



**Islami Bank Bangladesh Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2010**

**1.0 Status of the Bank**

Islami Bank Bangladesh Limited was established as a Public Limited Banking Company in Bangladesh in 1983 as the first interest free Shari'ah based Scheduled Commercial Bank in South East Asia. Naturally, its modus operandi is substantially different from those of other conventional Commercial Banks. The Bank conducts its business on the Shari'ah principles of Mudaraba, Musharaka, Bai-Murabaha, Bai-Muajjal, Hire Purchase under Shirkatul Melk, Bai-Salam and Bai-as-Sarf etc. There is a Shari'ah Supervisory Committee in the Bank who ensures that the activities of the Bank are being conducted on the precepts of Islam. The Shari'ah Supervisory Committee consists of prominent Shari'ah scholars, reputed Bankers, renowned Lawyers and eminent Economists.

There are two Stock Exchanges in Bangladesh viz. Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited and the Bank is listed with both the Stock Exchanges. The Bank carries out its business activities through its Head Office in Dhaka, 12 Zonal Offices and having 221 Branches & 30 SME/Agriculture Branches (Total 251 branches) in Bangladesh. The Principal place of business is the Registered Office at Islami Bank Tower, 40, Dilkusha Commercial Area, Dhaka-1000, Bangladesh.

**2.0 Nature of business**

All kinds of commercial banking services are provided by the Bank to the customers following the principles of Islamic Shari'ah, the provisions of the Bank Company Act 1991, Bangladesh Bank's directives and directives of other regulatory Authorities.

**3.0 Significant Accounting Policies**

**3.1 Preparation of Financial Statements**

These Financial Statements have been prepared on a going concern basis under the historical cost convention as modified to include the revaluation of land & building and Investment in Shares & Securities as well as Generally Accepted Accounting Principles in consistent with those of previous years. Although the operations of the bank are in strict compliance with the rules of Islamic Shari'ah, the Financial Statements have been prepared basically as per provisions of the "Guidelines for Islamic Banking" issued by Bangladesh Bank through BRPD Circular No. 15 dated 09.11.2009 with reference to the provisions of the Bank Company Act 1991 as amended by Bangladesh Bank BRPD Circular No.14 dated 25.06.2003 & Bangladesh Bank's other Circulars/Instructions and following International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) adopted as Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) by the Institute of Chartered Accountants of Bangladesh, the Companies Act 1994, the Securities and Exchange Rules 1987, Dhaka and Chittagong Stock Exchanges' Listing Regulations and other laws and rules applicable in Bangladesh, Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Manama, Bahrain as a member of that organization.

**3.2 Cash Flow Statement**

Cash Flow Statement is prepared by using the 'Direct Method' in accordance with BAS-7 "Statement of Cash Flows", as per "Guidelines for Islamic Banking" issued by Bangladesh Bank through BRPD Circular No. 15 dated 09.11.2009 and BRPD Circular No.14 dated 25.06.2003. The Statement of Cash Flow shows the structure and changes in cash and cash equivalents during the year. It is broken down into Operating Activities, Investing Activities and Financing Activities.



Cash and Cash Equivalents comprise short term, highly liquid investments that are readily convertible and are subject to an insignificant risk to changes in value.

### **3.3 Statement of Changes in Equity**

Statement of Changes in Equity has been prepared in accordance with BAS 1 "Presentation of Financial Statements", as per "Guidelines for Islamic Banking" issued by Bangladesh Bank through BRPD Circular No. 15 dated 09.11.2009 and BRPD Circular No.14 dated 25.06.2003.

### **3.4 Liquidity Statement**

Liquidity Statement has been prepared in accordance with the residual/remaining maturity of Assets and Liabilities as on 31 December 2010 and as per "Guidelines for Islamic Banking" issued by Bangladesh Bank through BRPD Circular No. 15 dated 09.11.2009 and BRPD Circular No.14 dated 25.06.2003 as per the following basis:

- i) Balance with other Banks and Financial Institutions, etc are on the basis of their respective maturity term;
- ii) Investments in Shares & Securities are on the basis of their respective maturity;
- iii) General Investments are on the basis of their recovery/repayment schedule;
- iv) Fixed assets are on the basis of their useful lives;
- v) Other assets are on the basis of their realization/amortization;
- vi) Deposits and Other Accounts are on the basis of their maturity and payments;
- vii) Provisions and Other Liabilities are on the basis of their adjustment/settlement;
- viii) Due to perpetual in nature/maturity, Mudaraba Perpetual Bond (MPB) is reported under maturity more than 5 (five) years.

### **3.5 Basis of Consolidation**

Banking Software named "electronic Integrated Banking System" (eIBS) has been deployed at all the branches/SME/Agriculture branches of Islami Bank Bangladesh Limited. The system produces among others, Statement of Affairs and Income & Expenditure Statement. A separate set of records for consolidating the 'Statement of Affairs', 'Income & Expenditure Statement' and other Returns & Statements of the Branches are maintained at the Head Office of the Bank at Dhaka from which the Financial Statements are drawn up.

#### **3.5.1 Consolidated Financial Statements**

The Consolidated Financial Statements include the financial statements of Islami Bank Bangladesh Limited and its subsidiaries Islami Bank Securities Limited and Islami Bank Capital Management Limited made up to the end of the financial year.

The Consolidated Financial Statements have been prepared in accordance with Bangladesh Accounting Standard 27 (BAS-27) "Consolidated and Separate Financial Statements". The consolidated financial statements are prepared to a common financial year ended 31 December 2010.

Figures in the comparative were not consolidated amounts as there was no subsidiary in 2009 to consolidate.

#### **3.5.2 Subsidiary**

Subsidiary is that enterprise which is controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise to obtain benefits from its activities from the date that control commences until the date that control ceases. The financial statements of subsidiary are included in the consolidated financial statements from the date that control effectively commences until the date that the control effectively ceases.



### **3.5.3 Transactions Eliminated on Consolidation**

All intra-group balances and income & expenses are eliminated on consolidation. Profit and Loss resulting from transactions between Group, if any, are also eliminated on consolidation.

### **3.6 Use of Judgment and Estimates**

The preparation of Financial Statements in conformity with Accounting Standards and statutory requirement requires the use of critical accounting estimates. It also requires management to exercise its judgment in the process of applying accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the Financial Statements are described in the following:

- Note 19.6: Income Taxes
- Note 20.0: Deferred Taxation
- Note 35.0: Depreciation
- Other Contingent Liabilities
- Liquidity Statement

### **3.7 Investments in Shares and Securities and Revenue Recognition**

- a) Investments in Shares and Securities are stated at cost other than the Shares of Bangladesh Shipping Corporation which was revalued on closing market price of Dhaka Stock Exchange (DSE) as on 30.12.2010 as per BRPD Circular No.15 dated 31.10.2005, DOS Circular Letter No.10 dated 11.09.2006 and DOS Circular Letter No.05 dated 26.05.2008. Adequate provisions have been made against probable losses for Investment in Shares and Securities.
- b) Investment in unlisted securities includes Ordinary Share(s) of Central Depository Bangladesh Limited (CDBL), Karmasangsthan Bank, investment in subsidiaries and investment in Bangladesh Government Islamic Investment Bond (BGIIB) are recorded and shown at cost.
- c) Dividend income on shares of Joint Stock Companies is accounted for when the right to receive payment is established as per BAS-18 "Revenue".
- d) Profit on Investment in Bangladesh Government Islamic Investment Bond (Islamic Bond) is recognized on accrual basis.

#### **3.7.1 Investment in Subsidiary**

Investment in Subsidiaries are accounted for under cost method of accounting in the Bank's Financial Statements in accordance with Bangladesh Accounting Standard 27 Consolidated and Separate Financial Statements.

### **3.8 Investments and Revenue Recognition**

- a) Investments are stated in the Balance Sheet net off unearned income and profit receivable.
- b) Income from investments is accounted for on accrual basis except investments under Musharaka, Mudaraba, Bai-Salam and Bai-as-Sarf modes of Investment. Income in case of Mudaraba, Musharaka, Bai-Salam and Bai-as-Sarf is accounted for on realisation basis. Besides, fees and commission income are recognised when earned. The Bank does not charge any rent during the gestation/interim period of investment against Hire Purchase under Shirkatul Melk (HPSM) mode of Investment but it fixes the sale price of the assets at a higher level in such a way to cover its expected rate of return. Such income is recognised on realisation basis.
- c) Provision for Classified Investment, Un-classified Investment, Off-Balance Sheet Items and Other Assets:

Provision for Investment is made as per instruction of Bangladesh Bank through BCD Circular No.34 dated 16.11.1989, BCD Circular No.20 dated 27.12.1994, BCD Circular No.12 dated



04.09.1995, BRPD Circular No.16 dated 06.12.1998, BRPD Circular No. 09 dated 18.06.2002 and BRPD Circular No. 05 dated 05.06.2006.

The Provision rates are given below:

Particulars		UC	SMA	Classified		
				SS	DF	BL
Small Enterprise Financing		1%	5%	20%	50%	100%
Consumer	Investment for House Building & Professional	2%	5%	20%	50%	100%
	Other than House Building & Professional	5%	5%	20%	50%	100%
All Other		1%	5%	20%	50%	100%
Off Balance Sheet Items		1%				
Investment to Stock Dealers & Stock Broker		2%				

### 3.9 Sharing of Investment Income

In case of Investment, Mudaraba fund gets preference over cost free fund. The investment income earned through deployment of Mudaraba Fund is shared by the Bank and the Mudaraba Depositors at the pre-determined ratio fixed by the Bank.

### 3.10 Profit/ Rent/ Compensation Suspense Account and Irregular Income

Profit/Rent/Compensation accrued on Special Mentioned Account and Classified Investments are suspended and accounted for as per Circulars issued by the Bangladesh Bank in this regard from time to time.

Moreover, Income which is irregular (doubtful) as per Shari'ah is not included in the distributable income of the Bank. Bank charges compensation on overdue Bai-Murabaha and Bai-Muazzal investments.

Such compensation is not permissible as per Shari'ah to take into regular income of the Bank. Therefore, the total amount of doubtful Income and Compensation are temporarily used to make provision for bad and doubtful investments. However, realized amount of Doubtful Income and Compensation are transferred/utilised for charitable purposes after deduction of applicable Income Tax.

Interest received from the balances held with Foreign Banks abroad and from Foreign Currency Clearing Account with Bangladesh Bank are also not credited to regular income, since it is not permissible as per Shari'ah. These are transferred/utilised for charitable purposes as per decision of the Board of Directors after payment of Income Tax thereon.

### 3.11 Profit Paid on Deposits (PPD)

As per Mudaraba principle of Islamic Shari'ah as well as agreement between the Mudaraba Depositors and the Bank, the Mudaraba Depositors are entitled to get minimum 65% of the Investment Income earned through deployment of Mudaraba Fund as per weightage assigned to each type of Mudaraba Deposit. In the year 2010, IBBL paid 67.00% of Investment Income earned through deployment of Mudaraba Fund. Moreover, in some Mudaraba Deposits, additional rate was allowed over the rate arrived as per weightage. Mudaraba Depositors do not share any income derived from various banking services where the use of fund is not involved and any income derived from Investing Bank's Equity and other Cost Free Fund. Al-Wadeeah Depositors do not share any income of the Bank.

Profit is paid/provided to Mudaraba Deposit accounts at provisional rate on half yearly/ anniversary basis considering overall growth, performance and profitability of the Bank during the year. Final Rates of profit of any accounting year are declared after finalization of Shariah Inspection and certifying the Investment Income of the Bank by the Statutory Auditors.



### **3.12 Fees, Commission and Exchange Income**

Fees, Commission and Exchange Income on services provided by the bank and recognized on a cash basis. Commission charged to customers on letter of credit and letter of guarantee are credited to Income at the time of effecting the transactions.

### **3.13 Management and Other Expenses**

Expenses incurred by the bank are recognized on accrual basis.

### **3.14 Off-Shore Banking Units (OBU)**

Bangladesh Bank approved operation of Off-Shore Banking Units (OBU) of Islami Bank Bangladesh Limited located at Head Office Complex Branch- Dhaka, Uttara Branch- Dhaka and Agrabad Branch- Chittagong through their letter no. BRPD (P-3)744(111)/2010-1032 dated 28 March, 2010, In the year 2010, no transaction at Off-Shore Banking Units (OBU) have been made. However, operations through Off-Shore Banking Units (OBU) will be commenced very soon.

### **3.15 Subsidiary Companies**

As per Securities and Exchange Commission's (SEC) Letter No. SEC/Reg/CSE/MB/ 2009/444 dated 20.12.2009 and approval of Bangladesh Bank through their Letter No. BRPD (R-1)717/2010-47 dated 07.02.2010, IBBL established one Subsidiary Company named "Islami Bank Securities Limited" to operate Stock Broker and Stock Dealer activities.

"Islami Bank Securities Limited" was incorporated on 22.03.2010 and date of commencement of business was 23.05.2010. Required capital was transferred to Islami Bank Securities Limited on 25.05.2010 which is operating Business under the license issued by the Securities & Exchange Commission (SEC).

As a Stock Broker, "Islami Bank Securities Limited" acts as an agent in the purchase and sale of Shari'ah approved listed securities and realizes commission on transactions in accordance with approved commission schedule.

As per Bangladesh Bank BRPD Circular No. 12 dated 14.10.2009 and approval of Bangladesh Bank through their Letter No. BRPD (R-1)717/2010-47 dated 07.02.2010, IBBL established another Subsidiary Company named "Islami Bank Capital Management Limited" to operate Portfolio Management, Underwriting, Issue Management etc. "Islami Bank Capital Management Limited" was incorporated on 01.04.2010 and required capital was transferred on 06.07.2010.

Another subsidiary of Islami Bank Bangladesh Limited named 'IBBL Exchange Singapore Pte. Ltd.' is under process to incorporate in Singapore for money-remittance, changing, transmitting and do all matters and things incidental thereto under the Companies Act, CAP. 50 of the Republic of Singapore.

### **3.16 Zakat**

Zakat is paid by the Bank at the rate of 2.58% (instead of 2.50% as the Bank maintains its Accounts following Gregorian Year) on the closing balances of Share Premium, Statutory Reserve, General Reserve and Dividend Equalisation Accounts.

Zakat is charged in the Profit & Loss Account of the Bank as per "Guidelines for Islamic Banking" issued by Bangladesh Bank through BRPD Circular No. 15 dated 09.11.2009.

Zakat on Paid up Capital and Deposits is not paid by the Bank, since it is the responsibility of the Shareholders and Depositors respectively.



### 3.17 Retirement Benefit and Staff Welfare Schemes

The bank maintains Contributory Provident Fund, Gratuity Fund, Superannuation Fund and Benevolent Fund. These funds are managed by separate Board of Trustees:

#### a) Provident Fund

The Provident Fund is for the regular and confirmed employees who works for a minimum period of 5(five) years at IBBL and it came into force with effect from 1<sup>st</sup> day of March, 1986. The fund receives contributions @ 10% of the basic pay both from employees and employer. Tk.1,952.89 million was available in the IBBL Employees Provident Fund as at 31 December 2010.

#### b) Gratuity Fund

The Gratuity Fund for the regular and confirmed employees of IBBL was established on 1<sup>st</sup> day of March, 1986. The employees who serve at least 7 (seven) years at IBBL, are normally entitled to get gratuity equivalent to 1(one) Month basic pay, 1.5 (one and a half) Months' basic pay and 2 (two) Months' basic pay, considering the length of services. The Fund balance stood at Tk.2,055.41 million as at 31 December 2010 and according to the actuarial valuation report of ACFIN (Actuary of IBBL Employees' Gratuity Fund), present gratuity fund is sufficient for payment of gratuity.

#### c) Benevolent Fund

The Benevolent Fund for the regular and confirmed employees of Islami Bank Bangladesh Limited was established in the year 1986. This Fund is mainly used for payment of scholarship to the meritorious students among the children of IBBL's officers and sub-staff, to allow short term quard/grant to meet some unexpected and certain needs of the staff of IBBL like accident, clinical treatment, marriage ceremony of the employees and their dependents. Tk.5.00 million has been provided during the year 2010 to the Fund. The Fund balance was Tk.96.06 million as at December 31, 2010.

#### d) Superannuation Fund

The Fund came into force with effect from the 19<sup>th</sup> June, 2008. It was established for financial help to the members of the IBBL Employees' Superannuation Fund and their families in case of retirement, death, physical disability of employee while in service or of any incidence of like nature acceptable to the Board of Trustees and retirement from the service. Tk.10 million has been provided during the year 2010 to the Fund. The Fund balance was Tk.272.36 million as at 31 December 2010.

### 3.18 Fixed Assets, Depreciation, De-recognition etc.

- a) **Fixed Assets:** Fixed assets are stated at cost or revalued amount less accumulated depreciation as per BAS 16 "Property, Plant and Equipment" and depreciation thereon charged to Operating Expenses. The cost of acquisition of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition for its intended use inclusive of inward freight, duties and non-refundable taxes. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.
- b) **Revaluation:** Land & Building are revalued as per BAS 16 "Property, Plant and Equipment" as well as Bangladesh Bank BCD Circular Letter No. 12 & 18 dated 20 April 1993 & 15 June 1993 respectively and BRPD Circular No.10 dated 25 November 2002 & BRPD Circular No.09 dated 31 December 2008. Surplus arising on revaluation of Land & Building of the Bank is credited to Assets Revaluation Reserve account as per Paragraph 39 of BAS 16 "Property, Plant and Equipment". Deficit arising on subsequent revaluation is adjusted against the balance in the revaluation reserve account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from their fair value.





- c) **Intangible Assets:** Website Development cost of the Bank is capitalized as per BAS 38 "Intangible Asset" under Deferred Revenue Expenses on the basis of costs incurred to develop the Website of IBBL. These costs are amortized in 5 (five) years.
- d) **Depreciation:** Depreciation is charged at applicable rates on Fixed Assets as per Paragraph 43 of BAS 16 "Property, Plant and Equipment". In case of addition during the year depreciation is calculated from the date of acquisition. No depreciation is charged on building until the same is completed and brought into use.

Depreciation is charged at the following rates on a reducing balance method on all Fixed Assets other than Motor Vehicles and Computers, which are depreciated on straight line basis:

Category of fixed assets		Rate
i)	Land	Nil
ii)	Building	2.50%
iii)	Furniture and Fixtures	10.00%
iv)	Motor Vehicles	20.00%
v)	Mechanical Appliances	20.00%
vi)	Computers	25.00%
vii)	Books	30.00%

- e) **De-recognition:** An item of Property, Plant & Equipment is derecognized upon disposal or when no future economic benefits are expected from its use as per Paragraph 67 of BAS 16 "Property, Plant and Equipment". Any gain or loss arising from de-recognition of the asset is recognised in the Profit & Loss Account.
- f) **Impairment**  
The carrying amount of assets is reviewed to determine whether there is any indication of impairment of any asset or group of assets as per BAS 36 "Impairment of Assets". If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are recognized in the Profit & Loss Account.
- g) **Capital Work in Process:** Capital Work in Process is cost directly incurred for construction of buildings. These are stated in the Balance Sheet at cost. The work in process is transferred to cost of building when the construction is completed and it becomes usable.

### 3.19 Other Assets

Other Assets include all other financial assets, other income receivable, advance against expenses etc.

#### 3.19.1 Stock of Stationery

Stock of stationery is reported under Other Assets and valued at Cost.

### 3.20 Deposit and Other Accounts

Deposit and Other Accounts include Current deposit as well as savings, term and other deposits on Mudaraba basis. These items are brought to Financial Statements at the gross value of the outstanding balance.

### 3.21 Other Liabilities

As per BAS 37 "Provisions, Contingent Liabilities and Contingent Assets" the Bank recognizes provisions only when it has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the obligation can be made.

Other Liabilities comprise items such as provision for Investment, provision for taxes, profit/rent suspense, accrued expenses, etc. Other Liabilities are recognized in the Balance Sheet as per guidelines of Bangladesh Bank, Bangladesh Accounting Standards (BAS), Income Tax Ordinance 1984 etc.



### **3.21.1 Inter Branch Transactions**

Transactions with regard to inter branches are reconciled regularly and there is no difference in this account as on 31<sup>st</sup> December, 2010.

### **3.22 Foreign Currency Transactions**

- a) The transactions in foreign currencies are translated into equivalent Taka currency using the exchange rates ruling on the dates of such transactions.
- b) The Assets and Liabilities including balance with Other Banks denominated in foreign currencies as at 31 December 2010 are translated into Taka currency at the weighted average rate of inter Bank Market as determined by Bangladesh Bank. Balances held in foreign currencies other than US Dollar are converted into equivalent US Dollar at buying rates of New York closing of the previous day.

### **3.23 Subordinated Debt/Mudaraba Perpetual Bond (MPB)**

Mudaraba Perpetual Bond (MPB) was issued by the Bank as per approval of Bangladesh Bank Letter No. BRPD(P-1)661/14(a)/2006-1437 dated 07.05.2006 and Securities and Exchange Commission Letter No. SEC/CI/CPLC-118/2006/385 & SEC/CI/RPO-01/2007/386 both dated 10.06.2007. It is treated as a component of Supplementary Capital as Subordinated Debt. The instrument having face value of Tk.1,000 each is subordinated to the claims of other creditors and depositors. In the case of liquidation the subordinated debt holders would be paid just before paying to the shareholders assuming there are assets to distribute after all other liabilities and debts have been paid. The Mudaraba Perpetual Bond (MPB) is perpetual in nature i.e. never ending maturity.

### **3.24 Off Balance Sheet Items**

Off Balance Sheet Items are disclosed under Contingent Liabilities & Other Commitments and required provision on Off Balance Sheet exposures have been made in accordance with Bangladesh Bank Guidelines.

#### **3.24.1 Contingent Liabilities**

Any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the bank; or

Any present obligation that arises from past events but is not recognized because: it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, is considered as contingent liability.

Contingent Liabilities are not recognized but disclosed in the Financial Statements unless possibility of an outflow of resources embodying economic benefits is reliably estimated.

Contingent Assets are not recognized in the Financial Statements as this may result in the recognition of income which may never be realized.

### **3.25 Materiality and Aggregation**

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by BAS 1 "Presentation of Financial Statements".

### **3.26 Offsetting of Assets and Liabilities**

The value of any asset or liability as shown in the Balance Sheet is not off-set by way of deduction from another liability or assets unless there exist legal right thereof.





### 3.27 Auditors working hour

The external auditors M/s A. Qasem & Co. Chartered Accountants and ACNABIN, Chartered Accountants worked about 6,250 person hours at the Bank's Head Office and different branches. During the audit, they have audited 80% of the Risk Weighted Assets (RWA) of the Bank during 2010.

### 3.28 General

- a) The figures appearing in these Financial Statements have been rounded off to the nearest integer.
- b) Previous year's figures have been re-arranged to conform current year's presentation wherever necessary.

### 3.29 Reporting Year of Financial Statements

These Financial Statements cover a calendar year from 01 January 2010 to 31 December 2010.

### 3.30 Date of Authorization to Issue the Financial Statements

The Board of Directors has approved the Financial Statements on 24<sup>th</sup> March 2011.

### 3.31 Regulatory and Legal Compliance

Among others, the Bank complied with the requirements of the following circular, rules and regulations:

- a) The Bank Company Act, 1991
- b) The Companies Act, 1994
- c) "Guidelines for Islamic Banking" issued by Bangladesh Bank through BRPD Circular No. 15 dated 09.11.2009
- d) Circulars, Rules and regulations issued by Bangladesh Bank from time to time
- e) The Securities and Exchange Rules, 1987
- f) The Securities and Exchange Ordinance, 1969
- g) The Securities and Exchange Commission Act, 1993
- h) Income Tax Ordinance, 1984
- i) VAT Act, 1991
- j) Standards issued by AAOIFI

## 4.0 Audit Committee

As per Bangladesh Bank BRPD Circular No.12 dated 23 December 2002, an Audit Committee was formed by the Board of Directors of the Bank consisting of the Board Members. As at 31 December 2010 the following directors were the members of the Audit Committee:

Sl. No.	Name of the Member	Status with the Bank	Status with the Committee	Educational Qualification
i)	Janab Md. Shahidul Islam	Director	Chairman	H.S.C. & Diploma in Arabic Language
ii)	Janab Md. Abdus Salam, FCA, FCS	Depositor Director	Member	B.Com (Hon's), M.Com (Accounting) D.U. FCA, FCS
iii)	Prof. NRM Borhan Uddin, PhD.	Independent Director	Member	B.Com (Hon's), M.Com (Management) C.U. MBA, M.S. Ph.D (USA)



Audit Committee of the Board met in 32 occasions in the year 2010. They met in 6 occasions regarding finalization of Financial Statements for the year 2010 with the Senior Management of the Bank in which among others, the following issues were discussed:

- (i) The Committee examined the Financial Statements of 2010 of the Bank to see whether all the disclosures and information have been incorporated in the Financial Statements & whether the Bank followed International Financial Reporting Standards (IFRS) and procedures in preparing Financial Statements.
- (ii) In finalizing the Financial Statements for the year 2010, several alternatives and various pertinent issues, such as impact of Doubtful Income, Dividend, Compensation, Profit Paid on Deposits (PPD), Capital Adequacy Ratio & Risk Weighted Assets etc. were considered by the Audit Committee.
- (iii) The Committee discussed the details Inspection Report submitted by the Bangladesh Bank, check & control systems and provided appropriate guidelines to the Management for overall improvement of the Management and Accounting system and minimization of various types of risks.
- (iv) Like previous years, the Committee also exchanged views with the Statutory Auditors and Management of the bank before Finalization of the Financial Statements of the Bank.

## 5.0 Related Party Disclosure

Related Parties include the Bank's directors, key management personnel, associates, companies under common directorship etc. as per BAS 24 "Related Party Disclosures". All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes, as admissible.

### 5.1 Name of the Directors along with all related Firms/ Companies/ Institutions/ Related Parties as at 31 December 2010:

Sl. No	Name of the Directors	Status with the Bank	Name of the related Firms/ Companies/ Institutions/ Parties etc.	Remarks
(i)	Prof. Abu Nasser Muhammad Abduz Zaher	Chairman	Representative of Ibn Sina Pharmaceutical Ind. Ltd, The Ibn Sina Trust, Manarat Trust and Fouad Abdul Hameed Al-Khateeb Foundation.	
(ii)	Jb. Yousif Abdullah Al – Rajhi	Vice – Chairman	Representative of Al-Rajhi Co. for Industry & Trade, Riyadh, K.S.A	Foreign Director
(iii)	Engr. Mustafa Anwar	Vice – Chairman	Birds Garments Ltd.	
(iv)	Jb. Mohammad Abdullah Al Jalahma	Director	Representative of Kuwait Awqaf Public Foundation	Foreign Director
(v)	Jb. Hafizul Islam Mian	Director	Islamic Education Society	
(vi)	Engr. Md. Eskander Ali Khan	Director	KEARI Limited & Diganta Media Corporation Limited	
(vii)	Jb. Md. Khurshed Hossain	Director	Representative of ICB Asset Management Co. Ltd.	
(viii)	Dr. Abdulhameed Fouad Al-Khateeb	Director	Not applicable	Foreign Director
(ix)	Jb. Mohammad Adnan Midani	Director	Representative of Islamic Development Bank	Foreign Director
(x)	Jb. Md. Shahidul Islam	Director	Not applicable	



(xi)	Engr. Muhammad Dawood Khan	Director	Not applicable	
(xii)	Jb. Mohammed Nazrul Islam	Director	Not applicable	
(xiii)	Dr. Md. Shafiqur Rahman	Director	Representative of Ibn Sina Group Investment Co. Ltd., Ma Moni Hospital Pvt. Ltd., Sylhet Trade Centre and Women's Medical College, Sylhet	
(xiv)	Jb. Md. Abdus Salam, FCA, FCS	Depositor Director	Not applicable	
(xv)	Jb. Humayun Bokhteyar, ACPA, FCA	Depositor Director	Not applicable	
(xvi)	Prof. NRM Borhan Uddin Ph.D	Independent Director	Not applicable	
(xvii)	Jb. Mohammad Abdul Mannan	Managing Director	Not applicable	Ex - Officio Director

## 5.2 Related Party Transactions

The Bank invested to the following Firms/ Trusts/ Individuals where the Directors of the Bank are related:

SL. No.	Name of the Account/ Firm/Trust etc.	Amount outstanding as on 31.12.2010 (Million Taka)	Name of the Director	Relationship of the Director with the Firm/ Trust etc.	Purpose	Classified Position
(i)	Fouad Al-Khateeb Hospital	24.16	Prof. Abu Nasser Muhammad Abduz Zaher (Chairman)	Member, Board of Directors	HPSM (Project)	Un Classified
(ii)	Ibn Sina Trust	538.65	Prof. Abu Nasser Muhammad Abduz Zaher (Chairman)	Guarantor Member	Purchase of House, BMRE & Import of Machinery	- do-
(iii)	Mrs. Shahanara Begum (Wife)	2.18	Engr. Md. Eskander Ali Khan (Director)	Husband	HPSM	- do-
(iv)	Mohammad Abdul Mannan	3.55	Mohammad Abdul Mannan Managing Director & Ex - Officio Director	Himself	HPSM	- do-

- ◆ Investment to related parties is effected as per requirement of section 27 of Bank Company Act 1991.
- ◆ Share issued to Directors and Executives without consideration or exercisable at discount is Nil.
- ◆ Other disclosures are not applicable as required by BRPD Circular No. 14 dated June 25, 2003.

## 6.0 Shareholders' Equity

### 6.1.1 Capital

#### Authorised Capital

Authorised Capital is the maximum amount of share capital that the Bank is authorised to raise as per its Memorandum and Articles of Association.



### **Paid-up Capital**

Paid-up Capital represents total amount of shareholders' capital that has been paid in full by the shareholders. Shareholders are entitled to receive dividend as approved from time to time in the Annual General Meeting.

#### **6.1.2 Statutory Reserve**

As per section 24 of the Bank Company Act 1991, 20% of the net profit before tax is transferred to Statutory Reserve every year.

#### **6.2 Share Premium**

Share premium arose from sale of some un-subscribed Right Share for the year 1996 at Market price and can be utilised as per section 57 of the Companies Act 1994.

#### **6.3 Assets Revaluation Reserve**

This represents the difference between the book value and the re-valued amount of Premises (Land and Building) of the Bank as assessed by professional valuers in the year 2000, 2002, 2003, 2004, 2005, 2006 and 2009 as per guideline issued by Bangladesh Bank, which was reviewed by the Statutory Auditors. This Reserve is not distributable. However, to calculate Capital Adequacy Ratio, 50% of the same is considered as a component of supplementary capital as per Bangladesh Bank BCD Circular Letter No. 12 & 18 dated 20 April 1993 & 15 June 1993 respectively, BRPD Circular No.10 dated November 25, 2002, BRPD Circular No. 09 dated 31.12.2008 and BRPD Circular No. 24 dated 03.08.2010.

#### **6.4 Revaluation Reserve of Securities**

Investment in Shares of Bangladesh Shipping Corporation is held for fulfillment of Statutory Liquidity Reserve (SLR) as per Bangladesh Bank Letter No. BCD (P)744(23)(II)/1030 dated 08.11.1983, BRPD Circular No.15 dated 31.10.2005, DOS Circular Letter No.10 dated 11.09.2006, BRPD Circular No.03 dated 12.03.2008 and DOS Circular Letter No.05 dated 26.05.2008. The share has been revalued as on 30.12.2010 on the basis of closing market price of Dhaka Stock Exchange Limited (DSE). The surplus has been credited to Revaluation Reserve on securities account and 50% of the same has been taken as a component of Supplementary Capital as per Bangladesh Bank BRPD Circular No.03 dated 12.03.2008 and BRPD Circular No.09 dated 31.12.2008 and shown in the Statement of Changes in Equity of 31 December 2010 as per Bangladesh Bank guidelines.

#### **6.5 Risk Management**

The risk of Islami Bank Bangladesh Limited is defined as the possibility of losses, financial or otherwise. The Risk Management of the Bank covers 6 (Six) Core Risk Areas of banking industry i.e. Investment (Credit) Risk Management, Foreign Exchange Risk Management, Asset - Liability Management, Prevention of Money Laundering, Internal Control & Compliance Risk and Information & Communication Technology Risk.

As per instruction of Bangladesh Bank, IBBL formed a Risk Management Unit (RMU) to formulate/establish risk assessment and management policies, methodologies, guidelines and procedures for risk identification, risk measurement, risk monitoring, deciding acceptable level of risk and risk controlling.

The prime objective of the Risk Management Unit is that the Bank takes well calculative Business Risk Policy for safeguarding the Bank's capital, its financial resources and profitability from various risks. In this context, the Bank implemented all the guidelines of Bangladesh Bank as under:



### **6.5.1 Investment (Credit) Risk Management**

Investment (Credit) risk is one of the major risk faced by the Bank. This can be described as potential loss arising from the failure of counter party to perform as contractual agreement with the Bank. The failure may result from unwillingness of the counter party or decline in his / her financial condition. Therefore, Bank's Investment (Credit) risk management activities have been designed to address all these issues.

### **6.5.2 Foreign Exchange Risk Management**

Foreign Exchange risk is defined as the potential change in earnings arising due to change in market price. The foreign exchange risk of the Bank is minimized through proper market analysis, real time pricing of Foreign Exchange and money market product, fixation of different market related risk limits (Daylight, Overnight, Stop loss and Management action trigger) & counter parties credit limits by the Management and ensure adherence of the limits by the Treasury Front Office (Dealing Room).

Treasury Front Office (Dealing Room) independently performs the deals and the Treasury Back Office is responsible for verification of the deals and passing of their entries in the books of accounts. All foreign exchange transactions are revalued at weighted average exchange rate as provided by Bangladesh Bank at the end of each month. All Nostro accounts are reconciled on a monthly basis and outstanding beyond 30 days is reviewed by the Management for its settlements/ reconciliation.

### **6.5.3 Asset Liability Management**

The Asset Liability Committee (ALCO) of the Bank monitors Balance Sheet risk and liquidity risks of the Bank. The Balance Sheet risk is defined as potential change in earnings due to change in rate of profit, foreign exchange rates which are not trading nature. Asset Liability Committee (ALCO) reviews liquidity requirement of the bank, the maturity of assets and liabilities, deposit and investment pricing strategy/transfer of pricing, sensitivity of Assets and Liabilities, Management indicators/ratios and the liquidity contingency plan. The primary objective of the ALCO is to monitor and avert significant volatility in Net Investment Income (NII), investment value and exchange earnings.

### **6.5.4 Prevention of Money Laundering**

Anti Money Laundering risk is defined as the loss of reputation and expenses incurred as penalty for being negligent in prevention of money laundering. For mitigating risks the Bank has formed 05(five) members Central Compliance Unit (CCU) under the leadership of the Chief Anti Money Laundering Compliance Officer (CAMLCO) at Anti Money Laundering Department, Branches Control Department (BCD), Head Office. Anti Money Laundering compliance units are also functioning at Zonal Offices and Branches, who independently review the transactions of the accounts to verify Suspicious Transaction Reports (STRs). A Manual for prevention of money laundering was developed and approved by the Board of Directors. IBBL has introduced (a) 13 (thirteen) numbers of Uniform Account Opening Form (AOF), (b) Know Your Customer (KYC) Profile and (c) Transaction Profile (TP) in the Bank as per instructions of Bangladesh Bank. IBBL had already issued 61 (Sixty One) circulars providing with necessary instructions for Prevention of Money Laundering activities and also for combating of Financial Terrorism.

Moreover, IBBL had conducted lot of training sessions/workshops to create awareness and development of the skill of the officials for identifying Suspicious Transactions. IBBL introduced a Policy Guideline to combat terrorist financing in the light of Anti Terrorism Act, 2009 coupled with the Anti Money Laundering Act, 2009 approved by the Board of Directors of the Bank.

IBBL has exclusively completed the KYC procedures of Legacy Accounts (accounts opened before 30 April 2002). To establish fruitful Anti Money Laundering drive at branch level, IBBL introduced



AML Rating systems such as excellent/good/satisfactory/marginal through self Assessment Report & Independent Testing Procedure as per instruction of Bangladesh Bank.

#### **6.5.5 Internal Control and Compliance**

Operational loss may arise from errors and frauds due to lack of internal control and compliance. With a view to overcome such lapses and verification of Asset quality, quality of customer's service, overall security arrangement operational efficiency and regulatory issues as guided through different circulars, manuals from Head Office and other regulatory bodies, bank organize its management through Internal Control & Compliance Wing (ICCW). ICCW consists of three Divisions namely (1) Audit & Inspection Division, (2) Compliance Division and (3) Monitoring Division to develop sound, sustainable and secured growth of the Bank.

##### **Audit & Inspection Division:**

Internal Audit and Inspection Division undertakes periodical and special audit of the Branches, Divisions and Departments of Head Office to review operational effectiveness and internal & external compliance requirements. Bank has introduced Risk based Internal Audit and grading of the branches. The Audit Committee of the Board subsequently review the lapses identified by Audit and Inspection Division. The Audit Committee also reviews Bangladesh Bank Inspection Reports and other areas indicated in the Bangladesh Bank guidelines. Necessary action measures & steps are taken on the basis of observation & suggestion of the Committee.

The Audit & Inspection Division has conducted investigations against complaints received from customers, anonymous person, management & others and submitted the reports to the competent authority. Periodical Inspection of Zonal Heads, Shari'ah Inspections & Branch Manager's self Audit reports were reviewed by the Division regularly and necessary guidance and suggestion were given with continuous follow-up thereagainst.

##### **Compliance Division:**

The Compliance Division handles the 'Regulatory issues of Bangladesh Bank and other Regulatory bodies' and submitting 'Regulatory issues status position' quarterly to the Audit Committee of the Bank as per BRPD Circular No.12 dated 23.12.2002.

The Compliance Division ensures that bank complies with all regulatory requirements while conducting its day to day business. The Compliance Division maintains liaison with the regulatory bodies for any regulatory changes and notify the same to all concerned.

##### **Monitoring Division:**

This division performs the following:

- i) Assesses the risk of the functional areas of the Branches described in the Departmental Control Function Checklist (DCFCL) and determines the frequency of Audit/Inspection of the branches based on the gravity of risks involved.
- ii) Monitors the Internal Control Functions through the Quarterly Operations Report (QOR) and other mechanisms.
- iii) Checks the Completion of Investment Documentation.

#### **6.5.6 Information and Communication Technology Risk Management**

The Bank has adequately addressed Information and Communication Technology (ICT) Risk Management. It is an in-depth exercise and continual process. The (ICT) Risk Management exercise mainly includes minimizing financial and image loss to the institution in all events such as natural disasters, technological failures, human errors etc. The Bank uses own developed Core





Banking Software to perform all types of transactions including local/ online/ internet in a secured way. To take care of its core banking system, a separate security module has been incorporated in the software which manages different roles for different users. All financial transactions can be tracked for future audit purposes.

The Bank uses Central Data Centre to replicate transactions in branches in case of data failure or inconsistencies. Data travelling through network uses encryption and decryption mechanism.

In line with the Bangladesh Bank directives, the bank has approved its own ICT, policies for its operations and services. Under these policy guidelines, a security policy has also been worked out. To abide by and adhere to what is laid down in the policy, the implementation has been made through Active Directory Services (ADS), Password Policy, Kerberos Policy, Audit Policy, Group Policy, User Rights, Permission Policy etc. In order to secure network resources from public network, the Bank has introduced Virtual Private Network (VPN), Access Control List (ACL), IP filtering and TCP/UDP service blocking through router and firewall devices. It has already centralized the administrative control to access the network, mailing system and internet. IBBL has introduced Business Continuity Plan (BCP) for its entire network and trained the officials to cope up with any contingencies.

## 6.7 Credit Rating Report

Credit Rating Information and Services Ltd- CRISL (a joint venture rating agency of Rating Agency Malaysia Berhad (RAM), JCR-VIS Credit Rating Company Ltd., Pakistan, Prime Commercial Bank Ltd., Pakistan and Local Corporate/ Sponsors, Bangladesh) was engaged by the Bank for the purpose of rating the Bank since 2002 and the rating has so far been completed on the Financial Position upto 31 December 2009 as per Bangladesh Bank BRPD Circular No.06 dated 5 July 2006. The following rating has been awarded for different years:

Particulars	Base of information	Long term	Short term
Entity Rating	Jan to Dec 2009	AA+	ST-1
Do	Jan to Dec 2008	AA	ST-1
Do	Jan to Dec 2007	AA	ST-1
Do	Jan to Dec 2006	AA	ST-1
Do	Jan to Dec 2005	AA-	ST-1
Do	Jan to Dec 2004	AA-	ST-1
Do	Jan to Dec 2003	A+	ST-2
Do	Jan to Dec 2002	A+	ST-2

Financial Institutions rated in AA+ (double A plus) category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions.

Financial Institutions rated in ST-1 category means highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding, Safety is almost like risk free Government short-term obligations.



**6.8** The Bank complied with the following Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) in preparing the Financial Statements of IBBL:

SI. No.	BAS No.	BAS Title	Compliance Status
1	1	Presentation of Financial Statements	Complied
2	2	Inventories	Not Applicable
3	7	Statement of Cash Flows	Complied
4	8	Accounting Policies, Changes in Accounting Estimates and Errors	Complied
5	10	Events after the Reporting Period	Complied
6	11	Construction Contracts	Not Applicable
7	12	Income Taxes	Complied
8	16	Property, Plant & Equipment	Complied
9	17	Leases	Complied
10	18	Revenue	Complied
11	19	Employee Benefits	Complied
12	20	Accounting for Government Grants and Disclosure of Government Assistance	Not Applicable
13	21	The Effects of Changes in Foreign Exchange Rates	Complied
14	23	Borrowing Costs	Not Applicable
15	24	Related Party Disclosures	Complied
16	26	Accounting and Reporting by Retirement Benefit Plans	Complied
17	27	Consolidated and Separate Financial Statements	Complied
18	28	Investments in Associates	Not Applicable
19	31	Interest in Joint Ventures	Not Applicable
20	32	Financial Instruments: Presentation	Complied
21	33	Earnings per Share	Complied
22	34	Interim Financial Reporting	Complied
23	36	Impairment of Assets	Complied
24	37	Provisions, Contingent Liabilities and Contingent Assets	Complied
25	38	Intangible Assets	Complied
26	39	Financial Instruments: Recognition and Measurement	Not Applicable *
27	40	Investment Property	Complied
28	41	Agriculture	Not Applicable

\* We complied Bangladesh Bank guidelines instead of BAS-39.

SI. No.	BFRS No.	BFRS Title	Compliance Status
1	1	First-time adoption of International Financial Reporting Standards	Complied
2	2	Share-based Payment	Not Applicable
3	3	Business Combinations	Not Applicable
4	4	Insurance Contracts	Not Applicable
5	5	Non-current Assets Held for Sale and Discontinued Operations	Not Applicable
6	6	Exploration for and Evaluation of Mineral Resources	Not Applicable
7	7	Financial Instruments: Disclosures	Complied
8	8	Operating Segment	Complied