



2015 *ANNUAL REPORT*



Committed to generate employment

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Agrani SME Financing Company Limited

Corporate Profile

As on 31.12.2015

Genesis	<p>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 work of Small Enterprise Development Project (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 Ministry of Finance of the People's Republic 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 45 branches (with no oversea branch) as on 31 December, 2015.</p>
Legal Status	Public Limited company (Governed by the Bank Companies Act 1991 and Financial Institution Act 1993)
Chairman	Syed Abdul Hamid, PhD, FCA
Managing Director & CEO	A.K.M. Mujibur Rahman
Company Secretary	Md. Muzahidul Islam Zoarder
Registered Office	11/3, Toyenbee Circular Road (6th Floor), Motijheel, Dhaka
Authorized Capital	Tk.500 Crore (Five billion)
Paid up Capital	Tk. 100 Crore (One billion)
Operating Profit	Tk. 9.09 Crore (91 million)
Employees	132
Branches	45
Phone	9511803-4
Fax	(02) 9567301
E-mail	asfelbd@gmail.com
Auditors	MAHFEL HAQ & CO. Chartered Accountants. BGIC Tower (4th Floor) 34, Purana Paltan, Dhaka-1000.
Income Tax and Financial Consultant	Shahadat Rashid & Co. Chartered Accountants. House # 406, (1 st floor) Road # 29, Mohakhali DOHS .

Vision

In line with the national strategy for economic growth, poverty reduction, and social development, Poverty Reduction Strategy Papers (PRSP) has been prepared following the millennium development goal declared by the UN to reduce the poverty by 50% by 2015. In order to achieve these objectives, annual GDP growth should be at least 7% for which investment is an important driving factor. 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 and increase income for the missing middle group of the country.
- To arrange entrepreneurship and skill development training programme for the existing and identified potential entrepreneurs and their employees.
- To promote woman entrepreneurs with giving emphasis and encouragement to the woman entrepreneurs in carrying out small enterprise business so as to enabling them to start up their enterprises for changing their lots as well as to help developing the economy of the country.

Notice of the Fifth

Annual General Meeting

Notice is hereby given to all Shareholders of Agrani SME Financing Company Limited that the 5th Annual General Meeting of the Company will be held on May 03, 2016 at the Board Room of Agrani SME Financing Company Limited (Head Office, 11/3, Toyenbee Circular Road, 6th Floor, Motijheel Commercial Area, Dhaka-1000) to transact the following business and adopt necessary resolutions:

Agenda

1. To read and confirm the minutes of the 4th Annual General Meeting held on April 26, 2015.
2. To receive, consider and adopt the Audited Financial Statements of the Company for the year ended 31 December 2015 together with the Directors' Report and the Auditors' Report thereon.
3. As per Article 83 of the Articles of Association of the Company 1/3 of the Directors of the Company shall retire from the office.
4. As per Article 85 of the Articles of Association of the Company the retiring Directors shall eligible for re-nomination/re-election.
5. To appoint Auditors for the Year 2016 and to fix their remuneration.
6. Any other business to be discussed with the permission of the chair.

By Order of the Board of Directors

Md. Muzahidul Islam Zoarder
Deputy General Manager &
Company Secretary

Dated: April 06, 2016

Letter of
Transmittal

To
All shareholders
Registrar of Joint Stock Companies & Firms
Securities and Exchange Commission
Dhaka.

Sub: Annual Report for the year ended 31 December 2015.

Dear Sir (s)

We are pleased to enclose herewith a copy of the Annual Report 2015, together with the Audited Financial Statements of Agrani SME Financing Company Limited for your kind information and record.

Yours sincerely

A.K.M. Mujibur Rahman
Managing Director & CEO

Board of Directors



Syed Abdul Hamid
Chairman



Khondker Sabera Islam
Director



Krishibid A.K.M. Abdur Rafique
Director



Muhammad Awal Khan
Director



Mizanur Rahman Khan
Director



Kazi Sanaul Hoq
Director



Md. Nazrul Islam Farazi
Director



A.K.M. Mujibur Rahman
MD & CEO

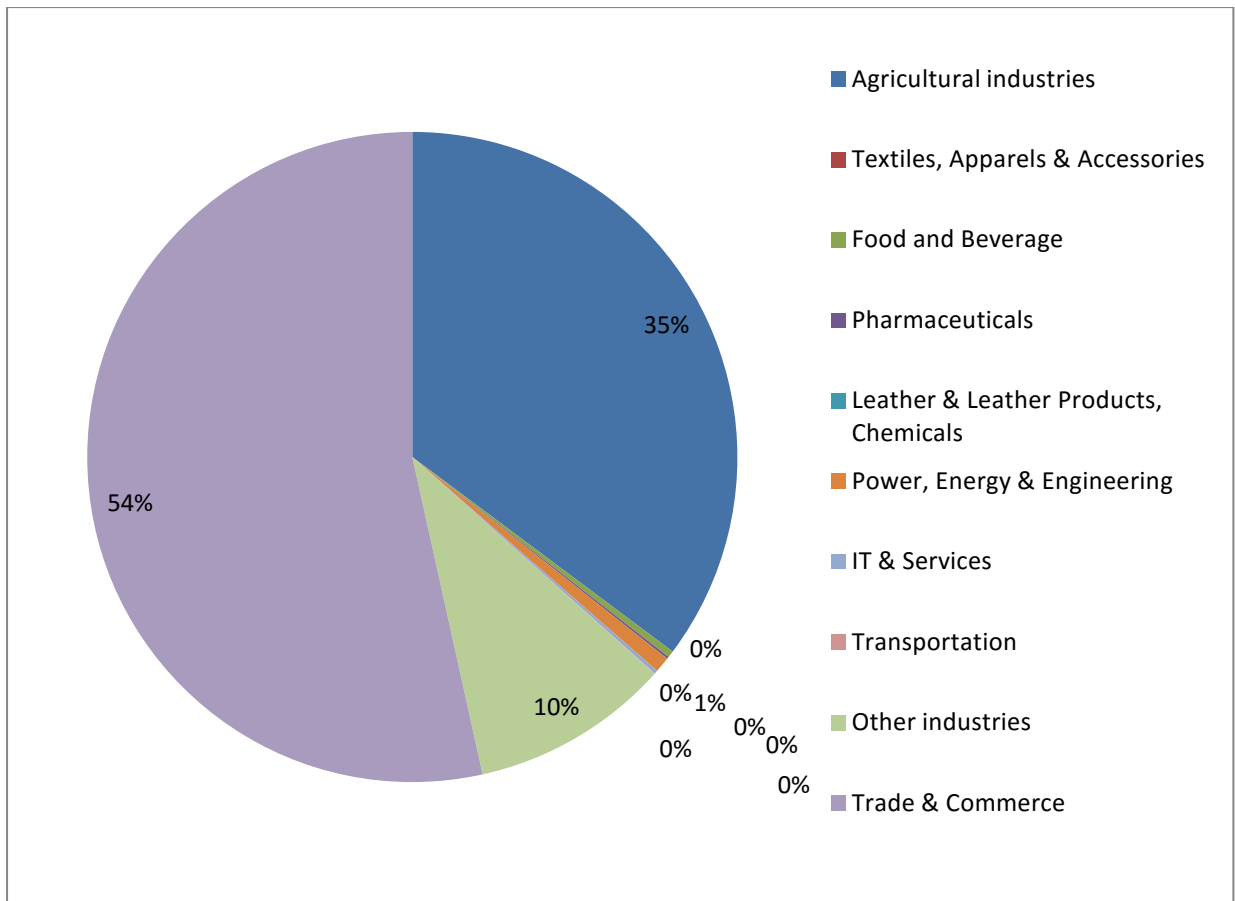
Performance at a Glance

as of and for the year ended 31 December,

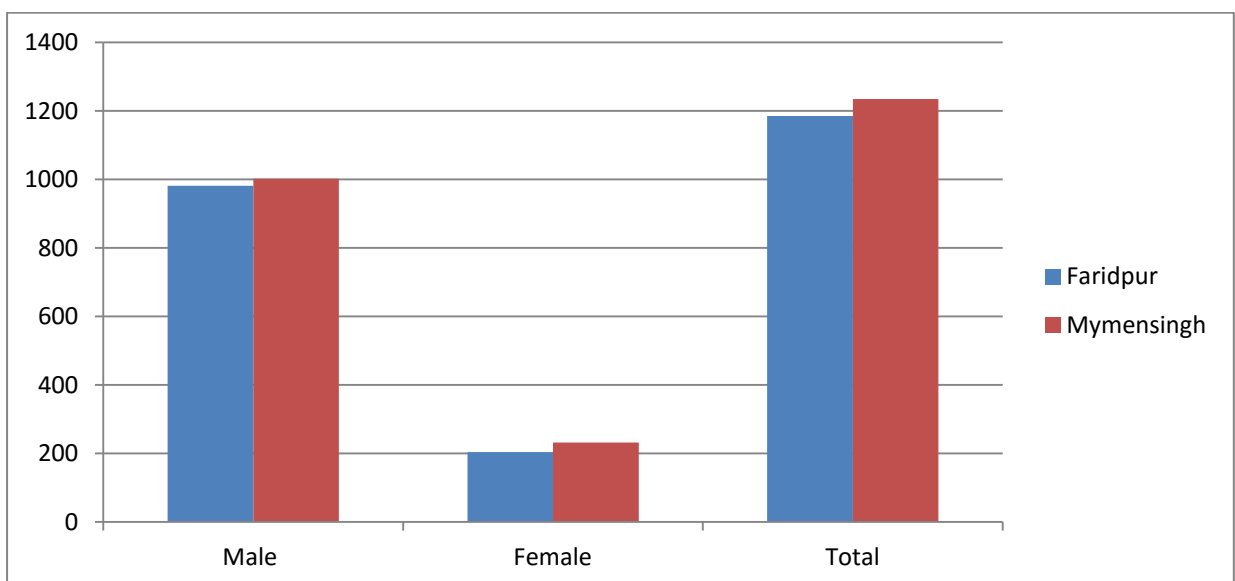
	(Tk. in millions)		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Results of Operation</u>			
Operating revenue	161	153	130
Operating expenses including provisions	88	62	60
Profit before Tax	73	91	70
Net Profit	37	60	38
<hr/>			
<u>Balance Sheet</u>			
Total liabilities	193	179	171
Paid up Capital	1000	1000	1000
Shareholder equity	1216	1179	1081
Property Plant and Equipment	21	16	7
<hr/>			
Ordinary Shares Information			
EPS	2.93	4.82	3.82
Book Value per share of 100 (end of period)	122	mk118	112
Financial Ratios (%)			
<hr/>			
Return on assets	2.64%	3.50%	3.02%
Return on equity	3.05%	4.70%	3.47%
Equity of assets	86.27%	86.80%	87.00%
Efficiency ratio	43.59%	40.49%	46.32%
Non Performing assets to loans	11.95%	11.21%	8.69%
<hr/>			
Others			
No. of branches	45	42	41

Graphical Presentation of Financial Information- As on 31st December 2015

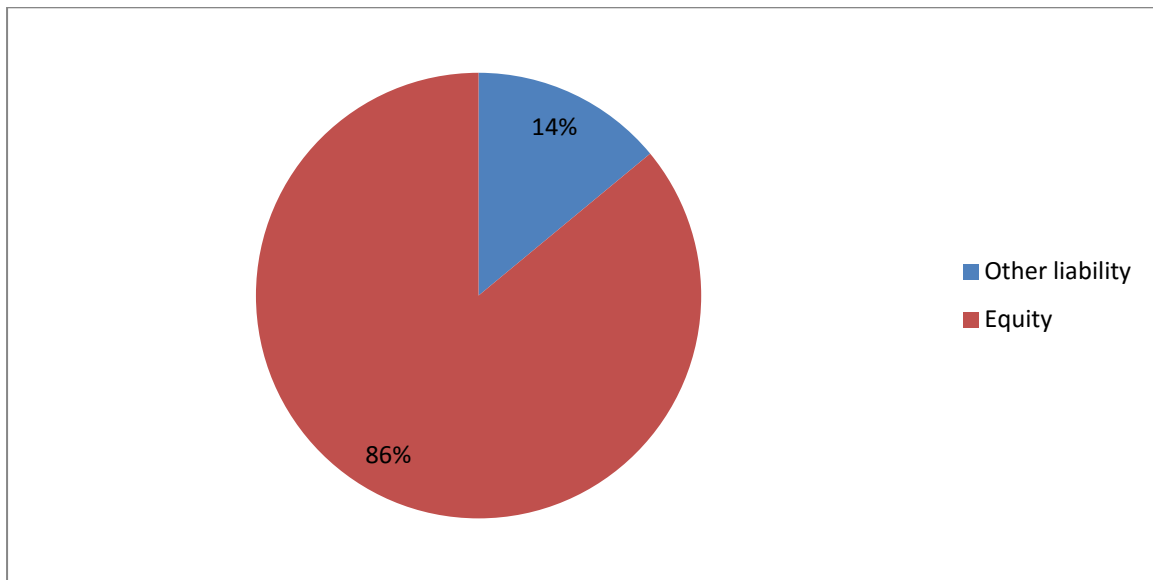
1. Sector-wise Loans and Advances



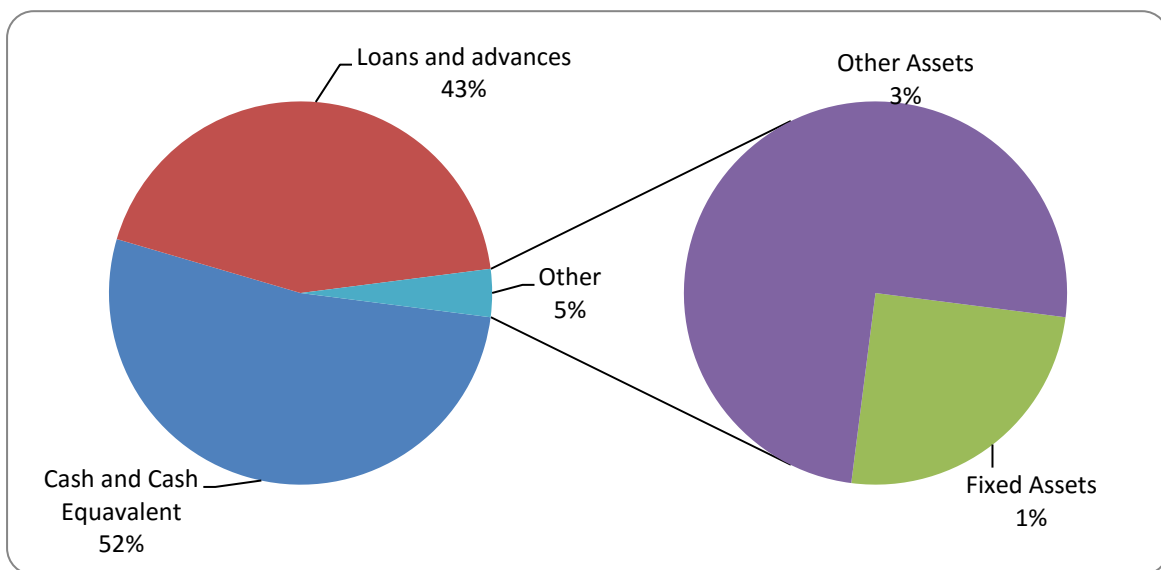
2. Gender wise Loans and Advance



3. Sources of Fund



4. Uses of Fund





CHAIRMAN MESSAGE

Bismillahir Rahmanir Rahim
Respected Shareholders
As-salamu Alaikum

I extend you hearty welcome to the fifth Annual General Meeting of the Company on behalf of the Board of Directors of Agrani SME Financing Company Limited and on my personal behalf. I also take pride in sharing the performance and future plan of the Company. The Agrani SME Financing Company Limited (the Company) has been incorporated as a public limited company and a subsidiary of the Agrani Bank Limited on October 27, 2010 taking over the ongoing operation of Small Enterprises Development Project (A Norway and Agrani Bank Limited Funded Project of Ministry of Finance, Bangladesh) on a going concern basis through a Vendor's Agreement signed among the Bank & Financial Institutions Division, Ministry of Finance, Govt. of the 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 December 27, 2011 and as per the clause as delineated in the stated Vendors agreement, December 31, 2011 is kept as the effective date of handing over the SEDP operation as to be the operation of Agrani SME Financing Company Limited. One of the main objectives of the company is to carry on the activities for the purposes of enhancing the income of, and employment generation for urban, semi-urban and rural people. The Company is very much determined to help build and develop sustainable small and medium scale entrepreneurs to generate income and employment opportunities with special emphasis to the women entrepreneurs. The activities of the company are being operated in total 45 branches including a Principal branch situated at the Head office of the Company. We hope gradually the area will be extended.

With your support and trust, we have passed another successful but challenging year in 2015. The world economy experienced subdued growth for another year in 2015, unable to meet even the modest projections many institutional forecasters made earlier. Under performance in the world economy was observed across almost all regions and major economic groups. Most developed economies continued struggling in an uphill battle against the lingering effects of the financial crisis, grappling in particular with the challenges of taking appropriate fiscal and monetary policy actions. In Bangladesh, during the first quarter of FY15, due to the political

turmoil and unrest, the economy had a slight less acceleration; however, in the next three quarters once again the economy regained the pace and hopefully it will be further enhanced in the subsequent years. Despite overall deterioration in political arena, internal strife and subsequent economic downturn, we ended 2015 with posting profit and growth.

During the year 2015, the Company made revenue of BDT 161 millions, achieved Profit after Tax of BDT 36.57 million, recorded an EPS of Tk. 2.93 compared to that of 4.82 in the previous year. The arrear adjustment made in the salary enhancement following National Pay scale – 2015, provision for incentive bonus for the employees and a significant provision made addressing the claims/adjustment/receivables of the holding company which resulted in smaller EPS.

Company's total assets remained at a better position with a growth of 4% compared to 2014. With more effective processes, stringent procedures, capable people, Agrani SME Financing Company Limited was able to return to a better financial footing in a more sustainable manner.

In this connection, I would like to inform that at the end of the year 2015, a total number of 2419 enterprises have been established which have generated employment opportunities for 5443 persons. Out of the total employment 981 were female and 4462 were male. We hope the opportunity of employment will be generated more in future.

Your 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 2015.

I would like to thank my colleagues in the Board for their outstanding work in the past year. They have applied themselves diligently and with great skill to the responsibilities entrusted to us. Their invaluable insights have provided guidance for the direction that the Agrani SME Financing Company Limited is heading for. We would like to thank all our Management and staff, for their dedication and contribution to the success of this Financial Institution. We also thank our shareholders, customers, Bangladesh Bank, Bank and Financial Institutions Division, Ministry of Finance, GOB, bankers, regulatory authorities and other stakeholders for their continuing support in their interactions with the Company.

Syed Abdul Hamid, PhD, FCA
Chairman
The Board of Directors



Managing Director & CEO's Message

Implementation of small and medium enterprise development initiative by Agrani SME Financing Company Limited is one of the activities to participate in the national strategy for economic growth, poverty reduction, and social development. The Agrani SME Financing Company Limited (the Company) has been incorporated as a public limited company and a subsidiary of the Agrani Bank Limited on October 27, 2010 vide certificate of the incorporation No. C-87827/10. The Company has taken over the ongoing operation of Small Enterprises Development Project (A Norway and Agrani Bank Limited funded Project of Ministry of Finance, Bangladesh) on a going concern basis through a Vendor's Agreement signed among the Bank & Financial Institutions Division, Ministry of Finance, Govt. of the Peoples 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 December 27, 2011 and as per the clause as delineated in the stated Vendors Agreement, December 31, 2011 is kept as the effective date of handing over the SEDP operation as to be the operation of Agrani SME Financing Company Limited.

Though the company has incorporated October 27, 2010 but no operational activities were started till December 31, 2011 under company's umbrella. However, on the basis of taking over the ongoing work of Small Enterprise Development Project as at December 31, 2011 a total outstanding loan balance was Tk. 461,111,340 in 40 Thana/Upazilla of two grater districts of Faridpur and Mymensingh inherited from the SEDP Project. The year 2015 was the fourth year of operation of the Company. In the fourth year of the operation the company has made operating income of BDT 161,181,707 achieved profit after Tax of BDT 36,565,881 and recorded as EPS of Tk 2.93 compared to Tk 4.82 of previous year.

As on December 31, 2015, the available capital of the Company is Tk 1,216,030,948 as against Tk. 1,179,337,294 of previous year which project's a robust financial footing of the Company.

In this connection, I would like to inform that during the year 2015, the company contributed a total amount of BDT 35,445,693 as corporate Tax to the national exchequer which is almost 13% higher than that of the previous year.

It is a happy team that produces results and an enabling environment that gives birth to creative thinking. Continuity of human resources immensely strengthens an organization, develop a sense of belongingness and above all give the strength to face all odds. In order to give greater thrust to products, Agrani SME Financing Company Limited gradually increased its staff strength. Though strategic mid levels have not yet been filled but the branch level business has been geared up with special focusing in SME loan. During the year necessary steps have been taken to computerize the branches and a loan monitoring system database is in the final stage of being implemented.

Finally, as a newly established financial institution we realize we have to go a long way and will have to continue to build our Company in the year ahead. Market conditions for our industry are challenging and risky. We have a strong capital position and we have got a size of quality portfolio. The accumulation of all these we are confident that the company will be able to present better result before stakeholders in the years ahead.

Before I conclude, I reiterate that we shall conduct every business of the company within the legal and regulatory framework. On behalf of the Management, I express my sincere thanks to the honorable chairman and to all members of the Board, Bangladesh Bank, Bank and Financial Institutions Division, Ministry of Finance, GOB, Royal Kingdom of Norway, Board of Directors, Management & staff members of Agrani Bank Limited, our staff-members, patrons, regulatory agencies, valued customers and shareholders for their guidance, advice and continued support.

A.K.M. Mujibur Rahman
Managing Director and CEO

Valued Added Statement

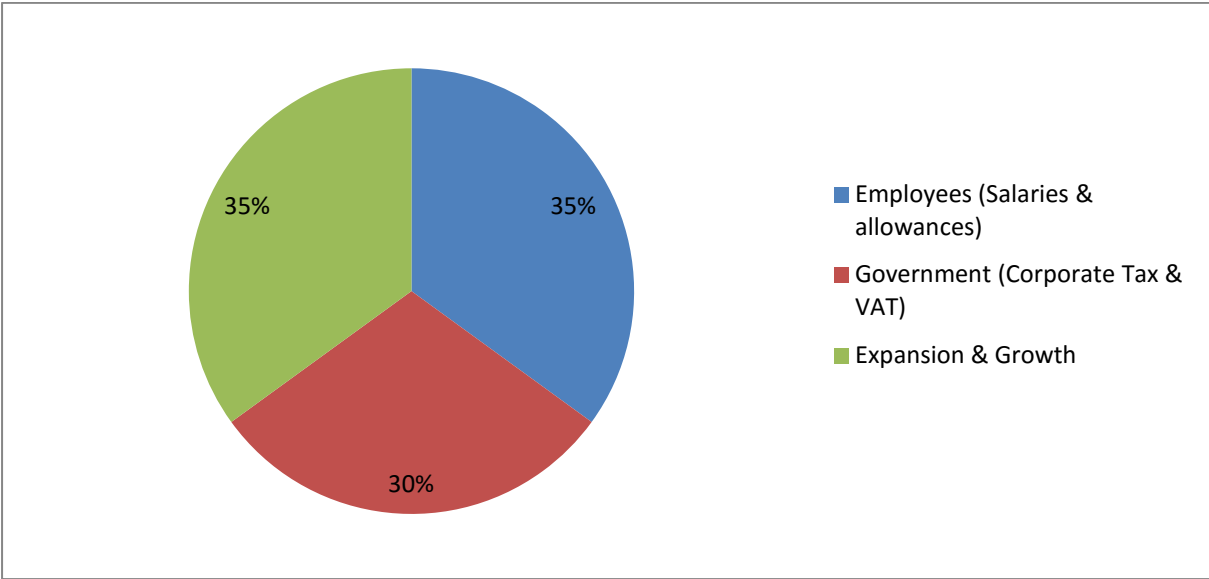
The value added statement provides a detailed account of total addition and the distribution of the value created by the organization. Agrani SME Financing Company Limited contributes positively to socio-economic development by empowering employees through the payment of salaries and allowances; by assisting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

Particulars	2015		2014		2013	
	Amount (Tk. in mill.)	%	Amount (Tk. in mill.)	%	Amount (Tk. in mill.)	%
Value added						
Net interest income	158.44	133.43	153.78	113	126.00	109.10
Other income	2.75	2.32	0.19	0.14	4.36	3.77
Management expenses	(42.45)	(35.75)	(17.49)	(12.82)	(14.87)	(12.87)
Total Value added by the Company	118.74	100.00	136.48	100.00	115.48	100.00

Value added contributed to

Particulars	2015		2014		2013	
	Amount (Tk. in mill.)	%	Amount (Tk. in mill.)	%	Amount (Tk. in mill.)	%
Employees: As salaries and allowances	41.73	35%	42.89	31.42%	44.14	38%
Government: Corporate Tax Value added tax (VAT)	36.16	30%	31.39	23%	31.77	28%
To expansion and growth: Retained income Depreciation	36.57 4.28	31% 4%	60.23 1.96	44.14% 1.44%	38.20 1.38	33% 1%
Total distribution	118.74	100%	136.48	100%	115.48	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 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.

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 a company's systems and procedures, internal control, compliance requirements 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;

Counterparty Risk

It comes from non-performance of a trading partner. The non-performance may arise from a 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 nonsystematic counterparty 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 the goal of the company is not compatible with the reality, then the company might be entangled by a bad patch. And because of this, the 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.

Steps to Manage Risk

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 industrial sub-sectors.

To mitigate credit risk, Agrani SME Financing Company Limited search 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, banker's 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 also planned to establish Internal Control and Compliances Department (ICC) to address operational risk and to frame implement policies to encounter such risks. The Company regularly assess the prevailing market risk analyze the changes in interest rate, market conditions, carry 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 top management. 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. Care 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 involve accepting risks as well as producing profits.

Credit is priced 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 hold adequate capital to absorb the unexpected

losses. The Company uses collateral and guarantees to help mitigate risks inherent in individual transactions.

Note, however, that collateral cannot be a substitute for comprehensive assessment of a borrower and 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 Company regarding interest rate risk the top management that the 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 define 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/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/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 risk 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 is some risk exist proposition in this regards however, due to being all the loans are of small category the risk proposition are 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 and 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 standards 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. 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 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 local and international 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 range of skills and experience over a range of professions, business and

0services. Each of Company's directors brings 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). Causal 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, those to retire shall (unless they otherwise agree themselves) be determined by lot, but remains eligible 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 consistence 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. 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

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. The Chairman 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 ensure that the Board works effectively and discharges its responsibilities as directors of the Company. Chairman of the Board & CEO of the company are different person. 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 fundamentals 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 people through ongoing counseling. As a coach, the CEO works with people to help them become 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, members, 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) Using Company property or information, or their position as Board Competing with the Company.
 - iii) 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

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 other senior management is 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 includes 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.

Directors' Report to the Shareholders

Bismillahir Rahmanir Rahim

Respected Shareholders
Assalamu Alaikum

On behalf of the Board of Directors, I am pleased to present the annual report and the audited financial statements of the company for the year ended 31 December 2015 together with the Auditors' Report thereon, for consideration and approval of our valued Shareholders. These were approved by the Board of Directors of the Company. This Directors' Report is in compliance with the section 184 of the Companies Act 1994, guidelines of Bangladesh Bank and other applicable rules and regulation in the country. Relevant disclosures and explanations relating to certain issues have been given by the Directors, which they consider important to ensure transparency and good governance practices. We believe it is comprehensive enough to understand our business, operational procedures and overall performance at a glance.

World Economy

Global growth continued to disappoint in 2015 as resulted from continued slowing down of economic activity in emerging and developing economies amid further drops in commodity prices, stretches of financial market volatility, and weakening capital flows. In contrast, the recovery in major high-income countries gained traction last year. This has been increasing driven by stronger domestic demand, particularly in the United States, where employment conditions are robust. In the Euro Area, credit growth is improving and unemployment is declining. The recovery remains fragile in Japan despite substantial policy stimulus. With external demand negatively affected by a slowdown in large emerging market economies, growth forecasts across major high-income economies in 2016 have been shaded down, but growth should still show some improvement from 2015.

Global growth is estimated to pick up at a considerably slower pace than previously projected, aiming 2.9 percent in 2016 and 3.1 percent in 2017-2018. Global inflation is expected to rise moderately in 2016 as commodity price level off, but will remain low by historical standards. However, 2016 growth forecasts for high-income countries have been marked down in view of the effect on the United States of dollar appreciation and the impact on Japan of slowing trade in Asia. Still appear in place, despite soft external demand and rising geopolitical concerns. Although gradually dissipating legacies from the global financial crisis continue to be felt across high-income countries, limiting both aggregate demand and the underlying growth potential of these economies.

Bangladesh Economy

The target of growth in the budget for FY 2015 - 16 has been set at 7.0 percent which appears to be ambitious like the previous year's target growth of 7.3%. The historical track record shows that the government has not only failed to achieve such high rate of growth in its previous budget, but also the country has been experiencing a deceleration rate of growth in last three fiscal years.

In the FY2015 - 2016, the economy of Bangladesh has to deal with a number of economy bottlenecks. Inadequate savings and investment and increasing gap between this two appeared to be the major challenges in the economy. In addition, lack of any significant breakthrough in agriculture as regards innovation and technological advancement in the post-green revolution period, unsatisfactory rate of growth in manufacturing and lack of employment opportunity in the sector causing higher unemployment rate, lack of investment in skill development in the service sector has caused the real sector to decelerate.

Budget for FY'16 has been marked high ambition with a vision if attaining the middle income goal. The budget size is BDT 2951.00 billion which is 23.1% higher compared to FY'15's revised budget. It has revenue target of BDT 2084.43 billion which is 27.6% higher than that of a FY'15's revised budget

Gross Domestic Product (GDP) has been estimated to grow at a rate of 7% in FY'16, marked down slightly from the previous year's target of 7.3%

Budget deficit is projected to be BDT 866.57 billion. Of this deficit, BDT 385.23 billion will be collected from bank borrowing, BDT 180.0 billion will be collected from savings certificates and other non-banking source and remaining BDT 301.3 billion will be backed by the external sources. High dependence on banking system in financing the deficit may cause private investment to fall further and inflationary pressure to rise the current fiscal year.

Total import of the country stood at USD 40.58 billion by the end of 2014-15, which was USD 40.73 billion in 2013-14.

Total import of the country witnessed insignificant 0.004% negative growth over the previous fiscal year (2013-14). Import growth was relatively constant throughout the period.

Bangladesh Bank (BB) will maintain accommodative monetary policy stance in 2016. The latest MPS for H2 FY16 was a very growth supporting one. Policy rates have been reduced by 50 basis points after almost 3 years. This, coupled with the huge excess liquidity in the banking system is expected to further reduce bank's lending rates and boost investments. As the economy is on the way to recovery, credit growth has been slowly picking up. During FY15, the total credit to the private sector recorded 13.2% growth year over year. Business confidence is improving and the stable exchange rate has led to higher import of machineries. The falling interest rates will boost private credit growth next year.

Non-Banking Financial Institutions (NBFI) in 2015

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 2015, 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 161 million, achieved profit after Tax of BDT 36.6 million, recorded an EPS 2.93 of compared to 4.82 in the previous year. Company's total assets remained at a better position with a growth of 4% operating resulting during 2015 are summarized.

Particulars	2015 (BDT in millions)	2014 (BDT in millions)	2013 (BDT in millions)
Operating Income	161	153	130
Operating Expenses	70	62	60
Total Operating Profit	72	91	70
Provision for income tax	36.16	31.39	32
Net Profit after income tax	36.56	60.22	38
Earnings Per Share (Taka)	2.93	4.82	3.82

Loans and Advances

Total loans and advances were Tk. 604.47 millions at 31 December 2015 representing more than twenty seven percent higher than 2014 worth Tk. 129.60 millions. Movement of loans and advances were as under:

Particulars	2015 (Tk. in millions)	2014 (Tk. in millions)	2013 (Tk. in millions)
Opening balance at 1 January 2014	474.87	437.13	447.01
Disbursement during the year	375.03	244.80	212.22
Recovery during the year	229.68	192.80	196.45
Write off during the year	14.36	39.76	25.65
Adjustment during the year	1.60	25.00	-
Closing balance at 31 December 2014	604.46	474.87	437.13

Recovery position of the loans and advances was almost 95%. Out of total loans and advances balance Tk. 72.23 million i.e. 11.95% was classified for which necessary provisions were kept. At the end of the year 2015, a total number of 2419 enterprises have been established which have generated employment opportunities for 5443 persons. Out of the total employment 981 were female and 4462 were male.

Liquidity Position

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

Particulars	2015 (Tk. in millions)	2014 (Tk. in millions)	2013 (Tk. in millions)
Short term deposit with other bank and financial institution	135.57	107.53	147.17
Fixed deposit with other bank and financial institutions	596.29	716.87	677.20
Total:	731.86	824.40	824.37

Total liquid asset represents 52% of total assets of the Company.

Shareholders' Equity

Total shareholder equity at the end of the year was Tk. 1216.03 million representing 3.11 percent higher than 2014 worth Tk. 1179.33 million. Shareholders' equity as at 31 December, 2015 is summarized below:

Particulars	2015		2014		2013	
	(Tk. in millions)	%	(Tk. in millions)	%	(Tk. in millions)	%
Share Capital	1000.00	82.23	1000.00	84.79	1000.00	89.35
Statutory Reserve	32.71	2.69	25.39	2.15	13.35	1.19
General Reserve	54.73	4.50	54.73	4.64	54.73	4.89
Retained Earnings /(Losses)	128.59	10.57	99.21	8.41	51.11	4.57
Total:	1216.03	100.00	1179.33	100.00	1119.19	100.00

MATERIAL CHANGES AFTER BALANCE SHEET DATE (31ST DECEMBER 2015)

There have been no material changes and commitments between the end of FY15 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, 2015.

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 fee 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

Your company has always believed in giving good returns to the shareholders. This is the fourth year with full operation of the company. So you will agree with me that four years is not quite less time but considering the main objective and background of the company in competitive market four 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 2015, the company contributed a total amount of BDT 23.74 million as Corporate Tax; BDT 7.73 million as TDS in total BDT 31.47 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.

CSR ACTIVITIES

During the year 2015, the company contributed a total amount of BDT 1,500,000 for procuring 5200 blankets and distributed these blankets to cold-heat distressed people in different parts of the country.

Our Employee-Our Asset

In 2015, 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. Highlights of overall operation of the Company as per DFIM circular No. 11 dated December 23, 2009 are also shown in page no. 80.

Corporate Governance

Your 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. Your 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.

Changes in the Board

During 2015 all the Directors except Managing Director & CEO retired from the Board of Directors. All the above retired Directors have been reelected /reappointed as they expressed their willingness to act as the Directors of the Board.

Shareholding Pattern

Shareholding patterns of the Company as at the end of the year 2015 is as under

Name and address	Status	Date of original appointment	No. of shares held in the Bank
Mr. Syed Abdul Hamid (Representing Agrani Bank Ltd.)	Chairman and Director	26/07/2010	9,999,988
Mr. A.K.M. Abdur Rafique	Director	26/07/2010	2
Muhammad Awal Khan	Director	23/06/2014	2
Mizanur Rahman Khan	Director	01/12/2014	2
Mr. Nazrul Islam Farazi	Director	24/04/2012	2
Kazi Sanaul Haque	Director	15/09/2015	2
Mr. A.K.M. Mujibur Rahman	Managing Director and Chief Executive	26/07/2010	2

Board Meetings and Attendance by the Directors

During the year ended on December 31, 2015 at total of 13 Boarding Meetings were held and attendance by the Directors is summarized below:

Name of the Directors	Total BOD held	Meetings Attended	Attendance of Total meeting held	Remuneration paid on attending the meeting
Syed Abdul Hamid	14	14	100%	76,000/-
Krishibid A.K.M. Abdur Rafique	14	14	100%	76,000/-
Muhammad Awal Khan (Joined on 23 June, 2014)	14	13	93%	71,000/-
Mizanur Rahman Khan (Joined on 1 Dec. 2014)	14	12	86%	66,000/-
Md. Nazrul Islam Farazi	14	10	71%	50,000/-
Kazi Sanaul Haque (Joined on 15 Sep, 2015)	3	3	100%	21,000/-
A.K.M. Mujibur Rahman	14	14	100%	-

Auditors

M/S Mahfel Haq & Co. Chartered Accountants have served as the External Auditors of the Company for two year ending 31 December 2015. As per Bangladesh Bank's guidelines they are eligible for re-appointment and accordingly they have expressed their willingness to continue as Auditor.

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 staff and the loyalty of our customers, the trust of our partners and associates, and the support of Bangladesh Bank, the Securities Commission and the other regulatory authorities that have guided us over the years.

For & on behalf of the Board of Directors

Syed Abdul Hamid, PhD, FCA
Chairman

**Auditors' Report and Audited Financial Statements
of Agrani SME Financing Company Limited
For the Year Ended 2015**

Agrani SME Financing Company Ltd.

***11/3, Toyenbee Circular Road (6th Floor),
Motijheel Commercial Area, Dhaka-1000***

AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

As at and for the year ended December 31, 2015

MAHFEL HUQ & CO

CHARTERED ACCOUNTANTS

B G I C Tower (4th FLOOR)

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Agrani SME Financing Company Ltd.
As at and for the year ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT
TO THE CONTRIBUTORS / SHAREHOLDERS OF AGRANI SME FINANCING COMPANY LIMITED

We have audited the accompanying financial statements of **Agrani SME Financing Company Limited** which comprise the Balance Sheet as at December 31, 2015 and Profit and Loss Account, Statement of Cash Flows and Statement of Changes in Equity for the year then ended along with summary of significant accounting policies and other explanatory notes and information.

Management's Responsibility for the Financial Statements:

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Financial Reporting Standard (BFRS), the Financial Institution Act 1993, the rules and regulations issued by the Bangladesh Bank, the Companies Act 1994 and other applicable laws and regulations. The responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility:

Our responsibility is to express an opinion on these financial statements based on our Audit. We conducted our Audit in accordance with Bangladesh Standards on Auditing (BSA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of this risk of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, But not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion:

In our opinion, the financial statements prepared in accordance with Agrani SME rules, Bangladesh Financial Reporting Standards (BFRS), Bangladesh Accounting Standards (BAS) as applicable for the company give a true and fair view of the state of company's affairs as at December 31, 2015 and of the results of its operation and its cash flows for the year then ended and comply with the applicable section of the Companies Act 1994, the Financial Institution Act 1993, the rules and regulations issued by the Bangladesh Bank and other applicable laws and regulations.



We also report that:

- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and made due verification thereof;
- ii) In our opinion, proper books of account as required by law have been kept by the company so far as it appeared from our examination of those books and on the basis of statement of affairs received from 45 branches ;
- iii) The company's Balance Sheet and Profit & Loss Account together with the annexed notes from 1 to 21 dealt with by the report are in agreement with the books of account and returns;
- iv) The expenditures incurred were for the purposes of the company's operations;
- v) The financial position of the companies as at December 31, 2015 and the profit for the year then ended has been properly reflected in the financial statements;
- vi) The financial statements have been drawn up in conformity with the Financial Institution Act 1993 and in accordance with the accounting rules and regulations issued by the Bangladesh Bank;
- vii) Adequate provision has been made for loans and advances and other assets which are, in our opinion, doubtful of recovery;
- viii) The financial statements conform the prescribed standards set in the accounting regulations issued by the Bangladesh Bank after consultation to the professional accounting bodies of Bangladesh;
- ix) The information and explanations required by us have been received and found satisfactory;
- x) The records and statements submitted by the branches have been properly maintained and consolidated in the financial statements; and
- xi) The company has complied with the relevant laws pertaining to reserves and maintenance of liquid assets.

Dhaka
March 20, 2016

Mahfel Huq & Co.
Chartered Accountants