

ANNUAL REPORT 2016



**Agrani SME Financing
Company Limited**

Committed to generate employment

SL No.	Table of Contents	Page No.
1	Corporate Profile	1
2	Vision Mission Objective	2
3	Notice of the Annual General Meeting	3
4	Letter of Transmittal	4
5	Board of Directors	5
6	Performance at a Glance	6
7	Graphical Presentation of Financial Performance	7-8
8	Chairman Message	9-10
9	Managing Director & CEO's Message	11-12
10	Value Added Statement	13-14
11	Risk Management	15-20
12	Statement on Corporate Governance	21-27
13	Directors' Report to the Shareholders	28-39
14	Auditors' Report and Audited Financial Statements	

Agrani SME Financing Company Limited

Corporate Profile

December 31, 2016

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 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 Ministry of Finance 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 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, 2016.</p>
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	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. 3.03 Crore (30.3 million)
Employees	195
Branches	50
Phone	9511803-4
Fax	(02) 9567301
E-mail	asfelbd@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 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 Sixth

Annual General Meeting

Notice is hereby given to all Shareholders of Agrani SME Financing Company Limited that the 6th Annual General Meeting of the Company will be held on July 20, 2017 at the Board Room of the 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 inform the minutes of the 5th 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 2016 together with the Directors' Report and the Auditors' Report thereon.
3. To elect/re-elect Directors.
4. To appoint Auditors for the Year 2017 and to fix their remuneration.
5. Any other business to be discussed with the permission of the chair.

By Order of the Board of Directors

Md. Muzahidul Islam Zoarder
Company Secretary

Dated: June 22, 2016

Letter of Transmittal

To

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

Sub: Annual Report for the year ended 31 December 2016.

Dear Sir (s)

We are pleased to enclose herewith a copy of the Annual Report 2016, 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



Mohammed Ismail Hossain
Director



Md. Rafiqul Alam
Director



Md. Ali Hossain Prodhania
Director



Md. Shahadat Hossain, FCA
Director



Md. Nurul Haque
MD & CEO

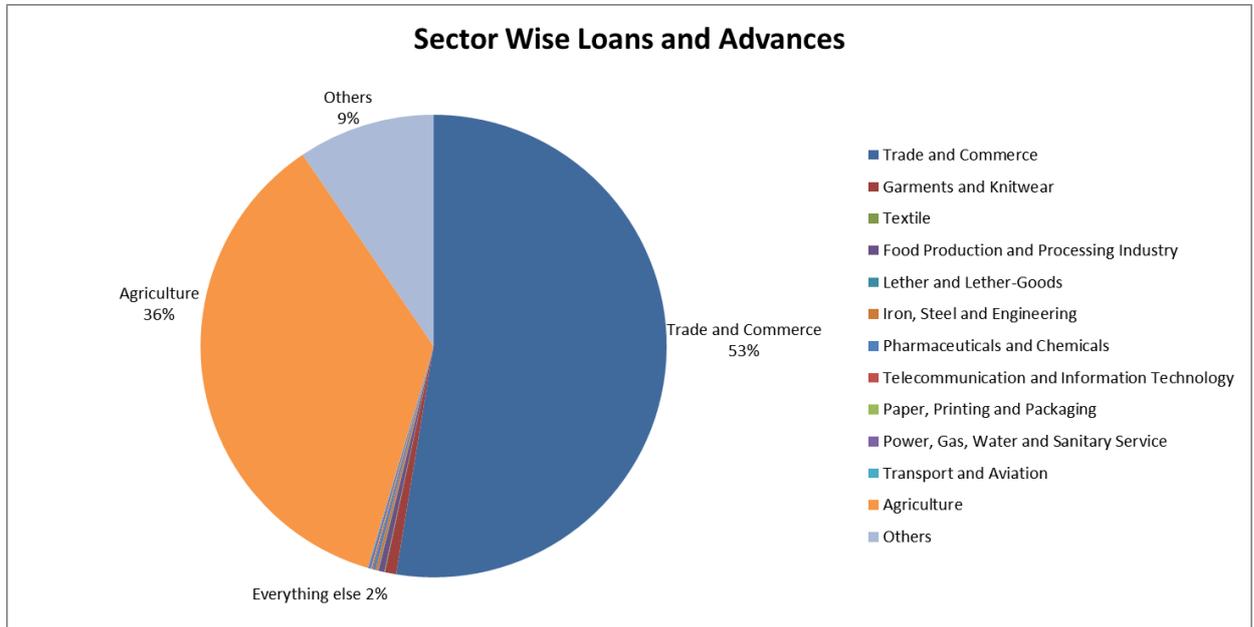
Performance at a Glance

as of and for the year ended 31 December, 2016

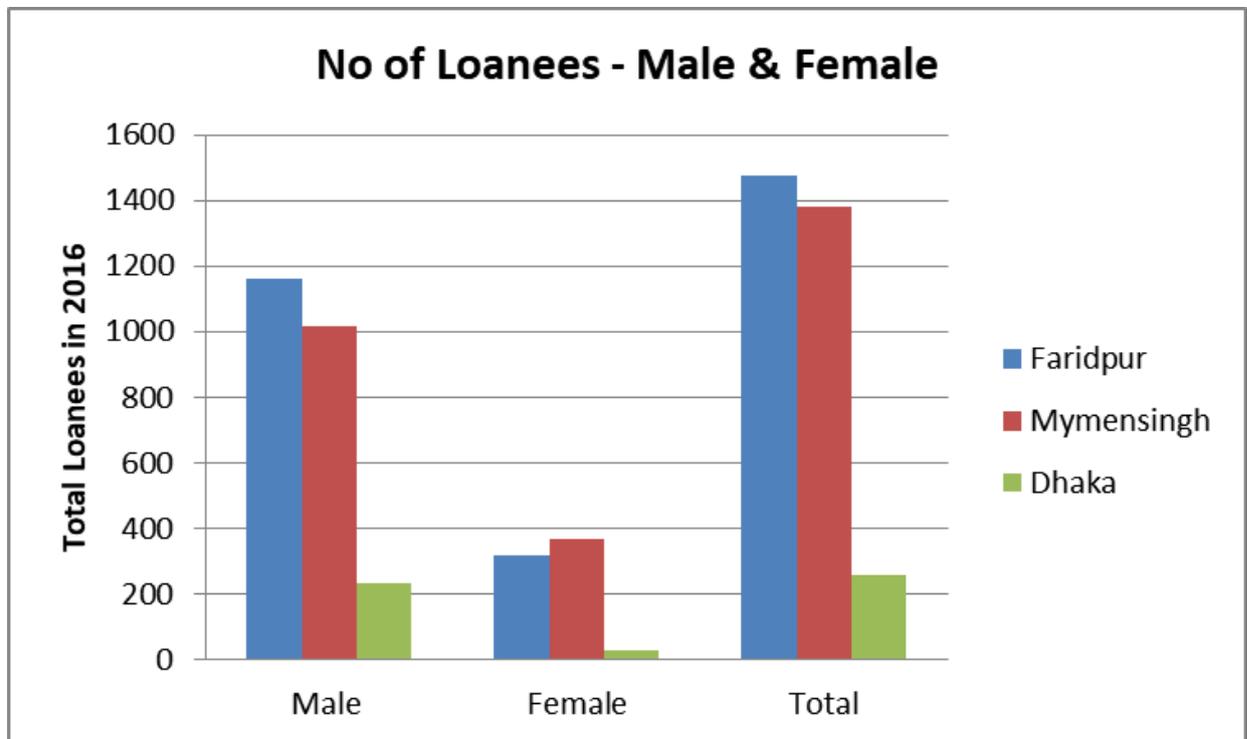
	(Tk. in millions)				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Results of Operation</u>					
Operating Revenue	135.66	161.18	153.78	130.35	90.00
Operating Expenses including provisions	115.37	88.45	62.35	60.38	40.50
Profit before Tax	20.29	72.73	91.62	69.97	49.50
Net Profit	9.69	36.57	60.23	38.20	29.00
<u>Balance Sheet</u>					
Loans & Advances	787.86	604.46	475.00	437.13	447.01
Classified Loans	55.35	72.23	53.00	38.00	44.14
Total Asset	1462.44	1410.00	1359.00	1290.00	1241.00
Fixed Asset	16.95	20.60	16.08	7.33	3.43
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	1225.72	1216.03	1179.34	1119.19	1081.00
Retained Earning	136.34	128.59	99.21	51.11	20.22
Total Liabilities	236.73	193.48	179.19	171.00	160.00
<u>Ordinary Share Information</u>					
EPS	0.77	2.93	4.82	3.82	2.85
Book Value per share of 100 (end of period)	122.57	121.60	117.93	111.92	108.00
<u>Financial Ratios (%)</u>					
Return on Assets	0.67%	2.64%	3.50%	3.02%	2.53%
Return on Equity	0.79%	3.05%	4.70%	3.47%	2.81%
Equity to Assets	83.79%	86.27%	86.80%	87.00%	87%
Efficiency Ratio	77.67%	43.59%	40.49%	46.32%	44.93%
Non-Performing Assets to Loans	7.03%	11.95%	11.21%	8.69%	9.9%
<u>No. of Branches</u>					
	50	45	42	41	41

Graphical Presentation of Financial Information as on 31st December 2016

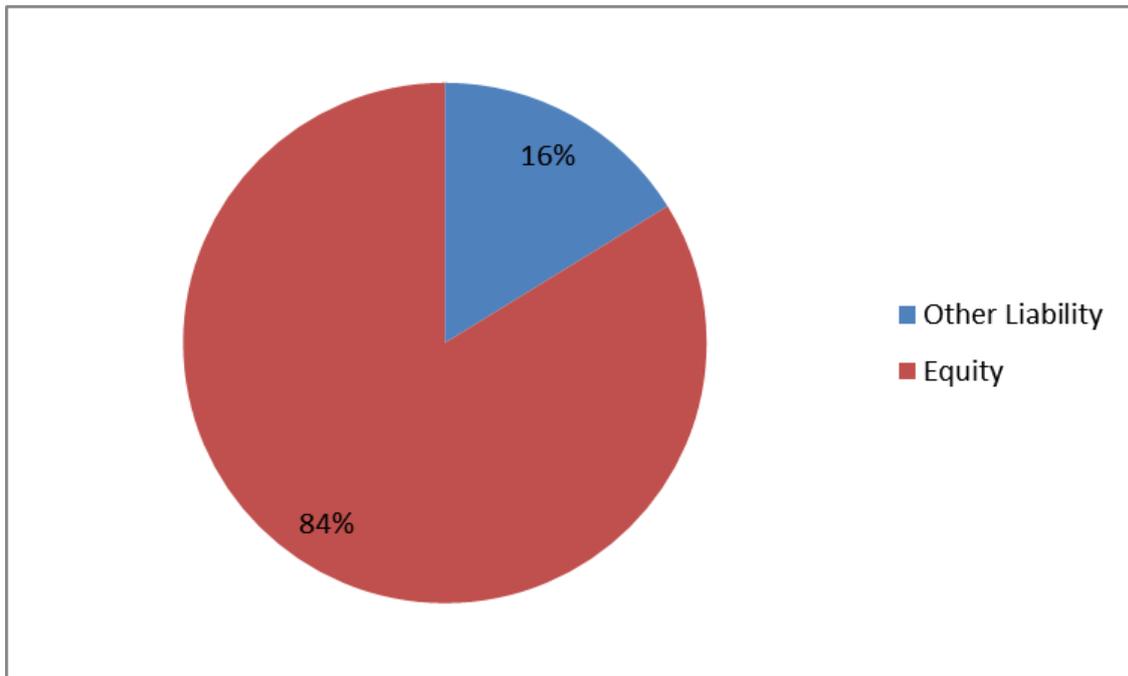
1. Sector-wise Loans and Advances



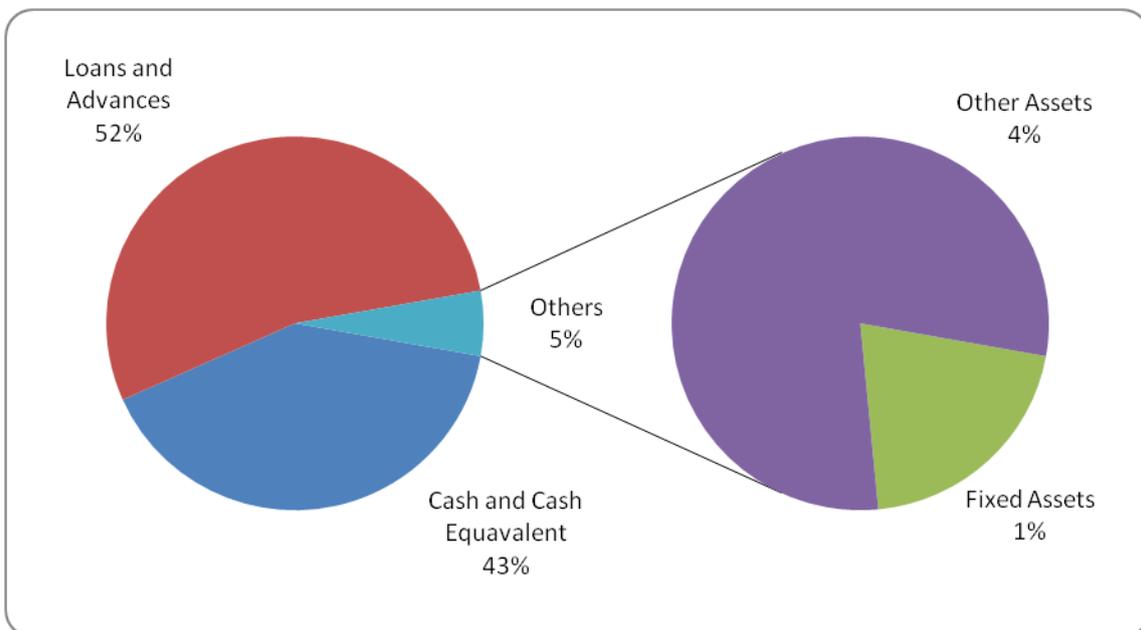
2. No of Loanees: Male & Female



3. Sources of Fund



4. Uses of Fund





CHAIRMAN MESSAGE

Dear stakeholders, it's a great pleasure for me to welcome all of you to the 6th Annual General Meeting of Agrani SME Financing Company Limited. I am immensely grateful to you for giving me the opportunity, on behalf of the Board of Directors, to present the salient features of achievement of the Company in the year ending on 31 December 2016.

At this august moment, I remember with reverence the great architect of our independence, the greatest Bengali of all times, the Father of the Nation, Bangabandhu Sheikh Mujibur Rahman, whose charismatic leadership has brought Bangladesh a global recognition. I also remember those brave martyrs of 1971 whose great sacrifice have given us the opportunity to be the citizens of an independent country.

With your support and trust, we have passed another successful but challenging year in 2016. The world economy experienced the effects of Brexit referendum and lately hung parliament in United Kingdom and presidential election in United States of America. Despite mixed reaction of world economy in the areas of exchange rate, interest rate and trade, Bangladesh economy witnessed strong economic growth during 2016. During the period the economy grows by 7.11%. This has become possible especially because of visionary plan and programs of the present government and growth supporting monetary and fiscal measures. The major contributing sectors are industry, manufacturing and service sectors with the active support of private sectors credit growth at 15% on November 2016, the liquid money market and foreign exchange market. The declining interest rate and stable exchange rate, inflation within the programmed level supported the above macro-economic parameters. We believe that our economy is better placed for business growth and with your continued support; we will continue serving our client with innovative financial services and keep stretching our boundaries of our targets in the coming days.

During the year 2016, the Company made revenue of BDT 135.66 millions, achieved Profit after Tax of BDT 9.69 million, recorded an EPS of Tk. 0.77 compared to that of 2.93 in the previous year. Due to excess amount of expenditure in Salary and Allowances for implementation of National pay Scale 2015 and non inclusion of recovery amount from written-off loans during the year 2016 (Tk. 22.76 million) as well as making significant amount of Provision against Tax liabilities resulted smaller EPS compare to that of the previous year. Company's total assets remained at a better position with a growth of 3.55% compared to that of 2015. 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 during the year 2016, a total number of 3126 enterprises have been established which have generated employment opportunities for 7058 persons. Out of the total employment 1272 were female and 5786 were male. We hope the opportunity of employment will be generated more in future.

The very ethos of the Company is to walk the path that few choose to take. Being the entrepreneurial organization, the Company is driven by the spirit of developing the enterprises of the niche/missing middle section to help build and develop sustainable small and medium scale entrepreneurs to generate income and employment opportunities with special emphasis on the women entrepreneurs. In addition to loan disbursement, the Company provides comprehensive sets of advisory and capacity building services. The activities of the Company are currently being operated in total 50 branches including a Principal branch situated at the premises of the head office of the Company.

With your support, at the beginning of my tenure as the Chairman my ambitions for the Company remained sky-high. I advised for few issues so that a prudent blend could be adhered to achieve a qualitative growth for the Company and not only to chase growth for the sake of growth itself. I envisioned that the Company would grow further and would create the platform for mutual benefits and growth of the entrepreneurs who are serviced by the Company.

In our journey, as in the path of most businesses engaged in financial services, we reported NPLs through control and with necessary provisions provided for prescribed regulatory ambits. 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 2016.

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 people to the targeted areas of the Company.

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.

Mohammad Shams-Ul Islam
Chairman
The Board of Directors



Managing Director & CEO's Message

Agrani SME Financing Company Limited is a Non-Banking Financial Institution (NBFI) owned by Agrani Bank Limited. It started its journey on being incorporated as a Public Limited Company on 27 October, 2010 vide certificate of incorporation No. C- 87827110. 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 experienced its sixth year of operation in 2016 with an operating profit of TK.3,02,91,662. Company's net profit in 2016 is TK. 96,86,423 and recorded Earning Per Share (EPS) of Tk.0.77. As on December 31, 2016 the available capital of the Company is TK. 1,22,57,17,371 as against Tk. 1,21,60,30,948 of the previous year which projects as robust financial footing.

The Company is one of the 33 Non-Banking Financial Institutions (NBFIs) of the Country rendering financial services to the existing and potential entrepreneurs. It is for the development of entrepreneurship in small and medium scale labor intensive enterprises. Its main focus is to increase the income and employment for the missing middle eligible entrepreneurs with particular emphasis to women entrepreneurs in the rural, urban and semi urban areas.

As of December 31, 2016 the Company has imparted training to 4308 entrepreneurs and disbursed SME credit to 11,504 entrepreneurs. The Company has also created employment opportunities for 26,654 persons. As on December 31, 2016 total number of existing borrower / entrepreneurs is 7,589. During the year, the Company has disbursed loan among 1,277 women entrepreneurs. The Company has also created employment opportunities for 26,654 persons. During the year 2016, the Company disbursed TK 53.58 crore loans to 3,115 entrepreneurs and recovered TK.47.43 crore (including interest income).

The amount of classified loan is TK. 5.53 crore, against total outstanding loan of TK. 78.79 crore. The non-performing assets of the Company decreased to 7.03 percent which was 11.95 percent in 2015.

As a newly established financial institution we feel and realize that we have to travel a long way with an aim to develop our Company as a model leading SME service offering institution of the country. To achieve this objective, we are deserving a strong capital position and handsome size of quality portfolio. In accumulation of all these, we are hopeful that this Company will be forwardly going ahead and stand on more strong base in the near future.

In this coming year with prudence guidance and leadership of the honorable Chairman of the Board, with the best wishes from all of you and sincere efforts put in by our colleagues, we are confident to do better than before. We will be able to ensure sustainable business growth involving our capable work force with more dynamism in applying stronger risk management skills. Above all, we will conduct every steps of business of the Company within legal and regulating frame work determined by our regulators from time to time.

I would like to take the pleasure of thanking gratefully to our honorable Chairman and members of the Board of Directors of our Company, Bangladesh Bank, Royal Kingdom of Norway, Management and staff Members of Agrani Bank Limited for their valuable direction and counsel. Also, we are grateful for the generous support and trust of our customers, patrons and vendors.

Md. Nurul Haque
Managing Director and CEO

Valued Added Statement

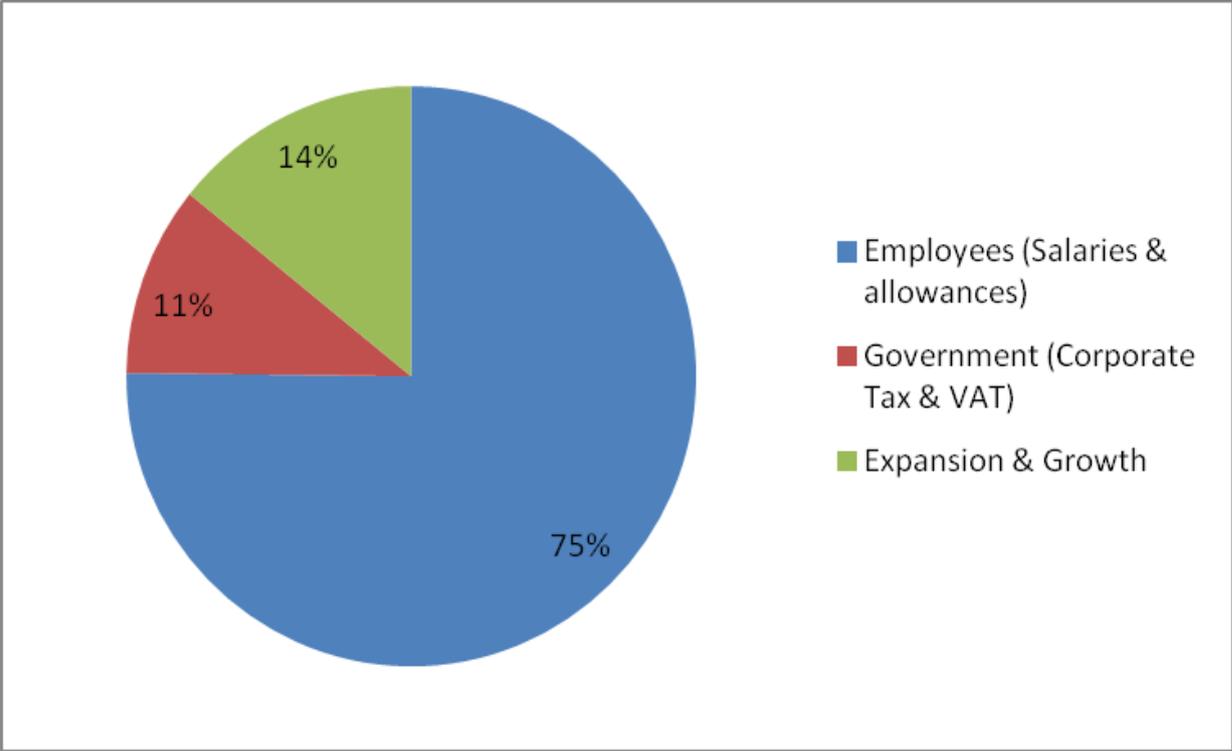
This value added statement provides a detailed account of total addition and the distribution of the value created by Agrani SME Financing Company Limited. The Company contributes positively to national socio-economic development by empowering employees through the payment of salaries and allowances;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

Particulars	2016		2015		2014		2013		2012	
	Amount (Taka in million)	%								
Value Added										
Net interest Income	133.81	122.49	158.44	133.43	153.78	113	126.00	109.10	89.98	113
Other Income	1.86	1.70	2.75	2.32	0.19	0.14	4.36	3.77	0.15	0.20
Management expenses	(26.43)	(24.19)	(42.45)	(35.75)	(17.49)	(12.82)	(14.87)	(12.87)	(10.45)	(13.83)
Total Value Added by the Company	109.24	100.00	118.74	100.00	136.48	100.00	115.48	100.00	79.69	100.00

Value Added Contributed to

Particulars	2016		2015		2014		2013		2012	
	Amount (Taka in million)	%								
Value added										
Employees:										
Salaries & Allowances	78.94	75.18%	41.73	35%	42.89	31.42%	44.14	38%	29.55	37%
Government:										
Corporate Tax Value Added Tax (VAT)	11.18	10.64%	36.16	30%	31.39	23%	31.77	28%	21.10	26%
To Expansion and Growth:										
Retained Income	9.69	9.22%	36.57	31%	60.23	44.14%	38.20	33%	28.54	36%
Depreciation	5.18	4.93%	4.28	4%	1.96	1.44%	1.38	1%	0.50	1%
Total Distribution	104.99	100%	118.74	100%	136.48	100%	115.48	100%	79.69	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 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 placed 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 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 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 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 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 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 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 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 quality information high standard 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 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, 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 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 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 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 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 indeed delighted to present before you the audited Financial Statements and Annual Report 2016 of Agrani Bank Limited. The report evaluates and analyzes Bank's overall operational performance of 2016 compared to that of 2015. 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 Bank in perspective of global economy and Bangladesh economy.

Global Economic Scenario

2016 ended up being a reasonably good year for markets. However, the year will be remembered for Brexit, Trump and Renzi, partly due to the unexpected nature of some of the results, but also the potentially profound shift in international relations in coming years. World economy, though recovered its-growth trend, is not yet consolidated. Although the pace of economic recovery of the developed countries is strong, the growth of emerging market and developing countries has been reduced. Huge price decline of fuel and abundance of US Dollar has affected the pace of the world economic restoration. Reduction of the oil price helps to increase the supply and economic development as well as recession of investment from fuel exporting countries has increased the risk of global economic stability. Besides, it has been apprehended that the abundance of US Dollar may harm the economy of debtor countries.

IMF forecasts 3.1 percent global economic growth in 2016 but this is expected to recover to 3.4 percent in 2017. The forecast, revised down by 0.1 percent for 2016 end 2017 reflects subdued outlook for advanced economies following the June U.K. vote in favor of leaving the European Union (Brexit) and weaker-than expected growth in the United States. These developments have put further pressure on global interest rates as monetary policy is now expected to remain accommodative for longer. Hung parliament has been formed in UK in the last election held on 8th June,2017 which may lead them to Soft Brexit instead of Hard Brexit. The result of which may also reflect on the economy.

The Macroeconomic Situation of Bangladesh

Despite world economic recession, Bangladesh has successfully achieved MDG's and became able to increase national income and budget allocation. Bangladesh has now been uplifted from lower income to a lower-middle income country. Women development, information technology, agriculture, industry, education and health sectors developed substantially which will enable Bangladesh to become a middle income country within 2021.

Economic Growth

Despite a challenging external environment that curbed remittances to Bangladesh, GDP growth accelerated to a six-year high in FY 2016. A stable political climate and sensible macroeconomic policies allowed for strong credit growth and higher private investment, which in turn fueled economic growth. Likewise, the economy also benefited from a pick-up in exports, as the all-important garment industry grew at a double-digit pace.

According to assessment of the Bangladesh Bureau of Statistics (BBS), GDP growth in the fiscal year 2015-2016 stood at 7.05 percent. GDP growth rate were 6.06 and 6.55 percent respectively in the fiscal year 2013-2014 and 2014- 2015. GDP per head and per capita income are increasing continuously. GDP per head in the previous FY 2014-15 was 1,236 US Dollar which is now increased to 1,384 US Dollar in the current fiscal year. Per capita income in the last fiscal year was 1,316 US Dollar which amounted to 1,466 US Dollar in FY-2016.

Among big sectors, the growth rate of agriculture, industry and service sector was 2.60 percent, 10.10 percent and 6.70 percent respectively in the fiscal year of 2015-2016. The growth in those sectors in the preceding fiscal year was 3.33 percent, 9.67 percent and 5.80 percent respectively. Manufacturing sector growth compared to last year's 10.31 percent has been estimated to be 10.30 percent this year. The contribution of agriculture, industry and service sectors in the GDP of fiscal year 2014-2015 was 16.00 percent, 30.42 percent, 53.58 percent respectively. The contribution of these three sectors in the fiscal year 2015-16 temporarily stands 15.33 percent, 31.28 percent and 53.39 percent respectively.

Savings & Investment

A provisional estimation shows that domestic savings and national savings rates in the FY 2016 are 25.00 percent and 30.8 percent of GDP growth which were 22.2 percent and 29.0 percent respectively in the previous FY 2015. As a percentage of GDP in the current fiscal year compared to last fiscal year, the domestic savings has been increased sharply higher. On the other hand, investment as a share of GDP increased at a slower pace. It improved marginally to 29.7 percent in FY16 from 28.90 percent in FY15.

Inflation

The average inflation rate gradually fell to 5.9 percent at the end of FY 2016 while it was found 7.40 percent at the end of FY14. This decline was mainly attributed to the falling food prices which more than offset the uptick in non-food prices.

Export - Import Sector

Export grew faster than import in recent year. Export stood USD 33,441 million in FY16 from 30,697 million in FY15. During the same period the total import payments also increased to USD 39,715 million from USD 37,662 million. The growth of export earnings showed an improvement of 8.9 percent in FY16 from 3.1 percents in FY15. Manufactured goods were the main drivers for such higher growth. Among the major sectors of exports, woven garments and knitwear (representing 84.9 percent of total export) petroleum by-products, raw jute, engineering products, vegetables, footwear supported overall export performance in FY16 while shrimps, tobacco, fruits, cut flower, fish and home textile slowed down the pace of that performance. On the contrary Imports grew at a rate of 5.5 percent in FY16 compared with the 3.0 percent growth in FY15. Total import bills for edible oil, textile & textile articles thereof, oil seeds, POL, pharmaceutical products, chemicals, yarn, staple fiber, crude petroleum and capital machinery rose in FY16 compared to FY15 while those for the food grains (rice and wheat), fertilizer, sugar, plastic and rubber articles thereof, clinker, milk & cream, raw cotton and iron, steel & other base metals declined during the same period.

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. In the year 2016, a total of 7, 57,731 Bangladeshis went abroad for employment which is 36.31 percent higher than the same period of the previous year. In this year, the amount of remittance inflow grows up to 13, 6009.77 million USD.

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.

Social Safety Net Program

To support the poor and vulnerable, the government of Bangladesh implements a number of public social safety net programs that involve spending more than 2% of GDP yearly. TK. 45,230 crore has been allocated in the social safety net sector in fiscal year 2016-17 which is 13.28 percent of the total budget and 2.31 percent of GDP. The activities under this program are Old-Age Allowance, Allowance for Widowed, Deserted and Destitute Women, Allowance and Stipend for the Physically Challenged Insolvent Citizens, Maternity Allowance for Poor Women, Allowance for Orphans, Allowance for Life Improvement of Transgender, Downtrodden, Sweepers and Bohemian People, Honorarium for Freedom Fighters, Kabikha, Kabita, EEP, One House One Farm and Small Loans for the Self-employment of Women etc.

Short and Medium Term Prospects of the Economy

Considering changed global scenario and internal situation, 7.05 percent growth has been projected in FY 2015-16 under Medium Term Macroeconomic Framework (MTMF 2016 - 2018) and will increasingly be 7.2 percent in FY 2016-17 and 7.4 percent in FY 2017-18. Investment is projected to reach from 29.4% of GDP in FY2014-15 to 30.1 percent of GDP in FY 2015-16. Considering the continuous flow of the investment, it has been targeted to be 31 percent of GDP in FY 2016-17 and 31.8 percent of GDP in the FY 2017-18.

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, upkeeping 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 a" 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 upto 10 percent by 2021, to raise per capita income upto \$ 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 2016

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 2016, 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 135.66 million, achieved profit after Tax of BDT 9.68 million and recorded an EPS 0.77 of compared to 2.92 in the previous year. Excess amount of Expenses in Salary and Allowances for implementation of National Pay scale 2015 and non recognition of amount recovered from written-off loans during the year 2016 (Tk. 22.76 million) as well as making significant amount of Provision against Tax liabilities resulted smaller EPS compared to that of the previous year. Company's total assets, however, remained at a better position with a growth of 3.76%. Operating results of during 2016 are summarized below:

Particulars	2016 (BDT in millions)	2015 (BDT in millions)	2014 (BDT in millions)	2013 (BDT in millions)	2012 (BDT in millions)
Operating Income	135.66	161.18	153.78	130.35	90.00
Operating Expenses	105.37	70.27	62.35	60.38	40.50
Total Operating Profit	20.29	72.73	91.62	69.97	49.50
Provision for income tax	10.61	36.16	31.39	32.00	21.18
Net Profit after income tax	9.69	36.56	60.22	38.20	29.00
Earnings Per Share (Taka)	0.77	2.93	4.82	3.82	2.85

Loans and Advances

Total loans and advances were Tk. 788.86 millions at 31 December 2016 representing more than 30% (thirty percent) higher than 2015 worth Tk. 184.40 millions. Movement of loans and advances were as under:

Particulars	2016 (Taka in Millions)	2015 (Taka in Millions)	2014 (Taka in Millions)	2013 (Taka in Millions)	2012 (Taka in Millions)
Opening balance	604.47	474.87	437.13	447.01	461.11
Disbursement during the year	536.12	375.03	244.80	212.22	103.69
Recovery during the year	336.56	229.68	192.80	196.45	117.79
Write off during the year	14.69	14.36	39.76	25.65	-
Adjustment during the year	1.48	1.60	25.00	-	-
Closing balance at 31 December	788.86	604.46	474.87	437.13	447.01

Recovery position of the loans and advances was almost 60%. Out of total loans and advances balance, Tk. 55.35 million i.e. 7.03% was classified for which necessary provisions were kept. At the end of the year 2016, a total number of 3126 enterprises have been established.

Liquidity Position

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

Particulars	2016 (Tk. in millions)	2015 (Tk. in millions)	2014 (Tk. in millions)	2013 (Tk. in millions)	2012 (Tk. in millions)
Short term deposit with other bank and financial institution	368.14	135.57	107.53	147.17	130.13
Fixed deposit with other bank and financial institutions	219.17	596.29	716.87	677.20	645.65
Total:	587.31	731.86	824.40	824.37	775.78

Total liquid asset represents 43% of total assets of the Company.

Shareholders' Equity

Total shareholder equity at the end of the year was Tk. 1225.72 million representing 0.80 percent higher than 2015 worth Tk. 9.68 million. Shareholders' equity as at 31 December, 2016 is summarized below:

Particulars	2016		2015		2014		2013		2012	
	(Tk. in millions)	%	(Tk. in millions)	%	(Tk. in millions)	%	(Tk. in millions)	%	(Tk. in millions)	%
Share Capital	1000.00	81.59	1000.00	82.23	1000.00	84.79	1000.00	89.35	1000.00	92.54
Statutory Reserve	34.64	2.83	32.71	2.69	25.39	2.15	13.35	1.19	5.71	0.53
General Reserve	54.73	4.47	54.73	4.50	54.73	4.64	54.73	4.89	54.73	5.06
Retained Earnings /(Losses)	136.34	11.12	128.59	10.57	99.21	8.41	51.11	4.57	20.22	1.87
Total:	1225.72		1216.03	100.00	1179.33	100.00	1119.19	100.00	1080.66	100

Material Changes after Balance Sheet Date (31ST December 2016)

There have been no material changes and commitments between the end of FY16 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, 2016.

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 2016, the Company contributed a total amount of BDT 30.22 million as Corporate Tax; BDT 5.28 million as TDS in total BDT 35.50 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 2016, 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

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.

Shareholding Pattern

Shareholding patterns of the Company as at the end of the year 2016 is as under

Name and address	Status	Date of original appointment	No. of shares held in the Bank
Mr. Mohammad Shams-Ul Islam (Representing Agrani Bank Ltd.)	Chairman and Director	06/09/2016	9,999,988
Mr. A.K.M. Abdur Rafique	Director	26/07/2010	2
Mr. Khondker Sabera Islam	Director	05/10/2010	2
Muhammad Awal Khan	Director	23/06/2014	2
Mizanur Rahman Khan	Director	01/12/2014	2
Kazi Sanaul Haque	Director	15/09/2015	2
Mr. A.K.M. Mujibur Rahman (Retired on 11-Dec-2016)	Managing Director and Chief Executive Officer	26/07/2010	2
Mrs. Selina Zaman	Managing Director and Chief Executive Officer (Additional Charge)	11/12/2016	--

Board Meetings and Attendance by the Directors

During the year ended on December 31, 2016 at total of 10 Boarding Meetings were held and attendance by the Directors is summarized below:

Name of the Directors	Total meetings held	Meetings Attended	Attendance of total meeting held	Remuneration paid on attending the meeting
Syed Abdul Hamid (Joined on 26 July, 2010)	10	06	60%	43,200/-
Krishibid A.K.M. Abdur Rafique (Joined on 26 July, 2010)	10	06	60%	43,200/-
Muhammad Awal Khan (Joined on 23 June, 2014)	10	05	50%	36,000/-
Mizanur Rahman Khan (Joined on 1 Dec. 2014)	10	05	50%	36,000/-
Md. Nazrul Islam Farazi	10	02	20%	14,400/-
Kazi Sanaul Haque (Joined on 15 Sep, 2015)	10	10	100%	72,000/-
A.N.M Masrurul Huda Siraji (Joined on 14.03.2016)	10	07	70%	50,400/-
Muhammad Shams-Ul-Islam (06.09.2016)	10	04	40%	28,800/-
Muhammad Ismail Hossain (26.07.2016)	10	03	30%	21,600/-
Md. Mashiur Ali (08.11.2016)	10	02	20%	14,400/-
A.K.M. Mujibur Rahman	10	09	90%	-

Auditors

M/S Hussain Farhad & Company have served as the External Auditors of the Company for year ending 31 December 2016. As per Bangladesh Bank's guidelines they are eligible for re-appointment and accordingly they have expressed their willingness to continue as Auditor.

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 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

Mohammad Shams-Ul Islam
Chairman

**Auditors' Report and Audited Financial Statements
of Agrani SME Financing Company Limited
For the Year Ended 2016**