial stability.

There has been very little movement in call money rate throughout 2016. Multiple factors, which include high government borrowing from

non-banking sources, less than expected private sector credit demand and discontinuation of reverse-repo mechanism, have weighed on the overnight interbank borrowing requirement. The weighted average call money rate dropped to 3.62% in December from 3.70% in June. So, the Central Bank was again faced with the challenges of managing this excess liquidity. Weighted average interest rate of deposits and advances have continued to go down during the year but the interest rate spread remained almost same i.e., 4.85 % in June 2016 to 4.71% 6 months later.

Understandably, the treasury department of DBH also had to optimize the funding mix ensuring maximum utilization of low cost funds to operate on a thin margin in a liquid market. With a view to cost minimization as the key objective, the treasury wing maintained its short position to access low cost fund from the inter-bank deposit market as well as the overnight market to reduce overall cost of fund and enhance treasury income. The treasury department contributed a significant portion of the interest income through investment activities during the period under review. 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.

Investments in Securities

The capital market of the country shows some light of recovery at the end of the FY 2016. The year ended with DSEX index at 5,036.05 on December 31, 2016 which stood at 4,507.58 at the end of June 30, 2016. In accordance to the market situation DBH has continued to maintain a cautious investment policy. The capital market portfolio of the Company has stood at Taka 285.70 million as of December 31, 2016.

In addition to that, the Company's outstanding investment in the fixed income securities i.e. in the redeemable preference shares reached

at Taka 140.00 million, besides we have also invested Taka 14.5 million in the non-marketable securities. The company has earned Taka 21.05 million from the capital market operations within the period from July 1, 2016 to December 31, 2016.

Human Resources

DBH is an organization which believes its human resources to be one of its best investments. It is the performance and productivity of its manpower which establishes its position. Human resources being one of the highest contributing factors in the success of the company, DBH focuses on hiring the right person for the right position and also concentrate on the proper development and motivation of the personnel. The company also considers strategy for retention of its top performers seriously.

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.

At DBH, effective internal communications and free flow of ideas, open door, fairness, commitment, teamwork and highest standards of professional excellence and integrity are always appreciated.

Focused by strategy of hiring people from varied backgrounds, DBH continues to concentrate on providing long term career growth to its employees by nurturing their talents. It offers a smooth career path which is solely based on merit, performance and productivity.

In a bid to keep up with the pace of ever changing business world with regard to altering business processes, embracing technological changes

and meet up new compliance and regulatory requirements DBH undertakes training and development plan for its employees and arranges in-house functional training sessions as well as sends them over for attending public training programs. Overseas training programs are also recommended for the employees and they attend these programs with a view to improving their functional skills and competencies.

Information Technology

DBH is very much concerned about implementing up-to-date systems according to the technology change for better functioning as well as about ICT security.

During this time, IT department has implemented File Replication System (DFS) for distributing files supporting Group Policy, maximum availability architecture in database (i.e., RAC with Dataguard), exchange server in clustering environment (implementation in 4 servers) and enhanced centralized software system according to the change in business need with features like daily receivable update, EFTN facility for deposit product etc.

To protect computers, networks and data from unauthorized access, vulnerabilities and attacks, a vulnerability management and threat protect solution ('QUALYS') has been implemented which proactively monitors vulnerabilities and reports accordingly.

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, Directors Code of Conduct, 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

Delta Brac Housing Finance Corporation Limited with its strong fundamentals has earned the highest credit rating award for the 11th (eleventh) consecutive year. Credit Rating Agency of

Bangladesh (CRAB) reaffirms AAA in the long term and ST-1 in the short term rating of Delta Brac Housing Finance Corporation Limited in its latest entity rating done based on the Company's year end financials of 2015-2016.

Key operating and financial data of at least last preceding 5 (five) years

Key operating and financial data of last preceding 5 (five) years is shown under the heading of Operational Highlights and Financial Highlights in the page no. 22 of this annual report. Financial Highlights as required by Bangladesh Bank is also given in page no. 23 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, 2016 amount to Tk.35,838 Million. We have extended loan to around 16,617 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, 2016	June 30, 2016
Income Tax paid on company's income	290.89	561.57
Tax collected at source on behalf of Government	166.05	286.93
Value Added Tax (VAT)	15.76	28.71
Excise Duty	-	29.31
Total	472.70	906.52

Creating employment has a vital impact on the economy and DBH employed as many as 226 employees as on December 31, 2016. Efficient workforce is very important for the organization as we as for the country. Keeping same in view, DBH has spent Tk.1.28 million for training of its employees. During the period from July 1, 2016 to December 31, 2016, DBH has paid Tk.136.78 million as salaries and allowances to its employees.

Awards and Recognitions

Annual Report 2014-2015 recognized by ICSB:

3rd ICSB National Award-2015 for Corporate Governance Excellence was declared on 24 December 2016 where a total of 25 corporate entities won the awards for complying with the Corporate Governance standards based on Securities and Exchange Commission's regulations, guidelines and transparent administration.

Among the awardees in the Non-Banking Financial Institutions category, Delta Brac Housing Finance Corporation Limited (DBH) secured the Bronze Crest.

DBH has also been awarded the "Certificate of Merit" of ICMAB Best Corporate Award 2015, in recognition of the best culture of Corporate Governance.

Contribution to the society during the year

DBH's responsibilities to the society are manifested in its activities, as a responsible corporate citizen, 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.

Consequently, during the period we took few projects under CSR fund for the common good of the disadvantaged population segments as the period was only for 6 (six) months. The projects details are appended below:

- Health (Curative treatment of an individual patient)
- Education (Donation of computer to a Secondary School)

Highlights on Financial Performance

(Figures in Million Taka)

Particulars	July to December 2016	July 2015 to June 2016
Operating revenue	2,209	4,487
Interest expenses	1,324	2,636
Operating expenses	203	398
Profit before provisions	682	1,453
Profit before tax	603	1,395
Net profit after tax	331	786

*As December 2016 figures are for 6 (six) months period and June 2016 figures are for 12 (twelve) months period, they are not comparable.

Change of Income Year

In order to comply with the Finance Act-2015, the accounting year of the Company has been changed.

Accordingly, accounts for the period of July 1, 2016 to December 31, 2016 have been finalized. The audited accounts will be placed before the Shareholders for their approval in the AGM.

Thus, the next income year of the Company would be January to December as per law of the Country.

Corporate and Financial Reporting Framework

The Members of the Board, in accordance with the Bangladesh Securities & Exchange Commission's Notification no. SEC/CMRRC/2006-158/134/Admin/44 dated August 7, 2012; 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)/ Bangladesh Accounting Standards (BAS)/ International Financial Reporting Standards (IFRS)/ Bangladesh Financial Reporting Standards (BFRS), as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure therefrom has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.

- 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.

Board Meetings and Attendance by the Directors

Attendance by the Directors in the Board are summarized and given in Annexure-i and the fees paid to them for attending the Board Meeting during the period is given in Annexure-ii of this report.

Shareholding Pattern

Shareholding patterns of the Company as at the end of the 2016 is shown in Annexure-iii of this report.

Proposed Dividend

The Board of Directors at the time of considering the final accounts for the period of July 2016 to December 2016 have recommended @ 15% cash dividend from the distributable profits of the Company, which is to be approved by the shareholders in the forthcoming AGM.

Directors' Appointment & Re-appointment

The present Directors of the Company are named in pages 10 to 19 of this report.

In accordance with the Article No. 106 of the Articles of Association of DBH, the following Directors will retire in the 21st Annual General Meeting by rotation and being eligible for re-election, they are seeking re-election to the Board.

- Mr. A Z Mohammad Hossain (representing GDICL)
- Ms. Mehreen Hassan (representing DLICL)
- Dr. A M R Chowdhury (representing BRAC)

Disclosure of information in case of the appointment /re-appointment of the Directors

- a) Brief resume of the Directors are included in page nos. 10 to 19 of this Annual Report
- b) Nature of the expertise of the Directors are also disclosed in the brief profiles
- c) Name of the Directors and entities in which they have interest as Directors are also disclosed in the brief profiles as well as in the notes no. 38.1 of the Financial Statements.

Appointment of Auditors

M/s. S F Ahmed & Co. Chartered Accountants have been serving DBH for last one and half years as external auditors and will retire in the forthcoming AGM. According to the Bangladesh Bank as well as BSEC's rules, they are eligible for re-appointment for the next year.

As a result, the Board recommended their re-appointment for the year 2017 with a fee of Tk. 350,000.00 plus VAT, subject to prior approval from Bangladesh Bank. The matter will be placed before the shareholders in the forthcoming AGM for approval.

Corporate Governance

As a listed housing finance company (DBH) with 20 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 Guidelines, 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; and
- (iv) Certificate regarding compliance of conditions of Corporate Governance.

A statement of compliance on the Good Governance Guidelines issued by Bangladesh Bank is also enclosed as a part of this annual report at page no. 63 to 65.

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

Vice Chairman

Directors' Meeting & Attendance

Annexure-i

- During the financial period under reporting total three Board Meetings were held and the attendance of the Directors are noted below:

Name of Directors	Nominated by	Total Meeting	Meeting Attended	Changes during July- December, 2016	
				Date of Board Acceptance	
				Joining	Nomination withdrawn/changed
Mr. Faruq A Choudhury, Chairman	BRAC	3	3	-	-
Mr. Nasir A. Choudhury, Vice Chairman	Green Delta Insurance Company Ltd.	3	3	-	-
Mr. A Z Mohammad Hossain	Green Delta Insurance Company Ltd.	3	2	-	-
Ms. Mehreen Hassan, Bar- at- Law	Delta Life Insurance Company Ltd.	3	2	-	-
Mr. Swapan Kumar Sarkar, FCA	Delta Life Insurance Company Ltd.	3	2	-	-
Ms. Adeeba Rahman, ACII-Life	Delta Life Insurance Company Ltd.	3	3	-	-
Dr. A M R Chowdhury	BRAC	3	3	-	-
Mr. M I Chowdhury	Independent Director	3	3	-	-
Dr. A K A Mubin	Independent Director	3	3	-	-

Directors' Remuneration

Annexure-ii

- The Statement of remuneration paid to the Directors during the financial period under reporting are noted below:

Name of Directors	Board		Executive Committee		Audit Committee		Total Fees Paid
	Attendance	Fees	Attendance	Fees	Attendance	Fees	
Mr. Faruq A Choudhury, Chairman	3	24,000	0	0	2	16,000	40,000
Mr. Nasir A. Choudhury, Vice Chairman	3	24,000	0	0	3	24,000	48,000
Mr. A Z Mohammad Hossain	2	16,000	0	0	2	16,000	32,000
Ms. Mehreen Hassan, Bar- at- Law	2	16,000	2	16,000	0	0	32,000
Mr. Swapan Kumar Sarkar, FCA	2	16,000	0	0	3	24,000	40,000
Ms. Adeeba Rahman, ACII-Life	3	24,000	2	16,000	0	0	40,000
Dr. A M R Chowdhury	3	24,000	2	16,000	0	0	40,000
Mr. M I Chowdhury	3	24,000	0	0	3	24,000	48,000
Dr. A K A Mubin	3	24,000	0	0	0	0	24,000
Total	-	1,92,000	-	48,000	-	1,04,000	3,44,000

Pattern of Shareholdings

as on 31st December 2016

Annexure-iii

(i) Shareholding status of each Sponsors:

Name of the Sponsors	No. of Shares held	Percent (%)
BRAC	22,406,611	18.39
Delta Life Insurance Company Limited	21,479,325	17.63
Green Delta Insurance Company Limited	18,649,813	15.31
Mr. Kazi Fazlur Rahman	0	0.00
Mr. Faruq A. Choudhury	24	0.00
Dr. Salehuddin Ahmed	24	0.00
Mr. Q. M. Shariful Ala, FCA	0	0.00

(ii) Shareholding status of Directors/CEO/CS/CFO/Head of Internal Audit & their spouses & minor children:

Name of the Directors	Nominated by	No. of Share(s) held	Percent (%)
Mr. Faruq A Choudhury, Chairman	BRAC	24	0.00
Mr. Nasir A. Choudhury, Vice Chairman	Green Delta Insurance Company Ltd.	-	-
Mr. A Z Mohammad Hossain	Green Delta Insurance Company Ltd.	-	-
Ms. Mehreen Hassan, Bar- at- Law	Delta Life Insurance Company Ltd.	-	-
Mr. Swapan Kumar Sarkar, FCA	Delta Life Insurance Company Ltd.	-	-
Ms. Adeeba Rahman, ACII-Life	Delta Life Insurance Company Ltd.	-	-
Dr. A M R Chowdhury	BRAC	-	-
Mr. M I Chowdhury	Independent Director	-	-
Dr. A K A Mubin	Independent Director	-	-

Name of the Executives	Status	No. of Share(s) held	Percent (%)
Mr. Q. M. Shariful Ala, FCA	Managing Director & CEO	-	-
Mr. Syed Aminul Islam	Head of Finance	-	-
Mr. Jashim Uddin, FCS	Vice President & Company Secretary	-	-
Mr. Shihabuddin Mahmud	In-charge, Internal Audit	-	-

(iii) Top five salaried persons other than CEO, CFO, CS & HIA

Name of the Executives	Status	No. of Share(s) held	Percent (%)
Mr. Nasimul Baten	EVP & Head of Operations	-	-
Mr. Hassan I. Yussouf	EVP & Head of Information Technology	-	-
Mr. A. K. M. Tanvir Kamal	EVP & Head of Credit	-	-
Mr. Tanvir Ahmad	EVP & Head of Human Resources	-	-
Mr. Saiyaf Ejaz	SVP and Head of Recovery, Customer Services & Administration	-	-

(iv) Shareholders holding 10% or more voting interest in the Company:

Name of the Shareholders	No. of Shares held	Percent (%)
BRAC	22,406,611	18.39
Delta Life Insurance Company Limited	21,479,325	17.63
Green Delta Insurance Company Limited	18,649,813	15.31