

Annual Report -2018

Agrani SME Financing Company Ltd

Agrani SME Financing Company Limited

Corporate Profile

December 31, 2018.

Genesis	Agrani SME Financing Company Limited (the Company) has been incorporated as a Public Limited Company on 27 October, 2010 vide certificate of incorporation No. C- 87827/10. The Company has taken over the ongoing activities of Small Enterprise Development Project - SEDP (A Norway and Agrani Bank funded Project of Ministry of Finance, Bangladesh) on a going concern basis through a Vendor's Agreement signed between the Financial Institution Division, Ministry of Finance, People's Republic of Bangladesh, the Board of Directors on behalf of the Agrani Bank Limited and the Board of Directors on behalf of the Agrani SME Financing Company Limited on 27 December, 2011. The Company has set 31 December, 2011 as the effective date of handing over the SEDP operation to Agrani SME Financing Company Limited. The Company's current shareholdings comprise the Agrani Bank Limited and six other shareholders nominated by the Bank. The Company has 50 branches (with no overseas branch) as on 31 December, 2018.
Legal Status	Public Limited Company (Governed by the Bank Companies Act 1991 and Financial Institution Act 1993)
Chairman	Mohammad Shams-Ul Islam
Managing Director & CEO	Md. Nurul Haque
Company Secretary	Md. Muzahidul Islam Zoarder
Corporate Registered Office	25/A, 25/A/1, Al-Amin Center (6th Floor), Dilkusha, C/A, Motijheel, Dhaka-1000.
Authorized Capital	Tk. 500 Crore (Five billion)
Paid up Capital	Tk. 100 Crore (One billion)
Operating Profit for the Year 2018	Tk. 8.92 Crore (89.17 million)
Employees	170
Branches	50 (31.12.18) and 53 (07.08.2019)
Phone	9511803-4
Fax	(02) 9567301
E-mail	asfclbd@gmail.com
Auditors	Hussain Farhad & Co. Chartered Accountants. House # 15, Road # 12, Block # F, Niketon, Gulshan – 1, Dhaka –1212, Bangladesh Tel: 8836015-17, Fax: 880-2-8836074

Vision

The availability of financial support for economically vulnerable citizens is one of the most important aspects for attaining Sustainable Development Goal (SDG). The implementation of company's core activities through financing the Small and Medium Enterprises of missing middle section would contribute to the fulfillment of these objectives. Following the GOB strategy for the poverty alleviation, the vision of the company is to develop sustainable small and medium scale entrepreneurs to generate income and employment opportunities with special emphasis to the women entrepreneurs.

Mission

To realize the vision, the company will implement small and medium credit servicing to the eligible entrepreneurs with particular emphasis to women entrepreneurs in the urban, semi-urban and rural areas. The potential entrepreneurs will be identified and entrepreneurship/skill development training will be conducted for giving them a hands-on-experience to skillfully run their enterprises along with providing credit facilities to implement his/her projects/enterprise. The mission of the company is to create successful entrepreneurs by providing financial assistance with intense supervision and monitoring so as to ensure the fruitful implementation of the financed projects/enterprises.

Objectives

The overall objectives of the Company include the following:

- To carry on the activities for the purposes of enhancing the income of, and employment generation for urban, semi-urban and rural people.
- To carry on business of SME financing by developing small and medium enterprise through financial assistance in the form of providing loans with the ultimate goal to develop entrepreneurship and to alleviate poverty.
- To carry on business of SME financing by developing small and medium scale labor intensive enterprise in order to create jobs for the unemployed people and increase income for the missing middle group of the country.
- To arrange entrepreneurship and skill development training programs for the existing and identified potential entrepreneurs and for their employees.
- To promote woman entrepreneurs with giving emphasis and encouragement to the woman entrepreneurs in carrying out small enterprise business so as to enable them to start up their enterprises for changing their lots as well as to help developing the economy of the country.

Notice of the 8th

Annual General Meeting

Notice is hereby given to all Shareholders of Agrani SME Financing Company Limited that the 8th Annual General Meeting of the Company will be held on September 19, 2019 at 12:00 PM at Board Room of its Holding Company, Agrani Bank Limited (9/D Dilkusha Commercial Area, Dhaka-1000) to transact the following business and adopt necessary resolutions:

Agenda

1. To apprise the minutes of the 7th Annual General Meeting held on June 29, 2018.
2. To receive, consider and adopt the Audited Financial Statements of the Company for the year ended 31 December 2018 together with the Auditors' Report and the Directors' Report thereon ;
3. To elect/re-elect Directors.
4. To appoint Auditor for the Year 2019 and to fix their remuneration ; and
5. Any other business to be discussed with the permission of the chair.

By Order of the Board of Directors

August 22, 2019.

Md. Muzahidul Islam Zoarder
Company Secretary

Letter of Transmittal

To

The Shareholders
Registrar of Joint Stock Companies & Firms
Securities and Exchange Commission
Bangladesh Bank, Dhaka.

Sub: Annual Report for the year ended 31 December 2018.

Dear Sir (s)

We are pleased to enclose herewith a copy of the Annual Report 2018, together with the Auditors' Report and the Audited Financial Statements of Agrani SME Financing Company Limited for your kind information and record.

Yours sincerely

Md. Nurul Haque
Managing Director & CEO

Board of Directors



Mohammad Shams-Ul Islam
Chairman



Md. Shahadat Hossain, FCA
Director



Newaz Hossain Chowdhury
Director



Md. Yusuf Ali
Director



Md. Khairul Kabir
Director



Md. Rafiqul Islam
Director



Md. Nurul Haque
MD & CEO

Performance at a Glance

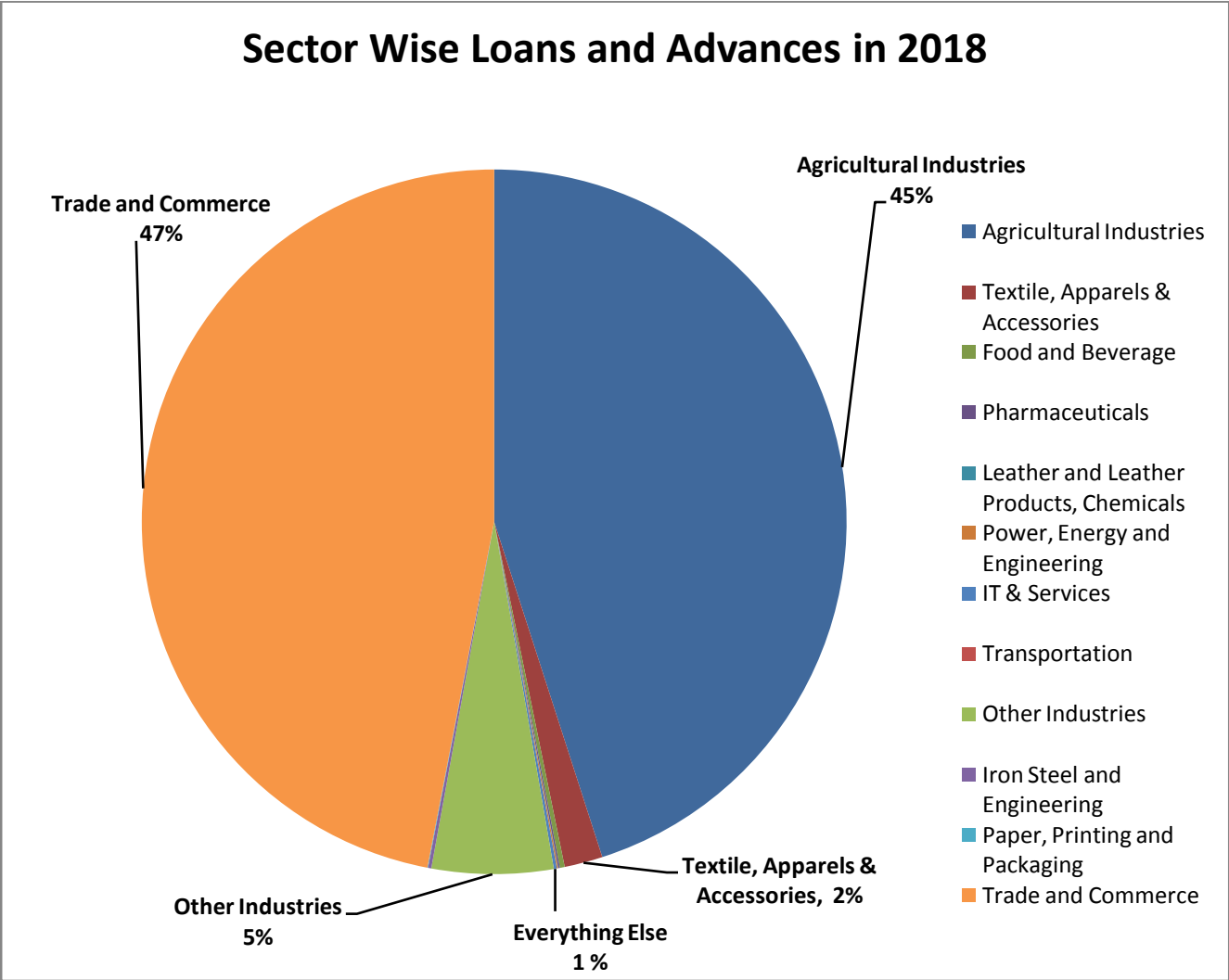
for the year ended 31 December, 2018

	(Tk. In millions)				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Results of Operation</u>					
Operating Revenue	214.87	158.43	135.66	161.18	153.78
Operating Expenses (including provisions)	137.70	120.85	115.37	88.45	62.35
Profit before Tax	77.17	37.58	20.29	72.73	91.62
Net Profit	45.35	21.67	9.69	36.57	60.23
<u>Balance Sheet</u>					
Loans & Advances	1589.00	1079.32	787.86	604.46	475.00
Classified Loans	66.97	57.01	55.35	72.23	53.00
Total Asset	1970.98	1520.52	1462.44	1410.00	1359.00
Fixed Asset	7.89	12.14	16.95	20.60	16.08
Authorized Capital	5000.00	5000.00	5000.00	5000.00	5000.00
Paid up Capital	1000.00	1000.00	1000.00	1000.00	1000.00
Shareholder's Equity	1292.73	1247.39	1225.72	1216.03	1179.34
Retained Earning	189.96	153.68	136.34	128.59	99.21
Other Liabilities	265.94	273.13	236.73	193.48	179.19
<u>Ordinary Share Information</u>					
EPS	3.63	1.73	0.77	2.93	4.82
Book Value per share of 100 (end of period)	129.27	124.74	122.57	121.60	117.93
<u>Financial Ratios (%)</u>					
Return on Assets	2.60%	1.45%	0.67%	2.64%	3.50%
Return on Equity	3.57%	1.75%	0.79%	3.05%	4.70%
Equity to Assets	65.59%	82.04%	83.81%	86.27%	86.80%
Efficiency Ratio	58.69%	70.91%	77.67%	43.59%	40.49%
Non-Performing (Assets to Loans)	4.21%	5.28%	7.03%	11.95%	11.21%
<u>No. of Branches</u>					
	50	50	45	42	42

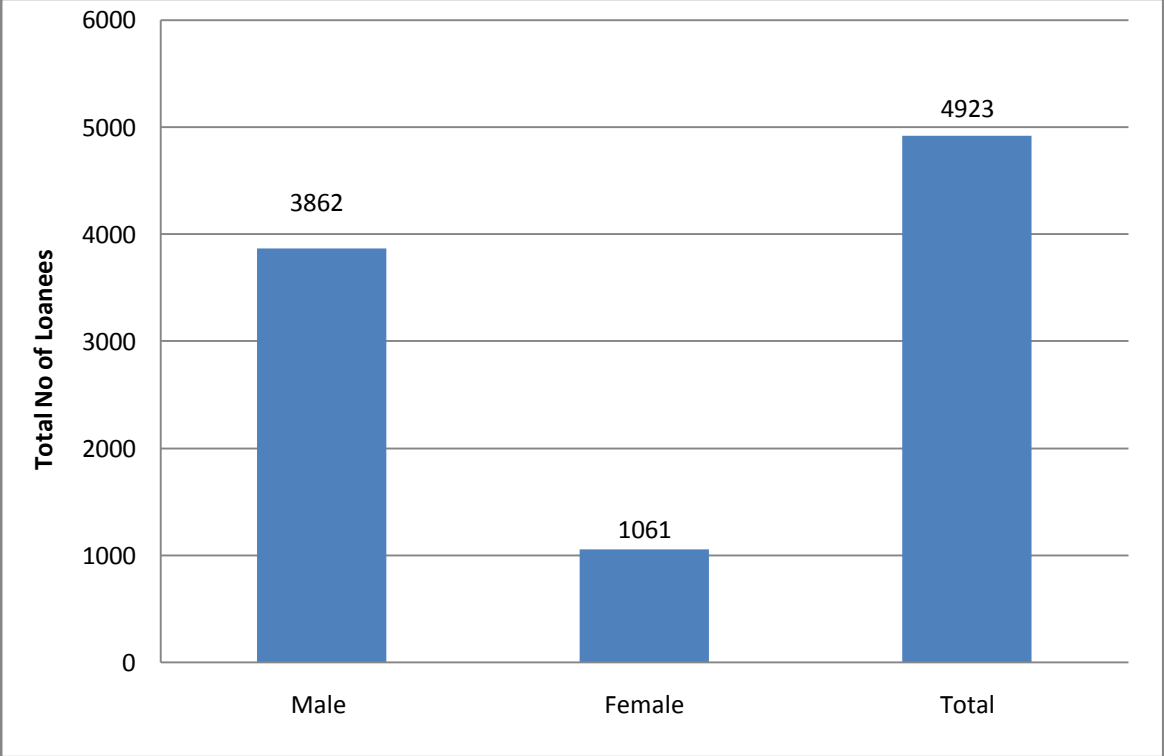
* As on 07.08.2019 total no of Branches is 53.

Graphical Presentation of Financial Information as on 31st December 2018

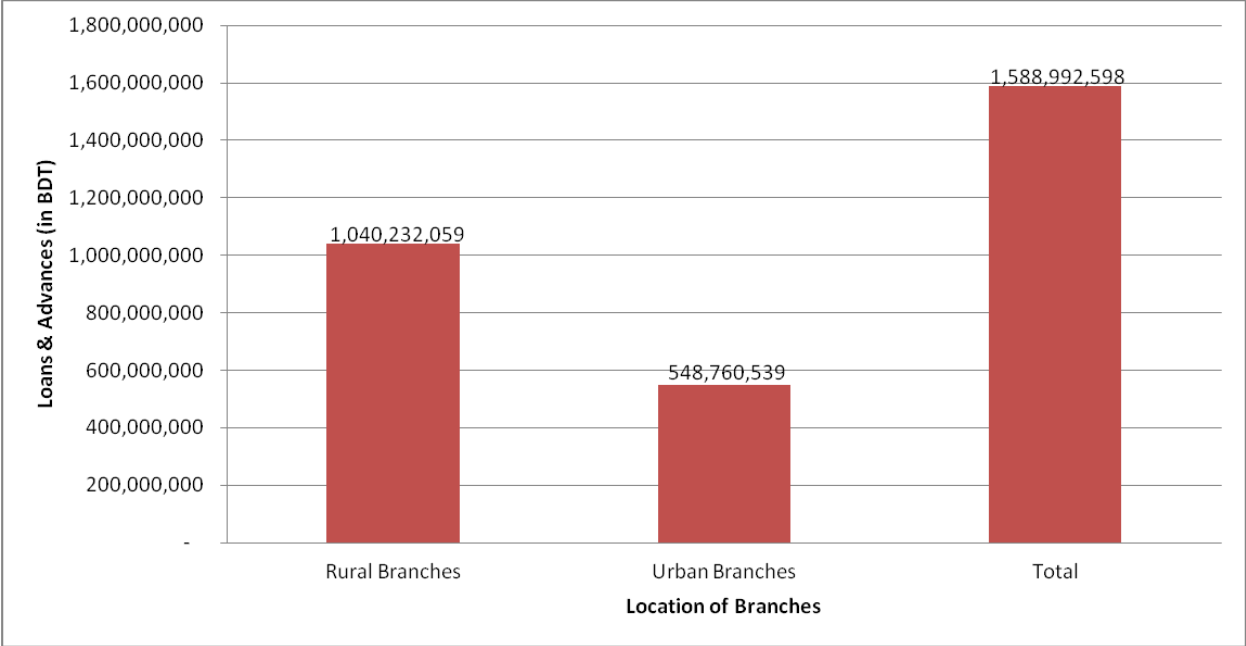
1. Sector-wise Loans and Advances



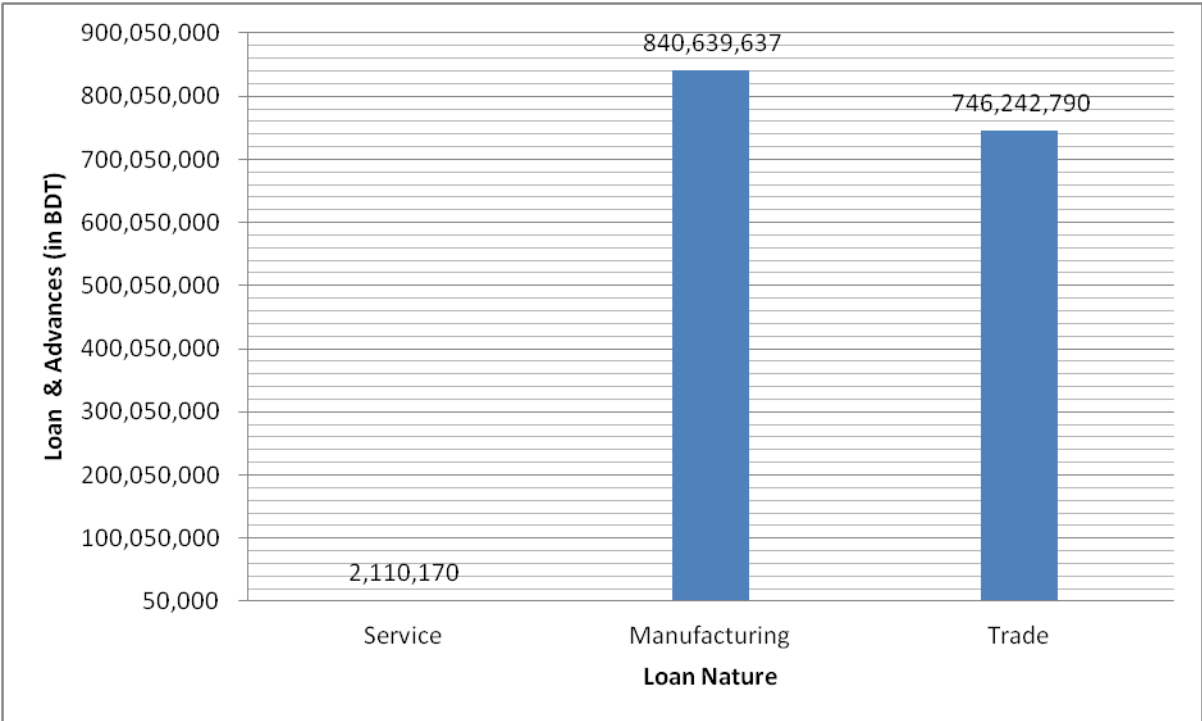
2. No of Loans disbursed in Year 2018 (Categorized by Male & Female Entrepreneurs)



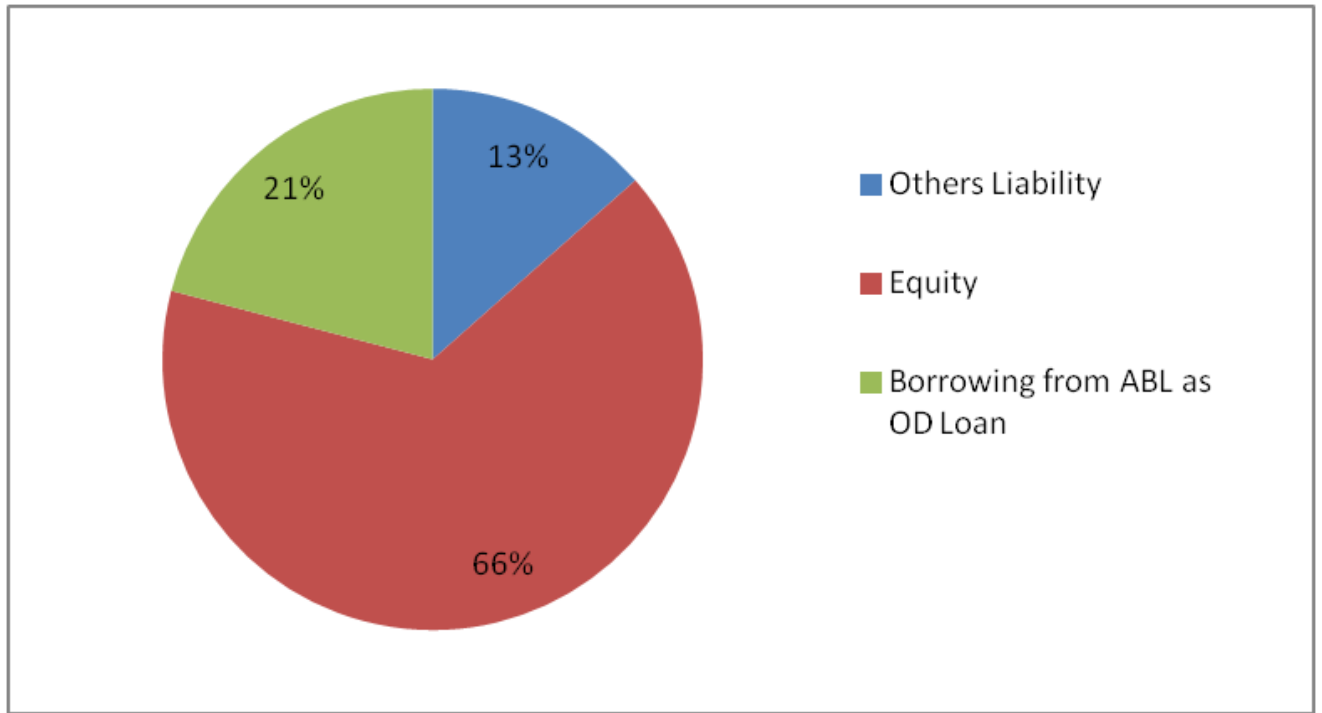
3. Loans and Advances by (Rural & Urban Branches) – Geographic Location Wise



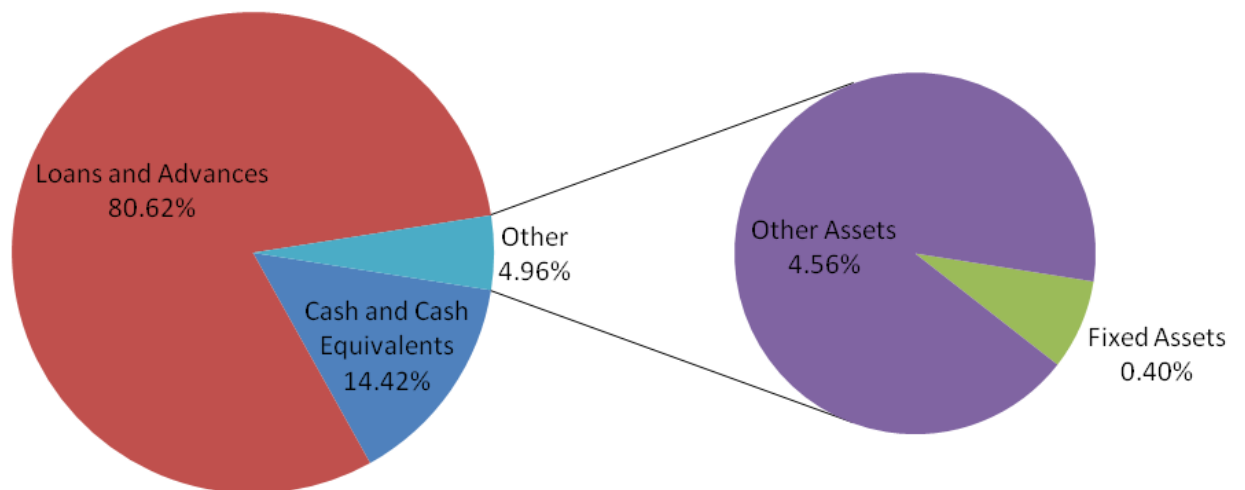
4. Loans and Advances as per Loan Nature



5. Sources of Fund



6. Uses of Fund





MESSAGE OF THE CHAIRMAN

Dear Valued Shareholders,

Assalamu Alaikum

It is gratifying for me once again in welcoming you all to the 8th Annual General Meeting of Agrani SME Financing Company Limited. On behalf of the Board of Directors, it my privilege to have the opportunity to present before you the Annual Report of our beloved Company along with the audited financial statements for the year ended 31 December 2018. It has been another successful year with significant achievements. We have been relentlessly trying to become a safer, more agile and customer focused whilst making steady profits. Despite some global and national challenges, we have been able to achieve almost all of our targets in the business areas, alongside delivering improved services and thereby solidifying our position in the country's financial sector. On behalf of the Board of Directors, I would like to express my heartfelt gratitude to you all for your continuous support and guidance to run our beloved institution overcoming all the obstacles and challenges.

At the very outset, I would like to reminisce with great esteem the great architect of our independence, the greatest Bangalee of all times, the Father of the Nation, Bangabandhu Sheikh Mujibur Rahman under whose legendary and visionary leadership, a country named Bangladesh was liberated and emerged in the comity of nations. I also call to mind those brave hearts and martyrs of 1971 whose great sacrifice have given us the convenience to be the citizen of an independent country.

Valued shareholders, before I focus on Company's activities and performances, I would like to give you a glimpse of the world and Bangladesh economy.

Global Economy:

After a robust growth in 2017 global economic growth stumbled a bit in 2018. According to the latest IMF World Economic Outlook (January 2019) global economy grew 3.8 percent and the growth is estimated at 3.7 percent for 2018. Global growth for 2019 is projected to grow at 3.5 percent which is 0.2 percent lower from the October outlook. The downward revision reflected continued trade tension, tighter global financial conditions and higher commodity prices, as well as a weaker outlook for some key emerging market and developing economies arising from country specific factors. Trade tensions between major economies have further intensified in last year, posing a significant threat to the world economy which also may create opportunity for other countries. Instability, violence and conflict in some parts of the world have been severe impediments to economic growth and development progress.

Bangladesh Economy:

In 2018 the national economy witnessed many positive signs; continuity of higher economic growth with lower rate of inflation; robust credit growth; export sector turned back; foreign remittance increased; forex reserve at a good stand and above all country's GDP grew 7.86% in FY2017-2018 surpassing the estimated level. The per capita income has reached to USD1751 in FY2017-2018 and investment to GDP ratio increased at 31.23 percent. Aided by moderating food inflation from lower rice prices, headline CPI inflation (point to point) declined to 5.35 percent in December 2018. Consequently, 12 month average inflation edged down to 5.54 percent in December 2018. The national savings against GDP was 27.40% in the reported year. Despite excellent GDP growth, there remain some gap in generating productive employment, making growth inclusive and developing human capital towards achieving Sustainable Development Goals(SDG). In the outgoing year, Bangladesh managed to move one point up in the "Doing Business" index in 2018 from the 177th to 176th.

We know that a sound financial sector is the key to sustainable economic development for any country as it facilitates the financial mechanism between borrowers and lenders, helps expedite capital accumulation, and makes use of resources in productive sectors. In Bangladesh, the contribution of the financial sector has increased over years. However, the year 2018 was not an easy year for the NBFi industry in Bangladesh. A few of the companies are experiencing severe doldrums in their operations whereas few other are suffering from liquidity crises.

Agrani SME Financing Company Limited : A Journey towards excellence

Distinguished shareholders, During the year 2018, Agrani SME Financing Company Limited continued better performance. The Company made revenue of BDT 214.87 millions, achieved Profit after Tax of BDT 45.35 million, recorded an EPS of Tk. 3.63 compared to that of 1.73 in the previous year. With more effective processes, stringent procedures, capable people, Agrani SME Financing Company Limited was able to have better financial footing in a more sustainable manner.

The most fundamental driver of our business is our sense of supporting the spirit of entrepreneurship among our talented countrymen in niche section of the economy. Providing timely and judiciously-priced capital, offering advice on economic and market trends and maintaining strong communication channels with them ensures that we remain the preferred financial gateway in the operational areas. Moreover, in addition to loan disbursement, our Company provides comprehensive sets of advisory and capacity building services.

In addition to performing the backward linkage function for graduating the entrepreneurs through providing smaller loans comparing with the loans that are being provided by the holding company i.e. Agrani Bank Limited, strengthening financial inclusion remained one of the core objectives of Agrani SME Financing Company Limited. The company always tries to bring the unbanked group of people into mainstream financial sectors' to involve them towards socio-economic development. The worth of investing on individual or any business with more authority and control over its path is a vitally important process that helps to explore every day as a life transformation. I believe that our capital has humbly helped in the improvement of businesses and the quality of life of the entrepreneurs.

The activities of the Company are currently being operated in total 53 (out of that Moulovi Bazar Branch of the company has started its operation as on 22.02.2019 and Sylhet and Shayestaganj Branches as on 07.08.2019) branches including a Principal branch situated at the premises of the head office of the Company.

With your support, our company attaches utmost priority in investing into sectors that concerns peoples' basic needs, social welfare, poverty alleviation, and overall socio-economic development of the country. With this end in view during the year under review, we have raised our loans and advances outstanding to 158.90 crore from 107.93 crore. However, you will agree that an NBFIs with this less or meager loans and advance outstanding will not be viable or will not sustain in future. Thus for the year 2019, we have placed a firm target of increasing our total loans and advances to Tk. 320 crore. In addition, we have also set a target of recovering 100% of our classified and written-off loans.

As your company continues to grow, we are firmly focused on adhering to the regulatory compliance. The annual financial statements are prepared following regulatory ambits, i.e. we have started accrual basis of accounting system instead of cash basis of accounting system maintained long since SEDP project period. We have already completed automation of our loan monitoring system. CIB software is in place. We are also trying to maintain good corporate governance with limited human resources, trying to put sound internal control system and risk management framework in place, promoting ethical practices and complying with laws and regulations. We maintain highest standard of transparency and provide public disclosures to keep our stakeholders informed of our activities.

I must mention that all along the way, we have kept a strict eye and a judicious control on the quality of our credit portfolio. Having maintained close contact with customers and effective monitoring of the investment portfolio, the company has been able to keep the non-performing investment lower than the industry average. Though our NPL levels were pressured (6.70 crore NPL in 2018 against 5.70 in 2017), this was largely on account of our exposure to some accounts turning bad largely in the investment made during the SEDP project period where development goal was the prime priority rather than profit making objective. We have initiated all legal and regulatory processes to recover our funds. We put our best efforts in bringing down the NPL by engaging our entire human resources throughout the year which will continue in the coming days too.

The Company has always endeavored to implement and maintain high standard of Corporate Governance norms and has been practicing the principles of good to corporate governance. Strong supervising role of Bangladesh Bank (BB) over the Company were continued in the year 2018.

As an enterprise that is focused on long term sustainability, we would constantly adjust our sails according to wind speeds. To grow sustainably and profitably, we will continue our focus on further strengthening our capital position and financing the emerging business sectors as well as continue our support to the unbanked and under privileged along with missing middle people to the targeted areas of the Company.

I would like to express our deep appreciation to our august Board for their support and unstinted cooperation and judicious guidance for consistent growth and development of the company. I would like to thank our external Auditors for carrying out the audit professionally and advising us for compliance as per IFRS and BFRS and with accounting principles. I would like to thank all our Management and staff, for their dedication and contribution to the success of this Financial Institution. We believe that so far progress we have made in the recent years attest to the fact that we have equipped our people to anticipate and embrace constant change. We also thank our shareholders, customers, Bangladesh Bank, Bank and Financial Institutions Division, Ministry of Finance, GOB, Regulatory authorities, Parent Bank and other stakeholders for their continuing support in fostering growth and development of the Company and shall strive to scale new heights of excellence.

Mohammad Shams-Ul Islam
Chairman
The Board of Directors



Managing Director & CEO's Message

Agrani SME Financing Company Limited, a Nonbank Financial Institution (NBFI) owned by Agrani Bank Limited (ABL), started its journey on being incorporated as a Public Limited Company on 27 October 2010. The Company has taken over the ongoing activities of Small Enterprise Development Project (A Norway and ABL funded Project of Ministry of Finance, GOB) on a going concern basis through a Vendor's Agreement signed between the Ministry of Finance of the People's Republic of Bangladesh and the Board of Directors of both ABL and Agrani SME Financing Company Limited on 27 December 2011. The effective date of handing over the operation of Small Enterprise Development Project (SEDP) to this Company was 31 December 2011.

Bangladesh is an emerging economy. Small & Medium Enterprises are the main engine of growth for a developing country like Bangladesh. Indeed, Small & Medium Enterprise (SME) plays an important role in our economy in terms of balanced and sustainable growth, employment generation and contribution to GDP. The Company strongly believes that SME sector is one of the main driving forces of economic growth having huge potentialities of socio-economic development. The Company is giving all out efforts with some strategic outline map to increase the SME portfolio to a remarkable extent in the coming days.

In fact, NBFIs play a significant role through providing multiple services in our financial system thus contributing to economic growth and poverty reduction. The Company is one of the 34 NBFIs of the country rendering financial services to the existing and potential entrepreneurs. The prime goal of the Company is to develop entrepreneurship in small and medium scale labor intensive enterprises. The Company's lending policy is to support for the creation of employment opportunities as well as increasing income for the missing middle eligible entrepreneurs with particular emphasis to women entrepreneurs in the rural, urban and semi-urban areas.

The activities of the Company are currently being operated in 53 branches (3 new branches have started operation in 2019) in different districts of the country including a Principal Branch situated at the premises of the Head Office of the Company in Dilkusha, C/A, Dhaka-1000.

As of December 31, 2018 the number of existing borrowers of the Company are 11,457. In the year 2018, the Company has disbursed loan to 4,923 borrowers. Among those, the number of female borrowers/entrepreneurs are 1,061 which constitute nearly 21.55% of total disbursement portfolio of 2018. With a disbursement of Tk. 134.09 crore to 4,923 entrepreneurs, the Company has created employment of approximately 10,000 people during the year. We hope the opportunity of employment generation will grow more in future. During this period the Company recovered Tk. 83.08 crore including interest of Tk. 18.88 crore.

The Company experienced its eighth year of operation in 2018 with an uprising expansion of Loans and Advances by Tk. 50,96,74,117, Operating Profit by Tk. 4,30,86,331 and Net Profit by Tk. 2,36,73,929. The Loans and Advances increased to Tk. 158,89,92,597, Operating Profit to Tk. 8,91,71,633 and Net Profit to Tk. 4,53,45,374 which were Tk.107,93,18,480, Tk. 4,60,85,302 and Tk. 2,16,71,445 respectively in 2017. The Earning Per Share (EPS) increased to Tk. 3.63 which was Tk. 1.73 in 2017. During the year Operating Income increased by 28.31% while Operating Expenses increased by 1.57% which eventually contributed to earn augmented amount of Operating Profit.

We are happy to mention that during the year Loans and Advances increased by 47.22%, Operating Profit by 93.49% and Net Profit by 109.24%. As on December 31, 2018 the available Capital of the Company is Tk. 129,27,34,191 as against Tk. 124,73,88,87 of the previous year which projects a robust financial footing. The amount of classified loan is Tk. 6.70 crore against total outstanding loan of Tk. 158.90 crore. Enthusiastically the percentage of classified Loans and Advances is 4.21% which was 5.28% in 2017.

For the year 2019, we have set an ambitious business target of increasing Loans and Advances to Tk. 320.00 crore from 158.90 crore and Net Profit to Tk. 6.86 crore as against Tk. 4.53 crore of 2018. Besides, 100% recovery of Classified and Write-Off Loans is also set with high esteem.

As a newly established financial institution, we feel and realize that we have to travel a long way with an objective to develop our Company as a model as well as a leading SME service offering institution of the Country. To achieve this objective, we must have strong capital position and handsome size of quality portfolio. Accumulating of all these, we are hopeful that this Company will be going ahead and stand on a stronger base in the days to come.

We believe, 2019 would be a stepping stone for us towards transforming into a well managed, highly professional and customer-oriented Company for becoming the top SME financing company of the country within a very short span of time. In the upcoming year with prudent guidance and leadership of the honorable Chairman of the Board, with the best wishes from respected Members of the Board and sincere efforts put in by our beloved Colleagues, we are confident to progress further in all aspects. We are optimistic of achieving sustainable business growth with the whole hearted participation of our dedicated, capable and dynamic work force by applying stronger risk management skills. Above all, we will conduct every step of business within legal and ethical frame work determined by our regulators from time to time.

Finally, I would like to take the pleasure to convey my sincere gratitude to our Honorable Chairman and Members of the Board of Directors of our Company, Bangladesh Bank, as well as the Management of Agrani Bank Limited for their valuable direction and counsel. We sincerely express our special gratitude to the members of Agrani Bank Limited for their unwavering multidimensional support and co-operation in smooth running of the Company. Last but not the least, we are grateful for the generous support and trust of our customers, patrons and vendors in achieving our auspicious results.

Md. Nurul Haque
Managing Director and CEO

Directors' Report to the Shareholders

Bismillahir Rahmanir Rahim

Respected Shareholders
Assalamu Alaikum

On behalf of the Board of Directors, I am indeed delighted to present before you the audited Financial Statements and Annual Report 2018 of Agrani SME Financing Company Limited. The report evaluates and analyzes Company's overall operational performance of 2018 compared to that of 2017. I would request you to read the information and analysis in connection with the audited financial statements presented herewith. The report presents a concise scenario on the overall performance of the Company in perspective of global economy and Bangladesh economy.

Global Economy:

After a robust growth in 2017 global economic growth stumbled a bit in 2018. According to the latest IMF World Economic Outlook (January 2019) global economy grew 3.8 percent and the growth is estimated at 3.7 percent for 2018. Global growth for 2019 is projected to grow at 3.5 percent which is 0.2 percent lower from the October outlook. The downward revision reflected continued trade tension, tighter global financial conditions and higher commodity prices, as well as a weaker outlook for some key emerging market and developing economies arising from country specific factors. Trade tensions between major economies have further intensified in last year, posing a significant threat to the world economy which also may create opportunity for other countries. Instability, violence and conflict in some parts of the world have been severe impediments to economic growth and development progress.

Bangladesh Economy:

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We know that a sound financial sector is the key to sustainable economic development for any country as it facilitates the financial mechanism between borrowers and lenders, helps expedite capital accumulation, and makes use of resources in productive sectors. In Bangladesh, the contribution of the financial sector has increased over years. However, the year 2018 was not an easy year for the NBF industry in Bangladesh. A few of the companies are experiencing severe doldrums in their operations whereas few other are suffering from liquidity crises.

Export - Import Sector

Country's export earnings stood at US\$ 36,668 million in FY2017-18, which is 5.81 percent higher than the export earnings (US\$ 34,656 million) of FY2016-17. During the year under report, export earnings increase due mainly to increases of export of agricultural product, ceramic products, handicraft and cotton products, knitwear, home textile, jute goods, chemical products, woven garments etc. Data on category-wise exports earnings in FY2017-18 shows that export earnings from agricultural product and ceramic products have increased by 38.55 percent and 32.70 percent respectively over the last fiscal year, followed by handicraft products (15.26%), cotton and cotton products (14.03%), knitwear (10.40%), home textile (9.95%), jute goods (9.48%), chemical products (7.66%), woven garments (7.18%), specialised textile (3.67%) and footwear (1.33%). On the other hand, export earnings decreased mainly in terms of petroleum by product (86.18%), engineering products (48.32%), tea (38.03%), plastic product (15.79%), leather and leather goods (12.03%), raw jute (7.24%) and frozen food (3.42%).

Country's total import payments stood at US\$58,865 million in FY2017-18, which is 25.23 percent higher than the import payments of US\$47,005 million of the preceding year. In terms of value of total imported commodities, China secured the first position for our import in FY2017-18. During this period 27.07 percent of the total imported commodities came from China. India was the second largest source of import (15.19%) while Japan held the third position (4.11%).

Expatriate Employment & Remittances

Bangladesh is one of the largest remittance recipient countries through the export of its labor forces mainly to the Middle East and the Southeast Asian countries. Bangladesh is considered as one of the major labor exporting country of the world. Remittances contributed 61% of the recent foreign exchange reserve buildup. Overseas employment itself represents over one-fifth of the annual addition to the country's total labor force and over half of additional manufacturing jobs created in recent years.

A significant portion of domestic labor force is employed in the Middle-East and many other countries of the world. In spite of decreasing the migration rate, Bangladesh has earned huge amount of remittances in FY2017-18. About 8.8 lakh Bangladeshi employees went abroad in quest of jobs in FY2017-18, which was 2.8 percent lower than the previous year. Bangladesh achieved remittances of US\$14,981.69 million in the FY2017-18 which was 17.32 percent higher than US\$12,769.5 million in the FY2016-17.

The Government continues to take various initiatives to expedite the overseas employment for export of manpower. The remarkable steps of those are - continuous diplomatic efforts for exploring new labor markets, reinforcement of the activities of the 'Probashi Kalyan Bank' for necessary financial incentives and extending efforts to build up skilled manpower in compatible with international labor market standard etc.

Financial Inclusion

Under the financial inclusion program, the government has been delivering the regulated financial services at affordable costs to the sections of underprivileged and low income segments of society. In order to develop sustainable economic structure, opportunity has been given to open a bank account only at Tk. 10 and also by offering various services with free of cost who are excluded from the regulated financial services such as laborers and farmers.

Short and Medium Term Prospects of the Economy

Achievement of targeted growth of the GDP set in MTMF depends on the implementation of the development activities of some sectors. Creating efficient manpower by giving emphasis to education, health, information and communication sectors and well-structured development of the infrastructure of electricity, communication and other sectors will play a vital role in this matter. Besides these, up keeping the growth of agriculture sector by providing goal oriented subsidies, various necessary steps for expected remittance inflow and comprehensive domestic demand and keeping continuous growth of the service sector will help to achieve medium term goals. Moreover, satisfactory implementation of the annual development program, discouraging the loan flow into unproductive sectors and different steps for the confirmation of priority based financing will contribute to achieve the targets by the time. Besides, the boost up of government-nongovernment investment, several reformations of revenue, financial and monetary sectors and creating favorable environment for investment will help to achieve the growth according to the targets of medium term plan. Prudential economic management, skilled and efficient use of monetary policy, proper expenditure management and already taken reformation steps will help to build a strong economic base in which all the indicators of macro economy will be achieved and economic stability will prevail.

Digital Bangladesh

Its true meaning lies in proper application of technology to implement the commitments of the government regarding education, health, employment and poverty alleviation. The main purpose of this idea is to improve the standards of living of the people by empowering them, ensuring transparency and accountability in all spheres of life, establishing good-governance and above all, bringing public services to their doorsteps through the most effective use of technology. In short, Digital Bangladesh is - a happy prosperous and enlightened Bangladesh, which is free from hunger, poverty, inequality and corruption and belongs completely to its people and is driven forward by digital technology.

Perspective Plan 2010-2021

The Government keeping in view the Golden Jubilee of Independence has formulated "Bangladesh Perspective Planning 2010-2021~ in the light of Vision-2021 to attain a definite set of objectives that relate to economic and social development of Bangladesh. The plan reflects the hopes and aspirations of common people which have been given the top priority and incorporates the development philosophy of the government, its long-term vision and strategic goals of desired development. The fundamental objective of this long term plan is to alleviate poverty by achieving higher growth and to turn Bangladesh into a middle income country where poverty will be brought to the minimum and regional disparity in the sphere of economic development will be reduced significantly.

The plan contains necessary strategies to overcome the challenges in terms of turning the country into a medium income economy. The major goals of this vision are: to accelerate the growth up to 10 percent by 2021, to raise per capita income up to \$ 2000, to reduce the number of population living under poverty line to 13.50 percent, to reduce unemployment rate into 15 percent, to increase annual per head electricity consumption to 600 Kilowatt hour and to strengthen IT sector for building a digital Bangladesh.

Non-Banking Financial Institutions (NBFI) in 2018

The NBFI sector in Bangladesh consists of development financial institutions, leasing companies, investment companies etc. Bangladesh's NBFI sector, which accounts for about 7% of the total assets of the banking sector, is passing through a critical phase. By all objective measures, this sector has made rapid strides in recent years and led the way forward in delivering innovation and outstanding value to stakeholders. Moreover, it plays a critical part in filling the many gaps left by the banking sector. The performance of the NBFIs has been particularly impressive in areas that are national priorities, like infrastructure finance, SME finance, housing finance, micro finance and financial inclusion. Small and medium size enterprises are the backbone of Asia's economies and they need better access to finance to grow and generate badly needed new jobs for the region. With the growing importance assigned to financial inclusion, NBFIs have come to be regarded as important financial intermediaries particularly for the small-scale and retail sectors. In line with the central bank's policy directives, loans to agriculture and SMEs are being prioritized considering their role in contributing to inclusive economic growth and job creation.

With total assets equivalent to less than 4 percent of GDP in 2018, the role of nonbanking financial institutions (NBFIs) has been growing. NBFIs are increasingly coming forward to provide credit facilities for meeting the diversified demand for investment fund in the country's expanding economy.

Overall Performance

We are pleased to report that Agrani SME Financing Company Limited made revenue of BDT 214.87 million, achieved profit after Tax of BDT 45.35 million and recorded an EPS 3.63 of compared to 1.73 in the previous year. Interest income on loans and advances has increased significantly as well as controllable expenses has been reduced in the year 2018 which resulted better EPS compared to that of the previous year. Company's total assets remained at a better position with a growth of 29.63%. Operating results of during 2018 are summarized below:

Particulars	2018 (BDT in millions)	2017 (BDT in millions)	2016 (BDT in millions)	2015 (BDT in millions)	2014 (BDT in millions)
Operating Income	214.87	158.43	135.66	161.18	153.78
Operating Expenses	137.70	112.34	105.37	70.27	62.35
Total Operating Profit	77.17	37.58	20.29	72.73	91.62
Provision for income tax	31.83	15.91	10.61	36.16	31.39
Net Profit after income tax	45.35	21.67	9.69	36.56	60.22
Earnings Per Share (Taka)	3.63	1.73	0.77	2.93	4.82

Loans and Advances

Total loans and advances were Tk. 1588.99 millions at 31 December 2018 representing more than 47.22% higher than 2017 worth Tk. 509.67 millions. Movement of loans and advances were as under:

Particulars	2018 (Taka in Millions)	2017 (Taka in Millions)	2016 (Taka in Millions)	2015 (Taka in Millions)	2014 (Taka in Millions)
Opening balance	1079.32	787.86	604.46	474.87	437.13
Disbursement during the year	1340.90	733.08	536.12	375.03	244.80
Recovery during the year	830.82	441.62	338.05	229.68	192.80
Write off during the year	0.41	-	14.69	14.36	39.76
Closing balance at 31 December	1588.99	1079.32	787.86	604.46	474.87

Recovery position of the loans and advances was almost 62.27%. Out of total loans and advances balance, Tk. 66.97 million i.e. 4.21% was classified against which required provisions were kept.

Liquidity Position

Liquid position of the Company was satisfactory. Details of liquidity assets of the Company were as under:

Particulars	2018 (Tk. in millions)	2017 (Tk. in millions)	2016 (Tk. in millions)	2015 (Tk. in millions)	2014 (Tk. in millions)
Short term deposit with other bank and financial institution	71.59	97.12	368.14	135.57	107.53
Fixed deposit with other bank and financial institutions	212.59	284.17	219.17	596.29	716.87
Total:	276.97	367.81	587.31	731.86	824.40

Total liquid asset represents 14.05% of total assets of the Company.

Shareholders' Equity

Total shareholder equity at the end of the year was Tk. 1292.73 million. Shareholders' equity as at 31 December, 2018 is summarized below:

Particulars	2018		2017		2016		2015		2014	
	(Tk. in millions)	%	(Tk. in millions)	%	(Tk. in millions)	%	(Tk. in millions)	%	(Tk. in millions)	%
Share Capital	1000.00	77.36	1000.00	80.17	1000.00	81.59	1000.00	82.23	1000.00	84.79
Statutory Reserve	48.05	3.72	38.97	3.12	34.64	2.83	32.71	2.69	25.39	2.15
General Reserve	54.73	4.23	54.73	4.39	54.73	4.47	54.73	4.50	54.73	4.64
Retained Earnings / (Losses)	189.95	14.69	153.67	12.32	136.34	11.12	128.59	10.57	99.21	8.41
Total:	1292.73	100	1247.39	100.00	1225.72	100.00	1216.03	100.00	1179.33	100.00

Material Changes after Balance Sheet Date (31st December 2018)

There have been no material changes and commitments between the end of year 2018 and the date of this report, affecting the financial position of the Company.

Accounting Policies and Maintenance of Books of Accounts

The Directors consider that in preparing the Financial Statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and that all International Accounting Standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) have been followed. In preparing financial statements, information has been obtained from the books of accounts, which have been maintained properly as required by the applicable rules and regulations.

Directors' Responsibilities of Preparation of Financial Statements

The Directors are of the view that the Annual Report and Company's financial statements have been prepared in accordance with applicable laws and regulations and as per requirement of regulatory authorities. The Board confirms that a true and fair view of the state of the affairs of the Company has been ensured while preparing the Financial Statements of the Company.

Observance OF IAS, BAS, BFRS & Applicable Laws

The Directors have the responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable us to ensure that the financial statements comply with the Companies Act, 1994, the Financial Institutions Act, 1993, and the Bangladesh Securities and Exchange Rules, 1987. The Directors also confirm that the financial statements have been prepared in accordance with the Bangladesh Accounting Standards and other applicable rules and regulations.

Fairness of the Accounts

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of Companies Act, 1994. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of their profits for the year ended 31 December, 2018.

Internal Control

Internal control including financial, operational and compliance controls and risk management systems, maintained by Management and that was in place throughout the financial year and up to and as of the date of this report, is adequate to meet the needs of the Company in its current business environment. Management will follow up and review the status of actions on recommendations made by the internal control. The Board reviews regular reports from the management on the key operating statistics, as well as legal and regulatory matters. The Board also approves any changes or amendments to the Company's policies.

Going Concern

The Board of Directors has reviewed the Company's overall business plans, strategies and pleased that the Company has adequate resources to continue its operations in the projected future. Directors feel it is appropriate to adopt going concern assumption and there is no material uncertainty in preparing the Financial Statements.

Risk and Concerns

The Board of Directors is in charge of determining the Company's fundamental attitude toward risk while setting out the risk principles as well as the level of risk exposure. The Board of Directors are responsible for formulating risk policies, determining methods to measure and manage risk, setting commensurate risk limits and monitoring their performance. Fundamental principles of Agrani SME Financing Company Limited's risk management philosophy are:

- Effectively managing and monitoring credit, interest rate, liquidity, market and operational risk and providing for appropriate allocation of capital among the types of risk.
- Managing risk in a forward-looking manner and identifying and analyzing risks from the beginning with the help of steering risk strategies, models and parameters.
- Creating maximum value for the shareholders, depositors and employees in long term
- Being financially reliable and strong and establishing business relations with the stakeholders that will last for many years by creating the image of a financial institution that will stay in business permanently
- Complying with Basel II and other guiding principles of Bangladesh Bank.

Return to Shareholders

The Company has always believed in giving good returns to the shareholders. This is the 8th year with full operation of the Company. So you will agree with me that eight years is not quite less time but considering the main objective and background of the Company in competitive market eight years operation is not sufficient to pay dividend. However, we can safely assure you that in future with the blessings of the Almighty, we shall enter into a higher growth to pay returns to our shareholders.

Contribution to the National Exchequer and the Economy

During the year 2018, the Company contributed a total amount of BDT 22.88 million as Corporate Tax; BDT 1.81 million as TDS in total BDT 24.69 million was paid to the national exchequer. Agrani SME Financing Company Limited always upholds its responsibilities to the development of the society and the country as a whole. We encourage our employees to participate in social and charitable programs.

Our Employee-Our Asset

In 2018, we continued to focus on communicating our vision, mission and strategies to our employees, so as to achieve a real cultural transformation fuelled by our shared values of teamwork, Integrity, Growth, Excellence, Efficiency and Relationship Building. Many initiatives have been launched to nurture talent, to boost efficiency, effectiveness, productivity and innovation, and to inculcate the spirit of service.

All these initiatives are based on the recognition that each of our employees is an important asset with a part to play in our long-term sustainable future. We hire the best people for the job and strive to retain, motivate, empower and reward them for their contribution. In this way, and through our shared, humanizing spirit, I believe our people find meaning in their work and will strive to serve from the heart.

Corporate Governance

The Company has always endeavored to implement and maintain high standards of Corporate Governance norms and has been practicing the principles of good corporate Governance. Corporate Governance principles as practiced by the Company rests upon the foundation of transparency, adequate disclosures, absolute compliance with the laws, fairness, professionalism, accountability and ultimately the target of maximizing the shareholders value besides catering to the interests of the creditors, employees, the environment and the society at large. The Company is committed to conduct its business in a manner, which will ensure sustainable, capital efficient and long- term growth and in order to achieve this the Company has built up a strong foundation for making corporate Governance a way of life by having an independent board with experts of eminence and integrity, forming a core team of top level executives with proper delegation of executive powers, inducting competent professionals across the organization and putting on place best systems, process and technology.

Shareholding Pattern

Shareholding patterns of the Company as at the end of the year 2018 is as under:

Name and address	Status	Date of original appointment	No. of shares held in the Bank
Mohammad Shams-Ul Islam (Representing Agrani Bank Ltd.)	Chairman and Director	06/09/2016	9,999,988
Md Shahdat Hossain, FCA	Director	06/06/2017	2
Ali Hossain Prodhania	Retired Director but the Holding Shares hasn't been transferred	06/06/2017	2
Md. Rafiqul Islam	Director	30/10/2017	2
Md. Yusuf Ali	Director	04/08/2018	2
Md. Khairul Kabir	Director	04/082018	2
Md. Nurul Haque	Managing Director and Chief Executive Officer	13/04/2017	2

Board Meetings and Attendance by the Directors

During the year 2018, a total number of 07 Board Meetings were held and attendance by the Directors is summarized below:

Name and address	Status	Total Meetings Held in 2018	Number of meeting attended	Remuneration paid
Mohammad Shams-Ul Islam (Representing Agrani Bank Ltd.)	Chairman and Director	7	7	56,000/-
Md Shahdat Hossain, FCA	Director	7	6	48,000/-
Ali Hossain Prodhania	Director	1	0	-
Newaz Hossain Chowdhury	Director	6	5	40,000/-
Md. Rafiqul Islam	Director	5	5	40,000/-
Md. Yusuf Ali	Director	5	5	40,000/-
Md. Khairul Kabir	Director	5	5	40,000/-
Md. Nurul Haque	MD & CEO	7	7	No remuneration

Auditors

M/S Hussain Farhad & Company have served as the External Auditors of the Company for year ending 31 December 2018. As per Bangladesh Bank's guidelines they are not eligible for re-appointment and accordingly they have not expressed their willingness to continue as Auditor. The Mahfel Huq & Co, Zoha Zaman Kabir Rashid & Co & Ahmed Zaker & Co. have expressed their willingness to appoint as Auditor. Among them the Mahfel Huq & Co. has been recommended as external Auditor for the year 2019 by the Board of Director of the Company. Bangladesh Bank has also given its consent to appoint the Mahfel Huq & Co. Chartered Accountants as external auditor for the year 2019.

Future Prospects

The continuing pressure of an ever changing global economic and the financial conditions and stronger competition pose strong challenges for the Company in achieving its targets. However, we believe that in the context of present economy of Bangladesh growth of small enterprises is getting pace and we also believe that we will be able to identify the sectors and markets that will command priority in an effort to be more focused which will then eventually be translated into achieving sustainable growth in future.

Our Humble Submission

Everything we are today, everything we stand for, and everything we achieved during the year is a tribute to the commitment of our stakeholders. We are profoundly grateful for the dedication of all our members of staff and the loyalty of our customers, the trust of our partners and associates, and the support of Bangladesh Bank, the Securities and Exchange Commission and the other regulatory authorities that have guided us over the years.

For & on behalf of the Board of Directors

Mohammad Shams-Ul Islam
Chairman

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

A) **Scope of Application**

Qualitative Disclosures:

(a) These guidelines apply to Agrani SME Financing Company Limited.

(b) Agrani SME Financing Company Limited has no subsidiary companies.

(c) Not Applicable

Quantitative Disclosures:

(d) Not Applicable

B) **Capital Structure**

Qualitative Disclosures:

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

Tier 2 Capital includes:

i) General provision up to a limit of 0.5% of Risk Weighted Asset (RWA) of Credit Risk.

Conditions for maintaining regulatory capital:

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

Quantitative Disclosures:

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

Particulars	Amount in Crore Tk.
Paid up capital	100
Non-repayable share premium account	-
Statutory reserve	4.80
General reserve & other reserve	5.47
Retained earning	19.00
Dividend equalization account	-
A) Total amount of Tier 1 Capital	129.27
B) The total amount of Tier 2 capital	0.72
C) Other deductions from capital	-
Total eligible capital	129.99

C) **Capital Adequacy**

Qualitative Disclosures

(a) A summary discussion of AGRANI SME FINANCING COMPANY LIMITED's approach to assessing the adequacy of its capital to support current and future activities.

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

AGRANI SME FINANCING COMPANY LIMITED has applied Standard Approach for computation of Capital

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

Strategy to Achieve the Required Capital Adequacy:

- ✚ Rigorous monitoring of overdue loans to bring those under 30 days overdue
- ✚ Financing clients having good rating as per Company's policy
- ✚ Using benefit of credit risk mitigation by taking eligible collaterals against transactions
- ✚ Raise fresh capital by issuing bonus share/right issue.

Quantitative Disclosures

Particulars	Amount in Crore Tk.
(b) Capital requirement for Credit Risk/Risk Weighted Asset for Credit Risk	134.50
(c) Capital requirement for Market Risk	-
(d) Capital requirement for Operational Risk	8.28
Total Risk Weighted Asset/Gross Income	142.78

Total and Tier 1 capital ratio:

Particulars	Ratio
CAR on Total capital basis (%)	91.05
CAR on Tier 1 capital basis (%)	90.54

D) Credit Risk

Credit Risk is the possibility that a borrower or counter party will fail to meet agreed obligations thus managing Credit Risk for efficient management of a financial institution (FI) has become the most crucial task. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization and consolidation, it is essential that FIs have robust Credit Risk management policies and procedures those are sensitive and responsive to these changes. At Agrani SME Financing Company Limited, Credit Risk may arise in the following forms:

- Default risk
- Exposure risk
- Recovery risk
- Counter party risk
- Related party risk
- Legal risk

Qualitative Disclosures

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

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

As per the Bangladesh Bank's Prudential Guideline on Capital Adequacy and Market Discipline for Financial Institutions, the unsecured portion of any claim or exposure (other than claims secured by residential property) that is past due for 90 days or more, net of

specific provisions will be risk weighted as per risk weights of respective balance sheet exposures. For the purpose of defining the net exposure of the past due loan, eligible financial collateral (if any) may be considered for Credit Risk Mitigation.

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

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

Discussion on FI's credit risk management policy:

Major Risk that Agrani SME Financing Company Limited identifies detrimental to its return and market reputation is as follows:

Implementation of various strategies to minimize risk:

Here is an overview of some of the crucial steps carried out by Agrani SME Financing Company Limited to ensure successful risk management program:

- Integrating risk management policies into the Company's top priority;
- Maintaining those values via actions;
- Performing risk analysis;
- Implementation of various strategies to minimize it;

- Building of screening systems to encourage early warnings related to prospective risk;
- Periodic analysis of the management program;

To encounter and mitigate credit risk, the following control measures are taken place at AGRANI SME FINANCING COMPANY LIMITED:

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

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

Approved Credit Policy by the Board of Directors

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

Separate Credit Administration Department

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

Special Recovery and Collection Team

A strong recovery team monitors the performance of the loans and advances, identifies early sign of delinquencies in portfolio and takes corrective measures to mitigate risks, improve loan quality and to ensure recovery of loans in a timely manner including legal actions.

Independent Internal Compliance Department

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

Credit Evaluation

To mitigate credit risk, AGRANI SME FINANCING COMPANY LIMITED search for credit reports from Credit Information Bureau (CIB) of Bangladesh Bank. The report is scrutinized by Credit

Admin Department and Loan Operation Department to understand the liability condition and repayment behavior of the client. Depending on the reports, opinions are taken from the concerned related parties for better understanding about client's credit worthiness.

Credit Approval Process

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

Early Warning System

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

Methods used to measure Credit Risk

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

E) Market Risk

Market Risk refers to the risk of fluctuation in a variety of markets such as interest rates, prices of securities where the values of assets and liabilities can change and there exists the risk of incurring losses.

F) Operational Risk

Operational Risk is the potential loss arising from a breakdown in Company's systems and procedures, internal control, compliance requirement or corporate governance practices that results in human error, fraud, failure, damage of reputations, delay to perform or compromise of the Company's interests by employees. Operational Risk may also arise from the following:

- ◆ Turnover of trained staff;
- ◆ Risk of insider dealings;
- ◆ Leakage of sensitive information;
- ◆ Shortcomings of organizational structure;
- ◆ Changes in statutory requirements;

Quantitative Disclosures

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

Particular	Amount in Crore Tk.
SME Financing	158.90

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

Particulars	Amount in Crore Taka
Rural	104.02
Urban	54.88
Total	158.90

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

Particulars	Amount in Crore Taka
Agriculture	71.56
Trade & Commerce	74.62
Industry	3.91
Others	8.80
Total	158.90

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

Particulars	Amount in Crore Taka
1 to 30/31 day(One Month)	11.37
Over 1 to 2 Months	11.48
Over 2 Months to 3 Months	11.68
Over 3 Months to 6 Months	23.86
Over 6 Months to 1 Year	39.96
Over 1 Year to 3 Years	51.63
Over 3 Years to 5 Years	8.91
Over 5 Years	-
Total	158.90

(f) By major industry or counter party type:

The amount of classified loans and advances of AGRANI SME FINANCING COMPANY LIMITED are given below as per Bangladesh Bank guidelines.

ii) Specific and general provisions:

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

AGRANI SME FINANCING COMPANY LIMITED.

Particulars	Amount in Crore Taka
Provision on classified loans and advances	3.55
Provision on unclassified loans and advances	0.72
Total	4.27

(g) Gross Non Performing Assets (NPA) = 6.70 Crore in taka

Non Performing Assets (NPAs) to outstanding Loans and Advances =4.21%

Movement of Non-Performing Assets (NPAs)

Particulars	Amount in Crore Taka
Opening Balance	5.70
Additions	4.91
Reductions	3.91
Closing Balance	6.70

Performance gap of executives and staff:

AGRANI SME FINANCING COMPANY LIMITED's recruitment policy is based on retaining and attracting the most suitable people at all levels of the business and this is reflected in our objective approach to recruitment and selection. The approach is based on the requirements of the job (both now and in future), matching the ability and potential of the individual.

Qualification, skills and competency form our basis for nurturing talent. Favorable job responsibilities are increasingly attracting greater participation from different level of employees in the AGRANI SME FINANCING COMPANY LIMITED family. We aim to foster a sense of pride in working for AGRANI SME FINANCING COMPANY LIMITED and to be the employer of choice. As such there exists no performance gap in AGRANI SME FINANCING COMPANY LIMITED.

Potential external events

No such potential external event exists to raise operational risk of AGRANI SME FINANCING COMPANY LIMITED at the time of reporting.

Policies and Procedure for mitigating operational risk

AGRANI SME FINANCING COMPANY LIMITED has established a strong Internal Control Department to address operational risk and to frame and implement policies to deter such risks. Internal Control Department assesses operational risk across the company and ensures that appropriate framework exists to identify access and manage operational risk.

Approach to calculating capital charge for operational risk:

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

Valued Added Statement

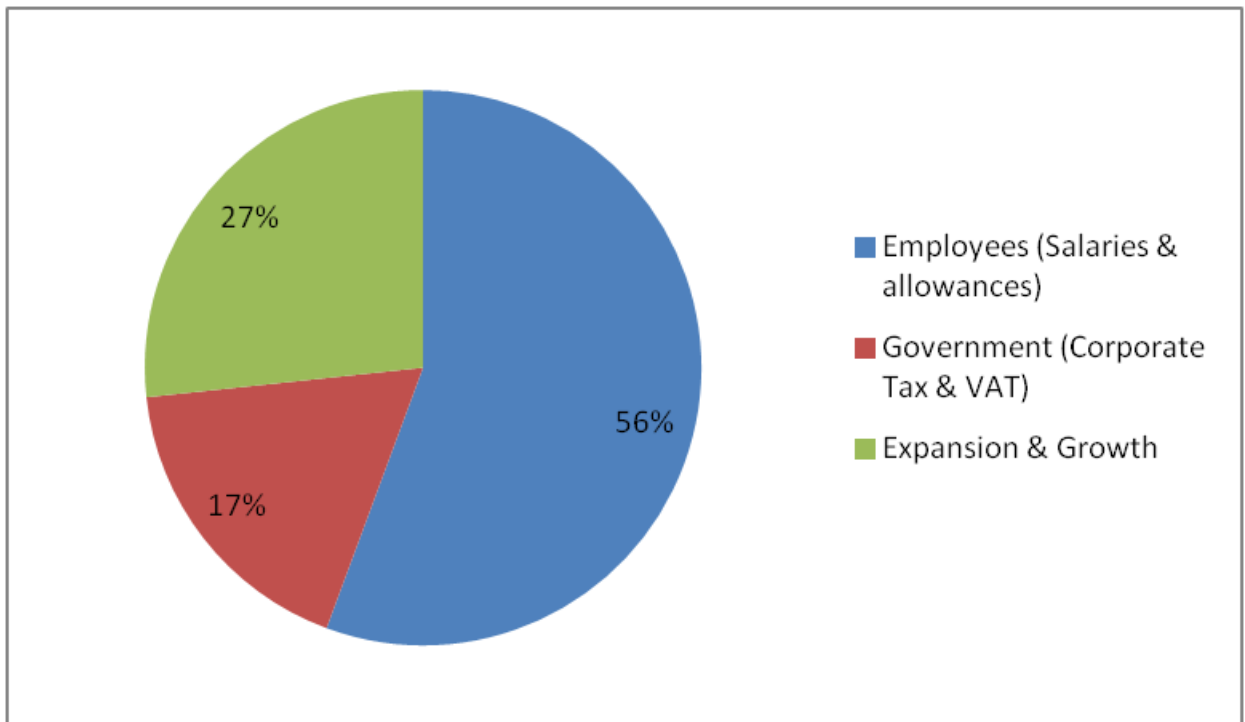
This value added statement provides a detailed account of total addition and the distribution of the value created by Agrani SME Financing Company Limited. The Company contributes positively to national socio-economic development by empowering employees through the payment of salaries and allowances; by assisting the regulatory capacities through paying taxes and of course keeping in mind Company's continuous expansion and growth.

Particulars	2018		2017		2016		2015		2014	
	Amount (Taka in million)	%	Amount (Taka in million)	%	Amount (Taka in million)	%	Amount (Taka in million)	%	Amount (Taka in million)	%
Net interest Income	198.64	106.37	155.26	108.93	133.80	116.52	158.44	133.43	153.78	113
Other Income	4.64	2.49	3.17	2.22	1.86	1.62	2.75	2.32	0.19	0.14
Management expenses	(16.55)	(8.86)	(15.90)	(11.15)	(20.83)	(18.14)	(42.45)	(35.75)	(17.49)	(12.82)
Total Value Added by the Company	186.74	100.00	142.54	100.00	114.83	100.00	118.74	100.00	136.48	100.00

Value Added Contributed to

Particulars	2018		2017		2016		2015		2014	
	Amount (Taka in million)	%	Amount (Taka in million)	%	Amount (Taka in million)	%	Amount (Taka in million)	%	Amount (Taka in million)	%
Employees: Salaries & Allowances	103.94	55.66	98.94	69.42	88.94	77.45%	41.73	35%	42.89	31.42%
Government: Corporate Tax Value Added Tax (VAT)	32.95	17.64	17.02	11.94	11.02	9.60%	36.16	30%	31.39	23%
To Expansion and Growth: Retained Income Depreciation	45.35 4.51	24.28 2.41	21.67 4.90	15.20 3.44	9.69 5.18	8.44% 4.51%	36.57 4.28	31% 4%	60.23 1.96	44.14% 1.44%
Total Distribution	186.74	100.00	142.54	100	114.83	100%	118.74	100%	136.48	100%

Graphical Presentation of Value Added Contribution



Risk Management

Risk is the element of uncertainty or possibility of loss that prevail in any business transaction in any place, in any mode and at any time. Risk is an integral part of financing business. Risk management entails the adoption of several measures to strengthen the ability of an organization to cope with the vagaries of the complex business environment in which it operates.

As a financial institution, Agrani SME Financing Company Limited is committed to ensuring that effective risk management policies and practices are incorporated as fundamental aspects of all its business operations. The Credit Risk Management process (CRM) of the Company has a comprehensive risk management in place, addressing areas such as Market Risk, Credit Risk and Operational Risk. This policy seeks to minimize the risk generated by the activities of the Company. Risk grading is assigned at the inception of lending considering the industry, business, financial and management risk associated with the financing. The Company has different activities for risk management and appropriate internal control measures are also in place to mitigate risk.

Major Risk at Agrani SME Financing Company Limited

Major Risk that Agrani SME Financing Company Limited identifies detrimental to its return and market reputation is as follows:

Credit Risk

Credit Risk is the possibility that a borrower or counter party will fail to meet agreed obligations thus managing Credit Risk for efficient management of a financial institution (FI) has become the most crucial task. Given the fast changing, dynamic global economy and the increasing pressure of globalization, liberalization and consolidation, it is essential that FIs have robust Credit Risk management policies and procedures those are sensitive and responsive to these changes. At Agrani SME Financing Company Limited, Credit Risk may arise in the following forms:

- Default risk
- Exposure risk
- Recovery risk
- Counter party risk
- Related party risk
- Legal risk

Market Risk

Market Risk refers to the risk of fluctuation in a variety markets such as interest rates, prices of securities where the values of assets and liabilities can change and there exists the risk of incurring losses.

Liquidity Risk

Liquidity Risk arises when a Company is unable to meet the short term obligation to its lenders and stakeholders. This arises from the adverse mismatch of maturities of assets and liabilities.

Operational Risk

Operational Risk is the potential loss arising from a breakdown in Company's systems and procedures, internal control, compliance requirement or corporate governance practices that results in human error, fraud, failure, damage of reputations, delay to perform or compromise of the Company's interests by employees. Operational Risk may also arise from the following:

- Turnover of trained staff;
- Risk of insider dealings;
- Leakage of sensitive information;
- Shortcomings of organizational structure;
- Changes in statutory requirements;

Counter Party Risk

It comes from non-performance of a trading partner. The non-performance may arise from counterparty's refusal to perform due to an adverse price movement caused by systematic factors, or legal constraint that was not anticipated by the principals. Diversification is the major tool for controlling non systematic Counter Party Risk. Counterparty risk is like Credit Risk, but it is generally considered a transient financial risk associated with trading, rather than a standard creditor default risk associated with an investment portfolio. A Counterparty's failure to settle a trade can arise from many factors other than a credit problem.

Enterprise Risk

Risks faced by the enterprises in accomplishing its goal fall in this category. If goal of the Company is not compatible with the reality, then the Company might be entangled by a bad patch. And because of this Company's mission may become questionable.

Project Risk

This is about particular risks associated with the undertaking of a project. If projects undertaken by the Company is not compatible with it and not feasible because of existing market scenario, the Company may run the risk of encumbered by loss projects.

Integrated Risk

Integrated Risk management refers to integrating risk data into the strategic decision making of the Company and taking decisions, which take into account the set risk tolerance degrees of a department. In other words, it is the supervision of market, credit and liquidity risk at the same time or on a simultaneous basis.

Technology Risk

It is the process of managing the risks associated with implementation of new technology. If a new technology is not compatible with business function of the Company, the Company may suffer in the long run. A non-compatible technology not only brings difficulty in all sorts of operations of the Company but also the risk of wasting money choosing the wrong one.

Risk Management Steps at Agrani SME Financing Company Limited

Here is an overview of some of the crucial steps carried out by Agrani SME Financing Company Limited to ensure successful risk management program:

- Integrating risk management policies into the Company's top priority;
- Maintaining those values via actions;
- Performing risk analysis;
- Implementation of various strategies to minimize it;
- Building of screening systems to encourage early warnings related to prospective risk;
- Periodic analysis of the management program;

Performing Risk Analysis

The persons involved for Credit Evaluation review the market and Credit Risk related to lending and recommend and implement appropriate measures to counter associated risks. Credit Risk Management (CRM) process is in place, at Agrani SME Financing Company Limited, to scrutinize projects from a risk-weighted point of view and assist the management in creating a high quality credit portfolio and maximize returns from risk assets. Persons involved in CRM regularly reviews market situation and exposure of the Company in various SMEs and industrial sectors.

To mitigate Credit Risk, Agrani SME Financing Company Limited searches for credit report from the Credit Information Bureau (CIB) of Bangladesh Bank. The report is scrutinized by concerned personnel to understand the liability condition and repayment behavior of the client. Depending on the report, bankers' opinions are taken from client's banks. Suppliers' and buyers' opinion are taken to understand the market position and reputation of our proposed customers.

Appropriate internal control measures are in place at Agrani SME Financing Company Limited, to address operational risks. The Company has established Internal Control and Compliances Department (ICC) to address operational risk. The Company regularly assesses the prevailing market risk, analyzes the changes in interest rate, market conditions, carries out asset liability maturity gap analysis, re-pricing of products and thereby takes effective measures to monitor and control interest rate risk. To encounter liquidity risk, the Company also oversees the asset liability maturity position, recommends and implements appropriate measures.

Credit Risk Management Process at Agrani SME Financing Company Limited in a nut-shell

The top management outlines the overall Credit Risk strategies by indicating the institution's willingness to grant credit to different sectors, geographical location, maturity, and profitability. In doing so, it recognizes the goals of credit quality, earnings, growth, and the risk-reward tradeoff for its activities. The credit risk strategy is then communicated throughout the institution. The senior management of the Company is responsible to implement the Credit Risk strategy approved by the Board. This includes developing written procedures that reflect the overall strategy and ensuring its implementation. The procedures include policies to identify, measure, monitor, and control credit risk. Attention is given to diversification of portfolio by setting exposure limits on single counterparty, groups of connected counterparties, industries, economic sectors, geographical regions, and individual products. A proper credit administration of the Company includes efficient and effective operations related to monitoring documents, legal covenants, collateral etc., accurate and timely reporting to management, and compliance with management policies and procedures and applicable rules and regulations.

The Company operates under sound, well-defined credit-granting criteria to enable a comprehensive assessment of the true risk of the borrower or counterparty to minimize the adverse selection problem. The Company seeks information on many factors regarding the counterparty to which it wants to grant credit. These include among others, the purpose of the credit and the source of repayment, borrower's repayment history and current capacity to repay, enforceability of the collateral or guarantees, etc. The Company has a clear and formal evaluation and approval process for new credits and extension of existing credits. Each credit proposal is subject to careful analysis by a credit analyst so that information can be generated for internal evaluation and rating. This is used for appropriate judgments about the acceptability of the credit. Granting credit involves accepting risks as well as producing profits.

Credit is priced in such a way so that it appropriately reflects the inherent risks of the counterparty and the embedded costs. In considering the potential credit, The Company establishes provisions for expected loss and holds adequate capital to absorb the unexpected losses. The Company uses collateral and guarantees to help mitigate risks inherent in individual transactions. Since collateral cannot be a substitute for comprehensive assessment of a borrower and hence strength of the repayment capacity of the borrower is given prime importance. The Company identifies and manages Credit Risk inherent in all of its assets and activities by carefully reviewing the risk characteristics of the asset or activity.

Special care is given particularly when the institution embarks on new activities and assets. In this regard, adequate procedures and controls are taken to identify the new asset or activity. Finally, each and every month, sector wise loan concentration, top 100 borrowers loan concentration, position of loan without collateral and the position of top 20 defaulters are reviewed and required steps are taken.

Interest Rate Risk Management

The overall objectives, strategies and policies of the Company are approved in such a manner so that it governs the interest rate risk of the Company. Other than approving the overall policies of the Company regarding interest rate risk, the top management that the Zonal and Branch management takes the necessary actions to identify, measure, monitor and control these risks.

Persons are engaged to ensure that the Company follows policies and procedures that enable the management of interest rate risk. These include maintaining an interest rate risk management review process, appropriate limits on risk taking, adequate systems of risk measurement, a comprehensive interest rate risk reporting system, and effective internal controls. The Company is able to identify the individuals responsible for interest rate risk management and defines the line of authority and responsibility. Pertinent to mention that at present, the Company has been running its credit operation entirely using its own capital. No deposit is being taken by the Company till to date. The Company does not have any foreign transaction either therefore; scope of market risk is not remarkable or foreseeable. However, the management of the Company is well aware of the market risk and carries out Asset-Liability maturity gap analysis and thereby taken effective measures to monitor and control the interest rate risk.

Liquidity Risk Management

As a non-banking financial institution, managing liquidity is one of the most important functions of it. The top management makes sure that the Company's priorities and objectives for liquidity management are clear. The essence of liquidity management problem arises from the fact that there is a trade-off between liquidity and profitability and mismatch between demand and supply of liquid assets. The Company now keeps protective reserves on top of planned reserves. While the planned reserves are derived from regulatory requirements and forecasts, the amount of the protective reserve depends on the management's attitude towards liquidity risk. The Company establishes a process of measuring and monitoring net funding requirements by assessing its cash inflows and outflows. It is also important for the Company to assess the future funding needs. The Company has adequate internal controls over its liquidity risk management process that is a part of the overall system of internal control. An effective system has created a strong control environment and has an adequate process of identifying and evaluating liquidity risk. It has adequate information system that produces regular independent reports and evaluations to review adherence to established policies and procedures.

Operational Risk Management

The top management develops the overall policies and strategies for managing operational risk. As operational risk can arise due to failures in people, processes, and technology, management of this risk is more complex. Senior management has established the desired standards of risk management and clear guidelines for practices that would reduce operational risks. In doing so, care is taken to include people, process, and technology risks that can arise in the institution. Given the different sources in which operational risk can arise, common standard for identification and management of these has been developed. Care is always given to tackle operational risk arising in different departments and organizational unit due to people, process, and technology. As such, a wide variety of guidelines and rules have been spelled out. Given the complexity of operational risk, it is difficult to quantify it. Most of the operational risk measurement techniques are simple and experimental. The Company, however, gathers information of different risks from reports and plant that are published within the institution (like audit reports, management reports, business plans, operational plans etc.). A careful review of these documents reveals gaps that can represent potential risks. The data from the reports are then be categorized into internal and external factors and converted into likelihood of potential loss to the institution. Apart from these, to reduce the operational risk following operational systems are followed on regular basis:

- At the end of day's transaction each Branch and Head office reconciles the physical cash balance with the record to save the organization from unwanted cash shortage situation.
- Till to date no sorts of internal fraud, external fraud and lending fraud was identified.
- No such risks with regard to damage to physical assets, Documentation lapse and Business disruption and System failure are faced by the organization till to date.
- Loans are not covered by insurance. Although there exists some risk proposition in this regard because of being all the loans are small in category, the risk proposition, however, is minimum.

Statement on Corporate Governance

Corporate governance is the system by which companies are directed and controlled by the management in the best interest of all the stakeholders, thereby ensuring greater transparency and better as well as timely financial reporting.

The Board of Directors is responsible for proper governance which includes setting out Company's strategic aims, providing the necessary leadership to implement such aims, supervising the management of the business and reporting to the shareholders on their stewardships.

Agrani SME Financing Company Limited is committed to continually reviewing all corporate governance policies and practices to ensure the ongoing transparency of the Company's practices and the delivery of high standard quality information to stakeholders.

The maintenance of effective corporate governance remains a key priority of the Board of the Company. To exercise clarity about director's responsibilities towards the shareholders, corporate governance must be dynamic and remain focused on the business objectives of the Company and create a culture of openness and accountability. Keeping this in mind, clear structure and accountabilities supported by well understood policies and procedures to guide the activities of the Company's management have been instituted.

Agrani SME Financing Company Limited considers that its corporate governance practices comply with all the aspects of Bangladesh Bank's DFIM Circular No. 7 dated September 25, 2007 and DFIM Circular No. 9 dated October 10, 2007. In addition, to establishing high standards of corporate governance, the Company also considers best governance practices in its activities. The independent role of Board of Director's, separate and independent role of Chairman and Chief Executive Officer, distinct role of the Company Secretary and different Board Committees allows the Company to achieve excellence in best corporate governance practices.

Board of Directors

Composition

In the best interest of the Board of the Company it considers that its membership should comprise of directors with an appropriate mix of skills, experience and personal attributes that allow the directors, individually and the Board, collectively, to discharge their responsibilities and duties, under the law, efficiently and effectively, understand the business of the Company and assess the performance of the management. The composition of the Board embraces diversity. The directors have a range of versatile experience and expertise, and specialized skills to assist with decision making and leading the Company for the benefit of shareholders.

The Board of Agrani SME Financing Company Limited comprises of nine directors who possess a wide sphere of skills and experience over a variety of professions, business and of services. The Company's directors bring in independent judgment and considerable knowledge to perform their roles effectively. The Board of directors ensures that the activities of the Company are always conducted with adherence to strict and highest possible ethical standards and the stakeholders.

Selection and Appointment of New Directors

In relation to the selection and appointment of new directors, the existing Board of Directors has the following duties and responsibilities:

- Regularly review the size and composition of the Board and the mix of expertise, skill, experience and perspectives that may be desirable to permit the Board to execute its functions;
- Identify any competencies not adequately represented and agree the process necessary to be assured that a candidate nominated by the shareholders with those competencies is selected;

The directors are appointed by the shareholders in the Annual General Meeting (AGM). Casual vacancies, if any, are filled up by the Board in accordance with the stipulation of the Companies Act, 1994 and Articles of the Company.

Retirement and Re-election of Directors

As per the Article of Association of the Company, one- third of the directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became directors on the same day ; 1) Mohammad Shams-Ul-Islam, 2) Md. Yusuf Ali and 3) Md. Rafiqul Islam shall retire in this meeting and they are ineligible for re-election.

Role and Responsibilities of the Board

The Board is committed to the Company seeking to achieve superior financial performance and long term prosperity, while meeting stockholder's expectation of sound corporate governance practices. The Board determines the corporate governance arrangements for the Company. As with all its business activities, the Board is proactive in respect of corporate governance and puts in place those arrangement which it considers are in the best interest of the Company and its shareholder, and consistency with its responsibilities to other stakeholders.

The Board duly complies with the guidelines issued by Bangladesh Bank regarding the responsibility and accountability of the Board, its Chairman and Chief Executive/Managing Director, vide DFIM Circular No. 7 dated September 25, 2007 and DFIM Circular No. 9 dated October 10, 2007. The Board of Directors is in full control of the Company's affairs and is also fully accountable to the shareholders. They firmly believe that the success of the Company largely depends on the credible corporate governance practices adopted by the Company. Taking this into consideration, the Board of Directors of Agrani SME Financing Company Limited set out its strategic focus and oversees the business and related affairs of the Company. The Board also formulates the strategic objectives and policy framework for the Company.

Status report on compliance with those guidelines is given below:

Compliance Status (According to DFIM Circular No – 07)

Sl. no.	Particulars	Compliance Status
1	Responsibilities and authorities of the Board of Directors:	
	(a) Work-planning and strategic management: (i) The Board shall determine the objectives and goals and to this end shall chalk out strategies and work-plans on annual basis. It shall specially engage itself in the affairs of making strategies consistent with the determined objectives and goal and in the issues relating to structural change and reorganization for enhancement of institutional efficiency and other relevant policy matters. It shall analyze/monitor at quarterly rests the development of implementation of the work-plans.	Complied
	(ii) The Board shall have its analytical review incorporated in the Annual report as regard the success/failure in achieving the business and other targets as set out in its annual work-plan and shall apprise the shareholders of its opinions/recommendations on future plans and strategies	Complied
	(iii) The Board will set the Key Performance Indicator (KPI)s for the CEO and other senior executives and will evaluate half yearly / yearly basis.	Complied
	(b) Formation of sub-committee:	
	Executive Committee may be formed in combination with directors (excluding any alternate Director) and management of the Company only for rapid settlement of the emergency matters (approval of loan/lease application, write-off, rescheduling etc.) arisen from the regular business activities.	Complied
	(c) Financial management:	
	(i) Annual budget and statutory financial statements shall be adopted finally with the approval of the Board.	Complied
	(ii) Board shall review and examine in quarterly basis various statutory financial statements such as statement of income-expenses, statement of loan/lease, statement of liquidity, adequacy of capital, maintenance of provision, legal affairs including actions taken to recovery of overdue loan/ lease.	Complied
	(iii) Board shall approve the Company's policy on procurement and collection and shall also approve the expenditures according to policy. The Board shall delegate the authority on the Managing Director and among other top executives for approval of expenditure within budget to the maximum extend.	Complied
	(iv) The Board shall adopt the operation of bank accounts. Groups may be formed among the management to operate bank accounts under joint signatures	Complied

	(d) Management of loan/lease/investments:	
	(i) Policy on evaluation of loan/lease/investment proposal, sanction and disbursement and its regular collection and monitoring shall be adopted and reviewed by the Board regularly based on prevailing laws and regulations. Board shall delegate the authority of loan/lease/investment specifically to management preferably on Managing Director and other top executives.	Complied
	(ii) No director shall interfere on the approval of loan proposal associated with him. The director concerned shall not give any opinion on that loan proposal	Complied
	(iii) Any syndicated loan/lease/investment proposal must be approved by the Board.	Complied
	(e) Risk management:	
	Risk Management Guideline framed in the light of Core Risk Management Guideline shall be approved by the Board and reviewed by the Board regularly.	Complied
	(f) Internal control and compliance management:	
	A regular Audit Committee as approved by the Board shall be formed. Board shall evaluate the reports presented by the Audit Committee on compliance with the recommendation of internal auditor, external auditors and Bangladesh Bank Inspection team.	Complied
	(g) Human resource management:	
	Board shall approve the policy on Human Resources Management and Service Rule. Chairman and director of the Board shall not interfere on the administrative job in line with the approved Service Rule	Under process
	Only the authority for the appointment and promotion of the Managing Director/Deputy Managing Director/ General Manager and other equivalent position shall lie with the Board in compliance with the policy and Service Rule. No director shall be included in any Executive Committee formed for the purpose of appointment and promotion of others.	Complied
	(h) Appointment of CEO:	
	The Board shall appoint a competent CEO for the Company with the approval of the Bangladesh Bank and shall approve any increment of his salary and allowances.	Complied
	(i) Benefits offer to the Chairman:	
	Chairman may be offered an office room, a personal secretary, a telephone at the office, a vehicle in the business-interest of the Company subject to the approval of the Board.	Complied
2	Responsibilities of the Chairman of the Board of Directors:	
	(a) Chairman shall not participate in or interfere into the administrative or operational and routine affairs of the Company as he has no jurisdiction to apply executive power.	Complied
	(b) The minutes of the Board meetings shall be signed by the Chairman.	Complied
	(c) Chairman shall sign-off the proposal for appointment of Managing Director and increment of his salaries & allowances.	Complied

3	Responsibilities of Managing Director:	
	(a) Managing Director shall discharge his responsibilities on matters relating to financial, business and administration vested by the Board upon him. He is also accountable for achievement of financial and other business targets by means of business plan, efficient implementation of administration and financial management.	Complied
	(b) Managing Director shall ensure compliance of Financial Institutions Act 1993 and other relevant circulars of Bangladesh Bank and other regulatory authorities;	Complied
	(c) All recruitment/ promotion/ training, except recruitment/ promotion/training of DMD, shall be vested upon the Managing Director. He shall act such in accordance the approved HR Policy of the Company.	Complied
	(d) Managing Director may re-schedule job responsibilities of employees;	Complied
	(e) Managing Director may take disciplinary actions against the employees except DMD;	Complied
	(f) Managing Director shall sign all the letters/statements relating to compliance of polices and guidelines. However, Departmental/Unit heads may sign daily letters/statements as set out in DFIM circular no. 2 dated 06 January 2009 if so authorized by MD	Complied

Chairman of the Board

The Chairman of the Board is elected to the office of Chairman by the directors. The Board considers that the Chairman is independent.

Role of the Chairman

The Chairman runs the Board. He serves as the primary link between the Board and management, and works with the CEO and Company Secretary to set of the agenda for Board meetings. It is the Chairman's responsibility to provide leadership to the Board and ensures that the Board works effectively and discharges its responsibilities as directors of the Company. Chairman of the Board & CEO of the Company are different persons. The Chairman of the Board is not the Chief Executive of the Company. The role of Chairman and the CEO & Managing Directors are independent and separate.

Role of the CEO & Managing Director

The CEO & Managing Director performs three fundamental roles in the Company:

- First, CEO as a leader establishes and directs the vision and mission of the team. In this capacity, the CEO is the source of visionary strength of the Company and keeps it on a consistent track to achieving the vision;
- Second, CEO is a manager. In this role, the CEO is responsible for directing the operational activities of the Company by scheduling the utilization of the Company's resources, including people and capital equipment. In this way, the CEO gets things done through the efforts of the people in the Company. The CEO is responsible for establishing and executing the Company's operating plan that is necessary to achieve the Company's objectives;
- Third, CEO is a coach, and as such picks the people for the management team and improves the performance of the staff-members through ongoing counseling. As a coach, the CEO works with employees to help them becoming greater contributors by helping them improve their efficiency and effectiveness.

Conduct for the Board Members

The Board of Directors of Agrani SME Financing Company Limited is committed to the highest standards of conduct in their relationships with its employees, customers, patrons, shareholders, regulators and the public.

A Director of Agrani SME Financing Company Limited always:

- Seeks to use due care in the performance of his/her duties, be loyal to the Company, act in good faith and in a manner such director reasonably believes to be not opposed to the best interests of the Company;
- **Avoids:**
 - i) Appropriating corporate business opportunities for themselves that are discovered through the use of Company property or information or their position as Board Member;
 - ii) Member, for personal gain; and
- Endeavors to avoid having his or her private interests interfere with the interests of the Company;
- Ensures that management is causing the Company's assets, proprietary information and resources to be used by the Company and its employees only for legitimate business purposes of the Company;
- Maintains the confidentiality of information entrusted to them in carrying out their duties and responsibilities, except where disclosure is approved by the Company or legally mandated or if such information is in the public domain;
- Endeavors to deal fairly, and should promote fair dealing by the Company, its employees and agents, with customers, suppliers and employees;
- Complies and endeavors to ensure that the management is causing the Company to comply with applicable laws, rules and regulations;
- Endeavors to ensure that management is causing the Company to promote ethical behavior and to encourage employees to report evidence of illegal or unethical behavior to the CEO & Managing Director of the Company.

Board Meeting

Holding of the Board meeting

The meetings of the Board of Directors of the Company are normally held at the Registered Corporate Head Office of the Company. The meetings are held frequently, at least once in a month, to discharge its responsibilities and functions as mentioned above. Meeting is scheduled well in advance and the notice of each Board meeting is given, in writing, to each director by the Company Secretary.

Process of holding Board meeting

At the suggestion of the MD & CEO, the Company Secretary prepares the detailed agenda for the meeting. The Board papers comprising the agenda, explanatory notes and proposed resolutions are circulated to the directors in advance for their review. The members of the Board have complete access to all information of the Company enabling them to work efficiently. The members of the Board are also free to recommend inclusion of any matter of the agenda for discussions. The Company Secretary always attends the Board meeting and other senior management, if needed, are also invited to attend Board meeting to provide additional inputs to the items being discussed by the Board and make necessary presentations.

There are procedures, at Agrani SME Financing Company Limited, for keeping the Board up-to-date with the Company's activities and relevant external developments. These include senior management presenting significant matters to the Board and it being able to seek further information on any issue relating to performance, strategy, outlook, etc.

It has been attempted in this report to present the governance practices and principles being followed at the Company as best suited to the needs of the Company's business and stakeholders. Disclosures and governance practices are continually revisited, reviewed and revised to respond to the needs of business and ensure that the standards are at par with the globally recognized practices of governance, so as to meet the expectations of all our stakeholders.