

AGRANI BANK LIMITED
Notes to the Financial Statements
As at and for the year ended December 31, 2011

1. BACKGROUND INFORMATION

1.1 Establishment and status of the Bank

Agrani Bank Limited (the Bank) has been incorporated as a Public Limited Company on May 17, 2007 Vide Certificate of Incorporation # C-66888(4380)/07. The Bank has taken over the business of Agrani Bank (emerged as a Nationalized Commercial Bank in 1972, pursuant to Bangladesh Bank (Nationalization) Order # 1972 (P.O. # 26 of 1972)) on a going concern basis through a Vendor Agreement signed between the Ministry of Finance of the People's Republic of Bangladesh on behalf of Agrani Bank and the Board of Directors on behalf of Agrani Bank Limited on November 15, 2007 with a retrospective effect from July 01, 2007. The Bank's current shareholdings comprise Government of the People's Republic of Bangladesh and other 12 (Twelve) shareholders nominated by the Government. The Bank has 876 branches as on December 31, 2011. The Bank has four wholly-owned subsidiary Companies named (a) Agrani Exchange House (Pvt.) Ltd. in Singapore, (b) Agrani Remittance House SDN, BHD in Malaysia, (c) Agrani Equity and Investment Limited and (d) Agrani SME Financing Company Limited.

1.2 Nature of business

The principal activities of the Bank are providing all kinds of commercial banking services to its customers and the principal activities of its subsidiaries are:

- a) To carry on the remittance business and to undertake and participate in any or all transactions, and operations commonly carried or undertaken by remittance and exchange houses established in Singapore and Malaysia.
- b) To vibrant the Micro credit activities over the country, the Bank has established a subsidiary company named Agrani SME Financing Company Limited as per Government decision which has got registration from Registrar of Joint Stock Companies vide certificate of incorporation no. C87827/10 dated October 27, 2010. The company has also got permission from Bangladesh Bank to start the operation as a non-banking financial institution.
- c) To develop the capital market of the country the Bank has also open another subsidiary company named Agrani Equity and Investment Limited for providing necessary support to the Investors which has been incorporated as a Public Limited Company on March 16, 2010 vide Certificate of Incorporation No. C-8357/10.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Scope and objective

The accounting policy comprises principles and basic assumptions, concepts, conventions, rules, practices, and procedures adopted by the management for reporting the activities of the Bank and financial statements preparation and presentation. The purpose of accounting policy is to provide the necessary organizational and methodological directions in carrying the accounting activities of the Bank.

2.2 Basis of preparation of Financial Statements

The Financial Statements have been prepared as at December 31, 2011 in accordance with the "First Schedule" of the Bank Companies Act, 1991 as amended under sub-section 38 (4) of that Act, Bangladesh Bank's Circulars and International Financial Reporting Standards (IFRS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) and other rules and regulations applicable in Bangladesh on a going concern basis under historical cost convention. During the year 2010 the bank has started activities on Islamic principle as a separate unit in five branches. Operational results and performances of those units have been incorporated in the total activities of the bank. However, Balance sheet and profit and loss account of those Islamic Banking Units are shown separately in Annexure-I.

2.2.1 Determination of fair value

Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation techniques appropriate for the particular instrument are applied. Regulatory body's guideline is also used as valuation techniques. These valuation techniques involve some level of management estimation and judgment, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity.

2.2.2 Accounting period

The financial period of the Bank covers one year from January 01, 2011 to December 31, 2011.

2.3 Investments

2.3.1 Held to Maturity (HTM)

Investments (financial instruments) which have fixed or determinable maturity date and the bank has no intention to sell before their maturity date irrespective of changes in market prices or the bank's financial position or performance are grouped as held to maturity. Government Treasury Bills, Government Treasury Bonds and other securities approved for statutory liquidity reserves have been classified as held to maturity financial asset. These financial assets have been presented at market value as determined on the basis as mentioned in note 2.3.3. As on December 31, 2011 financial assets grouped under this head have been valued at Tk.49,085 million as against its cost of Tk.48,963 million.

2.3.2 Held for Trading (HFT)

Investment (financial instruments) are grouped as held for trading if they have been originated, acquired or incurred principally for the purpose of selling or repurchasing them in the next term. Treasury bond and quoted shares have been grouped as held for trading instruments. Instruments under this head have been valued at market price except quoted shares. Government Treasury Bills, Bonds have been valued using marking to market concept on the basis as mentioned in note 2.3.3. Gain/(Loss) on revaluation of held for trading instrument is recognized in the profit and loss account. Quoted shares have been presented at cost instead of market price as described in note 2.3.5. However total market prices of held for trading instruments except for quoted share is Tk.16,673 million as against cost of Tk.16,439 million as on 31 December 2011.

2.3.3 Revaluation

As per the DOS (BB) Circular letter no.-05, dated 26 May 2008 & subsequent amendment circular no.-05, dated 28 January 2009, HFT (Held for Trading) securities are revalued on weekly basis and HTM (Held to Maturity) securities are amortized on yearly basis. The HTM securities are also revalued if they are reclassified to HFT category with the Board's approval. Any gain or loss on revaluation of HTM securities is recognized in the statement of changes in equity. Gain/(loss) on revaluation of HFT securities is recognized in the profit and loss account on weekly basis and gain on revaluation is transferred to statement of changes in equity on monthly basis.

2.3.4 Available for sale

Investments (financial instruments) in shares that have a quoted price but are not held for trading and investments in shares that are not quoted in an active market and are not held for trading are grouped as Available for sale. Financial instruments grouped under this head are presented in note 47. All shares quoted and unquoted have been presented in financial statements at cost instead of market price as described in note 2.3.5.

2.3.5 Quoted and unquoted shares

Investments in equity instruments shares, that are not quoted in active market, are not measured at fair value due to absence of information required to measure in fair value reliably; so these are presented at cost. The equity instruments that are quoted in active market are also not presented at fair value. Abnormal ups and downs have been going on in the market of quoted shares and if the shares are measured at fair value the results of financial performance will be seriously misleading for the objective of financial statements. Considering the circumstances, the principle of presenting the quoted shares in market value has been departed and that departure is replied with regulatory requirements i.e. Bangladesh Bank guideline. Provision has been made for diminution in value of shares. Details of quoted and unquoted shares are shown in annexure-C-1 and annexure- C-2 respectively.

2.3.6 Investment and related income

- (a) Income on investments other than shares is accounted for on accrual basis concept; and
- (b) Dividend income on investment in shares is accounted for in the year when right has been established.

2.4 Loans and advances

2.4.1 Presentation of loans and advances

- i) Loans and advances are initially recognized at fair value, representing the cash advanced to the borrower plus the net of direct and incremental transaction costs and fees. They are subsequently measured at amortized cost and shown at gross amount instead of directly reducing the carrying amount of assets while interest suspense and loan loss provision against classified advances are shown under other liabilities in the Balance Sheet as per BRPD Circular no. 14, dated June 25, 2003.
- ii) Staff loan of Tk.14,904 million allowed at concessional rate as approved by the authority are shown under advances as per BRPD Circular no. 14, dated 25 June 2003.

2.4.2 Interest on loans and advances

- i) Interest is calculated on unclassified loans and advances and recognized as income during the year;
- ii) Interest calculated on classified loans and advances as per Bangladesh Bank Circulars is kept in interest suspense account and credited to income on realization;
- iii) Interest is calculated on daily product basis but debited to the party's loan account quarterly. No interest is charged on loans and advances which are classified as bad and loss;
- iv) Total balance of loans and advances as on December 31, 2011 includes bad/loss loan Tk.17,013 million on which the Bank did not accrue any interest because of deterioration of quality of loans and advances determined by the management and on the basis of instructions contained in Bangladesh Bank Circulars as mentioned in Note-2.4.3 of this financial statements; and
- v) Interest suspense and penal interest, if any, calculated on classified loans and advances are taken into income in the year of its receipt from the defaulting borrowers.

2.4.3 Provision for loans and advances

Provision for loans and advances has been made on the basis of instructions contained in Bangladesh Bank BRPD Circular no.05 dated June 05, 2006 in relation with BCD Circular no.34 dated November 19, 1989, BCD Circular no. 20 dated December 27, 1994, BCD Circular no. 12 dated September 4, 1995, BRPD Circular no. 16 dated December 6, 1998, BRPD Circular no. 9 dated May 14, 2001, BRPD Circular no. 09 dated August 20, 2005 and BRPD Circular no. 17 dated December 06, 2005.

2.4.4 Interest and discount income

Interest on loans and advances, investment income and discount income are stated at gross amount as per requirement of BRPD Circular no 14 dated June 25, 2003.

2.4.5 Written off loans and advances

Loans and advances with no realistic prospect of recovery have been written off against which full provisions were made earlier and legal cases initiated but pending, except the state owned enterprises for which no legal actions have been taken. Detailed memorandum records for all such written off accounts are maintained without reducing the Bank's claim.

2.5 Fixed assets and depreciation

- a) Fixed assets are stated at cost of acquisition/valuation less accumulated depreciation.
- b) Depreciation is charged on straight-line method on all fixed assets at the following rates per annum:

| | |
|-----------------------------------|--------|
| Land | Nil |
| Building | 2.50% |
| Furniture and Fixture | 10.00% |
| Library Books | 10.00% |
| Motor Vehicles | 20.00% |
| Office Equipment | 20.00% |
| Electric Materials | 20.00% |
| Computer and Computer accessories | 20.00% |

- c) Depreciation at the applicable rates is charged proportionately on additions made during the year from the month of their acquisition if such assets are acquired in the first half of the month. Depreciation is charged on assets retiring during the year for the period up to the end of the month of their retirement if assets are retiring in the second half of the month.
- d) Upon retirement of items of fixed assets the cost and accumulated depreciation are eliminated from the accounts and the resulting gains or losses, if any, are transferred to Profit and Loss Account.
- e) Repairs and maintenances costs of fixed assets are treated as revenue expenditure and charged to Profit and Loss Account when they are incurred. Depreciation of premises and equipment is included in general and administrative expenses. Repairs and maintenances are charged to general and administrative expenses and improvements of fixed assets are capitalized. Gains and losses on disposals of fixed assets are reflected in other income.
- f) Land and building were revalued at Tk.9,776,161,600 and Tk.465,702,388 respectively by the M/s Comodity Inspection Services (BD) Limited which was approved by the Board vide Memo No. 1346/11 Dated 15-12-2011 and Revaluation Reserve for land and building Tk.528,41,15,550 and Tk.22,84,22,621 respectively transferred to Fixed Assets Revaluation Reserve, which has been certified by Shahadat Rashid & Co. Chartered Accountants Firm.

2.6 Other Assets

2.6.1 Provision for other assets

Other assets have been classified as per BRPD Circular No. 14 dated June 25, 2003 of Bangladesh Bank and necessary provisions made thereon accordingly and for items not covered under the circular, adequate provisions have been made considering their realisability.

2.6.2 Written off other assets

Other assets having no realistic prospect of recovery have been written off against full provision without reducing the claimed amount of the Bank. Notional balances against other assets written off have been kept to maintain the detailed memorandum records for such accounts/assets.

2.7 Reconciliation of inter branch transactions

Inter branch transactions are reconciled on a regular basis and balance of unreconciled entries at the closing date is accounted for according to its nature.

2.8 Assets pledged as security

The Bank has no secured liabilities except as mentioned in Note-10.2 to the financial statements and there was no asset pledged as security against liabilities.

2.9 Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Taka currency at the rates of exchange ruling at the year end and those in pre-liberation Pakistani currency have been translated at Tk.1 = Pak Rupee 1

Transactions in foreign currencies other than assets and liabilities are translated into Taka currency at the rates of exchange prevailing on the date of such transactions and resulting gains /(losses) are credited or charged to Profit and Loss Account.

2.10 Revenue recognition

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. Items are treated as revenue/income when there exist no risk or uncertainty regarding their realisability.

2.11 Fees and commissions

The recognition of fees revenue including commissions is determined by the purpose for the fees and the basis of accounting for any associated financial instruments. Fees earned from services that are provided over a specified service period are recognized over that service period. Fees earned for the completion of a specific service or significant event are recognized when the service has completed or the event has occurred.

Fees and commissions consist mainly of fees for opening of letters of credit and issuance of guarantees in BDT and in foreign currencies. Fees and commissions are charged when they become due. Commissions arising from foreign currency transactions are reported as income.

2.12 Interest paid and expenses

In terms of the provision of the Bangladesh Accounting Standard (BAS-1) *Presentation of Financial Statements*, the interests and other expenses are recognized on accrual basis.

2.13 Retirement benefit scheme

The Bank operates two alternative retirement benefit schemes for its permanent employees, elements of which are as under:

a) Contributory provident fund (CPF) scheme

- i) Employees' contribution 10%;
- ii) Bank's contribution 10%;
- iii) This fund is operated by a Board comprising of 6 Trustees and
- iv) Employees enjoying contributory provident fund facilities are entitled to get gratuity for 2 months last basic pay drawn for each completed year of service subject to completion of minimum 10 years of service.

b) **General pension fund scheme**

i) **Pension**

The Bank operates a pension scheme. This fund is operated by a Board comprising of 7 Trustees.

ii) **Annual provision**

| Year | % of basic pay |
|--------------|--|
| 1986 to 1994 | 10% |
| 1995 to 1999 | 18% |
| 2000 to 2003 | 25% |
| 2004 to 2005 | 30% |
| 2006 | 35% (Actuarial valuation has been performed and necessary provision are being maintained in the accounts as per valuation) |
| 2007 to 2011 | 30% (Necessary provisions are being maintained in the accounts) |

This has been named as Superannuation Fund (SAF) created for paying pension to retiring employees. The fund is shown under other liabilities head.

iii) **General provident fund (GPF)**

Employees opted for pensions are also contributing 10%-30% of basic salary as per their desire to GPF. The Bank does not contribute any amount to the GPF against these employees. The Fund is shown under Sundry Deposit.

2.14 Death relief grant scheme

The Bank operates a Death Relief Grant Scheme since January 01, 1989, which replaced the group insurance scheme. The scheme is applicable to all employees of the Bank and payments out of this fund are made to the successors of the employees on their death while in Bank's service and quantum of payment is determined as per scale and grade of such employees.

2.15 Taxation

The Bank recognizes the current and deferred tax in the financial statements using the provisions of the prevailing tax laws applicable in Bangladesh and as per BAS-12 (Income Taxes). Current and deferred taxes are charged or credited to equity if the tax relates to items that are charged or credited directly to equity. Status of current and deferred tax is as under:

- i) **Past tax liability:** Income Tax assessment has been finalized up to 2004 except 2002 and appeal pending for the year 2002, 2005, 2006 and 2007. The return has been submitted for the year 2008, 2009 and 2010. The tax return for the year 2011 not yet been submitted.
- ii) **Current tax:** Taka 2,068.60 million has been made for provision for the year 2010 and Taka 4250.00 million in the year 2011. Details of Tax assessment are shown annexure-F. While calculating provision for tax, 'Amortization of Valuation Adjustment' amounting to Tk.132.95 crore has been considered as admissible expense.
- iii) **Deferred tax:** Deferred tax has been calculated as per Bangladesh Accounting Standard-12 *Income Taxes*. Calculation shows deferred tax assets of Tk.2,796.35 million (Note - 9.6), which has been accounted for accordingly as against previous year's figure of Tk.3,545.39 million. Difference amount of Tk.595.08 million has been debited to the Profit & Loss Account and Tk.153.95 million debited to revaluation reserve of land & building.

2.16 Provisions

Provisions are recognized if the Bank has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimation can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation as of the Balance Sheet date, taking into account the risks and uncertainties surrounding the obligation.

2.17 Loan commitments

No loan commitments are found to be designated at fair value through profit or loss under the fair value option. All loan commitments remain as off balance sheet item.

2.18 Statement of cash flows

For purpose of the statement of cash flows, the Bank's cash and cash equivalents include highly liquid investments that are readily convertible into cash and which are subject to an insignificant risk of change in value. Such investments include cash and balances at central banks and demand deposits with banks.

2.19 Liquidity statement

The Liquidity Statement has been prepared in accordance with grouping of the value of the remaining life of assets and liabilities as on the reporting date based on DOS circular no-02, dated 29-03-2011.

2.20 Offsetting of asset and liability

The value of any asset or liability as shown in the balance sheet are not off-set by way of deduction from another liability or asset unless there exist a legal right therefore. No such incident existed during the year.

2.21 Post balance sheet events

No material event occurred after the Balance Sheet date that could affect the values stated in the financial statements.

2.22 Segment reporting

For the purpose of Segment Reporting as per International Financial Reporting Standard-8, the following segments relating to revenue, expenses, assets and liabilities have been identified and shown in the related notes accordingly as primary/secondary segments.

- domestic operations in line with geographical segments;
- banking operations comprising of branches of the banking entity; and
- treasury operations comprising of the banking entity.

a) Geographical location wise segments report

Figure in million (Tk.)

| Particulars | For the year ended December 31, 2011 | | | | | | | | | | |
|--|--|-----------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|------------------|
| | Branches of the banking entity and operations in line with geographical segments | | | | | | | | | | |
| | Dhaka | Chittagong | Khulna | Rangpur | Rajshahi | Sylhet | Barisal | Faridpur | Mymensing | Comilla | Total |
| Number of Branches | 149 | 76 | 129 | 63 | 135 | 58 | 49 | 35 | 81 | 101 | 876 |
| Interest income on loans & advances | 14,447.29 | 3,180.66 | 1,137.36 | 593.11 | 834.35 | 287.26 | 360.93 | 391.60 | 591.22 | 610.89 | 22,434.67 |
| Interest on Branch A/C (Net) | (2,484.19) | (643.98) | 246.85 | 34.28 | 357.31 | 717.50 | 165.61 | 149.13 | 429.72 | 1,027.77 | - |
| Interest paid on deposits & borrowings | (7,744.17) | (780.00) | (522.97) | (223.75) | (461.68) | (596.21) | (219.15) | (197.64) | (405.41) | (815.01) | (11,965.99) |
| Net interest income | 4,218.93 | 1,756.68 | 861.24 | 403.64 | 729.98 | 408.55 | 307.39 | 343.09 | 615.53 | 823.65 | 10,468.68 |
| Investment income | 5,226.46 | - | - | - | - | - | - | - | - | - | 5,226.46 |
| Commission, exchange & brokerage | 3,570.88 | 260.43 | 79.76 | 57.55 | 71.14 | 22.80 | 25.55 | 20.41 | 45.64 | 69.48 | 4,223.64 |
| Other operating income | 370.21 | 83.58 | 117.60 | 57.09 | 110.28 | 49.02 | 58.08 | 49.93 | 106.67 | 125.41 | 1,127.87 |
| Total operating income | 13,386.49 | 2,100.69 | 1,058.60 | 518.28 | 911.40 | 480.37 | 391.02 | 413.43 | 767.84 | 1,018.54 | 21,046.66 |
| Allocated expenses | 2,972.43 | 425.22 | 583.92 | 316.87 | 603.24 | 200.57 | 232.13 | 171.94 | 383.71 | 413.61 | 6,304.06 |
| Operating profit (loss) | 10,413.64 | 1,675.47 | 474.68 | 201.41 | 308.16 | 279.80 | 158.89 | 241.49 | 384.13 | 604.93 | 14,742.60 |
| Operating profit (loss) as % of total operating profit of the Bank | 70.64% | 11.36% | 3.22% | 1.37% | 2.09% | 1.90% | 1.08% | 1.64% | 2.61% | 4.10% | 100% |

b) Segment report by nature of operation

Figure in million (Tk.)

| Nature of operation | December 31, 2011 | |
|--|-------------------|-------------|
| | Amount | In % |
| Operating profit from banking operation | 9,516.14 | 65% |
| Operating profit from investment operation | 5,226.46 | 35% |
| Total operating profit | 14,742.60 | 100% |

2.23 Risk management

The risks of Agrani Bank Limited have been defined as the possibility of losses, financial or otherwise. The Risk Management of the Bank covers 6 (six) Core Risk Areas of banking i.e. Credit Risk Management, Foreign Exchange Risk Management, Asset Liability Management, Prevention of Money Laundering, establishment of Internal Control & Compliance and Information & Communication Technology (ICT) risk. The prime objective of the risk management is that the Bank takes well calculative business risks while safeguarding the Bank's capital, its financial resources and profitability from various risks. In this context, the Bank has implemented various steps as per the guidelines of Bangladesh Bank.

2.23.1 Credit Risk Management

Credit Risk is one of the prime risks of the Bank. It indicates the potential loss arising from contractual failure of the borrower with the Bank. The failure may be resulted from unwillingness of the borrower to repay or due to decline of the financial conditions. Therefore, Bank's Credit Risk Management activities have been designed to address all these issues.

On the basis of Bangladesh Bank's Credit Risk Management (CRM) policies, Agrani Bank Limited has formulated a Manual of Credit Risk Management Policies which has been approved by Bank's Board of Directors, already in force. These help to bring the credit operation of the Bank to the level of international standard.

The organizational structure of Bank's Head Office has been designed in line with CRM guidelines. The duties of the officers/executives, working in credit areas, have been segregated for smooth functioning. Credit approval, administration, monitoring and recovery function have been segregated and functioning accordingly. Credit Risk Management activities ensure maintaining asset quality, assessing risks in lending to particular customer, sanctioning credit, formulating policy/strategy for lending operation, etc.

A thorough due diligence is done before sanction of any credit facility as per Credit Risk Management Policy. The risk assessment includes borrower risk analysis, financial analysis, industry analysis, historical performance of the customer, security against credit facility, etc. The assessment process is initiated at Branch/Credit Division which is placed before the Credit Committee (CRE-COM)/Board for approval/decline.

In determining single borrower/large loan limit, the instructions of Bangladesh Bank are strictly followed. Internal Audit is conducted at periodical interval to ensure compliance of the policies of the Bank and Regulatory bodies.

2.23.2 Foreign Exchange Risk Management

The risk of foreign exchange transactions has been streamlined to earn a potential gain through the Treasury Department. i.e. Fund Management Division which is run by a group of structured manpower. Although the global economic scenario was very much alarming because of the crisis in all economic phenomena, still the Bank has faced it prudently leading to higher profit compared with the previous record of the Bank. It has become possible by Treasury Department through optimum use of open position limit fixed by Bangladesh Bank with a view to generating maximum revenue.

There is an active participation in inter-bank foreign exchange market. The foreign exchange risk of the Bank is minimal as majority of the transactions are carried out on behalf of the customer's requirement for various trade finance and remittance activities. The Bank did not conduct any speculative deal in foreign currency for the year. To minimize any potential loss arising from currency fluctuation, the Bank does conduct cross currency activities to consolidate its currency position into a single foreign currency by converting its inflow of various currencies due to customer's export activities and remittances from abroad.

In compliance with the Bangladesh Bank Guidelines, Agrani Bank Limited has prepared Foreign Exchange Risk Management Manual covering the Foreign Exchange Risk and Policy related with Foreign Exchange dealings. As per terms and conditions of the Manual, Treasury Front Office, Back Office and Mid Office have been established under separate management.

To facilitate the treasury functions, individual limit for the dealers and dealing room limit including Stop Loss limit, Trigger limit and Counter Party limit have been fixed up and therefore there is no scope to take any excessive risk by any dealer. To keep the deal very much transparent and to avoid the future dispute a Voice Recorder has been set-up in the dealing room. The foreign exchange risk of the Bank is minimal as all the transactions are carried out on behalf of the customer against L/C commitment and other outward remittances. No dealing on Bank's account was conducted during the year.

To support the activities of Treasury Department, an independent Treasury Back Office is functioning through an independent organizational chain. The personnel working under Back Office are very much well equipped to settle and reconcile the day to day deal transactions. Back Office is responsible for verification of the deals and passing of entries in the books of accounts. All Nostro accounts are reconciled on fortnightly basis and the management for its settlement reviews outstanding entry beyond 15 days.

2.23.3 Asset Liability Management (ALM)

Asset and Liability Management is one of the key essentials of managing a Bank's balance sheet efficiently. In line with the ongoing reform and modernization program, Agrani Bank Limited has retooled its ALM to deliver modern, dynamic, vibrant & futuristic process through the adaptation of international best recognized practice.

Considering all the risk factors Agrani Bank Limited has established an effective ALM process for assessing, analyzing and reviewing various kinds of risk exposures arising from the composition and dynamics of the balance sheet. Asset Liability Committee (ALCOM) of the Bank is regularly reviewing these risk exposures and advised for both the opportunities and threats to its liquidity and balance sheet positions as well as positions of maturing assets and liquidity contingency plan. The Bank maintained its liquidity at satisfactory level to meet the requirements of all types of customers.

At present the markets are fraught with various kinds of risk around the corner. Each element of risk is segmented, fragmented and quantified before it is loaded in the balance sheet of the Bank. A clear balance sheet management strategy is articulated to senior management from the beginning of the year so that they are fully aware of the ALM strategies.

2.23.4 Prevention of Money Laundering

Money laundering risk is defined as the loss of reputation and expenses incurred as penalty for being negligent in prevention of money laundering. For mitigating the risks the Bank has a designated Chief Compliance Officer at Head Office and compliance officers at branches, who independently review the transactions of the accounts to verify suspicious transactions. Manuals for prevention of money laundering have been established. Meticulous records of 'Know Your Customer (KYC)' & Transaction Profile (TP) are being maintained. Cash Transaction Report (CTR) and Suspicious Transaction Report (STR) (if any observed) are sent to competent authority in strict adherence to Central Bank directives. Training has been continuously given to the category of officers and executives for developing awareness and skills for identifying suspicious activities.

2.23.5 Internal Control and Compliance

Operational loss may arise from error and fraud due to lack of internal control and compliance. Management, through Internal Control and Compliance Division, controls operational procedure of the Bank. According to the Bangladesh Bank guidelines, Agrani Bank Ltd. has introduced three Units under Internal Control and Compliance (ICC). The three units are: Compliance, Monitoring and Audit and Inspection. The Monitoring unit is named as Audit Implementation Division. Internal Audit and Inspection Division undertakes periodical and special audit of the branches and divisions at Head Office for review of operational effectiveness and internal/external compliance requirements. The Board Audit Committee subsequently reviews the very serious lapses (VSLs) identified by Audit and Inspection Division.

2.23.6 Information and Communication Technology (ICT) Risk

Use of ICT in Agrani Bank Limited is increasing tremendously with the increased use of ICT. It become necessary to be more careful to address the risk associated to ICT security. Bank has formulated well defined ICT policy in line with the international best practices and prudential guidelines of Bangladesh Bank on ICT security. Besides the policy bank also prepared implementation manual for user at all level in conformity with the ICT policy. An ICT Audit manual has been prepared and is in use for auditing ICT activities of the bank to assure that the policy and the procedure are meticulously followed while using ICT by the user at any level.

2.24 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other parties on behalf of customers to secure loans, overdrafts, other banking facilities and other various payments. Financial guarantees are recognized in the financial statements at fair value on the date the guarantee was given as contingent liability.

2.25 Related party transactions

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial or operational decisions. During the year the Bank has some transactions with the Government (owner of the Bank) in respect of banking business like loans and advances, guarantees and commitments as mentioned below:

| Related party relationship disclosure during the year 2011 (BAS-24 Related Party Disclosure) | | | | |
|--|--|---------------------------------|------------------------|---|
| Sl. no. | Name of Related Party | Related Party Relationship | Transaction Amount Tk. | Nature |
| 1 | Government (Note-19.1) | Owner | 8,094,569 | Letter of Guarantee |
| 2 | Government (Note-6) | Owner | 65,770,929,745 | Government Securities |
| 3 | Government (Note-9) | Owner | 5,580,289,786 | Advance Income Tax |
| 4 | Ministry of Food and other Ministry (Note-7.3.b) | Owner | 231,222,000 | Loans and Advances |
| 5 | State Owned Enterprises (Note-7.3.b) | Enterprises Owned by Government | 16,916,300,000 | Guarantees for Loans and Advances (Funded and Non-Funded) to State Owned Enterprises |
| 6 | Government (Note-11.d) | Owner | 11,734,300,961 | Deposit (CD, SB, FDR, STD and special purpose deposit) |
| 7 | Agrani Exchange House Pvt. Ltd., Singapore | Subsidiary Company | 6,457,000 | Investment in subsidiary company |
| 8 | Agrani Remittance House SDN.BHD, Malaysia | Subsidiary Company | 8,967,168 | Investment in subsidiary company |
| 9 | Agrani Equity & Investment Limited | Subsidiary Company | 2,000,000,000 | Investment in subsidiary company |
| 10 | Agrani SME Financing Company Limited | Subsidiary Company | 230,000,000 | Investment in subsidiary company Tk.23 crore provided against share capital up to 31-12-11. Subsequently Tk.4.16 crore was provided on 22-04-12. Remaining capital of Tk.22.84 crore will be adjusted with loan receivable from the company. |

2.26 Compliance of Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS)

| <u>Name of Bangladesh Accounting Standards (BAS)</u> | <u>BAS No.</u> | <u>Status</u> |
|---|----------------|-------------------------------------|
| Presentation of Financial Statements | 1 | Applied |
| Inventories | 2 | N/A |
| Statement of Cash Flows | 7 | Applied |
| Accounting Policies, Changes in Accounting Estimates and Errors | 8 | Applied |
| Events after the Reporting Period | 10 | Applied |
| Construction Contracts | 11 | N/A |
| Income Taxes | 12 | Applied |
| Property, Plant and Equipments | 16 | Applied |
| Leases | 17 | N/A |
| Revenue | 18 | Applied |
| Employee Benefits | 19 | Partly Applied |
| Accounting for Govt. Grants and Disclosure of Government Assistance | 20 | N/A |
| The Effects of Changes in Foreign Exchange Rates | 21 | Applied |
| Borrowing Costs | 23 | Applied |
| Related Party Disclosures | 24 | Applied |
| Accounting & Reporting by Retirement Benefit Plans | 26 | N/A |
| Consolidated and Separate Financial Statements | 27 | Not Applied, since not mandatory |
| Investments in Associates | 28 | N/A |
| Interest in Joint Ventures | 31 | N/A |
| Financial Instruments: Presentation | 32 | Applied |
| Earnings per share | 33 | Applied |
| Interim Financial Reporting | 34 | N/A |
| Impairment of Assets | 36 | Applied |
| Provisions, Contingent Liabilities and Contingent Assets | 37 | Applied |
| Intangible Assets | 38 | Not Applied |
| Financial Instruments: Recognition and Measurement | 39 | Applied |
| Investment Property | 40 | Applied |
| Agriculture | 41 | N/A |

| <u>Name of Bangladesh Financial Reporting Standards (BFRS)</u> | <u>BFRS No.</u> | <u>Status</u> |
|---|-----------------|----------------|
| First-time Adoption of Bangladesh Financial Reporting Standards | 1 | N/A |
| Share-Based Payment | 2 | N/A |
| Business Combinations | 3 | N/A |
| Insurance Contracts | 4 | N/A |
| Non-Current Assets Held for Sale and Discontinued Operations | 5 | N/A |
| Exploration for and Evaluation of Mineral Resources | 6 | N/A |
| Financial Instruments: Disclosures | 7 | Applied |
| Operating Segments | 8 | Partly Applied |

2.27 Particulars of Directors and their interest in the Bank (31-12-2011)

| Name and address | Status | Date of original appointment | No. of shares held in the Bank |
|--|-------------------------|------------------------------|--------------------------------|
| Dr. Khondoker Bazlul Hoque Professor, Department of International Business, University of Dhaka. | Chairman | 09-09-2009 | 01 |
| Mr. Ranjit Kumar Chakraborty, Additional Secretary, Finance Division, Ministry of Finance, Government of the People's Republic of Bangladesh. | Director | 13-12-2006 | 01 |
| Mr. Shekhar Dutta Secretary, Moni Singh-Farhad Memorial Trust, 3, Comrade Moni Singha Sarak, 21/2 Purana Paltan, Dhaka. | Director | 09-09-2009 | 01 |
| Mr. Nagibul Islam Dipu Managing Director, Polac Real Estate Ltd. 56, Shantinagar, Dhaka | Director | 09-09-2009 | 01 |
| Engineer Md. Abdus Sabur 4, Motijheel C/A (2 nd Floor), Dhaka-1000. | Director | 09-09-2009 | 01 |
| Barrister Zakir Ahammad Chairman, Indepth News of Bangladesh (INB), 14, Kakrail Road, 4 th Floor (west side), Shantinagar, Dhaka-1217. | Director | 09-09-2009 | 01 |
| Mr. Shahjada Mohiuddin Proprietor, M/S Arshi Enterprise, 152/2B Green Road, 3 rd Floor, Dhaka. | Director | 09-09-2009 | 01 |
| Mr. Abdus Jahir Chowdhury (Sufian) Social Work, 87, Sagar Dighirpar, Sylhet. | Director | 14-09-2009 | 01 |
| Mr. K.M.N. Manzurul Hoque Lablu Chief Editor & Managing Director, Global News Agency, 33, Topkhana Road (1 st Floor), Shabuj Chaya, Dhaka-1000. | Director | 14-09-2009 | 01 |
| Mr. A.K. Gulam Kibria, FCA Chartered Accountants, G. Kibria & Co. 24-25 Dilkusha C/A (5 th Floor), Dhaka. | Director | 24-09-2009 | 01 |
| Luna Shamsuddoha Chairman, Dohatek New Media, 43, Purana Paltan Line, Dhaka-1000. | Director | 24-09-2009 | 01 |
| Mr. Syed Bazlul Karim, BPM Ex. AIG & Co-operative Leader, Flat No. 1/301, Eastern Rokeya Tower, 98, Bara Moghbazar, Ramna, Dhaka. | Director | 22-10-2009 | 01 |
| Mr. Syed Abdul Hamid, PhD Agrani Bank Limited, Head Office, Dhaka. | CEO & Managing Director | 20.04.2010 | N/A |

2.28 Name of the Directors and their interest in different entities (31-12-2011)

| Name of the Directors | Designation with ABL | Entities where they have interest & Position with the Entities | Residence |
|------------------------------------|----------------------|---|--|
| Dr. Khondoker Bazlul Hoque | Director & Chairman | Professor, Department of International Business, University of Dhaka | Karobi, 15E, 3 & 3A, Diganto Paribagh, Dhaka-1000. |
| Mr. Ranjit Kumar Chakraborty, | Director | Additional Secretary, Finance Division, Ministry of Finance, Government of the People's Republic of Bangladesh. | 7, Gulfassion (3 rd Floor), Baily Road, Dhaka. |
| Mr. Shekhar Dutta | Director | Secretary, Moni Singh-Farhad Memorial Trust, 3, Comrade Moni SinghaSarak, 21/2 Purana Paltan, Dhaka. | Eastern Circuit, Building No.3, Flat No.803(7 th Floor), Circuit House Road, Dhaka. |
| Mr. Nagibul Islam Dipu | Director | Managing Director, Polac Real Estate Ltd. 56, Shantinagar, Dhaka | House # 155, Road # 8 Block-F Bashundhara, Dhaka. |
| Engineer Md. Abdus Sabur | Director | Engineer and Industrialist, 4, Motijheel C/A (2 nd Floor), Dhaka-1000. | 20,Green Corner, Green Road, Dhaka-1205. |
| Barrister Zakir Ahammad | Director | Chairman, Indepth News of Bangladesh (INB), 14,Kakrail Road, 4 th Floor(west side),Shantinagar, Dhaka-1217. | 8/1, Silicon Villa, Flat #803(8 th Floor), Segun Bagicha, Dhaka. |
| Mr. Shahjada Mohiuddin | Director | Proprietor , M/S Arshi Enterprise, 152/2B Green Road, 3 rd Floor, Dhaka. | Sky Touch Kunjo, Flat #C/2, 43, New Eskaton, Dhaka. |
| Mr. Abdus Jahir Chowdhury (Sufian) | Director | Social Work 87, Sagar Dighirpar, Sylhet. | 87, Sagar Dighirpar, Sylhet. |
| Mr. K.M.N. Manzurul Hoque Lablu | Director | Chief Editor & Managing Director, Global News Agency, 33, Topkhana Road (1 st Floor), Shabuj Chaya, Dhaka-1000. | Flat #A-3, DOM INNO JACINTO Kalabagan, Dhaka-1205. |
| Mr. A.K. Gulam Kibria, FCA | Director | Chartered Accountants, G. Kibria & Co. 24-25 Dilkusha C/A (5 th Floor), Dhaka. | House # 12, Road # 95 Aptt. # 4/C Gulshan-2, Dhaka-1212. |
| Mrs. Luna Shamsuddoha | Director | Chairman, Dohatek New Media, 43, Purana Paltan Line, Dhaka-1000. | House # 22, Road # 2 Gulshan-2, Dhaka-1212. |
| Mr. Syed Bazlul Karim, BPM | Director | Ex.AIG & Co-operative Leader, Flat No. 1/301,Eastern Rokeya Tower, 98,Bara Moghbazar,Ramna, Dhaka. | Flat No. 1/301, Eastern Rokeya Tower, 98,Bara Moghbazar,Ramna, Dhaka. |

2.29 Audit Committee (31-12-2011)

| Name | Status with the Bank | Status with the Committee | Address | |
|------------------------------|----------------------|---------------------------|--|--|
| | | | Present | Residence |
| Mr. Ranjit Kumar Chakraborty | Director | Chairman | Additional Secretary, Finance Division, Ministry of Finance, Govt. of the People's Republic of Bangladesh. | 7, Gulfassion (3 rd Floor), Baily Road, Dhaka. |
| Mr. Shekhar Dutta | Director | Member | Secretary, Moni Singh-Farhad Memorial Trust, 3, Comrade Moni Singha Sarak, 21/2, Purana Paltan, Dhaka. | Eastern Circuit, Building No.3, Flat No.803(7 th Floor), Circuit House Road, Dhaka. |
| Mr. Nagibul Islam Dipu | Director | Member | Managing Director, Polac Real Estate Ltd. 56, Shantinagar, Dhaka. | House # 155, Road # 8 Block-F Bashundhara, Dhaka. |
| Engr. Md Abdus Sabur | Director | Member | 4, Motijheel C/A(2 nd Floor) Dhaka-1000. | 20, Green Corner, Green Road, Dhaka-1205. |
| Mr. A.K Gulam Kibria, FCA | Director | Member | Chartered Accountants, G.Kibria & Co. 24-25 Dilkusha C/A(5 th Floor), Dhaka. | House # 12, Road # 95 Aptt. # 4/C Gulshan-2, Dhaka-1212. |

Board Audit Committee:

The Board Audit Committee played an important role during 2011 for efficient and safe banking system. The Committee ensured close co-operation between the management and the ultimate supervisory authority- the Board of Directors. It also performed a vital role by identifying various risk factors that arose from the business activities of the Bank; by periodically reviewing the audit reports for safe, sound and disciplined banking operations. Besides these, the Audit Committee has directed the concerned to allocate right man for audit, prepare Risk-based audit planning, reduce the number of objections of the same nature raised by internal audit by making groups according to the nature of objection, re-define the serious objections and very serious objections and reconcile all pending entries. On the basis of the policy guidelines of Audit & Inspection of the bank, 5 divisions of Head Office, Principal Branch, 26 Corporate Branches, 13 AD (Authorised Dealer) Branches, 49 District Head Quarter Branches and the remaining 5 of the branches audited in 2007, 270 branches audited in 2008, 41 branches on random basis out of the branches audited in 2010 and 25 investigation/issue based inspections, that is, as a whole 435 branches/divisions were taken under Annual Audit Plan for the year 2011.

Important decisions were taken by the Audit Committee in 06 (Six) meetings held during the reporting year 2011. In those meetings emphasis were given on the following issues:

1. The committee recommended Bank's Balance Sheet and Profit and Loss Account of 2011 for approval of the Board of Directors. The Committee analysed the draft Balance Sheet as at December 31, 2011 and Profit and Loss Account. After the analysing the committee suggested some amendments and then to place it to the Board for approval.
2. The Committee enquired about the objections raised by different Audit Groups (Viz. Bangladesh Bank Inspection Team, External Audit Team, Govt. Commercial Audit Team and Internal Audit Team) and found some objections yet to be settled. The Committee then advised the Management to take corrective measures to settle those objections immediately.

3. The Committee analysed the implementation status of Audit plan 2011. The Committee also looked into the "Annual Audit Plan-2012" of the Bank and approved the same after some amendments.
4. As per direction of the audit committee, PRL (Post Retirement Leave), Final Settlement, Selection Grade, Time Scale etc. instead of issuing clearance by Internal Audit Team was established by the bank management.
5. The Committee also gave emphasis on proper allocation of manpower for Internal Audit so that auditing could be done properly.
6. The Committee advised the Bank Management to take necessary measures for reconciliation of all unreconciled entries, specially regarding army pension.

Beyond that, the committee instructed the Bank Management to perform the following activities regularly:

- To perform auditing on random basis;
- To cover auditing of all branches of the bank in every 3 years;
- To set priority area for auditing;
- To minimize the audit objections through strengthening the internal control systems;
- To ensure the appropriate implementation of the audit recommendations;
- To collect the report of regularization of the irregularities/objections raised by the Audit Team as soon as possible;
- To take steps to scrutinize the implementations of the objections on random basis;
- To place the most irregularities/objections raised by Internal Audit to the Audit Committee in the form of Executive Summary;
- To prepare Risk-based audit planning, reduce the number of objections of the same nature raised by internal audit by making groups according the nature of objection and redefine the serious objections and very serious objections; and
- To fix up the criteria for selection of External Auditor.

2.30 General:

- a) Figures have been rounded off to the nearest taka.
- b) Prior Year's figures have been shown for comparison purposes and rearranged wherever necessary to conform to current year's presentation.
- c) Conversion rate is calculated based on the simple average of buying and selling rate.