## Auditors' Report And Audited Financial Statements of

# Bank Alfalah Limited

Bangladesh operations for the year ended December 31, 2008

31.12.2007

Taka

#### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Bank Alfalah Limited-Bangladesh Operations (the Bank), which comprises the Balance Sheet as at December 31, 2008 and the Profit and Loss Account, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Financial Reporting Standards (BFRS), The Bank Companies Act 1991, the Companies Act 1994 and relevant BRPD circulars issued by the Bangladesh Bank. This responsibility includes: designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the

#### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial ents whether due to fraud or error in making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the Financial Statements, prepared in accordance with Bangladesh Financial Reporting Standards (BFRS) and in the format prescribed by Bangladesh Bank vide BRPD Circular No. 14 dated 25 June 2003, give a true and fair view of the state of the Bank's affairs as on December 31, 2008 and of the results of its operations and of its cash flows for the year ended December 31, 2008 and comply with the applicable sections of the Bank Companies Act 1991, the rules and regulations issued by Bangladesh Bank, the Companies Act 1994 and other applicable laws and regulations.

### We also report that

- (a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and made due verification thereof:
- (b) in our opinion, proper books of account as required by law have been kept by the Bank so far as it appeared from our examination of those books and proper returns adequate for the purpose of our audit have been received from the branches not visited by us; (c) the Bank's Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the books of accounts and returns:
- (d) the expenditure incurred were for the purposes of the Bank's business;
- (e) the financial position of the Bank as on December 31, 2008 and the profit/loss for the period from January 01, 2008 to December 31, 2008 have been properly reflected in the Financial Statements and have been prepared in accordance with the generally accepted accounting principles;
- the Financial Statements have been drawn up in conformity with the Bank Companies Act 1991 and in accordance with the rules and regulations issued by Bangladesh Bank; (g) the Financial Statements conform to the prescribed standards set in the accounting regulations issued by Bangladesh Bank after consultation with the professional accounting bodies of Bangladesh;
- (h) adequate provisions have been made for loans and advances and other assets which are, in our opinion, doubtful of recovery:
- (i) the records and statements submitted by the branches have been fairly maintained and consolidated in the Financial Statements:
- (j) the information and explanations required by us have been received and found
- (k) " no beniami and doubtful bank accounts came to our notice in the course of our audit. (i) foreign currency accounts have been converted by using mid rate; and
- (m) 80% of the risk-weighted assets of the Bank have been audited

Dated: March 05, 2009



#### BANK ALFALAH LIMITED BANGLADESH OPERATIONS BALANCE SHEET AS AT 31 DECEMBER 2008

		31.12.2008	31.12.2007
PROPERTY AND ASSETS	Notes	Taka	Taka
Cash			
Cash in hand (Including Foreign Currencies)		-	
Balance with Bangladesh Bank & Sonali Bank Limited	3	81,551,788	66,233,6
(including Foreign Currencies)			41505
(including Fureign Currencies)	4	1.972,980,306	2,175,600,69
Delegas with all a Deale and Plants and		2,054,532,074	2,241,834,3
Balance with other Banks and Financial Institutions			
Inside Bangladesh		256,715,721	173,953.0
Outside Bangladesh		75,468,110	64,512,4
	6.	332,183,831	238,765,4
Management		2,386,715,905	2,480,599,8
Money at Call & Short Notice	8	860,000,000	600,000,0
Investments	7	315,155,700	300,074,8
Loans and advances		-	
Loans, Cash Credits & Overdrafts		5,917,805,225	5,578,803,95
Bills Purchased and discounted (Murabaha export bills)		1,078,141,333	1,186,064,00
	8	6,995,746,558	6,764,867,96
Fixed Assets Including Premises, Furniture and			
Fixtures etc	9	91,302,191	104,131,18
Other Assets	10	642,670,852	413.740,70
Non Banking Assets			
Total Assets		11,291,591,206	40 002 444 5
		11/23 1/33 1/209	10,663,414,50
LIABILITIES AND CAPITAL			
Liabilities :			
Borrowings from other Banks.			
Financial Institutions and Agents			
Deposits and Other Accounts	11		
Current Deposits & Other Accounts		802,431,628	1,424,833,81
Bills Paysible		105,780,508	52,336,21
Muderaba Saving Deposits		1,034,509,005	1,412,098,8
Mudarabs Term Deposits		6,917,920,451	5,931,308.47
		8,860,641,592	8,820,577,5
Other Liabilities	12	626,388,417	539,900,03
Total Liabilities		9,687,030,009	9,360,477,56
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Moderaba Saving Deposits		1,034,509,005	1,412,098,885
Mudaraba Term Deposits		6,917,920,451	5,931,308,471
		8,860,641,592	8,820,577,534
Other Liabilities	12	828,388,417	539,900,034
Total Liabilities		9,687,030,009	9,360,477,568
Capital and Equity			
Capital Fund Received from Head Office	13		
Statutory Reserve	13	1,296,065,916	944,206,000
Other Reserve			77.4
Retained Earnings	14	175,731,000	175,731,000
Total Equity	15	132,763,282	182,999,938
		1,604,551,198	1,302,936,938
Total Liabilities & Equity		11,291,591,205	10,663,414,506
3			
		31.12.2008	31.12.2007
OFF BALANCE SHEET ITEMS	Notes	Inka	Taka
CONTINGENT LIABILITIES			
Acceptances and Endorsements		201 505 500	
Letters of Guarantees	16	321,826,806	192,168,121
Irrevocable Letters of Credit	10	551,710,379	608,797,230
Bills for Collection		264,382,051	776,584,025
Other Continuent Linkston		56,729,575	7,147,008

Other Contingent Liabilities	17 8,628,647
Total	1,303,277,458
OTHER COMMITMENTS	
Occumentary credits and short term trade relate	ed transactions
Forward assets purchased and forward deposits	placed
Undrawn note issuance and revolving underwrite	ing facilities
Undrawn formal standby facilities, credit lines an commitments	nd other
spot and forward foreign exchange rate contracts	

other exchange contracts.

TOTAL OFF BALANCE SHEET ITEMS INCLUDING CONTINGENT LIABILITIES 1,303,277,458 1,593,900,621

These Financial Statements should be read in conjunction with the annexed notes 1 to 39

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See amound report of days Dated: March 05, 2009 Chartered Accountants

#### BANK ALFALAH LIMITED BANGLADESH OPERATIONS PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

31.12.2008

A. Qasem & Co.

Chartered Accountants

	-	CONTRACTOR OF THE PARTY OF THE	
Share of Profit from Financing and Discount	18	952,661,483	888,338,649
Less: Expenses on Deposits, Borrowings etc.	19	743,385,073	594,819,628
Net Income from financing and discount		209,276,410	293,518,923
Commission, Exchange and Brokerage	20	102,607,023	102,213,532
Other Operating Income	21	135,360,789	70,052,113
		237,967,812	172,265,645
Total Operating Income		447,244,222	465,784,568
Salaries and Allowances	22	131,770,748	103,658,577
Rent, Taxes, Insurances, Electricity etc.	23	75,751,346	29,917,987
Legal Expenses	24	1,163,813	1.835,465
Postage, Stamps, Telecommunication etc.	25	8,976,042	7,278.846
Stationery, Printings, Advertisements etc.	26	19,557,127	28,786,104
Country Head's Salary and Allowances	27	11,629,753	10,980,771
Amortization of Preoperating Expenses		2,726,853	2,097,123
Auditors' Fees		265,675	387,450
Depreciation & Repairs of Bank's Assets	28	31,849,577	20,025,797
Other Expenses	29	14,309,729	10,107,693
Total Operating Expenses		293,000,661	215,075,813
Profit before Provision		149,243,561	250,708,765
Specific provision for Classified Loans and Advances		127,264,936	2,325,515
General Provisions for Unclassified Loans and Advances		7,272,545	32,775,835
Total Provision		134,537,481	35,101,350
Total Profit before Provision for Taxation		14,706,080	215,607,405
Provision for Taxation	12.4	64,942,736	108,295,080
Net Profit after Taxation for the year	15	(50,236,658)	107,312,325
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These Financial Statements should be read in	conjunction with the annexed notes 1 to 39
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Shawkat Hossain Head, Finance and Administration	K A M Majedur Rahman Country Head
	Auditors' Report See annexed report of date
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Dated March 05, 2009

#### BANK ALFALAH LIMITED BANGLADESH BRANCHES CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	31.12.2008 Taka	71.12.2007 Taka
Cash Flow from Operating Activities:	- 1	7 045 743 403 ]	816,997,449
Share of profit from financing and discount	30	1,055,742,493	(507.442.837)
Profit paid on Deposits	31	(696,595,738)	
Fees & commission receipt		102,607,023	102,213,532
Cash payments to employees		(143,400,499)	(114,639,348)
Cash payments to suppliers		(105,714,003)	(68,205,852)
Income Tax paid	32	(100,142,796)	(71,218,182)
Receipts from other operating activities	33	127,573,025	(37,705,253)
Payments for other operating activities	34	(18,277,887)	(12,481,222)
Net Cash Flow from Operating Activities		221,791,638	17,518,287
Changes in Operating Assets & Liabilities:			
Loans and Advances to customers		(230,878,598)	(2,521,953,629)
Other Assets	35	(226,807.453)	47,772,941
Deposits from other banks		(167,988)	484,559
	30	(260,000,000)	(70,000,000)
Money at call Deposits received from customers		40,232,045	2.268,123,473
Other Liabilities	37	40,218,830	1,584,554
Sub Total		(637,403,162)	(274,008,103)
Net Cash from Operating Activities		(415,611,524)	(256,489,816)
Cash flows from Investing Activities			
Purchases of Property, Plant & Equipments	Annex-A	(15,052,444)	(68.617.212
Preference Shares, Reverse Repo & P. Bonds.	3.8	(15,080,900)	(50,034,000
3) Net Cash from Investing Activities		(30,133,344)	(118,651,212
Cash flows from Financing Activities			
Addition in Paid up Capital		351,860,916	
Effect of exchange rate changes			22,153,000
Net Cash from Financing Activities		351,860,916	22,153,000
) Net Increase/(Decrease) in Cash & Cash Equivalent	s (A+B+C)	(93,883,952)	(352,988,028
Cash and cash equivalents at the beginning of the pen-	od bo	2,480,599,657	2,833,587,885
Cash and cash equivalents at the end of the period	(D+E) 39	2,386,715,905	2,480,589,857
		THE RESIDENCE OF THE PARTY OF T	A Children Policy

E) Cash and cash equivalents at the b	eginning of the period	eriod od (D+E) 39	2,480,599,657 2,833,5 2,389,715,905 2,499,8
These Financial S	latements should	be read in conjunc	coon were annexed notes 1 to 39
Shawkat Hossain Head, Finance and Administration			KAM Majedur Rahman Country Head
	•		Auditors' Report See annexed report of date
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Dated: March 05, 2009 Dhaka			A. Qasem & Co. Chartered Accountants

#### BANK ALFALAH LIMITED BANGLADESH OPERATIONS STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2008

Particulars	Capital Fund deposited with Bangladesh Bank Taka	Other Reserve (Capital fund Translation adjustment) Taka	Retained Earnings / (Loss)	Total
Balance as at 1 January 2008	944,206,000	175,731,000	182,999,938	1,302,936,938
Addition in Capital during the year	351,860,916			351,860,916
Prior year adjustments	-	-		
Net profit/(Loss) for the period	-		(50,236,656)	(50,236,656)
Balance at 31 December 2008	1,296,068,916	175,731,000	132,763,282	1,604,561,198
Balance at 31 December 2007	944,205,000	175,731,000	182,999,938	1,302,936,938

These Financial Statements should be read in	in conjunction with the annexed notes 1 to 39
Slope hawkat Hossain ead. Finance and Administration	KAM Majedur Rahman Country Head
	Auditors' Report See annexed report of date

Dated: March 05, 2009

Head. Finance and Administration

# Chartered Accountants

#### LIQUIDITY SYATEMENT BANGLADESH OPERATIONS ASSETS AND LIABILITIES MATURITY ANALYSIS

AS AT 31 DECEMBER 2008

Particulars	Upto 01 Month	01-03 Months Take	03-12 Months Yeka	01-05 Years Take	More than 05 years Take	Total Taka
Assets						
Cash in hand Salance with Bangledesh Sank, other banks and Inwoosi institutions	61,651,768 625,995,221	The second secon			1.471,797,918	81,551,768 2,305,164,137
Money At call	600,000,000	1 30		100000	132.36	860,000,000
Prostrients	155,700		1		315,000,000	315,155,700
Loans and Advances	631,778,118	1,689,727,289	3,071,841,350	1,598,722,851	3,678,950	6.995,746,558
Fixed Assets	1	1		91,302.191		91,302,191
Other Assets	1000000	620,851,595	21,819,256	1000	941 3350	642,670,652
Non-burking Assets	1				1000	
Total assets	2,199,451,807	2,517,978,665	3,093,660,606	1,690,025,042	1,790,474,866	11,291,591.206
Liabilities Deposits and other accounts. Provision and other liabilities Shareholders Equity	2,045,452,368	2,683,496,245 42,946,654	The state of the s			8,860,641,502 826,386,417 1,604,561,198
Total Liabilities	2,045,452,368	2,706,445,899	3,173,990,847	1,761,140,895	THE SECTION OF THE PARTY OF THE	11,291,591,208
Not Liquiday Gap	153,999,439	(188,467,014	(80,330,241	(71,115,853)	THE RESIDENCE OF THE PARTY OF T	
New Company Gay-1007	1,278,562,612	(516,150,576)	788,974,837	(377,915,261)	(377,915,281)	795,556,352

#### BANK ALFALAH LIMITED BANGLADESH OPERATIONS NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR YEAR ENDED 31 DECEMBER 2008

### 1.00 Status of the Bank

### 1.01 Legal Form of the Bank

The bank started its operation in Bangladesh on 16th May 2005 acquiring Shamil Bank of Bahrain's Dhaka branch operations as a branch of Bank Affalah Limited incorporated in Pakistan.

Bank Alfalah Limited opened two more branches at Gulshan, Dhaka and Agrabad, Chittagong on 29 December 2005. The Bank opened two more branches one in Sylhet and other in Ohanmondi, Dhaka in 2007. The Bank currently has five branches in Bangladesh.

### 1.02 Nature of Business

The principal activities of the Bangladesh Branches are to provide all kinds of commercial banking services to the customers on the basis of Islamic banking principles from its Motijheel branch and conventional banking services from Gulshan; Agrabad, Sylhet and Dhanmondi branches.

### 2.0 Significant Accounting Policies

### 2.01 Basis of preparation of the Financial Statements.

The Financial Statements of the Bank are prepared under the historical cost convention and in accordance with Bangladesh Accounting Standards, adopted by the Institute of Chartered Accountants of Bangladesh. The Balance sheet, Profit and Loss Account, Cash Flow Statement, Statement of changes in Equity and Statement of Liquidity of assets and liabilities analysis have been prepared in full compliance. with all relevant provisions of the Bank Companies Act 1991, the Companies Act 1994, Circulars of Bangladesh Bank issued from time to time and other applicable laws, regulations and pronouncements are drawn as per proforma prescribed by Bangladesh Bank

### 2.02 Revenue Recognition

Profit from unclassified Murabaha financing (Loans and Advances) was recognized as income on accrual basis, whereas profit on classified financing was recognized on cash received basis. Once a loan is classified no further profit is computed on the classified loan account and all unrealized profit accrued up to that period are transferred to the Profit Suspense Account.

### 2.03 Loans and Advances

- L. In the Balance sheet, Profit on total disbursed amount of Morabaha loans and advances as of 31 December 2008 and profit thereon, to the extent not matured, has been kept separately as "Profit on Morabaha" under "Other Assets" (Note # 10)
- II. Profit was not charged on bad and doubtful loans and advances from the date of classification/filing money suits against the borrowers.
- iii. Profit charged on loans and advances Un-classified (Special Mentioned Account) and classified by Bangladesh Bank (central bank) inspection team and by the bank management as sub-standard, doubtful and bad are kept in Profit Suspense Account as per Bangladesh Bank BRPD circular No. 09 dated 20th August 2005 and BCD Circular No. 34 dated 16th November 1989, No. 20 of 27th December 1994 and No. 12 of 4th September 1995 as amended by BRPD circular No. 16 dated 6th December 1998 and No. 09 of 14th May 2001 and as amended by BRPD Circular No. 06 dated 05" July 2006 and such profit was not accounted for as income until
- lv. In making provision for bad and doubtful loans whenever required, the requirements of the said BCD/BRPD circulars of Bangladesh Bank have been complied with.

### 2.04 Fixed Assets and Depreciation

i. Depreciation is computed on historical cost on a straight-line method at rates varying from 10% to 25% per annum. The following rates of depreciation have been applied:

Fixture and Fittings	10%
Office Furniture	10%
Office Equipment	20%
Staff Equipment	20%
Computer	25%
Motor Vehicles	25%
Lease hold Improvement	20%

il. Depreciation on addition of fixed asset is charged from the date of capitalization of such asset.

### 2.05 Provident Fund

Each eligible employee contributed @ 10% of the basic salary to the Provident Fund Account while the bank contributed an equal amount, which is kept in a savings/term deposit account. The fund is registered with National Board of Revenue.

### 2.06 Exchange Rate

I. Assets and liabilities held as at 31 December 2003 in foreign currencles were converted into BDT at the average of the prevailing buying and selling rates of the concerned foreign currencies at that date:

### Currency Rate

USD	68.98
GBP	100.4
EUR	97.18
AUD	47.65
JPY	0.76
SGD	47.65

II. Transactions in foreign currency are translated into Taka currency at the exchange rate prevailing on the date of such transaction, resulting gain or loss being credited or charged to profit and loss account.

### 2.07 Capital

This represents deposit in foreign currency being capital as required by the Bangladesh Bank as per Bank Companies Act 1991. The amount of US \$ 21,015,531.14

capital and reserves of the bank at the close of business on December 31, 2008 should have been BDT 1,651,468,469 or 10% of Risk Weighted Assets whichever is higher. Against which core capital is Tk. 1,604,561,197 and supplementary capital is Tk. 85,280,164. Aggregate capital is BDT 1,689,841,361 at 31 December 2008

In terms of Section 13(4) of the Bank Companies Act 1991, the required value of the

### 2.08 Reserve funds and Other Reserves Reserve funds and other reserves; represent translation effect of US Dollars 21.02

Million. Out of which US\$ 15.88 Million held at the beginning of this year and US\$ 5.14 Million was deposited with Bangladesh Bank on 30.06.2008 and being capital requirement as per the Bank Companies Act 1991.

### 2.09 Cash Flow Statement

Cash flow statement is prepared principally in accordance with IAS 7 "Cash Flow Statement"; and as prescribed by BRPD Circular No. 14 dated 25 June 2003.

### 2.10 Off Balance Sheet Items

Under general banking transactions, liabilities against acceptances, endorsements and other obligations and bills against which acceptances have been given and claims exist there against, have been shown as Off Balance Sheet items.

### 2.11 Taxation

i) Current tax. Tax has been made at the rate of 45% on accounting profit as per Income Tax Ordinance 1984.

### ii) Deferred tax: As per Bangladesh Accounting Standard-12 deferred tax has been calculated. Calculation shows deferred tax assets of Tk. 3,174,000 and Deffered

### Tax Liabilities Tk. 2,180,000.00 which has been accounted for accordingly. 2.12 Gratuity

### The bank maintained an unfunded gratuity scheme. Gratuity used to pay to staff

member at the time of separation of employment. Banks liability on this account stands as on 31st December 2008 was fully provided in accounts considering the staffs accumulated gratuity entitlements for their service with the bank.

### 13 Consolidation

There were five branches namely Motijheel (Islamic Banking), Gulshan (Dhaka), Agrabad (Chittagong), Dhanmondi (Dhaka) and Sylhet. The figures have been consolidated in this Financial Statements from the data received from the branches.

### 14 Internal Control

The following procedures are followed for implementation of Internal Control of the

Audit & Inspection division of the Bank Head Office carried out Internal Audit with a view to enrich the compliance culture and full control on the exertion of the Banking Operations. The division directly reports to the Board.

Regular monitoring has been done for the effectiveness of the quality control policies and procedures with the effect to evaluate the application of internal Control System. and Internal Audit Policy, Policy for financial risk, existing rules and regulations (internal and external), other obligations from controlling Authority, disclosure process of Financial Statements of the Bank

Planning, Organizing and supervising business performance and monitoring of Audit and Inspection of the Branches have been duly performed by different divisions of the Head Office.

### 2.15 Core Risk Management

monitoring processes:

According to BRPD Circular No. 17 (7 October 2003) and BRPD Circular No.4 (5 March 2007) banks require to put in place an effective risk management system. Bangladesh Bank monitors the progress of implementation of these guidelines through its on-site inspection teams through routine inspection. The risk management systems of the bank are discussed below:

Credit Risk: Risk is inherent in all aspects of a commercial operation. Bank Alfalah has been maintaining a credit risk management culture keeping in view the relative regulatory emphasis, Bangladesh Bank policy directives as well as Bank's own internal control policy. The bank maintains a conservative credit risk management approach which is however adaptable to changing global and domestic economic scenario, priorities and strategies. Core Risk Management Guidelines introduced by Bangladesh Bank and the Bank's own Risk Management Guidelines produces the primary outline of the bank's internal credit policy, which covers the following credit approval and

- Risk appetite and evaluation of facilities
- Key lending constraints and higher risk sectors Risk rating systems
- > Lending and monitoring of corporate, commercial and retail clients Monitoring, control and the management of problem exposures

Counter party risk etc. After a thorough scrutiny of risks on the Bank Alfalah has a credit committee which is responsible for approving a credit proposal emanating from branches. Branch Relationship Managers under the leadership of the Branch Manager do the preliminary credit assessment of a prospective borrower. Relationship Managers are held accountable for both the profitability and growth of their loan portfolios as well

### Asset Liability Management Risk:

responsibility.

For better management of asset and liability, the Bank has an established Asset Liability Management Committee (ALCO) which meets at least once a month to discuss the overall status of the Bank

as the losses that may arise within them. In Bank Alfalah credit approval,

disbursement, documentation, monitoring, reporting are conducted by different

departments hence there is an inbuilt system of independent cross checking and

The committee's primary function is to formulate policy and guidelines keeping in mind ALM guidelines provided by Bangladesh Bank and the Bank's own Liquidity Policy Guidelines for the strategic management of asset and liabilities. ALCO regularly reviews the bank's overall asset liability position, overall economic position. the bank's liquidity position, capital adequacy, balance sheet risk and makes necessary changes when required. Besides these all regulatory requirements including CRR, SLR, RWA are reviewed by ALCO.

### Foreign Exchange Risk:

The foreign currency position a bank holds is affected by the currencies' price movement - both ways; thus affecting income. But such risks need to be kept in an optimum level in line with the risk appetite of respective organizations. To this end, Bangladesh Bank had issued a guideline for the management of foreign exchange risk in 2003. Bank Alfalah has developed its own Manual for Foreign Exchange Dealing closely in sync with that guideline and upon concurrence of Head Office. The Bank also follows the guidelines issued by its Head Office.

limits, stop loss limits, dealers' limits; the bank is continuously keeping vigil against unusual erosion of foreign currency assets.

The Bank has setup different limits such as - net open position, intra-day dealing

The bank is maintaining various Nostro accounts in all the major currencies through which import, export and remittance transactions are routed. As at December 31, 2008 the bank didn't have significantly old unreconciled Nostro entries.

### Internal Control & Compliance:

Effective internal control, corporate governance, transparency, accountability has become significant issues to ensure smooth performance of the banking industry. Effective internal control is the foundation of safe and sound banking. The bank has prepared and implemented appropriate guidelines in line with the Bangladesh Bank Guideline on the "Internal Control & Compliance"

The primary objective of internal control is to help the bank to perform better through the use of its resources. Through internal control system the bank ensures compliance with laid down procedures identifies its weaknesses and takes appropriate measures to overcome the same. The Bank has deputed individual compliance officer in all branches, Internal Auditor, Compliance Monitoring Officer at its Country Office. Additionally, an internal auditor directly reporting to the Banks Audit and Inspection group comprises the Internal Control Team.

### Prevention of Money Laundering:

Bank has adopted a stringent policy to monitor and mitigate the risks of accounts being used for money laundering process.

Bank ensures that business at branches is conducted in conformity with high ethical standards and that banking laws and regulations of the regulatory authority. Government of Bangladesh, or any other authority/agency regarding anti-money laundering and "Know Your Customer", are adhered to. Branches do not offer services or provide assistance in transactions, which in their opinion, are associated with money derived from illegal/criminal activities.

### 2.16 Corporate Social Responsibility

Our continuing efforts to enhance Corporate Social Responsibility through participation and sponsorship of activities like Immunization Program, Educational and Extracurricular Activities, Promotion of Cultural Heritage, support for Women Entrepreneurs and Metropolis Beautification portrays the image of the Bank.

The Bank sponsored a TV Quiz Program on Cricket for school students with a central focus on the achievement of the game in Bangladesh. Moreover, the Bank's efforts to promote the Cultural Heritage of the Country through production and distribution of the works of National Poet Kazi Nazrul Islam and Palli Kabi Jashimuddin Ahmed have received wide acclaim. The Bank has also been an avid sponsor of the annual fair for Women Entrepreneurs. In another light, the Bank conducted a Career Planning, CV Writing & Interview Skills Building Workshop for University Graduates seeking employment.

### 2.17 Credit Ratings

According to BRPD Circular No. 6 (05 July 2006) it is mandatory for all banks to have themselves credit rated by a Credit Rating agency. Credit Rating Agency of Bangladesh Limited (CRAB) has issued the following ratings for the Bank: (Date of Rating: 22<sup>rd</sup> June 2008)

#### Long Term: AA Short Term: ST-1

Commercial banks rated in this category are adjudged to be very strong bank, characterized by very good financials, healthy and sustainable franchises, and a first rate operating environment. This level of rating indicates strong capacity for timely payment of financial commitments with very low likeness to be adversely affected by foreseeable events. Banks rated in terms of liquidity, internal fund generation, and access to alternative sources of funds.

### 2.18 Related party transaction

Related Party transaction: As on audit date Bank has related party transaction to only one client Warid Telecom International Limited on account of Letter of Credit 23.89 million and Letter of Guarantee 376.20 million with 100% cash margin. Transaction with key management personnel Except loan and advance to Chief Executives and other Senior Executives amounting to Tk. 2,609,671, there were no transactions between the bank and the key management personnel of the bank in

### 2.19 Reconciliation

All Nostro, Central Bank, Local Banks and Inter Branch Accounts reconciliation statements have been prepared. There were no major outstanding items appeared in the statements for more than three months.

### 2.20 General Information Figures appearing in these Financial Statements have been rounded off to the

Wherever considered necessary, previous years figures have been rearranged for the purpose of comparison.

As of 31.12.08 bank did not have any dealing securities.

As the bank did not engage in any asset securitization scheme no funded assets of the bank was pledged as security against any loan availed.

No liabilities/ Assets have been set - off against some other liabilities / Assets during the year.

Cash in hand (Including foreign currencies):	Taka	Taka
In local currency In foreign currencies GBP USD	79,176,716	60,438,977
	89,930	711,455
	2,285,122 2,375,052	5,085,242
	81,551,768	66,233,674

#### Balance with Bangladesh Bank (Including foreign currencies) : In local currency In foreign currencies

417,216,008 468,400,374 1,555,784,298 1,707,200,322 1,972,980,306 2,175,600,696 4.1 Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) have been calculated and maintained in

accordance with the Section 33 of the Bank Company Act. 1991 and subsequent BCD Circular No.13 dated

May 24, 1992; BRPD Circular No. 12 dated September 20, 1999 and BRPD Circular No. 22 dated November

6, 2003, Bangladesh Bank Letter No. DOS (SR) 1153/120 (a)/53/2004-111 dated July 11, 2004, DOS Circular

### No.03 dated March 23, 2005 and DOS Circular No.06 dated 05 October 2005 And as amended by BRPD. circular no. 11 & 12 Dated 25 August 2005.

4.2 Cash Reserve Ratio (CRR): 5% of Average Demand and Time

Required Reserve 378,611,000 441,029,000 Actual Reserve held with Bangladesh Bank 417,216,008 468,400,374 27,371,374 38,605,008 4.3 Statutory Liquidity Ratio (SLR): 18% (including 5% CRR) of Average Demand and Time Liabilities: Required Reserve 1,362,999,240 1,587,704,000 Actual Reserve held 1,972,980,308 2,175,600,696 609,881,086 587,896,696

#### Balance with Other Banks and Financial Institutions Inside Bangladesh (Note - 5.1) Outside Bangladesh (Note- 5.2)

AB Bank Limited- Sylnet

256,715,721 173,953,026 75,468,110 64,812,481 332,183,831 238,765,487 5.1 Inside Bangladesh-current account Janata Bank Ltd.-Foreign Exchange Branch 4.180,280 3,800,331 Islami Bank Bangladesh Limited 3,618,109 1,312,489 Sonali Bank Limited 322,583 1.363.661 Standard Chartered Bank - Guishan Br. 405,450

## The Caring Bank

8,526,422

697,853

7,211,352